Room for improvement on ESG

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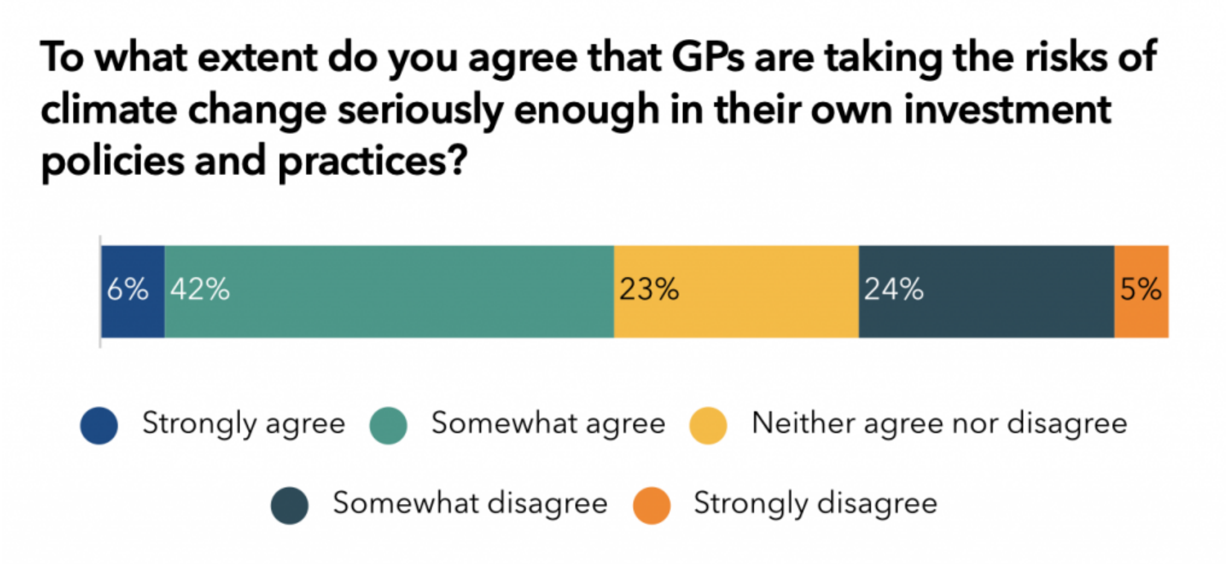

A group of investors noted the progress made by private debt in ESG and DEI, but there is still some way to go, they believe.

Private Debt Investor's December/January issue approached European investors to get their thoughts on how ESG is dealt with by managers. Here's a selection of their views:

'More could be done to create impact'

"As investors start to have more appetite and understanding around ESG & DEI matters, this has paved the way for genuine SFDR 9 funds that are allocating capital to companies and projects that have measurable impact on various sustainability goals," said Timo Hara, founder and partner of Finnish fund investor Certior Capital.

"At the same time these funds are still mostly 'selection-based': i.e. they provide capital to selected companies that fill their targets ex-ante rather than creating structures that would both incentivise and penalise borrowers that do or do not improve their sustainability."

"This means there are more and more opportunities for sustainability-minded investors, but still more could be done to create impact – in particular with companies that have improvements to be gained, but are not straight out 'sustainable companies'," said Hara.

'Less uncharted territory'

"There is a lot that remains to be done for private debt in the ESG & DEI space," said Marc Smid, senior portfolio manager at Allianz Global Investors. “Compared to the situation about five years ago, progress has been made and there is less uncharted territory when it comes to the consideration of sustainability criteria in private debt investments. However, there is broadly a need for improvement in private debt. Investors like us have clear requirements with regard to ESG & DEI and managers that do not improve and keep up on expected standards will fall behind.”

‘Old school’ = un-investable

“From my perspective most of the active private debt houses have clearly done their homework,” said Dominik Thienel, head of private equity and private debt at German pension fund WPV. “As ESG has come into clearer focus during the last three to four years, market participants have built up internal infrastructure (e.g. awareness through ESG committees, focus within due diligence, side letter veto rights for critical assets), mostly driven by governmental requirements and LP/market demand.

“Nevertheless, even though there is immense fundraising competition nowadays, some GPs still stick to ‘old school’ style, putting them in position to be ‘un-investable’ for some LPs,” continued Thienel. “So, there is still room to improve further.”