# Malk Q&A: ESG Portfolio Monitoring

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Malk Partners provides ESG due diligence, strategic advisory, and portfolio monitoring services to middle market private equity, growth equity, venture capital, and private credit clients. Malk's Monitoring Team partners with General Partners (GPs) and their portfolio companies to support ESG efforts throughout the investment life cycle. To date, the team has conducted ESG monitoring on almost 1,000 portfolio companies for more than 23 GPs in the private equity, growth equity, and venture spaces.

We spoke with Anastassia Bougakova, Senior Vice President, Solutions; Elia Doussineau, Engagement Manager; and Hannah Alalou, Project Manager, on Malk Partners' Monitoring Team, to learn more about the team's portfolio monitoring and advisory work, as well as the future of ESG. This interview has been edited for clarity and length.

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### Q: Why did Malk create a dedicated team for portfolio company monitoring?

A: We've seen a huge uptick in demand for portfolio monitoring services. We want to ensure that we tackle monitoring with efficiency, stay up to speed with GPs' external and internal reporting timelines, and maintain a consistent level of quality. Monitoring also allows Malk to iterate on best practices, adjust our deliverables to align with evolving GPs preferences, and dive deeper into ESG key performance indicators (KPIs). We're starting to build out the monitoring service further as we see the value of KPI reporting not only for tracking progress against ESG goals, but also in enabling GPs to meet Limited Partners' (LPs') expectations around disclosing ESG data.

### Q: What are the key challenges for private markets investors seeking to build portfolio-level ESG transparency?

A: One of the biggest challenges is the evolving and disparate nature of LP requests, regulatory standards, and peer practices. Investors must juggle the various requests they receive from different stakeholders for portfolio data and update the data on a regular basis. It is challenging to stay on top of everything.

Another challenge comes from portfolio companies themselves; management buy-in and awareness are variable depending on the industry and the company's level of maturity. It can be difficult for a GP to communicate the value creation potential of ESG in a way that is data-driven and makes its way into business operating plans.

The third consideration is time and resource constraints. GPs rarely have time to conduct ESG portfolio monitoring independently, and it is also challenging to keep their ESG programs aligned with evolving LP requests and best practices. In general, GPs face challenges around balancing the need for monitoring to be thorough and impactful in driving continuous improvement, while trying to keep the monitoring process low-lift for management teams.

### Q: Where does monitoring fit in the landscape of Malk's services?

A: Malk created a distinct lifecycle for how it engages with GPs on ESG. The lifecycle starts with an ESG policy, which is executed through ESG due diligence, then leads to ongoing ESG monitoring and portfolio engagement, and ends upon exit; at exit, the company demonstrates its ESG progress.  For example, a GP's ESG program may start at the fund advisory level with the formation of an ESG program, which includes a commitment to conduct ESG diligence at the time of acquisition. Once the target company is part of the portfolio, Malk performs annual monitoring throughout the hold period and prepares the portfolio company for exit. Through its annual monitoring process, Malk helps portfolio companies capitalize on the ESG value premium and to communicate their unique ESG story through case studies and KPIs.

### Q: How does Malk differentiate the monitoring process from its due diligence services?

A: Due diligence is about discovery; we arm our GPs with awareness of the important ESG considerations and set them up with initial recommendations to mitigate risks and capitalize on opportunities. We're only looking at target companies' historical records during initial diligence. With monitoring, we focus on the live journey of the portfolio company, partnering with them to help implement our recommendations. Monitoring moves from just having the GPs as stakeholders to engaging the portfolio companies directly as key stakeholders.

Another key differentiator between monitoring and due diligence is that the monitoring process is lighter touch and more focused on value creation. Rather than just screening the company for red flags, we are focused on understanding how the company has evolved and driving progress on ESG in a way that is most value additive and least burdensome for the management team. Annual monitoring also helps us keeps our ESG assessments up to date, as portfolio companies evolve quickly and may not face the same risk/opportunities today as they were facing 3-5 years ago during initial due diligence. Through monitoring, we think about how materiality shifts in terms of risk exposure and capacity to mitigate risk year-over-year. We highlight improvements, escalate new risks, report on incidents, and develop new recommendations as needed for individual portfolio companies and the portfolio more generally.

### Q: How does the monitoring process address shifting stakeholder priorities post-close?

A: We address dynamic stakeholder priorities by tailoring our recommendations to each portfolio company to set them up for success in executing upon our recommendations. As we check in year-over-year, we inquire on whether there have been challenges in implementing the recommendations. What do those challenges look like? What alternatives should we consider? We adapt to portfolio companies' capacities and generate buy-in by tying ESG recommendations to operational and business performance, such as improving safety programs to decrease incident rates. Although this may seem intuitive, getting into the tactical nature of ESG objectives enables us to demonstrate the value of ESG to management teams and align ESG initiatives with shifting business priorities.

In addition to tailoring monitoring to portfolio companies' priorities and staging, Malk also keeps client exit strategies, regulatory changes, and industry trends in mind to ensure that monitoring deliverables remain cutting-edge and considerate of all key stakeholders.

### Q: A key consideration in Malk's work is focusing on both ESG risks and opportunities. How does this framework shift year-over-year as portfolio companies progress in the monitoring process?

A: At the onset of reviewing a company, there may be more recommendations tailored to risk mitigation, as our priority is protecting value at risk. However, as we continue our engagements and the companies address those risks, we can push them towards more value-creation initiatives.

Think about the arc of a portfolio company over the hold period. As private equity investors start to add acquisitions as part of the core investment thesis and add value through operational and financial levers, we begin to think about ESG opportunities as value adds to portfolio companies approaching exit. As risk mitigation is addressed, and value creating opportunities accelerate, you can start to think about the potential for an ESG value premium.

**Q: What is the most exciting challenge you see the Monitoring Team tackling in the next two years?**

A: An exciting challenge we're poised to address is ESG data aggregation and KPI collection. Our goal is always to supplement our qualitative assessments with quantitative data. We want to enable companies to set quantitative targets in these broader categories—ranging from diversity, equity, and inclusion, to environmental, health, and safety management.

Private markets are still lacking in ESG data that can be compared across industries. We're looking forward to leveraging the expertise and tools Malk has amassed over the years to enable tailored benchmarking of data, based on portfolio companies' industries and levels of maturity. In particular, our strategic partnership with Integrum ESG will enable us to gather and compare data that is validated and aligned with ESG frameworks. For example, we are looking to create a proprietary database that will enable us to compare how a manufacturing portfolio company in the Midwest with $100M revenue and 100 employees compares to its peers, rather than comparing them to the larger, public businesses for which ESG data is publicly available. A lot of folks are trying to tackle data in the industry. The next challenge is to make ESG data more actionable and benchmarkable; this is something that our team is poised to take on.

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**About Malk Partners**

Malk Partners is the preeminent advisor to private market investors for creating and protecting value through environmental, social, and governance ("ESG") management and impact investing. Founded in 2009, Malk Partners advises many of the world's leading alternatives managers investing across private equity, growth equity, venture capital, and private credit by helping them define ESG goals, achieve ESG results, and guide their portfolio companies in driving value creation and mitigating risks. The firm is headquartered in La Jolla, California with a second office located in New York. For more information about Malk Partners, please visit [www.malk.com](http://www.malk.com).