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Press release

ESG integration in Private Equity is developing but is not yet used in valuing portfolio companies

Paris, 9 June 2011 - Novethic is releasing the results of its survey on the integration of Environmental, Social and Governance (ESG) criteria in the private equity sector, conducted with the support of KKR and in partnership with the AFIC Sustainable Development Club, CDC Entreprises and FSI France Investissement.
Seventy-four firms representative of the private equity market in France took part in the survey, with total investments of more than EUR 2.8 billion in 2010. The results confirm the development of responsible investment in the sector. Private equity firms list practices that include ESG risk analysis and the gradual formalisation of an investment policy. However, ESG aspects are not yet used in the valuation of portfolio companies.

Gradual formalisation of ESG integration strategies and tools

Nearly one-third of the investment managers surveyed (30%) have implemented a formal ESG integration policy, while 35% plan to do so in the next year. These figures show investment managers' growing interest in assessing the companies in which they invest based on sustainable development criteria. Furthermore, nearly one-third of the Novethic survey respondents have signed the Principles for Responsible Investment (PRI) in the past three years, with one-quarter planning to do so in 2011. Signing the PRI represents a way of publicly declaring their commitment to implement a structured ESG approach and join the community of responsible investors.

The application of these approaches remains in its early phases, as the majority of firms continue to favour dialogue between investors and companies on sustainable development issues (72%). Less than one-quarter of the investment managers use specific ESG assessment grids, ESG audits or systematic ESG questionnaires.

Risk prevention prevails over investors' expectations

Sixty-five percent of the investment managers surveyed are primarily motivated to integrate ESG criteria in order to identify potential risks before investing in a company, as the assessment of environmental, social and governance criteria provides further information about the target companies. The second main motivation mentioned by half of the respondents is to meet requirements expressed by their investor clients who want formal policies that take ESG criteria into account prior to investing their assets. Sixty percent of the companies surveyed have already received requests of this type, while others expect to receive some during their future fund-raising campaigns. Although nearly half of the firms surveyed believe that ESG integration can contribute to creating value for invested companies by implementing sustainable development policies, this aspect is not, with a few rare exceptions, currently used in the valuation of companies.

ESG criteria have an impact on investment, not yet on divestment

Nearly half of the investment managers surveyed state that they have already refused to invest in a company due to ESG-related issues. This reflects the rising importance of these factors when the decision to invest is taken. However, few private equity managers carry out any detailed monitoring on their holdings using adapted indicators once they have invested. Yet, this is precisely what is needed to promote the value of their ESG performance.

Click here to view the survey: http://www.novethic.com/novethic/v3_uk/upload/enquete_PE_EN_2011.pdf

Novethic, part of Caisse des Dépôts, is the leading research centre in France on Socially Responsible Investment (SRI) and Corporate Social Responsibility (CSR) and a sustainable development media expert. www.novethic.com

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