

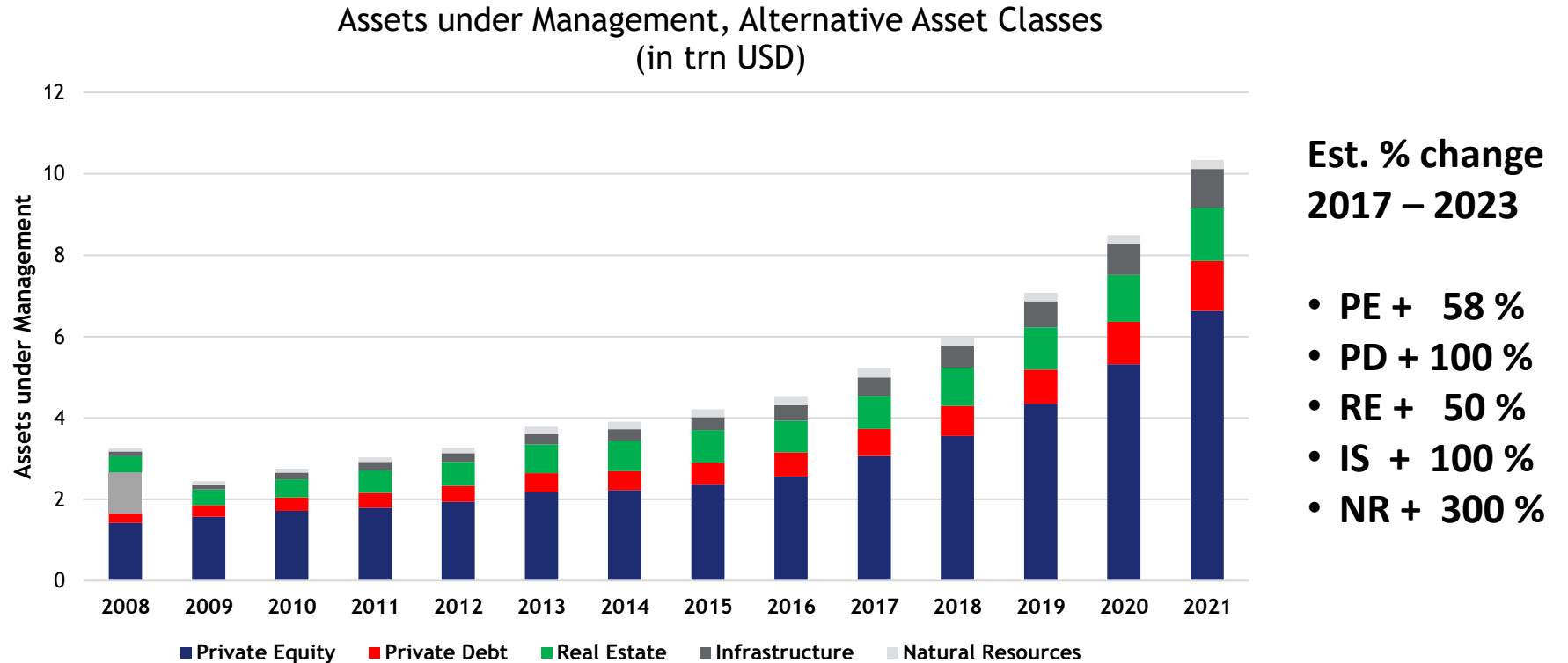


ESG Transparency of Private Equity and Debt Firms

Pascal Böni
Jurian Hendrikse
Philip Joos

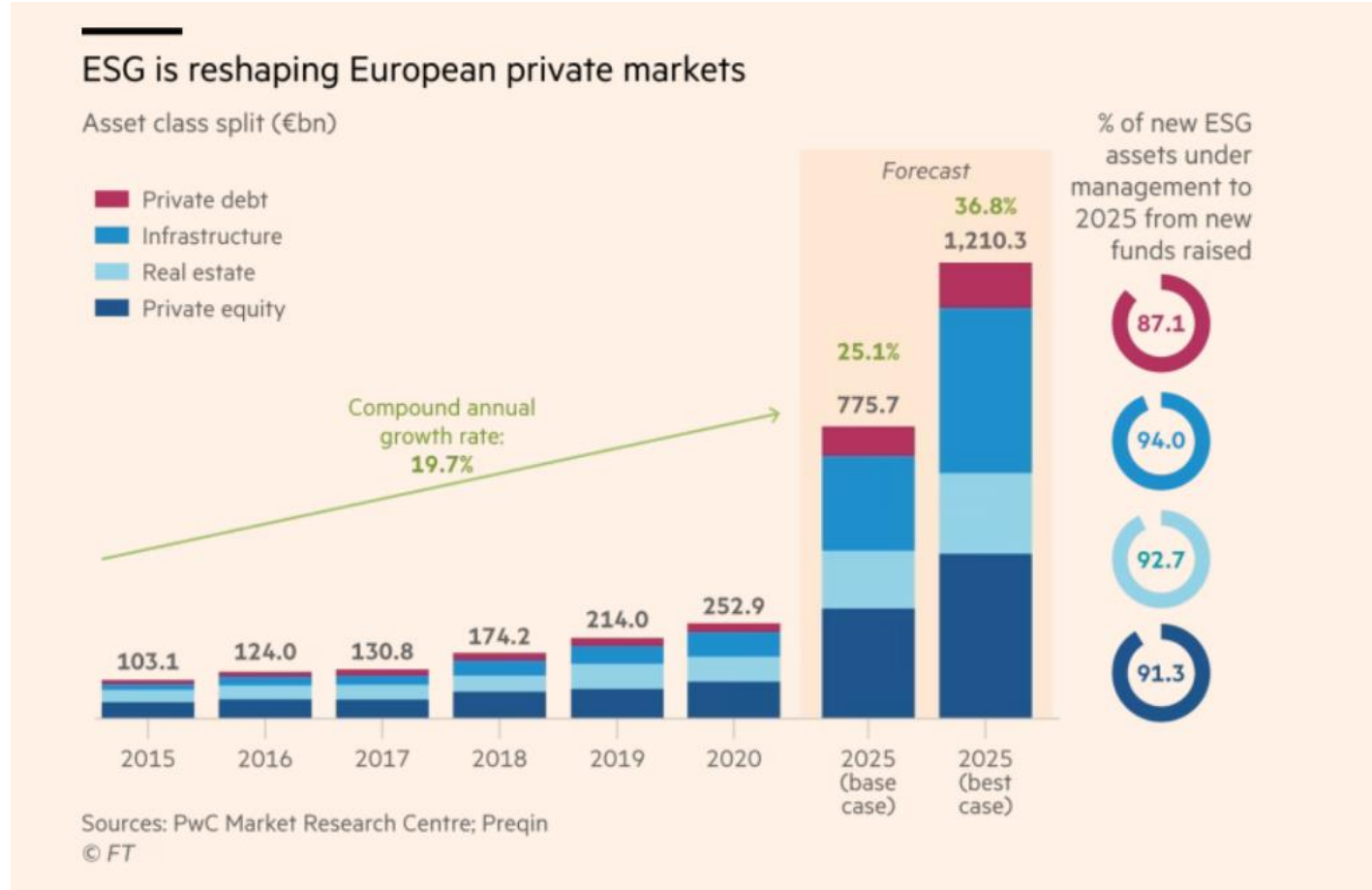
Private Equity and Debt since the Global Financial Crisis

Data provider Preqin predicts that the overall size of the private capital industry will grow from over \$10tn last year to almost **\$18tn by 2026**. Goldman Sachs forecasts that it could even grow to as much as **\$30tn** by then, noting that the retail and wealth markets are key areas where fund managers could make inroads with private capital strategies.
FT June 20, 2022



Source: Preqin Pro, 31-5-2022 & Preqin (2018) “The Future of Alternatives Report”

ESG AUM in Private Markets



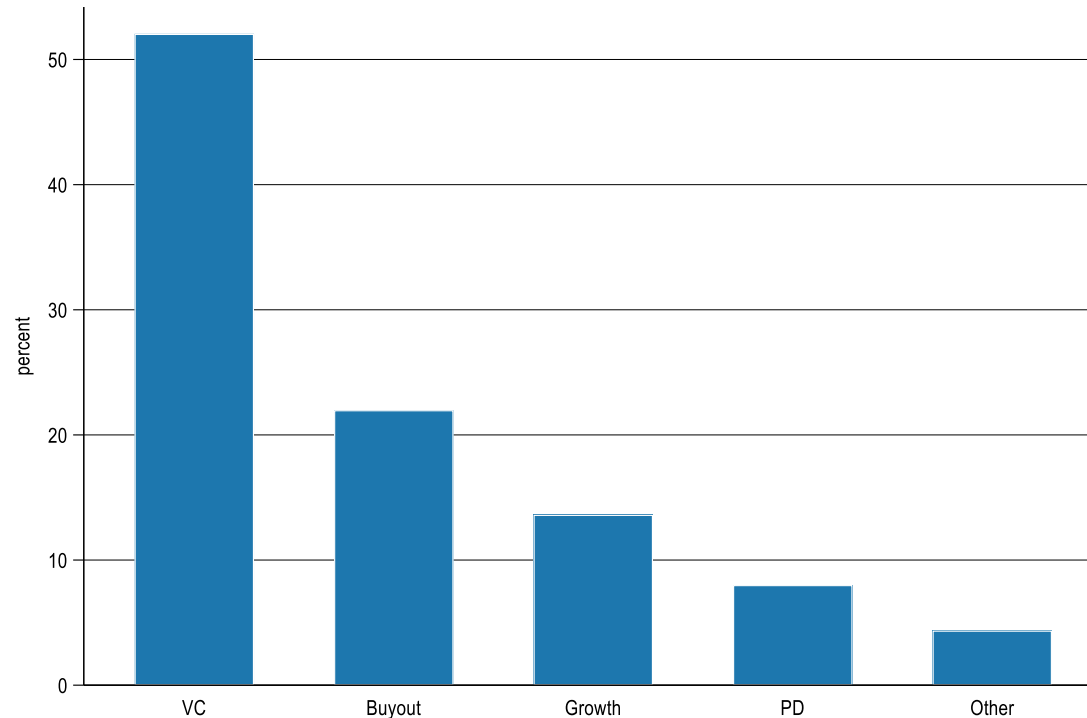
FT, October 11, 2021

This study

We study the extent and determinants of PE and PD firms' ESG transparency

PE and PD together manage over 8.5 trillion, 2/3 of PM AUM

- Global sample of 4150 PE/PD firms, together representing 82% of total PE/PD funds raised in the last 10 years



ESG Considerations in Private Markets

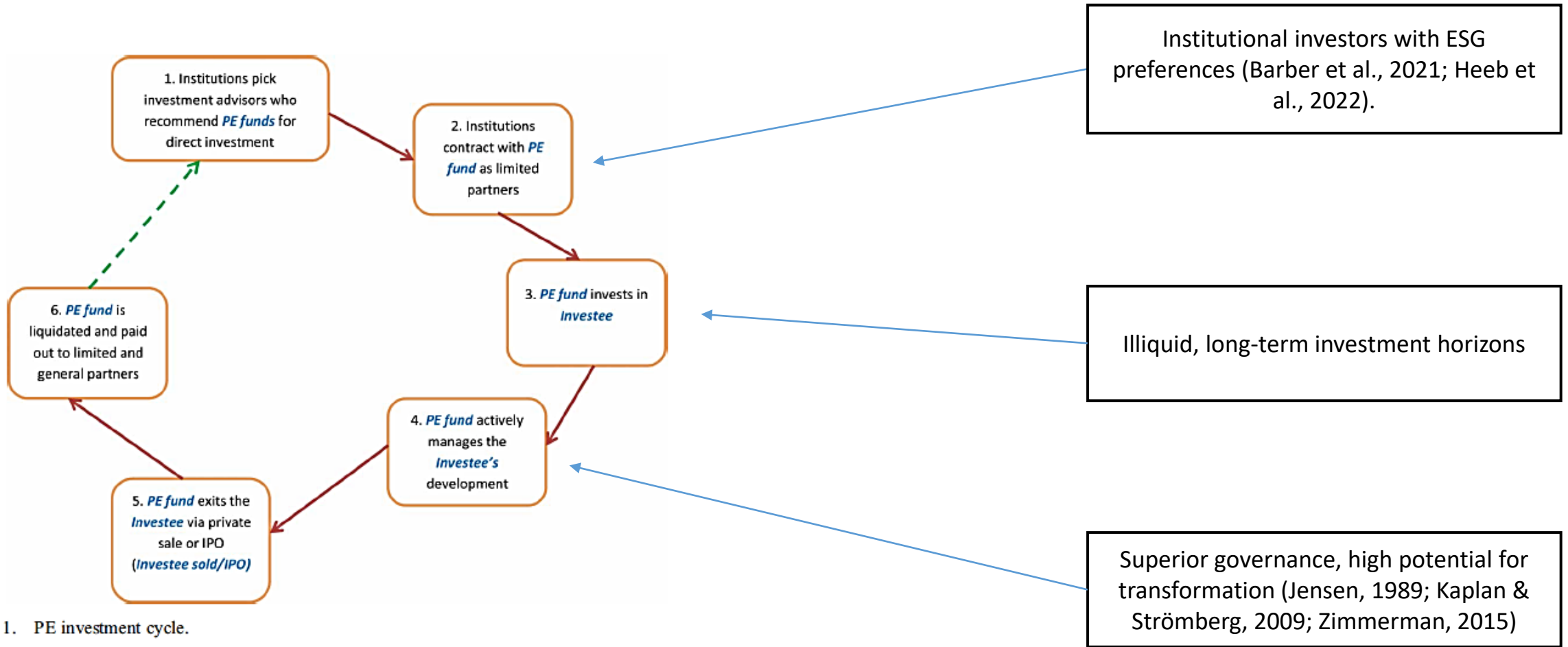


Figure 1. PE investment cycle.

Source: Zimmerman (2015, ABR)

Transparency in an opaque market?

FT, Oct 14th 2019, “Private equity must show more transparency”

“In the US, however, buyout funds are **back in the political crosshairs**. Democratic presidential hopeful **Elizabeth Warren** has described private equity groups as “**vampires**” and proposed making firms liable for the debt of the portfolio companies they buy.”

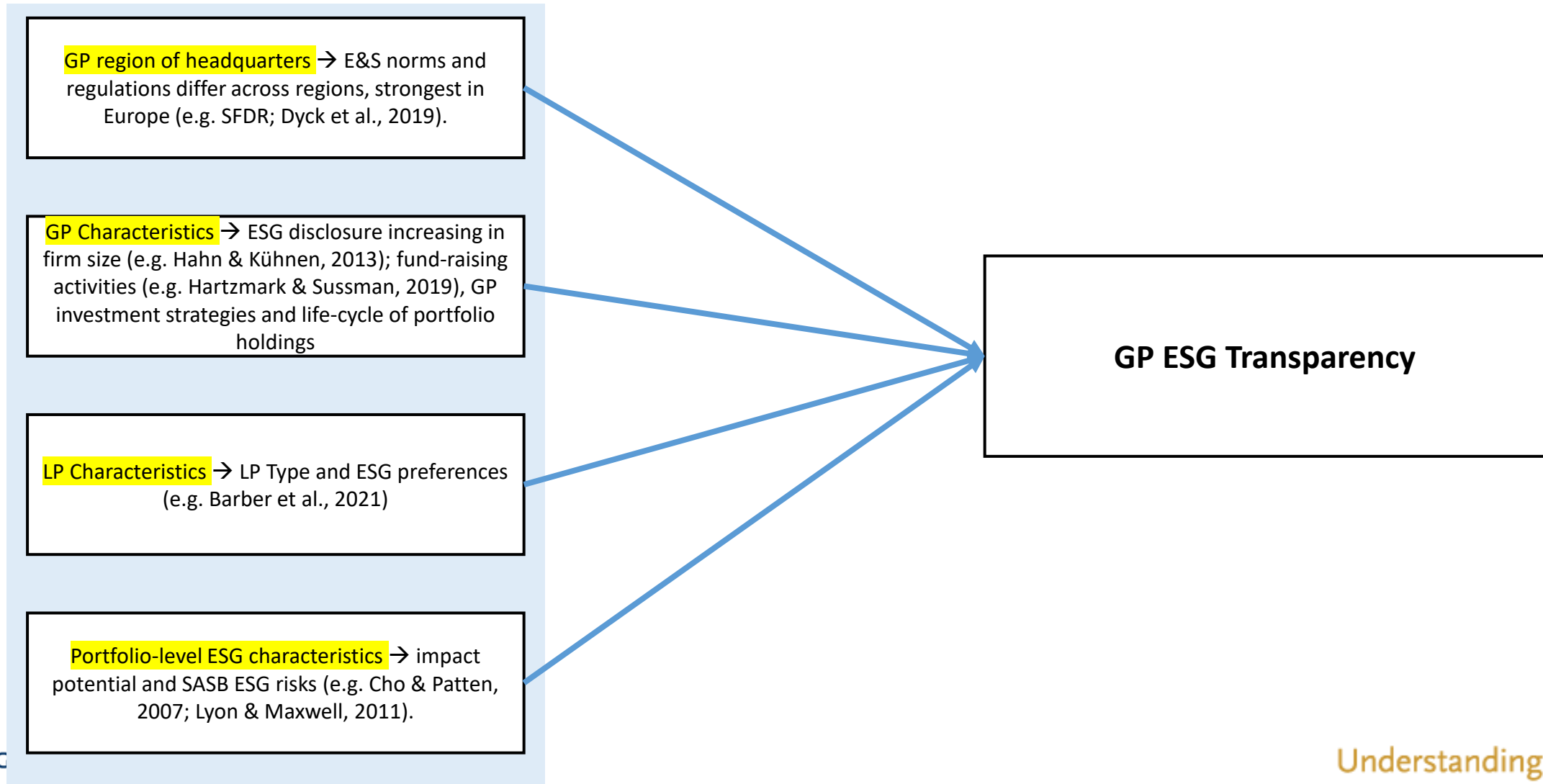
Appelbaum & Batt, 2019, Institute for New Economic Thinking

“... The private equity firm, via the **general partner** of the investment fund it sponsors, **makes all investment decisions** on behalf of the investor shareholders. Investors commit capital to a PE-sponsored fund, typically for 10 years, and have no say in investment decisions. Thus, the PE general partner’s **power is concentrated and largely unaccountable**, as investors cannot ‘exit’ or sell their shares if they are dissatisfied – unlike shareholders in publicly traded corporations.

FT, July 19th 2021, “The private equity backlash against ESG”

“As **listed companies come under increasing investor pressure** to act on everything from executive pay to carbon emissions, a reaction against those constraints seems to be **fueling a spate of buyouts** by private equity firms. But it is the environmental field that a good chunk of the private equity industry is playing its most obviously reactionary role. **When oil majors are looking to sell off stranded production assets, private equity are among the readiest bidders.**”

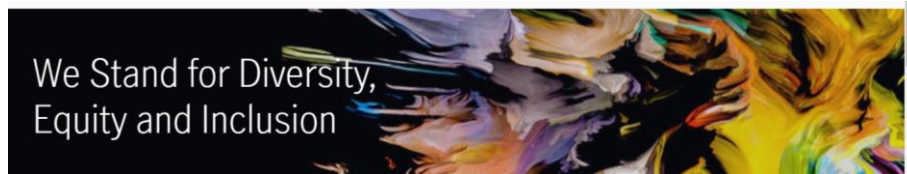
Determinants of GP ESG transparency



Data and regression model

37 Preqin ESG disclosure indicators

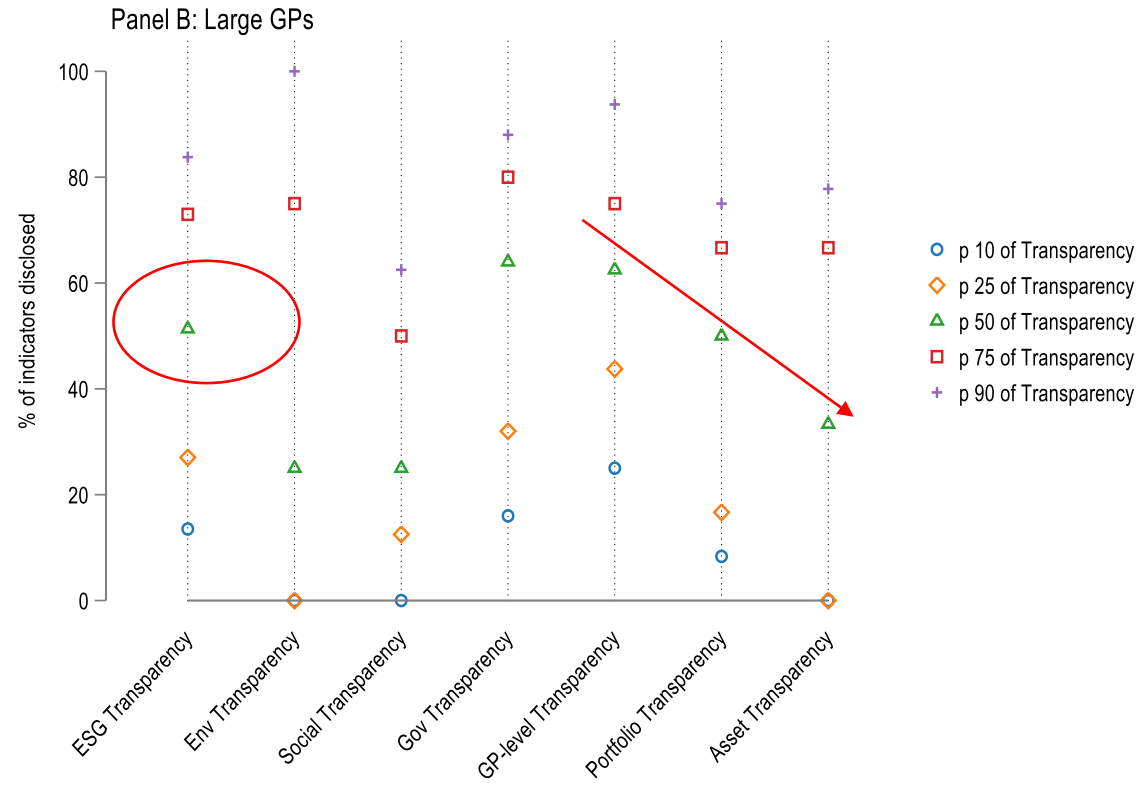
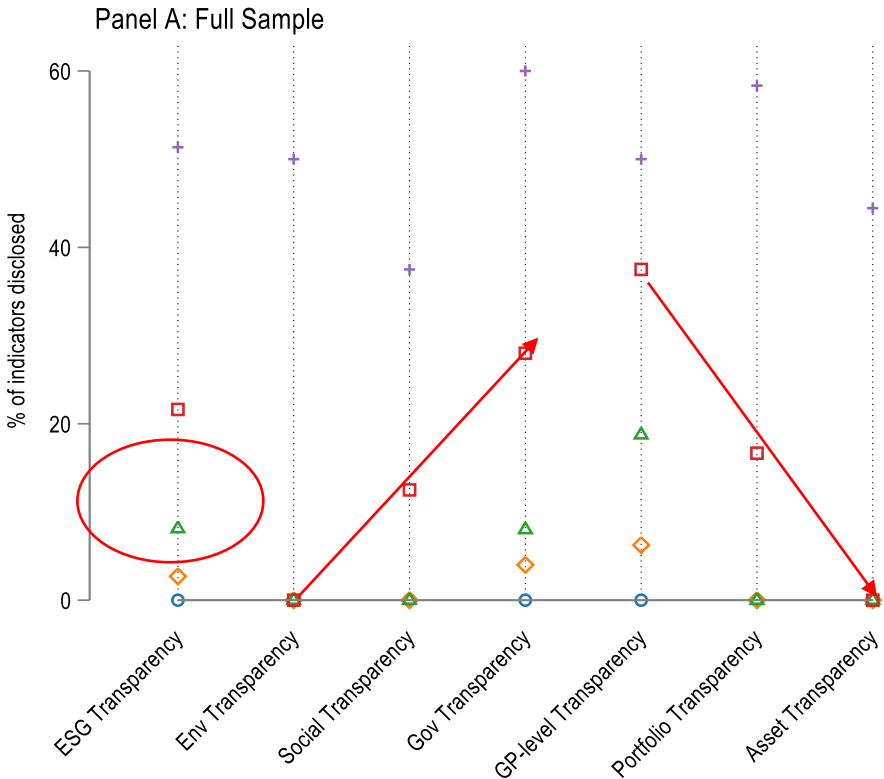
- Those most relevant for PE and PD firms
- Capturing E-, S-, and G-pillar disclosure, and disclosures for each of the GP-, portfolio-, and asset-reporting level
- Taken from existing reporting frameworks: UNPRI, TCFD, SASB, ratings providers



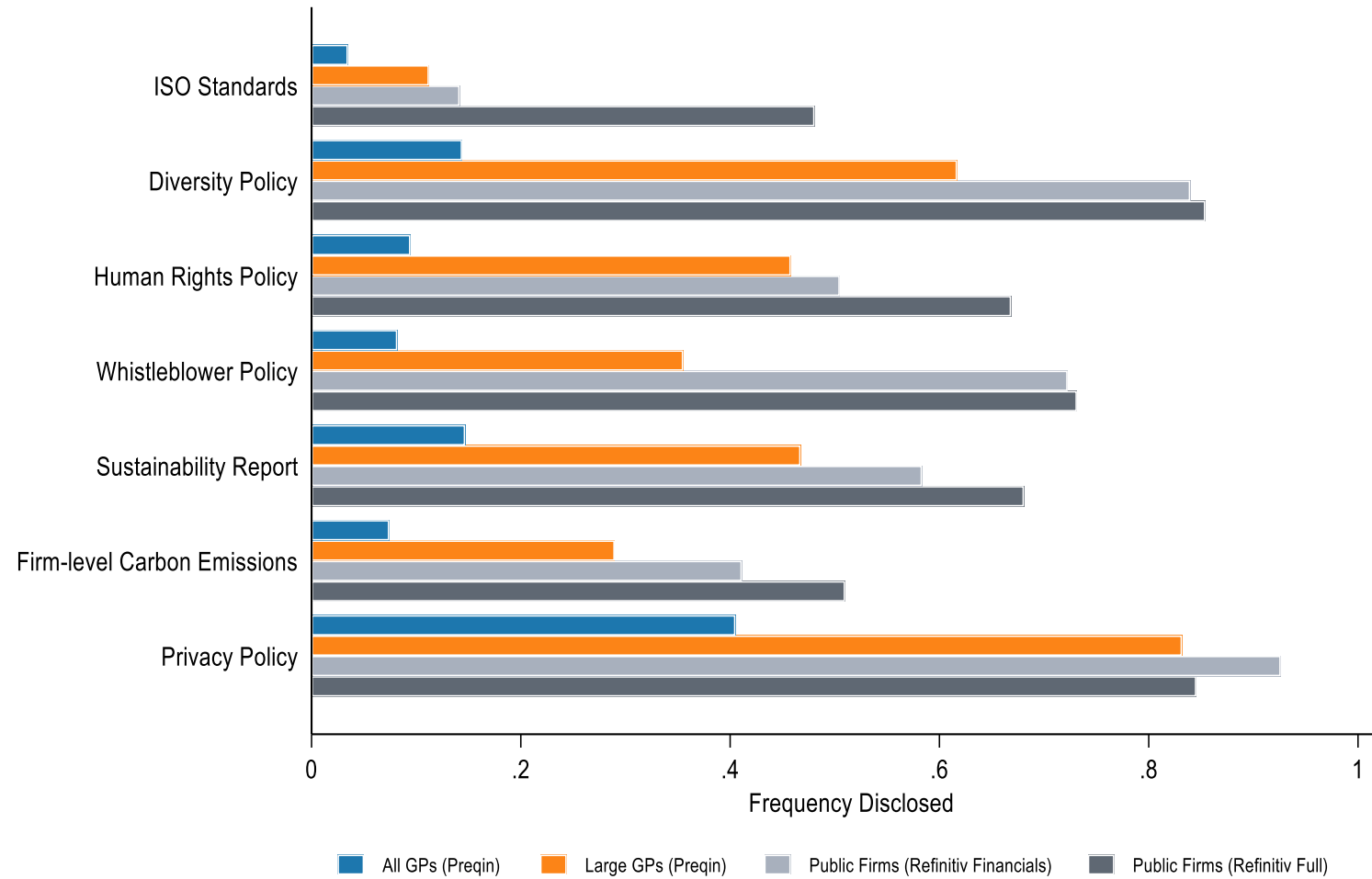
$\ln ESG Transparency_i$

$$= \alpha + \beta' VAR(ESG)_i + \gamma' Region_i + \lambda' VAR(GP)_i + \delta' VAR(LP)_i + \epsilon_i \quad (1)$$

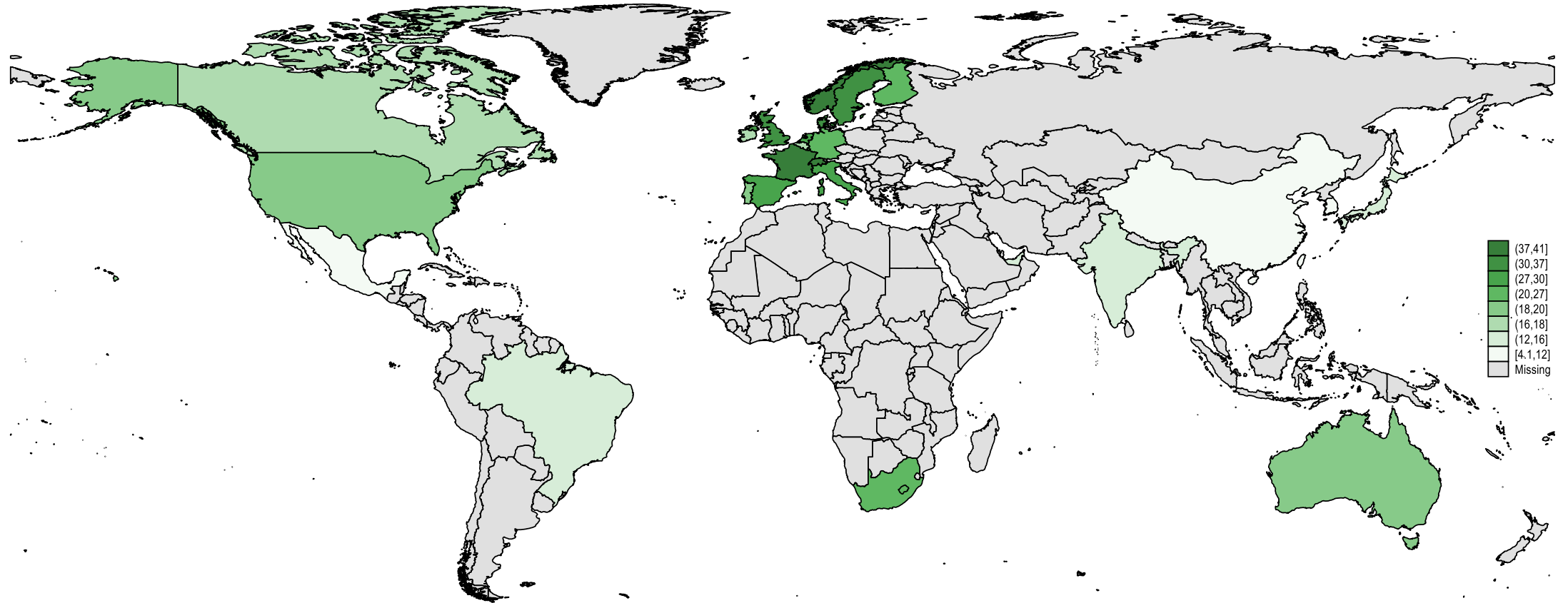
Main results-1: Transparency Distributions



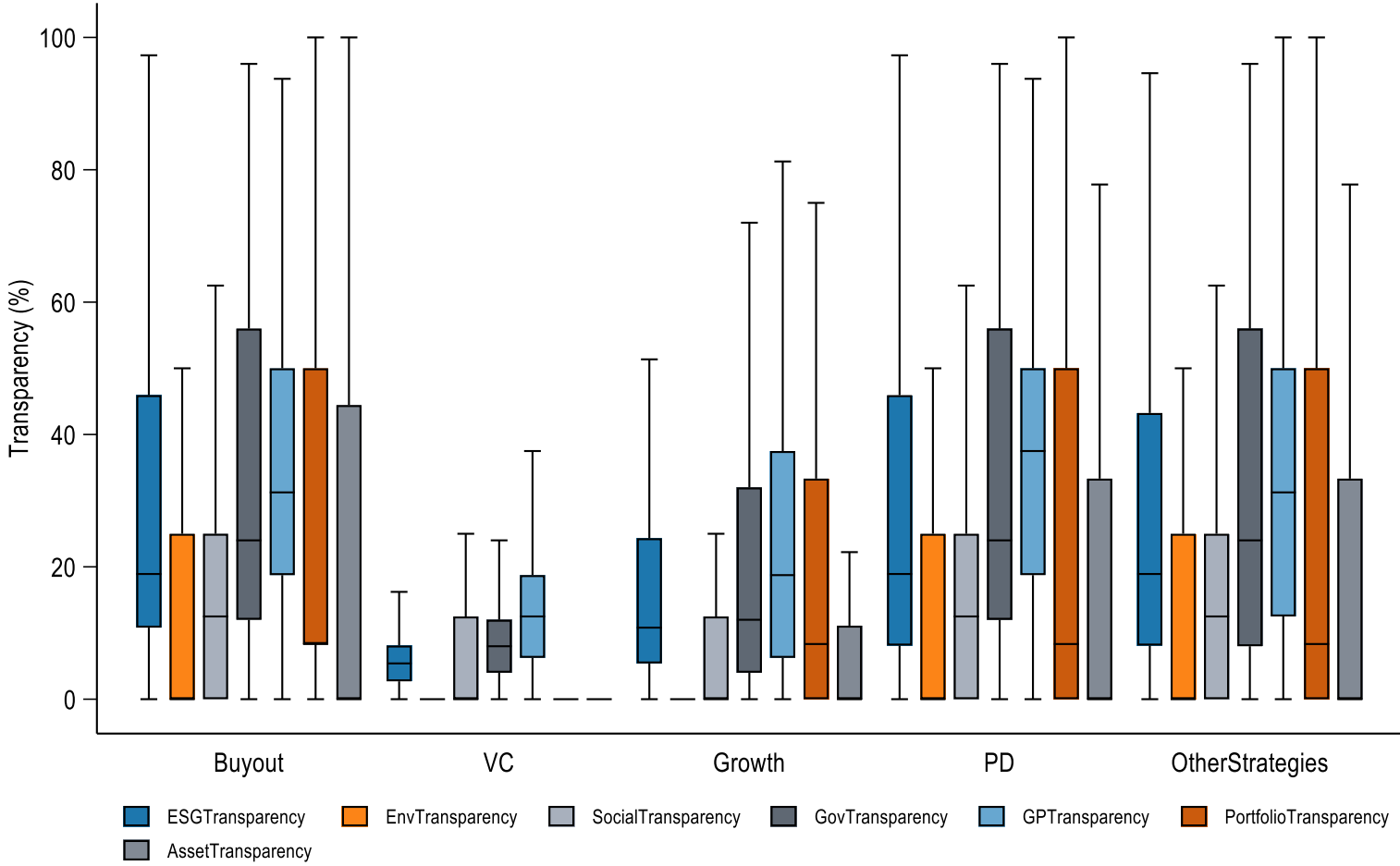
Main results-2: Comparison with Public Markets



Main results-3: Cross-sectional variation



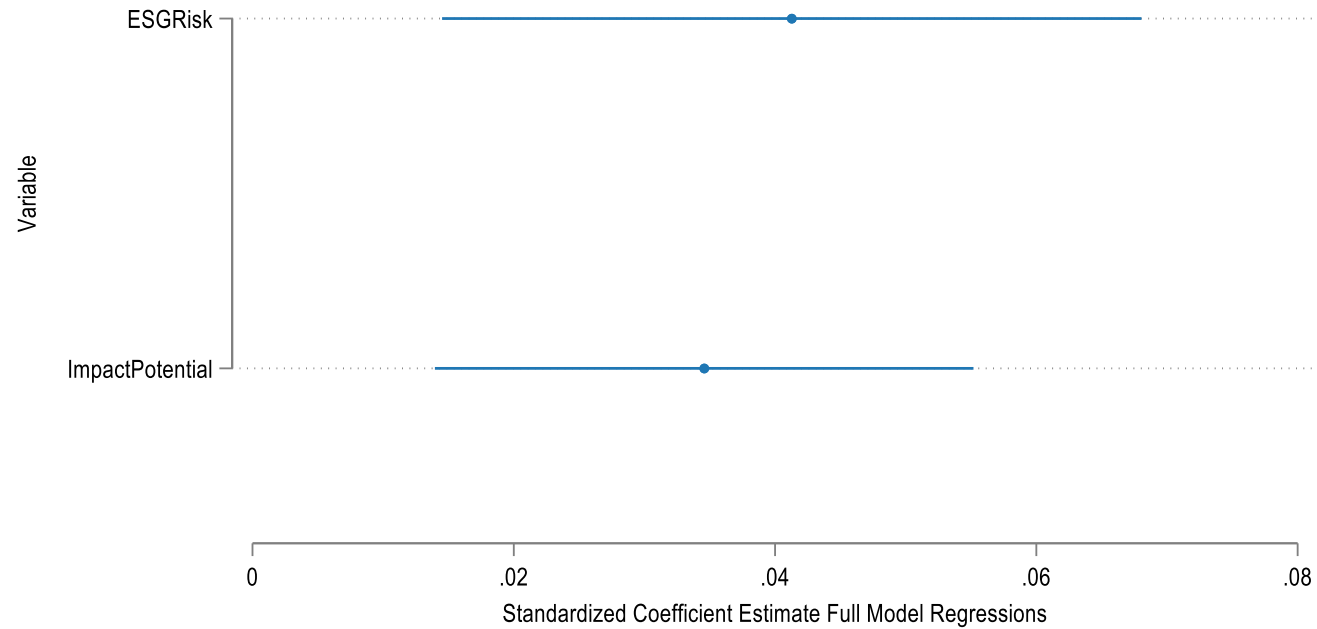
Main results-3: Cross-sectional variation



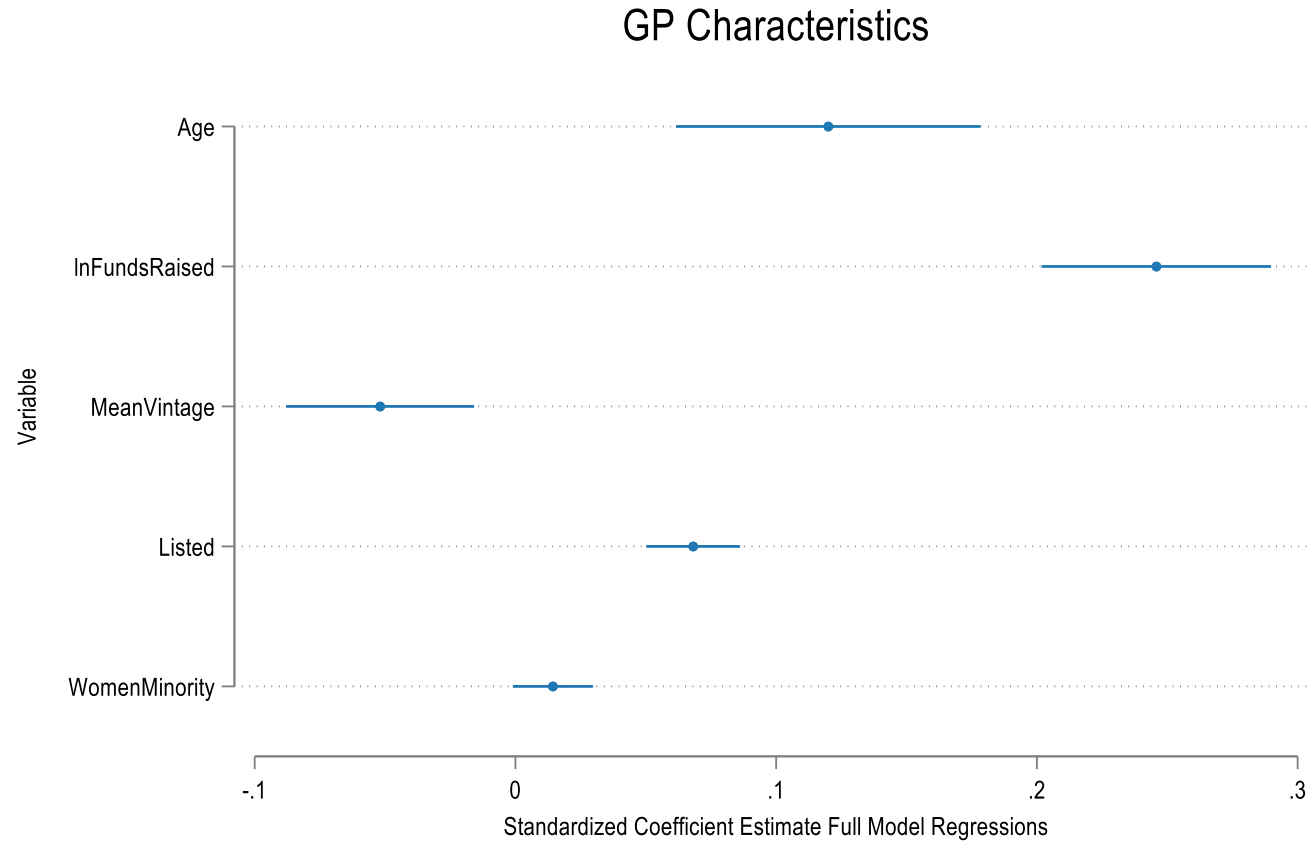
excludes outside values

Main results-3: Cross-sectional variation

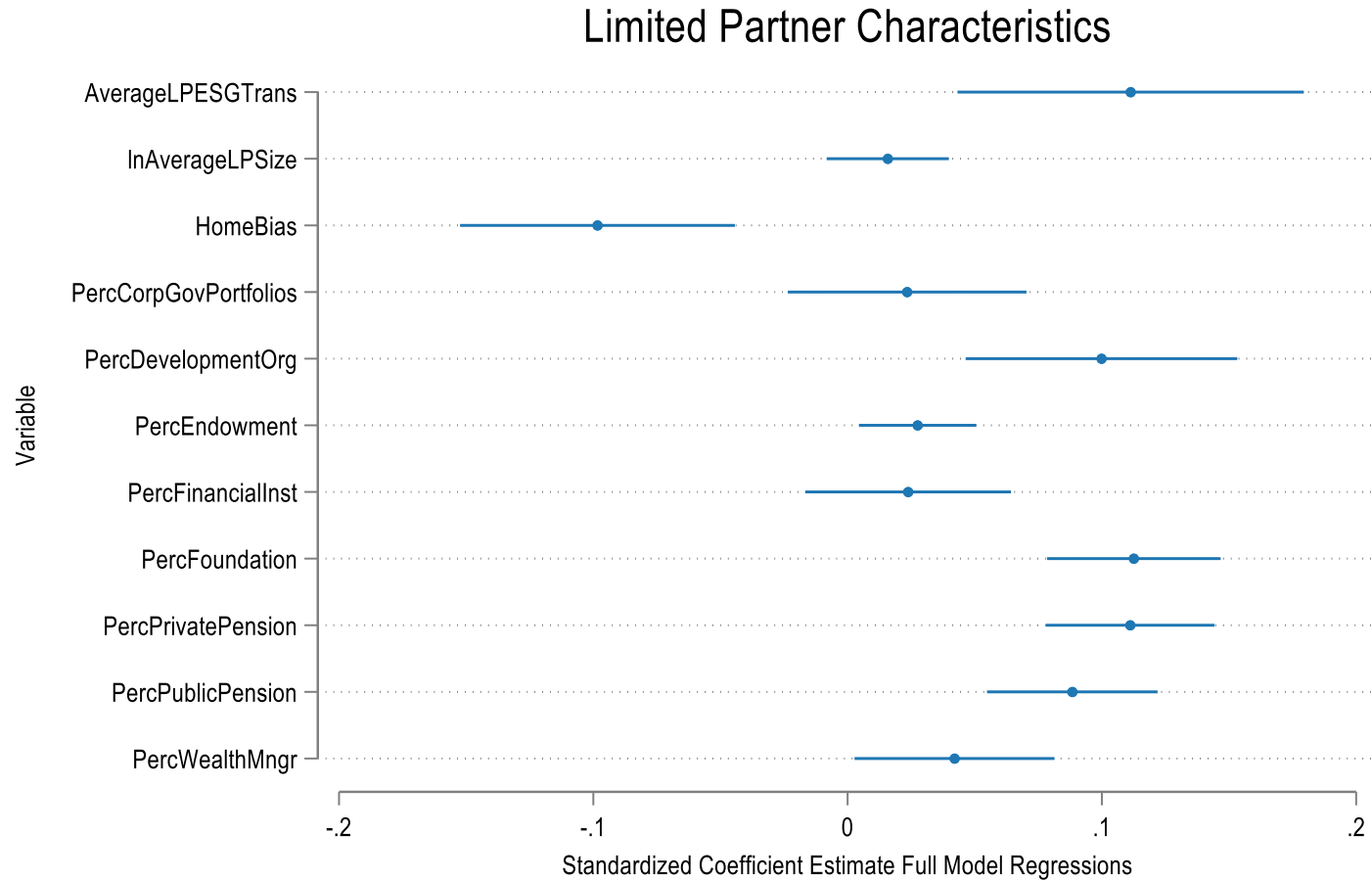
Portfolio-level ESG Characteristics



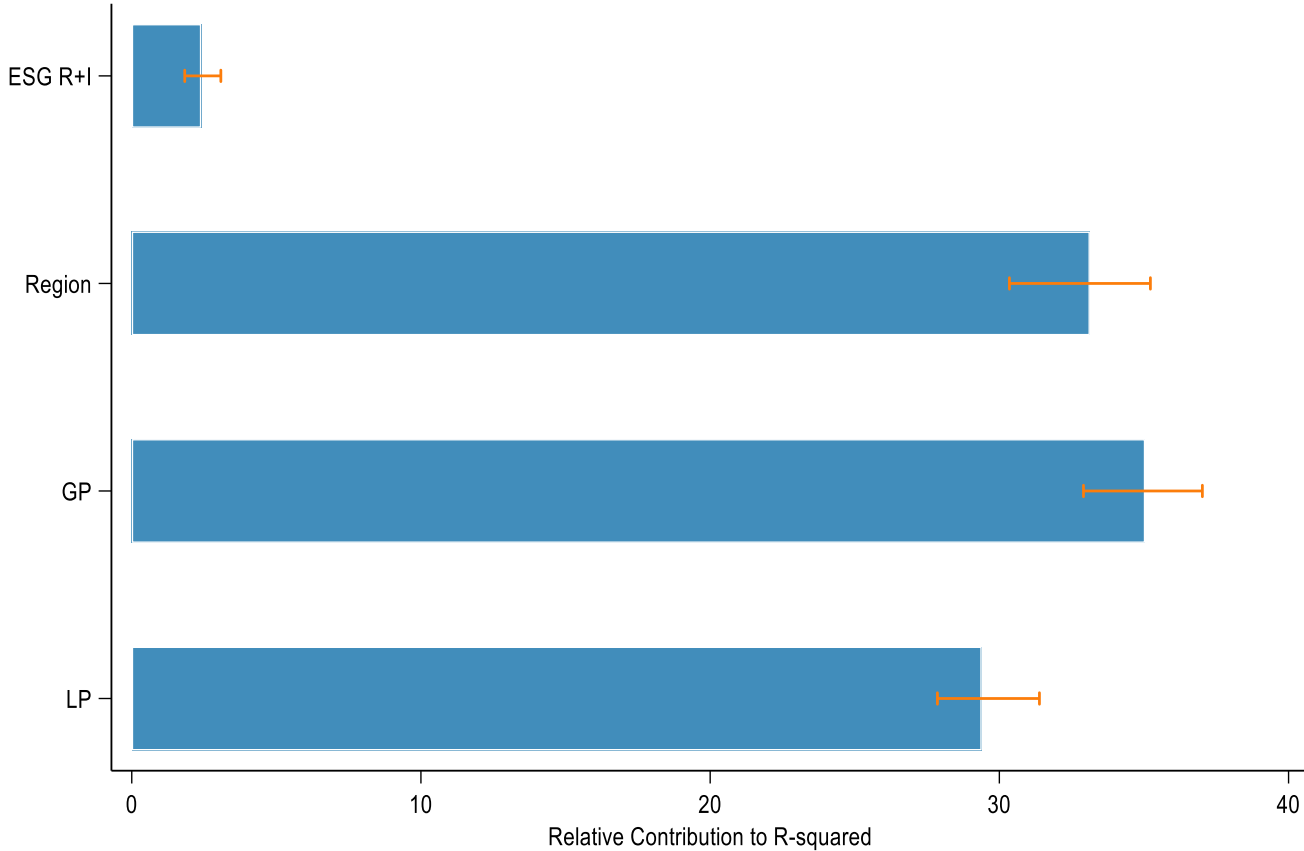
Main results-3: Cross-sectional variation



Main results-3: Cross-sectional variation



Main results-4: R-squared decomposition



Huettner, F., & Sunder, M. (2012). Axiomatic arguments for decomposing goodness of fit according to Shapley and Owen values. *Electronic Journal of Statistics*

Conclusion

Despite the dramatic increase in both responsible investing and private market investing in recent years, the extent and determinants of private market ESG disclosures remain an underexplored topic.

PE and PD firms' ESG transparency is lower than that of *public firms*. However:

- GPs facing a more favorable cost-benefit tradeoff of disclosing (e.g. larger, more recently fundraising, HQ in countries with higher ESG regulatory pressures) are more transparent
- Limited partners with high ESG transparency/preferences positively associated with GPs transparency and Portfolio-level ESG characteristics

Implications:

Room for more transparency

Nuance to claims that private markets are fully opaque

Thank you!



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We provide an open platform to promote research, education and networking, in the field of non-bank private debt.

Appendix-1: Sample selection

	Number of GPs	Total funds raised (\$bn)
Full Preqin Pro Fund Manager Data	35216	8219
<i>Dropping:</i>		
Missing <i>ESGTransparency</i>	-914	-16
Number of GPs with transparency data	34302	8203
Missing <i>ESGRisk</i> and <i>ImpactPotential</i>	-24714	-802
Missing GP variables	-1393	-52
Missing LP variables	-4034	-595
Missing GP Headquarters Region	-11	-38
Number of sample GPs	4150	6716

Appendix-2: Descriptives Statistics

	N	Mean	p25	Median	p75	Std. Dev.
Panel A: GP Variables						
Age	4150	15.72	8.00	13	21	10.76
lnFundsRaised	4150	1360.25	90.24	285.31	904.13	3701.49
MeanVintage	4150	6.69	4.00	6	9	3.62
Listed	4150	.02	0.00	0	0	.13
WomenMinority	4150	.08	0.00	0	0	.27
VC	4150	.52	0.00	1	1	.5
Buyout	4150	.22	0.00	0	0	.41
Growth	4150	.14	0.00	0	0	.34
PD	4150	.08	0.00	0	0	.27
OtherStrategies	4150	.04	0.00	0	0	.2
Panel B: LP Variables						
AverageLPESGTrans	4150	28.99	5.56	25	44.27	25.25
lnAverageLPSize	4150	77840.75	7929.00	35945.1	93737.52	120996.73
HomeBias	4150	79.89	72.73	100	100	32.42
PercCorpGovPortfolios	4150	20.01	0.00	0	33.33	30.96
PercDevelopmentOrg	4150	4.77	0.00	0	0	15.66
PercEndowment	4150	2.92	0.00	0	0	8.3
PercFinancialInst	4150	16.09	0.00	0	22.38	25.41
PercFoundation	4150	10.21	0.00	0	10	21.76
PercInstitAssetMngr	4150	20.48	0.00	9.09	33.33	27.53
PercPrivatePension	4150	10.29	0.00	0	16.67	18.59
PercPublicPension	4150	12.74	0.00	0	20	21.71
PercWealthMngr	4150	1.86	0.00	0	0	7.56
Panel C: ESG R+I						
ESGRisk	4150	30.45	26.57	29.88	33.55	5.65
ImpactPotential	4150	42.49	24.88	37.73	55.67	27.79
Panel D: Transparency						
ESGTransparency	4150	17.35	2.70	8.11	21.62	20.37
EnvTransparency	4150	9.37	0.00	0	0	23.09
SocialTransparency	4150	10.62	0.00	0	12.5	16.3
GovTransparency	4150	20.78	4.00	8	28	22.99
GPTransparency	4150	23.79	6.25	18.75	37.5	21.57
PortfolioTransparency	4150	14.4	0.00	0	16.67	23.3
AssetTransparency	4150	9.84	0.00	0	0	21.29
PRI	4150	.17	0.00	0	0	.38

Appendix-3: Disclosure Propensity Listed vs GPs

DV = DisclosurePropensity	(1) GP Full Sample vs. Refinitiv Full Sample	(2) GP Full Sample vs. Refinitiv Financial Firms	(3) Listed GPs vs. Refinitiv Full Sample
GP	-.395*** (.028)	-.295*** (.033)	-.18*** (.053)
Size	.05*** (.005)	.042*** (.005)	.057*** (.004)
_cons	.275*** (.041)	.204*** (.055)	.233*** (.032)
Observations	12742	5436	8665
R-squared	.632	.577	.348
COUNTRY FE	YES	YES	YES

Standard errors are in parentheses

*** $p < .01$, ** $p < .05$, * $p < .1$

Appendix-4: R-squared Decomposition

Groups	Regressors	Coef.	Individual R-squared Contribution	Group R-squared contribution
ESG R+I	ESGRisk	0.009***	2.167	2.395
	ImpactPotential	0.002***	0.228	
Region	EmergingAsiaPacific	-0.933***	20.727	33.089
	DevelopedEurope	0.414***	8.060	
	DevelopedAsiaPacific	-0.450***	3.632	
	AfricaMiddleEast	-0.362***	0.344	
	CentralSouthAmerica	-0.498***	0.237	
	EmergingEurope	0.272	0.087	
GP	lnFundsRaised	0.151***	14.672	35.075
	VC	-0.382***	10.221	
	Age	0.014***	5.632	
	Listed	0.630***	1.527	
	PD	-0.105**	0.806	
	MeanVintage	-0.017***	0.749	
	Growth	-0.090	0.714	
	OtherStrategies	0.330	0.489	
	WomenMinority	0.153*	0.266	
LP	AverageLPESGTrans	0.005***	6.176	29.441
	PercCorpGovPortfolios	0.165	4.932	
	PercPrivatePension	0.007***	4.793	
	PercPublicPension	0.005***	3.568	
	lnAverageLPSize	0.305	3.115	
	HomeBias	-0.004***	2.944	
	PercFoundation	0.006***	2.208	
	PercDevelopmentOrg	0.008***	0.815	
	PercEndowment	0.004**	0.422	
	PercFinancialInst	0.163	0.343	
	PercWealthMngr	0.007**	0.125	

Appendix-5: Preqin GP-level disclosure indicators

Indicator	% of GPs that disclose indicator	Pillar	Framework
GP Firm-level Indicators			
General partner firm-level governing, leadership, or executive bodies, including the board of directors	86.53	G	Ratings Providers
The ownership structure of the GP	49.69	G	Ratings Providers
General partner firm-level privacy policy	40.51	S	Ratings Providers
Any mention of ESG consideration in operations	33.98	G	SASB
Registered investment advisor or a registered broker dealer status	33.11	G	ILPA
A code of conduct policy for employees	30.00	G	ILPA
An insider trading policy	20.05	G	Ratings Providers
Statements, policies, or initiatives related to climate change	17.61	E	TCFD
Discloses a public sustainability report	14.67	G	Ratings Providers
A formal diversity policy or initiative	14.39	S	ILPA
A modern slavery or human rights policy	9.45	S	Ratings Providers
An anti-money laundering and/or "know your client" (AML KYC) policy	8.94	G	Ratings Providers
A whistleblower or anonymous incident reporting process	8.19	G	Ratings Providers
General partner firm-level carbon or GHG emissions	7.42	E	Ratings Providers
Female representation on the board of directors	6.63	G	Ratings Providers
Adherence to any ISO standards	3.47	S	Ratings Providers

Appendix-6: Preqin portfolio-level indicators

GP Portfolio-level Indicators			
A list of investors by type (i.e., "family office")	33.04	G	UNPRI
Any mention of ESG consideration in investing	27.52	G	SASB
An investment policy that includes ESG issues	21.54	G	UNPRI
A policy specifying how ESG factors are used before investing in a company	20.43	G	UNPRI
Dedicated ESG investment staff	17.86	G	UNPRI
A policy specifying how ESG factors are used after investing in a company or in company exits	17.47	G	UNPRI
ESG due diligence reporting lines	16.48	G	UNPRI
Total AUM disclosed as subject to ESG criteria or policies	8.14	G	UNPRI
Fund offerings sold as "ESG" or "ESG-themed" funds	5.42	G	UNPRI
Fund offerings sold as "Impact" or "SDG" funds	4.19	G	UNPRI
Total assets under management in ESG funds	1.88	S	UNPRI
Total assets under management in impact or SDG-related companies	1.35	S	UNPRI

Appendix-7: Preqin asset-level disclosure indicators

GP Asset-level indicators			
A policy detailing engagement processes with portfolio companies	18.67	G	Ratings Providers
An engagement process or considerations specifically focused on ESG issues with portfolio companies	17.49	G	Ratings Providers
Reporting or monitoring portfolio companies using ESG KPIs	15.76	G	Ratings Providers
Investments in companies explicitly developing products in line with the UN Sustainable Development Goals	10.84	S	Ratings Providers
Tracking of GHG emissions at portfolio companies	8.63	E	Ratings Providers
The number of companies in the portfolio with whom engagements were conducted on ESG policies or issues	8.53	G	Ratings Providers
Evidence of environmental impact studies conducted on portfolio companies or properties	6.22	E	ILPA
ESG educational programs designed and run for portfolio companies	4.55	S	Ratings Providers
A code of conduct policy for portfolio companies	1.49	G	ILPA