INVESTING RESPONSIBLY

INTERVIEW WITH SARITA BARTLETT, HEAD OF ESG, OBVIAM

SIFEM invests only in funds and financial institutions that uphold high standards in environmental, social and corporate governance (ESG) and that also oblige their portfolio companies to uphold these standards. When SIFEM analyses investment opportunities, its investigations into the compliance and improvement of ESG standards carry a lot of weight. During the investment term, the fund manager is obliged to monitor closely all portfolio companies, report any incidents and submit an ESG report every year. Since 2016, Sarita Bartlett is head of ESG at Obviam, the investment advisor of SIFEM.

WHAT IS RESPONSIBLE INVESTMENT?

Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns. ESG encompasses a wide range of issues, and many of these issues are dynamic. They include:

Environmental (E) and Social (S)

- Labour and Working Conditions, including Occupational Health and Safety
- Ressource Efficieny and Pollution Prevention
- Community, Health and Safety
- Land Acquisition and Involuntary Ressettlement
- Biodiversity Conservation and Sustainable Management of Living Natural Resources
- Indigenous Peoples
- Cultural Heritage

Business Integrity and Corporate Governance (G)

- The integrity of the entity and the individuals and entities associated with it: bribery, corruption, and money laundering
- Commitment to Corporate Governance
- Structure and Functioning of the board of directors
- Control Environment and Processes
- Transparency and Disclosure
- Rights of Minority Shareholders

OBVIAM: HOW DOES OBVIAM MAKE SURE THAT THE FUNDS AND THEIR UNDERLYING INVESTEES COMPLY WITH SIFEM'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE REQUIREMENTS?

S. Bartlett: Since SIFEM primarily invests in funds, and does not invest directly in private companies, we must become well acquainted with fund managers before investment decisions are made. We need to assess the backgrounds of key fund team members, their qualifications, experience, and their reputations. We need to be confident that the fund managers will successfully execute their mandates, and we want to avoid any association with individuals with dubious reputations. This assessment also includes being assured that fund managers are well equipped to uphold our ESG requirements when they invest on our behalf into companies. Our expectations are clearly communicated to ensure that there is management buy-in and that ESG terms are contractually binding. These requirements are comprehensive and reflect international best practices. In particular, we need to make sure that funds do not invest in companies that are involved in activities or businesses on SIFEM's Exclusion List (e.g., child labour, weapons and munitions, and the destruction of High Conservation Value Areas). Funds should invest only in companies that have high business integrity standards and are in compliance with all applicable local laws and regulations, and which uphold the ILO Core Conventions. Funds should also invest only in companies that work over reasonable time periods to uphold the International Finance Corporation's (IFC's) Performance Standards and Environment, Health and Safety (EHS) Guidelines. In addition, we require that fund managers use the Corporate Governance Development Framework to work with their companies to improve these companies' corporate governance. To ensure that fund managers fulfil these requirements, they must develop and implement programs dealing with Anti-Money Laundering (AML) and "Know your Customer" (KYC), as well as specific management systems on environmental and social issues, before they make their first investment. Fund managers must also appoint qualified AML/KYC and Environmental and Social Officers.

Obviam actively supports its fund managers in meeting, or exceeding these requirements. We can seek technical assistance from consultants to assist fund managers in developing their AML/KYC Programs and management systems, provide training and/or support to address more specialized or complex issues. I can also provide support and feedback to fund managers and play a more active role in assisting fund managers, if needed.

When fund managers contemplate an investment in a company, they must, in turn, assess the AML/KYC and ESG-related risks (including the reputational risks), as well as the opportunities associated with the company as part of their due diligences. And they must also assess whether they have the capacity and competencies needed to manage these ESG risks. This is especially important when considering investments in high-risk companies. Examples of these types of companies include those in the extractive industries, infrastructure (renewable energy, waste management, pipelines, roads, harbours, etc.), heavy industry, or large-scale agriculture and forestry. We also expect that our fund managers stress the importance of ESG to companies' management and ensure that appropriate AML/KYC and ESG requirements have been included in legal agreements.

OBVIAM: DO YOU CHECK THE COMPLIANCE OF ALL THE INVESTMENTS WITH ESG GUIDELINES?

S. Bartlett: Our focal point is the fund managers. We now require that all new funds submit their first three environmental and social due diligences of companies for our review in advance of their final investment decisions. We have the same requirement for all high environmental and social risk investments. We need to make sure that the fund managers address ESG and reputation risks. In addition, we require that fund managers provide us with immediate notification when serious incidents occur. This notification triggers follow up with the fund manager and often the portfolio company. In the absence of serious incidents and other pending issues, we receive Annual ESG Reports from all of our fund managers. These reports are based, in part, on information received from their investees. We review these reports and provide feedback to the fund managers. We periodically visit funds and their investees to follow up and validate the reported information.

OBVIAM: WHAT ACTION DO YOU TAKE WHEN YOU REALIZE AFTER THE INVESTMENT THAT THE FUND MANAGER IS NOT COMPLYING WITH SIFEM'S ESG REQUIREMENTS?

S. Bartlett: It is a fact that some of these fund managers have challenging mandates, and serious incidents may at times occur in the funds and in their portfolio companies. In such cases, we draft an Environmental and Social Action Plan or Corporate Governance Action Plan together with fund managers. These action plans contain lists of remediation items and activities, responsibilities, estimated costs, and deadlines for completion. Similarly, when fund managers have portfolio companies that are non-compliant, they are also required to draft specific action plans with these companies. In general, such action plans are completed on time, and compliance is ensured. Actually, in a significant number of cases, those funds and portfolio companies often end up going above and beyond compliance.

OBVIAM: CAN YOU DESCRIBE CHALLENGES AT THE PORTFOLIO LEVEL?

S. Bartlett: Many of our fund managers invest in family-owned companies. Prior to these funds' investments, these companies may not have had formal boards of directors. Rather, decisions were made by family members, often around dinner tables. While these companies are run by highly capable individuals who are deeply committed to growing their companies, they usually need to professionalise their corporate governance. These changes can be challenging. For example, developing succession plans can also lead to uncomfortable conversations, or even conflicts, among family members, and families may be sensitive about allowing "outsiders" on their boards. On the environmental and social standards side, small and medium-sized family-owned companies may not have previously been exposed to international environmental and social standards, and may not immediately see either the need for or the benefit of adhering to more stringent standards than local regulations require. As a consequence, it is crucial that fund managers highlight the benefits of making all these changes and securing the companies' buy-in. Linking the ESG requirements and performance to enhancing the companies' financial performance is a valuable tool. For example, fund managers work with companies to meet environmental and social requirements and obtain international certifications (e.g., the ISO 9000 and ISO 14000 standards). Not only can these certifications reduce the companies' environmental and social impacts, but they can help to gain access to larger companies' supply chains, increase their competitiveness, and often increase revenues.

SARITA BARTLETT

She became interested in responsible investing more than twenty years ago when she sought to combine her background in economics and finance with her passion for the environment, social and human rights issues. Her work includes using systematic approaches to identifying, mitigating and managing ESG risks and associated reputational risks, as well as identifying and promoting ESG-related opportunities. Prior to joining Obviam, she held a similar position at the state-owned Norwegian Investment Fund for Developing Countries (Norfund). She previously developed and managed Storebrand Investments' pioneering social responsible investments. She has also previously headed KPMG's Sustainable Advisory Services in Norway and has held board and advisory positions in corporates, financial institutions, and non-profit organisations.