



Older and wiser: Is responsible investment coming of age?

Private Equity Responsible
Investment Survey 2019

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Foreword

162

firms responded

35

countries and territories

145

General Partners

38

Limited Partners

Note: some respondents are both LPs and GPs

The private equity (PE) sector has a vital role to play in sustainable development. The industry drives progress in sustainable business practice through the provision of debt and equity, and in turn by influencing Board level decision making.

Much has changed in the sector, including the growing influence of private equity as part of the wider alternative investment industry. But with influence comes scrutiny, particularly of the “responsibility” of certain business practices. Yet one trend remains constant – the growing engagement with responsible investment¹ by PE houses, or General Partners (GPs), and their Limited Partner (LP) investors.

Our successive surveys, “Putting a price on value” (2013)², “Bridging the gap” (2015)³, “Are we nearly there yet?” (2016)⁴ and “Older and wiser” (2019), all highlight the same direction of travel. Namely, an increasing focus on Environmental, Social and Governance (ESG) integration at the house level and across the whole investment cycle.

Of course, we’ve only ever been able to elicit responses from those minded to respond to a survey on this subject. So I cannot claim that the results reported here are truly reflective of the whole market. But the statistics are persuasive. Engagement is at an all time high and is being elevated to leadership, with 81% of respondents reporting ESG matters to their Boards at least once a year. The approach to the responsible investment agenda is maturing. 81% of respondents have a responsible investment policy and 72% already use, or are developing, Key Performance Indicators (KPIs) to measure performance. The interests of GPs and LPs also show greater alignment, although the influence of LPs shouldn’t be underestimated.

Over the three years since our last survey, progress has been made on certain themes which were nascent in 2016, such as the Sustainable Development Goals (SDGs) and human rights, whilst new themes, such as climate risk, have emerged. We’ve explored the efforts and commitments in all these areas. Much remains to be done, whether it’s in monitoring and reporting, climate risk or valuing ESG initiatives.

Even so, if the development of the responsible investment agenda can be compared to the seven stages of human development, I think it’s fair to say that it has now matured into a “young adult”. It has grown enormously, but there are many more opportunities on the horizon. ESG matters may become the next multiple arbitrage lever. When implemented effectively, ESG programmes can protect and create value (including for poorer ESG performers), with positive consequences for exit multiples. Of course, the reverse is also true.

My thanks go to the increasing numbers of you who participated in this years’ survey. Your collective views give great insight into the maturing market.



Will Jackson-Moore

Global Private Equity, Real Assets and
Sovereign Funds Leader, PwC UK

¹ PRI, 2019, What is responsible investment, <https://www.unpri.org/pri/what-is-responsible-investment>

² PwC, 2013, Putting a price on value, https://www.pwc.com/gx/en/sustainability/publications/assets/putting-a-price-on-value_pwc-private-equity-survey.pdf

³ PwC, 2015, Bridging the gap, <https://www.pwc.com/gx/en/sustainability/publications/assets/bridging-the-gap.pdf>

⁴ PwC, 2016, Are we nearly there yet?, <https://www.pwc.com/gx/en/sustainability/publications/assets/pe-survey-report.pdf>

Executive summary

81%

of respondents report ESG matters to their Boards at least once a year

67%

of respondents identified and prioritised SDGs that are relevant to their investments in 2019

The PE industry's appetite for responsible investment is steadily growing.

Private equity houses and their investors are increasingly factoring ESG considerations into their investment decisions and portfolio management strategies. Such considerations are becoming embedded in all stages of the deal cycle: from deal selection to engagement during the hold period, to monitoring and reporting.

ESG issues have moved from niche to mainstream, with 81% of our respondents having adopted a responsible investment policy and 81% also reporting ESG matters to their Boards at least once a year.

The drivers for the PE industry's growing appetite for responsible investment vary, with 'risk management' again being cited as the prime driver (34%, compared with 44% in our 2016 Survey), and 'corporate values' also emerging as a key driver – 28% of respondents ranked this as their number one driver. This could be a sign that responsible investment is being perceived as the 'right thing to do'.

While LP pressure is still one of the driving factors, its importance is much reduced (6% against 17% in 2016), highlighting, perhaps, that GPs now largely share the same responsible investment agenda as LPs.

There was a higher correlation between concern and taking action on emerging issues than in our previous surveys. Respondents indicate that they are not only concerned about bigger risk factors such as human rights or climate change, but are actively taking measures to address the specific human rights and climate issues they regard as most significant in the long-term.

Our study also finds that awareness of and alignment to the Sustainable Development Goals (SDGs) is on the rise in the PE community, with 67% of respondents stating that they've identified and prioritised SDGs that are relevant to their investments in 2019 (compared to 38% in 2016). The SDGs are increasingly considered a common global language, with the potential to guide and shape investment strategies.

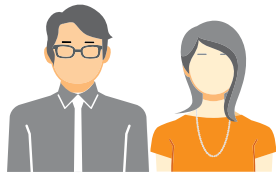
While it's clear that the responsible investment agenda is slowly but steadily becoming mainstream, an important point to note is that its uptake seems to be higher in certain parts of the world compared to others. As can be seen from our respondent profile on page 20, Europe seems to be more heavily engaging on responsible investment issues than elsewhere. That said, we firmly believe that as certain European LPs diversify geographically, their influence (particularly in the Far East) will start to drive progress on the responsible investment agenda.

Results at a glance



81%

of respondents report ESG matters to their Boards at least once a year



35%

of respondents now have teams dedicated to responsible investment (compared to 27% in 2016)



91%

of respondents have already adopted or are currently developing a responsible investment or ESG policy



67%

of respondents have identified and prioritised Sustainable Development Goals (SDGs) that are relevant to their investments (compared to 38% in 2016)



60%

of concerned respondents have already implemented measures to address human rights



83%

of respondents are concerned about climate risks in their portfolio

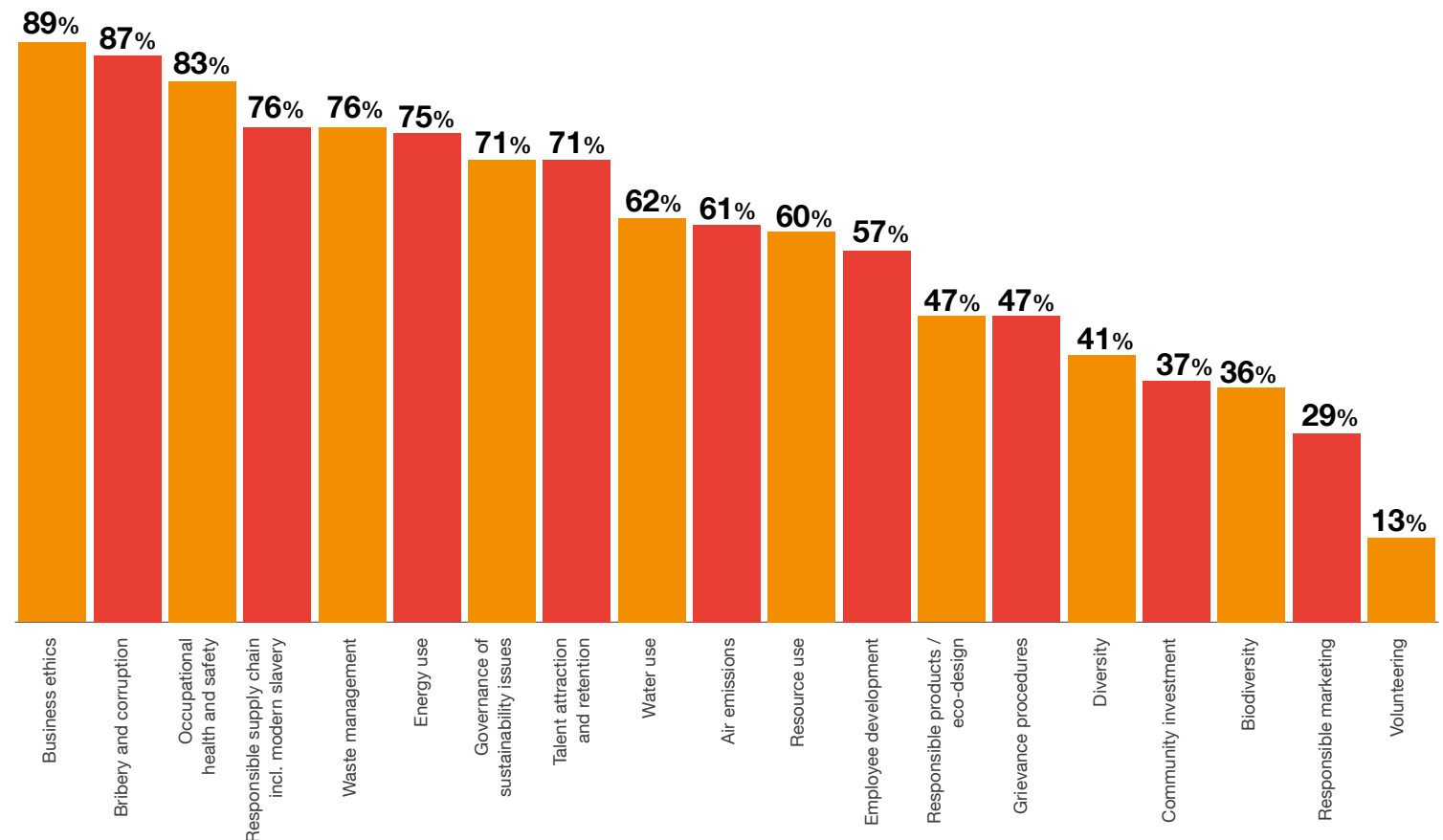
Greater engagement at the top

ESG matters are on Board agendas, with 81% of respondents saying they are being formally raised at least once a year (more than once a year for 29% of respondents). This indicates that at the Board level, ESG matters are being viewed as more of a strategic issue or business priority. Boards are also being given the information needed to monitor and measure material ESG impacts.

When it comes to making investment decisions, the top two ESG issues were governance related (business ethics and bribery and corruption). 92% of respondents are “very concerned” or “slightly concerned” over governance issues at existing portfolio companies, but only 66% have already implemented risk mitigation measures.

Figure 1: ESG issues important to PE investment decisions

Q. What ESG factors do you consider when making PE investment decisions?



Source: PwC PE Responsible Investment Survey 2019

Base: All respondents (162)

Is responsible investment going mainstream?

Increasingly, more staff is being dedicated to responsible investment matters: 56 respondents – 35% – report having a team dedicated to responsible investment. The rising trend is striking – that percentage was just 27% in 2016 (See Figure 2: Increase in respondents with dedicated responsible investment teams). This could indicate that the strategies for resourcing responsible investment work streams are changing.

Even where no dedicated team is in place to oversee such issues, there has been a significant change in responsible investment governance arrangements since our first survey in 2013. In firms without a dedicated responsible investment team, 66% now rely on their Investment or Deal teams to manage ESG matters (i.e. right at the heart of the investment process).

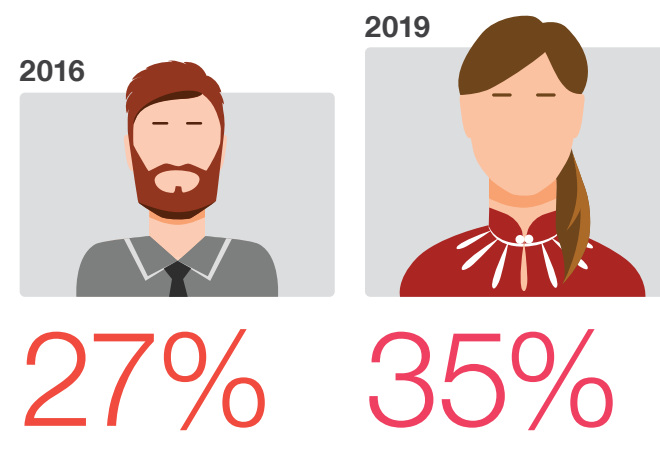
This was not the case in our 2013 survey, where functions such as Marketing and Communications, Legal or Investment Relations dealt with responsible investment issues – it was seen as more of a back office function.

For example, in 2013, the Investment Relations staff provided responsible investment support at almost two thirds (64%) of responding firms (reflecting the LP driver for action), whereas this year the figure has fallen to 29%.

In sum, even those respondents that choose not to appoint a dedicated professional or team are moving the effort to the front line where it can arguably be more effective, in terms of managing risk and driving or protecting value.

Figure 2: Increase in respondents with dedicated responsible investment teams

Q. Who is responsible for leading the management of responsible investment or ESG matters in your organisation?



Dedicated responsible investment professional or team

Source: PwC PE Responsible Investment Survey 2016 & 2019

Base: 2016 (111), 2019 (162)



Responsible investment is now becoming recognised as an emerging theme in China, as evidenced by the official release of Green Investment Guidelines by the Asset Management Association of China (AMAC) in 2018 for the asset and wealth management industry. The introduction of the UK-China Green Finance Taskforce's Green Investment Principles to the Belt and Road project in November 2018 provides an excellent example of cross-border initiatives in this area.

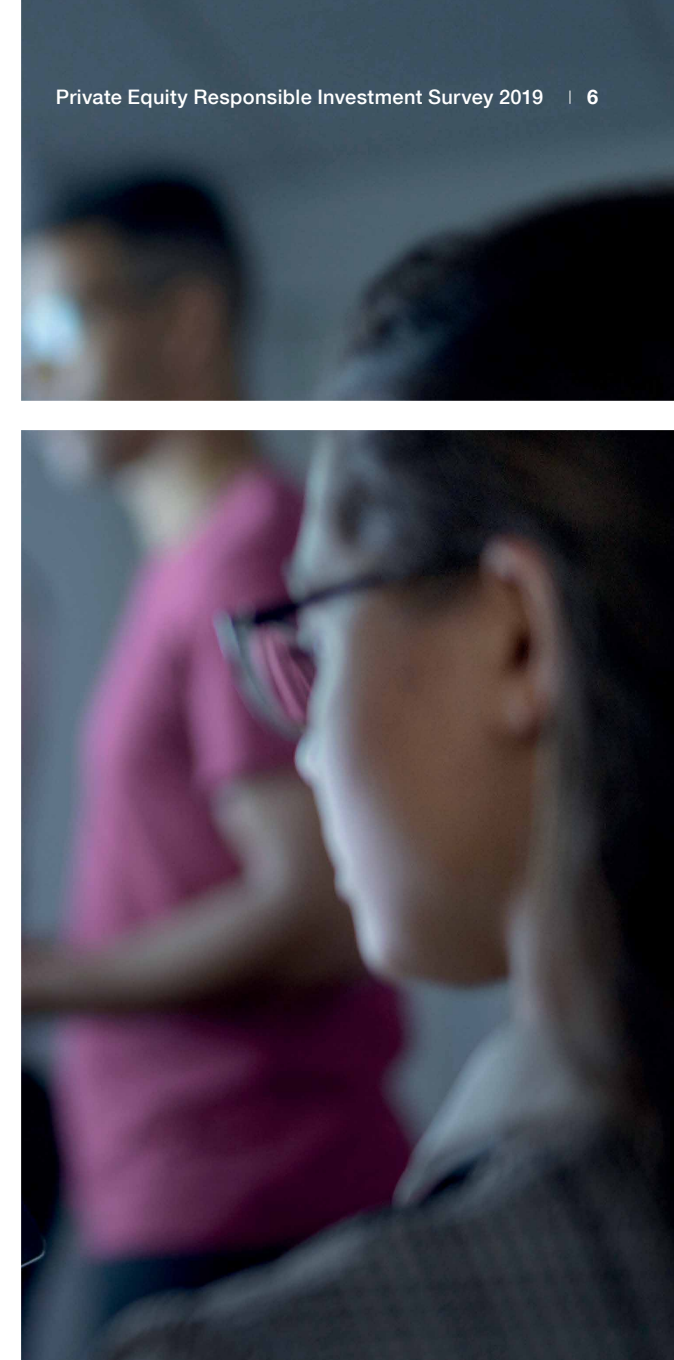
Ni Qing, Partner, PwC China

Use of KPIs is on the rise

Responsible investment policies are more common, with a staggering 91% of respondents having a policy in place or in development, an increase from the 80% who said this in 2013.

We have also seen a rise in the use of Key Performance Indicators (KPIs) as a means of measuring performance levels under such responsible investment policies. 78% of respondents that already have or are developing a responsible investment policy (or 72% of all respondents) already use, or are currently developing, KPIs to measure performance. Use of KPIs will increasingly allow respondents to measure their performance, track progress towards goals and communicate the results of their efforts to integrate ESG matters into the investment process.

Of course, monitoring performance through the use of KPIs relies on frequently collecting accurate data from portfolio companies. In our experience, this remains a challenge for many; whilst bespoke software solutions for automating the collection of ESG data are preferred by some, others consider them too sophisticated. Manual solutions covering just a few material issues are preferred.



The relevance of the Sustainable Development Goals (SDGs)

The SDGs are a collection of 17 goals adopted by all United Nations member states in 2015 and provide a blueprint for “good growth” nationally and internationally.

The SDGs form a universal call to action to end poverty, protect the planet and ensure all people enjoy peace and prosperity and, as such, they seek to tackle issues such as climate change, economic inequality, sustainable consumption, innovation and infrastructure, amongst others. Otherwise known as the Global Goals, the SDGs are broken down into a further 169 targets to be achieved by 2030. The private sector has a critical role to play in the achievement of the SDGs, and the PE community is in a unique position to influence businesses in a manner that creates positive change.

The SDG Investment Case⁵, published in 2017 by the UN Principles for Responsible Investment (PRI) and PwC, suggests that responsible investment has evolved from being a primarily exclusionary approach to one focused on identifying companies that can effectively manage ESG risks and opportunities.

The SDGs therefore provide a more comprehensive approach to risk management at both macro and deal specific levels and can strengthen investors' ESG risk approaches.

It's also part of investors' fiduciary duty. If investors believe that providing solutions to sustainability challenges offers attractive investment opportunities – creating and accessing new ‘solution markets’ – they can implement investment strategies that explicitly target SDG themes and sectors. Opportunities are available in most asset classes, private equity included.



⁵ PRI, 2017, The SDG Investment Case, <https://www.unpri.org/download?ac=5301>



Source: United Nations

Awareness of, and alignment to the SDGs is on the rise in the PE community with 67% of our respondents saying they've identified and prioritised SDGs that are relevant to their investments (compared to 38% in 2016) and 43% have adopted a proactive approach to monitoring and reporting portfolio company performance against the SDGs (compared to 16% in 2016) (See Figure 3: Maturity of approach to the SDGs).

A third (33%) have factored consideration of the SDGs into their responsible investment or ESG approach or strategy and 42% already measure or plan to measure the impact of their activities on relevant SDGs. Given that the SDGs had only been established for one year when we first surveyed respondents on this topic in 2016, this significant jump could be an indication of their growing importance.

Alongside this increasing and welcome engagement of the PE community with the SDGs, in our view there is a risk of 'impact washing' – i.e. claiming that investments have a greater SDG-aligned contribution or positive impact than can be evidenced, and/or using these claims to divert attention from other investments where less action has been taken.

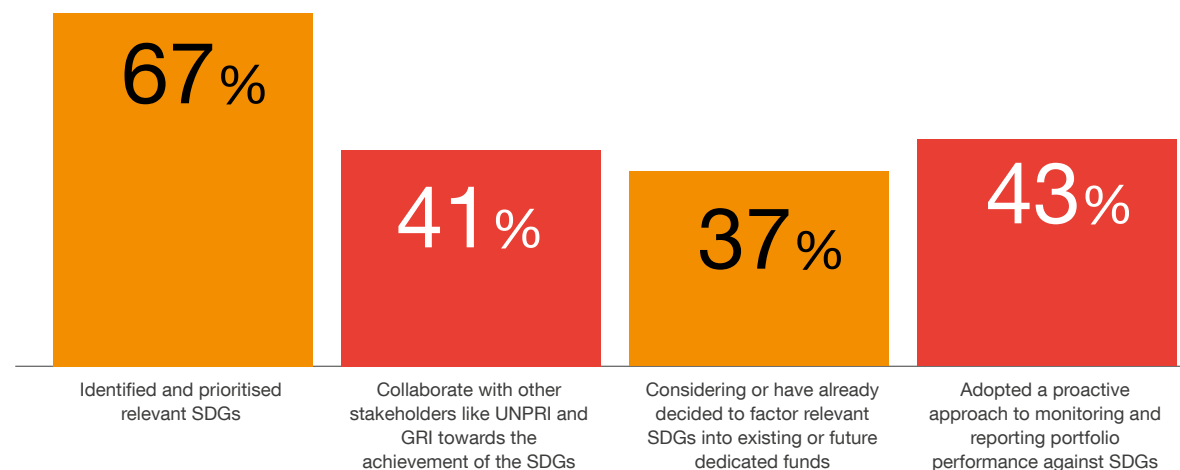
Impact washing presents significant reputational risk to institutions that are not able to evidence their stated contribution to furthering responsible investment or net positive impacts. Several global initiatives are seeking to define impact and impact standards in an effort to bring greater consistency and rigour to impact claims.

PwC UK has worked with a well respected global initiative (the 'Impact Management Project') to develop a robust impact assessment framework to support investors in understanding the non-financial risk-return implications of their investments.

We believe that assessing, monitoring and managing these non-financial dimensions increasingly makes financial as well as reputational sense in a world where effectively managing ESG factors and contributing to positive impact are increasingly seen as indicators of long-term growth and/or reduced investment risk.

Figure 3: Maturity of approach to the SDGs

Q. What actions, if any, is your firm taking to contribute to the achievement of the SDGs? (select as many options as apply)



Source: PwC PE Responsible Investment Survey 2019

Base: All respondents (162)

LPs vs GPs – converging approaches to responsible investment?

Many more similarities than differences in approach...

Similarities

ESG screening

Many LPs (50%) and GPs (45%) favour formalised internal qualitative methodologies for ESG screening, amongst four other options such as quantitative methodologies or support from external providers.

Investment decisions

Anti-bribery and corruption was listed as the biggest ESG factor considered when making investment decisions, by both GPs and LPs. Perhaps not surprising when you consider that the business ethics dimension of governance has always been at the heart of the responsible investment agenda.

Board discussion

Half the respondents – whether GPs (47%) or LPs (53%) – say that ESG matters are formally tabled for discussion at Board meetings once a year.

Public commitment

A similar proportion of GPs and LPs (80% and 77% respectively) have made a public commitment to include ESG considerations when investing.

ESG reporting

89% of GPs and 88% of LPs publicly report on their responsible investment activities and/or the ESG performance of their portfolio companies either as a stand-alone responsible investment or ESG report, a section on their website, or in response to ad-hoc requests.

ESG drivers

Risk management and corporate values were the top two drivers for responsible investment or ESG activity for both LPs and GPs.

ESG integration

69% of GPs and 42% of LPs say that they 'always' integrate ESG considerations into their final investment committee papers. This is supported by the fact that there is a growing number of GPs and LPs that are looking at ESG issues in a more streamlined manner and embedding it into their deal cycles.

Incorporating the SDGs

Both LPs and GPs have also made good progress on incorporating SDGs into their responsible investment strategies. Around 59% of GPs and 50% of LPs said that they publicly communicate their approach towards the SDGs.

Value created by ESG activities

A majority of GPs and LPs do not currently estimate the value created by the ESG activities of their portfolio companies, but many intend to do so moving forwards. While 41% of GP respondents say they do this, there is still a way to go in terms of moving this forward. The biggest reasons behind this seem to be the absence of a robust methodology and the lack of sufficient data needed to carry out this value estimation.

Differences

Investment decisions

GPs are more likely to decline to invest in a company based on ESG grounds than LPs. 49% of GPs say that poor ESG performance has led to them not investing in companies, as opposed to 40% in 2016 (N.B. There were more than two options to choose from). In contrast, only 33% of LPs say that poor ESG performance has been a factor that has led to them not supporting investment in a company.

External hires

More than 48% of GPs prefer hiring external providers for support on ESG screening, of which 70% 'always' or 'frequently' use external providers, compared to 20% in 2016. In contrast, only 30% of the LPs say they prefer using external providers for ESG screening, of which a vast majority (67%) state that only 'occasionally' go down this route.

Use of KPIs

72% of respondents use or are developing KPIs to measure performance against their responsible investment or ESG policy. The survey also finds that more GPs than LPs use KPIs (52% of GPs vs. 30% of LPs), which is to be expected given their respective roles.

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In Canada, we are seeing a rapid increase in responsible investing focusing mainly on ESG integration through active ownership as well as impact investing in companies that generate beneficial social and environmental impacts alongside traditional financial returns.

Janice Noronha, Partner, PwC Canada

Human rights issues are now a bigger concern

Human rights issues have become more prominent, with 76% of those surveyed expressing concern about human rights risks at the portfolio company level.

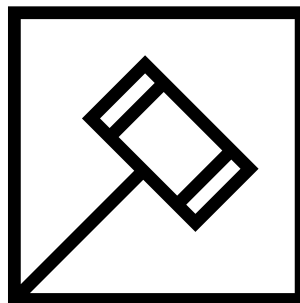
Of those, a large number (60%) have already implemented measures to address these risks and another 11% said that they planned to address them in the next year (See Figure 4: Level of engagement on human rights). This is a considerable increase when compared to the 2016 survey, when the equivalent number was 48%.

Pressure is growing on portfolio companies and GPs to understand and use the UN Guiding Principles on Business & Human Rights, to integrate human rights into their due diligence processes and to apply a human rights lens to the “Social” of ESG.

Figure 4: Level of engagement on human rights

Q. What is your level of concern for emerging responsible investment or ESG issues? - Human rights for portfolio companies (incl. modern slavery) (very concerned and slightly concerned)

Q. How are you addressing this issue? - Human rights for portfolio companies (incl. modern slavery) (implemented measures)



76%

of respondents are
concerned about
human rights

71%

of those concerned
about human rights
have or plan to
address this issue
in the next year

Source: PwC PE Responsible Investment Survey 2019
Base: All respondents (162)

1 Human rights due diligence is becoming an increasingly regulated space

In 2016, when we first included the subject of human rights in our responsible investment survey, the UK Modern Slavery Act was one of very few examples of legislation explicitly addressing human rights in value chains. Now, other countries have adopted – or plan to adopt – similar legislation. In 2017 France adopted a law mandating human rights due diligence, the Duty of Vigilance Law⁶.

Other governments have taken similar steps. In the last few months a host of new initiatives and laws around mandatory human rights due diligence for companies have taken shape. These include the Australia Modern Slavery Act and the Swiss Responsible Business Initiative.

This pressure is coming from a number of directions:

2 Soft law initiatives complement hard law in many OECD and non-OECD countries alike

Besides regulation, soft law and guidelines around human rights and business are also evolving. Currently, 22 countries globally – from Norway to Chile to Indonesia – have adopted National Action Plans (NAPs) on business and human rights⁷, some explicitly asking investors to factor human rights considerations into their decisions and due diligence processes.

In the Netherlands, voluntary sustainability covenants focusing on human rights due diligence and disclosure are being launched for many sub-sectors of finance – from banking to pensions. Large pension funds and asset managers are therefore encouraged to look in more detail at the human rights risks that may exist at asset and company level across their portfolios.

3 Investor pressure is becoming more refined, with many LPs unpacking the broad notion of “human rights” to focus on salient issues

We have noticed that investors are more familiar with the notion of human rights due diligence and the broader requirements set forth in the UN Guiding Principles than they were a few years ago, especially in Western Europe.

Our experience also shows that investor-led ESG engagement programmes focusing on human rights have considerably improved in the past couple of years, with significant issues (or salient issues) getting the attention they deserve.

These include living wages, discrimination and equal pay, customer and employee privacy among others. Initiatives like the Corporate Human Rights Benchmark (CHRB – a collaboration led by investors and civil society organisations), that draws on input and expertise from investors including APG, have been instrumental in shedding light on key human rights risks that exist in various industries and that might therefore exist across portfolios. CHRB recently said that its members would push for greater corporate transparency and engagement this year. It also committed to expanding its assessment to include human rights practices in the technology sector, with a pilot planned for 2019⁸.

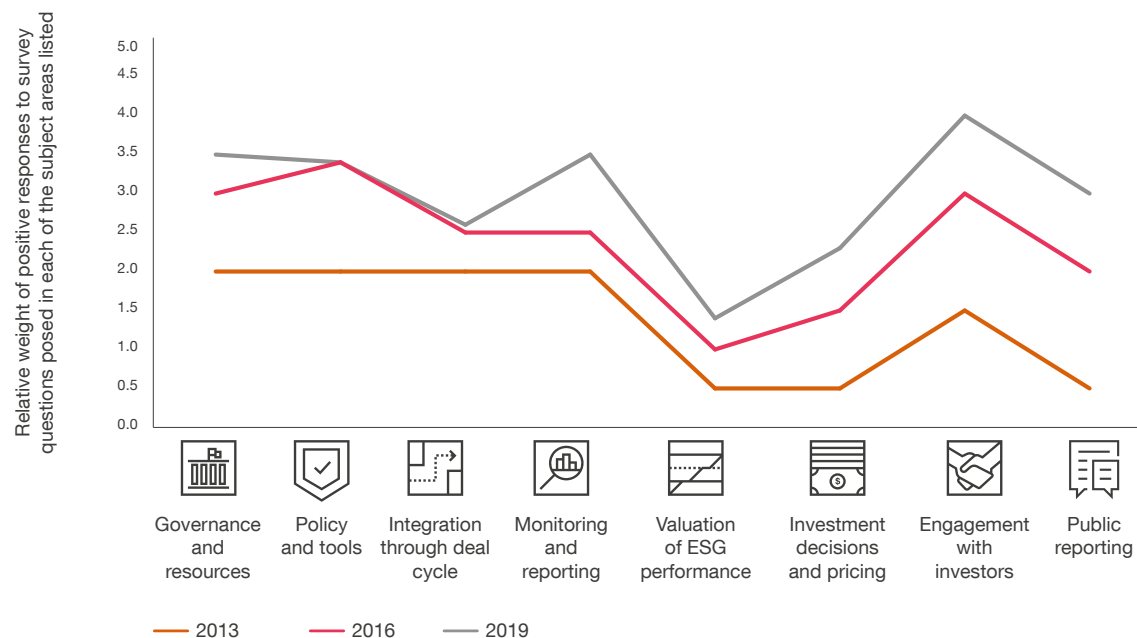
⁶ Legifrance, 2017, LOI n° 2017-399 du 27 mars 2017 relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre (1), <https://www.legifrance.gouv.fr/eli/loi/2017/3/27/2017-399/jo/texte>

⁷ Business and Human Rights Resource Centre, 2019, National Action Plans, <https://www.business-humanrights.org/en/un-guiding-principles/implementation-tools-examples/implementation-by-governments/by-type-of-initiative/national-action-plans>

⁸ IPE, 2018, Company performance at risk from ignoring human rights, say investors, <https://www.ipe.com/reports/company-performance-at-risk-from-ignoring-human-rights-say-investors/www.ipe.com/reports/company-performance-at-risk-from-ignoring-human-rights-say-investors/10024682.fullarticle>

Is responsible investment a young adult?

Figure 5: Approach to responsible investment is nearing adulthood

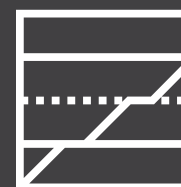


Source: PwC PE Responsible Investment Survey 2019



Governance and resources

Over half (53%) of respondents say that their whole investment team is trained on responsible investment in 2019 (of those that said this was applicable to them), up from 46% in 2016 and 29% in 2013. The top methods through which the investment teams are trained have remained the same. On the job training, internally-facilitated face to face training and externally-facilitated face to face training were listed as the top three respectively.



Valuation of ESG performance

The lack of a robust methodology is cited by 63% of respondents as the reason for not estimating the value of ESG performance, consistent with our 2016 findings. Whilst there would appear to be a market opportunity to develop the methodology perceived to be missing, we question market appetite to invest in establishing precise ESG value added data.



Policy and tools

More firms have made a public commitment to include ESG considerations when investing (79% this year vs. 70% in 2016). This trend points towards the significance of integrating ESG engagement and analysis into the investment process. Creating policies and tools can make it easier for portfolio companies to look at ESG matters which ultimately benefits the companies themselves since the benefits of good ESG management are now well recognised.



Integration through deal cycle

No significant change here, albeit we note a slowly growing trend to include ESG considerations at exit stage, up from 38% in 2016 to 46% in this survey. In some regions (notably Western Europe), our experience is that some GPs are keen to describe ESG improvements made during the hold period, at exit, via vendor due diligence – although the practice is not yet widespread.



Monitoring and reporting

88% of respondents monitor the ESG performance of their portfolio companies or their PE investments. This is encouraging given that 79% of LPs also expect GPs to report material ESG incidents that arise in their portfolio. A majority of GPs (84%) and half of LPs are requesting ESG information using in-house tailor-made reporting templates. This still shows a need for homogenisation of reporting standards. However different market initiatives have proposed common approaches (e.g. the PRI guide⁹ or the France Invest guide¹⁰).



Investment decisions and pricing

Only 18% of LPs are using the PRI's Limited Partners responsible investment Due Diligence Questionnaire, to assess their GPs' responsible investment performance, despite the fact that 63% of LP respondents are PRI signatories. 26% of LPs have withdrawn investment or refused to enter agreements with GPs based on ESG grounds, further evidencing how influential ESG matters are to the LP decision making process.



Engagement with investors

36% of survey respondents produced a stand-alone responsible investment report and 28% have dedicated a section of their website to ESG reporting. Formally, 33% of respondents indicate that ESG clauses and considerations are 'always' included in LPAs (Limited Partner Agreements). An additional 20% say that these are often included.



Public reporting

64% of respondents report publicly on their responsible investment activities or on the ESG performance of their portfolios, through stand-alone reports and/or via their websites. This includes 61% of GPs compared to only 48% in 2016. In addition to those who report publicly, 25% of respondents communicate ESG information upon request in an ad hoc way.

⁹ PRI, 2018, ESG monitoring, reporting and dialogue in private equity, <https://www.unpri.org/private-equity/esg-monitoring-reporting-and-dialogue-in-private-equity/3295.article>

¹⁰ France Invest (previously AFIC), 2017, ESG Commission: Recommendations to facilitate the dialogue between GPs and LPs, http://www.franceinvest.eu/dl.php?table=ani_fichiers&nom_file=AFIC-Commission-ESG-Recommendation-to-facilitate-the-dialogue-between-GPs-and-LPs.pdf&chemin=uploads/_afic

Does climate risk affect responsible investment?

Climate change impacts are increasingly recognised by PE actors as determinants of corporate performance and equity evaluation across the deal cycle. 83% of respondents are concerned about climate risks in their portfolio and 77% noted the importance of carbon footprints with a view to reduce greenhouse gas (GHG) emissions.

Climate risk can be considered as risk arising from the impacts of climate change as well as from the fight against it, driven by different factors. These include physical risks (i.e. long-term shifts in climate patterns or extreme weather-related events), transition risks (i.e. financial risks which could arise from the transition to a lower-carbon economy entailing extensive policy, legal, technology, and market changes) and liability risks (i.e. risks that could arise from parties who have suffered loss and damage from climate change, and then seek to recover losses from others who they believe may have been responsible).

Following the Paris Agreement¹¹, several standards and frameworks have flourished in Europe and worldwide, towards the integration of climate-related factors in investment decisions. However, while we are seeing a slight increase in the firms actually taking action on this agenda, this is still quite low compared to the number of firms who are concerned about climate risk (See Figure 6: Evolution of concern and action on climate-related topics over time).

Conscious of the increasing effects of climate change on their fiduciary duty, key French PE players launched the Climate Initiative IC20 (Initiative Climat 2020) in 2015, to help the sector take into account the impacts of physical and transition risks on their investments, and contribute to the goal of the Paris Agreement. IC20 is the first collective commitment of its kind, supported by France Invest (the French private equity and venture capital association). This leading initiative was officially endorsed by the PRI in November 2018 to help “asset owners [which] have asked for more asset-class specific support” according to Fiona Reynolds, CEO of the PRI¹².

At the global level, the G20 Financial Stability Board’s (FSB) Task Force on Climate-related Financial Disclosures (TCFD), has published a set of recommendations¹³, becoming the new de facto international standard on climate-related disclosure. As of today, approximately two-thirds of G20 member states have already engaged with the TCFD recommendations.

The TCFD recommendations were also included in the 2018 action plan drawn up by the High-Level Group on Sustainable Finance (HLEG)¹⁴, which advised “endorsing the TCFD guidelines and implementing these recommendations at the EU level drawing on the experience of the implementation of France’s Article 173” (Article 173 is a law in France which imposes ESG reporting requirements for both GPs and LPs).

In this context, some LPs (insurance firms, pension funds, etc.) have adopted the TCFD recommendations, which could lead asset management firms and the PE industry to respond to these new expectations in terms of reporting.

As such, the reinforcement of both soft and hard law on climate issues at the national and international levels coincides with a heightened awareness on the part of both LPs and GPs of climate risks for their investments. This leads us to believe that the PE industry’s propensity to take action on climate issues will keep increasing going forward.

“

The ecological transition must include a social justice dimension, particularly as it addresses climate issues. Neither one can succeed at the other’s expense. This deeper understanding of sustainable development is indeed one through which private equity actors can approach the subject.

Emilie Bobin, Partner, PwC France

¹¹ UNFCCC, 2015, The Paris Agreement, <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

¹² PRI, 2018, PRI endorses French private equity initiative ic20 at Climate Finance Day, <https://www.unpri.org/news-and-press/pri-endorses-french-private-equity-initiative-ic20-at-climate-finance-day/3862.article>

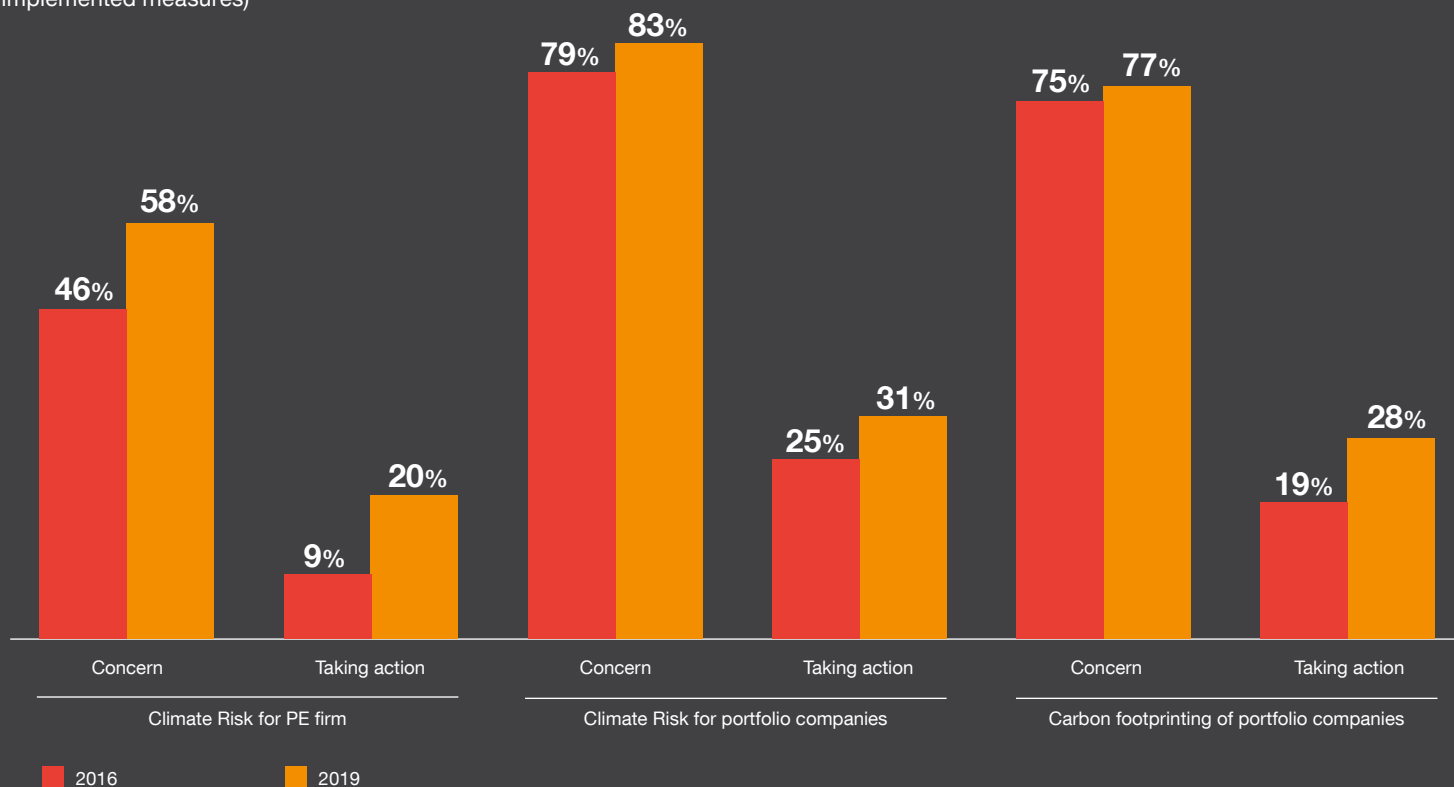
¹³ TCFD, 2017, Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures, <https://www.fsb-tcfd.org/publications/final-recommendations-report/>

¹⁴ European Commission, 2018, Financing a Sustainable European Economy, https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf

Figure 6: Evolution of concern and action on climate-related topics over time

Q. What is your level of concern for emerging responsible investment or ESG issues? (very and slightly concerned)

Q. How are you addressing this issue? (For each issue selected as “very concerned” or “slightly concerned”, Yes we have already implemented measures)



Source: PwC PE Responsible Investment Survey 2016 & 2019

Base: All respondents 2019 (162), 2016 (111)

What's keeping the PE community awake at night?

Besides taking the pulse of the PE community on responsible investment strategies in general, we also explored the level of concern that our respondents had for various issues that fall under the ESG umbrella and how much movement was taking place to combat these issues.

We have explored the correlation between concern and taking action in some areas already (see climate risk and human rights), however there is still a noticeable gap between the two in some other ESG areas (See Figure 7: Concern and action taken on ESG issues). Emerging technologies like Artificial Intelligence (AI) and automation are a concern for 80% of our respondents, but only 20% are taking any action. Our report, *Harnessing AI for the Earth*¹⁵, provides some useful tips for investors how to incorporate these technologies into their portfolio. This report is part of a broader suite of work that we have completed on innovation and sustainability¹⁶.

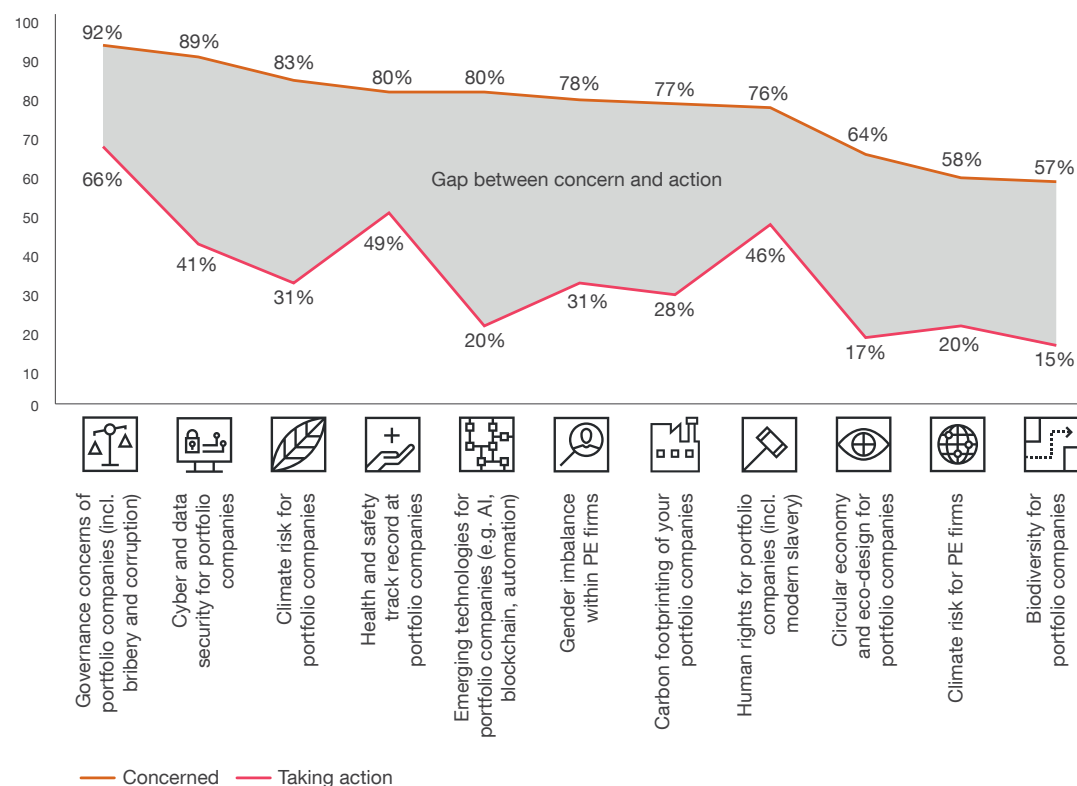
Similarly, 89% are concerned about cyber and data security in their portfolio. This is unsurprising given new regulation (such as the General Data Protection Regulation (GDPR) in the EU) and the increasing number of cyber attacks that have taken place over the past couple years. However, only 41% said that they were taking some steps to deal with this issue. Another development we foresee is that reporting, both to Boards and publicly, will become more detailed and will focus on the most relevant ESG issues rather than on general responsible investment approaches. We have seen this shift in some market segments already, especially at LP level in Europe. Many respondents are now applying a materiality lens to identify which ESG issues are most significant for them and for their stakeholders.

While it remains to be seen how some of these issues will be tackled by the industry, it's clear from our findings and analysis that this is a rapidly growing agenda for the PE community. While the drivers behind this momentum may vary from player to player, our view is that responsible investment is likely to rise to the forefront of all decision making in this industry and become business as usual.

Figure 7: Concern and action taken on ESG issues

Q. What is your level of concern for emerging responsible investment or ESG issues? (very and slightly concerned)

Q. How are you addressing this issue? (yes, we have already implemented measures)



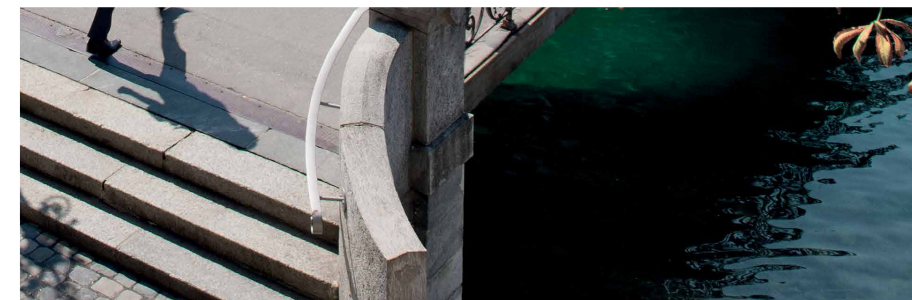
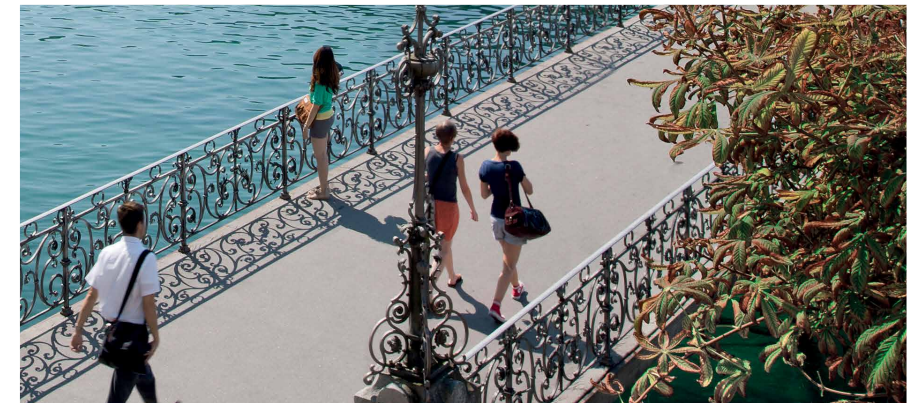
Source: PwC PE Responsible Investment Survey 2019
Base: All respondents (162)

¹⁵ PwC, 2018, *Harnessing Artificial Intelligence for the Earth*, <https://www.pwc.com/gx/en/sustainability/assets/ai-for-the-earth-jan-2018.pdf>

¹⁶ PwC, 2019, *Innovation for the Earth*, <https://www.pwc.co.uk/innovationforearth>

Moving ahead – what the PE community should be asking themselves:

- 1 Have you translated your responsible investment policy and commitments into concrete action (e.g. by ensuring ESG matters are integrated throughout the deal cycle)?
- 2 Is responsible investment a core component of your risk management approach, or is it just an add-on?
- 3 After completing (ESG) due diligence on a portfolio company, do you keep engaging on material ESG issues and do you monitor the company's ESG performance?
- 4 When reporting, are you able to distil key facts and challenges on material issues, such as climate or human rights, rather than bundling them under the label of 'ESG'?
- 5 Can you explain how a robust responsible investment policy has added value to your portfolio and can you leverage that at exit?



Methodology

162

firms responded

35

countries and territories

145

General Partners

38

Limited Partners

Note: some respondents are both LPs and GPs

Approach

Our previous surveys have included either GPs or LPs. To track the simultaneous maturity of responsible investment in both stakeholder groups, we surveyed LPs and GPs together for the first time.

PwC carried out the survey in September – October 2018 through an online questionnaire. We received responses from 162 participants (124 were GPs, 17 were LPs and 21 were both GPs and LPs) from 35 countries and territories, making it our largest collective sample to date.

The survey asked many of the same questions we have asked our GPs and LPs in previous surveys, to allow for comparison over time. However, it also allowed us to compare and contrast responses from GPs and LPs to the same questions, so as to identify any similarities or differences in approach, which we have highlighted in the report. This survey also included questions on new thematic areas, like climate risk.

Our respondents were varied in profile (See Respondent profile on page 20), by categories of investment, by investment approaches or by total assets under management, which provided us with a comprehensive overview of the private equity or responsible investment market at a global level. While we attempted to reach as broad a cross-section of the market as possible, responses were voluntary and are therefore more likely to include firms that already have an interest in responsible investment.

Notes

Not all figures add up to 100%, as a result of rounding percentages and exclusion of 'don't know', 'not answered or not mandatory' and 'not disclosed or not applicable' responses. The base for figures is 162 (all respondents) unless otherwise stated. The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services.

Respondent profile

Respondents' main categories of investment (multiple selections permitted)


84%

Private equity

44%

Leverage Buy-Out (LBO)

20%

Infrastructure

18%

Mezzanine

16%

Real Estate

11%

Listed equity

11%

Fixed income

14%

Other

Respondents' total assets under management (in USD)


1%

did not disclose total assets under management

6%

50+ billion

12%

10.1 billion – 50 billion plus total assets under management

29%

1.1 billion – 10 billion plus total assets under management

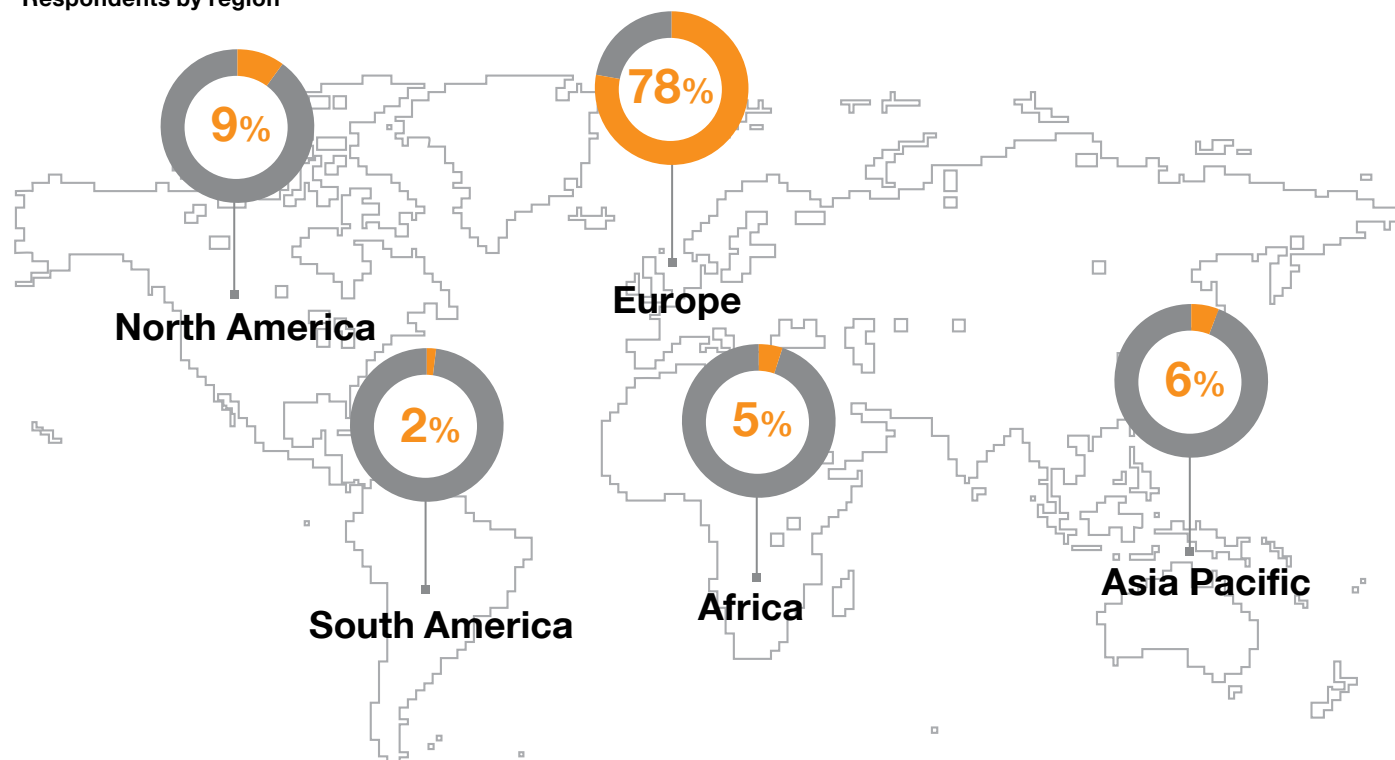
35%

201 million – 1 billion total assets under management

17%

0 – 200 million total assets under management

Respondents by region



Respondents' number of current portfolio companies across all funds


22%

0-10

27%

11-20

20%

21 – 50

9%

51 – 100

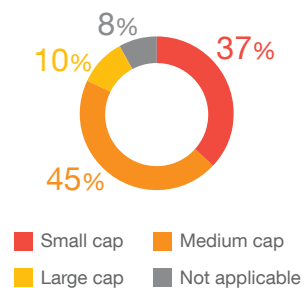
3%

101 – 150

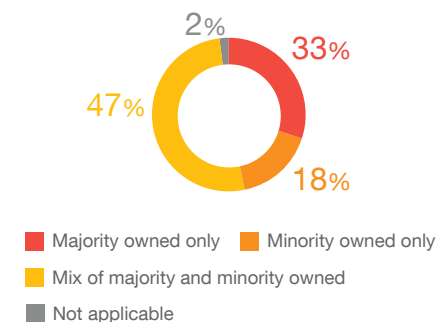
16%

151+

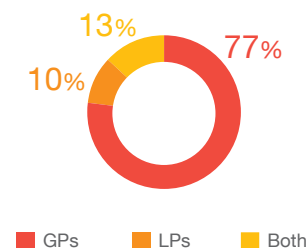
Respondents' size



Respondents' level of influence



Partnership type



Participants

We would like to thank all participants in the 2019 Private Equity Responsible Investment Survey, including:

123 Investment Managers	Cauris Management	IK Investment Partners	Permira
3i	Cinven	InfraVia Capital Partners	Portugal Capital Ventures – Sociedade de Capital de Risco, S.A.
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Actis LLP	CVC Capital Partners	IPR.VC	Serafin Unternehmensgruppe GmbH
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Alter Equity	Demeter (including Demeter Partners and Demeter Ventures)	Kapin Capital	Silver Leaf PartnersSievi Capital
Ambienta SGR SpA	ECI Partners	Keynes Private Equity Ltd.	SiparexSilver Leaf Partners
Antin Infrastructure Partners	Egeria	Lafise Investment Management Ltd	Siparex
ATLAMED	Ekkio Capital	NAC Partners Sarl	SwedfundSTANLIB Asset Management: Infrastructure Investments
AXA Investment Managers	Empower Capital	Nordian Capital Partners	SWEN Capital PartnersSwedfund
AXA Investment Managers Deutschland GmbH	EQT	NorthEdge Capital LLP	SWEN Capital Partners
Asia Climate Partners	Eurazeo	Mayfair Equity Partners LLP	Terra Firma Capital PartnersTDR Capital LLP
Aster	Fondo Italiano d'Investimento SGR	MB Funds	Terra Global Investment Management, LLC,Terra Firma Capital Partners
Astorg	Forbion	MBO PARTENAIRES	The Colleges of Applied Arts and Technology Pension PlanTerra Global Investment Management, LLC,
Butterfly Ventures	FSN Capital Partners AS	Meridiam	Triton PartnersThe Colleges of Applied Arts and Technology Pension Plan
CapMan plc	Galiena Capital	Oquendo Capital	Triton Partners
Capzanine	Golding Capital Partners	Pædagogernes Pension (PBU)	United Gulf Financial Services North Africa Truffle Capital
Castik Capital	HPE Growth Capital	Panostaja Oyj	Vallis Capital Partners, S.A.United Gulf Financial Services North Africa
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