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The

By Krystal Scanlon

**T**he Drawdown (TDD): You joined Argentum in 2010. How has the Nordic PE market evolved

during that time?

*Jon Fredrik Vassengen (JFV):* The Nordic market has evolved a lot and it's a very different world to the one I knew in 2010. It's grown considerably in terms of AUM and the number of managers.

It's especially evolved regarding ESG. Nowadays, we see firms have developed and become more professional. There's also an increased interest from international investors that want to invest in Nordic funds, as well as international funds coming into the Nordic market.

**TDD: As manager and compliance officer, you also head up the firm's ESG due diligence and ESG strategy. What processes have you put in place?**

*JFV:* Regarding compliance, we have to remain within the legal frameworks and investment restrictions we have set. It's important for us to maintain solid legal ground work, so we can get the basics in place in our side letters. This is especially important regarding primary investments, where you don't know which companies you will invest in beforehand.

For ESG, we've developed processes for pre and post investment. For secondary investments, we do a thorough analysis of a fund's portfolio before we invest, as well as a follow-up on potential red flags or issues we find. As we don't share the same legal framework as primary funds, it's more important for us to look at the potential investee funds' ESG strategies and procedures that are in place as well as what companies are in the portfolio at the time.

Our annual follow-up highlights the importance for us to understand how each manager works on ESG, what they're doing



MANAGER AND COMPLIANCE OFFICER AT ARGENTUM

## JON FREDRIK VASSENGEN,

discusses how the fund-of-fund determines ESG criteria and the challenges of collecting quantitative ESG data

with the portfolio and what initiatives they're focused on. We ask questions such as how is the DD process developing, are there any plans to develop reporting or new procedures and so on. This gives us an understanding of how this work is continuously improving (if at all). We only get a quick snapshot of which procedures they follow and if they are members of UN PRI or similar when we actually invest, but it's important to ensure ESG work is constantly developing throughout the ownership period.

The compliance element of our follow-up highlights portfolio breaches as well as high risk-ranked companies. We ask managers to rate their portfolio based on the UN Global Compact criteria on human rights, labour, environment and corruption risk. Then we follow up specifically if companies are rated high risk, to understand why and what's being done to mitigate it.

**TDD: As a fund-of-fund, how does Argentum determine ESG criteria for the funds it invests in?**

*JFV:* We need to understand the managers' existing procedures regarding ESG, if they're a member of UN PRI and how they look at ESG prior to investing. One part is understanding where they are regarding ESG, especially new managers. Currently, we have around 90 managers in our portfolio, so we have the ability to compare similar funds and their ESG metrics. Additionally, prior to us investing, funds must follow the investment restrictions in our side letter and commit to reporting to us annually on ESG.

We do still invest in managers which don't have ESG procedures in place, such as smaller, or newly established GPs. We like to work in partnership with them to help develop their guidelines. It's great for them because they can lean on our LP perspective, but it also makes tracking ESG easier because the KPIs and metrics become more uniform across our portfolio.

**VASSENGEN BIO**

Jon Fredrik joined Argentum in 2010, after he finished his master's degree in economics at the Norwegian School of Economics. He spent his first two years at the firm as an associate, where he started to report on ESG. In 2012 he was promoted to senior associate, while the firm's compliance and ESG work continued to expand. Last year, Jon Fredrik was promoted again to manager, compliance officer and now oversees the firm's ESG strategy and DD processes.

**TDD: What are the challenges around collecting measurable, quantitative ESG data from your funds?**

*JFV:* Funds invest across a wide range of industries, geographies and stages, so in theory a lot could go wrong. And some data is more readily available in some businesses than others.

We ask managers to report on portfolios' CO2 emissions every year, for example, but have noticed the data is more available for large industrial companies than service providers and tech businesses. In 2020, we collected emissions data from almost 200 underlying companies, which equates to 20% of our total portfolio. That was a 35% increase from the year before.

We ask for the information, mainly to raise awareness of the gaps in data and get a better understanding of the exposure overall. We want to see what measurable risks underlying companies are exposed to. So far, one common theme among a lot of service providers in the funds' portfolios is customer satisfaction and employee churn.

**TDD: You've been reporting on ESG issues since 2012 - at what point and why did ESG evolve from being a consideration/nice-to-have, to part of business strategy?**

*JFV:* From the answers we received

to our first portfolio overview back in 2010-11, we understood PE could need a more structured approach to ESG, as it was still a work in progress. Back then, neither the managers or us knew what we should be specifically looking for or focusing on.

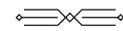
With this in mind, we implemented our strategy across the different investment strategies, the due diligence checks we do pre-investment, as well as our follow-up post-investment. We're aiming to continuously develop our ESG strategy across our portfolio and try to ensure it's easy enough for the managers to give us the data we need. This is done via a questionnaire we send to the GPs annually, which includes various open questions. This way, we can see what is currently being done, what needs to be improved and how, and that leads to getting buy-in from relevant teams to achieve the desired outcomes.

**TDD: With SFDR, CSRD and Taxonomy regulations being rolled out over the next year, do you think the EU is getting to a point of harmonisation for ESG?**

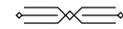
*JFV:* I think it's a double-edged sword. Regulation is a good thing because lots of companies have to report on ESG-specific data. The more data we collect, the easier it will be to compare funds and underlying companies overall.

However, I think the challenge lies in the fact these regulations aren't specifically developed for small PE-owned unlisted companies. It's geared more towards larger companies that can supply the data. I believe for smaller PE companies, the data quality can be low right now, and even some estimates. Not to mention, the increased reporting could tire people of ESG more generally. Overall, I think it's worth highlighting that the most important work on ESG should be done in the portfolio companies, with GPs using ESG to develop them and create value. That would be more beneficial than increased reporting obligations. ♦

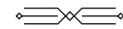
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**TIMELINE**



**2007 - 2009**  
**NORWEGIAN SCHOOL OF ECONOMICS (NHH)**  
MASTERS IN ECONOMICS



**2010 - 2012**  
**ARGENTUM**  
ASSOCIATE



**2012 - 2020**  
**ARGENTUM**  
SENIOR ASSOCIATE



**2020 - present**  
**ARGENTUM**  
MANAGER,  
COMPLIANCE OFFICER