PRI Principles for Responsible Investment | BAIN & COMPANY

July 2025

# SVC Sustainability Value Creation

## A framework for driving financial value through sustainability in private markets

UN environment programme | finance initiative
United Nations Global Compact

# Foreword

**The case for responsible investment holds firm amid evolving geopolitical and policy landscapes. Through our engagement with over 400 investors in the development of this report and the Sustainability Value Creation (SVC) framework it contains, we are more convinced than ever that the rationale for responsible investment remains compelling and resilient.**

A recurring challenge we hear from our private markets signatories is the lack of actionable guidance and difficulty in linking sustainability initiatives to financial outcomes. Addressing this challenge is critical – to strengthen the investment case for responsible investment through implementation of effective sustainability strategies.

This report aims to support our signatories through that journey. It offers a holistic framework designed to help investors use sustainability to drive financial outcomes. We envision this as a foundational step. In the months and years ahead, we intend to build on this work with detailed playbooks, methodologies and case studies that we hope will provide actionable, real world examples of value creation through sustainability. We also hope to encourage dialogue and peer-learning among our signatories on this topic.

As we navigate this complex and rapidly changing environment, it is essential that we, as a community, continue to work together, engage in open dialogue, and share insights and innovations.

We extend our sincere thanks to the signatories who participated in the survey, interviews and workshops that informed this report. Your willingness to share insights is vital to the continued advancement of responsible investment globally. We are also grateful to Bain & Company and the NYU Stern Centre for Sustainable Business for their valuable support in delivering this report.

**David Atkin, CEO, PRI**

# Acknowledgements

This guidance is the product of a working group comprised of PRI signatories and the PRI's Private Equity Advisory Committee, in collaboration with Bain & Company and NYU Stern CSB. It was developed through the participation and insights of more than 400 investment organisations globally, via a survey, workshops, interviews and consultations.

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- FountainVest
- Four Seasons Ventures
- Green Peak Capital Partners
- Hellman & Friedman
- IG4 Capital
- InvestIndustrial
- Keensight Capital
- KKR
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- LEA Partners
- LGT Capital Partners
- Lightrock
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- New Forests
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- Northstar Advisors
- Oakley Capital
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**With special thanks to:**

Serge Younes, InvestIndustrial and Suzanne Tavill, StepStone Group

# How to navigate the Sustainability Value Creation framework

This guide centres around the Sustainability Value Creation (SVC) framework - a holistic framework for value creation through sustainability. This can be found on p.10.

The framework is broken down into three parts. Readers can refer to the corresponding sections in the document for more detailed analysis and guidance:

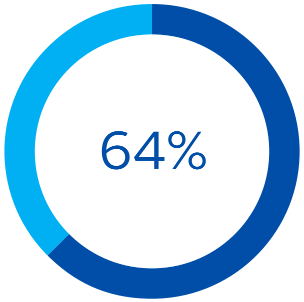


Case studies can be found on p.30, p.38 and p.41.
Regional insights can be found on p.52.

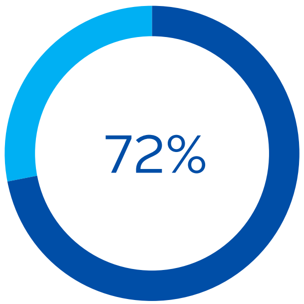
# Private market investors view sustainability as a core value driver

## Sustainability is seen to drive value and create financial returns

% of respondents stating...



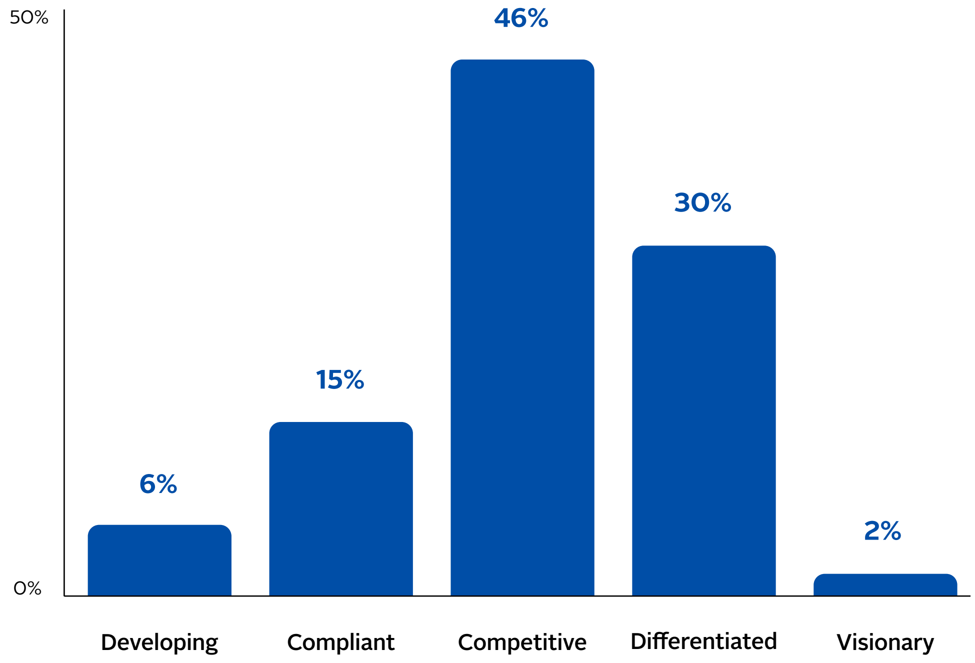

Sustainability-linked value creation is an **important element** in the **firm's strategy and operations**




Sustainability-linked value creation has a **moderate to significant financial impact**

## Most investors implement common sustainability activities

% of respondents per sustainability practice **maturity** level (self-reported)[1]

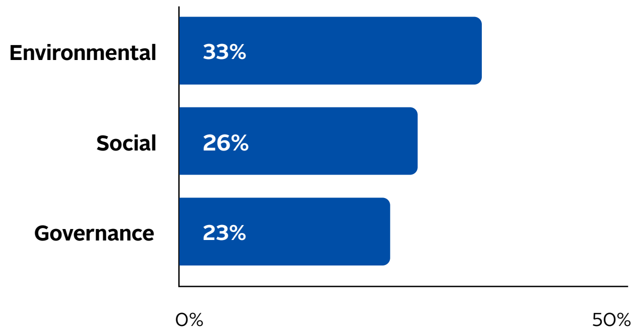



Note: 1) Definition of stages: Developing = Taking initial steps to proactively address sustainability concerns; Compliant = Doing what is needed to avoid fines and significant public action; Competing = Matching peers' efforts in reporting and initiatives; Differentiated = Using sustainability excellence to create a distinct competitive advantage; Visionary = Aiming to reshape an entire industry for the better. | Source: PRI, NYU Stern CSB, Bain & Co. (2024) Survey and interviews on sustainability-linked value creation in private markets (N=112)

# Yet many investors still struggle to turn it into action and link it to financial outcomes – calling for clear guidance on how to approach it

## Few investors measure financial impact of sustainability

% of respondents analysing the financial impact of sustainability-linked value creation on PortCos' exit multiples[1]




## Significant challenges in driving activities and demonstrating evidence

- Obtaining **high-quality sustainability data**
- Linking performance to **financial outcomes**
- Securing **leadership and deal team buy-in**

## Need for guidance providing a framework and quantification support

- Lack of **standardised frameworks**
- Limited support on **approach to financial impact quantification** from sustainability initiatives
- **Missing case studies and proof points** to generate buy-in

## Phase 1 of a broader programme and focus of this document:

A **practical** introductory **guidance and framework on how to drive value through sustainability** in private markets, outlining **value creation topics, drivers and initiatives** at both firm and portfolio company (PortCo) levels

Source: 1) PRI, NYU Stern CSB, Bain & Co. (2024) Survey on sustainability-linked value creation in private markets (N=85); Literature research;

# 400+ investors engaged – one of the largest projects on value creation through sustainability

## Primary sources

**400+**

private market investors engaged to shape this guidance

**27**

interviews with investment firms

**330+**

investment firms attending workshops

**85**

respondents in global survey

**80+**

investment firms consulted during review

## Secondary sources

**60+**

top-tier publications reviewed and integrated

**20+**

flagship publications reviewed and integrated

**40+**

other relevant publications analysed and integrated[1]

1 The logos of third-party organisations displayed here are used solely to identify publicly available resources or materials obtained from those organisations. Their inclusion does not imply any affiliation with, endorsement of, or participation in the preparation of this report.

# Contents

# Value creation through sustainability can occur at both the investment firm and portfolio company level

- **Acting on sustainability issues, when done effectively, can be a key economic driver for private markets**
- In recent years, several firms and their portfolio companies (PortCos) have demonstrated how **sustainable outcomes and financial performance can reinforce one another:**
  - Investors see ~6% revenue growth and ~6-7% multiple uplift in PortCos at exit from sustainability-linked value creation[1]
- However, unlocking value from sustainability is complex and requires **developing capabilities at both the firm and PortCo levels:**
  - **Firm level** – embedding sustainability into the **overarching strategy** and integrating it throughout the **investment lifecycle** is fundamental to long-term value creation
  - **PortCo level** – identifying **material sustainability topics** and key **value-driving initiatives** aligned with the company's maturity and capabilities is essential for delivering financial returns
- Driving sustainability-linked value creation is a continuous journey, supported by **key organisational enablers** at both firm and PortCo levels:
  - Committed **leadership**, robust **data collection**, engaged **deal teams**, effective **decision-making** and the **right capabilities** are critical to success – yet remain challenging for many investors and PortCos

Source: 1) PRI, NYU Stern CSB, Bain & Co. (2024) Survey on sustainability-linked value creation in private markets (N=85)

# Driving financial value through sustainability requires a holistic approach – the Sustainability Value Creation (SVC) framework

## 1 Investment firm

Key sustainability-related activities

**Strategy and fundraising**

**Key activities**

- Dual screening and due diligence
- Sign-to-close
- Early holding[1]
- Portfolio management
- Exit

## 2 Company Target and PortCo

Approach for driving value through sustainability

- (Sustainability) topics
- Initiatives
- (Business) drivers
- (Financial) outcomes

Embedded into existing business priorities and transformations

## 3 Organisational enablers

- Leadership and culture
- Structure and governance
- Business processes
- Management systems
- Talent
- Data and metrics

1) "Early" = First 100 days. | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112); PRI Private Equity Research

# 1. Embedding sustainability practices across the investment lifecycle is critical to maximising value from it (different approaches depending on shareholding structure)

Differentiated best practices

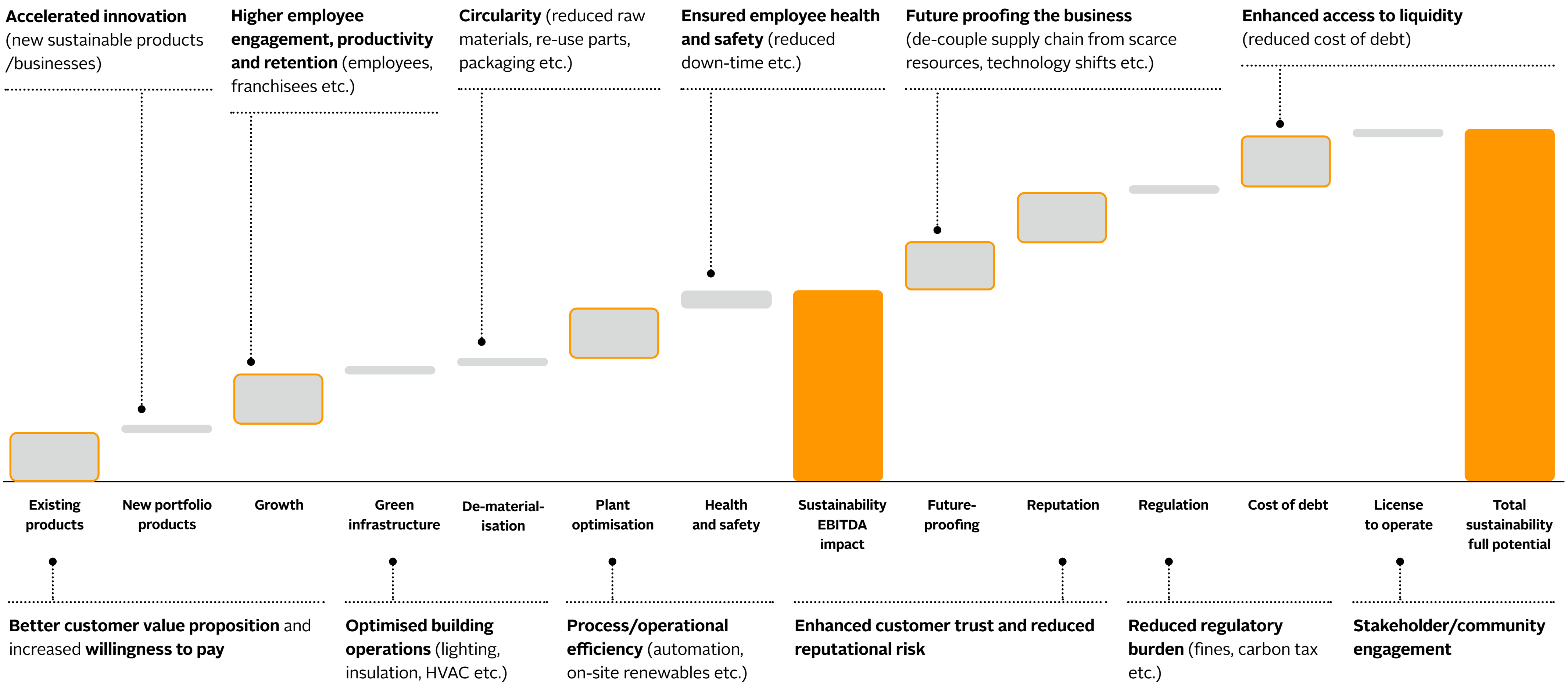
| Dual screening and due diligence | Sign-to-close | Early holding | Portfolio management | Exit |
|---|---|---|---|---|
| Identify material[2] sustainability issues in **deal screening** | **Set expectations** with PortCo **Mgmt. team** about sustainability approach | **Define PortCo** sustainability programme **leaders and governance**[8] | **Support execution** with appropriate engagement and resources | **Assess** sustainability **exit readiness**[7] |
| Focus **sustainability DD**[1] on material topics for value preservation/ creation priorities | **Identify** preliminary **most value-creating topics/initiatives** | **Further detail and prioritise** most value-creating initiatives[4] | **Reprioritise** and reallocate resources at investment firm level | **Highlight sustainability achievements** and future opportunities in exit story |
| **Integrate** sustainability in ops., **commercial, legal, compliance and regulatory DD** | Include sustainability in **100-day plan** and **VCP**[9] | Define sustainability and **linked financial KPIs** for material topics | **Ensure continuous sustainability resourcing** at PortCo[5] | **Showcase quantified financial ROI**[10] from sustainability efforts |
| **Benchmark** against peers to identify upside potential[6] | **Planning spans phases** – from preliminary version reflected in deal thesis to detailing in early holding; execution during holding DD | **Develop** sustainability **roadmap** with clear targets integrated into broader VCP | **Monitor** progress (in KPIs against milestones) | Get **certified/ratings** as evidence |
| **Integrate in deal thesis and IC**[3] memos and discussions | Discuss **board oversight** | Set up tracking tool, create data foundation | **Estimate potential P&L impact** | |

Note: 1) DD = due diligence; 2) material = factors that could substantially affect a company's financial value, operations, or risk profile; 3) IC = investment committee; 4) Based on priority topics and initiatives identified pre-investment, as e.g., included in the 100-day plan and value creation plan; 5) Highly dependent on PortCo budget and resources; 6) Benchmarking against companies that are comparable to the PortCo e.g., industry peers; 7) Ideally start 2-3 years into holding period; no later than 6-12 months ahead of exit; 8) Dedicated sustainability resourcing at PortCo is desirable 9) VCP= value creation plan 10) ROI = return on investment. | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112)

# 2. Sustainability unlocks value for PortCos across multiple drivers, with better customer value proposition and enhanced customer trust seen as key drivers

## (Business) drivers

Most value-adding sustainability drivers (>65% of respondents considering it a key value driver[1])




## (Financial) outcomes

**Revenue** | **Cost** | **Risk mitigation and exit multiple optimisation**

Note: 1) Drivers rated 4–5 (on a 1–5 scale) for value creation in the below survey on sustainability-linked value creation. | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Survey on sustainability-linked value creation in private markets (N=85)

# 3. Implementing value through sustainability requires organisational enablers and specific capabilities at both investment firm and PortCo levels

## Organisational enabler categories

| | | | | | |
|---|---|---|---|---|---|
| Leadership and culture | Structure and governance | Business processes | Management systems | Talent | Data and metrics |

**The structure and extent of organisational enablers vary, based on:**

- **Firm characteristics** e.g., smaller firms relying on double-hatted chief sustainability officers (CSOs), larger ones having dedicated roles, incentives ranging from leadership-only (if any) to including deal and ops teams in more mature firms
- **PortCo characteristics** e.g., smaller companies lean on external sustainability expertise, larger ones build dedicated capabilities, incentives ranging from none to including mid-management in more mature companies

## Investment firm: Key enablers fueling sustainability-linked value creation

| | | | | | |
|---|---|---|---|---|---|
| Top executive ownership of sustainability | Dedicated sustainability linked governance | Integrated workflows | Sustainability-linked incentives | Adequate sustainability capabilities | Centralised sustainability data system |
| Buy-in from key stakeholders/teams | Team-level structural integration avoiding silos | Sustainability-aligned standardised processes | | Continuous crossfunctional education | Value-focused KPIs and tracking of progress |

## Company-specific: Key enablers fueling sustainability-linked value creation

| | | | | | |
|---|---|---|---|---|---|
| Defined board/executive sustainability leadership | Clearly defined ownership | Sustainability in operations and processes | Allocation of budget for initiatives | Access to sustainability skills | Data and company relevant KPIs identified |
| Sustainability champions and buy-in | Sustainability-linked roadmap development | Regular business reviews | Sustainability-linked incentives | Allocation of talent to sustainability | Digital tools/robust data infrastructure |

Source: PRI, NYU Stern CSB, Bain & Co. (2024). Survey, interviews and workshops on sustainability-linked value creation in private markets (N=400); PRI Private Equity Research

# This guidance and additional documents provide an extensive overview to support value creation through sustainability in private markets

| This guidance covers... | Accompanying documents provide... |
|---|---|

### ... the business case for sustainability

Existing evidence on **how sustainability can create value** both at investment firm and PortCo levels

### ... practical approaches to sustainability integration

- **Key sustainability value creation activities** along the investment cycle
- **How to derive from material sustainability topics the (financial) outcomes** at company level to be used both in diligence and during the holding period
- Key **organisational enablers and capabilities** required at investment firm and company levels

### Guidance supporting materials

Overview of **existing guides, tools and providers, key challenges and details of potential solutions, industry-specific value creation initiatives** and **further research insights**[1]

### Case studies

Practical examples demonstrating how sustainability drives **value creation at company level** and how investment firms can **embed sustainability throughout the investment lifecycle**

### Survey

Overview of **key findings from the investor survey**

Note: 1) This includes e.g., research methodology, sources and glossary definitions

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# There is a clear business case for value creation through sustainability

- Sustainability can create business value at both the **firm and PortCo levels**, driving financial returns while benefiting society and the environment. Some 64%[1] of firms see it as important to their strategy and operations:
  - Research and case studies confirm sustainability's potential role in **increasing revenue, optimising costs, mitigating risks and enhancing exit multiples**, if done correctly and integrated into the company's business strategy
  - Sustainable consumer packaged goods have seen **c. 55% higher market share growth**[2] and command a **c. 28% price premium**[2]
  - B2B supplier selection increasingly integrates the **company's performance across environmental dimensions**
- Investors expect sustainability to play an even greater role in financial performance in future, with **material use, waste and circularity, and digital rights and responsibilities** gaining importance
- However, many struggle to **translate sustainability into action** and **link it to financial outcomes:**
  - Key challenges include **demonstrating the financial impact of sustainability initiatives, securing buy-in from deal and portfolio teams, and addressing gaps in accountability, process integration and capabilities**
  - A **data-driven approach with clear KPIs and ROI metrics** is essential to making the business case, driving adoption and unlocking sustainability's full value potential

Source: 1) PRI, NYU Stern CSB, Bain & Co. (2024) Survey on sustainability-linked value creation in private markets (N=85); 2) NYU Stern CSB & Circana (2023) Sustainable Market Share Index (growth CAGR 2017-2023)

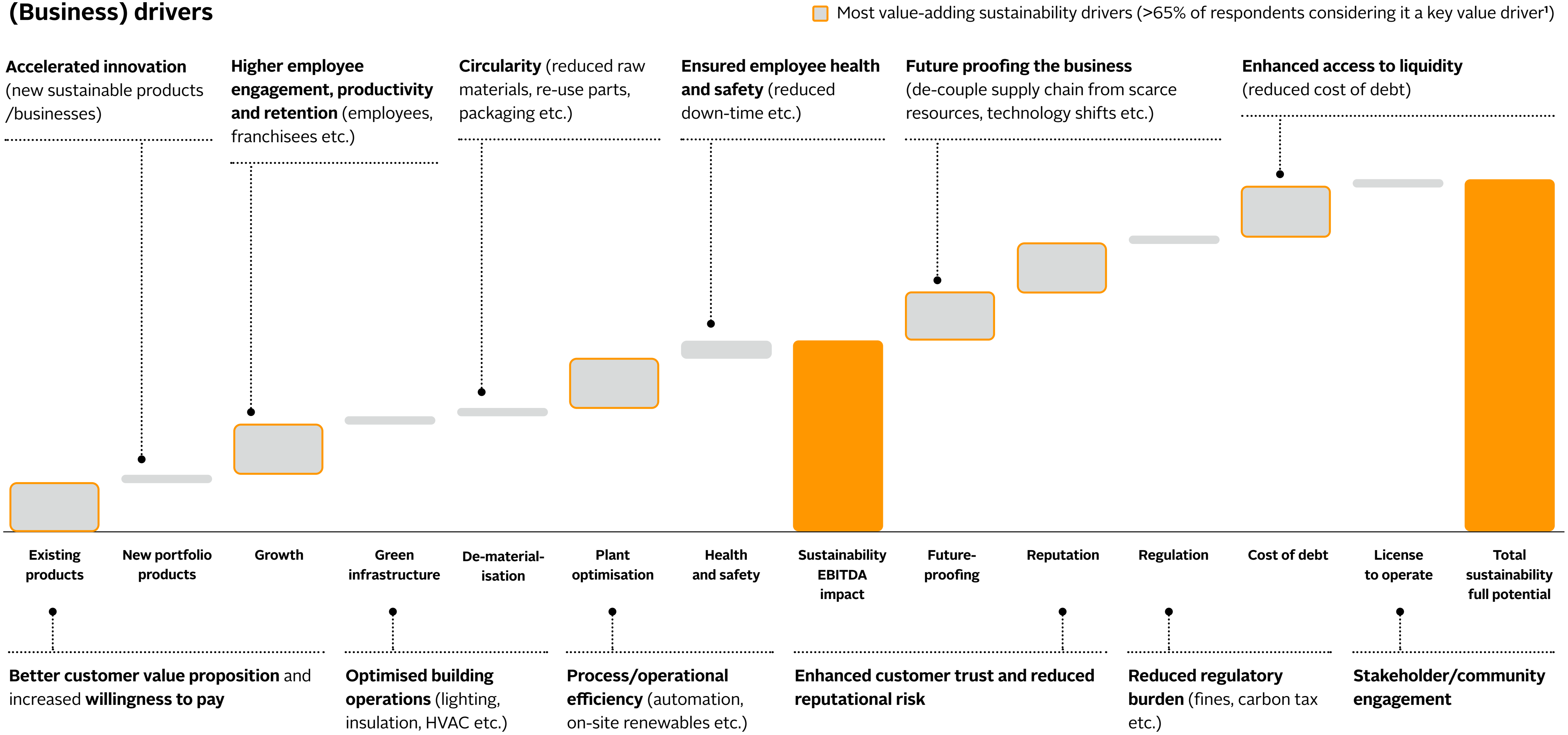
# Sustainability can drive financial value, build resilience and position for success

| Driving financial value | | Benefiting society and environment |
|---|---|---|
| **+6-7%** | **multiple uplift** is the **estimated** gain at exit resulting from sustainability efforts at PortCos[1] | **Reduced carbon footprint:** Emission reductions contribute to **net zero goals and mitigate climate risks** (beyond lowering carbon tax costs) |
| **~64%** | of firms consider driving **financial value through sustainability as important** in strategy and operations[1] | **Resource efficiency:** Optimised energy and material use **reduces environmental impacts** (beyond lowering costs) |
| **~67%** | **faster revenue growth and higher profitability are achieved** by companies with higher **employee satisfaction, fueled by strong sustainability practices**[2] | **Community impact:** Private equity financing correlates with **job creation and local economic growth** (beyond sales growth)[5] |
| **~55%** | **higher market share growth for sustainably-marketed consumer packaged goods** vs. conventional equivalents, driven by rising **consumer interest** in sustainability[3] | **And many more positive environmental and social impacts…** |
| **28%** | premium that **customers** are willing to pay in consumer goods,[3] while companies are increasingly prioritising **sustainability as a criteria in B2B requests for proposals**[4] | |

Source: 1) PRI, NYU Stern CSB, Bain & Co. (2024) Survey on sustainability-linked value creation in private markets (N=85) – details in Appendix; 2) Bain & Co, EcoVadis (2023) Do ESG Efforts Create Value? – ppt growth difference reflects delta between ESG leaders and laggards (e.g., based on ESG maturity ratings); 3) NYU Stern CSB & Circana (2023) Sustainable Market Share Index (consumer packaged good (CPG) growth CAGR 2017-2023); 4) PRI, NYU Stern CSB, Bain & Co. (2024) Interviews on sustainability-linked value creation in private markets (N=27); 5) Paglia & Harjoto (2014) [cited in NYU Stern CSB (2023). The Road to Responsible Private Equity]

# At the core of value creation from sustainability lies integrating relevant drivers and initiatives into the company's business strategy

## (Business) drivers




## (Financial) outcomes

**Revenue** | **Cost** | **Risk mitigation and exit multiple optimisation**

Note: 1) Drivers rated 4–5 (on a 1–5 scale) for value creation in the below survey on sustainability-linked value creation. | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Survey on sustainability-linked value creation in private markets (N=85)

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# Estimated financial impact varies by sector and business context, overall

| | Description | Exemplary estimated financial impact |
|---|---|---|
| **Revenue uplift** | • **Accelerated revenue growth, e.g., through better customer value propositions** | • **~6% revenue increase at exit** directly resulting from sustainability-linked value creation[1]<br>• **~28% premium** that customers are **willing to pay** for sustainable consumer products[2] |
| **Cost reductions** | • **Cost reductions** through, e.g., **energy efficiency, circularity and improved operational processes**<br>• **Lower cost of capital** (interest) due to lower risk assessment of sustainable companies[3] | • **~6% cost optimisation** at exit resulting from sustainability-linked value creation[1] |
| **Risk mitigation/ resilience** | • **Reduced risks** of negative outcomes and expected associated costs through strong, integrated sustainability practices, e.g., avoiding controversies, reputational backlash and regulatory burden | • **~59% of private market investors view risk mitigation as high impact from sustainability linked value creation,** with outcomes such as reduced regulatory burden[1] |
| **Multiple optimisation** | • **Higher multiples** at which PortCos are valued due to robust sustainability credentials and **wider potential buyer base** (e.g., impact investors) at exit, also delivering superior returns for private equity firms | • **~6-7% estimated multiple uplift at exit** resulting from sustainability-linked value creation[1] |

Source: 1) PRI, NYU Stern CSB, Bain & Co. (2024) Survey on sustainability-linked value creation in private markets (N=85); 2) NYU Stern CSB & Circana (2023). Sustainable Market Share Index; 3) Bain & Co. (2021). The Expanding Case for ESG in Private Equity.

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# Bain & Co. and EcoVadis research shows that sustainability excellence can help to improve financial success

## Environment

### GHG[1] emissions (renewable energy)

Environmental leaders[2] with a **higher share of renewable energy consumption[3]** are...

... **~1.2x** more likely to outperform on EBITDA margin[3]

### GHG emissions (carbon)

Environmental leaders[2] with **higher decarbonisation** have...

...higher EBITDA margin by **4-5ppt[4]**

## Social

### Employee satisfaction

Companies[2] with **highly satisfied employees** see greater of workplace recommendations and show ...

...higher EBITDA margin by **65-70%[5]**

### Workforce composition and inclusion

Leaders[2] with **more inclusive executive teams** have...

...higher EBITDA margin by **30-35%[6]**

## Governance

### Third-party relations/sustainable sourcing

Sustainability **procurement activity leaders[2]** show...

...**30-35%[4]** higher EBITDA margin

**Notes on research scope and results:**

- Analysis of EcoVadis ratings, the richest dataset on sustainability with a high share of private companies (~180k ratings)
- Data-backed evidence that sustainability activities are correlated with positive sustainability outcomes and financial value

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Note: 1) GHG = greenhouse gas 2) Companies in top vs. bottom 25% of respective sustainability outcome; 3) Comparing companies with >=25% vs. <=10% renewable energy consumption; 4) Comparing carbon/sustainable procurement activity leaders vs. laggards. Values shown for global sample of companies with US$1bn+ in revenues; results can differ for other samples. 5) Only companies with 100+ ratings on Glassdoor included in analysis, EU/NA companies with US$1bn+ revenues; 6) Female share of top executive team includes companies with US$1bn+ in revenues; results can differ for other samples. | Source: EcoVadis; Bain analysis; S&P Capital IQ; Glassdoor

# Sustainability is a driver of financial as well as environmental and social outcomes at PortCos

| | Clean air company[1] | Agri company[2] | Utility company[2] |
|---|---|---|---|
| (Sustainability) topics | Air quality | Material use, waste and circularity<br>Customer safety and engagement | Energy use and GHGs |
| Initiatives | • **Positioned manufacturing of air quality** equipment that is saving people's lives, as a key motivator for employees | • **Promoted use of a toxin-control product in corn supply chain** to reduce food waste and health risks | • **Invested in energy efficiency projects** at several facilities |
| (Business) drivers and (financial) outcomes | • **Higher employee engagement, retention and productivity**, resulting in improved employee motivation | • **Operational efficiency from reduced loss of corn, resulting in ~9.3x ROI** as well as positive environmental and societal health outcomes<br>• **Enhanced customer trust** from ensuring food safety, reducing risks | • **Higher employee engagement, retention and productivity from improved sentiment, resulting in ~US$2.1m annual benefit**, whilst also reducing environmental footprint |

Note: 1) Interview, Investor #1; 2) Examples derived from NYU Stern Case Study | Source: PRI, NYU Stern CSB, Bain & Co. (2024) Interviews on sustainability-linked value creation in private markets (N=27)

# Evidence shows that sustainability can drive financial returns

## Attractive risk-return profile of funds

### Description

- **Superior risk-return profile of investments integrating material sustainability topics**
- **Higher (exit) multiples** from enhanced PortCo performance/characteristics
- Potential lower debt financing costs[1]
  - **Banks may offer debt at lower cost of capital** – Private equity firms can monetise this, especially in highly **leveraged buyouts**
  - E.g., EQT raised two sustainability-linked subscription credit facilities, with interest rates that decline if the firm performs well against defined sustainability KPIs

### Exemplary financial impact

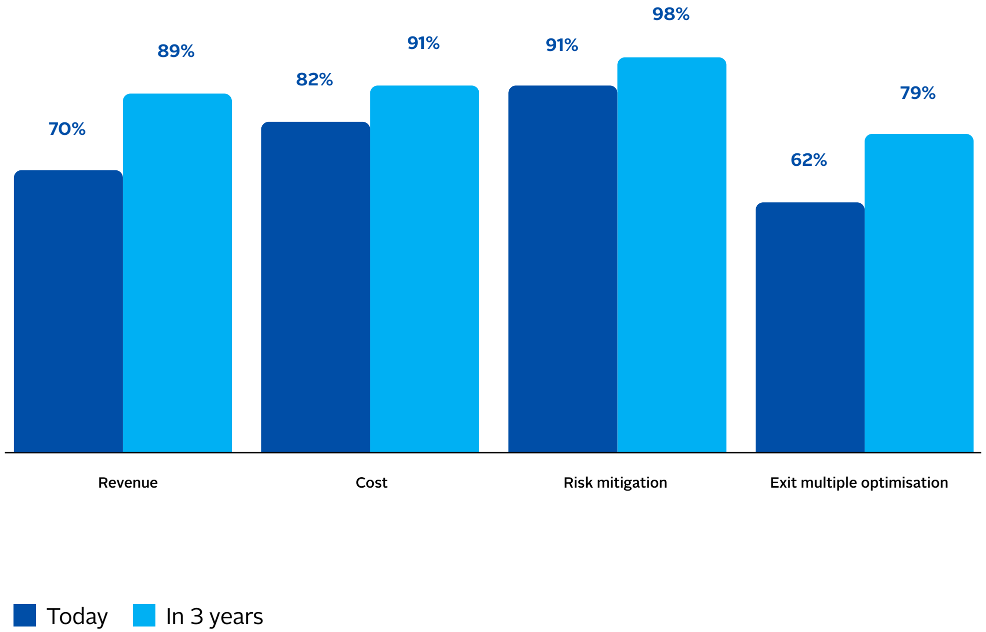
- **26% of LPs indicated superior risk-return profile** as the primary driver for increasing investments in sustainability programmes[2]
- **~6-7% multiple uplift** at exit resulting from sustainability efforts at PortCos[3]
- **~23% of PRI private equity signatories reported that material sustainability factors affected the price** they offered and/or paid for their investments (+3 percentage points vs. previous year)[4]

Source: 1) Bain (2021A). The Expanding Case for ESG in Private Equity; 2) Rede Partners (2024). Private Markets Sustainability and Impact Report 2024; 3) PRI, NYU Stern CSB, Bain & Co. (2024) Survey on sustainability-linked value creation in private markets (N=85); 4) PRI signatories 2024

# Financial investors anticipate that sustainability will deliver an even greater positive impact on financial results, across a broader range of topics

## Impact of sustainability on PortCo-level outcomes

% of respondents stating moderate to significant positive impact, today and in future

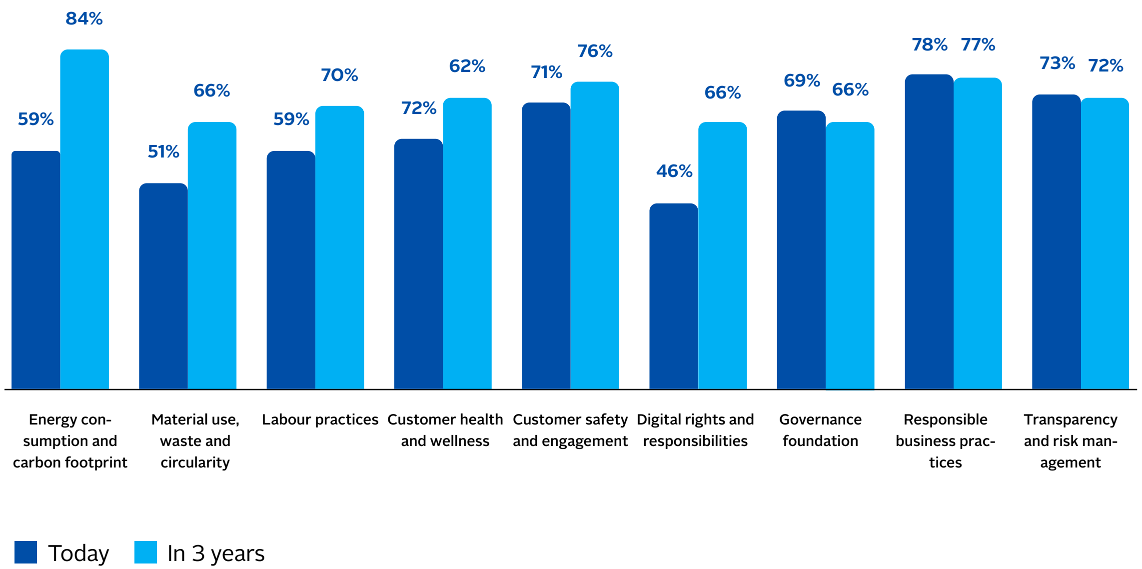



"Currently the industry maturity in sustainability actions is rather in its **early stages**, i.e., many still **focus on meeting regulations and compliance** [...] Over the next few years, more firms will **realise the value creation potential**"
**Interview, CSO at Investor 1**

"We talk about value creation but a lot of **what we're doing is still risk mitigation**"
**Interview, CSO at Investor 2**

## Relevance of sustainability topics

% of respondents stating topic as expected high value creation today or in three years (Globally) (only topics with >60% of respondents in three years)




"[Over the next few years], the focus is on **scaling and optimising decarbonisation efforts** across portfolio companies, along with **developing playbooks for employee health and safety, water management and supplier diversity**"
**Interview, CSO at Investor 6**

Source: PRI, NYU Stern CSB, Bain & Co. (2024) Survey and interviews on sustainability-linked value creation in private markets (N=112)

# Investors and PortCos face challenges linking value creation through sustainability to financial outcomes and securing stakeholder buy-in

| | Data and metrics | Leadership and culture | Structure and governance | Business processes | Management systems | Talent |
|---|---|---|---|---|---|---|
| **Key challenges** | Limited availability of (high quality) sustainability and (linked financial) data | Limited engagement of Deal and Ops teams | Responsibility ambiguity and lack of accountability | Insufficient (standardised) integration in processes | Lacking investment in sustainability due to budget allocation trade-offs | Capabilities/expertise gap and lack of resources |
| | Lack of standardised KPIs/ metrics for value creation | Insufficient buy-in and leadership at PortCo level | | | Lacking structure or budget for incentives to support sustainability ambition | |
| | Difficulty pinpointing relevant data and shaping the right analysis | | | | | |
| | Difficulty setting financial goals, prove ROI and derive most appropriate actions | | | | | |
| **Potential solutions** | Identify and prioritise material sustainability-linked financial KPIs | Activate senior leadership sponsorship spine and showcase financial value of sustainability | Clearly define sustainability-linked responsibilities and oversight | Systematically integrate sustainability in processes | Obtain funding through clear business case quantifying impacts, incl. ROI | Identify and close capability gaps (internal/external) |
| | Standardise data collection and reporting processes | | | | Establish incentives related to sustainability-KPIs | |
| | Demonstrate financial value, underwriting sustainability in DD, using proxies and value projection tools (e.g., ROSI) | | | | | |

**Investor relevance[1]**

Note: 1) Based on number of mentions and emphasis put on aspects in interviews | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews on sustainability-linked value creation in private markets (N=27)

# Contents

# 1. Sustainability value creation – an approach for investment firms

- A **clear strategy is the foundation for driving value through sustainability**. It should be **aligned with the broader firm's ambition** (sector focus, risk/return profile etc.) and result in firm-/fund-level **priorities and practices** that are embedded **across the organisation**

- Integrating **sustainability topics in the fundraising, LP engagement strategy and throughout the investment lifecycle** can, in some cases, improve **access to capital**

- To unlock value creation from sustainability, installing consistent **activities throughout the investment cycle is key to success**

- **Three select best practices enable this:**
  - **Embedding sustainability into assessments**
    Integrate sustainability considerations as a mandatory component into the target's operational and commercial evaluation at due diligence and in post-investment value creation plans
  - **Targeted, company-specific approach**
    Focus on material sustainability factors and calibrating depth of analysis, engagement and resources according to materiality. This drives better financial outcomes than a one-size -fits-all model
  - **Alignment with deal and operations teams**
    Sustainability cannot be driven as a 'silo effort'. Evidence and case studies should be used to bring deal and operations teams on board and work hand-in-hand with sustainability professionals

# 1. Driving financial value through sustainability requires a holistic approach – the Sustainability Value Creation (SVC) framework

## 1 Investment firm

Key sustainability-related activities

A Strategy and fundraising

Key activities

B Dual screening and due diligence → Sign-to-close → Early holding → Portfolio management → Exit

## 2 Company Target and PortCo

Approach for driving value through sustainability

(Sustainability) topics → Initiatives → (Business) drivers → (Financial) outcomes

Embedded into existing business priorities and transformations

## 3 Organisational enablers

- Leadership and culture
- Structure and governance
- Business processes
- Management systems
- Talent
- Data and metrics

# 1A. Sustainability-related approach differs based on firm size, industry focus, geography and asset class

## Firm's approach to sustainability-linked value creation is affected by various factors, including: [1]

| Size | Industry focus | Geography | Asset class and others |
|---|---|---|---|
| **Larger firms might have more sophisticated approaches**, with more resources and need to cater to more stakeholders; however, for sustainability-focused firms, size is ultimately irrelevant | Certain industries and associated funds have more advanced practices due to **higher relevance for customer purchasing decisions and public scrutiny,** e.g., consumer goods and retail | Approach and strategy vary across regions, mostly driven by **different regulations, political shifts** and **societal demands,** e.g., European firms tend to have more advanced practices compared with other firms surveyed | Approach depends on **investment horizon, regulation, financial impact linkage** and **sustainability maturity of underlying investments** |

**Strategy and ambition**

Investors make **deliberate strategic choices** about the **relevance they attribute to sustainability** (value creation) efforts, what sustainability **ambition** they set for themselves and how they embed it into their overall business strategy, goals and market positioning. The **more ambitious and embedded sustainability is, the better the firm is in effectively generating value through sustainability**

**Sustainability-linked value creation approach**

Note: 1) Further factors are, e.g., type of investors (buyout vs. growth vs. venture capital) and ownership (majority vs. minority vs. co-control) | Source: Bain IP; PRI, NYU Stern CSB, Bain & Co. (2024). Survey on sustainability-linked value creation in private markets (N=85)

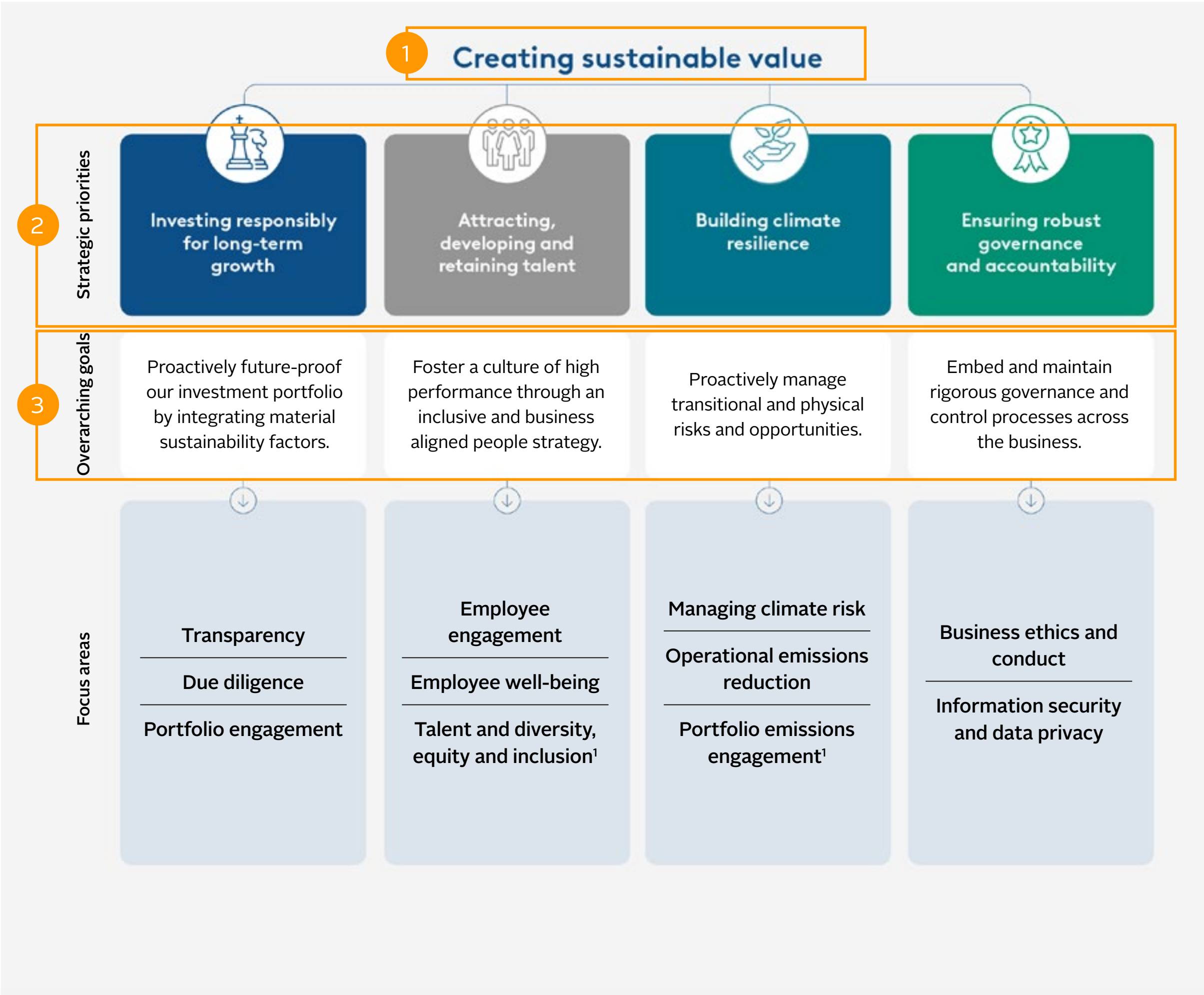
# 1A. Ensuring sustainability strategy is aligned with broader ambition and objectives helps to drive value

| Strategic considerations | Illustrative instructions and examples |
|---|---|
| Define value-focused **sustainability strategy** in line with broader ambition | • A firm's sustainability strategy should align with its overall policy, strategy and investment intentions, reflecting its broader ambition – vision, long-term impact goals and market positioning<br>• Formulate a sustainability vision – focused on value creation and laying down the long-term high-level direction |
| **Select/prioritise material sustainability focus areas** to drive value creation | • Define priority areas you consider most material to drive value creation across the portfolio<br>• E.g., a more detailed climate strategy and labour practices approach are common among investors with broader portfolios across sectors; sector-specific focus areas, e.g., cyber security, might be added<br>• Integrate those in firm-wide policies and regularly review progress and application in relevant committees (for market trends, evolving regulations, etc.) |
| **Define firm-/fund-level sustainability objectives** and aligned financial targets | • Set and communicate firm-/fund-level overarching goals for value creation from sustainability<br>• Include specific targets where possible (e.g., total emission reductions)<br>• Ask PortCos to track sustainability performance and financial impact – gradually building capabilities |
| **Ensure the strategy is embedded in and committed to** throughout the organisation | • Develop a compelling story and communication plan to instill sustainability commitment throughout the organisation, leveraging strong sponsorship support<br>• Ensure appropriate oversight and consistent operationalisation (including key committees such as the investment committee. See organisational enablers later in section) |

Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112); PRI Private Equity Research

# 1A. CVC's sustainability strategy is value-driven, aligned with its broader ambition and focused on key sustainability areas

## Sustainability strategy




## Comments

1 Sustainability strategy has a **clear focus on long-term return** and is **aligned with broader business ambition**

"We believe **integrating** material sustainability risks and opportunities **within our own operations and investment approach** is critical"
**– CVC FY24 Sustainability Report**

2 **Strategic focus areas are prioritised** based on what 3 creates most value and aims at **defined overarching goals**

"The four strategic priorities [...] were reaffirmed through our double materiality assessment."
**– CVC FY24 Sustainability Report**

- There are only a **few sustainability themes that systematically impact all companies** i.e., climate change, employee engagement, and cyber and data security
- Those also coincide with key focus areas within their strategic priorities

Note: 1) CVC have incorporated the focus areas of Talent and diversity, equality and inclusion, and Portfolio emissions engagement into the executive directors' LTIP. | Source: CVC (2025); Sustainability Report FY24

# 1A. Engage with LPs on their sustainability needs to promote long-term horizon and more effective fundraising

| Fundraising considerations | Key activities to engage LPs on sustainability |
|---|---|
| **Engage/collaborate with LPs** | • Get to better understand LPs' **sustainability-related expectations**<br>• Leverage **guidance and tools** to facilitate dialogue<br>• **Explain own approach** to managing sustainability for value creation<br>• **Tailor communication to individual LPs beliefs** to drive end-to-end alignment |
| **Integrate sustainability and financially linked KPIs in proposals** | • Understand LPs' **investment criteria and investing focus**<br>• **Incorporate in proposal** to drive alignment |
| **Perform transparent and results-orientated reporting** | • Agree on **form, frequency and KPIs** for reporting (focusing on value)<br>• Potentially document as part of side letter |
| **Align and standardise sustainability metrics between PortCos** | • Support LPs in building **own baselines and portfolio-wide insights** by **providing comparable, consolidated data** from standardised PortCo sustainability metrics |

Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112); PRI Private Equity Research; NYU Stern CSB LP Sustainability Maturity Model Tool

# 1B. Embedding sustainability practices across investment value chain is critical to maximising value from it (different approaches depending on shareholding structure)

Differentiated best practices

| Dual screening and due diligence | Sign-to-close | Early holding | Portfolio management | Exit |
|---|---|---|---|---|
| Identify material[2] sustainability issues in **deal screening** | **Set expectations** with PortCo **Mgmt. team** about sustainability approach | **Define PortCo** sustainability program **leaders and governance**[8] | **Support execution** with appropriate engagement and resources | **Assess** sustainability **exit readiness**[7] |
| Focus **sustainability DD**[1] on material topics for value preservation/ creation priorities | **Identify** preliminary **most value-creating topics/initiatives** | **Further detail and prioritise** most value-creating initiatives[4] | **Reprioritise** and reallocate resources at investment firm level | **Highlight sustainability achievements** and future opportunities in exit story |
| **Integrate** sustainability in **ops., commercial, legal, compliance and regulatory DD** | Include sustainability in **100-day plan** and **VCP**[9] | Define sustainability and **linked financial KPIs** for material[2] topics | **Ensure continuous sustainability resourcing** at PortCo[5] | **Showcase quantified financial ROI** from sustainability efforts |
| **Benchmark** against peers to identify upside potential[6] | **Planning spans phases** – from preliminary version reflected in deal thesis to detailing in early holding; execution during holding DD | **Develop** sustainability **roadmap** with clear targets integrated into broader VCP | **Monitor** progress (in KPIs against milestones) | Get **certified/ratings** as evidence |
| **Integrate in deal thesis and IC**[3] memos and discussions | Discuss **board oversight** | Set up tracking tool, create data foundation | **Estimate potential P&L impact** | |

Note: 1) DD = due diligence; 2) Material = factors that could substantially affect a company's financial value, operations, or risk profile; 3) IC = investment committee; 4) Based on priority topics and initiatives identified pre-investment, as e.g., included in the 100-day and value creation plans; 5) Highly dependent on PortCo budget and resources; 6) Benchmarking against companies that are comparable to the PortCo, e.g., industry peers; 7) Ideally start two-three years into holding period; no later than six-12 months ahead of exit; 8) Dedicated sustainability resourcing at PortCo is desirable; 9) VCP= value creation plan | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112)

# 1B. Integrate sustainability in due diligence and assess value creation potential

Differentiated best practices

**Dual screening and due diligence** → Sign-to-close → Early holding → Portfolio management → Exit

| | Description of activities | Value creation potential |
|---|---|---|
| Identify material[2] sustainability issues in **deal screening** | • Screen deals against sustainability **criteria to identify material risks and opportunities** (e.g., based on industry-specific list); potentially exclude controversial sectors | • Reduces risk of stranded assets, reputational damage or regulatory fines<br>• Avoid time spent on non-investable deals |
| Focus **sustainability DD**[1] on material topics for value preservation/ creation priorities | • Assess performance on (financially) **material topics in alignment with fund strategy** (e.g., decarbonisation) **and those specific to target company**<br>• Derive **preliminary strategic priorities** with largest value preservation/creation potential<br>• Use standard **templates to document** key assumptions, initial data and insights – those can be leveraged later to inform engagement (closing, holding and exit) | • Reduces risk of stranded assets, reputational damage, regulatory fines<br>• Identifies opportunities to generate value<br>• Supports building data-driven exit story from beginning to optimise multiple |
| **Integrate** sustainability **in ops., commercial, legal, compliance and regulatory DD** | • Integrate sustainability in **value creation initiatives** in operational (e.g., energy cost savings), commercial (e.g., revenue growth from sustainable products), legal, compliance and regulatory DD and financial models (including underwriting)<br>• Integrating **sustainability into the deal team** structurally can support this | • Avoids overlooked value creation initiatives<br>• Fosters buy-in from financial teams and thinking about how to use sustainability as value driver |
| **Benchmark** against peers to identify upside potential | • Compare target's sustainability performance to **peers/industry benchmarks** (e.g., GRI[5], SASB[6] standards) – identify largest gaps (upward leeway), material themes<br>• Leverage **external consultants**[4] | • Identifies gaps and opportunities for competitive advantage to address post acquisition |
| **Integrate in deal thesis and** IC[3] memos and discussions | • Document findings and **share with deal and management** teams for them to consider in deal rationale and **IC memos** – to be reflected in deal negotiation (valuation/price)<br>• Ensure those are **linked to value creation areas** of potential target | • Strengthens investment case and provide leverage in purchase price negotiations |

Note: 1) DD = due diligence; 2) Material = factors that could substantially affect a company's financial value, operations, or risk profile; 3) IC = investment committee; 4) E.g., Bain has a proprietary, modular tool for benchmarking against peers/best-in-class companies and suggests strategies to mitigate risks and address carbon readiness, circularity and other important elements (Sustainability in Private Equity | Bain & Company). Other consultants include, e.g., ERM, Re:CO, Anthesis; 5) GRI = the Global Reporting Initiative; 6) SASB = the Sustainability Accounting Standards Board; | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112); PRI Private Equity Research

# 1B. Set up for jump-start after close, through expectation management at PortCo and preliminary 100-day plan

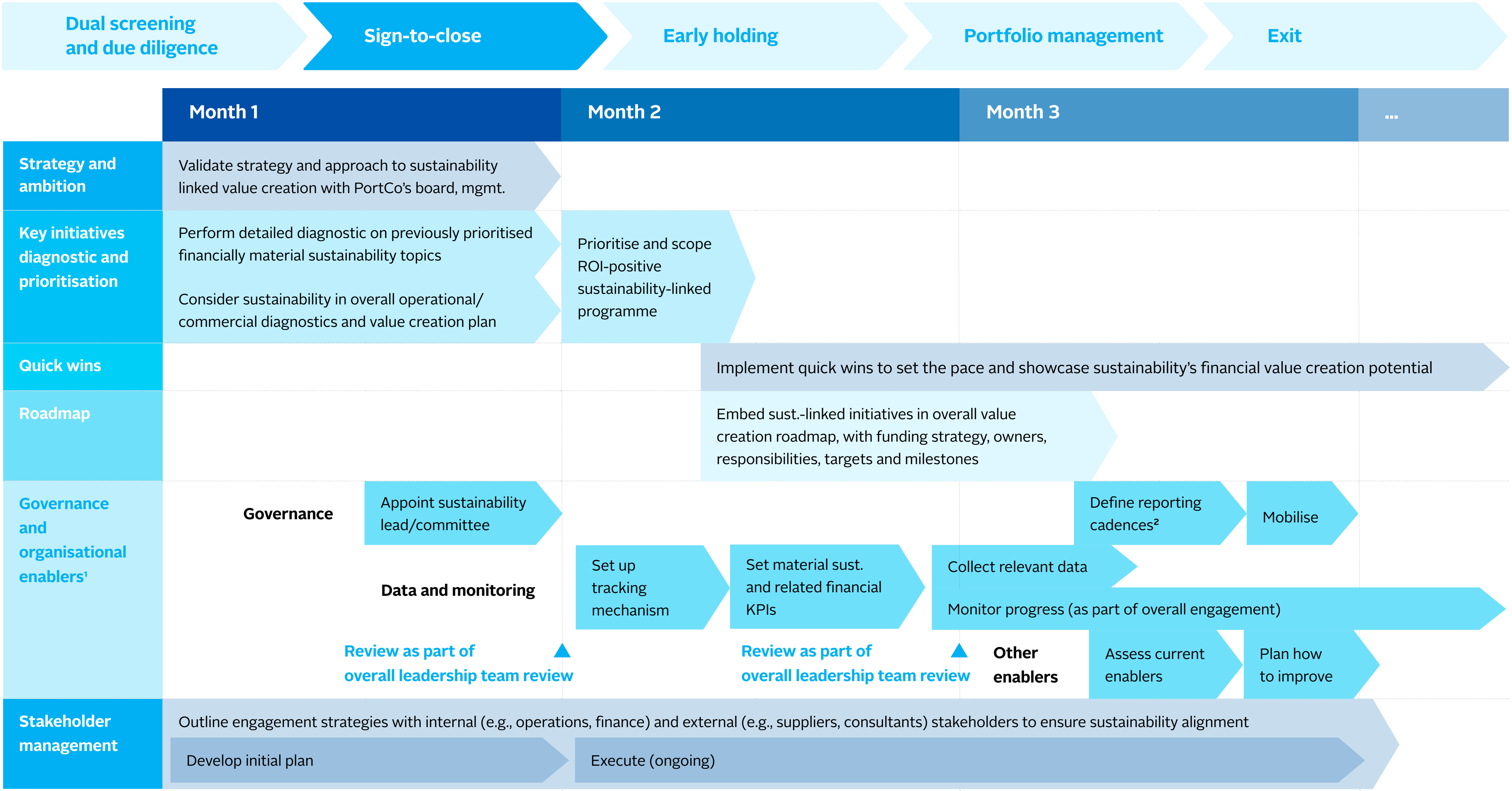
Differentiated best practices

Dual screening and due diligence → **Sign-to-close** → Early holding → Portfolio management → Exit

| | Description of activities | Value creation potential |
|---|---|---|
| **Set expectations** with PortCo mgmt.team about sustainability approach | • **Engage PortCo management early** on sustainability's **strategic value and business impact**, and provide/align on **high-level direction** (for control investments)<br>• Initiate discussion about **roles and responsibilities**, including how investor plans can support vs. what PortCo is expected to drive<br>• **Preliminarily assess where PortCo stands in terms of sustainability** – both initiatives and enablers – as a basis for shaping a feasible programme (building on sustainability DD, if existing) | • Sets up for head-start in launch of sustainability initiatives during holding |
| **Identify** preliminary **most value-creating topics/ initiatives** | • Build on investment thesis, i.e., most **material set of sustainability initiatives and value drivers identified in DD** – based on **sector and company-specifics**<br>• **Define high-level priorities** of sustainability-linked value creation topics and initiatives **for further diagnostic** and **detailing during early holding** | • Ideal allocation of time and resources based on projected value creation potential |
| Include sustainability in **100-day plan and value creation plan** | • Treat sustainability as another **core pillar in 100-day plan[1] and value creation plan[2]**<br>• **In 100-day plan, define sustainability-linked activities to be performed in early holding**, e.g., regarding strategy and ambition, diagnostic and validation of initiatives, quick wins and organisational enablers and how they **flow into value creation plan** | • Enables systematic execution of sustainability-linked value creation |
| Discuss **board oversight** | • Engage PortCo leadership **before day-1** to ensure **board oversight and sponsorship** of key company-level sustainability initiatives/matters from the start | • Ensures sustainability as value lever is on board agenda and gets required resources |

Note: 1) Outcomes typically materialise beyond the 100-day horizon; 2) Both plans span across phases – from DD as preliminary version reflected in deal thesis, to being detailed out in the early holding. | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112); PRI Private Equity Research

# 1B. Exemplary 100-day draft plan, illustrating sustainability-linked activities to perform during early holding and integrate into the overall VCP[3]




Note: 1) Includes data, monitoring and management systems/tools, leadership, culture and talent; 2) For execution; 3) VCP = Value Creation Plan | Source: Bain analysis; PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability linked value creation in private markets (N=112)

# 1B. Develop programme with clear priorities, linking value-driving initiatives to sustainability and financial KPIs (1/2)

Differentiated best practices

Dual screening and due diligence → Sign-to-close → **Early holding** → Portfolio management → Exit

| | Description of activities | Value creation potential |
|---|---|---|
| **Define PortCo's** sustainability programme **leaders and governance** | • Select PortCo's **board and/or C-level manager** to sponsor sustainability programme (ideally CSO, but non-FTE if lacking budget) – key for effective, successful execution<br>• Clearly define **responsibilities**, including considering sustainability-linked value creation programme in existing decision-making processes (e.g., budget allocation)<br>• Establish high-level **accountability structure** (where in PortCo sustainability sits, parties responsible for sustainability programme overall[2]) | • Helps ensure effective execution of programme<br>• Ensures necessary funds to realise value creation through sustainability programme (e.g., getting considered in budget allocation decisions) |
| **Further detail and prioritise** highest value-creating initiatives | • During first 100 days, **with access to full information, further deep-dive** on what issues to **prioritise at PortCo to create most value**<br>• This prioritisation is based on i) **issue materiality** (identified previously), ii) **magnitude of impact** and iii) **investment, capabilities** and **time horizon required** for implementation[3]<br>• **Reflect on execution roadmap** accordingly – some quick wins might have a high ROI, encouraging buy-in | • Ideal allocation of time and resources based on projected value creation potential |
| Define **sustainability and linked financial KPIs** for material[1] topics | • Reflect what **sustainability data and financial KPIs tie to the most value creating initiatives** (rather than just the commonly used ones[4]) as necessary step to **capture the financial impact (ROI)**<br>• Consider **fund/portfolio-wide metrics** where applicable | • Supports building exit story from beginning (demonstrate ROI at exit) |

All in close collaboration with PortCo

Key is to really link the initiatives to financial outcome KPIs (e.g., costs saved from energy reduction, cost associated with lost-time injury frequency rate)

Note: 1) Material from financial and sustainability angle (double materiality); 2) Without defining the specific initiatives leads yet; 3) Refer to appendix for more detailed prioritisation; 4) For example, ROSITM KPIs developed by NYU Stern CSB | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112); PRI Private Equity Research; NYU Stern CSB Responsible Private Equity Research

# 1B. Develop programme with clear priorities, linking value-driving initiatives to sustainability and financial KPIs (2/2)

Differentiated best practices

Dual screening and due diligence | Sign-to-close | **Early holding** | Portfolio management | Exit

| | Description of activities | Value creation potential |
|---|---|---|
| **Develop** sustainability **roadmap** with **clear targets** integrated into broader VCP | • Consider **programme scope** based on identified strategic priorities vs. constraints (e.g., time and budget – what to do vs. drop)<br>• Create more **granular implementation plan**, including **KPIs, milestones, timelines**, budget, resources and funding strategy<br>• Define more detailed governance, i.e., **owners for initiatives and reporting cadences** for regular programme reviews, planning and board updates | • Ensures effective execution of programme and resource allocation to maximise value creation |
| **Set up tracking** tool/ mechanism and create **data foundation**, focusing on material KPIs<br><br>All in close collaboration with PortCo | • **Record** sustainability and related financial KPIs **from the start to capture** sustainability **improvement** to date (e.g., revenue increase, cost reduction, risk mitigation), cost to implement and **ROI** of initiatives if possible<br>• Start with collecting **available da**ta (including DD info) and identify **gaps vs. material KPIs**<br>• **Set up tools and technology** at PortCos to enable this (e.g., certain software for carbon accounting, see organisational enablers) – can also yield scaling benefits in procurement (across portfolio)<br>• **Map** to sustainability **reporting metrics for LPs** (commitments and expectations) and **regulatory requirements**<br><br>At this stage, impact could be quantified, but there is a lack of adequate methodologies (Phase 2) | • Supports building exit story from beginning (demonstrate ROI at exit) |

Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112); PRI Private Equity Research; NYU Stern CSB Responsible Private Equity Research

# 1B. Apollo implements key early holding activities, including appointing a programme lead and developing a sustainability roadmap

Dual screening and due diligence → Sign-to-close → **Early holding** → Portfolio management → Exit

## Example of Programme Development Approach[1]

| Phase | Activity | Description |
|---|---|---|
| 0. Pre-Engagement Prep | | |
| | a. Ownership Assignment (1) | Identify the program lead, Executive Sponsor, and cross-functional working group that will be responsible for program execution |
| | b. Initial Kickoff | |
| | c. Working Group Kick-Off | |
| | d. Validate Diligence and Scope | |
| (2) Current State Assessment | | |
| | a. Issue Survey | Baseline the company's current ESG program maturity, categorized by Strategy, Governance, Management, and Data |
| | b. Complete Survey | |
| | c. Finalize Current State Mapping | |
| (3) Benchmarking | | |
| | a. Data Collection | Benchmark the company's ESG program scope, ambition, and overall maturity against peers and competitors, customer expectations, regulatory requirements (current and future), and investor expectations (current and future) |
| | b. Assessment | |
| | c. Benchmarking & Gap Analysis | |
| 3. Program Scoping | | |
| | a. Priorities Workshop | (4) Align on scope and priorities for strategy development. Finalize workplan for strategy development |
| | b. Third-Party Engagement (if necessary) | |
| | c. Scope and Finalize Strategy Development Workplan | |
| 4. Strategy Development | | |
| | a. BAU Forecast | Develop an emissions forecast, assess levers for decarbonization, and identify priority projects for execution. Develop a detailed plan of action, including funding strategy, timelines, roles and responsibilities |
| | b. Decarbonization Assessment | |
| | c. Project Roadmap (5) | |
| | d. Funding Strategy (5) | |
| | e. Project Timeline & Implementation Plan (5) | |
| | f. Roles & Responsibility | |
| (6) Establish Reporting Cadences | | |
| | a. Monthly program reviews w/ APPS | Align on reporting expectations |
| | b. Quarterly Board Updates | |
| | c. Annual Review and Planning | |

## Comments

**Apollo follows a systematic approach of defining the sustainability value creation programme at PortCos – typically, over three to six months post-close and in close collaboration with PortCos**

1. Starts by establishing clear responsibilities at PortCo pre-engagement – **assigning ownership** to a programme lead and identifying a cross-functional working group for creating value through sustainability
2. **Assesses status quo** of sustainability programme maturity as a baseline to build value creation on and to track progress against it
3. Identifies upward potential based on **benchmarking** and gap analysis, including peer performance and stakeholder expectations
4. Based on those insights (status quo vs. potential), defines **scope and priorities** for the sustainability-linked value creation strategy
5. Creates a detailed **execution roadmap**, including funding strategy, timelines, milestones, roles/responsibilities, KPIs and tracking
6. Sets up **regular reporting cadences for progress review** in existing forums (board updates, annual review and planning) – leveraging robust KPI tracking and accounting (emissions reporting via Persefoni)

1) Example refers to decarbonisation programme – transferable to holistic sustainability programme. | Source: Apollo (2024) Building Better Businesses: How Apollo Equity Helps Drive Value Through Portfolio Company Decarbonisation

# 1B. Monitor programme progress and find appropriate level of engagement (1/2)

Differentiated best practices

Dual screening and due diligence → Sign-to-close → Early holding → **Portfolio management** → Exit

| | Description of activities | Value creation potential |
|---|---|---|
| **Support execution** with appropriate engagement and resources | • **Reflect on the right level and time of engagement**, including support establishing organisational enablers at PortCo (e.g., training, tools, expertise)<br>• Share **practical resources** (e.g., playbooks, sample deliverables) and subject matter **expertise**, based on **experience/learnings** from previous investments<br>• Provide/help set up **tools and technology** (e.g., to measure and monitor data/KPIs) and other **organisational enablers**<br>• Leverage **preferred partnerships/contacts**, e.g., to achieve potential mass contracts/ discounts across portfolio, e.g., for carbon accounting software | • Facilitates effective execution to hit (financial) targets |
| **Reprioritise and reallocate** resources at investment firm level | • **Reprioritise** activities that **maximise sustainability-linked outcomes** based on learnings and (external) developments – **reallocate** resources (financial and talent) and update plans | • Maximises projected value creation through ideal allocation of time and resources |
| **Ensure continuous sustainability resourcing** at PortCo[1] | • **Support implementation of sustainability** initiatives and ensure sustainability roadmap remains on track | • Facilitates effective execution of sustainability initiatives |

All in close collaboration with PortCo

Note: 1) Highly dependent on PortCo's budget and resources | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112); PRI Private Equity Research

# 1B. Monitor programme progress and find appropriate level of engagement (2/2)

Differentiated best practices

Dual screening and due diligence | Sign-to-close | Early holding | **Portfolio management** | Exit

| | Description of activities | Value creation potential |
|---|---|---|
| **Monitor** progress (in KPIs against milestones) | • **Track/monitor** defined sustainability and linked financial **KPIs**<br>• **Review progress in KPIs against milestones** at regular internal review meetings<br>• **Incorporate in existing** meeting cadences – e.g., **board updates, annual planning and budgeting** – to ensure same consideration as other initiatives and goals | • Ensures effective execution and corrective action to hit (financial) targets<br>• Includes getting necessary resources/ budget |
| **Estimate potential P&L impact** | • **Quantify granular financial impact on P&L (ROI)** of each identified **strategic priority/ initiative**<br>• Build/validate in **valuation model** | • Supports building exit story for higher multiple from beginning (demonstrate ROI) |

All in close collaboration with PortCo

Accurately estimating the potential P&L impact requires strong collaboration and buy-in from both the deal team at the fund manager and the financial team at the portfolio company. To drive this effort forward, it is useful to figure out how a synergistic relationship between the two teams could be achieved, to ensure they are mutually invested in prioritising this key consideration.

Note: 1) Highly dependent on PortCo's budget and resources | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112); PRI Private Equity Research

# 1B. Warburg Pincus takes a tailored approach to portfolio support to help drive value creation and preservation

Dual screening and due diligence → Sign-to-close → Early holding → **Portfolio management** → Exit

## Engagement approach


DRIVING ENGAGEMENT ACROSS THE PORTFOLIO

RIGHT-SIZING ENGAGEMENT

Tailored approaches to suit each industry

Understanding that there is no one-size-fits-all approach, we have developed a library of tactical guides focused on the different phases of the sustainability journey. We have industry-focused engagement tools, including:

- **Industrials Metrics:** Partnering with third-party experts, we drafted guidance on minimum market expectations in the Industrials sector related to ESG metrics.
- **Asia Real Estate Tool:** Working with a third-party expert, we developed an ESG due diligence tool for real estate assets tailored for assessing joint venture partners and various real estate asset classes.
- **Energy:** In August 2023, the firm hosted its annual **Energy Emissions Summit** for current energy exploration and production-focused portfolio company CEOs. Topics included best practices in methane management, reporting, and board oversight.

Business-specific opportunities

We support many of our portfolio companies to communicate their sustainability priorities to their

importantly, avoid significant food waste from entering landfills. Our Sustainability Strategy team co-hosted a workshop with the company's senior executives to deep-dive on driving

DRIVING ENGAGEMENT ACROSS THE PORTFOLIO

RIGHT-SIZING ENGAGEMENT

We carefully calibrate our engagements to meet companies where they are—and support them where they need it.

Flexible engagement models

Warburg Pincus believes that an effective sustainability strategy can help its portfolio companies identify opportunities, better manage risk, improve efficiency, reduce environmental impacts, and ultimately build more valuable, competitive and sustainable enterprises.

To build value where it counts, we seek to meet portfolio companies where they are on their unique sustainability journeys. We seek to approach every engagement taking into account the regional, industry, and ownership nuances of each investment and right-sizing our engagement to fit those nuances.

Fine tuning engagement across three dimensions



Adapting to an evolving regional context

Europe

Given significant regulatory requirements across the EU, we worked with a third-party expert to host a webinar for European portfolio companies discussing reporting requirements, practical tips and readiness, and drafted guidance on minimum market expectations for the region related to ESG metrics.

Vietnam

Warburg Pincus started investing in Vietnam in 2013 and, today, is one of the largest and most active global private equity investors in Vietnam. Noting the rising sustainability expectations in the region, our Sustainability Strategy team conducted onsite teach-ins with **MoMo**, a super app focused on financial services, and **BW Industrials**, a logistics and industrial real estate platform.

Read the MOMO case study.

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- Warburg carefully **calibrates its engagement/support** to the PortCo, considering i) industry, ii) region and iii) business-specific opportunities
- Building on a **library of proprietary tactical guides** based on PortCo sustainability maturity and industry, it **customises to PortCo's specifics** – creating an effective sustainability strategy to make the company more valuable and sustainable
- This goes beyond **scoping and prioritising initiatives**, to identifying which organisational enables the PortCo needs help building

## Further examples of calibration

| Situation at Portco | Firm-level support |
| --- | --- |
| Limited **sustainability culture and buy-in** from PortCo leadership | **Raise awareness** about (financial) benefits and demonstrate with **case studies** and quick wins |
| Sustainability **knowledge/capacity** is lacking | **Provide training** (e.g., through cross-portfolio peer-learning programmes) |
| **Data 'jungle'** without clear reporting system and processes | **Support set-up of system** and **processes** of data recording |
| **No incentives** tied to sustainability-linked KPIs/outcomes in management compensation | **Assess if PortCo is mature** enough in sustainability efforts to include such incentives – e.g., KPIs must be clearly measurable |

Source: Warburg Pincus (2024) Sustainability Report; PRI, NYU Stern CSB, Bain (2024) Interviews and workshops on sustainability-linked value creation in private markets; PRI Private Equity Research. Warburg Pincus' investment approach is presented herein for illustrative purposes only, may vary, and is subject to Warburg Pincus' fiduciary duties and applicable legal, regulatory and contractual requirements. For more information, please see https://sustainability.warburgpincus.com/

# 1B. Create a compelling exit narrative by integrating sustainability-linked value creation, backed by strong data-driven insights

Differentiated best practices

Dual screening and due diligence | Sign-to-close | Early holding | Portfolio management | **Exit**

| | Description of activities | Value creation potential |
|---|---|---|
| **Assess** sustainability **exit readiness** | • Roughly two to three years into holding period and no later than six to 12 months ahead of exit, assess prospective **buyers' expectations on reporting format, granularity and key sustainability and linked financial KPIs** (e.g., along reporting frameworks) – to **identify gaps vs. current data situation** potentially **relevant to valuation**<br>• Develop and implement a **roadmap** to close reporting and data gaps | • Ensures all sustainability-linked data relevant to valuation is available in the right format at exit |
| **Highlight sustainability achievements** and future opportunities in exit story | • Define a compelling **sustainability story**, including upside opportunities, that aligns with the overall exit narrative<br>• **Identify compelling data** – i.e., tracked sustainability KPIs that show progress – and **organisational enablers in place** to back up this narrative<br>• **Integrate those in marketing materials and prospectus**, detailing achievements, commitments and value-add (today and future potential) | • Ensures these achievements/value achieved through sustainability are capitalised in the valuation |
| **Showcase quantified financial ROI** from sustainability efforts | • **Focus on quantified, financial impact** – i.e., use tracked **financial KPIs** linked to sustainability efforts to **show achieved returns (ROI)** | • Showcase direct EBITDA impact<br>• Enables integration in future projections and ultimately the multiple |
| Get **certifications or ratings** as evidence | • Deploy ratings and certifications to show value creating risks and opportunities that are not apparent in financial statements | • Means of proof documenting sustainability performance and achievements with potential investors or buyers |

Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112); PRI Private Equity Research

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# 2. ‘Sustainability value creation’ at company level during diligence and portfolio management

- **A core set of sustainability topics and their corresponding initiatives**, such as reducing energy consumption or enhancing labour practices via improved employee health and safety, **drives value across sectors** and serves as a strong starting point

- To **maximise financial outcomes**, however, portfolio companies should strategically select and execute on initiatives that are **specific to their sector and business**

- This process begins with 1) **identifying material sustainability topics**, along with their associated risks and value creation opportunities. It then focuses on 2) **developing actionable and practical initiatives** that consider investment needs, execution timelines and alignment with business-specific characteristics. Subsequently, related 3) **business drivers** identify potential and realised monetisable benefits from these initiatives.

- Lastly, **monetising sustainability** requires linking initiatives to 4) **financial outcomes**. Establishing KPIs tied to financial metrics is crucial for measurable impact

- **Sustainability priorities vary by region:**[1]

  - **European investors** highlight customers and revenue growth from sustainability as a key value driver, mostly driven from sustainable product offering initiatives and better customer value propositions in light of customer demand (B2B and B2C)
  - **North American investors** emphasise risk management (e.g., enhanced customer trust) and cost-linked drivers (e.g., process or operational efficiency) as key drivers for value, although linking sustainability to value creation remains a challenge
  - **African investors** select cost and risk-linked drivers, placing greater emphasis on social initiatives in local communities (e.g., enhanced access to financing) and environmental cost-efficiency measures (e.g., process or operational efficiency)
  - **APAC investors** focus on social initiatives, favouring employee-related revenue and cost-linked drivers for value creation through sustainability (e.g., higher employee engagement and better health and safety for employees)

Note: 1) Based on research conducted in February 2025 | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112)

# 2. Driving financial value through sustainability requires a holistic approach – the Sustainability Value Creation (SVC) framework

**1 Investment firm**

Key sustainability-related activities

**Strategy and fundraising**

**Key activities**

- Dual screening and due diligence
- Sign-to-close
- Early holding
- Portfolio management
- Exit

**2 Company Target and PortCo**

Approach for driving value through sustainability

- (Sustainability) topics
- Initiatives
- (Business) drivers
- (Financial) outcomes

Embedded into existing business priorities and transformations

**3 Organisational enablers**

- Leadership and culture
- Structure and governance
- Business processes
- Management systems
- Talent
- Data and metrics

# 2. Maximising sustainability's value potential requires PortCos to identify material sustainability topics and focus on key initiatives that drive (financial) outcomes

| (Sustainability) topics | Initiatives | (Business) drivers | (Financial) outcomes |
|---|---|---|---|

*Process to drive value through sustainability; embedding into existing business priorities*

| | | | |
|---|---|---|---|
| • **Identify key sustainability areas** driving value from environmental, social and governance factors<br>• **Determine materiality[1] based on related risks and opportunities,** considering industry- and company-specific factors (including regional context) | • **Develop actionable and practical initiatives** to address the most material[1] topics that will drive the greatest value-creation<br>• Tailor to **industry- and company-specific** needs<br>• Consider **investment needs** and **execution timeline** | • **Identify potential and realised monetisable benefits** from these initiatives<br>• **Evaluate impacts on (financial) performance** through, e.g., innovation, operational efficiency, supplier loyalty and other real world business challenges | • **Track and demonstrate quantifiable financial results** (to the extent possible)<br>• Measure increased **revenue**, reduced **costs,** improved **risk mitigation** and **enhanced company valuation** |

*Examples*

| | | | |
|---|---|---|---|
| **Energy consumption and GHGs** | • **Improve energy efficiency** in buildings by switching to LED lighting | • **Optimised building operations** from new lighting<br>• **Higher employee engagement, productivity and retention** from improved work environment | • **Reduced opex** from lower energy consumption<br>• **Increased revenues** from improved employee experience |
| **Labour practices** | • **Improve worker health and safety** by increasing training hours | • **Higher employee engagement** and retention from better training<br>• **Improved health and safety** for employees from reduced accidents | • **Increased revenues** from improved productivity and less downtime<br>• **Reduced costs** from less absenteeism |

Note: 1) Determine materiality using SASB materiality map and tools, such as the NYU Stern GP Driver tool (for more details, see PortCo section and Appendix) | Source: NYU Stern CSB, Bain IP

# 2. While material and value-driving sustainability topics[1] vary by business, a set of core topics tend to drive value across industries

Most common for value creation

(Sustainability) topics → Initiatives → (Business) drivers → (Financial) outcomes

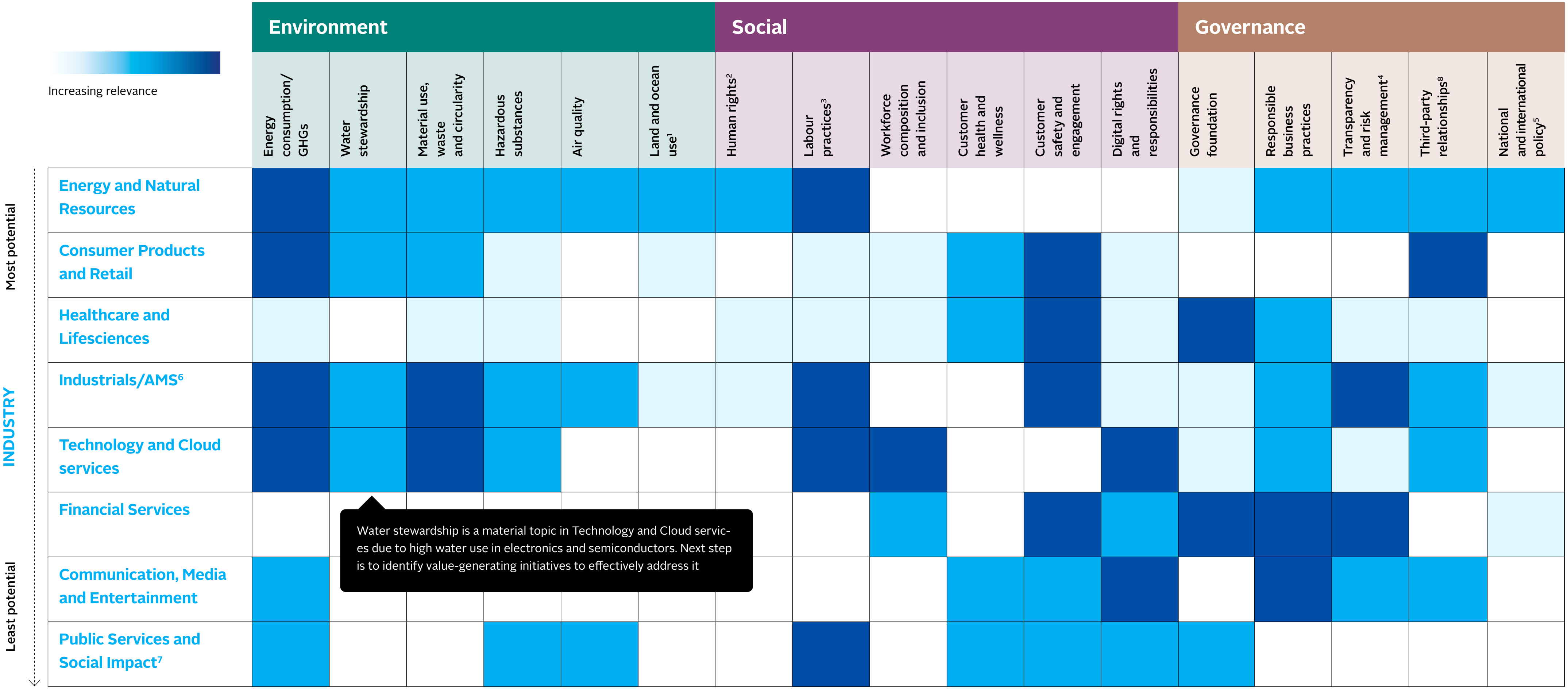
While relevant across industries, their materiality and value creation potential varies

| Environment | Social | Governance |
|---|---|---|
| **Energy consumption and GHGs**<br>Optimise operations to enhance efficiency and reduce environmental impact | **Labour practices**<br>Enhance productivity, retention and reputation, including occupational health and safety | **Transparency and risk management**<br>Strengthen governance, including by implementing responsible technology |
| **Material use, waste and circularity**<br>Maximise resource efficiency through waste reduction, reuse and circular design | **Workforce composition and inclusion**<br>Foster a culture that attracts talent, drives innovation and enhances productivity | **Third-party relationships**<br>Embed clear sourcing practices in sustainability programme and broader engagements |
| **Water stewardship and management**<br>Enhance efficiency and resilience through responsible management and conservation | **Customer safety and engagement**<br>Build trust, loyalty and brand value by ensuring product safety | **Governance foundation**<br>Ensure accountability and sustainable growth via strong leadership and oversight |
| **Hazardous substances**<br>Sensitively use or treatment of toxic products and waste, including chemical and tech pollutants | **Human rights**<br>Uphold corporate responsibility to respect universal rights (e.g., life, liberty etc.) | **Responsible business practices**<br>Uphold ethical conduct and zero tolerance for unfair competition, bribery or corruption |
| **Air quality**<br>Lower pollutants impacting air quality and atmospheric integrity | **Community partnership**<br>Engage with and support members of local communities and broader society | **Tax practices**<br>Uphold fair tax payments and practices |
| **Land and ocean use**<br>Ensure long-term sustainable use, including land/ocean change (e.g., deforestation) | **Customer health and wellness**<br>Develop products, services and technologies that enhance customer well-being | **Indirect economic impacts**<br>Recognise and address indirect impacts of economic activity on external populations |
| **Biodiversity and ecological welfare**<br>Protect and enhance natural ecosystems and living organisms and uphold animal welfare | **Digital rights and responsibilities**<br>Ensure secure, ethical systems, responsible data practice and customer privacy protection | **National and international policy**<br>Navigate complex domestic and international issues appropriately, including policy and lobbying |

Note: 1) Highlights cross-industry value-driving tropics as derived from multiple sources, including SASB, interviews, survey and workshops. | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews, workshops and survey on sustainability-linked value creation in private markets (N=400)

# 2. Material topics shape industry focus, but unlocking full value potential requires deeper assessment at business level

(Sustainability) topics → Initiatives → (Business) drivers → (Financial) outcomes




Refer to Industry deep-dives section for more industry-specific details

Note: Methodology: SASB topics mapped to Bain framework with quantitative relevance calculated based on frequency of topic per industry and qualitative adjustments overlayed (please refer to details of qualitative changes in appendix for qualitative adjustments). 1) Includes biodiversity and ecological welfare; 2) Includes community partnership; 3) Labour practices partially includes some elements of ensuring basic human rights; 4) Partially includes indirect economic impacts; 5) Partially considers tax practices. 6) AMS = Advanced Manufacturing and Services; 7) Includes education and waste management. 8) Includes supply chain and relationships with vendors | Source: SASB IFRS Dec 2023, Bain IP

# 2. A core set of environmental industry-agnostic initiatives can help most portfolio companies enhance (financial) outcomes through sustainability (1/2)

✓ Positive outcome

(Sustainability) topics → Initiatives → (Business) drivers → (Financial) outcomes

Initiatives that are considered **generally relevant for >70% of sectors.**

| | Key initiatives | Exemplary value creation (business) drivers | Primary (financial) outcomes: Revenue | Primary (financial) outcomes: Costs | Primary (financial) outcomes: Risk mit. |
|---|---|---|---|---|---|
| E | **Improve energy efficiency in buildings** (e.g., LED lighting installation, building retrofitting, upgraded HVAC systems) | • **Optimised building operations** from improved efficiency of lighting and heating | | ✓ | |
| E | **Optimise processes to reduce energy and waste** (e.g., reuse heat, upgrade machinery, reuse water, install smart meters, etc.) | • **Operational efficiency** from energy savings and reduced waste disposal<br>• **Reduced regulatory burden** from carbon taxes | | ✓ | ✓ |
| E | **Integrate circularity into product life cycles** (e.g., incorporate recycled materials into product design, reuse waste to create new products) | • **Better customer value proposition and increased willingness to pay** from sustainable product offering<br>• **Operational efficiency** from reduced raw materials | ✓ | ✓ | |
| E | **Reduce packaging content** (overall material use) and incorporate recycled packaging[1] | • **Operational efficiency** from reduced raw materials inputs | | ✓ | |
| E | **Develop new sustainable products through innovation or make existing products more sustainable** (e.g., introduce product certification and labelling on existing portfolio) | • **Better customer value proposition** and increased willingness to pay from offering sustainable products<br>• **Accelerated innovation** from implementing new designs | ✓ | | |
| E | **Enhance renewable energy use and align procurement approach** with market conditions, contract structures and regional policies | • **Operational efficiency** from renewable energy use<br>• **Future proofing the business** through price stability | | ✓ | |

Required investments are highly sector dependent and business case calculation needed prior to selection

Note: Refer to Overview of initiative framework in appendix for explanation of initiative framework. 1) Especially relevant for manufacturing and industrials. | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and workshops on sustainability-linked value creation in private markets (N=357)

# 2. A core set of environmental industry-agnostic initiatives can help most portfolio companies enhance (financial) outcomes through sustainability (2/2)

✓ Positive outcome

(Sustainability) topics → Initiatives → (Business) drivers → (Financial) outcomes

Initiatives that are considered **generally relevant for >70% of sectors.**

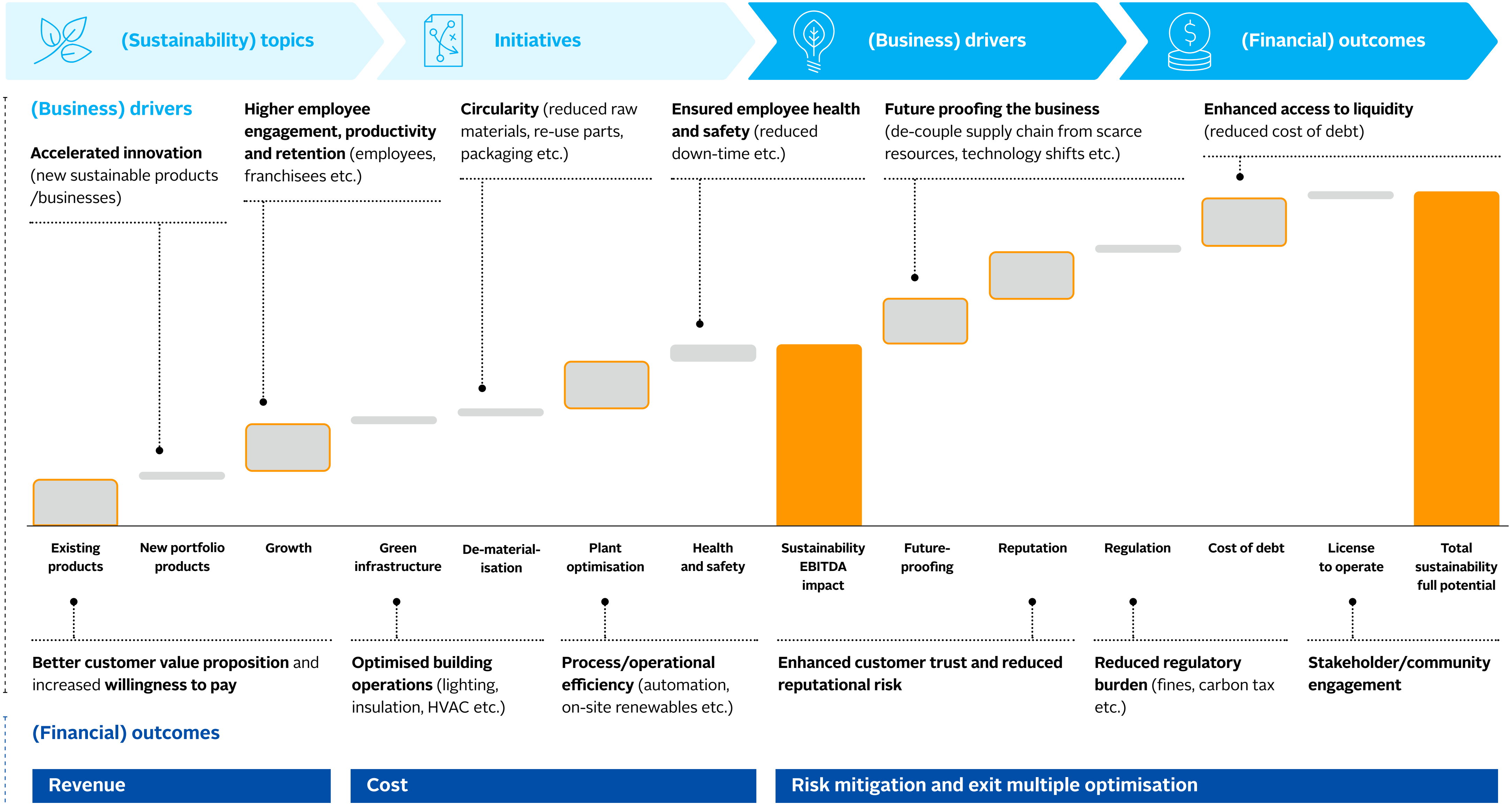
| Topic | Key initiatives | Exemplary value creation (business) drivers | Revenue | Costs | Risk mit. |
|---|---|---|---|---|---|
| S | **Improve worker health and safety**[1] (e.g., increase training hours, technological upgrades) | • **Improved health and safety** for employees reducing absenteeism | | ✓ | |
| S | **Implement zero critical incident measures** (e.g., safety protocols and training, technological updates, root cause analysis) | • **Improved health and safety** for employees reducing insurance premiums | | ✓ | |
| S | **Promote inclusiveness within leadership** to ensure high performing teams | • **Higher employee engagement, productivity and retention** from improved sentiment | ✓ | | |
| S | **Enhance skills development and career progression** (e.g., training, mentorship, promotion/career pathway) | • **Higher employee productivity and retention** from improved sentiment and competence | ✓ | | |
| S | **Promote employee ownership and engagement** (e.g., employee voice via surveys, investment in employee wellbeing, introduce flexible working) | • **Higher employee engagement, productivity and retention** from improved sentiment | ✓ | | |
| G | **Promote responsible technology practices** (e.g., rigorous cybersecurity measures, responsible AI polices) | • **Enhanced customer trust and reduced reputational risk**<br>• **Reduced regulatory burden** from litigation | | | ✓ |
| G | **Drive full traceability and transparency in the supply chain** (e.g., implement responsible sourcing programme) | • **Better customer value proposition** from offering traceable/certified sustainable products<br>• **Enhanced customer trust and reduced reputational risk** from unfair or harmful material sourcing | ✓ | | ✓ |
| G | **Implement sustainability governance frameworks** (e.g., sustainability/DE&I committee, executive sponsor) | • **Enhanced customer trust and reduced reputational risk** from robust governance measures | | | ✓ |

Required investments are highly sector dependent and business case calculation needed prior to selection

Note: Refer to Overview of initiative framework in appendix for explanation of initiative framework. 1) Highly relevant for non-services sectors. | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and workshops on sustainability-linked value creation in private markets (N=357)

# 2. At the core of value creation from sustainability lies integrating relevant drivers and initiatives into the company's business strategy

Most value-adding sustainability drivers (>65% of respondents considering it a key value driver[1])




Note: 1) Drivers rated 4–5 (on a 1–5 scale) for value creation in the below survey on sustainability-linked value creation. | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Survey on sustainability-linked value creation in private markets (N=85)

# 2. Some regions (Europe in particular) focus on revenue drivers, whilst other regions focus on cost savings and risk mitigation drivers

(Sustainability) topics → Initiatives → (Business) drivers → (Financial) outcomes

| Workshops | Key insights | Key (business) drivers[1] |
|---|---|---|
| Europe | **Leading region driving financial value** through sustainability, with a **strong focus on customers** through innovative initiatives like sustainable product offerings, **environmental and social initiatives** drive the most value, with Industrials, Consumer/Retail and Healthcare perceived to offer the greatest opportunities | • Better customer value proposition and increased willingness to pay<br>• Enhanced customer trust and reduced reputational risk<br>• Future proofing the business |
| North America | **Taking a different approach to sustainability** by establishing KPIs and data collection, while **prioritising risk mitigation and cost savings** through measures like energy efficiency. Industrials, Consumer/Retail and Healthcare sectors are offering the greatest opportunities. Facing challenges in linking initiatives to material financial outcomes | • Enhanced customer trust and reduced reputational risk<br>• Process/operational efficiency<br>• Better customer value proposition and increased willingness to pay |
| APAC | **Driving sustainability through revenue and cost drivers** by implementing **social initiatives** – such as employee engagement, talent and diversity – and **enhancing product sustainability** through environmental initiatives | • Higher employee engagement, productivity and retention<br>• Ensured health and safety for employees<br>• Better customer value proposition and increased willingness to pay |
| Latin America | **Driving financial returns primarily through environmental initiatives**, optimising costs and mitigating risks as key value drivers. **Focusing secondarily on social initiatives** to enhance diversity and formal employment, thereby reducing costs | • Process/operational efficiency<br>• Optimised building operations<br>• Enhanced customer trust and reduced reputational risk |
| Africa[2] | **Prioritising social programmes** in local communities as a key regional driver of financial returns through cost optimisation and risk mitigation. **Advancing environmental initiatives** by implementing water and energy efficiency measures to reduce costs | • Process/operational efficiency<br>• Enhanced customer trust and reduced reputational risk<br>• Enhanced access to liquidity |

Note: 1) Top three value drivers ranked first to third. 2) Drivers taken from Africa workshop. | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Workshops and survey on sustainability-linked value creation in private markets (N=400)

# 2. Tracking prioritised initiatives through key KPIs is instrumental to demonstrating achievements and linking sustainability to financial outcomes

(Sustainability) topics → Initiatives → (Business) drivers → **(Financial) outcomes**

| | (Sustainability) topics | Exemplary KPI | Exemplary value creation linkage[1] |
|---|---|---|---|
| E | Energy consumption and GHGs | • **Energy consumption per unit or $ of production** (GJ/per unit or $ of production) | • **$ reduction in energy costs** per unit or $ of production |
| | | • **GHG emissions per $ of revenue** | • **$ reduction in transportation costs** per $ of production |
| | Material use, waste and circularity | • **Waste recovered %** (% of total waste generated) | • **$ reduction in waste disposal costs**<br>• **$ increase revenues** from waste repurposed or recycled |
| | | • **Raw material recycled content %** | • **$ reduction in raw material input costs** (for products utilising lower-cost recycled materials) |
| | | • **Revenues from sustainable products %** | • **$ increase in revenue attributable to sustainable products** (market share, premiums, avoidance of lost RFPs) |
| | Water stewardship and management | • **Water withdrawal per unit of output** (l/per unit or $ of production) | • **$ reduction in water utility bill/costs per unit or $ production** (through water management systems) |
| | | • **Wastewater treated and reused %** | • **$ reduction in water procurement** and **wastewater treatment costs** |
| S | Labour practices | • **Lost time injury frequency rate** (per 1m hours worked) | • **$ reduction in insurance premium** per employee |
| | | • **Voluntary employee turnover rate %** | • **$ reduction in recruitment costs**<br>• **$ reduction in new hire training costs** |
| | | • **Employee engagement** (% change in NPS[2] score) | • **$ increased productivity per employee** |
| | Workforce composition and inclusion | • **Pay equity ratio** (women's and minority groups' pay vs. benchmark) | • **$ reduction in recruitment costs** (for women/minorities) |
| | | • **Retention rate** % | • **$ reduction in recruitment** costs |
| | | • **Employees feeling included** between different demographic groups % | • **$ increase in productivity per employee** |

Notes: 1) % change in financial metric can help establish relevance when exact financial value is difficult to determine, 2) NPS = net promoter score | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Workshops on sustainability-linked value creation in private markets (N=330), KPMG, SMI

# 2. Tracking prioritised initiatives through key KPIs is instrumental to demonstrating achievements and linking sustainability to financial outcomes

(Sustainability) topics → Initiatives → (Business) drivers → **(Financial) outcomes**

| | (Sustainability) topics | Exemplary KPI | Exemplary value creation linkage[1] |
|---|---|---|---|
| S | Customer safety and engagement | • **Annual number of product recalls/safety incidents** | • **$ reduction in legal liability, regulatory fines and recall costs** |
| | | • **Customer satisfaction (CSAT) or net promoter score** (NPS[2]) (% change in NPS/CSAT scores) | • **$ increase revenue** from repeat purchases and upselling opportunities |
| | | • **Products with safety certifications/audits completed %** | • **$ reduction in compliance fines**<br>• **$ increase from premium pricing** |
| G | Transparency and risk management | • **Number of cybersecurity breaches** per year | • **$ reduction in incident response costs**<br>• **$ reduction in financial penalties** related to cybersecurity breaches |
| | Third-party relationships | • **Tier 1 and tier 2 suppliers meeting sustainability criteria** | • **$ reduction costs** from switching or disruptions |
| | | • **Spend with strategic/preferred suppliers %** | • **$ reduction in costs through volume leverage, consistent quality and reduced defect rates** |
| | | • **Suppliers under formal sustainability contracts** (including clauses for human rights, emissions etc.) **%** | • **$ reduction in lawsuits, boycotts and sustainability controversies** |
| | Governance foundation | • **Frequency of risk, ethics and compliance training** (for leadership and employees) | • **$ reduction in regulatory fines, lawsuits and reputation-driven revenue loss** |
| | | • **Board-level meetings including sustainability topics %** | • **$ increase in capital access** via sustainability-conscious investors |
| | | • **Number of incidents reported and resolved** through whistleblower policy | • **$ reduction in regulatory fines, litigation etc.** |

Notes: 1) % change in financial metric can help establish relevance when exact financial value is difficult to determine, 2) NPS = net promoter score. | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Workshops on sustainability-linked value creation in private markets (N=330), KPMG, SMI

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# 3. Key organisational enablers for value creation through sustainability

- Achieving sustainability-linked value creation requires **key organisational enablers at both the investment firm and PortCo levels**
- **Structural integration** between firm and PortCo is critical
- At firm level, fostering **buy-in and integration** between leadership, deal, operations/portfolio management and sustainability teams helps to remove silos. **Embedding sustainability in governance, processes, budgeting** and incentives ensures execution and long-term value
- At PortCo level, assigning clear **ownership of sustainability** and ensuring **close collaboration between leadership and the firm's sustainability team** ensures effective execution against the **sustainability-linked roadmap**
- At both firm and PortCo, **leadership commitment, robust data collection and tracking of sustainability and financial metrics** are fundamental to demonstrating ROI and driving value

# 3. Driving financial value through sustainability requires a holistic approach – the Sustainability Value Creation (SVC) framework

**1 Investment firm**

Key sustainability-related activities

**Strategy and fundraising**

**Key activities**

Dual screening and due diligence → Sign-to-close → Early holding → Portfolio management → Exit

**2 Company Target and PortCo**

Approach for driving value through sustainability

(Sustainability) topics → Initiatives → (Business) drivers → (Financial) outcomes

Embedded into existing business priorities and transformations

**3 Organisational enablers**

- Leadership and culture
- Structure and governance
- Business processes
- Management systems
- Talent
- Data and metrics

# 3. Ensuring structural integration between key stakeholders and teams helps to foster buy-in and promotes execution at PortCo level

## Private market investor

### Board and leadership

- Set overall strategic **sustainability ambition** for firm
- Makes **investment decision and** selects PortCo board rep (IC[1])

### Deal team

- **Assesses** sustainability-linked **value creation** potential in target
- **Integrates findings** in IC memos and value creation plan

### Operations/portfolio management team

- **Integrates** sustainability-linked findings in general value creation initiative operationalisation
- **Ensures execution** at PortCo

### Sustainability team

- Supports on **sustainability DD** and provides recommendation on whether to use external advisors and key material topics
- **Drafts** sustainability **approach and** strategic priorities
- **Supports** PortCo in **execution**

## PortCo

### Board

- Makes strategic sustainability **decisions, oversees progress and** decides on potential changes

### Executive management (C-level)

- Provides information to investment firm (during DD and holding)
- Decides on specific sustainability value creation initiatives – based on internal operations team and investment firm teams' input

### Operating teams

- **Execute** initiatives
- **Provide information** for decision-making

**Close collaboration** required, sustainability as an **integral part** of investment processes, value creation plans, etc.

Note: 1) IC = Investment committee makes investment decision – consists of senior leadership/managing partner as well as a mix of investment, finance, legal and sustainability experts. | Source: PRI, NYU Stern CSB, Bain & Co. (2024). Interviews and survey on sustainability-linked value creation in private markets (N=112); PRI Private Equity Research

# 3. Driving sustainability-linked value requires clear organisational enablers including buy-in, sustainability governance and integrated investment processes

## Organisational enabler categories

| Leadership and culture | Structure and governance | Business processes | Management systems | Talent | Data and metrics |
|---|---|---|---|---|---|

The **structure and extent of orgisational enablers vary based on firm characteristics,** e.g., smaller firms relying on double-hatted CSOs, larger ones having dedicated roles, incentives ranging from leadership-only (if any) to including deal and operations teams in more mature firms

## Key enablers fueling sustainability value creation

| Top executive ownership of sustainability | Dedicated sustainability-linked governance | Integrated workflows | Sustainability-linked incentives | Adequate sustainability capabilities | Centralised sustainability data system |
|---|---|---|---|---|---|
| Appoint senior sustainability leader (e.g., CSO) to drive sustainability strategy across the firm and funds and ensure senior management and board see and promote its relevance | Establish sustainability-focused governance, e.g., a committee to oversee strategy execution, progress and alignment with LP expectations | Incorporate sustainability considerations into all key processes, e.g., in monitoring progress on KPIs in regular business reviews and showing sustainability improvements to enhance valuation during exit | Tie rewards for deal, operations and management teams to sustainability outcomes, highlighting the relevance the company assigns to this and incentivising the right behaviour[1] | Identify and close capability gaps through internal/external experts with a combination of private markets and sustainability expertise. Deploy resources effectively, ensuring alignment with portfolio-specific needs | Establish firm-wide platforms to aggregate and analyse sustainability and linked financial data across all PortCos, ensuring standardised, auditable and actionable metrics |
| **Buy-in from key stakeholders/teams** | **Team-level structural integration avoiding silos** | **Sustainability-aligned standardised processes** | | **Continuous cross-functional education** | **Value-focused KPIs and tracking of progress** |
| Ensure deal/ops. teams are committed to and collaborate on sustainability to ensure it is integrated across the lifecycle (through showcasing of sustainability value, incentives, education, etc.) | Ensure close collaboration with ops. and deal teams to facilitate cross-functional, seamless integration into value creation plans and execution; ideally, embed the sustainability team in those | Establish clear, standardised, firm-wide protocols/ frameworks for assessing potential trade-offs between financial value and sustainability impacts to guide decision-making | | Educate talent on sustainability trends, best practices and regulatory changes, e.g., through regular peer-learning programmes among internal teams to foster cross-functional thinking | Appoint senior sustainability leader (e.g., CSO) to drive sustainability strategy across the firm and funds and ensure senior management and board see and promote its relevance |

Note: 1) Incentives should follow the correct carry mechanism tied to sustainability targets and KPIs and ensure alignment with fiduciary duty; 2) From this set of metrics, a sensible sub-set can be chosen for each PortCo
| Source: PRI, NYU Stern CSB, Bain & Co. (2024). Survey, interviews and workshops on sustainability-linked value creation in private markets (N=400); PRI Private Equity Research

# 3. Implementing value-driving sustainability initiatives requires critical organisational enablers at PortCos

## Organisational enabler categories

| Leadership and culture | Structure and governance | Business processes | Management systems | Talent | Data and metrics |
|---|---|---|---|---|---|

The **structure and extent of orgisational enablers vary based on firm characteristics,** e.g., smaller firms relying on double-hatted CSOs, larger ones having dedicated roles, incentives ranging from leadership-only (if any) to including deal and operations teams in more mature firms

## Key enablers fueling sustainability value creation

| Defined board/executive sustainability leadership | Clearly define ownership | Sustainability in operations and processes | Allocation of budget for initiatives | Access to sustainability skills | Identify data and company-relevant KPIs |
|---|---|---|---|---|---|
| Assign a senior leader/ sponsor (sustainability manager or C-level sponsor) to drive and oversee material company-level sustainability initiatives/matters. Collaborate with firm-level board representative | Define sustainability governance at PortCo, with clear responsibilities, reporting lines and committees to ensure accountability | Integrate sustainability considerations (circularity principles, sustainable supply chain practices, resource efficiency, etc.) into day-to-day operations and business processes (e.g., supplier selection) | Assign budget for initiatives in PortCo (annual) budget allocation discussions. Budget for sustainability initiatives based on their business case ROI (vs. other initiatives) | Upskill through workshops and learning platforms to inform and update employees on sustainability-linked value creation topics and practices; If budget is available, hire experts in relevant focus areas (e.g., decarbonisation) | Identify most relevant data points and KPIs (aligned with sustainability goals and including financial outcomes); measure and track progress, including tracking returns |
| **Sustainability champions and buy-in** | **Sustainability-linked roadmap development** | **Regular business reviews** | **Sustainability-linked incentives** | **Allocation of talent to sustainability** | **Digital tools/robust data infrastructure** |
| Integrate sustainability into firm culture and encourage cross-functional engagement (e.g., by communicating the relevance and value of sustainability to PortCo employees) | Determine most material sustainability issues/ opportunities and prioritise initiatives based on strategic value. Develop roadmap and assign relevant metrics for management and continued prioritisation | Develop clear project roadmap for the PortCo that prioritises ROI-positive sustainability initiatives (e.g., energy efficiency, waste reduction); then track by integrating reporting/updates into existing business reviews | Tie management bonuses to the achievement of sustainability milestones (e.g., reducing emissions by a set percentage, achieving circular economy certifications, or improving diversity metrics) | Define a clear time allocation of employees to spend on sustainability. Procure external advice, mainly in the beginning to bridge gap and learn best practices from experts | Use sustainability software to enhance decision-making, monitor and report sustainability performance (e.g., tools like Persefoni, Watershed for carbon accounting, EHS, sustainability reporting software) at PortCo |

Source: PRI, NYU Stern CSB, Bain & Co. (2024). Survey, interviews and workshops on sustainability-linked value creation in private markets (N=400)

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# Initiative outlook

| Focus of this document | What comes next? | |
|---|---|---|
| **Phase 1** | **Phase 2** | **Phase 3** |
| 2024-2025 | 2025-27 | 2027-28 |
| • **Elevate sustainability as a core value driver in private markets,** shifting the focus to tangible financial outcomes<br>• Provide **practical, insight-driven guidance on driving value through sustainability**, showcasing key activities and best practices across the investment cycle<br>• **Spotlight high-impact value drivers, topics and initiatives** across key industries<br>• Drive **investor dialogue**<br>• Work with practitioners to align on priorities for **further enhancements and feedback** | • **Industry value creation approaches** across select industries<br>• **Playbooks and methodologies to quantify financial impact** from sustainability initiatives (by industry/business)<br>• **Case studies** of how the playbook has been used in transactions<br>• Broader **investor engagement and dialogue** | • **Quantitative assessment of the contribution** of identified initiatives to real world **financial performance and exits/liquidity events** |

# Contents

# Overview of sources

## Primary sources (private market investors)

### 27 interviews with heads of ESG/sustainability and portfolio operations representatives for sustainability

- Investor #1, Africa
- Investor #2, North America
- Investor #3, North America
- Investor #4, LatAm
- Investor #5, APAC
- Investor #6, North America
- Investor #7, North America
- Investor #8, EMEA
- Investor #9, North America
- Investor #10, North America
- Investor #11, EMEA
- Investor #12, EMEA
- Investor #13, APAC
- Investor #14, North America
- Investor #15, LatAm
- Investor #16, EMEA
- Investor #17, North America
- Investor #18, North America
- Investor #19, EMEA
- Investor #20, North America
- Investor #21, EMEA
- Investor #22, EMEA
- Investor #23, APAC
- Investor #24, North America
- Investor #25, APAC
- Investor #26, Africa
- Investor #27, North America

**Six workshops (N = 330)**

- Five workshops across geographies (North America, Europe, Asia-Pacific, Latin America, Africa) plus one workshop with the Sustainable Markets Initiative investor group

**Survey (N = 85)**

- Online, global private market investor survey, across North America, Europe, Asia-Pacific, Latin America and Africa, conducted between Nov 2024 and Feb 2025

**Consultations** with PRI Private Equity Advisory Committee members and a broader stakeholder group of c.80 members

## Secondary sources

### Research and thought leadership from PRI, NYU Stern and Bain


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- NYU Stern CSB (n.d.). GP Value Driver Tool
- NYU Stern CSB (n.d.). Responsible Private Equity Research
- NYU Stern CSB (n.d.). Return on Sustainability Investment (ROSI™) Methodology
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# Secondary sources beyond Bain, NYU Stern CSB and PRI materials

## Other secondary sources


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- Kohlberg & Company (2023). Sustainability in action (not publicly available)
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# Legend key

| | |
|---|---|
| Revenue | Business drivers |
| Costs | Environment |
| Risk mitigation and multiple optimisation | Social |
| Risk mitigation/resilience | Governance |
| Multiple optimisation | Energy consumption and GHGs |
| Financial outcomes/value creation potential | Material use, waste and circularity |
| Sustainability topics | Water stewardship and management |

| | |
|---|---|
| Workforce composition and inclusion | Energy and Natural Resources |
| Customer safety and engagement | Industrials and Advanced Manufacturing and Services |
| Transparency and risk management | Labour practices |
| Third-party relationships | Initiatives |
| Governance foundation | |
| Healthcare and Lifesciences | |
| Consumer Products and Retail | |

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