Roundtable

Licence to operate

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The social-governance revolution

Against a backdrop of ever-increasing scrutiny on corporate behaviour, **Kalliope Gourntis** spoke to five industry professionals to learn how their firms are maintaining their licence to operate

As we go to press, the UK's Financial Reporting Council is in the midst of a consultation process aimed at revamping the stewardship code – a set of principles guiding the asset management industry in holding their portfolio companies accountable. In addition to broadening its reach across asset classes, the overhaul will also include adopting environmental, social and governance criteria, which were not included when the code was launched in 2010.

Last month, Keith Skeoch, co-chief executive of Standard Life Aberdeen and an FRC board member, applauded the process and called for "active stewardship", urging the asset management industry to seek a "thoughtful approach to creating sustainable value".

"Much of the asset management industry operates on the basis that its interests are best served by ensuring profits are maximised. This fundamental premise needs to be challenged," he wrote in a *Financial Times* article.

A few weeks earlier, State Street Global Advisors, one of the world's largest investment managers, announced that this year it would focus on corporate culture "as one of the many, growing intangible value drivers that affect a company's ability to execute its long-term strategy". According to data from accounting firm EY, intangible assets such as culture average 52 percent of an organisation's market value and as much as 90 percent in some sectors, the investment manager said in a letter to board members.

It seems we couldn't have picked a better time, then, to bring together five industry professionals to find out how their firms are responding to these challenges.

"We have a dedicated team that was set up in 2001 to focus on responsible investment, sustainability, ESG – the whole gamut of issues," Niamh McBreen, investment director, asset management, infrastructure, Europe for AMP Capital, says.

"It's a dedicated team that sits within the chief executive's office. The bottom line is that there is a board-level responsibility for this, which filters down into everything that we do – at the fund level as well as the asset level."

For European fund manager Antin Infrastructure Partners, corporate social responsibility and ESG have been an integral part of the firm's operations since its founding 11 years ago.

"It is discussed on a very regular basis both as part of our acquisitions as well as in the context of our portfolio companies," senior partner Angelika Schöchlin remarks.

"There are two elements. There are formalised processes and then there is implementing those formalised processes within the portfolio companies."

Recognising ESG as crucial for asset owners that want to keep their licence to operate, our participants all agree that its implementation depends on making it a board-level topic.

According to Esther Peiner, managing director, private infra-

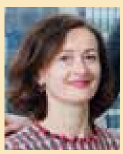
> "Ultimately, if we look after the people who are helping us deliver that success, they will be our greatest advocates" **McBreen**

AROUND THE TABLE

Niamh McBreen, investment director, asset management, infrastructure, Europe, AMP Capital
McBreen joined AMP Capital in 2017 from UK Government Investments, where she worked on several portfolio assets including Network Rail, Highways England, NATS and Companies House. Prior to that, McBreen spent 14 years at rolling stock lessor Alpha Trains and its predecessor company. She started her career in Germany in the power generation division of Swiss-Swedish industrial conglomerate ABB.

Angelika Schöchlin, senior partner, Antin Infrastructure Partners
Schöchlin joined Antin in 2010 following nearly eight years as a director at Terra Firma. She is a member of Antin's investment committee. Before joining Terra Firma, Schöchlin worked in the investment banking division of Goldman Sachs. She has experience in both principal investment and mergers and acquisitions.

Marion Calcine, managing director, infrastructure, Ardian
Since joining Ardian in 2006, Calcine has participated in a number of acquisitions, notably London Luton Airport, Indigo car parks, utility Encevo in Luxembourg, refined products transportation company CLH in Spain, Ascendi motorways in Portugal and Ardian's 400MW renewables platform 3New in Italy. She is a board member of 3New as well as of a number of Ardian's renewable portfolio companies.



Ingrid Edmund, senior portfolio manager, infrastructure investments, Columbia Threadneedle
Edmund joined Columbia Threadneedle in 2018 from HSBC Global Asset Management. Prior to that, Edmund worked for Hastings Funds Management, Stormharbour Securities, Sumitomo Mitsui Banking Corporation and Standard & Poor's. At Columbia Threadneedle, she is responsible for managing the firm's global infrastructure portfolios.

Esther Peiner, managing director, private infrastructure Europe, Partners Group
Peiner joined Partners Group's European private infrastructure business unit in 2015 from Macquarie Group where she spent nearly 11 years in various roles. At Partners Group, she is a member of the private infrastructure investment committee and of the PG Life impact committee. She is also a member of the board of directors of Covage.

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>
> **Peiner**

structure Europe at Partners Group, the Swiss private markets manager has taken ESG compliance “a step further”.

“We’re looking at all of our dealflow and then screening whether we have investments that positively contribute towards creating lasting impact,” she explains.

Peiner is referring to PG Life, an investment strategy the Zug-based firm launched last March that invests “exclusively in line with the United Nations Sustainable Development Goals”, according to a statement released at the time.

“PG Life has the dual mandate to achieve attractive risk-adjusted financial returns alongside measurable, positive social and environmental impact,” the statement said.

“It’s very interesting because you have that debate between what is understood in the market as being appropriate for ESG and how you measure that next to risk/return, which we all understand,” Peiner points out.

“I think that’s where there’s a lot still to come over the next 10 years. If we all build our portfolios’ track records in terms of positive impact or ESG compliant-investing in five to 10 years we will see that certain assets will be easier to divest because they are ESG compliant, while others will sit on the shelf because no one will want them.”

Partners Group has established an external council to provide advice on strategic aspects including impact measurement methodology. For this specifically, it has turned to public markets for inspiration and has translated and adopted existing frameworks into private markets investments, Peiner says.

Columbia Threadneedle, which recently established a private infrastructure business, has also turned to public markets for guidance. “We have a team of 12 people dedicated to ESG and responsible investment,” Ingrid Edmund, senior portfolio manager, infrastructure investments, says.

“You can look at the history and track record that they’ve got in the public markets and how ESG has been integrated in the investment process there. It’s actually really useful, provides useful lessons in terms of translating them into unlisted markets, where you have more control, stewardship and engagement outside the natural paths to implementing ESG in the public markets. So, that’s kind of the approach that we’ve taken for our unlisted infrastructure investments.”

For Marion Calcine, managing director, infrastructure at Paris-based Ardian, what’s also important for fund managers’ licence to operate is “to make sure that when you acquire a company, you do not put in excessive amounts of debt”, she stresses.

“If you put a reasonable amount of debt then you can focus on growing the company instead of just cost cutting. You allow the company to go through low economic cycles, which of course, is extremely important.”

‘THE BEAUTY’ AND CHALLENGES OF PRIVATE OWNERSHIP

While the conversation so far has focused mostly on ESG initiatives and how firms

> “What can hurt private equity is the negative advertisement in cases where companies have gone bust – notably due to high levels of debt”
> **Calcine**

implement them at the fund level, attention then shifts to how these initiatives are communicated to and adopted by portfolio companies.

The consensus on how best to achieve that is to, once again, start at the top.

“I’ve found that the most important thing is raising ESG and related measures to the attention of the C-level management teams at our portfolio companies,” Peiner says.

“Once you have them engaged and they start thinking about it, then you can really see the beauty of private ownership because there are some really positive ESG measures that are highly profitable for the bottom line.”

Schöchlin is even blunter: “Unless you have the right person or people at the top of your portfolio company, then ESG remains a paper exercise.” That view is echoed by Calcine, who points out that “you need to find the people who you trust and empower them to achieve the strategy”.

Edmund describes a similar approach at her firm. “One of the first things we do when we acquire a company is to look at the management incentives,” she says.

“Our experience increasingly shows that you want to link their objectives with whatever objectives you have as an investor.

“As a fiduciary – managing money on behalf of insurance companies, pension funds and so on – you have to be able to deliver whatever you promised those people in 20 years’ time. If your assets or your management teams are not aligned with those objectives then someone is going to take away your returns in the next 20 years.”

Equally important, once incentives are aligned, is to ensure those positive impacts are adequately understood and communicated to the end users – the public.

“That’s actually a very big topic for us at the moment,” Peiner says. “Social responsibility – yes, you can measure community engagement, but how do you measure its success or failure?”

For Calcine, “what can hurt private equity is the negative advertisement in cases where companies have gone bust – notably due to high levels of debt, we go back to that”.

The antidote to that, she continues, “is that your company creates jobs – in Luton Airport, our capex plan created more than 30,000 direct and indirect jobs, for example; that it’s engaged in the local community; that you foster and encourage links with local universities, which is also valued at exit”.

Schöchlin and McBreen both agree that job creation is one of the strongest tangible benefits private investment can generate. But there is a qualitative element that should not be neglected either. As McBreen puts it:

“We spend a lot of time engaging with our communities, at the asset level, talking to people and trying to do things like minimising zero-hour contracts here in the UK, for example. These are small things at the absolute micro-level, but they make a big

> Unless you have the right people at the top of your portfolio company, then ESG remains a paper exercise"
> **Schöchlin**

difference. Ultimately, if we look after the people who are helping us deliver that success, they will be our greatest advocates."

What no one around the table doubts, though, is just how hard it can be to communicate those benefits.

THE 'D' IN ESG

In that context, leading by example is crucial. That is particularly important when it comes to one of the hot-button issues of the day – diversity. After all, infrastructure assets provide essential services to diverse communities, putting pressure on asset managers to reflect that variety.

"When we make senior appointments at AMP Capital, we have diversity targets and also have diverse shortlists. It's therefore really easy for me to say, 'Look, we do this, so why should we hold our portfolio companies to different standards?'" McBreen explains.

The fact AMP Capital practices what it preaches allowed McBreen to demand that a diverse shortlist be compiled for the recruitment of a chief executive at one of its portfolio companies.

Antin's Schöchlin describes similar experiences.

"It is interesting because in some jurisdictions more than others, when you suggest the idea of a more diversified board, you often get pushback – often from the headhunters who claim there are no women," she says. "The outcomes vary. Some headhunters still do not deliver a diverse shortlist, while others do when pressured.

"I think strongly encouraging the management teams regarding diversity is quite helpful because the reality is if you look for something or someone, you are more likely to find them.

"At Antin, we have two women on the investment committee, out of a total of seven members. I think that is a very powerful statement for the organisation and it attracts junior talent. It might not be 50 percent female, but it is quite a good sign."

Ardian is also diversity conscious.

"Bringing diversity and empowering people is what we're trying to do not only at the firm level, but also at the portfolio companies' level," Calcine says. "As mentioned before, setting the example is important."

Speaking of examples, Partners Group's Peiner provides one that demonstrates how having a more diverse team can have an impact.

"I'm one of few senior women on the investment side of Partners Group, but I also enjoy a relatively heavily female-skewed team under me," Peiner says.

"There are times when we walk into a meeting with an investment committee and have a very different – and arguably more constructive – interaction because, I think, we bring a little less aggression to some of the discussions.

"I think one of the best ways to attract and retain diverse talent – whether it's female or other talent, is to have more diversity in the first place. Don't just have

"When we get to the RFP stage, there are always detailed questions about all sorts of things, including ethnic diversity, especially from US and Canadian LPs"
Edmund

one or two, but have a group of diverse people."

LPS ARE EXPECTING MORE

"I think what we're moving towards now is that with our more sophisticated LPs, they're saying, 'We expect you to be more diverse because we know that diverse groups make better decisions and better decisions reflect themselves in better financial performance'," McBreen notes.

Indeed, the Oregon Investment Council, which alongside the Oregon State Treasury manages about $101 billion in assets across several pension funds, including the Oregon Public Employees Retirement Fund, stated just that in its recent meeting documents.

"The OIC believes a wide range of perspectives, ideas and opinions will ultimately produce better investment outcomes," the organisation said.

And OIC is just one of many examples.

Schöchlin agrees that "there is a lot more scrutiny on ESG – a lot more. It has become a very integral part of LPs' due diligence", she adds.

"But I would not necessarily say they go into diversity as a topic. I think it is quite balanced in terms of the overall ESG responsibility and it is quite clear it has become very much a senior-level issue for LPs as well."

Edmund shares a slightly different experience. "When we get to the RFP stage, there are always detailed questions about all sorts of things, including ethnic diversity, especially from US and Canadian LPs. The Europeans probably less so, they focus more on the environmental side still."

But the bottom line, as Edmund points out, is that "it's moved from box-ticking to real due diligence in how ESG and sustainability are approached".

McBreen draws on her own personal experience to drive home how much things have changed.

"I was the only woman in my graduate training programme cohort," she recalls. "To get to the canteen, I had to walk across the factory floor and be subjected to wolf-whistles. So, I stopped going to the canteen. It was awful and humiliating.

"This made me feel wary about discussing anything that set me apart. Now, as I'm older and work in a different environment at AMP Capital, which thinks about diversity in a different way, I am more comfortable talking about my journey and some of the choices I made."

Asked what her advice to young women professionals would be, McBreen replies: "I would say, 'Don't be afraid to be who you are. Bring yourself to work; bring your whole self to work,' because I didn't do that – I felt I couldn't.

"I want to create environments in our companies, in our industries, in our portfolios where people can do that. And I don't mean just women, I mean everybody; that they can bring themselves and their choices to work every day. We'd all be better as a consequence of that." ■