

Beyond the checklist – the opportunity for ESG in private markets

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Interest in private markets has grown at the same pace as the funds they launch: fast. At USD 3.4 trillion, the private equity asset class has more than doubled in size over the past ten years.¹

This unprecedented growth means private markets are uniquely poised to further the work of sustainable investment through ESG implementation, and they have the opportunity to integrate ESG in a way that circumnavigates the growing pains experienced by public markets. True sustainability cannot be achieved by public markets alone, so why have the private markets been slow to adapt?

According to a recent study² surveying the top 23 private equity players in 2019, private equity firms primarily rely on checklists to assess ESG factors, and only a few firms have sought out external advice from industry experts. At RepRisk, we argue that a tailored method based on industry-, geography-, and company-specific attributes is preferable to the checklist.

ESG due diligence should illuminate any past risks and serve as a reality check for how companies conduct their business on the ground. A checklist fails to do this – it may tell you if a company has a codified human rights policy in place, but it is not risk-focused and therefore will not reveal any alleged human rights violations. The static data provided by a one-time questionnaire does not give the full picture of a company's past and current ESG performance, or how it will likely handle future ESG matters.

Checklists also allow for selective transparency. In a world where companies are 100% transparent, company self-reporting could be used to create robust ESG due diligence data that accurately reflects business conduct. However, companies are only selectively transparent in their disclosures, potentially masking relevant and material ESG risks.

Similarly, the one-size-fits-all nature of checklists leads to obsolete and outdated self-reported data that is neither meaningful nor comparable over time or across industries or portfolios.

¹ Ken Pucker and Sakis Kotsantonis, [Private Equity Makes ESG Promises. But Their Impact Is Often Superficial](#), Institutional Investor.

² Zaccone, M.C.; Pedrini, M. ESG Factor Integration into Private Equity. Sustainability 2020, 12, 5725.

Beyond the checklist – a better approach

Self-reporting checklists are a step in the right direction for investors just dipping their toes into the water of ESG integration, but ultimately fall short as a path to truly sustainable investing. Private equity and private debt investors who have discovered the value of ESG integration and employ granular, timely, and multi-dimensional data have seen improvements in the following processes:

Due diligence and monitoring: It is crucial to identify hidden risks during pre-investment due diligence and while monitoring a portfolio, as ESG risks don't go away once the ink dries. This requires comprehensive and timely data, like RepRisk's dataset generated from a daily screening of more than 100,000 public sources and stakeholders, covering 20 business languages and 95 ESG factors.

[Permira](#), a global investment firm that has secured USD 39 billion of committed capital from investors for their private equity strategy, uses RepRisk “to get a broader view on current ESG issues affecting a particular sector or peer/competitor companies during due diligence. If material ESG risks... are identified as part of the due diligence process, these are integrated into the Value Creation Plan or 100-day plans for the company.” - Adinah Shackleton, Head of ESG at Permira.

Similarly, [LGT Capital Partners](#), a Swiss-based alternative investment specialist with USD 50 billion in assets under management, uses RepRisk to “stay on top of the ongoing news flow regarding ESG issues linked to our investment universe for easy flagging of incidents that could lead to major risks down the line.” - Alexander Zanker, Senior ESG / Quantitative Strategist at LGT Capital Partners.

Engagement: It is critical to have all the necessary research to support internal and external communications and create risk mitigation plans when issues arise. RepRisk provides specially curated risk incident details so no stone is left unturned.

In 2017, [Pantheon](#), a global private markets fund of funds headquartered in the UK, implemented a new monitoring process using RepRisk data. In the first year, RepRisk identified 160 incidents. The process presented around 20 opportunities for Pantheon to proactively contact its managers in relation to a specific ESG issue and explore the implications for that business, its stakeholders, and the manager's own ESG processes.³

[KKR](#), a leading global investment firm that manages investments across multiple asset classes, uses RepRisk to “identify issues where we may want to spend some more time digging in to make sure we understand stakeholders' points of view, as well as how the company is managing the issues and engaging with their stakeholders.” - Elizabeth Seeger, Director at KKR.

³ Principles for Responsible Investment: [ESG Monitoring, Reporting, and Dialogue in Private Equity](#).

What is next for ESG in private markets?

Private fund managers are presented with the unique opportunity to learn from the pitfalls faced by managers first integrating ESG into public markets, and to implement an approach that provides a holistic view of their portfolios that enables them to see around corners and mitigate risk.

RepRisk is the only ESG data science provider to systematically cover ESG risk for private companies since day one. Our dataset covers more than 100,000 private companies from all over the world, including emerging and frontier markets, with data mapped to the Sustainability Accounting Standards Board (SASB), the UN Global Compact, and soon the UN Sustainable Development Goals (SDGs) for better reporting.

Fewer than ten percent of the 8,810 global private equity firms are signatories of the Principles for Responsible Investment. There is a call for private investors to be pioneers of ESG integration in their field. We invite them to answer by partnering with us and unlocking the potential of the most comprehensive dataset available.