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Media release

Alternative investors increasingly focusing on outcomes as ESG integration deepens

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A new report from LGT Capital Partners (LGT CP) shows that alternative investors are increasingly focusing on ESG outcomes in order to address key issues including climate change and diversity & inclusion (D&I).

The ninth annual ESG Report from LGT Capital Partners analyses the activities of 344 managers globally (including 267 private equity managers) and assesses the improvements made in ESG practices. The ESG Report also details a new framework employed by LGT CP to assess the physical and transition risks of its private debt portfolios. In addition, LGT CP shows how it is aligning the carbon footprints of its hedge fund and other liquid portfolios to the requirements of the Paris Agreement.

Private markets investors focus on outcomes
Significant improvements can be seen in the extent to which private equity managers integrate ESG into their investment activities over the last five years. LGT CP finds that 68% of managers now have strong ESG practices in place, an increase of 18% compared to 2016. In addition, leading managers have begun to adopt a more outcome-oriented approach to ESG:

- 34% of private equity managers specifically address climate change within their ESG policies

- 32% of private equity managers are actively assessing climate change risk within their portfolios, an increase of 9% compared to 2020

- 28% of managers are actively measuring the CO_2 emissions of their portfolio companies, reflecting the depth of their commitment to actively monitoring climate change risk

- 50% of all private equity managers have a formal diversity & inclusion policy in place, while 48% consider these issues in investment decision-making. The latter is an improvement of 6% compared to 2020 figures

A similarly outcome-oriented approach is seen within private debt, where 45% of LGT CP's private debt portfolio companies now report on CO_2 emissions, an improvement of 25% over the last five years.

LGT CP manages physical and transition risks in private debt portfolios
LGT CP has developed a new approach to managing climate change risks in its private debt portfolios, in line with the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD). The framework enables LGT CP to analyze climate resilience of potential portfolio companies in terms of physical risks (related to climate change itself) and transition risks (related to the transition to a lower carbon economy). On the back of this, the firm rates the materiality of such risks, which allows for informed asset selection based on climate change considerations, as well as effective monitoring of these risks.

Hedge funds continue to show improvements in ESG integration as LGT CP enhances analysis frameworks
The number of hedge fund managers achieving top ESG ratings has risen to 25% in 2021, an increase of 8% compared to 2020. This reflects the improvements following engagement with underlying managers over the last year. Moreover, LGT CP no longer has exposure to any hedge fund managers with 'poor' ESG ratings. Over the last twelve months, LGT CP has also extended its analysis framework to consider how certain hedge fund trading strategies can positively or negatively affect the carbon footprint of a portfolio. The firm has started to

bring its hedge fund portfolios in line with the emissions targets (limiting climate change to well below 2°C) of the Paris Agreement.

Commenting on the ESG Report 2021 findings, Tycho Sneyers, Managing Partner at LGT CP and board member at the Principles for Responsible Investment (PRI) said: "Our analysis shows a clear trend towards more outcome-oriented approaches in the way managers implement ESG across different asset classes. This reflects the significant ESG progress we have seen over the last five years. Issues, such as climate change, diversity and inclusion, are now very clear priorities for investors, and managers will need to clearly demonstrate how they are positively contributing to address these challenges."

For more information on LGT Capital Partners or to receive a copy of its ESG Report 2021, please contact:

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LGT Capital Partners
LGT Capital Partners has a long-held commitment to incorporating ESG considerations into its investment programmes 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. In 2009, LGT Capital Partners launched its dedicated sustainable bond and equity offerings. In 2008, the firm was one of the early signatories to the UN PRI. Furthermore, since 2018, Tycho Sneyers, a Managing Partner at LGT Capital Partners, has served on the PRI's board of directors. LGT Capital Partners is also a signatory to the Montreal Carbon Pledge.

LGT Capital Partners is a leading alternative investment specialist with over USD 75 billion in assets under management and more than 550 institutional clients in 41 countries. An international team of over 600 professionals is responsible for managing a wide range of investment programs focusing on private markets, liquid alternatives and multi-asset class solutions. Headquartered in Pfaeffikon (SZ), Switzerland, the firm has offices in New York, Dublin, London, Paris, Vaduz, Frankfurt am Main, Dubai, Beijing, Hong Kong, Tokyo and Sydney.