BRIGHT HARBOR ADVISORS

Global Limited Partner Sustainable Investing Report 2018

Introduction

Recent trends in Sustainable investing indicate a shift in views from accepting some principals in sustainability to more investors now beginning to adjust their investment policies and decision making to directly target many sustainable themes available, and continuing to aggressively incorporate ESG (environment, social and governance) in their decision making.

Some of the data points that show the trend include according to a 2017 McKinsey Report: sustainable investments have increased to 26% of professionally managed assets around the world (1); many of the largest endowments globally have divested or are no longer making new fossil fuel investments including, Cambridge, Oxford, Harvard, Yale, Stanford, Georgetown, MIT and others; Larry Fink (CEO of Blackrock) has recently sent a letter to shareholders on Blackrock's commitment to ESG policies (2) and lastly, although with a long history of leadership in the field of sustainable investing, CalPERS has recently become much more vocal on the topic and has devoted leadership internally to the effort.

A number of terms have recently been incorporated around 'Sustainable' investing. ESG, Sustainable, Responsible, Impact and Socially Responsible seem to be almost interchangeable today. The purpose of this survey was to understand investors' views on investments that are focused on Sustainability / Impact rather than views that broadly speaking 'check the box' of being ESG compliant. Sustainable investing is therefore defined herein as investments that are focused on Sustainability / Impact.

Although much of the Sustainable investing trends have been in more liquid markets, the primary focus of this survey is with regard to investors' views towards Sustainable investing in the alternatives investment asset class. The spirit of the survey was to not only understand investor's views on returns, strategies and sectors but also to get a better grasp on how institutions are set up to tackle the investment decision making process and where they are in building out their capabilities.

To garner a perspective on Sustainable investing from the private equity industry including key opportunities and constraints for global investors, Bright Harbor Advisors conducted the Global Limited Partner Sustainable Investing Survey in July 2018, collecting data from 72 instituional investors who are primarily North American (82%) and Western European (14%) with a combined private equity allocation exceeding $500 billion and with 82% managing between greater than $1 billion of AUM.

Consulting and advisory firms make up the largest portion of the survey respondents (22%), followed by fund-of-funds (15%), endowments (13%), and asset managers (11%). Given that consulting and advisory firms typically have a wide array of institutional investors as clients, their feedback should represent a broader set of underlying investors.

It's worth noting that some bias to the survey results is expected given that many potential respondents who don't have any mandate for Sustainability would naturally decline to participate.

Some of the more interesting results from our survey include:

- Water and wastewater treatment as the most compelling opportunity above solar, sustainable food production, Wind and others.
- Almost 20% of investors have sustainable private fund managers in a dedicated bucket and 81% have some type of Sustainability/Impact, or ESG mandate as part of their formal investment policy.
- More than 2/3 of investors surveyed do not make investments in carbon strategies concurrent with Sustainable investment strategies.
- Regarding which type of Sustainable investment strategy is most compelling, growth equity beat out both infrastructure and venture capital.

- With respect to how well institutional investors are organized to make professional investment decisions in Sustainable / Impact or ESG investing, we found that close to 1/3 of respondents have someone on their team dedicated to the space.

We hope this report provides you with some insight into the current views of institutional investors on Sustainable investing. The team at Bright Harbor Advisors would like to thank the survey respondents for taking the time to share their perspective and as always, we welcome any feedback you may have.

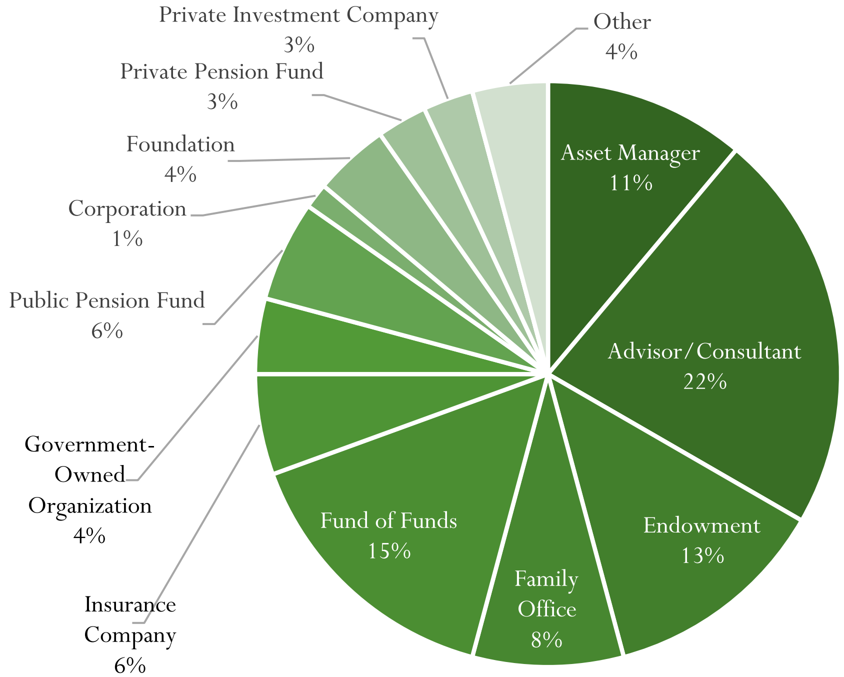
Respondent Overview

The 2018 Bright Harbor Global Limited Partner Sustainable Investing Report collected data from a diversified base of investors from over 25 countries with a combined private equity allocation exceeding $500 billion.

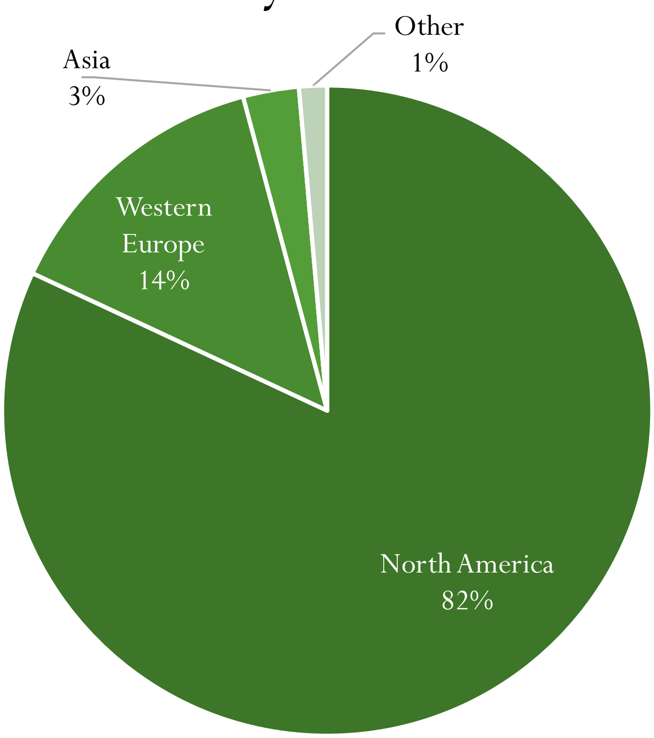
Most of respondents were North American and Western European (96%).

Consulting and advisory firms make up the largest portion of the survey respondents, followed by fund-of-funds, endowments and asset managers.

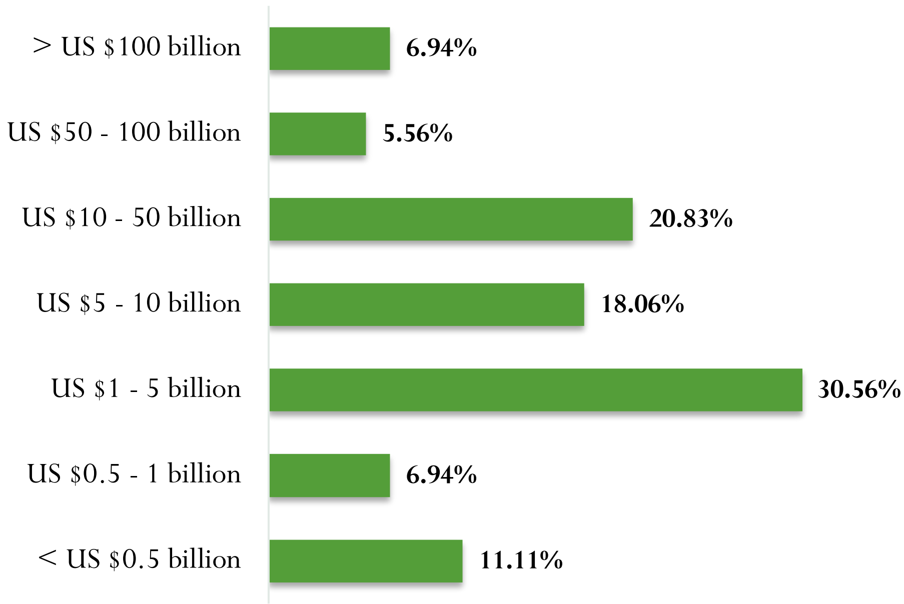
Investors by Type



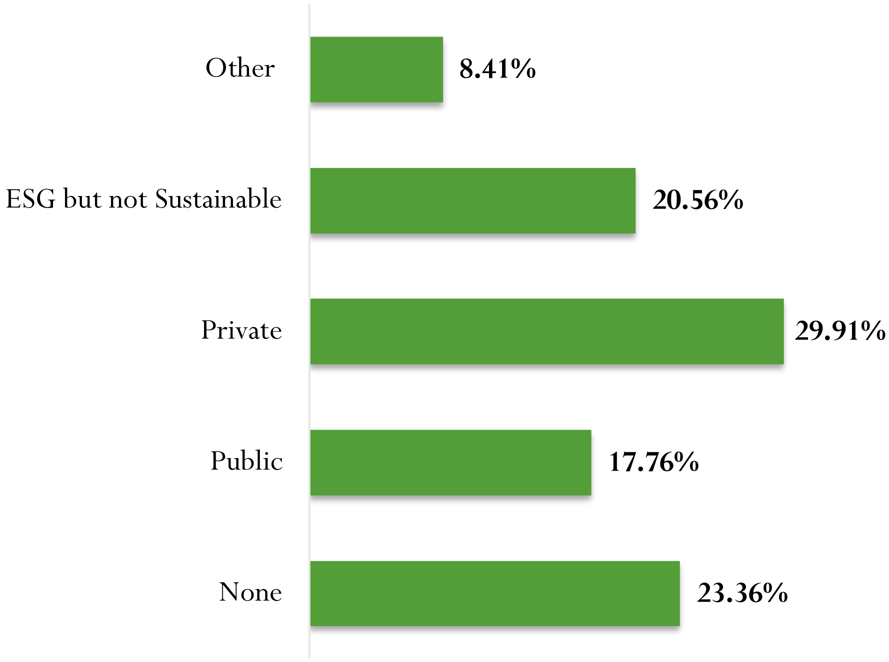
Investors by Location



How much are your Assets Under Management (AUM)?



Does your organization make investments in sustainable (focused on Sustainability / Impact) strategies?



Assets Under Management

82% of the investors have an AUM greater than $1 billion. This would suggest that feedback on the survey is from the perspective of sophisticated institutional investors.

Sustainable Investing

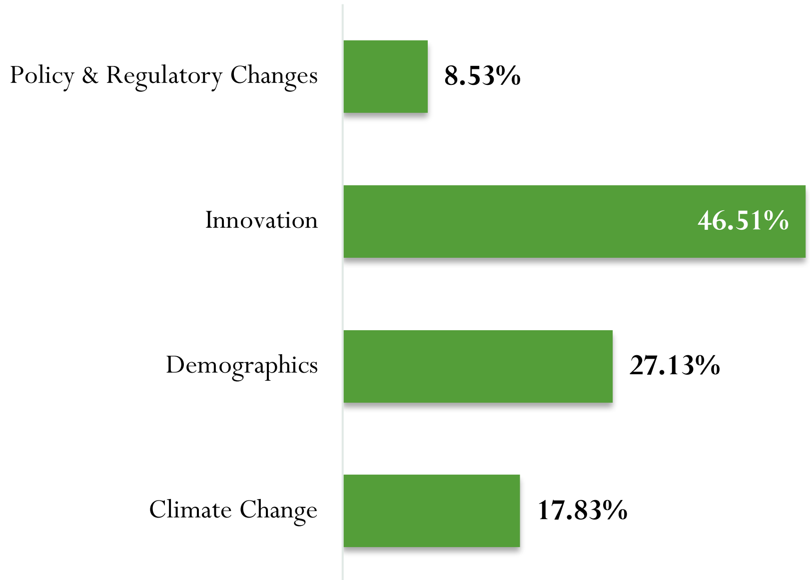
We felt it was important to understand the appetite for Sustainability / Impact and how they expressed that through their investment allocations.

Surprisingly, 30% of respondents say they make Sustainable private investments. Given the broad trend of having some type of ESG accountability for investors, having 21% of respondent investing in ESG but not Sustainable and having 18% investing in public (which could be considered largely ESG, rather than sustainable) makes sense.

Long-Term Trends

Clearly innovation is a theme that encompasses many strategies. A little more than a 45% of respondents recognizing the long-term trends of demographics and climate changes suggests support for more traditional Sustainable investment strategies. It will be important to see how this changes over time.

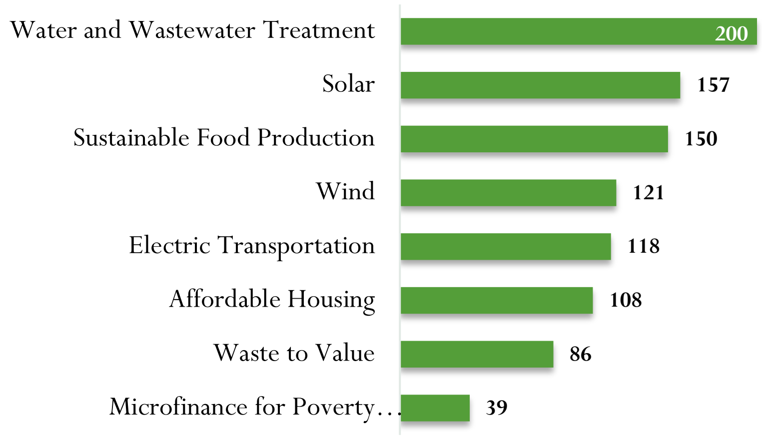
Which of the long-terms trends do you currently invest through private equity / debt / real asset strategies?



Sub-Sectors

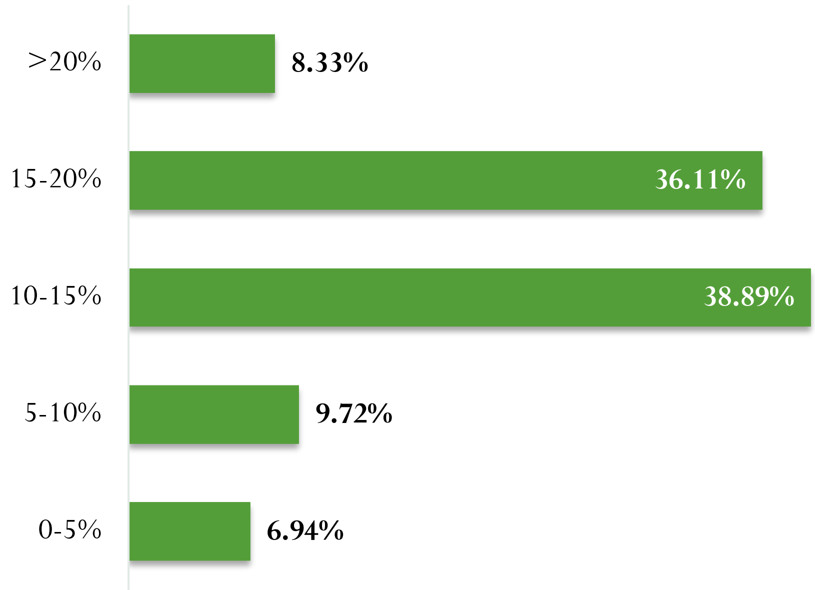
The most compelling investment opportunities are generally reflective of consensus views on broader global trends. Given that early outsized returns have been largely harvested in solar and wind, it's not surprising to see water and food high on the list of compelling investment opportunities.

Where do you think the most compelling investment opportunities present themselves today (rank top 5 with 1=best)?

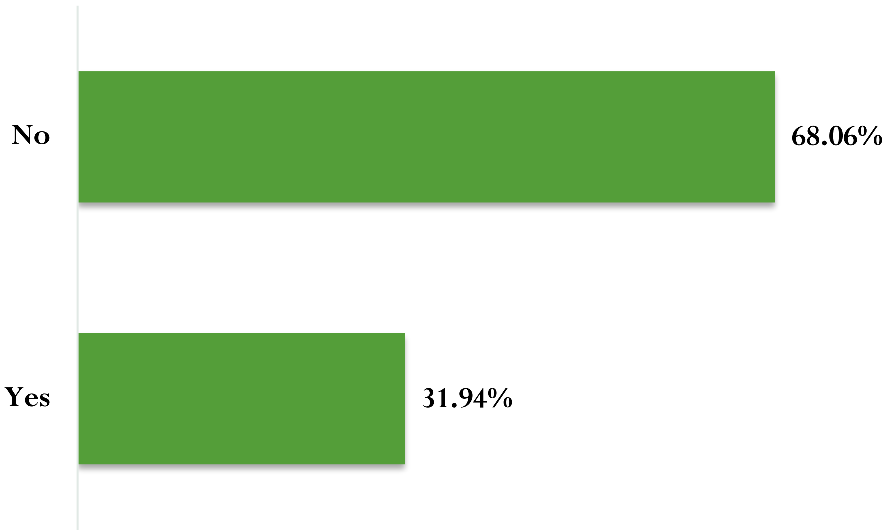


Respondents feedback was point weighted

What are your net return hurdles for Sustainable private equity fund investments on an unlevered net IRR basis?



Do you make investments in carbon strategies concurrent with Sustainable strategies?



Expected Net Returns

The return hurdles would clearly depend on the preferred strategy in Sustainable investing but as we see on Page 11, the return expectations reflect the compelling types of investment strategies. Another potential conclusion to draw here is that 8.33% of respondents expect a premium to traditional private equity type returns and 6.94% seem to be willing to take a concession.

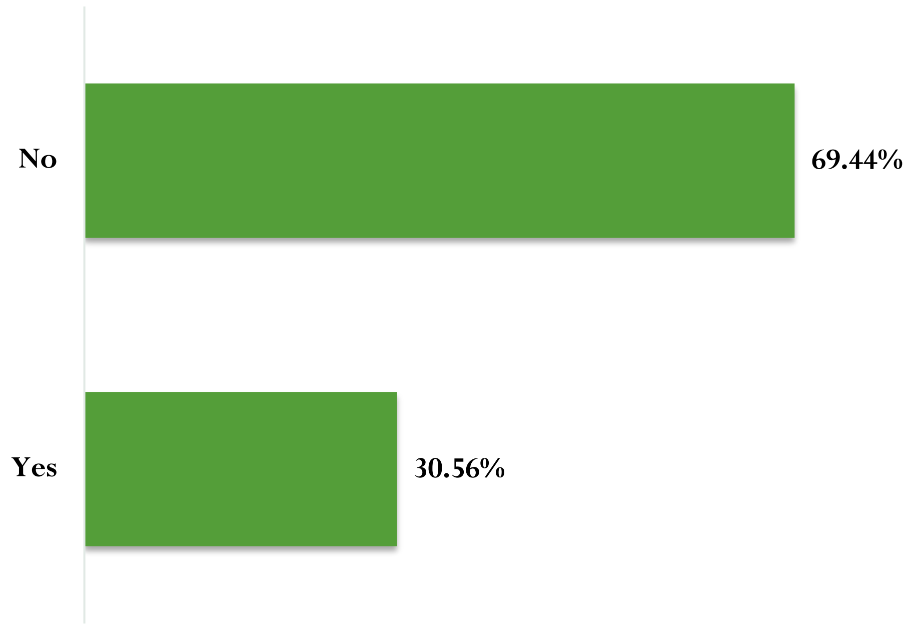
Sustainable vs Carbon

Having more than 2/3 or respondents mention their unwillingness to make carbon investments concurrent with sustainable strategies seem consistent with the broader trend seen in the US. This is especially true with regard to endowments and foundations looking to more closely align their missions with their investment focus.

Resource Allocation

As indicated earlier, Sustainability/Impact and ESG investing has become more mainstream and therefore it's not surprising to see institutional investors building out their capabilities to properly support a decision-making process in the space.

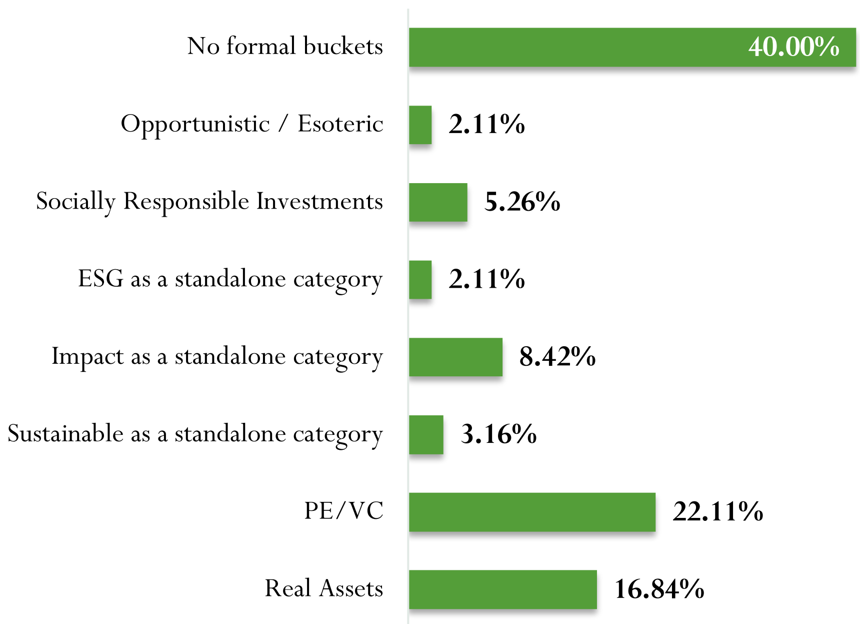
Is there someone on your team dedicated to Sustainability/Impact or ESG investing?



Buckets

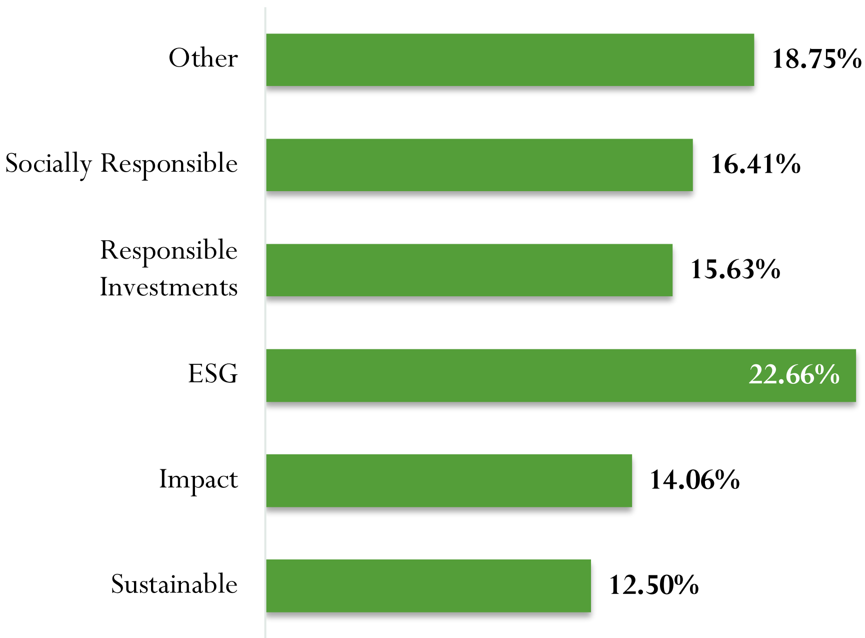
It's Bright Harbor Advisors' experience that "bucketing" can vary widely across limited partners. Almost 20% of respondents allocate their Sustainable private fund managers in some dedicated bucket.

How are investments in Sustainable private fund managers "bucketed" in your organization?

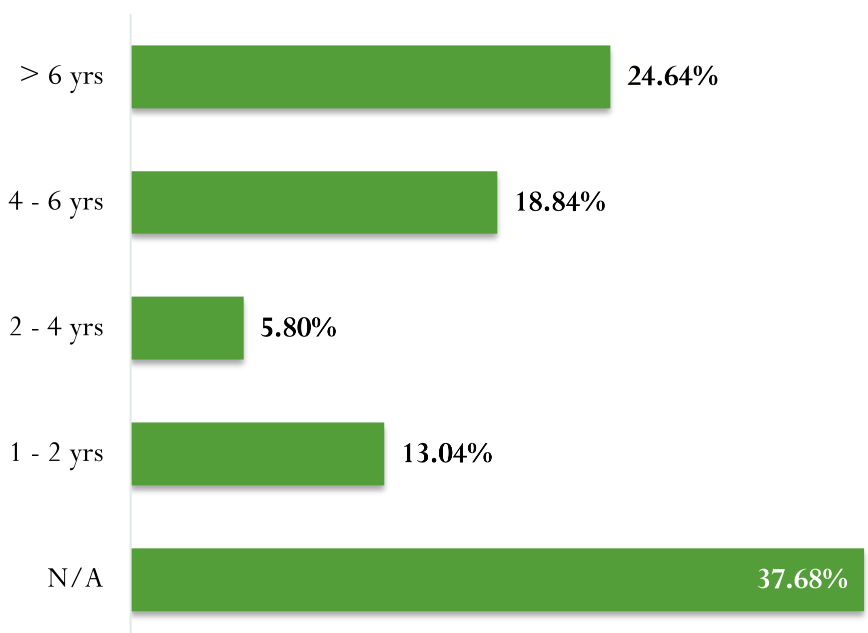


Global Limited Partner Sustainable Investing Report 2018

Are any of the following part of your investment policy?



If yes to previous question, how long has it been in place?



Investment Policy

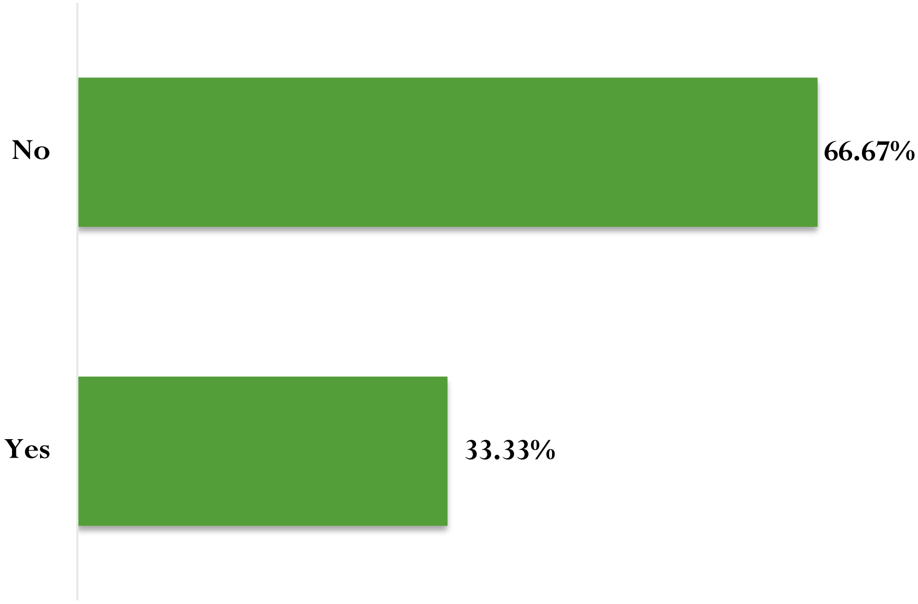
Again, some bias expected here as described in the summary given respondents that do not have an interest in sustainability will generally not respond. However, the finding that 81% of respondents have some type of Sustainability / Impact / ESG exposure as part of their formal investment policy speaks to the commitment of investors to the space.

With a full 25% of respondents having some type of Sustainability / Impact / ESG exposure as part of their formal investment policy for 6 years or more shows that for many the trend is less recent.

Measuring Returns

As mentioned earlier in the survey, the motivations for investing in Sustainable investments are broad reaching. It's clear that measuring the non-economic impact remains important. It will be interesting to see what standards emerge as the strategy becomes more widely adopted.

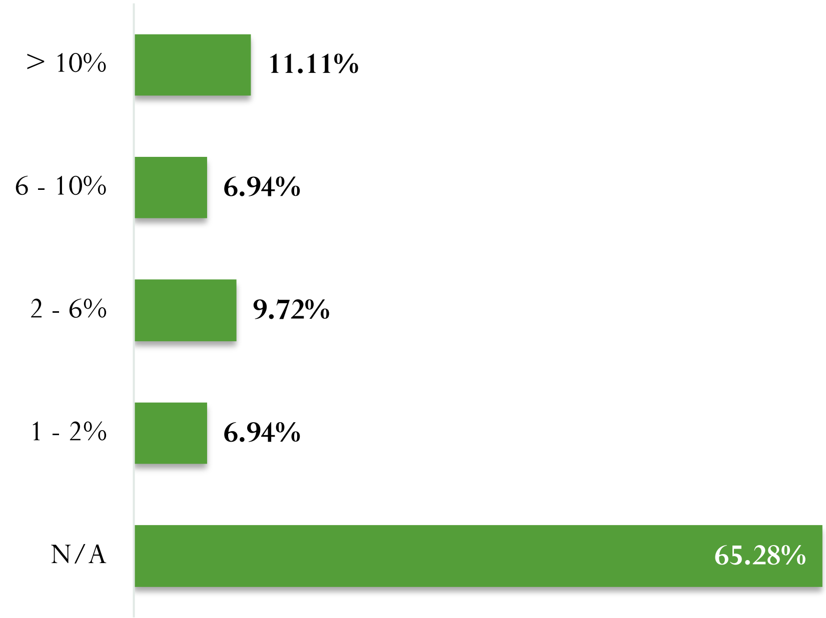
Do you need to measure the impact for your Sustainable investments?



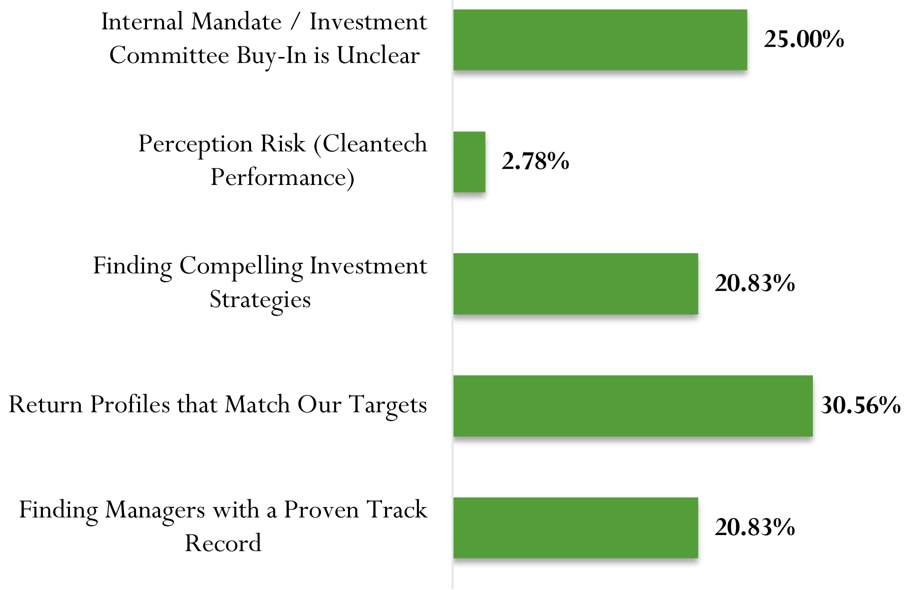
Portfolio Construction

The finding that 18% of investors with an allocation of 6% or more for Sustainable investments is well above our expectation.

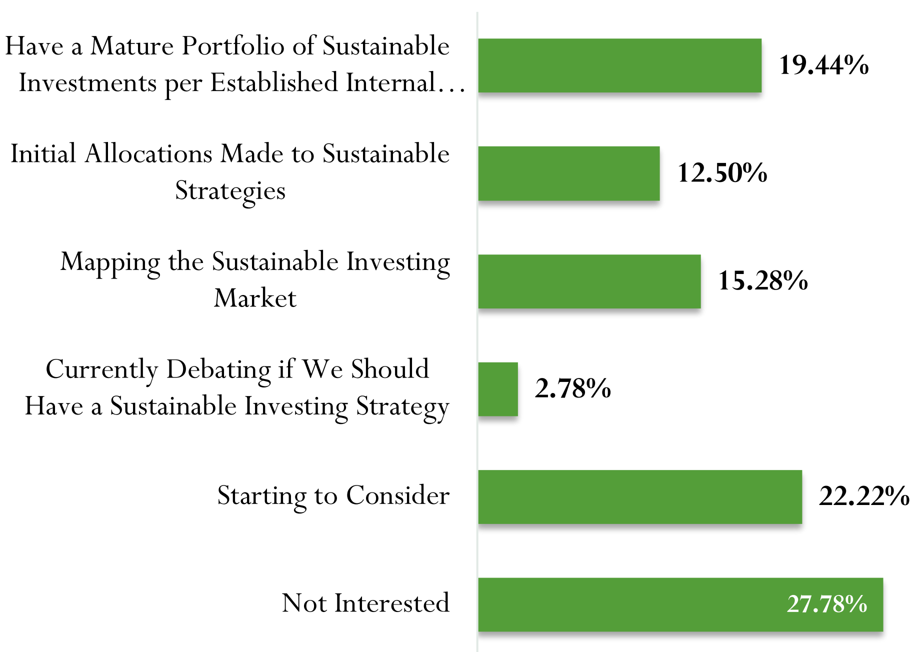
What percentage of your portfolio is targeted for Sustainable investments?



What have been your biggest obstacles in making Sustainable private market fund investments?



Where is your organization in your Sustainable investing lifecycle?



Obstacles

Commitments to Sustainable private market fund investments is not without friction points. It is interesting to see one quarter of respondents do not have an internal mandate to invest. Given the broad track record of cleantech and an assumption that Sustainable investors might have had cleantech investments, one might have expected perception risk to be a larger factor.

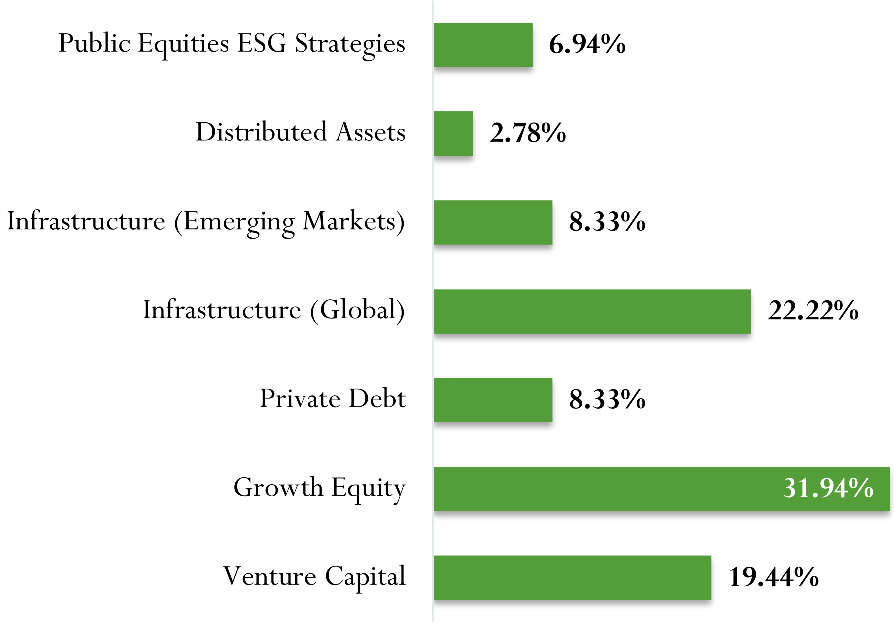
Lifecycle

It is important to understand where respondents are in their development regarding sustainable investing. Interestingly, respondents were fairly evenly distributed between just starting and having a mature portfolio.

Sustainable Investment Strategy

The growth equity and venture capital focus are generally not surprising given some of the higher expected net return hurdles mentioned on Page 6. Considering the underperformance of classic corporate equity investment structures, it is surprising not to see a larger interest in infrastructure or distributed assets.

What type of Sustainable investment strategy is currently the most compelling from a risk/reward perspective?



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Bright Harbor Advisors

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Fundraising

Bright Harbor provides private placement services for differentiated private equity funds between $100 million and $1.5 billion. Services include fund formation, full fundraising mandate, top-off or tactical help.

Secondary Advisory

Bright Harbor acts as a sell-side advisor to limited partners for their limited partnership interests and direct assets with a tailored process dependent upon seller objectives and constraints.

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Endnotes:

1) https://www.institutionalinvestor.com/article/b15cc1dxds8k97/mckinsey-esg-no-longer-niche-as-assets-soar-globally
2) https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter