FOR PUBLIC DISTRIBUTION IN THE U.S., CANADA, HONG KONG, SINGAPORE AND AUSTRALIA.
FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS IN OTHER PERMITTED COUNTRIES.

eFront
a part of BlackRock

ESG TRANSPARENCY IN PRIVATE MARKETS

James Smallwood

Director – Global Head of GP Practice & Sustainability for Private Markets

Marija Djordjevic

Director – Head of Alternatives Research for Aladdin Client Business

Samantha Sanderson

Vice President – GP Practice Lead and Sustainability for Private Markets

Kosta Jankovic

Associate – Insight Sustainability

Contents

Outreach Campaign Overview

Fund Universe Description

Research Findings

Fund Level Analysis

Portfolio Company Level Analysis

Foreword

In recent years, the global investment landscape has witnessed a paradigm shift with an increasing emphasis on Environmental, Social, and Governance (ESG) considerations. As investors become more conscious of the impact their investments have on the world, the financial industry is responding by integrating sustainable and responsible practices into their decision-making processes.

Amidst this transformation, the European Union has taken a pioneering step with the introduction of the Sustainable Finance Disclosure Regulation (SFDR), aimed at fostering transparency and accountability in the financial sector, particularly in private markets. In parallel, a collaborative alliance of private equity firms established a voluntary framework called the ESG Data Convergence Initiative (EDCI) with an aim of ESG data standardization and optimization of the effectiveness of data collection.

Acknowledging the difficulties encountered by our private market investor clients in the middle of the of regulatory shifts, we partnered with them to construct a comprehensive questionnaire that encompasses various regulatory mandates and market standards applicable across multiple jurisdictions.

Through a series of working group sessions, we engaged with our clients to delve into their ESG allocation goals and data requirements.

The outcome of these collaborative efforts is a broadly applicable questionnaire, tailored to address the SFDR regulation and EDCI data standards.

In 2022, we initiated our ESG Outreach campaign when we distributed the pilot version of the questionnaire to private market asset managers (AM) on behalf of 17 private market investor clients asking their AMs to provide ESG-related information both on the fund and the portfolio company level for the year 2021. In 2023, we expanded the campaign network to 19 client organizations and more than doubled the number of data points in the questionnaire.

Through a combination of quantitative survey data collected for the business year 2022 orchestrated during 2023 and qualitative insights gathered from our stakeholders, this research paper aims to contribute to the ongoing discourse surrounding ESG reporting in private markets. By shedding light on the intricacies of SFDR and EDCI compliance, we seek to provide a roadmap for asset managers navigating the evolving landscape of sustainable finance, fostering a more transparent, accountable, and resilient financial sector for the future.

Finally, and of utmost significance, we want to extend our profound appreciation to our clients and their asset managers who actively participated in this research. Their readiness to collaborate and actively engage in this project highlights their dedication to promoting positive change and sustainability within the financial sector.

Outreach Campaign Overview

FOR PUBLIC DISTRIBUTION IN THE U.S., CANADA, HONG KONG, SINGAPORE AND AUSTRALIA.
FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS IN OTHER PERMITTED COUNTRIES.

Campaign Dynamics

	2022	2023
Investor clients engaged	17	19
Asset managers engaged	106	241
Unique funds captured	319	674
Data points collected		>160k

In 2023, on behalf of our 19 investor clients, we collected data from **241 asset managers** our clients committed capital with, resulting in the collection of over 160 thousand data points from 647 unique funds and 4,720 portfolio companies. These data points serve as the foundation for the analysis presented in the paper.

The 2023 campaign focused on gathering ESG data for the 2022 business year. The inaugural campaign, conducted in 2022, pertained to the 2021 business year. Over the course of these two years, there was a notable rise in engagement, leading to a significant increase in participating Asset Managers (AMs) from 106 to 241. Simultaneously, the total number of funds providing data surged from 319 to 674 funds.

NM1224U-4100587-4/16

FOR PUBLIC DISTRIBUTION IN THE U.S., CANADA, HONG KONG, SINGAPORE AND AUSTRALIA.
FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS IN OTHER PERMITTED COUNTRIES.

Fund Universe Description

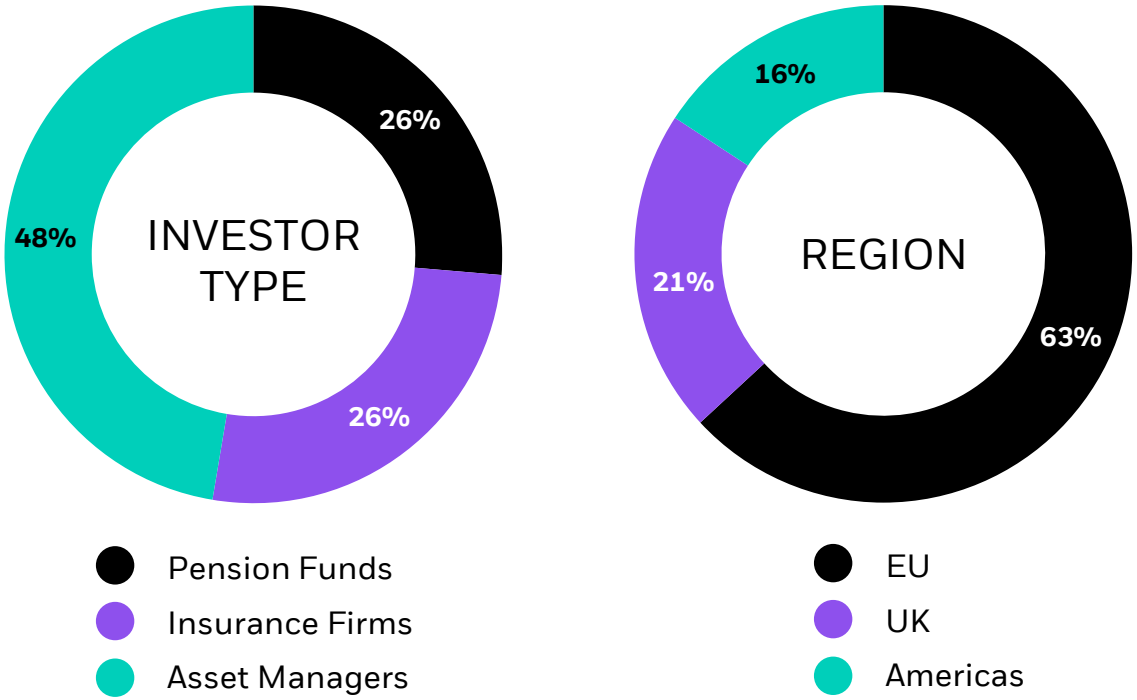
We partnered with our clients representing diverse investor types and regional locations to develop a questionnaire encompassing a comprehensive set of ESG-relevant information. This collaborative effort led to the creation of a survey comprising 180 data points.

Almost half of our investor clients participating in this campaign are classified as asset managers which includes limited partner investors such as funds of funds and family offices.

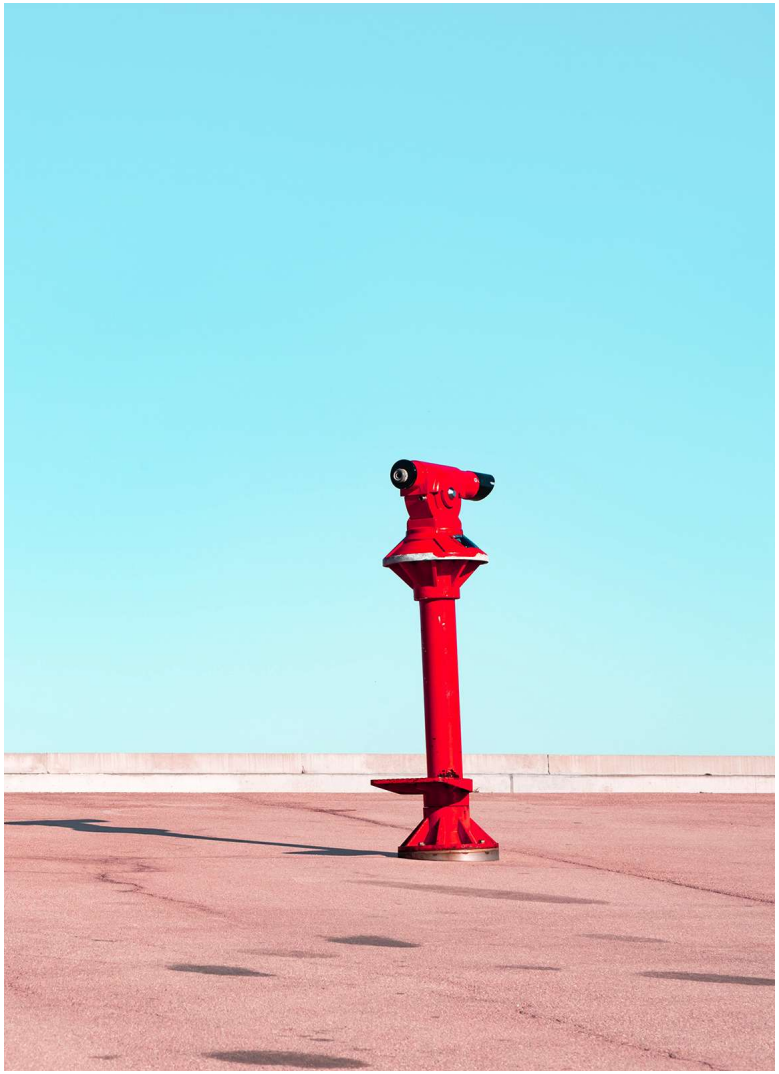
Our investor pool is predominantly EU based, with inclusion extending to encompass investors from the UK and the US.

Investor Type and Region

Breakdown of our pool of 19 investor clients who participated in 2023 outreach campaign, by type of investor institution and regional domiciliation.



Research Findings



FOR PUBLIC DISTRIBUTION IN THE U.S., CANADA, HONG KONG, SINGAPORE AND AUSTRALIA.
FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS IN OTHER PERMITTED COUNTRIES.

Fund Level Analysis

The EU Sustainable Finance Disclosure Regulation (SFDR) introduces classification under Articles 6, 8, and 9 that pertain to specific disclosure requirements for financial market participants and financial advisers.

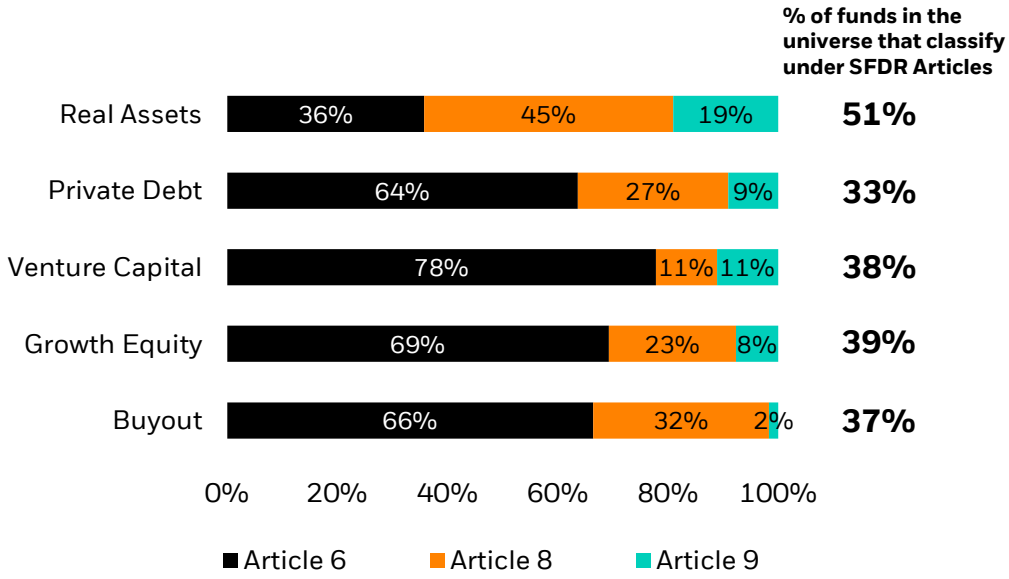
647
Funds that AMs supplied ESG data for

253
Funds that classify under SFDR articles

39%
% of funds in the universe that classify under SFDR articles

SFDR Classified Funds by Strategy

Distribution of funds that supplied us with ESG data across different SFDR article statuses by private market strategy.



Definition of funds that classify under SFDR articles

Article 6 of SFDR focuses on the integration of sustainability risks into investment processes. Financial market participants are required to disclose how they integrate sustainability risks into their investment decision-making processes and whether they consider adverse impacts of investment decisions on sustainability factors.

Article 8 of SFDR relates to financial products that promote environmental or social characteristics, or a combination of both (often referred to as "light green" or "ESG integration" products). It outlines the disclosure requirements for financial products that have sustainable investment as their objective.

Article 9 of SFDR applies to financial products with sustainable investment as their main objective. These are often referred to as "dark green" products. Article 9 sets out the disclosure requirements for products that have sustainable investments as their stated goal and require a high level of transparency.

Source: EUR-Lex, 2019

NM1224U-4100587-7/16

FOR PUBLIC DISTRIBUTION IN THE U.S., CANADA, HONG KONG, SINGAPORE AND AUSTRALIA.
FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS IN OTHER PERMITTED COUNTRIES.

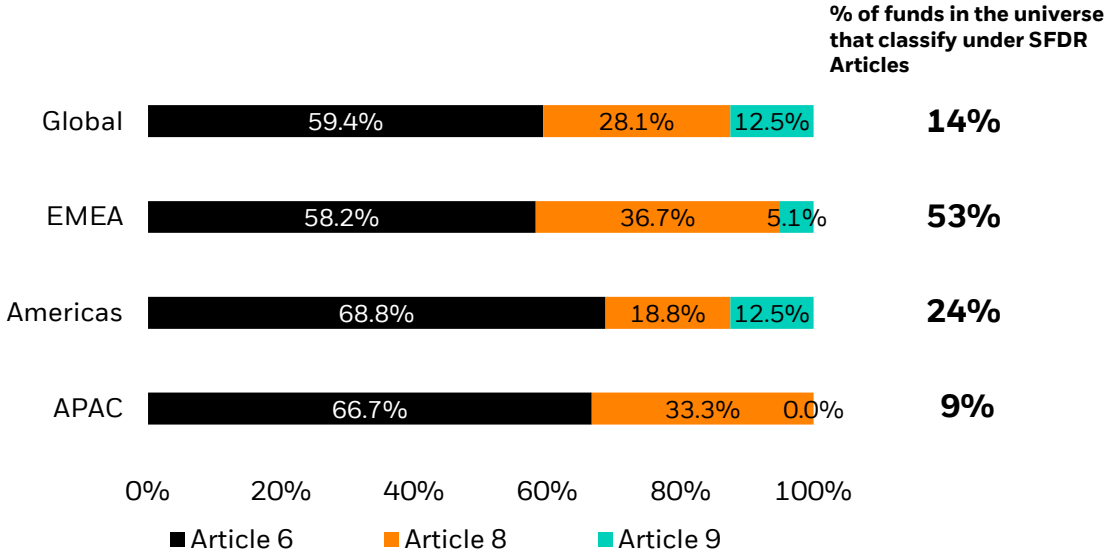
The regional breakdown reveals notable disparities. Over half of the funds investing in the EMEA region obtained a status under one of the SFDR articles, whereas the group of funds focused on the Americas region had a 24% portion falling into one of the SFDR statuses.

The distribution of various article statuses differs among regional groups. Specifically, one in every eight globally diversified funds or those specialized in the Americas attained the Article 9 status, whereas only one in every 20 funds in the EMEA region achieved the same status.

Regarding the amount of information disclosed, funds vary based on their SFDR article status. Article 9 funds, on average, provide the highest amount of ESG-related information, with an average of 12.5 data points per portfolio deal/company. Article 8 funds offer 9.3 data points on average, while Article 6 funds provide an average of 8.6 data points per deal/company.

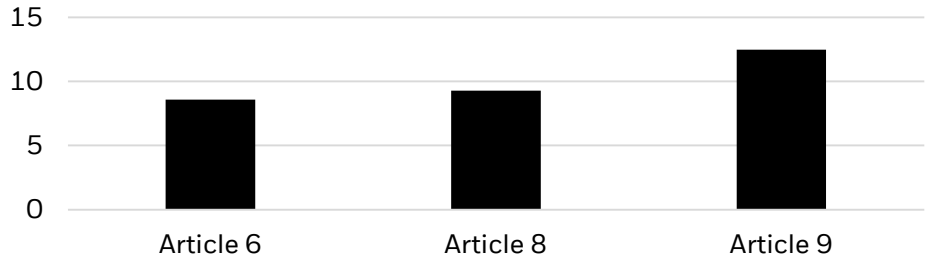
SFDR Classified Funds by Region

Distribution of funds that supplied us with ESG data across different SFDR article statuses by regional focus.



Information Quantity and SFDR Status

Average number of ESG related data points per portfolio company provided by their SFDR article status.



FOR PUBLIC DISTRIBUTION IN THE U.S., CANADA, HONG KONG, SINGAPORE AND AUSTRALIA.
FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS IN OTHER PERMITTED COUNTRIES.

Fund Level Analysis

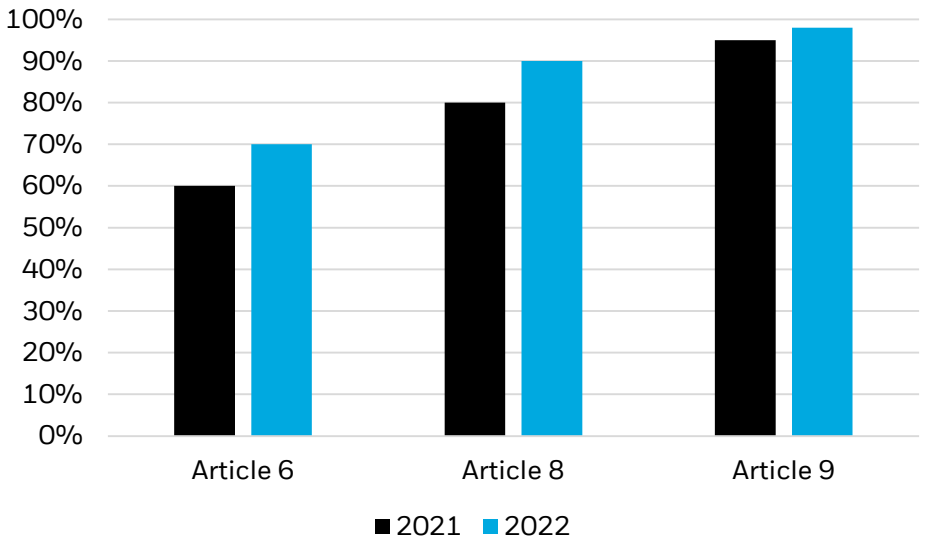
The delegated SFDR regulation establishes standardized guidelines for financial market participants and financial advisers regarding transparency in incorporating sustainability risks and assessing adverse sustainability impacts in their procedures. It also mandates the provision of sustainability-related information concerning financial products. This regulation is applicable to entities acting as financial market participants and financial products themselves. Financial market participants and advisers are obligated to publish a Principal Adverse Impact (PAI) statement on their websites and elaborate on PAI in pre-contractual information. PAIs refer to the negative effects on sustainability factors resulting from investment decisions and advice.

The regulator compiled a set of 64 PAI indicators, with 14 being obligatory for disclosure, while the remaining 46 are optional. The required indicators encompass a diverse range of environmental and social factors, such as ESG considerations, including scope 1, 2, and 3 greenhouse gas emissions[1], biodiversity impacts, and gender pay gap information.

We examined variations in how funds with distinct SFDR statuses reported their Scope 1 greenhouse gas emissions (GHG) and tracked changes in their compliance stance over time.

SFDR Classified Funds and Scope 1 GHG Reporting Dynamics

Portion of funds with SFDR article status that provide Scope 1 emission data by article status and the year of reporting.



1 Greenhouse Gas Protocol introduces three measures of greenhouse gas emissions. **Scope 1** captures the emissions from sources that an organization owns or controls directly. **Scope 2** includes emissions that a company causes indirectly and come from where the energy it purchases and uses is produced. **Scope 3** encompasses emissions that are not produced by the company itself and are not the result of activities from assets owned or controlled by them, but by those that it's indirectly responsible for up and down its value chain.

FOR PUBLIC DISTRIBUTION IN THE U.S., CANADA, HONG KONG, SINGAPORE AND AUSTRALIA.
FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS IN OTHER PERMITTED COUNTRIES.

Deal Level Analysis

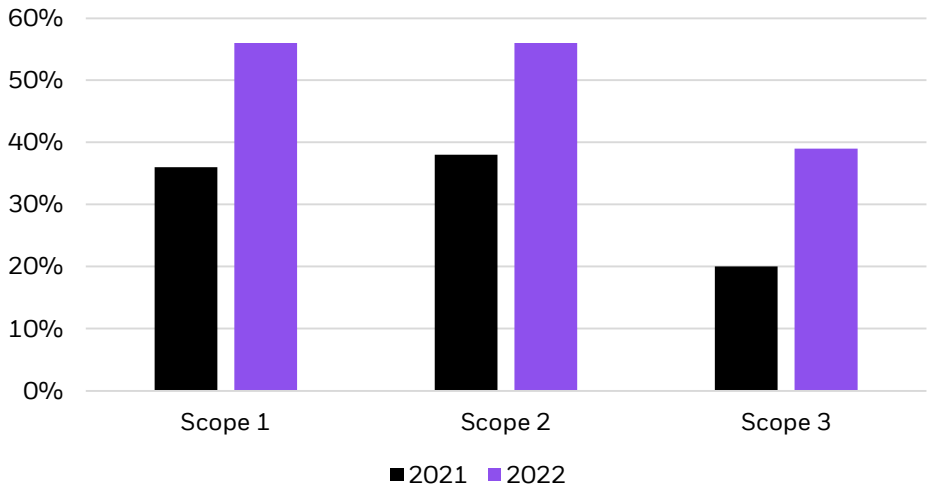
Leveraging the detailed ESG data provided by our AM respondents for the underlying portfolio companies and deals held in their portfolios, we can discern variations in reporting behaviour across diverse characteristics of portfolio companies.

4,720

Portfolio companies that AMs supplied ESG data for

Portfolio Companies and GHG Emission Reporting Dynamics

Portion of portfolio companies that provided GHG emissions data by Scope and the year of reporting.



Throughout 2023, we gathered data for the 2022 reporting year. The notable rise in the percentage of companies reporting gas emission metrics across all three greenhouse emissions categories is particularly encouraging, especially for Scope 3, which poses challenges due to its tracking of the indirect GHG emissions.

SFDR regulation and unification of reporting standards across the industry drive the adoption and enhance the quality of reporting ESG-related information.

NM1224U-4100587-10/16

FOR PUBLIC DISTRIBUTION IN THE U.S., CANADA, HONG KONG, SINGAPORE AND AUSTRALIA.
FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS IN OTHER PERMITTED COUNTRIES.

Deal Level Analysis

We broadened the scope of Principal Adverse Impact (PAIs) and conducted a detailed examination of reported data for **17 PAIs** within **SFDR framework**, at the portfolio company level. This analysis aimed to assess the variations in reporting behaviour for each indicator and explore regional breakdowns. The term "region" in this context refers to the location of the headquarters of the underlying portfolio company.

The data reveals **regional disparities** in fund managers' propensity to report various adverse impacts as defined by SFDR regulation. The EMEA region is influencing the global average positively across most indicators. When examining specific indicators**, the greatest potential for enhancement across regions lies in reporting on energy production**. Fund managers exhibit greater maturity in terms of reporting on fossil fuel externalities.

Propensity of Portfolio Companies to Report PAIs

Portion of portfolio companies that provided data on 17 selected PAIs within SFDR framework, by regional domiciliation of the company and the year of reporting.

PAI metric	2022 Campaign	2023 Campaign			
	Total 2022	Total 2023	EMEA	Americas	APAC
Scope 1 GHG emissions	36%	56%	64%	43%	44%
Scope 2 GHG emissions	38%	56%	65%	43%	44%
Scope 3 GHG emissions	20%	39%	45%	26%	35%
Energy consumed	39%	47%	58%	29%	44%
Renewable energy consumed	33%	38%	47%	24%	26%
Energy produced		13%	20%	3%	9%
Renewable energy produced		12%	17%	3%	9%
Hazardous waste		26%	35%	11%	9%
Emission to water	16%	18%	26%	6%	12%
Fossil fuel		51%	63%	33%	26%
Bio-diversity sensitive areas		44%	52%	30%	26%
Affects biodiversity sensitive areas		42%	51%	26%	26%
Board gender ratio		38%	49%	22%	21%
Gender pay gap	10%	17%	25%	5%	9%
Manufacture or selling of controversial weapons		54%	66%	33%	59%
Policies to monitor UNGC principles compliance		44%	50%	32%	59%
Violation of UNGC principles		48%	56%	33%	29%

FOR PUBLIC DISTRIBUTION IN THE U.S., CANADA, HONG KONG, SINGAPORE AND AUSTRALIA.
FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS IN OTHER PERMITTED COUNTRIES.

Our questionnaire also includes data pertaining to analogous adverse impact indicators within the **EDCI framework**. The total count of selected indicators for which we are presenting evidence on reporting behavior is **13**, and they largely coincide with the SFDR PAIs we examined on the preceding page.

Delving into the EDCI framework, it becomes apparent that companies headquartered in the US are more inclined to provide information on governance indicators as defined within the EDCI framework compared to what is observed in the case of SFDR.

Propensity of Portfolio Companies to Report EDCI Adverse Indicators

Portion of portfolio companies that provided data on 13 selected PAIs within EDCI framework, by regional domiciliation of the company and the year of reporting.

EDCI Indicator	Total	EMEA	Americas	APAC
Scope 1 GHG emissions	56%	64%	43%	44%
Scope 2 GHG emissions	56%	65%	43%	44%
Scope 3 GHG emissions	39%	45%	26%	35%
Energy consumption	47%	58%	29%	44%
Renewable energy consumption	38%	47%	24%	26%
Total number of employees	46%	55%	33%	32%
Total number of employees previous years	38%	44%	30%	29%
Board gender ratio	38%	49%	22%	24%
Workdays lost to accidents	40%	36%	45%	44%
Work related injuries	41%	32%	53%	44%
Work ralted fatalites	47%	40%	54%	29%
Annual employee survey	50%	45%	56%	50%
% employes responding to survey	25%	18%	33%	24%

FOR PUBLIC DISTRIBUTION IN THE U.S., CANADA, HONG KONG, SINGAPORE AND AUSTRALIA.
FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS IN OTHER PERMITTED COUNTRIES.

Deal Level Analysis

Focusing the analysis on portfolio companies within the holdings of managed funds that have received any of the SFDR article statuses reveals a distinct perspective across all adverse indicators.

As anticipated, Article 9 funds, primarily seen as impact funds, demonstrate a higher level of diligence in reporting on adverse impact indicators on a portfolio company level compared to their peers. However, even Article 9 funds fail to achieve a 100% reporting rate on all indicators. This indicates the ongoing challenge they face in generating all pertinent ESG information for every company in their portfolio. For certain indicators, such as the presence of operational sites in sensitive areas, the completeness rate reaches nearly 100%.

Propensity of Portfolio Companies to Report PAIs

Portion of portfolio companies that provided data on 17 selected PAIs within SFDR framework, by regional domiciliation of the company and the year of reporting.

	SFDR Status of a Fund		
SFDR PAI	**Article 6**	**Article 8**	**Article 9**
Total number of companies reporting on the indicators	**1073**	**586**	**122**
Scope 1 GHG emissions	59%	64%	66%
Scope 2 GHG emissions	58%	68%	73%
Scope 3 GHG emissions	37%	58%	61%
Total GHG emissions	59%	73%	75%
Energy consumption	53%	63%	76%
Renewable energy consumption	48%	47%	68%
Non-renewable energy consumption	53%	61%	75%
Energy production	18%	27%	41%
Renewable energy production	15%	21%	50%
Non-renewable energy production	15%	21%	47%
Emissions to water	22%	33%	42%
Hazardous waste	25%	48%	51%
Sites or operations active in fossil fuel sector (Yes/No)	44%	62%	99%
Sites or operations located in or near biodiversity sensitive areas (Yes/No)	29%	55%	92%
Sites or operations that negatively affect biodiversity sensitive areas (Yes/No)	34%	51%	92%
Board gender ratio	40%	60%	72%
Gender pay gap	18%	34%	48%
Policies in place to monitor compliance with the UNGC principles or the OECD guidelines	36%	59%	61%
Violations of the UNGC principles or the OECD guidelines in the last 12 months	39%	62%	92%
Involvement in manufacturing or selling of controversial weapons	49%	74%	100%

FOR PUBLIC DISTRIBUTION IN THE U.S., CANADA, HONG KONG, SINGAPORE AND AUSTRALIA.
FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS IN OTHER PERMITTED COUNTRIES.

We examined the industry sector categorization of portfolio companies within our scope. It was observed that **funds with SFDR status disproportionately own companies in the Utilities and Industrials sectors** compared to other industries. This outcome is anticipated, given that these sectors are subject to relatively higher scrutiny from a sustainability standpoint and face increased pressure to report on adverse indicators.

As a direct implication, companies in sectors with a higher prevalence of SFDR fund statuses also tend to, on average, disclose information for more PAI indicators.

The allocation of portfolio companies among SFDR article statuses varies based on the industry sector. Article 9 funds, often recognized as impact funds exhibit preferences for Utilities, Industrial and Financials sector. IT firms which are held by a fund with an SFDR status would almost exclusively be owned by Article 6 funds.

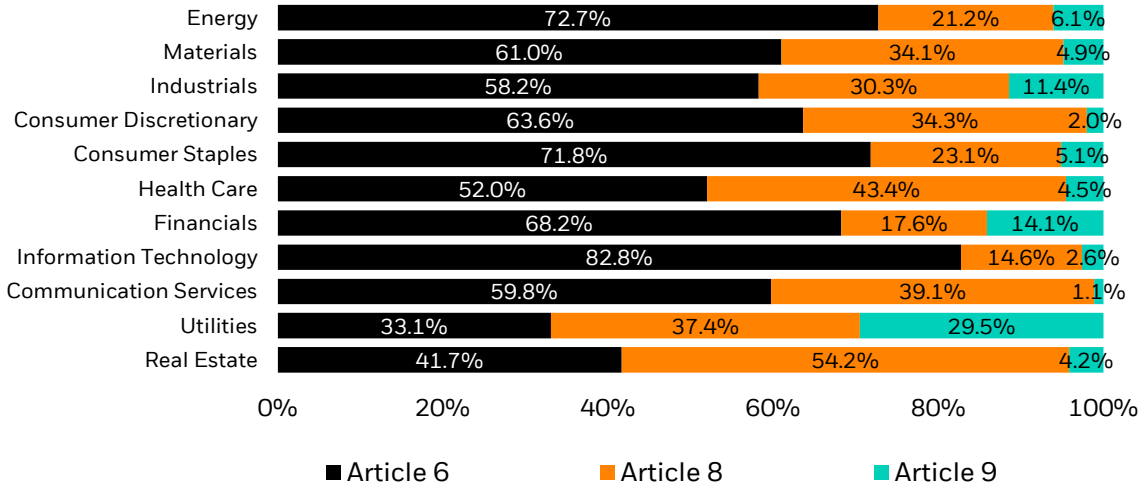
SFDR Article Status and Industry Sector Ownership

Portion of portfolio companies held by funds with SFDR article status and the average number of reported PAIs per company by industry sector.

Industry Sector	Portion of Companies owned by funds with SFDR status	Average number of reported PAI indicators
Energy	30%	8.0
Materials	32%	9.1
Industrials	**47%**	9.5
Consumer Discretionary	36%	8.1
Consumer Staples	37%	7.9
Health Care	34%	8.0
Financials	33%	7.5
Information Technology	39%	6.8
Communication Services	40%	8.2
Utilities	**60%**	12.0
Real Estate	22%	7.3

SFDR Article Status Distribution

Distribution of portfolio companies owned by funds with SFDR status across the funds SFDR articles by industry sector.



FOR PUBLIC DISTRIBUTION IN THE U.S., CANADA, HONG KONG, SINGAPORE AND AUSTRALIA.
FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS IN OTHER PERMITTED COUNTRIES.

Fund Level Analysis

Lastly, we investigated the size of the underlying portfolio companies as a characteristic and its association with ESG reporting behavior. We used the reported enterprise value as a metric for the size of the company.

Several insights emerged from this analysis. Firstly, Article 6 and Article 9 funds tend to own larger companies on average compared to Article 9 funds. This aligns with the nature of Article 9 funds, which typically invest in impact businesses that are relatively young and smaller in size.

Secondly, the quantitative relationship between the size of the portfolio company and the extent of reported information on SFDR adverse indicators is absent. This suggests that **size is not indicative about the privately owned company's ESG reporting behavior**.

SFDR Article Status and Portfolio Company Size

Average enterprise value of the portfolio company owned by a fund with SFDR article status by actual article status of a fund.

Article 6	**$755M**
Article 8	**$656M**
Article 9	**$174M**

Relationship Between Company Size and Propensity to Report on SFDR PAIs

-0.003

Correlation between portfolio company's enterprise value and the number of reported SFDR PAIs

As we navigate the evolving landscape of ESG considerations in private markets, it becomes evident that certain sectors and funds demonstrate varying degrees of maturity and commitment to transparent reporting. The findings emphasize the need for tailored strategies and targeted improvements.

Moving forward, continued vigilance and collaboration within the private markets are crucial to fostering a sustainable and responsible investment environment. By addressing the identified areas for improvement and building on the positive momentum observed, stakeholders can contribute to the ongoing evolution of ESG reporting standards, ultimately enhancing the impact of sustainable practices in the private markets arena.

LEARN MORE

If you would like further information on any of the topics covered in this document, please contact us at efrontesg@blackrock.com.

eFront®/Aladdin® sustainability serves participants across the private markets spectrum, including but not limited to private market asset managers, asset owners, funds of funds, and asset servicers. Whether it is technology solutions, ESG data services, or climate risk modeling, let us know how we can assist you.

This material is provided for informational purposes only and is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are subject to change at any time without notice. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by eFront to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. This material may not be reproduced for, disclosed to or otherwise provided in any format to any other person or entity without the prior written consent of BlackRock.

BlackRock's eFront® platform is a financial technology platform designed for institutional use only and is not intended for end investor use.

©2024 BlackRock, Inc. All rights reserved. **BLACKROCK and eFront** are trademarks of BlackRock, Inc., and its affiliates. All other marks are the property of their respective owners. The opinions expressed are as of **January 31st, 2024** and may change as subsequent conditions vary.

eFront
a part of BlackRock

NM1224U-4100587-16/16