Expanding ESG transparency in private markets

Pensions Age speaks to Sustainalytics ESG research analyst, Melissa Bird, about why extending ESG frameworks into private markets matters more as investor allocations continue to increase. Following Morningstar Sustainalytics' assessment of ESG-related controversy risk across the Morningstar PitchBook Unicorn 30 Index, Bird explains how greater transparency may help investors anticipate risks and prepare for upcoming IPOs

As asset owners increase allocations to private markets ahead of several high-profile IPOs, how can greater transparency around ESG and controversy risk help investors evaluate these companies before they go public?

Historically, private markets have been something of a black box for investors, so having structured controversy and governance data can help close that information gap. Many private companies are likely IPO candidates and potential future index constituents, so understanding these risks before they enter public markets can help investors identify emerging issues early, rather than reacting after they become more visible, supporting pre-IPO risk monitoring, valuation assessment, and portfolio construction.

What additional insights will the recent expansion of controversies research into the Morningstar PitchBook Unicorn 30 Index bring to investors?

Controversy analysis can highlight operational, reputational, and governance risks that may not be as obvious in traditional financial reporting before they become financially material. Extending this analysis to private markets helps investors identify these risks earlier and compare public and private companies with similar business models. This forward-looking perspective complements financial metrics and provides additional decision-useful context for investors.

Despite exposure to several ESG-related risks, the companies included in the Unicorn 30 Index had relatively low controversy severity (1 or 2 out of a 5 rating). What explains this?

Our analysis suggests that limited disclosures by private companies are driving lower severity scores, not the absence of risk, as illustrated by OpenAI's intellectual property disputes and Discord's quality and safety-related litigation. Instead, lower controversy severity may reflect the reality that there is a limited view into these businesses, and greater transparency can help identify how significant those risks ultimately are.

As regulation evolves around AI and responsible technology, which ESG and controversy-related issues do you expect to become more material for late-stage private technology companies over the next three to five years?

One area that may become increasingly important is the intersection between quality, safety, and the social impact of technology products. Discord, for example, is facing multiple lawsuits alleging its failure to protect children on the platform. As regulators, users, and policymakers pay closer attention to how these technologies affect consumers and society, particularly children and other vulnerable populations, companies may face greater scrutiny and accountability for product-related harms. I think this, in addition to intellectual property and data privacy and security, will be emerging issues for investors and could become substantially more material as AI adoption accelerates, and public expectations evolve.

Were there any findings in this research that surprised you? What should investors take away from those results?

Two findings stood out. First, the volume and frequency of incidents involving some high-profile private companies was notable. Companies such as OpenAI and SpaceX (before it went public) attracted significant media attention, litigation, and scrutiny, which suggests they are beginning to face challenges often associated with larger public companies.

Second, there are striking similarities between public and private companies. Quality and safety, data privacy and security, and other core ESG issues appeared prominently across both groups. For investors, the takeaway is that private companies are not insulated from these risks. Many of the same themes affecting public companies are already emerging in the late-stage private market.