

Forbes

Forbes

CEO Interview: Dexter Paine of \$1.2 Billion Private Equity Firm Paine and Partners

By Jayne Jung

4 April 2012

Dexter Paine, New York-based CEO of private equity firm Paine & Partners, talked to Electric Eclectic about his involvement in the World Bank Group's Global Partnership for Oceans. In February, the multilateral institution brought together private and public sector participants to form an alliance that will bolster ocean health. World Bank President Robert Zoellick pledged to raise \$1.5 billion from now until 2017 for the cause.

Paine & Partners specializes in food and agribusiness investments. Its \$1.2 billion portfolio includes Seattle-based salmon and crab processor Icicle Seafoods, a leading producer of fish meal and fish oil Scanbio Marine Group, and Houston-based environmentally-conscious waste management company for oil and gas producers R360 Environmental Solutions. Paine & Partners has offices in San Mateo, California, New York and Chicago.

Electric Eclectic: Why are you involved in the World Bank's Global Partnership for Oceans?

Paine: We think it's a global issue not a national issue. Tuna don't know whether they are in the US, Canadian, or Taiwanese waters. So what you need is a global fisheries policy and global management, and that's one of the things the World Bank is focused on managing fisheries going forward. We believe that entities like World Bank which have an economic impact on countries as a global institution is a great place to start.

Q: From an investor's perspective, how do you think not having a global policy affects the bottom line?

Paine: I think without some global oversight and global policy, you will continue to have certain fisheries that get overfished, particularly the fisheries where the fish are migratory, whether that is mackerel or tuna. Anytime you have fish that can swim large distances, then you have a real risk. And if they go outside certain economic zones where they are being managed appropriately, you have the risk that there could be overfishing because there isn't the type of oversight and enforcement that you have within people's 200 mile limits.

We think that if the World Bank can use its influence, its power, and its lending ability to help create global fisheries policy, then that would be great. For someone who's in the fisheries business through our investments, a global policy makes sense and it's important for our business in the long term.

What we don't want to happen is what happened with cod on the east coast of the United States, where those species were wiped out and there's really no commercial fishery. That was a fishery that 100 years ago was huge.

Today, you look at Alaska and Alaska has done a great job of managing their fisheries. The amount they catch goes up and down, but we believe their fisheries will exist 100 years from today because they've been well managed by state and federal officials in the United States. And now you need to do that globally.

The World Bank is one of the few institutions that have the ability to help drive the global fishery policy. We think it would be good for our businesses, for the fisheries globally, for sport and artisanal fisherman, and good for everyone.

WB: From the World Bank's Global Partnership for Oceans website, what can the World Bank do specifically?

Paine: Today, there are numerous entities out there attempting to certify different fisheries, whether it's wild fisheries that are sustainable, or whether it's aquaculture fisheries and the impact they have on the environment, the bio-security and food security issues with aquaculture. The challenge is if you are a consumer, you are not sure if this certification is for sustainable wild harvest or good aquaculture. We have an entity certifying aquaculture. We have multiple entities certifying wild harvest. I think it would be a big step forward if we have a single certification body, where if you are a consumer and you go into a grocery store, there is a certification that says the this comes from a sustainable, healthy fishery whether that is aquaculture or wild that you know you are comfortable buying that product. Today, the story gets confused and in that confusion we lose the ability to have the certification mean what it needs to mean, which is sustainable, healthy fisheries. [World Bank]

Q: What are the top priorities on your list?

Paine: From our perspective, a global fishery policy ultimately will have standards around total allowable catches for species globally, and it will have enforcement mechanisms based on sustainable fishing. We also think creating a global aquaculture policy that deals with things like waste and disease issues is more of a longer term goal, but also something that would be very helpful to the industry.

Q: How could the World Bank enforce such a policy?

Paine: They can say to Nigeria, for example, we aren't going to give you any money or World Bank guarantees unless you change your fisheries policy. They have the ability to make that part of their overarching policy.

Q: Are there particular species that are the most endangered?

Paine: Clearly, there are some fishes like bluefin tuna that's easily identifiable by people as being overfished and being potentially at-risk, and it is one that people can be passionate about. There are a lot of fish out there like Chilean sea bass and mackerel in the North Sea. Any of those fisheries could be looked at by an outside sovereign institution.

Q: So what's your role in this initiative?

Paine: We've spoken at a number of World Bank forums. At this point, we're willing to lend our name and our thoughts in terms of policy. We hope we can be a constructive voice in bringing about this global fishery policy.

Q: Why are you invested in the aquaculture business?

Paine: We look at the underlying dynamics. We see food in terms of global demand. Fish is a healthy food. The aquaculture business is an efficient way of converting vegetable protein to animal protein. As the world becomes richer and the middle class grows, people want more animal protein. It's a great way to feed those people and a great way to make money as well.

Q: What type of returns are your clients expecting?

Paine: It's similar to what they expect in other private equity investments. People are targeting high teens or low 20s when they invest in an industrial business and they expect the same when they invest in the agribusiness.

Q: What would you say to financial analysts who do not take environmental sustainability into account when they value a business?

Paine: I think you would be foolish if you were not aware of efforts to create more sustainable food efforts. If we're going to feed a growing population, I think it's very important to make sure we're doing it in a sustainable way. We think making money and having sustainable fisheries go hand-in-hand. We think without having sustainable fisheries, it's going to be very hard to make money long term. So, we're certainly interested in the environmental issues around it, but we think it's also very important for our businesses.

Q: How do you incorporate sustainability into your cash flow models?

Paine: It's really much more binary for us. If a business isn't sustainable, we won't invest in it. We have to be comfortable that the business is sustainable and a good corporate citizen before we invest.

Q: Do you think there could be a more nuanced approach?

Paine: Maybe if you can figure out the cost of becoming sustainable and put that into your cash flow model. If it costs a company \$10 million a year to become sustainable, then you can build that in as an additional expense.