
KEYNOTE INTERVIEW

Using the SDGs as a guiding light



Aligning investment strategies with the UN's Sustainable Development Goals provides a compelling route for value creation, says Blue Wolf Capital's Adam Blumenthal

The UN's 17 Sustainable Development Goals are often referenced as part of efforts to promote social and economic development in developing countries. New York-headquartered Blue Wolf Capital Partners, however, also sees the goals as valuable in helping to guide its strategy for a portfolio that largely consists of US-based healthcare and industrial companies.

Adam Blumenthal, the firm's founder and managing partner, tells *Private Equity International* that by providing a framework for stakeholder value creation, the SDGs complement ESG frameworks that emphasise quantitative reporting of key performance

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indicators. Blue Wolf, he says, has found that ensuring portfolio companies deliver on the SDGs puts these businesses on a stable long-term footing and helps generate returns for investors.

Q Why is private equity investing suited to promoting ESG principles and the SDGs?

As a private equity firm, we design the strategy through which our portfolio

companies generate value and secure returns for our investors. We take seriously the choices we make in doing that – there is more than one path to value creation. As a private equity GP, you have the ability to make those choices and to control critical aspects of how companies behave.

At Blue Wolf, we think of environmental, social and governance considerations as being a crucial part of our strategy for building companies that are going to have long-term sustainable value. Every time we make a decision to focus on ESG, we make a choice to create value for our investors – and I argue this approach has been critical to

our ability to generate top-quartile returns over our history.

The Sustainable Development Goals represent a global consensus on what kind of companies and societies are going to support long-term sustainable growth. It is important to us that we take into account the SDGs, since these set the parameters for the long-term macro environment within which our businesses operate.

Q What do LPs expect from you in terms of ESG?

There is a range of investor sentiment. We have LPs that are purely interested in whether we are delivering on our return forecasts. They are less interested in the underpinnings of our strategy. All they know is that it works, and that is fine with them when we post the numbers.

Then there are investors for which the SDGs and other global regulatory or ESG frameworks are important. We have a sustained dialogue with investors that look for GPs to align their strategies with the SDGs while generating attractive returns – and some of these investors have become loyal and substantial investors in our funds. One of the great things about the strategy we have embraced is that we can draw a direct link between the achievement of ESG goals and financial performance.

Q To what extent is a standardised framework helpful to private equity investors looking to manage ESG risk and opportunities?

There is a lot of discussion around frameworks in the ESG world. It is worth bearing in mind that some 2,000 years after the initial development of double-entry bookkeeping, we still have not come up with a standardised financial accounting framework that people accept across the globe. To get to a standardised framework for discussing the ESG aspects of investment will take time.



Q Looking forward, how can the private equity industry better align with the SDGs?

The growth of private capital markets and private equity into a significant force in the global economy has been one of the defining economic developments over the course of my career. As the private equity industry has matured, its responsibility to the broader economy has become more evident.

As it continues to mature, we need to focus more on the principles through which the private equity industry contributes to the global economy. For instance, many private equity funds – both at the largest level and in the mid-market – have been pursuing the idea of employee ownership as a way of addressing inequality. Over the course of the next five years, I think we are going to see that idea sweep through the private equity toolkit. After all, what is more in keeping with private equity's reason for being than creating aligned incentives to drive growth throughout the portfolio? That is what the private equity industry is about.

“The SDGs represent a global consensus on what kind of companies and societies are going to support long-term sustainable growth”

It is positive that there is so much effort today being put into creating those frameworks. It is helpful that frameworks are emerging that allow for the quantification of easily reportable KPIs, because quantification and standardisation are important for the development of data that can be measured and managed. However, these frameworks are often not easily correlated with value creation.

The SDGs are a type of framework that can link to strategy, outcomes and value creation, considered broadly – that is value creation not just for the company, but for societies and economies as a whole. They provide a

framework for stakeholder value creation and having a common language for discussing stakeholder value creation will ultimately be an important part of the maturation of the ESG movement. Of all the frameworks out there, that aspect of what ESG is about is extremely well captured by the SDGs.

Q How has Blue Wolf operationalised its approach to ESG integration and alignment with the SDGs?

Like most private equity firms, we are strong believers that you cannot manage what you do not measure. So, if we are committed to an ESG strategy, we need to capture core metrics, report them consistently over time, and drive them towards a value-creating outcome.

For example, we have established a safety, health and environmental programme that seeks to establish top-quartile safety, health and environmental performance and compliance at every portfolio company. We have developed a disciplined, metrics-based approach to measuring our progress, and we tie progress to executive compensation. By doing that on a consistent basis, we have had a great deal of success in moving the portfolio in the right direction.

Aside from capturing metrics, we integrate core ESG themes into the creation of our investment strategies. We have identified seven core ESG themes – every one of which is easily linked to one or more of the SDGs – that are fundamental to our investment strategy, and we look at those thematically as foundational to the value-creation strategy in our portfolio. By linking the metrics-based and thematic approaches to value creation, we think we have created a broad and robust programme.

Q Blue Wolf is mainly focused on the US market - are the SDGs as relevant in this context as in emerging markets?

“Having a common language for discussing stakeholder value creation will be an important part of the maturation of the ESG movement”

There is a growing problem of inequality in industrialised societies. This is broadly recognised as something that needs to be addressed to sustain competitiveness and growth, and I think the SDGs are an excellent framework for discussing those kinds of issues.

About half of our portfolio is healthcare-related and one of our principles is to support the healthcare framework Triple Aim – which means achieving better health, at a lower cost, with a higher level of patient satisfaction. Another principle is to invest in underserved communities, both in rural and urban areas. Both principles are well aligned with the SDG goals of improving health and wellbeing and reducing inequality.

An example of this in practice is Blue Wolf’s investment in ModernMD, a healthcare company in Brooklyn, New York. We established the company in a joint venture with a local hospital in 2014, after the passage of the Affordable Care Act. Our ESG scan highlighted that the influx of newly insured people would give us the

opportunity to address the large unmet demand for primary care in Brooklyn and to create jobs in an underserved community. Fast forward to today, and that company has delivered primary care, plus covid vaccines and testing, to more than 225,000 people during the past year. Naturally, that makes ModernMD a vital part of the community. That is a great example of using ESG principles and the SDGs to have an impact while generating returns for our investors.

Q Outside of Blue Wolf’s healthcare portfolio, how do you implement your ESG principles?

Our firm began life making industrial investments, so we have a long, proven track record of building companies through this strategy. Some of the investments we made along this route have been in the rural American South, building sawmill companies. We initially invested in a sawmill located in rural Dixie County, Florida, which has one of the highest poverty rates in the state. The sawmill was a vital local employer, but it also had significant environmental contamination issues that had put the company at risk.

We had the opportunity to acquire the company and then put our capacity for brownfield remediation – which we developed in connection with our ESG goals – to work. We became part of a broader community effort to promote economic development and, as a result, became an employer of choice in the region.

That company then doubled profitability and became marketable because of the brownfield remediation. We did something similar with a closed sawmill in Arkansas, which we reopened and revitalised. That generated great returns for our investors, and for those communities in Florida and Arkansas it created jobs and a clean environment for people who may otherwise have had to move away to find employment opportunities. ■