

Emerging Markets

For Shami Nissan, Head of Responsible Investment at the global emerging markets investment firm, Actis, sustainability has been the driving force throughout her career, beginning at the United Nations before it was a mainstream topic within the investment industry.

Shami Nissan, Head of Responsible Investment, Actis

How did you first become interested in sustainability?

Sustainability has been at the forefront throughout the entirety of my education and professional life. I received my undergraduate degree in Biology and did a Master's in Environmental Technology. During my career I worked at the United Nations in Central America working on sustainability projects. I also worked as a sustainability consultant at PWC for 10 years. When I joined that team in London, we were 10 people. When I left in 2014, we were a hundred. During that time period, the field of sustainability was really gathering pace. People now coming out of university can have a professional future in the sustainability sector but it was not necessarily a career that many were aware of about 20 years ago.

What does your role as Head of Responsible Investment at Actis entail?

I look at and take part in the investment decision-making process. For every deal that we look at, we undertake a systematic due diligence process to understand which environmental, social, or governance risks might be material. Sitting on the investment committees, my team advises on the level of risk and also whether the mitigation actions we can take would lower that risk to within our acceptable tolerance limits. We also advise on what the value creation tasks would look like during our ownership period. What are the types of work streams that we would seek to put into place? What is part of the hundred-day plan?

As a member of the executive committee, I also consider sustainability from a strategic point of view and how it impacts Actis, and how Actis can make meaningful contributions to the UN Sustainable Development Goals through our investments. Macro-trends such as climate change demand analysis of risks to ensure our investment strategies and decisions do not expose our businesses to near or long term risks. Such analysis is nuanced as sectors are rarely 'sustainable' or 'unsustainable'. For example, in the digital infrastructure sector there's a huge explosion of demand for data centers.



Shami Nissan



Image credit: Actis

Data centers provide critical digital infrastructure which enables economic growth, but on the other hand, is a very high energy intensive sector (due to high energy demands). So, part of my role is to examine such tradeoffs and come to an Actis view on whether or not a sector or an investment supports our sustainability objectives.

What themes or trends in sustainability are you most excited about over the next five to 10 years?

One of the largest issues in the world today by far is the climate crisis and the need to fast-track the energy transition to a low carbon future. Therefore, for investors and for Actis specifically, this area represents is a really exciting opportunity. Actis is a significant investor in renewable power-generation companies and there is a huge demand for green power infrastructure globally and certainly in growth markets. I think any investor, whether you have sustainability goals or not, needs to be thinking about climate risk and opportunity, as it has huge implications for investments, risks and return. Digital infrastructure, as we have discussed, is also a significant growth opportunity and a sector which contributes to our ability to deliver against the UN SDGs.

Another emerging sustainability theme for this year and beyond is a focus on biodiversity. There's a lot going on in terms of natural capital and protecting ecosystems. A seminal report was issued in February in the U.K. called the Dasgupta Review,

which looks at the economic impact of biodiversity loss. Biodiversity is declining faster than at any other time in human history and extinction rates are unprecedented. The COVID-19 pandemic is increasingly being linked to biodiversity loss and natural habitat degradation in the sense that it is the encroachment by and proximity of humans to wild regions that has enabled the virus to jump across the species barrier. Finally, biodiversity loss of course links to climate change, so for all of those reasons, I think biodiversity is going to get a lot more attention from investors in the next few years.

There's a lot going on in terms of natural capital and protecting ecosystems.

How does Actis integrate ESG principles into its portfolio?

Actis has always integrated ESG principles into the portfolio since inception in 2004. We are very systematized and have five policies in the area of sustainability: Environmental, Climate Change, Health and Safety, Business Integrity, Social.

ESG issues are integrated into the investment decision making processes, and into the actual investment committee (IC) papers at all stages from screening to final IC. I or someone from my team is always present at the IC meetings, so at Actis



Image credit: Actis

ESG is not input from the sidelines but woven into the process. We are there to discuss the ESG issues and advise the IC members. We are involved in the due diligence, including undertaking site visits. Quite often we use a panel of preferred providers for our ESG due-diligence needs.

We gather ESG KPIs from our companies regularly through a template, and monitor progress against key work streams. These could be work streams on anti-corruption, health and safety, community engagement, resource efficiency and improving diversity.

We set KPIs and we make sure that we're delivering against them. Our colleagues on the investment side are good at bringing us in very early to understand what's needed and how to look at the risk and reward sides of the deal from a sustainability perspective.

As a leading investor in growth markets across Africa, Asia, and Latin America, which regions do you think present the most exciting opportunities for sustainable infrastructure investment?

All of those markets represent opportunities for investment because there is a deficit of infrastructure. When we think about infrastructure, we think about providing core services, whether it's power generation, electricity distribution, transportation or digital infrastructure.

There are large opportunities in Latin America, Asia and Africa. That is why Actis is in each of these markets.

“Around a hundred trillion dollars of infrastructure is needed for the next two decades to provide power and keep the lights on in many emerging economies.”

Do you still see unmet funding needs, despite the abundance of investors seeking to deploy capital in the broader sustainability space?

Infrastructure is hugely underfunded. Around a hundred trillion dollars of infrastructure is needed for the next two decades to provide power and keep the lights on in many emerging economies. Putting sustainability aside, we need another planet of power plants to meet the needs of the growing population across the globe. The scale of infrastructure investment needed is huge. In developing countries, there is a high correlation between power generation and GDP, the provision of incremental power is absolutely linked to economic development and of course provides jobs, supports SMEs, industry and grows local and domestic supply chains.

It's a resilient, defensive sector. And if you do have sustainability objectives, it's a fantastic way to meet those because you're investing directly to support the energy transition. We think the returns and the sustainability outcomes are intertwined really really well in sectors like renewables.



Image credit: Actis

What are the most significant threats to the overall energy transition?

Whether it is asset owners or corporates, there's a huge movement in the race to net zero and supporting the energy transition. Each week there is a new announcement about a net zero commitment. Over 1,200 companies have made net zero commitments. Asset owners are collaborating via the Net-Zero Asset Owner Alliance (AOA), co-founded in part by Allianz, the largest insurer group in the world.

Where we are seeing the slower pace is government policy makers failing to make commitments that are Paris-aligned or failing to meet the commitments that they've already made, not putting in place the right framework to enable the transition, and

not proactively thinking about carbon tax regime. That is what's mainly putting the brakes on the energy transition economy.

You are a Steering Committee member of the Emerging Markets Private Equity Association's Sustainability Working Group. Prior to that, you were on the Sounding Board of the World Bank/IFC's Operating Principles for Impact Management. What would be your hint for investors seeking to make their first investment in the sustainable industry in emerging markets?

It's easy to overestimate investments risk associated with emerging markets for those who are not deeply familiar with these markets. The reason that Actis has been successful over the years is because we're not located in the West and investing in emerging markets from there. The majority of our offices, and colleagues, are based in our markets.

We have offices in Sao Paulo, Beijing, Delhi, Nairobi, South Africa, and Cairo, to name a few. My colleagues in those offices are from those markets, and being located there they are much better able to originate and to appraise investment opportunities. They absolutely understand the context of the industry and the policy backdrop of those countries.

I think that it's very difficult to successfully invest in these markets if you're not really rooted in them. If you are rooted in them and you understand them, then you have the toolkit and the knowhow to manage and mitigate those risks. And then of course you are rewarded with higher returns if you're able to successfully do that.

What advice would you give your 22 year old self?

I would say go for it. Be bold. Believe in what's important to you. I was passionate about sustainability before it became a mainstream topic of interest for the investment industry. I'm really delighted to see that this has drawn attention from more and more people, especially the younger generations.

Who is your sustainable hero and why?

Greta Thunberg. She has brought climate change into the mindset of a new generation and mainstream society in such a short space of time, and she's "only" a school girl. I don't think any one individual has made such a remarkable contribution in such a short space of time as she has in raising awareness to the urgency and scale of the climate crisis.