Sustainable thinking

Permira's approach to ESG – which it developed in-house – aims to ensure consistency across investments, to make life easy for the deal teams and to improve reporting to third parties. By Jörg Rockenhäuser

***Rockenhäuser:** existing methods didn't measure up*

We put together a dedicated ESG team two years ago. Our aim is to develop a commercially-driven approach to help us build sustainable businesses in a more systematic way. We and many other private equity firms have always tried to create sustainable success; but our new ESG programme is about making explicit what has always been implicit in the past. This is to ensure better consistency and efficiency in the way our teams approach these issues – but also to make it easier to report on progress made to external parties, including prospective buyers and investors.

When we first started thinking about developing a more systematic approach, we were really looking for one that would help our investment professionals think about ESG risks and opportunities in the right way, i.e. not as a compliance requirement but as a real value creation exercise. We wanted an approach that would help them decide what areas they should think about and focus on across industries and geographies, but also one that would be workable and helpful even in difficult and volatile markets. We sampled a number of the existing methods offered by various service providers, but found that many were little more than box-ticking exercises. We were very clear as a firm that this wasn't what we wanted, so we rapidly decided to design our own policies and processes.

KEEPING IT SIMPLE

We started working with a consultant, Marie Rosencrantz from Rosencrantz & Co., on developing our own approach and on making it truly part of our investment process. We created an ESG intranet section, which is there to support our investment professionals identify the right issues quickly. We wanted them to be able to understand the key ESG risks and opportunities relevant to a specific sector in no more than 15 minutes, so we developed a highly modular tool which is organised by sectors and quickly shows what the key areas of ESG risks and opportunities are for a specific investment in a specific industry. Investment teams are then able to come up with a first assessment of what is relevant for that business in terms of ESG; they know the right questions to ask management and they can also easily fill out the ESG page in their investment recommendation papers.

I think it is key to have a very sector-driven approach, but it is also essential to keep things simple. We hold all the relevant ESG information on a company on one page so we can quickly see whether this particular company has environmental, social or governance risks and how exposed it is compared to its main industry competitors. We also like to summarise on the same page what the mitigating actions are that can be taken after an investment is completed. By keeping it simple we are able to monitor progress very effectively.

We have put a system in place whereby recommendations on how to improve some ESG aspect during the lifetime of an investment are closely monitored internally; the investment committee reviews progress twice-yearly. When we exit the investment, we also evaluate how the ESG practices of a business have changed or improved over time. As a result, we are better able to report on what has been achieved to potential buyers and to our investors – as we have tracked it from day one.

ADDRESSING ISSUES

Every portfolio company owned by our funds has exposure to a number of ESG issues, and we work closely with them to address these.

For instance, we help our fashion companies – such as Hugo Boss, New Look in the UK and Cortefiel in Spain – to ensure they have responsible sourcing policies in every country they operate in. This is particularly important with regard to child labour laws, for instance.

Similarly with some of our food industries investments, such as European frozen food company iglo Group or Japan-based sushi chain Akindo Sushiro, we worry about the sustainability of their fishing practices and about ensuring complete food safety throughout the supply chain. Both companies are well-known trusted food brands and big buyers of fish, so they need to have a very responsible approach to fish sourcing to stay in business.

Iglo Group is a great example. When you talk to the team there, you can tell immediately that they are very focused on the ESG issues that affect their business and that they are very proud of what they have achieved in making their business more sustainable. Their core product is fish fingers and for them an unsustainable fish product is a serious business risk. They realised a while back that using only cod in fish fingers was not sustainable because of cod over-fishing. They made a decision as part of their Forever Foods campaign that they would replace cod with Alaskan pollock, which is one of the more under-fished species. In doing so, they reduced the consumption of cod by more than 3,000 tonnes.

This was a big step in the direction of sustainability – but also a significant commercial decision, as they could not have continued using cod in such huge quantities two or three years from now. Today, by using

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Alaskan pollock instead of cod, they can really claim they have a sustainable product. This is good for the company; but it also creates value for investors at divestment time.

While many of our portfolio companies had very advanced ESG practices already in place when our funds bought them, many other investments in our portfolio have the potential to greatly improve their practices, in our view – and we actively support their efforts to do so. I don't distinguish whether it is the company or Permira pushing for better ESG policies, I just want to ensure we do as well as we can do together.

BECOMING INTEGRAL

LPs have also started asking more questions about ESG these days, especially at annual meetings but also as part of their fundraising due diligence. They want to understand if a firm has the right policies and processes in place; a 'fig leaf' approach is not acceptable, as they also have to answer directly to their own constituents on how responsible their investment practices are.

Interestingly, the companies themselves have started asking questions about our ESG approach. Last year when the funds acquired Netafim from several Kibbutzim in Israel, one of their members stood up and asked us whether we had proper environmental and social policies in place. I found it interesting, because I was planning to check them on their ESG policies – but they asked me first about ours.

Sometimes, at the beginning, you have to work hard to convince management teams that this is important, especially as it adds to the reporting burden of a company. But increasingly ESG monitoring and reporting is perceived as an integral part of standard reporting. Nowadays everybody believes that addressing these issues is critical, and management teams often look for help and guidance when it comes to both managing ESG risk and enhancing the disclosure of their practices and successes.

We have a dedicated ESG team which reports directly to the executive group. It is led by me (I also sit on Permira's investment committee) and comprises a senior investment professional, who acts as the project leader, our chief risk officer, our head of communications and a senior adviser with an ESG consultancy background. This team looks at ESG issues across the board and continuously, so that we have a proper evaluation of any prospective investment, and so that existing portfolio companies are adequately monitored. But clearly the responsibility for ESG in each opportunity or at any of the portfolio companies lies within the investment and management teams.

We have made some good progress but we can always do more. My goal is now to make sure we stay as focused on these issues throughout the investment period as we are at the time of due diligence and investment. ■

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Permira: 2012 Winner of the BVCA Responsible Investment Award

The Permira funds back iglo Group's commitment to develop sustainable fish products

iglo Group is the largest frozen food company in Europe and a pioneer in the frozen food industry globally. iglo Group has had a significant impact on the environment within the fishing industry by improving upon its iconic fish finger product to promote more sustainable fishing practices. In 2007, iglo Group pioneered the Omega-3 fish finger product with Marine Stewardship Council certified Alaskan pollock, designed to help reduce the over-fishing pressure on cod stocks with the added benefit of offering consumers a nutritious alternative to cod, rich in Omega-3.

Investing responsibly to build better businesses

At Permira, we focus on the long-term sustainability of our funds' portfolio companies. Many of these companies, like iglo Group, are industry leaders in their countries of operation. In aggregate, they currently employ more than 140,000 people and have an enterprise value in excess of €60 billion. We expect them to deploy sound environmental, social and governance practices in their operations and commit the support of our investment professionals to help them manage the relevant ESG risks in their businesses and seek to bring about improvements.

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