

Integration of ESG issues into Private Equity: The spread of best practices

Paris, 7 July 2009 - Novethic presents the results of a survey of the major private equity firms in France, with the support of AXA Private Equity, concerning their interest in incorporating Environmental, Social and Governance (ESG) criteria in unlisted companies and private equity funds. Although two-thirds of the respondents state that they integrate ESG criteria, extra-financial research tools remain underdeveloped. What is clear is that the approach has piqued the attention of managers and their clients.

A well-integrated theme

To conduct the survey, a questionnaire was sent to nearly 300 French management companies that represent the private equity market in France and are members of France Investissement and AFIC. **66% of respondents state that they take ESG considerations into account in their financial decisions.** This figure confirms their concern for the topic but does not match the practices of the different private equity businesses that invest in unlisted companies where it remains a nascent approach. Practices such as sector-based analysis tools or routine questionnaires are far from systematic. When those that do not yet apply this type of approach were asked why, 64% of respondents in this category blamed the lack of ESG expertise within companies, while for 52%, it is due to private equity managers' lack of special assessment tools.

In contrast, the survey results show that managers have a firm overall grasp of sustainable development and do not attribute it to a fad or one-off opportunity. Regarding their reasons for integrating ESG criteria into their investments, nearly 75% of asset management companies surveyed point to the economic added value offered by extra-financial insight, and 84% understand that it is in fact a global prism that extends beyond governance and cleantech investments. Furthermore, their comprehension of the issues at hand is clear in that none of them think that the **integration of ESG criteria** would hinder financial performance.

Tools are needed but communication is not

Considering the lack of tools and structured information, 86% of managers tend to favour direct dialogue with the companies in these areas, out of which 47% use this method exclusively.

Despite being faced with reputational risk, particularly for LBO businesses with regard to labour issues, nearly half of the managers surveyed (48%) do not wish to focus their communication on this aspect. However, this figure could eventually change, as institutional investors' demand develops towards private equity funds with ESG practices.

International movement

ESG initiatives taken by private equity firms have recently picked up and spread across borders. Fuelled by the crisis, this trend is notably reflected in the number of signatories to the United Nations Principles for Responsible Investment (UN PRI). As of the end of June 2009, 33 private equity firms, of which 5 French companies, had joined the PRI.

A PRI working group was set up to define guidelines to deal more specifically with private equity issues and share best practices on ESG integration in this business sector.

To access to the survey results: [What do Private Equity investors think of the integration criteria?](#)

For further information, see Novethic's latest working paper: [Where do private equity businesses stand in the integration of ESG issues?](#)

About Novethic: As the sole source of analytical and statistical information on the French SRI market, Novethic is the leading research center in France on Socially Responsible Investment (SRI) and Corporate Social Responsibility (CSR). Created in 2001 as a subsidiary of Caisse des Dépôts, Novethic produces research studies and organizes events to mobilize business leaders, investors and NGOs on these key issues related to CSR and SRI. Visit www.novethic.com

About AXA Private Equity: With USD 26 billion in assets managed or advised, AXA Private Equity ranks among the world's leading private equity firms. Its global reach extends to eight offices in Paris, Frankfurt, London, New York, Singapore, Milan, Zurich and Vienna. Since 1996, the company has contributed to the long-term growth of its portfolio companies while generating lasting, healthy returns. AXA Private Equity coordinates a robust international network and offers a full range of investment choices: funds of funds, mid-cap and small-cap LBOs, venture capital, infrastructure, co-investment and mezzanine capital.

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