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About the GP Survey

BACKGROUND & SCOPE



GPs are placing increased importance on environmental, social and governance (ESG) at both the firm- and portfolio-level. The adoption and integration of ESG varies by firm size, asset classes and AUM. Further, GPs' approach to certain ESG topics, such as diversity, equity and inclusion (DEI) and climate change, has even greater variance.

As a leader in the ESG space, it is critical that Malk stay ahead of key trends and the evolution of ESG year over year. Due to this rapidly evolving ESG landscape, Malk launched its inaugural ESG survey to capture the state of ESG across GPs.

Malk aims to capture the state of ESG through the following key areas:

1

ESG
Program
Overview

2

ESG in the
Investment
Lifecycle

3

Diversity, Equity
and Inclusion (DEI)

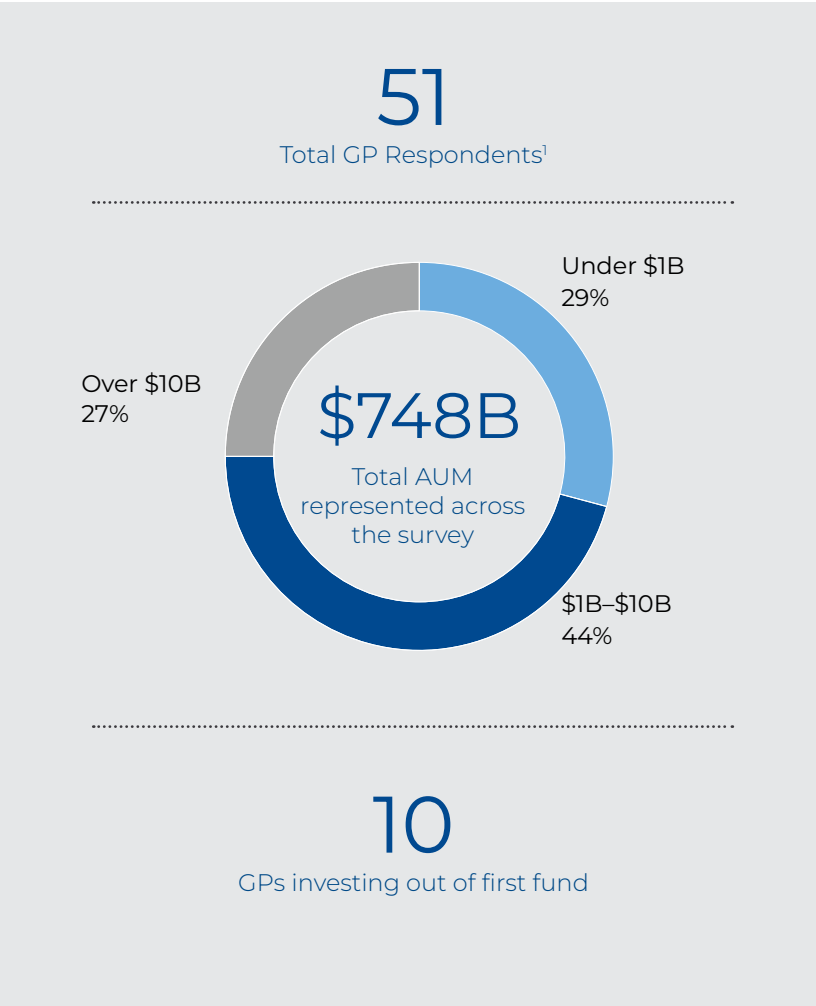
4

Climate
Change

Malk recognizes that maturity of a GP's ESG program varies across a number of factors and sought to draw the most accurate comparisons when analyzing the diversity of responses received. As a result, Malk reviewed and analyzed survey responses across all respondents as well as by asset class and AUM.

About the GP Survey

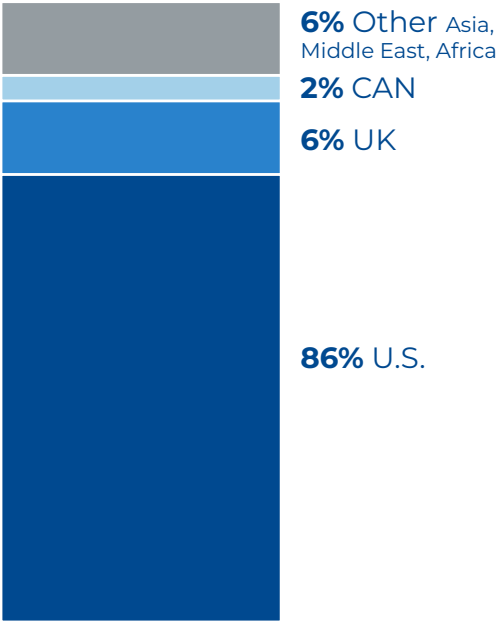
SURVEY RESPONDENT OVERVIEW



TOP THREE INDUSTRY FOCUSES OF GP RESPONDENTS'

- Consumer
- Healthcare
- Technology (Software)
- Aerospace and Defense
- Manufacturing
- Agriculture
- Media and Entertainment
- Real Estate and Services
- Energy
- Retail
- Financial Services
- Technology (Hardware)
- Food and Beverage
- Telecom
- Industrials
- Transportation

GEOGRAPHY



ASSET CLASSES REPRESENTED²

41
Private Equity

17
Private Credit

12
Growth/Venture Capital

4
Hedge Fund

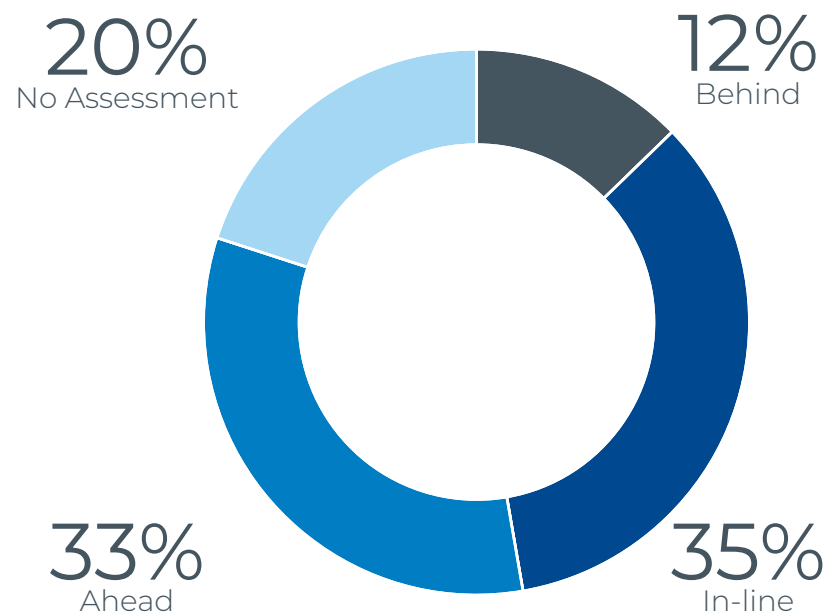
¹ Respondents could opt out of questions throughout; therefore, the total number of respondents by question varies

² Each respondent may have up to three asset classes, with each asset class counted separately; thus, some firms may be represented multiple times in the above statistics

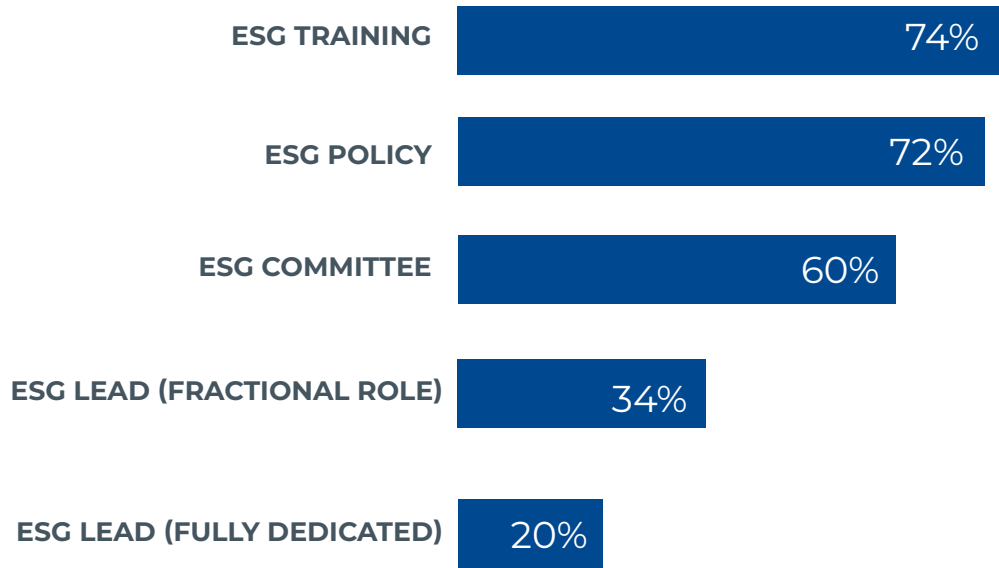
Executive Summary

ESG Program Highlights

SELF-ASSESSMENT
 GPs' Perception of Their ESG Programs
 Compared to Peers



Most Common Elements Included in
 GP ESG Programs



98% of GPs cited **LP demand** as a primary driver of ESG adoption

ESG Integration into the Investment Process by Asset Class

ESG Integration into the Investment Process by Asset class

100%
Private Equity

64%
Credit

86%
Growth/Venture

THE ESG TOPICS MOST FREQUENTLY CONSIDERED BY GPS



Portfolio Engagement

84%

of private equity funds
annually monitor their
portfolio companies

60%

of growth & venture funds
informally discuss ESG topics
with portfolio companies

56%

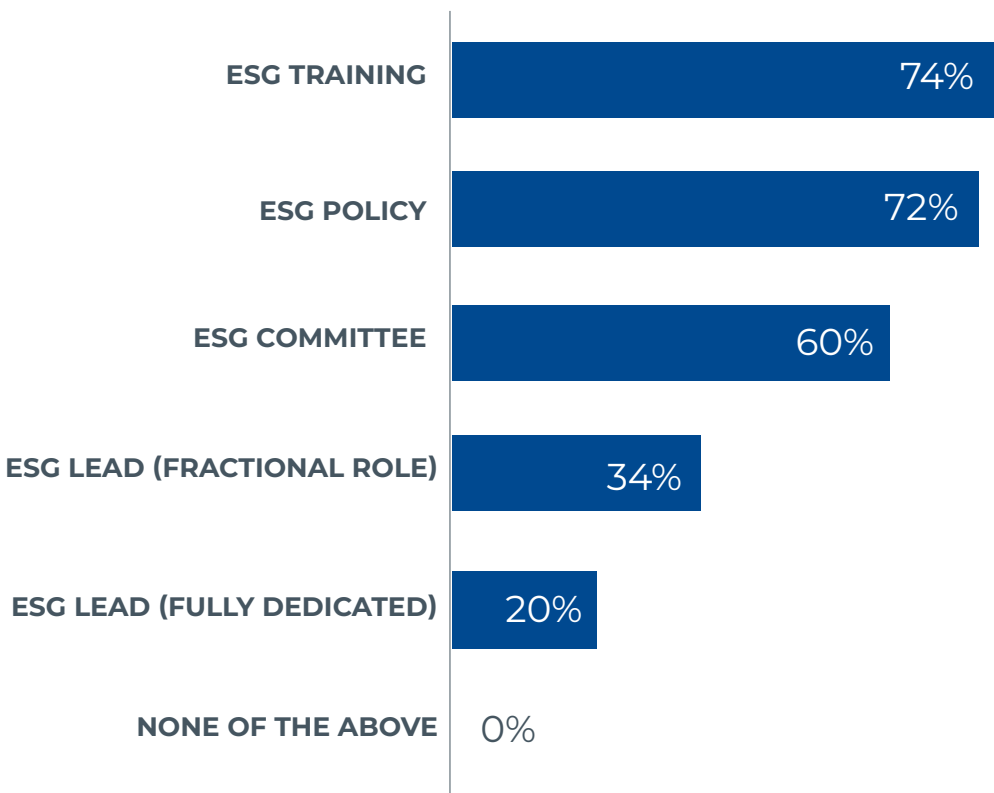
of credit funds
do not engage with portfolio
companies on ESG issues

ESG Program Overview

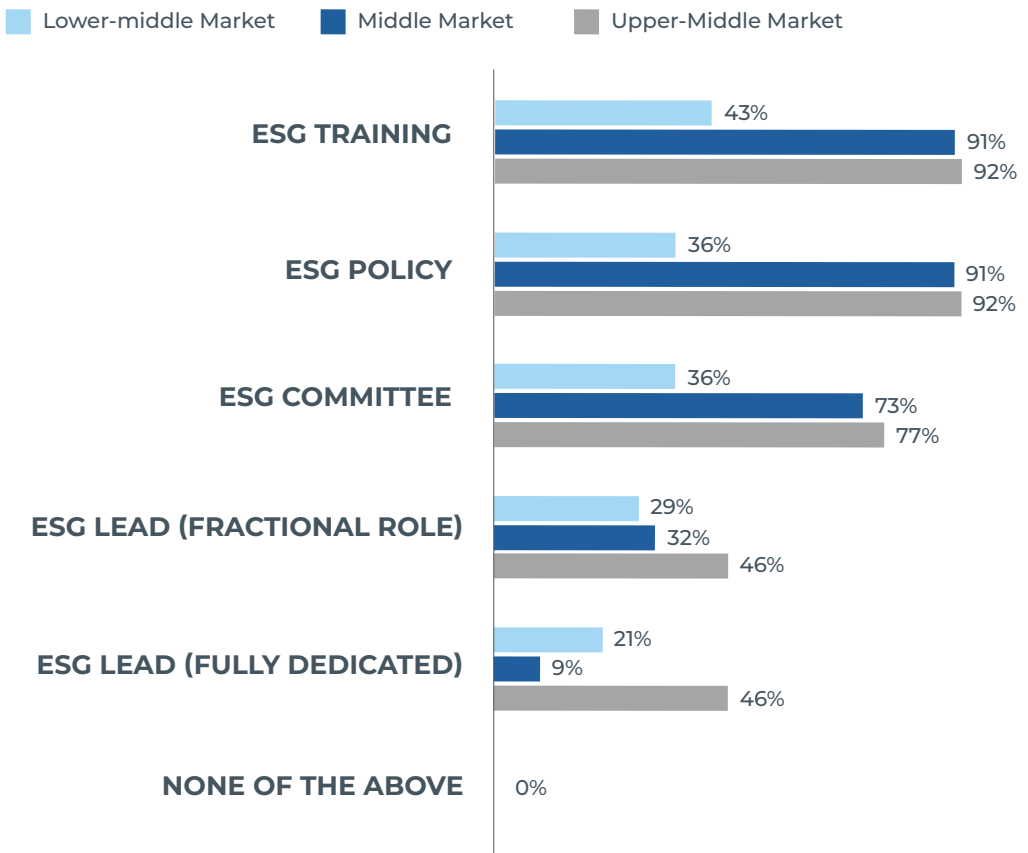
ESG Programmatic Elements

A large majority of respondents across asset classes have developed ESG accountability structures at their firm, with **the most common programmatic controls being ESG training and an ESG policy.**

ESG Program



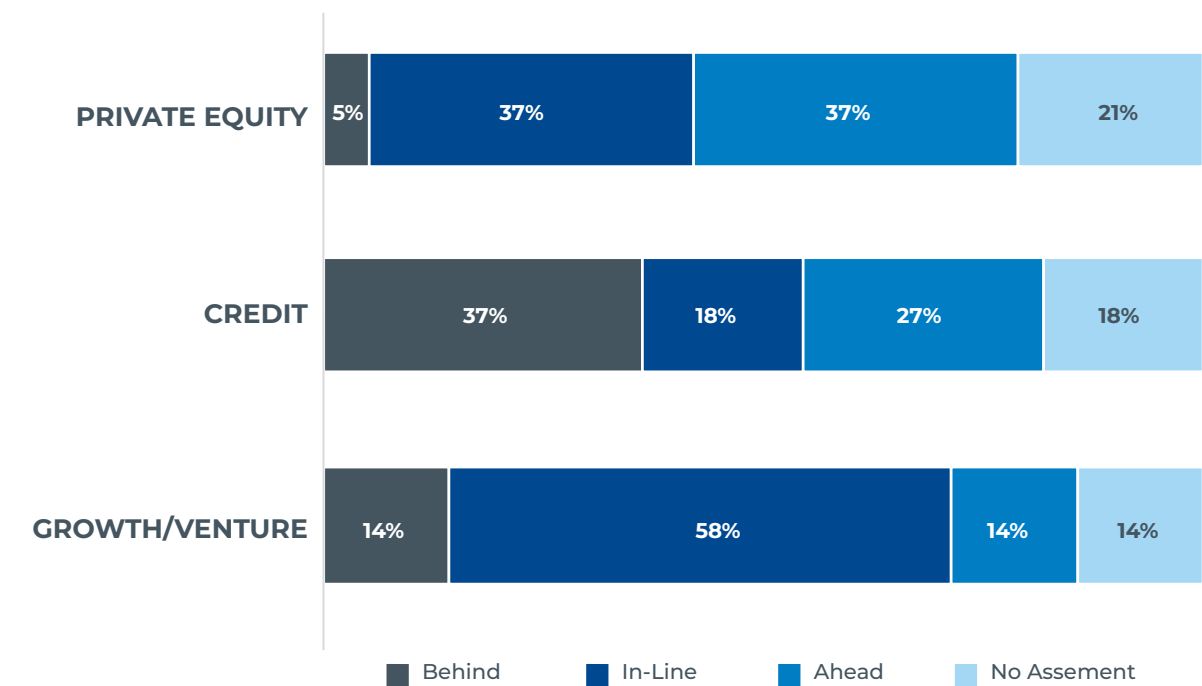
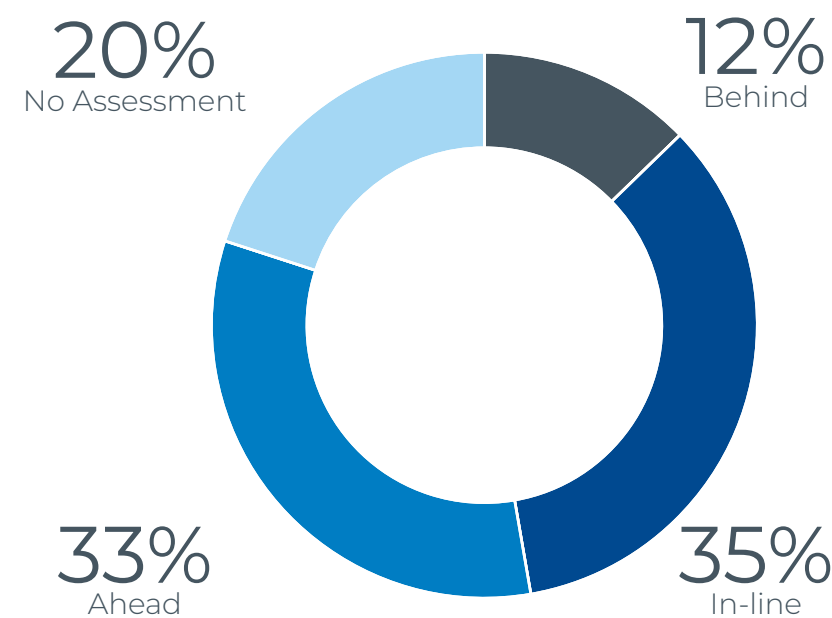
ESG Program — By AUM



As expected, adoption of ESG varies by AUM, with firms in the middle and upper-middle market more likely to foster mature ESG programs. 46% of upper-middle market respondents employ a fully dedicated in-house ESG lead, however these numbers drop significantly for middle and lower-middle market peers.

ESG Program Perception

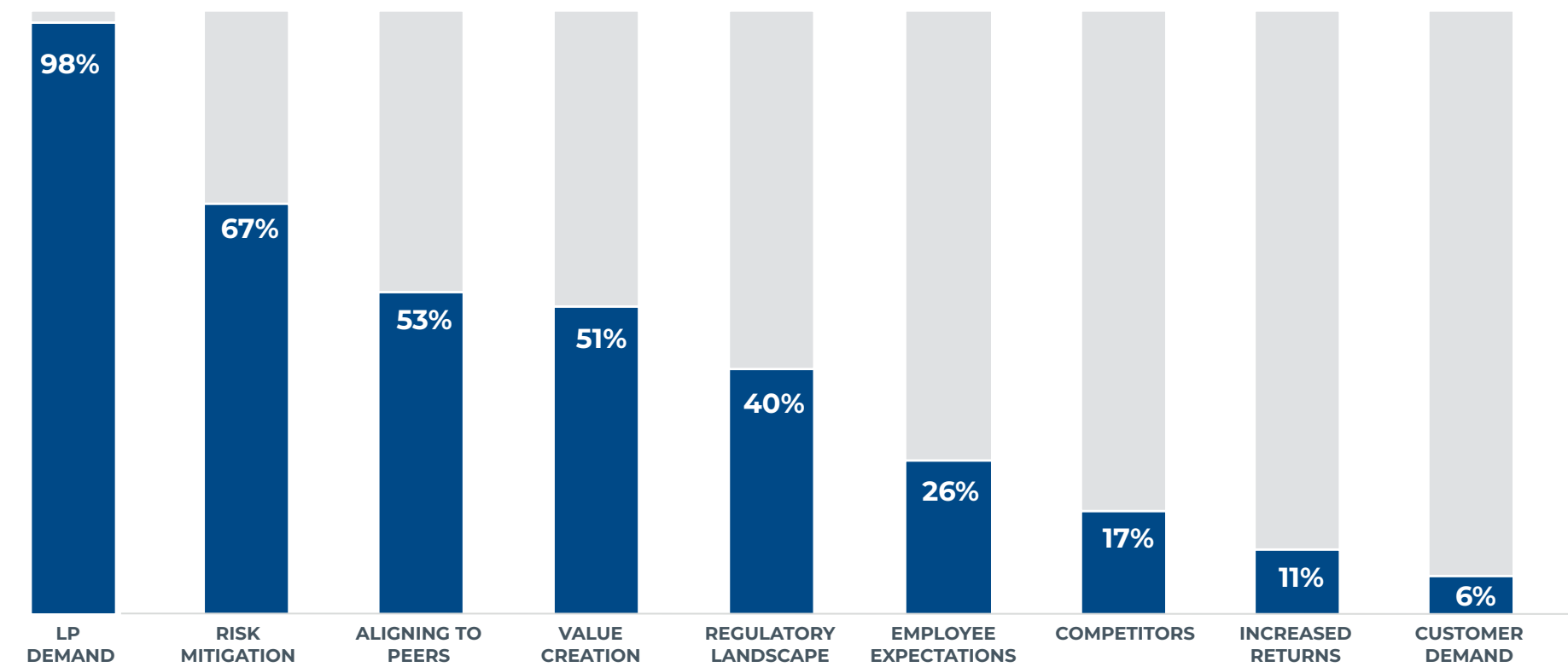
How does the firm view its ESG program maturity compared to peers?



74% of private equity funds and 71% of growth/venture funds consider their funds to be in-line with or ahead of peers, which aligns with broader adoption of ESG by asset class. Credit funds have historically lagged in adoption of ESG due to complexities in the investment lifecycle. As a result, credit respondents are more dispersed in their perception of their ESG program compared to peers.

Drivers of ESG Integration

The overwhelming majority of respondents (98%) indicated that LP demand is one of the main drivers of ESG integration, followed by risk mitigation (67%).



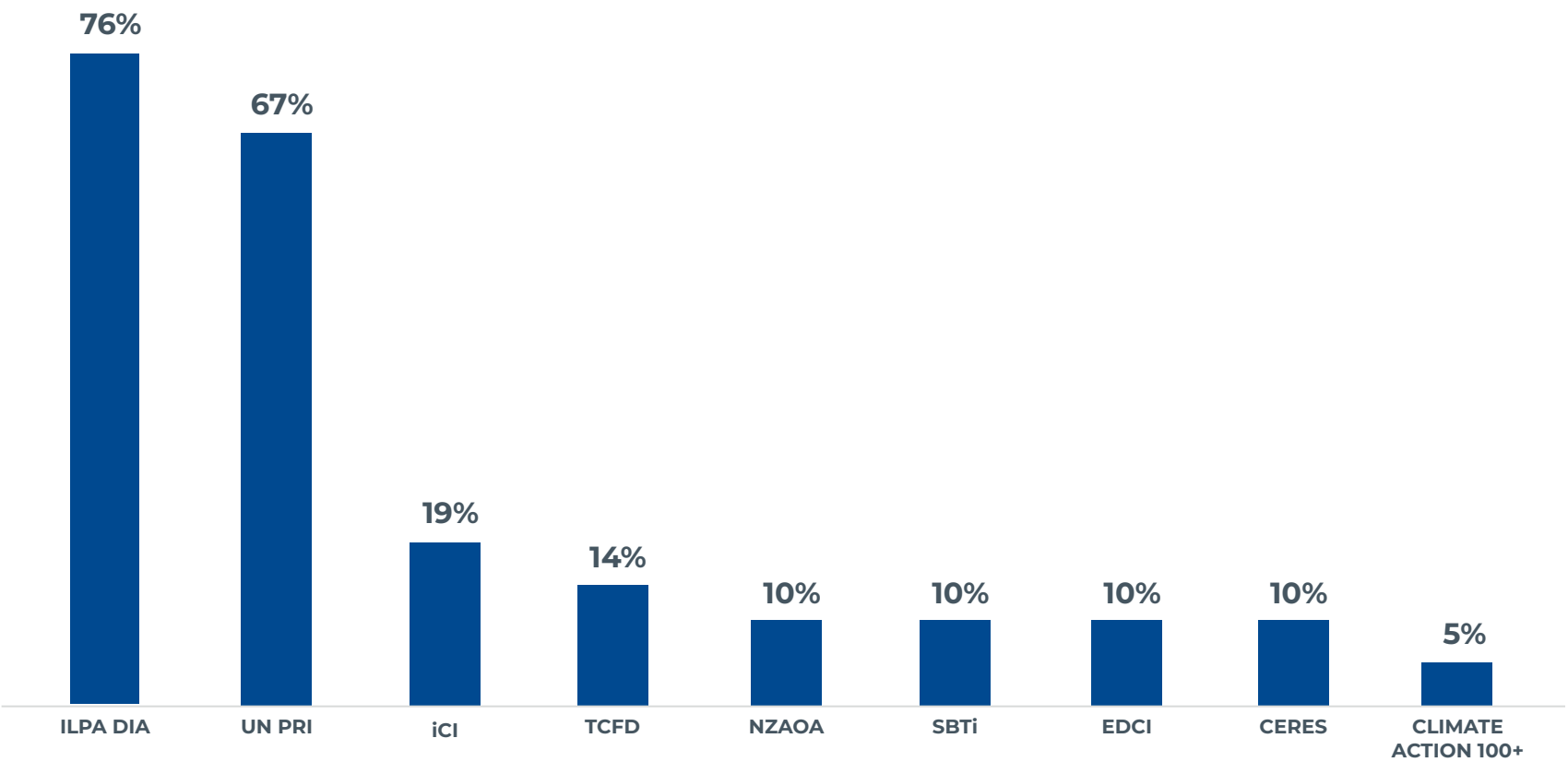
Types of LPs Driving ESG Engagement

LPs responsible for driving ESG engagement are varied, although common responses among survey respondents indicated that **European LPs have a particular sensitivity to ESG matters** while another respondent indicated that **all institutional investors are expressing interest in ESG**.

51% of respondents answered that value creation is a driver behind program adoption, however only 11% cited increased returns as a driver of ESG adoption. This discrepancy may signal that, while firms see the value of ESG broadly, stakeholders may not associate financial performance with ESG integration.

Commitment to ESG Groups

Which commitments/industry groups has the firm formally joined?



When it comes to ESG frameworks, ILPA and UN PRI are the most common among respondents. ILPA is focused on aligning DEI programs with best practices, and UN PRI assesses the integration of responsible investment practices. Both frameworks are commonly requested by LPs which may lead to the relatively high percentage of respondents aligning with these frameworks.

GPs

are slower to join climate frameworks and industry groups, such as iCI, Ceres and SBTi. However, with an uptick in emission tracking, there will likely be an increase in firm adoption to these frameworks in the near term.

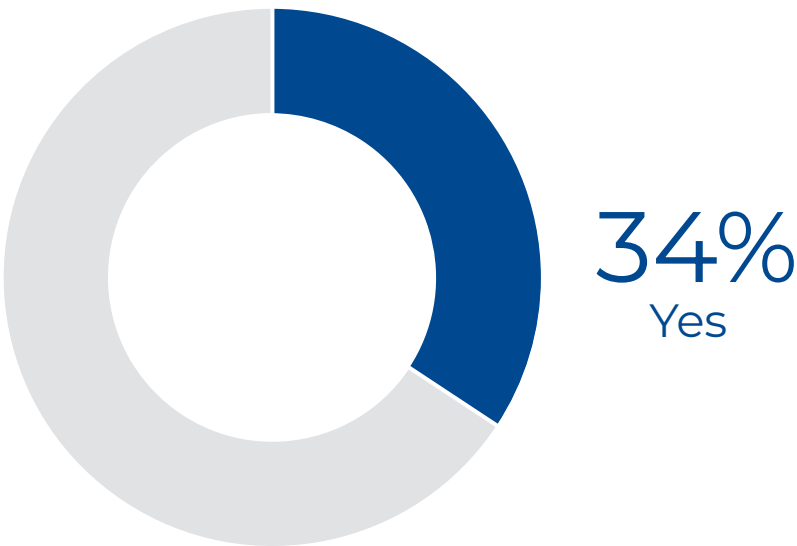
See the Glossary of Terms on page 36

SFDR Alignment

The Sustainable Finance Disclosure Regulation (SFDR) went into effect in 2021 as part of a package of legislative measures from the European Commission’s Action Plan on Sustainable Finance.

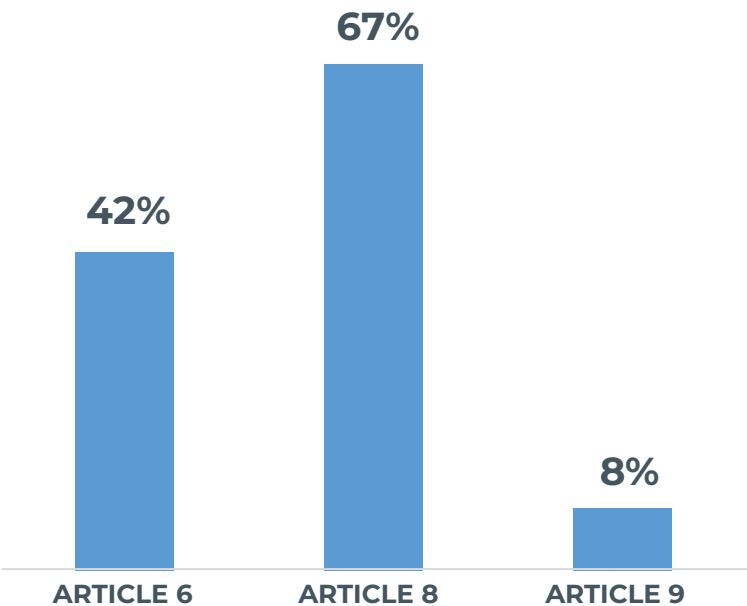
The goal of the SFDR is to prevent greenwashing and ensure comparability of funds by standardizing transparent information on sustainability.

Does your firm plan to register under the SFDR?



SFDR classification is more common among European investors, and only a third of respondents intend to register. GPs may be driven to SFDR disclosure due to a challenging fundraising market, as SFDR alignment opens GPs to additional capital from Europe.

If your firm intends to disclose under the SFDR, what article(s) will your funds align to?



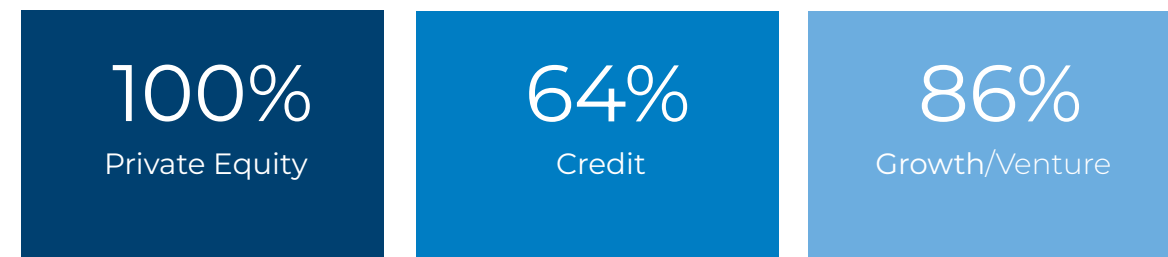
Among firms that intend to register, the overwhelming majority plan to register as Article 8, which are products with strategies designed to promote social or environmental characteristics but do not have a core sustainability objective. Conversely, only 8% of respondents plan to register as Article 9, which is reserved for products with sustainable investment as a core objective.

ESG in the Investment Lifecycle



ESG Integration in the Investment Process

Does the fund incorporate ESG into its investment process?



Due to nuances in ownership stake and ability to dictate ESG requirements, credit firms are still navigating the best way to integrate ESG in to their investment processes.

The Top Five Topics Incorporated

DIVERSITY



CLIMATE CHANGE



EMPLOYEE ENGAGEMENT



DATA PRIVACY/SECURITY



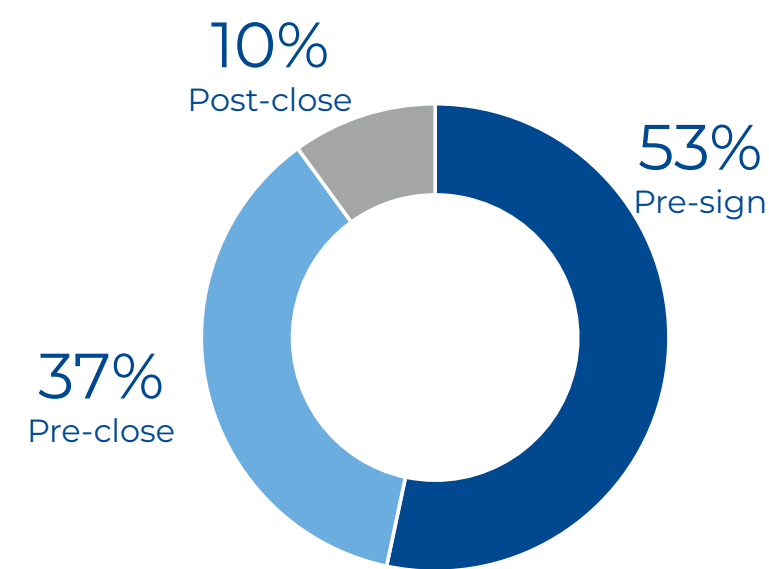
HEALTH/SAFETY

Less common ESG topics cited include human rights, circular economy, and biodiversity. These are emerging topics that are rising in importance for both GPs and LPs.

Private Equity Approach to Due Diligence

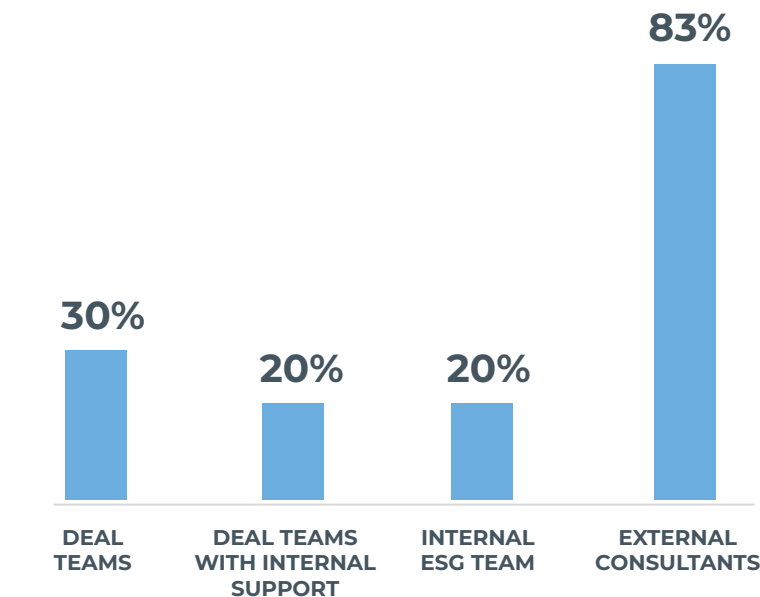
Private equity firms are completing ESG due diligence earlier and consistently sharing key ESG findings with management teams at portfolio companies, signaling the importance of ESG across the portfolio.

When does the firm complete ESG due diligence?



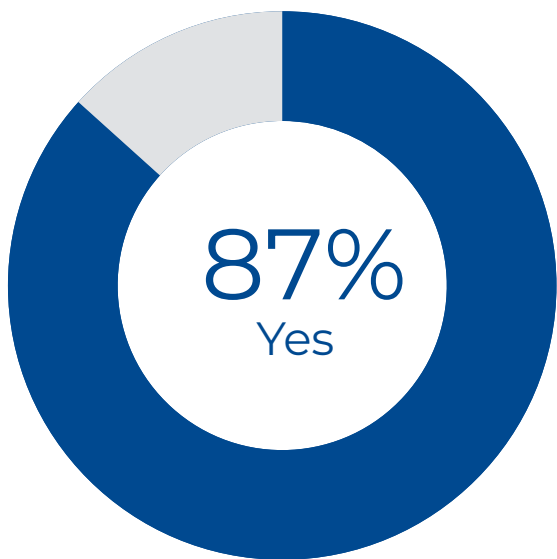
More than half of surveyed firms with private equity funds complete ESG due diligence pre-sign, and the overwhelming majority completed diligence pre-close.

Who conducts ESG due diligence on behalf of the firm?



When it came to who conducted ESG due diligence, most private equity funds relied on external consultants with support from deal teams.

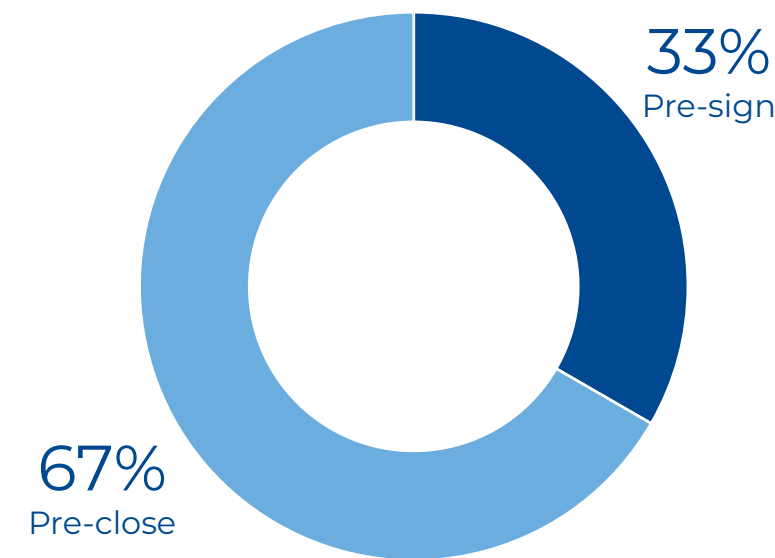
Are ESG due diligence findings shared with portfolio management teams?



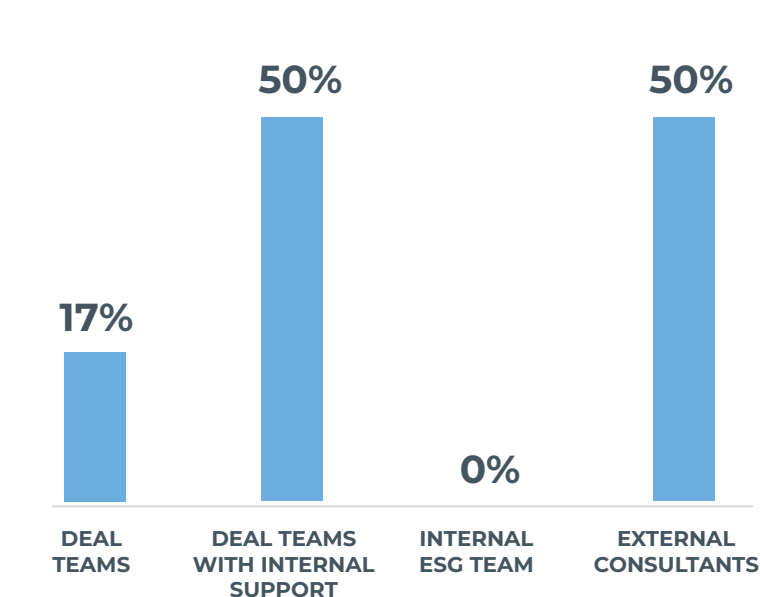
Credit Approach to Due Diligence

It is beneficial for credit funds to conduct due diligence earlier in the process to get a “read” on the ESG risk profile before further investment of time and resources into the underwriting process. Thus, it is surprising that the majority of credit respondents indicated that they conduct due diligence pre-close rather than pre-sign.

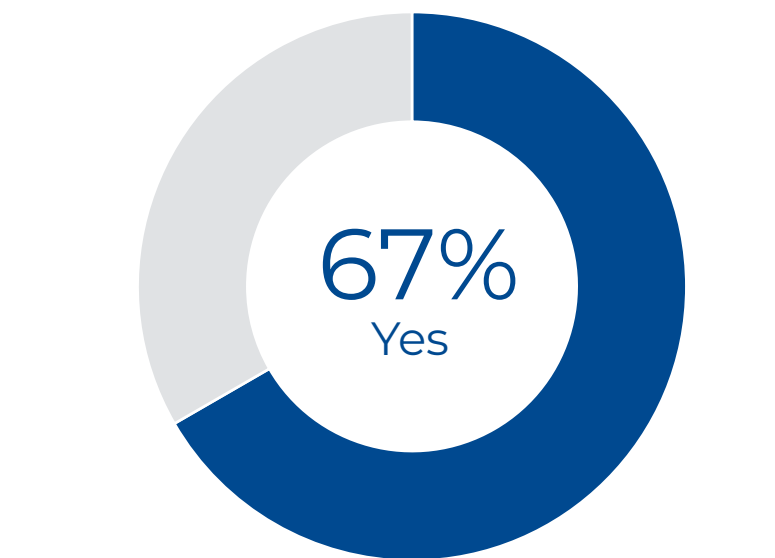
When does the fund complete ESG due diligence?



Who conducts ESG due diligence?



Are ESG due diligence findings shared with portfolio management teams?

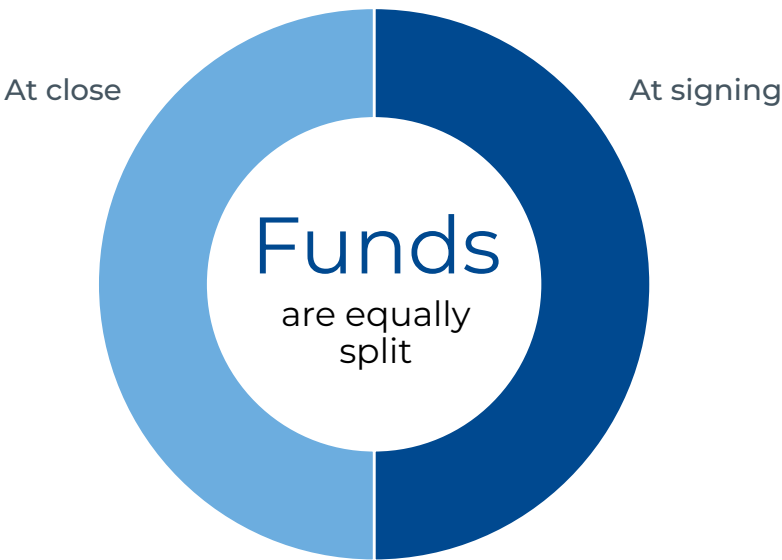


For private credit respondents, due diligence was shared by deal teams and external consultants. Given the nascency of ESG in private credit, internal due diligence may be lighter touch.

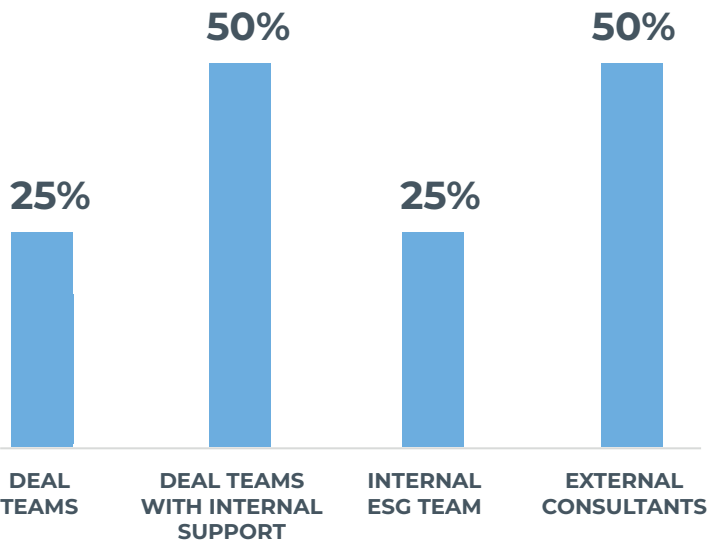
Growth Equity & Venture Capital Approach to Due Diligence

Growth and venture funds landed between private equity and private credit when it came to their approach to ESG due diligence in the investment lifecycle.

When does the fund complete ESG due diligence?



Who conducts ESG due diligence?



Are ESG due diligence findings shared with portfolio management teams?



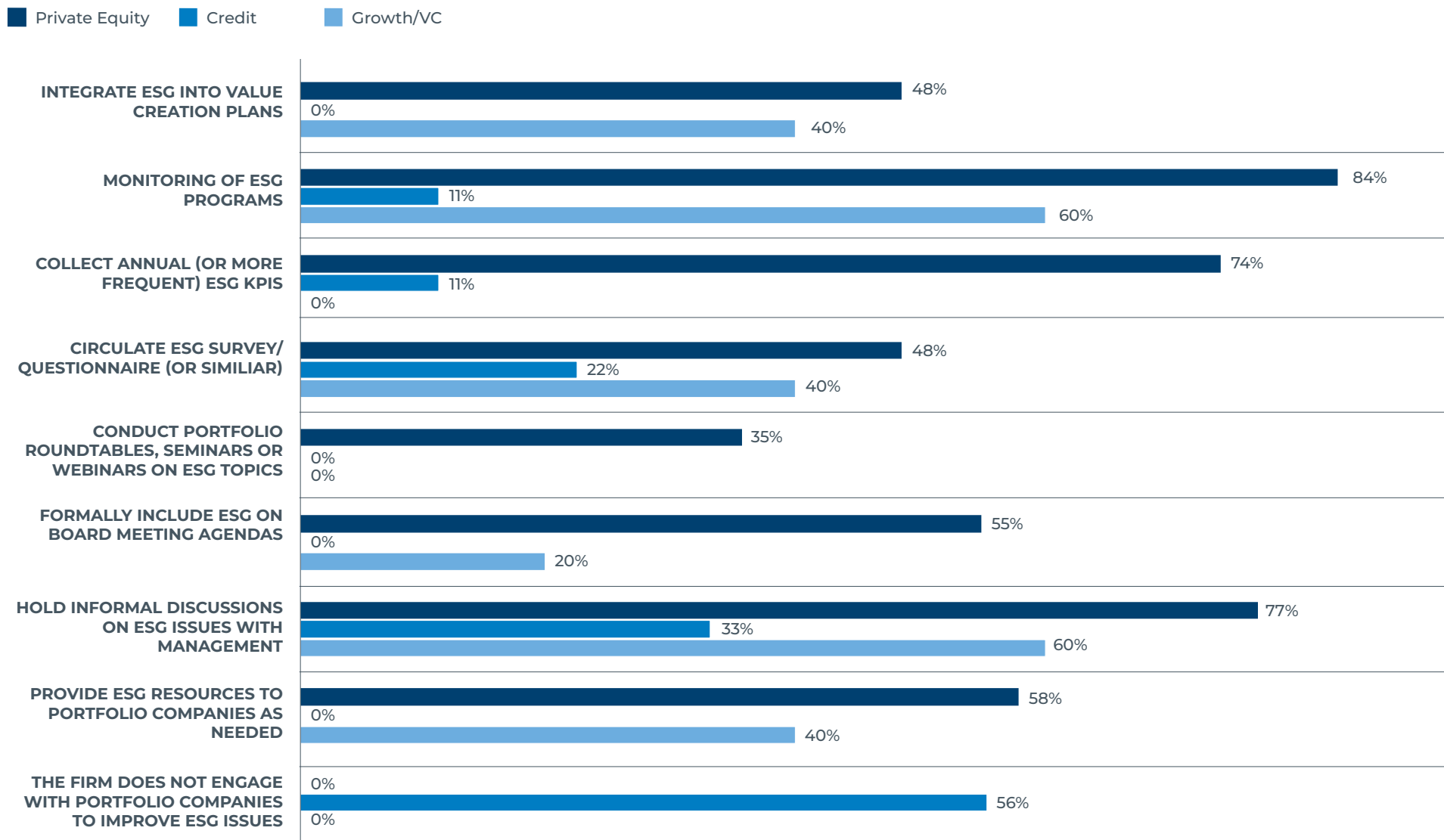
Similar to private credit respondents, due diligence was shared by deal teams and external consultants likely due to the later adoption of ESG.

Portfolio Engagement by Asset Class

Private equity funds were the most advanced in their ESG integration across their portfolio. The majority of private equity funds perform annual monitoring, collect ESG KPIs and engage in informal ESG discussions with their management teams. Growth and venture funds also engaged with portfolio companies during annual monitoring and informal discussions, however they do not collect any ESG KPIs.

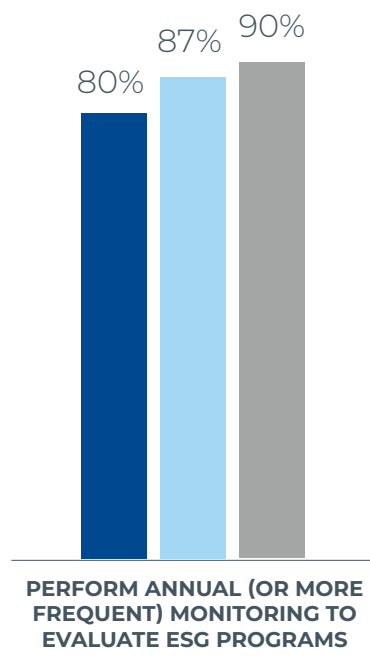
Credit investors lagged behind private equity and growth/venture funds — more than half of respondents do not engage with their portfolio companies and one third have informal discussions with management on ESG topics.

How does the fund engage with its portfolio to improve ESG efforts during the hold period?

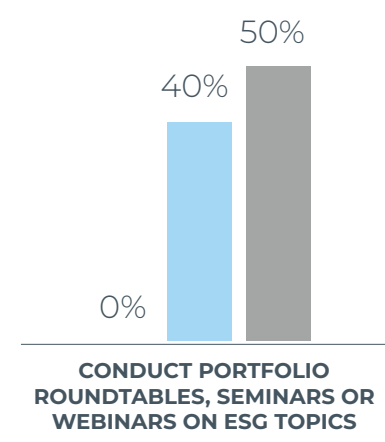


Private Equity Portfolio Engagement by AUM

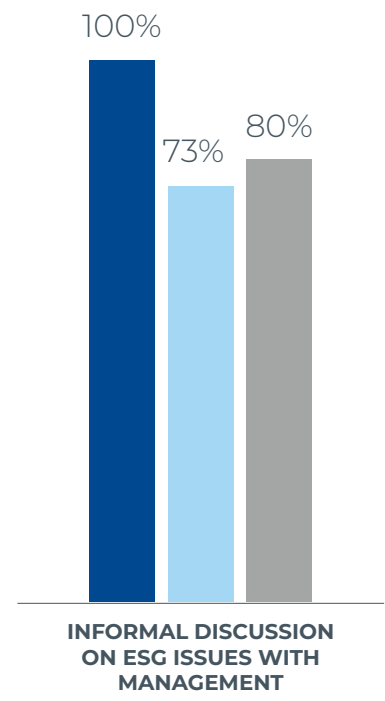
The majority of private equity respondents complete annual monitoring



Conducting portfolio roundtables is more common among upper middle market and middle market firms than lower middle market peers



The majority of private equity respondents engage in informal discussions on ESG with their portfolio companies



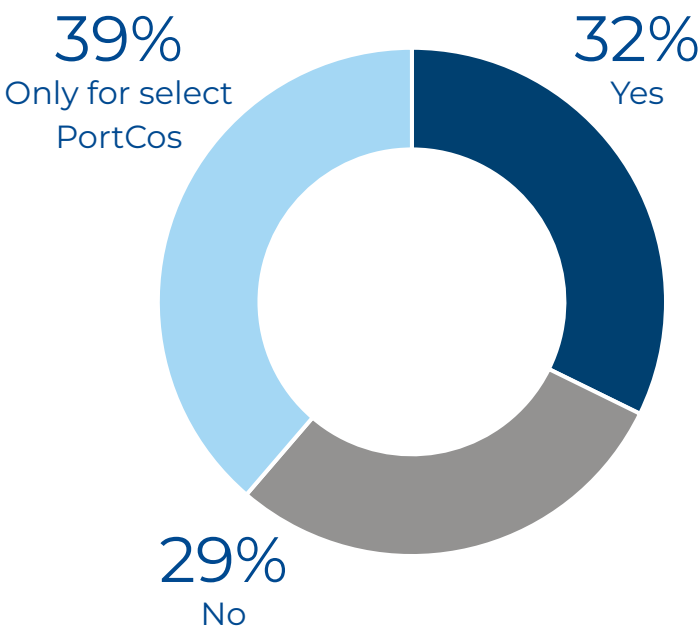
■ Lower Middle Market
 ■ Middle Market
 ■ Upper Middle Market



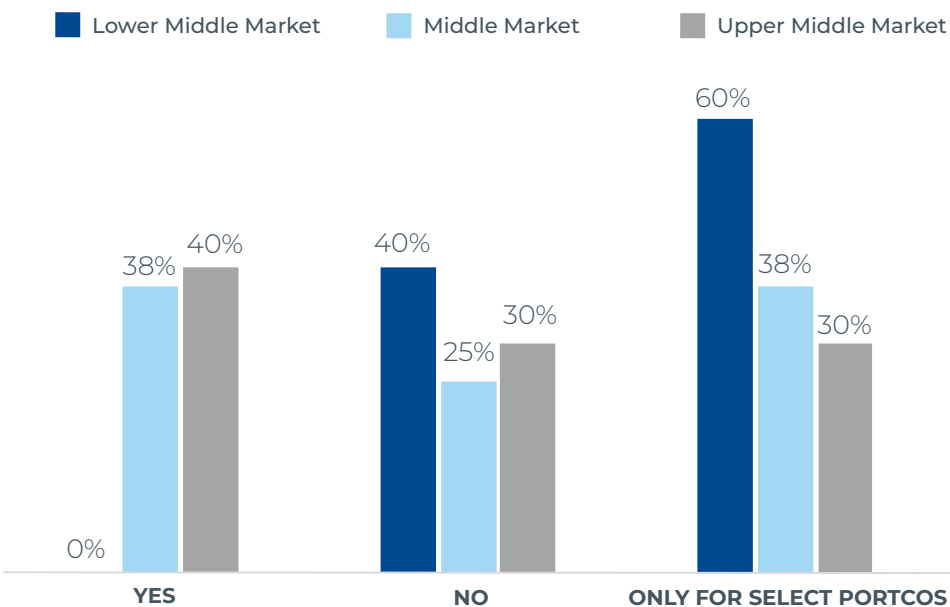
Private Equity ESG and Value Creation

Firms are increasingly identifying ESG value creation opportunities, reflecting a more proactive and long-term approach around improving not only ESG performance across the portfolio but returns upon exit.

Is ESG incorporated into value creation plans?



Private Equity AUM Breakdown

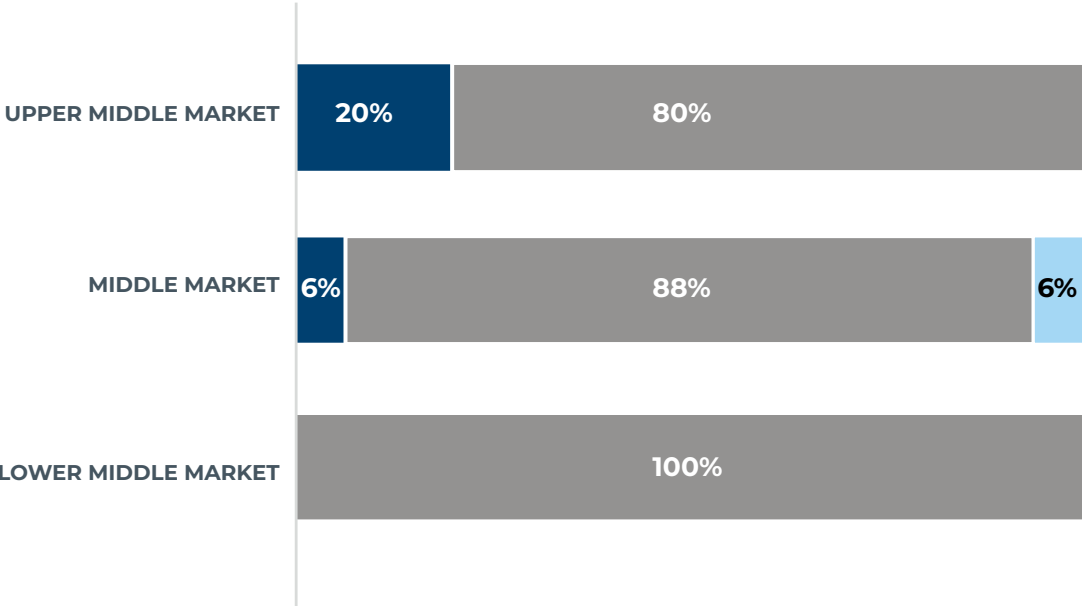


Unsurprisingly, lower middle market firms were the least likely to integrate ESG into their value creation plans, while middle and upper middle market counterparts incorporated ESG across their portfolios more consistently.

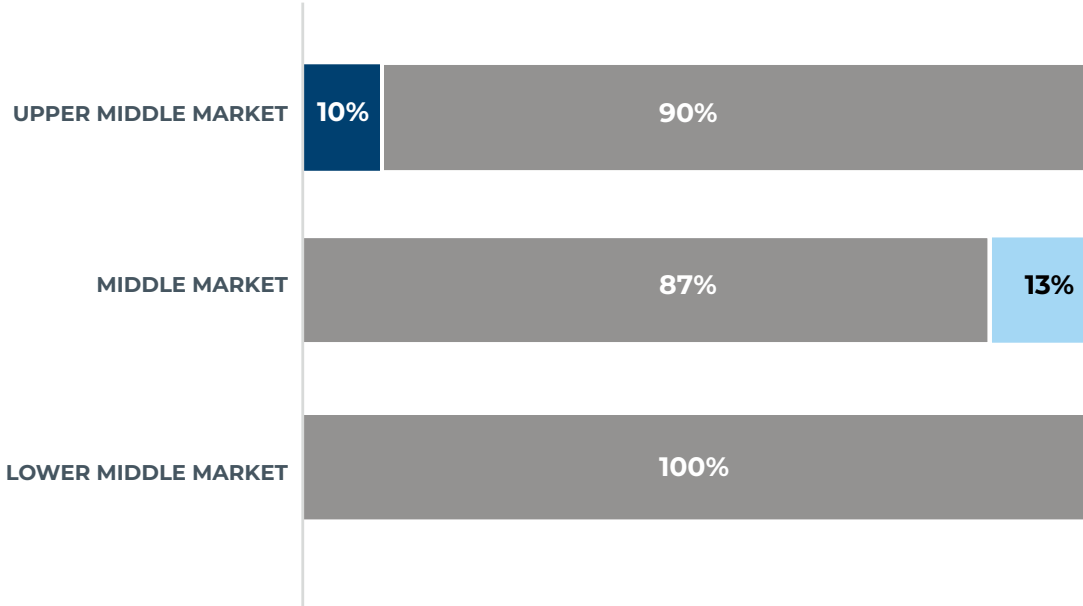
71% of GPs with private equity funds responded that they integrate ESG into the value creation plans for either select or all portfolio companies.

Private Equity Leading ESG Practices

Is ESG incorporated into executive compensation across the portfolio?



Does the firm measure whether ESG has affected financial performance of its investments?



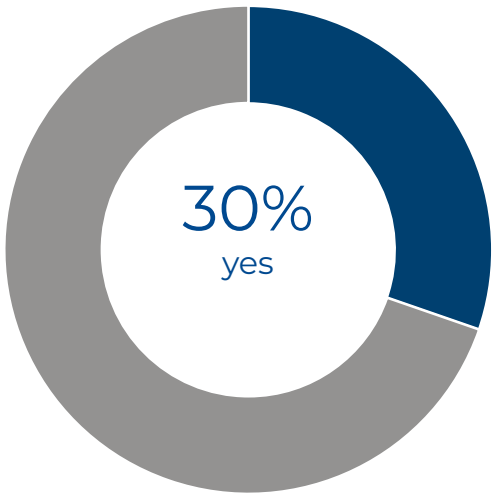
■ Yes
 ■ No
 ■ Only for select PortCos

Across private equity, the most advanced ESG practices are primarily implemented by upper middle market firms, with a small number of middle market firms implementing these practices as well.

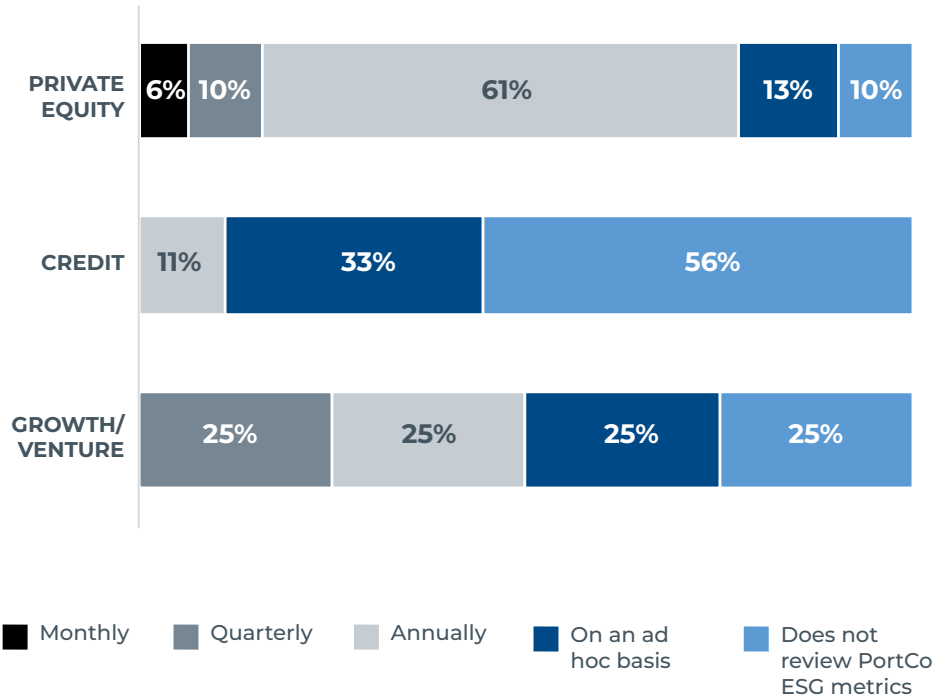
Use of ESG Metrics and Scoring Methodologies

ESG key performance indicators (KPIs) and scoring methodologies have risen in popularity in recent years as investors and LPs look to quantify their ESG performance.

Does the fund use a software provider to track ESG topics across portfolio?



Frequency of ESG metric review



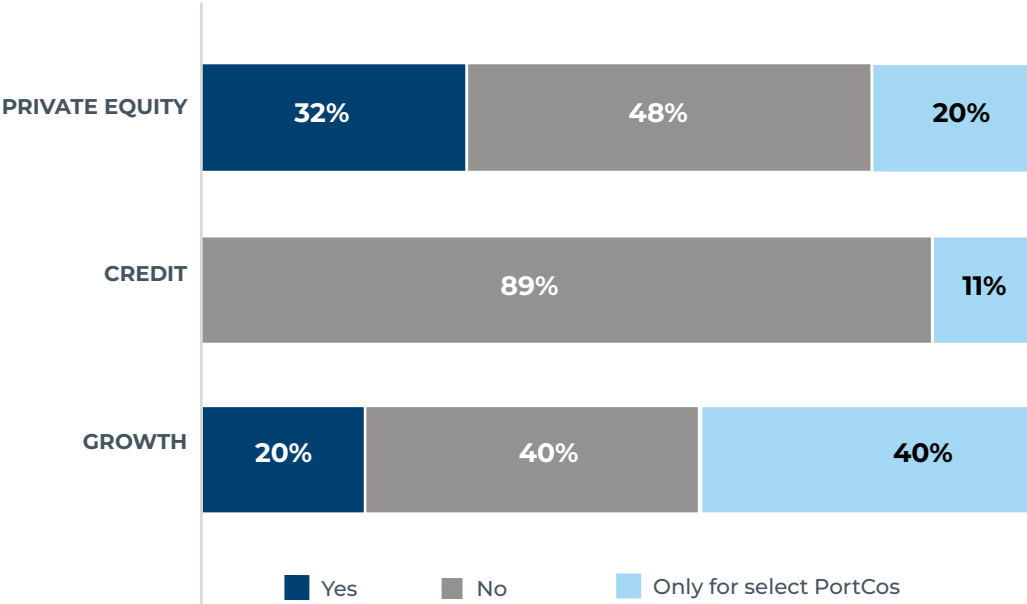
Among growth and venture funds, **50% conduct reviews of metrics at least annually, versus 11% of credit funds.** As investors continue to seek out ways to quantify their ESG performance, Malk expects the percentage of funds reviewing ESG related metrics to increase.

77% of private equity fund respondents review ESG metrics at least annually, with 16% conducting more frequent reviews.

Setting ESG Targets across Portfolio Companies

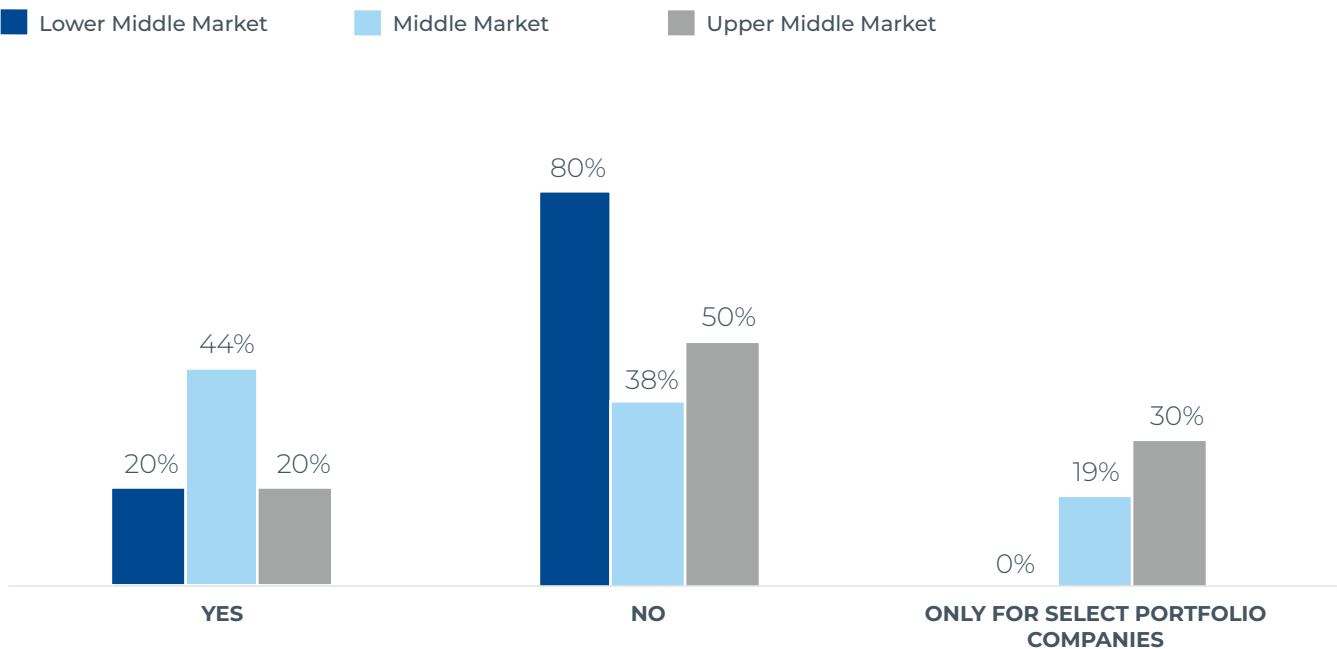
Does the fund set formal ESG targets or goals for its portfolio companies?

Private Equity by AUM



Approximately half of private equity and growth/venture funds set ESG targets or goals across part of or all of their portfolio.

Use of ESG Targets Across Private Equity by AUM



When analysing private equity respondents by AUM, lower middle market firms lagged behind their middle and upper middle market counterparts. 63% of middle market and 50% of upper middle market firms set targets/goals for some or all of their portfolio.

Diversity, Equity & Inclusion (DEI)

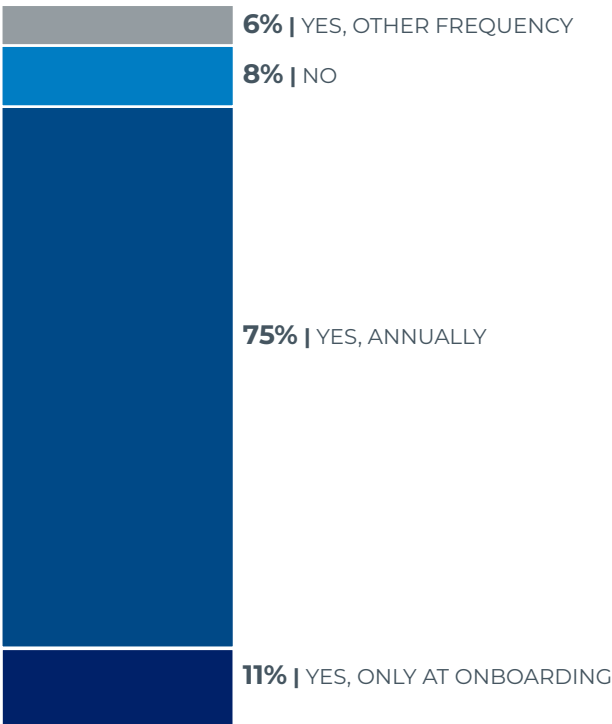
Firm-level DEI Programs

The business case for employers to increase workforce diversity has grown stronger in recent years.¹ GPs are prioritizing DEI recruitment and retention practices, particularly recruitment targets.

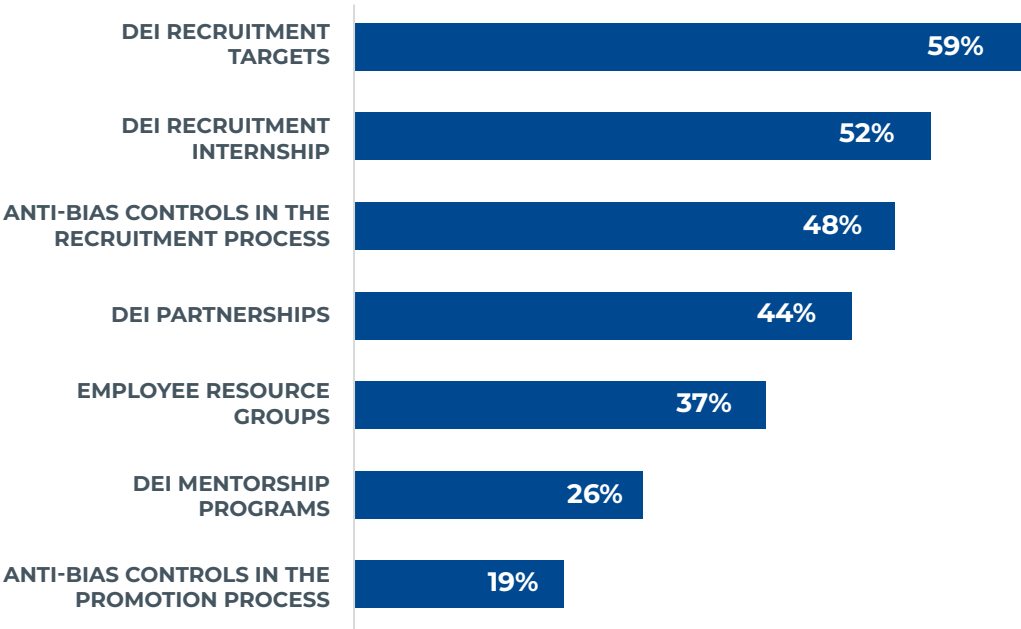
Does the firm maintain a standalone DEI Policy?



Does the firm conduct anti-discrimination and anti-harassment training for its workforce?



Which DEI initiatives are currently in place at the firm?



A significant proportion of surveyed GPs are also focusing on diverse retention initiatives, fostering an inclusive culture through the establishment of employee resource groups (ERGs) and mentorship programs for diverse employees.

A vast majority of respondents maintain standalone DEI policies and conduct annual anti-harassment and discrimination training for their employees annually. These internal practices reflect a desire to communicate diversity values to both internal and external stakeholders.

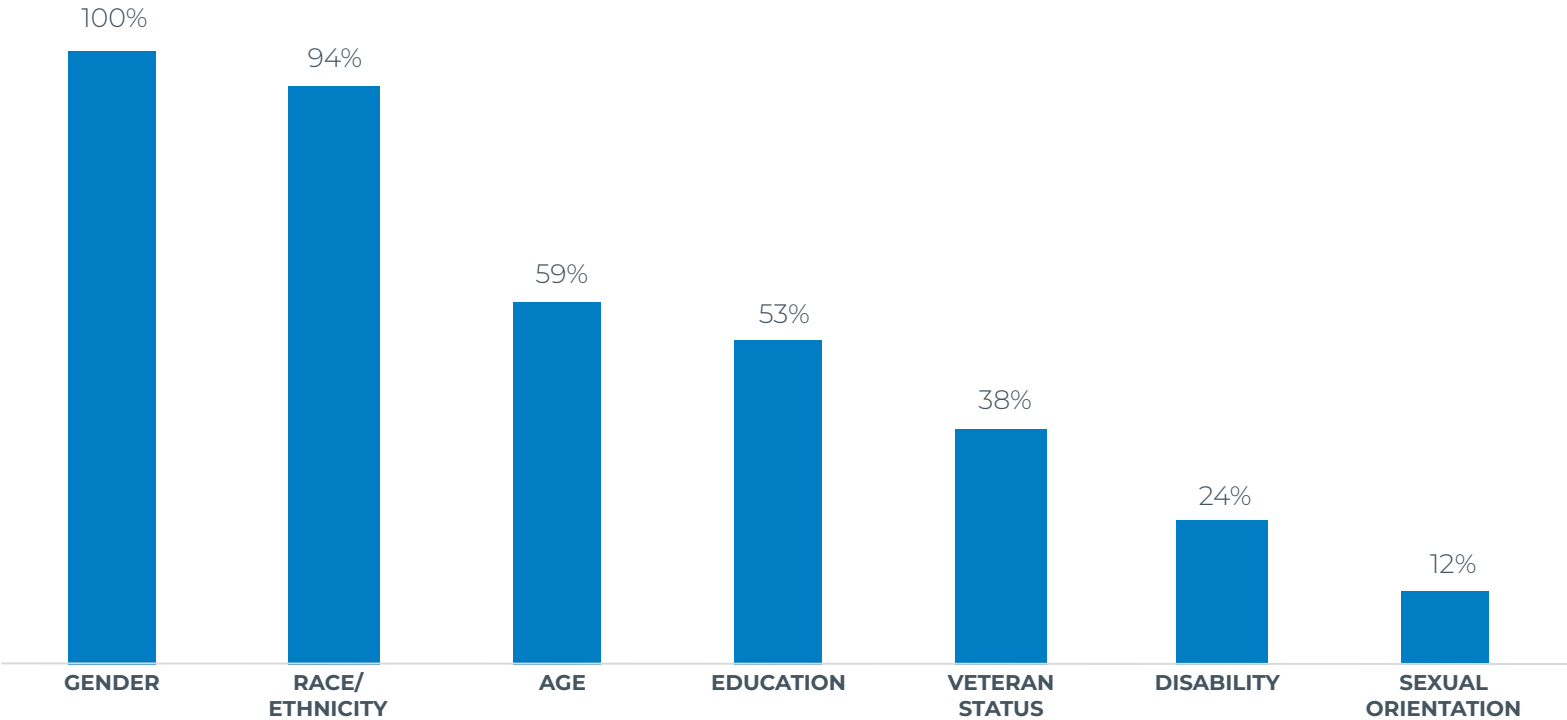
¹<https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>

Firm-level Diversity Tracking

All GPs, across asset classes, track the gender of their workforces and a large majority also track race and ethnicity.

GPs are starting to track more nuanced metrics with more than half tracking employees' age and education. A growing percentage of surveyed firms collect metrics such as disability (24%) and sexual orientation (12%) as well.

Which diversity metrics does the firm track annually?

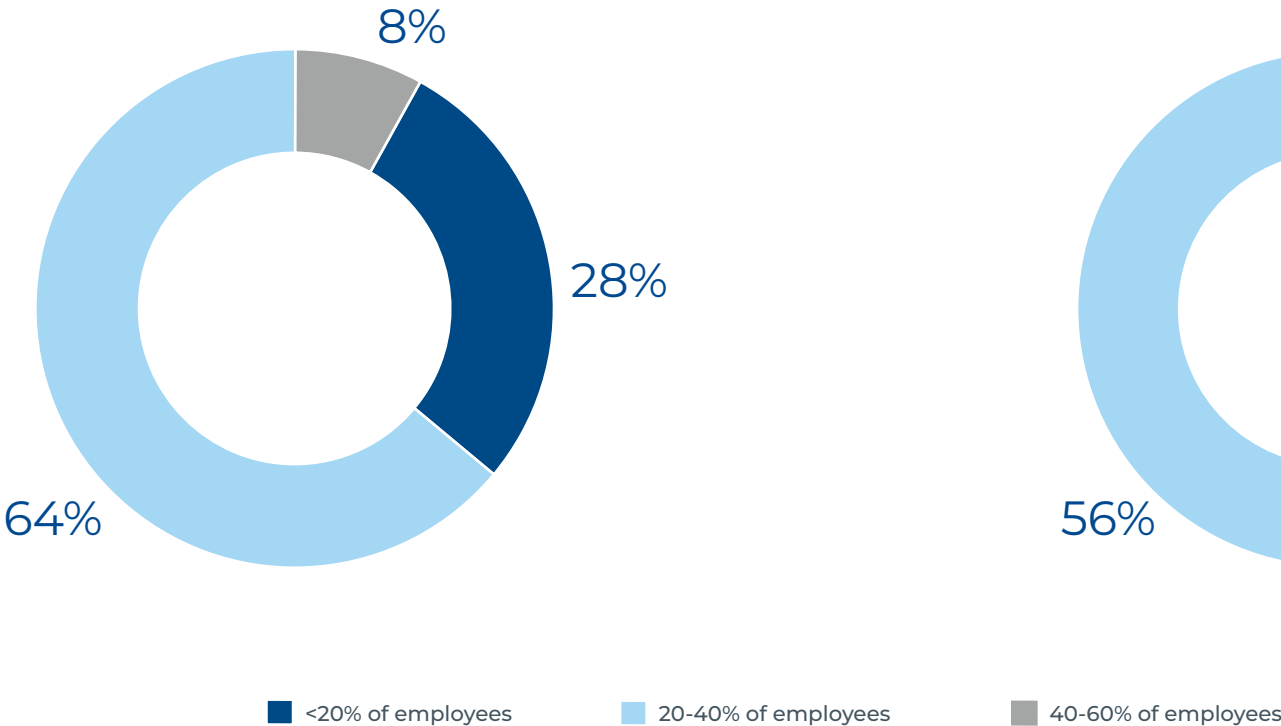


The collection of non-traditional demographic metrics can provide employers with a more intersectional view of their workforce and allow them to better tailor DEI initiatives to the needs and interests of their workforce.

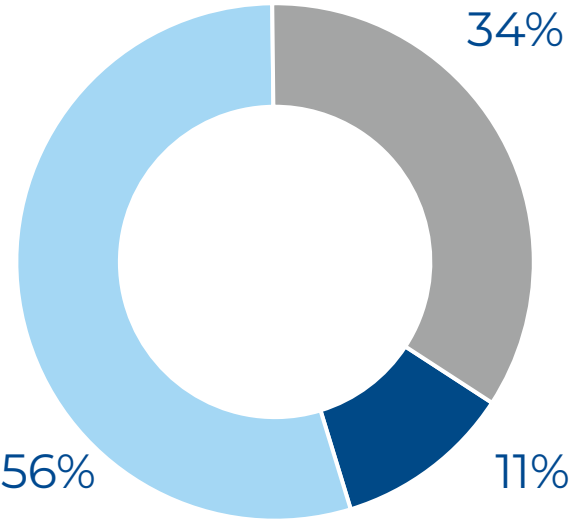
Firm-level Diversity Tracking

Tracking firm-level diversity data is only the first step in a GP’s DEI journey. Increasing representation among historically marginalized groups can allow firms to compete for the newest generations of talent that expects diversity in their workplaces.

What percentage of the firm is racial/ethnic minority?



What percentage of the firm identifies as female?

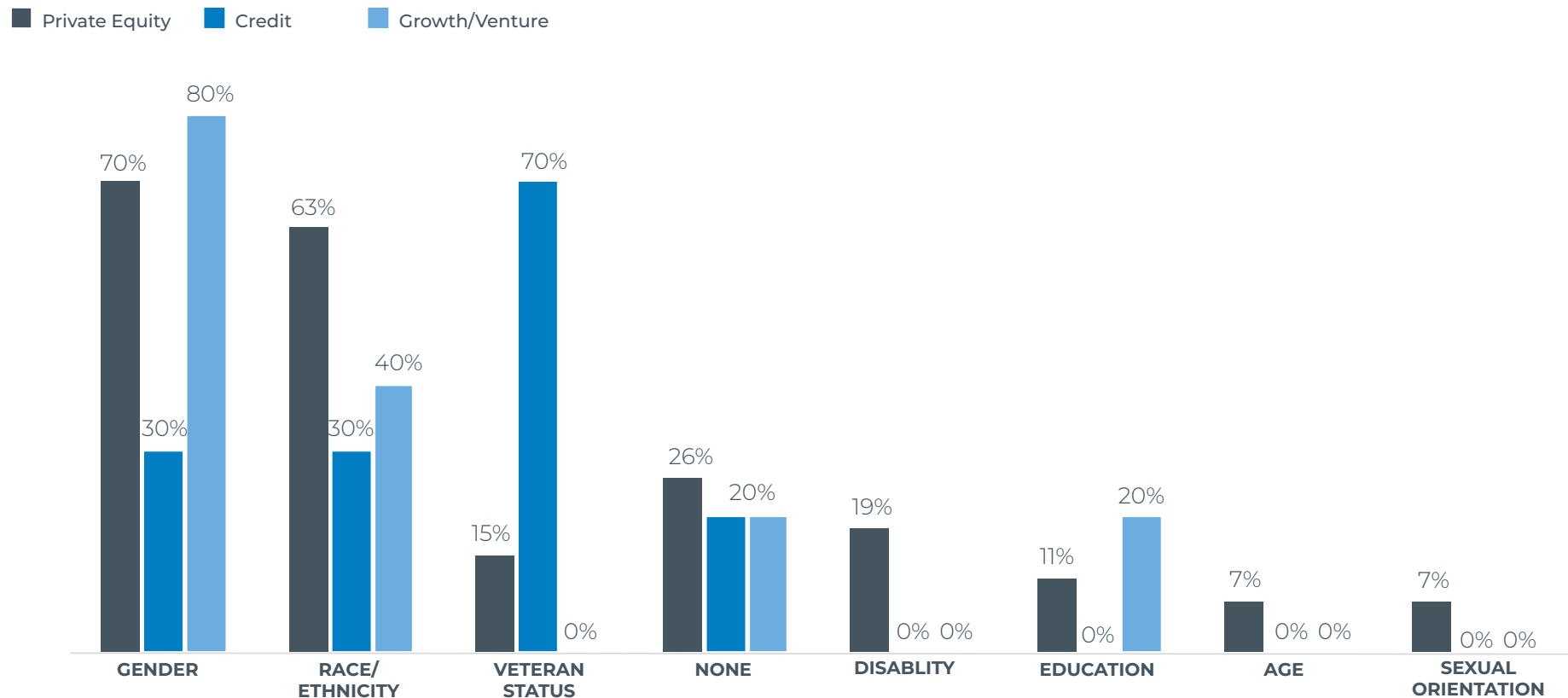


A large majority of respondents indicated that their workforce was less than 40% racial/ethnic minority, whereas the breakdown of gender diversity was more balanced.

Portfolio-level Diversity Tracking

The commitment to diversity, equity, and inclusion has begun to trickle from the firm-level down to **portfolio companies**, as a growing number of private equity and private credit investors are beginning to track workforce diversity metrics across their portfolios.

Which of the following diversity metrics does the firm track across its portfolio?



The metrics most commonly tracked across portfolios are gender and race, with increased tracking around more nuanced metrics, such as sexual orientation, age, education, and veteran status. LPs and GPs alike are continuing to prioritize DEI initiatives, and the collection of good data can lead to meaningful engagement and improvement across DEI efforts.

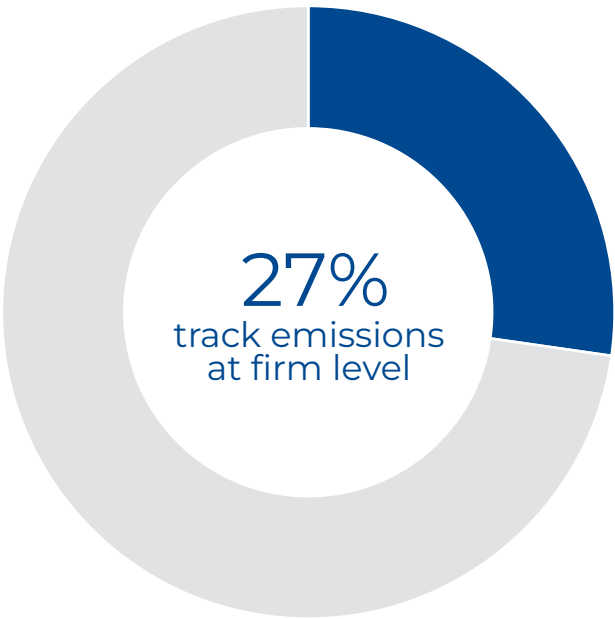
Climate Change

Firm-level Emissions Tracking

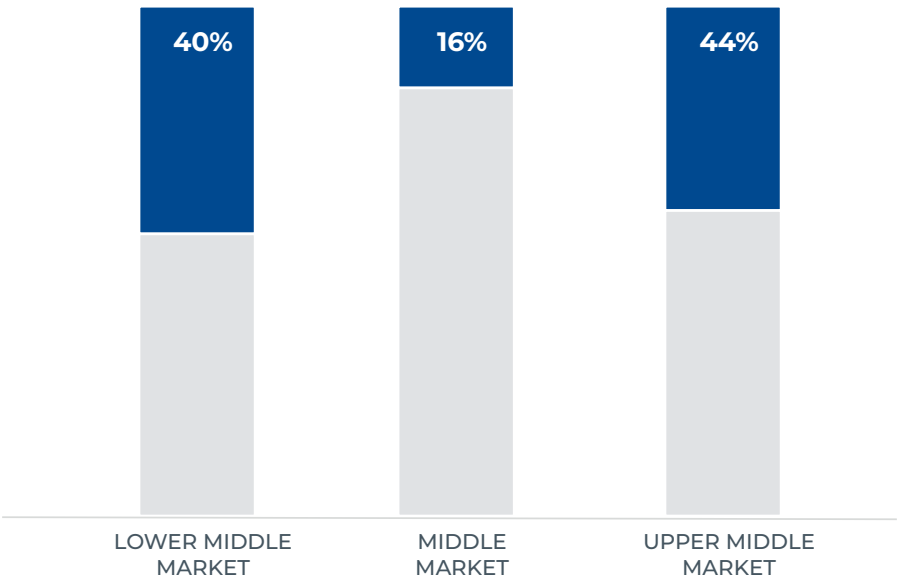
Does the firm track its own GHG emissions?

■ Yes ■ No

GHG Tracking by All Respondents



GHG Tracking by AUM

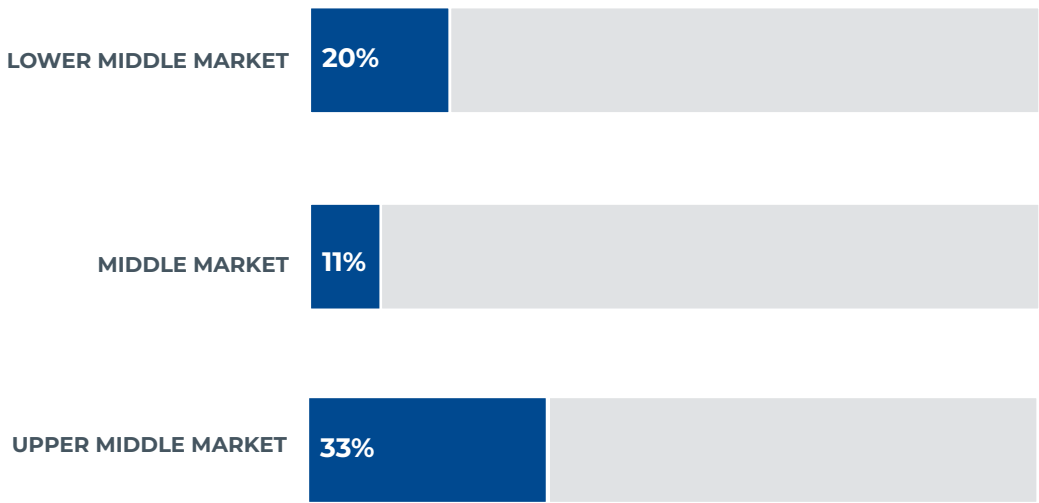


Adoption of firm-level emissions tracking is still nascent, despite LP pressures to begin tracking and reporting emissions to align with the Paris Agreement goals. Malk expects that the percentage of firms tracking their own emissions to increase in the next year, given the regulatory landscape and increased LP demand.

Firm-level Net Zero Commitments

Has the firm made a Net Zero commitment?

■ Yes ■ No



Upper-middle market firms are leading the way with a third of firms committing to Net Zero.

That said, a small percentage of all respondents have set Net Zero commitments to date, likely due to slow adoption of firm and portfolio emissions tracking more broadly.

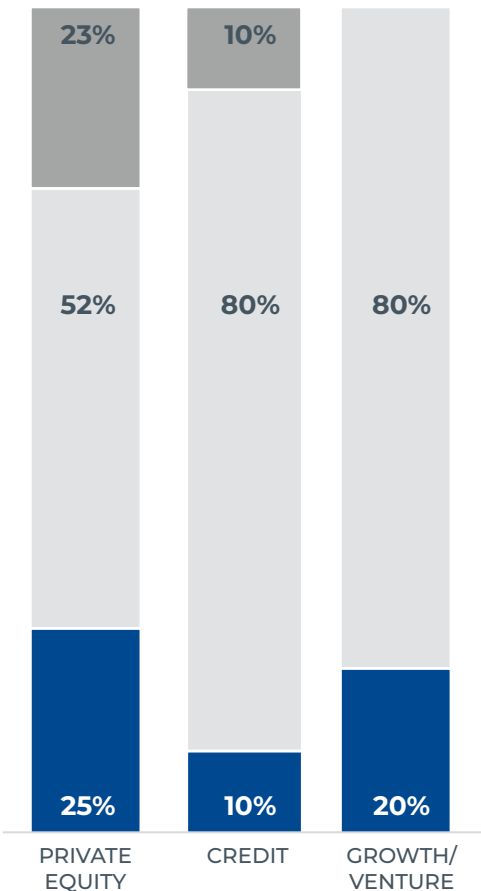
That said, recent LP surveys indicate that 31% of LPs have set Net Zero targets, which will likely flow through to their GPs in the coming years.¹

10% of firms have signed onto the Net Zero Asset Owner Alliance (NZAOA)

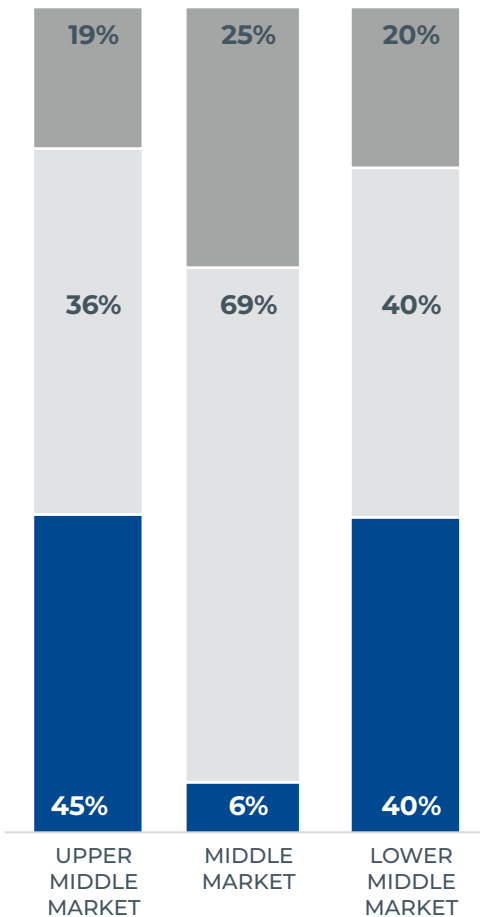
¹ <https://www.bain.com/insights/limited-partners-and-private-equity-firms-embrace-esg/>

Portfolio-level Climate Change Integration

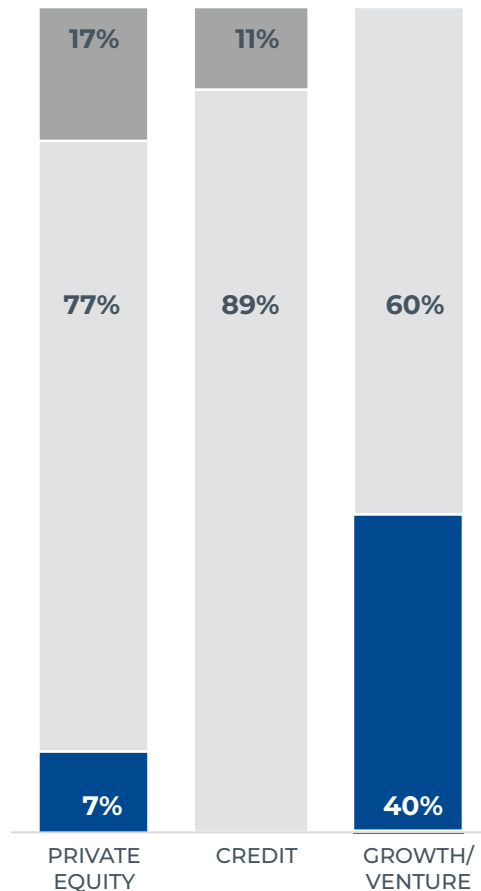
Does the fund track GHG emissions across the portfolio?



Private Equity by AUM: Does the fund track GHG emissions across the portfolio?



Does the fund conduct portfolio-level climate risk assessments?

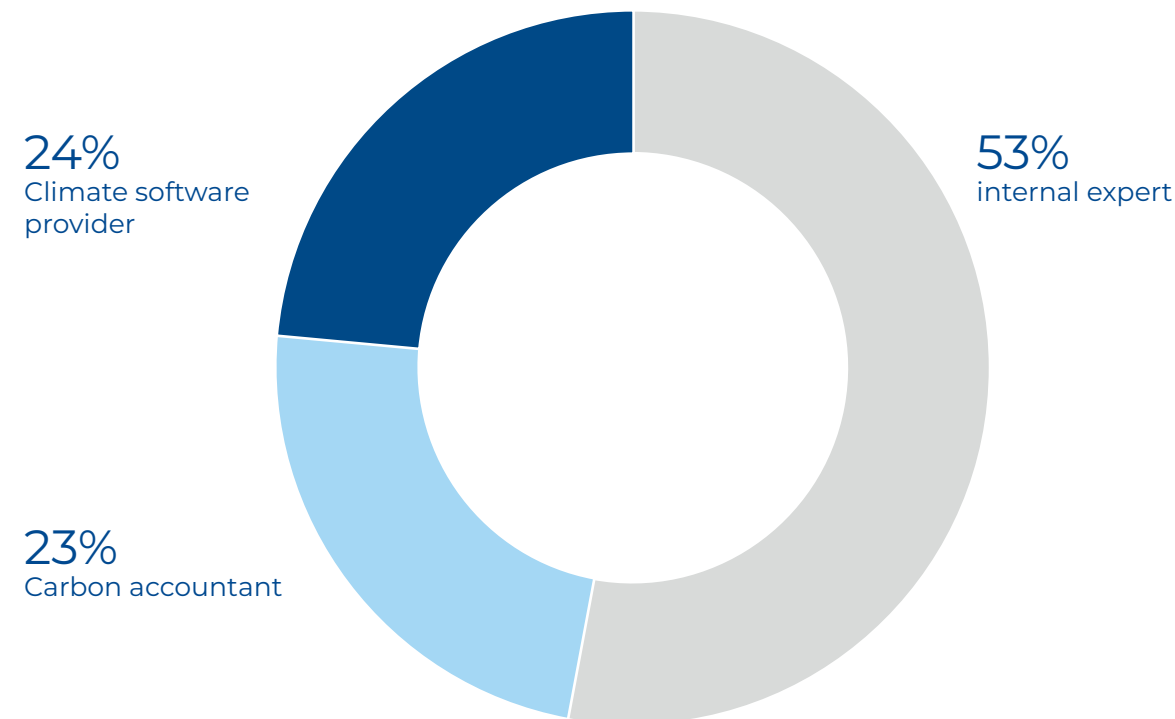


While 25% of private equity investors are tracking GHG emissions across their portfolios and considering climate change transition risks, a much smaller percentage (7%) of private equity investors are actively considering the impact of physical climate change on their portfolio by conducting climate risk assessments.

■ Yes ■ No ■ Inconsistent across portfolio

Portfolio-level Climate Change Integration

How does the fund track GHG emissions across the portfolio?



A growing number of private equity investors are beginning to track GHG emissions across their portfolios, compared to 10% of credit funds and 20% of growth and venture funds.

Several factors may contribute to the increased tracking of portfolio emissions, including LP requests, new regulatory requirements, and updated industry frameworks. For example, the UN PRI includes questions on emissions tracking, while Scope 1 and 2 emissions are required for the EDCI.

Peer Benchmarking

Malk is offering a benchmarking exercise to GPs that are interested in comparing their ESG program to peers. Through the benchmarking exercise, GPs can select the criteria for “peer” including asset classes, AUM and geography.

Interested in learning more?
Reach out to Sara Healy at
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Appendix

Contacts



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Glossary & Key Terms

AUM	Assets Under Management
DEI	Diversity, Equity and Inclusion
DIA	Diversity in Action Initiative
EDCI	ESG Data Convergence Initiative
ERG	Employee Resource Group
ESG	Environmental, Social and Governance
GHG	Greenhouse Gas Emissions
GP	General Partner
ILPA	Institutional Limited Partner Association
ICI	Initiative Climate International
KPI	Key Performance Indicator
LP	Limited Partner
NZAOA	Net Zero Asset Owner Alliance
SBTi	Science Based Targets Initiative
SFDR	The Sustainable Finance Disclosure Regulation
TCFD	Task Force on Climate-Related Financial Disclosures
UN PRI	UN Principles for Responsible Investment

About Malk Partners

ESG is a broad term used to describe a range of considerations related to environmental stewardship, social equality, and ethical governance. Increased pressure on companies to adopt ESG management practices has driven engagement on ESG by owners and operators. Today, stakeholders at all levels — investors, employees, customers, lenders, and the public — expect companies to manage their operations responsibly and sustainably. **Malk is committed to helping businesses of all sizes achieve their ESG goals.**

Malk Partners advises over 100 GPs and their portfolio companies, representing more than \$1 trillion in AUM. Malk's work spans strategy and due diligence services — establishing ESG policies and practices to appropriately manage material risks and opportunities, and to protect and create value through ESG management — across a wide array of industries:

Business Services
Consumer Durables
Consumer Retail
Consumer Services
Energy
Financial Technology

Food Manufacturing
Food Retail
Health Care
Household/Personal
Infrastructure and
Construction

Industrial Materials
Pharmaceuticals
Real Estate
Software
Technology
Transportation



Mitigate Risk.
Make an Impact.
Exceed Expectations.