

# Taking responsibility

With more people becoming socially and environmentally conscious, private equity firms are keener than ever to demonstrate their commitment to a responsible investment ethos.

**Deborah Sterescu** investigates

Private equity as an industry clearly has much to offer, based as it is around job and value creation in its investee businesses. But is the industry focused enough on broader social responsibilities, and moreover should it be? LPs certainly seem to have caught onto the idea, with many signing up to the UN Principles for Responsible Investment initiative this year, and this has inevitably made it increasingly attractive to GPs.

There are even firms that have sprung up that utilise the private equity models and are supported by the industry, but that have completely eschewed the search for profits. The Private Equity Foundation (PEF) and Bridges Ventures are two firms leading the way in this regard, with both prioritising “social returns”. The only differentiating factor between the two UK-based outfits is that PEF is actually a charity.

“The PEF is more than just corporate social responsibility, it’s about the whole industry clubbing together to create social good. It’s about giving something back in a collective way. We help charities raise more than money – we also spread the gospel about what they do,” says Nikos Stathopoulos, managing partner of BC Partners and a member of the PEF board of trustees.

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Michele Giddens, Bridges Ventures



The model of private equity investing has proved quite controversial in recent years. The industry has long battled against the “locust” label, and in the last 18 months has been widely criticised over problems suffered by investee businesses that have been loaded up with excessive debt. However, at its core the buyout model is about value-add and it is these skills that are invaluable in the charity sector.

“All private equity firms should engage in charitable work and contribute – the industry has a set of skills that are very transferable to the charity world. PEF’s approach mirrors the private equity approach in that we substitute charities for businesses. We perform rigorous

due diligence, carefully selecting a charity in which we have the ability to create long term value,” says Stathopoulos.

Like a private equity investor, PEF raises cash from third parties and then grants funding to charities to improve their long-term sustainability. And like private equity groups, the investment criteria is selective. Each charity must be involved in helping people not in education, employment or training (or those that are at risk of becoming so), and must have a turnover of between £5-10m per year.

Stathopoulos says that it helps to have a focused area of investment,

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because if the remit is too broad, “there is not as much impact”. He goes on to explain that development capital is lacking in the charity sector, but that this is improving as a result of increasing interest from the private equity community to invest responsibly.

Michele Giddens, co-founder and executive director of Bridges Ventures, agrees. “There has been increased interest in the sector since we started and this is evident by the number of LPs and GPs signing up to the UN’s PRI. We’re finding ourselves having to speak less about the concept of social investing and more about our track record.”

In fact, there are now 311 investment managers and 187 asset owners that are signatories to the UN’s PRI. In March, BC Partners signed up and has since assigned a dedicated group to manage its efforts. Stathopoulos says that the firm has mapped out its portfolio against the criteria to ensure every portfolio company, as well as the firm itself, complies with the rules.

Bridges Ventures operates a very different model to PEF. The firm looks to combine attractive financial returns with social/environmental goals via its venture funds, by investing exclusively in sustainable companies or businesses that are located in the most deprived 25% of the country. The firm has a track record of generating IRRs of 165% since its establishment.

#### Pitching in

The question remains – aside from money – how can private equity professionals contribute? In PEF, each charity is assigned a board member, along with a “swat team” of accountants, lawyers and consultants, that actively helps the enterprise in question reach its operational goals. Bridges works a similar way. “We’re enormously supported by the private equity sector. They sit on our boards and have opened their teams as well as networks to us, meaning we can provide expertise as well as capital,” says Giddens.

With private equity professionals working long hours, one may wonder how many have the time to commit to yet another venture. Still, there are 10 dedicated private equity executives on PEF’s board of trustees, and nine on Bridges’ board. “There is no shortage of people willing to help pro-bono. All the board members spend a significant amount of time on this work; if you believe in it, you find the time,” asserts Stathopoulos.

More directly, some private equity firms have now established their own charitable foundations to which staff members donate money. Cinven is one high profile example, while BC Partners is in the process of creating a similar structure. The Cinven Foundation has just teamed up with PEF to donate

£265,000 to portfolio charity School-Home Support (SHS), a group that runs a national programme dedicated to helping children learn.

“I can’t see how the idea of social investing will not grow. Philanthropy has a very important role to play and, in the past, people have been frustrated with it. But what PEF is able to do is to ensure that we maximise the impact of our donations. If private equity does not engage in social investing, we risk being on the wrong side of history,” Stathopoulos comments.

By investing either time or money, private equity has the potential to take a prominent role in creating a more socially and environmentally sustainable world and, in turn, protect its fragile reputation. “In the words of George Soros, we don’t do our philanthropic work out of any kind of guilt or any need to create good public relations, but rather because we can afford it and we believe in it,” Stathopoulos says inspiringly. ■

#### The PEF mission

When the UK economy finally gets up from its sick bed, there’ll be one section of society left in the emergency room, at real risk of permanent scarring from this recession. So-called NEETs (young people not in education, employment or training) now make up 18% of the 16-24-year-old age group. That’s more than one million young people denied the opportunities to make a go of their lives before they’ve even started.

As demoralisation and alienation take their toll, the personal cost reaches far beyond foregone earnings. It has been estimated that youth unemployment imposes a lasting “hit” on a person’s wages of between 8-15%. And then there is the cost to the state, reported to be nearly £100,000 on average over the lifetime of each new 16-year-old NEET. Productivity lost, related anti-social behaviour, teenage pregnancy and crime come with a high price tag for everyone.

You might ask, but what can I do? That’s the easy bit. There’s already an industry initiative, working to help young people achieve their full potential.

The Private Equity Foundation (PEF) has a portfolio of 17 charities with proven interventions tackling this issue. In just three years, PEF charities have benefitted nearly 20,000 young lives, utilising a powerful combination of funding together with pro bono expertise and techniques from the private equity “tool-kit”. Whether you’d rather put on your gardening gloves, running shoes or suit, there’s a way you can help many more young people make their recovery, or avoid A&E altogether.

In the words of Stephanie, a beneficiary of the work of one of our charities Fairbridge: “I was kind of depressed. Sounds pretty big but going on the Fairbridge Access Course challenged me to do things I didn’t think I was capable of doing. Before it was like I was at war with myself – now the future’s bright.”

*Shaks Ghosh, Chief Executive, Private Equity Foundation*

