



ESG-Driven Value Creation

Practice in Czechia

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Introduction

1. Introduction

The European Union's (EU) Climate Law legally codifies the goal set out in the European Green Deal for Europe's economy and society to become **climate-neutral** by 2050. While different sectors contribute to this transition, private equity (PE) and venture capital (VC) have the potential to play a meaningful role in supporting both innovation and sustainability. Known for their active investment approaches, **investors are evolving beyond their traditional focus** of capital provision and operational improvement to embrace sustainability as one of strategic drivers of financial value. Leading general partners (GPs) are embedding Environmental, Social, and Governance (ESG) principles across the entire investment lifecycle—from determining asset valuations during acquisition to driving value creation during ownership and achieving enhanced returns at exit. These efforts demonstrate how sustainability can serve as a lens for identifying value creation opportunities as opposed to merely meeting regulatory requirements.

This perspective is backed by an expanding body of research that highlights the growing importance of ESG in the investment process. According to the United Nations Principles for Responsible Investment (UN PRI)¹, material ESG risks can lower valuations in up to 80% of cases and, in some instances, even lead to failed transactions. Similarly, Deloitte's research² underscores that **ESG issues are increasingly shaping decision-making** across the deal lifecycle, from due diligence to post-acquisition value creation, as buyers seek to account for long-term sustainability risks and opportunities. Bain & Company³ reports that limited partners (LPs) and general partners are aligning more closely on ESG priorities, with nearly 90% of LPs stating that they would decline to invest with a GP that fails to adopt an ESG framework.

The growing focus on ESG in valuations reflects a broader shift in the private equity landscape, traditionally characterised by its mid-term, results-oriented approach. By design, PE funds acquire businesses with transformation objectives — enhancing operational efficiency, scaling growth, and driving financial performance within a defined investment horizon. Today, ESG considerations are becoming integral to this process, influencing strategies from due diligence to the holding period and eventual exit. This integration is enabling funds to differentiate themselves in an increasingly competitive and regulated landscape, aligning financial performance with broader sustainability goals.

¹ UN PRI: [Responsible private equity: Our data reveals some emerging best practices but there is more work to do](#)

² Deloitte: [The role of ESG in M&A: A strategic imperative](#)

³ Bain & Company: [Limited Partners and Private Equity Firms Embrace ESG](#)

Institutional investors such as the European Investment Bank (EIB) and development banks like the European Bank for Reconstruction and Development (EBRD) are further driving this shift. These LPs demand not only financial returns, but also sustainability performance in portfolio companies, aligning investments with broader environmental and social goals. Regulatory frameworks like the Sustainable Finance Disclosure Regulation (SFDR) and the Corporate Sustainability Reporting Directive (CSRD) are reinforcing these changes, compelling PE funds in Czechia and the wider CEE region to consider or integrate a sustainability-focused lens.

However, our conversations with industry stakeholders indicate that the understanding and active use of ESG's value creation potential in Czechia is still in its early stages. For many, ESG remains primarily a regulatory or reputational consideration. At the same time, a small but growing number of proactive funds are beginning to see it as a strategic lever for enhancing portfolio company performance, mitigating risks, driving innovation, and ultimately maximising valuations at exit. **These early adopters demonstrate the tangible benefits of integrating ESG into investment strategies, paving the way for broader industry recognition and adoption in the future.**

Integrating ESG for value creation is complex and multifaceted. It varies by sector, investment stage, and fund type, requiring tailored approaches to operationalise it effectively. Case studies and practical examples are crucial to demystify these processes. At the Czech Sustainable Investment Forum (Czech SIF), we frequently hear from our members about the need for concrete examples of how ESG can drive value—from mitigating risks to identifying growth opportunities—across different industries and sectors.

This report addresses that demand by showcasing real-world examples of ESG integration in action, highlighting its role as a value creation tool in private equity and venture capital. By exploring both the challenges and opportunities for funds operating in Czechia, we aim to bridge the gap between abstract ESG concepts and practical implementation. **Through case studies and actionable insights, we demonstrate how sustainability can be integrated into every phase of the investment lifecycle.** Whether through operational improvement, risk management, or innovation, ESG is no longer a peripheral concern—it is at the heart of making better investments and achieving better outcomes for all stakeholders.

State of the Market

2. State of the market

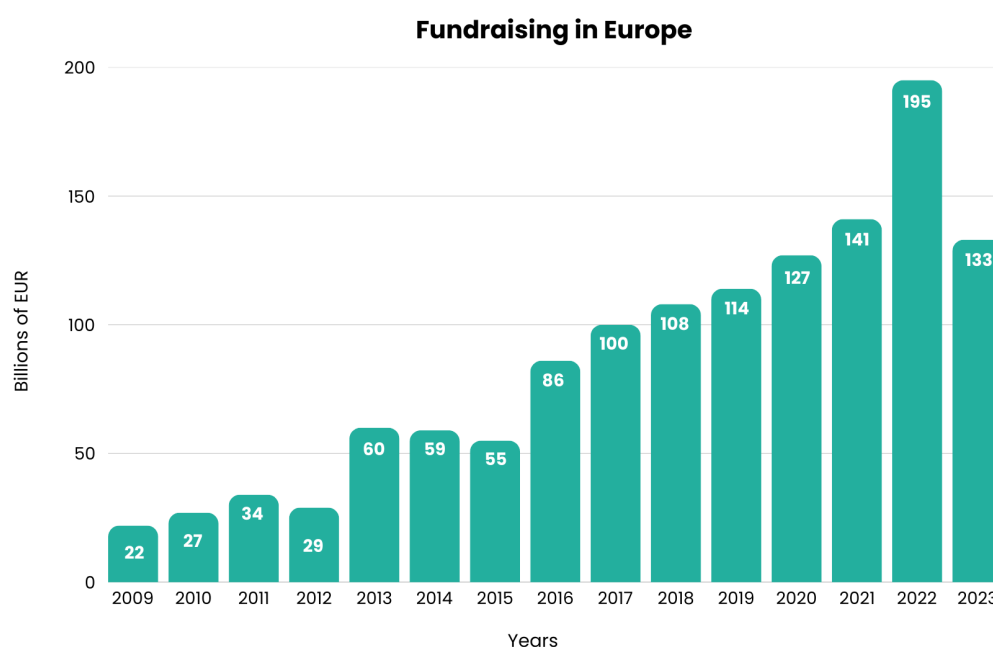
2.1. PE and VC in Czechia and the broader Central and Eastern European region

In the years leading up to the Covid-19 pandemic, globally, PE and VC experienced significant growth worldwide. Both investments into the sector and its activity reached remarkable levels, marking an era of increased influence across various industries. This boom was characterised not only by financial success but also by the expanding presence of PE and VC firms in the broader economy.

At the heart of this growth lies the dual role of PE firms—as key drivers of both economic transformation and employment. As of 2022, portfolio companies backed by private equity collectively employed over 20 million people worldwide⁴. This staggering figure underscores the industry’s capacity to shape labour markets and influence socioeconomic landscapes.

Using various figures, we illustrate the state of the Central and Eastern European (CEE)’s private capital market and its broader impact on sustainability⁵ integration. The expansion in investment activities leading to the Covid-19 pandemic is also obvious in European fundraising figures according to a report from Invest Europe⁶ shown in Figure 1.

Figure 1



⁴ Harvard Business Review, 2022: [Private Equity Should Take the Lead in Sustainability](#)

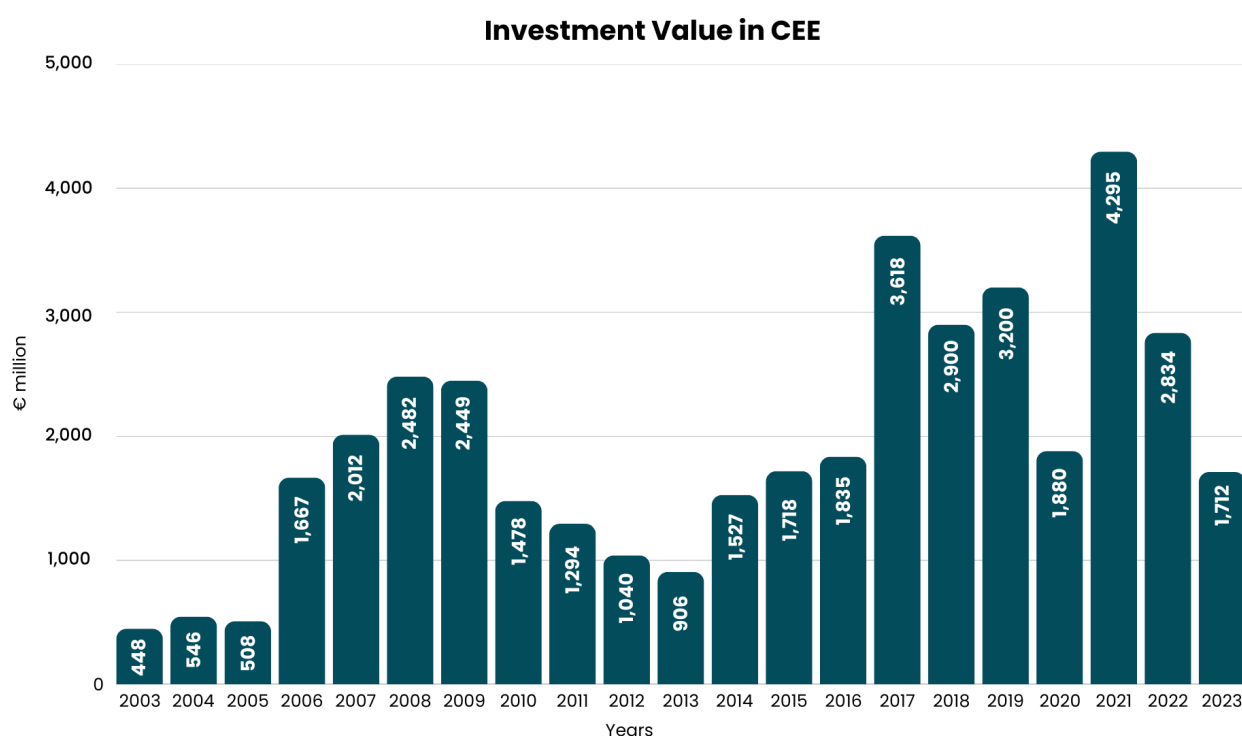
⁵ We use the terms sustainable and its variations interchangeably with ESG through this report.

⁶ Invest Europe: [Investing in Europe: Private Equity Activity 2023](#)

Source: Adapted from [Invest Europe](#)

However, in contrast to these Europe-wide numbers, the CEE region exhibits variations in investment activity. According to the same source⁷, investments for both PE and VC in this region fluctuated more significantly, as shown in Figure 2. PE investment in the CEE region experienced a significant slowdown in 2023, reaching €1.71 billion—a 40% drop compared to 2022 and 43% below the five-year average. Mid-market buyouts, however, gained prominence, accounting for €545 million of the total. The overall decline in volume was largely attributed to reduced VC activity. In contrast, PE investments across Europe totalled €99.8 billion in 2023, reflecting a 25% decline from 2022. The CEE region's share of the European total also decreased, from 2.1% in 2022 to 1.7% in 2023.

Figure 2



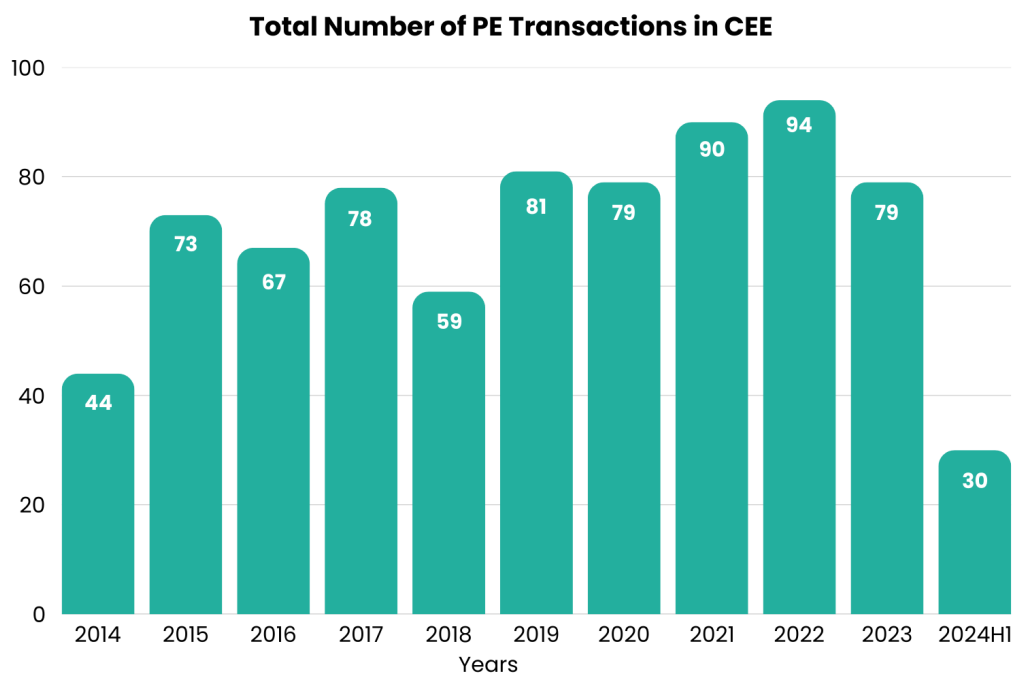
Source: Adapted from [Invest Europe: CEE](#)

Additionally, as shown in Figure 3, analysis of PE deals numbers during the COVID-19 pandemic reveals that the event did to 'not' disrupt the deal flow in the CEE region between 2020 and 2022. Despite global economic challenges, the region maintained a steady pace of transactions, supported by lower valuations—what we call the "CEE discount"—and targeted funding from government agencies aimed at bolstering the PE ecosystem. These factors contributed to sustained investor interest and deal-making activity. The resilience and growth in deal count observed in the CEE region, even amid broader economic declines, indicates its strategic importance within the investment landscape⁸.

⁷ Invest Europe: [2023 Central & Eastern Europe: PRIVATE EQUITY STATISTICS](#)

⁸ Aventis Advisors: [Private Equity in Central and Eastern Europe](#)

Figure 3



Source: Adapted from [Invest Europe: CEE](#)

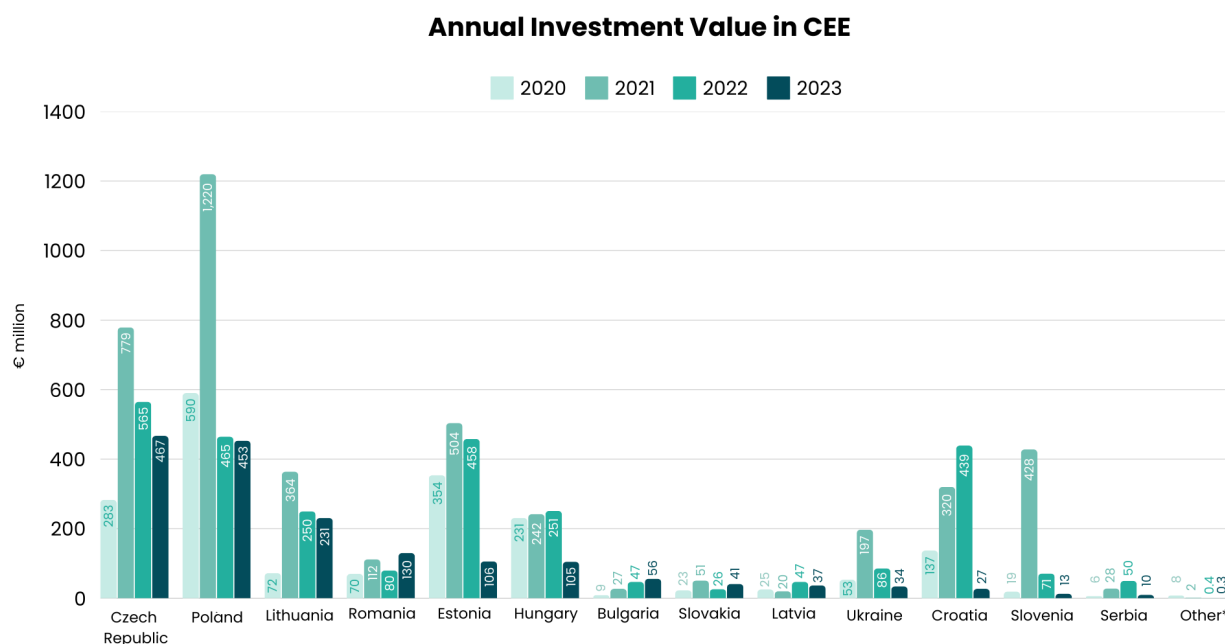
And what about numbers from Czechia?

In terms of investment volumes, Czechia was performing relatively well across PE and VC investments from 2020 to 2024, particularly when considering its market size as shown in Figure 4⁹. Focusing solely on VC investment numbers, Czechia was the leading destination in the region accounting for 27% of the total investment value and 6% of the companies that secured funding, according to the CEE region focused Invest Europe report.¹⁰ This highlights Czechia's position within the CEE private capital investment landscape.

⁹ Invest Europe: [2023 Central & Eastern Europe: PRIVATE EQUITY STATISTICS](#)

¹⁰ Invest Europe: [2023 Central & Eastern Europe: PRIVATE EQUITY STATISTICS](#)

Figure 4

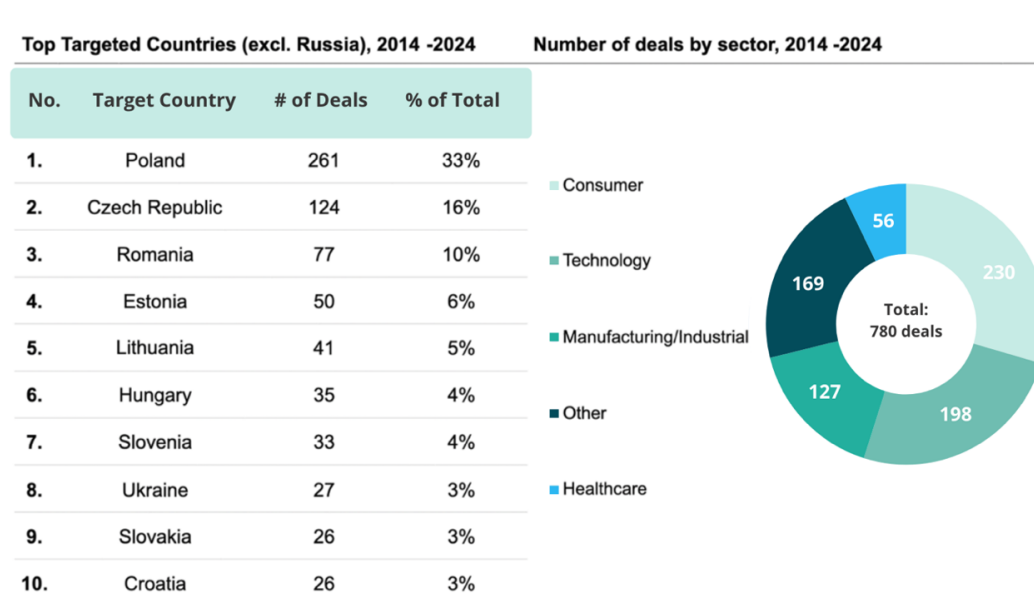


Source: Adapted from [Invest Europe: CEE](#)

Regarding sectoral preferences, the lack of detailed statistics per country limits our understanding of whether capital allocation in the CEE region prioritises sustainability or remains concentrated in emission-intensive industries. However, research from Aventis Advisors¹¹ indicates that in the CEE region, most investments are directed into firms operating in Business products and services, followed by Information and communication technology (ICT), Biotech and healthcare, and Consumer goods and services as shown in the Figure 5. This distribution may suggest a potential alignment with sectors that inherently support sustainable development, such as ICT and healthcare, while also highlighting the need for further analysis to assess the environmental impact of investments in other sectors. Moving forward, more granular data and targeted research will be needed to evaluate the sustainability of investment flows and ensure private equity investments support the objectives of the EU Green Deal.

¹¹ Aventis Advisors: [Private Equity in Central and Eastern Europe](#)

Figure 5



In summary, our analysis finds that economic resilience creates a favourable environment for investors and portfolio companies to pursue longer-term strategies, including the integration of sustainable practices, as they are less pressured by immediate constraints. Additionally, we attribute the shift in attitudes toward sustainability in Czechia to the strong market performance and increasing regulatory pressures stemming from frameworks such as the SFDR and the Corporate Sustainability Reporting Directive CSRD. These factors have likely been instrumental in driving this transformation. We will explore this topic in greater detail in the subsequent sections of this report.

2.2. Evolution of ESG: From ESG 1.0 to ESG 2.0 in the regional context

When it comes to the implementation of environmental, social, and governance principles and broader sustainability goals, the Czech and the overall CEE market are characterised by lack of publications and transparency on these topics in the VC and PE ecosystem. There is limited information on how this market works and what may be the main challenges or potential opportunities. Despite this, our observations indicate a slow, but growing integration of sustainability into investment activities. This shift is largely driven by institutional investors like the EIB, especially through the European Investment Fund (EIF) and the EBRD, both of which play a significant role in Czechia by investing in numerous PE and VC funds. Additionally, the increasing interest in funding from these entities, both of which emphasise sustainability, has prompted more funds in Czechia to integrate sustainability into their operations and investment processes.

Nonetheless, this integration does not always translate into tangible value creation¹². Moreover, Czechia and the broader CEE region has a nascent impact investing ecosystem. This was supported by the Global Impact Investing Network (GIIN): Impact Investor Demographics 2023 report, which highlighted

¹² We use the term value creation, because we believe it inherently captures the concept of impact.

that only 1% of global impact investors are in Eastern Europe and Central Asia. This underlines the region's early stage of impact investment development and the need for greater efforts to build sustainability-focused financial practices, especially because of the rising regulatory pressure, investors and societal expectations to move to long-term sustainable impact from mid-term financial gains.

Are major changes underway?

The transition from ESG 1.0 to ESG 2.0 includes a shift toward greater sophistication, enhanced analytical depth, and a more robust integration of ESG factors. While multiple definitions of these frameworks exist, what they have in common is that the evolution from ESG 1.0 to ESG 2.0 reflects a significant progression in the understanding, implementation, and utilisation of ESG data. Therefore, it could be understood as strategic implementation and consideration of all factors.

ESG 2.0 aims to go beyond the earlier, often simplified, perspectives of sustainability, which predominantly framed it as a supply chain issue. Instead, it aims to establish a stronger connection to the real-world economy, creating a more comprehensive and nuanced approach to addressing sustainability challenges. This advancement underscores the increasing demand for granular, actionable insights that drive meaningful change¹³. A similar trend has been observed in Czechia and the broader CEE markets; however, it is important to note that the pace of transition in these regions has been somewhat slower. While progress is evident, the shift from ESG 1.0 to ESG 2.0 has not yet been fully embraced by all market participants in these areas. This highlights the uneven adoption of advanced ESG practices and the need for further engagement and alignment across the market.

To provide clarity on this topic, we have outlined a brief overview of our perspective on the state of ESG transition within the Czech and the broader CEE markets. This contextualisation aims to shed light on the unique dynamics influencing the region and the opportunities for accelerating ESG integration.

ESG 1.0: Basic compliance and exclusions

In the ESG 1.0 phase, the focus was primarily on avoiding harm, complying with basic regulatory requirements, and meeting minimum standards for social and governance practices. Common approaches included exclusionary screening, which remains popular, to avoid investments in sectors such as fossil fuels, tobacco, pornography, or arms manufacturing.

In PE, this approach was largely risk-averse, focusing on protecting investments from reputational or compliance risks. In VC, ESG efforts were even less developed, typically limited to investments in sectors considered inherently deemed inherently "green" or socially beneficial, making them more focused on thematic investing.

Across the CEE region, ESG 1.0 was often perceived as a regulatory burden with limited local relevance, particularly in markets like Czechia, where the business environment has historically been less attuned

¹³ ESG Investor, 2024: [The Investment Case for ESG 2.0](#)

to sustainability concerns. That said, there were exceptions, with some players embracing ESG principles earlier than others.

ESG 2.0: Proactive integration and value creation

The shift to ESG 2.0 represents a move beyond compliance towards the proactive integration of sustainability into the entire investment lifecycle. This phase involves full ESG integration, including sustainability valuation, risk and opportunity assessment, and embedding value-creation strategies into investment processes.

As detailed in Chapter 3, value creation can take various forms, from enhancing operational efficiency to aligning with emerging market trends. Institutional investors and evolving regulatory frameworks, such as the EU's SFDR, have been key drivers of this shift. Additionally, rising stakeholder expectations have encouraged firms to treat sustainability risks and opportunities as extensions of traditional risk management, aiding in the futureproofing of portfolio companies.

PE firms in the region, while slower to adopt ESG integration, have focused on specific sustainability themes, particularly in ICT, energy, and environmental investments as shown in the previous chapter. Despite challenges in implementation, some market actors in the PE ecosystem are leveraging sustainability as a competitive differentiator, where it is seen as something which can make a difference. For these firms, ESG capabilities can enhance their market positioning and attract capital in a competitive advantage. Despite the progress, when it comes to ESG metrics selection and availability or usage of technologies, there is still room for improvement as there is for setting net-zero or any other targets and decarbonisation approaches. Additionally, especially for pure PE actors the challenge is that a lot of total addressable market (TAM) companies operate in emission-heavy sectors and business models with heavy externalities (pollution, high energy, water or raw material use), which are often difficult to change for more sustainable means, especially with their established supply chains or reliance on fossil fuels.

When it comes to VC, the adoption of advanced ESG practices presents challenges due to the nature of VC investments. Unlike in PE, the transition to more advanced ESG integration: ESG 2.0 tends to be slower. The slower shift can be attributed to the inherent complexities of embedding ESG principles in young, rapidly evolving companies, where resources and attention are primarily directed towards scaling operations and securing market traction. Furthermore, the regulatory and market-driven pressures that are accelerating ESG adoption in other sectors have yet to fully permeate the VC ecosystem.

Value Creation

Introduction | State of the Market | **Value Creation** | Case Studies | Conclusion

3. Value creation

3.1. Defining value creation in PE

The perception of sustainability's role in long-term value creation among PE investors has evolved over the years. Given the rapid changes in perception of corporate sustainability and emergence of ESG 2.0 within PE, the industry is moving towards greater involvement with portfolio company management to address systemic challenges linked to their long-term operational sustainability.¹⁴ Even with conscious integration of ESG factors and broader impact considerations, PE firms ultimately look to leverage these value creation levers to increase the terminal value of their investments. As such, PE firms can drive productivity gains at portfolio companies by also leveraging sustainability levers to help unlock the dual benefits of achieving long-term financial growth and promoting positive environmental and social impact.

Value creation outcomes at portfolio companies typically rely on PE firm's inputs and systematic work addressing available organisational and commercial levers to drive value during the holding period¹⁵. Based on our research, value creation levers available to PE firms could be broadly classified into four categories.

Value creation lever	Example of measures at portfolio company level
Financial Restructuring	Debt instruments; focus on cost cutting and profitability
Operational & Management Efficiency	Enhancement of productivity and management practices
Growth Opportunities	New markets expansion; investment into new products and R&D
Long-term Resilience	Integration of ESG risks and opportunities; digital transformation

Given the limited dissemination of best practices and industry-wide standards, most PE firms tend to embed sustainability objectives across a wide range of value creation activities as a result. Nevertheless, novel approaches with broader sustainable goals such as "green innovation" or "green revenue" might be considered, encompassing products, processes, technologies, managerial and organisational practices. In reality, measures across all the four classifications can result in sustainability outcomes - for example, installation of rooftop photovoltaic panels to reduce electricity costs could fall under the operational improvement category though sustainable objective of reducing both scope 1 and 2 emissions could be achieved. Common ESG-focused measures to improve compliance and reduce supply chain risk would then typically fall under "Long-term Resilience" though

¹⁴ Leleux et al., 2015: [Private Equity 4.0: Reinventing Value Creation](#)

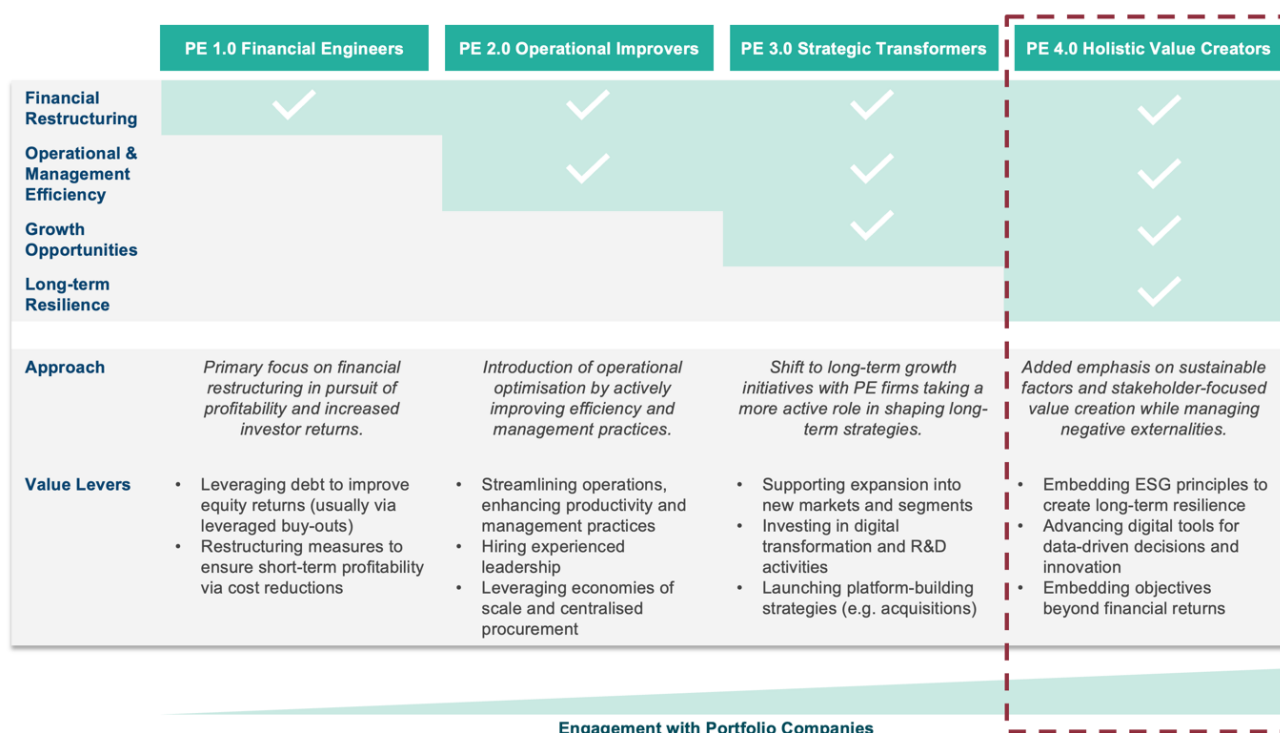
¹⁵ Krysta & Kanbach, 2022: [Value creation in private equity portfolio companies: a structured review of evidence and proposed framework](#)

might not be exclusively limited to it. For instance, increasing delivery of EU Taxonomy-aligned products and services might help future proof the company but also provide new source of commercial growth.

3.2. Evolving approach to value creation at investee level

PE approach to value creation can be split into four evolutionary phases, highlighting the transition from “PE 1.0”, characterised by financial optimisation driven by PE firms themselves to the so-called “PE 4.0”, which represents a holistic approach that ensures long-term resiliency and sustainability of the investee. The progression reflects a shift in priorities and increasing sophistication of leading PE firms, which aim to deliver on their financial return promise to LPs and expectation of other relevant stakeholders including banks, investee company management and employees, and investee companies’ customers. The accompanying graphic illustrates evolution of PE approach to value creation, presenting the four stages that the industry has gone through since the 1980s. Holistic approach represented by “PE 4.0” would sit at the cutting edge of the PE industry, which has only recently emerged at industry-leading PE firms. The notion of sustainability contributing to the so-called “PE 4.0” approach was first coined by Summa Equity, a leading purpose-driven Swedish investor, in 2019¹⁶. The framework below represents a modified view of different value creation models, charting various sources of value integrating financial, operational, strategic, and long-term resiliency considerations.

Picture 1



Source: [Czech SIF](#)

¹⁶ Indahl & Jacobsen, 2019: [Private Equity 4.0: Using ESG to Create More Value with Less Risk](#)

As PE firms look to attract further funding from LPs and carve-out a niche in the market, holistic value creation with integrated focus on resiliency and sustainability can become a core competence that yields competitive advantage. Our case studies in the following chapter will showcase how a variety of investors in the CEE region leveraged some of these available levers at their portfolio companies. While we do not evaluate and classify our case study investors by “PE1.0” to “PE4.0” logic, they all employ one of the four broad categories of value creation levers – i.e. financial restructuring, operational and management efficiency, growth opportunities, or long-term resilience.

3.3. Methodology: Our framework

As mentioned before, value creation can have various forms. This includes a different definition of value by GPs. Therefore, in this chapter we will outline our approach to value creation based on the information provided in the previous chapters of this paper.

Investment Framework: Structure and Explanation

Our investment framework serves as the base for achieving value creation and impact. It comprises two key components:

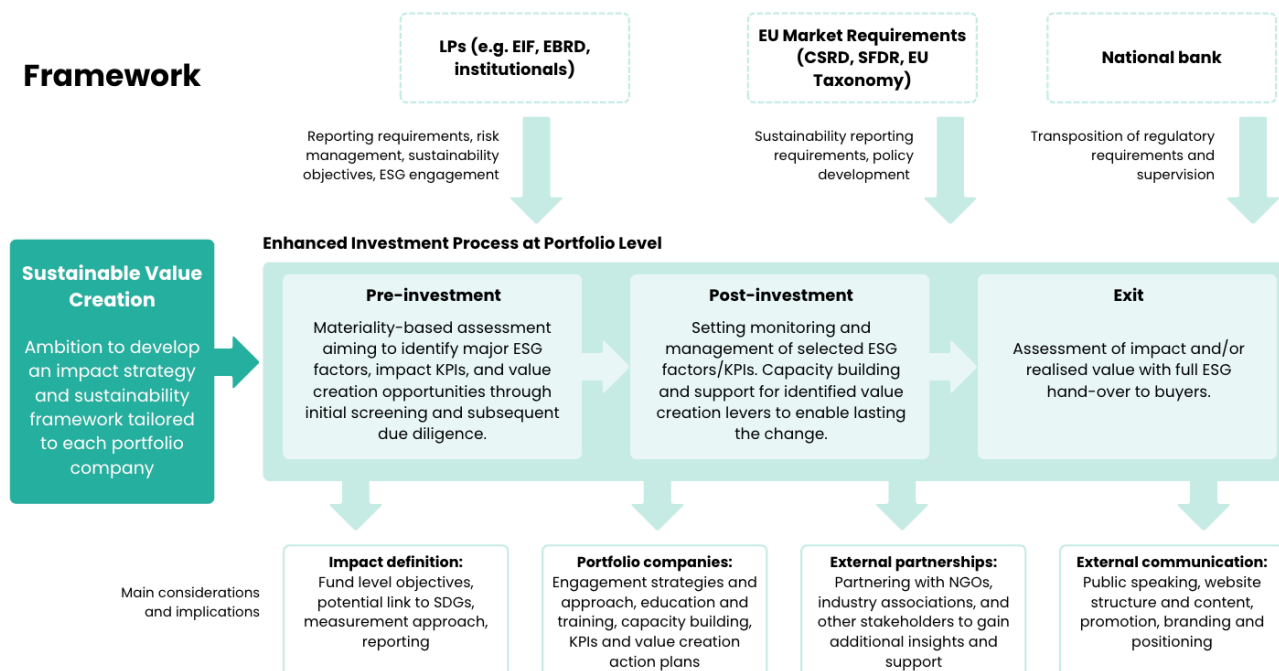
1. High-Level and Detailed Visual Representation

- A high-level visual provides a concise overview of the framework, illustrating the key stages and interconnections in the investment lifecycle and the impact of external factors.
- A detailed visual breaks down these stages into actionable components, offering clarity on how individual elements contribute to value creation and impact delivery.

2. Horizontal and Vertical Elements

- Horizontal Elements affected by vertical factors include stage-specific activities, such as due diligence, portfolio management, and exit strategies, designed to embed sustainability and capture value at each investment stage.
- Vertical Elements primarily shaped by external stakeholders represent an overarching push across themes, such as governance, risk management, and stakeholder engagement, that penetrate all stages of the investment process. These elements influence alignment with external expectations and regulatory requirements while supporting the overall implementation of ESG principles.

Picture 2



Source: [Czech SIF](#)

Additionally, it is necessary to emphasise that our approach to defining value creation with ESG aspects aligns with the three phases of the investment process: pre-investment, post-investment, and exit. Across these phases we observed varying levels of sophistication in ESG integration into value creation, reflecting, among others, the influence of vertical elements in shaping sustainability considerations. These phases also correspond to evolution from PE1.0 to PE4.0 as outlined in Section 3.2.

Pre-investment

This phase places emphasis on materiality-based assessment linked to sustainability, ensuring that ESG initiatives focus on the factors most relevant to the company's industry, operations, and long-term objectives. By aligning value creation with the overall strategy and mission, this approach integrates ESG as a central component of business planning and execution, rather than treating it as an ancillary or compliance-driven task. Such alignment demonstrates a high level of sophistication, where ESG considerations are intentionally and strategically embedded across the entire investment process. This integration also prioritises measurability, with clearly defined metrics and KPIs to track progress, evaluate impact, and demonstrate tangible results. By adopting this approach, ESG becomes a driver of innovation, resilience, and sustainable growth, reinforcing its role as a core enabler of value creation.

Post-investment

In this phase, we observed two primary approaches to integrating ESG into value creation. The first involves a continuation of efforts to deliver on the KPIs identified in earlier stages, ensuring that the

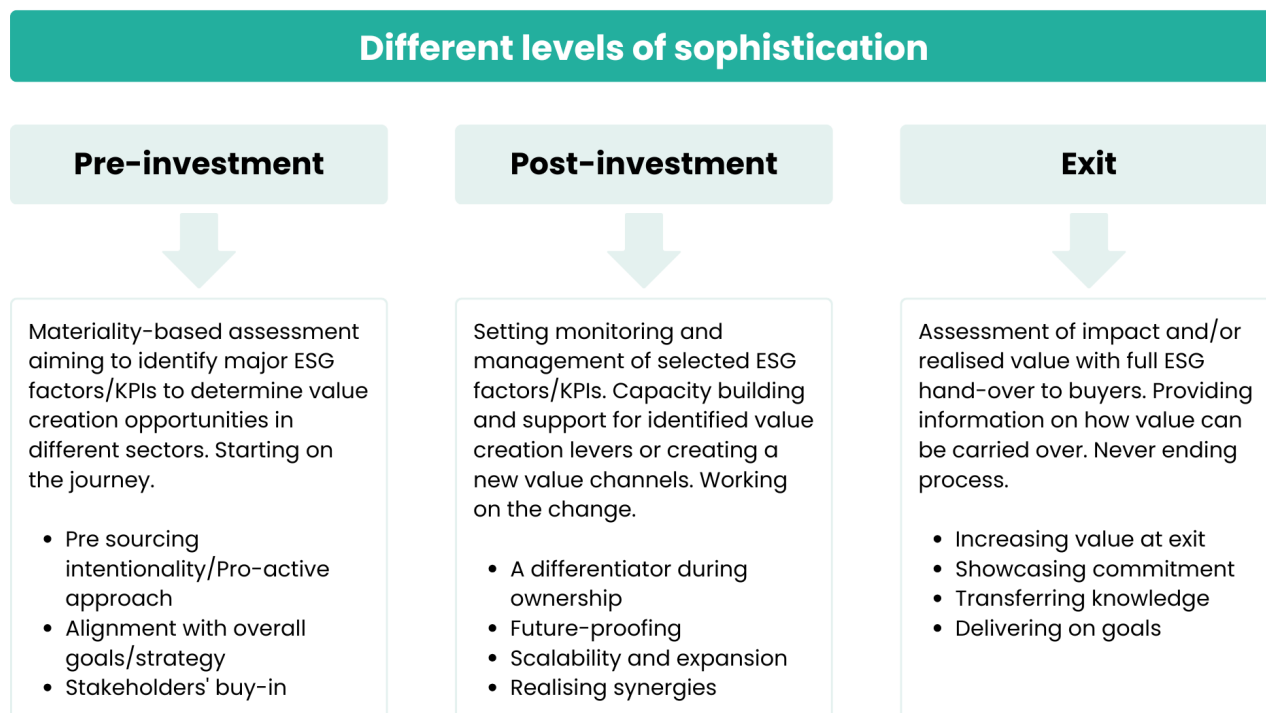
portfolio company builds on its existing ESG commitments and achieves measurable progress. The second approach focuses on creating new value creation levers by exploring opportunities to enhance a company's value through ESG initiatives. This could include adding ESG elements to address external pressures, such as regulatory requirements, investor demands, or the need to appeal to a broader pool of potential buyers. Additionally, companies may focus on identifying synergies, leveraging ESG as a means to unlock efficiencies, optimise operations, or differentiate their products and services in the market.

Exit

This phase is primarily focused on delivering the value identified during the pre-investment process, ensuring that the ESG levers outlined earlier are effectively implemented and generate the desired outcomes. While no entirely new channels for ESG integration were identified at this phase, the emphasis shifted to exploring how ESG integration could be operationalised and what best practices might serve as effective examples of value creation. This involves refining and showcasing successful ESG strategies, such as delivering on ESG-linked carry mechanism, improving resource efficiency, enhancing governance frameworks, or leveraging sustainability to strengthen market positioning. By focusing on practical execution and tangible results, this [phase underlines the importance of aligning ESG efforts with value creation goals, providing a roadmap for measurable impact and long-term success.

Picture 3 provides further details on our approach when selecting relevant firms and structuring our case studies to provide an insight into the Czech market.

Picture 3



Source: [Czech SIF](#)

Case Studies

4. Case Studies

This section outlines our approach to the selection, structure, and presentation of case studies, designed to illustrate the nuances of ESG value creation across different phase of the investment lifecycle. We have chosen to focus on three investment phases: pre-investment, post-investment, and exit. This focus reflects our belief, as discussed in the preceding section, that value creation varies significantly across these phases, with each requiring tailored strategies and sometimes spanning multiple phases of the investment process.

The case studies are categorised based on the stage we identified as most relevant to their context, based on our understanding of the specific circumstances of each case and the methodology used to clarify its ESG implications. However, it is important to note that some case studies may also apply to other phases of the investment lifecycle, reflecting their broad impact and the interconnected nature of ESG considerations. This also shows the diverse ways ESG creates value and that these efforts do not exist in silos. Additionally, despite the fact we tried to keep the structure of the outputs consistent, due to the variations in the nature of the case studies this was not always entirely possible.

The insights presented in these case studies are derived from a combination of publicly available information and direct consultations with general partners and/or representatives from their portfolio companies. This approach ensures a balanced and practical perspective, capturing both theoretical and on-the-ground experiences to inform and inspire effective ESG integration into the value creation.

In this chapter we would like to thank Iain Haggis and Olga Khymych from CEIP, Magdaléna Radová (at the time) and Petr Vitek from Tilia Impact Ventures, Kristýna Machová from Inven Capital, Marek Šubrt and Martin Vácha from Versute Investments, Andrej Bátovský from Gevorkyan, and Martin Medo from ARX Equity Partners.

4.1. Pre-investment Phase

4.1.1. Case Study: Inven Capital

General information

Fund size: €500M+

Themes: Environmental sustainability, decarbonisation, digital innovation, and ethical business practices.

Portfolio company target: Focused on climate tech and sustainability startups (e.g., energy efficiency, renewable technologies, mobility)

Type: Independent VC backed by a corporate

1. Introduction, Context, and Main Drivers

Inven Capital (hereafter Inven) is an independent venture capital firm founded by ČEZ Group, a major European energy utility, which serves as its sole equity holder. The fund focuses on investments in innovative technologies aimed at addressing climate change and contributing to sustainability goals. Since 2017, the EIB has committed €100 million to investment partnerships with Inven, reflecting the fund's alignment with global decarbonisation and sustainability objectives.

Inven integrates ESG considerations throughout its investment lifecycle. Its pre-investment approach includes impact screening to identify companies with the potential to address significant environmental challenges while delivering financial returns. The fund's access to leading climate tech markets, including Germany, the Nordics, and Silicon Valley, supports its ability to invest in innovative solutions with the potential for systemic impact.

2. Pre-Investment Approach and Strategy

Screening for Climate Impact & ESG Due Diligence

Inven's pre-investment strategy is guided by its commitment to fostering scalable innovative solutions with primary focus on decarbonisation. According to Inven's Kristýna Machová, the fund first evaluates impact potential of each target to align with Inven's overall vision to deliver significant environmental impact. This initial evaluation is then followed by a robust ESG due diligence to identify concrete improvement areas at the investee level. Inven's pre-investment focus typically includes:

- **Emphasis on Decarbonisation:** Inven's core investment objective is to scale startups offering decarbonisation solutions encompassing clean technologies such as renewable energy generation, energy efficiency, e-mobility, circular economy innovations, and digital tools for carbon reduction. The investment team therefore first assess how much CO₂ would each unit of investee's service or product help abate. Inven does not have a minimum impact threshold though material contribution to decarbonisation is expected, often validated by expertise available within the broader ČEZ Group. In addition, the firm is also working developing non-carbon KPIs such as water and waste management.
- **Comprehensive ESG Due Diligence and Reporting Processes:** Inven employs a proprietary ESG evaluation methodology, comprising key clusters covering governance, environmental stewardship, and social responsibility. This framework is integral to assessing whether potential investees meet the fund's sustainability and compliance standards and also help uncover improvement areas. Both quantitative (primarily CO₂-related KPIs) and qualitative reporting is then conducted regularly to ensure continuity and continuous improvement. Regular reporting process is supported by standardisation provided by digital ESG platform Worldfavor to enable ongoing monitoring of ESG performance and sustainability risks.

Alignment and Collaboration with Founders and Co-investors

Building on data-driven impact screening, due diligence, and reporting, Inven also prioritises partnerships with founders and co-investors who demonstrate a strong commitment to addressing global environmental challenges. The fund thus looks for teams with a clear vision for integrating sustainability into their business models.

- **Close Alignment with Founding Teams:** During the pre-investment phase, Inven collaborates with founders to define measurable impact objectives that align with the fund's sustainability thesis. This co-development ensures long-term alignment and buy-in from both sides where Inven becomes an active partner and trusted advisor for each investee. Investees typically appoint one ESG "point person" to then ensure transparent communication and a clear interface between business teams and investors. Inven also helps coordinate with other co-investors by setting up joint working groups with a common investee ESG interface.
- **Fund's Attractiveness and Becoming Partner of Choice:** As a long-term partner of the EIB, Inven demonstrated its ability to create positive environmental impact within its portfolio and thus benefits from access to blended financing structures and EIB's technical support. As of 2022, one of Inven's funds is now also an SFDR Article 8 fund, which underlines the VC firm's commitment to sustainability. Consequently, Inven is a partner and co-investor of choice for various international VCs, which, as a consequence, allows it to participate in bigger funding rounds. For instance, Inven has recently participated in Woltair's 20.5M EUR funding round together with the likes of US-based Fifth Wall, aiming to support the investee in deploying thousands of heat pumps and PV panels annually across Czechia, Poland, Germany, and Italy.

3. Outcomes and Impact

Inven's pre-investment approach has resulted in a high-performing, impact-driven portfolio and a principal role in CEE's clean tech ecosystem:

- **Global Market Positioning:** By leveraging its reputation for rigour and expertise, Inven has helped startups secure key market positions in competitive regions such as Germany, UK, and the United States. In addition, aligning one of its funds with SFDR Article 8 demonstrates commitment to disbursement of sustainability-focused investments.
- **Enhanced ESG Standards:** Startups supported by Inven improve both their impact and ESG performance, as well as commercial appeal through scaling opportunities. As a result, Inven-backed start-ups do well with institutional investors. As summarised by Inven's Kristýna Machová, Inven sees *"good ESG practices going hand-in-hand with superior business results while building resilient companies that can thrive in today's unpredictable world."*
- **Increased Follow-On Investment:** The fund's emphasis on ESG and climate tech alignment has enabled its portfolio companies to attract significant follow-on funding from top-tier investors globally.

4. Reflections and Key Takeaways

Inven's pre-investment approach demonstrates how venture capital can drive systemic change through sustainable innovation. Key lessons include:

1. **The Value of Impact Assessment and ESG-centric Due Diligence:** Integrating impact and ESG into pre-investment processes not only identifies high-potential startups but also ensures selection of commercially promising and resilient business models.
2. **Importance of Founders' Vision:** Collaborating with mission-driven founders enhances long-term impact outcomes and encourages further alignment.
3. **Leveraging Strategic Partnerships:** Good track record supports close collaboration with institutions like EIB and international VCs amplify market reach and validate the fund's investment strategy.

Inven's pre-investment strategy highlights the critical role of venture capital in catalysing global climate solutions while generating competitive financial returns. As such, Inven's pre-investment approach and investor collaboration positions its portfolio companies for success in increasingly regulated markets while delivering lasting positive impact.

4.1.2. Case Study: Central Europe Industry Partners

General Information

AUM: ca. €90M

Industry: Industrial manufacturing and related service companies

Portfolio company target: Buyout / Founder transition, growth capital: Small-cap

Type: Buyout

1. Introduction, Context, and Main Drivers

Central Europe Industry Partners (hereafter CEIP) is a private equity investment firm specialising in investments in small Czech and Slovak industrial businesses. These companies, while generally aware of ESG issues, often approach them primarily from a compliance perspective rather than seeing them as opportunities for value creation. In response, the fund's strategy aims to support portfolio companies in realising the broader potential of ESG integration. This includes identifying ways to: attract new customers aligned with the green transition, reduce reliance on third-party energy suppliers, and enhance their attractiveness as employers within local communities.

According to Iain Haggis, for CEIP, ESG integration represents a practical business strategy that can drive value creation. By positioning ESG as a means to improve operational efficiency, customer engagement, and workforce stability, their fund seeks to prepare portfolio companies for long-term success in a dynamic market environment. While some initial resistance from portfolio companies has been observed—primarily concerns about additional workloads and unclear benefits—CEIP addresses these challenges by demonstrating real-world advantages. These include cost savings, improved competitiveness, and stronger stakeholder relationships. Through this approach, CEIP not only aims to strengthen its portfolio but also tries to contribute to the adoption of more sustainable industrial practices within the region.

2. Pre-investment Strategy and Approach

Before making an investment, CEIP adopts a structured and systematic approach to ESG, ensuring that sustainability considerations are embedded from the outset. This begins with a comprehensive ESG due diligence process, aimed at assessing both risk levels and potential opportunities for value creation. The due diligence not only evaluates the company's current ESG practices but also identifies areas for improvement that align with CEIP's broader investment strategy.

At this stage, CEIP also conducts a detailed risk assessment for each investment and sets a target risk level to be achieved by the end of the investment period. Specific initiatives are then agreed upon to address identified risks, and these are closely monitored and tracked throughout the investment lifecycle. This structured approach aims not only to mitigate ESG-related risks, but also to create a roadmap for driving measurable changes, ensuring that ESG becomes a source for both resilience and value creation.

In the post-investment phase, building on the outcomes of the pre-investment process, CEIP sets clear expectations by setting baseline ESG standards for all portfolio companies. These standards serve as a foundation, with the scope of ESG initiatives gradually expanded over time to reflect the company's growth and evolving market conditions. As part of this framework, each company is required to appoint an ESG Officer, which need not be a full-time role but ensures accountability and oversight. Additionally, CEIP mandates linking the remuneration of the ESG Officer and at least one senior manager to the achievement of ESG objectives, promoting alignment with long-term sustainability goals.

Through this pre- and post-investment approach, CEIP positions its portfolio companies for sustainable growth while aligning with the expectations of various stakeholders.

Key components of the strategy:

- ESG due diligence
- Risk assessment and target setting
- Appointment of ESG leadership
- Regular monitoring and tracking

3. Outcomes and Impact

When successfully implemented, CEIP's approach to integrating ESG into the investment process delivers multiple benefits, particularly evident at the time of exit. By incorporating ESG considerations from the pre-investment stage, CEIP can achieve operational efficiency, mitigate risks and align their portfolio companies with evolving market trends, which in turn can drive cost saving, revenue growth, and better market position with certain buyers.

These outcomes and impact include:

- **Increased Revenue and Market Alignment:** ESG integration enables portfolio companies to align with growing market demand for sustainable investments. This not only enhances revenue potential by meeting evolving expectations, but also ensures long-term competitiveness in an increasingly sustainability-focused landscape.
- **Cost Reductions through Operational Efficiency:** By improving processes and reducing reliance on external resources, such as optimising energy sourcing and efficient energy use portfolio companies achieve significant cost savings. These activities can directly enhance profitability, making the businesses more attractive to potential buyers.
- **Value-Generating Businesses:** The combined impact of market alignment and operational efficiency encourages the development of resilient, high-performing businesses that appeal to certain buyers, like those prioritising sustainability and long-term value creation.

The ESG-driven approach provides CEIP with an advantage in negotiations with sellers, many of whom are still unfamiliar with the concept. Although ESG integration is still emerging as a differentiator in the CEE region, it has proven advantageous when engaging with Western European buyers, who increasingly prioritise ESG considerations in their acquisitions.

Renewable energy initiatives have demonstrated especially clear economic benefits within CEIP's portfolio. Projects aimed at reducing reliance on external energy sources and improving operational efficiency have led to substantial cost savings. These improvements directly enhance profitability and competitiveness, strengthening the company's position in the market.

While it remains challenging to definitively attribute enhanced company reputations solely to ESG efforts, addressing these drivers ensures that CEIP's portfolio companies are well-positioned to attract buyers seeking long-term sustainability alignment. The pre-investment ESG strategy serves as both a risk mitigator and a value creator, delivering outcomes that enhance financial performance, such as increased revenue and return on investment (ROI), while advancing broader sustainability objectives.

4. Reflections and Key Takeaways

CEIP's approach shows the role of ESG integration can play, particularly in response to evolving sustainability regulations such as the CSRD. Staying ahead of these changes is crucial, and while initial resistance from a portfolio company's management is not uncommon, the widely accepted belief that

“good ESG is good business” has made proper ESG integration a practical and strategic choice across CEIP’s portfolio.

To strengthen its commitment and ensure that portfolio companies are better positioned to meet the demands of the rapidly changing environment, CEIP has been continuously expanding its ESG management processes and in 2024 delivered on the following:

- **Resources:** Additional resources were allocated at the fund level, while at the same time expanding cooperation with external service providers.
- **Carbon Management:** Full implementation of a carbon footprint calculation tool and initiation of net carbon zero strategies at portfolio level.
- **Expanded Initiatives:** New environmental and social initiatives are in development to address sustainability challenges more comprehensively.

4.2. Post-investment Phase

4.2.1. Case Study: Tilia Impact Ventures

General Information

AUM: €32M+ (target)

Industry: Sector agnostic, focused on impact-driven themes: climate tech, resource efficiency, ag tech, smart mobility & education, health and wellbeing

Portfolio company target: Seed, early-stage VC

1. Introduction, Context, and Main Drivers

Tilia Impact Ventures II is Czech Republic’s very first impact investment fund, looking to mainstream its investment approach across the region. As an SFDR Article 9 fund, Tilia Impact Ventures (hereafter Tilia) bridges financial and societal objectives by backing early-stage businesses that fit fund’s impact thesis of promoting people through empowered societies and the planet by accelerating transition to a circular and zero carbon future.

Tilia’s post-investment phase is where its hands-on approach to value creation becomes evident. Unlike almost all other VC funds in the region, Tilia’s ongoing close collaboration with portfolio ensures that impact objectives remain central to business operations. Pioneering a continuous mission-aligned collaboration with portfolio companies consequently puts impact at the very heart of all major management decisions. Inspired by best practices gained by team’s own experience in mature impact investment markets, Tilia looks to create value through globally recognised impact management

methodologies and standards, according to Magdaléna Radová, then firm's Head of Impact. As such, deep understanding of impact implications and future-proofing of the business itself is seen as a value creating factor which furthers an investee's competitiveness.

2. Post-investment Strategy and Approach

Active Engagement and Collaborative Partnerships

Following deal closing, Tilia works closely with investee's leadership to align operations with jointly defined impact objectives and ensure long-term commercial sustainability and growth. Their strategy is built on collaborative partnerships that empower founders while providing the tools and expertise needed for success. Key components include:

- **Defining Clear Metrics and Objectives:** Tilia begins the holding period by agreeing on a number of tailored impact metrics with each investee. These metrics are aligned with the company's Theory of Change and monitored throughout the investment lifecycle. Metrics often cover areas such as greenhouse gas (GHG) reductions, ESG performance, or social inclusion milestones, depending on whether the business focuses on "Planet" (environmental) or "People" (social) outcomes and in line with the United Nations' Sustainable Development Goals (SDGs).
- **Capacity Building and Expertise Sharing:** Tilia provides startups with access to its own expertise and broader industry networks to strengthen their strategic and operational capabilities. For instance, they help businesses optimise pricing strategies, refine B2B sales models, explore strategic pivots such as entering new markets, adjust revenue models, or connect with sustainability and lifecycle assessment experts.
- **Impact Performance as a Core Business Driver:** Tilia integrates impact into the core performance framework of each company, ensuring that social and environmental objectives are as central to decision-making as financial targets. In fact, 100% of fund's own carried interest is linked to both financial goals and quantifiable impact achievements. Tilia also helps prepare for compliance with emerging regulations like the EU's CSRD. In addition, Tilia helps build companies' ESG capabilities and data in preparation for follow-on funds' SFDR requirements, for instance through access Metric ESG software.

Empowering Companies for Long-Term Success

Tilia's support goes beyond compliance and operational efficiency. It seeks to build sustainable businesses capable of thriving independently after the fund's exit. Examples include:

- Helping companies benchmark their progress against EIF's methodology, which is used by over 80 funds globally.
- Assisting with preparations for Series A and beyond, ensuring startups are positioned to attract larger investors who value both financial and impact performance.

- Exploring alternative financing structures beyond equity or venture capital. Tilia facilitates access to blended financing options, such as first-loss capital or concessional funding to de-risk innovative ventures and attract additional capital.

3. Outcomes and Impact

Tilia's post-acquisition strategy has led to significant achievements across its portfolio:

- **Enhanced market readiness:** Companies supported by Tilia have successfully improved their operational models, enabling them to expand into new markets and comply with evolving ESG regulations.
- **Impact scaling:** Businesses have reported measurable progress on key impact metrics, such as reductions in carbon emissions and increased access to education and healthcare for underserved communities.
- **Strengthened investor confidence:** Tilia's rigorous post-acquisition support has made its portfolio companies more attractive to follow-on investors – particularly mature VC funds or multilaterals, facilitating smoother transitions during exit.

Moreover, Tilia's patient capital approach distinguishes the team in the region with mission-driven start-ups now selecting the fund as their preferred partner.

4. Reflections and Key Takeaways

Tilia's approach to post-acquisition support highlights the critical role of active engagement in scaling impact and financial success. By combining tailored guidance with rigorous impact monitoring, Tilia has demonstrated how PE and VC funds can create sustainable value while driving systemic change.

Lessons include:

- The importance of co-developing impact strategies with founders to ensure buy-in and long-term alignment.
- The need for patient, mission-aligned capital to address challenges unique to impact-focused startups.
- How embedding impact into contractual agreements ensures accountability and drives measurable outcomes.

4.2.2. Case study: Versute Investments¹⁷

General Information

AUM: €50M

Industry: Sector agnostic: manufacturing, services, agriculture

Portfolio company target: Mid-cap

Type: Buyout, growth

1. Introduction, Context, and Main Drivers

Versute Investments is a general partner for BHS Private Equity Fund, which has invested in Gevorkyan a.s. (hereafter Gevorkyan) a powder metallurgy company from Slovakia. Gevorkyan with the help from Versute Investments and Conseq Investment Management (hereafter Conseq) issued a first green bond traded on the Prague Stock Exchange. The decision to issue a green bond was a mutual decision of involved parties, given that Gevorkyan's management strategy is focused on enhancing sustainability in their processes, which is connected to cost-saving measures and the company's presence as a supplier to other companies globally based. Although the process of issuing a green bond was not an easy one, it helped establish internal procedures that will support the company's future sustainability reporting.

While Versute Investments may be at the beginning of its sustainability journey, the GP recognises significant potential in incorporating sustainability-focused activities across its portfolio companies. These initiatives not only align with evolving market trends but also offer opportunities to create enhanced value by positioning companies as forward-thinking and responsible investments.

Moreover, embracing sustainability has the potential to broaden the pool of prospective investors, as an increasing number of investors prioritise green instruments within their portfolios. For some investors, the presence of sustainable assets is becoming a critical consideration, underscoring the strategic importance of integrating such initiatives into the portfolio's overall value creation strategy.

2. Post-investment Strategy and Approach

The decision to issue a green bond was a collaborative effort between the involved parties, made possible by Versute Investments' understanding of Gevorkyan's operations and strategic needs. This process was facilitated through close cooperation between the two entities, but also with help of Conseq, allowing for the tailored development of this financial instrument, which seems to be well perceived at the market. With the growing emphasis on sustainability in the market, there was mutual interest in exploring how value could be enhanced through environmentally focused initiatives.

¹⁷ This case study leverages information provided by both Gevorkyan and Versute Investments, resulting in a slightly different approach and output compared to the other case studies.

However, it is important to note that this approach remains a standalone process, tailored to the unique characteristics of individual portfolio companies, as a one-size-fits-all strategy would not be effective.

Gevorkyan was selected as an example, because it is a powder metallurgy company with almost waste-free processes. Additionally, the company has consistently adhered to clean production standards and demonstrated a proactive commitment to enhancing energy efficiency, optimising energy use, and minimising emissions. Furthermore, Gevorkyan has been actively expanding its operations while implementing measures to make its manufacturing processes more efficient and less energy-intensive. These efforts, coupled with investments in low-emission machinery, were critical in meeting the prerequisites for issuing the green bond. They also ensured that the funded projects would meaningfully contribute to environmental sustainability, aligning with the broader goals of the initiative to issue a green bond.

Nevertheless, to issue a green bond, one of the main challenges was to demonstrate that the funded technologies met the strict criteria required for green bond certification. For example, the need for clear evidence of their impact on reducing the company's carbon footprint. In addition, navigating regulatory requirements, including transparency and reporting standards, added complexity to the process as well as coordinating the various stakeholders and ensuring that the bond will be well-perceived by the market. Nonetheless, despite these challenges, Gevorkyan successfully managed the issuance with the support of advisors and its strong foundation in environmental practices. This collaborative effort helped the company to meet certification standard and deliver a bond aligned with both regulatory expectations and market demands.

On the opportunity side, the green bond issuance, not only helped to fund selected projects, but also created possibilities to reduce capital costs and strengthen the company's sustainability profile. Funded projects, such as a new oil and water purification plant, nitrogen generator, energy storage systems, low-energy machinery, and an energy-certified factory hall, are all expected to improve efficiency and lower energy consumption. These advancements not only enhance competitiveness in a sustainability-driven market but also attracted a new pool of investors, broadening the company's investor base.

For Versute Investments, this process highlighted the diverse ways a general partner can engage in portfolio companies' operations to create value. The experience not only demonstrated the firm's ability to support sustainability initiatives but also generated valuable expertise within the team.

This knowledge can now serve as a base for implementing similar green/sustainable financing strategies across other portfolio companies and further integrate sustainability into the firm's broader investment strategy.

3. Outcomes and Impact

There were numerous impacts on the side of Gevorkyan and Versute Investments, which show the potential of green bonds and the possibilities of enhancing value during the post-investment phase.

Through close collaboration with Gevorkyan, the GP gained a practical hands-on experience and knowledge on the complexities of green bond insurance and how this and similar activities can be perceived and integrated into their portfolio companies. Additionally, from a strategic perspective, for Versute Investments there is an opportunity to replicate this process across other portfolio companies, leveraging the expertise and experience already developed within the team. However, each portfolio company is unique, requiring a tailored approach that allows for continuous improvement and adaptation. For instance, future iterations could incorporate considerations from frameworks such as the EU Taxonomy and the EU Green Bond Standard, further aligning the process with evolving regulatory requirements and market expectations.

In terms of Gevorkyan, the company has achieved significant environmental and financial benefits from its green bond issuance, using the funds to implement various green technologies that have driven improvements in key areas:

- **Reduced electricity consumption:** Investments in battery storage systems and energy-efficient machinery have decreased reliance on the grid, lowering electricity use and operational costs.
- **Lower operational expenses:** Energy-saving technologies, including new nitrogen generators, are expected to significantly cut long-term energy costs, improving profitability.
- **Increased production capacity:** Advanced machinery funded by the green bond has enhanced production efficiency, enabling the company to scale operations and meet growing demand for sustainable products.
- **Portfolio diversification:** Green technologies have broadened product offerings, reduced exposure to energy price volatility, and enhanced operational resilience.

The green bond also attracted ESG-focused investors, improving the company's sustainability profile. Although it has yet to see a credit rating improvement, the issuance of the bond has strengthened its position with environmentally conscious stakeholders, potentially leading to better financial terms in the future.

4. Reflections and Key Takeaways

Versute Investments approach shows that close collaboration with portfolio companies is essential for investment firms seeking to enhance value through sustainability initiatives and instruments such as green bonds. This approach can lead to the following outcomes:

- **Enhanced ESG Alignment:** Support with a green bond issuance can enable investment firms to deepen their ESG integration across portfolio companies. Supporting the adoption of sustainable practices not only improves the environmental credentials of portfolio companies but also strengthens the firm's overall ESG positioning, making it more attractive to sustainability-focused investors.

- **Catalysing Innovation:** Collaboration with portfolio companies during a green bond process can drive innovation by funding advanced green technologies or sustainable projects. This enhances the competitive edge of portfolio companies while positioning the investment firm as a proponent of sustainable investment practices.

These combined efforts and especially the willingness of the general partner in advising on such initiatives, shows how targeted actions can create value during the post-investment phase. Embedding sustainability measures and enhancing operational efficiency can position portfolio companies for more attractive exits with certain buyers.

As noted by Versute Investments:

“The integration of sustainability measures is important because it ensures long-term growth by enhancing product quality, protecting the environment, and meeting customer needs. GEVORKYAN's strategy turns this commitment into action, gaining strong support from investors through its green bond issue.”

4.3. Exit Phase

4.3.1. Case study: ARX Equity Partners

General Information

AUM: €300M+

Industry: Sector agnostic: manufacturing, services, healthcare

Portfolio company target: Lower mid-cap

Type: Buyout, growth, add-ons

1. Introduction, Context, and Main Drivers

ARX Equity Partners (hereafter ARX) has observed a growing interest and demand for sustainability-related initiatives, driven not only by investors, such as the EIF, but also by portfolio companies facing increasing requirements to report ESG performance to their customers. In response to these evolving expectations, ARX introduced an ESG-linked carry mechanism in its latest fund, further reinforcing its commitment to sustainability and aligning with market trends. This initiative aligns seamlessly with ARX's broader ESG commitments, including its status as a signatory of the UN PRI since 2014 and its consistent integration of ESG considerations into its investment processes.

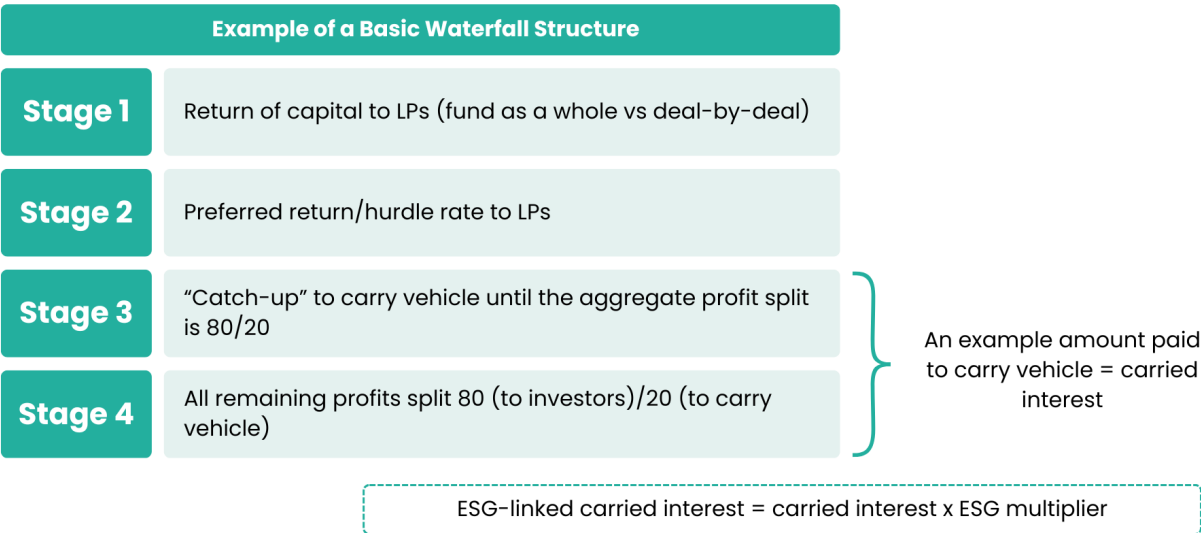
The rising importance of ESG performance in portfolio evaluations highlights its essential role in driving long-term value creation. Recognising this, ARX has embedded ESG factors into its investment strategy, ensuring that its investments deliver both not only competitive financial returns, but also meaningful

sustainability outcomes. By taking proactive steps to integrate ESG more deeply into its operations, ARX shows its ability to adapt to shifting market dynamics, while enhancing resilience and growth within its portfolio.

ESG-Linked Carry

An ESG-linked carry is a performance-based compensation model in which a portion of the carried interest—profit share earned by fund managers—is contingent on achieving predefined ESG targets. These criteria, which may include reducing carbon emissions or improving diversity, must be met alongside traditional financial performance goals to unlock the full carry. This structure incentivises fund managers to embed sustainability into their investment strategies, aligning financial success with meaningful ESG outcomes. Below, in Picture 4, is a basic overview of the mechanism using a waterfall structure:

Picture 4



Source: [ISFC](#)

For ARX, the ESG-linked carry contains a commitment to reduce absolute GHG emissions (Scope 1 & 2) across the aggregated fund portfolio by at least 12% over the fund's lifetime. However, it is important to note that this ESG-linked carry complements, rather than replaces, ARX's other ESG initiatives and activities.

2. Exit Strategy and approach

ARX will use its ESG-linked carry strategy to create sustainable value within its portfolio companies, particularly at the exit stage, where its impact becomes most evident. By prioritising the reduction of absolute GHG emissions scope 1 & 2 as a key performance target they can drive more sustainable practices within their portfolio companies. This will be evaluated at final dissolution of the fund and

checked whether the fund passed or failed the KPI. If the manager fails the evaluation, there will be financial consequences. The ESG linked carry mechanism implemented by ARX will work similarly to the illustration presented in Picture 5:

Picture 5

Illustrative examples of ESG Carry mechanism									
<i>Greenhouse gas (GHG) emissions presented in below table are in thousands of CO2 equivalent (tCO2e)</i>									
Portfolio company	Scenario #1 (GHG emissions)			Scenario #2 (GHG emissions)			Scenario #3 (GHG emissions)		
	At entry	At exit	Change*	At entry	At exit	Change	At entry	At exit	Change
A	1.000	800	-20,0%	1.000	800	-20,0%	1.000	800	-20,0%
B	5.500	4.300	-21,8%	5.500	4.300	-21,8%	5.500	4.300	-21,8%
C	8.000	7.000	-12,5%	8.000	7.000	-12,5%	8.000	7.000	-12,5%
D	600	580	-3,3%	600	1.200	100,0%	600	1.800	200,0%
E	500	500	0,0%	500	500	0,0%	500	500	0,0%
F	2.200	1.800	-18,2%	2.200	1.800	-18,2%	2.200	1.800	-18,2%
G	3.100	2.400	-22,6%	3.100	2.400	-22,6%	3.100	2.400	-22,6%
H	900	800	-11,1%	900	800	-11,1%	900	800	-11,1%
I	750	700	-6,7%	750	700	-6,7%	750	700	-6,7%
Total GHG emissions (tCO2e)	22.550	18.880	-16,3%	22.550	19.500	-13,5%	22.550	20.100	-10,9%
Minimum Reduction achieved?	Yes			Yes			No		

* "Change" is calculated as a percentage change in GHG emissions **at exit** (i.e. final period measurement) vs **at entry** (i.e. baseline period measurement)

Source: ARX

This approach ensures that ARX and its portfolio companies must actively work together to align on the environmental sustainability to achieve the requirements of the ESG-linked carry. However, as stated above, ESG-linked carry does not work in silos and is only one aspect of ARX's broader sustainability strategy to sustainability, which takes a comprehensive approach aimed at delivering added value at exit.

This added value is assessed through both the ESG-linked carry mechanism and an exit questionnaire that reviews ESG KPIs set in the pre-investment phase. By integrating ESG factors alongside financial metrics, ARX aims to provide a more complete picture of a portfolio company's potential. This dual-focus assessment ensures a more holistic approach to portfolio companies, by identifying risks and opportunities that may not be visible through financial analysis alone.

The decision to focus on absolute GHG emissions reductions will ensure that ARX's impact is both intentional and measurable, aligning with broader EU Green Deal objectives. This alignment signals to potential investors that the company's ESG strategy is not only credible but also designed to deliver tangible environmental and financial outcomes.

By integrating sustainability factors and ESG-linked carry into its exit strategy, ARX hopes to enhance the market positioning of its portfolio companies. This approach strengthens the likelihood of long-term value creation, demonstrating that sustainability and profitability are not only compatible but mutually reinforcing.

3. Reflections and Key Takeaways

Implementing an ESG-linked carry mechanism represents a novel step for ARX, and while its full impact is yet to be tested, it signifies a proactive commitment and resource investment to align sustainability

with financial performance. This initiative underscores ARX's willingness to innovate in response to growing expectations from investors and stakeholders.

It is worth noting that while this approach is new to ARX and not many PE managers have adopted it in the CEE region, ESG-linked carry mechanisms are not entirely novel within the private equity landscape. They have been adopted in various forms to demonstrate sustainability commitments across the industry. Publications such as [Who's doing it, how it works and why it divides LP opinion](#) by New Private Markets and [ESG-linked carried interest mechanism: The future of transition in PE & VC funds?](#) by International Sustainable Finance Centre provide valuable insights into the growing prevalence and diverse applications of this mechanism.

These reflections point to a few key takeaways:

- **Evolving Industry Standards:** The increasing adoption of ESG-linked carry mechanisms highlights a broader trend among PE actors to integrate sustainability into performance frameworks. This evolution reflects the rising importance of ESG metrics in aligning investor expectations with meaningful impact.
- **Diverse Implementation Models:** There is no one-size-fits-all approach to ESG-linked carry. Various models are being explored, tailored to the unique objectives and strategies of fund managers and investors. These models demonstrate the flexibility of the mechanism in addressing different ESG priorities.
- **Balancing Innovation with Proven Practices:** While ARX's initiative is new, it benefits from drawing on established examples and insights from industry peers. This approach allows for the adoption of best practices while tailoring the mechanism to ARX's specific goals and context.
- **Shaping Market Perceptions:** ESG-linked carry mechanisms serve as a powerful signal of a firm's commitment to sustainability, fostering trust and credibility among LPs, portfolio companies, and broader stakeholders.
- **Ongoing Evaluation and Adaptation:** As this mechanism matures, continuous evaluation will be essential to ensure its effectiveness in driving both financial and ESG outcomes. Lessons learned will help refine the approach, maximising its impact over time.

Conclusion

5. Conclusion

5.1. Key insights

“Value creation can come in different forms and at different stages.”

Key insights from our case studies highlight that the selected firms view **ESG integration as a long-term driver of value creation**, positioning it as essential for future-proofing assets, enhancing transparency, and potentially gaining a competitive edge. While some firms have begun to recognise ESG’s role in delivering competitive advantage, it remains an emerging trend that requires further exploration. Notably, **ESG integration is no longer seen as a standalone initiative** but as a **natural extension of core business activities**, allowing for smoother adoption across various stages of the investment process.

A notable shift is also evident in the **growing emphasis on stakeholder engagement**, demonstrating a broader and more inclusive approach to sustainable value creation. This change reflects a deeper understanding of ESG as a tool for driving both financial performance and societal impact.

Looking ahead, the future of **ESG-aligned investments in the CEE region appears promising**. While the adoption of sustainability practices may currently lag behind that of Western European counterparts in terms of sophistication and scope, there is a **growing recognition that sustainability is no longer a passing trend but an integral part of the investment landscape**. The selected case studies demonstrate a practical and increasingly structured approach to integrating ESG principles into value creation strategies. However, to **fully realise the potential of ESG** integration into the value creation process, **collaboration among key stakeholders**, including investors, portfolio companies, and regulators, **will be essential** in addressing existing challenges and driving further progress. The direction of the market remains dynamic, and it will be interesting to observe how these developments unfold and shape the region’s investment ecosystem. Sustainability is no longer merely influencing the market; it is beginning to play an important role in long-term value creation.

5.2. Opportunities and the role of Czech SIF

At Czech SIF, our mission is to enhance knowledge on sustainable finance and use of ESG criteria, connect stakeholders to share expertise and foster partnerships, and promote the integration of sustainability into the financial system. Through these efforts, we aim to expand the community of sustainable investors in Czechia.

This publication reflects our commitment to addressing the needs of our members. While ESG integration is gaining traction, there is still significant uncertainty about its practical application. By

presenting concrete case studies, we aim to provide clarity on how ESG can maximise investment value and contribute to sustainable development.

As we approach critical milestones like 2030 and 2050, the proactive involvement of the financial system is essential for Czechia's sustainability transition. Allocating capital to green and sustainable projects requires practical insights, best practices, and collaboration. Czech SIF plays a key role in equipping financial market participants with the information, connections, and access to international expertise needed to succeed.

This report is the first of many topic-specific publications we plan to deliver, aligned with the needs of our members. We are committed to supporting the financial sector as it leads the way in advancing sustainable finance in Czechia.

