



Bonderman's Environment
A Privcap Conversation With David Bonderman of TPG Capital

David Snow, Privcap:

We are joined today by David Bonderman of TPG Capital.
David, welcome to Privcap today. Thank you for being here.

David Bonderman, TPG Capital: It's a pleasure... maybe.

Snow: [laughter] This will be easy, promise. So we're talking all about environmental responsibility, ESG; these are topics that are very important to you personally and in fact, you've also built a function within your firm to screen and monitor the environmental impact of your portfolio companies, and I'd like to learn about that. But first maybe we could start with your personal background and how environmental subjects became important to you personally.

Bonderman: Well, I've had a long-term interest in environmental subjects. It really started when I was in college and I thought I wanted to be an archeologist, and I got a job working in Southern Utah at the Museum of Northern Arizona, when the Glen Canyon Dam was being built, which gave me a perspective on a lot of environmental issues, and I've sort of taken it from there.

Snow: In the business setting, and as you built TPG, to what extent, or when did it become clear to you that it was possible to be successful in investing and also to really pay attention to environmental impact?

Bonderman: I think we sort of had that view all along. We started out when my partner and I founded the firm with the notion that there were some things we didn't want to do and other things that we did want to do. And among the things we didn't want to do, was things that were degrading to the environment.

Snow: Your firm has a specific function – the ESG function – where you specifically screen your investments for their potential impact on the environment. Can you talk about how that kind of function came together and the person that you brought on board to oversee it?

Bonderman: Yes, well the idea came to be, like everything else, if you measure it and you put someone in charge of something and it's their task to

have something succeed, you'll find that you get results; whereas if you have no one who has particular responsibility, nothing will happen and it will get just ignored by inadvertence.

So some time ago we decided that the right way to deal with this was to bring on someone who had the right kind of background, and we actually have a couple of people: we have a fellow named Ed Norton, who among other things, founded the Grand Canyon Trust, founded some national parks in China, has been active in the environmental movement for maybe forty years by now, although probably Ed wouldn't admit to that long.

And we just brought on a woman who had been in the same position at General Motors, so we actually have two people and a little department that has as its mission to make sure that we pay attention to these kinds of issues.

Snow: As the ESG function under Ed Norton's leadership has sort of gained traction within TPG, is there anything either gratifying or maybe surprising about the way that it's become part of the firm and its investment platform, that maybe you didn't expect?

Bonderman: I would say the most unexpected thing is that as we began to look at what our portfolio companies and our investments were doing, and found that many of the companies were actually doing quite a bit in this area. Idiosyncratically, different people were paying attention to different things, but a surprising number of the hundred and ten portfolio companies we have were actually doing something, even before we started working with them on it.

Snow: So is it then a function of understanding what their preexisting plans are, or the platforms are, and maybe even learning from that and sharing it across the portfolio?

Bonderman: Yes, exactly. You want to see what the best practices are, as adapted by various people in various companies; obviously what you do in your company may not fit for what I can do in my company; we're in different businesses, different geographies. But there's a lot of transplanting of best practices and there are some things we bring to the party as well.

Snow: It's probably not possible to assign exact percentages to this, but how much of the effort is: a) you're going to actually save money in your portfolio and make a difference to the bottom line, versus b) simply having a sense of responsibility for the environment?

Bonderman: Well, I think the things that are most effective are where you have both of those, where people are committed to doing the right thing, but where they see that it's financially viable and that the old adage that if you pay too much attention to these things, you won't be able to make any money, is just dead wrong in most instances.

Snow: Was there any resistance at all from some of your other partners when you wanted to get more serious about this at TPG? Did anyone ask questions like, gee, why are we trying to save the world? Is this going to make us any money?

Bonderman: I don't recall anybody having that point of view. Of course they didn't ask me.

[laughter]

Snow: Can you give an example of one of your portfolio companies where it's very clear that paying attention to the environmental impact actually made a big difference to the bottom line to the operations of the company?

Bonderman: Well, a number of companies where it's made a difference – how big a difference is a little hard to know. I'd say one of the – and perhaps somewhat surprisingly – one of the leaders in this has been Caesar's Entertainment, where they've done a myriad of things which probably have total savings in the \$20 million range, which have to do with things like conservation of electricity, dealing with waste, limiting waste and things like that, and they had many of these programs in place - or were working on them – before we actually showed up and started discussing it.

Snow: To the extent that you would give advice to another GP group, what advice would you give to someone who said, yeah, I care about these issues; I'd like to have a similar program, but I just don't have the resources, or it seems like it's a little bit too much work to put an ESG program in place?

Bonderman: Our experience has been that these programs pretty much pay for themselves and then some.

Snow: TPG invests all over the world, including in some frontier markets in Asia and other places. Is there a different imperative for ESG and responsible investing, environmental impact in some of these developing markets that is just different, or of a greater magnitude than in the West?

Bonderman: Well, I think there are some different focuses, perhaps. You know, we've been talking about environmental things, the phrase gets bandied by the ESG, which is 'environment, social and governance,' and I think the social piece of it is probably more important in some of these frontier markets.

If you look at the tragedies in Bangladesh and things like that – I'm pleased to say none of our companies had anything to do with it – but in the scheme of things, there's a social component – make sure the buildings don't fall down – which is not really environmental, it's not really governance and it's the kind of issues you don't see so much, because you have regulatory regimes in places like the United States; you don't have buildings built without permits, that are going to fall down and kill a thousand people.

Snow: There's environmental, but then there's social and governance. Is there one that you have found has made the biggest delta/difference in creating value in the portfolio company? Is it maybe the environmental piece is a small part of it, but actually the governance can sometimes make a transformative difference?

Bonderman: I think that the environmental stuff is the most important; it's the most obvious place where you can see a financial reward, which helps get people interested. I already talked about the social component, which really doesn't have, in my view, so much of a place in first world markets. And governance is an entirely different issue. And obviously better governance is better than worse governance, but I don't think you see results very much, coming out of ISS and people like that, who are saying you've got to have this many directors, or there should be this many terms and that kind of thing. I don't think that has the same kind of importance.

Snow: Is it gratifying to you to see that many of actually the very large LP institutions, and particularly LPs in Europe, have taken ESG and made it a very important component of how they look for managers? Do you see evidence that that is going to continue to spread to other LPs?

Bonderman: I think the importance - or the popularity at least – of ESG is on the way up, not on the way down. I think you will see more of it. But I think you have to be careful that it just doesn't become another one of these 'check the box' things, like you know, did person get the degree they said and so forth, we check the box, and instead it's a real function.