

# The Brackendale Private Equity ESG LP sentiment survey 2020

## Why?

Brackendale has been writing, designing and advising on private equity ESG reports over the past few years, so we decided it was high time we heard from the LP fund investors themselves what they do (and don't) wish to see in ESG reports.

## Who?

LPs surveyed hail from across Europe and the US, and comprise a mix of pension funds, insurance companies, family offices and fund-of-funds from our extensive contact network.

## What?

We asked just five, clearly targeted questions to capture the key opinions and advice on how to impress LPs with a robust ESG policy

## Key finding

Private equity ESG plays vital role in LPs' investment decisions. LPs want to see tangible KPIs and an end to greenwashing in ESG Reports.

**Q1** On a scale of 1-10 (10 being vital and 0 being of zero importance) how important a role does ESG play in your investment decisions?

7.5

**Q2 Why?**

"Pension funds' clients are looking very seriously at how their investments approach ESG considerations (pressure from pensioners and regulations are also playing a role)."

"As a firm we believe that better ESG practices help mitigate risk, build better companies and achieve stronger returns from a financial and non-financial perspective."

"Being a family office, we don't have regulatory or 3rd party issues with ESG, however, we consider ESG a crucial way of generating sustainable value in the future."

"A well-integrated ESG process is important for us, and the fund manager has to have that for us to make an investment."

"We are strongly committed to responsibility ourselves and expect all our investee entities to have a clear stance to this matter as well."

"It's important to us and our investors, but in the end financial returns are more relevant in our decision-making process."

"Living up to being a good citizen, aware that such factors in our society are of importance to our role and perception."

"It's a core component of what we, and our investors, are looking for."

"Importance of risk assessment and reputational risk assessment. Desire to be contributing to a positive, responsible business."

### Q3 What are the ESG issues that really matter to you in supporting an investment decision?

Many LP respondents claimed that all ESG issues mattered and preferred not to rank any one issue above others in terms of importance, as they are 'all important', or simply wanted their investments to have 'no negative ESG impact.'

One LP in replying 'all three' gave the following definitions to the E, the S and the G:



**Environmental:** make sure we do not cause undue damage, and work towards reducing GHG emission



**Social:** make sure we do good, rather than harm, to the people involved in our businesses



**Governance:** make sure we invest in structures and funds with proper governance to ensure the capital is properly managed and deployed

Other respondents declared that the ESG issues of relevance to them largely depended on the sector or company being invested in.

Although some LPs were reluctant to single out specific ESG factors of relevance, here are some of the most important issues highlighted by respondents:

- Climate change/ environmental compliance and improvements (use of raw materials, water and energy, waste management)
- Good governance (avoiding conflicts of interest)
- Diversity, gender equality, no discrimination
- Fair treatment of stakeholders
- Labour Rights, solid focus on safety
- Social responsibility/ good reputation in society (key to be able to succeed)
- Human rights
- Anti-bribery and anti-corruption
- Transparency in reporting
- Audited reports

### Insightful LP comments to GPs regarding what matters to them in terms of fund managers' stance towards ESG:

"As we invest in PE managers, we mostly want to see that they have a formal policy in place and that they integrate ESG considerations into the investment processes, using it as a framework for evaluating investments and identifying areas of improvement for instance. Reporting to LPs on ESG is also appreciated."

"We do not have an exclusion policy, but expect our investees to be aware of our commitment and have a clear policy to these matters."

"Managers' proactive approach in setting up their ESG policy, integrating it in their investment decision process and communicating and reporting on any potential issues or performance."

## Q4 What are the key elements you look for in a private equity ESG report/ what constitutes a good ESG report?

### KPIs

**Key Performance Indicators (KPIs) were by far the most popular item which LPs want to see in an ESG report. Here are some comments elaborating on how to portray these:**

"It has to offer a concrete view of the ESG elements (KPIs reported frequently) in the portfolio."

"Set of KPIs should be put in place and the manager should explain why s/he chose those. These KPIs should be clear and there shouldn't be too many of them."

"Trackable KPIs (not only descriptions or goodwill statements)"

"Use of Key Performance Indicators that ensures improvements year on year."

"A combination of qualitative and quantitative measures. Quantitative, checklist-type scoring does not give the whole picture but is reportable in aggregate and can be applied across the portfolio. Qualitative commentary tells the story of what specifically matters on an individual company basis but cannot be aggregated for LPs with many holdings."

### Words of advice

**Other elements LPs want to see in an ESG Report:**

"Relevance, Facts, Measurements."

"Tangible and evidenced improvements being made by the GP. Examples in action (and not just 'good business' practice)."

"Summary of intention, changes in approach/data collection and effective reporting on non-financial achievements (carbon emissions, diversity, living wage etc)."

"Have specific criteria and reporting with concrete measures, rather than generic policies."

"Summary of improvement in ESG matters at the firm over the last year, disclosure of ESG issues at the portfolio company level."

As the trend towards ESG reporting gains momentum, some investors are only just turning their attention to the significance of ESG issues. "We only have one GP who has an ESG report. This is disappointing, but the reality in particular with smaller GPs," one LP commented. Another replied they were "currently thinking about it."

## Q5 What sort of things have unimpressed you in private equity ESG reports you've seen?

### Superficiality

**"Too superficial" was the commonest LP complaint about ESG reports, which failed to impress. Lacking in detail, lacking in substance, all talk and not data, featured among the gripes LPs had with poorly produced reports which included:**

- Lacking detail and glossing over issues
- Too vague, tick the box type of exercise/ report
- Form over substance
- Superficial statements on intent or philosophy but no substance
- Too superficial reporting
- Just talk and no data

**Other areas LPs deem private equity ESG reports have fallen short, which tie in with the above, include the following:**

- Greenwashing
- Whitewashing of evident issues
- Absolute measures instead of relative (CO2 of a SaaS company does not compare with steel foundry)
- Lack of overall policy level commitment/ no top management member responsible for ESG

A few LPs commented they hadn't even seen much in the way of ESG reports from their investee funds. Responses included "Many people don't do any reporting," or "I haven't seen many," or significantly "I can't remember any."

To end on a positive note, one LP pointed out: "most importantly, ESG reporting is gradually improving."

Brackendale Consulting Ltd is a European agency offering investor marketing and communications services to clients within the private equity industry.

The firm specialises in writing, designing, translating and advising on professional investor marketing materials such as investor pitchbooks, PPMs, ESG reports, quarterly reports and investor newsletters, as well as offering investor pitch training. Brackendale devises effective media and communications campaigns, and its graphic design team is skilled at corporate identity, branding, logos and websites.

Brackendale employs multilingual staff with deep sector experience and an extensive contact network across the private equity community.

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