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Pruning for Growth

The LP Perspective on Responsible Investing, 2026

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REFRAME VENTURE

OVERVIEW

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Introduction

Eighteen months ago, in our second LP white paper, *Pushing Forward*, we found that the backlash against ESG had left institutional limited partners (LPs) largely undeterred in their actual practice. Not a single LP we spoke to expected to do less on responsible investing, and European LPs, united by regulation and growing in relative importance, were helping to steward the global private markets ecosystem forward. At the same time, responsible AI stood out as the area where LPs felt least equipped to act.

Since then, LPs have been pulled in two directions at once. On the one side, continued political pressure, particularly in the US, has pushed them to **prune the responsible investing** activity back to what can be defended as financially material, and to talk about it less or in different terms. On the other side, **the list of material issues has rapidly expanded**, leaving teams struggling to keep up with their workload and expertise requirements.

AI and defence have rapidly climbed the list, as the risks have made themselves public through high-profile incidents. **Climate change** has moved from a long-term scenario to a present-day financial reality, with record heat, drought, and wildfires noticeably disrupting businesses and the workforce. And **workers' rights**, under pressure from beneficiaries and amplified by fears of AI-driven job displacement, have become a bigger topic than ever, flowing down from private equity to venture capital.

To understand how LPs are handling these simultaneous pressures, in the first half of 2026, Reframe Venture spoke anonymously to individuals at **20 institutional asset owners and managers** acting as LPs in venture capital and growth equity funds. These LPs are based across Europe, the UK, the US, Canada, and Asia-Pacific (APAC), and include pension funds, endowments, foundations, state-backed funds, investment consultants, and fund-of-funds.

Section 1. Motivations are crystallising, and financial framing rules

In our previous research with LPs, we encountered a list of motivations for responsible investing, in which ethics, creating awareness, and developing the ecosystem sat alongside risk and return. In our latest round of interviews, it was the financial framing that dominated, and other considerations were barely mentioned at all.

> *[Our] goal used to be [to] develop the ecosystem and implement these topics and create awareness. Now it is showing the real value in doing this, not just because of regulatory requirements or personal preferences, but instead to support the business case.*
>
> **European Asset Owner**

This mirrors a shift happening across the investor landscape. In the 2025/2026 US SIF Trends survey of 270 institutions, financial risk management and long-term returns were among the leading motivations for sustainability integration, and each increased year over year.[1]

The same pattern appears at the corporate level. In Morgan Stanley's **Sustainable Signals survey** of more than 300 global public and private companies, the potential for creating value was the top reason companies pursue sustainability initiatives.[2]

Slowly, quantitative evidence in private markets and venture capital is supporting these perspectives. In their October 2026 report, **ESG Data Convergence Initiative (EDCI) / Boston Consulting Group (BCG)**[3] found that:

- Fund managers estimate that sustainability efforts can lift EBITDA by 5-7% over the holding period of a portfolio company,
- Companies in the top third of employee satisfaction have 7% higher revenue growth than companies in the bottom third,
- Companies whose general partners (GPs) are actively monitoring responsible AI risks show a 6% higher growth rate.

Similarly, **KfW Capital** in their 2025 ESG Report[4] found that there is a positive and statistically significant correlation between the number of ESG policies implemented and the number of funding rounds completed.

When we spoke to LPs, we heard this business case expressed to us in a couple of ways.

A. Managers that take responsible investing seriously are perceived as 'higher quality'

LPs increasingly interpret a manager's approach to responsible investing as a signal of their overall quality, rather than a separate item or box to tick. A manager that is intentional about what it expects from portfolio companies, can explain how that connects to value creation, and has the

1 US SIF Foundation, US Sustainable Investing Trends 2025/2026: Executive Summary (9 December 2025), https://www.ussif.org/research/trends-reports/us-sustainable-investing-trends-2025-2026-executive-summary
2 Morgan Stanley Institute for Sustainable Investing, Sustainable Signals: Corporates 2025 (June 2025), https://www.morganstanley.com/insights/articles/corporate-sustainability-signals-report-2025
3 Boston Consulting Group, Sustainability in Private Markets 2026: As Progress Continues, AI Poses New Risks and Opportunities (October 2026) https://www.bcg.com/publications/2026/private-markets-sustainability-ai-risk
4 KfW Capital, ESG Report 2025 (September 2026) https://www.kfw-capital.de/Dokumente/Nachhaltigkeit/ESG-Report-2025/ESG-Report-2025-EN.pdf

resources to see that through in practice, is seen as a manager that thinks rigorously in general. Conversely, a manager that dismisses the topic also likely has blind spots elsewhere, and for some LPs, this has become a real data point in a re-up decision.

> *Someone who is poor at what they do, won't just be poor in one area. It is a mosaic, and sustainability is one part of this, and indicative of others.*
> **North American Insurance**

> *It's not just about downside protection, but we see this as an indication of opportunity in our manager selection.*
> **European Pension**

> *We consider it as part of the manager's playbook; responsible investing needs to be integrated into their strategy, [we want to know if] they have a strong understanding of what ESG issues are and have processes to build that in.*
> **APAC Pension**

B. The upside potential of climate remains strong

LPs continue to see climate as a source of opportunity rather than only a risk to be managed. Even the LPs who remember and have discussed the first cleantech cycle, and who now want to see proof of unit economics and exit pathways, believe the sector has become considerably **more investable over the last few years**. Mandates are broadening to explicitly include adaptation and resilience, and we are seeing new vehicles established to funnel capital into climate technology.

> *[One vehicle we have has a] total focus on climate and environmental sustainability and every investment must have a tracked environmental benefit, so [climate measurement] shows up in all stages: sourcing, diligence, underwriting, monitoring.*
> **North American Pension**

A recent public announcement by a major US public pension fund demonstrates this view: New York City Comptroller Mark Levine recommended in September 2026 that three of the City's public pension funds add $5 billion in private market climate solutions investments, subject to each board's approval and fiduciary review.[5]

Market data from the past year points to **growing capital formation and exit activity** in climate technology. Climate finance funds raised a record $92 billion across 179 vehicles in 2025, double the prior year, although investors favoured

5 Office of the New York City Comptroller, "NYC Comptroller Mark Levine Proposes Expansion in Private Markets Climate Investments to Advance Systems' Climate Goals," press release, September 23, 2026, https://comptroller.nyc.gov/newsroom/nyc-comptroller-mark-levine-proposes-expansion-in-private-markets-climate-investments-to-advance-systems-climate-goals/ https://comptroller.nyc.gov/newsroom/nyc-comptroller-mark-levine-proposes-expansion-in-private-markets-climate-investments-to-advance-systems-climate-goals/ (accessed October 5, 2026).

deployment-ready technologies over early-stage technology.[6] In the first half of 2026, climate tech recorded its busiest period on record for public listings and acquisitions, with 153 transactions, up 70% from a year earlier.[7]

C. A long-term view makes systemic risks a financial question

For LPs with long time horizons, the systemic risks relating to AI and climate change are not about values, but about financials. Pension funds and insurers with obligations stretching decades, and universal owners reliant on market-wide returns rather than alpha, cannot avoid exposure to systemic risk, and so need to price them in. Even LPs who have scaled back their ESG activity maintain that systems-level thinking makes sense.

> *If you are looking out 100 years, you know your portfolio will be affected by climate change, so you are going to be looking at that.*
>
> **North American Investment Manager**

> *We believe in **addressing systemic risks to enhance beta**. Getting some alpha here and there is great, but beta is the driving force. If we can help mitigate climate change and reduce the risks in the long run, that would accrue to the benefit of our long-term returns. [As a pension], the obligations never run out. We are perpetual, universal investors.*
>
> **North American Pension**

Recent severe weather shows how climate change impacts the overall economy. Estimates of the economic cost of Europe's extreme 2026 summer heat range from roughly €113 billion to €180 billion in lost output, depending on scope and method.[8] Climate-driven heatwaves have become a macroeconomic risk that affects output, food prices, insurance, and public budgets.[9]

Research and scenario analysis point to **substantial but highly uncertain economy-wide effects from climate change**. Estimates of long-run damages vary widely, and because the relationship between warming and economic outcomes is non-linear, crossing tipping points could produce disruptions far larger than any observed so far. J.P. Morgan's head of climate advisory, a former NOAA chief scientist, describes tipping points as under-modelled in financial analysis. Their effect on the present value of future damages can look manageable over short horizons and rise considerably when a tipping

6 Coco Liu, "Climate Finance Funds Attract Record Inflows in 'Feast or Famine' Year," Bloomberg, April 27, 2026, https://www.bloomberg.com/news/articles/2026-04-27/climate-finance-funds-attract-record-inflows-in-feast-or-famine-year, reporting data from Sightline Climate

7 Coco Liu, "Climate Tech Sees Record-High Deals as Power Demand Fuels Market Appetite," Bloomberg, July 13, 2026, https://www.bloomberg.com/news/articles/2026-07-13/climate-tech-ipo-market-gets-biggest-boost-since-2022, reporting data from Currence.

8 Allianz Research, "Allianz Climate Economics Report 2026: A year of escalating costs," September 24, 2026, https://www.allianz.com/en/economic_research/insights/publications/specials_fmo/260924-climate-economics.html (estimating about €113 billion in lost output from Europe's 2026 heatwaves); Triodos Bank, "Hot Summer Economics" (Aug. 2026), https://www.triodos.com/en/articles/2026/hot-summer-economics (estimating that extreme heat and drought could reduce EU GDP by about 1% in 2026, roughly €180 billion). The estimates differ in geographic scope and method.

9 Sawdah Bhaimiya, "Western Europe heatwaves hit GDP, food and insurance," CNBC, July 30, 2026, https://www.cnbc.com/2026/07/30/europe-heatwaves-economy-wildfires-summer.html.

point falls inside the investment window.[10] Effects could show up in output, employment, and inflation. For diversified investors with long time horizons, whose returns depend heavily on how the overall economy performs, these system-wide effects could matter more to outcomes than the performance of individual holdings.[11]

D. Fiduciary responsibility has material non-monetary dimensions for certain asset owners

For some asset owners, their fiduciary responsibility is not purely to the financial bottom line. Pension funds are obliged to deliver retirement income in a liveable world[12]; religious organisations align their portfolios with human dignity and the wellbeing of communities[13]; and some endowments treat reputational alignment with their stakeholders as a hard constraint. These considerations are not framed as trade-offs against returns; they are simply part of what that 'return' means.

> *I don't know how we can possibly [make this investment] given who our stakeholders are.*
> **North American Endowment**

Pension funds show how a duty to pay retirement income can reach the conditions in which those retirements will be lived. In October 2025, four Canadian workers under 33 sued the Canada Pension Plan Investment Board in Ontario's Superior Court of Justice, alleging that it failed to prudently identify, assess or manage climate-related risks to the benefits they will draw after 2050[14]. In September 2025, the Dutch healthcare workers' pension fund PFZW pulled roughly €14.5 billion from BlackRock after its asset manager, PGGM, cited concerns about the firm's voting on sustainability issues. A PGGM spokesperson said it was "getting harder to align with American investment managers on voting".[15]

10 Sarah Kapnick, "Tipping points: Decision-making under deep uncertainty," Climate Intuition series, J.P. Morgan, April 2026, https://www.jpmorgan.com/insights/sustainability/climate/climate-tipping-points; Justin Worland, "J.P. Morgan Is Thinking About Climate Tipping Points," TIME, April 10, 2026, https://time.com/article/2026/04/10/jp-morgan-climate-tipping-points-risk/
11 Ellen Quigley, "Do universal owners behave like universal owners? The emergence of a financial sector norm," American Business Law Journal 63 (2026): 235, https://onlinelibrary.wiley.com/doi/10.1111/ablj.70021
12 APG, 2026, "A good income for today, tomorrow, and beyond" https://apg.nl/en/about-apg/
13 Interfaith Center on Corporate Responsibility, Shareholder Action for a Better Future: Annual Report 2025-2026 (Aug. 2026), at 3 https://www.iccr.org/reports/iccrs-2025-2026-annual-report/
14 Olivia Raimonde and Layan Odeh, "Canada Pension Fund Sued by Young People Over Climate Risks," Insurance Journal, October 28, 2025, https://www.insurancejournal.com/news/international/2025/10/28/845248.htm. See also Hirji v. Canada Pension Plan Investment Board (Ont. Super. Ct. J., filed Oct. 2025), Climate Litigation Database, https://www.climatecasechart.com/document/aliya-hirji-travis-olson-ravneet-singh-et-chloe-tse-v-canada-pension-plan-investment-board_4e82.
15 Bart H. Meijer and Simon Jessop, "Dutch Fund PFZW Reduces BlackRock Ties over Clash on Sustainability," Reuters, September 3, 2025, https://finance.yahoo.com/news/dutch-pension-fund-pfzw-ends-083336633.html.

Section 2. Backlash – pruned, hushed, but still standing

The pruning effect

The backlash has not stopped LPs from doing responsible investing, but it has forced them to justify each piece of it. Actions have been trimmed back to what can be defended as material, and LPs have become more explicit about why they ask for what they ask for. Many see this as a correction that was overdue, and pressure that has imposed discipline, cleared out noise, and made it easier to tell which managers genuinely believe in the investment case from those who were just following a trend.

> *All systems have cycles. This is no different. [There was] too much noise in the sustainability system.* ***We can now see who is swimming with shorts and who isn't.***
>
> **North American Insurance**

However, pruning cuts by evidence as a proxy for importance. Many of the topics that have been cut back are those where the data doesn't exist – partly as a result of pushback on the high burden of sustainability reporting.

The pruning has also changed what LPs look for. **Public outputs**, like sustainability reports, website policies, and public statements, have become **unreliable signals**, since managers who remove policies may still be doing the work. LPs have responded by focusing on how managers actually operate, what their integration looks like, and how well they can articulate the business case.

> *People may have taken things off their website, but this doesn't mean they're changing what they're doing.*
>
> **European Endowment**

The transatlantic picture

US LPs are certainly more likely to be speaking less about responsible investing, and may be doing slightly less, but most report that their day-to-day **engagement and assessment work has not changed** materially.

What has changed is how visible it is: fewer press releases, adjusted language, and more careful legal drafting. The friction that does exist is largely legal, either the threat of legal action from public statements, or managers pushing back on the wording that gets into legal documents, rather than on the substance of what is actually being asked.[16]

Crucially, the **continued push from European LPs** means that US managers are often required to still do the work, and are building the processes

16 Litigation and investigations at the state and federal level have prompted large asset managers to leave or scale back climate-related investor initiatives and limit their public commitments. See, e.g., Texas v. BlackRock, Inc., No. 6:24-cv-00437 (E.D. Tex. filed November 27, 2024) (multistate antitrust suit against large asset managers, citing Climate Action 100+ participation), https://www.climatecasechart.com/document/texas-v-blackrock-inc_f224; U.S. Securities and Exchange Commission, "Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934: Climate Action 100+ and the Election of Directors at the May 2021 Annual Meeting of ExxonMobil Corporation," Exchange Act Release No. 106611, October 7, 2026 (warning that participation in climate initiatives like Climate Action 100+ may undermine asset managers' compliance with U.S. securities laws), https://www.sec.gov/files/litigation/investreport/34-106611.pdf (accessed October 21, 2026)..

and collecting the data to prove it. This gives US LPs the confidence to ask for it, knowing that the additional burden on their managers is small. It also sends managers a clear counter-signal to the political noise: even as they hear that 'ESG is dead', they continue to hear from a large and growing group of LPs that its fundamentals remain important. Furthermore, the threat of retreat for US managers is real: some European LPs described being more comfortable with European managers in the current climate.

> *[There is still] so much going on in Europe, and our managers know these requirements exist, and they have to comply elsewhere … so they have to be aware that the tide might change and they need to keep talking the talk and walking the walk.*
>
> **North American Pension**

Greenhushing continues

Greenhushing, i.e. doing sustainability but not talking about it, has become the default position for many US LPs and their managers, and in the short term it protects the work.

However, we heard from some LPs concerns that, over the longer term, it **may hollow out that work**. Commitments that are no longer made publicly are no longer tied to how people and teams are measured, and what is not measured tends not to survive changes in leadership or personnel.

> *Companies are adjusting to this by downplaying their sustainability, which risks it. Taking it underground risks it. If your performance is no longer measured by it, then you'll have to make trade-offs at some point and lose it. Principled people may not, but what happens when they retire?*
>
> **North American Endowment**

Section 3. New topics, new strains

In most organisations, Sustainability, ESG, or Responsible Investing teams remain small relative to deal volume, and their influence depends on their relationship with investment teams, with lawyers then diluting much of what gets through to GPs, at least formally. Investment teams can only absorb so much change a year, so **every topic competes for this limited attention**.

We found that many in these teams often want to be doing more, but internal capacity and structure make it hard to turn that intention into action, especially on new topics.

New topics like defence and AI compete with climate and diversity

The pressure on internal capacity has intensified as new topics arrive. For many LPs, the topics of responsible AI and defence / dual-use technology belong within the remit of responsible investing teams, but they are often added on top of climate, governance, and diversity at a time when those topics have hardly been mastered in their processes and portfolios.

Defence in particular has forced rapid changes, with LPs revisiting exclusion lists, adding diligence questions, and grappling with new definitions and perspectives of what is and isn't acceptable.

> *I have enough on my plate without responsible AI beyond labour. I need to split the line with other issues that are a focus on a personal level.*
> **North American Pension**

> *It is becoming broader and becoming part of every investment thesis; every frontier technology has an aspect that should be covered under the topic of responsible investing – this should be a part of investing under the investment team, but it often isn't, so ESG tries to cover all of these.*
> **European Asset Owner**

Defence shows how quickly the ground has moved. In December 2025, the European Commission stated that the EU sustainable finance framework "does not impose any limitations on the financing of the defence sector" and that excluding the industry as such "would not be consistent with applicable legal framework".[17] By mid-2025, 54% of European Article 8 equity funds held defence stocks, up from 33% in 2022.[18] Many European LPs have changed their exclusions during the same period, and needed to catch up on what responsible investing in dual-use/defence looks like.

17 European Commission, "Commission Notice on the Application of the Sustainable Finance Framework and the Corporate Sustainability Due Diligence Directive to the Defence Sector," Official Journal of the European Union, C/2025/4950, December 30, 2025, para. 14, https://eur-lex.europa.eu/eli/C/2025/4950/oj/eng (accessed October 21, 2026).
18 Hortense Bioy, "EU ESG Funds' Exposure to Defense Continues to Increase," Investors ESG Blog, Sustainalytics, August 15, 2025, https://www.sustainalytics.com/esg-research/resource/investors-esg-blog/eu-esg-funds--exposure-to-defense-continues-to-increase (accessed October 21, 2026).

Responsible AI is adding further demand on teams that, according to an Oxford study of 62 institutional investors, often have limited AI expertise and can give the topic only part of their time.[19] Beyond how to scrutinise GPs investing (primarily) in AI, responsible investing teams need to take into account macro (is this an AI bubble?) and systemic risk factors (e.g. labour market implications) for this sector, too.

Geopolitical uncertainty – continuing wars in the Middle East and in Ukraine; shaky alliances, such as NATO – has also started to feature prominently in responsible investing conversations. Beyond the risk of geopolitics on supply chains (including for AI infrastructure), new questions of 'sovereignty' have started to play a role (e.g. who do we trust to own data centres?).

An expertise gap: not doing while learning

On these new topics, many LPs openly acknowledge an expertise gap. Some have taken a first procedural step – such as adding a topic to an assessment framework, commissioning internal research, even setting up a working group – but hold back from acting consequentially on it until they understand better what good looks like, which could take years (depending on internal processes and the size of institutions).

> *I am not an expert in this – I don't always know what to say. [...] we need to consolidate a house view!*
>
> **European Insurance**

> *[Learning] takes a while, [we] can't just flick a switch.*
>
> **North American Investment Manager**

19 Laurie Fitzjohn-Sykes, The Role of Investors in AI Governance (Oxford Martin AI Governance Initiative, April 2026), https://aigi.ox.ac.uk/wp-content/uploads/2026/04/The-Role-of-Investors-in-AI-Governance-Oxford-AIGI-FINAL-130426.pdf.

Section 4. Post-investment engagement

Engagement quality varies

Most LPs we spoke to set expectations at the start of the relationship, or at re-up stages – when their leverage is highest. They might use side letters, letters of intent, upfront transparency about their requirements, or write specific improvement requests when diligence reveals a developing, or under-sophisticated, manager.

Holding managers to those expectations, however, is where many LPs struggle. Once capital is committed, engagement often becomes less formal, and it can be hard to understand improvements or the lack thereof.

> *We do engage after commitment, but **we struggle to show any improvement**. Policies can be made, but actual ongoing performance on ESG is difficult.*
> **North American Pension**

Some LPs are much more successful than others, often led by their leverage or their level of support. The most effective users of leverage are strategic about their asks, front-loading key material questions at re-up, when there is money on the table, or **making clear that their assessments feed into investment decisions**. Others lead with support instead: training programmes are run by a number of the LPs we spoke to, or they offer tailored support on specific topics. Several also use data to assist, such as by benchmarking managers against their peers or sharing meaningful aggregated data back with GPs.

> *If they want our money, they're going to pick up the phone.*
> **North American Pension**

GP reporting

Many LPs and GPs simultaneously hold two, slightly conflicting, views on reporting.

Firstly, there is a strong belief that **quantitative insight will help build support**, internally and externally, for dedicated time on responsible investing. Revealing patterns in top-performing companies, benchmarking managers against peers, or easily providing stakeholder questions about portfolio exposure, are all examples of worthwhile outcomes of reporting data.

However, at the same time, almost everybody agrees that (qualitative) **engagement is more important** than collecting metrics. Data without a clear use adds little value, and with limited time and leverage, many LPs would rather spend their resources in conversation with managers on material topics, rather than chasing data points. GPs and their companies have also become increasingly impatient when reporting data does not yield meaningful feedback.

Reducing burdens and harmonising reporting and requirements is the key to reconciling these two views – allowing a reduced burden and enhanced benchmarking and analysis opportunities. LPs in Europe are increasingly converging on the Invest Europe ESG Reporting Template, with aligned templates existing in the UK and in France,

co-organised by Reframe Venture.[20] The Invest Europe template builds on most of the EDCI core metric set, and so if a manager completes Invest Europe, they can easily fulfil the ask for EDCI metrics from LPs in North America and beyond.

Some LPs have gone even further, and harmonised on other standard practices, such as side letter language and other requirements.

> *We are all kind of asking for the same thing, and we want them to do the same work.*
> **APAC Investment Manager**

While harmonised reporting will by definition miss material issues that are company-specific, a reduced LP reporting burden has left GPs more time and resources to do the more bespoke 'value creation' work.[21]

20 Reframe Venture is involved in organising both working groups behind the Invest Europe ESG Reporting Template, and the UK VC ESG Reporting Template (with UK Private Capital and the British Business Bank).
21 See the PRI and Bain 'Sustainability Value Creation' white paper for further research on this topic and A framework for driving financial value through sustainability in private markets. Available at: https://www.stern.nyu.edu/sites/default/files/2026-04/pri_sustainability_value_creation_198041%20%285%29.pdf

Deep Dive I: Responsible AI – more pressure, uneven preparation, and blind spots

More pressure than 18 months ago

In our last LP white paper (published February 2025), the dominant answer on responsible AI questions was one of uncertainty, lack of knowledge, and inaction.

Eighteen months later, that has changed. Almost every LP we spoke to had taken a structural or procedural step: asking managers about their approach, adding AI to GP assessment frameworks, tracking AI incidents in their portfolios, or discussing the topic at senior management levels. From our Responsible AI white paper research from earlier in 2026, we know that fund managers have noticed the difference and are expecting more questions from their LPs on the topic in the near future.

We're already increasingly seeing internal AI use policies and restrictions becoming standard practice both at the LP level and as an expectation for GPs to have in place, as the first move towards a process that protects sensitive information. UK Private Capital has issued guidance on AI use for private market investors.[22]

However, many of these steps are not yet consequential: diligence conversations are often brief, and some LPs are not yet able to meaningfully judge a good answer.

> *We ask 'How do you think about AI?' – and get two short answers, then that is it.*
> **European Asset Owner**

Wide variation in current practice - towards more standards

Preparation and integration on the topic of responsible AI varies widely across the LPs we spoke to, with some taking it extremely seriously.

> *Companies and organisations that do a good job [on responsible AI] and are responsible in how they innovate and use technology will be more successful, so we have a dedicated question set on this.*
> **North American Insurance**

We found that many of the LPs who were furthest ahead on responsible AI are those who found an existing lane or workstream to channel the topic into. For some, that lane is labour or workforce disruption; for others, it is cybersecurity, data privacy, or a dedicated focus on a specific harm such as child safety online.

22 UK Private Capital, "Artificial Intelligence in Private Capital: A Practical Framework for Firms", https://www.ukprivatecapital.co.uk/policy/industry-guidance-standardised-documents/artificial-intelligence-in-private-capital.html.

> *[We find it easier to talk about responsible AI] through the lens of cybersecurity or data privacy or governance.*
> **APAC Pension**

> *We're trying to figure out a lane for [responsible AI], so we can find alignment with other strategies.*
> **US Pension**

The recent announcement of EDCI to include a responsible AI metric (in addition to its cybersecurity questions) indicates ecosystem-wide recognition of the importance of the topic. The forthcoming Principles for Responsible Investment (PRI) Responsible AI LP Due Diligence Questionnaire (DDQ) (which we will feed into with our community) will likely set a strong standard, at least for the due diligence phase.[23]

Structural blockers to systemic thinking remain

> *The more I assess an AI deal, the more I feel uncomfortable not knowing what I am doing. … Our investment teams are going full speed ahead, and that really concerns me.*
> **APAC Investment Manager**

Topics as broad in scope and impact as responsible AI and its governance require systems-level thinking to tackle them meaningfully. Yet structural blockers exist that limit such approaches.

The deal-by-deal nature of private markets means LPs assess one commitment at a time; portfolio-wide analyses have not yet been undertaken rigorously, as many LPs still struggle with measuring their 'AI exposure':

> *Everyone is focused on getting into the deals; nobody has been able to take a position on this and be an outspoken voice.*
> **Global Investment Manager**

Underpinning this is the mandate for alpha, which focuses teams on the returns from individual investments (especially for early-stage private markets driven by 'outliers') and creates a tension with a society-level view of risk:

> *We are not systems-level thinkers – senior leadership are focused on alpha generation, and there is a fundamental tension here.*
> **North American Endowment**

And finally there is support of this tension from the legal side, with cautions about non-proximate risk, i.e. risks that are not direct risks to investments today:

> *Our legal team is very hard on us on systemic risk.*
> **North American Pension**

> *[We] don't believe in fighting battles we can't win.*
> **North American Pension**

23 Michael Bowen, "EDCI to ask about AI policies in 2027," New Private Markets, October 15, 2026, https://www.newprivatemarkets.com/edci-to-ask-about-ai-policies-in-2027/

Risk TO the portfolio is better understood than risk FROM the portfolio

Where LPs are more consistently thinking about AI, they are mostly thinking about what AI will do to the business models of companies in their portfolios.

> *In light of [the] SaaSpocalypse, how resilient [are these companies] in the face of new technology?*
> **European Endowment**

> *[I suspect that there is] more business model disruption than the managers realise because they always get the optimistic story.*
> **European Pension**

Questions about 'business model' risk fit more comfortably into existing risk frameworks and are easier to raise with managers than questions about the trust and safety of AI systems themselves. These risks from the portfolio – i.e. the harms that portfolio companies might cause with AI – are raised less often, and mostly by LPs with a specific mandate or expertise in those specific harms.

> *Most people are looking at [AI] from a commercial perspective [...] risk plays a smaller role [...] it is very rare that people have quantified the negative externalities.*
> **APAC Pension**

Deep Dive II: Workers – a growing focus

Workers' rights were mentioned more often and with more urgency than at any point in our previous research with LPs. Many investors discussed labour as an **increased focus compared to a year ago**, with new workforce policies, labour risk assessments, and engagement programmes in place.

The push in private equity from New York State Common Retirement Fund[24] and CalPERS[25] is making its way across the LP base and increasingly into venture capital, supported by EDCI data[26]. Sensitivity is heightened in light of the continued pushback against exploitative gig economy worker classifications, highlighted in Deliveroo's disastrous IPO, which several key institutional investors refused to participate in[27], legal decisions reiterating the rights of gig workers[28], and the work of human rights groups such as Human Rights Watch[29]. Negative views on surveillance and worker privacy are also widespread, as seen with Meta rolling back their employee tracker[30] or the public backlash against new worker surveillance tools[31]. Many of these (older) topics are deeply interlinked with AI (accelerating e.g. surveillance).

There is also a growing concern about the systemic impact that AI will have on the workforce,

> *We are interested in and are asking the question: How are you ensuring that AI is going to be employed in a way that is not wiping out half the workforce?*
>
> **European Insurance**

> *Questions of inequality are increasingly coming up relating to AI's effect on job displacement.*
>
> **North American Endowment**

24 New York State Common Retirement Fund, Responsible Workforce Management Policy and Principles (Office of the New York State Comptroller, April 18, 2024), https://www.osc.ny.gov/files/common-retirement-fund/pdf/responsible-workforce-management-policy.pdf
25 Snehal Shah, "CalPERS Cuts PE Fund Re-ups over Labour Practice Concerns," New Private Markets, June 13, 2024, https://www.newprivatemarkets.com/calpers-cuts-pe-fund-re-ups-over-labour-practice-concerns/
26 Snehal Shah, "Good jobs correlate with financial value in PE, EDCI shows" New Private Markets, June 25, 2023, https://www.newprivatemarkets.com/good-jobs-correlate-with-financial-value-in-pe-edci-shows/
27 Tim Bradshaw and Attracta Mooney, "Disaster strikes as Deliveroo becomes 'worst IPO in London's history'," Financial Times, March 31, 2021, https://www.ft.com/content/bdf6ac6b-46b5-4f7a-90db-291d7fd2898d
28 Kevin Rawlinson, "Former Uber Driver Wins Payout of £20,000 Owed for More Than Seven Years," Guardian, July 12, 2023, https://www.theguardian.com/technology/2023/jul/12/former-uber-driver-wins-payout-of-20000-owed-for-more-than-seven-years.
29 Human Rights Watch, "US: Major Companies Violate Gig Workers' Rights," news release, May 12, 2025, https://www.hrw.org/news/2025/05/12/us-major-companies-violate-gig-workers-rights.
30 Dan Milmo, "Meta Pauses Employee Tracker for AI Training amid Privacy Concerns," Guardian, June 24, 2026, https://www.theguardian.com/technology/2026/jun/24/meta-pauses-employee-tracker-for-ai-training-amid-privacy-concerns.
31 Charles Rollet, "Y Combinator Deletes Posts after a Startup's Demo Goes Viral," TechCrunch, February 25, 2025, https://techcrunch.com/2025/02/25/y-combinator-deletes-posts-after-a-startups-demo-goes-viral/

Much of this is **driven by the people LPs ultimately answer to**: union representatives on pension boards, vocal beneficiaries, endowments and foundations funding charitable projects combating these harms, or state-supported funds with a broad economic development mandate.

> *Labour always [has] been part of how we think about PE because of pressure from our beneficiaries.*
> **North American Pension**

Overall, we see the topic of (blue- and white-collar) workers' rights as one of the key issues on agendas for responsible investment professionals in LPs and GPs over the coming years, especially with its AI intersection.

Deep Dive III: Climate and just transition

Climate is structurally embedded, but private market data is limiting

Climate remains one of the most structurally embedded topics in LPs' responsible investing processes across asset classes. LPs are often assessing physical, transition, and regulatory risks, setting exclusions, and, occasionally, collecting Scope 1, 2, and 3 data, and expecting carbon management plans.

But this private-company data remains incomplete or difficult to obtain. Early-stage companies lack the resources to accurately measure emissions, and US managers lag their European peers significantly.

> *In the US, we are even happy when we get [Scope] 1/2/3 emissions.*
> **European Pension**

In addition to emissions data, physical risk data has become a higher priority in private markets. Private equity firms are reported to be increasingly assessing how extreme weather could affect the earnings and valuations of their portfolio assets, as investment models built on stable climate assumptions become harder to rely on.[32]

Climate is in the present tense

Data issues aside, the public consciousness on climate is changing as Europe experiences an unprecedentedly hot summer, the El Niño event is predicted to be stronger than ever measured, and natural disasters are becoming more and more frequent. Climate is being increasingly discussed as a current, physical reality, rather than a future scenario.

Physical risk has become a primary focus for LPs seeking to understand what sits in their portfolios; climate mandates increasingly include resilience, and even where ESG language has retreated, conversations are happening on energy scarcity and supply constraints, because they are affecting businesses today.

> ***Concern about risk** is not impacted by the political context.*
> **Global Investment Manager**

LPs that have not yet made this shift in thinking increasingly recognise the gap; they understand their underexamined exposure to physical risks facing assets such as data centres and supply facilities.

Climate is increasingly experienced as a **present operating condition with financial implications**. Western Europe recorded its hottest summer on record this year, and the effects reached well beyond temperature. Low rivers disrupted cargo and water supply[33], including water resources required to operate key

32 Ishika Mookerjee, "Private Equity Turns to Heat Detectives as Climate Risks Intensify," Insurance Journal, July 8, 2026, https://www.insurancejournal.com/news/international/2026/07/08/876597.htm
33 Copernicus Climate Change Service, "Copernicus: Record Heat Stress and Low River Flows Marked Europe's 2026 Summer," Oct. 2, 2026, https://climate.copernicus.eu/copernicus-record-heat-stress-and-low-river-flows-marked-europes-2026-summer

energy production facilities.[34] Heat also impacts businesses through their workforce. A recent study estimates that a single UK heatwave in June 2026 cost 24 million working hours.[35] Wildfires generate enormous losses not only for directly impacted businesses, but also for many thousands of indirectly impacted businesses. For example, in France summer 2026, fires and evacuation orders affected around 40,000 businesses, and the Economy Ministry estimated that about 130,000 employees could not work.[36] For the 13,000 businesses disrupted by evacuation orders whose premises were undamaged, those losses are less likely to be covered by standard business interruption.[37] For investors, these and other physical impacts of climate change are showing up in portfolio companies' current financial statements.

Just transition: recognised everywhere, operationalised nowhere

Almost every LP recognised the importance of thinking about the just transition – which to some means ensuring the energy transition is just across impacted communities (i.e. labour dislocation and community impacts) and to others means a broader range of human impacts of climate change and the climate response. However, very few had done anything about it, especially in private markets.

> *It only comes up in conversations with [sustainability people], not in investment issues generally.*
> **Global Investment Manager**

> *Informally discussed; neither a gating item nor a deciding factor.*
> **North American Pension**

The reasons are often structural – it is either an issue that gets pushed down the agenda, as discussed in Section 3, or it's simply that climate and labour sit with different people, targets, and workstreams. A North American pension fund described how there are different priorities in climate and labour, and so they are viewed separately and distinctly in different asset classes – with climate work happening mostly in public markets and labour work happening mostly in private markets.

The LPs who are exceptions to this indicate which operational steps are required. An APAC-based investment manager discussed how they are working to bring human rights into climate processes: "when we are assessing climate processes: "When we are assessing climate risks, we assess some of these human elements at the same time". A European insurer echoed this method, highlighting human rights as a new deep-dive topic in climate-related due diligence.

34 See, e.g., "Hungary Plans to Shut Down Only Nuclear Power Plant amid Drought," Al Jazeera, Aug. 2, 2026, https://www.aljazeera.com/news/2026/8/2/hungary-plans-to-shut-down-only-nuclear-power-plant-amid-drought
35 Elizabeth Robinson and Shouro Dasgupta, "June Heatwave Cost UK Economy More than £1 Billion, Study Finds," Grantham Research Institute, LSE, July 23, 2026, https://www.lse.ac.uk/granthaminstitute/news/june-heatwave-cost-uk-economy-more-than-1-billion-study-finds/
36 "French Wildfires Affect 40,000 Businesses as Disruption Spreads," Euronews, July 29, 2026, https://www.euronews.com/2026/07/29/french-wildfires-affect-40000-businesses-as-disruption-spreads
37 "13,000 Evacuated Businesses, Zero Physical Damage: The Wildfire BI Gap Guy Carpenter Just Exposed," Insurance Business, https://www.insurancebusinessmag.com/reinsurance/news/breaking-news/13000-evacuated-businesses-zero-physical-damage--the-wildfire-bi-gap-guy-carpenter-just-exposed-584654.aspx.

Worker and community impacts are already visible where coal plants and steelworks have closed, from Colorado to Wales, where lost jobs and local tax revenue have made transition support a live issue. The critical minerals that clean energy relies on carry human rights exposure, with allegations of abuse at transition mineral mines rising sharply in 2025.

Data centres are emerging as a place where the connection becomes unavoidable, with the pressures on communities, energy systems, and the climate becoming increasingly clear in headlines, legal action, and beneficiary conversations.

> *[Data centres are] the only area on social license where you see community involvement.*
> **Global Investment Manager**

In the United States, **opposition to data centres** has quickly become a material factor for investors. Trackers count tens of billions of dollars of projects blocked or delayed in a single quarter,[38] and Gallup found roughly 70% of Americans opposed an AI data centre near them.[39] State policymakers have responded: for example, New York has paused new state permits for the largest facilities and directed regulators to make them pay more for power or supply their own.[40] Banks financing the build-out now weigh community support alongside permitting, with Bank of America's head of global infrastructure saying readiness means "all the permitting and approvals that are required, and the community support".[41]

The complexity of a topic such as just transition – stretching across different areas of expertise – makes it less easy to address in a context of competing priorities, political uncertainty, and a strong focus on AI issues. The latter might bring just transition onto private market LPs' agenda in the mid-term, however.

38 Data Center Watch, "Q1 2026," https://www.datacenterwatch.org/q1-2026; Newley Purnell, "New Data Centers Worth $68 Billion Disrupted in US, Data Show," Insurance Journal, September 21, 2026, https://www.insurancejournal.com/news/national/2026/09/21/886238.htm
39 See "Americans Would Rather Live Next to a Nuclear Plant than an AI Data Center, Gallup Poll Finds," The Decoder, https://the-decoder.com/americans-would-rather-live-next-to-a-nuclear-plant-than-an-ai-data-center-gallup-poll-finds/
40 Chris Teale, "New York Governor Signs Nation's First Moratorium on Large Data Centers," Route Fifty, July 2026, https://www.route-fifty.com/artificial-intelligence/2026/07/new-york-governor-signs-nations-first-moratorium-large-data-centers/414752/
41 "Lenders Scrutinize US Data Centre Financing as Community Opposition Builds," Reuters, August 10, 2026, via BNN Bloomberg, https://www.bnnbloomberg.ca/business/artificial-intelligence/2026/08/10/lenders-scrutinize-us-data-centre-financing-as-community-opposition-builds/

Conclusion

The large institutional asset owner and asset manager LPs we spoke to remain committed to responsible investing in venture capital (VC) and growth equity despite headwinds. However, the shape of their commitments has changed.

Overall, what we are observing is that responsible tech investing is becoming:

- **Narrower in how it is justified,** framed almost exclusively through financial materiality and its indication of manager quality
- **Quieter in how it is done,** with less public signalling and more focus on managers' processes
- **Broader in what it covers,** as climate, workers' rights, AI, and defence all move further into scope

Narrower in justification: The business case is increasingly expressed in financial terms: responsible investing as a signal of manager quality, of investable opportunity, and protection of long-term returns. And the data evidence base for this business case is catching up in private markets, enabled by increasing reporting harmonisation.

Quieter: The politicisation has not stopped LPs from doing responsible investing, but it has forced them to sometimes talk less about it. This means more time spent on more defensible actions – LPs pay more attention to how managers actually integrate material issues, and less to the policies and reports they publish. Continued pressure from European LPs means US managers keep doing the work, enabling transatlanticcoordination.

Broader in scope: At the same time, the list of material issues is growing. Climate is no longer a future scenario but a present operating factor. Workers' rights are driven by beneficiaries, by scrutiny of the gig economy and surveillance, and by concern about AI job displacement. And responsible AI has become a major topic across the board, implemented in practices and procedures, even if not always consequential yet.

At Reframe Venture, we are positive about the development of responsible investing driven by VC and growth equity LPs over the last five years. The ecosystem has matured: we have broadly overcome uncertainty about the justifiability of responsible investment integration and worries about where and how to start. The general **bar has been raised** tremendously when it comes to ESG integration for tech investors - and LPs are mostly to 'blame' for that.

While the arrival of ever new topics – dual-use/ defence, AI, geopolitics, just transition to name the current ones – makes prioritisation for LP responsible investing teams harder, the **expertise gap is closing**; over the last twelve months, our responsible dual-use and responsible AI training alone have reached 100+ institutional LPs in Europe and North America alike.

Collective action among some of the biggest LPs can drive real, lasting change. EDCI and the Invest Europe reporting harmonisation have shown that. We believe that complex issues such as defence and AI require even more of this spirit; we are glad to support the PRI DDQ development and the further extension of the European reporting harmonisation for this exact reason.

The **challenge** for the coming year will be one

of balance and timing: how can LPs ensure their managers are not overwhelmed by FOMO (e.g. on AI) and exercise discipline where it is needed? Predicting when the (private) markets turn is almost impossible; putting good governance (and other material responsible investment practices) in place is the best way to prepare yourself and protect portfolio value.

While the rhetoric has changed since we started more than five years ago, we are hopeful about the improved practices we are seeing across ecosystems. If LPs continue to hold the line, catch up on their (self-defined) expertise gaps, and push forward with meaningful collective action, we believe the next year will bring even more real responsible investing.

Over the next year, we will continue our LP ecosystem work, especially with our European and North American LP working groups and through wider collaborations with Invest Europe, UK Private Capital and the PRI. With our new LP newsletter and research deep dives [you can sign up here], more online and in-person LP-only convenings, and regular LP-only training, we will continue to serve the 150+ institutional LPs we have in our community.

Because holding the line together is much more effective.



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