

LIVE WEBINAR

The imperative for incorporating ESG into the due diligence process

Our speakers



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Why ESG?



Importance
to stakeholders



Organizational
alignment



Increased
value-add



Risk
mitigation

Why ESG? | Importance to stakeholders

- Large growth in terms of importance to stakeholders
- Firms with a strong knowledge and understanding of ESG will have an advantage
 - Public facing LPs are requesting ESG information
 - Encourages alignment and communication
 - ESG management tools help firms to meet and exceed stakeholder expectations

"We've seen a dramatic increase in LPs asking about ESG in the last year. More than in 2018 or 2019. Definitely, a recent spike. They're putting more and more pressure for firms to proactively handle ESG."

Why ESG? | Organizational alignment

- Organizational alignment is better achieved when there are clearly defined ESG goals resulting from a centralized ESG platform.

Why ESG? | Increased value-add

- The buyer will be getting an ESG-mature company; this saves them time and effort. A clear path of execution for the investment has already been identified for the buyer.

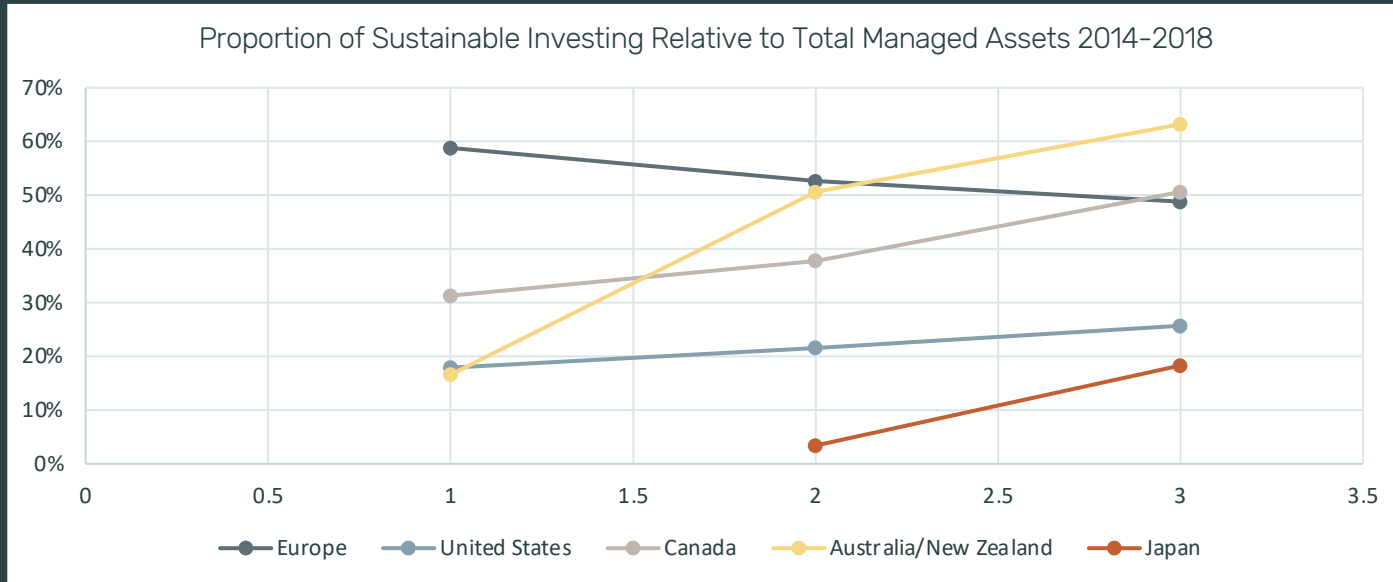
Why ESG? | Risk mitigation

In the deal due diligence process ESG management will help firms to avoid “unsafe” investments.

“We won’t even write a paper (proposal) if we haven’t already looked at the ESG on the company. I tell my team not to waste the investment committee’s time.”

ESG management also helps a firm's investments to get ahead of long-term ESG risks and stay informed on the ever-changing topic.

Interest in ESG Solutions | Geographic focus



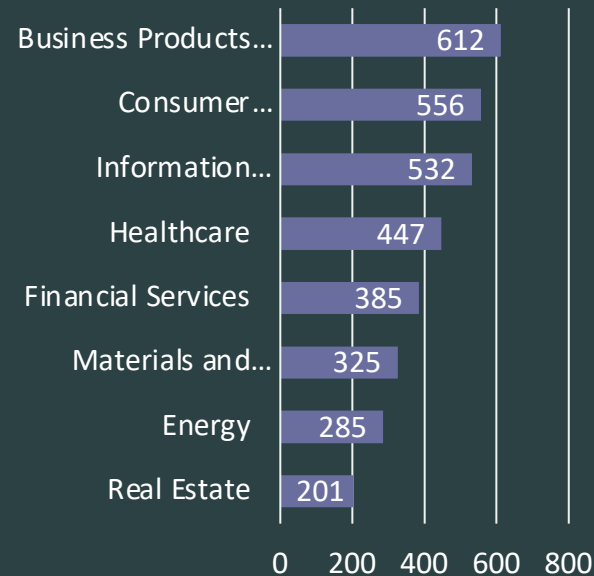
Interest in ESG Solutions | Fund size

- The “Goldilocks situation”
- The largest firms (> \$2B) are focused on ESG
- Middle Market firms (\$500M - \$2B) have seen the most dramatic change to their process and an intensifying need for ESG solutions.
- Lower/middle market firms (< \$500M) see a need, but don’t have permanent processes in place.

“We’re on our 10th fund and have about 30 companies. Our current fund is \$1.7B but I think around \$400M is where ESG is really taking off.”

Interest in ESG Solutions | Market focus

- Current events driving increased awareness
- Deals in environmentally sensitive markets have been focused on sustainability standards for years
- Societal and Governance issues are becoming increasingly important



ESG's Opportunity for Growth

Increased ESG Demand

- The recent spike in demand for ESG will continue to accelerate
- PE firms believe they will see value in outsourcing as the need grows
- Private debt companies mention varying interest rates depending upon ESG scores
- LPs are starting to provide their own checklists for GPs

ESG's Opportunity for Growth

New Administration to Intensify Regulation

- The Biden administration will intensify regulation
- Leveraging new and pending regulations for EU

Fundraising

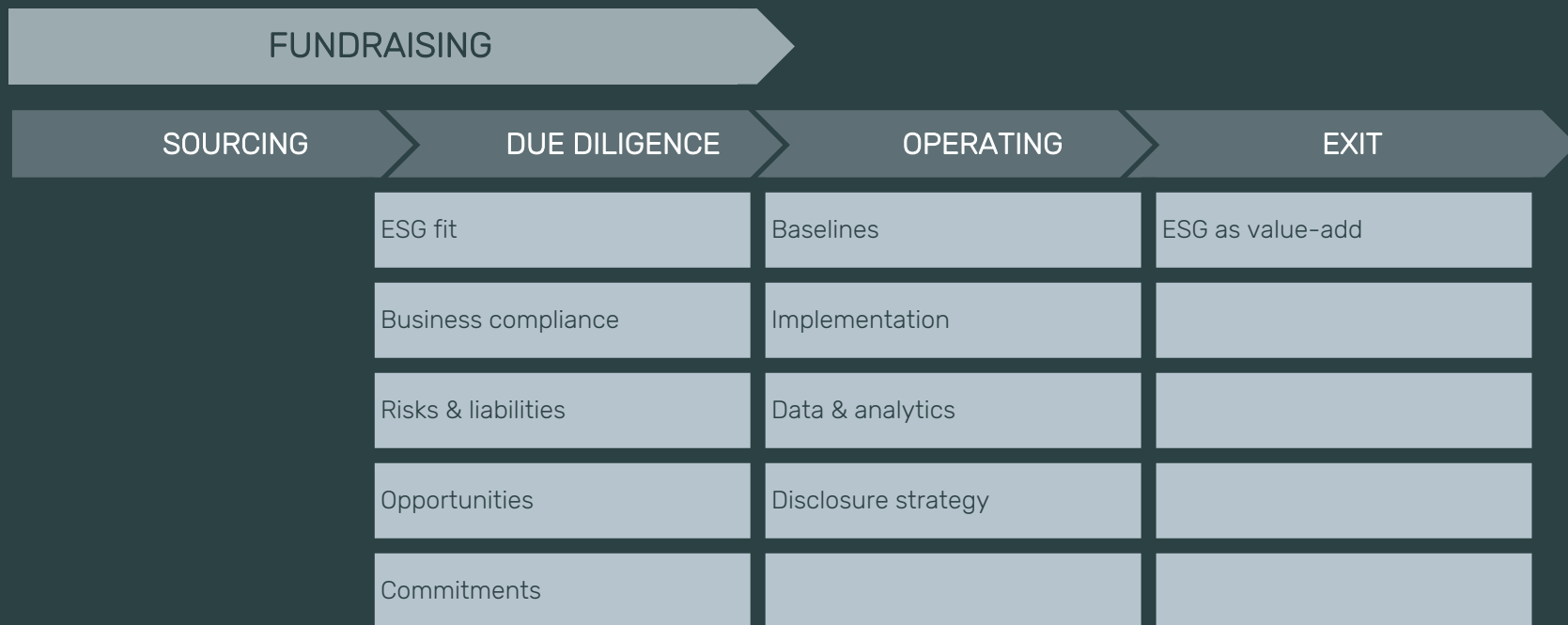
- As firms raise capital, they will encounter LPs with increasing emphasis on ESG
 - Investing in ESG software will provide GPs with an enhanced story to LPs
 - Showing that the GP is serious about ESG
 - Demonstrates firms' ability to utilize best practices

ESG data

and the due diligence process

The PE lifecycle

Managed ESG creates value across the deal lifecycle



What is ESG due diligence & why is it important?



Understand the value
of positive ESG
actions & programs



Provide insight into
the value of a
company's ESG
performance







Help investors make
sound, ethical
investment decisions








Support the primary
purpose of due
diligence: risk
mitigation

ESG due diligence topic examples





ENVIRONMENTAL

-  Pollution
-  Exposure to extreme weather
-  Carbon management
-  Use of scarce resources

SOCIAL

-  Product safety
-  Human rights
-  Worker safety
-  Customer data protection
-  Diversity & inclusion

GOVERNANCE

-  Accounting standards compliance
-  Succession planning
-  Anti-competitive behavior
-  ESG management process

ESG due diligence | Best practices



Create a
formal policy



Collaborate on
ESG materiality



Focus on
climate risk



Beware the
clock

Gather, track, manage, disclose data



Portfolio Companies ▾

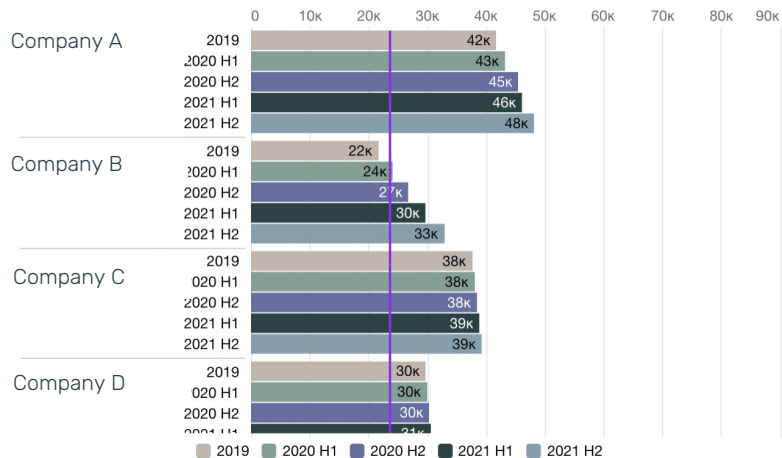
Environment ▾

Social

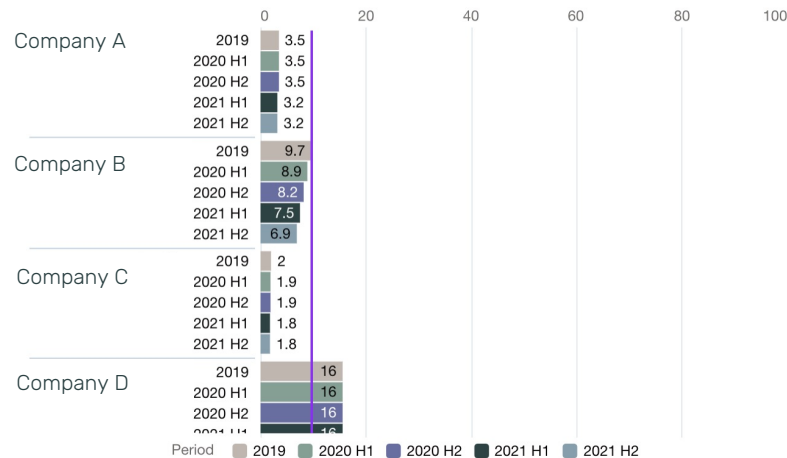
Governance

Values

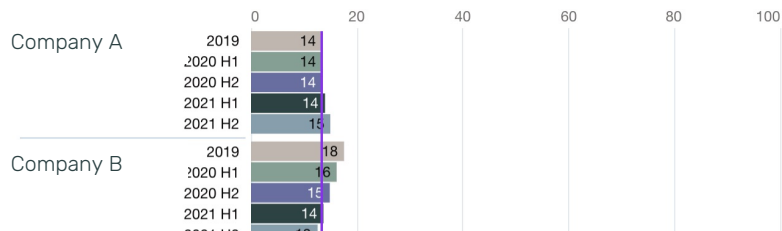
Avg Full-Time Employee Salary



Absenteeism Percentage



Turnover Percentage





Portfolio Companies ▾

Environment ▾

Social

Governance

Values

Companies

Industry

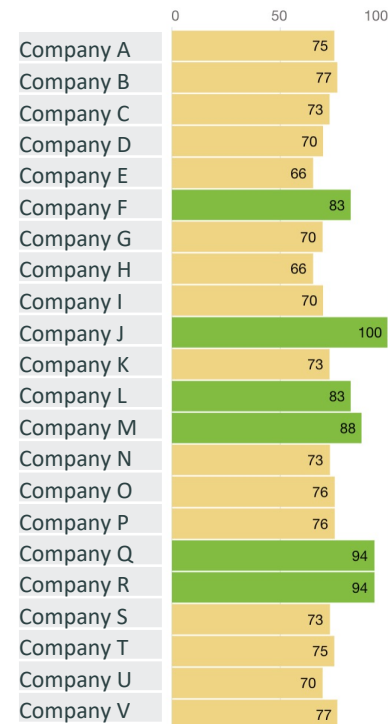
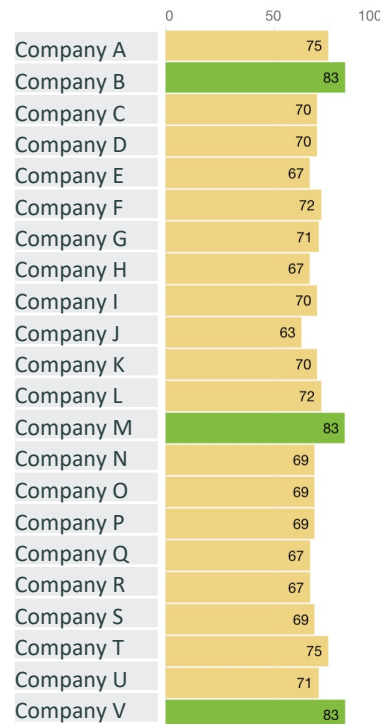
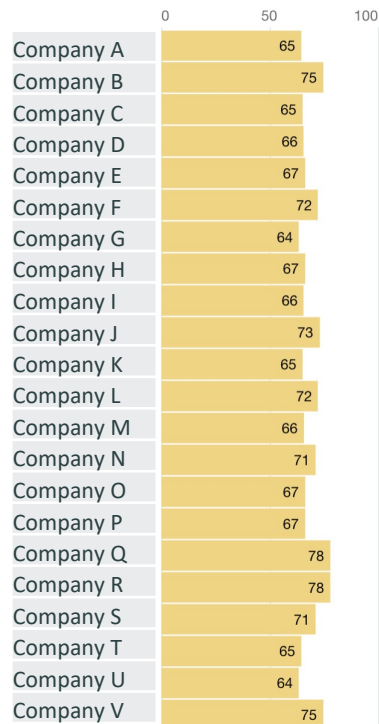
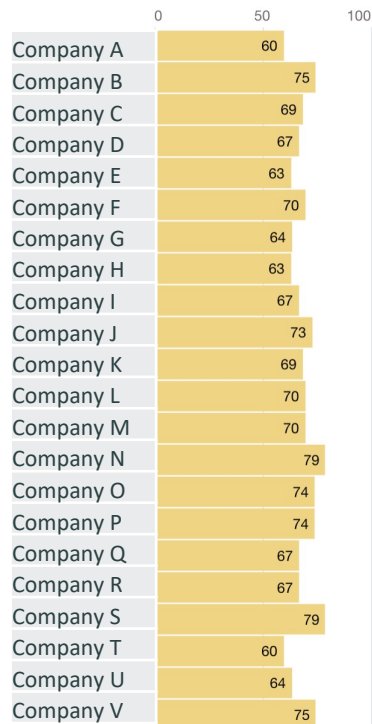
Fund Vintage

Environmental

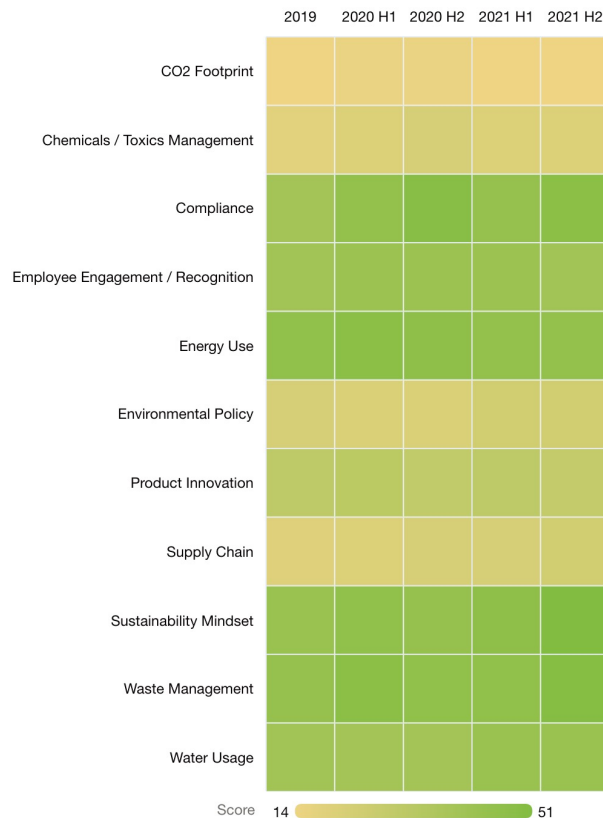
Social

Governance

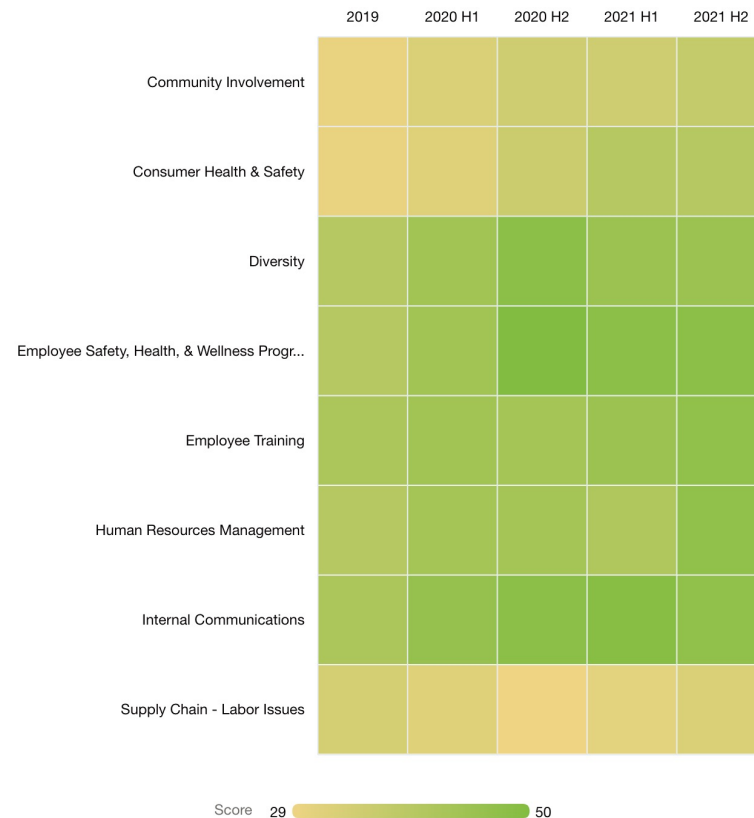
Values



Category - Environment



Category - Social



Questions?

Contact us!



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