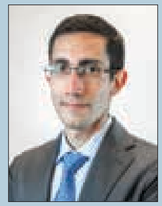
Cube Infrastructure Managers

ESG in every detail of the investment cycle

Recently, **Chase McWhorter,** Institutional Real Estate, Inc.'s managing director, *Institutional Investing in Infrastructure,* spoke with **Aurélien Roelens,** investment director for Cube Infrastructure Managers, about the firm's ESG policies and processes. Following is an excerpt of that conversation.



Aurélien Roelens
Investment Director
Cube Infrastructure Managers

Aurélien Roelens is an investment director at Cube Infrastructure Managers and has served as the firm's ESG coordinator since 2010. He is a member of Cube's ESG Committee and GRESB Infrastructure Benchmark Committee. Since joining Cube, Roelens has primarily focused on the communication and energy sectors. Roelens is currently focused on the development of Cube Infrastructure Fund II's communication platform, and led the recent acquisitions of dst telecomunicações and G.Network. Tasked with developing the communication infrastructure sector, Roelens has also contributed to the acquisition and management of several energy companies, being involved in the origination, acquisition and development of several companies, as well as the launch of the Connecting Europe Broadband Fund. He is also a visiting professor at HEC Paris.

When did Cube Infrastructure start to develop across the environmental, social and governance (ESG) investment dimension?

Since Cube's inception in 2007, ESG has been part of our investment approach, due to the four managing partners' professional backgrounds in the utilities and construction industry. For them, managing ESG-related issues is part of an efficient and pragmatic management of the operations of our portfolio companies, and an efficient way to monitor risk to ultimately create value. Given that our strategy is to act as a true partner to local authorities by investing in local and essential infrastructure assets and to grow these assets over the long term, a strong ESG angle is crucial; you have to be able to anticipate the needs of the local communities and the different environmental trends in order to be both proactive and reactive. Formalizing our ESG policy and procedures has been progressive. We became a UNPRI signatory in 2014, and this year we will ask our portfolio companies to do the GRESB assessment. In 2016, we achieved a milestone by putting in place a comprehensive Environmental and Social Management System that is a true responsible and sustainable investment policy. Due to this, we now have a clear allocation of roles, we know exactly what we need in terms of visibility in the due diligence phase, and we also have a structured approach on how to formalize the ESG work in each of our portfolio companies once an investment is closed. We also have an ESG Committee composed of the four partners and myself. Today, we have a well-structured ESG approach, but, nonetheless, we will continually strive to improve this.

How have you structured the ESG approach into your investment process?

First, we have some exclusion policies. For example, we cannot make investments in Cube Infrastructure Fund II in coal-power generation. Second, and more importantly, we are targeting sectors that contribute to reducing carbon emissions and, as such, contribute to the energy transition as a whole. Our three core sectors — Energy Efficiency, Communication Infrastructure and Public Transport — all have a positive impact on the environment through emission avoidance, as well as on the populations being served by these essential infrastructure assets and services. Once we start working on a new investment opportunity, we immediately incorporate ESG aspects. To do so, we work together with a third-party adviser tasked with ESG due diligence, and, internally, the investment team members in charge of the acquisition monitor the ESG due diligence with the support and guidance of our ESG Coordination Team. The purpose of the ESG due diligence is to assess risk level and maturity level on governance, business ethics, human resources, health and safety (including employee well-being), supply chain, community involvement and climate-related risk. The results are presented to the Investment Committee, which ultimately makes the investment decisions. If we find something that we feel isn't up to standards or that cannot be corrected, we can decide not to go ahead with the deal. But the main purpose with the ESG due diligence is to allow us to create a detailed action plan, typically like the 100-day action plans in private equity, but in this case it is more like a long-term action plan that spans one to two years, where we systematically monitor and, where possible, measure status and improvements across all the above-listed dimensions.

How do you monitor and promote these ESG efforts within your portfolio?

First, we monitor progress with respect to the action plans, based on defined objectives and key performance indicators (KPIs) when possible. This is primarily done at the board level of each of our portfolio companies, and also encouraged through incentives schemes for the respective operational management teams. The ESG Coordination team, with the investment team and the management, will propose new initiatives or amendments to the action plan as we progress — it's a constant dialogue. At the sector-platform level, we also organize best-practice sharing among the different management teams. For instance, our Public Transport portfolio companies in the Nordics, Belgium and France face similar challenges with respect to shifting from conventional diesel-fueled vehicles to notably electric vehicles and to decreasing fuel consumption. We try to serve as a catalyst to their exchanges and to provide an overall framework, notably through a yearly Management Team Summit.

Do you regard ESG and climate-related aspects as a risk-management tool?

We strive to invest in sectors that present an opportunity in terms of reducing climate risk. Take district-heating networks for instance. They are significantly more efficient in producing and providing heat than individual boilers. Today, around 50 percent of the energy produced in Europe is for heating. Improving and developing this essential infrastructure contributes immediately to the much needed energy transition. The same is true with modern commuter transport systems — you avoid a lot of emissions by transporting 200 people in three buses instead of in 120 cars! This can be improved further by the use of "cleaner" energy sources and, hence, anticipating future regulations to seize growth opportunities. We also look at indirect climate-related risks. An example could be that we will probably face more volatile weather conditions in the future. For instance, Southern Europe will probably face warmer and drier summers, increasing the risk and potential severity of fires. We are present in Portugal with DST telecom, a leading open access fiber provider in rural Portugal. To mitigate risk of service disruption, we are taking into account indirect climate risk when developing DST telecom's fiber networks. We try to avoid having aerial cables close to forests, and we are also installing photovoltaic panels on all the points of presence, so that there is an alternative energy sourcing if the main power supply from the grid is cut off. When you do that, you also save maintenance and energy costs, so you circle back to value creation rather than simply mitigating a risk.

Could you give some additional examples of value creation?

Another great example of value creation is Idex, the No. 3 player in the French district-heating market, which we established through several acquisitions between 2010 and 2012 and then sold in 2018. In France a decade ago, most of the district-heating networks were fossil-fuel based. Under our stewardship, much effort was made within Idex to develop a toolbox and to pioneer the use of local green energies for the district-heating networks. The ambition was to use local resources and to design greener, smarter and more efficient networks. By using biomass, waste, geothermal, concentrated solar or even data centers as sources of heat, we were able to find tailor-made solutions that were greener, but also cheaper, than the traditional industrial solutions. Clearly this has given Idex a competitive edge.

What challenges do you face within the environment dimension?

Today's biggest threat is brought by global warming. We measure the carbon footprint of all of our portfolio companies and then calculate metrics, like the weighted average carbon intensity, but we also measure avoided impacts. Cube Infrastructure Fund's portfolio every year avoids roughly 630,000 tons of CO_2 equivalents, and we are aiming to get to higher avoidance with Cube Infrastructure Fund II. We also try to decrease energy consumption across the portfolios. We have achieved positive results, for instance, in Public Transport, with a decrease in the fuel consumption between 5 percent and 7 percent (measured as liter consumed per kilometer operated) over the last three years. Global warming is not the only environmental topic, though. Biodiversity is also a concern to us, notably in Spain, where we own and operate mini-hydropower plants and dams that may have an impact on the biodiversity and the wildlife.

What are you doing on the S and G side — the social and governance?

For us, it is very important to make sure that we have appropriate processes in place, both within our firm but also in our portfolio companies, to minimize risks in terms of business ethics, and also to ensure an efficient ESG organization. It's a prerequisite to make sure that the right organizations and processes are in place. This means that each of our portfolio companies should have an ESG or CSR policy, a code of conduct including a whistle-blower policy, a proper data protection policy, comprehensive HR and Health & Safety policies, a developed supplier's code of conduct, and each portfolio company should also ensure that adequate trainings are being provided to its employees.

What about the social?

Our portfolio represents more than 10,000 employees, with companies increasing their workforce every year. Infrastructure exists to render public services, and these are the people who make that possible. For us, it is of utmost importance to make sure that all aspects of health and safety for our employees are at the highest standards. We have specific KPIs in place that address, in particular, work accidents, and these provide benchmarks and allow us to measure improvements. In case work accidents are evolving in the wrong way or are above-sector average, these KPIs allow us to quickly react, analyze the causes and design strong action plans to address the problems. It is a genuine concern for us. Beyond that, we want all of our companies to have a strong corporate culture where employees are supported in their well-being at work, which, in turn, supports innovation and long-term commitment. A strong culture and commitment also comes from fostering local employment in the communities we serve and from providing opportunities through training and subsequent jobs, as one of our portfolio companies is doing, for instance, in northern France, to improve opportunities for people who have been in long-term unemployment. Social issues are also monitored within the supply chain. We make sure our companies maintain and enforce suppliers' codes of conduct, factoring notably all ILO guidelines — no child labor especially — and sustainable sourcing.

Our ESG approach is clearly an efficient tool both to monitor risk and to create value for our investors.

CORPORATE OVERVIEW

Cube Infrastructure Managers is an independent Luxembourgian management company focusing on investments in the European infrastructure space. The manager is constituted by a close-knit manager team with broad industrial and managerial experience, and with a highly international profile. Cube IM has €2.3 billion in assets under management through three funds, all active in the European infrastructure space. Cube IM is a UNPRI signatory scored A+.

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