

KEYNOTE INTERVIEW

ESG is all about people



As ESG moves from niche to mainstream, the discussion is shifting from ‘intentions’ to ‘actions.’ Sarah Borg-Olivier, George So and Morty White of Instar Asset Management discuss how businesses can make a real difference

Q ESG has been a prominent topic over the last few years. What trends or changes are you seeing now that these conversations have had some time to mature?

Sarah Borg-Olivier: There are really three themes that have emerged. The first is the evolution of ESG from niche to mainstream, as investors now use it as a lens through which to understand long-term strategy. The second is the shift from intention to action, as the conversation with investors moves from talking about our strategies to talking about our outcomes. Finally, covid has highlighted the interconnectedness of the world and magnified the importance of ESG, putting more emphasis on issues like human rights, supply chains, cybersecurity and human capital management.

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George So: When raising our first fund in 2014, the investor community overall asked few questions around ESG policies, standards or objectives. In less than a decade, the acceleration in interest from investors and stakeholders has been truly significant.

Investing in infrastructure businesses that provide essential services, we have always touched on many ESG themes as we identified risks and opportunities from an underwriting perspective. Environmental considerations are a given, with environmental impact assessments becoming almost compulsory. The “S” and the “G” are really about people, and there has definitely been a prioritization of people over time.

At Instar, we’ve built these factors into our risk assessments, prioritizing how we can help our investment and portfolio teams to drive value. It’s about supporting our portfolio companies as they build out their ESG strategies while meeting the needs of our institutional investors. That means not just coming up with a policy but also identifying and managing key performance indicators and being able to quantify their real-world impact.

Q How is ESG informing Instar’s strategy and where you see investment opportunities?

Morty White: We invest in niche, industry-leading businesses with barriers to entry, downside protection and prospects for growth. For some businesses, that competitive advantage is

technology, for some it is a well-placed asset or a long-term contract. But for more and more businesses, we are seeing ESG as that competitive advantage. This could be through the use of sustainable fuel, the integration of a new recycling technology, or the way they are embedded in – and supportive of – the community in which they operate. Ultimately, these are the businesses that will provide the most long-term value and are where we see some of the most exciting opportunities for investors.

SB-O: When we are partnering with a management team and helping a company to define its purpose, having ESG as part of that is really important. Our goal going in is not to have a great ESG strategy but to have a great business strategy with ESG as a core component, because that is an investment in futureproofing via stewardship, innovation and attracting and retaining talent. We have an integrated approach across the lifecycle of an investment from due diligence through asset management to exit.

We are investing in small and medium-sized companies that do not always have the capacity to generate and report on this data at the outset. It is our job to help them build that capability and identify the key ESG risks and opportunities and the right KPIs to go along with them. Our philosophy is progress not perfection, working with each organization to understand what is most meaningful so that we can then demonstrate a consistent approach to our investors.

GS: A great example of this is our recent investment in PRT, North America's largest containerized seedling producer for the forestry sector. That business has a strong ESG thematic around growing seedlings, supporting foresters, improving environmental awareness and ultimately tackling climate change. Our purpose is not only to support those goals, but to develop

a much wider scope by thinking about carbon sequestration solutions as a means to create additional value and impact.

Q With an eye to avoid green-washing or virtue signaling, how can businesses stand out while truly making a difference?

SB-O: The shift from intention to action is really important here. It is about demonstrating how ESG is part of the strategy and does not take place in a silo as the responsibility of a single person or department. ESG needs to infuse across the organization, which means you need to be able to demonstrate – at portfolio company level and at manager level – how progress is linked to compensation and how it drives returns. Embedding ESG in your strategy, communicating that strategy and demonstrating its impact is the way to make a difference.

GS: You also have to look at the organization's intentions going back years. We have long been a signatory to the UN-sponsored Principles for Responsible Investment, establishing our ESG vision and our purpose early on. ESG has been core to our culture at Instar since our inception and it continues to underpin everything we do today.

MW: It is incredibly unique to find a firm that really walks the walk when

they say collaboration and “putting people first” are core operational philosophies. This element of the “Instar Way” truly resonates with our partners and stakeholders because of the foundation of transparency and consistency that we build into our investment strategy and industry relationships.

Q What are your predictions for the future of ESG and corporate social responsibility?

GS: The macro trends we are seeing across the industry, and how they influence underwriting and the evaluation of opportunities, bode well for our private equity infrastructure strategy. We see trends emerging in carbon sequestration, food safety and energy security. From an investing perspective, considering solutions for how you get food to market or how you improve local energy reliability – and how such initiatives impact stakeholders and communities – absolutely plays a role in our decision-making today and our ability to bring value for investors and communities more broadly in the future.

SB-O: We also see continuing regulatory change on the horizon, with new standards coming such as the inclusion of climate risk factors in financial reporting. There is a lot that private investors will need to be thinking about. There's also a growing emphasis on the “S” of ESG, as more attention is paid to the values that companies express and what they actually practice.

MW: At Instar, when we invest in companies, we're fundamentally investing in people. As a result, many of our conversations with management teams and portfolio companies now center on awareness, knowledge building and commitment to ESG, and that is clearly only going to grow in significance moving forward. ■

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SARAH BORG-OLIVIER

Sarah Borg-Olivier is chief operating officer and George So and Morty White are managing partners at Instar Asset Management