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Sustainable Investment Survey

2021

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Contents

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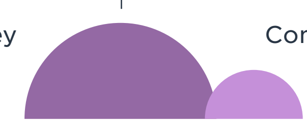
Download the accompanying XLS summary pack for this report.

2021 survey by the numbers

906
Began the survey

457
Completed the survey



448/330[1]
Ratio of respondents with an implemented sustainable investment program to those with none

37
Days the survey was open (June 24 to July 30)

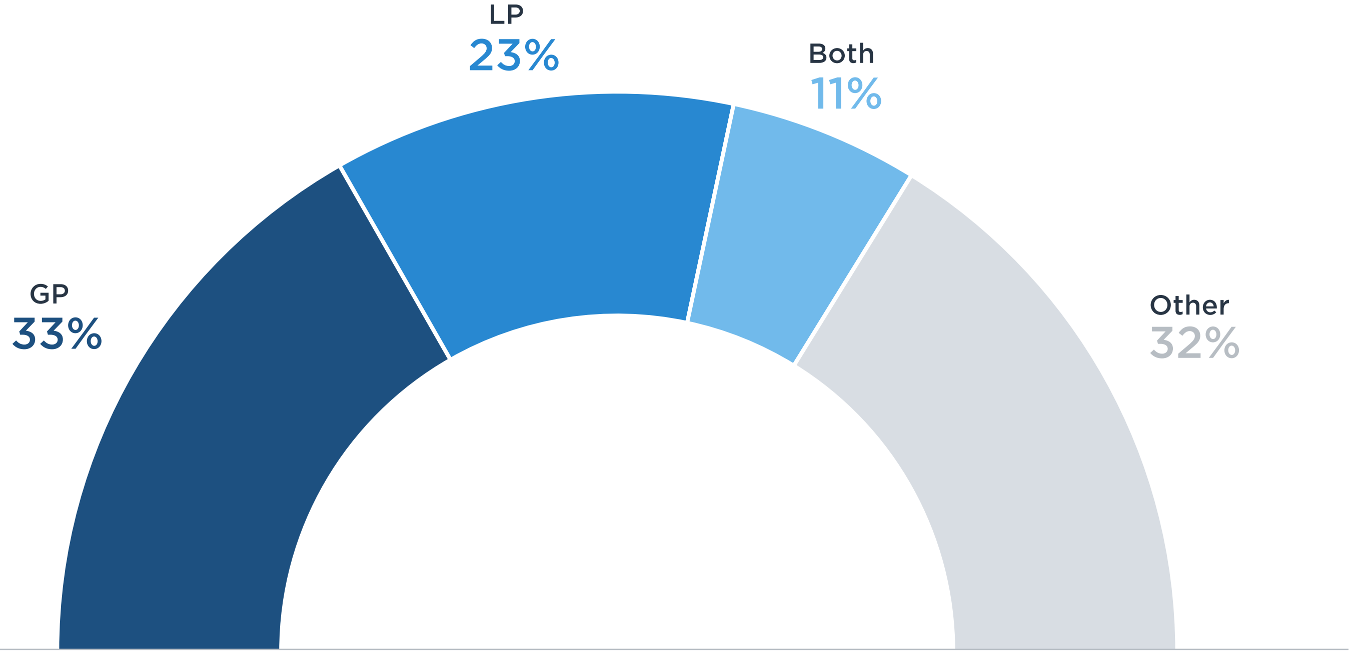
$2,285
Donated to World Central Kitchen

9/9
Ratio of geographic regions represented to geographic regions provided

1: In this report, we will include any responses collected, whether the respondent completed the survey or not. Thus, some numbers will exceed 457, the number of completed surveys.

About the survey

2021 completed surveys by participant type



Source: PitchBook | **Geography**: Global
Question 2

Since the release of our last Sustainable Investment Survey report in 2020, we have been busy with our sustainable investment research efforts. Using the Global Impact Investing Network's (GIIN) IRIS+ taxonomy, we created an entirely new impact fund dataset that allows us and our clients to parse funds based on specific categories of impact. We are also launching environmental, social, and governance (ESG) risk ratings for public companies from our sibling organization, Sustainalytics, onto the PitchBook platform in Q4 2021. In addition, we published two papers earlier in 2021—ESG and the Private Markets and Impact Funds by Reason and Region—the latter providing an analysis based on the new impact fund data.

This year's 30-question survey asked global investors and their advisors to react to various topics related to sustainable investing, ESG risk factors, and impact investing. 457 individuals completed the survey, although we recorded at least one answer from 906 individuals, providing us even more data on a partial basis.[2]

We were thrilled with the high response rate to our survey—not only because it would bolster analysis, but also because we committed to donating $5 for every completed survey to the World Central Kitchen (WCK). This organization has done terrific work since its inception in 2010, providing meals to those affected by natural disasters and other emergencies throughout the world. In August 2021, WCK reported that they had served 1.25 million meals to support 2021 pandemic efforts in India, providing "hot, nourishing meals to hospitals, police outposts, and quarantine centers." In addition to the pandemic, India faced its worst flooding in 40 years, forcing many to evacuate their homes. WCK pivoted to bring thousands of meals to shelters and those stuck at home with no power. At the end of August 2021, WCK set up operations in Louisiana in response to the devastation wrought by Hurricane Ida.

2: To compare, our 2020 survey received 368 completed responses, and our 2016 survey garnered only 48.

About the survey

This group of respondents represents the most balanced profile to date. We recorded responses from every region and had increased numbers from each respondent type: LPs, GPs, Both, and Other. This last category self-identified as coming from registered investment advisors (RIAs), industry associations, advisors, consultants, family offices, startups, and other areas 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). This year we also asked GPs to identify whether they consider themselves to be venture capitalists (VCs), as many readers in 2020 asked if we could delineate how VCs were thinking about sustainable investing. 173 of our GPs did identify as VCs, 95 of whom made it to the end of the survey, providing us a significant sample from which to report on VC thoughts and trends.

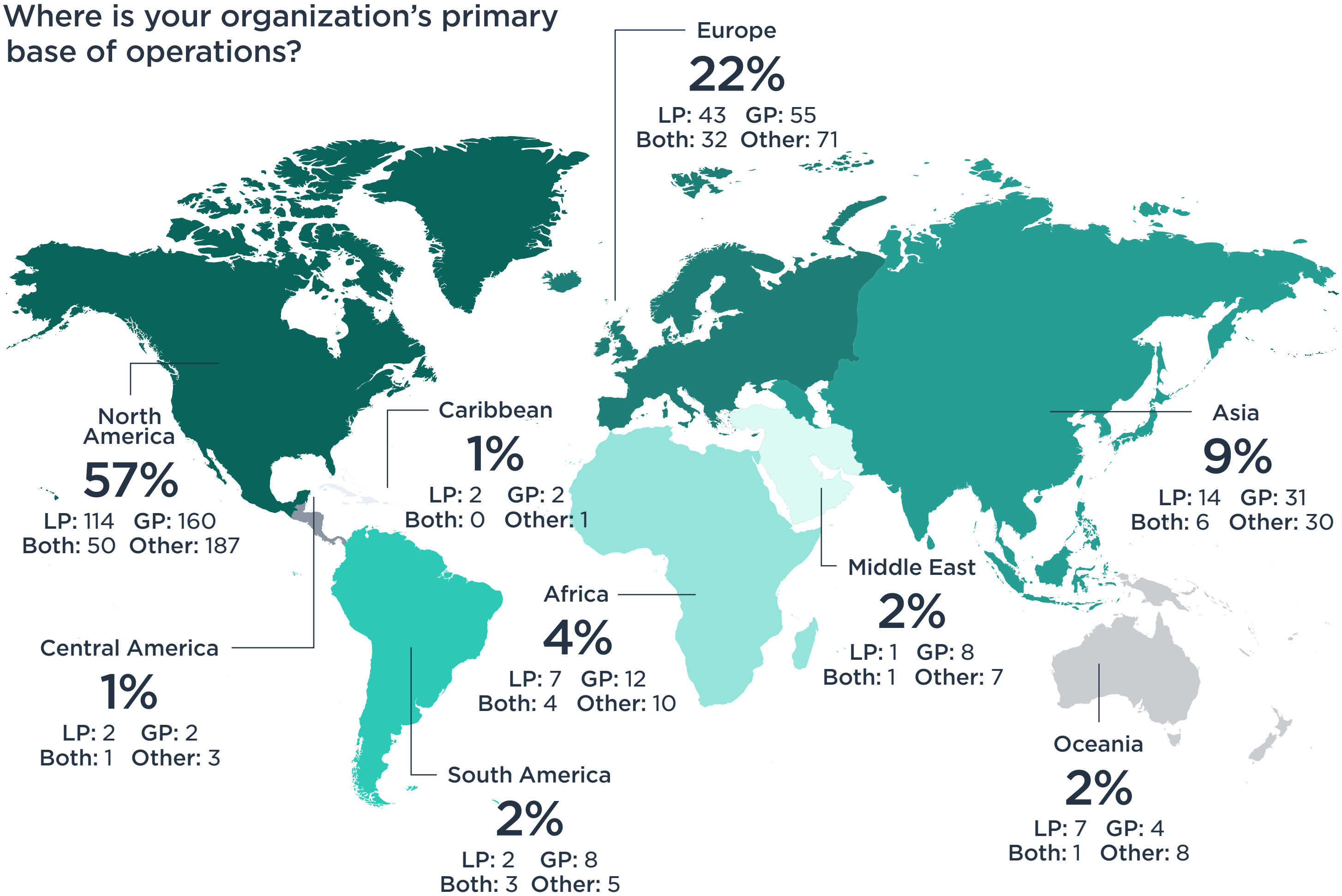
We realize that the sustainable investment field is a confusing collection of terms understood in many different ways. To level set for this survey, we provided the following as each respondent began: "We use sustainable investing as the umbrella overarching both impact investment approaches and the incorporation of ESG risk factors into the investment process. We will ask about each aspect of sustainable investing in the survey, using each deliberately as defined here." We have also provided a glossary in the back to reference for definitions, acronyms, and abbreviations.

This language specification allowed us to identify more nuanced thoughts and practices across the sustainable investment landscape. We also 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.

Hilary Wiek, CFA, CAIA
Lead Analyst,
Fund Strategies & Performance

Geography

Where is your organization's primary base of operations?



Source: PitchBook | **Geography**: Global | **Respondents**: All
Questions 2 and 3

The mix of respondents was more global than last year, with higher response rates from nearly every region. One overriding conclusion we draw from our global breakdown is that respondents in Europe have been working on sustainable investment efforts longer than those in other regions. The results cause us to believe that European LPs are well ahead in investing their assets into sustainable strategies. 49% said that half or more of their current fund managers have a sustainable investment approach incorporating ESG factors and/or impact, compared to 27% of respondents in North America and 27% in the "rest of the world" (RoW).[3]

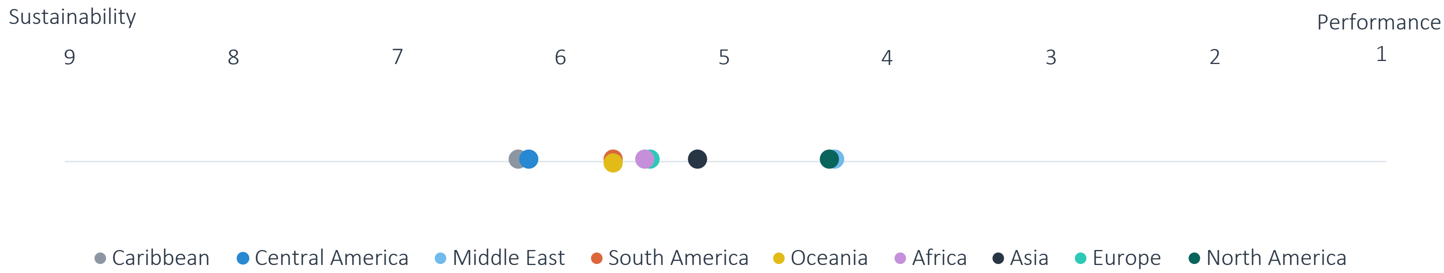
Europe may be leading the charge in many ways, but a high proportion of GP respondents in RoW indicated they use an ESG risk factor framework when evaluating potential portfolio companies (69% of respondents, versus 60% from Europe and 51% from North America) and require portfolio companies to focus on financially material ESG factors (67%, versus 55% from Europe and 45% from North America).

For respondents of all regions, our results indicate that environmental concerns, improved long-term investment results, and social concerns are top of mind for those developing sustainable investment programs or efforts, though the level of support varies across regions. Compared to Europe and RoW, a smaller proportion of respondents in North America cited regulatory requirements or corporate governance. Given that the US has lagged Europe in requiring disclosures or other reporting on sustainable investment

3: This report defines RoW as the seven regions outside of Europe and North America.

Geography

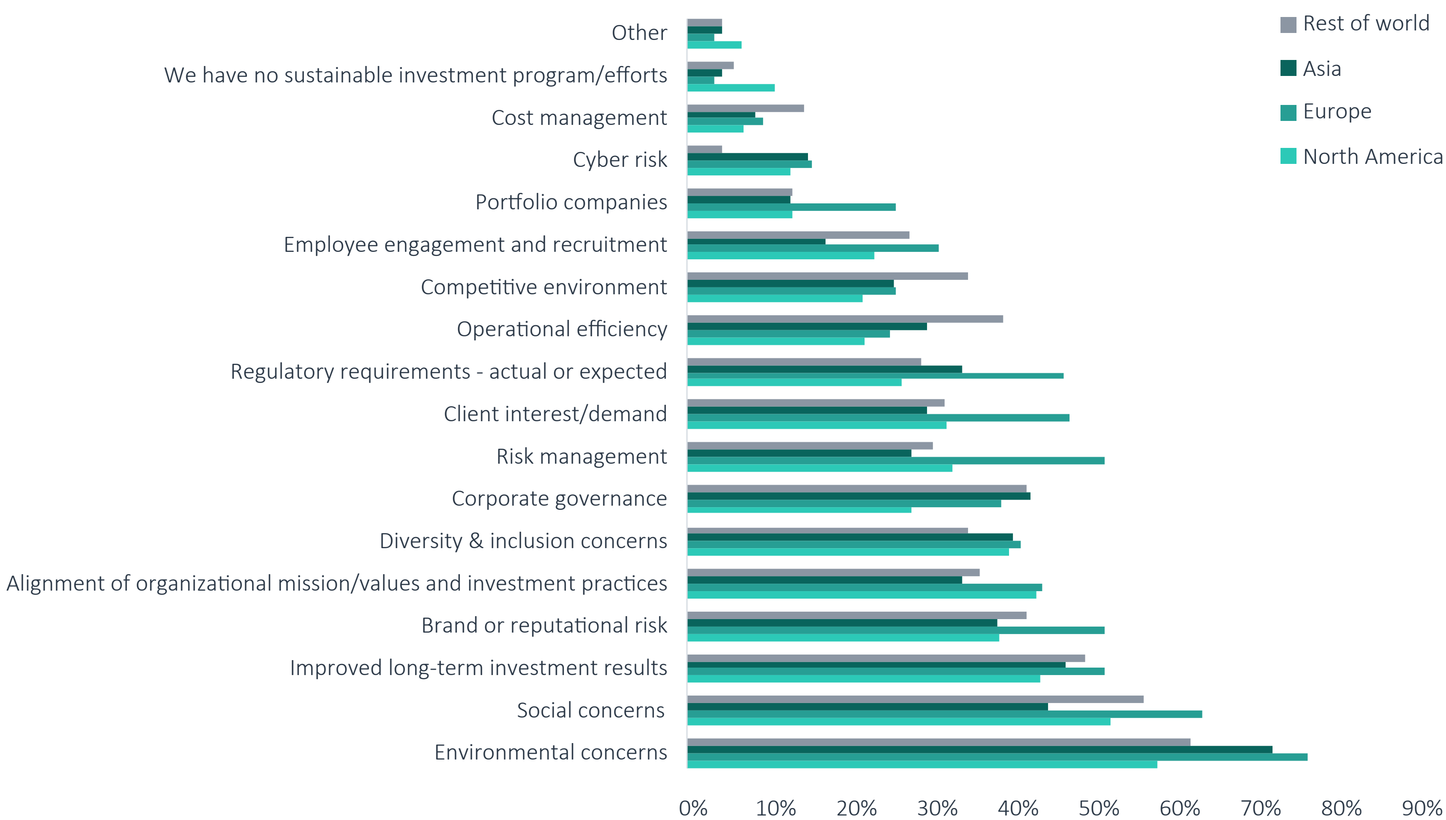
How do you prioritize sustainable investing versus top performance as you assess a potential investment opportunity?



Source: PitchBook | **Geography**: Global | **Respondents**: All
Question 11
Note: 9 indicates sustainability is the only important factor. 1 indicates performance is.

practices, we find it somewhat surprising that even 27% of North American respondents cited regulatory requirements as a driver. Many investors in the region have been paying more attention to corporate governance since Enron's collapse and the other early 2000s blowups. It is possible the respondents do not consider corporate governance a part of developing sustainable investment programs because it predates those efforts, which could have resulted in their lower selection rate in the survey.

What factors led to the development of your sustainable investment program or efforts?



Source: PitchBook | **Geography**: Global | **Respondents**: All
Question 19
Note: Multiple selections were permitted.

Current sustainability programs

While the survey focused primarily on sustainable investment practices, we did ask our respondents about their own corporate sustainability efforts. We did not ask for an explanation of what respondents were doing at the organization level, but we imagine this could include efforts such as DEI initiatives or recycling. 63% of respondents indicated they have implemented the consideration of sustainable practices at their own organization, a much higher proportion than those who have implemented such practices in their investments. Just 57% of LP respondents have implemented sustainable practices internally. More than 20% of respondents in both the LP and Other categories have no sustainable practices at any level. While this survey certainly drew a vast number of responses from those who are well on their journey to sustainable practices, our results reflect other viewpoints as well.

We asked respondents to characterize the stage of their sustainable investment implementation, and responses varied by type. A higher percentage of respondents who identified as Other said they had no plans to incorporate any sustainable practices into their investments. The Both respondents appear to be furthest along, with 42% indicating they had already integrated sustainable investment principles throughout their portfolio. 60% of all respondents were somewhere on the continuum between exploring what sustainable investing means to their organization and actively implementing an incomplete sustainable

At what level have you implemented the consideration of sustainable practices?

At their own organization

LP: 57% GP: 62%
Both: 72% Other: 64%

At the fund level

LP: 25% GP: 64%
Both: 65% Other: 16%

At the portfolio company level

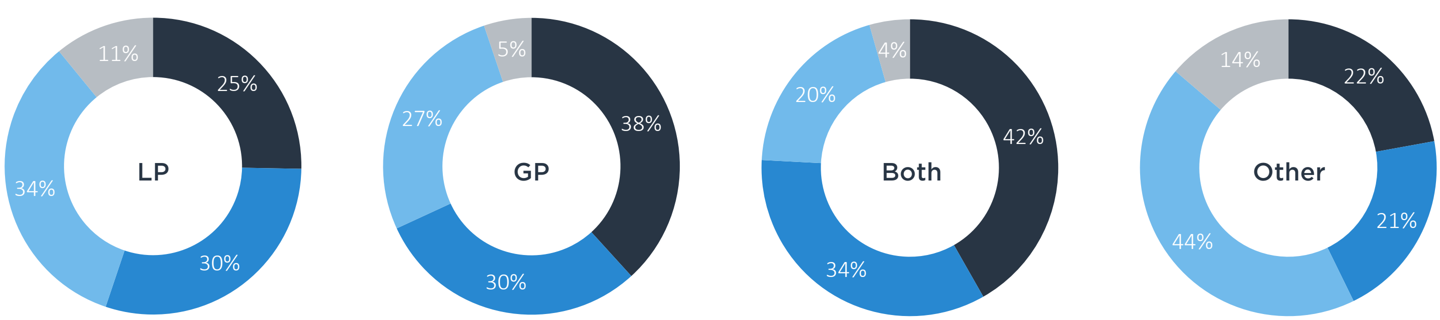
LP: 35% GP: 51%
Both: 66% Other: 21%

Not at any level

LP: 22% GP: 12%
Both: 8% Other: 26%

Source: PitchBook | Geography: Global | Respondents: All
Question 4.25

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

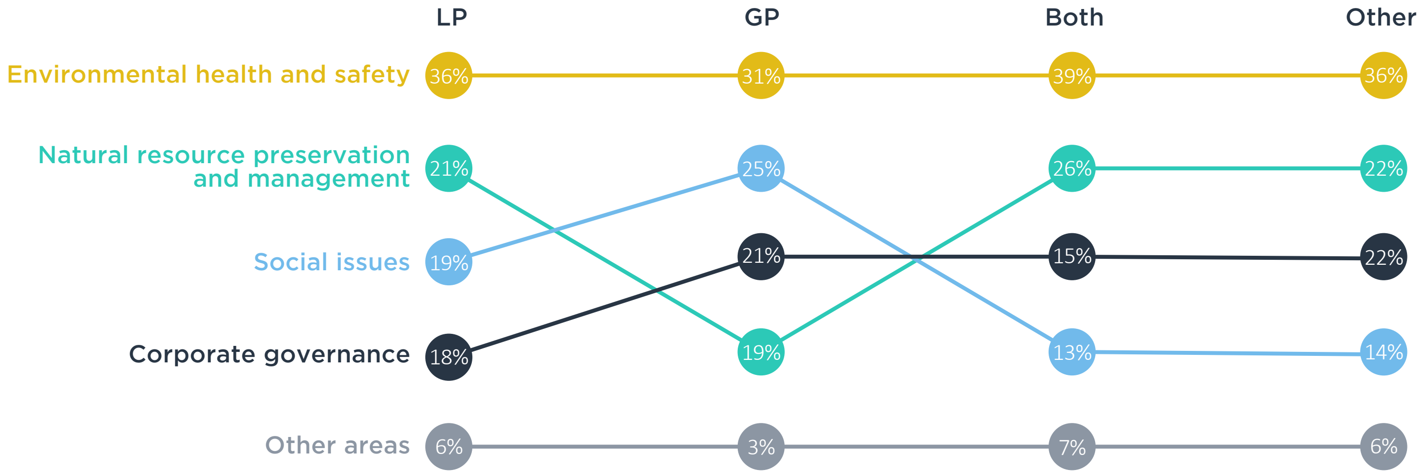


- We have integrated sustainable investment principles throughout our portfolio(s)
- We have partially implemented a sustainability program in our investment portfolio(s)
- We are exploring what sustainable investing means for our organization
- We have no plans to incorporate any sustainable investment work

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

Current sustainability programs

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

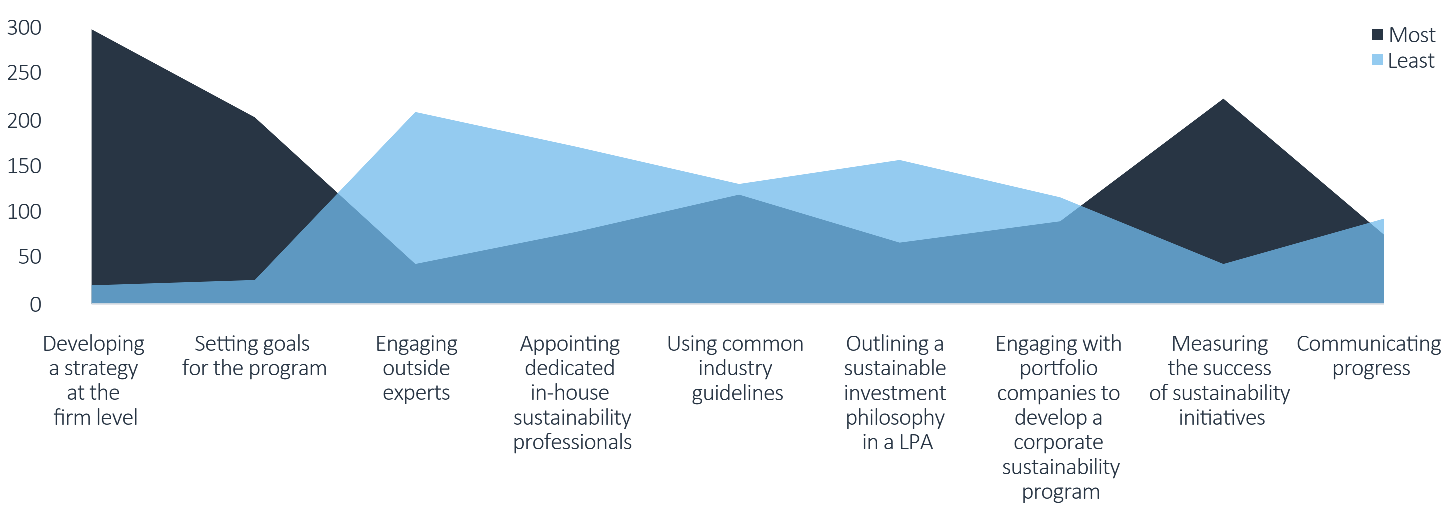


Source: PitchBook | **Geography**: Global | **Respondents**: All
Question 20

Note: Respondents ranked available answers, with 1 being highest priority and 5 being lowest. This chart shows the percentage of respondents who ranked a given answer as 1.

investing program. The questions we asked in this vein last year are not directly comparable, but the percentage who thought their sustainable investment work was fully implemented was 43%, quite a bit above this year's figure of 30%. We suspect that many investors will always feel that they are on a journey in this space, and few will ever consider their work here finished. Among the respondents who said that their sustainable investment principles have been integrated throughout their portfolio, 46% started their efforts more than five years ago, while another 28% began two to five years ago. For those exploring what sustainability means for their organization, 57% either had not started any implementation or began their journey less than a year ago.

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

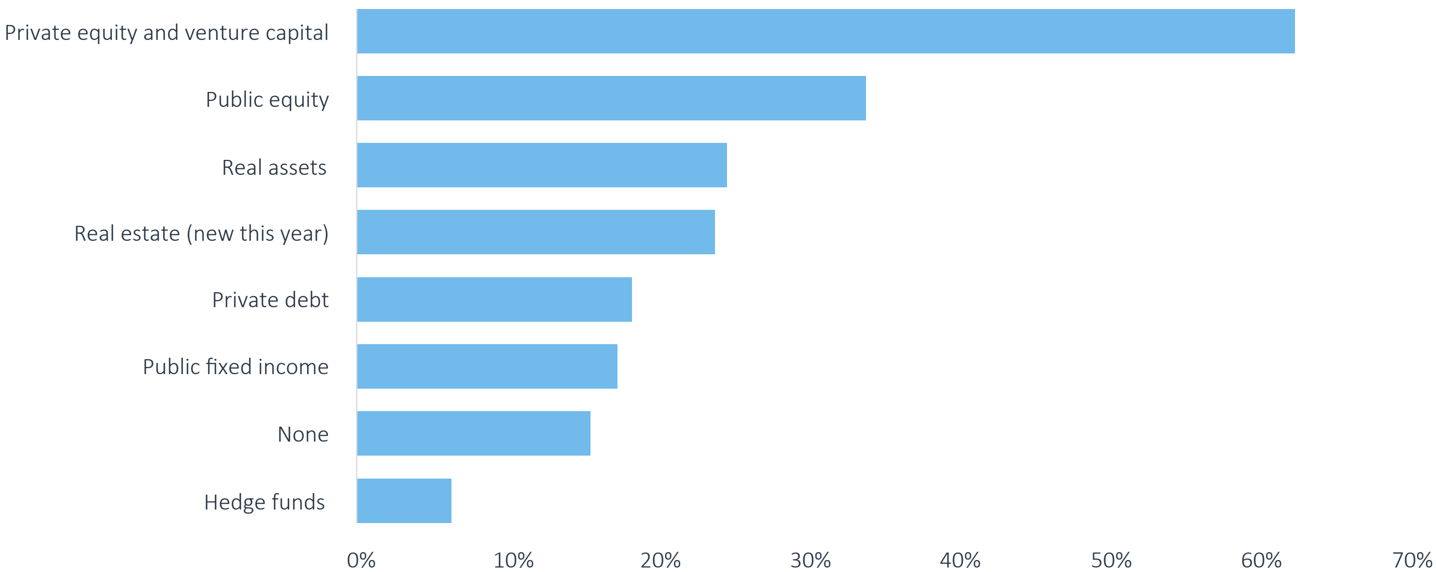


Source: PitchBook | **Geography**: Global | **Respondents**: All
Question 21

Note: Respondents chose three answers from the available list and ranked them. This chart shows how many respondents chose a given answer for their top three ("Most") and bottom three ("Least").

Current sustainability programs

In what parts of your total portfolio do you focus your sustainable investment efforts?



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

It seems that, in most areas, each of our respondent types generally feel that sustainable investing is important, but we posed several questions asking people to rank preferences rather than simply indicate if something was important or not. (In our 2020 survey, most things came out as very or extremely important, which does not provide a lot of scope for analysis.) We asked what areas of sustainable investing drew the most focus, providing four choices plus a space for Other. Environmental health and safety was the top-ranked choice across respondent types and regions, while corporate governance was last of the options provided. Natural resource preservation and management received the second rank most often, while social issues were often ranked third. We did allow people to select Other as an option, but it was selected last by 90% of respondents.

Many of those who did rank Other in the first position (5% of respondents) just listed more specific areas that could have been slotted into the choices given, but some responses gave full voice to ESG and impact skepticism. One said, “We invest for returns, not alleged social or environmental impacts.” Another: “The best-performing companies earn investment.” And yet another: “Making money is number one priority. We don’t buy into ESG Lala land.” One described their philosophy: “We have always included ESG factors as common sense, risk and result considerations. The measurements are artificial, academic, subjective, and arbitrary, despite all the ‘math’ behind it. ESG is a personal responsibility and reputation and not some outside measurement… We are common-sense ESG-oriented because it affects risk and therefore outcomes.”

We asked respondents to also tease out the most and least important practices when developing a sustainable investment program. Of the nine listed possibilities, three were clearly at the top: developing a strategy at the firm level, setting goals for the program, and measuring the success of sustainability initiatives. The vast majority ranked developing a strategy at the firm level as the most important practice when developing a sustainable investment program. Perhaps it is a function of only being able to select three of the nine options, but the feeling seems to be that hiring expertise—either in-house or on a consultative basis—is not as important as setting up the framework for measuring it.

Finally, we asked LPs in what part of their total investment portfolio they were focusing their sustainable investment efforts. Our GP audience may be gratified to see that 62% of respondents are targeting PE and VC. Public equities were a distant second at 34%. Only 16% of our LPs had no sustainable investment efforts within their portfolio.

Q&A: BlueMark

BlueMark was founded in January 2020 by Tideline, an impact investment consultant, to meet the impact investing market's growing need for expert, third-party impact verification services. BlueMark has since completed more than 50 verifications of impact management practices and impact performance for a diverse range of impact investors, including private equity firms (Bain, KKR, LeapFrog Investments, Partners Group), impact specialist firms (Big Society Capital, Calvert Impact Capital, Closed Loop Partners, FullCycle) diversified asset managers (BlueOrchard, Nuveen, Prudential Financial, UBS), and development finance institutions (CDC Group, EBRD, FinDev Canada, Finnfund).

PitchBook spoke with Christina Leijonhufvud, CEO of BlueMark, about how impact verification works and the role it plays in the future growth and development of the impact investing industry.

Christina Leijonhufvud
CEO
BlueMark

Christina Leijonhufvud is CEO of BlueMark with responsibility for leading business strategy, new product development, and external relations. She has directly led over 50 verification assignments across an array of investor types and asset classes. Christina was previously a Managing Director at J.P. Morgan where she pioneered a first-of-its-kind social finance investment banking business and co-authored seminal research that helped place impact investing on the map for institutional investors.

What was the lightbulb moment that inspired you and your team to launch BlueMark?

There were a few moments along the way but the real lightbulb moment came in April 2019 when a diverse group of 60 impact investors and the International Finance Corporation (IFC) launched the Operating Principles for Impact Management, establishing a threshold standard for how to integrate impact considerations throughout the investment lifecycle. One of the Principles—Principle 9—specifically required signatories to publicly disclose and independently verify their alignment with the Principles. Many in the impact investing field viewed the introduction of independent impact verification requirements as key to scaling the market with integrity.

At Tideline we had several consulting clients who were founding signatories to the Impact Principles and turned to us for advice on how to conduct an impact verification. We quickly realized that there was a broader need in the market for an impact investing expert that could look under the hood to evaluate the quality of impact investors' practices and performance. Tideline was well-positioned to provide that judgement given its extensive work with asset managers and owners over the years in designing robust impact management and measurement systems. However, it was critical that we set up the verification service to be independent and free of any conflicts with our consulting relationships, so that's why we decided to launch a separate business in January 2020. We have since raised outside funding for the business thanks to our partners at The Rockefeller Foundation, Radicle Impact, and the Tipping Point Fund on Impact Investing, among others.

How does an impact verification work?

Our verification services are structured around what we see as the two key pillars of accountability for impact: Practice and Performance. The Practice verification involves verifying the systems and processes used by an investor or company to manage their impact, while the Performance verification involves verifying an investor's or company's impact results against their stated intentions, as reflected in their performance reporting. We view these two pillars as complementary and part of a well-rounded approach to impact investing.

We designed our approach to impact verification to go well beyond a check-the-box type of exercise. It is critical to us that we are imparting learning value to our clients and contributing to the market's understanding of evolving best practices in impact management and impact performance report. That's why as part of each verification assignment, we evaluate both quantitative and qualitative information, conduct interviews with investment staff and portfolio companies, and analyze transaction-level data to dig into how a business or investor approaches impact based on accepted industry standards, such as the Impact Principles or SDG Impact.

A verification can take between four and eight weeks, depending on the complexity of the strategy, and at the end we deliver a public statement summarizing the verification results and a client-facing report with the full, detailed analysis and recommendations on specific areas of improvement. These documents can then be shared with a variety of stakeholders, including standard-setters and investors. We typically recommend clients go through a Practice verification once every two to three years, while the Performance verification should ideally be annual, in tandem with the impact reporting cadence.

How is an impact verification different or similar to a financial audit?

The goal of any non-financial verification or assurance engagement is generally to provide a third-party opinion on whether an investor or business is doing what it says it is doing to achieve stated non-financial objectives. No sophisticated investor is going to allocate capital to a company or fund manager without some reassurance that the financial statements are accurate and backed up by supporting evidence. The same is increasingly true when it comes to impact. In that sense, financial audits and impact verifications are very similar.

It's important to acknowledge that no audit or assurance engagement is foolproof in that it is possible such an engagement may not capture all the information necessary to protect against inaccuracy or worse, fraud. Misstatements, whether intentional or accidental, are always a possibility. That's part of why we designed our verification methodology to be holistic with a focus on highlighting both strengths and weaknesses rather than a "limited assurance" (which often results in a negative statement that no reasons were found to distrust the client's disclosures). We go to great lengths to make sure that any investor claims, promises or commitments are backed up by evidence and clearly incorporated into decision-making processes. We also make recommendations on how a business or investor can improve.

What has BlueMark learned from completing 50+ impact verifications?

We made a commitment early on to publicly share data from these verifications to spotlight key areas of strength, shared challenges and potential areas of improvement. The Rockefeller Foundation has helped us to achieve this goal with their support. We want to help raise the bar across the industry, and that only happens if all market participants embrace a spirit of ongoing sharing and learning.

We publish an annual 'Making the Mark' report where we share aggregated data and insights from the verifications completed to date. As our sample size has grown, our dataset can tell us more about the state of the impact investing industry.

In our 2021 'Making the Mark' report we introduced the BlueMark Practice Benchmark as a tool that impact investors can use to see how they stack up against their peers. The Benchmark specifically differentiates between Practice Leaders (those in the top quartile according to our data) and Practice Learners (those in the bottom quartile) across a range of industry best practices. While there will always be more room for improvement, we are beginning to see a clear segmentation between Leaders and Learners in the impact investing field. For instance, we found that while 93% of the investors of our research sample align their investments with the Sustainable Development Goals (SDGs), just 48% go a step further to align their impact objectives with the 169 targets underlying the SDGs. This added layer of specificity and intention offers an important lesson for impact investors that want to improve.

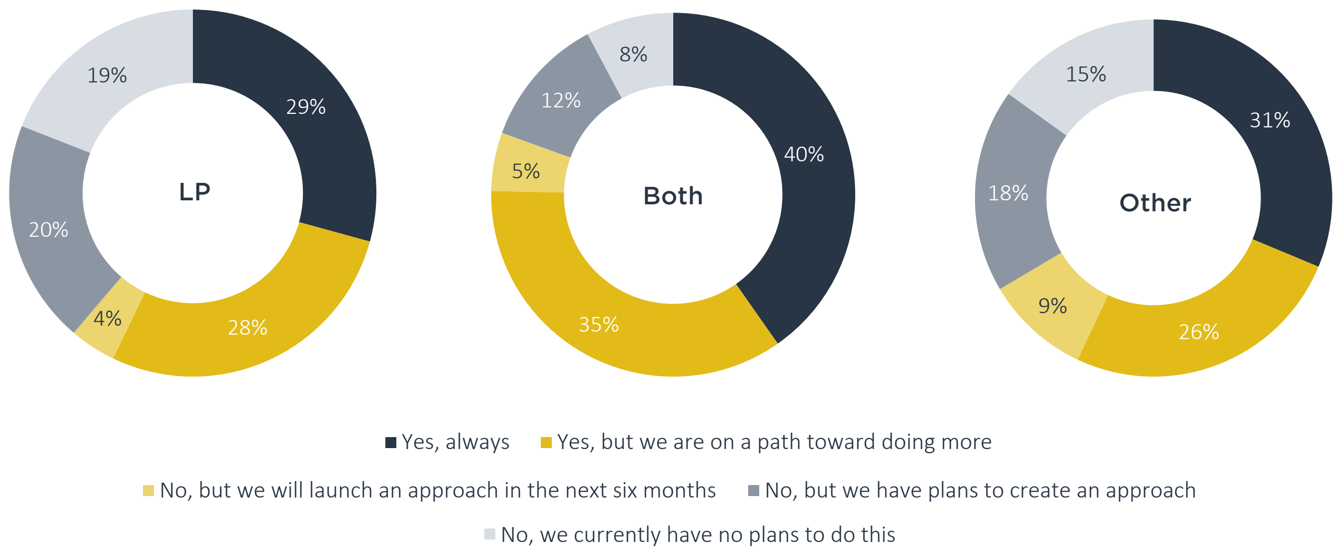
What does the future hold for BlueMark and the impact verification market?

We are encouraged by how quickly this new market is developing. There is a growing recognition across the industry that impact verification is valuable for all market participants. For asset managers, an independent verification exercise is essential to impact achievement, risk mitigation, and credibility with investors. For asset allocators, independent verification serves as a reliable and efficient input to robust due diligence and investment selection. And for the impact investing market at large, verification enables increased confidence that impact claims will turn into impact outcomes.

We are already seeing other standard-setters, in particular the SDG Impact initiative started by the UNDP, embrace impact verification by introducing independent assurance requirements for members and signatories. Financial regulators are also paying attention to the verification market, and we have engaged in several consultation processes around what independent verification requirements should look like in a regulatory setting. Taken together, we are optimistic that impact verifications will become as commonplace as financial audits or credit ratings within the next decade. And we are excited about leading that charge.

The allocator perspective

When evaluating GPs, do you assess their ESG risk factor framework during due diligence?



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

We asked the groups involved in due diligence processes (LPs, Both, Other) whether they evaluate ESG risk factor frameworks when analyzing fund managers. Over half of the respondents in each group answered "Yes," whether that was always or with intentions to do so more often: 57% of LPs, 75% of Both, and 57% of Other.

We also asked those who serve LPs (GPs, Both, Other) if LPs have expressed increased interest in sustainable investment issues in the last three years. Last year, 58% of respondents said, "Yes." This year, 64% of respondents did, with another 11% indicating that asset owners have expressed interest at a consistently high level. Only 10% said that interest had not increased, down from 12% last year. These results indicate that many LPs are already intensely focused on sustainable investments and that focus is intensifying further.

Increasing interest is one thing, but on what kind of base? Only 12% of respondents from the same group indicated that LPs are not asking about sustainability or requiring that those principles factor into fund commitment decisions. Another 22% said less than a quarter of their current or prospective clients have such demands. That leaves the vast majority of respondents who serve LPs needing to integrate sustainable investments into their approach—or else risk potential clients moving on to other alternatives.

The good news is that 61% of the group comprising LPs, Both, and Others feel that GPs have stepped up their sustainable investment activities in the last three years. While these improvements and expansions could be attributed to pressure from current and prospective clients, only 35% of GPs responded to our question about motivations for sustainable investment programs with "client interest or demand," while more than half chose environmental concerns, improved long-term investment results, and/or social concerns.

What factors led to the development of your sustainable investment program or efforts?

LP

"High demand for ESG investments"

"Currently 'sustainability' is a popular but empty word. Will not consider including the concept in our formal processes until we know better what they mean and if they actually distinguish performance in an objective way."

Both	Other
"Regulatory framework (Community Reinvestment Act)"	"A strong conviction of the management to leave a better world for the future generations"

Source: PitchBook | **Geography**: Global | **Respondents**: LPs, Both, Other
Question 19

The VC perspective

By popular demand, we added a question this year allowing us to segregate the responses from VCs. Of the 280 GPs who answered the question, 62% considered themselves VC investors.

Our results suggest VCs are less likely to utilize an ESG risk framework. 22% of that group said they do not and have no intention of using one. This compares to 14% of non-VC GPs. That said, 75% of the VC respondents offered or were developing an impact strategy compared to 65% of non-VC GPs. These figures are probably skewed by respondents interested enough in the topic to take the survey, but we find it interesting to see the contrast between VCs and the other GPs.

The development of sustainable investment programs seems to be more advanced for non-VCs. 27% of non-VCs began to implement sustainable investment initiatives more than five years ago, compared to 21% of VCs. Adding in the managers who began two to five years ago, however, the percentages are both roughly 46%, with the remainder either having no program or having only implemented sustainable practices in the past two years.

At what level have you implemented the consideration of sustainable practices?

At their own organization
VC: 59%
Non-VC: 67%

At the fund level
VC: 64%
Non-VC: 65%

At the portfolio company level
VC: 49%
Non-VC: 54%

Not at any level
VC: 12%
Non-VC: 13%

Source: PitchBook | **Geography**: Global | **Respondents**: GPs
Question 4.25

When it comes to the area of their business where they have implemented sustainable practices, VCs were more likely to have done so as part of their fund strategy. Non-VC GPs, on the other hand, said they had implemented

What factors led to the development of your sustainable investment program or efforts?

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

The VC perspective

practices almost equally between their organization and their funds. In each case, somewhat fewer respondents indicated that they had implemented sustainable practices at the level of their portfolio companies. Less than 15% of GPs, VC and non-VC alike, indicated that they had no sustainable investment practices at any level.

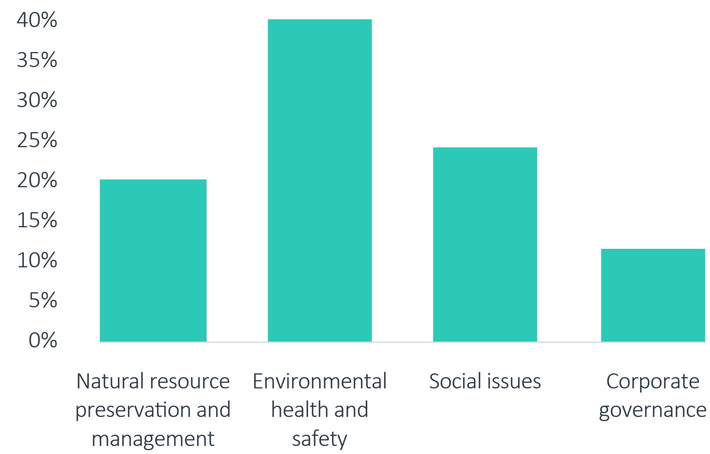
One area where VCs stand out from the other GP respondents is in their future intentions. 73% of surveyed VCs plan to increase their attention to ESG risk factors in the coming year, versus only 68% of other GPs. This is partially because VCs are less likely to have already completed integrating such principles into their work. Only 14% of VCs considered themselves fully implemented when it comes to their ESG factor program versus 21% of the other GPs.

In terms of what led to the development of sustainable investment programs, VCs were more likely to name environmental concerns (67% vs 53%) and portfolio companies (26% vs 13%), but risk management was a much lower priority for VCs versus other non-VC GPs (29% vs 47%). Non-VC GPs were much more concerned about regulatory requirements when developing sustainable investment programs (37% vs 25%). While we thought this might be due to a North American bias in the VC respondents and US regulators lagging other parts of the world in enforcing sustainable investment mandates, it turns out that only 52% of the survey's VCs were from North America, versus 65% of the non-VCs.

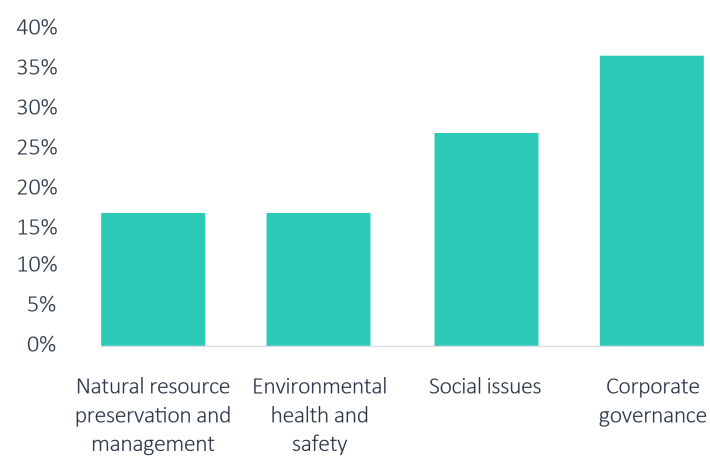
While there is more similarity than we expected between VCs and non-VC GPs on most questions, when it comes to priorities in their sustainable investment program, a higher proportion of VCs ranked environmental health and safety as their top priority, while non-VCs put corporate governance as their highest priority. Corporate governance actually came last for VCs, while other GPs were least focused on natural resource preservation and management. The lack of focus on corporate governance by VCs may represent a fundamental misunderstanding of what could be done by VCs in the space. While some believe that VCs should focus strictly on scaling and profits, younger companies may be at exactly the right stage to be thinking of diversity initiatives, for example, to ensure that the company grows with a representative board and has the economic benefits of founder equity flowing to a diverse group. Retrofitting a company to embrace diversity is a much harder task when a company has matured and leadership positions and ownership stakes are already allocated to people well ensconced in the organization.

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

VC



Non-VC



Source: PitchBook | **Geography**: Global | **Respondents**: All
Question 20
Note: Respondents ranked available answers, with 1 being highest priority and 5 being lowest. This chart shows the percentage of respondents who ranked a given answer as 1.

Another area where VCs had differing views from non-VCs was in what to require of portfolio companies. 65% of non-VCs said they do require that portfolio companies focus on their financially material ESG factors, while only 45% of VCs did so. This may, again, be related to the perception that startups do not need any distractions from scaling and reaching profitability. Yet there is much that VCs can do to encourage best practices while still forming cultural norms, as opposed to waiting until a greater effort is needed to adopt new practices when the company has grown large.

RSM: ESG best practices for private equity fund managers

Key considerations for developing a fund ESG program

Anthony DeCandido

Partner
RSM US LLP

Anthony is a partner at RSM and a lead advisor within RSM's ESG Advisory practice. He guides private equity firms through ESG strategy development, data collection, benchmarking, and reporting, and was a developer of RSM's proprietary Rapid Assessment methodology. Anthony is a leading industry voice in ESG matters and is both PRI and SASB certified.

Jake Salpeter

Supervisor
RSM Canada

Jake is a supervisor in RSM's ESG Advisory practice. He has experience developing ESG strategies, conducting ESG due diligence assessments, calculating greenhouse gas footprints, and supporting change initiatives for public and private sector clients. Jake recently helped execute ESG reporting strategy development projects, leveraging RSM's ESG Rapid Assessment methodology, across North America.

The growing emphasis on sustainable, socially responsible, and mission-related investing has raised expectations for middle-market PE fund managers to show greater transparency on ESG issues. A push for ESG policy development and reporting of financial and nonfinancial issues is apparent in ongoing portfolio management, as well as in M&A due diligence for both buy-side and sell-side transactions. This equates to smart business, as there is overwhelming evidence that having a strong ESG proposition can increase a portfolio company's valuation.

The prioritization of ESG by PE firms is happening organically too, as investment managers realize the business value of tracking ESG for raising capital and attracting top diverse talent, according to RSM's ESG advisory services practice. More GPs are voluntarily becoming signatories of internationally recognized commitments, such as the United Nations' Principles for Responsible Investment (PRI), as a public pledge to include ESG factors in investment decision-making and active ownership.

"PE funds that want to differentiate themselves in today's increasingly competitive market should focus on aligning their investment practices with ESG goals," says Anthony DeCandido, a partner in RSM's ESG advisory services practice. With so much riding on outcomes, it may be worthwhile for middle-market fund managers to create a custom playbook for their firm. While it requires commitment and there are many considerations, the potential impact cannot be underestimated.

"GPs who can articulate ESG best practices and show how they are walking the walk—meaning they are embedding it into their firm's core business activities, including its corporate culture—will be viewed as influential leaders in the industry and more attractive to institutional investors," says DeCandido, who is also a financial services senior analyst at the firm.

Develop an ESG strategy with end goals in mind

Jake Salpeter, a supervisor in RSM's ESG advisory services practice, says the first question PE groups must address is, "Why are we doing this? A firm's ESG initiative should reflect the end goal, whether the focus is compliance-driven strategy transformation, aimed at attracting top talent to the firm, or keeping in step with relevant industry best practices around ESG."

Knowing what drives key stakeholders is a good first step. Fund managers can leverage tools such as stakeholders mapping to identify internal and external groups and their level of influence. Creating a visual representation makes it easier to develop a holistic communication plan aimed at getting everyone aligned.

"Whatever the key drivers are, they will play a vital role in helping determine the outcome of the fund's ESG journey," adds Salpeter.

Each fund will have its mix of ESG issues, but a common area of focus for PE managers is to deliver effective employee benefits. A holistic well-being strategy should take into account physical, mental, and financial health to help employees achieve work-life balance, the meaning of which is constantly evolving.

For instance, sustainable living trends have heightened expectations for employers to provide greener office environments. Greater emphasis on workplace fairness has given rise to diversity, equity, and inclusion policies and programs. And for a growing majority of professionals, the work itself needs purpose, which underscores the value of establishing responsible investment practices, transparency, and fairness.

As fund managers start to consider ESG opportunities, they should try to connect them to current priorities. Chances are the firm is already doing some of these things, which can lead to quick wins if these efforts are enhanced and promoted as part of the fund's ESG story to stakeholders.

Build an ESG framework that is personal to your organization

There is no one-size-fits-all ESG reporting framework. Ideally, the framework a firm chooses should enable the organization to achieve strategic business goals in alignment with its corporate values. Fund managers should not be overly concerned with checking the box for every ESG element, as it is far more important to focus on the factors most relevant and meaningful to stakeholders and that drive the greatest performance and societal outcomes.

It may be helpful to reference available reporting frameworks as a starting point and then evolve the firm's ESG strategy from there. For example, the Sustainability Accounting Standards Board (SASB) provides guidance uniquely tailored for investors. SASB standards are industry-specific, metric-driven, and focused on financial materiality, which makes them valuable for integrating ESG considerations into investment and stewardship decisions across the enterprise.

Encourage ESG engagement to ensure program alignment

As the connection between investing and value creation becomes more accepted, efforts by the PE industry to integrate ESG into core business activities at both firms and their portfolio companies will continue to increase.

"We've heard from PE clients that the internal push to establish ESG programs has been, in part, grassroots driven by millennial staff members because of their generational mindset geared toward social and environmental consciousness," Salpeter says.

He recommends that fund managers take a bottom-up approach to collect perspectives around ESG priorities. Better yet, managers could assemble a task force of cross-functional team members to identify and evaluate risks and opportunities, with a focus on long-term value creation. Having equal representation across the firm will ease program alignment and drive more successful ESG outcomes.

Measure ESG performance to determine success

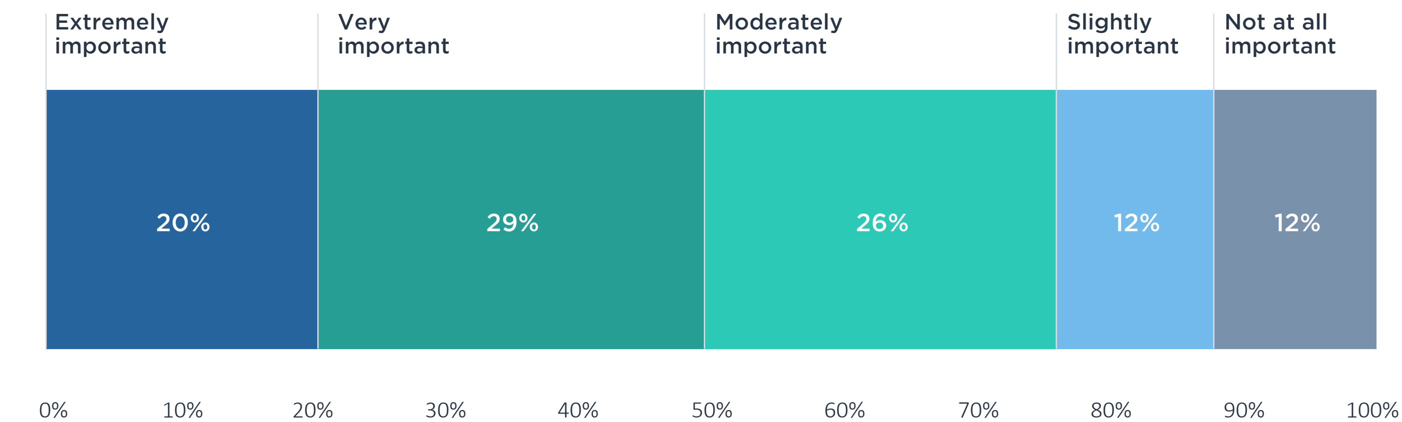
"The adage 'what you don't measure, you can't manage' certainly applies to ESG program management. What makes it particularly challenging is there are no uniform reporting requirements, so it's imperative to benchmark within the company, among its peer group, and within the industry it operates in," says DeCandido.

Of course, outcomes don't matter if they aren't communicated to stakeholders. Fund managers should leverage the power of branding to distinguish themselves from competitors, starting with ESG reporting. Best practices include building a strong mission statement, setting metrics to show what matters to your firm, and sharing successes.

"The importance of telling your ESG story cannot be overemphasized, and there are many different vehicles and voices that can be leveraged to help spread the word, including your own employees," says Salpeter. "It's extremely valuable when GPs promote stories through press releases, investor communications, their websites, or within an ESG report. Having them socialize with their communities gives authenticity and power to the message."

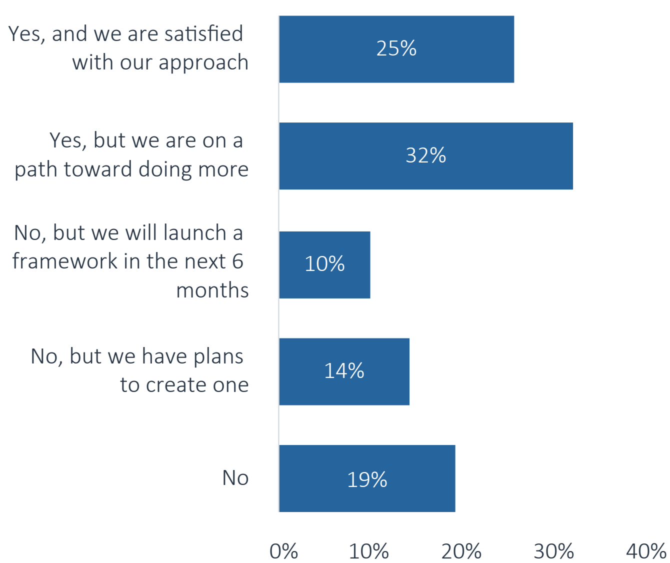
Contrasting views: ESG

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?



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

Does your firm utilize an ESG risk factor framework when making the decision to invest in a company?



Source: PitchBook | **Geography**: Global | **Respondents**: GPs
Question 9

29%	40%	31%
LP	Both	Other

Always evaluate the fund manager's ESG risk factor framework when evaluating investment managers

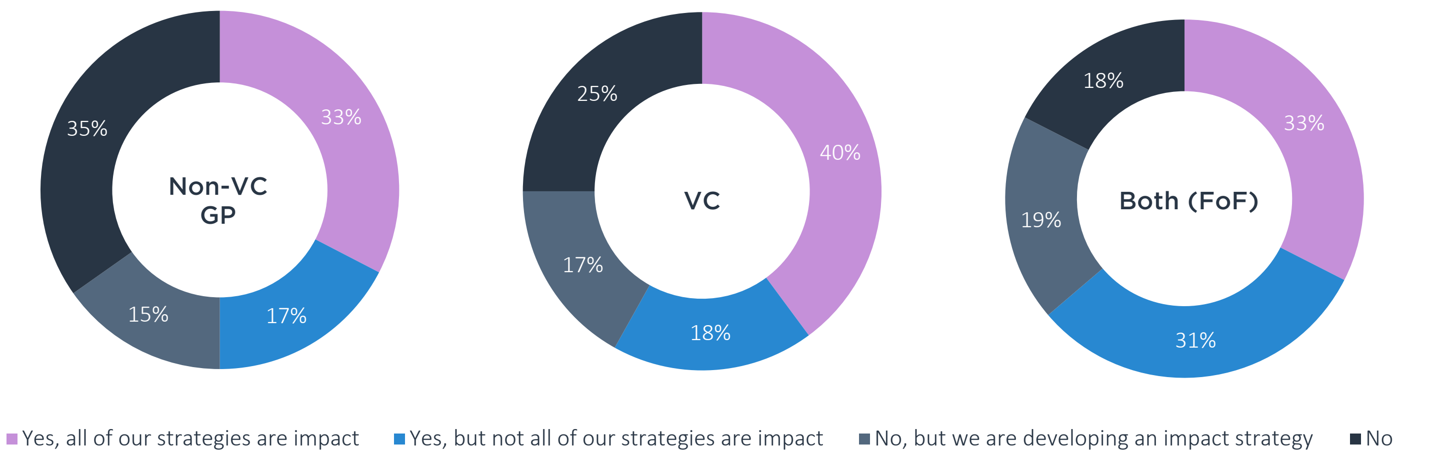
28%	35%	26%
LP	Both	Other

Do evaluate, and are on a path toward doing more

Source: PitchBook | **Geography**: Global | **Respondents**: LP, Both, Other
Question 5

Contrasting views: Impact

Does your organization offer impact investment strategies to external parties?



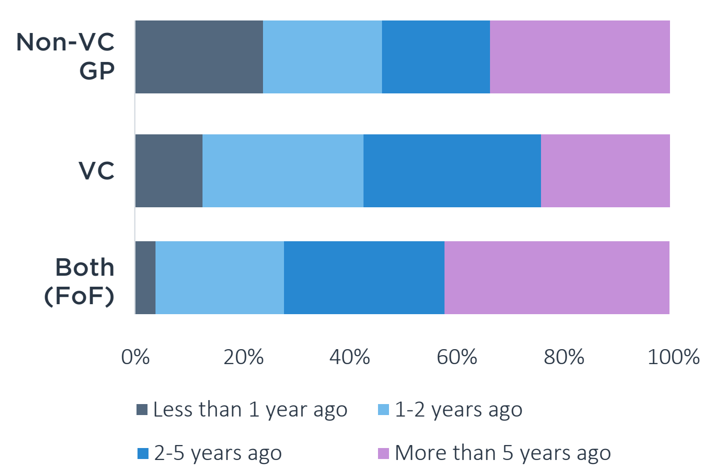
Source: PitchBook | **Geography**: Global | **Respondents:** GPs and Both
Question 6

This year, PitchBook took a major step forward in tracking impact funds, as was covered in the report Impact Funds by Reason and Region. Some readers were surprised that more than 1,800 funds appear to be seeking social or environmental impact alongside financial returns. In this year's survey, we asked fund managers if they offer impact investment strategies to external parties. Among our GP respondents, 55% had impact funds on offer, and another 16% were in the process of developing an impact strategy. Even recognizing our sample of respondents was biased to people interested in sustainable investing topics, we believe this to be an extraordinary ratio of fund managers with impact funds on offer to those without.

The impact fund space is still in its early days, however. Among those who answered the prior question that they are currently investing impact funds, only 31% said they began offering impact funds more than five years ago. Another 29% began two to five years ago, while the remaining 40% first launched an impact fund only in the last two years.

On the other side are those evaluating or allocating to impact funds. 57% of our allocators and service providers indicated that they are making allocations to impact strategies. Only 25% said they are not, while the remaining 18% are developing an impact investing approach. For those who have made investments into (or recommendations to) impact funds, 39% started more than five years ago and another 30% began two to five years ago, which indicates that 69% of those evaluating impact investment funds have more tenure in the space than 40% of the fund managers. It also may indicate that fund managers are entering the space due to evidence that LPs are actually making allocations to impact products. For some years, many GPs were frustrated that interest from LPs was often not met with awarded mandates. This appears to be changing.

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



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

Challenges

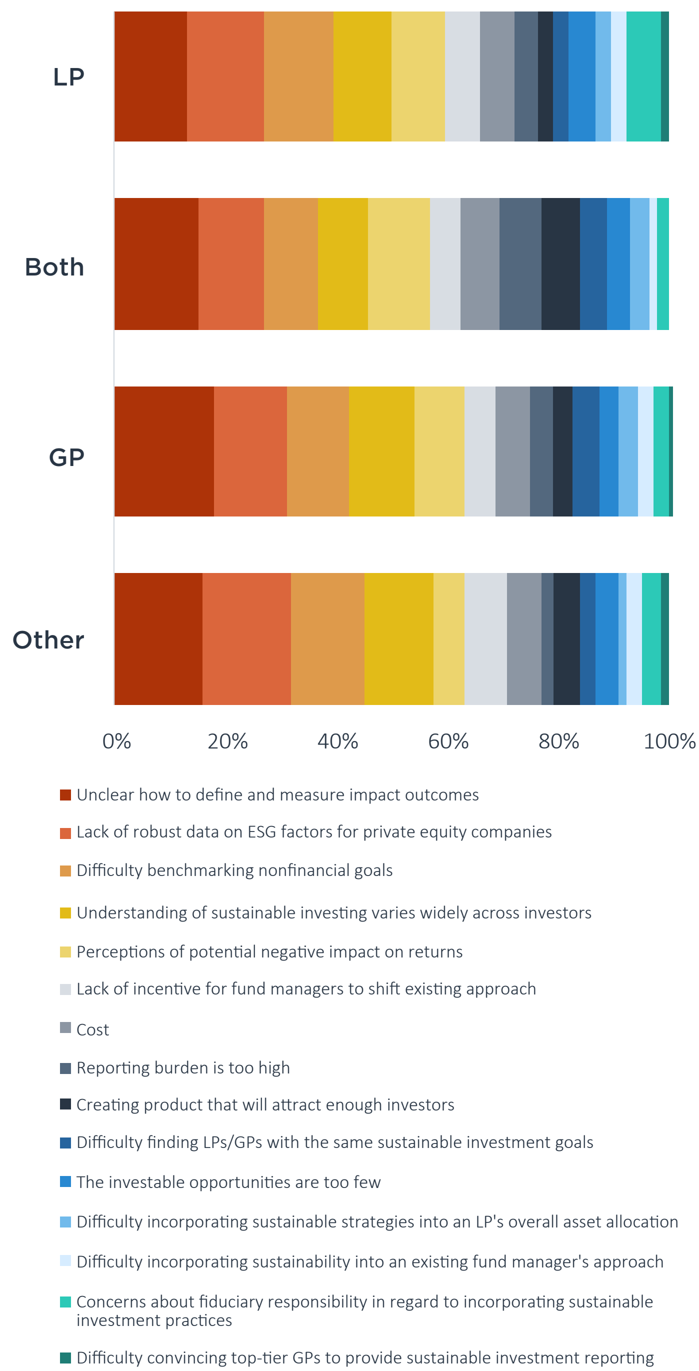
Last year, respondents were presented with 10 potential challenges facing sustainable investing and forced to select only one. The leading concern for all respondent types was the lack of clarity in how to define and measure impact outcomes. A lack of robust data on ESG factors for PE companies came in second, followed by perceptions of a potential negative impact on returns. This year's respondents of every type cited the same top two concerns, with the third spot occupied by difficulty benchmarking nonfinancial goals (for LPs and Other), perceptions of potential negative impact on returns (for Both), and the varied understanding of sustainable investing across investors (for GPs).

This year, we added five additional potential challenges based on last year's responses and loosened the restrictions to allow each respondent to select three. The challenges selected varied little by respondent type, with the top two the same for all. Fairly high on the list for those identifying as Both was the challenge of creating a product that will attract enough investors. There are some fund managers very focused on a particular area of sustainable investing, but that area may be so specific that it is hard to find the allocators who share that particular interest. The Both respondents were more concerned than the others about the immense reporting burden of sustainable investment practices. FoF have to aggregate not only a portfolio of funds, but also the deals underlying those funds, which could involve hundreds of companies all with different reporting frameworks.

LPs were most likely to be worried that they might face concerns about fiduciary responsibility from their stakeholders should they pursue sustainable investment practices. Those least concerned about the perceptions of returns being given second consideration in favor of sustainable investment practices were the Other respondents, which we believe is a hopeful sign, as they tend to be serving a broader client base than just investors with allocations to the space. If investors in general are coming around to sustainable investing being a potential improvement to risk-adjusted returns, that should help ease the flow of capital into these strategies.

Respondents in Europe and North America are in agreement for their top five challenges. Both cited lack of clarity in how to define and measure impact outcomes as their top choice, with 58% of respondents in Europe and 49% of those in North America selecting the option.

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

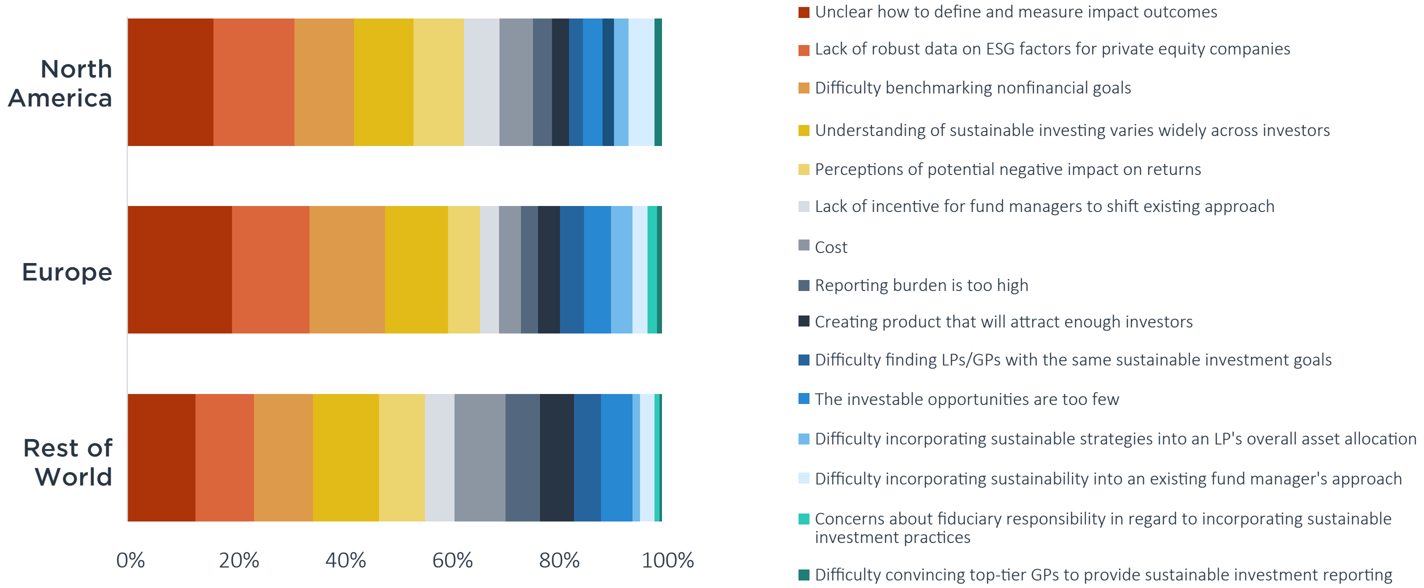


Source: PitchBook | **Geography:** Global | **Respondents:** All
Question 23

A higher percentage of respondents in North America (20%) than in Europe (11%) cited the lack of incentive

Challenges

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

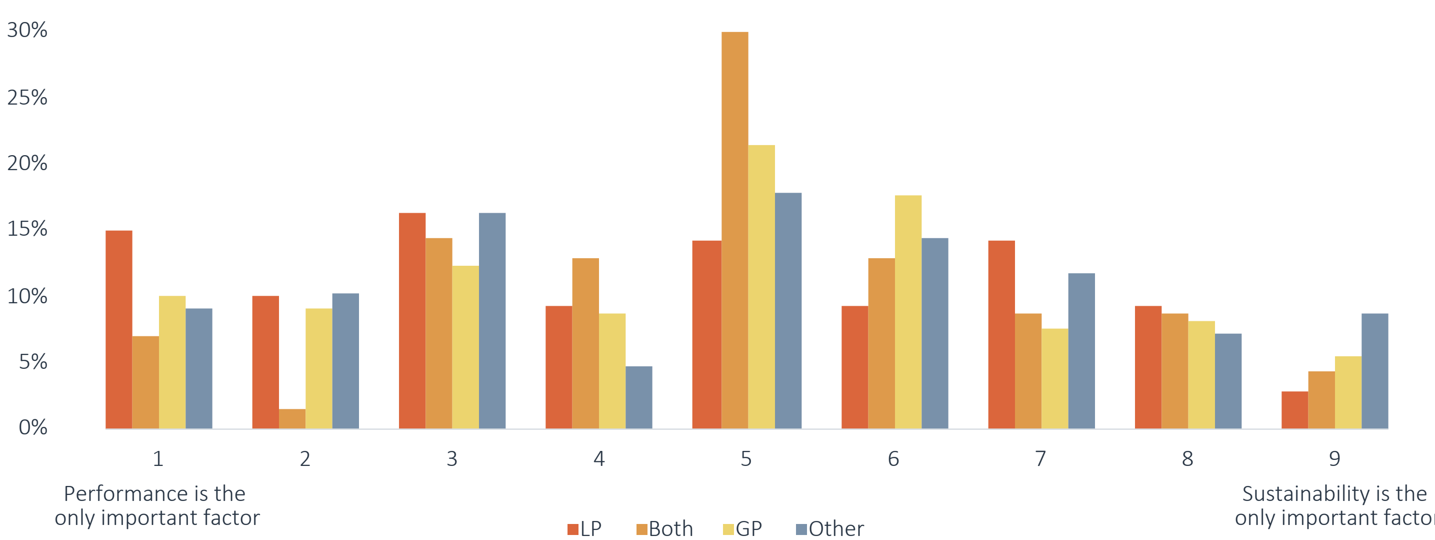


Source: PitchBook | **Geography**: Global | **Respondents**: All
Question 23

for fund managers to shift their existing approach. Respondents in RoW had a similar top five to the others, with cost of sustainable investment practices replacing perceptions of potential negative impact on returns. Only 12% of respondents in Europe and 18% of those in North America indicated concerns about the cost of sustainable investment practices, versus 29% of RoW respondents.

While it was not listed as a top challenge, we have heard investors of all types struggle with the idea of fiduciary duty and how hard they should lean into sustainable investing given the mandate to make money with investment capital. When asked how they prioritize performance versus sustainability, most ended up in the middle, though there were respondents at both extremes.

How do you prioritize sustainable investing versus top performance as you assess a potential investment opportunity?



Source: PitchBook | **Geography**: Global | **Respondents**: All
Question 11

Measurement

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

	Standard framework	Custom framework
LP	CO2 emissions; GIIN (IRIS+); PRI; GRI; UN SDGs; SBTI	Qualitative framework; human centric/eco-friendly criteria; client-specific criteria
GP	Impact Management Project (IMP); UN SDGs; B Corp/B-Lab; SASB; GIIN (IRIS+)	SDG-derived framework; helping companies set and report impact KPIs; specific metrics per industry; plotting a theory of change and tracking KPIs through life of investment
Both	HRP-Resources; B Corp/B-Lab; UN SDGs; GQG Consulting; IRIS+; IMP	Fund managers defining a set of relevant impact KPIs at each portfolio company; theory of change; using UN PRI as a basis; surveys of GPs; company-specific metrics based on IMP framing; depending deal by deal
Other	SROI; GRESB; GRI; SASB; UN SDGs; IMP; GIIN; LSTA Green; Social Loan Principles; Investment Leaders Group	Multiple parameters to capture actions and outcomes; establishing a particular KPI for each project; analyzing in a one-off manner; no official framework, but using parameters and benchmarks similar to those used in philanthropic grant making

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

As shown in the previous section, measurement of impact outcomes is a primary concern for investors. As a reminder, 53% of respondents who allocate to or recommend funds feel that it is very or extremely important that asset managers measure social and/or environmental impact in the management of portfolio companies when they are deciding to commit to or recommend a fund. A stark example of measurement difficulties is showcased in the collection of responses to the questions we posed surrounding how respondents were measuring ESG and impact metrics.

First, we asked if impact investors were using a standard framework or a custom framework. It would be easier for all concerned if a common framework could be used industrywide. GPs could then roll up individual company metrics, and LPs could analyze those rolled-up metrics for a full view of individual managers' impact profiles. They would be able to contrast them against each other and roll them all up for reporting to LP stakeholders. Alas, that is not yet the norm. Not only are the respondents split 68%/41% between custom and standard frameworks (30 respondents said they are using both), but five individuals indicated they are not doing any impact investment work and yet said they are using a measurement framework. These responses exemplify the confusion around measurement in the industry. A higher fraction of GPs said they are using both a standard and custom framework, a not unexpected result given that for GPs to meet the conflicting requests of LPs, they have to provide a wide array of metrics. Conflicting views and interests, while coming together in some ways in the industry, continue to lead to a multitude of frameworks all being used simultaneously.

Measurement

The open-ended responses to the measurement questions once again highlight the desire to properly account for the good investors can do, but also the difficulty in standardizing measurement so all are speaking a common language. If every portfolio company had its own KPIs that differed from every other portfolio company, then every GP would collect a multitude of KPIs and report them in fund level reporting. This would leave LPs with a multitude of KPIs for every GP, and they in turn must attempt to report all of this to investment committees or other stakeholders.

We asked GPs if their firm utilizes an ESG risk factor framework when managing and monitoring portfolio companies. 57% replied in the affirmative. To the 53% who said they require portfolio companies to focus on their financially material ESG factors, we asked if their portfolio companies utilize a standard or a custom framework to measure and report on these factors. Oddly, 22% of the GPs who said they require portfolio companies to focus on their financially material ESG factors then went on to say that their portfolio companies do not measure or report on financially material ESG risk factors.

Of the group measuring ESG risk factors, many of the standard frameworks mentioned in the impact measurement question repeat. Responses included SASB, GIIN/IRIS, UN SDG, B Corp, ILPA, IMP, Luxflag, and GRESB. For those using a custom framework, many mentioned a questionnaire, ESG KPIs based on the UN SDGs, or individual company corporate social responsibility reporting. Others indicated an amalgam of frameworks such as SASB, GRI, UN SDGs, and IMP. Once again, the respondents that indicated a custom methodology represented the greatest proportion of responses at 55%, with 23% saying they used a standard framework.

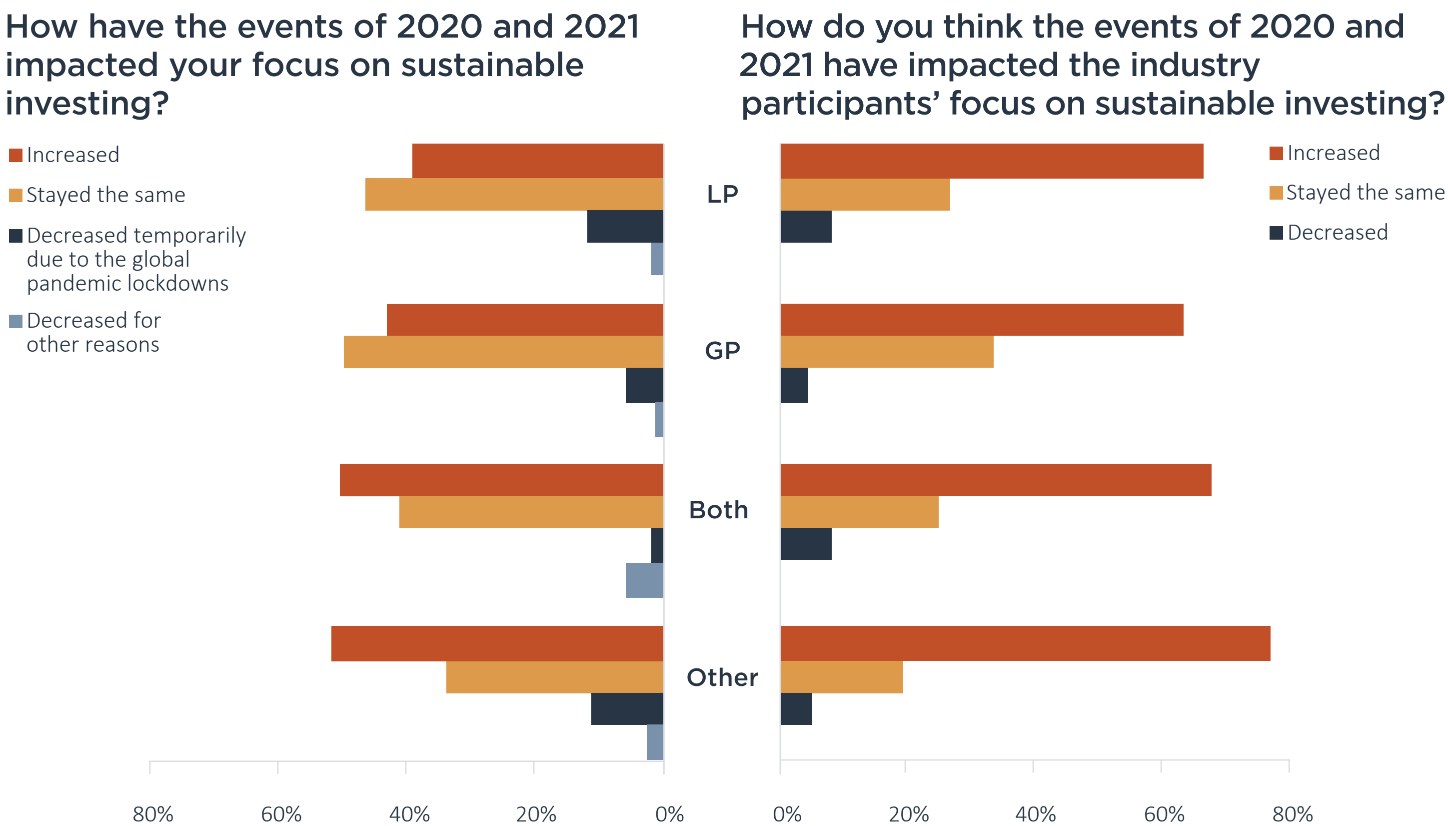
If you do any impact investment work, how do you measure impact?

GP metrics

Employability	R&D spent	Carbon emission reduction
Social/green elements of company business models	Economic development impact	Diversity of founders, board, and fund
Access to healthcare	Carbon footprint	Sustainable vendor strategy
Waste reduction	GHG estimates	Job creation
Worker safety	Water use	Number of patients treated

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

Social and political landscape



Source: PitchBook | **Geography**: Global
Questions 27 and 28

In last year's survey, we asked about commitment to sustainable investing amid the pandemic, knowing that many people quickly abandoned sustainable efforts during the global financial crisis, given more pressing issues. In 2020, most respondents either held steady on sustainable investment programs or increased focus for a variety of pandemic and social reasons. (Last year's survey ran during the height of the Black Lives Matter protests in the US.) Testing whether that commitment remained firm, we asked about how the events of 2020 and 2021 had influenced the focus of respondents on sustainable investing.

We found the results just as striking in 2021. Overall, 46% said they were increasing their focus on sustainable investing, while 43% said their focus stayed the same. Only 10.8% of responses indicated they were decreasing their sustainable investing efforts. GPs were the most committed. 92.9% were planning to increase or stay put, while only 7.1% were backing away. LPs and other respondents were each above 13% for those planning to step back. To put it plainly, for those taking the survey, sustainable investing is no longer just a nice-to-have when things are going well, and there is time to work on it.

In the open-ended responses, many named the pandemic as a reason to increase focus on sustainable investing. Others offered much longer-term views. On the GP front, quite a few mentioned that investors are demanding this focus, making this less of an event-driven increase than a market-driven one.

Social and political landscape

How have the events of 2020 and 2021 impacted your focus on sustainable investing?

Increased			Decreased		
“The pandemic has only underlined the importance of ESG and sustainability.”	“It is becoming increasingly clear that we must take action for the future of our children and the planet.”	“We were founded out of the events of 2020 in an effort for our founders to both take control of their own investments and focus capital into sustainable investments.”	“Naught times naught still equals naught. This whole notion of sustainable investing is a farce.”	“A reactionary trend by people who don’t understand value creation.”	“I am only interested in returns. ESG is a political issue, one that promises to destroy portfolios.”

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

For those who provided open-ended replies as to why their focus on sustainable investing has declined, we suspect their selection was reflecting not a decline, but a protest vote. While clearly in the minority of survey takers, there are some who clearly intend to resist the movement to sustainable investing. Only one open-ended response referenced recent events, indicating that their sustainable investment program had “been affected by floods and COVID-19.”

We find the responses from the Other category interesting in that investment consultants and other service providers typically work with a broad group of clients who may be less focused on sustainable investing than those who chose to spend time on this survey.

This group recorded the most responses for the survey overall, and 52.3% of them indicated that 2020 and 2021 have led them to intensify focus, potentially because the group has lagged in implementing sustainable investment principles into their work. Only 34.2% said they were staying the same (which could indicate they were continuing to have no sustainable investment efforts or that they had fully implemented them and had nothing further to do), and 13.6% said they were decreasing their focus. We also asked the Other group what impact they think the events of 2020 and 2021 have had on industry participants’ focus on sustainable investing, and 76% said they think the focus has increased among industry participants, which is much higher than our 2020 survey tallied.

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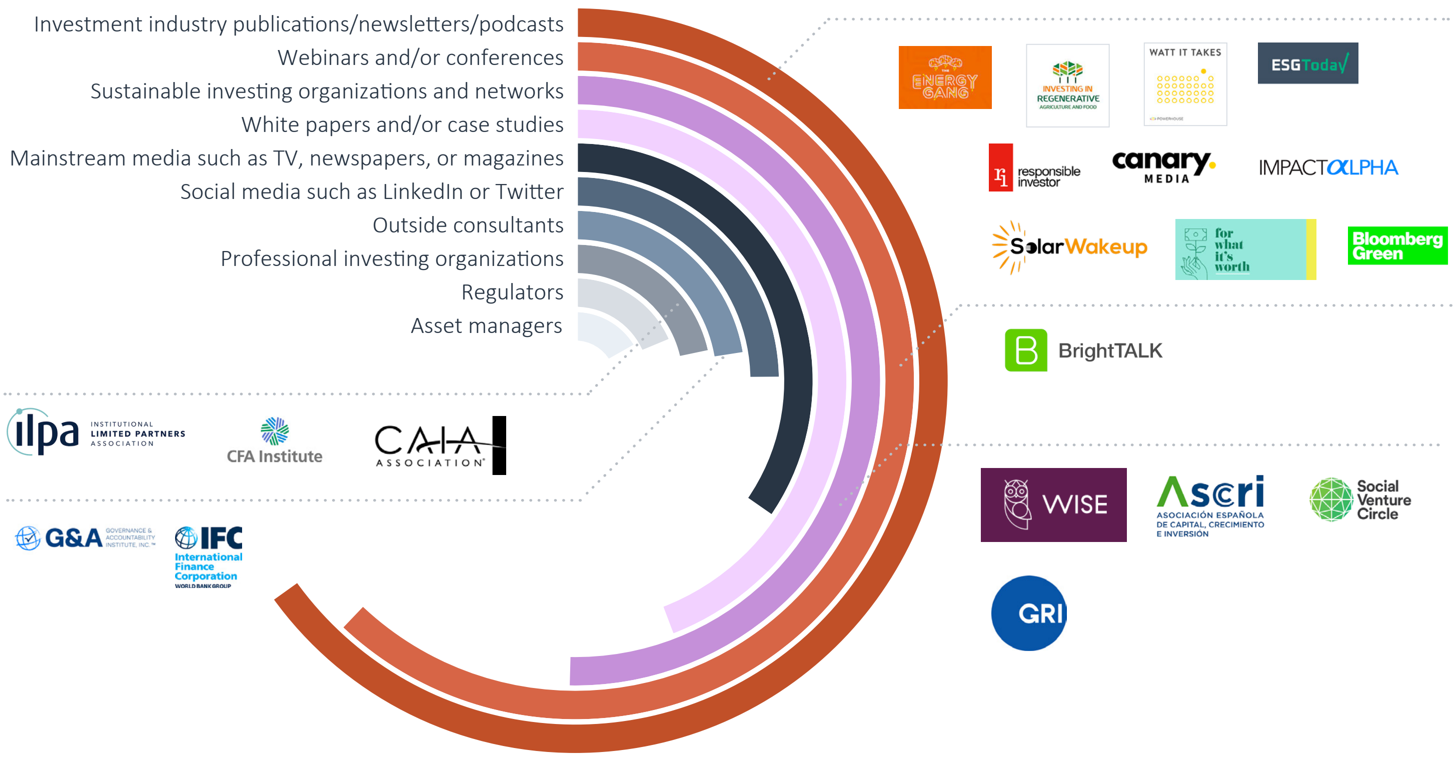
Staying informed

How survey participants stay abreast of ESG and sustainable investment developments



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

The sustainable investment landscape is changing quickly. Those who operate in the area full time can be frustrated by the unwillingness of those with other areas of focus to catch up. We asked respondents where they seek information to stay abreast of developments in the space, especially after a year without in-person gatherings, including targeted events where these ideas are shared widely.

This year, investment industry publications, newsletters, and podcasts are the top cited resource, just beating out last year's top response of webinars and/or conferences. Multiple selections were allowed for this question, as industry participants consume good information from a variety of sources.

We also asked what sustainability-related groups or programs respondents belonged to, endorsed, or participated in. The UN SDGs garnered the most support overall, with 32% of respondents selecting that program. The Principles for Responsible Investment (PRI), which targets investors, is another unsurprising favorite at 24%. The third most selected option was the Global Impact Investing Network (GIIN), which created the Impact Reporting and Investment Standards (IRIS+) framework that PitchBook has adopted for categorizing private fund impact efforts. The Global Reporting Initiative and the International Finance Corporation tied for the fourth-most responses. A higher proportion of LPs had no affiliation at 38% of respondents, while only 31% of asset managers answered None.

As might be expected, the affiliations varied some by geography. While all regions had a high number of respondents aligning with the UN Sustainable Development Goals (SDGs), North America lagged at only 28%. In fact, 40% of respondents in North America indicated they aligned with no sustainability-related groups or programs. All other regions had at least 75% of respondents aligned with at least one group. The only other groups with more than 20% support from North America were PRI and the GIIN, each of which was popular in the other regions, as well. 47% of respondents in Europe aligned with the UN SDGs, and 53% of respondents in Asia and Oceania chose the UN SDGs. Outside of North America and Europe, the International Finance Corporation (IFC) had fairly large support, with 20% of APAC, 35% of MEA, and 29% of Central & South America and the Caribbean citing their involvement. Also bigger outside North America and Europe was the Global Reporting Initiative (GRI).

The proliferation of organizations working on sustainable investment topics has been a deterrent for many trying to get their heads around the topic, but this year there was movement to lessen the confusion. The Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council merged in June to form the Value Reporting Foundation to unite their ESG frameworks. Even when alignment does not make sense, some organizations are trying to make it easier for investors to navigate the different offerings. SASB and GRI released a document showing how they could be complementary frameworks, and the GIIN has documents mapping their IRIS+ framework to the UN SDGs, as well as a plethora of other frameworks. For example, the IRIS+ Agriculture category aligns to the World Food Programme, the Toniic Impact Theme Framework, the Food and Agriculture Organization of the UN Climate-Smart Agriculture Framework, and more. It may be mostly reflective of the composition of respondents, but there seems to be more alignment percolating in the impact world than in ESG. A number of ESG-related groups are designed for a specific audience, such as focusing only on climate or LPs or Europe, adding to the complexity of arriving at a uniform framework that companies, asset managers, and allocators can use to track ESG risks.

Which sustainability-related groups or programs do you belong to, endorse, or participate in?

GP

35%	34%	31%
UN Sustainable Development Goals (SDGs)	Principles for Responsible Investment (PRI)	None

LP

38%	21%	17%
None	UN Sustainable Development Goals (SDGs)	Principles for Responsible Investment (PRI)

Both

37%	35%	27%
UN Sustainable Development Goals (SDGs)	Principles for Responsible Investment (PRI)	Global Impact Investing Network (GIIN)

Other

36%	32%	22%
UN Sustainable Development Goals (SDGs)	None	Global Impact Investing Network (GIIN)

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

Glossary

B-Lab: https://bcorporation.net/about-b-lab

B Corp: https://bcorporation.net/

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

CO2: carbon dioxide

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.

G&A Institute: Governance & Accountability Institute, Inc. https://www.ga-institute.com/

GFC: global financial crisis

GHG: greenhouse gas

GIIN: Global Impact Investing Network. https://thegiin.org/

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

GQG Consulting: https://gqgconsulting.com/

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

GRI: Global Reporting Initiative. https://www.globalreporting.org/

HRP Resources: human resources planning. https://www.hrp-resources.com/

IFC: International Finance Corp. https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/home

IIRC: International Integrated Reporting Council. https://integratedreporting.org/

IMP: Impact Management Project. https://impactmanagementproject.com/

ImpactAlpha: https://impactalpha.com/

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

Investment Leaders Group: formed to advance the practice of responsible investment. Facilitated by the Cambridge Institute for Sustainability Leadership and supported by academics in the University of Cambridge. https://www.cisl.cam.ac.uk/business-action/sustainable-finance/investment-leaders-group

IRIS+: Impact Reporting and Investment Standards. https://iris.thegiin.org/

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.

LTSA Green: Loan Syndications and Trading Association. They offer both the GLP (Green Loan Principles, https://www.lsta.org/content/green-loan-principles/), the SLP (Social Loan Principles, https://www.lsta.org/content/social-loan-principles-slp/), and the SLLP (Sustainability Linked Loan Principles, https://www.lsta.org/news-resources/sustainability-linked-loans-published/) to provide frameworks for lending for green or sustainable projects.

Luxflag: Luxembourg Finance Labelling Agency. Supports sustainable finance. https://www.luxflag.org/

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. https://www.unpri.org/

R&D: research and development

RoW: rest of world. For the purposes of this report, we grouped all regions outside of Europe and North America into RoW.

Glossary

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. https://www.sasb.org/about/

SBTI: Science Based Target initiative. https://www.wri.org/initiatives/science-based-targets

SROI: social return on investment. A methodology to measure both financial and socioeconomic results.

Sustainable investing: the umbrella overarching both impact investment approaches and the incorporation of ESG risk factors into the investment process.

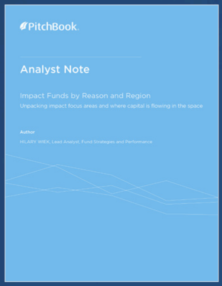
UN SDG: United Nations Sustainable Development Goals. https://sdgs.un.org/goals

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.

WISE: Women Investing for a Sustainable Economy. https://www.wisecommunity.org/

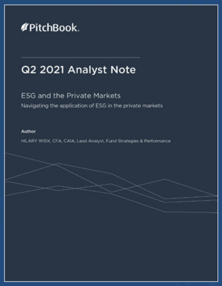
Additional research

Impact and ESG coverage



Impact Funds by Reason and Region

Download the report here



ESG and the Private Markets

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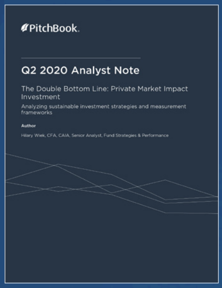

The Double Bottom Line: Private Market Impact Investment

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