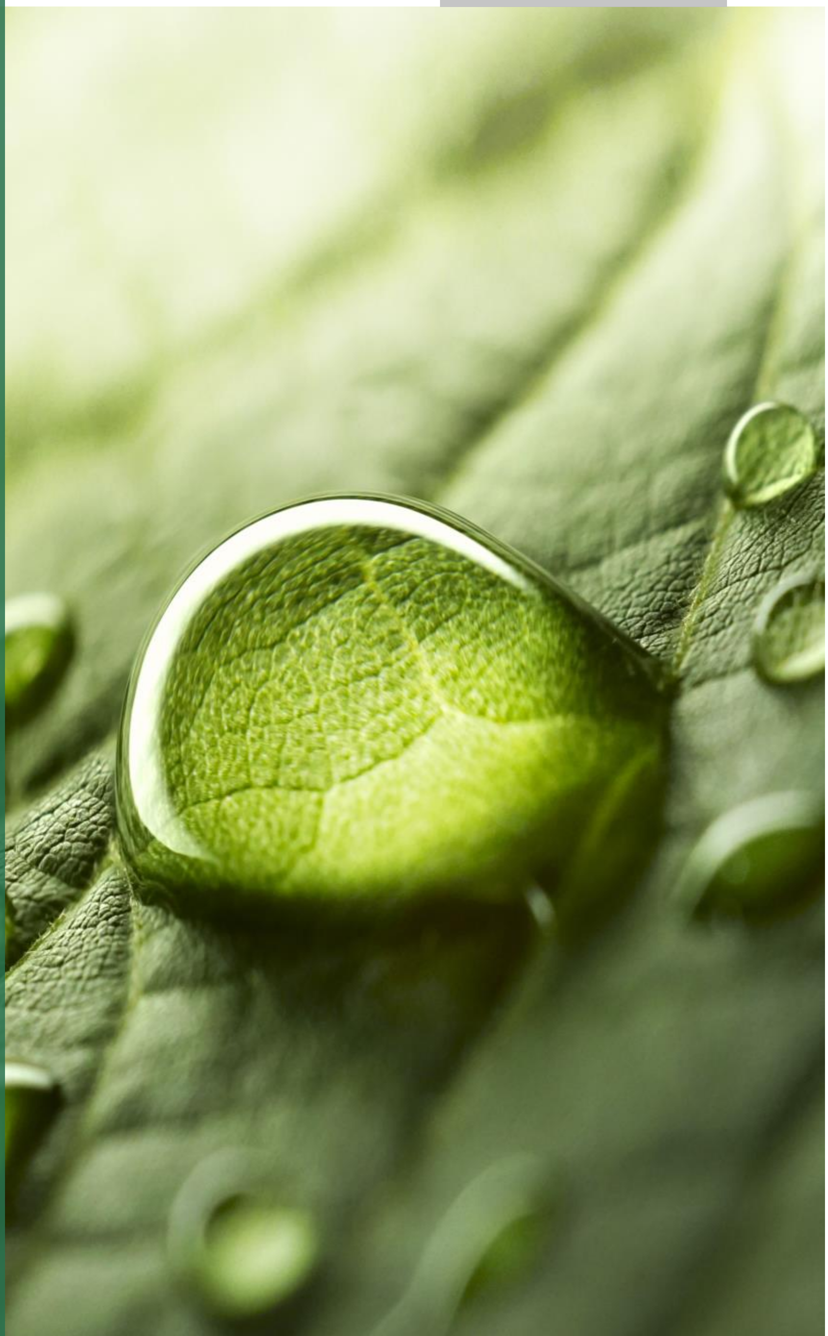
Clearview

CLEARWATER INTERNATIONAL

Spring 2020



Climate

The financial services and investment community has been increasingly recognising its role in the climate challenge and continues to step up its efforts by helping form and shape environmental, social and governance (ESG) strategies, or by focusing investment activities on achieving social impact.

Inside:

- Market commentary
- Private Equity
- Social impact funds
- Summary

clearwaterinternational.com

Market commentary

This year's UN Climate Change Conference (COP26) represents a chance to realign environmental targets in the wake of the 2016 Paris Agreement which aimed to strengthen the global response to climate change by keeping the global temperature rise this century well below 2°C above pre-industrial levels.

The financial services and investment community has been increasingly recognising its role in this challenge and continues to step up its efforts, either by putting pressure on corporates to transition to a low-carbon economy, by helping form and shape environmental, social and governance (ESG) strategies, or by focusing investment activities on achieving social impact.

For instance, the news that Legal & General sold down its equity stake in America's largest oil company Exxon due to a failure to meet requirements on emissions reporting and targets highlights how investors are no longer turning a blind eye to climate issues. The fund manager is understood to have blacklisted a number of other stocks which have failed to meet minimum standards relating to climate change. Equally, Goldman Sachs recently stated that it has stopped financing new coal power plants unless they meet acceptable carbon emission levels.

Investors are also taking a more active role in ensuring long term incentive plans for executives align with appropriate environmental goals. For example, Royal Dutch Shell has linked its executive pay to agreed carbon emission targets, and BP is under pressure to follow suit.

> **“Investors are also taking a more active role in ensuring long term incentive plans for executives align with appropriate environmental goals.”**

Private Equity

The private equity industry increasingly recognises the potential value creation and downside risk protection through embedding ESG strategies in investment decisions.

This has in part been driven by the rising political and regulatory risk facing companies, but also by improvements in accounting and audit systems which have allowed companies to harness software tools to help manage, analyse and report on specific ESG KPIs.

The availability of such information has helped external investors to quickly determine if a company meets certain standards, whilst recognising that failing to do so could result in the erosion of value.

It has also contributed to the establishment and proliferation of frameworks such as the Task Force on Climate-Related Financial Disclosures which was set up by the Financial Stability Board. This provides a platform to compare companies and helps ensure a consistent approach to determining climate related financial risk.

Social impact funds

A noticeable change in the investment community has been the upsurge in private equity groups raising social impact funds which look to address social and environmental concerns alongside delivering financial returns.

Large buyout groups such as Bain, Partners Group, TPG Capital and KKR have raised flagship funds, with the latter two both agreeing to report on the impact of their investments based on principles laid out by the World Bank's International Finance Corporation. It is generally accepted that social impact investors will need to play an important role in helping to plug the shortfall from public funds to help meet the UN's Sustainable Development Goals.

To date, social impact funds have invested across a wide range of sectors such as education, energy, consulting, waste management and facilities management. Strategies often centre on the ability to reduce the level of consumption but can also look to improve operational performance and outcomes. The use of energy efficiency solutions is the most well-known and has received the highest level of investment. However, investors have also looked to deploy capital in sectors where the social benefit is less obvious.

Meanwhile, a sector which has been revitalised and is benefitting from increasingly developed ESG strategies is carbon offsetting. The industry, which is predominantly still voluntary based, provides a mechanism for companies to buy credits to fund projects that reduce the level of carbon dioxide in the atmosphere.

Summary

Forward-thinking companies are today looking to place ESG factors at the centre of strategic decision-making, not just to help mitigate downside risk but also to act as a key point of difference. Companies that fulfil such criteria, or which are able to assist with implementing ESG strategies, will prove particularly attractive to both trade consolidators and private equity investors in the coming years.

CLEARWATER INTERNATIONAL

Transactions

MML sold Learning Curve Group to Agilitas	Sell-side	Undisclosed
Palatine, ttc raised debt finance from HSBC, Santander to support the acquisition of [target logo]	Acquisition finance	Undisclosed
Mobeus Equity Partners acquired Access Partnership	Buy-side	Undisclosed
MML invested in Spencer Ogden	Buy-side	Undisclosed
Valpak sold to Reconomy	Sell-side	Undisclosed
Trinity Consultants acquired ECOSA Ecological Survey & Assessment	Buy-side	Undisclosed

International Team

Marcus Archer
Partner and International Head of Business Services, UK
Tel: +44 845 052 0379
Email: marcus.archer@cwicf.com

Alexandre Perrucci
Partner, Italy
Tel: +393471653353
Email: alex.perrucci@cwicf.com

David Serra
Partner, Spain
Tel: +34 699 446 313
Email: david.serra@cwicf.com

Nicolas Saint-Pierre
Managing Director, France
Tel: +33 153 890 509
Email: nicolas.saint-pierre@cwicf.com

Benjamin Bubrowski
Managing Director, Germany
Tel: +49 69 58302 77 27
Email: benjamin.bubrowski@cwicf.com

Eduardo Morcillo
Managing Partner, China
Tel: +86 10 8451 2088 x 846
Email: eduardo.morcillo@cwicf.com

Jakob Tolstrup Kristensen
Partner, Denmark
Tel: +45 51 90 86 69
Email: jakob.tolstrup@cwicf.com

José Lemos
Partner, Portugal
Tel: +351 917 529 764
Email: jose.lemos@cwicf.com

John Curtin
Partner, Ireland
Tel: +353 1 912 1724
Email: john.curtin@cwicf.com

Mark Maunsell
Director, UK
Tel: +44 845 052 0352
Email: mark.maunsell@cwicf.com