KEYNOTE INTERVIEW

Prioritising ESG in a changing world


Private debt managers need to integrate ESG principles into every stage of their decision-making process, say Antares Capital's Shannon Fritz and Vivek Mathew

This year has brought unprecedented challenges, with the pandemic testing the resilience of Antares's portfolio. At the same time, Shannon Fritz, a senior managing director at Antares, and Vivek Mathew, the firm's head of asset management and funding, say that meeting investor expectations around environmental, social and governance performance, as well as diversity and inclusion, has never been more important.

Q It's been an extraordinary year, with covid causing such disruption. How important are ESG considerations at a time like this?

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Shannon Fritz: ESG factors, whether classified as such or not, have always been key for us in carrying out diligence. We have an extremely strong credit culture – that's been critical in making sure that we're lending to companies that are resilient.

Obviously, things were tough for a couple of months, in March and April in particular.

Thankfully, I'm not aware of any material health or safety issues within our portfolio related to the pandemic, and we've been very impressed with how management teams have prioritised the health and safety of their employees.

Some of our borrowers were even able to shift capacity towards manufacturing PPE products, like masks or protective shields.

Overall, our portfolio has performed very well and we've seen a rebound across most industries. We're very aligned with our sponsors and they've been very supportive. Across the board, our borrowers are in a good position and well-prepared right now, going into what looks like another wave of covid cases.

Q LPs and other stakeholders are increasingly starting to expect diversity within private debt managers themselves. What is Antares doing to promote diversity and inclusion internally?

VM: The financial services industry in general has got a bit of work to do here, relative to other industries. The large public financial institutions have probably done a little better on this for various reasons versus some of the smaller private ones. But we believe in the business case that a more diverse company with disparate voices, where we explore different options and hear different things, is a better company, a more profitable company.

It's unfortunate that it took something like the murder of George Floyd to make thoughtfulness ramp up. But whatever the catalyst, it's great that that's pulling people in the right direction ultimately.

At Antares we have good diversity on our board – a very deliberate decision by CPP Investments. We have a diversity and inclusion council that includes our CEO and COO and other leaders in the firm. In addition, we have six affinity groups to represent our employees' voices. What we're really trying to do is ensure we have a culture of inclusion and belonging, because we think it's the right thing to do by all our stakeholders and we think it's going to lead to a more profitable result. So we're being very deliberate in how we analyse and develop our culture from the top down and bottom up.

SF: Diversity was rarely talked about when I started at Antares in 2004. It just wasn't part of the culture. I've certainly seen it evolve, in particular over the past several years. Now I'd say diversity is a day-to-day conversation. I'm really proud of our leadership for making this a top priority. We're challenging each other on recruiting, retention and career paths – it's a broader and more inclusive approach.

Q What do LPs expect a firm like Antares to do in driving ESG performance in its portfolio?

Vivek Mathew: We've certainly seen an increased focus on ESG over the last couple of years, and this has become even more noticeable since the pandemic, due to social and racial injustice being top of mind. It's something that's coming from LPs on the debt side, more so than in the past.

I think they understand we're not a private equity sponsor. We don't have the ability to remove management or drive sustainability goals, for example. What LPs are looking for from us is a mindfulness around ESG factors and a culture that supports diversity. And they want to understand how we incorporate this mindfulness into our investment decisions.

How does this mindfulness manifest itself? It's how we screen, how we underwrite, how we monitor – it's also in how we communicate with our investors, so they can understand what sort of risk they're taking and how it's been mitigated. We've been incorporating a mindfulness on ESG issues for a very long time, and that works out well for us both from a risk mitigation perspective and from the perspective of what we think is the right thing to do.

Q Antares only lends to companies owned by its PE sponsors. Does that reassure investors that you have a robust framework for managing ESG risks?

VM: It's incredibly helpful. LPs that are making equity investments have been focused on ESG factors for a very long time, and therefore sponsors have as well, so we get to align with the sponsor. We're on the same side in terms of trying to mitigate ESG risk. We benefit from the diligence that they do. The sponsor does a tremendous amount of work, then we overlay our preferences and policies and procedures. That's a very robust final product for our LPs.

Q What metrics are you using to measure ESG performance?

VM: On the debt side, this is evolving. It hasn't had quite the same history that our private equity sponsors have dealt with, with their LPs. The first thing is to have a policy. Having a formal ESG policy is something that investors are looking for. Even investors we syndicate to are, for the first time recently, asking for the underlying borrowers' ESG policies.

Then we have to incorporate the policies into our investment decisions, from a risk mitigation standpoint and also from a standpoint of what we think is socially responsible. The other thing that we talk about with investors is that CPP Investments, our owner, is at the forefront of ESG. They've been publishing a sustainability report since 2007 and they're a founding signatory of the UN Principles for Responsible Investment.

What's happening on the private debt side in general is that asset managers like us have been implementing ESG policies for a long time, but now we need to be more deliberate in how we capture the data. What's going to ultimately happen, through the UN PRI or other mechanisms, is that there's going to become more standardisation on what investors expect in terms of disclosure.

Q How do ESG considerations factor into your due diligence processes?

SF: We take both a qualitative and quantitative approach to how we assess risks. We receive relevant data when we're diligencing potential borrowers – we get a lot of access especially in the middle market to diligence, so we get a lot of information disclosure in data rooms, and our sponsors are very transparent with their own diligence. We will review compliance policies, statistics on employees – any material litigation will be shared on an ongoing basis. But this is also a qualitative process. It's about having direct conversations with our sponsors and talking to the management teams. We don't expect each of our borrowers to be top of class and pristine on every ESG factor. Certainly, if there is anything material, we would draw a line. But it's most important that we understand what the borrower is doing to improve.

Our approach is evolving, not so much in terms of what we do but in terms of how we think about it. In 2004, when I started at Antares, we may not have described certain compliance issues as ESG, but we've been diligencing these issues for as long as I've been in credit. We are having ongoing real time discussions on how we can continue to improve and really make sure that we ingrain in our culture not just the strong broad brush of diligence, but a strong understanding of ESG and why it is so important.

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>
> **VIVEK MATHEW**

Q Do you find that there is competition among managers to showcase their ESG credentials?

VM: Obviously this is a very competitive industry, but on this front there is a very nice collaborative mentality. Since we were founded in 1996 the company has been focused on ESG factors – we're now being more deliberate about how we characterise and track it, but it's been a part of the way we evaluate credit for a long time. And we're delighted to see it's becoming more of a focus, because it fits in with how we view our purpose.

As a company, we're trying to drive profits, but we're also trying to serve all of our stakeholders – our shareholders are a stakeholder, but so are our employees, so are our vendors and so is our community. When you think of it all in that way it leads you to collaborate with others who are trying to accomplish the same goals. That is the beauty of this topic – we've certainly had conversations with others who we feel can be leaders in the private debt space alongside us. ■