



ESG in Private Equity Survey 2022

How LPs and GPs Are
Picking the Lock
to ESG Data



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Key Takeaways

GPs are no longer questioning whether ESG is here to stay

In years past, a common narrative suggested that LPs led the charge, while GPs questioned if ESG was a passing trend. They now accept that it's the new way of this industry – and they may be even more enthusiastic about it than some LPs.



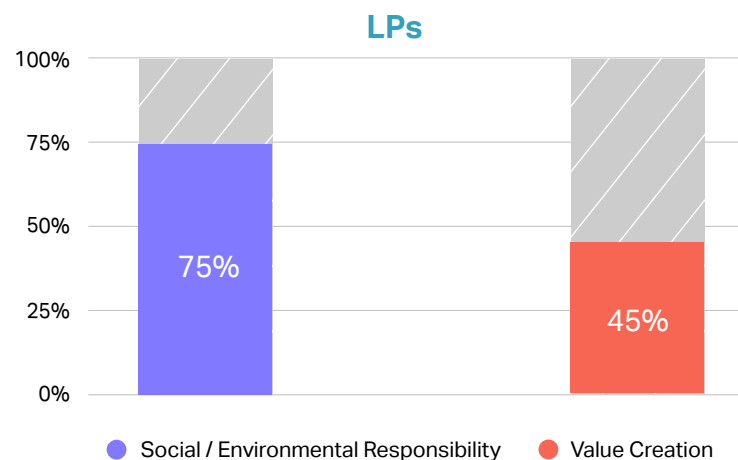
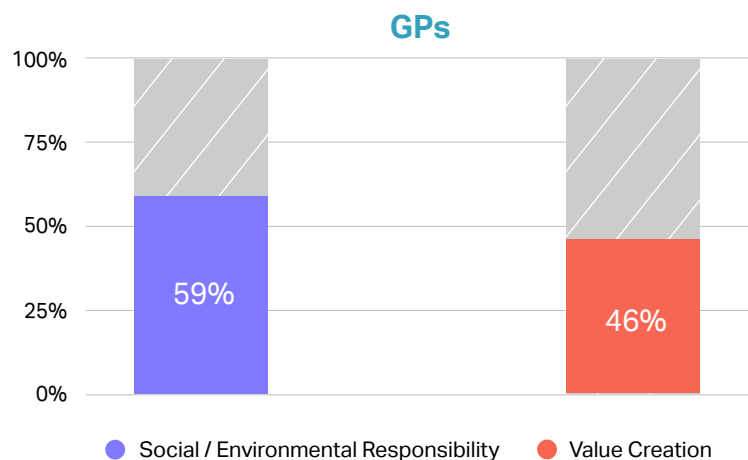
of GPs agree that incorporating ESG considerations into their strategy will lead to better returns



of GPs currently have an ESG policy in place – **a higher percentage than the pool of LPs surveyed (65%)**

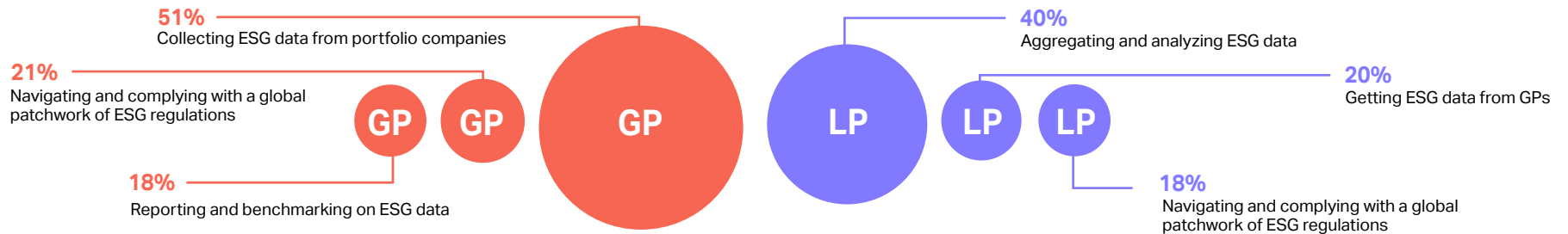
Moral purpose is a top driver for both LPs and GPs to adopt ESG practices

For both LPs and GPs, the drive to follow an ESG strategy more commonly stems from a sense of environmental and societal responsibility than from a value creation or reputation perspective.



ESG data collection and analysis remains the most named ESG challenge

It's crucial that they do master it, as transparency and therefore data is at the heart of true responsible investing.



Hiring in-house talent is the go-to strategy for attacking ESG challenges

LPs and GPs may be overlooking the potential of technology to supplement their human teams when taking on certain hurdles, particularly data collection and analysis.

61%

In-House ESG Leader



19%

Third Party Consultant



17%

None of These



3%

Third Party Technology



Executive Summary

ESG can at times get beat up in the mainstream sphere.

Tech leaders bemoan the idea of responsible investing, retail investors confess they believe ESG is just a fancy marketing strategy, while others admit they're not sure what ESG even is.

However, in the institutional investing world, the idea faces a very different attitude. This is even the case for the private capital space, an asset class that is known for its lack of transparency and challenges with extracting data from complex, illiquid assets, even as ESG itself demands full transparency and generous data access.

But according to Allvue's 2022 survey of more than 100 LPs and GPs, this is a group that believes that ESG is a permanent fixture to their craft.

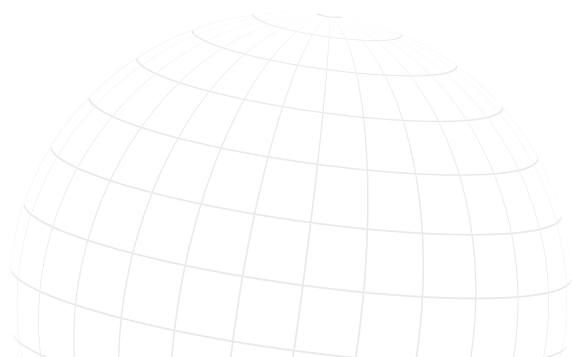
Rather than spending time questioning its legitimacy, their sights are set on figuring out what the next step should be for their individual firms and the industry at large.

They have good reason to think this way. Regulatory bodies around the world have noted the growth of acceptance around ESG and began to deploy policy frameworks to create guardrails around it. The U.S. Securities and Exchange Commission's announcement in May 2022 that it was proposing a rule overseeing ESG claims that investment managers are allowed to make made a big splash, as it served as the first step in regulating ESG in the United States.

Allvue's survey demonstrates this firm belief in the legitimacy of ESG and so much more. Through this data, we gain a snapshot into the views of market participants determined to live up their moral investing responsibilities as they grapple with unlocking key data and identifying which resources will best help them do so.

In this report we discuss:

- LPs' and GPs' sentiment toward ESG and their commitment to bringing their individual firms further up to speed with ESG deals.
- The challenges LPs and GPs face as they make serious plans to move their ESG goals forward, even through data hardships inherent to private capital and without uniform regulatory guidance across different global regions.
- LPs' and GPs' plans on what resources they trust to carry out their ESG plans.



Allvue believes in knocking down barriers

that keep managers and investors from their private capital investment data, and while an industry standard for the expectations and practices of ESG has not yet been defined, we know that the pursuit of data and strong data workflows is essential to further embedding responsible investing into this space.

Our hope is that this report helps LPs and GPs gauge where their peers are at and gain insight into the available paths forward as they continue to hone what ESG looks like within private capital.

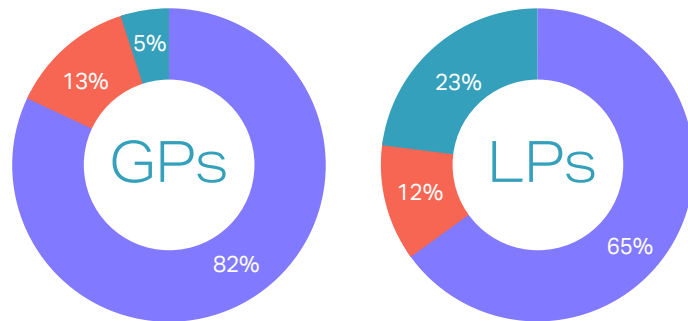
Section 1: ESG Sentiment

LP and GP ESG sentiment has moved from a place of curiosity to one of action



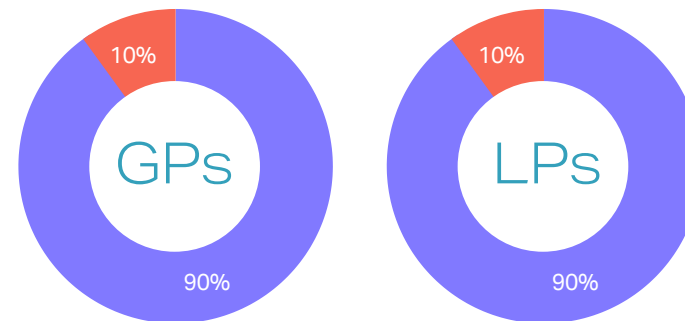
This close examination of ESG next steps appears in both LPs and GPs, but maybe particularly in GPs, who have big plans for tackling the movement and, according to our survey, more deeply believe that incorporating ESG considerations into investment strategy leads to outsized returns.

Do you have a formalized ESG policy or plans to institute one?



- Yes, we currently have a formalized ESG policy
- We plan to institute an ESG policy in 1-4 years
- We have no plans to institute an ESG policy

Do you believe incorporating ESG considerations into your strategy will lead to better returns?



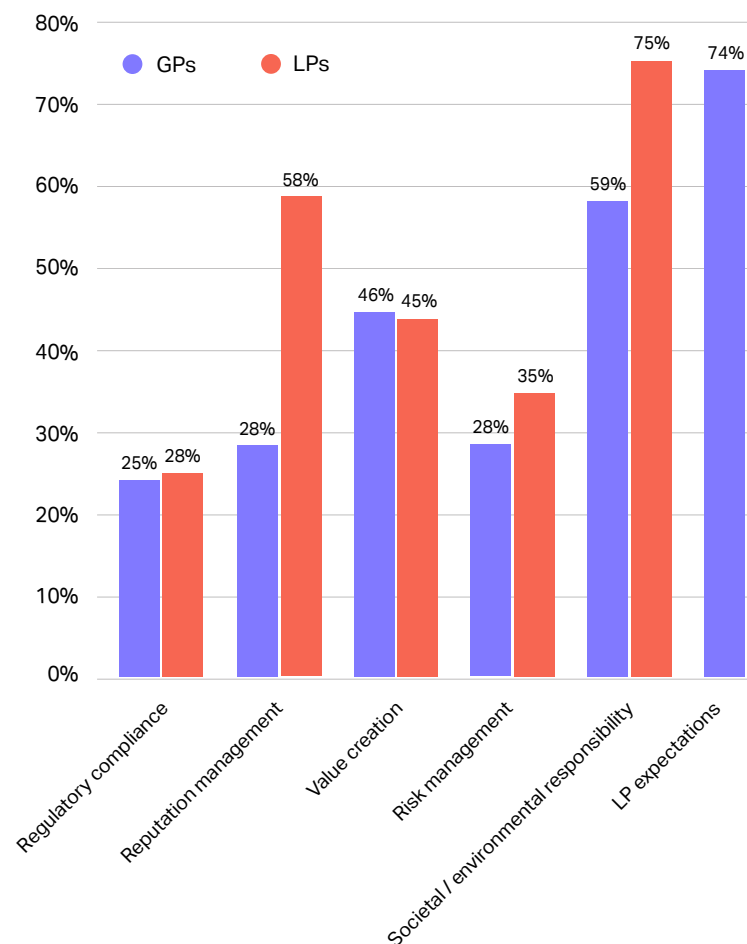
- Agree that it will lead to better returns
- Disagree that it will lead to better returns

What's motivating firms to adopt ESG considerations?

When it comes to GPs, the expectations of their LPs is still the biggest force moving them to take ESG action. But GPs are still quite motivated by environmental and societal responsibility as well – debunking the common assumption that GPs only pursue ESG initiatives and increased investment data access as a way to hang on to their investors. For GPs, their commitment to ESG can be well summed up by their top three motivators – a drive to retain and attract LPs does lead the way, but they also feel their own obligation to invest in a societally responsible way, and they believe taking an ESG lens to their strategy will help them create the best returns in the long run.

For LPs as well, moral responsibility rises far above self-interest factors like higher returns or firm reputation, but they too see the alpha creation and reputational benefits of letting an ESG influence into the industry. Bottom line – the private capital space is bought in on ESG's impact.

What are your main motivations for enacting ESG policies internally? Select up to three.



How are managers and investors making ESG investments?

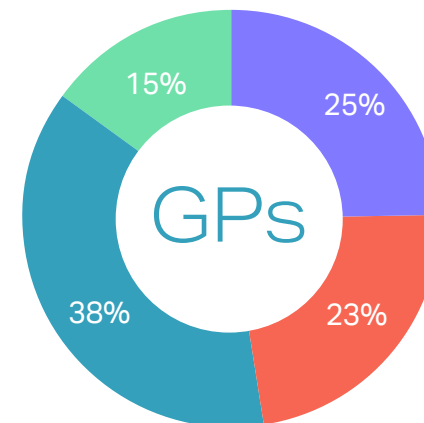
Firms put a lot of work into developing strong data reporting workflows or defining what their ESG goals are, but when it comes to the act of ESG investing, where do they stand?

The GP community is fairly split on how to go about making ESG investments. The largest portion primarily take a dual approach to ESG investing, investing in companies that already have a good ESG standing and by working to improve portfolio companies that could do better, though considerable slices also prefer to choose one stance or the other.

Meanwhile, LPs have ambitious planned allocations in their portfolios, with one-third of them planning to commit more than 20% of the portfolios to ESG-specific assets.

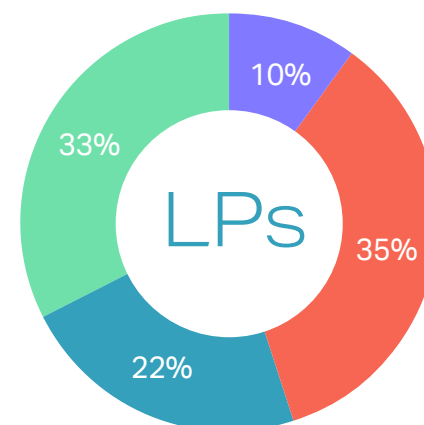
Which lens most accurately describes the way your firm approaches ESG?

- We focus on allocating capital to responsible companies/investments
- We focus on allocating capital to companies we feel can improve on the E, S, and G categories and work to be the agent of change
- We take both approaches
- We take neither approach



What percentage of your portfolio will be ESG focused in the next two years?

- Less than 5%
- 5% - 10%
- 11% - 20%
- More than 20%



North America VS. EMEA: How do the two regions compare on ESG today?

EMEA, and Europe in particular, is known to be the earliest adopting region when it comes to ESG. A responsible investing outlook has been inherent in the region for years now. The EU has already built a legal framework surrounding ESG reporting and marketing which it continues to add to. Meanwhile in the Middle East, Islamic finance's longtime influence has kept ESG thinking front and center.

Across the Atlantic in North America, Canada has a leg up on the United States' ESG adoption, but the US has made strides in recent years, with large US-based asset managers pledging to adopt certain ESG standards, and with the SEC stepping in to propose rules that dictate how managers can market their ESG products and processes, and how they must disclose those practices.

EMEA still shows its leading status on the ESG front, but some insights show how North American GPs are making strides to narrow the gap.

GPs that currently have a formalized ESG policy in place

● EMEA GPs: 76% ● North America GPs: 90%

GPs that applied extreme importance to attracting and retaining LPs

● EMEA GPs: 76% ● North America GPs: 30%

GP preparedness to support ESG reporting

● EMEA Very Prepared: 41% ● North America Very Prepared: 25%

● EMEA Somewhat Prepared with key areas to work on: 51%

● North America Somewhat Prepared with key areas to work on: 65%

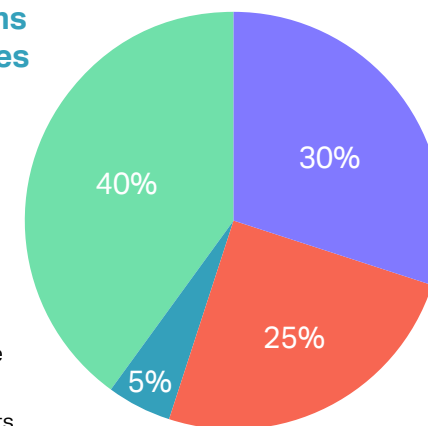
"We are ahead of our peers in terms of ESG progress"

● EMEA: 49% ● North America: 30%

How GPs go about their ESG Strategies

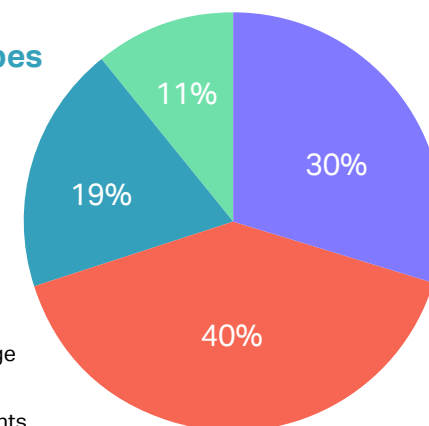
North America: Which lens most accurately describes the way your firm approaches ESG?

- We take both approaches
- We take neither approach
- We focus on allocating capital to companies we feel can improve on the E, S, and G categories and work to be the agent of change
- We focus on allocating capital to responsible companies/investments



EMEA: Which lens most accurately describes the way your firm approaches ESG?

- We take both approaches
- We take neither approach
- We focus on allocating capital to companies we feel can improve on the E, S, and G categories and work to be the agent of change
- We focus on allocating capital to responsible companies/investments



Section 2: ESG Challenges

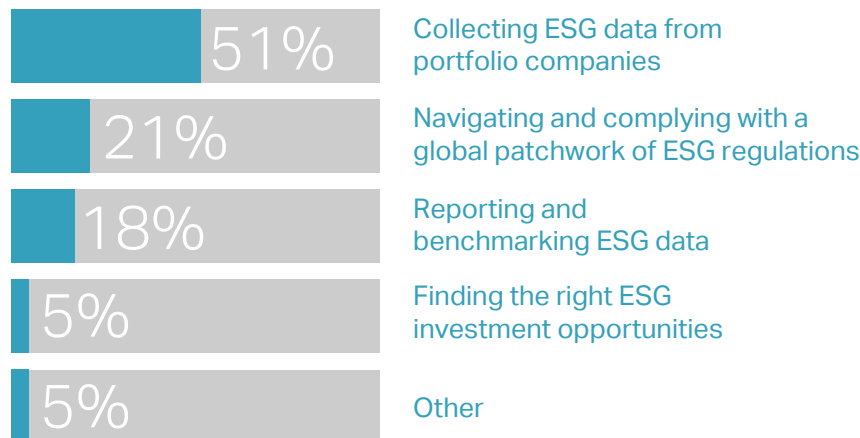
As ESG has advanced into the mainstream of institutional investing, legislative bodies across the globe have brought forth new rules and guidelines for how investment firms and some categories of institutions must report on ESG efforts.

Even with these emerging regulations, managers and investors do not see these as the biggest challenges when it comes to adopting ESG. The real hurdle in the view of both LPs and GPs is the collection of ESG data and the subsequent analysis of such data.

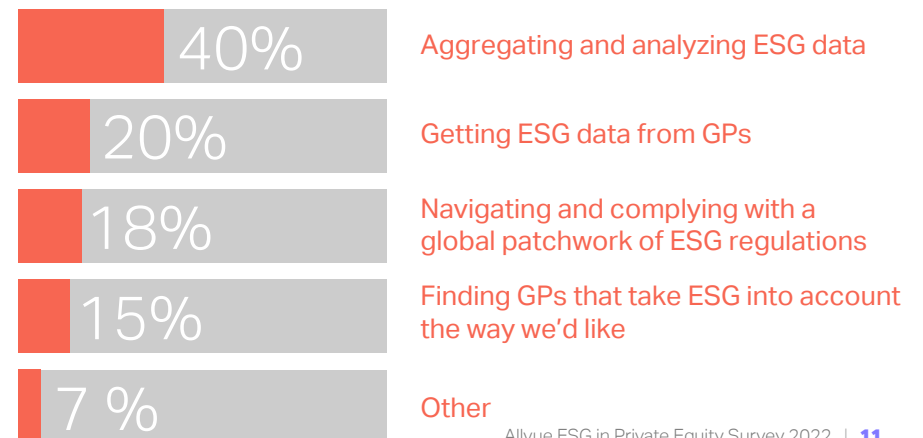
Even so, GPs know that ESG reporting emerges as the most immediate way to answer LPs' ESG needs, and they're acting to offer this despite the huge data collection hurdles they face. Most GPs are at least somewhat prepared to support ESG reporting for their LPs, but note that they have key areas to work on. We can also see evidence of GPs' increased commitment to ESG in LPs' answers – LPs do not credit GPs' ESG reluctance as a top challenge as many often claim it is.

Data is the foundation of making real ESG change in institutional investing, and while reporting is the first data capability that many are chasing down, once mastered, firms will set their sights on a new need: benchmarking. LPs will reach a point of wanting to understand not only how they're making progress against their own ESG goals, but also against industry performance – and they'll want it backed up with hard data. If GPs haven't already, they are likely to start seeing the need emerge soon via due diligence reviews.

GP's most challenging aspect of ESG investing and offering ESG products

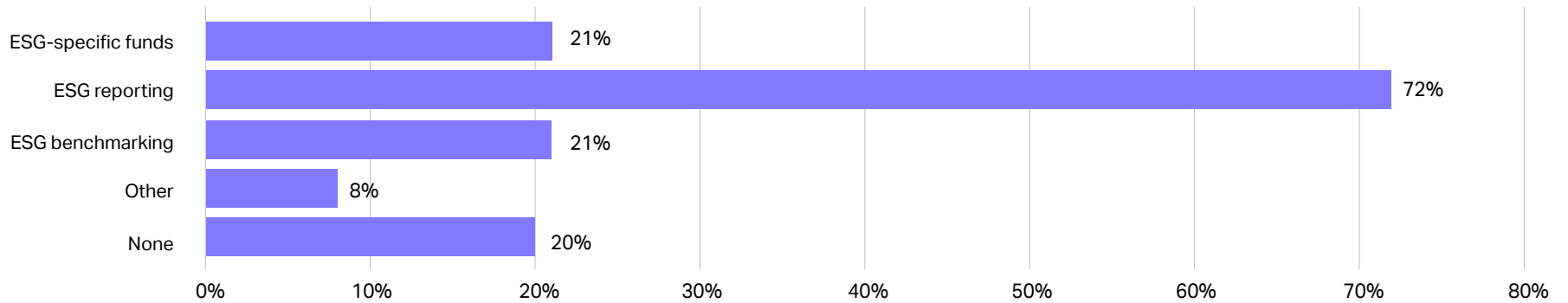


LP's most challenging aspect of ESG investing

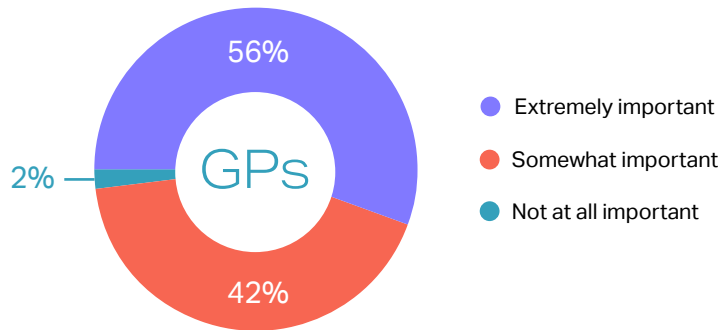


ESG Reporting: Importance vs Preparation for GPs

Which of the following ESG capabilities / offerings are available to your LPs?

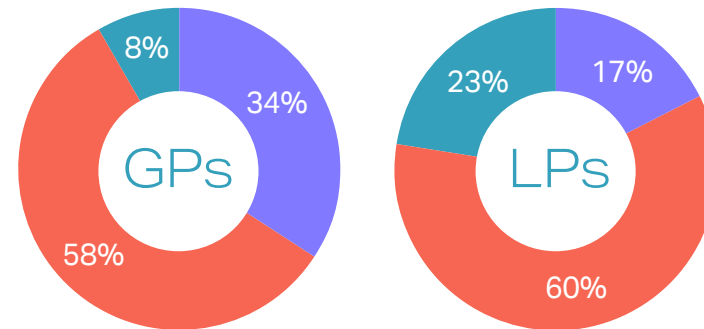


To successfully attract and retain LPs, how important is it to offer ESG investment options and reporting /benchmarking capabilities?



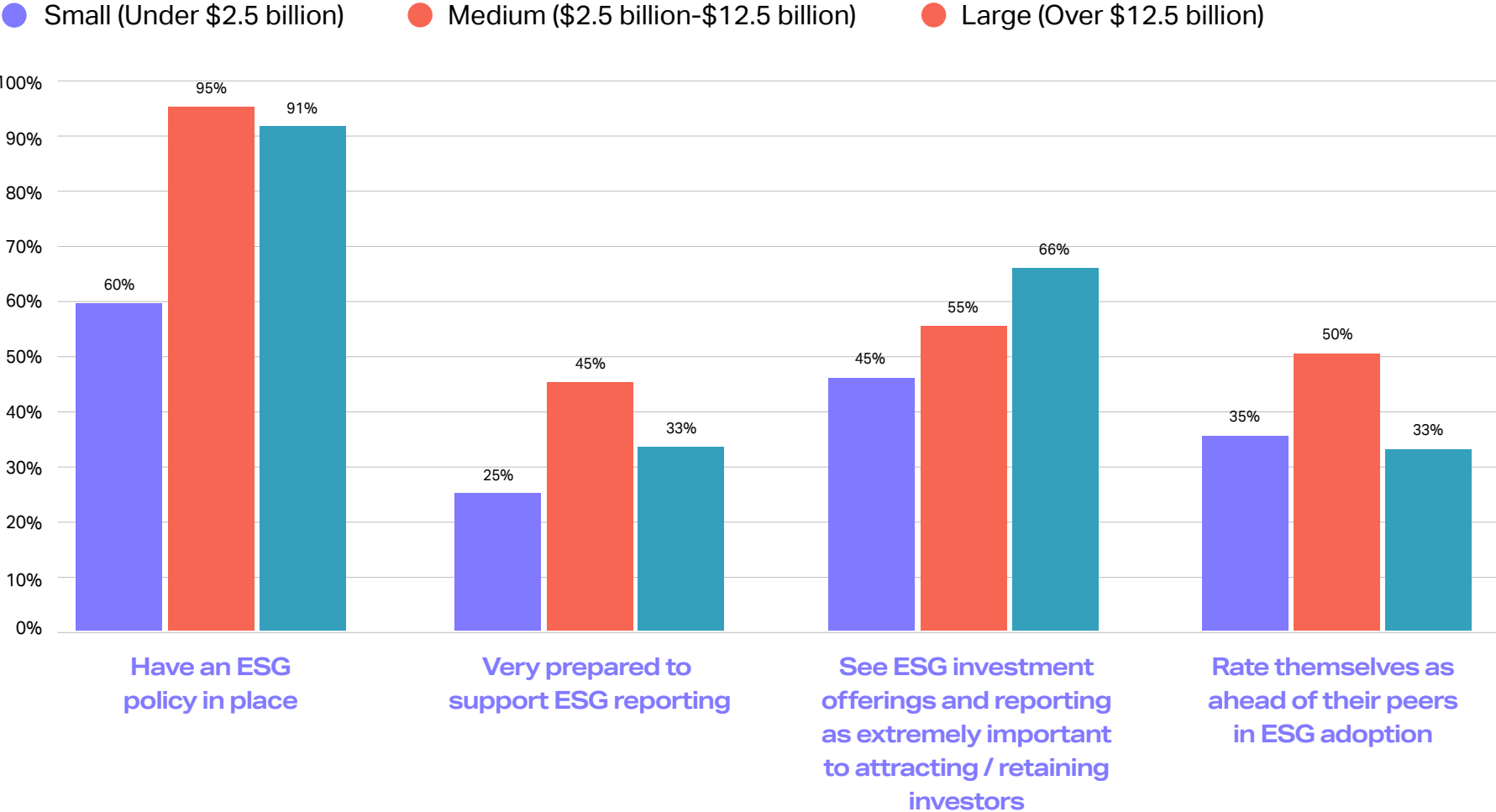
How prepared is your firm to support ESG reporting currently?

● Very prepared ● Somewhat prepared, but we have key areas to work on ● Not at all



Mid-sized GPs are poised to lead the way on ESG adoption

An AUM of \$2.5 billion-\$12.5 billion may be the sweet spot when it comes to ESG adoption. Smaller GPs are most resistant to embracing ESG while nimble mid-sized GPs are acting even faster than the industry's largest managers.



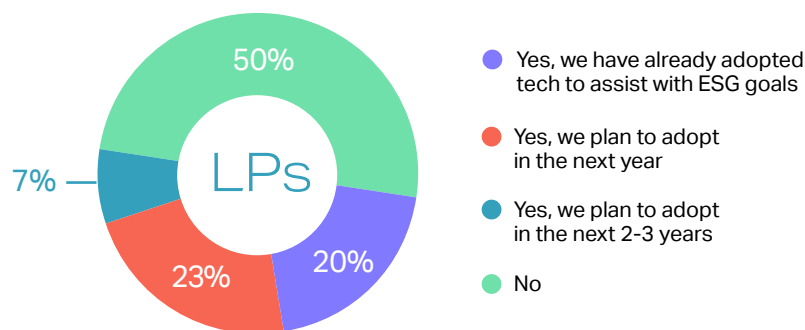
Section 3: Tackling ESG Challenges

How are firms tackling their biggest ESG challenges?

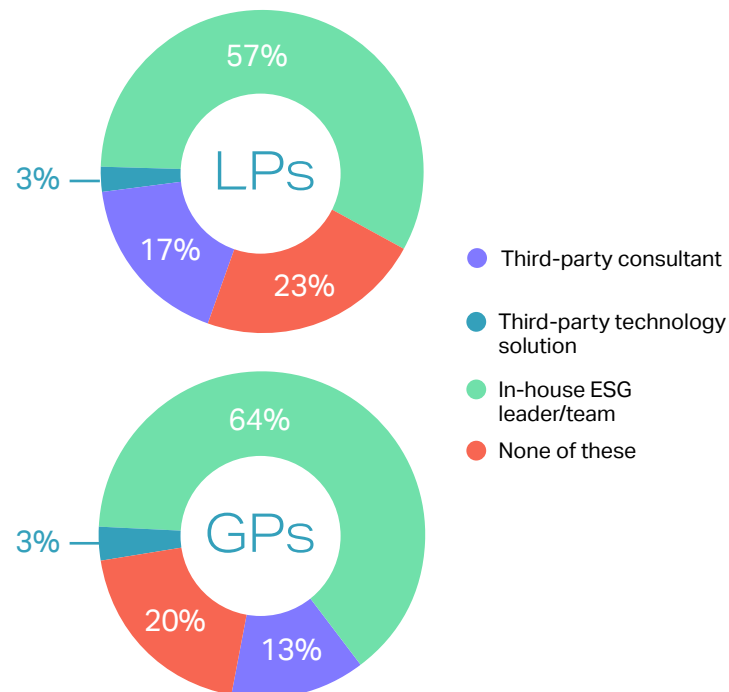
As we've established, despite significant challenges and unknowns lurking in their ESG journeys, LPs and GPs both have a healthy drive to tackle these challenges and let ESG become the investing industry norm. But just how these firms tackle these ESG challenges on an individual basis remains a bit murky.

Both LPs and GPs largely rely on hiring in-house talent to manage their ESG initiatives – but, especially given their data challenges, it's important to combine human expertise with tech capabilities in order to realize the most value. Both groups, but especially GPs, credit the fintech landscape to a high degree in terms of producing solutions that can assist their human teams with tackling ESG, but few have chosen to put many eggs in the ESG tech basket just yet. They may be missing a key opportunity in doing so.

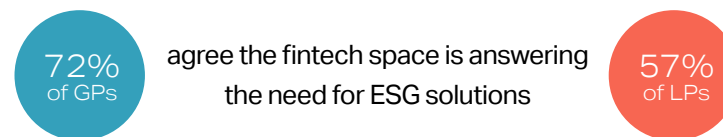
Have you adopted or do you have plans to adopt any tech to assist you with your ESG goals?



What is your main resource for handling ESG activities and challenges?



A large portion of the GP audience sees the potential in the ESG technology landscape, while some LPs seem slower to buy into it.



“ It’s really exciting

to see that there can be third-party software solutions that may level the [ESG] playing field for LPs and also for smaller managers.

I think that's one end of the barbell which is that if LPs can start to see that you can outsource some of this measurement and analysis to those companies and have vendor selection there – that will be very valuable. But then it also requires a human element as well, which is collective action by the industry with groups of GPs and LPs coming together to set standards, to discuss areas that are still to be determined. If you have that barbell of LPs and GPs participating in both sides of this, we can advance this even through this cycle.”

- **Suzanne Gauron**, Managing Director,
Alternatives Capital Markets & Strategy at Goldman Sachs
(at SuperReturn International 2022)

Conclusion

Our survey has supported that LPs and GPs are on board and in it together in forming and tackling ESG goals.

But challenges lie ahead. It's clear that the lack of an industry standard and the persistent presence of data pain points are locking market participants out of the material progress many are yearning to see. Furthermore, managers and investors alike are unclear on what resources are best cut out to help them take on the biggest challenges they face.

It's Allvue's opinion that establishing and standardizing access to ESG data will take a combination of skilled ESG human teams and technology that eases the collection and analysis of countless different portfolio KPIs.

Our mission is to help LPs and GPs unlock their investment data through technology, and we're committed to providing access to powerful software that empowers LPs and GPs alike to track their portfolio data, ultimately providing their investment teams to the most educated and return-producing decisions. As ESG's impact presses on in the institutional investing world, we look forward to being part of the technology side that contributes toward establishing an industry standard for ESG data access, collection, reporting and benchmarking.

Looking for more ESG content?

- [🔗 A Complete List of ESG KPIs by Industry](#)
- [🔗 ESG Due Diligence 101](#)
- [🔗 3 Ways ESG Will Change Portfolio Monitoring for Private Equity and Venture Capital Managers](#)
- [🔗 How Private Markets are Catching up on ESG](#)
- [🔗 InfoStory: 5 Drivers of ESG Growth in Alternative Investments](#)
- [🔗 Article: New Private Markets – ESG Data Companies Boom Alongside Strengthening Regulations](#)
- [🔗 Article: Private Funds CFO – ESG data will constantly evolve.
Your reporting tech must be able to as well](#)



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Allvue is a leading provider of technology for investment managers in the private capital and credit markets industry. Its mission is to empower superior investment decisions by pairing modern cloud-based software solutions with capabilities across multiple asset classes. Allvue's software solutions serve the entire investment lifecycle and are seamlessly integrated to provide a comprehensive product suite, serving investment managers of all sizes worldwide, including general partners, limited partners, fund administrators, and banks.

Allvue was established in 2019 through the merger of Black Mountain Systems and AltaReturn, two leading providers of investment technology solutions. Allvue is based in Miami, FL, with locations throughout North America, Europe, and Asia-Pacific. With a commitment to innovation and a focus on multiple asset classes, Allvue's software solutions allow its clients to operate and grow their businesses more effectively by automating manual processes, improving data accuracy and consistency across workflows, and delivering enhanced analytics

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