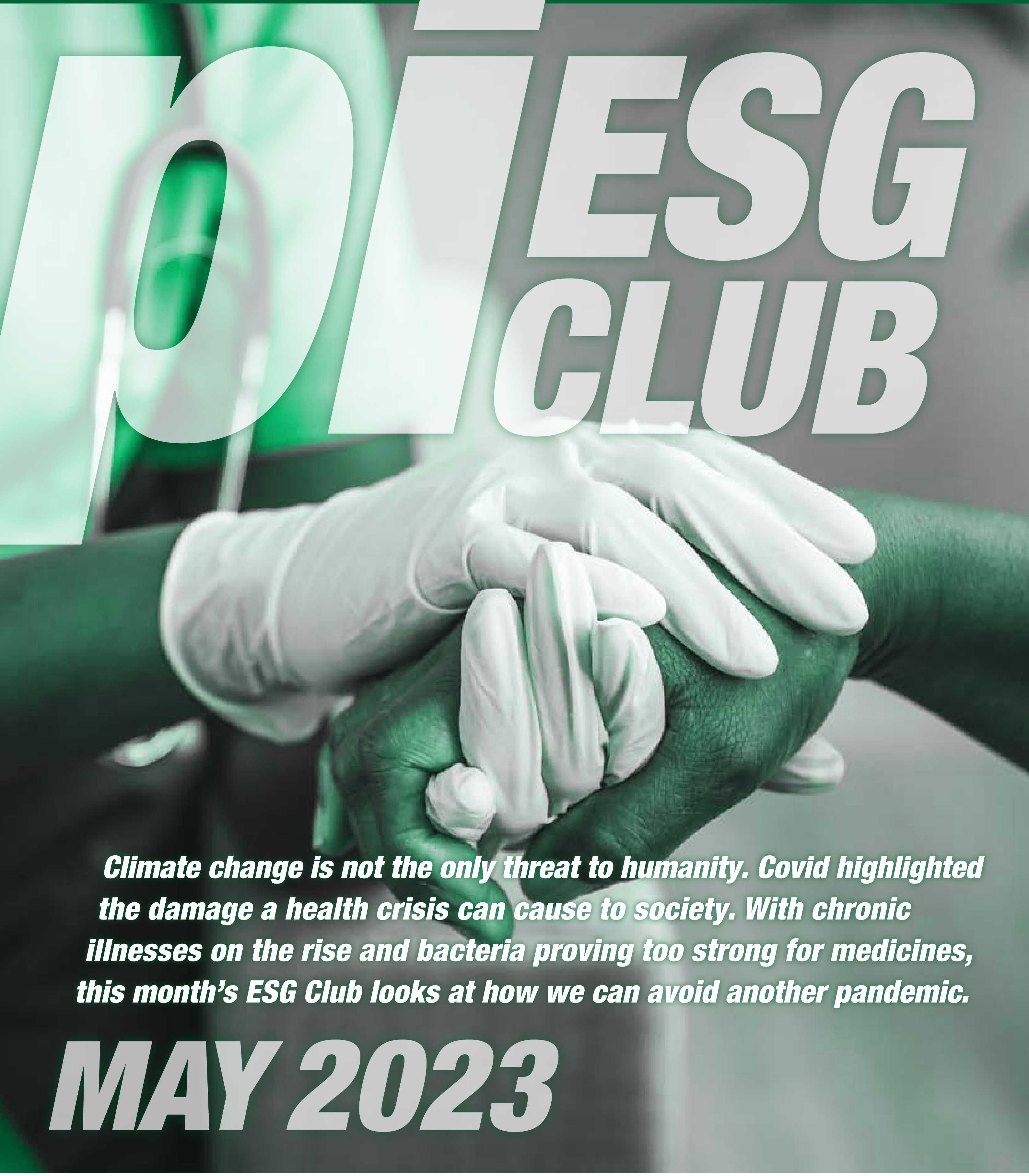

pi ESG CLUB

Climate change is not the only threat to humanity. Covid highlighted the damage a health crisis can cause to society. With chronic illnesses on the rise and bacteria proving too strong for medicines, this month's ESG Club looks at how we can avoid another pandemic.

MAY 2023

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INVESTORS PUSH FOR GREATER WORKFORCE ENGAGEMENT IN THE BOARDROOM

Eight major investors are behind an initiative to get more people from the shop floor into the boardroom. *Andrew Holt* looks at what this could mean.

The E has dominated many of the ESG initiatives that have been introduced into the investment world, but there is now a strong push to move the S and the G into the spotlight.

Railpen, together with seven other institutional investors, has launched an initiative to encourage companies to include the voice of their rank and file workers at board level.

This guidance for appointing workforce directors, as well as exploring worker voice mechanisms, provides insights into 'what good looks like' regarding the role, recruitment and retention.

The initiative was created in response to requests from some of Railpen's portfolio companies for the investor perspective on members of the workforce joining the board.

It incorporates feedback from discussions with companies, investors, regulators, workforce representatives and academics, as to how companies can approach appointing one or more directors from the broader workforce.

A workforce director is a director drawn from the company's wider workforce or employee base. Interestingly, Railpen's definition does not consider the workforce director to be a representative of the workforce. Rather, they have the same fiduciary duties and stakeholders to consider as any other director, but they are also part of the firm's broader workforce.

Caroline Escott, senior investment manager at Railpen, explained the rationale behind this. "They become a director, in the same way as any other director. We are trying to avoid creating a two-tier or segregated approach to companies, where the workforce director is only considered to be able to contribute to a particular set of issues.

"In fact, while that broader workforce perspective is useful, it is useful across a range of issues: everything from remuneration to broader business strategy," she added.

A material world

Railpen, and others from the investor group, will engage with companies and their asset managers, where it believes there is merit in considering or raising the issue of workforce directors. It will also work with policymakers where improvements can be made to create a supportive regulatory environment.

Furthermore, the guidance draws upon evidence which reveals that there are two main benefits for companies and investors from appointing one or more workforce directors.

First, potential improvements to the cognitive diversity of a board, providing a particularly valuable perspective, with diverse boards more likely to make informed and effective decisions.

Second, it is helping workers to feel their voice is heard and acted upon. This could see them become more engaged and motivated which in turn are, as Escott has said, 'financially material' benefits for company performance.

Railpen's guidance also draws upon research showing that workforce directors are most effective as part of a broader, coherent and intentional approach to workforce engagement and alongside other mechanisms. The scheme has stressed investors are keen to understand how the worker perspective is intentionally included in strategic decision-making at their portfolio companies because, the pension fund says, a fulfilled, engaged, and motivated workforce is important to the long-term, sustainable financial performance of a business.

Power to the people

Other signatories to the officially titled: *Workforce Directors Investment Statement*, include Border to Coast, Brunel Pension Partnership, the Church of England Pension Board, Merseyside Pension Fund, USS, Rathbone Greenbank Investments and Royal London Asset Management.

"Fulfilled, engaged and empowered workers are fundamental to the long-term success of companies," Escott said. "The Covid-19 pandemic and the subsequent 'great resignation' have highlighted how important it is that a company's most senior leaders genuinely consider and respond to the perspective of the wider workforce."

She added that while the investor group do not think there is a single 'right' way for firms to engage the workforce, "more companies should at least consider the merits of appointing a workforce director to the board – such as the potential improvements to cognitive diversity.

"We hope our guidance provides some helpful considerations and insights into what we think is an underexplored workforce engagement mechanism and welcome the opportunity for open and collaborative conversations with all those keen to ensure the worker voice is effectively heard," Escott said.

Bruce Jackson, senior responsible investment analyst at USS, added that the pension fund is 'delighted' to support the initiative. "This will provide company boards with meaningful suggestions to enhance workforce engagement and consider appointing workforce directors to their boards," he said.

USS has workforce directors on the board, appointed by University and College Union, a trade union. Jackson added that while USS recognise this may not be suitable for all companies, the inclusion of workforce perspectives at board level can align the interests of shareholders, management and workers over the long term. "It can also provide valuable insight into company operations to improve strategic decision making."

INTERVIEW – CAROLINE ESCOTT

“We see opposition to ESG as a spur to work even harder at getting that message out.”

Railpen’s senior investment manager tells *Andrew Holt* about the importance of voting, focusing on the big picture, dealing with cynics and standing on the shoulders of giants.

Why has Railpen helped create an initiative to get workers heard at board level?

Well, a few things came together. Firstly, there is a growing body of evidence that an engaged, fulfilled and motivated workforce that feels listened to is important for long-term financial success. And that matters to us as investors.

The second piece was that even though we recognise there are many useful workforce engagement mechanisms out there, we at Railpen have, for some time, thought workforce directors are underutilised amongst companies.

We see for ourselves, with our own trustee board, the benefit of cognitive diversity that comes from having that broader perspective.

We also recognise there are examples of the positive impact workforce directors have had on the running of a company and on strategic decision making.

We have worked with companies, investors, academics and workforce representatives to pull together some guidance that we hope will offer more clarity to companies who are thinking about this.

What is this initiative’s ultimate goal?

There are two objectives. The first is for those companies that are already thinking about this, to give them some clarity, some food for thought. It pulls it all together for them, with the evidence demonstrating that under what circumstances workforce directors might be helpful.

But it is also to encourage companies who aren’t thinking about workforce directors as an employee engagement mechanism to get over some of the misperceptions and have a proper look.

What are those misperceptions?

There are concerns that organisations will not be able to find someone with the necessary skill set. But the evidence shows that with the right training, the right support and an inclusive board level environment, workforce directors add a valuable perspective.

This focuses on the S and the G. How important is ESG overall to Railpen?

Railpen has been active on what we call sustainable ownership for a long time. We were one of the first pension schemes to publish a global voting policy and to have in-depth corporate governance policies. And we have been building on that over the years.

Given our long-term horizons, sustainable ownership is absolutely fundamental to protecting and enhancing value for beneficiaries. So we do it at the core.

When did you first approach it that way?

We published our first global voting policy in 1992. I remember 1992. There were luminaries like Frank Curtis and Deborah Gilshan, who were our industry titans.

I use this phrase a lot, but [Railpen’s] sustainable ownership team feels that we are standing on the shoulders of giants.

Why does your sustainable ownership team work on three areas: integration, stewardship and the climate transition?

We work closely together across our teams. ESG is integrated within the ownership and climate work stream. It is all about stewardship and the integration of climate change and financial analysis.

That being said, ESG integration is about incorporating financially material sustainability considerations into our investment analysis and decision making. Active ownership is thinking about how we use that information to influence the companies we invest in to improve their corporate behaviour.

On financial materiality, the climate work stream is looking at doing it through a clear-eyed understanding of the key emitters in our portfolio. Then thinking thoughtfully about how, and where, to engage with these companies to achieve real world impact on climate change.

What percentage of your assets are held in ESG investments?

We look to incorporate or address financially material ESG issues across all our portfolio. We look at ESG holistically and try to incorporate it across all asset classes.

Our portfolio has £34bn of assets and we try to look at ESG, in different ways, across all of it.

There are holdings we engage on and do a bottom up analysis of. We also think about big picture ESG themes: climate change, biodiversity or workforce issues that affect our whole portfolio, or a substantial chunk of it. Then we have long-term infrastructure investments, focused on things like the mental health facility we are supporting in Sunderland.

Which is the most important element in your ESG approach?

Leadership. It is fundamental to creating long-term value for beneficiaries.

We consider all ESG issues and we have a clear focus on financial materiality. We look at ESG issues that are thematic in the portfolio and at the bottom up level, which we believe are most likely to impact the long-term financial performance of a particular asset or a company.

You also use your ESG approach to steer your votes at AGMs. How successful has that been?

We consider company performance on, again, financial materiality as well as environmental, social and governance considerations, when we cast our vote.

This is often, and importantly, aligned to engagement. There is a steep spectrum of stewardship tools and engagement sets. At one end of it is voting and ownership rights, with divestment at the other.

For us, most of the impact is when you align your voting with your engagement and use that as part of a stewardship strategy, with an understanding of the objective that you are trying to achieve. We use that approach across our major holdings.

I would say that it has had some positive impact in the few years we have been engaged with these companies. Of course, with some of them we have longer-term relationships.

Can you shift the ESG dial on companies through voting alone?

It is possible to have an impact. We see that through some of the activities and changes in corporate behaviour that have happened as a result.

Voting is an important stewardship tool. It is a public expression of shareholder dissatisfaction with the company, or support for its behaviour on certain key issues.

I would say that it is most impactful when aligned to a broader stewardship strategy, which can include engagement.

I will also say that it's more impactful when investors think not just about voting on a generic resolution, but where they are particularly unhappy with a company's behaviour and vote against the individual director that they deemed responsible. That is something we try to do at Railpen.

Voting season is an important opportunity for influence. You get to exercise your vote and companies are incentivised to meet with you before and after the vote.

That's a good opportunity to reinforce relationships and with it, progress on those issues.

Are there any times when you consider divestment as an option?

We have a number of exclusion processes. We have a climate exclusion process where we exclude companies from our portfolio if they have a certain proportion of revenue deriving from things like oil sands.

We also have a cluster munitions exclusion process. And we have what we call a governance and conduct zero weight exclusions process, which we have been building upon in the past few years. This is about those companies where there is either a conduct issue, or where there are many governance red flags.

And there is the case when we engage with a company and they do not feel like they recognise there is an issue or they are not truly committed to improving their governance.

What other ESG aspects do you look at?

There is the big picture, the top down, systemic level of issues that face our portfolio. And for that, we have some major themes. There is, of course, the climate transition.

Then there's the workforce, looking at a number of different workplace issues, like worker engagement. We have also been doing quite a lot of work on workforce disclosure. Workforce human capital is an area where the quality of disclosure from companies is highly variable. It is material. Something needs to be done to change it.

Also technology: thinking about issues like cyber security or content moderation governance that impact some of the large media and tech firms.

And then there are sustainable financial markets. And within that, because sustainable financial markets could cover quite a big piece, quite a huge suite of things. Our work is focused on things like unequal voting rights through the Investor Coalition for Equal Votes.

> **As asset owners, we sit at a privileged part of the investment chain.**

And from next year, we are also going to be doing some more work on audit – and the quality of audit.

How would you rate how the investment industry has dealt with ESG?

We are all on a journey. Some of us maybe started a bit earlier on the journey than others. But even in the 10 to 15 years I have been in the industry, the level of support for ESG has grown exponentially amongst asset managers, asset owners and policymakers. So that is positive.

Are asset owners and asset managers on the same page in terms of the importance of ESG?

Asset owners are becoming increasingly demanding of clients on ESG. That is positive.

Asset managers have, for instance, collaborative, open engagement processes. We at Railpen work closely on a number of ESG-related issues with them.

Are governments and supranationals doing enough to address ESG issues?

It has a positive groundswell of support and action. We have seen that at the UK government level. We have also seen it at the supranational level. A lot of the debates being had are the right ones. We do need more co-ordination internationally in order to avoid regulatory arbitrage, because investors are global.

How do you view the backlash ESG is facing from some quarters?

There have always been individuals and groups that are naturally sceptical about responsible investment and sustainable ownership.

We survey our members specifically on sustainable ownership.

While there are lots of supportive comments on particular issues, there are also comments around: 'I don't want you to do good, I just want you to make as much money as possible'.

Our consideration of sustainable ownership is as something that's financial material, something that has an impact on the bottom line.

The way we deal with it is to emphasise, in our communications to members and in our other external reporting, the materiality of environmental, social and governance issues to particular investments.

We provide case studies to support this. We even pull together a concise summary of some of the available evidence on the financial materiality of ESG issues.

So we see opposition to ESG as a spur to work even harder at getting that message out.

What are your ESG challenges going forward?

It's boring, but it's important, and that is the need for clear, consistent, comparable data. Making sure we have the data points we need.

The other point is: it's been great to see asset owners acting as demanding clients in this and building their stewardship teams.

But we need to continue the scrutiny and the pressure all the way down the investment chain.

As asset owners, we sit at a privileged part of the investment chain. We have the commercial influence to be able to pull up, and through good stewardship and responsible investment practices, all parts, all the way through to the ultimate benefit of members and savers.

HEALTHCARE – DIAGNOSIS: BAD

Covid, diabetes, dementia, ageing populations and antibiotics that don't work – the health crisis is up there with climate change, finds *Mark Dunne.*

Miracles come in many forms. The latest miracle to sweep the western world comes in the shape of a tablet or can be found within a medicine bottle. Semaglutide is a daily injection that helps people lose weight by reducing their appetite. It is one of many weight-loss drugs to hit the market.

Elon Musk and Jeremy Clarkson have admitted to using such treatments while games are played online to unmask the celebrities who have joined them.

But this is not just about vanity. Semaglutide is available on the NHS. Developed world governments are allocating more of their tax income to healthcare while their GDP is taking a hit from lower productivity as people slip out of the workforce on medical grounds.

Obesity is one factor behind a range of chronic illnesses including cancer and diabetes. Another major demand on the care system is the increasingly ageing population.

If an example is needed of the demand and destruction that a healthcare crisis can cause, just look at Covid.

Covid was more than a pandemic. It was a crisis on par with a war. It put companies into bankruptcy court, destroyed economies and took our nearest and dearest from us. If it happened again, would we manage it better?

"The world is certainly more sensitised to what it takes to manage a pandemic," says Steven Slaughter, a portfolio manager in the intrinsic value team at Manulife Investment Management. He adds that Covid has left people with a "better focus on and appreciation for their health, the health of their families and the health of their co-workers".

Yet there are potential healthcare crises that could rival Covid in terms of the number of lives it claims.

The drugs don't work

HIV and cancer have for decades been names that people do not want to hear when speaking with a doctor. Well, there is another condition that has joined them in that it kills millions of people every year: antimicrobial resistance.

This is where bacteria evolve to a point where medicines, such as antibiotics, do not kill them anymore. It means that people could die from something as trivial as a grazed knee. This is already happening.

In 2019, more than 1.2 million deaths were directly attributed to the condition, meaning that it killed more people than HIV or breast cancer. If its wider impact is considered, bacterial infections are responsible for a similar number of fatalities as Covid.

There were 6.8 million Covid deaths over three years, according to John Hopkins University, while there were 4.9 million indirect deaths attributed to antimicrobial resistance in 2019 alone. This is based on estimates from the Global Research on Antimicrobial Resistance Project.

The situation is only expected to get worse. An independent review in 2016 by Lord O'Neill concluded that not addressing this issue could lead to 10 million deaths globally each year by 2050. Maria Ortino, a global ESG manager at Legal & General Investment Management, says that antimicrobial resistance undermines how we look at modern medicine. "We will not be able to perform even standard surgery if we do not have antibiotics.

"We would highlight antimicrobial resistance as a systemic risk equivalent to climate change," she adds. "We need to deal with antimicrobial resistance, otherwise we might not be around to deal with anything else."

There are other impacts for people to consider if they believe they are healthy enough to survive dying from a grazed knee. In 2016, the World Bank analysed the economic impact of superbugs, which are strains of bacteria, viruses, parasites and fungi that are resistant to most antibiotics. The Bank estimated that if we do not do anything about the issue, around 3.8% will be wiped off the global economy. "That is equivalent to what we saw in the 2008-2009 financial crisis," Ortino says.

This translates into global output losses amounting to more than $1trn (£800bn) a year after 2030, rising to $2trn (£1.6trn) by 2050, the World Bank estimates.

In the worst case scenario, $1.2trn (£961bn) of additional healthcare expenditure will be needed globally per annum unless we can get the situation under control.

A lack of clean water and sanitation as well as inadequate infection prevention and control are some of the reasons why antibiotics are becoming ineffective. Then there is the food chain where the use of antibiotics in meat production as well as in our water supply is fuelling the rise of drug-resistant superbugs.

Good in moderation

The good news here is that new antibiotics are being discovered, which attack bacteria in different ways than existing drugs.

Ortino says that although the discovery of new antibiotics is positive, it is only part of the solution. "A plethora of actions need to take place," she adds. "One is having diagnostics to determine which specific treatment we should use. This would avoid using the wide spectrum of antibiotics, because the more you use them, the higher the frequency of resistance.

"It is important to remember that resistance of this nature is not a new phenomenon. This is bacteria's natural evolution in resisting the medication that has been found to kill them.

"The real problem is the speed at which the resistance is happening, which is down to the overuse of antibiotics.

"What we need to look at is the global consumption of antibiotics. The animal industry is where we believe that interventions predominantly need to take place," Ortino says.

We need to deal with antimicrobial resistance, otherwise we might not be around to deal with anything else.

Maria Ortino, Legal & General Investment Management

To halt the speed of drug resistance, investors' need to look at how animals are reared for the food chain, how pharmaceuticals, who supply the industry with antimicrobials such as antibiotics, undertake their antimicrobial resistance stewardship activities and how water utility companies are able to monitor and possibly treat the uncontrolled release and disposal of antimicrobial agents in the water system. "It's a combination of the misuse of [the antimicrobial], the overuse of it when it's not needed or the wrong use of it," Ortino says.

She likens the misunderstanding of how to fix the problem to asking renewable energy companies to up their game in the fight against climate change instead of engaging with oil and gas companies.

Animal welfare is important. Better feed would help keep animals healthier, hence not needing to be treated with antibiotics.

There are many instances where animals need antibiotics because they are not well cared for. Having too little space to move is one problem. "They get infections due to how they are kept, rather than the naturally occurring infections we all get," Ortino says.

"Action is needed today, rather than in five or 10 years. By then it will be too late," she adds.

Beyond medicine

Healthcare inequality is a systemic risk. "Capital should be directed to companies whose products or services enable a better quality of life or contribute to a more equitable world," Slaughter says.

This means that healthcare companies should be encouraged to look outside of their market to provide access to basic needs. These include efforts in sanitation, affordable housing, sustainable food, sustainable agriculture, education and financial services.

One company that has stepped in here is United Healthcare, which is building safer housing for the seniors it insures and provides access to healthier meals. "Providing a patient with safe housing and a better nutritional backdrop, hopefully makes them a better insurance risk," Slaughter says.

"In the US, such companies have branched out beyond pure healthcare provision to look at the social determinants of ill health, which largely drive illness if not rectified," he adds.

"We are seeing companies that historically have been siloed in medical devices, pharmaceuticals or provision of care, investing in projects to improve peoples' overall health.

"They are not doing this just from a societal perspective under the umbrella of ESG, but because it improves long-term wellness," Slaughter says.

Branching out

This approach to reducing the strain on healthcare systems and improving productivity should also be taken by the pharmaceutical industry. Could a drug designed to treat one condition be tested to see if it has a positive impact on other conditions?

One example is Abbott Laboratories. In 2012 it created Humira, a drug to tackle rheumatoid arthritis, a condition which has profound societal impacts in that it makes sufferers immobile. The drug changed how that disease effects society.

The good news does not stop there. Abbott has since discovered that Humira can treat nine other diseases, including psoriasis, ulcerative colitis and Crohn's disease.

"That is another trend," Slaughter says. "The ability to expand the playing field, to take a drug or technology and branch out to address unmet medical needs is likely to continue."

Fat loss drugs are another example of this serendipity. "Semaglutide is a fascinating drug developed initially for diabetes," Slaughter says. "Novo Nordisk [it's owner] ran separate trials and found that it is highly effective in lowering weight."

The drug's impact on obesity, which has huge health implications, is transformational. "How many knee surgeries do we do every year where if a patient dropped 30 pounds, we wouldn't have to replace that knee?" Slaughter says.

"There are six cancers we are aware of that are tied to obesity," he adds. "If we can cut the need to do those treatments for cancer 10 years down the road by treating obesity, we can knock down the need for orthopaedic procedures as a result of treating obesity."

How many knee surgeries do we do every year where if a patient dropped 30 pounds, we wouldn't have to replace that knee?

Steven Slaughter, Manulife Investment Management

A new era

These are examples of how the thinking is changing the healthcare industry and among those working to put food on our plate and supplying the water we drink. It needs to if we are to protect society from the many threats to our wellbeing.

If Covid highlighted anything, it is how quickly a virus can spread across the world. We have to realise that being on the other side of the globe is not a protection strategy.

"Diseases travel quickly," Ortino says. "If you misuse antibiotics or do not have access to them in places where there is an infection, that disease will travel quickly, and the resistance in that bacteria will travel with it.

"If there is a disease overseas, we can no longer see it as someone else's problem," she adds. "We need to take a global approach."

This is an attitude which appears to be long overdue. "The historical precedent has been that we are somewhat reactionary when these things occur," Slaughter says. "But for public health entities and governments – frankly, people with their hands on the cash registers – it would be more apt to think preventative as opposed to reactionary."

Times are changing. "We are at an interesting point in history where we are branching out and beginning to think beyond the current use of a drug or a device and how we can apply it to conditions that we do not have treatments for," Slaughter says.

Yes, this could be about boosting the revenues of developers, but if ailments are being treated there is a chance that it is saving the economy money in lost productivity and lower healthcare spend.

"Call me an optimist, but I have been in healthcare 37 years and the sky's the limit," Slaughter says. "There are a lot of things we can continue to work on that could improve humanity, improve our lives. Fortunately, they are coming from medical research labs."

Our health could turn into another crisis that governments and care systems lose control of in the coming years. But adopting a prevention strategy alongside testing new and existing drugs could help save the world from a threat that is up there with climate change.

SUSTAINABILITY: EXPANDING INFRASTRUCTURE'S PARAMETERS

While essentiality and high barriers to entry have long been trademark infrastructure traits, the asset class is increasingly being defined by sustainability. *Martin Lennon* and *Ed Clarke*, co-founders of Infracapital, share their insights on the accelerated drive towards sustainability, key trends and infrastructure's inflation protection qualities.

Martin Lennon

Ed Clarke

The first six months of 2022 saw the most active fundraising ever for infrastructure, surpassing $127bn (£102bn), according to data provider Preqin[1]. That slowed during the second half of the year as it became evident that the pace wasn't sustainable in terms of continued flows, but an impressive year for infrastructure, nonetheless. Looking ahead, Preqin expects infrastructure to achieve a compound annual growth rate [CAGR] of 13.3% by 2027[2].

What's been behind the rise of the asset class and where do we see the key opportunities today?

Martin Lennon: On the demand side, clients have increasingly recognised the benefits of the infrastructure asset class. At its heart, it's essential and resilient, which gives it the basis of which to be a strong performing asset class throughout the cycle.

Many investors see that as an important part of their diverse portfolio. Of course, it also has the ability to deliver yield and inflation, which has become a little more topical in recent months. Altogether we see a broad and growing opportunity set.

Some of the main themes that we have been following, which are still relevant today, are around decentralisation – moving infrastructure away from the centre closer to the communities from which it serves, technology or digitalisation, and increased focus on sustainability and everything that brings.

> **"One of the core characteristics of the asset class is that it's a real asset class and therefore it does provide protection to inflation.**

Ed Clarke: It feels like the infrastructure space is going through a kind of industrial revolution at the moment. Historically, when we started, infrastructure was all about investing in existing, stable, secure assets like water companies and electricity networks. What we have seen in recent years is a drive towards sustainable sources of energy – accentuated by the war in Ukraine – and the need to have resilient local infrastructure, which has driven a change in the way infrastructure is provided.

You layer on top of that the technological changes, and it gives rise to a whole new set of opportunities, and we have been working hard to play in that space.

If those are the trends, what specifically have you been looking at?

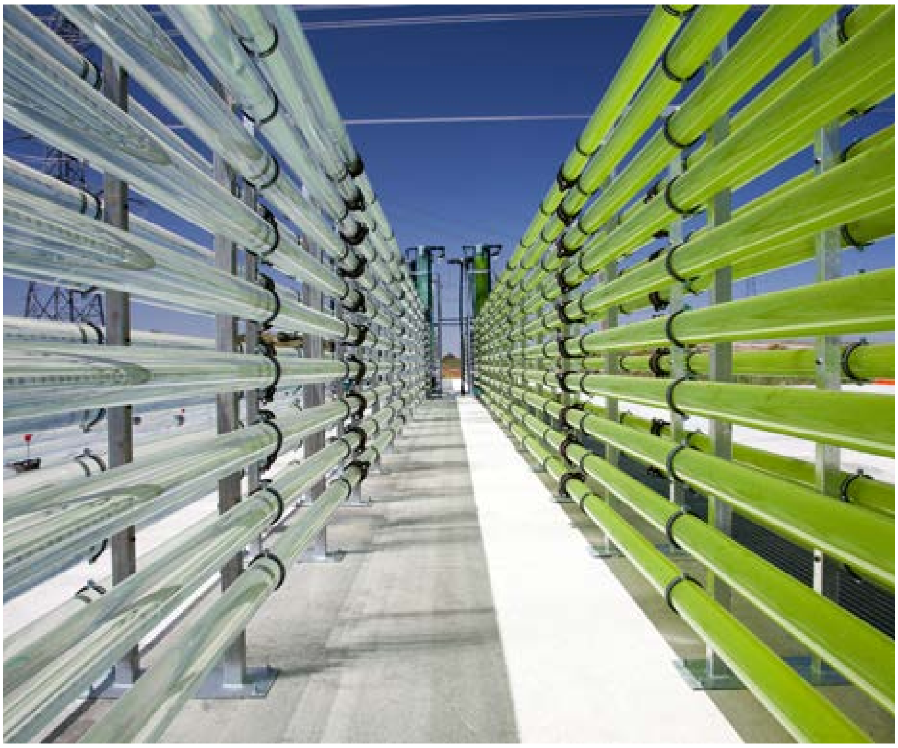
Clarke: We have had a number of key themes which drive it. For me, one of the most interesting ones at the moment is looking at the way big corporates are all setting net-zero targets, and then trying to backfill their supply chains and processes to deliver on that net-zero promise. A great example in our portfolio at the moment is a business in the Benelux called Inland Terminals Group. It operates terminals inside the factories and distribution centres of major European corporates who receive goods from Asia via the ports of Antwerp and Rotterdam.

What our business does is move these goods by barge to their distribution centres or to their factories, taking trucks off the road and allowing them to significantly cut their carbon emissions. On top of that, we are now working with some of those customers. Nike is an example where we are introducing hydrogen power barges to make that leg of the supply chain carbon negative.

How do you see our role when it comes to plugging infrastructure gaps in order to deliver positive and measurable outcomes for our communities?

Clarke: We have a crucial role in delivering the capital that's needed to enable a lot of these projects and businesses to prosper. As the world goes through this kind of industrial revolution, we see in some of the major corporates that used to be the traditional bellwethers of the infrastructure space – the big utility groups, the big telecoms groups – that they often have small business units trying to develop and do things, but they find it difficult to access capital because it's not part of the core business.

1) Preqin, "Preqin quarterly update: Infrastructure Q4 2022", preqin.com, January 2023.
2) Preqin Global Reports 2023: Infrastructure.



A great example – we entered into a partnership with Fortum, a big Nordic utility, where we took a 70% stake in its electric vehicle charging business across the Nordic region. This business – probably the leading one in the region – had developed so far, but actually, the need to keep developing it required a lot of capital, which Fortum wanted to share the burden of.

We came in initially with a 70% stake and we have now taken 100% control of that business and are reinvigorating the management and accelerating that growth, which is obviously a key part of the transition to electric vehicles in that region.

I see our role as working with businesses, working with entrepreneurs, working with the major corporates to help the visions that they have about the development of infrastructure become a reality.

Infrastructure is traditionally associated with a degree of inflation protection. What is the relationship between the two and how does the asset class offer protective benefits when it comes to inflation? As investors, what else can we do to de-risk and make our assets resilient?

Lennon: One of the core characteristics of the asset class is that it's a real asset class and therefore it provides protection to inflation. We have all been a bit spoiled because inflation's been low and it's been stable for such a long time that we have lost sight of it. Of course, the past 12 to 18 months have put that back into prominence.

Actually, it has been a great learning experience for people that are not that familiar with infrastructure and the inflation protection qualities that the asset class brings. Let's remind ourselves why infrastructure provides inflation protection, and it comes in a variety of different forms.

Regulated industries, such as utilities, often have a regulated pricing model, which is reviewed periodically by the regulator of that particular sector. That normally provides for quite a significant degree of inflation passed through, so it's baked into that regulatory model.

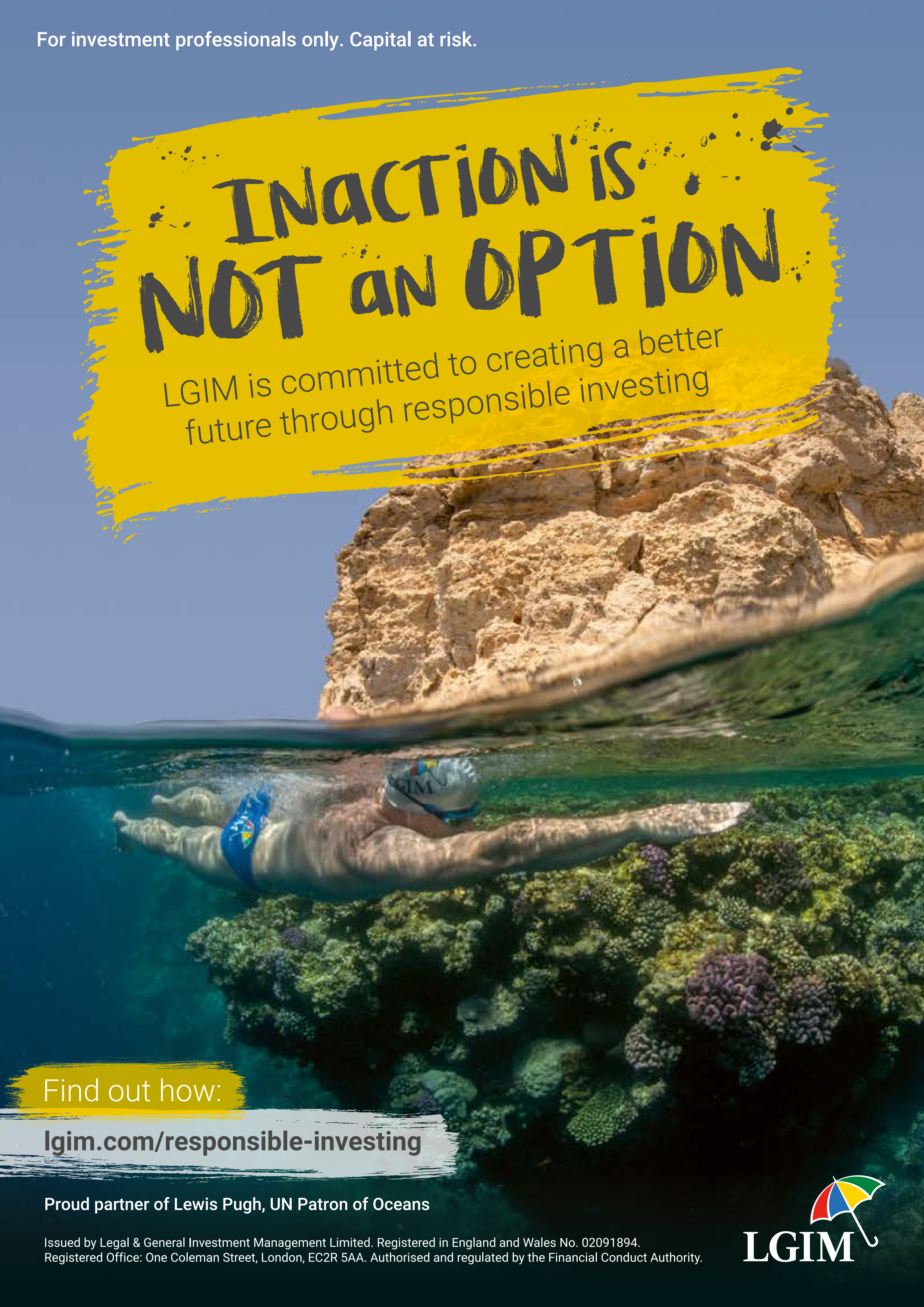
Equally, infrastructure businesses that operate through long-term contracts, again, often have inflation protection mechanisms embedded within those contracts, so another form of inflation protection. Even those infrastructure businesses that do not have these two qualities, if they have a strong market position, going back to that essential characteristic, then they are well placed to be able to pass on inflation to their customers, be they businesses or otherwise.

Whilst I wouldn't say inflation is 100% perfectly hedged within the infrastructure space, if you look across different asset classes, infrastructure stands out as being one of the best in times of high inflation. We still need to be mindful of the broader stakeholders. Spikes in inflation can have significant impacts on businesses and customers as we know, so we cannot be complacent.

We still need, as infrastructure business owners and managers, to make sure that we do everything we can ourselves to mitigate the impact of inflation rather than just relying on passing it through to the end customer. That way we continue to maintain our license to operate, if I can put it in that way, given the importance of the sectors that we invest in.

Clarke: The watchword when we are looking for new investments is that essentiality is the key component and that is what justifies the infrastructure tag. Essentiality, high barriers to entry and sustainability more and more at the moment.

Those characteristics and the customers' need for the service that you are providing, no matter the economic environment, gives you security and safety, which is why investors have invested so heavily in the infrastructure asset class of late.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