Finnish general partner sustainability study

February 2023

Tesi surveyed the sustainability approach and practices of Finnish general partners

In the wake of increasing regulation, sustainability themes continue to be a talking point in the global financial market. In Finland, both corporate responsibility and impact topics feature in the development agenda of fund managers. Consecutively, there is an interest for understanding the current level of general partners' sustainability efforts, and gaining a view of the trends and future focus areas in the market.

To contribute to this research, Tesi conducted an online survey in the autumn of 2022 to learn more about the state of play in Finland. The goal was to map the current operating methods and potential development directions of the Finnish general partners (GPs), and to provide a benchmarking opportunity to both local and international fund managers looking to operate in the region. The results of the survey may also give insights to limited partners (LPs) on the current capabilities of the GPs, and inform the market on the future ambition level of the Finnish private equity scene.

We thank all general partners who participated in the survey, as well as the support our team received in drafting the questionnaire, analysing the results, and putting together this publication.

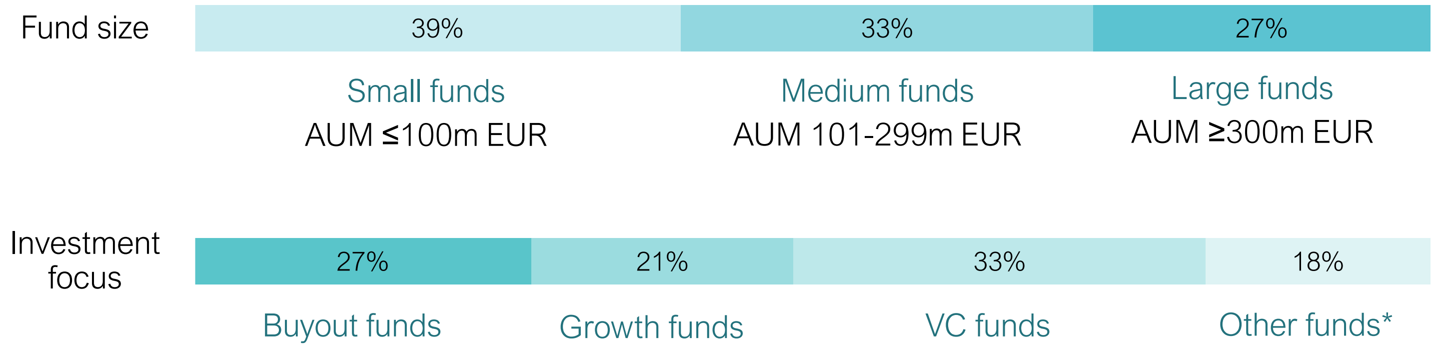
Matias Kaila	Sanni Virtanen	Selja Ryöppy	Erik Holmberg
Director, Funds	Manager	Senior Analyst	Trainee

Tesi

Survey included a large spread of Finnish general partners

SAMPLE

- Finnish general partners that in the time of the survey had an active fund in Tesi's portfolio
- Sample size is 33 GPs
- Surveyed general partners make up the majority (~90%) of the Finnish private equity investment market
- GPs' investment foci spread across for example buyout, growth, venture capital and debt
- Presented survey results mainly bundle all GPs together, but where relevant, two specific splits are used



EXECUTION

- Online questionnaire (answer time ~30 min), executed in September 2022
- Survey conducted and answers analysed by Tesi

DEFINITIONS

Corporate responsibility includes GP's own responsibility and target company's responsibility. GP's responsibility covers responsible investment practices and responsibility over the fund manager's own activities. Target company's responsibility covers their care of the environment, social factors and governance (ESG).

Impact includes GP's impact and the target company's impact. GP's impact means developing the target companies' operations in a more responsible direction or helping to enhance impact of the target company. Target company's impact means the positive impact on society or environment achieved through sold products or services.

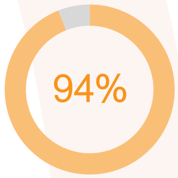
Sustainability is used as an umbrella term for corporate responsibility and impact.

*Other funds: debt, turnaround and other

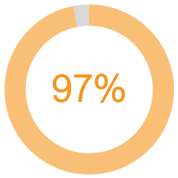
According to the study sustainability is present in GPs’ strategy, but investment process integration is still work in progress

STRATEGY AND ORGANISATION

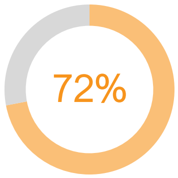
Sustainability is an important topic for GPs; it is almost always included in the strategy and goal-setting, and partner-level is often responsible for sustainability initiatives. The most popular goals are related to conducting sustainability assessments which indicates that the largest focus is still put into the development of investment processes.



Sustainability is part of the strategy at 94% of the funds, often driven by values of the company and personnel



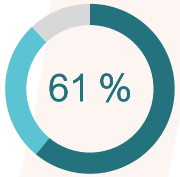
97% of the GPs have at least one sustainability goal, most popular targets relate to investment process



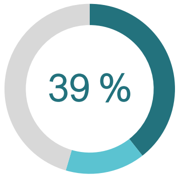
Sustainability initiatives are looked after by partner-level at 72% of the GPs

INVESTMENT PROCESS

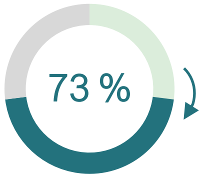
Sustainability is not yet fully integrated to the operations. Although a little over half of the GPs conduct ESG due diligence prior to all investments, about two fifths gather sustainability metrics from the whole portfolio. In the future, monitoring of the portfolio will likely increase as many move to follow more demanding disclosure regulation.



61% of the GPs conduct an ESG due diligence for all first time investments (88% does it for some investment)



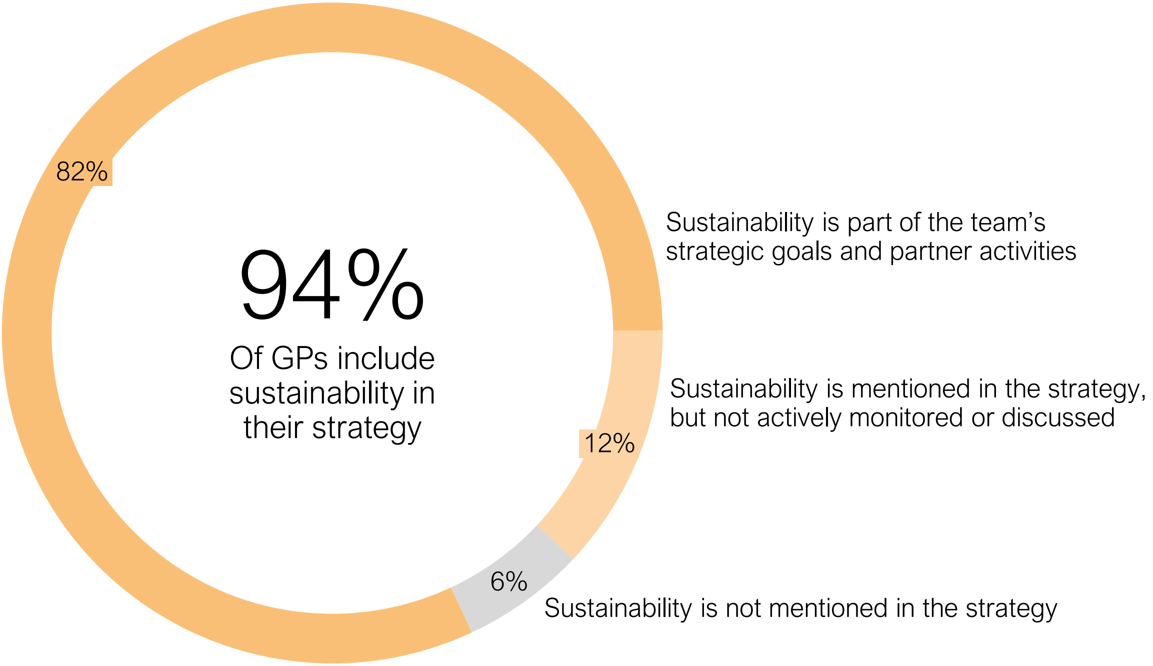
39% of the GPs have sustainability metrics reporting requirements for the whole portfolio (55% have it for a part of their portfolio)



73% of the GPs will report according to Article 8 or 9 in the next fundraising round (currently 27%)

Strategy and organisation

Sustainability is included in GPs’ strategy; focus stems mostly from company or personnel values, or investment value creation



- Sustainability is almost always part of the GP’s strategy: four fifths of the respondents include sustainability in partner activities and organisation’s strategic goals, and another 12% mention sustainability in strategy, even if they do not engage with it actively. Less than a tenth do not mention sustainability in their strategy (6%).
- No major differences were found when assessing the responses based on fund size or investment focus.

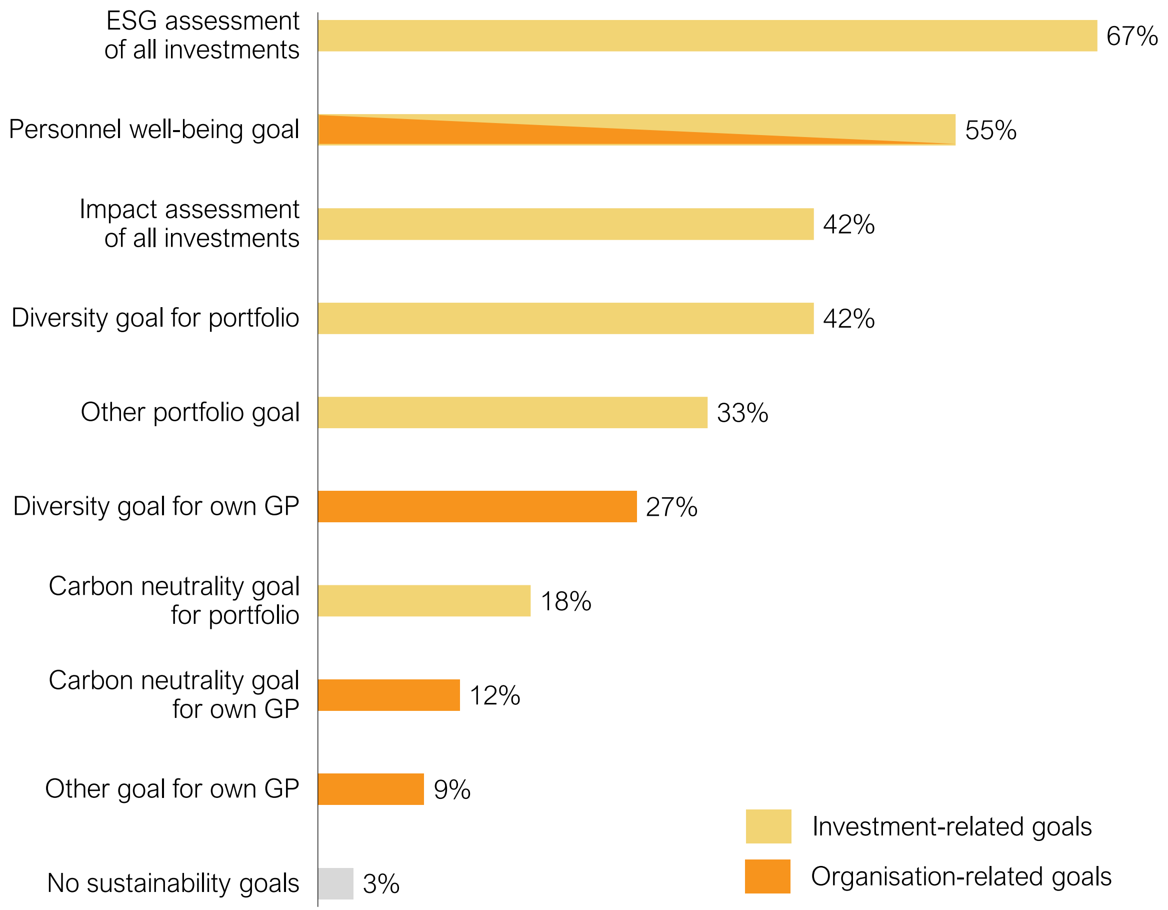
- Reasons for concentrating on sustainability issues vary, with a third of respondents citing company or personnel values as the most important guiding factor. Value creation is the largest motivator for 21% of the respondents.
- Open answers in the ‘Other’ category mostly combine two or three of the questionnaire answer choices, particularly compliance with company values and incoming regulation.
- None of the respondents feel that portfolio company expectations are the most significant reason pushing them to consider sustainability issues.

Most significant reason for focusing on sustainability issues

%

Almost all GPs have at least one sustainability goal; most popular targets relate to the investment process itself

Key sustainability-related goals
% (multiple choice)



- Most popular sustainability goals deal with investments rather than the GPs' own organisation. Especially favoured are targets related to sustainability assessment processes: in total, 82% of the respondents aim at conducting corporate responsibility (ESG) or impact evaluation of their investments.
- Second to these process-related goals, targets focusing on the social dimension of sustainability are relatively common. Personnel well-being or diversity goals are in use at 65% of the GPs.
- Goals focusing on the environment are rare. Carbon neutrality target for the portfolio exists at 18% of the GPs, about half of whom do not measure this footprint at present. The same goal for the GP's own organisation is aimed at by 12%, with most of these respondents already measuring their emissions.

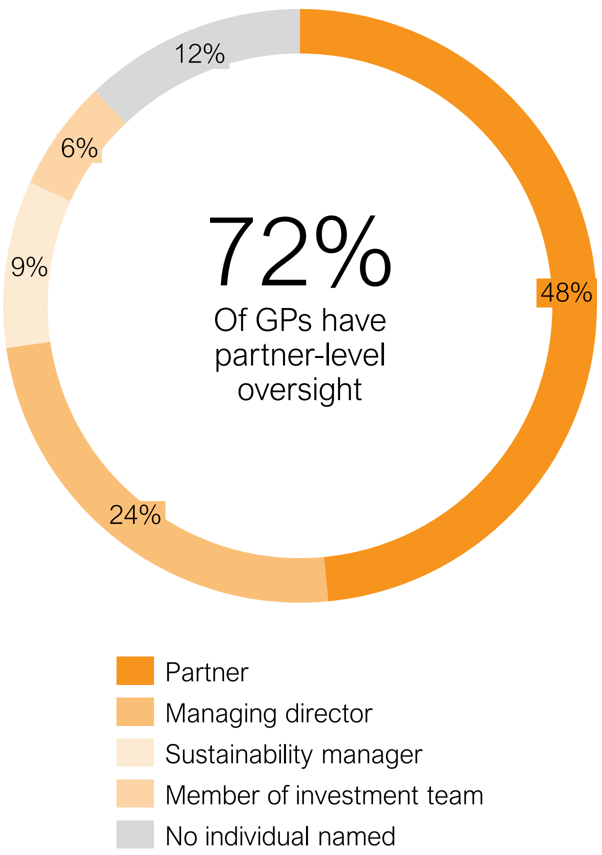
97%
Of GPs have set at least one sustainability goal

15%
Of GPs include sustainability themes in remuneration

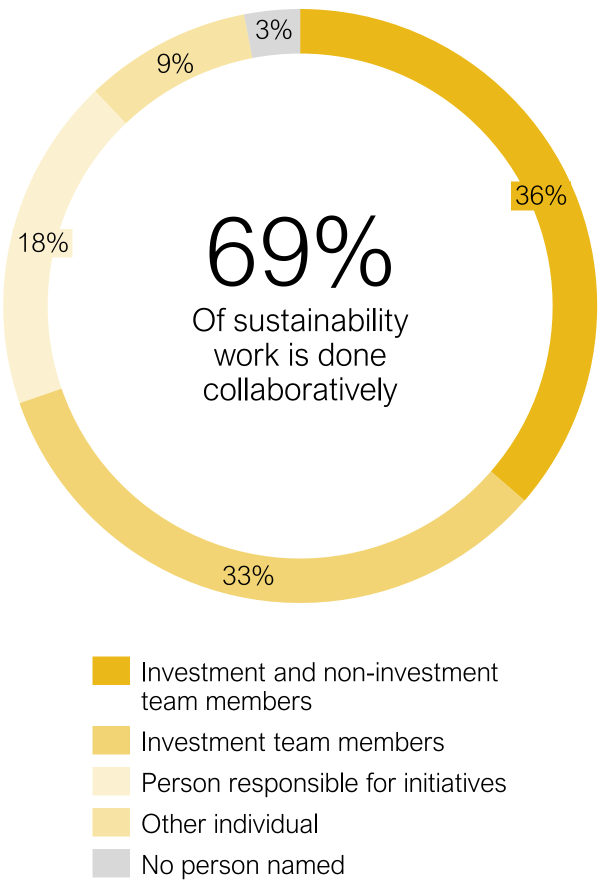
- Although almost all GPs have set sustainability goals, including sustainability themes in remuneration is rare.
- Of the 15% that have included sustainability in their compensation practices, most are large GPs with over 300 million in managed capital (80%). None of the VC funds have sustainability topics as part of their remuneration.

Partner-level is often in charge of sustainability-related initiatives, whilst the work is done in teams

Person responsible for sustainability-related initiatives
%



Person tasked with sustainability work
%

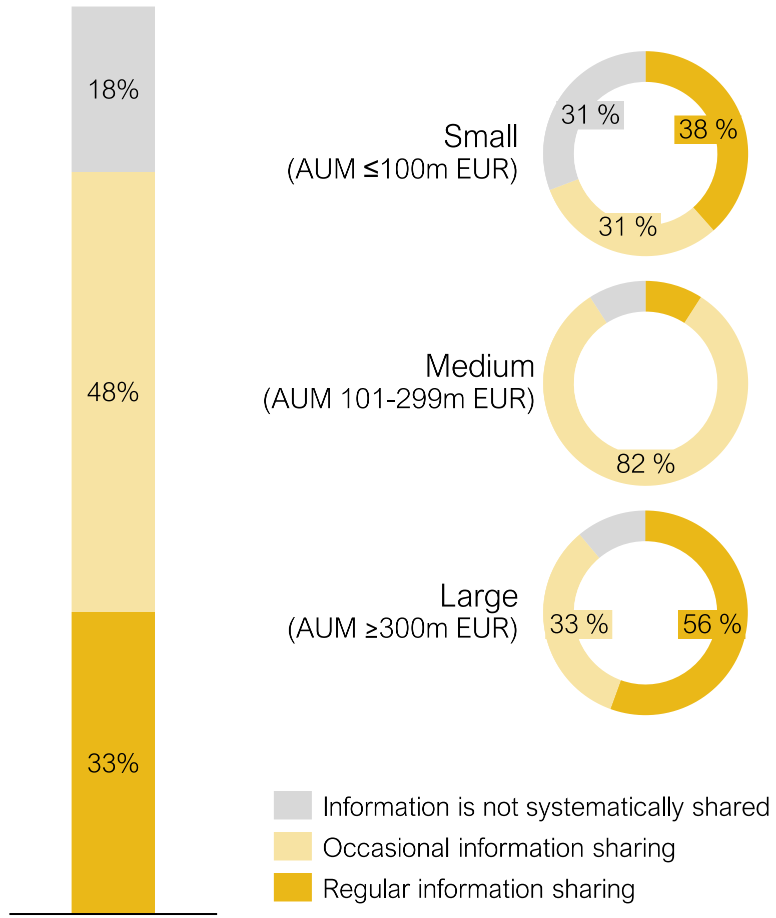


- Partners hold the responsibility of sustainability-related tasks at almost three quarters of the GPs. At 15% of the GPs, the responsibility is given to a staff member.
- In small and mid-sized funds (under 300 million managed capital), CEO or another partner is typically assigned to be responsible of sustainability-related topics (80%). Larger funds give the overseeing authority comparably more often to a staff member: in a third of the funds the responsible person is either a sustainability manager or an investment team member.
- Sustainability work is mostly done collaboratively between multiple staff members (69%), mainly involving both investment and non-investment teams.
- At the funds where the work is done by an individual, it is most often the person also responsible for these initiatives (67%).
- Overall, investment team members participate in the sustainability work at most GPs.

Information sharing about sustainability issues happens mainly occasionally, differences between GP sizes and investment foci

Sustainability information sharing within organisation

%



- Sustainability information is shared via letters, events or meetings at least occasionally in over four fifths (82%) of the GPs. Sharing is more often occasional than regular.
- Small GPs have the most diverse practices: a third do not share information systematically at all, yet a third have regular practices in place. Medium-size organisations mainly rely on occasional information sharing (82%), whereas large GPs most often share knowledge regularly (56%).
- All buyout GPs share information systemically, with two thirds doing it regularly. Rest of the investment foci groups follow the general pattern, with most of the information shared occasionally.

- Like information sharing, similar pattern can be seen in personnel training: most GP teams are trained either regularly (39%) or occasionally (45%). All large GPs organise at least occasional training, whilst a fifth of small and medium-sized GPs do not provide any training for their staff.
- All buyout and growth GPs offer at least some training, but venture capital GPs organise less regular trainings, with close to a third of them not offering any training (27%).

Most GPs follow the UN Principles of Responsible Investment and the SDGs

- Of all voluntary sustainability standards, the three most-followed carry an affiliation with the United Nations (UN).
- Only two initiatives, the UN Principles of Responsible Investment and the UN Sustainable Development Goals, have a following amongst more than a half of the respondents (79% and 58% respectively). The third most popular initiative, the UN Global Compact, has been adopted by a fourth of the GPs.
- Other standards or reporting frameworks are followed by less than a tenth of the GPs. Science Based Targets initiative has been joined by 9%, and incoming, yet still voluntary EU-level regulation Corporate Sustainability Reporting Directive, is noted by 6% of the GPs.
- 12% of GPs say they do not follow any voluntary sustainability standards.

79%
Adhere to the UN Principles of Responsible Investment (UN PRI)

58%
Follow the UN Sustainable Development Goals (UN SDGs)

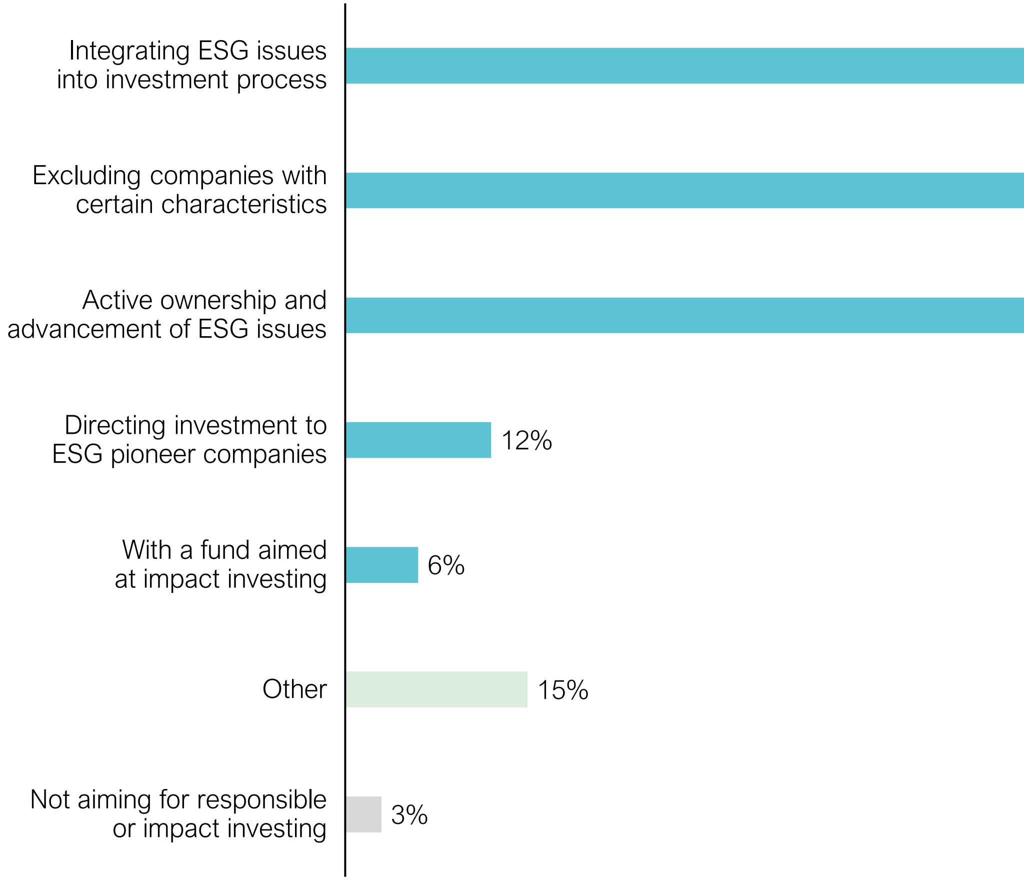
24%
Comply with the UN Global Compact

9%
Abide by the Science Based Targets initiative (SBTi)

Investment process

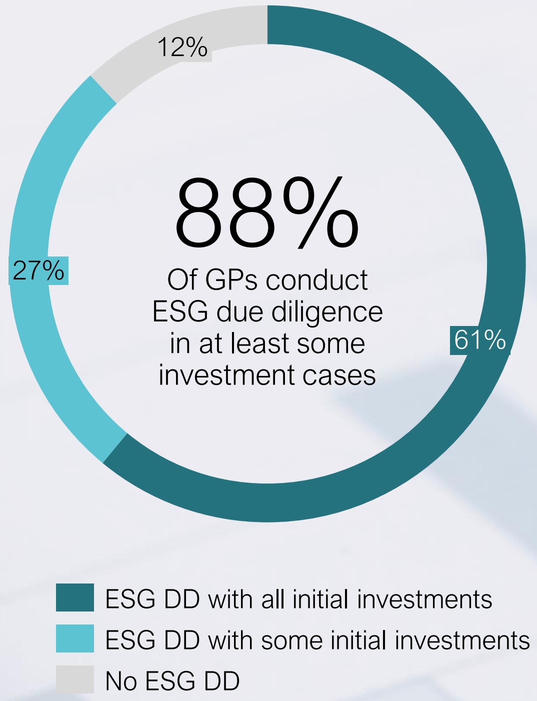
97% of GPs aim for sustainable investing; most integrate ESG into the investment process and advance ESG topics in the portfolio

Implementation of responsible and/or impact investing
% (multiple choice)



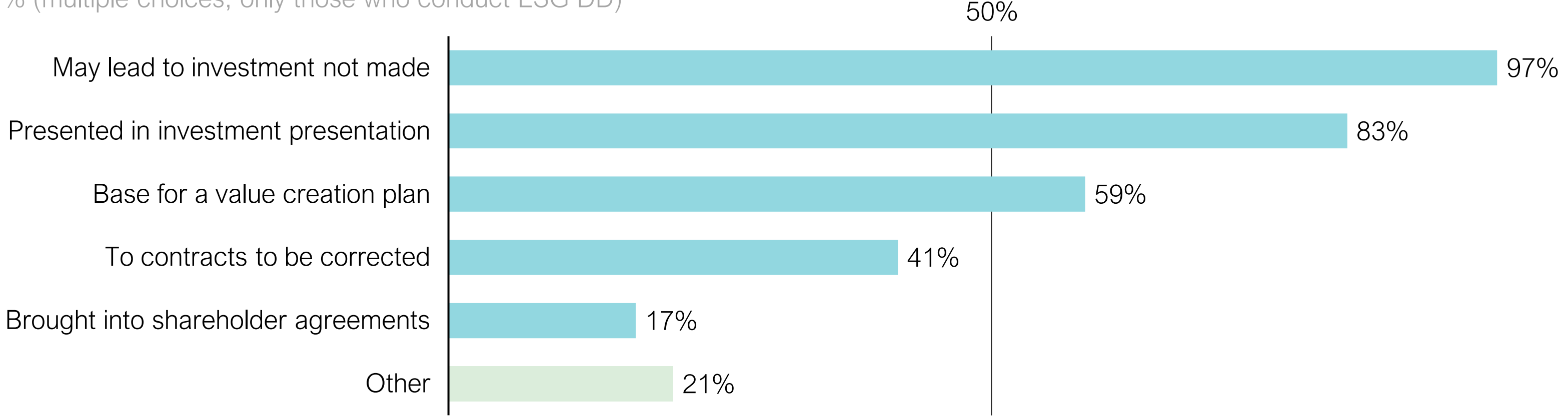
- Almost all GPs aim for responsible or impact investing. Overall, four fifths of the respondents use multiple practices to implement sustainability in the investment process.
- Two most common practices connect to the pre-investment stage: integration of ESG issues and exclusion policies into target assessments. The results align with GPs' goal setting, as the most popular goals included ESG and impact assessments of potential investments (see page 7).
- Third often-used action focuses on the portfolio. All buyout and growth funds use active ownership to advance ESG, whilst 80% of venture capital and 30% of other funds apply this practice.
- Some open answers under 'Other' align with the portfolio-focus, by for example setting ESG targets for companies. Impact assessment and ESG strategy for the fund are also used by some GPs.
- All GPs have an written responsible investment policy, which most review yearly (73%). Just over half of the GPs mention the policy in fund agreements and keep investors updated of any policy changes (55%).

Over half of the GPs always do an ESG due diligence, with impact on the success of the investment



- Most GPs assess ESG-related topics in the deal flow stage, with 61% conducting the assessment with all potential initial investment cases. All venture capital and growth GPs do an ESG assessment at least sometimes, whilst 11% of the buyout and 50% of the other GPs do not complete ESG DD at all.
- 55% of the GPs do ESG due diligence internally, although some segments may be outsourced. A little over half also adapt their evaluation based on a certain frame, for example the target company's industry (52%).
- In addition to ESG due diligence, 94% analyse the impact of the target company. 82% of the GPs evaluate both corporate responsibility (ESG) and impact of the target company at least in some cases.

Utilisation of ESG due diligence findings
% (multiple choices, only those who conduct ESG DD)



- ESG due diligence guides internal decision making: results are often used in presentations or may impact the investment outcome (83% and 97%, of those who conduct DD). Findings are however less often used to guide value creation (59%).

Most GPs bring sustainability topics into the portfolio in a form of development plans or regular board discussions

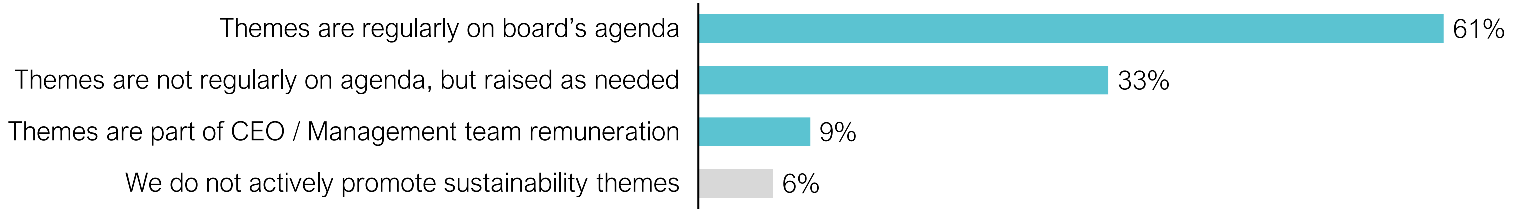
88%

Of GPs make a plan for developing ESG or impact at the target company

- Almost all GPs make plans for developing sustainability in at least some of their portfolio companies. Most intend to improve both responsibility and impact (73%), with 15% only targeting one of the two topics and 12% not making plans for either.
- Close to a half of the GPs make corporate responsibility improvement plans for all the companies in the portfolio (45%). Impact development plans for all companies are rarer, and are made at 30% of the GPs.
- Sustainability development road maps are designed more actively in large (AUM ≥300m EUR) and small (AUM ≤100m EUR) funds than at medium-sized ones. Large funds focus more on responsibility than impact (89% vs. 67%), whereas small funds put more effort on impact (92% vs. 69%).

Sustainability initiatives promoted at portfolio company management teams

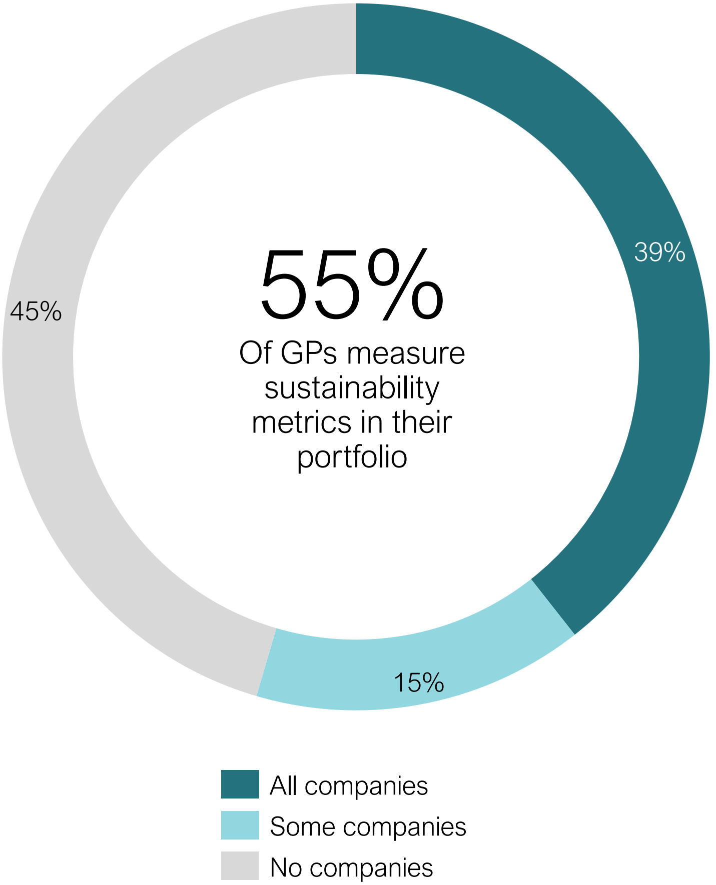
% (multiple choice)



- Beyond development plans, almost two thirds of the GPs include sustainability themes regularly into portfolio company board discussions, with a third preferring to raise topics as required instead. Only few GPs do not actively promote sustainability themes at the portfolio company level.
- Connecting remuneration to sustainability themes is rare amongst portfolio company management teams – even rarer than amongst GPs themselves (9% vs. 15%, see page 7).

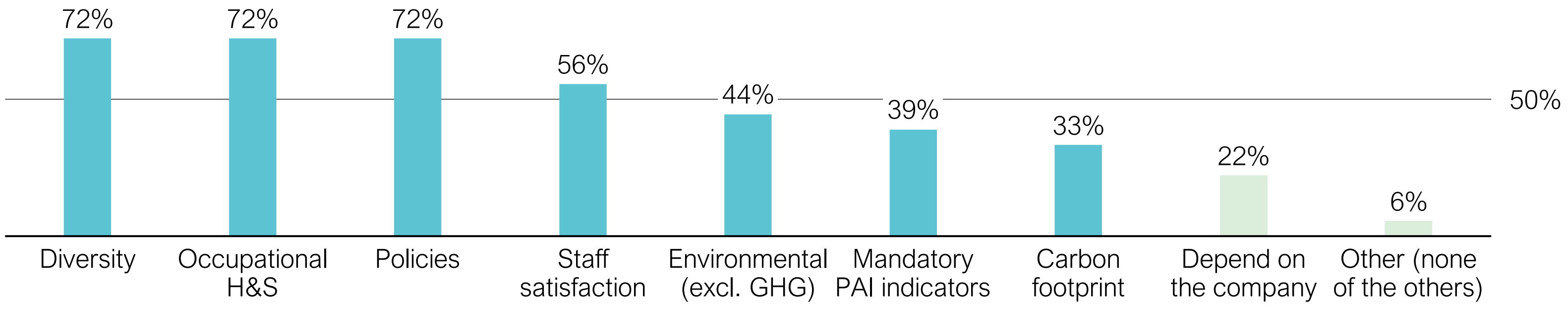
Little over half of the GPs follow sustainability metrics at portfolio companies, but only some do so systematically throughout the portfolio

Sustainability metrics collected from the portfolio
%



- Just over half of the GPs require their portfolio companies to report any sustainability metrics, and less than 40% collect metrics from all firms.
- All buyout and just over half of the growth funds (57%) measure at least some sustainability metric, whilst the comparable figure for venture capital and other funds is around a third (30%). Between fund sizes, the larger the GP, the more likely they are to collect metrics from the portfolio: almost 80% of the large GPs (AUM ≥300m EUR) measure at least some metric, whilst the figure for the rest is just under 50%.
- The most popular metrics address social sustainability or governance topics. Of those used by over half of the GPs, three indicators focus on the target company's staff, and one on sustainability-related policies.
- Environment-related metrics are less common, as neither environmental load or carbon footprint are required by more than 50% the GPs (mandatory PAI-indicator collectors included).

Sustainability metrics that are measured across the whole portfolio
% (multiple choices, only those who measure metrics)



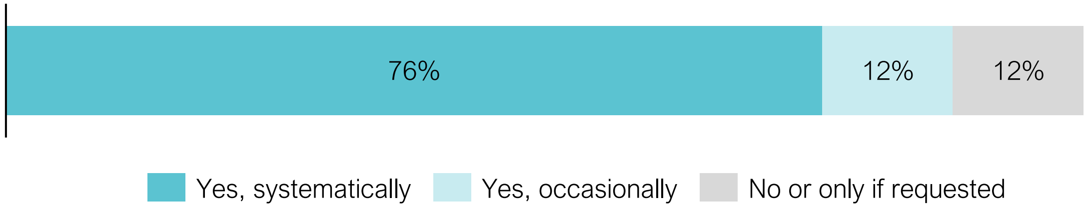
Reporting sustainability metrics to the LPs is a common practice, albeit at different levels

88%

Of GPs report sustainability metrics to limited partners at least occasionally

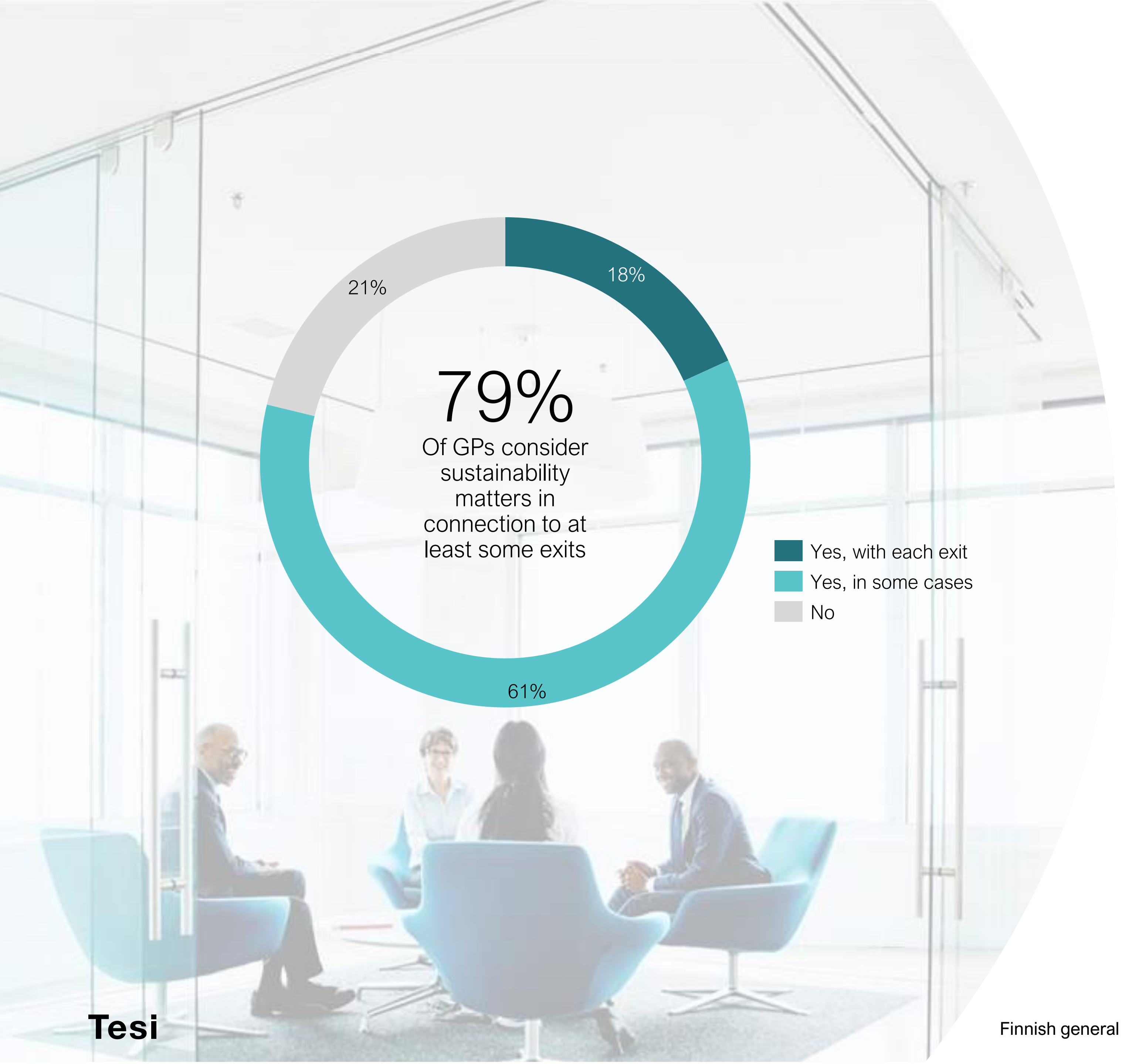
Sustainability metrics reporting to limited partners

%



- Most of the GPs report portfolio sustainability metrics to the LPs proactively, with three quarters doing it systemically, and another 12% occasionally.
- The survey results suggest that a greater number of GPs report metrics than collect them from the portfolio companies (88% vs. 58%, see page 15). As 55% of the GPs employ personalised or third-party sustainability tools, they may use data modelling to supplement the data gathering from the portfolio.
- Most of the GPs do not follow a specific model when reporting (83%). Those who do, use other standardised industry models or report according to LPs' own models.
- GPs report information at different levels. The most common way is to share information at company-level (41%). There is a relatively even split between those who aggregate data at the top level (28%) and those who report at varying levels (31%).

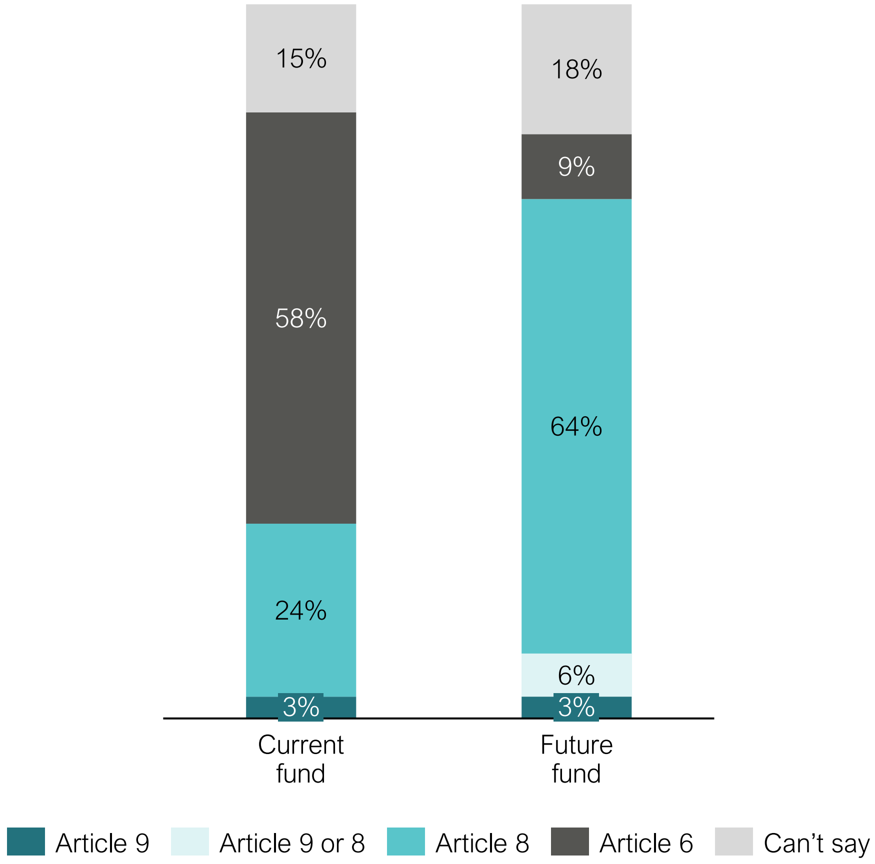
Most GPs include sustainability in exit assessments



- Although almost 80% of GPs consider sustainability in relation to exits, less than 20% conduct assessments in every case.
- These are only small differences when comparing between fund sizes. Large funds (AUM ≥300m EUR) are slightly more likely to include sustainability in the assessments: they do so in 89% of the exits compared to 75% of the rest of the funds.
- Differences between fund foci are however more significant. All buyout and growth GPs include sustainability assessments in at least some exists, whilst the comparative figure for venture capital is 73% and for other funds 33%.
- 43% of growth and a third of buyout funds assess sustainability in connection to all exits. None of the venture capital or other GPs do this systematically with each exit.

In the future, majority of GPs aim to move from Article 6 to Article 8; other SFDR developments to follow too

SFDR categories current and next fund belong to
%



- Most of the GPs are looking to move towards more demanding sustainability reporting requirements in their next fund. Article 8 and 9, which require GPs to do assessments around topics such as the EU taxonomy, will in the future be followed by 73% of the GPs. This is more than double the current figures (27%). Only 17% of the respondents currently operating an Article 6 fund will keep to the same level in their next fund. 18% have not yet made a decision about the Article category of their future fund.
- Venture capital funds are the only GPs spread across all article categories in both current and future funds. Other funds, excluding growth GPs, all aim at Article 8 in the future.

94%
Of GPs have or will have sustainability-related risks published on their website by summer 2023

70%
Of GPs consider or will consider SDFR-related assessments by summer 2023 (e.g. PAI indicators, taxonomy)

- Other SFDR-related developments were also reported by the GPs. 67% of GPs currently publish principles considering sustainability risk in their website, and a further 27% plan to do so by the summer of 2023.
- Of those currently conducting a due diligence assessment of potential investment cases, a quarter already consider PAI indicators, taxonomy eligibility or Do No Significant Harm framework. 55% of the respondents will look to incorporate some of these into their practices during 2023.

Thank you.

Tesi