Talent Insights:
ESG across Investment Banking & Private Equity

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The Spectrum of Sustainable Finance

Sustainability and ESG are terms now firmly stitched into the financial services fabric. The growth in investor appetite for ESG aligned assets also drives the advisory market to recognise this topic with ever greater importance.

Global ESG assets are predicted to exceed $53 trillion by 2025, which would constitute more than 1/3rd of total projected AUM [1]

2016	2018	2021	2025
$22.8 trillion	**$30.6 trillion**	**$37.8 trillion**	**>$53 trillion**

The degree to which financial firms buy into the salience of the sustainability effort will profoundly affect their core business, as well as organisational structure.

Clear distinctions are coming to the fore as firms are gradually revealing where their values lie, which is reflected in Schoenmaker's Framework for Sustainable Finance as shown below.

Typology	Value Created	Considerations	Top Factor	Horizon
Finance-as-usual	Shareholder	Balance between profit & financial risks	Financial	Short term
Sustainable Finance 1.0	Extended Shareholder	Maximise profit & avoid 'sin' activities	Financial >> ESG	Short term
Sustainable Finance 2.0	Stakeholder	Triple bottom line, integrated profit, loss accounting	Financial + ESG	Medium term
Sustainable Finance 3.0	Common Good	Positive selection of ESG. Profit no longer primary – service E&S impacts	ESG > Financial	Long term

Table 1: a framework to categorise firm's sustainable financial models, alongside their priorities for value-creation [2]

There is a current gradual shift, across financial markets broadly, from Sustainable Finance 1.0 to 2.0. This is notably evidenced by the 5,372 signatories of the Principles of Responsible Investment (PRI), as of June 2023, as well as the Global Sustainable Investment Alliance 2020 report that concluded the globally dominant sustainable investment strategy was ESG integration.[3] [4] [5]

Even so, the widening gap between those who embrace and those who shun the importance of ESG values, alongside fierce debates on data limitations and investment methods, remain salient issues.

***"Reducing unsustainability"* is fundamentally different than *"creating sustainability"* [6]**

Spotlight: Investment Banks & Private Equity

The number of financial firms becoming signatories and members of groups, alliances, networks, and principles advocating and representing 'sustainable' financial practices has ballooned in the last three decades. It has become commonplace to see announcement from banks and funds explicitly avoiding specific activities in 'dirty' industries.

Investment banks have started to advise clients more holistically around ESG, moving beyond the more mature bond markets.

92%

of surveyed sell-side professionals have either developed or enhanced their current services for client's ESG investing needs (69%) or intend to soon (23%) [7]

+60%

The volume of ESG M&A transactions increased by 60% from 2011 to 2021 [9]

The implementation of ESG within Private Equity has become commonplace, notably driven by potential increases in value creation and investment policies of LPs.

70%

of surveyed GPs place value creation among the top three drivers for their organisation's ESG activities [8]

85%

of surveyed LPs have implemented ESG investment policy either fully (52%) or partially (33%) [10]

The opportunity set surrounding ESG, particularly focused around energy transition, is still large, especially when viewed through the policy lens of Europe's 2050 net zero targets.

2022

$227 billion

invested in 2022 toward the low-carbon energy transition in Europe [11]

VS.

2050

$32 trillion

needs to be invested into energy & related tech by 2050 for Europe to achieve its 2050 net zero ambitions [11]

2021

0.92 : 1

is the Global 2021 Energy Supply Banking Ratio (ESBR), with $842bn of bank financing going to low-carbon energy projects/ companies and $1,038 to fossil fuels [12]

VS.

2050

4 : 1

is the ESBR ratio required to achieve 2050 net zero ambitions [12]

Investment banks advising and funding corporates, and private equity funds working with their portfolio companies will continue to be a driving force for sustainability.

Deciphering ESG talent pools

Standardisation is an important topic, with regulatory bodies now forming regional standardised policies around certain ESG financial products, whilst investors - GPs and LPs alike - look for frameworks around ESG reporting and due diligence. To date, however, the taxonomy of leadership titles, teams and business units related to ESG activity has not been so focused on the topic of standardisation, leading to a broad range of differences between similar firms when it comes to labelling those that drive the ESG agenda.

Figure 1: terms most used in titles of sustainable finance and ESG advisory leaders (Wessex Partners analysis)

In our recent conversations with various senior ESG Advisory leaders in the banking sector, it is clear that identifying a competitor's strategies and the talent landscape is no simple feat, in part because of this lack of standardisation. "What is X's actual role?", "who does X report into?", "what products does X's team focus on?", are all common questions from our conversations, highlighting the effect this ambiguity has when identifying opportunities to benchmark competitor businesses and recruit talent.

- Sustainable Finance
- Sustainable Banking
- ESG Advisory
- Sustainability and Corporate Transitions
- ESG Financing and Advisory
- Global Banking Sustainability
- ESG and Green Economy
- Sustainable and Positive Impact Finance
- Green & Sustainable Hub

Figure 2: ESG related team names (right) at a selection of larger banks (left) , highlighting the lack of standardisation across the industry when it comes to the naming of relevant ESG teams.

To gain an understanding of what talent sits where in investment banking and private equity, we must first take a more detailed look at the structure of banks and funds alike, as well as analysing the experience and skill sets required to succeed in these roles.

Organisational structure

There is no fixed one-size-fits-all structure, for investment banks or funds, on where to position one's 'ESG' teams and professionals. The path a firm takes is often highly dependent on its strategy, views on value-creation and themes or sub-sectors of interest.

Investment Banking

The formation of dedicated ESG teams has significantly accelerated in the last 5 years, such as Barclays Sustainable & Impact Banking in 2019 and Citi and JP Morgan in 2020. (Notably, there were some earlier movers, for example the Green & Sustainable Hub at Natixis CIB in 2017.) By analysing how ESG-related teams are organised across different investment banks, some clearer defined structures begin to emerge allowing a better understanding of how ESG is deployed to clients:

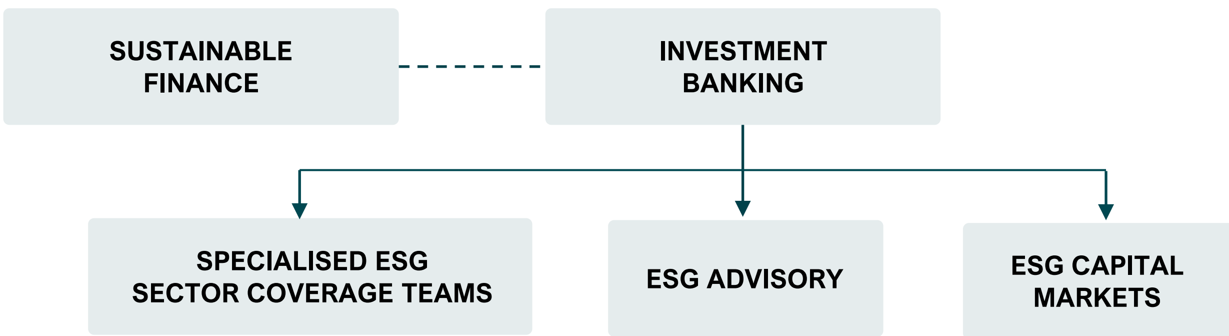

Figure 3: simplified organisational chart showing the structure of ESG advisory teams within investment banking (Wessex Partners analysis)

- **ESG Advisory:** Teams are client and sector agnostic, working alongside sector and product teams to deliver ESG specific strategic advice. Teams are able to 'cross-pollinate' expertise to standard coverage teams.[13]
- **Specialised ESG Sector Coverage Teams:** These teams are often set up to cover a specific client sub-sector related to ESG (e.g., CleanTech, CCUS etc.). Bankers here have often previously sat in traditional sector coverage teams and have experience and knowledge of, and relationships with, important subsets of clients.
- **ESG Capital Markets:** Encompasses the DCM and ECM ESG expertise. ESG DCM teams have often been operating for the longest time given the market is the most mature. There are rarely dedicated ECM ESG teams.
- **Sustainable Finance:** Often cross-functional teams, deploying ESG strategy horizontally across lines of business (IB, CB, AM etc). These teams are often also more closely involved in the internal strategy dialogue of the bank.

Private Equity

83% of the 30 largest PE funds by AUM have a figurehead leading their ESG efforts.[14] These "heads of ESG", along with the small teams that some of these individuals lead, work with both the investment teams and portfolio companies, embedding ESG into investment processes and working with assets on corporate strategy. Structurally, depending on the exact specificities of the role, reporting lines fall into two buckets:

i) Reporting into the private equity leadership (with these roles often taking a much more active position in implementation of ESG into investment process and a higher touch approach with portfolio company executives' teams).

ii) Reporting directly into executive management (with these roles often taking on a much more CSO type function, setting policy and strategy at group as well as fund level).

Skill sets for success

As the role of ESG professionals in banking and private equity continues to gain importance, it is essential for institutions to fully understand the specific skill sets that make operators in these roles successful.

Historically, ESG roles in banks and funds were filled by moving talent internally (e.g., relevant sector or product bankers moving to specific ESG advisory roles). With external ESG hires becoming more prevalent across banks and funds alike, there are obvious external talent pools that firms are typically plucking from, including consulting and rating agencies (including ESG specific outfits), investment managers and asset managers, corporates, and NGO / supranational agencies. These industries are, and have been, particularly interesting as talent pools for hires as they often house professionals with relevant sets of transferrable skills and technical knowledge important for success in IB and PE roles.

Only 15% of professionals were previously in similar ESG roles

Out of a survey of 1,500 ESG jobs in the largest banks [15]

Transferable skills important for success

In analysing the backgrounds and experience of leaders in relevant roles across investment banking and private equity, we can start to identify a number of skills that reoccur consistently and that can be attributed to successful hires in each sector:

INVESTMENT BANKING	PRIVATE EQUITY
Familiarity with investment banking product suite	Strategy & Transformation
Origination Capabilities	Data & Digital
Relevant industry network	Policy & Regulation setting
Specialist sub-area knowledge (e.g. biodiversity, climate change)	Communication / Ability to manage multiple stakeholders

Figure 4: Skill set list not exhaustive. Source: Wessex analysis of relevant ESG Advisory or similar leadership profiles in relevant banking institutions (N=39) and analysis of "head of ESG" profiles or equivalent in the private equity sector (N=79)

While 'competence greenwashing' is a serious issue, firms should not shy from thinking strategically around 'ESG' hires.[16] In order to secure the best and most applicable talent, lateral thinking around transferable skills is essential.

Ultimately, as an umbrella phrase, ESG covers an expansive range of disciplines and factors, so much so that when hiring, one needs to determine the essential skills or experience needed for the specific role as one cannot realistically have it all.

The importance of ESG talent

The importance of ESG and sustainable finance continues to trend upwards, which is evidenced by a variety of drivers that all point to the continued and important need for ESG talent:

Expanding standardisation and regulation from policymakers, alongside continued reporting drives from investors around ESG products and taxonomy. Some launches in H1 2023 include: IFRS ISSB Standards, European Green Bond Standard, UK's Green Finance Strategy, and the SEC's proposed climate-related disclosure rules.

Increasing interest and growth in new and, comparatively to other products, nascent fields such as ESG ECM and M&A.[17] Continued new product launches in DCM, such as gender or blue bonds, and regulated ESG assets, such as SFRD Article 8 and 9 funds.

Magnified importance of thematic areas and topics steadily driving new hires, especially in larger firms. Examples include biodiversity and Climate or Clean Tech, AgTech, and emerging discussions across the market on how to ensure a just transition.

Growing emphasis on applying ESG considerations into corporate valuation analysis, especially private equity firms, with only 1/3 currently embedding ESG factors into valuation analysis during deal evaluations.[18] This is being bolstered by strengthening metrics used in the PE industry, distinctly driven by the ESG Data Convergence Initiative (EDCI).

As you and your business thinks about positioning for ESG in an evolving market, it is important to understand the talent landscape and identify where the skills you need for your business are going to be located.

If you would like to understand more about how this space is developing from a human capital perspective and how to put together effective teams that take advantage of the opportunity in ESG, as well as mitigating the possibility of non-compliance in the ever-evolving regulatory landscape, please contact our ESG experts.

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