



81% of private equity managers integrate ESG into their investment process

Pfaeffikon/Zurich, 6 July 2020 – A new report from LGT Capital Partners has highlighted innovative approaches to ESG integration, tailored to a wide range of alternative and traditional asset classes, including unique asset classes such as insurance-linked securities (ILS).

The eighth annual report from LGT Capital Partners (LGT CP) includes results from its ESG assessment of 251 private equity managers, who continue to deepen their ESG practices. LGT CP also shows how it integrates ESG factors into ILS investment decision-making, and how it conducts bottom-up ESG analysis of hedge fund portfolios. In addition, LGT CP demonstrates how to integrate the Sustainable Development Goals (SDGs) into ESG scoring of stocks and bonds, and how to systematically evaluate green bonds to prevent “green washing” in fixed income portfolios.

ESG integration continues to deepen in private markets

The number of private equity managers ranked ‘excellent’ or ‘good’ on ESG integration has increased by 78% since 2015, with 81% of European managers now ranked in these categories. Asia show improvements, with 63% of managers now ranked ‘excellent’ or ‘good’, while the US (43%) continues to lag.

LGT CP finds that 42% of its private equity managers incorporate diversity and inclusion (D&I) into their investment decision-making, while 23% have a framework in place for addressing climate change. Furthermore, the report shows that 47% of LGT CP’s private debt portfolio companies assess their carbon emissions, which represents a five-fold increase since 2016.

Insurance-linked strategies – ESG engagement in a unique asset class

In the report, LGT CP shows how it integrates ESG into one of the less obvious asset classes, ILS. It applies ESG criteria in its counterparty due diligence, and it engages on ESG pre- and post-investment, which helps to ensure that counterparties are resilient to a wide range of long-term risks.

Enhanced ESG analysis in hedge funds

LGT CP has enhanced its approach to rating hedge fund and long-only managers on ESG, as it now incorporates a bottom-up ESG assessment of the listed assets they trade. This is in addition to the top-down manager assessments LGT CP has done for many years, which focus on the institutionalization of ESG practices and procedures. As a result, a small number of managers have been downgraded on ESG, but the majority have retained their original assessment. Overall, 17% of hedge fund managers are rated ‘excellent’ or ‘good’ on ESG, which indicates that ESG integration in hedge funds is still in a very early stage.

SDG incorporation makes the ESG score more holistic

LGT CP has integrated the SDGs into its ESG Cockpit, a proprietary tool used for scoring stocks and bonds on ESG. The new approach considers the positive or negative impact of companies' products and services on the SDGs. This SDG assessment complements the traditional ESG assessment, which focuses on companies' operations and ESG controversies. It helps LGT CP to identify companies that have a positive impact on addressing the major issues facing people and the planet.

Growing importance of green bonds – avoiding risk of “green washing”

LGT CP states that 47% of its Sustainable Bond Strategy is now comprised of green bonds. In the report, LGT CP explains how it carefully vets green bonds prior to investment through a rigorous four-step process. In doing so, LGT CP seeks to ensure that the issuer is not engaging in “green washing” or overstating the positive impact of the project to be financed.

Commenting on the ESG Report 2020 findings, Tycho Sneyers, Managing Partner at LGT CP and board member at the Principles for Responsible Investment (PRI) said:

“In the report, we show how ESG integration can be customized to various asset classes and investment styles. This makes ESG assessments more accurate and lays the groundwork for more effective engagement. A good example of this is the way we validate our top-down assessments of hedge fund managers with a bottom-up evaluation of the securities in their portfolios. And even in an asset class like ILS, which does not easily lend itself to ESG analysis, we show how to implement active ESG engagement. Overall, we see a significant amount of progress in ESG integration across asset classes and we expect such progress to continue. Moreover, we are convinced that ESG considerations are now more important than ever due to the significant environmental and social consequences from the COVID-19 pandemic.”

Key findings from the LGT Capital Partners ESG Report 2020 are:

- 328 managers assessed on ESG, including 251 private equity managers
- Europe continues to lead in private equity ESG integration with 81% of managers ranked as ‘excellent’ or ‘good’, compared to 63% in Asia and 43% in the US
- 81% of private equity managers integrate ESG into their investment process, with 74% monitoring ESG competence and awareness at a portfolio company level
- 17% of hedge fund managers achieved top ratings of ‘excellent & good’ with respect to ESG integration

For more information and to see the full LGT Capital Partners' report, please go to: <https://www.lgtcp.com/en/esg-commitment/esg-report/>

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For more information on LGT Capital Partners:

LGT Capital Partners Ltd.
Franziska Raff
Media Relations
+41 55 415 9391
franziska.raff@lgt.com

JPES Partners
Matt Rogers
Director
+44 20 7520 7620
matt.rogers@jpespartners.com



About LGT Capital Partners

LGT Capital Partners has a long-held commitment to incorporating ESG considerations into its investment programs and its business overall. Since 2003, many of its portfolios have had a responsible investment clause written into its governing documents, authorizing the firm to exclude investments that are substantially exposed to arms-related activities, violations of human rights, irresponsible treatment of the natural environment or other non-ethical conduct of business. Since 1 February 2020, LGT can no longer make any investments in companies that are involved in mining coal that is used in energy production. In addition, utilities with a high carbon intensity are also excluded from LGT's investment universe. In 2009, LGT Capital Partners launched its dedicated sustainable bond and equity offerings. In 2008 the firm was one of the first signatories of the UN PRI, since 2018 LGT Capital Partners further engages with PRI as a member of its Board. LGT Capital Partners is also a signatory to the Montreal Carbon Pledge.

LGT Capital Partners is a leading alternative investment specialist with over USD 60 billion in assets under management and more than 550 institutional clients in 39 countries. An international team of over 500 professionals is responsible for managing a wide range of investment programs focusing on private markets, liquid alternatives and multi-asset class solutions. Since 2002, LGT Capital Partners has been encouraging the integration of ESG in its offering and its promotion in the financial industry. In 2008, the firm was one of the first signatories of the UN PRI, since 2018 LGT Capital Partners further engages with PRI as a member of its Board. Headquartered in Pfäffikon (SZ), Switzerland, the firm has offices in New York, Dublin, London, Paris, Vaduz, Frankfurt am Main, Dubai, Beijing, Hong Kong, Tokyo and Sydney.