Driving forward on ESG, but acceleration needed

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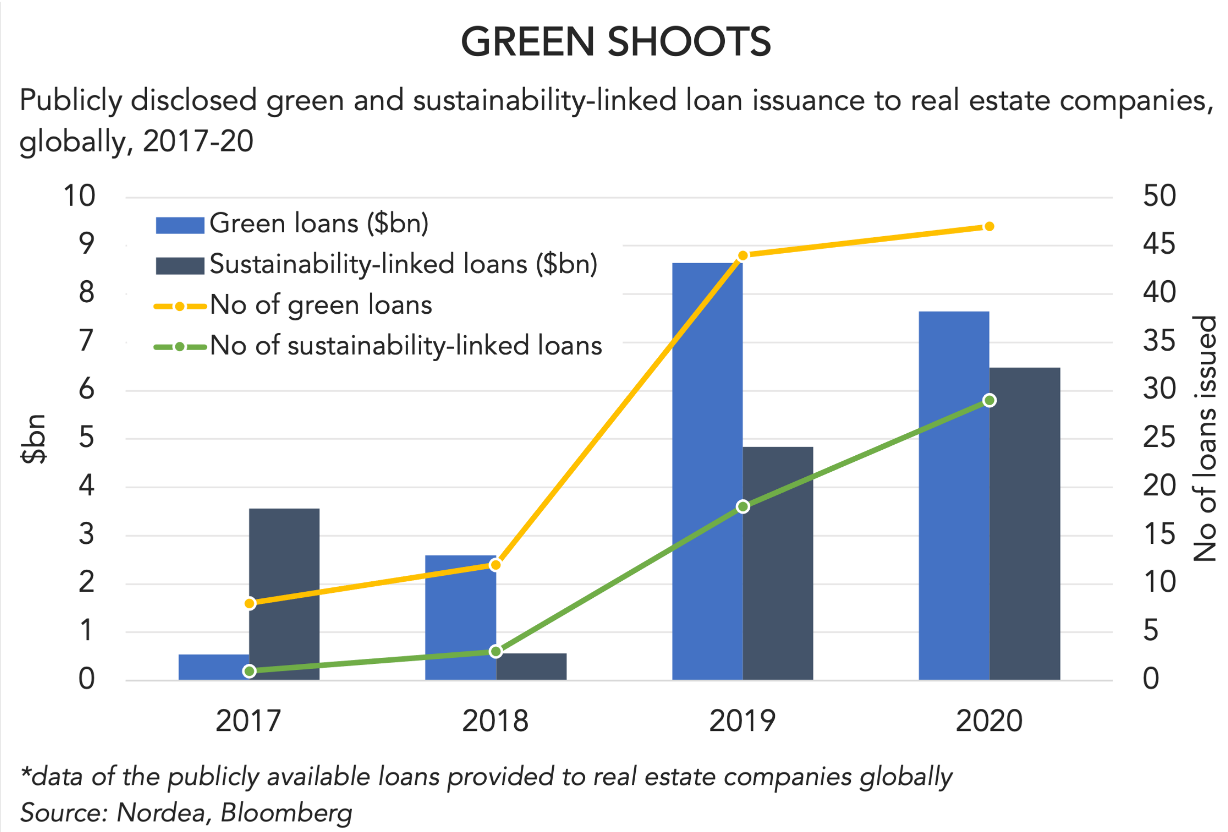

Private debt managers have made considerable progress but, particularly in North America, there is more to be done.

Today any private debt manager underplaying the importance of environmental, social and governance issues might expect short shrift from any investor they approached for capital. However, it wasn't always that way. Travel back in time five or ten years and you might have found a receptive audience for the argument that debt providers should sit passively in the back seat, allowing the likes of management teams and private equity firms to deal with thorny issues like ESG from their position in the front seat.

The view seems old fashioned now, and many would say, rightly so. Many private debt firms have made ESG central both to their own operations and to the loans that they provide (see chart above for their impact in the real estate sector). A recent survey from PineBridge Investments found that 94 percent of private market managers – including, but not limited to, private debt – boasted what was described as an "established ESG approach", up from 78 percent last year.

However, the survey also revealed there is plenty of room for improvement. While nearly half (49 percent) had signed up to the UN Principles for Responsible Investment, 35 percent said they had not yet committed to any specific standards. Reasons why they had not done so included a lack of internal resources to track any policies committed to, and not enough clarity on the processes and requirements involved.

There is also a wake-up call for North America-based managers, with the survey finding that only 39 percent of managers based in the region had committed to “some international standards that promote responsible investment practices” versus 78 percent in Europe and 63 percent in Asia. A market source recently expressed the opinion to *Private Debt Investor* that European investors may increasingly withhold capital from North American funds for failing to measure up when it comes to ESG. The survey appears to provide added weight to such concerns.

(Past performance is no guarantee of future results.)