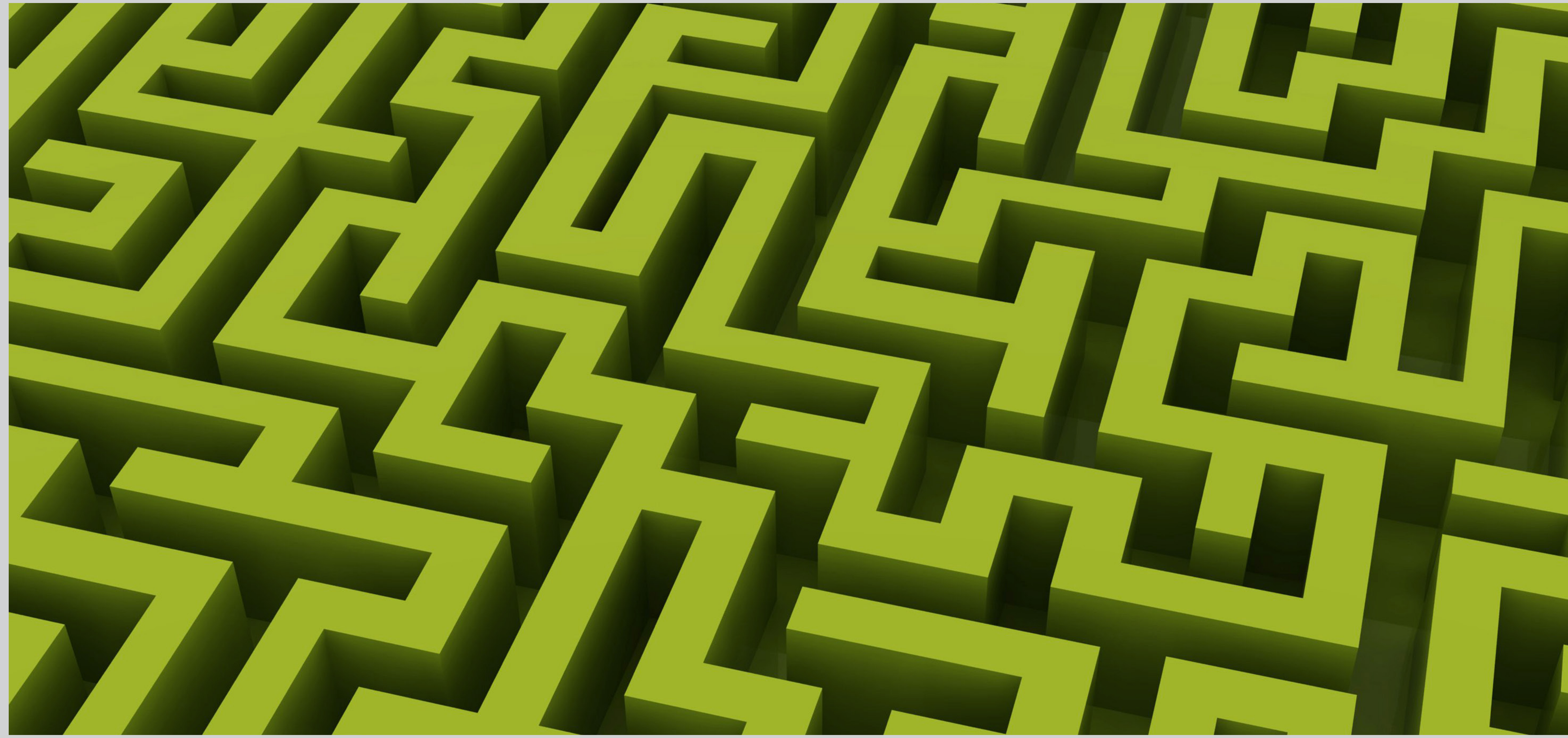
Best practice

Following IK Partners' win in the PE House of the Year – Mid-Cap category at this year's ESG Awards, *Real Deals* caught up with Jovana Stopic from the firm, to discuss how it is embracing ESG in its approach to investments and supporting portfolio companies in a complex regulatory landscape



What is IK's approach to responsible investment?
Jovana Stopic: IK has a longstanding commitment to responsible investment and we have had a responsible investment policy in place since 2012. We are forward-looking when it comes to identifying sustainability tailwinds that will benefit the sectors we invest in.

Our approach is both strategic and practical, focusing on identifying key ESG factors that are material to our portfolio companies and will enable us to create and protect value across our portfolio for years to come. Our approach is in line with our fiduciary duties and ultimately has to benefit the investors in our funds.

How does IK incorporate ESG principles into the investment process?
Stopic: We have an in-house ESG team that works closely with our investment, capital markets and operations teams to ensure seamless integration of material topics throughout the lifecycle of an investment.

We consider different sustainability trends and the expectations of our portfolio companies' stakeholders – for example, clients, business partners, employees, regulators and lenders. Together, this informs our active engagement with the portfolio. We work together to support our portfolio companies in managing the risks and identifying any opportunities they could leverage during our ownership.

How important is data collection and analysis in pursuing ESG targets?
Stopic: As an investor, it is important for us to have data to understand where the potential risk exposure is in our portfolio and how to mitigate against it. Data also helps us identify opportunities and engage more effectively with the portfolio.

Our LPs' appetite for portfolio-specific metrics is increasing year on year and, as a GP, we strive to maintain high levels of transparency with them, continuously looking to improve data quality for each upcoming reporting period. We try to be early to adopt frameworks we think are most relevant to us, our investors and portfolio companies. For example, at the start of 2024, we became early adopters of the Taskforce on Nature-related Financial Disclosures recommendations, and this year we will be sharing the nature-related metrics of this framework with our investors for the first time.

We are not the only ones requesting data from our portfolio companies. They are facing increasing pressure from their own stakeholders and, as an ESG team, we are keen to support them in elevating their approach to collecting and analysing data, providing insights and sustainability metrics.

Metrics are important; how can you claim to be making progress if you don't have a baseline and something to measure your progress against? You must have measurements in place and they need to be precise. Climate-related performance metrics and those related to emissions and decarbonisation plans are the most frequent thematic requests portfolio companies are receiving, so we're engaging with each of them to improve their own abilities to monitor and report on emissions.

We have achieved an increase in the financed emissions reporting coverage year on year, across all three scopes. Emissions baselines are a prerequisite for setting adequate reduction goals and devising decarbonisation initiatives such as science-based targets.

You mentioned some of the frameworks IK has engaged with. Can you tell us more about the responsible business initiatives IK supports?
Stopic: We take part in various initiatives in different ways. For example, we are a longstanding signatory of both the UN Global Compact and the UN Principles for Responsible Investment. We also work with different industry initiatives in Europe such as the Initiative Climat International (iCI) and we have joined networks such as BSR.

Additionally, we adopt frameworks such as Task Force on Climate-related Financial Disclosures (TCFD) recommendations, which is now a regulatory requirement, while also incorporating frameworks such as the ESG Data Convergence Initiative into our annual reporting templates. There are a range of different initiatives we think are relevant, either to us as a GP or to our LPs, or ideally both.

You touched on TCFD and regulatory requirements. How important are reporting requirements in advancing sustainability goals? In addition, how else is IK approaching regulation?
Stopic: Regulatory requirements are increasing, especially for our portfolio companies, and we work to provide them with the necessary support when it comes to navigating these new requirements, often utilising the help of our external expert networks. Our approach is guided by a collaborative ethos, both within IK and more broadly. To amplify this within our portfolio, we recently organised our second IK ESG Forum, where we had several expert-led sessions on reporting, namely the Corporate Sustainability Reporting Directive – which is a huge topic in our portfolio – decarbonisation and upcoming sustainability topics such as biodiversity.

What more do you think can be done to improve sustainability in private equity?
Stopic: Industry initiatives are important when it comes to finding common solutions to the challenges we are facing. The iCI is a good example of an initiative that produces resources that ESG practitioners within private equity firms can leverage to better engage with their portfolio companies and drive value. ●

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