

FUND FINANCE FRIDAY

ESG for Earth Day

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By Wesley Misson
Partner | Fund Finance

Last week I was fishing with my kids on spring break (picture below), and my 8-year old daughter Parker engaged me in a thought-provoking conversation that really stuck with me as I returned to the desk this week. “Daddy, you know Earth Day is next Friday, right?” she asked me. “What are you doing to help the environment?”

This discussion also came on the heels of us watching baby birds hatch in a twig nest precariously placed within an overpriced natural Spring-themed wreath my wife had hung high on our front door in Charlotte. Allison taped a note to the inside of the door that said “Baby Birds!” as a reminder for us all to not open/close the door for fear of disrupting nature for our newly hatched friends. So, of course, I was doing a lot – I was promoting the conservation of a delicate aviary habitat within central Charlotte’s ecosystem. I spent an entire week of walking all the way around the house each time to greet visitors and collect Amazon packages from the front doorstep (my Fitbit watch beaming with activity as it no longer needed to prompt me to move). This sacrifice was made with her in mind.

It hit me – that’s exactly the point of the broader ESG movement and why I dedicate so much time to it in my practice. This is everything to Parker’s generation. They will be the beneficiary of our efforts today. We owe that to them.

Earth Day is an annual event each April 22nd to promote environmental sustainability. This year’s theme is “Invest in Our Planet.” Put in other terms, it’s promoting the “E” in ESG investing.

So, how are we doing?

Investors Are Driving the Bus

ESG mandates are transforming the asset management landscape. Investors are providing the initiative.

- 85% of LPs reported having an ESG policy implemented in private equity, in a survey of 100 LPs conducted by Bain & Co. and ILPA. In the same survey, an overwhelming majority of LPs reported plans to increase allocations to ESG investments over the next three years. (Survey details [here](#)).
- In the public markets, 15% of all fixed income fund flows in 2021 were directed to ESG-labeled funds in the U.S. and Europe, according to Barclays Research estimates. In Europe, nearly a third of the public fixed income fund universe by AUM now consists of ESG funds.
- 72% of investors believe private fund managers are adopting ESG policies because of pressure from investors, according to a recent Preqin survey.
- The vast majority of investors responding to the same survey reported plans to increase or maintain private market allocations.

Put together, these indicators suggest that ESG strategies will continue to gain prominence in private capital allocation and, therefore, in fund finance. Investors are adding to their private market investments and with it advocating for greater ESG integration.

Deal Activity Is Material

The momentum is real, albeit at a somewhat tamer pace this year given regulatory headwinds and potential concerns over greenwashing. That said, we closed 9 ESG subscription lines at Cadwalader last year, totaling more than \$8 billion in lender commitments. In 2022, we have worked on 4 ESG-linked facilities thus far. The vast majority of the recent deals, too, have had a heavy climate-change or “green” focus.

The Rise of ESG in Fund Finance Has Been Well Documented

In honor of this year’s Earth Day theme, we thought it would be helpful to put together a compendium of ESG materials we have published in recent months:

[A Guide to ESG Preparedness](#)

Thoughts on integrating ESG preparedness organizationally.

Wes Misson on ESG Fund Finance, [Part One](#) and [Part Two](#)

A primer published in *Private Equity Law Report* on the practical application of ESG concepts in fund finance deal documents.

[ESG Reporting and Disclosures: Making Industry Progress](#)

A recap of the industry's increasing focus on standards for reliable ESG data disclosure.

[ESG: Regulatory Reform on the Horizon?](#)

A survey on U.S. and European regulatory initiatives related to ESG investment products.

[ESG Loans – The Next Big Wave in Fund Finance](#)

Answering what, why and how questions related to sustainability-linked loans.

[Top 10 Items to Consider When Structuring Your ESG Facility](#)

Addressing the credit facility terms that are most relevant in the ESG facility context.

The ABCs of ESG

A summary of the fundamentals of ESG fund finance.

May you catch more deals than we did fish. Cheers, and enjoy the outdoors this weekend!



