ESG’s return impact downgraded

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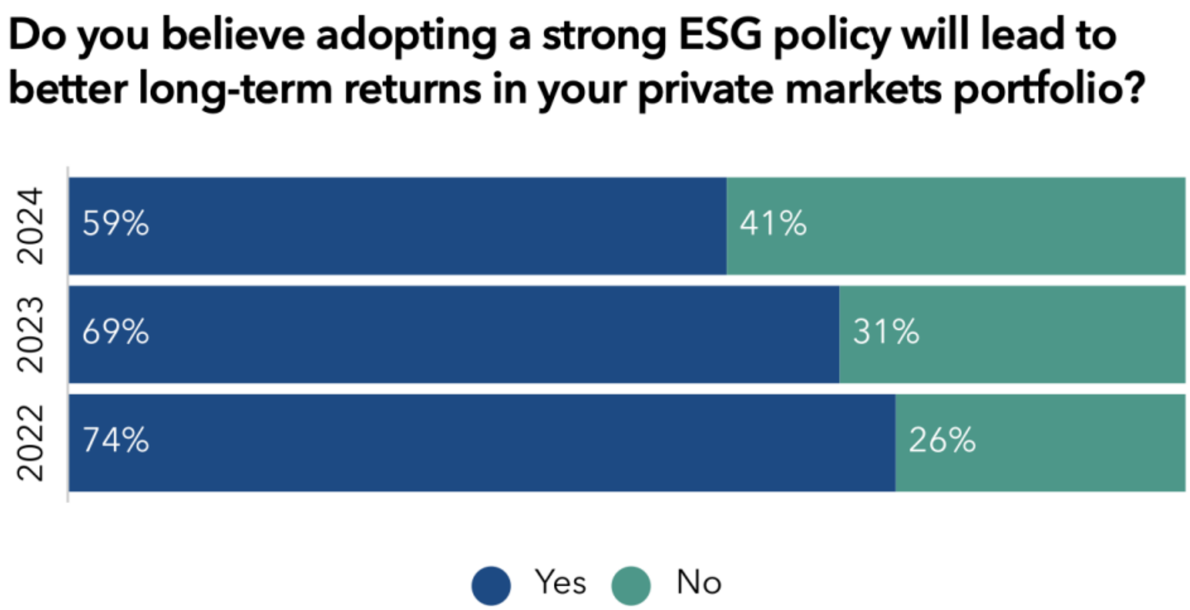

Investors overall appear to have less faith in ESG’s transformative characteristics in the long term, especially those based in the US.

After a period of heightened focus on environmental, social and governance issues, LPs have begun to recalibrate their ESG strategies amid escalating political pushback against such initiatives, particularly in the US.

Only 59 percent of LPs believe a strong ESG policy will lead to better long-term returns in their private markets portfolios, according to Private Debt Investor’s *LP Perspectives 2024 Study* (see chart). This marks a decline from 69 percent in last year’s study and 74 percent two years ago.

Notably, LPs in North America exhibit the lowest level of confidence in the potential of ESG, with just 41 percent saying a strong ESG policy can improve long-term financial returns, in contrast with 60 percent of respondents in the Asia-Pacific region and a robust 79 percent in Western Europe.

In the US, the subdued optimism surrounding ESG comes at a time when the anti-ESG movement is gaining traction among the more conservative states. For example, Florida governor Ron DeSantis passed a resolution in 2022 that prohibited state funds from taking ESG factors into account in their investment process.

In Idaho, state entities engaged in investment activities are barred from prioritising ESG characteristics. Meanwhile, in Missouri, secretary of state John Ashcroft issued a rule in June that requires broker-dealers to obtain investor consent before allocating funds to investments with non-financial objectives.

Yet in the more liberal states, some LPs have been showing a growing appetite for ESG investments. In its November board meeting, the California Public Employees' Retirement System shared plans to double its climate-focused allocations to $100 billion by 2030. The pension also plans to triple the size of its ESG investment team to 15, affiliate title *Responsible Investor* reported in November.

"In the US, [ESG] is a polarised issue, but you are starting to see that breakthrough for the first time," said an investor from a fund of funds during an LP panel discussion at the Impact Investor Summit: North America 2023 held by affiliate title *New Private Markets* in October.