ESG Transparency A Private Equity and Venture Capital Index 2021

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Executive Summary

The recent COP26 Summit shone a spotlight on the increasing risks from climate change, raising awareness as to what is required by governments, financial institutions, organisations and the public sector to limit global warming to the 1.5°C target of the 2015 Paris Agreement. Financial organisations have a vital part to play in delivering this goal by using their central role to bring about systemic change and helping to mobilise capital to decarbonise the economy. With this comes risk as well as opportunity.

In the face of continued, emerging environmental and societal risks, a strong Environmental, Social and Governance (ESG) Strategy enables financial organisations not only to manage risk and build resilience but also to improve financial performance. However, to mitigate claims of greenwashing and to meet stakeholder expectations to demonstrate performance, this cannot be a 'bolt on' but must be embedded at the heart of the business and its investment philosophy.

ITPEnergised and Orbis Advisory are pleased to present their second annual 'ESG Transparency Private Equity and Venture Capital Index 2021' analysing 155 Private Equity (PE), and for the first time, 122 Venture Capital (VC) firms' ESG reporting performance. As an industry-supported ESG benchmark well recognised in the private market space, we also welcome GRESB's endorsement of the 2021 Index. There is an increased demand on General Partners (GPs) via increasing regulation and investor needs to communicate their ESG performance and demonstrate progression as well as how they manage ESG risks and opportunities.

Disclosure and transparency are key elements of a value-adding ESG strategy as it builds trusts and provides a platform to communicate performance, commitment and ambitions if done well, reducing the potential for greenwashing accusations. Our Index showcases what the leading firms disclose about their ESG performance and commitment.

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We identify several common themes around PE houses' ESG transparency performance, year on year trends, and how the sector is evolving its strategies to manage and optimise emerging ESG factors. We also explore VC houses and how they are utilising ESG as a market differentiator and mechanism to increase performance and add value.

These key insights along with the Index's top performers provide a snapshot into what is currently considered best practice and what is required to develop a value-adding ESG strategy.

Directors' Welcome

Jonny Clark, Managing Director - ITPEnergised

"We are delighted to present the second edition of our ESG Transparency Index. Since last year's Index, responsible investment has continued to gather momentum and notably we have seen further commitments from governments at November's COP26, which can only be achieved with a significant flow of responsible capital. It is encouraging to see more financial institutions, and their investees across a wide range of sectors, adopting increasingly robust ESG strategies and better transparency.

For ESG to be successful though, it needs to be embedded, part of the organisational DNA. From our research, we have found that to be the case with some of those featured in the Index, whilst others are perhaps at earlier stages of that journey. We hope you find this edition of the Index of interest and value."

Rupert Clark-Lowes, Managing Director - Orbis Advisory

"The second edition of our ESG Transparency Index comes due to the great interest received from the first and, for us at Orbis Advisory, the ability to be able to showcase best practice to those firms beginning their ESG journey is a great pleasure and key to helping ensure we meet future decarbonisation goals.

Top performers confirm ESG is central to the long-term success of businesses and that looking at corporate and investment strategies is of paramount importance. Understanding risks and opportunities, responding to climate change and communicating with transparency to key stakeholders are just a few of the long list of actions which these stand-out firms have achieved. Congratulations to our top performers as well as to those taking their first steps."

Jonny Clark
Managing Director

ITPEnergised

Rupert Clark-Lowes
Managing Director

Orbis Advisory

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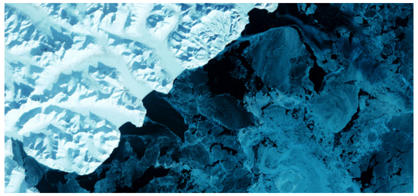

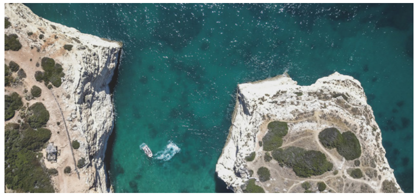

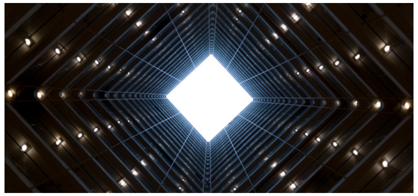

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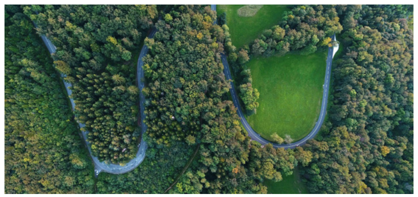

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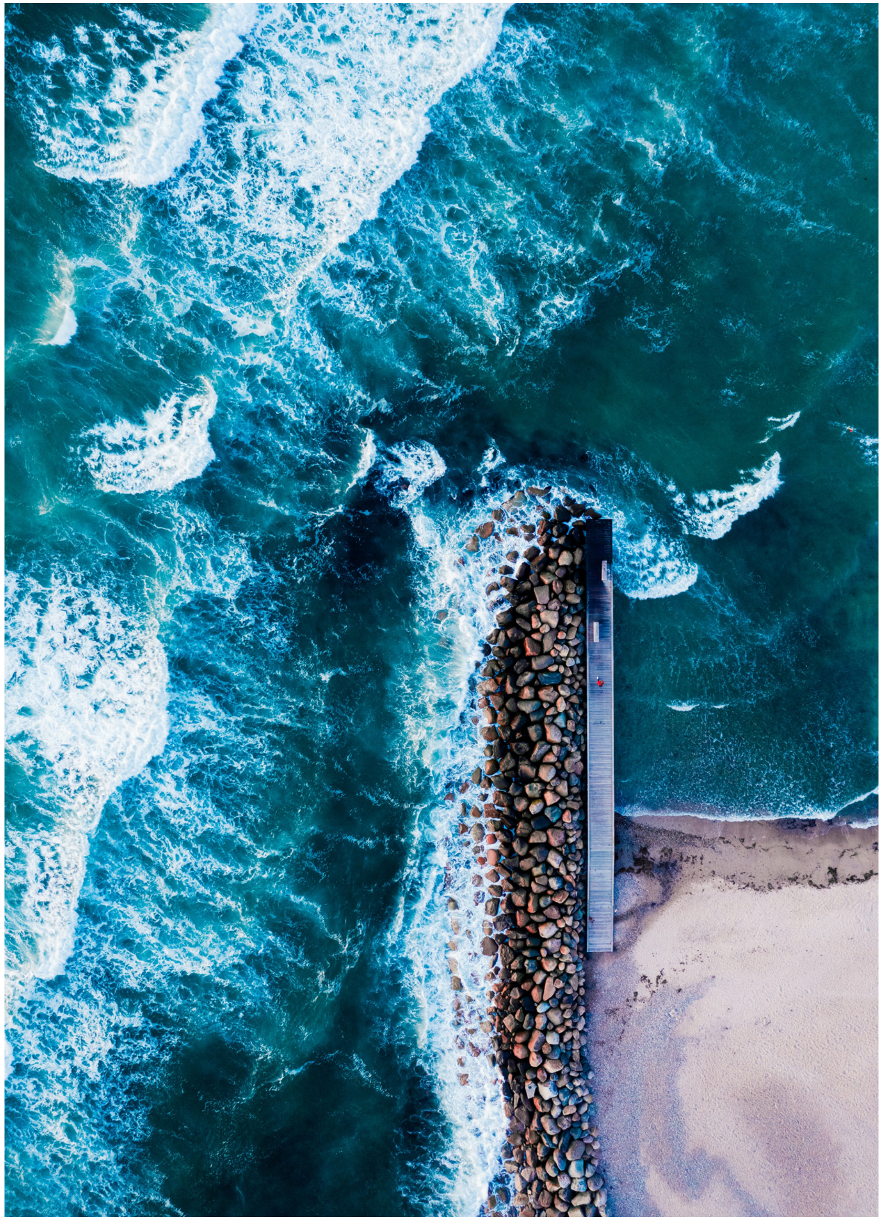
Introduction

This report comes at a time when societies are increasingly holding governments and organisations to account when it comes to tackling climate change. There are also increased accusations of greenwashing by some when it comes to organisations publicly disclosing their ESG commitments and performance. It is increasingly apparent that financial organisations play a central role in greening the economy. Whilst this creates opportunity, it also exposes the financial community to increased scrutiny as society, investors and governments (via increased ESG regulation) demand greater transparency and consistency in how financial organisations integrate ESG into their business models and communicate performance. It is now more important than ever that organisations communicate their responsible investment policy, ambitions and risk management processes and are able to demonstrate meaningful targets and performance to ensure they can optimise the opportunities from the greening economy.

There is no 'one size fits all' method to how an organisation approaches ESG. However, it is apparent that there is a lot of noise surrounding ESG, making it difficult to unpick and navigate. Internationally recognised ESG frameworks can be a helpful tool in identifying what is important but are not an absolute requirement. Instead, a considered and practical approach that focuses on long-term resilience and value creation will be of most benefit. Disclosure and transparency are also at the heart of this. However, to ensure that the strategy is value creating, and not an 'added extra', the focus needs to not only be on risk management and opportunity optimisation but also on ensuring the strategy is embedded deep into the organisation and investment philosophy to guarantee it is at the heart of all business decisions, which may require cultural and behavioural change.



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The ESG Transparency Index was created in this context. The research looks at what PE and VC houses disclose regarding their ESG risk management processes and their ESG commitments and performance. It also highlights key trends and ultimately looks to address what current best practice looks like when it comes to ESG disclosure to help guide PE and VC firms who wish to enhance their ESG performance and may be struggling to navigate the 'ESG alphabet soup'.

Methodology

The report includes all companies based on the following criteria:

- Listed as a GP with the British Private Equity and Venture Capital Association (BVCA), of which there are 344 members;
- Self-described as any of the following: PE, Growth Equity, VC and/or Impact Investor (this includes managers of private equity, private credit and, to a lesser extent, real assets such as real estate and infrastructure);
- Have a publicly accessible website; and
- Disclosed Assets Under Management (AUM) > £0.2bn and < £50bn (companies at either end of the AUM spectrum were excluded to focus the index on mid-sized firms).

The Index ranks 155 PE and 122 VC firms' ESG reporting and transparency performance.

For PE houses, our assessment uses 73 criteria centred around two themes:

- Responsible Investment ("a strategy and practice to incorporate ESG factors in investment decisions and active ownership "[1]); and
- In-house ESG (the role ESG plays in their own business operations).

Photo: Sherman Yang / unsplash.com

Footnotes
[1]https://www.unpri.org/an-introduction-to-responsible-investment/what-is-responsible-investment/4780.article

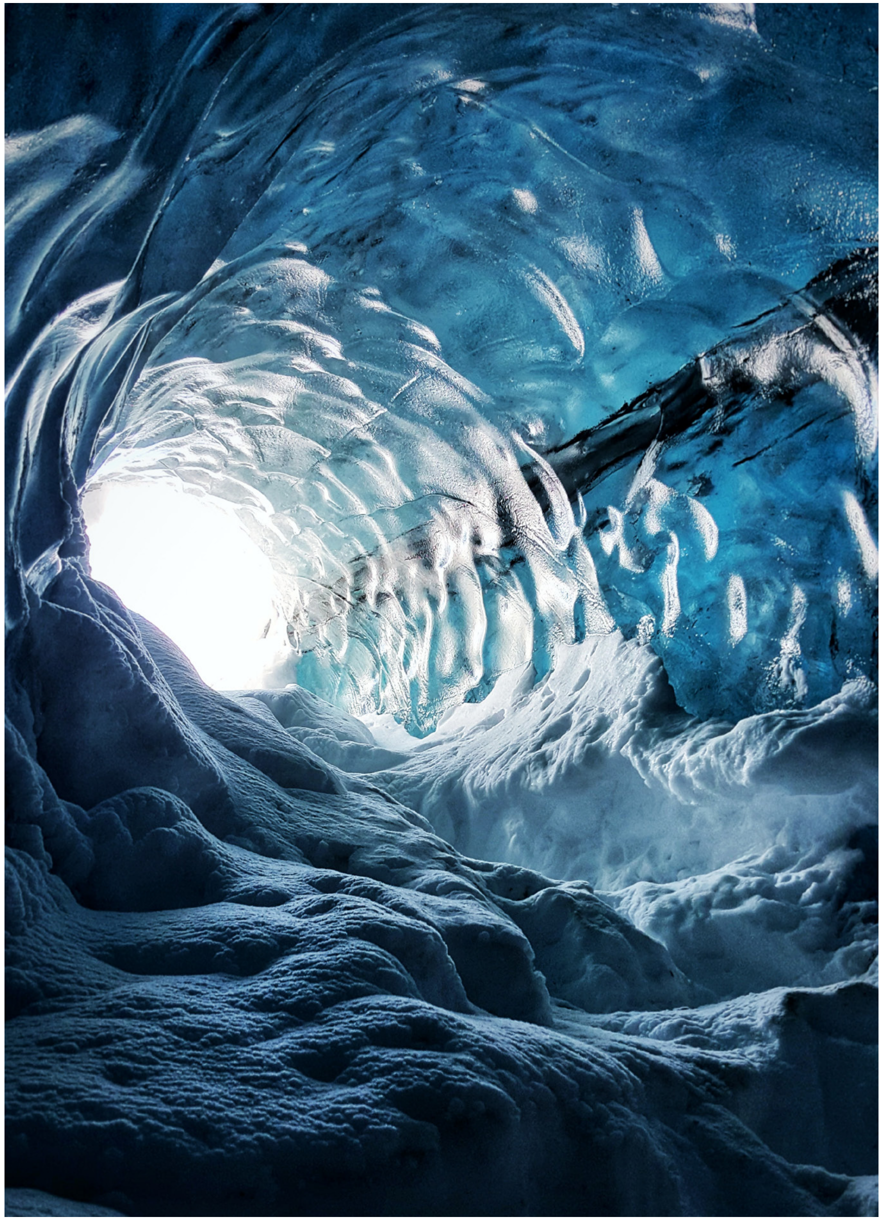
For VC houses, we have kept the assessment criteria high level, focusing on just the following four criteria.

1. The public disclosure of an ESG commitment
2. Public disclosures regarding responsible investment management processes
3. Public disclosures regarding in house sustainability
4. Alignment with ESG frameworks and benchmarks

This approach has been taken to accommodate that the adoption of ESG strategies by VC houses is generally in its infancy, and a number of VCs are at the beginning of their ESG journeys. This has enabled us to assess the level of uptake in the sector, with an aim to expand the research in future years.

Conducting this research allows us to look at what and how PE and VC firms are communicating with their stakeholders in terms of their ESG commitment, practices and performance. By quantifying company performance and comparing current operations with best practice, we hope that consideration of ESG in the PE and VC sector can become ubiquitous, a win for the environment, society and investors alike.

We are delighted to share the results of our analysis to help VC and PE firms navigate the ESG landscape and develop a value creating ESG Strategy. We look forward to carrying out the same research annually, tracking industry progress and sharing learnings along the way.



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Top Performing Private Equity Firms

Included in this section are the PE firms that performed particularly well in this year's ESG Transparency Index. We have asked some about the benefits that ESG has brought to their business and what advice they would give to firms starting out on their ESG journey.

Photo: Tanner Boriack / unsplash.com

Top Performers

Arcus Infrastructure Partners

1st

Arcus Infrastructure Partners is an independent infrastructure value-add fund manager focused on four sectors: Digital, Transport, Logistics & Industrials and Energy in the European mid-market. With £6.3bn assets under management as at 30 September 2021, Arcus uses its bespoke Asset Management Framework to deliver value-add for strong investment returns.

Arcus performed phenomenally across all seven of the Index's sections, achieving a flawless score in the Responsible Investment component of the Index by meeting all fifteen criteria for Pre-Investment Due Diligence, Post-Investment Engagement and Exit Plan. Arcus reports climate change risks to investors annually in line with TCFD recommendations. Arcus is also a signatory to the UK Stewardship code. It will not invest in companies whose primary business constitutes the generation of power by coal, uranium or thorium. In terms of Internal Sustainability, Arcus reports carbon emissions related to its employee air travel, whilst offsetting emissions through Carbon Footprint. Arcus tracks diversity and provides training on sustainability and personal development workshops for all employees.

arcus INFRASTRUCTURE PARTNERS

Neil Krawitz

Partner and Head of Asset Management & ESG

Why is ESG important for your business?

Arcus believes that the provision of high-quality infrastructure is critical to Europe's future economic growth, environmental protection, societal development and the reduction of inequalities. ESG considerations are critical to investing in infrastructure as these assets are generally shared community resources with many daily dependents – the breadth of, and importance to stakeholders means good ESG management is even more important than for most economic activities.

What are the main benefits you have seen from integrating ESG into your investment process?

We believe that as an industry, comprehensive ESG integration into the investment selection process needs to move beyond being viewed as just a risk management issue, but rather, should be looked at as an issue which has significant value enhancement potential. We know from experience that best-in-class ESG principles and practices can become a source of competitive advantage, reduce disruption and vulnerability to risk, and bring about significant efficiency increases to create long-term sustainable value.

Our investment strategy is to invest in the "infrastructure of the future". Potential acquisitions, fundamentally, need to have good ESG value creation drivers, as "this is the future". We continue to refine and differentiate our due diligence process to ensure that we are encompassing all these material factors into our decision making, as we strongly believe that it will lead to better investment performance.

What advice would you give to those firms just starting their ESG journey?

Firms just starting their ESG journey should consider which ESG factors are material to their business. For an investment business like Arcus the key building blocks to incorporate are:

- An ESG policy / approach applied to its investment strategy
- A robust ESG due diligence process on all potential investments
- Prioritising ESG management post investment with regular reporting of material ESG factors

What is the business most proud of with regards to your ESG strategy and implementation process?

We are incredibly proud of the recognition our approach to ESG has received from industry bodies, our investors and other stakeholders. We believe this is a testament to the effort of the Arcus and investee company management teams which prioritise best practice ESG management and performance.

Top Performers

Partners Group

2nd

Partners Group is a Europe-based global private markets firm, with investments in private equity, private real estate and infrastructure. It has an AUM of £46bn with a focus on the consumer, health care and information technology investment sectors in the UK, USA and Europe.

Partners Group's second place ranking owes to its consistent high scores across both Responsible Investing and In-house ESG. Partners Group achieved full scores in Pre-investment and Exit Plan, integrating ESG factors into the investment cycle. It provides active ownership, with post-acquisition ESG and sustainability onboarding with senior management at the portfolio companies and the potential for identified ESG and sustainability risks and opportunities to be translated into value creation initiatives during the ownership period. Partners Group also boasts a strong narrative of external commitment, aligning to UN PRI, TCFD and IFC, to name a few. On top of this, six of its offices are powered using 100% renewable energy.

Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

Tikehau Capital

3rd

Tikehau Capital is an alternative asset management and investment specialist that focuses on four asset classes: private debt, real assets, private equity and capital market strategies. Tikehau has £26.2bn AUM, £3.3bn of which is in private equity, across the UK, Europe and USA.

Tikehau Capital's third place ranking owes to its near-flawless performance in Responsible Investment, as well as its high performance in In-house ESG. Tikehau publish annual sustainability reports and, for each ton of CO_2 equivalent emitted by Tikehau's operations, it acquires the equivalent number of Verified Carbon Units from the Borneo-based Katingan Forest conservation programme. Notably, Tikehau has a long-term 2022 incentive plan for senior executives based on financial and ESG objectives.

Top Performers

NorthEdge

4th NorthEdge is a UK regional private equity firm with £900m AUM, investing in technology, healthcare, business services and specialised industrials. It achieved fourth place in the Index thanks to its impressive score in Responsible Investment and its internal social policies. NorthEdge performed outstandingly across Pre-Investment Due Diligence, Post-Investment Due Diligence and Exit Plan. It is also a signatory to both the TCFD and the Initiative Climat International (iCI), tracks its alignment with the UN Sustainable Development Goals and achieved an impressive AA+ UN PRI rating in 2020. Impressively, NorthEdge was shortlisted for the 2020 IoD Diversity & Inclusion award.

Astorg

5th Astorg is a European and US-based Private Equity Company with an AUM of £10.2bn, specialising in software, healthcare, business services and technology-based industrial companies. Astorg's placing in the top five of our Index comes down to its stand-out progress in climate risk considerations and setting of ESG key performance indicators (KPIs). It considers the Principle Adverse impacts of its investment decisions in line with SFDR, sets ESG KPIs for portfolio investments, and actively monitors the ESG performance of portfolio companies. Additionally, Astorg is one of the few PE firms to report its Scope 1, 2 and 3 emissions.

Ray Stenton

Managing Partner, NorthEdge

'At NorthEdge we take our responsibilities seriously – as both employers and investors. We work to build better businesses, that are sustainable and diverse. We do it because it's the right thing to do, and because we know it makes businesses more valuable for all stakeholders. Integrating ESG management into several stages of our investment process has not only helped us to identify strong and sustainable businesses, it has also allowed us to spot new opportunities and drivers of value.

Working closely with our portfolio, we factor these opportunities into our value creation plan. This ensures ESG is a key priority for the businesses we back and ultimately supports management teams to continue building better businesses that are sustainable.

ESG is no longer considered a nice-to-have, it is key in judging the long-term value of businesses. At NorthEdge we started with ourselves, and then shared what we had learned with our portfolio and network. Ultimately, it's about encouraging businesses in your portfolio to take that first step and commit to learning and understanding why ESG is important to their business and customers, as well as the impact they have on their people and the planet.

Start with simple data-driven ESG measures, and then iterate from there to continue driving forwards as your approach and portfolio gets more sophisticated. We have found that bringing specialist partners into our network has helped our portfolio to understand, and therefore embed, ESG best practice more effectively.'

Top Performers

AnaCap Financial Partners

6th

AnaCap Financial Partners is a UK-based Financial Sector investor in the European mid-market. It has a focus on the information technology, fintech and financial services sectors and has raised over €5.1bn across its private equity and credit funds and co-investment funds. AnaCap Financial Partners' ranking is a result of its near-perfect performance in Responsible Investment and its social policies. It considers climate-related risk in line with the SFDR. Highlights of its social policies include in-house social targets, staff training on ESG and its own diversity and inclusion taskforce.

Joe Giannamore

CEO and CIO

'AnaCap believe that a sustainable and responsible approach should be at the core of our business, our investments and our culture. ESG compliance provides us with a welcome opportunity to demonstrate our commitment to sustainable investing. We also recognise that our investors' needs in this area are steadily increasing and that their own stakeholders are demanding a formal adoption of sustainable investing practices.

Our commitment to sound ESG practices is consistent with our responsibility and duty to help our investors achieve their goals consistently. Including ESG as a bespoke focus of the pre-acquisition diligence process has enabled us to identify potential issues early on. We have found that taking early remediation action (if necessary) or otherwise just generally prioritising ESG factors early in the post-acquisition phase also leads to a much more embedded ESG culture within both our investment teams and portfolio companies.

For firms looking to start their ESG journey, it is important to first take a 'lay of the land' of your firm and its overall operational structure. Naturally each firm will have a varying degree of ESG resource and budget available to them and so what works for one will not necessarily work for another. It is important to have this framework in mind when designing your journey and to ensure that the corresponding goals are realistically achievable for a firm of your own size and stature. The second is to place sufficient emphasis on winning the hearts and minds of your colleagues on the importance of ESG.

ESG is relevant at every stage of an investment process and for all internal teams – you cannot go on this journey alone and that message needs to be understood by all internal stakeholders. The quicker that you have this 'buy-in', the quicker you can implement and make significant progress on your journey. Finally, the key for AnaCap has been to formally embed ESG factors into the investment recommendation committee process.

The investment team therefore must have completed ESG due diligence from the outset and they must include these findings and any recommended improvements in the investment pack in order to get the approval needed. This is what establishes the ESG foundation for the investment going forward and helps to get everyone into the mindset that ESG considerations are critical components of every thesis.'

Top Performers

3i

7th

3i is an international investment company focusing on private equity and infrastructure. Its PE arm has £8.8bn AUM across four core sectors: business and technology services, consumer, healthcare and industrial manufacturing. 3i's ranking in the top ten of our Index is a result of its excellent achievement regarding responsible investing. It takes part in systematic screening of investment opportunities, has an annually reviewed proprietary ESG assessment tool, and has ongoing portfolio monitoring with detailed ESG assessments twice a year. 3i's London and Luxemburg offices, which make up roughly two thirds of its electricity usage, are powered entirely by renewable sources.

Triton

8th

Triton is an investment firm with a focus in Northern Europe, investing in industrial technology, logistics, consumer services and healthcare sectors. Founded in 1997, Triton is currently invested in 48 companies, working with board, managers and employees to build better businesses and create long-term value for shareholders. Triton's ranking is a result of its excellent environmental performance, with measures taken including ESG training given to existing and new staff annually, and a regular GAP analysis of its internal processes against TCFD recommendations. As a result of the GAP analysis, the firm developed energy transition strategies for Triton and all its portfolio companies and established ongoing objectives for new portfolio companies.

Simon Borrows

Chief Executive, 3i

'Responsibility and sustainability have been at the heart of how we conduct business and manage our portfolio ever since 3i was founded in 1945. Our purpose at that time was to contribute to rebuilding post-war Britain by providing growth capital to small businesses. The responsibility that came with that original purpose still guides our behaviour today. Over the years, we have built a strong reputation and track record by investing and managing our portfolio responsibly and by operating according to the highest standards of conduct and behaviour. We have achieved this through a relentless focus on strong governance, both at 3i itself and in our investee companies. We believe that this has allowed us to earn the trust of our shareholders, other investors and investee companies, and to recruit and develop employees who share our values and ambitions for the future. We believe that the systematic assessment of the sustainability profile of our investments (both before we make an investment and on an ongoing basis throughout the period of ownership) is not only a risk management tool, but also a framework to assess the many opportunities which arise from the development of solutions to sustainability challenges within our portfolio and more broadly. This informs our investment decisions, guides our behaviours as a responsible manager of our assets and can bring about value growth and opportunities for new or further investment in our portfolio.

Our advice to firms starting out in their ESG journey would be to view this as a long-term value creation driver, rather than just a risk management tool. Focusing on areas where a company actually makes a difference rather than the easy publicity wins has a stronger impact on both ESG factors and the value creation.'

Top Performers

Earth Capital

9th

Earth Capital is an international investment manager with an AUM of £1.6bn that exclusively targets sustainable technologies and infrastructure. Earth Capital utilises its self-developed Earth Dividend™ system to measure an investment's impact against the UN Sustainable Development Goals, and to identify improvements in areas that add value and make commercial sense. Its Earth Dividend™ tool won Most Innovative ESG Product at the 2020 ESG Investing awards and was winner of the ESG Assessment Tool of the Year in the Environmental Finance Sustainable Investment Awards in 2021. Additionally, its Nobel Sustainability Fund® achieved successful designation as a Guernsey Green Fund, the world's first green fund certification early in 2021.

earth capital

Three Hills

10th

Three Hills Capital Partners is a European-focused investment house with 13 years of experience. Operating under the portfolio of Atypical Partners, Three Hills offers flexible solutions to the mid-market, preferred capital. Three Hills performed very well across the board, scoring full marks for its integration of ESG into due diligence and the exit strategy. In its inaugural sustainability report, Three Hills outlined numerous strong KPIs, covering such topics as GHG emissions measured, wellbeing programmes delivered and number of women in leadership positions. These show the breadth of Three Hills' ESG development across its organisation. Its continued ambition to prioritise ESG performance has seen it be carbon neutral since 2019, achieve an A€ UN PRI rating and develop a dedicated in-house sustainability team.

Richard Burrett

Chief Sustainability Officer, Earth Capital

'At Earth Capital, our focus has always been on sustainable investing, as global private equity investment managers who exclusively invest in sustainable technology across the climate change nexus of energy, food and water and with a track record of strong returns. Our sustainable development theme was strategically chosen due to the predicted increase in population over the coming decades creating a strong investment opportunity due to the growing demand in these specific areas.

We also find that companies that manage sustainability risk well are better managed companies that can create a more sustainable business and greater value. One clear benefit is a substantial pipeline of deal flow coming through from innovators seeking to solve ESG related issues. To understand sustainable finance and cleantech along with all aspects of environmental, social, governance work, community management/relationship, job creation, gender/diversity, and to also be focused on returns, makes good business sense, and helps with risk mitigation for the decades ahead and beyond.

Earth Capital's aim is to deliver at scale a successful investment model, which prioritises Sustainable Development alongside financial returns, in all parts of the investment cycle. We see ESG integration therefore as a means to driving both societal and financial value.

We would advise that businesses should begin by looking at their purpose and aligning their business models to the transition to a net zero and sustainable world. This means a holistic review of all business impacts not just positive areas. This means seeking ways to make your business value chain more resilient and optimise it where you can do so. It also necessitates transparency and disclosure of key data which can demonstrate to external stakeholders how you are managing that!'

Private Equity Case Study: Arcus Infrastructure Partners

Arcus Infrastructure Partners stands out as a leader in the private equity infrastructure industry. Its proactive and transparent approach to ESG is driven by its overarching belief that ESG factors have the potential to impact the long-term investment returns of infrastructure portfolios. The senior Arcus team fully supports this proactive ESG approach, with the Arcus Management Committee having appointed a Head of ESG and an ESG Committee to oversee the management of such matters.

Responsible Investment

Sustainability is embedded firmly within its investment strategy to mitigate ESG risk, exploit opportunities and consequently add value for investors. Pre-acquisition, Arcus has a robust screening process resulting in the exclusion of certain practices from the portfolio, for example, child labour, coal and nuclear power and corruption. At the due diligence phase, potential investments are further analysed to assess potential ESG risks and opportunities. The findings of this review are evaluated by the Investment Committee when making investment decisions.

Active ownership is also central to its responsible investment approach, which involves regular monitoring of the exposure to the ESG risks and opportunities, improving the risk management of investee companies, setting ESG KPIs and monitoring performance against them. A wide range of E, S and G issues are considered, including:

- **Environmental** - resource use and environmental protection
- **Social** - occupational and community health and safety, employment and human rights
- **Governance** - audit, risk management, and conflicts of interest

Climate change is considered by Arcus to be an important factor, with each investment reviewed based on its physical and transition risks in line with the TCFD framework.

Beyond the inherent risks associated with ESG, Arcus also recognises potential opportunities for value creation. Asset teams encourage portfolio companies to identify opportunities, in terms of creating operating efficiencies, building market share, enhancing their reputation, differentiating its brand, attracting, retaining and ensuring safety of staff, energy efficiency and waste reduction, and fostering sustainable supply chains.

In-house ESG

Arcus Infrastructure Partners is also committed to leading by example. In addition to initiatives undertaken in portfolio companies, Arcus as a firm has its own defined ESG principles which it follows. All employees are trained on ESG issues and are motivated to achieve strong performance through ESG-related objectives linked to financial and non-financial consequences. Key initiatives include:

- Calculating and offsetting its carbon footprint
- Promoting diversity and inclusion
- Charity donations
- Policies to address Modern Slavery, Health and Safety, Conflicts of Interest Anti-Bribery and Corruption and Cybersecurity
- Reporting and minimising paper consumption at Arcus' offices

Arcus excelled in their commitment to ESG framework, standards and benchmarks. It promotes a standardised and transparent approach to ESG by aligning with a range of frameworks including UN PRI, TCFD, SDGs and UN Global Compact. Notably, it is the only firm identified in the 2021 Index which participated in the GRESB Infrastructure Benchmarking and was named Sector Leader four times in the 2021 assessment.

Top Performing Venture Capital Firms

Included in this section are the VC firms that performed particularly well in this year's ESG Transparency Index. Out of the 122 VC firms assessed, 11 scored top points, meaning they fulfilled each of the four criteria. We have asked some about the benefits that ESG has brought to their business and what advice they would give to firms starting out on their ESG journey.

Photo: Red Zeppelin / unsplash.com

Top Performers

Molten Ventures

1st

Molten Ventures is Europe's largest listed technology VC firm, with operations across the UK and Europe. Molten has £1.0bn in AUM across four key sectors: consumer technology; digital health and wellness; Ai, deeptech and hardware; cloud, enterprise and SaaS.

Molten Ventures received excellent results across all four components of the Index, a testament to its strong ESG approach which is driven by its recognition of the value of ESG for enhancing competitive advantage and reputation. ESG is embedded into Molten's operations through a comprehensive ESG Policy, and it has developed its own set of target ESG standards which are applied internally and in its investment strategy. It is committed to responsible investment throughout the investment lifecycle, from pre-screening to exit, using various tools and methodologies to screen, evaluate and monitor its investments, which are aligned to the United Nations Sustainable Development Goals (UN SDGs) and the Principles for Responsible Investment (UN PRI).

Ben Wilkinson

Chief Financial Officer

Why is ESG important for your business?

ESG is an integral part of Molten Ventures' approach to responsible investment as we strive to accelerate positive change and inspire the next generation of diverse entrepreneurs. We recognise the central role that European venture capital plays in transitioning to a low carbon economy, creating equal opportunities for all, and in the development of a fairer, more resilient society. Therefore, we believe that holistic consideration of ESG issues is vital, not only as global citizens, but to ensure sustainable, long-term growth for investors.

What are the main benefits you have seen from integrating ESG into your investment process and portfolio management?

Environmental, Social and Governance considerations have been embedded within our internal business operations for many years, with the adoption of our formal ESG Policy in 2020 proving pivotal to integrating ESG into our investment activities and beyond.

Our shareholders are highly supportive of how we integrate ESG into our investment and management process, which creates better alignment and strengthens our proposition as a publicly traded company. Similarly, ESG has facilitated a great number of different, deeper conversations with entrepreneurs, which enrich our relationship with them and provide a point of differentiation from our competitors.

ESG integration ultimately creates value and increasing attractiveness to investors and, more broadly, we believe that understanding and striving to improve ESG practices within business will contribute towards a more sustainable and prosperous future for all.

What advice would you give to those firms just starting on their ESG journey?

An ESG journey is just that: a journey, so whilst it may seem quite overwhelming at the outset, it is important to avoid looking too far ahead, and instead focus on simply making a start.

Knowing where to start can itself be a challenge, and at the beginning of our journey we engaged external consultants to perform a high-level gap analysis and assist us to develop an initial 12-month roadmap. This process was really helpful in breaking down our long-term ambition into manageable milestones with some initial 'easy-wins' and other short-to mid-term goals that we could work towards and achieve whilst taking the time we needed to build out our longer-term strategy.

Our first 'milestone' was to create a multi-disciplinary and diverse ESG Working Group with representation across all parts of our business tasked with delivering our ESG roadmap. Creating this type of group with diversity of thought is key to making tangible progress but will only succeed if there is also early buy-in from top-level stakeholders. Getting management support early is critical, and it is our shared top-down commitment across the business that has proven vital to the successful development and delivery of our ESG policy.

What is the business most proud of with regards to your ESG strategy and implementation process?

Here at Molten, our motto is to 'make more possible' and we are proud to be utilising the unique opportunity we have to help our portfolio companies integrate ESG early-on and set the foundations for sustainable, long-term growth. We believe in the democratisation of venture capital and will continue to use our platform to promote this, integrating ESG and responsible investment throughout our journey. Whilst we are proud of where we are and the acknowledgement we are receiving for our efforts, we recognise there is still more that we can and will do, to ensure our internal operations and those of our portfolio are making a positive contribution to a future which is sustainable, fair and accessible to all.

Top Performers

Scottish Equity Partners

1st

Scottish Equity Partners (SEP) is a specialist technology growth equity investor, operating across the UK and Europe, with over 21 years' experience. Its portfolio includes a range of high-growth enterprise software, consumer internet and tech-enabled service businesses.

Its Responsible Investment Group, consisting of senior staff members, oversees SEP's approach to embedding ESG into its investment processes through its Responsible Investment Policy. The RI Policy draws upon the UN PRI (to which SEP is a signatory), UN SDG, OECD Principles of Corporate Governance, and several other sources. SEP's tailored KPI framework helps identify opportunities for development, set value creation objectives for ongoing board level review and share best practice across the portfolio group, such as SEP's proprietary Growth Series events and Women in Tech Leadership network.

Catherine Simpson

Chief Operating Officer

'We encourage all our portfolio companies to promote a rewarding, responsible and inclusive culture for growth, believing this can support them to attract and retain world class talent and form a strong platform for value creation, including access to new markets, brand enhancement, new product development and employee engagement. We are ultimately aiming to build strong, resilient and sustainable businesses, with a focus on creating long-term value for all stakeholders and the communities in which they operate. We have established a Responsible Investment Group and embedded a culture of responsible investment across the entire investment lifecycle. This integrated approach has helped enhance assessment of prospective investments and increase engagement with portfolio companies on ESG themes. We work with management teams to incorporate ESG considerations into tailored value creation plans and by monitoring and recording ESG data across our portfolio, can regularly assess performance against agreed objectives. In all cases, responsible business practice has been pushed up the board agenda.

Our advice to firms starting out in their ESG journey would be to determine the appropriate blend of sustainability and governance for your own business. An ESG strategy is more likely to be successful if it is focused on the areas which can offer greatest impact for your firm. That is why we prepared our own bespoke responsible investment framework which covers the three key themes (Culture, Society and Governance) which we consider most relevant to the growth stage technology businesses we invest in.'

Top Performers

Balderton Capital

1st

Balderton Capital is a UK-based investment firm with over two decades of experience investing in early-stage and growth-stage start-ups in Europe. Balderton has $6.4bn in AUM across the information technology and fintech sectors. Balderton applies 10 of the UN's SDGs within its Sustainable Future Goals (SFG) Framework. The SFGs include environmental (urgent climate action, responsible consumption, green cities, and renewable energy), social (fairness and equal opportunities, gender equality, diversity and inclusion, good health and well-being, and lifelong learning), and governance axes (highest ethical and governance standards, and data rights are human rights). The framework guides Balderton's ESG strategy by applying all 10 SFGs across all three dimensions of their firm: Internal Operations, Portfolio Companies, and Investment Decision Making. Balderton is also a signatory to the UN PRI to guide investment processes.

Balderton. capital

Lakestar Ventures

1st

Lakestar Ventures is a venture capital firm that invests in early and growth-stage digital and technology companies. Its strong performance across all four areas of the VC Index is reflective of its comprehensive and embedded approach to ESG. It is a signatory to the UN PRI and is committed to investing responsibly. ESG is integrated into its investment decision-making process, risk assessments, ownership practices, and disclosure requirements. Lakestar Ventures holds both itself and its portfolio companies to high ESG standards. In-house, it measures and offsets its carbon footprint and manages resource use consciously in an effort to become carbon neutral.

Colin Hanna

Partner, Balderton Capital

'A year has passed since Balderton adopted our Sustainable Future Goals (SFGs). More than simply a framework, our SFGs are an OKR (Objective & Key Result) tree that maps across Balderton along three axes: our internal operations, our investment decision making, and the Balderton portfolio.

These OKRs are organised within our ten SFGs, which were modelled after and inspired by the UN SDGs. The reason we opted to use an OKR tree as our impact framework for ESG was to ensure that as we embarked upon our ESG journey at Balderton, we prioritised a bias to action. ESG efforts can sometimes become exercises in marketing. By holding ourselves accountable to specific actions we hope to challenge that convention. A clear rubric also means we can grade ourselves objectively along the way.

Alongside the global efforts related to fighting COVID-19, what the last year has taught us is that our behaviour can and has changed profoundly. As societal and business norms shifted, we also began to make dramatic changes to our individual preferences. Any big societal change begins with individual actors, be they people, firms or industries. Once we overcome COVID-19 we will continue to be confronted with the challenges of climate change, gender equality, inequality and unequal access to the basic tools required to compete in tomorrow's economy. Many of our portfolio companies are already tackling these issues, either with the products and services they build or through how they are choosing to build their companies.'

Top Performers

Vickers Ventures

1st

Vickers Venture Partners is an international venture capital firm focusing on early stage and growth capital investments globally. Vickers has over £2.25bn in AUM across the technology sector, including biotechnology, life sciences, media and telecommunications, lifestyle and fitness, digital payments and foreign exchange. Vickers incorporates an ESG Feedback Loop which considers industry best practices from external sources and learnings from three parts: internal discussions on each deal, discovery during due diligence and findings during the investment stage and consequent reviews. Their external approach covers the entire portfolio life cycle. In pre-investment, Vickers is developing a scorecard to positively screen ESG risk and value-adding factors to complement current exclusionary factors.

During the investment stage, corporate engagement aligns the firm's ESG framework with Vicker's ESG Policy. Monitoring and reviewing during the post-investment stage allows them to track ESG performance. Vickers also assesses portfolio companies against the UN SDGs and discloses these within its ESG report. Vickers embeds ESG factors into its internal processes with current targets, actions and next steps, including diversity metrics, employee commitment to ESG, training and professional development and having its own Advisory Committee to resolve conflict in fund operations.

VICKERS VENTURE PARTNERS

Dr Petros Farah

Vice President

'At Vickers we are deep-tech investors backing companies with proprietary technologies to address the biggest problems we face today as a society, such as health, energy, pollution and others. We believe that these high-impact companies have the potential to be the biggest winners of the next decade. Naturally, such technologies are not only impactful but have very large global markets.

As early-stage investors, we invest in our companies through the time of their biggest uncertainties, which also means their periods of most significant change and growth. We believe that having an ESG framework in place helps guide our companies through this phase to achieve long-term, sustained growth. As long-term investors we recognise the importance of cogent and coherent ESG policies to instil long-term thinking within both our firm and our portfolio. At Vickers we believe that investing capital in a sustainable, compliant and impactful manner will lead to the best financial returns for our investors.

We see ESG as a process, not just an outcome. Working with early-stage companies, one-size rarely fits all and our ESG framework considers both the stage and sector of our companies. Having the right ESG metrics in place is beneficial, as it helps to guide the management of the companies we invest in.

However, we are mindful not to create undue overheads on our portfolio. Striking this balance in venture can be tricky which hence allowing for feedback in the process is important so that our ESG practices can iteratively evolve to find that balance.'

Top Performers

Atomico

1st

Atomico is an international investment firm with a particular focus on Europe at Series A and beyond. Partnering with over 100 ambitious teams, Atomico helps disruptive technology companies scale globally and has expanded to £5bn in AUM. Atomico has embedded ESG governance within its own operations which is guided by its ESG Task Force. ESG forms an integral part of Atomico's investment process, including pre-investment due diligence, which may include external experts if necessary, and post-investment engagement, monitoring and improving of the company's ESG performance.

Atomico is also a UNPRI signatory and commits to their guidelines in relation to responsible investment practices, which are included in quarterly and annual reporting. Atomico participates in a carbon offsetting programme and achieved Carbon Positive certification, which it aims to maintain. Atomico's governance of social issues is equally impressive. Its Diversity and Inclusion Taskforce has continually driven and tracked progress internally and externally, and has published a Diversity and Inclusion in Tech Guidebook for entrepreneurs to assist with D&I performance amongst new starters.

Oakley Capital

1st

Oakley Capital is a Western Europe-focused investor specialising in supporting the growth of mid-market and lower mid-market companies. It recognises that ESG factors are increasingly integral to the operations of its portfolio companies and themselves, posing both risks and opportunities for value creation. Oakley's ESG Policy fulfils all four aspects of the VC Index and demonstrates a strong ESG proposition. Responsible Investing principles are fully embedded within the life cycle of its investments and implementation are overseen by senior partners and the Head of Sustainability. Transparency is a cornerstone of Oakley's responsible investment approach and it is committed to reporting ESG performance annually in accordance with the UN PRI.

Top Performers

Oxford University Innovation

1st

Oxford University Innovation is a subsidiary of the University of Oxford, responsible for creating new technology ventures based on academic research generated within the university and offering financing opportunities for investors. It strives to contribute to the vision articulated in the University's Strategic Plan which aims to "benefit society on a local, regional, national and global scale" and has embedded ESG within its operations and investment approach.

Many of its ventures have a sustainability focus, including green and clean technology, and social enterprises with an impact mission to bring about positive societal, environmental or cultural change. Oxford University Innovation has also implemented an array of sustainability initiatives in-house such as carbon offsetting and improved waste management. It participates in the Green Impact Scheme run by the National Union of Students and was awarded Gold+ in 2019 and a Project of the Year award for its innovative initiative which aims to plant a tree for every company developed.

Cambridge Innovation Capital

1st

Cambridge Innovation Capital (CIC) is a UK-based venture capital firm with an affiliation to the University of Cambridge and has invested in over 30 companies. CIC has over £300m in AUM across life sciences and technology sectors, including artificial intelligence, internet of things, quantum technologies, autonomous systems, therapeutics, MedTech/diagnostics, digital health and genomics/proteomics. As a Series A investor, CIC recognizes the opportunity to instill best practices across early-stage companies.

Through its ESG Policy CIC has adopted best practices within its internal operations through energy efficiency, waste management, company culture, diversity and inclusion recruitment management, and governance compliance. CIC also embeds ESG externally through active engagement and proactively seeking investment opportunities in companies that can accelerate the transition to a low-carbon economy. CIC also ran an ESG workshop in 2021 and is developing an ESG toolkit to support portfolio companies in implementing ESG factors into their strategies. CIC is a signatory to the UN PRI to help guide decision-making within investment management processes through the Investment Committee, which considers ESG issues through the lifecycle of investment process, including pre-investment, follow-on investments and exits.

Top Performers

Equinor Ventures

1st

Equinor Ventures is a global investment firm whose corporate venture arm is dedicated to investing in early phase and growth companies. Equinor Ventures has over £200m in AUM across the following sectors: manufacturing, information technology, energy, renewable energy, oil and gas.

Equinor Ventures excelled across all four of the index's components. Equinor Ventures has extensive ESG frameworks in place outlining its strategy and performance within the Sustainability Approach. It includes ESG factors within its management systems, including corporate governance principles, performance and reward framework, risk and impact management and active engagement with suppliers and partners. Some of its commitments include carbon neutral operations by 2030, net zero by 2050, health, safety and security KPIs and social impact risk assessments. ESG is embedded into the investment process through scenario analysis and an internal CO_2 price to assess the robustness of investment proposals. Equinor Ventures is aligned with several ESG benchmarks and standards, including the GRI Standards, TCFD, Climate Action 100+, UN Global Compact and UN SDGs.

Frog Capital

1st

Frog Capital is a European investor in ambitious growth companies with over 15 years' experience. Frog Capital has over $278m in AUM across the software technology sector, including financial services, healthcare, property and business. Its Responsible Investment Policy ensures responsible and appropriate business practices in each part of the investment cycle. RI is integrated into decision-making through risk and opportunity screening pre-investment, and portfolio-wide engagement post-investment.

As a minimum standard, Frog Capital uses the UN Global Compact Principles to identify significant ESG impacts in potential investment opportunities. At the firm level, it embeds ESG into its values, culture, governance processes, including equality and diversity factors. Since 2017, Frog Capital has formally reviewed its portfolio company's investment theme against the UN SDGs and their approach to ESG.

Venture Capital Case Study: Molten Ventures

Molten Ventures embraces ESG integration, positioning the company at the forefront of ESG for the VC industry. Its approach is underpinned by a recognition of strong links between ESG, return on investment, and development of best-in-class technology, as well as a vision of the future that is "sustainable, fair and accessible to all".

The business and its portfolio companies are held accountable to high ESG standards which are outlined in its ESG Policy. However, Molten Ventures understands that there is a long road ahead to fully embed ESG and there is a need for continuous improvement to rise to new challenges.

Responsible Investment

By embracing sustainable practices and standards, Molten Ventures recognises that its portfolio companies have the power to change the world in a positive way. For this reason, Molten Ventures requires founders and management teams to commit to embracing a set of target ESG standards in their business activities, covering a range of ESG issues including carbon, diversity and inclusion, and business ethics. Molten Ventures aims to encourage sustainable growth during and beyond the investment lifetime, thereby enhancing the competitive advantage and reputation of its portfolio companies.

ESG is embedded within the investment process, from pre-investment to ownership and exit. Pre-investment, there are three stages of ESG evaluation:

- Certain sectors are excluded from direct investment at the outset in line with the company's Exclusion Policy.
- Eligible investments are then assessed for ESG opportunities, risks, compliance, performance, and commitments, using a risk scoring system.
- Where low scores are obtained, enhanced screening is conducted to flag material risks. Any issues identified will be raised with the Investment Committee and Legal Counsel for a decision to be made on whether the risk is acceptable and how it should be managed.

During the ownership phase, Molten Ventures collaborates with its portfolio companies to improve their ESG standards, engaging primarily through the means of one-to-one interactions, ESG-focused events, networking opportunities and training. Molten Ventures maps each company against the UN SDGs and then works with the management team to formulate proportionate and company specific ESG metrics and strategies for ongoing monitoring.

Progress made during the lifetime of an investment will be captured at exit and distilled into a coherent narrative.

In-house ESG

Molten Ventures leads by example by also embracing good ESG practices within its own operations. The cornerstones of its internal ESG approach are reducing and offsetting greenhouse gas emissions, embracing diversity and inclusion, and maintaining high levels of governance and ethical integrity. Molten Ventures is a UN PRI signatory and reports portfolio company ESG data to the PRI annually and has committed to making disclosures against the TCFD framework.

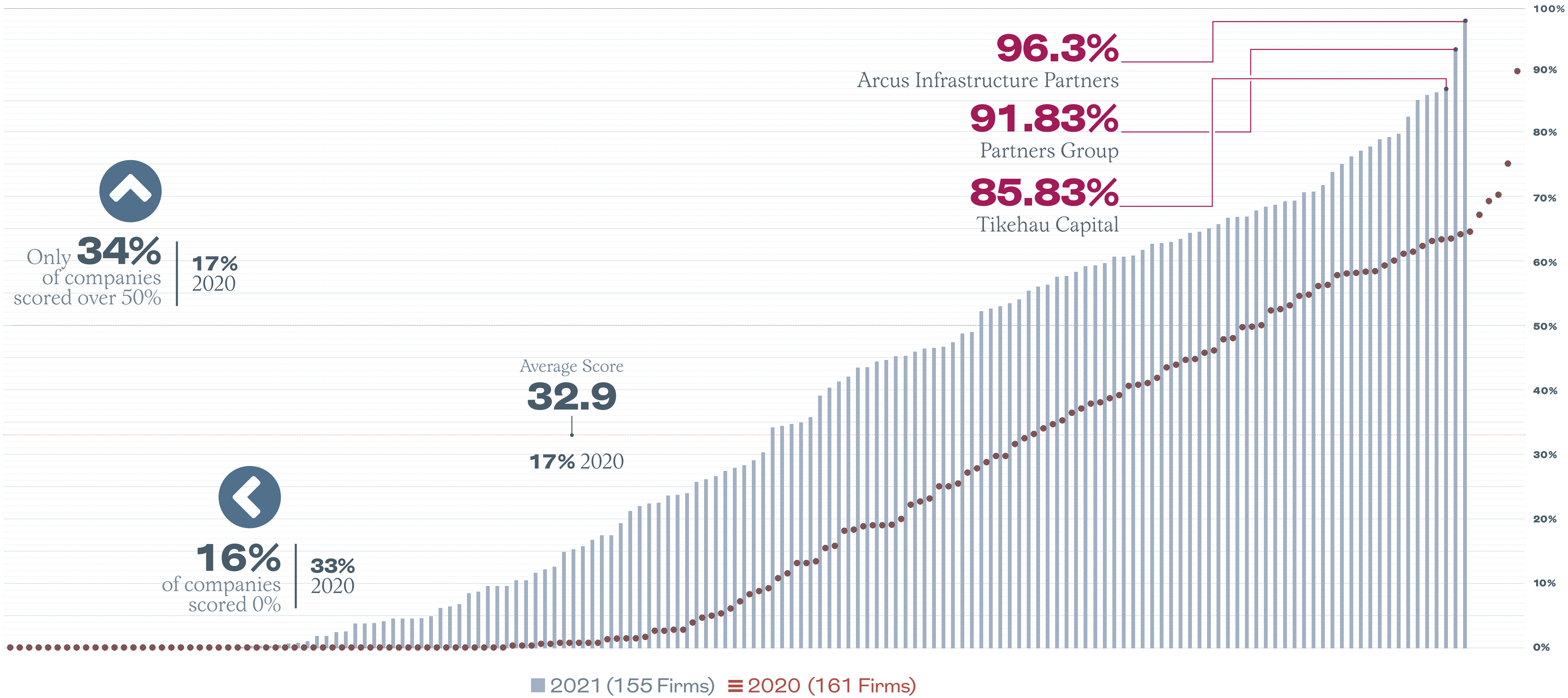
Findings

Photo: Paul Gilmore / unsplash.com

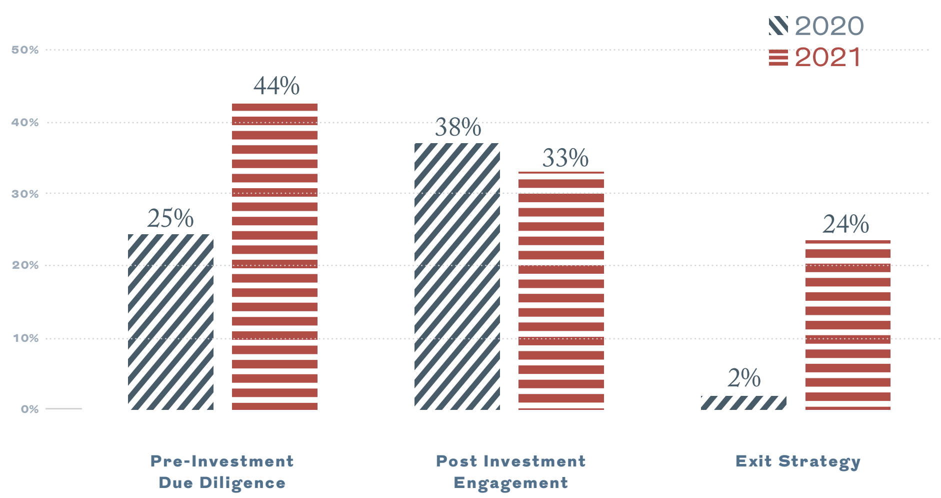
Private Equity Findings

ESG transparency for the PE industry as a whole has improved across all measurable indices since our report last year. The number of firms scoring more than 50% has doubled, whilst the number of firms scoring zero has halved. The average ESG score has increased by 56% on 2020's average and the 2021 top performer (Arcus Infrastructure Partners) scored 7.1% higher than the 2020 top performer (3i). Clearly, ESG disclosure is no longer for the aspirations of the few.

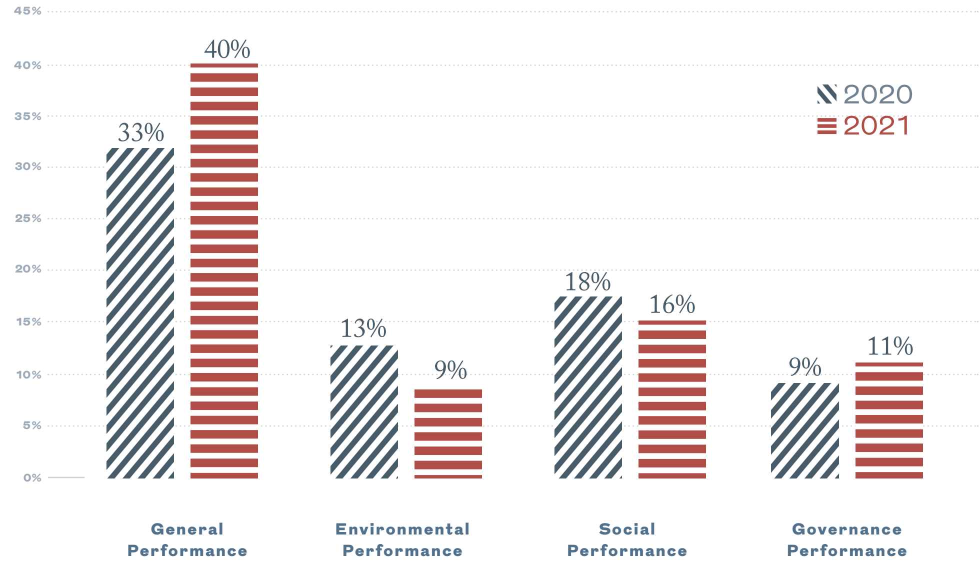
Finding 1 – ESG Transparency has improved since 2020



Finding 2 – Integrating ESG in the investment portfolio is a greater focus than in-house



Responsible Investing

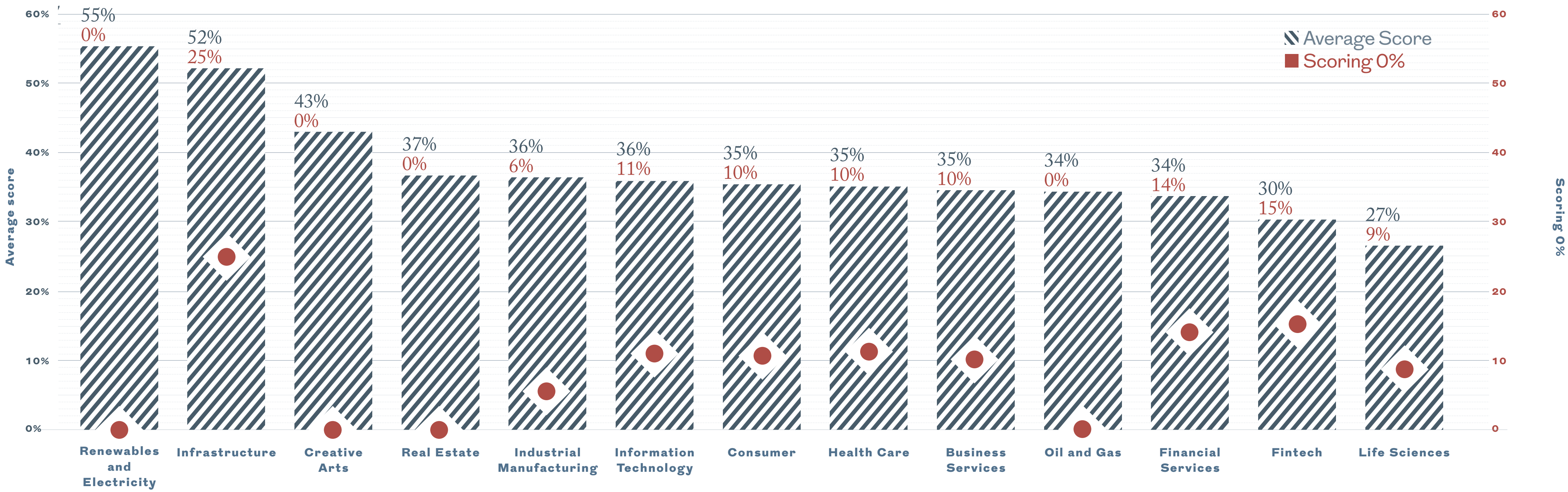


In-house ESG

PE firms generally scored better in disclosing ESG considerations integrated into their portfolio investments than for the PE firm itself. Pre-investment due diligence led the way, with 43.5% of PE firms setting baseline ESG performances and conducting screening processes, approximately doubling since our 2020 Index. General Performance scored second highest at 40.4%, covering alignment to ESG benchmarks (UN PRI, TCFD, GRESB, etc.) and publication of key ESG policies and statements. Although three sections experienced lower ESG transparency than in 2020, these could be explained by an improvement in the methodology, with more criteria being added to each section. The lowest scoring sections related to E, S and G internal disclosures, suggesting that there is considerable room for improvement, such as disclosing initiatives that reduce energy consumption, improve gender and diversity performance, and integrate sustainability at board level. The overall increase in ESG transparency since 2020 outlined in Finding 1 can be explained by the substantial increases in two sections of the Responsible Investing component, as this component represented the majority of marks available in our 2021 Index.

Finding 3a – Distribution by Investment Sector

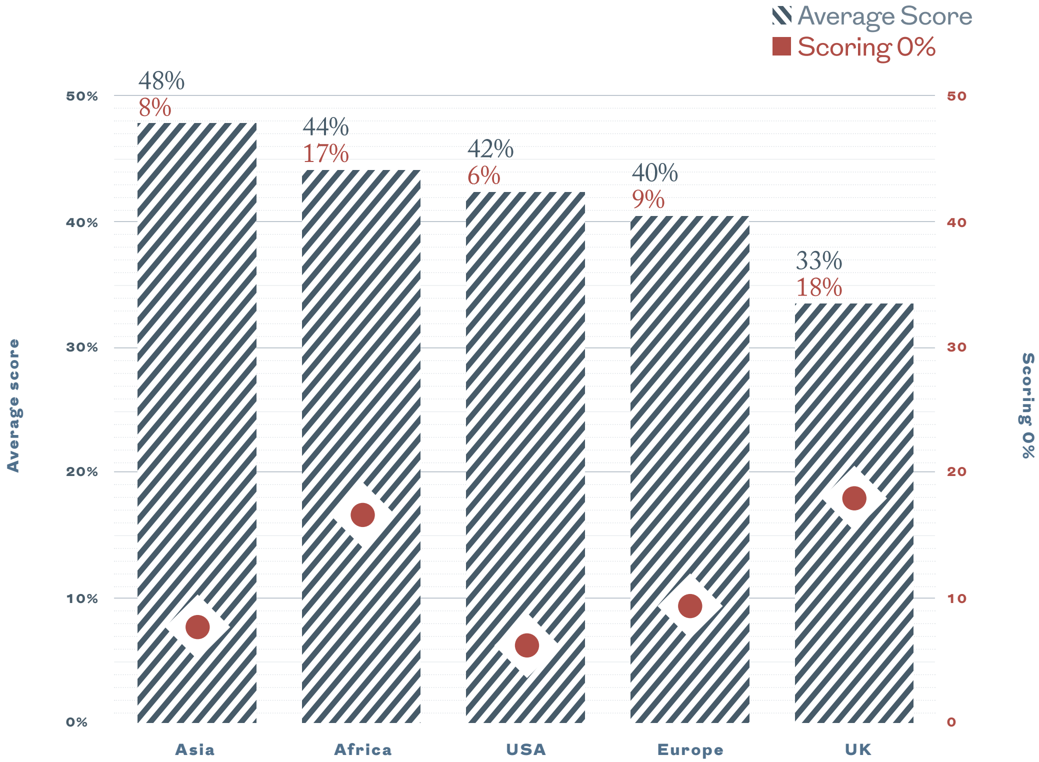
The relationships between the average ESG score of PE firms and their Investment Sectors and Geographies were explored. PE firms can invest in one or multiple sectors and geographies.



Some investment industries are associated with higher ESG scores, such as renewables & electricity and infrastructure. This may be because the renewables industry has risen in relative tandem to the rise of ESG, and infrastructure is already a strictly regulated industry. Surprisingly, 25% of PE firms investing in infrastructure scored 0% on our Index, suggesting that those who did score, scored well. PE firms investing in fintech and life sciences scored less well on average.

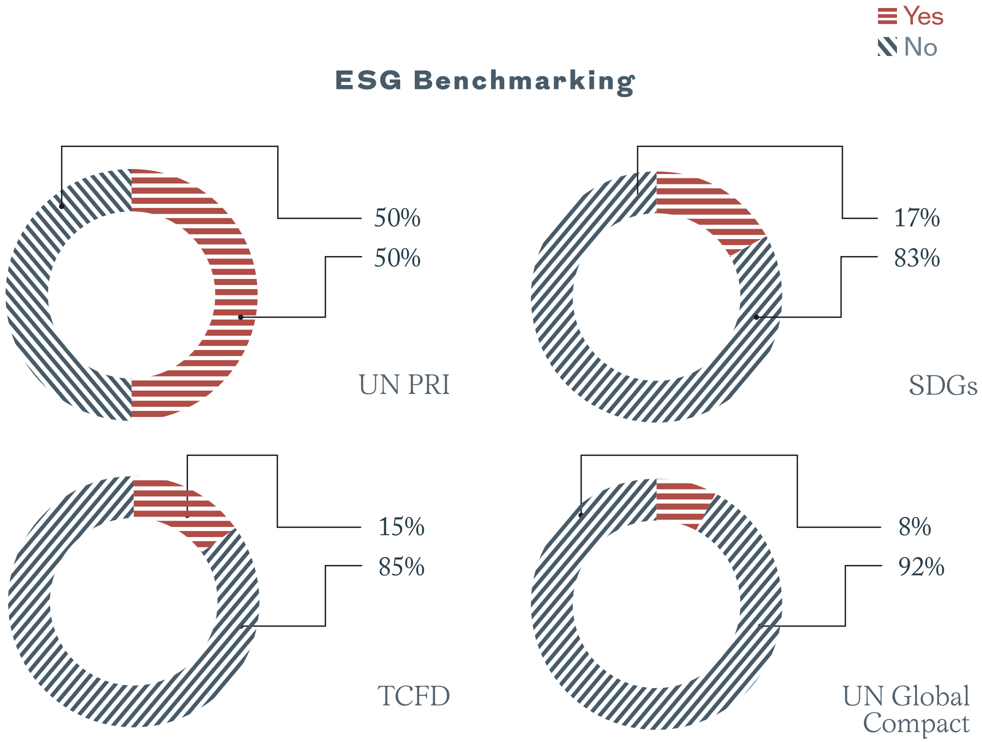
Finding 3b – Distribution by Investment Geography

PE firms in our Index invested in 5 different geographies. Firms investing in Asia tended to score the highest, with an average score of 48%, with only 7% of firms not scoring on our Index. Perhaps unexpectedly, firms investing in the UK tended to score lowest (33% average), with 18% of firms not meeting any of the ESG criteria on our Index. However, more firms in our Index invested in the UK than in any other geography, so this performance may be a truer reflection of the average ESG score across the entire Index (as described in Finding 1).



Finding 4 – New agendas, new priorities

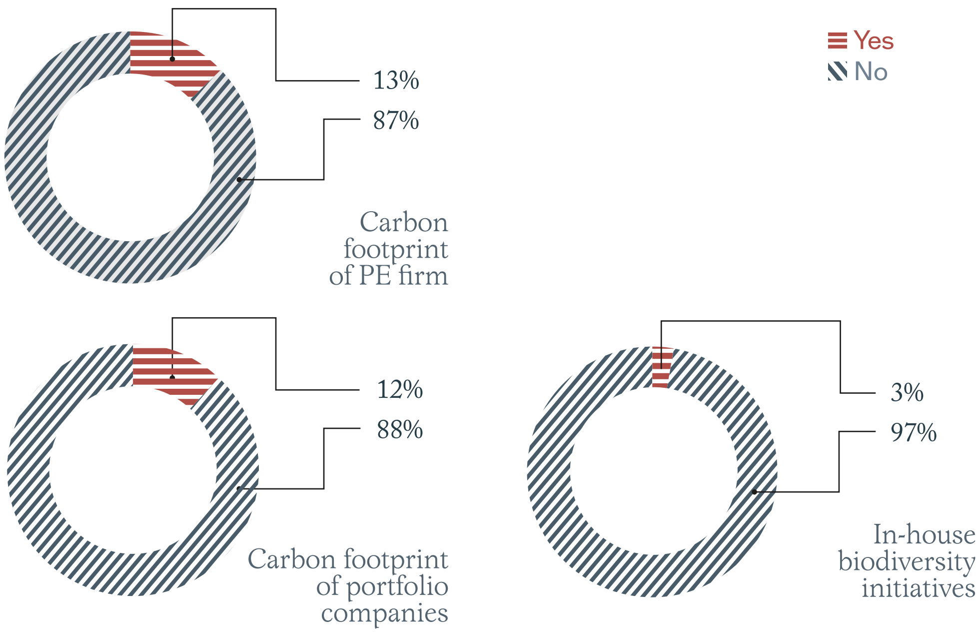
In the wake of COVID-19, the COP26 climate summit, and increasing regulations in the UK sustainability industry, PE firms, like all firms, must adapt to survive and build resilience to thrive. This section outlines the current state of the PE industry regarding the disclosure of ESG considerations that have gained increased public attention in 2021.



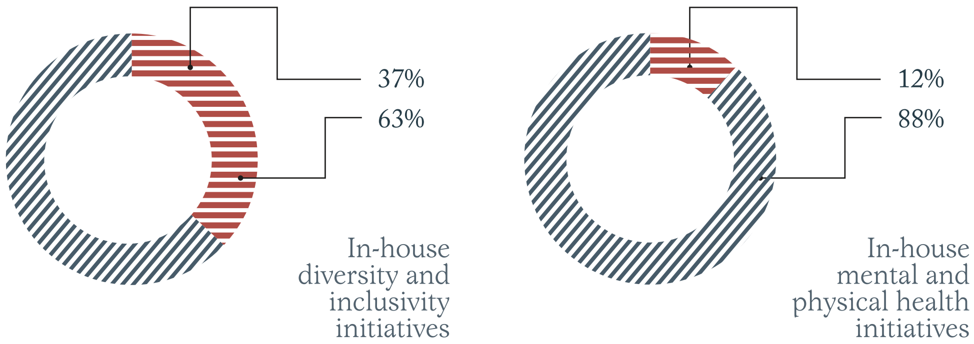
A total of 26 different ESG-related benchmarks, standards, and guidelines were referenced, with the four most commonly referenced shown above. 50% of the PE firms are signatories of the UN Principles for Responsible Investment (UN PRI), making it by far the most popular. Already building resilience against future legislation, 15% of the PE firms have disclosed their climate-related risks and opportunities in line with the TCFD framework. Notably, 17% of VC firms and 8% of PE firms are also aligning their operations to the Sustainable Development Goals and UN Global Compact, respectively. Examples of other benchmarks and standards referenced include GRESB, CDP, FTSE4GOOD, Bcorp and Initiative Climat International.

The Glasgow COP26 summit in November 2021 has focused cross-industry attention on climate change. Within the PE industry, attention should now focus on how PE firms can decarbonise their operations, particularly from their investment portfolios. In 2021, we found that 13% of PE firms have calculated the emissions from their operations and 12% for their portfolios. We hope to see this improving next year, with firms setting science-based targets to ensure they reduce their emissions in line with the Paris Agreement's 1.5°C target. With the release of the Taskforce for Nature-related Financial Disclosures due later this year, we also hope to see a greater proportion of the PE industry actively supporting biodiversity initiatives and nature-based solutions.

Environmental initiatives



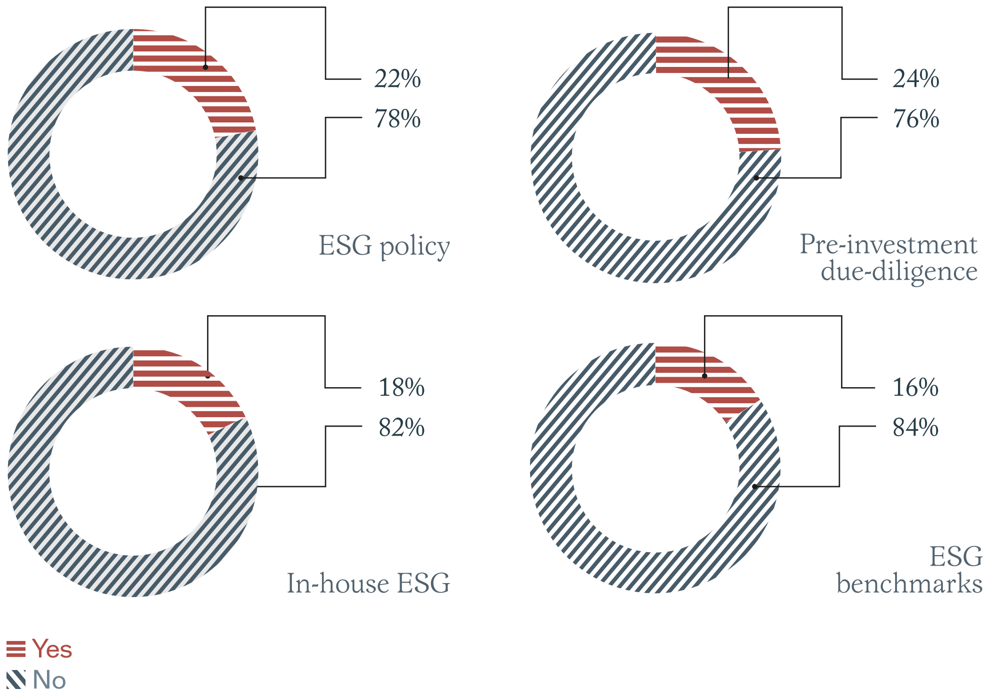
Social initiatives



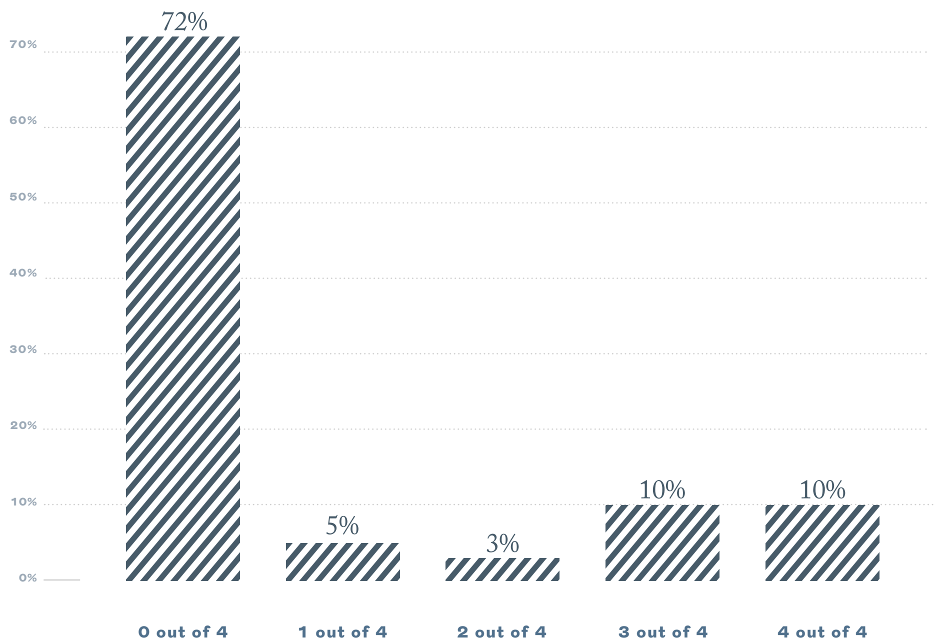
We found that one-third of PE firms have publicly disclosed their diversity and inclusivity initiatives, such as setting Key Performance Indicators (KPIs) on increasing management positions for women and ethnic minority groups, or supporting Black and Asian leadership programs. Additionally, and perhaps in recognition that some of our struggles are not visible, 12% of PE firms show that they are actively promoting mental health for their employees through benefit schemes, paternity leave, mindfulness and exercise programmes.

Venture Capital Findings

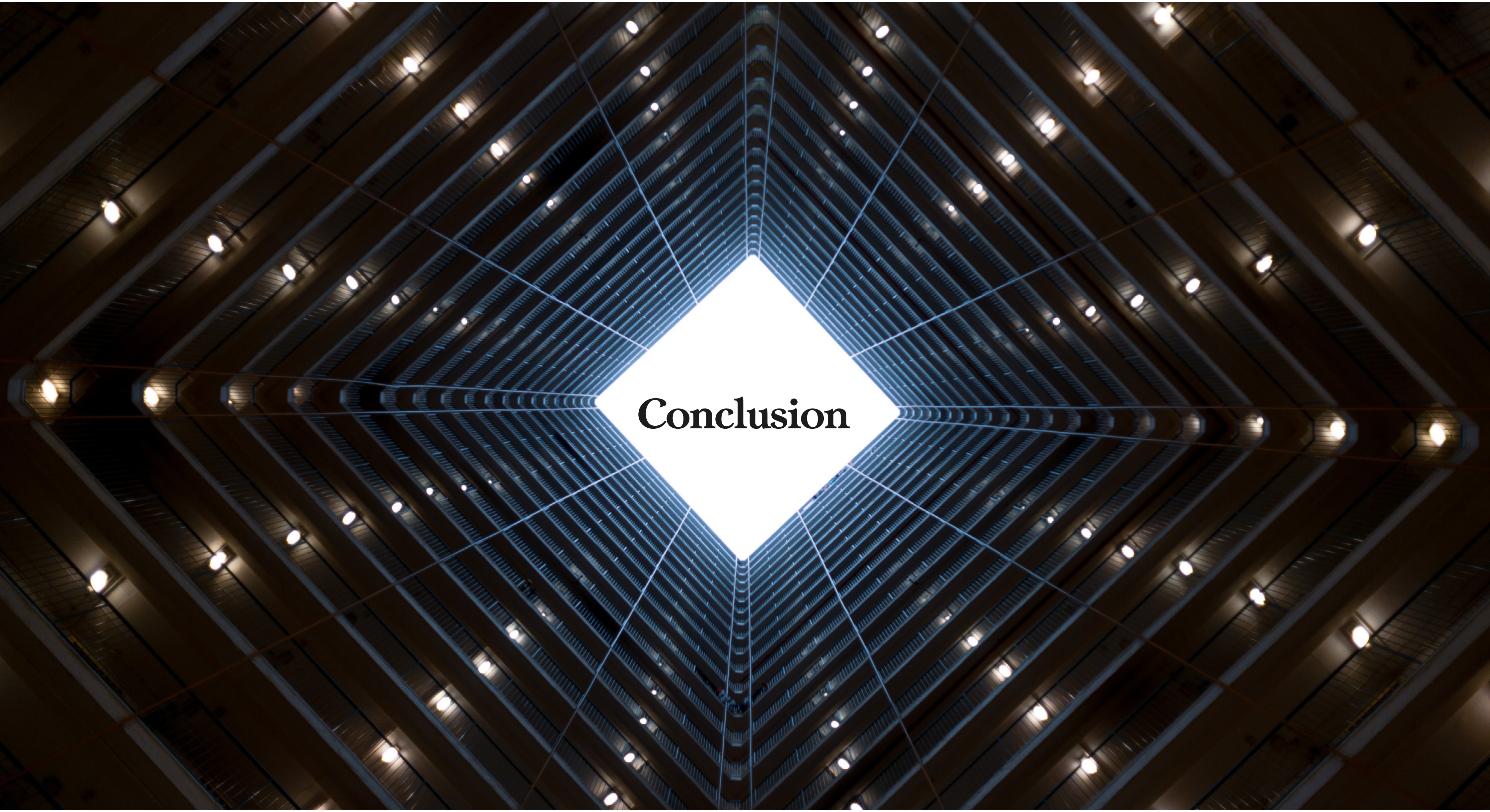
Introducing 122 Venture Capital firms into our ESG Transparency Index this year, we looked at four key criteria (see below). ESG in the VC sector is relatively less developed than in the PE sector, but is equally as significant. For a start, ESG could be a key USP for start-ups to gain grant funding and attention from prospective customers and investors. We found that between 16-24% of the VC firms surveyed showed evidence for each ESG consideration, with pre-investment due diligence being the most common. However, most VC firms (72%) showed no evidence of any of ESG considerations on their website, while 10% of VC firms satisfied all four criteria, performing way ahead of the majority.



Key criteria results



Number of criteria satisfied



Conclusion

Photo: Kirklai / unsplash.com

Conclusion

In this second year of research our results again showcase the top performing PE firms, and for the first time we have also included VC firms. We have looked at how they communicate and manage their ESG performance and practices as well as emerging trends in terms of material ESG vectors considered and approaches taken to Responsible Investment and In-house ESG policies when compared to the previous year. Below summarises some of the key themes identified:

ESG Strategy and Performance Disclosure is becoming the Norm

What is great news, and the first most notable trend for PE firms, in comparison to 2020 is that more are now adopting and disclosing their responsible investment practices and ESG performance, and that ESG performance across all components, considered as part of the Index, has increased. It is apparent that it is now becoming the 'norm' for PE firms to disclose ESG performance and practice data, reasons for which may vary from regulatory risks, stakeholder and/or societal pressure. Either way, it is quickly becoming apparent that PE firms who are not yet disclosing are at risk of falling behind the curve.

Consideration of Climate Change Risks is still in its Infancy

Whilst progress is apparent in terms of PE firms embedding ESG into their business operations and investment decisions, it is clear that a number of PE firms are still at the beginning of their ESG journeys. In the wake of COP26, climate change remains a material risk to the finance community as we transition to a low carbon economy. Regulation in terms of climate change risk and greenhouse gas (GHG) disclosure is increasing, with the TCFD framework becoming mandatory for some in 2022. However, it appears that the PE sector is still in the infancy of identifying how climate change risk and opportunities impact them with only 15% aligning with the TCFD framework. As we transition to a low carbon economy, requests for disclosures of this nature by interested stakeholders and regulation is only going to intensify. It is therefore imperative that PE firms start to understand their risk and opportunities associated with climate change.

Photo: Daniel Newman / unsplash.com

Increased focus on the 'S' of ESG

It has become evident over the last few years that there has been more focus on the 'S' of ESG. This may be in part due to the COVID pandemic acting as catalyst and shining a spotlight on staff welfare, mental health and social inequalities. Within the PE community especially, there has been a lot of focus on diversity and inclusion. This is supported by the results of the PE index research which indicates 1/3 of the PE firms considered publicly disclose their diversity and inclusion initiatives and are actively monitoring and measuring their performance against this material ESG vector.

Emerging ESG Vectors

With the COP15 Biodiversity conference just around the corner, the biodiversity emergency is quickly moving up the agenda and we are likely to see increased requests from interested stakeholders and regulators for biodiversity related disclosures. The Task Force for Nature-related Financial Disclosures (TNFD) is developing a framework to encourage financial related biodiversity disclosures as it becomes increasingly apparent that Climate Change and Biodiversity Loss are intrinsically linked. Evidence to date indicates that the financial risks associated with biodiversity loss are still not yet fully appreciated by most but momentum around the topic is certainly gathering and gaining in importance. This theory is supported by the results of the index which indicate a small proportion of the PE firms assessed disclosed biodiversity related initiatives. We look forward to seeing this key ESG theme evolve over the coming years and further disclosures being made.

Photo: Danist Soh / unsplash.com

Venture Capitalists using ESG as tool for Value Creation

The final and most interesting trend and addition to our 2021 ESG Transparency Index relates to the public disclosure and inclusion of ESG considerations in the investment process by the VC sector. This sector is increasingly recognising the opportunities created by having a value-creating ESG strategy embedded into their investment approach and portfolio companies as well as their own in-house ESG policies. Whilst our analysis within this sector was purposely high level to reflect the infancy of ESG considerations by VC firms, the fact that 10% of firms assessed satisfied all four criteria (and a further 10% satisfied three criteria) shows that some have already made good progress with embedding ESG considerations into their investment approaches. Reasons cited by some of the top performers for doing so include; its ability to create a 'strong platform for value creation; including access to new markets'; its ability to build 'resilience' and 'create long term value'; as well as creating an approach to measure, monitor and communicate meaningful performance and impact.

Photo: Simon Wilkes / unsplash.com

The Future

With increasing risks to organisations from issues such as climate change, biodiversity, social inequalities, and supply chain shortages, to name but a few, our research shows that ESG is no longer a 'buzz word' but is increasingly seen by the finance community as a tool to develop long term business resilience and investment value creation. It is clear that regulation to increase ESG related disclosure and prevent ESG greenwashing (such as the EU's Sustainable Finance Disclosure Regulations) and stakeholder pressure is only going to escalate. Therefore, the PE firms who are yet to adopt and disclose their ESG practices are at risk of falling behind the curve, whilst the leaders can monopolise on the opportunities created and manage their exposure and trajectory.

Congratulations to this year's top performers for their exemplary approaches to communicating their ESG approaches and performance. We look forward to seeing how the PE and VC sectors continue to communicate and build upon their ESG approaches and performance over the upcoming year, as well seeing what material ESG trends emerge as the finance community adapts to the risks and opportunities created by the greening economy. We also hope that the PE and VC firms still to disclose their ESG performance and practices can use the findings of this Index to help understand what is currently best practice in the development of a strong value-creating ESG strategy.

Photo: Peter Nguyen / unsplash.com

ESG Research Methodology

The ESG Transparency Index 2021 follows a similar methodology to last year's Index, but with an extended scope. Most notably, the latest edition also includes an assessment of VCs, and some amendments have been made to the ESG Transparency Index to capture emerging trends in the ESG landscape.

Population selection

Participating companies for this study were sourced from the BVCA membership directory, the industry representative body for PE and VC firms in the UK. The following criteria were established to define the bounds of the participant pool:

- Listed as a General Partner (of which there are 344 members)
- Self-described as any of the following: Private Equity, Growth Equity, Venture Capital and/or Impact Investor
- Have a publicly accessible website
- Disclosed Assets Under Management (AUM) > £0.2bn and < £50bn.

These criteria left a list of 277 BVCA members that represent the population for this analysis. The companies were placed into two categories based on their alignment with either traditional PE or VC houses. This decision was influenced by a degree of subjectivity, however, self-described PEs and Impact Investors (IIs) were typically incorporated under the PE Index and self-described VCs and growth equity firms were generally included within the VC Index.

Ultimately, 155 companies were assessed against the PE Index and 122 companies were assessed using the VC Index. See the full list of companies in Appendix 1 and Appendix 2 respectively.

Assessment Criteria

Companies were assessed between July and August 2021 based on publicly available information sourced through their websites. This includes, but is not limited to, information found via annual reports, ESG policies, Corporate Social Responsibility reports, sustainability portals, and links to external sources directly correlated with the subject company. Transparency provides a signal to the market that ESG issues are pertinent to the core values of the business.

Private Equity Index

Each company was scored against 73 questions ('criteria') across two overarching components: Responsible Investment and In-house ESG. Answers to the questions are binary (i.e., Does the company have an ESG policy: Yes/No?) and a 'Yes' is only awarded if the assessor finds evidence that can be unequivocally linked to the question.

Responsible Investing questions review the transparency of the investing company's ESG engagement across the investment lifecycle, and are focused on their portfolio companies:

- Pre-investment due diligence
- Post-investment engagement
- Exit plan

In-house ESG questions assessed the effectiveness with which investment firms integrate ESG in-house, across five key criteria and are focused on the PE firm itself:

- Reporting
- KPI setting
- Practicable initiatives
- Policies
- External certification/benchmarking.

Photo: Joao Silveira / unsplash.com

Venture Capital Index

The new Venture Capital Index consisted of a shorter assessment, reflective of the fact that most VCs are in the early stages of ESG integration. However, the aim is to expand future assessments to include more granular data as the VC industry embeds ESG further.

Participants were assessed against four general criteria to determine the level of ESG integration across their business and portfolio:

- ESG policy, report and/or commitment
- Integrate ESG considerations into investment decision making and/or portfolio company engagement
- Address ESG issues relating to in-house business operations
- Alignment with ESG Benchmarks, Standards or Agencies.

Weighting and Scoring

Private Equity Index

Each company was provided a score out of 100 based on binary responses to the criteria outlined above. To arrive at question scores, weights were first given to the two overarching components, then sub-weights were allocated to each of their sub-categories, before scores were assigned at the individual criteria level. The high-level weights assigned to the broadest categories are outlined in Table 1.

Table 1: 2021 Private Equity weighting

Component	Component Weighting (%)	Section	Section Weighting (%)
Responsible Investment	70	Pre-Investment Due-Diligence	30
		Post-Investment Engagement	30
		Investment Exit Plan	10
In-house ESG	30	General Performance	12.5
		Environmental Performance	2.5
		Social Performance	7.5
		Governance Performance	7.5

At the highest level, the Responsible Investment category was assigned a 70% weighting as it is seen as the area where PE firms can add the most value through implementing strong ESG due-diligence procedures, active ESG management and a sustainable exit policy. In-house ESG practices are likely to have proportionally less impact due to the lean operating models of PE firms. PE investors are likely to be exposed to lower levels of ESG risk than many of their portfolio companies, due to their typical small office spaces and workforces, hence the weighting of 30% for the In-house ESG component.

The high-level weightings of 70% and 30% for the Responsible Investment and In-house ESG components respectively were changed slightly from last year (75% and 25%, respectively). This was intended to increase the relative importance of in-house ESG practices, in response to emerging ESG trends which are presenting significant new challenges and opportunities for PE and VC houses. To further reflect these trends, new criteria were added to the In-house ESG component in relation to carbon reduction targets, carbon footprinting, biodiversity, ESG benchmarks and frameworks.

For the Responsible Investment component, pre-investment due-diligence and post-investment engagement were given an equal weighting of 30% as these practices are deemed by the study authors to be of equal importance in adding long-term value and mitigating ESG risk for portfolio companies. The weighting of the investment exit plan was modified based on last year's assessment in line with the principle of continuous improvement. This section was reduced to 10% (from 25%) based on feedback from the industry regarding the relative importance of the exit phase.

In terms of the In-house ESG component, the weighting of the general section was increased to 12.5% to fully capture the importance of alignment with ESG benchmarks, standards and frameworks as they become an increasingly prevalent way for PE and VC firms to compare their ESG performance and communicate to stakeholders. The Environmental Performance section was weighted lower (2.5%) than the Social Performance and Governance Performance sections (7.5%) due to the fact that PE firms (from our experience) typically have small environmental footprints.

Venture Capital Index

The VC Index consisted of the four components outlined in Table 2. Following similar principles to the PE Index, the Responsible Investment category was weighted the highest as this is the area where VCs can exert the most influence, and the In-house ESG component was weighted the lowest to reflect the low relative impact of VC firms' internal operations. ESG Policies & Statements and External Certification & Benchmarking are considered of a similar level of importance so were given an equal weighting of 25%.

Table 2: 2021 Venture Capital weighting

Component	Component Weighting (%)	Component Score
ESG Policies & Statements	25	25
Responsible Investment	35	35
In-house ESG	15	15
External Certification & Benchmarking	25	25

Quality Control

Each answer was justified by a link to, or an extract from, the applicable company's website. This enabled regular quality checks to be carried out to verify that each assessor was consistent in their regard for what constitutes a Yes/No response to each criterion.

Our services: Orbis Advisory

Orbis Advisory is a boutique business consultancy providing energy, sustainability & wellness advisory services to businesses and their assets.

Through our wide range of services, we help our clients integrate ESG into their business, create innovative and responsible solutions for their key assets, and put people and planet first. Our work is designed to deliver sustainable value through market insight, cost reduction, operational efficiency, and risk management. We take pride in our technical expertise, strong commercial understanding of clients' business priorities and entrepreneurial spirit.

Strategy

We offer strategic environmental & social governance (ESG) advice that reflects your way of doing business, aligns with your corporate strategy and is easy to communicate to key stakeholders.

Measurement & Reporting

An essential step in a robust energy & sustainability plan which will identify where the material emissions are within your business, asset portfolio, products & services or supply chain.

Compliance & Risk

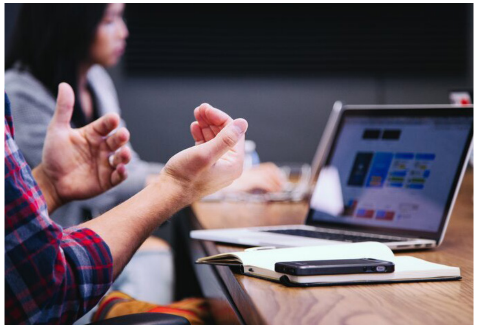
Our team of experts have a thorough understanding of the current legislation which applies to your business and will work towards futureproofing you against impending legislative changes.

Health & Wellbeing

The biggest asset your business has is its people - the biggest asset they have is their health & wellbeing - so it makes good business sense to look after it.

Benchmarks & Frameworks

We help your organisation choose the most appropriate benchmark and help you through the process from the corporate level right down to your companies individual assets or office spaces.



Communications & Engagement

We assist you to carry out stakeholder engagement which is focused, provides clear recommendations for sustainability strategy and delivers guidance on developing competitive advantage at the same time.

orbis

Putting People & Planet First

Our services: ITPEnergised

We're passionate about net zero

ITPEnergised is a leading, international consultancy offering renewable energy, natural resources, environmental, engineering, risk management, technical advisory and asset management services across a number of sectors, including onshore renewable energy and storage, offshore renewables, energy transition and the corporate, industrial and manufacturing sectors. We are a team of industry leading trusted technical advisors who aim to meet and exceed our clients' aspirations, targeting growth markets and clients.

With roots in renewable energy and technical investment due diligence, ITPEnergised is uniquely placed to offer bespoke ESG services to the investment community and provides client-focused, reliable, commercially minded ESG consulting services. ITPEnergised works with UK and international financial clients to develop and implement effective sector-focused ESG policy and strategies, supporting the bottom line and achieving cost-savings, risk management, opportunity identification, and efficiency improvements.

We are big enough to provide our clients with the depth and strength of knowledge and experience they need, but small enough to deliver dedicated client-care and hands-on delivery. We also work with a wider network of trusted experts when required.

ITPENERGISED

GRESB

As an industry supported ESG benchmark well recognised in the private market space, GRESB was pleased to be asked by ITPEnergised and Orbis Advisory to review their second annual 'ESG Transparency Private Equity and Venture Capital Index 2021'. Created in 2009, GRESB is the global ESG benchmark for financial markets. We are a mission-driven and industry-led organization that provides actionable and transparent environmental, social and governance (ESG) data to financial markets. Our Assessments capture information regarding ESG performance and sustainability best practices for real estate and infrastructure funds, companies and assets worldwide.

While we have specialised in real assets for many years, we are broadening our focus to other private markets..

The Private Equity and Venture Captial Index, the subject of this report, is an assessment of firm level practices based on publicly disclosed information. Now in its second annual iteration, we welcome the initial level of benchmarking rigour that the index brings at the PE firm level. We see positive parallels with our own **Real Estate** and **Infrastructure** Public Disclosure benchmarks which evaluate the level of ESG disclosure by listed real estate and infrastructure companies based on publicly available sources. In mapping the Private Equity and Venture Capital Index to our own GRESB Standards for Real Estate and Infrastructure, we find roughly 70% coverage of the Index indicators by GRESB - a strong endorsement that the methodology is aligned with industry standard ESG metrics.

Based on our own experience, disclosure of ESG information by private equity firms can be limited, but this is clearly changing, and early efforts like the PE index must be recognised for helping to advocate for both greater transparency and enhanced ESG practices. In particular it is pleasing to see the number of firms scoring zero (i.e. no disclosure) has halved since last year and the number scoring more than 50 has doubled. This mirrors the sort of improvement in disclosure and ESG improvement that we saw in the early days of the GRESB Assessment for real estate and infrastructure firms.

These findings show that the PE industry is early on its ESG journey in comparison to more mature asset classes like Real Estate and Infrastructure, but moving rapidly in response to societal pressures. This is consistent with other reports and media interest over the past two years and what we are hearing from GRESB members.

The various testimonials in this report demonstrate the growing awareness from leading private equity firms that environmental, social and governance issues are highly interrelated and that the biggest benefits over time accrue to companies that balance efforts between all three. These firms recognize that consumers, regulators, employees and sources of capital are ramping up demands for change and, in many cases, rewarding it. ESG disclosure can satisfy investor needs, futureproof firms to coming regulatory developments, and bring an increased focus on these matters by employees, thus opening up new opportunities for risk management and value creation.

In Europe, the first wave of ESG regulation is no longer a future concern - it is imminent and mandatory, with the EU SFDR and the UK TCFD regulations on our short term horizon. GRESB is addressing the need for firms to comply with these regulations at the fund and portfolio company level by developing new products, not only for Real Estate and Infrastructure, but also for Private Equity. We look forward to building upon the great work of the Private Equity and Venture Capital Index to accelerate the progress on ESG in the wider private market space.

GRESB

Rick Walters
Chief of Standards and Innovation, GRESB

Appendix 1 - Private Equity Index Companies

3i

A
AfricInvest
Agathos
Albion Capital
Alchemy Partners
Alcuin Capital Partners
Aliter
AnaCap Financial Partners
Anthemis
Apax
Apera
Apiary Capital
Apis
Apposite Capital
Arcus Infrastructure Partners
Astanor
Astorg
August Equity

B
Baird Capital
BC Partners
Beaupost
Bestport
Bethnal Green
BGF
Blue Frontier
Bluegem
Bootstrap Europe
Bowmark
Bregal Investments
Bridgepoint
Bridges Fund Management
Brookstreet

C
Cairngorm Capital
Caledonia Investments
Causeway Capital Partners
CBPE Capital
CDR
Charme
Charterhouse
Cinven
Circularity Capital

D
Downing
Duke Street
Dunedin

E
Earth Capital
ECI Partners
Elysian Capital
EMK Capital
EMV Capital
Endless LLP
EOS Investment Management
EPIC Private Equity
Epiris
Equistone
ESO Capital
ETF Partners
Exponent PE

F
Financial Services Capital
Fordhouse
Fortunis
FPE Capital
Francisco Partners
Freshstream

G
G Square
General Atlantic
GHO Capital
GP Bullhound
Graphite Capital
Growth Capital Partners
Guinness AM

H
Helios
Herald Investment Management
HG Capital
Highland Europe
Horizon Capital

I
ICG Asset Management
IK Investment Partners
Inflexion
Inspirit Capital
Inverleith
IW Capital

J
JZ International

K
Kester Capital
Key Capital Partners
Kings Park Capital

L
LDC
Lightrock
Livingbridge
LLCP
Lonsdale Capital Partners

M
Maven Capital Partners
Mayfair Equity Partners
Mercia
MML Capital Partners
Monta Capital
Mustard Seed

N
Nesta
Next Wave Partners
Nordic Capital
NorthEdge
NVM

O
Omers Private Equity

P
PAI Partners
Palamon
Palatine
Partners Group
Penta Capital
Permira
Perwyn
PHD
Phoenix Equity
Piper
Praesidian
Primary
Providence Equity

Q
Quadrivo

R
Resonance
Riverside
RoundShield
Rutland Partners
Ryse

S
Salonica
Silverfleet
Smedvig
Solingen Private Equity
Souter Investments
Sovereign Capital Partners
Stage Capital
STAR Capital
Stirling Square
SV Health Investors
Synova

T
TA Associates
TDR Capital
Tenzing
Terra
The Firmament Group
Three Hills
Tikehau Capital
Towerbrook
Triton
True Global
Two Magnolias

U
Ufi

V
Verdane
Vespa Capital
Vision Capital
Vitruvian Partners
Volpi Capital

W
Waterland
Weight Partners Capital
West Bridge
West Hill

Y
YFM Equity Partners

Z
Zouk

Appendix 2 - Venture Capital Index Companies Companies

01 Ventures
1818 Venture Capital
4BIO Ventures Management
7percent Ventures

A
Abingworth
Accel
Active Partners
ALSA Ventures
Amadeus Capital Partners
AP Ventures
Ascension Ventures
Atlantic Bridge
Atomico

B
BACKED Venture Capital
Balderton
Beringea LLP
Better Tomorrow Ventures
Biocity
Bleinhem Chalcot
BP Ventures
Breed Reply
Brighteye Ventures

C
C5 Capital
Calculus Capital
Cambridge Innovation Capital
Channel 4 Ventures
Claret Capital
Concentric
Connect Ventures
Crane Venture Capital
Crowberry Capital

D
Dawn Capital

E
Edge
Eight Roads
EKA
Epidarex
Episode 1
Equinor Ventures

F
Felix Capital
Finch Capital
First Imagine!
Flerie
Four Seasons Ventures
Frog Capital
Fuse Venture Partners

G
GMG Ventures
Great Point

H
Haatch
Hambro Perks
Hiro Capital
Houghton Street Ventures
HSBC Ventures

I
i3
Imagine Capital
Index Ventures
InMotion
IQ Capital
IQT

J
JamJar

K
Kamet Ventures
Kernel Capital
Kindred Capital

L
Lakestar
Lego Ventures
Love Ventures

M
M12 Ventures
Magenta Partners
Midven
MMC Ventures
Mobeus
Molten Ventures
Mott Macdonald Ventures
MVM Partners

N
NCL Tech Ventures
Nexus Investments
Northstar Ventures
Notion

O
Oakley Capital
Old College Capital
OMERS Venture
Optum Ventures
Outlier Ventures
Outsized Ventures
Outward
Oxford Capital
Oxford Sciences Innovation
Oxford University Innovation
Oxx

P
Par Equity
Parwalk
Pembroke VCT
Pentech
Playfair Capital
Praetura Ventures

R
REV

S
Saudi Aramco Energy Ventures
Scottish Equity Partners
Seedcamp
SFC Capital
Shackleton Ventures
Socii Capital
Sova
Speedinvest
Station12
Summit Partners
Superseed
Sussex Place Ventures
SVK Crypto
Symvan Capital
Syndicate Room

T
Target Global
Technology Venture Partners
Techstart
TempoCap
Tern PLC
TMT Investments

U
Unilever Ventures

V
Vaultier7
VGC Partners
Vickers Venture Partners

W
White Horse Capital
White Star Capital

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