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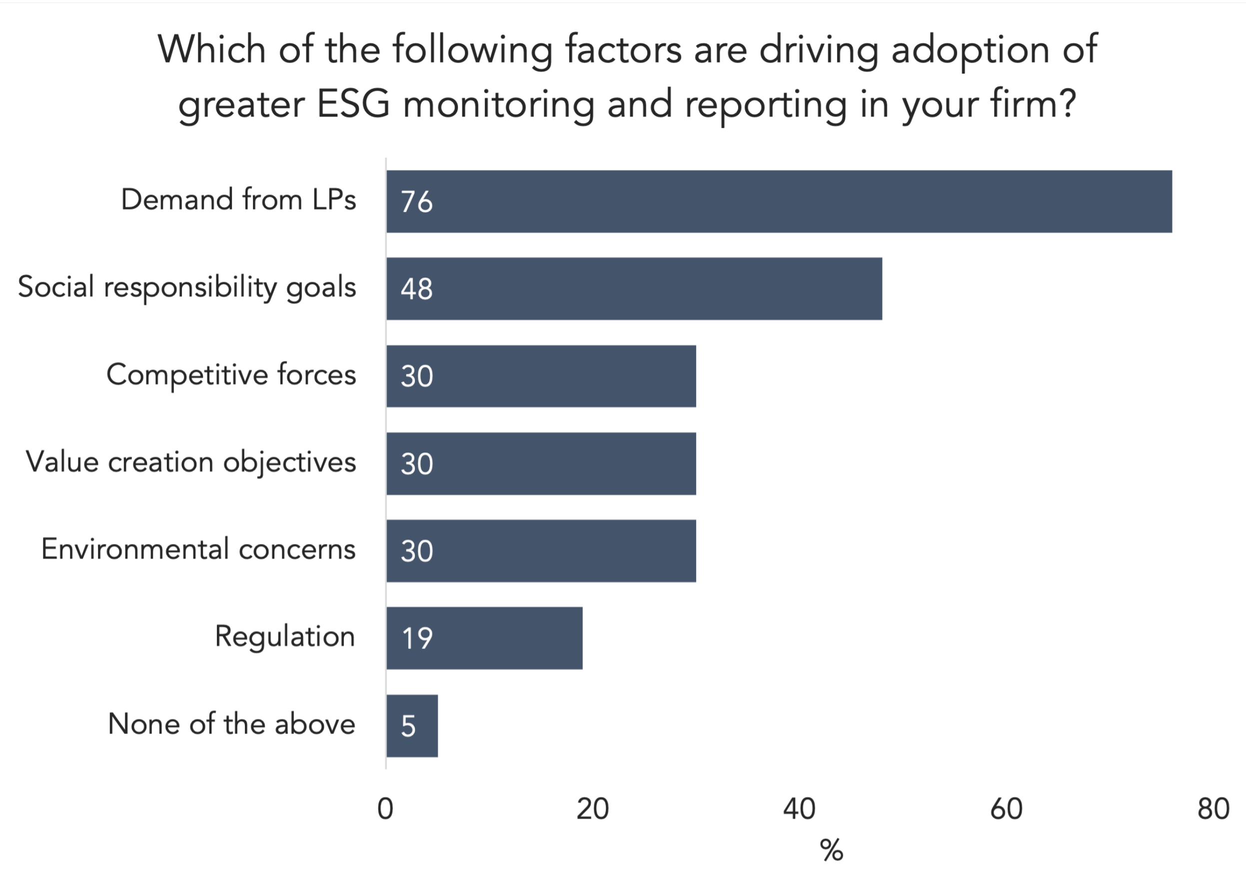
ESG moves to centre stage

PEI Private Credit | November 16, 2021



But while progress is being made on the investment side, there are question marks over reporting.

New research from trade body the Alternative Credit Council in partnership with law firm Allen & Overy reveals that private credit managers are accelerating the integration of environmental, social and governance issues into their investment strategies and engagement with businesses on sustainability.

Research from 57 private credit managers and investors based in the US, Europe and Asia-Pacific, collectively managing more than $600 billion, finds that 74 percent already integrate ESG into their investment strategies and consider it to be a core part of their approach to due diligence, borrower engagement and investor reporting.

The survey also found that managers are a growing source of guidance on sustainability issues for many small to medium-sized enterprises and mid-market businesses. Almost half of private credit managers see this service as their biggest value-add on ESG issues.

While not wishing to bring their motives into question, for many fund managers there is little option other than to take ESG issues seriously. Many in the investor community have taken such a strong stance on it that raising capital is already becoming more difficult – and will only become more of a challenge in future – if GPs fail to live up to expectations.

A new report from UK financial services firm EY finds that almost three-quarters (74 percent) of institutional investors are more likely to divest companies based on poor ESG performance than they were prior to the pandemic. Furthermore, 90 percent said they now placed greater importance on companies' ESG performance when making investment decisions than they did before the health crisis.

But while plenty of progress is clearly being made, one area of close scrutiny is reporting. In the EY survey, 89 percent of investors said they wanted global ESG reporting standards to be mandatory. Half of investors said they didn't believe ESG reporting at the current time to be adequate, up from 37 percent in 2020.

(Past performance is no guarantee of future results.)