ESG *Spotlight*
WINTER 2021

Committing to a low carbon future

Triton

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Welcome

This is the second in a series of Spotlight reports that, together with our Responsible Investment Report, show how ESG and sustainability are at the heart of our agenda.

Hello and welcome to the Triton Climate Spotlight

The COP26 climate talks in Glasgow have just ended with some key steps - the formal adoption of the 1.5°C core target for maximum global warming, new net zero commitments from around the world, and a specific pledge on emissions of methane.

The agreement to curb and reverse deforestation by 2030 is also welcome, though must be treated with caution given similar commitments have been made previously.

Meanwhile, there are areas where progress was limited as the conference ended, including a failure to codify a phase out of coal in power generation, and limited commitments around climate finance to less developed countries.

The world is facing a clear existential threat from climate change, and no country or organisation can afford to ignore the risks. Private equity firms like Triton have a role to play in the transition to the low carbon economy needed to achieve the goals established by the Paris Agreement. We can use our capital, long-term investment strategies and influence with our portfolio companies to drive the change we need to achieve a net zero economy.

Triton has recently announced our own commitment to achieving net zero by 2040 by setting Science Based Targets (SBTs). We have also been part of the industry-wide push to develop and launch tailored guidance for the private equity sector which is designed to drive much needed near term action. You can read more about this on page 4.

As a business and as a sector, we need to remain rigorous on data measurement and ambitious in the standards we set for ourselves. We also need to be transparent on the reporting of our progress and ensure that portfolio companies (PCs) are with us on this journey. When it comes to achieving net zero, we will only succeed if people put their hearts, minds, and hands to the task and use their passion, ingenuity, and determination to drive innovation and change. That is why embedding ESG into the fabric of our business is essential.

> *“We will only succeed if people put their hearts, minds, and hands to the task and use their passion, ingenuity, and determination to drive innovation and change.”*

In this Spotlight, you will read about Triton's plans to achieve net zero by 2040. You will also hear the views of an investor, and we'll focus on two PCs with very different business models, who are charting their own course towards decarbonisation.

With global carbon emissions rising sharply to pre-pandemic levels, more needs to be done. Hope will get us so far, but it is no substitute for action.

We trust you'll find this Spotlight an interesting read and, as ever, we welcome your feedback.

You can email us at
esg@triton-partners.com

Peder Prahl

Martin Huth

Triton net zero Strategy

Managing climate-related risks and opportunities

Improving energy efficiency

Increasing renewable energy use

Engaging the supply chain

Carbon offsetting

Importantly, carbon offsets will play a diminishing role over time to the point where ultimately, only residual emissions will be offset.

Cover: *Image courtesy of FairWind - see page 8*

Triton commits to net zero

The science is unequivocal. Declared a ‘code red for humanity’ by the UN Secretary-General, in August 2021, the sixth Intergovernmental Panel on Climate Change (IPCC) Assessment report issued its starkest warning yet on the consequences of anthropogenic climate change.

The report revealed that the effects of climate change are ‘widespread, rapid and intensifying.’ In many cases, the changes already being observed are unprecedented in thousands, if not hundreds of thousands of years. It also stated that the chances of limiting warming to close to 1.5°C or even 2°C as set out in the Paris Agreement were ‘beyond reach without rapid and large-scale reductions in greenhouse gas emissions’.[1]

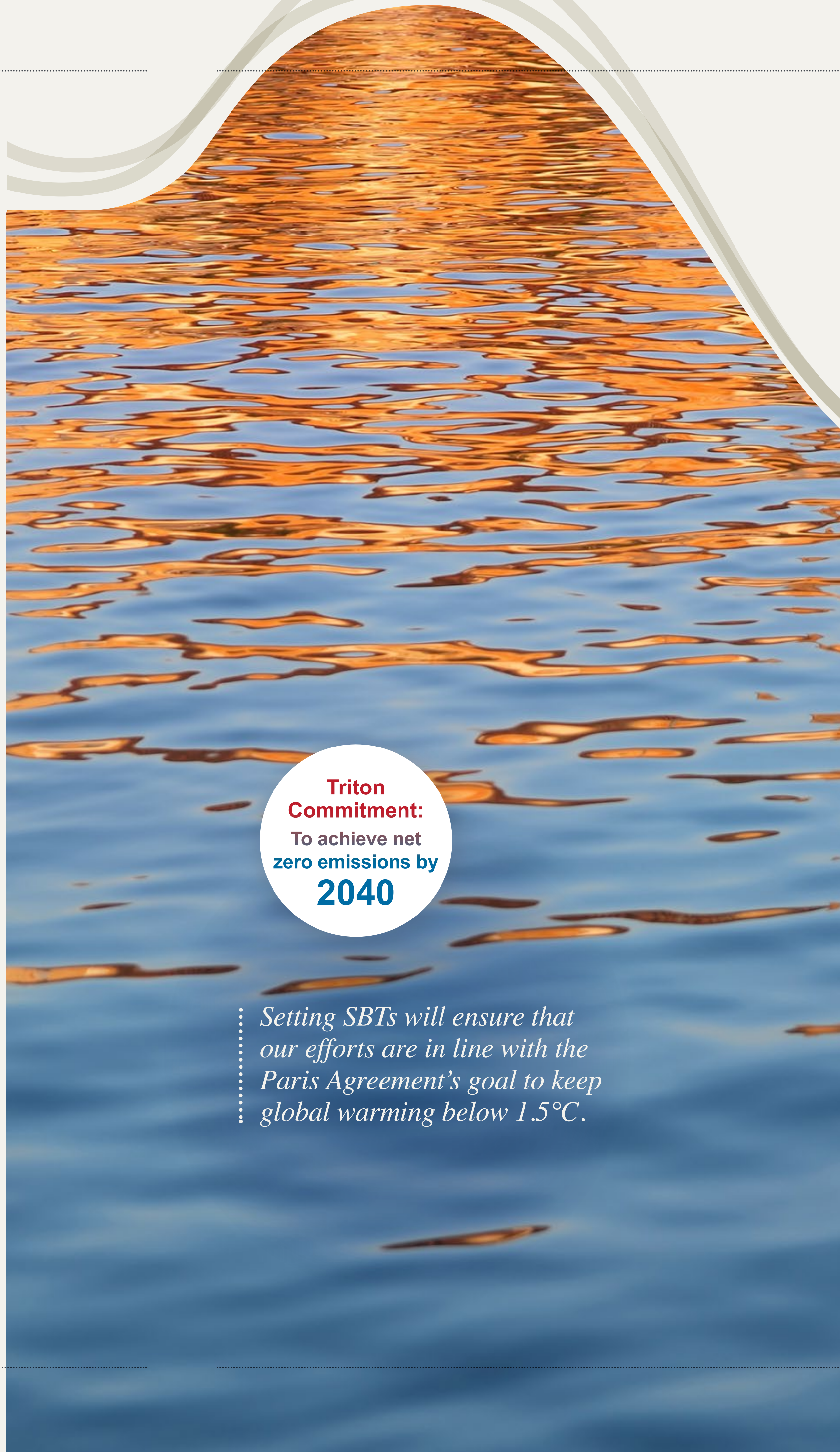
Private equity has an important role to play in the decarbonisation of our global economy, and at Triton, we are aligning our corporate strategy to help deliver that transition, while taking advantage of the opportunities it presents.

Lead by doing

At Triton, we believe in leading by example, which is why we have announced our commitment to achieve net zero emissions by 2040 through the setting of **Science Based Targets** (SBTs). This commitment will steer our sourcing, influence investment strategies, and speed up the decarbonisation of our portfolio.

Setting SBTs will ensure that our efforts are in line with the Paris Agreement’s goal to keep global warming below 1.5°C. However, it will also **align with the ambitions of our investors**, **attract potential PCs and their management teams**, and **help develop businesses aligned with ESG megatrends**.

Work has already started on our own SBTs, and we aim to submit them for validation to the **Science Based Targets initiative** (SBTi) by the end of 2021. We are already working with our PCs to support them in the development of their own SBTs. Our aim is that 100% of our PCs will have SBTs in place by 2040, if not sooner.



Triton Commitment:
To achieve net zero emissions by
2040

Setting SBTs will ensure that our efforts are in line with the Paris Agreement’s goal to keep global warming below 1.5°C.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Triton carbon stats

What is a Science Based Target (SBT)?

Emissions reduction targets are considered ‘science-based’ if they are in line with the level of decarbonisation required to keep global temperature increase to well below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C as per the Paris Agreement.

How are SBTs set?

Companies set and communicate short to medium term science-based targets that put them on the path towards achieving net-zero emissions by 2050 or sooner.

Who checks SBTs?

All SBTs must be submitted to the Science Based Targets initiative (SBTi) for validation. The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). It is funded by companies, corporate and charitable foundations, and governments.

[1] https://www.ipcc.ch/2021/08/09/ar6-wg1-20210809-pr/

Collaboration

Change of the scale and pace required means that no single organisation can act alone. Triton has been part of the Science Based Targets initiative (SBTi) advisory group working on developing guidance for Private Equity firms on setting SBTs. That guidance was published on 8 November and can be accessed here.

Triton was also proud to be a founding signatory and lead coordinator of the initiative Climat International (iCI) UK network, a member of its global steering group, and a contributor to its private equity sector guidance on climate change reporting.

Transparent reporting

Setting targets is, of course, essential, but so too is reporting progress against those targets. Portfolio companies have been reporting since 2015. We have now set 2019 as our baseline for future reporting. As we prepare for our third report, we remain committed to transparent disclosure. Change is rarely straightforward, but we will present clear facts and use the opportunity to learn along the way.

Read our Responsible Investment Report here.

Triton Commitment:
To achieve net zero emissions by
2040

Total emissions Triton + Portfolio

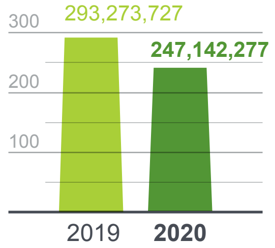
1,768,570,660
tonnes CO^2e

Triton direct emissions as a percentage of the total portfolio

0.00002%

Scope 1 and 2 emissions
CO^2e tonnes
Triton II, III, IV and TSM I

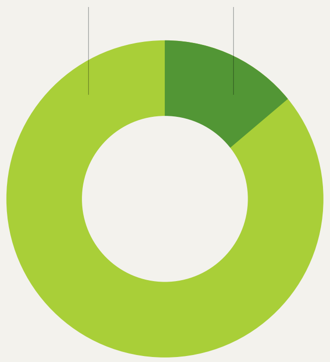
Total change
-16%



Triton V (yr 2020)
1,521,428,383

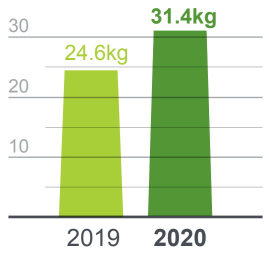
Triton Portfolio Carbon Emissions 2020

Triton V	Triton II, Triton III, Triton IV, TSM I
1,521,428,383 tonnes CO^2e	247,142,277 tonnes CO^2e



Portfolio carbon intensity
per €1,000 revenue
Triton II, III, IV and TSM I

Total change
+28%



Triton V (yr 2020)
158.6kg

Case study: DEEPOCEAN

DEEPOCEAN

In the bid to decarbonise the economy, where should you put your money? This is a challenging question for investors. Should it be in companies with an ESG tailwind, or in the more traditional companies with higher operational emissions that need help to decarbonise?

Triton's strategy is to look at both approaches as ways of driving the transition to a low carbon economy and building better businesses.

DeepOcean is an integrated provider of subsea services, with operations around the world. The company's offering includes subsea inspection, construction, and cable laying. Full-lifecycle service includes early feasibility studies, through maintenance and repair, to recycling. DeepOcean is well-positioned amongst Triton portfolio companies in effecting a climate-aligned transition, both operationally and strategically.

DeepOcean has a strong oil and gas client base. However, it is now seeing significant growth in lower carbon sectors, servicing wind and other offshore renewables industries, offering engineering, surveys, seabed mapping, cable installation and project servicing.

Lowering emissions

DeepOcean's goal is to reduce CO2 emissions by 45% by 2030 (from a 2020 baseline), and net-zero emissions by 2040. The company aims to achieve this through implementation of energy efficiency measures, trials of alternative fuels, new technology, including the use of hybrid ships and remote-controlled unmanned vessels.

DeepOcean's fleet of oceangoing vessels already includes four battery hybrid vessels. A fifth, the *CSV Normand Ocean*, will be retrofitted with hybrid battery technology and shore power connection in early 2022, meaning approximately a third of DeepOcean's fleet will be lower carbon. A study is underway to evaluate other ways of reducing the carbon footprint of the fleet. This includes a pilot vessel running on hydrogen fuel cells. Uptake of alternatives to marine fuel is an important step in meeting decarbonisation targets, as shipping is responsible for 2-3% of global greenhouse gases, and significant levels of sulphur pollution.[2]

The company will achieve further decarbonisation through process efficiencies driven from the company's remote operations centre and through the use of unmanned surface vessels, which result in both improved safety and a 90%+ reduction in carbon emissions.

Climate-aligned diversification

DeepOcean's move into servicing the renewables sector has been strengthened through the recently announced *Windstaller Alliance*, with *Solstad Offshore* and *Aker Solutions*. The Alliance aims to bring together areas of expertise and economies of scale to de-risk and drive down costs for offshore wind projects, helping to drive the continued growth of the European renewables sector.

Triton's Kristian Diesen, who sits on the Board at DeepOcean, said,

"DeepOcean both supports sectors critical to the low-carbon transition and have operations which are relatively complex to decarbonise. So it is exciting for Triton to support a company that is pushing boundaries. We believe that with the active engagement of the company's management team, DeepOcean can build on these projects and create a pathway towards the net zero target."

Kristian Diesen

[2] Source: European Commission

Case study: FAIRWIND

Investing in the low carbon economy

In June, Triton signed an agreement to acquire FairWind, a global leader in wind turbine installation and service with operations in over 40 markets.

In the past, Triton's approach has been to focus on risk aware investing and work with PCs post acquisition to support them in improving their ESG performance. Increasingly, ESG factors are also part of Triton's sourcing strategy.

As Triton's Managing Partner, *Peder Prahl*, explains, investing in companies that support the transition to a low-carbon economy is a key part of our strategy. 'We invest capital and resources to drive positive change. We see growth opportunities from investing in and developing more sustainable businesses.

"We invest capital and resources to drive positive change. We see growth opportunities from investing in and developing more sustainable businesses."
Peder Prahl

Our ESG principles mean that we will not invest in companies that do not share our ambition. However, we do not restrict ourselves to investing only in leaders in ESG. We see it as part of our approach to invest where we can generate positive ESG momentum that we can further contribute to.'

The role of PE

Triton has long believed that private equity has a major role to play in funding the transition to a low carbon economy. It's clear that investors believe this too. In recent years, there have been considerable inflows of capital to funds that can demonstrate a commitment to ESG. Investors are assessing the risks associated with global heating, but they are also embracing the opportunities. Innovation, both in the form of technology and new business models, needs capital to deliver at scale and bring about the solutions required to meet the size of the challenge.

Sometimes that means investing in companies that have potential to transition into low emissions solutions, such as DeepOcean, and on other occasions it's about acquiring companies that are already aligned to the low-carbon transition, such as FairWind.

As *Peder Prahl* concludes, 'As investors, we're building better businesses for the low carbon economy – and that's an exciting place to be.'

Q&A: LGT CAPITAL PARTNERS

Investing in a low carbon future

Investment decisions play a critical role in delivering the low carbon economy. **Ashim Paun**, Triton's new Head of Sustainable Investing, spoke with **Tycho Sneyers**, Managing Partner and UN PRI Board Member, and **Keimpe Keuning**, Executive Director of ESG, Impact and Sustainability, LGT Capital Partners, for their views.


Ashim Paun

Q: There are mixed views on the success of COP26. What does it mean for the world?

TS: Global summits like COP26 are of course important, but it's not so much what was agreed upon, but about the actions that follow next. Commitments were made at COP21 six years ago, that haven't been delivered. So the crucial issue is getting everyone to stick to their pledges.

The issue is complex - China and Russia were criticized because their leaders did not attend, but per capita emissions in China are much lower than in the US. China needs to do more, but the West needs to keep its promises and take the lead role - it has the means to do so, and historically we (in the West), are responsible for a large share of emissions.

KK: We also need to look again at financial commitments. The amounts of capital made available to combat climate change are still too small. However, the capital allocated to the financial crisis or COVID-19 shows that large amounts of capital can be made available.

Q: Can business go further than Government?

TS: Free markets solely focused on profit maximisation don't take into account the interests of other stakeholders. If markets were capable of getting us out of it, we would have already solved the issues. I am not a fan of regulation, but we need it. It is the only way to shift the playing field towards effective ESG action.

In situations like this, typically, too little happens and then the pendulum swings too fast and too far in the other direction, and that is disruptive. The policy response will be dramatic if change does not come soon. That is why governments need to use regulation wisely now.

Q: What are the implications of climate impacts for society and business?

TS: The impacts can already be felt clearly in our day-to-day lives, for example, through higher temperatures, wildfires and rising sea levels. We have a major refugee crisis, and climate change will lead to a massive increase in migration. The solutions are not simple. Reversing climate change in the next 20-30 years is an impossible undertaking, so it is really difficult to manage on multiple fronts. But you have to initiate change to have a positive impact on climate change.

KK: There are physical risks and transition risks but quantifying them is a challenge. Take the impact on nature – it is still almost impossible to quantify it as an investment risk, yet without data, markets struggle.

What we have done at LGT Capital Partners, is to align our carbon budgets to the Paris Agreement, including external managers. We expect managers to have an investment policy and governance structure that embeds climate, and to manage their portfolio in line with the Paris Agreement.

LGT Capital Partners
your partner for alternative investments


Keimpe Keuning


Tycho Sneyers

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