

The importance of ESG risk data in private markets

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By 2025, it's estimated⁸⁸ that private equity firms will hit USD 5.8 trillion in assets under management – a sum that exemplifies the growth and opportunity for ESG in private markets. Private markets can achieve fully sustainable capital allocation and long-term value creation, along with their public market counterparts.

Yet when it comes to ESG integration, private markets still have a long way to go. For example, in 2020 only 10% of the 8,800 global private equity firms⁸⁹ were signatories of the UNPRI. While private market firms invest a lot of time, money, and effort into their due diligence, their proximity to acquisitions might cause them to believe they have not overlooked any potential risks. Yet, due diligence primarily looks at data provided by the company itself, in most cases via checklists that firms use to assess ESG performance. It's critical to move⁹⁰ beyond this static, outdated, and limited approach – especially when it comes to risks. RepRisk works with some of the largest private equity firms in the world and helps them integrate ESG in a way that circumnavigates the growing pains experienced by public markets.

What is next for ESG in private markets? Beyond the traditional use-cases of pre-acquisition/pre-financing due diligence and post-transaction monitoring – an area where private equity firms are increasingly leveraging ESG data is in their engagement with portfolio companies to drive value creation. Because private equity firms often invest over a longer time period – with ESG also having a longer time-horizon – it's in their best interest to support portfolio companies on their ESG journeys, as this will create value for firms, while also increasing the value of that portfolio company when the private equity firm exits that investment. Leading private market firms are increasingly moving away from a 'tick-box' approach and towards accepting active ESG risk analysis and ongoing engagement with portfolio companies as a long-term driver of value.

88 <https://www2.deloitte.com/us/en/insights/industry/financial-services/private-equity-industry-forecast.html>

89 <https://www.institutionalinvestor.com/article/b1m8spzx5bp6g7/Private-Equity-Makes-ESG-Promises-But-Their-Impact-Is-Often-Superficial>

90 <https://www.mdpi.com/2071-1050/12/14/5725/html>