INFOCUS

PRIVATE AND CONFIDENTIAL

PANTHEON

DECEMBER 2023

PANTHEON PRIVATE MARKETS SUSTAINABILITY INDEX

Contents

Introduction

At Pantheon, sustainability is an important element of our commitment to build secure financial futures. We are invested in ensuring that we integrate sustainability considerations into our processes to manage risk and generate long-term value for our clients. Our approach is encapsulated in a framework that 'TIES' together key components of our strategy as we seek to drive greater: **Transparency** on sustainability practices; **Integration** of sustainability in investment processes; **Engagement** to improve performance and reporting; and **Solutions** to meet our investors' sustainability requirements.

Pantheon's Private Markets Sustainability Index

Pantheon's inaugural Private Markets Sustainability Index (PMSI) cuts across the core elements of our sustainability strategy, providing greater transparency on the degree to which our managers have integrated sustainability into their investment processes. The Index is a useful tool for investors and managers alike, and should foster engagement that can support ongoing dialogue around – and potential solutions for – sustainability-related investment risks and opportunities. Transparency around sustainability integration, supported by robust reporting, is a key area in which our institutional and private clients have been seeking more from their managers.

The PMSI is among the first of its kind in the industry and is built on our annual survey of sustainability practices among our managers. The survey is designed to be a straightforward, user-friendly tool that provides our managers with unique insight into their performance relative to peers across a range of relevant, easy-to-measure sustainability integration considerations. We appreciate the partnership and engagement of our managers; with a response rate over 80%, they have provided a rich data set from which to perform our analysis.

The PMSI provides a comprehensive source of measurement and evaluation of progress in sustainability practices across private markets asset classes, firm sizes and geographies. It moves beyond data collection to creating opportunities for dialogue and the development of solutions. The Index results themselves are not determinative; using them alongside evaluation of the underlying managers' strategy and the inherent risk profiles of their investments supports better investment decision-making.

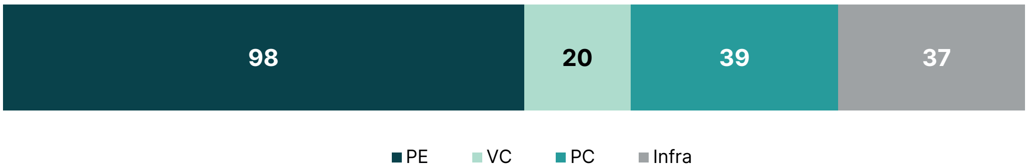
Our approach

Pantheon has undertaken a broad data gathering and analysis initiative to assess how private markets fund managers are approaching sustainability integration across the industry.

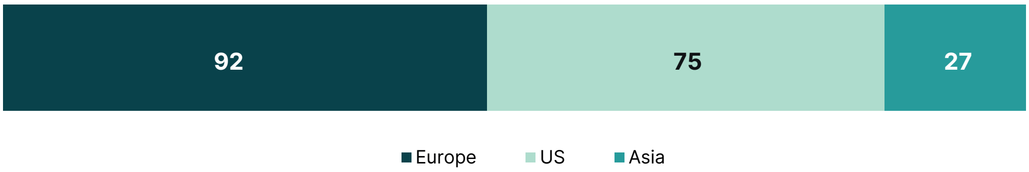
Leveraging the responses to our survey from almost 200 fund managers (General Partners or GPs)[1] across Europe, the US and Asia (including Australia), and Private Equity, Private Credit and Infrastructure (see Figure 1), Pantheon has assessed and provided reporting around key trends in sustainability integration across private markets. Our analysis of the data informs our proprietary Sustainability Scorecards, which are described in greater detail below.

Figure 1:
GP survey response breakdowns

GPs by asset class



GPs by region



The high-level trends from the scorecard ratings and survey findings are captured in the following chapters and provide valuable context on the evolution of sustainability understanding, integration and action. We intend to publish this analysis annually to highlight ongoing progress, and to empower managers with additional data and analysis to help them navigate this rapidly changing landscape.

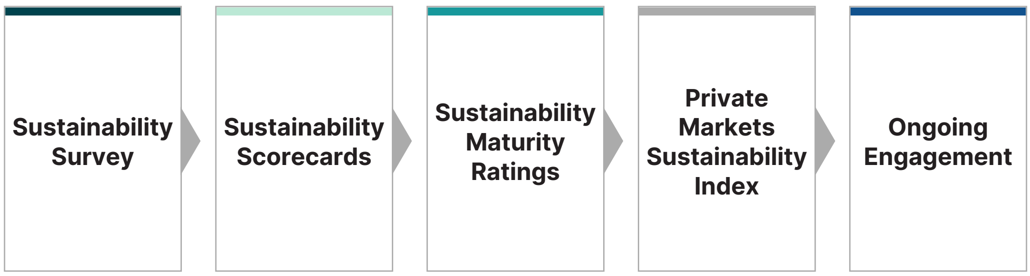
[1] Includes some responses completed by Pantheon's investment teams on behalf of our managers, using information from our sustainability due diligence.

About Pantheon's Sustainability Scorecards

Pantheon has developed a comprehensive and bespoke set of Sustainability Scorecards for fund managers, funds and transactions as an extension of our detailed diligence of investment opportunities. The scorecards were developed to incorporate a range of questions across sustainability-related categories and include industry-standard data sources and leading sustainability indicators. Scorecard questions are weighted to reflect the degree to which we believe they are integral to a robust sustainability program. Relevant Sustainability Scorecards are completed in advance of final committee discussions for each prospective investment, across all asset classes and deal types. The output of each scorecard provides a sustainability rating or maturity assessment, which is based on our evaluation.

Responses to our 2023 sustainability survey were used to populate our Fund Manager Sustainability Scorecards, which create a bespoke **Sustainability Maturity Rating** for each participating manager, assigning an overall rating from one to five stars. The manager's maturity rating includes a detailed breakdown within each of five separate categories: Sustainability Oversight and Implementation; Reputational Risk; Climate; Diversity, Equity & Inclusion; and Biodiversity. We provide ratings on each of these categories to provide an insight into areas of strength and highlight areas for development, providing the basis for ongoing engagement on these important issues over time.

Figure 2:
PMSI supports ongoing sustainability engagement



Fund manager ratings: Scoring methodology

Overall fund manager star rating: Pantheon considers five broad categories when analysing fund managers, resulting in a manager maturity rating of one to five stars (5 stars = Leading, 4 stars = Advanced, 3 stars = Credible, 2 stars = Progressing, 1 star = Emerging). To further identify the leading managers on sustainability integration, our highest rated managers have been assigned a 5 star Excellent (or '5*+') rating.

Category scores: The overall GP star rating is based on each manager's performance, rated A-E, on a range of questions across each of the following categories:

Oversight and Implementation
Focuses on the integration of sustainability factors into investment decision-making and the policies, processes and practices that enable this, including the fund manager's policy, board and management oversight, dedicated resources, PRI signatory status, industry body involvement, training and reporting.

Reputational Risk
Concerns potential reputational issues that the GP or underlying companies may have experienced relating to environmental or social factors. Pantheon also considers any potential issues relating to anti-competitive behaviour, bribery, corruption, criminal activity, lobbying, and issues associated with executive remuneration or political contributions.

Climate
Assesses the manager's approach to climate-related risks and opportunities, including governance, due diligence and engagement with portfolio companies, commitment to climate-related policies, and any formalized climate targets.

Diversity Equity and Inclusion (DEI)
Considers relevant policies implemented by the manager relating to DEI, diversity of senior teams, as well as commitments to both internal and external industry initiatives that are aimed at improving diversity and inclusion.

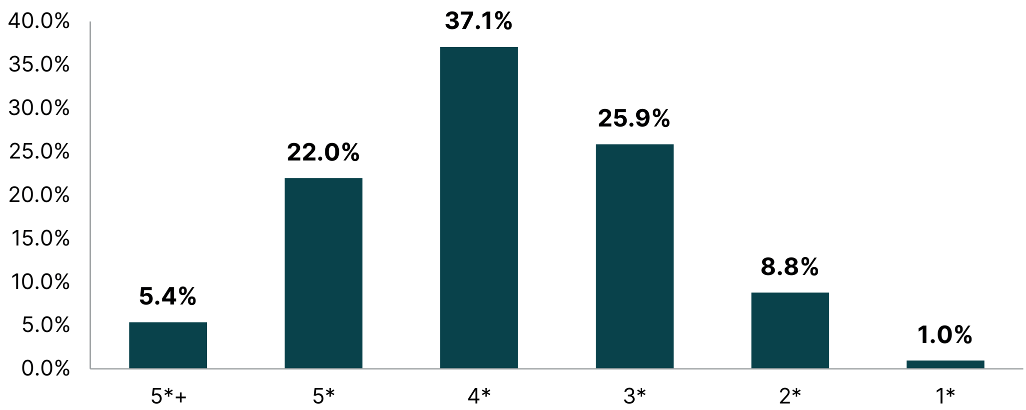
Biodiversity
Evaluates whether the manager has included biodiversity considerations in their sustainability policy, as well as whether such considerations are integrated into their broader investment processes.

Sustainability maturity across the industry

Sustainability maturity across asset classes and geographies in private markets focuses on embedding key sustainability considerations and principles at the core of investment decision-making, monitoring and engagement, with the aim of identifying and navigating long-term material risks and supporting value creation.

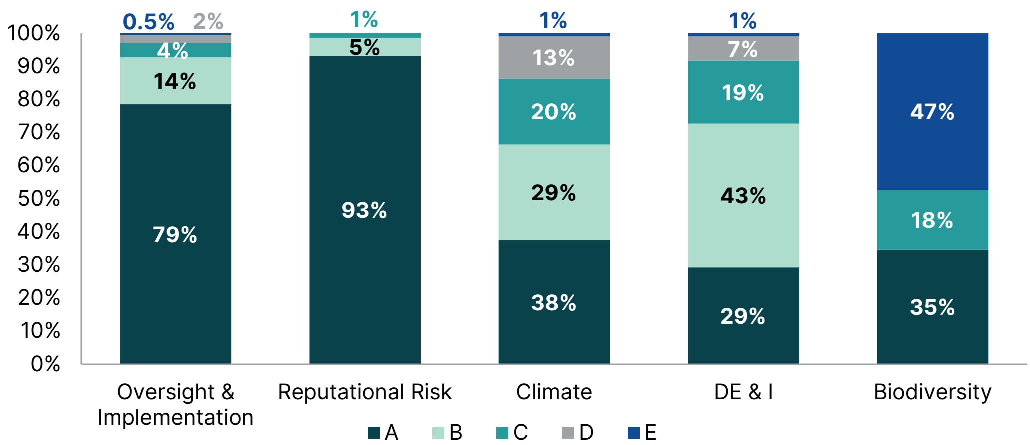
Our ratings suggest there is a high level of sustainability integration across private markets asset managers, with approximately 64% of GPs overall rating at least 4 stars – and more than 27% receiving the highest rating of 5 stars.

Figure 3:
GP sustainability maturity rating



Within the underlying categories, the highest concentration of A scores were in sustainability Oversight and Implementation (79%) and Reputational Risk (93%), although aggregated Climate and DEI scores were also mostly C or above – 87% and 91% respectively. Biodiversity scores highlight this area as an emerging theme, with more than 50% of managers scoring above C. Our discussion of the findings below focuses primarily on Oversight and Implementation, Climate and Biodiversity, given the breadth of data available across asset classes and regions and the relationship of these factors to investment risk and opportunities.

Figure 4:
GP scores by underlying category



Delving into the detail, our data shows that sustainability has a high degree of senior oversight and strategic focus, positioning it as a well-integrated aspect of firms' daily investment activities. More than 85% of fund managers across all asset classes and geographies have management-level oversight of sustainability, with more than 70% delegating this responsibility to the Partnership Board or equivalent executive committee.

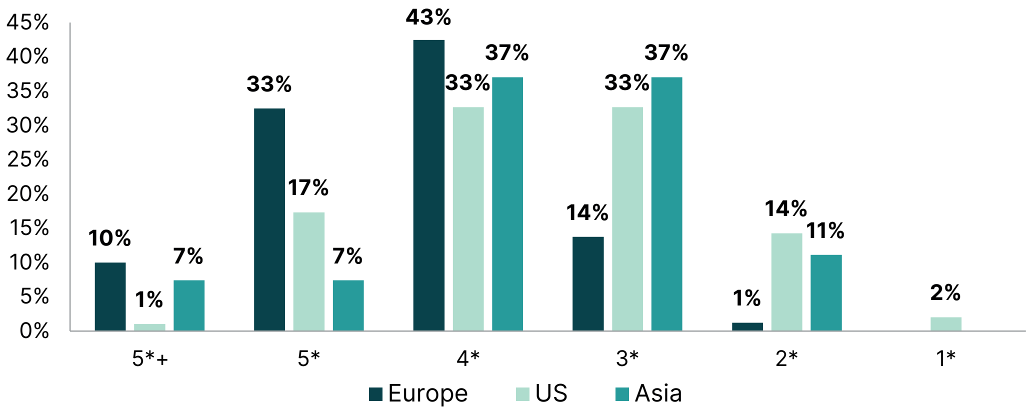
Moreover, more than 97% of GPs (excluding Venture Capital managers) across all categories have a formal sustainability or ESG policy in place, while a similarly high percentage of managers in each asset class formally integrate sustainability considerations into their investment processes. The high rate of policy adoption and integration with due diligence procedures indicates the sector's commitment to structured and systematic integration of sustainability principles.

Manager policies with respect to DEI practices reflected overall a considerable degree of maturity. Infrastructure investors were marginally ahead of other asset class peers with respect to having established DEI policies (87%), compared to Private Credit (85%) and Private Equity (78%) managers. Diversity among senior management varied from 82% in Infrastructure, 71% in Private Credit, and 56% among Private Equity managers, but was highest among Venture Capital managers at 85%.[1] Commitments to DEI considerations in recruitment were over 90% across asset classes and regions, while more than 90% of managers reported support for industry DEI-focused initiatives such as Level 20, SEO, ILPA's Diversity in Action initiative and 10,000 Black Interns.

Global and regional trends

Regional data reinforces general industry sentiment that European managers are more developed in sustainability integration and governance, underscoring the relative maturity of sustainability practices in Europe, where the regulatory and investor demands for sustainability standards and reporting have been higher for longer. However, responses among managers in the US and Asia indicate a high degree of global consensus around sustainability integration.

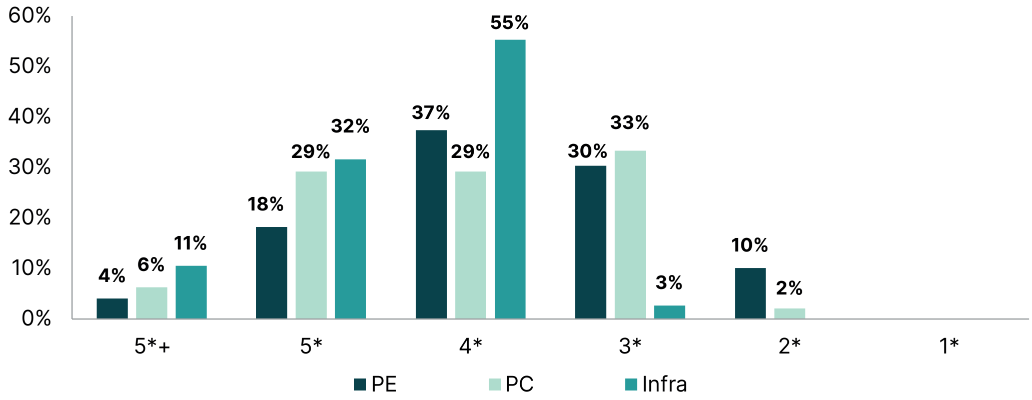
Figure 5:
GP Sustainability Maturity ratings by region



[1] Consistent with the ILPA Diversity in Action Framework, we asked managers whether at least one individual in their senor management and not less than 20% of the total identify as a woman or a person from a minority ethnic background.

European managers are more advanced in designating oversight of sustainability policies to the partnership board or equivalent senior leadership. They are also more developed in their participation in industry-wide initiatives, with 80% of managers being signatory to one of either the PRI or GRESB. Managers in the US and Asia had lower participation in these two industry initiatives, at rates of 39% and 44%, respectively.

Figure 6:
GP sustainability maturity ratings by asset class



Examination of oversight and implementation across the different private markets asset classes reveals some differences in sector-specific commitment and strategic positioning, with Infrastructure managers scoring higher overall, and a clear trend toward increasing integration across Private Equity and Private Credit managers as well.

Overall, Infrastructure managers outscored other asset classes with 97% of managers scoring 4 stars or above, and 43% receiving 5 stars. For Private Equity 90% of managers scored at least 3 stars, with 19% scoring 5 stars, while for Private Credit 98% scored at least 3 stars, with 35% scoring 5 stars.

The progression of sustainability considerations is also marked by increases in the number of managers who currently have funds classified as Article 8/8+/9 under the European Union's Sustainable Finance Disclosure Regulation (SFDR), or that plan to launch one in the next 12 months. These are funds which either 'promote environmental or social characteristics' or target 'sustainable investments' in accordance with the SDFR. Among Infrastructure managers, 78% offer or plan to offer these types of funds, compared with 56% of Private Credit managers and 33% of Private Equity managers. Advances among Infrastructure managers are, in general, attributable to stronger investor demand for greener products relative to Private Equity, given the inherent capability of Infrastructure managers to support the decarbonization of energy, industry, utilities and transportation, and scale low-carbon technologies.

Asset class trends: Venture Capital

According to the UN Principles for Responsible Investment (PRI), Venture Capital (VC) investors and the start-ups that they invest in have, in general, been somewhat slower to adopt sustainability commitments and practices. Our survey found that, overall VC managers averaged 3 stars ratings.

In the Oversight and Implementation category, 45% of VC managers received an overall “A” score – significantly lower than their private markets peers, with the average closer to “C”. With respect to governance, three in four managers have a sustainability policy, the majority place oversight of sustainability with their Board and integrate sustainability considerations into their investment process, and just under 50% have at least one dedicated sustainability professional. Sustainability reporting is an emerging trend, with 20% producing either public or investor reporting, with a further 20% noting this was an area in development.

The results indicate, however, a greater runway for VC managers to develop and enhance their sustainability practices, and we see signs of that progress in Climate, where they are less mature, but making headway in a number of areas. Approximately 60% of managers integrate climate considerations into their investment processes, while one in three have a climate policy. Engagement on climate-related matters is reported by 50% of VCs, and several VC managers, leading in integrating sustainability considerations, are starting to measure portfolio GHG emissions and are in the process of setting Net Zero targets.

Finally, we note that a recent PRI survey of VC managers indicated that while DEI is a focus area, sustainability overall is not well integrated within VC investment teams. These findings align with our results – as noted above, VC managers were considerably more advanced in their DEI integration. DEI policy formation was in line with PE managers at 75% and was at 60% among managers with more than $5bn in assets under management. Recruitment practices were in line with other GPs, with 90% taking DEI into consideration. Senior-level diversity was the highest of the asset classes at 85%, and engagement in VC-focused sustainability and DEI industry initiatives, including Venture ESG, ESG VC, Future VC and Diversity VC, is beginning to emerge.

Oversight and Implementation: The fundamentals

This area measures the level of sustainability Oversight and Implementation to examine the degree to which managers across asset classes have taken steps to integrate sustainability factors across key operational components, such as investment decision-making and the policies and practices that underline it, board and management oversight, and industry body involvement.

Implementation: Industry advances in harmonizing sustainability data and disclosures

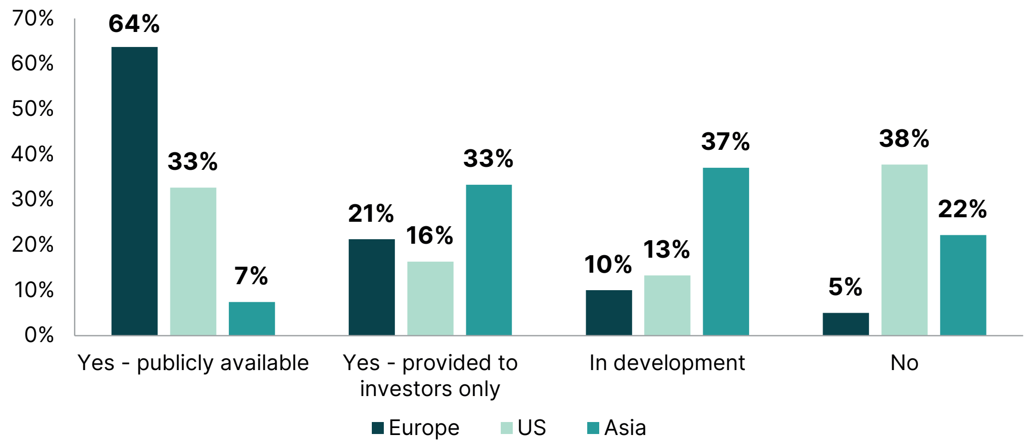
A rapid evolution in regulatory requirements and investor demand has resulted in an abundance of sustainability reporting frameworks and templates. More recently we are starting to see some harmonization of portfolio company metrics being collated and reported by managers, driven by regulatory demands in Europe, such as the SFDR, the Task Force on Climate Related Financial Disclosures (TCFD) and a consensus-driven, industry-led initiative in the US, the ESG Data Convergence Initiative (EDCI).

The EDCI's pragmatic approach to distilling six core ESG metrics has made it an accessible, replicable reporting tool that is rapidly emerging as a clear industry standard. We see significant adoption of the EDCI across our survey, as a quarter of both our Infrastructure and Private Equity managers mention formal or informal support for the initiative. **Our survey found that 58% of Infrastructure managers and 44% of Private Equity managers indicate a willingness to report using the EDCI template, illustrating the degree to which it is gaining traction across private markets.**

Global and regional trends

With respect to overall sustainability policy, we see broad adoption across asset classes globally (see Figure 7 on page 12 for regional trend data). Almost all managers across Private Equity (excluding Venture), Private Credit and Infrastructure have a sustainability policy (98%) and integrate ESG factors into the investment process (97%). Regionally, with respect to progression in reporting, Europe leads in terms of sustainability reporting, with 85% of managers providing some form of reporting, followed by US managers (49%) and Asia managers (40%). Notably, 37% of Asia managers are in the process of developing reporting.

Figure 7:
Sustainability reporting by region



Asset class trends: Infrastructure

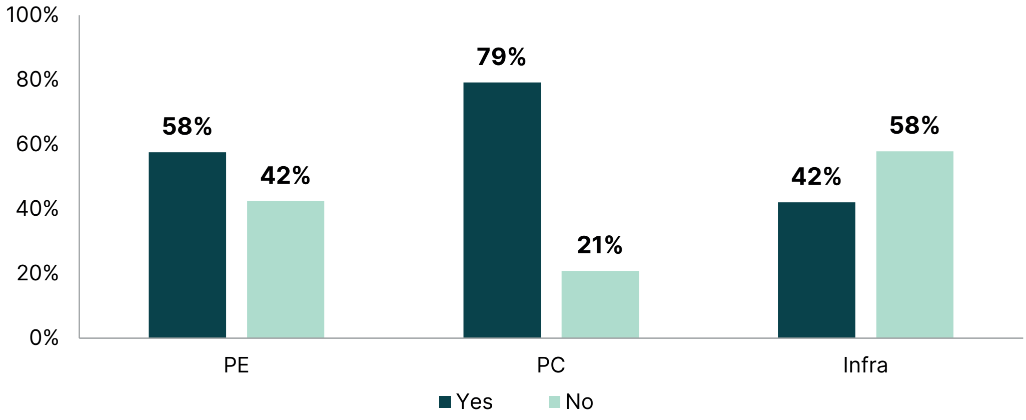
Given the regulated nature of many Infrastructure sectors and assets, as well as the fact that many Infrastructure Investments involve partnership with, or sanction by, local, regional or national governments, Infrastructure managers tend to have more developed sustainability practises and processes.

Infrastructure managers exhibited higher overall scores for governance, with 100% assigning responsibility for sustainability issues at management level, and 95% delegate this responsibility to a governing partnership board or equivalent. Moreover, every Infrastructure manager in our survey has a sustainability or ESG policy in place, already produces or is developing formal sustainability reporting (95%), and has integrated sustainability into their investment processes.

Our survey also considered whether managers were involved in industry initiatives that work to promote enhanced sustainability practices and annual reporting across the industry. For this analysis, we focused attention on two organizations that have become a point of convergence across the industry: the PRI, which is the world's leading proponent of responsible investing, with almost 5,000 signatories, and GRESB, which is an independent organization that provides validated sustainability data and benchmarks for real asset investors.

Interestingly 92% of Infrastructure managers are PRI signatories, with GRESB participation at just under 40%. All of those who participate in GRESB are also PRI signatories, suggesting that GRESB is largely viewed as an extension of managers' commitments to sustainability reporting.

Figure 8:
PRI signatories by asset class

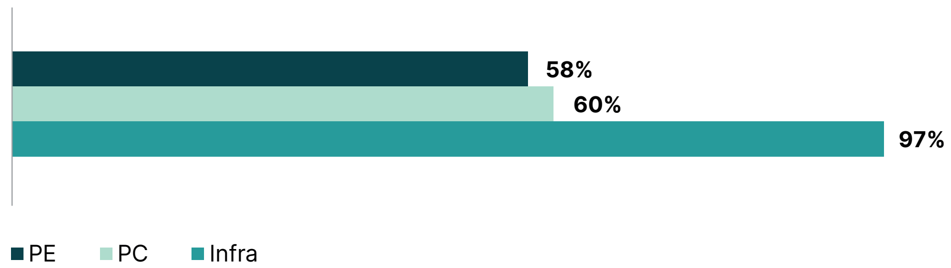


Asset class trends: Private Equity and Private Credit

While Infrastructure leads in sustainability Oversight and Implementation, the data reveals heightened consideration among Private Equity and Private Credit investors as well, suggesting a broader industry shift towards elevated sustainability practices.

A very high proportion of Private Equity managers have assigned responsibility for sustainability oversight to management (93%) and partnership board levels (83%). Partnership board oversight was higher among Private Credit managers at 92%. Private Credit and Private Equity managers are less advanced than Infrastructure in terms of sustainability reporting, however 60% and 58% respectively provide some form of sustainability reporting.

Figure 9:
Sustainability reporting by asset class



Notably, all Credit managers integrate sustainability considerations into their investment processes, putting them on par with Infrastructure, while more than 80% of managers are signatories of PRI, surpassing Private Equity. Approximately half of Private Equity managers globally were signatories of PRI, although this varied by region.

Climate: The drive to decarbonize

Analysis of the high-level integration of sustainability factors across private markets speaks to a sector acutely aware of the immediate and long-term impacts of sustainability risks – and related opportunities. With respect to Climate in particular, we see significant commitment to climate-related policies, with 86% of managers scoring between A-C on Climate within our survey, 38% of which received the highest scoring of A.

Imperatives around Climate are driven by the increasing recognition of climate risk as an investment risk. We see, for example, supply chains disrupted by physical risks such as the increase in natural disasters in recent years, regulatory regimes influencing emission-intensive industries, or changing consumer preferences, such as the phasing out of non-recyclable plastics. Climate risk also presents investment opportunity, for example rising costs of energy encouraging greater emphasis on securing renewable energy sources.

In a rapidly changing regulatory landscape for managers, investors are increasingly demanding climate-related data, both in terms of disclosures and metrics, to measure progress. Global industry standards and commitment initiatives such as the Net Zero Asset Managers initiative (NZAM) and Science Based Target initiative (SBTi) have sought to coalesce industry participants around common standards and practices, although the breadth of their memberships across sectors and industries can pose challenges to standardized approaches.

With respect to private markets in particular, industry groups such as the private market GP-led Initiative Climate International (iCI), Ceres, a US-led climate initiative, and the Sustainable Markets Initiative's (SMI) Private Equity Task Force have supported best practices and practical applications. The iCI has collaborated to develop, among other tools and resources, a Private Market Decarbonization Roadmap (PMDR), as well as TCFD and GHG emissions accounting and reporting guides for private markets investors, while the SMI has produced guidance on valuing carbon in private markets. Within our survey, iCI was one of the most widely reported initiatives across respondents, with 32% of Infrastructure managers participating, and 19% of Private Equity managers.

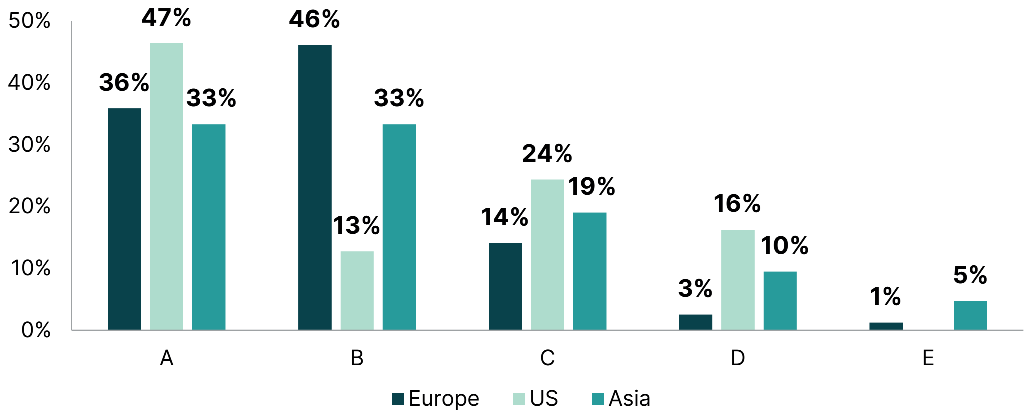
Ongoing coalescence across industry participants and organizations has led to increases in oversight and management of climate-related risks and opportunities and policy developments, which in turn have led to greater levels of commitment, target setting and action. Generally, GPs approach this process in stages: integrating climate risk into their investment decision-making; engaging with portfolio companies on climate risks and opportunities; formalizing oversight and policies; collating and reporting data (Scope 1, 2, etc.); and finally setting portfolio emission reduction targets and making Net Zero commitments. SBTi Private Equity sector-specific guidance, released in 2021, enables managers to set clear, ambitious, third-party verified emission reduction targets and we see an increasing trend towards managers committing to and setting science-based targets (SBTs) i.e. a target verified by the SBTi. Of those surveyed that set emission reduction targets, 10% had committed to setting a SBT and 17% already had a SBTi-verified target.

Finally, we see increasing Net Zero commitments across private markets. Infrastructure investors have taken the lead in this area, followed by Private Credit and then Private Equity. However, Private Equity has a key role to play in terms of emission reductions across industries, and we see that managers are engaging to decarbonize through emission reduction targets. Overall we found that 94% of managers that set Net Zero commitments have an emission reduction target. We expect to see the launch of the SBTi Financial Institution Net Zero Standard by Q1 2024, which will encourage standardization and enable third-party verification of Net Zero commitments. Similar to the Private Equity specific sector guidance for setting SBTs released in 2021, this forthcoming Net Zero standard for the financial sector will likely require sector-specific guidance, given the longer holding periods and blind pool nature of private markets funds.

Global and regional trends

On a geographic basis, European managers are generally more advanced, likely, as noted earlier, due to a more progressed regulatory regime and history of emphasis on climate considerations. Managers in Asia and the US have made more progress in integrating climate considerations into investment processes than they have in establishing their governance and policy regimes, but overall we see strong progress.

Figure 10:
Climate scores by region



European managers were again the highest scoring on Climate, with more than 80% having or developing a climate policy, more than 75% assigning responsibility for climate risk at the partnership board level, and more than 90% integrating Climate into the investment process and engaging actively with portfolio companies.

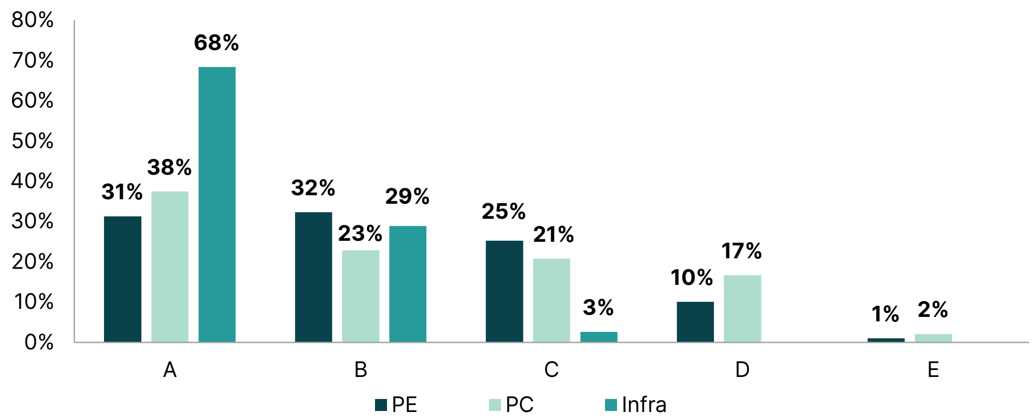
An increasing focus on Climate was evident across evident Asia and the US, although Climate appears slightly higher on the agenda for managers in Asia compared to the US, with a greater proportion of managers in Asia integrating climate risk into the investment process (82% versus 75%) and engaging with portfolio companies on climate matters (74% versus 67%).

Asset class trends: Infrastructure

Across asset classes, Infrastructure managers were the most developed on climate-related matters with 97% of all managers scoring either an A (68%) or a B (29%). Scores were still robust among Private Equity and Private Credit managers, with 63% and 66% of managers respectively scoring either an A or B.

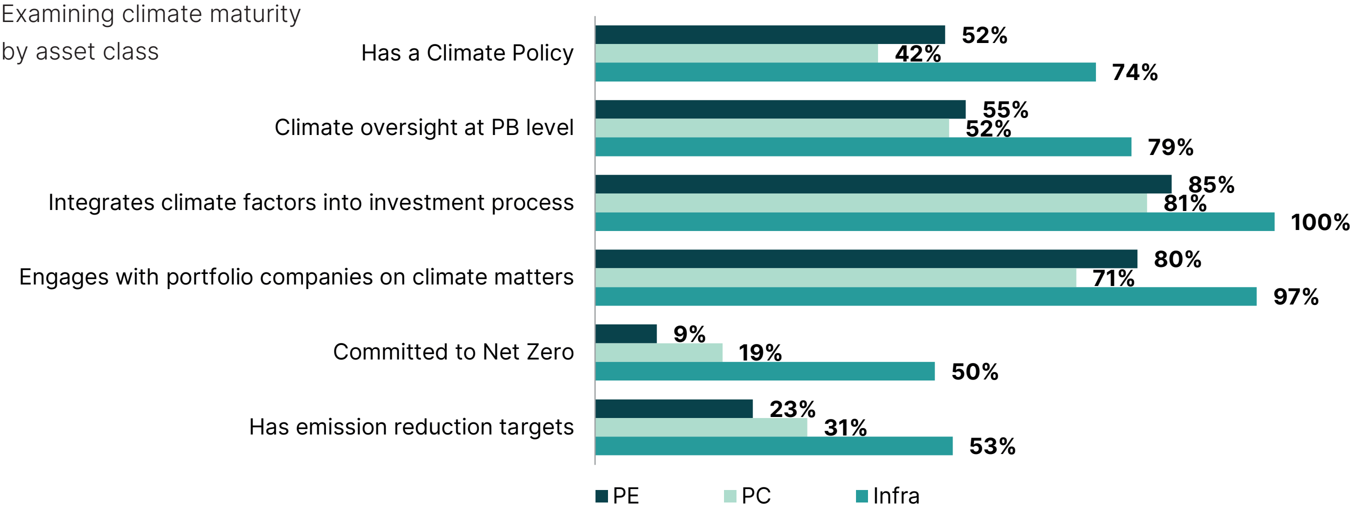
As we saw with broader sustainability integration and governance-related metrics, Infrastructure managers continued to lead in climate-related areas as well.

Figure 11:
Climate scores by asset class



Infrastructure's higher scores relative to Private Equity and Private Credit is notable across key areas assessed, as outlined below, however there is strong evidence of momentum across both asset classes.

Figure 12:
Examining climate maturity by asset class



Climate policy
Likely reflecting the more regulated nature of the assets and direct environmental impacts that can arise, Infrastructure managers scored highest in this category, with more than 74% of managers already having a Climate policy and a further 5% currently developing one.

Climate risk
Infrastructure managers are also more likely to delegate specific responsibility for climate risk to senior management, with almost 80% delegating this at partnership board level, and to have integrated climate risk into investment processes, with 100% of managers stating this is the case. Meanwhile, 97% of managers are actively engaging with their portfolio companies on climate risk and opportunity.

GHG emission reporting
With global convergence around the quantification and attribution of 'financed' (i.e. portfolio) GHG emissions, and increased – often regulatory-driven – demand for transparency from investors, robust emissions reporting is evident across Infrastructure managers. Almost 100% of Infrastructure managers provide some Scope 1 and 2 emissions data, while two-thirds of Infrastructure managers provide some Scope 3 emissions data.

Net Zero commitments
Half of all Infrastructure managers have already committed to a Net Zero target, with an additional 16% saying they are working towards doing so. That means approximately two-thirds of Infrastructure managers have already, or are actively pursuing, tangible actions to commit to and achieve Net Zero across their portfolios.

Asset class trends: Private Equity and Private Credit

Among Private Equity and Private Credit managers, climate-focused policies and considerations are still developing. As compared to Infrastructure investors, the range of investment styles and breadth of industries covered can create a more complex landscape when approaching climate risks and opportunities.

Climate policy
Given Private Equity managers' ability to directly engage and influence the portfolio, Private Equity leads Private Credit on Climate policy, with >50% of Private Equity managers with a Climate policy in place compared to 40% of Private Credit managers. A meaningful proportion of managers across both Private Equity (13%) and Private Credit (19%) are developing a Climate policy.

Climate integration and engagement
Approximately 80% of Private Equity and Private Credit managers actively integrate Climate into their investment processes, while 80% of Private Equity GPs and 71% of Private Credit GPs are actively engaging with their portfolio companies.

GHG emission reporting
Two-thirds of Private Credit managers are reporting Scope 1 and 2 emissions compared to just over half of Private Equity managers. However, there is evidence of an increasing uptake as one in five Private Equity and one in six Private Credit managers aim to report on GHG emissions within the next 12 months. Moreover, increasing sophistication is evident, with half of Private Credit managers and 40% of Private Equity managers reporting Scope 3 emissions.

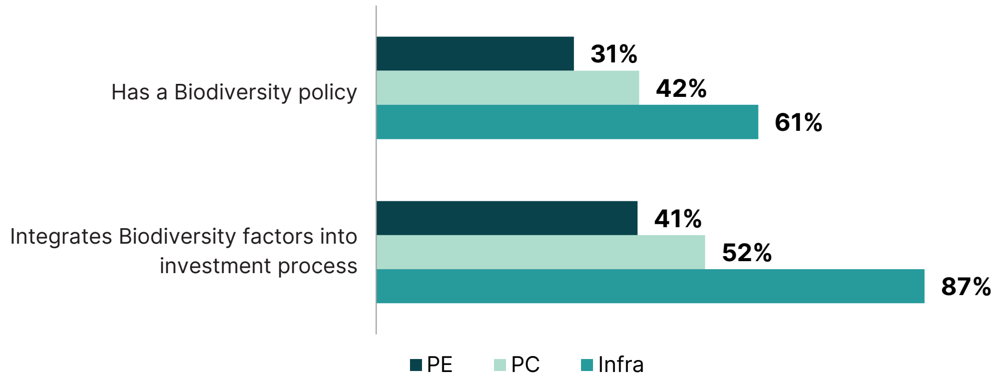
Net Zero commitments
It is notable that far fewer Private Equity and Private Credit managers have currently set a Net Zero target, with just 7% of Private Equity managers and 18% of Private Credit managers having done so. However, given the complexities in this area it is an obvious sign of evolution that these numbers rise to a very meaningful percentage when managers working towards a Net Zero target are included, accounting for 34% of Private Equity managers and 46% of Private Credit managers. Moreover, 19% and 29% of Private Equity and Private Credit managers respectively have set a carbon emissions reduction target.

Biodiversity: Rapid evolution

Biodiversity loss is recognized as an increasingly urgent global challenge, ranking as the fourth most severe threat humanity will face in the next 10 years in the World Economic Forum's WEF1 Global Risks Report 2023. The report cites central bank-led biodiversity impact and assessment studies which found that between 35% and 54% of assets held by financial institutions are highly or very highly dependent upon ecosystem services, which means biodiversity risk is also investment risk.

Biodiversity is also likely to play a pivotal role in sustainability policy in the future, as regulation and public policy evolve to drive greater engagement on these issues. Examples include Article 29 legislation in France, biodiversity considerations in the EU's Sustainable Finance Disclosure Regulation (SFDR), and the recent launch of the Task Force for Nature-Related Financial Disclosures (TNFD), an international initiative aiming to harmonize biodiversity reporting.

Figure 13:
Biodiversity by asset class



Regional and asset class trends

Our data shows a broader industry movement towards considering biodiversity in sustainability frameworks. European managers are leading in this category, with almost 60% having established policies, followed closely by those in Asia (52%), whereas US managers are still emerging at 20%. In terms of integrating biodiversity considerations into the investment process, over 70% of European managers do so, again followed closely by Asia (67%) and approximately one-third of US managers.

Across asset classes, Infrastructure managers are again more developed in their approach. A noteworthy 61% of Infrastructure managers already have biodiversity included in their sustainability policies, while 87% have integrated it into investment processes. The elevated scores may to an extent be attributed to the nature of Infrastructure assets, which, due to their more direct impact on ecosystems, can pose heightened potential risks and therefore face increased regulatory scrutiny. Given the intersection of many Infrastructure investments with nature, managers in this asset class are likely to face a range of transition risks (see Figure 2), as policy makers, businesses and consumers look to address environmental change. For example, industry initiatives such as the EU Biodiversity Strategy, which has set a 30% minimum target for land to be protected, and the 2022 Kunming-Montreal Global Biodiversity Framework adopted at COP15, which seeks to halt and reverse biodiversity loss by 2030, create a range of risks that current or future Infrastructure investments may overlap with protected areas, and therefore face higher scrutiny and potential reputational challenges.

However, Private Equity and Private Credit managers are also developing in this area. Private Credit managers in particular have increased focus on biodiversity, with 46% having this covered formally within their broader sustainability policies and 59% integrating into investment processes. Among Private Equity managers, the relative scores are lower but still material, at 28% and 36% respectively.

Looking forward

Our data shows a significant movement towards greater sustainability integration across the private markets asset classes, emphasizing the work that has already been done to increase governance and management oversight of this area, develop policy and integrate sustainability into core investment processes. Climate is clearly the area that is most developed across the industry currently, but it is equally clear that biodiversity is a fast-emerging area that will become a key topic in the years to come, supported by increased regulation and industry guidance.

Looking forward, we are actively using the data from our Sustainability Scorecards and this Private Markets Sustainability Index to drive engagement with our managers across the industry. It is a symbiotic process; in order to produce valuable insights and scoring we rely on our GPs’ time, willingness and transparency – and by reflecting this back, in ratings for each manager and in aggregated data that provides a benchmark for their performance relative to peers and the industry, we can provide a platform on which to drive continued improvement that will support managers’ wider imperatives to manage risk and create value for private markets investors.

IMPORTANT DISCLOSURE

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