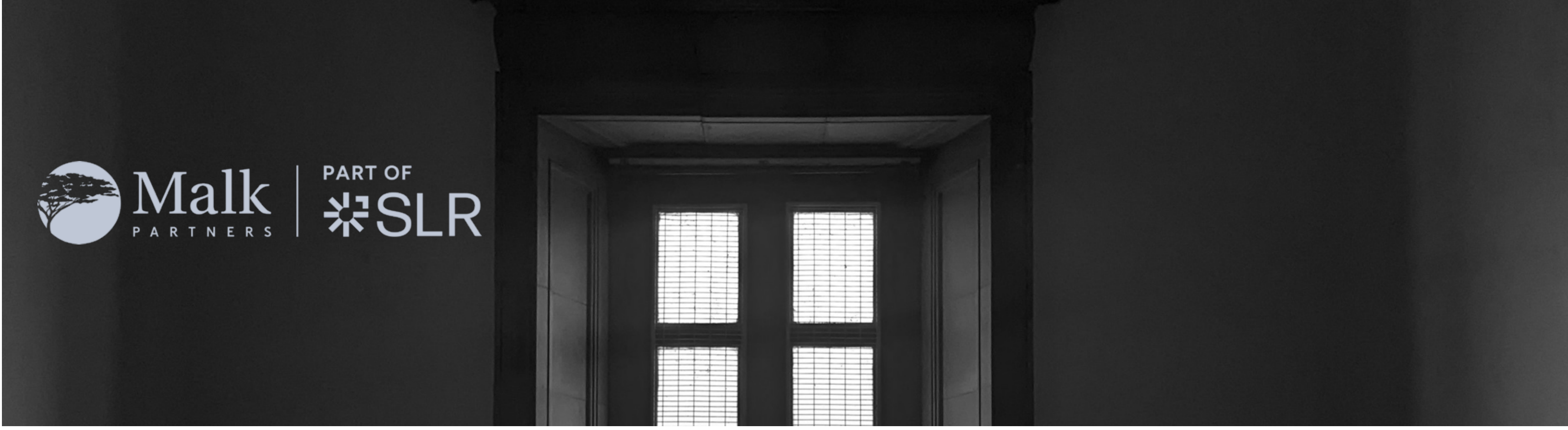

Weathering the Storm – ESG & Exits

Malk Insights — Q2 2025

Key Takeaways

- Private Equity exits have changed dramatically in recent years, characterized by significant volatility, widened bid-ask spreads, and challenging liquidity dynamics.
- Alternative solutions for providing liquidity events to asset owners (e.g., continuation funds, secondary sales) have increased in popularity, spurring creative fund marketing tactics that focus on long-term growth.
- ESG has become a meaningful indicator of risk mitigation capacity and value creation potential to current and future investors, including the underlying GPs of secondary funds.
- Demonstrated ESG management across the investment lifecycle – appearing as performance metrics, value creation outcomes, and exit materials – strengthens GPs for competitive fundraising.

A Quiet Market for Exits

Exit activity has faced sharp contractions since its peak in 2021, driven primarily by macroeconomic headwinds including inflation, elevated interest rates, and persistent market uncertainty. With over 50% of funds now older than six years, and thousands facing wind-down in 2025 and 2026, GPs are facing immense pressure to generate liquidity for LPs looking to recycle their funds into new commitments. The once-favored IPO exit route has narrowed significantly due to investor caution and unfavorable market conditions. Consequently, General Partners (GPs) have sought alternative pathways to liquidity and value retention, namely, trade sales, secondary sales, continuation funds, and prolonged hold periods. Continuation funds, which represented 14% of all PE exits in 2024, have emerged as a mainstream strategy for retaining prized assets and foregoing bitter valuations. By marketing these high-potential holdings to new (and current) investors, successful continuation vehicles have produced liquidity events for some LPs and lucrative buying opportunities for others. Effectively, longer timelines and competitive exit routes have emphasized the importance of communicating value creation projects and risk-adjusted returns to key stakeholders. In this environment, ESG initiatives that enhance operational efficiency, mitigate headline risk, and align with potential buyer mandates can meaningfully improve exit readiness and support higher multiples at time of sale.

ESG – A New Lever in Fund Marketing

Exit marketing has been shaken up by the need for creative liquidity solutions (i.e., continuation funds, secondaries). The prior emphasis on immediate growth and realized performance has been replaced by longer-term narratives prioritizing sustained growth potential, strategic milestones, and market resilience. With the rapid growth in secondary and continuation fund formation, investment and marketing teams are tasked with making strong cases for upside potential through risk management and value creation levers.

In response to elongated hold periods, heightened scrutiny from strategics, and closed doors on IPO exits, ESG has helped value-driven portfolio companies stand out in a strict market. In recent formations, ESG and impact have played a crucial role in bolstering investor confidence and transaction readiness. Specifically, sustainable management of assets showcases:

a) **Foundational risk management –** ESG risk and opportunity analyses conducted pre-investment can evidence a fundamental awareness of the risks to be managed during the hold period and onward. As more asset owners and managers mature their ESG programs and sustainable investing processes, the need for clear alignment on related investing principles and practices has become a key decision factor when buying into secondary and continuation funds.

b) **Enhanced operational maturity –** Mature ESG integration (i.e., established policies, baseline ESG data collection, rigorous reporting practices) signals opportunities to potential buyers for streamlined due diligence, efficient integration timelines, and premium exit multiples stemming from enhanced compliance and risk mitigation mechanisms.

c) **Strategic differentiation –** Portfolio companies that have been intrinsically aligned to ESG and/or impact objectives have a wider breadth of options for generating liquidity events. Such assets may fit snugly into secondary or continuation funds aligned with SFDR Article 8 or 9 classifications, which typically maintain strict criteria for qualifying fund inclusion. Similarly, the growing shift in focus towards sustainability from both LPs and strategic buyers necessitates a proactive response from GPs looking for a competitive advantage.

These benefits are realized by displaying fulsome management of ESG issues across the investment lifecycle – from pre-investment diligence to performance insights and growth trajectories communicated at exit. Closing the loop on ESG risk management and value creation initiatives implemented over the hold period is becoming core to successful wind-downs and subsequent fundraises.

ESG for Resilience & Long-term Value Creation

With prolonged hold periods delaying distributions to LPs, creating liquidity squeezes, and heightening scrutiny on Distributions to Paid-In Capital (DPI) ratios, GPs face immense pressure to keep funds fresh. That prompts investment teams and fund marketers to equip all the tools at their disposal – including ESG and sustainability. With the emergence of secondary sales and continuation vehicles, ESG has become widely acknowledged as a high-impact lever for driving transaction activity in a volatile market. These developments are consistent with the basis of sustainable finance theory – ESG management promotes business resilience and creates long-term value for shareholders. Communicating that value at exit is an imperative for company executives and fund managers alike.

GPs are facing immense pressure to wind down aging funds and have recognized ESG as a meaningful lever for achieving successful exits. Malk Partners supports GPs on integrating ESG at exit by reviewing portfolio company progress over the hold period, closing ESG management gaps, and preparing management teams for buy-side diligence. In addition to coaching management through ESG matters, Malk furnishes GPs with case studies and go-forward ESG roadmaps that can be used in sell-side marketing. These components help portfolio companies stand out in a highly competitive exit environment. Malk's support can come as off-the-shelf services or plug-and-play features of Portfolio Monitoring.

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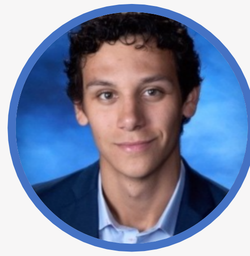

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About Malk Partners

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