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ESG Investors Search Out Unquoted Companies

Private equity fund managers believe that some unlisted companies present good opportunites for investors willing to take the risk

Annalisa Esposito10 October, 2019 | 12:05PM

Unquoted companies may not seem like an obvious hunting ground for ESG investors, yet those focused on the space insist there are plenty of opportunities.

Private equity investment company Pantheon International (PIN), for example, has a long history of taking sustainability factors into account. It signed up to the United Nations' Principles of Responsible Investment (PRI) in 2007. Alex Scott, a senior member of Pantheon’s European investment team, says: "Investing responsibly is the right thing to do and enhances our ability to create value in our portfolios.”

The firm uses third-party ESG data provider RepRisk to monitor the companies it invests in. It then rates either low risk (green), medium risk (yellow) or high risk (red) on six ESG measures. These include practices in key areas such as climate change, ESG risk reporting and monitoring, ESG integration into the investment process, and commitment to the United Nations's PRI.

Adam Heltzer, head of ESG and sustainability at Partners Group, the investment manager of Princess Private Equity (PEY), agrees that “private market investors have inherent corporate governance advantages compared to their public market peers."

In 2018, Heltzer invested in Techem, a German provider of heat and water services that has energy efficiency at its heart. By enabling heating and energy supplies to be managed in a more precise and sustainable manner, Techem's solutions today account for 6.9 million metric tons of CO_2 emission savings per year, explains Heltzer.

The £1.2 billion Pantheon International trust has a four-star Morningstar rating. Currently trading at a discount of 15.3% to its net asset value, the trust has produced annualised returns of 14.2% over five years. As well as investing into other funds, which helps spread its risk, the trust also invested directly into unquoted companies.

One of these is First Watch Restaurants, a fast-growing restaurant chain in the US, focused on healthy and innovative meals. As well as tapping into the trend towards healthy food options with its “superfood bowls” and “power wraps”, the business also contributes 25% of from every child’s meal sold to non-profit organisation, Share Our Strength’s No Kid Hungry Campaign, which aims to ending child hunger in America by ensuring that all children get healthy food.

“There’s growing evidence that consumers look for companies that integrate social and environmental factors into their business plan, and the way we look at it, it’s just good business to do those things,” says Chris Tomasso, president of First Watch.

Feel Good and See the Rewards

While the "feel-good" factor is a major component of investments such as these, Pantheon is clear that there are also financial rewards to be enjoyed. Since its 1987 inception, the firm has produced annualised returns of 11.9%, beating both the MSCI World index and the FTSE All-Share.

Pantheon International is one of the consistently outperforming investment trusts of the past decade, according to Morningstar data. Its top holdings include pharmaceutical company EUSA Pharma and American software company Abacus Data Systems.

According to the Pitchbook database, EUSA Pharma offers late-stage oncology, pain control and critical care products, and was acquired by Essex Woodlands, Pantheon International and Bryan Morton through a leveraged buyout in 2015.

Abacaus, meanwhile, is a software provider for businessess whose rivals include Concur Technologies. Invested in the business alongside Pantheon is Providence Equity Partners.

Private equity and unquoted companies have been in the spotlight in recent months amid the Woodford Equity Income fund suspension. The fund had more than 10% of its portfolio invested in unlisted businesses, which led to liquidity issues in the fund.

Investment trusts are often seen as a better way in which to gain access to this type of asset, because the manager does not have to sell investments to meet redemption requests, but can instead take the long-term view required when investing in early-stage companies.

Still, few investors may consider this as an area to satisfy their ESG needs as the reporting regulations and requirements are less stringent for unlisted companies than their listed counterparts.

But Scott insists that there are plenty of examples of sustainable companies that are not listed on the stock exchange. “We believe that private equity should form part of a well-balanced equity portfolio,” says Scott. "Our portfolio risk is no greater than that of a portfolio of other listed equities."