

Partners Group

Exploring the ESG and impact spectrum in infrastructure

What's the difference between ESG and impact investing?

Rather than ESG and impact investing being completely different things, we see a spectrum ranging from ESG at one end, through mainstream investment with an impact focus to more traditional impact investing at the other end. This spectrum presents the different ways for investors to consider the environmental and social impacts of their investments, both positive and negative.

If we start at the ESG end of the spectrum, ESG management is front and center of our investment screening and due diligence processes, as well as how we manage the assets we own — our ESG & Sustainability team is involved in *all* our lead and joint-lead investments as a matter of course, leading the implementation of ESG initiatives.

Moving up the spectrum, we have a dedicated investment strategy that has a specific impact mandate and focuses on investments whose products and services directly contribute toward the achievement of certain of the U.N. Sustainable Development Goals. This strategy, PG LIFE, builds on our decade-long, strong track record of ESG management and takes the approach one step further to create measurable, positive social and environmental impact alongside attractive risk-adjusted financial returns.

Lastly, there is PG Impact Investments, a global impact investment firm backed by Partners Group, which follows a global, integrated, relative-value approach to impact investing, with the goal to improve the lives of people who are underserved while generating attractive financial returns. PG Impact Investments has a strong focus on emerging markets with the aim to generate impact where impact is most needed.

How critical are ESG considerations to infrastructure investment?

In our view, a robust approach to managing ESG factors is fundamental to infrastructure investment, because infrastructure assets can be particularly embedded in the specific environment in which they operate and the community that they serve.

In fact, we feel so strongly that, in 2017, Partners Group became one of the founding members of the UN PRI's newly



CONTRIBUTOR

Adam Heltzer
Head ESG and Sustainability, Partners Group

Adam Heltzer is Partners Group's Head of ESG and Sustainability, as part of the Industry Value Creation business unit, based in New York. He is responsible for overseeing the global integration of

environmental, social and governance (ESG) factors into the due diligence process and ownership period for Partners Group investments. He has 13 years of industry experience. Prior to joining Partners Group, he was a Global Leadership Fellow at the World Economic Forum, where he built strategic partnerships between the Forum's multinational agribusiness members and leading international NGOs. Prior to joining the World Economic Forum, he worked at The Louis Berger Group and CG/LA Infrastructure.

formed Infrastructure Advisory Committee, helping to develop its first "Primer on Responsible Investment in Infrastructure" later the same year.

As an example of why we believe this is so important, if we just take the "S" of ESG, the "Social," we have seen the under- or mis-management of community engagement at other infrastructure projects globally lead to denied permits, construction delays and reputational damage from negative press coverage. If ESG considerations are secondary for your firm, you might be surprised by activist interest from time to time.

In contrast, we look to invest our clients' capital in infrastructure assets and businesses that are providing essential services that are good for society, needed by society and supported by their communities.

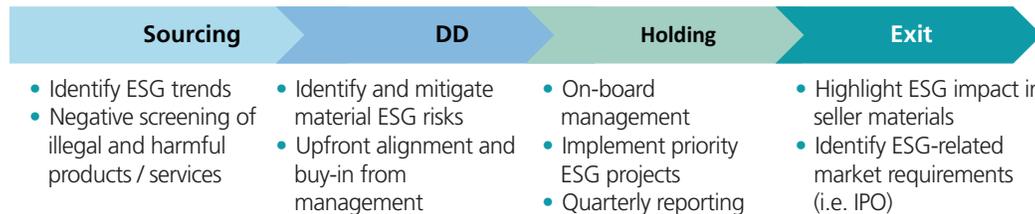
Can you provide an example of "social" engagement on an infrastructure investment?

In October 2016, we invested in Sapphire Wind Farm, a renewable energy development with a planned capacity of 270 megawatts in New South Wales, Australia. Once completed, it will become the largest wind farm in the state, powering around 115,000 homes.

Besides establishing high health and safety standards for its construction and operation, during due diligence, we identified community engagement as a material ESG topic for Sapphire Wind Farm.

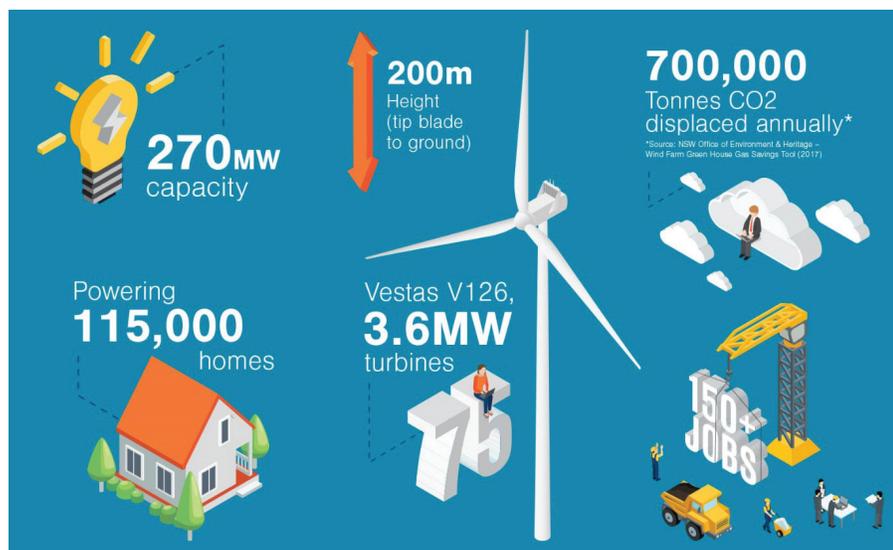
To address this, the wind farm's board of directors formalized a community engagement approach as a means of securing a "social" license to operate. The initiative's explicit

Our approach: ESG integrated throughout the investment lifecycle



Source: Partners Group

Sapphire Wind Farm: People – Planet – Profit



Source: Sapphire Wind Farm

objective was to “extend opportunities for the local community to be meaningfully involved in and empowered by our renewable energy projects and to leave a lasting legacy within the community.” The project team proactively developed a strategy to ensure full transparency and public support over the wind farm’s one-and-a-half-year construction period.

The engagement program consists of four pillars: partnering with contractors to deliver a range of innovative legacy projects during construction; identifying and delivering such projects; exploring whether the local community was interested in directly investing into the wind farm; and establishing a \$3.8 million community benefit fund to support longer term community initiatives.

As part of the program, in 2018, Sapphire Wind Farm launched a \$5.4 million community co-investment project, the first of its type in Australia. Community co-investment projects

invite members of the community to invest in a renewable energy project that is developed, financed and managed by a third party in order to participate in the financial benefits from the sale of renewable electricity.

Where do renewable energy investments fit in the spectrum of ESG and impact investing?

We see the transformation of the world’s power mix from fossil fuels to renewable generation as one of the largest and most compelling investment opportunities now and in the future, so we have been very active in this area. In fact, investments in renewables make up approximately one-third of our over-all direct infrastructure portfolio.

Additionally, we consider the development of renewable energy assets as a key contributor to the achievement of the seventh U.N. Sustainable Development Goal: Affordable and Clean Energy. For example, another of our investments is a renewable energy platform in Australia, a country where 70 percent of power is still generated by coal-fired plants. This investment will contribute just under 2 percent of the country’s renewable energy target once it is operational. For this reason, we selectively include renewable investments in our impact at scale strategy, PG LIFE.

However, while investing in renewables might sound like a straightforward impact win, you also have to consider factors such as use of water, loss of biodiversity and so on that result from the development of renewable assets. *Investors need to understand and think about the negative impacts of the investment as well the positive, and how the GP is able to use its levers of influence to manage and mitigate these.*

For this reason, a robust approach to ESG management — encompassing community engagement, as mentioned above, but also health and safety and environmental impact — is also essential for renewables investing.

CORPORATE OVERVIEW

Partners Group is a global private markets investment management firm with \$83 billion in investment programs under management in private equity, private real estate, private infrastructure and private debt. The firm manages a broad range of customized portfolios for an international clientele of institutional investors. Partners Group is headquartered in Zug, Switzerland, and has offices in Denver, Houston, New York, São Paulo, London, Guernsey, Paris, Luxembourg, Milan, Munich, Dubai, Mumbai, Singapore, Manila, Shanghai, Seoul, Tokyo and Sydney. The firm employs more than 1,200 people and is listed on the SIX Swiss Exchange (symbol: PGHN) with a major ownership by its partners and employees.

For more information, contact:

Vittorio Lacagnina
Client Solutions, Partners Group
vittorio.lacagnina@partnersgroup.com

This article presents the author’s present opinions reflecting current market conditions. It has been written for informational and educational purposes only and should not be considered as investment advice or as a recommendation of any particular security, strategy or investment product.