

ESG: The foundation of responsible infrastructure investment

Today when we think about sustainable infrastructure investment, we mainly tend to associate it with renewable energy. And yet renewable energy is only one of the cornerstones of a responsible infrastructure debt investment portfolio. Investors seeking to diversify their infrastructure portfolio would do well to look beyond renewable energy assets by also considering the many other increasingly crucial environmental, social and governance topics to find best-in-class investment opportunities.



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BNP Paribas Asset Management (BNPP AM) is a recognised leader in sustainable investing, being a member of several advisory committees for international bodies such as the PRI, TCFD, and IIGCC¹. We are convinced that integrating environmental, social and governance (ESG) criteria into our investment process enables us to gain a deeper and richer understanding of the risks that we face, and to make the best investment decisions for our clients.

Infrastructure debt is mostly private. No public data is available. While some infrastructure projects are quite sizeable, most of the market remains very granular, with limited mandatory public disclosure or reporting requirements. Aside from the Equator Principles – an environmental and social risk management framework, today widely adopted by banking institutions – there remains a clear lack of standardisation for assessing and reporting on these projects. Facing this reality, we have built our own, dedicated, ESG approach into our infrastructure debt investment strategy.

Launched in 2017, our BNPP AM infrastructure debt platform focuses on financing tangible assets in specific sectors such as transportation, social infrastructure (universities, schools, hospitals), renewable energy (wind, solar), conventional energy and utilities (heating and gas networks, waste and water treatment), as well as telecommunications infrastructure. Given the sectors involved, infrastructure debt is an asset class that can certainly support the financing of sustainable infrastructure. This is why we see climate-related challenges as an opportunity to build an investment portfolio geared towards assets that are the most positive in terms of ESG. Our infrastructure investment team can draw upon the established track-record of BNPP AM, which has a 17-year history in addressing investment-related sustainability issues globally across many asset classes, regions and sectors. We have a dedicated Sustainability Centre, comprising a group

of ESG professionals who have considerable financial, economic and legal expertise.

How have we achieved such integration?

We first created a green infrastructure asset taxonomy using the work already done by the Climate Bond Initiative for green bonds or for the French TEEC label². The aim of the strategy is to be invested mostly in green infrastructure. The Sustainability Centre performs an internal ESG assessment of each investment. The main hurdle here is the limited information generally available to private debt lenders. As a result, the Sustainability Centre generally raises additional questions after reviewing due-diligence materials. As a recent example, on researching a solar energy company we asked the sponsor to provide us with information on the measures, standards and guarantees they have in place to ensure proper protection of biodiversity at the project level.

While the current competitive market dynamics are such that we cannot force a borrower to provide full disclosure on an infrastructure project, the good news is that we have yet to hit a road block: we have found that borrowers are happy to provide details to alleviate any ESG concerns and to respond to all our questions.

To strengthen our commitment to sustainable infrastructure and add key performance indicators to our portfolios, we go a stage further. With the help of a specialist consultancy firm, we run an environmental and climate impact assessment for each of our loan investments. This means that the impact of each loan is quantified in terms of carbon footprint, 2°C path alignment, avoided emissions and net environmental contribution vs. benchmark assets. This assessment, along with the analysis provided by the Sustainability Centre, forms the annual ESG report for our investors.

Being a responsible investor is about making responsible investment decisions. We only engage with companies and projects that share our belief of integrating ESG factors into our investment decisions. With these values being integrated into our DNA, we see a world of opportunities opening to our asset class. Projects that are at the crossroads of information technology and traditional infrastructure – energy in particular – will be especially relevant: from batteries and ‘smart everything’ (meters, grids, cities, roads, etc.) to the infrastructure needed for increased data storage, processing and transmission, there are sizeable, diverse opportunities to build a sustainable, greener, infrastructure debt portfolio.

Our approach gives us a comprehensive view of the ESG standards involved in the infrastructure investment projects we review. After an assessment of the sponsor’s ESG practices, we then assess the ESG practices and how the ESG risks are managed at the project level. With the help of an expert external consultant, we complete the analysis of the projects’ environmental and climate impacts. This enables us to drive the portfolio towards the most sustainable investment opportunities.

With the appointment of Jane Ambachtsheer as Head of Sustainability, BNPP AM has moved up a gear in its approach to sustainable investment. Over the last year we have sharpened our focus on ESG. The Sustainability Centre combines ESG research and stewardship, ESG integration and social governance teams as a standalone department independent from the investment teams. Our ambition is to integrate ESG into everything we do. We are now in the process of integrating ESG analysis across all asset classes. Every investment team will develop its ESG integration approach with the aim of all BNPP AM’s funds having a specific ESG integration model in the near future. The infrastructure debt platform has been one of the first to go through this process, demonstrating our firm commitment to ESG integration for this asset class.

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FOOTNOTE

1 PRI: Principles for Responsible Investment; TCFD: Task Force on climate-related financial disclosure; IIGCC: Institutional Investors Group on Climate Change

2 The Energy and Ecological Transition for Climate Label (TEEC). The TEEC certification scheme will identify products that genuinely finance activities with measurable environmental benefits and defines the eco-sectors in which these products must be invested.



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