

# KEYNOTE INTERVIEW

## Facing the future of sustainable investing



*Many of the most exciting sustainable infrastructure investment opportunities are off-limits to mega funds simply because of their size, says B Capital Partners' founding partner **Barbara Weber***

### **Q** What is underpinning the need for sustainable infrastructure investment?

Investments in sustainable infrastructure are needed because the surrounding, be it environment or society, and infrastructure mutually impact each other – positively and/or negatively.

On a high level, we see three, interconnected megatrends, which will lead to major structural shifts in infrastructure investing: climate change, urbanisation and technological advancements.

The world is heating up and that is going to have severe consequences in terms of rising sea levels, increasingly heavy rainfall and shrinking glaciers, leading to real environmental and human challenges around flooding and

water shortages, an increase in pathogens and a decrease in biodiversity.

Meanwhile, the world's population is projected to grow to up to 8.5 billion by 2030, a full billion more than 2017. With people concentrating in urban centres, there will inevitably be a rising demand for new and modernised infrastructure that can deal with everything from waste to emissions.

Finally, tech advances are also radically altering which investment concepts are going to be sustainable. They are translating into opportunities around the digitisation of the

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energy and transportation industries: smart cities and smart homes as well as zero-emission engines enlarging the investor universe.

### **Q** How have attitudes evolved within the industry in recent years?

Due to the very nature of infrastructure assets, sustainability considerations – be they environmental, social or governance-related, at least – always should have been important for developers, financing institutions and asset owners. The increased sensibility among NGOs, special interest groups and the population at large in recent years has made regulators and enforcement institutions, as well as international

institutions, get more involved.

Certainly, over time these risks associated with sustainability have become both more likely to occur and more severe in their consequences. This has now increased awareness among asset owners and investors as well. Indeed, what has changed, in particular, in my view, is that at least some of the large institutions investing in infrastructure have moved away from a risk-led approach – ie, asking themselves the minimum required to ‘get away with’ – to positively embracing sustainability and the search for positive impact.

These forward-leaning investors are taking a genuine interest in the UN Sustainable Development Goals, with a clear understanding of what is at stake and how we will all, ultimately, benefit from a more sustainable way of investing. They are therefore going beyond legal requirements because they believe it is the right thing to do. They understand that sooner or later considering sustainability won’t be optional and that it is better to be ahead of the curve.

**Q To what extent have LP attitudes impacted this?**

To be honest, my experience of the past 15 to 20 years is that only some LPs have been pushing for this move

towards sustainability considerations. On the contrary, so long as it was not an explicit directive, many focused on the fiduciary duty argument of maximising returns. The very fact that returns might be at risk and ultimately suffer if ESG considerations were not fully taken into account was neglected by many investors.

After all, thoroughly assessing the ESG aspects of an investment requires a good chunk of additional work. If ESG risks are given the same standing as other risks, they can fundamentally impact decisions. However, if in your firm nobody gives you credit for taking on that work, why would you bother?

Of course, there have always been exceptions and the tide has definitely turned over the past few years. Now the pressure is beginning to go the other way, as investors finally come to understand that not taking ESG matters into account can badly backfire.

**Q What emerging sectors are particularly interesting when it comes to supporting the energy transition and broader sustainability?**

There is a whole array of interesting opportunities in the energy transition space out there. Within energy

infrastructure they range from battery storage and hydrogen to electric vehicle charging infrastructure, and new and existing energy transmission and distribution assets, including new district heating and smart grid applications.

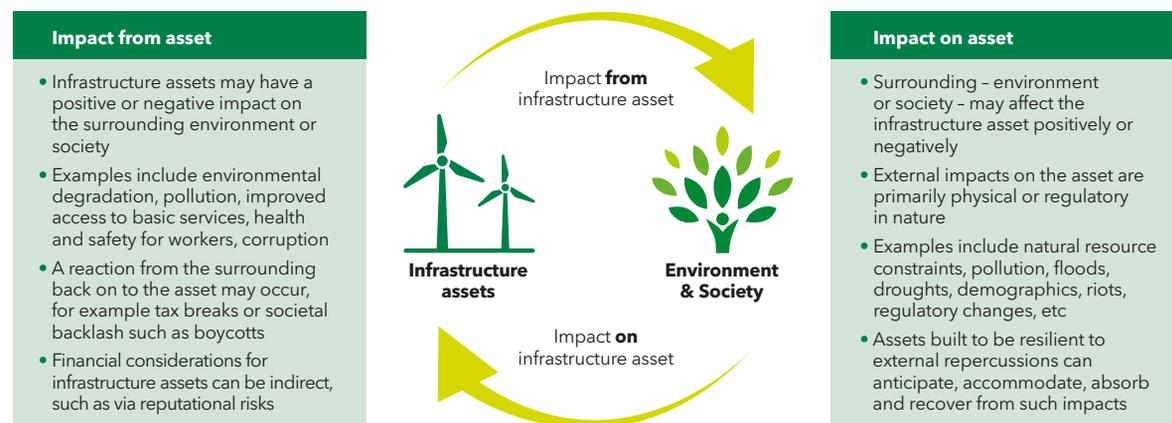
Equally, we see opportunities in the area of digital infrastructure that can support the energy transition – for example, data transmission (telecom antennas and fibre optic grids) and data storage. These assets can drive the increasingly interlinked international power markets and rapidly growing smart grids.

In terms of energy efficiency, there are opportunities to invest in power-saving applications in the manufacturing industry and public sector, such as LED lighting, district heating and smart city and smart grid applications. We’re also very excited about the use of green hydrogen in industrial situations.

We see opportunities to back new public transport systems, together with the modernisation and electrification of existing infrastructure. And, finally, there is a social infrastructure overlay to this as well in terms of water supply and treatment systems, and public-private partnerships around healthcare, education and security.

Sustainability and infrastructure assets – mutual impact

Considering ESG issues early in decision-making increases resilience and minimises risks



### **Q How do you decide when technologies represent investable infrastructure propositions?**

First of all, infrastructure investors like us generally do not take technology risk. There are VCs out there to do that.

Fortunately, many of the technologies mentioned above are not new at all but have been proven and applied in many installations operating across the globe.

We embrace these new applications because they have a positive impact on, and as such support, the energy transition. Batteries are not new, for example. They are increasingly important, though, because they can replace in a lean way the grid stabilisation function previously undertaken by, for example, coal power plants and nuclear plants.

Another example is the electrolysis of water to separate hydrogen from oxygen, which is not new either. What is new is the use of renewable energy to obtain green hydrogen as well as the applications and the business models. As infrastructure investors, that is where we get involved.

### **Q How do you future-proof your approach to sustainability and ensure the resilience of your assets?**

Before we think about future-proofing our assets, we first undertake a strict ESG risk and impact assessment with the goal of understanding where the weak spots are, if there are any. Once we have identified those risks, we can set about mitigating them.

That could involve physical measures to protect people from floods, for example. It could involve improving the technologies used to reduce water and air pollution.

Or it could involve increasing awareness around health and safety issues and enforcing rules without compromise, so they become part of company culture over time. Post-investment, we monitor the materiality

### **Q What are the benefits of staying small?**

There are vast numbers of new projects coming to market in the area of sustainable infrastructure. By definition, many of these assets come in small packages. For example, battery storage and biomass/waste-to-energy plants as well as energy-efficiency measures tend to be relatively small in scale. As a result, large funds that need to deploy significant amounts of capital in each deal can struggle to put money to work in these exciting sectors.

And, of course, infrastructure funds have soared in size in recent years, leaving favourable supply/demand dynamics lower down the spectrum. In addition to having fewer players operating in the market, there is the added advantage of a constantly flowing deal pipeline.

We manage a fund focusing on small and medium assets and are fundraising for another one. If you were to miss out on one Nordic hydro plant or decide it didn't come up to scratch, you can be sure there are more waiting just around the corner. For example, we are currently bidding on no fewer than 14.

That, in turn, means you never have to bend your targets. Whereas, if you bid on one national grid and lose out, then it's gone. That scarcity factor can make it harder to maintain investment discipline. That's the beauty of the SME space. The risk/return profile is favourable and, in any case, many of the most interesting sustainable infrastructure subsectors are small in size and so are off-limits to the biggest managers.

of the ESG risks throughout the life cycle of the asset in question.

To this end, we may also strengthen governance rules and, again, communication and enforcement without compromise are key. What may have been accepted or turned a blind eye to in the past will no longer be tolerated. That may concern anything from the unequal treatment of shareholders, to dubious rewards for unclear tasks and absolutely any hint of corruption.

### **Q What is your approach to due diligence?**

We have developed and recently launched an ESG due diligence tool for infrastructure assets with GRESB. It is strict, consistent, comprehensive and open-source, hence totally transparent. The goal is for this tool to help the industry move forward so that the right ESG due diligence tool itself may be improved over time by industry peers and become a de facto minimum standard.

### **Q What does the future hold when it comes to sustainability and infrastructure?**

I hope and trust that in the future, this explicit focus on sustainability will become the standard, that people will no longer need to talk about it so extensively because it will have been internalised by all of us and become part of everybody's DNA.

For instance, today we need to mandate advisors explicitly for physical climate change impact assessments – for example, how climate change will affect the hydrology of run-off river hydro power assets. This is an extremely material question.

Sure enough, we pay extra for this type of analysis, hence our due diligence costs us more money. However, we think it is worth it.

I am confident that in 10 years' time, every technical advisor and other advisors will include all of these ESG-related topics as standard. ■

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