KEYNOTE INTERVIEW

Consistency is key in ESG

The private equity industry needs standardised frameworks for ESG, says Antonis Anastasiou, director and member of Alter Domus's ESG committee

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Q How are you approaching ESG from the perspective of your own firm?

In late 2019, when ESG first began to gain prominence, we set out to assess ESG and its significance to the firm across all business lines and geographies. We interviewed key stakeholders to understand what mattered to all of them in relation to the evolving ESG landscape and formed a consensus on what our approach should be. We then started to define the reporting structure and metrics that had material significance to our business. This is where the challenges associated with a lack of a standardised framework became immediately apparent.

There are a number of different overarching ESG and sustainability guidelines available, including the UN Principles for Responsible Investment, which we have signed up to. We also found there to be a wide range of reporting frameworks. We adopted the World Economic Forum's Stakeholder Capitalism Metrics framework to help form the basis of our reporting mechanism. That framework is based on the four key pillars of planet, people, prosperity and principles of governance, which enabled us to establish where we are today and gauge how we want to manage ourselves going forward.

From 2020, we then started including some of the results of that data gathering exercise in our annual accounts, which is a strong indication of how committed we are to ESG as a topic. However, it is clear a lack of standardisation can be an obstacle for many firms as they seek to advance their ESG profile.

Q Is a lack of standardised frameworks the biggest challenge you have faced?

The biggest challenge that we, and I think everyone, faces begins with the data gathering exercise. How do you collect, identify and evaluate the data you need? What are the benchmarks? Additionally, the specific challenges that organisations face will differ, depending on their core activities. For example, measuring CO2 emissions was not always straightforward for us, particularly with some of the office space we lease where that information was not readily available but, as a people business, HR issues such as engagement, health and safety, training, and certain diversity metrics were more straightforward.

By contrast, a global real estate manager focused on hotels might find it easy to gather environmental data for its buildings, but harder to track the many thousands of employees working within those facilities. Once you have that data, of course, you then need to track it, to find out where you were yesterday, where you are today and where you want to be tomorrow. The reporting framework and standards are an important first step in doing that.

Q Have you found your journey is reflected in the challenges that your GP clients are facing?

Certainly. It has been important for us to understand our own corporate footprint, first of all, but then to see how we could translate our insights into knowledge that could be used to help our clients. That has been easier on the real estate and infrastructure side, where bodies such as GRESB have bespoke products that can be used to classify and score an asset from an ESG perspective. If you are a real estate or infrastructure fund manager, you can immediately see how you stack up against your peers. Yet such products are not readily available from a private equity standpoint. GPs do not have access to those kinds of data assessments or benchmarks at the moment.

Q Are the challenges greater for some private equity managers than others?

There are certain GPs that have sustainability or ESG-related aspects linked directly to their investment strategies. Those firms tend to already have systems and processes built into their DNA. Other firms may be starting from scratch and, again, that is where more standardisation would be extremely helpful. There is the SASB Materiality Map, which identifies sustainable issues that are likely to affect the financial condition or operating performance within an industry, but more guidance is needed around how to collect and manage the data of the assessments.

"A lack of standardisation can be an obstacle for many firms as they seek to advance their ESG profile"

Q Has regulation been a key driver of the increased focus on ESG?

For some, it might have started that way, but the more GPs embrace ESG, the more they are seeing the advantages. If we did not focus on people and prosperity as a people business, for example, that would directly impact productivity and hurt our performance. Equally, more sustainable buildings create cost savings and, of course, an organisation without strong corporate governance will fail to thrive. There are clear business benefits to strong ESG, as well as benefits to society and the environment.

Q How is ESG regulation evolving?

In Europe, we have the Sustainable Finance Disclosure Regulation, phase one of which was implemented in March of this year. It entails looking into the funds under management and classifying the funds accordingly to see if certain sustainability disclosure requirements need to be fulfilled. Certain managers found it difficult to navigate through the regulation as it arrived, and as the AIFM to our funds under administration, we have been able to step in and assist with some of our clients' assessments and disclosures. This is just the start with phase two underway, and with more to come in the future.

Outside of Europe, the US Securities and Exchange Commission is also looking closely at this, and similar guidelines should soon be published as well.

Q What role is LP pressure playing in driving ESG forward?

Two years ago, it was rare to see any language around ESG included in the RFPs we received. Today, it is rare that we are not asked about what we do from an ESG perspective. ESG has become an important criterion in selecting service providers and it has also become critical for LPs when they are looking at potential GPs. That pressure is clearly there.

Q What will it take to create greater standardisation, particularly for private equity?

In September, Carlyle and CalPERS led a group of LPs and GPs, representing over $4 trillion in assets, in agreeing to standardise reporting on the ESG performance of portfolio companies across six metrics including greenhouse gas emissions, renewable energy and board diversity. The working group, called the ESG Data Convergence Project, has essentially said it is time to stop focusing on the challenges, and instead to proactively look for solutions.

I think that is an important first step as ESG increasingly becomes a key criterion for the selection of assets, GPs and service providers. We need to be able to compare like with like because the importance and dynamics of ESG are only strengthening and are clearly here to stay. ■