

ESG Maturity Assessment of the Spanish Private Equity Market 2024

February 2025



Content

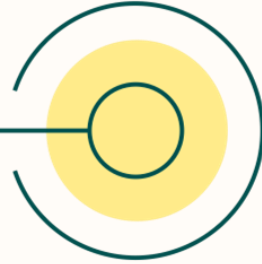




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Context

Introduction

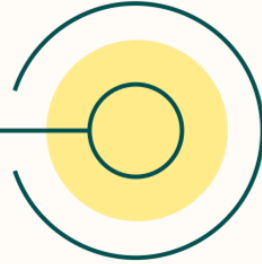


This study is a continuation of the analysis initiated by Ethifinance in the first edition of the "***SRI Study on the Spanish Private Equity Market 2023***". In that first edition, the level of ESG (Environmental, Social and Governance) maturity of Private Equity managers in Spain was assessed, identifying trends and areas for improvement. This type of research is carried out by Ethifinance in other markets, such as the French and German, with the aim of learning about trends and levels of ESG maturity in other European economies.

In addition, Ethifinance conducts research on the level of ESG maturity in the real estate asset management sector in France, highlighting significant advances in sustainability, including the adoption of the Environmental Taxonomy and policies for the reduction of greenhouse gas (GHG) emissions in real estate asset management.

The European regulatory environment continues to play a key role in the development of sustainability in financial markets. Regulations such as the SFDR (Sustainable Finance Disclosure Regulation) establish requirements on the integration of sustainability risks and the classification of financial products according to ESG criteria. This regulation promotes **harmonisation, transparency and accountability** from asset managers, setting the standard that is applied by private equity managers in Spain. However, the SFDR is not exempt from potential future changes, in fact the European Commission launched a public consultation in September 2023, which has been closed in December of the same year, with the aim of assessing possible improvements to the regulatory framework, specifically clarifying the definitions of financial products to reduce the uncertainty generated in the market and thus facilitate the implementation of the regulation for obliged parties.

Introduction

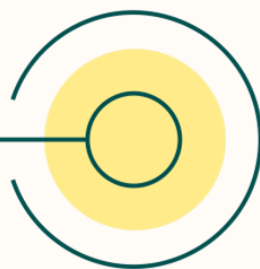


In addition, this consultation addresses the possible reclassification of financial products, proposing new categories such as "sustainable" and "transition" to improve transparency and prevent *greenwashing*. The consultation is currently awaiting the drafting of a legislative proposal, coinciding with the start of the next mandate of the European Parliament.

The main objective of this year's edition is to analyse the annual evolution of ESG integration by Private Equity managers in Spain, highlighting the emerging trends for this sector. It also aims to assess how these practices are aligned with regulatory requirements and to contextualise the progress and challenges in a sector that has a significant level of influence in the real economy.

The scope of the study focuses exclusively on private equity managers established in Spain, operating as 'pure players'. The research is based on public sources of information taken mainly from the websites of the managers analysed, in line with the objective of the SFDR regulation, which aims to boost transparency in the asset management market.

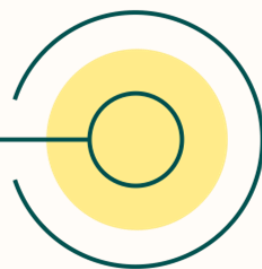
Methodology



Compared to the 2023 study, EthiFinance's sample selection methodology has been updated for this study, ensuring a more accurate and in-depth analysis with the aim of focusing the assessment on the most relevant market players where ESG trends can be identified. In this regard, the 2023 study focused on Private Equity managers considered 'pure players', operating exclusively in Spain, and with information publicly available on their websites or regulatory documents published by the Spanish Securities Market Commission (CNMV). This year, the analysis maintains its focus on these same public sources; however, it includes an additional criterion: a minimum threshold of EUR 100 million in assets under management. In order to ensure the correct identification of ESG trends in the private equity market, the methodology allows for the possibility of making exceptions for managers with less than EUR 100 million under management, provided that they are key players in the generation of ESG trends in the field of sustainable and impact investing. These exceptions are duly identified, assessed and approved, based on EthiFinance's methodology. Under this updated methodology, the number of fund managers analysed in this edition is **60** out of over 170¹ Private Equity Asset Managers in Spain.

The assessment framework has also evolved from 34 to **37 indicators**, now grouped into **five main areas**: ESG Management, Financial Product Ratings under the SFDR, ESG Reporting, ESG Voluntary Frameworks, and Specialised Approaches (Transition, Impact and Biodiversity). These changes reflect an effort to more specifically address current market practices.

Methodology

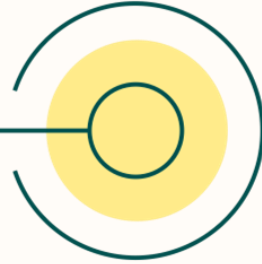


Since the first edition of the study, the EthiFinance analytical framework has remained aligned with industry best practice and regulatory guidelines. This year, as a result of the SFDR consultation, the framework has been updated to incorporate three new indicators. These include the **presence of specific approaches for Impact, Transition and Biodiversity investments**. The incorporation of these KPIs responds to market developments and new practices around these concepts. In this sense, the introduction of these new KPIs has led to an update in the weighting of all indicators, ensuring that new practices in the sector are adequately reflected in the assessment. Likewise, the assessment scale used in the first edition is maintained in this study.

As mentioned above, as in the first edition of the study, data have been collected from public sources, including asset managers' websites and documents (commercial prospectuses) available at the CNMV. The data collection process was carried out between **2 September 2024 and 14 October 2024**, ensuring that the information used is up-to-date and relevant.

The process of developing the study has followed several key steps to ensure the quality of the results. First, the data collected underwent two quality reviews to verify accuracy and consistency. This was followed by data analysis and the identification of key trends in the market. Finally, the findings were consolidated in the process of writing the study, ensuring that the results accurately reflect the current situation in the sector.

Methodology



Due to the update of Ethifinance's methodology, this edition does not consider it consistent to make a global comparison of the evolution of the ESG maturity level of the management companies analysed in 2023 and 2024. However, and considering the relevance of the data collected in the 2023 study, comparative data on certain aspects have been included in this edition, a comparison that has been carried out in a specific and comparable manner, ensuring that it is carried out exclusively on the managers included in this edition and on those criteria assessed in the previous edition.

Finally, and with a view to future editions, the data included in this edition of the study will form the basis on which to assess the annual evolution of ESG trends in the Spanish private equity market.



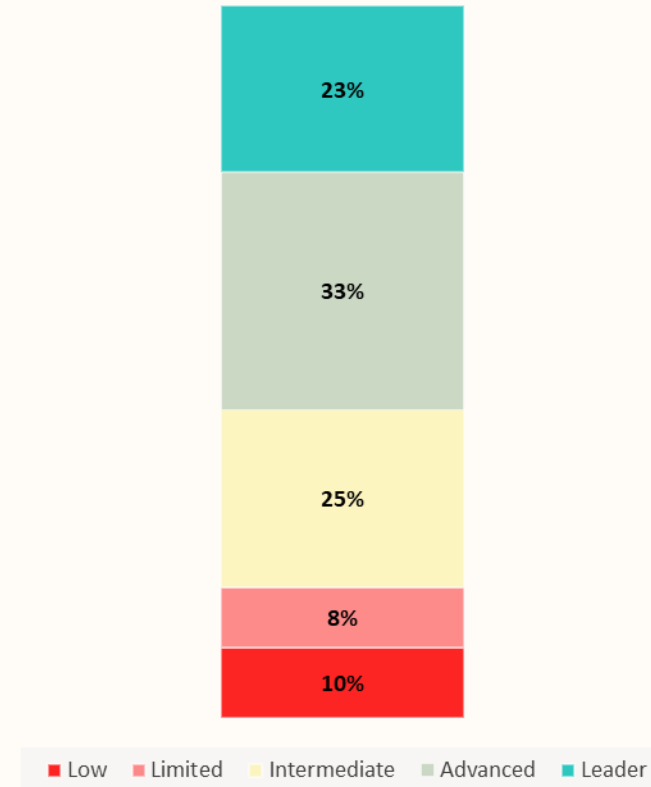
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Analysis & Results

Overall ESG maturity score

- The **"Leader"** category groups together those Asset Managers that have achieved an ESG maturity score between 75 and 100, equivalent to **23%** of the total analysed in the study. This group is characterised by a high level of compliance with the criteria set out in the assessment framework. Asset managers in this category stand out for their leading-edge ESG policies and practices, positioning themselves as industry benchmarks and promoting new trends.
- The **"Advanced"** category brings together asset managers with an ESG maturity score between 50 and 74, representing **33%** of the entities analysed in this study. These asset managers have implemented formalised ESG policies and have specific commitments, although their maturity is somewhat lower compared to the asset managers included in the "Leading" category. This group shows areas for improvement in areas such as investment exclusions, resources dedicated to ESG issues and diversity in the sustainable fund offering.
- The **"Intermediate"** category groups together asset managers with an ESG maturity score between 25 and 49, which corresponds to **25%** of the entities assessed. This group is characterised by a defined focus on ESG, although their strategies are still in the process of consolidation. ESG initiatives in this category are relevant but tend to be less structured compared to higher categories.
- The **"Limited"** category encompasses asset managers with an ESG maturity score between 10 and 24, representing only 8% of the analysed entities. These asset managers are at an early stage of integrating ESG strategies, which in many cases are restricted to specific funds rather than the entire organisation.
- Finally, the **"Low"** category groups together asset managers with an ESG maturity score of less than 10, representing **10%** of the total number of entities assessed. This group is characterised by an underdeveloped or non-formalised ESG approach, reflecting a significantly limited level of integration in their strategies.

Distribution of Asset Managers based on their ESG maturity score

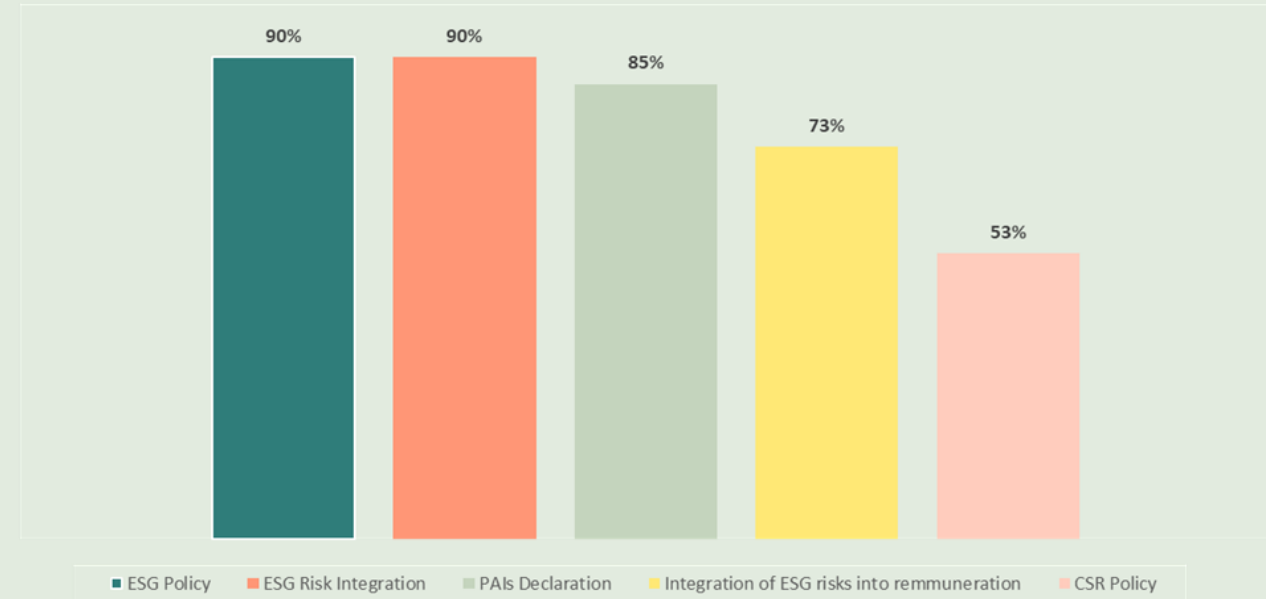


ESG management

To analyse the ESG approach, the study identified the measures implemented by Asset Managers to incorporate ESG criteria into their investment processes, based on five criteria, as shown in the graph. The results of the research conducted show the following:

- El **90%** of the Asset Managers assessed have an entity-level ESG Policy published on their website, compared to 84% in the previous edition.
- **90%** of the Asset Managers assessed **integrate ESG risks** into their investment process at the entity level, compared to 91% in the previous edition
- **85%** of Asset Managers make an explicit statement regarding whether or not they consider **Principle Adverse Impacts (PAIs) in their investment process. Of the asset managers included in this percentage, 42%** state that they consider **PAIs**, as opposed to 43% who state that they do not consider them. Given the forthcoming update of the SFDR, which aims to clarify technical aspects of the regulation, it is likely that the number of fund managers reporting consideration of PAIs will increase in the future.
- **73%** of Asset Managers in Spain include **ESG criteria in their remuneration policy**, compared to 25% in the previous edition.
- More than half of the managers analysed, specifically **53%**, publish a **CSR Policy** on their website, which covers the general practices of the entity. This demonstrates a clear commitment of the Spanish Private Equity sector to incorporate sustainability as a transversal axis in its business strategy, beyond regulatory requirements.

Share of Asset Managers that incorporate ESG criteria



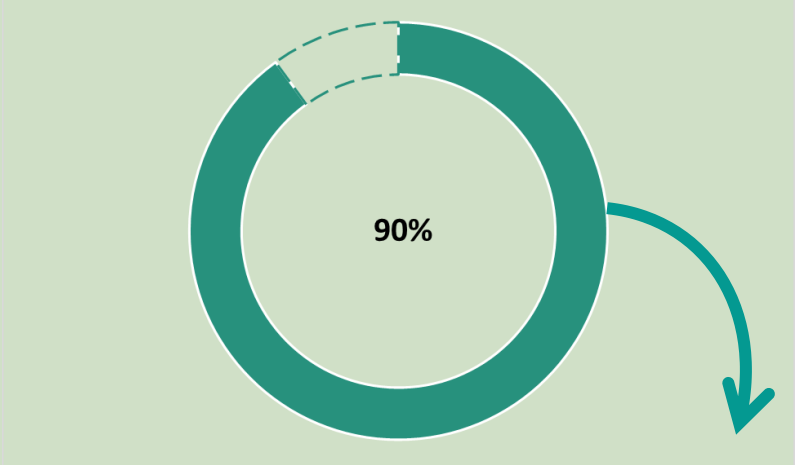
ESG Policy

The evaluation of ESG policies was carried out only through the website of the Asset Managers, in order to verify the degree of compliance with the disclosure requirements of the SFDR. The most relevant findings are summarised below:

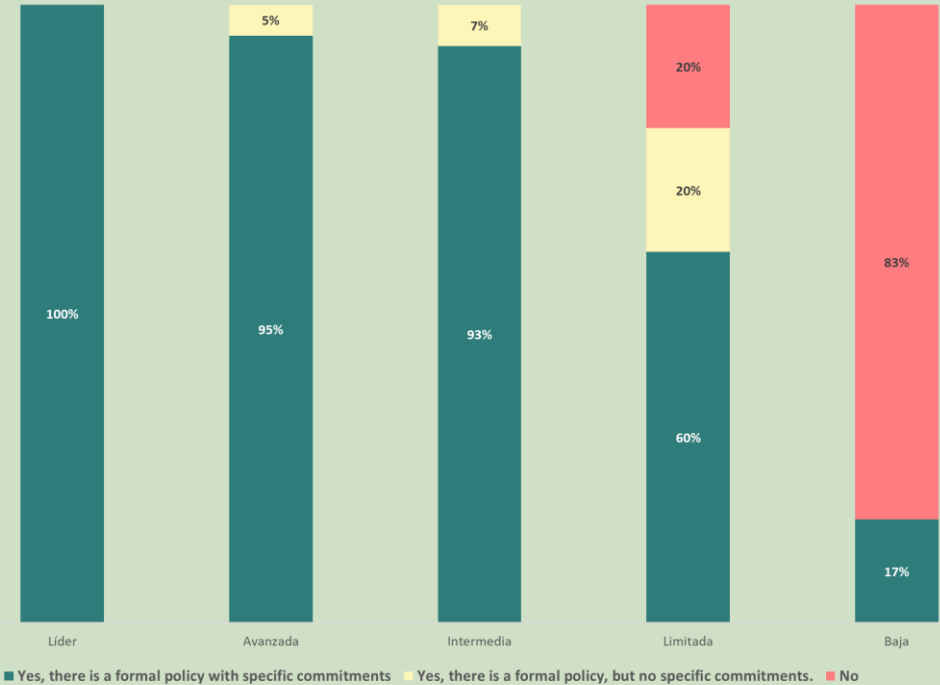
- **90%** of the Asset Managers surveyed have a formalised ESG Policy, representing all Asset Managers with an ESG maturity score above 25 ("**Intermediate**", "**Advanced**" and "**Leader**" categories). In addition, the vast majority of policies include specific ESG commitments.
- **83%** of Asset Managers in the "**Low**" category do not disclose an ESG Policy.

The publication of an ESG Policy is the milestone for integrating ESG into the investment process with the highest adoption in the Private Equity market in Spain, as 90% of the Asset Managers analysed publish an ESG Policy on their website.

Share of Asset Managers that disclose an ESG policy



Asset Managers that disclose an ESG Policy by categories



ESG Risk Integration, Principle Adverse Impacts (PAIs) and Remuneration

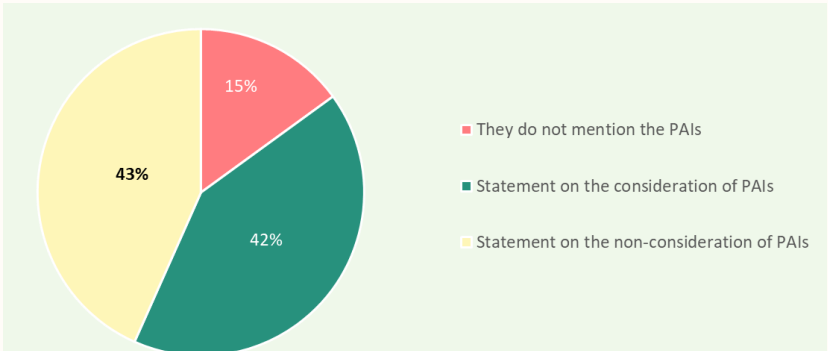
ESG Risk Integration:

According to the Asset Managers analysed in this study, the level of progress in integrating ESG risks into their processes is reaching an advanced level, with **43%** of asset managers stating that they not only identify sustainability risks and have mitigation actions in place but also carry out a **financial quantification of these risks**. However, it should be noted that ESG risk quantification methodologies are constantly evolving, and it is a challenge for managers to identify a methodology that fits their investment universe.



Principle Adverse Impacts (PAIs):

The reporting of Principle Adverse Impacts remains a challenge for the industry, probably due to the lack of clarity in regulation and the lack of quality ESG data, with **43% of Asset Managers including a mention of the non-consideration of PAIs**, which is higher than those who consider them in their investment process (42%). Notably, 15% of asset managers have no statement (either positive or negative).



Remuneration:

73% of the Asset Managers analysed have a policy that **links sustainability risk management to the entity's remuneration objectives**. This demonstrates a high commitment of the Private Equity sector to integrate sustainability into their strategic themes.

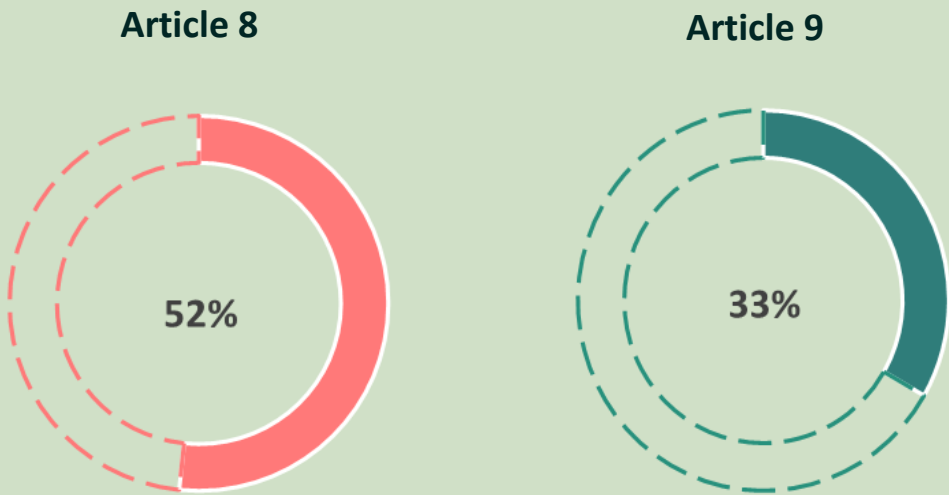


Classification of financial products according to SFDR

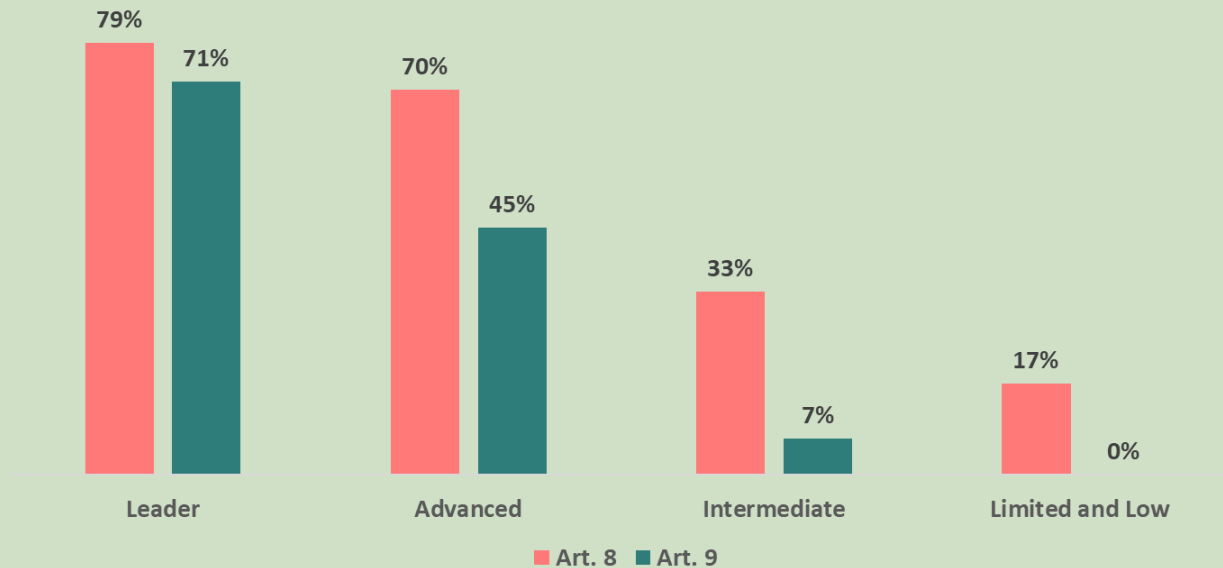
As previously mentioned, the SFDR, as a key framework for sustainability transparency in financial markets, establishes a classification of financial products. In this regard, the regulation, in its current version, classifies financial products into two categories, based on transparency requirements: Article 8, they promote environmental and/or social characteristics; Article 9, have a sustainable investment objective that contributes to an environmental and/or social objective from the European Union.

- **52%** of the Asset Managers surveyed disclose information on at least one **Article 8** fund under SFDR, while **33%** of Asset Managers disclose information on at least one **Article 9** fund.
- **79%** of the "Leaders" manage at least one fund classified under **Article 8 of the SFDR**. In addition, **71%** of Asset Managers in the "Leaders" category manage at least one fund classified under **Article 9**.

Proportion of Asset Managers managing at least one classified fund



Proportion of Asset Managers with at least one fund classified under Articles 8 or 9 of SFDR, by category

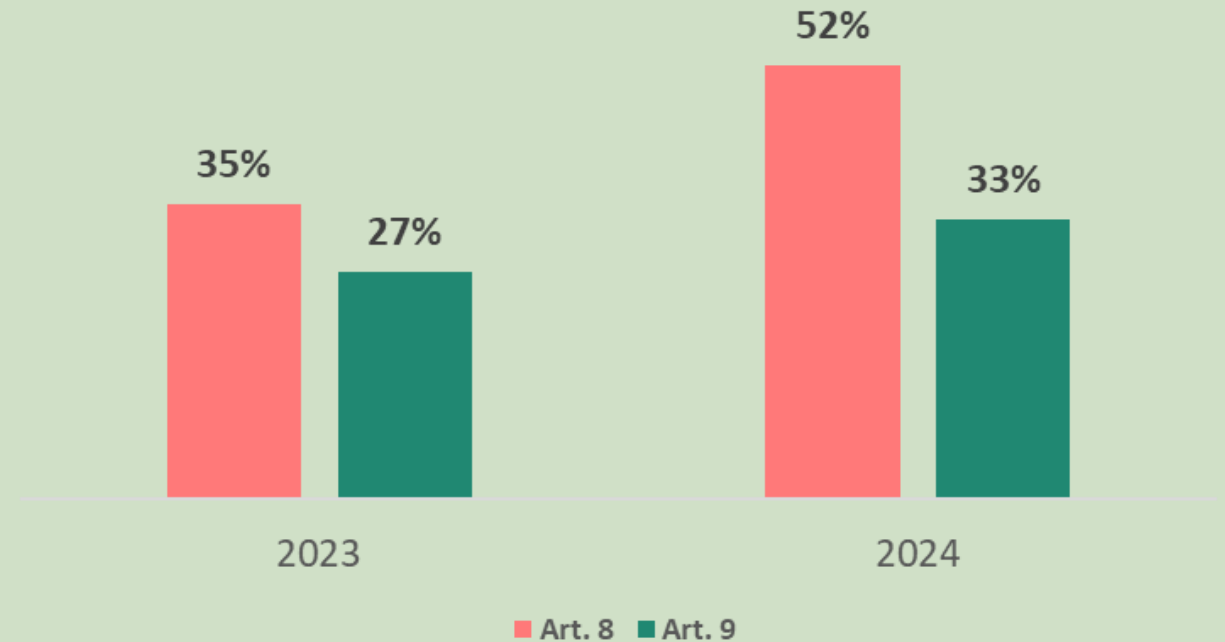


Comparison of results 2023 vs. 2024 (SFDR):

- Products aligned with environmental or social characteristics (Article 8) increased from **35%** in 2023 to **52%** in 2024, showing significant progress.
- Although there is evidence of an evolution of financial products classified under Article 9 of SFDR, from **27%** in 2023 to **33%** in 2024, there is still a potential growth opportunity.
- The data reflect a trend towards more demanding classifications in terms of sustainability, with **significant growth in Article 8 products**; however, progress in **Article 9 products shows signs of slowing down**, attributable to the uncertainty and technical complexity of the regulation. In this context, the European Commission has launched a public consultation, published on 14 September 2023 and closed on 15 December 2023, to assess possible improvements to the SFDR regulatory framework, with the aim of clarifying definitions, reducing uncertainty and facilitating the implementation of the regulation for market participants. In addition, the consultation addresses the potential reclassification of financial products, proposing new categories such as "sustainable" and "transition", to improve transparency and combat greenwashing.

Regional regulation: Regulatory developments at the international level reflect a concerted effort to achieve long-awaited harmonisation, to combat greenwashing and to strengthen the market for sustainable finance globally. Regulations such as the SFDR in the EU, the *Sustainability Disclosure Requirements* (SDR) in the UK and the SEC proposals in the US are a clear effort to achieve the joint climate objective; however, international regulation also faces major challenges, the most important of which is to achieve interoperability of all these international frameworks without impacting the competitiveness of the markets.

SFDR classification
2023 vs. 2024



Exclusion criteria

Exclusions, which can be either regulatory or sectoral, are common practices among Asset Managers to eliminate from their investment universe certain activities that are considered harmful to society and the environment.

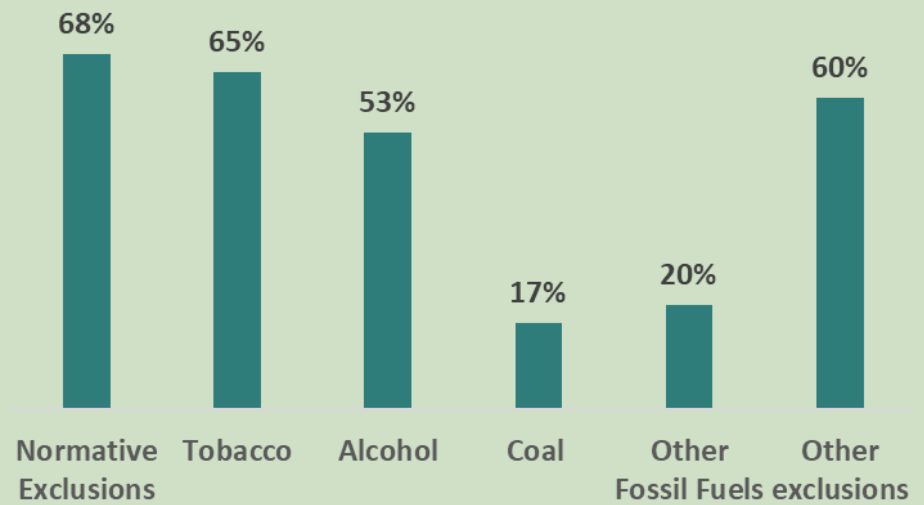
- 78% of Spanish Asset Managers publish an **exclusion list** on their website, up from 52% last year.
- 68% of the Asset Managers surveyed include **normative exclusions**² in their ESG Policy, up from 62% last year, demonstrating a clear commitment by these players to align with the highest international standards. In line with the findings of last year's edition of this study, Spanish Asset Managers tend to exclude social issues more than environmental ones. This trend has grown over the last year, as in 2023 50% of asset managers included tobacco among their exclusionary activities, this time 65% of asset managers include the same topic. Similarly, alcohol was an activity excluded by 47% of asset managers analysed in the 2023 edition, whereas this time it represents 53%.
- Regarding the exclusions of coal and other fossil fuels³, highlights the almost twofold increase of asset managers that include coal and other fossil fuels among their investment exclusion activities, which shows a greater tendency of the market to invest in those activities that support the transition. In this regard, **17%** of asset managers exclude **coal-related activities**, and a further **20%** exclude **other fossil fuels** from their investment universe.

60% of asset managers also exclude other themes, the most common ones being gambling, pornography, weapons and human cloning. In contrast to 2023, where 55% of asset managers excluded these themes.

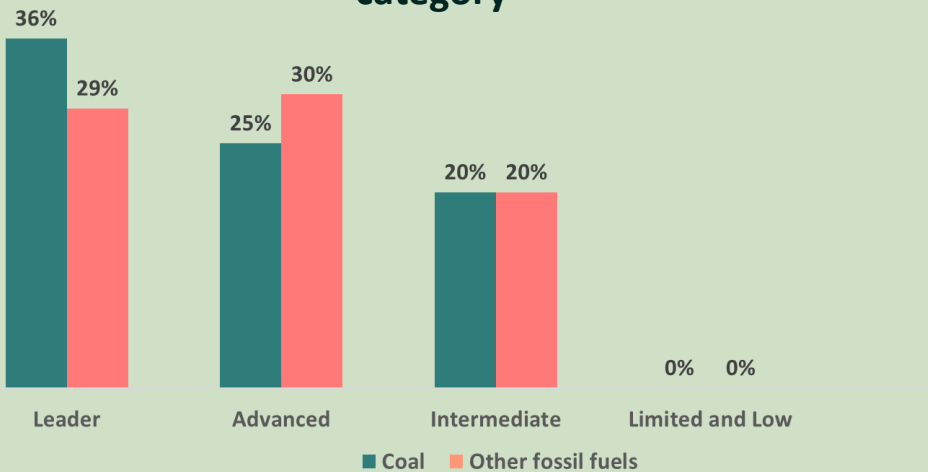
2. Normative exclusions refer to potential breaches of certain ethical or moral principles as well as international standards. In practice, these are the Ten Principles of the UN Global Compact, which are based on the Universal Declaration of Human Rights, the International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the UN Convention against Corruption.

3. Other fossil fuels: all fossil fuels derived from oil and gas, in all forms, excluding coal.

Proportion of asset managers with specific exclusion criteria



Proportion of Asset Managers excluding fossil fuel activities, by category

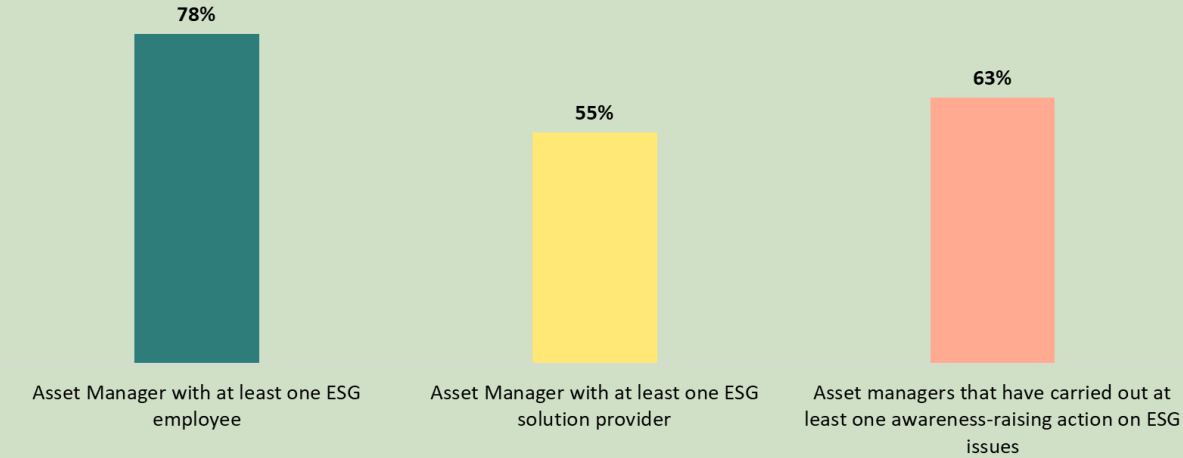


ESG resources

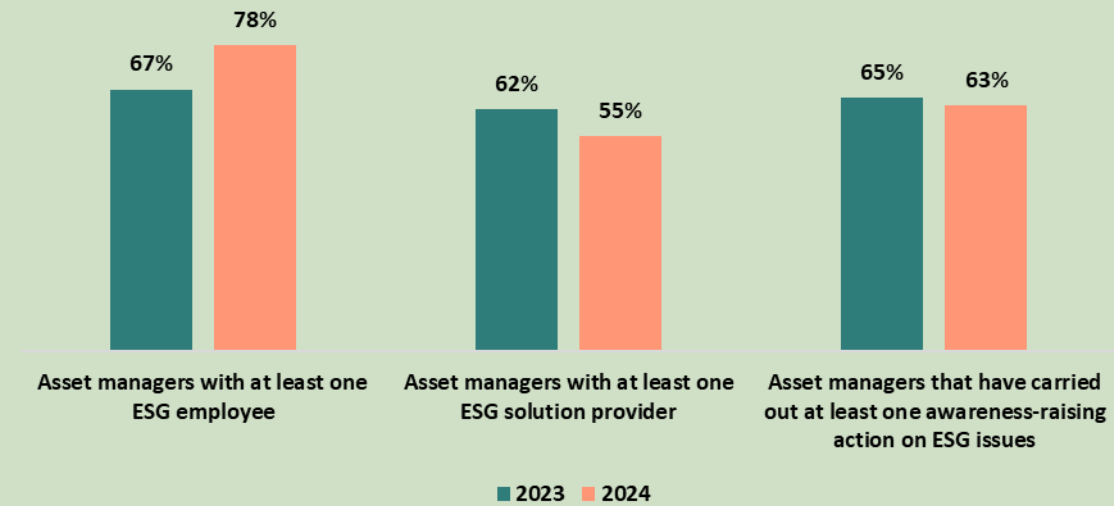
In addition to ESG policies and their associated approaches, it is relevant to analyse the different resources used by Spanish asset managers to comply with the commitments set out in their ESG policies.

- **78%** of Asset Managers **employ at least one person dedicated to ESG issues**. This is an aspect that stands out this year compared to the previous year of this study, which was 67%. This demonstrates the trend of Spanish asset managers to consolidate their commitment to sustainability through their own business strategies.
- **55%** of Asset Managers indicate that they **use an ESG solutions provider**, including specialist consultants, ESG rating agencies, ESG data providers, among others.
- **63%** of Asset Managers **offer training or awareness-raising on ESG issues** within their organisation, which shows that sustainability is a cross-cutting qualification for the different business areas in an Asset Manager, and that under a strategic vision it could be a competitive advantage for talent retention.

ESG resources 2024



ESG resources 2023 vs. 2024



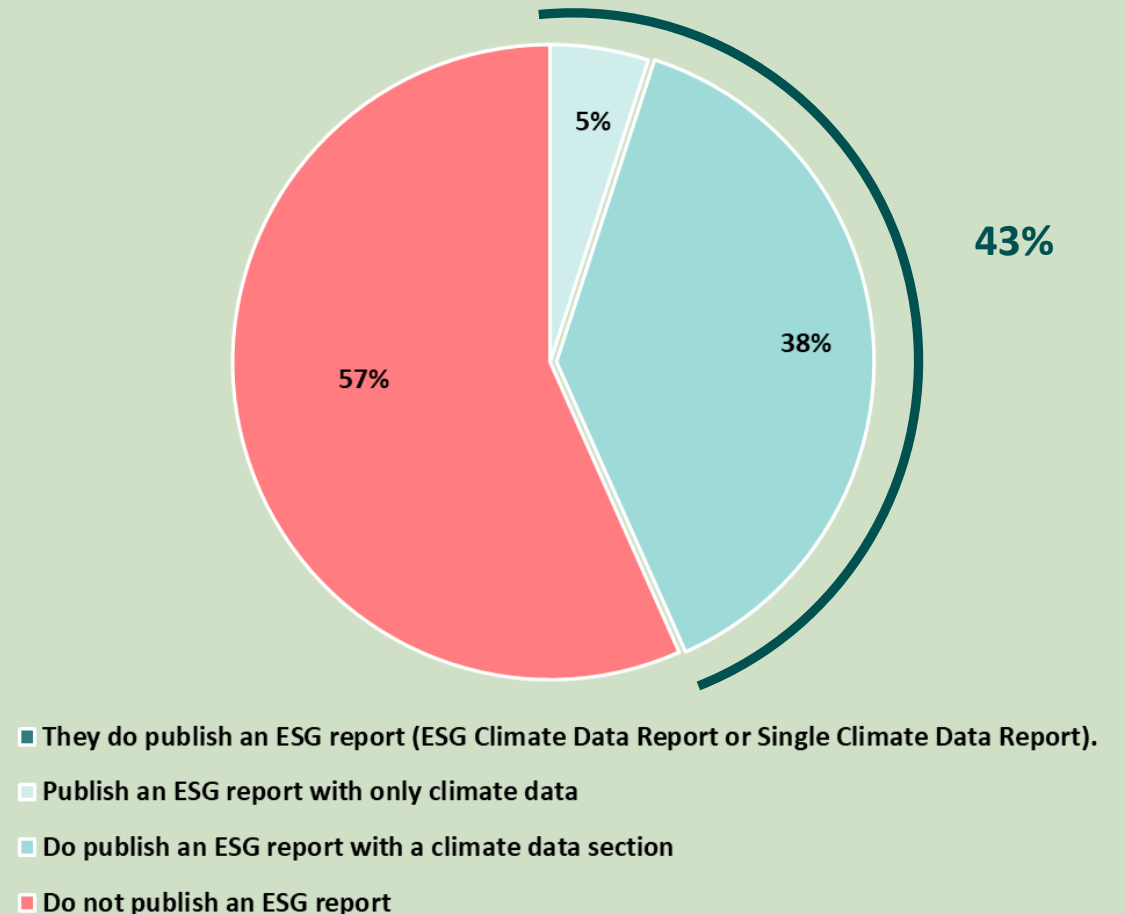
ESG & Climate Reports

This section covers two relevant aspects of reporting management by Spanish asset managers: ESG reporting, which presents the results of environmental, social and governance data of asset managers, and climate reporting, which focuses exclusively on climate-related data.

- **43%** of the Asset Managers assessed disclose an ESG report. The mode of disclosure in most cases is through publication on the managers' website, and a smaller number send this report exclusively to their investors.
- All **43%** of the Asset Managers that disclose ESG data report climate data, either through the ESG report or through a specific report. All 43% of the Asset Managers that disclose ESG data report climate data, either through the ESG report or through a specific report.

It is noteworthy that a minority of the fund managers that disclose climate information on their investments decide to dedicate an exclusive report to this information (only 5% of the fund managers have a single report for climate information).

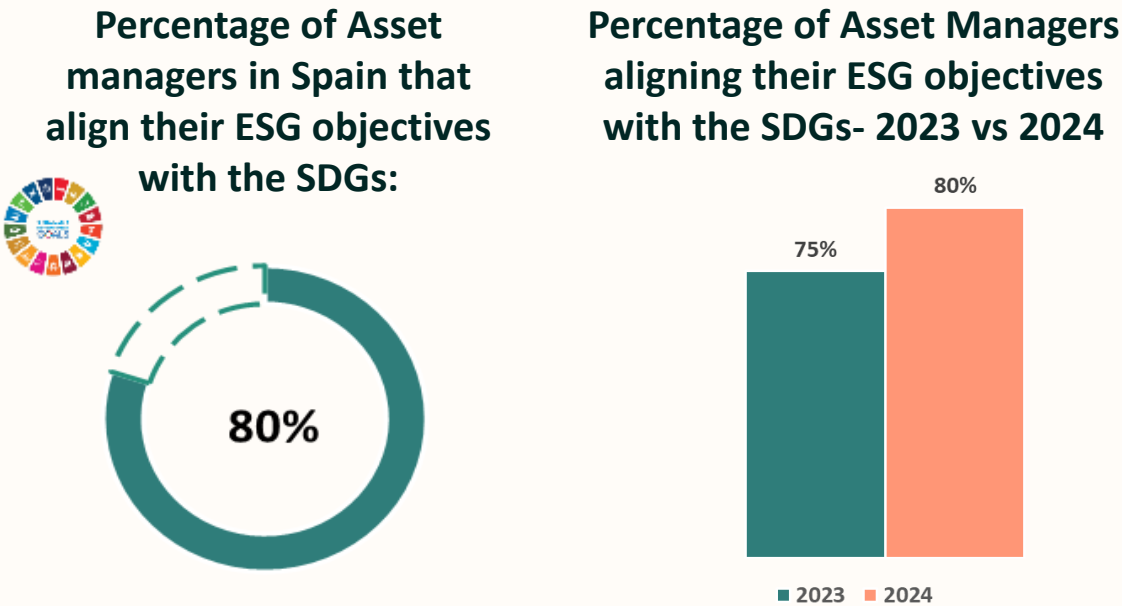
Proportion of asset managers that publish an ESG report



ESG voluntary frameworks

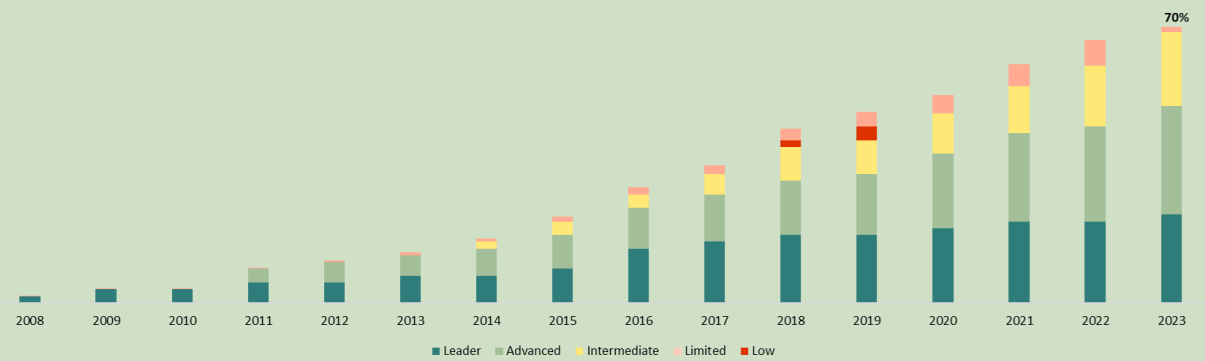
ESG voluntary frameworks are initiatives developed by various actors (financial institutions, NGOs, regulators, among others) with the aim of incorporating ESG criteria into financial decisions and promoting transparency. In this study, the analysis was carried out considering the main international ESG frameworks as a reference.

The United Nations Sustainable Development Goals (SDGs): a particularly relevant framework for the Spanish Private Equity market, as it is a sector that is particularly keen to align its ESG objectives with the SDGs:



The Principles for Responsible Investment (PRI): through which, according to the categories of the EthiFinance assessment scale, the evolution of the signatories of the UN PRI is analysed:

Evolution of the Asset Managers included in the study⁴ and signatories of PRI by year of adherence and EthiFinance assessment category:



4. Of the 60 entities assessed, 18 of them were not signatories to a PRI at the date of data collection for this study. Of these 18 entities, a minority have a specific impact investment focus that encompasses their entire investment activities, and another large group have niche investment activities.

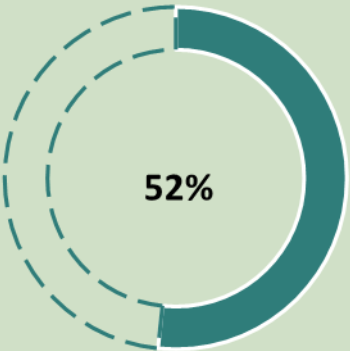
ESG voluntary Frameworks

Global Compact, Task Force on Climate-related Financial Disclosures (TCFD), Global Reporting Initiative (GRI): in 2024, 52% of Spanish asset managers use at least one voluntary ESG framework, the most common being Global Compact, adopted by **42%** of the asset managers analysed, followed by TCFD with **35%**, and GRI with **22%**.

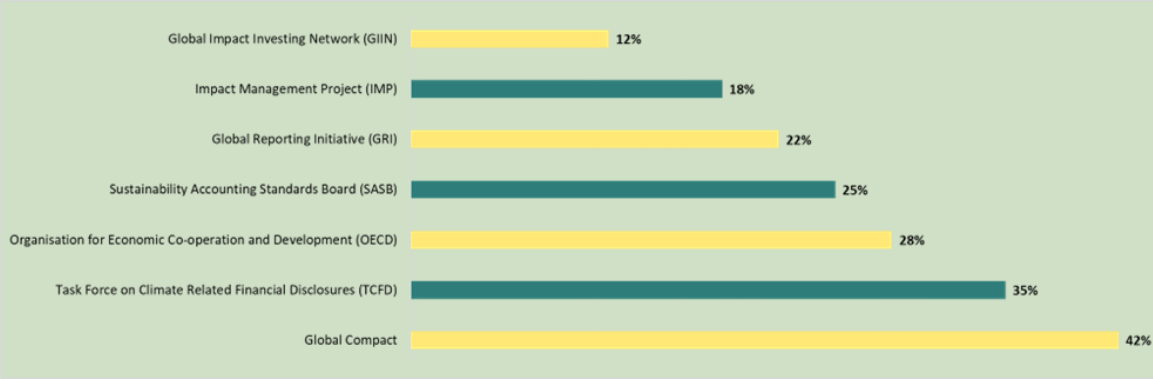
In this regard, there has been a significant increase in the number of asset managers that use the SDGs as a reference framework compared to the previous year's data. In case of UN PRI, reaching 70% of the asset managers analysed that are currently signatories of UN PRI is a significant number, which confirms the importance of this initiative for the Spanish Private Equity sector.

With the entry into force of the SFDR and depending on the European Commission's response to the consultation launched in September 2023, institutions are choosing to prioritise their alignment and disclosure, as far as possible, with the applicable European regulation, the clarification of the technical criteria of the SFDR will facilitate the adequacy of financial products and associated reporting.

Asset managers aligned with international voluntary ESG frameworks in 2024



Percentage of asset managers adhering to voluntary ESG frameworks by 2024



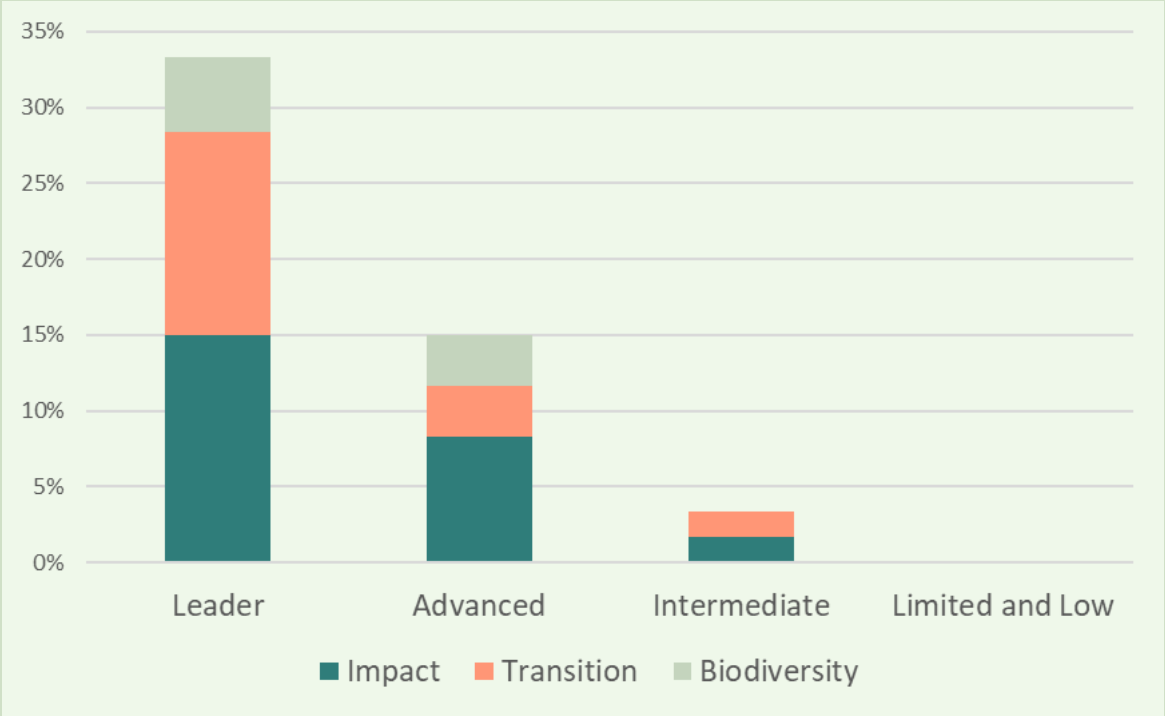
Specialised Approach (Impact, Transition, Biodiversity)

Specialised investment approaches are gaining market relevance, reflecting the level of maturity of the sector and, consequently, a growing interest in integrating specific strategies for **Impact Investing**, as well as addressing challenges such as **Biodiversity and Transition**. In fact, the summary of the responses to the SFDR consultation reflects a market interest in managing under a specific approach these differential themes and, consequently, EthiFinance has decided to include indicators around these for the first time in the study.

- In 2024, **25%** of Asset Managers report having a **specific focus on Impact Investing**.
- **18%** of the Asset Managers surveyed claim to implement a **specific approach to Transition Investments**.
- With regard to a specialised approach to analysing the level of dependence and impact of Investments in **Biodiversity**, only **8%** of the sample analysed claimed to adopt this approach, showing that this issue still has some way to go.

Considering that **Biodiversity is consolidating as a key pillar in climate finance and investment**, as healthy ecosystems act as carbon sinks and serve as protection against the impacts of climate change, it is relevant to establish a specific approach to this issue, which is a challenge for Private Equity Asset Managers in Spain. In fact, at the last COP16 on Biodiversity held in Colombia in October 2024, and despite not reaching an agreement on biodiversity financing, the need to mobilise resources towards nature-based solutions and ensure that climate finance and/or investment also contributes to biodiversity conservation has been highlighted.

Asset Managers with specialised approaches by category



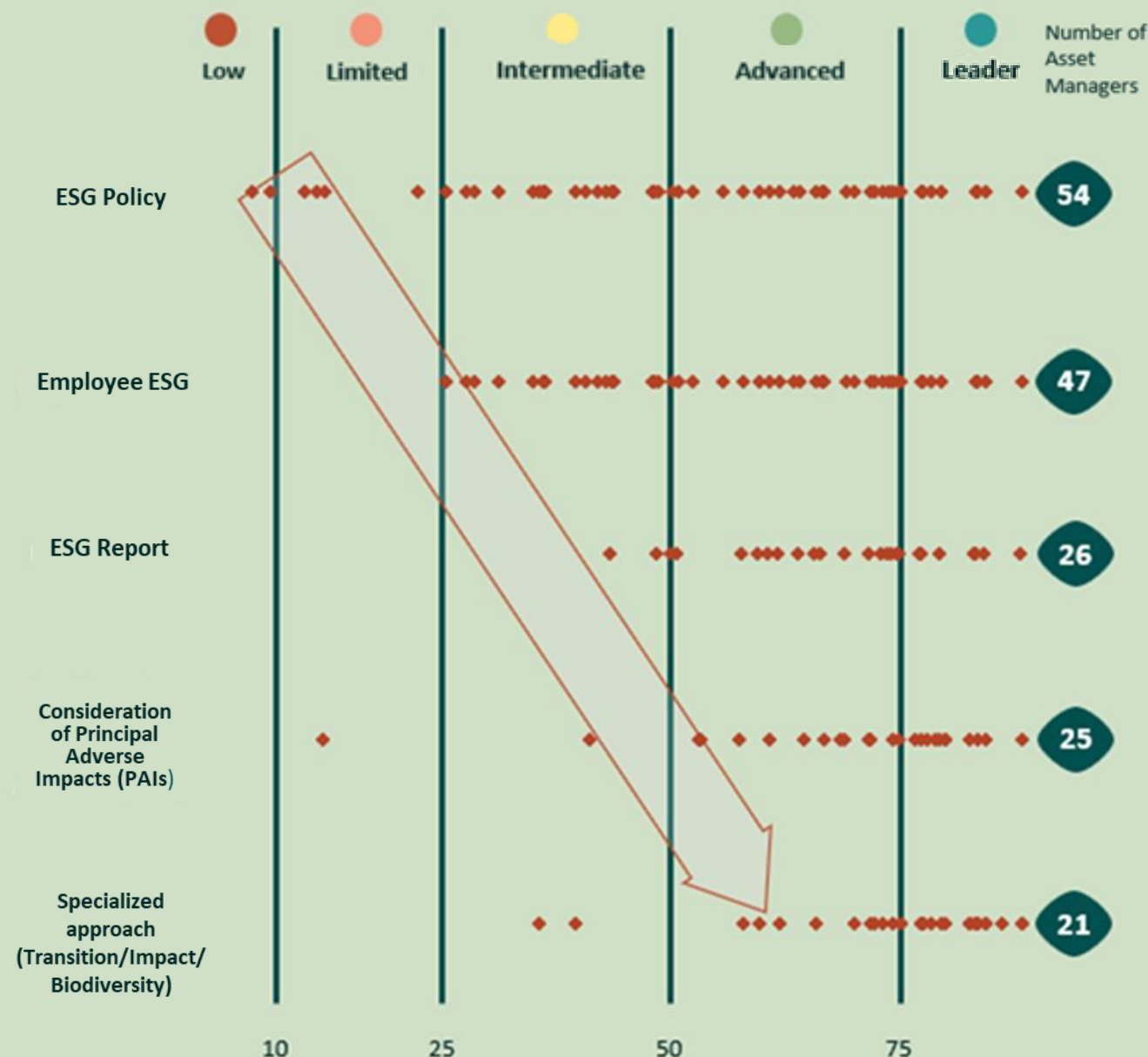
Stages of ESG integration

The chart illustrates the progressive evolution of the main stages⁵ followed by Asset Managers on the path towards integrating ESG issues into their investment strategies, which have been identified through this study, from the integration of initial commitments to the integration of more complex and specialised criterias. These stages reflect the model adopted by the market to formalise, evolve and deepen sustainability:

- 1. The presence of a formalised ESG policy:** this is one of the most common stages in the implementation of sustainability strategies by asset managers. Of the 60 asset managers assessed, 54 have an ESG policy, reflecting an initial commitment to integrating sustainability into their strategies.
- 2. Professionalising ESG management internally:** by hiring at least one employee dedicated to sustainability is a key step in strengthening the internal structure. This strategy is observed in 47 managers assessed, which reinforces the managers' ability to effectively manage ESG risks and opportunities.
- 3. ESG reporting:** is a component that provides transparency on ESG aspects of asset management through the preparation and dissemination of an annual report. This entails an increased commitment which, by 2024, is reflected in 26 of the 60 Asset Managers assessed.
- 4. Mentioning the consideration of PAIs in the investment process:** this is a key element in the management of sustainable investment that demonstrates the capacity of asset managers to manage the potential negative impacts that the activities in which they invest could have on society and the environment. By 2024, 25 of the 60 Asset Managers assessed report considering PAIs in their investment processes.
- 5. The implementation of specialised approaches to analyse novel and complex ESG issues:** such as Impact Investing, the dependence and impact of investments on Biodiversity, and Transition Investing, which are still emerging issues within the sector.

⁵. In this study, Ethifinance has decided not to include the categorisation of financial products according to articles 8 and 9 of the SFDR as a milestone in ESG integration due to potential future changes in the categorisation of financial products. However, the inclusion of the consideration of PAIs as a key aspect of ESG integration represents a relevant feature in the ESG maturity of managers that impacts asset management throughout the investment cycle.

Five key ESG integration stages





03

Key findings

Key findings

ESG maturity

56% of the asset managers analysed are included in the Advanced and Leader categories, this is consistent considering that the study focused on managers with a low minimum level of assets under management and, consequently, with greater resources to develop ESG strategies, which allows us to identify trends in this area. However, there is still room for the evolution of ESG maturity in the local market, which will benefit from the implementation of regulation, which provides a higher level of qualification and maturity in sustainability, despite its imperfections. Furthermore, the adoption of voluntary Sustainable Investment frameworks has played a key role in the ESG maturity of the market, especially in the non-regulated period.

ESG approach

ESG is gaining greater strategic relevance among Asset Managers in Spain, as reflected in the following points:

- 90% have ESG policies in their investment processes.
- 78% of managers have professionalized these issues internally by assigning specialized personnel.
- 73% link sustainability risks to remuneration objectives, reflecting a greater commitment to integrating these factors into their strategy.
- 35% of managers have a specialized ESG investment approach (Impact, Transition, Biodiversity).

Regulation

The proportion of asset managers who do not mention the consideration of PAIs (Principal Adverse Impacts) along with those who do not consider PAIs in their investment process exceeds those who do consider PAIs. This reflects a potential lack of technical clarity in adopting PAIs as a management approach. On the other hand, the classification of financial products under the SFDR is more integrated than in the previous year, with a 17% increase in Asset Managers managing at least one fund classified under Article 8 of the SFDR. The evolution of Article 9 products shows a more homogeneous compared to the previous year.

Transparency

Although regulation is driving the market to increase the disclosure of ESG data regarding their investments and investors are requesting this information, the number of Asset Managers who do not disclose an ESG report is still higher in proportion than those who do (57% of the asset managers analysed still do not disclose an ESG report on their investments, compared to 43% that do publish an ESG or climate data report).



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