



Snapshot

ESG Programs and Practices of the Ten Largest PE Firms

September 2023

ESG and impact investing advisory with the goals of value enhancement and risk management.

Blue Dot Capital is a sustainable finance consultancy. We partner with investment management firms to support the end-to-end development and execution of ESG and impact investing programs, capabilities, and products.



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Introduction

We are pleased to share our inaugural snapshot of the environmental, social, and governance (ESG) programs and practices of the world's ten largest private equity (PE) firms (per Private Equity International's **2023 PEI 300** ranking).

10 firms **\$731 billion** raised in last five years

2023 PEI 300 top ten PE firms included in this snapshot:

The combined assets of the ten largest PE firms span nearly all investable geographies and industries, and we believe a snapshot of the ESG practices of these firms is representative of how ESG practices of the broader private markets ecosystem have evolved in recent years and of the areas of focus for the future.

We reviewed publicly available ESG policies, annual ESG and sustainability-aligned reports, and other information (such as firm websites, regulatory filings, press releases, etc.) of the ten PE firms, distilling insights on their ESG policies, processes, and initiatives. All materials referenced are the latest versions available as of June 30, 2023.

Our analysis shows variation in how the ten largest PE firms are structuring, resourcing, integrating, and reporting on ESG across their organizations and investment strategies, echoing the range of approaches in the space. However, a few commonalities did emerge: six firms have disclosed setting emissions reduction targets for at least some funds and/or strategies, seven firms publish Task Force on Climate-related Financial Disclosures (TCFD)

-aligned reporting for at least one of their investment vehicles, and all ten firms are signatories of the Principles for Responsible Investment (PRI).

As strategic consultants to private markets investors, Blue Dot continues to keep a close eye on how ESG integration and impact investing approaches in private markets are evolving. Materiality, scalability of processes, and operational value creation are recurring themes in our conversations with executive, investment, and ESG teams of private markets firms. We believe that over the next few years, private markets ESG integration will be marked by the need for efficient, streamlined processes and quantifiable value creation and

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risk management outcomes. Buoyed by technological advancement, policy stimulus, and accelerated learning curves, climate-focused fund formation will continue.

We hope you find this Snapshot helpful to understand how ESG integration processes in private markets are institutionalizing. As always, we look forward to your feedback.

ESG Oversight

Firms' oversight and management structures of ESG programs are key to ensuring accountability and effective implementation. These structures are also examined by allocators, regulators, and other stakeholders.

Nine of the ten firms report that they have heads of ESG or equivalent positions. We found variation in where ESG leads are situated across firm departments – from value creation to portfolio operations to standalone responsible investing departments.

Four of the ten firms report having ESG committees.

Six firms report that they explicitly assign oversight responsibility for ESG to the board, including all **five** publicly listed firms.

In Carlyle's Nominating and Corporate Governance Committee charter, the Committee

"shall provide assistance to the Board by, among other things: [...] Otherwise taking a leadership role in shaping the corporate governance of the Company, including the Company's Environmental, Social, and Governance ("ESG") and Impact strategy (and appointing a member of the Board to serve as the Board's ESG and Impact lead)."

In Blackstone's Governance Policy, the Board of Directors' responsibilities and duties include to

"review the Company's environmental, social, and governance ("ESG") strategy, including on the basis of periodic reports provided by management addressing relevant ESG matters and practices."

EQT AB's 2022 Corporate Governance Report 2022 states,

"The CEO must continuously keep the Board informed of developments in EQT's operations, important business events, as well as environmental, social, and governance issues and risks and all other events, circumstances, or conditions which can be assumed to be of significance to EQT AB's shareholders."

Hg's 2023 Responsible Investment Report states,

"Hg's Board monitors our firm's activities and our portfolio companies' boards monitor the activities of their businesses to ensure that these are compatible with our ESG commitments. The Hg Board annually approves Hg's Responsible Investment policy which includes Hg's Sustainable Business Framework and how ESG is embedded into the deal process."

KKR's 2022 Sustainability Report states,

"Accountability for our sustainable investing efforts extends throughout our Firm, with ultimate oversight by KKR's senior leadership and our Board of Directors (KKR Board). KKR senior executives regularly report on these activities to the KKR Board and/or one or more of its committees to whom such responsibilities have been assigned."

TPG's Corporate Governance Guidelines state that,

"The Board may also review the Company's strategic plans, policies, objectives, and risks relating to environmental, social, and governance matters as well as responsible investing and sustainability matters relevant to the Company's business."

ESG Reporting

It is increasingly common for investment management firms to communicate their ESG policies, processes, and progress through a consolidated annual report.

All but one of the ten firms publish an ESG report or equivalent covering details of the firm's operations and investment integration practices. Approaches to determining materiality and reporting on material topics vary.

ESG Standards and Frameworks used by 2023 PEI 300 top ten PE firms



Five firms report leveraging the Global Reporting Initiative (GRI), which is designed to help organizations communicate and demonstrate accountability for their impacts on the environment, economy, and people.

Seven firms publish TCFD-aligned reporting for at least one of their investment vehicles.

Seven firms report leveraging the Sustainability Accounting Standards Board (SASB) Standards to determine financially material topics and/or prepare their ESG disclosures.



Integrating Environmental Considerations into Portfolio Management

Portfolio Emissions Management

Portfolio-level environmental initiatives largely focus on greenhouse gas (GHG) emissions management and reduction.

Six firms have reported setting portfolio-level emissions reduction targets for at least one of their investment funds or strategies.

As stated within Blackstone's 2021 ESG Update,

"In January 2021, we announced our Emissions Reduction Program and started implementing a new goal of reducing scope 1 and scope 2 carbon emissions for new assets where we control the energy usage by 15% in aggregate over the first three years of ownership."

As stated within KKR's 2022 Sustainability Report,

"Supporting decarbonization is a particular focus at three private markets funds that have set net-zero by 2050 goals. In these funds, where appropriate, we are working to support majority-owned companies in developing and implementing business-relevant decarbonization plans that are consistent with a sector and market-relevant ambition to reach net-zero emissions by 2050 or sooner. Outside of these funds, we expect decarbonization to be a key focus for engagement across the portfolio in 2023 and beyond."

According to EQT's Annual and Sustainability Report 2022, the firm has committed to

"ensuring 100 percent of the EQT funds' portfolio companies will have their own SBTs validated by 2030 and 40 percent by 2025."

As stated within Carlyle's 2023 ESG Report,

"In 2022, Carlyle announced a goal to achieve net zero greenhouse gas (GHG) emissions by 2050 or sooner across Direct Global Private Equity and Global Credit investments. In 2022, Carlyle set two near-term goals: "Goal #1" 75% of Carlyle's In-Scope Companies' Scopes 1 and 2 emissions will be covered by Paris-Aligned Climate Goals by 2025; and "Goal #2" Beginning in 2025 all new Direct, Majority-Owned Corporate Private Equity, Energy and Power portfolio companies will set Paris-Aligned Climate Goals within two years of ownership."

As stated within Hg's 2023 Responsible Investment Report,

"Portfolio companies report on their scope 1 and 2 carbon emissions as a minimum and we also encourage them to report on scope 3 emissions, where possible. We have shared the results of the company carbon footprints to portfolio companies, highlighting emissions hotspots and opportunities for reduction. We also advocate for portfolio companies to set science-based targets (SBTs), requiring them to have validated targets by the SBTi, 24 months after the commitment was made."

As stated in General Atlantic's BeyondNetZero 2022 Climate and ESG Report,

"After investment, our portfolio companies are expected to measure their scope 1, scope 2, and scope 3 emissions following the most widely used international accounting standard, the GHG Protocol. Within one year of BeyondNetZero closing an investment, portfolio companies are expected to have submitted a commitment letter to the SBTi. Companies then have two years to develop and submit emissions reduction targets to the SBTi. Progress against these targets is reported every year."

Integrating Environmental Considerations into Portfolio Management

Investing in Climate Solutions

Multiple firms have dedicated pools of capital for climate-focused investments.

In January 2022, Blackstone

“announced the launch of Blackstone Credit’s Sustainable Resources Platform focused on investing in and lending to renewable energy companies and those supporting the energy transition. [...] Across its businesses, Blackstone sees an opportunity to invest an estimated \$100 billion in energy transition and climate change solutions projects over the next decade.”

In April 2022, TPG

“announced the \$7.3 billion final close of TPG Rise Climate, the dedicated climate investing strategy of its global impact investing platform TPG Rise. [...] Since launching in 2021, TPG Rise Climate has been rapidly deploying capital through growth-stage investments in innovative climate solutions.”

In December 2022, General Atlantic

“announced the final close of its inaugural BeyondNetZero fund. Following the fund’s close, General Atlantic has a total of approximately \$3.5 billion in capital to invest in climate solutions. [...] General Atlantic launched BeyondNetZero in July 2021 as the firm’s dedicated climate investment effort, designed to capture the rapidly growing opportunity for growth equity in the climate space.”

Carlyle launched its Renewable and Sustainable Energy platform in 2019. As stated in its 2023 ESG report,

“As of December 31, 2022 Carlyle funds have invested over \$1.45B in renewable and sustainable energy investments.”

Carlyle also states,

“In 2022, we expanded our work in ESG-linked financing to our Global Credit platform by launching a decarbonization-linked financing program in certain Global Credit funds. This distinctive program offers a pricing incentive tied to a borrower’s achievement of decarbonization targets. Since 2022, 10 portfolio companies have participated in the decarbonization-linked financing program; we anticipate this number will continue to increase as we roll out the program across other asset classes, such as infrastructure credit.”

Integrating Diversity Considerations into Portfolio Management

Portfolio company diversity is a topic that straddles the social and governance pillars: while employee diversity, equity, and inclusion (DEI) is generally considered as a component of human capital management, board- and management-level diversity is regarded as a component of corporate governance.

6 firms collect portfolio company board diversity metrics.

6 Firms

4 firms collect portfolio company personnel diversity metrics for at least one of their investment vehicles/strategies.

4 Firms

2 of these firms collect diversity data for portfolio company senior management teams.

2 Firms

KKR's 2022 Sustainability Report states that for KKR Global Impact Strategy,

"senior leadership and employee diversity, equity, and inclusion (DEI) is monitored as follows: APAC and EMEA include gender diversity; in North America, in addition to gender diversity, the term diversity encompasses individuals self-identifying as African American, Black, Hispanic, Latino, Native American, Alaska Native, or Asian American. Metric is portfolio-wide average based on self-reported company data."

EQT's 2022 Annual and Sustainability Report contains Management gender diversity breakdown for EQT funds and qualifies,

"The metrics above cover EQT funds' portfolio companies within EQT Private Equity, EQT Future, EQT Infrastructure and BPEA VII, i.e. the investment strategies where EQT funds typically have control or co-control. Data represents averages from portfolio companies that up until 1 March 2023 had completed EQT's sustainability annual follow-up process for 2022."

Industry Engagement

ESG-focused industry initiatives have grown with the expansion of ESG integration across investment lifecycles. Firms may choose to become members or supporters of industry initiatives to, among other reasons, contribute to the standardization of data and disclosure processes and/or to signal their positions on specific issues to the market.

Industry Initiatives Membership amongst 2023 PEI 300 top ten PE firms



Two firms are signatories of Net Zero Asset Managers (NZAM) initiative: EQT and Hg.

Four firms are ESG Data Convergence Initiative (EDCI) members: Blackstone, Carlyle, EQT, and Hg.

Seven firms are members of Initiative Climat International (iCI): Advent, Carlyle, EQT, KKR, Hg, TPG, and Warburg Pincus.

All ten firms are signatories of PRI. **Three** firms have signed on since January 2022: Carlyle, General Atlantic, and Thoma Bravo.

Impact Investing

Three firms – EQT, KKR, and TPG – have launched dedicated impact investing platforms, each of which has a unique impact thesis.

Per EQT's website,

"EQT Future invests in downside protected, mature market leaders with high profitability and cash generation, while leveraging rigorous impact measurement and management tools to drive impact at scale within Climate & Nature and Health & Wellbeing [...] EQT Future sets portfolio-wide, highly ambitious ESG targets to transform how businesses are operated, also linking parts of carried interest to such targets to create a clear alignment of interests. The targets are supplemented by asset-specific impact KPIs, designed to accelerate positive impact of the company's products or services."

Per KKR's 2022 Sustainability Report,

"As part of our Global Impact strategy, we invest in companies whose core product or service is providing a solution to a critical environmental or social challenge, as defined by the [UN Sustainable Development Goals (SDGs)], thereby driving positive, measurable outcomes or impact."

Per TPG's website,

"Launched in early 2021, TPG Rise Climate pursues investments that benefit from the diverse skills of TPG's investing professionals, the strategic relationships developed across the firm's existing climate portfolio, and the global network of executives and advisors across the TPG ecosystem. Evidence-based research and data will drive investment decision making and guide TPG Rise Climate in constructing a portfolio of companies that can enable carbon aversion in a quantifiable way. TPG Rise Climate will utilize Y Analytics' methodologies, including Carbon Yield – a decision tool that leverages scientific, health, economic, and social science research – to estimate the tons of carbon dioxide equivalent emissions avoided per dollar invested."

Firm-Level Initiatives

Operational Sustainability

Reducing operational emissions through energy efficiency measures in office locations, adopting green lease clauses, and promoting sustainable travel are common focus areas of firm-level sustainability initiatives.

Operational sustainability commitments include:

As stated in Carlyle's 2023 ESG Report,

"On an annual basis, Carlyle measures and offsets the carbon footprint of our operational greenhouse gas emissions inclusive of the following categories: office utilities (Scope 1 and Scope 2), data centers (Scope 2), and employee business travel (Scope 3, category 6)."

Per EQT's 2022 Annual and Sustainability Report,

"In October 2021, EQT's GHG emission reduction targets were formally approved by the Science Based Targets initiative (SBTi). With this, EQT has formalized its GHG emission reduction targets in line with the 1.5°C pathway described in the Paris Agreement and further strengthened its commitment to mitigating climate change. The targets encompass both EQT's own operations as well as EQT funds' investments' operations."

Within Hg's 2023 Responsible Investment Report, the firm states,

"Hg takes its role in climate action seriously. We believe that by better understanding and managing the emerging risks and opportunities that arise from climate change we can enhance our investment decisions. We have aligned our operations and portfolio towards achieving Paris-aligned carbon reduction targets."

We have highlighted a few select operational sustainability measures that have been implemented by the firms:

As stated within Thoma Bravo's 2021 ESG Report,

"In 2021, Thoma Bravo started to use the Databank co-location in Oakbrook, Illinois, as its primary data center. Databank has committed to developing a set of ESG metrics and to report on them annually. In 2021, Databank's overall use of 'zero or low carbon sources' rose from 69% to 80%, with a goal to be carbon-free by 2030."

As stated within Blackstone's 2021 ESG Report,

"We proactively renovate our spaces to provide additional employee amenities and comfort while implementing the most up-to-date efficient lighting and HVAC systems. Our replacement of existing lighting with LED lighting in our New York offices has resulted in a roughly 31% reduction in lighting energy usage. Recent renovations to select floors in New York included new energy-efficient, water-sourced HVAC heat pump systems to reduce reliance on carbon-based fuels for heating. Our London office at 40 Berkeley Square purchases 100% of its power from renewable energy suppliers."

As stated within KKR's 2022 Sustainability Report,

"Our Seoul office was awarded LEED Gold certification in 2022, joining both our Shanghai office and our 30 Hudson Yards office in New York City in achieving LEED Gold certifications. Additionally, our London office at 18 Hanover Square was designed to achieve Building Research Establishment Environmental Assessment Method (BREEAM) Outstanding, the highest level of environmental recognition available for BREEAM. For future projects, KKR seeks to achieve LEED, BREEAM, or Fitwel certifications based on the scope of the projects and what is achievable in the local market."

Firm-Level Initiatives

DEI

DEI initiatives range from board-level diversity efforts to supporting employees through internal professional committees and resource groups.

We have highlighted a few select DEI initiatives that have been adopted by the firms:

As stated within KKR's 2022 Sustainability Report,

"Driving progress in our efforts toward a more diverse workforce starts at the top. To help us realize our strategic priority of creating a more inclusive workplace, we formed the Inclusion and Diversity Council (IDC) in 2014, comprised of senior Firm leaders and co-chaired by our Co-CEOs and our Chief Diversity Officer and Head of Talent Development. The IDC works with the Americas, EMEA, and Asia Pacific regional IDCs, which are collectively comprised of approximately 30 diverse executives at various levels across the Firm, to drive recruiting, promote retention, and maximize external partnerships."


As stated on Carlyle's website,


"Building upon the requirement that at least two diverse candidates be interviewed for each open role, we now require that, in the US, at least one of the candidates is Black, Latinx, Pacific Islander, or Native American."


As stated within Hg's 2023 Responsible Investment Report,

"At the end of 2019, the Hg Board set two gender balance targets, one near- and one medium-term. The first, near term, was to reach more than 30% female executives by March 2021. We achieved 30% female representation within our executive teams in March 2021 and a goal for 35% by March 2022 was set: we are pleased to report that we have achieved this once again. The medium-term target was to reach more than 20% females at the senior executive level, and we are working hard to ensure progress is made year on year here too. This mirrors the target set by Level 20, a not-for-profit organization dedicated to improving gender diversity in the European private equity industry."

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