KEYNOTE INTERVIEW

Real assets and real purpose

Creating value for all stakeholders is crucial to the long-term success of an asset, say InfraRed Capital Partners' chief executive Werner von Guionneau and head of infrastructure Harry Seekings

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Q How has your approach to sustainability evolved?

Werner von Guionneau: Many of our assets are built to last over 100 years, so sustainability has always sat at the very heart of our business. It is enshrined in our DNA that creating value for all stakeholder groups – not just one – is crucial to the long-term success of any asset.

The concept of short-term profit maximisation really does not work when your focus is on managing assets to produce stable, long-term outperformance over many decades. Looking back, InfraRed adopted the UN Principles for Responsible Investment in 2011 and our infrastructure business has maintained an A+ rating since 2014. This framework has really guided our commitment to embedding sustainability into our investment and asset management processes.

Our infrastructure business has conducted an annual survey of the environmental, social and governance performance of our assets for more than five years now. When we started the survey, the pass rate was 65 percent. Last year, it was just under 90 percent, which gives you a sense of the progress we have made in driving the concept throughout the organisation.

That said, we have evolved our approach recently. When discussing where we wanted to take InfraRed, the message from our staff was loud and clear – sustainability had to play a central role. So, we sharpened our message and subsumed it under the phrase: real assets and real purpose.

The upshot was a new sustainability policy which includes a commitment to making a positive contribution to the UN Sustainable Development Goals and to tracking our performance against them. Specifically, we have selected three SDGs to prioritise: SDG 3 (health and wellbeing), SDG 4 (quality education) and SDG 13 (climate action). In order to support these goals in a meaningful way, we look to leverage the scale of InfraRed and our network to ensure we achieve a multiplier effect both at a portfolio and corporate level in everything that we do.

Q How hands-on are you in implementing sustainability at an asset level?

Harry Seekings: While do not often directly deliver sustainability initiatives within portfolio companies, we believe our governance work has a vital role to play in ensuring our assets contribute positively to society.

In addition to our ESG surveys, we proactively use our influence on boards to positive effect by furthering engagement with the SDGs that we have chosen to support. We work with our portfolio companies to ensure that their sustainability strategies emphasise the growth and provision of clean and affordable energy, promotion of community health and wellbeing, social mobility through education and combatting climate change.

For example, we made the decision some months ago to undertake a climate change risk assessment of our active funds, using a third-party advisor. We are looking at how different climate change scenarios could impact asset resilience with the goal of preserving long-term value and cashflows for our investors, as well as ensuring assets can continue to provide essential services to our clients and end users in an environment that is changing rapidly, with extreme weather events manifesting themselves more and more frequently.

In parallel we have started engaging with our portfolio company management teams to educate them on why climate change is an important topic, so that they are committed to working with us to improve the climate resilience of our assets. It is not just enough to 'do', however. You also need to communicate what you are doing. We passionately believe that disclosure can help drive more informed investment decision-making, particularly for long-term assets. That's why we have committed to Task Force on Climate-related Financial Disclosures reporting for all our funds, both listed and unlisted, and have already started making disclosures in the public domain.

Finally, we believe that it is important to lead by example by minimising our own corporate carbon footprint. We have therefore elected to become a carbon-neutral firm. Having achieved that goal in 2019 we are on track to do so again in 2020 and beyond.

Q How has sustainability driven your asset selection and due diligence process?

HS: We are fully integrating sustainability considerations into our due diligence processes. This has led us to decline certain opportunities – for example, due to poor construction materials and methodology on a social infrastructure project. During due diligence we also heavily revised the business plan for a gas metering business due to

Q Have climate concerns helped shape your investment strategy?

Harry Seekings: Yes. There are lots of ways in which we can respond to the challenges of climate change through our investment strategy – specifically by contributing to the energy transition.

An obvious example is our continuing role in developing renewable energy assets and in our stewardship of those assets. We made our first renewables investment back in 2006. We launched TRIG – The Renewables Infrastructure Group – on the London Stock Exchange in 2013 and we continue to invest in both operating assets and to develop early-stage projects through our unlisted funds.

Other areas around the transition where we are investing include the storage capacity and flexible generation required to reinforce the grid. We are also looking closely at repurposing old conventional generating assets and at mass market electric vehicle charging business models.

There are other opportunities to decarbonise transportation and heating as well, in particular through hydrogen. Hydrogen has the potential to decarbonise some of the more challenging sectors such as heavy, long-haul transportation. At the moment, clean hydrogen is costly and requires a lot of renewable energy, but these are exciting developments. We are working hard to figure out the best entry point to access investment opportunities which will provide visibility of suitable investment returns.

our assessment of climate change impact scenarios, which led to the opportunity being declined.

Q What makes the US renewables market particularly attractive?

HS: The US is lagging behind Europe in terms of the development of its renewables infrastructure, and yet it is by far the largest emitter of greenhouse gases per capita. So, it really does need a step change and the development of renewable energy is clearly going to be fundamental to that. Importantly, the drive for change does not necessarily need to come from the federal government. There is sometimes a misconception around the role the federal government in the US plays in implementing on-the-ground change.

If you look at individual states, 30 percent of the country's population are already living in areas that have adopted 100 percent clean energy targets, while many others are formulating climate change action. Indeed, there are estimates out there that suggest renewable generation and consumption will double from 20 percent of the energy mix today to 40 percent by 2050.

Of course, the other interesting thing that has happened, only fairly recently, is that renewables have become the cheapest way to generate power in some of the country's better resourced locations – either in terms of wind strength or radiation. That cost competitiveness is important on two levels.

First, it becomes economically rational to invest in renewables – and there is no need to rely on federal subsidies to do so. Second, from a consumption perspective, it makes sense to choose renewable energy when entering into electricity supply agreements. This is a market that is already significant, but that is only going to grow materially from here.

Q How does the SunLife partnership support your expansion plans?

WvG: Essentially, it is a way of de-risking our expansion into the US renewables market, which we have prioritised as an investment opportunity. SunLife has a solid track record and expertise in renewables and can provide us with important capabilities, distribution and access to seed capital.

Beyond that, InfraRed is a business where culture is of the utmost importance and we felt that SunLife's culture was compatible with ours. When brought all together, we are now in a strong position to address those market opportunities we are seeing in the US, including through a dedicated North American energy transition strategy focused on renewable generation and energy storage solutions.

Q Are there any particular challenges with the North American renewables market?

WvG: Well, to start with, energy in America has historically had a different standing than has been the case in Europe. The US is a very large – and at times has been the largest – global producer of fossil fuels. In Europe, we are significant consumers and large net importers. And that creates a different mindset. The result is that, in the US, the oil and gas sector has always been embedded in the economy and is a powerful political force. Nonetheless, we have now reached a tipping point in how fossil fuels are perceived. Across the whole of the US, renewable energy is cheaper, or is on the cusp of becoming cheaper, than fossil fueled energy. It is no longer about whether this will happen, it is only about when and how fast it will happen. It's a big shift in mindset. And while it is taking longer to permeate through the system in the US, it is definitely happening.

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>
> HARRY SEEKINGS

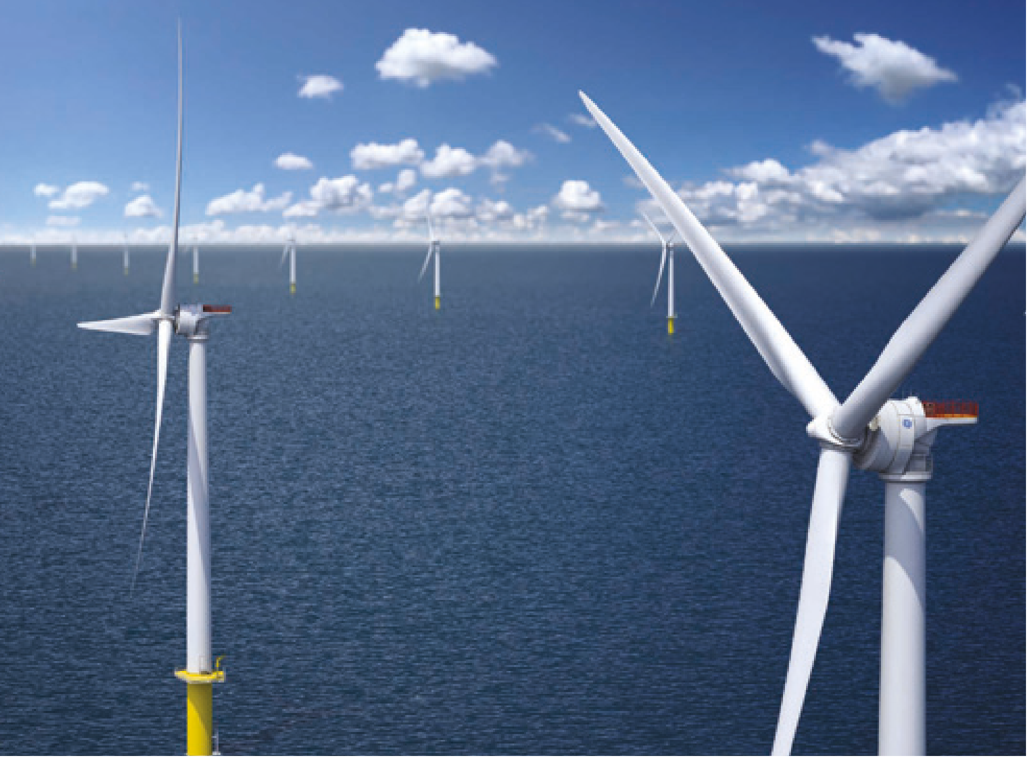
When it comes to investing in the North American renewables market, the main challenges relate to integrating renewable assets into the system, tax incentives supporting the funding of new capacity and revenue management.

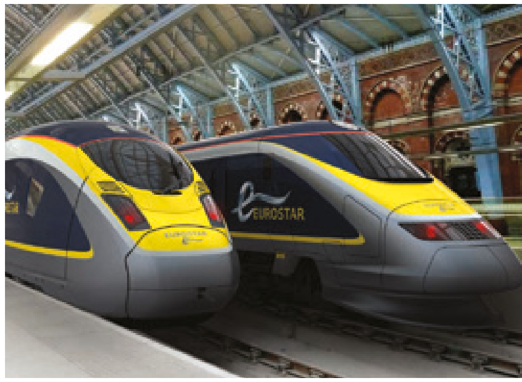
Our approach in tackling these challenges is to leverage our 10 years of experience in Europe. We are very selective with our acquisition strategy, taking into account the specific grid infrastructure around assets and proximity to demand centres, and making decisions in the anticipation that tax incentives will be phased out. We then overlay that with the active management of revenues through a mix of solutions beyond the traditional utility power purchase agreement.

Q Could the US election result affect the adoption of renewables in the country?

WvG: Not at all. The election may impact the speed of the rollout at the margins, but the train has already left the station. The only question now is how fast that train is travelling.

Looking ahead, it's important to remember quite how competitive a market the US is. As soon as it becomes financially beneficial to add renewables to the mix, then it will happen very quickly. In fact, I expect that the rollout will happen faster than was the case in Europe, purely because of the competitive nature of the US economy and of the overall US system. ■





InfraRed Capital Partners

Investing in real assets with real purpose to create a sustainable future

REACH

International investment manager focused on infrastructure and real estate.

- $12bn of equity capital under management
- 25+ years of investment and management experience
- 250 infrastructure and real estate assets

RENEWABLE INVESTMENTS

Market leader with a diverse renewables portfolio.

- 10+ years of experience in renewables sector
- 90+ renewable investments
- 9+ GW low carbon energy capacity*

SUSTAINABILITY

Responsible investor with robust sustainability principles.

- PRI signatory since 2011
- PRI reporting since 2014
- PRI A+ rating for infrastructure business for six consecutive years

* Includes gross capacity of realised and unrealised assets under development, construction and in operational stage.

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PRI Principles for Responsible Investment