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Responsible Investment & Sustainability Integration for
Institutional Investors in Private Markets
2026

Executive summary

What are key responsible investment & sustainability trends and developments?

- Mandatory climate and sustainability reporting, alignment with sustainable finance taxonomies, and increased scrutiny of ESG claims are driving institutional investors in Australia and New Zealand to strengthen ESG integration and transparency across private market portfolios.
- Disclosure maturity remains uneven, with real estate and infrastructure showing stronger ESG practices than private equity and private debt, which continue to lag.
- In parallel, beneficiaries and regulators are demanding clearer stewardship outcomes and accountability, shaping engagement, governance, and reporting practices across private market investments. Beyond climate, ESG risks such as nature loss and modern slavery are becoming increasingly material, prompting investors to embed mitigation and positive-impact strategies across the investment cycle.

How do institutional investors integrate responsible investment into private market decision-making?

- Institutional investors integrate responsible investment across the private market cycle by embedding ESG considerations at every stage.
- Screening assesses GP and fund alignment with RI policies and material climate, nature, social, and governance risks.
- Due diligence evaluates GP capabilities, asset-level ESG risks, and reporting readiness.
- During ownership, ESG KPIs are monitored, performance benchmarked, and value-creation initiatives supported.
- At exit, ESG maturity is increasingly viewed by acquirers as a proxy for business quality - signalling operational discipline, future-oriented leadership, and long-term relevance - while driving value through risk reduction, earnings resilience, and potential exit multiple expansion.




How can institutional investors use sustainability to drive value and competitive advantage?

- ESG should go beyond compliance to drive growth, creating value through revenue upside, operational efficiencies, and competitive differentiation in products, services, or business models.
- LPs who mitigate risk and seize growth tend to see the strongest impact on portfolio EBITDA. By managing downside risk while capturing forward-looking opportunities, they enhance the resilience and durability of returns, making ESG a lever for both risk-adjusted performance and long-term value creation.
- Given that disclosure maturity remains uneven, there is a significant opportunity to double down on private market assets and leverage ownership models to drive growth through sustainable products and business model innovation, green revenue and pricing premiums, operational and resource efficiency, and workforce productivity and engagement, potentially delivering up to 20% EBITDA uplift¹.

¹Retrieved from "Sustainability: Sources of Value Creation" by McKinsey & Company.

Material responsible investment trends at a glance

Market pressures are pushing institutional investors in Australia and New Zealand to strengthen ESG integration and transparency

Trend	Description
<p>Increasing focus on ESG governance in private markets</p> 	<p>As allocations to private equity, infrastructure and private credit continue to grow, scrutiny of ESG governance and accountability in private markets is intensifying. Institutional investors are increasingly assessing how ESG is governed at the General Partner (GP) level, embedded into investment committees and linked to value creation and exit readiness. This reflects recognition that private markets represent material exposure to climate, social and governance risks within institutional portfolios.</p>
<p>Growing expectations for outcome-focused stewardship</p> 	<p>Expectations are growing for institutional investors to demonstrate that stewardship activities deliver tangible outcomes, rather than broad engagement intent. In New Zealand, the Aotearoa New Zealand Stewardship Code reinforces this shift by setting clearer expectations around accountability, escalation and transparency. Across the region, stewardship performance is increasingly influencing manager selection, mandate retention and voting policies.</p>
<p>Intensifying scrutiny of sustainability and ESG claims</p> 	<p>Regulatory scrutiny of sustainability-related claims is intensifying across Australia and New Zealand, with greenwashing identified as an ongoing enforcement priority by ASIC and supported by strengthened guidance from the FMA. Institutional investors face growing fiduciary and regulatory risk where public sustainability commitments, product disclosures and stewardship statements are not clearly aligned with underlying investment practices and outcomes.</p>
<p>Mandatory integration of climate risk as financial risk</p> 	<p>Mandatory, ISSB-aligned climate reporting is accelerating the treatment of climate risk as a core financial risk for institutional investors in Australia, with phased implementation continuing through 2026. In New Zealand, while reporting thresholds have been recalibrated, expectations around how climate information is used in investment decision-making, risk management and stewardship remain high. Climate data is increasingly expected to inform asset allocation, manager selection and board-level oversight.</p>

Source: Australian Securities and Investments Commission, Australian Treasury, Financial Markets Authority, Principles for Responsible Investment, Responsible Investment Association Australasia, Responsible Investor, Stewardship Code Aotearoa New Zealand

Institutional investor sustainability developments

ESG integration is no longer a tick-the-box exercise but a cornerstone for managing risks and driving value creation

Developments



**Double materiality
at the core**

Institutional investors are increasingly assessing private market investments through a dual lens: the impact of their capital on ESG outcomes and the implications of ESG issues for financial performance. Across private equity, infrastructure, and private credit, this perspective is embedded in due diligence, risk assessment, and value-creation planning, enabling investors to demonstrate how their investment decisions deliver both competitive returns and positive societal outcomes.



**Thematic focus
beyond climate**

Alongside climate, institutional investors increasingly recognise nature, biodiversity, human rights, and modern slavery as material, portfolio-wide investment risks. Private market portfolios are being assessed for nature-related dependencies and impacts, as well as exposure to human rights and modern slavery risks across value chains, with strategies implemented to mitigate risks and drive positive outcomes through measures such as nature-positive KPIs and enhanced human rights due diligence.



**Taxonomies
gaining recognition**

Private market portfolios are increasingly being mapped against the Australian Sustainable Finance Taxonomy and the emerging New Zealand taxonomy to define sustainable and transition-aligned activities. This taxonomy alignment provides a common language to compare ESG performance, reduce greenwashing risk, and guide capital allocation, while enabling institutional investors to demonstrate ESG credibility and support robust reporting to stakeholders.

~4-7%

EBITDA uplift during ownership driven by sustainability-linked value creation¹

28%

premium customers are willing to pay for sustainable consumer products²

¹BCG (2024) The Value of Staying Sustainable in Private Markets (N=320); ²NYU Stern CSB & Circana (2023)
Source: ASFI, BCG, Responsible Investment Association Australasia, Principles for Responsible Investment, PwC, S&P Global

Piecing the private market investment ecosystem together

Building a private market investment strategy requires integrating patient capital and the illiquidity premium to capture value

Private market asset classes



Infrastructure

Investments in physical systems and facilities, such as transport, energy, and utilities, providing stable, long-term cash flows.



Real estate

Ownership or development of property, generating income through rents or capital appreciation.



Private credit

Loans or debt provided to companies or projects outside public markets, often offering higher yields than traditional bonds.



Private equity

Investments in established private companies aiming to improve operations and drive growth before eventual exit.



Venture capital

Early-stage investments in high-growth startups, seeking significant returns from business expansion and innovation.

Investing in private markets offers institutional investors significant advantages. Patient capital and the illiquidity premium allow long-term commitments, capturing value that short-term, liquid strategies cannot.

Diversification and enhanced returns

Private market investments provide portfolio diversification, as they are not directly correlated with listed equities or bonds. In particular, private equity and venture capital have historically delivered annualised returns 10–10.8% higher than Australian listed equities, highlighting the potential upside from selective private market exposure.

Regulatory and structural constraints

Regulatory and structural factors have limited allocations to private markets. Disclosure requirements, such as RG97-style rules for fees

and costs in superannuation, and short-term performance benchmarks can discourage longer-term investment commitments, even when the investment horizon is optimal for capturing value.

Global peer comparison

Australia and New Zealand have lagged global peers in private market allocation. Between FY08 and FY23, AustralianSuper increased its allocation to private equity and venture capital by only 2.9%, compared with an average 9.7% increase among top global institutional funds.

For institutional investors, increasing exposure to private markets can enhance long-term returns and diversification, but requires navigating regulatory frameworks and managing short-term performance pressures effectively.

8.2%

annual growth in private market revenues through to 2030¹

>50%

of global asset management expected in private markets by 2030¹






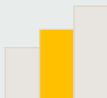

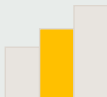


86%

increase in allocations to sustainable investments expected in the next 2 years²

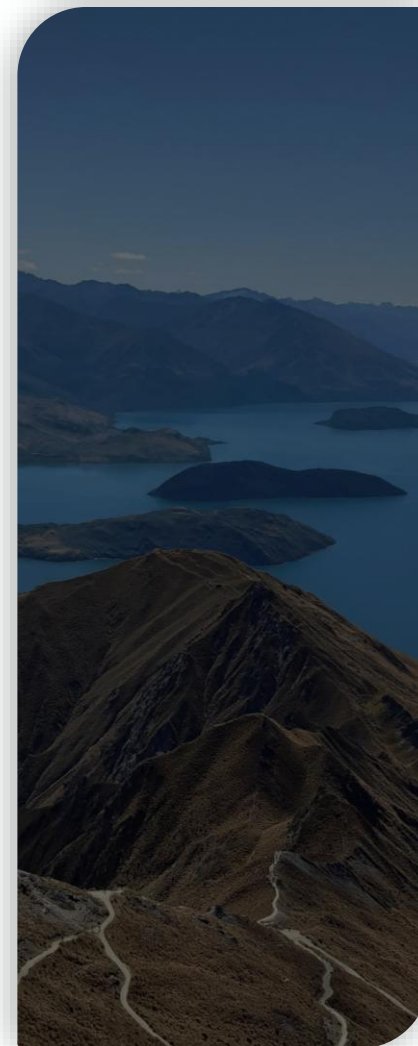
¹PwC 2025 Global Asset & Wealth Management Report; ²Morgan Stanley Institute for Sustainable Investing
Source: AustralianSuper, Morgan Stanley, PRI, PwC

State of ESG integration across private asset classes

ESG maturity across asset classes varies, with room for private credit, private equity, and venture capital to strengthen practices

Asset class	ESG maturity	Description
 Infrastructure		Strong ESG positioning driven by significant climate-related risks, the imperative for operational resilience amid the low-carbon transition, and the need to maintain a robust social licence through health and safety, responsible chemical management, and human rights practices.
 Real estate		ESG performance reflects high exposure to climate risk across residential and commercial properties, adherence to rigorous building and energy standards (e.g., Green Star, NABERS, LEED), and the proven financial benefits of ESG integration, including rent premiums and lower vacancy rates.
 Private credit		Initial ESG progress made, driven by early adoption of Sustainability-Linked Loan features, the establishment of foundational Sustainable Performance Targets (SPTs), and emerging LP demand for sustainability-related disclosure.
 Private equity		ESG maturity progressing beyond basic reporting and due diligence, driven by an increased focus on double materiality assessments, alignment with impact frameworks, and compliance with mandatory climate reporting that enhances integration and transparency for Limited Partners.
 Venture capital		Low ESG performance reflects early-stage focus on framework establishment and baseline understanding, with nascent ESG processes despite a mission-driven approach, and uncertainty around the success of implementation.

Opportunity



Source: Australian Investment Council, Institute of Sustainability Studies, KKR, UN Principles for Responsible Investment

Case study: Private equity at the core of PGGM's investment strategy

Exceeding public market returns by doubling down on private equity

Private equity is a core component of PGGM's investment strategy and a key lever for delivering sustainable, long-term value for the participants of its pension fund clients, including its main client PFZW. The asset class is characterised by a long investment horizon - typically exceeding ten years - lower liquidity, and the ability to actively influence portfolio companies over time. These characteristics make private equity particularly well suited for integrating responsible investment considerations and embedding sustainability into value creation strategies. Because PGGM invests in private equity funds and in co-investments, manager selection is critical. During due diligence, every potential investment is assessed across the dimensions risk, return and sustainability (3D-investing). Engagement with general partners is an important tool to further enhance sustainability performance during the investment period.

The private equity portfolio is well diversified, with the majority of capital deployed in developed markets,

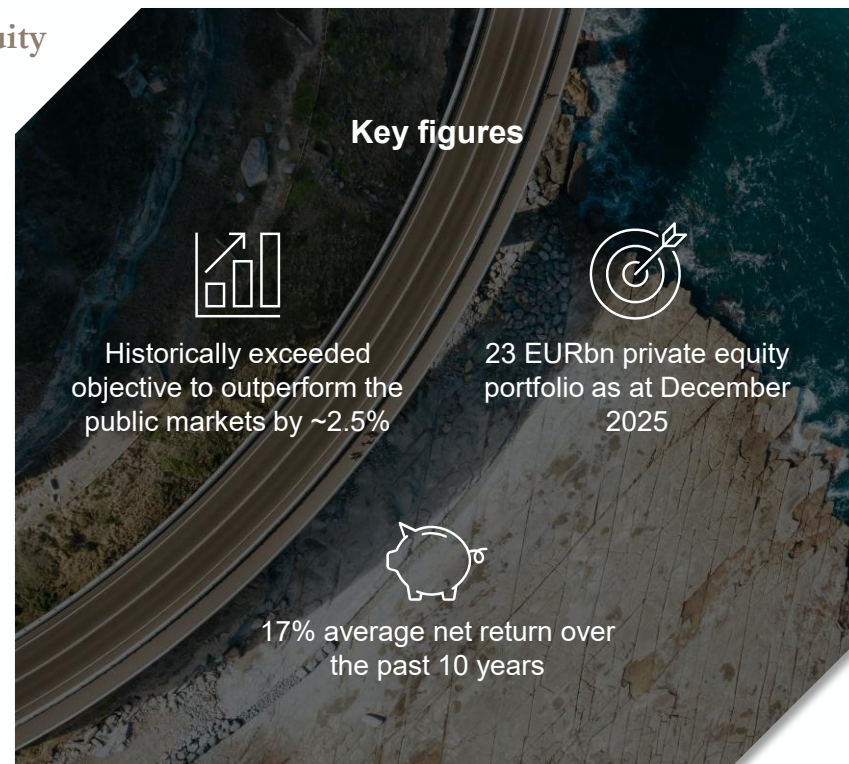
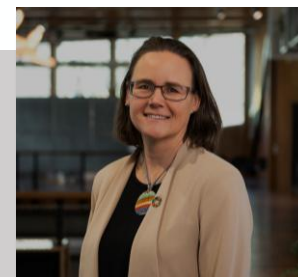
primarily the United States and Western Europe, and a strong focus on buyout strategies. While PGGM is sector agnostic in principle, the underlying portfolio spans a broad range of sectors, including Information Technology, Industrials, Consumer Discretionary, Health Care and Financials.

Within this context, private equity offers PGGM the ability to work closely with general partners and portfolio companies to integrate ESG sustainability considerations into governance, strategy and operations. This case study illustrates how a long-term, diversified private equity portfolio can serve as a platform for responsible investment, aligning financial performance with sustainable value creation in private markets.

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Our strong relationships with general partners foster an open dialogue about sustainability. As sustainability practices advance, we raise the bar, and our partners grow with us.

Karin Bouwmeester
Sustainability and Portfolio Management Lead PE at PGGM



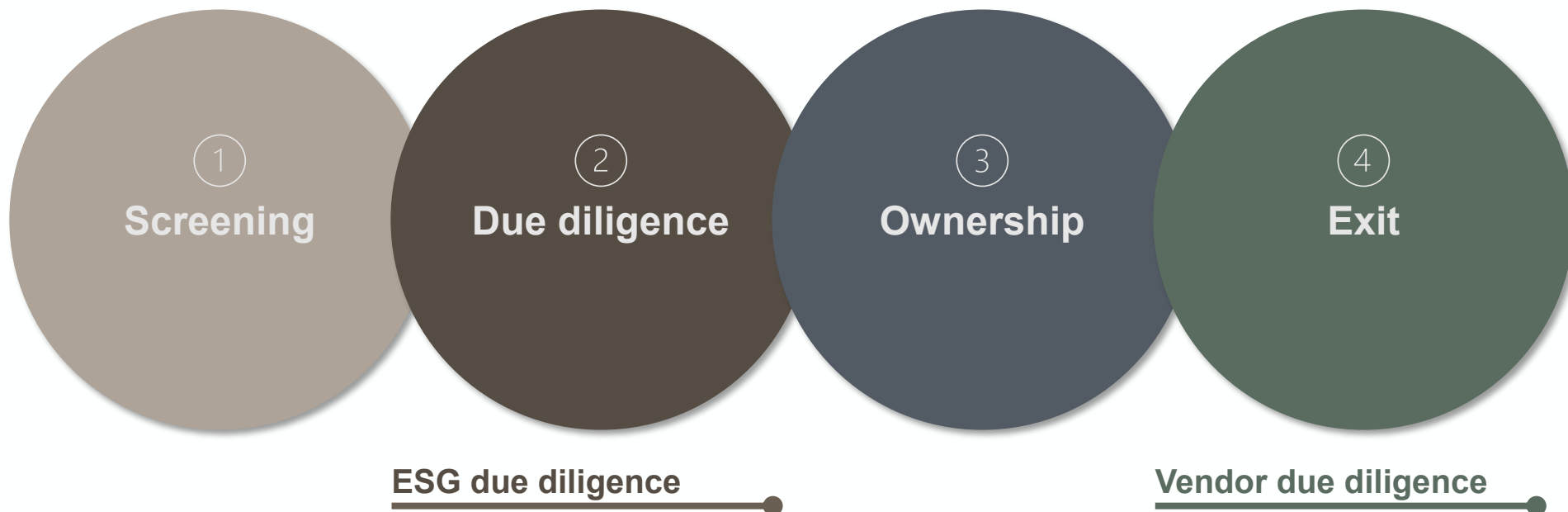
Sustainability integration across the investment cycle

Sustainability can be integrated across the investment cycle, guided by a Responsible Investment policy that sets out the strategy

Responsible Investment policy & stewardship

Exclusion policy

Annual reporting



Screening

Positive and negative filters, thematic ESG risks, and local taxonomy alignment increasingly guide early investment decisions

The screening stage is the foundational step in integrating ESG into private market investments and forms a core part of an institutional investor's governance framework. Anchored by an exclusion policy, screening defines activities, sectors, and practices that are ineligible for investment, ensuring alignment with responsible investment commitments and fiduciary duties.

Historically, exclusion policies have focused on negative screening criteria as a means of managing downside risk, particularly in private markets where capital is long-term and illiquid. While negative screening remains an

essential risk management tool, there is increasing encouragement to complement exclusions with positive screening criteria that help identify investments with strong sustainability performance and resilience.

Screening today extends beyond climate-related risks to include nature and biodiversity, social impacts, and modern slavery considerations. Applied early and consistently, a data-driven screening process supports informed Go/No-Go decisions and provides a clear foundation for subsequent due diligence, stewardship, and long-term value creation.



The maturation of the impact funds in the market showing multiple fund cycles of performance expands the investable universe for us.

Kelly Tyne
Strategic Advisor – Private Markets at Pathfinder Asset Management

Checklist for institutional investors

- 🎯 **Update screening criteria for GPs and fund allocations**, ensuring alignment with responsible investment policies and local taxonomies (Australian Sustainable Finance Taxonomy, New Zealand guidance), and defining excluded and positively screened sectors.
- 🎯 **Incorporate both negative and positive screening at the GP/fund level**, evaluating ESG integration, checking for exclusion breaches, and assessing coverage of climate, nature, biodiversity, modern slavery, and social impact.
- 🎯 **Assess sector-, geography-, and thematic ESG exposures early**, flagging high-risk or high-emission funds, identifying gaps in ESG integration, and prioritising low-carbon and nature-positive investment opportunities.
- 🎯 **Use data-driven ESG assessments to guide Go/No-Go decisions**, documenting high-risk flags, positive screening opportunities, and priority ESG topics for investment committees and portfolio teams, aligned with ASRS and local reporting expectations.



Due diligence

Due diligence is evolving as institutional investors increasingly scrutinise GP ESG capabilities

The due diligence stage builds on screening, giving institutional investors a deeper, more granular understanding of both general partner capabilities and asset-level ESG risks and opportunities.

Investors now evaluate GP governance, ESG accountability, resourcing, and expertise across climate, nature, and broader ESG integration - spanning sourcing, monitoring, and reporting practices. At the asset level, due diligence goes beyond climate to assess the specific material ESG risks and opportunities inherent to each investment.

Critical considerations include data quality, reporting readiness, and regulatory compliance, which together inform ESG due diligence ratings and guide the integration of ESG clauses, KPIs, and reporting commitments into limited partnership agreements or side letters. This stage ensures that ESG considerations are not just assessed, but embedded into investment decisions and ongoing management, strengthening long-term value creation.







Bespoke technical assistance is often critical, and in many cases just as important as the investment itself. GPs are often extremely resource constrained, especially as first-time fund managers and in certain geographies and often do not have a full time ESG manager. There is always some push and pull between LPs and GPs on the budget for this, but the underlying reality remains.



Julia Gluchowska
Responsible Investment & Sustainable Finance Professional

Source: Investor Europe, Principles for Responsible Investment, Responsible Investment Association Australasia

Checklist for institutional investors

-  **Assess GP governance and ESG capability annually**, reviewing accountability, resourcing, expertise in climate and nature, integration of ESG into sourcing and monitoring, and the tools or frameworks used for risk management.
-  **Evaluate asset-level ESG materiality**, extending beyond climate to assess material risks and opportunities specific to each investment.
-  **Rate ESG maturity and define expectations**, using a structured scale (e.g., 5-point) for ESG DD, recommending ESG terms in LPAs or side letters (e.g., no-deforestation clauses, nature risk assessment commitments), and setting initial KPIs and reporting requirements.
-  **Document findings and prioritise actions**, flagging high-risk areas, opportunities for positive impact, and focus topics for engagement and stewardship, ensuring alignment with local taxonomies, ASRS/CRD, and reporting expectations.



Ownership

Ownership increasingly focuses on benchmarking GPs, tracking ESG KPIs, and driving value creation

During the ownership stage, institutional investors actively oversee and engage with general partners to ensure ESG integration informs asset-level decision-making. Ongoing monitoring tracks ESG KPIs, flags incidents or material changes, and assesses how ESG is embedded in day-to-day value creation.

The annual reporting cycle plays a complementary role, providing a structured review of sustainability performance. It consolidates data, addresses gaps, evaluates GP ESG frameworks, and tracks progress on thematic risks such as climate, nature

and biodiversity, social impacts, and modern slavery across assets and the portfolio.

By separating continuous monitoring from annual assessment, investors can benchmark GP performance, refresh ESG risk and opportunity maps, and guide targeted engagement – strengthening sustainability practices and bridging the gap between ESG outcomes and long-term value creation.



We focus on material ESG areas specific to the investment opportunity. Some ESG areas that are often - but not always - material include energy & climate, governance, health & safety and social license. We work with portfolio companies to support their ESG & sustainability programmes and provide oversight.

Mid-market Infrastructure Manager

Checklist for institutional investors

- 🎯 **Track GP ESG performance, KPI delivery, and stewardship quality**, monitoring climate, nature, biodiversity, health & safety, diversity, and modern slavery indicators, and identifying material changes or incidents.
- 🎯 **Engage with GPs to support ESG integration in value creation**, reviewing portfolio-level ESG risks and opportunities, and ensuring data gaps are addressed and progress against baselines is documented.
- 🎯 **Document and benchmark both GP and portfolio ESG performance**, including quarterly/annual monitoring summaries, engagement actions logged, and annual maturity-scale benchmarking of private assets and GP stewardship.
- 🎯 **Use insights to update ESG risk maps and guide ongoing stewardship**, supporting ESG value creation initiatives, informing follow-up engagement, and ensuring alignment with ASRS, local taxonomies, and reporting expectations.



Exit

Evaluating ESG improvements, residual risks, and lessons for value creation characterises the exit stage

At the exit stage, institutional investors assess whether ESG performance has improved across the fund or general partner portfolio and whether any residual risks remain. This evaluation considers how ESG improvements influence exit valuation, including factors such as climate transition readiness, nature-positive outcomes, governance maturity, reputation, and stakeholder perception.

Investors also take into account buyer expectations and extract lessons for future investment cycles, helping to quantify the contribution of ESG to long-term value creation.

Documenting ESG outcomes at exit not only informs future screening, due diligence, and stewardship strategies, but also strengthens market credibility and supports compelling sustainable investment narratives.



In private markets, where resource constraints often limit long-term risk management, investors play a critical role in ensuring adequate capacity and governance structures are in place to consider broader ESG risks - directly influencing both downside protection and exit value realisation.

Jackson Rowland
Director at Aotearoa New Zealand Stewardship Code

Source: Investor Europe, Principles for Responsible Investment, Responsible Investment Association Australasia

Checklist for institutional investors

- 🎯 **Evaluate ESG performance, residual risks, and benchmark outcomes**, including climate, nature, social impact, governance, and any unresolved ESG issues relative to peers and prior periods.
- 🎯 **Assess ESG contribution to exit value**, considering governance maturity, stakeholder perception, buyer expectations, and impact on exit valuation.
- 🎯 **Document ESG value creation and lessons learned**, including exit due diligence findings, benchmarking insights, impact on portfolio ESG outcomes, and guidance for improving screening and due diligence in future cycles.
- 🎯 **Communicate outcomes to stakeholders and internal teams**, summarising ESG improvements, material risks, and opportunities for enhanced value creation in future investments.

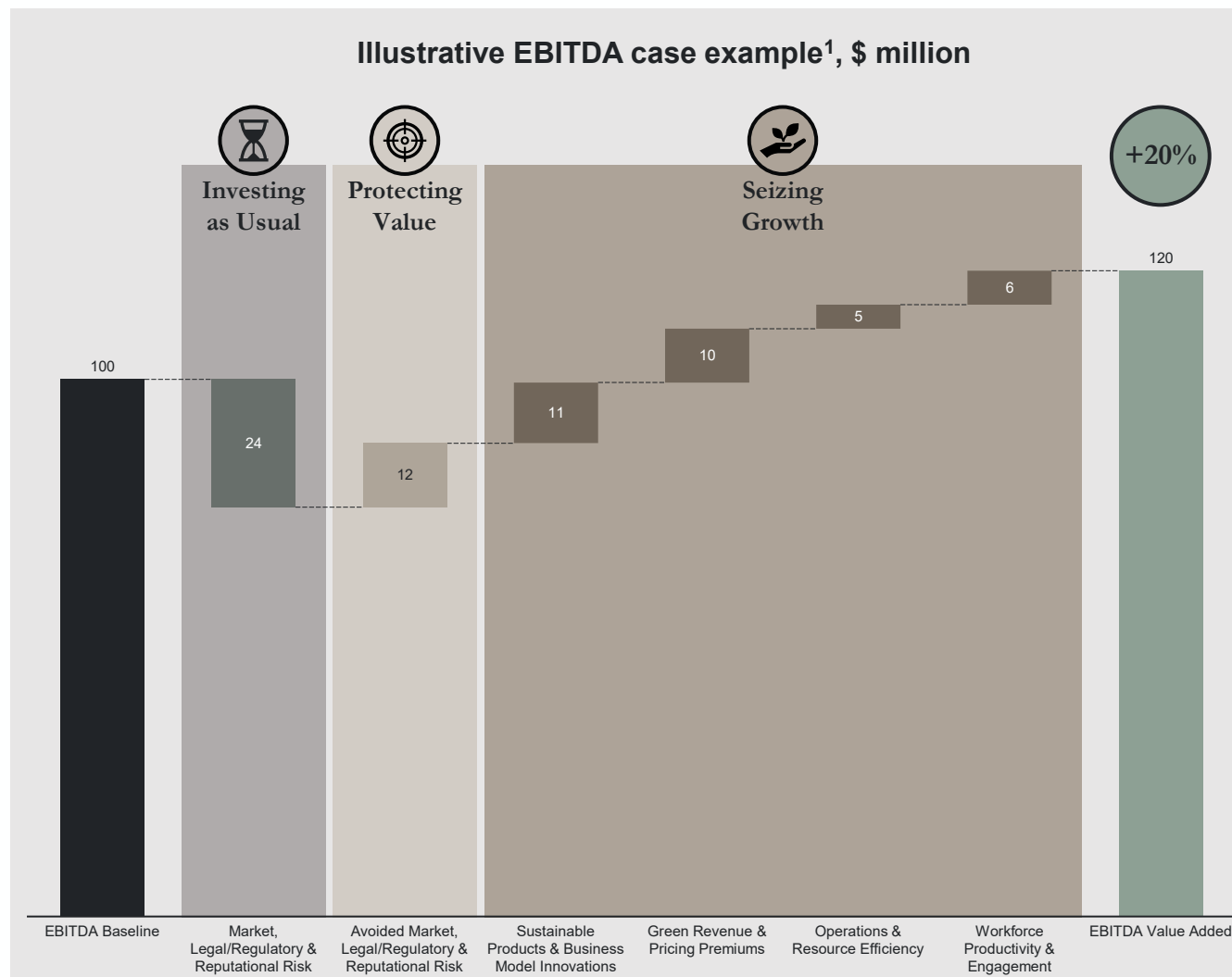
Sustainability as a competitive advantage

Three strategic levers, with only the growth-focused approach unlocking competitive advantage

Investors typically approach ESG in private markets in three ways: Investment as Usual, treating ESG as peripheral; Protecting Value, mitigating risks to portfolio EBITDA from regulatory, market, or reputational exposures; and Seizing Growth, creating value through revenue upside, operational efficiencies, or competitive differentiation. These levers can be applied across private equity, infrastructure, real estate, and other private market investments, allowing consistent ESG integration regardless of sector.

Institutional investors combining Protecting Value and Seizing Growth tend to achieve the strongest EBITDA impact, managing risk while capturing opportunities. Effects are described net of private investments - such as capital expenditures or technology upgrades - needed to enable sustainable growth or risk mitigation.

ESG impact may be phased or portfolio-wide, and choices like first-mover versus fast-follower can influence value capture. Thoughtful integration ensures ESG drives durable, risk-adjusted EBITDA, not just compliance or marketing.



¹Retrieved from "Sustainability: Sources of Value Creation" by McKinsey & Company
Source: McKinsey & Company

Case study: Insurance in private equity

Value creation at British Columbia Investment Management

A Stanford University case study highlights how The British Columbia Investment Management Corporation (BCI) uses ESG integration to create commercial value and enable earlier-stage opportunities in potentially large, scalable markets through investment in insurance.

Investing as usual

Within its investment in a global specialty insurance and reinsurance broker, BCI incorporates climate-related physical risk into core underwriting and catastrophe models, reassessing policyholder risk profiles, premium adequacy and capital requirements. It also anticipates increasing regulatory complexity, including European Union CSRD disclosure obligations, ensuring risk pricing and advisory capabilities evolve alongside compliance expectations.

Protecting value

Recognising that reputational and liability risks linked to greenwashing, supply chain traceability and climate litigation are not always fully captured in traditional insurance products, BCI is supporting the exploration of specialised solutions addressing these emerging exposures. This reflects a proactive approach

to safeguarding franchise value amid heightened scrutiny and regulatory oversight.

Seizing growth

BCI positions the investment to capture opportunities arising from renewable energy expansion and voluntary carbon markets. As underwriting confidence in clean energy assets strengthens and demand grows for credible risk transfer solutions - including those addressing carbon credit quality - the portfolio company is exploring capabilities aligned with transition-driven market demand. The financial benefits below further highlight how execution of ESG with financial discipline and operational relevance unlock value creation.



\$13 USm

total ESG contribution to value driven by revenue from growth in alternative energy, carbon credit insurance & sustainability product

16x

applied valuation multiple

\$63 USm

estimated enterprise value uplift attributable to strategic ESG integration

All figures retrieved from British Columbia Investment Management Corporation & Stanford University (2026)

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