PitchBook

2022

Sustainable Investment Survey

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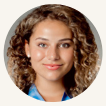

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2022 survey by the numbers

$2,760
Donated to World Central Kitchen

1,164
Began the survey

552
Completed the survey

33
Days the survey was open

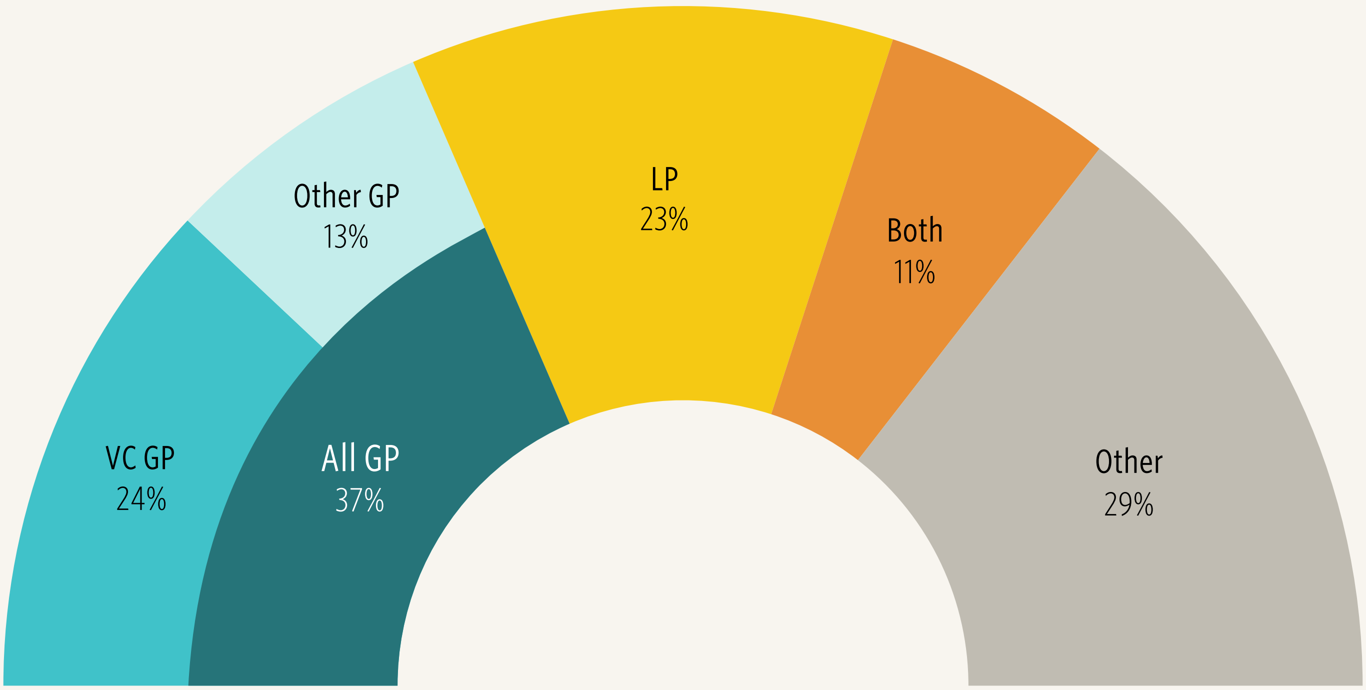
5/5
Ratio of geographic regions represented to geographic regions provided

656/394[1]
Ratio of respondents with an implemented sustainable investment program to those with none

1: In this report, we will include any responses collected, whether the respondent completed the survey or not. Thus, some numbers will exceed 552, the number of completed surveys.

About the survey

2022 completed surveys by participant type



Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 2.5

Since the release of our last Sustainable Investment Survey report in September 2021, we have been busy with our sustainable investment research efforts. Using the Global Impact Investing Network's (GIIN) IRIS+ taxonomy, we launched on our platform an entirely new Impact fund dataset that allows us and our clients to parse funds based on specific categories of Impact. We also launched Sustainalytics[2] environmental, social, and governance (ESG) public company risk ratings onto the PitchBook platform in Q1 2022. In addition, we published two papers earlier in 2022—ESG and Impact Investing in Private Market Real Estate and ESG, Impact, and Greenwashing in PE and VC. The latter piece provides a framework to help make sense of the various legitimate ideas around what constitutes sustainable investing. Greenwashing accusations are frequently the result of differences in philosophy rather than intent to mislead. Understanding these differences allows investors to recognize that not every implementation is for everyone and focus on finding partners that align with their organizational or personal philosophy.

This year's roughly 30-question survey asked global investors and their advisers to react to various topics related to sustainable investing, ESG risk factors, and Impact investing. 552 individuals completed the survey, although we recorded at least one answer from 1,164 individuals, providing us even more data on a partial basis.[3]

2: Sustainalytics and PitchBook are both wholly owned subsidiaries of Morningstar, Inc. (NASDAQ: MORN).
3: To compare, our 2020 survey received 368 completed responses and our 2021 survey garnered 457.

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This group of respondents represents the most balanced profile to date.

This group of respondents represents the most balanced profile to date. We recorded responses from every global region and had increased numbers from each respondent type: LPs, GPs, Both, and Other. This last category self-identified as coming from corporate VCs, education, consulting, M&A advisory, investment banks, public relations, hedge funds, and more not covered by the GP or LP umbrella. Those who answered "Both" were steered to that response if they were LPs and in turn had LPs, so they were largely funds of funds (FoF) in some form. Once again this year we asked GPs to identify whether they consider themselves to be venture capitalists (VCs), allowing us to delineate how VCs were thinking about sustainable investment topics. 255 of our GPs did identify as VCs, 134 of whom made it to the end of the survey, providing us a significant sample from which to report on VC thoughts and trends.

We realize the sustainable investment field is a confusing collection of terms understood in many ways. To level set for this survey, we provided the following as each respondent began: "We use sustainable investing as the umbrella overarching both Impact investment approaches and the incorporation of ESG (environmental, social & governance) risk factors into the investment process. We will ask about each aspect of sustainable investing in the survey, using each deliberately as defined here." This language specification allowed us to identify more nuanced thoughts and practices across the sustainable investment landscape.

In a further attempt to provide clarity, we have also provided a glossary in the back for definitions, acronyms, and abbreviations. In addition, we updated questions to better capture the current environment and zero in on where strong feelings lie. For example, rather than providing a long list of items and asking, "Is this not important to very important?" on a five-step scale, we asked respondents to rank the list. Finally, many questions left space for open-ended responses, some of which we have shared to provide further insights into sustainable investment feelings.

World Central Kitchen

We were thrilled with the high response rate to our survey—not only because it would bolster our analysis, but also because we committed to donating $5 for every completed survey to World Central Kitchen (WCK). This organization has done phenomenal work since its inception in 2010, providing meals to those affected by natural disasters and other emergencies throughout the world. In 2022 through August, WCK had served meals to flood victims in Kentucky, refugee families at the US-Mexico border, displaced families fleeing wildfires in Spain, and provided over 120 million meals across eight countries to those impacted by the Russian invasion of Ukraine.

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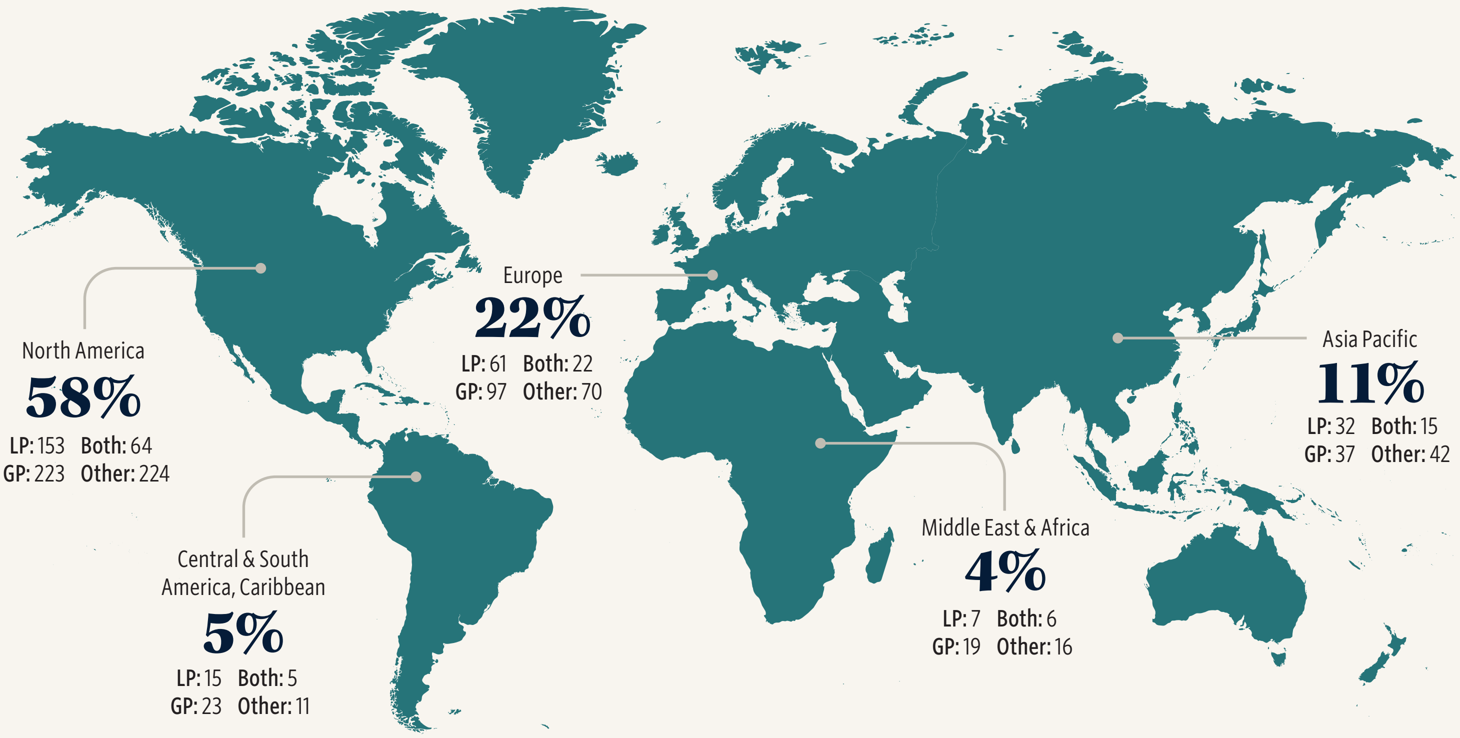
Geography

Where is your organization's primary base of operations?

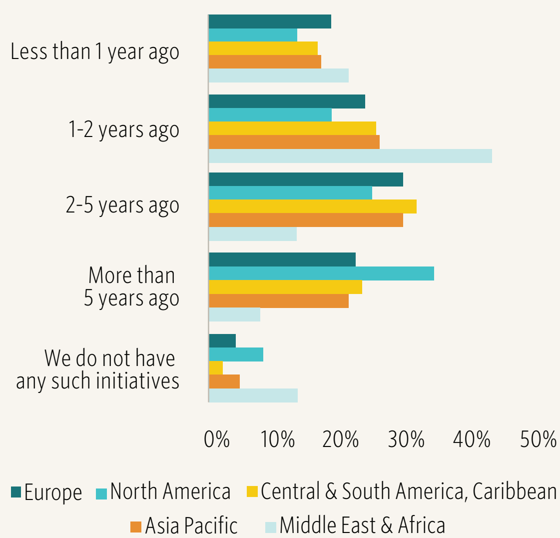


Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 3

Interestingly, our data this year showed that 35% of our North American respondents who have implemented sustainable investment principles began doing so more than five years ago, whereas the European figure was 23%.

The geographical mix of respondents this year was remarkably similar to last year's survey, although the number of responses scaled up across the board. There is a widely held belief in the space that Europe has led the sustainability charge, with most other regions trailing behind it in terms of adoption and sophistication of programs. Interestingly, our data this year showed that 35% of our North American respondents who have implemented sustainable investment principles began doing so more than five years ago, whereas the European figure was 23%. In contrast, a greater proportion of European respondents stated that they began such initiatives two to five years ago, at 30%, compared to North America's 25%. For Central & South America and the Caribbean (C&SAC) and Asia Pacific, the largest proportion of respondents said two to five years ago, and for the Middle East & Africa, it was one to two years ago.

When did your organization start actively implementing sustainable investing initiatives?

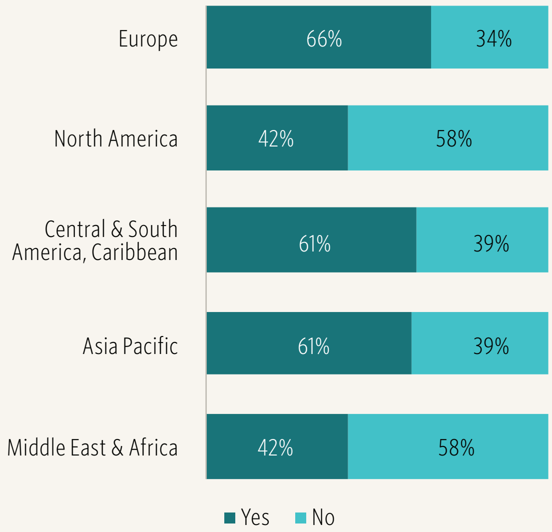


Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 4.75

While the numbers may be skewed by the overrepresentation of North America in the data, there is another possible explanation for this surprising result. With the Sustainable Finance Disclosure Regulation (SFDR) introduced in 2019 and taking effect in 2021, European entities have been facing a push to formalize and legitimize sustainable investing programs. Preparation for compliance with the regulation began when it was introduced, fitting into the two-to-five-year window, likely influencing when many European respondents would consider the inception of their formal programs.

Given that 73% of European asset managers stated that they use an ESG risk factor framework when making the decision to invest in a company, and 70% noted that they offer Impact investing strategies—figures that were 56% and 61%, respectively, for North Americans—there is some evidence that European firms do, in fact, have more mature sustainable investment programs. In the same vein, 66% of European respondents that stated they use an ESG risk factor framework also said they require portfolio companies to report on financially material ESG factors compared to 42% of those from North America. Considering 68% of European respondents and

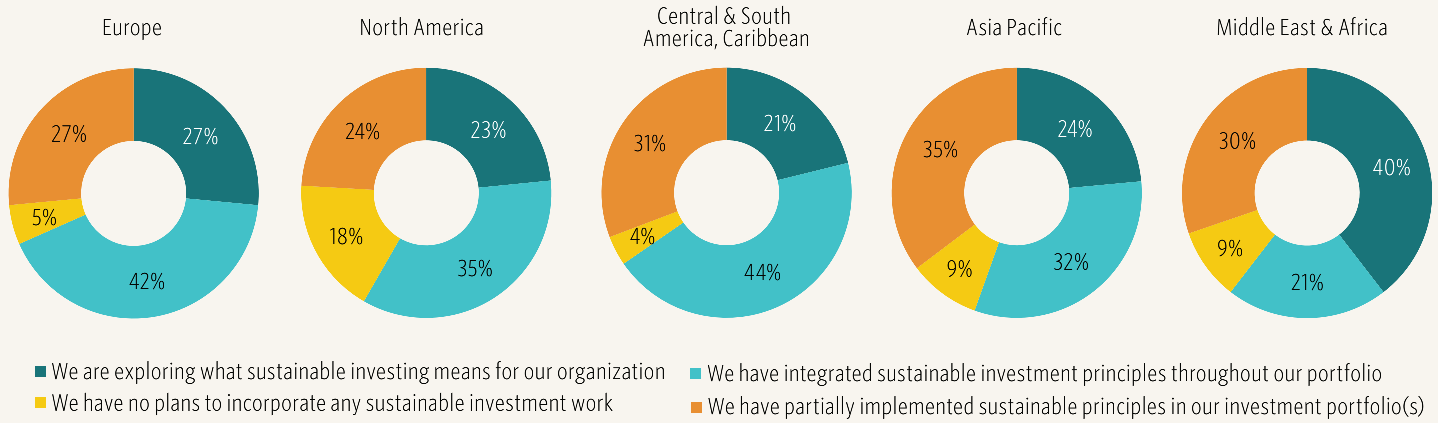
Do you require portfolio companies to measure and report on their financially material ESG factors?



Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 10.5

59% of North American respondents stated they have either partially or fully integrated sustainable investment principles throughout their portfolios, what this integration constitutes is not fully clear.

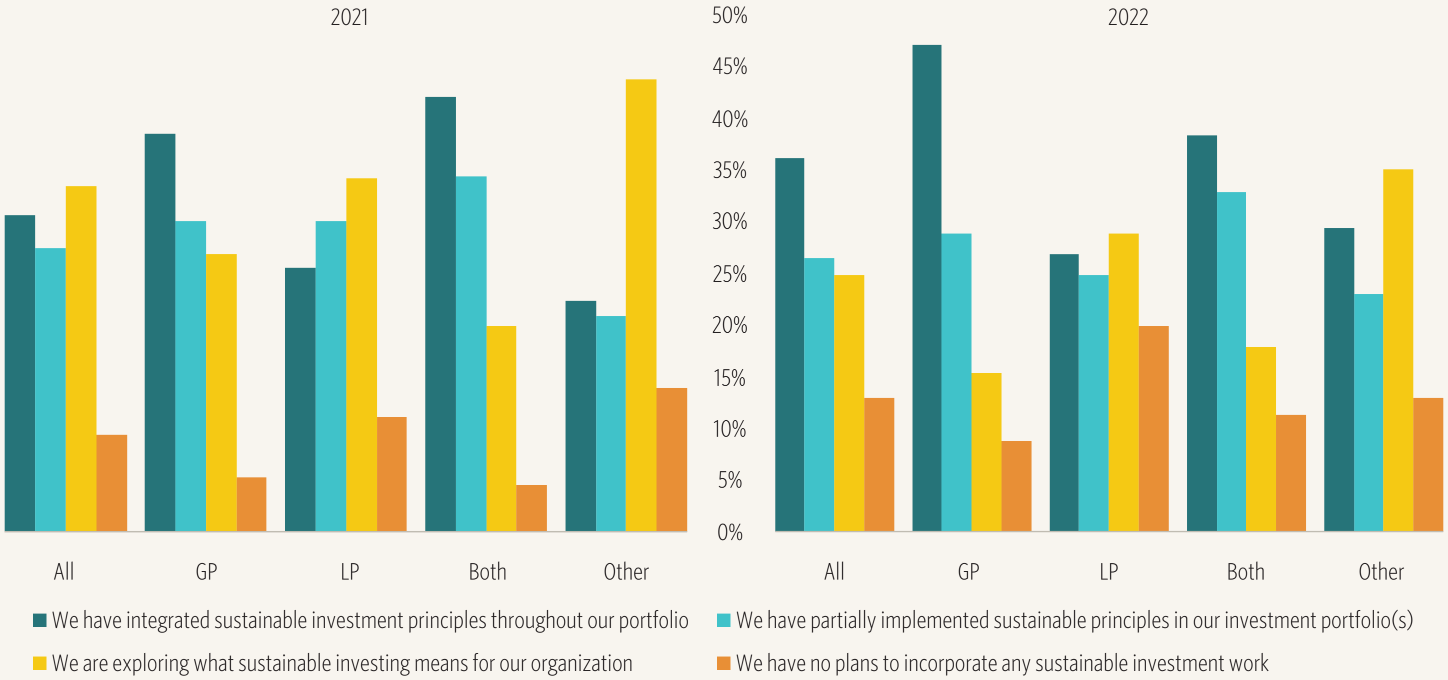
How would you characterize the stage of your sustainable investment implementation?



Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 4.5

Current sustainability programs

How would you characterize the stage of your sustainable investment implementation?



Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 4.5

This year, 62% had partially or fully implemented a sustainable investment program, up from last year's 58%.

Part of the benefit of serial surveys is to see how responses change over time. If our data is to be believed, the trends show a retreat in support for sustainable investment topics. While this may be the case, since we are not able to track individual respondents from year to year, we suspect what is really happening is that as our respondent numbers have increased and as the politicization of the topic has reached mainstream headlines, more people are taking the time to complete the survey to ensure that we register their displeasure with the topic. Two years ago, only one respondent was highly negative on sustainable investing in the open responses. Last year there were five such individuals who spoke up. This year there were around 50. So, while one conclusion would be that the industry is no longer as hot on ESG or Impact investing, it is more likely that the people taking the survey in prior years were almost exclusively positively interested in the topic.

This year we again asked our respondents how they would characterize the stage of their sustainable investment implementation. This year, 62% had partially or fully implemented a sustainable investment program, up from last year's 58%. But this year, too, we saw an increase in the number of respondents with no plans to incorporate any sustainable investment work, going from 9% last year to 13% this year. Drilling down some, 20% of LPs and 18% of North Americans had no sustainable investment plans, up from 11% and 13% last year. The responses to this question, rather than showing a decline in interest in the topic, seem more to be highlighting the fact that more North American LPs are interested enough in the topic to register their negative feelings, whereas last year they might have skipped the opportunity to fill out the survey.

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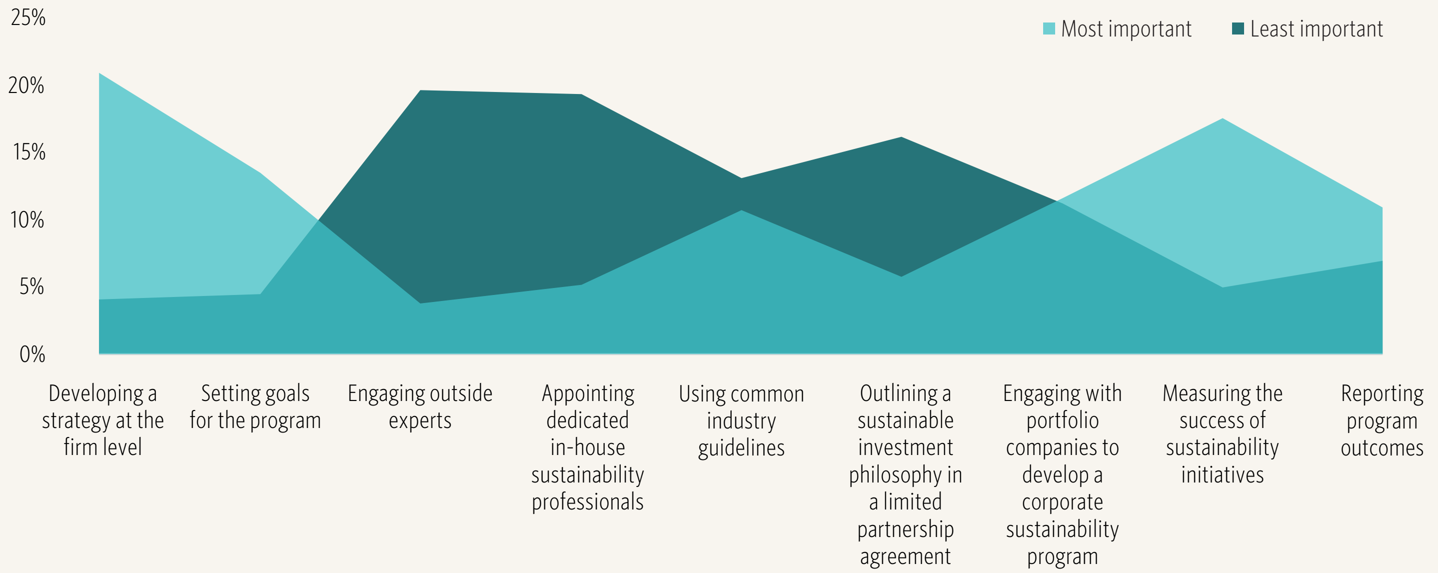
What are the most important practices when developing a sustainable investment program?

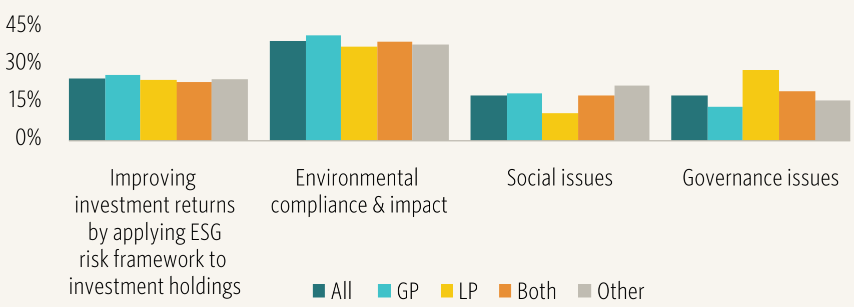


Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 21

Only 37% of LPs put the E as their top priority, but it was still the most-selected choice.

While Europe is perceived as being far ahead of the rest of the world when it comes to sustainable investing, our C&SAC respondents had the highest rate of individuals who felt their sustainable investment programs were fully integrated—at 44%. Europe was at 42%. North America, the biggest regional contingent, was at only 35%. On the flipside, only 5% of our European respondents had no plans to incorporate any sustainable investment work, compared to 18% of the North Americans. While we cannot split out Canada, Mexico, and the United States from the North American figures, our suspicion is that this is mainly driven from the US, particularly given the headlines in 2022.

On what areas are you most focused currently when it comes to sustainability in an investment context?



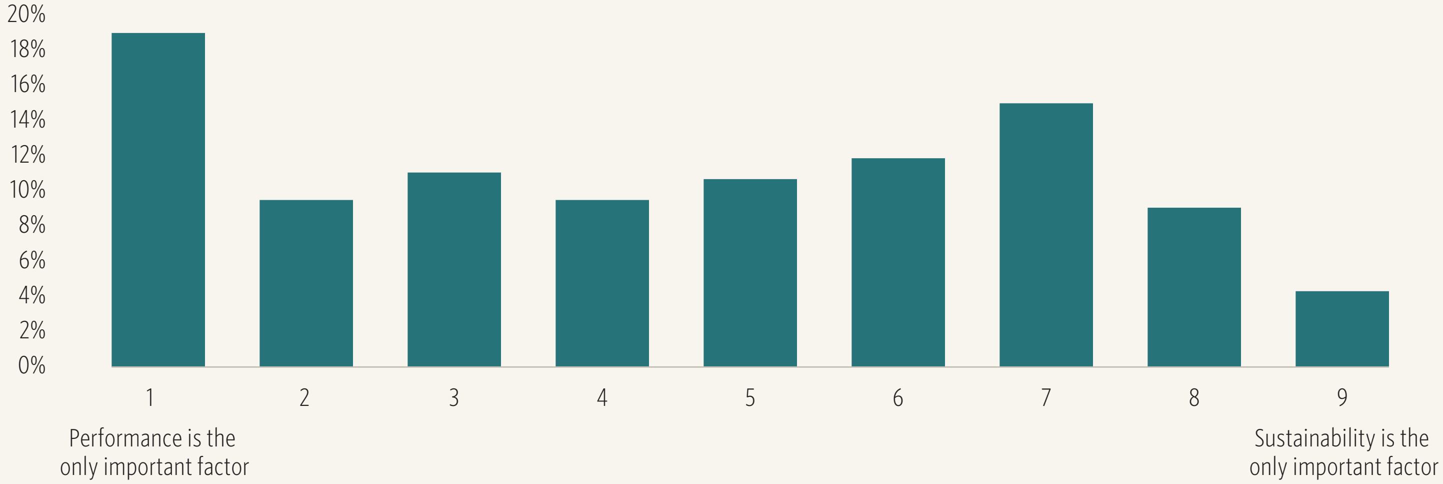
Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 20

When asked to rank the E, S, G, or improving investment returns with an ESG framework in terms of areas of focus, all types of respondents selected the E as their top priority. S and G were chosen as a first priority least often in roughly equal numbers, with improving investment returns the first choice for the second-highest number of respondents. There was some variation in priorities when sliced by respondent type, although not by large amounts. 42% of GPs ranked environmental compliance & Impact as their top choice while only 13% put governance first. Only 37% of LPs put the E as their top priority, but it was still the most-selected choice. LPs did put social issues as a top priority least often, with only 11% making that selection. That said, LPs put social issues in their #2 rank of the options most often.

Our respondents were asked to opine on what practices are most and least important when developing a sustainable investment program. Looking at all respondents, more people said developing a strategy at the firm level was of the highest importance versus any other option, with measuring the success of sustainability initiatives another highly valued option. Least important to more respondents was engaging outside experts and appointing dedicated in-house sustainability professionals.

The allocator perspective

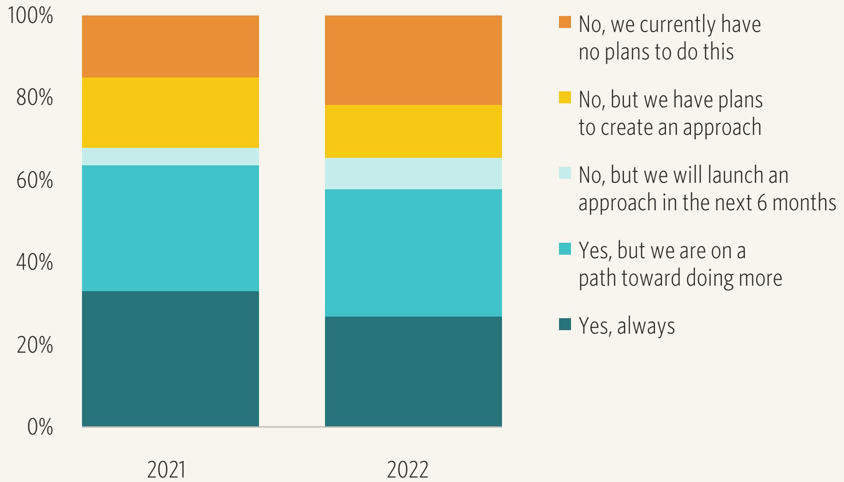
Please indicate how you prioritize sustainable investing vs top performance as you assess a potential investment opportunity.



Source: PitchBook | **Geography:** Global | **Respondents:** LPs and Both
Question 11

Our allocators this year identified as either traditional LPs or fit into our Both category where they made allocations to funds and also had clients to serve. For some of the questions, we also included the folks who serve LPs in our Other category—often LP consultants.

When you evaluate investment managers, do you evaluate the fund manager's implementation of an ESG risk factor framework as part of your due diligence process?

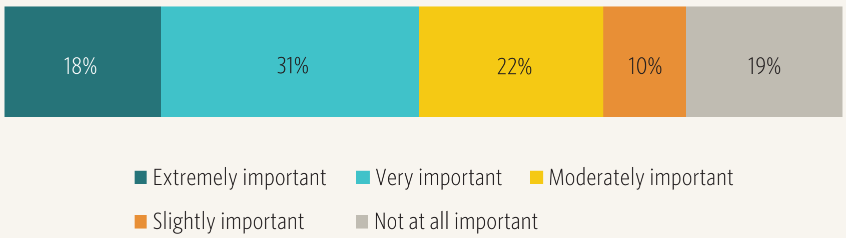


Source: PitchBook | **Geography:** Global | **Respondents:** LPs and Both
Question 5

As much as some LPs are agitating for GPs to develop sustainable investment plans, there is a solid cohort of LPs who believe that to properly perform their fiduciary duty, they must focus solely on investment returns. Among LP respondents, 23% said performance was the only factor, while for the other respondent types, it ranged from 11% to 15%. We have seen evidence of this attitude in the US this year as individual states pass laws prohibiting ESG strategies in a variety of ways.[4] Only one European LP said performance was the only important factor, 2.6% of that cohort, while 37 North American LPs, 37%, made this assertion. GPs have the unenviable task of ensuring they have a robust ESG approach for the majority of investors seeking such characteristics, but they must also avoid saying anything too strongly or publicly about their ESG practices to avoid being blacklisted by groups who have negatively politicized ESG.

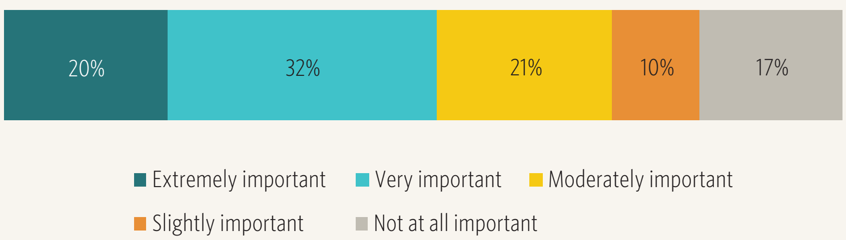
4: "State Anti-ESG Bills May Complicate Public Retirement Plan Investing," JDSUPRA, Morgan Lewis, August 18, 2022.

How important is it that an asset manager (GP) utilizes an ESG risk factor framework in their acquisition and management of portfolio companies when you are deciding to commit to or recommend a fund?



Source: PitchBook | **Geography:** Global | **Respondents:** LPs, Both & Other
Question 13

How important is it that an asset manager (GP) measures social and/or environmental impact in their management of portfolio companies when you are deciding to commit to or recommend a fund?

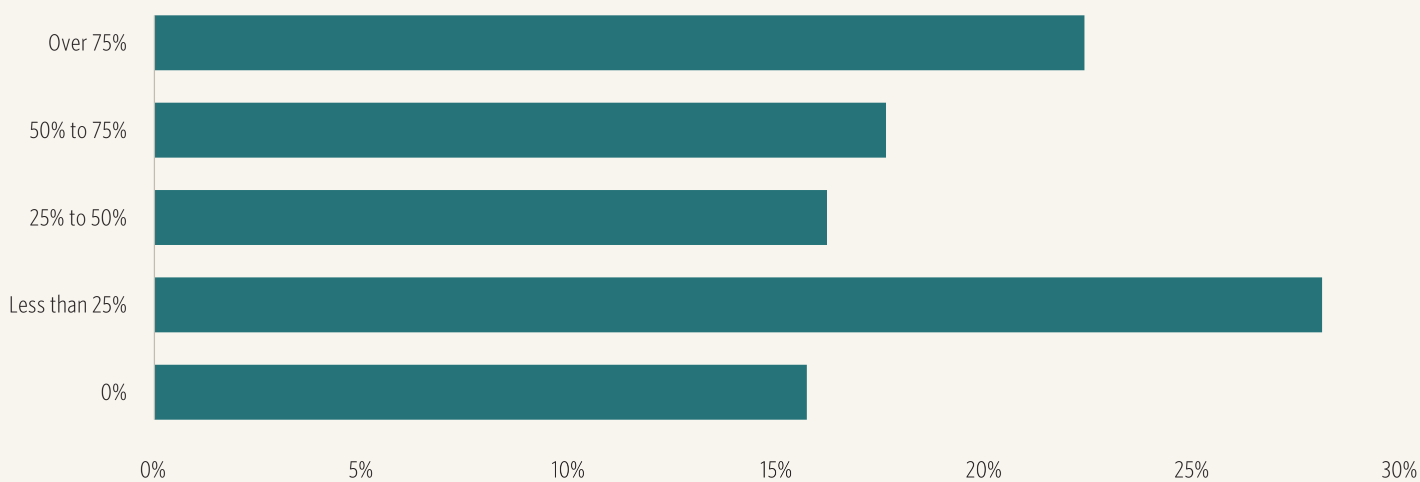


Source: PitchBook | **Geography:** Global | **Respondents:** LPs, Both, and Other
Question 14

Possibly due to the politicization of ESG and sustainable investing this year, quite a number of responses showed a retraction of support from this area by allocators versus 2021. More LPs said they had no exposure to sustainable investment products, more LPs said it is not at all important that GPs use an ESG risk factor framework, fewer LPs always evaluate a fund manager's implementation of an ESG risk factor framework when performing due diligence, and so on. Our hypothesis is that the prevalence of negative rhetoric has emboldened some to register their feelings more forcefully.

In our past two surveys, a small handful of responses showed strong views against the concept of ESG, but we jumped from five in 2021 to around 50 this year. The majority of these came from the LP respondents. Samples of the open-ended statements included: "We don't subscribe to this communist crap. Go woke go broke!" "ESG has led to the selection of Directors using ethnicity or gender more than capability to govern profitably." "Lack of scientific foundation for ESG as a framework at all." Repeated use of the terms "woke," "virtue signaling," "communism," "socialism," and "nanny state" all represented views more soundbite and political than supported or articulate.

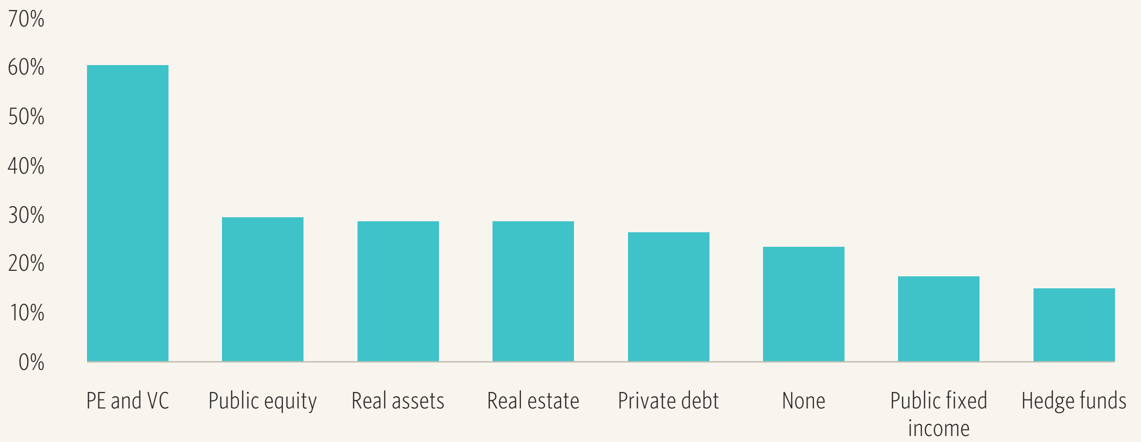
Approximately what percentage of your current fund managers (all asset classes) have a sustainable investment approach incorporating ESG factors and/or measurable environmental or social impact?



Source: PitchBook | **Geography:** Global | **Respondents:** LPs and Both
Question 12

It is understandable that our audience skews to private fund investors, so the fact that 61% said they have a focus on sustainable investing through their PE and/or VC allocations is not surprising.

In what parts of your total portfolio do you focus your sustainable investment efforts? (multiple selections permitted)



Source: PitchBook | **Geography:** Global | **Respondents:** LPs
Question 26

Only 35% of our allocator respondents (LPs and Both) said this year that more than half of their asset managers have some sort of a sustainable investment approach, but 84% said they had at least some exposure to what they consider sustainable investment products. But in what parts of the portfolio are LPs utilizing these products? It is understandable that our audience skews to private fund investors, so the fact that 60% said they have a focus on sustainable investing through their PE and/or VC allocations is not surprising. Public equity is the second-most-common place for exposure with hedge funds least likely to be a focus for sustainable investing efforts. This aligns with industry chatter about how hard it is to find a good sustainable strategy in hedge funds, as so many are too focused on the short term or just not interested in the concept.

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The VC perspective

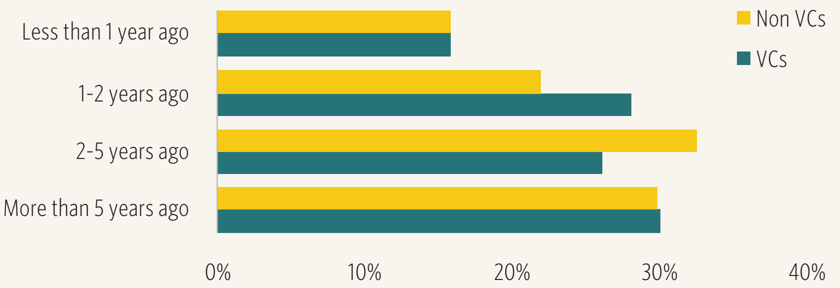
This year 255 individuals identifying as VCs began the survey, with 134 making it to the end.

We broke out the VC perspective on a number of our questions throughout the survey, providing readers a view into where VCs are in relation to GPs overall as well as to other groupings. This year 255 individuals identifying as VCs began the survey, with 134 making it to the end. For context, many surveys report on industry trends with fewer than 50 responses, so we feel this data set is robust. Our VCs were slightly more skewed to Europe than our other GPs—26% of respondents versus 21% of our other GPs hailing from that continent.

Despite perceptions that VC lags other areas of the private markets when it comes to implementing sustainable investment practices—the thought being that these early-stage companies need to be focused solely on getting a product to market, and the ESG risks are few when operations are so limited—our survey shows that our VC respondents and our non-VC respondents were at similar stages. In fact, 78% of our VC respondents had either partially or fully integrated sustainable investment principles in their portfolios, while only 72% of the other GP respondents had done so. That said, non-VCs have gotten a head start: 62% of non-VC GPs began implementing sustainable investing initiatives two or more years ago compared with 56% of VCs. Overall, only 31% of GPs began more than five years ago, so this is definitely a space where many are still finding their way.

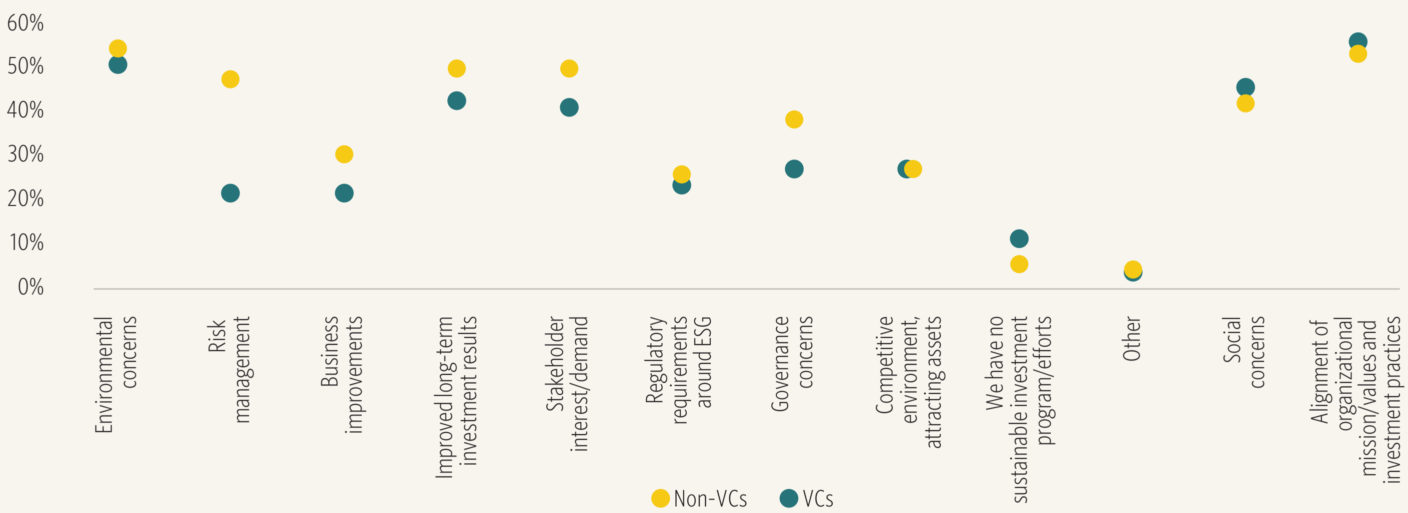
When it came to the decision to develop a sustainable investment program, VCs were more likely (46% versus 42%) to do it because they had social concerns. Diversity issues, which have had a light shone upon them in recent

When did your organization start actively implementing sustainable investing initiatives?



Source: PitchBook | **Geography:** Global | **Respondents:** GPs
Question 4.75

What factors led to the development of your sustainable investment program/efforts? (multiple selections permitted)



Source: PitchBook | **Geography:** Global | **Respondents:**: GPs
Question 19

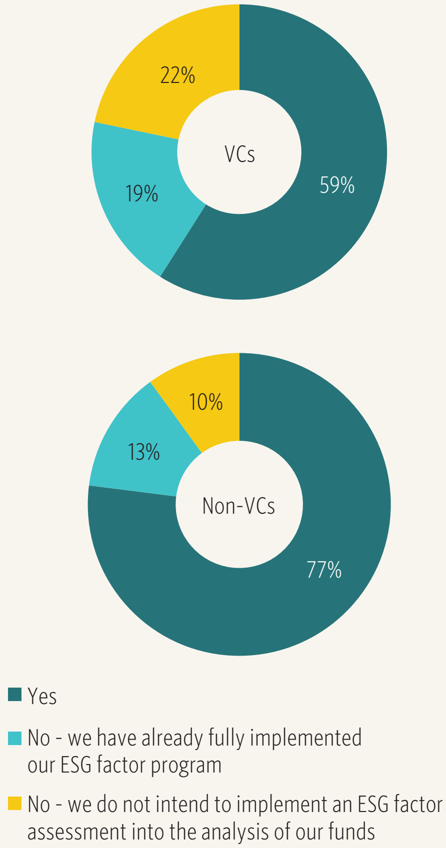
PitchBook

years given how very few founders are female or persons of color, fall in this category.[5] 48% of non-VCs, on the other hand, said that risk management and governance concerns were a major driver, while 22% and 27% of VCs selected these options, respectively.

Switching to current priorities, the majority of GPs of all types are planning to increase their attention to ESG risk factors in the coming year, but 77% of non-VCs have such plans versus only 59% of VCs. On the flipside, 22% of VCs said they do not intend to implement an ESG risk factor assessment into their funds while only 13% of non-VC GPs plan to do nothing.

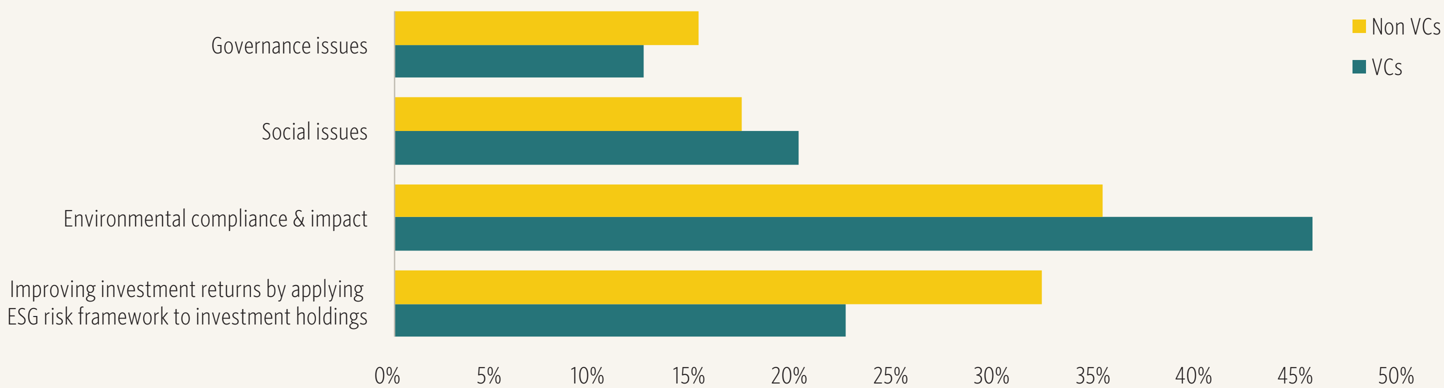
In terms of specific priorities, both VCs and non-VC GPs put environmental compliance and impact as their top current priority when the choices were essentially E, S, G, or using ESG to improve returns, but VCs were eight percentage points more likely to be focused on the environment—45% versus 36%. That said, VCs are more likely making this a priority from an opportunity perspective—such as investing in cleantech—than from any concern about environmental risks to, or stemming from, their operations, which are still typically small in scale. Non-VCs, on the other hand, were more likely to pick governance or improving

Do you plan to increase your attention to ESG risk factors in the work you do as an organization in the coming year?



Source: PitchBook | **Geography:** Global | **Respondents**: GPs
Question 18

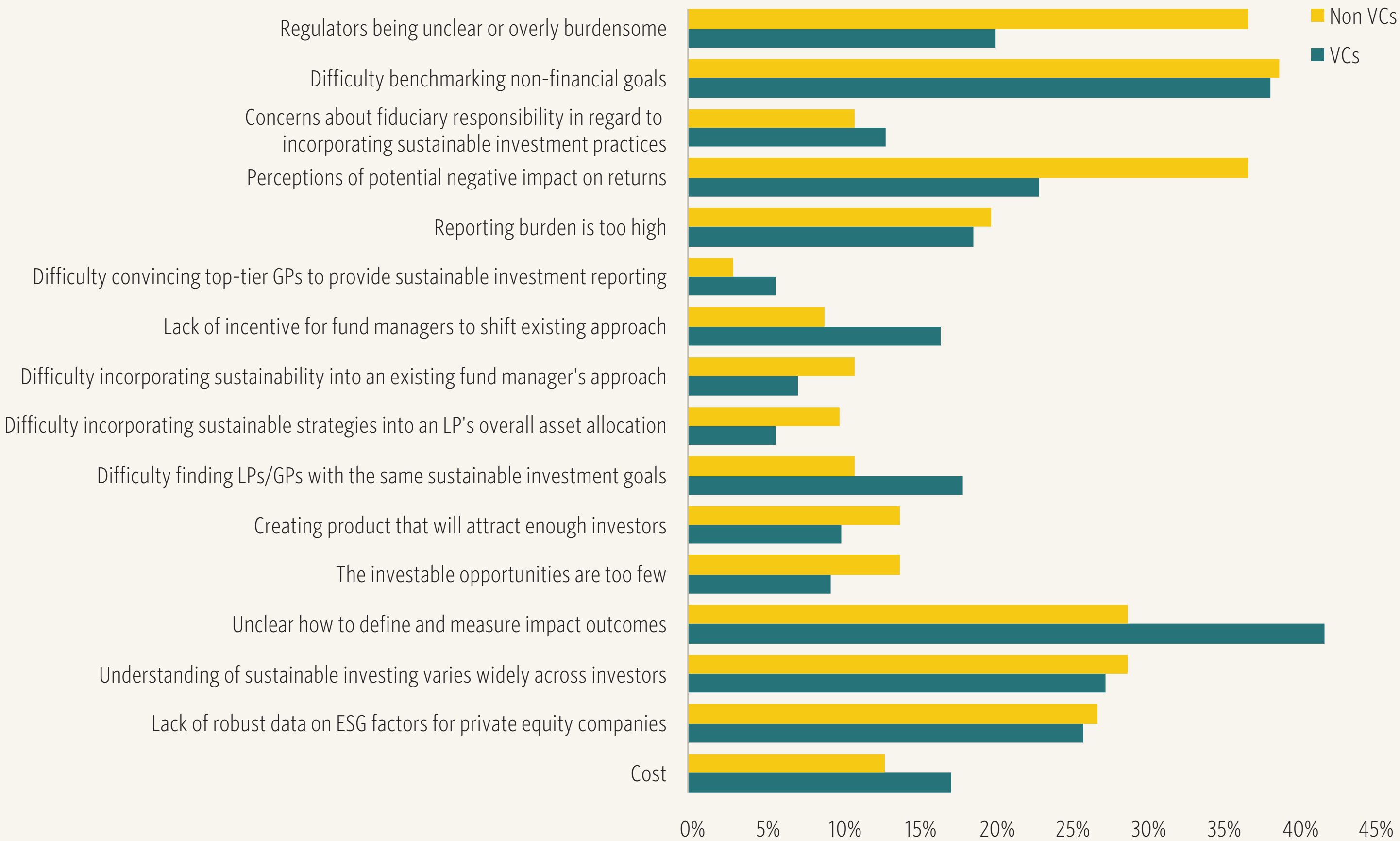
On what areas are you most focused currently when it comes to sustainability in an investment context?



Source: PitchBook | **Geography:** Global | **Respondents:** GPs
Question 20

5: "Adam Neumann Gets a $350 Million Do-Over and Diverse Entrepreneurs Barely Get a Start," Forbes, Shaun Harper, August, 16, 2022.

What do you perceive as the top 3 challenges for sustainable investing?



Source: PitchBook | **Geography:** Global | **Respondents:** GPs
Question 23

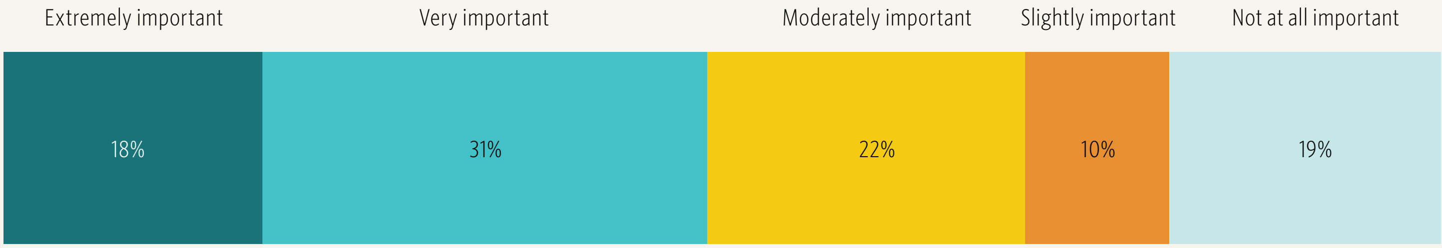
42% of VCs said it is unclear how to define and measure Impact outcomes, but only 29% of our other GP respondents said the same.

investment returns as a top priority. We should mention that our reporting here is only showing how often each of the topics was ranked first, but social issues were ranked second most often, and governance was selected as a third or fourth priority more often than the other options.

In terms of challenges for sustainable investing, it is also understandable that VCs feel somewhat differently than other GPs. 42% of VCs said it is unclear how to define and measure Impact outcomes, but only 29% of our other GP respondents said the same. In conversations with VCs outside the survey, the sentiment has been that the implementation of sustainable investment principles in a VC portfolio brings unique challenges, as the portfolio companies are sometimes just a couple of people in a garage with no product that can have a measurable impact yet. That said, VC-backed companies hoping to IPO are now expected to have a robust ESG risk management program. On the other hand, 37% of non-VCs said that perceptions of potential negative impact on returns was a big challenge for the movement, while only 23% of VCs selected this option. VCs were much more concerned with finding LPs with the same sustainable investment goals—18% of them identifying this issue versus only 11% among the non-VC GPs. Anecdotally, we have talked with many VCs who have created a very specific Impact strategy, but identifying the LPs who also care about that type of Impact is incredibly difficult. This struggle is the reason we prioritized tagging funds and investors for the IRIS+ categories of Impact—to help connect LPs and GPs with similar missions, smoothing the flow of capital between Impact investors.

Contrasting views: ESG

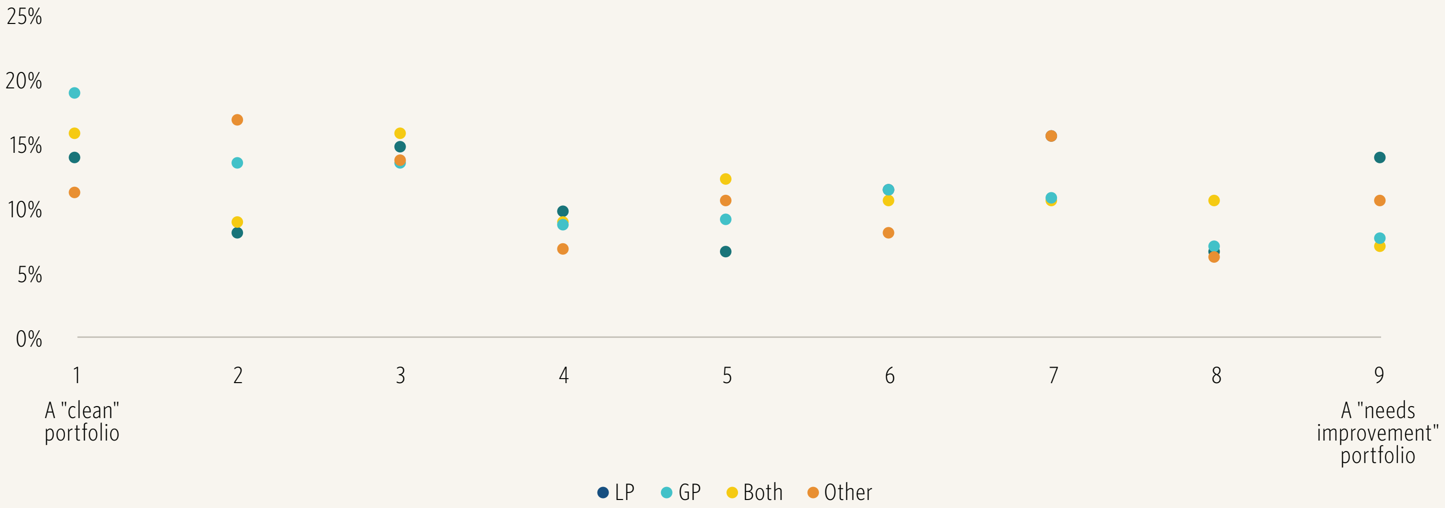
How important is it that an asset manager (GP) utilizes an ESG risk factor framework in their acquisition and management of portfolio companies when you are deciding to commit to or recommend a fund?



Source: PitchBook | **Geography:** Global | **Respondents:** LPs, Both & Other
Question 13

There are perhaps more extreme, staunchly held, and controversial views on ESG in 2022 than in any other year in history. The politicization of ESG is visible throughout our survey data but is particularly noteworthy in comparison to 2021's numbers. For example, in 2021, 12% of the allocators and their advisers responded to the question "How important is it that a GP uses an ESG risk factor framework in their acquisition and management of portfolio companies when you are deciding to commit to or recommend a fund?" by saying it was not at all important, while 20% indicated that it was extremely important. In 2022, 19% responded that it was not at all important while 18% said it was extremely important. The fact that that there is such a divergence is likely no shock to those who have kept up with ESG-related news in 2022.[6]

When constructing or selecting investments to fill a portfolio that utilizes an ESG framework, how do you prioritize companies or portfolios already performing well across ESG issues versus companies or portfolios with ESG issues that will be addressed as part of the invesment strategies?



Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 11.5

6: "Some GOP States Push Back Against ESG Investing Trend," The Wall Street Journal, Amrith Ramkumar, August 30, 2022.

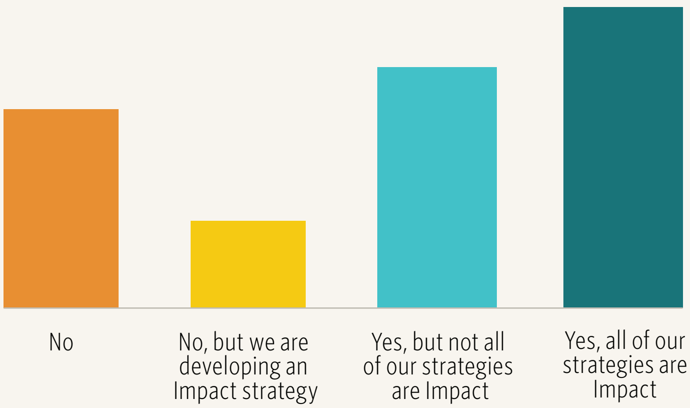
Approximately 15% of respondents indicated they prioritize a completely clean portfolio.

Yet there isn't agreement on what, exactly, it means to "do" ESG. As discussed in one of our previous analyst notes, extreme reactions to ESG can be attributed largely to lack of understanding around what ESG entails and what it will look like in practice. Our data this year confirms that investors and their advisers seeking to build a portfolio incorporating an ESG framework have varying goals around choosing a portfolio of "clean" companies with respect to ESG at entry versus selecting one with "needs improvement" companies. Approximately 15% of respondents indicated they prioritize a completely clean portfolio (a 1 on our scale), while 10% stated that they prioritize a completely needs-improvement portfolio (a 9 on our continuum). The mean of the responses was 4.63, indicating a slight tilt toward "needs improvement" companies, although the vast majority were somewhere in the middle, not at the extremes.

Separating by respondent type, a near-equal number of LPs responded with a 1, 3, 7, or 9 on the scale, with each receiving 14-15% of responses. However, among GPs, the top three answers were 1, 2, and 3, with 46% of respondents cumulatively selecting these options. The mean for LPs was 4.98 and for GPs was 4.33, so LPs overall responded more pragmatically about what it means to "do ESG," feeling that a pure company is not imperative to the approach. It may be that given fears about accusations of greenwashing, GPs might gravitate away from strategies using ESG as a way to improve companies in favor of acquiring already-clean companies less vulnerable to criticism. Another reason could be that GPs may attempt to appeal to a broader spectrum of LPs with a portfolio of fully-clean companies, as LPs with a more purist philosophy around ESG will prefer them, and those open to other companies may still find them acceptable.

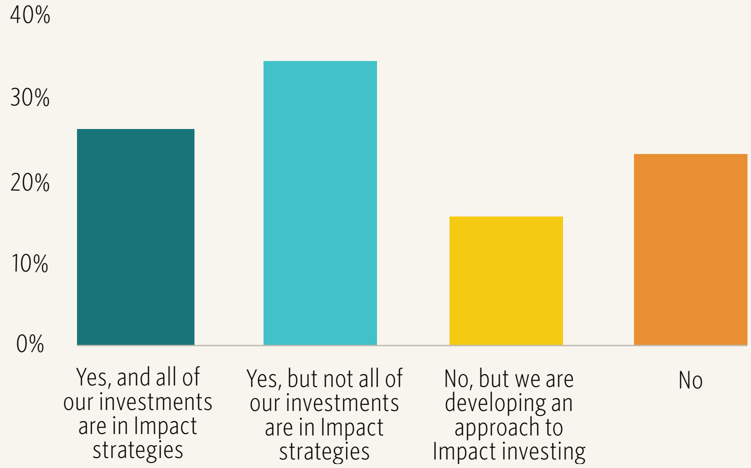
Contrasting views: Impact

Does your organization offer Impact investment strategies to external parties?



Source: PitchBook | **Geography:** Global | **Respondents:** GPs and Both
Question 6

Does your organization recommend or make allocations to private market Impact investment strategies?



Source: PitchBook | **Geography:** Global | **Respondents:** LPs, Both, and Other
Question 7

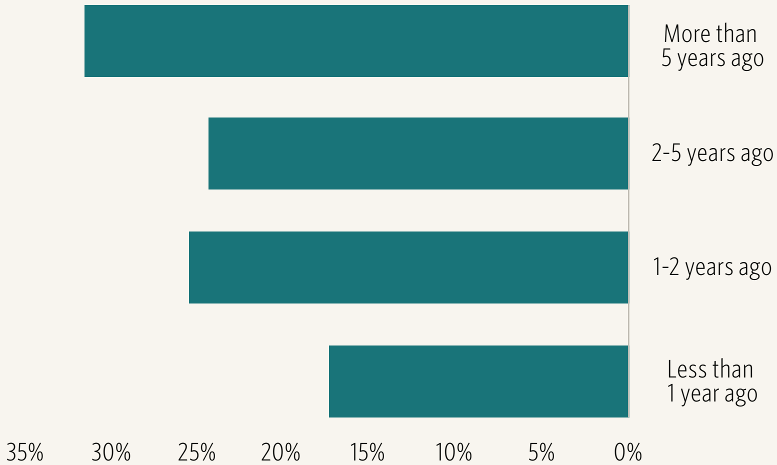
Impact investing, which we defined for the survey as investing with the dual goals of achieving financial returns and positive social or environmental results, seems to be gaining popularity across both allocators and fund managers. Of our respondents managing investment products, 65% said they offered Impact investment strategies to external parties. This was up from 57% of our respondents in 2021. For our allocator respondents and their advisers, 61% had allocated to or recommended private market Impact investment strategies, up from 57% in 2021.

When it comes to time spent investing for Impact, who has been doing it longer? 32% of fund managers have been offering Impact strategies for more than five years, with another 25% only two to five years into their Impact investment strategy. This has implications for LPs looking for products with some sort of track record: Our data shows that emerging managers capture a larger proportion of Impact fundraising than in the broader private market ecosystem, largely because so many more Impact managers have not had the time yet to progress beyond their third fund offering. LPs have, in many cases, been working in the Impact space longer than asset managers: 39% of allocators made their first Impact investment more than five years ago, with another 30% two to five years in.

A new question this year attempted to tease out what investors are targeting from an Impact perspective. Utilizing the GIIN's IRIS+ framework,[7] we asked respondents to indicate which of the 17 categories of Impact were of importance to them, allowing respondents to select more than one area of focus, if applicable (See chart, page 21). The top picks across all types of respondents were Energy (46%) and Climate (44%), both areas with a fair number of funds available for investment as well as significant investment opportunities that can absorb large sums of capital. Some of the more esoteric areas of Impact investing, such as Air and Oceans & Coastal Zones, were selected least frequently by respondents. Real Estate was another

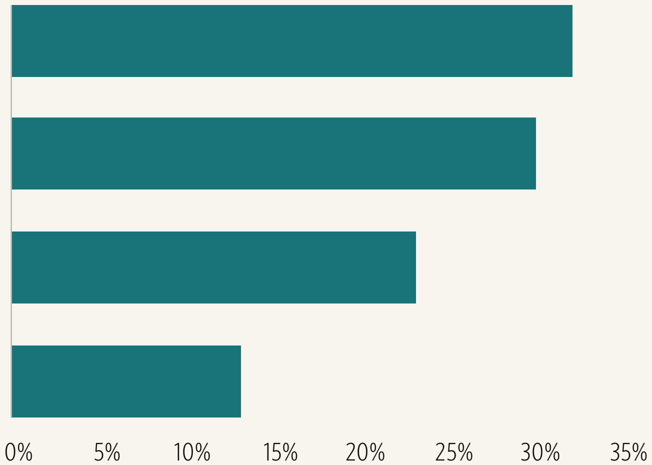
7: To view the 17 categories of impact investing as outlined by the IRIS+ framework as well as the themes and business models that fit each category, link to: "Iris+ Thematic Taxonomy," Global Impact Investing Network, Kelly McCarthy et al., July 22, 2022.

When did your firm first offer Impact investment strategies to external parties?



Source: PitchBook | **Geography:** Global | **Respondents:** GPs and Both
Question 6.5

When did your organization make its first investment in (or recommendation of) an Impact investment strategy?



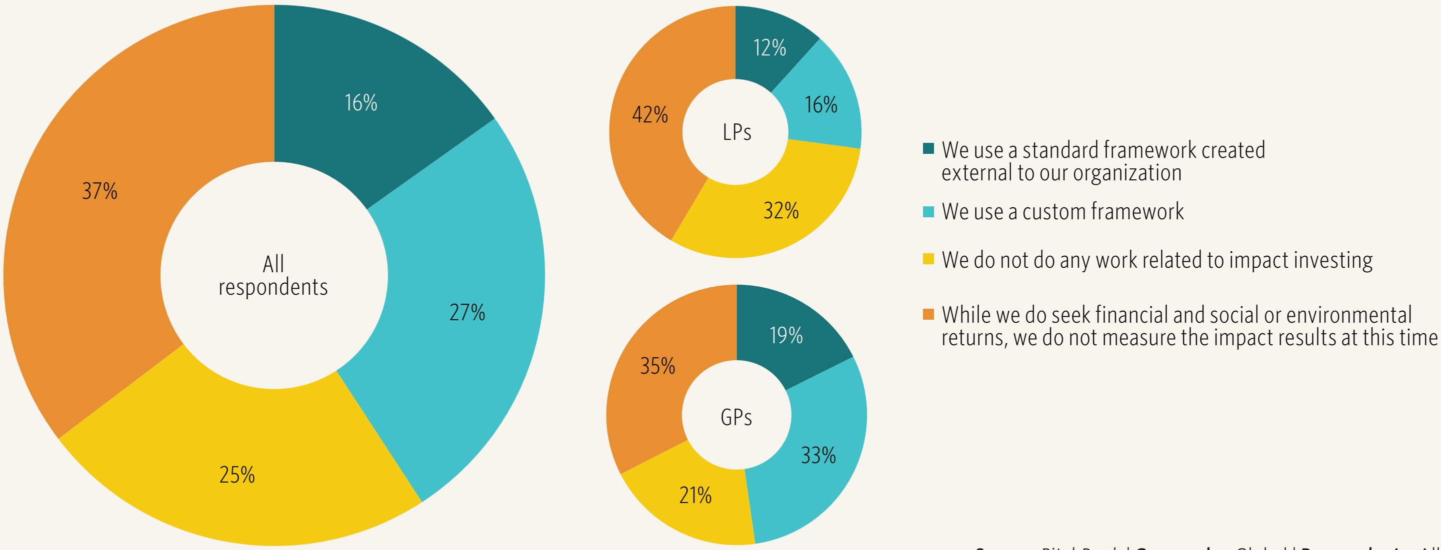
Source: PitchBook | **Geography:** Global | **Respondents:** LPs, Both, and Other
Question 7.5

category selected by few respondents, which seems surprising, given that green buildings and affordable quality housing are both themes within that category. It is possible that respondents are not intimately familiar with the IRIS+ framework and didn't realize that certain activities counted within various categories of the framework. It is also possible we did not attract many real estate investors to this survey.

Since respondents were allowed to make more than one selection in this question, the absolute percentages may just indicate that some groups were more likely to select a lot of the options than others—note the VCs versus non-VCs chart where VCs were well ahead of non-VC respondents. Either this means that VCs will take any Impact they can get their hands on while other GPs are more focused, or it could just mean that the VC respondents didn't take the time to truly match what they are doing/seeking to the categories available. Looking at relative results, however, both VC and non-VC GPs had Energy and Climate as their top two areas of focus, but VCs chose Agriculture as their third choice while Waste was chosen third most often by non-VCs.

By respondent type, the top two selections were Energy and Climate across the board, but GPs, LPs, and the Other respondents also selected Agriculture frequently, while the respondents identifying as Both had Infrastructure and Health as high areas of Impact focus. Across regions there was also some differentiation. Asia Pacific listed Health and Waste as top areas of focus but were least interested in Oceans & Coastal Zones. C&SAC had Energy and Agriculture as top areas of focus, with Air and Oceans & Coastal Zones of less interest. One of the biggest surprises came from the Middle East & Africa: Water was the least selected of the options, although to be fair, this was a very small sample set. Looking at the biggest regional slices, Europe and North America varied somewhat in their top Impact priorities: Even in the midst of the worst energy crisis in decades, Europe ranked Energy second to Climate, with Health and Waste tying for third. North America, the largest group by far, matched the overall survey results, with Energy in first, Climate in second, and Agriculture the third most selected area of focus. While we cannot truly ascribe motivations to these responses, there is probably a mix of rationales ranging from perceived social and environmental problems needing a fix that investment dollars may provide to areas of extreme growth and potential profitability that attract investors on financial merits alone.

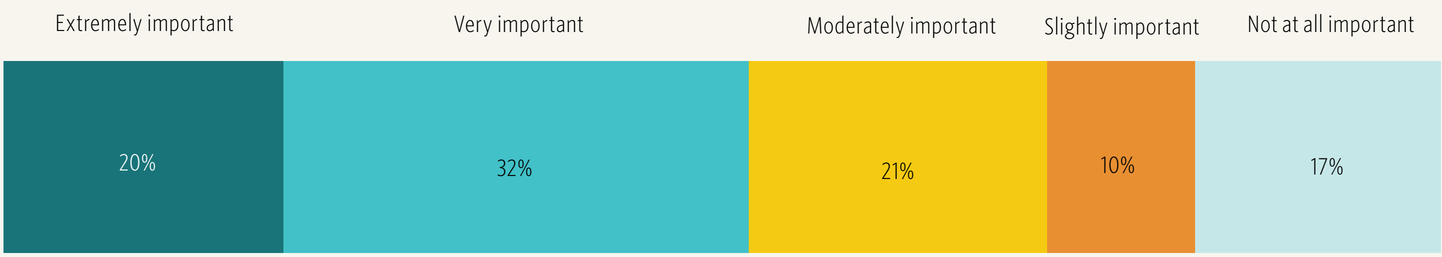
If you do any Impact investment work, how do you measure Impact?



Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 8

One of our research pieces this year identified two philosophies of Impact that practitioners espouse—one feels measuring outcomes is the only valid approach, while others feel that being in the right areas where Impact is happening is good enough. We asked one question this year to try to tease out where our respondents were on this continuum. Reflecting the difficulty of measuring outcomes, particularly given our strong response rate from VCs, 37% of all respondents said that while they do seek financial and social or environmental returns, they do not measure the Impact results at this time. 42% of our LP respondents were in this camp, while 35% of GPs were not measuring their Impact efforts. We were able to test whether GPs are aligned with what LPs wish of them by asking allocators and their advisers how important it is that asset managers measure social and/or environmental Impact when managing portfolio companies when deciding to commit to or recommend a fund. 27% of LPs said this was slightly or not at all important. 20% said this was extremely important, while the most common answer was the second most emphatic response—very important. So, if 35% of GPs are not measuring their Impact effects, there does appear to be a camp of LPs that will find that approach acceptable.

How important is it that asset managers (GPs) measure social and/or environmental impact in their management of portfolio companies when you are deciding to commit to or recommend a fund?



Source: PitchBook | **Geography:** Global | **Respondents:** LPs, Both & Other
Question 14

Referencing the IRIS+ Framework, which categories of Impact investing are a focus for your organization?

Energy
45%

Climate
45%

Agriculture
32%

Water
29%

Health
29%

Waste
29%

Diversity & Inclusion
27%

Infrastructure
25%

Pollution
24%

Financial Services
23%

Employment
23%

Biodiversity & Ecosystems
22%

Education
20%

Air
17%

Real Estate
16%

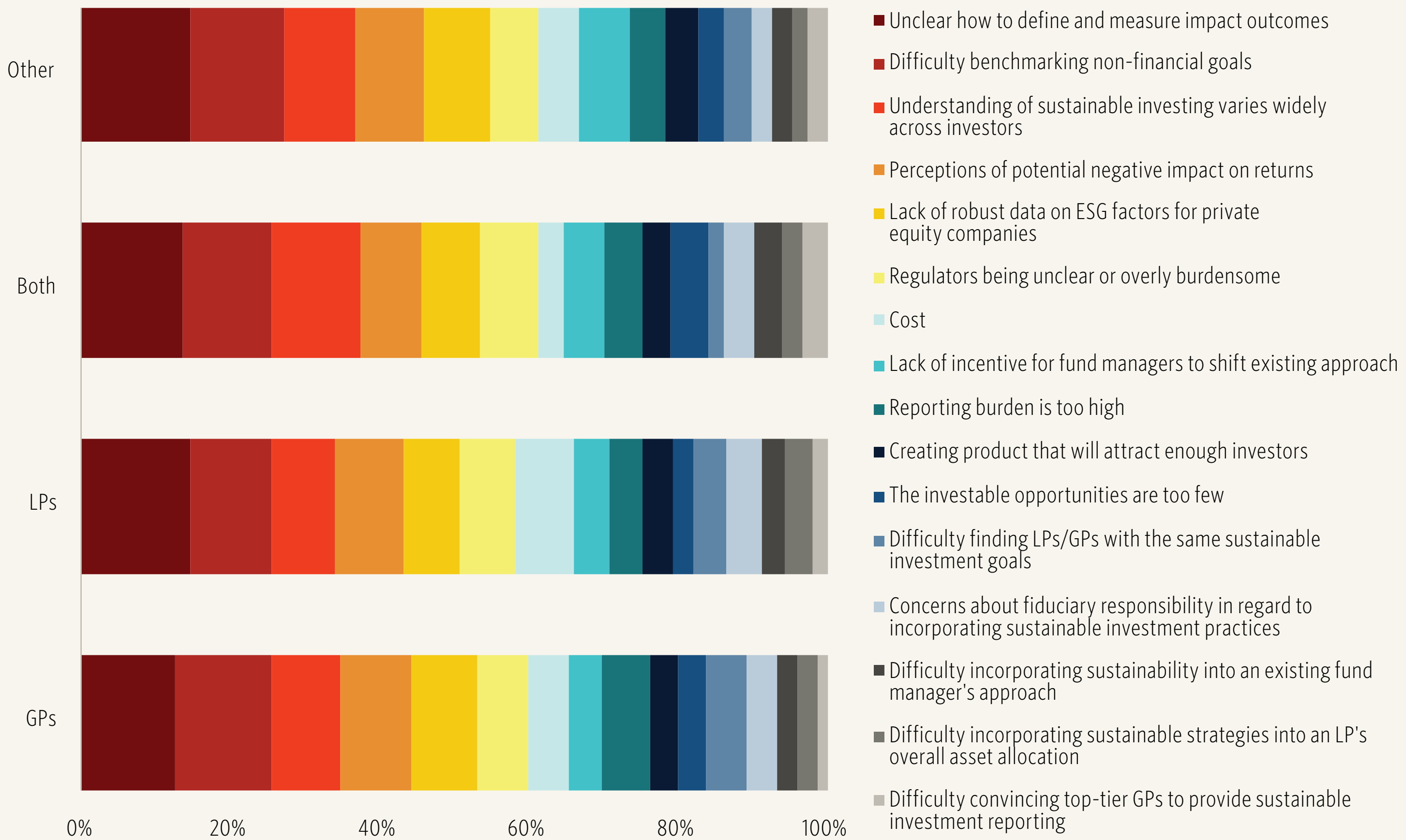
Land
15%

Oceans & Coastal Zones
15%

Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 8.5

Challenges

What do you perceive as the top 3 challenges for sustainable investing?



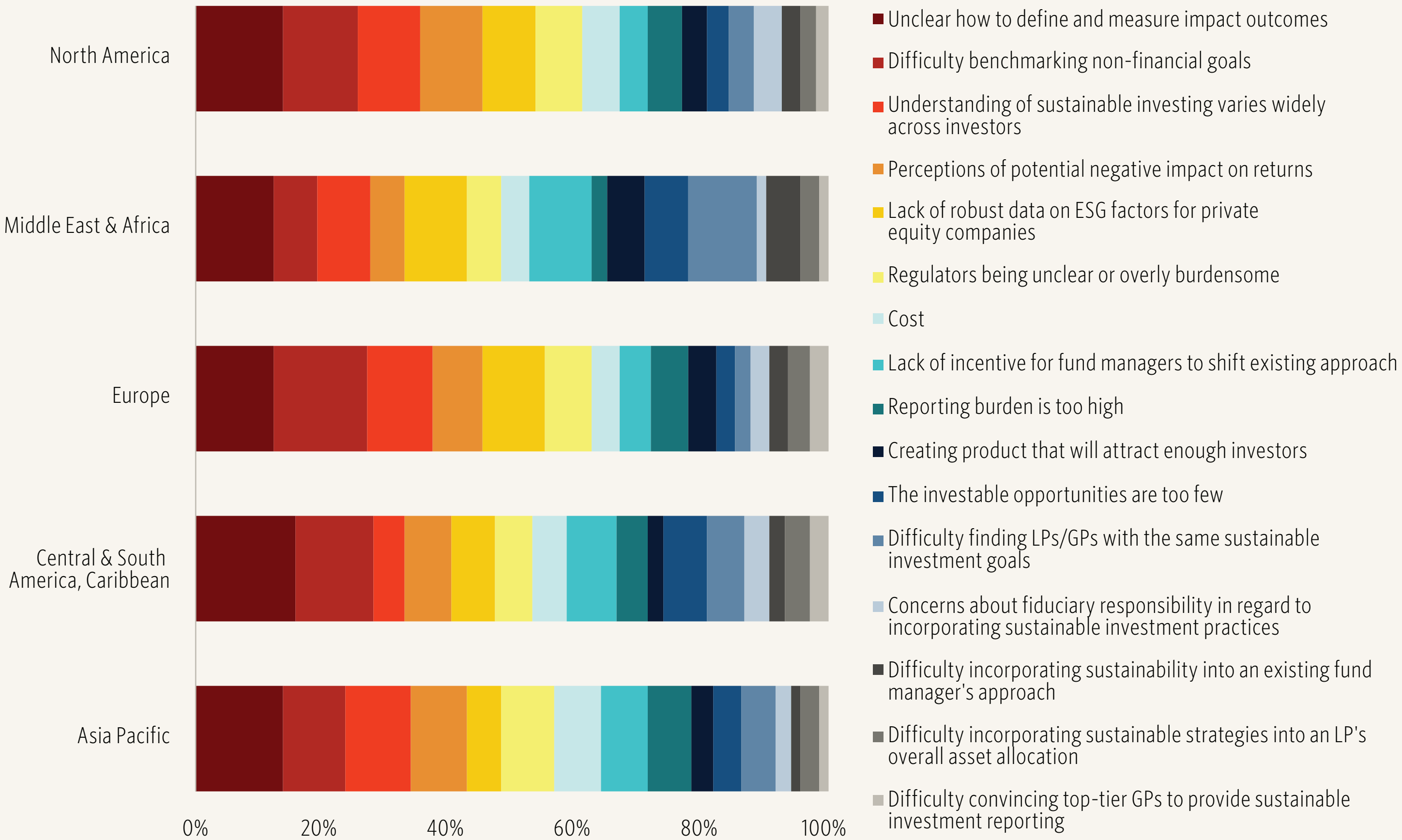
Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 23

As we have done in the prior two surveys, we asked our respondents to opine on the challenges facing sustainable investing. Some areas such as cost to implement have not been seen as significant barriers by most (only 17% this year), but data-related challenges have been a frequent refrain. Across all our respondents, the top two challenges selected were related to measurement: It is unclear how to define and measure Impact outcomes, and there is difficulty benchmarking non-financial goals. While there have been some signs of convergence in the industry in the past two years with mergers in both the ESG[8] and Impact spaces,[9] our survey still shows that only 20% of our Impact investors are using a standard framework, 34% are using a custom framework, and 46% are seeking financial and social or environmental returns but are not measuring the Impact at all. When it comes to measuring and reporting on financially material ESG risk factors, only 23% of our asset managers said they are applying a standard, 56% are using a custom methodology, and 21% are not measuring or reporting such factors at all.

Investor education remains a significant hurdle for many, as 28% of our respondents selected

8: "IIRC and SASB Form the Value Reporting Foundation, Providing Comprehensive Suite of Tools to Assess, Manage and Communicate Value," International Integrated Reporting Foundation, 2022, Accessed September 12, 2022.
9: "IMP+ACT Alliance Selects the Global Impact Investing Network (GIIN) to Manage the Impact Classification System (ICS)," Global Impact Investing Network, July 22, 2022.

What do you perceive as the top 3 challenges for sustainable investing?



Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 23

that the understanding of sustainable investing varies widely across investors. We have done our part by publishing pieces clearly stating the difference between ESG and Impact, although we also implored readers to realize that there are different valid philosophies within both ESG and Impact. That said, there are groups such as ILPA, VentureESG, and ESG4Venture who are tirelessly working toward alignment on basic due diligence questions and data points to align private market LPs and GPs on what is important from an investment perspective.

From a regional perspective, European and North American respondents were not wildly different, with the top two challenges selected varying only in the percent of respondents who chose them. 37% of Europeans thought a top challenge was that it is unclear how to define and measure Impact outcomes, while 42% of North Americans made the same selection. The weighting was reversed for difficulty benchmarking non-financial goals—45% of Europeans versus 36% of North Americans. For third-most selected, 30% of Europeans said that the understanding of sustainable investing varies widely across investors.

North Americans, currently navigating the politicization of ESG, put perceptions of potential negative impact on returns as the third-biggest challenge. When you add in concerns about fiduciary responsibility to incorporate sustainable investment practices—potentially another way to talk about returns being more important than sustainable investing—the gap between the continents widens. 14% made this selection in North America, while only 9% of Europeans did so. Interestingly, North America has stayed roughly steady in its selection of

Priorities can be localized when there are different levels of capital market maturity, investor interest, and societal and environmental issues.

these two concerns, but a higher percentage of Europeans did so in 2022 versus 2021. In 2021, a combined 23% of Europeans selected potential negative impact on returns and concerns about fiduciary responsibility versus 34% this year. They may have only just taken notice of the forces aligned against sustainable investing in the US market this year, while North American investors were aware of the headwinds earlier.

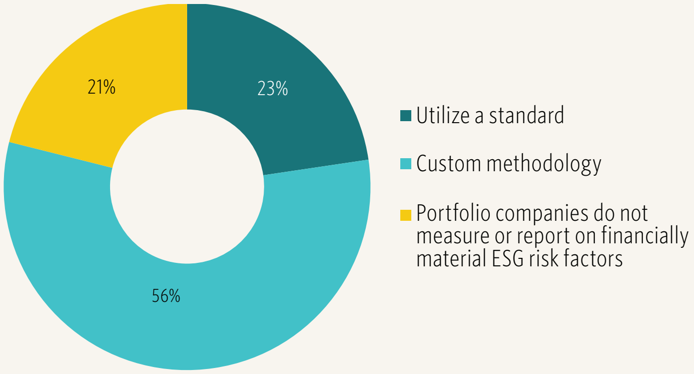
Some outliers were found in the regions with less representation in our survey. In the Middle East & Africa, one of the top three responses was that it is difficult finding LPs/GPs with the same sustainable investment goals—33% of people from this region made this selection versus only 17% for all survey participants. In C&SAC, 24% selected that there is a lack of incentive for fund managers to shift their existing approach—versus only 16% of all survey respondents. Priorities can be localized when there are different levels of capital market maturity, investor interest, and societal and environmental issues.

Some of our respondents provided open-ended responses to the challenges their teams are facing in their sustainable investing/ESG initiatives. One of our VC respondents articulated a refrain we've heard from a number of VCs: "Early-stage companies don't have anything to report because they're still developing their product and business model." Many in the industry do not feel this should be a stumbling block to getting an early-stage company off on the right foot, however. It is much more difficult to retrofit a company for proper ESG practices—just think of diversity efforts—than to start off with the principles in mind. VCs may in fact be able to provide the suite of ESG policies that would launch the companies on a good path, allowing the founders to stay focused on their product and business model.

Our LP respondents were most likely to take a negative view of sustainable investing, taking the time to write out vitriolic comments reflective of the politicization of this topic. We'll leave the more florid comments out, but one of the more moderately worded responses said, "So many of the consultants come with an ESG agenda and high cost. We just wanted a low-cost practical solution. We are not trying to change the world." Many of these negative responses showed a lack of understanding of what an ESG risk framework is meant to do. Examples of these sentiments include: "ESG is so political it's not even funny" and "It's really sickening that ESG is so pervasive without relevance to taking care of investors and serving their best interest." These responses seem to stem from a lack awareness that ESG is meant to focus on the material non-financial risks that can impair long-term profits. If poor Governance causes a company to align behind poor Social policies for its employees, then resulting strikes could lead to accidents with bad Environmental outcomes. Proponents of ESG feel that by focusing solely on profits, a management team is not properly looking out for the best long-term interest of the company and its stakeholders.

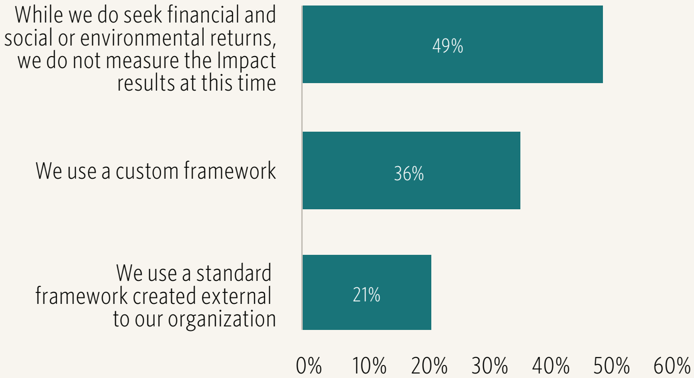
Measurement

Do your portfolio companies utilize a standard or custom framework to measure and report on their financially material ESG risk factors?



Source: PitchBook | **Geography:** Global | **Respondents:** GPs
Question 10.75

If you do any Impact investment work, how do you measure Impact?



Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 8

Both measurement and benchmarking of sustainable investing outcomes have become notoriously complex in recent years, with a cacophony of voices claiming one framework, metric, or standard is more legitimate or appropriate than another. Across respondent types, lack of clarity around how to define and measure Impact outcomes, lack of robust data on ESG factors for PE companies, and difficulty benchmarking non-financial goals were frequently cited among the top three challenges of sustainable investing. Convergence is a ways away, with only 11% of LPs and 16% of GPs that engage in Impact investing-related work reportedly using an external, standard framework to measure Impact. On the ESG side, 23% of GPs that require portfolio companies to measure and report on financially material ESG factors stated that portfolio companies are using a standard framework to do so. While this proportion is somewhat more substantial, the 23% does not mean that each respondent is converging around one—only that they are using one of the many available frameworks.

More GPs use a custom framework (27% of respondents) than LPs (15%), though to be fair, more GPs also use a standard framework, too (19% versus 12%). There are a few likely reasons for this split, including that a GP's LPs may each request different metrics or frameworks, necessitating an amalgamated approach. In addition, some GPs may be tracking Impact for their own edification rather than for reporting reasons, allowing for a more tailored approach. Text-based responses to which frameworks our respondents are using varied widely. Common themes included the UN SDGs, Principles of Responsible Investment (PRI), Impact Management Project (IMP), GRESB, SASB, and B Lab, with some industry-specific organizations cited as well. For those that asserted they used a custom framework, respondents often noted that frameworks were created in-house or with the help of consultants, with several stating that the information was "confidential" or "proprietary." However, those that selected this response also stated with some frequency that their framework still aligned to the UN SDGs or IMP.

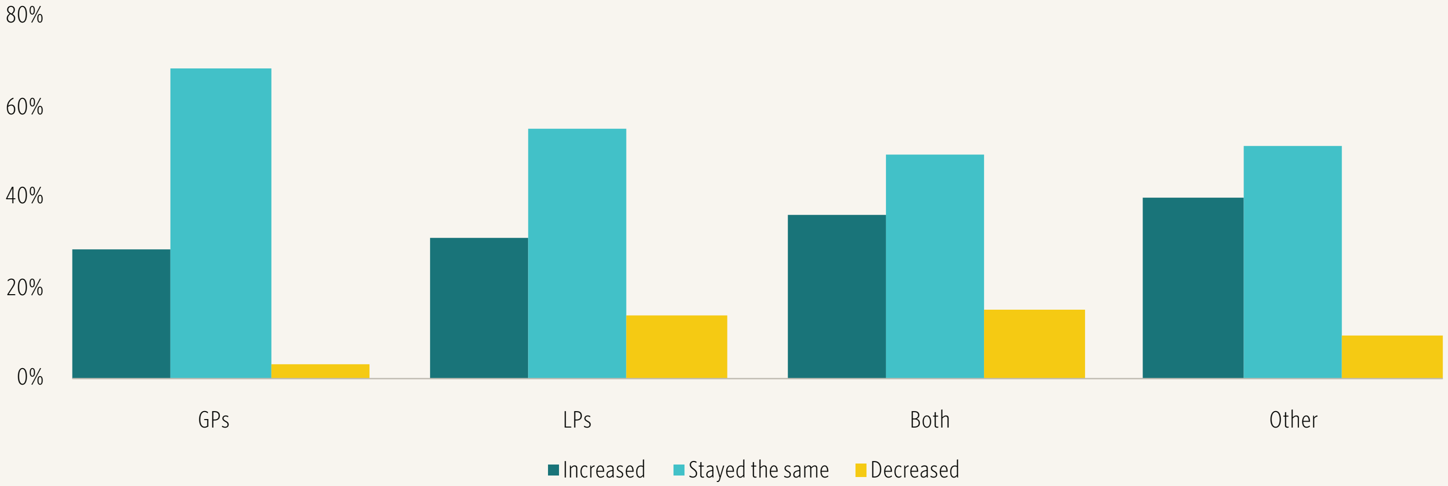
With respect to ESG, 21% of respondents that attested they require portfolio companies to measure and report on financially material ESG factors, paradoxically stated that their portfolio companies do not measure or report on financially material ESG risk factors. While some may interpret this as respondents communicating that portfolio companies sometimes do not comply with the reporting mandates established by GPs, it may also be that third parties such as consultants are used to measure and report on portfolio company ESG performance. In response to the same question, 56% of GPs stated that they use a custom methodology, a far less confounding outcome. Given how broad and far-reaching ESG can be, and the varying maturities of ESG programs within the industry, GPs often create custom approaches based on their resources and industry or sector focuses. Still, many start with standard frameworks to get to their custom approaches.

Among the open-ended responses from those using a standard ESG risk assessment framework, the usual suspects were well-represented: SASB, UN SDGs, B Lab, and Sustainalytics were all regularly named. In addition, a few respondents called out compliance with SFDR as their framework of choice. Interestingly, the Impact efforts from the GIIN and their IRIS+ framework were also cited several times, as respondents conflated ESG and Impact, a not uncommon occurrence in the industry, exemplifying just some of the confusion still surrounding sustainable investing. For those that described a custom framework, ad hoc or case-by-case strategies were typical, ranging from the collection of just a few metrics, checklists, and questionnaires to custom frameworks designed for each portfolio company. Of those collecting just a few metrics, carbon or GHG accounting and diversity statistics were often mentioned.

PitchBook

Social and political landscape

How have current economic and geopolitical events impacted your focus on sustainable investing?



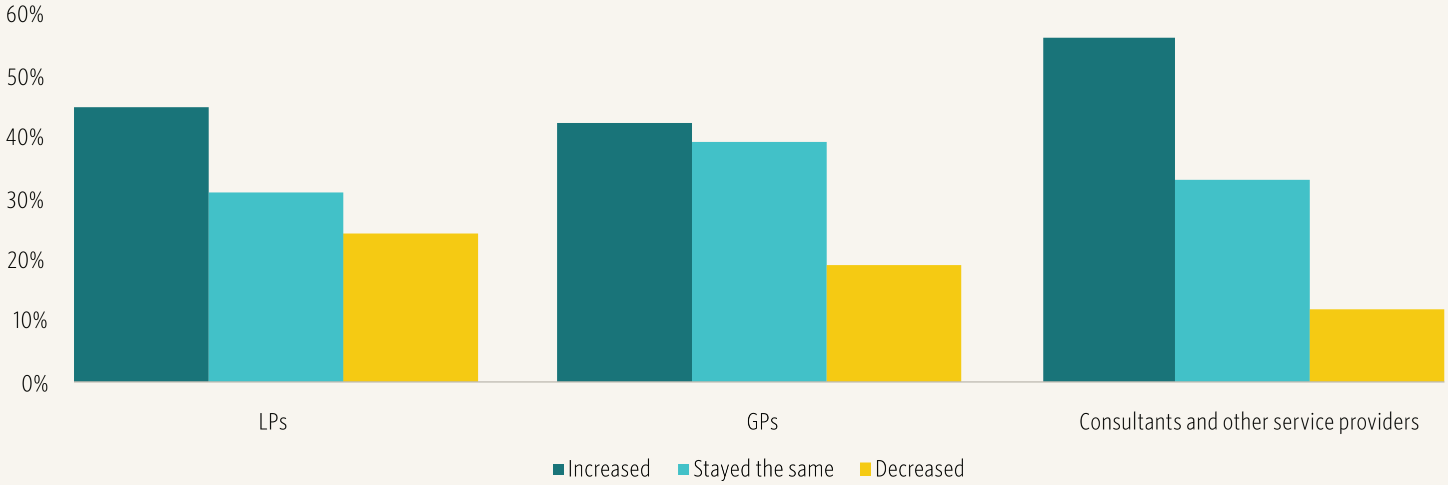
Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 27

Each year we ask respondents to tell us how their sustainable investment priorities are evolving given the economic and geopolitical events at the time. We also ask how they believe their fellow industry participants are shifting. Looking at the total set of respondents, 33% say they have increased their focus on sustainable investing this year, 58% said they have stayed the same, and 9% said they have decreased their focus. Perceptions, however, are that the focus has increased even more—respondents thought 45% of LPs, 42% of GPs, and 56% of consultants and other service providers are increasing their sustainable investment efforts in light of current events. Only 31% of LPs, 28% of GPs, and 40% of our Other respondents self-reported an increased focus in the area. It is possible that the raising of ESG topics in the news has increased awareness of activity in the space, causing perceptions that everyone else is increasing focus.

We asked respondents who said they were increasing focus what areas they were targeting in light of current events. The answers given were more expansive than the last couple of years when the global pandemic and Black Lives Matter protests were top of mind. The responses were split between those who simply gave reasons for the increase versus those who talked of the new areas of focus getting their attention. For reasons, the open-ended responses called out food security and energy crises due to the Ukraine war, supply chain issues, recent Supreme Court rulings, wildfires and other climate emergencies around the world, and increased regulatory focus on sustainable investing claims. For areas of increased focus, some called out biofuels as an alternative to petroleum fuel, eliminating hunger, environmental sustainability, social/community building, more trees to maintain or improve land as Africa gets drier, green steel, hydrogen, carbon reporting, and innovation to capture government funding meant to reduce GHG emissions. Anyone who tries to put sustainable investing into a single bucket has not taken the time to see just how many ways ESG and Impact are implemented.

At 14%, LPs were the group with the largest ratio of respondents indicating they were backing off their sustainable investing focus due to current events. Yet 24% of our overall responses indicated that they thought other LPs were decreasing

How do you think current economic and geopolitical events have impacted industry participants' focus on sustainable investing?



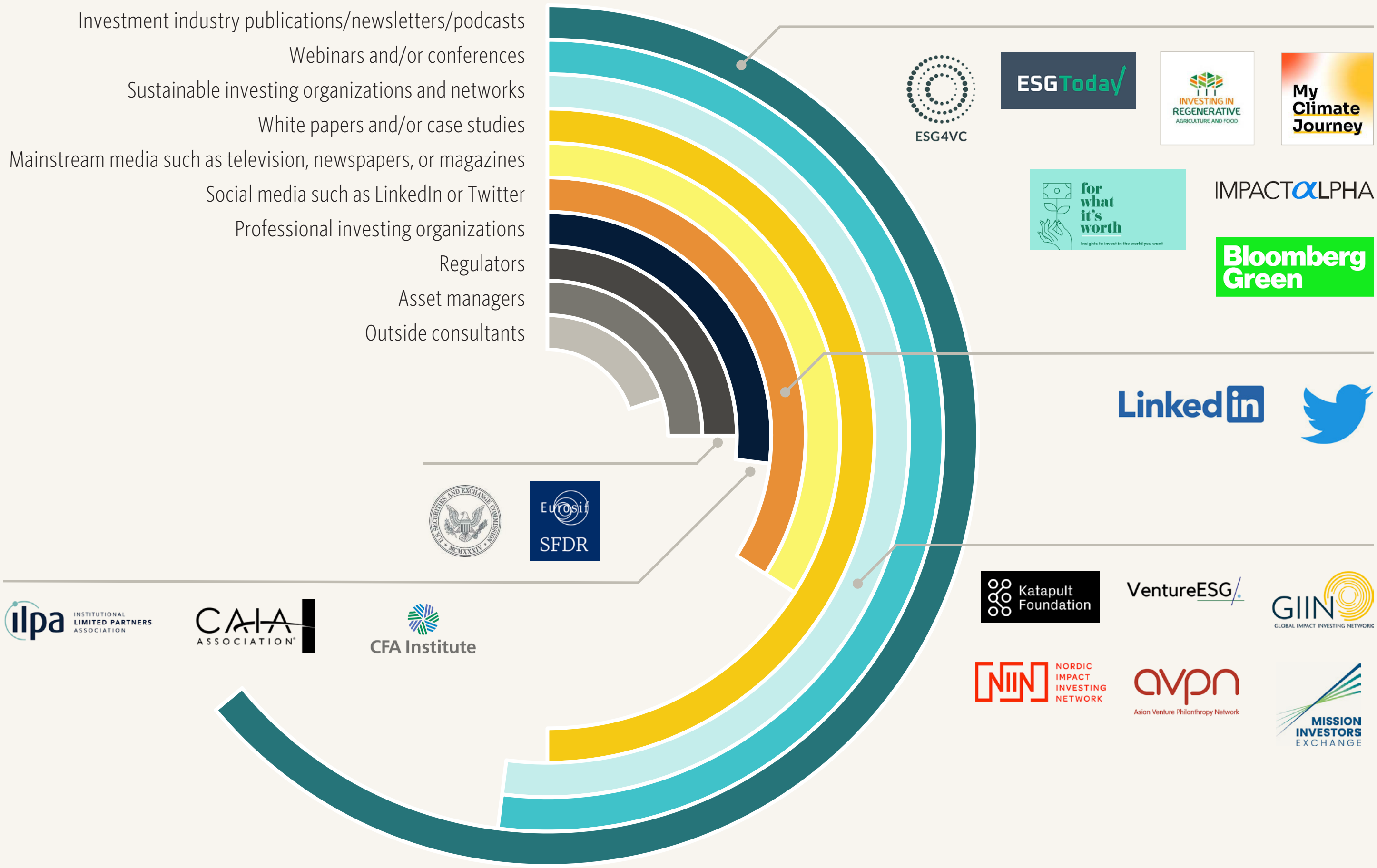
Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 28

focus on sustainable investing. To be fair, our LP respondents were most likely to have this belief about their peers—29% of LPs said that LPs were decreasing focus on sustainable investing, but 32% of LPs thought GPs were decreasing focus. Only 20% of GPs thought that LPs were backing away from sustainable investing, one of the better matches we had between perception and reality.

The open-ended responses around what had pulled focus from sustainable investing for some were often rife with political vitriol about the subject, suggesting that perhaps these respondents had not decreased focus but were chiming in to ensure we knew that they thought it was "a waste of time and resources" by "the woke muppets" who are perpetrating a fraud on people "to rationalize the lack of progress on social advancement." Several mentioned variations of greenwashing, higher oil prices necessitating investment in fossil fuels, and the war in Ukraine and inflation as impacting their organization's focus on sustainability. Given that both the increased focus and decreased focus respondents mentioned Ukraine as a rationale, there are obviously very different views on what sustainable investing means, as has shown up in other parts of this report. The negative responses often display a fundamental misunderstanding of the positive long-term economic benefits of sustainable investing, preferring to simplify it as yet another thing the progressives are foisting upon the world.

Staying informed

How do you stay abreast of developments in ESG and sustainable investing?



Source: PitchBook | **Geography:** Global | **Respondents:**: All
Question 29

The sustainable investment landscape is changing quickly.

The sustainable investment landscape is changing quickly. We asked respondents where they seek information to stay abreast of developments in the space, a question of interest given that the world is still wavering on whether to interact in person, online, or in a hybrid state. We allowed respondents to select more than one source of information and allowed them to provide specific sources so we might pass along potential resources to the readers who may be looking to learn more.

While investment industry publications topped the response for every respondent type, there were some different source preferences across our respondent types. LPs, for example, were least likely to say that webinars or conferences were a go-to source of sustainable investment information, which echoes anecdotal accounts of LPs still being much less likely to travel, even more than a year since COVID-19 vaccines became widely available. In general, LPs had the lowest number of sources per respondent—

Last year only 19% said regulators were a source of information, but that stepped up to 25% in 2022.

only selecting 3.4 different source types on average—compared with a high of 4.6 for the Both respondents providing services to allocators and making their own investment allocations.

Regulators have become more prominent information sources for our respondents, which makes sense, given the SFDR disclosure requirements coming out of Europe and the noise the SEC has made regarding disclosures to ferret out greenwashing. Last year only 19% said regulators were a source of information, but that stepped up to 25% in 2022.

Some of the sources named by our respondents are shown on this page, including newsletters such as ImpactAlpha and For What It's Worth, podcasts such as My Climate Journey and Investing in Regenerative Agriculture, and organizations including the Katapult Foundation and VentureESG.

We also asked which organizations respondents belonged to, endorsed, or participated with, providing a long list of groups from which to choose, a list that has grown over the years as we've added in open-ended responses from each prior year's survey. Some of these are regional (Asian Venture Philanthropy Network) or have very specific associations (Mission Investors Exchange), so the number who selected them were few. Adding to the perception the convergence on sustainable investment visions is still far off is that the organization that garnered the most selections—and respondents were allowed to make multiple selections—was the UN PRI, which was only chosen by 36% of respondents. The second-most-recorded option was None. The PRI and the IFRS Sustainability Disclosure Standards (the current name of the group responsible for the SASB framework)

With which sustainability-related groups or programs do you belong, endorse, or participate?

LP	GP
27% UN SDGs	39% UN SDGs
20% GIIN	32% PRI
13% PRI	23% GIIN

Both	Other
47% UN SDGs	37% UN SDGs
45% PRI	17% PRI
28% GIIN	14% GIIN

Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 30

were the only other groups to pass 20%. Open-ended responses included VentureESG, ESG in VC, Human Rights Watch, and the Nordic Impact Investment Network.

Of the choices that were made other than None, each respondent type selected the same top three, with only LPs coming in with a different order than the others. We do note that LPs were most likely to say they align with no organizations and thus the top choice was only selected by 27%.

Glossary & references

Asian Venture Philanthropy Network: Asian social investor network.

B Corp: Certified B Corporations are leaders in the global movement for an inclusive, equitable, and regenerative economy.

B Lab: related to B Corp, measures a company's entire social and environmental impact.

Both: "Both" is a respondent type representing GPs that have LPs. This group is mostly made up of funds of funds (FoF).

DEI: Diversity, equity, and inclusion. Also sometimes known as diversity initiatives or D&I (for diversity and inclusion).

ESG: Environmental, social, and governance. A framework for incorporating nonfinancial risks into an investment strategy.

ESG4VC: A group aiming to increase the adoption of ESG policies at the venture capital firm level through education, tools, and sharing of best practices.

ESG in VC: Gathering learning and views to focus on complex issues associated with ESG frameworks.

For What It's Worth: Newsletter for socially conscious investors.

GFC: Global financial crisis.

GHG: Greenhouse gas.

GIIN: Global Impact Investing Network.

GP: General partner. May refer to the asset manager or its staff who makes the investment decisions for a private market fund.

GRESB: Global Real Estate Sustainability Benchmark, though since its launch in 2009, they have added other real assets including infrastructure.

GRI: Global Reporting Initiative.

Human Rights Watch:

IFC: International Finance Corp.

IIRC: International Integrated Reporting Council.

ILPA: Institutional Limited Partners Association. This group released an ESG assessment framework as a resource for LPs looking to evaluate and understand ESG integration among GPs.

IMP: Impact Management Project.

Impactαlpha: Impact investing media offerings.

Impact investing: An investment approach that seeks to receive both financial and social and/or environmental returns.

Investing in Regenerative Agriculture and Food: Podcast series.

Investment Leaders Group: Formed to advance the practice of responsible investment. Facilitated by the Cambridge Institute for Sustainability Leadership (supported by academics in the University of Cambridge).

IRIS+: Impact Reporting and Investment Standards.

Katapult Foundation: Investing in and scaling sustainable Impact-focused tech startups. Associated with the Nordic Impact Investing Academy.

KPI: Key performance indicator.

LP: Limited partner. An entity that commits capital to a GP's fund. LPs provide the majority of the funding to a private market fund.

Mission Investors Exchange: Impact investing network for foundations, philanthropic asset owners, and their partners.

Morningstar Sustainalytics: Provider of ESG research, ratings and data. Sister organization to PitchBook.

My Climate Journey podcast: Media targeted to the climate crisis.

Nordic Impact Investing Network: Connecting Impact investors, activities, and communities in the Nordics.

Other: The respondent type for this survey that was not a GP, LP, or Both. Typically, individuals working in advisory or consulting.

PRI: Principles for Responsible Investment.

SASB: Sustainability Accounting Standards Board. The organization merged with the IIRC in June 2021 to form the Value Reporting Foundation, although the SASB Standards retain their name.

SEC: Securities & Exchange Commission. In May 2022, the SEC proposed enhanced disclosures for investment advisers and investment companies about ESG practices.

SFDR: Sustainable Finance Disclosure Regulation introduced in Europe to improve transparency in the market for sustainable investment products.

UN SDG: United Nations Sustainable Development Goals.

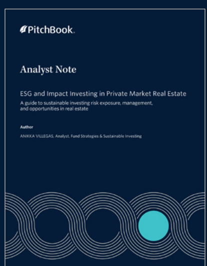
VC: Venture capital, venture capitalist. A type of private equity investing that focuses on startups and early-stage companies with long-term, high-growth potential.

VentureESG: A global group of VCs pushing for VC-specific ESG standards.

WISE: Women Investing for a Sustainable Economy.

Additional research

Impact and ESG coverage



Analyst Note: ESG and Impact Investing in Private Market Real Estate

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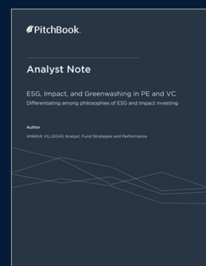

Analyst Note: ESG, Impact, and Greenwashing in PE and VC

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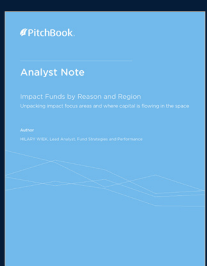

Analyst Note: Funds by Reason and Region

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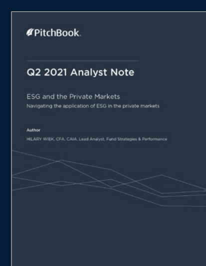

Analyst Note: ESG and the Private Markets

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Analyst Note: The Double Bottom Line: Private Market Impact Investment

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