A cooler future

The Walter Scott investment team explains how a holding in an environmentally-aware Japanese air-conditioning manufacturer fits the group’s wider investment thesis and how the winds of change are blowing through this niche industrial segment.

Ever since the Lost Decade, or the 10-year period of economic stagnation Japan underwent following its asset bubble collapse at the end of 1991, the nation struggled to get back to the level of growth it experienced prior to the setback. Despite this, there are still innovative, market leading Japanese companies, according to Walter Scott’s International Stock team.

“For all the commentary regarding the economic sluggishness of Japan, and the relative inability of Abenomics to propel the country into a higher growth trajectory on a sustainable basis, we believe it remains a repository of world-class companies,” the International Stock team said in its latest quarterly commentary.

An area where the team has been able to find attractive Japanese companies is in Industrials. A consequence of its bottom-up, benchmark-agnostic approach, Industrials has been the largest sector position in the BNY Mellon International Stock fund since the end of 2018. Currently the fund has a 19.79% position compared to its benchmark, the MSCI EAFE Index, which had a 15.01% position, as of December 2019.

Highlighting one of the holdings in this sector, the team outlines the stock specific attraction behind a Japanese air-conditioning manufacturer. According to the team, the Japanese aircon firm is implementing ESG characteristics into its business model, which has been paying off in its financial performance.

Air conditioners have long been notorious for their environmental impact, due to the historical energy inefficiency of cooling air and using greenhouse gas refrigerants. The Japanese aircon firm has considered this and as a result is focusing its products on energy efficiency and to incorporate environmental technology, according to Walter Scott analysts.

In fact, this is all part of the company’s plan to generate zero carbon emissions by 2050—a recurring theme in much of the developed world. On top of a greater emphasis on ESG-related issues, the Japanese company has also, in Walter Scott’s view, benefited from a global transition, which has seen the effects of urbanization drive a greater need for the product it sells.

“Growing populations, urbanization, industrialization, rising living standards, and the shift towards air conditioners being regarded as an aspirational yet a near-necessity product in many locations, remain powerful drivers of the air conditioning industry,” the team said. “It’s clear from
our conversation with the company that they’re excited about what digitalization can do for usage and energy consumption.”

In regards to the long-term growth trajectory for air conditioners, the total number of megacities across the world, or cities with a population of over 10 million inhabitants will increase to 43 by 2030, according to United Nations projections. This further reinforces the rapid rate of urbanization taking place, which should likely lead to further demand for air conditioning.

---

3 United Nations Department of Economic and Social Affairs: 68% of the world population projected to live in urban areas by 2050, May 16, 2018.
Investors should consider the investment objectives, risks, charges, and expenses of a mutual fund carefully before investing. Contact a financial advisor or visit im.bnymellon.com to obtain a prospectus, or summary prospectus, if available, that contains this and other information about the fund, and read it carefully before investing.

Risks:

All investments involve risk, including the possible loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing.

Equities are subject to market, market sector, market liquidity, issuer, and investment style risks to varying degrees. Investing in foreign denominated and/or domiciled securities involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries. Small and midsized company stocks tend to be more volatile and less liquid than larger company stocks as these companies are less established and have more volatile earnings histories. Investing in foreign denominated and/or domiciled securities involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

Impact investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.

Walter Scott & Partners Limited (“Walter Scott”) is an investment management firm authorized and regulated in the United Kingdom by the Financial Conduct Authority in the conduct of investment business. Walter Scott is a subsidiary of The Bank of New York Mellon Corporation.

BNY Mellon Investment Management is one of the world’s leading investment management organizations and one of the top U.S. wealth managers, encompassing BNY Mellon’s affiliated investment management firms, wealth management organization and global distribution companies. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the Corporation as a whole or its various subsidiaries generally.

Views expressed are those of the manager stated and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change. This information contains projections or other forward-looking statements regarding future events, targets or expectations, and is only current as of the date indicated. There is no assurance that such events or expectations will be achieved, and actual results may be significantly different from that shown here. The information is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Please consult a legal, tax or investment advisor in order to determine whether an investment product or service is appropriate for a particular situation. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. BNY Mellon Investment Adviser, Inc., Walter Scott (the fund’s sub-advisor) and BNY Mellon Securities Corporation are subsidiaries of BNY Mellon. ©2020 BNY Mellon Securities Corporation, distributor, 240 Greenwich St., New York, NY 10286.