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Fighting back

A powerful correlation between responsible investment and returns means sustainability continues to gather momentum despite a hostile US government, Amy Carroll and Kalliope Gourntis discover

In the first 100 days of his second presidency, Donald Trump withdrew the US from the Paris Agreement – again; stripped funding for global climate projects; and launched a strident attack on diversity and inclusion. There can be no doubt that this is an administration that has ESG in its crosshairs. Where then, does that leave investor appetite for sustainable investment, and how are sustainable managers navigating this political minefield?

"We are not seeing a significant dip in demand around ESG. If anything, our international investors are strengthening their commitment," says Melissa Gutierrez-Sullivan, first vice-president and head of ESG at CIM Group. "But we are cognisant of the current headwinds in the US and we are navigating this environment carefully."

The situation is particularly acute around the topic of DE&I. "Our business is global. We have investors and investment teams in the US and so we are having to think about the nuances of the language we use around diversity and inclusion in order to avoid unnecessary exposure," says Hilkka Komulainen, global head of sustainability and impact at Quinbrook Infrastructure Partners. "Nothing has changed in the way we operate as a business, however."

Indeed, much of the shift that is taking place as a result of Trump's stance on responsible investing comes down to semantics. The ESG acronym, in particular, appears to be under scrutiny.

"The genesis of the ESG acronym was well-intentioned, but it's always been a slightly arbitrary grouping of factors, in my opinion, that can encourage siloed thinking and a tick-box mentality," says Ruairi Revell, head of sustainability for economic infrastructure at Aberdeen Investments.

"For us, as a direct investor in diversified small- to mid-market infrastructure, sustainability has always been about understanding risks and value creation opportunities. Some of the most effective value creation levers in infrastructure happen to involve sustainability factors, so they should be treated just like any other value drivers in the context of our investment objective."

Komulainen agrees. "The steps we take under the ESG umbrella are designed to support the identification, assessment, management, delivery and eventual exit of successful projects, in order to deliver value to investors," she says.

"Having said that, I am not a fan of the term ESG. Few in the industry are. We would rather move away from generalisations to talk about specifics, such as modern slavery risk in equipment supply chains, biodiversity or the workforce. When you drill down into the details, it is immediately apparent that the activities covered by the ESG label make good business sense."

Investor attitudes to sustainability appear to be reflecting this trend. "There is less of a focus on labels and more on assessing exactly how risks and opportunities are managed, as it relates to the specifics of climate risk,

Ruairi Revell
Head of sustainability,
Aberdeen Investments

Ruairi Revell is head of sustainability for economic infrastructure at Aberdeen Investments, having joined the business in 2015. He was previously a sustainability and environmental consultant at Arup.

Hilkka Komulainen
Global head of sustainability and impact,
Quinbrook Infrastructure Partners

Hilkka Komulainen joined Quinbrook in 2024 to lead Quinbrook's sustainability strategy and serves on the Quinbrook investment committee. Komulainen has previously worked at Aegon UK, Inter Fund Management and EY, and has held roles at the Principles for Responsible Investment, the OECD and the United Nations.

Emma Silcocks
Group head of ESG,
Bluefield Partners

Emma Silcocks is responsible for ESG oversight and integration at Bluefield Partners, overseeing €2.4 billion of AUM, from pre-investment due diligence, operational management through to end-of-life, as well as leading on Bluefield's wider ESG strategy. She joined the firm in 2015.

Melissa Gutierrez-Sullivan
Vice-president and head of ESG, CIM Group

Melissa Gutierrez-Sullivan is responsible for creating and maintaining a comprehensive and forward thinking ESG programme for CIM, setting related goals for the organisation and managing ESG reporting and communication. She previously worked at Cushman & Wakefield.

supply-chain risk, biodiversity and human rights, for example," says Komulainen.

"I completely agree," says Revell. "It is less about signing up to headline pledges today and more about getting back to evidence-based sustainability basics. It's about how we manage risks, identify opportunities and how we underwrite. I see that as a positive shift that should bring value for investors and for society."

Emma Silcocks, group head of ESG at Bluefield Partners, adds that she has seen a slight shift in investor priorities over the past three years from net zero and greenhouse gas emissions towards climate resilience. "I would add that when SFDR first came in, the focus was primarily on how ESG was being assessed primarily within the transaction process. Now, there is a wider awareness of how assets are being managed right across the holding period."

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EMMA SILCOCKS
Bluefield Partners

Reporting

A surge in investor appetite for sustainable investment solutions in recent years has been met with a commensurate increase in disclosure regulation. The European Commission is currently looking to streamline requirements and ease administrative burdens with its Omnibus Simplification Package, but the demands on managers remain intense.

"We are appreciative of the fact that Europe is attempting some consolidation with the Omnibus bill, but the reality is that investors still want bespoke reporting," says Gutierrez-Sullivan. "At the end of the day, it is important that we are fully transparent with our investors and get them the data they need."

"What we are seeing in Europe," adds Revell, "with the Omnibus and wider focus on productivity, is a recognition that much of the regulatory focus on sustainable investment and disclosure, while well-intentioned, wasn't all that useful for investment decision making.

"One of our portfolio companies with fewer than 50 employees was looking at having to report over 700 data points under the Corporate Sustainability and Reporting Directive. My view as a practitioner is that there are fewer than 20 sustainability metrics for that company that help us and our investors understand risk and value. We want our management teams focused on this, not collecting data that no one will use."

Revell advocates focusing on "sensible, investment-relevant" information. "In my experience, there are around a dozen core metrics that are material to most infrastructure companies alongside a small set of bespoke sector and asset-specific metrics that support peer benchmarking. If these are in place, we have what we need to inform our decision making and our investors get what they need too."

Silcocks agrees that it is the managers themselves that are best positioned to identify materiality. "Every firm should be aware of the ESG risks

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> **RUAIRI REVELL**
> **Aberdeen Investments**

and opportunities that are specific to its strategy. Widespread attempts to standardise reporting and monitoring, while understandably desirable, can diminish the ability of those managers to build resilience and value in a way that is most relevant to their portfolio," she says.

Komulainen, meanwhile, adds that the rapid evolution of AI should soon be able to alleviate much of the current sustainability reporting burden. "It is rare that we get an investor request where we don't have the information readily to hand. Furthermore, I think AI is going to address many of the issues that we currently face in terms of providing that information in different formats," she says.

Resilience

Ensuring the physical resilience of assets that are providing essential services to society has become an increasingly important facet of any sustainability strategy. "We are running critical infrastructure that provides mobility, heat and power to customers every day. Ensuring the resilience of those assets is therefore at the heart of what we do," says Revell.

"There are initiatives underway across Aberdeen Investments' portfolio to move power cables underground in Finland to protect against intense storm events and snow accumulation, for example."

Revell identifies cybersecurity as another key consideration. "We work hard to ensure that all the appropriate measures are in place at our portfolio companies. It is not just about ensuring the asset is resilient, it is about the asset providing services that allow the economy to be resilient. People are relying on our energy assets in order to run their own businesses, for example. That then leads into a discussion of the role of conventional energy assets in ensuring system-level resilience as we transition to a low-carbon economy."

As investors in greenfield infrastructure, resilience is something that is front of mind for Quinbrook before the firm even identifies a new site, says Komulainen. "We have a whole programme that we run through, encompassing physical climate hazards from extreme heat and cold, to storms, flooding, a rise in sea levels, subsidence and biodiversity risks. We also think about risks pertaining to local communities and cultural heritage, including Indigenous and First Nations populations.

"Resilience is then key in how we design and construct, as well. In the past, we have placed solar panels metres above ground, for example, to ensure they are not affected by floods. We find this kind of approach to be far more useful than retroactively factoring in resilience."

Silcocks agrees. "It is vital to factor in resilience at the development or ready-to-build stage, when you can still influence asset design. It is also important to decentralise sustainability within your business. If you really want to build resilience in your portfolios, everyone has to understand the risks and add value: from the engineering team, to investment teams, asset managers and then, of course, the ESG team itself."

Chronic climate hazards may also evolve over time, impacting the underlying business plan. "Under more aggressive climate scenarios, warmer temperatures will obviously affect demand for district heating, for example. We incorporate assumptions on this in our underwriting. In that context, sustainability is about understanding risks and pricing them properly," says Revell.

This is also a consideration for Aberdeen Investments' run-of-the-river hydro assets in Norway. "Climate change may increase rainfall intensity and reduce snow cover, which would actually be positive for power generation," explains Revell. "When using spatial physical climate hazard models, it is always important to calibrate the outputs with a detailed bottom-up information of the asset to contextualise the level of real risk."

Another interesting facet of building long-term resilience involves end-of-life. "This is a big topic for the renewables industry, in particular, and it is an area that investors are increasingly focusing on," Silcocks says. "It is important to think about end-of-life at the point of procurement and construction. Then, in 30 or 40 years' time, when you go to recycle, you understand exactly what steps you can take."

Resilience isn't only a topic to be assessed on the way into a deal, of course. It is something that has to be continuously monitored, and asset adaptation may be necessary. "We look at the physical risks related to flooding, wildfires, extreme heat, as well as others, against three different climate scenarios," says Gutierrez-Sullivan. "Overall, our infrastructure portfolio has fared well in that analysis, and where risks have been identified we have been able to find solutions. For example, we have sheep graze on one of our solar farms, which is located in an extreme heat area, to help reduce the risk of wildfire."

Meanwhile, in addition to physical adaptation, it is critical to think about contractual adaptation, as well. Take the infamous Texas freeze of 2021, as an example. "Unseasonably cold weather meant that generation assets from gas turbines to wind farms froze," recalls Komulainen. "We had a wind asset in Texas at that time and, in line with industry standards, the contract contained a proxy generation swap, whereby, if we weren't generating in line with wind speeds, we would have to compensate the grid.

"We managed to negotiate our compensation down to around a third of what it should have been, but there were peers in the industry that had to file for financial insolvency. The impact

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> **Quinbrook Infrastructure Partners**

of extreme weather can be broader than just the asset itself. It is vital to think about contractual arrangements."

Returns

While the nuances of sustainability, and the terminology that frames it, may be evolving, not least due to a hostile administration in the US, the future of responsible investment, whatever the acronym applied, will depend on its ability to produce superior financial performance.

With a lengthy track record to draw on, the positive correlation between sustainability and returns is increasingly apparent. "There are numerous examples of win-win value creation initiatives in our portfolio," says Revell, referencing the complete decarbonisation of several district heating businesses in Finland. "By removing fossil fuels and moving to sustainable biomass and electrification, operating costs are reduced, exposure to carbon pricing is limited and these businesses become more resilient to customer churn and technological change. There is a clear link there between business drivers and sustainability factors."

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> **CIM Group**

Revell also points to Aberdeen Investments' Finnish utility, which they acquired as a regulated gas business. "This is a company that is now diversifying into low-carbon energy services and biomethane production," he says. "The plan is to provide low carbon solutions to industrial customers alongside traditional gas provision. That will ultimately improve the company's long-term resilience. It is just sensible business strategy."

Certainly, there is a clear link between sustainability initiatives and revenue enhancement. Gutierrez-Sullivan points to CIM's investment in a data centre platform that has a proprietary closed-loop cooling system which seeks to save millions of gallons of water every year compared with its peers. "That is hugely appealing to tenants," she says. "Our priority is to our investors, and where possible, taking advantage of opportunities related to ESG."

Komulainen agrees. "Data centre customers, and hyperscale customers in particular, place a lot of value on sustainability. As infrastructure investors, our goal is always to secure long-term off-takers. Being attractive to those off-takers, as well as to future buyers, is therefore critical."

Indeed, a key component of sustainability's power to drive returns, is the role it plays at exit. "The value of our assets could be significantly impacted when we come to divest, if we were not able to share traceability information relating to the procurement of solar panels, for example," says Silcocks. "Sustainability is therefore absolutely crucial to supporting asset value in today's environment."

Sustainability is also critical to ensuring these assets come to exist. "Without a focus on sustainability, a lot of these projects would simply not be deliverable, given that banks are being increasingly rigorous around supply chain traceability checks, for example," says Komulainen.

"A focus on sustainable, responsible investing drives revenues and saves costs. It enables us to raise investor capital and bank financing. It means our assets are attractive to buyers when it is eventually time to exit. I don't think there can be any doubt, therefore, that a sustainable investment approach contributes meaningfully to financial performance." ■