

PRIVATE CAPITAL

Driving Sustainable Outcomes: Infrastructure Debt and the Sustainable Development Goals

The Infrastructure Investment Opportunity

Infrastructure investment is vital for enhancing quality of life, driving economic development and promoting social equity. It fundamentally shapes how we live, how economies function and the inclusivity and resilience of our communities and environment. To meet global infrastructure needs, including the UN Sustainable Development Goals, an estimated \$97 trillion in investment is needed by 2040.¹ Compared to spending trends, this implies a funding gap of \$18 trillion, or nearly 19%.² Amid this landscape, opportunities for infrastructure investment abound, ranging from modernising and decarbonising energy and transport, to advancing communications technology and enhancing critical social infrastructure to address escalating demands for essential services.

Global Infrastructure Investment to Meet SDGs by 2040 (estimates)

\$79 Trillion

**Investment
Current Trends**

\$97 Trillion

**Investment
Needed**

\$18 Trillion

**Investment
Gap**

*SDG Disclaimer - Includes the additional investment needed for countries that have not yet met the SDGs.
Source: Global Infrastructure Hub, 2017, outlook.gihub.org*

What Are the SDGs, and How Does Infrastructure Investment Help Meet Them?

SUSTAINABLE DEVELOPMENT GOALS

In 2015, all United Nations member states adopted the ambitious 2030 Agenda for Sustainable Development, which encompasses 17 Sustainable Development Goals (SDGs) and “provides a shared blueprint for peace and prosperity for people and the planet, now and into the future.”³ These SDGs address a wide array of global challenges, including ending poverty, ensuring health and education improvements, fostering economic growth, mitigating climate change and safeguarding oceans and forests.⁴

Infrastructure plays a central role in achieving the SDGs by providing essential physical assets and crucial services. However, infrastructure assets must be aligned to global sustainability trends to ensure long-term operational resilience in a world undergoing large-scale environmental and social shifts. For example, the physical effects of climate change or the energy transition from fossil fuel systems to renewables have long-term credit risk implications and can create the risk of stranded assets. We therefore view sustainability as an increasingly material credit risk factor.

It is imperative for infrastructure to be planned, designed, managed and decommissioned with a sustainability focus to maximise positive impacts and economic life, while minimising any negative impacts.

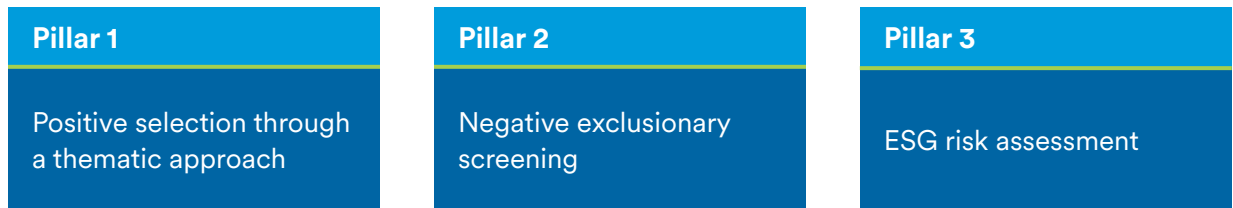
Sustainable Private Infrastructure Debt

We believe sustainable private infrastructure debt can offer an attractive opportunity for investors. Infrastructure assets typically generate stable cashflows via essential hard assets with high barriers to entry, often backed by government support. The asset class has historically provided investors with diversification from public bond markets, a potential spread premium over comparable public corporate bonds and risk mitigation through covenants and/or collateral as evidenced by low historical loss rates⁵.

MIM's SDG Thematic Infrastructure Approach

MetLife Investment Management (MIM) advocates for a targeted approach in selecting infrastructure debt investments that align with the Sustainable Development Goals, while incorporating robust environmental, social and governance (ESG) risk management practices. We believe this approach can deliver both economic returns and positive impact benefits for investors. MIM has recently integrated Affirmative Investment Management (AIM), a specialist impact asset manager, into its operations. This strategic move combines MIM's expertise in private infrastructure debt origination and portfolio management with AIM's expertise in sustainability analysis, including independent verification and a commitment to impact measurement and reporting. The strategy utilises bottom-up, fundamental analysis by separate credit and sustainability research teams with stringent criteria on both sides.

Our sustainability verification process follows a comprehensive three-pillar approach, comprised of positive thematic selection, negative exclusions and ESG risk assessment on each deal.



Our Private Credit Sustainability Research team conducts thorough analysis on how assets support key sustainability themes, align with specific SDGs based on their unique attributes and manage material ESG risks, while steering clear of harmful activities.

MIM’s SDG Thematic Infrastructure strategy targets three pivotal themes:

- **Low carbon transition:** Investments in essential infrastructure supporting the shift to a low carbon economy in critical sectors like energy, transport and the built environment.
- **Utility security:** Investments aimed at bolstering the reliability and efficiency of vital utilities for industry and households, such as water and electrification.
- **Connecting and protecting communities:** Infrastructure investments facilitating inclusive and connected communities, encompassing social and public services such as education and healthcare, as well as telecommunications and digitalisation.

Low Carbon Transition	Utility Security	Connecting & Protecting Communities
<p>Examples include:</p> <ul style="list-style-type: none"> • Renewable energy • Energy-from-waste • Clean transport • Rail • Energy efficiency 	<p>Examples include:</p> <ul style="list-style-type: none"> • Transportation, distribution and storage of electricity • Treatment, transportation and storage of water 	<p>Examples include:</p> <ul style="list-style-type: none"> • Information and communications technology infrastructure • Education • Healthcare • Affordable housing

Alignment with the SDGs is assessed at the asset level and follows a proprietary methodology that looks beyond the 17 headline SDGs, weighting each deal to the granular, underlying targets based on relevance and materiality.

Our comprehensive approach combines positive impact selection in Pillar one with avoidance of controversial activities and mitigation of negative impacts through Pillar two and Pillar three. This holistic perspective helps ensure that each deal is evaluated based on both its positive contribution to the SDGs and its ability to manage negative sustainability risks.

The Importance of Transparency

The data demands for a thorough approach to sustainability verification can be high, and it comes as no surprise that data gaps persist in private markets. To address these challenges, we employ a proprietary issuer questionnaire to gather the relevant quantitative and qualitative data, supplemented by external data vendors. Additionally, as sustainability disclosure regulations like the EU's Corporate Sustainability Reporting Directive (CSRD) are gradually implemented, they should contribute to increased transparency over time. The relationship-based nature of the private infrastructure market, which allows for significant engagement opportunities, also helps support access to the information and disclosures necessary for in-depth sustainability analysis.

Prioritising sustainability disclosures and verification not only aids in identifying attractive investment prospects but also enables comprehensive reporting for investors. As investors seek evidence about how their portfolios align with sustainability objectives, providing robust sustainability reporting is a fundamental aspect of our SDG Thematic strategy. Moreover, the strategy goes further to provide annual impact reports to demonstrate the positive environmental and social impacts of the investments on a portfolio-weighted basis, including metrics such as clean transport capacity supported or number of beneficiaries of essential assets.

Conclusion

Now past the midway point between the adoption of the SDGs in 2015 and the 2030 target date, we think the infrastructure investment opportunity remains considerable, with sustainability playing a critical role in evaluating credit risk and ensuring long-term investment success. Seizing this opportunity requires expertise in infrastructure debt origination, underpinned by independent, research-based sustainability verification and clear impact reporting.

As a leader in investment-grade private credit, MIM manages \$34.4 billion in private infrastructure debt globally. Our dedicated team of experienced professionals leverages its strong market relationships to originate attractive investment opportunities for our clients. Please contact us to learn more.



Case Study

European Rolling Stock¹

Transaction

Issuer is a leading provider of essential rolling stock for the passenger, freight, and wagon markets across Europe

Credit and Structure

- Well-diversified by country, asset type and customer
- Good visibility on future cash flows from both currently contracted revenues and high expectation of stock re-leasing based on successful track record
- Investment grade MIM internal rating
- Appropriate financial covenants and a requirement to maintain an external rating

SDG Thematic

- Eligible for SDG Thematic Infrastructure strategy under theme of **Low Carbon Transition** given the borrower's function in supporting Europe's modal shift to rail and rail electrification
- Moving both passenger and freight transport to rail will deliver important emission reductions within the transport sector, particularly for more carbon intensive and harder-to-abate modes such as passenger road vehicles, freight road vehicles and air transport
- Issuer has a long-term net zero target and a focus on continuing to grow its electrified fleet
- Sufficient ESG policies are in place, with the issuer being considered relatively low risk given activities and areas of operation

SDG Alignment Example

Following our proprietary SDG alignment methodology, we believe that the deal supported:



SDG 3 - Ensure healthy lives and promote well-being for all at all ages (20% weighting)

Target 3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination



SDG 9 - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation (40% weighting)

Target 9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all



SDG 11 - Make cities and human settlements inclusive, safe, resilient and sustainable (40% weighting)

Target 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons

¹ The case study described herein is meant to provide an example of certain considerations and terms in connection with a particular investment made by MIM's Infrastructure Debt team; actual considerations and terms of investments made on behalf of an unaffiliated investor may vary. As of 31 December 2023.

Endnotes

- ¹ Global Infrastructure Hub and Oxford Economics
- ² *ibid*
- ³ <https://unosd.un.org/content/sustainable-development-goals-sdgs>
- ⁴ *ibid*
- ⁵ Infrastructure default and recovery rates, 1983-2022, Moody's

About MetLife Investment Management

MetLife Investment Management (MIM)¹ serves institutional investors around the world by combining a client-centric approach with deep and long-established asset class expertise. Focused on managing Public Fixed Income, Private Capital, and Real Estate assets, we aim to deliver strong, risk-adjusted returns by building sustainable, tailored portfolio solutions. We listen first, strategize second, and collaborate constantly to meet clients' long-term investment objectives. Leveraging the broader resources and 150-year history of MetLife provides us with deep expertise in skillfully navigating markets. We are institutional, but far from typical.

For more information, visit: investments.metlife.com

Authors



JASON ROTHENBERG, CFA

Global Head of Privates Strategy and Sustainability

Jason Rothenberg is a Managing Director and Global Head of Privates Strategy and Sustainability and is responsible for leading the strategy goals and activities of the Private Credit team. He has 17 years of experience in private placement debt, both as an analyst and portfolio manager. Upon joining MetLife in 2002, Jason spent four years in MIM's Santiago, Chile office as a public bond analyst. He then moved to London in 2006 to join the private placement team, leading MIM's European corporate private placement effort for 10 years. In 2018, Jason relocated to MIM's New Jersey headquarters to join the Client Portfolio Management group as a senior client PM, before returning to London in 2022. Prior to joining MetLife, he held similar positions with Principal Capital Management and Orix Financial Services. Jason holds a BA in public policy from Brown University and an MBA from the Thunderbird School of Global Management.



LISA WONG

Head of Private Credit Sustainability Research, Private Capital

Lisa Wong is Head of Private Credit Sustainability Research for MetLife Investment Management's (MIM) Private Capital team. She is responsible for leading sustainability credit research across private assets.

Lisa joined MIM in February 2023, in connection with the acquisition of Affirmative Investment Management (AIM) by MetLife. She was a founding member and partner on AIM's sustainability team, and conducted research and analysis on climate change, sustainability, and broader market trends.

Lisa earned an M.P.A. jointly awarded from London School of Economics and Columbia University and an M.A. from Cambridge University.

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