

Investing for a Better Future

At Macquarie Asset Management as the Global Head of Sustainability, Chris Leslie is shifting the culture to bring sustainability into everything they do.

Chris Leslie, Global Head of Sustainability, Macquarie Asset Management

How did you first become interested in sustainability?

By way of background, I've been with Macquarie for almost 29 years and have been fortunate enough to work in various parts of the world. I have spent much of my time at Macquarie focused on our infrastructure asset management business. I was the Chief Executive Officer of Macquarie Infrastructure Partners for a number of years before becoming Executive Chairman of our business in the Americas and taking on my current role as Global Head of Sustainability for Macquarie Asset Management.

I mention this as my background is very much in infrastructure asset management and I am by no means a longstanding climate activist or sustainability champion.

I first became actively interested in Sustainability in 2018 after reading Steven Pinker's book *Enlightenment Now*. The book catalogs various aspects of human progress and generally concludes that the world is largely better off than it was a hundred years ago (e.g. hunger and infant mortality are receding). There are two things the book highlights that are not getting better. One is cybersecurity and the other is climate change.

Around the same time, I read the U.S. Federal Government's Fourth National Climate Assessment report and it struck me just how serious and urgent the problem is. The more I learned the more real and personal it became for me. At that time ESG was very much a compliance and risk management discipline and we had a very strong, existing approach across our business. I saw an opportunity to add value to our investments through sustainability. As the world's largest infrastructure asset manager, given the global scale of our portfolio, I believed we could make a real and significant impact with respect to decarbonization.



Chris Leslie

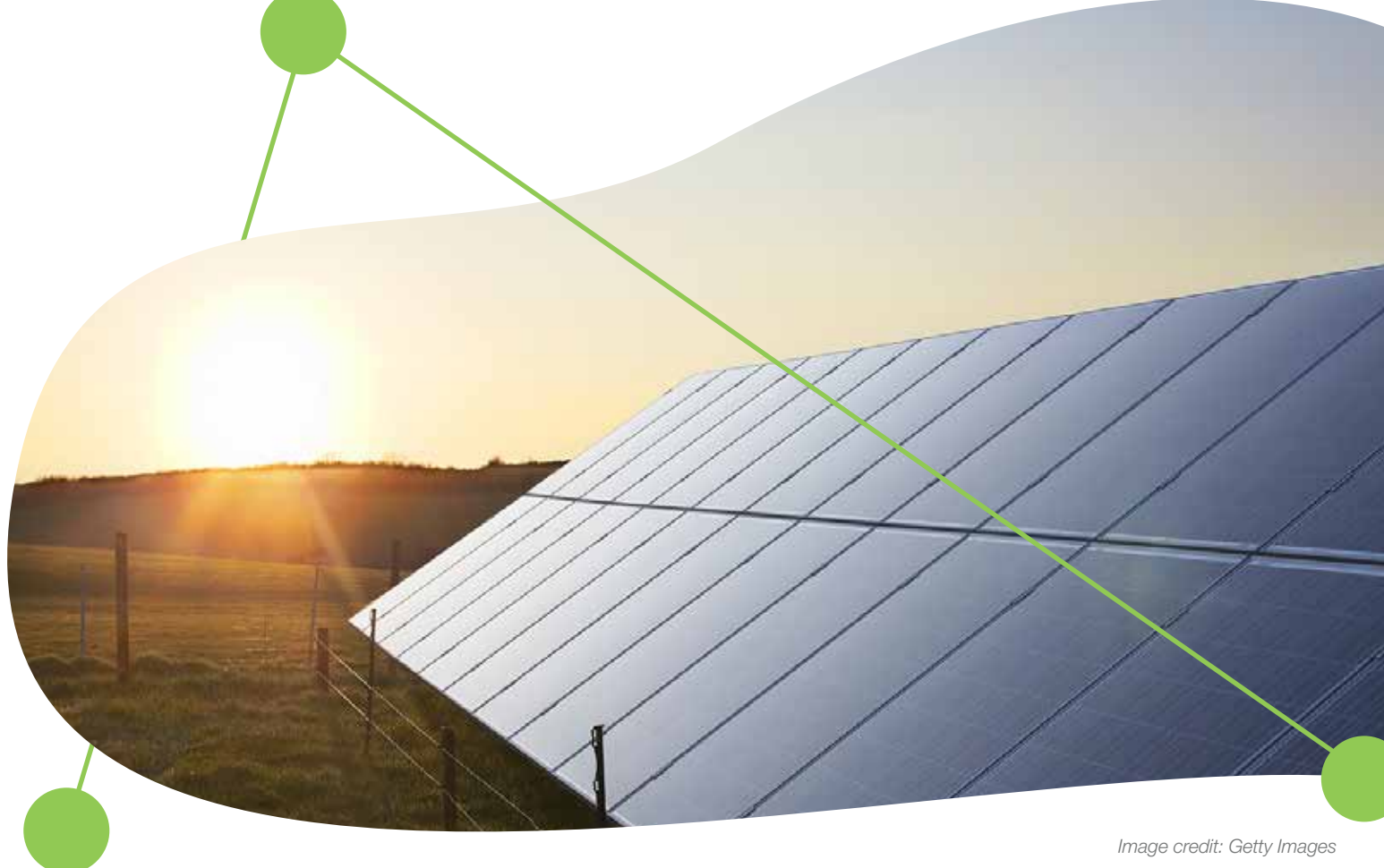


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What does your role as Global Head of Sustainability for Macquarie Asset Management involve?

Across our business, we have always had a very strong ESG emphasis in our practice from a risk management point of view. Environmental risks and safety in particular have been a deep area of focus for us for many years.

The opportunity that I saw as the Global Head of Sustainability took a different perspective, which was really this: how do we transform the companies we invest in and make them more sustainable investments for the benefit of our clients and the people our assets serve?

My role is focused primarily on the opportunities presented by acquiring and managing sustainable investments, the corresponding creation of value for our LPs and the cultural and organizational changes necessary to educate our people and to transform the way we do business around the world. My team also supports the broader organization in all aspects of sustainable asset management, fund raising and new product development. We advocated for MAM's Net Zero 2040 commitment and are orchestrating all aspects of knowledge transfer and sustainability reporting.

As you might expect, we gave early thought to setting up a dedicated sustainable infrastructure fund, but we decided against that as a first step and instead embarked on transforming our

existing business to be more sustainable and to put sustainability at the heart of everything we do. That is authentic change. Of course, now that is underway, we are also giving active consideration to new products in response to opportunities and investor demand.

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What themes or trends in sustainability are you most excited about over the next 5 - 10 years? With a longer-term perspective, perhaps through the second half of the century, what macro changes and drivers do you anticipate?

I think over the next 5 - 10 years, decarbonization and the energy transition are going to be enormous sources of opportunity and positive change.

New technologies like batteries, hydrogen, and carbon sequestration are exciting and have huge potential.

Another interesting area is ironing out some of the issues resulting from this change. Renewables still have grid reliability issues. The sun isn't always shining. The wind isn't always blowing. Batteries potentially fill that gap, but today renewables

are approaching a scale that, despite all the good they are doing, they are creating challenges in the economic design of short-run marginal cost power markets that need to be addressed if the energy transition is to succeed. Either via technical solutions to improve capacity and reliability or via market re-design, or both.

More broadly, from the safety and community aspects of our work - especially in the context of COVID-19 and global social unrest - we are more acutely tuned into interactions with the communities we serve, the essential service nature of many of our assets and the need to make these services increasingly resilient to physical and economic disruptions so that they can continue to deliver affordable, reliable services, even when under extreme duress.



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With climate risks, it's important to consider mitigation, resilience and adaptation. Today, resilience is more about recognizing the interdependencies of networks – as we saw recently with the pressures on global supply chains. We are not yet at the stage of widespread building walls to defend against sea level rise, but we might design a new bridge or a new road differently knowing that the climate is changing, and it is going to change over the period of our ownership. That idea is built in designs today but will be more prevalent in future practices.

As the world's largest infrastructure manager, how does MAM integrate sustainability principles into its portfolio?

We have committed to being the leader in sustainable real asset management. And by that we don't mean being at the top of a league table. We want to lead by example, drive change across our industry, and share our learnings with others as we go on this journey.

I think the old axiom that you can't manage what you don't measure is very true. We've been measuring greenhouse gas emissions and energy use around the world, and most notably, last December, we set a Net Zero target for 2040. It is a complex journey, but a simple target that everybody can keep clearly in mind and it has proven to be an incredibly powerful way of communicating our strategy and clarifying direction for a diverse range of businesses.

As we have steadily shifted the culture of the organization towards sustainability, it is heartening to find that we are pushing on an open door. People across Macquarie and throughout our portfolio companies are personally passionate about sustainability. By clearly communicating our shift in strategy, we have released incredible human energy throughout our portfolios to take action for transformative change.

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In 2020, MAM introduced carbon and energy reporting for its fund portfolio companies. How will the increasing practice of carbon and sustainability reporting affect the finance industry in the future?

Non-financial metrics are a huge shift that we should not underestimate. They will quickly build in significance and likely become as important a part of investment decision making as financial metrics. The view will be much more holistic when it comes to making investment decisions and allocations. As artificial intelligence is increasingly used to screen investment managers and opportunities, managers will need robust frameworks for these non-financial metrics or risk being excluded from investment allocations and the management of global savings. Non-financial metrics will need to be audited and investment grade.

MAM has a truly global team and coverage – which regions do you think present the most exciting opportunity for sustainable infrastructure investments?

It is interesting that a lot of developing economies are jumping

straight into state-of-the-art technology. We saw that with mobile phones for example as developing economies embraced mobile technology and bypassed wireline. That is something to watch. In China, in particular, if you look at the EV charging station rollout, they can install in a month what the U.S. installs in a year. They have a huge commitment to the electrification of their transit and bus fleet in particular.

While a lot of developing economies can jump straight into new technology, I think it is less about regions and more about sectors. This is a fairly broad trend around the world. One of the advantages of our global position is that we see what's happening in a sector in one part of the world and we can apply those lessons quickly in other parts of the world. The energy transition, for example, is a fascinating case study where legacy market designs and electricity regulatory frameworks are coming under pressure due to the rapid pace of renewables implementation. Pricing signals and investment signals are getting turned on their heads. Europe has been a leader, the Scandinavians in particular, in showing us the way, but the rest of the world is catching up and there's a very dynamic global marketplace for energy transformation.

MAM clearly has a sustainability-leaning emphasis given its investment focus. How does broader Macquarie view sustainability and its ambitions in that regard?

Climate change and the energy transition is a focus across our whole business and has brought out the best in group-wide collaboration for Macquarie. But it is important to remember that there are four broad groups in Macquarie that are very different by design and they need to tackle these challenges in their own way. Each of the businesses is very focused on their own clients each with a distinct problem set.

Macquarie Group recently made a commitment to align its financing activity with the global goal of net zero emissions by 2050. The 2050 commitment provides an overarching framework for the businesses and recognizes that different parts of Macquarie will have different paths to net zero based on their client and business needs.

In MAM we were able to commit to 2040 as our business and industry have benefited from early action and thinking across the asset management industry. We are well on the path to meeting our 2040 commitment.

Despite the abundance of investors seeking to deploy capital in the broader sustainability space, do you still see unmet funding needs? In which infrastructure sectors or areas? If not capital allocation, what are the most significant threats to the overall energy transition?

There continues to be significant appetite for infrastructure investments around the world. But a number of these opportunities are not necessarily “infrastructure” yet (by which I mean they are in the venture, growth or private equity stage). Hydrogen, carbon sequestration, and batteries are not quite yet infrastructure grade, but the expectation is that they will be in due course. We expect infrastructure capital to be a tremendous source of funding for their widespread deployment. In the meantime, infrastructure investors are nurturing these technologies within broader platforms of existing portfolio companies, such as electric and gas utilities.

It is interesting to see the evolution of wind and solar. Governments had a role to play in supporting those investments while they got cheaper and we need to see the same thing happen with hydrogen and batteries. Governments around the world have played a transformative role in subsidizing wind and solar. They now need to subsidize more of the other energy transition technologies too.

ESG stocks are outperforming during recent market volatility. Do you see the public equity markets reemerging as a prominent source of capital for low carbon infrastructure?

The short answer is yes. We are seeing a huge focus on SPACs at the moment with SPACs funding a lot of new technology that will mature. As the technology develops, public markets will become a main source of funding. Ultimately, you hope everything becomes low carbon and we stop needing the distinction for everything else.

What advice would you give your 22-year-old self?

I would tell my 22-year-old self to find problems that interest them and try to solve them, and hopefully someone will pay you for it. I would also encourage everybody to watch Tim Minchin's “9 Life Lessons”, which was an address he gave at the University of Western Australia. He's an Australian comedian, but his nine life lessons are absolutely on the money and well worth watching.

Who is your sustainable hero and why?

Obviously, my team are my heroes, but also John Elkington, who came up with the triple bottom line – people, planet and prosperity. It remains a very good framework for how to think about sustainability. Elkington is now focused on going beyond sustainability into a more regenerative model. He is ahead of his time, incredibly smart, practical, and humble.

Equally praiseworthy are Christiana Figueres and Tom Rivett-Carnac for their dedication to wrangling the Paris Agreement into existence back in 2015.