

FOCUS ON PRIVATE EQUITY

CAN ESG INVESTORS DO WELL WHILE DOING GOOD?

January 2017

Investors can play a pivotal role in addressing global issues with solutions government organizations can't achieve on their own. ESG investing—meaning investments guided by environmental, social and corporate governance criteria, also known as impact investing—is one avenue for those efforts. Not only is ESG investing a way to do the right thing, it can help improve public opinion regarding companies and industries.

Some believe that the positive societal impacts of ESG investing necessarily come at the cost of lower returns. We disagree. KKR has developed what we call solution-focused investing, a proactive approach designed to add value for investors while helping to solve important global challenges.

Rather than looking at companies and ESG issues from a de-risking perspective, we ask, "Which societal changes lead to an investment thesis we can get behind?" We have a team that is dedicated especially to helping us explore complex ESG issues and arrive at win/win investments in global solutions.

DOUBLE BOTTOM LINE

A good example is the tainted milk scandal that hit China in 2008. A cluster of infants with kidney problems led to the discovery that powdered milk was being adulterated with melamine, a toxic industrial compound. Ultimately, more than 300,000 babies were sickened by the contaminated milk, some fatally.

Ken Mehlman

Member, Global Head of Public Affairs, KKR
Former Chairman, Republican
National Committee

Portions of this article were excerpted from a recent Altegris-KKR webinar, *Politics & Your Portfolio*. You may be interested in two other excerpts, which discuss *The Political Bull Market and Your Portfolio* and coming soon, How to potentially enhance equity performance in a climate of uncertainty.

The views expressed are the personal views of Ken Mehlman of Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, "KKR") and do not necessarily reflect the views of Altegris.

-  [Listen to the webinar](#)
-  [Share this article](#)
-  [Learn about Altegris's approach to private equity](#)

Moreover, a number of China's major dairy producers were implicated. Chinese consumers reacted swiftly, shunning domestic brands with significant effects on China's dairy industry.¹

After investigating the scandal and its regulatory context, KKR's team concluded that there was a significant opportunity to address China's food safety issues and help rebuild its dairy industry while making sound investments. Our exploration also led us to investments in pork and chicken producers. In each case, we assessed the potential for ESG improvements as part of our due diligence. We also looked for opportunities to apply best practices and strengthen corporate governance in light of regulatory trends. The result was a win all around—for the companies we invested in, for China's people and economy, and for our investors. That's the kind of outcome we always target.

To date, KKR has put about \$5 billion into companies that advance green solutions and innovations, investments that now represent an estimated \$19 billion in enterprise value. For example, we've invested more than \$2 billion in solar and wind companies. Our portfolio also includes an exciting company called [Resource Environmental Solutions](#), which helps mitigate the impacts of infrastructure or real estate development in areas vulnerable to hurricane and storm damage, such as the Louisiana coastal zone and Chesapeake Bay. By buying, protecting, and restoring critical wetlands, they promote environmental resilience while enabling developers to secure the permits they need.

Another great example in the eco-innovation area is [Sundrop Farms](#), an Australian company that uses solar power and seawater to grow fruits and vegetables. This gives them a competitive advantage because they can enter into contracts with grocery chains and know exactly what their energy and water costs will be. Then there's [US Food Service](#), which is in the process of developing the first broadly distributed food line that is sustainable across the board. Also in our portfolio is [Haier](#), a Chinese maker of smart heating and cooling systems that regulate themselves based on whether anyone is in the room. That lowers energy bills and air emissions at the same time.

A PROACTIVE PURSUIT

One point I can't stress enough: if you are serious about practicing capitalism with a purpose, that can't be limited to a few marquee ESG investments. That mindset needs to extend through traditional investments as well. At KKR, we accomplish that through initiatives that we apply proactively across industry sectors. Through these programs, we broadly address issues including responsible sourcing, employee wellness, and the hiring of veterans. Our ESG-related initiatives all aim to produce large-scale, measurable results.

While there is no denying that the current investment landscape can be a tough one in which to invest, we reject the idea that capitalism is under siege. Rather, capitalism needs to adapt so it can actively participate in global solutions. As we've learned, that's the path to some of the most exciting investments out there. If you're proactive and intentional, you can avoid risks, do a better job of governing your companies, and boost that all-important double bottom line, all at the same time.

Past Performance is not indicative of future results.

¹ <http://www.forbes.com/sites/yanzhonghuang/2014/07/16/the-2008-milk-scandal-revisited/#386370fd4428>

KKR is neither a sponsor, promoter, adviser nor affiliate of any investment product sponsored or advised by Altegris.

The views expressed are the personal views of Ken Mehlman of Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, "KKR") and do not necessarily reflect the views of Altegris. Nothing herein should be construed as investment or tax advice, nor is it a recommendation to buy or sell any securities.

KKR information is provided by KKR or derived from materials approved for use by KKR and is believed to be accurate and reliable. Altegris cannot guarantee the accuracy of, or be responsible for the timeliness, completeness or suitability for use of such information.

RISKS AND IMPORTANT CONSIDERATIONS

It is important to note that all investments are subject to risks that affect their performance in different market cycles. There are significant differences between public and private equities, which include but are not limited to, the fact that public equities have a lower barrier to entry than private equities. There is also greater access to information about public companies. Private equities typically have a longer time horizon than public equities before profits, if any, are realized. Public equities provide greater liquidity whereas private equities are considered highly illiquid.

It should be noted that private equity may not be suitable for everyone. As with any investment, there are numerous risks to investing in private equity including the possible loss of principal.

Nevertheless, for those investors who understand the risks, and have available risk capital, private equity can provide an opportunity to enhance their portfolio returns.

An important part of understanding and implementing private equity today is assessing the potential benefits as well as the risks. Equity securities are subject to market risk, or risk of loss due to adverse company news, industry developments, and general economic decline.

In addition, private equity is considered speculative therefore subject to a unique set of risks. These risks include, but are not limited to, liquidity risk and lack of a secondary market to trade securities, management risk, concentration and non-diversification risk, foreign investment risk, lack of transparency, leverage risk, and volatility.

ABOUT ALTEGRIS

Altegris is an investment research firm, with deep expertise in alternative manager selection, structuring unique solutions, and providing portfolio management and oversight. Beginning with an analysis of the current and anticipated investment environment, our solutions are based on themes that we believe solve the most important client needs. For more information about the Altegris family of alternative solutions, visit www.altegris.com.

The Altegris group of affiliated companies is wholly-owned and controlled by (i) private equity funds managed by Aquiline Capital Partners LLC and its affiliates ("Aquiline"), and by Genstar Capital Management, LLC and its affiliates ("Genstar"), and (ii) certain senior management of Altegris and other affiliates. Established in 2005, Aquiline focuses its investments exclusively in the financial services industry. Established in 1988, Genstar focuses its investment efforts across a variety of industries and sectors, including financial services. The Altegris companies include Altegris Investments, Altegris Advisors, and Altegris Clearing Solutions.



ALTEGRIS ADVISORS
888.524.9441 | www.altegris.com

1165147-012717