TREYA partners

The Impact of Environmental, Social and Governance (ESG) Factors on Private Equity Investment Decisions

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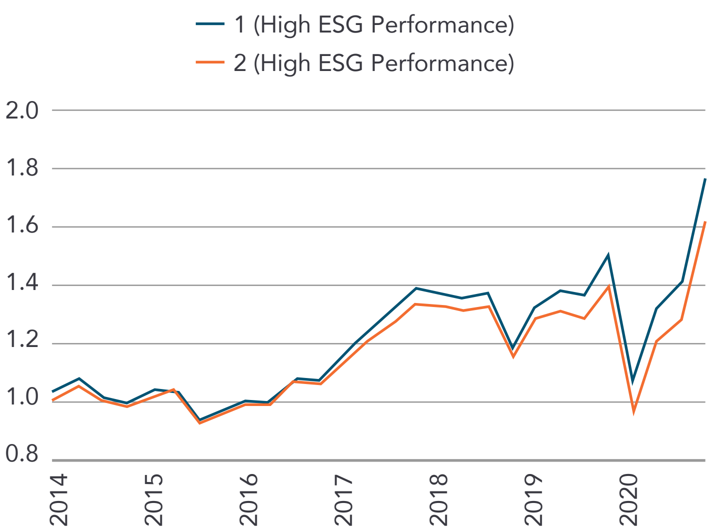
As the world becomes more and more aware of the importance of sustainable business practices, Environmental, Social and Governance (ESG) factors have become an increasingly important consideration for private equity investors.

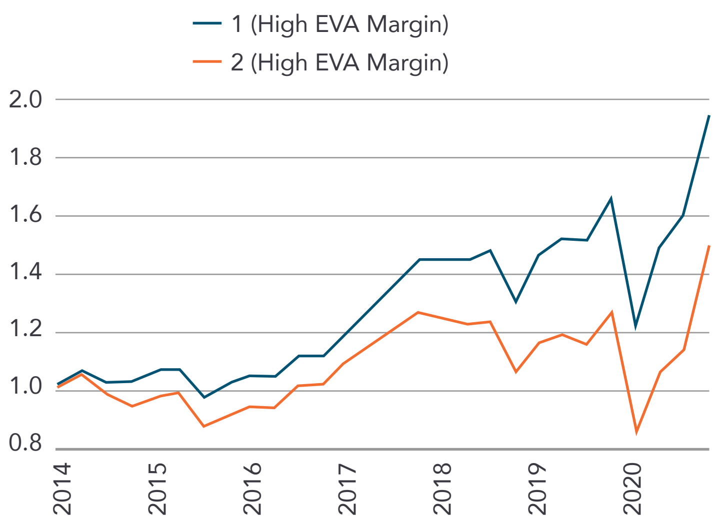
ESG factors can have a significant impact on the long-term financial performance of a portfolio company, and the ability to deliver sustainable value for a private equity firm. In this article, we will explore the impact of ESG factors on private equity investment decisions, current challenges facing private equity ESG implementation, and potential solutions.

WHY IS ESG AN IMPORTANT CRITERION WHEN EVALUATING INVESTMENTS?

Recent studies have shown that when coupled with typical EVA Margin analysis, high ESG company compliance metrics lead to higher returns and lower risk investment opportunities:[1]

Screening for Both ESG and EVA Margin Generates Alpha[1]





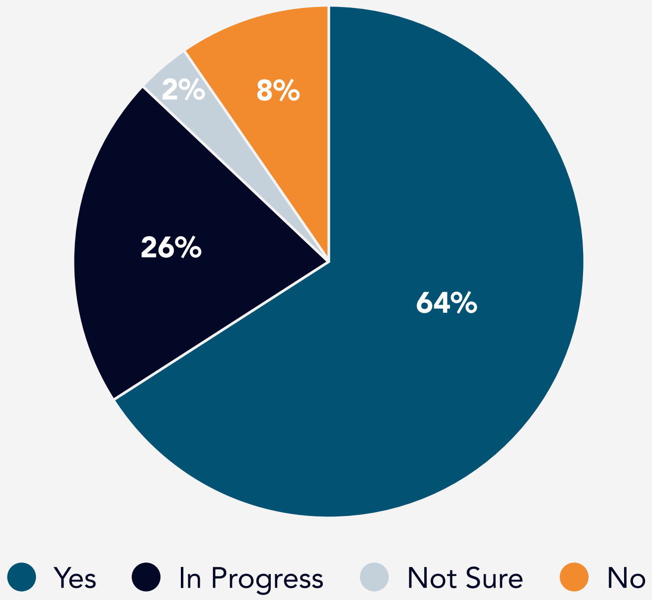
Additionally, research shows that there is a positive correlation between rising year over year ESG standards and company profitability and growth, which has a direct impact on shareholder returns:[1]

Improved ESG Performance is Correlated with Better Returns[1]

1-Yr Chg ESG Perf	1-Yr Chg ESG Perf	ESG Performance	1-Yr EVA Growth	EVA Margin	1-Yr Total Return (Local)
High	4.83	31	-6.9%	1.9%	6.6%
Mid	0.36	28	-7.3%	1.5%	5.7%
Low	-1.11	32	-7.6%	1.4%	5.6%
Spread	**5.94**	**-0.09**	**0.8%**	**0.5%**	**0.9%**

ADOPTION OF FORMAL DOCUMENTED ESG STRATEGIES

There is a clear trend globally that most organizations have either already adopted ESG strategies or are in the process of implementing them. Based on the correlations outlined above, there is an opportunity for nimble funds to make ESG driven investment decisions, implement ESG strategies within their portfolio, and drive greater returns for their investors.[2]

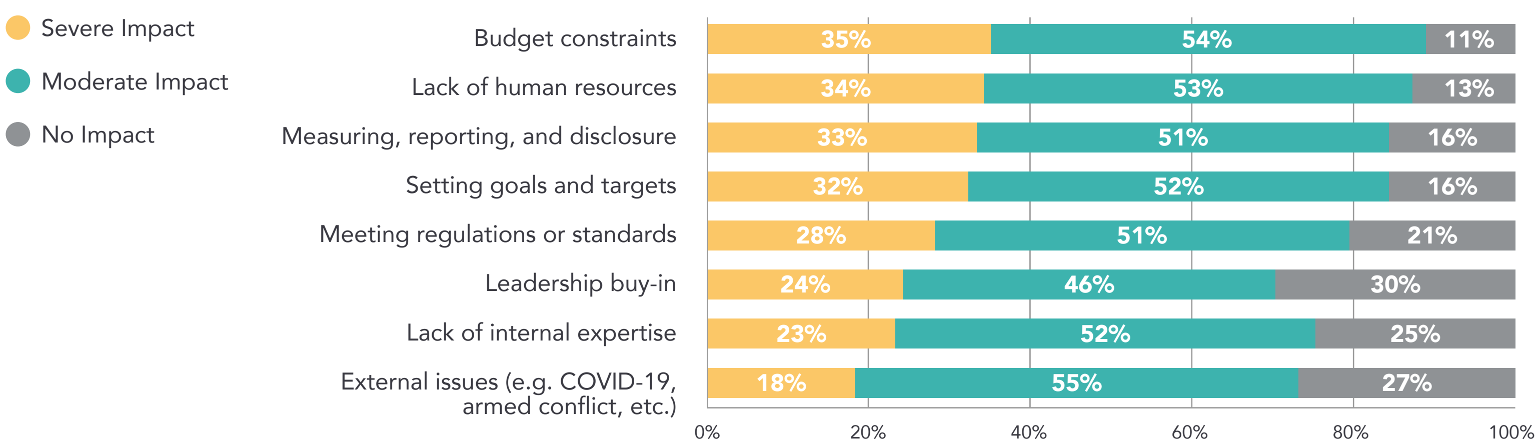


PE CHALLENGES TO INTEGRATING ESG CONSIDERATIONS:

Private equity firms face several challenges while trying to standardize ESG criterion across not only their own organizations but their portfolios as well. There are a myriad of constantly evolving ESG definitions and standards that can be extremely difficult to identify, follow, and implement. There are limited resources dedicated to focusing on ESG considerations, and these responsibilities often fall on operating teams to implement, pulling them away from their core value creation responsibilities. Additionally, many PE's do not want to bog down portfolio companies with laborious ESG standardization which could drive resources away from profitability and growth.[2]

ADOPTION OF FORMAL DOCUMENTED ESG STRATEGIES

Please rate the impact of the following challenges with respect to executing ESG programs of activities



BEST PRACTICES FOR INCORPORATING ESG FRAMEWORKS AND HOW TREYA CAN HELP:

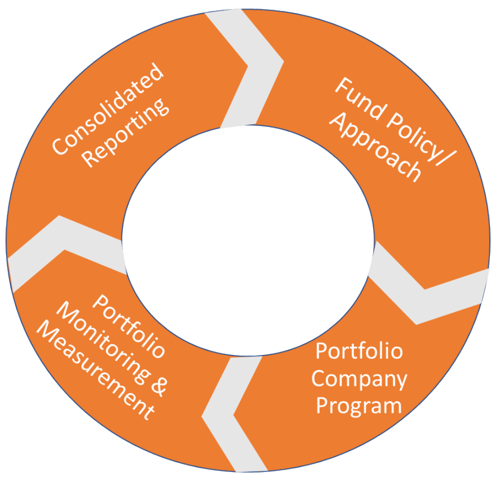
To effectively incorporate ESG factors into the investment process, private equity investors must develop a clear ESG framework that aligns with LP direction, portfolio companies and their customer bases, and investment strategy. This includes setting clear ESG investment criteria and developing a process for evaluating potential investments based on these criteria. Additionally, private equity investors should engage with portfolio companies early on to understand and improve their ESG practices. This can include working with management teams to set ESG targets, providing training on sustainable business practices, and conducting regular ESG assessments.

Treya Partners is uniquely positioned to assist our private equity partners in understanding the ESG implications within their organization, their current portfolios, and their new investments.

Treya offers a robust out of the box program for PE ESG implementation that includes the following:

- Rapid rollouts and deployments at the fund and portfolio company levels
- Comprehensive and ongoing oversight and reporting
- Objective, 3rd party frameworks that underline the fund's ESG commitment
- Tailored structures and approaches for each portfolio company based on industries and sectors
- Minimal resource requirements at the fund and portfolio company level

ADOPTION OF FORMAL DOCUMENTED ESG STRATEGIES



Contact us today to learn more about our proprietary ESG offering

Sources:

1 ISS EVA ESG Matters (Parts 1 & 2) (2021-2022)

2 Morningstar-Sustainalytics Corporate ESG Report (2022)

About Treya Partners

Leading provider of Procurement Improvement services to mid-market Private Equity fund sponsors (and their portfolio companies) since 2006. Clients include over 40 PE funds.

- **Leading mid-market focused procurement value creation firm - serves over 40 PE firms**
- **Founded in 2006 by former practice leads of top supply chain consulting firms**
- **Broad and deep expertise across all indirect, and many direct, spend categories**
- **HQ in San Francisco - serve clients nationally**
- **Serves numerous sectors, including manufacturing, distribution, retail, technology, and healthcare.**
- **Portfolio company focused projects typically result in 3-10% EBIT impact**
- **Culturally sensitive approach - aggressive with a "soft touch"**
- **Unique, results-driven, risk-free approach to value creation**