

KEYNOTE INTERVIEW

Harnessing PE's capacity for transformation



The industry can help build better businesses, create jobs and deliver returns, while working together to drive meaningful progress on ESG and DE&I, says EBRD's Anne Fossemalle

With over 25 years' private equity experience, Anne Fossemalle has witnessed fundamental changes in the asset class and contributed to its growth through her work at industry bodies Invest Europe and the Institutional Limited Partners Association. In addition to the global perspectives that these roles have provided, as director, equity funds at the European Bank for Reconstruction and Development, Fossemalle has had a front row seat to the development of the markets in which EBRD invests.

"PE is first and foremost about people," Fossemalle tells *Private Equity International*. "Over the years, I have had the amazing chance to develop an

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incredible network across the whole spectrum of the industry." Here, she discusses her work at EBRD and explains why PE can have a transformational impact on businesses and economies, particularly when industry stakeholders work together to effect change.

Q What are the key considerations for EBRD when committing to funds?

EBRD is the largest investor in its regions of operation. We aim to build a sustainable private equity industry in the areas where we operate, to mobilise institutional capital into our regions and to deploy value-adding equity into companies. EBRD behaves as any institutional investor behaves, but we have the ability to take more risk. With that comes the responsibility to carry out particularly in-depth due diligence, and often to accompany our GPs on their journey to raising their first fund.

Our main goal remains financial returns. The most important impact we have is to demonstrate that LPs can make money as investors in funds,

which in turn enables us to act as catalysts and to mobilise private capital to our regions of operations.

Q CEE is one of the regions in which EBRD invests; what are your hopes for Ukraine's PE market following Russia's invasion?

It is no exaggeration to say history is being written in Europe. Russia's invasion of Ukraine is causing heartbreaking human tragedies and it will have profound implications for the economic and geopolitical future of the world.

At EBRD, I feel lucky to have travelled to Ukraine since the mid-1990s. I witnessed the country's development first-hand, including the growth of its economy and the creation of institutions, as well as companies driven by entrepreneurial people.

A particular standout is Ukraine's thriving tech and IT ecosystem. Ukrainian entrepreneurs have produced many internationally renowned companies, including software businesses Grammarly and MacPaw, and messaging platform WhatsApp. These successes are being followed by domestic champions such as fixed telecom and digital services provider Data-group-Volia, as well as online marketplace Rozetka. These companies have of course been impacted by the war, but fundamentals remain strong and they are now recovering.

While the PE ecosystem in Ukraine is suffering serious setbacks, I have trust in the future of strong fund management teams like that of Ukraine and Moldova-focused PE firm Horizon Capital and others. I am also convinced that PE and VC will actively participate in the reconstruction of the country.

Q ESG has been a focal point for the industry of late; what progress are you seeing here and how has EBRD's approach to ESG developed?

Sustainability has been at the heart of everything EBRD does since its

creation in 1991. When it comes to investing in funds, EBRD assesses the fundamental impact its commitments will have on a country's development, from job creation to ESG to improving the private equity and venture capital ecosystem, making EBRD a fundamental impact investor.

While we initially looked mainly at environmental risks, and trained our GPs to analyse these risks, we rapidly shifted to using ESG considerations as a tool to add value to companies. More recently, we have strengthened our

assessment of funds' green credentials, and we are reinforcing our support to GPs in this area. EBRD has also committed that it will, from the end of 2022, align all its activities with the goals of the Paris Agreement.

I believe that the private equity industry needs to look beyond regulatory obligations and seize the opportunity to play a meaningful role in achieving climate net-zero goals, and with its ability to deeply transform companies, it is well placed to do so. This would also support efforts to



Q How would you like to see private equity and venture capital evolve in Europe moving forward?

Private equity and venture capital are transformational on so many levels. We build better companies, create jobs and deliver returns to investors, which are themselves public institutions – pension funds and insurance companies – working for the public.

As we highlight and celebrate the industry's spectacular growth and achievements, it is right that we analyse and question where it is going. Private equity's growth is leading to greater industry concentration and increased product sophistication. Such changes may bring PE to more investors, but they could drive a convergence with public market returns. We need to consider how to keep private equity vibrant and innovative, and how we can combine the strength of larger groups with the agility of smaller players.

In addition, the growing scale of private equity attracts greater scrutiny, and increases the need for transparency and accountability. Climate change and a faster-paced regulatory environment bring their own challenges.

In the current macroeconomic context, there is no doubt that PE and VC are facing serious headwinds, with high inflation, supply-chain disruptions, and increasing oil and food prices, to name a few.

There is significant instability and there are significant shifts coming – in the world, and in our industry. Yet PE and VC's fundamental business model means the industry is well placed to navigate such shifts. The industry has demonstrated its capability to adapt to new circumstances, and it will adapt again to the new world that is currently being shaped.

improve the industry's reputation.

Invest Europe and ILPA are both playing a key role in supporting their members in this area. Invest Europe has published a user-friendly Climate Change guide for members, it is collecting ESG data that is representative of the European PE industry, which will inform its advocacy work, and it will propose ESG KPIs. Meanwhile, ILPA provides an ESG Roadmap and DDQ to its members, and it is supporting the work of the ESG Data Convergence Project.

The good news is that while there are various KPIs used as standards by associations, organisations and asset managers, we are witnessing a clear convergence towards similar ESG KPIs, which will facilitate the work of GPs and their reporting, as well as the work of LPs.

Q How can LPs such as EBRD help GPs move the needle on gender diversity and DE&I more broadly?

Promoting equality of opportunity is one of EBRD's three cross-cutting strategic themes. Last year, we launched our second strategy for the promotion of gender equality, which outlines how we plan to scale up our activities in this area, including setting targets for embedding gender equality components in our operations. We have also made a deliberate commitment and succeeded in increasing the representation of women in senior management positions at EBRD.

Diversity is an issue in private equity, and perhaps even more so in some of the markets where EBRD operates. We believe it is important to ask the right questions about diversity during due diligence and to ensure that GPs are thinking about their own DE&I goals.

LPs and GPs need to have conversations about representation regularly. GPs should review their recruitment and HR policies to ensure they are not discriminatory, and engage with industry associations to promote PE as a

“We believe it is important to ask the right questions about diversity during due diligence”

potential career path, both to women and other underrepresented groups.

Meanwhile, some charitable organisations are doing an incredible job of encouraging more women to enter the industry. One such charity is GAIN – Girls Are Investors – which was set up by professional women to improve diversity in asset management by building a talent pipeline of entry-level female candidates. Level 20, founded by successful professional women, has also done a lot to put this topic at the forefront of discussions in private equity, and it has established a chapter in Poland, one of our countries of operation.

Of course, PE also has an important role to play in promoting DE&I best practice in portfolio companies. The research is clear at this point that diverse teams produce better outcomes. As with sustainability matters, this is simply an opportunity for value creation.

At EBRD, we see a role in not only promoting DE&I with GPs, but also helping to provide tools and expertise. There are more resources emerging that can help GPs and LPs think about these issues. For example, ILPA has launched a Diversity, Equity and Inclusion Roadmap, which is a great resource for practitioners.

Q You were formerly a member of the board of ILPA and chair of Invest Europe; what do you see as the role of these associations in advancing the PE ecosystem?

I have been a member of the board of

Invest Europe since 2015, and I've just stepped off the role of chair, which I held between 2021 and 2022. I was a member of the board of ILPA from 2018, and have just rolled off. It has been a privilege to form part of the governance of both associations.

During my tenure as chair of Invest Europe, I particularly emphasised the strength of the industry as a whole, with both LPs and GPs speaking in one voice. I also stressed how private equity contributes to making the case for Europe, and the importance of keeping all the pieces of the European puzzle, including the UK, CEE and Baltics, as one area where business and commerce can support peace and stability.

Private equity and venture capital are powerful catalysts for transforming businesses and contributing to economic growth and social development. For example, Invest Europe's *Private Equity at Work* report demonstrates that investment fuels job creation – year in, year out. It also illustrates how PE and VC helped European companies overcome the effects of covid-19 by adding 2 percent more jobs in 2020, in a year when the overall European workforce contracted by 1.6 percent.

At EBRD, we find that our Invest Europe and ILPA memberships are highly complementary. Both associations contribute their own specific strengths to our landscape, including organising top-notch content-driven events and training opportunities, with ILPA focused on LP education. They also both excel in their advocacy work, with Invest Europe focusing entirely on Europe. I have encouraged both associations to work more closely together, in the interest of the industry and their significant common and overlapping membership.

EBRD is also a member of the Global Private Capital Association, formerly EMPEA, and I chair its CEE/Turkey Council. It is a fantastic forum to exchange views on our markets among practitioners that operate in the region. ■