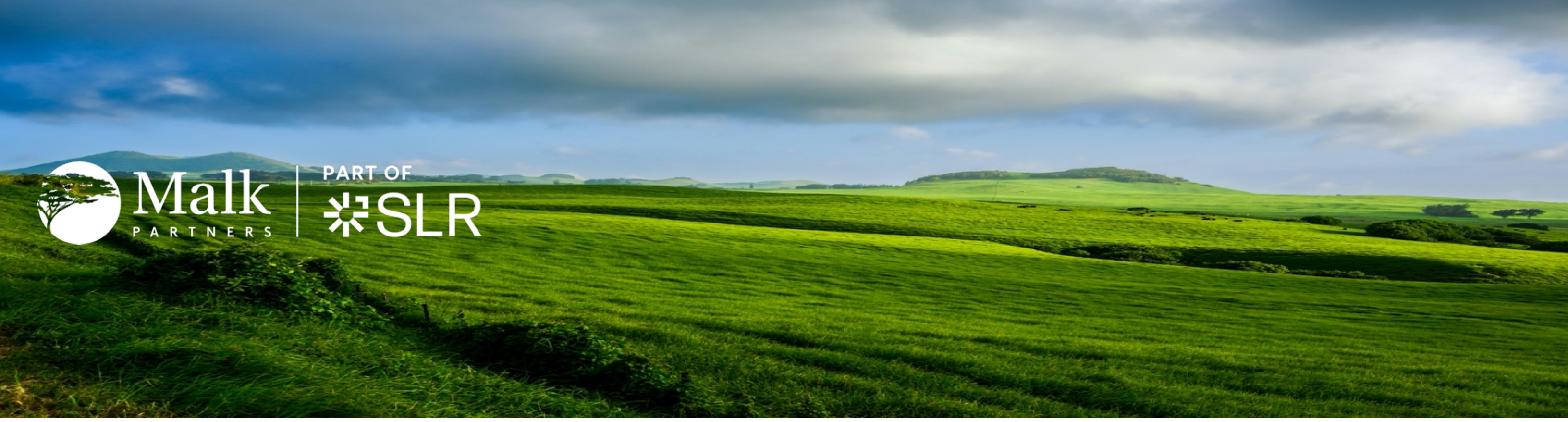

Incorporating ESG Under Limitations: Portfolio Engagement with Minority Ownership

Malk Insights — Q2 2025

Key Takeaways

- Portfolio engagement is becoming table stakes for PE firms post investment, with added pressure from LPs and other reporting obligations
- Minority investors may have a different approach to portfolio engagement tailored to their level of ownership, growth stage, and industry
- Focusing engagement efforts on qualitative and quantitative monitoring paired with resource sharing will help maximize information gathering while minimizing company time

The world of venture capital and growth equity is fast-paced, entrepreneurial, and constantly evolving as founders build the companies and industries of the future – empowered by investors who share their visions. These investors typically hold minority stakes, thus limiting their ability to unilaterally make operational changes at the investment level. Despite challenges, these types of investors can engage with their portfolio companies in meaningful ways on ESG to create value while navigating limited access to executives' time, company data, and decision-making power.

ESG Integration for Growth & Venture Capital

Studies show that GPs who engage directly with their portfolio companies see the best results in propelling their companies' value creation and growth particularly at an early stage. Engagement helps to ensure that companies have resources and support in instituting responsible business practices during key points of business growth. As such, portfolio engagement on ESG is no longer an above-and-beyond stewardship initiative but instead an expectation for most stakeholders in the investment process, including LPs.

Minority investors, however, commonly feel too limited to meaningfully integrate ESG into their post-investment engagement with portfolio companies or to request ESG data. Further, when asked what challenges PE firms and their LPs were facing with regard to demonstrating their commitment to ESG, both reported having difficulty quantifying and monitoring ESG performance (an issue for more than 69% of respondents) and a lack of harmonized reporting standards (noted by more than 50% of respondents). As such, how GPs engage with portfolio companies may vary but the ultimate goal should be focused on capitalizing on opportunities, minimizing risk, and ensuring data transparency.

Although there are challenges, investors are increasingly requiring GPs to report on topics including worker health and safety, DEI, employee retention, and environmental management. In fact, 70% of LPs reported ESG to be an important consideration in their organization's investment policies and maintain expectations for visibility into ESG performance. Malk is also seeing additional LP pressure to subscribe to global frameworks and regulations like the EDCI, UN PRI, and SFDR, which require portfolio-wide engagement to identify and disclose environmental and social risks in almost every aspect of business operations.

Despite limitations, minority investors should capitalize on the opportunity to impact strategy early on to propel their companies towards sustainability aligned growth.

Why Dedicate Time and Resources to Portfolio Engagement?

⇒ **Mitigate companies' risks and identify value creation opportunities early on while building out business strategy** – proactive portfolio engagement on ESG reduces risks by implementing structured safeguards to prevent incidents and noncompliance and can also help uncover potential business value.

⇒ **Setting up data collection infrastructure early gives you a strategic edge** – incorporating metrics important to investors early on enables more seamless processes which have a lessened burden on management over time. Data spanning the investment lifecycle is also integral to demonstrating progress made during the hold period.

⇒ **Portfolio engagement enhances your attractiveness to LPs** – LPs appreciate the ability to take a step back from managing their portfolios and like to see that a GP is proactive about ESG through their ability to implement changes even with more limited ownership.

⇒ **Keeping up with peers** – GPs are being compared to their peers by LPs and other ESG frameworks such as UN PRI where portfolio engagement is considered. Firms that want to meet or exceed their peers' practices should be finding a fit-for-purpose solution for portfolio engagement.

Crafting Bespoke Solutions for Minority Investors

Malk currently monitors more than 300 privately held growth and venture capital companies annually, with mostly minority investment positions for GPs. Through this experience we've acquired deep insight into how to navigate meaningful portfolio engagement with minimal lift from management, like:

- Lighter-touch requests with limited access to management time and fewer data requests
- Support tailored to investment stage, industry, and geography of a company
- Focus on resource sharing
- Alignment to key investor and portfolio company priorities
- Meeting investor reporting requirements

There are many ways to navigate portfolio engagement, but these are the most common strategies effectively and consistently delivering value in the current market:

⇒ **Data collection and ongoing portfolio monitoring** creates opportunities to regularly check in on how a company has evolved and built up its operating practices over time. Malk works with portfolio companies of all sizes and maturity stages – for our growth and venture capital clients, more than 2,000 recommendations have been closed out, with 98% of recommendations successfully implemented within three years of monitoring.

⇒ **Founder-friendly resources for portfolio companies** like playbooks, webinars, and expert roundtables are a simple way to present strategies that prevent risk and ensure compliance. Prepared with commercial value in mind, these materials take a lighter-touch approach that typically compliments existing monitoring and KPI collection by providing companies with additional resources based on program deficiencies identified by Malk and their investors. These resources provide hands-off guidance for program development that companies can opt into, allowing management to determine company priorities.

Calibrating the Right-Sized Approach

Although there are challenges in implementing responsible business practices as a minority investor, the potential benefits and value creation opportunities make it a worthwhile endeavor. Growth and venture capital firms are opportunistically positioned to support companies by putting these structures in place early, therefore maximizing their effectiveness. Through ongoing data collection and monitoring, we can compile evidence that best supports the magnitude and traceability of these impacts while further illustrating to investors how their investments have evolved over time, making a stronger case to communicate to LPs and potential future buyers.

Malk Partners' dedicated growth equity and venture capital team has extensive experience providing tailored, flexible ESG support to investors globally with minority ownership stakes. Malk anticipates that GPs will increasingly integrate ESG operations assessments and data in exit planning – reach out to our team to learn how our experience crafting creative, growth-oriented strategies in the ESG space uniquely qualifies us to best support your endeavors in mitigating risk and creating value through portfolio engagement.

Authors

Emily Goldstein-McGowan
Engagement Manager
e: *egoldstein-mcgowan@malk.com*

Kat McPherson
Sales Development Representative
e: kmcpherson@malk.com

Lucy Fried
Associate
e: lfried@malk.com

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 New York. For more information about Malk Partners, please visit www.malk.com.