News & Analysis

Sustainability: Back to the bottom line

Today's GPs are revamping their sustainability programs away from broad mandates and toward tailored initiatives that drive value creation and mitigate risk.

Rob Kotecki | **Jennifer Banzaca** - 3 June 2025

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Sustainability programs and other ESG initiatives had their critics well before President Donald Trump returned to the White House. And those critiques emerged from across the political spectrum. On the left, there were accusations of "greenwashing" – when corporations announce empty initiatives meant to obscure continuing bad behavior. On the right, the complaint was that business priorities were being abandoned for ideological ones.

But without question, the private funds industry has heeded the "vibe shift" that was officially registered with last year's electoral sweep by Republicans. Gone are the high-profile hirings and public pledges, but regulatory standards from around the globe haven't vanished. And many institutional LPs still want sustainability programs and track other ESG priorities, no matter what happened at the US ballot box.

In an intriguing twist, the industry has responded to these opposing pressures by stressing sustainability initiatives that create value and mitigate risk at their portfolio companies. Many firms are stepping away from massive data collection exercises and putting the brakes on the charged language of the last few years.

Instead, they're embedding their sustainability executives with deal teams, so they become another form of operating partner, sourcing improvements and highlighting risks. And while they're meeting compliance standards, they aren't stretching to go beyond them.

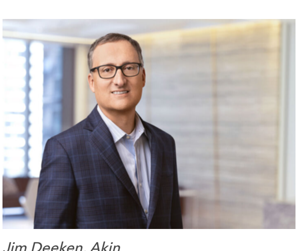
In short, they're meeting the moment with a more humble, pragmatic approach to these priorities which, oddly enough, may end up addressing the critiques from both sides of the aisle and delivering better results in the long run. This isn't to say that the political winds haven't shifted dramatically of late, and not only in the US.

Consultants find that while sustainability has been a rallying cry for countries like China and India, their clean energy progress is taking the back seat to defense industries and so-called "all the above" energy solutions.

Answering the vibes

It may be a global phenomenon, but Trump and the MAGA movement have been among most vocal and strident critics of ESG, with best-selling books on the evils of those three letters, and a scorched earth approach to removing DEI in all its forms with a flurry of executive orders.

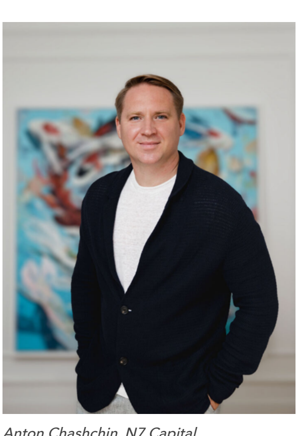
This May, Trump's Federal Trade Commission and Department of Justice issued a joint statement of interest in the **antitrust energy collusion case** against BlackRock, State Street and Vanguard that was brought by the Texas attorney general, who argues that these asset managers colluded to drive down coal production. The private funds industry duly noted the move.



Jim Deeken, Akin

"Many of our clients prefer the term 'responsible investing' over 'ESG' because it feels less contentious," says Jim Deeken, a partner at the law firm Akin. "Additionally, those pursuing ESG, or responsible investing practices, are framing their approach around risk management and how it leads to better and more profitable investments. For instance, investing in a company with potential environmental liabilities or labor law violations could jeopardize the investment."

Anton Chashchin of the private equity firm N7 Capital also noted how the language is evolving: "Terms such as 'grid stability,' 'resilience' and 'energy security' are becoming more prevalent. These terms are more neutral and practical compared to ideologically loaded ESG terminology, making them more appealing to investors who seek both financial returns and environmental responsibility."



Anton Chashchin, N7 Capital

More than language is changing. Blackstone's own high-profile ESG leader Jean Rogers left the firm in April after being hired in 2021. The appointment was celebrated at the time, as she had founded and led the Sustainability Accounting Standards Board that became the standard for companies reporting non-financial data. Other firms have quietly removed ESG language from their websites.

Not so fast

As eager as some managers may be to catch up with the vibe shift, they should remember that their investors have their own priorities that didn't necessarily drift with the vibes. According to a report by Boston Consulting Group (BCG), 85 percent of LPs plan to increase their focus on sustainability over the next three years.

The Institutional Limited Partners Association just appointed another dedicated director of sustainable investing, Susannah Preston. Furthermore, Rogers may no longer be at Blackstone, but the firm has a deep bench of sustainability executives still in place. This shouldn't surprise many: legally binding LPAs easily override shifts in vibe.

Fund documents have language around ESG programs and metrics that still govern the behavior of the manager, so regardless of changes in verbiage or staff, lawyers and consultants agreed that GPs still need to deliver on the previously agreed upon sustainability framework. This doesn't mean all LPs are pleased with the status quo.

Simon Hallet, the partner and head of climate strategy at Cambridge Associates, told sister publication *New Private Markets* that **investors are weary of sustainability initiatives** comprising mere data collection and reporting exercises that don't change actual behavior. And a recent report from consultancy Mercer found that fewer LPs are setting climate targets, with 39 percent of survey respondents not planning on setting or implementing climate targets.

Blanket mandates with hard and fast deadlines do seem to be an actual casualty of the moment. "Asset owners are revisiting their commitment to net-zero interim targets," says Vinay Shandal, managing director and senior partner at BCG. "What makes a durable sustainability program is one that is 100 percent focused on value, one where you create a capability and focus it on companies where it makes sense."

Consultants contrast this with the previous model where every portfolio company got a net-zero roadmap, which turned into a compliance burden that frequently devolved into little more than a box-checking exercise.

Value-centric sustainability

This does not mean that LPs, or even GPs, are abandoning sustainability efforts. Rather, they are being tailored to a given business situation, and designed to lower costs, increase revenue and mitigate risks.

"Shrinking a company's carbon footprint might cost something up front, but there's an ROI," says Kevin Desai, the leader of PwC's private equity advisory business. "There are savings with reduced air travel, freight costs and warehouse footprints. That's all less cost in the system." But value-first sustainability isn't simply about shrinking costs.

"Think about value expansively," says Shandal. He uses the example of a company that provides leather seats for cars: they decarbonize the process to make the leather, but that raises prices. "In lieu of a myopic cost-only lens, look at the overall enterprise value. Does being the lowest carbon producer make your employees proud to work for you; improve your brand 'halo'; drive up customer satisfaction and loyalty; and help you win more jump balls against the competition and maybe even earn a price premium?"

This also means that the sustainability projects must be intertwined with the investment process so that it becomes part of any value creation effort. The sustainability risks and opportunities of that car seat company will be quite different from a network of nursing homes or a food distribution giant.

Embedded in the trenches

The consensus among consultants and lawyers is that the sustainability function must be joined at the hip with the deal team, so they become another kind of operating partner.

They argue that many of these sustainability executives sit in the head office, talk to LPs, attend conferences and pontificate about the planet, but know very little about what happens at the rock face of a deal.

And now, consultants find some GPs are moving their sustainability staff into the value creation team, so that they're now working on cost, procurement, operations, pricing, etc, and bringing their unique lens to these issues.

Stephanie Weiler, Alvarez & Marsal

"[Embedding sustainability staff in deal teams] is absolutely our playbook," says Stephanie Weiler, a managing director with Alvarez & Marsal's environmental, technical and sustainability services group.

"The number one struggle around sustainability is that they too rarely have a seat at a table." For her, the gold standard would be to have everyone aligned around an exit focus, so that even sustainability efforts were directed toward securing the best exit possible. "If sustainability actions aren't growing or preserving value or mitigating risks, then it's not worth continuing to do."

"In many ways, ESG folks in deal teams are essentially operating partners, no different than an IT operating partner who's reviewing a portfolio company's ERP system," says Desai. "Maybe the ERP is sufficient and maybe the whole thing needs to be rebuilt from scratch, but the operating partner will bring their expertise to gauge that, and ESG folks can do the same kind of analysis."

But there are terms already in fund documents that might require an old-fashioned data gathering and reporting exercise or international standards that must be met regardless of their impact to that bottom line.

One consultant suggested that managers should do the minimum when it comes to regulatory and compliance standards, and avoid over-investing or overbuilding to meet them, because they're table stakes. That said, these table stakes still very much matter, for now and the foreseeable future.

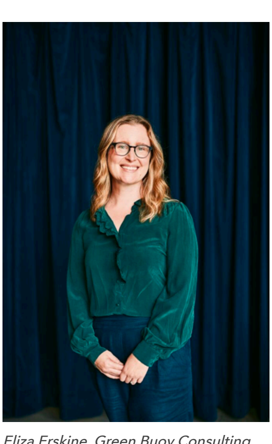
Betting on the future

To meet the moment, some GPs are genuinely innovating to provide sustainability programs that improve the climate and the bottom line, while others are still sorting out how to balance business priorities, LP demands and the cultural backlash to such efforts. But almost no one believes that sustainability – even ESG issues, more broadly – are fading away, even if they don't know what programs will look like in 2030, or even next year.

"One of the biggest issues is there's not unified federal frameworks in the US yet, about what is or isn't allowed [for ESG programs]," says Megan Tuck, lead of the Bliss Group's social impact practice. "But the best thing anyone can do is think long-term, and as hard as that can be to do, long-term thinking is what brings value in private equity, so when it comes to thinking, designing and communicating around these issues, keep the long term in mind."

Which simply affirms the need for initiatives that will improve a company's performance, as a business and as a corporate citizen, which are clearly timeless priorities.

And that's leading to fruitful conversations at the portco level. "Firms will frame things in 'need to have' and 'nice to have' based on their internal research or what their LPs require," says Eliza Erskine at Green Buoy Consulting. "The directives are a dialogue and many portfolio companies are eager to have the conversation on what is material and how to prioritize the ESG directives they've received."



Eliza Erskine, Green Buoy Consulting

And for the hard-core skeptics of sustainability, many of whom think it is a passing fad, there's always the data. This past March, Alvarez & Marsal analyzed data around 16 publicly listed PE funds and found that those with low ESG risk scores outperformed their peers by 7 percent. And given the competition for capital now, it's hard to imagine a manager leaving any money on the table, even if it's found inside a sustainability program.

A vibe-proof program: Sustainability schooling

Earlier this year, CD&R launched an innovative sustainability program that allows portco executives to develop their own solutions that serve the broader value creation effort.

CD&R was one of the earliest pioneers of driving returns by building better businesses, and now they're innovating to address the competing interests and priorities around sustainability. This January, they launched the CD&R Climate Leadership Program at Columbia University for their portfolio company executives.

It's not the only program of its kind. For example, the UK mid-market firm Inflexion has its own ESG Academy for its portfolio executives. But in that case, it's a corporate responsibility and sustainability apprenticeship qualification, devoted exclusively to meeting ESG goals and standards.

In contrast, CD&R's program is based on teaching its executives how to tailor such initiatives to a broader value creation effort. Columbia University launched its dedicated Climate School in 2020, but CD&R partners with this school and faculty members from Columbia's Business School, so there's always a link between the science and the business case.

"Climate risks and opportunities have probably been underrepresented in the academic and professional training for many talented executives. Not just in our portfolio, but in general," says Dan Jacobs, a principal with the firm. "At the same time, the ability to navigate these is more and more important to growing the value of our investments." And this was one way to take a more programmatic approach to that.

The program is voluntary, and portfolio company executives can apply to be part of the semester-long program that begins as a series of virtual sessions, continues as a period of independent study with guidance from mentors to craft programs for their own company and then ends with an in-person gathering to compare notes.

The students come from all the firm's industry verticals and include executives from multiple disciplines beyond ESG-specific roles, including HR and tech. CD&R also developed the curriculum in partnership with its applicants to make sure it addressed their actual priorities, which included developing sustainable products, devising programs that create value, not just data, and deliver risk mitigation and proper communication to all stakeholders.

However, one goal stands at the center of the program. "We wanted to make sure that there was no question about the laser focus of the program," says Jacobs. "Which is, 'Let's help you find ways to create value in your business.'"

If it generates results, there's little doubt others might mimic the program. Even Inflexion's academy is open to folks from other departments like facilities, operations, marketing, finance and HR, with a focus on getting junior managers up to speed with ESG matters, as an acknowledgement that the best efforts are never siloed away from the rest of the company, and most importantly, that company's bottom line.

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