# ELFA Private Debt Investor Committee workshop highlights the necessity for LPs and GPs to establish clear ESG frameworks at the firm and product levels to comply with new regulations, like the Sustainable Finance Disclosure Regulation (SFDR)

**14 March 2024, London** The workshop, hosted by ELFA, focused on the evolving landscape of ESG reporting and engagement within private debt funds. It was attended by members of the ELFA Private Debt Investor Committee along with investment consultants from Hymans Robertson and Cambridge Associates. Key takeaways include:

### Regulatory Impact and Categorisation

- SFDR, implemented by the European Commission in March 2021, categorises funds as Article 6, Article 8, or Article 9, each with varying levels of sustainability criteria. Article 9 funds make sustainable investments their objective and asset managers disclose how their investments are environmentally sustainable to end investors. Article 8 funds may include investments that do not necessarily contribute to sustainable objectives but have an ESG focus.
- Managers must carefully consider the requirements for Article 8 or 9 funds regarding ESG data reporting before making category selections.

### Integrating ESG into Investment Analysis

- LPs expect GPs to demonstrate commitment to environmental objectives, such as achieving net zero emissions.
- Social considerations, including government initiatives like the UK's levelling-up agenda, are increasingly important and reflect evolving international norms.
- These norms include expectations for active management of human rights challenges, retaining and upskilling human capital and ensuring equality and diversity.
- Governance remains a fundamental focus, while the use of external ESG ratings agencies enhances credibility.

### Challenges and Progress at the Product Level

- Materiality in ESG reporting is crucial for investors to understand asset managers' strategies.
- Within private debt, smaller companies may struggle with comprehensive ESG reporting, however, progress is evident with instruments like Sustainability Linked Leveraged Loans (SLLLs) and ESG margin ratchets.

### Engagement as a Tool for Enhanced ESG Reporting

- Engagement between lenders and borrowers is essential for improving access to ESG data, although resource constraints remain a challenge.
- An engagement framework should include escalation strategies to ensure meaningful objectives are set with portfolio companies.
- Resources like ELFA's ESG Fact Sheets can facilitate streamlined ESG disclosure processes for borrowers.

The discussions highlighted that LPs and GPs should develop internal ESG strategies at both firm and product levels to comply with evolving regulations like SFDR. Participants also noted that engagement with borrowers serves as a valuable tool for accessing better ESG data and advising on the advancement of ESG objectives. Sharing resources like ELFA's ESG Fact Sheets can enhance the quality of ESG data reporting in private debt funds.

**Sabrina Fox, CEO of ELFA, added:** "The workshop was offered as part of ELFA's Member Workshop series, designed to bring members together with other key market participants to deep drive on important issues facing the market and to identify practical solutions. Discussions at the workshop emphasised the importance of proactive ESG integration, effective engagement practices and the use of shared resources, like ELFA ESG Fact Sheets, to navigate evolving regulatory landscapes and enhance sustainability practices within private debt funds."

**Ends**

### About ELFA

ELFA is a trade association comprised of European leveraged finance investors from over 60 institutional fixed income managers, including investment advisers, insurance companies, and pension funds. ELFA seeks to support the growth and resilience of the leveraged finance market while acting as the voice of its investor community by promoting transparency and facilitating engagement among European leveraged finance market participants. For more information, please visit ELFA's website: www.elfainvestors.com.