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Challenges and Opportunities for Private Infrastructure Investors when conducting ESG Stewardship with Investee Companies

Key Takeaways: Infrastructure Roundtable Discussion

Introduction

On Tuesday 25th February, EVORA Global hosted a roundtable discussion on ESG considerations in infrastructure investment, welcoming a select group of clients and industry professionals to our new London office.

The discussion covered ESG integration during acquisition and ownership, highlighting key challenges and opportunities. Below is a summary of the key themes and insights. We consider the drivers that push the need to address sustainability, including current trends; resultant implications and possibilities stemming from such implications. We also document 'solutions' – approaches, that in EVORA's opinion, the industry needs to take to address sustainability effectively in sustainability investment.

1. ESG in Pre-Acquisition Due Diligence

Trends, Drivers & Existing Approaches

- Investment vehicle purpose is central to ESG considerations during due diligence.
- SFDR commitments drive additional ESG checks for some investors, but for many Article 8 aligned infrastructure funds, ESG criteria are naturally met due to the nature of assets.
- Equity investors typically embed ESG into technical and commercial due diligence rather than conducting a separate ESG-specific review.
- Debt funds have limited leverage to influence ESG factors due to pre-set borrower terms and loan structures.
- EU Taxonomy-aligned sustainable investments are common (especially for vehicles investing in renewable energy for example), but navigating the Taxonomy language of outcomes vs impact is increasingly complex.
- Acquiring assets from ESG-informed sellers provides benefits, such as access to GHG emissions data, ESG questionnaires, and performance records, supporting smoother integration.

Implications

- ESG is more embedded in equity investment due diligence but can sometimes remain an afterthought for debt financing, limiting sustainability integration in leveraged deals.
- The challenge of impact vs outcome definitions may cause hesitancy in aligning with formal impact investment strategies.
- There is an opportunity for greater ESG data sharing between previous and new asset owners to support sustainability objectives.

Possibilities

- Develop standardised ESG due diligence frameworks for equity and debt investors to enhance consistency. This can be incorporated into existing DD processes. It should not be considered – stand alone.
- Establish guidelines for data sharing between asset owners to improve ESG visibility post-acquisition.
- Create early-stage ESG integration checklists tailored for infrastructure investors with varying ESG ambitions (Article 8, Impact Investing, etc.).

Solutions

- Promote collaboration between buyers and sellers to improve post-acquisition ESG data availability.
- Develop pre-investment ESG playbooks to help asset managers embed sustainability considerations in their early-stage investment analysis.
- Develop approaches that align with necessary reporting frameworks and regulations including SFDR, EU Taxonomy, and other regulatory requirements.

2. ESG in Post-Acquisition Asset Management

Trends, Drivers & Existing Approaches

- ESG teams focus on identifying and implementing sustainability opportunities, such as energy efficiency upgrades and electrification projects.
- However, investment decisions are often locked in before acquisition, making decarbonisation difficult without sufficient CAPEX.
- GRESB and other reporting schemes are resource-intensive, often requiring firms to provide the same ESG data in multiple formats for different LPs.
- The upcoming CSRD Omnibus release may disrupt existing sustainability reporting, while changes to Corporate Sustainability Due Diligence Directive (CSRD-D) are being watched closely by investors.

Implications

- CAPEX constraints can limit the ability of infrastructure investors to execute deep decarbonisation strategies post-acquisition. There is a concern around first mover disadvantage.
- Investor reporting burdens can divert attention from actual sustainability improvements.
- Regulatory uncertainty may create additional compliance challenges, especially for firms operating across multiple jurisdictions.

Possibilities

As an industry we should consider how we can:

- Influence GRESB improvements to reduce duplication and enhance ESG benchmarking for infrastructure assets.
- Develop long-term sustainability roadmaps that accommodate CAPEX constraints while ensuring ESG progress.
- Provide early-stage ESG impact forecasts to help investors anticipate reporting requirements post-acquisition.

Solutions

- Develop sector-specific CAPEX-aligned decarbonisation strategies to ensure sustainability progress without financial strain.
- Advocate for standardised LP reporting formats to reduce inefficiencies and duplication in ESG disclosures.
- Optimise ESG reporting processes by streamlining data collection and submission across multiple frameworks.

3. Broader Market Considerations

- The Net Zero Asset Managers (NZAM) initiative suspension has sparked debate, but most infrastructure managers remain committed to decarbonisation goals. The suspension has not reduced ESG ambition, but it may lead to increased scrutiny of voluntary net-zero commitments.
- LPs' perspectives on ESG considerations would add valuable insights to future discussions.

4. EVORA's Actions Going Forward

EVORA found the session insightful and engaging. As a take-home, EVORA will engage with wider industry bodies to help drive disclosure requirements in a way that adds value. We want to help our clients, and the wider industry to ensure that sustainability is embedded throughout investment decision making and management. We encourage you to do the same.

We would like to extend our thanks to all participants for their contributions to the discussion. We look forward to continuing these conversations at future roundtable events.

For further insights or to discuss how EVORA can support your ESG strategies, please reach out to us.

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