Future-proofing through sustainability

Graham Matthews, chief executive of Whitehelm Capital, and Thibault Richon, investment director at SWEN Capital Partners, tell us why infrastructure and sustainability are natural bedfellows and why ESG has an important place in the sustainability tool kit

Q What is your view on sustainability?

GM: Sustainability is all about good, long-term investment. In a broader sense, you can use it to describe features that ensure companies, industries, a market or an entire economy can operate effectively and within their means over the long term. We can't just look at a company today, see that it is profitable and say that is a good investment – sustainability means looking at how that business operates across a whole range of internal and external factors and whether that business will be stable over the long term.

TR: Sustainability encompasses a broad range of themes but the essence of it is long-term viability. As a responsible investor, this means being very mindful of the impact of your investment portfolio over time.

Q Why is sustainability especially important when it comes to infrastructure investing?

GM: Some investors have a perception that there's a negative trade-off between financial returns and sustainability, but in infrastructure that's definitely not the case and has never been. We've been doing this for 20 years and have had a strong focus on sustainability from the start. Infrastructure assets have a long life, they can be physically quite large and they have an impact on the local environment and societies. All of this makes a focus on sustainability essential. It is just that it has become a buzzword now.

Matthews: sustainability is about good, long-term investment

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TR: Having a sustainable approach in infrastructure investing clearly mitigates risks and, over the long term, transforms into value enhancement. In a way, it is about striving to make a project future-proof. To achieve this, it is important to strike the right balance between stakeholders: investors, regulators, customers and local communities, usually very intertwined in infrastructure projects. We also think sustainably investing in infrastructure can positively contribute to the UN's Sustainable Development Goals.

Q Does sustainability encompass all aspects of ESG for you?

GM: Sustainability and ESG are often used interchangeably. The way we look at it, sustainability, long-term viability and stability are the objectives we aim for – ESG is part of the tool kit that ensures this can be done. I think getting ESG right is a way of ensuring we get sustainability right, and that means taking into account a range of factors that could impinge on the long-term viability, stability and sustainability of an asset.

TR: I think sustainability has a broader remit. ESG criteria enable us to qualitatively and quantitatively assess and improve over time the extra-financial performance of our investments. One overarching goal in today's context is investing in alignment with the Paris

Agreement's plus-two-degree Celsius trajectory by 2050.

Q How do you apply these sustainable principles to your investment approach?

GM: It's about applying them across the entire life cycle of an asset. We have a very strong responsible-investment policy and a code that implements that policy. This covers everything from the partners we choose to work with, to risk analysis, asset identification, asset acquisition, and active asset management.

We have a framework that encompasses 200-plus items when we do due diligence. For example, the contribution an asset makes to climate change directly or indirectly, social factors, governance factors – we consider all this and more to arrive at a formal sustainability rating for the assets we are interested in. This environmental rating is just like a credit rating, and we like to invest in AAA-rated assets.

Just like legal and financial due diligence, sustainability due diligence is important to us. But this is just the beginning. Then it's about implementation through policies and corporate structures as well as ensuring the asset itself adopts policies that are consistent with how we approach sustainability.

TR: Sustainability and ESG are fully integrated into our investment and asset-management processes; our approach is tailored to the type of investment we are looking at (primary, secondary or direct co-investment).

It is as important as traditional due diligence, as highlighted by the fact that we have had a dedicated ESG team since 2012 within SWEN, working hand-in-hand with our investment team. Our diligence and monitoring process is pretty complete across the E, the S and the G and capitalises on the 120,000-plus of ESG data points we have collected from GPs and underlying portfolio companies over the years.

Richon: sustainability and ESG are fully integrated into SWEN's processes

To give you a few concrete examples, we apply some sector exclusions, negotiate specific ESG-clauses in investment documentation, track and analyse controversies, measure the carbon footprint of our portfolios and implement a climate strategy. We engage strongly with our investment partners so that we evolve towards best practices together.

Q Kvitebjørn Varme in Norway – in which you are both invested – is one example of a sustainable investment. Can you tell us more about it?

GM: Kvitebjørn Varme is a district-heating network in Norway, producing more than 90GWh of thermal energy annually – this is mainly from sustainable, low-carbon generation technologies such as a waste-to-energy plant. Now, when you think of waste-to-energy more broadly, there are several features that make it sustainable. For example, utilising waste means reducing landfills. Second, reducing landfills means reducing greenhouse gas emissions – waste-to-energy is the only way of producing energy that has a negative greenhouse-gas position. The third element of sustainability is that we are recovering a valuable resource that is literally being 'wasted'.

TR: Building on what Graham mentioned, KVAS is a good example from a sustainability perspective in the sense that it is at the crossroads of the circular economy and impact investing. In addition, KVAS contributes positively to a handful of the Sustainable Development Goals (industry, innovation and infrastructure; climate action; sustainable cities and communities; and affordable and clean energy), which institutional investors increasingly take into account.

Q How have you made Kvitebjørn Varme more sustainable?

GM: In the two months since we completed the investment, we've been working closely with the management team and co-shareholders of the asset to set expectations across the business and to embed sustainability and ESG factors.

It is a business that already has positive ESG features, but part of our asset-management process is to enhance this. To that effect, shareholder and other corporate governance documents have specific guidelines and requirements related to ESG markers. We have since been working with shareholders, through the board, to set executive compensation on the back of KPIs that are set to push this agenda further. We are also optimising the operational efficiency of the plant and are at the start of the process to put in place a capex programme to do that. And in the first year of ownership, we will put in a new flue-gas system and an enhanced emission system.

We want to ensure the long-term sustainability and financial performance of the asset. Part of the interest and desire to invest in it was to work with the founders as long-term partners to invest in other similar assets. The very positive sustainability nature of the business means we can use this as a template to build similar businesses and use it as a platform. ■