Source of Capital

Private Equity

Type Of Entity	Private Equity (PE) Funds
Investment Stage	P/E funds are diverse. Some invest in early-stage (pre-revenue or low revenue), some in "growth stage", some int "buy-out" stage, some in "late stage" (e.g., mature companies). Often PE funds focus on an investment "theme" (real estate, infrastructure only, climate-tech).
Impact	Inject growth equity, increase value by improving business operations, equity capital for large real estate or infrastructure investments.
Instrument	Equity, mezzanine, quasi-equity, sometimes specialized "tax" based investing (some tax driven incentives exist for real estate or tax-preferred investing)
Supplier Of Concessional Capital	YES **NO**

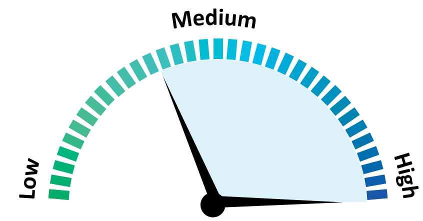
Description

A private equity fund is a private closed end fund or collective investment scheme, which invests in unlisted companies.

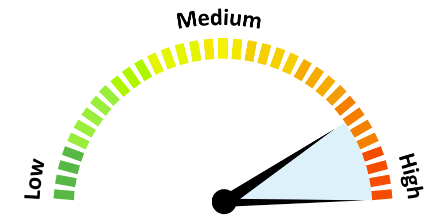
Private equity (P/E) funds are typically structured as limited partnerships and their investors (often called "limited partners", who by definition have limited liability) are typically very large institutional investors, i.e. pension funds or insurance companies, some sovereign wealth funds. As such P/E funds' risk appetites are driven by the capital of LPs/investors. P/E funds are managed by general partners who earn management fees (e.g., a 2% fee on the assets and a 20% fee or profit on the upside, often called a "carry"). Private Equity is considered an "alternative investment class" (akin to real estate, commodities and the like) and is generally less regulated compared to listed equities and banking.

Private equity funds buy entire or majority stakes in companies, and as such often have an important governance role in their investees, whether through Board seats or helping to actively manage growth.

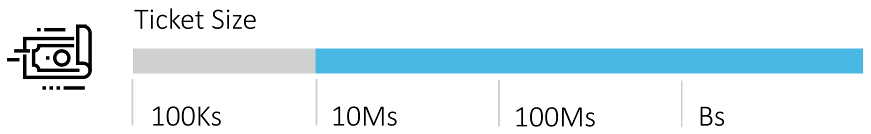
P/E funds invest according to a number of strategies, such as "growth equity" or "leveraged buyout" and have a focus on growing value for their exit. The P/E fund will typically have a fixed life (e.g. 4-7 years to invest capital) with a further period to hold investments prior to exit. The goal of the P/E fund is to profitably exit an investment during the P/E fund's life, often through an IPO or a strategic sale to a larger company. P/E funds are typically structured with a ten-year duration and possible two-year extension. This can prove particularly challenging in developing economies, where returns take longer to realize, and "exits" may be challenged by legal and regulatory constraints.



Relative Return Requirement



Relative Risk Appetite



Recommended Actions By Key Source Of Capital

Some suggestions for what Private Equity Funds can do more of to enhance Just Financing outcomes include:

- For developing economies, work closely with MDBs, DFIs and others to establish P/E funds that can support equity investments in LICs and MICs, and utilize MDB/DFI support to help address legal, regulatory and other market constraints which may hinder P/E investments (e.g. equity stakes, including Board seats, controlling interests, etc.) and exits (e.g. equity sales, including IPOs and acquisitions).
- Ensure equity investments into new companies (whether climate focused investments or not) integrate climate-related financial management requirements so that investee companies' "mainstream" climate considerations into operations to align the company with just financing and climate resilient outcomes.
- Prioritize equity investments in low-carbon, climate resilient companies and technologies.
- Ensure equity investments in companies are consistent with Just Financing Principles, including by prioritizing investments in contexts that experience the most vulnerability and need, such as LICs and LMICs..
- Engage with Limited Partners to prioritize investment in the "just transition" and climate-related resilience; and to increase allocations to developing economies, including LICs and MICs.
- Regardless of investment "theme" of the P/E Fund, engage with Limited Partners (e.g. institutional investors, pension funds, etc.) to ensure KPIs or other metrics of P/E Fund success includes climate and Just Financing outcomes. Reflecting Just Financing outcomes in KPIs creates an incentive to seek out investments in vulnerable and high-need contexts.
- Funds based in or focused on developing economies should consider making development impact and achievement of just financing outcomes a part of their value proposition to help attract LP interest.