

# Aalberts:

engagement commentary



Federated Hermes SDG Engagement Equity  
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## ENGAGEMENT COMMENTARY:

# Accelerating ESG credentials underpin investment case

### In a nutshell

The business of Dutch engineering group Aalberts has two main areas: material technology and industrial technology. Its largest business – integrated piping systems and hydronic flow control technology for use in buildings – accounts for about 54% of revenues.<sup>1</sup>



Market cap:

# ~US\$5.4bn

(May '23)



Revenue:

# ~US\$3.4bn

(FY22)



Employees:

# ~14,597

(of which 24% are female and 25% in management as at end of FY22)

### Headline progress

Utrecht-headquartered Aalberts has thrown its weight behind the push for more eco-friendly buildings. In 2021 the company set out a target: more than 70% of its revenue would be aligned with the UN Sustainable Development Goal (SDGs) by 2026. By end 2022 it had already hit 68%. Aalberts has also committed to achieving net zero carbon operationally by 2050.

We continue to engage with the company on both these goals, as well as other measurable positive employment initiatives.

### Investment case

- Leading market positions that are set to benefit from tailwinds, including building renovations and semiconductor industry growth.
- Strong management team with track record of execution.
- Solid balance sheet presents both organic and inorganic growth potential.

### Theory of change

#### Enterprise impact

The operation of buildings accounted for 30% of total global energy consumption in 2021<sup>2</sup> – a sizable contributor to global greenhouse gas (GHG) emissions. However, proven and commercially available technologies have the potential to reduce energy consumption in buildings by 30-80%,<sup>3</sup> which could significantly reduce GHG emissions.

In Europe, 75% of building stock is energy inefficient<sup>4</sup> and about 80% of these buildings will still be in use in 2050, according to the European Commission.<sup>5</sup> As a result, thousands of buildings will need to be renovated in the next few years to meet EU carbon reduction targets. Indeed, it is imperative to decarbonise the building sector to meet Paris Agreement goals of keeping the rise in mean global temperature to below 1.5 or 2 degrees Celsius.

Space heating – heating a limited area for human comfort – accounts for 64% of energy consumption in residential buildings,<sup>6</sup> for example.

The construction and retrofitting of buildings to improve energy efficiency can reduce GHG and air pollution emissions significantly, while creating positive environmental and social impacts.

<sup>1</sup> Source: Company reports.

<sup>2</sup> IEA – Buildings – Analysis – IEA.

<sup>3</sup> UNEP, Energy Efficiency for Buildings.

<sup>4</sup> European Commission.

<sup>5</sup> European Commission.

<sup>6</sup> Energy consumption in households – Statistics Explained (europa.eu).

Aalberts offers technologies that reduce building energy use. Its hydronic flow control and integrated piping systems cover a broad spectrum of building technology systems that make residential, commercial, and industrial buildings more eco-friendly.

The company's air and dirt separators, for example, can save up to 15% in energy consumption when installed.<sup>7</sup> Intelligent thermostatic heads, balancing valves, underfloor heating and expansion vessels are among products that will make heating and cooling in buildings more efficient by at least 20%.<sup>8</sup>

Environmentally, compared to electrical heating systems, hydronic heating systems reduce CO<sub>2</sub> and other GHG emissions significantly. In so doing, they can help slow the rate of climate change, contributing to meeting global climate goals. Socially, research finds fossil fuel air pollution is responsible for more than eight million deaths annually.<sup>9</sup> Improved energy efficiency reduces energy-related air pollution, leading to increased lifespan, healthier lives, and more productive workers.

### Operational improvement opportunities

Aalberts is a global business. Its emissions, use of materials and human footprint are consequential. By reflecting on what it does – and how it does it – the company can achieve positive impacts that are meaningful and reduce unavoidable negative impacts.

In FY22 the company:

- emitted 254 thousand MT of greenhouse gas emissions;
- consumed 1,128 MWh of energy;
- used 1,505 thousand m<sup>3</sup> of water; and
- employed about 15,000 people across 130 sites

### Practice of change

Since 2018 we have recorded 25 engagement interactions with Aalberts. We have met extensively with the management team and visited the company's operations. We have been encouraged by the progress it has made on several fronts.



### Emissions

Over the period of our investment within the SDG Engagement Equity Strategy (FY17 onwards) **the company has realised a 34% reduction in its emissions intensity (tonnes of GHG emitted per US\$m of revenue) and a 26% reduction in absolute emissions (Scopes 1 and 2).**

- The company has committed to a 30% emissions intensity reduction by 2026 (vs. a 2018 baseline) and has pledged to reach net zero by 2050 or sooner and it is continuing to measure its Scope 3 emissions.

We support the company's preference for doing the hard yards before making further public commitments. Similarly, we welcome its focus on realising further efficiency gains rather than rushing to purchase Renewable Energy Certificates (RECs) – recognising the need to bring down absolute energy usage and emissions as opposed to the reporting thereof. That said, we continue to encourage the company to heighten its ambition, accelerate its measurement of Scope 3 emissions and to commit revised emission reduction targets to the Science Based Targets initiative (SBTi).<sup>10</sup>



<sup>7</sup> Aalberts – annual report 2022 (amazonaws.com).

<sup>8</sup> Company reports.

<sup>9</sup> Deaths from fossil fuel emissions higher than previously thought (harvard.edu).

<sup>10</sup> The Science Based Targets initiative (SBTi): Established in 2015, the SBTi is designed to help companies to set greenhouse gas (GHG) emission reduction targets in line with climate science. The initiative defines and promotes best practices in emissions reductions and includes a team of experts to provide companies with independent assessment and validation of their targets.

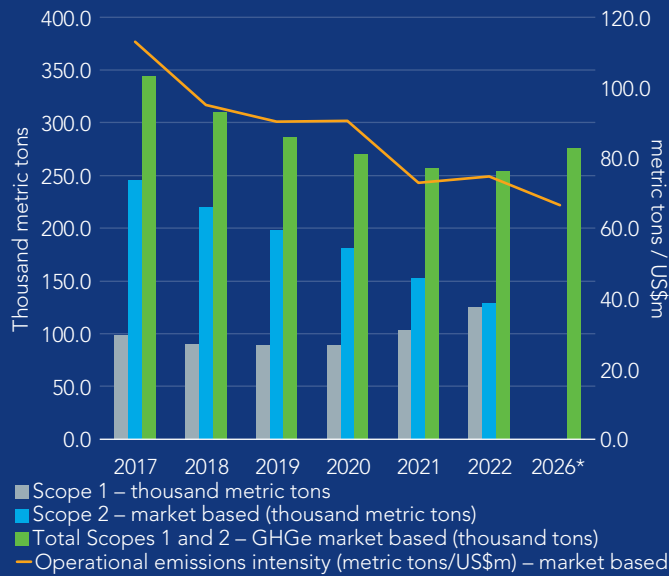
We have been particularly heartened by the significant improvement made in the company's health and safety performance with a

**38%**



improvement in its Lost Time Injury Frequency Rate (LTIFR).

**Figure 1:** Operational emissions including 30% intensity reduction by 2026 vs. 2018

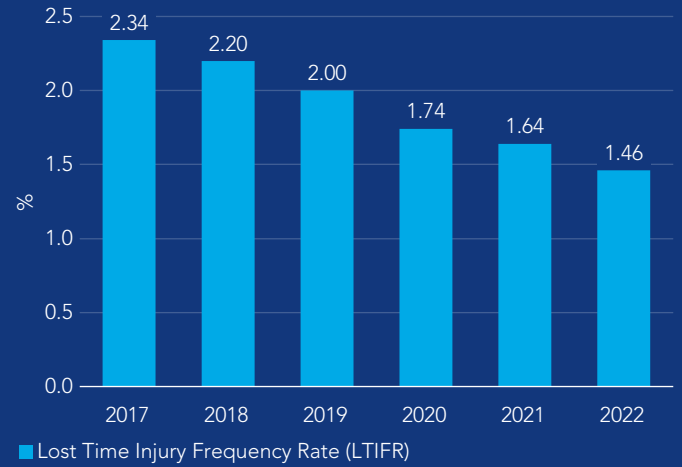


Source: Company reports.

**People**

We have engaged extensively with Aalberts on human capital. We have been particularly heartened by the significant improvement made in the company's health and safety performance with a 38% improvement in its Lost Time Injury Frequency Rate (LTIFR). More reassuringly, Aalberts recognises that there is much scope for further improvement, targeting a further 32% reduction. A safe working environment is the least that can be expected of employers, so we welcome this ongoing concerted focus – a topic we have engaged on since 2018.

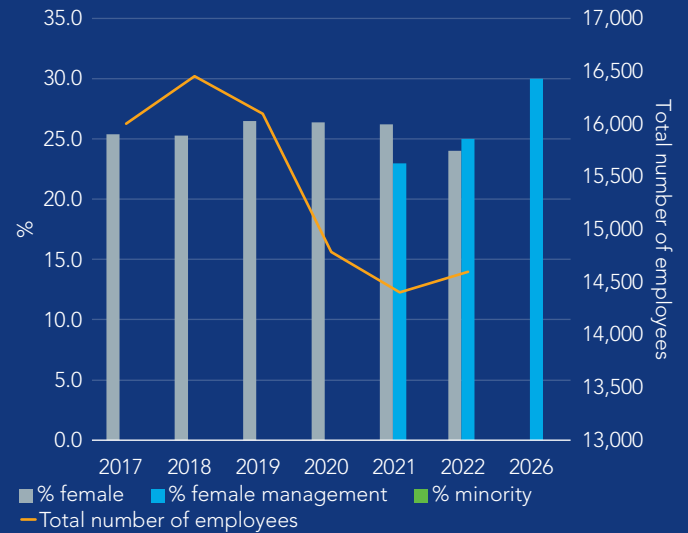
**Figure 2:** Health and safety



Source: Company reports

**A safe working environment is the least that can be expected of employers, so we welcome this ongoing concerted focus – a topic we have engaged on since 2018.**

**Figure 3:** Diversity



Source: Company reports



Aalberts has also begun to make a determined effort to improve levels of diversity across its workforce and in particular among its senior leadership. As of FY22 women comprised 25% of management; the company is targeting 30% by 2026.

Much of our people-oriented dialogue has been directed towards Aalberts lower-paid workforce. We have consistently contended that the company has the ability (and responsibility) to support efforts to provide employment opportunities towards more disadvantaged populations. We have in parallel consistently asked

it to commit to paying at least a living wage for all locations and to ideally cascade these expectations down to its suppliers.

On the latter, **the company committed in 2019 to research the difference between living wage standards and the salary structures of operational facilities in countries where collective labour agreements are less developed.** A pilot study was subsequently undertaken in China with internal assurance reached that living wages were being provided. We continue to encourage the company to formalise its living wage benchmarking assessments and focus in on other countries, such as the US, as well as its direct and indirect operations in Asia.

On the former, we have been pleased to note some of the sporadic (and laudable) initiatives in place and continue to question: Can more be done to replicate these existing practices?

- **Netherlands:** For decades the group has worked with sheltered workshops. In addition, with the Dutch employee insurance agency UWW it established a retraining programme.
- **Norway:** The business started a labour training centre for refugees to increase assembly capacity and to provide language training. The programme was expanded to include Norwegian young people.

### Enterprise impact

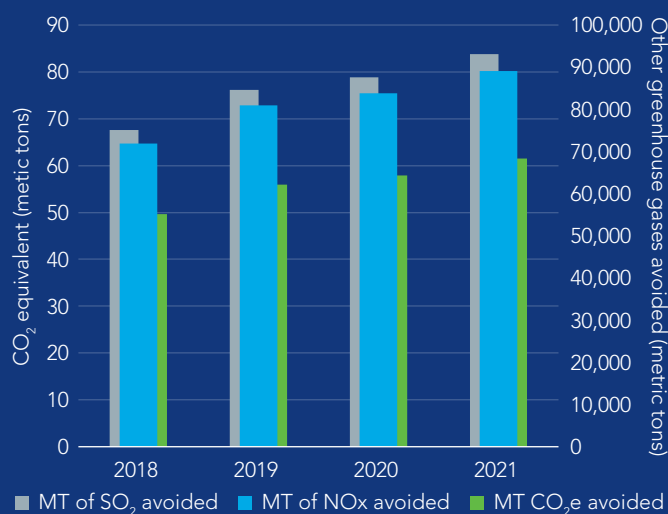
SDGs:

- 3.9: substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination
- 7.3: double the global rate of improvement in energy efficiency

Aalberts states that **as of FY22 68% of its revenue is linked to the SDGs and it is targeting 70% by 2026.**

With our impact measurement partners (Net Purpose) we estimate the impact of hydronic building heating systems (20% of revenue, 60% end use in buildings). We calculated the impact using estimated total revenue from hydronic heating; average grid emissions rates in Organisation for Economic Co-operation and Development (OECD) countries and estimated average energy saving efficacies of hydronic heating in commercial buildings on a per square metre basis.

**Figure 4:** Environmental outcomes: Metric tons avoided



Source: Company reports

### Next steps

The company's Chief Executive Officer Wim Pelsma is retiring in the second half of 2023, following 24 years with the company and 11 as CEO. We applaud the leadership shown by Wim and look forward to engaging with his successor Stephane Simonetta when he takes over later in the year.

We will continue to engage with Aalberts around the topics set out in this paper. We are heartened by the company's evident commitment to playing a leadership role in reducing building energy usage – but nonetheless we continue to encourage the company to:

- Accelerate Scope 3 emissions measurement and submit 2030 emissions reduction targets to the SBTi.
- Double-down on its commitment towards its own people by:
  - a) embedding accountability for a safe working environment throughout site level and senior management key performance indicators (KPIs);
  - b) formalising an independent living wage benchmarking analysis for all sites of operation; and
  - c) retaining and expanding impactful employment initiatives.

- Measure and disclosure raw material usage and outline an approach and strategy towards:
  - a) increasing usage of recycled materials; and
  - b) recycling and refurbishing products at end-of-life.

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