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# Looking Beyond the Normal Paved Paths – The Role of the Sustainability Coordinator

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I was pleased to be joined on the phone this week by the core fund finance and ESG sustainability team from Rabobank: Diana van Lieshout, Head FI Lending & Fund Finance; Wouter König, Associate Director FI Lending & Fund Finance; and Maarten Biermans, Head of Sustainable Capital Markets. Rabobank has been front and centre as Sustainability Coordinator on some of the European market's highest-profile ESG-linked subscription finance facilities, and so we are grateful that they agreed to discuss their experience of the role of Sustainability Coordinator and also to offer some insight into their view of the development of the fund finance ESG market over the last 12-18 months. They further indulged me in a little crystal ball gazing with what some might consider to be unexpected predictions. My thanks to Diana, Wouter and Maarten for participating!


Diana van Lieshout


Wouter König


Maarten Biermans

***FFF***: Thank you for speaking to us today. You were Sustainability Coordinator on the AlpInvest subscription financing, which has recently been in the press, but I assume this wasn't your first time as Sustainability Coordinator.

***Diana***: That's right. Rabobank has taken on the role of Sustainability Coordinator in fund financings a number of times. Apart from AlpInvest, another recent example is the ESG-linked subscription finance facility for Waterland.

Waterland has Dutch roots, though it now has 10 offices throughout Europe. Their ESG-linked facility is tied to the operations of the portfolio companies and to the overall operations and performance of Waterland itself (looking up as well as looking down), which was very interesting to be part of agreeing and documenting.

Being a Sustainability Coordinator for a fund of funds player like AlpInvest was our first experience with implementing an ESG-linked facility for a fund of this type, and we believe it is actually the world's first deal of this kind. Structuring an ESG-linked facility for a fund of funds is totally different as the KPIs cannot be linked to portfolio companies, which is the standard approach that we have seen in the market up until now.

***Maarten***: It is also worth mentioning that Rabobank's mission is to "Grow a Better World Together." Rabobank is the leading bank for the global food sector, and we are committed to strong sustainability objectives. We have the highest ESG class seen amongst banks, with a 9.8 rating. As such, we take ESG integration very seriously, not only for ourselves but also for our clients, and want to have a lead role in helping the ESG-linked finance market develop in a way that promotes sustainability objectives.

Rabobank has a separate Sustainable Finance team that supports all departments within the bank, including Diana and the rest of the Fund Finance team, to help promote and foster ESG linkage in their facilities as much as possible. Earlier this year, Rabobank launched the Sustainable Development Goal (SDG) 12.3 loan – specifically aimed at targeting food loss and waste reduction – and Rabobank is the first Dutch bank to offer Green Deposits to its clients.

***FFF***: Given it was market-leading in terms of being an ESG-linked facility to a fund of funds, could you share some insights and learnings from the process of agreeing the ESG elements on the AlpInvest financing, within the bounds of what you are able to discuss?

***Wouter***: The facility is linked to the operations of AlpInvest's Co-Investment Fund VIII, and the ESG elements are designed to further enhance AlpInvest's integrated approach to Responsible Investment. One of the KPIs is the annual rating given to AlpInvest by the UN's Principles for Responsible Investment. As more investors are signing up to the principles, we believe this rating will become harder to achieve and so will increasingly represent a "stretch" goal for funds in the KPI context. Other KPIs relate to the incorporation of ESG in the co-investment due diligence process and ESG transparency and reporting, whereby GPs are compared to each other on selected ESG themes and indicators. These KPIs relate to AlpInvest's engagement with GPs and are therefore really tailored to the activities of the co-investment fund.

As the ESG component was new for a FoF player, this also meant that the KPIs were new to the different stakeholders in the financing. It obviously required a great deal of coordination to bring these different stakeholders together. For example, we needed to work through the economic impact of performance against the KPIs and also resolve exactly how they would be measured in a manner that worked for all interested parties. There was also the practical side of things, such as ensuring that lenders have the systems in place to deal with the operational aspects of the ESG element of the finance. It is of great importance to closely align the lenders in the syndicate, as they all need to be comfortable with the approach on ESG and the impact on their internal operations. This also meant that working closely with legal counsel was key, in order to ensure that the KPIs as set out in the documentation are in line with what is intended commercially.

***FFF***: The role of Sustainability Coordinator has developed within the market as distinct from the agent/arranger. Why do financings need a Sustainability Coordinator that is distinct from the other agent roles?

***Diana***: It is important to mention that the Agent/Arranger obviously play a very important role, too, either through their longstanding relationship with a sponsor or because of the (sometimes time-consuming) operational and administrative handling of the transaction. However, what we have experienced to date as being perhaps the most important upside of having a separate Sustainability Coordinator role is that the ESG components get the attention they deserve and, given the heightened attention, you also then need a suitably experienced Sustainability Coordinator to ensure that the ESG elements are properly understood by all stakeholders and promote true sustainability goals. At Rabobank, we have a long history in setting ESG objectives, and it is at the heart of our mission. With our cooperative roots, we can justifiably say that ESG is part of our DNA and that we have a great deal of ESG experience. We are willing to look beyond the normal paved paths, just to make them greener and more sustainable.

***FFF***: Let's talk a little bit about the role of the Sustainability Coordinator in order to shed some light on what the role encompasses. When does the role of the Sustainability Coordinator commence? Are you involved in the documentation stage or only in ongoing compliance?

***Diana***: The Sustainability Coordinator should be (and we would expect to be) involved from the outset of the documentation phase. Aside from close interaction with the Sponsor, it is important to have a high degree of cooperation with the Agent/Arranger and the banking syndicate as well. The KPIs should have sufficient substance and strongly contribute to an ESG improvement; in short, they need to be meaningful as stipulated by the LMA Sustainability Linked Loan Principles, and to achieve this, ESG and the Sustainability Coordinator need to be part of the credit discussion and documentation from the outset.

***Maarten***: Nowadays, most banks have their own ESG policies and many have their focus areas and their own views on how to approach these topics, which do not always fully overlap with other members of the syndicate or align with the sponsor's expectations. As such, in our transactions, we have an open dialogue with all parties involved while ensuring that we stay clear from anything that could be described as "greenwashing." To aid with this, we host an interactive presentation to the syndicate to outline the KPIs and how these will be reflected in the legal documentation. It is also important that the ESG link fits the Agent's operational and administrative processes to ensure that the deal runs operationally.

***FFF***: It's interesting that the role starts at documentation stage. Once you move past signing, what are the main aspects of your role then?

***Diana***: It depends on the transaction and the accompanying KPIs. We have deals where the ESG-related administrative and operational matters remain entirely with the Agent post-signing, often with the involvement of an ESG auditor that periodically confirms the status of the ESG KPIs. And in some transactions, the role of Sustainability Coordinator is broader in the sense that it will help with the confirmation and substance of certain KPIs.

The varied role the Sustainability Coordinator can have post-signing is why we see one of the most important parts of the Sustainability Coordinator role as being to ensure that appropriate focus and rigour is given to ESG during the documentation phase.

***FFF***: You mention that some deals have a third-party ESG auditor. How common is this in your experience and how does that role interrelate with the Sustainability Coordinator role?

***Maarten***: In our experience, it is now market practice to have an external auditor involved in reviewing the accomplishments for each year. It is mostly the client's external auditor taking on this responsibility so as to not put a lot of additional operational burden on the borrower's reporting, but in some cases it can be a separate experienced ESG auditor. The ESG auditor periodically checks and confirms the ESG performance.

***FFF***: Do you see the role of Sustainability Coordinator being an increasingly common feature of ESG-linked facilities?

***Diana***: Yes, definitely. We are pleased to see that sponsors are more and more actively involved in adopting ESG links in their facilities. We also see a development in both content and number of the KPIs, and we have a strong sense that the fund finance lending community wants to avoid any so-called "greenwashing." All this means that having an experienced and specialist Sustainability Coordinator to steer and align the lender group and help broker an appropriate commercial deal with the sponsor is of increasing importance. The KPIs should have adequate substance, and as we see them change and become more and more tailored and sophisticated, the Sustainability Coordinator can and should (as it is best-placed) play an important role not only in developing the framework for a deal but also in having a view of the market that allows it to push forward and evolve ESG sustainability goals across the fund finance space.

***FFF***: As you are such a prominent market player, it would be remiss not to ask about your view of developments in the market. How have you seen the market develop over the last 12-18 months since ESG has really come into focus in fund finance?

***Maarten***: The ESG fund finance market has seen very healthy development over the last 12-18 months, with it moving increasingly toward a more rigourous and sustainability-focused approach. This has been partly driven by institutional/governmental and legal developments, such as the developments spearheaded from Brussels with respect to sustainable finance, but we have also seen both LPs and GPs take up the mantle. In our experience, LPs tend to see sustainable finance solutions (whether at the portfolio level or fund financing) as proof points of the ESG track record of GPs. This then has a follow-on impact to fundraising, with GPs recognising the benefits of having sustainable finance in place to point to as evidence of the ESG qualification. We also see GPs using sustainable finance as a tool to ready a company for possible exit; again, it is the financing that provides the proof point.

But, overall, in the last 12-18 months, we have seen the quality of the conversation around ESG improve immeasurably. This topic and its advantages – at least in Europe – are increasingly understood, and ESG is now firmly mainstream.

***FFF***: And looking at both the near and longer term, how do you see ESG developing in the European fund finance market?

***Maarten***: As the integration of sustainability in finance becomes more mainstream and the level of sophistication increases on all sides of the table, we expect to see that the process of agreeing and documenting ESG provisions in facilities will become more standardized with tailor-made tweaks for each specific situation/borrower. An example of this is the number of KPIs – the dominant number used to be three or five, but has now settled in the wider market at four.

We also think that the use of external auditors will become standard market practice as we expect to see more and more borrowers become subject to legal requirements with respect to ESG reporting. With this, we expect that ESG leaders in the industry will opt for more sophisticated and tailored KPIs in order to differentiate themselves from other market participants. And, overall, we will see an increase in the demand for Sustainability Coordinator roles to reflect the deepening and increased sophistication of the market.

Then, on the other hand, we see the pricing ratchet remaining a market standard for the next 2-3 years. Thereafter, ESG will be firmly entrenched, and we think discounts will no longer be applied, but a penalty system will remain.

***Diana***: ESG links in financing in general but particularly for fund finance are here to stay. The reach and impact of a subscription finance facility on ESG overall is higher than, for instance, on a bilateral Sustainable-Linked loan to an individual (portfolio) company. The sub line is generally structured at 10-35% of the overall fund size, whilst the Sustainability-Linked KPIs are set on the overall fund, augmenting our reach materially to as much as 1.000%. Furthermore, KPIs in the fund finance context can be set to steer both on a vertical level (towards the investments), as well as on a horizontal level, influencing the PE fund, as well as the PE community. The KPIs set at the investment level are a tool for a global and industry-wide horizon that will influence ESG adoption. By setting KPIs at the PE fund level, it offers the entire PE industry a compass on required standards and best practices. The ESG link can redirect investments and change attitudes towards strong ESG adoption, which eventually works through all kinds of industries, sectors and geographies.

***Maarten*****:** It is definitely here to stay, albeit without the carrot.