The Predistribution Initiative (PDI) is launching an 18-month research and co-creation project designed to produce a set of recommendations for asset owners and asset managers to better align investment practices with ESG goals and systemic risk management relating to the private equity (PE) asset class.

This topic is especially relevant in the context of COVID-19, given:

- the growth of the PE asset class;
- asset owners’ increasing reliance on PE for yield;
- record amounts of GPs’ dry powder (approximately US$1.5 to $2.5 trillion in committed capital) available to purchase distressed assets in the economic downturn;
- the industry’s use of leverage and its relationship to both a potential corporate debt crisis, as well as worker precarity;
- the potential of PE to both increase economic inequality, as well as decrease economic inequality, depending on a GP’s strategy; and,
- PE’s influence on the economy, society, and environment.

The PE industry backs over 8,000 companies – almost double the number of public companies – and as of 2016, these companies employed approximately 11 million people in the U.S. Eight of the 10 largest employers in the U.S. are PE firms, and the global assets under management (AUM) in the asset class is now over $5 trillion, the equivalent of one-fifth of the total value of the U.S. stock market in 2017.\(^1\) The industry has also played a critical role in the private debt, leveraged loan, and high-yield debt markets, with non-financial corporate debt having doubled since the Global Financial Crisis (GFC).\(^2\)

This study is designed to develop guidance for asset owners and allocators to strengthen their selection of and engagement with asset managers and companies, in line with asset owner and allocators’ fiduciary duty.

**Our research question is:**

*How can investors leverage incentive structures, financial analysis approaches (e.g. valuation and benchmarking methodologies), and portfolio construction methods to achieve their stated Environmental, Social and Governance (ESG) objectives and manage systemic risk in relation to the PE asset class?*

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Methodology:

This research will be based on input from:
1) Workshops with industry leaders and key stakeholders facilitated by PDI in the North America, EMEA, and APAC regions;
2) Interviews with leading practitioners and academics; and,
3) Multidisciplinary research, specifically around motivation and organizational theory, systemic risk, as well as valuation and portfolio construction methodologies.

This study takes an integrated approach to ESG and investment analysis, with the hypothesis that classical approaches to portfolio construction and management may conflict with strong ESG integration and systemic risk management. The study will include workshops to explore this question and potential solutions with asset owners and allocators in particular though one-on-one interviews and small group discussions. Participation of both ESG and corporate governance / stewardship teams, as well as investment teams, will therefore be critical.

Since incentives and practices at the asset owner and allocator level cascade down and set the tone for the rest of the economy, research, interviews, and workshops will also include corporate executives and asset managers.

Targeted publication dates and outcomes:

We are targeting 2H 2021 for the publication and promotion of a final public report. Interim draft reports and white papers are expected to be written throughout the project. Additional outputs and outcomes are expected to include co-created improvements to investment practices that more strongly align with ESG integration and systemic risk management, some of which may be adopted by project participants.

About us:

The Predistribution Initiative is a multi-stakeholder effort to improve investment structures to share more economics with workers and communities, align investment practices for stronger ESG integration, and that ultimately address systemic risks, including income inequality and climate change.

Contact information:

If you are interested in learning more about this effort or get more information about interviews and workshops, please reach out to:

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