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Private Market Talks:

Driving Value through ESG with Warburg Pincus' Leela Ramnath

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This week on Private Market Talks, Warburg Pincus' Head of Sustainability Strategy, Leela Ramnath invites us to look at how ESG drives growth. Leela is one of the leaders in a private equity working group that developed a methodology to analyze key ESG factors specific to the unique needs of companies, and which are vital for achieving long term growth, resiliency and sustainability.

On the podcast, Leela helps identify the link between a company's performance and its ability to have access to capital, through their ESG priorities and data reporting. She uncovers the fundamental issues and concepts that constitute ESG and how management teams can better understand how those issues influence a company's success.

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Peter Antoszyk: Welcome to Private Market Talks, a Proskauer podcast. I'm your host, Peter Antoszyk. Warburg Pincus is a global private equity firm headquartered in New York. It has over $80 billion in assets under management and invests in a wide variety of industries. It has invested in over 1000 companies in 40 countries. Leela Ramnath is senior vice president and head of Environmental, Social and Governance (ESG) at Warburg where she leads global ESG strategy for the firm. Prior to joining Warburg, Leela led innovation and sustainability at an impact focused investment firm and worked in International Development as a TechnoServe fellow in East Africa and at Millennium Challenge Corporation. She is also a former Term Member at the Council of Foreign Relations and holds a bachelor's degree in Economics from MIT and a master's in International Relations from the School of Advanced International Studies at Johns Hopkins.

One of the biggest challenges facing private equity investors is how to incorporate ESG factors into their investment decisions. In an earlier episode, we heard from Alex Friedman, CEO of Novata, about their drive to develop metrics for ESG benchmarking. Today, Leela will give us the view from the private equity investor side. Leela recently completed working with a private equity industry task force, which looked at how the industry might start to think about using ESG metrics and developed a framework as to how private equity firms might incorporate ESG metrics into their investing strategies. You'll find a full transcript of this episode and links to other useful information at privatemarkettalks.com, and please don't forget to subscribe and hit like after listening. And now, my conversation with Leela Ramnath.

Welcome Leela to *Private Market Talks*. So, you are the head of ESG at Warburg Pincus. Can you tell our listeners a little bit about the role, what you do and a little bit about Warburg?

Leela Ramnath: As you mentioned, I'm the head of ESG; environmental, social and governance and what that means is I lead our corporate sustainability efforts globally for the firm. Of course, our business is investing, so I work very closely with our deal teams on integrating ESG factors into how we look at investing for all the sectors and regions that we invest in.

Peter Antoszyk: For perspective, please give a sense to our listeners: your firm's assets under management, the regions and the number of companies.

Leela Ramnath: Warburg Pincus has over 80 billion of assets under management globally. We have our headquarters in the U.S., but we have operations in UK, Europe, India, China, Southeast Asia and Brazil. We have a global presence which I think has been a really interesting phenomenon, especially as we've seen ESG transpire these last few years. As part of my role, I also work with portfolio companies very closely to help them design and develop their own sustainability strategies across a variety of issues. On the way here I was just listening to some work on responsible AI which has come up a lot recently. It's an emerging area. Our portfolio companies range across a broad scope of different industries, from healthcare to industrials and technology to a lot of energy transition investments. Another big part of my role is working with our fundraising team and our LPs [Limited Partners] that invest in our funds. As ESG has become a huge point of diligence and importance to all of their initiatives as they look to allocate across investment managers, I work on our reporting and liaising with our LPs on our ESG strategy.

Peter Antoszyk: In that role, how do you think about ESG from the perspective of capital allocator and investor?

Leela Ramnath: I think this is a super important question because ESG has become 15 different things to 15 different people. From our lens at Warburg Pincus — and I think we're pretty much in line with a lot of folks across the private equity sponsors — is that we don't see ESG as an asset class, we see it as a lens.

It's a lens on how we can look at a company's ability to be resilient and its ability to create value in their own ecosystem — their own regions and the industries they operate in. It's really a way to evaluate risks and opportunities, an extra lens, to give us an extra set of data points to help evaluate that, and this has become really critical, especially in the last decade or so where issues such as climate issues or rising inequality, higher inflation, more use of technology — there are a lot of ancillary impacts to human rights, to climate, to the environment — that companies are dealing with within their own stakeholders.

The more we can refine the scope and look at these issues head on as we're looking at investment going in; the current issues today and how they might be in the future state; our companies or deal teams can navigate the potential risks to underwrite; and opportunities set on the value creation side, it also helps our portfolio companies navigate within their own ecosystem.

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Peter Antoszyk: This has been a challenge across the industry. It's top of mind as you said. You must be talking a lot with your colleagues about how they are dealing with ESG and how that factors into investment decisions.

Leela Ramnath: It's an interesting time because private markets take up a large part of the economy now. I think it's often a bias in the market sometimes to treat private equity or private markets as a monolith — a one-size-fits-all of this is how private markets operate. There's a lot of nuance within, and still, there are a common set of challenges that we're all facing and also opportunities. I work with my peers across the industry, other heads of ESG, at other sponsors, to really think through these issues and see how we can work together and navigate and collaborate to further our respective initiatives and what's appropriate to our own respective businesses. It's been probably the most collaborative job I've ever had across the industry. Of course, not without its broader challenges.

Peter Antoszyk: What are some of the challenges that you're faced with when you're trying to incorporate ESG into your investment thesis?

Leela Ramnath: There are three key things that we're looking at today. One is regulation, which I wouldn't say is a challenge because, of course, we're going to comply with any rules that we're regulated under. I read a stat the other day of 400 different ESG regulations coming at you in different ways. We're a U.S. headquarters like I said, but we have operations in Europe, India and China, etc. So, this is a time where ESG has been a huge focus and a huge trend. But regulators, rightly so, are looking at this to say: let's be clear about what we're doing, let's be transparent, and there's been a huge greenwashing risk. So, the overstating of ESG credentials has been a real issue in the market. I think that's the reason why regulators around the world are approaching this. The thing is, as a global manager, each jurisdiction is approaching it in a different way.

If you have operations in the U.S., you know you're looking at federal type regulation. Then you have state level regulations, and each is looking at it in a different way. In Europe, you have a different concept called *double materiality* — ESG professionals, we like the word *materiality* — where we talk about what is most material to a certain industry around ESG. Is it going to be different from another one, typically from a risk profile? Now in Europe, they take a different view that when they say *double materiality*, it means they're looking not only at the impacts that climate and all the ESG issues have on a business and the financials of the business. *Double materiality* means that companies also have a responsibility to their broader society and so that second lens is a very European perspective. A lot of the regulations been written around that, and that's where the most forward-looking regulation has been in the world. Meanwhile, in places like Asia, the climate has been a huge area of focus among a number of countries in Asia, but things like diversity and inclusion have a different flavor for different reasons in certain countries. It's kind of a patchwork of regulations that a lot of global managers have to approach right now.

Peter Antoszyk: I just want to hone in on that a little bit. What do you mean by *materiality* when you talk about ESG?

Leela Ramnath: When it comes to ESG, *materiality* is the concept of, if you are working within a specific sector or industry, there's a certain subset of issues that you should prioritize because those [issues] are directly linked to how you might be able to access revenue. It might have direct impact to EBITDA, your balance sheet, etc. So, there are specific financial drivers that are linked to ESG factors for each industry. There's a group called SASB, the Sustainability Accounting Standards Board, that came up with this many years ago. They basically surveyed industry leaders of different groups, and they mapped 77 industries and said, "You're a healthcare company; you should really prioritize privacy and things like data and quality of care and transparency and things like that. If you're a tech company, these are the seven other things you should look at." And so, it's that concept of focusing and prioritizing ESG factors that are linked to specific financial drivers. That's been the core of ESG relative to the industry that they're in. And so, SASB has been around for some time. It's been now rolled into what's called ISSB, the International Sustainability Standards Board which is under the IFRS Foundation. So, they're actually right now in consultation mode, but they're expected to put out a set of standards that is meant to be the global kind of standard around this idea of materiality.

So, they've been very consultative in this process, and the industry is waiting to see what those standards are. But I think that materiality piece of it is really important because ESG can't be a one-size-fits-all for all companies. I think it's been a little bit of an unfortunate part of the excitement around putting out and getting all the metrics on everything. If you go back to the beginnings of why and how ESG became very popular — originally in 2006 was the first time ESG came out with the UN PRI launch (the Principles of Responsible Investment), and there were a series of papers that showed that if you look at material non-financial factors, like environmental and social and governance factors, you can actually drive value and manage risk that way. So that's been where there's been a lot of the focus, and the shift between ESG and what used to be called sustainable-socially responsible investing where it was more of a values-based investing approach. There's been a lot of conflation around the term.

Peter Antoszyk: And [that] somewhat creates some of the problems in ESG.

Leela Ramnath: Exactly. There are a lot of definition issues, but concepts of materiality are really important. Before, I said materiality, there's this idea of *double* materiality. So that's like going beyond and saying, "What are the impacts of ESG factors on your company, and what are those impacts of your company on the world and in society?" *Double* materiality is above, and in Europe, is the focus. And it's really important to be very specific. We do this a lot when we talk to management teams around this is what is material for your business and sometimes, companies are really excited about the impacts of the products that they're selling into the market around the world, and we have a number of companies that are avoiding emissions through the use of their products.

Peter Antoszyk: And then connect that data and the CEOs getting excited about their impact, with performance and EBITDA — more specifically. Make the connection for me there.

Leela Ramnath: So, to put it simply, we think about ESG in terms of offense and defense. So, when you're looking from a defense perspective, I would say this is relevant for every company: How can you protect your social license to operate in your business? How can you retain your customers? How do you retain and continue to have access to capital? Things like how you're treating the communities around your operations? How you're treating workers? What kind of product quality things are you dealing with in your business? What kind of transparency is there, or media attention around negative reputational risks around how you're mismanaging any of these things? Can a company, at worst, really hurt EBITDA or lose customers? They can have more operational incidents in their factories. There could be a loss of reputational brand value, things like that.

From an access to capital bit, you know, this is market stakes. Right now, it's table stakes for the financial industry to have some sort of ESG analysis going in.

Peter Antoszyk: Right.

Leela Ramnath: So, if you're about to invest in the company, and the management team has no idea what you're talking about when you're asking them a number of questions — and maybe they don't know it's called ESG, because that's a very capital markets thing — but if they have nothing around employee safety, and they have nothing around their environmental footprint, if they're heavy industry company or whatnot, then that's information around the company's ability to service its customers and be able to maintain that.

Peter Antoszyk: It sounds to me — maybe this is not a fair characterization — this sounds, first of all, common sense.

Leela Ramnath: Yes.

Peter Antoszyk: Okay. Second, it also sounds like something that companies should be doing in any event, if they're not already doing, and what we're starting to do as an industry, is put a label around it, and bring a rigor of an analytical framework to something that's been happening for a while.

Leela Ramnath: Yes.

Peter Antoszyk: Is that a fair characterization?

Leela Ramnath: Yes, I think so. Especially when we think about private equity and private markets, where companies are being held for five, seven years, and in that time, if you have issues with these things, they're going to come out.

Peter Antoszyk: Right.

Leela Ramnath: And so, I think that longer view for long term investing — creating sustainable value in companies — there's so much evolution of any one of these issues under ES&G that's moving fast, either driven by regulation or driven by market trends.

For example, generative AI right now, in the last few months. Questions around responsible AI and asking those questions about what, why, do we even want to build this product? You know, what kind of bias might be inherent in this product? What kind of output could there be that might be problematic in terms of the end user? There are a lot of responsibility issues around that topic in itself, and you take that and then you add on climate, and you add on all the hot-button issues right now, and each subset of those is evolving at such a rate that I think it’s really important for investors now to understand those dynamics. Many of these things are being regulated, or are there certain market pressures around certain areas. So, one of the things, for example is, if you’re looking at a company, and you’re going to invest with a company where they have a lot of publicly held customers, and many of their publicly held customers have made climate commitments, where they have committed to net zero across their whole supply chain, and you’re a supplier, and you can’t answer the question and the RFP’s about what’s your scope emissions, or what’s your climate strategy. This has come up a lot in a lot of companies that are saying, “We’re getting this in RFPs; can you help me think through this?” Even if it’s in the private markets, there’s no regulation or whatnot. I think it’s all very de facto right now in terms of the pressures around these issues, which is great because this is a business case for why they should be thinking about climate: because their biggest customer is asking them to set that climate commitment. So, this is happening all across our industry right now.

Peter Antoszyk: So, Leela, can you give me one or two real life examples where in your role at Warburg, you’ve worked with CEOs or CFOs on these issues and how it plays out?

Leela Ramnath: Sure. So, I’d say we engage with companies in three key ways. One is education. We had a webinar a couple weeks ago where we brought a bunch of our CFOs to talk through a lot of the ESG issues around what’s required in their industries, around reporting the value of data, how to think about it from a value creation lens, the focus on carbon emissions and things like that. So, we do education events like that.

Second is we have a toolkit of resources, so every company is unique and has their own challenges or initiatives that they're focused on. We get so many similar questions that we created a toolkit, and we're able to partner with some of our other portfolio companies in the Warburg family to kind of bring forth some of these tools. So, one of the things we added this year was a greenhouse gas emissions calculator tool that we partnered with one of our portfolio companies, TRC, that does this all day. We worked with them to help a lot of our companies calculate those carbon emissions.

The third is where it's really fun: working one-on-one with companies all across the board. In many cases, it's getting a lot of newer companies up to speed around what is ESG and what is material for their industry and helping them set up their first ESU policy, or think about what they should be measuring from the outside, and what are the base level metrics that they should be thinking about. On the other hand, there are some companies that are pretty sophisticated about this, and this is something in their value creation plan. They really focus on sustainability. So we have a company that I've been working closely with in the packaging industry where they work a lot with plastic-based packaging, and we've been working with them closely to increase the resiliency of the company by increasing the number of SKUs that they have in recyclable plastics or more paper based products, and we see that as a business resiliency play, but also they've been able to really thrive and add new customers and be able to align on climate commitments with their customers. So that's been exciting as well, and there are some opportunities we've had around energy savings and cost savings through raw material savings that are linked to less waste-to-landfill at the end of the day. So those are a few. Another thing that we are part of today is called Ownership Works, which has been super exciting. This is an organization that was the brainchild of Pete Stavros from KKR, and there have been a number of private equity sponsors, ourselves included, that were founding members of this when it launched last year.

Peter Antoszyk: And what is that [Ownership Works]?

Leela Ramnath: This is an idea around broad-based employee ownership. So, the concept of when we invest in a company, usually private equity sponsors give upside to the management equity plan. There is the concept that 100% of workers, from the frontline workers working in the factory to the C-Suite; everyone gets a piece of ownership in the company, and that's through the liquidity events at exit. They get payouts, and there have been a number of successful exits in the industry that have been demonstrating the power of this. It's great because they're meant to be meaningful payments to workers. They're meant to be coupled with financial education so that workers can really understand the value of the equity and understand what it means to be an owner, and also it links to productivity benefits in the companies. So, empowering workers to really make them feel that they are part of a company, and owners of a company, is a great way to inspire energy and productivity all around.

Peter Antoszyk: Is this something that you [Warburg] have been incorporating in their portfolio companies?

Leela Ramnath: We're working with a number of companies on this, and this is something across all of the private equity sponsors. There has been a huge effort around collaborating and understanding what works and what are the drawbacks, and I sit on the board alongside our head, Co-Head of U. S. Private Equity Jim Neary. As well, we're very active in the organizations and nonprofit organizations designed to really further this movement across the industry. There are some great initiatives; the ownership course just came out with our impact report. So, I encourage listeners to look at that. To date, I'm just looking at the numbers. So far, there have been 66 companies with board-approved shared ownership plans across the initiative in just one year.

Peter Antoszyk: Wow.

Leela Ramnath: Which is fantastic, and about 95,000 workers have been impacted so far by the shared donorship program.

Peter Antoszyk: Wow. That's very impressive.

Leela Ramnath: It's an exciting initiative. A lot more to do, but I think that's one thing that's very tangible: it's real money in the hands of the people who are working really hard.

Peter Antoszyk: As I sit here and listen to you, I can't help but be impressed by the role and, and what you do but also a bit envious. It sounds like such a really interesting but also incredibly positive role within the private markets. Generally speaking, I just think it's really exciting.

Leela Ramnath: It is. You know, it's nice to unearth a lot of really interesting things for our portfolio companies. It's always fun. We hate to use the word 'educate' with our companies because often they're educating us on what works and what kind of things that they're doing. There's no shortage of topics that fall under this ESG umbrella.

Peter Antoszyk: Well, listening to you, I can tell you love your job.

Leela Ramnath: Yes. Absolutely.

Peter Antoszyk: Let's go back to some of the challenges facing ESG. You've mentioned already the issue of "green-washing," the issue of defining what exactly constitutes the term ESG, applying the materiality and double-materiality standards and what those mean. What other challenges would you highlight?

Leela Ramnath: I would say there are probably two more challenges right now. Because of all the regulation, there's been a huge focus on reporting. The rigor around reporting metrics and the compliance around those things is really important. I think we're at a tipping point because the reason why there's been such a huge focus on ESG in the market is that there's been a link to value creation and opportunities around investing and getting a better lens on not only the risk, but also the opportunity set of companies. We're at a point where there's a lot of focus on regulation and initiatives around value creation, but you could easily spend your entire day writing reports. It's not really meaningful if you're not using the data that's in those reports to drive meaningful change. So that's the second thing.

Then, the third is data and the availability of data. We talked about the regulation, we talked about the reporting and the creating value aspect, but putting this into perspective is really important, and the context around data is really important. There's been a huge focus on collection of data, calibrating that data and benchmarking data which is fantastic. In many years, that's going to be really valuable data set.

What still needs to be part of that conversation is the context around these things. If you have a data set for companies performing very well on environmental factors like scope one and two carbon emissions or the renewable energy percentages X or Y — I'm just putting that as the context of where they are in the world — and what the energy grid looks like in that in that part of the world and what are the trade-offs around energy security with the mix of the energy grid in that part of the world. These are really important pieces of the picture.

Peter Antoszyk: That sounds like a complex analysis to put together, complex data to assemble, and you've just identified one small data point among a broad range of ESG issues that would have to be considered.

Leela Ramnath: Exactly. And one of the criticisms around ESG is that it's kind of a catch all for a lot of categories. What it really does is, it brings more rigor and measurement around what's material for a business. If we can keep the conversation around how it can link to value creation and risk management, that's where the real value of collecting this data really lies. A number of peers in respective firms got together to think through common issues that we're focused on.

Peter Antoszyk: I had a conversation with Alex Friedman from Novata. For our listeners, it was one of our prior episodes in which he talked about the importance of data and their company collects and benchmarks data for ESG, but even Alex cited the fact that we're in early stages. We're in the early stages of the data development recognizing those challenges that you've just described.

Leela Ramnath: To put it into context, we have about 250 portfolio companies right now. Other managers have more than that or less than that. When you think about a private equity sponsor, there are varying levels of influence that you may have over a management team. There are varying levels of maturity of core operations, even things like HR and the finance function, the legal function and things like that. If you overlay ESG metrics onto that without that materiality lens of this is how it will help you drive value in your business, it's difficult. That's where great efforts around collecting data initiatives like Novata and many others pulling together data are going to be really critical for the industry overall once the quality of that data gets refined and the benchmarking is relevant to the context of each of the companies. It is a new language for them.

For most of the companies in our portfolio, most of my conversations are with the CFOs of the companies or the CEOs. There is no chief sustainability officer at most of the companies that we work with, or a team that's skilled in understanding these issues, and that's because they've never had to do that.

We always try to build the business case for the company to say, "Is this something that you want to invest in to build that data set?" We could bring them the tools to help them do that. Our philosophy is to invest in management teams that we believe in, understand and bring them resources to help them grow and thrive in their specific industries and businesses. Weaving into that how ESG can help them thrive is the context that I think is really helpful.

Peter Antoszyk: Must be an eye-opening conversation with them. As you said, it's a little new, although everyone's talking about ESG — new in terms of really bringing some structure and framework and practicality around the conversation.

Leela Ramnath: When I work with companies, it's really nice to put into context what they do every day. Often, there's an "aha" moment of: "Wow, this is called ESG. Actually, we already do all of these things but never called it that!" For example, if you're a healthcare company, the most material issues for a healthcare company would be things like quality of care, patient privacy, data privacy in general, transparency of billing, things like that, whereas with an industrials company, the most material issues are: what are your environmental liabilities, what kind of chemicals are used, what hazardous waste, or how recyclable are your materials? And also, workforce issues around DEI and the treatment of labor and people being empowered, things like that, companies are very focused on these things because it's good business to do so.

What I think the ESG lens brings is kind of a view on the evolving nature of a lot of these issues, which is moving at such a rapid speed. At this point, given the focus from media and other stakeholders looking at these issues, employees are often really empowered around DEI efforts or climate efforts at their companies. The ESG lens brings a specific focus on the business case for a specific company to get them excited about it. Once they understand what ESG is and what the metrics are trying to do, then that's where you can really see a lot of energy and excitement from companies that want to do that and see it beyond just a reporting exercise.

Peter Antoszyk: I'm really curious about the task force that you mentioned, how you brought some of your industry colleagues together. Can you describe it and what its purpose and mission was?

Leela Ramnath: Sure. There's a group called the Sustainable Markets Initiative. This was a group of a number of task forces that were put together at the CEO level across a number of industries. This was originally organized by His Royal Highness, King Charles of England, and he had put this together when he was probably Prince Charles. He had put together this organization, and a number of CEOs came together within their respective industries. Now, in the private equity industry, a similar CEO-led group came together. So, our CEO, Chip Kaye, alongside a number of CEOs in our industry, came together and started meeting on a quarterly basis to discuss: what are some issues that we're all facing as an industry? And to try to understand how we can work together to support each other's efforts and get a common understanding of these issues and then be able to apply it for whatever works for each respective organization, three categories were identified. One was climate. Second was biodiversity, and the third was ESG metrics. I thought it was interesting that metrics would come up to the level of the C-Suite, and it's probably because most of us have been getting so many questionnaires from our limited partners around what kind of metrics are you collecting on your portfolio companies. It's been a huge point of focus.

Peter Antoszyk: It's interesting that it's somewhat compelled by your LPs.

Leela Ramnath: Yes. In part, there's been a lot of focus on reporting, and so a big driver has been through regulators mandating that any funds being marketed into Europe right now have to basically state what type of fund you are in terms of ESG under the Sustainable Finance Disclosure Regulations (SFDR), and, in some cases, some subset of funds have to actually disclose Principal Adverse Impacts (PAIs) of their underlying portfolio companies and many sponsors have had to do that sort of reporting. At the same time, many of our limited partners collectively have been asking a lot of those things for regulatory purposes or because they're very focused on just seeing how the efforts have more data-driven evidence of how sponsors are managing the ESU profile of companies. It's been a huge request. Across our number of funds, each firm has probably gotten hundreds of questionnaires every year around ESG and the types of questions have gotten more specific and more focused on data. So, it's a common topic and it's always been great to see the energy from the LP side around ESG, and I think that's been a great driver of a lot of initiatives, a lot of the progress across the industry.

At the same time, there's an understanding among the group that that's just one use case of how we think about data, and so we came together and we were happy to sponsor a sub-group of our peers to think through these issues a little bit more tactically and say, "How do we use data?"

We identified four use cases for data for the PE sponsor side. One is around that LPGP reporting use case. The second is that regulatory reporting that I just mentioned. So, two uses are very reporting-oriented. The other two are around how to use ESG metrics and how we look at investment monitoring and management and even on the due diligence side. And the second is around how we can help our portfolio companies be able to thrive in the ways that I was talking about before and identify the metrics relevant to their own business to help them be successful well above and beyond our investment peer risk perspective investment periods. So, those are the four use cases. Two of them are reporting-oriented, and there's been a lot of work done. Novata, you mentioned, is very focused on that reporting use case. There is the ESG data convergence initiative, another great initiative that's focused on that reporting, consolidating and for convergence around what's being reported. So, those are well covered. Of course, regulators are well covered on the regulation front. What has been less focused on is, I think, why are we collecting this data to begin with? To be able to make better investment decisions hopefully or make more informed investment decisions and help our management companies thrive? So, that's the focus of this paper.

Peter Antoszyk: For our listeners' benefit, we will provide a link to that paper in our show notes. Can you describe what you looked at and some of the conclusions you came to or if it was more of an analytical framework?

Leela Ramnath: It’s funny. We had a lot of back-and-forth because the last thing we wanted to do was create a new framework. There are far too many frameworks out there, but basically, it’s a perspective on how private markets build frameworks for different use cases. We wanted to bring it all together and demystify some of these things and put it into context for private markets because private markets and private equity sponsors have a great opportunity to influence and work with the companies on the most material issues there are to their businesses around ESG. As I just mentioned earlier, I can call up the CFO or CEO of any of our companies and talk to them directly. It’s a very different relationship — from more an arm’s length type of engagement than you might get in public markets.

Peter Antoszyk: I get that the paper is not a framework, but it does provide some analytical basis for approaching these issues. Could you talk about the approach that [the paper] is proposing?

Leela Ramnath: We propose a three-step approach. This subgroup worked closely with KPMG to formulate and collate our thoughts here. The first step in looking at what a privately held portfolio company or private equity investor, or LP, and how they should look at data, is the private equity materiality. The way we think about private equity materiality is: what kind of investor are you? Are you investing in this company for five to seven years? Are you investing only in minority stakes? Majority stakes? Are you investing in certain parts of the world that have ESG as top of mind like in Europe, or are you in other parts of the world that may have less of an emphasis on that, or have more of an emphasis on certain other factors? Are there certain regulatory things that you should be thinking about? So, private equity materiality is more of the context around the investment, and I think that's really important because there is often a view that private equity owners hold 100% of all your companies, which is not the case. We're not holding companies; that's a different model. So, that context is really important because the amount of influence that you would have if you're an owner, or if you're a buyout investor versus a minority investor or non-control investor, is going to be pretty different. If you're investing in a company in Europe, there's certain must-haves versus others. So, that's the first lens — the materiality around the investment. The second is the materiality around the industry — that's the concept of what we talked about with SASB and what's in focus and what's most material, not only from a prioritization perspective of what subtopics should be focused on, but also at what level of depth you should go into those topics. For example, if you're a consumer goods company, the circular economy and the use that the life cycle of your product has is going to be really important. Getting really granular about that data point is going to be very much in your interest because your stakeholders are going to ask you for that and you're going to need to footprint that. So, that's one example, but what we did is we mapped a number of our frameworks, a number of various sponsors' frameworks and the questions that we get incoming to see what are the main categories that are in focus across all the different frameworks and what's the level of detail and granularity that the group suggested going deeper on if you're in certain industries. So, that's the second, the industry materiality. The third is really putting into context around the maturity of the company and the aspirations for the company, so if you have a startup and they have a very minimal management team and they don't really have the bandwidth to report on 200 metrics.

Is it really feasible, or realistic or really helpful to the company at that point? On the other hand, if you have a company that really aspires to be a public company and they're looking to go IPO — the bar is much higher for public companies — that's a different conversation and the maturity level of the granularity of that data for the material industries, and also the maturity level in terms of how advanced their metrics capabilities are, has a much higher bar. So, that's the third bit, the maturity profile of the company and what their aspirations are. So, between those three — private equity materiality, industry materiality and the maturity — we think that gives a nice lens and perspective for not only LPs that are looking at GPs and how they're managing data, for GP's that are starting out and trying to prioritize. This is the most helpful for us for portfolio companies — to talk to them and say "This is how we think. This is a nice framework for you to think through or frame how you can think through these issues, and here are the frameworks that back these up. You can leverage them and not recreate the wheel." And that's usually very appreciated because it's really with a blank sheet of paper and really hard to get these done.

Peter Antoszyk: In the paper, I think you also talked about the use cases for them, right? Who will you use this information for, and why?

Leela Ramnath: Exactly. And we hope this will be an added helpful tool for all in the industry to be able to use and leverage, no matter who you are in the industry. We hope it's something that's helpful for people to contextualize this.

Peter Antoszyk: And for the listener's benefit, if you go to the website and pull up the paper, you'll also see a number of case studies where the application of this — can't call it a framework — *methodology* is applied. The paper gives a number of examples of that.

Leela Ramnath: Exactly.

Peter Antoszyk: So, what do you see as the future of ESG over the next three, five, seven years? Pick a time frame.

Leela Ramnath: A few things. One is: ESG is not going away. It may not be called ESG because of a lot of the naming issues that I mentioned earlier, but I think this type of analysis is here to stay. A lot of it is baked in because of regulation; so many companies, organizations and investors have made commitments around this. So, certainly here to stay, but I think the way that technology is growing right now is going to be a huge factor in this, in terms of not only what we're collecting and how. There's been a lot of great initiatives around. Take the example of carbon emissions; that's always been a calculation that people use — something called the greenhouse gas protocol — and it's a calculation, though it's self-reported. There are a number of technologies now that are becoming more sensor-based technology, using a lot of different data sets — structured and unstructured — to get real time data, and also point of source data, to be able to get a better picture. So, it's going beyond the self-reported nature of data by getting more real-time data.

Peter Antoszyk: Right.

Leela Ramnath: And more accuracy data will be something to look for, and also how the data is being synthesized and used. Going back to generative AI, I'm sure there's going to be a lot of applications there. There are a few kind of emerging issues that are coming out; one is biodiversity. This is something in Europe that's been in more focus for the last several years, but that's another area that's coming in — how to protect nature and the impacts of certain industries on protecting biodiversity of our planet. That's been a huge focus, and I think it's going to go global as well.

Peter Antoszyk: So, what development would surprise you over the next five years? If you project yourself five years from now, look back and say, "I didn't expect that to occur in this area," what would that be?

Leela Ramnath: I would be surprised if people just went back to business as usual. I feel like climate is continuing to be an issue. I think right now, there's a really important conversation going on around energy security and the pace of the transition. Last year was the first year that the amount of money — Bloomberg NEF did a study — I think it was like $1.1 trillion were invested in fossil fuels and in renewable and clean energy, so it was the first time there was like a parity.

Peter Antoszyk: Oh, wow. Yeah.

Leela Ramnath: And so, I think you're just going to see more of that. So, I'd be surprised if, for some reason, there was a slowdown in that energy transition investing because there are just so many tailwinds behind that.

Peter Antoszyk: Just thought of this question: as part of the emerging trend, is the deglobalization, the geopolitical risks that we're experiencing, does that fall within the ESG umbrella? Is that something that you look at within — call it — your mandate?

Leela Ramnath: It certainly has influences. We have somebody at our firm who does that all day. There are a lot of adjacencies. You know that whole idea of energy security versus climate change and some of the policy decisions that are being made. There is a lot of intersectionality between those issues. So, it does come up in high inflationary environments or wage pressures which can have impact on human rights and workers in certain ways as well. So, we try to think through how these issues can intersect in different ways.

Peter Antoszyk: This has been a really fun conversation. I appreciate this. I thank you. I just have one more, one more question. What book or podcast will you be reading or listening to as a guilty pleasure this summer?

Leela Ramnath: So, I've been recently listening to a podcast called *Possible* by Reed Hoffman, and it's super interesting. It's looking at the future of certain industries but also has a lens of what ChatGPT thinks the future of that industry is, and then they have an expert from that industry. I was just listening to one that had Trevor Noah on there and was talking about the future of entertainment and what AI could do there and the AI interpretation of certain things. So, it's kind of a fun one, where it's very real and helps you learn about this.

Peter Antoszyk: Thank you for joining us on Private Market Talks. I very much appreciate the conversation.

Leela Ramnath: Thanks a lot, Peter. It's been fun.

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