

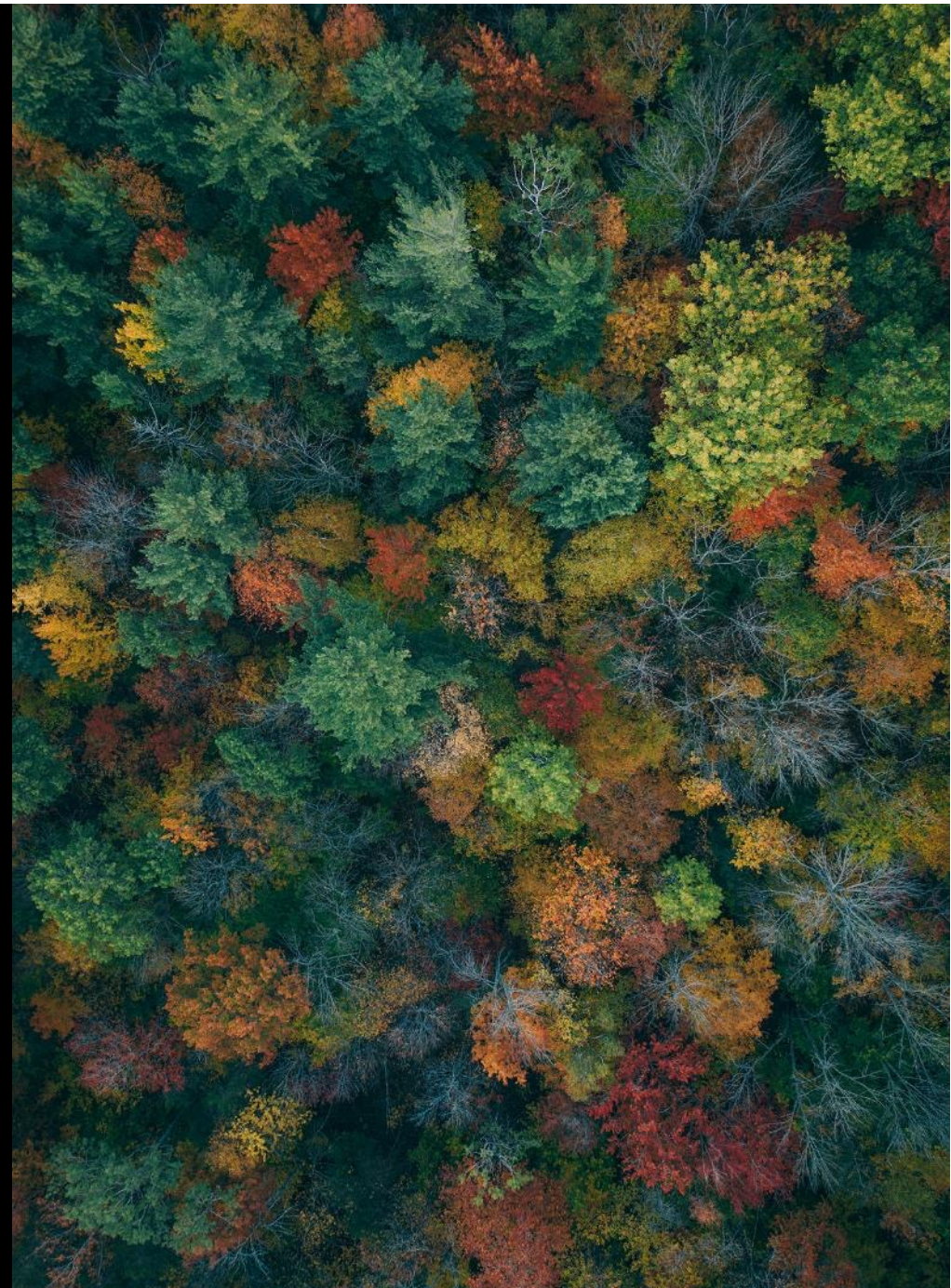


Top ESG reporting trends and their impact on private equity

July 2021



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Presenters



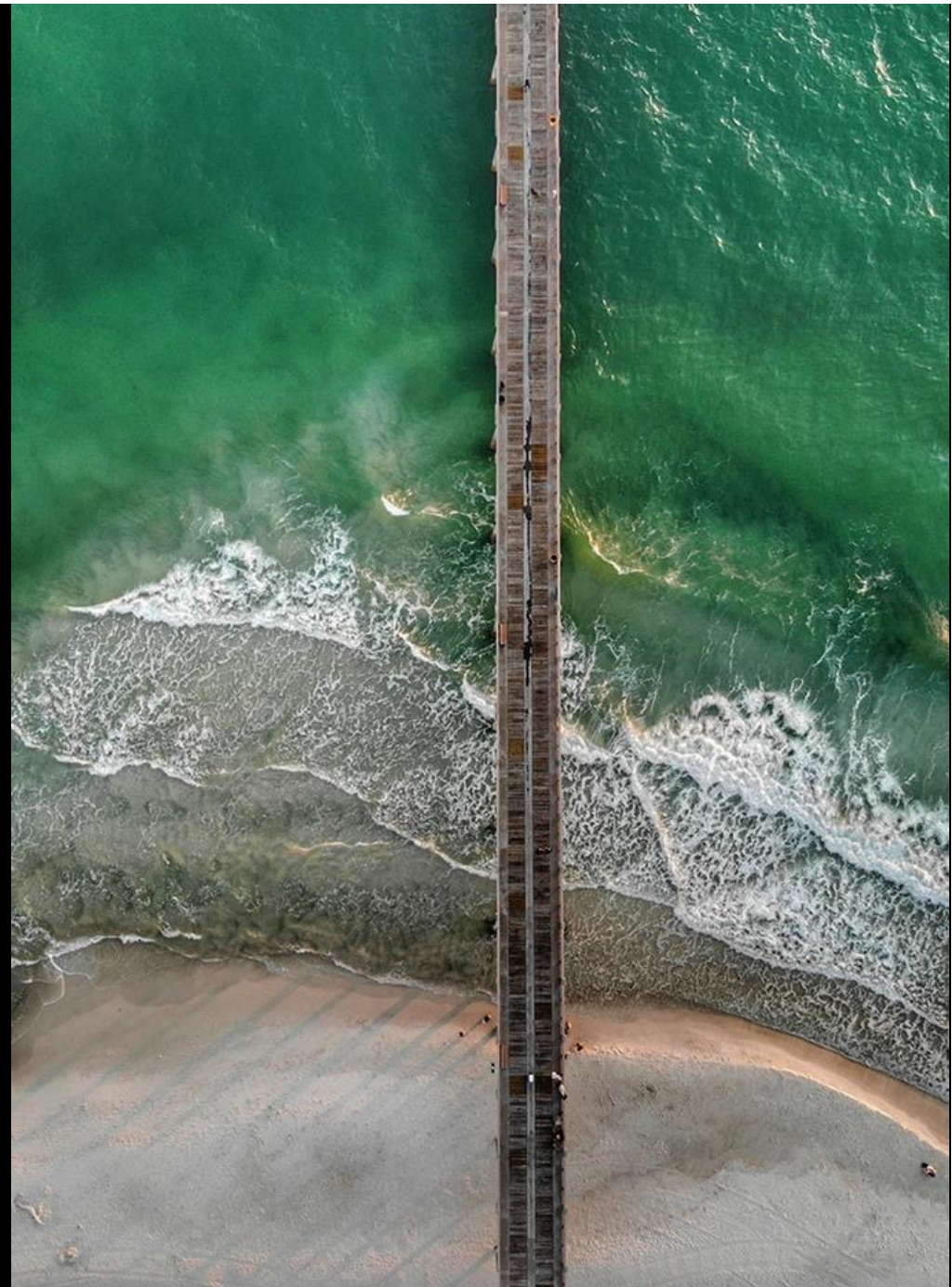
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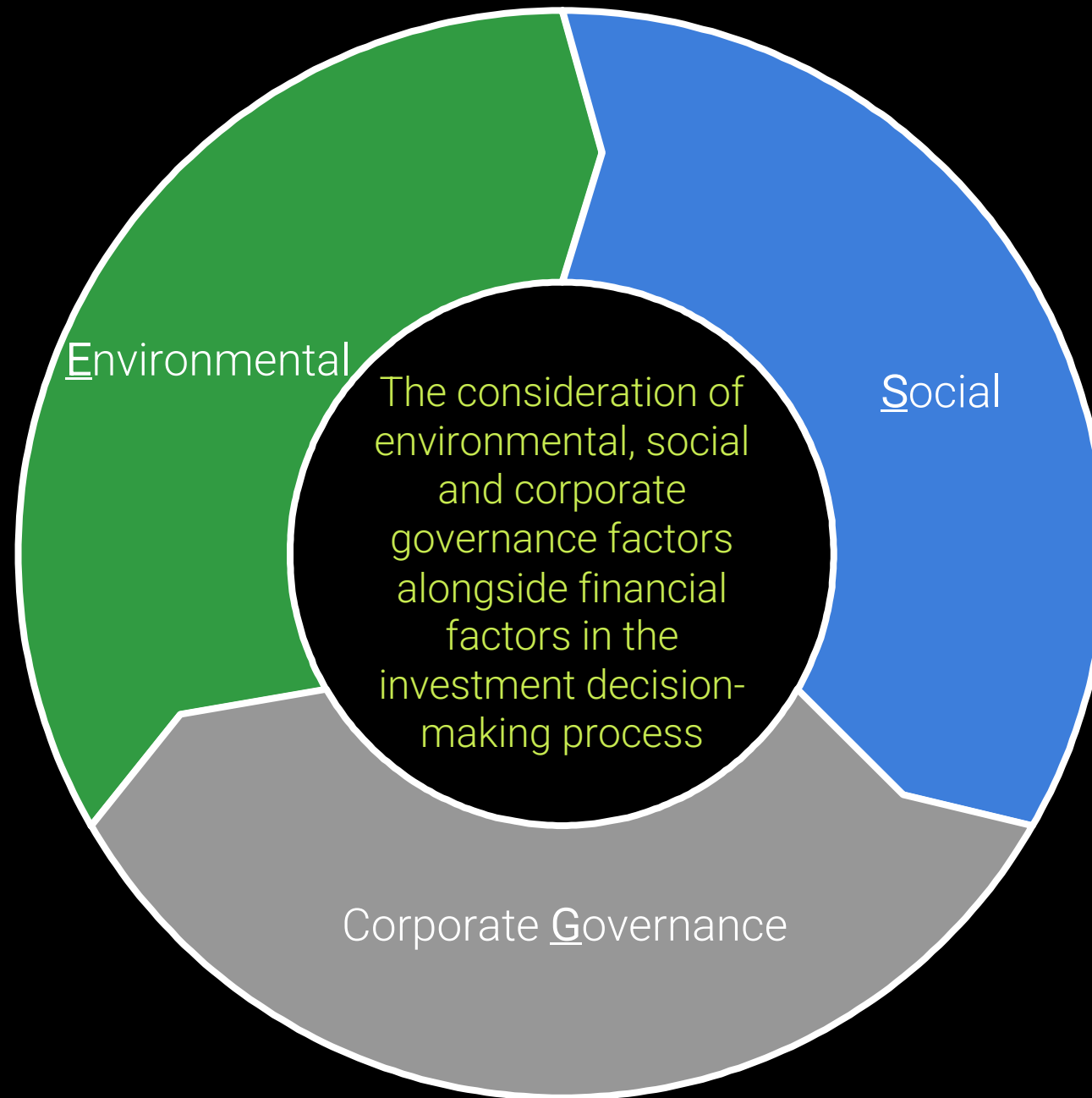
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Agenda

- What is ESG?
- Current ESG landscape
- Standards and frameworks
- ESG impacts for private equity
- Responding to ESG



What is ESG?



The what – Environmental

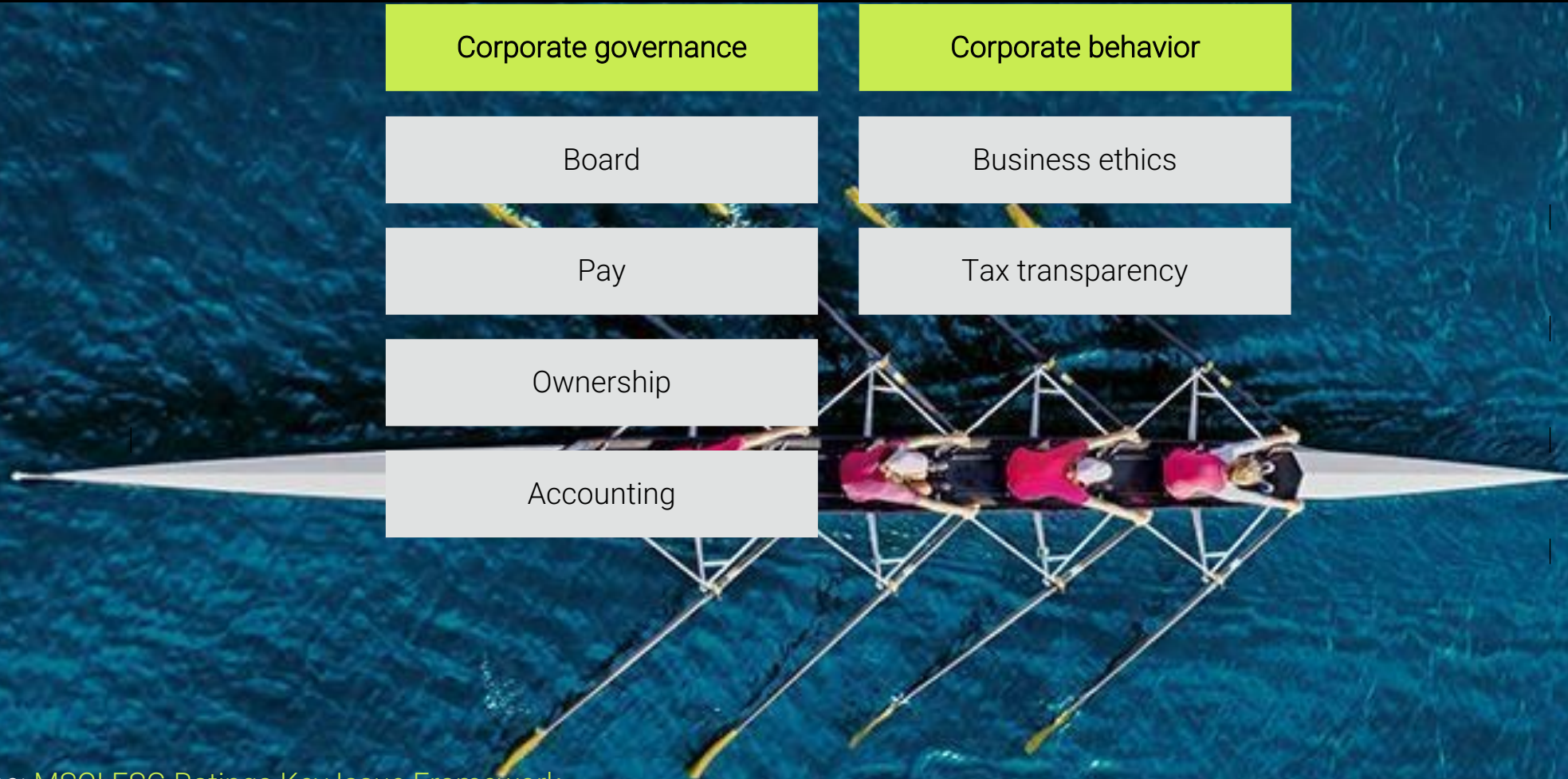
Climate change	Natural resources	Pollution and waste	Environmental opportunities
Carbon emissions	Water stress	Toxic emissions and waste	Opportunities in clean tech
Product carbon footprint	Biodiversity and land use	Packaging material and waste	Opportunities in green building
Financing environmental impact	Raw material sourcing	Electronic waste	Opportunities in renewable energy
Climate change vulnerability			

The what – Social

Human capital	Product liability	Stakeholder opposition	Social opportunities
Labor management	Product safety and quality	Controversial sourcing	Access to communication
Health and safety	Chemical safety	Community relations	Access to finance
Human capital development	Consumer financial protection		Access to healthcare
Supply chain labor standards	Privacy and data security		Opportunities in nutrition and health
	Responsible investment		
	Health and demographic risk		

Source: [MSCI ESG Ratings Key Issue Framework](#)

The what – Corporate governance



Source: [MSCI ESG Ratings Key Issue Framework](#)

Current ESG landscape

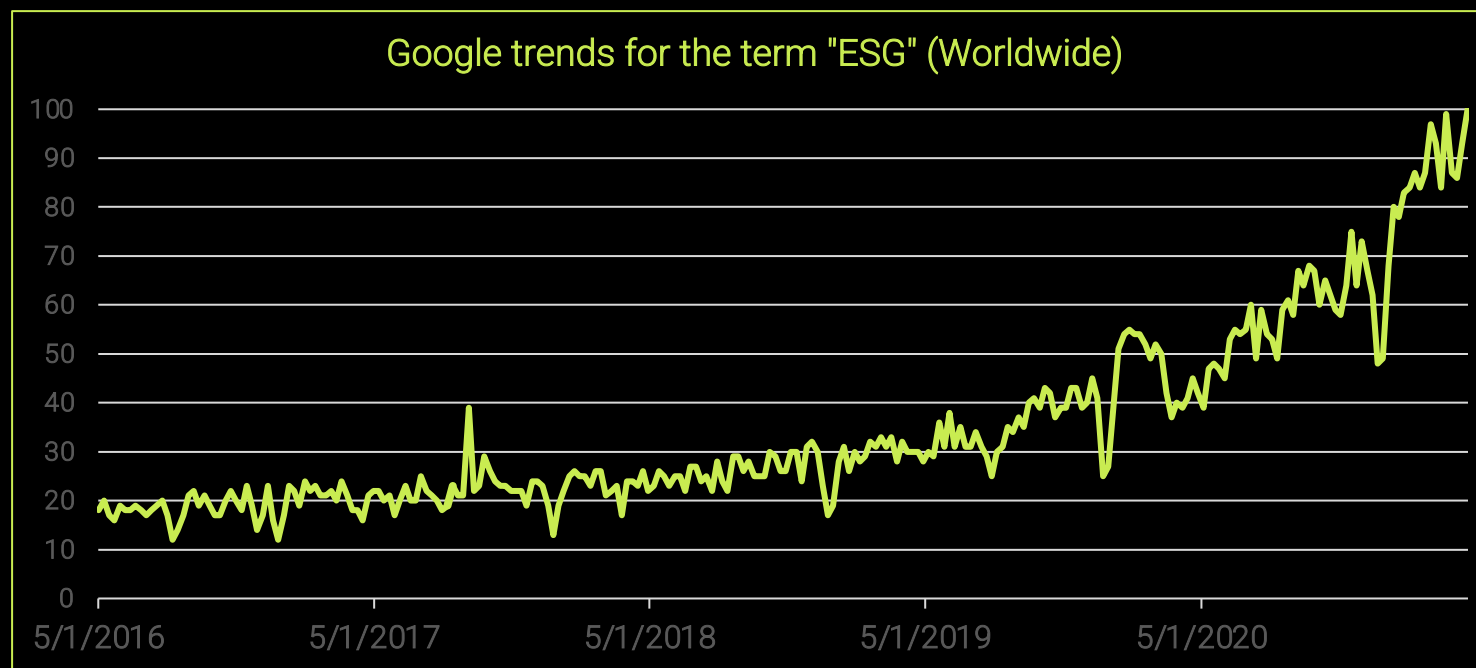
Evolution of thinking regarding sustainability reporting

Then: Entities promoted “giving back” and that they contribute to society because they manage successful businesses

Now: Entities embrace the idea that they are successful because they contribute to society; they create shareholder value

Entities are under increased pressure from both regulators, investors, and both internal and external stakeholders to engage in, report on, and disclose details around corporate sustainability, or ESG, efforts. No longer can only focus on the financial aspects.

Current ESG landscape

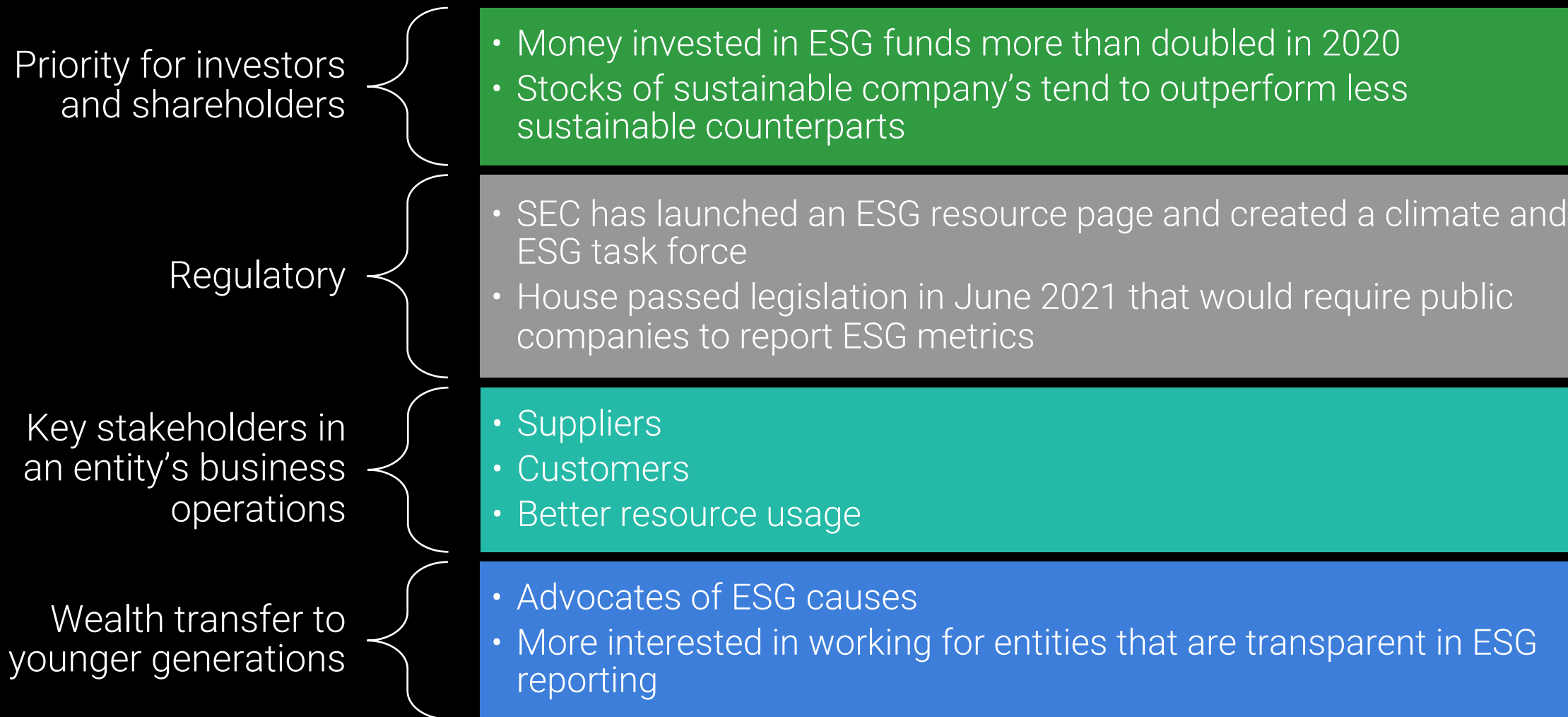


Source: Google Trends

“Given how central the energy transition will be to every company’s growth prospects, we are asking companies to disclose a plan for how their business model will be compatible with a net zero economy...We are asking you to disclose how this plan is incorporate into your long-term strategy and reviewed by your board of directors.”

-Larry Fink, BlackRock Chairman and CEO

Current ESG landscape



Standards and frameworks

Raters



Reviews public disclosures related to E, S and G.



Reviews public disclosures related to E, S and G (previously only G but has expanded to E and S).



ESG rater and provider of ESG scores for Yahoo Finance.



Rates companies based on E.



Tracks stock performance in terms of ESG.

Standards and frameworks

Reporting frameworks



Established in 2011 and focused on meeting investor needs by fostering high-quality disclosure of ESG information.



Established in 2015 and focused on enabling better understanding of exposures to climate risks and opportunities.



Established in 1997 and focused on standardizing sustainability reporting. First and most widely adopted.



Developed in 2020 by the International Business Council (IBC) of the WEF in partnership with the Big 4 accounting firms. Comprehensive blend of existing frameworks.



Universal call to action to end poverty, protect the planet, and ensure all people enjoy peace and prosperity by 2030. Adopted by all UN member states in 2015.


ESG impacts for private equity



Due diligence



Investment
decisions



Internal firm
values and
ESG principles



Portfolio
company ESG
information
gathering

Key findings from Baker Tilly International

Source: [Deal breakers and opportunity makers: The role of ESG in M&A](#)



65%
of dealmakers say ESG is important when considering investment



60%
say they have walked away from an investment due to a negative assessment on ESG issues at a potential target



52%
say that their ESG investment strategy has had a positive impact on overall investment returns



60%
of private equity investors have yielded positive returns from ESG investments, compared to 44% among corporates



90%
say they put improvement plans and tracked indicators in place if ESG-related issues are raised during the investment process



Regulation
is the top driver pushing the ESG agenda in most markets



87%
say they are taking ESG factors into consideration to **decrease investment risk and potential litigation**



77%
say climate change is the most important ESG issue at their firm



Western Europe (98%) and North America (82%) are the markets doing the most to promote and prioritise ESG goals and frameworks



Sectors leading the way in terms of ESG reporting:
-TMT (93%)
-Consumer (63%)
-Financial services (63%)



83%
say they conduct due diligence on ESG issues at investment and M&A targets

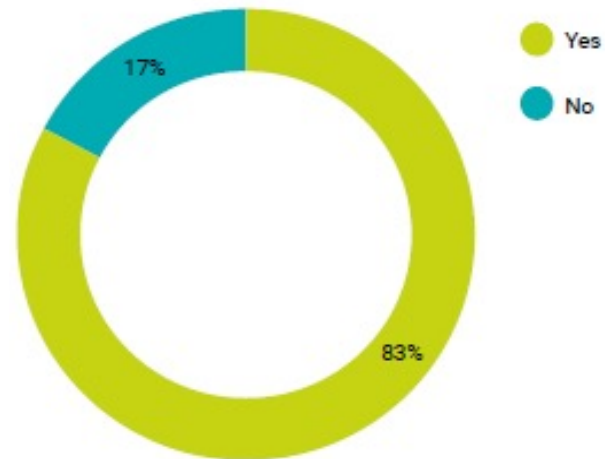


51%
say ESG factors have a positive impact on the value of the target

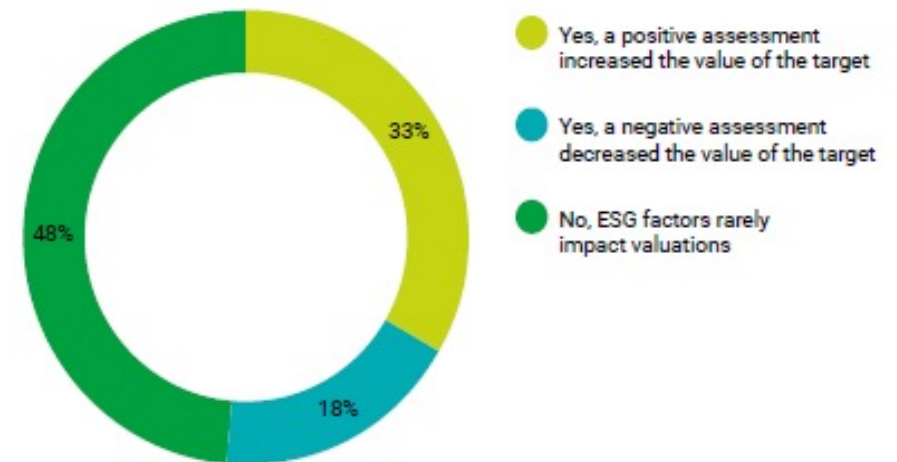
Baker Tilly International survey results

Source: [Deal breakers and opportunity makers: The role of ESG in M&A](#)

Does your firm conduct due diligence on ESG issues at investment and M&A targets?



Has valuation of a potential investment/M&A target ever been impacted by ESG factors?



What has been the biggest challenge you typically face when conducting ESG diligence?



Benefit of ESG strategies



Responding to ESG

Develop a point of view on ESG for your firm

Establish internal “policy” or governance documents

Define how ESG will impact your investment decisions

Begin to develop procedures for gathering ESG information in the due diligence process

Understand your stakeholders and what ESG information they might need

Monitor the ESG landscape, and changes in frameworks/standards/regulation

Effective governance over ESG reporting

Conduct a risk assessment to determine important (material) ESG initiatives to the organization, investors and other stakeholders

Assess

Implement board oversight for any material ESG matters

Implement

Integrate ESG matters into the enterprise risk management (ERM) and company strategy

Integrate

Implement effective internal control over the ESG data collection, processing and reporting processing

Control



Questions?

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