

# FAMILY OFFICE INVESTOR



**The Alternative  
Investment Issue**  
Is now the right time to diversify?

ISSUE 10



# Earth Capital's approach to Sustainable Development

A different kind of investment is needed for a fast changing world

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**A**s the world we live in changes, so the way we plan for the future must also adapt. Family Offices have long had a KPI on the successful intergenerational transfer of wealth, but if by 2100 many of our major cities are flooded and uninhabitable and there are billions of climate refugees roaming the planet, then your grandchildren might not be that grateful if your family office only focused on financial metrics in 2020.

Instead, impact investors with a successful track record, like Earth Capital (EC), can offer families superior financial returns combined with




Your investments don't have to pollute the planet. There is a more enlightened way to profit

PHOTOS: ISTOCK

**'We offer superior financial returns with positive environmental and social impact for the benefit of future generations'**





Impact investors like Earth  
Capital can offer good returns  
and have a positive impact

positive environmental and social impact for the benefit of future generations. At EC, we believe that addressing the challenges of sustainable development (SD) is critical if we are to globally transition to the low carbon, resource-efficient and inclusive economy envisaged in the Paris Agreement and the UN Sustainable Development Goals (SDGs).

### **Sustainable technologies**

Our investment themes focus on the commercialisation and deployment of proven, sustainable technologies, in various industries including agriculture, clean industry, energy generation, resource and energy efficiency, waste and water. This allows us to target areas where we can generate a positive impact from a socio-economic sustainability perspective but also generate superior private equity returns.

We recognise that whilst our investments inherently deliver a targeted sustainable development benefit, those same investments will have a wider sustainability footprint. EC is committed to incorporating Environmental, Social and Governance (ESG) factors across our whole investment process to ensure we understand and manage that wider impact.

Our sustainability approach includes Sustainable Investment Guidelines, which set out 'no-go' areas into which the advised Funds will not invest, and minimum standards based upon international best practices which all Fund investments should meet. ESG is factored into our due diligence process on new investments and our ongoing assessment and performance management of assets within the portfolio.

One of the key tools we use within the investment process to understand, assess and report on the overall sustainability footprint of our ►





#### Successful investment models don't have to be unsustainable

investments is the Earth Dividend™. This provides an annual measure of an investment's contribution to sustainable development.

The Earth Dividend™ has been developed by EC's in-house sustainability specialists following a detailed benchmarking of leading global approaches to the assessment, reporting and assurance of ESG issues and performance. Our mission is to demonstrate at scale a successful investment model, which prioritises SD alongside financial return, in all parts of the investment cycle.

#### Objectives and standards

The Earth Dividend™ has been developed to meet and balance the following objectives:

- Robust proxy measure of an asset's contribution to sustainable development, for reporting to fund investors, management and stakeholders
- Provide coverage across key sustainable development issues and standards, taking account of operational, supply chain and product/output SD performance
- Reflect the interests and priorities of future generations as well as the needs of today's generation
- Provide a practical and 'value-adding' platform to guide sustainable development performance improvement across assets
- Applicable to all sectors and geographies

#### Development of the Earth Dividend™

The Earth Dividend™ was developed building upon the work of:

- United Nations Environment Program Finance Initiative (UNEP FI) Principles for Responsible Investment
- The Global Reporting Initiative, G4 Sustainability Reporting Guidelines, including Indicator Protocols and Sector Supplements
- The Equator Principles
- IFC Performance Standards, Guidance Notes and Environment, Health & Safety (EHS) Industry Sector Guidelines

- The United Nations Sustainable Development Goals 2015 (SDGs)
- IFC Development Outcome Tracking System (Agribusiness and Infrastructure)

#### The scope of the Earth Dividend™

The Earth Dividend™ has been developed to be applicable to any asset in any industry sector. Therefore, whilst EC focuses investment towards renewable energy, clean technology and sustainable agriculture, the methodology is designed to be equally appropriate for use for a mining asset, thermal power generator or chemicals facility.

EC aligns itself with the Brundtland Report definition of SD, "meeting the needs of the present without compromising the ability of future generations to meet their needs" – taking full account of ESG impacts, both positive and negative. The Earth Dividend™ has therefore been designed with consideration to both today's needs and future generation's potential needs, perspectives and priorities.

The Earth Dividend™ is used to assess all operational EC asset investments at the point of EC investment and thereafter on an annual basis, for each reporting year.

Being an operational asset-based tool, an organisation which comprises multiple assets will prepare an Earth Dividend™ submission for each asset separately. Assets under development or construction are not assessed against the Earth Dividend™ methodology until they become operational. In these cases, we default to the Equator Principles guidelines for assessment purposes.

All significant Environmental, Health, and Safety Guidelines (EHS) and broader SD issues arising during development and construction are addressed through EC's adherence to the Equator Principles and application of EC's SD Investment Guidelines.

#### The Earth Dividend™ scorecard

The Earth Dividend™ provides a measure of the level of 'sustainable' or 'un-sustainable' contribution which EC assets display. The Earth Dividend™ comprises a scorecard, based upon thirty SD issues equally weighted across five issue categories. In some cases, the Earth Dividend™ Tests (EDTs) are assessed using selected data collected in accordance with G4 'Indicator Protocols'. Where this has not been appropriate, G4 'Indicator Protocols' most relevant to the EDT are identified in the Guidance Notes, for reference and voluntary use by the asset.



Earth Capital has invested shrewdly in sustainable agribusiness



Investments in the renewable energies sector have delivered remarkably lucrative returns



PHOTOS: ISTOCK

The level of 'sustainable' or 'unsustainable' contribution is assessed for the following issue categories:

- Natural resource consumption. Water use and efficiency; energy inputs and efficiency; efficient use of raw materials; sourcing of materials from sustainable practices; land resource value.
- Ecosystem Services. Biodiversity and natural habitat; water system; climate system & greenhouse gas emissions; soil systems.
- Pollution control. Atmospheric emissions; effluent discharge; waste disposal; supply chain polluting impact, product end of life impact.
- Social & economic contribution. Employee welfare and human rights; local economic contribution; supply chain employment standards; contribution to Sustainable Development Goals (SDGs).
- Society and governance. Corporate governance; bribery & corruption; responsible marketing and market behaviour; indigenous peoples and cultural heritage.

The definitions above are based on a detailed benchmark of approaches to the management, performance improvement and reporting of SD.

### Original concept

Earth Dividend™ is an original concept in the context of business performance measurement and reporting. It addresses a broad range of complex and interdependent issues, some requiring very detailed technical understanding to complete even relatively simple evaluation. EC fully anticipates that the Earth Dividend™ will require continuous amendment and update to reflect:

- Practical challenges of implementation

## 'We are already seeing higher returns and a lower cost of capital for sustainable companies'

- Shifting attitudes among a full breadth of stakeholders towards embracing the value of increasing detail and granularity in understanding of non-financial SD performance
- Evolving understanding and related international best practice
- Changing global priorities relating to the relative significance of different SD issues
- Feedback and challenge received by EC from investors, investee organisations and other stakeholders
- Advice and evolving perspectives received from the EC Sustainability Council, particularly as new members enter the Council
- Internal and external audit findings and recommendations

Sustainable businesses who focus on the forward-looking impact of their activities are also more likely to create better market opportunities, better risk management and better profit margins. We are already seeing higher returns and a lower cost of capital for sustainable companies. Earth Capital will be investing into these businesses over the next 10 years, and the multi-decade outperformance of sustainable strategies fits well with the long-term investment horizons of family offices. ■

[www.earthcapital.net](http://www.earthcapital.net)