

KEYNOTE INTERVIEW

Tapping into sustainability
mega-trends

The need to decarbonise and society's expectations for a more circular economy are driving new investment opportunities across PE and infrastructure, say 3i's Sophia Walwyn-James and Céline Maronne

Q What sustainability mega-trends are you currently seeing?

Céline Maronne: In infrastructure, we are seeing the prioritisation of domestic energy security, heightened by geopolitical events. The drive to make a meaningful contribution to achieving national net-zero targets is also very clear, with a shift from concept towards practical action. This leads to more capital being required to fund the production of renewable energy and other projects contributing to decarbonisation, which requires huge investment in underlying infrastructure. Linked to this, we also see a drive to create a more

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circular economy, with dealflow in areas such as the production of biogas and recycling of waste.

Sophia Walwyn-James: In addition to decarbonisation and the circular economy, new sustainability mega-trends include supply chain transparency and resilience, which have become paramount in the wake of both the covid pandemic and the Ukraine conflict.

Supply chain disruption, high energy prices and inflation are all topics

that have direct consequences for business operations. Therefore, sustainability now lies at the heart of commercial discussions rather than being a side issue.

Q Which of your investments contribute most to those mega-trends?

SWJ: In our private equity portfolio, we have backed a number of companies whose core offering is based on the circular economy principles of repair, reduce, reuse and recycle. One example is Evernex, which helps customers prolong the life of their IT equipment through maintenance, reuses

Analysis

working spare parts and recycles over 500 tonnes of IT waste annually.

We also have companies that historically had linear business models, and which are now integrating aspects of circularity. An example here would be discount retailer Action, which has partnered with Circle Economy, a global organisation helping companies integrate circular strategies and models. Action and Circle Economy are working to develop circularity plans for every product category in Action's range, considering, for example, the design of a product, origin of the materials, how the product is manufactured, and the way a customer uses and disposes of it.

CM: Notwithstanding our businesses which contribute directly to the energy transition through the production of renewable energy, a number of our companies actively help decarbonisation efforts within their own industries, even in sectors such as maritime and aviation where this can be more challenging. In the maritime sector, our Danish business Esvagt, which provides service operations vessels to the offshore wind industry, is pioneering the transition to green vessels in partnership with renewable energy company, Ørsted. In aviation, TCR assists the decarbonisation of airports by supporting ground handlers to electrify their fleets of ground support equipment.

Looking at the circular economy, both Attero in the Netherlands and Herambiente in Italy recover recyclable materials from waste, producing granulates from recovered plastic waste for use in recycled plastic packaging. They also produce green gas from organic waste and generate heat and electricity by incinerating non-recyclable residual waste that would otherwise go to landfill.

Q How are these trends influencing the opportunities you're looking at, and your approach to investment decision-making?

Making plastic packaging more sustainable

Weener Plastics is an international manufacturer of innovative and sustainable plastic packaging solutions, primarily serving the personal care, food, home and healthcare markets, including global brands like Unilever, as well as private label businesses. Backed by 3i in 2015, WP has invested heavily in improving the circularity of its packaging, setting an objective for all its products to be recyclable, reusable or refillable by 2025, and matching the commitments made by many of its customers.

WP uses its 'Design for Sustainability' strategy across all teams to develop new solutions that respond to emerging trends and needs in the industry, and help customers achieve their own sustainability goals. Landmark innovations include the launch of the world's first fully recyclable dispensing valve closure, used in products such as ketchup bottles, and enabling fully recyclable plastic packaging to be brought to market for the first time.

WP was also responsible for the development of a refill system for concentrated cleaning products, using 75 percent less plastic and



WP has been enhancing the circularity of its packaging, including innovations such as a refill system for concentrated cleaning products

reducing water transportation by 97 percent. In recognition of its efforts, in 2022 the company was awarded a gold medal under the EcoVadis rating scheme, putting it in the top 1 percent of plastic product manufacturers for sustainability in the world today.

CM: We look closely at whether business models and technologies are future proof and whether a business fits in a world where the ambitions of the Paris Climate Agreement are achieved. This isn't a new approach for us. Infrastructure is, by nature, an asset class where we look to provide essential services to society, and so we have always looked for businesses offering long-term resilience, often looking at business cases going out 20 years and longer. What's changed is that opportunities in 'next

generation' infrastructure, companies enabling the transition to a sustainable, low-carbon and connected future, are representing a growing part of our pipeline.

SWJ: Our proprietary capital means we have a flexible hold period and can stay invested in assets for a long time. When we make new investments, we look carefully at how ESG factors could impact the company and how it may need to evolve. So, while we invest

in some businesses directly driven by mega-trends, we also invest in companies where these trends may mean a company's business model, products or services will have to develop over time.

Q What sustainability challenges are your portfolio companies facing and what are they doing to respond?

SWJ: Our current focus is on ensuring that all our portfolio companies, irrespective of industry or business model, are measuring their carbon footprint and reporting that emissions data to us. We face regulation ourselves that requires us to gather that information. Our companies also have other stakeholders requesting this information, particularly if they're part of a supply chain, and so it's an important commercial requirement.

Some of our portfolio companies are going further and starting to set decarbonisation targets. However, as a mid-market investor, our businesses are frequently SMEs, which rely on the need to influence others to achieve their goals. For example, a business may need to persuade a landlord to change energy tariffs or install solar panels. Others may need to engage with hundreds or even thousands of suppliers to change the way products are designed or logistics handled. That process of engagement often represents a new skill set for many small businesses. We can provide support and share knowledge across the portfolio.

CM: As Sophia says, when it comes to Scope 3 – indirect emissions generated throughout the value chain – some of our companies can only exert influence over their customers to adopt greener solutions. But even then, there is a great deal they can do. For instance, when it comes to providing essential infrastructure equipment, companies like Esvagt and TCR actively look for greener, economic alternatives to propose alongside conventional ones.

Another challenge we face is that our renewable power generation companies, whose core and sole purpose is to avoid greenhouse gas emissions in the energy sector, achieve massive avoided GHG emissions, which are currently sidelined in carbon footprint calculations. For our energy-from-waste companies, we are currently exploring solutions such as carbon capture and storage, which could offer the opportunity for these businesses to become neutral and even negative emitters, owing to the biogenic content of the waste.

Q How do you share knowledge across the portfolio?

SWJ: We find that hosting events is an effective way to bring our portfolio companies together, enabling them to interact with one another and share best practices. We have held two dedicated sustainability roundtable events covering plastics and carbon. We also held a CEO and Chair Forum in Berlin in October 2022. At this event we asked five CEOs from different industries to share their experiences of how sustainability initiatives have driven value through top line growth, cost savings or improved access to capital.

We believe it's important that we use our portfolio as a network and we regularly connect companies on a one-to-one basis as well, enabling them to provide direct support and mutual feedback. This will continue to be a focus area for us in 2023.

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SOPHIA WALWYN-JAMES

Q Beyond leveraging the strength of the portfolio, what are your key priorities for the year ahead?

CM: Our immediate priority when working with the portfolio is decarbonisation – supporting each company to define a long-term plan to reduce GHG emissions that is relevant to its business, taking into account its contribution to the energy transition and the pace of change of its wider ecosystem. But also working with them to identify solutions to support the decarbonisation challenges faced by their customers, turning these into growth opportunities to create both sustainability and financial value.

SWJ: Sustainability regulation is proliferating. That includes regulation that applies to 3i as well as to our portfolio companies. In 2023, therefore, within 3i we will continue to prepare for Task Force on Climate-related Financial Disclosures reporting in 2024, which requires us to consider potential climate impacts on our business, as well as our current and future portfolio companies.

During 2022 I was pleased to contribute to a TCFD guide published by the British Private Equity and Venture Capital Association and the Initiative Climat International, specifically for the private equity industry. Our ESG committee brings together representatives from across the business to make sure we consider the implications of TCFD and other regulation across all of our operations.

We will also be supporting our portfolio companies as they prepare for the EU's Corporate Sustainability Reporting Directive and the proposed Corporate Sustainability Due Diligence Directive, as well as other regulation on the horizon. ■

Céline Maronne is the director leading work on sustainability in 3i's infrastructure team and Sophia Walwyn-James is ESG and sustainability director within the firm's private equity team