

Our Head of Sustainability talks to our Vice Chairman and Chief Investment Officer about the evolving landscape in sustainable investing.



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Vice Chairman and
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It's fair to say that sustainable investing has rapidly evolved over the past few years and despite some setbacks in certain areas, it appears that the asset management industry continues to embed sustainable practices into everyday investing. What do you think is driving that?

RK

Change is never linear and there are challenges, but it is clear to me that the emphasis on sustainable business is here for the long term. The climate challenges we are increasingly seeing are focusing minds on climate change and the role private capital can play. We are not where we need to be yet in the energy transition and emissions reductions, but the positive news is that we have many of the products and services we need to respond to the challenge. Some of those are still at an early stage, and a lot can be achieved quickly if solutions are scaled up and deployed more widely.

HAR

We're in a fortunate position that the economics have become very attractive, driven by a range of factors from government policy to shifting consumer behavior.

RK

Indeed. The level of capital deployment, innovation and accelerated business growth that needs to occur creates a very attractive investment opportunity. Ultimately it goes back to why we are here, which is to make private investments and generate very strong returns for our investors.

By embedding sustainability into everyday investing, we're enriching the lives of future generations, not just in terms of generating a positive financial return but also in terms of how we generate that financial return. The business case is very clear.

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HAR

In the face of such change, it's important that our sustainability strategy remains relevant and is integrated across our different investing platforms. What do you see as the differentiators that make Investcorp particularly effective at sustainable investing?

RK

We've been around for over 40 years and that's because while we continually adapt and evolve to meet the challenges and opportunities of a rapidly changing world, we never waver in our focus on long-term sustainable value creation. We're in it for the long term, which means that we can respond to macro-trends that are shaping the environment for our portfolio companies. There's every indication that climate change is already shaping consumer and business behaviors and will continue to do so for decades to come. We're ready to invest behind that.

We've also stayed true to our original positioning in terms of focusing on middle market businesses to help them grow in both domestic and international markets. That's our DNA. It's very exciting when it comes to sustainability because it means we can engage with founders to propel their businesses onto the global stage and support their growth across national borders.

HAR

That's where scale comes in. What we bring is the private capital and global footprint needed to take these new business models and technologies to the mainstream.

RK

Exactly. Scale brings economies of production and reduces unit costs so that these low-carbon technologies and solutions become more affordable and accessible.

HAR

As you alluded to, there's an equity issue at the heart of the transition in terms of ensuring that climate solutions are available to the many and not just the few. How has your perspective changed in recent years and has this informed your view of sustainability at Investcorp?

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RK

My perspective has changed, and I would point to 2023 as the year where the world pivoted from thinking about sustainability in its component parts to recognizing that we simply cannot tackle many of the world's pressing problems without first tackling climate change. We are clearly on a trajectory that is not sustainable for us as inhabitants of this planet. It's sharpened my personal focus on climate change, as well as our focus at Investcorp.

HAR

Institutional investors across the world continue to place emphasis on sustainability when assessing fund managers that they partner with. Many now consider sustainability as a prerequisite to having initial conversations with managers. You're speaking to investors every day, what are you hearing from them?

RK

You're right. It's no longer a 'nice to have.' Some regions have progressed more than others, but the trajectory is quite clear that investors are following the lead of industry bodies and quickly ramping up consideration of sustainability factors.



HAR

As can be expected, this is accompanied by requests for 'proof' of integration as part of due diligence processes. Investors are looking for documented policies and case studies to support any claims that are made. More experienced investors even want access to data to run their own analysis on areas such as carbon emissions and, increasingly, human rights.

RK

For me, it's also important that we go back to first principles when we're thinking about this. At the end of the day, we are the conduits for the savings and retirement capital that families have saved up for their future generations. They care about the future, and they really care that their capital is generating returns in a way that has a positive impact.

What's exciting is that there is a mutual recognition that this is a win-win scenario. We're seeing that companies with strong environmental and social governance are highly attractive to buyers over the long term because they have less exposure to risk and are more competitive, which benefits business performance and asset values.

HAR There have been several highlights for me over the past year but attending COP28 as an Associate Pathway Partner and our commitment to achieve net zero GHG emissions by 2050 really stand out. I'm keenly aware that we have a responsibility to act as a steward of capital but also as a role model for our portfolio companies. What have you been most proud of?

RK We have to lead from the front, so it always starts with the actions we're taking at Investcorp. That's the foundational layer. That's why it was such a great feeling to be announcing our Climate Solutions Fund at COP28.

I've also been very pleased to see the progress we've made in expanding our portfolio data collection and rolling out our carbon management program. We couldn't have done this without having strong foundations within our own operations.

HAR In previous years we've talked about how we embed sustainability across the lifecycle of the firm's investments. Are we now able to see the real-world impacts of that integration coming through?

RK It's been a journey to get to where we are today in terms of integration, but we are seeing results coming through and much of this has been driven by better quality data. We're already seeing a much greater response rate and reliability in the data we're collecting through our portfolio. This is vital as it allows us and our investee companies to better understand and manage the impacts of business operations and activities.

As a result, we're seeing more companies assessing their GHG emissions across their operations. This is leading them to identify areas where they can save money and reduce their impact on the environment. We're also supporting companies to consider sustainability issues more closely so that they can understand and act more quickly on material issues. A good example of this is where 'days lost due to injury' data has prompted reviews of health and safety procedures.

Our 'sustainability mindset' has also led us to explore opportunities in sustainable infrastructure, identify sustainability regulation that could impact our portfolio, and even launch new platforms such as the Climate Solutions business.

HAR You have been at Investcorp for most of the company's history. How does sustainability compare to other macro-economic trends you have witnessed?

RK The last very attractive long-term investment theme was the digital disruption about 20 years ago, which was underpinned by government regulation, consumer demand, a supply of new technologies, availability of capital and attractive opportunities to scale up businesses to deliver return. Every one of those conditions applies to the climate finance space. I think what differs today is the pace of change we're seeing, the innovation that has already happened and the consequences of inaction. It's a once in a generation opportunity.

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HAR I often reflect that 'change' is an understatement when really what we're witnessing is a total rewiring of the economy. How do you reflect on the scale of the challenge and our ability to withstand this level of change?

RK I am an optimist and I have a strong belief in our ability as humans to recognize and to innovate to solve problems. We don't always move with the speed that we need but I do believe that we're now more focused than ever on the task ahead. Yes, there are big challenges, particularly given the multi-stakeholder nature of the dialogues and the imbalances between some of the actors in the system. Where I'm optimistic is that there is sufficient commitment in capital lining up to bridge some of these imbalances over the course of the coming years.

HAR With so much changing so rapidly it's very difficult to predict with any certainty, but I agree that it does appear that this investment trajectory will continue. I'm happy to share your optimism and to be a part of the journey at Investcorp. Thank you, Rishi.