The ESG Status of Swedish Private Equity 2023

pwc

SVCA

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Preface

Introductory words from SVCA

As the transition to a sustainable society accelerates, investments from private capital play an increasingly important role. Sustainability, including ESG (Environment, Social and Governance), has been high on the private equity agenda for several years, with Nordic private equity leading the way.

Private equity funds are active, long-term owners that provide capital and expertise to the companies they invest in. This form of ownership favours long-term and active change work and is therefore an ownership form that is extremely well suited to encouraging existing unlisted companies to move towards long-term sustainable business models. It is also an ownership model that invests in the clean technologies of the future, accelerating and affecting change.

This report is the second in a project that aims to highlight the sustainability work that is being conducted and that has been conducted by private equity in Sweden for many years. Key figures in the ESG area have been compiled and compared with companies listed on the Stockholm Stock Exchange. It also highlights the ESG work that is done within the underlying portfolio companies and how it future-proofs Swedish business.

Although progress has been made since the last report in 2020, we are not there yet with improvements needed. We hope that this report will inspire and guide unlisted companies as well as private equity funds to measure and report their activities and their progress, and thereby be encouraged to improve further.

Monalotte Theorell Christofferson, Chairman, SVCA

Isabella de Feudis, CEO, SVCA

Introductory words from PwC[1]

At PwC, we are convinced that we need to move beyond the tried and tested to create a different growth model that is sustainable far into the future. We call this The New Equation and it is built on the virtuous cycle of trust and sustained outcomes. All available scientific evidence and research underscore the critical requirement for an immediate pursuit of a just transition. Hence, the time for impactful action is now. We are seven years away from 2030, when the global community has agreed to meet the Sustainable Development Goals (SDGs).

With an investment horizon of typically five to seven years, the private equity and venture capital (PE/VC) industry has organised themselves to create desired outcomes in a relatively short time frame. The power of the PE/VC business model with active ownership and access to capital accelerate transformation. PE/VC firms succeed in transforming portfolio companies to become more sustainable by setting clear objectives, offering step-by-step onboarding programs and requiring relevant expertise in leadership.

We see an evolution from negative screening, to ESG (Environmental, Social and Governance), to sustainable investment strategies aimed at solving global challenges. Empowering ESG and sustainability experts with resources and authorities enables proactive sustainability integration, adding value to the fund's investments.

We observe a similar transition in the overall private sector, where discussions and practices around ESG and sustainability matters have become more advanced and refined. ESG in itself serves as a licence to operate, while the opportunity to create meaningful transformation lies in companies' integration of sustainability as a strategic vision, mission and business model.

As sustainability and ESG advisors to the PE/VC industry and businesses in the private sector at large, we see a rapidly increasing need and demand for scaling innovative solutions and accelerating transformation. The PE/VC industry is well placed to lead the sustainability transformation of Swedish businesses, and should take on this unique opportunity.

David Ringmar,
Sustainability Territory Leader, PwC

Fredrik Lindblad,
Advisory Partner, PwC

1) Disclosure: PwC are offering consultancy services to the PE/VC industry, including several firms which were interviewed for this report.

Executive summary

In recent years, the financial sector has witnessed a profound transformation, with sustainability and ESG considerations developing into strategic, competitive and value creation aspects for the Swedish PE/VC industry. What was once perceived as a peripheral concern and compliance exercise has now transformed into a central and integrated dimension of business strategy. ESG has become a prerequisite for companies seeking to achieve growth and scalability both within the Swedish market and on a global scale, while sustainability has evolved into a core business strategy, driving value and competitiveness. Through in depth interviews with SVCA members and data collection from SVCA members' portfolio companies based in Sweden, a multitude of insights have been uncovered as particularly relevant for advancing the ESG and sustainability agenda in this industry.

ESG has become a prerequisite for companies seeking to achieve growth and scalability both within the Swedish market and on a global scale, while sustainability has evolved into a core business strategy, driving value and competitiveness.

Since SVCA's report in 2020, gains in ESG in general and in governance specifically can be seen with notable increases of whistleblower functions and anti-corruption policies within portfolio companies. However, the pace of progress is slow, especially in social aspects like board diversity, signalling a need for an industry-wide push to fully integrate ESG and sustainability in all dimensions.

The Swedish ESG landscape is improving gradually but could benefit from expeditious action.

In summary, the data from SVCA members underscore the need for an even more concerted, industry-wide effort to accelerate ESG integration across all dimensions. Compared to SVCA's first report on "The ESG Status of Swedish Private Equity", based on 2020 data,[2] employment growth has increased from 9% in 2020 to 21% in 2022. Gender balance in Board of Directors has similarly seen an increase, climbing from 19% to 23% among portfolio companies.

Whilst there are pockets of progress, particularly in governance, the overall rate of progress is slow, with certain social factors like board diversity lagging. The proportion of women on portfolio company boards has increased from 19% to 23%. Still, the 2023 PE/VC firm survey has revealed a larger board gender imbalance when compared to the data of Nasdaq-listed firms.

The proportion of men on boards in the portfolio companies has experienced a decline, from 81% to 77%. This relatively slow change underscores the presence of a complex issue, necessitating committed investments and continuous efforts for meaningful and lasting development towards gender equality. However, the movement may indicate that subtle changes are beginning to manifest within the intricate landscape of this issue.

2) Disclaimer: Note that the data from the SVCA members and portfolio companies in this report are not directly comparable to those in the previous report; the data represents a snapshot in time.

PE/VC firms can achieve an ESG premium, strengthening competitiveness and valuation and increasing access to finance. Through proper ESG work, PE/VC firms can open doors to sustainable finance tools and opportunities. While it may be challenging to quantify, there is a dominant perception that robust ESG performance in combination with sustainable value creation correlates with elevated company valuation. Whereas proper ESG reporting and management is a basic requirement, the potential for valuation enhancement of a portfolio company depends on several factors;

- Industry and sector dynamics: the unique characteristics of the company's sector and industry play a pivotal role. Understanding the growth prospects, competitive landscape, and market trends within the sector is crucial for valuation enhancement.
- Business model sustainability and transformation: the sustainability of the portfolio company's business model is a key determinant. A sustainable business model demonstrates long-term viability aligned with stakeholder expectations on environmental, social and governance performance.
- Critical sustainability topics: identifying and addressing critical sustainability topics specific to the industry is key. These may include carbon footprint reduction, supply chain sustainability, diversity and inclusion initiatives, or product innovation that supports sustainability goals.
- Capacity for action: in cases where the business model requires transformation for sustainability, the ability to successfully execute this transformation is vital. This involves having the necessary resources, talent and commitment to adapt to changing consumer preferences, regulatory requirements and evolving ESG expectations as well as to implement sustainability initiatives and track their impact.

Interestingly though, companies with well-established sustainability profiles may encounter challenges in securing funding from PE/VC firms that are striving to earn a premium on enabling a sustainable transformation. These dedicated PE/VC firms may find fewer incentives and opportunities to transform the company and earn a premium for their efforts in ESG work and sustainability.

The potential for valuation enhancement of a portfolio company depends on several factors:

- Industry and sector dynamics
- Business model sustainability and transformation
- Critical sustainability topics
- Capacity for action

Climate is a complex and expandable area where many PE/VC firms struggle, particularly with scope 3 greenhouse gas emissions in complex value chains.
Institutional investors are increasingly requiring companies to increase their insight and understanding of the risks and impacts in their value chain by placing demands on companies to provide scope 3 climate emissions reporting. PE/VC firms themselves usually have low direct emissions, while upstream emissions, originating from portfolio companies and their suppliers, may be high. The extent can vary based on the nature of the portfolio company's business; a manufacturing firm is likely to have higher emissions compared to a service-oriented firm. The extent can also vary over time, based on the composition of the portfolio. Due to this intricate nature of carbon dioxide emissions, making accurate calculations and managing and reducing the overall carbon footprint is a challenging task. Interestingly, there is a built-in contradiction at play — as a company includes an increasing number of emission categories in its calculations, the carbon accounting often reveals higher emissions.

Concrete target setting and active monitoring, alongside elevated awareness and understanding for the positive relationship between broader diversity and enhanced profitability is essential to strengthen gender balance in portfolio companies, as well as the overall private sector.

Historically, companies have been disclosing primarily climate related data. Now, the regulatory landscape is diversifying beyond climate impact reporting, encompassing areas such as biodiversity, circular economy and water impact. This increases complexity and intensifies the pressure on the PE/VC industry to invest in upskilling and elevate the commitment to taking greater responsibility also in these emerging domains.

The PE/VC industry bears a large responsibility for the overall diversity in the Swedish private sector.
As PE/VC firms play a significant role in shaping board and management structures in their portfolio companies, their strategies and actions concerning diversity and inclusion have far-reaching consequences for the wider private sector as these companies grow and scale. The extent of their influence varies depending on whether the PE/VC firm holds a majority or minority ownership stake. Nevertheless, the impact of diversity and inclusion efforts, or their absence, remains profound. Concrete target setting and active monitoring, alongside elevated awareness and understanding for the positive relationship between broader diversity and enhanced profitability is essential to change this.

VC firms initiate ESG priorities, while PE firms drive transformation through strict requirements.

ESG is often viewed as a top-down process driven primarily by institutional investors' demands and increasingly stringent regulation, with the investors being the primary audience for ESG reporting. Employees, especially prospective ones, and investee companies are however gaining more significance as stakeholders for securing longterm talent attraction and establishing the PE/VC firm as an appealing partner for potential investments.

Some VC firms are notably leading the way by imposing rigorous ESG requirements and reporting standards on their portfolio companies.

For this to be prioritised and successful by portfolio companies, VC firms play a central role in establishing an understanding of the value of ESG work, facilitating upskilling and gaining buy-in. This might involve investments to avoid conversion costs that future investors would otherwise have to bear. PE firms often condition their investments with stringent requirements to enable sustainable transformation.

Through efficient governance with sustainability priorities, PE/VC firms can shape an ESG and sustainability agenda, onboard staff and cultivate relevant expertise in leadership. These strategies, combined with incentives such as ESG award ceremonies, empower PE/VC firms to drive meaningful change in their portfolio companies in a short timeframe while laying the foundation for sustainable growth.

Through efficient governance with sustainability priorities, PE/VC firms can shape an ESG and sustainability agenda, onboard staff and cultivate relevant expertise in leadership.

About the report

This report, conducted by PwC in partnership with The Swedish Private Equity and Venture Capital Association (SVCA), draws upon data collected from and interviews held with Swedish private equity and venture capital firms with regards to the ESG related status of their portfolio holdings based in Sweden. The participating firms are members of SVCA and the study was carried out between May and October 2023. 14 SVCA members were selected for interviews. 14 SVCA members submitted ESG data for a total of 139 portfolio companies headquartered in Sweden.

The Swedish Private Equity & Venture Capital Association (SVCA) is an independent, not-for-profit industry body for firms and individuals active in the Swedish private equity industry, and includes buyouts, venture capital, business angels, and business angel networks. The Association, which was founded in 1985, seeks to improve how the private equity market in Sweden functions and to increase knowledge and understanding of the private equity market among the general public.

PwC Sweden is the market leader within auditing and advisory services with almost 3,000 employees across 21 offices in Sweden. PwC's purpose is to build trust in society and solve important problems, with core values that permeate every undertaking of the firm.

As proactive advisors driven by understanding clients' real needs, PwC works to find solutions to complex business challenges no matter what phase the business is in. What makes PwC unique is the combination of the latest technology and collaboration between industry, subject matter and functional specialists.

PwC Sweden is an independent legal entity that is part of the global PwC network with 364,000 employees in 152 countries. This allows the network to share knowledge and experiences globally and deliver relevant solutions together that create trust and long-term sustainable value for clients as well as society at large.

SVCA member survey

Summary: Key Performance Indicators (KPI)

KPI	SVCA Members' Portfolio Companies	Nasdaq OMX Stockholm (all)	Nasdaq OMX Stockholm (Small Cap)
Employment Growth (Mean FTE growth 2022/2021)	21% (9%)*	10% (5%)	1% (-1%)
Gender Balance in Management Teams (Share of Women)	28% (26%)	32% (26%)	29% (23%)
Gender Balance on the Board of Directors (Share of Women)	23% (19%)	34% (33%)	33% (28%)
Emissions Intensity, scope 1 (tCO2e/MSEK net sales)	0.65 (0.44)	0.30 (0.34)	–
Emissions Intensity, scope 2 (tCO2e/MSEK net sales)	0.27 (0.27)	0.24 (0.28)	–
Anti-Corruption Policy (Share of Companies with an Official Anti-Corruption Policy)	83% (83%)	77% (81%)	81% (57%)

*The numbers in parentheses show results from the last report, which was based on FY 2020 numbers. It is important to note that the data from the SVCA members and portfolio companies in this report are not directly comparable to those in the previous report.

ESG in Swedish private equity and venture capital – from compliance to value creation

In recent years, a substantial transformation has occurred in the Swedish PE and VC industry, wherein Environmental, Social and Governance (ESG) considerations have evolved into strategic imperatives, fostering competitiveness and generating value creation.

From being regarded as a peripheral topic, primarily associated with compliance, ESG is now a hygiene factor for businesses that aim to grow and scale in the Swedish and global market. For the PE/VC industry, sustainable value creation has developed into a core business focus.

Fundamentally, the PE/VC industry revolves around investing in trust. Private equity and venture capital is inherently a people-centric field, and thorough examination of track records is central in comprehending the treatment and management of ESG at company level.

PE/VC firms need to be mindful and skilled at identifying advantageous company cultures and be ready to enhance them by, for instance, cultivating a more robust performance-oriented culture and fostering a culture that is adaptable. Company culture is shaped by the individuals who founded and established the company, and it is important to protect and maintain this culture during scaling, while ensuring that ESG is a prioritised area.

Given the strong people focus and the power of a strong culture, PE/VC firms also highlight the importance of investing in robust succession plans. This is particularly relevant for smaller companies as they rely more heavily on specific individuals compared to larger companies.

"I think people underestimate how the financial market is working with ESG matters compared to a few years ago. There has been a massive shift. It has gone from being close to nothing, to becoming a standard and core consideration in investment decisions, a standing agenda item on steering meetings – the development has really taken off and has not slowed down or stopped."

Daniel Winther, Head of Private Equity and Infrastructure, Skandia

Firm and target/portfolio maturity varies across the sector.

The degree of maturity within the PE/VC firm itself, as well as within the portfolio companies, significantly influence how ESG is managed and prioritised. One key factor for the maturity of PE/VC firms' ESG work is the extent to which ESG is embedded within their investment strategies. While the overarching industry goal is to enhance ESG practices, the actual implementation ranges from ensuring basic compliance to strategically acting on opportunities to create broader value.

Nascent PE/VC firms and early-stage portfolio companies typically cite that they possess limited ESG and sustainability capabilities, with time and resource constraints representing their primary challenge. Many early-stage portfolio companies – also those who possess the relevant sustainability skills and expertise – do not have dedicated staff responsible for ESG and sustainability matters.

More mature PE/VC firms and portfolio companies possess better prerequisites for prioritising ESG and sustainability work, which is often considered a strategic and competitive priority, integrated into all parts of their operations, generally with dedicated staff working solely with ESG and sustainability.

"We see three main ESG drivers:

1. First, value creation is an increasingly powerful driver. A thoughtful approach to ESG can help position a company for the future, support innovation, identify operational efficiencies, attract talent, clients, and future buyers, as well as enhance the brand. Similarly, ESG helps protect value through minimising ESG related risk such as negative ESG related incidents in the portfolio. Operational, legal or reputational risks from e.g., a data breach, an injury at a factory, pollutant emissions, often result in high costs and considerable work.
2. Second, there is an increasing pressure from investors to increase responsibility. Although pressure from investors has been an important driver for many years, ESG integration is now mainstream, and requirements are increasingly sophisticated and numerous. In addition, competitive pressure from peers is mounting.
3. Third, more and more international and national legislations and regulations push ESG issues continuously."

Anna Follér, Head of Sustainability, AP6

ESG and sustainability as a competitive advantage when exiting a company.
PE/VC firms testify that basic ESG work is necessary. For those that have a stronger ESG and sustainability profile, efforts are seen as a strategic investment to increase the valuation of their portfolio companies.

There is a general perception that a solid ESG performance leads to increased financial value. However, PE/VC firms have difficulties quantifying this value. For companies to be publicly listed, the ESG efforts mandated during initial public offerings (IPOs) are viewed as increasing the valuation. When companies are sold to other investors, the impact of their ESG status on the price tag is determined by the specific demands and requirements of the buyer.

PE/VC firms recognise that companies that have not initiated their ESG or sustainability efforts may experience a negative impact on their valuation. Some PE/VC firms prefer that target companies have room for improvement, as their aim is to generate added value through robust ESG and sustainability initiatives and potentially enabling them to secure a premium upon exit. The ESG and sustainability maturity of a possible target company can thus become a negotiation issue.

PE/VC funds identifying as impact funds may exhibit a stronger motivation to invest in companies lacking an advanced ESG and sustainability track record, to add value and earn a premium for such companies.

Beyond increased valuation, an additional strong economic incentive for PE/VC companies to work with ESG and sustainability is the opportunity to access sustainable finance. By doing so, they can qualify for financial instruments designed for sustainable investments.

"The VC industry is really a trust and people business. The people behind ideas and business ventures determine how companies are governed, and therefore the trust for and belief in individuals is crucial for successful business development. Our network is central in this and the best people are found across management teams and boards for different portfolio companies."

Alex Valcu, Partner, HealthCap

ESG prioritisation in private equity: progressive insights from Per Strömberg

Professor Per Strömberg of the Stockholm School of Economics, a globally respected expert in private equity (PE), discusses PE's pivotal role in driving sustainable business practices.

Strömberg emphasises that private equity is, at its core, about instigating changes within companies. This transformative capability is key to transitioning a profitable but non-sustainable business into a sustainable one. Despite the journey's challenges and opportunities, substantial progress has been made over the last few years.

Strömberg's insights present a dynamic and evolving PE landscape where ESG considerations are becoming increasingly integral to core investment strategies. This evolution signifies the PE industry's potential to lead sustainable transformations, underlining its pivotal role in the global ESG landscape.

- **Shift in ESG landscape and investment strategies**
  Reflecting on the ESG landscape since the previous SVCA report published in 2021, Strömberg underlines that ESG considerations have evolved from simply a compliance aspect to a vital part of strategic investment decision-making. He explains, "It is more about making thematic investments in companies and technologies that are expected to benefit from the ESG megatrend."

- **Private equity's active ownership advantage**
  Strömberg also highlights a shift in the PE ownership model, contrasting it with public equity. "In private equity, you have a longer perspective with a five-year business plan, bonuses, opportunities to drive change on a micro level. It's another level of governance as owner than you can have in public equity," says Strömberg, emphasising the unique advantages of private equity in propelling sustainability.

- **Gender diversity: challenges and efforts**
  Addressing gender diversity, Strömberg acknowledges the concerted efforts of many PE firms, especially larger funds, in improving gender balance. However, he highlights that

Foto: Juliana Wiklund

Per Strömberg, professor of Finance and Private Equity at the Stockholm School of Economics maintaining this balance, particularly in the pipeline for leadership positions, remains a challenge.

Strömberg also reflects on the uniqueness of board composition in private equity. “The selection process for a PE board is different from that of public equity, as board members in PE are often more engaged in strategic issues that require specific knowledge, rather than just governance. PE and VC firms choose board members based on very specific skills or particular experiences that align with their business plan, which may limit the pool of potential candidates from typically male-dominated networks and backgrounds,” he elaborates.

- **Evolving perceptions on returns from ESG**
  Strömberg observes a significant shift in the perception of the relationship between sustainability and returns since he was interviewed for the previous SVCA report in 2021. Previously, there might have been a perception that prioritising sustainability could lead to a trade-off with financial returns. Today, however, this perception has changed dramatically. “No one in the Nordics would say they are giving up returns to make an impact,” Strömberg says. The industry now views sustainability as a driver of long-term returns, reflecting an understanding that sustainable businesses are better positioned to thrive in the face of future challenges and opportunities.

- **Call for coordinated international efforts**
  Finally, Strömberg underscores the importance of government action and international coordination for creating a more sustainable business environment. “There is a growing need for international consensus,” he stresses, highlighting the role of policymakers in shaping a sustainable future.

What PE/VC firms engage in concerning ESG is determined by their objectives and ambition

Materiality assessment is increasingly used to identify most material risks and opportunities.

The use of materiality assessment differs within the industry. Some PE/VC firms have not yet started, while others have already incorporated materiality assessments as a means to prioritise their ESG and sustainability efforts. Many PE/VC firms have set goals to conduct materiality assessments for all their portfolio companies within the coming years.

Some PE/VC firms view materiality assessments as a pragmatic approach to identify important ESG and sustainability topics that should be in focus, and simultaneously what areas could be deprioritised. PE/VC firms stress that the objective of a materiality assessment is not to list all risks or impacts, but to guide efforts towards the most relevant areas.

PwC Recommendation

The Sustainable Finance Disclosure Regulation (SFDR) and the Corporate Sustainability Reporting Directive (CSRD) and its materiality assessment requirements will establish a new standard for transparent reporting of sustainability-related risks and opportunities. PE/VC companies with diversified portfolios may face challenges in identifying and prioritising these factors. Nevertheless, by systematically integrating sustainability into core strategies, insights from materiality assessment will enhance portfolio companies' competitiveness and long-term value creation.

Elisabet Brodin, Sustainability Expert, PwC

CASE STUDY

Verdane is a growth equity investment firm investing in tech-enabled and sustainable businesses based out of Europe. Given the strong focus on software companies and the general development where companies are moving more online, cybersecurity has been identified as a material topic for Verdane and is one of the prioritised ESG topics.

All portfolio companies have to do a cybersecurity maturity assessment and based on that, set targets and roadmap. Verdane has also hired an in-house cybersecurity expert to support portfolio companies on that journey.

Gender imbalance exists both in PE/VC firms' own operations and portfolio companies and while PE/VC firms make efforts to change this, it is challenging as male dominated networks dominate the overall industry.

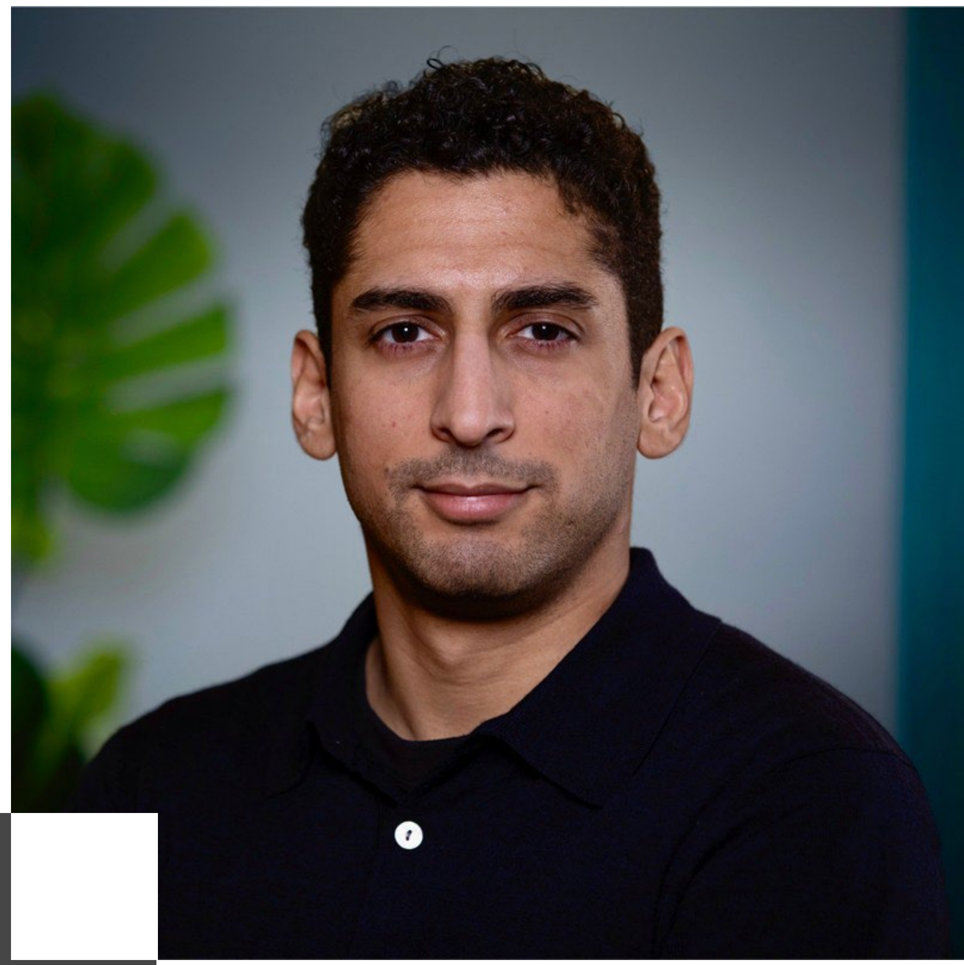
Beyond shaping the gender balance in their own operations, management and board, PE/VC firms play a crucial role in promoting gender balance in their portfolio companies. This influence has a cascading impact, contributing to the broader goal of addressing gender imbalance within the private sector as a whole. PE/VC firms acknowledge that there is a gender imbalance and that women are underrepresented in the industry.

There is an intense competition to attract women into leadership positions in the PE/VC industry. Even if a promising 43% of junior positions in Swedish PE/VC are held by women, this drops to 8% at senior level.[3] There remains a challenge in retaining women in leadership positions over time. The issue has emerged as a prominent topic during the interviews.

Recruitment of women is a challenging task, also for PE/VC firms with stated gender balance objectives. Some firms testify that the leadership appointment process largely relies on well-established, male-dominated networks, which poses challenges in identifying women candidates for leadership roles.

Some firms use networks to scout female leaders and target recent female graduates for junior roles, forming a long term strategy to enhance gender balance in their own operations.

Local PE/VC networks meet regularly to promote women in corporate leadership. Some PE/VC firms support Level 20, a nonprofit founded in 2015, dedicated to increasing women's representation in senior roles in European private equity.



"From a VC perspective, it becomes easier to create and work for gender balance once a company scales if clear expectations are set already from the start. In companies where this is viewed as a prioritised issue from the beginning, gender balance turns into a natural priority.

If we in the VC industry drive this question successfully, we see that it will be reflected and reinvested in society at large. The VC industry has an important responsibility in this regard."

Kamyar Espahbodi, Investment Manager, Spintop Ventures

3) Level 20, European gender diversity report 2022: Driving diversity – Women working in European private equity & venture capital, 2023

PwC Recommendation

The PE/VC industry is renowned for its lack of work-life balance. This reputation hinders its efforts to retain and recruit a diverse workforce. Achieving a more inclusive culture, especially accommodating those who cannot work extended hours, is challenging but necessary. Cultures are shaped by our office interactions, so begin by identifying common issues and addressing them gradually. This, paired with a flexible benefit package (employee value proposition) that is appealing for women and other groups of employees will serve as a good starting point in attracting and retaining a more diverse workforce.

Zakarias Challis,
Team Lead People & Organisation Management Consulting, PwC

Diversity at large is challenging, but on the radar for many PE/VC firms.

The industry's notable lack of diversity at large has sparked intense discussions. There has been a call for mapping various diversity factors, extending beyond gender, that limit individuals from operating on equal terms within the financial industry, including aspects such as ethnicity and disability.

Some PE/VC firms highlighted the diversity imbalance as a core challenge to the industry, expressing a desire for heightened attention and research into how broader diversity relates to profitability. Their hope is that such insights can facilitate and expedite a shift toward greater inclusion.

The mere definition and understanding of diversity, equity and inclusion is a challenge as there is a mismatch between the European and American landscapes. Most European countries have discrimination laws and investors often do not prioritise the issue beyond ensuring compliance with the law. In the US market however, there is a strong focus on measuring and reporting diversity characteristics such as race, sexual orientation etc. In Europe, collecting and keeping such information may be constrained by legal restrictions, making it a sensitive and intricate matter to navigate and monitor in a detailed way.

"For us at Verdane, diversity and inclusion is a strategic issue that we invest heavily in, and we ultimately believe that having different voices, expertise and experiences around the table give better outcomes. We have a responsibility as an owner and also work with our companies to drive diversity and inclusion efforts. The use of data is great to measure and track performance, but it is only one part of the puzzle.

I hope that the conversation moves from diversity statistics to inclusion and how we can invest in truly inclusive company cultures. It does not matter if there are different voices around the table if not all people feel secure voicing their opinions."

Stine Jørgensen, Impact Manager, Verdane

Human rights is emerging as a potential material social risk across the industry. Some PE/VC firms have proactively identified and prioritised human rights as a material concern, even in the absence of impending, more stringent human rights legislation. They incorporate human rights considerations into their investment phase as part of their proactive approach.

This type of upcoming legislation is advancing human rights on companies' ESG agendas.

Many companies in Norway and the EU are inadequately prepared for upcoming legislative requirements such as the Corporate Sustainability Due Diligence Directive (CSDDD) and will require a more thorough and extensive analysis of their business, operations and value chain from a human rights perspective.

"Human rights is an area where we have chosen to strengthen our approach further. It is an area that has been pushed to the sidelines and where we see a need to raise the awareness of international guidelines and tools in the industry.

We are in the middle of an exercise to assess how GPs align with the UN Guiding Principles on Business and Human Rights. We are learning a lot and the exercise has been well received among participants so far. We foresee that human rights will increasingly be in focus for investors in due diligence and monitoring."

Anna Follér, Head of Sustainability, AP6

PwC Recommendation

Leading a diverse team can be more challenging than leading a homogenous one, where shared backgrounds and interests can make interactions easier. However, embracing diversity requires alignment on work approaches and a willingness from senior leaders to invest time in harnessing the benefits like enhanced creativity, varied perspectives, and improved decision-making. To achieve diversity and inclusion goals, organisations should integrate diversity and inclusion (D&I) into their core purpose and strategy, making it a part of their culture and daily operations throughout the employee lifecycle, from recruitment to career development.

Alexandra Fürst, Head of People & Organisation, PwC

In the climate area, reporting on greenhouse gas emissions in scope 3 is highlighted as challenging work.

Most PE/VC firms testify that calculating and reporting greenhouse gas emissions in scope 3 is demanding. Even achieving a fundamental understanding of what scope 3 entails and encompasses poses a challenge for PE/VC firms and their portfolio companies. The availability and verification of scope 3 data are complex issues, and PE/VC firms grapple with assessing whether estimated full impact across diverse investment portfolios is reasonable.

PE/VC firms state that it is difficult to properly act on scope 3 data. Some have contracted consultancy support to gain a deeper understanding of activities that can contribute to reducing emissions and to enhance data collection processes. Scope 3 emissions also come with an inherent challenge – the more categories a company includes, the higher scope 3 emissions it will report.

Some PE/VC firms state that setting absolute emissions targets may not be suitable for the scale-up companies they typically invest in. Instead, they prioritise emission intensity targets, as this is an area that they effectively can control in collaboration with the portfolio companies.

Scope 3 emissions is only one domain of environmental and climate concerns. Biodiversity, circular economy and water scarcity are other highly complex and critical aspects. Many PE/VC firms foresee a stronger need for upskilling both in terms of competence and data collection across the environmental area overall.

PwC Recommendation

There are both cost reduction and commercial potential in improving climate performance, and companies should actively identify and act upon these value creation opportunities within the climate sphere. Begin data collection and collaboration with portfolio companies to improve information gradually, emphasising actionability over perfection. It is important to keep the broader objective of emissions reduction in focus and dedicate effort to developing strategies for current and future portfolio companies that support the sustainability agenda.

Johan Jacobsson, Head of ESG Data and Climate, PwC

"We made a bold commitment. If we are going to reach net zero by 2050, we need to halve emissions by 2030. To us, that means that our portfolio companies need to commit to SBTi now to be able to achieve that target. We are rolling out SBTs across our portfolio with the aim of 100% coverage by 2025, and we'll be transparent and share our learnings along the way."

Linda Sturesson, Head of Performance Management & Valuation and Fran Owen, Sustainability Value Creation Manager, Altor

CASE STUDY

In 2021, the Science Based Target initiative (SBTi) presented guidance for the private equity industry. The guidance was formed to help private equity funds set and reach targets for their operations and investments in line with the 1.5°C degree target set in the Paris Agreement. Altor, a private equity firm focused on leveraged buyout investments, actively contributed to the development of the guidance as a member of SBTi's Private Equity Expert Advisory Group.

Altor has made a commitment for all portfolio companies to have near-term and net-zero targets approved by the Science Based Targets initiative (SBTi) by 2025. Altor believes that this is not only the right thing to do, but that it will lead to superior financial returns by tapping into green premia and reducing downside risk.

CASE STUDY

Modern innovations rely on established standards and frameworks, but climate technology currently lacks a unified framework. Hardware-based climate solutions require substantial capital and a longer timeline to scale up. While equity investment is important, it's only one piece of the puzzle. To accelerate adoption and drive systemic change, diverse financial tools, including non-dilutive funding, debt, and off-take agreements, must be utilised.

With the mission to create the missing manual for the new climate tech journey, EQT Ventures and Contrarian Ventures along with a wide range of community supporters will in December 2023 be launching Climate Brick - a go-to resource for anyone in climate tech in Europe looking to understand the journey to scale and thus to fast-track impact.

Based on research, the seven first Climate Bricks - scaling and fundraising frameworks to enable the next generation of new climate tech ventures -have been drafted. By drawing on collective experiences, Climate Brick will continue to refine the frameworks to steer the course, set ambitious targets, and streamline stakeholder engagement.

Climate tech stakeholders are invited to participate in this collaborative community initiative. It's driven by visionary founders, forward-thinking investors, diverse capital providers, policymakers, and more, to shape the future of climate tech!

Through structure, governance and engagement, PE/VC firms implement their ESG work

Governance serves as a crucial opportunity to influence and steer portfolio companies towards strengthened ESG. Good governance is the cornerstone of efficient and meaningful ESG work and is often described as the starting point for PE/VC firms' influence over portfolio companies.

Many PE/VC firms have highlighted onboarding programs as useful, establishing concrete steps for portfolio companies to take over a set time period. These programs typically start by demanding the development of policies such as a Code of Conduct, anti-corruption policies, whistle-blowing functions and in some instances targets such as Science Based Targets or net zero in place. Portfolio companies are often required to appoint an ESG responsible person and some establish ESG committees. Then, companies are often required to develop an ESG and sustainability strategy and set key performance indicators (KPIs) influenced by an ESG materiality assessment, to eventually enable systemic and proactive ESG work that is integrated into overall business strategy.

The way ESG is assessed and governed greatly depends on the type of investor. Investors who assume majority ownership of companies typically evaluate ESG and sustainability factors during the due diligence process, which informs their final investment decision. For those who are majority owners, board engagements were highlighted as a central and, in some cases, the main channel to advocate and steer towards an increased focus on ESG matters.

Minority owners have a more passive role and less influence through governance. Limited Partners (LPs) typically focus on assessing ESG capability during the selection of fund managers, as they have limited influence over the post-investment period.

"Pedagogy is foremost. To start, we need to clarify that this is about quality characteristics and essentially is about doing what is right. Furthermore, we must explain why this should be done and what the prerequisites are to become a high quality, high value, company.

For smaller very entrepreneurial organisations, this often implies additional considerations, and we need to ensure the right prioritisation of how these measures are implemented to advance governance maturity and ultimately to strengthen company competitiveness."

Joakim Karlsson, Partner, Helix Kapital

PE/VC firms have highlighted the importance of enhancing knowledge and securing commitment from board chairpersons and management teams to effectively engage in ESG and sustainability matters, and adequately respond to data insights. Some PE/VC firms require portfolio companies to appoint specific individuals responsible for ESG and sustainability, often referred to as champions or contact persons. An important factor in selection of these dedicated ESG personnel is to ensure an appropriate seniority level while also guaranteeing their availability and time to work with ESG. Additionally, their access to and influence over management are critical considerations.

As resources often are limited at portfolio company level, several PE/VC firms emphasise the importance of attentively limiting, prioritising and initiating ESG and sustainability work as promptly as possible. A proactive approach is seen as integral to developing sustainable, high-quality companies that are appealing in the market.

The main target groups for ESG reporting are investors and employees, largely driven top down.

PE/VC firms emphasise that while investors constitute the primary audience for their ESG reporting, there is a growing demand from employees seeking greater insight into the PE/VC firms' ESG and sustainability work.

ESG reporting is largely driven top down. The larger the investor, the more extensive reporting requirements. Asset owners, including European pension funds, generally pose the most extensive requirements on PE/VC firms.

In addition, employees constitute an important stakeholder group for PE/VC firms' ESG and sustainability work. PE/VC firms particularly identify potential future employees as an important stakeholder group, as young professionals value responsible ESG and sustainability work when choosing an employer.

PwC Recommendation

Private equity and venture capital firms should prioritise ESG due diligence when acquiring or selling a company. Incorporating ESG factors into the diligence process can uncover potential risks, enhance long-term sustainability and positively impact valuation. A thorough assessment of ESG performance not only safeguards against potential liabilities but also uncovers opportunities for value creation, demonstrating a commitment to responsible investment practices and positioning the firm for more favourable deal outcomes.

Azfar Hashmi, Head of ESG Strategy & Deals, PwC

"We arranged an Executive Training with Stockholm Resilience Centre for portfolio companies' CEOs, Head of Boards and sustainability ambassadors in 2022. Since then, we have seen that sustainability efforts have increased and Alder has seen a larger pull and demand for ESG support among portfolio companies.

We have also developed The Alder way, a material to support the portfolio across areas to highlight and work more effectively on relevant ESG matters internally and externally to have a positive impact."

Eva Normell, Sustainability Manager, Alder

PE/VC firms engage portfolios through knowledge sharing and activities to enthuse ESG work.

The need for upskilling both internal staff and portfolio companies is a frequent theme that PE/VC firms highlight. Some firms offer regular training to internal staff and knowledge sharing network meetings for portfolio companies. There are also various fora where PE/VC firms collaborate to advance the ESG work around regulatory changes, challenges and effective internal upskilling. One forum mentioned was the Nordic Responsible Investment Forum, gathering Nordic investors to exchange their experiences related to ESG work.

VC firms also testified that they regularly search for opportunities to learn from one another. Often, VC firms drive similar ESG requirements from portfolio companies and try to streamline this work by e.g. aligning reporting templates.

Some PE/VC firms arrange internal ESG/sustainability prize ceremonies where portfolio companies can nominate either a project, a specific achievement or overall progress. This is described as a way to encourage and enthuse portfolio companies to engage and showcase their sustainability work.

CASE STUDY

Alder is a Nordic investment fund aiming to contribute to solving the global challenges the world is facing and creating value in an ever changing world. Alder focuses on creating the best prerequisites for long term development of sustainable tech companies.

In 2022, Alder invited management teams and chairpersons of boards for all portfolio companies to Executive Training in Resilience Thinking together with Stockholm Resilience Centre. During a two-day training, the Alder portfolio boosted their knowledge of sustainability related issues and took part in inspiring presentations and discussions. The training enabled portfolio companies to increase their long-term sustainability and competition through strengthened strategy work.

"The fact that we work with every single portfolio company is quite unique. During onboarding, each portfolio company makes their own materiality assessment to identify their key material topics to focus on. Together, we foresee what will be relevant in 10-15 years from a legislative and customer expectation perspective, and create a common roadmap that is followed up annually."

Mia Sørli Wikborg,
ESG Manager, FSN Capital

CASE STUDY

FSN Capital is a private equity firm making control investments in growth-oriented Northern European companies, to transform companies into more sustainable, competitive, international, and profitable entities. FSN Capital follows their ethos "We are decent people making a decent return in a decent way" and are committed to being responsible investors and having a positive environmental and social impact across their portfolio.

FSN Capital strives to create a positive impact beyond their ownership period. Their Governance Framework aims to ensure that the portfolio companies operate in line with ethical standards with a focus on continuous improvement through minimum requirements with regards to ESG policies, implementation and governance. This includes definitions and responsibilities for central positions and management. Portfolio companies are required to assign an ESG Officer to coordinate ESG initiatives across the organisation. Portfolio companies are required to integrate ethical standards in their organisation and relevant operational processes, with a particular focus on building ESG knowledge through training of employees.

The fight for ESG talent in the PE/VC firm is evident.

To attract top talent in the Nordic market, PE/VC firms are striving to distinguish themselves through strong ESG commitments and dedication to employee well-being.

Employee retention is central to avoid turnover and costly recruitment processes. Some PE/VC firms regularly measure and report on employee satisfaction through employee net promoter scores (eNPS), viewing it as a critical factor to fulfil their ESG and sustainability mission and ambition related to employee well-being.

Some PE/VC firms are the first to stipulate ESG and reporting requirements from portfolio companies. In order to encourage portfolio companies to commit and invest in ESG and sustainability, PE/VC firms find it essential to explain the value of ESG, encompassing the mitigation of adverse impact as well as the pursuit of opportunities for positive impact and business growth. Starting measuring and reporting on ESG can be met with resistance among portfolio companies due to the associated heavy workload.

”For the next five years, the industry and its portfolio companies will continue to need more sustainability specialists in house, as well as embedding those skills in others. There will be an increasing need for technical or product focused sustainability professionals able to drive transformation, and they will be found in more places and positions. There will also be a fundamental evolution of skills required for any role, and sustainability literacy will increase everywhere. A deep focus on training will be necessary in line with this fast moving agenda.”

Sophie Walker, Head of Sustainability, Private Capital, EQT Partners

PE/VC firms have highlighted a certain ESG and sustainability knowledge gap and, in response to that, have assumed the role of educators for companies in their portfolio. When portfolio companies are on board and understand why these issues matter, ESG and sustainability can more easily be prioritised and acted upon.

PE/VC firms generally request ESG data and information from portfolio companies during investment management, but the way the data is used to influence decision making varies.

Some PE/VC firms request ESG information, including risks and opportunities, in their due diligence (DD) processes preceding acquisitions which serves to inform their investment decisions. Some PE/VC firms conduct specific ESG DDs and some include ESG assessment in their standard commercial DDs, while others opt not to include any ESG information.

Material topics are often identified during due diligence. PE/VC firms frequently initiate discussions aimed at establishing a shared understanding of how ESG and sustainability can contribute to value creation and whether it aligns with the company's strategic vision. Equally important is securing commitment from the management team. PE/VC firms often set 100-day plans or acceleration phases to formulate strategic roadmaps for the ownership period, aiming to address and enhance the material aspects of sustainability.

Increased legislative requirements have amplified investor demands for ESG reporting, leading to a more comprehensive and structured collection of ESG data. For instance, the clarified definitions governing what constitutes an Article 8 and Article 9 fund in the Sustainable Finance Disclosure Regulation (SFDR) have compelled PE/VC firms to formulate explicit ESG strategies.

PE/VC firms face considerable difficulties in obtaining, managing and acting on ESG data consistently, as collection practices often differ among portfolio companies. Several PE/VC firms use external platform solutions to collect, monitor and overview ESG data. Many say external systems help gather information and provide easily accessible data for annual and sustainability reporting.

PE/VC firms state that even though legal ESG reporting requirements can provide opportunities, the reporting itself does not automatically lead to meaningful change and engagement. There is a risk that focus is directed to formal reporting, rather than monitoring and acting on the actual opportunities that can strengthen PE/VC firms' contribution to sustainability.

CASE STUDY

Summa Equity is a thematic investment firm investing to solve global challenges. For a number of years, Summa has partnered with the International Foundation for Valuing Impacts ("IFVI"), which spun out of Harvard Business School, to advance their use of impact accounting for the portfolio companies. Summa uses the Impact-Weighted Accounting ("IWA") methodology to provide a monetised view of the positive and negative impacts of a company on its employees, the environment, and the end consumers of its products and/or services.

The long-term objective of impact monetisation is to enable LPs, asset managers, senior leaders, and other key actors to understand and compare the impacts companies have on key stakeholder groups. Monetisation on a per-company basis can help inform management decisions, particularly when year-over-year analysis is available (for example, it can inform the value proposition for specific customer segments, identify underserved markets, etc.). Yet, impact accounting's greatest potential lies in its use as a means of comparison across companies within similar industries to assess how companies differ in the value they create (or destroy) for society. As early adopters of impact accounting, Summa is contributing to laying the foundation for others seeking to develop the measurement and management capabilities necessary for a more stakeholder-centred economy.

"Our use of Impact Weighted Accounts has generated a lot of positive interest – and has particularly spurred questions about the methodology and how results are calculated. The methodology is open source and our calculations are fully transparent. The results allow us to demonstrate that the methodology is not perfect and that there are needs for development.

However, given that results and insights are quantified and concrete, the IWA analysis serves as a constructive conversation starter around impacts in the overall portfolio, as well as individual investments. Based on this, we hope to increase impact even more by acting on the insights from our monitoring, while inspiring and influencing the whole PE industry."

Hannah Berget, Impact Manager, Summa Equity

PwC Recommendation

The business sector will play a vital role in a just and green transition. By developing robust methods for measuring impact, resources and capital can be directed where they can have the most positive effect. The PE/VC industry is well-positioned to take a leading role in this development. This not only strengthens their commitment to sustainable investments but also enhances their ability to identify and prioritise investments that deliver meaningful, long-term positive impacts beyond financial returns.

Sofia Leffler Moberg, Sustainability Expert, PwC

SVCA member survey

Respondents of the study – Overview

The study includes portfolio companies from 14 SVCA members. The total number of included portfolio companies amounts to 139. Participating SVCA members were advised to report KPIs solely for those companies headquartered in Sweden. The majority of holdings are majority-owned by the reporting members, with a median ownership stake of 55%.

The study emphasises the importance of "decisive influence" as a key criterion for inclusion, encompassing various forms of control beyond just majority ownership. For analytical purposes, respondents classified their portfolio companies into sectors representing their primary focus.

Three sectors, each accumulating at least 10% of total responses, are chosen for in-depth analysis throughout the report. Company size, gauged by the number of employees, is also employed for analytical scrutiny.

Respondents of the study – Overview

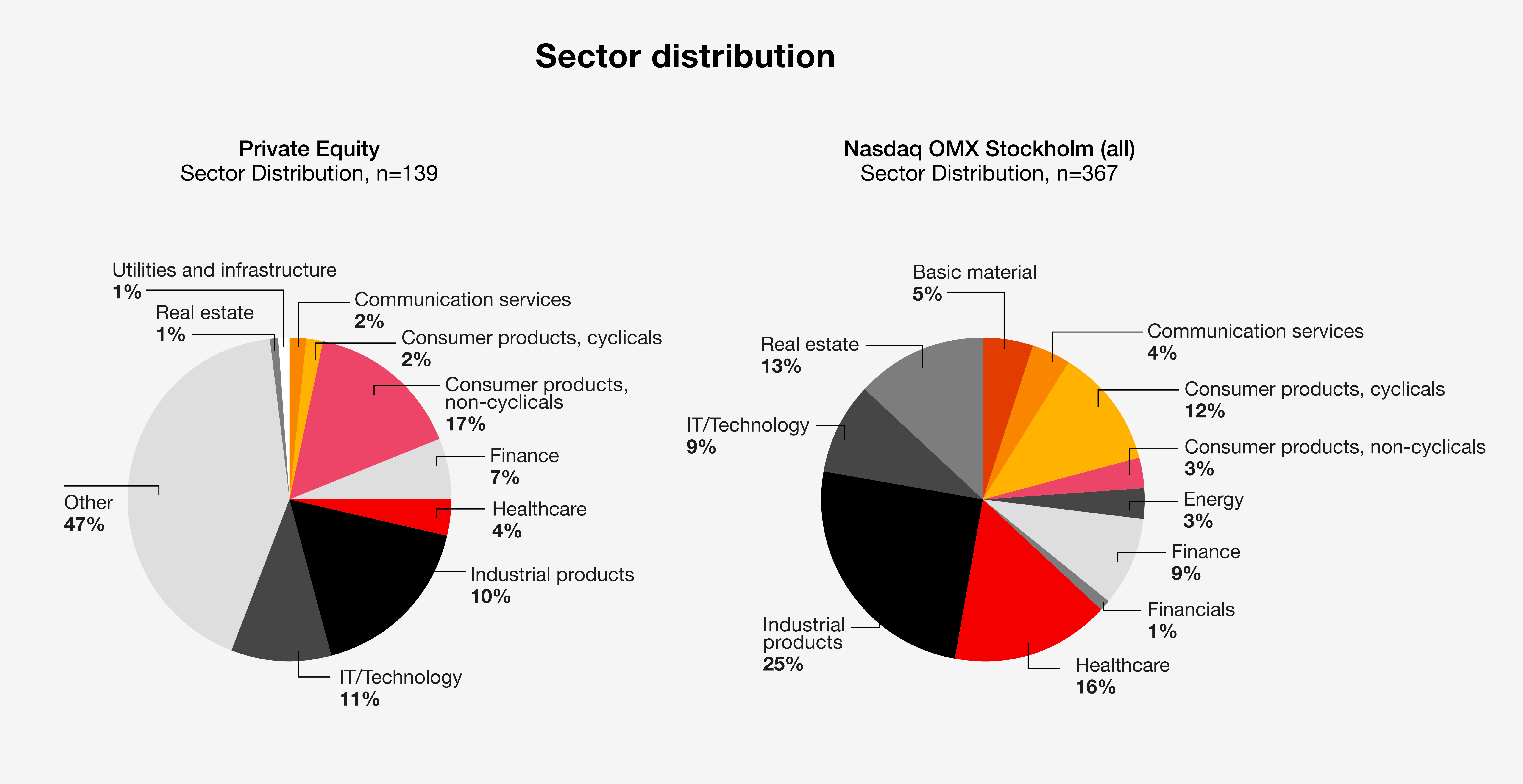
Participating SVCA members	14 (13)
Number of contacted SVCA members	20 (28)
Participant rate among SVCA members	70% (46%)
Number of included portfolio companies	139 (108)
Share of included portfolio companies for which members report decisive influence through ownership over 50%	72% (81%)
Ownership share (median)	55% (64%)

The numbers in parentheses show participation and results from the last report, which was based on FY 2020 numbers

Economic sustainability

In the sector distribution of private equity portfolio companies, “Other sectors” and IT/technology stand out when compared to OMX Nasdaq Stockholm. “Other sectors” encompasses a broad mix, making up a substantial 47% of portfolio companies. This category is diversified, including consumer goods, technology, healthcare, industrial and professional services. For example, Technology, which also appears under IT/technology, reflects how respondents categorised themselves, and the report has not modified these member-defined categories for consistency. “Consumer products” account for 17%, and IT/technology constitutes 11% of the mix.

The remaining sectors, totaling 24%, comprise healthcare, industrial products, communication services, utilities, infrastructure, and finance. These categories hold a smaller share in portfolio companies versus public firms. It is not surprising – businesses in these sectors are often capital-intensive and rely on scale economies. They are generally mature, contrasting the growth-centric cases that private equity typically targets.



Economic sustainability

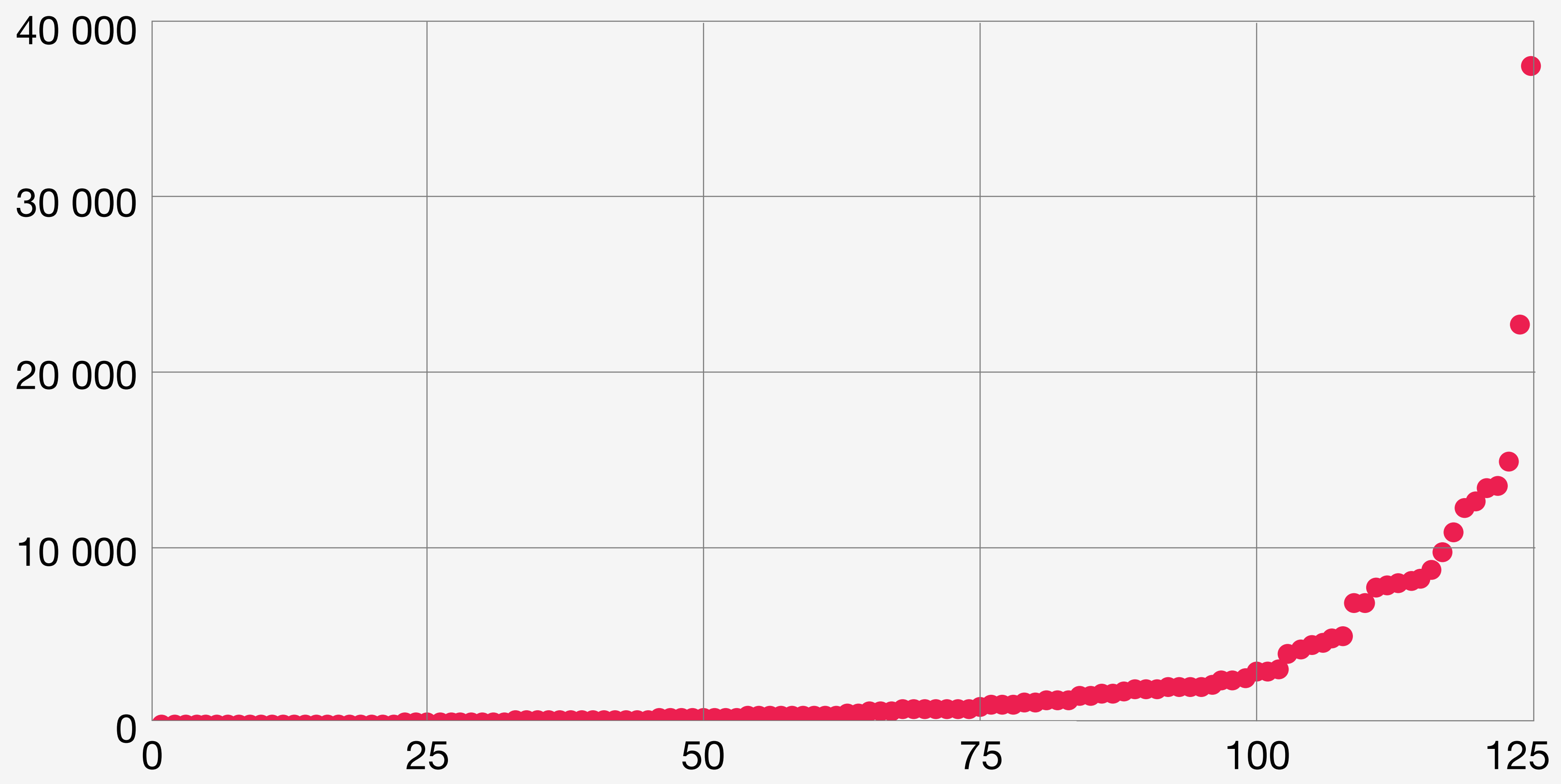
Portfolio companies in private equity typically register lower sales than firms on Nasdaq OMX Stockholm, owing to the latter's inclusion of large multinationals. However, when compared to Nasdaq OMX Stockholm Small Cap, the sales distribution among portfolio companies is quite similar. Both cater to the smaller end of the market capitalisation spectrum. Desciptive sales data can be found in the table on the right.

Mean values and distribution 2022 (SEK M)

	Private equity	Nasdaq OMX Stockholm (all)	Nasdaq OMX Stockholm (small cap)
Quartile 1	236	1 015	130
Median	782	4 458	730
Mean	2 672	102 930	3 153
Quartile 3	2 446	20 794	1552

Net sales 2022

Distribution for portfolio companies of participating private equity firms (n=126)

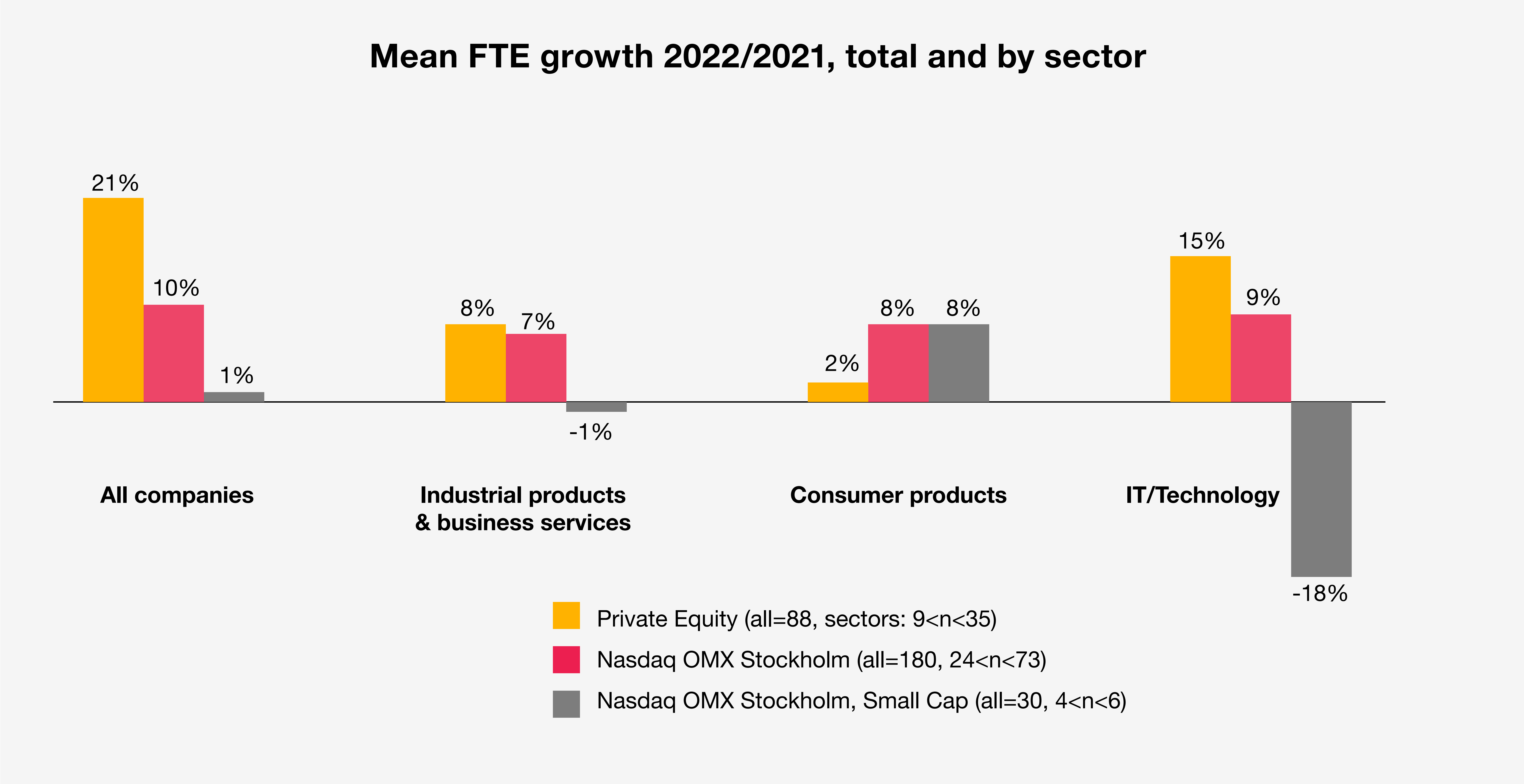


Economic sustainability

In 2022, private equity portfolio companies showed a doubled mean employment growth rate compared to publicly traded firms in terms of Full Time Equivalent (FTE). The small-cap firms saw a mere 1% increase.

Private equity is future-focused; they cannot afford to bank solely on past business models. This likely influences their higher employment growth rates. Listed firms, meanwhile, often have long-established track records.

Sector-wise, tech led the way in employment growth for 2022, both absolutely and relatively to public firms. In the private equity sector, consumer products saw solid growth, but industrial products and business services outperformed considerably.

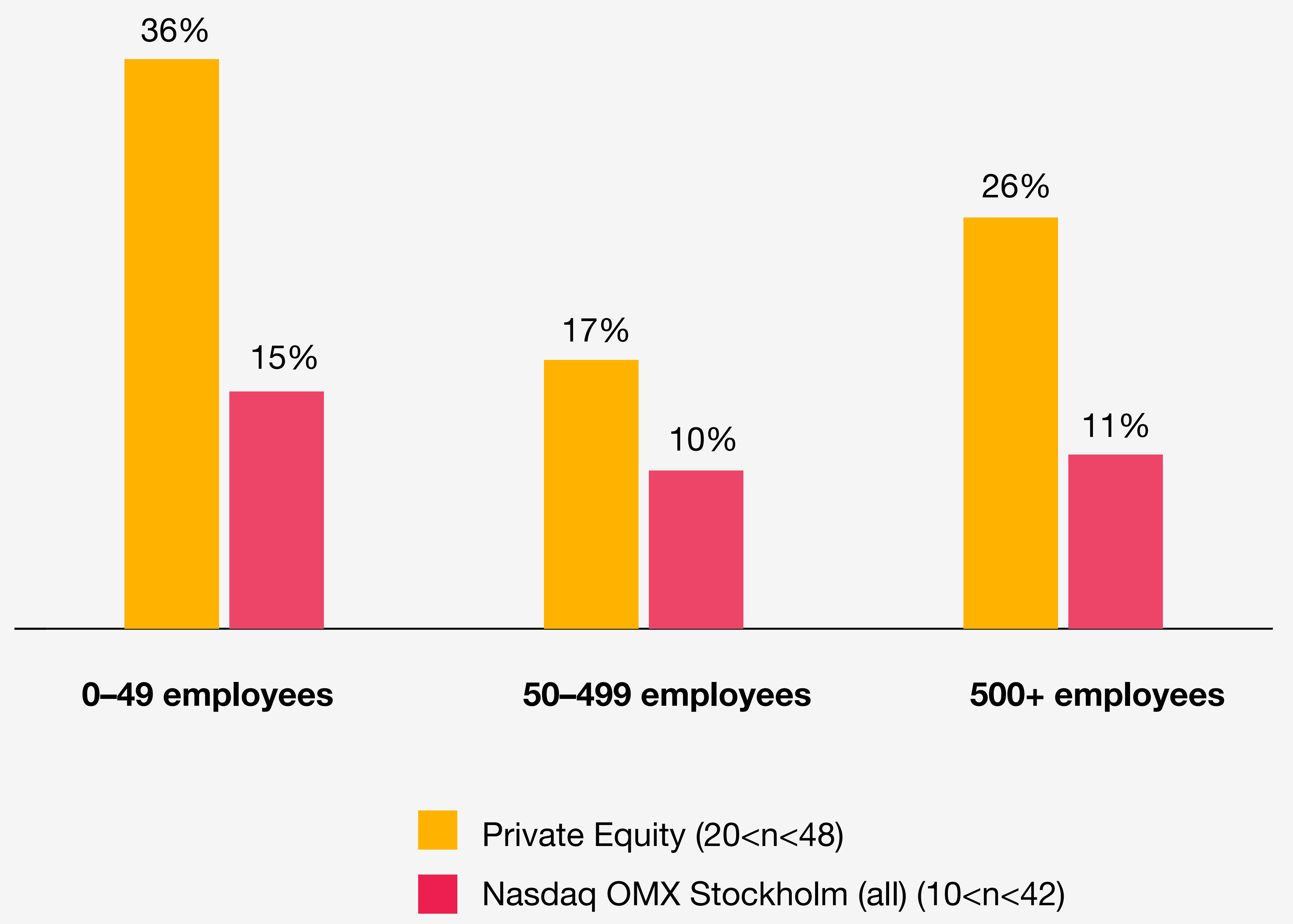


Economic sustainability

In 2022, job growth was highest in small companies with fewer than 50 employees, across both private equity portfolio companies and publicly traded firms. These firms usually have a solid track record but are often still in a growth phase. This allows them to tap internal resources for further expansion and target immature markets or segments.

For the largest firms, those with 500 or more employees, portfolio companies saw higher mean growth than listed ones. However, interpretation should be made cautiously due to the small sample size. The skewed data largely results from a single private equity tech company that exhibited exceptional growth, likely acquisition-driven.

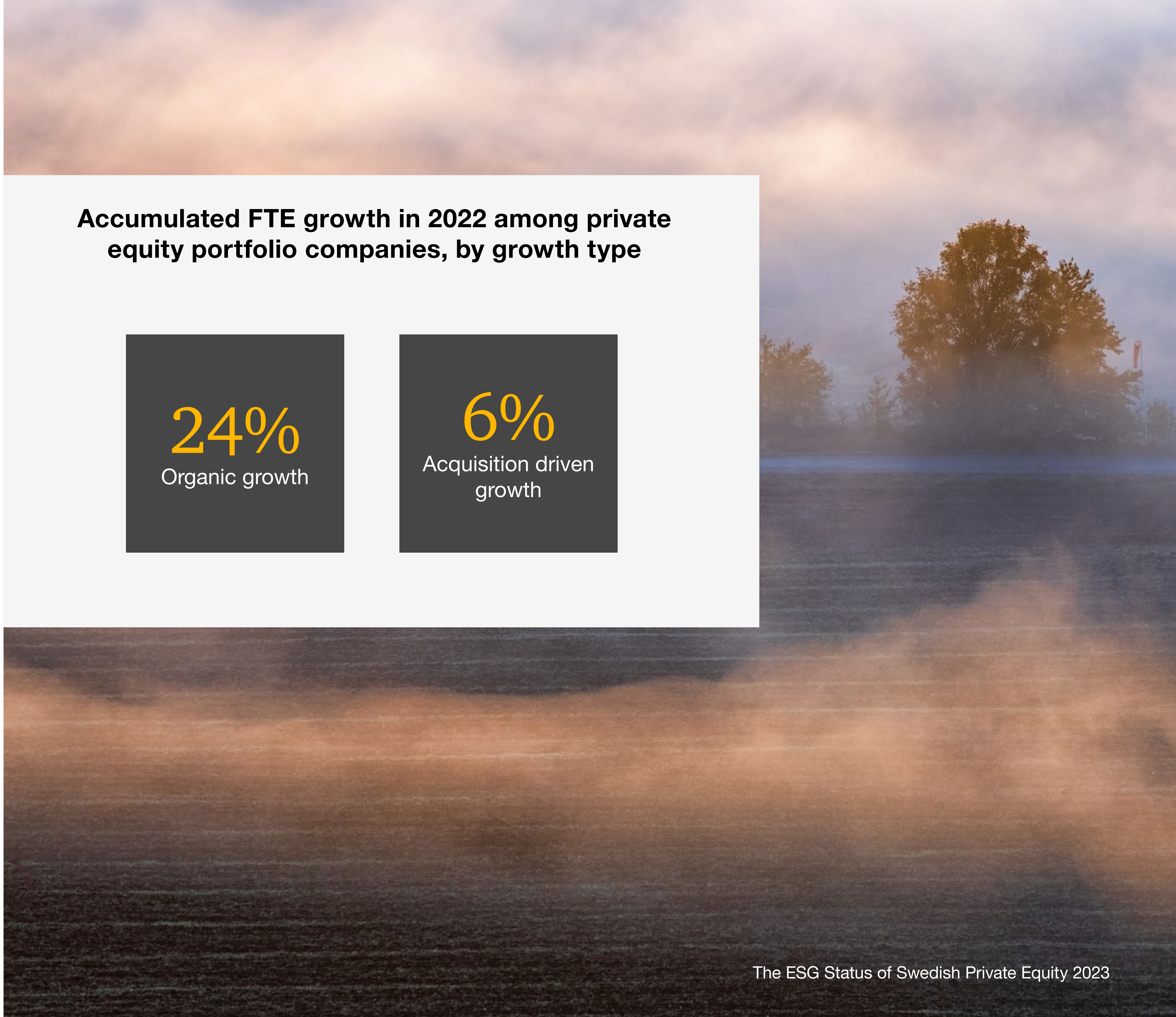
Mean FTE growth 2022/2021 based on number of employees



Economic sustainability

Employment growth can either be organic, i.e. based on internal growth and hiring, or aquisition-driven. In 2022, roughly one forth of employment growth in private equity portfolio companies was organic.

Economic pressures such as inflation and interest-rate hikes could have contributed to job losses and reduced hiring activity. Concurrently, market challenges may have fueled an uptick in consolidations and acquisitions. This intricate financial landscape presents a dual-edged sword, potentially complicating the straightforwardness of organic employment growth.



Accumulated FTE growth in 2022 among private equity portfolio companies, by growth type

24%
Organic growth

6%
Acquisition driven growth

Environmental sustainability

As discussed earlier in the report, reducing carbon footprint is an increasingly important matter for companies and investors alike. When set against their Nasdaq OMX Stockholm-listed counterparts, Swedish private equity portfolio companies display comparable numbers.

However, listed companies report a somewhat lower median emissions intensity in scope 1. This skew is likely due to a greater representation of service industries, such as finance and consultancy firms, in the publicly listed space. These businesses usually have high-revenue streams without the production of tangible goods, thereby naturally lowering their scope 1 emissions intensity.

Direct emissions intensity (scope 1, median)

Portfolio companies

0.65
tCO2e per MSEK net sales

Nasdaq OMX Sthlm

0.30
tCO2e per MSEK net sales

Indirect emissions intensity (scope 2, median)

Portfolio companies

0.27
tCO2e per MSEK net sales

Nasdaq OMX Sthlm

0.24
tCO2e per MSEK net sales

Emissions intensity in scope 1 and 2

Scope 1 Emissions:
Direct emissions within scope 1 originate from resources owned and controlled by companies, such as facilities and vehicles.

Scope 2 Emissions:
Indirect emissions under scope 2 result from the consumption of purchased electricity, steam, heat, and cooling.

Emissions Intensity KPI:
The *emissions intensity* Key Performance Indicator (KPI) is a commonly used metric for comparing emissions among companies of different sizes. It entails dividing emissions by net sales to determine the number of metric tonnes of carbon dioxide equivalents (CO2e) a company generates for every one million Swedish Kronor (SEK) in net sales.

Environmental sustainability

Size and sectoral focus make a significant difference in emissions profiles. The table to the right attests to this, highlighting that both average and median emissions are considerably lower for portfolio companies in terms of absolute CO_2e emitted. Around half of Nasdaq OMX Stockholm-listed companies now report their emissions, a majority of which are part of the Large Cap segment.

These are often industrial giants responsible for considerable emissions. In contrast, portfolio companies typically operate on a smaller scale and are concentrated in sectors like technology, which inherently have lower emission footprints. This sectoral focus aligns with their more favourable emissions data.

Emissions

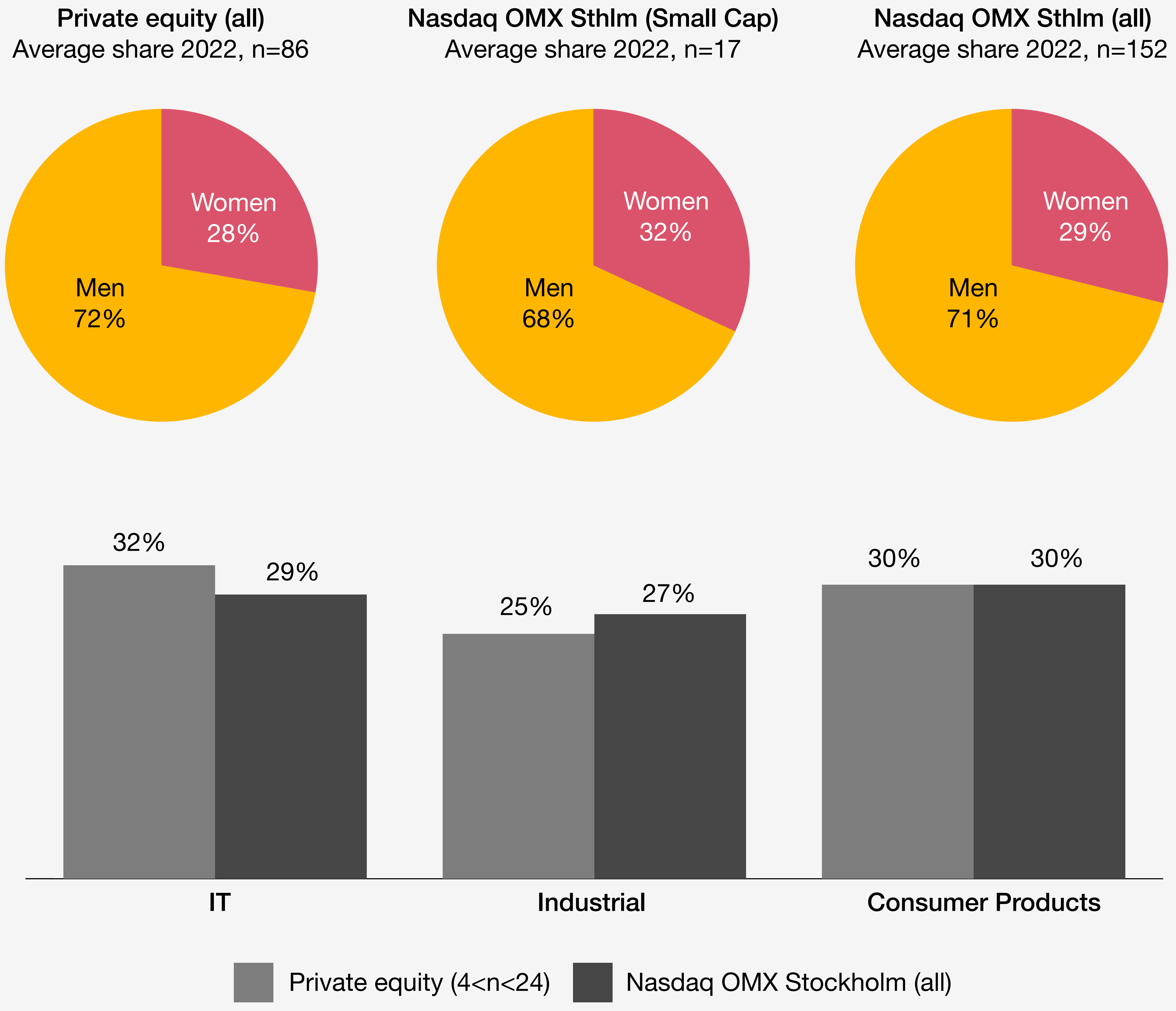
	Emissions scope 1 (tCO2e)		Emissions scope 2 (tCO2e)	
	Portfolio companies (n=122)	Nasdaq OMX Sthlm (n=161)	Portfolio companies (n=122)	Nasdaq OMX Sthlm (n=161)
Average	5 391	258 563	1 591	28 115
Median	46	700	65	2 140
	Emissions intensity (scope 1)		**Emissions intensity (scope 2)**	
	Portfolio companies (n=129)	Nasdaq OMX Sthlm (n=161)	Portfolio companies (n=129)	Nasdaq OMX Sthlm (n=161)
Average	186	95	30	1 083
Median	0.65	0.30	0.27	0.24

Social sustainability

Gender balance in management teams is similar for portfolio companies in private equity and public equity. In 2022, one third of management positions were held by women. This level is consistent across the Swedish private equity space and publicly traded companies as well as across sectors.

However, there are some differences between sectors. For IT and healthcare, companies in private equity have a higher representation of women in management teams, compared to companies in public equity. Companies in private equity have less female representation in management teams than public equity in the industrial sector.

Share of women in management by business sector

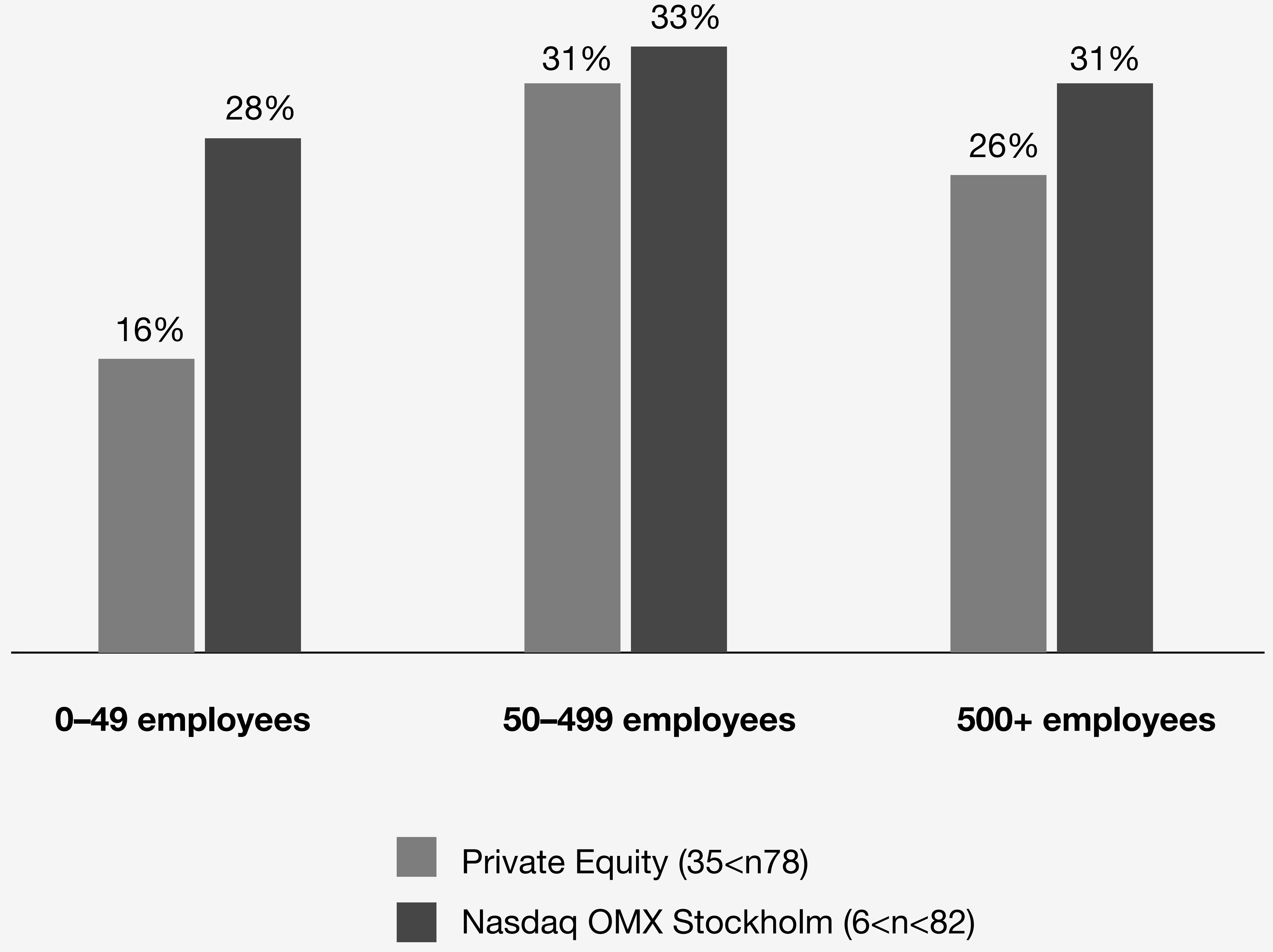


Social sustainability

Though women are underrepresented across each category examined, the 50–499 segment shows the highest representation of women and is almost at par with publicly traded companies. The lowest representation of women and largest difference compared to publicly traded companies is seen in the 0–49 segment. This can potentially be attributed to the growth of the smaller portfolio companies that were identified as having more female representation in the previous report, coupled with a larger focus on tech firms among this year's respondents.

The prevalence of female representation among larger public firms is a positive observation and a trend that hopefully will continue and cascade downwards inspiring smaller companies, both public and private.

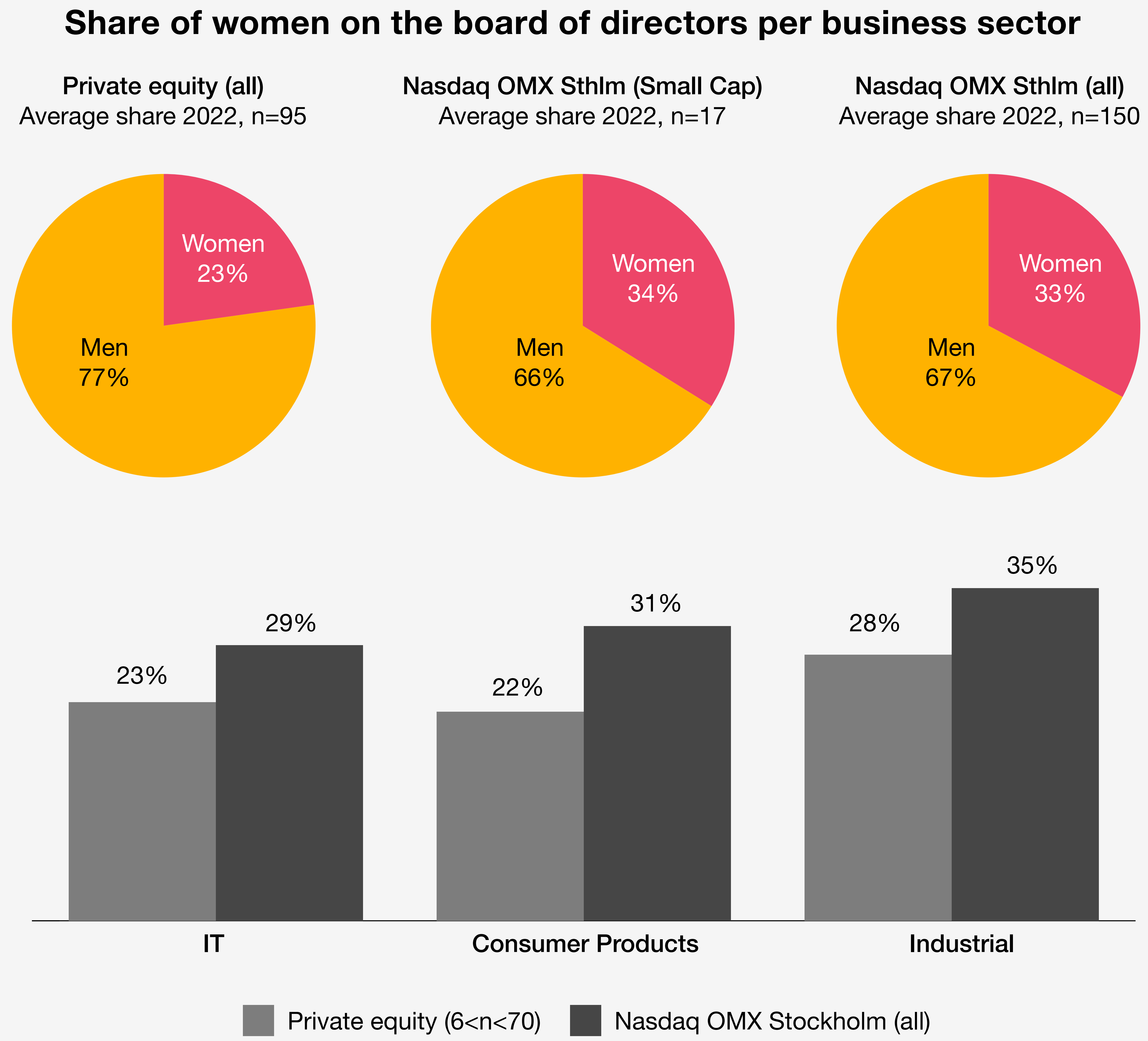
Share of women on management teams by number of employees



Social sustainability

The proportion of female board members in portfolio companies is noticeably lower than publicly listed firms, showing a larger difference than on management level. This can also be seen on sector level. Retention issues and a lack of role models continue to impact the industry's gender balance, especially at senior levels. This disparity could deter women from entering the sector, given the scant availability of mentors and influential figures.

The case for diversity in decision-making roles is becoming increasingly compelling, not just as a social imperative but as a competitive advantage. The industry is recognising this potential, prompting initiatives to create a more inclusive environment. Yet, the data underscores a significant gap that still needs to be closed, pointing towards untapped growth potential as the sector works to become genuinely inclusive.

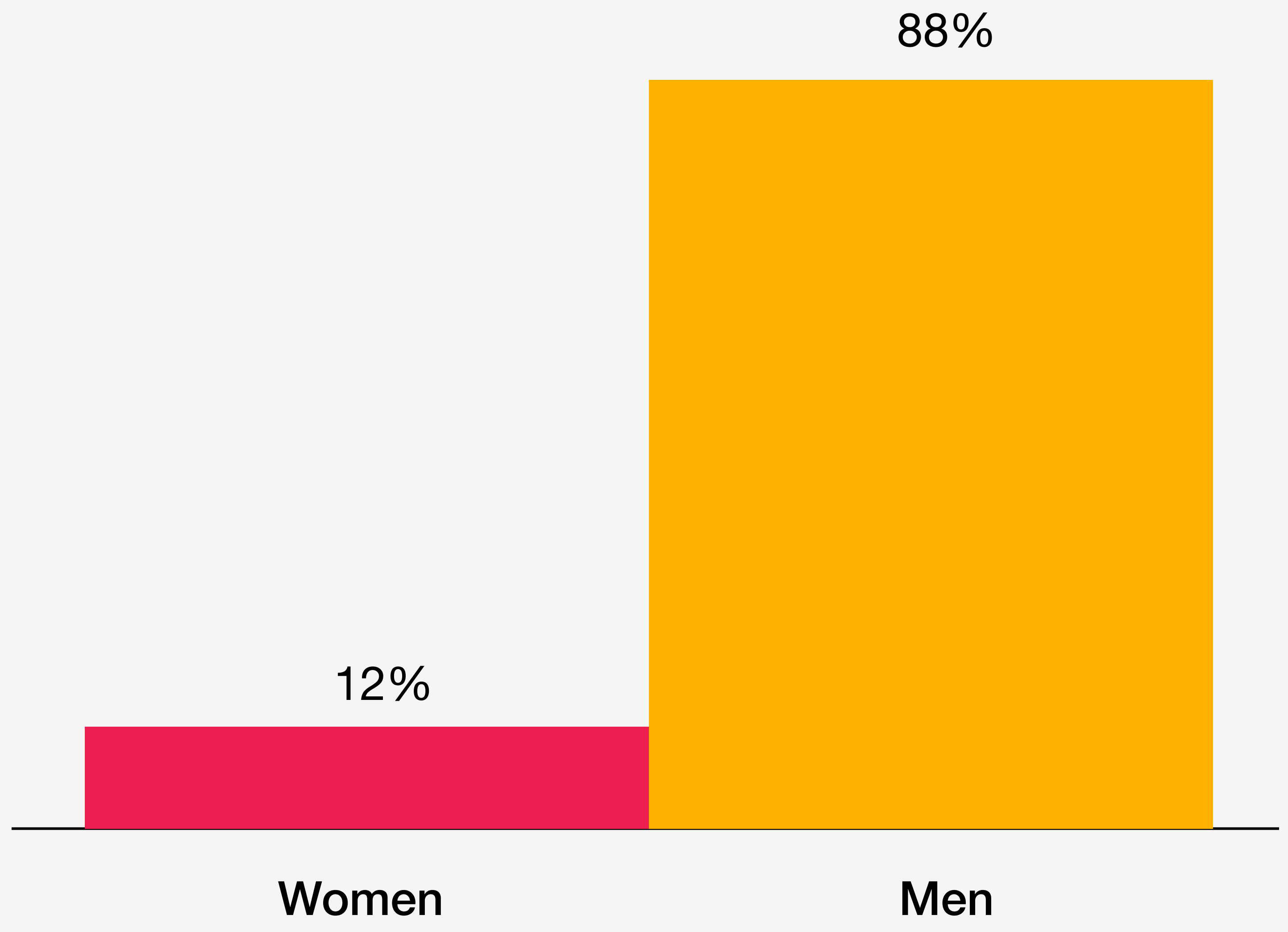


Social sustainability

In addition to portfolio company metrics, private equity firms in this study were asked to break down the gender composition in the body “where investment decisions are made,” often referring to investment committees. Here, a stark gender imbalance exists: on average, women constitute 12% and men make up 88% of these decision-making bodies.

Awareness is rising about the need for diversification in talent, irrespective of gender or other diversity characteristics. The industry is already acting on this with targeted initiatives like network events and mentoring programmes aimed at women. Coupled with a growing internal commitment to strategically measure and monitor gender diversity, the current imbalance is set for a likely course correction.

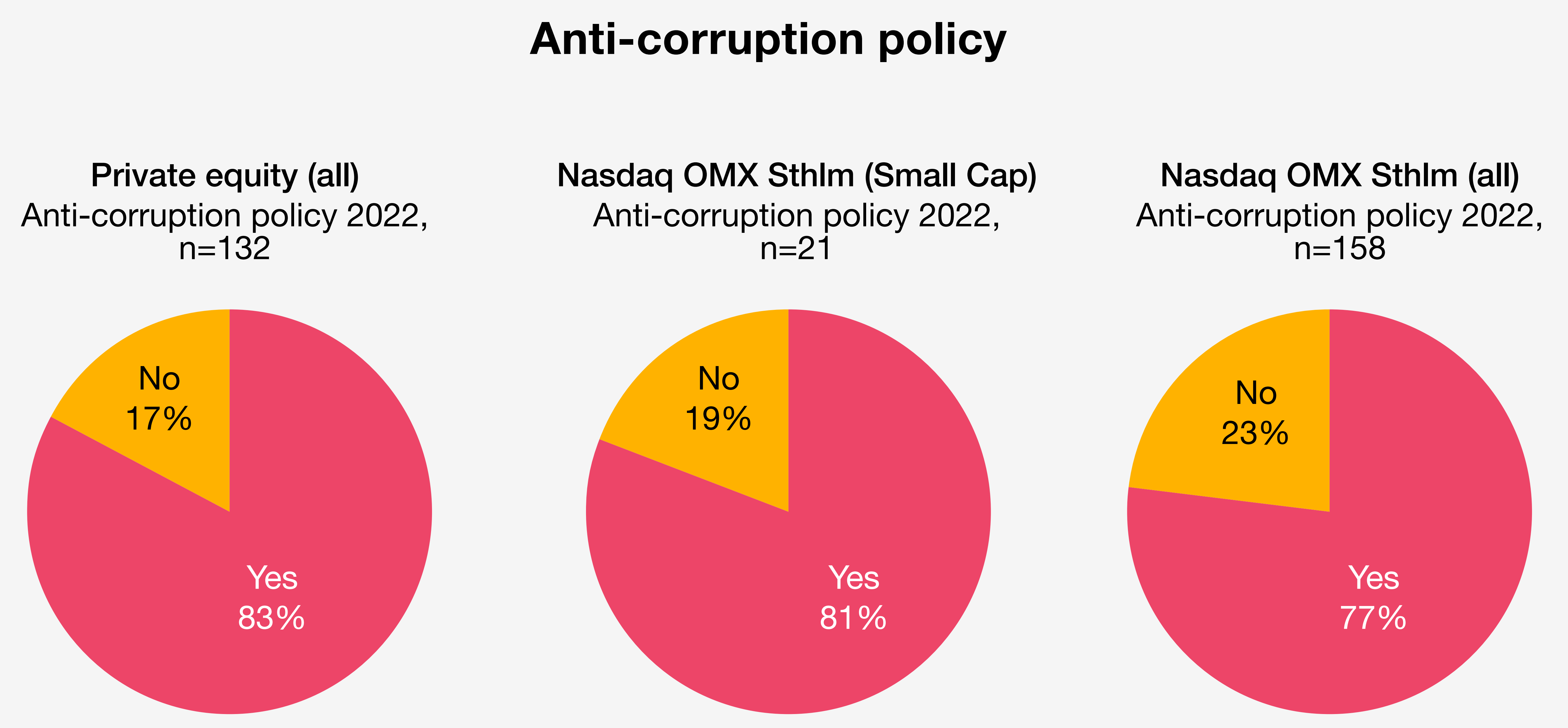
Share of men and women in SVCA Members’ governance bodies



Corporate governance

Anti-corruption policies are a cornerstone of ESG strategies, and their prevalence within the private equity sector highlights this focus. A total of 83% of portfolio companies have implemented anti-corruption policies, showcasing an industry-wide commitment to ethical business practices.

When comparing these figures to other market segments, private equity outperforms even the broader market. Specifically, 77% of companies listed on the Nasdaq OMX Stockholm have anti-corruption policies in place. This demonstrates that private equity firms are increasingly outperforming their counterparts in prevalence of policies relating anti-corruption, exceeding even the averages set by publicly listed companies.



Appendix

Word list and definitions

CO2e: Carbon dioxide equivalent. A metric measure used to compare the emissions from various greenhouse gases on the basis of their global-warming potential, by converting amounts of other gases to the equivalent amount of carbon dioxide with the same global warming potential.

D&I: Diversity and inclusion. Diversity focuses on representation or the make-up of an entity. Inclusion is about how well the contributions, presence, and perspectives of different groups of people are valued and integrated.

ESG: Environmental, Social, and Corporate Governance. A way of assessing a company by measures other than its financial performance, for example its policies and processes relating to climate, diversity, and corruption.

FTE: Full time equivalent. A unit to measure employed persons or students in a way that makes them comparable although they may work or study a different number of hours per week.

General Partner (GP): A general partner is one of two or more investors who jointly own a business that is structured as a partnership, and who assumes a day-to-day role in managing it.

GHGP: Greenhouse Gas Protocol. An accounting and reporting standard providing requirements and guidance for companies and other organisations making GHG emissions inventories

IPO: Initial public offering. When a private company becomes public by selling its shares on a stock exchange

Limited Partner (LP): A limited partner invests money in exchange for shares in a partnership but has restricted voting power on company business and no day-to-day involvement in the business.

Portfolio company: A company in which private equity funds hold an interest.

Private equity (PE): Investment form where money is raised directly from individuals and institutions and pooled in a closed (non-listed) fund that invests in a range of business ventures.

Public equity: Investment form where stocks are bought and sold through a public market such as Nasdaq OMX Stockholm.

Scope 1, 2 and 3 emissions: The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

SDGs: Sustainable Development Goals. The 17 SDGs were established by the 2030 Agenda for Sustainable Development and adopted by UN member states in 2015.

Venture capital (VC): A form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential.

Method of the study and descriptive statistics

This report, conducted by PwC in partnership with The Swedish Private Equity and Venture Capital Association (SVCA), draws upon data collected from and interviews held with Swedish private equity and venture capital firms with regards to the ESG related status of their portfolio holdings based in Sweden. The participating firms are members of SVCA and the study was carried out between May and October 2023. 14 SVCA members were selected for interviews. 14 SVCA members submitted ESG data for a total of 139 portfolio companies headquartered in Sweden.

Disclaimer: It is important to note that the data from the SVCA members and portfolio companies in this report are not directly comparable to those in the previous report; the data represents a snapshot in time.

Quantitative analysis

In the quantitative analysis, the following SVCA members participated: Adelis Equity, Alder, Altor, CapMan, EQT Partners, FSN Capital, Litorina, Nordic Capital, Priveq, Procuritas, Spintop Ventures, Summa Equity, Triton.

I. Survey Data Collection

The quantitative data for this study was collected through an email survey sent to the members of the Swedish Private Equity & Venture Capital Association (SVCA). The survey aimed to gather information on the ESG-related status of the portfolio holdings of the participating private equity firms. The survey was conducted between May and October 2023.

Survey Design: The survey questionnaire was designed to capture key performance indicators (KPIs) related to ESG factors, including employment growth, gender balance in decision-making bodies, emissions intensity, anti-corruption policies etc. The KPIs included in the survey were based on the ones provided in the previous report. These KPIs were deemed relevant and informative for evaluating the ESG performance of portfolio companies. The survey was tailored to collect data for the reporting year 2022.

Standardised Template: Participants were requested to report the KPIs for each portfolio company in a standardised template. The template ensured consistency in data collection and allowed for efficient aggregation and analysis of the survey responses. Each portfolio company was reported on a separate sheet within the reporting template.

Confidentiality: All firm-level data provided by the participants were treated confidentially and used solely for the purpose of deriving industry figures. Data confidentiality and privacy were maintained throughout the data collection process and subsequent analysis.

Reminder and Extension: During the data collection period, reminders were sent to the survey participants to encourage response rates. The participants were requested to provide their survey responses within the designated timeframe to ensure timely and comprehensive data collection. An extension was granted following a request from some respondents, allowing them to submit their survey responses until the extended deadline.

Quality Assessment: Following the data collection phase, the received data were subject to quality assessment. The data were reviewed to ensure accuracy, consistency, and completeness. In case of any discrepancies or missing information, follow-up inquiries were made to the respondents to address the gaps and validate the data.

II. Derivation of Industry Figures

Data Analysis: Once the survey responses were received and quality assessed, the firm-level data was analysed to derive industry figures. Unweighted mean values were primarily used for comparison and specification of the study's findings, unless stated otherwise.

Benchmark Figures: To further enhance the analysis, benchmark figures were derived from the annual reports of corresponding public firms listed on the Nasdaq OMX Stockholm. The benchmark figures were obtained through direct data extraction from the annual reports of these companies.

Note: The methodology described above pertains to the quantitative aspects of the study, focusing on the survey data collection, derivation of industry figures, and the inclusion of benchmark figures derived from direct data extraction from annual reports of public firms. For the qualitative analysis, please refer to the corresponding section in the report.

Qualitative analysis

For the qualitative analysis, sustainability responsible staff at 14 SVCA members were interviewed during May to July 2023. The following SVCA members were interviewed: Alder, Altor, Cubera, EQT Partners, FSN Capital, Healthcap, Helix Kapital, Litorina, Procuritas, Sjätte AP Fonden, Skandia, Spintop Ventures, Summa Equity and Verdane.

The interviews were focused around three overarching questions related to materiality, governance and reporting:

- What are your most material ESG risks and value-creation opportunities?
- How do you govern ESG issues and how do you measure performance?
- How do you inform stakeholders of your ESG work?

Interviewed SVCA members were given the opportunity to select interview topics from a list of ESG themes, based on their preference, enabling them to highlight topics of specific relevance:

Environmental:

- [Scope 3 emissions] How do handle, manage and measure scope 3 emissions?
- [Double materiality] How do you apply principles for double materiality on your climate mitigation and adaptation plans?

Social:

- [Diversity and inclusion] What are the three most important challenges related to diversity and inclusion (D&I) and how do you plan to address them in the coming years?
- [Value chain sustainability] What risks related to value chain have been identified as most material, and how are they addressed? Are some risks identified through implementation of a human rights due diligence process?

Governance:

- [Corporate culture and leadership for sustainability] In your opinion, what kind of leadership is required to achieve ambitious sustainability goals and impact? What activities do you have to strengthen this type of leadership?
- [Sustainability transparency] How does ESG information affect your investment decisions, before acquisition and during portfolio management? How do you formally report and in other ways communicate and share your sustainability work with stakeholders?

The interview responses were then consolidated by PwC, and SVCA member quotes and testimonies are presented in this report. All quotes and case studies have been confirmed and approved by the relevant SVCA member/ stakeholder.

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