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From Legitimacy to Leadership: A Comparative Analysis of Environmental, Social, and Governance Reports from the World's Largest Private Equity Firms

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L'industrie des capitaux privés, qui dépasse les 14 milliards de dollars d'actifs sous gestion dans le monde, est bien placée pour contribuer aux objectifs de développement durable (ODD) des Nations unies. Les auteurs analysent les rapports environnementaux, sociaux et de gouvernance de 33 entreprises de capitaux privés en 2020, y compris Brookfield Asset Management, la plus grande entreprise de capitaux privés au Canada. Ils examinent les ODD les plus populaires (particulièrement l'ODD-13, l'action climatique), les tendances géographiques et industrielles, les modes d'intégration des ODD et la comparaison entre Brookfield et l'ensemble du groupe. Les résultats ont révélé que les entreprises de capitaux privés ont neuf façons d'intégrer les ODD à leurs processus d'investissement. Brookfield déclare un fort engagement envers l'ODD-13 et souligne régulièrement les facteurs climatiques à une plus grande fréquence que les autres entreprises. Bien que les rapports de certaines entreprises incluent les placements de portefeuille respectueux des ODD, dans bien des cas, rien ne démontre qu'ils ont été retenus de manière intentionnelle avant les investissements.

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Mots clés : capital-investissement, objectifs de développement durable (ODD), théorie de la légitimité

The private equity industry, totaling more than US$14 trillion in assets under management worldwide, is well positioned to make contributions to the United Nations' Sustainable Development Goals (SDGs). We analyzed environmental, social, and governance reports from 33 top private equity firms in 2020, including the largest private equity firm in Canada, Brookfield Asset Management. We looked at which SDGs were most popular (with a focus on SDG 13, Climate Action), geographic and industry trends, modes of SDG integration, and how Brookfield compared with the overall group. The results show that private equity firms may integrate SDGs into their investment processes in nine ways. Brookfield reports a strong commitment to SDG 13 and consistently mentions climate factors at a greater rate than the other firms. Although the reports of some firms include portfolio investments consistent with the SDGs, there is often little evidence that these were chosen with pre-investment intentionality.

Keywords: private equity, sustainable development goals (SDGs), legitimacy theory

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Introduction

The United Nations (UN) Sustainable Development Goals (SDGs) are the most widely adopted development goals the world has ever seen. They have been adopted by 193 countries, of which 177 have completed at least one Voluntary National Review (UN 2021). However, the financing required to achieve the SDGs is substantial. In 2014, the office of UN Secretary General Ban Ki Moon estimated that US$2.5 trillion, in excess of domestically mobilized funding, is needed to achieve the SDGs and their 169 targets. This figure was subsequently revised to US$6 trillion annually for the next ten years (Horton 2019). This indicates that the public sector likely does not possess the level of capital required to achieve the SDGs.

A few factors are conducive to the private sector, especially private equity (PE) investors, in aligning with the SDGs when it comes to responsible investment strategies. First, the SDGs "provide a normalizing narrative" through the UN and other development agencies for public and private collaboration on sustainable finance (Mawdsley 2018, 193). In addition, financing for the development agenda has also created opportunities in frontier and emerging markets for PE investors to collaborate with concessional donors for risk reduction and financial leveraging opportunities (also known as blended finance). These factors are coupled with three market drivers: the blossoming climate change movement; increased ties of environmental, social, and governance (ESG) screening with the bottom line; and new business models and innovation around green products (Bernick 2019).

The nature of the relationship between increasingly socially aware institutional investors and their counterparts in PE funds is different from that between investors and publicly listed companies. In the public securities market, where investors buy stocks or bonds in publicly listed corporations, they often become minority shareholders with little influence in the company's management (Cruz 2020). In the PE world, however, significant shareholdings, board seats, deep relationships with companies, and active management of investee companies by general partners (GPs) is commonplace. This leads us to believe that although PE might be more nascent, less regulated, and less standardized when it comes to ESG and responsible investment, the potential impact on companies, especially small and medium enterprises, may be significantly higher than in the public markets.

This article looks at the following research question: What did top PE firms report regarding the integration of SDGs and how did Brookfield Asset Management fit among them? The data set consisted of 33 publicly available ESG reports from the PEI (2020) Top 300 PE firms list, which includes the largest PE firm in Canada, Brookfield Asset Management, which now has more than US$1 trillion in assets under management (AUM). We looked at the most frequently cited SDGs (with a focus on SDG 13, Climate Action), regional dynamics, the types or modes of integration, and findings with respect to industry and sector. In addition, we attempted to determine whether PE firms' disclosures are exhibiting legitimacy behaviour when it comes to SDG integration. One method of assessing legitimacy effects was to examine whether lack of intentionality in actions was observed. Malle et al. (2001, 3) defines intentionality as being something "purposeful, meant, or done intentionally." They distinguish between intentionality and intention, where intentionality is a quality of actions and intention is an agent's mental state representing such actions (Malle et al. 2001). By analyzing the disclosures, we attempted to decipher whether SDG integration is being done with purpose and meaning or whether it is an afterthought, that is, reverse engineered and documented for legitimacy purposes. We also looked at the presence or absence of process disclosure as a part of meaning-making. The assumption is

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that when an action is done with intention and meaning, firms will be able to provide detailed descriptions of the associated processes. An absence of these descriptions or steps would indicate legitimacy effects.

Literature Review

Our literature review showed that research on the integration of the SDGs in the PE sphere is sparse. The few articles that pertain to this topic are either looking at regional considerations of PE's role in contributing to SDGs, for example, in the African continent (Fox et al. 2023), or studying private investors, such as high net-worth individuals (Paetzold et al. 2022) and their linkages to SDGs. In addition, studies related to PE in the context of legitimacy have focused on investor and entrepreneur relationships (de Lange and Valliere 2020) instead of behaviours exhibited by PE and do not pertain to an analysis of their disclosures. Other literature addressing PE and legitimacy has no bearing on legitimacy theory in the context of environmental and social issues and deals instead with business and investment legitimacy to companies (Janney and Folta 2006). Thus, a significant knowledge gap exists pertaining to PE, the SDGs, and legitimacy theory.

Through this study, we hope to achieve three types of contribution to knowledge. First, we attempt a classification of the different modes with which PE firms report integration of the SDGs into their businesses. Second, we attempt to gather evidence that legitimacy behaviour is present in the way that SDGs are integrated and communicated. Finally, we seek a preliminary and explorative examination of how Brookfield Asset Management, the largest Canadian PE firm, compares with firms overall.

Theoretical Considerations

Legitimacy theory has been stated by some to be the most important theoretical construct when it comes to companies disclosing environmental information in their public reporting. The theory is based on the idea that for businesses to survive and thrive, they must operate according to certain rules and norms that society perceives as socially acceptable (O'Donovan 2002). With the more conventional notion of pure environmental disclosure now being replaced by a wider ESG approach, one can easily transpose environmental disclosure principles of legitimacy theory to ESG more broadly; this is because the fundamental principle of acting according to societal norms must, by nature, extend to social and governance issues as well (Guthrie 1989). This confirms that legitimacy is not just restricted to environmental issues from an ecological standpoint, because environmental factors also encompass economic, social, and political factors; the credibility of this claim is upheld by more recent work that amalgamates various frameworks integrating these three spheres under the concept of safe and just Earth system boundaries (Rockström et al. 2023).

The idea behind a social contract (Shocker and Sethi 1973, as cited in O'Donovan 2002) between business and members of society is that it is only through the willingness of society that a corporation can operate and exist (Reich 1998, as cited in O'Donovan 2002). Thus, a business must operate within certain environmental and social norms to legitimize its presence in the community and communicate its precautionary activities with inhabitants. Often this communication takes the form of written disclosures and reports.

The difference between legitimacy theory and other social theories could be that legitimacy theory is focused on the management of societal perceptions (Deegan 2000 and Patten 1992, as cited in O'Donovan 2002). In a similar vein, Gray et al. (1996, as cited in O'Donovan 2002) portray legitimacy theory as a variation of stakeholder theory. This seems plausible, given that stakeholder theory addresses how various stakeholders have an impact on management decisions, activities, and disclosure; therefore, legitimacy theory could simply be interpreted as that segment of stakeholder theory that focuses on society as a stakeholder and the measurement and disclosure of their environmental and social performance to manage that relationship.

The issue of conferral of control (O'Donovan 2002) is an important one when it comes to legitimacy. It describes how legitimacy is conferred by society to the corporation; however, the corporation has some level of influence over its perceived legitimacy through activities and disclosure. The strong tie-in to societal norms and values means that legitimacy practices are dynamic and not static.

The issue of expectations based on past performance and reputation is also an important one (O'Donovan 2002). It purports that firms that have conventionally built up a reputation for good environmental and social performance will be held to higher standards by society than firms with lower corporate citizenship records. This also extends to industries that have greater affiliations with responsibility; for example, a firm that manufactures solar panels would be held to higher environmental standards than one that is not involved with green products.

Thus, one can see the importance of applying a legitimacy lens to the PE asset class because it has been an understudied topic. ESG disclosures in the PE industry have conventionally been sparse, but with increasing demand from institutional investors, legitimacy behaviour seems to be observed to address the expectations of limited partners (LPs). This can also be seen in the introduction of GP-focused ESG initiatives by LPs such as the ESG Data Convergence Initiative, which has

increased the proportion of PE firms publishing voluntary disclosures (McKiernan 2024).

Research Methodology

Text and Thematic Analysis

When speaking about text analysis, Bernard and Ryan (1998) point to the sociological tradition of text analysis that treats text as a window into human experience. Text is meant to represent or map thought and action onto the written medium, and it is safe to assume that what is written or disclosed will be a fair representation of what is important and meaningful to the author. Bernard and Ryan (1998) go on to talk about the humanist and positivist traditions of text analysis. The humanist tradition involves the search for meaning, and the positivist tradition uses reductionist techniques to look for themes, patterns, and frequency of occurrence. In this article, we alternate between humanist and positivist approaches, beginning with humanistic, then reverting to positivist, and then coming back to humanist to derive more meaning. For example, after determining the nine different modes of SDG integration using humanistic methods, we counted the frequency of those modes using positivist methods to determine which mode is the most popular and then reverted to humanist methods to draw meaning about what high frequency tells us. It is important to note that the study is not a statistical analysis but rather a qualitative, explorative approach, providing a preliminary analysis into the relationship among PE, the SDGs, and legitimacy theory.

Kronberger and Wagner (2000) talk about the value of spontaneity of responses when subjects are posed with interview questions in primary forms of research such as interviews. We can assume this effect is reversed when it comes to formal reports and disclosures of business entities. The text in these disclosures is the opposite of spontaneous, going through a series of drafts, reviews, risk management assessments, and approvals before publication for the public. Thus, we can assume that the reports under question are deliberate and planned, and a text analysis should reveal meaningful insights based on inclusions, exclusions, and frequency of concepts.

One of the ways to explain the structural flow of the text analysis method used is to look at it from a range of contingency, thematic, and semantic analyses (Roberts 2000). Contingency analysis involves counting occurrences of content categories within sampled blocks of text, which can produce a data matrix with distinct content categories (or themes) heading the columns, unique text blocks heading the rows, and counts of occurrences (of theme within block) (Roberts 2000). Thematic analysis can be conducted on the basis of the occurrences of themes and theme relations, and semantic methods can be used to yield information on how themes are related according to an a priori specified semantic grammar (Roberts 2000).

To gain a representative sample of the total market of US$14 trillion in AUM by private capital markets, we focused on the top 300 firms in 2020 according to the PEI Top 300 Rankings report issued in 2020. Of 300 firms, 45 publicly issued ESG reports in 2020 and constitute roughly US$4.2 trillion of AUM, which is 30 percent of the current global AUM for PE and more than 80 percent of AUM in 2020. Based on the nature of the analysis, some exclusions were made. For example, in the SDG popularity analysis, some firms listed alignment with an unreasonable number of SDGs (10–17), so they were excluded.

As large financial institutions, the firms have well-established websites, and we perused these with supplementary Google searches to identify those firms issuing ESG documentation in 2020 (covering performance over the previous year, 2019).

To constitute an ESG report, the document had to be in the form of an official, stand-alone file that could be downloaded as a PDF document, not a web page or section on the website because these would not be classified as formal reports.

The methodology used was qualitative text analysis using NVIVO Version 14 software as well as manual searches of the PDFs for a deeper dive into the nature of the mentions. Thematic analysis and coding were also conducted to create different modes of SDG integration that PE firms mention in their ESG reports. A limitation of the article is that we do not address verification of SDG-related integration by seeking proof and evidence via primary research and investigation but instead focus on the description of SDG activities being made by firms in their reports through their voluntary disclosures.

Results

Popularity of Specific SDGs

The results show that SDG 8, Decent Work and Economic Growth, and SDG 13, Climate Action, were the most popular SDGs among the PE firms with 11 mentions each. The primary objective of PE firms is to instigate economic growth in their portfolio companies and subsequently their firms; thus, it seems that SDG 8 would be a natural fit for the PE industry. There was no evidence to suggest that PE firms are targeting economic growth for the general population or marginalized communities. Economic growth undertaken by PE firms has often been criticized as being favourable to the ruling economic classes (Souleles 2019). PE firms are known to create jobs for those in the highest education and economic classes both at the firm and portfolio company levels, so their

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Table 1: Environmental Initiatives Being Undertaken by Private Equity Firms Mentioning SDG 13, Climate Action

Name	HQ Country	Assets Under Management (2020) (US$bn)	Examples of Environmental Initiatives Related to Climate Action
1. KKR	United States	471	Portfolio company investment in a company that does carbon offsets in Australia
2. Permira	United Kingdom	60	Purchase of gold-standard carbon offsets
3. Brookfield	Canada	690	Establishment of a net-zero transition fund investing in three kinds of transitions: business transformation, clean energy, and sustainable solutions
4. Partners Group	Switzerland	127	Support of a forest conservation offsetting project in Canada
5. L Catterton	United States	N/A	Carbon offsetting program for portfolio companies parcel shipping in partnership with offsetting partner
6. Nordic Capital	Sweden	7.6	States carbon intensity in terms of tCO2e/sales MEUR but doesn't mention anything about actions or initiatives
7. Kayne Anderson	United States	N/A	Provides a brief paragraph about the SDGs and mentions 3 SDGs, one of which is SDG 13, but has no other information about how SDG 13 is being addressed through activities
8. Triton	United Kingdom	16.2	Provides detailed information on portfolio company actions to contribute to SDG 13, Scope 1, Scope 2, and carbon intensity calculations; information about climate risks and opportunities identified; and information about a carbon-offsetting program
9. Montagu	Germany	8.3	Mentions SDG 13 in the context of a portfolio company case study on natural medicine implementing various environmental initiatives
10. Rothschild	France	18.2	Has a 5-page section on responsibility for the environment that details the strategy, approach, targets, and progress over time related to SDG 13
11. Balfour & Beatty	United Kingdom	7.5[a]	Being an infrastructure group, there is 1 page on SDGs, focused on construction projects that take environmental sustainability into account, including certifications such as LEED and green refurbishments of projects

Note: HQ = headquarters; LEED = Leadership in Energy and Environmental Design; SDG = Sustainable Development Goal; tCO2e/sales MEUR = tonnes of carbon dioxide equivalent/sales in millions of euros.

[a]Consists of US$1.5 billion investment portfolio plus US$6 billion real estate portfolio.

Source: Authors' compilation, based on various reports from the data set.

contributions to sustainable development and SDG 8 could be questioned. With regard to the "decent work" aspect of SDG 8, the literature shows mixed reviews of PE's impact on this concept. For example, Cohn et al. (2021) talk about a large and persistent reduction in workplace injury rates after PE buyouts of public US firms, which is a positive aspect of decent work. Davis et al. (2014) argue that private equity firms are increasing the gap between productivity and earnings per worker. Either way, PE firms themselves purporting significant improvement in jobs and the workplace that would have them naturally affiliate with SDG 8.

The appearance of SDG 13, Climate Action, as one of the two most frequently mentioned SDGs could also stem from legitimacy behaviour for the appeasement of public stakeholders. Climate change and environmental action are popular topics for sustainability management, and omitting SDG 13 could become a legitimacy concern for these firms. We dove deeper into the reports of the 11 firms mentioning SDG 13 to determine what kind of environmental initiatives and processes were being disclosed to support their alignment with SDG 13. Table 1 shows the environmental initiatives being undertaken by PE firms mentioning SDG 13.

Table 1 shows that of the 11 firms that align with SDG 13 specifically, two of them (Firms 6 and 7) have no substantial explanation for how they are addressing SDG 13, and one (Firm 9) simply uses the environmental actions of an individual portfolio company for alignment, which is also not a substantive way to address alignment with the entire portfolio. This leaves eight firms that have provided meaningful activities and initiatives with respect to SDG 13. Four of these firms (50 percent) address climate action with respect to carbon offsetting initiatives, either making financial contributions to offsetting programs or investing in companies that are in the offset business. The scientific efficacy of voluntary carbon offsets has been debated; Anderson (2012) argues that carbon offsetting could be a mechanism without scientific legitimacy and misleading. In a similar vein, Thales et al. (2023) argue that forestation projects, established for carbon offsetting purposes, have not significantly reduced deforestation.

Table 2: Comparison of Canada's Largest Private Equity Firm, Brookfield Asset Management, with Overall Average Mentions of Climate-Related Terms

Climate Finance Terms	Overall Average Mention	Brookfield Asset Management	Comments
TCFD	3	9	Brookfield mentions TCFD 3 times more than the overall average across firms
Energy	37	41	Brookfield mentions energy just more than the overall average across firms
Consumption	41	64	Brookfield mentions consumption over 50% more than the overall average across firms
Production	49	64	Brookfield mentions production 30% more than the overall average across firms
Climate	48	64	Brookfield mentions climate 30% more than the overall average across firms
Water	14	25	Brookfield mentions water almost 2 times more than the overall average across firms
Waste	13	28	Brookfield mentions waste over 2 times more than the overall average across firms
GHG	9	15	Brookfield mentions GHG almost 2 times more than the overall average across firms

Note: Brookfield consistently mentions climate-related terms more than the sample average. GHG = greenhouse gas; TCFD = Taskforce for Climate Financial Disclosures.
Source: Authors' compilation, based on various reports from the data set.

Anderson (2012) further argues that to establish that carbon offsets had achieved their intended objective of net-zero or net-positive effects, the impact would need to be measured over time and not at a single point. He goes on to say that carbon offsets are detrimental to overall climate action objectives because they forestall real action or innovation around climate change mitigation (Anderson 2012).

It appears that the Canadian firm in the list (Firm 3) has one of the strongest forms of climate action integration, with the establishment of a net-zero transition fund investing in three kinds of transitions: business transformation, clean energy, and sustainable solutions. The establishment of a specific fund with the objective of a net-zero transition is a much more committed form of climate action compared with mentioning climate case studies of portfolio companies or investing in offsetting initiatives.

To provide some validation of whether the Canadian firm has a genuine commitment to climate action or whether the net zero transition fund is the firm's only major initiative, we used the Sustainability Accounting Standards Board (SASB)'s climate related terms and did a prevalence search, comparing the firms' prevalence averages overall with that of the Canadian firm. Table 2 shows that the Canadian firm consistently mentions climate-related firms at a significantly higher rate than the other firms overall, which seems to validate its genuine commitment to SDG 13.

Findings with Respect to Geography

We found that of 45 firms that issued ESG reports in our data set, 33 firms (73 percent) address the SDGs in their reports. Of these 33 firms, 15 are in North America (13 in the United States and two in Canada), 16 are in the United Kingdom or Europe (seven and nine, respectively), and two are in Asia (China and Taiwan). Five of the European firms (more than 50 percent of European firms) are in France, with the remainder being in Sweden, Switzerland, and Belgium.

Of the 45 ESG reports, 22 were from the United States (almost half). Of these reports, 13—almost 40 percent—mentioned SDGs, which closely correlates with the total representation in US reports. However, only 60 percent of US ESG reports and 50 percent of Chinese ESG reports addressed the SDGs, whereas 100 percent of the reports in all other countries (Canada, United Kingdom, Europe, and Taiwan) addressed the SDGs. Table 3 shows that in all other countries except the United States and China, the SDGs were an integral part of ESG disclosure across the industry.

Findings with Respect to Industry and Sector of Investments

When looking at the industries and sectors in which the PE firms invest, we observed consistency across the board in seven sectors: business products and services (B2B); information technology; consumer products and services (B2C); health care; energy; financial services; and materials and resources. Because of the consistency across sectors for all the firms, there was little room for comparative analysis; however, we mapped correlations between six SDGs and seven sectors that seem to have high relevance to each other. Table 4 shows SDG 9, Industry, Innovation, and Infrastructure, being the most relevant SDG based on the industry and sectors of investment.

Findings with Respect to Types of SDG Integration

A thematic coding of the results shows that there are nine modes of SDG integration that are being used across the 33 PE firms being studied: (a) SDG-aligned

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Table 3: Percentage of Firms Mentioning the SDGs in Their ESG Reports

Country	Had ESG Reports in 2020	% of Total ESG Reports	Had Reports Mentioning SDG	% of Total SDG Reports	% of ESG Reports addressing SDGs
United States	22	48	13	38	60
Canada	2	4	2	6	100
United Kingdom	7	15	7	21	100
Europe	9	20	9	27	100
Taiwan	1	2	1	3	100
China	2	4	1	3	50

Note: Of firms in Canada, the United Kingdom, Europe, and Taiwan, 100% mention the SDGs in their ESG reports, whereas only 60% of firms in the United States mention SDGs. ESG = environmental, social, and governance; SDG = Sustainable Development Goal.
Source: Authors' compilation, based on various reports from the data set.

portfolio investments; (b) SDG-aligned investment themes; (c) SDG-aligned funds; (d) SDG-aligned frameworks; (e) SDG-aligned reporting and documents; (f) SDG-aligned partnerships and programs; (g) SDG-aligned measurement and targets; (h) SDG-aligned investment, ESG, and emissions strategy; and (i) SDG-aligned business/supply chain practices.

SDG-aligned portfolio investments are the most common form of integration, with almost half (16 of 33) of the firms claiming to integrate SDGs through this approach. However, the approach carried out to map SDGs to portfolio investment is actually ex post rather than ex ante. This means that SDGs are mapped to the portfolio companies after the fact; thus, there is a missing element of intentionality before investments, which would either screen or select certain investments for their potential for SDG contributions. This points to legitimacy effects, in that PE firms may be reverse engineering their SDG contributions by looking at existing investments and then mapping SDG linkages on the basis of the themes of the investment. For example, a company makes an investment in a carbon offsetting company not on the basis of an investment strategy to prioritize contributions to the SDGs but rather on the basis of conventional investment criteria and then map the climate-related SDGs back to the company after it has become a part of the portfolio.

The other type or mode of SDG integration of significance, with 10 of 33 (almost one-third) firms reporting, it is SDG alignment with strategy. Whether this is an investment, emissions, or ESG strategy, these firms have indicated that their SDG alignment happens by integrating SDG considerations into their strategies. For example, one firm spoke about a review of its ESG strategy and how SDGs had been taken into account in this review, along with other factors. Another firm incorporated SDG 13 into its environmental policy and emissions strategy. Therefore, the two primary mechanisms or modes of SDG integration that PE firms use are mapping their portfolio company thematic or sector contributions to the SDGs and integrating the SDGs into strategies.

When looking at the Canadian firm and type or mode of SDG integration, we find that it has one of the highest or strongest forms of SDG integration through the launch of a fund aligned with SDG 13, Climate Action. This is considered a committed form of SDG alignment because the establishment of a fund not only requires time and effort but also capital, and the goals of the fund have been described in detail.

Findings with Respect to the SDG Integration Process

Moloi and Marwala (2020) talk about the legitimacy gap, or the difference between societal expectations of the organization and the organization's actual behaviour. In a similar vein, a lack of process disclosure, the "how"

Table 4: Mapping of SDGs with PE Firm Sectors

SDG	PE Firm Sector	PE Firm Sector	PE Firm Sector
Good Health and Well-Being (SDG 3)	Health care		
Affordable and Clean Energy (SDG 7)	Energy		
Decent Work and Economic Growth (SDG 8)	Financial services	B2B	
Industry, Innovation, and Infrastructure (SDG 9)	Financial services	B2B	Information technology
Sustainable Cities and Communities (SDG 11)	B2C	Materials and resources	
Responsible Consumption and Production (SDG 12)	B2C	Materials and resources	

Note: SDG 9, industry, innovation, and infrastructure, relates to the most numbers of sectors: financial services, B2B, and information technology. B2B = business products and services; B2C = Consumer Products and Services; PE = private equity; SDG = Sustainable Development Goal.
Source: Authors' compilation, based on various reports from the data set.

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of SDG integration, can also be perceived by society as a legitimacy gap. The argument is that if PE firms are truly intentionally integrating SDGs, they should be able to describe the process of integration in detail. Take the example of a professional athlete or marathon runner who is asked how they integrate diet or nutrition into their regimen. If the athlete is genuinely integrating a nutritional plan, they should be able to describe what kind of plan they follow, what time considerations are considered, the proportions, associated costs of the diet, and so forth. This is true of any technical process. Thus, we conducted a study of how many PE firms from the 33 firms under question described their SDG integration process in detail. We found that only two of the 33 firms (6 percent) described the process of SDG integration into their business practices, whereas the remaining 31, including the Canadian firm, mentioned the SDGs only with respect to one of the nine categories of integration listed earlier.

We outline the integration processes of the two firms that described the SDG integration process in detail, and this outline can serve as a model or best-practice of how PE firms should disclose SDG integration with meaning and intent. The first of these two firms, EQT Group (EQT), describes the process of SDG integration through three primary mechanisms:

1. The first mechanism is deal sourcing, which includes thematic sourcing and an investment approach guided by the SDGs. In this process, EQT evaluates where SDG alignment exists in the process of identifying portfolio companies (before rather than after investment). In this way, EQT assesses whether the portfolio company has the potential to make a positive or transformational societal impact.
2. The second mechanism is having an SDG integration strategy tied to principles of the Full Potential Plan (Nieuwenburg 2025). The Full Potential Plan is a globally known best practice, especially in the large management consulting realm, that deals with future-proofing companies and making a positive impact while ensuring a long-term view for stakeholders.
3. Finally, EQT has taken the SDGs into account when formulating its sustainability ambitions, also known as their societal ambitions. These were formulated in 2019 on the basis of stakeholder engagements, internal discussions, and an analysis of the SDGs. As a part of this, EQT has also carried out a detailed materiality analysis with respect to its sustainability ambitions, including SDG links for each ambition.

The second PE firm that serves as a good model for SDG reporting is Partners Group (PG). PG ties its SDG integration process to its private market investment strategy, PG LIFE. PG LIFE has the dual mission of achieving attractive financial returns and driving positive environmental and social impact, as framed by the SDGs. This is achieved by integrating impact considerations throughout the investment life cycle. Companies and assets are selected for investment according to their potential to directly contribute to one or more SDG targets through their core business activities, on top of their ability to meet PG's requirements for financial risk and return.

PG also provides examples of specific portfolio companies that were approved for investment on the basis of their alignment with SDG targets and examples of portfolio companies for which risks with respect to the SDGs were identified and mitigated. This provides some proof that impact considerations during the investment cycle and beyond are being implemented.

Conclusions

Although the PE industry, totaling more than US$14 trillion in assets, was largely ignored at the time of the Millenium Development Goals from 2000–2015, the subsequent rise of the United Nations Principles for Responsible Investment brought the PE industry into the limelight for its potential contributions to sustainable development.

The PE industry has unique relationships with tens of thousands of small, medium, and large enterprises, where they often possess substantial shareholdings and board seats. This level of influence creates a unique structure in which sustainability management and environmental, social, and governance practices can be passed along from investors to founders, owners, and executives.

In this study, we analyzed publicly available sustainability reports of 33 firms from PEI's Top 300 Firms list in 2020, which includes the largest PE firm in Canada, Brookfield Asset Management (now controlling more than US$1 trillion in AUM). The study shows the nature of the relationship between PE firms and the SDGs. Most firms show their linkages with SDGs by reverse engineering the sectors and industries of their portfolio companies to SDGs that are related to those themes. In addition, most firms claim a relationship with SDG 8, Decent Work and Economic Growth, and SDG 13, Climate Action. The likely reason for this is that investors are, by nature, oriented to economic growth, and an affiliation with SDG 8 creates legitimizing effects. However, studies show us that economic advancement in PE is likely not benefiting the larger society and is restricted to a group of people, namely portfolio companies and PE firm owners. On SDG 13, most PE firms that provide evidence for their alignment with SDG 13 and connect this with carbon offsetting initiatives, which is a contentious climate action

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activity. However, the Canadian firm, Brookfield Asset Management, reports a strong and committed approach to SDG 13 through the establishment a net zero transition fund with a robust strategy in three kinds of transitions: business transformation, clean energy, and sustainable solutions

We identified nine modes of SDG integration: SDG-aligned portfolio investments, SDG-aligned investment themes, SDG-aligned funds, SDG-aligned frameworks, SDG-aligned reporting and documentation, SDG-aligned partnerships and programs, SDG-aligned measurement and targets, SDG-aligned strategies, and SDG-aligned business and supply chain practices. Except for a few firms, intentionality does not seem to be the driver of SDG integration within investment or business processes. This is substantiated by the fact that more than 90 percent of firms lack descriptions of and processes for how they integrate the SDGs. Only two of 33 firms have disclosed these processes in their reports, whereas the remainder simply mention the SDGs without descriptions of the process. We examined the commitment of the Canadian firm to climate action and did this using an analysis of climate-related terms from the SASB. We found that, across all categories, the Canadian firm had a higher prevalence rate of climate-related terms such as *waste, water,* and *energy* than the average of all other firms.

The results indicate legitimacy behaviour when it comes to PE firms citing the SDGs in 2020. With the SDGs being a globally respected framework for sustainable development and having been adopted by close to 200 countries, it may be that PE firms find that mentioning the SDGs with respect to the sectors and industries of their portfolio companies will provide legitimacy among their investors and in the international business arena. Mention of the SDGs may also provide legitimacy that PE firms have a global view of responsible investment, especially as economic growth and climate action are two key areas in which PE firms want to show SDG linkages.

To move from legitimacy to leadership, PE firms should focus on bringing benefits to low-income and marginalized communities as part of their economic growth and development programs. They could focus on under-represented entrepreneurs or founders in terms of race, religion, education, economic status, or special needs, which would create stronger sustainable development contributions to SDG 8. In the area of SDG 13, Climate Action, PE firms could move away from funding carbon offsetting initiatives, which have been argued to be a weak form of environmental action, to direct management and reduction of carbon emissions in the supply chain.

There is much potential to move from legitimacy to leadership. With institutional investors increasing their portfolio exposure to the PE asset class, the industry is well positioned for sustainability leadership on a global scale.

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