

## Investment View: Investing in Efficiency

*By Tim Dieppe, Henderson Industries of the Future Fund*

For too long the curse of cheap oil and electricity has dictated the way we consume energy. The only consumer products for which manufacturers have been really interested in electricity consumption were portable devices where battery life was a concern. Otherwise the primary concern was functionality, to the level that TV sets and other electronic devices were granted a 'standby' mode, so that at any moment us consumer couch potatoes would only need to press a button on a remote for the picture to appear while the set continued consuming energy through the night. This example is one of many where concerns for functionality or cost competitiveness were primary and energy consumption neglected - whether in the area of consumer goods, building construction, industrial manufacturing or fuel consumption.

These days are now coming to an end, prompted by a sharp rise in oil and electricity prices, together with the looming threat of global warming. Driven by cost and concerns about climate change consumers, corporations, and governments are now placing energy efficiency high on their respective agenda, and asking the tough questions that should have been asked some time ago. A recent MEP report made the assertion that *"both the Commission and member-state governments have been guilty of a serious dereliction of duty over the implementation of energy-efficiency legislation."*<sup>1</sup> In addressing these concerns one can be sure that regulation will follow, but in these chastened times consumers and corporations can already see the potential cost saving benefits of embracing efficiency and are already making their moves.

For us as sustainable and responsible investment fund managers, this increasing awareness and action to improve efficiency provides a number of investment opportunities. The double benefit of providing solutions for climate change and reducing costs mean that some companies are well placed to provide sustainable returns to their shareholders.

### **A genuine free lunch?**

What is not widely recognised today is that the cheapest way to cut carbon emissions by far is to implement efficiency measures to reduce energy consumption. In fact, efficiency measures are so cheap that you get paid to adopt them because the expected payback is greater than the initial capital outlay.

As much as 80% of the energy we produce is lost before it gets to your plug in the wall. Therefore savings from reducing energy consumption at point of use have a multiplier effect in terms of total energy consumption saved. The International Energy Agency (IEA) estimates that one additional dollar spent on more efficient electrical equipment, appliances and buildings would do away with the need to spend two more dollars on electricity infrastructure. The IEA also recommends that the adoption of a dozen policies would result in a reduction of 40% in CO<sub>2</sub> emissions by 2030. Seven of these policies involve energy efficiency.

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<sup>1</sup> Cheuvreux Sector Report Europe: The lean way: Efficient buildings. April 2008

The tipping point has been reached, with consumers and corporations examining their rising energy bills and looking for ways to start reducing them. Ever more corporations are going carbon neutral and employing consultants to advise them on how to reduce their energy consumption. Where there's money to be saved, investment will follow and the planet - as well as the investor - should reap the rewards.

For example **Delta Electronics** is a company that can, and is, making a difference. It has a sizeable global market share of power supply units for PCs and other efficiency-conscious products. The efficiency opportunity is compelling - a 1% improvement in their power supply units would save the equivalent of one nuclear power plant's production of electricity.

### **Ban the Bulb**

Lighting is one of the largest sources of electricity consumption on the planet, accounting for 2650 TWh annually, or almost 20% of the world's total electricity consumption. A staggering 90% of this energy is wasted as heat, as the filaments of incandescent bulbs reach 3,000°C.

Light Emitting Diode (LED) bulbs use up to 90% less energy and also last up to 50 times as long. Governments around the world are waking up and have announced plans to phase out incandescent bulbs which will make a significant difference to global energy consumption.

### **It pays to save**

The IEA states that existing buildings account for over 40% of the world's primary energy consumption, as well as nearly a quarter of global CO<sup>2</sup> emissions. Companies that produce effective insulation materials or more efficient usage of electricity will benefit from the strong regulatory and consumer trend to cut our energy consumption. The global manufacturing industry could improve energy efficiency by 18-26% overall – at the same time reduce sector's CO<sup>2</sup> emissions by 19-32%, according to the IEA. This trend of consumer focus and regulatory pressure will see further changes in industry practice.

**Itron** in the US manufactures automatic meters which help measure the usage of electricity, gas or water, and can be read without sending someone knocking on your door to crawl under the stairs. **Johnson Controls** (also based in the US) has a building efficiency business advising corporations how to reduce their energy bills. In Ireland, **Kingspan** produces insulating panels for the building and construction industry.

As the world continues its fight against climate change the first place to start is to stop wasting the energy we are already generating. There is a clear investment opportunity in many efficiency initiatives and products around the world, which are saving money for their customers, lowering emissions for the planet and are also paying out healthy dividends for their investors. Investing in solution providers who offer to save money for their customers makes sound business sense in every way.

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