

ESG risks and opportunities in infrastructure

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United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

What is responsible investment?

Incorporates 'value' and 'values-based' investing

Responsible investment is an approach to investing that aims to incorporate **environmental, social and governance (ESG) factors** into investment decisions, to better manage risk and generate sustainable, long-term returns.



Approaches:

ESG INTEGRATION

The process of integrating ESG issues and information into investment analysis

ESG SCREENING

The process of excluding or seeking exposure to securities based on investor values or other criteria

ACTIVE OWNERSHIP

Interactions between the investor and current or potential investees

What are 'ESG' factors?

<u>ENVIRONMENTAL</u>	<u>SOCIAL</u>	<u>GOVERNANCE</u>
<ul style="list-style-type: none"> ▪ Resource efficiency ▪ Climate change impact and additionality ▪ Environmental regulation ▪ Pollution ▪ Resource scarcity and degradation ▪ Extreme weather events ▪ Biodiversity impacts ▪ Stranded assets 	<ul style="list-style-type: none"> ▪ Maintaining social licence to operate ▪ Health and safety standards ▪ Stakeholder management and community relations ▪ Labour standards ▪ Land rights, indigenous rights ▪ Service reliability ▪ Employee retention ▪ Accessibility and societal inclusion ▪ Service reliability ▪ Diversity and anti-discrimination 	<ul style="list-style-type: none"> ▪ Accountability ▪ Board independence and conflicts of interest ▪ Management and board oversight of ESG ▪ Bribery and corruption ▪ Tax policy ▪ Aligned incentives ▪ Cyber security ▪ Weak accountability ▪ Poor disclosure ▪ Supply chain sustainability

ESG issues can be material

Investors are increasingly focused on the impact of ESG factors



“BP set to pay largest environmental fine in US history for Gulf oil spill”

2010

theguardian



“Tokyo Electric executives to be charged over Fukushima nuclear disaster”

2011



“VW slumps to first net loss in 15 years and warns of scandal toll”

2014

FINANCIAL TIMES

DAPL

“Banks funding Dakota Access Pipeline have pulled out of the project, following environmental and human rights concerns from the public and big investors”

2017

FINANCIAL TIMES



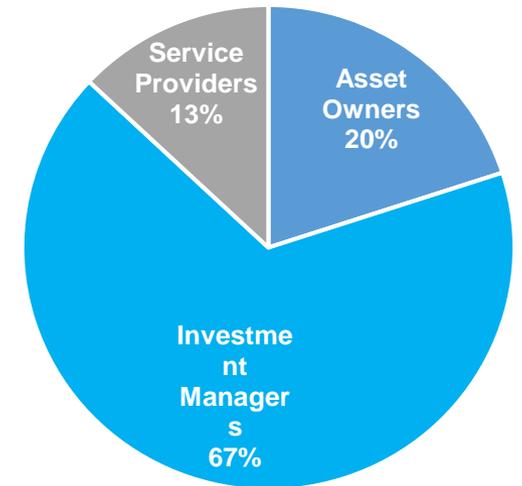
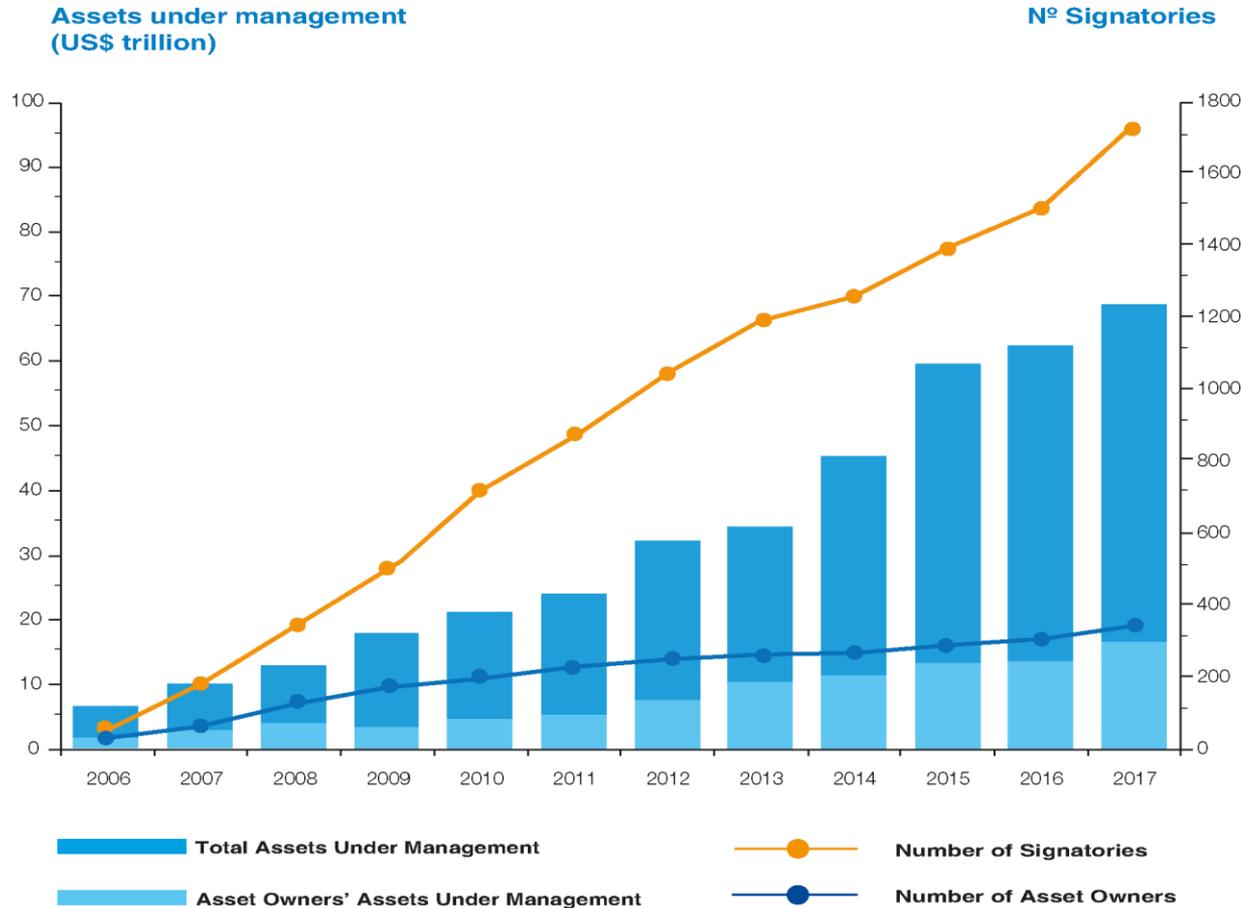
“Thames Water fined record £20.3m for sewage dump”

2017

FINANCIAL TIMES

An increasingly important agenda for investors

Signatories to the Principles for Responsible Investment



ESG risks in infrastructure – a sample

Climate risk

- **Physical:** Exposure + vulnerability of an asset to climate events and trends
- **Transition:** technology, market, reputation, policy

Cyber security

- **38%** increase in data security incidents 2014-2015 (PWC, 2016)
- **78%** of respondents stated that cyber security is not analysed in depth/quantified in M&A DD (Freshfields Bruckhaus Deringer, 2014)

Supply chains

- Hidden from sight, but increasing source of controversies (PRI, 2017 forthcoming)

Evolving policy & regulation

- **Climate:** Increased pricing of GHG emissions, enhanced emissions-reporting obligations, higher compliance costs
- **Supply chains:** UK Modern Slavery Act, EU conflict minerals regulation
- **Cyber:** Networks & Information Systems Directive, Data Protection Directive

ESG opportunities in infrastructure – a sample

Stakeholders,
end users, public
perception

- Responsible investment can help demonstrate the value of private investment into infrastructure
- Facilitate maintaining license to operate, enable fee reviews
- Reduce delays and claims

Innovation and
efficiencies

- Untapped innovation
- ESG is often a source of efficiencies and (hidden) cost reductions e.g. reducing emissions & resource use

Appeal to clients

- Alignment of interest
- Beneficiaries: 86% of millennials interested in sustainable investment solutions, 90% want sustainable investing options in their pension plans (Morgan Stanley, 2017)

Staff efficiency
and retention

- Improved H&S, employee satisfaction, attraction, retention.
- Sustainability is a source of employee pride, implies a company cares for its employees, connects company with employee values (Jones et al., 2017)