

AETHER

TAILORED FINANCIAL SERVICES

AETHER ESG LBO INDEX  
A NEW BENCHMARK IN  
PRIVATE DEBT

H1 2026 Edition

# FOREWORD

For several years now, ESG has become a mandatory component of financing documentation. The principle behind this approach is undeniable. Who could seriously dispute the idea that debt, like equity, should contribute to guiding companies towards more responsible trajectories? Yet, as ESG clauses have proliferated, a subtle but persistent unease has arisen: the time, energy, and resources devoted to these mechanisms sometimes seem disproportionate to their actual impact.

Teams are working diligently to define indicators, negotiate amendments, and organize increasingly sophisticated reporting, ultimately resulting in margin adjustments of just a few basis points. The intention is laudable. But the return — in the non-financial sense of the term — raises questions. While the ambition is truly to transform behaviors and contribute to the environmental and social transition, it must be acknowledged that the leverage employed remains modest, almost symbolic.

Our planet undoubtedly deserves more than a mechanism that, in its current form, sometimes borders on a mere exercise in style, or even greenwashing. Can we reasonably believe that a few basis points gained or lost are enough to shift economic models, rethink value chains, or fundamentally change industrial practices? The question deserves to be asked with clarity, especially in the world of leveraged buyouts (LBOs), where decisions are swift, rational, and driven by value creation.

The paradox is now well-established. When an LBO company achieves its ESG objectives, it benefits from a slight reduction in its financing costs. When it fails, the financial

penalty is applied: the debt becomes more expensive. But in this second case, who actually benefits from the penalty? Certainly not the planet. The additional cost is absorbed by the lender, without any link being established with concrete action in favor of the environment or social progress. ESG then becomes an additional revenue stream, rather than a genuine instrument of transformation.

Therefore, a question arises, simple in its formulation, demanding in its implications: isn't it time to go further? Wouldn't it be consistent for lenders to commit to allocating all or part of their ESG penalties to organizations working concretely for climate, biodiversity, or social inclusion? Such an approach would restore the system to its primary purpose: to transform ESG failure from a mere financial penalty into a transfer of value to those taking action.

By quantifying the real impact of bonus and penalty mechanisms, the Aether ESG index makes a crucial contribution to this debate. It puts numbers to what has previously been based on intuition. But above all, it paves the way for a more ambitious approach: that of an ESG that is not simply measured, but that rediscovers its primary purpose—to be useful. Useful for companies, useful for investors, and, beyond that, useful for the world in which we operate. Useful for companies, useful for investors, and, ultimately, useful for the world in which we operate.



**Annick Bitoun**  
Partner Debt Capital  
Markets  
SEVEN 2



## EDITORIAL

**Edouard Narboux**  
Co-founder & CEO  
Aether

Aether is a leading observer of the private debt market in France.

As the independent agency leader in this segment, we benefit from a privileged position that allows us to analyze a significant volume of transactions and capture market dynamics in real time.

It is in this context that, over five years ago, we launched what has gradually become the benchmark index for LBO private debt in France.

In line with this approach of market analysis and transparency, we have decided to enhance our framework by now publishing, twice a year, a new index specifically dedicated to ESG issues.

This initiative stems from a clear observation: ESG has become unavoidable in Unitranche financing.

ESG clauses are proliferating, but they remain recent, heterogeneous, and difficult to translate into operational costs. KPIs vary, reporting schedules are inconsistent, and visibility on the real impact of these commitments on pricing is limited. In practice, sponsors and lenders integrate these commitments without clear benchmarks, due to the lack of historical data.

Among the terms expected to evolve over time, the impact on financing costs, depending on whether ESG criteria are met, has emerged to us as the key metric to monitor. Indeed, its variation and materiality are strong indicators of ESG's role as a structural component of financing.

This gives us the opportunity to launch our ESG Index, completely dedicated in measuring the ESG impact on financing costs. Our ambition is clear: to provide a financial benchmark that objectifies what remains subjective today.

With this tool, we aim to help lenders align their ESG intent with financial impact and help sponsors anticipate the economic cost of ESG commitments.

By making ESG measurable in the Unitranche segment, we seek to contribute to greater transparency and more balanced negotiations — a necessary condition for sustainable integration of these criteria into corporate financing.

# INTRODUCTION

Over the past decade, ESG requirements in financing — particularly in Unitranche — have significantly increased. This trend has been driven by public authorities, supported by the emergence of dedicated labels, and further reinforced by asset managers themselves. These firms have progressively structured specialized ESG teams: today, 83% of France Invest members report having a formalized ESG policy.

In this context, the integration of ESG criteria has become a key factor in raising new funds. By way of illustration, nearly 40% of new European Private Equity funds are now classified as Article 8. Institutional investors (LPs), who are themselves equipped with increasingly structured ESG teams, are also contributing to this evolution. As a result, ESG-related indicators and commitments have gradually been incorporated into financing agreements, to the point of becoming almost systematic.

According to our study published in November 2025 in the “White Paper *L’Anatomie d’un Financement Unitranche*” — based on an analysis of transactions executed in France in 2023 and 2024 — several key trends are emerging:

- 52% of transactions completed in 2023 and 80% of those finalized in 2024 include an ESG mechanism, either at closing or through a subsequent amendment.
- Among these transactions, nearly half of the agreements define ESG mechanisms at closing, including Key Performance Indicators (KPIs) and the associated margin adjustments.
- Out of the remaining 50%, 80% provide for the execution of an ESG amendment within a period ranging from 6 to 36 months after closing.

On the first point, the significant increase of 54% reflects the growing focus of investors on ESG criteria and their willingness to build shared ESG roadmaps with borrowers. However, the study also highlights that only 52% of the planned ESG amendments were actually finalized, out of which just 28% were completed within the contractually agreed timeframe.

In an increasingly mature market — where ESG policies are now widely adopted across stakeholders — the effective implementation of these commitments therefore remains an operational challenge requiring close and rigorous monitoring.

# PRINCIPLE OF THE ESG INDEX

The ESG Index developed by Aether goes beyond a simple trend curve. It is structured as a collar, enabling the analysis of the potential financial impact borne by companies within Aether's monitored portfolio depending on whether ESG criteria are met.

Where ESG targets are achieved, the impact is positive for the borrower, who benefits from a reduction in the coupon. Conversely, where targets are not met, a penalty applies in the form of an increase in the coupon. The index therefore makes it possible to track, over time, the evolution of these two opposing trajectories.

By the end of December 2025, the published index highlights the average amount — expressed in thousands of euros — of the bonus or penalty contractually agreed for a standardized €100 million financing.

# METHODOLOGY

This first publication is based on data collected during the 2024 and 2025 financial years. The index will be updated and published on a semi-annual basis.

The analysis covers all new transactions incorporating ESG margin adjustment mechanisms at closing, including cases where KPIs have not yet been formally defined. To provide context, a sample of 79 transactions was analyzed. These transactions relate exclusively to LBO financings, including refinancings, and are primarily concentrated in France.

In terms of sector distribution, the most prominent industries are IT services (27%), financial services (18%), and healthcare (14%). Conversely, the energy and construction sectors are less represented in the sample.

To ensure data consistency and avoid double counting, transactions subject to an ESG amendment are now mapped to the quarter corresponding to the effective date of the amendment, rather than the initial closing date. This methodology provides a more accurate representation of market evolution over time.

## BONUS/MALUS MECHANISM

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The ESG mechanisms observed generally rely on a combined bonus and malus system.

A malus applies when contractually defined ESG indicators are not met. This results in a margin increase, leading to higher interest income for lenders and a higher financial cost for the borrower.

Conversely, a bonus rewards the achievement of ESG objectives. In this case, the margin is reduced, which decreases lenders' interest income while generating financial cost saving for the borrower.

## CALCULATION APPROACH

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The financial impact is based on the total amount of each financing, taking into account all facilities where adjustment conditions differ, and covering all types of interest (cash or PIK). The average commitment per transaction is €111 million, with a median of €70 million. Commitments denominated in other currencies have been converted into euros.

To neutralize the effect of transaction size and ensure comparability of results, the financial impact is standardized based on a theoretical commitment of €100 million:

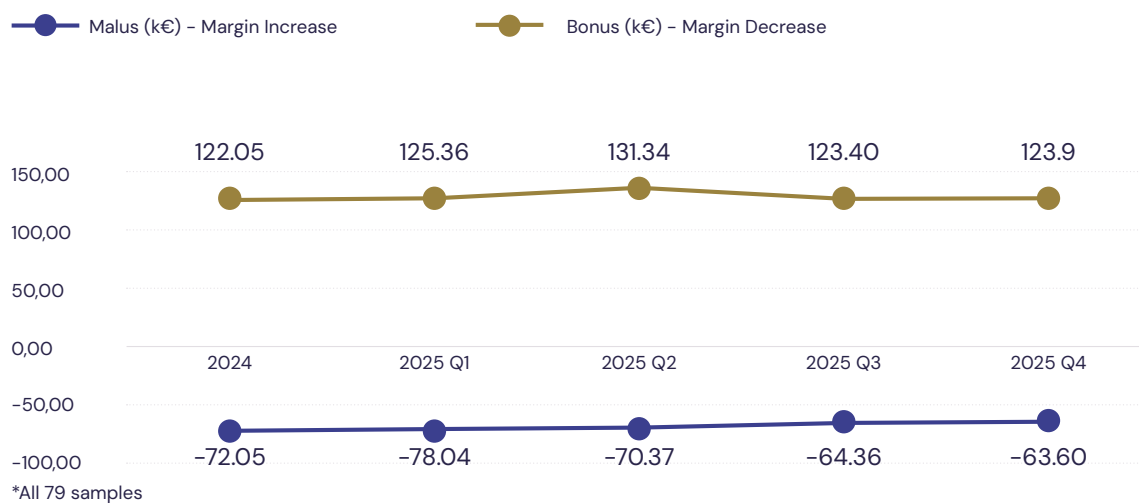
- The malus corresponds to the adjustment applied in the scenario where no KPIs are achieved (maximum margin increase);
- The bonus reflects the maximum reduction obtained if ESG objectives are fully met;
- The overall economic effect is expressed in thousands of euros (k€).

# AETHER ESG INDEX

## 1. Analysis of the ESG Index

The analysis of this sample of 79 financings highlights a clear distinction between positive incentives (bonus) and penalties (malus) associated with borrowers meeting ESG criteria, based on a standardized amount of €100 million per transaction.

### Annual ESG Impact on Interest Expense - Per 100M (k€/an)



### TREND

- **Bonus Index:** As of Q4 2025, the bonus index stands at €123.86k, down 5.7% from its peak in Q2 2025.
- **Malus Index:** Since its lowest level of €78k in Q1 2025, the malus index has also decreased, reaching €63.6k, a decline of approximately 18.5%, reflecting a negotiating leverage generally favorable to borrowers.
- **Collar gap:** The difference between bonus and malus reaches €187.5k in Q4 2025, down around 8% from its maximum of €203k in Q1 2025.

## OBSERVATION

The collar analysis highlights that the positive incentive (bonus) remains significantly higher than the penalty (malus). Across the entire sample space, the ratio of bonus to malus is approximately 1 to 2 (1.8x, to be precise).

This asymmetry illustrates the approach favored by investors, which is more focused on encouraging ESG performance than on strictly punitive measures. It is also explained by the fact that about 40% of the transactions analyzed has a relatively stable proportion over time and do not include a malus mechanism.

To better understand the dynamics of margin adjustment mechanisms, the sample was reprocessed to exclude transactions without a malus.

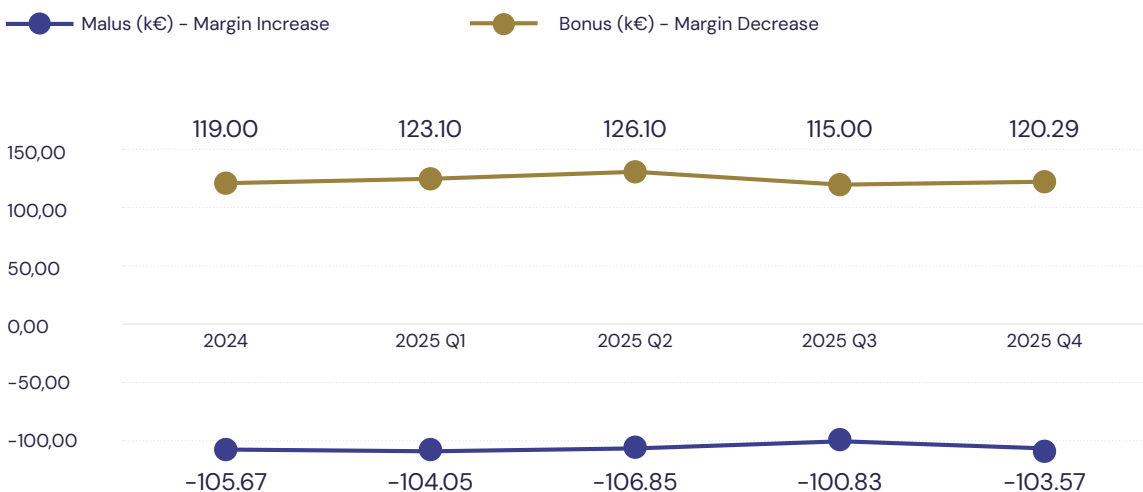
In this configuration:

- The sample is reduced to 50 transactions out of the original 79. This adjustment results in a significant increase in the average level of malus, along with a slight decrease in average bonuses.

As shown in the corresponding charts, the malus amount in Q4 2025 then reaches €103k, representing a 63% increase compared to the level observed in the initial sample (€63.6k). This is the largest growth observed over the studied period.

In this adjusted context, the collar shows a near-symmetrical level between bonus and malus, with a ratio close to 1 to 1 (1.2x precisely). This suggests that when penalty mechanisms are contractually defined, positive and negative incentives tend to be broadly balanced.

### Annual ESG Impact on Interest Expense - Per 100M (k€/an)



\*Exclusion of deals without Malus

These results highlight two distinct approaches adopted by investors in structuring ESG mechanisms:

- A first approach favoring incentives alone, without any penalty mechanism;
- A second approach based on a symmetrical system combining bonus and malus.

#### **Economic Impact of bonus and malus**

- **Over the entire studied period, the average bonus reached €125.2k for a standardized €100 million debt transaction, compared to an annual coupon of approximately €6,300k** (margin rate based on €100 million of debt per deal). The positive incentive thus represents around 2% of the interest paid over the period when all ESG objectives are met.
- **Conversely, the average malus amounts to €69.68k in the scenario where no ESG objectives are met, for a financing generating €6,300k in annual margin** (margin rate without the base rate). This represents approximately 1% of interest.

Thus, the overall financial impact of ESG mechanisms — whether positive or negative — remains relatively limited, as it does not exceed 2% of the financial cost associated with the applicable margin, relative to the total cost of debt servicing.

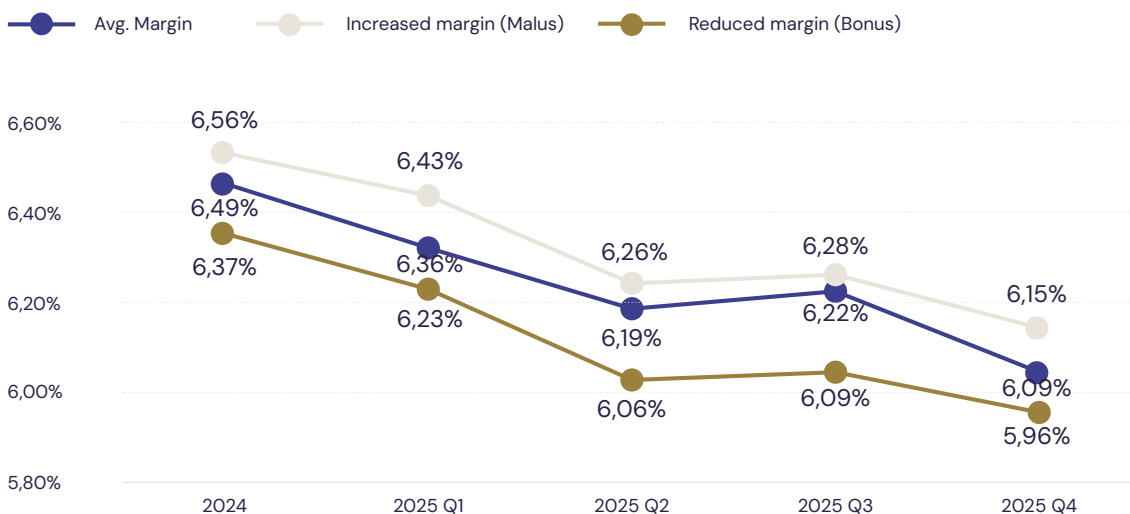
## 2. Additional analysis: spreads

An additional analysis was conducted based on the evolution of spreads, i.e., the margin added to the reference rate – typically Euribor – in order to determine the effective interest rate paid by the borrower.

Three curves are used to illustrate this impact:

- The curve corresponding to the average margins observed at closing.
- The curve reflecting the effect of the ESG bonus, which results in a reduction of the spread.
- The curve reflecting the application of the ESG malus, which operates symmetrically to the bonus.

### Closing Margin movement



Based on an average opening margin of 6.20% observed over the 2024–2025 period:

- If all ESG objectives are met, the spread is reduced to 6.07%, representing a decrease of approximately 2% relative to the initial margin;
- If ESG objectives are not met, the application of the malus increases the average spread to 6.26%, representing an increase of approximately 1% relative to the initial spread;

In absolute terms, the impact on the margin remains relatively limited, with the variation staying below 15 basis points.

## CONCLUSION

With 40% of financings in the sample lacking any financial penalty mechanism, the observed ESG frameworks clearly prioritize performance incentives over punishment for underperformance.

Furthermore, the financial impact of these mechanisms remains relatively limited, both in absolute terms and relative to the coupon amount. This situation on one hand could lead some borrowers to weigh the implementation of internal resources dedicated to ESG matters – often costly and time-consuming, on the other hand, the potential bonus level, which remains modest compared to the annual interest paid.

In addition, the gradual narrowing of the gap between bonus and malus suggests that the market is still in an adjustment phase, particularly regarding the structuring of malus mechanisms. This dynamic is partly explained by the fact that many borrowers still have limited internal resources or expertise to effectively manage these highly demanding issues in terms of monitoring and reporting. On the lenders' side, the approach can also vary significantly, with some institutions adopting highly structured policies for setting and applying ESG targets, while others remain more cautious.

In this context, the launch of the Aether ESG Index aims to provide a benchmark tool that allows market participants to track, over time, the evolution of bonus and malus mechanisms linked to ESG criteria, in a market segment whose structuring and development are still ongoing.

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36 rue de Monceau, 75008 Paris, France  
28 Queen Street, London EC4R 1BB, UK  
Via Conservatorio, 22, 20122 Milano, Italy  
Calle José Ortega y Gasset 22-24, 28006 Madrid, Spain

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[www.aetherfs.com](http://www.aetherfs.com)