GPs' Global ESG Strategies:

Disclosure Standards, Data Requirements and Strategic Options

2023

Sustainable Finance Series

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About our European Sustainable Finance Series and this report

Since 2020, our European Sustainable Finance Series has been offering survey-backed perspectives on the era-defining opportunity that ESG represents for Asset Managers across Europe's public and private market landscapes. Across the three reports published to date, we have taken stock of the key trends propelling the 'ESG shift' across the region's mutual funds, private markets and fixed income industries – formulating key actions that the Managers operating in these spaces should consider taking in order to seize the ESG opportunity with both hands.

Given the rate and scale with which the ESG paradigm shift has expanded into a truly global trend since the start of this series, this report – the fourth of the series – will take a deep dive into how regulation has driven the ESG uptake across the EU, UK, US and APAC. Specifically, we will take stock of the past, present and expected regulatory developments of each region, delving into how these are perceived by LPs and GPs in each jurisdiction, as well as the challenges created, the opportunities unlocked, and the changes required.

We use our findings to make informed recommendations as to the key actions that General Partners should consider in order to navigate the changing ESG landscape and unlock the opportunities it presents. We have further enhanced our report based on a wide range of primary data gathered through a survey of 300 GPs and 300 LPs across all four jurisdictions.

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Introduction
ESG: TINA?

"There is no alternative" – a sentence that emerged in the mid-19th century and which found its way into common political and economic parlance, reflecting the commonly-held conviction that inaction is not an option, even in a world of imperfect alternatives. What if we applied TINA to the environmental, social and governance (ESG) paradigm that has been shaping the global asset and wealth management (AWM) industry? Regardless of one's views and hesitations on ESG – whether its benefits ultimately outweigh its costs – one thing is clear: ESG is here to stay, as both the AWM industry and policymakers appear set on an irreversible course of action.

In recent years, the concept of sustainability has transformed from a concern expressed by a limited number of ESG-aware groups into an era-defining societal issue that resonates worldwide. The direction of travel is set by international agreements and commitments (i.e., Kyoto Protocol, Paris Agreement), but roadmaps and standards remain to be harmonised – or at least rendered more compatible.

The direction of travel is set

As the economic boom of the late 1960s across Western Europe and North America was in full swing, an increasingly visible externality materialised: Air pollution.

Sustainability came to the forefront of the global agenda in March 1972 when the Club of Rome published 'Limits to Growth,' a landmark report which concluded that the Earth's natural resources could not support present rates of economic and population growth beyond the year 2100. The report represents the flint which sparked the sustainable revolution, broadcasting to the world that its current economic *modus operandi* threatens the natural basis of life for future generations.

Thereafter, the UN Environmental Programme (UNEP) was established, and in the following years we saw a gradual acceleration in the number of pivotal milestones in the sustainability race.

Late 1960s
- The **environment becomes a policy priority** as pollution becomes ever-more visible throughout the world

1972
- The Club of Rome **publishes 'Limits to Growth,'** showing that the Earth's resources will not be able to cope with present rates of economic and population growth
- **UN Environmental Programme** is established

1987
- The **Montreal Protocol bans CFC gases** to protect the Ozone layer
- The UN's **'Our Common Future'** report, which defined the concept of sustainable development, is published

1989
- The Exxon Valdez, an oil supertanker, accidentally runs aground the Alaskan coastline, causing a **major oil spill with devastating environmental consequences**

Early 1990s
- The UN's **'Agenda 21,' a non-binding action plan to promote sustainable development,** is published (1992)
- The **UN Framework Convention on Climate Change** enters into force (1994)

1997
- The **Kyoto Protocol** is adopted, which sets GHG emissions reduction targets for countries and establishes market mechanisms for trading emissions permits
- The **Global Reporting Initiative** (GRI) is founded

Early 2000s
- High-profile corporate fraud, such as the Enron (2001) and WorldCom (2002) scandals, **strengthen calls for good governance in the public and private sectors**

2004
- **"ESG"** appears for the first time in 'Who Cares Wins: Connecting Financial Markets to a Changing World,' a UN Global Compact Report

Mid-2010s
- The UN 2030 Agenda sets out the **17 Sustainable Development Goals** (SDGs) which strongly intersect with ESG principles (2015)
- The **Paris Climate Accords,** which seek to limit global warming to below 2 degrees Celsius compared to pre-industrial levels, come into force (2016)

Source: PwC Global ESG & AWM Market Research Centre

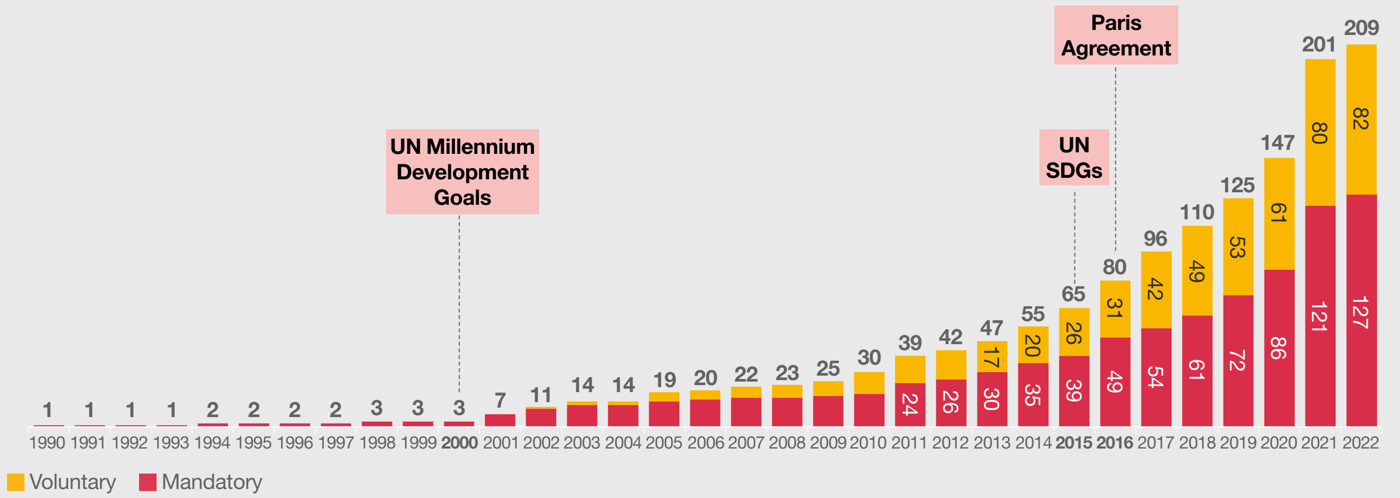
However, while these concerns were undoubtedly fast emerging into the spotlight of the global political stage, sustainability challenges – and the actions necessary to tackle them – were largely seen as the responsibility of sovereign nations and sustainability-conscious companies.

Freedom of action transformed into mandatory standards

This all changed with the 2016 ratification of the Paris Climate Accords, which represent an all-encompassing turning point in the global sustainability landscape. By asserting that private capital would be essential in attaining the sheer scale of investment needed, the first link between the financial services sector and the attaining of sustainability goals was established.

On the back of this, global policy makers and regions committed to the Paris Agreement, setting legal standards and defining regulatory standards. This clearly changed the tone, transforming an environment of voluntary commitments into mandatory standards. As a result, we saw the number of sustainable finance policy interventions globally aimed specifically at Asset Managers and Asset Owners more than tripling between 2015 and end-2022 alone (cf. exhibit 1).

Exhibit 1: Cumulative number of responsible investment policy interventions* globally



*Note: Only policy interventions aimed at Asset Managers and Asset Owners

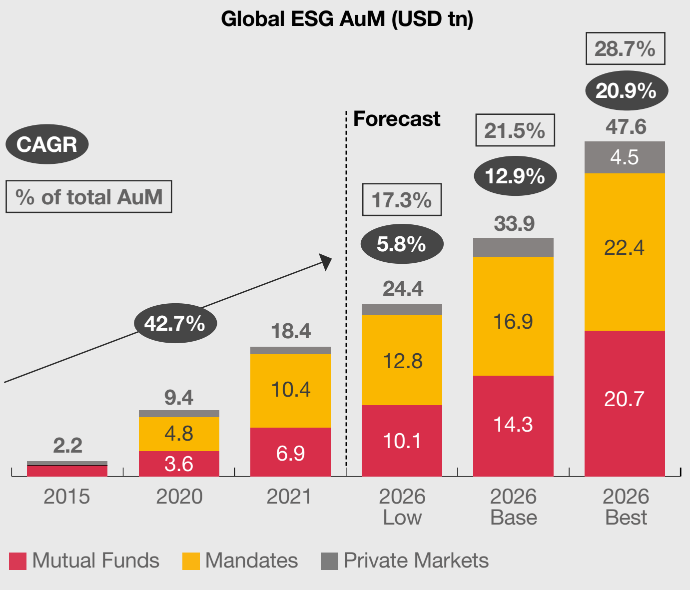
Sources: PwC Global AWM & ESG Market Research Centre, UN PRI

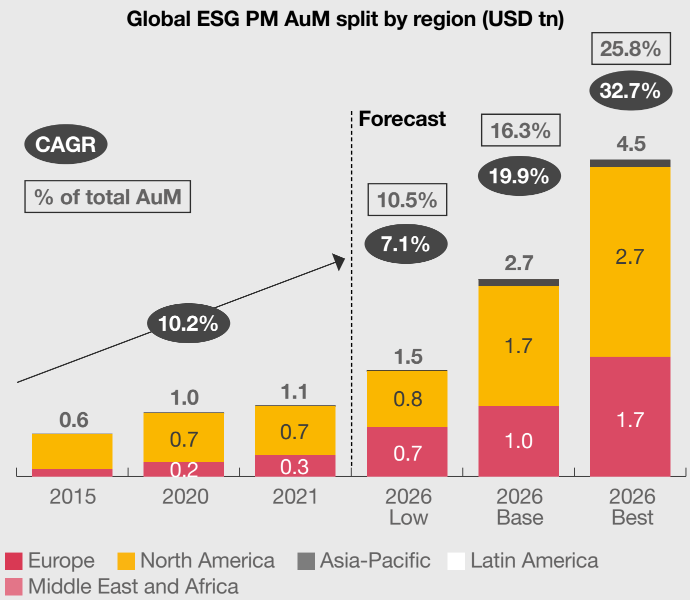
Redirecting capital to foster sustainability

Bolstered by a change in policy, important shifts in societal expectations, and the ever-increasing sophistication of regulatory rules, environmental, social and governance (ESG) considerations today represent an important characteristic of a material number of global Asset Management products and investment strategies. Simultaneously, retail and institutional investors alike are increasingly looking not only to generate returns with their investments and products, but also bring about positive externalities – or at least mitigate adverse impacts and risks.

This has seen Global ESG Assets under Management (AuM) skyrocketing more than eight-fold since 2015, surging at an impressive 42.7% CAGR to reach USD 18.4tn as of end-2021 (cf. exhibit 2).[1]

Exhibit 2: Anticipated growth of global ESG AuM





Sources: PwC Global AWM & ESG Market Research Centre, Refinitiv Lipper, Preqin

This ESG shift has accelerated exponentially in the last two years, with Global ESG AuM doubling in 2021 alone. While this seismic transition has been largely driven by the world's public markets, Private Markets (PM) have not stood idly by. An all-encompassing reboot saw ESG PM AuM nearly double since 2015, as the industry's stakeholders attribute an unprecedented degree of importance to sustainability considerations.

ESG – a must have in fund structuring?

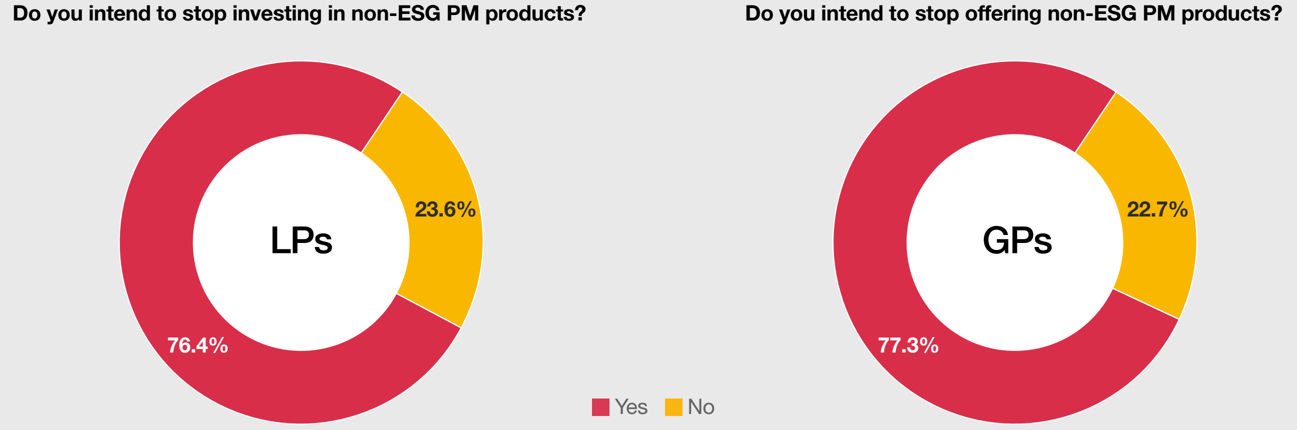
Today, ESG represents an unyielding focal point of the global PM landscape and is set to rapidly transform it. The importance varies by regions around the globe, but both Limited Partners (LPs) and General Partners (GPs) recognise the importance of redirecting private capital towards sustainable objectives as a crucial aspect of generating value and bringing about a green transformation of the economy.

LPs globally are demonstrating increased commitment to bolstering their ESG investments, with 87.5% of those we surveyed planning on increasing their PM ESG investments over the coming two years – with over a third targeting increases of more than 20%. Asset Managers are responding by rapidly incorporating ESG values into their product offerings, with 86.5% of those surveyed planning to expand their ESG PM offering over the coming 24 months in order to grasp this burgeoning demand – of which almost half are planning to expand their ESG product shelves by over 20%. Our forecasts attest to this anticipated growth, with Global ESG PM AuM poised to surge between two- and four-fold according to a base- and best-case forecast scenario.

The 'ESG shift' is not solely materialising in the form of heightened demand for (and supply of) ESG products. In fact, it is entirely redefining the global PM landscape, as our survey reveals that the majority of LPs and GPs are shifting towards an 'ESG or nothing' investment philosophy, with over three quarters planning to cease investing in or promoting non-ESG PM products by the end of 2025 (cf. exhibit 3).

1. PwC (2022). "Asset and wealth management revolution 2022: Exponential expectations for ESG"

Exhibit 3: LPs' and GPs' views regarding non-ESG PM products



Source: PwC Global AWM & ESG Market Research Centre

Given the above, it is evident that the global PM landscape is on the verge of a paradigm shift, rapidly evolving towards a reality in which LPs and GPs alike increasingly value non-financial impacts on the same level as financial return.

Global standards or regional tailoring?

This popularity explosion of ESG-oriented products across the globe has given rise to increased concerns regarding inconsistencies and general incomparability in sustainability related disclosures at both the investment and corporate entity level.

Investors have also been growing increasingly apprehensive as to whether an 'ESG label' represents an objective reflection of a fund's sustainability characteristics, or a mere marketing tool to capitalise on demand for green or socially sustainable investments.

In parallel, investors, lenders and underwriters are increasingly demanding access to information regarding climate- and governance-related risks and opportunities that may impact the value of their investments and assets.

In response, regulators and policymakers across the globe have been undergoing local, regional and partially concerted efforts to bolster transparency with regards to financial market participants' (FMPs) sustainability disclosures. The last five years alone have seen a fast-expanding range of increasingly refined taxonomies and disclosure regulations being implemented across the globe. The aims are currently domestic/regional in scope, and only recently have we seen initiatives to standardise and align global ESG reporting standards. Yet, the landscape remains scattered and untuned.

United States

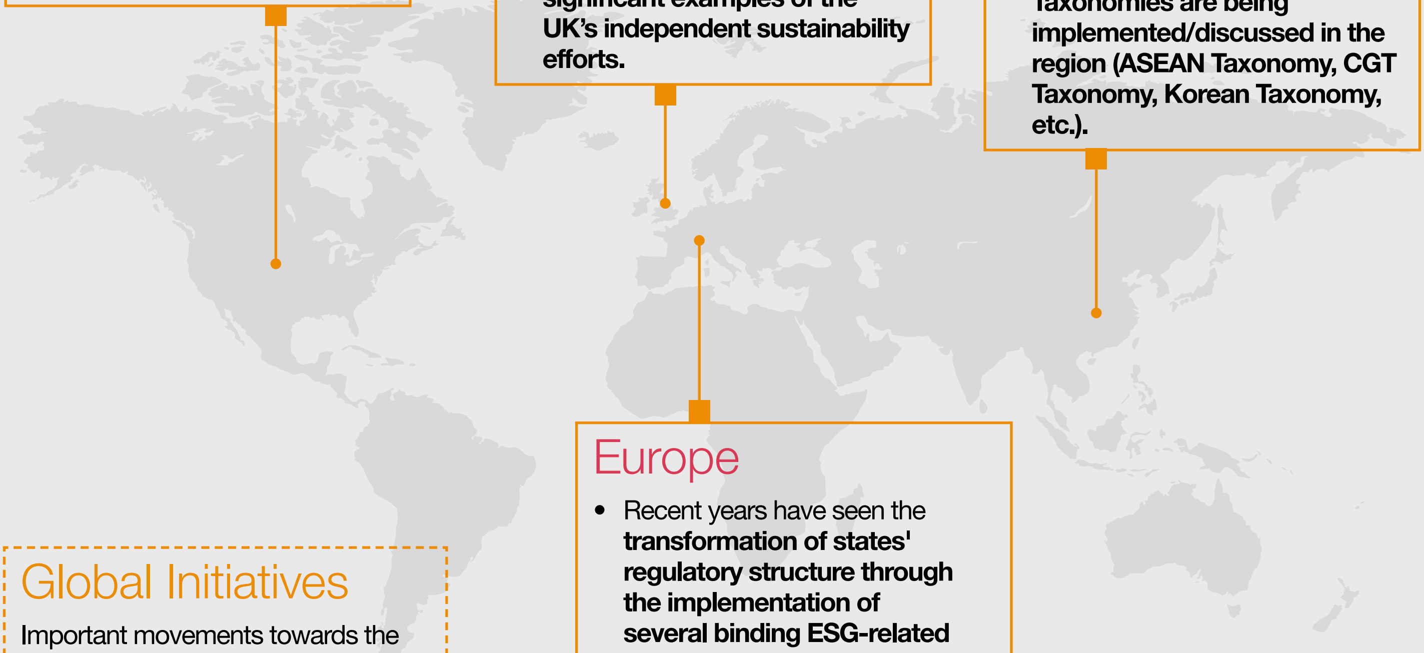
Despite representing a laggard in the realm of ESG regulation, the amendments proposed by the SEC in 2022 **represent important regulatory strides towards the entrenchment of ESG considerations in the US financial landscape.**

UK

- Since its departure from the European Union, **the United Kingdom has taken several steps towards embedding ESG considerations within its AWM landscape.**
- In particular, the **upcoming unveiling of the SDR and Green Taxonomy represent significant examples of the UK's independent sustainability efforts.**

Asia-Pacific

- Hong Kong and Singapore are leading the Asian pack, with **financial regulatory authorities steering the industry towards stronger ESG risk and reporting practices.**
- **Meanwhile, several other Taxonomies are being implemented/discussed in the region (ASEAN Taxonomy, CGT Taxonomy, Korean Taxonomy, etc.).**



Global Initiatives

Important movements towards the development of international ESG sustainability reporting standards are currently in place, **with the IFRS Foundation's ISSB expected to publish its ESG disclosures standards over the coming months.**

Europe

- Recent years have seen the **transformation of states' regulatory structure through the implementation of several binding ESG-related regulations.**
- This regulatory and legislative momentum has been **highly conducive to the region's ESG market growth and promises to bring in a new era of investment.**

Source: PwC Global AWM & ESG Market Research Centre

Given the rapid and global nature of this ESG shift, regulators have taken varying approaches towards tackling ESG issues, both in terms of urgency and strategy. This has resulted in a lack of uniformity in disclosure regulations and standards across different regions and jurisdictions, with each at a different stage of their respective sustainability journeys. As a result, LPs and GPs are encountering region- and asset class-specific challenges and opportunities.

To gain insight into the various ESG reporting practices, requirements, and challenges faced by LPs and GPs, we have conducted a survey to identify the varying approaches taken by different entities in the ESG reporting space and help develop a better understanding of the current ESG landscape. By analysing the survey results, we hope to provide greater clarity on the challenges and opportunities that exist in this rapidly expanding sector, and ultimately to assist LPs and GPs in navigating the ever-changing reporting landscape.

GPs' and LPs' challenges and requests

Regardless of region or asset class-specialisation, the GPs and LPs we surveyed are largely aligned in terms of the challenges they face with regards to ESG regulation. Common topics are the following:

"Conflicts between regional and national level regulations" represent the most commonly identified challenge among the former. Indeed, despite mounting efforts among regulators to establish a 'common language' for what constitutes a sustainable investment, there remains a degree of regulatory misalignment between jurisdictions. This specifically hinders the intra-regional distribution of ESG Funds, which represents a strong encumbrance for GPs straddling multiple regulatory regimes.

"Burdensome compliance requirements" ranked as the second biggest challenge – with many of those we interviewed expressing difficulty in meeting these requirements due to their onerous and costly nature. This disproportionately impacts smaller-scale investors and GPs, for whom these sophisticated data and reporting requirements introduce added complexity to their daily operations. Indeed, many of the LPs we spoke with mentioned that the increasingly high bar for regulatory compliance has notably added to their workload – with the increased volume of requirements and documentation complicating their investment processes. This is rendered all the more challenging by the traditionally 'opaque' nature of PM and the subsequent absence of accessible information. On the GP side, many stated that they are struggling with gathering and reporting on an increasingly wide range of ESG data requirements which – alongside the efforts required to monitor and assess ESG impacts – will likely incur higher costs for the launch and management of ESG Funds.

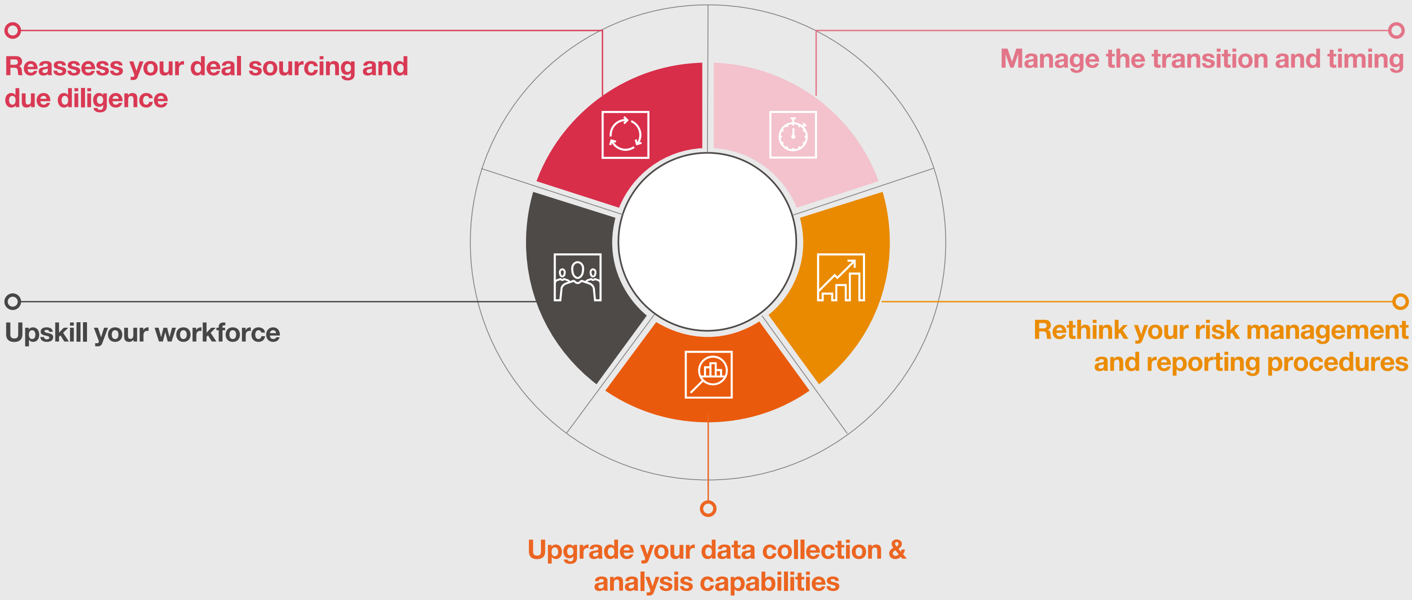
Despite the regulatory developments, there is still significant political opposition to ESG investing in certain countries and federal states, with some lawmakers arguing that it is not the role of corporations to prioritise social and environmental issues over profitability/return.

Nonetheless, given the growing recognition of the importance of identifying and addressing sustainability risks – and the increased perception of ESG as a strong value protection and creation driver – we strongly believe that the coming years will see ESG values become increasingly embedded in the US Private Market landscape.

The new set of skills

Given the pronounced 'ESG shift' taking place across other regions, which will likely see ESG integration becoming increasingly key in competing at a global level, we strongly expect ESG to become increasingly anchored in US LPs' and GPs' investment and operational philosophies.

In order to succeed we identified five key competencies to achieve or create for both GPs and LPs alike:



1 Global and region-specific ESG disclosure standards & challenges: Overview

European Union

Policymakers in the EU have strongly positioned themselves as the flag-bearers of ESG regulations, taking the lead globally through the development of actionable plans aimed at embedding sustainability considerations within the region's financial services landscape. The strong regulatory and legislative momentum behind ESG has cemented the EU as the global frontrunner in the ESG space, alone accounting for 69.5% of global ESG assets as of end-2021.[2]

The issuance of the EU "Action Plan on Financing Sustainable Growth" in March 2018 marked a major move towards solidifying Europe as the global centre for sustainable finance, taking the ESG decision out of managers' hands, requiring them to quantify and elucidate the ESG impacts of their investments – whether positive or negative – to their investors. In doing so, the EU is catalysing the transition towards a sustainable standard for investing, stimulating a surge of ESG adoption within the investment processes of European-operating managers.

- **2015** – **UN 2030 agenda** is adopted. COP21 **Paris agreement** is signed
- **December 2016** – **High-Level Expert Group ("HLEG")** on sustainable finance and ESG in Europe is formed
- **2018 H1** – Proposals on **EU sustainable finance strategy** and **EU Action Plan on sustainable finance** are published
- **June 2019** – **Second European Commission Directive on Shareholders' Rights,** passed in 2017, comes into force
- **December 2019** – **SFDR regulation, EU climate benchmarks,** and **EU Paris-aligned** benchmarks are adopted
- **June 2020** – **Amendments** to the MiFID II and the AIFMD Delegated Regulation are proposed
- **July 2020** – **EU Taxonomy** enters into force
- **December 2020** – Minimum **technical requirements** for the methodology of EU climate benchmarks are updated
- **March 2021** – **SFDR – Level I** comes into effect
- **H1 2021** – Proposal of the **Sustainable Finance Package** Principal Adverse Impact is published
- **01/2022** – **EU Taxonomy Regulation & Delegated Acts** (Climate)
- **Q1/2022** – **EU Taxonomy Delegated Act** (Nuclear, Gas & Agriculture)
- **Q3/2022** – *August* – Entry into force of Delegated Acts **UCITS, AIFMD, MiFID II, IDD & Solvency II**
- **Q4/2022** – *November* – **ESMA** launches cconsultation on guidelines for the use of ESG or sustainability-related terms in funds' names; *December* – **SFDR RTS** filing & reporting preparation
- **01/01/2023** – **SFDR RTS entered into force**; **EU Taxonomy Delegated Acts** (Waste, Water, Biodiversity, Circular eco)

Source: PwC Global AWM & ESG Market Research Centre

2. PwC (2022). "Asset and wealth management revolution 2022: Exponential expectations for ESG"

The Action Plan introduces three overarching landmark regulations which focus on establishing a framework through which investors and regulators will be able to determine the degree to which economic activities follow ESG standards: The Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy, and the Corporate Sustainability Reporting Directive (CSRD) – all three of which directly impact LPs and GPs. For instance, the SFDR will influence GPs' investment approach when looking at PM funds, while the regulation will also influence LPs when it comes to the data requested from such funds. As for companies in which PM funds have invested in, the CSRD will require them to disclose a substantial amount of sustainability-related data, which will come in handy for both GPs and LPs when making investment-related decisions.

As a whole, the Action Plan will shape the opportunities, risks and threats that Asset Managers will face in the coming years, setting the foundation upon which all future EU – and possibly global – sustainable finance regulations are built.

1 Sustainable Finance Disclosure Regulation (SFDR)

- Introduces **strict minimum sustainability disclosure obligations for Financial Market Participants (FMPs) and Financial Advisers towards end-investors regarding the integration of sustainability risks.**
- Additional obligations apply to products that "promote, among other characteristics, environmental **or social characteristics" (Article 8)** or that have "**sustainable investment as their objective"(Article 9)**.
- Also includes **disclosure obligations regarding the adverse impacts.**

Impl. date: March 2021 (Level I) and January 2023 (Level II)

2 EU Taxonomy

- Establishes an EU-wide framework to provide **investors and FMPs with a list of environmentally sustainable economic activities.**
- Under the EU Taxonomy, an activity must **contribute substantially** to one of six environmental objectives, given that it **does no significant harm to any of the other listed objectives.**

Impl. date: Jan 2022 for CCM/CCA
Jan 2023 for the remaining objectives

3 Corporate Sustainability Reporting Directive (CSRD)

- **Extends the scope and reporting requirements** of the existing Non-Financial Reporting Directive (NFRD).
- Requires all large companies to **publish regular reports on their environmental and social impact activities**, given that they meet at least 2 out of 3 of:
  - **>250** employees;
  - **>EUR 40mn** in turnover;
  - **>EUR 20mn** in assets.

Impl. date: Jan 2024/2025/2026 depending on company's size

✔ Directly impacts GPs/LPs ✘ Does not directly impacts GPs/LPs ? Scope yet to be defined

Source: PwC Global AWM & ESG Market Research Centre

Sustainable Finance Disclosure Regulation

Published in December 2019, the SFDR[3] requires financial market participants to make pre-contractual, website and periodic disclosures regarding their policies on the integration of sustainability risks and consideration of principal adverse factors when providing investment advice or making investment decisions.

Although not explicitly a labelling regime, certain provisions of the SFDR are de facto being used for labelling purposes. This is supported by the fact the regulation defines 'sustainable investments' as any "investment in an economic activity that contributes to an environmental objective" or "a social objective" while ensuring that the investment does not "significantly harm any of those objectives and that the investee companies follow good governance practices." The classifications are as follows:

- **"Article 6 funds:"** At the pre-contractual stage, all financial market participants must explain how they integrate sustainability risks into investment decisions or advice, and what the likely impacts of these risks will be on the returns of the financial products. Funds marketed and sold in the EU which do not follow any specific sustainability objective and only need to make such pre-contractual disclosures are colloquially known as "Article 6 funds."
- **"Article 8 funds:"** In addition to the provisions of Article 6, funds promoting environmental or social characteristics will need to disclose information on how the criteria are met, as well as provide precontractual disclosures on the fund's ESG/ sustainability ambitions. Funds that fall under the SFDR's Article 8 are colloquially known as "Article 8 funds" or "light green" funds.
- **"Article 9 funds:"** When a financial product is pursuing a sustainable investment objective, funds will have to disclose information on how the portfolio is aligned with the objective. Funds falling under the SFDR's Article 9 are colloquially known as "Article 9 funds" or "dark green" funds.

The SFDR came into force in March 2021, and since then, a wide array of financial products in the EU have been labelled as 'Article 6,' 'Article 8' and 'Article 9' funds.

To complement the SFDR and provide guidance to financial market participants, the European Commission published the SFDR's main regulatory technical standards ('SFDR Level II') in April 2022. Among others, SFDR Level II provides rules on how disclosures are to be made on the websites of Article 8 and Article 9 funds, templates for the pre-contractual and periodic reporting disclosures, and disclosure obligations on principal adverse impacts (PAIs). SFDR Level II has been in force since 1 January 2023.

3. Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

EU Taxonomy

Another key pillar of the EU's sustainable finance landscape is the EU Taxonomy, a transparency tool and classification system of sustainable economic activities created to establish a uniform framework that would assist investors, companies and policymakers in their decision-making process, and ultimately contribute to the EU's environmental sustainability objectives by unlocking private investments in sustainable activities.

The Taxonomy establishes **six environmental objectives,** each of which has a list of economic activities and technical criteria that must be met:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable usage and protection of water/marine resources
4. Circular economy transition
5. Preventing and controlling pollution
6. Protecting and restoring biodiversity and ecosystems

For each economic activity in scope a set of technical screening criteria, harm criteria and minimum safeguards has been defined Following its publication in June 2020, the Taxonomy will be reviewed and updated on a regular basis to include new and emerging activities and technologies.

Corporate Sustainability Reporting Directive

Replacing the Non-Financial Reporting Directive (NFRD) of 2014 – which requires large companies in the EU to disclose non-financial ESG-related information in their annual reports – the Corporate Sustainability Reporting Directive (CSRD) is more exhaustive and serves as another pillar of the EU's sustainable finance framework.

In addition to the NFRD's stipulations, the CSRD requires all large companies and listed companies in the EU to disclose information pertaining to the risks and opportunities that arise from social and environmental issues, as well as the impacts that their activities have on the environment and society at large. The CSRD will help investors and other relevant stakeholders access key information needed from companies to assess the risks that arise from climate change and other relevant issues.[4]

The first 'wave' of the CSRD requirements came into force on 5 January 2023, and the first time the new rules will have to be applied will be for financial year 2024.

4. Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

ESMA Consultation on Guidelines on funds' names using ESG or sustainability-related terms

On 18 November 2022, the European Securities and Markets Authority (ESMA) published a much-needed consultation paper providing guidelines on the naming of funds that include ESG- or sustainability-related terms in their names.

ESMA has proposed a 'threshold approach' as a key guideline, which involves establishing minimum thresholds to demonstrate alignment with sustainability objectives. To meet these thresholds, a fund with any ESG-related terms in its name must allocate at least 80% of its investments towards environmental, social, or sustainable investment objectives, as per the binding elements of the investment strategy. Similarly, funds with the word 'sustainable' or any related term in their name must ensure that at least 50% of their investments adhere to the definition of 'sustainable investment' outlined by the Sustainable Finance Disclosure Regulation, which includes compliance with the EU Taxonomy regulation.

The consultation period has recently ended, and ESMA is expected to finalise the guidelines later in 2023.

ESAs Call for evidence on better understanding greenwashing

Following a request for input from the European Commission relating to greenwashing risks and supervision of sustainable finance policies, the European Supervisory Authorities (ESAs) published a call for evidence (CfE) seeking input on potential greenwashing practices in the EU financial sector.

The purpose of the CfE is to gather data on practices and possible instances of greenwashing in the sectors that fall under the jurisdiction of the three ESAs. These sectors encompass a wide range of financial market players, such as insurance companies, banks, providers of benchmarking services, manufacturers of financial products, and investors.

Our analysis indicates that the European investment community has welcomed these regulatory developments with open arms, holding a largely favourable view of the impact that ESG regulation has had on the region's PM landscape. Indeed, when asked to assess their satisfaction with the regulatory impacts across a range of aspects, an average of 60.5% of EU LPs surveyed described themselves as (very) satisfied across the board – the second highest level satisfaction observed across all sample regions (cf. exhibit 4).

EU GPs overall mirror this optimism, albeit to a slightly lower extent – with 57.1% on average being (very) satisfied with the impacts generated by ESG regulation. However, our analysis unveils a couple of aspects in which LPs and GPs hold diverging opinions. Most significantly, while 63.8% of the former are (very) satisfied with the impact that EU ESG regulations have had on "*addressing greenwashing concerns*," only 49.2% of the latter share this view. This diverging view is likely attributable to the fact that greenwashing concerns are primarily expressed by investors, while GPs in the EU may be in the belief that they have already implemented strong internal and external policies to ensure that they do not, wittingly or unwittingly, engage in any form of greenwashing, and hence may see the regulations as an additional compliance burden rather than as a guidance to prevent greenwashing.

Exhibit 4: European LPs and GPs' satisfaction with the impact of EU PM ESG-related regulations

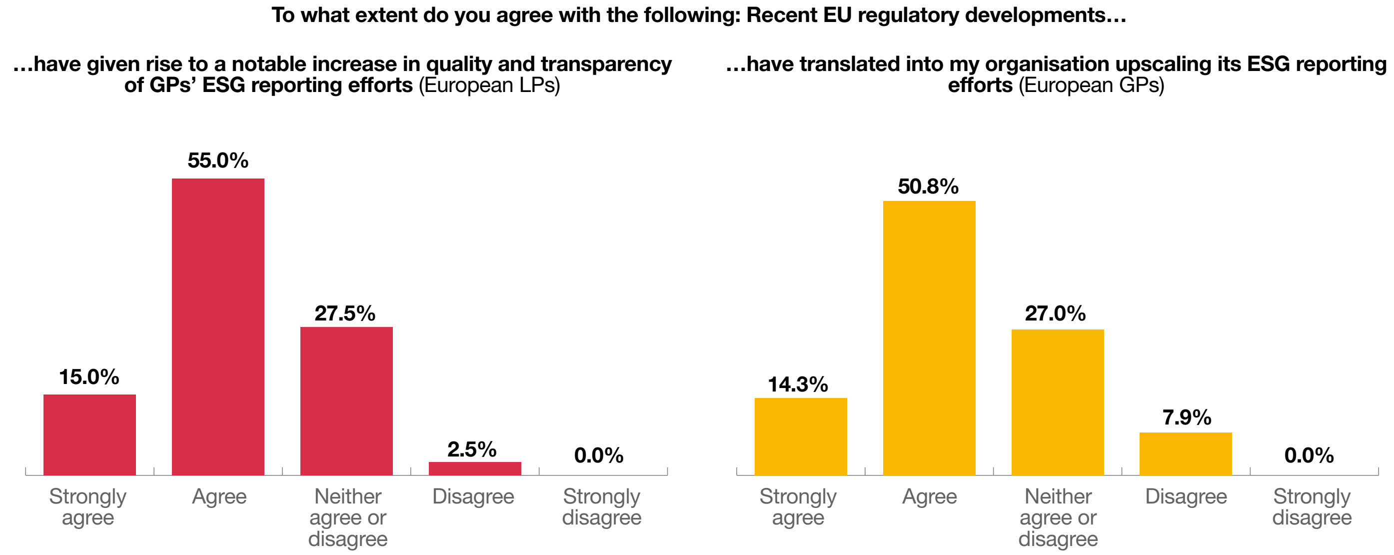
How would you describe your organisation's satisfaction with the impact of EU PM ESG-related regulations (SFDR, EU Taxonomy, etc.) on the following aspects:

Source: PwC Global AWM & ESG Market Research Centre

The recent pick-up in regulatory disclosure requirements observed across the EU and on a global scale has awakened the region's LPs to the importance of transparent and objective ESG reporting practices. Indeed, 65.1% of the European LPs we surveyed stated that they have become more demanding with regards to the ESG reporting they expect to receive from their GPs as a direct consequence of this regulatory shift. This represents the highest figure recorded across all sample regions.

EU GPs are cognisant of these calls for bolstered transparency, with 65.1% of those canvased undergoing concerted efforts to align with this increased investor and regulator demand for increased ESG disclosure (cf. exhibit 5). EU LPs are attesting to this fact – with 70.0% of institutional investors surveyed having observed a notable increase in the quality and frequency of their GPs' reporting efforts. This strong alignment suggests that EU Asset Managers currently hold an accurate view of investor expectations, adapting their reporting practices accordingly to ensure compliance and bolster investor draw.

Exhibit 5: EU LPs' and GPs' perceived impact of EU regulations on GPs' reporting efforts



Source: PwC Global AWM & ESG Market Research Centre

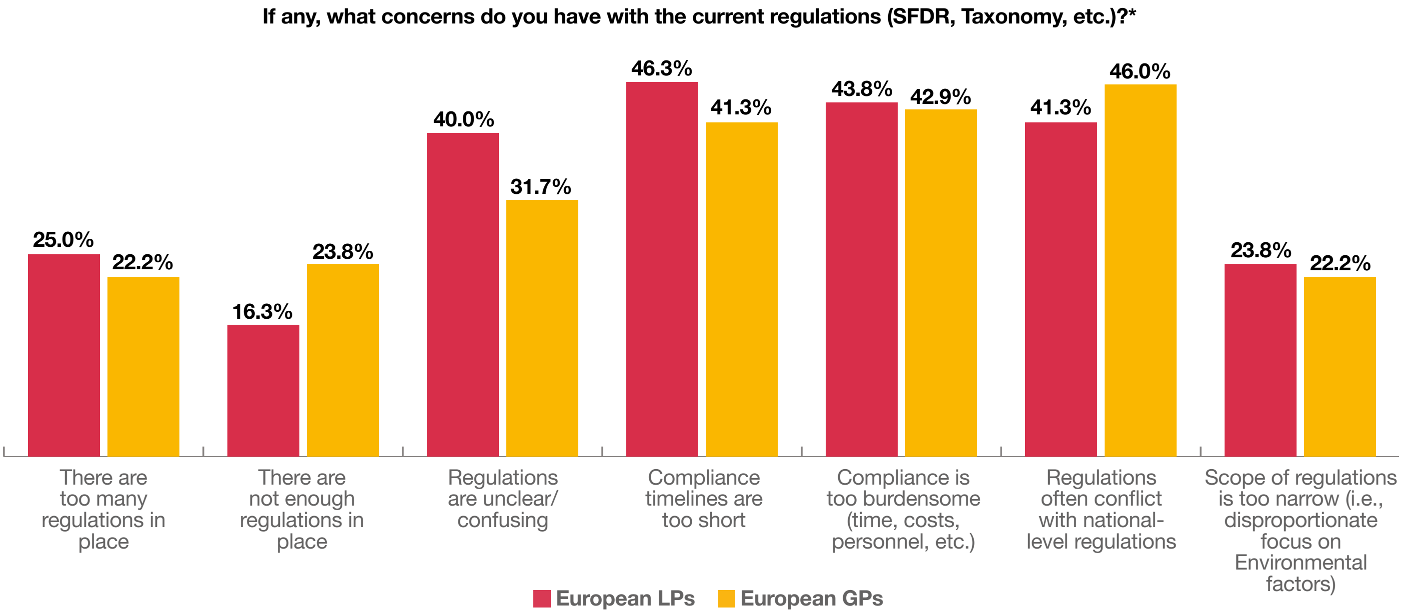
However, while the raft of ESG regulations have undoubtedly served to assuage investors' concerns and awaken the EU financial sector to its role in driving the sustainable transition, navigating through the EU's current regulatory framework has not been an entirely smooth process for either LPs or GPs. Indeed, the European players we surveyed harbour a number of concerns with regards to the current ESG regulatory landscape.

"Conflicts between regulations and national level regulations" stands as one of the most frequently raised causes for concern – being cited by a respective 46.0% and 41.3% of EU GP and LPs, representing the most commonly identified challenge among the former (cf. exhibit 6). Indeed, despite mounting efforts among EU regulators to establish a 'common language' for what constitutes a sustainable investment, there remains a degree of regulatory misalignment between the EU and other jurisdictions. This specifically hinders the intra-regional distribution of ESG Funds, which represents a strong encumbrance for GPs straddling multiple regulatory regimes.

This misalignment is particularly prevalent when it comes to the Taxonomy. Indeed, while the EU Taxonomy represents the first large-scale effort to establish a 'common ESG language,' the taxonomies coming out of different countries and jurisdictions have significant differences – with diverging definitions, objectives and minimum thresholds. Should these regulatory misalignments exacerbate as different jurisdictions take increasingly hard-line yet diverging approaches to bolstering ESG standardisation, the ESG landscape of tomorrow may be equally as fractured and heterogeneous as that of yesterday – resulting in a similar degree of investor confusion and barriers to inter-regional promotion.

"Burdensome compliance requirements" ranked as the second largest challenge among European players – with many of those we interviewed expressing difficulty in meeting these requirements due to their onerous and costly nature. This disproportionately impacts smaller-scale investors, for whom these sophisticated data and reporting requirements introduce added complexity to their daily operations. Indeed, many of the LPs we spoke with mentioned that the increasingly high bar for regulatory compliance has notably added to their workload – with the increased volume of requirements and documentation complicating their investment processes. This is rendered all the more challenging by the traditionally 'opaque' nature of PM and the subsequent absence of accessible information. On the GP side, many stated that they are struggling with gathering and reporting on an increasingly wide range of ESG data requirements which – alongside the efforts required to monitor and assess ESG impacts – will likely incur higher costs for the launch and management of ESG Funds.

Exhibit 6: European LPs and GPs' concerns with current sustainability-related regulations



*Multiple answers possible
Source: PwC Global AWM & ESG Market Research Centre

In summation, the EU's sustainable finance framework – the first of its kind globally – is still going through growing pains, laden with uncertainty and rapidly evolving regulatory standards. Keeping up with these changes, adopting and devising new investment approaches and strategies, and establishing clear processes for data collection, monitoring and disclosures can be overwhelming for all stakeholders involved – be it LPs, GPs or regulators.

Looking forward, the sustainable finance landscape in the EU will likely become more harmonised, while all concerned stakeholders will become more attuned to the legislative and regulatory developments. GPs and LPs in Europe are poised to overcome the current adversities and drive forward the ESG momentum.

United Kingdom

Since its departure from the EU in 2020, the United Kingdom has signalled its intention to establish itself as a global sustainable finance leader, setting ambitious net-zero targets and integrating ESG considerations into its regulatory framework. This has led to a significant ESG shift in the country's regulatory landscape – with new initiatives and regulations being launched to promote greater transparency, accountability, and sustainability in the UK financial sector.

The UK's independent ESG journey post-Brexit began with the 2019 Green Finance Strategy. This strategy was launched by the UK government to mobilise investment towards a sustainable economy and address climate change. The strategy recognised the importance of ESG factors in investment decisions and set out a roadmap for the UK to become a world leader in green finance. It aimed to increase the availability of green finance products, improve corporate disclosure and reporting, and develop new sustainable infrastructure projects. This strategy was a crucial step towards embedding ESG considerations into the UK's post-Brexit financial landscape and demonstrating the country's commitment to sustainability.

November of the following year saw the unveiling of the UK government's *"Roadmap towards mandatory climate-related disclosures"*, in which it announced its intention to make TCFD-aligned disclosures mandatory across the economy by 2025.[5] As of April 2022, over 1,300 of the UK's largest companies and financial institutions are already required to disclose information regarding the impact of sustainability risks on their businesses, their exposure to these risks, as well as the concrete measures they are taking to assess and address them.

October 2021 saw the UK government intensify its transitionary efforts through the announcement of its *"Greening Finance Roadmap*,*"* which shifts the focus of the ESG disclosure regulation towards the country's financial services sector. The roadmap encompasses various measures such as raising disclosure requirements, introducing new green finance products, and establishing sustainability standards for investments. The roadmap included the introduction of two pivotal pieces of ESG disclosure regulation, the UK Green Taxonomy and Sustainable Disclosure Requirements (SDR).

In March 2023, the UK government amplified its efforts by publishing a series of documents that collectively aim to provide a comprehensive outline of its aspirations and strategies for fulfilling its environmental responsibilities while ensuring energy security. The four key documents are:

1. **The 2023 Green Finance Strategy:** An update of the UK's 2019 Finance Strategy, this strategy outlines its plans for facilitating green finance and investment within the UK. This aligns with the UK's pledge at COP26 to become the first financial centre globally that's in line with the Net Zero goal. Furthermore, the government has launched several other endeavours, such as conducting a review to determine whether regulations should be implemented for ESG ratings providers and the possible extent of a regulatory framework. If new mandates are established, the regulatory perimeter of the FCA would be broadened to include ESG ratings providers, and the FCA would then establish requirements for firms through their rules, following a cost-benefit analysis and consultation.
2. **A UK 2030 Strategic Framework for Climate and Nature**: A framework which sets out the approach the UK will take to international climate and nature goals. This includes the challenges of transition, building resilience, protecting nature, strengthening international cooperation, aligning financial flows, and shifting trade and investment flows.
3. **International Climate Finance Strategy:** A strategy which restates the UK's commitment to delivering on its pledge to double its International Climate Finance to GBP 11.6bn by 2021/22 and 2025/26
4. **Nature Markets Framework:** A framework which aims to establish high-integrity markets that incentivise farmers and land managers to invest in natural capital. Additionally, the government plans to create a comprehensive set of nature investment standards to support this effort.

5. UK Government (2020). "A Roadmap towards mandatory climate-related disclosures"

UK Sustainable Disclosure Requirements (SDR)

- The SDR will build on the UK's TCFD implementation, introducing three types of disclosure requirements:
  - **Disclosure by corporates;**
  - **Disclosure by asset manager and asset owners;**
  - **Investment product disclosure.**
- The SDR will also introduce **three mandatory labels** for ESG Funds: **Sustainable Improvers, Sustainable Impact and Sustainable Focus.**
- The requirements will also introduce a comply or explain requirement for transition plans, **under which firms must either publish transition plans which align with the government's net zero commitment; or provide an explanation as to why they have not done so.**

Implementation date: Gradually up until 2026

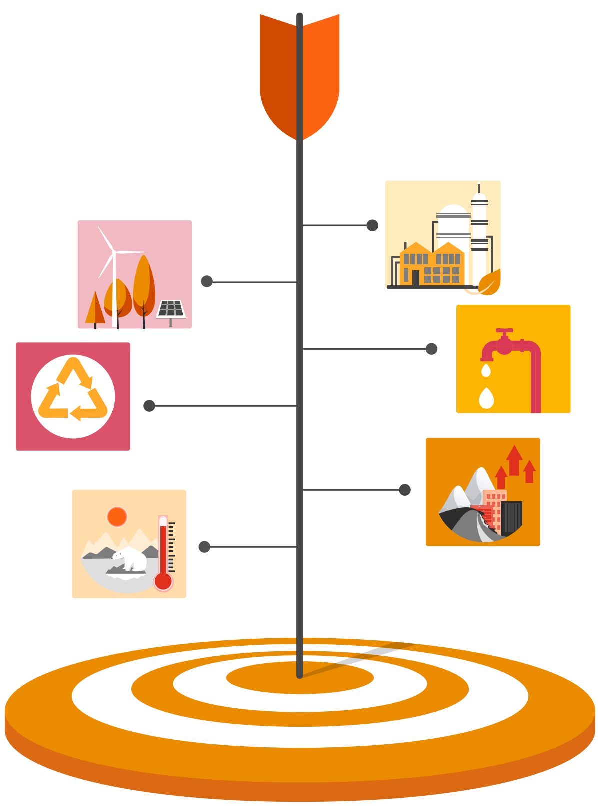
UK Green Taxonomy

- Much like the EU taxonomy, the UK Green Taxonomy is a common framework intended to **identify the criteria which a given economic activity must meet in order to quality as environmentally sustainable and Taxonomy-aligned.**
- **The Green Taxonomy draws largely from the existing EU Taxonomy,** the majority of which's provisions were on-shored prior to the UK's departure from the bloc.
- In particular, the Taxonomy uses the **6 environmental objectives provided by the EU Taxonomy; although the technical screening criteria (TSCs) underpinning the objectives may differ slightly.**

Implementation date: TBC

✔ Directly impacts GPs/LPs ✖ Does not directly impacts GPs/LPs ? Scope yet to be defined

Source: PwC Global ESG & AWM Market Research Centre, FCA



UK Sustainable Disclosure Requirements

Applicable to all funds managed by UK-based firms or marketed to UK-based investors, the SDR requires investment products to meet five overarching principles and make certain considerations before they can officially qualify for a sustainable label. These principles are:

Principle 1
Sustainability Objective

Principle 2
Investment Policy and Strategy

Principle 3
Key Performance Indicators

Principle 4
Resources and Governance

Principle 5
Stewardship

The regulation will also establish three possible sustainable fund categories depending on the sustainable objective of the fund in question:

- **"Sustainable Focus:"** Products investing in assets that a 'reasonable' investor would consider sustainable.
- **"Sustainable Improvers:"** Products investing to improve the sustainability of assets.
- **"Sustainable Impact:"** Products investing in solutions to environmental and social problems.

Similarly to its EU counterpart – the SFDR – the SDR incorporates disclosure requirements for all in-scope products. The SDR also includes important requirements around fund naming rules, introducing further additional requirements for funds using a sustainable product label. Under SDR, there are two levels of disclosures: Consumer facing product disclosures for retail investors and more detailed entity and product disclosures for institutional clients.

All products will now be required to provide consumer facing summary disclosures regarding the product's sustainability objective including progress made in meeting this objective, the investment policy and strategy. Products must also disclose any investments within a product which a reasonable investor may consider to be unexpected based on the aforementioned objective and strategy.

UK Green Taxonomy

Similar to its EU counterpart, the UK Green Taxonomy is a common framework intended to set out criteria for identifying sustainable activities and investments that contribute to the country's environmental goals, such as achieving net zero emissions by 2050. It will be used to classify economic activities and financial products into different categories, based on their environmental sustainability.

The taxonomy will initially focus on activities that contribute to climate change mitigation and adaptation but may be expanded in the future to include other environmental and social goals. It will also be developed in line with international standards and will be subject to consultation with stakeholders, including the financial sector, businesses, and civil society.

Although the taxonomy was expected to be finalised by the end of 2022, the British government announced that it will be further reviewed and refined to "maximise the effectiveness of [the government's] sustainable finance agenda," and that an update will be provided in early 2023.[6]

6. Statement by Andrew Griffith, Economic Secretary to the Treasury. 14 December 2022

The United Kingdom's investment community has shown a positive response to this impending regulatory overhaul. Our survey results unveil a relatively widespread sense of optimism among the country's GPs and LPs regarding the anticipated impacts of the Green Taxonomy and SDR. Indeed, when asked to evaluate the potential effects of these regulations on various aspects, the majority of the country's LPs and GPs expect a positive impact across the board. (cf. exhibit 7).

In particular, 59.1% of LPs surveyed believe that these regulations will positively impact the country's ESG landscape. In terms of specific impacts, they appear to be most optimistic with regards to the regulations' ability to *"address greenwashing concerns"* and *"spread best practice"* – with 63.0% anticipating that the SDR and Green Taxonomy will have an (extremely) positive impact on these matters in both cases.

The prevailing optimism recorded among UK LPs is echoed by GPs, with 58.0% of those canvased foreseeing (extremely) positive regulatory impacts across all possible areas. However, while the two are largely aligned in terms of how they expect the upcoming ESG-related regulations to impact them, there are two areas where they differ – potentially reflecting differing priorities and perspectives.

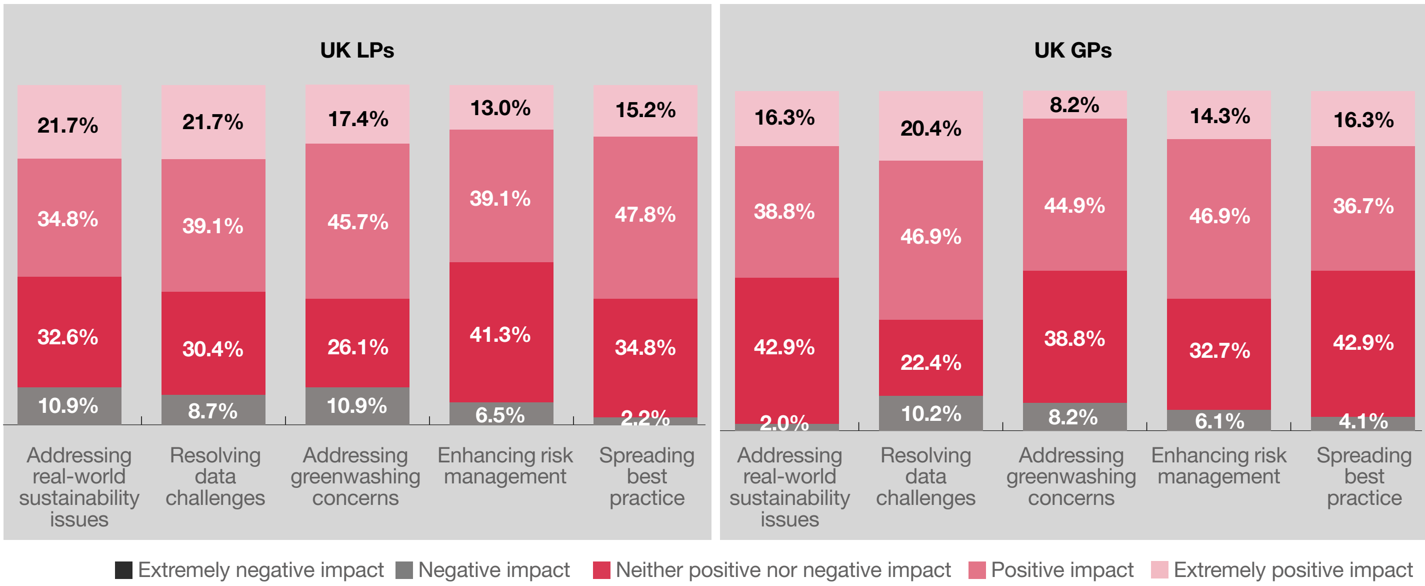
Firstly, GPs are notably more confident than LPs when it comes to these regulations' abilities to *"enhance risk management."* Indeed, while this represents the aspect in which UK GPs expect the second most positive impact, it is also the aspect for which the lowest share of the country's LPs expects to see a positive impact. Second, while *"spreading best practice"* represents the area in which the greatest share of LPs expects a positive impact, this in fact represents the area in which the country's GPs demonstrated the most pessimistic outlook. This hints that, while the country's Asset Managers deem these regulations necessary to bring much needed transparency, and standardisation to the UK's sustainable finance framework, they currently harbour a degree of apprehension as to the objective positive externalities that their implementation will produce.

Despite the UK investment community's overall favourable view of these regulations in absolute terms, it must be noted that upcoming regulatory innovations are perceived with less optimism compared to their regional counterparts. The respective 59.1% and 58.0% of UK LPs and GPs that foresee a positive impact being generated by these regulations in fact represent the second lowest figures recorded across all four regions. While these figures are by no means negligible, this hints that there remains a need for the UK Government and Financial Conduct Authority (FCA) to hone the provisions and specificities of the SDR and Green Taxonomy to the wants, needs and abilities of the country's investment community. This apprehension may also be attributable to a degree of concern regarding the divergences between the UK and EU disclosure regulations, which will impose dual reporting requirements on the UK players straddling both regimes.

Despite this relatively cautious

Exhibit 7: UK LPs and GPs' satisfaction with the impact of UK PM ESG-related regulations

In your opinion, what impact have/will recent and upcoming UK ESG-related regulations (SDR, UK Taxonomy, etc.) have on the following aspects?



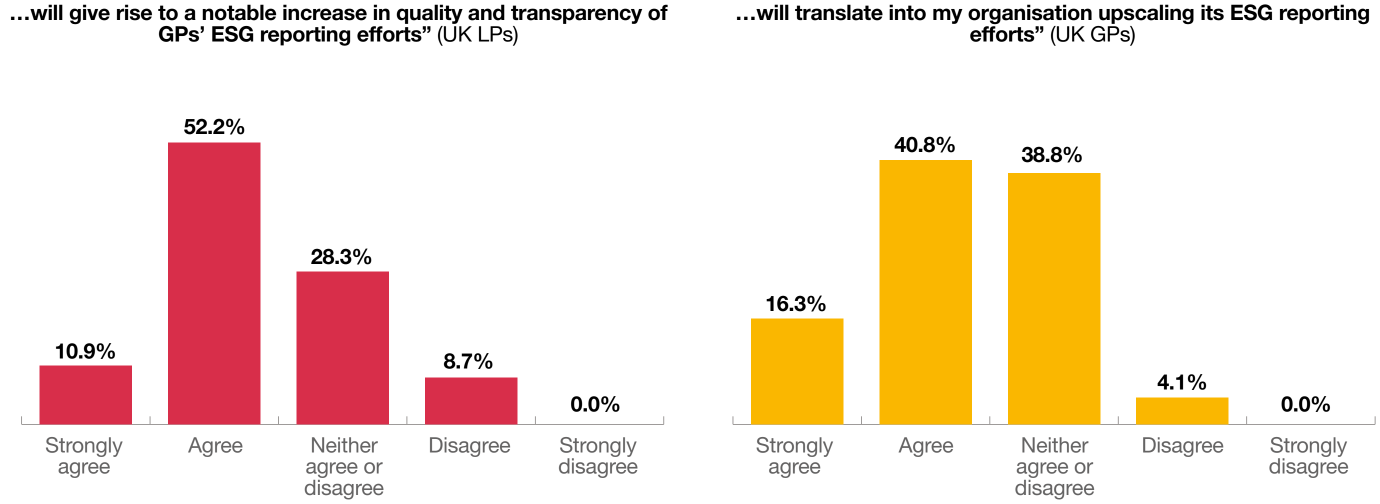
Source: PwC Global AWM & ESG Market Research Centre

perception of the incoming regulations, our analysis indicates that the upcoming regulatory shifts expected in the UK are set to catalyse a shift in investor reporting expectations – with 63.0% of surveyed LPs expecting to become more demanding in terms of the ESG reporting they expect from their respective GPs once the regulations come into effect. However, our analysis suggests that the UK's GPs are currently underestimating the impact of incoming regulations on LPs' reporting expectations – with only 53.0% expecting these regulations to bolster LPs' reporting requirements.

As a result, the country's GPs are currently underprepared to meet these shifting demands. In fact, our survey results indicate that while UK LPs are expected to experience the second-largest increase in ESG reporting expectations, GPs are currently the least inclined among all four sample territories to upscale their ESG reporting efforts accordingly (cf. exhibit 8). Should this remain unaddressed, many of the more ESG-agnostic GPs in the United Kingdom may find that their reporting practices are not sufficient to meet the needs of the growing share of increasingly ESG-committed LPs.

Exhibit 8: UK LPs' and GPs' expected impact of upcoming UK ESG regulation on GPs' reporting efforts

To what extent do you agree with the following: "Recent UK regulatory developments (UK SDR, UK Taxonomy, etc.)



Source: PwC Global AWM & ESG Market Research Centre

While our survey findings display that the UK's upcoming regulatory shift is largely expected to succeed in its aims of bolstering ESG integration and embedding ESG values at the heart of the UK's Asset Management landscape, our analysis also unveils a notable air of apprehension among both LPs and GPs.

The primary concern for UK LPs at present is the complex and burdensome nature of the regulatory requirements, with 50.0% of those we surveyed identifying 'unclear' and 'burdensome' compliance requirements as key areas of concern (cf. exhibit 9). Our interviewees' concerns in this regard pertain largely to the UK government's plans to enshrine TCFD disclosures in law by 2025, with several being concerned that these requirements would create additional operational pressure and result in increased costs. Additionally, they fear that the time-consuming nature of the disclosures could potentially impact their ability to compete in the market.

The most frequently cited concern among UK GPs is the potential conflicts between the forthcoming UK ESG regulations and their EU counterparts. This concern was identified by 55.1% of the UK GPs we surveyed, making it the most commonly expressed apprehension among GPs across all sample territories. Indeed, despite sharing certain similarities, the UK's SDR holds important distinctions from its EU equivalents. One significant contrast is the criteria for the SDR label, which sets a higher standard for what qualifies as a "sustainable fund" compared to the SFDR classification criteria. To receive a sustainability label under the SDR's marketing and naming rules, a fund must have a "sustainable objective," which disqualifies SFDR Article 8 products. Consequently, EU managers would not be able to promote their Article 8 products as sustainable in their UK marketing materials – complicating cross-border distribution for many GPs straddling both UK and EU regimes. This high bar could also have an adverse impact on UK competitiveness, as it implies that the UK has a limited range of ESG-oriented investment options compared to its regional peers. The FCA has recognised these concerns, with recent indications from the regulator suggesting the introduction of a fourth 'responsible' Fund category, which is designed to capture most Article 8 products.

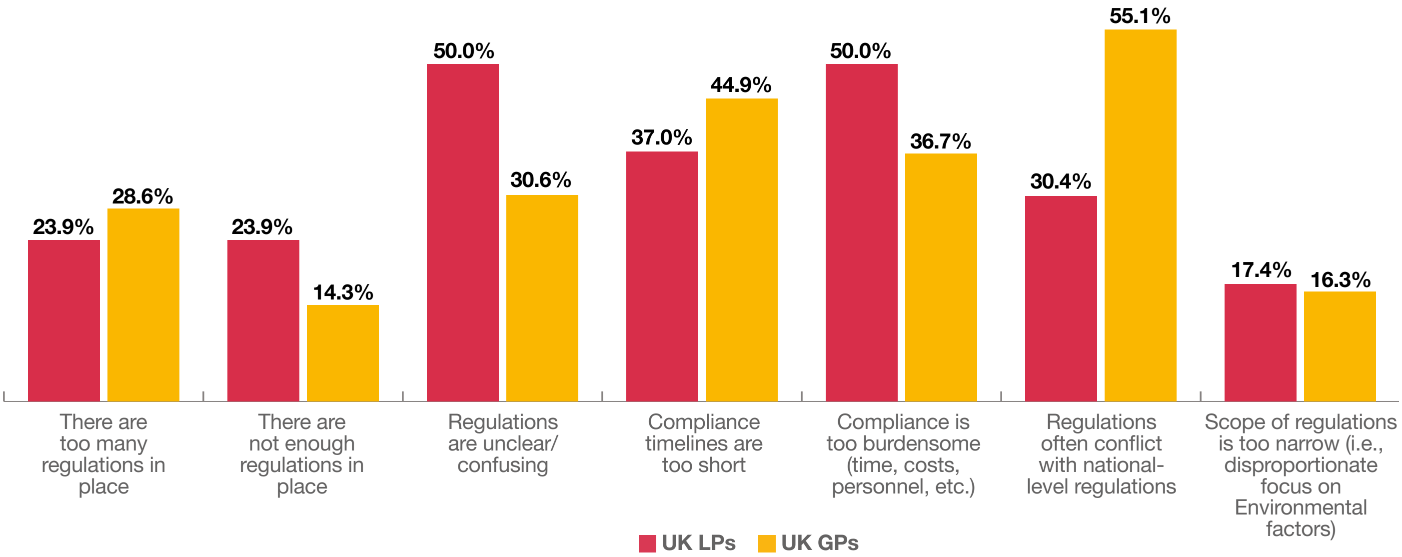
In light of the above, it is perhaps unsurprising that the UK investment community is largely in favour of the UK ESG regulation drawing largely from the EU example – with a respective 63.0% and 67.3% and of the country's LPs and GPs stating that the FCA should base its ESG regulations on the foundations set by the EU.

In conclusion, the United Kingdom's ESG regulatory landscape is set to undergo significant changes in the coming years. The recently introduced SDR and the upcoming Green Taxonomy will both play a critical role in promoting transparency and consistency in ESG reporting and investment decision-making.

Investor demand for ESG investments is only expected to increase, and the regulatory changes in the UK will undoubtedly provide a boost to the industry. In this new backdrop, managers that prioritise ESG considerations in their operations and product shelves will not only benefit from regulatory compliance but will truly stand out.

Exhibit 9: UK LPs and GPs' concerns with current and upcoming sustainability-related regulations

If any, what concerns do you have with upcoming ESG-related regulations (SDR, Taxonomy, etc.)?*



*Multiple answers possible
Source: PwC Global AWM & ESG Market Research Centre

United States

While the last decade has seen Asset Management stakeholders in the US become increasingly cognisant of the detrimental impact climate change can have on the industry, resulting in the launch of a number of voluntary disclosure and reporting standards, the US is taking a notably more cautious approach to ESG regulations when compared to the EU and the UK. Several factors – such as political opposition to ESG and a lack of consistent regulation at the federal level – contributed to this disparate approach.

That being said, while the US is still a nascent player in the ESG space, there have been some recent developments that could see the country catching up with its European counterparts. In 2022, the SEC proposed several new rules which – if finalised – could significantly impact the way public companies and Asset Management stakeholders approach ESG issues in the US, help drive accountability and transparency, and ultimately strengthen the sustainable finance landscape of the US.

Enhancement and Standardisation of Climate-related Disclosures for Investors

(Does not directly impact GPs/LPs)

- **Publicly-traded companies would have to include certain climate-related disclosures** in their registration statements, periodic reports and audited financial statements;
- This includes information about **climate-related risks that are likely to have a material impact** on their business, strategy, results of operations, future outlook and financial condition; **as well as GHG emissions and net-zero transition plans (if any).**

Enhanced Disclosures by Certain Investment Advisers and Investment Companies about ESG Investment Practices

(Directly impacts GPs/LPs)

- The rule classifies **ESG funds into two broad categories "Integration Funds" and "ESG-focused Funds" (and one sub-category within the latter, "Impact Fund").**
- These will be based on the **extent to which ESG factors are taken into consideration** in their investment selection process, with all categories having to **disclose information regarding how ESG is incorporated in investment decisions.**

Amendments to 'Names Rule'

(Directly impacts GPs/LPs)

- This amendment to the existing **'Names Rule' aims at preventing misleading or deceptive fund names.**
- All registered funds with **"ESG" or any ESG-related term in their name would have to clearly define the term and ensure that at least 80% of assets adhere to the definition.**
- Funds will also be **subjected to additional recordkeeping requirements.**

Expected finalisation and implementation: 2023

Directly impacts GPs/LPs | Does not directly impacts GPs/LPs | Scope yet to be defined

Source: PwC Global AWM & ESG Market Research Centre

Enhancement and Standardisation of Climate-related Disclosures for Investors

On 21 March 2022, the SEC proposed a rule to amend the Securities Act of 1933 and the Securities Exchange Act of 1934. The amendments would require publicly-traded companies to include certain climate-related disclosures in their registration statements, periodic reports and audited financial statements, including information about climate-related risks that are reasonably likely to have a material impact on their business, strategy, results of operations, future outlook and financial condition. In addition, they would be required to submit information about climate-related targets and goals, as well as any transition plans, alongside information regarding the risk management and controls in place to monitor and address climate risks. Lastly, the amendments would require publicly-traded companies to disclose information about their direct GHG emissions (Scopes 1, 2 and 3), and to establish a process for measuring GHG emission metrics using standardised measurements.[7]

Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices

On 25 May 2022, the SEC proposed amendments to the Investment Advisers Act of 1940 and the Investment Company Act of 1940 which seek to categorise certain types of ESG strategies broadly and require funds and Asset Managers to provide more specific disclosures in fund prospectuses, annual reports and adviser brochures based on the ESG strategies they pursue. The proposed amendments seek to prevent misleading or deceptive claims made by US funds on their ESG merits by increasing their disclosure requirements.

Similar to the SFDR, the proposal draws a distinction between different types of funds when it comes to ESG disclosures, based on the extent to which ESG factors are taken into consideration in investment decisions:

1. "Integration Funds"

These funds consider ESG factors alongside non-ESG factors in their investment decisions, and they will have to summarise in their disclosures which ESG factors are considered and how they are incorporated in investment decisions.

2. "ESG-focused Funds"

These funds have one or more ESG factors as a main consideration when preparing an engagement strategy or select investments, which they will have to disclose in the prospectus explaining to investors how ESG factors are implemented and how engagement with investee companies on ESG issues will take place. "Impact Funds" (a subset of ESG-focused Funds) seek to achieve specific ESG impacts or generate specific ESG-related benefits.

Asset Managers will need to disclose to their clients whether they consider ESG factors in their investment strategy, and whether they use an integration, ESG-focused or ESG-impact approach to their investments.[8]

Investment Company Names

On the same day as the aforementioned 'Enhanced Disclosures' rule was proposed, the SEC proposed amendments to the 1940 Investment Company Act, updating the 'Names Rule' to encompass ESG-related characteristics, in a bid to protect investors from funds with misleading titles.

As it currently stands, the 'Names Rule' stipulates that if a fund's name suggests a focus on a particular asset class, then a minimum of 80% of its assets must be in that asset class. The proposed amendment would extend the rules to "any fund name with terms suggesting that the fund focuses on investments that have, or investments whose issuers have, particular characteristics."

Thus, funds with ESG or any ESG-related terms in their name would not only need to clearly define what is meant by the terms, but also ensure that at least 80% of the assets held adhere to the definition. In addition, funds will be subjected to additional recordkeeping requirements.[9]

7. SEC (2022). "The Enhancement and Standardization of Climate-Related Disclosures for Investors," *Federal Register*
8. SEC (2022), "Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social and Governance Investment Practice," *Federal Register*
9. SEC (2022), "Investment Company Names," *Federal Register*

Our survey results indicate that the recent SEC proposals have been largely welcomed by the US investment community – with the majority of the country's Private Markets players being optimistic as to the potential regulations' likelihood of meeting their intended aims. In fact, a respective 71.0% and 69.2% of US LPs and GPs expect the SEC proposed rules to have an (extremely) positive impact – the strongest level of overall optimism recorded across all regions.

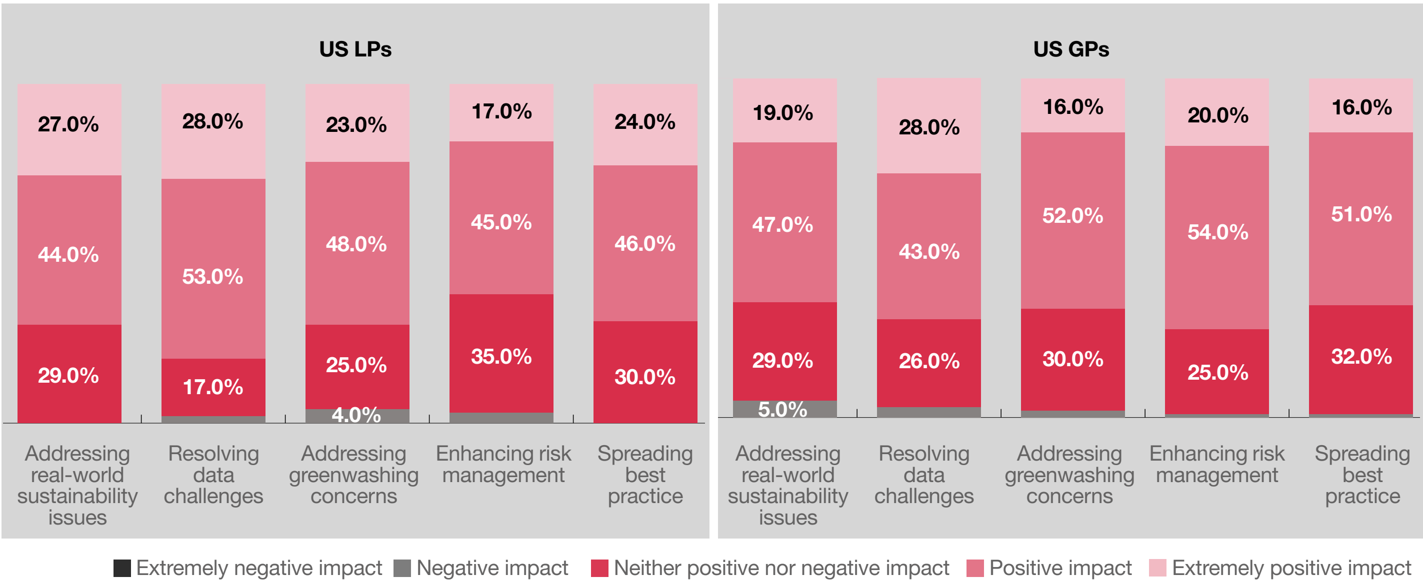
In particular, US LPs are most positive about the regulations' ability to resolve data challenges, with 81.0% of respondents anticipating an (extremely) positive impact (cf. exhibit 10).

Additionally, 71.0% of respondents expect the regulations to address real-world sustainability issues, and 70.0% expect them to spread best practice.

GPs are largely mirroring this optimism, with over two-thirds of those surveyed anticipating a positive impact. For instance, 71.0% of GPs expect that the SEC's proposed rules will have an (extremely) positive impact on resolving data challenges, while 68.0% believe that they will have an (extremely) positive impact on addressing greenwashing concerns. Interestingly, we also observe that GPs (74.0%) are more likely than LPs (62.0%) to believe that the proposed rules will enhance risk management.

Exhibit 10: US LPs and GPs' views on expected impact of SEC proposed rules

In your opinion, if approved, what impact will recent SEC proposed rules (Names Rules and Enhanced Disclosures by Certain Investment Advisers and Investment Companies, etc.) have on the following aspects?



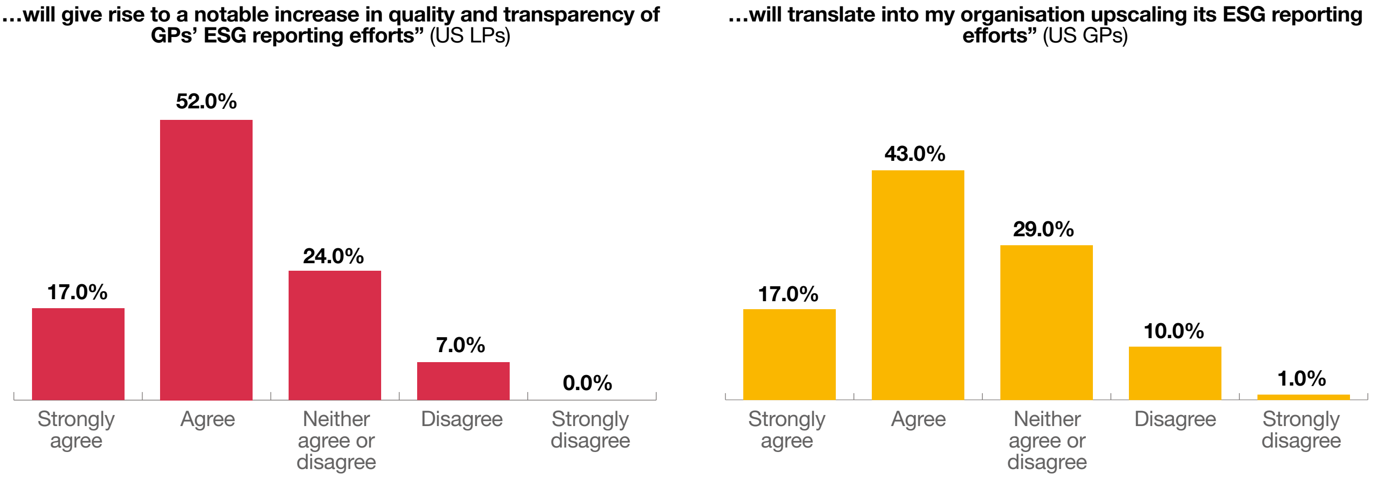
Source: PwC Global AWM & ESG Market Research Centre

Moreover, it seems that the current SEC proposals, if enacted, will successfully achieve their objective of promoting transparency and trust, with our survey findings suggesting that the forthcoming surge in regulatory disclosure requirements will drive LPs' demand for ESG reporting. Nearly 69.0% of US LPs we polled stated that recent regulatory changes will make them more discerning about the ESG reporting they expect their GPs to deliver. Meanwhile, 64.0% of GPs we surveyed are anticipating an increase in ESG reporting obligations from their respective LPs.

US GPs seem willing and prepared to respond to increasing regulatory and investor demands for ESG transparency and reporting. Our survey finds that 60.0% of GPs are prepared to enhance and upscale their ESG reporting practices in response to recent regulatory developments, while 69.0% of LPs expect an increase in the quality and transparency of GP reporting (cf. exhibit 11). However, the minor disparity between these figures suggests that LPs may be overly optimistic about the impact of regulation on reporting practices. To remain competitive, GPs should proactively address this misalignment and work to upscale their ESG reporting efforts in line with evolving investor and regulatory expectations.

Exhibit 11: US LPs and GPs' expected impact of upcoming US ESG regulation on GPs' reporting efforts

To what extent do you agree with the following: "Upcoming US regulatory developments…



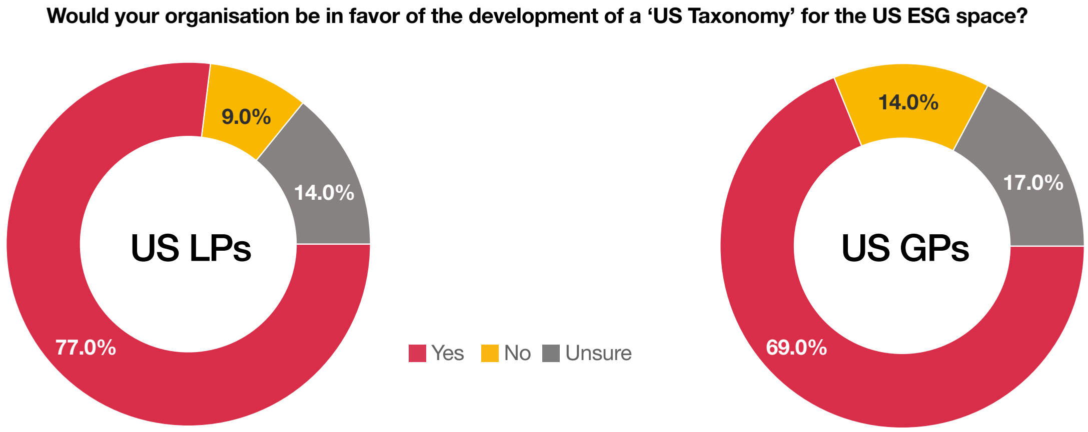
Source: PwC Global AWM & ESG Market Research Centre

While the aforementioned proposed regulations are being welcomed with open arms by the country's investment ecosystem, our analysis highlights significant headroom in the US' current PM ESG regulatory landscape.

Survey respondents have identified a clear need for further objectivity in ESG terminology. US LPs currently stand as the primary proponents of a US taxonomy, with 77.0% of those we surveyed being in favour of such an initiative – attesting to the current need for in enhanced comparability and standardisation in the country's Private Markets ESG landscape (cf. exhibit 12). US GPs are also in favour of a 'US Taxonomy,' albeit to a slightly lesser extent than their LP peers, with 69.0% being in favour.

This enthusiasm for a US taxonomy is unsurprising, and not only due to the fact that taxonomies help in addressing greenwashing concerns and identifying activities that are truly sustainable. After all, a taxonomy would not only help asset managers in better understanding and assessing the ESG risks and opportunities of their investment decisions, but also allow them to better align their ESG data reporting with global counterparts, and hence better compete on a global stage.

Exhibit 12: US LPs and GPs' views on the development of a US Taxonomy

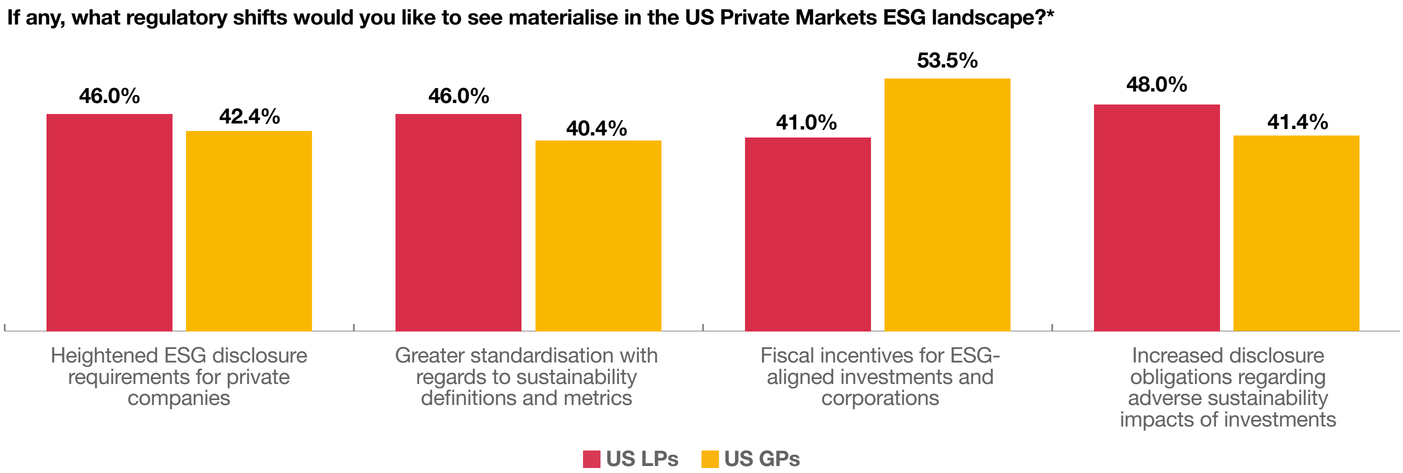


Source: PwC Global AWM & ESG Market Research Centre

Further, when asked to identify which specific regulatory shifts they would like to see materialise in the US Private Markets ESG landscape, over half (53.5%) of US GPs were in favour of the implementation of fiscal incentives for ESG-aligned investments and corporations (cf. exhibit 13). This represents by far the most commonly demanded shift among this respondent segment, indicating their perceived need for measures to improve the risk-return profile of ESG products in order to enhance their attractiveness in the eyes of investors.

When given the same prompt, US LPs were evenly in favour of increased disclosure obligations (48.0%), heightened ESG disclosure requirements (46.0%) and greater standardisation of sustainability definitions and metrics (46.0%). This highlights these investors' need for greater comparability and transparency in order to inform their investment decisions.

Exhibit 13: US LPs and GPs' desired shifts in US PM ESG landscape



*Multiple answers possible
Source: PwC Global AWM & ESG Market Research Centre

Despite these developments, there is still significant political opposition to ESG investing in certain states, with some lawmakers arguing that it is not the role of corporations to prioritise social and environmental issues over profitability. Nonetheless, given the growing recognition of the importance of identifying and addressing sustainability risks – and the increased perception of ESG as a strong value protection and creation driver – we strongly believe that the coming years will see ESG values become increasingly embedded in the US Private Market landscape. Furthermore, given the pronounced 'ESG shift' taking place across other regions, which will likely see ESG integration becoming increasingly key in competing at a global level, we strongly expect ESG to become increasingly anchored in US LPs' and GPs' investment and operational philosophies.

Our analysis underlines the rate and scale of this shift, with a respective 97.0% and 94.0% of US LPs and GPs planning to increase their AuM in PM ESG products over the coming 24 months – the largest degree of willingness recorded across all regions.

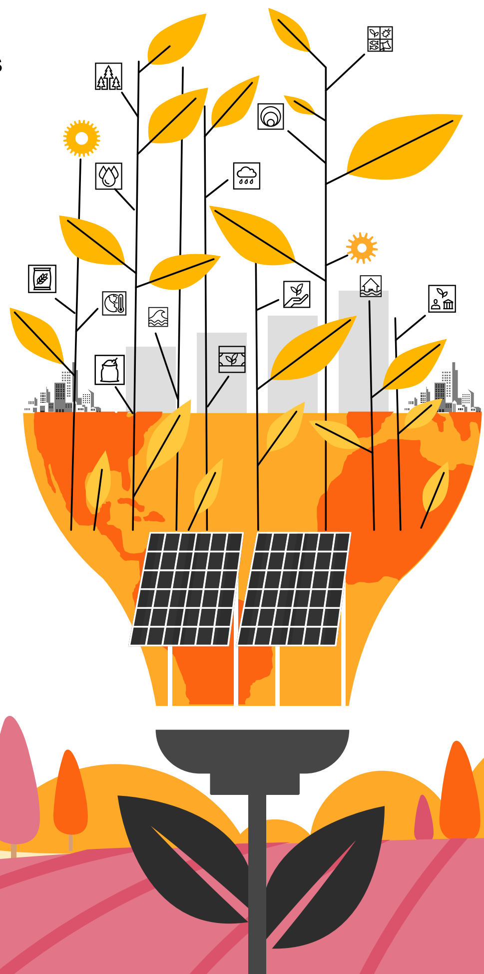
In addition, a respective 81.0% and 73.0% of surveyed US LPs and GPs intend to stop investing or offering non-ESG products in the coming years. Should this occur, it is likely that tomorrow's US Private Markets landscape will be near unrecognisable to that of today, with LPs and GPs alike prioritising sustainability considerations and positive externalities on the same level as financial returns.

As this surge in demand materialises, we strongly expect that the US will continue to move towards a more formalised regulatory approach to ESG issues in the coming years. The SEC's recent proposals likely represent the start of a broader trend towards increased ESG-related disclosure requirements and other mandates aimed at addressing growing investor demand for transparency and accountability.

In the short term, we can expect the SEC to continue refining and expanding upon its proposals, potentially introducing additional requirements or addressing any areas of concern that have emerged during the public comment period. The agency is also likely to provide further guidance on how companies should approach ESG disclosure and measurement, helping establish clearer standards and best practices.

In the longer term, we may see additional agencies and regulatory bodies become involved in the ESG space, potentially introducing their own mandates or guidelines for companies to follow. We may also see further efforts to create a US-specific ESG taxonomy or framework, as Asset Managers and other industry participants continue to push for a more unified and standardised approach to measuring and reporting ESG-related risks and opportunities.

Overall, the future of the US ESG regulatory landscape is likely to be characterised by ongoing change and evolution, as regulators and industry participants alike work to keep pace with the growing importance of ESG factors in investment decision-making. This represents a significant opportunity for companies and investors to drive positive change and build more sustainable and resilient portfolios for the future.



Asia Pacific

Although ESG investing in the APAC region still lags behind Europe and North America, there is no denying that the momentum is there – with APAC-domiciled ESG AuM skyrocketing five-fold from USD 0.2tn in 2015 to over USD 1tn in 2021.

This growth in ESG investing has been met with a strong pickup in regulatory momentum among policymakers in the APAC region. Indeed, in recent years, several countries have taken major strides towards integrating ESG considerations within the region's Asset Management markets and regulatory frameworks. The number of voluntary and mandatory ESG regulations aimed at the region's Asset Managers and Asset Owners has surged over the last decade, skyrocketing almost seven-fold between 2014 and 2021 and almost doubling in the last five years alone.[10]

2001
- **Australia** implements the Product Disclosure Statement and the Commonwealth Corporations Act

2002
- **Bangladesh** issues the Code of Corporate Governance

2011
- **Bangladesh** establishes the Guidelines on Environmental and Social Risk Management

2012
- **Australia** introduces the Workplace Gender Equality Act
- **Malaysia** issues Government Regulation No. 47

2014
- **Malaysia** issues the Malaysian Code for Institutional Investors

2017
- **Korea** revises its Governance Disclosure Rules
- **Bangladesh** issues the Guidelines on Sustainable and Responsible Investment Funds & its Sustainable Finance Taxonomy
- **Malaysia** issues the Sustainable Finance Policy for Banks and Financial Institutions

2018
- **China** implements the AMAC Voluntary Green Investments Guidelines

2019
- **Mongolia** launches its Taxonomy

2020
- **Singapore** implements The Guidelines on Environmental Risk Management
- **Bangladesh** issues the Corporate Governance Guideline

2021
- **China** issues the CGT & the Green Bond endorsed project Catalogue
- **Korea** issues the Four ESG Bills & the K-Taxonomy
- **Hong Kong** implements the SFC Climate Risk Disclosure
- **ASEAN** issues its Taxonomy
- **Malaysia** issues its Climate Change and Principle-based Taxonomy
- **Japan** establishes the Transition Taxonomy

2022
- **Hong Kong** implements the SFC ESG Circular Funds
- **Singapore** implements The Disclosure and Reporting Guidelines for Retail ESG Funds
- **ASEAN** issues the Sustainable and Responsible Fund Standards
- **Japan** implements the FSA ESG Funds Consultation
- **China** issues the Guidance For Enterprise ESG Disclosure
- **Bangladesh** issues its Green Bond Taxonomy
- **Indonesia** issues its Green Taxonomy
- **Sri Lanka** issues its Green Finance Taxonomy

2023
- **Singapore** to implement its Green Taxonomy
- **Korea** to issue Disclosure and ESG Best Practice (K-ESG) rules

Source: PwC Global AWM & ESG Market Research Centre

10. United Nations Principles for Responsible Investing – Regulation Database

Progress is not only being made on a country-specific level. Within the 11-country Association of Southeast Asian States (ASEAN), important region-wide initiatives have come to the fore to enhance transparency and objectivity in the markets, such as the ASEAN Taxonomy and the ASEAN Sustainable and Responsible Fund Standards. Different Taxonomies have also been developed with the aim of standardising sustainability-related definitions. As of October 2022, more than 10 different Taxonomies have been implemented or are under development among APAC countries.

However, despite the numerous similarities and objectives, these taxonomies differ from one another in significant ways, particularly when it comes to the economic sectors included and the eligibility approach adopted. For instance, some of the largest APAC economies with a published taxonomy (China, Japan, Singapore and South Korea) differ from one another when it comes to the environmental objectives they seek to achieve, the economic sectors included, and the eligibility criteria:

	Name	Environmental Objectives	Sectors included	Approach to eligibility
China	China Green Bond Endorsed Project Catalogue	• Energy saving • Pollution prevention and control • Resource conservation and recycling • Clean transportation • Clean energy • Ecological protection and climate change adaption	• Energy saving • Pollution prevention and control • Resources conservation and recycling • Clean transportation • Clean energy • Ecological protection and climate change adaptation	• **Whitelist approach** (green/not green): Activities linked to industry specific green standards and criteria set by authorities
China	Common Ground Taxonomy	**Results of an exercise comparing the EU Taxonomy and China's Green Bond Endorsed Project Catalogue Taxonomy to help different actors to understand the types of activities that could be covered under the respective taxonomies**		
Japan	Transition Taxonomy	• Focus on transition pathways for high emitting companies/ sectors and ensure the credibility of transition finance label	• Steel • Chemistry • Electric power • Gas/Petroleum • Cement • Paper/pulp	• Principles-based guidelines and Basic Guidelines on Climate Transition Finance with case studies and industry transition pathways for sectors
Korea	K-Taxonomy	• Climate change mitigation • Climate change adaptation • Sustainable conservation of water • Circular economy • Pollution prevention management • Biodiversity conservation	• Energy • Manufacturing • Cities and buildings • Transportation • Resource circulation • CO2 capture • Water • Biodiversity & Agriculture • Research and education	**Similar to EU:** • Must make substantial contribution to environmental objectives • DNSH • Minimum safeguards • + additional screening criteria
Singapore	Green Taxonomy*	• Climate change mitigation • Climate change adaptation • Protect healthy ecosystems and biodiversity • Promote resource resilience and circular economy • Pollution prevention and control	• Agriculture • Construction & real estate • Transportation • Energy • Industrial. Additional enabling sectors may include waste, ICT and CCS	**Principle-based criteria + 'traffic light system' Eligibility features:** • DNSH • No negative impact on communities' social and economic well-being, unless the trade-offs can be justified in the long run • No breach local laws and regulations

ASEAN countries have significantly strengthened their commitment towards sustainable finance through the unveiling of the ASEAN Sustainable Capital Markets Roadmap in 2020.[11]

Among others, the roadmap recommended enacting two overarching regulations/initiatives:

1. **The ASEAN Taxonomy for Sustainable Finance:**[12]
Introduced in November 2021 and set to be fully operative by 2025, this voluntary taxonomy establishes a classification system to provide investors and capital market participants with a list of environmentally sustainable activities, establishing common ground to promote sustainable finance throughout the ASEAN jurisdiction.
2. **The ASEAN Sustainable and Responsible Fund Standards:**[13]
Introduced in February 2022 and set to be fully implemented by 2025, the regulation mandates that disclosure and reporting requirements be consistently applied by fund managers in the ASEAN jurisdiction. These disclosures refer to ESG initiatives, Socially Responsible Investment (SRI) objectives and sustainable investment strategies and aim at levelling the disclosure differences between ASEAN countries.

Our survey results indicate that the two initiatives are positively perceived within the APAC investment community, with a majority of the region's players believing the standards should be expanded to encompass markets outside of the ASEAN region.

Indeed, a respective 72.9% and 75.7% of the regions' LPs and GPs stated that these initiatives should extend to other APAC countries. This highlights the widely perceived need for further standardisation and homogeneity across the region's ESG regulatory frameworks and taxonomies. This current degree of taxonomical and regulatory misalignment complicates cross-border distribution, prevents investors from identifying financially and non-financially impactful investment opportunities in external markets, and hinders Asset Managers' ability to attract cross-border investments into their ESG PM products.

The survey results highlight a relatively strong degree of apprehensiveness among APAC LPs towards the current and expected ESG PM regulations in their respective countries. As a matter of fact, APAC LPs currently hold the least optimistic view of ESG regulation across our entire survey sample – with only 51.7% expecting these regulations to have a positive impact. Although this figure is by no means insignificant, it represents by far the lowest degree of LP confidence across our entire survey sample – falling well below the 64.9% average recorded across the EU, UK and US.

For instance, when it comes to the regulations' impact on 'addressing real-world sustainability issues,' 50.0% of APAC LPs anticipate a positive impact; in contrast to UK and US LPs, of whom a respective 56.5% and 71.0% believe the impact will be (extremely) positive. Similarly, we observe that only 54.3% of APAC LPs expect regulation to "*resolve data challenges*" – in sharp contrast with the respective 60.8% and 81.0% of UK and US LPs that expect upcoming ESG-related regulations to meet this objective. Nor does there appear to be much hope among APAC LPs that the regulations will "*address greenwashing concerns*," "*enhance risk management*" or "*spread best practices.*"

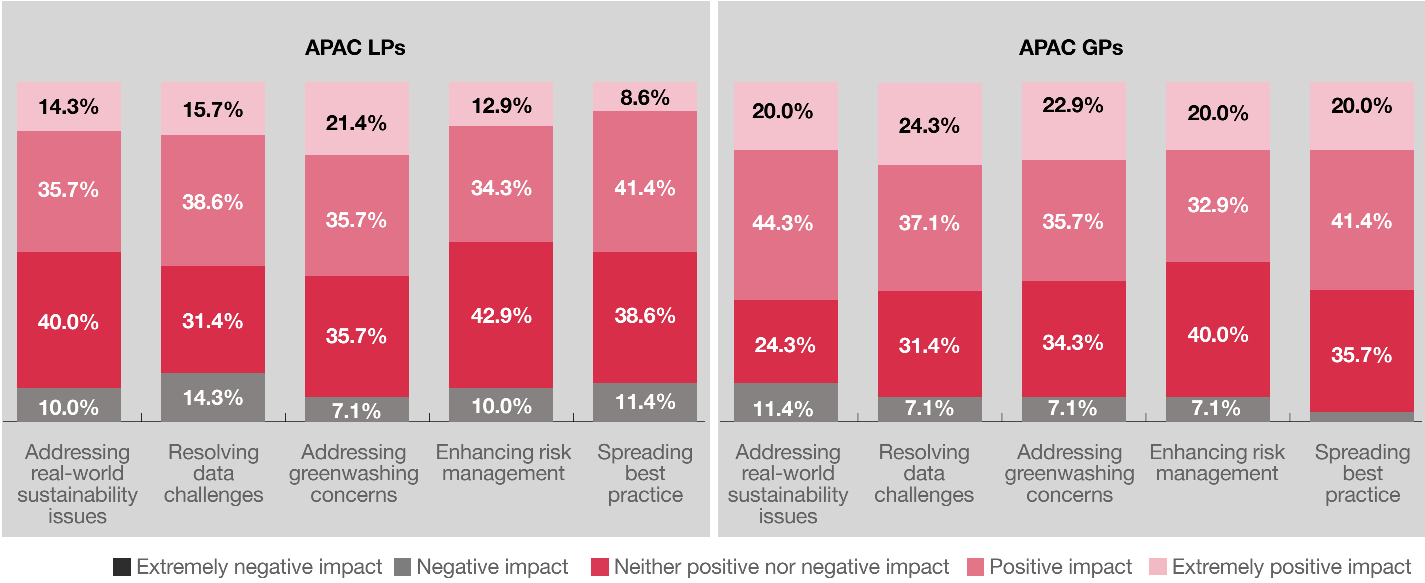
These figures illustrate that, while there is a significant ESG regulatory drive across Asia Pacific, these are being met with a notably higher degree of investor apprehension than their regional equivalents. This significant divergence between APAC LPs and their regional counterparts could be due to the fact that many economies in the region remain heavily reliant on fossil fuel-heavy industries whose activities are difficult to decarbonise, prompting APAC LPs to not show the same degree of ESG enthusiasm as their regional peers.

APAC GPs, on the other hand, are notably more optimistic, with 59.7% of those surveyed expecting a positive regulatory impact across the board – the second highest level of GP optimism recorded across all sample regions. The region's GPs anticipate the greatest impact being generated on "*real-world sustainability issues*," with 64.3% believing that the upcoming regulations will positively help in addressing these issues – of which 20.0% believe the impact will be extremely positive. In addition, 61.4% believe that the regulations will help in resolving data challenges, and 64.3% expect that greenwashing concerns will be better addressed thanks to the upcoming regulations. (cf. exhibit 14).

11. ACMF (2020). "Roadmap for ASEAN Sustainable Capital Markets"
12. ACMF (2021). "ASEAN Taxonomy for Sustainable Finance"
13. ACMF (2022). "ASEAN Sustainable and Responsible Fund Standards"

Exhibit 14: APAC LPs and GPs' opinions on the impact of upcoming PM ESG-related regulations

In your opinion, what impact have/will recent and upcoming PM ESG-related regulations in your country/region had/have on the following aspects?



Source: PwC Global AWM & ESG Market Research Centre

Not only do APAC LPs hold the least optimistic view of the various regulatory shifts the region is poised to undergo, but they are also the least committed to adapting their operations in line with these regulatory shifts. Only 60.0% of surveyed APAC-operating LPs agreed that they would become more demanding in terms of the ESG reporting they would expect from their GPs. Among surveyed LPs in the UK, the EU and the US, the figures rise to 63.0%, 65.1% and 69.0% respectively.

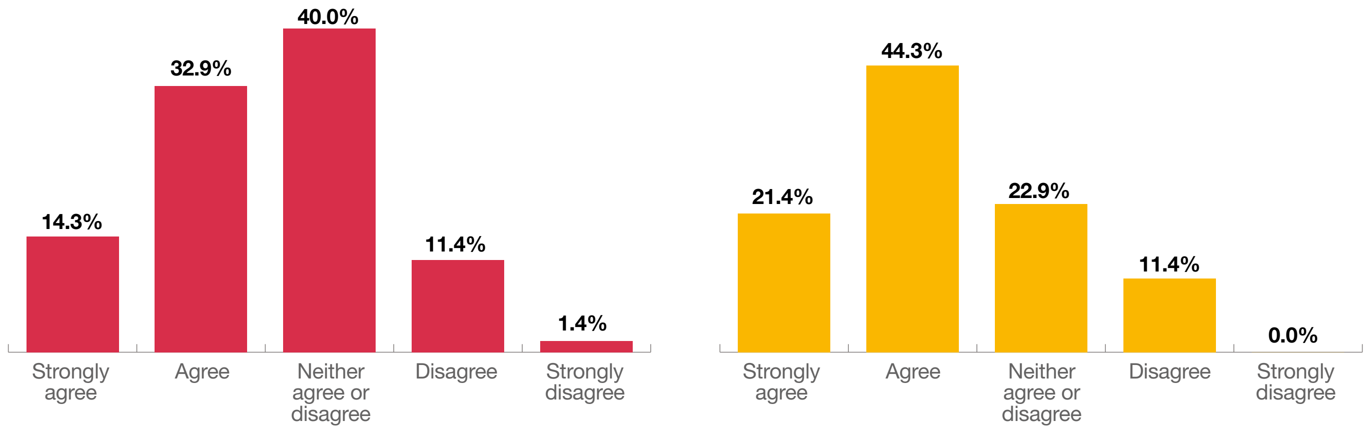
The divided views between LPs and GPs in the APAC region is also made clear when looking at the expectations of ESG data quality and transparency. As a matter of fact, 65.7% of APAC GPs state that they will upscale their ESG reporting efforts in response to regulatory developments, surpassing their peers in the EU (65.1%), the US (60.0%) and the UK (57.1%). However, only 47.2% of APAC LPs expect GPs to increase the quality and transparency of their ESG reporting efforts due to the new regulatory developments, well below their peers in the UK (63.1%), the US (69.0%) and the EU (70.0%) (cf. exhibit 15). This further highlights the apprehension APAC LPs have with the ESG regulations' potential to bring about substantial and meaningful changes to the region's markets.

Exhibit 15: Expected impact of upcoming APAC ESG regulation on GPs' reporting efforts

To which extent do you agree with the following statement: "Recent regulatory developments in my country/region…

…will give rise to a notable increase in quality and transparency of GPs' ESG reporting efforts" (APAC LPs)

…will translate into my organisation upscaling its ESG reporting efforts" (APAC GPs)



Source: PwC Global AWM & ESG Market Research Centre

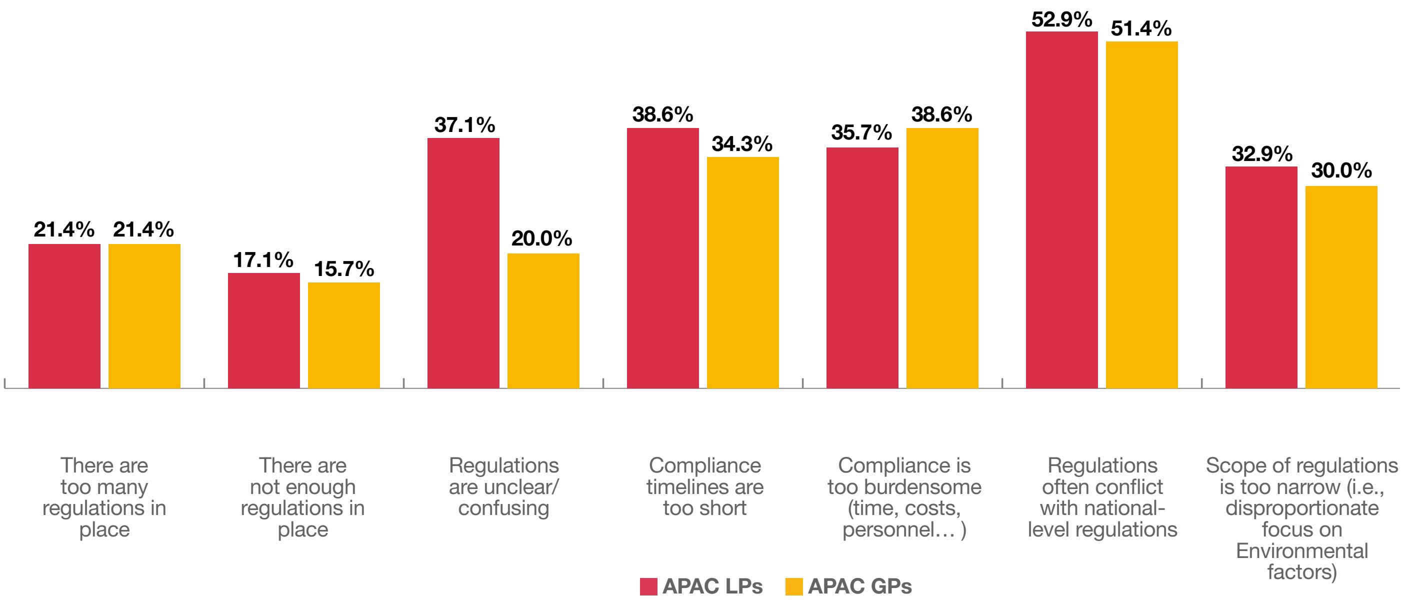
While the recent and upcoming ESG-related regulatory developments are undoubtedly set to bring a degree of objectivity and simplicity to APAC countries' ESG landscapes – with 56.3% of the region's LPs anticipating this to be the case – the region's industry players have highlighted several concerns. In general, it appears that both LPs and GPs largely face the same concerns, with the majority of our APAC respondents aligning with one another in this regard.

A major challenge faced by LPs and GPs in the APAC region is the lack of an overarching regulatory body and harmonised standards across jurisdictions. Unlike in the EU, APAC countries do not have such a regulatory body that can implement and enforce ESG policies throughout the region, and terms such as 'sustainability' or 'sustainable investment' can have different meanings in different APAC jurisdictions. Even if an alignment between different initiatives were to take place, this would be hindered by the fact that different countries stand at different stages of their ESG journeys, especially given that some of them only have voluntary disclosure regimes in place while others have already enacted mandatory approaches. This has been translated starkly in our survey, with the potential conflict between region-wide and national-level regulations being identified as the biggest issue confronting both LPs (52.9%) and GPs (51.4%) (cf. exhibit 16).

Lastly, the region suffers from a notable skills gap, as there is a considerable lack of ESG data and expertise in APAC countries. Coupled with the region's fragmented regulatory environment, this gap is poised to make compliance with the new requirements and standards even more challenging. Indeed, burdensome compliance requirements represent the second most commonly raised concern among our APAC respondents, with a respective 35.7% and 38.6% of the region's LPs and GPs echoing these anxieties.

Exhibit 16: APAC LPs and GPs' main concerns regarding PM ESG-related regulations

If any, what concerns do you have with PM ESG-related regulations in your country/region?*



*Multiple answers possible
Source: PwC Global AWM & ESG Market Research Centre

Despite lagging behind Europe and North America, and despite the many challenges and jurisdictional roadblocks complicating ESG investing, the APAC region's ESG investment landscape has come a long way. A large number of regulations and taxonomies have already been released or are in the process of being formalised. Regulators will gradually adapt to the new rules. Investors in the region, despite their current apprehensiveness, will likely become increasingly cognisant of ESG's importance, not just because of the importance of sustainability to the future of APAC economies, but also in the potential returns that exist in the ESG investment landscape. Asset managers will respond appropriately, fine-tuning their financial products to ensure that ESG-conscious investors will not only have a wide range of products available, but would also have access to high-quality data that would be used to inform their decisions. As a whole, the future looks promising for the APAC region's ESG landscape.

Global Initiatives

While individual countries and regions have taken considerable steps towards the standardisation of ESG reporting within their respective markets, there remains a considerable need for inter-regional standardisation.

Indeed, the absence of inter-regional standards has historically hindered the cross-border promotion of ESG products – representing a considerable roadblock to the global sustainability transition and limiting investment and promotion opportunities across the global ESG landscape.

Attempts at establishing global sustainability reporting standards that can be used across jurisdictions are not new. In 1997, several non-profit organisations partnered up to establish the Global Reporting Initiative (GRI) with the goal of creating an ESG reporting framework which companies would adhere to, hence not only encouraging the private sector to adopt sustainable practices, but also allowing civil society to keep track of companies' sustainability performance. Since then, a plethora of initiatives have emerged (cf. exhibit 18).

Exhibit 18: Overview of global sustainability reporting initiatives/organisations

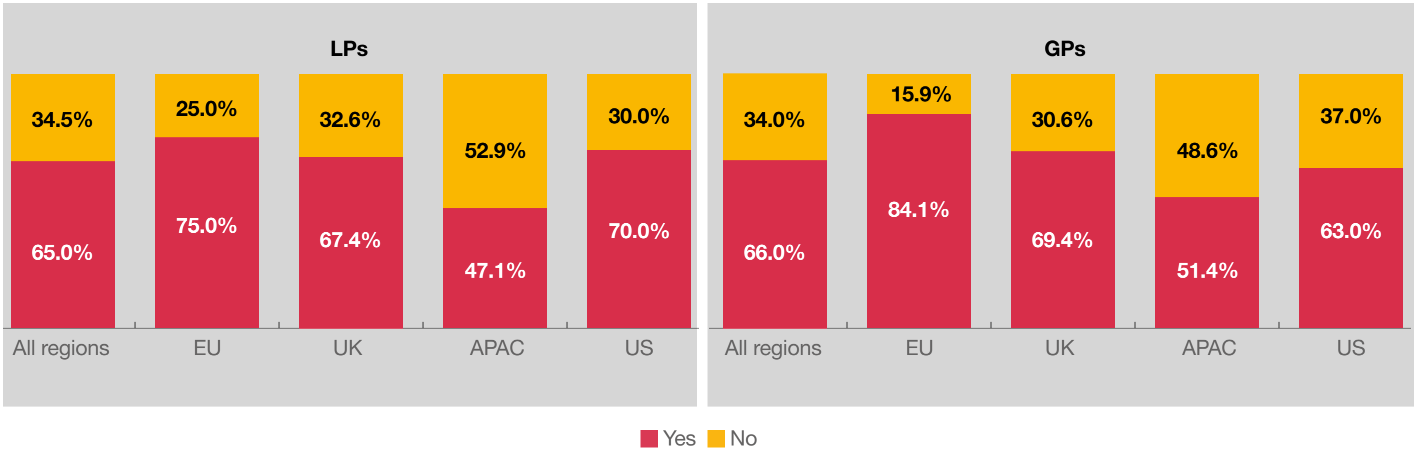
Name	Brief description	Applies to	Goals & Objectives	Key figures
Global Reporting Initiative (GRI)	Established in 1997, the GRI Standards enable organisations to understand and report their impact on the environment	Any public or private organisation, regardless of its size or geographical location	Increase transparency regarding environmental and societal impact of all economic actors	Members: 500+ organisations from 70+ countries Over 10,000 companies use GRI Standards voluntarily
Greenhouse Gas (GHG) Protocol	Established in 1998, the GHG Protocol develops and promotes best practices for accounting and reporting on GHG emissions	Any public or private organisation, regardless of its size or geographical location	Assist companies and organisations with their GHG emissions reporting via the 'Corporate Standard,' the premier tool for emissions reporting	Around 92% of Fortune 500 used the GHG Protocol in their disclosures to the CDP
Carbon Disclosure Project (CDP)	Established in 2000, CDP runs a global disclosure system for public and private actors to manage environmental impacts	Any public or private organisation, regardless of its size or geographical location	Encourage companies and public authorities to disclose climate-related data to allow investors to make informed decisions	Companies with CDP disclosures: 13,000+ Investors requesting CDP disclosures: Over 680, with USD ~130tn AuM
Institutional Limited Partners Association (ILPA)	Established in 2002, the ILPA is a network of institutional investors. Released an ESG Assessment Framework to help LPs in their ESG integration	Limited Partners, regardless of their geographical location	Amplify LPs' voices in global policy discussions and assist LPs with evaluating, benchmarking and measuring ESG progress over time	Members: Over 550 (incl. public and private pension funds, SWFs, endowments, banks, insurance companies), with over USD 2.0tn AuM
UN Principles of Responsible Investing (PRI)	Established in 2006, the PRI encourages incorporation of ESG in investing and asset management, and requires signatories to publish annual reports on transparency and climate change risks	AWM stakeholders (asset managers, asset owners, service providers)	Aims to achieve a sustainable global financial system by encouraging adoption of responsible investment principals and collaboration on their implementation	Signatories: 4,395 investors and 507 service providers. AuM: USD ~121.3tn (March 2022)

Name	Brief description	Applies to	Goals & Objectives	Key figures
Task Force on Climate-related Financial Disclosures (TCFD)	Established in 2015, the TCFD focuses on climate-related disclosures to better assess financial risks	Private sector stakeholders, from both the financial and non-financial sectors. Adoption is currently largely confined to G7 economies	Encourage consistent, comparable and reliable climate-related disclosures for more informed business and investment decisions	Members: 31 international firms Supporters: Over 3,400 private sector, non-profit and governmental entities from 95 countries, with market capitalisation over USD 25.0tn
Climate Action 100+	Launched in 2017 to make the global economy more resilient to climate change. Coordinated by five regional investor networks (incl. PRI). Prepared the Net Zero Company Benchmarks in 2021 to evaluate companies' GHG emissions, governance and disclosures	Asset Management stakeholders (asset managers, asset owners) and large multinational companies responsible for substantial GHG emissions	Compile companies' data on GHG emissions reduction, governance and disclosures in the NZCB to allow signatories to monitor their progress and assist investors in their decision-making	Signatories: 700+ asset managers and asset owners with over USD 68.0tn in AuM The latest benchmark assessment (October 2022) covered 159 focus companies in carbon-intensive sectors (shipping, airlines, mining, cement etc.)
ESG Data Convergence Initiative	Launched in 2021 as a response to the lack of standardised and performance-based ESG data from private companies	Limited Partners and General Partners, regardless of their geographical location	Develop a standardised set of ESG metrics for private markets so that GPs can measure progress and give LPs more comparable data	Members: 139 GPs and 76 LPs with over USD 24.0tn in AuM
International Sustainability Standards Board (ISSB)	Founded in 2021 by the IFRS Foundation to provide market participants with access to sustainability-related data and risks	Private sector stakeholders, from both the financial and non-financial sectors	Develop sustainability standards to respond to the need for globally consistent and comparable sustainability disclosures	ISSB has received over 1,300 responses to its draft disclosures, indicating widespread support
International Accounting Standards Board (IASB)	In March 2023, the Board unveiled a maintenance project to enhance the reporting of climate-related risks in financial statements, with possible outcomes depending on the causes of stakeholder concerns		Investigate why stakeholders are expressing concerns about the inadequate dissemination of information/ inconsistent application and examine whether the IFRS Foundation's resources and the ISSB's forthcoming climate disclosures guidelines can mitigate these concerns	

However, the sheer number of initiatives, all of which have varying scopes and methodologies, has in fact added to the confusion and heterogeneity in the global ESG disclosure landscape. The players we surveyed are strongly cognisant of this hindrance, as illustrated by the fact that over two-thirds of our respondents see the benefit of aligning reporting standards on a global scale (cf. exhibit 17). The perceived benefit of a cross-regional reporting standard is particularly prominent among our EU respondents, with a respective 84.1% and 75.0% of the region's GPs and LPs valuing the development of a reporting standard that transcends physical borders.

Exhibit 17: LPs and GPs' views on the benefits of aligning reporting standards on a worldwide scale

Would you see the benefit of aligning reporting standards on a worldwide scale?



Source: PwC Global AWM & ESG Market Research Centre

As the prioritisation of ESG values and demand for ESG-aligned products surges across the globe, industry bodies have acknowledged the need for a single, harmonised global disclosure standard.

In November 2021, at COP26, the IFRS foundation announced the establishment of the International Sustainability Standards Board (ISSB), with a goal to deliver a comprehensive global baseline of sustainability-related disclosure standards, hence alleviating concerns regarding the plethora of existing standards and frameworks, providing information to capital market participants about companies' sustainability-related risks and opportunities, and helping them make better-informed decisions (cf. exhibit 19).

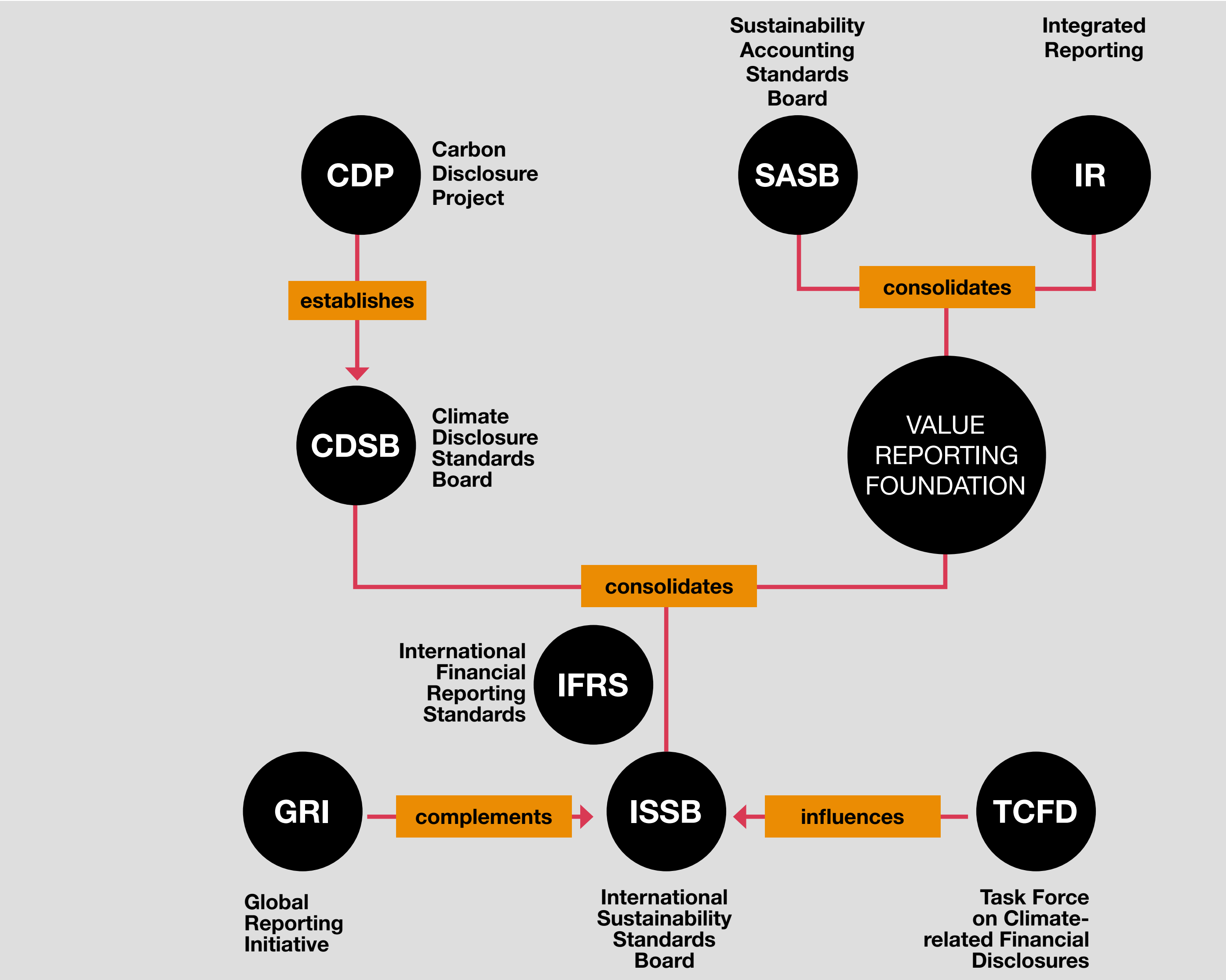
In March 2022, the ISSB and the GRI signed a memorandum of understanding intending to ensure compatibility and interconnectedness between the two organisations' information and approaches. This will help reduce companies' reporting burdens and contribute to further harmonising the sustainability reporting landscape at a global level.[14]

That same month, the ISSB published two Exposure Drafts on IFRS Sustainability Disclosure Standards – one dealing with general requirements for the disclosure of sustainability-related financial information, and the other dealing with climate-related disclosure.

The ISSB met in late September 2022 to discuss plans for amending the drafts based on the feedback received. The final IFRS Sustainability Disclosure Standards are expected to be published by the ISSB in 2023. These standards not only represent the largest push to global disclosure standardisation but could potentially influence mandatory disclosure regimes across the globe – with regulators in the UK and Asia Pacific already stating that they will consult on onshoring ISSB rules once finalised and available.

14. IFRS Foundation (2022), "IFRS Foundation and GRI to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures"

Exhibit 19: Origins of the International Sustainability Standards Board (ISSB)



Sources: PwC Global AWM & ESG Market Research Centre, Kirkland & Ellis

Our survey results suggest a general sense of optimism within the global Asset Management community with regards to the likelihood of the ISSB succeeding in its harmonisation aims – with over two-thirds (68.1%) of the GPs surveyed expecting the standard to successfully harmonise global ESG disclosure standards (cf. exhibit 20).

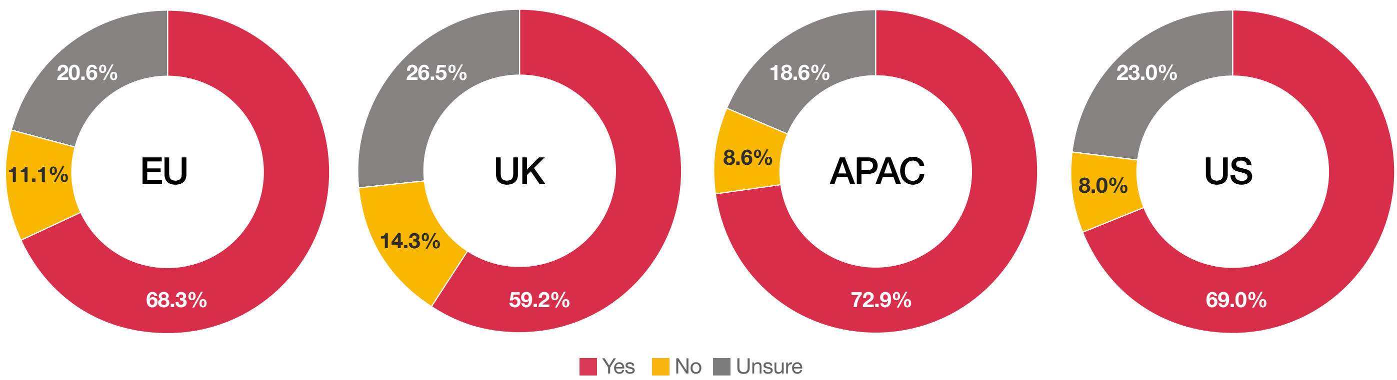
While this confidence transcends regional borders, US- and APAC-operating GPs appear to be the most optimistic in this regard – with a respective 69.0% and 72.9% of those we surveyed being confident that the ISSB will be successful in harmonising ESG disclosure standards globally.

Interestingly, LPs appear to be marginally more optimistic than their GP peers with regards to the probability of the ISSB successfully harmonising ESG disclosure standards globally, with 72.0% expecting the framework to succeed in its aims (cf. exhibit 21).

Given the above, it is clear that the ISSB is a much-welcomed shift in the global ESG space, with the majority of players globally recognising the need for homogeneity in the ESG realm and recognising the ISSB framework as a promising medium to achieve this goal.

Exhibit 20: GPs' views on the ISSB

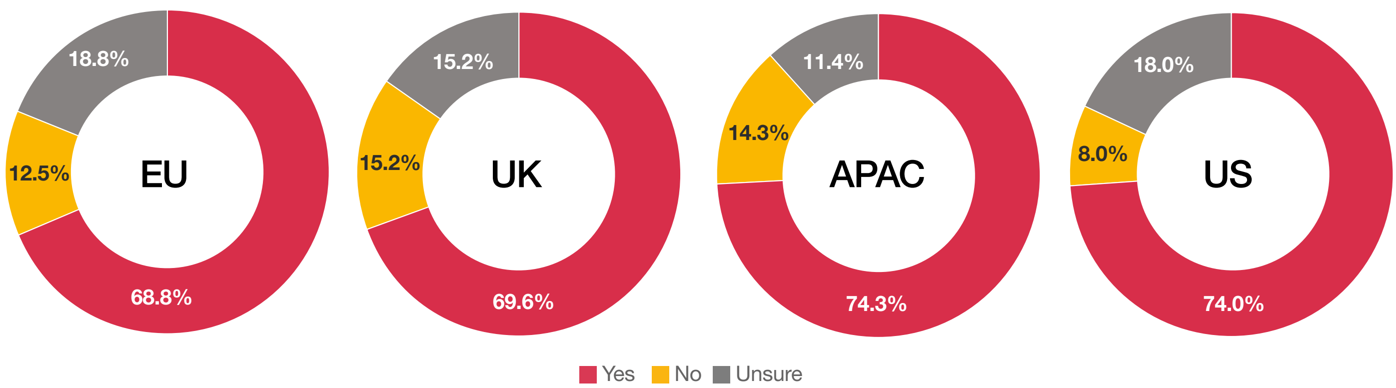
Do you believe that the ISSB will be successful in harmonising ESG disclosure standards globally? (GPs)



Source: PwC Global AWM & ESG Market Research Centre

Exhibit 21: LPs' views on the ISSB

Do you believe that the ISSB will be successful in harmonising ESG disclosure standards globally? (LPs)



Source: PwC Global AWM & ESG Market Research Centre

The International Accounting Standards Board (IASB) has also recognised the need for global ESG disclosure standardisation. In March 2023, the Board unveiled a maintenance project to enhance the reporting of climate-related risks in financial statements, with possible outcomes depending on the causes of stakeholder concerns. The ultimate aim of the project is to:

- Conduct an investigation into why stakeholders are expressing concerns about the inadequate dissemination of information and inconsistent application.
- Examine whether the IFRS Foundation's educational resources regarding climate change's impact on financial statements and the ISSB's forthcoming guidelines on climate disclosures can mitigate these concerns.
- Evaluate the necessity for any potential actions that may be required.

In order to ensure coherence and compatibility with the aforementioned ISSB standards, the IASB's project will apply the ISSB's sustainability-related financial disclosures standards and the two bodies will work closely together to ensure that any upcoming proposals are aligned.

While the two abovementioned global standardisation efforts, and the numerous standards that precede them, are undoubtedly serving to bring much-needed alignment to the global ESG disclosure landscape, it must be noted that there remain a number of limiting factors which should be addressed in the coming years to ensure a truly holistic global approach to bolstering transparency and spreading best practice.

First, these initiatives focus solely on climate and environmental factors, as of yet foregoing the 'S' and 'G' aspects of ESG. This disproportionate focus is likely attributable to (1) the 'urgent' nature of environmental issues such as climate change and natural resource depletion (which has seen these issues rank higher on societal and political agendas); (2) the ease and availability of measurable and objective environmental data compared to social and governance factors; and (3) the tangible and evident impact of environmental issues on financial performance, risk management, and long-term viability.

Second, these initiatives solely affect ex post disclosures (i.e., financial statements) and currently do not encompass ex ante information (i.e., Key Investor Information Documents). Finally, these standards are being introduced as a complement rather than a replacement to national-level standards and regulations. This might increase the reporting burden on Financial Market Participants, leading to increased costs and increasing the risks of regulatory misalignments which may, in turn, hinder compliance and uptake.

2 Data expectations and requirements

While LPs' ESG data expectations and requirements vary largely depending on the regions in which they operate, there are also a number of asset class specificities that must be taken into consideration. With this in mind, we have surveyed a number of LPs and GPs operating across the four Private Market asset classes in order to ascertain their specific needs and wants, and identify areas in which further improvement is needed.

Private Equity

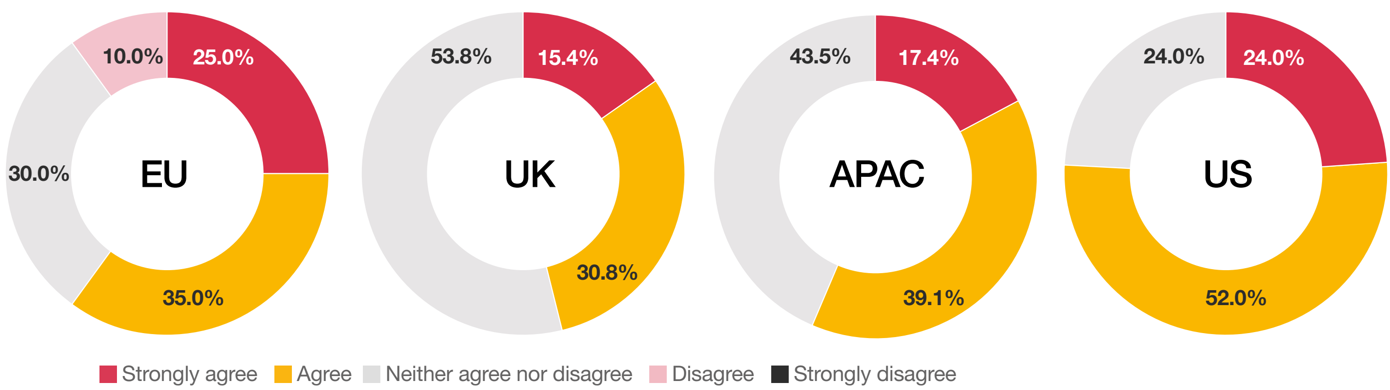
While Private Equity (PE) players have long been investing in line with ESG objectives, the PE landscape does not yet mirror the degree of ESG entrenchment evident across other Private Markets asset classes. This limited uptake of ESG investing in the PE space is primarily attributed to the long-held perception that the asset class's IRR-centric focus and private nature renders it incompatible with ESG. Additionally, PE firms often operate with a smaller number of portfolio companies than other asset classes, which can make it more challenging to scale ESG integration efforts.

Despite growing increasingly cognisant of the importance of ESG integration, our analysis shows that the global Private Equity industry currently lags other Private Markets asset classes in terms of ESG uptake – with LPs and GPs alike adopting a more cautious approach to sustainable investing. Indeed, according to our survey results, PE LPs and GPs currently boast the lowest average asset allocation towards ESG products across the PM realm – with the respective 57.4% and 47.6% of PE LPs and GPs that allocate over 30% of their assets to Article 8 products falling far below the average 63.7% and 62.1% figures recorded among their Real Estate, Infrastructure and Private Debt counterparts.

The limited entrenchment of ESG considerations in the Private Equity industry is further reflected in the ESG reporting requirements established by PE LPs – with our analysis indicating that, of all the PM investors, PE LPs attribute the lowest degree of strategic importance to ESG reporting. Specifically, when asked whether quality ESG reporting is an important determinant in their GP selection process, 61.7% of PE-focused LPs responded in the affirmative (cf. exhibit 22). While this percentage is by no means insignificant, it falls significantly below the global average of 80.2% reported by LPs in Real Estate, Private Debt, and Infrastructure.

Exhibit 22: Private Equity-focused LPs' views on ESG reporting as a determinant of GP selection process

To which extent do you agree with the following statement:
"The provision of quality ESG reporting represents an important determinant in my PE GP selection process?" (LPs)



Source: PwC Global AWM & ESG Market Research Centre

Given the above, it is apparent that, while PE LPs are integrating ESG considerations into their investment decisions, this has not yet informed their operations to the same extent as their PM peers. Despite this, our analysis shows that PE GPs are increasingly recognising the importance of effective assessment and reporting of ESG considerations as a strategic priority. In fact, 75.7% of surveyed PE GPs agree that providing quality ESG reporting is a crucial competitive advantage in their respective markets – the second highest figure recorded across our entire sample.

The provision of quality PE ESG reporting appears to represent the greatest competitive differentiator in the markets whose regulators have not yet implemented binding ESG regulatory requirements - with the EU representing the sole region in which under half of GPs view it as such. This is perhaps unsurprising, given that recent regulatory developments such as the SFDR and EU Taxonomy have cemented ESG reporting as the 'status quo' within the EU's Asset Management realm. On the flip side, the non-compulsory nature of such reporting within the US, UK and Asia Pacific renders its provision an important competitive advantage.

Despite the perceived importance of quality reporting in the global PE space, our survey results indicate a notable degree of misalignment between PE LPs' reporting requirements and the reporting they currently receive from respective GPs. While these misalignments vary largely by region, our survey unveils one major disparity between LPs' reporting expectations and GPs' reporting practices. Namely, while over a third of PE LPs globally require their GPs to provide their shareholder reports to investors and the public, this is currently only provided by a small minority of GPs (cf. exhibit 23).

In terms of region-specific misalignments, the greatest disparity between EU and UK LPs and their respective GPs pertains to short- and long-term ESG impact statements. Indeed, while a respective 50.0% and 38.5% of EU and UK LPs require this type of reporting, it is currently being provided by only a respective 13.3% and 15.4% of GPs in each region. Furthermore, while the majority of the EU and UK LPs we surveyed require voluntary entity-level ESG commitments, this is currently provided by a notably lower share of GPs.

With regards to the Asia Pacific region, our survey indicates a number of misalignments between the PE ESG reporting that LPs require and that being provided by GPs. Most prominently, while almost half (47.8%) require reporting on the integration of ESG considerations into deal origination, only 19.0% of the APAC GPs we surveyed currently provide this. Furthermore, while 21.7% require reporting on mandatory entity-level ESG commitments, this is currently provided by only 4.8% of the region's GPs.

Exhibit 23: Private Equity-focused GPs and LPs: Required and provided ESG reporting

	GPs: Type of PE ESG reporting provided				LPs: Type of PE ESG reporting required			
	EU	UK	APAC	US	EU	UK	APAC	US
Mandatory entity-level ESG commitments (e.g. PAIs)	**60.0%**	38.5%	4.8%	56.0%	**55.0%**	53.8%	21.7%	36.0%
Voluntary entity-level ESG commitments (e.g. UN PRI)	46.7%	46.2%	**57.1%**	52.0%	**55.0%**	**61.5%**	30.4%	44.0%
Alignment of ESG strategy with investors	**60.0%**	38.5%	52.4%	48.0%	40.0%	23.1%	34.8%	28.0%
Integration of ESG considerations into the deal origination	33.3%	46.2%	19.0%	56.0%	40.0%	30.8%	**47.8%**	**56.0%**
ESG KPIs of portfolio companies	53.3%	**61.5%**	47.6%	**60.0%**	30.0%	38.5%	30.4%	40.0%
Short-term and long-term ESG impact statements	13.3%	15.4%	38.1%	44.0%	50.0%	38.5%	39.1%	52.0%
Shareholders' reporting to investors and the public	6.7%	0.0%	14.3%	0.0%	40.0%	38.5%	34.8%	40.0%

Source: PwC Global AWM & ESG Market Research Centre

In spite of these discrepancies, our analysis shows that the global PE investment community is generally content with the current quality of GPs' ESG reporting practices. 82.7% of the PE-focused LPs we canvassed reported that most or all of their PE ESG reporting needs are currently being met – the highest level of satisfaction recorded across all four PM asset classes.

US- and APAC-operating PE LPs voiced the highest degree of satisfaction – with a respective 88.0% and 91.3% of those surveyed seeing their reporting needs being fully or mostly met by their respective GPs (cf. exhibit 24). Furthermore, our analysis suggests that GPs in these regions hold an overall accurate perspective of their LPs' satisfaction with their PE reporting practices – with a respective 76.0% and 85.7% of US and APAC GPs believing that they are meeting their LPs' reporting requirements. This comparably high level of satisfaction is largely reflective of the limited entrenchment of ESG considerations in these regions' regulatory and PE landscapes, with the provision of ESG reporting being seen as a 'nice to have'; and most players' expectations aligning largely with regulatory requirements.

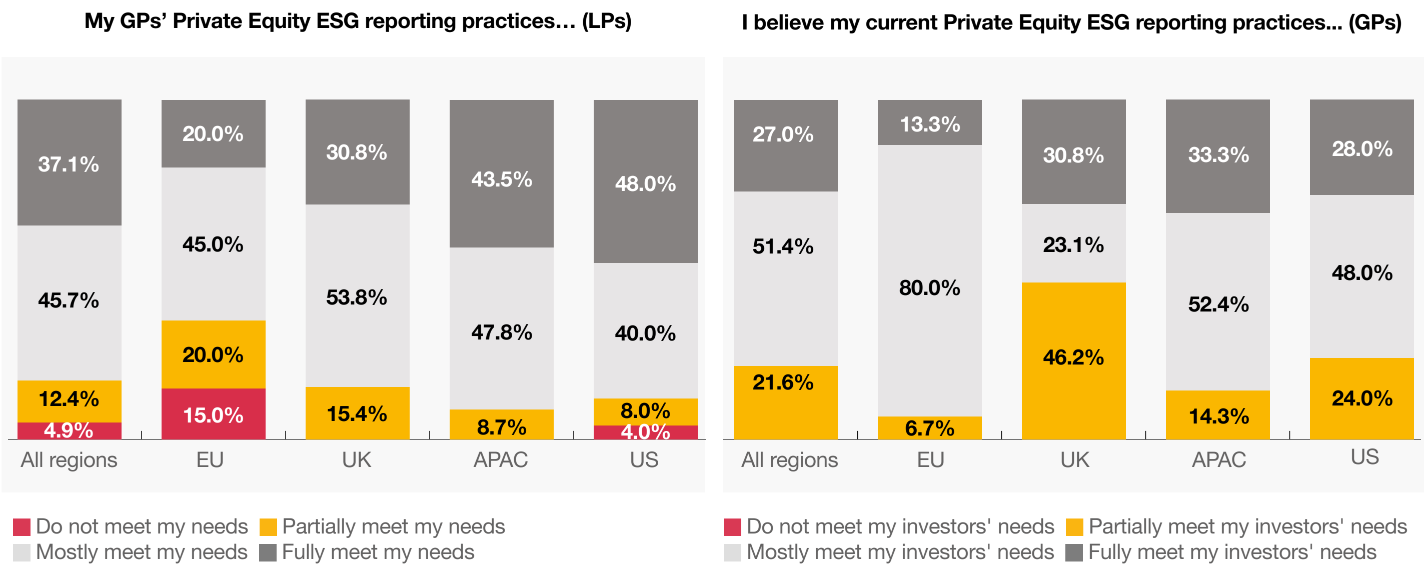
Although our analysis found that most Private Equity GPs worldwide accurately perceive their LPs to be satisfied with their ESG reporting practices, the EU presents an important exception. While 93.3% of EU GPs believe that their current ESG reporting practices satisfy most or all of their LPs' reporting requirements (the highest level among all four regions), only 65.0% of LPs actually confirmed this, representing the lowest satisfaction level observed across all four regions. This low level of satisfaction is likely attributable to the EU's strong regulatory momentum and historical focus on ESG issues, which have resulted in the region's investors often having more sophisticated ESG reporting requirements compared to other regions. Consequently, many EU players, particularly in the Nordics, have their own ESG roadmaps – expecting their GPs to exceed regulatory requirements and adopt sophisticated ESG requirements and investment processes. This creates a significant challenge for EU GPs in meeting LP reporting requirements as these investors often have divergent demands.

In order to identify key potential improvement areas, we asked the EU LPs that only saw their PE ESG reporting needs being partially met – or not met at all – to identify which changes they would like to see in their respective GPs' reporting practices. Interestingly, the most commonly desired change was an increase in qualitative data on Taxonomy alignment, mentioned by 40% of EU LPs. Additionally, 35% of LPs stated that they would like more frequent data on SDG alignment and climate impact.

In light of this low level of satisfaction – and inaccurate GP perception of this satisfaction – we recommend that EU GPs maintain an open and ongoing dialogue with their investors in order to ensure that their reporting practices are designed not only to meet regulatory requirements, but also to adapt to the evolving nature of LPs' preferences. In this new backdrop, simply attaining regulatory compliance is no longer sufficient to stand out and meet LP requirements in terms of content, granularity and quality.

Should EU GPs fail to recognise and reconcile this shortcoming, this may ultimately see the PE GPs with less proactive and holistic PE reporting practices losing their competitive edge, resulting in reputational damage and potential loss of business.

Exhibit 24: Private Equity: Reported and perceived LP satisfaction with GPs' ESG reporting practices



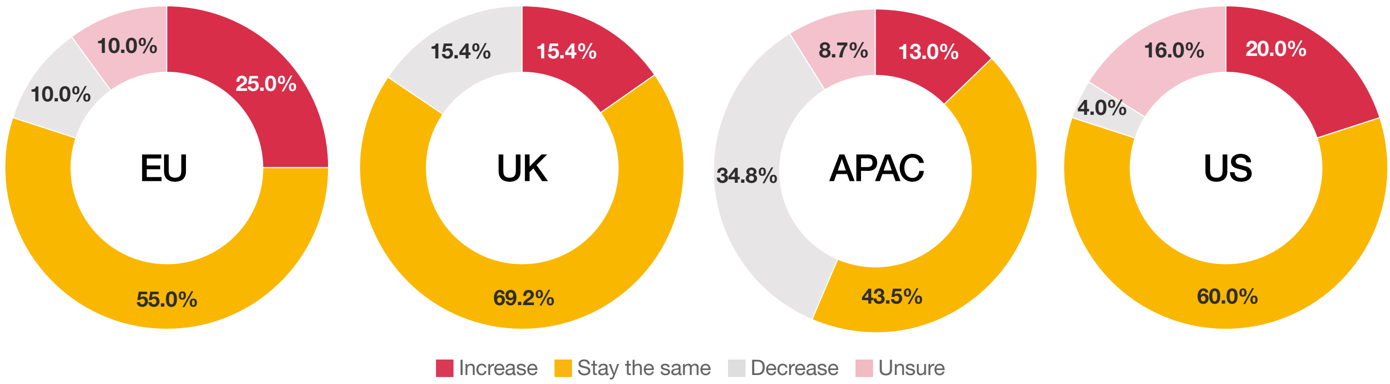
Source: PwC Global AWM & ESG Market Research Centre

While global Private Equity investors have highlighted room for further improvements in their GPs' PE ESG reporting practices, they do not plan to become more demanding in this area. In fact, the majority of PE LPs across all sample regions expect their PE ESG reporting requirements to stay the same or decrease over the coming three years – with only 18.5% of LPs overall anticipating an increase in their ESG reporting requirements during this period (cf. exhibit 25). This represents the second-lowest percentage across all asset classes, likely attributable to the current macroeconomic and market environment, which has seen many investors looking to Private Markets as a source of yield and downside protection. Given this, it is likely that many LPs do not want their GPs to undergo any considerable transformations in the short term that may risk harming returns.

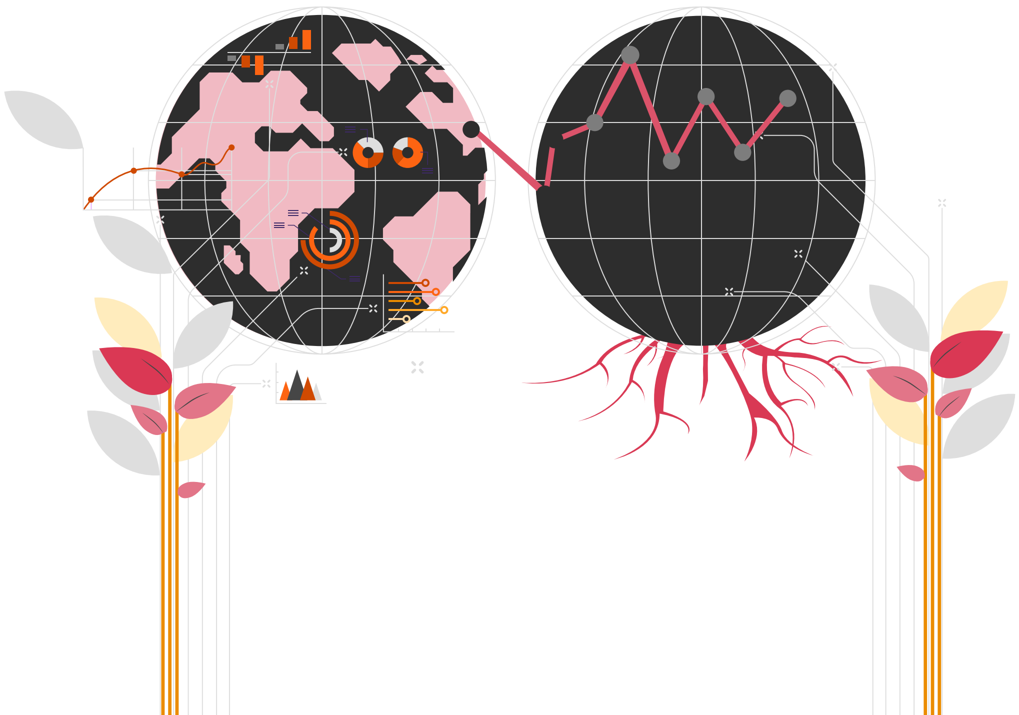
That being said, while ESG has yet not redefined the PE realm to the same extent as it has public markets or real assets, we are observing the early stages of an ESG revolution – with a growing number of PE players 'letting go' of the long-held misconceptions that have historically dissuaded them from anchoring ESG considerations within their investment methodologies. This, coupled with the aforementioned ESG drivers, lead us to expect that the coming years will give rise to a deepening entrenchment of ESG considerations within the Private Equity landscape. Our survey results hint at the rate and scale of this impending shift, with 75.3% of PE LPs and 83.8% of PE GPs globally planning to cease investing in and launching non-ESG investments – of which over half intend to do so by end-2025.

Exhibit 25: Private Equity-focused LPs' expected changes in ESG reporting requirements over the coming 3 years

Over the coming three years, I expect my organisation's PE ESG reporting requirements to… (LPs)



Source: PwC Global AWM & ESG Market Research Centre



Real Estate

Given the tangible and high-impact nature of Real Estate (RE) assets and their vulnerability to climate-related risks, identifying and managing ESG factors is an existential consideration for RE Asset Managers and Investors. Simultaneously, growing recognition of the role that the real estate industry has played in aggravating environmental degradation – the industry is estimated to be responsible for around 40% of global CO_2 emissions[15] – has put real estate at the centre of policymakers' discussions surrounding the transition to a low-carbon economy.

This has catalysed the development of a series of well-established frameworks and initiatives aimed at identifying which ESG metrics are the most relevant/material across different facets of the real estate industry. Despite their voluntary nature, these frameworks are largely well-received within the real estate space – helping to facilitate the homogenisation of ESG standards therein. This has resulted in a degree of institutionalisation and codification of ESG not yet mirrored by other asset classes, facilitating the incorporation of ESG considerations by RE players.

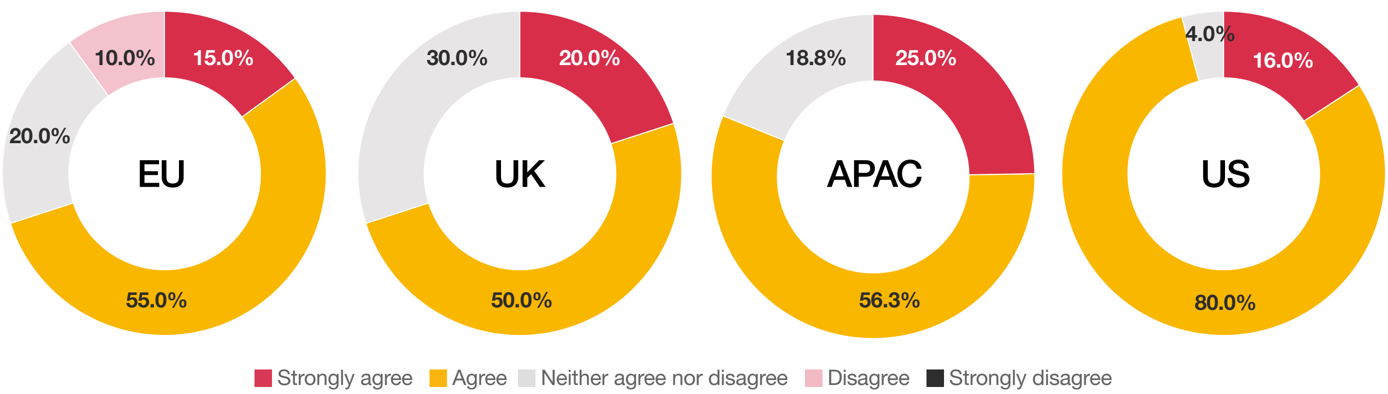
In light of the above, it is rather unsurprising that ESG values are deeply entrenched in the RE industry's DNA. Indeed, our analysis shows that RE players on average allocate more of their assets towards ESG products than their Private Markets peers – with 68.6% of surveyed RE-focused LPs[16] allocating over 30% of their AuM towards Article 8 products, the highest figure recorded across all asset classes.

Increased awareness of the inherent link between sustainability and Real Estate, coupled with intensified scrutiny from policymakers and industry organisations, has made the provision of accurate and impartial ESG data a critical concern for Real Estate investors' survival. This is attested to by the sheer volume of RE investors that select the GPs they work with based on their RE ESG reporting practices.

Our survey results confirm this trend, with 81.7% of RE-focused LPs using the provision of high-quality ESG reporting as a significant factor in their RE GP selection process (cf. exhibit 26). This figure represents the second-highest percentage recorded across all asset classes, behind only Infrastructure. This LP preference for GPs with strong RE ESG reporting practices is evident across the globe, with no less than two-thirds of respondents across all four regions attesting to this. US respondents are displaying by far the greatest affinity, with 96.0% of the country's LPs viewing the provision of quality ESG reporting as an important determinant of their RE GP selection processes.

Exhibit 26: Real Estate-focused LPs' views on ESG reporting as a determinant of GP selection process

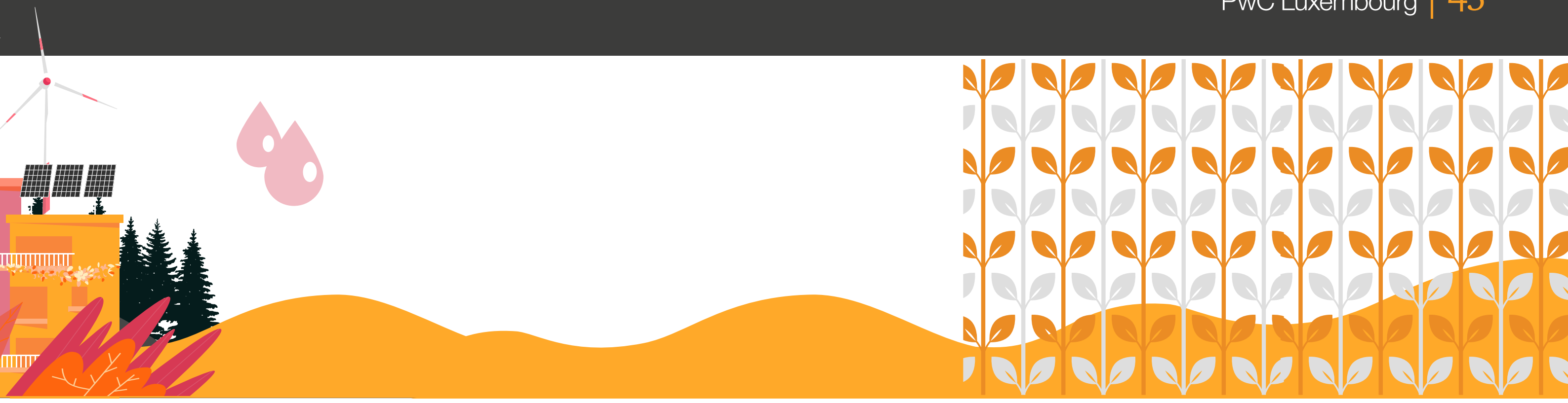
To which extent do you agree with the following statement:
"The provision of quality ESG reporting represents an important determinant in my RE GP selection process?" (LPs)



Source: PwC Global AWM & ESG Market Research Centre

15. Bracken, L. (2022). "How do you decarbonize real estate? An expert explains," World Economic Forum

16. This only includes LPs subject to the SFDR. This figure does not include APAC respondents due to the small number of players subject to the SFDR



ESG data plays a critical role in the day-to-day operations of RE players, shaping the challenges they face and the potential benefits they can reap. As a result, providing quality ESG reporting has become the norm rather than the exception in the global RE landscape. Our analysis supports this view, revealing that while 74.2% of Private Equity, Private Debt, and Infrastructure-focused GPs consider quality ESG reporting a crucial competitive differentiator, only 65.8% of RE GPs view it the same way. This perhaps indicates that providing accurate and unbiased ESG reporting is an "expected service" in the Real Estate industry.

Due to the significance of ESG reporting in RE players' day-to-day operations – and the subsequent prevalence of reporting standards in the RE space – there is an overall strong degree of alignment between RE LPs' reporting requirements and the reporting they currently receive from their respective GPs. However, there are some deviations in this regard, particularly regarding shareholders' reporting to investors and the public. This is currently only provided by a small minority of EU, UK, and US GPs, despite being required by a sizeable proportion of LPs in these regions.

The greatest degree of region-specific misalignment is evident among our UK respondents. Indeed, while 70% of UK LPs require reporting on (1) mandatory and (2) voluntary entity-level ESG commitments, as well as (3) short- and long-term ESG impact statements, this is currently only being provided by a respective 41.7%, 50.0% and 16.7% of UK GPs (cf. exhibit 27). These deviations suggest a lack of communication between UK GPs and their respective LPs on ESG reporting.

Exhibit 27: Real Estate-focused GPs and LPs: Required and provided ESG reporting

	GPs: Type of RE ESG reporting provided				LPs: Type of RE ESG reporting required			
	EU	UK	APAC	US	EU	UK	APAC	US
Mandatory entity-level ESG commitments (e.g. PAIs)	25.0%	41.7%	25.0%	40.0%	45.0%	**70.0%**	12.5%	36.0%
Voluntary entity-level ESG commitments (e.g. UN PRI)	**75.0%**	50.0%	40.0%	56.0%	**60.0%**	**70.0%**	56.3%	56.0%
Alignment of ESG strategy with investors	43.8%	**58.3%**	35.0%	56.0%	50.0%	20.0%	50.0%	**76.0%**
Integration of ESG considerations into the deal origination	43.8%	33.3%	45.0%	48.0%	30.0%	30.0%	56.3%	36.0%
ESG KPIs of portfolio companies	43.8%	41.7%	**50.0%**	**76.0%**	45.0%	30.0%	**62.5%**	36.0%
Short-term and long-term ESG impact statements	25.0%	16.7%	25.0%	36.0%	45.0%	**70.0%**	37.5%	48.0%
Shareholders' reporting to investors and the public	6.3%	0.0%	**50.0%**	16.0%	20.0%	40.0%	37.5%	56.0%

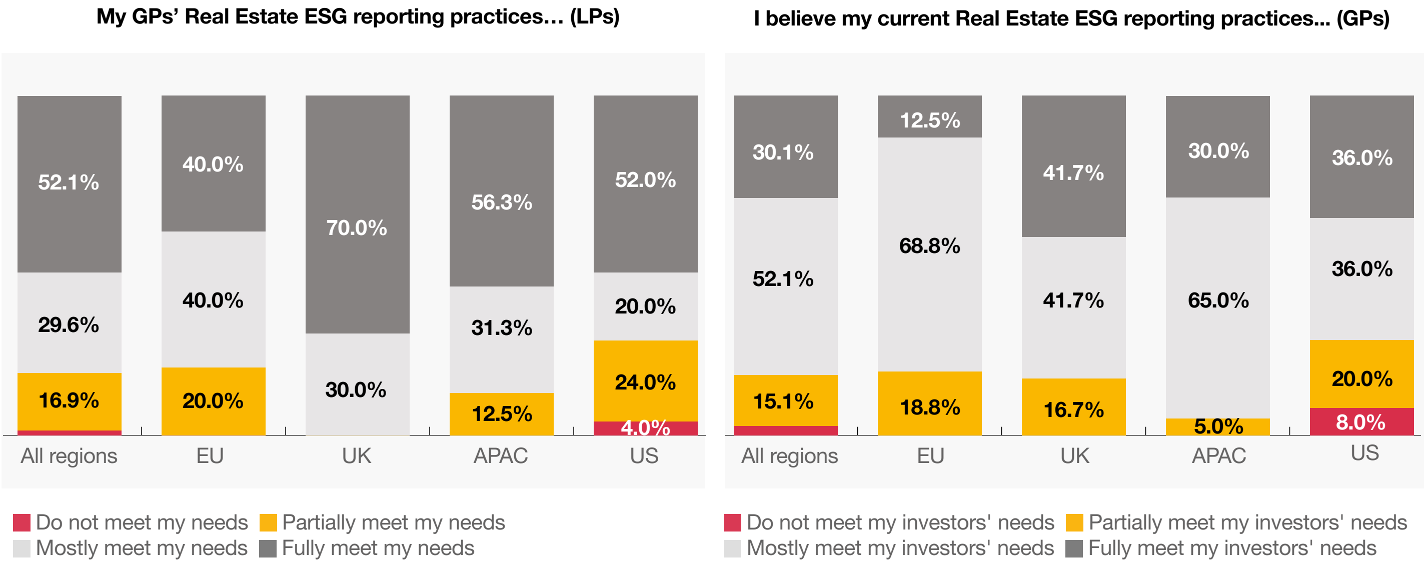
Source: PwC Global AWM & ESG Market Research Centre

Despite these misalignments, the global RE investment community is generally content with the current quality of GPs' ESG reporting practices; with a respective 52.1% and 29.6% of LPs seeing all or most their ESG reporting needs being met – the second-highest satisfaction level among the four asset classes. RE GPs hold an accurate perception of this level of LP satisfaction, with 82.2% of them believing they are fulfilling most or all of these needs – representing the closest LP-GP alignment observed among our entire survey sample. This suggests a close relationship and ongoing communication between RE GPs and their investors regarding ESG data provision to ensure their needs are being fully met.

The highest degree of LP satisfaction was recorded in the UK, with an impressive 100.0% of the region's LPs seeing their ESG reporting needs being fully/mostly met by their GPs. This represents the highest level of regional satisfaction recorded across our entire sample, hinting at strong communication and collaboration between UK GPs and their LPs. This may involve regular reporting and feedback mechanisms, as well as ongoing dialogue and consultation.

Although far from being dissatisfied, our survey found that RE-focused EU and US LPs currently hold the least optimistic view of their GPs' ESG reporting practices – with 20.0% of these regions' LPs indicating that their needs are only partially being met (cf. exhibit 28). To gain insight into how these investors believe their GPs could improve, we asked them to identify the specific changes they would like to see in their GPs' reporting. Interestingly, both EU and US LPs expressed a common desire for improved reporting on SDG alignment and Principal Adverse Impacts (PAIs) – with more qualitative data on the former and more frequent data on the latter representing the most commonly desired change across other regions.

Exhibit 28: Real Estate: Reported and perceived LP satisfaction with GPs' ESG reporting practices



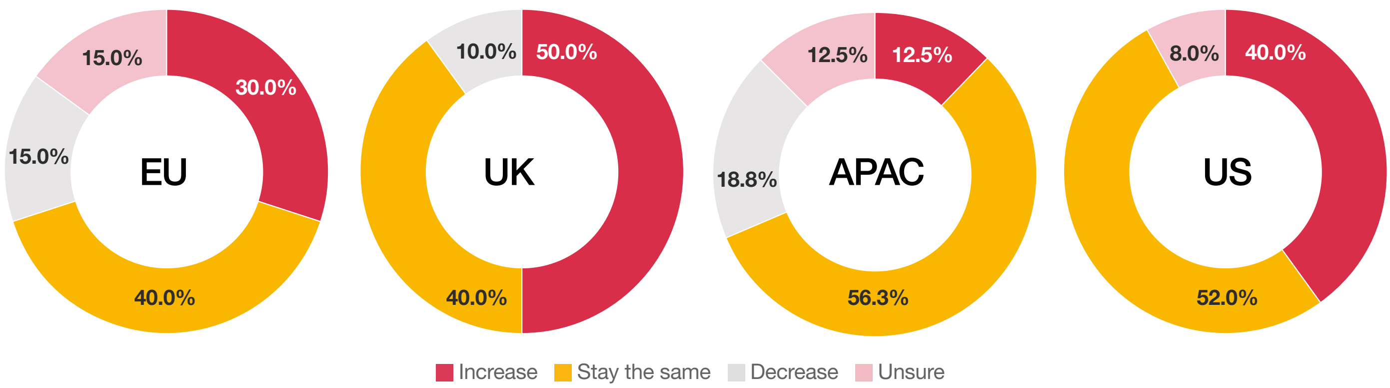
Source: PwC Global AWM & ESG Market Research Centre

Looking forward, our analysis indicates that, while ESG reporting is undoubtedly and intrinsically linked with RE players' operations, overall these players do not plan on increasing their expectations over the coming years. Only 32.4% of the RE players we surveyed plan to become more demanding in terms of their reporting expectations over the coming three years – with almost half (47.9%) expecting these to remain unchanged during this timeframe (cf. exhibit 29). However, it must be noted that RE investors are demonstrating the highest degree of willingness to increase these demands – with the abovementioned 32.4% figure representing the highest percentage recorded across all asset classes.

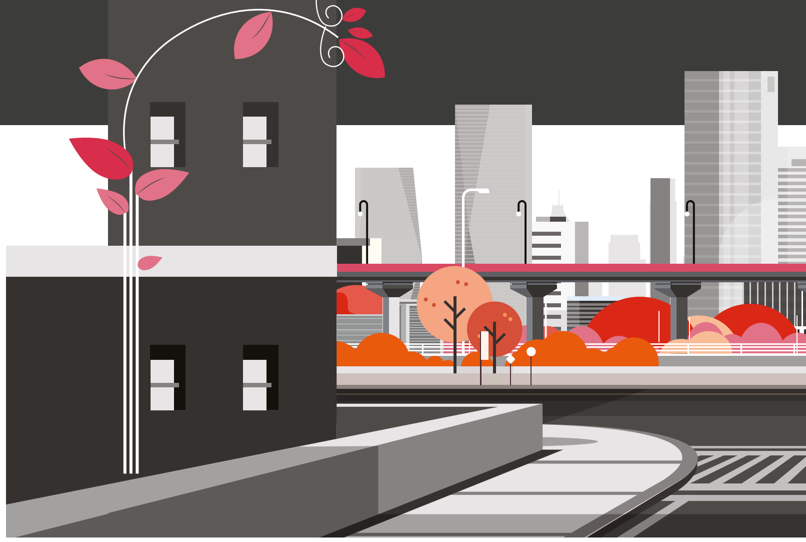
Not only this, but RE players are also demonstrating the strongest degree of willingness to halt non-ESG investment entirely in the coming years, with 81.7% of surveyed LPs planning to invest solely in ESG-oriented products – of which over half intend to do so by end-2025. We strongly expect the degree of ESG entrenchment in the Real Estate landscape to deepen considerably as demand for green buildings skyrockets and the industry increasingly acknowledges the role that it can and should play in propagating the sustainable transition.

Exhibit 29: Real Estate-focused LPs' expected changes in ESG reporting requirements over the coming 3 years

Over the coming three years, I expect my organisation's RE ESG reporting requirements to… (LPs)



Source: PwC Global AWM & ESG Market Research Centre



Infrastructure

Much like its Real Assets peer, the tangible nature of infrastructure investments, their high susceptibility to ESG risk, and the widely held perception of Infrastructure's key role in mitigating sustainability risks have historically seen ESG represent a key consideration within the global Infrastructure landscape.

This has given rise to the development of a number of initiatives that aim at identifying the most relevant and material KPIs across different infrastructure subsectors. This has largely facilitated the objective assessment of ESG metrics across projects and portfolios, helping to cement ESG considerations within the Infrastructure realm.

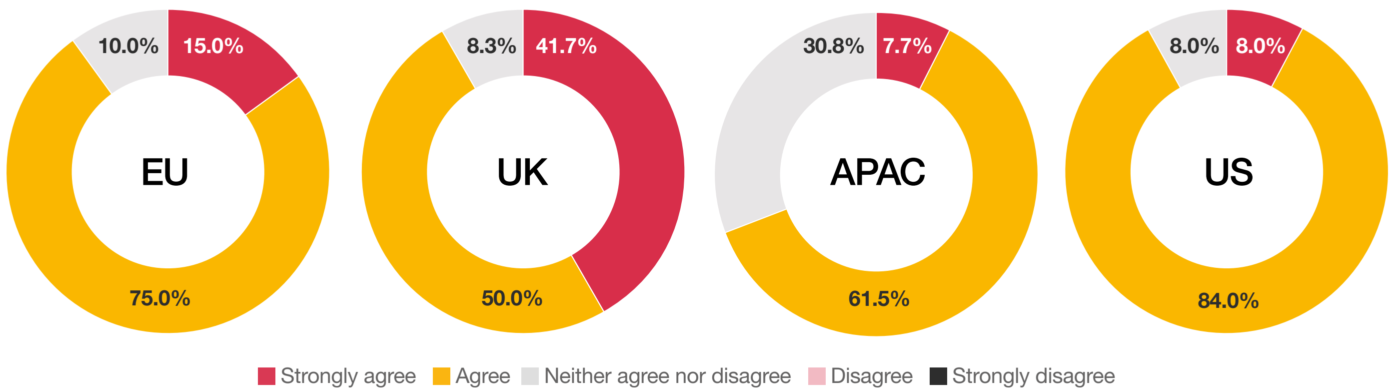
However, it appears that Infrastructure-focused LPs are currently adopting a relatively cautious approach towards ESG investing, not yet demonstrating the degree of appetite for ESG-aligned products evident among their PM peers. Indeed, while a respective 68.6% and 65.0% of Real Estate and Private Debt-focused investors allocate over 30% of their respective AuM towards Article 8 products, this figure only stands at 57.5% among Infrastructure LPs. This represents the second lowest allocation recorded across our sample, only very slightly exceeding the figure recorded by our Private Equity respondents.

Despite its comparatively limited 'ESG appetite', the Infrastructure investment sector (much like its Real Estate counterpart) relies heavily on accurate, transparent, and actionable ESG data in order to evaluate and mitigate ESG risks. This is evidenced by the fact that, compared to other PM sectors, Infrastructure investors are the most likely to base their GP-selection process on the quality of all prospects' ESG reporting. As per our survey results, 87.1% of respondents assess their current and potential GPs on their ESG reporting practices – far above the analogous 71.2% figure recorded by their PM peers (cf. exhibit 30).

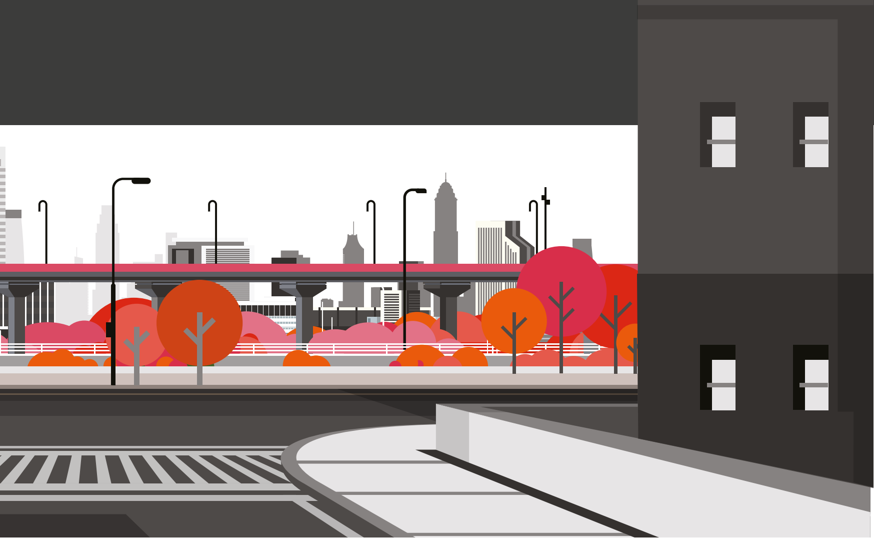
This perception seems to be widespread among Infrastructure investors worldwide, with a significant majority of LPs in the EU (90.0%), UK (91.7%), and US (92.0%) agreeing that high-quality ESG reporting is a crucial factor when selecting GPs. However, interestingly, the Asia Pacific region appears to be less rigid in this respect, with only 69.2% of LPs agreeing with the above, possibly due to the region's continued dependence on traditional Infrastructure and energy sources.

Exhibit 30: Infrastructure-focused LPs' views on ESG reporting as a determinant of GP selection process

To which extent do you agree with the following statement:
"The provision of quality ESG reporting represents an important determinant in my Infra GP selection process?" (LPs)



Source: PwC Global AWM & ESG Market Research Centre



Infrastructure GPs are strongly cognisant of this strong Investor demand for robust ESG reporting practices, with an impressive 80.0% of those we canvassed deeming the provision of quality ESG reporting an important competitive edge in the Infrastructure space. This represents the highest figure recorded across our survey sample, far exceeding the 69.6% average recorded across the remaining three PM asset classes.

Although LPs in the Infrastructure space are very keen on having access to quality ESG data from GPs when deciding on where to allocate their assets, we notice a significant misalignment between what Infrastructure-LPs expect from GPs, and what Infrastructure-focused GPs actually provide. Most notably, while 41.4% of the former currently expect their GPs to disclose shareholders' reports to investor and to the general public, this is currently only provided by a mere 3.1% of Infrastructure-focused GPs (cf. exhibit 31). These paradoxically represent the respective highest and lowest figures recorded across all asset classes.

That is not to say, however, that Infrastructure-focused GPs completely avoid providing any sort of ESG-related documentation to LPs. With 40.0% of Infrastructure-focused LPs expecting their GPs to provide them short- and long-term ESG impact assessments, it is encouraging to see that 47.7% of their respective focused GPs meet such a demand – the highest figure recorded across all asset classes. In addition, Infrastructure-focused GPs are the most likely among their peers in other asset classes to provide data on their voluntary ESG commitments (such as the UN PRI).

Exhibit 31: Infrastructure-focused GPs and LPs: Required and provided ESG reporting

	GPs: Type of Infra ESG reporting provided				LPs: Type of Infra ESG reporting required			
	EU	UK	APAC	US	EU	UK	APAC	US
Mandatory entity-level ESG commitments (e.g. PAIs)	25.0%	**83.3%**	25.0%	**72.0%**	55.0%	**66.7%**	30.8%	36.0%
Voluntary entity-level ESG commitments (e.g. UN PRI)	**75.0%**	50.0%	66.7%	68.0%	**60.0%**	58.3%	**53.8%**	48.0%
Alignment of ESG strategy with investors	37.5%	58.3%	50.0%	48.0%	30.0%	25.0%	46.2%	**56.0%**
Integration of ESG considerations into the deal origination	37.5%	50.0%	16.7%	56.0%	**60.0%**	25.0%	38.5%	44.0%
ESG KPIs of portfolio companies	56.3%	25.0%	**75.0%**	**72.0%**	45.0%	25.0%	46.2%	40.0%
Short-term and long-term ESG impact statements	37.5%	33.3%	66.7%	52.0%	35.0%	33.3%	38.5%	48.0%
Shareholders' reporting to investors and the public	6.3%	0.0%	8.3%	0.0%	40.0%	50.0%	46.2%	36.0%

Source: PwC Global AWM & ESG Market Research Centre

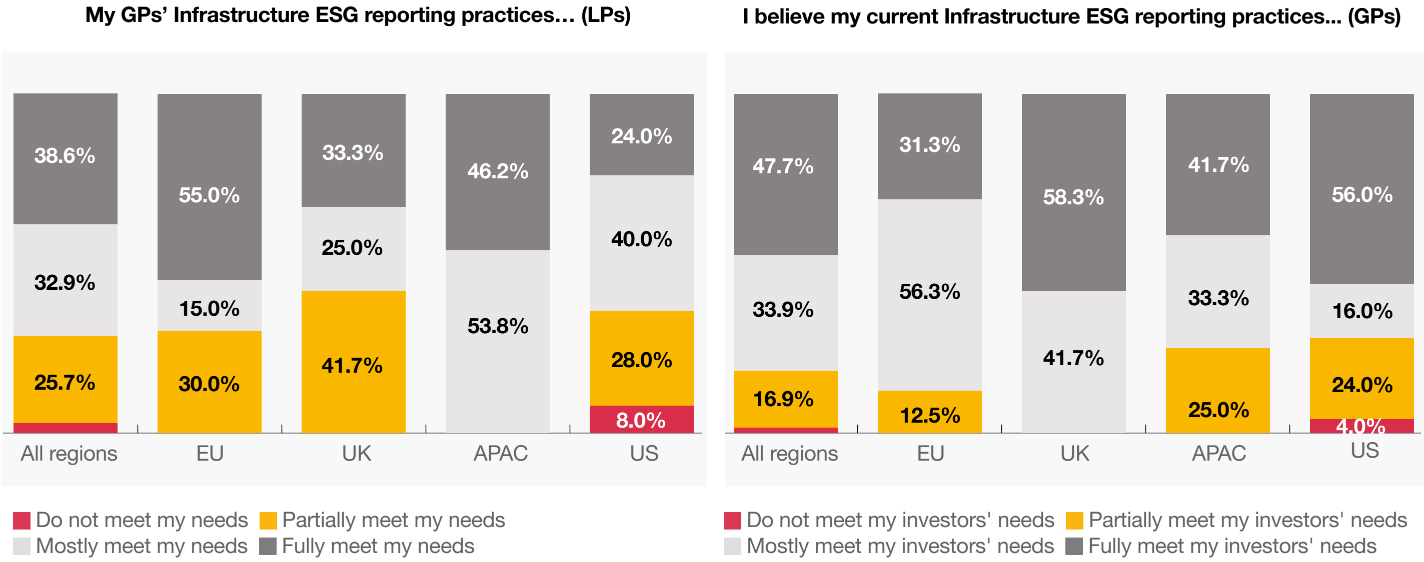
Surprisingly, while Infrastructure LPs and GPs are largely aligned on the significant strategic importance of ESG reporting, our survey found that Infrastructure-focused LPs expressed the greatest dissatisfaction with their GPs' reporting practices compared to all other Private Markets asset classes. While 71.4% of Infrastructure-focused LPs reported that their GPs' reporting practices met most or all of their needs, this in fact represents the lowest level of satisfaction recorded across all asset classes – standing notably below the 81.0% average reported by LPs focused on other asset classes.

Our analysis unveils significant region-specific variances in LP satisfaction, however. While all Infrastructure-focused LPs from the APAC region state that their GPs' reporting practices meet most or all of their needs, the figure goes down to a respective 58.3% and 70.0% among UK and EU LPs (cf. exhibit 32). This discrepancy can be attributed to the fact that the APAC region is currently in a notably more incipient stage of its ESG journey compared to its Western counterparts – with the region's GPs being less demanding in terms of ESG reporting expectations as a result. On the flipside, the relatively advanced stage of the EU and UK's sustainable finance and regulatory landscapes has resulted in these regions' LPs having more refined ESG expectations.

Our analysis illustrates that GPs vastly overestimate LP satisfaction, however. Indeed, while Infrastructure LPs currently hold the least optimistic view of GPs' reporting practices across the entire Private Markets realm, GPs record the second highest perceived LP satisfaction across our entire sample. This represents the greatest disparity recorded across our entire sample – hinting at a notable lack of alignment between Infrastructure GPs and their respective LPs on the topic of ESG reporting requirements. Most prominently, while UK LPs voiced the lowest degree of satisfaction with their GPs' reporting efforts – with only 58.3% seeing their needs being met – 100.0% of UK GPs believed this to be the case. This is rendered all the more urgent given the primordial importance of accurate and actionable ESG information in Infrastructure investors' everyday operations and risk management processes.

When looking at what kind of changes Infrastructure-focused LPs would like to see in their GPs' ESG reporting practices, the survey results were very varied. A little over a quarter of respondents would like to have more qualitative data aligned with a taxonomy, while 14.2% would also like to have more accessible taxonomy data. In addition, a little over one-fifth would like to have more frequent data on how their investments align with the SDGs – with US-based infrastructure-focused LPs being the most prominent among their peers in other regions in this regard – while 24.2% would also like to have more frequent data on PAIs.

Exhibit 32: Infrastructure: Reported and perceived LP satisfaction with GPs' ESG reporting practices



Source: PwC Global AWM & ESG Market Research Centre

Although the majority of Infrastructure-focused LPs consider high-quality ESG reporting as a key determinant when selecting their GP, only 28.6% expect that their ESG reporting requirements will increase, while 50.0% expect that their requirements will not change (cf. exhibit 33). However, while low in absolute terms, this actually represents the second highest figure recorded across the entire PM landscape – second only to Real Estate.

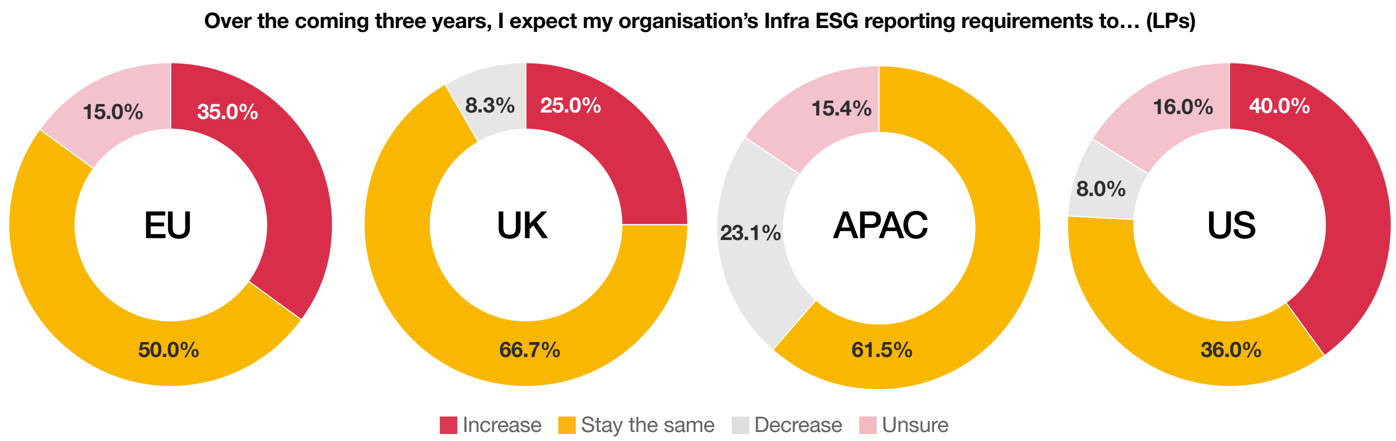
Furthermore, our analysis hints that the coming years will see Infrastructure investors doubling down in their ESG integration efforts, with 78.6% of LPs planning to cease investing in non-ESG Infrastructure products in the short to medium term. However, as evidenced above, Infrastructure GPs appear to underestimate their LPs' future ESG demands – with only 64.6% intending to stop launching non-ESG funds in the coming years, indicating that the supply of non-ESG Infrastructure Funds may outstrip demand in the coming years.

All in all, the Infrastructure asset class has substantial ESG potential – be it when it comes to driving forward the transition to clean and renewable energy, or paving the way for the next generation of energy efficient 'green buildings,' both of which are of the utmost necessity if we are to reach the global net-zero goals agreed to in the Paris Climate Accords. The European Commission's 'Green Deal Industrial Plan,' presented in February 2023, will likely bring about a substantial uptake in public and private investments in the continent's green infrastructure.[17] Infrastructure-focused GPs across the world strongly believe that providing high quality reporting would present them with a competitive advantage.

In addition, the majority believe that reporting on ESG considerations to pursue strategic objectives is a significant driver.

On the other side of the coin, while LPs appear to be relatively new to the infrastructure asset class if compared to other PM asset classes, they strongly value ESG data from Infrastructure-focused GPs in determining their investment decisions. As ESG disclosure regulations get rolled out across the world in the coming years, we will likely see more GPs offering a range of ESG infrastructure products to cater to an increase in demand from LPs.

Exhibit 33: Infrastructure-focused LPs' expected changes in ESG reporting requirements over the coming 3 years



Source: PwC Global AWM & ESG Market Research Centre

17. European Commission (2023). "The Green Deal Industrial Plan: putting Europe's net-zero industry in the lead"

Private Debt

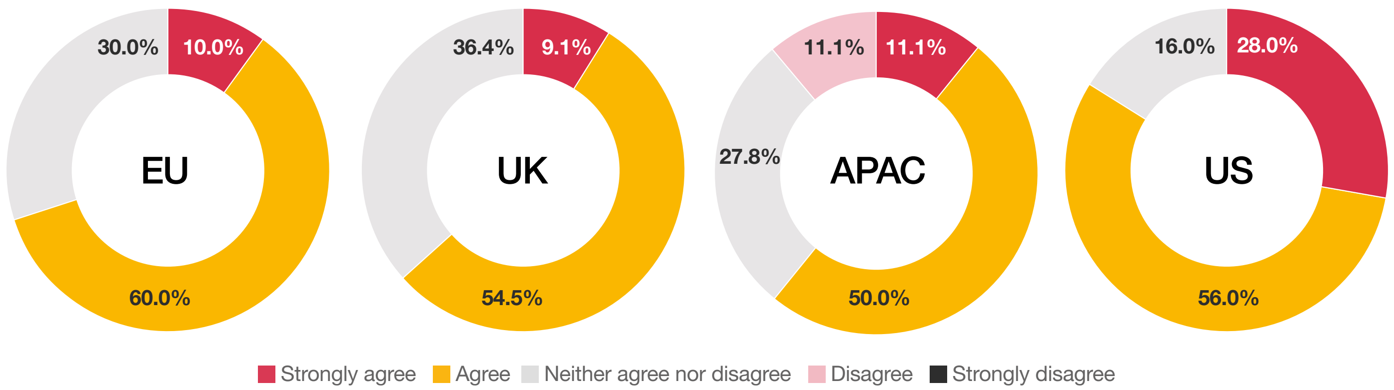
While LPs have been increasingly calling for the integration of ESG considerations in PD investments, the asset class has been historically viewed as an 'ESG laggard' – being known to demonstrate a relatively stunted ESG uptake when compared to its PM counterparts. This can be largely attributed to the fact that Private Debt involves lending rather than owning, which has caused many Private Debt participants to underestimate their responsibility in promoting and advancing change within their portfolio companies.

That being said, this perception is becoming decreasingly accurate. Our analysis in fact suggests that the PD investment community is displaying a fast-increasing affinity for ESG products and information, with 71.6% of PD-focused LPs (strongly) believing that quality ESG reporting is an important determinant when selecting their GP (cf. exhibit 34).

However, it appears that – while investor demand is undoubtedly surging – PD GPs are currently adopting a more 'wait and see' approach towards ESG. Indeed, only 43.2% invest over 30.0% of their assets in Article 8 funds, well below the 56.6% average recorded among GPs focused on Private Equity, Infrastructure and Real Estate. Not only this, but only 67.1% of GPs agree that ESG reporting represents an important competitive advantage in the asset class, the second lowest figure recorded across all asset classes. This hesitance is likely attributable to the highly competitive nature of the global Private Debt landscape, which has led certain GPs to overlook the need for ESG-related information during due diligence, fearing that this would overly complicate the lending process and put them at a disadvantage relative to their less ESG-demanding competitors.

Exhibit 34: Private Debt-focused LPs' views on ESG reporting as a determinant of GP selection process

To which extent do you agree with the following statement:
"The provision of quality ESG reporting represents an important determinant in my PD GP selection process?" (LPs)



Source: PwC Global AWM & ESG Market Research Centre

Given PD-focused LPs' head start on ESG investments over their GP counterparts, it is unsurprising to see that one-third of the former expect the latter to disclose shareholders' reporting to their investors and to the public. In this regard, LPs in the PD space have higher expectations than their peers in Real Estate, but less than their peers in Private Equity (38.2%) and Infrastructure (41.4%).

In return, 10.0% of PD-focused GPs provide such shareholder-related reporting to their LPs – a figure higher only among RE-focused GPs (13.6%). However, we observe some discrepancies between the different regions: Whereas 16% and 12% of PD-focused GPs in the US and APAC region respectively provide such disclosures, only 6% of those in the EU, and none in the UK do so.

When it comes to voluntary ESG commitments, it is unsurprising to see that PD-focused GPs are more likely to provide that to their LPs than shareholder reporting, as such voluntary commitments often form an important part of GPs' marketing material and product offering. Indeed, 58.5% of PD-focused GPs voluntarily report on their voluntary ESG commitments, a figure higher than the one for PE-focused GPs (51.3%) and RE-focused GPs (54.7%), but lower than GPs focused on Infrastructure (66.1%). Nonetheless, this still falls short of meeting PD-focused LPs' expectations, as 62.1% expect reporting on voluntary ESG commitments from their GPs – the highest figure among LPs in all asset classes (cf. exhibit 35).

A sizable number of PD-focused GPs (47.1%) provide reporting to their LPs on how ESG considerations are integrated in deal origination – the highest figure following RE-focused GPs (43.8%). This figure exceeds PD-focused LPs' expectations, 43.2% of whom expect their GPs to report on this issue.

Exhibit 35: PD-focused GPs and LPs: Required and provided ESG reporting

	GPs: Type of PD ESG reporting provided				LPs: Type of PD ESG reporting required			
	EU	UK	APAC	US	EU	UK	APAC	US
Mandatory entity-level ESG commitments (e.g. PAIs)	25.0%	33.3%	11.8%	60.0%	40.0%	36.4%	16.7%	44.0%
Voluntary entity-level ESG commitments (e.g. UN PRI)	**81.3%**	**50.0%**	58.8%	48.0%	**65.0%**	36.4%	**77.8%**	**60.0%**
Alignment of ESG strategy with investors	56.3%	25.0%	52.9%	52.0%	25.0%	36.4%	44.4%	40.0%
Integration of ESG considerations into the deal origination	56.3%	**50.0%**	41.2%	44.0%	30.0%	36.4%	44.4%	56.0%
ESG KPIs of portfolio companies	31.3%	41.7%	**64.7%**	**68.0%**	40.0%	**63.6%**	50.0%	36.0%
Short-term and long-term ESG impact statements	25.0%	33.3%	58.8%	36.0%	30.0%	27.3%	33.3%	52.0%
Shareholders' reporting to investors and the public	6.3%	0.0%	11.8%	16.0%	20.0%	54.5%	33.3%	36.0%

Source: PwC Global AWM & ESG Market Research Centre

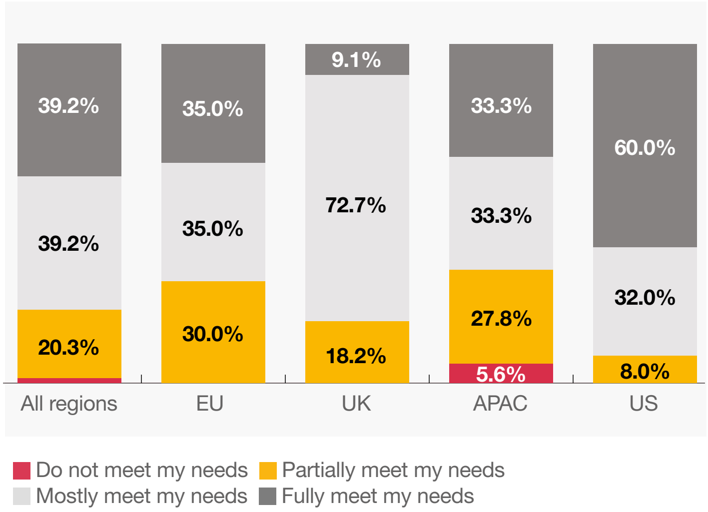
Nonetheless, over three-quarters (78.3%) of PD-focused LPs believe that their GPs' current ESG reporting practices meet most or all of their needs. LPs from the US were the most likely to be satisfied from their GPs' reporting practices, with 60% stating that all of their needs are met, while 32% having most of their needs met. UK LPs came in second, with 73% stating that most of their needs were met by their GPs' reporting practices – although only 9% stated that all of their needs were met (cf. exhibit 36).

GPs in the PD landscape generally hold an accurate perspective over their LPs' satisfaction with their ESG reporting, with 80% believing that their reporting practices meet most or all of their investors' needs, without substantial divergences between regions. However, EU GPs were the least likely among their peers in other regions to believe that their practices fully meet their LPs' needs (19.0%), which indicates that the former may be struggling to ensure that they abide by all of the different ESG disclosure-related regulations in force in the EU.

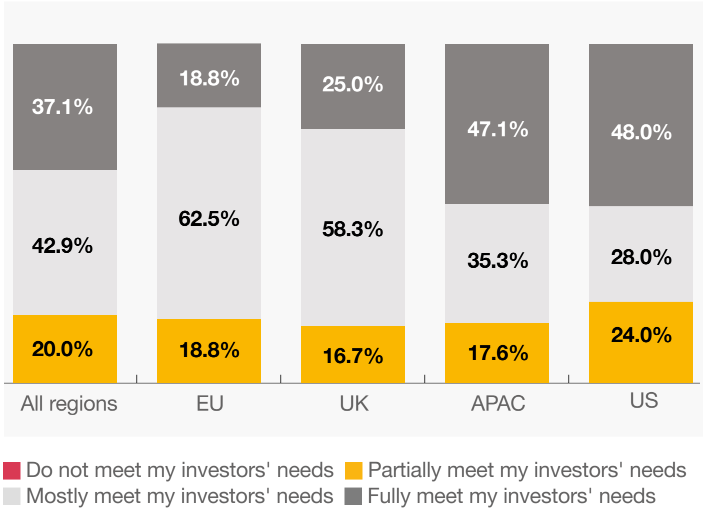
When asked how GPs' ESG reporting could be enhanced, 24.3% of PD-focused LPs would like to see more frequent data on SDG alignment, while 22.9% hope that more qualitative data on SDG alignment would be made available. In addition, a little over a fifth (22.9%) hope to receive more accessible data on PAIs, while 17.5% wish to see more frequent and more qualitative PAIs data. As for taxonomy-related information, 17.5% stated that they hoped to have more taxonomy-related qualitative data – the highest percentage (33.0%) recorded among APAC respondents, a potential reflection of the wide array of taxonomies in place or under preparation across APAC countries.

Exhibit 36: Private Debt: Reported and perceived LP satisfaction with GPs' ESG reporting practices

My GPs' Private Debt ESG reporting practices… (LPs)



I believe my current Private Debt ESG reporting practices... (GPs)



Source: PwC Global AWM & ESG Market Research Centre

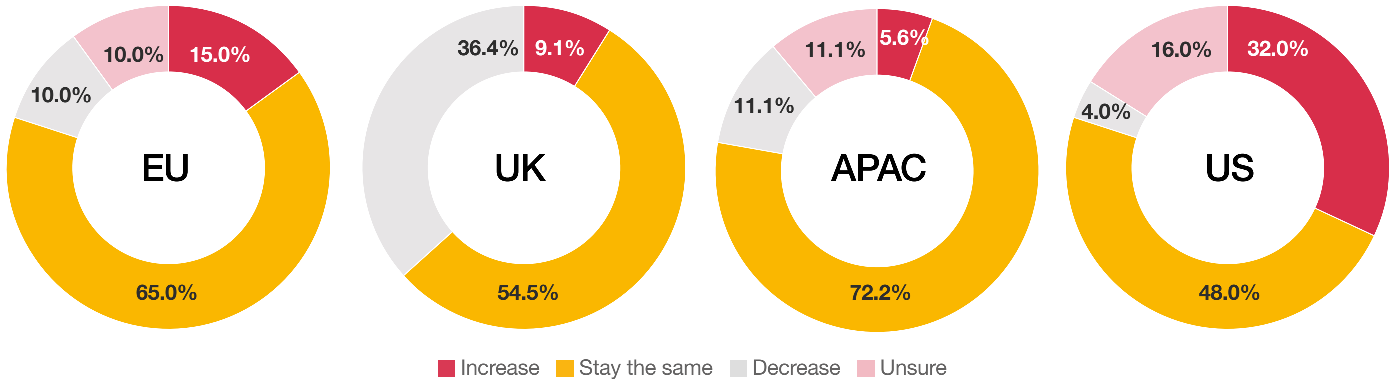
Only 17.5% of PD-focused LPs expect their ESG reporting requirements to increase within the next 3 years, with almost 60% expecting these requirements to remain unchanged (cf. exhibit 37). This represents the lowest level of anticipation recorded across our entire sample, indicating that – while the global PD landscape is undoubtedly awakening to the importance of ESG issues – this cognisance is not yet informing these players' expectations to the same extent as their PM peers.

That is not to say that the 'ESG shift' is not reinforming PD players' investment methodologies and operational philosophies, however. In fact, in a further reflection of how the PD asset class is likely on the verge of going through a substantial ESG transformation, 81% of PD-focused GPs intend to stop launching non-ESG products in the coming years – the second highest percentage observed across all asset classes. Furthermore, 70% of PD-focused LPs intend to stop investing in non-ESG products.

In parallel, with SFDR Level II now in force since January 2023 and with ESG-disclosure rules expected to become operational in the US, the UK and across the APAC region in the near future, private debt funds are in a strong position to push companies to adopt more sustainable practices. As an ever-growing number of companies across the world are seeking to decarbonise their business models and adopt strong ESG internal arrangements – including non-listed companies which are in the process of setting up ESG data collection mechanisms – the private debt asset class has a strong opportunity to provide the financing needed all-the-while pushing companies to embark on meaningful ESG transformations.

Exhibit 37: Private Debt-focused LPs' expected changes in ESG reporting requirements over the coming 3 years

Over the coming three years, I expect my organisation's PD ESG reporting requirements to… (LPs)



Source: PwC Global AWM & ESG Market Research Centre

3 Key actions: Navigating the sustainability disclosure & data landscape

The global Private Markets landscape is on the verge of a substantial ESG-led transformation, particularly as policymakers and business leaders of the world's major economies have not only come to realise the full implications of climate change but have actively started acting out on it. An ever-growing number of businesses across all asset classes have not only committed to net-zero goals but have also started implementing policies to transition to renewable energy sources and ensure more diverse and inclusive workplaces – all undertaken by following the principles of transparent and accountable governance.

In light of the above, LPs across the world have been increasingly focusing on ESG considerations across the different PM asset classes, while GPs who fail to adapt to changing investor demands risk losing business from the fast-increasing number of increasingly ESG-oriented investors.

Here are some of the key actions that LPs and GPs active in the Private Markets landscape should consider when embarking on their ESG journey.

1. Reassess your deal sourcing and due diligence

The "non-financial data journey" starts with the effective incorporation of ESG throughout the entire investment process. Regular ESG KPI assessment, tracking and reporting are key when doing so.

2. Manage the transition and timing

With the importance and valuation impact of non-financial metrics and performance, the management of these dimensions in terms of 'transition' is creating a major opportunity for value creation, but also a major threat if not properly managed.

3. Rethink your risk management and reporting procedures

As ESG factors increasingly dominate the global reporting landscape, GPs are being urged to re-evaluate their risk management processes to incorporate non-financial risks alongside financial risks, rather than prioritising the latter at the expense of the former.

4. Upgrade your data collection & analysis capabilities

Innovative tools such as data analytics, machine learning, and artificial intelligence can aid in refining the data collection process, effectively tracking ESG-related improvements and performance, and simplifying the reporting of relevant metrics to LPs and regulators.

5. Upskill your workforce

GPs should invest in ESG education and training programs for their staff to ensure that they have the necessary expertise and knowledge to navigate the complex and evolving ESG landscape. By taking these actions, asset managers can stay ahead of the curve and remain competitive in the evolving ESG regulatory landscape.

1. Reassess your deal sourcing and due diligence

The "non-financial data journey" starts with the effective incorporation of ESG throughout the entire investment process. Unlocking the full ESG opportunity requires consistency throughout the entire investment life cycle. Embedding ESG values through the entire investment process is becoming increasingly important for investors who want to align their investments with their values and contribute to a sustainable future.

Firstly, **screening** potential investments for ESG factors is important because it helps investors identify investments that are aligned with their values and avoid those that may have negative impacts on the environment or society. By incorporating ESG criteria in the screening process, investors can also identify companies that may have better long-term prospects due to their commitment to sustainable practices.

Secondly, conducting thorough **due diligence** on potential investments with a focus on ESG factors is essential to understand the risks and opportunities associated with the investment. This includes assessing a company's environmental impact, social policies, and governance practices. Evaluating these factors can help investors identify potential risks and opportunities that may not be apparent through traditional financial analysis. Key issues to be identified and assessed during ESG due diligence vary largely depending on industry-specific material issues and assessments.

Thirdly, **tracking and holding companies accountable** for their ESG practices is important to ensure that they are meeting their commitments and minimising negative impacts. Investors can engage with companies through active ownership strategies such as proxy voting, shareholder resolutions, and direct engagement. This can encourage companies to improve their ESG performance and provide feedback on the progress made.

Finally, considering ESG factors during the **exit phase** of an investment is important to ensure that investors are not unknowingly supporting companies that are not aligned with their values. This can involve divesting from companies that have poor ESG practices or selling investments that no longer align with the investor's values.

Screening	Due diligence	Holding/monitoring	Exit
• **Assessing the market using an "ESG lens" prior to making investments can be a valuable approach to identifying significant ESG risks and opportunities.** For example, GPs can opt to establish screening procedures that evaluate companies and industries based on their materiality. • This approach allows GPs to consider companies engaged in unsustainable activities or sectors with less focus on ESG (such as mining, steel, and construction), **and create value by supporting them in their transition towards sustainability**	• The incorporation of ESG factors in due diligence is instrumental in **identifying any material downsides that could affect the investments' success, as well as mitigating any potential ESG-related risks and legacy issues.** • Assessing ESG factors/ KPIs in this investment phase also provides **further insights regarding potential value creation during the holding period and is a starting point for setting action plans aimed at enhancing ESG performance.**	• An effective holding period is instrumental in appropriately managing the ESG risks identified during due diligence and capitalising on ESG-related opportunities and improvements; **ultimately boosting underlying corporate's ESG KPIs and performance and paving the road for ESG's value creation potential to materialise upon exit.** • Effective and regular monitoring is also a paramount part of the holding process, ensuring that ESG factors and risks are being appropriately handled with. **Regular ESG KPI tracking and reporting, periodic reviews of previously-established action plans, on-site visits (when applicable) can be powerful monitoring tools.**	• **The provision and assessment of accurate, quantifiable ESG-related KPI improvements achieved during the holding period can translate into a more objective assessment of exit valuations** (as well as providing a stronger case for valuation enhancement) and increase the number of potential bidders/buyers. • Adequate proof of these ESG-related improvements and potential risks not only streamlines the exit process, **but also helps by providing an ESG roadmap for the subsequent owner – supporting them in the continuous improvement of ESG performance.**

ESG considerations

The holistic integration of ESG considerations throughout the investment life cycle is essential for realising ESG's potential value creation and protection opportunities while aligning with evolving regulatory demands and LP expectations. This integration requires structural changes. With this in mind, we have identified three crucial steps that GPs should consider taking to incorporate ESG considerations throughout their investment life cycle:

1. Create a comprehensive and transparent ESG investment policy

- Creating a comprehensive ESG investment policy is not only essential in communicating GPs' ESG philosophies to investors, but also represents the foundation for developing consistent and replicable screening, due diligence, holding/monitoring, exit, and reporting processes. Having a robust ESG policy can also lead to better financial performance, improved risk management, and increased stakeholder trust. GPs' should consider leveraging pre-existing frameworks and initiatives when crafting such policies in order to ensure that their policies align with industry best practices and address the most significant ESG factors relevant to their portfolios.
- It is equally essential to regularly review and update these policies to stay aligned with LPs' evolving demands and needs. With growing investor demand for ESG integration, asset managers need to continuously assess and adapt their ESG policies to meet investors' expectations. This will require staying up to date with the latest ESG trends, standards, and guidelines to ensure their policies remain relevant and effective.

2. Prioritise material ESG issues

- To truly integrate ESG considerations into investment strategies, it is essential to focus on factors that are material throughout the investment life cycle, rather than treating it as a mere box-ticking exercise. This approach ensures that environmental, social, and governance factors are not viewed as an afterthought but are incorporated into investment decisions from the outset.
- Identifying the materiality of ESG factors is crucial to prioritise areas for improvement during the investment duration, based on their impact on the portfolio company, stakeholders, and LPs. By doing so, GPs can make informed decisions and create value for all stakeholders.
- To determine the most significant ESG considerations across different industries and sectors, it is advisable to use pre-existing frameworks and guidelines. These frameworks can provide a useful starting point for identifying the most critical ESG factors and designing an appropriate investment strategy.
- To ensure the effectiveness of ESG integration, GPs should continuously review and assess the materiality of ESG factors throughout the investment life cycle. This proactive approach can help identify emerging risks and opportunities, leading to better decision-making and long-term value creation. Finally, it is essential to communicate the ESG strategy to all stakeholders, including LPs, to build trust, improve transparency, and foster long-term relationships.

3. Identify & track ESG related KPIs

- Key Performance Indicators (KPIs) play a crucial role in making ESG-related improvements tangible by allowing for the verification and quantification of progress and risk throughout the investment life cycle.
- It is essential to identify measurable indicators at an early investment stage to monitor and track future ESG-related improvements, as well as spot challenges and potential opportunities at subsequent investment stages. Moreover, well-defined and clear KPIs enable a more precise quantification of ESG performance improvements, providing a stronger basis for enhanced exit valuations.

2. Manage the transition and timing

As long-term investors, alternative fund managers and GPs have always considered turnaround management, until now mostly focused on financial KPIs, as a core strategy for value creation.

With the importance and valuation impact of non-financial metrics and performance, the management of these dimensions in terms of 'transition' is creating a major opportunity for value creation, but also a major threat if not properly managed, up to the material loss of value (i.e., stranded assets).

The management of transition requires several competencies:

- Understanding of ESG criteria
- Objectives setting in terms of science-based targets
- Active engagement management with management and stakeholders
- Tracking and follow-up on 'transition plans'
- Reporting and data collection

3. Rethink your risk management and reporting procedures

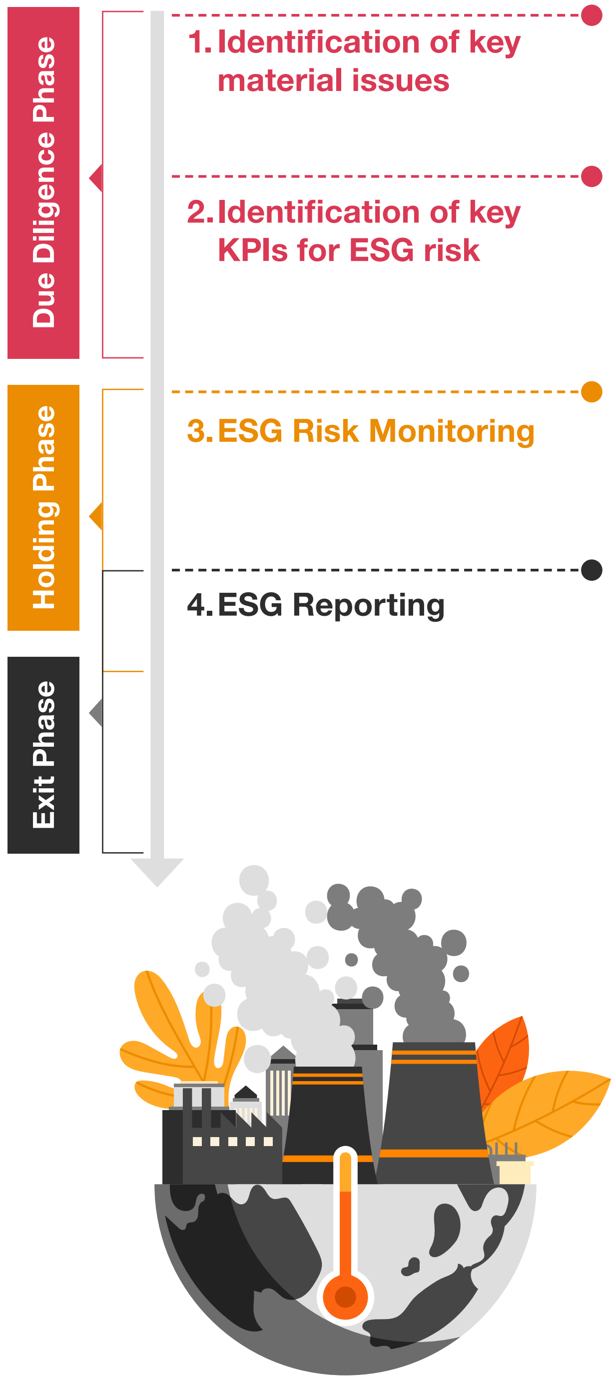
As ESG becomes an increasingly central facet of the regulatory landscape, GPs are being encouraged to re-evaluate their risk management processes to incorporate non-financial risks alongside financial ones. In this new backdrop, it is no longer sufficient to prioritise financial risk at the expense of non-financial risk. It is crucial to recognize that non-financial risks, such as environmental and social risks, can have a significant impact on the long-term financial performance of a portfolio company. Therefore, GPs need to adopt a more comprehensive approach to risk management that includes both financial and non-financial risk factors.

The SFDR strongly catalysed the regulatory rally behind the institutionalisation of ESG risk management processes, requiring the assessment and monitoring of potential ESG risks even among products/funds that do not promote ESG as an investment criterion or objective. Other regions have followed suit, also embedding risk procedures at the core of their regulatory initiatives/requirements.

Apart from regulation, managing ESG risk actively is crucial to harnessing the full potential of ESG's value protection benefits. The materialisation of ESG risks can result in significant reputational and financial losses for both GPs and underlying companies. Therefore, it is increasingly necessary to enhance internal risk management and processes at every level.

In order to effectively identify and mitigate/manage ESG-related risks and impacts, GPs should develop risk management processes at both the organisational and portfolio levels. These processes should aim to address reputational, financial, or operational risks associated with ESG factors.

Although ESG risk requirements are becoming increasingly embedded in global ESG regulation, an active approach to ESG from an investment and risk perspective is essential for minimising risk and unlocking value creation opportunities. This involves accepting risk at the investment stage, managing, mitigating, or transitioning during the holding phase, and exiting at an ESG premium.

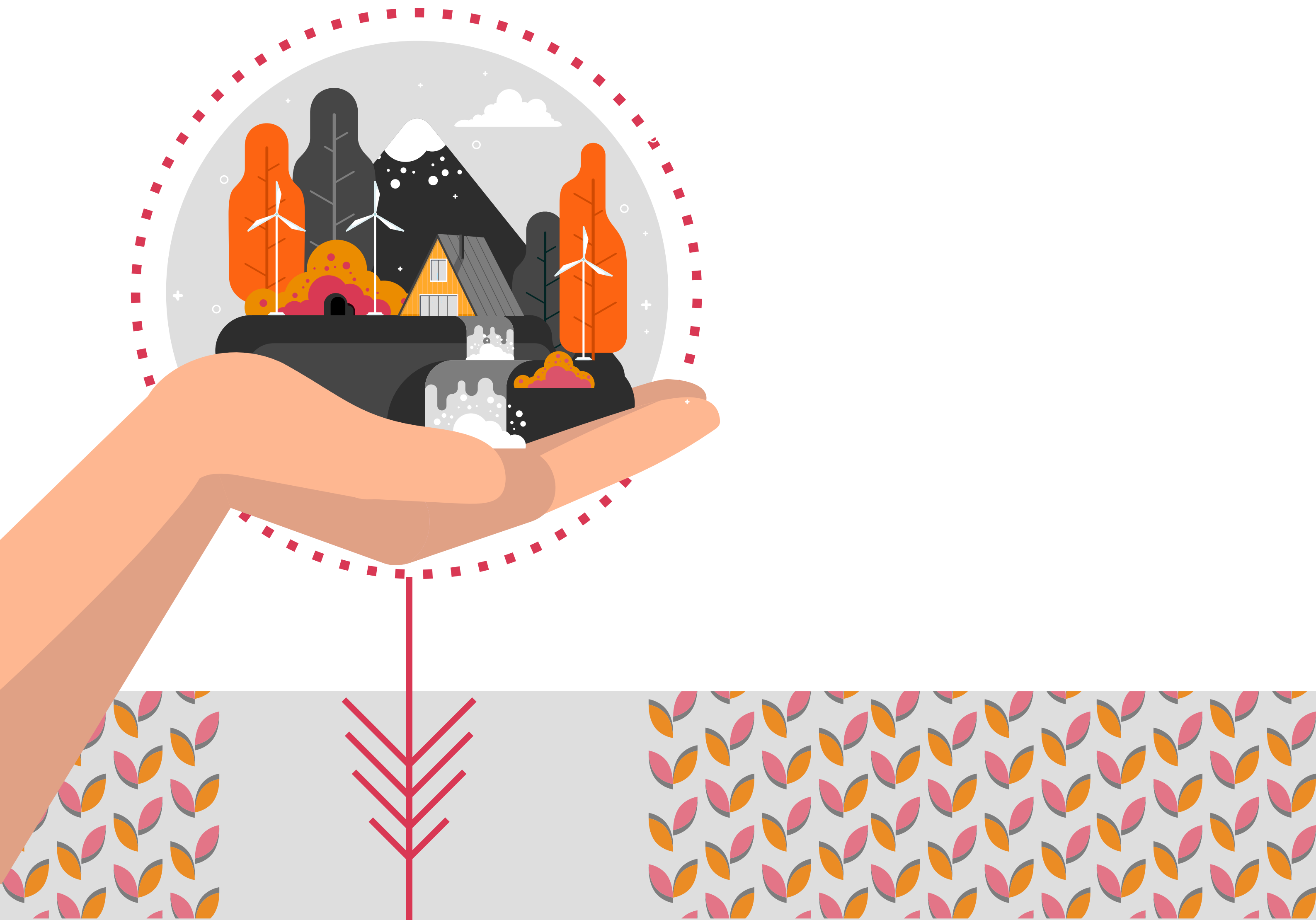


Simultaneously, amid mounting demand for heightened transparency from investors and societal stakeholders, GPs are being increasingly urged to rethink their reporting processes. Rapidly accelerating regulatory momentum across the globe is fast seeing the inclusion of material issues as a must-have in GP reporting, with a fast-expanding wealth of evidence suggesting that sustainability and climate issues have material impacts on risk and asset value and, as a result, should be included in reporting documents. Simultaneously, many LPs are also becoming increasingly demanding in terms of the ESG reporting they expect from their GPs, with many having their own 'rulebooks' that going above and beyond regulatory requirements.

In light of this, it is in Managers' best interests to ensure that their reporting practices adapt along with the winds of change, expanding the scope of their reporting focus to include non-financial disclosures. The success of these efforts is intrinsically linked with the effectiveness of the reporting practices from their underlying portfolio companies. Adequate reporting from portfolio companies to GPs is also key to ensure an efficient and streamlined holding and monitoring period, as well as to ensure that eventual ESG-related action plans agreed upon during due diligence are being followed through.

In the realm of Private Markets specifically, this can represent quite a challenge – given the traditionally 'opaque' nature of the industry and the subsequent lack of accessible, publicly available information on current and prospective portfolio companies. Additionally, some GPs fear that requiring ESG reporting would increase the burdensomeness of the reporting process, adding on to the already lengthy list of required financial KPIs. Other GPs often stress difficulties that underlying companies experience when tracking and measuring relevant ESG data, as well as reluctance from those in developing their own ESG data collection processes.

Recent and upcoming regulatory developments will help in minimising these headwinds, bringing much needed clarity and standardisation with respect to ESG-related information. The CSRD will require that all European companies (whether private or public) disclose the impacts of their operations on people and the environment. This, together with related regulatory developments, will significantly decrease the burdensomeness of GPs' assessment and collection of ESG KPIs from portfolio companies, ultimately helping to streamline reporting practices at various levels.



4. Upgrade your data collection & analysis capabilities

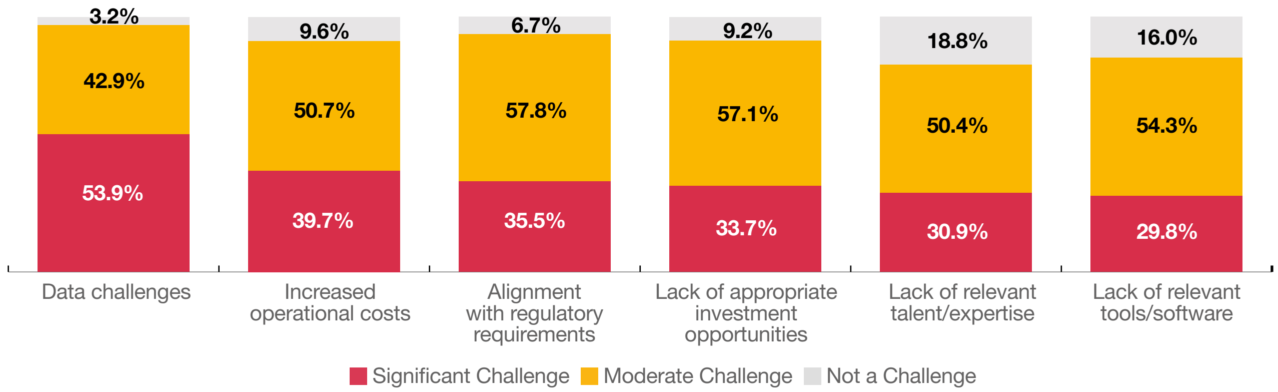
Successfully implementing the aforementioned action points requires mastering the data challenge. Timely, accurate, and relevant data is crucial not only for achieving regulatory compliance but also for effectively quantifying ESG-related risks and improvements. This, in turn, provides a quantifiable basis for assessing ESG's potential for value creation.

However, data is as challenging as it is crucial. The historical lack of data harmonisation and the inherent opacity of Private Markets have long complicated data collection, synthesis, and dissemination at multiple levels. In fact, data challenges ranked as the greatest hindrance to ESG integration among our surveyed GPs – with 96.8% identifying this as a 'moderate' or 'significant' challenge (cf. exhibit 38). Within this challenge, lack of 'standardised data from portfolio companies' and 'questionable data accuracy' stood as the most hindering factors, being cited as the greatest hindrances by a respective 24.6% and 22.8% of GPs.

These challenges not only discourage GPs from increasing their ESG efforts but also result in a growing asymmetry between LPs' data requirements and GPs' satisfaction thereof. As a result, GPs should consider bolstering their in-house data capabilities through heightened investment in data collection and data storage facilities. GPs should aim to develop consistent methodologies and approaches for the assessment of ESG KPIs both at the portfolio and organisational level; as well as to invest in technology (either internal or external) to gather ESG- and sustainability-related data across various sources at the deal and holding phases.

Exhibit 38: Main challenges hindering GPs' ESG integration

Which challenges are you facing when implementing ESG products? (GPs)



Source: PwC Global AWM & ESG Market Research Centre

4.1 Enhance data collection processes from underlying corporates

The accuracy and relevance of the information that GPs provide to LPs, regulators, and stakeholders depend largely on the quality and precision of the data received from portfolio companies. Reliable data is crucial for effective risk assessment, ESG progress tracking, and objective quantification of corporate ESG impact. However, this process is far from simple – with 56.0% of the GPs we surveyed labelling the ESG data collection process from portfolio companies/assets as moderately or significantly challenging.

GPs have historically faced several structural barriers that hinder their ability to synthesise corporate data effectively. The primary obstacle has been the fragmented and heterogeneous nature of non-financial reporting, which has made it difficult for GPs to reconcile various terminologies and methodologies. Moreover, inadequate corporate reporting standards and significant sectoral heterogeneity within portfolio companies exacerbate the issue. Furthermore, Private Markets' inherent opacity and unlisted corporate nature have resulted in an ESG data market that is largely biased towards public markets, leaving GPs to collect ESG data themselves.

Despite these challenges, GPs have a direct line of access to corporate data and the ability to support companies that struggle with streamlining their ESG data-related processes, which gives them a competitive advantage over their public market counterparts. In addition, recent and upcoming regulatory developments aimed at improving disclosure standards are expected to mitigate the impact of the data challenge within Private Markets, particularly in terms of standardisation.

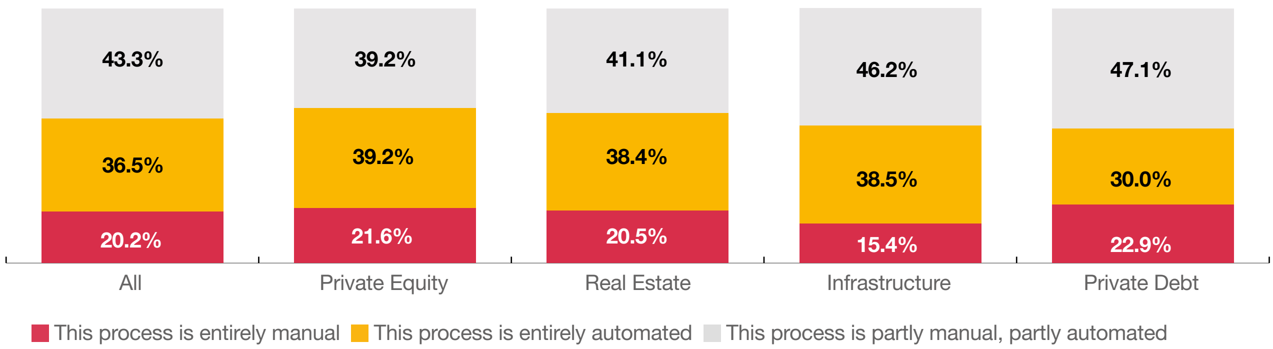
4.2 Digitise your data collection process

For GPs seeking to overcome the ESG data challenge, digitisation is an attractive solution. Innovative tools such as next-generation data analytics, machine learning, and artificial intelligence can aid in refining the data collection process from underlying companies, effectively tracking ESG-related improvements and performance, and simplifying the reporting of relevant metrics to LPs and regulators.

Despite the significant advantages of technology-assisted data gathering processes, their adoption remains limited. According to our analysis, 36.5% of GPs globally currently boast fully automated data collection processes, with 43.3% leveraging a hybrid model and the remaining 20.2% collecting data manually (cf. exhibit 39). This limited uptake may be due to the significant investment needed to digitise these complex processes, which would incur increased costs on GPs that would need to be passed on to investors in order to maintain healthy margins.

Exhibit 39: GPs' current ESG data collection processes

Which of the below would best describe your current process of collecting ESG-related information from your portfolio companies/assets? (GPs)



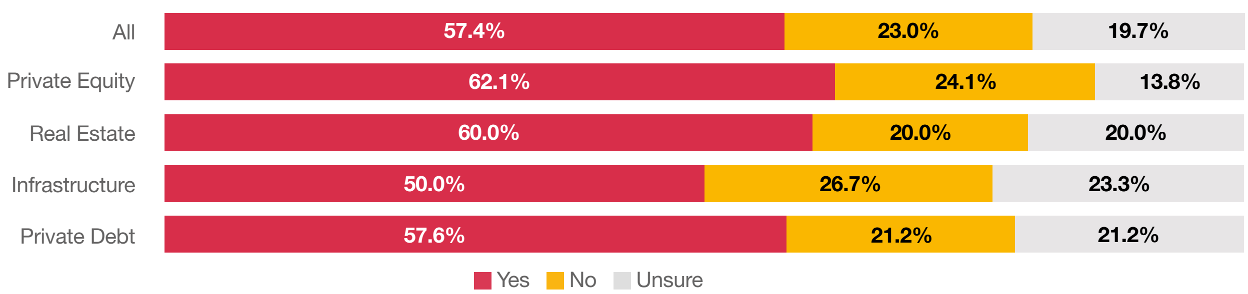
Source: PwC Global AWM & ESG Market Research Centre

However, our analysis suggests that LPs are in fact more than willing to absorb higher fees for ESG products – with 66.6% of the LPs we surveyed stating that they are willing to accept higher management fees in exchange for notable improvements in their GPs' ESG data reporting. GPs appear to be awakening to the importance of a digitally-empowered data collection process – with the majority (57.4%) of the aforementioned GPs with a hybrid automated/manual model planning to fully automate these processes in the coming two years alone (cf. exhibit 40).

As the Asset and Wealth Management industry becomes increasingly data-driven, GPs who are resistant to modernising their data-collection processes risk falling behind in an industry that increasingly demands agility and adaptability. Although the expenses and operational disruptions associated with implementing new technologies may dissuade GPs, the potential benefits outweigh the drawbacks in the medium to long term. Upgrading technology not only expands the scope of available data, but also enables assessment of data quality, reliability, and plausibility. We firmly believe that technological capabilities will become a key differentiator, separating firms that merely survive from those that thrive.

Exhibit 40: GPs' plans to fully automate their ESG data collection processes

Within the coming 2 years, are you planning to fully automate your ESG data collection process? (GPs)*



Source: PwC Global AWM & ESG Market Research Centre

*Base: respondents that selected "this process is partly manual, partly automated" in the previous slide's question

5. Upskill your workforce

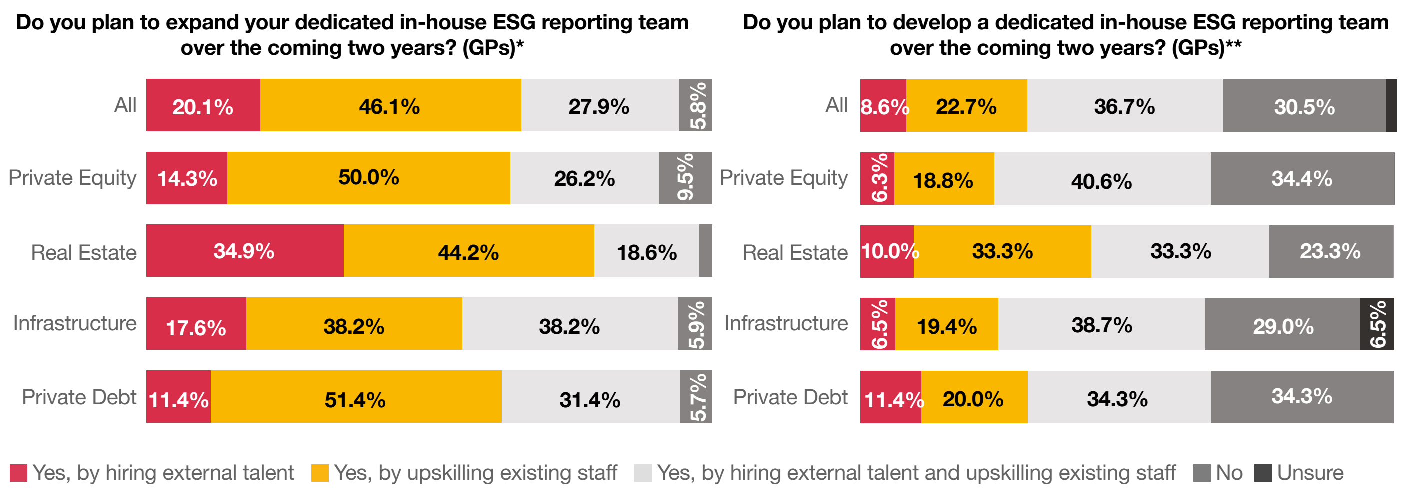
As ESG considerations become increasingly entrenched in the operational DNA of Asset Managers across the globe – and as regulator and investor expectations mount – it is becoming increasingly crucial for GPs to deepen and integrate their ESG capabilities across their organisations.

To successfully transition towards an ESG-driven approach, it is essential to cultivate a diverse and skilled talent pool that can bring fresh perspectives and support the organisation's transitionary efforts. This entails acquiring a broad range of practical and qualitative skills, such as ESG data/analytics, risk analysis, impact analysis, and policy monitoring.

In order to attain a future-proof workforce, GPs must strive to reflect the diversity they expect from their portfolio companies and prioritise the development of ESG and sustainability skills across their operational value chain. This requires focusing on different pedagogical goals and hiring candidates with financial expertise and a passion for ESG issues. However, as illustrated by the ongoing 'war for talent,' the current talent pool of candidates with a balanced skillset of financial and non-financial capabilities is in short supply and high demand. Our survey results attest to this skills shortage, with 93.3% of the GPs we surveyed identifying a 'lack of relevant talent/expertise' as a challenge they face in their ESG integration efforts. As a result, many Managers currently opt to outsource their ESG operations – with only 54.6% of GPs globally currently boasting in-house ESG reporting teams according to our survey.

Investing in upskilling the current workforce and collaborating with educational institutions to create ESG-focused training programs is a compelling solution to bridge the ESG skills gap and mitigate the immediate effects of external skill shortages. By taking these actions, Asset Managers can stay ahead of the curve and position themselves for success in a rapidly evolving, ESG-driven industry. The GPs we surveyed are strongly cognisant of this, with as much as 74.0% of GPs that currently boast a dedicated in-house ESG reporting team planning to expand these teams through upskilling (in isolation or in combination with hiring external talent) (cf. exhibit 40). In a similar vein, 59.4% of the GPs that currently do not boast internal ESG reporting departments intend to build these departments via upskilling.

Exhibit 41: GPs' plans to expand/build in-house ESG reporting teams



*Base: respondents that currently have a dedicated in-house reporting team

**Base: respondents that do not currently have a dedicated in-house reporting team

Source: PwC Global AWM & ESG Market Research Centre

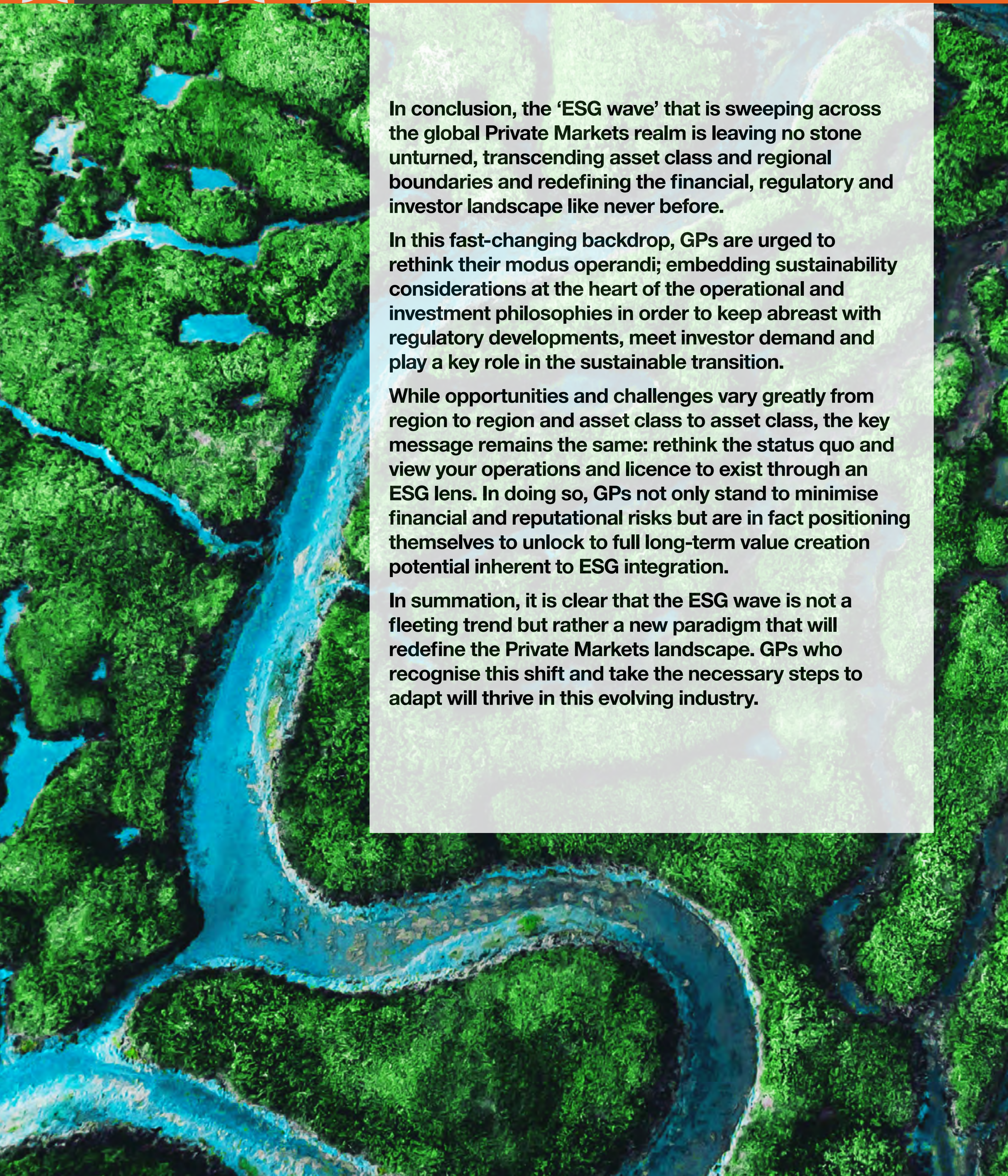
3 Conclusion

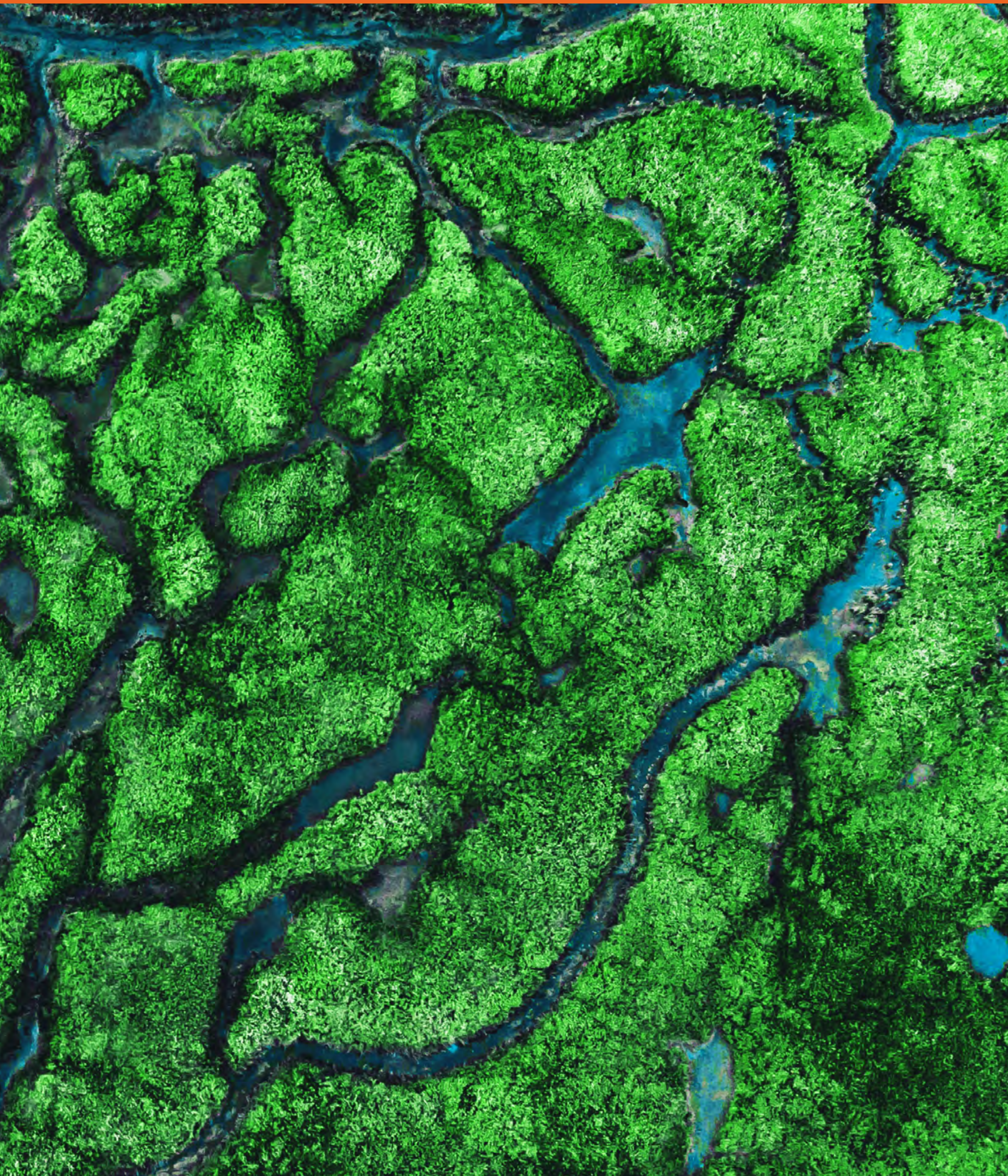
In conclusion, the 'ESG wave' that is sweeping across the global Private Markets realm is leaving no stone unturned, transcending asset class and regional boundaries and redefining the financial, regulatory and investor landscape like never before.

In this fast-changing backdrop, GPs are urged to rethink their modus operandi; embedding sustainability considerations at the heart of the operational and investment philosophies in order to keep abreast with regulatory developments, meet investor demand and play a key role in the sustainable transition.

While opportunities and challenges vary greatly from region to region and asset class to asset class, the key message remains the same: rethink the status quo and view your operations and licence to exist through an ESG lens. In doing so, GPs not only stand to minimise financial and reputational risks but are in fact positioning themselves to unlock to full long-term value creation potential inherent to ESG integration.

In summation, it is clear that the ESG wave is not a fleeting trend but rather a new paradigm that will redefine the Private Markets landscape. GPs who recognise this shift and take the necessary steps to adapt will thrive in this evolving industry.





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