

# The Winds of Change: Sustainable Cities



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As part of “The Winds of Change” series, Sacha El Khoury, lead portfolio manager of the BMO Sustainable Opportunities European Equity Fund, addresses some of the most important sustainability megatrends that are changing the world around us, reshaping the investment landscape, and talks about how the fund is embracing the opportunities they create.

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### Key risks

The value of investments and any income derived from them can go down as well as up and investors may not get back the original amount invested.

Screening out sectors or companies may result in less diversification and hence more volatility in investment values.

### Unlocking opportunities in Sustainable Cities

Cities account for less than 2% of the Earth’s surface, yet they epitomise human progress and have been an enormously disproportionate growth engine, generating 85% of global GDP.<sup>1</sup> People have steadily flocked to cities in search of better economic prospects and opportunities. With higher population density and energy-hungry infrastructure, however, it has become clear that in order to tackle some of the world’s most pressing issues such as climate change, cities need to be an integral part of the discussion. This includes the need to address mobility and transport, as well as housing, but also rising emission levels. Companies that are actively addressing these needs will benefit from multi-year tailwinds.

### What’s changing?<sup>2</sup>

**The world is becoming more urbanised:** The United Nations expects 68% of people to live in cities by 2050, up from 55% in 2018, and 3% in 1800.<sup>3</sup> The urban shift has given rise to megacities – cities with a population of 10 million or more, including Tokyo, Delhi and Shanghai. In 2020, the world had over 30 megacities – a number that is expected to rise.

**Unsustainable mobility:** Mobility is a universal urge. And a more numerous, more affluent global population will demand even more mobility. The UN estimates that the global car fleet could triple by 2050.<sup>4</sup> So how do we ensure that this degree of mobility is sustainable? Lots of travel is done in a way that is detrimental to human and environmental health:

- **95%** of the world’s transport energy still comes from fossil fuels,<sup>5</sup> emitting CO<sub>2</sub> into the atmosphere and contributing towards global warming.
- The resulting emissions, especially in densely populated areas, are partly responsible for the **5 million** deaths per year globally from air pollution.<sup>6</sup>

<sup>1</sup> The New Climate Economy, [Seizing the Global Opportunity](#), 2015

<sup>2</sup> The below is in no way an exhaustive list

<sup>3</sup> [United Nations](#), 2018

<sup>4</sup> [United Nations Environment Programme](#)

<sup>5</sup> [United Nations Environment Programme](#)

<sup>6</sup> [Our World in Data](#)



**Tipping point in EVs:** Transportation is responsible for 24% of direct CO<sub>2</sub> emissions from fuel combustion.<sup>7</sup> Electric vehicles (EVs) swerve this problem – and we appear to be at the cusp of mass adoption, with Covid potentially having just nudged us over the edge. Whilst global new car sales dropped by 30% in 2020, EV sales boomed: in Europe, EV volumes jumped 45% year on year. Even within the year itself, the electrification process accelerated, with EVs hitting a 16% share of new sales in November 2020, something that would have been utterly unthinkable even a couple of years ago.<sup>8</sup> The battery-powered vehicles market share now stands at 11%,<sup>9</sup> which is way ahead of expectations, with a long way still to go.

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Worldwide, EV sales for 2020 are expected to have reached over 3.2 million,<sup>10</sup> bringing the global EV fleet to nearly 10m vehicles.

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**Regulation is shifting gears:** When it comes to transport, regulation has been moving steadily on emissions over the last few years. But in line with their larger aspirations, governments are now competing to introduce ever more ambitious phase

out plans for fossil fuel vehicles. Countries with proposed bans on ICE (Internal Combustion Engines) vehicles include China, Japan, the UK, and most European countries, including Germany. In November last year, Boris Johnson announced that the UK would pull forwards its ban on new petrol and diesel cars by a full decade, to 2030. Japan, a bastion of the global auto industry, is now rumoured to be targeting 2035 for a phase out of new ICE vehicles – an ambitious timeframe that has raised the ire of several automotive titans in the country.

#### How are we embracing the change?

**Green Houses:** Cities are home to some of the most impressive architectural feats. But for all their glory, buildings do however have a darker side. They are a major contributor to greenhouse gas emissions, responsible for 39% of global emissions, more than the entire transport sector.<sup>11</sup> To meet the Paris Agreement goal of limiting global warming to well below 2°C, all buildings must be net zero carbon by 2050. But less than 1% are today. This creates a huge runway for companies like **Schneider Electric**, a global leader in buildings' energy transition and automation. Their solutions are positioned at the forefront of the decarbonisation story in this end market. Schneider's products are embedded in projects from design through to implementation and maintenance, making them indispensable to the positive energy outcome for buildings, and therefore widening the 'economic moat' around the business. We believe this to be a win/win/win situation: for their customers, the planet and the company itself, because their economics are significantly

<sup>7</sup> [International Energy Agency](#), 2020

<sup>8</sup> Fleet Europe, 2021

<sup>9</sup> Pure EV and Hybrid

<sup>10</sup> [EV Volumes](#), 2020

<sup>11</sup> [Global Status Report for Buildings and Construction 2019](#), International Energy Agency



Innovative mobility and energy solutions are at the heart of what makes cities sustainable.

enhanced in the process, as the mix moves towards higher margin software and services.

**From 0 to 100:** We believe Dutch company **Alfen** will play a key role in unlocking the EV opportunity as one of the leading European manufacturers of EV charge points. They have an enviable first-mover advantage in key countries and a wealth of knowledge in their legacy smart grid business, which makes them particularly well positioned to enable the transition by removing the last hurdle to adoption: range anxiety. And we are just at the beginning of the road: to reach the Paris Agreement goals, EVs must make up 50% of the market by 2030.<sup>12</sup> Some markets may need to catch up more than others, but regulatory support for a total transformation of the sector will only serve to push adoption further.

**Collective mobility:** EV passenger cars will not be the only solution towards more sustainable cities. Public transport has a big role to play, especially since each bus takes up to 75 cars off the road. Given a Euro 6 diesel car emits 10x the per-passenger NOx of a Euro 6 diesel bus,<sup>13</sup> these are some considerable emissions reductions even before transitioning to an electric fleet. **National Express**, operator of affordable public transport services in cities across Europe and the US, has already pledged it wouldn't buy another diesel bus in the UK, and has set a long-term plan to transition its

fleet of buses and coaches to net zero. The mobility services they provide have huge societal importance, which is why they get the full support of governments. Despite the huge disruption caused by Covid-19, National Express has proven to be a resilient business, with over half of its revenues contracted, which means they still received over 60% of expected payments.

#### A final note... on the most sustainable city in the world

What is the most sustainable city in the world? There isn't a single answer for the coveted spot, but below are a few cities that could teach others a lesson or two about sustainability.

The European Commission has come up with a [European Green Capital Award](#), which they have conceived as an initiative to promote and reward eco-progress. Past winners include prominent Nordic cities like Stockholm, Copenhagen and Oslo. Copenhagen is in fact aiming to be the world's first carbon neutral capital by 2025, having already reduced its emissions by 42% since 2005. Wind energy currently accounts for 55% of the city's energy supply,<sup>14</sup> with focus now shifting to waste-to-energy sources too, with the completion of Copenhill – the cleanest waste-to-energy power plant in the world, which also doubles as an artificial ski slope.<sup>15</sup> Bicycles also outnumber cars in Copenhagen, which in addition to being a green mode of transport, is also a major health booster for the residents of Copenhagen. Another major European cycling capital is Amsterdam, where there are more bikes than residents! Amsterdam has also taken the lead in EVs, with one map showing 952 charging stations in the city.<sup>16</sup>

<sup>12</sup> [Climate Action Tracker](#), 2016

<sup>13</sup> [Unilink](#), 2019

<sup>14</sup> [Carbon Neutral Cities Alliance](#)

<sup>15</sup> [BBC](#), 2019

<sup>16</sup> [ChargeMap](#)



The Sustainable Opportunities European Equity Strategy has a large exposure to the sustainable cities theme (percentages as at Jan 2021).

	Health & Wellbeing	32
	Digital Empowerment	18
	Sustainable Finance	15
	Sustainable Cities*	15
	Resource Efficiency	11
	Connect & Protect	7

\* Includes Energy Transition and Sustainable Mobility themes

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