The Hidden Asset of Tomorrow

Sustainability in Swedish Private Equity and How it can be Levered to Increase Returns

A thesis based on stakeholder interviews and a case study of Alder's investment in Nordic Water

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Abstract

The present thesis aims to illustrate how various stakeholders within the Nordic private equity setting consider and incorporate sustainability into their investment processes. In order to understand the rise of sustainability and the investment theme's momentum, underlying drivers have been identified through a qualitative analysis, based on interviews with general partners, limited partners, regulators and other relevant stakeholders. The analysis concludes that an increased awareness for ESG-related risks and opportunities, shifting personal convictions and regulatory demands drive the current momentum. The interviewees have found common ground in the belief that sustainability is to have a long-term material impact on the private equity industry, given the industry's unique position to drive change within their portfolio companies through financial-, governance-, operational- and ESG-engineering. A case-study of private equity firm Alder's investment into Nordic Water, a global water treatment company, demonstrates that the implementation of a sustainability-anchored strategy builds the foundation to achieving an attractive return. Hence, an investment process rooted in sustainability can be used as a value creation lever, and there does not need to be return trade-off between sustainable initiatives and the investment's financial return at exit. Over the holding period of some nine years, Alder has realized a money-on-money multiple in the top quartile of that commonly seen in the private equity industry.

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Keywords: Active Ownership, Alder, Case Study, ESG Investing, Impact Investing, Nordic Water, Private Equity, SRI, Sustainability, Turnaround, Value Creation Strategies

Abbreviations

Abbreviation	Definition
AGM	Annual General Meeting
AUM	Assets Under Management
ESG	Environmental, Social and Governance
EU	European Union
EV	Enterprise Value
GP	General Partner
IM	Investment Memorandum
IRR	Internal Rate of Return
KPI	Key Performance Indicator
LBO	Leveraged Buyout
LP	Limited Partner
LPA	Limited Partnership Agreement
M&A	Mergers and Acquisitions
MoM	Money-on-Money multiple
PE	Private Equity
PRI	Principles for Responsible Investment
SGD	Sustainable Development Goals
SRI	Socially Responsible Investing

Definition of Concepts

Concept	Definition
Sustainability	Focuses on meeting the needs of the present without compromising the ability of future generations to meet their needs. The concept of sustainability rests upon three pillars: economic, environmental and social
ESG Investing	Integrating ESG factors into the investment analysis to the extent that they are material to the investment performance
Impact Investing	Investing in projects or companies with the stated mission to contribute to positive social- and/or environmental change
Socially Responsible Investing	Portfolio construction process that attempts to avoid investments in certain industries or stocks by negative screening guidelines
Sustainable Investing	Umbrella term including thematic ESG and impact investing, defined by the authors of this thesis
Corporate Social Responsibility	The responsibility of enterprises for their impact on society. Companies can become socially responsible by: - integrating social, environmental, ethical, consumer, and human rights concerns into their business strategy and operations - following the law
Future-proofing	Future-proofing describes the concept of of trying to anticipate future developments, so that action can be taken to minimize potential negative consequences and capitalize on opportunities

Source: European Commission, PitchBook, Principles for Responsible Investments

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1. Introduction

"Sustainable development is the pathway to the future we want for all. It offers a framework to generate economic growth, achieve social justice, exercise environmental stewardship and strengthen governance"

The above words were former UN Secretary-General Ban Ki-moon's, spoken at the G20 meeting in 2013 where he urged the participating countries to focus on financing needs for sustainable developments (Ki-moon, 2013). Corporate social responsibility and concepts of environmental, social and governance factors have been a widely discussed topic among world leaders and in the business industry for several years. Similar to other industries, the topic has gained momentum in private equity. Hence, the present thesis investigates the sentiment of industry stakeholders, aiming to discover reasonings behind the rise in sustainability commitments. Can investments with a focus on sustainability be a win-win situation in terms of return and social benefits? If yes, how can an ESG mindset successfully be adopted into the investment process?

As governments around the world acknowledge the importance of sustainable developments, ESG has climbed to the top of the regulatory agenda (Patterson, KPMG, 2020). To meet the climate and energy targets outlined by the 2030 Agenda, there is a need of direct investments in sustainable projects (European Commission, n.d.). A prerequisite is a standardized definition of what can be considered sustainable and a shared language. Hence, the classification system for sustainable economic activities, often called the EU Taxonomy, was entered into force in July 2020 (ibid).

Previously, the private equity industry was considered to be lagging other financial market participants in their work with regards to sustainability (Buckby et. al, 2020). However, as investors are starting to see a beneficial relationship between ESG and investing, sentiment has started to change. According to Bain & Company, 80% of global private equity investors had increased their focus on sustainability compared to five years ago (Yang et. al., 2019). Moreover, a report from ERM states that 93% of their GP respondents agree that focusing on ESG themes will generate good investment opportunities (ERM, 2020). While most Nordic general partners nowadays have a stated sustainability policy, the industry has also seen a surge of general partners with a sustainability-focused investment strategy.

"I haven't come across any investors that are not interested in impact or ESG matters at all." (Pia Irell, Impact Partner, Trill Impact Advisory AB, 08.04.2021)

One of these companies is Swedish private equity firm Alder. In February 2012, Alder Fund I acquired a stake in the Gothenburg based water treatment firm Nordic Water. Nordic Water's offering addresses one of the biggest global environmental challenges, namely providing clean water for everyone. Their

products and equipment clean more than 30 million cubic metres of water per day. During an ownership period of some nine years, Alder supported the company in their shift to a sustainability-anchored strategy, international expansion, made substantial investments to strengthen the organisation, improved the supply chain and developed the product portfolio. At the time of exit in February 2021, the company had grown their revenues at an average rate of 8% since 2016, and increased profits by four times.

1.1 Problem Formulation

Against the aforementioned, sustainable investments are still at an early stage within the larger private equity industry. The core underlying factors can be traced back to (i) the lack of quantitative data demonstrating the link between financial and sustainable return and (ii) the lack of a comprehensive and standardized reporting framework used for measuring sustainable performance or impact (Bain & Company, 2021). It can be concluded that the European Union and other stakeholders have recognized that these two issues hold the private equity industry back from proactively working with sustainability in an integrated manner. As a call to action, the EU Taxonomy[1] can be regarded as a first step towards addressing the lack of transparency and standardisation within the investment industry and, according to financial advisory firm PwC, is expected to create a demand-push towards sustainable initiatives. However, Malin Lindfors Speace from Ethos International pointed out that the Taxonomy is still under development and, cannot yet be viewed as a comprehensive measurement framework for sustainability. Instead, as noted by PwC, the regulatory push for compliance with the EU Taxonomy can be viewed as an accelerator. As a consequence, the demand for financial support services has increased strongly in Sweden vis-à-vis Norway.

Literature and industry reports describe the rise of sustainability in the context of investing, mostly against the backdrop of current climate and environmental issues. However, academia has yet not been able to find common grounds when it comes to measuring the impact sustainability has on financial returns. Hence, institutional investors and other stakeholders lack clarity when analysing and comparing the sustainable ambitions and performance of private equity firms, especially before allocating capital and placing investment mandates. This area serves as a base to originate the present thesis' first research topic. Given the heterogeneity of approaches to sustainability within the industry, there is a need for clarity of the methods used among the sustainability focused players. Consequently, the first research question is the following:

1. *How do leading Nordic sustainability-focused private equity firms and their stakeholders consider sustainable investments and related measurements?*

[1] A description of the EU Taxonomy can be found in the appendix section 11.1

Alder, Sweden's oldest sustainability-niched private equity firm, targets companies that use sustainability as a competitive advantage within their business model. Their investment in Nordic Water provides a solid case study for how Alder, together with management, have driven the company's growth agenda by focusing on sustainable initiatives and spreading this knowledge across the organisation. As recognised by general partners, financial advisors and investors themselves, measuring sustainable impact is a challenge and has resulted in industry-wide frustration. Nordic Water, however, has identified sustainability KPIs that are easily communicable to both internal and external stakeholders. Alder exited Nordic Water in 2021 when the company was sold to the listed Swiss pump-manufacturer Sulzer in a SEK 1.2 billion transaction. The auction process at exit together with the bids that Alder received from strategic investors provide an indication that an ESG premium has been priced into the valuation. Hence, our second research question is the following:

2. *Does Alder's investment in Nordic Water demonstrate that an ESG investment thesis does not compromise the financial return?*

1.2 Purpose and Contribution

The present master thesis serves three distinct purposes. Firstly, the thesis shall shed further light on the momentum of incorporating sustainability into the investment criteria within the private equity industry. The thesis aims not only to highlight this momentum, but on a qualitative basis, present the underlying drivers for this trend. For a holistic analysis, the viewpoints of general partners, limited partners, financial advisors, regulation and other relevant stakeholders have been included. This thesis contributes to existing, yet scarce literature on the topic by providing a holistic discussion regarding the drivers, opportunities and limitations. Moreover, the thesis is uniquely positioned to contribute with insights into how leading Swedish sustainability-focused PE firms integrate sustainability into their investment thesis to drive growth and, ultimately, exit valuations and returns.

Secondly, the thesis serves the purpose to demonstrate that having an investment thesis anchored in sustainability does not necessarily translate into compromised financial returns. Despite the divergent views among stakeholders, this thesis underlines that ESG and impact investing can yield competitive financial returns. The Nordic Water case study contributes with a tangible example for how Alder's sustainability-focused investment thesis is successful in terms of return.

Thirdly, the Nordic Water case study illustrates sustainable investing in private equity and its impact on financial returns. We hope that the case study is used for educational purposes by the Finance Department at the Stockholm School of Economics. We find that the sustainability angle on investments, notably within the private markets, is underrepresented in the academic coursework. Therefore, the Nordic Water case study contributes as a case study which can be used to provide students with a tangible, contemporary example to further open up the discussion regarding the role of sustainability and responsible investments within private equity.

1.3 Delimitation

The scope of the thesis is limited to the purposes mentioned above, and will therefore not address other questions, such as whether Alder's investment in Nordic Water was a good decision, or whether having a strategy based on sustainability represents a good investment angle for a private equity firm. However, as one of this thesis main purposes is to raise awareness and promote a broader discussion around sustainability among students at Stockholm School of Economics, we would suggest these questions as relevant for future case writers. A further constraint is rooted in the limited public data available in the private equity industry. Due to confidentiality, all data underlying the analysis for the thesis cannot be disclosed. However, to the extent possible, sensitive data have been anonymized and disclosed, to enable the reader to gain a deeper understanding.

1.4 Overview of Thesis Findings

The main findings of the thesis can be summarized in five statements. First, despite the recent awareness of sustainability within the PE industry, stakeholders have yet not found common grounds on definitions and most effective methods on how to incorporate it into the investment processes. Second, the sustainability-niched general partners discussed in the thesis are all of the firm belief that sustainability initiatives are important value creation levers. Available track records on their performance support the view that there is no trade-off between sustainability and returns. Third, LPs have diverging views on their fiduciary duty, as well as the potential return trade-off associated with sustainability. Fourth, going forward, regulation and increased transparency are presumed to facilitate measurability and comparability. Finally, the Nordic Water case study demonstrates that Alder's implementation of a sustainability-anchored strategy builds the foundation to achieving an attractive return.

1.5 Outline and Structure of Thesis

The thesis is divided into eight sections. Section one includes an introduction to the Nordic private equity industry and the topic of this thesis. Section two covers the theoretical framework and reviews previous literature on relevant and adjacent subjects. In the third section, the methodology which this present thesis is based upon is outlined and discussed. Section four describes the current state of the private equity market based on industry reports and section five presents the results gathered from interviews with different stakeholders in the Nordic private equity market. Section six presents relevant background information to enhance the reader's understanding regarding the case study. The seventh section presents the actual case study of Alder's investment in Nordic Water and the eighth section opens up a discussion about the results of stakeholder interviews and the case study. Lastly, the ninth section shares some concluding remarks and suggests areas for further research.

2. Literature Review

In this section, an overview of theories and literature related to the thesis' topic is provided. First, a general discussion about the private equity model and traditional value creation methods are reviewed. Second, literature related to sustainability initiatives in the corporate business context are discussed. Finally, literature related to sustainability initiatives within private equity is reviewed.

2.1 Private Equity

The literature covering private equity starts with an overview of the private equity model and continues with traditional value creation strategies pursued within the private equity context. These topics have been well covered in previous literature, such as Kaplan et. al. (2009). Hence, the following sections will only give a brief overview.

2.1.1 Private Equity Model

Döskeland et. al. (2018) define the private equity market as equity investments in unlisted firms by professional investors, with the majority of the investments being made by financial intermediaries referred to as private equity funds. Private equity funds are usually structured as limited partnerships with limited investment horizons, and were described by Jensen (1989) as *lean, decentralized organizations with relatively few investment professionals and employees*. Although present private equity firms have grown in size, PE-firms can still be considered small relative to their portfolio companies (Kaplan et. al., 2009). The private equity partnership consists of two important stakeholders; the general partners, who are responsible for the management of the funds, and the limited partners, who contribute the majority of the committed capital, but are not involved in the daily operations. For the management of the fund, the GP is compensated through a fixed management fee, typically between 1.5% - 2.5% of committed capital, and a variable profit share, called carried interest, which typically equals 20% of profits (Döskeland et. al., 2018).

2.1.2 Traditional Value Creation in Private Equity

In addition to buying a portfolio company cheap and selling it at a higher price, private equity firms seek to create value in their portfolio companies through various initiatives. Kaplan et. al. (2009) categorise these implementations made by the private equity companies into three themes; financial, governance and operational engineering.

Finnerty (1988) describes financial engineering as "*the design, the development and the implementation of innovative financial instruments and processes, and the formulation of creative solutions to problems in finance."* Financial engineering in a PE context includes optimizing the capital structure of the portfolio company and minimizing its after tax cost of capital (Berg et. al., 2005). Using

financial engineering, the GP is able to increase the value of the portfolio firm, by renegotiating and increasing debt financing, reducing corporate tax and taking advantage of capital market imperfections.

Governance engineering refers to the value creation undertaken by a GP through active ownership (Hite et. al., 1989). According to Kaplan et. al. (2009), the board of directors of private equity owned portfolio companies are smaller and meet more frequently than in public companies. Some other common governance engineering methods include equity-linked incentives given to management and key employees and establishing effective processes, monitoring and accountability in the portfolio company (Döskeland et. al., 2018).

Lastly, operational engineering refers to industry and operating expertise that PE investors apply to add value to their investments (Kaplan et. al., 2009). Such methods could include productivity improvements and cost-cutting opportunities, acquisition opportunities, repositioning and strategic changes and upgrades in management (ibid).

2.2 Sustainability Initiatives in a General Business Context

Voluntary corporate sustainability efforts and initiatives have increased since the late 1990s. In parallel to this development, large corporations have started to externally report on their environmental and social performance (Eccles et al., 2014). Although recent years have seen a steady growth in companies incorporating ESG into their strategic considerations (Boffo et. al., OECD, 2020), there is still a discussion related to aspects such as fiduciary duties, risk mitigation and effect on financial return.

2.2.1 ESG and fiduciary duty

Historically, corporate governance has focused on the so-called "Anglo-Saxon" model. This model argues to align interests between managers and shareholders, while other stakeholders have to rely on contractual and legal protection. Jensen (2001) argues that allowing managers to serve one clear constituency is efficient. By incorporating other stakeholders, there is risk for managerial rent-seeking, as many diverse interests lead to lack of accountability (ibid). Moreover, Jensen argues that it is reasonable that managers are accountable to shareholders, as their ability to protect themselves through contracts are limited compared to other stakeholders. With shareholders as their main stakeholder, focus has lied on maximizing profits and financial return, in line with Friedman's (1962) argument that "*the social responsibility of business is to increase its profits"*.

This narrow definition of fiduciary duty has represented a hurdle to integrating ESG factors into the GP's decision making and investment process (Schröder, 2004; Bauer et. al., 2005). However, this view has recently been challenged, as a broader perspective on corporate governance, including a fiduciary duty towards a wider group of stakeholders has emerged. In the presence of incomplete contracts, Jensen's (2001) argument about shareholders being the most vulnerable stakeholder does not hold. As Freeman et al. (2010) put it, "*Direct shareholder value is created by meeting the needs of all*

stakeholders, which can be achieved by including activities such as investing in employee training and investing in R&D to provide customers with products of superior quality and safety.

This reasoning has led regulatory authorities to broaden their definition of fiduciary duty. UN PRI states that *fiduciary duty requires investors to incorporate all value drivers, including environmental, social, and governance factors, in investment decision making* (UN PRI, 2018). Against this backdrop, the PRI, UNEP FI and Generation Foundation state that fiduciary duties of loyalty and prudence require the incorporation of ESG issues (ibid.). For investors to comply with their fiduciary duties, PE funds are required to *understand and incorporate into their decision making the sustainability preferences of beneficiaries/clients, regardless of whether these preferences are financially material* and to promote *high standards of ESG performance in the companies or entities in which they are invested* (ibid.). This broader view of fiduciary duty adds another dimension to the discussion, since the goal of maximizing returns to limited partners is replaced by the goal of maximizing their utility.

2.2.2 ESG, risk mitigation and negative externalities

Currently, management of ESG efforts in businesses are predominantly focused on risk mitigation and operational efficiencies, as companies adopt various environmental screening systems, provide employee trainings, and participate in investor-initiated workshops (Schramade, 2016). Godfrey et. al. (2008) find that by participating in CSR activities aimed towards secondary stakeholders and society at large, firms enjoy an "insurance-like" benefit in an adverse event. Moreover, Karwowski et. al. (2021) show that a firm's CSR actions are correlated with risk mitigation. By addressing ESG related issues, the risk of owning so-called "stranded assets"[2] are mitigated. Since investors take stranded assets into consideration and expect a financial compensation for them (Sen et. al., 2020), addressing ESG related issues becomes a central strategic topic and risk mitigation method for businesses.

The neglection of ESG aspects in the corporate context creates negative externalities, such as pollution, poor working conditions for employees and corruption. These externalities can be viewed as a result of various issues within Economics, such as public goods, incomplete contracts, and "short-termism". As a strong commitment to ESG in the business world is positive for the society (Serafeim, 2020), it can be viewed as a public good and hence result in a free-rider problem. Adding incomplete contracts and a situation where shareholder value differs from the value for the wider group of stakeholders, there is a risk of businesses neglecting the larger group on behalf of serving shareholders. Lastly, there is a focus on short-term gains, with emphasis being placed on quarterly earnings. This comes at the expense of long-term value creation and potentially, lasting sustainable impact (Bansal et. al., 2014).

[2] Stranded assets are defined as assets having suffered from unanticipated or premature write-down, devaluations, or conversion to liabilities (Caldecott et. al., 2013)

2.2.3 ESG and financial returns

Research findings regarding the impact of ESG factors on financial return are mixed. Supporting the argument of incorporating ESG into corporate strategy, academics have shown that managing ESG issues does not necessarily hamper financial returns, and it is unlikely to be a cost to shareholders (Margolis et. al, 2008). Margolis, Elfenbein and Walsh (2007) developed the theory *Doing Well by Doing Good*, arguing that a corporation's financial performance will improve over time as the corporation engages in, and improves, its environmental and social performance. They analysed 167 studies regarding the link between corporate social performance and financial performance over a period of 35 years and found that only 2% of the studies conducted could show that managers who allocate corporate resources to societal performance imposed a direct cost to shareholders. Moreover, Edmans (2020a) suggest that by investing in stakeholders and focusing on ESG factors, investor wealth does not necessarily need to be reduced. Rather, by focusing on these issues, total investor wealth grows, benefitting everyone. As an example, Edmans (2012) found that companies who had high employee satisfaction outperformed their peers by 2.3% to 3.8% per year during a period of 28 years. Other studies have found that there is a link between high stock return and environmental stewardship, customer satisfaction and sustainability policies, respectively (Edmans, 2020b).

An opposing argument is supported by Hong et al. (2009), who find that publicly traded companies involved in the production of alcohol, tobacco and gaming, provide a higher expected return than comparable stocks. These "sin stocks" are less held by institutions who have an investment mandate focusing on sustainability, and receive less analyst coverage.

2.3 Sustainability Initiatives in a Private Equity Context

As sustainability has increased its importance within the overall society, sustainable investments within private equity has increased substantially (Bain & Company, 2021).

2.3.1 Sustainability in an Investment Context

Sustainable investment strategies can be classified into three main sub-categories: (1) socially responsible investing (2) impact investing and (3) environmental, social and governance investing (Berkowitz et. al., 2020). Although these categories are related to one another, there are material differences in their purposes. Renneboog et. al. (2011) describe SRI as applying a *set of investment screens to select or exclude assets based on ecological, social, corporate governance or ethical criteria, and often engages in local communities and in shareholder activism to further corporate strategies towards the above aims*. Hence, investments made under an SRI-framework are based on specific ethical guidelines. In contrast, Leins (2020) describes ESG investing as *an investment strategy that considers environmental, social and governance issues when valuing company stocks.* Compared to SRI investing, ESG investing takes a more holistic view, considering a general set of factors. Finally,

impact investing is defined by Barber et. al. (2021) as investments with *an intention to generate both positive social or environmental returns and positive financial returns.*

Although above mentioned definitions are suggestions for terminology, researchers as well as industry practitioners have not yet fully agreed upon a common definition for describing sustainable investments. While Cowton (1999) suggests that the investment types are a *matter of taste,* Dorfleitner et. al. (2012) argue that a common terminology is not needed, as sustainable investments sufficiently summarize every desirable non-financial impact an investment may have. Similarly, data provider PitchBook confirms that sustainable investment is commonly used as an umbrella term. Appendix 11.2 contains an overview of approaches and frameworks to sustainable investing.

Academics claim that the phenomenon of socially responsible investments emerged in the US during the 1970s and early 1980s, driven by interests for other motives than solely financial (Brown, 1998; O'Barr et. al., 1992, Vogel, 1983). However, Bengtsson (2007) argues that frameworks for socially responsible investments developed in Scandinavia as early as in the 1960s. Driven by increased recognition of these motives, SRI spread across the world, and by the early 2000s, it had become a global practice (Sparkes, 2002). In line with the rise of social and environmental awareness, the Social Investment Forum Foundation reported in 2010 some USD 3 trillion in socially responsible investments in the US, while its European counterpart reported some EUR 5 trillion (Klein et. al., 2014).

Today, one of the most widely accepted frameworks for responsible investments is the Principles of Responsible Investing, compiled by the United Nations in 2006. PRI defines responsible investing as *a strategy and practice to incorporate environmental, social and governance factors in investment decisions and active ownership* (UN PRI, 2019). Hence, it provides a formal link between ESG factors and financial returns. Further information about PRI is provided in section 4.2.

2.3.2 Implementation of Sustainability Aspects among Private Equity Firms

The absence of a common framework for sustainable investments, together with the inconsistency in data regarding the causal link between ESG investing and financial return, has fuelled scepticism among private equity investors (Bain & Company, 2021). Without standardized measurements of ESG performance, results may become subjective, in contrast to the perceived objectiveness of financial returns. Given the limited availability of performance-based measures (Ang et. al., 2018), and the novelty of incorporating sustainability as a core investment consideration in a private equity deal, there is not yet any widely accepted quantitative study on the relationship between returns and sustainability.

However, as the private equity industry is characterized by agency problems and information asymmetry (Clark et. al., 2010), emphasis on stewardship and active ownership suggests that the private equity industry is well suited for responsible investment. Studies on the efficiency of engagement strategies using active ownership have shown legitimacy to be the most important attribute for a successful dialogue (Sjöström, 2020). By systematically incorporating ESG factors into the investment

approach, GPs can mitigate investment risk and enhance investment value. This view is supported by Indahl et. al. (2019), who argues that *private equity firms that successfully incorporate ESG risks and opportunities into their investment strategy and value creation approach are likely to improve their returns while at the same time reducing their vulnerability to risk.*

2.3.3 Sustainability in the Relationship between the LP and the GP

Similarly to other business contexts, there has been an argument regarding the fiduciary duty of the GP towards their LPs. What differentiates the relationship between a limited and general partner compared to managers and shareholders of a public firm, is that after providing their capital, an LP cannot materially influence the GP's investment decisions (Lerner et. al., 2011). The LP's fiduciary duties towards their own investors, however, require that the LP should monitor how the GP is making investment decisions and whether these are in line with predetermined policies. Common methods for aligning the GP's interest with the LP's include covenants added to the limited partnership agreement. These covenants are related to the overall management of the fund, the activities conducted by the general partners, and the types of investments allowed for the fund (ibid). Moreover, additional covenants imposed by a specific limited partner can be arranged through a "side letter" (Mannon et. al, 2012). In relation to sustainability within private equity investments, the PRI guide (Goodman et. al., n.d.) details three areas where the LP should focus their monitoring:

(1) **Fundraising:** LPs should utilise a due diligence questionnaire to question and gain insights into the GPs responsible investment approach.

(2) **Fund Terms:** LPs can include responsible investment requirements in their fund terms upon capital commitment to reinforce the GP's commitment to incorporating ESG factors into their investment process pre- and post-acquisition.

(3) **Reporting:** ESG disclosure and reporting requirements throughout the fund's life cycle serves the purpose of holding GPs accountable for addressing ESG risks on a continuous basis. Thereto, ESG reporting and KPI follow-ups decrease the industry characteristic information asymmetry and allow LPs to compare a fund's ESG performance over time and against peers.

3. Methodology

This section aims to outline and describe the methods used for conducting the research and collecting data. Furthermore, the overview is followed by a discussion about the quality of the research, focusing on the reliability and validity of the data sources and methodology.

3.1 Research Design and Methodology

The research questions of this thesis aim to discuss the use of sustainability initiatives in the Nordic private equity market. Given the ambiguity and wide-spread views related to sustainability, the research

questions become inherently complex. The scope of sustainable initiatives and their implications are wide, and new methods of investing sustainably are continuously developed. Hence, in order to be able to answer the thesis' research questions, the research design of the present thesis is mainly descriptive.

The research method is based primarily on qualitative research and uses a case study methodology. Ghauri et. al. (2010) suggests that the aim of qualitative research is to understand and gain insight. Furthermore, Kaczynski et. al (2013) suggests that by using a qualitative method, the involvement of the researcher can lead to gaining a deeper understanding of human interactions. This methodology is well suited for the research objective of this thesis, as the phenomenon of sustainable investing within Nordic private equity is a growing area with complex interactions and implications. By using a qualitative method, the research focuses on nuanced descriptions of the studied phenomenon, something which is difficult to achieve using quantitative studies (Ahrne et. al., 2015).

To answer the second research question, a case study methodology is used. As described by Swanborn (2010), a case study methodology is the optimal strategy when aiming to understand groups of peoples' perceptions and decisions in relation to their interaction. According to Denscombe (2017), the aim of using a case study is to highlight a general theme by investigating a specific one. By studying Alder's investment in Nordic Water through a case study, the thesis aims to showcase how value can be created through sustainable initiatives in a private equity context.

3.2 Data Collection

The primary source of data used in this thesis is interviews. The case framework and selection of interviews is based on an intentional selection (Yin, 2014). This method of selection concludes the most relevant data, as it has a strong connection to the topic the interview aims to cover (ibid). The interviews were conducted in a semi-structured manner (Merriam, 1994), where main questions were prepared before the interviews, but additional follow-up questions were formulated at the time of the interview. Further, the interviewee received the main questions at least one day prior to the interview in order to make the interview effective. This structure allowed the interviews to follow a structured path, while still allowing to capture nuances raised by the interviewees in an ad hoc manner.

As the aim of this report is two-fold, focusing both on understanding the views regarding sustainable investments within Nordic PE, and conducting a case-study on Alder's investment in Nordic Water, more than 20 interviews have been conducted. In order to gain a good insight into the view of sustainable investments in the private equity industry, interviews have been conducted with various stakeholders, such as general partners, limited partners, advisors and academia. When conducting the case study on Nordic Water, interviews were carried out at both the portfolio company level, at Alder and with LPs. An overview of the interviewees can be found in appendix section 11.3.

In addition to the interviews, public and non-public data have been used. The public data include both secondary and tertiary data, collected from industry reports and data providers. A list of

public data sources can be found in the references section. The non-public data used includes Alder's internal documents related to the investment in Nordic Water Group, as well as general internal documents regarding the strategies of the GPs.

3.3 Research Quality

The methodology used in the thesis has been developed to achieve the highest possible research quality. When evaluating research quality in a qualitative study, it is important to consider reliability and validity, as well as ethics.

3.3.1 Validity

In academia, it is often argued that the case study methodology limits the ability to generalize results (Abercrombie et. al. 1994; Yin, 2014). To achieve high validity in the setting of a case study, Yin (2014) argues that the validity of qualitative research should be evaluated through three different methods; construct, internal and external. Construct validity covers the appropriateness of the interpretations made from observations (ibid). To achieve high construct validity, information has been derived using multiple methods, complementing interviews with public and non-public data. The internal validity covers the causality, and becomes important in a case study setting, as the researchers are dependent on what information is shared (ibid). Triangulation using multiple information sources increases the internal validity, but it is important to note that there is no certainty that the information received is fully transparent and unbiased. External validity refers to whether the conclusions derived can be generalized to a wider context (ibid). As this study is qualitative, the data cannot achieve statistical significance or be tested in an "out-of-sample" context. Rather, the generalization is dependent on the ability of the researchers to analytically extract results into a broader theory. Hence, the results of this thesis can give an indication of the current sentiment on sustainable investments within Nordic private equity, but it is not possible to conclude a wider generalization.

3.3.2 Reliability

The issue of reliability concerns whether research design and method have been conducted in a way that allows the study to be repeated and generating the same results (Saunders et. al., 2012). The reliability of the qualitative study is influenced by both the setting of the interviews, the relationship between the interviewers and the interviewees as well as the interpretation of the researchers. To achieve as high reliability as possible and minimize subjectivity, both researchers have participated in all interviews, and all interviews have been recorded and transcribed within three days after the interview has taken place.

3.3.3 Ethics

Saunders et. al. (2012) define research ethics as standards and behaviours guiding the researcher's conduct, in relation to those who are affected by the research. When writing this thesis, ethical concerns regarding interview participants have been considered. All interviewees have been informed about the thesis' purpose, and non-public quotes have only been used with permission from relevant people.

4. Current State of the Private Equity Market

In this section, an overview of the global and Nordic private equity market is presented, as well as the current state of sustainable investing within the industry in relation to the UN PRI.

4.1 Recent Developments in the Private Equity Market

Post the 2008 financial crisis, the global PE market has experienced a steady rate of growth. Although deal value has not recovered to the pre-crisis level, current average deal size is significantly larger than pre-crisis levels (Bain & Company, 2021). A driving factor for this trend is a significant rise in asset valuation. According to a survey conducted by Preqin in December 2020, asset valuation was seen as the most significant challenge for the ability of private equity firms to generate strong returns. EBITDA acquisition multiples have seen a rapid increase over the last five years, and in the end of 2020, European average acquisition multiples were at the record-high level of 12.6 times EBITDA (Bain & Company, 2021). Further information can be found in appendix section 11.4.

As most other industries, the global private equity market has been, and still is, affected by the Covid-19 pandemic. With most parts of the world experiencing lockdowns, a reduction in transaction volumes has followed naturally. Moreover, planned exits have been postponed and support to current portfolio companies has been prioritized (Krantz et. al., 2020). However, although 2020 global fundraising of buyout capital was below 2019 record high of USD 426 billion, it was still the third highest with a value of USD 300 billion, or second highest when including PE-dedicated SPAC capital (USD 340 billion) (Bain & Company, 2021). See appendix section 11.4.

Similar to the rest of the world, Nordic private equity deal activity slowed down in 2020 as a result of the pandemic, retreating to pre-2018 levels. With pandemic-related risks as an explanation, several private equity firms chose to postpone or cancel deals which had been in process before the pandemic hit (Pitchbook, 2021). An overview of Nordic private equity deal activity is presented in the appendix section 11.4. Looking ahead, optimism is growing. According to a newly released survey by Roland Berger (2021), four out of five private equity experts expect an increase in PE related M&A transactions in 2021, and more than a third believe the increase to be above 10%. Moreover, Scandinavia is expecting a private equity M&A growth of 2.8%, the second highest growth rate in Europe (Huth et. al., 2021).

4.2 United Nations' Principles for Responsible Investing

With increased global awareness of environmental and humanitarian crises, PRI counted more than 3,000 institutional investors and private equity firms as signatories in 2020, accounting for USD 103 trillion assets under management (Bain & Company, 2021). The PRI practice standards rests upon voluntary adoption, where investors are encouraged to expand their traditional fundamental investment analysis to incorporate the analysis of ESG factors and become active owners post investment. GPs are prompted to engage with the portfolio companies and their executive management to drive ESG initiatives and to educate them about the potential material ESG exposures and opportunities the company is exposed to. With the formation of PRI, ESG factors were for the first time treated as part of the investment analysis and not separately (Goodman et. al., n.d.).

In 2020, the number of PRI signatories increased by 28% year on year, which among others, can be traced back to the Covid-19 pandemic (Bain & Company, 2021). Investors are aware of how material ESG factors and their exposure can impact business performance and investment return. While the number of PRI signatories has increased substantially, real ESG commitments through disclosures and active engagement are less impressive (ibid.). In 2020, the signatory list included 431 PE firms, of which only 16 disclose ESG factors' impact on financial return (ibid.). The lack of disclosures is rooted in the difficulty of measuring and comparing ESG initiatives and their quantitative impact. Hence, the lack of high-quality ESG data and the aforementioned lack of an industry wide definition and reporting framework undermines disclosures (Caplan et al., 2013). In addition, UN PRI together with stakeholders from the PE industry developed a new ESG disclosure framework for the private equity industry with the goal to facilitate the communication and increase the transparency between GPs and LPs regarding the incorporation of ESG factors into the investment process.

5. Sustainable Investments in Nordic Private Equity

Leaving the overview of the market, this section presents results from discussions and interviews with various stakeholders in the Nordic private equity industry and related data.

5.1 Development of ESG and Impact Investing in the Nordic PE Industry

Historically, institutions have put less pressure on private equity firms to adopt ESG criteria in their investment processes when compared to public market funds (Bain & Company, 2021). Hence, it can be argued that the private market has been lagging the public market in terms of adopting ESG into their investment strategies. However, this has been changing in recent years, notably in the light of more stringent regulation. The Nordic countries, however, were one of the earliest adopters of SRI and hence, regarded as frontrunners. To answer the underlying question to why Nordic private equity investors as well as asset managers were early in adopting SRI, one needs to consider the wider cultural and political setting (Alfred Berg, n.d.). Culturally, Nordic citizens are known for having a deep relationship with

and live in dependency with nature. From a socio-political perspective, the Nordic countries have been early advocates for equal rights and strong governance structures. These long-held values have been transferred to the private investing industry and fuelled the rise of ESG integration.

For PE investors to successfully integrate ESG into their investment processes, executive management buy-in is considered as a prerequisite (Buckby et.al., 2020). It has been recognised that large funds are more mature in their ESG effort due to having resources dedicated towards ESG integration (ibid.). Smaller funds, on the other hand, are assumed to have the organisational agility to integrate, build awareness and integrate ESG into their investment practices more swiftly. Additionally, all investment professionals should simultaneously take on ESG responsibilities (ibid).

Nordic private equity firms are at an early stage of developing remuneration and incentive programs that are tied not only to financial performance but also to ESG performance. As an example, a newly founded private equity firm aims to tie 25% of the portfolio companies' bonuses to impact KPIs. In contrast, Alder highlights that tying remuneration to sustainability related KPIs is difficult due to its subjective character.

"We have no management compensation schemes tied to sustainability. Not until you can measure sustainable profit, and that will come [in the future]. Then you can start to use it. But today, it is really one line in the income statement that you want to connect it [remuneration] to. Otherwise, it is judgemental. This is an area we will focus on in the next coming years." (Henrik Flygar, Partner, Alder, 28.04.2021)

Nordic ESG investing accelerated about five years ago which is reflected by the fact that ESG discussions in fundraisings increased by some 10 times (Buckby et al., 2020). A growing number of GPs have started to attract capital from institutional investors by leveraging proprietary ESG focused investment models and thematic investment strategies built upon sustainable megatrends. Proactive ESG dialogues in the fundraising process push GPs to place ESG higher up on their own organisational agenda. Multiple interviews have confirmed that the drive for ESG integration in private equity is driven by a combination of GPs, LPs and the increasingly stringent regulations.

"Our feeling is that is has now gone from the LPs driving ESG, to the GPs being the driving force, unlike 4-5 years ago. There has clearly been an increased interest in ESG among GPs. For example, ESG expertise is being added to all teams across geographies and ESG specialist roles are likely to take an active part of the core investment- or operations processes." (Anna Follér, Head of Sustainability, AP6,) (Buckby et.al., 2020)

Nordic private equity firms are revising their investment strategies with regards to how they can incorporate ESG to differentiate themselves from peers and more easily attract capital from institutional

investors with increasingly green investment mandates. How PE firms integrate sustainability varies across firms and their level of ambition is dependent on how they view the link between financial return and ESG return or impact. Appendix section 11.5 illustrates the five most common approaches in responsible investing, with regards to active ownership in the private equity context.

5.1.1 ESG Focus Among Traditional Private Equity Firms

Private equity is built upon an active ownership model, where the private equity firm supports the portfolio company's management through board representation, as well as in strategic and financial management. Active ownership per se, by some investors, is regarded as sustainable given the emphasis on improved governance structures (Buckby et.al., 2020). Historically, generalist firms have approached sustainability in their investment approach by applying negative ESG screenings[3], and through that, focus has lied on compliance and risk management. In recent years, regulatory drivers and LP demands have pushed generalists to become more transparent in their reporting and to respond to ESG-related questions in fund due diligence processes. Moreover, a large number of generalist firms have raised complimentary sustainability- or impact funds. In the alternative markets[4], the number of ESG-committed funds were some 740 funds in 2020, having more than doubled since 2011. Focusing on PE funds, ESG-committed assets under management have increased from USD 92.7 billion in 2011 to USD 1,503 billion in 2020 (Preqin, 2020). In the Nordic investment setting, PE firms have shifted their focus from compliance to investing in companies that contribute to sustainable development. Further information can be found in the appendix section 11.6.

"Thematic investment pays off, which has become even more apparent during the Covid-19 pandemic. Companies that contribute to resilient and essential services for society, are coming out stronger." (Therése Lennehag, Head of Sustainability, EQT) (Buckby et.al., 2020)

5.1.2 Dedicated Sustainability and Impact General Partners

The Nordic private investment landscape is pioneering with regards to the number of dedicated sustainability and impact private equity firms. Alder (2008[5]), Summa Equity (2016) and Trill Impact (2019) are examples of three leading GPs with a sustainability focus. While Alder and Summa Equity engage in thematic ESG investing, Trill Impact is focused on impact investing with the aim to generate societal impact in underserved markets. Given that the investment industry has not yet committed to a standardized approach regarding sustainable investing, the following section describes the investment models of Sweden's leading sustainability-focused PE firms.

[3] Negative screening is used in SRI. For further explanation, see section Abbreviations and Definitions
[4] Alternative market funds include PE, VC, Private Debt, Infrastructure, Real Estate and Natural Resources
[5] Founding year

Trill Impact, founded by former EQT partner Jan Ståhlberg, focus on impact private equity. An agreement with the Nordic bank Nordea enabled Ståhlberg to both have access to capital, as well as a strategic partner with regards to impact investing. The strategic partnership allowed Trill Impact to leverage Nordea's heritage in ESG and impact analysis and to gain access to Nordea's network and investor relation staff. Taken together, this allowed to set up a private equity firm that could capitalize on Ståhlberg's own track-record from PE firm EQT as well as Nordea's heritage and resources.

*"I wanted to create a company that has the ambition to create the same returns, or better, and utilize the same toolbox that the mainstream private equity industry uses, but with having more analytics on sustainability and impact. How does each corporate we invest in create impact? How do they contribute to people's daily life, society and the planet? We should essentially do what other private equity firms do but with the exception that it has an intent and be purpose driven. We should be able to measure it and it has to be defined already at the inception. There is a difference here at Trill in the sense that there would be deals that are sustainable, but they are not really making a difference. We would pass on those." (*Jan Ståhlberg, Founder and Managing Partner, Trill Impact, 28.04.2021)

Through active ownership, Trill Impact invests into companies that through their product or service offering contribute to positive societal impact, with equity tickets ranging from EUR 25-150 million. Being industry agnostic allows Trill Impact to maintain a large addressable market of potential targets contributing to at least one of the SDGs.

*"All companies need to make progress to one or several SDGs in their offering. And they need to solve a societal problem and have a purpose. That is impact." (*Pia Irell, Impact Partner, Trill Impact Advisory AB, 08.04.2021)

Measurable impact, either environmental or societal, is a key component of the value creation roadmap that Trill Impact develops for each portfolio company. More specifically, impact is recognized and used as a value lever to increase revenues, reduce operational expenses and create tangible brand value. Each potential investment is analysed using the firm's proprietary impact assessment model, which assesses the portfolio company's current and future potential impact on an environmental and societal scale. While the starting point for the analysis is the company's contribution to one or more of the SDGs, the model allows the advisory team to assess the degree of impact and where the company can accelerate their growth to untap further impact. It should be noted that while being an impact investor, Trill Impact does not engage in philanthropic work, i.e. financial returns are not compromised by any means.

"Some think that you cannot make money and do good at the same time. But I think it can very well be combined and in the future it may as well be a prerequisite for being profitable." (Jan Ståhlberg, Founder and Managing Partner, Trill Impact, 28.04.2021)

"Trill Impact is not compromising on return to create impact." (Pia Irell, Impact Partner, Trill Impact Advisory AB, 08.04.2021)

Having already made their first investment in Nordomatic in July 2020, Trill Impact aims to invest a total of EUR 720 million (Pitchbook). Interviews with Impact Partner Pia Irell conclude that the interest from institutional investors' to invest in impact is large, supported by more stringent regulation and the LPs' intrinsic ambition to allocate money to solve societal problems. As noted by Irell, the alignment and transparency with regards to sustainability efforts and impact reporting can be further improved throughout the value chain. Hence, Trill Impact has the ambition to bridge the gap between science and actionable impact measurements to help LPs allocate their money wisely. Therefore, external communication with both investors and management is simplified and impact reporting becomes a priority. In order to increase management commitment and accountability, the ambition is to tie 25% of management's bonus to the performance of impact KPIs. Further, the performance of impact KPI targets is reviewed on a quarterly basis and serves as a prerequisite for the discount that Trill Impact receives on their LBO financing.

"Prior to an investment, management sign off on the impact KPIs and the value creation plan. I think when it comes to impact matters, this is unique. Partnership and buy-in from management is important to ensure progress and success" (Pia Irell, Impact Partner, Trill Impact Advisory AB, 08.04.2021)

In contrast to Trill Impact, Summa Equity, founded by Reynir Indahl in 2016, is a thematic ESG investor. This means that Summa Equity capitalizes on sustainability-related macro trends (Summa Equity, 2020). Aligning with the SDGs, Summa Equity has selected three overarching themes that set the scope of their investment landscape; Resource Efficiency, Changing Demographics and Tech-Enabled Businesses. The investment themes exploit macro-social megatrends such as global population growth, aging population, resource scarcity and energy transition and hence, are expected to translate into attractive market characteristics. Having a narrow investment focus allows the firm to become a specialist investor within the selected themes and consequently, through active ownership, develop companies that become sustainability leaders within their respective sectors. To date, Summa Equity has closed two funds. The first fund closed in 2017 and the second in 2019 with committed capital of SEK 4.7 billion and SEK 6.7 billion, respectively (Summa Equity, n.d.). The size of the second fund demonstrates the growing interest institutional investors have to invest sustainably. In a Grant Thornton report, Summa Equity's Hannah Gunvor Jacobsen shields light on the fact that the LP community is

becoming more educated when discussing ESG in the fundraising for the second fund and how Summa Equity's thematic approach translates into value creation and financial performance (Buckby et al., 2021). Further, the portfolio companies' alignment with the SDGs allows Summa Equity to communicate to external stakeholders how their portfolio companies contribute to solve environmental and societal challenges. The firm has been strong in communicating how ESG is embedded into their investment approach across all stages of the investment cycle. Circling back to the mega trends, Summa has identified six underlying trends which inform the three purposeful investment themes and align the portfolio companies with the SDGs. ESG is not only central to the sourcing and due diligence process, but also an integral part of the active ownership model, called Via Summa. Over the holding period, future-proof businesses are developed in partnership with the management team and the proprietary model Via Summa is used for operational value creation. The model rests upon four pillars: (1) Purpose-Led Strategy (2) Scalable, Agile & Data-driven Execution (3) High-Performing Organization and (4) Building Resilience. These pillars in conjunction with a company specific roadmap, strategize how value is created. Further, a support model describes how Summa Equity supports management in the value creation roadmap by contributing with expertise, capital and a proprietary toolbox. Through the Via Summa model, management and the board are made accountable to deliver on financial and SDG-related KPIs. Against this backdrop, the sustainability KPIs are unique for each portfolio company, i.e. they are used to monitor progress over time and cannot be used for relative benchmarking. Summa Equity has successfully contributed to increasing the transparency regarding ESG reporting in the Nordic PE context, notably through the promotion of their "Private Equity 4.0 model", outlining how ESG integration drives superior risk-adjusted long-term return.

Alder, similar to Summa Equity, is a thematic ESG investor. ~~F~~ounded by five partners in 2008, Alder was Sweden's first sustainability-focused PE fund and primarily focuses on the clean-tech sector. Alder has raised two funds to date and currently, Alder Fund II is in the investment stage.

"We have invested into sustainability for the last twelve years. […]. We want to be in the forefront, ahead of the curve finding interesting stories before people realize that clean-tech is interesting. We want to be better at it so when we exit a company, people know that these are the top tier green companies." (Henrik Flygar, Partner, Alder, 19.04.2021)

Given that the thesis' case study is built upon Alder's two-stage investment into Nordic Water, the reader is referred to section 5 for a detailed overview of Alder's history, investment process, sustainability framework and portfolio companies. Appendix section 11.7 contains an overview of the respective GP's key facts and figures.

Key findings:

- Although incorporating sustainability within investments has been widely discussed, there is yet only a few fully dedicated Europe based GPs
- Despite this, Sweden is home to three pure-players, Alder, Summa Equity and Trill Impact
- Among these pure-players, none is willing to sacrifice financial return for sustainable performance

5.2 Sustainable Investments from a GP Perspective

Regardless of whether the private equity firm is classified as a generalist- or a sustainability focused private equity firm, a study conducted by Grant Thornton (2020) based on interviews of eight Nordic general partners, concluded that management buy-in was a key prerequisite for effective ESG integration. Notably, the shift from ESG compliance to thematic ESG or impact investing depends on the degree of support from the partner group and how high sustainability was on the agenda of board meetings and AGMs. Given the traction that ESG and sustainability related topics have gained over the last years, GPs are seeking to establish best practices to extract the value creation potential that ESG integration can yield. For this, commitment from the partner group is regarded as the foundation for establishing awareness among the organisation and at the portfolio companies. However, ESG and impact investing is still at an infant stage in the Nordics.

"There are very few impact funds in Europe on the buyout side. The challenge is even higher for impact funds than sustainability focused funds." (Jan Ståhlberg, Founder and Managing Partner, Trill Impact, 28.04.2021)

Hence, general partners are increasingly seeking support from financial advisors and sustainability experts in order to increase the knowledge in the transaction teams and create investment processes that have a more holistic approach to sourcing and due diligence.

"It starts with commitment from the top. The partners, and those who lead the investments - unless they feel committed and that they feel that this is important, it will be difficult. Then you need a basic level of understanding and knowledge in the investment team. Lastly, I would say to look at your core processes and identify where and how do you integrate it so that it becomes a part of the work that the investment teams do. […]. That's the only way you make it stick." (Helena Fagraeus Lundström & Alexander Bjørklund, Head of Via Summa & Operational Specialist, Summa Equity) (Buckby et. al., 2020)

As highlighted by the report, best practice with regards to ESG integration starts with the partner group's commitment. This translates into increased ESG awareness among the firm's investment professionals, ESG prioritization on the agenda of board meetings and the implementation of ESG objectives within the organisation as support resources are allocated. The objectives and strategies should be viewed in

the light of how mature the specific GP is with regards to ESG knowledge. The larger the GP, the more resources can be dedicated towards ESG efforts. While large GPs employ about one to three dedicated ESG professionals, smaller GPs tend to have their entire investment team to take on ESG related tasks. In this context it is further recognised that best practices include: (1) Developing an ESG manual to support the investment professionals with information and (2) Have ESG experts within the investment team for ESG alignment and integration. Against this backdrop, the fiduciary role of the general partner has been up for discussion among investment professionals and relevant stakeholders. However, interviews with Sweden's sustainability-focused private equity firms have generated a homogenous view with regards to the GPs fiduciary duty. The fiduciary duty regards not only maximizing financial returns, but also managing sustainability-related risks in order to "future-proof"[6] companies and thereby extract as much value as possible upon exit. Although all GPs have their unique value creation approaches and "toolboxes", common denominators for future-proofing their portfolio companies include active ownership, implementing a strong governance structure and focusing on performance. Moreover, an increased emphasis is also placed on sustainability and digitalization, a prerequisite to be competitive in today's and tomorrow's economy.

Key findings:

- Partner group buy-in is a key prerequisite for a successful integration of sustainability practices in the investment process
- Organizational awareness is created by training investment professionals and supporting them with adequate resources
- According to several GPs, their fiduciary duty includes not only maximizing financial returns, but also managing sustainability-related risks and opportunities

5.3 Sustainable Investments from a LP Perspective

Over the last years, sustainability has been high on the agenda of institutional investors. According to a survey conducted by asset management consultancy firm Kirstein (2020) of institutional investors based in the Nordic countries, all companies in the research panel found ESG to be important, with half of the respondents finding it to be very important. Moreover, almost all investors were interested in impact investing, with some 43% already having invested in impact strategies. Many believe that private markets are a good fit for impact investing, and PE had the highest preference, as they were seen to be in a unique position to invest in and influence businesses to create a positive change (Kirstein, 2020).

Among institutional investors in private equity, approaches to sustainability differ and opinions about which stakeholder is leading the increased focus on sustainability diverges between interviewees. Although LPs are the main beneficiary of a private equity fund, many are of the belief that their ability to make an impact is somewhat limited to the investment agreement and potential side letters, as too

[6] The term "future-proofing" is commonly used by GPs such as EQT, Summa Equity, Alder and Trill Impact and refers to the GPs ability to support their portfolio companies to reach their full long-term potential

much involvement in the management of the firm could result in a loss of the limited partnership status and the LPs becoming liable in an adverse situation (Lerner et. al., 2011). Some limited partners are seeing it as their fiduciary duty towards their own beneficiaries and other stakeholders to ensure that their money is invested sustainably, as the potential effects of their investments have a larger societal impact. Moreover, sustainable investments are seen as a prerequisite for achieving a high, long-term return.

"For us, at the moment this, [our thematic focus], very much dictates what kind of managers we evaluate and look at, because there are so many of them and we have so few resources, it means that we spend most of our time looking at those right now. We haven't excluded the normal traditional managers, but in comparison they just seem less interesting." (Hanna Ideström, Senior Portfolio Manager, AP4, 27.04.2021)

On the other hand, some limited partners are of the belief that their main fiduciary duty is to maximize return, and that their task does not allow a compromise return for environmental or societal impact.

"Our goal is very clear, we should maximize the return for our customers in a sustainable way, but we do not work with charity or subsidies. We receive a lot of opportunities to invest in things that potentially can become good in the future, but we cannot do that. We cannot sacrifice return, it is the pensioners' money." (Daniel Winther, Head of Private Equity and Infrastructure, Skandia, 26.03.2021)

However, similar to other areas of the business world, the discussion regarding whether investments in ESG- or impact focused firms provide a strategy for achieving higher returns, or if there is a trade-off, is also apparent among limited partners.

"The time period for measurement is too short to prove if sustainable investments are [more] profitable or not. I believe that there is no large difference [compared to other investments]. That is enough for us to invest. Our returns during the last years have at least not proved it to be unprofitable. But I do not want to state that it is validated" (Carl Cederberg, CEO, Kyrkans Pension, 28.04.2021)

"As I see it, sustainability is a strategy among others. It can be a portfolio manager who likes companies in a certain sector, the consumer sector, the financial sector, turnarounds, and those who do sustainability. How do I evaluate these? I will not give any bonus points for a sustainable image, my assessment will be based on if I think they will deliver returns above the market and among the top funds in our portfolio." (Daniel Winther, Head of Private Equity and Infrastructure, Skandia, 26.03.2021)

Furthermore, several LPs are of the view that the question of whether return is enhanced or compromised by investing in sustainability is dependent on the portfolio company's industry.

"We invest in situations where there's not [a compromise]. There may well be [trade-offs in some situations], the whole world is full of trade-offs. [...]. You have to decide where you invest. And yes, there are things that lend themselves better to philanthropy, others to government subsidies and some are really investable from a pure market perspective. Those are the ones that we go for. And if it's not, we wouldn't do it." (Andreas Nilsson, Founder and Managing Director, Sonanz, 07.04.2021)

"In a number of sectors there is a compromise, but not the ones that we have selected." (Hanna Ideström, Senior Portfolio Manager, AP4, 27.04.2021)

Although the scope of active involvement for contributing to sustainability in investments differs among LPs, the majority is aligned in their view that it is important to invest sustainably. This triples down to the investment processes. While some LPs only focus on negative screening, i.e. avoiding investments in "non-sustainable" businesses or industries, others have a more refined process for integrating ESG into their screening of potential investments. These methods evaluate potential investments on the basis of their sustainability aspects in the due diligence process, and sustainability and exclusion criteria are often included in the fund agreement.

When asked about the future for sustainability, institutional investors believe that more capital will be allocated to sustainable investments. The demand is strong from stakeholders, such as customers and regulators, and there is no future for investments in "non-sustainable" businesses according to several interviewees. Exclusion criteria addressing investments deemed to have negative impact from an ESG perspective are considered a standard approach among Swedish institutional investors. Hence, the future for a GP specialized in any of the excluded industries looks less promising.

"It is becoming very clear that GPs who don't have credible ESG-processes will not be able to raise capital going forward. This will take some time, but in an ideal world, we will see that ESG is not the main topic anymore, but everyone is adapting to the principles." (Per Olofsson, Head of Alternative Investments, AP7, 28.04.2021)

However, there are different views on whether sustainability dedicated strategies among private equity funds will become the new standard, or if the current ESG-focus among traditional funds is sufficient. While some stakeholders hold the opinion that private equity firms only should engage in sustainable investing if it is underpinned by a strong business case, others find that a focus on sustainability is needed to legitimize the businesses now and in the long-run. Furthermore, several LPs find it important to focus on sustainable investments by not only providing capital to sustainable industries and firms but

also to push GPs to use their ability to set the agenda in their portfolio companies to help companies not sustainable today transitioning to become sustainable in the future.

"I believe that investing in companies and helping them with the transition will mean much more going forward, than just looking at the green companies." (Per Olofsson, Head of Alternative Investments, AP7, 28.04.2021)

"If it is a company having the opportunity to grow and make money, then they might not need sustainable capital, they will attract money whether they are considered sustainable or not. [...]. To sponsor companies which are great for society, but cannot stand on their own legs, that is not sustainable" (Daniel Winther, Head of Private Equity and Infrastructure, Skandia, 26.03.2021)

"If you want to say that you are being sustainable, climate neutral in your portfolio, that just means that you have selected away things, you have not really changed anything. Private Equity is built around being an agent of change, you can change things. By just parking money in things that are already in a certain way, you have achieved no change, so I'm all for change. Making bad to good, good to great and great to perfect. All of those steps are important. On top of that, you could also have some exclusion criteria." (Andreas Nilsson, Founder and Managing Director, Sonanz, 07.04.2021)

Key findings:

- The majority of the limited partners believe that their main fiduciary duty is to maximize financial returns for their beneficiaries. However, mandates urge them to do it in a sustainable way
- The view on the degree of correlation between sustainable investments and financial returns diverges among limited partners
- Limited partners agree on the importance of allocating capital to industries which are not yet green, in order to facilitate the transition towards becoming sustainable in the long-term. Many view it as more important than investing in already sustainable industries

5.4 Sustainable Investments from the Regulation Perspective

From a regulator's perspective, the focus on sustainable investments has lied on setting a common framework and achieving comparability within the investment industry. There has been a recent surge in new regulation, aiming to embed ESG as a central aspect of the investment landscape. In June 2020, the EU Sustainable Finance Disclosure Regulation (the Taxonomy) was published (European Commission, n.d.). The Taxonomy is a unified classification system for sustainable activities, and is at the core of the EU action plan to increase financing towards sustainable growth (Breyer et. al., 2020). For the first time, financial and non-financial KPIs will be seen on the same playing field, attempting to direct more capital to business activities deemed sustainable. This has led to private equity clients showing an increased interest in sustainability reporting and support from advisory firms.

"One trend that I am seeing is the increased interest in how to support and build sustainable value in portfolio companies. [...]. How can they [the GPs] support portfolio companies and ensure that these issues are on par with the financial and legal standards of the overall company? There is much more engagement within ESG from the side of the board." (Malin Lindfors Speace, Senior Advisor and Partner, Ethos International, 23.04.2021)

A report by PwC suggests that the line between traditional and sustainable investments will be erased by 2022, as the new taxonomy has been fully implemented across the EU (PwC, 2020). From 2021 and onward, several new regulations will be implemented, and already existing regulations will be changed to align with the sustainability requirements. The Taxonomy aims to define the minimum level that businesses should comply with in order to be considered as an environmentally sustainable business. To achieve this, a business needs to contribute to at least one of the EU's stated environmental objectives, and do no significant harm to any other. Moreover, under specific conditions, enabling or transitional activities could also be considered to contribute substantially to the goals. Over time, the regulation will be further developed to cover economic activities which are socially sustainable (Breyer et. al., 2020). However, it should be noted that the lack of standardisation among ESG reporting and the on-going updates to the Taxonomy result in confusion among private market participants. PE firms are increasingly seeking support from sustainability-focused advisors in order to cope and stay up to date with the evolving regulatory frameworks and guidelines.

"There is a huge amount of confusion and you need to bear in mind that nothing is set yet. anything you learned a month ago, you need to revise today again." (Malin Lindfors Speace, Senior Sustainability Advisor and Partner, Ethos International, 23.04.2021)

With the new taxonomy, financial market participants are required to disclose any sustainability risks and impacts related to their own operations and investments (Otterström, 2021). This affects the necessary disclosures needed in the PE market, both on a GP level and on a LP level. As all financial market actors are obliged to disclose how much aligned their investments are with the new Taxonomy, there is an aspiration among many stakeholders that transparency of what is sustainable will increase.

"Private Equity has significantly increased ESG disclosures in the last few years. In Nordic private equity, we see great examples of reporting. However, format, size, and structure vary a lot. Those who perform best in our annual ESG assessment as relates to reporting, typically report both about policy, process and outcome, both on a portfolio level and a portfolio company level." (Anna Follér, Head of Sustainability, AP6,) (Buckby et al., 2020)

Key findings:

- The Sustainable Finance Disclosure Regulation aims to create a common language for investors, and increase the transparency in sustainable investing
- The Taxonomy creates a focus on reporting to reduce information asymmetry between principal and agent in the investment context
- Although the regulation is still under development, asset managers are expected to comply. This is seen as demanding and results in an increased need for financial advisory services

5.5 Sustainable Investments from the Perspective of other Stakeholders

Considering the wider group of private equity stakeholders, it becomes apparent that the industry has a large impact on the economy. In a 2017, a report by Copenhagen Economics estimated the Swedish private equity industry to account for some 5.5% of Sweden's total GDP (Copenhagen Economics, 2017). Hence, strategies and initiatives among Nordic PE firms inevitably affects the wider economy.

From an academic point of view, there is an argument that private capital has a particularly important role when it comes to sustainable development in the world. In private equity, GPs have the ability to influence their portfolio companies, and they do not have the same information asymmetry as public markets. Moreover, although a private equity fund is usually limited to some 10 years, it is a much longer period to implement change than the pressure the public market has to increase performance in every quarterly report. Although it is difficult to estimate the exact size of the private equity market (Döskeland et. al., 2018), there is no doubt that it is large. Combining the size of the market with the higher potential to make an impact, private equity can be assumed to be one of the most important financial actors in the transition to a sustainable economy.

"Private equity, or private markets more generally, may have a more significant role to play in sustainable investing compared to public markets. In private markets, the information asymmetry between the firm and investors is typically less severe. Private markets may therefore be able to deal with different standards and views more easily than public markets." (Jan Starmans, Assistant Professor, Department of Finance, Stockholm School of Economics, 23.04.2021)

The process of making businesses more sustainable could be viewed as reducing negative externalities in an economical model, and in general this implies a positive progress for all stakeholders. However, it is important to note that in some cases, there might be distributional effects among the group of stakeholders. The Taxonomy aims to minimize these aspects, by incorporating that sustainability is achieved by not only contributing to one sustainable area, but also not significantly harming another.

Consumers and employees account for two additional stakeholder groups, which PE firms increasingly need to pay attention to. Both groups raise the question around ESG, as they demand companies to be more environmentally and socially conscious as well as well-governed (Bain & Company, 2021). Consumers, notably millennials, are changing their buying preferences with regards to sustainability (ibid.). This translates into increased consumer loyalty measured by the metric Net

Promoter Score (ibid.). A 2020 Capgemini survey found that 77% of the 750 executive respondents could see that sustainable initiatives increased customer loyalty and 63% of the respondents could see an increase in revenue (Capgemini, 2020). In this context, it becomes clear that consumers are rewarding sustainable companies with their spending power and loyalty. This is important for private equity firms to consider when screening for investment opportunities, since USD 30 trillion in wealth will shift from baby boomers to millennials. ESG integration should consequently be regarded as a value creation lever and an opportunity to attract the consumers of tomorrow.

"It starts with young consumers who put pressure on the corporates to actually act. [...]. It [the young generation] is a very important voice. And I think that those voices need to be heard." (Jan Ståhlberg, Founder and Managing Partner, Trill Impact, 28.04.2021)

Looking at employees, a company's ESG commitment has increased in importance with regards to attracting and retaining talent. Analogue to the reasonings of consumers, employee loyalty increases for purpose-driven companies (Bain & Company, 2021).

"I do think what matters, especially to the younger generation, when they choose their employer they want a purpose and not only a good salary. They want it to be sustainable." (Hanna Ideström, Senior Portfolio Manager, AP4, 27.04.2021)

*"When you choose your careers, you will probably choose something that feels meaningful and over what you can be proud of when you go to dinner with your friends and family. "(*Jan Ståhlberg, Founder and Managing Partner, Trill Impact, 28.04.2021*)*

Key findings:

- The private equity industry, due to their active ownership mandate, is uniquely positioned to support companies in their transition to becoming more sustainable
- Consumers are increasingly putting pressure on companies to operate in a sustainable manner, by using their buying power and loyalty
- Employee commitment increases for purpose-driven organizations

6. Case Background

This section begins with an overview of Alder, covering their history, strategy, sustainability focus and current portfolio. Thereafter an introduction to Nordic Water follows, focusing on the company's history and market. For the sections related to the Nordic Water case study, the information, unless otherwise stated, is derived from interviews with Alder's investment professionals, Nordic Water's management and other stakeholders as well as internal documentation and data.

6.1 Overview of Alder

6.1.1. The History of Alder

Alder's founding dates back to 2008 when Professor Dag Broman at Stockholm University, together with four other founding partners discussed the idea of developing and capitalizing on the sustainable technology sector in the Nordics. The founding partners recognized that the Nordics were home to many pioneering firms in terms of technological know-how and environmental impact. The growth potential of these companies, and the sector at large, should not go unnoticed. Since 2008, sustainability in terms of environmental impact and a return-driven growth agenda have marked Alder's investment approach.

"The knowledge has been with Alder from the beginning and is embedded in the company. Our background allows us to discuss environmental topics with credibility and to have high conviction on the investments we make." (Åsa Mossberg, Head of Sustainability, Alder, 29.03.2021)

Broman's background in academia, through his former position as Professor and Head of one of Scandinavia's major research institutions for applied science at the Stockholm University, brings extensive knowledge to Alder's founding discussions and the investment team. Broman had been researching environmental technology companies in the Nordics over a time horizon of more than 20 years and hence accumulated a vast knowledge base. Prior to entering the investment space himself, Broman had served as an advisor and consultant to investors. However, he soon questioned why he did not migrate from advising to investing himself and the seed of Alder was planted.

The founding partners have a diverse background, which in 2008 was unconventional for the PE industry. While Broman holds a background in academia, the other partners bring perspectives from the corporate environment, entrepreneurial investing and investment banking. The team's composition of industrial and financial expertise, together with the emphasis on entrepreneurship, serves as a solid foundation for developing profitable growth-oriented companies. The partners united around a common vision of generating attractive returns by investing and developing companies that improve the long-term sustainability of the environment. Sustainability, in essence, was considered a value creation lever.

The fundraising journey for Alder Fund I started in 2008 and was indeed hampered by the crash of Lehman Brothers. The difficult economic environment following the 2008 global financial crisis together with the fact that investment professionals and institutional investors regarded sustainability as a cost, rather than a value driver, resulted in investor scepticism and a bumpy fundraising journey. At that time, sustainability was not yet on the agenda of many institutional investors, given that they held the then widely accepted belief that sustainability implied a return trade-off. The first investors Alder brought along essentially had a so-called *"green agenda"*. After two years of investor meetings, Alder launched its first fund, Alder Fund I, in 2010 with SEK 1.1 billion in committed capital. In the two years up to the launch of the fund, Alder's founding partners were not only convincing institutional

investors to commit the capital, but also engaging the investors in an educational journey. Given Broman's academic background, Alder's investment thesis was backed by his scientific research which showed that environmentally driven companies outgrew its competitors. Moreover, Broman's research could show quantitatively that these companies, against the commonly held belief, were profitable. Hence, the Alder team could show investors that sustainability and financial return were interlinked, and sustainability an origin for value creation. Alder launched its second fund, Alder Fund II, in 2018 with SEK 1.5 billion in committed capital. This time around, the fundraising process was much smoother, supported by the fact that institutional investors increasingly had green mandates. The investor base of Alder Fund II, in contrast to Alder Fund I, is more diverse in terms of investors and geography. At the time of writing, Alder Fund I is fully invested and Alder Fund II is in the middle of its investment phase. A timeline of Alder's journey and biographies on key partners at the firm is presented in appendix section 11.8.

6.1.2 Investment Process

Against this backdrop, Alder was founded as the first Nordic sustainability-focused private equity firm. As an active owner, Alder invests into sustainable technology companies in the Nordics and DACH region. The firm's investment criteria can be summarized by eight pillars. First, the company needs to operate in a sustainable sector or industry. Second, the company is required to have a proven business model with positive cash flows. Third, revenues should be in the SEK 100-750 million range, with a corresponding ticket size range of SEK 10-75 million. Fourth, the companies should exhibit significant growth potential. Investment criteria five and six regard a strong management team with the ability to execute and a case for active ownership, respectively. Seventh, the investment should be subject to identifiable and manageable risks, which includes market- and customer related risks but excludes technological risks. Last, given the limited ownership period of 5-7 years, multiple exit routes need to be identified at entry in order to maximize the exit opportunity. Given Alder's growth agenda, the portfolio companies are attractive and well positioned, in terms of size and profitability levels, to mid cap financial sponsors. A second exit route is the sale to an industrial, or strategic, buyer. Strategic buyers provide a notably lucrative exit route given that they have the edge to capitalize on synergies and pay a higher acquisition price. Looking at the Fund I, all divested companies but one have been sold to strategic buyers, which underpins the strategic value that Alder has added to the companies over the holding period. The third exit route is the IPO track, for which it is important to consider the organisational development and structure of the company. Further information regarding Alder's investment process can be found in appendix section 11.9.

6.1.3 Sustainability Framework

At Alder, the incorporation of sustainable principles is at the core of the growth and value creation strategy. Although sustainability has always put down the foundation for Alder's investment practices, Alder's sustainability framework was first formalized three years ago, with the arrival of Åsa Mossberg as Head of Sustainability. Mossberg developed the internal processes that enabled Alder to communicate and show how they integrate sustainability into all of their investment practices, both at a fund and portfolio company level, to external parties. Alder's sustainability framework for their portfolio companies is based upon two dimensions, impact and operations. The former dimension, impact, addresses how value is created for the portfolio companies' internal and external stakeholders. The impact dimension refers to the portfolio companies' business model and offering and how this translates into tangible customer value. Alder encourages its portfolio companies to proactively seek a dialog with customers regarding their impact in order to identify how it can be measured and improved. The framework can be found in the appendix section 11.10, figure 11.10.1.

"It is about asking the right questions to make the companies and their [the portfolio company's] customers aware about the importance of measuring these things. For some companies, I first need to convince them to start measuring and once they have the measurements in place, they are like "wow, we can show this to our customers." And that is the point." (Åsa Mossberg, Head of Sustainability, Alder, 29.03.2021)

Positive impact, for example, is boosted through increased sales, product development and continuous customer interactions. The latter dimension, operations, refers to how value is created at the portfolio company level, describing systems and policies that are in place to ensure high standards of governance, to reduce the company's environmental footprint and, to ensure that employee satisfaction is high. Hence, the operational impact dimension, through its foundation in sustainability, serves as a lever for business performance and ultimately risk mitigation. Conditional upon the portfolio company's sector, Alder uses a materiality assessment to identify the respective sustainability focus areas. Hence, each portfolio company needs to be looked at in a case-by-case manner.

Alder's responsible investment policy, inspired by the UN PRI, covers how sustainability is embedded in all core processes at the level of the portfolio company. The policy covers all stages, from entry to exit, and formalizes the expectations that Alder has for their respective portfolio companies. Alder provides support by identifying sustainability related risks and opportunities and how to capitalize on these. This is achieved by integrating insights into the sustainability strategy that is developed at entry. Actionability and accountability is achieved by clearly defining responsibilities. It is the responsibility of the Board of Directors in each portfolio company to follow up on the sustainability work.

Sustainability is incorporated into Alder's investment process already at the entry stage. In the initial assessment, Alder's investment professionals are screening their addressable investment universe for potential targets. At this stage, a potential target is addressable only if it contributes to at least one of the SDGs. Furthermore, it needs to exceed a minimum threshold in terms of positive environmental impact. For the assessment of the company's environmental impact, investment professionals use a decision tree, developed by Mossberg, to score the company's impact and to determine whether it is eligible to be considered for more granular due diligence. In the sustainability due diligence stage, environmental, social and governance risks and opportunities in the company are analysed to identify potential red flags. The investment team includes due diligence conclusions in the investment memorandum and upon acquisition, and share these with the company's management to serve as input for formulating the company's new sustainability strategy. The ownership period, over which value is created, consists of two phases, with the former addressing risk management and the latter value growth and the company's sustainability strategy. While the former phase puts down the foundation for sustainability policies and processes, i.e. hygiene factors, the latter can be phased in simultaneously and describes an iterative process of how the company's sustainability strategy is integrated into core business operations. In this phase, risks and opportunities are continuously analysed to future-proof the business. Moreover, a materiality assessment is performed. Alder's responsible investment policy specifies ownership and responsibilities for each of the sub-phases of the investment period, resulting in clear guidelines to investment professionals, management and sustainability ambassadors. To monitor and follow-up on the progress at the portfolio company, section 11.10 in the appendix contains Alder's sustainability progress self-assessment framework.

In addition to supporting portfolio companies with their sustainability work, Alder works closely with the company's management and sustainability ambassador to further strengthen the company's knowledge and expertise with regards to best practices and reporting. The portfolio companies are required to report sustainability related KPIs on a quarterly basis to monitor actions taken and progress made. The sustainability ambassador is responsible for coordinating and leading the sustainability work within the company. Given the different nature of the companies' businesses and the sector they operate in, KPIs cannot be compared across firms, but rather used to monitor development over time at the portfolio company level. Further, to share best practices among portfolio companies with regards to sustainability, Alder hosts a bi-annual meeting for the sustainability ambassadors of all portfolio companies. The meeting serves for educational purposes, providing training in sustainability related areas.

6.1.4 Portfolio overview

Alder targets to acquire eight to nine portfolio companies per fund. Fund I had nine portfolio companies, of which six have now been divested. Fund II is in the middle of its investment period, and has made

five acquisitions to date. While Alder's investment focus predominantly regards the Nordic region, their mandate does also cover the DACH region and the rest of Europe. The average holding period corresponds to 5.8 years and the average revenue growth achieved over the holding period exceeds 110%[7]. To date, Alder has generated an average money-on-money multiple of 3.4x on their divested businesses. For more information on Alder's current and realised portfolio, please refer to section 11.11 in the appendix.

6.2 Overview of Nordic Water

As an introduction to Nordic Water, the following sections include information about the company and its market. For the purpose of the case, the information presented in the following background sections is based on available information back in 2012, the time of Alder's first investment in the company.

6.2.1. Nordic Water in 2012

Nordic Water provides equipment and systems for treatment of public drinking water and wastewater, as well as treatment of process water for industries. In 2012, the products of Nordic Water were mainly in the area of mechanical solid / liquid separation, i.e. filtration. The head office is located in Gothenburg, Sweden, with construction and service located to four product group offices. In order to be closer to the market, subsidiaries were established in certain key markets, with offices in Norway, the Netherlands, Germany, Spain, and China.

The four product group offices were located in separate areas of Sweden and had historically also been separate companies. These offices were considered as four separate business segments, with foreign subsidiaries representing a fifth segment. The largest segment was Zickert, accounting for 23% of the revenue and based in Hanhals, Sweden. Zickert provided products for handling sludge or scum from wastewater treatment plants, and products included sludge scrapers, sedimentation tank covers and scum systems. NWP was the second largest segment, accounting for 22% of revenue. It was based in Nynäshamn and Farsta, Sweden and provided fine solid and liquid separation and water polishing through continuous sand filters. The products marketed were DynaSand and Lamella. Meva was the third largest product group, accounting for 21% of revenue, and was based in Mariestad, Sweden. This segment provided screens, screw presses and sand washers, which functioned as a first step in water filtration. The Klippan-based DynaDisc was a relatively new product and accounted for 14% of revenue. It provided a disc filter for raw drinking water filtration or wastewater polishing. Finally, the foreign subsidiaries accounted for 19% of revenue. An overview of the business segments in 2012 and 2021 are presented in appendix section 11.12. The typical wastewater treatment facility covers several stages of treatment, with Nordic Water products covering the entire value chain. As a primary treatment, screenings and larger suspended solids are removed. The secondary treatment removes smaller organic

[7] Based on 2020 statistics

suspended solids, referred to as “scum” or “sludge”. As a tertiary treatment, smaller suspended solid, remaining impurities and toxins are removed. An illustration of Nordic Water’s products in a typical wastewater treatment facility is shown in appendix 11.13.

6.2.2 The History of Nordic Water

The history of Nordic Water began in 1961, when the privately-owned, Sweden-based Axel Johnson Institute was founded. One of the goals of the institute was to explore and develop water treatment technologies. In 1970, the first product, the Lamella Separator, was introduced and during the next years, technologies such as the continuous backwash sand filters were pioneered and developed. In 1981, the business was commercialized, and became Axel Johnson Engineering. Over the history, several M&A driven growth projects were conducted, such as the acquisition of Zickert in 1991 and Meva in 1997. The business continued under Axel Johnson’s name until 1993, when a series of foreign ownership started. At that time, the business was sold to Anglican Water, who subsequently divested Nordic Water in 1997 to the US group Waterlink. In 2001, the business was acquired by Tyco, and merged with Tyco’s environmental and consultancy group Earth Tech. In July 2008, Tyco sold Earth Tech to the consulting firm Aecom Management Services. Nordic Water, which was a product business, was considered as non-core by the new owners, and in September 2008, the management team of Nordic Water was able to perform a management buyout. In 2012, the management buyout team still remained the owners and executive management of Nordic Water. Nordic Water’s timeline is provided in section 11.14 in appendix.

6.2.3 The Water and Wastewater Treatment Market

In 2012, the global market for water treatment equipment had a historical growth of some 5% annually between 2007 and 2011. The market size of the filtration equipment sector of water treatment was estimated at SEK 50 billion in 2011, of the SEK 1,300 billion overall global water market. East Asia Pacific was the largest market segment, accounting for some 39%, followed by North America (21%) and Western Europe (19%).

The addressable market was expected to grow at 6% per annum up to 2016. In general, the growth had varied between regions, and was driven by two main factors; (1) need for investments, which in turn was driven by legislation, health problems and environmental issues and (2) access to financing, where not all regions had the required funding to conduct the investments. In the upcoming years, the strongest growth was expected to take place in South Asia (18%), North- and Latin America (9-10%), and Eastern Europe (9%), due to insufficient current water treatment, water shortage and increased regulations. In Latin America, Brazil was identified as the most attractive market. See appendix 11.15 for further information about Nordic Water’s addressable market in 2012.

The water and wastewater treatment market was deemed as relatively non-cyclical. As public stimulation packages usually are initiated during economic downturns, the market might even experience some instances of counter-cyclicality. The market growth was considered to be steady, with evidence from recent economic turmoil, where the global market was stable as a result of downturn in certain markets being compensated by growth in others. Moreover, the non-cyclicality was also explained by the fact that the plants financed their operations, and in most cases also their investments, with a water tariff linked to water consumption. As the same amount of water must be treated regardless of the current economic situation, a possible financial crisis in Europe was not expected to severely affect investments in water treatment equipment.

6.2.4 Nordic Water's Competitive Position

In 2012, Nordic Water was a pure equipment supplier. However, several of the firm's main competitors were service providers or construction contractors in combination with equipment providers. There were also smaller national workshops in almost all markets, who were supplying one or a few competing products. Hence, the competition was rather diverse, and Nordic Water was competing on different premises in each market. A full list of main competitors is presented in appendix 11.16.

Huber was the competitor with the broadest product range, and known for good quality, a strong position on the European market, competent and driving sales personnel. Similar to Nordic Water, Huber is active on the global market, which made them Nordic Water's main competitor. However, their products were relatively expensive. Hydrotech was the clear leader on disc filters, offering a wide size range, and especially smaller systems. Lastly, Finnchain had grown rapidly over the last years in the sludge scraper business and was therefore a competitor to Zickert. However, they had recently faced some installation problems, leading to a questioned reputation.

7. Case – Alder's Investment in Nordic Water

The following section outlines Alder's investment in Nordic Water. It starts with information on the background to the transaction and how Nordic Water fitted with Alder's investment framework. It continues with the business plan established at acquisition, and what happened the following years after the acquisition. Thereafter, Alder's re-investment in the businesses in 2016 is described, followed by the conducted value creation and finally, the divestment of Nordic Water to Sulzer in 2021.

7.1 Alder's Acquisition of Nordic Water in 2012

7.1.1 Background

As a result of Alder's proprietary database, Nordic Water was discovered as a company with high potential, from both an environmental and financial perspective. The discussion with the firm was initiated with a cold call from the Alder team in November 2009, and the first meeting, where two Alder

founders, Carl Hall and Jonas Frick, met with current owner and CEO, took place in October 2010. At that time, there was no apparent interest from Nordic Water's side, but the discussion was revived in May 2011. The management team of Nordic Water had started to realize the need for help regarding organizational issues and ability to grow the business and it resulted in a proprietary deal for Alder.

7.1.2 Fit with Investment Framework and Investment Thesis

Nordic Water was not only identified as an attractive potential target in the proprietary sourcing database, but also when analysed against the fund's eight investment criteria. First, Nordic Water operates in the intrinsically sustainable water and wastewater treatment market. Clean water is an increasingly scarce resource and the demand for clean water is rising with global population growth and urbanisation. In 2012, more than 50% of the global population were exposed to clean water shortages and the outlook remained negative. Hence, the water and wastewater treatment market was subject to sustainability-underpinned growth drivers and was expected to grow at a CAGR of 6%. Alder's responsible investment framework requires target companies to contribute to at least one of the SDGs. Nordic Water, contributes to four of them, namely clean water and sanitation, sustainable cities and communities, climate action and life below water.

Second, Nordic Water, being founded in 1961, had a proven business model and a strong financial track record with healthy EBIT margins in the double-digit range (avg. 13%). End of the year of 2010, the company's net cash position was almost SEK 60 million. Although PwC and Alder had identified some potential adjustments, the historical cash levels were considered strong.

The third and fourth investment criteria are related to the top-line. Nordic Water generated SEK 442 million in revenues in 2010 and top-line had grown at an historical CAGR of 10%, in line with Alder's target range. Further, the company had proven a case for strong growth potential, given the historical double-digit top-line growth. Historically, Nordic Water had grown faster than the water treatment market (c.5%) and the filtration equipment sector (c.8%), which further underpinned the company's leading market position. Looking at the competitive landscape, Nordic Water was uniquely positioned as a global pure-player within the filtration equipment sector in the water treatment market. Their leading position was rooted in the fact that the company provided additional customer value by being a one-stop-shop provider with global reach.

The fifth investment criteria regards the management team, which at that time consisted of six key members, all with a long history in the company. Alder identified that the team was highly motivated to remain at and grow the company. Based on the management's track-record with the company, they had accumulated significant experience and proven executive leadership capabilities. However, from interviews, it could be concluded that some interests might not be aligned within the management team. This was noted as a potential risk.

Investment criteria number six requires a strong case for active ownership. Alder had been invited to acquire a 40% stake in Nordic Water with the option to increase its ownership stake by another 15% until 2016. The initial minority investment does not fulfil the present investment criteria for active ownership. Alder, however, assessed that they despite their minority stake would be able to implement the operational and organisational initiatives that were proposed in the business plan, given that management appeared motivated. Further, the option to increase their holding to a total of 55% by the end of 2016 underpinned Alder's goal to accumulate a majority stake over time and to be able to make key strategic and investment decisions. The transaction set-up was a consequence of the deal being of proprietary nature and the former owners initially not willing to sell a majority stake.

Investment criteria number seven relates to key identifiable investment risks. Alder identified two key risks, which however were assessed to be manageable. The first related to the customer's buying behaviour. Investments into water treatment systems and equipment are sometimes subject to government financing, which are influenced by current political and economical conditions in local markets. Geographic diversification and ongoing maintenance requirements served as risk mitigation. The second risk was related to the aforementioned dependency on key personnel. The company's success was tied to the efforts and motivation of the management team and hence, the dependency.

The last investment criteria refers to the exit route. Nordic Water, being a leading pure-player in their sector, and conditional on the successful implementation of the business plan, was assumed to be an attractive target for both mid-cap financial sponsors as well as industrial buyers.

The analysis of the Nordic Water investment case against Alder's investment criteria suggests that Nordic Water was a strong target. The company matches seven out of the eight investment criteria, as illustrated in figure 11.9.3 in the appendix. Although Alder would not have a case for active ownership, the option to increase its stake to 55% by 2016 implies a gradual transition towards active ownership. In this context it should also be mentioned that investment criteria number one, sustainable industry, is the sole non-negotiable investment criteria. Taking all the above into consideration, the Alder deal-team of 2012 concluded that Nordic Water would make an attractive potential target. Following months of discussion, Alder acquired a 40% stake of Nordic Water in February 2012 at an EV/EBIT multiple of 7.7x.

7.1.3 Roadmap for Future Growth

The value creation initiatives planned by Alder were mainly focused on governance and operational engineering. The acquisition of the minority stake from the management team was funded with fund equity, and no leverage was used except for a small vendor loan. From a financial engineering perspective, Alder had generally been fairly light on the leverage used on their portfolio companies.

"Normal leverage on a fund level lies somewhere around 2x EBITDA." (Keiward Pham, Investment Director, Alder, 01.04.2021)

A leverage of 2x EBITDA can be seen as conservative from a PE context. In an international sample of leverage buyout transactions between 1980 and 2008, Axelson et. al. (2013) found that the mean debt-to-EBITDA ratio to be 5.6x. Hence, Alder's fund leverage indicates a larger focus on governance and operational engineering as value creation methods, rather than the traditional financial engineering.

With regards to governance engineering, Alder took a more active role. One of the key reasons why Alder was invited to invest in Nordic Water was that the previous owners saw a need for a more professionalised governance structure as the company grew. Finding the right chairman was key for the deal team, and eight potential candidates were interviewed. Ulf Granstrand was chosen to be the best candidate. Granstrand had had a long career within Alfa Laval, a group whose business is very close to Nordic Water's. Moreover, Granstrand had experience of similar challenges that Nordic Water was facing, such as building an international sales network and creating a viable product and geographic organization. Having good references and indicating that he was prepared to invest alongside Alder in Nordic Water, Granstrand was deemed to be a good candidate.

Regarding operational engineering, Alder, together with the management of Nordic Water, had created a 180 days business plan. The plan aimed to build an organization handling revenue of up to SEK 1 billion. The business plan included four main projects; top sales 2015, centralizing procurement, establishing a base in Brazil and creating an organization handling the increased revenue. Each project stream was assigned to separate teams, each with one representative from Alder and management, respectively. The "top sales 2015" project aimed to increase current product portfolio revenue by 50%, using existing distribution channels during the next three years. This project focused on hiring a new, market-driven CEO, strengthening the sales organization, and establishing regional offices at strategic locations. The second project aimed at centralizing procurement. At the time of Alder's investment, the different product groups within Nordic Water conducted their procurement as separate companies. An independent procurement consultancy had recently found that by centralizing procurement, large savings could be done, which had the potential to increase Alder's IRR by a low double-digit number. Thirdly, the plan included expanding operations to Brazil. Latin America had been identified as an attractive market to enter due to its growth potential and need for water treatment systems, and Brazil had been chosen as a good base. Several market entry strategies had been discussed, such as entering with a newly started subsidiary or through acquiring a well-established distributor. Lastly, the five-year vision for Nordic Water was to reach SEK 1 billion in revenue. For this to materialize, the company needed to be less dependent on a few key personnel, and create clear individual responsibilities and guidelines. In addition to the 180 days plan, two long-term projects were initiated. The first project emphasized the focus on the industry sector, and the second was to develop Nordic Water's product portfolio, through complementing and alternative products. Furthermore, Alder had initiated a dialogue

with Nordic Water regarding potential add-on acquisition opportunities to accelerate the company's growth. It had been agreed upon two acquisition rationale strategies; entering new geographical areas and getting access to complementary products or new technologies. Several potential targets of different sizes had been identified.

At this point in time, there were no specifically stated sustainability related value creation initiatives. Rather, the business case focused on growing Nordic Water through general value creation mechanisms as described above. However, although no specific strategies were set for the ESG aspects, Nordic Water could be described as an inherently sustainable company, and by growing the business through traditional methods, the potential impact of the business could also increase.

7.2 Alder's Increase in their Stake in Nordic Water in 2016

Alder's ownership style over 2012-2016 was marked by the lack of active influence. Despite the business plan developed and agreed upon, Nordic Water was not able to capitalize on the proposed strategic initiatives. The underlying reasons were multiple. First, as initially recognised as a risk, the management team was composed of strong individuals with conflicting agendas, and their vision for how, and who should run the company was not fully synced. Interpersonal tensions within the management team left marks on motivation and company vision. Since Alder did only have a minority stake in Nordic Water, and their shareholder agreement did not grant them a voting majority, Alder was not able to control the Board nor appoint or fire key personnel. This coincided with sales in key markets declining. As outlined by the identifiable market risks, core markets in Russia and the UK experienced deteriorating market conditions for investments into water treatment systems. The decline in sales was mainly related to an unexpected cyclicality of the water treatment market, given that the markets were temporarily fully invested. The deteriorating market outlook together with the difficulty of pushing through the business plan, resulted in Nordic Water experiencing a strong decline in profitability levels. From having had profitability levels of low double-digit, profitability approached break-even in 2014.

Given the situation, Alder as well as the Nordic Water management, realized that they needed to unite around a single turn-around plan for the company in order to revise the recent declining profitability trajectory. For this to materialize, Alder needed to take an active ownership role in the company to have controlling rights with regards to strategic board decisions, the appointment of key people and to strengthen the company's governance. Alder and current management agreed upon the need to appoint an external CEO, who had strong executive skills and would commit to the new business plan. In 2016, Alder made a bid to buy the current management out, but were surprised by a counter bid that the management team put forth. Against the backdrop of conflicting agendas within the management team, Alder was able to get three of the four executive managers on board on their initial bid. Hence, Alder was no longer facing a counter bid but instead faced with the situation of needing to buy a key minority stake in the company. Eventually, Alder acquired these shares at the same valuation as the management's counter-bid. Furthermore, over the next two years, Alder acquired half of the other

minority owners' shares. Hence, Alder increased its ownership stake to 74% and had now a majority ownership. In this context, Alder revised the initial shareholder agreement, veto rights were removed and Alder was now able to set the agenda for board decisions.

7.3 Value Creation in Nordic Water during Alder's Majority Ownership

After Alder acquired the majority of the shares in 2016, a new era for Nordic Water began. Being able to fully set the agenda, Alder and Nordic Water started build a platform for sustainable and profitable growth.

7.3.1 Traditional Value Creation through Methods of Engineering

Throughout Alder's ownership of Nordic Water, financial engineering has played a smaller role than governance and operational engineering. Similar to the acquisition of the first stake, no debt was used in the second transaction. However, in 2018 the company financed an add-on acquisition with some debt. Lastly, in 2020, a recapitalization of SEK 65 million was made in the form of a new bank loan to refinance expiring vendor loans, somewhat boosting the return of the investment.

Governance engineering increased significantly during the active ownership phase, with Alder now being able to fully execute on their initiatives. Incentives were aligned, and management compensation was tied to the performance of the firm. Various key personnel across both the management team and among sales personnel participated in the incentive programme, and it was revised and renewed continuously to achieve high effectiveness. In addition to the incentive programme, which was tied to firm value at exit, a bonus programme was implemented. This bonus programme tied to operational goals, ranging from financial growth to achieving ISO certification. Moreover, the Board of Directors was restructured. Starting this active ownership phase with a clean sheet and removing biases from previous legacy, the entire Board was replaced. However, previous Chair, Granstrand, stayed as a member, to bridge the gap between the previous and new team. A new team from Alder became responsible for the investment, with Henrik Flygar as responsible partner, and Per Erik Lindquist became the new Chair of the Board. Lindquist was known by Alder, as he had a strong track record from one of Alder's previous investments, Powerbox. As Nordic Water's value creation agenda had similarities with that of Powerbox', Lindquist was deemed as a good fit for the position. Finally, the organizational structure was streamlined, with improved monitoring and accountability. A new budget was set, and the management team of Nordic Water reported to Alder on a monthly basis, both through financial reporting and a qualitative CEO report focusing on progress on strategic initiatives.

During the period of active ownership, Alder conducted several value creation initiatives which could be classified as operational engineering. Firstly, Nordic Water's product portfolio was developed and refined, procurement improved, and delivery times shortened. In 2016, the Norwegian company Sobye Miljöfilter AS was acquired. The add-on acquisition of Sobye complemented Nordic Water's

microfiltration portfolio with band filters and led to Nordic Water gaining both technology and application knowledge, experience and references. The acquisition further provided access to two markets less covered by Nordic Water, the Norwegian market and the aquaculture market. There were a number of available cross-selling synergies, leveraging the strong sales force in place at Nordic Water. In hindsight, there would have been further value creation opportunities through more add-on acquisitions. However, given demanding internal projects on the agenda, the time was not enough.

Secondly, a new management team was put in place. Initially, the external CEO Karl Sohlberg was appointed already in 2014. Sohlberg set the foundation of the new sustainable strategy, but left the company after 2 years. Torbjörn Assarsson came in as an interim CEO shortly after, and restructured the business. In 2017, Jonas Gunnarsson was appointed as CEO. Biographies of the CEOs of Nordic Water during Alder's ownership is presented in appendix section 11.17.

"Jonas [Gunnarsson], he is the visionary, charismatic leader. [...] He together with his management team even exceeded our plans and expectations. They really took this company from good to great, and did that in a spectacular fashion." (Keiward Pham, Investment Director, Alder, 01.04.2021)

As one of the first tasks as the CEO of Nordic Water, Gunnarsson decided to hire Louise Graffner as CFO. Graffner had worked together with Gunnarsson previously, and had extensive experience from financial analysis, accounting and performance improvement from a range of industries. The two, together with the Alder team, played a central role in developing the new strategy for Nordic Water.

Finally, the focus on aftermarket service was emphasized. Given the lifecycle of the water treatment business and Nordic Water's heritage, the company had a large installed base. The aftermarket business had previously been somewhat neglected, but in 2017, service became a separate division at Nordic Water. Service offering was 13% of group revenue in 2017, grew to 17% of group revenue in 2020, and was expected to continue to grow by a double-digit CAGR.

7.3.2 Value Creation through Sustainability Focus and ESG

Soon after the new management team of Nordic Water had been established, a strategy centred around sustainability was set. Although Nordic Water always had a business model closely linked to several SDGs, this was not something which had been seen as a strategic driver of the business or communicated. However, through a combination of an increased global focus on sustainability, a refined operational focus on sustainability from Alder's side, and a new management team at Nordic Water, the strategic shift was made. This new strategy put sustainability at the core of the business, making sure all new initiatives in the business were aligned with the new focus. Sustainability became seen as a value driver, rather than a necessary cost, and the wide range of possibilities for sustainable

developments of Nordic Water became viewed as a hidden asset in the firm. Being sustainable was something now flowing through the entire organisation.

"We understand that sustainability is an asset and it's a way to make more money and be more profitable to drive growth. Because if sustainability will cost money, eventually it will die. I do think that when people have understood this, [...], then you find that sustainability is a really good lever for improving the development." (Jonas Gunnarsson, CEO, Nordic Water, 31.03.2021)

"When it becomes the centre of the strategy, it does also make a difference because then all of the choices that are made are done through that thinking. [...] Putting that hat on, being the financial officer, working and driving the business and bottom line [and] overseeing all the financial KPIs, I think it's important to understand that sustainability drives all of those different KPIs." (Louise Graffner, CFO, Nordic Water, 06.04.2021)

Starting with examining company sales, the new method of viewing their business found that the majority of already existing customer pain points were related to sustainability issues. This meant that an increased focus on sustainability lied hand in hand with targeting customer pain points. By being more sustainable, Nordic Water could become the top choice of their customers, helping them reach their own sustainability goals. For example, by communicating that Nordic Water's products were some 95% more energy efficient than competitors', the company could start to compete on value, rather than price. As energy efficiency results in lower cost of usage, a life-cycle analysis of the costs of using Nordic Water's screens would be lower than competitors, although the initial investment in a Nordic Water screen might be higher. This focus also flowed into new product development.

"For our development department to take a part of any funding whatsoever, for developing new products or continue developing already existing products, it has to bring down energy use, it has to take less space, become more efficient and use less wash water or less chemistry. If it doesn't tick any of those boxes, they won't get any money." (Jonas Gunnarsson, CEO, Nordic Water, 31.03.2021)

In addition to driving top line growth, sustainability also had an impact on the profitability of the firm. Aware that some costs might increase as a result of making production sustainable, Nordic Water was of the firm belief that there were also a lot of savings to be made.

"We have had a lot of quite small manufacturers that have been spread out. [...]. In the process, these things would actually be transported quite many miles, which both means that we have transportation costs, plus the fact that our footprint was high when it comes to that part. When focusing on that,

ensuring that we actually try to decrease it, we also decrease our costs for transportation." (Louise Graffner, CFO, Nordic Water, 06.04.2021)

Furthermore, the strategy shift also increased the strong cultural identity of the firm. By setting high targets and working for a good cause, efficiency and commitment among employees increased. Understanding that an order for a product not only generated money for the firm, but actually helps provide clean water, strengthened the culture of the firm.

"We do our job because it's important, we make a difference. We make a difference to the world. [...] People in the company are so much more involved from an emotional perspective." (Louise Graffner, CFO, Nordic Water, 06.04.2021)

The production of a sustainability report was initiated, with guidance from Mossberg at Alder. Moreover, a requirement from Alder was that Nordic Water appointed their own sustainability manager. In 2018, Therese Möller Andersson was hired, and shortly after, a project of creating a method of measuring and tracking the sustainability of Nordic Water was initiated. It was important for Alder and the firm to have measures which actually had meanings. Interviews were made with important stakeholders, such as employees, investors, management and distributors, and these provided an input for organizing the company's priorities within their sustainability efforts. A materiality analysis was conducted, where *value chain sustainability* as well as *product quality and service* were deemed to be areas scoring *very important for stakeholders* and having a *very high impact and value creation potential*. The full materiality analysis is displayed in appendix section 10.18.

From an environmental aspect, Nordic Water set the target to become carbon neutral by 2024, and carbon negative by 2030. Moreover, the company started measuring emission of carbon dioxide using scope 1-3 and energy use in 2019. Although not all emissions could be measured from the start, improvements were continuously made. For example, the proportion of measured freight emissions went from 40% in 2019 to 77% in 2020. Shipping was restructured and concentrated to companies providing freight with emission reports and air freight was minimized.

From a social aspect, the *Nordic Water Way* was initiated as a guide to which values, principles and policies were leading the company. Furthermore, during workshops with all offices, values were discussed, and resulted in the core values *W.E.T*; winning spirit, engagement and teamwork. Employee wellbeing was promoted through ergonomic and healthy working conditions. Sick leave was measured, and lied fairly steady at some 3%. Adding to the social responsibility, Nordic Water ensured their Code of Conduct was signed by 95% of all suppliers, and 100% of those suppliers active in countries where poor working conditions and human rights violations pose a high risk.

From a governance aspect, Nordic Water Group was certified according to the quality management system ISO 9001 in November 2019. The Code of Conduct highlights the importance of

acting in a fair and ethical manner, and in 2020 an anonymous whistleblowing channel, through a third-party provider, was implemented.

7.4 Alder's Exit Process of Nordic Water

Alder started to prepare Nordic Water for an exit in the end of 2019. Given the ongoing global Covid-19 pandemic, having the numbers right was highly emphasized. EBITDA had grown consecutively during the last few years, from some SEK 31 million in 2017 to some SEK 63 million in June 2020 LTM, corresponding to a 2.0x increase. A financial overview of Nordic Water from 2012 to 2020 is presented in appendix section 11.19. The auction process was led by Greenhill, who together with Alder and the management team developed the investment memorandum. Similar to at entry, Huber and Veolia were considered as two of the main competitors in the water and wastewater treatment market at the time of exit. Further information regarding competitors at exit is presented in appendix section 11.20-10.23.

Two potential exit routes were discovered for Nordic Water, a sale to a financial sponsor or to a strategic buyer. Alder and Greenhill were working closely together in screening the exit landscape for buyers that would align with Alder's buyer requirements. A sustainability assessment would be performed on potential buyers, notably strategics, in order to assess whether the buyer was associated with any red flags with regards to sustainability. The Nordic Water IM attracted strong interest from both the financial and industrial buyer side. It was circulated to 28 potential buyers, who were invited to participate in the first round of the auctioning process. Alder received 16 bids for Nordic Water, of which seven from strategic buyers and nine from financial sponsors, indicating a competitive process.

"We knew that Nordic Water was very attractive to the industrial buyers. We ran a rather standardized process and it played out well due to the buyer interest." (Henrik Flygar, Partner, Alder, 19.04.2021)

Over the due diligence phase, the number of bids remaining narrowed, and in December 2020, three potential strategic buyers were remaining in the process. Two out of the three strategic buyers had articulated an "ESG acquisition rationale" in their bid-letters. An overview and ranking of the 16 bids and potential "ESG rationale" can be found in the appendix section 11.24.

On December 23rd 2020, the sale was signed and Nordic Water sold to the listed Swiss pump-manufacturer Sulzer. The SEK 1.2 billion transaction later closed on February 1st 2021. The acquisition was of strategic importance for Sulzer as the company aims to further expand in the water treatment market. The acquirer noted that the acquisition is expected to hold significant value creation potential as Nordic Water will be integrated into the Sulzer's water business unit (Sulzer, 2021). Hence, Sulzer is expected to leverage and capitalize on the scale of the combined business, resulting from increased revenues and aftermarket synergies. From a sustainability perspective, the combination of the two

businesses enables Nordic Water to provide their water treatment solutions to a broader customer base. Circling back to the four SDGs that Nordic Water addresses with their customer offering, by being integrated into Sulzer's water unit, they will be able address the identified SDGs at a larger scale, which significantly increases the potential impact.

"Our joint history of supporting the water industry and the complementary nature of our businesses will allow us to deliver sustainable products that meet the needs of today without compromising with future generations. We believe in offering high quality products and combined with energy-efficiency, the life cycle cost we will jointly offer our customers is very low. This is a perfect match." (Jonas Gunnarsson, CEO, Nordic Water) (Nordic Water, 2021)

Against this backdrop, Alder was able to show that environmental impact was not created at the expense of financial return. Under Alder's ownership, Nordic Water grew its top-line from approximately SEK 450 million in 2012 to SEK 650 million in the end of 2020, and was valued at exit at some SEK 1.2 billion. Over the entire holding period, Alder achieved a money-on-money multiple in the top quartile of that commonly seen in the private equity industry. Moreover, during the second phase of the investment, when the new sustainability strategy was implemented, Alder achieved an exceptionally high IRR. Hence, no financial return was compromised, but instead, a strong case for financial and sustainable value creation presented.

An illustrative return analysis, as found in appendix section 11.25, dismantles the core value drivers. Studying the figure, it becomes apparent that the value creation was achieved in the second phase, regaining and exceeding the value lost during the downturn. Focusing on this second phase, adjusted EBITDA growth accounted for some 30%, while multiple expansion accounted for some 80% of the value creation. The remainder is attributable to the negative contribution of deleveraging. It has not been possible to dismantle the contribution of the sustainability initiatives in terms of value creation, given that these initiatives are intertwined with the company's overall strategy and, as pointed out by Nordic Water CFO, Graffner, impact all lines in the income statement. However, it can be discursively assumed that the implemented sustainability initiatives were a strong lever for adjusted EBITDA growth by both increasing top line and reducing costs. Further, the multiple expansion largely driving the value creation can be divided into two parts. Firstly, the median multiple of peers has increased by some 2.5x during Alder's entire holding period. In that context, it can be assumed that the sector's sustainable character and alignment with various SDGs has increased the sector attractiveness and led to a positive impact on the sector multiples. Secondly, as showcased in appendix section 11.22, Nordic Water was acquired at a multiple below peer median in 2012, but sold above peer median in 2020. This provides a strong argument to the renewed sustainability strategy paying off, resulting in an increased attractiveness of the firm.

The competitive auction process at exit demonstrates that Nordic Water attracted significant interest from both financial and industrial buyers, largely attributable to the sustainability profiling of the company and its strong financial track-record. Given the subjective nature of sustainable performance, one could not directly quantify the extent to which an ESG premium was influencing the bids placed by the industrial buyers. However, some 60% of the bid-letters received had an ESG rationale incorporated, indicating that Nordic Water was not only an attractive asset from a financial perspective, but also from a strategic perspective. The case demonstrates that financial value creation is anchored in having sustainability embedded in the company's business model.

"I saw more of an ESG premium from some of the industrial buyers. They saw that Nordic Water would strengthen them in terms of being perceived as more green. Sulzer is a pump manufacturer. They, and other pump manufacturers realised that just moving water isn't as good as cleaning water. From their perspective, I think, it really strengthens the environmental side of the business." (Henrik Flygar, Partner, Alder, 19.04.2021)

8. Discussion

The following section contains a discussion related to the research questions posed in the introduction. The questions are discussed on the basis of reviewed materials, data, and conducted interviews. The viewpoints presented in the section reflect the perspectives of the interviewees, as well as the authors. However, the discussion remains objective and conclusions are presented in section 9.

8.1 Views on Sustainability among Private Equity Stakeholders

The first research question relates to how various stakeholders incorporate sustainability into their investment thesis and approach. It has been stated as:

How do leading Nordic sustainability-focused private equity firms and their stakeholders consider sustainability and its related measurements?

The literature review together with the conducted interviews suggest that there is yet no standardized method of approaching and measuring sustainability efforts. Although considered highly relevant, many financial actors find it difficult to standardize and compare metrics between firms. The newly introduced Taxonomy sets a baseline for standardisation, but many stakeholders are still somewhat sceptical to whether this will solve the issue. Moreover, there is an overarching philosophical question that needs to be addressed, namely, *what is sustainability*? As there is yet no common view on the topic, it follows that a standardized measurement system becomes difficult to develop. Financial actors are used to act in accordance with standardized frameworks such as accounting, but with sustainability rising on the agenda, one can question whether it is necessary to treat sustainability similarly to other, more easily,

measurable areas? However, an opposing question becomes; if not measured and compared, will sustainability be regarded as important?

On the other hand, should sustainability be regarded as an important topic within the private equity industry? If a firm is considered as an attractive and profitable private equity target, the company will gain access to capital no matter if it is labelled as sustainable or not. On the contrary, a firm that is sustainable but unprofitable will not be a suitable private equity target, and not gain access to private equity capital. Rather, these types of firms are better suited for philanthropic investing. Hence, the overall question becomes, can sustainability be integrated in today's capitalist view of society?

With the current momentum in the industry, what does a sustainable investment in PE actually mean? Assuming that the high demand for these assets results in an ESG premium upon exit, sustainability-niched GPs benefit from the increased exit valuations. GP reputation and the asset's "sustainable" classification become the value drivers, rather than the initiatives conducted to achieve sustainability or impact. Another issue in private equity regards the question, *who should be held responsible for ensuring that capital is allocated towards sustainable assets?* Although a widely discussed topic, there is no clear view on who should bear the responsibility. GPs might be in the best position to influence businesses towards becoming more sustainable. However, is it the responsibility of the GP? The traditional view of the GPs main duty is to maximize the financial return for their investors. Hence, spending time and effort on sustainability depends on whether or not the GP can monetize on it. Again, it becomes a question of whether sustainability can be measured and should be driven by capitalists.

A method of incentivizing general partners to become more sustainable when investing in businesses is to put the responsibility at the level of the limited partners. Today, most institutional investors have some kind of sustainability policy. However, these policies are often vague and rarely do more than excluding investments in industries widely considered as "bad", such as weapons and tobacco. With the fiduciary duty of maximizing returns for their beneficiaries, such as pensioners, how much can a LP push for sustainability without limiting their ability to invest in the top performing funds currently not classified as sustainable? An idea raised during some of the interviews was the opportunity for LPs to organize among themselves to harmonize some of their sustainability requirements, notably Nordic institutional investors with a similar investment scope. Moreover, regulators have a crucial role. The PE industry, recognized as an industry with the main ambition to increase return, is not expected to make a shift completely on their own. By introducing regulations and frameworks, regulators are incentivizing capital to be allocated to sustainable projects.

Lastly, tying back to the definition of sustainability, a disparity can be found between how stakeholders view the importance of different sustainable initiatives. Data and interviews with GPs highlight a view on making investments into industries, products and services which already have a sustainable angle as the most impactful method of promoting sustainability. By providing capital to these businesses, they are able to scale the impact, and hence contribute to a better world. However,

when discussing the question with LPs and other potential stakeholders, many view private equity investments into less sustainable industries with a sustainability agenda as more impactful. Through their high ability to impact, private equity funds should make ordinary businesses more sustainable. Although there is nothing inhibiting the possibility to go for both strategies, the disparity between stakeholders becomes a further example on how sustainability in private equity is not yet a common movement, but rather the individual initiatives and ambitions of various stakeholders.

8.2 Alder's Investment in Nordic Water

The second research question is based on Alder's investment in Nordic Water. It relates to the sustainable transformation that the company has undergone and its impact on financial return, stated as:

Does Alder's investment in Nordic Water demonstrate that the ESG investment thesis does not compromise the financial return?

The study of Alder's investment in Nordic Water demonstrates that a sustainability-focused investment thesis and value creation plan does neither compromise financial return nor company value at exit. Alder's investment thesis is anchored in sustainability and their non-compromisable investment criteria regarding the requirement of the sector being sustainable. Against this baseline, Nordic Water emerged as one of the most attractive companies within the water treatment market in Alder's proprietary sourcing, scoring strong on both revenue trajectory and profitability. Alder first acquired a 40% minority interest in 2012 at an EV/EBIT entry multiple of 7.7x. At that time, the company had stable profitability levels in the low teens. In the first phase of the holding period (2012-2016), Alder was not able to implement the envisioned business plan and unlock sustainability-related value drivers, given the conflicting interests within the ownership structure. During this time, the company entered a phase of melting profitability levels which coincided with the absence of a unified strategic vision. Circling back to how PE firms can create value, this case demonstrates that the lack of a strong corporate governance structure and active ownership undermine a company's growth and value creation potential. Nordic Water's turnaround started in 2016 when Alder increased its ownership stake to become the majority owner. With an updated shareholder agreement together with the installation of a new management team, Alder designed a business plan for Nordic Water that would unlock its growth potential. The business plan was rooted in capitalizing on a number of operational initiatives related to top-line growth, margin improvements, and governance initiatives of creating an identity based on sustainability and shared company values. Over the second phase of the holding period (2017-2020), Nordic Water grew its top-line from SEK c.450 million to SEK c.650 million while simultaneously recovering its profitability levels to sustainable low double-digits. In 2021, Nordic Water was sold in a competitive auction process to the strategic buyer Sulzer, in a transaction that valued the company at SEK 1.2 billion. With these financial figures at hand, one can look back at Nordic Water as a successful turnaround story. The initiatives capitalized on Nordic Water's offering being sustainable per-se and by

addressing customer pain points. With a streamlined product portfolio structured by the company's sustainable value themes, Nordic Water accelerated its growth and strengthened its market position.

At this point, one can discuss whether the turnaround was driven by Nordic Water monetizing on its sustainable value themes, or whether it was driven by the fact that key markets recovered. Although the market recovery contributed to strengthening Nordic Water's top-line, interviews with management confirmed that the turnaround primarily was rooted in the implemented initiatives. Further, Alder could leverage the fact that Nordic Water operates in an industry that due to its sustainable profile carries attractive characteristics with regards to market size and growth potential. Hence, the findings confirm that Alder's investment in Nordic Water did by no means compromise their financial return. On the contrary, the investment in question, together with Alder's track-record, demonstrate that Alder generated financial returns in line with those seen at other top-performing generalist funds. A final point interesting to reflect upon is whether Alder's investment scope, the clean-tech sector, limits Alder's financial returns, given that some high-growth industries are excluded from their investable universe. This reasoning, however, is equally relevant for traditional private equity funds who have a sector focus.

9. Conclusion

9.1 Concluding Remarks

Sustainability within the private equity industry is a widely discussed and contemporary topic. This thesis has aimed to dismantle how sustainability related initiatives and value creation processes can be incorporated into private equity firms' investment cycle without compromising financial returns. Circling back to the first research question, how sustainability within the Nordic private equity context is considered and measured, this thesis demonstrates the absence of a unified view. Although all stakeholders emphasize the importance of investing sustainably and contributing to societal impact, the degree and method of involvement varies widely, and there are only a few sustainability-niched GPs. Among these GPs, the focus of investing ranges from thematic ESG-investing to impact investing. Common for the three interviewed firms is the firm's respective investment criteria alignment with the SDGs and their view on fiduciary duty, namely to maximize financial returns while achieving sustainable impact. From interviews with institutional investors, it can be concluded that the majority view their fiduciary duty primarily as financial. Today, the most common method for sustainable investing is still based on negative screening, with further advancements expected to come from increased regulatory burdens. Additionally, limited partners have diverging views on the degree of correlation between sustainability and financial returns. To gain more comfort when allocating capital towards sustainable investments, LPs require data that support the positive correlation between financial returns and such investments. Accountability is assumed to be achieved by investors needing to adopt a standardized framework for communicating and reporting. In this regard, the introduced EU Taxonomy has been welcomed by the investment community and represents a first attempt to

standardize the language regarding sustainability-linked measurements. This shall help limited partners and other stakeholders to evaluate and compare how sustainable the general partners' investment operations are.

The case study about Alder's investment in Nordic Water highlights how sustainable initiatives can drive the performance of a portfolio company. In relation to the second research question, whether or not Nordic Water's ESG-related initiatives compromised financial returns, this thesis has shown the latter to be true. Rather than compromising on financial returns, the company's financial development and turnaround was in fact driven by the implemented sustainable measurements. In addition, Nordic Water's growth trajectory and profitability are largely attributable to the management's commitment to driving ESG initiatives and the organisational culture having sustainability in its core. Hence, sustainability was a central part in driving Alder's return on their investment in Nordic Water.

Final Conclusions:

- Despite the awareness of sustainability within the private equity industry, stakeholders have yet not found common ground on definitions and most effective methods on how to incorporate it into the investment processes
- Discussed sustainability-niched general partners are of the firm belief that sustainability initiatives are important value creation levers. Available track record on their performance supports the view that there is no trade-off
- Limited partners have diverging views on their fiduciary duty, as well as the potential return trade-off associated with sustainability
- Going forward, regulation and increased transparency are presumed to facilitate measurability and comparability
- The Nordic Water case study demonstrates that Alder's implementation of a sustainability-anchored strategy builds the foundation to achieving an attractive return

9.2 Limitations of Thesis and Areas for Further Research

This thesis has showcased how Nordic niched PE firms integrate sustainability into their investment processes. However, given the novelty of the topic and this thesis methodology, three core areas of limitations have been identified. These limitations present opportunities for further research.

The first limitation concerns the definition of sustainability, and its related measurements. Since industry practitioners have come up with their own definitions for sustainability, it has been difficult to disentangle the differences between ESG and impact, or sustainable investing. As a consequence, measurements and comparisons are inherently difficult. Measurements are mainly of qualitative nature, and sustainability-related KPIs can primarily be used for comparisons over time at the specific portfolio company, and not for relative comparisons. However, with the new regulatory framework introduced by the EU, standardization is expected to increase. This opens up opportunities for further research, given that the industry will be required to report upon these standardized KPIs. It should be noted that meaningful research is some years away, given that the EU Taxonomy is not yet fully developed, and that data needs to be collected over a period of years.

A second limitation relates to the difficulties of isolating the specific effect of sustainability. By including sustainability in the company strategy, the entire business is affected, as showcased in the Nordic Water case study. Given the causality, it is difficult to quantify how sustainability initiatives have affected return, isolated from other initiatives. Methods for valuing sustainability is a current topic in academia, and this thesis highlights the need for further research.

A third limitation is a consequence of the case-study methodology. The case-study of Nordic Water exemplifies how a GP can drive exit returns by having an investment thesis and strategy rooted in sustainability. Hence, it is unlikely that the sustainability initiatives implemented under Alder's ownership and following results can be replicated by another general partner with another portfolio company. The setting is too specific for a replication to succeed. An adjacent limitation regards the fact that the case-study leverages the information obtained through qualitative interviews, which implies that the information might be biased by the viewpoints of the interviewees. This is despite the fact that the authors of the present thesis have aimed to present the case as objective as possible. Given the limited numbers of GPs and LPs interviewed, general conclusions cannot be drawn from this study. Therefore, we invite other students and academics to immerse in further research by increasing the scope of the analysis. It is suggested that a broader base of GPs and LPs are interviewed to obtain a sample that can be used for quantitative analysis with significant results. While the present thesis has shown that sustainable initiatives implemented at Nordic Water did not compromise the financial return for Alder upon exit, the authors invite other researchers to conduct a study where the focus lies on showing how sustainable initiatives potentially could compromise the return potential for a GP.

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10.5 Data Providers

CapitalIQ
Pitchbook
Preqin

11. Appendix

11.1 The Sustainable Finance Disclosure Regulation

Background: To meet the EU's climate and energy targets for 2030 and reach the objectives of the European Green Deal, investments need to be directed towards sustainable projects and activities. In order to achieve this, it has been recognized that a common language and a clear definition of what is "sustainable" is needed.

What: The EU Taxonomy is a classification system supporting investors and companies to make informed investment decisions on environmentally friendly economic activities. The EU Taxonomy is a list of economic activities with performance criteria for their contribution to six environmental objectives. Taxonomies are used in the investment industry to help drive capital towards sustainability objectives.

To be included in the proposed EU Taxonomy, an economic activity must contribute substantially to at least one environmental objective and do no significant harm to the other five, as well as meet minimum social safeguards. Technical screening criteria set the requirements for determining substantial contribution and Doing No Significant Harm.

The Six Taxonomy Objectives	
1	Climate Change Mitigation
2	Climate Change Adaption
3	Sustainable Use and Protection of Water and Marine Resources
4	Transition to a Circular Economy, Waste Prevention and Recycling
5	Pollution Prevention and Control
6	Protection of healthy Ecosystems

It should be noted that the Taxonomy will be developed gradually.

Source: EU Technical Expert Group on Sustainable Finance

11.2 Sustainable Investment in Private Equity

Figure 11.2.1 Sustainable Investing Approaches

Sustainable Investing

Socially Responsible Investing (SRI)	Environmental, Social & Governance (ESG) factors	Impact Investing
Investors use screening and exclusion, divestment, positive reinvestment and shareholder activism to achieve positive societal or environmental outcomes	Metrics to measure a company's risks outside of a financial accounting framework	Investing in companies and funds for both financial returns and measurable social and/or environmental impact(s)
Most commonly used in public markets, easily accessed by all investors	More public market funds are incorporating this framework, though private market participants are starting as well	Prominent in private market investments, limited access for smaller investors

Source: PitchBook

Figure 11.2.2 Sustainable Investment Frameworks

Sustainable Investment Framework

Standard	Purpose	Strength	Drawback
United Nations Sustainable Development Goals (SDGs)	Improve the world	Widespread recognition and adoption	Not always investable goals
Sustainability Accounting Standards Board (SASB)	Recognize material business risks	Industry-specific guidelines, material business risks	Stakeholders are secondary to inbound business risks
Global Reporting Initiative (GRI)	Report on a company's impact on the world	Stakeholder value framework	Ignores some risks to companies

Source: PitchBook

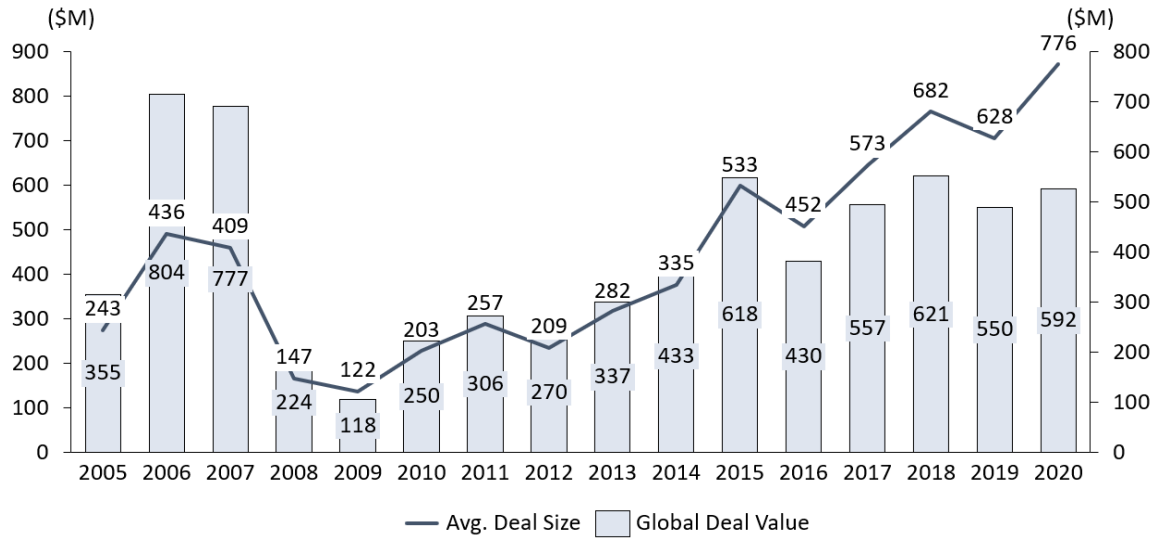
11.3 Overview of Interviewees

Overview of Interviewees

Interviewee	Current Title	Main Focus of Interview	Number of interviews
Andreas Nilsson	Founder and Managing Director, Sonanz	LP/GP perspective on sustainable private equity	1
Anna Follér	Head of Sustainability, AP6	LP perspective on sustainable private equity	1
Åsa Mossberg	Sustainability Manager, Alder	GP perspective on sustainable private equity + Nordic Water case study	2
Carl Cederberg	CEO, Kyrkans Pension	LP perspective on sustainable private equity	1
Daniel Winther	Head of Private Equity and Infrastructure, Skandia	LP perspective on sustainable private equity	1
Hanna Ideström	Senior Portfolio Manager, Alternative Investments, AP4	LP perspective on sustainable private equity	1
Helena Fagraeus Lundström	Head of Via Summa, Summa Equity	GP perspective on sustainable private equity	1
Henrik Flygar	Partner, Alder	GP perspective on sustainable private equity + Nordic Water case study	1
Jan Ståhlberg	Founder and Managing Partner, Trill Impact	GP perspective on sustainable private equity	1
Jan Starmans	Assistant Professor, Department of Finance, SSE	Academic perspective on sustainable private equity	1
Jonas Gunnarsson	CEO, Nordic Water	Nordic Water case study	1
Keiward Pham	Investment Director, Alder	GP perspective on sustainable private equity + Nordic Water case study	4
Louise Graffner	CFO, Nordic Water	Nordic Water case study	1
Malin Lindfors Speace	Senior Advisor and Partner, Ethos International	Advisor and regulatory perspective on sustainable private equity	1
Per Olofsson	Head of Alternative Investments, AP7	LP perspective on sustainable private equity	1
Pia Irell	Impact Partner, Trill Impact Advisory AB	GP perspective on sustainable private equity	2
Therese Möller Andersson	Head of Sustainability, Nordic Water	Nordic Water case study	1
Viktor Lindroth & Catrine Engström	Partner and responsible for FS Risk and Regulation, PwC & Advisor, Sustainable Finance, PwC	Advisor and regulatory perspective on sustainable private equity	1

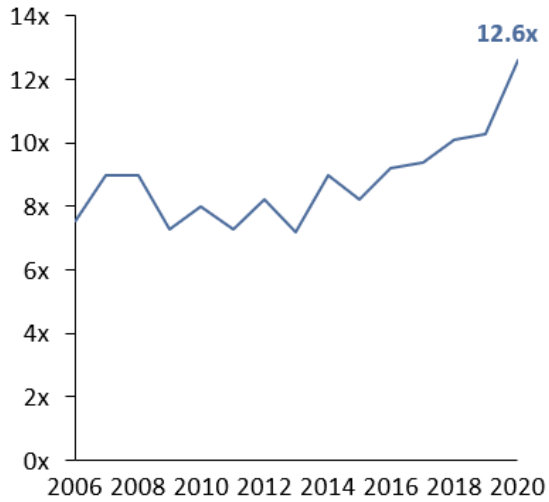
11.4 Supporting Data for Section 4 - Current State of the PE Market

Figure 11.4.1 Global Buyout Deal Value and Average Deal Size



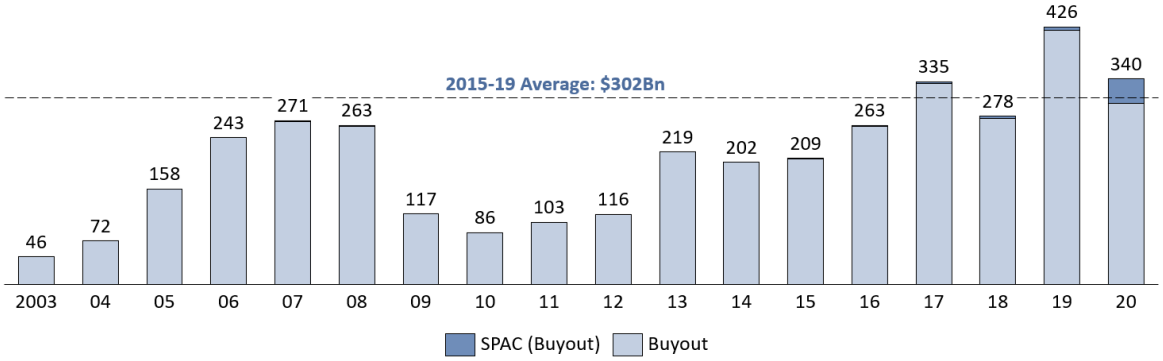
Source: Bain Global Private Equity Report 2021

Figure 11.4.2 Average European EBITDA Purchase Price Multiples for LBOs



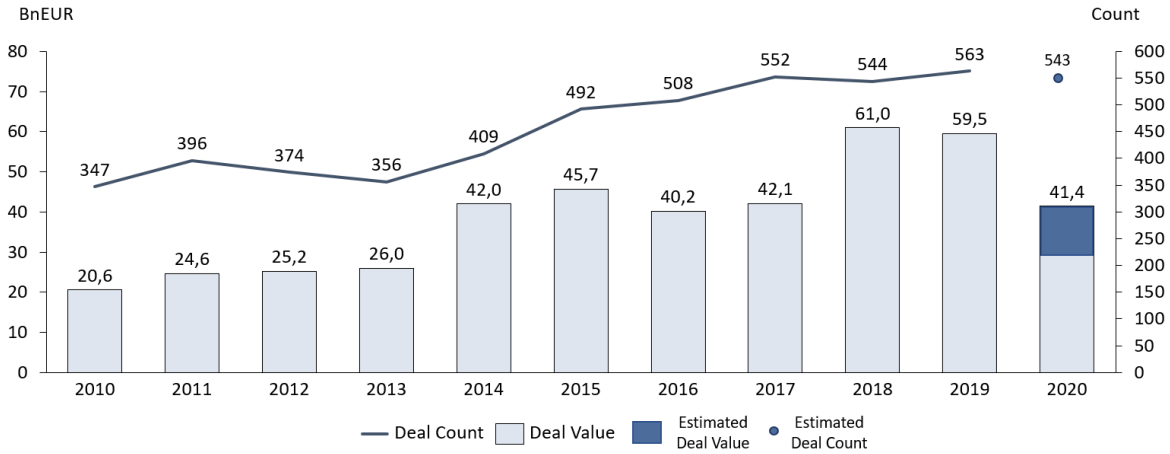
Source: Bain Global Private Equity Report 2021

Figure 11.4.3 Buyout and Buyout SPAC Private Capital Raised ($Bn)



Source: Bain Global Private Equity Report 2021

Figure 11.4.4 Nordic Private Equity Deal Activity



Source: Pitchbook Nordic Private Capital Breakdown 2021

11.5 Common Sustainable Investment Approaches

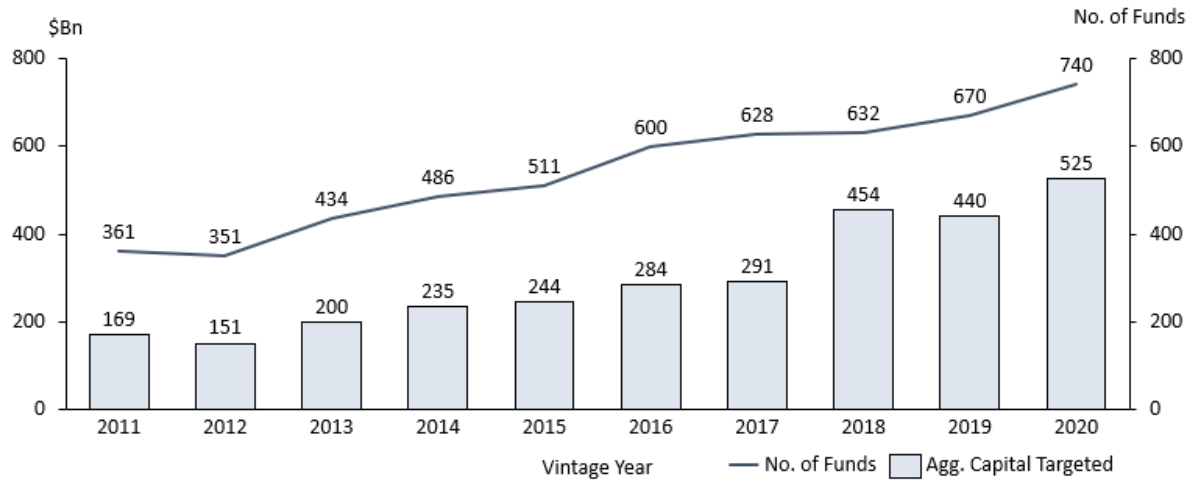
Degree of Active Ownership

	ESG Risk-Based	ESG Opportunity	ESG Transformation	ESG Thematic	Impact Investing
Focus	Compliance Focus	Performance and Efficiency Approach	Leveraging active ownership to transform traditional business models into future fit business to achieve positive impact	Investing in products and solutions that contribute to sustainable development	Investing in services and products that provide sustainable developments in underserved markets
Description	Investors apply an ESG lens to identify current and/or future risk that may have a negative effect on cash flow and exit valuations. Due diligence findings and a 100-day action plan is important to this approach. Furthermore, regular ESG reporting plays an essential role to mitigate, or identify early warning signs on any negative impacts	Investors have identified the portfolio company's ESG aspects which have the largest exposure to leverage new revenue streams, increase operational efficiencies and reduce costs/expenditures. For the investor, increasing operational efficiency whilest reducing portfolio company's negative ESG footprint, is a win-win	Investors seek out traditional "business as usual" investment opportunities. However, they provide management with support to integrate structured ESG processes and transform the business model to be more sustainable. Consequently, creating a positive impact. This approach supports the transition towards a sustainable economy	Thematic investing by definition is an approach that aims to take advantage of macro-level trends. In this case, investors seek out potential targest that offer thematic exposure to environmental and social themed products and services	Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside financial return

Source: Grant Thornton, ESG in Nordic Private Equity 2020

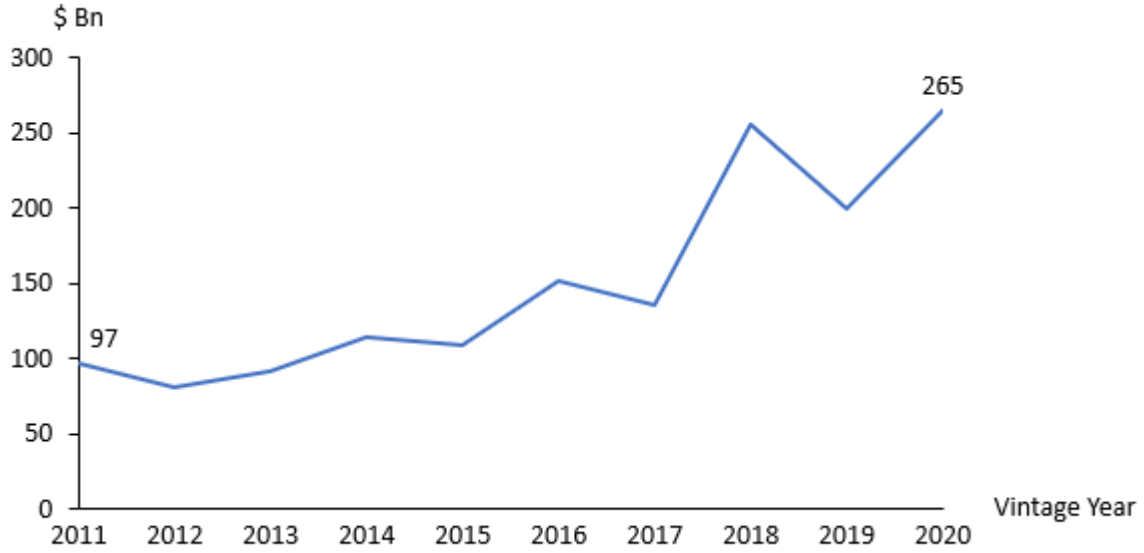
11.6 The Current State of ESG in Private Markets

Figure 11.6.1 ESG-Committed Funds Closed and Still Raising by Vintage Year



Source: Preqin Pro as of September 2020

Figure 11.6.2 ESG-Committed Assets under Management in Private Equity



Source: Preqin Pro as of September 2020

Table 11.6.1 Largest ESG-Committed Private Capital Fund Managers (Vintages 2011-2020)

ESG Committed Fund Managers

Rank	Firm	Headquarters	AUM ($Bn)	No. of Funds Closed
1	Carlyle Group	US	109,4	66
2	Brookfield Asset Management	Canada	92,1	19
3	Ardian	France	84,6	51
4	EQT	Sweden	73,2	19
5	Apollo Global Management	US	70,7	27
6	Ares Management	US	49,8	25
7	Lexington Partners	US	39,4	9
8	ICG	UK	36,3	20
9	Macquarie Infrastructure and Real Assets (MIRA)	UK	36,1	19
10	HarbourVest Partners	US	32,9	41

Source: Preqin Pro

Table 11.6.2 Largest Impact-Committed Private Capital Fund Managers (Vintages 2011-2020)

Impact Committed Fund Managers

Rank	Firm	Headquarters	AUM ($MM)	No. of Funds Closed
1	IFC Asset Management Company	US	8 093,4	10
2	Turner Impact Capital	US	950,7	4
3	Apis Partners	UK	850,0	2
4	DBL Partners	US	633,8	4
5	TriLinc Global	US	537,8	3
6	Demeter Partners	France	524,6	5
7	Asia Capital Real Estate	US	411,0	4
8	EBRD	UK	393,5	2
9	Vital Capital Investments	Switzerland	350,0	1
10	TIIC	Portugal	344,3	1

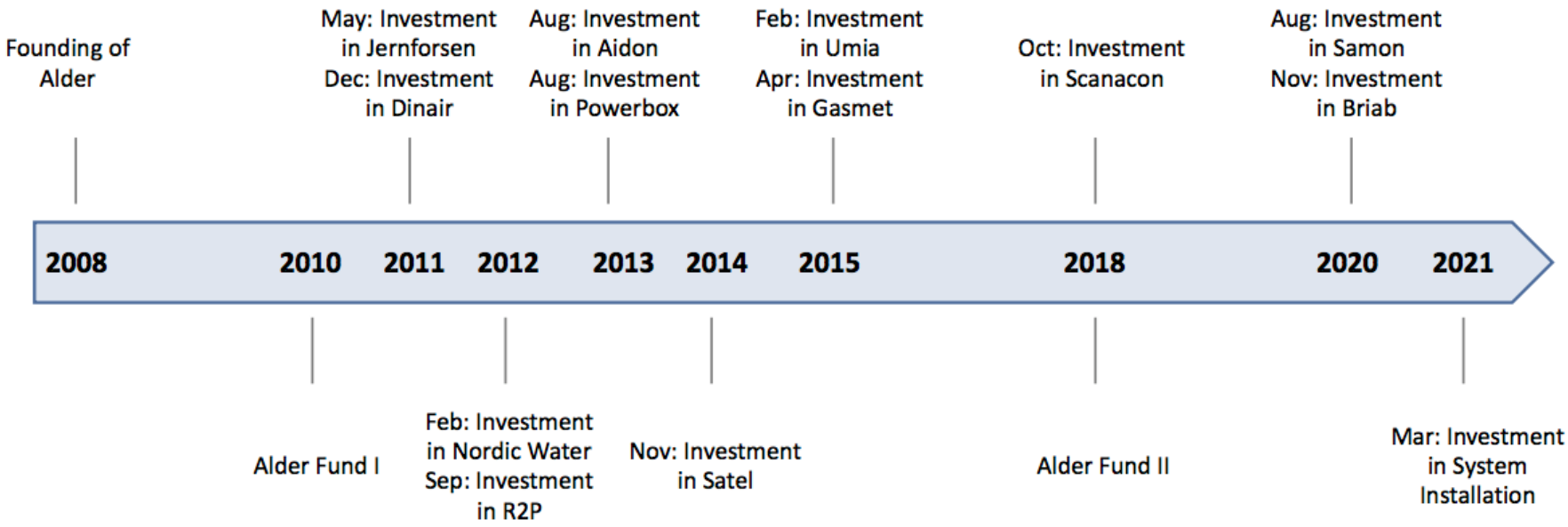
Source: Preqin Pro

11.7 Alder, Summa Equity and Trill Impact: Key Facts and Figures

	General Partner		
	Alder	Summa Equity	Trill Impact
Category	Private Equity	Private Equity	Private Equity
Type	Buyout	Buyout	Buyout
Year Founded	2008	2016	2020
Founder(s)	Dag Broman Henrik Flygar Jonas Frick Thomas Nilsson Carl Hall	Reynir Indahl	Jan Ståhlberg
# Investment Professionals	12	17	14
Size	Alder I: SEK 1.1Bn Alder II: SEK 1.5Bn	Fund I: SEK 4.7Bn Fund II: SEK 6.7Bn	EUR 720 MM
Status	Open	Open	Open
Sustainable Investing Approach	ESG Thematic	ESG Thematic	Impact Investing
Example of LPs	AP Fund 7 Folksam AB Kyrkans Pensionskassa	Florida State Board of Administration AP Fund 1 Gjensidige Nor Forsikring HarbourVest Partners LGT Capital Partners Storebrand ASA University of Michigan	Nordea AP Fund 4
Sources	Company Information PitchBook CapitalIQ	Company Information PitchBook CapitalIQ	PitchBook

11.8 Introduction to Alder

Figure 11.8.1 Timeline of Private Equity Firm Alder



Source: Company Information

Table 11.8.2 Biographies on Alder Partners

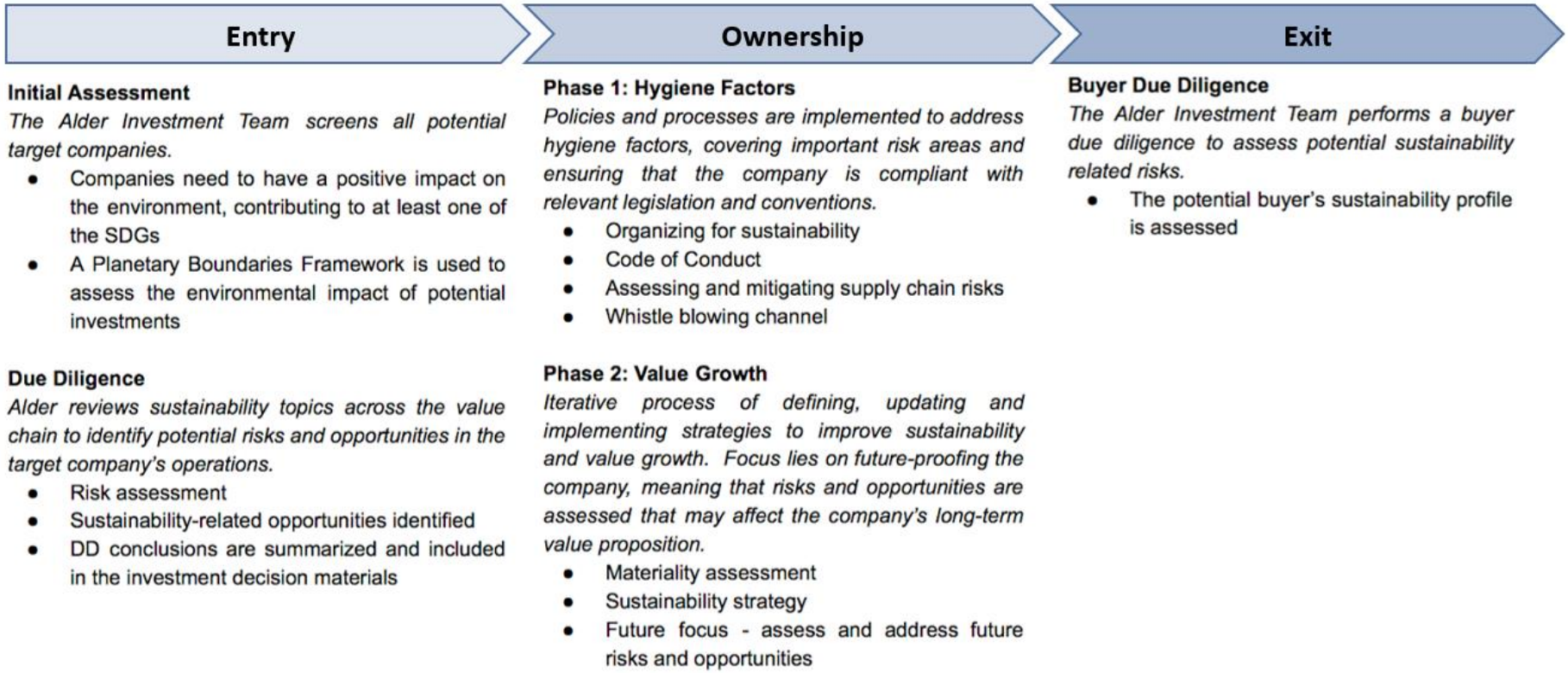
Overview of Key Partners at Alder

Name	Title	Biography
Thomas Nilsson	Partner & Chairman	Nilsson has more than 30 years of experience in investment in growth companies. He has previously worked with investments in the Wallenberg sphere for many years as CEO of Export-Invest, member of the management group in Investor AB as well as one of the initiators behind Investor Growth Capital.
Dag Broman	Partner	Broman has extensive experience as an advisor and consultant to investors in the environmental engineering sector. He has a background as a Professor and Head of one of Scandinavia's major research institutions for applied environmental science at Stockholm University. He worked in parallel as a consultant and investigator for the Nordic industry, private and institutional investors in the field, as well as national and international R&D organizations and authorities. Broman was also active as a national expert for EU's research and innovation programs and its evaluation work of collaborations between academia and SME within environmental science and technology.
Henrik Blomé	Partner	Blomé has been a partner at Alder since 2017, and has a long experience from active ownership and investment in the Nordic region. He has previously worked for 15 years at the public investment company Ratos, where he was Deputy CEO. Before Ratos, Blomé worked as a management consultant at Bain & Company.
Henrik Flygar	Partner	Flygar has a long experience as an investor in small and medium-sized growth companies. He was formerly responsible for Nordic Water. Flygar has previously worked at 3i where he was responsible for investments similar to Alder's. He has also been working with private equity investments for Goldman Sachs Capital Partners in London for several years. Further, Flygar has worked as a financial advisor for many leading organisations e.g. Goldman Sachs Investment Banking, Morgan Stanley and Alfred Berg Fondkommission.
Jonas Frick	Partner	Frick has long experience as a business executive. Prior to Alder, Frick was CEO of SLS Venture, the second largest biotech fund in the Nordic region. Prior to that, he was Managing Director of Medivir, which during Frick's time was listed and developed into an international research company. For almost 15 years, Frick was active in the Pharmacia Group, where he established business, R&D and production organisations in the Nordic countries, Japan and Italy. In 1995 he was Deputy Managing Director of the Pharmaceutical Division (Pharmacia Therapeutics AB). In addition, he has worked as a consultant at Indevo, a consulting company focusing on business and organisational development, and "Turn around management".
Arash Raisse	Partner	Raisse has prior to joining Alder worked at Karnell where he was involved in several acquisitions of unlisted companies. He has also worked within M&A at Morgan Stanley in London.
Åsa Mossberg	Sustainability Manager	Mossberg started at Alder 2018 and supports the portfolio companies in activities related to sustainability issues. She has a broad background both in the financial sector and sustainability. As a founder of Beadifference AB, Mossberg has helped many companies in sustainable business development. Furtermore, Mossberg has extensive experience from leading positions, including Procter & Gamble and UBS in the Nordics, as well as board assignments in both listed and unlisted companies.

Source: Alder Company Information

11.9 Alder's Investment Process and Investment Criteria

Figure 11.9.1 Alder's Investment Process



Source: Company Information

Figure 11.9.2 Alder's Investment Criteria

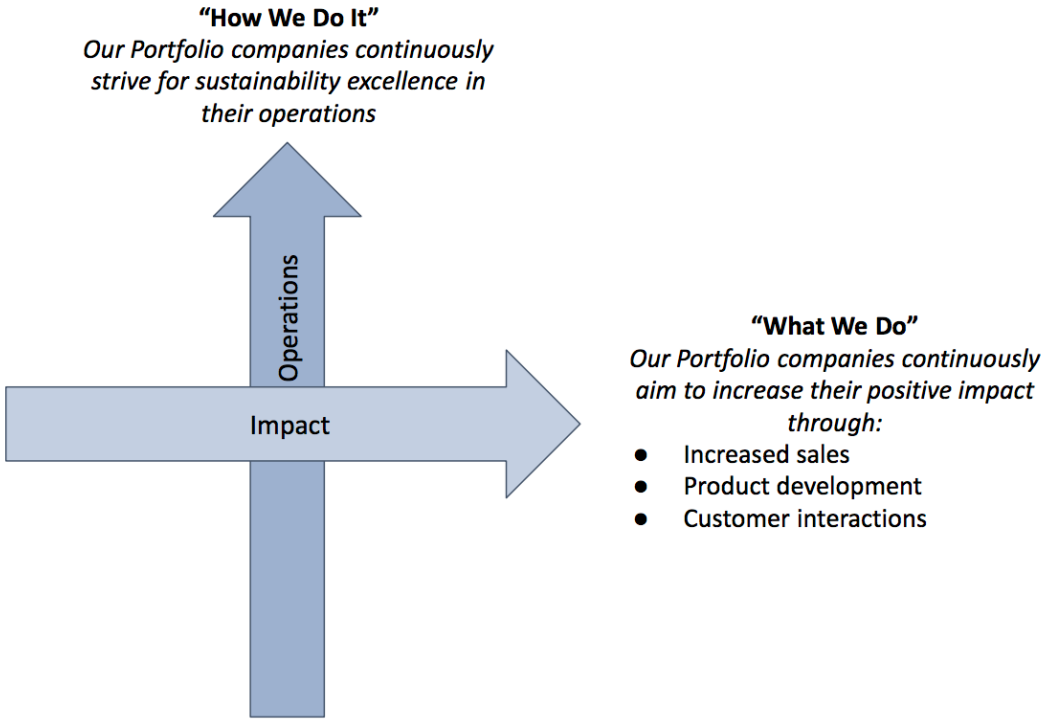
Source: Company Information

Figure 11.9.3 Nordic Water: Fit with Investment Framework

Source: Company Information

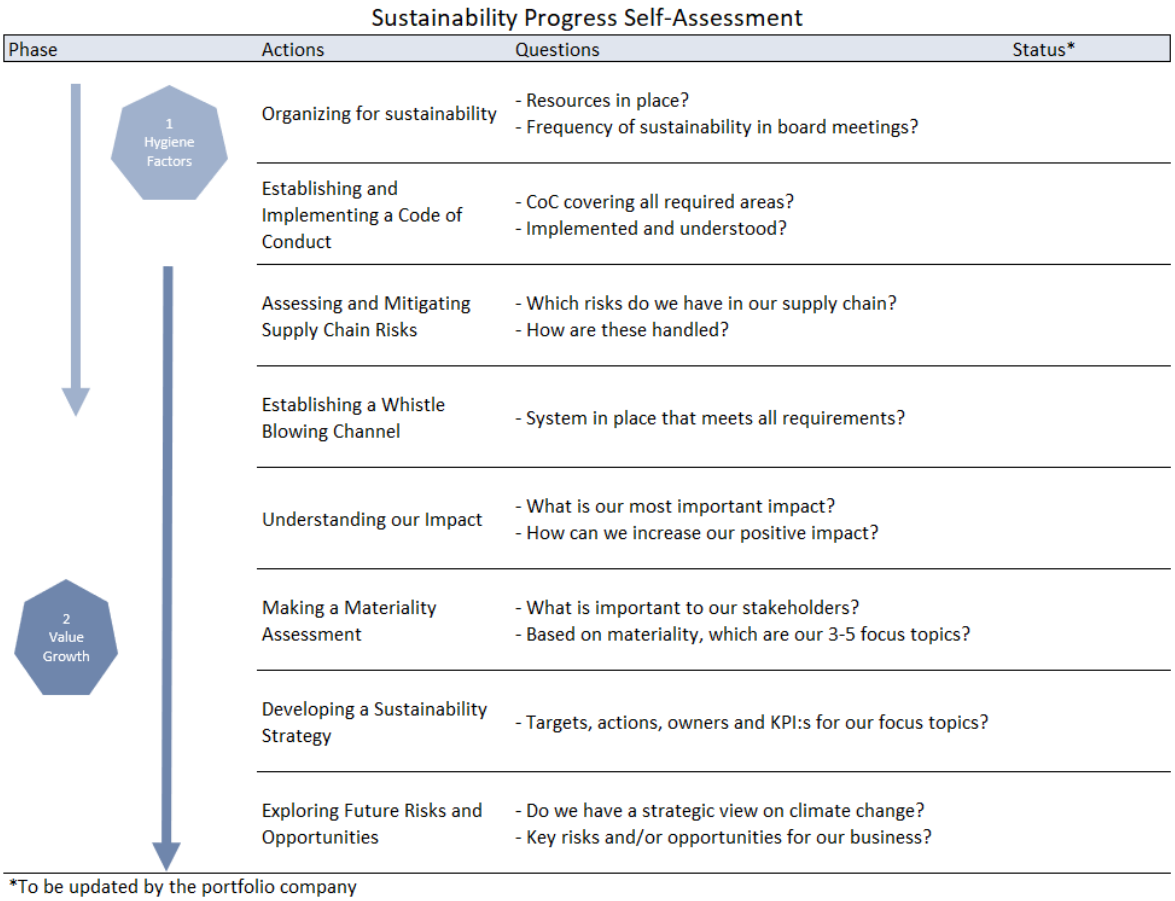
11.10 Sustainability Progress Self-Assessment

Figure 11.10.1 Sustainability Framework



Source: Company Information

Figure 11.10.2 Sustainability Progress Self-Assessment



Source: Company Information

11.11 Alder Portfolio Overview

Current Portfolio Companies

Name	Description	Investment Date	Headquarter	Revenue 2019	Ownership	Fund
Aidon	Pioneer within smart grid and smart metering technology and services	Aug, 2013	Jyväskylä	EUR 29 MM	57%	Alder Fund I
Briab	Fire safety engineer also offering software and risk management services	Nov, 2020	Stockholm	SEK 149 MM	69%	Alder Fund II
Satel	Expert and innovator in independent radio M2M technology	Nov, 2014	Salo	EUR 14 MM	93%	Alder Fund I
Umia	Installation and service of electrical, piping, sprinkler and HVAC	Feb, 2015	Umeå	SEK 1250 MM	49%	Alder Fund I
Scanacon	Provider of acid management systems and solutions within steel production	Oct, 2018	Stockholm	SEK 160 MM	89%	Alder Fund II
Samon	Refrigerant detection solutions for industrial, commercial and marine applications	Aug, 2020	Malmö	SEK 50 MM	77%	Alder Fund II

Divested Companies

Name	Description	Investment Date	Headquarter	Revenue Entry	Revenue Exit	Fund	Sold to
Dinair	Manufacturer and supplier of air filters	Dec, 2011	Vadstena	SEK 140 MM	SEK 360 MM	Alder Fund I	Dalkin Group, 2016
Jernforsen	Developer and provider of biofuel plants with a capacity of 2-20MW	May, 2011	Halmstad	SEK 135 MM	SEK 170 MM	Alder Fund I	LINKA Energy, 2018
Powerbox	Manufacturer of devices for efficient power supply	Aug, 2013	Gnesta	SEK 300 MM	SEK 440 MM	Alder Fund I	Cosel, 2018
R2P	Developer and provider of intelligent technology systems for the mobile transport sector	Sep, 2012	Flensburg	EUR 8 MM	EUR 35 MM	Alder Fund I	HQ Equita, 2018
Gasmet	Provider of acid management systems and solutions within steel production	Apr, 2015	Helsinki	EUR 15 MM	EUR 25 MM	Alder Fund I	Alder Fund II
Nordic Water	Provider of water and wastewater treatment solutions	Feb, 2012	Göteborg	SEK 450 MM	SEK 650 MM	Alder Fund I	Sulzer AG, 2021

Source: Company Information as of February 2021

11.12 Nordic Water Business Segments

Figure 11.12.1 Overview of product segments in 2012, at Alder entry

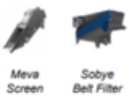
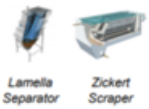
Product Segments in 2012

Product Group	Example of Products	Purpose	Share of Revenue
NWP		Fine solid/liquid separation (Lamella) and water polishing through continuous sand filter (DynaSand).	22%
Meva		First step solid/liquid mechanical separation, sand washing and dewatering of screenings (solid waste).	21%
DynaDisc		Raw (drinking) water filtration or wastewater polishing.	14%
Zickert		Handling of sludge or scum from wastewater treatment plants.	23%
Subsidiaries		In order to be closer to the market subsidiaries are established in certain key markets.	19%

Source: Company information

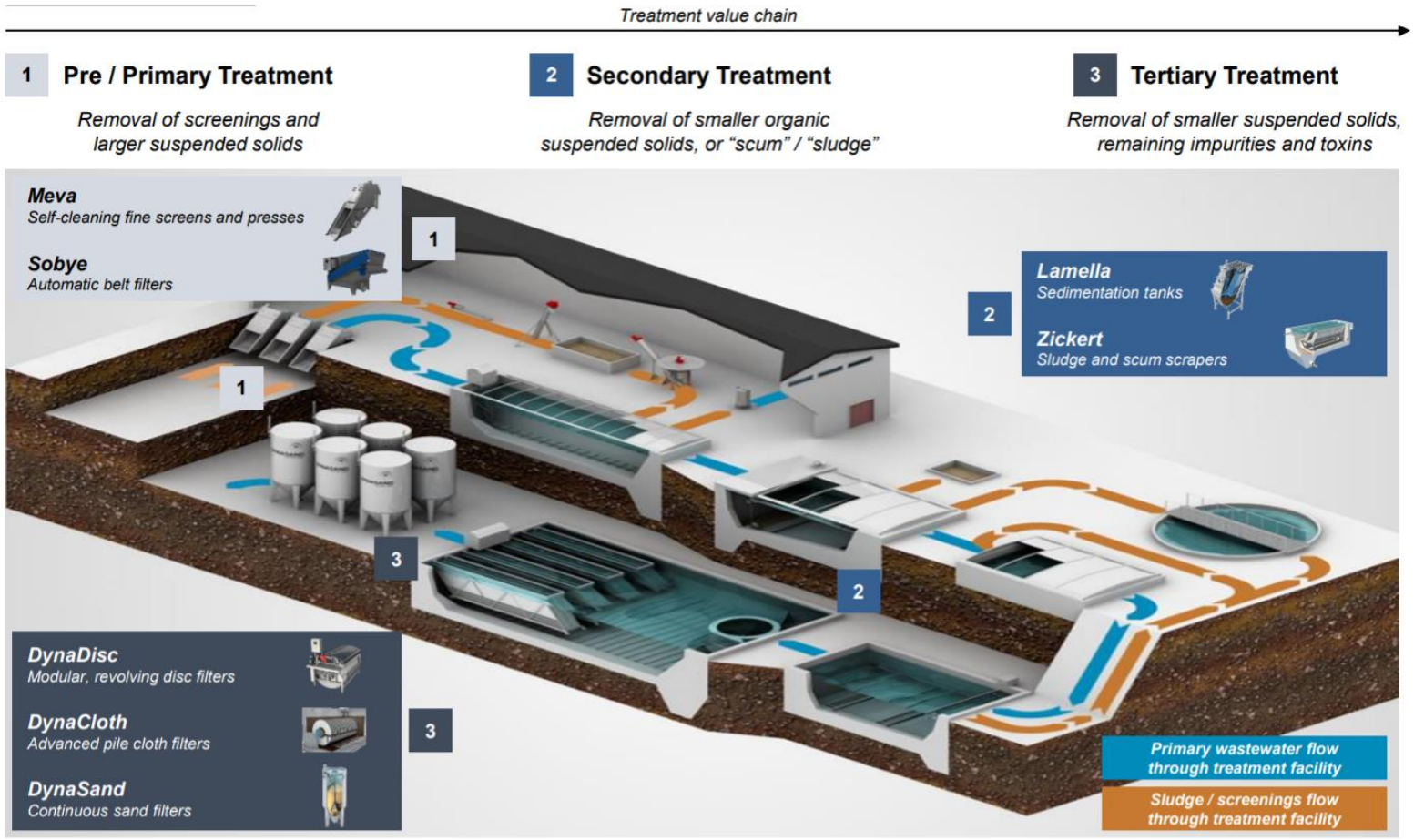
Figure 11.12.2 Overview of product segments in 2021, at Alder exit

Product Segments in 2021

Product Group	Example of Products	Purpose	Share of Revenue
Screening		Removal of screenings and larger suspended solids.	28%
Sedimentation		Removal of smaller organic suspended solids, or scum / sludge.	21%
Filtration		Removal of smaller suspended solids, remaining impurities and toxins.	51%

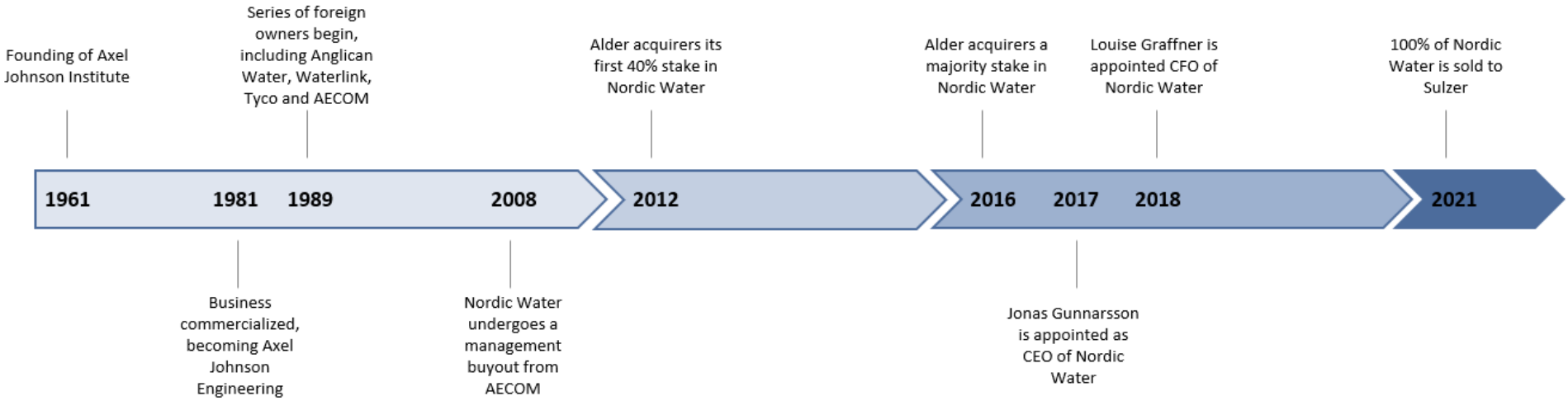
Source: Company information

11.13 Illustration of Nordic Water's products in a wastewater treatment facility



Source: Company Information

11.14 Timeline of Nordic Water Investment



Source: Company Information

11.15 Estimated Water and Wastewater Market at Alder Entry

Nordic Water's Estimated Addressable Market

Area	Market Size 2011 (MSEK)	CAGR 2007-2010	CAGR 2010-2016
Western Europe	9,524	(1)%	6%
Eastern Europe / Central Asia	2,813	12%	9%
Middle East / North Africa	3,801	20%	7%
East Asia Pacific	19,638	8%	2%
South Asia	449	0%	18%
North America	10,425	0%	10%
Latin America & Caribbean	1,815	14%	9%
Sub-Saharan Africa	1,079	8%	3%
RoW	385	5%	6%
Total	**49,929**	**5%**	**6%**

Source: Company Information

11.16 Nordic Water Competitive Overview in 2012

Competitor Overview

Company	Country	Competing sales (MSEK)	Competiton, product group				Competition Geographical
			NWP	MEVA	DynaDisc	Zickert	
Huber SE	Germany	913	x	x	x	x	Global
Purac (Läckeby Water)	Sweden	669	x	x		x	Europe
Malmberg Water	Sweden	284	x	x		x	Europe
Hydrotech (Veolia)	France	N/A			x		Global
Parkson Corporation	USA	N/A	x				Americas
Finnchain	Finland	60				x	Nordic, Eastern Europe
Dewaco	Finland	56				x	Global
VA Teknik	Sweden	26				x	Nordic
Conpura	Sweden	37				x	Global
Salsnes	Norway	88		x			Nordic
Pasques	The Netherlands	401	x				Global
Headworks	USA	N/A		x			USA
Meurer Research Inc	USA	202	x			x	Americas
Forty-X (Siemens)	Germany	N/A					Global
Bilfinger Berger Facility Group	Germany	N/A		x	x		Global
ITT	USA	N/A				x	Global

Source: Company Information

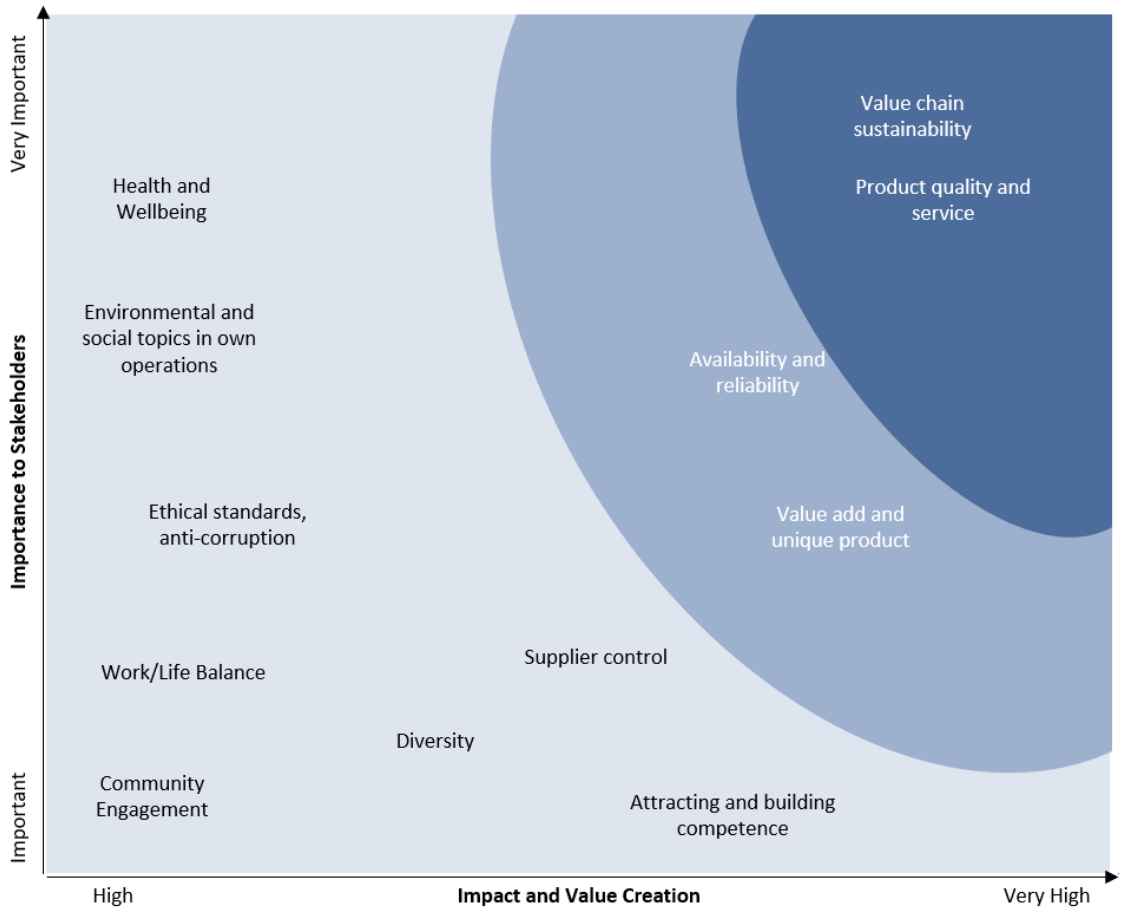
11.17 Biographies for Nordic Water's CEOs during Alder's Ownership

Overview of CEOs at Nordic Water during Alder's Ownership

Name	Appointed CEO	Biography
Krister Lundberg	n.a.	Lundberg founded Meva in 1990, and sold it to Nordic Water in 1997. He was part of the management team conduting the management buyout of Nordic Water from AECOM in 2008, and continued to be a minority shareholder after Alder acquired their first stake in Nordic Water in 2012.
Karl Sohlberg	2014	Sohlberg came to Nordic Water with an experience from various positions within sales and strategy in water technology divisions at ITT. He was hired at Nordic Water with a turnoaround role to regain profitability and growth. Sohlberg holds a degree in Mechanical Engineering from Linköping University.
Torbjörn Assarsson	2016	Assarsson came to Nordic Water as an interim CEO, having previously been CEO fuel cell company Powercell. Moreover, Assarsson had experience from restructuring projects. He holds a degree in Mechanical Engineering from KTH Royal Institute of Technology.
Jonas Gunnarsson	2017	Gunnarsson came to Nordic Water with previous experience from, at that time private equity-owned, Car-O-Liner and ABB. He holds a degree in Business Economics from Lund University.

Source: Company Information

11.18 Nordic Water Sustainability Materiality Assessment



Source: Nordic Water Sustainability Report 2019

11.19 Nordic Water Key Financials 2011 - June 2020

Key Financials (Fiscal Year End in Dec 31)

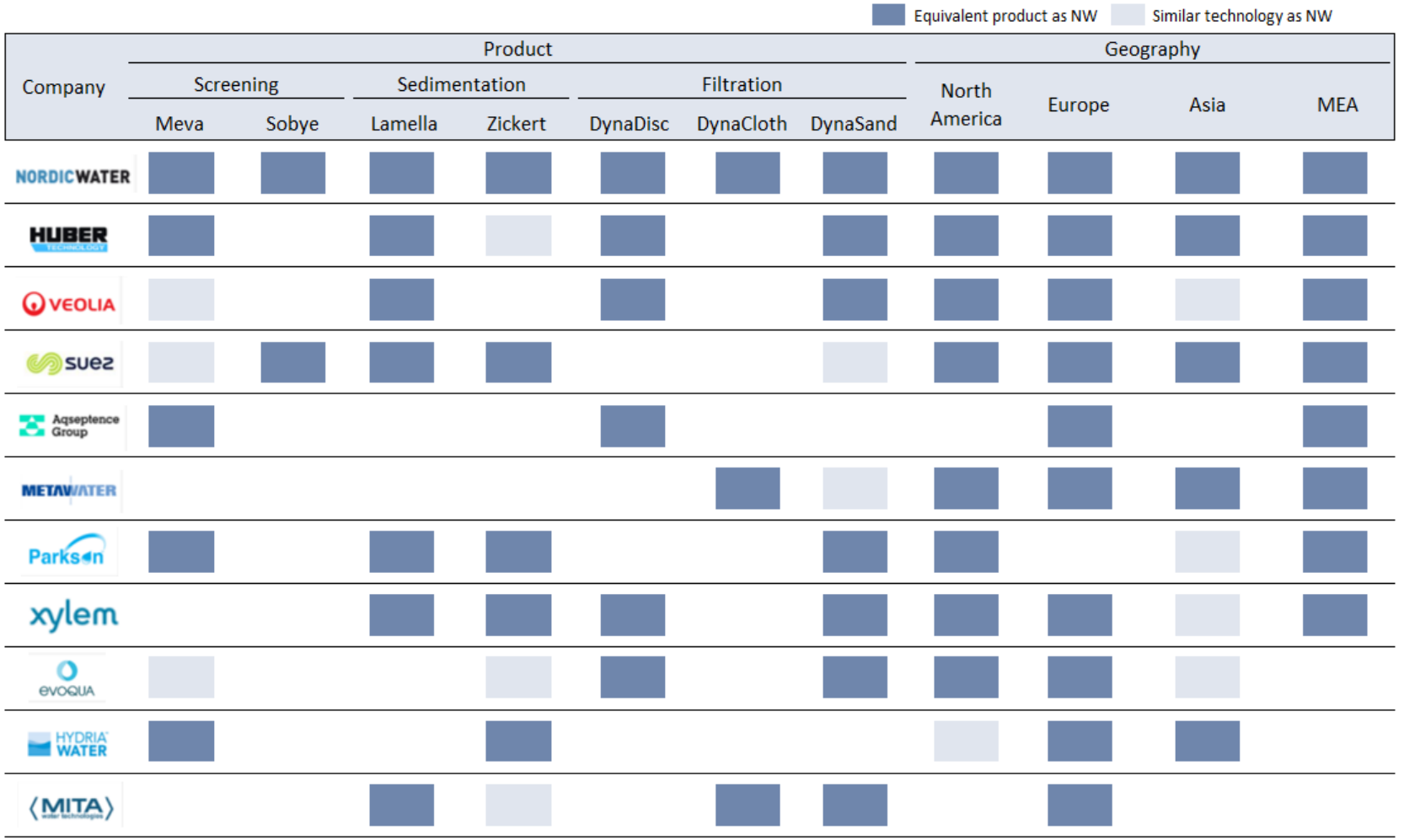
	2011	2012	2013	2014	2015	2016	2017	2018	2019	June '20 LTM
Revenue (MSEK)	461	450	386	398	439	479	492	572	559	592
EBITDA adj.	66	40	29	6	16	23	31	45	45	63
% margin	*14.2%*	*8.9%*	*7.5%*	*1.4%*	*3.6%*	*4.8%*	*6.3%*	*7.9%*	*8.1%*	*10.6%*
- Depreciations	(5)	(5)	(5)	(5)	(4)	(2)	(3)	(3)	(3)	(4)
EBITA	61	35	23	1	13	21	29	42	42	59
- Amortizations (badwill reversal)	4	4	3	-	-	-	-	-	-	-
EBITA adj.	**65**	**39**	**27**	**1**	**13**	**21**	**29**	**42**	**42**	**59**
% margin	*14.2%*	*8.7%*	*6.9%*	*0.1%*	*3.0%*	*4.4%*	*5.9%*	*7.3%*	*7.5%*	*10.0%*

Net Debt (Fiscal Year End in Dec 31)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	June '20
+ Financial debt		0	0	0	0	20	32	75	72	72
- Cash and equivalents		(19)	(3)	4	(25)	(24)	(31)	(15)	(41)	(76)
Net debt		**(19)**	**(3)**	**4**	**(25)**	**(4)**	**1**	**60**	**31**	**(4)**
Net debt / Adj. EBITA		*(0.5)x*	*(0.1)x*	*8.8x*	*(1.9)x*	*(0.2)x*	*0.0x*	*1.4x*	*0.7x*	*(0.1)x*

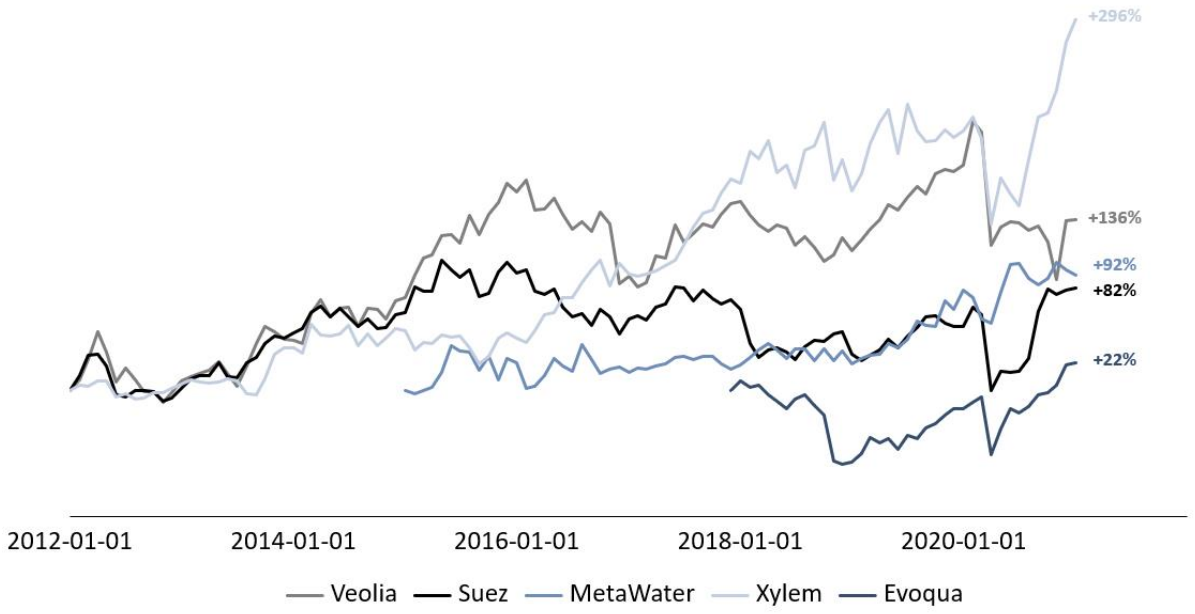
Source: Company Information

11.20 Nordic Water Competitive Overview in 2020



Source: Company Information

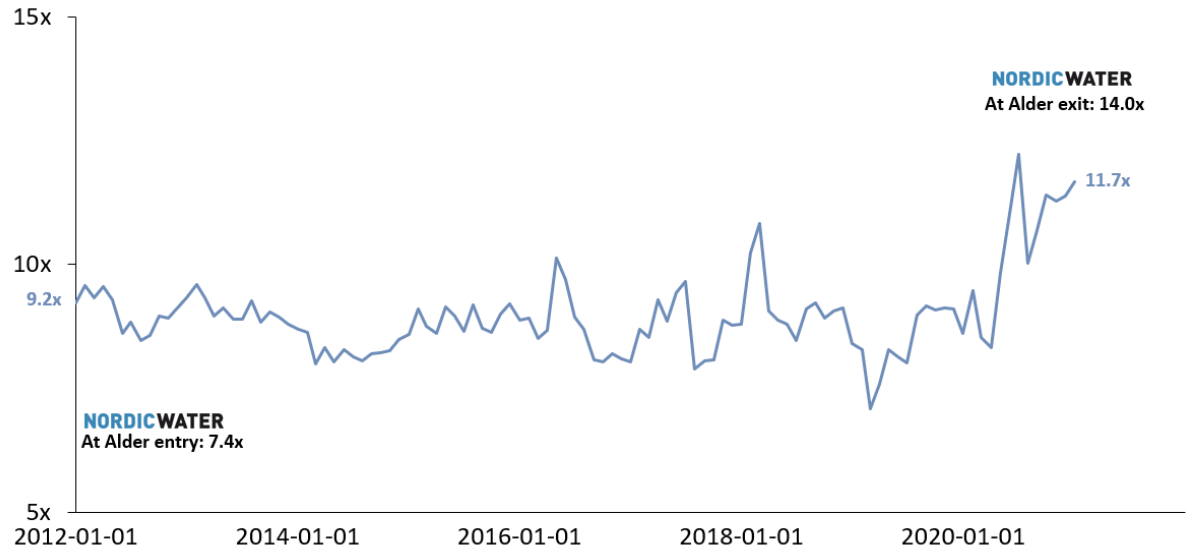
11.21 Share Price Graph of Publicly Traded Peers, Rebased to 100



Source: Capital IQ as of May 2021

11.22 Median EV/LTM EBITDA of Publicly Traded Peers and Alder's Entry and Exit Multiple for Nordic Water

Comment: Peer group comprised of Veolia, Suez, MetaWater, Xylem and Evoqua



Source: Capital IQ as of May 2021 and Company Information

11.23 Financial Overview of Key Listed Competitors

VEOLIA ENVIRONNEMENT S.A.

(in millions of USD)

Key Financials [1] For the Fiscal Period Ending, In Currency	12 months Dec-31-2017A USD	12 months Dec-31-2018A USD	12 months Dec-31-2019A USD	12 months Dec-31-2020A USD	LTM 12 months Dec-31-2020A USD
Total Revenue	**29,801.2**	**29,713.0**	**30,511.4**	**31,816.4**	**31,816.4**
Growth Over Prior Year	*2.61%*	*4.56%*	*4.77%*	*-4.34%*	*-4.34%*
Gross Profit	**5,064.2**	**4,909.4**	**4,894.0**	**4,756.1**	**4,756.1**
Margin %	*16.99%*	*16.52%*	*16.04%*	*14.95%*	*14.95%*
EBITDA	**3,471.9**	**3,477.7**	**3,488.5**	**3,182.6**	**3,182.6**
Margin %	*11.65%*	*11.70%*	*11.43%*	*10.00%*	*10.00%*
EBIT	**1,650.2**	**1,671.6**	**1,675.5**	**1,282.8**	**1,282.8**
Margin %	*5.54%*	*5.63%*	*5.49%*	*4.03%*	*4.03%*
Earnings from Cont. Ops.	**620.6**	**749.1**	**979.1**	**279.4**	**279.4**
Margin %	*2.08%*	*2.52%*	*3.21%*	*0.88%*	*0.88%*
Net Income	**477.5**	**504.5**	**701.3**	**108.6**	**108.6**
Margin %	*1.60%*	*1.70%*	*2.30%*	*0.34%*	*0.34%*
Diluted EPS Excl. Extra Items [3]	**0.648**	**0.836**	**1.414**	**0.232**	**0.232**
Growth Over Prior Year	*-10.00%*	*35.19%*	*72.60%*	*-84.92%*	*-84.92%*

[1] All results taken from the most recently filed statement for each period as of the valuation date. When there has been more than one, earlier filings can be viewed on the individual statement pages.

[2] Growth rates for the LTM period are calculated against the LTM period ending 12 months before.

[3] EPS figures for forward periods are Reuters mean estimates.

SUEZ SA

(in millions of USD)

Key Financials [1] For the Fiscal Period Ending, In Currency	12 months Dec-31-2017A USD	12 months Dec-31-2018A USD	12 months Dec-31-2019A USD	12 months Dec-31-2020A USD	LTM 12 months Dec-31-2020A USD
Total Revenue	**18,951.7**	**19,843.3**	**20,216.9**	**21,050.8**	**21,050.8**
Growth Over Prior Year	*3.01%*	*9.81%*	*3.95%*	*-4.48%*	*-4.48%*
Gross Profit	**10,349.9**	**10,378.5**	**10,743.9**	**11,083.9**	**11,083.9**
Margin %	*54.61%*	*52.30%*	*53.14%*	*52.65%*	*52.65%*
EBITDA	**2,462.5**	**2,590.1**	**2,972.6**	**2,493.0**	**2,493.0**
Margin %	*12.99%*	*13.05%*	*14.70%*	*11.84%*	*11.84%*
EBIT	**1,181.4**	**1,285.7**	**1,334.4**	**762.0**	**762.0**
Margin %	*6.23%*	*6.48%*	*6.60%*	*3.62%*	*3.62%*
Earnings from Cont. Ops.	**619.5**	**647.8**	**683.6**	**(91.0)**	**(91.0)**
Margin %	*3.27%*	*3.26%*	*3.38%*	*-0.43%*	*-0.43%*
Net Income	**354.8**	**383.4**	**394.7**	**(279.1)**	**(279.1)**
Margin %	*1.87%*	*1.93%*	*1.95%*	*-1.33%*	*-1.33%*
Diluted EPS Excl. Extra Items [3]	**0.540**	**0.537**	**0.539**	**(0.528)**	**(0.528)**
Growth Over Prior Year	*-35.71%*	*4.31%*	*2.25%*	*NA*	*NA*

[1] All results taken from the most recently filed statement for each period as of the valuation date. When there has been more than one, earlier filings can be viewed on the individual statement pages.

[2] Growth rates for the LTM period are calculated against the LTM period ending 12 months before.

[3] EPS figures for forward periods are Reuters mean estimates.

METAWATER CO., LTD.

(in millions of USD)

Key Financials [1] For the Fiscal Period Ending, In Currency	12 months Mar-31-2018A USD	12 months Mar-31-2019A USD	12 months Mar-31-2020A USD	12 months Mar-31-2021A USD	LTM 12 months Mar-31-2021A USD
Total Revenue	**1,044.2**	**1,058.9**	**1,196.3**	**1,205.8**	**1,205.8**
Growth Over Prior Year	*-0.71%*	*5.81%*	*9.70%*	*3.60%*	*3.60%*
Gross Profit	**225.7**	**233.7**	**249.8**	**267.8**	**267.8**
Margin %	*21.62%*	*22.07%*	*20.88%*	*22.21%*	*22.21%*
EBITDA	**78.4**	**82.1**	**88.0**	**111.2**	**111.2**
Margin %	*7.51%*	*7.75%*	*7.36%*	*9.23%*	*9.23%*
EBIT	**63.5**	**68.7**	**76.4**	**98.2**	**98.2**
Margin %	*6.08%*	*6.48%*	*6.39%*	*8.15%*	*8.15%*
Earnings from Cont. Ops.	**37.2**	**46.7**	**52.8**	**59.3**	**59.3**
Margin %	*3.56%*	*4.41%*	*4.42%*	*4.92%*	*4.92%*
Net Income	**37.0**	**46.7**	**52.8**	**59.2**	**59.2**
Margin %	*3.54%*	*4.41%*	*4.41%*	*4.91%*	*4.91%*
Diluted EPS Excl. Extra Items [3]	**0.714**	**0.900**	**1.076**	**1.361**	**1.361**
Growth Over Prior Year	*-17.10%*	*31.52%*	*16.08%*	*30.03%*	*30.03%*

[1] All results taken from the most recently filed statement for each period as of the valuation date.
When there has been more than one, earlier filings can be viewed on the individual statement pages.

[2] Growth rates for the LTM period are calculated against the LTM period ending 12 months before.

[3] EPS figures for forward periods are Reuters mean estimates.

XYLEM INC.

(in millions of USD)

Key Financials [1] For the Fiscal Period Ending, In Currency	12 months Dec-31-2017A USD	12 months Dec-31-2018A USD	12 months Dec-31-2019A USD	12 months Dec-31-2020A USD	LTM 12 months Dec-31-2020A USD
Total Revenue	**4,707.0**	**5,207.0**	**5,249.0**	**4,876.0**	**4,876.0**
Growth Over Prior Year	*24.82%*	*10.62%*	*0.81%*	*-7.11%*	*-7.11%*
Gross Profit	**1,847.0**	**2,026.0**	**2,051.0**	**1,836.0**	**1,836.0**
Margin %	*39.24%*	*38.91%*	*39.07%*	*37.65%*	*37.65%*
EBITDA	**814.0**	**948.0**	**952.0**	**742.0**	**742.0**
Margin %	*17.29%*	*18.21%*	*18.14%*	*15.22%*	*15.22%*
EBIT	**580.0**	**687.0**	**695.0**	**491.0**	**491.0**
Margin %	*12.32%*	*13.19%*	*13.24%*	*10.07%*	*10.07%*
Earnings from Cont. Ops.	**330.0**	**549.0**	**401.0**	**254.0**	**254.0**
Margin %	*7.01%*	*10.54%*	*7.64%*	*5.21%*	*5.21%*
Net Income	**331.0**	**549.0**	**401.0**	**254.0**	**254.0**
Margin %	*7.03%*	*10.54%*	*7.64%*	*5.21%*	*5.21%*
Diluted EPS Excl. Extra Items [3]	**1.830**	**3.030**	**2.210**	**1.400**	**1.400**
Growth Over Prior Year	*26.21%*	*65.57%*	*-27.06%*	*-36.65%*	*-36.65%*

[1] All results taken from the most recently filed statement for each period as of the valuation date.
When there has been more than one, earlier filings can be viewed on the individual statement pages.

[2] Growth rates for the LTM period are calculated against the LTM period ending 12 months before.

[3] EPS figures for forward periods are Reuters mean estimates.

EVOQUA WATER TECHNOLOGIES CORP.

(in millions of USD)

Key Financials [1] For the Fiscal Period Ending, In Currency	12 months Sep-30-2017A USD	12 months Sep-30-2018A USD	12 months Sep-30-2019A USD	12 months Sep-30-2020A USD	LTM 12 months Dec-31-2020A USD
Total Revenue	**1,247.4**	**1,339.5**	**1,444.4**	**1,429.5**	**1,405.5**
Growth Over Prior Year	*9.69%*	*7.38%*	*7.83%*	*-1.04%*	*-4.22%*
Gross Profit	**418.2**	**422.3**	**448.1**	**461.3**	**451.1**
Margin %	*33.53%*	*31.53%*	*31.02%*	*32.27%*	*32.10%*
EBITDA	**205.6**	**195.6**	**203.7**	**240.7**	**238.9**
Margin %	*16.48%*	*14.60%*	*14.10%*	*16.84%*	*17.00%*
EBIT	**127.7**	**109.7**	**105.4**	**133.4**	**129.4**
Margin %	*10.24%*	*8.19%*	*7.30%*	*9.33%*	*9.21%*
Earnings from Cont. Ops.	**6.4**	**7.9**	**(8.5)**	**114.4**	**67.4**
Margin %	*0.51%*	*0.59%*	*-0.59%*	*8.00%*	*4.79%*
Net Income	**2.2**	**6.1**	**(9.5)**	**113.6**	**66.9**
Margin %	*0.17%*	*0.46%*	*-0.66%*	*7.95%*	*4.76%*
Diluted EPS Excl. Extra Items [3]	**0.020**	**0.050**	**(0.083)**	**0.940**	**0.550**
Growth Over Prior Year	*-81.82%*	*150.00%*	*NA*	*NA*	*4.85%*

[1] All results taken from the most recently filed statement for each period as of the valuation date. When there has been more than one, earlier filings can be viewed on the individual statement pages.

[2] Growth rates for the LTM period are calculated against the LTM period ending 12 months before.

[3] EPS figures for forward periods are Reuters mean estimates.

Source: Capital IQ as of May 2021

11.24 Ranking of bids

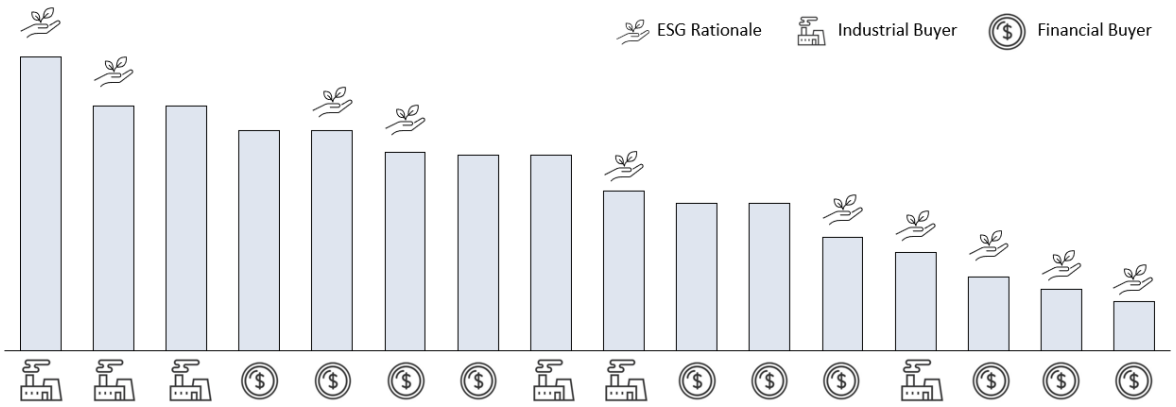
Table 11.24.1 Buyer classification

Overview of Bids for Nordic Water

	Number	Percent
Industrial	7	44%
o/w ESG rationale	*5*	*71%*
Financial	9	56%
o/w ESG rationale	*5*	*56%*
Total Number of Bids	**16**	**100%**

Source: Company Information

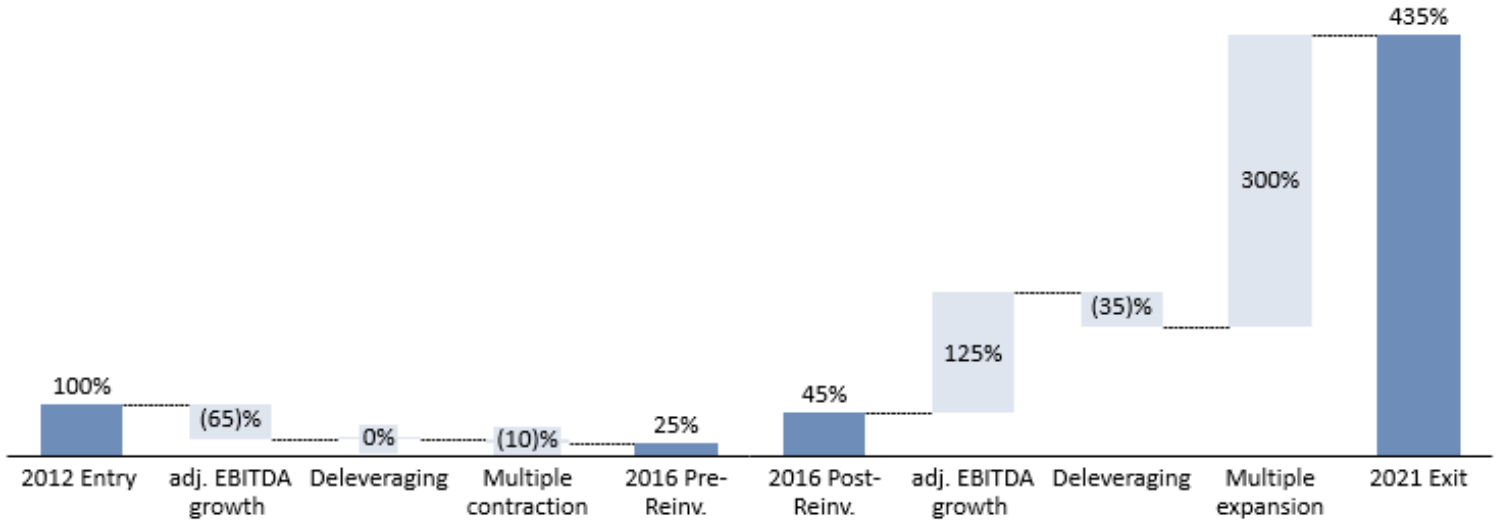
Figure 11.24.1 Ranking of bids for Nordic Water



Source: Company Information

11.25 Illustrative Return Analysis

Description:
Development of Alder's equity stake in Nordic Water during the holding period. Values are rebased to 100% at initial entry in 2012. Moreover, numbers are rounded and should be considered as guidance only.



Source: Company Information