KEYNOTE INTERVIEW

Acting sustainably is making a difference

Advancing sustainability must be a core focus for managers, says Igneo's Niall Mills

While sustainability has shot up the agenda in recent years, ESG teams at many firms find themselves bogged down with data reporting tasks. Other managers rely heavily on external advisers to design their sustainability approach.

But Niall Mills, managing partner at Igneo Infrastructure Partners, believes sustainability is too important for managers to outsource or put in a silo.

For infrastructure businesses, he argues, sustainability is vital to long-term success – and managers need to make improving sustainability performance a central feature of their investment strategy.

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Q How does sustainability feature in your asset selection decisions?

We screen dozens, if not hundreds, of opportunities every year. When we think an opportunity may be suitable, one of the very first things we do is assess the environmental and sustainability risks and opportunities facing the business. There are some opportunities we exclude at that stage when we see major problems – for example, if the business is a major polluter or has a terrible safety record.

For the opportunities that make it through that stage, we spend many weeks gathering all the information we can on the business. Our specialist ESG team will review that information in detail. Then, at the next stage, when we start spending money with advisers, we always have an ESG adviser in every process we run. The asset review will always have a detailed section on ESG performance.

If we see red flags on ESG, which we don't think we could address or improve on during our ownership, we just kill the process. So, the review of ESG issues is a very deep part of our process all the way through; it is not an afterthought, it is central to the process.

Q At the asset management stage, how do you make sure sustainability is integrated?

Our team of ESG specialists is right in the middle of everything we do in managing our assets. I think putting ESG in a silo by itself would be an enormous missed opportunity.

One of our key frameworks is called Climate Action 1,2,3! This is our way of ensuring our portfolio companies have a roadmap to becoming carbon neutral. We assess where companies are on their journey to net zero, and then we put in place an action plan to help them progress. It means nothing to set a long-term, net-zero target without working out the steps needed to get there.

There have been a few cases where we invest in businesses that, for example, may have relied on a small amount of coal power generation. In those cases, we have put in place an investment plan to remove it very quickly.

"It means nothing to set a long-term, net-zero target without working out the steps needed to get there"

We wouldn't necessarily avoid the investment, but we rapidly take action to address those issues.

Our other key framework is what we call our Five Minimum Standards for ESG performance. These are the core standards that we measure our companies against. We measure those metrics in a standardised way across every asset in our portfolio, then we have a traffic light system to show how they are performing. It is not designed to give investors tomes of information – we want to have a visual way of summarising performance.

Q How do you make sure that all the sustainability reporting doesn't take up so much time that it detracts from actually taking action?

One of the great improvements over recent years has been the implementation of the SFDR. You can question elements of it, but the SFDR provides an opportunity for standardised reporting, and that can only be a good thing.

We are also very serious about reporting on ESG annually – not just reporting data, but also case studies,

Q Why has sustainability become so important for infrastructure managers?

Sustainability has always been the lens through which we view investment opportunities. We fundamentally believe that we can demonstrate that a well-managed business that thinks long-term will ultimately be more valuable.

Conversely, you will slowly but steadily destroy a business if you don't manage it sustainably. Protecting the enterprise goes completely hand in hand with sustainability, and that is exactly what our investors are looking for.

One of the nice things is that the conversations have really matured over the past decade. Sustainability used to be discussed more in the context of specific performance concerns, whereas today, our LPs are highly sophisticated and quite often have sustainability experts within their teams.

When we meet our LPs, they expect to be able to discuss how sustainability is deeply embedded in the investments that we have made. They definitely do not expect us to outsource sustainability to a third-party service provider.

which help show what we are actually achieving. That report is probably the best way to describe our culture and ethos, and how we engage with investee companies on sustainability.

We are very focused on action and making a difference. There is certainly some friendly competition among our teams to get stories of how they made a difference into our ESG reporting. People spend a lot of time in spreadsheets with ESG data, but ultimately a spreadsheet is just a way of recording data. Unless it helps you do something, it is completely meaningless.

One of the risks in the sector at the moment is that there are too many consultants offering assessment services. But it is the responsibility of the investment manager, in collaboration with the portfolio company leadership, to manage the assets.

Having a third party come in and give you a report doesn't change anything. As a manager, you have to be the one that makes a difference.

Q What are some examples of investments where you have improved sustainability performance?

With our ferry business, Scandlines, we have been looking for ways to improve fuel efficiency. We have switched to a new type of thruster, for example, where the propeller is located at the front of the device instead of the back, which significantly improves efficiency, reduces emissions and reduces vibrations and noise in the marine environment. We have also installed custom-made rotor sails on some vessels, which makes them among the most energy-efficient in the world.

To take things a step further, we have commissioned the world's largest battery-powered ferry, which is being built right now for Scandlines in Turkey. It is possible now for battery-powered ferries to operate on routes of just over an hour, but we will keep pushing for vessels where that range can be extended.

Another investment that we are proud of is enfinium, a UK-based waste-to-energy business. We get revenues from municipalities, which are heavily incentivised by the government not to use landfill, and from selling the power that we generate. This is a far better way to process waste, because it avoids the methane emissions that you get from landfill – but it does still produce CO2.

So, we are working actively on carbon capture options. Our aim is to have carbon capture within the next 10 years, so that enfinium can be a carbon neutral and then a carbon negative business. This is something we are actively investing money and time into – we are not waiting for someone else to do this.

> *"As a manager, you have to be the one that makes a difference"*

We anticipate that once we are capturing the carbon from our emissions, it could form a third revenue steam for the business, alongside the major two revenue streams of gate fees and electricity sales. This is a great example of where sustainability makes complete commercial sense.

Q How do you avoid taking on too much risk with these kinds of investment?

We wouldn't leap in and make a bet on something that wasn't proven. But carrying out research and development actually doesn't cost very much money in relative terms; for a lot of businesses, R&D is a sensible part of their operating costs. Carbon capture is something where technologies can be piloted without incurring huge costs.

The large utilities, energy majors and energy-intense industries are really grasping carbon capture technology. They are putting their best people to work and investing money behind it. There is no doubt that it is a fantastic opportunity and I hope and believe we will see huge momentum building up over the next few years.

Q What are the key steps to overcome the challenges in scaling sustainable infrastructure?

The first thing is mindset. I think it is important that managers like us embrace sustainability and argue about how we can do it, not why we shouldn't. And we have to remember that any new technology is expensive in its early stages, as was the case with wind farms, for example.

It takes a while before these technologies become commoditised and prices begin to drop. You need a very careful and well thought through process for adopting and scaling technology. This isn't financial engineering – it is really important to have highly skilled engineers and technologists who can actually execute.

Clearly what stumps people sometimes is a lack of funding. That is where we come in, because we can sponsor projects that take a decade to reach fulfilment.

Governments usually only provide annual grants – even big listed companies quite often only budget annually – but we, as infrastructure managers, can think long-term. And when we invest in long-term projects, the engineers can focus on developing their technologies, not dealing with the paperwork around budget submissions every year. ■