Press Release

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| *Contact* | Rowena Mearley, PwC media relations  Mob: + 44 (0) 7841 563 180  Email: Rowena.mearley@uk.pwc.com |
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**Investors ramp up pressure on Private Equity responsible investment**

* *88% of Private Equity firms expect attention on responsible investment to increase in the next five years*
* *Firm’s actions risk not reaching Limited Partner requirements without the right policies, and capacity in place*
* *Half of the Private Equity houses interviewed currently lack a policy on ESG issues or responsible investment*

The majority of Private Equity (PE) firms interviewed in a new study of responsible investment practices say their action on environmental, social and governance issues (ESG) is set to increase over the next five years, with investor concern the main, or in some cases the only, driver for taking action.

In the new report by PwC examining the PE industry’s actions on responsible investment issues, 17 private equity houses were interviewed. This included six of the top ten largest global firms, and a further eleven of the top 50 largest global firms.

The firms said investor concern had been ramping up in recent years. While PE firms said they have made progress in measurement, reporting and evaluation, there is still some way to go to embedding rigorous, systematic measurement, monitoring and reporting on ESG strategy, action and value created. <br><br>

The report found that some degree of ESG due diligence pre-acquisition was commonly reported, but locking the findings into the 100-day plan (or other targets set for the hold period) was not systematic. Unless this happens, the report warns that ESG action points risk being sidelined as niche issues, rather than being integrated into core business strategy and practice. <br><br>

Malcolm Preston, global leader, sustainability and climate change said: <br><br>

<center>“It’s not surprising that only a handful of PE houses have found a way through this complex area. The challenge is for the rest to keep up with this pace, because expectations are only going to get higher.”</center><br><br>

Several of those interviewed said a lack of internal capacity and expertise was a barrier for progress on ESG issue management, resulting in them having to focus on a sub-set of portfolio companies, rather than taking a portfolio-wide approach.<br><br><ul>

* <li>Only two of five have put systems in place to measure value created from ESG activities<br>
* <li>47% do not report publicly on their ESG programmes<br>
* <li>94% believe that ESG activities can create investment value, with many identifying cost savings, incremental revenue generation through new products, or enhanced reputation <br>
* <li>88% expect Limited Partner attention to ESG issues to increase in the next five years<br>
* <li>Half of the Private Equity houses interviewed lack a policy on ESG issues or responsible investment<br>
* <li>Risk management, investor interest, cost savings, and regulation were amongst the most commonly cited drivers for action<br>
* <li>There was no correlation between the size of the PE house and the maturity of their RI approach. Similarly, there was no clear difference in RI approach between listed and non-listed PE houses</ul><br><br>

In the UK, the influence of institutional investment in Private Equity could have an important impact said Andrew Evans, pensions partner, PwC UK: <br><br>

<center>“Allocations of funds to private equity in some pension schemes is increasing and Scheme Trustees are being encouraged by various parties, including government, to ensure that they act as responsible investors. PE, like other sources of sustainable investment, can make a real virtue of delivering good returns over a longer than usual time horizon. It matches pension investment plans, but the demands for data and evidence will be high.”</center><br><br>

Malcolm Preston, global leader, sustainability and climate change said: <br><br>

<center>“Many PE houses commented on ESG as an ‘imprecise science’ that will evolve over time but in such a competitive fundraising environment, investors may not be so patient.”<br><br>

“The reality is existing valuation frameworks can be used to quantify intangible and tangible returns from managing environmental and social issues, but the prerequisite is access to data. It’s crucial that PE houses develop a systematic approach to collecting relevant ESG and financial data from their portfolio companies if they are to fully understand and report on the value ESG creates.” </center><br><br>

**<b>Notes</b><br><br><ol>**

1. *<li>Responsible Investment: Creating value from environmental, social and governance issues <br>*

PwC spoke with 17 PE houses including six of the top ten largest global PE houses, 11 of the top 50 largest global PE houses and six mid-tier houses. 10 have headquarters in Europe and seven have headquarters in the US. Seven of the groups are signatories to the UN Principals of Responsible Investment.<br>

1. <li>The report noted that a review of the process of compliance for UN PRI signatory members was already underway, with the possibility that in the future an element of mandatory reporting could emerge for signatories. </ul><br><br>

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