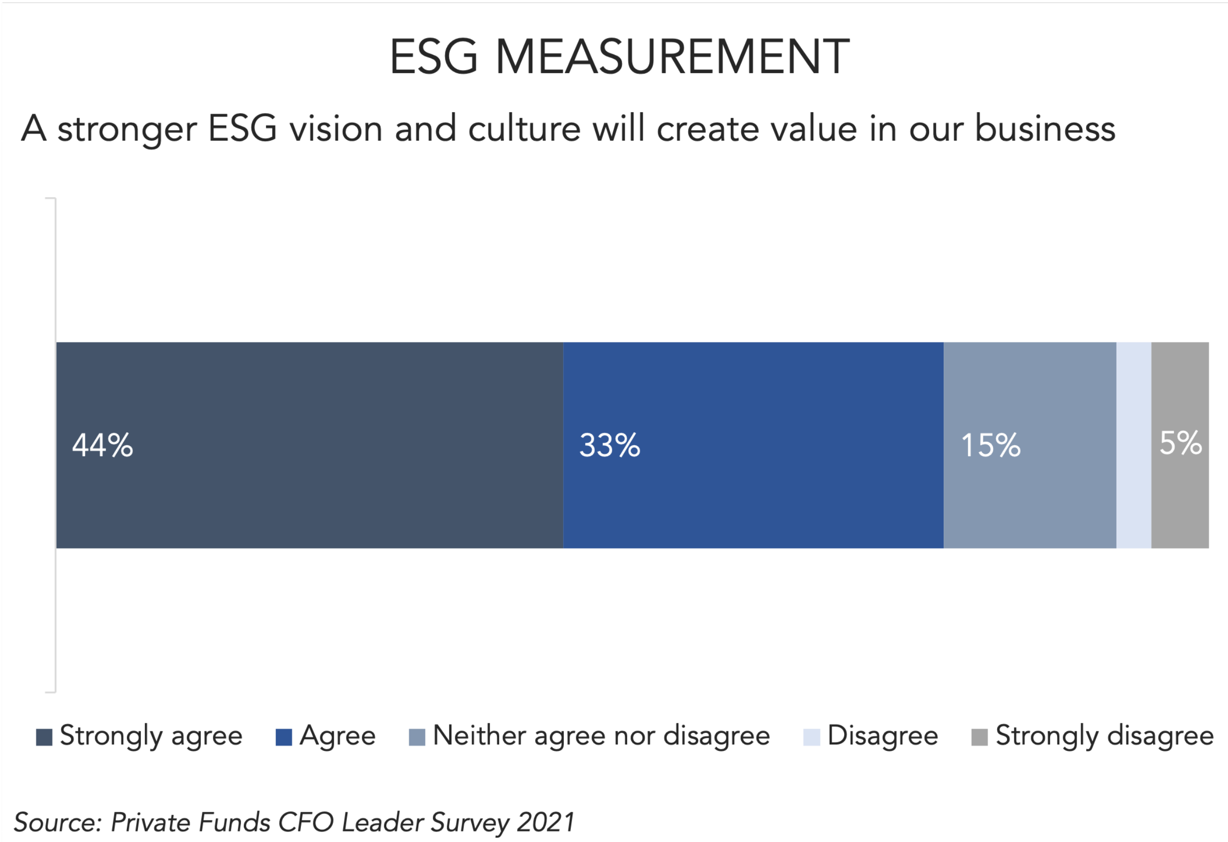
Five steps forward to a more responsible future

PEI Private Credit | December 7, 2021



The global pandemic has been the hot topic of the last couple of years, but ESG is pushing hard to take centre stage.

In our recent *Responsible Investing* report, *Private Debt Investor* considered the ways in which private debt is being transformed by the necessities of a more sustainable age of investing. We identified five key trends:

1. Private debt has moved from the back to the front seat: Conventional wisdom had private debt managers lagging behind their private equity counterparts in their commitment to responsible investing. With systematic and scaled approaches to ESG proliferating among debt managers, that is no longer the case.

2. The soaring popularity of sustainability-linked lending: An ever-growing number of deals now feature ESG-linked financing, often including margin ratchets as a means of rewarding the hitting of ESG targets. Sustainability-linked subscription lines for credit funds are also becoming more commonplace.

3. LP interest in ESG has grown exponentially: "Investors have moved from limited questioning on ESG to a deep dive approach," Permira Credit chief executive James Greenwood told us. Once a focus of pre-deal analysis and screening, ESG is now also a key part of post-investment engagement and monitoring, as well as investor reporting.

4. SFDR takes things up a notch: The European Union's Sustainable Finance Disclosure Regulation, which came into force in March, is ushering in a new level of granularity when it comes to disclosure of information by fund managers. "Firms are really grappling with how to cope" with this, according to Paul Ellison, a partner at law firm Clifford Chance.

5. The huge potential of impact investing: Debt financing is beginning to make its presence felt in the impact investment market, in particular for the financing of low carbon assets. Both the SFDR and increasing use of margin ratchets have helped move private debt to the point where providing impact products becomes a more natural step.

(Past performance is no guarantee of future results.)