

# FINANCING THE SUSTAINABLE DEVELOPMENT GOALS: **IMPACT INVESTING IN ACTION**



# Partners Group PG Life Strategy

## Overview

Partners Group is a global private markets investment management firm with USD 78 billion in investment programs under management in private equity, private real estate, private infrastructure and private debt. Since 2008, Partners Group has incorporated the ESG standards put forth by the UN Principles for Responsible Investments (UN PRI) into its investments. In 2018, in response to client demand for the organization to create a private markets fund delivering measurable social and environmental impact, Partners Group launched PG LIFE, an investment strategy focused on the UN's Sustainable Development Goals. The blended private markets strategy has the dual mandate to achieve competitive risk-adjusted financial returns alongside measurable, positive social and environmental impact. In particular, SDGs 1, 3, 4, and 7, relating to financial inclusion, healthcare, education, and clean energy, are the focus of PG LIFE's investment strategy.<sup>13</sup>

### SDGs TARGETED



SDG: 1 No Poverty

SDG: 3 Good Health and Well-being

SDG: 4 Quality Education

SDG: 7 Affordable and Clean Energy



Strategy name	PG LIFE
Asset manager	Partners Group
Headquarters	Zug, Switzerland
Inception year	2018
Asset class	Private equity, private infrastructure, private real estate, and private debt
Target AUM	USD 1 billion
Ticket size	USD 100m to USD 1bn total investment from Partners Group-managed funds, a portion of which comes from PG LIFE
Target returns	Market rate
Geographic focus	Global
Sectors of investment	Healthcare, education, clean energy, and financial inclusion, among others
Types of investors	Pension funds, sovereign wealth funds, family offices, and high-net-worth individuals

<sup>13</sup> PG LIFE considers investments beyond these four sectors if they offer a compelling case for contribution to one or more SDG targets.



Green building in Australia

“SDGs represent consensus. They are the closest thing we have to a shared strategy to ensure sustainable societies and economic systems.”

– Carmela Mondino, ESG & Sustainability

## Fund structure

PG LIFE invests on behalf of its clients, which are pension funds, sovereign wealth funds, family offices, and high-net-worth individuals. It makes select private equity, private infrastructure, private real estate, and private debt investments alongside other Partners Group-managed funds. PG LIFE aims to make control investments so that it can maximize value in portfolio companies by driving strategic initiatives and operational improvements.

PG LIFE has an Impact Committee comprising senior-level employees of Partners Group, which is responsible for vetting investment opportunities in the broader Partners Group deal pipeline to identify those that contribute to achieving the SDGs. The Impact Committee also annually reviews the organization’s impact measurement and management, ensuring it adheres to industry best practice. An external governance body, known as the LIFE Council and led by industry leaders, ensures that the Impact Committee fulfills PG LIFE’s dual mandate to support the SDGs and generate market-rate returns. The LIFE Council also provides broad recommendations on improving impact methodology.

## SDG strategy in practice

### Motivations

Partners Group became a signatory of the UN PRI in 2008. Thereafter, it developed tools to integrate environmental and social considerations into its investment processes, screening out any investments that generate significant negative impact and identifying ways to create value from improved ESG performance. Building on this heritage of responsible investing, Partners Group has developed a specific strategy to go one step further by investing in companies whose core products and services contribute to achieving the SDGs, a framework that it believes is both simple enough for a wide range of stakeholders to understand and robust enough to inform an investment strategy.

Strong market demand motivated the launch of the SDG-driven PG LIFE strategy. Clients, such as corporate and public pension funds and sovereign wealth funds, requested a separate investment strategy with a focus on investments that facilitate sustainable development. Partners Group initially considered a strategy using the Social Progress Index methodology, but it decided to transition to the SDGs in 2017 because they offer a more universally recognized framework that can align and communicate impact objectives across a broad group of stakeholders.

# SDG integration throughout the investment process

## Sourcing and due diligence

Partners Group selects deals for impact evaluation for PG LIFE that directly contribute to one or more SDG targets through their core business activities and that meet the strategy's requirements for financial risk and return. The PG LIFE Impact Committee assesses deal flow on a weekly basis to identify potential investments meeting the following minimum impact criteria:

- A clear link between the company/asset's core product or service and at least one SDG target;
- More than half of company/asset revenue supports at least one SDG target; and/or the company has significant market share;
- The company/asset has no ESG controversies and does not significantly detract from any SDG target.

Partners Group then works with a third-party impact assessment provider. First, deals in the pipeline are assessed for impact against the SDGs, beginning with a logic model that sequences how each company or asset creates impact, both positive and negative. Next, each investment is scored on a five-point scale using PG LIFE's SDG target rating based on the Impact Management Project's five dimensions of impact.<sup>14</sup> Finally, relevant impact metrics are identified based on the created logic model, GRI's Business Reporting on the SDGs,<sup>15</sup> and the GIIN's IRIS metrics.<sup>16</sup>

## Investment selection and structuring

After the due diligence process, the five-member Impact Committee reviews and votes—on a scale from one to four—to decide whether an investment can be included in PG LIFE. Two criteria are required: (1) the five scores must average 2.7 or more; and (2) no more than one of the five scores can be two or below.

## Investment management

Within the first hundred days after investment, Partners Group's PG LIFE team presents the company/asset management team with the proposed impact goals and metrics, along with risks identified during due diligence. During this time, the PG LIFE team works with the management team to agree on impact metrics, address how to manage risks, and establish systems to collect impact data. The third-party impact assessment provider collects and analyzes impact data annually, which PG LIFE then reports to its investors.

<sup>14</sup> The Impact Management Project's five dimensions of impact are What, How Much, Who, Contribution, and Risk. For more information, see <http://www.impactmanagementproject.com/understand-impact/>.

<sup>15</sup> Business Reporting on the SDGs is an Action Platform to accelerate corporate reporting against the Global Goals established by GRI and the United Nations Global Compact. For more information, see <https://www.globalreporting.org/information/SDGs/Pages/Reporting-on-the-SDGs.aspx>.

<sup>16</sup> IRIS is the GIIN's catalog of generally accepted performance metrics. For more information, see <https://iris.thegiin.org/>.

# Investment example

Investment description	Techem is a global market leader in the provision of heat and water sub-metering services. It helps customers and tenants in about 11 million apartments across 20 countries consume water and heat more efficiently and reduce utilities cost.
Geography	Europe (primary), UAE, Turkey and Brazil
Instrument	Private equity; private infrastructure
Investment year	2018
Contribution to SDG targets	SDG 7 – Affordable and clean energy Target 7.3 – By 2030, double the global rate of improvement in energy efficiency SDG 6 – Clean water and sanitation Target 6.4 – By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity, and substantially reduce the number of people suffering from water scarcity
Environmental impact	Techem solutions today account for 6.9 million tons of CO2 emission savings per year, thus contributing to global climate protection objectives.
Impact measurement	Metrics include: amount of reduction in energy; amount of energy savings over the lifetime of the product; amount of reductions in greenhouse gas (GHG) emissions over the lifetime of products sold; and total volume of water saved per annum.

“It’s important to avoid a scattershot approach to identifying how a given investment can contribute to achieving the SDGs. During the due diligence process, prioritize where most of the potential positive and negative impact lies and do a deep dive into those targets.”

– Adam Heltzer, Head of ESG & Sustainability

## Advice for other investors

According to Adam Heltzer, Head of ESG & Sustainability at Partners Group, impact investment managers must reach internal consensus on a definition of impact and then clearly articulate it externally. Often, managers discover that different stakeholders have varied definitions or perceptions of what they consider impact towards the SDGs. Externally, this variation can muddle the message about the manager’s unique contribution to the space.

Partners Group’s Heltzer also strongly recommends being precise about how an investment aligns with the SDGs. Rather than mapping investment impact to broad high-level goals, an effective approach is to examine the target and indicator level guidance provided by the SDGs and determine how the investment is positioned to contribute. Heltzer notes that enterprises can have impact on a wide range of SDG targets, but it is best to be specific in developing impact theses and prioritize a few SDG targets.

Heltzer also advises acknowledging the limitations of the SDGs. For example, while sharing common goals and

targets is valuable, the SDG indicators tend to be more oriented towards government and policy. Therefore, it is critical to thoroughly consider all three levels of SDG guidance (goals, targets, and indicators) within the context of the impact investing ecosystem. Then an asset manager can transform these levels into actionable items and clearly communicate the process to investors.

## Outlook for the industry

Partners Group views the SDGs as a framework around which to build consensus and communicate intended impact goals for investors. However, Heltzer points out that the SDGs have the potential to be used by some firms as a marketing tool, linked to almost any investment activity or company without an objective authority or means to determine the appropriateness of the SDG designation. This phenomenon can be observed in some annual reports, when companies claim to contribute to various SDGs but offer no clear plan or approach to doing so. Heltzer notes that this puts the onus on LPs to ascertain what separates a robust SDG methodology from “SDG-washing.”

Heltzer also notes a substantial uptick in both the number of large private market investment managers offering impact investment strategies and in the approaches to measuring impact. Notwithstanding some progress in this regard, Heltzer suggests the industry think critically about how to collectively catalyze action to standardize impact measurement. This would spur virtuous competition among impact investment managers to deliver meaningful environmental and social impact returns that further the SDGs.

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