Responsible investing as credit discipline

Boris Harmsen and Niamh Whooley from Pemberton Asset Management explain how responsible investing shapes credit risk assessment, deal selection and engagement, while creating new investment opportunities. ‘Responsible investing isn’t a bolt-on, it’s part of how we look at credit.’

By *our editorial team*

How do ESG and responsible investing considerations influence the origination and underwriting of new investment opportunities?

Boris Harmsen: ‘For us, responsible investing is part of how we protect capital. We lend to private European mid-market companies, so our first job is understanding what could impair a borrower’s cash flows and ability to service debt. Governance failings, environmental exposure, an inability to keep skilled people: any of these can end in litigation, lost customers or a liquidity squeeze. They are credit questions, not side issues.

On governance, we don’t compromise. Wherever we see real shortcomings, we walk away. We favour sponsor-backed opportunities, as private equity ownership often brings formal governance and equity support aligned with lenders’ interests.

We run a negative screen for sectors and activities where regulatory, legal or reputational risks are too high. Beyond that, sustainability factors don’t drive our decisions alone. But ignoring them leaves the risk-return picture incomplete. Take a European environmental services business we recently financed: we flagged a scarcity of technical staff as a material risk to its growth and cash generation, but took comfort from the sponsor prioritising a senior HR hire and retention in its 100-day plan. Legal review confirmed that it held every environmental permit, with no past breaches.

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Our responsible investing team joins the weekly pipeline reviews I lead, so these questions come early. Every investment further undergoes a controversy screen through a specialist provider, and anything sensitive goes to our Responsible Investing Advisory Council. Where it works for both sides, we also use ESG-linked margin ratchets: a borrower hits a pre-agreed sustainability target and earns a pricing discount.’

Can you share a concrete example where sustainability considerations materially changed the structure, pricing or outcome of a transaction?

Harmsen: ‘This is a competitive market, so it might change the outcome rather than the price. Structure tends to be driven by the size of lending rather than sustainability. We recently declined an attractive healthcare business on governance risk: founder-led, with a fragmented shareholder base and local ownership rules that would have capped any single investor’s influence. The protections we needed would have required a bespoke structure, with no certainty of success.

Our approach to climate risk aligns with our credit discipline. We favour engagement over blanket exclusion, helping borrowers cut emissions. But steering clear of the highest-carbon sectors, most exposed to tightening regulation and energy-price volatility also fits our risk appetite. We prefer non-cyclical assets with predictable cash flows and are wary of heavy fixed assets and capital expenditure that can squeeze debt service in a downturn. On that basis, we passed on several energy-intensive opportunities this year.

The ESG-linked margin ratchet’s pricing incentive is modest, but uptake is strong, particularly among PE sponsors

‘As the sole or lead lender, we’re close enough to give a company the investor’s view on what matters.’

committed to sustainability. What we value most is the early visibility into a company’s sustainability strategy that setting targets gives us.’

How do you balance commercial opportunities with responsible investing objectives when evaluating transactions?

Harmsen: ‘We don’t see it as a trade-off. Responsible investing isn’t a bolt-on, it’s part of how we look at credit. The team is naturally focused on deploying capital, so when something’s genuinely sensitive or a judgement call, it goes to our Responsible Investing Advisory Council, which lifts the decision above the immediate investment team. The Council includes our CEO and Head of Responsible Investing, Niamh Whooley and other senior business heads, and makes sure we get it right for our investors and the firm.’

Niamh Whooley: ‘In practice, it rarely gets that far. My team sits within Origination, so we’re involved from the outset, and teams consult us on anything that gives them pause. That said, I don’t always have the answer. Some grey areas sit outside our negative screen but still warrant further guidance and review. The concern can be reputational, where an activity is legal and compliant but still draws public scrutiny, or practical, like screening secondaries in our NAV financing strategy where the collateral includes thousands of underlying assets. Reputational lines also shift over time, so I value being able to escalate to the Council.’

Which sustainability themes are currently creating the most attractive investment opportunities?

Whooley: ‘Some of this year’s structural shifts overlap with responsible investing. As credit investors, our focus is primarily on downside risk. Geopolitical fragmentation has intensified scrutiny of supply chains, including human rights and environmental exposures. In response we brought our investment teams and portfolio companies together for a workshop on responsible sourcing, led by an external expert.

Artificial intelligence is reshaping how we operate, too. We use it to improve business operations, and in underwriting to support better-informed credit decisions. Amid the uncertainty around AI and software revenue models, our direct lending portfolio has only around 1% software exposure[1]. We stay alert to the disruption AI could pose to borrowers and have run a workshop for them on how people and AI work well together to lift productivity.

Sustainability tailwinds such as evolving policy and shifting consumer behaviour matter too. As European private credit has matured, so has the scope to be deliberate about where capital flows, and investor interest in impact strategies is strong. Our private credit impact framework spans climate, access to healthcare, biodiversity and sustainable food systems.’

Which sustainability metrics do you consider most decision-useful when assessing investments?

Harmsen: ‘For me, weak governance and business conduct controls are red flags. We focus on management track record as stewards of the business, board oversight, risk management and standards of conduct.’

Whooley: ‘It depends on the sector. What’s material shifts from one to the next. A Dutch consumer goods company recently asked how to improve its score on our ESG rating. It imports heavily from China, so we agreed supply chain was the priority. Interestingly, it falls outside the EU’s supply chain directive, the CSDDD, yet its retail clients increasingly demand oversight. The commercial pressure is arriving ahead of the regulation. That’s where we can add value: as the sole or lead lender, we’re close enough to give a company the investor’s view on what matters.’ ■

1 Pemberton Capital Advisors LLP internal data, as of 5 February 2026.



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SUMMARY

ESG should be treated as credit analysis, not as a side issue: governance, conduct and workforce risks can impair cash flows.

Sensitive deals are to be escalated to the Responsible Investing Advisory Council.

Sustainability can change the outcome (walking away), not the price.

ESG-linked margin ratchets reward borrowers hitting sustainability targets.

Key themes are supply-chain scrutiny, AI disruption and impact strategies.

Materiality is sector-specific.

PHOTOS: ARCHIVE PEMBERTON ASSET MANAGEMENT