Transforming Performance

EXECUTIVE SUMMARY

Evidence on how private capital drives transformation

A study of 129 investment firms.

With more than €2 trillion in assets under management.



ResFutura

Capital and returns

Performance effects and dynamics
Perception and allocation

Technology, demography, and geopolitics are changing the economic framework fundamentally and permanently. Demand for resources keeps growing, but the planet does not grow with it – scarcity is intensifying, and with it competition and vulnerability. Companies must secure their resilience, economies their sovereignty. Both require transformation. Private capital is a direct catalyst for change. *Transforming Performance* documents for the first time how private equity and venture capital firms position themselves on transformation.

1 Performance effects and dynamics

Performance looks promising, though evidence is still limited.

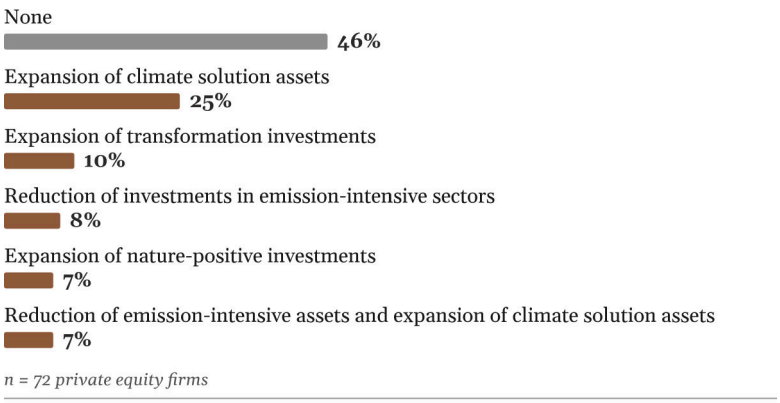
Hardly any firms report negative return effects from transformative investing, while more than four out of ten describe positive contributions to performance. The largest group has so far seen no clear evidence of consistent out- or underperformance, which is likely to be due above all to limited exit experience to date. Deeper organizational anchoring goes noticeably hand in hand with a more positive assessment of the performance contribution of transformative engagement.

Positive performance experience is also more often accompanied by the perception of transformation as an economic opportunity – the very assessment that is also associated with a greater willingness to adjust portfolios in future. As the findings are based on self-reported information, they do not permit any statistical statements about the return effects actually realized. Nevertheless, the performance experience reported is a relevant factor for further development.

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→ CHAPTER 6 · BETWEEN COMMITMENT AND IMPLEMENTATION

Figure

Transformation-related portfolio adjustments over the past five years



n = 72 private equity firms

2 Perception and allocation

Portfolios are changing more selectively than the rhetoric.

Over the past five years, around half of the private equity firms have changed their allocation in response to transformation. Four out of five firms now hold climate solution assets, though mostly with portfolio shares well below 50 per cent. Investments related to nature are still considerably rarer. Economic aspects are cited as the main reasons for portfolio shifts: industry trends and changed assessments of sector attractiveness, at 83 and 80 per cent, rank far ahead of regulation and investor pressure. A transformation orientation is a response to changed economic assessments, not a moral digression.

Looking ahead, too, only moderate momentum is to be expected: just under half of the firms plan transformation-related changes to their allocation over the next three years. Where changes are planned, the focus is on expanding climate solutions, followed by SDG-oriented and transition finance investments. The targeted reduction of fossil or emission-intensive assets, by contrast, plays a minor role.

What matters here is the economic assessment: around two thirds of the firms that regard climate transformation as a source of returns, or equally as a source of returns and risk, plan to adjust their allocation – compared with only 42 per cent of the other firms. The depth of organizational anchoring, by contrast, is related to existing exposures, but not robustly to the reported changes in allocation.

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Ambition and execution

Relevance and anchoring
Signal and substance
Size and segment

3 Relevance and anchoring

Three quarters call transformation strategically relevant, nine per cent anchor it without gaps.

The private capital market has adopted transformation into its narrative, but has implemented its mechanics only in part. Three out of four firms call transformation strategically relevant, and nine out of ten state that they take it into account in investment decisions. If the chain is followed consistently to the end – from strategy through the investment process, binding responsibilities, and concrete targets to linking financial incentives – only nine per cent of firms meet all the criteria examined for consistent organizational anchoring. This gap between the assessment of relevance and implementation is a core finding of the purpose-built dataset covering 129 private equity and venture capital firms with more than €2 trillion in assets under management.

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4 Signal and substance

Signals come cheap, binding commitment is demanding – and rare.

Seven out of ten firms are members of at least one relevant transformation or sustainability initiative, and three out of four responding firms have also created formal internal accountability for climate adaptation and decarbonization. Even so, implementation remains patchy. Among the signatories of the UN Principles for Responsible Investment, only 22 per cent have a net-zero target and 38 per cent concrete transformation plans. For nature, which is far less firmly anchored in organizational terms, formal accountability falls from 73 to 21 per cent. Overall, the external signal says little about how deep transformation runs inside a firm. Anyone who selects managers on the basis of memberships and pledges is therefore using an inadequate yardstick.

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5 Size and segment

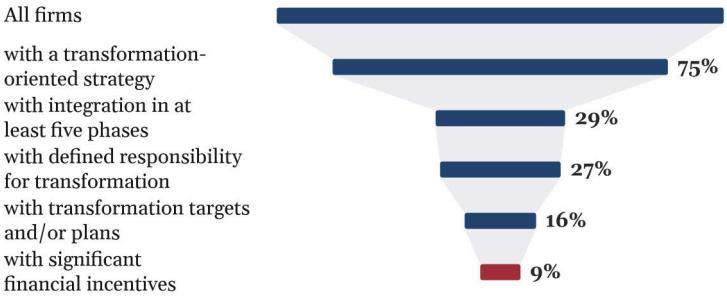
Size and market segment explain differences in transformation performance only in part.

What distinguishes deeply anchored firms from partially integrated ones is above all the interplay of formal accountability, consistent process integration, and financial incentives. Size and market segment explain less than one might expect. Formal accountability often serves as an organizational hinge that translates external requirements into internal management. Where investors set requirements, their thematic specificity is decisive: firms facing such requirements show markedly deeper anchoring. Of the firms that send the two most common external signals – a transformation-oriented investment thesis and PRI signatory status – only a quarter are also coupled internally through formal accountability and financial incentives. The rest display signals that do not guide their actions.

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Figure

Integration of transformation, cumulative view



n = 129

Maturity and consequences

Development and maturity
Investors and selection
The bigger picture

6 Development and maturity

Transformation competence develops in typical stages.

The study condenses the findings, using a climate-weighted scoring system, into four analytically derived maturity clusters ranging from Reactive to Transformative. A high score alone does not lead into the leading group. Access also requires meeting additional minimum conditions, among them linking accountability to financial incentives. A number of firms fail on this point. Venture capital and private equity also follow noticeably different transformation logics: venture capital and buyout firms hold climate solution assets about equally often, but venture capital weights them considerably more heavily while holding smaller shares of CO_2-intensive assets, whereas private equity is more engaged in actively restructuring existing business models. Overall, 14 per cent of the sample make it into the leading group, among them 13 private equity and 3 venture capital firms. In contrast, a group of roughly the same size, at 16 per cent, is still at the beginning in terms of transformation competence.

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→ CHAPTER 5 · THE MARKET AS A SUM OF MATURITY CLUSTERS

7 Investors and selection

A few specific questions are enough to identify transformation competence.

Investors can tell substance from signal in the course of due diligence by focusing on the decisive points: is accountability linked to relevant financial incentives, and does it lie with those who decide on entering into investments and on their development? For investment firms, a key step forward often lies not in additional instruments, but in linking them consistently – from strategy through responsibilities, progress measurement, and steering to the design of incentives. The checklists in the report translate this interlocking into concrete questions.

For regulators, the following applies: if only because private equity and venture capital firms focus (and have to focus) first and foremost on the economic perspective in their allocation decisions, more requirements do not necessarily lead to more transformation – and, if in doubt, may also lead to evasive manoeuvres. Private transformation capital is ready, but it needs a predictable framework and binding development pathways. Without these, investment firms face risks that elude their own professional management – and transformative engagement fails to materialize.

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→ CHAPTER 7 · IMPLICATIONS FOR PRACTICE

8 The bigger picture

Transformation happens where its relevance to returns is recognized.

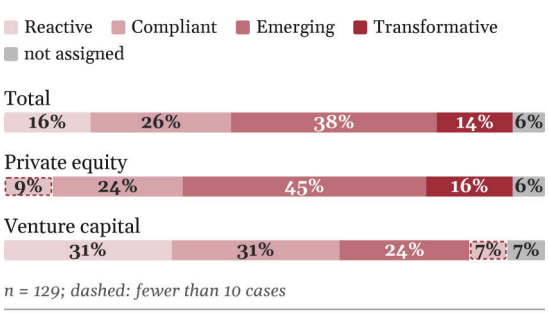
Transformation takes place where a firm recognizes economic opportunities. Precisely because existing structures often continue to generate returns, the need for change does not automatically lead to its implementation. The internal coupling of key elements is an essential measure of how consistently investment firms anchor transformation in the logic of their actions. For the high-net-worth investors whose initiative stood at the beginning of this project, this is a central insight – which can now be checked using the checklist.

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Figure

How are the firms distributed across the four maturity clusters?

Shares of the maturity clusters, overall and by segment



n = 129; dashed: fewer than 10 cases

Looking ahead

Economic benefit
Fiduciary role
Next steps

How economic viability and the perception of fiduciary duty come together

Transformative engagement has the potential to increase returns: more than four out of ten firms report positive performance contributions from their own experience, hardly any report negative ones – despite at times challenging conditions such as non-binding economy-wide transformation pathways.

In addition, the fiduciary role of private equity and venture capital firms is another good reason to factor transformation into every asset. As managers of external investors' capital, they are obliged to keep material risks in view and to manage them deliberately. Today, these include in particular economically relevant climate- and nature-related risks.

The findings relate to climate and nature, but they suggest that transformation competence develops along the same lines in other fields: at an earlier stage, nature already shows essentially the same patterns as climate. Firms tackling transformation in further areas will therefore find the same levers in accountability, the investment process, measurement and incentives.

Those who want to take the next step and develop their own transformation competence in a targeted way will find checklists for this in the report. On the project website *www.transforming-performance.info*, you can register for events in spring 2027; all content is also available to download there free of charge.

Where does your firm stand?
Substance or signal?

In the checklists, investment firms can see which step comes next; as participants, they can also find out on request where they stand compared with the 129 firms surveyed. Investors receive the right questions for conversations with managers or for their next due diligence.

The full report (in German), with all seven chapters, the figures, and the checklists, is available there to download free of charge and without registration.

www.transforming-performance.info

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