

KEYNOTE INTERVIEW

Investing in the future



Peter Wirtz, co-head of 3i's private equity business, and Anna Dellis, partner in its infrastructure business, discuss how the sustainability agenda is changing and how it can bring opportunity

Q What do you see as private equity's role in sustainability?

Peter Wirtz: Private equity investors are in a privileged position. We have a wide scope of influence which extends beyond our own organisations to a large number of portfolio companies, their management teams, employees, customers and suppliers. In addition, decisions can be made quickly, so we have a lot of impact. Our goal is to bring the sustainability agenda to our portfolio companies through introducing best practice and applying what we've learned in other investments. It's not just about environmental factors; we have a role as responsible investors in influencing good social and governance practices too.

Q Why is sustainability important? And what does it mean to you as a firm?

Anna Dellis: We want to understand the

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impact we are having, through our own organisation and our portfolio companies, on the environment and the communities in which we operate. We want to ensure that our portfolio companies are responsibly managed. This matters to us as individuals within 3i, to the individuals managing and working within our portfolio companies, and to their customers, who increasingly want to understand the values of the companies they are buying from. It's also important to the regulatory authorities, who are focusing more and more on sustainability. As investors, we depend on all of these stakeholders for our investments to be successful. We believe investors who do not engage in a serious way around sustainability will be left behind.

Q What does this mean for how you operate as an investor?

PW: Sustainability has always been a key criteria for us as investors, but over the past 10 years, our approach has evolved, in particular as the available tools and the opportunities created by the sustainability agenda have developed. Ten years ago, we assessed each investment according to a limited number of ESG criteria. However, we now look at how our portfolio companies impact society in a wider sense and how their businesses fit with sustainability objectives. We also conduct annual assessments where we look at each portfolio company to monitor where improvements can be made and where there are new opportunities for the business.

AD: Our ESG assessment has become much more detailed over the past two years. It is no longer a checklist or risk manage-

ment tool, but rather a document that we use to support a proper discussion around ESG between 3i and portfolio company senior management.

While our historical focus in infrastructure was on areas such as regulatory compliance, we now look more broadly at sustainability, as well as set and monitor targets. For example, we are starting to link management incentives to these targets, which we are finding incredibly effective in bringing about change.

Q Peter, you mentioned opportunities stemming from sustainability. Can you give me an example?

PW: We have a business in our portfolio called Weener Plastics. With the word plastic in its name, it would be easy to draw the conclusion that it is not a sustainable business, yet there is significant opportunity to create value here through sustainable practices. We are working with the company's customers – mainly large FMCG groups – to develop more sustainable packaging through the use of recycled materials. The aim is to reduce waste and input materials and move away from using virgin materials. By working proactively on these areas, the business becomes more valuable as a supplier as it helps customers reduce their footprint.

“We believe investors who do not engage in a serious way around sustainability will be left behind”

ANNA DELLIS

AD: As we've developed our sustainability processes, some companies that might have not been evident previously are now on our radar in infrastructure. One of these is Joulz, a Dutch company we invested in during 2019. It leases equipment, such as transformers, for electricity. It captures the trend in the Netherlands away from gas as an energy source towards electrification using renewable sources.

Q What are the challenges associated with sustainability as an investor and how do you manage them?

PW: The biggest challenge is the amount of time it takes to get pay-back – you often have to think over the longer term. It can be difficult to prioritise this when day-to-day business issues also need to be managed and when there are opportunities that can provide a more immediate pay-back. As an investor, we need to support the long-term view and not expect results tomorrow.

Q What do you see as the key future trends in sustainability?

PW: There will be more regulation. Already we see this in Germany where OEMs supplying the automotive industry are having to adapt to EU regulations. Yet this does create opportunities – for example, these OEMs and other companies facing increased regulation need help to adapt, and that's where private equity can help either directly in these businesses or by backing companies that can assist.

AD: There will definitely be more scrutiny around sustainability from all stakeholders and I think that, as an industry, we need to devote more resources to better communicate what we're doing. It also means that there will be more pressure on future CEOs. Ten years ago, they were focused on profits; now there is a whole range of challenges they have to manage, including sustainability. ■



Sea change: 3i transformed Scandlines to a best-in-class operator

Q What trends are you seeing in terms of how buyers look at sustainability when it comes to exit?

PW: We're clearly not the only investors looking at businesses from a sustainable perspective which means that we have to work hard on improving the sustainability of the businesses that we invest in. As an example, at Scandlines, a ferry operator between Denmark and Germany, we introduced hybrid ferries and battery packs to reduce the consumption of fuel, among other measures. As a result, we've reduced CO2 emissions by 15 percent and sulphur emissions by 90 percent.

AD: With ESVAGT, a Danish company that provides emergency rescue vessels to offshore oil rigs, we've helped reposition the business so that its activities increasingly support vessels for the offshore wind sector.