Polestar

Attitudes Towards Sustainability

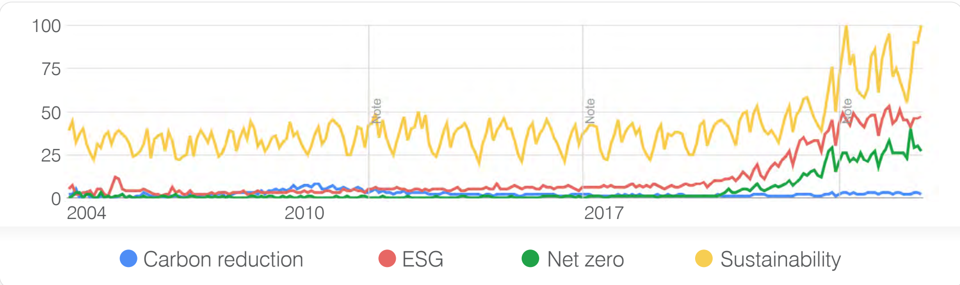
Survey results and insights

Contents

Overview

Welcome to Polestar's survey on Attitudes Towards Sustainability. Sustainability is hardly the new kid on the block but, over time, it has certainly grown into one of the leaders.

Google trends demonstrates how sustainability-related searches have exploded in recent years.



Sustainability seems to have touched most aspects of modern life. We see sustainability wherever we look - from recycling bins and paper straws to low-emissions zones in cities and tax incentives on electric vehicles. And, increasingly, in the world of business, with it widening to employee wellness and being seen a good corporate citizen.

This got us thinking, how do business owners, shareholders, managers and investors really view sustainability? Do they see it becoming integral to their businesses and, ultimately, affecting their valuations? Or is it just noise?

So, we launched Polestar's sustainability survey, asking for your views. We wanted to understand your attitudes and thoughts - your collective responses are detailed in this report.

Areas we covered include:

- Are firms incorporating sustainability considerations into their operations?
- What is stopping those that haven't already?
- How do people rate their firm's efforts towards sustainability?
- Do they think all the effort is worthwhile?
- Does sustainability affect business valuations?

What did you tell us?

Firstly, more than 9 out of 10 respondents are keen to implement sustainability measures into their businesses, of which 83% have already started. What is holding them back? Difficulty in measurement and reporting rank as top factors. It is interesting that Private Equity certainly has more of a handle on this - 75% say that they are already measuring sustainability in their portfolio companies.

Unless you have time to invest, it can be hard to know where to start. Why? I think it is because the industry is in its infancy and often highly technical. It has not yet been "consumerised" - there are no easy-to-access solutions a company can buy for measuring carbon reduction, for example. Where industry is highly developed, reward and recognition for instance, then there is very high take up (72% of respondents).

Another reason for the inertia seems to be/ that whilst more than 80% of respondents agree that pursuing sustainability initiatives is a good idea, they feel the case has not been fully made for the financial benefit of investing time and money. So, we see the younger cohort pushing on regardless, whist the more "experienced" respondents are more sceptical. One PE veteran actively riled against the whole lot. I have some sympathy; he is seeing a huge weight of reporting and an expensive industry popping up for which he sees no tangible benefit. His view is that if an action would make business more profitable because it is greener, it will do so regardless: "incessant reporting is diverting time the board's time". I do, however, think that these are teething issues and it will become as normal as doing your financial accounts in time.

Corporates are less convinced than PE that a more sustainable business will drive a higher valuation. Given the investment is being made by PE, who know how to add value, then maybe founders should take note. Many have said that they see an extra 1x or 2x EBITDA being paid for businesses that have this extremely well covered, so why leave this value on the table? For instance, why pay more for your energy than you need to, if investing in low-carbon technology will drive savings?

An interesting finding is that Software, Media & Technology businesses often appear to be the least engaged. This is probably because they have the least to gain, while Manufacturing & Distribution firms are typically all over this due to their high material and energy costs.

Finally, what is also clear is that regulation and legislation is what will drive improvements, it seems that maybe we all need a bit more stick, and less reliance on the carrot of doing it. Like everything in life, it is hard when we are learning something new and easy after practice. Businesses that can help simplify this process will thrive!

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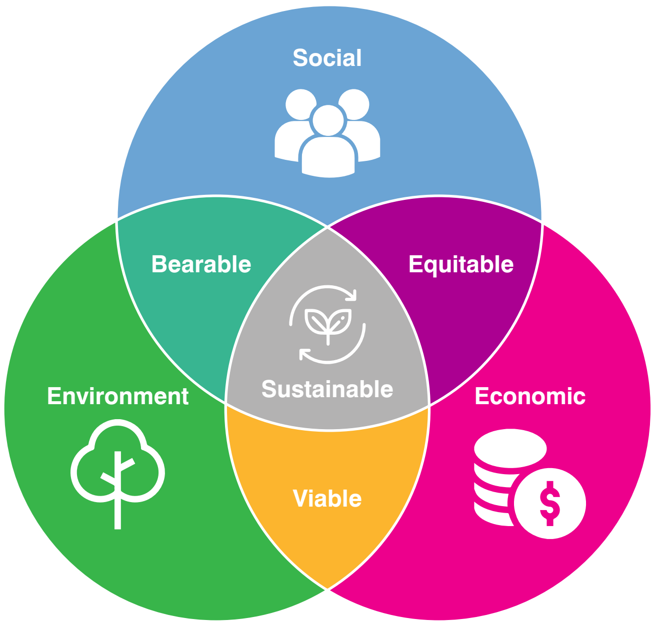
What is sustainability?

As a quick recap: sustainability, in the business context, refers to the integration of environmentally, socially and economically responsible practices into a business' daily operations, with the aim of minimising the risk of adverse effects on the planet and its people.

Sustainable, as defined by the Oxford English dictionary – "capable of being maintained or continued at a certain rate or level" – is seen here through a wider lens; conducting business in a manner that is sustainable environmentally, economically, and socially. These three factors form the pillars upon which the term "sustainability" is built.



What is Driving Sustainability?

Sustainability's rise to prominence has been bolstered by numerous government-backed initiatives and legislation the world over, with different governments moving at different speeds to incentivise sustainable behaviour at both the business and individual level.

1. Governance, Accountability, and Regulatory Landscape

Corporate governance structures are adapting to match the changing times. Many, particularly within larger companies, will have to report on sustainability for instance, due to recent EU legislation, almost 50,000 companies are expected to be impacted by CSRD, making up some three quarters of business in the European Economic Area. CSRD will apply to all:

1. Companies listed on regulated markets in the EU (apart from listed micro-enterprises), and large companies. The CSRD classifies a large company as one that meets two out of three of the following criteria: more than 250 employees, a turnover of over €40 million and over €20m total assets. These companies will also have to take into account information at subsidiary level.
2. Listed SMEs, although there will be a transitional period when SMEs can opt out until 2028.
3. Non-EU companies with a net turnover of €150 million in the EU, and with at least one subsidiary or branch in the union.

The demands on companies meeting the above criteria will trickle down their supply chain partners. Greater emphasis on companies' environmental, social, and governance (ESG) performance, and its potential influence on valuations, influencing investment decisions.

2. Changing Consumer Preferences

Consumers are becoming more discerning and savvy about companies' sustainability credentials, with a US consumer survey earlier this year reporting that 74% want sustainability in the products they buy, with an increasing proportion (68% this year) ready to pay more, albeit to differing degrees, to get them.

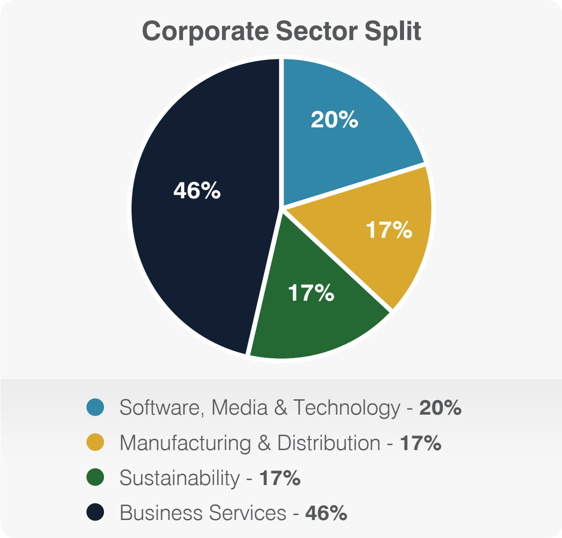
The younger the sample group, the higher that proportion, with Gen Z reaching 91%. At the same time, companies are not doing a great job of tapping into that opportunity, with 79% quoting difficulty identifying environmentally friendly companies and a lack of third-party evidence.

In contrast, some companies have of course sought to leverage a "green" agenda to drive sales, with some falling into the dreaded territory of "greenwashing", which authorities have started to tackle with some fairly meaningful fines, all prompting businesses to adopt genuine, meaningful eco-friendly practices, both internal and external, to appease both consumer appetite and regulatory oversight.

Overview of respondents

We sent our survey to companies across all our key sectors. While we could not control who responded to the survey in detail, it is worth noting a few biases that might be present in the results:

- People who are willing to take part in a sustainability survey are more likely to be sustainability positive. Whilst we actively sought varied opinions, the potential for confirmation bias is a consideration.
- The majority of our respondents are senior management level within their businesses. These people know the most about their businesses, so their insights are pertinent, but it is worth noting the professional level at which most of our respondents sit; as indicated above, more junior staff may have very different views.



We also surveyed Private Equity respondents, who make up some 22% of the total and invest across a range of sectors.

The survey addresses each of the three core pillars of sustainability in business: Environmental, Social, and Economic considerations. Within each of these categories, we asked a range of questions to enable us to compare and contrast the thoughts and feelings of each sector on all manner of sustainability-related topics.

Many of our questions function in a sliding-scale-type set up, where a score of 1 sits at one extreme and 10 the other, and respondents are asked to rank their opinion along the scale. Others were multiple choice, while others were simple binaries.

This report aims to dissect the rise of sustainability across business sectors, examining its implications, trends, and sector-specific nuances. The report, as with the survey itself, is split into sections, starting with an outline of the firms that responded, as well as their more general thoughts on sustainability, and then moving through each of the three core pillars in turn: Environmental, Social, and Economic.

Key findings

General Thoughts on Sustainability

- Although most respondents agreed that sustainability practices are something they *ought* to be implementing (83% of respondents have implemented related practices), 25% still do not see the business case for sustainability.
  - The **Sustainability Sector** itself, **Private Equity**, and **Software, Media & Technology** were the three sectors most likely to see the business case for sustainability as being unproven.
- 88% of respondents agreed that sustainability will be a necessary part of business strategy going forwards, as well as being a worthwhile long-term investment.
- The decision to implement sustainability was not impacted by the size of the respondents' firms: we see firms turning over £2m-£7m annually who have implemented initiatives, and those turning over £36m-£100m which have not.
- Difficulty measuring impact/performance was by far the most commonly cited barrier to solidifying an approach.
- 41% of firms who haven't implemented net zero targets present themselves as environmentally sustainable to external stakeholders.

Barriers to Entry

- All sectors agreed that difficulty measuring impact/performance and a short-term focus on profits were the primary barriers preventing them from implementing sustainability initiatives.
- 91% of firms surveyed wish to implement sustainability-related practices but are held back by other factors.

Motivators and Implementation

- For some industries, as the legislation currently stands, there may not be enough financial incentive to make pursuing sustainability objectives genuinely tenable.
- **Business Services** and **Private Equity** are pursuing sustainability initiatives to improve their business conduct and corporate governance, while **Manufacturing & Distribution** respondents viewed supply chain and transparency as more important.
- **Private Equity** was more motivated by shareholder pressure than any of our other sectors, often pension funds and family offices.
- All of the firms that plan to implement sustainability initiatives but haven't done so yet have <£36m revenue, with 58% of these under being <£7m.
- 94% of respondents have implemented flexible working policies for their staff.
- Employee engagement is by far the most popular sustainability initiative implemented by our respondents, regardless of sector.

Private Equity

- 94% of Private Equity firms agree that sustainability is changing the way they measure/track performance, an indicator that careful consideration of sustainability performance will increase future business value.
- When we asked corporates, there was a degree of scepticism that the introduction of sustainability initiatives would improve their attractiveness to investors. However, Private Equity respondents placed the highest importance on sustainability initiatives as a means of attracting investors. This highlights a clear disconnect between corporates and investors.
- 70% of Private Equity respondents named sustainability one of several important factors to consider when making an investment, a 21% of these named the primary factor.
- 45% of respondents thought that a clear sustainability focus would result in higher valuation multiples.

Section 1.

General Thoughts & Respondent Breakdown

Measurement and barriers to entry

Figure 1.1: To what extent do you agree with the following statement: "sustainability is changing the way we measure/track non-financial performance"?

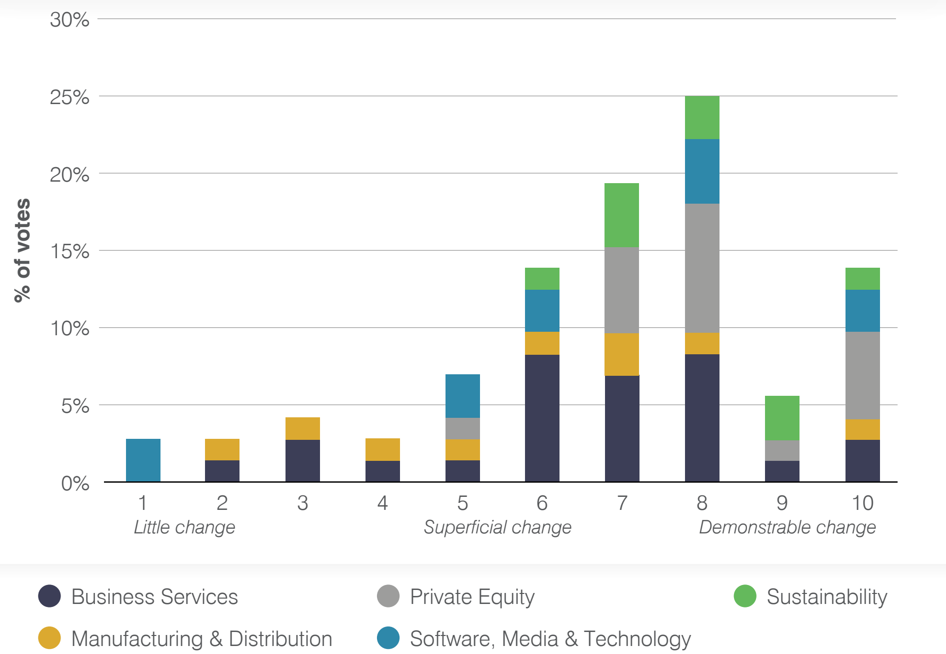
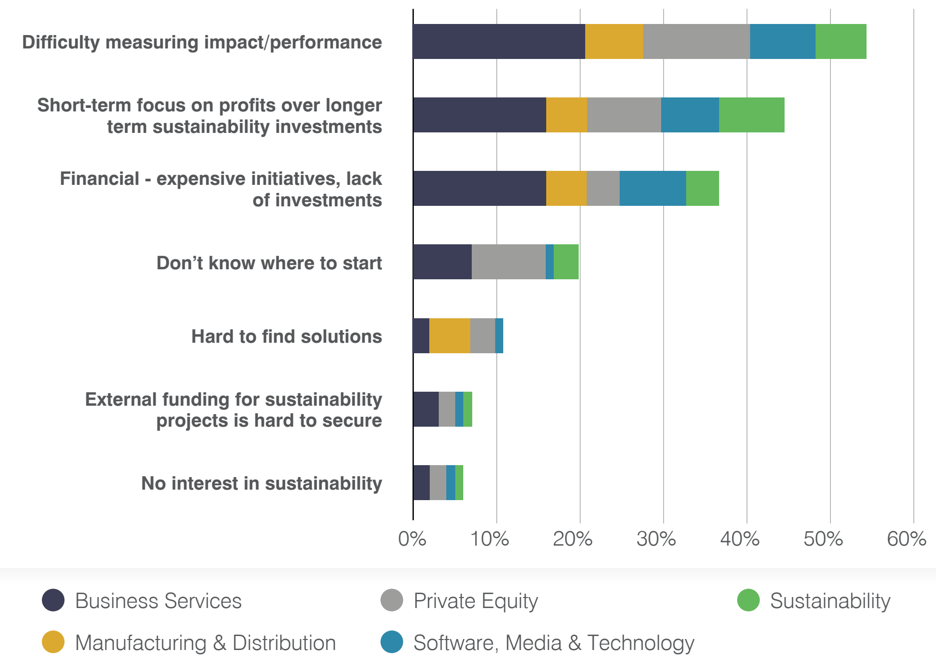


Figure 1.2: What barriers, if any, do you think prevent companies from fully embracing sustainability?



Here we see a general trend in consensus across the board, from most industries, with an average rating for this question of 6.8. Of note were the Sustainability and Private Equity sectors - both averaged 8 and the remaining sectors each averaged 6.

Of course, this is unsurprising in relation to Sustainability firms. It is interesting, however, to note that Private Equity firms are also show more focus on this area, which is an indicator that measuring sustainability performance will increase future business value.

Most industries agreed that difficulty measuring impact/performance and a short-term focus on profits were the primary barriers to entry preventing them from implementing sustainability initiatives. This is a problem many of our clients have identified. We see an increasing number of solutions such as specialist sustainability-focused consultancies, which help navigate the often-murky waters of sustainability data measurement and interpretation, as well as tech-driven ESG sustainability software.

Interestingly, the least popular option in this question was 'no interest' in sustainability (9%), pointing to the fact that 91% of firms surveyed wish to implement sustainability-related practices, but are held back by other factors.

Is sustainability here to stay?

Figure 1.3: To what extent do you agree with the statement: "the business case for implementing sustainability practices is unproven"?

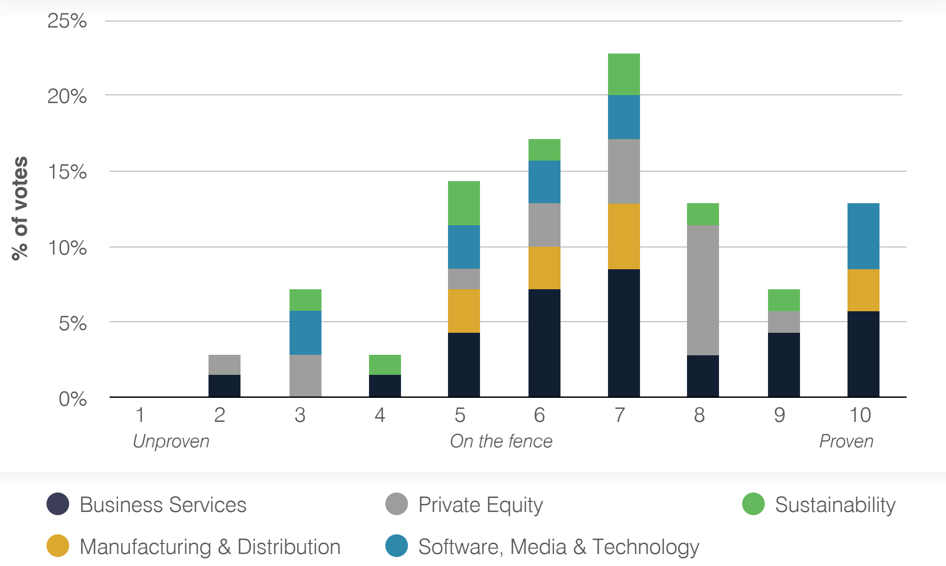
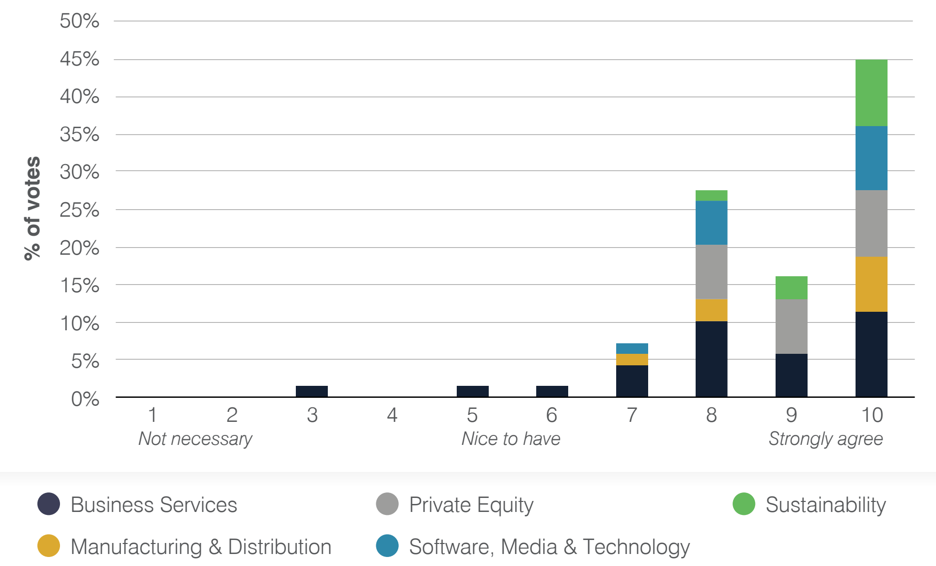


Figure 1.4: To what extent do you agree that sustainability is a necessary part of business strategy going forwards?



Further to this, we next asked if the business case for implementing sustainability practices was unproven. A slight majority (56%) of our respondents trended towards believing the case for sustainability is proven, but that still leaves 44% of respondents either 'on the fence' or trending towards believing the case to be unproven. Even more interestingly, the three industries that scored the lowest on this question – ergo, those who thought the business case for sustainability was most unproven – were Sustainability itself, Private Equity, and Software, Media & Technology. Both Sustainability and Private Equity elsewhere give mostly sustainability-positive answers, but the average score for both these sectors was 6, with respondents rating as low as 2 or 3 in their respective sectors. This gets at something right at the core of the sustainability issue. Although almost everyone seems to be in agreement that it is something we ought to be doing, it seems people (25% of our respondents) are less convinced that this is actually the right thing for their firms yet.

It is also worth noting that while Business Services appears equally represented at the lower end of the scale as Sustainability, the sector still scores higher on average.

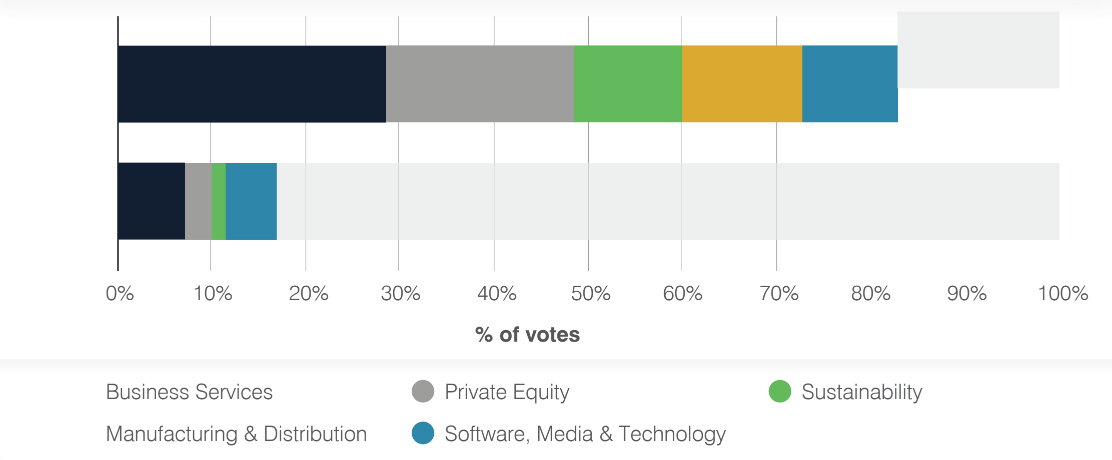
This question had the highest average score of the entire survey, sitting at 8.8. All sectors averaged a score of 8 here, with Sustainability predictably topping the chart at an average of 10, and PE/Software/Manufacturing coming in at a close second with an average score of 9.

So, while for many the case for sustainability remains unproven in a business setting, most respondents agree that it will be a necessary part of business strategy going forwards – perhaps suggesting that sustainability is seen more as a future-proofing strategy more than a quick-fix for the now.

83% choose sustainability

The majority of respondents have implemented sustainability practices of some description, with most sectors meeting this average – only Software, Media & Technology lagged behind at 64% (remember, respondents from this sector were less convinced of the business case). At the other end of the spectrum, all our Manufacturing & Distribution respondents have implemented sustainability initiatives into their firm's operations, perhaps suggesting that this industry is one where non-sustainable behaviour is less acceptable, especially as part of the supply chains of larger businesses where reporting is starting to become regulatory.

Figure 1.5: Does your organisation implement sustainability practices as part of its operations?



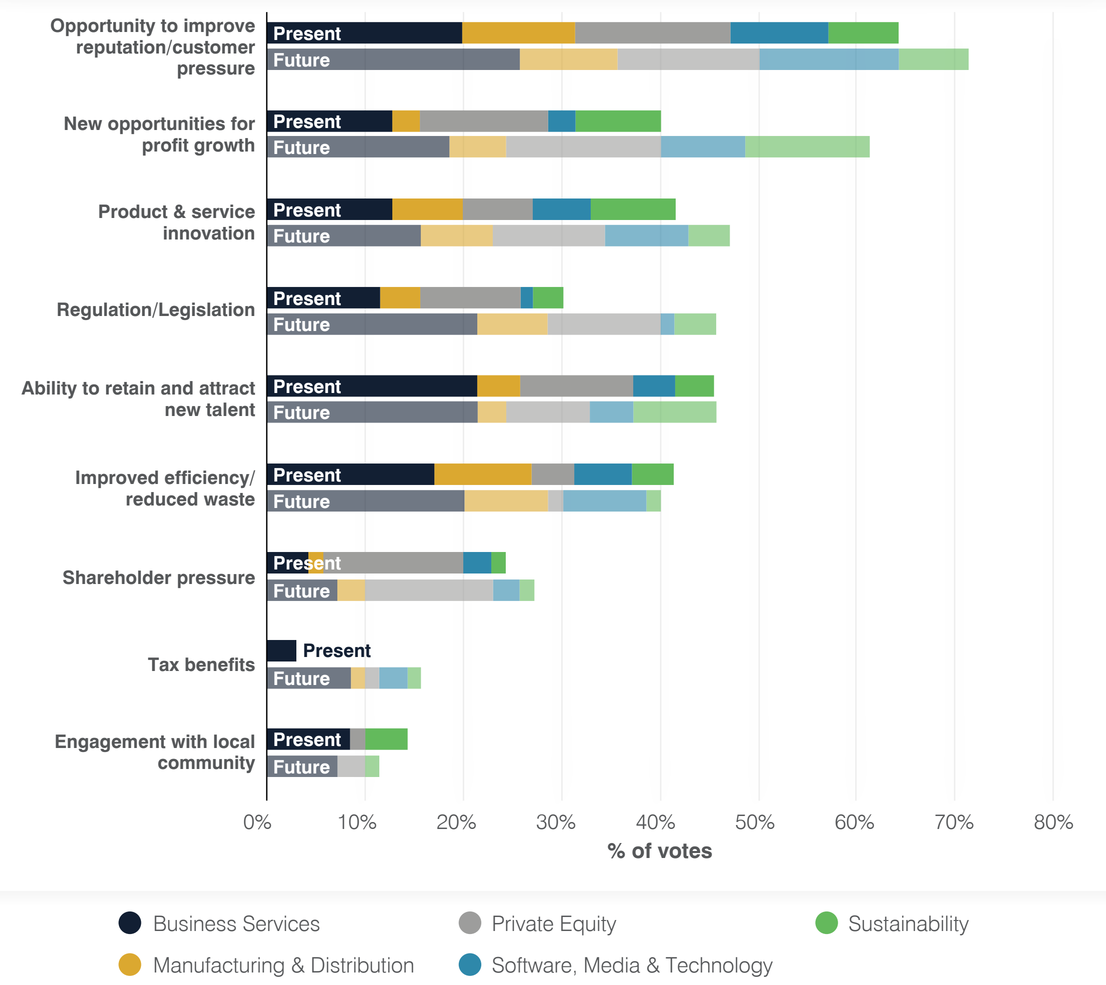
Somewhat unsurprisingly, and across all sectors, those who have not yet implemented sustainability initiatives are also those most likely not to believe in the demonstrable business case for sustainability. One point picked up in other surveys is the lack of agreed measurement methodology to evidence results and it may be that more cautious Management teams are looking for these to be more defined before committing resource.

One of our hypotheses was that smaller firms might trend towards avoiding sustainability initiatives, as they may not have the funding/staffing power to take on a sustainability function. Our data, however, shows that sustainability initiatives seem to follow no strict size rule, and nor do those who are yet to implement any. We see firms turning over £2m-£7m annually who have implemented initiatives, and those turning over £36m-£100m who are not, and vice versa – the same comparison applies to number of staff, too.

Sustainability drivers

What factors play into a company's decision to implement a sustainability initiative? Respondents point to a number of other influences:

Figure 1.6: Current vs. future factors that would have the greatest influence on your organisation's sustainability strategy



As the graph shows, the majority of respondents, regardless of sector, told us that the opportunity to improve their reputation/customer pressure was the main reason for them pursuing sustainability initiatives.

The ability to attract and retain new talent ranked next highest, although varying in importance according to different sectors' priorities. We expect this to rise further as a rationale as the younger generations, more focused on the sustainability case, become an increasingly significant proportion of the workforce.

Sector-by-sector priorities showed in the areas in which Sustainability efforts were focused:

- **Manufacturing & Distribution** valued sustainability's ability to improve efficiency and reduce waste more than any other sector.
- **Business Services** and **Private Equity** have invested in their ability to attract and maintain new talent.
- The **Sustainability Sector** is somewhat of an outlier here, given its closeness to the subject at hand. Respondents from this sector ranked both product innovation and new opportunities for revenue growth as their most important reasons for implementing sustainability initiatives – inherently as a sector, it is most likely to attract younger staff wanting to make a difference and therefore likely to implement a more holistic approach to such initiatives.

Future influences

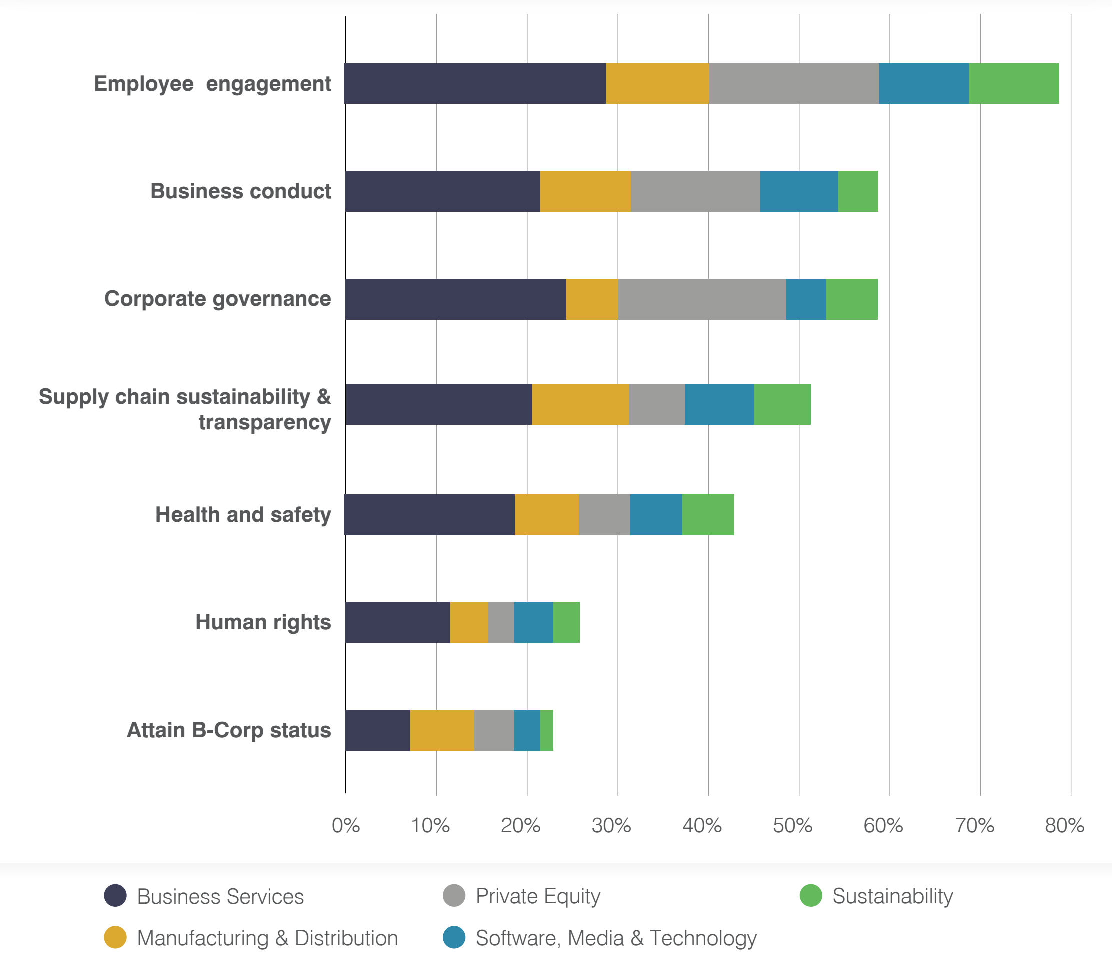
As noted in Figure 1.6, we asked the same question again but in the context of future influences, as noted in the graph. Across the board, there is recognition that regulatory reporting requirements are only heading in one direction, with an acceptance that initiatives for larger firms are likely to filter down over time. By comparison, this suggests that such businesses are "on the fence" to a degree, perhaps needing a carrot on a stick to prompt further action.

This presents an opportunity for both corporates and governments alike. Sustainability-focused corporates who can demonstrate to their clients a proper opportunity for revenue growth will find a sizeable audience for that market. Reducing problematic areas such as defining the measurement of sustainability objectives and the monetisation of initiatives, and governments reinforcing the initial legislative push should support significant additional opportunity, the market for sustainability-focused tech firms, consultancies and other adjacent businesses is ripe for continued growth.

Implementation

Considering this large majority of firms implementing sustainability initiatives - what aspects of sustainability are being acted on by our respondents? We asked what aspects of sustainability their companies have actively sought to improve, or are planning to improve in the future.

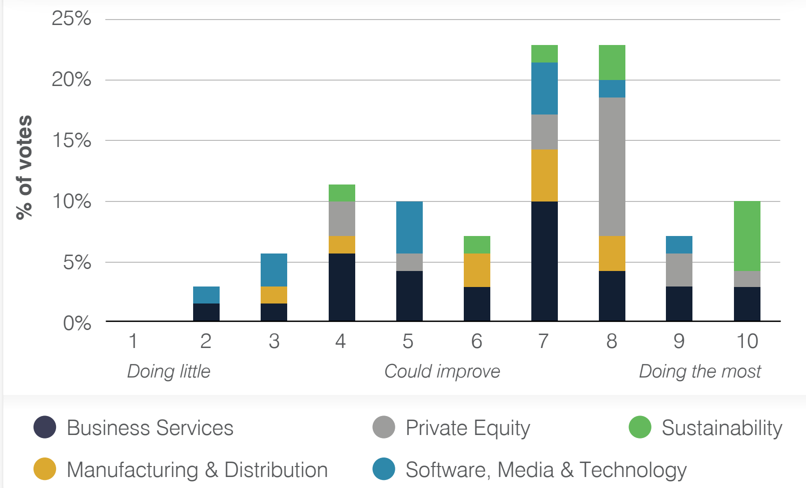
Figure 1.7: Which of the following has your organisation actively sought to improve, or will seek to improve in the future?



Our work with HCM firms, reflects the importance and size of the burgeoning employee engagement market which is wholly reflected by our survey data: employee engagement is by far the most popular sustainability initiative implemented by our respondents, regardless of sector.

Further to this, we see respondents from the **Business Services** and **Private Equity** sectors seeking to improve business conduct and corporate governance, while **Manufacturing & Distribution** respondents viewed supply chain and transparency as more important. Given this, how do respondents actually feel about their companies' sustainability efforts? Are they working? Are they worth it?

Figure 1.8: How would you rate your organisation's current efforts towards sustainability?

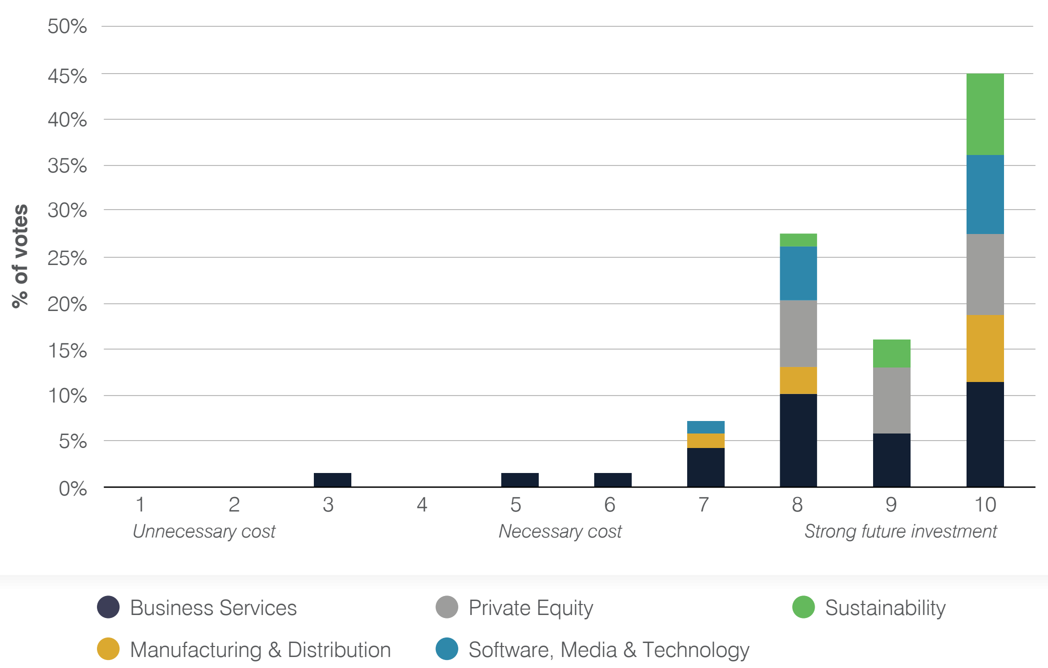


The responses to this question were reasonably tepid across most sectors, while the Sustainability Sector and Private Equity are over-represented at the top end of the spectrum. While many respondents have implemented a sustainability initiative of some kind (88%), over a third still feel their company could be doing more.

This could indicate that some of the measures already being implemented by our respondents – such as employee engagement and waste-reducing efforts – are not seen as "doing enough" by employees of these firms, or that measurement, assessment and potentially dissemination of this internally is not sufficiently advanced.

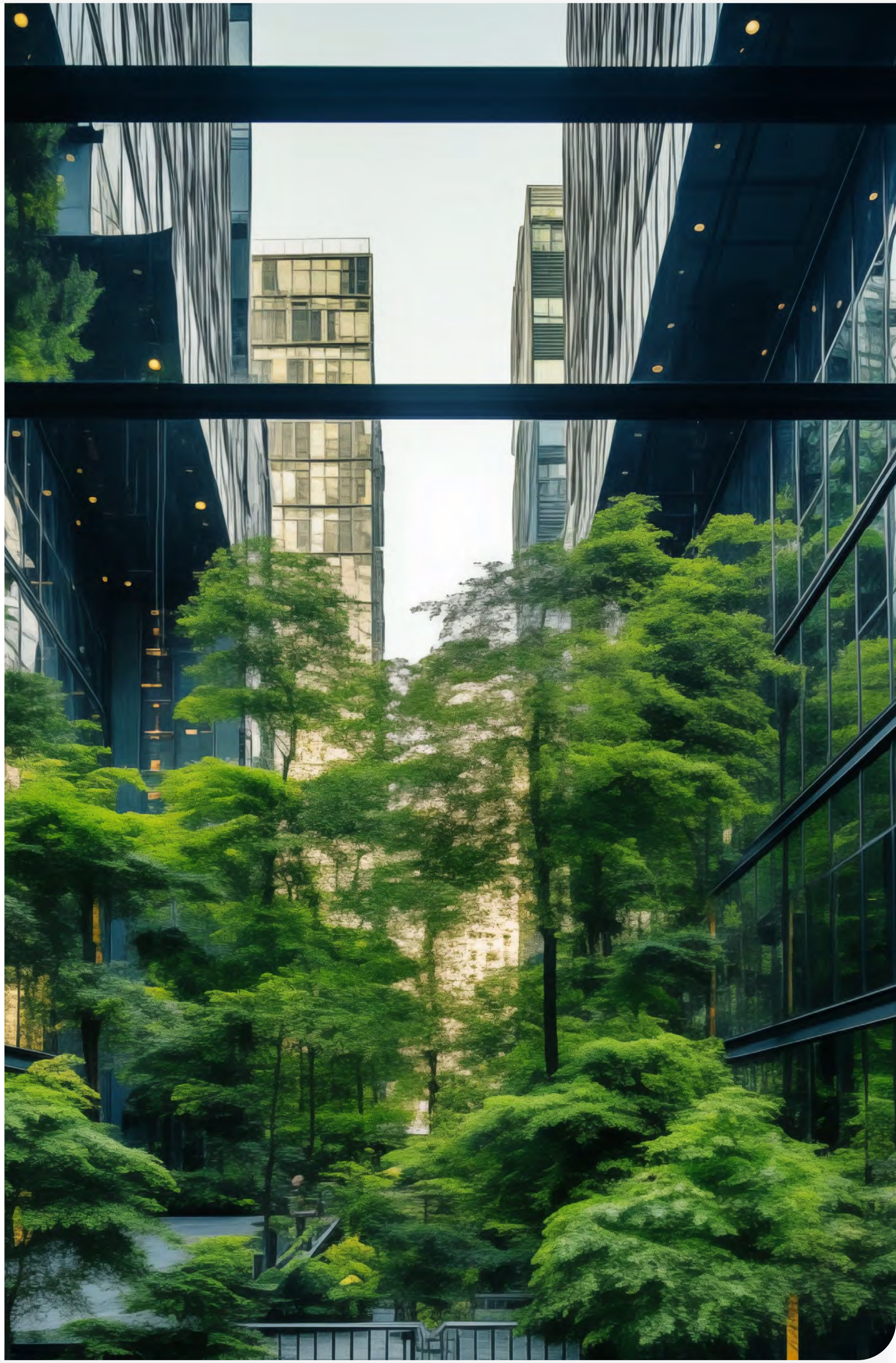
Long-term sustainability?

Figure 1.9: Do you consider sustainability to be a worthwhile long-term investment in a business context?



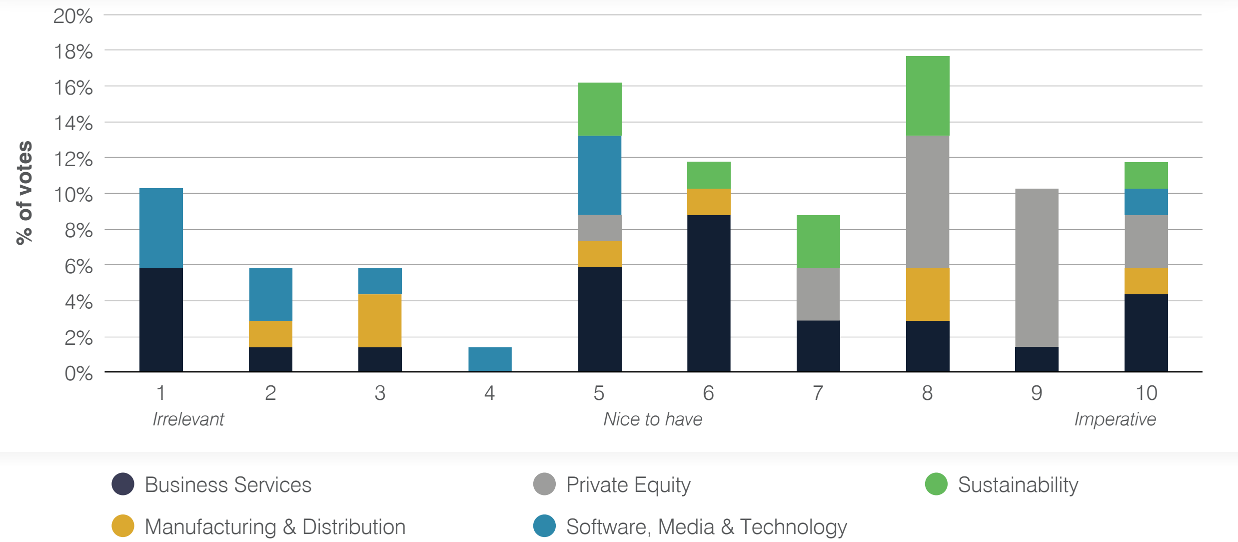
Interestingly, despite the more lukewarm ratings of the previous question, all industries agreed that sustainability is a worthwhile long-term investment. Taking into account our earlier questions about motivation, the conclusion could be drawn that these motives are proving genuinely effective for the respondents in question, hence the high ratings here, and contrary to our previous question. Pursuing sustainability criteria to improve a firm's image, for instance, could be seen here as being representative of a positive long-term investment - it feels a little bit of a case of "kicking it into the long grass", reminiscent of current government policy.

Looking at how our respondents think sustainability plays into valuation multiples, however, we see an entirely different picture emerge.



Impact on investors?

Figure 1.10: In your experience, how important does implementing sustainability initiatives seem in attracting and retaining investors?



When looking at how respondents feel their firm's value is perceived by investors, we see a huge spread in the responses regardless of sector.

Interestingly, when looking here at Private Equity responses – the people actually doing the investing – we see the highest average scores for any sector for this answer, sitting at 8/10 compared to the benchmark average of 6.1.

This highlights a clear disconnect between corporates and investors. While corporates feel they may not be doing enough to drive their firms' sustainability credentials and others doubt this will even make a difference to investors, the investors themselves seem to consider this a key part of their investment criteria, with just one PE firm rating the question beneath a 5.

It is an interesting disconnect. Across the board, if you are out seeking investment or acquirers, the more competitive the space is, typically the higher the valuation that is achievable. Given this backdrop, perhaps a better question is why would you wish to reduce the pool of potentially interested parties? Assessing this upside, as part of the cost/benefit analysis of different initiatives, would seem to make good business sense, to at least be able to evidence the start of the sustainability journey.

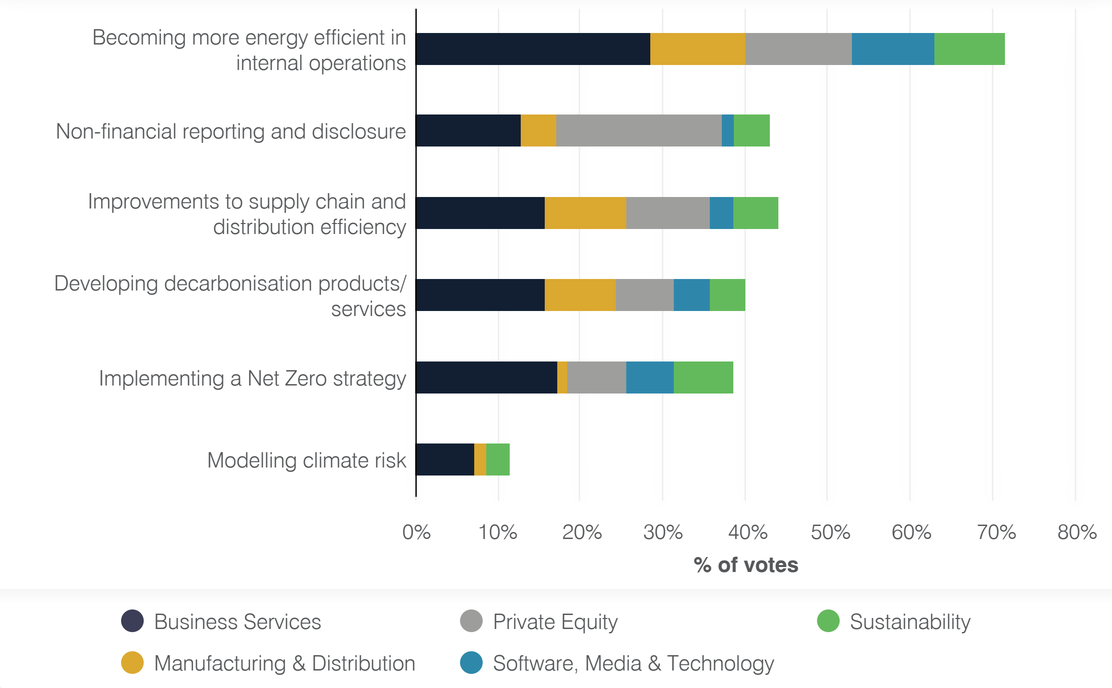
Section 2.

Environmental Considerations

Environmental challenges are perhaps the best-known of the three pillars of sustainability, with stories concerning the climate and environment hitting the headlines with alarming regularity. Considering this, we started out by asking what our respondents' firms were doing to reduce their environmental impact.

Environmental measures

Figure 2.1: What measures is your organisation taking to reduce its environmental impact?

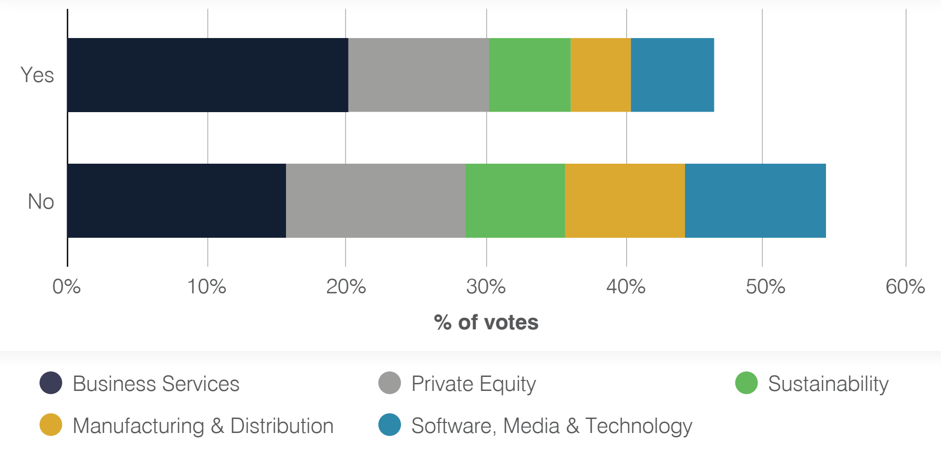


Here we see efficiency as king - the top two responses to this question are both related to efficiency, both internal and external. Again, here we are seeing those profit-driven decisions being made, and for good reason. Companies are, after all, for-profit endeavours, so it is only natural that initiatives that satisfy this objective are prioritised, particularly against the backdrop of recently spiking energy prices.

Most sectors showed broadly similar results to this question, other than the **Manufacturing & Distribution** sector which placed a heavier importance on developing new decarbonisation products and services and supply chain efficiency, relative to other choices. As this sector often creates comparatively more first-hand emissions than others and has, longer term, been subject to various regulations around waste, this is not too surprising.

Net zero initiatives and external presentation

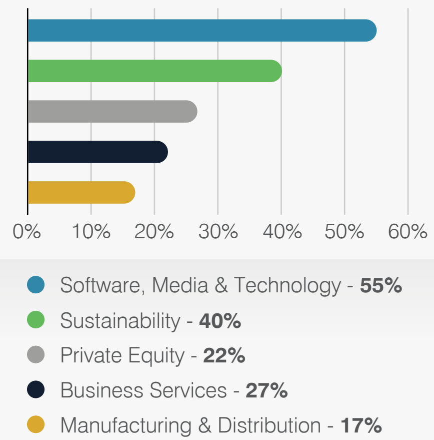
Figure 2.2: To date, has your organisation implemented any net zero targets?



Split by sector, the results to this question aren't as you might initially imagine. **Business Services** ranks the highest by sector, with 56% of that sector's respondents saying their firm had implemented net zero targets. **Software, Media & Technology** and **Manufacturing & Distribution** had the largest slant towards 'no' on this question, with well under half their respondents having implemented any net zero targets. Perhaps most surprising of all, the **Sustainability Sector** respondents this time did not beat the average, with only 44% of respondents having implemented net zero targets. So, are firms planning on changing this in the future?

Breaking this down further, we can see how different sectors are prioritising this change.

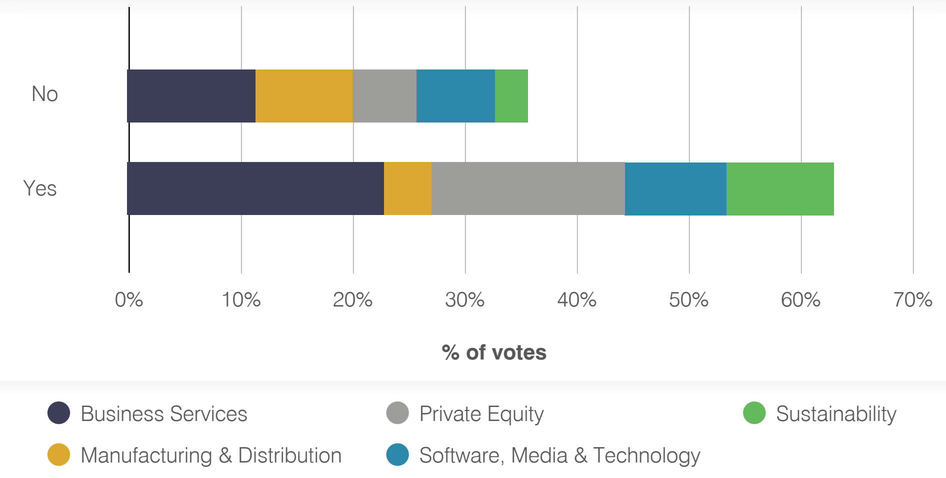
% Of firms without net zero strategy that plan on implementing one in the future



Given the surprisingly low number of **Sustainability Sector** firms implementing net zero targets from the last question, we can see that this might just be a matter of timing more than intention, as is similar for the **Software, Media & Technology** sector. And, digging a little deeper into our data, we can see another trend emerge from this analysis.

If we look at the firms who plan to implement sustainability initiatives but haven't done so yet, all of them are making £36m or less in revenue each year, with 58% of these turning over under £7m annually. This suggests that net zero targets are of lower importance to smaller companies, as these are the most likely to have limited time and resources to start up such initiatives.

Figure 2.3: Does your firm present itself as environmentally sustainable to external stakeholders?



This graph certainly suggests that, on balance, firms value being perceived as sustainable to their external stakeholders, as is supported by our earlier data; the most common motivation for adopting sustainability initiatives is to improve reputation.

More than this, though, we see a number of companies that are not actively pursuing environmental policies - such as net zero targets or more sustainable product lines – still presenting themselves as environmentally sustainable to their stakeholders. In fact, on average across our sectors, 41% of firms who haven't implemented net zero targets present themselves as environmentally sustainable to external stakeholders.

Section 3.

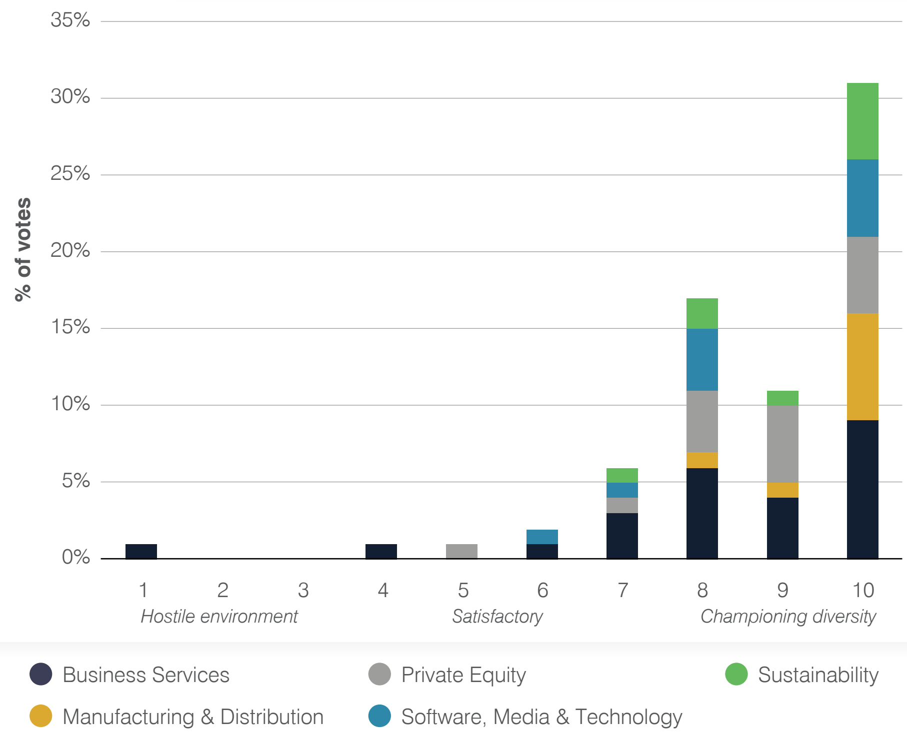
Social Considerations

The second pillar of sustainability, social considerations and society, is perhaps the most often overlooked, but is nonetheless now a key part of many firms' operations. Here, we consider social equity, discrimination, support of the local community, and employee reward and recognition.

Equality of Opportunity and Discrimination

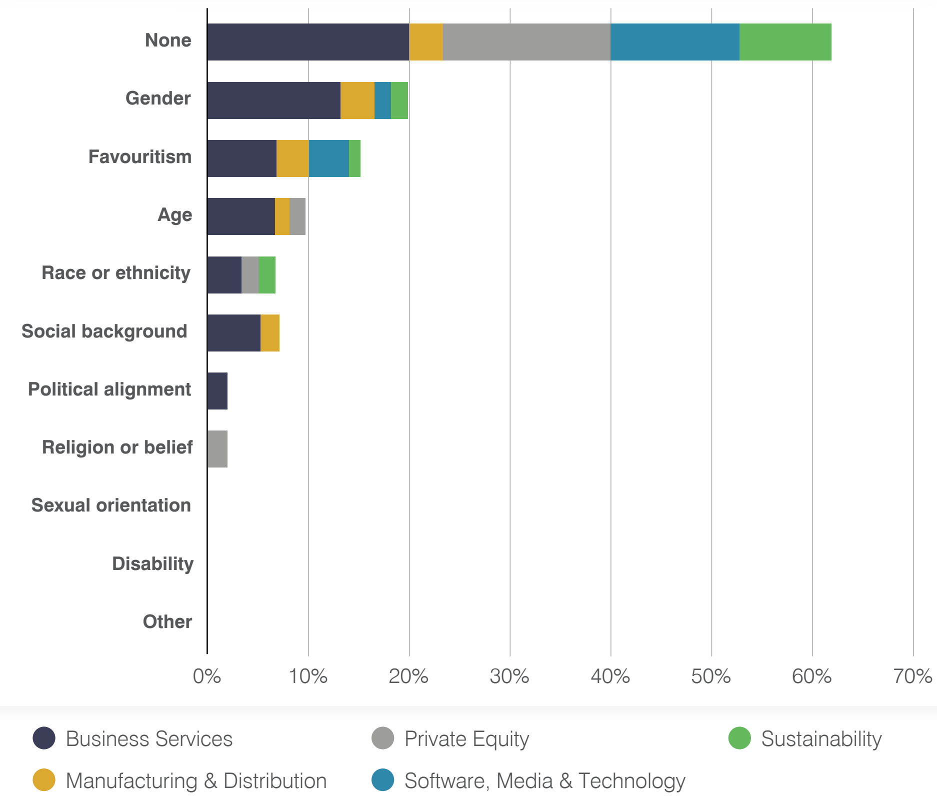
To start, we asked if our respondents felt their workplace had equal opportunities for people of all races, backgrounds, and alignments.

Figure 3.1: **Do you feel there are equal opportunities for people of all races, backgrounds, and alignments in your organisation?**



With very few exceptions, respondents from all industries largely agreed that their workplaces provided equality of opportunity to their staff. While it is worth noting that our sample trends towards more senior business owners, and can therefore never be truly representative of the UK's population as a whole, it is encouraging to see such a strong alignment of answers here between sectors and company sizes. Considering this, we received slightly more nuanced responses from our next question.

Figure 3.2: **Have you ever personally experienced any instances of discrimination or negative bias in your workplace based on any of the following?**

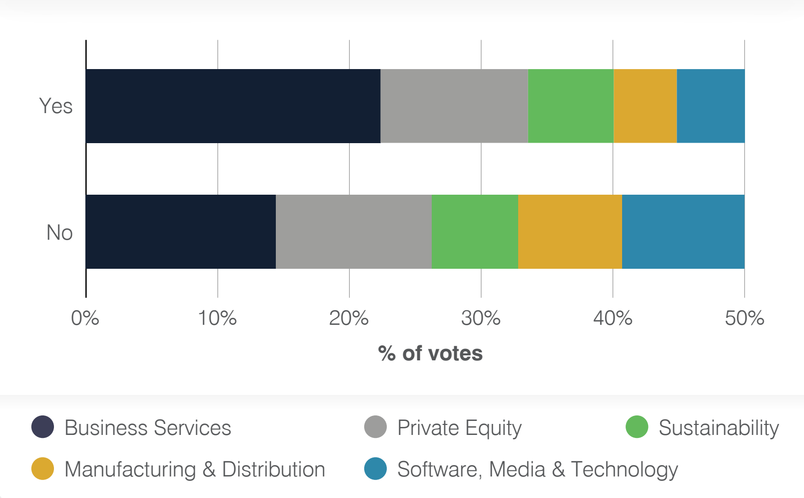


While 62% of respondents thankfully have never experienced any form of discrimination, this still leaves 38% of people who have.

Of the 20% of people who had been discriminated against on the basis of gender, 66% were female, while the other categories saw a less extreme split overall. In light of this, are firms training their staff to tackle these issues?

Inclusivity and employee benefits/retention

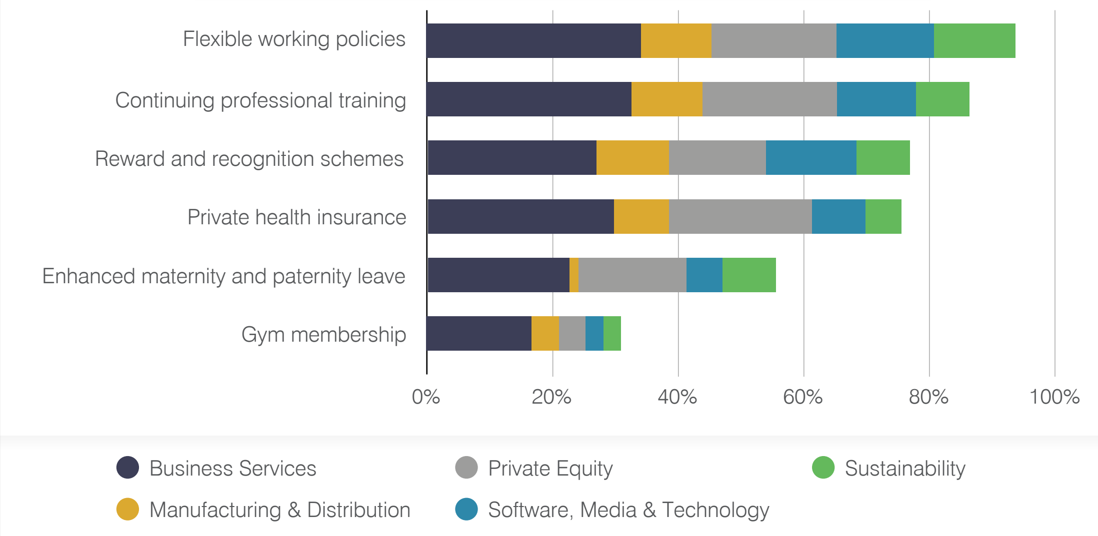
Figure 3.3: Has your organisation implemented inclusivity training?



A straight-down-the-middle split, with no real trends on either side of the coin; size and industries vary significantly across both answers. What this really tells us is that 50% of firms don't see enough value in inclusivity training to properly implement it. – the jury must still be out on this.

While it is worth noting that respondents may have experienced discrimination in a previous workplace, of those who had, 44% came from organisations that had implemented inclusivity training already.

Figure 3.4: Has your organisation implemented any of the following employee benefits/retention initiatives?



As was to be expected, a whopping 94% of respondents have implemented flexible working policies for their staff and, while we don't have the data, it would be safe to assume this number leapt up after Covid. The results don't skew massively towards any particular sector, either. This would suggest that a few key trends for employee benefits that appear sector agnostic:

- **Work-life balance:** working from home, flexible hours, and enhanced parental leave all fall into this category. Since Covid, many firms have been taking this aspect of employment more seriously, as many workers simply retired once the pandemic hit and their time was put into a perspective. Interestingly, we are seeing the introduction of a four-day working week from at least one respondent.
- **Covering expenses:** gym memberships and private health insurance are both not particularly cheap pursuits for an individual to take on, so helping staff with the cost (it is a taxed benefit) encourages them to maintain their health and readiness for work while relieving financial pressure.
- **Employee engagement:** keeping talent active and engaged is key. Through initiatives such as professional training, coupled with a proper reward and recognition schemes, firms can ensure that their employees are suitably compensated for the job they do, whilst also feeling more fulfilled by their expanding skill base.

Section 4.

Private Equity
(Economic Considerations)

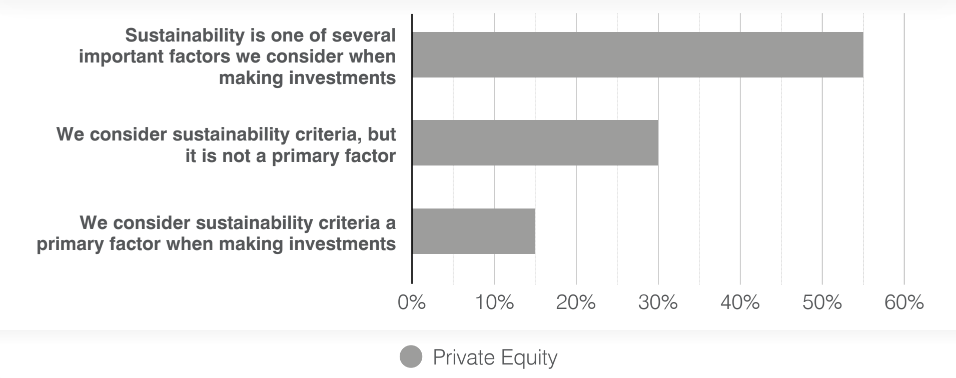
The final section of our survey was specifically written for investors, which represent over 20% of our sample, so, from this point onwards, the answers relate purely to them - but are useful insights for corporates to know.

We wanted to get an idea of how important sustainability is to both sides of the transaction, and to highlight any disconnects that might arise between corporates and Private Equity, as demonstrated by our earlier question, where corporates all agreed that sustainability has little impact on their firm's valuation, yet PE strongly agreed that it has a large impact.

We first asked our PE respondents to describe their approach to sustainability-related criteria when investing in a firm.

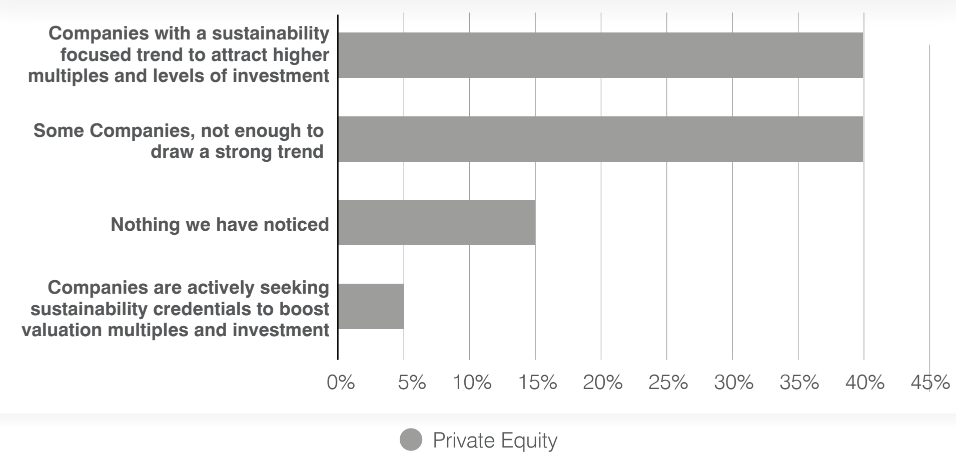
Sustainability as an investment criteria?

Figure 4.1: Which of the following best describes your organisation's approach to sustainability-related investment criteria?



55% of respondents name sustainability as one of several important factors to consider, with a further 15% of these naming it as primary factor, so it is clearly important for the majority of our PE respondents, but do they think this has a meaningful impact on valuation multiples?

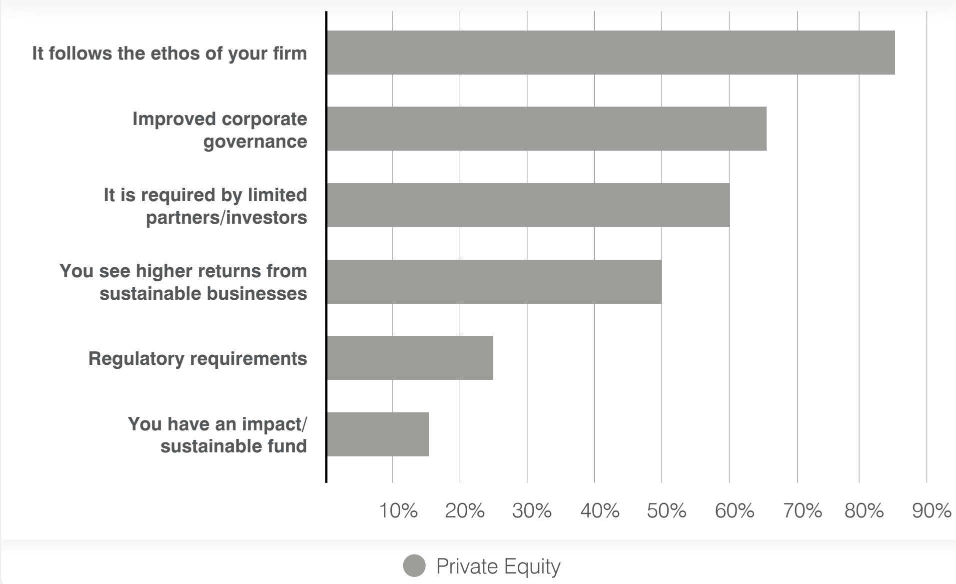
Figure 4.2: Have you noticed organisations with a clear sustainability focus attracting higher valuation multiples or higher levels



Interestingly, the trend here is not as strong as one might expect from the previous answer's responses. 50% of respondents thought that a clear sustainability focus would result in higher valuation multiples for the firms in question, while 40% agreed that some firms might, but not enough to draw a clear trend from.

Why sustainability?

Figure 4.3: Why do you consider sustainability as part of your investment criteria?



The majority of PE firms here ranked internal reasons, such as their firm's ethos and investor requirements, as the most important reasons for them including sustainability as part of their investment criteria. To perhaps add a little more colour to these responses, we might revisit our earliest question on what motivates firms to pursue sustainability in the first place.

Shareholder influence an follow-on investments

Figure 4.4: **Private Equity's top three sustainability strategy influences vs. other sectors**

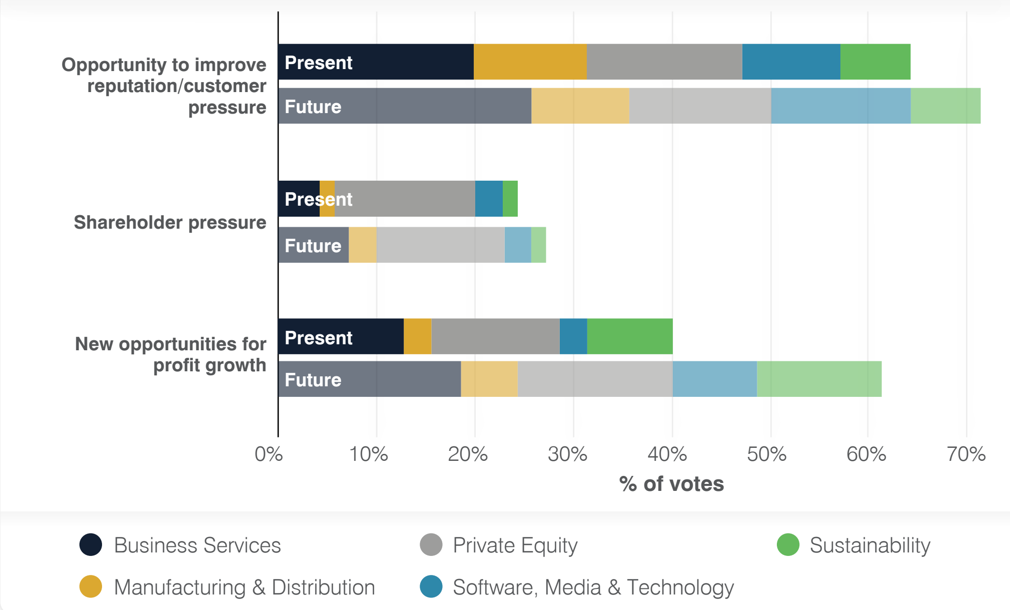
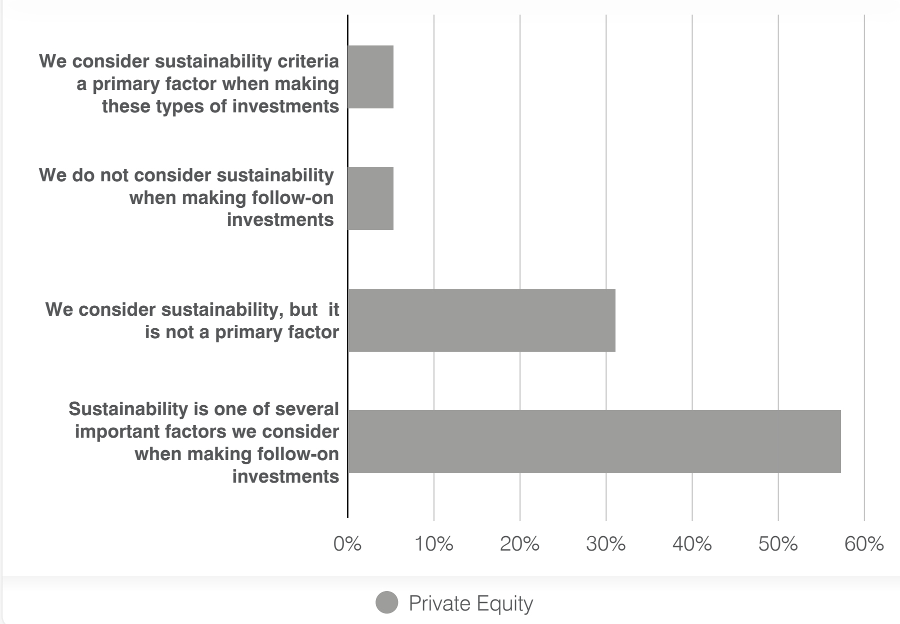


Figure 4.5: **Do you consider sustainability criteria when looking at follow-on investments for your portfolio?**

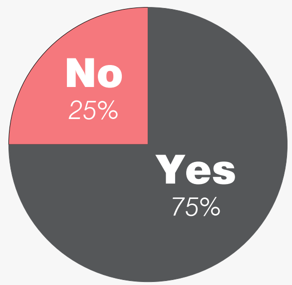


As the figure demonstrates, **Private Equity** is far more influenced by shareholder pressure when pursuing a sustainability strategy than any of our other sectors by a long way. Alongside **Business Services** and the **Sustainability Sector**, it is also the most likely to be motivated by new opportunities for profit growth.

This brings up an interesting point. With 50% of PE respondents stating that a focus on sustainability brings higher valuation multiples, it seems some of the motivation is actually coming from within the PE houses, probably driven by their investors, who are often pension funds and family offices. When making follow-on investments, the picture remains largely the same, though with less of an emphasis on sustainability than in the initial investment phase, dropping from 70% of respondents ranking it as an important factor to 63%.

While sustainability may play into a PE firm's decision to invest in a company, what happens once they're part of the portfolio?

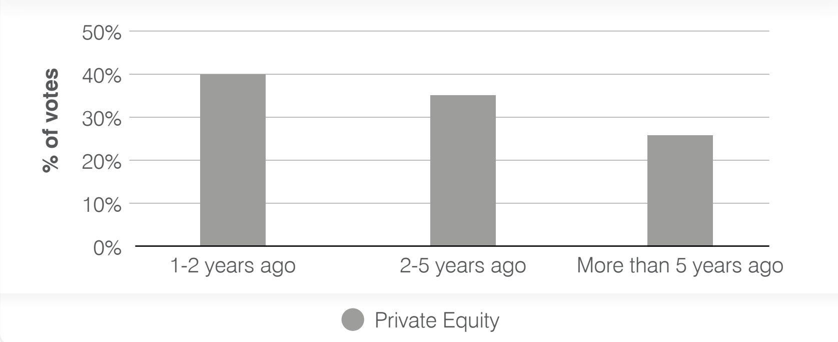
Do you require portfolio companies to report ESG?



We see here a fairly similar split to our first question – where 70% of PE respondents said they consider sustainability as an important factor when making an investment decision. We also see a correlation between firms that didn't see sustainability as an important investment criteria and those who don't require their portfolio companies to report on ESG.

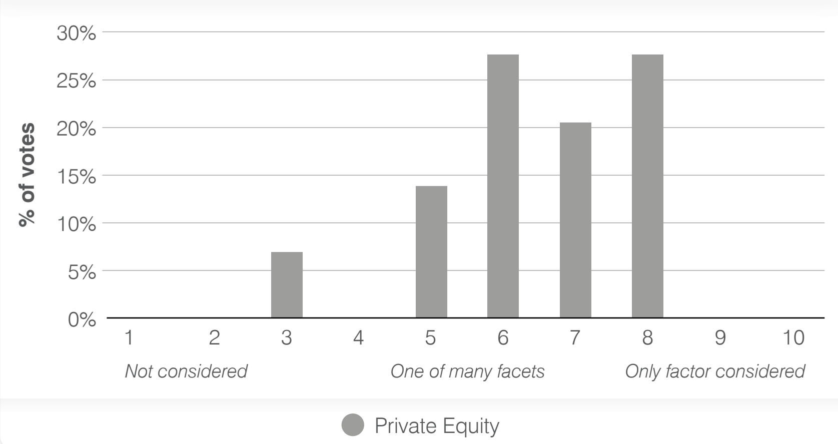
Closing thoughts

Figure 4.6: When did your organisation start actively implementing sustainable investing initiatives?



Here we see a fairly reasonable spread. Given how much sustainability has come to the fore in recent years, we might expect that most companies would have implemented their initiatives in the last five years, which 75% of our respondents indeed have. To round it off, we asked our PE respondents to rank how they weight sustainability metrics in the context of investing in a portfolio company.

Figure 4.7: Please indicate how you weight sustainability metrics in the context of investing in a company?



A somewhat middling result, as perhaps this section might have led you to believe. This may reflect that PE firms like to invest in businesses where they can assist companies in becoming more valuable at exit by instigating value-enhancing changes; the introduction of ESG could be a low-hanging fruit in this regard.

So, perhaps it is telling that most of our respondents here tell us that sustainability is one of many criteria they consider – one facet among dozens – when making an investment decision.

This is not to neglect the importance of sustainability criteria to the importance of a firm's valuation – Private Equity may not see this as the most important consideration when making the investment, but with will consider it with an eye to a future exit. With this in mind, PE houses will look to build value in the firm across their investment tenure, implementing their own sustainability initiatives to help boost the firm's value at the point of sale.

While perhaps not the largest impactor upon a firm's investment valuation - sustainability is certainly another string to a company's bow, helping bolster valuation multiples at the point of sale. Taking into account our data, having demonstrably sustainable business operations will also help you catch the eye of the majority of PE houses, as this is something they are most likely driven by their shareholders to pursue in their investments.

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