

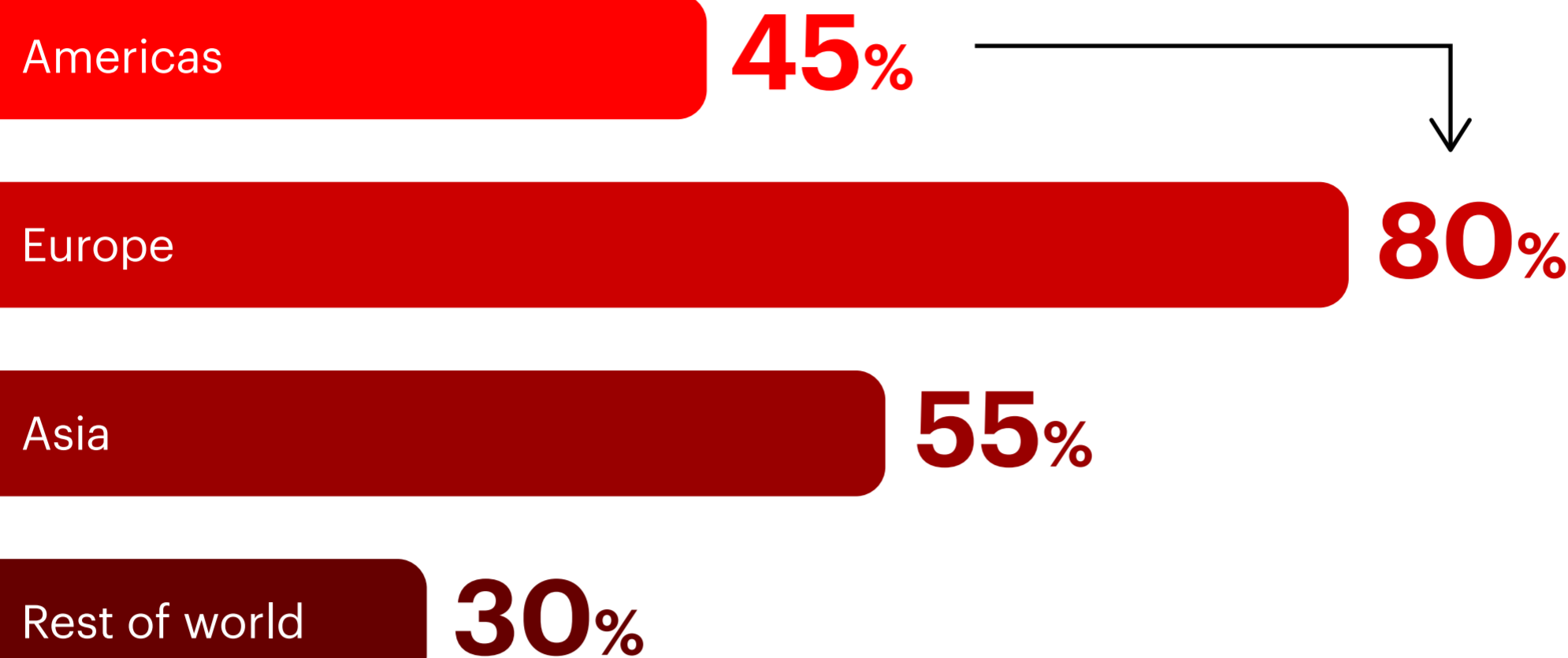
The Growing Demand for ESG in Private Equity

Many firms are wary of committing to investments that adhere to environmental, social, and corporate governance standards. But consumers and investors alike are demanding they jump in.

The PE industry's commitment to ESG is uneven

A wide gap exists between Europe and the Americas when it comes to embracing global standards for responsible and sustainable investment

Percentage of funds committed to Principles for Responsible Investment, Net-Zero Asset Owner Alliance, or Task Force on Climate-related Financial Disclosures



Source: Preqin, accessed June 2020

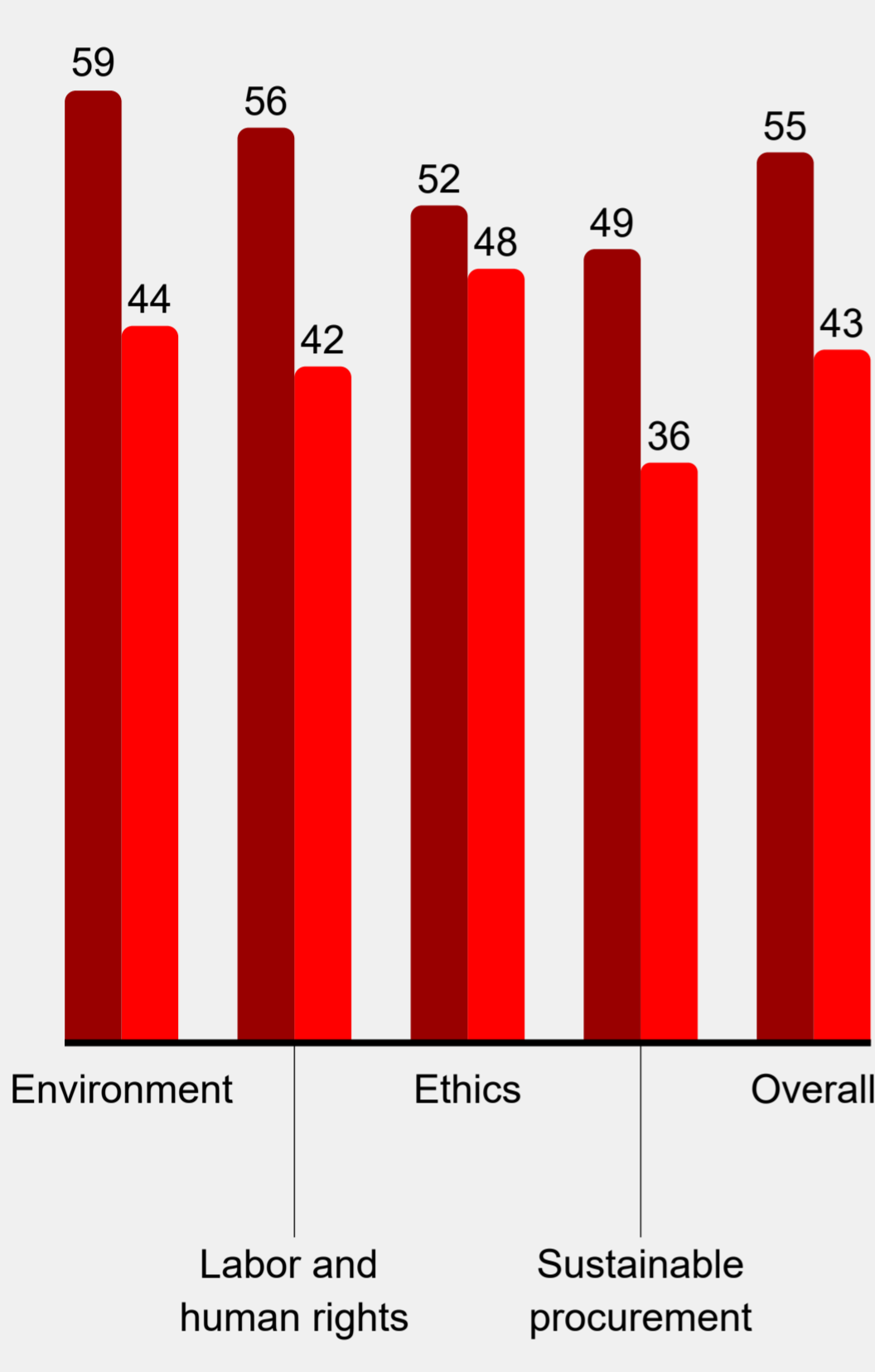
Europe outpaces the US, but there's still room to grow

Looking at sustainability factors only, the great majority of portfolio companies haven't launched meaningful initiatives

EcoVadis scores by ESG-related categories

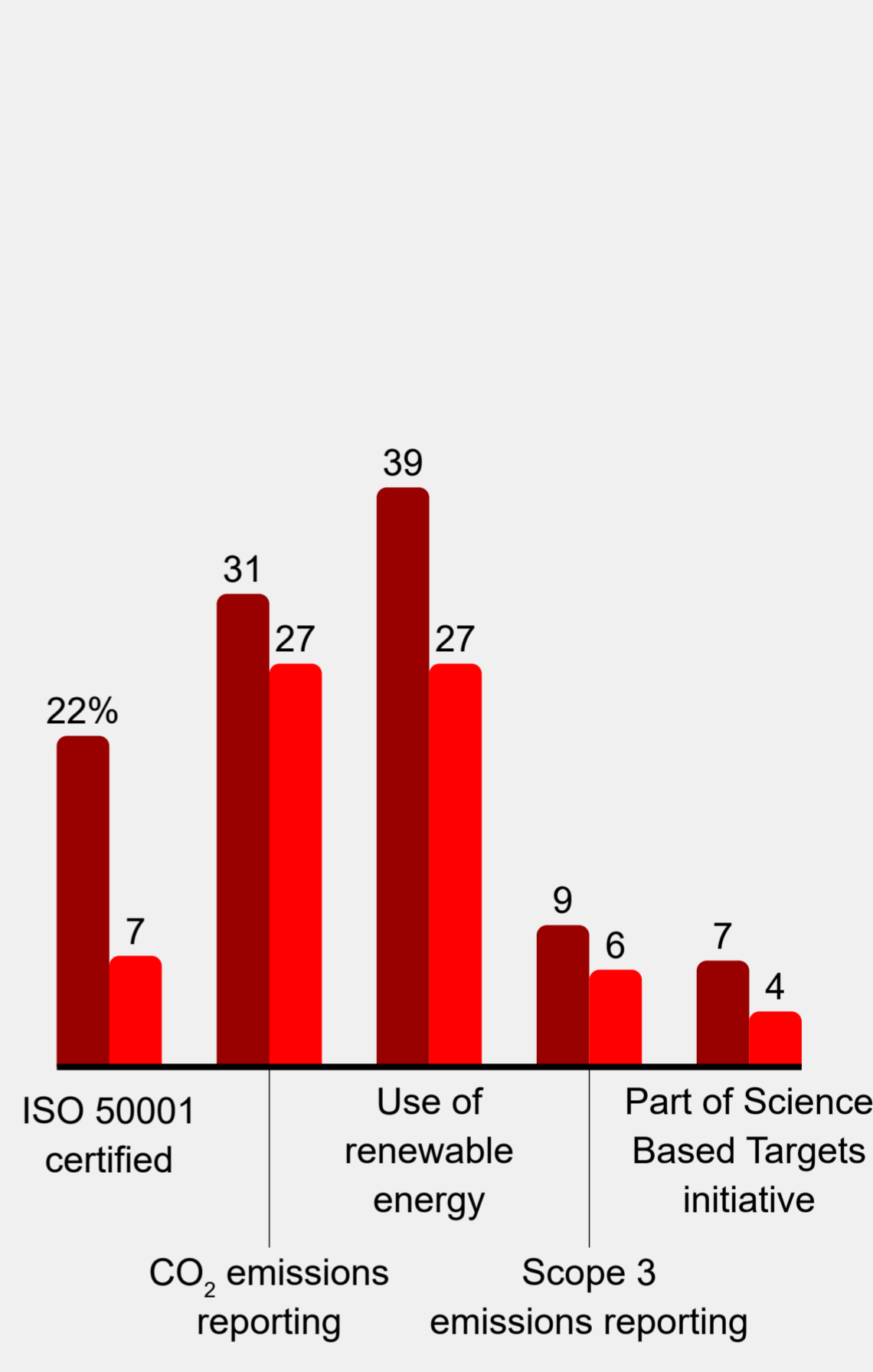
(2017-H1 2020, large companies)

■ Europe ■ North America



Share of portfolio companies taking environmental measures

(2017-H1 2020, large companies)



Sources: EcoVadis; Dealogic

The demand for change is ramping up

Firms face pressure from stakeholders of all kinds to improve ESG efforts

Consumers

79% of buyers are changing preferences based on sustainability

36% of organizations believe consumers are willing to make these changes

Employees

61% believe sustainability is mandatory for companies

46% would only work for a company with sustainable business practices

Limited partners

88% say they use ESG performance indicators in making investment decisions

87% say they invest in companies that have reduced the near-term return on capital so they can reallocate that money to ESG initiatives

Regulators

European Green Deal climate neutral by **2050**

Disclosure of **EU Taxonomy** alignment by **Jan. 2022**

Bankers

78% growth in sustainable debt to **\$465B** from 2018 to 2019

168% growth in sustainability-linked loans to **\$122B** from 2018 to 2019

Sources: Capgemini; HP; Edelman; Bloomberg; European Commission

A winning formula for ESG investing

Making it work takes the same level of commitment and ambition that firms devote to developing any new differentiated capability



Clear definition, alignment, and ambition
ESG can mean a lot of things, so it is critical that firms define what it means for them and build on that

Capability investment
Firms may need to add capabilities to identify, track, and manage ESG risks and opportunities effectively

Measurement of results and continuous improvement
Leading firms have been willing to experiment and develop winning approaches into playbooks that lead to consistent results

Focused execution
Momentum comes from picking a few things that really matter and moving the needle in those areas; different companies in different industries need to apply ESG differently

Full integration
Capturing the true value of ESG requires embedding it along the entire PE value chain, from due diligence through ownership to exit