Green News & Views

Real Assets – ESG initiatives

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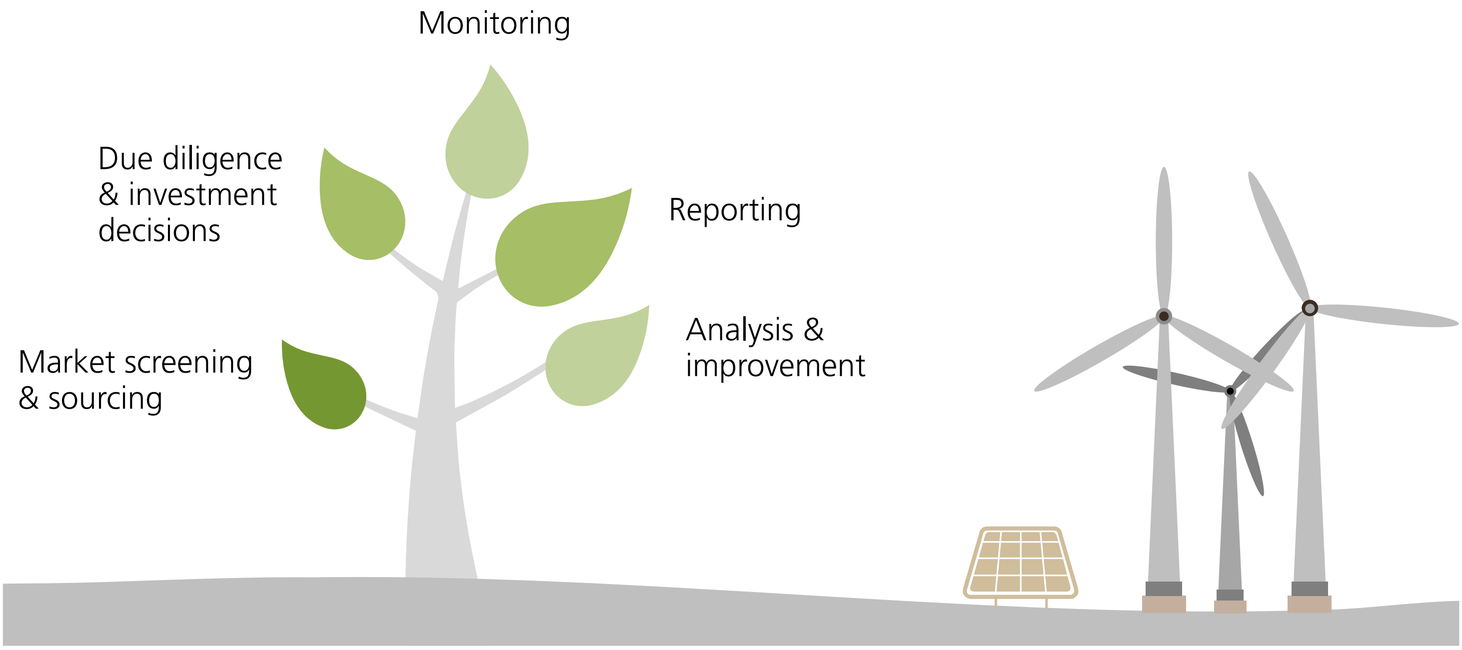

Sustainable infrastructure investments play a driving role in decarbonization, improving livelihoods and economies. For infrastructure investors, factoring in financially relevant sustainability information can lead to better investment decisions.

Thus, through integrating ESG into the investment process, infrastructure investors can achieve positive and lasting outcomes as the demand for global infrastructure investment continues to grow.

REPM Multi-Manager Infrastructure's 5 pillars for responsible investing

Infrastructure and ESG are two sides of the same coin. USD 94tn of global infrastructure investment is needed by 2040 to keep up with the economic and demographic changes across the globe[1]. Infrastructure is about providing essential daily-use services to the community, and thus, underpinning economic and social development. At the same time, the sector continues to gain recognition as a distinctive asset class that holds considerable appeal for investors due to its relatively low long-term cash flow volatility compared with other asset classes, its ability to provide attractive inflation-hedged total returns and its resilience to various economic cycles.

Indirect private infrastructure usually involves purchasing units in a fund, which then invests into infrastructure on behalf of many investors. Whether investing into infrastructure directly or indirectly, ESG issues are important considerations for investors given the long-term time horizon and often relatively significant financial investment required.

Integrating ESG factors into investment analysis and decision-making processes can lead to better-informed investment decisions. In addition, it can act as an early warning for risks that are not yet reflected in asset values to improve the risk / return. REPM's indirect infrastructure business, Multi-Managers Infrastructure (MMINFRA), whose investment track record in this sector spans over 17 years, factors-in ESG at all stages of the investment process, including the investment case and the evaluation methods used prior to making investment decisions.

Read on to find out what they consider to be their top 5 investment factors to consider when integrating ESG in the investment process.

- Market screening & sourcing
- Due diligence & investment decisions
- Monitoring
- Reporting
- Analysis and improvement

Market screening & sourcing
Market screening and sourcing is an important tool to both identify and understand different ESG related risks and opportunities in investments. In addition, it is an important factor in implementing a responsible investment policy across investments. The results of which are then incorporated into the selection and operations of our investments.

For MMINFRA, conducting early screening and exclusion of investment opportunities based on ESG merits and risk considerations is a crucial step in responsible investment. For example, environmental exclusion criteria can include investments in businesses with high CO2 intensity, coal related businesses, nuclear power, hydraulic fracturing, artic oil, oil sands, etc. Social exclusion criteria can include investments involving forced or child labor, businesses or sectors with poor Health & Safety track records, etc. And for governance exclusion criteria, these can include investments in jurisdictions with poor governance and regulatory oversight, businesses linked with sanctioned countries or persons, businesses and fund managers with poor ESG processes and practices, etc.

During its market screening activites, MMINFRA maintains an active dialogue with the fund managers in order to encourage the broader adoption of ESG principles, limit and reduce the exposure to investments with higher environmental risks, and lastly promote good governance objectives.

Due diligence & investment decisions
Due diligence is an important component of any investment process as it helps investors understand the nature of a deal, identify the risks involved (and ability to mitigate them), and whether the deal fits with a portfolio strategy. In the context of ESG, due diligence is becoming a critical step in understanding an investment's risk profile and exposure. For example, this can include where a company operates, if it is in violation of relevant laws and regulations or its engagement in certain controversial sectors or activities.

The MMINFRA team has added the systematic collection of information on its target funds' ESG policies and ESG practices to its investment process. Fund managers are requested to provide relevant ESG information through standardized questionnaires and templates which have been structured in accordance with recognized third-party sustainability associations and frameworks.

MMINFRA thoroughly considers how a manager incorporates ESG policies into a firm's and fund's strategy, how it reports on ESG topics and issues to investors, on the relevant laws and regulations impacting its fund, any sustainability initiatives embraced by the manager, etc.

ESG forms part of the investment due diligence process with findings presented at the relevant decions making bodies and incorporated in the investment decision-making process.

Monitoring
ESG considerations are not limited to the due diligence and the investment phase, but are considered throughout the investment lifecycle of an investment.

For MMINFRA, ESG is monitored and reviewed alongside regular investment monitoring through quarterly fund reports, manager calls and onsite-meetings, advisory board sessions, annual sustainability reports, etc. In addition, fund managers are regularly requested to provide relevant ESG information through standardized templates. Findings and deviations are addressed with the fund managers.

Reporting

MMINFRA reports to its investors on a regular basis on the ESG dimensions of their respective portfolios. The objective is to provide a comprehensive overview of how the underlying fund managers address and implement ESG in both their investment strategy and asset management. An additional objective is to provide concrete examples of ESG initiatives carried-out at the underlying infrastructure assets and portfolio companies.

The outcome of MMINFRA's ESG reporting is a combination of qualitative and quantitative information retrieved through the regular ESG questionnaires and templates compiled by the fund managers, the ESG reports from the underlying fund managers and the regular interactions that take place during the monitoring process.

Analysis & improvement

Continuous improvement is the fifth and last pillar of our approach to responsible investing. How investors, the regulators, fund managers and the overall industry address ESG thematics is constantly evolving, requiring continuous improvement and refinement.

With 500+ invested assets[2], MMINFRA can provide constructive and detailed feedback to the underlying fund managers on how to improve their ESG practices and better align to investor needs and demands. Additionally, the broad array of ESG information enables MMINFRA to improve its own ESG frameworks and constructively build upon prior ESG experiences.

ESG is no longer a nice to have and is increasingly becoming an essential requirement for investors wanting to align their investments with their own values, along with the potential for better risk-adjusted performance. By incorporating these 5 pillars, MMINFRA is able to promote sustainable long-term growth which benefits companies, investors and creates greater impact in the industry at large.

Source: 1 Global Infrastructure Outlook, accessed April 2020; 2 UBS Asset Management, Real Estate & Private Markets, April 2021

GRESB ★ ★ ★ ★ ★ 2020

SUSTAINABLE DEVELOPMENT GOALS

Signatory of:

PRI Principles for Responsible Investment

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