

Capstone Partners, A Mizuho Company ESG Survey Results and Insights

Favorable trends for ESG focused fundraising, but more to be done to increase LP commitment outside Europe and bring regulatory frameworks in line with value creation opportunities

Europe is in the driving seat when it comes to impact investing and ESG. According to the latest ESG survey from Capstone Partners, a Mizuho Company, which canvasses the views of over 290 LPs across the globe, maturity, interest levels and speed of engagement vary considerably between geographies, with the gap widening between Europe and both North America and Asia Pacific. For the majority of LP participants in Asia Pacific and North America, ESG fails to be included within the top five priorities.

ESG is considerably higher up on the agenda for European LPs. They have gone the furthest with the allocation of dedicated capital for impact or ESG-focused investment, with 30% of European participants currently taking this approach. The allocation is less in North America (10%) and Asia Pacific (16%), where levels have not increased over the last three years. Significantly, where there is a dedicated pool of capital available, it has been allocated partially or entirely through new relationships for most LPs surveyed. In the current environment where fresh capital is hard to find, this is a tailwind for ESG-focused fundraising.

For LPs globally, impact investing is above all defined by the operational strategy implemented in portfolio companies. However, in North America, the main indicator is invested sectors, which could be seen as an easy proxy for impact investing and is potentially symptomatic of a less mature understanding of the market.

Meanwhile in Europe, LP resources dedicated to ESG are increasing, with 74% of participants reporting that they implemented ESG initiatives in their investment strategy or at a corporate level at least two years ago. The picture is much more mixed in other parts of the world, with 53% of North American participants reporting that they had taken no action in this field at all. Time spent on ESG due diligence has increased in Europe for nearly two-thirds of participants, but is not replicated in North America or Asia Pacific.

Across the board, ESG is seen as an exit enhancer by LPs. Europe leads the pack with 93% believing ESG practice will positively enhance an exit outcome, but Asia Pacific (77% of LP participants) and North America (67%) are not far behind in taking this view.

The survey also shows that LPs have moved beyond the regulator - and especially the SFDR framework - in approaching impact investing and seeing opportunity for value creation. An overwhelming majority of LP participants from all regions currently find more ESG and financial value in transitioning grey companies into green versus investing in green companies to make them greener. An improved regulatory framework, including an SFDR reform, to better include transition strategies would be welcomed by investors globally at a time when decarbonization is a steady trend.

Despite the broad acknowledgement that ESG has financial value and can enhance exits, it is fund performance and financial returns that are the foremost priority for all LPs. Although this view is strongest in North America, it is echoed in both Asia Pacific and Europe.

Steve Standbridge, Managing Partner and President of Capstone Partners, a Mizuho Company said:

“Our latest survey gives a clear message that ESG is rated by LPs and GPs alike as a value enhancer at exit time, and that there is strong support for impact investing across the world. In a time when fundraising conditions are challenging, it has the potential to open doors to important new relationships.”

“However, the disparity between its significance is marked, with North America and Asia still some way behind Europe in terms of ESG engagement, and in the way they prioritize different aspects of ESG. This has clear ramifications for international fundraising. For global funds looking to raise capital from European LPs, ESG cannot be overlooked. However, it also puts the matter into context for European funds looking for capital from the wider global markets. Ultimately, there is no substitute for strong performance and returns – it is the top priority for all LPs.”

“Our survey also shows that the market has moved beyond the regulator in terms of opportunities to create ESG and financial value. Investors would welcome an informed framework to keep pace with this and better include transition strategies and other trends within ESG.”

About Capstone Partners, a Mizuho Company

Capstone Partners, a Mizuho Company, is a global placement agent focused on fundraising and advisory services for private equity, credit, real assets, and infrastructure investment firms. It has a global network of more than 1,500 Limited Partners across the US, Europe, and Asia.

In 2022, Capstone was acquired by New York based Mizuho Americas, expanding the Firm’s broader investment banking and advisory capabilities for financial sponsors. Mizuho Americas is an integral part of Japan-based Mizuho Financial Group, Inc. (NYSE: MFG). To learn more about its capabilities, visit www.mizuhogroup.com/americas/banking/industry-coverage/financial-sponsors.

For additional information about Capstone’s experience and team, visit www.csplp.com.