

ESG in Private Equity Roundtable

Insights from The Barton Partnership's roundtable discussion on Tuesday 13th June in Singapore.

ESG in Private Equity

On Tuesday, 13th June, The Barton Partnership hosted a roundtable discussion addressing the current trends and challenges in driving positive Environmental, Social, and Governance (ESG) impact in the Private Equity and Venture Capital industry in Asia. The participants explored various themes, including the expanding focus on social considerations, establishing dedicated ESG teams and funds and the demand for concrete policies and metrics.

What follows is a summary of the key points discussed during the session:

#1 ESG Reporting and Transparency

- Participants noted that Limited Partners (LPs) are becoming more cautious about greenwashing and require Fund Managers to demonstrate tangible ESG initiatives rather than relying solely on high-level commitments. They noted that LPs are increasingly requesting specific reports and commitments aligned with recognised frameworks such as the GHG Protocol, forcing fund managers to provide concrete evidence of their ESG initiatives.
- The discussion revealed a shift in focus beyond environmental factors (E) to encompass social (S) considerations. There is a growing emphasis on addressing a broader range of topics beyond environmental concerns, indicating a more comprehensive approach to ESG in the region.
- Participants highlighted the growing trend of firms in Asia setting up dedicated ESG teams and investment vehicles. This mirrors developments in other parts of the world, indicating a growing recognition of the importance of ESG considerations in the Private Equity and Venture Capital sectors. Establishing such teams and Funds underscores the commitment to addressing ESG-related investment opportunities.

#2 ESG as a Value Differentiator: Linking Social Impact and Financial Outcomes

- European regulations have been a catalyst for ESG integration. However, participants emphasised the importance of proactive and appropriate approaches beyond regulatory requirements.
- One significant challenge identified by the participants was the increasing demand from Limited Partners (LPs) to demonstrate the performance and impact of ESG efforts. LPs seek evidence of how ESG initiatives translate into tangible outcomes, even for long-term investors. This demand poses a challenge for Fund Managers who must find ways to measure and communicate the connection between ESG actions and financial performance.
- Nevertheless, participants saw real opportunities in leveraging ESG to differentiate products and enter new spaces. They discussed how a strong focus on the social aspect of ESG could lead to positive financial impacts, such as reducing attrition and enhancing the employee value proposition. They emphasised the importance of finding linkages between ESG and value creation, aligning the interests of ESG practitioners and companies, and going beyond tick-box exercises to create meaningful impact.

- Participants also highlighted the limited availability of research and information on the private market's alignment with ESG. They expressed the challenge of proving the value and performance benefits of ESG investments due to the lack of comprehensive data. The reliance on public market research as a proxy for private market performance was acknowledged but seen as an insufficient measure.
- Participants shared their experiences of creating customised trackers and indices to demonstrate the impact of ESG actions. This allowed them to provide tangible evidence of their commitment to ESG and set industry standards. However, the complexity and size of the task were highlighted, particularly for early-stage investments, where revenue forecasting and impact quantification pose significant challenges.

#3 ESG Integration in Asia: Challenges, Education, and Defining KPIs

- Participants recognised that Asia lags behind Europe and North America regarding ESG integration. Participants noted the challenges of incorporating ESG key performance indicators (KPIs) into social and environmental aspects, as concepts like carbon and energy usage are often derived from Western research.
- Educating portfolio companies and implementing ESG practices are crucial. A health check approach was proposed, tailored to different stages of growth and industry-specific circumstances, which provides feedback and recommendations for portfolio companies to improve. This approach recognises the importance of context and process rather than simply complying with a checklist provided by global LPs.
- The participants acknowledged the struggle to connect ESG initiatives with profits, as financial data is regularly tracked, but ESG performance is not consistently measured or benchmarked. The need for definitive ESG KPIs and quantifying the benefits and profitability of ESG investments was emphasised. The discussion also addressed the challenge for startups to identify best practices and align themselves with industry standards. Indexes and feedback loops were suggested as tools to provide guidance and cross-checks for portfolio companies on their ESG journey.

#4 Customising ESG Approaches for VC Investments

- Participants discussed the challenges of conducting ESG due diligence in the VC industry. They highlighted the need to adapt the ESG due diligence process for VC companies based on their specific stages of development and future growth potential. Educating VC firms about the different ESG requirements compared to PE companies was emphasised.
- Europe is ahead in terms of ESG awareness, while other regions like Asia present opportunities for sustainable development. The importance of focusing on material ESG topics for specific companies and sectors was emphasised.
- The participants also mentioned ongoing efforts to address the lack of effective benchmarks for comparing ESG performance in private markets. They highlighted the Data Conversions Initiative, which aims to create benchmarks and facilitate the reporting of key ESG metrics by financial sponsors. The initiative has gained traction, with over 5,000 companies participating in reporting their data.

#5 Overcoming Challenges in Asia: Risk Mitigation, Resource Constraints, and Developing ESG Ecosystems

- The participants acknowledged that incorporating ESG considerations into investments in Asia could pose certain risks and pitfalls. They highlighted the potential challenge of using a cookie-cutter approach that fails to account for the diverse characteristics of different companies. The pressure to achieve immediate results and the limited resources of PE (Private Equity) or VC investments were also mentioned as potential barriers to effectively implementing ESG practices. Taking a long-term view and receiving guidance from LPs (Limited Partners) were suggested to mitigate these risks.
- The participants also discussed the difficulties of gaining buy-in from investment teams, particularly in the current challenging market environment where the focus is often on short-term financial outcomes. The liquidity crunch, fundraising difficulties, and slower deal flow were identified as factors that could impact the prioritisation of ESG considerations. The need to allocate time and financial resources to ESG initiatives was recognised as a challenge, especially in the absence of on-the-ground expertise in the countries where investments are made.
- The lack of clarity on what constitutes an ESG expert and the evolving nature of the field were highlighted. Participants noted that the complexity of ESG topics necessitates specialised knowledge and expertise in specific sectors or functional areas. In Asia, the additional challenges of language barriers and the limited pool of local ESG consultants were mentioned.
- The discussion concluded with the recognition that local governments in Asia have yet to address ESG considerations fully, and there is a need for the ecosystem to develop further. Universities were identified as potential players in training and cultivating ESG expertise.

About The Barton Partnership

The Barton Partnership is an award-winning executive recruitment and consulting services firm providing permanent search and independent consulting services across all aspects of Strategy & M&A, Digital, Data & Analytics, ESG & Sustainability, and Transformation & Change. We have offices in London, New York, Paris, Singapore, Hong Kong, and Sydney. Our clients include FTSE listed and Fortune 500 companies across all sectors/industries; SMEs, Strategic, Innovation & Management Consulting firms (large and boutique), Public Sector, Global Financial Services, Private Equity and Venture Capital organisations.

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