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Pushing Forward

Responsible Investing Practices of VC Limited Partners with a Deep Dive on Responsible AI and Data

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Executive Summary

What are institutional Limited Partners (LPs) — the biggest asset owners and asset managers — expecting from venture capital investors in terms of responsible investing (RI) and ESG practice? Based on insights from convening 50 LPs in New York, London and Paris, and in-depth interviews with twenty-six LPs managing approximately $1.5 trillion and a supporting survey, this paper highlights the continued commitment across the US and Europe — despite a perceived backlash. Here are our key findings:

1. LPs are committed to **a continued and growing integration of RI/ESG in VC globally**, while approaches differ between regions.
    - Materiality wins: The **business case** for ESG in VC has strengthened for LPs and implementation has evolved to become more standardised and more materially-focussed.
    - Language shifts with normalisation: Some issues areas, such as governance and diversity considerations have become so fundamental that many LPs no longer explicitly categorise them under ESG, viewing them instead as core fiduciary responsibilities.
    - Pushing forward: **No LP we spoke to anticipated doing less on RI/ESG going forward.** The large majority, including in the US, are planning on doing more in the future and a clear trajectory towards 'best practice' is emerging.
2. **Post-investment, LPs are evolving to take a more active role in developing their VC partners' RI/ESG capabilities,** with 88% of surveyed LPs actively engaging with fund managers to improve responsible investing practices.
    - Hidden LP champions: Even US asset owners, while often less public about their ESG commitments, are providing substantial support and increasingly viewing their role as partners in developing more sophisticated RI/ESG approaches, rather than just monitoring compliance.
    - Reporting a key piece for many: **ESG reporting remains an important piece of engagement for most LPs**, though with notable regional variations in approach — European state LPs often have the strongest requirements.
3. While 3 out of 4 LPs recognise significant long-term investment risk in the negative externalities of data and AI technology, we found that **knowledge of specific data and AI risks varies widely between LPs.**
    - Impactful or responsible? We found that LPs are more likely to confuse a product's impact opportunities with a company's responsibility when it comes to data and AI, relative to investments more generally.
    - Insufficient internal expertise: The vast majority of participants, and even those with sophisticated ESG approaches, stated they have insufficient internal expertise to develop specific RI/ESG approaches for data and AI
    - Difficult to learn: While eager to build up this expertise, LPs frequently expressed discontent at the lack of available specific frameworks and muddled, complex research on the topic. In the meantime, LPs rely on the knowledge and expertise of VC managers but recognise they are unable to sufficiently evaluate this expertise.
4. **The backlash against ESG has left institutional LPs mostly undeterred**, at least on the level of their actual practice.
    - Materiality trumps the backlash: Integrating material ESG issues across LP processes makes financial sense; LPs are hence continuing their refinement. This argument is also expected to stand up in most court cases.
    - Shifting power to Europe? Moreover, with over-allocated American LPs, we expect **the largest European LPs to continue to call the shots globally when it comes to RI and ESG integration in VC.** European LPs have been continuing to increase their VC investments steadily over the last decade and the most active of them have been writing more cheques into more funds globally, adding up to larger overall sums (per year) than any one of their biggest American counterparts.
    - Regulating globally, out of the EU: Regulation — SFDR and CSRD — has done its part in creating a **unified approach among European LPs**, which when combined with this growing relative importance, is resulting in an uplifting of ESG practices in VCs (and scale-ups) **beyond Europe's borders.**

INTRODUCTION

A changing landscape?

With over $51 billion invested in European startups and over $184 billion in US startups in 2024, the decisions on how this capital is deployed and what is expected from the business models it finances are actively shaping our (digital) and data economy[1]. This is particularly significant given that AI startups now account for 22% of VC financing globally in 2024, up from 11% in 2022.

However, with high interest rates and substantial dry powder tied up in VC funds *(see Figure 1)*, limited partners, especially in the US, have become increasingly selective in their VC commitments, with global aggregate capital raised in VC approaching a 10-year low. This has resulted in a shift in the balance of power between LPs and GPs. Importantly, this has led to an increase in willingness to comply with more detailed responsible investing and ESG due diligence. This is evidenced most strongly not by an increase in these practices amongst US LPs (although we are seeing signs of this), but instead by the increasing amount of capital raised by US VC funds from European LPs with typically higher integration of responsible investing and ESG practices for VC. This is especially significant for data and AI startups, given that US VC funding into deep-tech now outpaces European VCs by nearly four times (up from three times in 2023) — if American VCs are increasingly tied to European LP funding, they will have to follow as European LPs step up their responsible AI investing practices.

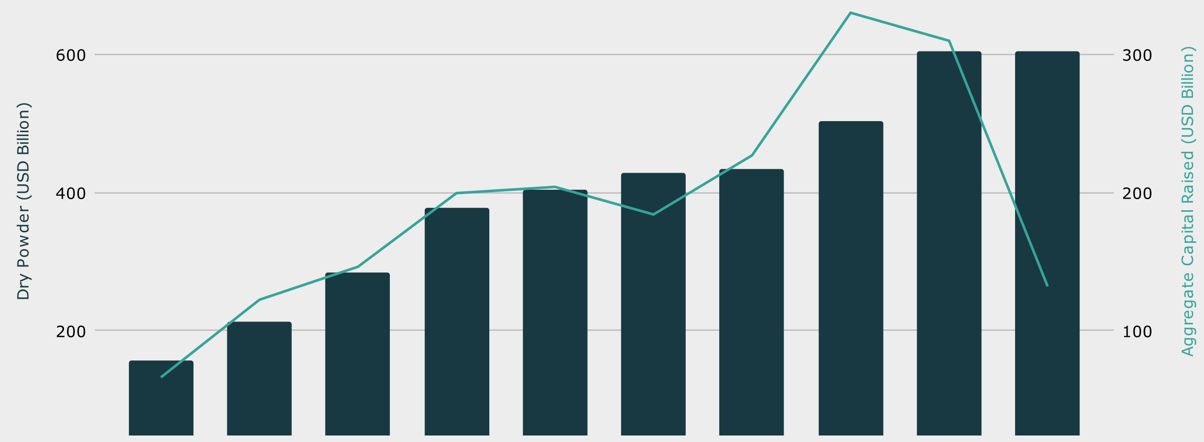


Figure 1. Global Venture Capital Fundraising and Dry Powder, 2014-2023. Preqin Data

1 Underlined parts of sentences (outside of titles) are connected to hyperlinks that are clickable, leading to sources to make the 'referencing process' easier.

To investigate this process, between March and December 2024, VentureESG together with Project Liberty Institute engaged more than 50 institutional LPs spanning state funds, pension funds, endowments, and fund of funds in Europe and North America through three convenings, twenty six interviews and an LP survey. The lead question: ***how do LPs think about (further) integrating responsible investing and ESG in their processes, with a specific focus on data and AI?***

In our first LP white paper in 2023, we found that LPs were expecting ESG to increasingly influence investment decision-making, led in Europe by market-making state LPs; these powerful LPs – combining large cheque sizes with ESG-sensibilities – have been pushing forward even more. In 2023, we also highlighted an unclear future in the US in the wake of ESG- and DEI- backlash. However, this backlash has been having a minimal effect on big institutional LPs, including those in the US.

In this white paper, we are diving into the specificities of these observations to increase transparency on both current practice and the direction of travel. Overall, we have identified both significant progress in the integration of RI/ESG practices across venture capital and specific challenges that remain in developing frameworks for responsible investment in digital technologies.

LPs are persistently pushing forward

OBSERVATION 1:

LPs are still pushing forward on ESG for VC — globally

LPs across the US and Europe have increased the integration of ESG into their processes since our 2023 white paper and only see their VC practices deepening in the future. No LP we spoke to admitted to doing *less* on responsible investing and ESG going forward; the large majority, including in the US, are **planning on doing more in the future**.[2]

LPs exposed to or concerned about the public backlash against ESG have become more thoughtful and specific about ESG, focussed intensely on **materiality** (see O3 and 4) and often working behind the scenes — deliberately avoiding public stances on issues. We've found that the LPs' core belief in the business case for ESG in VC has never been stronger.

For some organisations, this move to become more deliberate and material has required a change in **language.** Actors in the US are especially sensitive about using the same ESG language as seen in the public markets.

> *"Practically, the backlash has had no practical implications on what we do, but it does have an impact on the language that we use. So we are sensitive about using terms like DEI and instead talking about 'equity and representation'." [US Pension]*

2 This observation is in-line with findings in the 2024 edition of Pitchbook's Sustainable Investment Survey of private markets GPs and VCs; they find that the large majority of both (64%) incorporate ESG in their investment decisions — despite the public backlash. Their rationales for integrating ESG: ESG helps to identify risks, improve long-term returns and fulfil fiduciary duty expectations (among others). These findings are also aligned with the risk perception by leaders globally, as summarised in WEF's Global Risk Report 2025 (Figure C, page 8) which puts E-S-G risks at the top of the agenda both short-term (2 years: misinformation/weather/war/polarisation leading) and longer term (10 years: 4 environmental risks leading before misinformation and adverse AI outcomes). Similarly, Eurasia Group's 2025 predictions feature a large variety of ESG risks as key (e.g. energy transition, AI outcomes, unintended consequences of war).

In **Europe**, ESG continues to be approached comprehensively, as a unified set of requirements for LPs; it is almost universally seen as a number of material factors impacting financial returns. All of the European LPs we spoke to consider ESG factors as an important part of their **investment decision-making** and include it in their due diligence processes, investment memos and investment committee meetings. Generally, failure to improve on identified ESG issues can negatively impact a re-upping decision.

In the **US**, ESG integration in LPs' VC processes is more varied, but still generally higher than we have seen in the past. Some LPs reflect the same perspective as we see in Europe, with ESG being a unified and explicit aspect of due diligence and monitoring. However, we observed many US LPs interrogating VCs on issues **without labelling them ESG** (see O9). Example actions include diversity tracking of portfolios, use of good governance frameworks in due diligence, and quantitative analysis of climate impact to gauge fund performance — even amongst generalist LPs with a strict focus on financial returns. LPs in the US continue to see the different components of ESG as separate, such as, for example, pursuing fossil fuel investments whilst tracking and considering diversity significantly in decision-making.

OBSERVATION 2:

Reporting remains important piece of engagement for most LPs

Annual LP questionnaires on ESG for VCs became the norm around 2020 and are often still a key piece of regular engagement, especially in Europe. They usually involve data both on the VC's own ESG integration *and* portfolio companies' practices. For key state LPs in Europe, reporting is a hard requirement (often part of LPAs)[3] setting a **high bar**. Amongst respondents to our survey[4], which included many of these funds, 63% require fund-level reporting on ESG and 44% require portfolio company-level reporting, with the majority of these being European state LPs.

Other LPs, especially those with strong VC portfolios in the US, while often also sending out annual reporting, didn't see this as the key piece of engagement and hard requirement. They instead often focus on the integration of ESG across

3 This is often driven by regulatory requirements around SFDR and CSRD for the LPs themselves.

4 Important to note that our survey sample was small and focussed on some of the largest LPs in Europe, the US, and the UK. Given the small sample size, we do not think survey results are representative of LPs in VC generally, and instead results are used here purely to support qualitative results from interviews.

VC processes (see O3) and keep reporting requirements to a minimum. Often, **diversity reporting** would be the exception to this, where even (American) LPs who don't require any other (ESG) reporting have strong, positive and ongoing engagement with their VC funds. As one representative from a large European pension fund explains:

> *"[We] have never had a requirement in legal docs that they need to report on certain KPIs, and never pushed any surveys for them to fill out. We gather the information we can and then contact further and have conversations if we need more. We do collect specific data on DEI on the GP level." [European Pension]*

In parallel to the buyout focused EDCI[5] **harmonisation** initiative, Invest Europe (together with us at VentureESG) recently released a harmonised template (endorsed by six major European state LPs) which will lead to fewer diverging reporting requirements and more comparable data (starting in Europe).

Three key questions and challenges around ESG reporting remain:

1. **What does good reporting look like?** Under SFDR (and for scaling companies CSRD), reporting is mostly not materially filtered so remains a one-size-fits-all exercise. In an effort to harmonise and standardise, materiality often also loses out — and with it the meaningfulness of the comprehensive reported data. Material issues are not necessarily reported on and immaterial data is collected. As one LP explained:

    > *"This is a huge problem across the industry: 'why do you have an ESG policy?' 'Our LP asks us to', 'Why do you collect this data across your portfolio?' 'For our LP reporting.' [...] Where I see issues with EDCI, where people are chasing these data points just pass them through to an LP, I don't think it is a good use of time and resources. Get other metrics that you think are actually material to the sustainability of the companies." [US Pension]*

2. **What to do with the data?** Only few LPs have several years of reported ESG data yet but questions (e.g. from VCs) around what good the data will do have already surfaced. Longer standing efforts to collect DEI data only gives some answers to this challenge.[6] At least two LPs have started to (internally) benchmark funds which is one way of using the data. Questions around materiality (are we focusing on the wrong, eventually benchmarked metrics?) remain. Despite 63% of our survey respondents requiring fund-level ESG reporting, only 30% of these currently use that data to influence investment strategies or re-upping decisions.
3. **How can we harmonise internationally?** While the Invest Europe template will lead to increased harmonisation in Europe from 2025 onwards, most LPs outside of Europe are using (often highly divergent) questionnaires. The reporting burden will ease more significantly if especially the global asset managers agree on harmonising further.

OBSERVATION 3:

LPs extending their requirements increasingly — to prevent a tickbox exercise and enable real ESG integration in VC and startup processes

Whilst there is variation in the level of ESG integration between LPs across geographies, there is increasing **harmonisation on ESG requirements**, in parallel to reporting standardisation. This implies a common interpretation of 'best practice'.

At the **top end of this scale**, LPs have thoroughly integrated ESG processes throughout their own investment process, require regular ESG reporting, and track ESG progress throughout the fund lifecycle (e.g. with best practice sharing, portfolio workshops). Progress on ESG goals and integration is considered significantly in future investment decisions. *This is where the large majority of European LPs sit.*

ESG process, a best practice example:

1. **Initialisation of the investment process:** document review to check investment strategy alignment, compliance with exclusion list, and no ideological rejection of ESG principles (at the fund level). Example term sheets and side letter requirements might be shared at this early stage for transparency.
2. **Due diligence:** visits, calls, references, questionnaires and further documents to check compliance with minimum ESG criteria (exclusions, SFDR, ESG policies), assess ESG management capability, check management company accreditation, and material ESG issues and gaps with investment strategy and processes. LPs might contact current and

5 EDCI (ESG data convergence initiative), originally conceptualised by CalPERS and Carlyle, now managed by ILPA and BCG, has strong coverage in buyout with 475+ GPs and LPs and 6200 portfolio companies covered; however, it was not conceptualised for VC and only few LPs use it for their VC reporting.

6 Few LPs go beyond 'having a conversation' around DEI data — even in cases where they might have collected this data for several years; investment and re-upping decisions are only minimally influenced by this data, for instance.

past employees of the management company, especially junior members of staff, to assess the real level of ESG integration.

3. **Deep dive:** if necessary, deep-dive on fund-specific ESG processes and material gaps, bringing in sector-specific experts (if applicable, e.g. on AI/deep tech/climate). Highlighting areas of improvement to be followed-up on post-investment, and action plan shared with fund.
4. **Investment decision:** Material ESG factors found in due diligence, fund's overall level of ESG integration, and action plan for improvement are included in the investment memo and discussed as agenda items at the investment committee meeting.
5. **Signing:** Action plan, conditions for ESG integration, ESG reporting requirements, and other requirements included in side letter.
6. **Post-signing:** ESG onboarding and refining of action plan, including identifying space for LP assistance / engagement to improve VC practices.
7. **Monitoring and stewardship:** Annual ESG reporting, analysis, and review, check-ins on ESG performance and development on action plan, provision of resources, support, workshops, and training to management company, if required.

> *"We have a street. We define the boundaries. But how they drive on the street is up to them to design. But we would not allow any movement outside the boundaries." [European Corporate]*

The **middle group** of LPs follows a similar pattern of ESG integration across their own processes but with a more 'relationship focused' approach and softer requirements. As a standard practice, ESG shows up across investment and post-investment conversations and is referred to in decision making but with a lower impact potential. Investors in this group often need to see that GPs understand the ESG business case and have the capability to integrate ESG processes. *This is where most large global / North American LPs — and all other European LPs — sit.*

For the **remainder of LPs**, ESG is applied in a less comprehensive way — and often also not under the heading ESG (or responsible investing). LPs might pick a particular focus area, sich as governance, diversity, or climate / net zero — often aligned with a certain investment focus or institutional mandate. ESG and responsible investing frameworks are not applied in as comprehensive a way as in the other groups and will not have the same impact on investment decisions. *This is where all other LPs — mostly smaller US institutions — sit.*

OBSERVATION 4:

Shifting towards stronger focus on fund-specific 'material issues'

In the light of both a changed economic climate — higher interest rates making money less freely available, a continued IPO freeze — and a justified reset of ESG, many LPs across geographies are focused on **identifying material ESG issues**, fund-by-fund and sector-by-sector.

Governance has become an even stronger focus, following several high profile governance incidents — examples such as FTX but also governance scandals in high-profile Indian startups were quoted regularly. For many LPs, Anti-Money Laundering (AML), external audits, and operational diligence have become standard process requirements for VCs. Notably, this governance focus does not necessarily fall under the 'ESG agenda' — which we take as an indication of its deep integration into LPs fiduciary duty requirements.

> *"[We're] flexible when it comes to specific language to tailor to non-SFDR asset managers (US funds), but we're not flexible on the content around, for example, good governance practices." [European Corporate]*

DEI remains a big topic of conversation among LPs, even if the language has changed. US LPs are generally focussed on this, even if not on anything else ESG. This has been driven by two main factors: increased conviction in the business case of diversity and high-profile sexual harassment cases, leading to an increased focus on culture.

> *"We have a paragraph [in our investment memo] every time that notes whether the firm is diverse or not and lists examples of diverse firms that we reviewed that are as similar as possible to the firm we are investing in. And we source most of those managers from the IADEI database [...]. If the firm we are investing in is not diverse, then we make sure to have reviewed any diverse comparable firms before making the final investment decision." [US University Endowment]*

Human and workers' rights have become bigger topics of conversation, even in early stage technology, and are generally seen as a useful framing for considerations of human dignity and general responsibility. From issues with content moderation (often outsourced to cheaper emerging markets without adequate worker protection in place) to (deep tech) supply chain driven startups, both regulation (CSDDD in Europe) and LP sensibilities have more strongly focused on these issues as one large US endowment (and several others) explained:

> *"We directly engage in decisions on specific portfolio companies if something has hit the headlines or they're about to make an investment and that impacts the well-being of supply chains, customers or workers. We focus on DEI, labor, and AI-related human rights issues. We care about human dignity. These are also fundamental material investment issues." [US Endowment]*

OBSERVATION 5:

Stewardship, education and value-add activities are entering LP practice

While reporting is often the first piece of engagement and remains where much time is spent — especially for VCs getting started on their ESG journey — engagement, stewardship and education have become key points of focus for most LPs we interviewed. This was supported by our survey, of which **88% of LP respondents actively engage with VC fund managers to improve** RI/ESG practices. For many LPs, ESG conversations with VC funds indeed starts with educating them on what ESG is (a risk framework, a key value-driver) and is not (a tick-box exercise, a regulatory exercise only). As one LP explained:

> *"Where I see the value-add for what we can do, there is an opportunity for **helping managers** to improve the quality of their ESG processes [...] sometimes they approach us but sometimes it comes out of the investment recommendation, that we would like to move forward but have to engage with us after the investment." [US Pension]*

> *"The due diligence process is designed to assess the status quo of capability and then we **advise them to improve**. This can take different forms: sharing examples of best practices, sharing research to look into, or recommending or mandating training." [Europe State-backed LP]*

Many LPs go beyond the education and awareness raising and provide **direct support** for VCs to start or improve their ESG integration journey. We interviewed LPs who provide support and engagement on a variety of different pieces, including:

- ESG policy template and support in the writing and rollout process of the policy
- Best (and worst) practice sharing across the portfolio to inspire peer-learning
- Training on specific material ESG issues for portfolio funds, e.g. data and AI
- Direct engagement on issues with specific portfolio companies, e.g. human rights, DEI, or data and AI

This approach, which is especially strong among the **'hidden LP champions'** in the US and among big international asset managers who might not be as (publically) vocal about their ESG requirements (often also using different language) can yield strong results over time. LPs use their regular check-ins and decision points (e.g. around re-upping) to (re)surface ESG and responsible investing topics strengthening the VCs' practices.

DEEP DIVE:

Responsible Data and AI

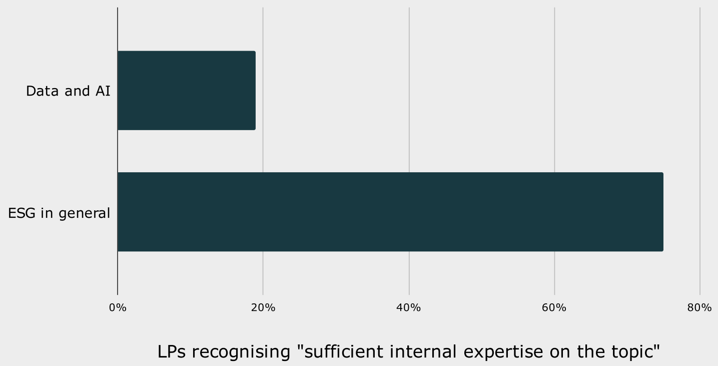
OBSERVATION 6 (AI1):

Everyone is “still taking stock” on responsible data and AI

With AI startups accounting for 22% of VC financing in 2024 (up from 11% in 2022), vast amounts of LP capital is being deployed in an area with huge opportunity accompanied by significant and new risks. Whilst **75% of our survey respondents** believe that failing to address the negative externalities of data and AI technology poses a **significant long-term investment risk**, we found in our interviews that knowledge of specific data and AI risks varies widely between LPs.

Many LPs today are aware of unintended consequences and negative externalities of the web 2.0 boom of social media and other services including issues such as data agency, mental health to polarization. However, LPs still **struggle to identify which best practices to adopt** to mitigate those. The rapid adoption of AI focuses the attention of the investment ecosystem on broader topics of what is a sustainable data economy. As one LP put it:

> *“We all understand that this is an acute topic that we need to seriously address, but we* ***simply don’t really understand yet*** *what good looks like with regards to data and AI”* [European state LP]



Concerningly, **only 19% of survey respondents felt that they had sufficient internal expertise** to develop specific RI/ESG approaches for data and AI, compared to 75% for ESG in general.

These challenges raise **fundamental questions** for LPs navigating this rapidly evolving landscape: What does “good” look like in the context of responsible data and AI investment today? How can these aspirational goals be translated into practical frameworks and governance approaches? And perhaps most crucially, how will our definition of best practices evolve as data and AI technology continues to advance?

Some LPs were able to coherently express both the specific risks to investing in data and AI technologies and the challenges the industry faces more generally:

> *“The big risk is that we are passing more and more control to systems that are not necessarily producing outputs that we intended or wanted them to deliver — and we don’t even know that. […]* ***We are still so used to building systems that are linear****, in a precise way and one that we can check, […] people have forgotten that many of these new systems we can’t even check because the system is evolving the whole time.” (Global FoF)*

However, other LPs maintained that it is too early in AI’s development for specific risks to be identified at all:

> *“AI is moving so fast, it’s so* ***hard to hit a moving target****. Maybe this is an excuse, or lack of knowledge, but risks are still unknown.” [US Endowment]*

Developing an understanding of data and AI, both in terms of opportunities and risks, was almost universally identified as an area of interest, if not an active effort. However, we found that very few LPs had begun significant work on understanding this better.[7]

> *“We would like to know more about it and how we could properly address it in due diligence and calls with funds, but right now we don’t have capacity to do deep dives or to think about how we can approach it in an advanced and structured way.” [Europe State-backed LP]*

> *“We are doing a lot of work on this right now — we have developed some questions, on technology governance, that pertain to AI.” [US Pension]*

> *“A really interesting topic personally and am personally concerned, but as an investor, [we have] no engagement yet with VCs.” [European Endowment]*

Many LPs were placing their **trust in their managers’ knowledge** to assess risks regarding the responsible use of data and AI — and as an opportunity for them to learn from, too:

> *“Do we have a framework around it? Our work could be better here, we are really hoping and trusting that our managers [are] thinking through this properly.” [US Pension]*

7 See for instance StepStone’s 2024 white paper specifically focused on responsible AI.

OBSERVATION 7 (AI2):

Confusion of market opportunity and ESG risks for data and AI

An additional key theme amongst LPs was confusion between the market and impact opportunities of AI and the ESG risks, which is a theme that we continue to encounter around the impact/ESG confusion. As one LP described one company in their underlying portfolio:

> *"[One AI company is] pushing the boundaries of scientific research and AI is really helping to find neat cures for pressing issues. So I'd say the responsible AI aspect there is pretty obviously catered for."*

Whilst it's clear that AI has extraordinary potential for positive social and environmental impact, an **AI solution to such a problem is not necessarily 'responsible'** (i.e. taking material ESG risks into account). In fact, the potential effects of incidents of bias, irresponsible data licensing, and hallucinations could be significantly more negative in AI technologies designed to produce impact. This is symptomatic for the larger thinking of LPs about investing in a fair data economy.

In parallel to the (ongoing) backlash in public market ESG — where the acronym is equated with wokism, social justice and (concessionary) impact investing — this confusion can lead to the further entanglement of conversations around responsible AI in the backlash.

OBSERVATION 8 (AI3):

LPs keen to build up expertise on data and AI to engage VCs

LPs admitted to their desire to better understand AI and data infrastructures, for instance with venture-specific due diligence guidance. 88% of our LP survey respondents said it would be beneficial to have a set of data and AI-specific **evidence-based due diligence questions** for VC funds and 75% are interested in participating in specific **training** on responsible data and AI.

In our interviews, LPs frequently expressed discontent at the **lack of available frameworks** and muddled, complex research on the topic, often citing the sector's rapid development as a key difficulty for learning.

> *"Perception is that it is so early right now — we still have no idea of where it is going in terms of impact, and most ESG tools are better applied to more mature companies with more defined businesses, revenue streams, and supply chains." [US Endowment]*

> *"On AI, we definitely would need more knowledge about what could go wrong. So what kind of questions do I need to ask to find out if they are aware of the risks. [...] I doubt that our GPs really understand AI risks and having knowledge of these processes allows us to know what is feasible and what we should be expecting, given the time and resource constraints, especially in a competitive deal." [Europe State-backed LP]*

OBSERVATION 9:

The backlash is leading to ESG-hushing but is hardly influencing Europe

The backlash against ESG — sometimes described as 'anti-woke' capitalism — has left the institutional LPs we interviewed almost completely undeterred, at least on the level of their practice. As a result, these '**hidden champions**', both in the US and among LPs with exposure to many US VCs, are more likely to engage in 'green-hushing'.

Since 2020, voices **critiquing green- and ESG- washing**, especially among public market companies, ESG rating agencies, and asset managers, have become louder. At the same time, European regulators have started to clamp down on such behaviour. This has resulted in many corporates and investors scaling down their ESG pledges and DEI initiatives — often driven by a fear of litigation.[8] Most recently, Republican-led states have sued three of the biggest asset managers over their climate commitments.[9]

The institutional LPs, which we interviewed, reported very **few direct consequences of the backlash**. Two tangible developments are the only exception: some LPs have left the voluntary industry group Climate Action 100+ following a Republican House Judiciary Committee probe. Similarly, the UN-backed GFANZ (Glasgow Financial Alliance for Net Zero), uniting a variety of subgroups across asset classes around net zero commitments, has seen a large number of departures (including in its Net-Zero Asset Owner sub-arm).

The stepping away from public commitments by some LPs, however, has not coincided with significantly changing practices, leading to increased cases of ESG-hushing.[10] A concentration on material ESG issues (see O4) — often without a headline label — across LP processes has continued driven by the strong belief in the business case of **material ESG risk integration**. As one US asset owner explained:

> "From a DEI perspective, there will be real legal risks for anything that seems like a quota-oriented practice or explicitly exclusionary of any group. [...] courts *may not rule in your favour there anymore. [....] Practices shouldn't be explicitly exclusionary. But I don't think these are insurmountable adjustments to make. [...] It will not change what many LPs ask for. Many of these firms are committed to the same principles." [US Pension]*

This continued focus on (everyday) ESG practice among LPs — despite the political and media backlash — is strongly **backed by European (state and other institutional) LPs' practice and narrative.** One large European asset owner with significant exposure in the US explained the challenge succinctly — as well as their way forward, focused on education and support:

> *"VCs are on board but they work with external legal counsels and they are trying to protect their clients. [...] We might need to do even more* **groundwork on explaining why** *we have the requirements we have [...] [they might then] even take a look into the European ecosystem where ESG is definitely still super, super relevant." [European asset owner]*

With their (relatively) growing importance in the market (see O10), unified by regulatory forces, European LPs have helped to steward the (global) VC ecosystem forward when it comes to ESG integration. All LPs we spoke to expect this to continue independently of the lack of regulatory pressure in the US in 2025.

8 This is following a US Supreme Court decision in June 2024 effectively banning affirmative action in college admissions. Many corporates and investors have since been deterred by the threat of lawsuits, such as against the VC Fearless Fund's grant program for black entrepreneurs (resulting in the program's shutdown in late 2024).

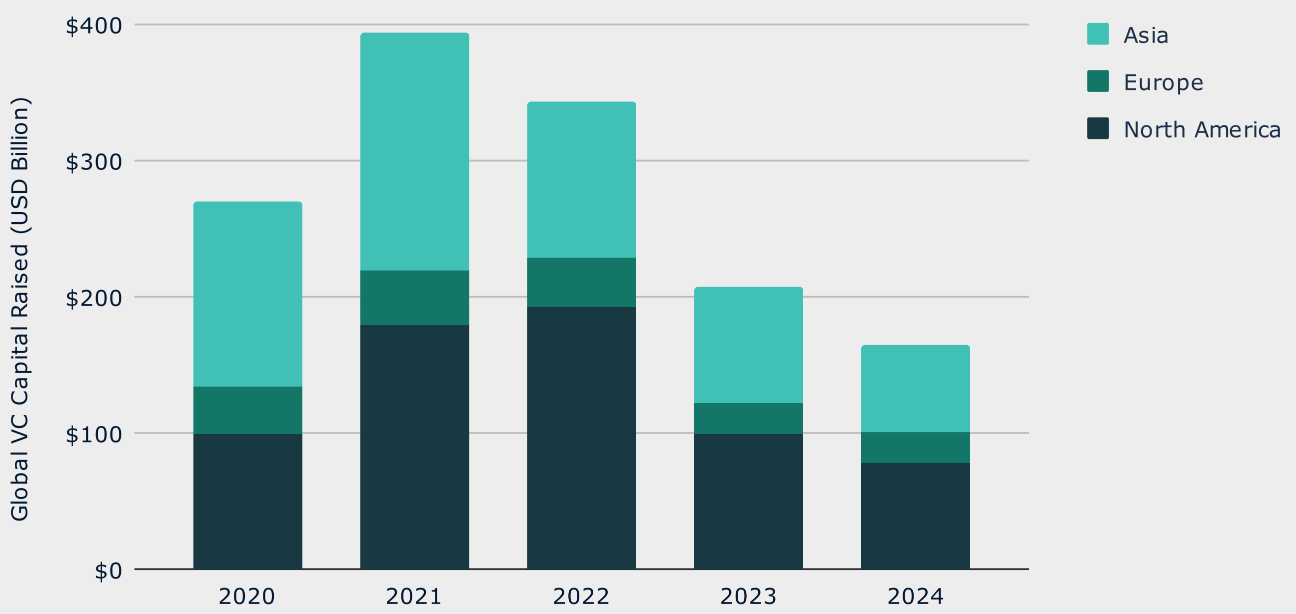
9 This and other similar suits are based on claims of investors pushing anti-competitive behaviour by for instance exerting pressure on fossil fuel companies (and hence driving up energy prices).

10 ESG — or green — hushing is the opposite of ESG-washing where companies or investors do ESG without (publically) talking about it (rather than claiming to engage in ESG integration without actually changing their processes). Find a simple explainer of these terms here by KPMG.

OBSERVATION 10:

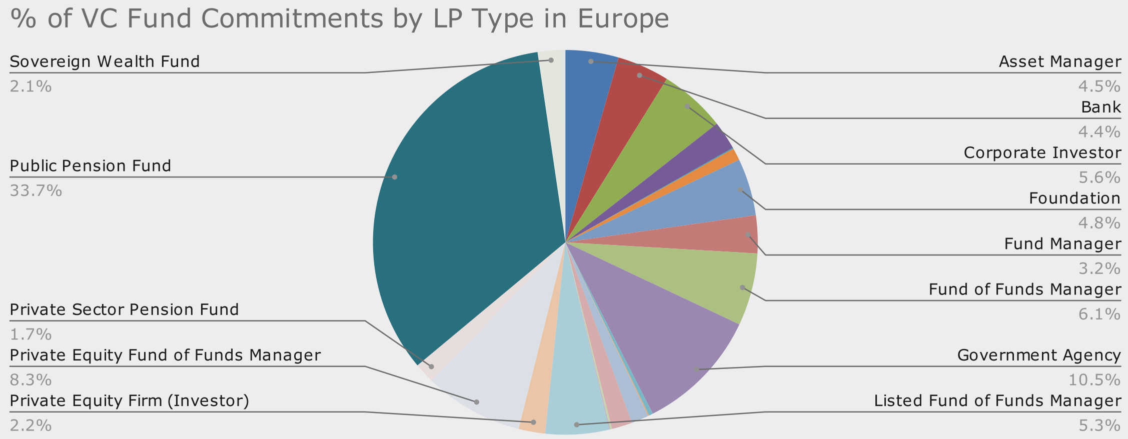
ESG for VC pushed globally by shifting to unified European LPs?

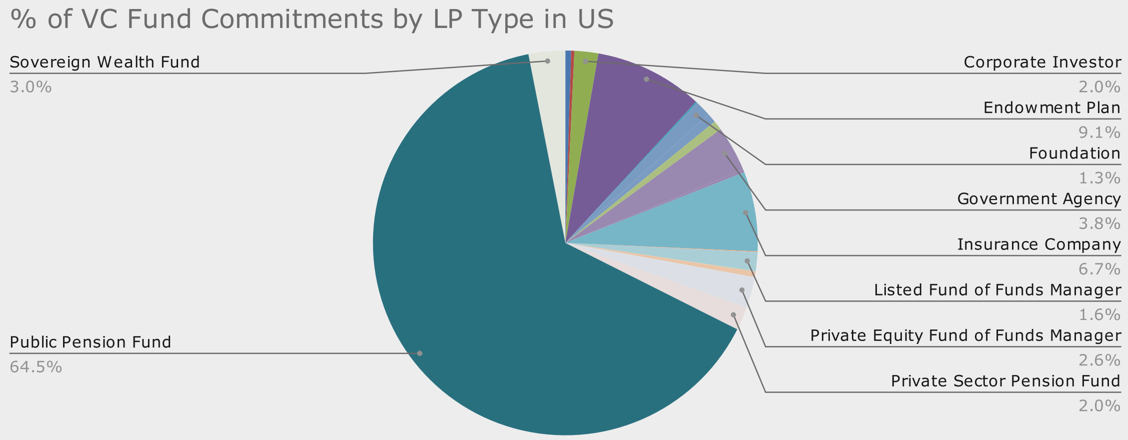
VC fundraising from LPs has been down across the world; however, it has been **down least in Europe**, relatively speaking (reduction of less than 18% in Europe in 2024 vs 21% in the US vs 26% in Asia).



Source: Pitchbook 2025

The largest single pools of capital in Europe have for some years been economic development banks and state funds, many of which have large vehicles solely focused on venture capital, often with a pan-European or global mandate. These LPs have been continuing to **increase their VC investments steadily** over the last decade and the most active of them have been writing more (while slightly smaller) cheques into more funds adding up to larger overall sums (per year) than any one of their largest American counterparts. Additionally, the pension fund unlock which has led to a step in US VC growth in 1971 is yet to happen across Europe, with the UK leading the charge (with its Mansion House reform and Pension megafund plans). Even small changes in the allocation of European pensions could lead to step changes in the size of European VC over the coming years.





Source: Preqin Ltd., the 2025 VC Global Report, an Insights+ publication

Regulation — often reaching beyond the borders of Europe, from GDPR to SFDR and CSRD — has done its part in **creating a unified European base of LPs**, together inventing, engaging and enforcing meaningful ESG practices. With over-allocated American LPs — also still waiting for returns, we expect this unified base of increasingly influential European LPs to continue to call the shots, globally, when it comes to ESG integration in VC. Overall, this will lead to a steady and pronounced *increase* of the practice. As one LP concluded:

> "We're investing quite significant checks into the funds [in the US] and we're a very trusted partner [...] they're happy to still have us on board. [...] **they want to move away from purely US LP structures.**" [European Corporate]

CONCLUSIONS:

Window of opportunity

Out of all the institutional LPs we engaged for this research, on both sides of the Atlantic, **not a single one expected to do *less* on ESG** in the VC asset class going forward. Many are in fact moving towards **all pieces of ESG integration beyond (only) reporting;** LPs increasingly focus on material ESG issues, specific and proportionate for VC and their portfolio companies. As one LP put it:

> "Despite the choppy waters, LPs are still getting on with integrating material ESG factors driven by the powerful underlying currents of prudent risk management."

Overall, what we are observing is ESG and responsible investing in VC becoming:

- Less of a tickbox and compliance exercise
- More specific to VC, across all different parts of the LP, VC and startup value chain
- Focused on material ESG issues rather than one-size-fits-all
- Driven by increasingly powerful European regulation and LPs globally

When it comes to responsible investments in **AI and data** startups, unlike with other aspects of ESG, LPs admit to a **need for more guidance, frameworks and expertise**. Knowledge sharing between LPs through dedicated forums and working groups will be essential, as will establishing clear guidance (e.g. DD frameworks) that help LPs evaluate both the opportunities and risks in data and AI investments.

Overall, the momentum is building for **systematic change**, with institutional investors across Europe and North America engaged in coordinating on frameworks and processes for responsible VC investment. Moving towards a focus on material action, LPs in VC funds have a large role to play in the responsible development of the next generation of technology companies, including those focused on AI and data.

LPs, especially with the tailwind of European regulation uniting a group of powerful asset owners, have entered a window of opportunity; increasing power lies in **LPs working together** — including across the Atlantic, as their funding flows cross — to fully anchor ESG and responsible investing across all meaningful aspects of venture capital. Following reporting harmonisation efforts in Europe, we are seeing the power of coordination in action.

Responsible investment in data and AI practices are emerging as a particularly compelling focus area for this continuing coordination, as these technologies present both unprecedented opportunities and novel challenges across geographic boundaries. We will continue the small part we can play with more convenings, dedicated LP working groups and resource production.

APPENDIX:

Methods: Interviews and Survey

Following our first VentureESG LP white paper, focused on providing a first of its kind insight into European and North American LPs' responsible investing and ESG behaviour in venture capital, this second iteration follows a similar methodological approach. We extended our core method of semi-structured long-form interviews with a first-of-its-kind survey.

Interviews:

We interviewed twenty-six institutional limited partners and asset owners, all with significant exposure to VC (5-100% of AUM in the VC asset class ranging from $100m to $25bn) and with a combined estimated overall AUM of over $1.5 trillion. Fifteen of these LPs are headquartered in Europe (but many with significant allocations in the US); eleven are headquartered in North America (many with significant allocations in Europe and Asia). Among the twenty-six LPs we interviewed were seven state LPs (economic development banks, sovereign wealth funds), six endowments, five pension funds and several fund of funds and insurances.

Survey:

Thirteen institutional limited partners and asset owners, all with significant exposure to VC. Five of these are headquartered in North America (many with significant allocations in Europe and Asia) and eight are headquartered in Europe (many with significant allocations in the US). Despite the small sample size, this group included a variety of state LPs (economic development banks, sovereign wealth funds), endowments, pension funds, fund of funds and insurances, with a combined AUM in VC of almost $80bn. To reflect the small sample size, we have used insights from the survey purely to provide supportive quantitative support of our qualitative findings from the interviews.

VentureESG is a London-based non-profit organisation driving the integration of ESG and responsible investing in the Venture Capital industry globally. Working with communities of 500+ VC firms and 110+ institutional Limited Partners, our focus is on systemic harmonisation of ESG across the ecosystem. VentureESG is the leading organisation worldwide to publish research and tools specific to enable VC investors' responsible investing practices.

The transatlantic LP initiative and White Paper have been developed in partnership with Project Liberty Institute. Project Liberty builds solutions to help people reclaim control of their digital lives, fostering voice, choice, and stake in a better internet. Project Liberty Institute is a 501(c)(3) organization that serves as an international meeting ground for technologists, policymakers, entrepreneurs, investors, academics, civil society, and governance experts. Its mission is to advance responsible governance and evidence-based innovation across entrepreneurship, infrastructure, and capital allocation, shaping frameworks for how we design, invest in, deploy, and govern new technologies. Its academic partners include Stanford University, Georgetown University, Harvard, MIT, and other leading institutions. It is also the steward of the public-interest infrastructure protocol DSNP and home of the Fair Data Economy Task Force.

Data Partners

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