

wf REPORT

The state of sustainable investments

A PULSE STUDY

worldfavor



About Worldfavor

Worldfavor's global network connects organizations across the world to access, share, and gain insights from sustainability and compliance data.

Our sustainability platform leverages the latest technology to fuel sustainable action for investors, companies and through far-reaching value chains. The platform is used by organizations worldwide to collect and aggregate data, supporting numerous sustainability journeys.

Better for your business. Better for our world.

Worldfavor pulse study on the state of sustainable investments

Environmental, Social and Governance (ESG) are used to communicate impact-driven KPIs, rather than just profit-driven ones. In recent years ESG has proved to drive both, since a growing interest from investors has affected the global flow of capital towards a more sustainable investment landscape.

We wanted to feel the pulse on what part sustainability really plays in the field of private equity (PE) and venture capital (VC) investing, and that's how this study came to be.

Keep reading to get a view of how ESG and sustainability are incorporated in the current ways of working amongst our respondents!



"The great thing with ESG is that it's grown in popularity explosively over the last decade. Not only are we looking at new regulations on both a national and a global level, like the SFDR and the EU Taxonomy, but investors are growingly seeing the monetary value of sustainable investments. A company that works proactively with its own impact also needs to be transparent. Those companies are more resilient to change and are also likely to be more profitable.

This pulse study shows us that there still is room for improvement when it comes to integrating ESG and sustainability in the investment sector, and we know that Worldfavor can help investors on that journey."

ANDREAS LILJENDAHL,
CEO WORLDFAVOR

Key findings

Through this pulse study we recognized that sustainability is a priority for many investors and that a majority tracks ESG metrics in their investment portfolio. However, many of them still lack the processes to integrate sustainability KPIs in a successful way.

There is clearly still a gap between the ambition to work with ESG and in fact working integrated with ESG and sustainability management. Fortunately, there is help to be claimed, and if there's a will, there's a way!

3/5

See tracking sustainability as a way to reach a higher ROI.

73%

Look at ESG performance before investing in a company.

58%

Have difficulties collecting ESG data.

7/10

Have an internal resource working with ESG.

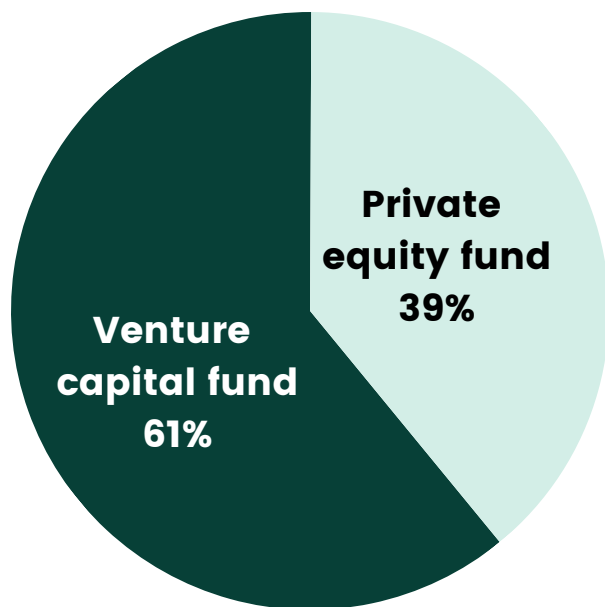
Background & motivations

Who are our respondents, what industries do they represent and most importantly, why do they choose to follow up on the sustainability within their portfolio?

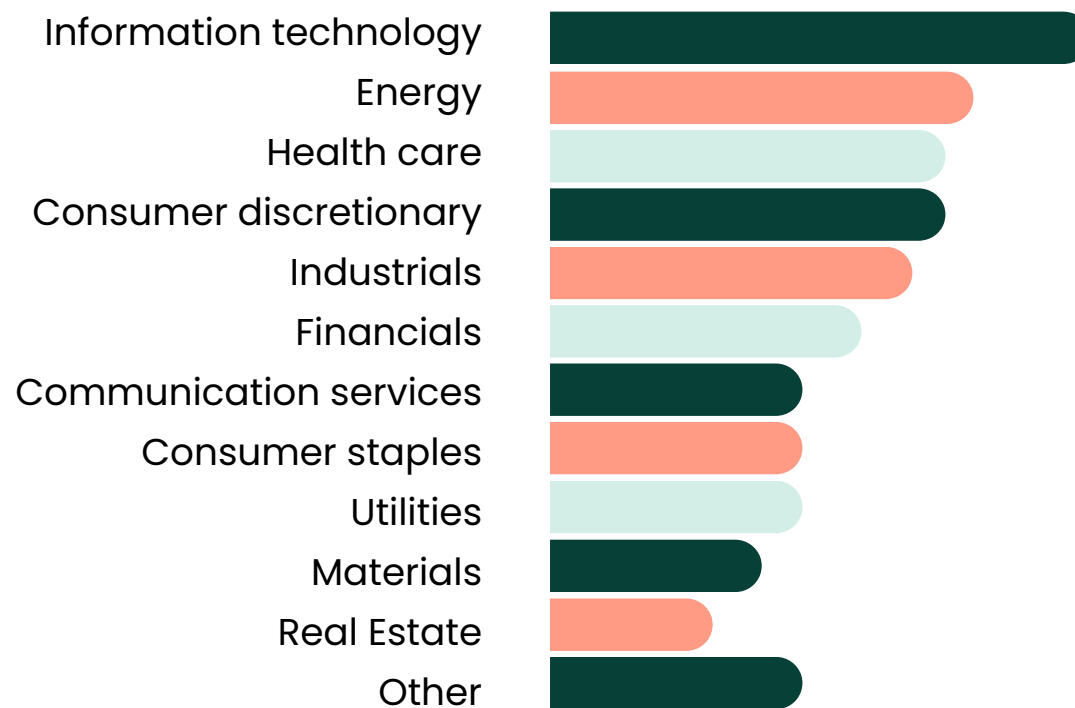
What's your business?

Naturally, we were interested in knowing who our respondents were and what they were up to. 61% represent private equity funds (PE), while the remaining 39% define themselves as venture capitalists (VC). IT tops the list of investment sectors the respondents are active in, with energy, healthcare and consumer discretionary not falling far behind.

INVESTOR CATEGORY



INVESTMENT SECTORS*



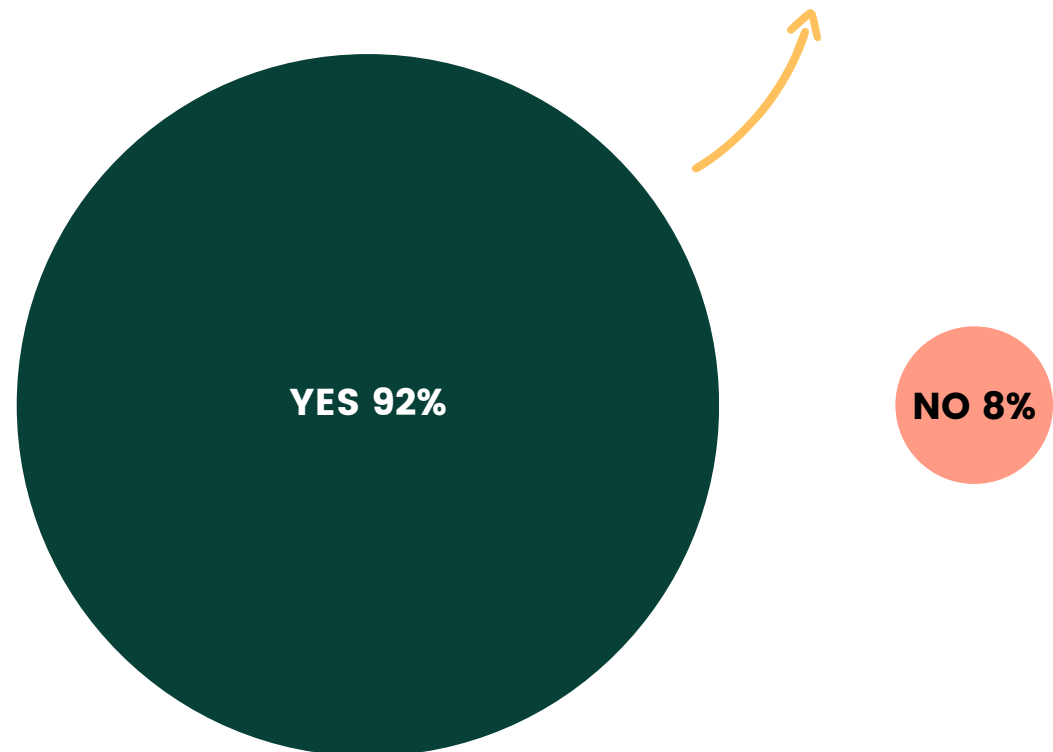
*Multiple choice answers possible

Do you follow up on the sustainability of your portfolio?

We are very excited to see that the vast majority of our respondents said that they are monitoring the sustainability of their investment portfolio. A stunning 92% answered yes when asked if they follow up sustainability within their portfolio companies.

What's more – 97% of those who monitor sustainability also track if their portfolio companies have established short and long-term sustainability goals.

97% track both long and short term sustainability goals



Why do you follow up on sustainability?

The respondents* were unison when asked about their primary reason for following up on and enabling sustainability management for their portfolio companies. The majority said that they see it as an opportunity for increased ROI, while mitigating risk, complying with regulations and other reasons, like marketing and communication purposes towards stakeholders also made the list.



See it as an opportunity for increased ROI.



Want to mitigate business risks.

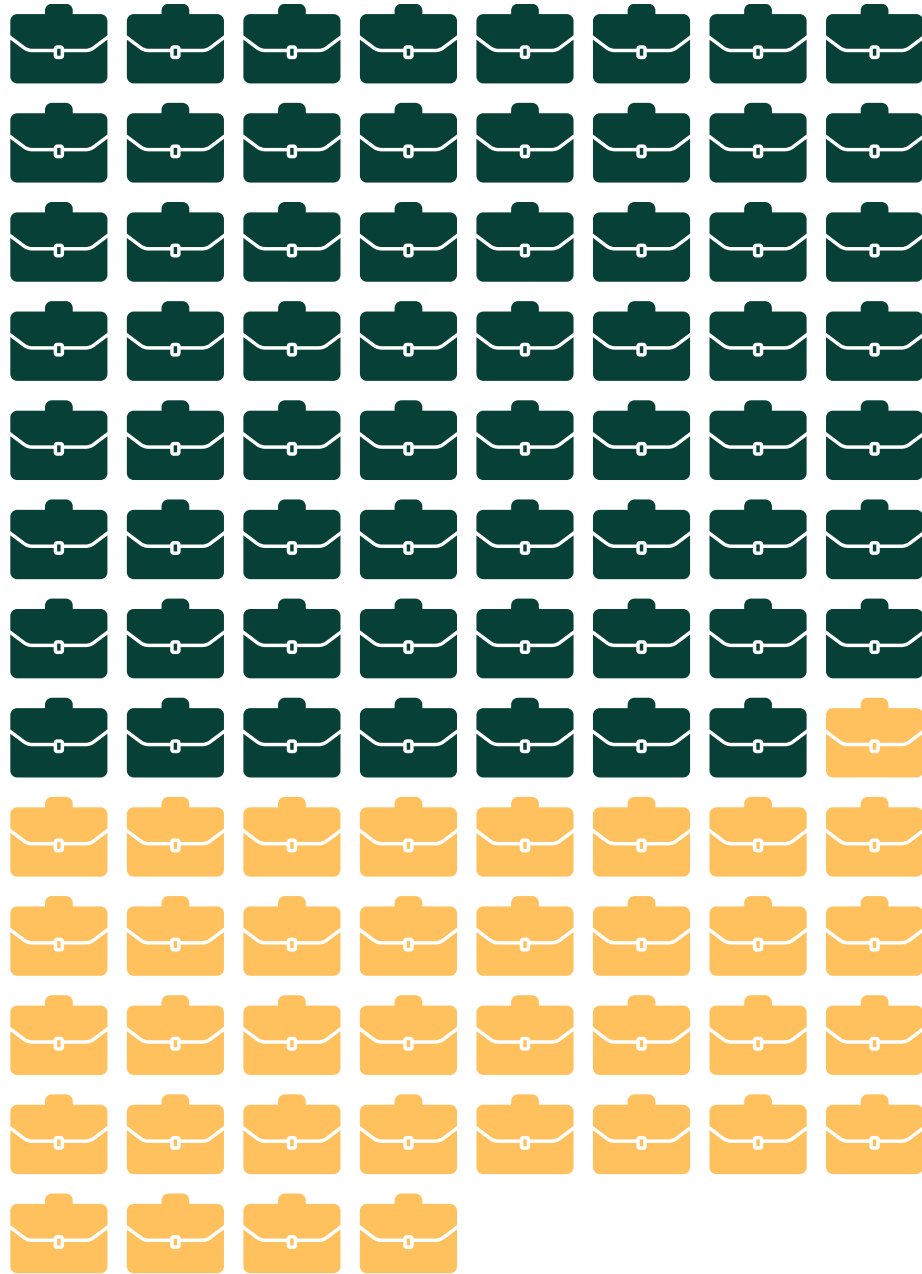


Want to comply with regulations and legislation.



Other reasons.

*who answered that they follow up on sustainability within their investment portfolios



**63% see tracking
the sustainability
of their portfolio
as a way to
increase ROI**

The process

Here are some insights about the role that sustainability has in the investment process. Are ESG metrics evaluated before investing, are tools used to do so and are portfolio companies empowered to work with ESG? Find out next!

How often do you disclose your ESG performance?

We were delighted to find that 37% of the respondents report on a quarterly basis, and one respondent even produces monthly sustainability reports. This indicates that companies are placing sustainability data as a high priority, perhaps due to a high demand on transparency from stakeholders.

One of the advantages of a higher reporting-periodicity is that it helps companies to track sustainability goals on a more regular basis. It leads to greater transparency and it builds trust with stakeholders. With the help of accurate data you can ensure that the right actions are being taken.

ON A QUARTERLY BASIS, 37%

ON A YEARLY BASIS, 29%

WE DON'T REPORT ON SUSTAINABILITY, 34%



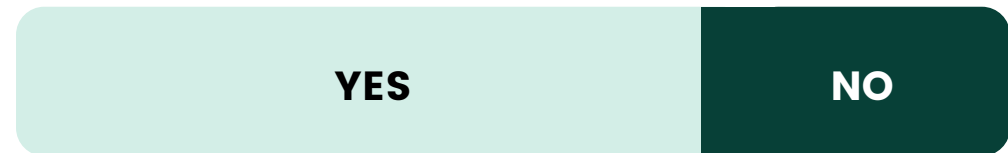
When reporting is more of a regular thing, it's often easier to engage employees to take ownership and to be more proactive in the process.

Do you evaluate a company's sustainability before investing?

To completely understand the role of ESG factors and sustainable investments, we asked our respondents about how they operate their sustainable investments in practice. Most respondents (73%) said that they do look at sustainability KPIs before investing in a company, and only 58% said that ESG KPIs are something that they include in their term sheet.

This indicates that sustainability is deemed as an important factor to monitor before investing, but that there is still a gap against the commitment to making sustainability KPIs the standard.

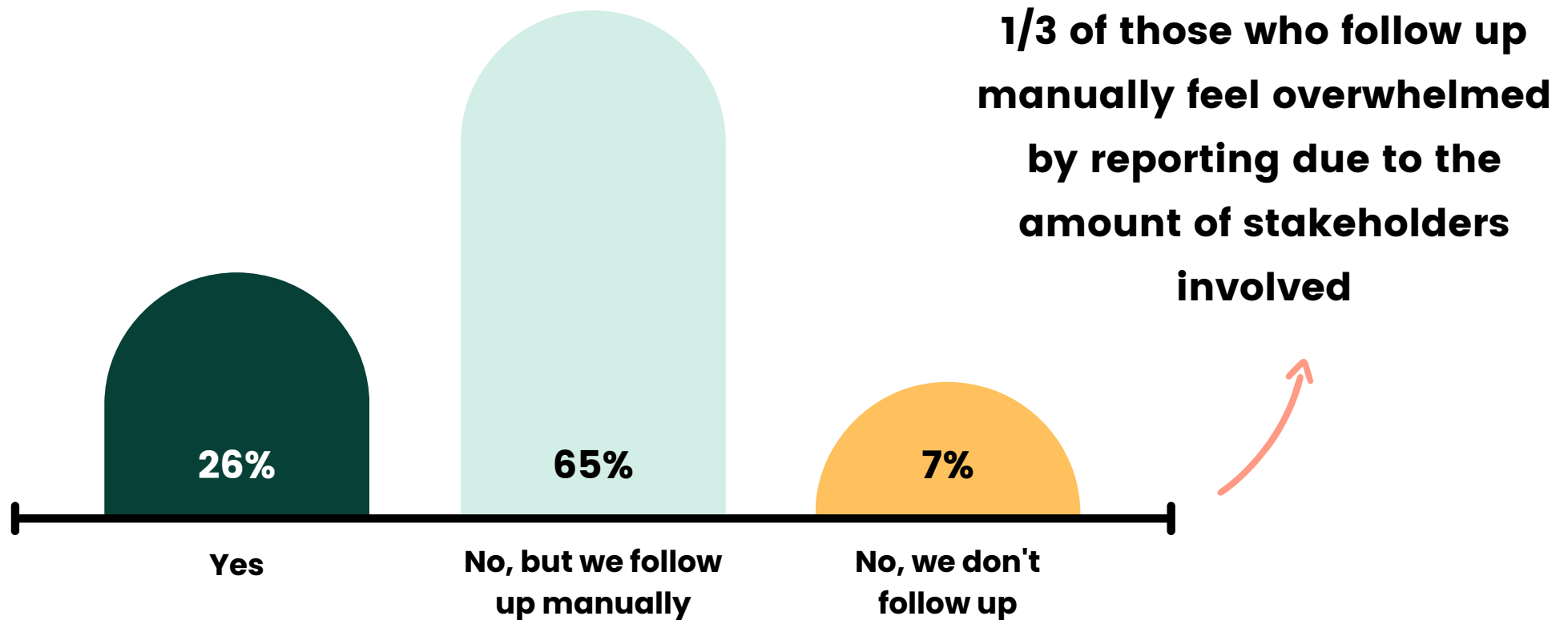
Do you look at sustainability KPIs before investing?



3/5 include sustainability KPIs in their term sheet

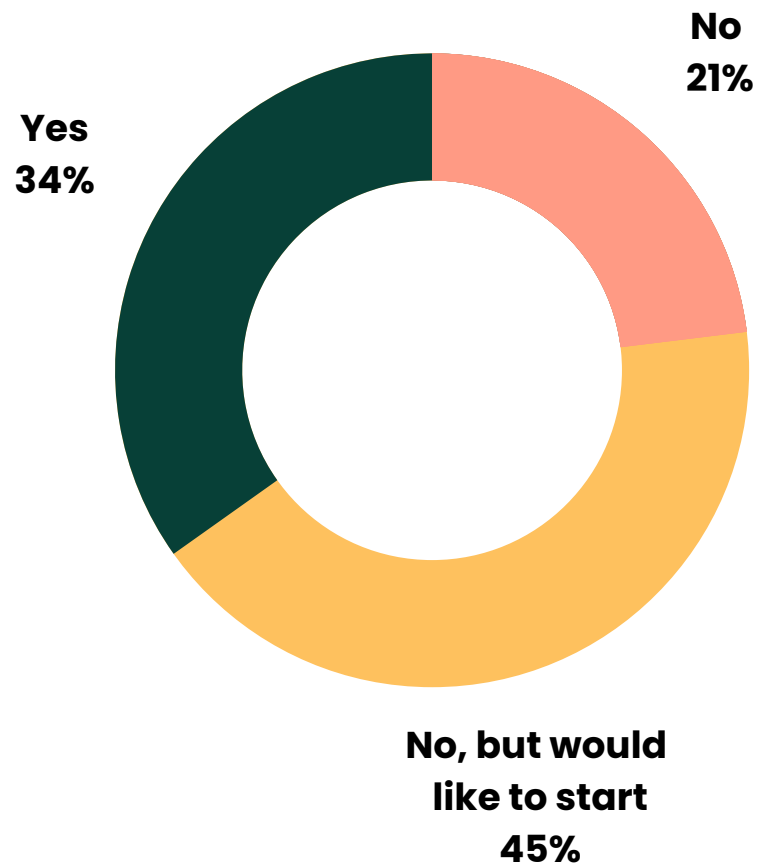
Do you use software to track your current portfolio companies' sustainability?

When it comes to using tools and software to track sustainability within the portfolio, only a quarter said that they use a tool currently, and a whopping 65% said they follow up manually, meaning they generally use a spreadsheet and emails to collect and manage the ESG data they're interested in.



Do you empower sustainability within your portfolio companies?

We asked whether our respondents have processes or tools in place that allow them to empower their portfolio companies to work with their own sustainability. One third said yes, while almost half said that they currently don't, but would like to implement either processes or tools in the future.



TOP TIPS: HOW TO EMPOWER YOUR PORTFOLIO COMPANIES TO WORK ON THEIR SUSTAINABILITY

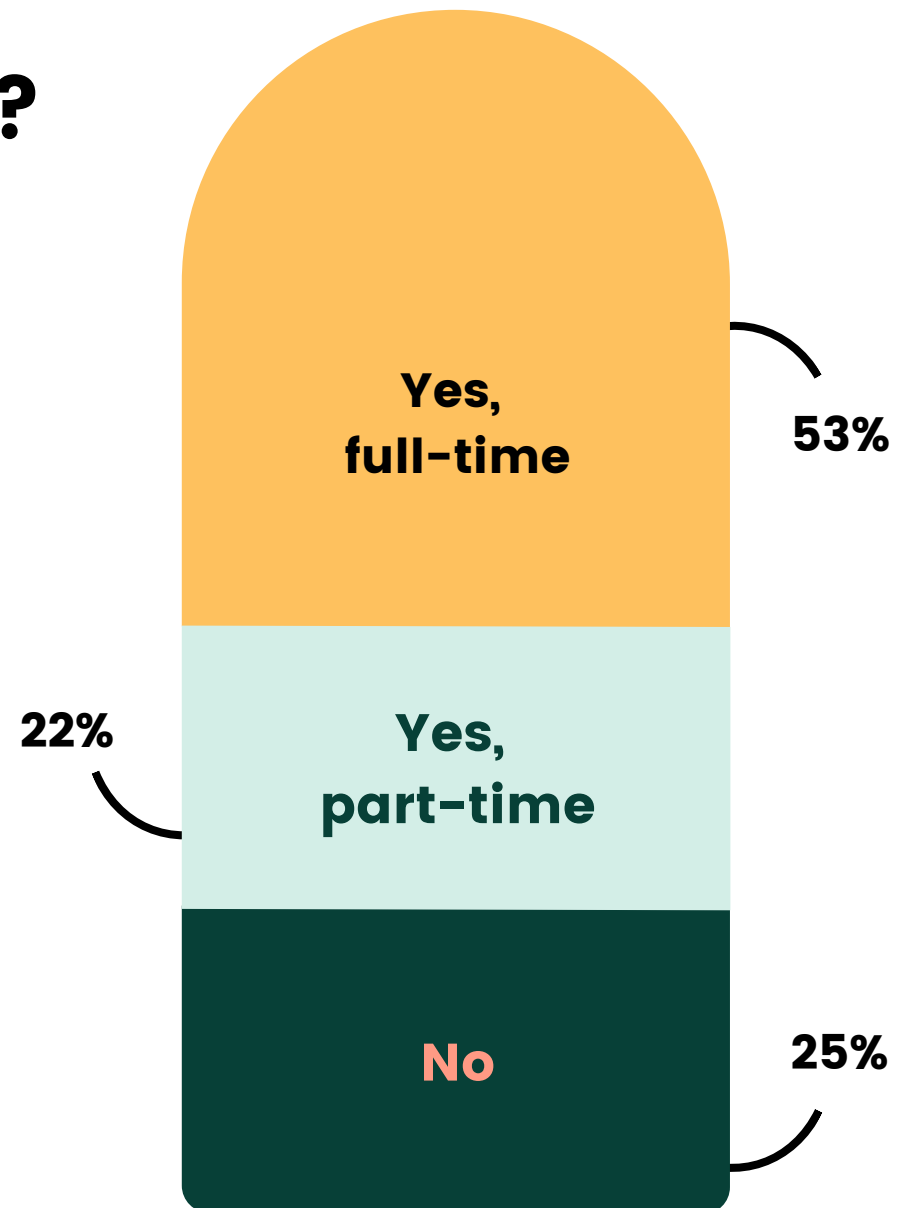
1. Increase periodicity in order to create greater engagement.
2. Provide guidance in facilitating the change management journey that sustainability is all about.
3. Create commitment and understanding by following up on both quantitative and qualitative metrics.
4. Enable companies to track their progress and be inspired by their own change during the journey and not just looking at the end result.

Do you have a sustainability manager?

3/4 of the respondents said they have a sustainability manager or ESG specialist working in some capacity, 53% of the respondents have a sustainability manager working full-time and 22% have one working part-time.

Those who have a sustainability manager had, expectedly, a greater sustainability focus overall. They were also more likely to:

- Evaluate Sustainability KPIs before investing in a company.
- Have a tool in place to manage and follow up on sustainability within portfolio companies.
- Include ESG factors or KPIs in term sheets.



Of the companies with a full-time sustainability manager...

84%

Evaluate
sustainability KPIs
before investing in
a company.



47%

Have **a tool in**
place to manage
sustainability
data.

63%

Include **ESG**
factors/KPIs in their
term sheets.




Challenges

In the following part we give an overview of investors' biggest challenges of evaluating and managing ESG data.

What are your main challenges?

As with any other complex field, managing sustainability data comes with its own challenges. We asked which are the main challenges* when it comes to the assessment of portfolio companies' sustainability data and insights.

A lack of resources usually is a common issue, but we could also detect other challenges in the data management itself. Many said that finding the right data to collect is difficult, and poor data quality poses a challenge of its own.

- 
1. Difficulties collecting data 58%
 2. Poor data quality 50%
 3. Lack of time 37%
 4. Lack of tools 37%
 5. Lack of budget 24%
 6. Difficulties gaining insights 21%
 7. Unsure of what data to collect 18%
 8. Low engagement from portfolio companies 18%
 9. Lack of knowledge about the topic 13%
 10. Low / no incentive to report 13%
 11. Low response rate 11%
 12. Low engagement from own organization 8%

*respondents could choose multiple answers

Main challenges in assessing portfolio companies' sustainability

1.

**Difficulties
collecting
data.**

2.

**Poor data
quality.**

3.

**Lack of
time.**



In our experience issues with collection of data and its quality can often reflect on the reliability of the end result.

Frameworks

There are a number of frameworks that are commonly used when it comes to tracking sustainable investments and ESG performance. We examine a few of those in the following part.

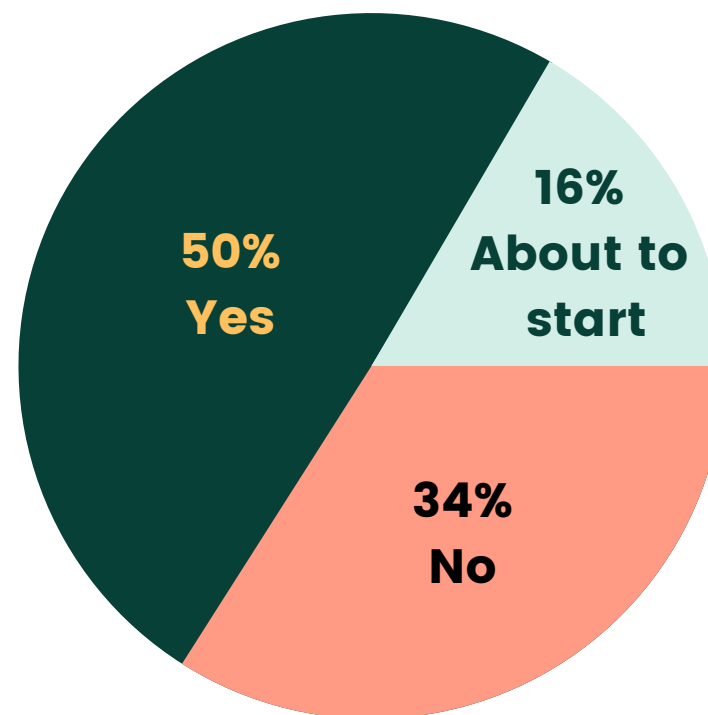
Do you follow up on emissions according to the GHG protocol?

We were happy to discover that approximately 66% of respondents said that they follow up or are about to start following up on the emissions of their portfolio companies with the help of the GHG protocol. It's one of the first and key steps to minimizing carbon emissions and, eventually, reaching net-zero.

THE GHG PROTOCOL

*The Greenhouse Gas (GHG) Protocol provides standards, guidance, tools and training for business and government to measure and manage climate-warming emissions.

Source: [GHG Protocol](#)



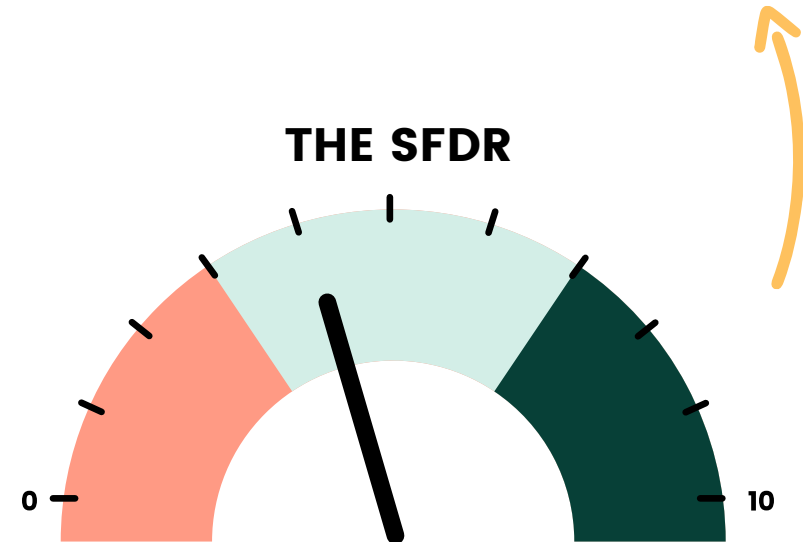
[Learn more about managing the carbon footprint of your portfolio in our on-demand webinar.](#)

What's your level of knowledge on the SFDR and EU Taxonomy?

The SFDR is a relatively new regulation, that applies to certain organizations in the EU. We were surprised to see that 44% of the respondents had low or very low (0-2) knowledge about the SFDR, and only 16% claimed to have excellent knowledge on the subject (8-10). When it comes to the EU Taxonomy, the results were somewhat similar, but with a slightly lower average.

The conclusion? – Naturally, not all of our international respondents are subject to these regulations, but we see that there's a need for more education on the subject – and preferably in a digestible format!

Almost half of those who intend to report on the SFDR have average or very low knowledge about the regulation.



Have you assigned to articles 6, 8 or 9 within the SFDR?

What SFDR article an investor assigns to depends on how they market their fund. The majority of our respondents don't know what article they are assigned to, which reflects on the insights from the previous page. We'd argue that more general knowledge about the regulation is needed!

- ARTICLE 6** A fund that does not include sustainability factors in the investment process
- ARTICLE 8** A fund that "promotes environmental or social characteristics"
- ARTICLE 9** A fund that has "sustainable investment as its objective"

3/5 don't know to which SFDR-article they are assigned to or will assign to

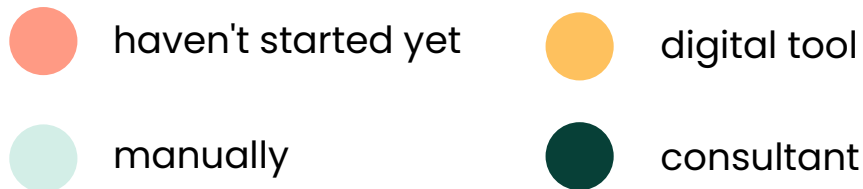
Article 6: 16%
Article 8: 11%
Article 9: 3%
I don't know: 58%
Not applicable: 13%

[Download the Worldfavor SFDR whitepaper to learn more](#)

How do you work with the SFDR and EU Taxonomy?

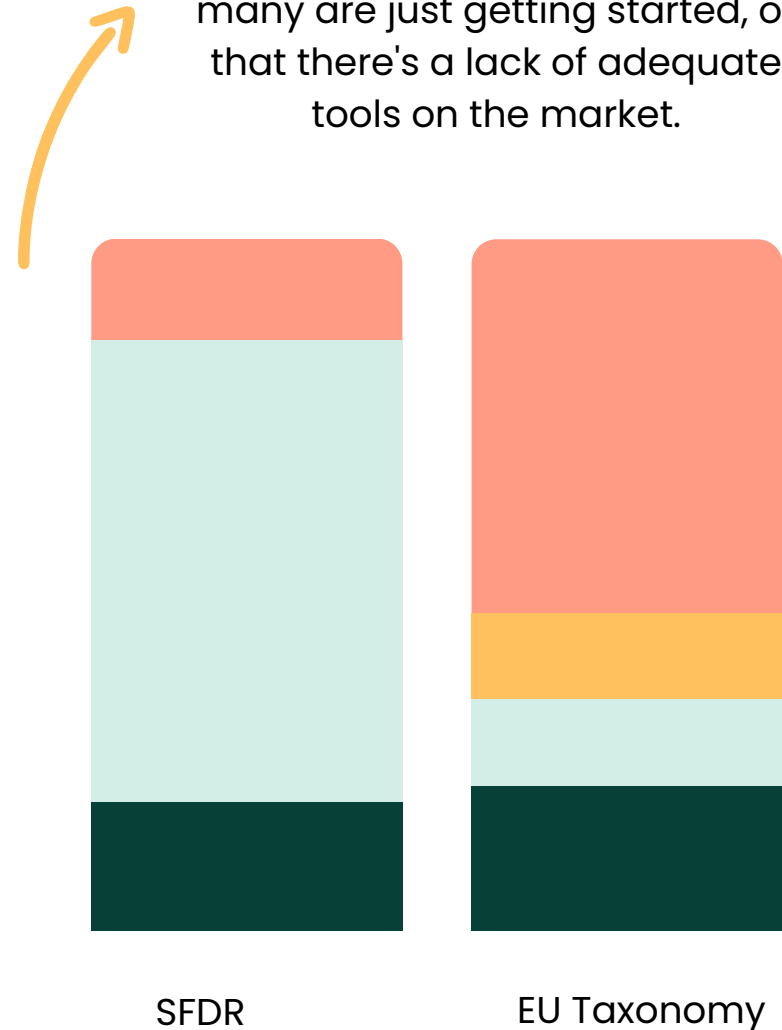
Many investors within the EU are subject to these new regulations and will need to take action on both the EU Taxonomy and the SFDR.

To investigate how our respondents* were managing working with the regulations, we asked them whether they have gotten started, and if they use a consultant, work manually in spreadsheets, or perhaps use a digital tool for tracking. Here's the turnout!



*who said that they are affected by the regulations

None of those tracking SFDR-data use a digital tool to manage the work. This could indicate that many are just getting started, or that there's a lack of adequate tools on the market.



Which SDGs do you track?

These are the Sustainable Development Goals (SDGs) that our respondents align on*. The four most popular SDGs are all being tracked by over half of our respondents, and only 3% said they don't align on any SDGs. We're glad to see that most are tracking SDGs, but would like to challenge why so many key metrics aren't being tracked, like Life below water or Life on land, which promote the vital biodiversity.

The top most tracked SDGs among the respondents that represented an impact fund were numbers 13, 3, 5, 9, 12 and 6 (highlighted to the right).

*respondents could choose several options



- 13:** Climate action 66%
- 8:** Decent work and economic growth 58%
- 5:** Gender equality 55%
- 12:** Responsible consumption and production 55%
- 3:** Good health and well-being 47%
- 7:** Affordable and clean energy 47%
- 9:** Industry, innovation and infrastructure 45%
- 11:** Sustainable cities and communities 39%
- 6:** Clean water and sanitation 37%
- 4:** Quality education 29%
- 10:** Reduced inequality 26%
- 2:** Zero hunger 21%
- 17:** Partnerships to achieve the goal 21%
- 1:** No poverty 16%
- 14:** Life below water 16%
- 16:** Peace and justice strong institutions 13%
- 15:** Life on land 11%

Thank you

Thank you for taking the time to read our study –
we hope you enjoyed it!

This is how the report was made

The report The state of sustainable investments was created by Worldfavor between July and October 2021, with the purpose to feel the pulse of how investors, namely VC and PE companies, work with sustainability and ESG metrics.

38 respondents within the investment sector across all continents conducted our survey of 27 multiple choice and open-ended questions about sustainable investing. The survey was conducted in SurveyMonkey and sent out via email and shared via social media channels, such as Instagram and LinkedIn.



worldfavor

Better for your business. Better for our world.