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ESG expert discusses its impact on everything from Ukraine to global warming

U.S. is several years behind when it comes to ESG, Cadestin says

By **Will Anderson**
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Etienne Cadestin is global CEO of Longevity Partners, an ESG consultancy that helps other businesses mitigate their environmental impact.
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It seems like the entire business world is rushing to put money into the issues encompassed by the acronym "ESG" — it stands for environmental, social and governance, and has become something of a catchall for conscientious and sustainable investing. But that can come with a lot of questions: Will this affect asset values? What exactly do we tell shareholders? Does this even make fiscal sense?

Étienne Cadestin is one of the people in the room with asset managers controlling billions of dollars, explaining how it works.

He is founder and global CEO of Longevity Partners, a consulting firm that helps companies devise ESG plans, whether they want to cut their carbon footprint or benefit society in some other way. He started the business in the United Kingdom, where it still has its international headquarters, but moved to Austin late last year after picking the Texas capital as the firm's United States HQ. Cadestin is now spurring along corporate America in a headlong race to catch up with Europe on ESG investing.

Longevity is growing rapidly, not just in the ESG realm but for any kind of business. It ranked No. 260 on the latest FT 1000: the Financial Times' list of the fastest-growing companies in Europe. Longevity Partners reported 2020 revenue of €2.3 million (the average exchange rate for that year would have put that around $2.7 million), up 601.4% from 2017. The company said that was the fastest growth of any pure ESG consultancy.

It now has around 130 employees globally, up from fewer than 25 in 2020. Recent hires included University of Texas professors Molly Polk, now head of ESG strategy in the U.S., and Varun Rai, head of net zero carbon in the U.S. It just expanded with an office in Seattle and said its programs count $200 billion in assets under certification management.

Cadestin previously worked for the United Nations as well as in the environmental practices of high-profile real estate firms Knight Frank and JLL. He founded Longevity Partners in 2015 and has advised clients such as The Blackstone Group Inc. (NYSE: BX) and BlackRock Inc. (NYSE: BLK).

When he was interviewed in mid-March for the Texas Business Minds podcast, Cadestin discussed topics from the war in Ukraine to the business case for investing in ESG. You can listen to the episode in the player at the top of this story, or wherever you consume podcasts. Below are a few excerpts from the conversation.

On state of ESG investing in U.S. compared with Europe: "I would say that the U.S. is pretty much five to seven years behind when it comes to ESG, it's just what it is. But the U.S. knows that they don't have seven years to catch up. I think that the reason why you can see so much momentum towards ESG is because there's probably 24 months to catch up on the seven years, and companies are putting a huge amount of efforts towards developing good programs. So that's what we do. We set up strategies, we set up a program, and a program can go from having HR policies around diversity and inclusion — and that's more the sort of housekeeping for companies — to having a carbon plan, understanding the cost of transition. It's not just an evolution of the market, it's a revolution."

On the business case for ESG: "There should never be any tradeoff between economic performance and environmental performance. That's the entire business case behind the green economy and green jobs and this revolution that we're going through. First of all, in real estate, what we've seen is that the cost of carbon is clearly underpriced at the moment, and there's a risk — there's two risks. There's the risk of stranded assets, i.e., having to pay more to future-proof a property than it's actually worth. And that's a real risk for investment managers. A lot of investment managers have already integrated that into the management structure. ... That's why we're very busy at the moment, trying to identify that cost of transition. And then you have a "brown discount" associated with with new acquisitions. So a lot of what we do is called sustainability due diligence reports for new acquisitions, and disposals of assets. If you purchase a big tower in Manhattan, and you think it's worth $100 million, but it's not, it's worth $100 million minus the $20 million it's going to cost you to take it to net zero carbon. And that's the kind of mindset that investment managers have. Hedging a company or an asset against that potential brand discount is very good business sense."

On how ESG figures into the Russian invasion of Ukraine: "I still can't believe what's going on in Ukraine. It's deeply, deeply sad. We have about 10 projects in Russia at the moment, and we've put all of them on hold. That's just because we're sort of freezing any projects related to Russia, and I think it's the right thing to do in terms of moral. In terms of geopolitics, energy and climate change are both a geopolitical matter. There's a huge amount of security and social risks associated with energy. And that's what we're seeing now. Shutting the tap on Russian oil and gas will impact those economies that are the most reliant. And who's going to pay the price of this? That's not governments really, it's going to be the taxpayer, it's going to be people in Scotland, people in Germany, it's going to be people even in the U.S. ... At the end of day, it's citizens that will pay the price. But governments have got a responsibility to actually future-proof their economies by making their countries and their economies a lot more, I would say, self sustainable, and a lot more self sufficient and robust, because we see that if you rely on a partner like Russia, to actually fuel your cars, or to heat your homes, there could be issues associated with it. They know that they can abuse their position of power. And to some extent, the whole world has been financing this war indirectly through oil and gas. So it's clear, there's a direct correlation. And if houses were a lot more efficient, if we had more renewable energy and if countries were a lot more self sufficient when it comes to energy, we probably wouldn't have that kind of problem. It shows that this is only going to get worse, I should say, if countries don't think about their national energy security."

On why small business should care about ESG: "The smaller the business, the greater the impact, I would say, on their businesses, because they're mitigating their costs. A lot of businesses find ESG as a competitive advantage compared to conventional businesses. So anything that you can demonstrate that has purpose, that goes the extra mile when it comes to investing in your community, being deeply rooted in your community, but also, having a minimum impact on the environment is going to be good for your business. Increasing the bottom line at the end of the day by reducing your costs, I think is a super thing."

On future regulation: "What I think is going to happen in the future is that carbon reporting will be integrated with financial reporting. Now, we're at the very beginning of this. We've seen it where in the European Union, for example, all significant businesses have to report on their environmental impact and carbon emissions. But I think small businesses will have to do it in the future. And that makes sense, because, you know, the planet is cooking at the moment, and resources are getting scarce. There's no other way."

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