Sustainable Investing in Real Assets according to Nordic investors

Following the Round Table on Sustainable Investing in Real Assets, Financial Investigator asked Helena Olin from AP2, Christopher Wright from Norges Bank Investment Management and Ilkka Tomperi from Varma Mutual Pension Insurance Company some additional questions on ESG and the SDGs in Real Assets-related matters.

By *Jolanda de Groot*

What goals and ambitions do you have or should you have with respect to sustainable investing in Real Assets?

Christopher Wright: 'With the emergence of impact investing we see a growing diversity of investor preferences in the market for Real Assets. Investors and managers will frame their goals and ambitions with respect to sustainable investing in accordance with their preferences for risk, return, and impact. Fundamentally, to be scalable and to be adopted more widely, sustainable investing arguably needs to be profitable. This not only makes each investment self-sustaining, but also demonstrates to other investors that the investment model is commercially viable. With regards to ESG goals in particular, Real Assets are slated to play a critical role in the transition to a low-carbon economy. Notably, the asset class offers many investment opportunities linked to the growing demand for low-carbon technologies and assets, such as renewable energy assets and green buildings. Investors would benefit from setting clear goals with regard to benefiting from this opportunity.'

Can ESG help solve the main environmental challenges such as climate change and inequality?

Ilkka Tomperi: 'Absolutely, the built environment is a significant contributor to the total carbon emissions. Real estate owners and developers can play a significant role in making buildings more environmentally friendly. That means that with regard to the current real estate investments, active steps should be taken to enhance the energy efficiency of the buildings as well as to invest in renewable or emission free energy sources on site. These could be investments in solar panels, geothermal energy or heat recovery systems. Most of these investments are typically higher yielding than an average core real estate investment, so they make a lot of sense, even from a financial point of view. When building new, repurposing alternatives should always be considered first, and alternatives to create carbon neutral buildings should be looked at. Affordable housing and ways to make construction more cost-efficient is one way of coping with social issues like inequality.'

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Which SDGs are the easiest to implement when it comes to sustainable investing in Real Assets and what are the challenges?

Helena Olin: 'SDGs 11, 12 and 13 are the easiest to adopt. We own long-term platforms and have continuous dialogues on improving the energy intensity as well as on carbon footprint and social responsibility. Aligning the portfolios with the Paris Agreement is the underlying mission and as we invest or undertake new projects, we calculate how much it will cost to fulfil the mission. The big task now is, of course, to include Scope 3.'

What defines a competent manager of Real Assets when it comes to ESG?

Wright: 'In terms of ESG integration, competency can have many aspects. First, there is the technical competency needed to identify and assess ESG risks in the acquisition, management and disposal of Real Assets. Real Assets is a highly specialised asset class with a lot of idiosyncratic risk specific to locations and assets, that can be difficult to manage without significant experience in the sector. Secondly, there is the risk management competency, which is embedded in the tools and systems needed to monitor, manage, and report on ESG risks. More and more investors and managers are using sophisticated IT technology to improve the efficiency, sharing and leveraging of ESG data in their organisations. And third, there is the strategic competency associated with anticipating trends in ESG investing and positioning assets in ways that allow them to benefit from the growing demand for responsibly managed assets.'

Olin: 'The best managers usually understand that they need to be responsible as well.'

What concrete actions are you taking with your portfolio companies to achieve full decarbonisation by 2050?

Ilkka Tomperi: 'We aim for a carbon neutral investment portfolio by 2035. Our target is to have a 20% climate allocation by 2025. In direct real estate investments our target is to have carbon neutral electricity and heating by 2025 and 2030 respectively. In addition, all significant properties should have a BREEAM environmental certificate by 2025. We have already 53 BREEAM certified properties in our portfolio and we have achieved three stars in GRESB. We have also reduced CO_2 emissions in our direct real estate portfolio by 47% between 2015 and 2020, much more than the target set. But that said, we will continue our determined steps towards carbon neutrality going forward. What I am most proud of at present are our two all-wood CLT based office and hotel developments in Helsinki and Espoo. Both construction projects will begin by the end of 2021.'

What do you consider to be the most important thing to happen in your portfolios and/or organisation to be able to meet the Paris Agreement?

Olin: 'It is crucial to figure out how much it will take to get there and how we will do it. New technologies play a major part.'

Should impact investments be structured as a separate allocation within real estate portfolios, with different (return) requirements?

Tomperi: 'Impact investing and investments with a high ESG focus should not necessarily be isolated to a separate allocation, but instead these themes should become mainstream as soon as possible. Our organisation has created a special climate allocation for, for example, those indirect and direct real estate investments that meet the high standards set for that special allocation. But in general, the theme is to become even more ESG oriented in all investment activities.'

Can you explain how impact would be best measured when investing in Real Assets? Do you see a role for KPIs here?

Olin: 'Everything needs to be measured to get things done, so the answer to the question is yes. Targets on carbon footprint and energy intensity are important and are relatively easy to measure. However, social impact is more difficult to quantify.'

The former BlackRock Executive Tariq Fancy recently said that sustainable investing has no use. Do you agree?

Olin: 'No, I don't agree. I think we have become much more skilled at identifying what is greenwashing and what is not, especially in Europe. The EU Taxonomy is a good example of that progress.' ■

Helena Olin

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Christopher Wright

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PHOTOS: AP2, VARMA, NBIM

SUMMARY

Real Assets are slated to play a critical role in the transition to a low-carbon economy.

Targets on carbon footprint and energy intensity are important and are relatively easy to measure.

Active steps should be taken to enhance the energy efficiency of the buildings as well as to invest in renewable or emission free energy sources on site.

SDGs 11, 12 and 13 are the easiest to adopt.