MULTIPLICITY
CONVERSATIONS

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ANDRES HEFTI ON "GREENWASHING" PRIVATE EQUITY SECONDARIES

Q: How do you make a positive impact as a secondary investor?

We are regularly confronted with LPs asking about our ESG standards and if we would exclude any harmful sectors. In that context I think it's important to remember that as a secondaries investor, we are usually not deploying new capital into companies, but we are merely replacing an investor in an existing investment. As Bill Gates rightly said, fossil fuel divestment has 'zero' climate impact! As a consequence, buying shares in an existing oil company won't have an impact either.

We absolutely want to avoid having a negative impact on the world with our investments, but on the other hand with our secondaries mandate you can't expect us to have much of a positive impact either in terms of ESG standards.

Bill Gates, Financial Times, September 2019

" Divestments, to date, probably has reduced about zero tonnes of emissions. It's not like you've capital-starved [the] people making steel and gasoline. I don't know the mechanism of action where divestment [keeps] emissions [from] going up every year. I'm just too damn numeric. "

Q: Are you then buying funds that aren't ESG compliant?

At Multiplicity, as a secondary investor, we don't have any "no-fly" zones per se. We don't exclude any sectors or industries and we focus on out-of-favour assets and strategies. This means we have looked at many "dirty energy" private equity funds, but so far we haven't made any acquisitions as our outlook for the industry is just too negative, hence our pricing wasn't competitive.

We focus on buying mature funds that are fully invested, so the consideration if such secondaries have any ESG impact or not is simply not part of our analysis. I just don't see how you can construe a logical argument for that.

Q: Do you see a way how LPs can make a positive impact?

Absolutely! But it's not through secondaries, but by making primary investments, by committing to funds that provide capital to develop new technologies that slow carbon emissions or have a positive impact in other ways.

It's key to supply capital into the real economy to fund R&D that will one day bring technological break-throughs. In the end, innovative businesses such as Beyond Meat or Climeworks or Tesla will make a difference.

Q: Do you see that private market industry is merely "greenwashing" itself to attract more capital?

I think that's clearly too harsh as a general statement. In my view, the key problem is that many allocators are shying away from making hard decisions, and rather do some quick fixes in the portfolios like dumping oil stocks. This may make you feel good, but won't have any positive net impact. Re-doing the asset allocation and providing actual fresh capital to companies that can make a difference is more difficult and complex.

There is also a big element of "box ticking" mentality that led many GPs to make exaggerated claims about the sustainability of their investments. In many cases, I believe LPs aren't asking enough hard questions and are too easily satisfied when they checked the box.

Do you have any questions or feedback for us? Please contact Andres at ah@mpag.com, or call him on +41 44 500 4555.

Andres is a Partner of Multiplicity Partners and the Portfolio Manager of the LTO Funds. He has 20 years of experience in alternative investments, distressed investing and portfolio management.
Before joining Multiplicity in 2012, he held various investment roles with the alternative asset managers Horizon21 and Man/RMF. Andres holds a MSc in Mathematics from the University of Zurich and is a CFA and CAIA Charterholder.

ABOUT MULTIPLICITY PARTNERS

Multiplicity Partners is an investment firm specialised in providing liquidity solutions to holders of private market funds and distressed assets. The firm also offers a range of advisory and governance services across alternative assets.

Multiplicity Partners has been an active participant in the secondary market for fund interests and distressed assets since 2010. The team has successfully completed more than a hundred transactions across a wide range of illiquid and complex financial assets. Each partner contributes more than 15 years of relevant experience, giving us the collective capabilities to effectively identify, analyse and execute attractive investment opportunities in hard-to-value assets. Multiplicity Partners was founded in 2010 and is based in Zurich, Switzerland.

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