

## Private equity: the shift towards sustainable portfolios

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Today's private equity environment is rapidly shifting and increasingly under pressure from society, limited partners (LPs), and employees to manage and address environmental and social issues.

Leading private equity (PE) firms are addressing this call to action by moving away from discrete, segregated environmental, social, governance (ESG) and impact products towards deeper incorporation of ESG and impact factors into their firms' portfolio playbook, from origination and screening to due diligence and exits.

### Changing investor sentiment

The shift towards a sustainable portfolio reflects growing public concern about global challenges such as climate change, social inequality and access to clean water, for example. Changing investor sentiment is also a key driver with millennials, in particular, now demanding their managers invest with an ESG mindset. Indeed, Responsible Investor found that 70% of investors were of the view that ESG will gain more weight in their investment strategy globally in 2021. Schroders found that 60% of individuals under 71 years old believe that all investment funds should explicitly integrate sustainability factors into their investment decisions. Similarly, Morgan Stanley has found that 95% of investors claim to be interested in sustainable investing.

Consequentially, key institutional investors are undertaking divestment processes, both in response to regulatory requirements and net-zero targets, and consumer demand. Harvard Business Review found that most institutional managers and their firms have taken meaningful steps to integrate sustainability issues into their investing criteria. For example, the third-largest pension fund in the US, the New York State Common Retirement fund, recently pledged to divest from any holdings in its portfolio that don't have a plan to address emissions and transition away from fossil fuels.

### Identifying the opportunities

Growing regulatory requirements supporting greater transparency and disclosures are also driving the momentum forwards. While pressure mounts on fund managers to pay greater attention to ESG

issues, leaders in the field are also realising the opportunities.

Some of the world's largest PE funds are also selling assets that do not meet ESG guidelines. For example, in 2019, Norway's sovereign wealth fund, which at \$1.1 trillion is the world's largest, announced its intention to divest away from any organisations which are dedicated to gas and oil exploration, in an attempt to protect themselves from long term volatility in oil prices. Moreover, LPs are also increasingly asking PE funds to consider ESG factors in investment decisions.

## **The ESG and impact investing spectrum**

Developing your PE approach to ESG and impact should start with understanding your sustainability priorities and goals, investment philosophy and risk/return appetite. Today, many PE firms keen to adopt an ESG or impact focus often trip at this first step and feel confused by the myriad of terms and strategies.

At Ogier, we help PE firms identify where they sit on the ESG and impact spectrum by mapping your risk, return and impact profile structure. This helps you identify if ESG risk, ESG opportunities or impact investing is aligned with your financial and impact goals. Whether you are looking to evaluate ESG risk during your due diligence process, or seeking to identify ESG opportunities to support ESG progress, or seeking to invest your assets into enterprises creating deep social and environmental change - we can help.

## **Ogier ESG and Impact Services**

Ogier's ESG and Impact Services practice is a dedicated advisory business offering bespoke environmental, social and governance (ESG) and impact design, integration, and implementation solutions. We support our clients to navigate impact goals and requirements and to leverage the landscape of sustainable investing opportunities. Ogier operates through a global network of offices across the Asian, Caribbean and European time zones.

## **About Ogier**

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