



HIGH MEADOWS
INSTITUTE

Sustainability in Capital Markets

**Financing the transition to a sustainable
low-carbon economy**

Private Equity Sector Profile





Introduction

This sector snapshot is part of the High Meadows Institute report, *Sustainability in Capital Markets*. It is designed to provide a high-level overview of how key sectors in the financial system are supporting the transition to a sustainable low-carbon economy (SLCE). The sector evaluation is based on a literature review of studies on each sector's role in the SLCE transition, as well as a more detailed analysis of how 10 of the largest institutions in the sector are supporting the transition. Further details on the purpose of the report, the sectors being assessed, and the methodology for the assessment can be found in the Methodology publication [here](#).

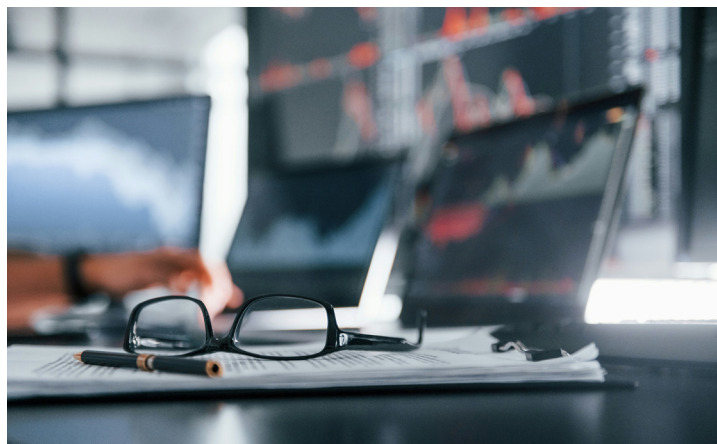
trillion in 2023.ⁱⁱ There are now more than 18,000 PE funds, an increase of 58% from 2016 to 2021, and 1,700 VC funds, a 110% increase over the same time period.ⁱⁱⁱ In the U.S. alone, PE firms control about 20% of total corporate equity, a fivefold increase since 2000.^{iv} The top 300 PE firms raised \$3.28 trillion in 2023, with the top 10 alone responsible for about \$741 billion of that total.^v And this growth is expected to continue in the years ahead, with industry researchers projecting a compound annual growth rate (CAGR) of 13.45% through 2023.^{vi}

These figures and projections showcase an industry that is emerging as a power player not just in financial markets, but in the overall SLCE transition.

Sample size: Advent, Blackstone, Carlyle, EQT, KKR, General Atlantic, Hg, Thoma Bravo, TPG, Warburg Pincus

Total AUM of sample size: \$2.9 trillion (38% of total sector AUM)ⁱ

The private equity (PE) industry has grown rapidly in recent years, increasing its potential to play an important role in the SLCE transition. Global private capital assets under management have fluctuated in recent years, but over the last decade have more than tripled from approximately \$4 trillion in 2013 to \$14.5



Opportunities to advance an SLCE

We see three key advantages for PE firms versus most other market actors when it comes to pushing towards an SLCE. First, they have a greater opportunity to influence portfolio companies via their ownership stakes in these companies, which tend to be significantly higher than the stakes held by public markets investors in public companies. While the size and shape of these equity stakes can vary, many of the biggest PE firms prefer majority stakes that would allow them to actively guide the future direction of portfolio companies. This dynamic makes it harder for these companies to ignore or reject the requests of their owners, ensuring a higher degree of accountability throughout the investment lifecycle.

Second, PE firms are not bound by the same pressures to deliver quarterly returns as investors operating in other asset classes, particularly those focused on the public markets. This makes them better positioned to act as long-term investors, either by investing in early-stage companies to support their growth journeys or by working with later-stage companies to set them up for enduring success. Given how long some SLCE-oriented innovations will take to bear fruit, this patient mindset can be essential to making sure portfolio companies stay focused on the bigger vision. For instance, consider that a 2015 study reported in the *Harvard Business Review* showed that three years after an acquisition, PE-backed firms had filed 40% more high-quality patent applications than regular firms.^{vii} This shows how a long-term mindset can help foster innovation across sectors and industries.

Third, PE firms are not as closely scrutinized as public markets investors, owing in part to different regulatory requirements as well as different investor expectations. This gives PE firms more flexibility to pursue complex investment strategies and innovative investment

structures with the potential to channel more capital into an SLCE. For example, PE firms are able to offer limited partners (LPs) specialized incentive systems that reward performance across both financial and SLCE-related factors.^{viii}

Our research shows that the biggest PE firms are using these advantages to help accelerate the transition to an SLCE. All 10 of the PE firms we evaluated are PRI signatories and most firms are aligned to multiple industry standards or frameworks, including climate-focused ones like the [Initiative Climat International](#) (iCI) and the Task Force on Climate-related Financial Disclosures (TCFD). In addition:

- 5 of the top 10 have a dedicated climate fund and 7/10 have made a commitment to net zero
- 6/10 have implemented an accountability mechanism to obtain assurance on climate-related data
- 5/10 have created an incentive structure based on climate goals and targets
- 3/10 are signatories to the Operating Principles for Impact Management, indicating a commitment to integrating impact considerations throughout the investment lifecycle

PE firms are also very active in both establishing and participating in industry standards and initiatives. In 2021, several PE firms and their LPs took matters into their own hands by launching the [ESG Data Convergence Initiative](#) (EDCI) to “drive convergence around a standardized set of ESG metrics and a mechanism for comparative reporting.” EDCI members are expected

to collect and disclose data on three climate-related metrics, including GHG emissions (Scope 1, 2, and 3), net zero (plans, targets, etc.), and renewable energy use. As of January 2025, more than 475 GPs and LPs had signed up as members of EDCI, bringing with them data on nearly 6,200 portfolio companies.

Based on these findings, we categorized seven of the PE firms in our research sample as aligned with an SLCE 2.0 framework, with the remaining three aligned with an SLCE 1.0 framework. There were a few PE firms on the cusp of SLCE 3.0 alignment; however, we felt there was a disconnect between their climate commitments and their continued investments in fossil fuel-related assets. While there is a role for PE firms to play in the world of transition finance – i.e., helping high-carbon companies become more “green” – the lack of clarity around these types of investments makes it difficult to give PE firms the benefit of the doubt.



Private Equity Firms on the SLCE Spectrum



► This graphic illustrates where 10 of the largest PE firms sit on the SLCE Spectrum, which is a framework designed to assess the strength and integrity of their commitment to a sustainable, low-carbon economy based on their alignment to industry best practices. SLCE 1.0 represents “Minimal Commitment,” while SLCE 2.0 represents “Active Integration” and SLCE 3.0 represents “Systemic Leadership.” To learn more about the SLCE Spectrum, including how PE firms were assessed against HMI’s criteria, please review the separate [Methodology](#) publication.

Such efforts are excellent examples of the potential power of the PE industry in catalyzing a transition to an SLCE. Indeed, many of today’s biggest climate-oriented companies were owned by a PE firm at one point in their growth journey, including several companies that were deemed risky investments at the time. Since 2020, private markets investors (including both PE and VC) have invested more than \$500 billion in climate tech start-ups across a range of sectors.^{ix} Over the last decade, private equity has become a major investor in the renewable energy sector, increasing its investments from \$1.7 billion in 2012 to a record \$26 billion in 2022.^x PE firms are also involved in ambitious and historic climate funds, including the launch of Alterra during COP28 with a goal of mobilizing \$250 billion globally

by 2030 for climate action.^{xi} These kinds of public-private partnerships are an important hallmark of climate finance and a potential sign of things to come. For example, in the 12 months since the passage of the Inflation Reduction Act, PE firms have committed more than \$100 billion to new renewable energy investments that would qualify for tax credits.^{xii}

While these figures are eye-opening, they still represent a small share of the roughly \$5 trillion held by PE firms worldwide. There is still a need for greater ambition, not just in the size of investments but also in the types of investments, particularly in those companies or projects that would otherwise have a difficult time attracting private capital.

Pain Points



While PE investments and commitments are trending in the direction of an SLCE, there are still persistent issues in the industry that could hamper progress.

One issue is the industry's approach to public policy, particularly in the U.S. where there is known to be a revolving door between government officials and the private sector. The main trade association for PE firms in the U.S. is the American Investment Council (AIC), an organization founded in 2007 to “develop and provide information about the private investment industry and its contributions to the long-term growth of the U.S. economy and retirement security of American workers.” However, the AIC has consistently lobbied against policies that would bring more transparency and accountability

to the PE industry, including an ongoing campaign to block efforts at closing the carried interest loophole that allows PE managers to avoid paying a higher tax rate. And while the AIC says it is committed to promoting responsible investing – including by establishing responsible investment guidelines^{xiii} and forming partnerships to encourage more diversity in the industry^{xiv} – they don't appear to require their members to take any actions towards these objectives.

When it comes to engagement on regulatory rulemaking, the AIC appears to take a neutral stance. For instance, the AIC generally supported the SEC's climate disclosure rule^{xv} but raised many concerns about the SEC's ESG disclosure rule,^{xvi} which would've created additional reporting and compliance requirements for PE firms. It is hard to tell whether AIC's members agree with these positions as PE firms generally don't disclose anything about their own lobbying or government engagement activities. But it's probably a fair statement to say that the AIC won't do anything to threaten PE's position relative to other asset classes, even if such a position would be a net positive for the climate.

Another issue is a burgeoning divide between U.S. and European PE firms, due in part to the higher regulatory and reporting standard faced by European PE firms with the recent introduction of the Sustainable Finance Disclosure Regulation (SFDR) in the EU and Sustainability Disclosure Requirements (SDR) in the UK. While initiatives like the TCFD and EDCI should help to standardize climate-related disclosures across borders, a further split is still possible, especially given some U.S.-based PE firms have become embroiled in the anti-ESG attacks.

Finally, there are growing concerns over the industry's continued investments in fossil fuels. A 2022 report by the [PE Stakeholder Project](#), a nonprofit set up to bring more transparency and accountability to the PE industry, found that eight of the largest PE firms in the world collectively hold around \$216 billion in energy and fossil fuel assets – similar to the amount of financing provided by the world's top five banks to the fossil fuel industry in 2021. The authors of “Private Equity Climate Risks” also found significant disparities between the climate commitments made by some PE firms versus their investments in fossil fuels.^{xvii}

While many PE professionals have argued that the private markets are better suited for certain fossil fuel assets due to the opportunity to make these assets more environmentally friendly, there is a general lack of transparency on the relevant milestones in this transition. Regulatory requirements in Europe around the labeling of so-called “transition” investments may help bring more clarity to what PE firms are and aren't doing, but there is nothing stopping PE firms from volunteering this information besides an aversion to public scrutiny.



Ultimately, PE firms have a long way to go to adopt a system-level lens for their investment structures and practices. The good news is that PE firms have the resources and seemingly the expertise to be more ambitious in their pursuit of an SLCE. The question is whether they have the proper incentives or willpower.

Additional reading and resources about the private equity industry:

- **Bain & Co.:** [Global Private Equity Report 2024](#)
- **Blue Dot Capital:** [ESG Programs and Practices of the Ten Largest PE Firms](#)
- **Ceres:** [The Changing Climate for Private Equity](#)
- **EY:** [2023 Global Private Equity Survey](#)
- **KPMG:** [Private Equity and the Climate Imperative](#)
- **Malk Partners:** [2023 State of ESG Report](#)
- **NYU Stern:** [Responsible Private Equity](#)
- **PitchBook:** [Global PE First Look](#)
- **Preqin:** [Global Report 2023: Private Equity](#)
- **PRI:** [Incorporating climate change in private markets: An investor resource guide](#)

Top standards or initiatives for private equity firms serious about climate change:

- **ESG Data Convergence Initiative**
- **Initiativ Climat International**
- **Operating Principles for Impact Management**

Summary

Opportunities

- Private equity firms have three key advantages in helping advance the transition to an SLCE.
- First, PE firms tend to hold significant equity stakes in the companies in their portfolio, providing them with a way to guide the future direction of these companies.
- Second, PE as a strategy allows firms to focus more on longer-term investment opportunities and avoid the pressures of generating short-term financial returns.
- Third, PE firms are not as closely scrutinized as other investors and tend to face fewer regulatory requirements, giving them more flexibility to pursue complex investment strategies and innovative investment structures.
- PE firms have already shown an ability to build on these advantages via their collaboration on industry standards and initiatives, like Initiative Climat International (iCI) and the ESG Data Convergence Initiative (EDCI).

Challenges

- PE firms have been cautious about engaging in public policy debates, which means there is an important voice missing from the table given the industry's growing influence within the private sector.
- Some PE firms continue to invest in fossil fuels in direct contradiction of some of their climate commitments, although there is still a role for PE in helping finance the transition in key sectors from carbon-intensive to low-carbon.
- PE firms face a constantly changing regulatory environment that may inhibit capital flows towards an SLCE, although some progress has been made towards standardization and harmonization.

Endnotes

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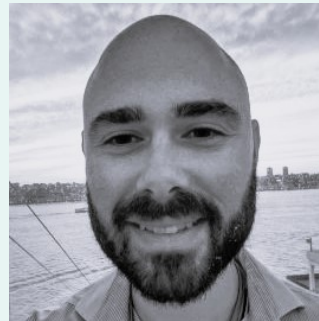
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High Meadows Institute is focused on the role of business leadership in society. Our mission is to contribute to sustainable economic and social progress in a global economy and society. High Meadows Institute was founded in 2013 by a small group of senior business and finance leaders with deep experience in the private and non-profit sectors. The Institute works in close partnership with other leading think tanks and academic and business organizations to advance its mission.

17 Communications is a mission-driven marketing and communications consultancy specializing in the ESG, impact investing and sustainable finance sectors. We are committed to catalyzing the flow of capital towards sustainability and impact-oriented investments and solutions through a combination of communications, advocacy, research and education.



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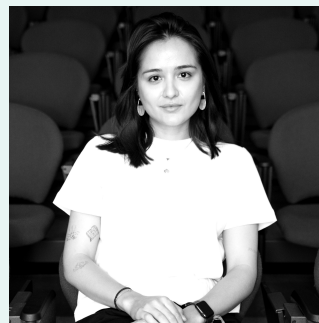
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