PitchBook

2024

Sustainable Investment Survey

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Download the accompanying XLS summary pack for this report.

2024 survey by the numbers

$3,680
Donated to World Central Kitchen

1,158
Completed at least one question

527
Completed the survey

32
Days the survey was open

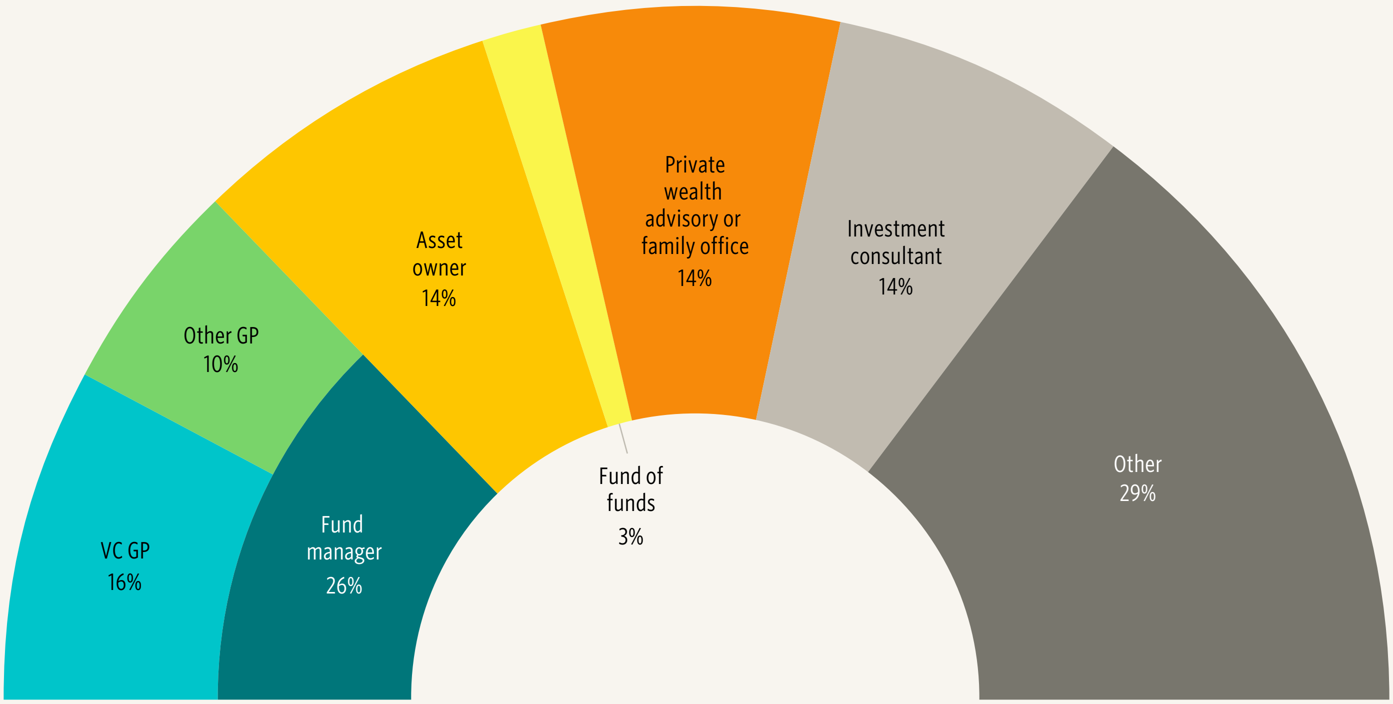
5:5
Ratio of geographic regions represented to geographic regions provided

56%
Percentage of total respondents who manage, recommend, or allocate to Impact investments

64%
Percentage of total respondents who incorporate ESG factors into their investment process

About the survey

2024 completed surveys by participant type



Source: PitchBook • Geography: Global
Questions 2 and 2.5

Since the release of our last Sustainable Investment Survey report in July 2023, we have been busy advancing our sustainable investment research efforts. Partnering with our Emerging Technology research analysts, we published a series of pieces highlighting emerging investment opportunities that can create a double bottom line of financial returns and positive social or environmental impact. Using our proprietary Impact fund dataset that aligns with the Global Impact Investing Network's (GIIN's) IRIS+ taxonomy, we also updated our reporting on fundraising and performance trends in private Impact fund investing. In the first quarter of 2024, we issued The State of Private Market ESG and Impact Investing in 2024, discussing key trends, informing our analysis with our data and market intelligence.

For our clients, our Industry and Technology Research team regularly produces research on healthcare, agriculture, and mobility technologies in the private markets, which could be of interest to thematic Impact investors. Potentially most relevant to those interested in sustainable investment themes is the research from our colleague John MacDonagh, who produces in-depth reports on climate tech, carbon & emissions tech, and clean energy.

We use sustainable investing as the umbrella overarching both Impact investment approaches and the incorporation of ESG risk factors and opportunities into the investment process.

This year, we revamped our roughly 30-question survey to focus more deeply on why and how ESG and Impact practitioners are implementing their approaches in the face of continuing challenges. We also made sure to probe the views of those who are not incorporating ESG into their investment programs to better understand the rationale backing their stance. 527 individuals completed the entire survey, although we recorded at least one answer from 1,158 individuals, providing us with even more data on a partial basis.

In addition to segmenting VC responses as we have done in the past, this year we expanded the respondent type options to isolate the views of investment consultants, funds of funds, and private wealth and family office investors. We recorded over 100 responses from almost every organization type. Despite the finer slicing of the organizations, 29% of respondents still identified as "other," including placement agents, company operators, bankers, and those at educational institutions.

We reached a broad spectrum of organizations, from small to mega: 40% represented assets below $50 million, while 9% were at organizations with $25 billion or more under management or advisement. Our "other" respondents were most likely to represent assets under $50 million, with 57% falling in that size bucket. Private wealth respondents also skewed smaller, with 73% of them representing assets under $500 million. Skewing larger were the funds of funds, asset owners, and fund managers.

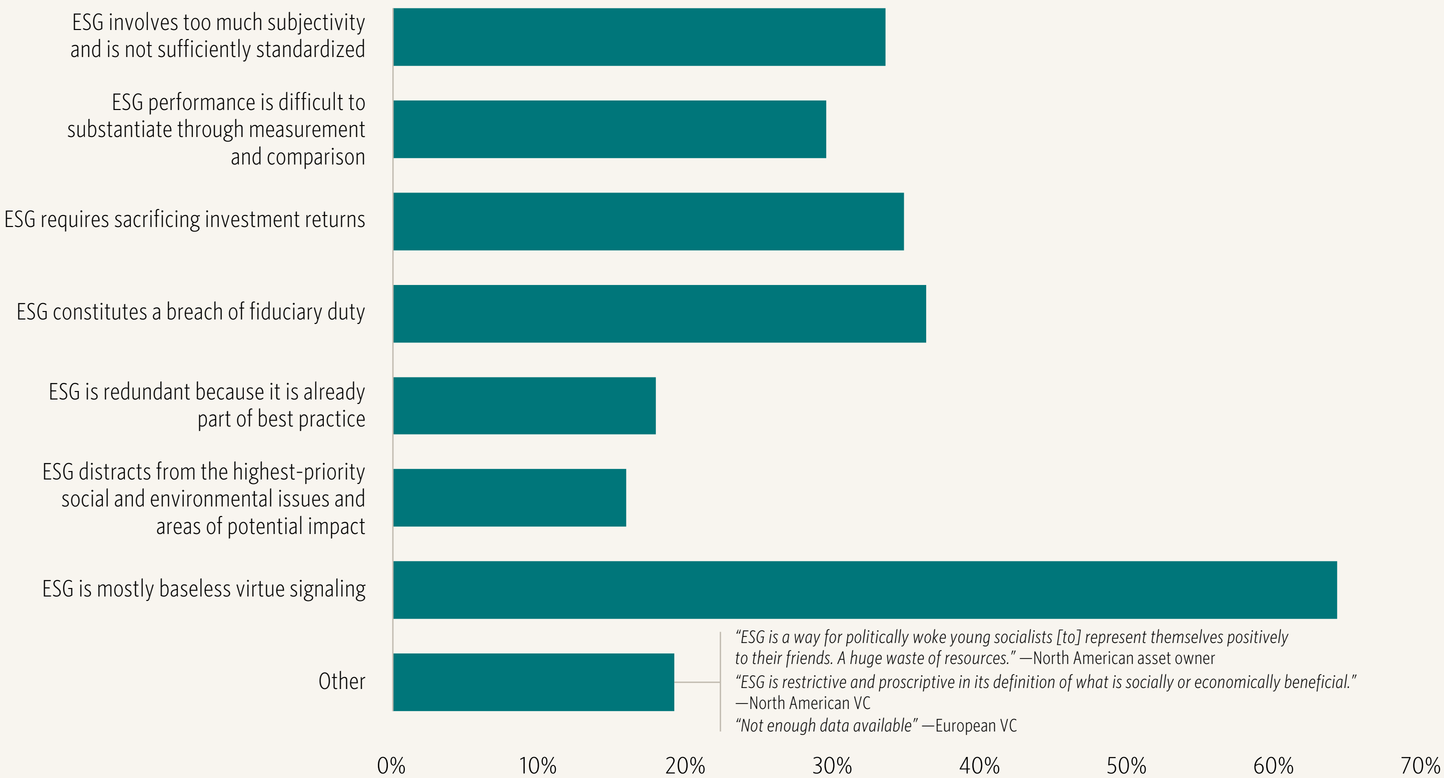
The sustainable investment field still utilizes a confusing collection of terms understood in many different ways, something several of our survey questions highlighted. To level-set for this survey, we provided the following guidance as each respondent began: "We use sustainable investing as the umbrella overarching both Impact investment approaches (seeking to make both a financial profit and a positive social or environmental impact) and the incorporation of ESG (environmental, social & governance) risk factors and opportunities 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. We have provided a glossary at the end of this report with definitions, resources, and abbreviations for readers to reference.

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), an organization operating globally with the belief that food is a universal human right. 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 2024, WCK has been responding to the need for meals in the aftermath of Hurricane Beryl in the Caribbean and Texas as well as providing continued support to Ukraine, which they have been serving since the early days of the Russia-Ukraine war. In addition, WCK has responded to dozens of climate-related disasters worldwide since establishing its Climate Disaster Fund in 2021.

What is “ESG” now?

Which of the following contributed to the decision not to utilize ESG in your investment processes?



Source: PitchBook • Geography: Global
Question 7
Note: This question allowed respondents to make multiple selections, so the responses will sum to more than 100%.

While some nonpractitioners think that ESG is all talk and no action, others think it involves such a significant shift in investment strategy that it necessitates accepting below-market-rate returns.

We and many others have shared ample guidance on how we define ESG, what it typically entails, and what it is not. While our definitions and frameworks are based on those of prominent ESG-focused industry groups and organizations as well as the best practices of leaders in the space, we recognize that there are still many vastly different interpretations of ESG. It is helpful to divide the spectrum of opinions into practitioners and nonpractitioners, as both influence how ESG continues to take shape and how it is perceived not only in their own circles but also in the court of public opinion. A full 64% of our respondents stated that they incorporate environmental, social, or governance factors into the process of evaluating and/or managing investments. This provided a robust group to ask about what practitioners are doing, but it also left a good proportion of individuals who could explain why ESG is not part of their investment process.

Among nonpractitioners, 64% reported that they believe that ESG equates to baseless virtue signaling. This was the most popular selection for the question about what contributed to the respondents’ decisions not to use ESG in their investment processes. This was not just a North American trend, as this response was chosen across all major geographies and among both GPs and LPs. Interestingly, the second-most-popular answer, selected by 36% of nonpractitioner respondents, is that ESG constitutes a breach of fiduciary duty. So while some nonpractitioners think that ESG is all talk and no action, others think it involves such a significant shift in investment strategy that it necessitates accepting below-market-rate returns.

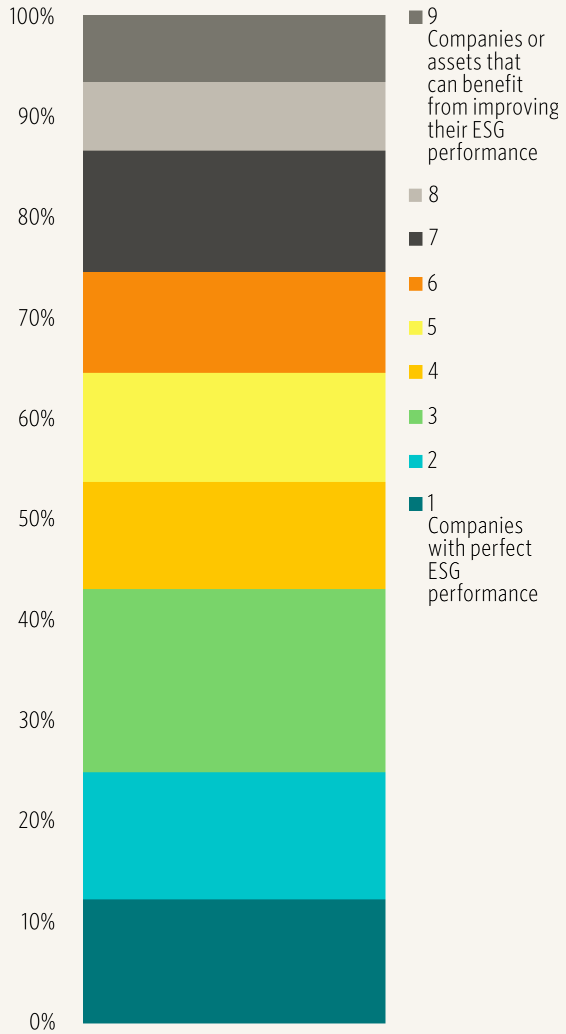
In practice, both ESG practitioners and nonpractitioners decline to make or recommend investments due to environmental, social, or governance concerns.

ESG presents itself in a variety of ways among practitioners too. For around 12% of practitioner respondents, ESG means investing only in companies or assets that face minimal ESG risks and have fully mitigated the risks that they are exposed to. Approximately 7% of practitioner respondents feel the opposite, seeking out companies or assets that are performing poorly with respect to ESG issue areas and then making improvements to their practices as part of the investor's value-creation strategy. The overwhelming majority, though, are somewhere in between, with the most popular approach erring on the side of selecting "clean" assets with a fairly low degree of risk but the potential to make minor to moderate upgrades.

In practice, both ESG practitioners and nonpractitioners decline to make or recommend investments due to environmental, social, or governance concerns. Of the pool of respondents who said that they do not incorporate ESG factors into their investment evaluation and management processes, 39% have forgone an investment or investment recommendation because of ESG issues. In other words, even those who state that they are not using ESG do use it under some circumstances, showing a disconnect between what they think ESG is and their own ESG-related practices. For comparison, 82% of ESG practitioners have declined an investment or recommendation for ESG reasons. In terms of the types of ESG-related deal breakers for each, nonpractitioners were more likely to decline an investment or recommendation for governance reasons, while practitioners were more likely to decline for environmental reasons.

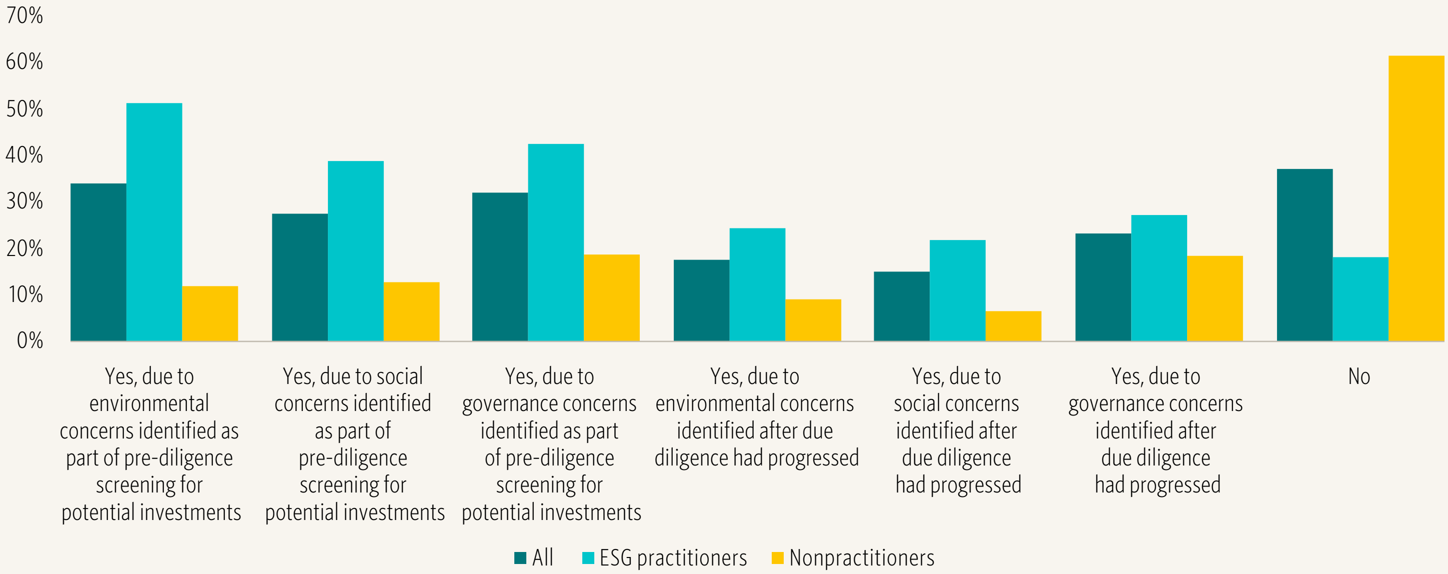
We also asked to hear about some specific instances in which ESG concerns had merited declining to make or recommend an investment. On the environmental side, respondents mentioned "physical risks associated with climate flooding and wildlife risks for a property assessment," a company "not properly monitoring and treating waste from their process," and "environmental concerns over the mining of lithium." On the social side, they said "cigarettes – out" and described a company "having trouble integrating a prior acquisition from a 'cultural fit' perspective." Lastly, on the governance side, they discussed "data breaching," "an improper relationship with local government officials which would be hard to rectify going forward," and dishonesty from leadership on "growth opportunities, inventory, etc."

Please indicate how you prioritize investment in companies or assets that are already performing well from an ESG perspective (where 1 is perfect ESG performance) versus companies or assets that can benefit from improving their ESG performance (a 9 on the scale)?



Source: PitchBook • **Geography:** Global
Question 6

Have you ever declined to make or recommend an investment due to environmental, social, or governance concerns?



Source: PitchBook • Geography: Global
Question 10
Note: This question allowed respondents to make multiple selections, so the responses will sum to more than 100%.

A desire to move away from the term ESG was expressed frequently, and not only by the anti-ESG group.

Investing is not a monolithic science—if it were, every investor would select exactly the same companies for their portfolio and there would be no sellers for those that are looking to buy. Differences in investment philosophies and processes are required to make the financial markets efficient. In the ESG landscape, there has been little convergence, but perhaps there are some benefits to differences in opinion in this realm as well. There is an abundance of ESG-related issues to address, and no one investor can tackle them all. Different points of view could lead to improvement across more areas of opportunity.

However, despite efforts to dispel misinformation and bring the industry to a shared understanding of ESG, there are still such widely contradictory views of the term and what precisely it involves that undesirable inefficiencies are being generated. Given this and the extreme politicization of ESG, some industry participants have chosen to move away from the term, using different language to describe their sustainability-related risk mitigation and value-generating practices. To get a sense of how prevalent this may become in the industry, this year we asked our respondents how they felt about the term ESG.

Responses ranged from matter-of-fact to vitriolic. For instance, one read: "ESG stands for environmental, social and governance. These are called pillars in ESG frameworks and represent the 3 main topic areas that companies are expected to report in. The goal of ESG is to capture all the non-financial risks and opportunities inherent to a company's day to day activities." Another called ESG "cliché and a fad" while a third said it was "useless and an extreme form of government control." A few, largely European, respondents were positive on the term, while others made statements in line with the idea that they were "neutral, although it has been so eroded [in the] last [few] years" that it has become "uncomfortable [to use] with some LPs."

A desire to move away from the term was expressed frequently, and not only by the anti-ESG group. One European respondent stated that they "strongly recommend it is

What are your feelings about the term ESG?

"Another tool in the box."

—Asia-Pacific investment consultant

"Correctly used, it can be a very good approach on identifying potential risks during screening and due diligence."

—European fund manager

"Hopeful and hopeless."

—Asia-Pacific research institute

"Love it."

—North American pharma services company

"Mixed, partly positive, since it is needed, partly negative, since many people understand ESG only as burden, which is stemming from regulatory reporting pressure."

—European VC

"In the US highly politicized. In Europe highly favored. For our location in Asia Pacific it varies significantly but we tend to stay away from it and focus on Environmental and Social impact investing as part of our Impact pillar without mentioning ESG."

—Asia-Pacific VC

"It does the job."

—European fund manager

"A complex but inevitable future."

—Central & South America, Caribbean company

"I truly believe that ESG is one of the worst things happening to the USA and the world, undermining personal freedoms and economic stability..."

—North American investment consultant

"ESG is a total fraud."

—North American investment consultant

"It has been weaponized. We need to start breaking the components down into the individual concepts that they are."

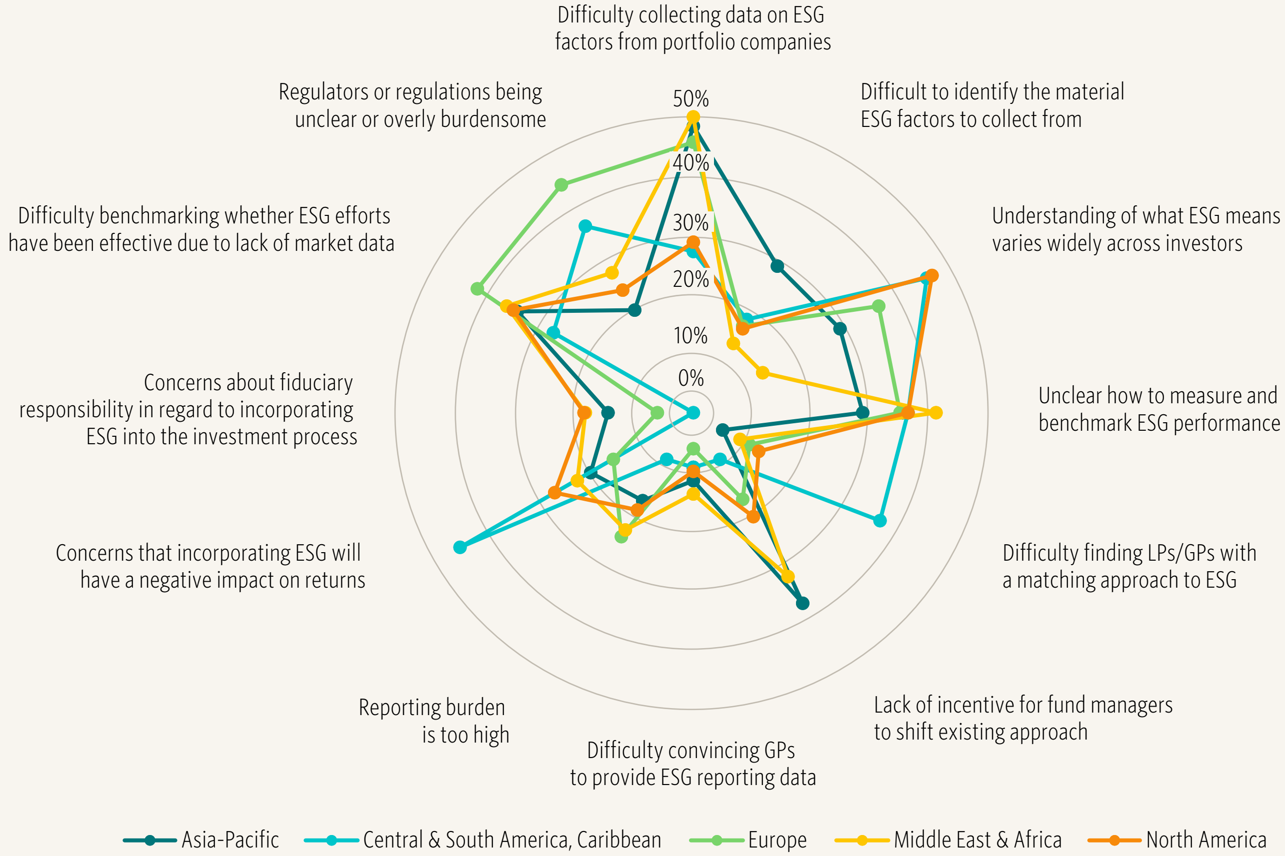
—North American fund manager

Source: PitchBook • Geography: Global
Question 15

rebranded to 'Responsible Investing.' The US Republican politicians have killed the term ESG with their anti-ESG backlash." Some cited the abandonment of the term by former proponents as evidence that the term is on its way out the door, saying "it is permanently tainted and its manifest failure is clearly evidenced by Larry Fink's retreat on the issue from 2023 onwards." Put succinctly, in the words of two North American respondents, the "ESG name is too thrashed [...] [we] need a new term." "Let it change if [the] current political environment hinders progress." It is unclear when or if this will happen. In the meantime, a portion of the industry will likely continue to denounce "ESG" while engaging in practices that many would consider to be aligned with it, and in doing so will perpetuate the confusion around the term.

How and why ESG practitioners persist

Please select what you perceive to be the top three challenges for ESG in the private markets.



Source: PitchBook • Geography: Global
Question 12

Utilizing an ESG framework comes with many challenges. In Europe, concerns appear to center on complying with unclear or onerous regulatory requirements in combination with difficulty collecting and benchmarking data. Those offering funds to the European market have to adhere to rules such as the Sustainable Finance Disclosure Regulation (SFDR), which some have felt was poorly implemented and difficult to align to.[1] In North America, the chief problem identified by practitioners is that investors' understanding of ESG varies so widely. As we explore in the "What is 'ESG' now?" section, efforts to bring convergence on what exactly it means to "do ESG" have not been fruitful in the private markets. On a global scale, this, combined with difficulties collecting ESG data from portfolio companies, exacerbates issues with benchmarking ESG's effectiveness due to lack of market data.

1: "EU Sustainable Finance: Complex Rules and Compliance Problems' Review of Banking and Financial Law," University of Oxford, Felix Mezzanotte, June 28, 2023.

It is likely that asset managers have outwardly downplayed the role that missions and values have had in the development and maintenance of their ESG programs, choosing instead to highlight the potential financial benefits.

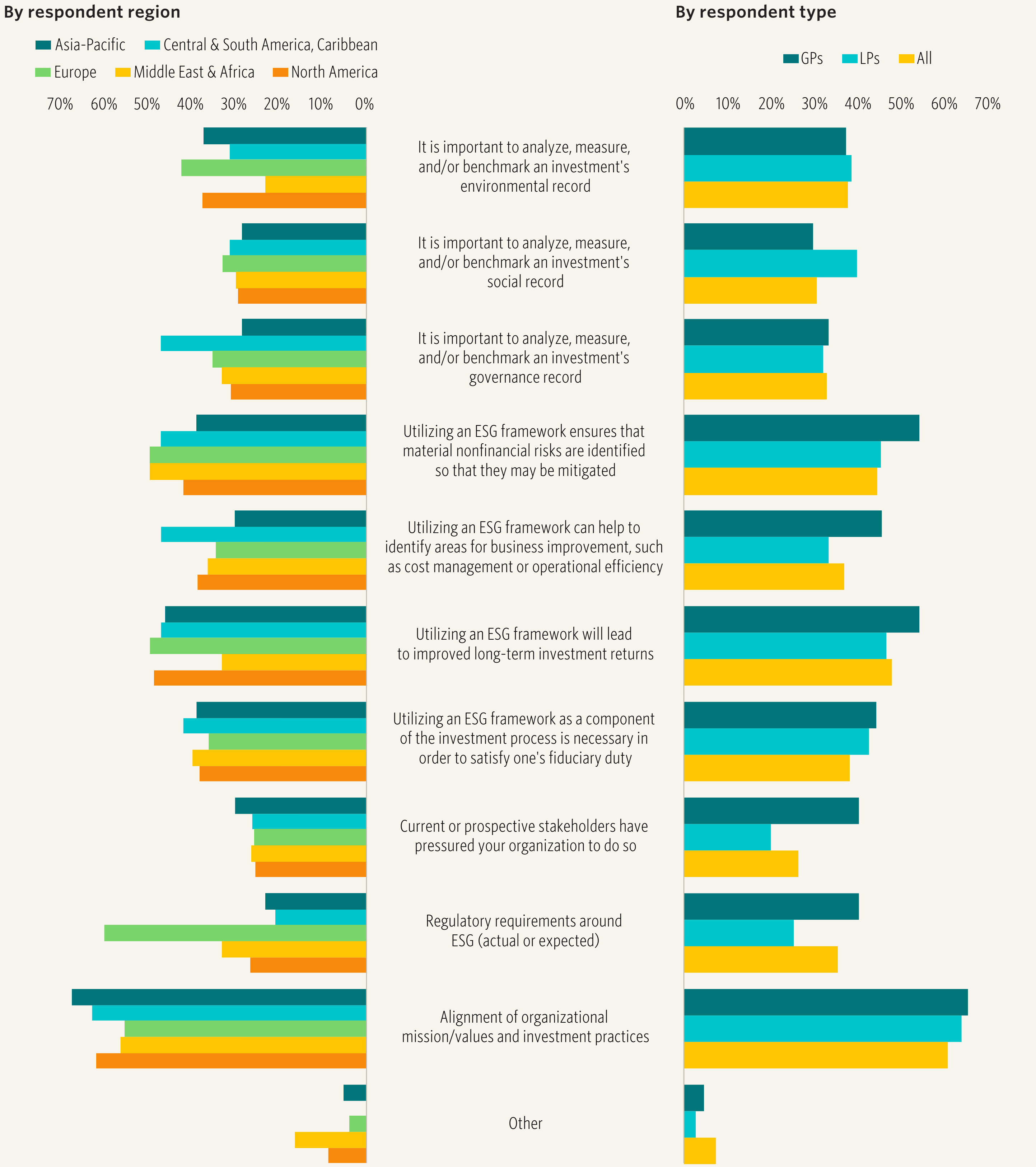
Despite these and other challenges, 64% of our respondents report that they continue to utilize an ESG framework as part of their investment process. Their reasons for this are manifold, but the most-often-cited motivation is alignment of organizational missions or values and investment practices. This was the top motivation for all responses globally, though in Europe the most common response was that ESG is used because of the actual or expected regulatory requirements around it. While the US Securities and Exchange Commission has been less proscriptive around ESG,[2] mainly requiring that fund managers disclose what they are doing and then do what they say they are doing, those operating in Europe have had to deal with the implementation of SFDR and other directives such as the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD). Nonetheless, alignment of organizational missions or values was the second-most-popular reason cited for that region and globally among respondents.

It is important to note that much of the public discourse around the reasoning for using ESG has focused on the second-most-selected answer overall: that utilizing an ESG framework will lead to improved long-term investment returns. In part, this can be attributed to the fact that as ESG has come under fire, one of the key talking points of the anti-ESG contingent has been that ESG prioritizes "feel-good" investing above maximizing IRRs. It is likely that asset managers have outwardly downplayed the role that missions and values have had in the development and maintenance of their ESG programs, choosing instead to highlight the potential financial benefits. Still, as the debate rages on about whether ESG harms or improves returns while the specter of a recession looms, more conclusive evidence to the latter would likely make it a more powerful motivator relative to missions and values.

We also provided the option for respondents to write in their answers to the question about what contributed to their decision to utilize ESG in the investment process. Several zeroed in on specific ESG-related opportunities. One respondent said that their motivation was "Promoting women and diversity - despite extensive discourse on increasing the representation of women in management and technical roles, numerous barriers persist that hinder meaningful progress..." Another opined that "ESG, as currently defined, means solar, wind, and batteries. However, these are not real ESG [...] To decarbonize requires nuclear power [...] Everything else is nonsense, and extremely dangerous nonsense, because there are indications that we may be at peak fossil fuel right now."

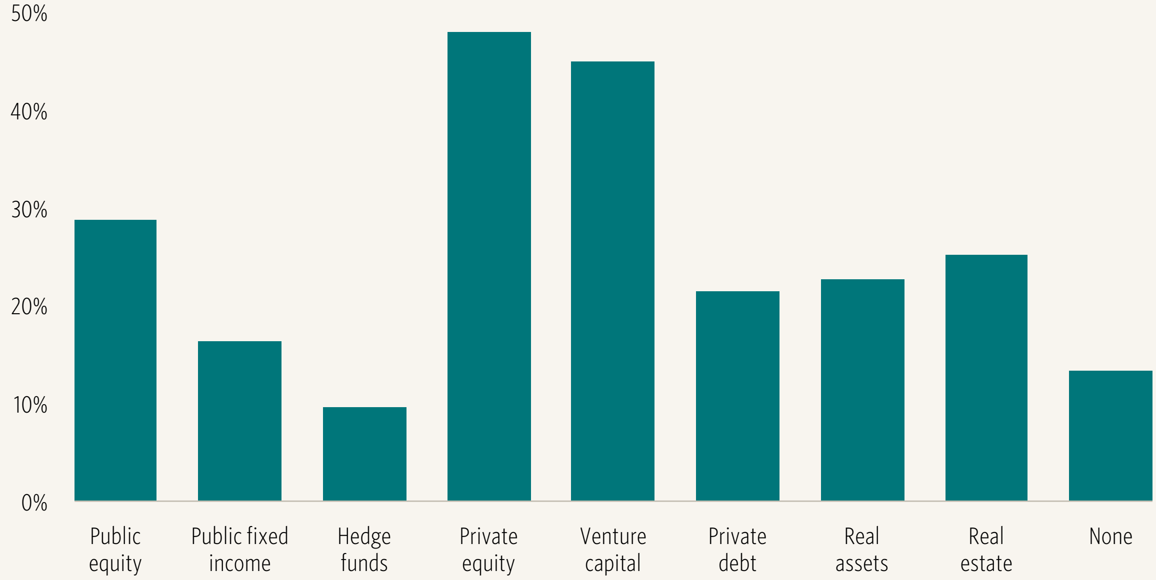
2: "ESG Disclosures for Investment Advisers and Investment Companies," US Securities and Exchange Commission, n.d., accessed September 4, 2024.

Which of the following contributed to the decision to utilize ESG in your investment processes?



Source: PitchBook • Geography: Global
Question 8
Note: This question allowed respondents to make multiple selections, so the responses will sum to more than 100%.

In what strategies does your organization offer or has your organization awarded or recommended mandates that utilize ESG factors?



Source: PitchBook • Geography: Global
Question 13
Note: This question allowed respondents to make multiple selections, so the responses will sum to more than 100%.

PE is a good fit for ESG implementation for many reasons, including that GPs have the ability to conduct extensive due diligence on potential investments, after which they have years-long holding periods in which they can directly enact change at portfolio companies and then reap the benefits.

Taking a closer look at where ESG is being integrated across the capital markets, responses to the survey suggest that private equity and venture capital are the strategies in which the most GPs utilize ESG factors and the most LPs or others award or recommend mandates to investments using ESG factors. Despite some perceptions that ESG is largely a public markets phenomenon, public equities were only the third-most-popular strategy listed by respondents to this question. Due to the fact that our core audience is private market investment professionals, results are likely skewed toward the private markets to some extent, so they may not be representative of the industry as a whole.

In terms of why ESG makes sense in these spaces, PE is a good fit for ESG implementation for many reasons, including that GPs have the ability to conduct extensive due diligence on potential investments, after which they have years-long holding periods in which they can directly enact change at portfolio companies and then reap the benefits. VC is well suited to ESG in other ways, such as that investors have the ability to build in robust practices at the early stages of the company and that the innovation occurring in VC provides ample possibilities for investors to help companies capitalize on ESG opportunities in areas such as climate tech, agricultural tech, or cleantech.

Real estate and real assets were comparatively less popular asset classes for ESG strategies among our respondents, which may seem odd given the materiality of environmental issues to the property sector and heavy investment that has been occurring in sustainable infrastructure. However, this is likely partially attributable to the fact that there are simply more private equity and venture capital funds that have been raised overall, so it follows that there would be more vehicles to allocate to, recommend, or raise that could be using ESG. Both real estate and real assets are strong candidates for ESG for some of the same reasons as PE, in addition to their asset-heavy nature, which makes future-proofing a more important consideration in the context of physical and transition-related climate risks, among others.

PitchBook

Is Impact investing necessarily concessionary?

In many conversations we have had with Impact investors, they have expressed a frustration with an industry perception that seeking impactful outcomes means market-rate returns are off the table. In fact, among those who have some exposure to Impact investing in their investment program, most audiences selected "Perceptions or concerns about Impact investing equating to concessionary returns" as one of the top three challenges that Impact investing faces. This year, we wanted to see how practices compare with perception and what motivations are driving practitioners' Impact investing programs.

Impact practitioners by the numbers

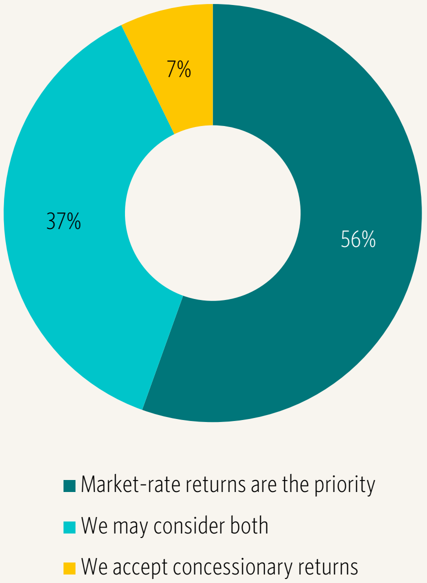
Respondents who do Impact	56%
VC respondents who do Impact	71%
Private wealth respondents who do Impact	53%
North American respondents who do Impact	49%
European respondents who do Impact	71%

Source: PitchBook • Geography: Global
Question 16

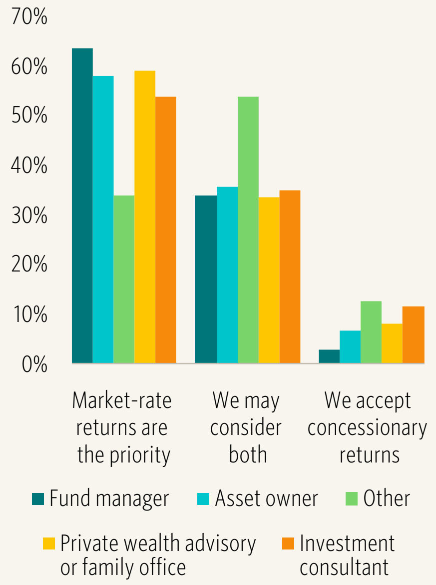
A nice cross-section of Impact investors took our survey thanks to some voluntary promotion from a few Impact investing groups. One key question we had for our Impact practitioners concerned their priorities around market-rate returns versus Impact outcomes. More than half said market-rate returns are the priority—and this was true across most respondent types. One exception was that only 34% of respondents from our "other" bucket—which included a wide array of individual companies, consulting firms, law firms, and more—made this selection. In addition, only 43% of our European respondents selected this

Please indicate how you prioritize Impact outcomes versus market-rate performance as you assess a potential investment opportunity.

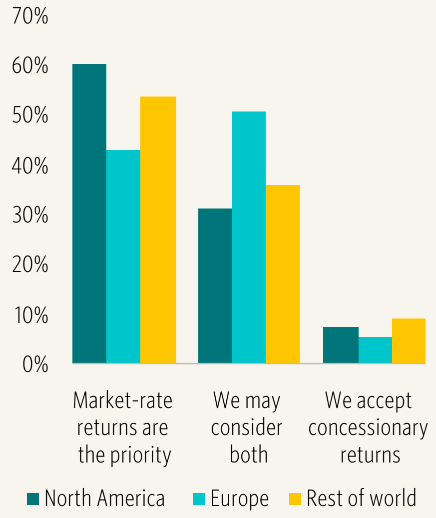
All respondents



By respondent type



By respondent region



Source: PitchBook • Geography: Global
Question 21

response option, with 51% saying they use a blend of Impact outcomes and return profiles to make their Impact investments.

Across the board, very few respondents chose "We accept concessionary returns." Only the "other" and investment consultant groups had more than 10% of respondents share that they accept concessionary returns—and their selection rate was only 13% and 12%, respectively. None of our VCs accept concessionary returns as a valid option for their strategy.

Many Impact investors find themselves balancing their priorities between Impact outcomes and market-rate returns. In our follow-up to this question, we asked respondents to expand on their choice. Of those who consider both, the responses fell into four schools of thought, shown in the graphic below.

As we have seen in so many aspects of sustainable investing, there is a lot of complexity to the subject, leaving room for a wide variety of implementation methodologies when it comes to Impact investing. Part of the reason it can be so frustrating that sustainable investing has been politicized is that a blanket statement such as "[ESG/Impact] is bad" completely misses the point that sustainable investing is not just one thing. While concessionary returns do play a part in some investors' Impact portfolios, more than half of our Impact practitioner respondents would heartily disagree that Impact strategies equate to abandoning market-rate returns.

Four schools of thought when it comes to how practitioners prioritize Impact outcomes versus market-rate performance

The two go hand in hand and it is not a trade-off

"We are competing against generalist VC funds; we want to show that impact investments can return at least equal profits."

—European VC

"Frequently Impact can be achieved without sacrificing appropriate returns - particularly where the latter takes into account risk reduction that may be associated with impact-driven investments."

—North American investment consultant

Sacrificing some short-term returns would lead to better long-term performance

"Compromises on short and midterm returns for critical issues like climate ensures there are investment opportunities in the long term."

—European fund manager

"Willing to be short-term concessionary if long-term market returns are viable."

—North American fund manager

Using different pools of capital for Impact investing

"Impact investing is a new concept and only a small allocation of the entire portfolio. Impact investing would potentially have a different return cycle (longer-term view) vs. other investments."

—North American private wealth/family office

"Particularly in our charitable foundation and Donor Advised Fund, we will consider 'catalytic' investments that would not meet the standard risk/return criteria but are designed to deliver capital to an issue area that we wish to see invested in."

—North American asset owner

Balancing Impact and financial performance in making investment decisions

"For sufficient value alignment, we are willing to sacrifice [a signification portion] of returns. The further away from value alignment, the less willingness on decreased performance. With sufficiently low alignment, no investment will be made no matter the returns."

—European private wealth/family office

"Large IRR numbers are not an excuse for damaging investment."

—European project developer

Source: PitchBook • Geography: Global
Question 21.5

Views on ESG and Impact measurement

Top three challenges for ESG in the private markets

Understanding of what ESG means varies widely across investors

39%

Difficulty collecting data on ESG factors from portfolio companies

37%

Difficulty benchmarking whether ESG efforts have been effective due to lack of market data

37%

Source: PitchBook
Geography: Global
Question 12

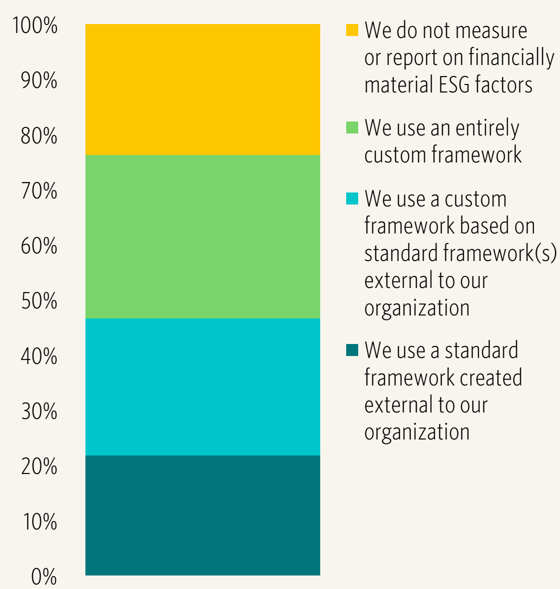
Year in and year out, the top challenges our respondents face in ESG and Impact investing relate to data, measurement, and benchmarking, and this year was no exception. For ESG, two of the most selected challenges this year were data related.

Why is this such a perennial problem? Both ESG and Impact investors are challenged by definitional discrepancies, as seen in the top challenge selected for each. Practitioners and especially nonpractitioners have widely varying ideas of these concepts, causing confusion around what should be measured, how to measure it, how to benchmark what has been measured, and whether measurement is important at all.

We know from other questions in our survey that even ESG practitioners have very different ways of utilizing ESG in their investment processes—some think that a perfectly pure portfolio (however that is defined by any particular investor) is the best representation of ESG, while others subscribe to the view that buying companies and then working toward improvement by mitigating ESG risks is a better way to improve the world through one's investment allocations. This second approach may have the added benefit of making companies more resilient, which may make them more valuable to buyers upon exit. This is why more than half of the survey respondents selected risk mitigation and improved long-term investment returns as the reason they integrate ESG into their investment processes.

As we have reported in prior years, measuring and reporting on ESG continues to be done in a wide variety of ways. Roughly 70 different standards or frameworks were mentioned when respondents were asked how they identify, measure, and/or report on financially material ESG factors. As in our past surveys, the Sustainability Accounting Standards Board (SASB), the UN Sustainable Development Goals (SDGs), the Principles for Responsible Investment (PRI), and the Global Reporting Initiative (GRI) were mentioned with the greatest frequency. Most of the other responses, many of which will be obscure organizations or metrics even to full-time practitioners of ESG, were named only once. As long as investors continue to have their own views on what is important from an ESG perspective, which seems to be a permanent situation, practitioners will continue to be challenged in determining the effectiveness of ESG efforts, which is something that non-ESG practitioners will frequently call out as a fundamental weakness of ESG.[3]

Does your organization utilize a standard or custom framework to identify, measure, and/or report on financially material ESG factors?



Source: PitchBook • Geography: Global
Question 9

3: For more on this topic, read our note Concerns About and Criticisms of ESG.

What is your familiarity with the ESG Data Convergence Initiative (EDCI)?

Source: PitchBook • Geography: Global
Questions 11 and 11.5

When we reviewed how people described their custom methods of ESG measurement, the responses ran the gamut from "basic due diligence" to deeply technology-dependent methods, including "AI-driven data collection, filtering and proprietary algos to calculate ESG's financial impacts on such areas as cost of equity and revenues." Others have custom frameworks that are very specific to their own needs. "We filter for positive impact on climate environmental and filter negative against social impact," said one respondent. One North American investment consultant indicated that while his firm does incorporate ESG into their investment analysis, they are still skeptical about the need for ESG measurement: "We have a faux policy to appease politicians. Other than that, we feel ESG is a scam."

Several did not name any specific standard they adhere to, saying it was company and manager specific, highlighting the issue that LPs have in ESG measurement—they are getting different metrics from each of the managers they partner with, making it difficult to aggregate or evaluate ESG performance. Indeed, LPs and private wealth investors who self-identified as ESG practitioners were least likely to measure or report on financially material ESG factors at all, at 37% and 39%, respectively. From the reverse perspective, one fund manager reported that "All of our LPs have completely random frameworks which create an administrative nightmare. We are forced to pass through this administrative burden to our portfolio companies via long questionnaires." The lack of convergence in ESG definitions and reporting is causing frustration throughout the industry.

But there is hope. Almost two years ago, we became aware of a nascent effort being made by some industry participants who agreed that 1) we cannot wait until the perfect ESG framework is designed, as it may never happen; 2) having everyone come up with their own company-specific data points means that nothing is aggregable; and 3) having data points that sound the same but are defined differently make them incomparable. The ESG Data Convergence Initiative, also known as EDCI, brought LPs and GPs together to define a very small number of measurable environmental, social, and governance metrics that the GPs could agree to measure in a common way. This group then set up a reporting mechanism so that a third party could collect the data and provide

Top three challenges for Impact in the private markets

Understanding of Impact investing varies widely across investors

46%

Unclear how to measure and benchmark Impact outcomes

38%

Difficulty benchmarking Impact outcomes without clear definitions of what is being measured

37%

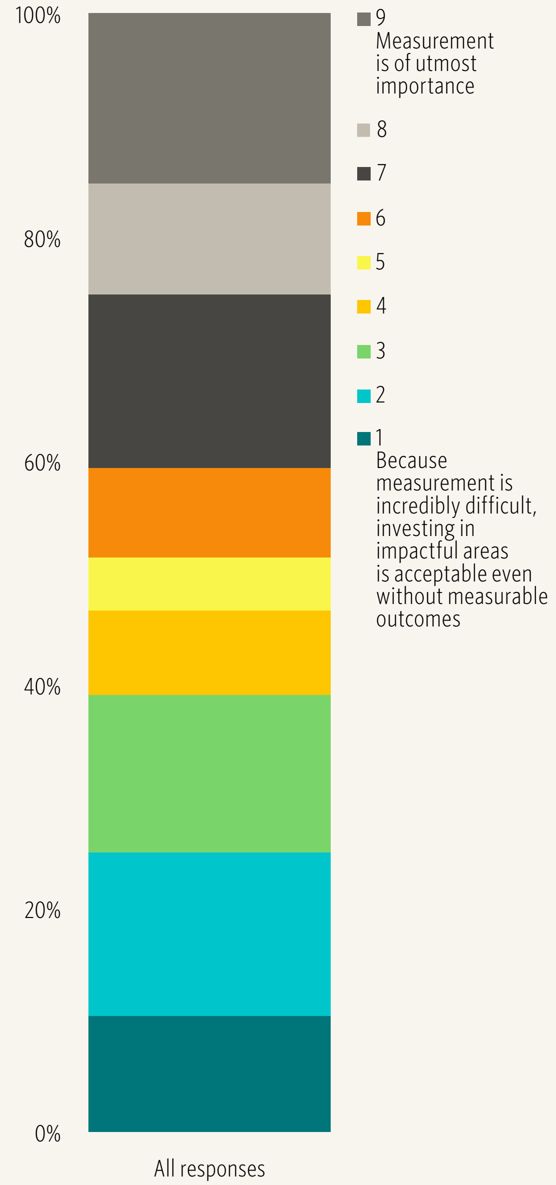
Source: PitchBook
Geography: Global
Question 23

anonymized benchmarks. So if a GP's companies all measured something like net-new hires and work-related accidents the same way, then they and their LPs could have an idea of whether those figures were comparatively good or bad. Based on our survey responses, awareness of this initiative is still low. We encourage those who think this sounds like a good idea to explore being a participant, as it may help the industry to take a step forward when it comes to ESG measurement and benchmarking.

Impact investors face similar challenges in terms of what to measure, how to measure, how to benchmark, and how to define Impact investing. Only 25% of our Impact practitioners use a standard created outside of their organization, including those who are using that external standard in a customized way. A full 42% do not measure Impact at all, despite seeking both financial and social or environmental returns with at least some of their investable assets. For those who do use some external standard, 20 different organizations or frameworks were mentioned, with the most overlap being the four people who cited SASB, which is generally thought of as an ESG framework, not one for Impact measurement.

There does appear to be appetite for measuring Impact outcomes among some of our Impact practitioners, but there were also plenty of practitioners for whom measurement is not a top priority—the responses are barbelled. 25% of our respondents gave a 1 or 2 response, indicating they do not prioritize measurement, but another 25% selected 8 or 9, indicating that measurement is of utmost importance. The mean of all of the responses was 5.08, indicating that there is a very slight skew toward measurement, but in general, there is not a consensus among Impact investors in terms of measurement priorities.

How you prioritize measurable Impact outcomes versus investing for Impact regardless of measurability as you assess a potential investment opportunity?



Source: PitchBook • Geography: Global
Question 22

Where is the money flowing?

This year, we asked a half dozen questions that hoped to tease out where allocators, fund managers, and their advisors are funneling sustainable investment capital. We separated out ESG and Impact decisions in most cases, but for the first time, we also asked an open-ended question to determine where respondents anticipated placing bets with capital aligned to sustainable investment practices.

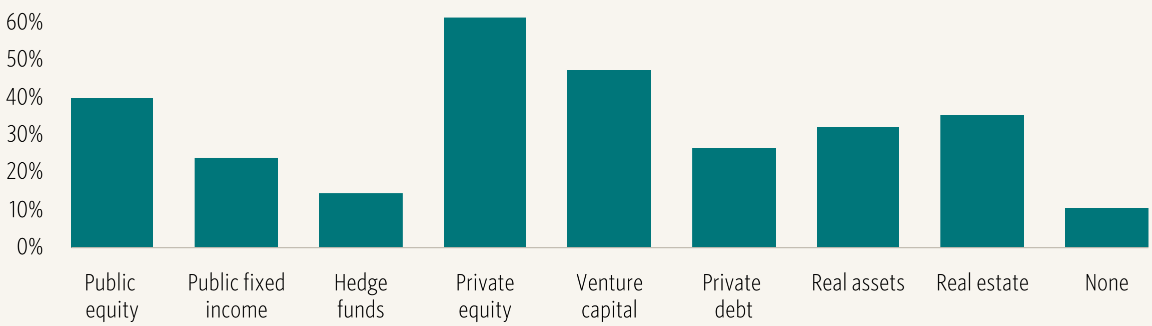
By combining sources of funding coming from asset allocators and funds of funds with those who have an important role in advising those with assets to invest, such as investment consultants and private wealth advisors, we get a picture of where our respondents have been willing to recommend or hire fund managers utilizing ESG factors. Given that PitchBook's core audience is private markets investors, each year we have seen that PE and VC are the top recipients of sustainable investment capital in a total portfolio; this year, we asked a targeted question just about ESG, but the results were the same. This could be surprising to some industry participants who claim that ESG is for public market investing and Impact is for private. As we say in several places throughout this report, there are no hard-and-fast rules or definitions for ESG or Impact, and it turns out that the perception definitely does not track with the experiences of our respondents.

To adapt in a world of shrinking allocations to the space, some hedge funds may have decided to incorporate ESG principles into their processes to attract or retain investors.

It may seem odd that 11% of the respondents in this combined group said they have made no allocations to investment strategies using ESG factors—given that this question went only to individuals who said that they do incorporate ESG factors into the process of evaluating and/or managing investments. But when we asked allocators what percentage of their current fund managers incorporate ESG factors into their investment decision-making process, 10% said that they do not utilize external fund managers, which addresses that unexpected data point.

As we have seen in prior versions of this survey, hedge funds appear to be the place where the fewest are allocating capital with an ESG mandate. This year, 15% of our respondents have hedge funds utilizing ESG factors as part of their investment portfolio or range of investment recommendations. When a similar question was asked in 2021, only 3% of our respondents incorporated ESG into their hedge fund manager decisions. The growth in usage is likely related to a growth in hedge funds offering such an approach. Not long ago, hedge funds were in high enough demand that they did not feel any pressure to do anything that they felt might impact their "secret sauce." In recent years, however, hedge funds have lost their luster for many investors. To adapt in a world of shrinking

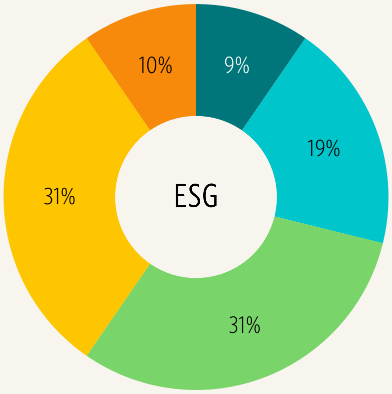
In what strategies does your organization offer or has your organization awarded or recommended mandates that utilize ESG factors?



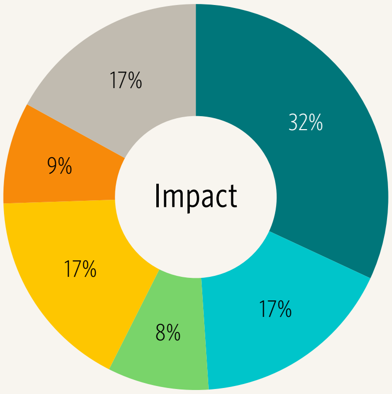
Source: PitchBook • Geography: Global
Question 13

Note: This question allowed respondents to make multiple selections, so the responses will sum to more than 100%. Only asset owner, fund of funds, private wealth and family offices, and investment consultant responses are included.

Approximately what percentage of your current fund managers (all asset classes) incorporate ESG factors into their investment decision-making process?



Approximately what percentage of your current fund managers (all asset classes) seek measurable environmental or social impact in addition to financial returns?



<25% | 25% to 50% | 50% to 75% | >75% | We do not utilize external fund managers | 0%

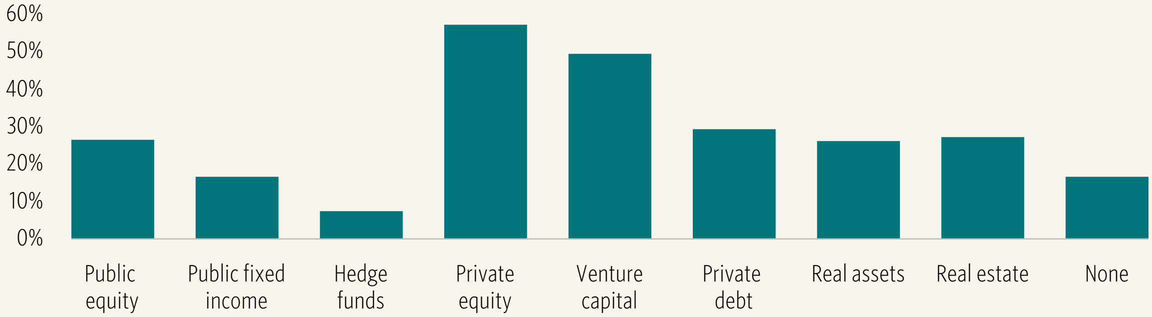
Source: PitchBook • Geography: Global
Questions 14 and 20

allocations to the space, some hedge funds may have decided to incorporate ESG principles into their processes to attract or retain investors.

While PE and VC are still the top areas where our respondents are focusing their Impact dollars, it is interesting to see that all other areas have lower Impact allocations than ESG-related allocations. The 27% of respondents who have public equity managers utilizing Impact principles is quite a bit lower than the 40% of respondents who have public equity managers utilizing ESG principles. Hedge funds again have the smallest number of Impact investors, but the percentage is half of the hedge fund figure for ESG. It seems that those who feel that Impact is for private markets are better attuned to the trends than those who feel that ESG is just a public market thing.

As indicated in our questions around ESG and Impact investor priorities, nearly half of investors incorporating ESG into their investment process are doing so because they believe it will lead to improved long-term investment returns, and more than half of Impact investors make market-rate returns a priority. So where are these profit-motivated sustainable investors placing their bets?

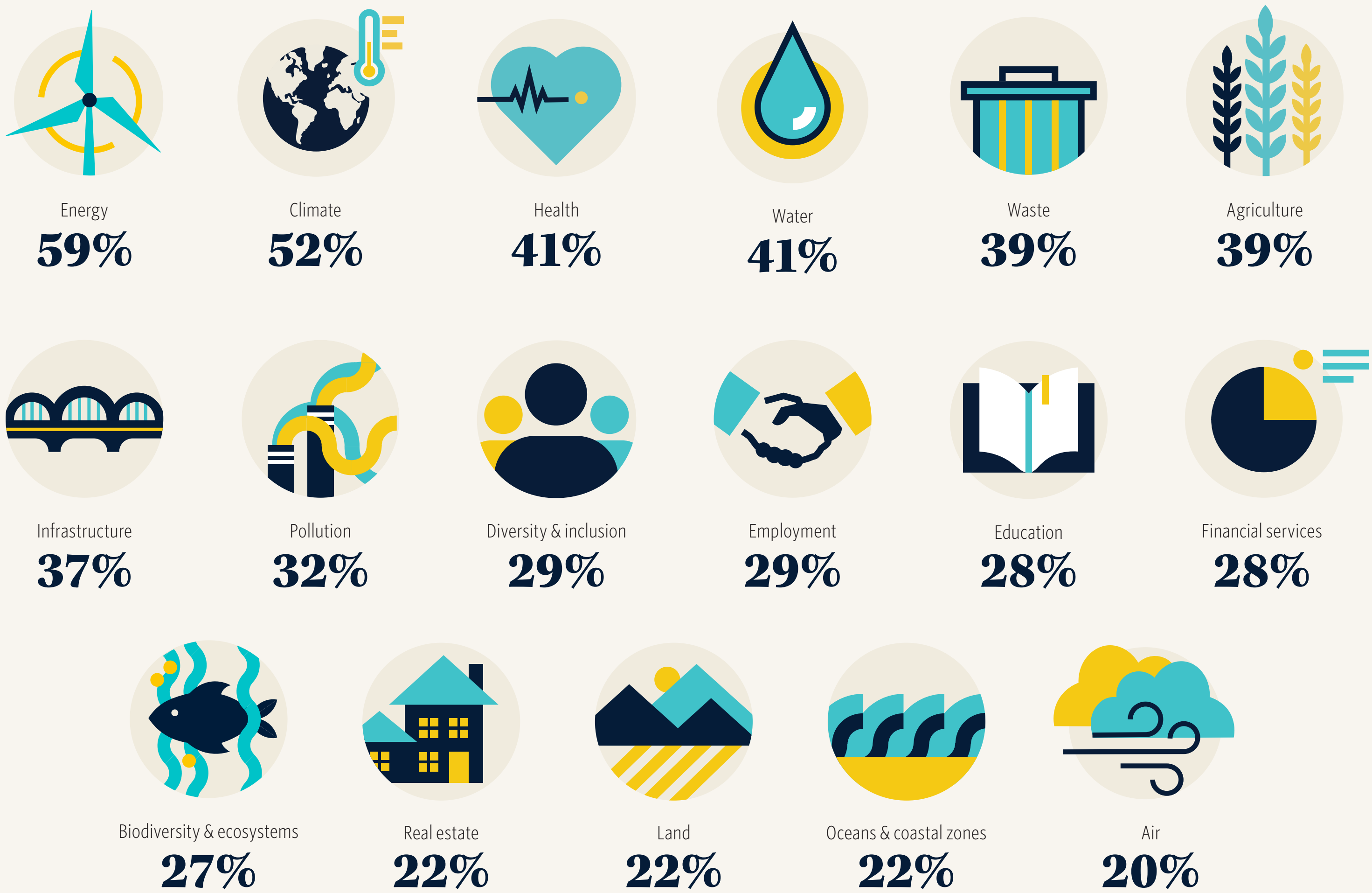
In what strategies does your organization offer or has your organization awarded or recommended mandates that seek positive social or environmental impact?



Source: PitchBook • Geography: Global
Question 19

Note: This question allowed respondents to make multiple selections, so the responses will sum to more than 100%. Only asset owner, fund of funds, private wealth and family offices, and investment consultant responses are included.

Which categories of Impact investing are a focus for your organization?



Source: PitchBook • Geography: Global
Question 18

Note: All respondents are included. This question allowed respondents to make multiple selections, so the responses will sum to more than 100%.

For those offering fund strategies incorporating Impact, it appears that there are allocators willing to fund every category of Impact,[4] though to greater or lesser degrees. By quite a margin, the top area for allocators, funds of funds, and their advisors was energy, with 61% of those respondents selecting it as an area of focus. Climate was selected by half of the allocator-related respondents, though those controlling assets over $5 billion selected climate at an 80% rate.

Looking geographically, European respondents, still struggling through a Russia-induced energy crisis, selected energy at a 70% rate, while 58% of North American respondents did so. Europeans selected pollution at a 41% rate, nearly 12 percentage points ahead of North Americans. The other big difference between the two regions was diversity & inclusion, where 30% of North Americans had this as an area of focus, but only 19% of Europeans did. Please refer to the "Diversity, equity & inclusion" section of this report for analysis on this topic. In the rest of the world (RoW), only climate was selected by more than half of respondents. In contrast with North America and Europe, RoW was more likely to select agriculture and diversity & inclusion and less likely to focus on energy, infrastructure, or water. In each case, the difference was more than 10 percentage points.

4: The categories of Impact are based on the GIIN's IRIS+ Thematic Taxonomy.

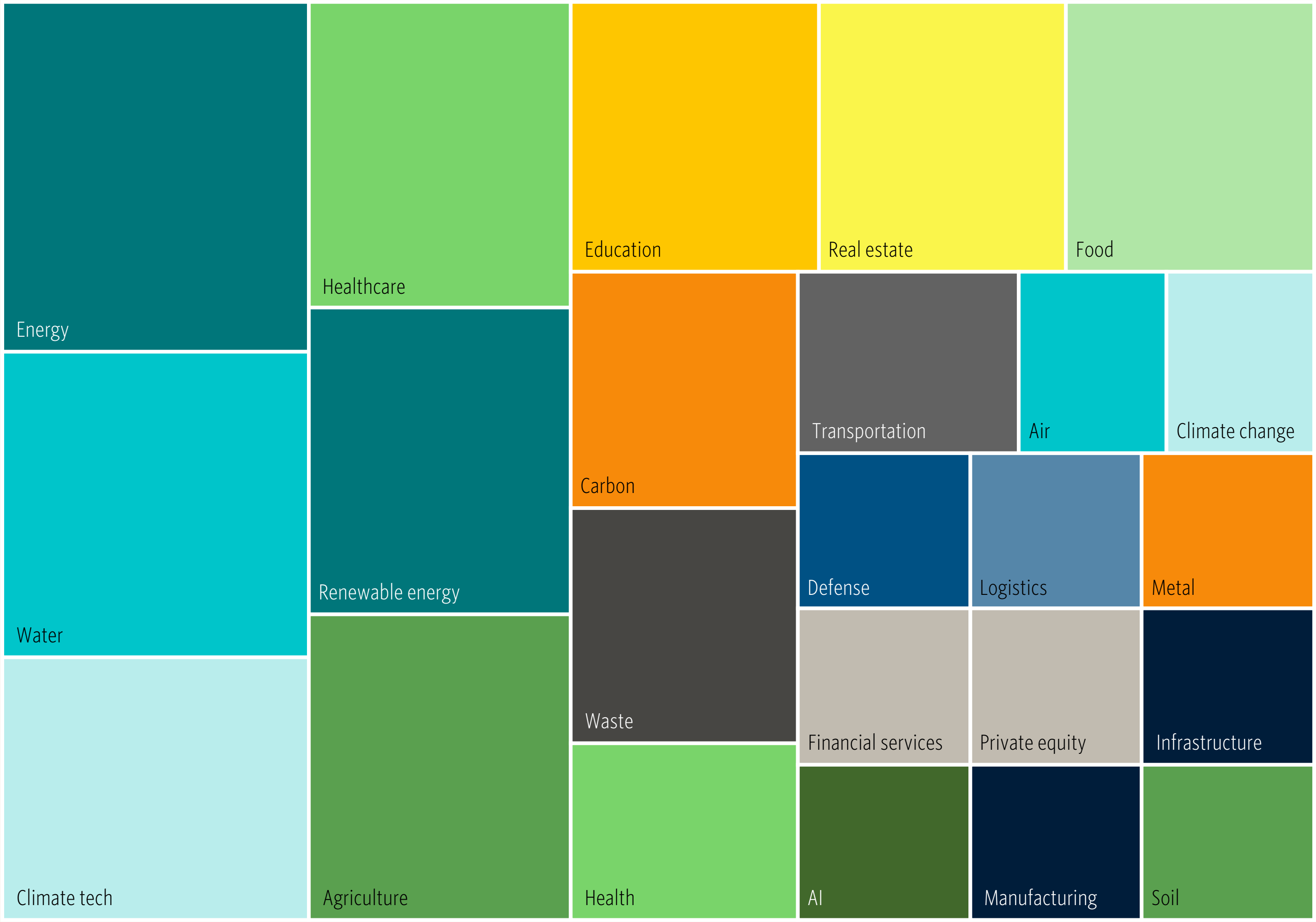
Water and health have been climbing the ranks since we began asking this question in 2022. One would have thought that 2022 would have been the peak for the focus on health, given the COVID-19 pandemic was still so fresh in our memories, but at that time, 29% of our respondents had a focus on health, whereas this year 41% did. Water jumped from 29% to 41% across all respondents. As more parts of the world experience the effects of a warming climate, access to clean and safe water for drinking and food production appears to be growing as an area of concern for investors.

Beyond the IRIS+ Impact categories framework, we asked all of our ESG and/or Impact practitioners "To what industries, sectors, and/or strategies do you plan to allocate capital with sustainable investment priorities in the foreseeable future?" This was an open-ended question, but similar themes appear when the responses are tallied, as shown in the graphic below.

For those hoping to do good with their investment capital, there are small and large niches able to put that capital to work for profit and Impact.

To what industries, sectors, and/or strategies do you plan to allocate capital with sustainable investment priorities in the foreseeable future?

Most commonly used words in responses



Source: PitchBook • Geography: Global
Question 27

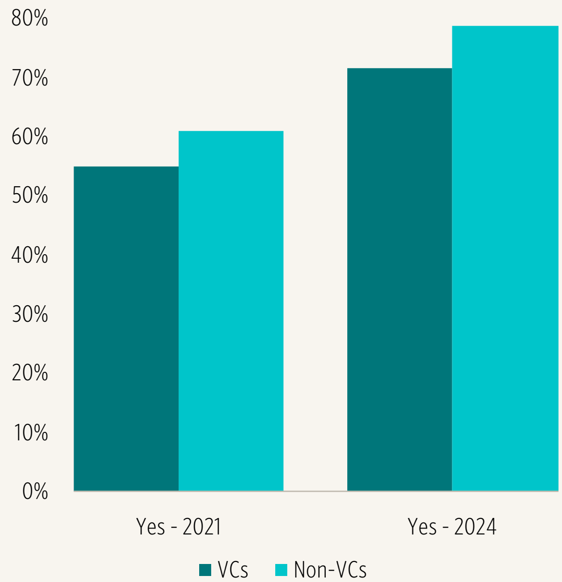
Asset manager views on ESG and Impact

Asset managers by the numbers

	VCs	Non-VC GPs
Number of respondents	179	154
Respondents from North America	56%	62%
Respondents with over $1 billion in assets under management	14%	50%

Source: PitchBook • Geography: Global
Questions 2.5, 3, and 4
Note: Non-VC GPs include funds of funds.

Do you incorporate environmental, social, or governance factors into the process of evaluating and/or managing investments?



Source: PitchBook • Geography: Global
Question 5

The language in this section may strike some as odd, but because of the way our survey questions allow us to segment our asset manager population, we will call our venture capital respondents VCs and everyone else, including funds of funds, non-VCs. This is an inelegant and inexact manner of talking about who is doing or thinking what, but we wanted to avoid too many slices in order to avoid respondent numbers that would not have been sufficient for meaningful insights.

While there are some areas of sustainable investing where our VC asset managers differed from the non-VC asset managers, in a lot of ways, they were similar in their views this year. Our VCs were less likely to be implementing ESG into their investment process while our non-VC GPs were less likely to be Impact investors. But overall, well over half of our asset managers continue to have sustainable investment offerings, despite the growing wave of negativity coming from various quarters in the past several years.

A few years ago, we had heard that VCs were having difficulty implementing ESG, as the companies they were investing in were often young, deeply focused on building and marketing a product, and unlikely to have much to report on matters such as their emissions or workforce. Starting in 2020, however, industry groups such as ESG4VC and VentureESG have worked to assist VCs with integrating ESG into their investment process and growing their portfolio companies responsibly. We can actually see the effectiveness of those efforts in our numbers: In 2021, the year that VentureESG launched, 55% of our VC respondents said they were utilizing an ESG risk factor framework in making company investments, whereas this year the figure was 71%. Non-VC fund managers have also upped their ESG implementation in the past four years, going from 61% in 2021 to 79% this year.

We often hear that ESG is table stakes in Europe, with asset managers feeling they would be shirking their fiduciary duty by not considering material, nonfinancial factors in their investment criteria, but apparently this is a non-VC feeling as well.

For those who have adopted ESG practices into their investment process, the rationale for doing so has been a split of seeking an improved risk/return profile and aligning investments to an organizational mission. Over half of our GP respondents selected each of these options in a multiselect question. While naysayers frequently decry any involvement of values in the pursuit of investment returns, the other two of the top three rationales may be persuasive to some who seem to think ESG is only about feelings. Comparing non-VCs with VCs, over half of non-VCs chose "Utilizing an ESG framework as a component of the investment process is necessary in order to satisfy one's fiduciary duty" compared with only about one-third of VC respondents. We often hear that ESG is table stakes in Europe, with asset managers feeling they would be shirking their fiduciary duty by not considering material, nonfinancial factors in their investment criteria, but apparently this is a non-VC feeling as well.

Practitioners also talked about how environmental, social, or governance factors have led to their decision to discontinue diligence on a potential investment opportunity. The most common situation, reported by 39% of GP respondents, has been to decline an investment due to environmental concerns in pre-diligence. That said, VCs said this only 32% of the time, compared with 49% of non-VC GPs, likely because there is very little yet to look at, environmentally speaking, when evaluating a startup. For similar reasons, 34% of our VC respondents had never declined to make an investment due to ESG concerns, whereas only 24% of the non-VCs had never done so. Some VCs may feel that their companies are early enough in their lifecycles that they can tackle ESG principles down the road—though, to use one example, starting a company with a diverse set of founders is more likely to ensure that the economic benefits and leadership opportunities of a successful venture reach a diverse group than trying to retrofit the ownership structure after the firm has matured.

Top reasons asset managers are utilizing ESG in their investment processes

	All asset managers
Alignment of organizational mission/values and investment practices	66%
Utilizing an ESG framework ensures that material nonfinancial risks are identified so that they may be mitigated	55%
Utilizing an ESG framework will lead to improved long-term investment returns	55%

Source: PitchBook • Geography: Global
Question 8
Note: This question allowed respondents to make multiple selections, so the responses will sum to more than 100%.

As a follow-up to the question, we asked respondents to provide examples of when they declined to make an investment due to environmental, social, or governance concerns. One North American private wealth advisor said "active chemical/pollutants to waterways or ground water" precluded an investment from moving forward. Focusing on environmental factors may have kept this GP from an expensive cleanup that would have damaged financial returns—or, if left unaddressed, a lawsuit ruinous to both reputation and the bottom line. An Asia-Pacific respondent backed out of an investment because they determined that the company "employed child labor." In this case, too, paying attention only to financial returns may have meant ignoring a major risk to the reputation and continuity of the business. Another North American stated that "governance issues with share and voting structures, family involvement, etc." caused them to back away, potentially avoiding a situation where management issues could have had a material impact on financial performance.

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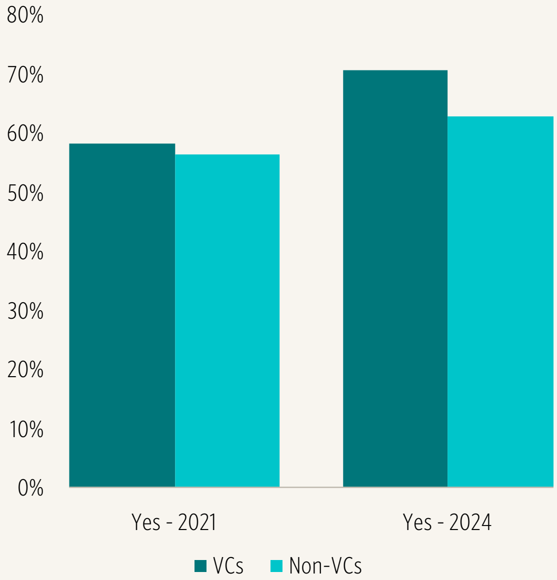
Essentially, asset managers working with more mature companies are more likely to see benchmarking and regulation as challenges faced by ESG practitioners, as they have more to measure and are subject to more regulations.

When we asked them about challenges for ESG in the private markets, our VC respondents chose "Difficult to identify the material ESG factors to collect from portfolio companies" much more than our non-VC GPs, which does play into the idea that early-stage companies are just too nascent to be measuring and reporting on ESG factors. That said, only 18% of the VC respondents chose this option versus 4% of the non-VC GPs, so while there was a big variance, neither selected the option in a large way. VCs were less likely to choose "Difficulty benchmarking whether ESG efforts have been effective due to lack of market data" or "Regulators or regulations being unclear or overly burdensome" as challenges compared with their non-VC peers in asset management. Essentially, asset managers working with more mature companies are more likely to see benchmarking and regulation as challenges faced by ESG practitioners, as they have more to measure and are subject to more regulations.

That said, across GPs, the top challenges were similar: "Difficulty collecting data on ESG factors from portfolio companies," "Unclear how to measure and benchmark ESG performance," and "Difficulty benchmarking whether ESG efforts have been effective due to lack of market data" were selected by the most people in each grouping.

The percentage of asset managers offering Impact products has also gone up since our 2021 survey. In 2021, 58% of VCs and 56% of non-VC GPs said they offered Impact investment strategies to external parties. This year, the responses grew to 71% of our VCs and 63% of our non-VCs. Interestingly, none of our VC investors said that concessionary returns are acceptable, with 64% of VCs and 63% of non-VCs saying that market-rate returns are top of mind in their Impact investment approach.

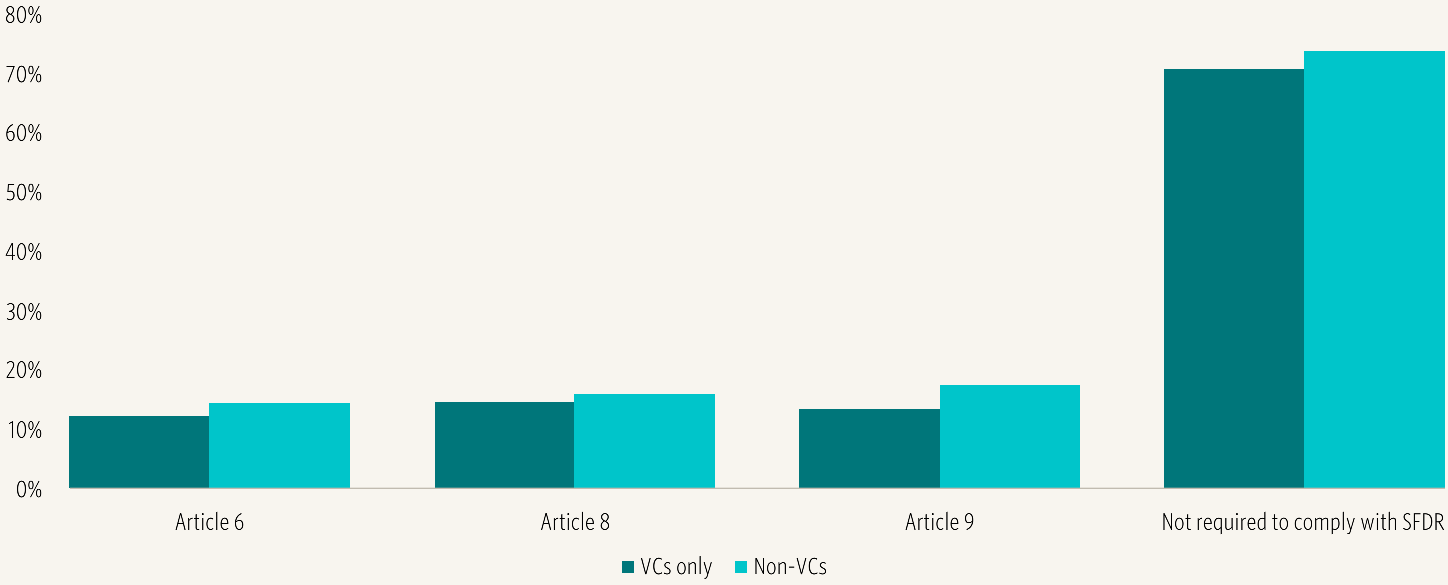
Do you manage any Impact investments?



Source: PitchBook • Geography: Global
Question 16

When we look at the Impact categories that asset managers are focusing on, our VC respondents had a stronger penchant for health, with a full 52% of our VC Impact investors naming that IRIS+ category compared with 38% of our non-VC GPs. This could be attributable to a combination of growing trends in health investing, such as value-based care and the expansion of investable private market opportunities in a sector that historically has been run by large public companies, governments, and not-for-profit enterprises. Education, on the other hand, was more of an emphasis for non-VC GPs at 30%, versus 21% for VCs. As the pandemic's effects on learning outcomes have become clearer, people are looking for solutions.

How have you registered your funds under the SFDR in the EU?



Source: PitchBook • Geography: Global
Question 29
Note: This question allowed respondents to make multiple selections, so the responses will sum to more than 100%.

It is possible that the increase we show in fund managers offering Impact strategies has simply been because fund managers are now more willing to state their approach. 43% of our asset managers chose "Perceptions of or concerns about Impact investing equating to concessionary returns" as a top challenge for Impact investing, higher than our overall respondent percentage of 37%. With that perception still part of conventional thinking in some quarters, some asset managers have historically been hesitant to claim an Impact investing label. However, with better information and asset managers learning to be clear about their market-rate intentions, more may be willing to accept the Impact moniker now.

One of the few questions that went only to our asset managers asked if they are registering their portfolios in compliance with one or more of the three relevant articles of the EU's SFDR.[5] Only about a quarter said they are, and of those, 13% are managing Article 6 funds, which loosely means they are managing with no view to ESG or Impact. 23% of our GPs said they were based in Europe, and 28% of our respondents overall said they had registered their funds under SFDR, so it is not just European fund managers who have to wade through this regulation. Generally speaking, a fund manager hoping to accept commitments from EU allocators would need to state whether they are managing an Article 6, 8, or 9 fund. Either very few of our non-EU fund managers are attempting to do so or they have not raised a fund since SFDR became fully applicable on January 1, 2023.

5: For those unfamiliar with the SFDR, more information can be found here.

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ESG, Impact, and private wealth

Private wealth and family offices by the numbers

	Private wealth and family office respondents	All respondents
Number of respondents who started the survey	165	1,158
Percentage from North America	61%	61%
Percentage who fully or partially incorporate ESG factors into their investment process	54%	64%
Percentage who fully or partially make Impact investments	53%	56%

Source: PitchBook • Geography: Global
Questions 2, 3, 5, and 16

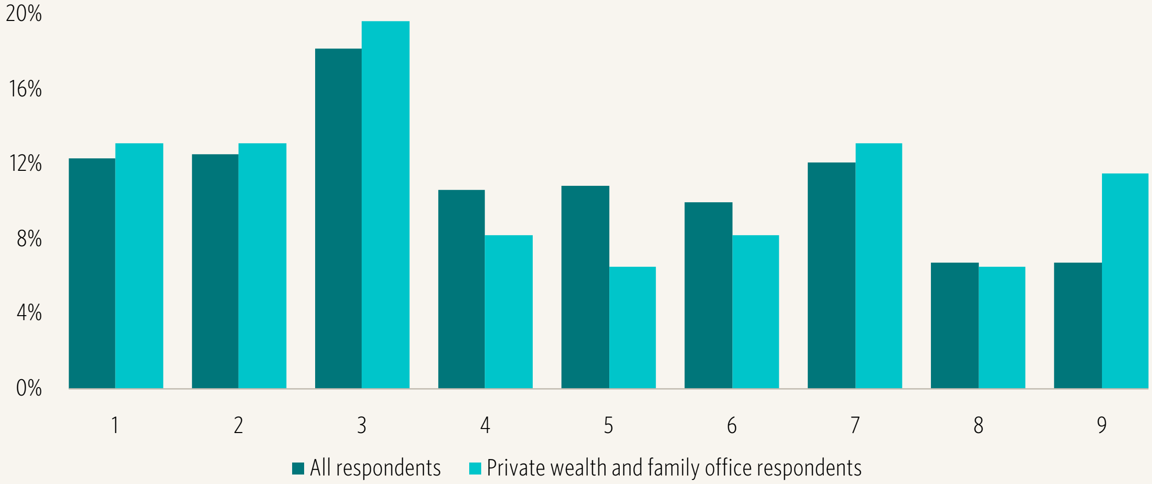
For the first time, we segmented respondents who identified as being in private wealth advisory or family offices. One of the themes we have been discussing heavily in the PitchBook Institutional Research Group (PIRG) is that of individual investors becoming a massive source of funding for private market funds in the wake of retirement assets increasingly concentrating in individuals' hands rather than in pensions. It appears that asset managers are creating products as fast as they can to serve this market, but this trend still has a long way to go. We are working internally to define and report on the products designed for private wealth investors, which will eventually allow us to collect data on ESG and Impact trends in products built for this audience.

In the meantime, we can report on the views of those serving these investors through our survey. Compared with the overall responses, the same percentage of private wealth respondents had under $50 million in assets—40%—but more had assets between $50 million and $500 million: 33% versus 27%. Private wealth does not necessarily mean that these organizations are responsible for smaller sums in aggregate, so this audience's significance is sometimes downplayed by labeling it "retail" in the common vernacular.

That said, the private wealth and family office respondents were less likely to be incorporating ESG principles into their investment programs, and when they did so, it was more often on a case-by-case basis. 20% always incorporate ESG into their management or evaluation investment opportunities, while another 34% do this some of the time. This leaves 46% of this audience doing nothing related to ESG, compared with 36% in the general respondent population.

When those not incorporating ESG into their investment decisions were asked what contributed to that decision, one wealth advisor from Asia-Pacific said they do not "have the awareness from the (asset) owner. Hard to push through." Among these investment professionals serving a wide range of individuals who are often strong personalities with diverse backgrounds, they were the most likely respondent type to say that the understanding of ESG varies widely across investors: 49% said this versus 39% in the general population. This could make it exceedingly difficult to have a uniform ESG program for clients.

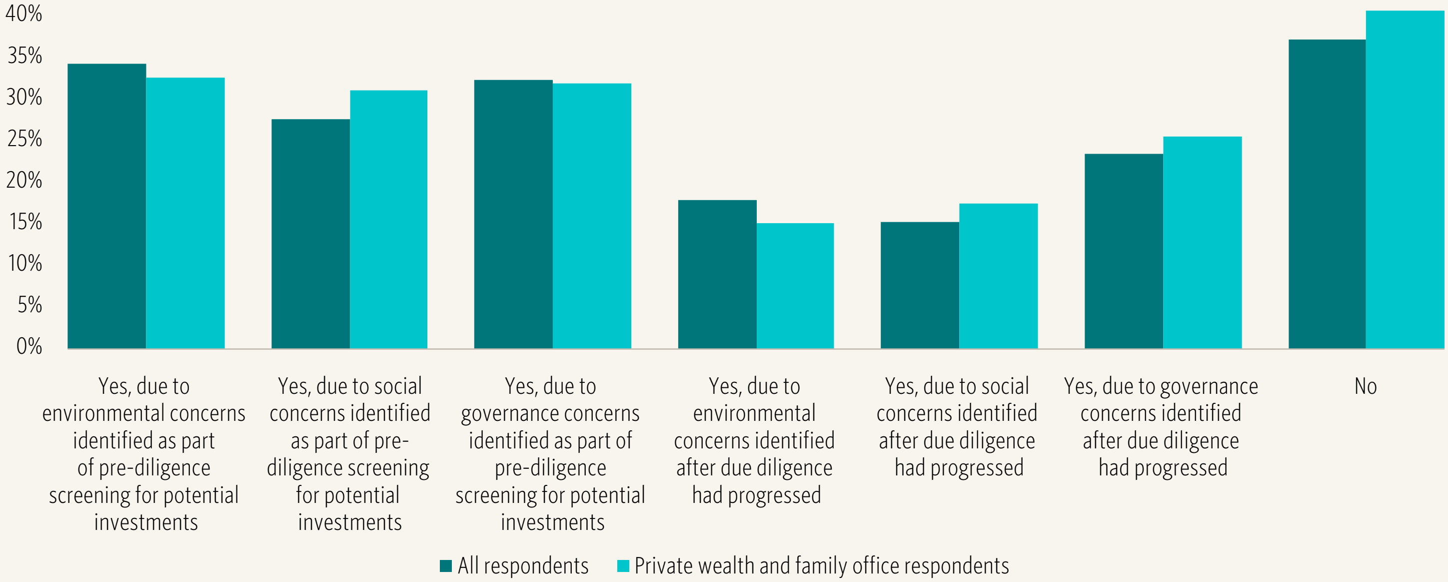
Please indicate how you prioritize investment in companies or assets that are already performing well from an ESG perspective (where 1 is perfect ESG performance) versus companies or assets that can benefit from improving their ESG performance (a 9 on the scale)?



Source: PitchBook • Geography: Global
Question 6

Supporting this thought, when asked how they prioritize ESG efforts on a nine-point scale—from clean investments to ones that could be improved through an ESG lens—this group was more barbelled than the overall respondent population, showing that individual investors are more likely to be at one end of the spectrum or another, not melding both approaches. In a theme we see repeatedly in the data, what constitutes ESG investing is not seen as one thing in this group—and this reflects only those who are incorporating ESG.

Have you ever declined to make or recommend an investment due to environmental, social, or governance concerns?



Source: PitchBook • Geography: Global
Question 10

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Private wealth/family office respondents have declined to make an investment based on environmental, social, or governance concerns less often than the general respondent population. Like the general respondent group, the private wealth channel is less likely to decline to make an investment once diligence has started—an interesting finding showing that initial investigation on an investment is more likely to lead to the abandonment of an idea than deeper diligence is. Either fewer identify problems after a deeper dive has started—or they are less willing to stop the deep diligence process when ESG issues are uncovered.

For those who paint the private wealth/family office channel as lacking sophistication, open responses about investments they have declined to make could alter that perception.

On what exactly has disqualified an investment from an ESG standpoint, there were some interesting open responses. One North American was so focused on environmental aims that they said, "We'd invest in a carbon capture company run by a middle-aged white guy with his kids as the only board members if the tech worked." Others took a very different stand: A European declined to invest on social reasons, saying "no female leadership or trend of females at senior positions leaving" was a cause for concern, while a North American said they declined because it was a "Fin-tech startup with [a] founder who ignored corporate governance basics." For those who paint the private wealth/family office channel as lacking sophistication, this story about a declined opportunity could alter that perception:

"The proposed venture involved a manufacturing facility that would have had a substantial impact on local water resources, with potential long-term consequences for the surrounding ecosystem. Despite the promising financial returns, our firm prioritizes sustainability and responsible stewardship of natural resources. Therefore, we chose to decline the investment to uphold our commitment to environmental sustainability and minimize adverse impacts on the community and ecosystem."
—North American private wealth advisor representing under $50 million in assets

Switching to Impact investing, the private wealth channel is more likely than the greater respondent pool to lean into real estate and away from land. For those unfamiliar with the IRIS+ taxonomy, these two categories may seem similar, but real estate as a category targets affordable quality housing and green buildings, while land is more about natural resource conservation and sustainable land management and forestry. Individual investors may be more interested in helping to serve immediate human needs with their investment dollars. Or the rationale may be grounded in a profit motive: Impact investing does have a double-bottom-line goal of financial and Impact returns, and those opportunities may be more available in real estate than in land. On the flip side, land may be an area where individuals seek charitable opportunities instead—think of how many parks and reserves are named after the families who donated them for public use.

While the IRIS+ categories of Impact are one indication of where private wealth investors are placing their sustainable investment bets, we also asked an open-ended question to those who said they have ESG or Impact investment programs about their anticipated capital allocations in the foreseeable future. One European highlighted that there is still defensiveness around even seeking to invest with a sustainable lens, saying that they focus on "biomaterials, biofuels, and bioenergy, but the priority remains on investable returns and not someone else's definitions of 'sustainability.'" As covered in the earlier section on concessionary returns and Impact, we have found that Impact investors on the whole are indeed investing with the intention of earning market-rate returns, though perceptions that Impact investing equates to concessionary returns persist. Climate, energy efficiency, affordable housing, microlending, and gender and racial equity were also sustainable investment themes that came up repeatedly among private wealth respondents.

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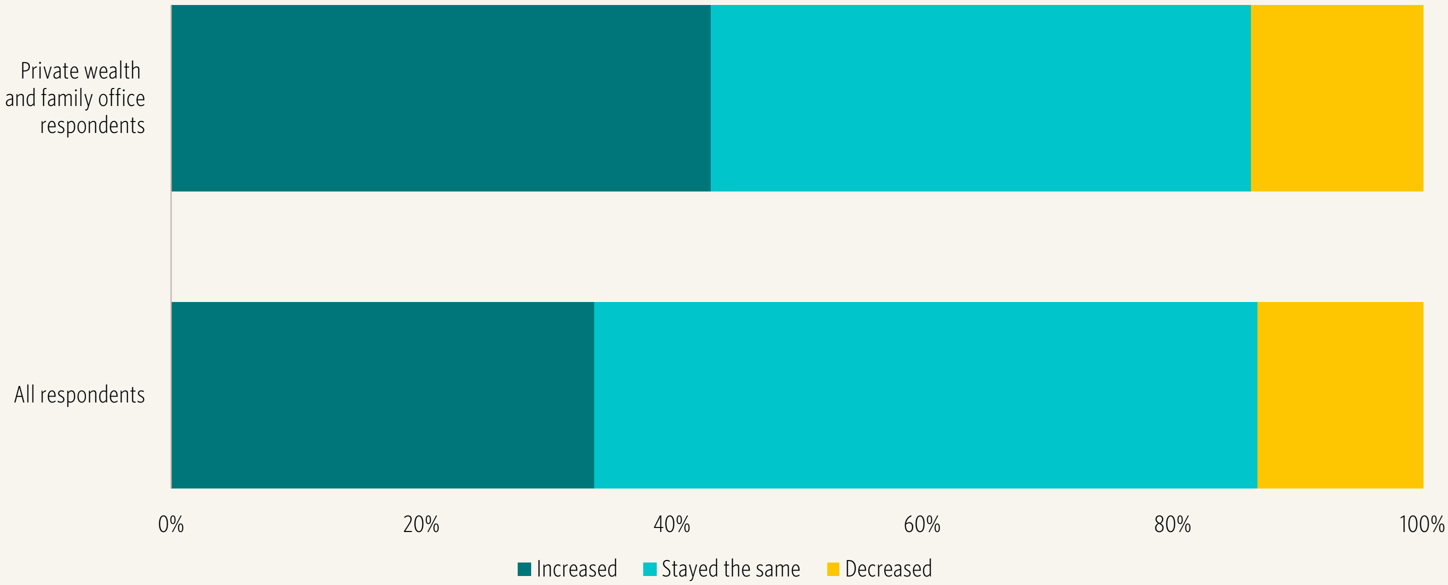
How have current economic and geopolitical events impacted your focus on sustainable investing (ESG and/or Impact)?



Source: PitchBook • Geography: Global
Question 25

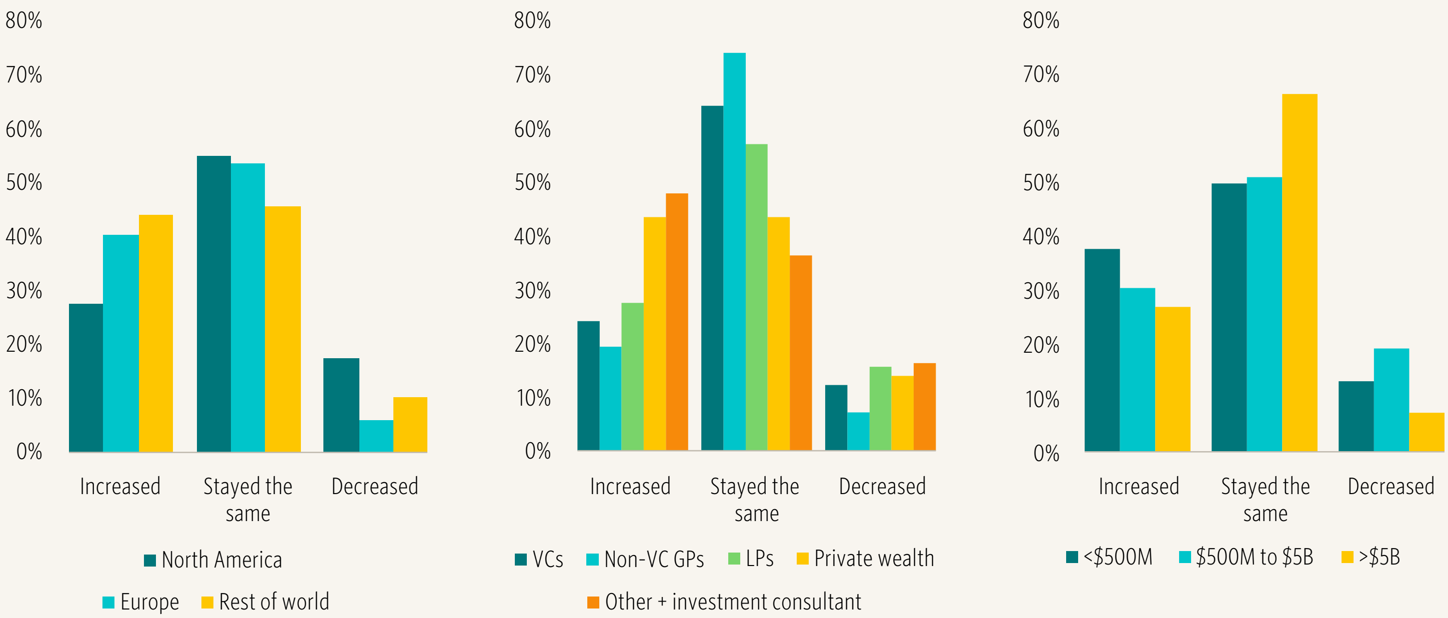
When asked how current economic and geopolitical events (left to the interpretation of the respondent) have impacted their focus on sustainable investing, this group had a higher rate of respondents increasing their focus on sustainable investing than the general respondent pool. Given that this group had a smaller proportion of respondents incorporating ESG or Impact into their investment approaches, there may just be more opportunity for individuals in this area to increase their focus, as private clients have taken longer to reach an understanding of the tenets of sustainable investing. Reasons for increasing focus in this group included "hot summers forever," "distribution of wealth within and between countries," and "positive societal impact will drive returns in all industries."

One North American who said they were decreasing focus said, "The negative political perception of sustainable investing and the threat of political activism against organizations participating in the practice has slowed the pace of our strategic initiatives in the arena." A European said, "The varying definitions and ways of reporting ESG has created an environment of confusion." In other words, widely reported negative and conflicting views on these topics has damaged the ability of some private wealth and family office investors to implement sustainable investment practices.

The influence of the economic and political landscape

How have current economic and geopolitical events impacted your focus on sustainable investing (ESG and/or Impact)?

By respondent region **By respondent type** **By respondent AUM**



Source: PitchBook • Geography: Global
Question 25

Recognizing that internal motivations to utilize ESG or Impact investing strategies are only part of the equation, we asked our respondents how current economic and geopolitical events have impacted their focus on sustainable investing. The most common selection among the overall respondent base was that focus on sustainable investing has remained the same, though we did not query whether their original focus was minimal or substantial. However, among those who said their focus has shifted, North Americans were much more likely than other groups to say that the change came in the form of a decrease, while European and RoW respondents more frequently noted an increase.

As for why this is, we were able to gather some context through open-ended responses. Those on the "increased" side cited reasons such as "geopolitical conflicts anchored in energy, climate, and human rights require long-term solutions," "climate change is accelerating; financial disparities are widening; political polarization and the threat to democracy is increasing [...] these are all drivers of poor economic outcomes," and there are "more incentives for ESG, therefore more push to include them as the priority." Respondents focused not only on macro-scale environmental, social, and economic challenges and their sense of duty to help address them but also on government spending and incentives related to sustainability and how they can positively impact profitability.

In terms of why others are decreasing their efforts, one major theme in the open-ended responses was "shifting priorities towards stabilizing portfolio companies and managing financial risks." Putting it another way, one respondent said "overall business

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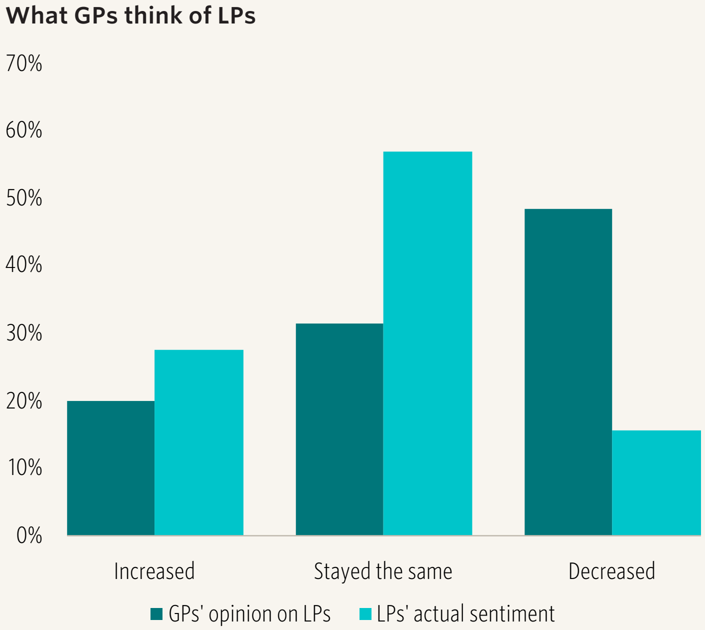
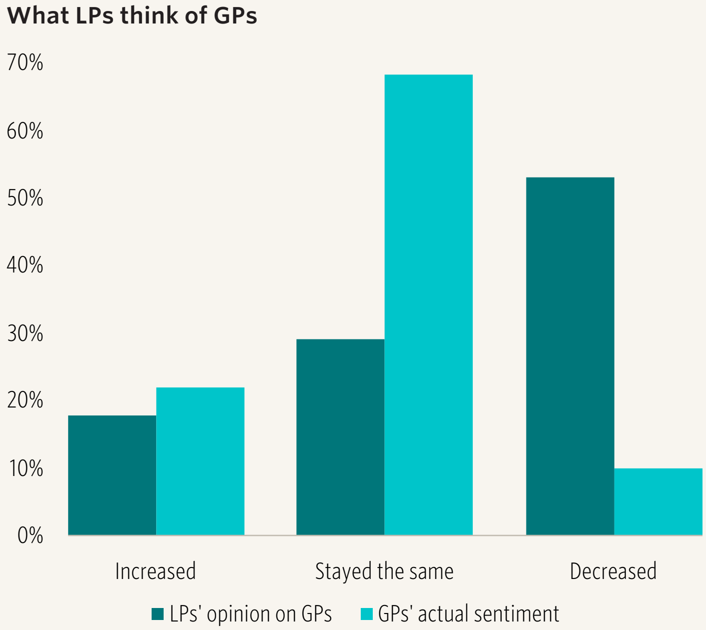
How do you think current economic and geopolitical events have impacted industry participants' focus on sustainable investment (ESG and/or Impact)?





Source: PitchBook • Geography: Global
Question 26

ESG and sustainability are considered by some to be an integral part of developing a well-run, long-term viable business and by others to be a "nice to have."

is focusing on improving regular operations and ESG initiatives [are being] put on the back burner" due to "unfavorable" macroeconomic conditions. This response highlights one of the major differences in perspective that we have noted in discussions with various investors over the years, which is that ESG and sustainability are considered by some to be an integral part of developing a well-run, long-term viable business and by others to be a "nice to have" or even a detractor from the financial and operational goals of a business. The former perspective is generally more popular in Europe, while the latter is more popular in the US, although both are held by some portion of individuals in all geographies.

Given climate change is a major motivator for those maintaining or increasing their focus on sustainable investing, another significant piece of the puzzle is that there are still segments of the global population that do not believe that climate change exists or do not believe that it is anthropogenic.[6, 7] This is not only true among the overall population but also a normalized facet of political discourse in some circles, which trickles down into the private markets. It stands to reason that where there are more climate change deniers per capita, such as in the US, the proportion of climate-motivated sustainable investors is likely smaller, both because a smaller portion of investors believe in climate change and because some of those who do are discouraged by others who do not.

Another explanation offered for the decrease in focus is that, as one asset manager said, there is "too much push back from LPs" on sustainable investing. Almost half of GP respondents believe that LPs have reduced their focus on sustainable investment, giving some weight to

6: "Where Climate Change Deniers Live," Statista, Katharina Buchholz, December 3, 2020.
7: "3 Charts That Show How Attitudes to Climate Science Vary Around the World," World Economic Forum, Kate Whiting, January 22, 2020.

Continued economic uncertainty would likely cause some to double down on their ESG risk management efforts and others to abandon them entirely.

this concern. However, of our LP respondents, only 16% state that they are, in fact, decreasing their focus. Regardless of the actual proportion of LPs cutting back sustainable investing efforts, perceptions are exceedingly important, and in a challenging economic and fundraising environment, GPs are more likely to temper or cut their sustainable investing approaches in order to be what they think allocators want them to be.

In a similar vein, respondents representing less than $500 million more frequently indicated that they either increased or decreased their sustainable investing focus compared with those representing over $5 billion. Given large, experienced GPs have had more luck fundraising over the past few years, this could lend some credence to the idea that smaller GPs are molding themselves to what they think LPs want in an effort to improve their chances of earning commitments. However, it is also likely that larger fund managers were ahead of the curve on sustainable investing, being among the first to learn about it or get asked to do it by their larger LPs. In addition, they typically would have had more bandwidth and resources to dedicate to either developing a program or deciding definitively that it was not for them. Further, larger entities often face more red tape, making it more challenging to implement new programs or dismantle sustainable investing processes once they are in place.

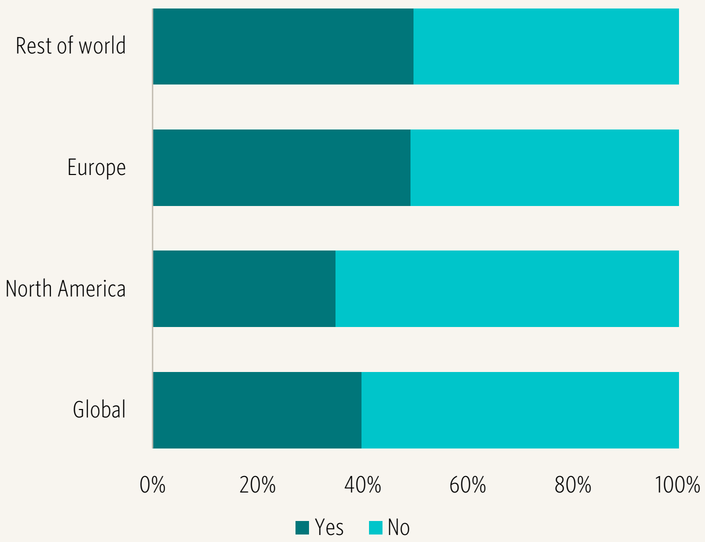
Looking ahead, it is difficult to predict how economic, political, environmental, and social factors will come out in the calculus of organizations' decisions to maintain or modify their focus on ESG or Impact investing. Continued economic uncertainty would likely cause some to double down on their ESG risk management efforts and others to abandon them entirely. Persistent politicization of sustainable investing may incentivize GPs to either eliminate ESG or Impact programs or simply refrain from mentioning them to some LPs. The outcome of the US presidential election in 2024 could also have serious ramifications for government incentives supporting some Impact investing opportunities and regulatory acceptance of sustainable investment practices. Much is in flux, and little is certain. However, many have indicated that they are set in their views for now.

PitchBook

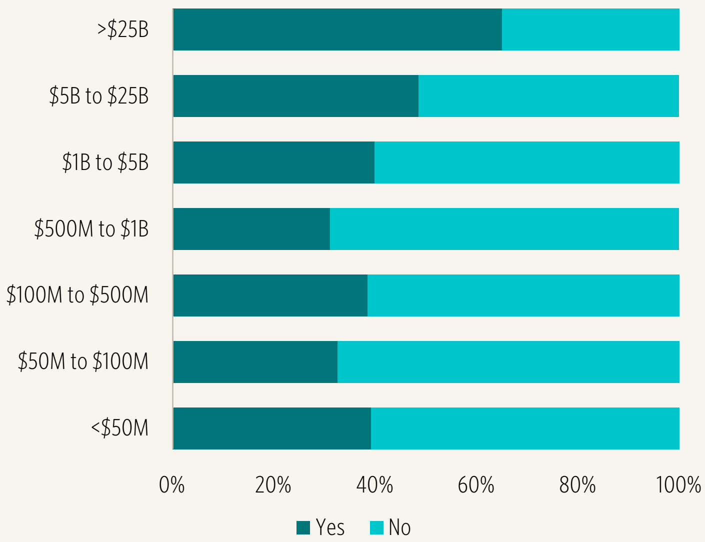
Diversity, equity & inclusion

Have you ever invested in a way that incorporates diversity, equity & inclusion considerations into your decisions?

By respondent region



By respondent AUM



Source: PitchBook • Geography: Global
Question 24

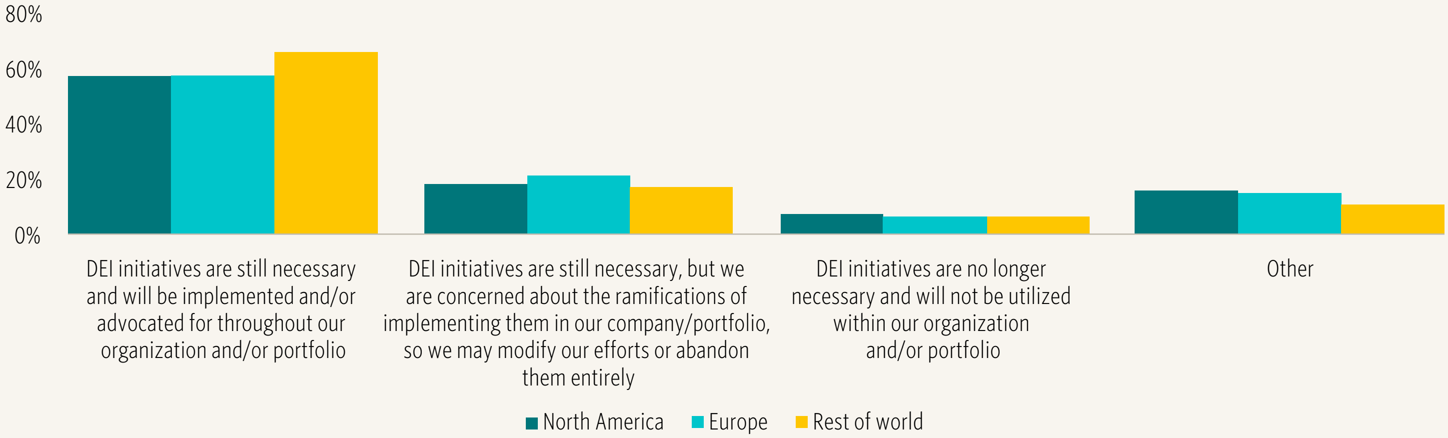
Diversity, equity & inclusion (DEI) is one of the sustainable-investing-related issue areas that is discussed with great frequency and that generates some of the most intense controversy. Among practitioners, it is often analyzed as both an ESG risk and a sustainable investing opportunity. As a risk, it can manifest in discrimination and harassment complaints and litigation, regulatory noncompliance and penalties, increased voluntary employee turnover, difficulty attracting new employees, and reputational damages, among other undesirable outcomes. As a sustainable investing opportunity, improved employee decision-making, better workforce satisfaction and retention, and stronger brand perception and customer loyalty are often highlighted as potential positive outcomes.

This year, we asked respondents whether they have ever invested in a way that incorporates DEI considerations into their decisions. It may come as a surprise that North American respondents were much more likely to say no than European respondents or those in the RoW category. Given the extensive media coverage around the Black Lives Matter (BLM) movement and historical context of the Civil Rights Movement, there is a perception among some that DEI is more prevalent in the US. However, when we examine DEI practices on a global scale, it is important to emphasize that the term means different things in different places. In much of the world, considerations largely pertain to gender diversity and sometimes sexual orientation. Racial and ethnic diversity, while a huge component of the issue area in the US and to some extent the UK, are less common considerations in more homogeneous nations.

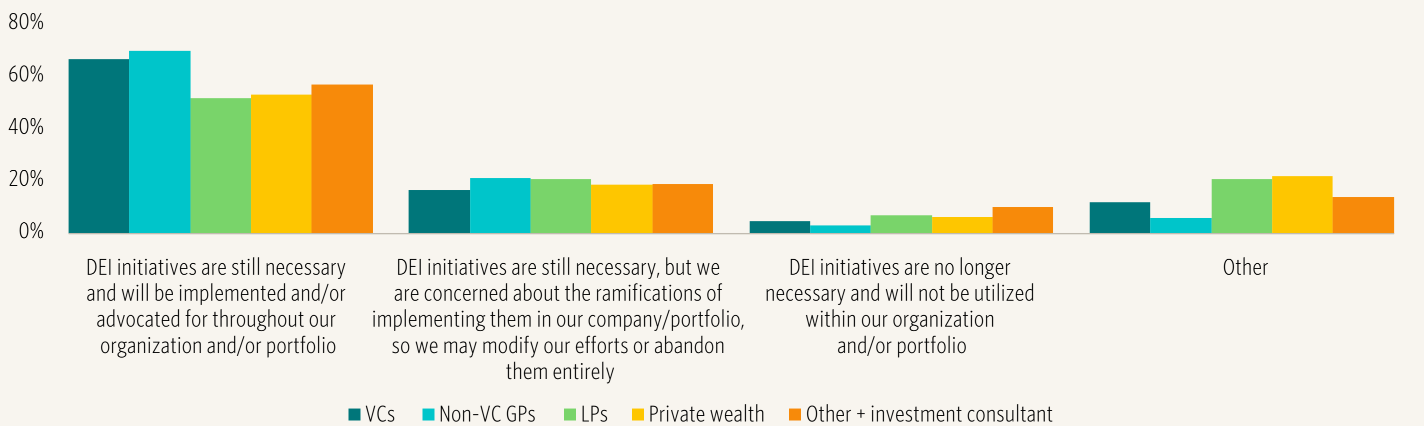
Further, practices associated with DEI will vary regionally. The concept of "affirmative action" originated in the US, where it was widely utilized in some educational and employment contexts until recently. Gender pay gap reporting is legally mandated in parts of Europe, including in Denmark, the UK, France, and Spain, so it is much more common in those locales.

What is your perspective on DEI initiatives given recent court rulings disallowing some DEI programs in the US?

By respondent region



By respondent type



Source: PitchBook • Geography: Global
Question 24.5

Xenophobia is more of a concern in nations with large immigrant populations, where it is more likely to be incorporated heavily into antidiscrimination and harassment trainings. All of these cultural factors likely play into the simple yes or no answers we received. To some, "incorporating DEI" may mean investing a certain percentage of capital into a diverse group of fund managers, and to others it may mean analyzing the potential impacts of a company's operations or products on vulnerable groups. Size also matters—larger entities are more likely to be subject to regulatory requirements on the DEI front, which our data supports—respondents representing more than $5 billion more often responded yes than those representing less than $500 million.

Part of the impetus for asking about DEI this year was the series of discussions sparked by the 2023 US Supreme Court decision that race-conscious affirmative action admission programs are unconstitutional. The ruling raised a wave of concerns about whether practices intended to improve the representation of marginalized groups in other places they have historically been underrepresented would also be under legal attack, and many private market participants began to roll back or modify their DEI programs in hopes of avoiding future

The most common response across all geographies, types of organizations, and sizes of organizations was that DEI initiatives are still necessary and will be implemented and/or advocated for throughout the organization and/or portfolio.

litigation.[8] Given these events, we also asked the respondents that had previously incorporated DEI into their investment decisions about their perspectives on DEI initiatives.

The most common response across all geographies, types of organizations, and sizes of organizations was that DEI initiatives are still necessary and will be implemented and/or advocated for throughout the organization and/or portfolio. Allocators were the least likely to select this response of any group, but the majority of LP respondents still did. In essence, those that have previously incorporated DEI into their decisions are sticking with it. The second-most-popular response was that although DEI initiatives are still necessary, the respondent was concerned about the ramifications of implementing them in their company or portfolio, so their efforts may be modified or abandoned entirely. Respondents representing less than $500 million were the most worried about this, with a quarter of them selecting this response, which again may be tied to the need to be broadly appealing in a difficult fundraising environment. However, very few respondents—10% or less of each major slice—stated that DEI initiatives were no longer necessary and would no longer be used within their organization or portfolio.

Respondents were also invited to share their perspectives in an open-ended format. While some merely noted that the US decision had little bearing on their views, with one stating that they "are not in the US so we do what we and our LPs want," others shared opinions ranging from condemning to supportive of DEI. One said that they "typically will not invest when DEI programs are in use," while another said that "as a result [of the Supreme Court's decision], I no longer invest in the US." Some shared more about their approaches to DEI, saying things such as "We measure the DEI of all funds we invest in, but use it more of a tie breaker rather than a primary decision point. We look to advocate for changes," "We consider this in our impact and programmatic investing," and "We are implementing and advocating for DEI throughout our organization and portfolio but we will not decline an investment opportunity due to a lack of DEI." Many of the more passionately supportive responses were from North American asset owners, which may be indicative that LPs in the region are attempting to push for change on this front by voting with their investment capital.

Numerous responses advocated for an informal and less programmatic approach, saying, for example, that "Formal DEI is counterproductive, but the goals behind it are important. We pursue goals, but not the 'program.'" We anticipate that this sentiment will become more common among private market participants affected by the US Supreme Court decision and subsequent DEI-related rulings in coming years. It is more likely to become popular among GPs than LPs, as GPs must bend to the desires of multiple LPs with varying and sometimes contradictory opinions, while LPs can generally put their money where they like. Ultimately, the same programs that were in high demand during the height of the BLM movement now invite scrutiny, and the conversations that were brought to the forefront of the collective consciousness in that time are now more likely to occur behind closed doors.

Yet, those conversations are still happening. The fact that 79% of the respondents who have previously integrated DEI considerations into their decisions agree that DEI initiatives are still necessary means that there is some consensus among those who care about these issues that the industry has more work to do. When it comes to private market firms, the data would agree. As of 2022, women were underrepresented in leadership positions at private equity firms, with only 20% representation in managing-director roles globally.[9] When noninvesting roles are excluded, the number drops down to 15%. For those who are willing and able to effect change, there is certainly room to help improve these numbers, and while there may be some risks involved in navigating these changing waters, many are still finding it a worthwhile journey.

8: "Companies Are Backing Away From 'DEI,'" Axios, Emily Peck, January 4, 2024.
9: "The State of Diversity in Global Private Markets: 2023," McKinsey & Company, Pontus Averstad, et al., August 22, 2023.

Glossary and resources

AI: Artificial intelligence.

Article 8 and 9 Funds

BLM: Black Lives Matter.

CSDDD: Corporate Sustainability Due Diligence Directive.

CSRD: Corporate Sustainability Reporting Directive.

DEI: Diversity, equity & inclusion.

ESG: Environmental, social & governance. For the purposes of this survey, a framework for identifying and managing material risks and opportunities across environmental, social, and governance issue areas.

ESG Data Convergence Initiative

ESG4VC

EU: European Union.

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.

GRI: Global Reporting Initiative.

Impact investing: For the purposes of this survey, an investment approach that seeks to receive both financial and measurable social and/or environmental returns.

IRIS+: Impact Reporting and Investment Standards.

IRIS+ taxonomy

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. Also called an asset allocator or allocator.

Non-VC GPs: A respondent type for this survey. Respondents were able to select that they were a fund manager, also commonly known in private markets as a GP. Those who made this selection were asked if they considered themselves a VC or not; this respondent slice comprises those who said they were not a VC.

Other: The respondent type for this survey that was not a fund manager, asset owner, fund of funds, private wealth advisor or family office, or investment consultant.

PIRG: PitchBook Institutional Research Group.

PRI, or UN PRI: Principles for Responsible Investment.

Private wealth advisory and family offices: A respondent type added this year. Generally businesses that serve the interests of wealthy individuals or families rather than an institution.

RoW: Rest of world. Respondents who come from places other than North America or Europe. While we would like to report on finer slices, the respondent figures from other regions were not enough to provide relevant findings.

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

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

Sustainable investing: For the purposes of the survey, we used this term as an umbrella overarching both Impact investing and the incorporation of ESG risk factors into the investment process.

UN SDGs: 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

World Central Kitchen

Additional research

Sustainable investing

Q1 2024 Analyst Note: The State of Private Market ESG and Impact Investing in 2024

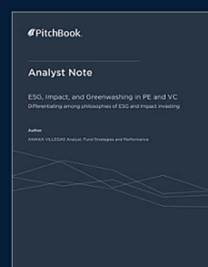
Download the report here

2023 Impact Investing Update

Download the report here

2024 Climate Tech Funds Report

Download the report here



ESG, Impact, and Greenwashing in PE and VC

Download the report here

Q2 2023 Analyst Note: Are "ESG Investors" Underperforming?

Download the report here

Q4 2023 Emerging Sustainable Investing Opportunities: Controlled-Environment Agriculture

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