

New Private Markets

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NEWS & ANALYSIS

Purpose, profit, status: Why private markets firms turn to B-corps

B-corp certification has long been a useful signal of sustainability credentials for consumer-facing businesses; some private markets firms are getting on board.

Pivate markets firms targeting B-corporation certification, or backing companies with that status, seek to be leaders in a sustainable finance market that's moving into the mainstream.

B-corps are for-profit organisations that manage themselves to place social and environmental responsibility at the core of their operations; they equally pursue both "purpose and profit".

Attaining certification requires organisations to pass an assessment conducted by the US non-profit B Labs, which launched in 2006 and has developed a system of measuring good management in the areas of governance, workers, customers, community and the environment. Companies need a score of at least 80 to receive certification, according to B Labs' website.

With the crop of ESG frameworks that have emerged along with the rise of sustainable finance, the vast majority of private markets firms have not sought B-corp certification and the level of operational scrutiny that comes with it. So far, globally, 68 firms identifying as private equity, venture capital or impact investors are certified, according to B Labs' searchable database for B-corps. Among the larger private markets names are: European growth equity firm Summa Equity; Africa-focused private

equity firm Helios Investment Partners; London and New York-based fund manager TowerBrook Capital; Southern European buyout house InvestIndustrial; Italian sustainable investor Ambienta; UK-based impact pioneer Bridges Fund Management; Oregon-based renewable infra and agri firm Equilibrium; and Ontario-based emerging markets investor Saron Asset Management.

Over half are in the US, with the majority geared towards venture capital and small market investing.

Investors that have chosen this route insist that the long-term value a B-corp strategy creates leads to better results for communities and their portfolio's returns.

Achieving B-corp certification can be difficult for firms that aren't fully structured to implement a purpose-driven investment approach, according to Abrielle Rosenthal, chief sustainability officer at TowerBrook. But for those that do, she told New Private Markets, new opportunities emerge.

"When you hold yourself out as a purpose-oriented investment firm, likeminded management teams may approach you and want to work with you because they share your values," Rosenthal said.

TowerBrook, which manages \$15.7 billion in assets, began considering B-corp

certification around seven years ago but held off until the firm was certain that processes were in place to obtain and hold the status. TowerBrook "did not need to change the way we operate" to achieve certification, Rosenthal said. Finally getting the credential in 2019 represented a commitment to the belief that "acting as responsible owners over time will lead to better returns for our stakeholders".

May not B for everyone

While TowerBrook seeks to make investments that provide positive impact, TowerBrook doesn't exclude non-B-corp companies from its portfolio. And while the aim is to "transform the capabilities and the prospects of the businesses in which we invest", according to TowerBrook's website, the firm ensures not to push certification on companies that might not be well suited for B-corp status.

"We've had some companies that this wasn't the right thing for them, but something else was and we're very happy with that as well," Rosenthal said.

"Conscientious consumption" is a key market trend that's driven Bain Capital Double Impact to B-corp investments, according to Cecilia Chao, BCDI's managing director. The opportunity is to capitalise on "consumers that really want to do good for the planet and humanity

New Private Markets

through purchasing decisions”, Chao told New Private Markets.

BCDI is a group within Boston-based Bain Capital, a private equity firm managing \$150 billion in assets. While Bain Capital is not B-corp certified, Chao said that by investing in companies that are, it “ensures they’re meeting the aspiration of delivering environmental and social benefits”.

“It signals to us that they’re committed to driving positive outcomes and incorporating impact throughout their business models,” she said.

Recent BCDI investments in B-corps include in Cotopaxi, a company making outdoor products using fully recycled materials and donating 1 percent of its profit to poverty relief efforts. In November, BCDI led a \$70 million fundraising round for Hi Mama, a start-up B-corp developing business management software specific to daycare businesses.

Chao cautioned that it’s too soon to tell whether B-corp investments correlate to better returns. But she added the strategy is underpinned by the belief that “impact progress does help enhance financial value,

because more and more consumers and investors are looking for both sustainability and commercial viability”.

As sustainable finance continues to become mainstream, new best practices are likely to originate among B-corp investors, whether they are certified themselves or deploying strategies favouring B-corp investments. To be ready, the broader private markets community should pay attention to what this class of investors are doing.

B CORP SAMPLE SIZE



A sample of the 68 B Corps investing in private markets

B Corp firm	Type of investor	Description	B Labs score	Certified date
Sarona Asset Management	Emerging markets investor	Canadian boutique firm investing growth capital in small-to-mid-market businesses in emerging markets	139	November 2011
Bridges Fund Management	Impact investing	UK-based fund manager specialising in sustainable/impact investing in businesses, properties and social enterprises	145.4	July 2015
Sora Finance	Financial advisory	Paris-based boutique advisory providing financial strategy, fundraising and M&A services for socially responsible companies	105.2	June 2016
Fifth Wall Partners	Venture capital	California-based firm focused on technology-driven innovation for the global real estate industry	85.1	April 2020
Summa Equity	Asset management	Stockholm-based PE firm investing in companies that are solving global challenges including resource efficiency, changing demographics and tech-enabled transformation	110.7	October 2021

Source: B Labs