

KEYNOTE INTERVIEW

Integrating sustainability at every stage

More than simply a way of reducing risk, prioritising sustainability can be a vehicle for value creation, say Roc Partners'

Michael Lukin, Brad Mytton, Frank Barillaro and Sam Bayes

It is all too easy to think of sustainability in narrow terms. To protect against this, it is important it is viewed not purely in terms of risks but also the potential rewards on offer. At the same time, businesses and individuals are increasingly exploring sustainability as something that extends far beyond environmental matters.

At Roc Partners, sustainability is integrated within every stage of the investment process to guard against a blinkered view. Group managing partner Michael Lukin, managing partner for food and agriculture Brad Mytton, partner for food and agriculture Frank Barillaro and senior associate for responsible investment Sam Bayes explain why sustainability is now seen as being as important as any other metric when evaluating investments.

Q What trends have you seen around sustainability and agriculture, and how these have developed over time?

Michael Lukin: Roc Partners has integrated sustainability and ESG into our investing for many years with a consistent goal of setting up businesses for

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long-term success.

In our 25 years of engaging with investors, we have noticed an increasing sophistication with how they think about sustainability. This applies to institutional investors, wealth managers and family offices we work with.

Initially, many investors focused on negative screening but we are increasingly seeing a shift towards positive screens in terms of how portfolios are positioned. As long-term investors with a five or 10-year horizon, we need to remain conscious of the increasing focus on sustainability and governance with our investment decisions.

While we see the increasing importance in sustainability within food and agriculture, we know that a transition to a more sustainable future will take significant capital and that private markets are a good place for these transitions to occur. We see a lot of companies that will benefit from an increased sustainability focus and know that their paths to sustainability will vary. Some

are already set up with strong tailwinds attached; others will require more capital support to their transition into a more sustainable footing.

Brad Mytton: As part of the sustainability mix we are seeing significant activity around carbon mitigation strategies, and a lot of agricultural land can play a large role in this. We have an environmental planting fund being launched that will invest in a portfolio of projects to generate high-integrity carbon offsets that will be available to fund investors, allowing these investors to offset their own emissions footprint.

Another supportive dynamic in the food and agriculture space is the natural alignment with sustainability and better farming practices. For instance, our portfolio company Stone Axe Pastoral Company, a premium Wagyu beef business, has many initiatives around farming and the supply chain to produce more, better-quality beef with lower input costs.

This includes investments in pasture management, regenerative farming and emissions reduction. We continually look for ways to implement impactful

sustainability projects within our portfolio companies and develop methods of quantifying, formalizing and codifying these efforts.

Q What is the importance of thinking long-term when it comes to sustainability and investment?

ML: Increasingly, we are witnessing a sustainability premium. As we look ahead, removing the sustainability risk in many businesses today will create new opportunities if they are well-positioned to attain a premium valuation.

For example, one of our portfolio companies, Australia's Oyster Coast, a vertically integrated oyster producer, is making great strides in sustainability by removing all tar pits. Transitioning to a more sustainable approach is not only beneficial to the environment we are operating in – we think that it will

also generate a premium for this business because it is centered so positively on sustainability as a theme. For future owners, this theme is likely to contribute to an increase in the asset's valuation.

BM: The decision-making process has evolved towards a more positive framing. Today, we explore ways to create value through sustainability. We are currently looking at an investment opportunity that is not especially sustainable in its current guise, but we have a clear plan for how this could change, which is quantifiable and deliverable.

We also place significant weight on incentives for key management towards sustainability initiatives, enabling discussions beyond financial outcomes at the end of the year. It is great to be able to talk about these issues with senior management and keeps us current, and



Q How can sustainability form an important part of the value creation process?

Sam Bayes: We focus on integrating sustainability into every stage of the investment process, beginning with ESG and sustainability due diligence. This stage is important for identifying risks and opportunities.

Here we consider material ESG factors relevant to the business and sector as well as meeting the needs for bespoke sustainability factors that some institutional investors may have. The findings from this process then feed into the transaction documentation, which also takes into account regulatory and compliance factors.

At the ownership stage, our 100-day and value-creation plans are extremely important, ensuring board-level accountability and oversight regarding sustainability issues. We establish sustainability metrics and integrate sustainability into the senior leadership decision-making process.

Longer term, we partner with portfolio companies to embed key sustainability initiatives. If partners do not have in-house resources, we provide support or engage external advisers if appropriate. On exit, we like to demonstrate sustainability improvement over time so that we can attain a premium valuation.



Michael Lukin
Group managing partner



Brad Mytton
Managing partner for food and agriculture



Frank Barillaro
Partner for food and agriculture



Sam Bayes
Senior associate for responsible investment

we update key performance indicators annually to maintain a focus on tangible outcomes.

Q What else is important when evaluating companies or assets?

BM: Partner selection holds significant importance. We gravitate towards people that are similarly minded to us, which you can see in our portfolio companies. Our partners are already highly aligned with our views on sustainability, animal welfare and other ESG values. This means that our objectives are already well established.

The suitability of a partner company becomes quickly apparent during the due diligence process. It quickly becomes clear if someone truly is sustainability-minded or if it is simply a

veneer. It is important to avoid companies that are only interested in greenwashing, instead working with partners that truly value sustainability.

Frank Barillaro: This extends to employee health and safety as well. It is important that partners and management teams adopt a zero-tolerance approach to risk in these areas from a policy or governance perspective.

The reality is that as we corporatize these businesses, not everyone is going to share the same values around employee safety, sustainability or governance that we have. We have no appetite for any risk around these areas, so that part of the selection process is important, but these values continue to be significant throughout the partnership too. As we move towards a more corporatized agricultural sector, the scrutiny and rigor that goes into sustainability and governance issues will be much greater than what you might see from a more traditional, family farmer.

Q Have you witnessed an evolution from simply adding sustainability to also buying sustainable businesses?

BM: I think there has been a noticeable shift. At one end, customers are driving sustainability, making it an easy decision for businesses to prioritize ESG issues. From our side, as an institutional owner, we contribute to this momentum, creating a broad base of demand for greater sustainability. For us it is not just about investing in sustainable agriculture but also businesses that can enhance the sustainability of our existing agriculture portfolio.

We are seeing some great businesses within regenerative farming. Last year we invested in KELLY Tillage, a manufacturer of shallow tillage equipment, which helps increase soil organic carbon levels within farms. We are also looking at a business that partners with farmers to increase soil organic carbon and create carbon projects on farmland.

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BRAD MYTTON

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FRANK BARILLARO

FB: Several of our portfolio companies have reached a point where there is value from a financial perspective in promoting their sustainability initiatives. You can see this with another of our portfolio companies, Flavorite, where efficiencies around energy, water and other resource consumption that come from glasshouse production are delivering huge benefits. Increasingly, you are seeing a world where people are willing to pay more for these types of products over more traditional, less sustainable products.

Q Looking forward, what do you see in terms of trends and opportunities for sustainability within agriculture?

BM: I suspect there will be a ramping up of sustainability in agriculture. Some of the projects that may currently be deemed too expensive will become increasingly feasible from a financial perspective.

Environmental planting is one example of the kind of sustainable project that is becoming more commonplace. These kinds of initiatives have not been widely adopted yet because they are not always economically feasible, but I expect this will change. Similarly, there are projects around more efficient harvesting that are gaining traction. A lot of these types of projects will become more financially attractive.

FB: I would also add that there is a rising demand for transparency, both from consumers and businesses, around sustainability. This touches upon a range of areas, from carbon emissions to animal welfare practices and water utilization.

For instance, you are seeing supermarkets moving to ban caged eggs from their shelves. As such, transparency around where your food comes from is increasing over time. This will become another key area for how the agricultural sector looks at sustainability. ■