Faculti Summary
https://faculti.net/esg-disclosures-in-the-private-equity-industry/

This video discusses a study focusing on the relevance of environmental, social, and governance (ESG) investing strategies among private equity firms, particularly in the context of voluntary ESG disclosures. The authors note that while there is substantial understanding of sustainable finance in public markets, much less is known about private firms due to their lower regulation and transparency.

The study aims to address the data gap regarding private equity firms and their ESG strategies by exploring two primary research questions: (1) what do private equity firms publicly disclose about their ESG investing strategies, and (2) does this disclosure correlate with the sustainability outcomes of the companies they acquire. The researchers collected data on ESG disclosures from over 3,000 private equity firms spanning two decades (2000-2022) using firm websites, given the lack of mandated disclosures.

Findings reveal that higher ESG disclosures by private equity firms are generally associated with better sustainability outcomes in their portfolio companies, suggesting a genuine commitment to sustainable investing. The authors argue that reputational risk drives these firms to align their claims with actual investments.

The study emphasizes the potential for variations in ESG disclosures based on different factors and highlights the necessity for further research, particularly in specific industries, geographies, and contexts of greenwashing. It concludes by underscoring that while regulatory mandates for ESG disclosures may be less prevalent in regions like the US compared to Europe, the increasing demand from investors for transparency suggests that voluntary disclosures could still provide valuable insights and maintain accountability in the private equity sector.