Private equity lets no opportunity go to waste

Fundraising

Environmentally focused investors find ways to turn trash into cash, writes *Jennifer Thompson*

Nino Tronchetti Provera has vivid childhood memories of the unpleasant effects of air pollution. "I was biking in Milan as a kid and my shirt was black after five minutes," he says, recalling the haze of the city's refineries and steel plants belching fumes into the air of northern Italy.

These days Mr Tronchetti Provera is managing partner of Ambienta, the private equity firm he founded, which invests in companies that tackle waste and pollution.

Private equity may not be famed for its ethical credentials. Yet a clutch of niche firms specialising in environmental, social and governance themes has emerged to take advantage of the strengthening business case around responsible investing.

An interest in limiting harm to the planet has been a theme of Mr Tronchetti Provera's career, from his undergraduate thesis on environmental business, through to setting up an environmental practice at McKinsey, the consultancy.

Ambienta specialises in reducing waste and pollution. "Human beings are simply consuming too many natural resources, which is a big problem for humanity but a big opportunity for companies," he says.

Investments include Pibiplast, an Italian cosmetics packaging manufacturer, which has shifted towards more sustainable materials such as recycled plastics.

Ambienta has invested in 30 companies across Europe, says Mr Tronchetti Provera, including in Italy and Germany. Both countries have many postwar, family-run companies that are still doing well but need outside investment to grow further, he says.

"You go to California, everyone's aware of the Mittelstand," he says, referring to the midsized businesses said to form the heart of the German economy. "These companies sometimes lack the ability to scale globally."

Ambienta, which bills itself as Europe's largest, entirely sustainability-focused private equity firm, has offices in Milan, Düsseldorf and London. With €1.2bn assets under management, it is still tiny by industry standards: the world's biggest private equity groups, such as Blackstone and Carlyle, raise multiples of that each year.

Nevertheless, larger private equity players are also responding to investors' demands for sustainable and ethical products.

In 2016, TPG Capital, a $104bn private equity firm, launched The Rise Fund, an ethical investment vehicle that has a mandate to achieve "social and environmental impact alongside competitive financial returns". It attracted $2bn in its first fundraising.

The fund drew unwanted attention this year, however. Co-founder Bill McGlashan became embroiled in the US college bribery scandal in March, in which affluent parents were alleged to have paid large sums to secure university entries for their children. Mr McGlashan, who is contesting the charges, has since left TPG.

At the smaller end, Bamboo Capital Partners, which oversees assets of $380m, has focused on investments in areas such as microfinance, healthcare and clean energy.

"We are really focusing on the low-income populations in emerging markets," says Florian Kemmerich, managing partner. Investments include Lidya, a Nigeria-based small-business loan platform, and Vaatsalya, which operates semi-urban and rural hospitals in India.

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>
> Florian Kemmerich, Bamboo Capital Partners

Mr Kemmerich says the value of a private equity approach for such companies is to supply what he terms "the missing middle" — finance that bridges a gap between microfinance or seed capital and larger mutual funds.

The typical size of Bamboo's investments is $3m to $5m, but it has invested up to $10m.

"A company doesn't think in terms of private equity or mezzanine [debt] or fixed income," he says. "A company needs different funding at different stages. You need approaches which support these companies. The goal is to fill that gap."

The private equity model also affords investors more influence, with partners at Bamboo and Ambienta taking seats on the boards at the companies in which they invest. Ambienta requires investee companies to adhere to an environmental, social and governance (ESG) framework aimed at improving corporate governance.

Mr Tronchetti Provera has mixed views about the future: at a personal level he is dismayed by the emerging environmental crisis, which he views as a "disaster". But on the commercial front he is far more upbeat: "I am amazingly optimistic about the future of sustainability in terms of environmental business."

Sustainability, he believes, is reshaping how most industries approach their business, opening up new areas to private equity investors.

"Every single bank, insurer, and pension fund on the planet — they all want to understand how they can put money to work in this big area," he says.