

Sanlam Investments applies ESG from start to finish

Sanlam Investments, a local private equity firm, is applying the environmental, social and governance (ESG) lens from the start of the transaction through to ongoing management practices and eventual sale.



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Using ESG factors as a critical deal filter, its investment process is so tightly angled towards ESG that it literally 'can't do a deal unless the company ticks all the ESG boxes'.

John Seymour, head of private equity and mezzanine finance at Sanlam Investments, says private equity is nimble when compared to listed asset classes, which has allowed for a faster segway into being ESG-led and -focused.

Most future-fit businesses

He says his firm's strategy isn't just about impact.

"While ESG allows us to have an impact on lives and the planet, it is more than that.

"A well-run company that is tightly governed takes care of the environment and focuses on employees and surrounding communities is more likely to offer us a strong exit when the time is right.

"Simply put, these are the most future-fit businesses and the best investment opportunities," he says.

"A few years ago, there may have been some scepticism surrounding ESG being applied in private equity, with investors feeling returns may be compromised, but this thinking is rapidly becoming obsolete," adds Seymour.

ESG: a value driver

Capital Monitor reports a growth in full-time corporate social responsibility officers in private equity firms globally and says: "ESG has become a value driver rather than just a compliance or purely reporting topic".

Seymour says there are myriad ways that private equity firms can impact ESG through their investments.

Some include:

- **Direct management control:** Depending on the size of its stake in the business, a private equity fund will have the ability to influence management decisions and strategy directly. This includes putting effective governance and systems in place – which can lead to significant improvements in the ways these businesses operate from an ESG perspective. In contrast, the opportunity to engage with senior management within the listed equity space tends to be less frequent.
- **Due diligence:** Private equity funds can interrogate ESG information gathered at the due diligence stage through direct engagement with management, site visits and ESG impact assessment studies. This allows the fund to gain an in-depth understanding of the company's historical ESG performance and provides an opportunity to co-design solutions with the investee companies on how to address these after the transaction.
- **ESG clauses:** Private equity funds can negotiate and incorporate specific ESG clauses into shareholder agreements and management performance incentive plans, including adopting specific action items to address opportunities identified as part of the ESG due diligence process.
- **Business stage:** Private equity funds often invest in an earlier stage or less mature businesses, which allows them to help shape business practices and strategies, including ESG strategies and systems.

The Sanlam Investments private equity division looks to invest in companies with a high propensity to absorb and grow jobs, empower disadvantaged groups, particularly women and offer employment opportunities to the youth.

Having an impact on communities is also a consideration as many of these companies may anchor large parts of the economies within the local communities.

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