Developing ESG solutions at scale



A cross-portfolio approach to ESG and DE&I can empower companies to implement best practices and create products with positive impacts, says Vista Equity Partners' David Breach

Vista is a technology and software specialist; how does that sector focus impact the lens through which you view ESG risks and opportunities?

Since Vista's founding in 2000, enterprise software has had a huge impact on how we live and work - making us more efficient, more productive, more connected and, in some cases, helping to reduce our environmental footprint.

With digitisation accelerating, technology is expected to continue to be a critical driver and deriver of ESG practices and value. We aim to be systematic SPONSOR

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in our approach, integrating ESG into our firm's strategy and investments.

For example, during due diligence, we review the target company's technology, cybersecurity and data privacy practices to understand potential ESG and DE&I risks and opportunities. We also aim to empower our portfolio companies to implement ESG and DE&I programmes within their businesses and, in some cases, help them develop technology solutions that have a positive impact for their customers and users.

How can private equity firms help drive progress on ESG and DE&I through technology investments?

When you consider the reach and influence of private equity firms across their portfolio companies and end markets, it is clear that asset managers have a tremendous opportunity to drive ESG and DE&I progress. We believe this evolution can be achieved through best practice stewardship, by driving accountability and leading by example. As a fiduciary, we see it as our responsibility to provide ESG and DE&I frameworks and approaches for our portfolio companies that can exist after our partnership ends - ensuring we create a foundation for enduring market value.

We approach ESG and DE&I with what we like to call an engineering mindset - designing systematic solutions that are measurable and scalable. This allows us to amplify our potential impact while building processes that our investments can benefit from.

With regards to ESG, we engage our portfolio through an annual ESG assessment. Emissions measurement is a key element of this programme, and we use a reporting software to help measure each company's greenhouse gas footprint. We also host informational sessions and share best practices for GHG measurement, reduction and reporting. We joined the Net Zero Asset Managers Initiative last year and pledged to reduce our private equity portfolio company emissions by 50 percent by 2030 and to emit net-zero GHG emissions across these investments by 2050.

For DE&I, we created a DE&I Guide which encompasses Vista best practices, templates for engaging with the board and an overview of the expectations we have for portfolio CEOs and leadership in relation to DE&I. Through this guide, we provide a comprehensive framework to help leadership teams implement, refine or evolve their DE&I strategies. To create accountability, the template for both ESG and DE&I is reviewed quarterly during company board meetings.

Are there carbon footprint considerations that are specific to the tech sector? How are you working to measure and reduce emissions?

Emissions reduction is a fundamental focus for our firm and portfolio. According to Harvard Business Review, the information and communications technology sector is expected to account for 14 percent of the world's carbon footprint by 2040 - up from 1.5 percent in 2007. That is a massive



How can ESG serve as a value-creation lever within technology and software companies?

In recent years, we have seen the public markets and strategic buyers place an emphasis on ESG programme management, practices and initiatives, demonstrating that well-run companies with strong ESG programmes make good business sense for investors.

For our software businesses, we have designed an ESG engagement maturity model to help our companies adopt ESG best practices across policy development, implementation and measurement. As part of this process, we focus on ESG operational areas we believe are becoming essential drivers of value in the software sector, such as supply chain, reporting and goal setting, and DE&I talent strategies. We also serve as partners to our companies as they build cross-functional teams, develop formal policies and create supply chain risk mitigation strategies.

Since we view ESG as a strategic priority and a competitive advantage, we highlight our ESG efforts during the exit process. In initial public offerings, for example, we support our portfolio companies in articulating their ESG practices in S-1 documentation. For private sales, we hope that by sharing the results of our value-creation work, we can enable the next investor to support and continue the ESG initiatives underway.

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increase and as stakeholders in the industry, we need to actively work to reduce our impact.

As a firm, we achieved carbon neutrality for the first time in 2019 by purchasing carbon credits and offset our 2020 corporate GHG footprint through a partnership with Clearloop, a renewable energy accelerator.

In 2021, 100 percent of our majority-owned private equity portfolio companies agreed to measure their corporate GHG emissions, making Vista one of the first global private equity firms to adopt this measure.

Baseline emissions calculation helps with risk management and provides cost-saving opportunities for enterprise software companies. Plus, in markets around the world, regulators are introducing climate-related disclosures for public and large private companies. With these factors at play, we thought it would be prudent to future-proof our companies' climate resilience strategies and align our majority-owned investments to our net-zero goals.

How has the private equity industry's focus on DE&I evolved in recent years? What action are you taking on DE&I?

Thankfully, it is now recognised that having diverse teams helps companies make better decisions and achieve better results, but that is just the beginning. At Vista, we execute our DE&I strategy across our firm, portfolio, industry and community to maximise our efforts across our business and poten-

For our firm, we are focused on creating an equitable environment by prioritising inclusion in our culture, work practices and recruiting pipeline. We have developed a Conscious Inclusion programme, which educates employees on bias and ties employee education of conscious inclusion to their performance. To ensure DE&I is prioritised from the top down, we also tie executive compensation to their achievement of DE&I objectives.

We have created several internship programmes, including Vista Frontier Fellows and a partnership with Girls Who Invest to advance equitable recruiting practices. In the past few years, we hired over 20 full-time employees of which 85 percent are women or people of colour through these programmes. Vista also supports supplier diversity in our capital markets work - when we have an equity offering, a minimum of 5 percent of the allocation is conducted through under-represented brokers including people of colour, women and

I mentioned some of our portfolio efforts earlier, and related is our board programme. We launched Vista's

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External Board Programme in 2017, which helps source qualified board candidates for our portfolio companies with a focus on diversity and providing external expertise. We also launched a pipeline programme in partnership with the National Association of Corporate Directors last fall to diversify the pool of available talent for audit committees.

We look for opportunities to participate in industry initiatives that move our DE&I mandate forward, like the Corporate Call to Action and partnerships with Diligent's Modern Leadership Initiative, the Board Challenge, the Board Diversity Action Alliance and Him for Her.

How can GPs engage with boards and portfolio company staff on ESG and **DE&I** initiatives?

We have found you can't have a onesize-fits-all approach when engaging boards and companies on ESG and DE&I efforts. Each is unique, and for each company, we think about what is most impactful for their business and help them prioritise initiatives based on where they are on our maturity model.

One of the greatest benefits of joining the Vista portfolio is gaining access to other software executives who have been there before or are in a similar stage of business. To enhance ESG knowledge sharing, we have launched a Sustainability Leadership Council for our executives to convene and collaborate. The goal of the SLC is to share best practices, disseminate tools to simplify ESG management and reporting, and identify ESG value-creation initiatives. By leading ESG efforts, SLC members are integral to realising our shared ESG goals at scale.

What are your priorities for your firm and portfolio across ESG and DE&I for 2022 and beyond?

We want to look back in a year or two and see tangible outcomes from the initiatives underway. Our goal is to continue the work already in progress and build on it with complementary strategies.

For ESG, we aim to lead the industry in sustainability both at Vista and within our portfolio. As part of our commitment to the Net Zero Asset Managers Initiative, we will focus much of our 2022 efforts on helping portfolio companies set science-based reduction targets for GHG emissions and building repeatable processes for GHG measurement. We will remain carbon neutral at the firm level and will also focus on how we can create positive outcomes through our companies' software products.

For DE&I, our vision is to transform the worlds of technology and investing by extending access and opportunity to traditionally underserved groups. Board diversity and executive team engagement remain among our main focuses given the reach and impact of these groups. We are also creating more opportunities for under-represented students earlier in their academic careers. Finally, we are considering actionable ways to use our purchasing power to further improve supplier diversity and support businesses owned by people of colour.

David Breach is president and chief operating officer at Vista Equity Partners