Environmental Finance

Private equity must improve transparency to reap green benefits, says investment manager

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Private equity firms must do more to improve their transparency if they are to embrace the low-carbon transition investment opportunity, according to Earth Capital Partners (ECP).

Richard Burrett, Partner, ECP

Such companies are ideally placed to benefit from sustainability-focused investments, in part because they often have more leverage over companies they are invested in, according to Richard Burrett, a partner at London-based ECP.

ECP typically holds an investment for a period of about five-to-ten years, Burrett told *Environmental Finance*: "We can do things with those businesses without the constraint of the listed market's three-monthly reporting cycle."

However, "for the private equity sector as a whole, the lack of transparency does cause concern", he said.

"For me, greater transparency is desirable - that's what will gain trust [among institutional investors] that private equity firms are not just telling the positive aspects of the story," Burrett said.

"It's clear that many of the private equity firms we speak to are doing meaningful work on sustainability, because they see the benefit of making sure they future-proof their companies, and enhance value over time... How well they actually talk about that is another issue," he added.

Private equity investment manager ECP is a member of SET3, an investment group with assets of $1.1 billion, which was established by Gordon Power and Stephen Lansdown, the co-founder of Hargreaves Lansdown.

ECP, which invests with a focus on resource efficiency, clean energy and sustainable technology, is exploring how it can use aspects of the Financial Stability Board's Task Force on

Climate-related Financial Disclosures (TCFD) – such as forward-looking scenario analysis – in the reports it sends to its own investors.

The company also plans to use the UN's 17 Sustainable Development Goals as part of its reporting, which it completes using its 'earth dividend tool', from next year, Burrett said.

"When we do analysis on each of our investee companies, we would like to be able to talk about that with our investors in the language of the SDGs," he said.

ECP's earth dividend tool assesses the environmental, social and governance (ESG) performance of its investments across five themes: natural resources, ecosystem services, pollution, social & economic contribution, and society & governance. It discloses the results of this assessment to its cornerstone investors, and also uses the results to develop a performance improvement plan for the companies in which it invests.

"Private equity is fundamentally important for meeting both the aims of the Paris Agreement and the [UN] Sustainable Development Goals. It has the opportunity to target companies and sectors in a way that large universal asset managers can't.

"If you do want to have positive impact, private equity is the perfect place to do that – particularly those firms with a focus on early stage investments," Burrett said.

Private equity firms "have a greater ability to engage with and influence the management teams of the companies in our portfolio over the longer horizon of our shareholding," Burrett said. "The annual improvement cycle gives us the opportunity to build resilience into the businesses' value chains and enhance value on exit in a way that far exceeds the ability of institutional investors to influence the performance of listed equities and bonds."

Meanwhile, the Nobel Sustainability Fund, which is managed by ECP, raised $45 million at first close last year. It aims to raise a total of £300 million ($381 million) at final close, which Burrett said is likely to happen next year.

Michael Hurley