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White Oak Sees 'Big Runway' for ESG Deals in Private Credit

By Kelsey Butler

(Bloomberg) -- Lending based on environmental, social and governance criteria is a growing area for private credit that can provide similar to better returns than more traditional investments, said Teresa Cutter, a managing director and head of ESG and impact at White Oak Global Advisors.

- "There's a big runway for ESG, particularly in private credit, given the long-term nature of the assets that are in question and the need for deep risk analysis into those long-term assets," Cutter said in an April 26 phone interview
 - "This is a trend that's not going to go away anytime soon"
 - "If anything, it's going to become a bigger and bigger part of the risk framework"
- White Oak sees "comparable if not better returns for its ESG strategies," Cutter said, but declined to give exact figures
- The firm considers ESG factors when underwriting a credit "under the umbrella of risk": Cutter
 - "We're looking for companies that exhibit sustainable values that should by definition grow more valuable over time"
 - This would make them easier to refinance, or exit in the long run
- Covenants can be added to ensure a borrower adheres to ESG criteria
 - For example, a company that produces environmental waste may have covenants specifying how it must dispose of that material
 - If waste gets into the water supply or has another negative environmental impact, that would be considered a covenant breach
 - "These are the prescriptive measures we can take to ensure that these companies are ESG compliant, even if it's indirect"
- White Oak has taken ESG standards into consideration when making investments for the last six years
- It created a formal policy within the last year: Cutter
 - The firm has lent about \$4.4b to ESG or impact-oriented companies in the last six years, representing about two-thirds of its deals
 - The San Francisco-based direct lender said last week it provided Danimer Scientific Holdings, a maker of compostable and biodegradable plastics, with a \$30m senior secured credit facility

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