

ESG Trends: From Check the Box to Thinking Outside the Box

Capstone surveyed LPs around the world and found notable regional differences in their priorities toward E, S, and G

ESG considerations are becoming among the most important for LPs, but investors in different regions have different priorities. Capstone surveyed 140 LPs from a range of institutions across North America, Europe, and Asia and found notable differences in their ESG priorities and current market trends.

Europe has long recognized the significance of climate change and continues to lead the way – environmental considerations have highest priority among European LPs. US investors are shifting their focus to social issues and workforce equality, paying particular attention to DE&I (diversity, equity, and inclusion). LPs in Asia are prioritizing corporate governance, which is particularly important in venture and growth.

Different Focuses and Approaches

European LPs are the most actively engaged with a GP's ESG profile. Over two-thirds of European LPs said their investment teams are in direct contact with the GP when carrying out ESG due diligence, in contrast to 50% of US and 59% of Asian LPs who carry out their ESG assessment purely by reviewing documentation. European LPs are deepening the integration of ESG into their investment considerations.

A small but significant 14% of European LPs (vs. 9% in the US and 5% in Asia) will prioritize a GP's 100-day improvement plan and how they integrate ESG KPIs, with a further 19% of European LPs (4% US and 9% Asia) requiring key reporting metrics to evaluate the company's progress against ESG goals. This demonstrates more European LPs are using ESG integration to not just mitigate risks, but to identify value creation opportunities and improve returns.

Evaluating ESG Metrics

As the market becomes more sophisticated, more specific metrics are being developed by LPs. Custom



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ESG questionnaires and GP ESG policies, reports, and guidelines are the most common specific metrics looked at by LPs. We anticipate these developing in the future and being rolled out globally, following the European trend.

North American LPs may take a more passive approach at the portfolio level than Europeans, but 40% say they're actively prioritizing ESG at the GP level. Data at the fund level is easier to measure and just 3% of LPs in Europe consider it a priority dataset. North American LPs have been rapidly accelerating their analysis of ESG issues over the course of 2021, and that trend is expected to continue.

An Evolving Methodology

To conclude, ESG factors are clearly gaining momentum as part of the methodology for evaluating an investment. Europe leads the way in transitioning ESG considerations from a compliance 'check the box' to a 'thinking outside the box' value creation tool – uncovering investment potential in metrics not previously prioritized. The question is now: Will a common methodology for ESG analysis emerge and, if so, will the different regions converge on their priorities to see the E, S, and G as inextricably connected?

Founded in 2001, [Capstone Partners](#) is a leading independent placement agent focused on raising capital for private equity, credit, real assets, and infrastructure firms from around the world. **Tiffany Howard (née Bourgoïn-Heskia)** is responsible for fundraising and client origination in the UK, France, Belgium, Luxembourg, Italy, Spain, and Portugal. Tiffany also leads the firm's ESG efforts.