

PRESS RELEASE: Capstone survey highlights growing ESG conviction among private equity LPs worldwide

New survey reveals evolving LP attitudes to ESG as it becomes an increasingly significant value driver, differentiator and motivator

July 15, 2021: According to a new survey of 140 global LPs conducted by leading independent global placement agent Capstone Partners (“Capstone”), European investors continue to lead the way on ESG, demonstrating clear objectives and focus when investing in the private markets. However, ESG conviction is globally high and whilst LPs in North America and Asia Pacific have lagged in the adoption of ESG principles, their responses show that implementation is now accelerating in all regions.

North America
Dallas, Texas

New York, New York

Europe
Nyon, Switzerland

London, United Kingdom

Asia
Singapore

One size does not fit all. Capstone’s survey highlights that there are regional differences in how the different elements of ESG are prioritized. For European LPs, Environmental concerns are most prominent. Social considerations top the priority list for North American LPs, particularly as they relate to diversity and equality; and Governance is the key focus in Asia Pacific.

In the wake of COVID-19, ESG is increasingly seen by LPs as a value driver and not just a risk management exercise. As a result, many LPs now maintain active contact with GPs in order to monitor the implementation of ESG policy. The survey shows that Europe is ahead of the curve in this area with 64% of respondent LPs taking a direct and hands-on approach with GPs to assess their ESG capability. Although North America and Asia Pacific are less advanced with 59% of respondents in Asia Pacific and 52% in North America making their assessment through document review, Capstone expects to see an increasing level of direct LP-GP interaction on ESG matters.

Although higher performance is still the primary motivator for many LPs, Capstone’s survey illustrates that LP willingness to trade lower performance for excellent ESG credentials is material (27% globally and 29% in Europe). According to Capstone, LP dissatisfaction with ESG may be reflected in the secondary market with ESG focused LPs motivated to divest positions in funds where they perceive ESG efforts to be lacking.

A third (34%) of LP respondents expressed an opportunistic view on the trade-off between performance and ESG, and would choose either one depending on the investment case. This is in turn exerting pressure on GPs to demonstrate and measure the ESG value-add of their investments and processes.

For the majority of LPs, the key criteria for determining GPs’ ESG credentials is the extent to which good practice is integrated into the investment process. 64% of European LPs are focused on this, with Asia Pacific (59%) and North America (48%) not far behind. Nearly one-fifth (19%) of European LPs currently look at specific ESG metrics, in contrast to just 4% in North America and 9% in Asia; and expectations for ESG implementation during the 100-day plan are still low but emerging.

Furthermore, LP thinking shows that ESG is no longer contained to portfolio companies, with GPs under mounting pressure to embrace higher standards of ESG within their own investment organizations. North American LPs take a notable stand on this, given their focus on the Social aspects of ESG. Capstone’s survey revealed that 39% of US LPs focus on the ESG metrics of the management company.

According to LP respondents, it is with ESG metrics, measurement and reporting that GPs are considered to struggle most.

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Inadequate attention to ESG can come at a cost. The trend to request opt-out options for ESG reasons is gaining traction with LPs, particularly in Europe where 37% of respondents will ask for them. As these opt-out options are increasingly accepted by GPs, Capstone expects to see this tool increasingly used by North American and Asia Pacific LPs to educate their GPs on ESG.

Discrete pools of capital for dedicated ESG investments in private equity are still an early trend, with just 15% of global LPs currently putting them in place. However, this is set to accelerate in all regions, and especially in Asia Pacific where almost half (44%) of respondents are expecting specific pools of capital to be created.

Steve Standbridge, Managing Partner and President of Capstone Partners, which focuses on raising capital for private equity, credit, real asset and infrastructure firms around the world, said:

"There is no doubt that ESG has emerged as a fundamental underwriting criteria for private equity investors worldwide. North American and Asian GPs and LPs may have been slower to the table but the ubiquity of these factors in current fundraising due diligence and the findings of our ESG LP survey show that implementation is accelerating in all regions."

"Our LP survey makes a clear call to action for GPs: to proactively define and implement an ESG policy that reflects the profile of their investment organization and their underlying portfolio companies. In this way, they can demonstrate their commitment to ESG to potential investors and, more importantly, develop world-class businesses that drive better returns."

Tiffany Howard, Principal at Capstone Partners and leader of the firm's ESG efforts, added:

"We see a growing appreciation of the underlying benefits and a broad acceptance that good stewardship of our environment, a more diverse and fairly compensated workforce and responsible governance are hallmarks of world-class organizations. These are important drivers of greater innovation within the private equity industry, which is increasingly focused on creating real-world ESG successes over paper victories."

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About Capstone Partners

Founded in 2001, Capstone Partners is a leading independent global placement agent focused on raising capital for private equity, credit, real asset and infrastructure firms. The Capstone team includes 40 experienced professionals in North America, Europe and Asia Pacific.

For additional information about Capstone Partners, please visit www.csplp.com.