

Private Equity is poised for sustainable investments

Britta Lindhorst, Managing Director and ESG Director at HQ Capital, is responsible for the firm's European private equity investments. HQ Capital, headquartered in Bad Homburg, has more than 90 employees across 7 offices around the globe. HQ Capital invests internationally in private equity on behalf of institutional investors and family offices since 1989.

In the last couple of months, sustainable investing based on ESG criteria has received increased attention and significance in the financial industry. ESG-based investing has been brought to the forefront of the industry, catalyzed by the public discussion around climate change and lately the inclusion on the international political agendas.

A driving force in Europe is the action plan that was presented in September 2019 by the European Commission, (EU taxonomy). The plan calls for a sustainable finance industry, through the establishment of an EU classification system for ESG activities. One of the plan's overarching goals is to increase capital flows from the private equity sector to sustainable assets.

Compared to liquid assets, private equity currently offers a smaller number of sustainable funds. However, many private equity managers implemented sustainable ESG criteria before it was popularized. Most notably, the topics "Social (S)" and "Governance (G)" are handled regularly as integral components of the value creation process by private equity managers. The focus on "Environmental (E)" goes along with investments in more energy efficient processes and structures within the companies. Private equity is already poised for the implementation of sustainability due to its long-term oriented investment character.

ESG-criteria as component of the value creation strategy

Private Equity managers are not beholden to quarterly reporting. Rather, managers think in multi-year cycles in which long-term oriented value creation can be put into practice. Moreover, private equity managers usually acquire majority stakes in companies and are uniquely positioned to have targeted influence over areas such as sustainability. The typical private equity backed company is a medium-sized company with the ability to select its partner. Factors in this decision are not limited to projected return, but also include additional attributes like reputation in the industry, social responsibility towards employees, and possible growth strategies.

A major challenge is the quantitative evaluation of success through the implementation of sustainable factors due to the low availability of data and the short historical time frame. Positively, early relevant studies show that the consideration of ESG factors in the value creation process can lead to a stronger portfolio and can even create a positive impact on risk adjusted returns in the long run. Accordingly, return requirements and sustainability are not conflicting ideals, in fact, they can be combined.

About the Author



Britta Lindhorst
Managing Director, Head of
European Investments

About HQ Capital

Founded in 1989 as global private equity specialist of the German based HQ Group, HQ Capital Private Equity manages \$7.3 billion in private equity assets. On behalf of institutions and family offices the firm allocates capital to private equity funds on a primary basis, purchases limited partner interests and un-listed companies on a secondary basis, and co-invests alongside private equity deal sponsors. With more than 90 employees across 7 offices worldwide, HQ Capital Private Equity has the global platform and experience effectively to invest in private markets. Since inception, HQ Capital Private Equity has invested in more than 500 North American, European and Asian private equity funds, established by 243 managers, and directly invested in 90+ companies.

For more information, visit www.hqcapital.com.

Contact:

HQ Capital
1290 Avenue of the Americas, 10th Floor
New York, NY 10104
U.S.A.
T +1 212 863 2312

HQ Capital (Deutschland) GmbH
Am Pilgerrain 17
61352 Bad Homburg
Germany
T +49 6172 402 801