PitchBook Data, Inc.

John Gabbert Founder, CEO

Nizar Tarhuni Vice President, Institutional Research and Editorial

Daniel Cook, CFA Head of Quantitative Research

Institutional Research Group

Analysis

Hilary Wiek, CFA, CAIA
Senior Strategist
hilary.wiek@pitchbook.com

Anikka Villegas
Senior Analyst, Fund Strategies & Sustainable Investing
anikka.villegas@pitchbook.com

Data

Collin Anderson
Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Designed by **Julia Midkiff**

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The State of Private Market ESG and Impact Investing in 2024

Identifying the key trends shaping the sustainable investing space in 2024 and beyond

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Key takeaways

- Some asset managers are pulling back from public ESG commitments while others are leaning into ESG as a value creation and protection tool in the challenging macroeconomic environment.
- The financial performance of ESG-committed asset managers varies, but quantitative evidence that the use of ESG in the private markets necessitates sacrificing returns has not emerged.
- Regulation of ESG-related claims and activities remains difficult to implement and comply with, but SFDR instills hope that public disclosures will improve access to better-quality data on private funds.
- The materiality of environmental issues has come into focus for some industries and geographies more than others. The pandemic-era emphasis on diversity, equity & inclusion has reversed, at least in the US, and governance is in the spotlight following a series of high-profile incidents and with the evolution of AI.
- Investors are still debating whether it is better to bring to market a focused offering or be more general in the impact they are seeking.
- Fundraising for Impact funds appears to be down dramatically for 2023, but emerging Impact managers have had a higher success rate than in the general funds population.
- While the top Impact asset-gatherers also have strategies that are not dedicated to Impact investing, name brands may not be as powerful in the Impact space.
- Impact funds targeting climate solutions have been taking ever-larger shares of Impact fund commitments, as determination to take action has received both governmental and private sector support.
- Fund return data does not support the narrative that Impact investing is equivalent to concessionary returns.

Anikka Villegas
Senior Analyst, Fund Strategies & Sustainable Investing
anikka.villegas@pitchbook.com

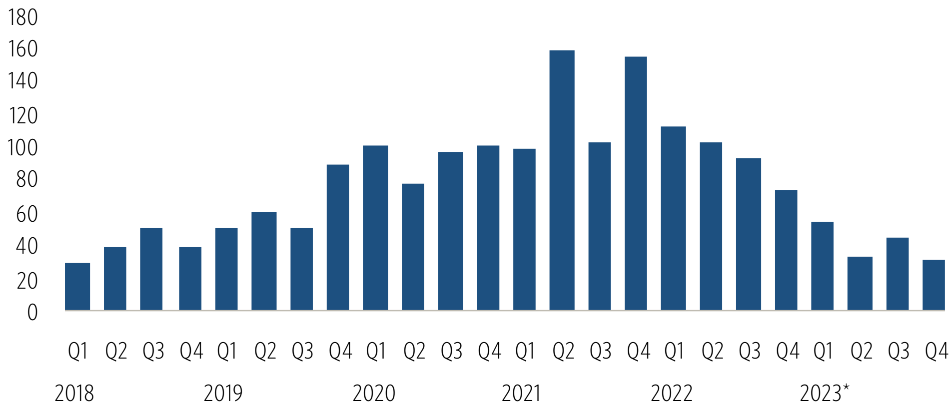
Trends in private market ESG

Some asset managers are pulling back from public ESG commitments as programs are deprioritized and greenhushing proliferates.

The past few years have seen extreme backlash against the use of environmental, social & governance (ESG) analysis in the US, with politicians and other public figures calling for its abolition and some even proposing that its use become a felony.[1] Simultaneously, the macroeconomic environment, particularly elevated interest rates and recent uncertainty about a potential recession, have made the path to high investment returns more difficult, forcing asset managers to reevaluate their strategic priorities. These factors have led to two outcomes. First, some GPs have chosen to forgo or decrease their focus on ESG strategies because of the backlash or to focus more on investment fundamentals and financial performance, given the pressures faced by private funds in 2022 and 2023, per our 2023 Sustainable Investment Survey. Second, a portion of the asset managers that have ESG programs or are considering implementing them is shifting the language used to discuss them or decreasing any mention of them entirely, a practice sometimes called "greenhushing."

This is a significant departure from the rapid adoption and branding around ESG in the private markets that transpired at the beginning of the pandemic. Case in point, the number of new GPs making public commitments to ESG each quarter via the Principles for Responsible Investment (PRI) rose substantially throughout 2020 and 2021 but made a steep decline in 2022, which continued into 2023. While some may argue that the rate of growth was bound to slow eventually, as there were more than 2,000 GP signatories at the end of 2021, we know of more than 20,000 investors that have raised a private fund in the time that PRI has existed, so there is still a considerable population of non-signatories that could have become signatories.

New GP PRI signatories by quarter



Source: PitchBook • Geography: Global • *As of December 31, 2023

1: "It's a Felony: N.H. Bill Would Make It a Crime to Knowingly Use ESG Criteria in Investing Taxpayer Dollars," Pensions & Investments, Robert Steyer, January 16, 2024.

These dynamics have raised questions about whether the industry will force the term "ESG" into extinction and if so, whether it will be replaced by another synonymous but less politicized term. Some signs point to yes. For instance, once-outspoken advocate of ESG and CEO of BlackRock Larry Fink has now stopped using the "weaponized" term.[2] Still, this phasing out is likely to occur only among some asset managers in some geographies—in Europe, for example, where it is less controversial, the term will probably endure. While there are certainly negative aspects of the pullback from ESG, it may also have some positive effects on the space. Asset managers with the most legitimate and sophisticated ESG programs will be less inclined to eliminate or downsize them. So, should other fund managers choose to move away from ESG, there may be an increase in the overall quality of the remaining ESG programs.

However, others are leaning into ESG as a value creation and protection tool in the challenging macroeconomic environment.

On the opposite end of the spectrum from those that are pulling away from it, there are asset managers that are doubling down on their ESG efforts. Fund managers have noted that the number of opportunities tied to ESG factors that go beyond risk mitigation to create the potential for investment upside have grown, as they indicated in our Sustainable Investment Survey. Many of these are environmental opportunities related to advancing the energy transition and meeting climate change adaptation and resilience needs, which respondents to the survey frequently mentioned in connection with the ability to take advantage of government policies and spending. Not all ESG value creation opportunities are environmental, though. In the US, a resurgence of social justice movements such as Black Lives Matter has increased consumer attention to how companies handle social issues, with as many as two in three Americans making their shopping choices based partially on their social values in 2021.[3] As such, the payoff of capitalizing on the demand for products and services created by and for diverse groups has also become more attractive. More recently, consumers have boycotted brands they perceive to be supporting Israel in its conflict with Palestine, harming the sales growth of companies such as McDonald's, Starbucks, Coca-Cola, and Domino's, thus reinforcing the power of consumer sentiment around the alignment of companies' values to their own.[4]

To other proponents of ESG, programs focused on risk mitigation have become especially valuable because of the current economic conditions. They reason that companies that mitigate material ESG risks are likely to perform better on a longer time horizon, including through black swan events such as the COVID-19 pandemic and geopolitical tensions, market turbulence, and inflationary periods. When ESG risks manifest, they can compound those external downward pressures, so companies that mitigate ESG risks are thought to be more resilient. For example, manufacturing companies that implement resource efficiency measures to reduce their environmental footprint will be less negatively impacted by rising materials prices compared to their counterparts that do not. Or, on the social side, companies with strong employee engagement and retention practices are unlikely to suffer as dramatic of voluntary turnover spikes following layoffs conducted during recessionary periods,[5] preventing undesirable talent loss.

2: "BlackRock's Fink Says He's Stopped Using 'Weaponised' Term ESG," Reuters, Isla Binnie, June 26, 2023.
3: "The Rise of the Inclusive Consumer," McKinsey & Company, Pamela Brown et al., February 8, 2022.
4: "Israel's War on Gaza: Are Boycotts Hurting US Brands?" Aljazeera, February 6, 2024.
5: "Layoffs Can Cause Contagion That Pushes Workers Who Are Left Behind to Quit," Business Insider, Rebecca Knight, February 27, 2023.

The financial performance of ESG-committed asset managers varies, but quantitative evidence that the use of ESG in the private markets necessitates sacrificing returns has not emerged.

There remains a wide array of approaches to ESG in 2024, with the caliber and maturity of ESG programs highly variable from firm to firm. Meaningful convergence around one set of definitions and standards for what qualifies as ESG in practice has not yet occurred, and the transparency of private market participants around what their programs entail is limited. As such, determining how different approaches to ESG affect the financial performance of private funds has continued to be extremely challenging. However, answering the question of how publicly committing to ESG, in the aggregate, relates to returns is more feasible. In June of 2023, we published a report called Are "ESG Investors" Underperforming? on the performance of funds raised by signatories to the PRI, attempting to address that question through the analysis of fund return data. We examined the dispersion of IRR and TVPI for PRI signatory funds and non-signatory funds in private equity, real estate, real assets, and private debt with 2010 to 2018 vintages using linear and logistic regressions.

Ultimately, there was no statistically significant difference in performance among PRI signatories compared to their peers. We recently updated the performance data for the same vintage years through Q2 2023, with the refreshed analysis also showing no indication of concessionary returns for PRI signatory funds. There are some caveats to these findings. For one, the requirements outlined by the PRI may not have been rigorous enough to influence returns, hence the similarity in aggregated performance when controlling for other factors such as geography, fund size, and vintage year. Plus, not every firm that uses an ESG strategy is a PRI signatory. Despite these and other limitations to the dataset, it is one of the most—if not the most—current and comprehensive datasets pertaining to this question. Seeing as that is the case, there is insufficient evidence to substantiate the arguments on either side of the debate about ESG's positive or negative impact on performance in the private markets.

Regulation of ESG-related claims and activities remains difficult to implement and comply with, but SFDR instills hope that public disclosures will improve access to better-quality data on private funds.

The US provides a case study on just how challenging it can be to implement ESG-related regulation. In terms of disclosures, the Securities and Exchange Commission (SEC) delayed climate-related rulemaking for nearly two years, and when they were finally approved on March 6, 2024, the disclosure requirements were far weaker than when they were initially proposed.[6] On the other side of the issue, more than 60 state-level anti-ESG bills are pending in committee or set to roll over from the last legislative session to 2024, with many having become watered down and others having failed in court.[7] Elsewhere in the world, ESG regulations have already been adopted, notably in the EU and UK with the Sustainable Finance Disclosure Regulation (SFDR) and Sustainability Disclosure Requirements (UK SDR), respectively. SFDR is the most comprehensive ESG regulation to date, applicable to all financial market participants and financial advisors based in the EU,[8] as well as those based outside of the EU who

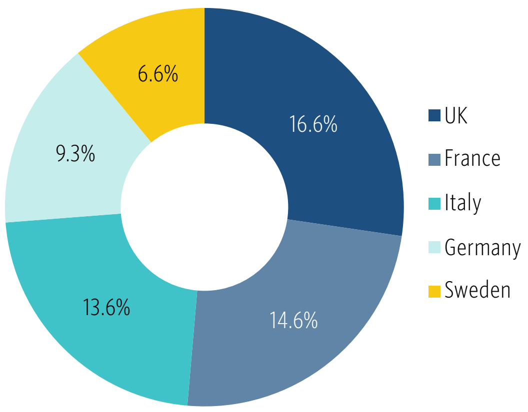
6: "SEC Approves Landmark Rule Requiring Some Companies to Report Emissions, Climate Risks," Time, Suman Naishadham/AP, March 6, 2024.
7: "Anti-ESG Legislation Seen Facing Uphill Struggle to Become Law," Thomson Reuters, Henry Engler, February 22, 2024.
8: Check out our webinar on this topic, SFDR within the ESG landscape and complying with regulations in 2023, for additional information.

plan to sell their investment products to clients in the EU. As such, the regulation covers private market vehicles and extends to entities operating across borders.

SDFR compliance has proven difficult, with many fund managers upgrading or downgrading their funds across the spectrum of articles 6, 8, and 9 filings, which are essentially categorizations of the sustainability-related activities in which a financial product will be involved. Loosely speaking, sustainable investment is a primary objective for Article 9 funds, a secondary objective for Article 8 funds, and not an objective for Article 6 funds.[9] In some respects, the Article 8 definition is more aligned with how ESG is often practiced, while the Article 9 definition is more aligned with how Impact investing is typically executed.[10] As such, examination of Article 8 funds provides some insight into the current state and future of ESG and sustainable investing more broadly. While we do collect information on Article 9 funds, the universe of 214 vehicles is much less complete than our Impact fund dataset, so we have based our discussion of Impact trends on the latter.

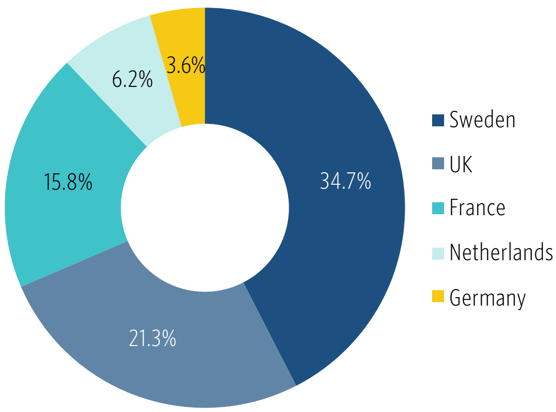
We began actively tracking the SFDR classifications of private funds in 2023 and have gathered a noncomprehensive list of 302 mostly new-vintage funds with an Article 8 filing. By geography, the UK represents the largest number of vehicles, but Sweden, particularly due to 11 sizable funds from EQT, has the largest amount of fund commitments in Article 8 vehicles. This may not come as a surprise to those well-acquainted with the sustainability space, as it has largely been countries located in Northern and Western Europe that have led the charge on ESG and sustainable investing. While the regional concentration of these filings is overwhelmingly among European fund managers, any fund pitching to European LPs must comply with SFDR. As a result, in our sample, 4% of funds are US-domiciled, with another handful located in other countries around the globe.

Share of Article 8 fund count by top five countries*



Source: PitchBook • Geography: Global • *As of December 31, 2023

Share of Article 8 assets raised by top five countries*



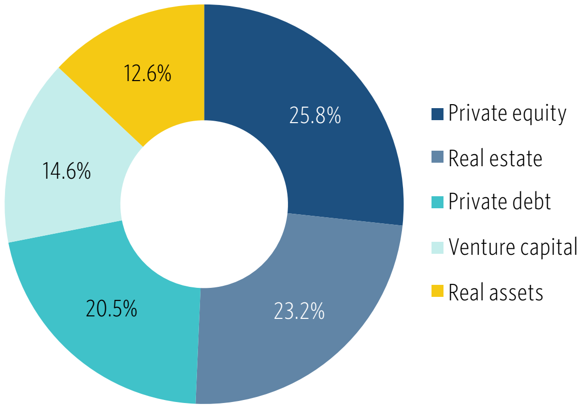
Source: PitchBook • Geography: Global • *As of December 31, 2023

Looking at the full private capital universe of European vehicles, given the skew of the dataset, PE makes up 36.5% of capital raised over the past decade, and the SFDR Article 8 sample functionally mirrors that figure. Where the Article 8 group

9: Article 9 funds must also meet a "do no significant harm" principle, which prevents them from harming the objectives of the EU Taxonomy.
10: For more on SFDR, explore Eurosif's guide and links to resources.

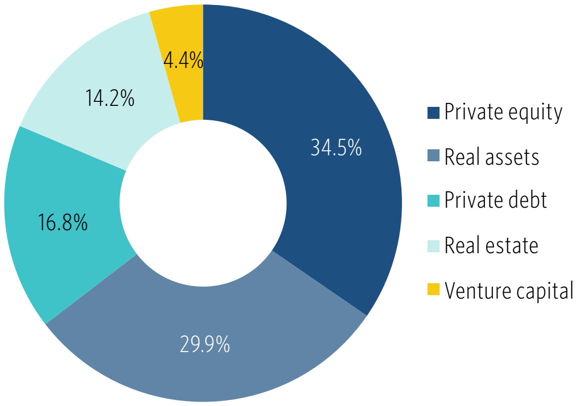
diverges from the composition of the European universe is in its representation of real assets vehicles. Over the past 10 years, real assets funds have garnered 13.6% of commitments to Europe-domiciled vehicles but received more than double that share of capital among Article 8 vehicles. Because real assets skews heavily toward infrastructure, it attracts a host of investors looking to capitalize on ESG-related opportunities in the energy transition and the provision of necessary services such as public transportation and digital connectivity. Real estate is also slightly overrepresented among Article 8 funds, at 14.2% of Article 8 commitments compared to the European universe's 12.1% over the past decade. Given the financial materiality of climate change physical and transition risks and other environmental risks and opportunities in the property sector,[11] ESG is more widely accepted and implemented in real estate than in some other asset classes, so one may expect even more pronounced over-representation of real estate among Article 8 funds. However, with so many sustainability-related categorizations and certifications available for real estate, fund managers may not see the value in taking on the compliance burden associated with filing as an Article 8 vehicle.

Share of Article 8 fund count by top strategies*



Source: PitchBook • Geography: Global • *As of December 31, 2023

Share of Article 8 assets raised by top strategies*



Source: PitchBook • Geography: Global • *As of December 31, 2023

The materiality of environmental issues has come into focus for some industries and geographies more than others.

Although environmental risks, and specifically those related to climate change, have long been considered material in some circles of the private market, there is mounting evidence that makes a more airtight case for their materiality. As with most risks, some industries and geographies are more exposed than others, leading to greater buy-in from market participants playing in those areas. Real estate is one asset class in which the impacts of climate change and importance of mitigating those risks have already broadly been acknowledged by investors but have recently become more apparent. For example, due to the European Energy Crisis, energy usage and efficiency have impacted return profiles for European properties over the last few years.[12]

11: "Climate Risks in the Real Estate Sector," UN Environment Programme, David Carlin, Maheen Arshad, and Katy Baker, n.d., accessed March 13, 2024.
12: "The Impact of the Energy Crisis on Commercial Real Estate in Europe," Savills Research, March 2023.

In terms of physical risks, in the US alone, there were 28 billion-dollar extreme weather and climate-related disasters in 2023, which had a total cost of $92.9 billion, the highest numbers for each metric on record.[13] While these costs were shared among governments, constituents, businesses, and insurance companies, their growing magnitude drives home the extent to which entities operating across the country are vulnerable to climate change's increasing financial impacts. As discussed in our Q4 2023 Emerging Sustainable Investing Opportunities Analyst Note, the agricultural sector is disproportionately affected by these events, as they frequently involve damage to agricultural lands, crops, and animals. As such, development is underway to build technological solutions to these problems. Yet not all impacts can be innovated away, and the physical and transition risks of climate change are anticipated to continue growing. Thus, it is likely that 2024 and subsequent years will yield more data points reinforcing their materiality, not fewer.

A retraction is occurring with respect to the 'S' component of ESG as the pandemic-era emphasis on ESG has reversed, at least in the US.

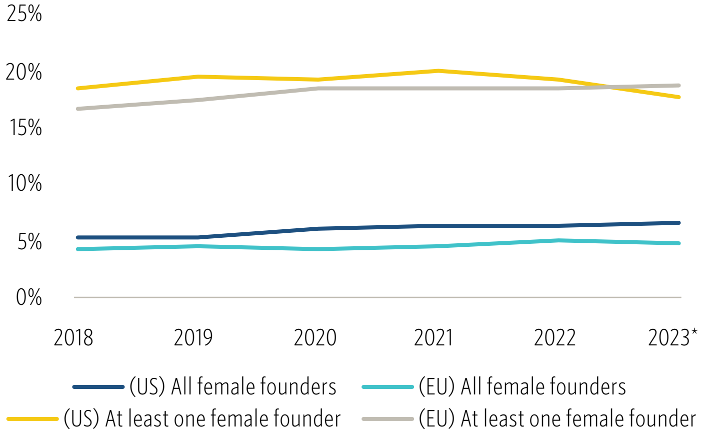
In many ways, 2023 marked a turning point for the emphasis placed on diversity, equity & inclusion (DEI) in the immediately preceding years. The COVID-19 pandemic catalyzed a period of increased focus on addressing these issues in the US and abroad. First, speculation around the origin of the virus stirred up anti-Asian and xenophobic sentiment across the world, with reports of discrimination and violence targeting people of Asian descent increasing in countries such as the US,[14] UK,[15] and Italy.[16] Then, the Black Lives Matter movement shone a light on racial discrimination extending into the workplace, causing many companies and investors to make diversity-related commitments around hiring and promotion practices as well as other inclusion-related initiatives. It also reinvigorated conversations about intersectionality that expanded the discourse to encompass other groups.

The watershed moment for DEI was on June 29, 2023, when the US Supreme Court ruled that race-conscious affirmative action admission programs are unconstitutional,[17] triggering a torrent of concerns about whether practices intended to improve the representation of diverse groups in other places they have historically been underrepresented would also be under legal attack. According to the American Bar Association, the court's Harvard opinion does not directly apply to private employers because "the Equal Protection Clause applies only to federal and state actors, and the protections from discrimination under Title VI apply only to recipients of federal funding."[18] Further, "Unlike in higher education, in the employment context affirmative action that involves racial or gender preferences to achieve diversity has never been permissible." Nonetheless, many private market participants are walking back or modifying DEI programs in an attempt to avoid future litigation.[19]

13: "2023: A Historic Year of US Billion-Dollar Weather and Climate Disaster, Climate.gov, Adam B. Smith, January 8, 2024.
14: "Asian Americans and Discrimination During the COVID-19 Pandemic," Pew Research Center, November 30, 2023.
15: "Anti-Asian Hate Crimes Up 21% in UK During Coronavirus Crisis," The Guardian, Jamie Grierson , May 13, 2020.
16: "Locked Down, Lashing Out: COVID-19 Effects on Asian Hate Crimes in Italy," The Journal of Politics, Gemma Dipoppa, Guy Grossman, and Stephanie Zonstein, January 30, 2024.
17: "US Supreme Court Ends Affirmative Action in Higher Education: An Overview and Practical Next Steps for Employers," Sidley, August 2, 2023.
18: "Impact of SCOTUS Affirmative Action Ruling on Employers," ABA, Esther G. Lander and Amanda S. McGinn, September 6, 2023.
19: "Companies AreBacking Away From 'DEI,'" Axios, Emily Peck, January 4, 2024.

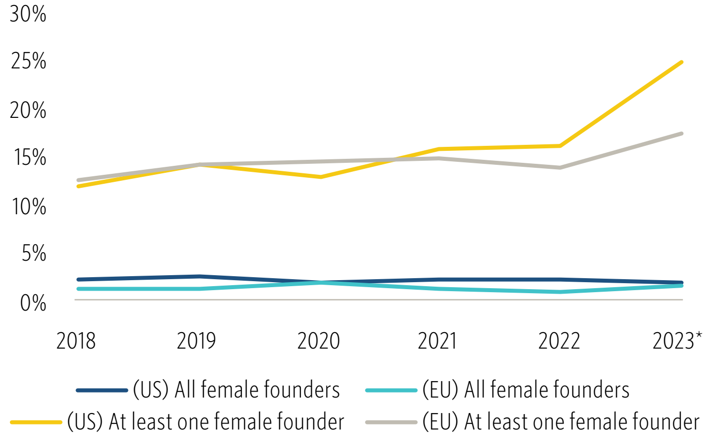
This comes at a time when efforts to increase the diversity of the private market ecosystem are finally beginning to pay off. While data on racial diversity in the private markets is limited, we do have data on VC deal count and value by founder gender.[20] Against a backdrop of falling investment activity, it shows that companies with at least one female founder have seen their share of VC deal value rise 8.8% and 3.4% in the US and EU, respectively, in 2023. It remains to be seen how these numbers will change as the ripple effects of the Supreme Court ruling are revealed. Anecdotally, we are already hearing that diverse fund managers are struggling to fundraise and are now uncomfortable marketing around the gender or racial representation that was drawing interest from allocators a couple years ago.

VC deal count by founder gender and region as a share of all VC deals



Source: PitchBook • Geography: Global • *As of December 31, 2023

VC deal value by founder gender and region as a share of all VC deals



Source: PitchBook • Geography: Global • *As of December 31, 2023

A spotlight has shone on governance following a series of high-profile incidents and with the evolution of AI.

Governance issues are typically among the least controversial of the topics encompassed by ESG analysis. It is difficult to argue that a company would be better off not mitigating material risks around business ethics & regulatory compliance, antibribery & corruption, or data privacy & security. Nevertheless, there are times when the markets enter periods of heightened vigilance around these risks, often following one or more high-profile events. A few such events have occurred over the past few years. Perhaps the most publicized was the downfall of FTX, leading to the company filing for bankruptcy and the conviction of its founder and CEO Sam Bankman-Fried of seven counts of fraud and conspiracy in November 2023.[21] It served as a prime example of what can happen when a company lacks proper oversight, particularly a robust board of directors, an experienced management team, and independent accounting, human resources, and cybersecurity functions.[22] As such, the "unprecedented situation"—in the words of John J. Ray III, the new CEO of FTX—is likely to continue to inform conversations about corporate governance and due diligence in the coming years.[23]

20: This data is available on our US and European VC female founders dashboards with additional data and analysis in our 2023 All In report.
21: "SBF Faces Decades in Prison After Swift Guilty Verdict (4)," Bloomberg Law, Anthony Aarons, November 3, 2023.
22: "The FTX Collapse: The Governance Red Flags Top-Tier Investors Ignored," Lexology, McCullough Robertson, September 3, 2023.
23: Ibid.

Another key event was the firing and reinstating of Sam Altman as CEO of OpenAI. While it did not have ramifications anywhere near the magnitude of those of the FTX collapse, it does underscore two interconnected themes that have increased attention to governance in recent years. The first is the role of boardroom dynamics and decision-making in effective governance and the challenges of determining the line between necessary friction and deleterious dissension between the executive team and the board.[24] The second is apprehension around the adequacy of AI stewardship given the rate at which the technology is developing, which was purportedly part of the reason Altman was ousted, with members of the board believing that the software was insufficiently vetted before its release to consumers.[25] This concern is likely to intensify over the next few years as the evolution of AI persists, and governments must grapple with regulating quickly enough to keep up but thoughtfully enough to ensure they do not stunt its advancement or leave critical areas unchecked.

Hilary Wiek, CFA, CAIA
Senior Strategist
hilary.wiek@pitchbook.com

Trends in private market Impact investing

Investors are still debating whether it is better to bring to market a focused offering or be more general in the Impact they are seeking.

In conversations with Impact fund managers, particularly some seeking to form new funds of funds, some investors are trying to decide if it is better to go with a targeted offering aiming for a specific category of Impact or just go with Impact outcomes in whatever guise they can source them. Investing without regard to Impact categories—getting positive environmental or social Impact is enough for some to feel good about how they are investing—has its advantages. Our most up-to-date numbers, pulled several weeks after the data pulled for the below chart, show that in 2023, only 137 Impact funds had closings, 45 of which were first-time funds for their managers. These funds were investing across PE, VC, real assets, real estate, and private debt, so if an investor was looking for a particular strategy, the pickings are even slimmer. By adding criteria around particular categories of Impact, it may be incredibly difficult to find high-quality opportunities that fit all of the starting criteria.

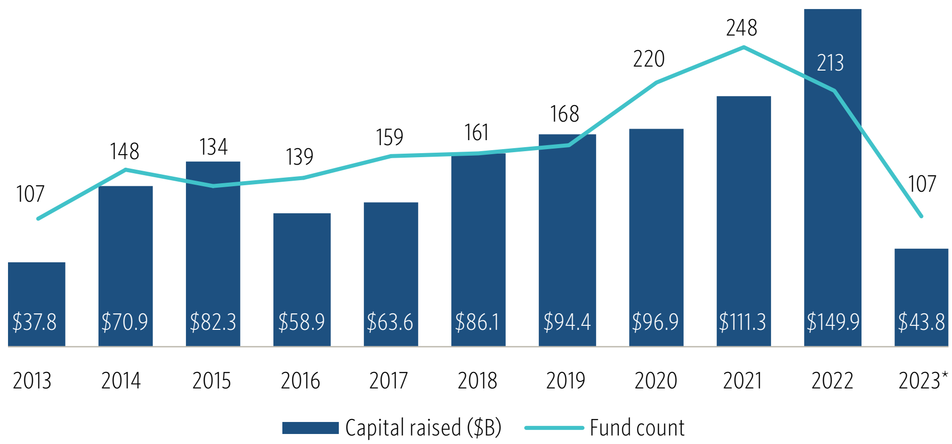
While it may be advantageous to take a generalist approach so as to not limit the options too finely, many LPs look to align their investments with the ultimate purpose of their investment program, which could translate to a hospital system seeking health Impact, a university endowment investing in education, or a community foundation targeting affordable housing and diversity & inclusion. For these allocators, a general all-purpose Impact fund may not get them close enough to the alignment they are looking for.

Our analysis of Impact funds raised in 2023 indicates both targeted and generalist Impact funds can be successful in fundraising. While there were a number of funds larger than $1 billion with multiple categories of Impact targeted from the likes of West Street, KKR, TPG, and Generation Investment Management, there were also four funds with “climate” in their names among the largest funds. Funds under $1 billion were more likely to be specialists, with categories such as health, energy, and real estate pulling in investors hoping to target those areas.

24: “Corporate Governance Highlights of 2023,” Forbes, Betsy Atkins, December 27, 2023.
25: “Sam Altman’s Firing at OpenAI Reflects Schism Over Future of AI Development,” Reuters, Greg Bensinger, November 30, 2023.

Fundraising for Impact funds appears to be down dramatically for 2023, but emerging Impact managers have had a higher success rate than in the general funds population.

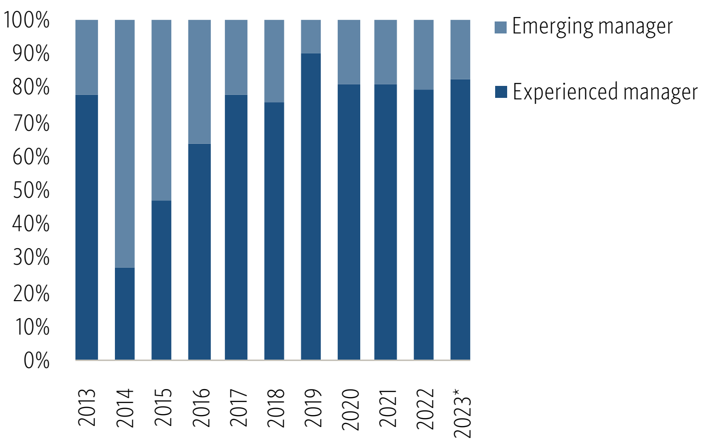
Impact fundraising activity



Source: PitchBook • Geography: Global • *As of December 31, 2023

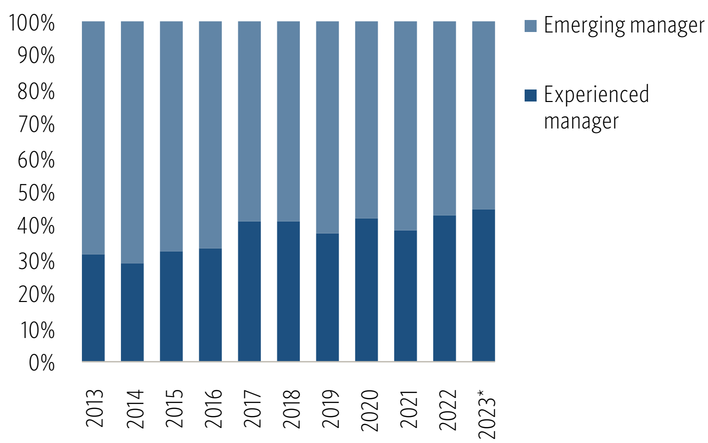
In speaking with European fundraisers in late 2023, we heard that one of the few bright spots was fundraising for Impact funds. That has not yet translated to our fundraising figures, however, although that may be because we only record a fund as raised at the final closing. In January and February 2024, we recorded the closing of 25 Impact funds totaling approximately $5.9 billion in commitments. In addition, we show roughly 30 still-open Impact funds that are targeting more than $1 billion. Several hundred other Impact funds also appear to be in the market seeking commitments for funds on a smaller scale, so if LPs can find what they are looking for, there is scope to believe that Impact fundraising can turn around in 2024.

Share of Impact capital raised by manager experience



Source: PitchBook • Geography: Global • *As of December 31, 2023

Share of Impact fund count by manager experience



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Of all the private market funds that closed in the past five years, 48.6% were emerging managers, or fund managers raising their first, second, or third fund.[26] Among Impact fundraising, however, 59.1% of funds closed were from emerging managers. As in the broader landscape, the percent of capital committed to emerging managers is much lower—at 17.6%—but the fact that Impact investing has been a target of institutional investors for so many fewer years means that most Impact fund families have not had the chance to get to fund four or beyond. In terms of 2023 fundraising, emerging managers accounted for 14.6% of total assets raised in the broader private capital universe, but 17.7% of Impact assets.

While the top Impact asset-gatherers also have strategies that are not dedicated to Impact investing, name brands may not be as powerful in the Impact space.

With the inclusion of infrastructure as an Impact category in the Global Impact Investing Network's (GIIN's) IRIS+ framework, some of the most successful asset-gatherers in the Impact space come from firms better known for their more mainstream offerings. While KKR's Global Impact Funds have raised more than $4 billion across two vehicles, the company's infrastructure program put KKR in the top 10 with $36.5 billion raised. Similarly, EQT, which has become a fundraising powerhouse in Europe, closed on its $3.9 billion Future Fund in March 2024, but its main contribution to the Impact universe has been four closed-end infrastructure funds with a cumulative $35.4 billion in commitments since 2013.[27]

Top 10 investors by Impact capital raised*

Investor	Investor HQ location	Aggregate Impact capital ($M)	Impact fund count	Investor has both Impact and non-Impact fund offerings?
Brookfield Corporation	Ontario, Canada	$61,400.8	6	Yes
Global Infrastructure Partners	New York, US	$55,616.0	7	Yes
Macquarie Asset Management	New South Wales, Australia	$37,783.0	13	Yes
Kohlberg Kravis Roberts	New York, US	$36,479.2	7	Yes
EQT	Stockholm, Sweden	$35,613.4	4	Yes
China Development Bank	Beijing, China	$30,000.0	2	Yes
Stonepeak	New York, US	$29,715.0	5	Yes
Actis	England, UK	$28,629.7	37	Yes
Copenhagen Infrastructure Partners	Copenhagen, Denmark	$21,218.5	7	Yes
I Squared Capital	Miami, US	$18,306.0	2	Yes

Source: PitchBook • Geography: Global • *As of December 31, 2023

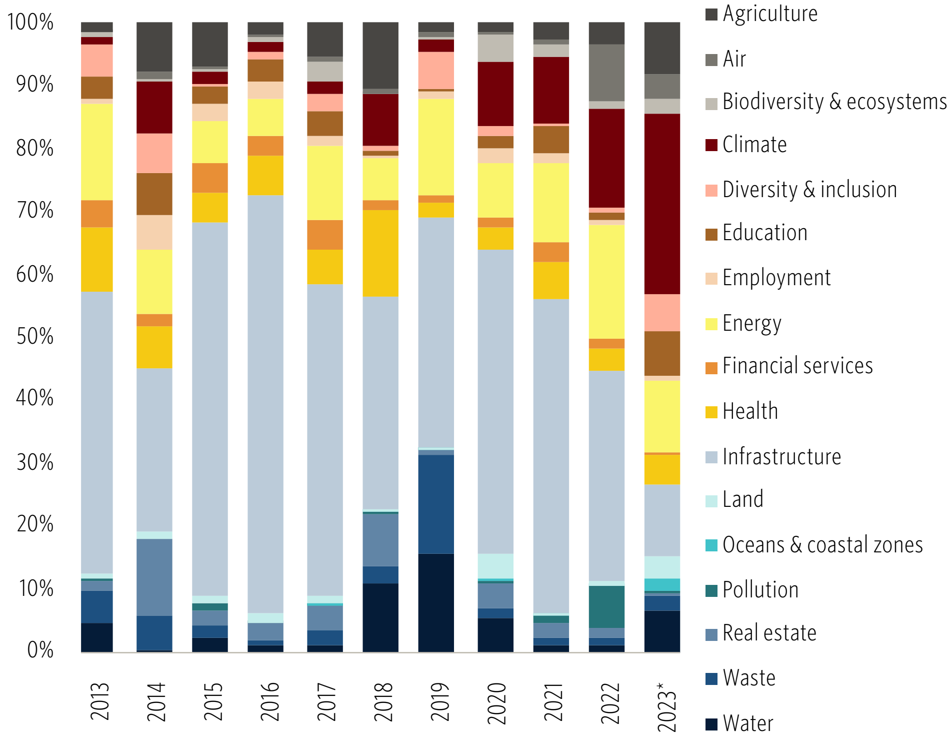
The conventional wisdom around fundraising lately has been that a name brand and a more experienced manager will have more success, but TPG has both a storied name and lengthy experience but was not able to raise an Impact fund anywhere near the size of its flagship PE funds. In fact, the third in the TPG Rise Fund family announced

26: Data referenced came from our 2023 Private Market Fundraising Report and its accompanying data pack.
27: EQT typically raises euro-denominated funds; our figures are converted to US dollars as of the date of each fund's final closing.

a target of $3.0 billion but held a final closing of only $2.7 billion in November 2023. Apollo was reportedly seeking $1.0 billion to $1.5 billion for its first Impact Mission Fund and only reached the bottom of that range. These are only two examples but may indicate a preference by Impact-seeking allocators for firms dedicated to Impact. We will address this question explicitly in our 2024 Sustainable Investment Survey to tease out preferences among our respondents.

Impact funds targeting climate solutions have been taking ever-larger shares of Impact fund commitments, as determination to take action has received both governmental and private sector support.

Share of Impact capital raised by Impact category



Source: PitchBook • Geography: Global • *As of December 31, 2023

Using the framework established by the GIIN, we have tagged Impact funds with the categories of Impact they are seeking. One of those is climate, which the GIIN describes as "delivery models that seek to limit the magnitude of climate change effects on the planet through activities that mitigate the human (anthropogenic) emissions of greenhouse gases (GHG), reduce the vulnerability of social and biological systems to changes in climate, improve people's and the planet's ability to maintain function despite stresses imposed by climate change, adapt systems to prepare them for the future impacts of climate change, and equitably share the benefits arising from these activities."[28]

The solutions to materially address climate change require massive amounts of capital, be it for energy transition, sustainable transportation, or carbon capture, storage,

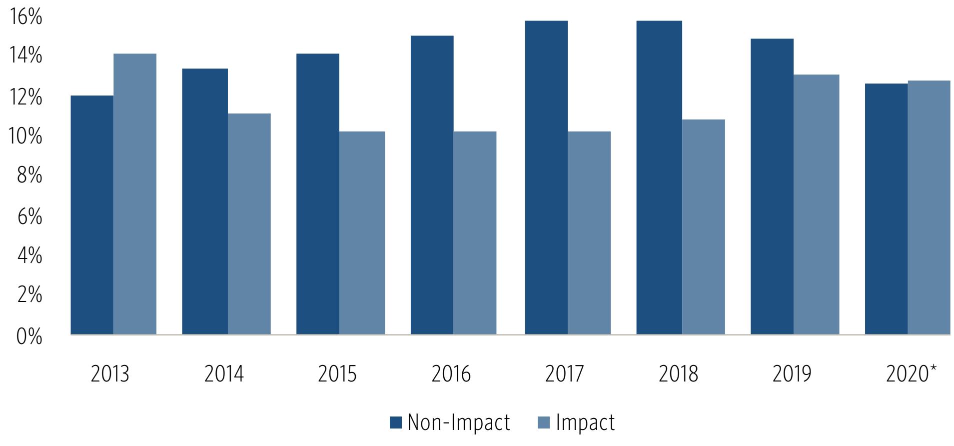
28: "IRIS+ Thematic Taxonomy," Global Impact Investing Network, September 2023.

and sequestration. In the past three years, nearly $100 billion has been entrusted to funds at least partially targeting climate solutions by investors from around the world. In 2023, the 51 funds raised with at least a partial alignment with the climate category ranged from a $7.1 billion Blackstone private debt fund to 25 VC funds all smaller than $400 million—most much smaller. The funds targeting climate that closed in 2023 came from places as far-flung as the UK, Australia, Canada, Japan, India, and Singapore, showing that investors from all over are taking global warming seriously. Private market investments are just one potential contributor to solutions, but there is hope—and for those making commitments, an expectation—that these investments will both make money and make a difference in the warming of our planet.

Likely not coincidentally, the growth in climate investing in private markets has occurred over a similar time frame as pledges and funding to combat climate change have manifested. COP26, the 2021 edition of the annual UN climate change conference, gathered climate finance pledges from the US, UK, Canada, Japan, Norway, and Spain and resulted in net-zero pledges from countries, businesses, and asset managers worldwide. The EU, UK, Japan, New Zealand, Canada, and more implemented net-zero and climate legislation while in the US two massive pieces of legislation provided funding to further the energy transition: The 2022 Inflation Reduction Act designated nearly $400 billion to cut carbon emissions while the $1.2 trillion 2021 Infrastructure Investment and Jobs Act had clean energy and reduced emissions as major focal points. Private market investors have seen an opportunity to put investment capital to work in support of these initiatives while the government money is also flowing—providing a supply of capital that could be positive for investment returns.

Fund return data does not support the narrative that Impact investing is equivalent to concessionary returns.

Median Impact versus non-Impact IRR by vintage year

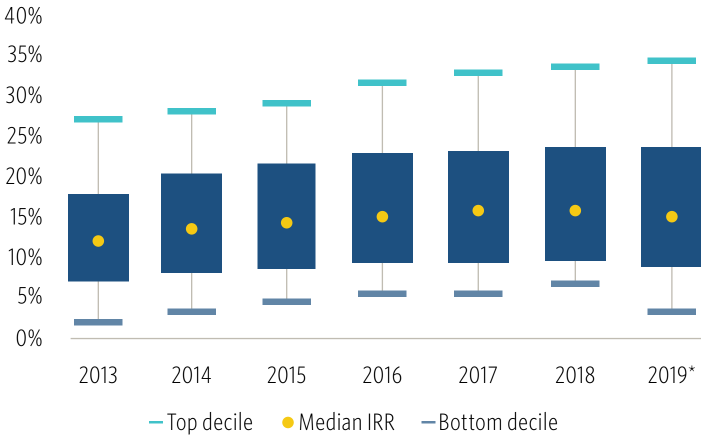


Source: PitchBook • Geography: Global • *As of June 30, 2023

In late 2023, we provided an analysis of Impact fund performance in our [2023 Impact Investing Update](). The conclusion was that despite rampant assumptions that Impact investing universally accepts poorer investment performance to achieve positive social or environmental impact, the results were not supportive of this view. The chart included here would seem supportive of the concessionary returns view, but some major caveats must be recognized when examining this data. First, while the vast majority of fund managers in the Impact space believe there are excellent financial opportunities available that will have positive environmental or social impact, there is a small subset of funds that unapologetically seek concessionary returns—think of an affordable housing investment that cannot raise rents at market levels and remain affordable. While some funds are concessionary, the whole universe of funds should not be painted with the same brush.

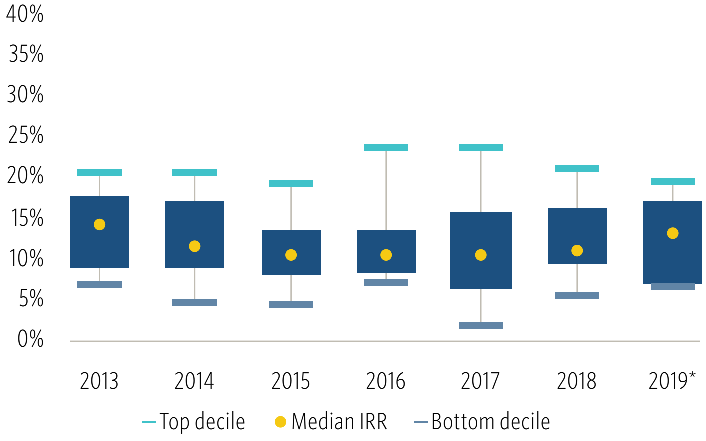
Second, the mix of funds in the Impact universe is substantially different from that of the non-Impact group. For example, the Impact fund universe has been dominated by real assets much more than the non-Impact universe. Looking at the PitchBook Private Capital Indexes over time, real assets in the overall funds universe has quite often posted returns well below the private capital figures—over five years, real assets came in at 8.0% versus 14.0% for private capital. Over 10 years, it was 7.4% versus 13.5%. Thus, a high weight to real assets is likely one cause for the Impact universe performing more poorly than the non-Impact universe.

IRR non-Impact dispersion by vintage year



Source: PitchBook • Geography: Global • *As of June 30, 2023

IRR Impact dispersion by vintage year



Source: PitchBook • Geography: Global • *As of June 30, 2023

Finally, median returns hide that an investor's experience can vary widely depending on the fund managers with whom they partner. Looking at dispersion charts for Impact versus non-Impact, we can see that the worst Impact managers in the years 2007 to 2013 did better than the worst non-Impact managers. In addition, the top decile of the Impact universe has often been higher than the top decile of the non-Impact space. So, while the medians have often been lower for Impact, manager selection, as always, is key to the actual lived experience.