



The role of private investment in a just transition

Episode 1

Speakers:

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Tim 00:02

Welcome to the first episode of A Just Transition, brought to you by RBS International. My name is Tim Phillips and I'm joined today by my co host, Bradley Davidson from RBS International. Bradley. Welcome.

Bradley 00:18

Hi Tim. And thank you to our listeners for joining us.

Tim 00:24

Now, Bradley, first of all, we got to get this out of the way ESG podcasts. There's a lot of them about these days. So what's going to be different about this ESG podcast? Who is it for?

Bradley 00:35

Yeah, you're absolutely right. There are a number of brilliant ESG podcasts out in the market. And that number seems to only be increasing and obvious International, we're building a sustainable future for our business. And as we embark on our own journey, we really want to take our customers with us this podcast is a great new way for us to share insights. Each month, we'll bring together industry experts to share their knowledge and experiences as we collaborate to drive sustainable outcomes. We're here to serve our customers. And so we're going to focus this podcast on the role of financial institutions and specifically how our funds customers can support the transition to a low carbon economy. The title of the podcast not only brings attention to an important concept, one that we mustn't forget as we strive towards Paris alignment and net zero, but it reflects our ambition to work with customers at every stage of their journey. We don't have all the answers, but we hope that by promoting open dialogue, we can support our customers as they traverse the ever-changing regulatory landscape and shed light on the increasing opportunities available when aligning investment ESG. We hope you enjoy this podcast and we look forward to bringing you on this journey.

Tim 01:35

And as we set out to traverse that landscape. What are we going to be talking about this week, Bradley and who's going to be our first guest?

Bradley 01:43

So, for our first episode, we wanted to set the scene and tackle the two main themes of this podcast head on: we'll be discussing the role of private investment in a just transition. To help us do this, I'm pleased to introduce our first guest, Tania Carnegie, global lead for private equity and asset management for KPMG Impact. Tania, welcome to the podcast.

Tania 02:00

Thank you so much, Bradley. I'm very honored to be here.

Bradley 02:03

Very exciting title there! Tell us a little bit about what you do day-to-day.

Tania 02:07

Happy to. So, as you mentioned, I'm the global lead for private equity and asset management for KPMG Impact. KPMG impact is a global platform that we created the brings together all of our sector and technical experts, our strategy and implementation expertise to help all of our clients along there ESG and impact investing journey and really how they contribute to the Sustainable Development Goals overall. So, the practice area that I lead focuses specifically on our private equity and asset management clients, the our clients are incredibly active and engaged around ESG and impact and sustainable finance overall. So it's quite an exciting time.

Bradley 02:45

So a question that I'm sure you've had multiple times, but remains one that's important, nonetheless, how is it that you define sustainable Finance?

Tania 02:53

It's a great question. And always an important place to start the conversation. Because there are so many different ways the term is used and interpreted. But the way that we think about sustainable finance is that it's really focused on mobilizing capital towards companies and projects that are creating solutions that address social and environmental challenges and ultimately contribute to a more resilient and inclusive future. And I think what makes it particularly exciting is that it represents such a broad range of opportunities, including financing a company's transition to achieve net zero greenhouse gas emissions associated with their operations, or investing in startup companies that are innovating new solutions, or technologies that are providing more inclusive options around health care or education. I mean, it really does span all of the Sustainable Development Goals, all the different aspects of ESG. And the great news is that there are so many options now that are available to both retail and institutional investors.

Bradley 03:53

You mentioned there that clearly, there's a broad range of topics that we can discuss when we're talking about ESG. The SDGs themselves are extremely broad, and we're seeing them applied across the market, it'd be really interesting to hear who you're working with across those segments, and any particular trends that we're seeing really come to life over the last couple of months.

Tania 04:10

So as I mentioned, this area is a top priority area for our private equity and asset management clients. And some of the things that they're thinking about are, you know, how is it that they can advance the sophistication of their approach around sustainable finance and included in sustainable finance is ESG how environmental, social and governance factors are materially affecting the kinds of companies that they operate in, and the kinds of considerations they should be making as investors as well as impact investing, which is an investment approach that seeks to intentionally invest in companies that are making a measurable difference through the products and services that they offer. So these strategies have been in place with many of our clients for a while now. They're looking at how they can advance their strategies and their sophistication in particular as the transition to Net Zero is becoming more of a reality. And the amount of capital that's needed to make net zero reality is so vast. So our clients are saying will help us think about how we integrate this from across

the investment lifecycle from how we think about identifying investment opportunities to how we manage those investments, once they're on our books to when we exit out of those investments, how do we really bring this into the practices of our firm? How do we really get everyone across the board thinking about ESG and impact, you know, sustainable finance overall, in a more sophisticated way? And how can we be a productive part of that transition?

Tim 05:43

Tania, private investment, and private equity, in particular, it's well known for having a very short time frame: a few years. And ESG, sustainable finance, that you can measure that in decades. So how do you make sustainable finance and ESG relevant in that world?

Tania 06:02

It's a great question, as you say, ESG, and net zero, by definition, are very long-term concepts. When we think about the net zero commitments that companies are making. It's out to, you know, 2040, 2050 in some cases, but I think what it's also important to think about is the short-term progress that needs to be made. So even though companies are making long term commitments to net zero, there is really important interim progress reporting that needs to happen, and a lot of ways that, you know, making that progress can generate new sources of value for companies. And this is another key theme that we're really working with our clients around. And it's how ESG in the transition to net zero can create new opportunities for value creation. So specifically thinking about how these factors are impacting the business model of the companies that they're investing in? How is it changing the market that they're operating in? What are the kinds of things that these companies, these investi companies need to be doing to position themselves to be more resilient in this ever changing environment that is continuing to be influenced by not only the push for more climate resilience, but also the regulatory landscape is changing, consumer preferences are changing rapidly. So how to help a company think about being more resilient in the face of all these changing factors? And what is the reality? What is the forward position that that company wants to have? And as an investor, what are the kinds of things that the PE firm can be doing to support the company along that journey? So a lot of these things, although very long term in nature, some very important foundational building blocks that need to be established here and now and in the short term. So that's something that our private equity clients are thinking about, and also how that creates the next ESG equity story for the next buyer, or should that company go public over the next few years?

Tim 08:02

Bradley, Tania is talking about aligning incentives basically here: the carrot. Is there a stick as well, a regulatory stick for private investment?

Bradley 08:11

We can't discuss ESG without talking about regulation, they go hand in hand in the market. Currently, I'm sure Tonya would agree that we could fit a full episode talking about the various regulation and frameworks that are popping up across the market. No doubt, we'll have you back to do it. It's a bit of a minefield currently, I think the answer to the main question is yes, absolutely it will bite and we're seeing that across the market, depending on where you are. There is a certain regulatory framework that is popping up to ensure that you account for those externalities. However, in its current stance, the regulation pathway we're seeing across markets, the vast array of reporting and disclosure requirements, introduces new challenges for many of our customers. Not only do the goalposts seem to continually move but the lack of global alignment and cross jurisdictional reach of some of the requirements creates a perfect mix for confusion. There is currently an environmental focus across many of these new standards. And it's really does recognize the immediacy that the climate emergency faces for us in the UK, we've seen Mark Carney and his successor Governor Andrew Bailey back the TCFD aligned disclosures, TCFD is 'task force for climate related financial disclosures'. I always have to keep myself in check with that one. ESG loves an acronym. So keep me in check Tim, if I ever use them.

Tim 09:26

There are so many, we might have to publish a glossary at some point.

Bradley 09:30

It is what happens when the sector or topic itself is an acronym, it's bound to happen down the line. But we're seeing this focus in the UK on TCFD. The Bank of England released its scenarios for the climate stress tests. So we'll be looking at that to see what impact that has on the UK financial sector. But if we talk about our customers, particularly across Europe, we've got the SFDR, sustainable finance disclosure regulation. And I think this is really being seen as the gold standard when we're talking to private equity firms. It definitely has more of a bite and a shorter term than we're seeing elsewhere, the categorization of funds under Article eight or Article nine, which is light, and dark green, as we talk about it informally, will be really important for our customers as they continue to try and grab the attention of that ESG conscious investor. I think when we talk about regulations easy to get lost in those acronyms, we all joke about it, but we become far too familiar with them. And sometimes it's important to step back and just say, what is the goal. And the

goal really, is to create a system of reporting that's consistent, and allows market participants to make informed decisions when comparing performance, the vast majority of the global market recognizes a single cash accounting system. So now we have to create one for sustainability. We don't have the 20 years it took to get IFRS to really set in, we just don't when we look at 2013, 2015 as being our ambitions, we'll see more of this hopefully in the lead up to COP26. But we really do need convergence of standards, a global taxonomy, I'd think. And Tanya, I'll be interested to hear your thoughts on this, but it seems out of reach at this stage. So I think all we can ask for is that as regulators continue to develop their frameworks, they're looking across the market, they're looking where their market participants sit and trying to create a system that makes it as easy as possible to get the right information out there.

Tania 11:18

Wouldn't it be wonderful if there were one set of rules, one set of guidelines and disclosure requirements? We're not there yet I agree. I don't foresee that in the near term. But certainly, where we're helping our clients is to reconcile the different requirements that they do need to hereto and really try to make it very practical and as seamless as possible. So that as you say, it does achieve the intended outcome of enhanced transparency and really, ultimately, like building investor confidence.

Tim 11:52

Let me ask both of you a question about skeptics. I'm sure you come across them. Bradley do your customers, when you talk to them, do many of them still think it's all a fad, and that you're exaggerating about this?

Bradley 12:04

I think it's a question that we're asked quite a lot. I tend to get it more from media outlets, which I think is to poke the bear a little bit and try and get an answer. I'm sure many of us give the same one. But we're seeing it less so from customers. My answer comes back to regulation. I promise I won't spend his whole podcast talking about regulation.

Tim 12:21

Please don't, no.

Bradley 12:22

It really does come back to that. So the spotlight will fade absolutely on ESG. In the heightened focus we have now that doesn't mean to say that it will lose its importance, because what we'll be left with is a standard set of regulation that requires those externalities to be accounted for. Is it a fad? I think absolutely not. I think the focus will change. We're

used to that in this industry. In terms of client, we find it really important to speak our client's language, whatever we're trying to discuss ESG. Tania mentioned, they're trying to make regulation practical for our customers. And I think we do the same at RBS International, when we're talking about ESG. In general, ESG doesn't say counter to your original goals as a private equity firm, it enhances them, it's a new way to protect the value of your firm, but also to create value in the long term as well. So it's both about protection and value generation. So we tend to just speak the language of our customer, what is it that you want? What are your long-term goals, and then we'll try and help as best we can often through a relationship led approach to ensure that you're aware of where ESG fits into that picture, and that it's additive? It isn't something that needs to be looked at in isolation, it should be looked at as part of your holistic strategy. And I think our clients really do understand that because, you know, we're fortunate that in private equity, the investors that ultimately our customers are serving want this to and we're seeing that increase. So it's quite an easy sell in our area. And I think it's just all about speaking the same language.

Tania 13:46

I would just add that I speak with far fewer skeptics today than I did even six months ago. And I think it's because there's such a richer understanding of what sustainable finance what ESG is all about. I think in the past, there were concerns that it represented a tradeoff, or that it was something very niche, or very exclusionary. And now the understanding has grown to such that it's something that we all need to be part of that the transition to a more sustainable future is something that we need all companies, all investors, every single person figuring out like, how are they going to do their part and that from an investment perspective, it is such a tremendous opportunity. As I said earlier, there's so much capital that's needed in order to create the sustainable future that we want and quite frankly, that we need, which is also just opening up the eyes and checkbooks in a way that we haven't seen before.

Tim 14:47

Tania, we're part of that process of opening up eyes and the title 'Just Transition' implies that people are going to change, and they are going to take actions they wouldn't have done before. That's quite a tall order for one episode of a podcast! We'll see what happens after half a dozen. If someone that's listening to this now and they are in the investment community, and they're thinking, I haven't really given my full attention to this, I really have to start doing something about it. I'm behind the curve on this. What's the first step? What should they be doing?

Tania 15:15

The first thing is to have a really, truly objective assessment of where you're at today, what we find is

that when our clients come to us with that very problem statement, you know, we're behind the curve, what do we do often, when we go in, and we do that assessment, they realize that they're doing a lot more than they thought they were. So really taking stock of where you are today, understanding what are the expectations of your stakeholders? What are the expectations of your investors of your LPs? What are the kinds of questions that you're getting from portfolio companies? How is it that you can respond to that? What are the opportunities for you to differentiate yourself through the lens of ESG? And the other important stakeholder that I want to mention here is employees. And we hear this from our clients all the time that you know, yes, their investors are asking tons of questions and very thoughtful and detailed questions, but they're also getting a lot of feedback from their employees about how important they think it is. So from an investment professional perspective, they're in a credible source of value and of ideas. And I guess, just to validate that what I thought interesting was the spring edition of the Edelman Trust Barometer noted that employees are now overall viewed as the most important stakeholder. So I think Tim it is figure out where you're at, understand where you want to be, what is your bold ambition, and then to develop a roadmap to help you get there.

Bradley 16:42

I think that point is probably one that I want to leave people with when we're talking about this. And I've said it before, ESG isn't something that should create a diversion necessarily, from what you're doing already. There's so much noise in the market about ESG, that I think it's quite easy to get taken away with that. Whereas actually, it's a process that we're going through too as an institution, as a bank is looking at what were your goals previously? Where do they align with ESG? Where can ESG really enhance that performance already? And then also taking a look to say, well, maybe where can we do better? And I think you have to keep that original goal in sight, because that's how you operate as a business. And I think it is easy sometimes to get lost, just really coming back and saying what is it that we're doing? What do our stakeholders want from us? What are they asking and having those conversations not guessing what they want, really engaging with your stakeholders and going from there and using that information in the same way you would for any other strategy to really just incorporate and make sure that what you're going to do and the actions, you're going to take a clear to everyone that you're working with, and that ultimately meet that end goal? It doesn't need to be overly complicated that really does just sum up exactly what you need to be doing.

Tim 17:53

Well, that's a great place to finish. Thank you very much to Tania. Tania, will you come back again? Don't be a stranger.

Tania 17:58

I will be happy to! Thank you so much for having me.

Tim 18:04

Bradley, if someone's listening to this and they want to get in touch, how do they do that?

Bradley 18:08

If you want to get in touch, then our email is <mailto:marketing@RBSint.com>. And if you want to have a look at any more insights about ESG please visit our website, [RBSinternational.com](https://www.RBSinternational.com).

Tim 18:23

That's it. Please let us know what you would like to hear in future episodes of A Just Transition because if you ask for it, we'll do our best to put it on for you. We will see you soon. But meanwhile, from Tania, and from Bradley and myself, thank you for listening and look out for episode two of A Just Transition.

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