ESG MONITORING, REPORTING AND DIALOGUE IN PRIVATE EQUITY

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.

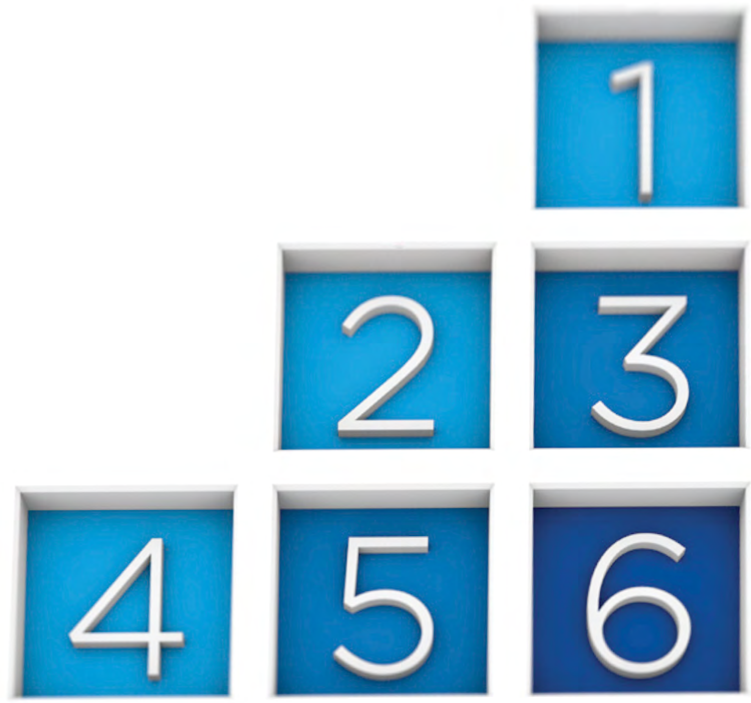
2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4 We will promote acceptance and implementation of the Principles within the investment industry.

5 We will work together to enhance our effectiveness in implementing the Principles.

6 We will each report on our activities and progress towards implementing the Principles.



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

ACKNOWLEDGEMENTS

INDUSTRY ASSOCIATIONS

This guidance was developed in consultation with the following industry associations; the PRI warmly thanks them for their continued support:

- AIC (American Investment Council)
- AVCA (African Private Equity and Venture Capital Association)
- BVCA (British Private Equity and Venture Capital Association)
- EMPEA (Emerging Markets Private Equity Association)
- France Invest
- ILPA (Institutional Limited Partners Association)
- Invest Europe
- LAVCA (Latin America Private Equity & Venture Capital Association)

ADVISORY COMMITTEE

The PRI and ERM thank the PRI Private Equity Advisory Committee for their oversight of this project since inception:

- AP2, Anders Strömblad (Chair)
- Apax Partners, Ellen de Kreij
- APG, Marta Jankovic
- Ardian, Candice Brenet and April Tissier
- Bridgepoint, James Holley
- CPPIB, Tammy Bodnar
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- The Carlyle Group, Jackie Roberts
- TPG, Beth Lowery
- Triton, Graeme Ardus
- USS Investment Management, David Russell and Helen Hopkins

DEVELOPMENT OF THIS GUIDANCE

The PRI and ERM have co-authored this guidance based on the input from over 60 organisations, including a range of LPs, GPs, fund of funds managers and service providers, including both PRI signatories and non-signatories. The guidance is based on interviews with more than 40 investors, desk-based research and input from the PRI Private Equity Working Group.

ERM is the global market leader in the provision of Environmental. Social and Governance (ESG) support and we work with over 100 General Partners (GPs) and Limited Partners (LPs). Our 4,900 ESG professionals in 40 countries have unique blend of technical, GP, LP, lender, accounting and advisory backgrounds that allows us to provide a holistic service across the Private Equity investment lifecycle. As the largest pure-play ESG consulting firm, sustainability is the heart of the services we provide and how we operate our business. www.erm.com

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CONTENTS

FOREWORD

With this guidance, the PRI delivers the final piece of a three-part programme to support Limited Partners (LPs) and General Partners (GPs) with incorporating responsible investment (RI) considerations across the three stages of manager due diligence, fund commitment and fund reporting. PRI signatories and the wider industry have increasingly called on us to address the complexities of and provide some direction on fund reporting and monitoring on environmental, social and governance (ESG) factors.

The PRI provides a global neutral platform for LPs and GPs to understand, establish and align their expectations and practices. We have experienced an enormous amount of goodwill and collaboration from both LPs and GPs who share a common aim to strengthen and standardise responsible investment practices in private equity. As with our other work in private equity, the PRI continues to be indebted to the signatories in its Advisory Committee and dedicated working group on this project for their direction, expertise, time and support. The PRI has nearly 2000 signatories to its Principles, including over 700 with any investment in private equity, which we rely on to uphold this guidance and move the industry towards consistently good practices on ESG fund reporting and monitoring. Besides its own signatory base, the PRI also enjoys close working relationships with the major private equity associations, whom we consulted in the development of this guidance due to the integral role they play in promoting PRI guidance to their wider networks.

In promoting this guidance to our signatories and the wider investment community, the PRI recognises that LPs and GPs are at variant stages when it comes to responsible investment implementation and may have widely differing approaches to monitoring and reporting on ESG integration. The PRI is an aspirational initiative and recognises there are many different approaches to responsible investment, particularly in such a divergent asset class as private equity. For these reasons, the guidance has been designed to be as flexible as possible. ESG integration is an increasingly mainstream trend that is not going away – but in order for it to be successful, systematic policies and processes must be in place. We hope that this guidance, and our work with the industry, will help to facilitate and achieve meaningful reporting practices that align with each organisation's goals and objectives. LP-GP dialogue remains core to achieving these aims.

Fiona Reynolds
CEO, PRI

FOREWORD

It is clear that sustainability and business are now inextricably linked. At ERM, we play a role in helping organisations achieve their commercial objectives while managing how they impact wider society and the environment, both positively and negatively. Our work for the financial sector and the private equity industry is an important component of this, as investors become more proactive in engaging with the companies that they invest in to ensure better business outcomes from the systematic consideration of ESG factors.

It has been our pleasure to partner with the PRI and the private equity industry to develop this guidance on ESG monitoring, reporting and dialogue in private equity. Through the project, we consulted with a wide range of LPs, GPs, and other organisations across the globe. In these conversations, the need for better dialogue, improved monitoring and reporting practices, and the desire to raise the bar on ESG integration in investment processes in a meaningful and phased manner, were repeatedly raised.

The guidance not only provides a framework for a more consistent and streamlined approach to dialogue and disclosures between LPs and GPs but also provides flexibility by introducing two levels of disclosure: "core" and "additional". The framework has been designed to take into consideration where funds are on their ESG journey, to promote continuous improvement, to encourage proportionate use of resources to focus on relevant and material aspects, and to give greater assurance to investors on ESG integration.

This guidance also provides an understanding of how LPs are using the information that is provided to them and the ways they are monitoring their investments. We have identified and included good practice examples to guide those GPs at the beginning of their reporting journey by illustrating how some of their peers are engaging with their LPs on ESG aspects during the lifetime of a fund.

It is our hope that this guidance will help drive the monitoring and reporting agenda forward and, in doing so, deliver not only improved ESG performance but also protection and enhancement of the value of underlying investments.

Keryn James
Group Chief Executive, ERM

EXECUTIVE SUMMARY

The aim of this guidance is to support an exchange of information, underpinned by dialogue, that will keep LPs informed about the ESG characteristics of their private equity investments[1] and the responsible investment practices of their investment managers.

The key objectives of this guide are to:

Build the business case for ESG monitoring, reporting and dialogue in private equity	Chapter 1 provides the context for ESG monitoring, reporting and dialogue by LPs and GPs, explaining why a growing number are dedicating resources to understanding, tracking and communicating on ESG integration.
Support LPs by providing guidance on current practices for monitoring a GP's ESG management and performance	Chapter 2 gives an overview of how LPs are currently monitoring GPs on ESG integration and how LPs are using the information that they receive. The aim is to support LPs in developing their own monitoring practices but also to help facilitate dialogue and improved understanding between GPs and LPs on how ESG disclosure is used by the LPs.
Create a flexible ESG monitoring and reporting framework that can be adopted by a wide range of LPs and GPs, that builds upon information collected during due diligence/fundraising, and which is aligned with the six PRI principles and existing ESG disclosure frameworks	The ESG Monitoring and Reporting Framework, set out in Chapter 3, has a two-tier format, comprising core and additional disclosures. LPs might tailor their disclosure requirements according to the GP's strategy, size, experience and resources – and to their own reporting needs, monitoring processes and capacity for processing information. LPs may also want to supplement the framework with additional disclosure requests that meet their own requirements. The framework is cross-referenced to existing disclosure frameworks, including the PRI Reporting Framework and the PRI LP Responsible Investment Due Diligence Questionnaire (DDQ) in Appendix B.
Streamline ESG information exchange by encouraging a more consistent approach among LPs and GPs on ESG monitoring and reporting	The ESG Monitoring and Reporting Framework in Chapter 3, seeks fund-level disclosures across three categories: (1) policy, people and process; (2) portfolio; and (3) material ESG incidents. Specific disclosures are identified for each category to provide a streamlined focus for monitoring, reporting and dialogue.
Support GPs by demonstrating how they can respond to ESG monitoring requests from LPs	Examples of current GP good practices are presented throughout Chapter 3 to demonstrate how GPs might respond to the disclosure requests from LPs.

Chapter 4 then considers emerging elements of ESG management in private equity, looking at data quality and assurance, the evolving role of technology, and changing attitudes to sustainable development metrics.

1 The document provides clear and accessible information on how LPs and GPs can monitor and report ESG integration practices during the lifetime of a private equity fund. The target audience is both LPs and GPs and the content gives an equal weighting to both. The scope of the guidance is limited to monitoring/reporting on buyout/growth strategies where the GP has a significant or majority stake in the investment.

SUMMARY OF THE DISCLOSURES IN CHAPTER 3

I. POLICY, PEOPLE AND PROCESS

1.1 What updates have you made to your responsible investment policy/ guidelines and/or strategy?
CORE

1.2 What changes have you made to how responsible investment is resourced and structured at the firm?
CORE

1.3 How has your responsible investment policy/guidelines and/or strategy been implemented?
CORE & ADDITIONAL

1.4 How does your firm manage the ESG aspects of its own operations (corporate responsibility)?
ADDITIONAL

II. PORTFOLIO

2.1 What is the ESG risk and opportunity profile of the portfolio companies in the fund? Have there been any changes to the ESG risk and opportunity profile of the fund in response to emerging ESG issues, and, if so, which ones?
CORE

2.2 How are ESG factors managed by the portfolio companies in the fund?
CORE & ADDITIONAL

2.3 Report specific ESG indicators for portfolio companies.
ADDITIONAL

2.4 Describe your approach to assessing the risks and opportunities that climate change poses to your portfolio companies.
ADDITIONAL

2.5 Describe your approach to assessing the environmental and social benefits created by your portfolio companies.
ADDITIONAL

III. MATERIAL ESG INCIDENTS

3.1 Immediate notification of material ESG incidents.
CORE

3.2 Periodic summary of material ESG incidents.
CORE

KEY DEFINITIONS

- **ESG:** Environmental, social and governance factors which can have a material influence on the performance and reputation of a portfolio company.
- **Responsible investment:** An approach to investing that aims to incorporate ESG factors into investment decisions to better manage risk and generate sustainable, long-term returns.
- **Monitoring:** actions taken by LPs to obtain and review information regarding the funds they are invested in, and/or actions taken by GPs to obtain and review information regarding their investments through the funds. The scope of this guidance document includes elements of portfolio company ESG reporting, as they relate to a GP's actions in monitoring portfolio companies.
- **Reporting:** Information disclosed by the GP during the life of a private equity fund, regardless of form (verbal, written, ad hoc, etc.).
- **Disclosures:** Categories of reporting information bucketed under (1) policy, people and process, (2) portfolio and (3) material ESG incidents, with guidance on what reporting on these categories might include.
    - **Core disclosures** are designed to elicit the key information that an LP can use to monitor its investments and assess the RI performance of its fund managers.
    - **Additional disclosures** are designed to support a more detailed understanding of the RI performance of fund managers and the portfolio.
    - **Note:** Disclosures are intended as guidance for reporting, and not as a comply-or-explain framework. Not all funds will be able initially to report against Core disclosures (especially first-time funds or those that have only recently adopted a responsible investment strategy) but, based on discussions, the GP may agree to have this as a target to be achieved during the lifetime of the fund.
- **United Nations Sustainable Development Goals (SDGs):** A set of 17 goals adopted by world leaders in 2015 to help guide global efforts to end all forms of poverty, fight inequality and address the most pressing environmental issues. While the SDGs are not legally binding, governments are expected to take ownership and establish national frameworks for the achievement of the 17 Goals, and the business community is expected to play a key role in achieving these.

CHAPTER 1. THE NEED FOR ESG MONITORING, REPORTING AND DIALOGUE

The research for this guidance established the motivations and perspectives of LPs and GPs for monitoring and reporting on ESG integration practices. It found a clear alignment of interests between LPs and GPs, as illustrated in the diagram on the next page.

LPs are monitoring GPs on ESG integration to better understand GP portfolio operations and to gain assurance that the GP is fulfilling its commitments to responsible investment practices made during fundraising, in line with the expectations of LPs and their beneficiaries. The process is fundamentally about engagement and dialogue. Some LPs also have their own reporting requirements and need certain information from their GPs for this purpose.

> "ESG reporting is as important to us as financial reporting. It allows us to ensure that ESG issues have been identified by the GP, throughout the life of the fund, and that the investments are in line with our social responsibility practices. ESG reporting is a first step for GPs and LPs to communicate on ESG matters and instil ESG best practices across small and medium-sized companies and the private equity industry."
>
> Sophie Elkrief, CIO, MAIF

Private equity is a trust-based business. LPs have a clear understanding that it is the GP's responsibility to monitor ESG issues within the portfolio, and furthermore that the responsibility and knowledge to manage these issues lies largely with the portfolio company management. But, as stewards of their capital, LPs are entitled to monitor that this management is taking place (hopefully in a systematic manner) in line with their expectations and their own responsible investment strategies and beliefs. By doing so, they are setting expectations around any future re-allocations of capital.

> "The launch of this monitoring and reporting guidance is a huge step forward for the integration of ESG throughout the investment process. It will help to establish best practice for the private equity industry and will benefit managers, investors and beneficiaries."
>
> Anders Strömblad, Head of Alternative Investments, AP2 and chair of PRI's Private Equity Advisory Committee

Both LPs and GPs will benefit from a "bottom-up" understanding of the ESG issues that are material to the business model, future proofing and exit proposition for the portfolio company. GPs play an important role in facilitating LP understanding of these material issues. LPs might require macro reporting on specific ESG issues across the portfolio, which might be supported by an agreed set of KPIs.

LPs and GPs recognise that ESG disclosure is about more than agreeing on the number of KPIs to report on. It is about achieving a shared understanding of how ESG factors can impact the value of underlying investments through LP-GP dialogue. The first steps are measurement against objectives, reporting and analysis.

There is a compelling value proposition for GPs to have a robust ESG portfolio monitoring system in place, regardless of whether the information is being reported in detail to LPs or not. The process of portfolio monitoring has value protection and enhancement potential in itself, as a systematic approach for identifying material ESG issues, setting objectives and regularly tracking progress. It enables GPs: to identify anomalies and achievements; support regular engagement with the portfolio company on these issues; and strengthen company reporting practices that could have implications at exit. Some LPs may seek to understand that GPs have such monitoring processes in place without seeking the underlying reported information from the portfolio companies (with the understanding that they could request this on an as-needed basis).

Value proposition of reporting

LP Perspective

- Confirm GPs are delivering on commitments
- Assurance that ESG risks are being managed
- Engage with/ improve GP ESG practices
- Set expectations for future GP commitments
- Monitor impact on society/SDGS

- Build LP/GP relationship
- Proxy for good management
- Protect and enhance investment value
- Reputation management

GP Perspective

- Oversight, analysis and management of material risks and opportunities in the portfolio
- Firm identity and competitive differentiation
- Support commitments to responsible investment when fundraising

> "For PGGM, it is important to understand how our GPs are integrating ESG into their investment processes and to report this back to our clients – pension funds. We want to beat market rate returns and also help build more sustainable businesses with less negative and more positive impacts on the world. This is our goal and we rely on our GPs to get there. They are great partners, we can learn a lot from them and we think it's an exciting challenge for all to achieve."
>
> Jelena Stamenkova van Rumpt, Senior Advisor Responsible Investment, PGGM Investments

LP EXPECTATIONS AND GOOD PRACTICE

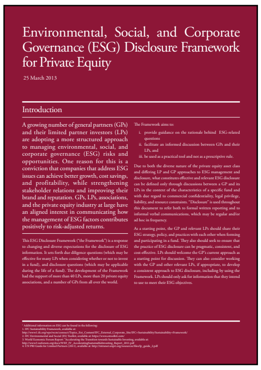
GPs can look to the ESG Disclosure Framework for Private Equity, the PRI Reporting Framework and the PRI LP Responsible Investment DDQ as general indicators of LP expectations and generally accepted good practice. These tools (see next page) were developed with broad LP and GP signatory consensus through working groups and industry consultation, and establish a baseline for ESG integration in private equity as:

- Having a policy that clearly explains how responsible investment relates to the GP's investment strategy and how the GP approaches ESG integration in its investment decision-making processes;
- Dedicating resource (whether internally or externally) towards the implementation of that policy;
- Having top-level conviction on the merits of responsible investment and senior oversight of the implementation of the policy;
- Committing to regular reporting on the implementation of the policy.

LPs acknowledge that not all GPs have reached this baseline yet, and that some consideration should be given to GPs that are striving to do so, and to the size and the capacity of the GP.

A summary of the alignment between the ESG Monitoring and Reporting Framework and key ESG guidance documents is presented in Annex B. Additional reference documents and standards that can support ESG monitoring and reporting are listed in Annex A.

HOW WE GOT HERE



ESG DISCLOSURE FRAMEWORK FOR PRIVATE EQUITY

2013

The ESG Disclosure Framework for Private Equity was the first industry attempt at consolidating the many questionnaires used by LPs and harmonising the varying forms of disclosure provided by GPs. The ESG Disclosure Framework established LP objectives for ESG disclosure both during fundraising and during the life of a fund.

PRI LP RESPONSIBLE INVESTMENT DDQ

2015

The PRI LP Responsible Investment DDQ built on the LP objectives of Section 1 of The ESG Disclosure Framework for Private Equity and established an industry standard for LP ESG-related due diligence, supported by PRI's industry association partners and now incorporated into the ILPA Standardized DDQ. The PRI LP Responsible Investment DDQ is an adaptable list of questions that LPs can ask GPs during fundraising to understand and evaluate their commitment to responsible investment and their integration of material ESG factors into investment practices. The aim of the document is to support a consistent industry approach from LPs and reduce the disclosure burden on GPs.

INVEST EUROPE GP DDQ

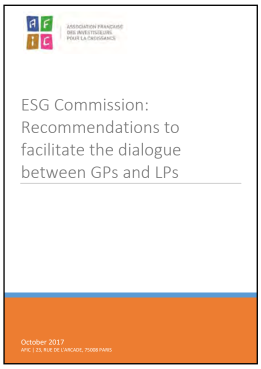
2016

Invest Europe published a standardised questionnaire to help GPs gauge how advanced a portfolio company is with its ESG policies and reporting, and to assist with the identification of issues that need more technical assessment, or which provide opportunities to enhance value and mitigate risks post-investment. The questions concern environmental impact, social policies such as health and safety, and governance issues including board composition.

PRI GUIDANCE ON INCORPORATING RESPONSIBLE INVESTMENT PROVISIONS INTO FUND TERMS

2017

To support LPs with fund manager appointment, the PRI published guidance in 2017 on current and emerging best practice for the incorporation of ESG provisions in private equity fund terms. The guidance specifies how provisions relating to ESG reporting and incident reporting might be structured in the fund terms (see Section 3: Options For ESG Provisions).



FRANCE INVEST REPORTING RECOMMENDATIONS

2017

France Invest has published its own reporting recommendations to facilitate and harmonise the dialogue on ESG between French LPs and GPs. They are based on extensive collaboration between LPs and GPs and early consultation with the PRI with the objective to achieve cross-industry alignment.

PRI GUIDANCE ON ESG MONITORING, REPORTING AND DIALOGUE IN PRIVATE EQUITY

2018

This guidance builds on the LP objectives of Section 2 of the ESG Disclosure Framework for Private Equity, providing a tool that LPs can use to fulfil those objectives. Recognising that GPs and LPs have, over recent years, developed different approaches to ESG reporting and monitoring, this guidance aims to provide direction and support by identifying common objectives and disclosures through the structure of an ESG monitoring and reporting framework. LPs are encouraged to use this guidance and the framework as a starting point for engagement with their GPs, to build a more consistent approach to ESG monitoring, and to facilitate more effective and efficient reporting by their GPs.

CHAPTER 2. CURRENT LP MONITORING PRACTICES

This chapter explores how LPs are currently monitoring GPs' responsible investment practices. It also describes how some LPs use the information that is disclosed to them. This chapter is intended to support LPs in developing their own monitoring practices, and to help facilitate dialogue and improve understanding between GPs and LPs on the topic of ESG disclosure. LP monitoring practices have been informed and enhanced by continued engagement with GPs.

> "Much can be deduced about a manager's understanding of ESG value creation and risk assessment via regular and relevant ESG reports to its LPs. We have standardised our expectations via a reporting template and use reporting outputs to monitor existing investments, but also to inform our diligence on new funds. We are pleased with the progress made to date with our GPs and in the broader PE industry."
>
> Marta Jankovic, Senior Responsible Investment and Governance Specialist, APG

LPs will tailor their monitoring requirements according to their own reporting and governance requirements, monitoring needs and capacity for processing the reported information and for providing feedback. Not all LPs have the capacity to establish a monitoring system, and will trust in their GPs' ability to execute commitments made at fundraising regarding ESG integration. It is important to note two things here:

- The most critical reason for monitoring funds on ESG performance is so that the LP can factor its analysis into its decision on whether to re-up or re-invest with that manager. Demonstrating this will be the single biggest driver of the responsible investment agenda in private equity.
- Whatever their capacity, the LP can use existing mechanisms to do some level of monitoring, i.e. using governance structures already in place such as the LPAC, checking whether their investment consultant is factoring the LP's responsible investment expectations into its services, reviewing ESG reporting that is proactively provided by its GPs, and providing whatever level of feedback they can on this.

The current trend is for LPs to continue to strengthen their ESG monitoring practices, whatever their means or approach, and GPs need to be prepared to respond to this. This chapter is intended to support GPs to anticipate and respond to increasing ESG-related monitoring requests from LPs, and to enhance the effectiveness of LP monitoring practices.

KEY MONITORING PRACTICES

Seven key monitoring practices emerged as recurring themes during the research for this guidance. These themes, which are not mutually exclusive, cover:

1. Exception-based reporting;
2. Using the LPAC and the Annual Investor Meeting (AIM);
3. Using monitoring templates;
4. Assessment and scoring of GPs;
5. Using the PRI Reporting Framework;
6. ESG incident monitoring; and
7. Reviewing GPs' internal ESG/CSR management and initiatives.

Underlying all of these themes is the importance of dialogue. As the ESG Disclosure Framework for Private Equity states: "Due to both the diverse nature of the private equity asset class and differing LP and GP approaches to ESG management and disclosure, what constitutes effective and relevant disclosure can be defined only through discussions between a GP and its LPs."

While periodic reporting may be set up to achieve a systematic tracking of progress and performance in the portfolio, in-person dialogue may be more appropriate to discuss by-exception changes to the GP's approach to responsible investment or the portfolio's risk and opportunity profile, or deep-dives into specific ESG issues or material incidents at specific portfolio companies. Some LPs may prefer to set up periodic one-to-one meetings with its GPs to discuss these, or to make use of governance structures or GP reporting systems that are already in place.

> "As an asset owner that follows a tailored ESG process, we are pleased that the framework provides enough flexibility for an appropriate level of reporting for private equity managers of any size or strategy."
>
> Mike Cappucci, Senior Vice President – Sustainable Investing, Harvard Management Company

EXCEPTION-BASED REPORTING

Some disclosures from GPs are unlikely to change on an annual basis (for example, their responsible investment policy or their status as a PRI signatory). For more static information, some LPs would prefer that the GP reports any changes on a by-exception basis rather than regularly reiterating previously reported information. In some cases, the GP may be committed to a policy or pre-specified activities through the fund terms, in which case the LP would expect to be notified about any changes as a matter of due process.

USING THE LPAC AND THE AIM

LPs may use governance structures already in place to monitor GPs on ESG integration – for example, including ESG as a regular agenda item at LPAC meetings and/or the AIM, which provide a platform for flexible and engaged dialogue between the LPs and the GP. Indeed, the fund terms may have stipulated that any changes to the GP's responsible investment policy should be discussed and even agreed with the LPAC.

This practice has the added advantage of engaging other investors in the fund on the topic of ESG integration, who might otherwise have limited understanding of its importance or restricted access or capacity to monitor ESG issues or practices on their own behalf.

USING MONITORING TEMPLATES

Some LPs and funds of funds send proprietary or standardised reporting templates annually to their GPs. This allows them to collect information homogenously and track progress.

Some LPs have used the PRI LP Responsible Investment DDQ as an annual monitoring tool. Although it was developed for fundraising purposes, LPs are using the DDQ to ask for updates or changes to information provided since fundraising.

ASSESSMENT AND SCORING OF GPS

During the research, GPs emphasised the usefulness of having LP feedback on the ESG information that they report. This gives them a better understanding of their performance, and supports internal objective-setting for their responsible investment activities. It also helps GPs better understand the LP's responsible investment objectives and priorities.

In assessing GP practices, many LPs use the information disclosed to them to rate or rank GPs annually on their ESG practices. This allows them to compare multiple GPs managing their portfolio, and to engage, give feedback and support improvement.

> "BCI believes that companies that employ robust ESG practices are better positioned to generate long-term value for investors than similar companies with less-favourable practices. It is important that fund managers consistently and reliably disclose their ESG-related activities so that we have the information we need to make informed decisions."
>
> David Woodward, Vice President Private Equity, BCI

USING THE PRI REPORTING FRAMEWORK

The PRI Reporting Framework is an accountability tool. PRI signatories have an annual obligation to report on their progress in implementing the Principles; this includes some elements of mandatory public disclosure which are published to the PRI website through signatory Transparency Reports. LPs can request a GP's private Transparency Report and Assessment Report (which scores GPs on their individual processes and benchmarks their responses) through the PRI's online Data Portal and use this as an annual monitoring mechanism, alongside any other ESG reports prepared by the GP.

However, not all GPs in an LP's portfolio may be PRI signatories. Moreover, during the research for this guidance, LPs and GPs often mentioned that GPs will report in more detail directly to LPs than they do to the PRI. Robeco Private Equity worked with the PRI to solve this issue to enable it to use the PRI Reporting Framework as its annual monitoring mechanism (see the case study at the end of this chapter). The objective was to leverage an existing and widely used framework to reduce the reporting burden on GPs.

> "Excellent ESG monitoring and reporting is an expectation of the New York State Common Retirement Fund of its investment managers. This is practically reflected in the fund's periodic updating of managers' CRF "ESG Risk Assessment" scorecards with new information – a vital component of the fund's investment process."
>
> George Wong, ESG Integration Manager, New York State Common Retirement Fund

ESG INCIDENT MONITORING

Incident reporting was often highlighted during the research as a distinct and separate practice from regular ESG reporting. Most LPs expect to be notified by their GPs in an open, honest and timely manner about incidents that could have serious reputational implications for the LP, and/or serious financial implications for the investment. Furthermore, some LPs will seek an understanding of how the incident is being dealt with as a demonstration of the GP's capabilities. The method for reporting, as well the definition of what constitutes an incident, varies widely given the diverse nature of investments and the diversity of LP investment beliefs. (See chapter 3, section 3 for suggestions as to how GPs might approach ESG incident reporting.)

Some LPs will seek agreement on procedures for material ESG incident reporting during fund commitment and through the fund terms. Some LPs offer a bespoke ESG incident reporting template, and will have agreement on the timing of ESG incident reporting (subject to confidentiality considerations). Some LPs may prefer an annual summary of ESG incidents – and measures taken to address these – over ad hoc reporting.

Some LPs will conduct their own incident monitoring through automated internet/news scanning tools to proactively flag potentially material risks, and will then follow up with the GP to get assurance that the incident is being managed.

REVIEWING GPS' INTERNAL ESG/CSR MANAGEMENT AND INITIATIVES

Some LPs monitor GPs on their internal commitment to good management of ESG issues – in other words their own corporate responsibilities. These LPs believe that a GP should be consistent in its approach in all aspects of its operations and demonstrate that it also implements ESG values and risk management within its own firm. Such reporting could include, for example, governance initiatives on diversity and inclusion or environmental initiatives on carbon footprinting, recycling and efficiency, and green purchasing, or commitments to community engagement and philanthropy.

The France Invest reporting recommendations, highlighted as a case study at the end of this chapter, includes a business conduct section that stipulates reporting on the percentage of women in the GP's investment team and environmental initiatives at the GP firm level[2].

> "With the TCFD there is an expectation that LPs will report carbon footprints for all their assets. To be able to do this for private equity, GPs will have to provide us with the appropriate data."
>
> David Russell, Co-Head of Responsible Investment, USS

> "Monitoring and engagement is an essential part of LGT Capital Partners' ESG activities. This work enables us to report back to our investors how private equity managers are integrating ESG factors into their investment, ownership and reporting practices."
>
> Thomas Kristensen, Principal, LGT Capital Partners

2 ESG Commission: Recommendations to facilitate the dialogue between GPs and LPs, France Invest, (2017)

CASE STUDY:
CalPERS

BRINGING ESG TO THE LPAC

Since 2016, the Private Equity group at CalPERS, the California Public Employees' Retirement System, has used its role on funds' Limited Partner Advisory Committees (LPACs) to inquire regarding the management of ESG issues by the top 10 relationships by value. While CalPERS' top 10 relationships tend to have ESG on their annual meeting and/or LPAC agenda, if this is not the case CalPERS will raise it during the meeting. By raising ESG issues, CalPERS reinforces its expectations regarding responsible investment.

CalPERS requests disclosure on:

- GPs' ongoing processes for identifying and acting on ESG-related opportunities and risks;
- Material ESG issues that may impact the value of the portfolio, for example climate change risk; and
- Any new or ongoing litigation issues pertaining to ESG.

GPs are typically required by the terms of the Limited Partnership Agreement (LPA) to disclose any material litigation; however, by asking the ESG question, CalPERS is demonstrating the seriousness with which it regards these issues, given their potential for material financial and reputational impacts.

For all other managers, CalPERS private equity staff document in periodic meeting notes any ESG-related issues of which they become aware.

CASE STUDY:
APG, PGGM and AlpInvest

LP COLLABORATION: DUTCH LPS COORDINATE ON A PROPRIETARY ESG REPORTING TEMPLATE FOR PRIVATE EQUITY

In 2015, three Dutch investors, APG, PGGM and AlpInvest, initiated a project to develop a practical tool for GPs to facilitate regular ESG reporting to LPs during the lifetime of a fund, building on the requirements of the ESG Disclosure Framework for Private Equity published in 2013. This joint effort resulted in the creation of the ESG Reporting Template for Private Equity.

The collaboration was inspired by the existing good relationship these investors enjoy and by their alignment on responsible investment topics in general. They recognised the increasing need for more transparency in private equity, which would provide a better understanding of its ESG impact. They also saw their effort as an opportunity to provide guidance to the PE market on investor expectations.

To develop a workable Reporting Template, these investors sought feedback from various GPs and LPs active in responsible investment. The template was piloted with a number of PE funds. It was developed not only to meet the objectives of the three initiators and become an internal requirement, but also to be available for broader industry use. In this way, the Dutch investors seek to align their fellow PE investors and reduce the reporting burden on GPs and the underlying companies. The template was freely shared and is being used by several other investors in the market.

The template is structured in two sections:

- **Section 1 – GP/fund overview** contains six questions addressing fund ESG activities and developments in the GP's ESG policies and management framework during the reporting period (usually one year).
- **Section 2 – Portfolio overview** consists of a table through which the GP can provide key information on material ESG risks and opportunities in each of its portfolio companies. At a minimum, investors would expect that the GP/fund would provide qualitative information on each portfolio company's ESG risk profile and describe the challenges and opportunities it faces. The number and type of key items can vary between companies, geographies and sectors. Over time, it is expected that GPs will provide more detailed, quantitative and qualitative information on the material ESG risks and opportunities in each of their portfolio companies.

The Reporting Template comes with more detailed guidance for GPs, including sources of key performance indicators (KPIs), what type of information LPs might be interested in and examples of ESG issues that can be reported on.

The information reported by GPs through the template is used by the investors to track ESG progress within their PE portfolios, focus their engagement efforts with the GPs, follow up on the handling of any ESG incidents and encourage collection of ESG KPIs. LPs can also use the Reporting Template to collect information on specific ESG issues that they wish to get a portfolio-wide understanding on. In turn, the Dutch investors can use the reported information to relay insights to their own respective clients.

In the course of due diligence on a new fund investment by the three Dutch investors, the Reporting Template is shared with the GP and may also be made part of contractual reporting obligations agreed upon at the time of fund commitment.

CASE STUDY:
France Invest

INDUSTRY COLLABORATION: FRANCE INVEST DEVELOPS REPORTING RECOMMENDATIONS

In an effort to address the disparity between requests from LPs on ESG reporting and to increase industry cooperation on ESG matters , France Invest decided to draw up recommendations based on the wide range of practices followed by French GPs and LPs to reorganise the way that ESG information is exchanged. The objectives are to improve the transparency of the approaches taken and encourage more effective consideration of ESG issues that are material to funds and companies. France Invest has invited its members to apply these recommendations; the ESG Commission of France Invest would also like to share these recommendations with its international peers to encourage aligned practices.

France Invest recommends that GPs disclose their ESG activities to their LPs in an annual ESG report for the fund in which the LP has invested, and has proposed a set of common tracking indicators for the management company and the fund's underlying investments.

The Reporting Recommendations propose 11 common indicators for business conduct and ESG integration in the investment process at the management company level, and 11 common ESG indicators at the portfolio company level. The portfolio company indicators include topics such as carbon footprint monitoring, job creation, monitoring of turnover and absenteeism, board diversity and board member independence. Furthermore, the recommendations propose definitions for each of the indicators, to help the move towards more standardised reporting.

In turn, France Invest recommends that LPs:

- Share any changes to their reporting requirements with GPs as early as possible to enable them to anticipate and prepare for any impacts;
- Stabilise and harmonise among themselves the timing and content of their reporting requirements, to the greatest extent possible; and
- Regularly give feedback to GPs based on the information collected to foster a process of continuous improvement.

The Reporting Recommendations note that it is essential for GPs to concentrate ESG criteria on material issues in order to promote buy-in among managers and internal teams, as focusing on matters with genuine significance is the only approach likely to contribute to sustainable value creation.

The ESG Commission's recommendations can be found in both French and English on the France Invest website.

CASE STUDY:
SWEN Capital Partners

DATA COLLECTION AND DIALOGUE

SWEN Capital Partners (SWEN CP) is a private markets investor specialising in responsible investing and the French subsidiary of OFI and Federal Finance Gestion. It monitors its GPs' ESG practices through two different approaches: constant dialogue; and regular monitoring of KPIs.

SWEN CP regularly communicates with its GPs on ESG and responsible investment issues through private meetings, conferences and other modes of ad hoc communication.

In addition, it conducts an annual ESG data collection campaign, using a customised ESG questionnaire, to assess changes in the practices and performance of its GPs. The ESG questionnaire includes approximately 35 KPIs (there are separate questionnaires for private equity and infrastructure). The KPIs were developed internally and were carefully selected according to what is relevant to monitor on an aggregate basis as an investor in multiple asset classes. When selecting the relevant KPIs, SWEN CP took its cue from how ESG KPIs are monitored by listed funds. If SWEN CP judges that it is not getting relevant responses to a KPI over time, it will remove it from the questionnaire.

Using an online reporting tool that SWEN CP designed with software company eFront, the questionnaires require completion from both the private equity firms and the underlying portfolio companies.

These approaches allow SWEN CP to prepare detailed ESG reports of each fund in which it invests. The reports highlight the ESG profiles of each GP and provide consolidated information at the level of the underlying portfolio assets. The reports include an assessment of GP progress year-to-year since subscription. They are also used to identify areas of improvement or topics to be further discussed through dialogue between SWEN CP and the GP. Furthermore, this regular monitoring over the past five years has enabled SWEN CP to develop a benchmarking system, and GPs are therefore benchmarked by their investment strategy (small cap LBO, mid-large cap LBO, venture capital, mezzanine debt, impact investment, infrastructure greenfield and infrastructure brownfield).

Since 2014, SWEN CP has run an annual awards ceremony as a way to recognise ESG best practices by GPs who participate in the annual ESG data collection campaign, and to give market players a view of outstanding ESG practices in private equity and infrastructure.

CASE STUDY:
AP6

ASSESSING AND ENGAGING

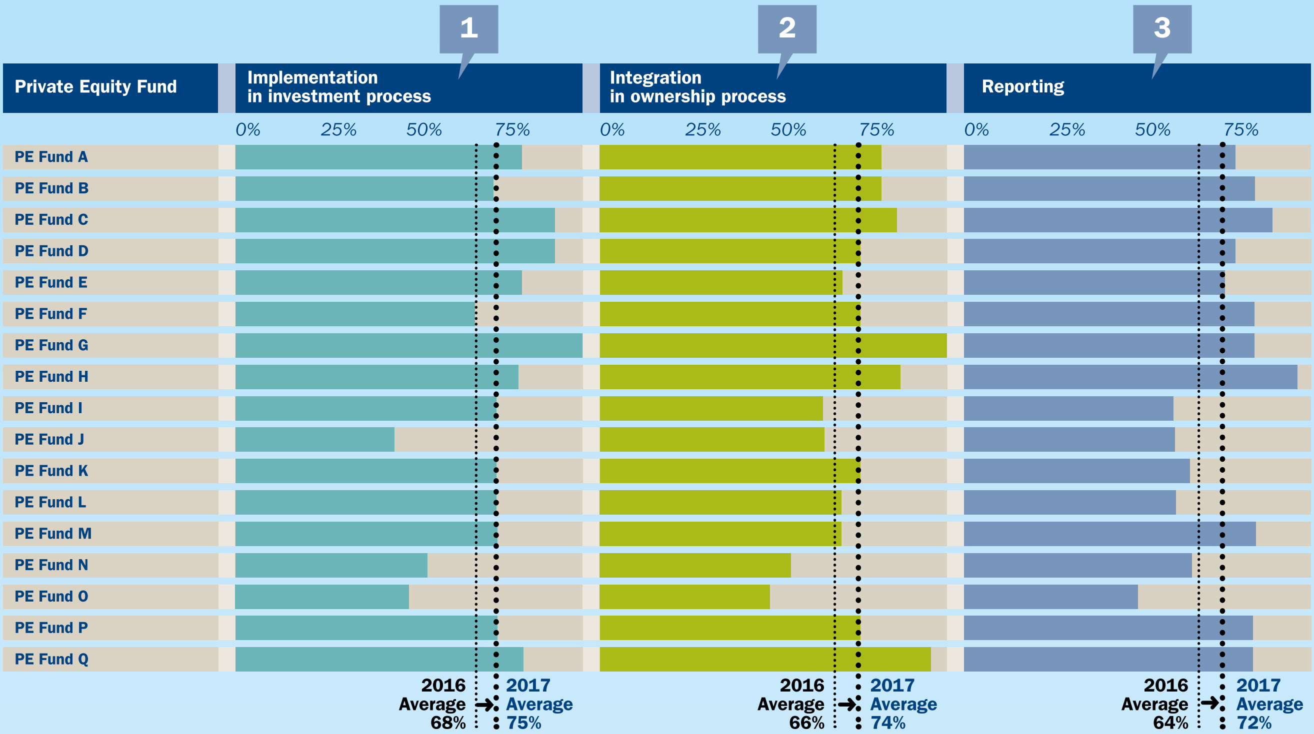
AP6, the Sixth Swedish National Pension Fund, invests exclusively in unlisted companies. Since 2014, it has used its own template for sustainability assessment and monitoring of private equity funds. Over time, this has evolved from an ESG due diligence template to a valuable tool for the annual evaluation of responsible investment implementation practices in AP6's portfolio. In 2016, the model was adjusted to align with the PRI's LP Responsible Investment DDQ.

Structured interviews with GPs, either in person or over the phone, provide the basis for the evaluation. AP6 does not send out a questionnaire prior to the interview, but does review any relevant documentation beforehand to make the most of the available time. Interview topics include how the GP undertakes responsible investment practices in the investment and ownership phases, and how it reports on sustainability, both publicly and to investors.

AP6 scores a number of sub-categories to provide a total score for each of the three main categories (investment, ownership and reporting), which are then benchmarked against the portfolio average (see chart). The PRI LP Responsible Investment DDQ has been a useful aid to establishing the scoring criteria, e.g. through indicating what best practice looks like.

Structured feedback from the evaluation is provided to participating GPs through individual meetings, including observations on individual development as well as best practice among peers. This evaluation provides GPs with an idea of how their ESG efforts are being perceived and assessed, and an indication of where they stand in comparison to others.

In 2017, 17 private equity funds took part in the evaluation and feedback process.



ANNUAL ESG ASSESSMENT OF FUNDS

AP6's propietary tool for ESG evaluation and follow-up of private equity firms.

1. *How does the private equity firm review sustainability-related risks and opportunities prior to acquisition? What processes and resources are used? How is the investment decision impacted by sustainability factors?*

2. *How do private equity firm manage the portfolio companies' sustainability-related risks and opportunities for value creation during the holding period? This is done, for example, through corporate governance and specific support on sustainability.*

3. *How does the private equity firm report sustainability and responsible investments? Through, for example, public reporting and regular reporting to investors.*

CASE STUDY:
LGT Capital Partners

BENCHMARKING AND DIALOGUE

LGT Capital Partners is an alternative asset manager headquartered in Switzerland. LGT Capital Partners conducts an annual ESG assessment of its managers as part of the firm's larger ESG due diligence, monitoring and manager engagement process. This allows its investors to understand the extent to which portfolio managers are considering ESG factors in their investment, ownership and reporting practices. It also facilitates a dialogue with its managers on ESG, highlighting excellence in implementation and flagging areas for improvement.

LGT Capital Partners uses the PRI LP Responsible Investment DDQ, focusing on four key measures of ESG practice:

1. Manager commitment – the extent to which managers have demonstrated their commitment to ESG through actions such as defining a policy, committing to an industry initiative such as the PRI and engaging with their portfolio companies.
2. Investment process – the extent to which managers have formally integrated ESG into their investment processes, using it as a framework for evaluating investments and identifying areas for improvement.
3. Ownership – the extent to which managers have exhibited active ownership through activities such as defining ESG guidelines, establishing key performance indicators.
4. Reporting – the extent to which managers have provided regular and relevant reporting on ESG on a portfolio company level and on the aggregate fund level.

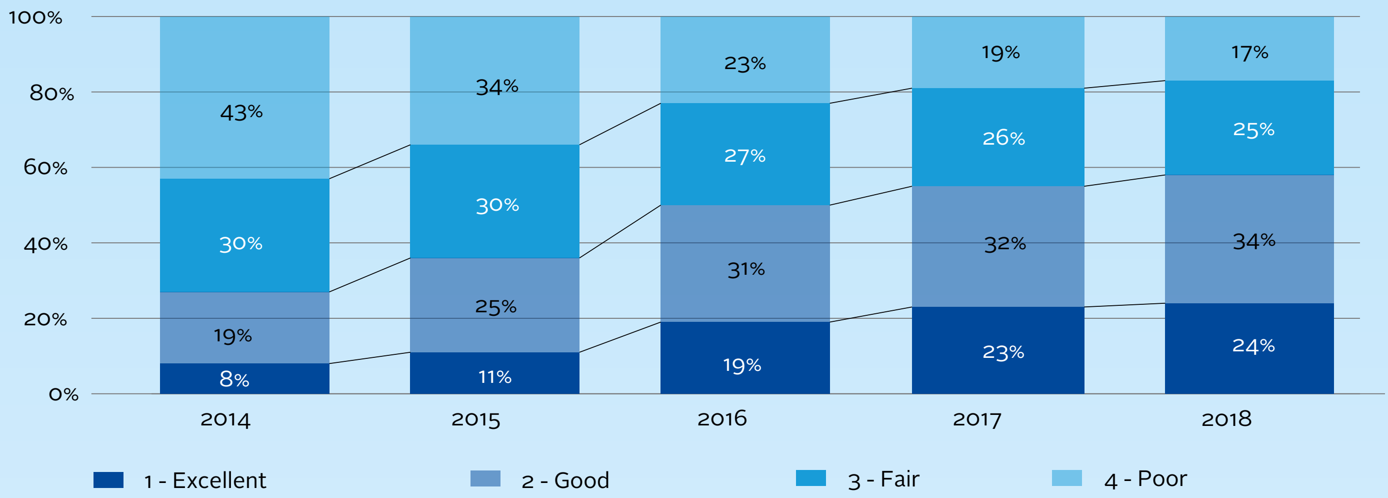
The firm has developed a scoring system to assess managers' responses, awarding a score of 1 to 4 (where 1 is excellent and 4 is poor) on each of the four measures, resulting in an overall rating for each manager. These ratings are then documented in LGT Capital Partners' monitoring system.

In 2018, LGT Capital Partners assessed 202 private equity managers in the US, Europe and Asia and published analysis of the ratings in its annual ESG report, which is available on its website.

As the graph below indicates , LGT Capital Partners has seen a steady improvement in ESG practices and disclosures by its managers over the past five years, with the proportion of managers rated excellent or good rising from 27% in 2014 to 58% in 2018.

For more detail on what LGT Capital Partners considers good ESG practice from its managers, see its report on the subject, A guide to ESG implementation in private equity.

Improvement in ESG ratings globally



CASE STUDY:
HESTA

FEEDBACK AND ENGAGEMENT

HESTA, the Australian national industry superannuation fund for people working in health and community services, has incorporated the PRI LP Responsible Investment DDQ into a comprehensive manager ESG Assessment framework. This framework includes an ESG Manager Assessment Feedback Pack to provide more formal feedback to managers, outlining how they have scored in each category (policy and oversight, integration pre-investment, internal and external resources, asset management, and manager and portfolio performance) and how each category is weighted by HESTA (see table 1).

Table 1: Example ESG manager assessment – Individual manager

CATEGORIES	WEIGHT	KPIS
		Manager capabilities
1. Policy and oversight	**15**	1.1 Quality of policy
		1.2 Oversight
		1.3 ESG integration in contracts
2. Integration into pre-investment process	**30**	2.1 Identification of material risks
		2.2 Influence of ESG in decision making
		2.3 ESG in deal structuring
3. Internal and external resources	**5**	3.1 Defined internal resources
		3.2 Training
		3.3 PRI
		3.4 Other initiatives
4. Asset management	**35**	4.1 Monitoring post acquisition
		4.2 Reporting from underlying funds/portfolio companies
		4.3 ESG competence in underlying funds/portfolio companies
		4.4 Engagement/change related to ESG issues
		4.5 Role of the board in portfolio companies
		4.6 ESG incorporation in preparation for exit
5. Manager and portfolio performance	**15**	5.1 Measurement/monitoring of own ESG integration process
		5.2 Recurring reporting
		5.3 Reporting incidents

The objective of the feedback pack is to use it as an engagement tool with managers to communicate areas of strength and weakness and provide a benchmark of the manager's capabilities relative to its peers (see table 2). HESTA uses the PRI LP Responsible Investment DDQ and other supporting documents, such as responsible investment policies and annual reports, to complete the assessment.

Table 2: Example ESG manager assessment – benchmarking

PRIVATE EQUITY MANAGERS	A	B	C	D	G	H
Overall score	91%	88%	55%	46%	34%	8%
Policy and oversight	83%	67%	25%	42%	38%	13%
Integration pre-investment	88%	100%	69%	50%	50%	13%
Internal and external resources	100%	63%	13%	75%	13%	0%
Asset management	100%	93%	64%	38%	21%	0%
Manager and portfolio performance	83%	83%	50%	50%	33%	17%

In 2018, the HESTA ESG team presented the consolidated results of the manager assessment of HESTA's key private equity manager relationships to the HESTA Investment Committee. The assessment results are one of the factors HESTA considers when making investment decisions such as whether to invest, or reinvest, in a manager.

HESTA is also working to integrate the UN SDGs into its investment strategy and active ownership practices. As part of this work, HESTA developed a methodology to measure the contribution to the SDGs across its portfolio. This includes a review of a large part of the private equity portfolio to understand how and if each underlying investment contributes to the targets listed under the goals.

HESTA also has a long-standing advocacy policy to help achieve SDG 5 (Gender Equality). This SDG is particularly important because 80% of HESTA's members are women. However, from an investment outcomes aspect, the main driver is the strong belief that diverse teams make better investment decisions. As part of this initiative, HESTA has surveyed all its investment managers, including private equity, to understand the level of gender diversity in their investment teams. As is the case with the manager assessments, HESTA intends to share the aggregated results and examples of best practices with its investment managers to encourage progress.

CASE STUDY:
USS Investment Management

DEEP-DIVE MONITORING

USS, the UK Universities Superannuation Scheme, aims to assess thoroughly its GPs on ESG issues on a regular and ongoing basis, typically every three years. USS conducts such monitoring because it wants assurance that ESG issues are being managed by its GPs, and to encourage improvement in ESG performance.

The monitoring process begins with research by a member of the USS responsible investment (RI) team into the portfolio companies or other assets in which the GP has invested. The research identifies relevant ESG risks or opportunities that can be interrogated further with the GP to understand whether and how they have engaged with portfolio companies on these issues. A member of the USS RI team meets with representative members of the GP and questions the processes, actions and outcomes associated with the management of ESG issues within the portfolio. USS carries out these assessments within the context of the LP/GP relationship, where the GP has ultimate responsibility for investment decisions and its portfolios. As a result, USS is not involved in managing issues at a portfolio or asset level.

Over the years, USS estimates it has applied this monitoring process to funds representing approximately 90% of the capital that it has invested in private equity. The information collected during monitoring helps inform USS's future allocation to funds offered by the same GP, as this data is factored into the due diligence process.

To aid with both due diligence and ongoing assessment, USS has developed an internal databank of questions on ESG topics to maximise the effectiveness of meetings with GPs and the use of USS's time spent on research and preparation. This eight-page document covers the broad range of ESG issues.

CASE STUDY: Robeco Private Equity

USING THE PRI REPORTING FRAMEWORK

Robeco Private Equity is the private equity division of Robeco Institutional Asset Management B.V. ("Robeco"), which is headquartered in the Netherlands and which has a strong focus on sustainability investing. It introduced ESG monitoring and engagement in 2004, when it launched the Robeco Sustainable Private Equity programme. Robeco Private Equity evaluates the ESG performance of its GPs in its engagement programme on an annual basis. The data gathered provides vital input into Robeco Private Equity's engagement with GPs, helping them to integrate ESG considerations throughout their investment processes in a structured and formalised manner.

For about 10 years, Robeco Private Equity used a proprietary responsible entrepreneurship questionnaire for annual monitoring of GPs. From 2016, it began using the PRI Reporting Framework instead, recognising both the increasing number of PRI signatories using the framework and the growing number of LP ESG questionnaires that many of its GPs were dealing with. The PRI designed a customised interface for Robeco Private Equity on its reporting platform, which also allows non-PRI signatories to report to Robeco Private Equity.

GPs are asked to report on a sub-set of indicators from the PRI Reporting Framework, within four modules:

- The Organisational Overview module, covering the organisational structure and approach to responsible investing;
- The Strategy and Governance module, covering non-asset class-specific responsible investment implementation, such as resourcing. In 2018, Robeco mandated reporting on climate change indicators in this module;
- The Direct – Private Equity module, including details of a GP's ESG integration and active ownership practices for directly managed private equity; and
- The Closing Module, which allows a GP to review and submit its responses.

A subset of responses to the Strategy and Governance and Direct – Private Equity modules are assessed and translated into a total score which Robeco Private Equity shares with the respective GPs, along with recommendations on how they can improve their performance. The PRI Assessment Tool also enables Robeco Private Equity to benchmark the performance of GPs in its ESG programme against the broader group of private equity PRI signatories.

For more information, see Robeco Private Equity's website.

CASE STUDY:
Pantheon

INCIDENT MONITORING

Pantheon, a global private markets fund of funds headquartered in the UK, became increasingly aware that the flow of information from its private equity managers on ESG issues was lacking in consistency, and specifically that there were wide variations in the interpretation of "materiality" as a threshold for reporting incidents to LPs.

Consequently, in 2015, Pantheon decided to adopt a proactive monitoring approach. Pantheon started a search for a third-party data provider that could deliver satisfactory coverage and analytics of its underlying portfolio companies. Following a review of the providers of company ESG data, the firm decided to adopt the RepRisk platform. Most other providers pursue a top-down approach, offering detailed ESG information on a discrete list of (mainly quoted) companies. However, RepRisk's bottom-up process, of monitoring ESG incidents reported across multi-language media, ensures excellent coverage and timely delivery of information on the issues affecting Pantheon's 5,500 portfolio companies.

In previous years, Pantheon had recorded approximately 10 incidents per year. In 2017, Pantheon's first full year of implementing the new monitoring process, RepRisk identified 160 incidents. The majority of the issues identified were benign and screened out quickly, but the process threw up around 20 opportunities for Pantheon to pro-actively contact its managers in relation to a specific ESG issue, and to explore further the implications for that business, its stakeholders and the manager's own ESG processes.

The improved approach supports multiple objectives for Pantheon: it provides it with confidence that it knows which ESG issues and risks exist in its portfolio without having to rely solely on its GPs to disclose them; it supports Pantheon's aim of being an "active investor" in line with its PRI obligations; and it has enabled the firm to develop best-in-class ESG reporting for its clients.

CASE STUDY: EMERGING MARKETS PERSPECTIVES

LPs that are operating in emerging markets, particularly where they act as the cornerstone or sole investor, may have more comprehensive monitoring processes or reporting requirements in place than their counterparts operating in markets with lower levels of ESG risk.

CDC Group

LPs that are operating in emerging markets, particularly where they act as the cornerstone or sole investor, may have more comprehensive monitoring processes or reporting requirements in place than their counterparts operating in markets with lower levels of ESG risk.

As the UK's development finance institution (DFI), CDC's mission is to support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives in some of the world's poorest places. CDC's relationship with its fund managers on ESG matters begins with verifying alignment on key principles and processes, before moving to oversight and support. CDC does not believe in a 'one size fits all' approach to ESG management. It offers guidance and its experience to its fund managers to help their companies become leaders in their markets on ESG management through a mixture of one-on-one advice and training sessions, including for underlying portfolio companies.

CDC's engagement with fund managers takes a number of forms during the life of the fund:

- Prior to investing in a fund, CDC will review the fund's ESG management system (ESGMS) and, where available, its track record in implementing that system. Where there are areas that require improvement, CDC will agree an ESG action plan with the fund manager. The period post-close when the ESG action plan is being implemented will typically involve a higher level of ongoing engagement and communication between CDC and the fund.
- CDC reviews the fund's first three environmental and social due diligences to assess whether the ESGMS is being implemented effectively, and provides support where necessary. It also reviews all due diligences of environmental and social high-risk companies prior to the fund's final Investment Committee decision.
- Where CDC is invested alongside other DFIs in a fund, it aims to work with them to provide aligned feedback and support on ESG matters (i.e. through Advisory Committee meetings).
- CDC conducts periodic site visits to funds and their investee companies to understand the progress and on-the-ground challenges encountered by portfolio companies and fund managers when implementing good ESG practices. They also enable CDC to better support and advise fund managers on how to tackle any challenges they face.
- All of CDC's fund managers are required to submit an annual ESG report. This includes details of progress on ESG and business integrity issues, challenges and plans for each portfolio company as well as any changes in the fund manager's ESGMS. The report also includes information on the number and nature of employees and company performance to enable CDC to track its development impact. CDC will work with other LPs in the fund to agree a joint reporting template wherever possible to ensure all LPs receive the environmental and social information they need without the fund manager having to complete numerous templates.
- CDC provides training for fund managers on how to integrate ESG management into the private equity investment cycle as well as more specific technical training on topics of interest to fund managers (such as labour rights and establishing an effective ESGMS).
- CDC requires that any serious incidents involving portfolio companies that result in loss of life, severe permanent injury or severe permanent damage to health, a material adverse environmental or social impact or a material breach of law relating to an environmental, social, or business integrity matters, including financial irregularities, are reported promptly. Through subsequent communications with the fund manager, CDC will discuss what root cause analysis has been done and the nature of the follow up actions to ensure they are appropriate and adequate to address the identified risks, and to prevent similar actions from occurring in future.

CDC's ESG Toolkit provides advice for GPs on effective ESG integration into internal approaches as well as the type of monitoring that will bring about improvements to portfolio companies and communicate the benefits of these improvements to LPs.

CASE STUDY: EMERGING MARKETS PERSPECTIVES

GIPF

The Government Institutions Pension Fund of Namibia (GIPF) invests in PE funds in Namibia, the rest of Africa and in developed markets, with the majority of its PE allocation to funds in its home market, which is in accordance with regulatory requirements. These investments are typically first-time funds where GIPF acts as the sole investor.

For these domestic investments, GIPF undertakes a review process for all drawdown requests submitted by first-time funds before honouring the capital call. An independent special-purpose vehicle governing board, comprising independents and GP representatives, approves the transaction before the GIPF review takes place, ensuring GIPF's limited liability status remains intact.

The GIPF reviews operate within the agreed timeline of the capital call and cover: fund compliance; ESG considerations; mandate fit and investment rationale; integrity checks on promoters; capital structure, valuation methods and exit plans; development impacts; and procurement and supply chain management. If GIPF is not satisfied with the drawdown request for reasons related to any of these areas, it may request more information or a meeting with the GP to better understand the investment.

This rigorous process has been put in place due to previous governance failures in GIPF's unlisted asset portfolio. The Namibian market is small and is characterised by a relatively small number of deals; by chasing these deals, GPs can distort valuations and deviate from their investment strategy. However, given that GIPF represents about 85% of the pension fund industry in Namibia, it is in a strong position to maintain alignment of interest, and to insist upon high standards of governance. GIPF has strengthened the governance of its PE portfolio by appointing independent trustees and by implementing a rigorous monitoring system that acts as a balancing mechanism for the Namibian PE sector.

ESG considerations are therefore factored into the monitoring of target investments. Furthermore, GIPF also incorporates ESG issues into all of its GP due diligence and monitoring processes. Monitoring includes the use of an ESG template for quarterly reporting (which contributes to GIPF's integrated reporting on its investments through its annual financial statement), unplanned visits to GPs and underlying portfolio companies, and quarterly meetings with GPs to review their reports on existing investments, exit opportunities, and follow-on and co-investments, etc.

CHAPTER 3. THE ESG MONITORING AND REPORTING FRAMEWORK

INTRODUCTION

This chapter provides a framework for LPs to structure their monitoring requests and for GPs to report information. It is divided into three categories:

1) Policy, people and process
2) Portfolio
3) Material ESG incident reporting

While the overall aim of this framework is to achieve a degree of consistency in LP and GP communication, there is no one-size-fits-all approach. Flexibility may be required to tailor ESG disclosures to individual circumstances based on discussions between a GP and its LPs.

The guidance reflects this need by proposing a two-tier format for reporting information within each category[3]:

> **Core disclosures** are designed to elicit the key information that an LP can use to monitor its investments and assess the RI performance of its fund managers.
>
> **Additional disclosures** are designed to support a more detailed understanding of the RI performance of the fund manager and its portfolio companies.

It should be noted that these disclosures are intended as guidance for reporting and not as a comply-or-explain framework. It should be noted that not all funds will be able initially to report against core disclosures (especially first-time funds or those that have only recently adopted a responsible investment strategy) but, based on discussions, the GP may agree that this becomes a target to be achieved during the lifetime of the fund.

As with the additional disclosures, not all LPs will have the ability to process this quantity of information, or the need to, if they are satisfied that the information provided under the core disclosures provides enough insight into the ESG management of their investments. The LP should also consider the capacity of the GP to compile the amount of information required to make the additional disclosures.

FORMATS AND FREQUENCY OF REPORTING AND DISCLOSURE

It is important to note that the disclosures recommended in this ESG Monitoring and Reporting Framework are intended to drive a consistent industry approach towards LP-GP monitoring and reporting, not a check-list approach. The format and frequency of monitoring/reporting might apply on a case-by-case basis, but the disclosures themselves should be adaptable to all LP-GP interactions and should therefore equip LPs and GPs to implement consistent approaches to monitoring and reporting.

The disclosures describe what information to report but do not cover the format or frequency of reporting. It is recommended that documented reporting is at least annual and is aligned with the financial reporting schedule if possible. Any reporting should be supported by dialogue, for example through regular scheduled catch-ups, ad-hoc calls and the use of more formal methods such as the LPAC meeting or AIM.

Reporting of ESG incidents will be on an ad-hoc or on a summary basis depending on the materiality of the ESG incident and what has been agreed during fund commitment. The exact timing and nature of this reporting, including agreement on what constitutes a material ESG incident, should be discussed and agreed between LPs and GPs.

3 The extent to which this framework can be adopted will depend on a variety of factors, including but not limited to the GP's investor base, the size of the fund and types of investments, and resources available for ESG management at the GP and LP levels. The decision on whether a disclosure should be core or additional was based on 40 interviews with LPs, GPs and service providers and the opinion of a 47-person PRI signatory working group.

GETTING STARTED WITH THE ESG MONITORING AND REPORTING FRAMEWORK

PRINCIPLES OF DISCLOSURE

Users of this guidance should keep in mind the following principles when reporting using the disclosures in this guidance:

- Report on a whole-fund basis, and report information relevant to the specific fund that the LP is invested in.
- Ensure the boundaries of the reported information are clear and that the information is materially relevant.
- Disclosed information should be:
  - Accurate and credible
  - Balanced and objective
  - Clear and accessible
  - Comparable and consistent
  - Complete
  - Reliable
  - Timely
- Where possible, the ESG reporting process should be aligned and, where practicable, integrated with the fund's financial reporting cycle, rather than operating on a separate timeline.
- Allocate responsibilities and oversight for ESG reporting.
- Allow for differences in firms' ESG maturities and approaches.
- Consider what format and frequency of reporting is needed for the different types of disclosure.
- Maintain LP-GP dialogue on ESG reporting in order to anticipate and communicate any changes in LP reporting requirements.

DECIDING YOUR MONITORING REQUIREMENTS AND LEVEL OF REPORTING

Before establishing a monitoring and reporting system, LPs and GPs are advised to pose the following questions to themselves to help them frame their approach:

Questions for LPs

- Prior to making the fund commitment, what ESG information, and at what frequency, did each of my GPs agree to give me?
- What ESG information matters to my investments and stakeholders?
- What information do I need to monitor ESG within my fund(s)' portfolio(s)? Why is it important; and how often do I need it?
- Have I discussed my ESG information needs directly with my GPs?
- Have my expectations changed in terms of ESG information since making the fund commitment?
- Is the ESG information we request unique to our organisation?
- What additional resources (if any) will we need to process the information we receive from our GPs, and will we need to make any changes to our own internal procedures?
- How will the information be published and sent to investors? How will the information be used for future investment decisions? What feedback will I provide to GPs based on information collected?

Questions for GPs

- What information did we agree to share with LPs during fundraising?
- What information do I currently share with LPs? At what frequency?
- What information can I report proactively?
- What is the best method of reporting given the investors and type of fund?
- What information can and cannot be shared, and why?
- How can we ensure monitoring and reporting contributes to value protection and enhancement?

GPs may consider including a statement of purpose in their ESG reporting, articulating their approach and objectives for reporting. For example, if the GP focused on risk mitigation and/or value creation, or whether the GP thinks about ESG integration as sound overall business management, or whether it has a more fundamental sustainability goal?

ESG AND MATERIALITY

As set out in the PRI LP Responsible Investment DDQ guidance[4]: when asking about "materiality", LPs are asking GPs how they determine which ESG factors are likely to have the most impact on their investments. Materiality encompasses quantifiable impacts on financial performance and investment returns, reputational risks and broader potential consequences on business operations (such as license to operate). The GP's determination of materiality should be based on both their own assessment of materiality and an assessment of their LPs' views. Where necessary, LPs should discuss and agree with the GP to ensure an aligned approach.

4 LP responsible investment DDQ and how to use it, PRI, (2015)

SUMMARY OVERVIEW OF THE ESG MONITORING AND REPORTING FRAMEWORK

I. POLICY, PEOPLE AND PROCESS

1.1 What updates have you made to your responsible investment policy/ guidelines and/or strategy?
CORE

1.2 What changes have you made to how responsible investment is resourced and structured at the firm?
CORE

1.3 How has your responsible investment policy/guidelines and/or strategy been implemented?
CORE & ADDITIONAL

1.4 How does your firm manage the ESG aspects of its own operations (corporate responsibility)?
ADDITIONAL

II. PORTFOLIO

2.1 What is the ESG risk and opportunity profile of the portfolio companies in the fund? Have there been any changes to the ESG risk and opportunity profile of the fund in response to emerging ESG issues, and, if so, which ones?
CORE

2.2 How are ESG factors managed by the portfolio companies in the fund?
CORE & ADDITIONAL

2.3 Report specific ESG indicators for portfolio companies.
ADDITIONAL

2.4 Describe your approach to assessing the risks and opportunities that climate change poses to your portfolio companies.
ADDITIONAL

2.5 Describe your approach to assessing the environmental and social benefits created by your portfolio companies
ADDITIONAL

III. MATERIAL ESG INCIDENTS

3.1 Immediate notification of material ESG incidents.
CORE

3.2 Periodic summary of material ESG incidents.
CORE

SECTION 1: POLICY, PEOPLE AND PROCESS

LIMITED PARTNER OBJECTIVE:

Establish if a GP is acting in a manner consistent with investment policies, processes, and agreed-upon fund terms regarding ESG management[5].

1.1 WHAT UPDATES HAVE YOU MADE TO YOUR RESPONSIBLE INVESTMENT POLICY/GUIDELINES AND/OR STRATEGY?[6]

CORE

Relevance

Before committing to a fund, an LP should understand the GP's intended approach to ESG management. However, during the life of the fund, the GP's policy and approach to responsible investment could change as new issues emerge and the capacity of the portfolio companies to address ESG issues increases, or as the GP becomes more ambitious and sophisticated in its approach to responsible investment. If the GP has a responsible investment policy, this should already be disclosed and readily available to its LPs. This disclosure is an opportunity to share any developments with LPs.

Responses would likely include:

- Any actions the GP has taken to develop, amend or change the fund's responsible investment policy, strategy, and/or approach during the reporting period;
- Details of any plans for future modifications;
- Commitment to an external standard (such as the PRI or the UN Global Compact) and any associated developments;
- The addition of specific macro-risk considerations in strategy, such as climate risk or the addition of a thematic lens such as the UN SDGs;
- A statement that the responsible investment policy is now publicly available;
- A (re)statement that "Our investment activities are guided by a responsible investment policy";
- A statement that no changes have occurred to the responsible investment policy/strategy during the reporting period.

PRI has compiled a list of publicly available responsible investment policies. The list is available on the private equity page of the PRI website.

5 ESG Disclosure Framework for Private Equity, Section 2

6 According to its explanatory notes, the PRI Reporting Framework defines an investment policy as "an overall statement that actualises the approach on how your organisation will achieve its identified mission, and will build on your investment strategy, outline your investment objectives, and give guidance to investment processes as well as your standards for measuring success/performance". Responsible investment policies, as understood by the PRI, "can take many forms and there is no single right way of developing one. Currently, policies can take the form of high-level statements on an organisation's webpage, a code, [a] separate responsible policy document, a range of policy documents covering different areas, or in some cases incorporated into an organisation's Investment Policy Statement". The PRI also recognises that a private equity firm may not have investment policies, but may instead have investment guidelines which reference responsible investment. The policy/guidelines should communicate how the GP incorporates responsible investment into its investment decision-making processes and how this is supported by the firm's structure. It is not a CSR policy.

1.1 IN PRACTICE

CORE

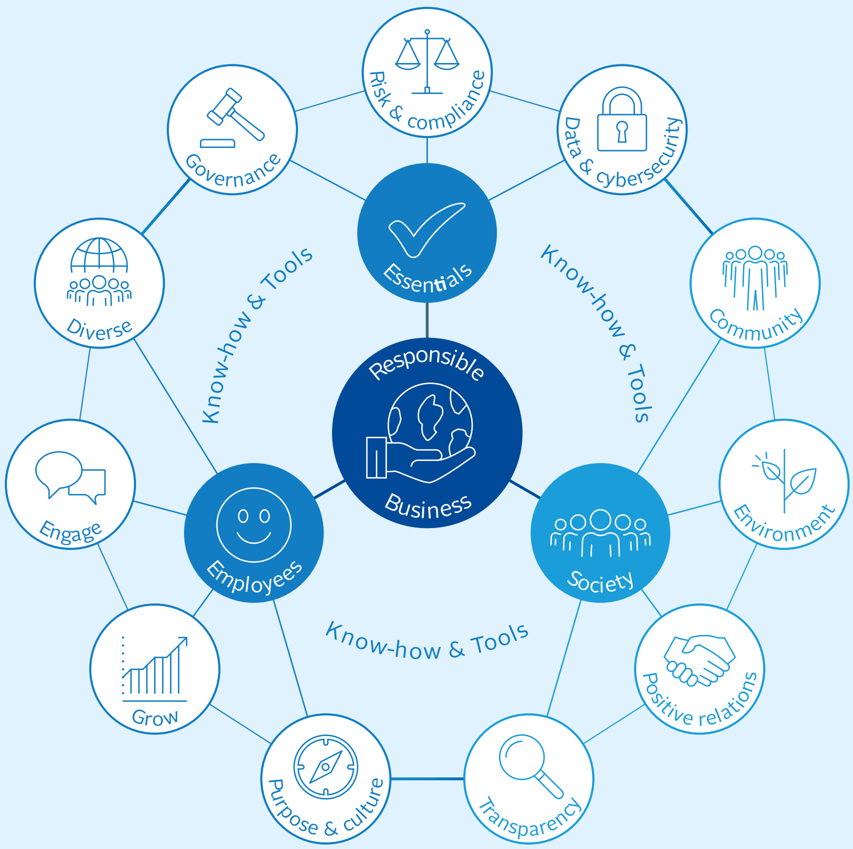
HG

European sector expert investor, technology, services and industrial technology, HQ UK

Hg drew up a responsible investment policy in 2012. The policy is sponsored, reviewed and signed off annually by key members of its executive team, including its Chief Operating Officer, demonstrating senior-level commitment across the firm.

The policy was most recently updated in March 2018. It applies to both the firm and its underlying portfolio and is implemented as follows:

- **Hg's Operations Innovation Playbook** – When Hg invests in a new company, there is an 'onboarding' process which introduces Hg's Responsible Business Framework (see illustration) and its approach to ESG.
- **Collaboration** – Hg promotes a culture of working together to share ideas, experiences and best practice, and has created several communities across its portfolio to facilitate this. Hg hosts regular events for all portfolio companies covering key ESG topics; in 2018, it plans to cover diversity and data privacy and security.
- **Maturity assessment** – Hg helps companies assess themselves against the Responsible Business Framework, at least annually. The maturity assessment includes over 75 questions and aims to identify best practices as well as areas for improvement.
- **Workstream reviews and jump start materials** – Hg provides templates for key requirements such as an antibribery and corruption policy.
- **Internal engagement and training** – The Responsible Business Framework requires collaboration across the firm. Hg's Head of Responsible Investment has conducted sessions with all deal executives and has presented the framework to the whole firm to ensure alignment among all employees.



1.2 WHAT CHANGES HAVE YOU MADE TO HOW RESPONSIBLE INVESTMENT IS RESOURCED AND STRUCTURED AT THE FIRM?

CORE

Relevance

Questions on the GP's ESG processes and capacity to implement those processes should be raised during due diligence. As organisations change over time, they may add to or change the way they manage ESG aspects.

LPs seek a clear understanding of responsibility and accountability for the implementation of the fund's RI policy and therefore seek assurance that these arrangements continue to be in place – if not improved – throughout the lifetime of the fund.

The purpose of this disclosure is to inform the LP of any organisational changes the GP has made regarding how ESG management is resourced internally and/or externally. This can include changes in roles, responsibilities and accountabilities at the firm, such as introduction of an oversight committee or an ESG working group, addition of new in-house ESG staff or appointment of a third-party advisor.

Responses would likely include:

- Specific changes to (i) oversight responsibilities, and (ii) implementation responsibilities for ESG integration within the organisation. Including a confirmation of the persons involved and a description of their role, position within the organisation and how they are qualified for this role[19].
- The external resources that are being used.
- Training opportunities and/or external resources provided for relevant staff to help them understand and identify the relevance and importance of ESG factors in investment activities[20]. Details on processes for evaluating ongoing training needs could also be provided.
- A statement that no changes have been made to how ESG management is structured and resourced during the reporting period (or a restatement of previously disclosed information).

1.2 IN PRACTICE

CORE

BRIDGEPOINT

International private equity group, buyout and growth, HQ UK

Bridgepoint has a well-established governance framework for managing the firm. Its board has executive responsibility for strategic direction and is ultimately responsible for Bridgepoint's ESG programme.

The ESG and Risk Committee is responsible for advising the board on policy, strategy and objectives, for overseeing policy implementation, and for monitoring performance across the portfolio. The committee comprises Partner-level members from across the investment teams and support group, and is led by the chairman of the advisory board. The Head of ESG reports to the committee and is responsible for coordinating the firm's ESG activities on a day-to-day basis.

The management of ESG issues has been integrated into Bridgepoint's business and investment practices for many years. The firm's Operating Committee, Investment Advisory Committee (IAC) and Portfolio Management Committee each consider ESG factors as part of their remit, and each committee reports to the board as appropriate. All new investment proposals submitted to the IAC include an analysis of relevant ESG matters.

At the portfolio company level, the Bridgepoint representative is responsible for ensuring the board of the investee company takes ownership of ESG management and that it approves and oversees the implementation of an appropriate ESG (or equivalent) policy. Each company is expected to monitor ESG performance using company-specific KPIs, reporting to its board and Bridgepoint on a regular basis.

1.3 HOW HAS YOUR RESPONSIBLE INVESTMENT POLICY/GUIDELINES AND/OR STRATEGY BEEN IMPLEMENTED?

CORE ADDITIONAL

Relevance

For an LP, this provides insight into how a GP is managing ESG issues on a day-to-day basis. For a GP, this is the opportunity to demonstrate how its policy has been put into action.

This disclosure is focused on the procedures and methods that a GP employs to turn its RI ambitions into actions. It is at the fund-level in that it describes those processes that apply across the fund, rather than to individual portfolio companies. This information and reporting should be relevant to the assets in the fund that the LP is actually invested in.

This disclosure overlaps significantly with how a GP reports against the PRI Reporting Framework, which is primarily an annual summary of how the GP has incorporated responsible investment considerations into its investment decision-making processes that year. Cross-referencing is provided in Appendix B to minimise reporting duplication[7].

For an understanding of the ESG factors that are material to individual portfolio companies, the disclosures set out in Section 2 of this framework are more appropriate.

1.3 CORE

The core disclosure gives an overview of the processes and actions taken to integrate ESG into the investment process.

Responses would likely include:

- A statement confirming that activities of the fund were in line with policies and commitments agreed during fund raising;
- A description, including examples, of how ESG issues have been factored into investment processes (including due diligence, monitoring and exit) during the reporting period;
- Evidence of Investment Committee oversight of ESG due diligence;
- Initiatives to roll out RI policy within the firm and across the portfolio (i.e. committees, objective-setting, formal training, workshops or webcasts);
- A commitment to feature ESG discussions on the agenda of the LPAC and/or AIM;
- Evidence of the promotion of responsible investment and best-practice sharing within the finance community, including commitments to public reporting.

1.3 ADDITIONAL

The additional disclosure gives greater detail about the specific methods used to implement the ESG/RI policy.

Responses might include:

- How ESG issues impacted the investment selection processes during the reporting period.
- Any investments that were selected due to potential ESG value creation opportunities;
- How ESG was incorporated into the shareholder purchase agreement (SPA) and/or the post-investment action plan (100-day plan or similar);
- Any changes in the materiality of ESG issues over time (such as in buy-and-build strategies);
- Evidence of whether the GP and portfolio company management are actively reviewing ESG KPIs;
- Actions to identify and engage with external parties or stakeholders that could add value or decrease risk of ESG issues;
- How ESG was considered as part of the planned exit;
- Whether the GP measures how its approach to responsible investment has affected financial and/or ESG performance of the portfolio;
- Information on how the GP is dealing with specific ESG topics such as human rights, climate change, diversity and inclusion.

Data points might include:

- The percentage of relevant deals that incorporated ESG due diligence.
- The percentage of investment memos that included ESG.

7 Any mandatory reporting indicators in the PRI Reporting Framework are categorised as core disclosures. Any voluntary reporting indicators are categorised as additional disclosures.

1.3 IN PRACTICE

CORE

BLUE WOLF CAPITAL

Midmarket buyout firm, experienced in special situations, HQ US

The Blue Wolf ESG diligence toolkit, consisting of 40 questions, is used to evaluate a broad spectrum of ESG issues across multiple industries. During the diligence process, Blue Wolf often engages with critical stakeholders (e.g. unions, employees and regulators) to complement its assessment of ESG business and reputational risks and value creation opportunities. This exercise not only helps transform broad ESG questions into discrete inquiries that strengthen the underwriting, but it also allows Blue Wolf to assess the company management's approach to ESG and identify the relevant KPIs that should be monitored. Prior to making an investment, Blue Wolf and its management teams discuss the findings of the diligence toolkit and incorporate the results into long-term value creation and risk management plans.

As an illustration, the firm recently invested in an industrial and engineering services provider that employs individuals from over 200 unions to perform mission critical maintenance and repair work. Using the toolkit, Blue Wolf identified areas for improvement related to documenting union pension contributions and clearly articulating objectives and formal incentive structures for executive management. It also identified a strong culture of training and compliance and best-in-class safety performance, providing an ESG opportunity for accelerated growth and value creation by positioning the company as a preferred employer. After discussions with employees and union leadership, Blue Wolf worked with management to incorporate improvement initiatives into the 100-day plan. On an ongoing basis, management reports its progress on these initiatives to the board, which was expanded after the investment to include members from Blue Wolf as well as independent directors.

1.3 IN PRACTICE

CORE

21 PARTNERS

European midmarket firm, HQ Italy

21 Partners produces an annual sustainability report providing information on its pillars and vision, its formalised sustainability approach and policy, and annual highlights regarding the firm and its portfolio companies. The report also includes detailed qualitative and quantitative ESG KPIs for each portfolio company and each fund under management, with suggestions for improvements in ESG areas for the following year. In contrast with 21 Partners' quarterly LP reporting, the annual sustainability report does not cover detailed financial analysis of each portfolio company. The firm presents the full report to all LPs, and publishes on its website a shorter public version , which does not include the KPIs.

The private report is used to communicate progress to LPs, while the public report is an effective communication tool for target companies as an assurance of 21 Partners' responsible ownership practices and its commitment to sustainable value creation.
21 Partners has been a signatory of the PRI since 2009. The efforts it has made in the past nine years to collect and report on high-quality ESG data from portfolio companies, develop an increasingly structured approach to responsible investment, increase transparency and promote responsible investment awareness have been increasingly appreciated by LPs and awarded by external organisations.

1.4 HOW DOES YOUR FIRM MANAGE THE ESG ASPECTS OF ITS OWN OPERATIONS (CORPORATE RESPONSIBILITY)?

ADDITIONAL

Relevance

While recognising that the GP has its most significant impact through its investments, LPs may wish to understand if the GP's own operations align with the practices of a responsible company and whether its commitment to ESG principles is reflected in its internal operations.

Misconduct or material incidents at the GP firm-level can be equally if not more damaging to the LP than issues at the portfolio company level. The LP has discretion in selecting the private equity manager and therefore heightened fiduciary duty and reputational risk compared with actions by the GP, versus their further removed relationship with the underlying portfolio companies.

The issues of greatest LP concern or interest at the GP firm level relate to people risk, and they will therefore be more interested in practices by the GP to uphold the firm's values and corporate culture.

This disclosure might include a description of:

- How the GP promotes good governance, ethics and sound human resources practices at the firm (i.e. policies and efforts to retain talent, enhance diversity and inclusion, promote shared values, uphold a code of conduct and protect whistleblowers); and
- How the GP's own operations align with their responsible investment commitments to manage its impact on environment and society (i.e. efforts to minimise its environmental impact or contribute to the community).

LPs that sit on the LPAC of the fund might consider that any agenda item on ESG issues in the portfolio includes a broader discussion of corporate responsibility practices at the GP firm level.

DIVERSITY AND INCLUSION

With the recognition that diversity can contribute to company performance, LPs will be interested in what the GP is doing to diversify its own intellectual assets[8]. This may include policies and processes to recruit and retain diverse talent, build the infrastructure required to support inclusion, and provide mentoring and sponsorship.

Private equity is notoriously lacking in diversity. The Preqin 2017 report Women in Alternative Assets noted that women account for fewer than 18% of employees and fewer than 10% of senior-level staff at private equity firms. Industry associations have started proactive programmes to address and remediate this, and GPs can look to these to build their programmes for diversity and inclusion. LPs are also well served by building awareness of good industry practice so that they can better assess GP responses to their enquiries on diversity and inclusion.

Some examples:

- The American Investment Council and the National Association of Investment Companies has released its Guidelines and Best Practices, a framework for promoting recruitment and retention of women.
- The ILPA has established a Diversity Taskforce and is currently working on incorporating definitions and questioning on diversity and inclusion in the ILPA Standardized DDQ.
- The National Venture Capital Association has established the VentureForward initiative, committed to expanding opportunities for men and women of all backgrounds to thrive in the venture ecosystem. The initiative has already compiled a number of resources, including sample HR policies, codes of conduct and best practices for addressing harassment and discrimination, and will continue to share best practices, provide education and training and conducting research.
- Level20, a UK initiative which is being adopted by other countries, has set a target for 20% representation of women in senior private equity roles. It was founded by a group of senior women who are combining their experiences and franchises to provide mentoring, networking opportunities and research to its members.

8 See Bronwyn Bailey, "Diversity As A Long-Term Strategy", Preqin 2018 Global Private Equity and Venture Capital Report

1.4 IN PRACTICE

ADDITIONAL

EQT

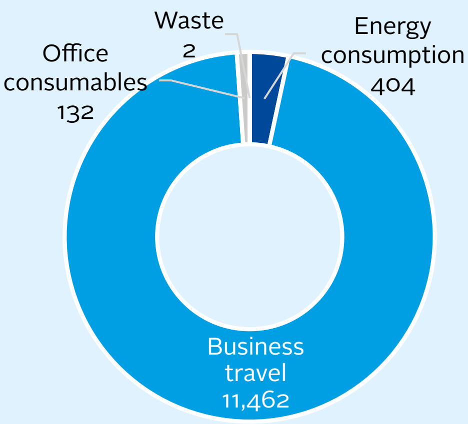
Global multi-strategy firm, HQ Sweden

For EQT, it is important to lead by example. The company is committed to reducing the environmental impact of its portfolio companies and contributing to the transition to a low-carbon economy, but it is also intent on reducing its own environmental impact. In practice, this means that EQT measures, reduces, offsets and communicates its greenhouse gas emissions.

Examples of actions EQT has taken include the introduction of new digital solutions, a travel policy, converting to LED lights and choosing renewable energy to heat and cool its offices. EQT offsets its carbon emissions by supporting projects such as biofuel use in the aviation industry. EQT's greenhouse gas inventory and reduction plan began in 2014 when EQT commissioned a pilot study to understand its own emissions. Since then, the firm has published greenhouse gas emissions reports for 2015 and 2016.

Statistics and EQT's methodology can be found in its 2016 GHG Emissions Report .

Total emissions by source 2016 (ton CO_{2e})



1.4 IN PRACTICE

ADDITIONAL

ARDIAN

Global private investment house, multi strategy, HQ France

Ardian believes that shared efforts should lead to shared rewards. All employees must contribute if a company is to create value and sustainable growth, and so Ardian has pioneered the practice of sharing up to 5% of the capital gains it achieves on exit with the staff of those companies. Since 2008, Ardian has distributed €21m of capital gains to over 9,000 employees from 18 companies.

For the same reason, Ardian has extended the "Intéressement et Participation" profit sharing scheme, which is mandatory for the French company, to all of its subsidiaries around the world, giving every member of its global workforce the right to an equal share of Ardian's profits. Furthermore, the firm promotes employee shareholding among the companies in which it invests. Ardian is employee-focused by nature: 55% of Ardian is owned by its staff, some 80% of whom are shareholders in the management company.

Ardian has strong HR practices in place to promote diversity and inclusion in employee recruitment, retention and progression. It has appointed an Equal Opportunities Officer, put in place an anti-discrimination and diversity policy supported by staff training sessions, and every employee under 26 receives mentoring from a senior colleague.

To contribute to the ambitious targets enshrined in the Paris climate agreement, in November 2015 Ardian was one of five French GPs that launched the Initiative Climat 2020. It commits each signatory to begin, by 2020, to measure the direct and indirect carbon emissions of its majority-controlled portfolio companies and to pursue efforts to control and reduce these emissions.

As a firm, Ardian has implemented policies to mitigate its environmental impact, including an assessment of its carbon footprint, energy efficiency improvements, recycling, the use of video-conferencing to reduce business travel, and the use of environmentally-friendly taxis across all 13 of its international offices.

SECTION 2: PORTFOLIO

LIMITED PARTNER OBJECTIVE:

Understand positive or negative ESG developments that may impact portfolio companies in the fund[9].

The previous section of this ESG Monitoring and Reporting Framework (Policy, people and process) addresses GP reporting regarding policies and processes related to ESG risks and opportunities in their portfolio, while the disclosures outlined in this section focus on the outcomes of those activities and the potential impact on the fund. In particular, the outcome of their approach to engaging with portfolio companies to understand how relevant and material ESG factors are being addressed and prioritised.

Not all ESG data can be disclosed due to legal or competition reasons, but GPs should make a good faith effort to include material ESG developments in their periodic reporting, as may have been formalised in the fund terms[10].

2.1 WHAT IS THE ESG RISK AND OPPORTUNITY PROFILE OF THE PORTFOLIO COMPANIES IN THE FUND? HAVE THERE BEEN ANY CHANGES TO THE ESG RISK AND OPPORTUNITY PROFILE OF THE FUND IN RESPONSE TO EMERGING ESG ISSUES, AND, IF SO, WHICH ONES?

CORE

Relevance

LPs seek this information to confirm that the GP is assessing and managing material ESG risks and opportunities in the fund and to understand how the GP is prioritising its engagement with companies and/or addressing material ESG factors (e.g. based on certain priority themes and inherent sector risks). LPs may also seek to monitor progress on the management of ESG risk and opportunities over time as the fund develops. While an LP would not expect to see unmanaged risk, some sectors have high inherent risk and some LPs want to know the extent of their exposure to these risks. This information may be of most interest during the capital call phase.

There are many different approaches to identifying the material ESG risks and opportunities of an investment and to monitor those issues.

There are two levels of ESG risk:

- Inherent risk: the natural level of risk that exists due to the operating environment of a company; and
- Residual risk: the current level of risk that remains after mitigation actions have been taken.

Inherent risks would, for the most part, remain static and so it is not expected that the response to this disclosure would change much from one reporting period to the next, other than to reflect new investments added to the portfolio. Residual risks may change as businesses evolve over time, including due to changes in company strategy or management, or the expansion of, or bolt-on to, an existing portfolio company.

ESG risks may represent opportunities for value enhancement or protection, if properly managed. LPs will also be interested in how GPs are identifying and pursuing ESG-related opportunities that can contribute value at the top line (related to business strategy) and the bottom line (related to business efficiency).

Responses would likely include:

- A company-based assessment of the level of ESG risk and/or opportunities across the fund;
- A sector-based assessment of risks and opportunities; and
- Research on key ESG risks and opportunities and which portfolio companies are impacted by them.

If portfolio company-specific assessments are disclosed, these may comprise ESG risks and opportunities identified during investment valuation, as part of a due diligence exercise, or during an assessment completed during the ownership phase.

9 ESG Disclosure Framework for Private Equity, Section 2

10 See Incorporating responsible investment requirements into fund terms, PRI, (2014), Section 2 point 4

A non-exhaustive list of ESG factors[11].

EXAMPLES OF ESG FACTORS		
ENVIRONMENTAL	**SOCIAL**	**GOVERNANCE**
Air and water pollution	Customer satisfaction	Accounting standards
Biodiversity	Data protection and privacy	Anti-competitive behaviour
Climate change	Diversity and equal opportunities	Audit committee structure
Deforestation	Employee attraction and retention	Board composition
Ecosystems services	Employee engagement	Bribery and corruption
Energy efficiency	Government and community relations	Business ethics
Hazardous materials	Human capital management	Compliance
Land degradation	Human rights	Executive remuneration
Resource depletion	Indigenous rights	Lobbying
Waste management	Labour standards	Political contributions
Water scarcity	Labour-management relations	Risk management
	Marketing communications	Separation of chairman and CEO
	Product mis-selling	Stakeholder dialogue
	Product safety and liability	Succession planning
	Supply chain management	Whistleblower schemes

The following resources are publicly available to investors and can help identify key ESG factors which can inform assessment of risk and opportunity.

- The Sustainability Accounting Standards Board (SASB) Materiality Map™ identifies likely material sustainability issues on an industry-by-industry basis.
- The CDC toolkit for fund managers includes sector profiles which are "designed to help fund managers quickly familiarise themselves with the most frequent and important ESG aspects of investments in a number of sectors."
- For a more macro perspective, the World Economic Forum publishes an annual Global Risk Report which covers the following five categories of risk: economic, environmental, geopolitical, societal and technological.
- The Global Reporting Initiative's G4 Sector Disclosures are a series of guidance documents that accompany the main GRI Standards. The guidance covers 10 different sectors and provides disclosures that are appropriate to each one.

11 Responsible investment in private equity – a guide for general partners, PRI, (2014)

2.1 IN PRACTICE

CORE

ACTIS

Emerging markets growth firm, Africa/Asia/Latin America, HQ UK

Actis leverages local knowledge across its target markets and its deep sector expertise to develop simple repeatable strategies to manage material ESG issues that have the potential to erode value and maximise opportunities to create value for investors. The firm has developed a systematic approach to assessing ESG issues, whether they present risks or opportunities, and to prioritise them based on materiality, which will vary depending on the sector, geography and company track record, among other things.

Actis' reporting provides detailed analysis not just on the risk and opportunity profile of the investments, and any outcomes, but it also clearly discloses the approach employed by Actis to achieve positive ESG outcomes. In the electricity sector, for example, the firm has explained how experience gained in that sector in Uganda informed a detailed strategy to deliver improvements in a similar investment in Cameroon, where the first priority was to tackle safety issues.

In its 2017 responsible investment report, Actis noted: "This focus on safety is vital for Actis, not only from an ethical point of view, but also because improvements made here are strongly linked to operational efficiency and financial value. For a network to be operationally effective, it has to be run safely, with risks identified and managed."

Further detail on the specific risks identified and the ongoing work to drive improvements, and ultimately create value for the investment, is provided in Actis' publicly available Values Drive Value report.

2.1 IN PRACTICE

CORE

KKR

Global investment firm, multi-strategy, HQ US

KKR describes responsible investment through three categories:

- ESG integrated: KKR works to integrate ESG considerations into each step in the lifecycle of the investment process. This applies to all private markets investments, which are evaluated for material risks and opportunities.
- ESG targeted: The firm identifies investments where improving performance on critical ESG issues helps create value or mitigate risk, and it provides resources or tools to manage and measure progress.
- Solutions focused: In these investments, a company's business model, product or service provides a solution to an ESG-related challenge.

In both its 2015 and 2016 ESG and Citizenship Report (available to investors and via the KKR website), the firm identified five ESG-related challenges that affect the risk/opportunity profile of its companies or engagement strategies. These are:

- The health of populations: treating and preventing disease;
- A complex future: managing resource constraints;
- A new world: adapting to climate change;
- A need for smarter cities: investing in infrastructure; and
- The next billion: supporting better agriculture.

KKR reports on how these issues are being managed and, in some cases, where its portfolio companies are responding with innovative and adaptive solutions.

An example is GoDaddy Inc., a leading cloud platform dedicated to small independent ventures, and its focus on analysing data to improve gender diversity. The number of women in the technology sector is notably low, so GoDaddy's work is a good case study of a company that is committed to being a place where female professionals can not only work, but also thrive. GoDaddy has published an annual salary audit, carrying out a rigorous internal process that helps the company understand how men and women are paid, and followed up with action to ensure fairness and equality in compensation. According to GoDaddy's 2016 audit, women at the company make $1.01 for every $1.00 a man makes. Further detail and case studies can be found in the KKR ESG and Citizenship Report.

2.2 HOW ARE ESG FACTORS MANAGED BY THE PORTFOLIO COMPANIES IN THE FUND?

CORE ADDITIONAL

Relevance

LPs seek to understand that appropriate structures and resources are in place for the effective management of ESG factors within portfolio companies. Over time, an LP may look to see if the GP's engagement reflects an improvement in how portfolio companies manage ESG factors.

Board-level engagement on ESG aspects of material significance is good practice because it ensures they are reviewed at the most senior level of the company. Board-level engagement is also an indicator of a GP's engagement regarding ESG during the ownership phase.

The purpose of this disclosure is to provide a summary of ESG management systems at portfolio companies and also, where relevant, include a summary description of how companies have addressed emerging compliance requirements during the reporting period. LPs want assurance that a GP understands and monitors the quality of ESG management at its portfolio companies, particularly in SMEs.

This disclosure comprises two categories. The first sets out a range of core expectations and the other, which may require additional effort to report, demonstrates a more advanced level of ESG implementation by the portfolio company.

2.2 CORE

Responses would likely include:

- A description of board-level engagement on material ESG issues;
- A description of legal requirements (shareholder agreements or similar) for portfolio company management to manage material ESG issues;
- A description of who is responsible for ESG management;
- Qualitative reporting driven by regulation (e.g. human rights through national regulations, such as the UK Modern Slavery Act and the California Transparency in Supply Chains Act, the Australia MSA TISC).

Data points might include:

- The percentage of portfolio companies with an ESG/sustainability-related policy (or any relevant guidelines or policies that address relevant material risks);
- The percentage of portfolio companies that are being monitored on ESG performance.

2.2 ADDITIONAL

Responses might include:

- An assessment of the level of competence and resource at the portfolio company level to manage ESG factors;
- The results of any ESG management review/diagnostic undertaken as part of pre-deal diligence, post investment, or independently by the portfolio company;
- Information on any portfolio-wide initiatives implemented with portfolio company management to identify and manage material ESG issues;
- Portfolio company alignment with international standards and so-called 'soft laws' such as the UN Global Compact, OECD Guidelines for Multinational Enterprises[12], the International Finance Corporation Performance Standards, International Standards Organization and Occupational Health and Safety Assessment Series standards, and reporting based on Global Reporting Initiative standards or the Sustainable Stock Exchanges initiative guidance.

12 LPs are increasingly expected to consider human rights impacts of their investments, and may seek further information on how these risks have been identified and managed. See Workshop on Human Rights in Private Equity: Information and Summary, PRI and BIICL, (2017)

2.2 IN PRACTICE

CORE

CINVEN

International buyout firm, HQ UK

Cinven has adopted a collaborative approach to ESG, as detailed in its ESG review, with its investment teams working closely with portfolio companies to leverage a shared understanding of the most material ESG issues for each industry sector. Through early engagement with portfolio company management teams on ESG matters, during and post-acquisition, Cinven sets out its ESG expectations and is able to provide support to portfolio companies where required. A detailed post-acquisition review process supports this engagement, helping to set clear ESG actions during the ownership period and helping to ensure that ESG is 'hardwired' into portfolio companies' reporting and operations. Post investment, Cinven ensures that material ESG matters are appropriately prioritised in the value creation plan and in performance management systems.

Cinven's engagement with portfolio companies helps them understand the implications of existing and upcoming ESG-related legislation. In Cinven's ESG review, the firm noted three areas of focus for the year ahead – modern slavery, anti-bribery and cyber security – raising awareness of the need to comply with legislation and to undertake further measures to address these ESG risks.

To help ensure ESG integration, a board representative from the company is assigned overall oversight and accountability for ESG, and ESG is regularly tabled and reviewed at board meetings. ESG KPIs are systematically collected from portfolio companies, and are reviewed by the company board, Cinven investment teams, the Cinven ESG Steering Committee, and Cinven's Portfolio Review Committee.

Further details on Cinven's specific areas of ESG focus and progress made at portfolio companies are provided in its most recent ESG review, available to investors and the public.

2.2 IN PRACTICE

CORE

PALATINE

Midmarket firm, buyout, buy and build and impact, HQ UK

Palatine's approach to investor reporting is based on three factors:

- A systematic and meaningful annual process that is well understood by the investment team and the portfolio companies;
- A high degree of engagement on ESG management and evaluation so that quality data is fed into reporting;
- A commitment from the top to use the process to drive value in each company, the appointment of an ESG ambassador on every board and recognition for companies that try hard and do well.

The process begins with a baseline review of ESG performance on acquisition, leading to a full management report and a one-page summary containing performance highlights and recommendations. The summary is used to help guide the board throughout the holding period and is updated annually for Palatine's Investors' Report. Strengths of the system include its focus on the most material ESG issues and related KPIs for each company, and the use of striking visuals to show year-on-year change.

A graphic report of some 20 thematic ESG KPIs is also used to show annual progress across the whole portfolio, illustrated with mini case studies of company initiatives. Palatine believes this regular monitoring and feedback process keeps ESG high on companies' agendas and helps drive progress and value within its portfolio.

2.2 IN PRACTICE

ADDITIONAL

TPG

Global alternative asset firm, HQ US

As part of TPG's sustainability and ESG programme, portfolio companies are asked to:

- Establish ESG policies;
- Participate in the TPG Sustainability/ESG Sustainability Leadership Council;
- Complete an annual sustainability and ESG performance self-assessment, which leads to a framework analysis and work plan; and
- Measure and report on the progress of their goals and action plans.

To support portfolio companies with these actions, TPG engages with the company sustainability leadership to assess the current level of performance and identify specific initiatives that will reduce costs, mitigate risk and create value. TPG has developed a network of external providers that support its own sustainability and ESG team in driving performance improvements at its portfolio companies.

An annual sustainability and ESG performance self-assessment process helps TPG better understand how its portfolio companies are approaching sustainability, identify leading practices and challenges, and prioritise work with its portfolio companies and in its cross-portfolio collaborative efforts. The assessment includes a range of questions covering such topics as policy, goals and initiatives, supply chain management, employee relations and stakeholder engagement.

Once the assessment is complete, TPG compiles an individual portfolio company analysis to identify leading practices and opportunities for improvement. It reviews the analysis with the portfolio company leadership, identifying three to five initiatives to drive performance improvement. TPG then develops a workplan with specific metrics, timelines and individual accountability. Following the completion of the work with the portfolio company, TPG develops a case study that highlights progress made during the investment period. The information gathered helps TPG mitigate potential risks and identify value creation opportunities.

In addition to the Materiality Map™ described under Disclosure 2.1, SASB provides further disclosure guidance and accounting standards , designed specifically to support annual filings with the US SEC. SASB develops and maintains sustainability accounting standards – for 79 industries in 11 sectors – that help public corporations disclose financially material information to investors in a cost-effective and decision-useful format.

While private companies are not subject to SEC disclosure regulations, they can use SASB standards for performance management and communication to investors and other stakeholders.

France Invest's Reporting Recommendations (see case study in Chapter 2) includes proposed definitions for each of the 11 common ESG indicators that it has identified for reporting at the portfolio company level. For example, the indicator "carbon footprint monitoring over the past four years: number and percentage of investments concerned", is defined as the "number and percentage of investments having conducted a GHG assessment or an environmental footprint over the last four years (Scope 1 & 2 or Scope 1, 2 & 3)".

2.3 REPORT SPECIFIC ESG INDICATORS FOR PORTFOLIO COMPANIES.

ADDITIONAL

Relevance

The PE industry is moving towards greater disclosure and transparency on ESG integration and performance at the portfolio company level. Setting up sector specific KPIs, data points or qualitative updates is one way for GPs to demonstrate ESG improvements in portfolio companies, set objectives and ensure key issues are being monitored and managed. Some LPs will request specific portfolio-wide data points to support their own investment strategy and reporting to their stakeholders. Some LPs will not ask for KPIs, but they will want to know if the GP has a systematic process in place for setting and tracking indicators, with the understanding that they might request this data from the GP on an as-needed basis.

The purpose of this disclosure is to report KPIs that are material to specific portfolio companies. KPIs could also be reported on a sector-wide or fund-wide basis (recognising that different sectors and geographies have different priority ESG risks and opportunities).

Responses might include:

- The reporting of KPIs such as employee turnover, diversity, energy savings, waste minimisation, health and safety incidents, job creation to demonstrate progress over time. Several standards (the Global Reporting Initiative, SASB, the London Stock Exchange and the World Federation of Exchanges) provide recommended sets of sector-specific KPIs.
- Reporting on performance against ESG risk and opportunities disclosed in 2.1. Where appropriate or available, the ESG performance of portfolio companies could be benchmarked against sector peers in the portfolio or to their public market equivalents.
- Reporting on how portfolio companies have engaged on certain issues. This may include, for example, the percentage of companies that have performed a cyber-security (or data protection and privacy) review, or that have implemented an ESG supply chain management programme.
- Demonstrating the commercial value related to ESG management at portfolio companies, such as positive impact to margins and multiples at exit, brand and reputation, as well as growth in terms of new products and services.

LPs may be interested to follow the year-on-year progress of KPI data points.

2.3 IN PRACTICE

ADDITIONAL

PERMIRA

International investment firm, HQ UK

At Permira, ESG matters are considered during the investment lifecycle to protect and create value and are expected to be a key part of the governance of the Permira funds' portfolio companies across its private equity and debt activities.

Throughout the life of a private equity investment, Permira investment professionals review progress on ESG issues against objectives identified during due diligence and included in the value creation plan, as relevant, and other matters that may emerge subsequently. Permira is committed to active engagement with portfolio companies on ESG post-investment through, for example, board discussions, ESG reviews, meetings with management teams and operational site visits, as appropriate.

The firm monitors portfolio company progress using iLevel, a portfolio monitoring tool also used for financial oversight and reporting. As well as including questions on the status of key ESG policies, Permira has developed a set of ESG-related KPIs against which all portfolio companies are required to report. These include data on energy, safety performance, workforce and material ESG incidents.

The firm also engages with portfolio company management to develop a focused set of company-specific KPIs that reflect material ESG topics for the business/operations. While there may be some similarities in KPIs by sector, these are tailored by each company so they can focus on the most relevant areas, linking where possible with initiatives to address key ESG risks or opportunities, and add value for the business. Permira has developed ESG guidelines for portfolio companies that are designed to align expectations on key policies, governance and ESG reporting to portfolio company boards and Permira. Portfolio company ESG reporting feeds into ongoing monitoring by Permira and subsequent reporting to its investors, including quarterly reporting on material ESG updates and the annual investor ESG report.

2.3 IN PRACTICE

ADDITIONAL

APAX PARTNERS

Global sector-focused firm, buyout, HQ UK

A key feature of the sustainability programme at Apax Partners is an annual data collection cycle through which the firm monitors, tracks and reports on the ESG performance of portfolio companies. For Apax, the key goal of the data collection is to get a better understanding of the materiality of certain ESG KPIs to the overall operations of a portfolio company. The annual data collection cycle is designed to highlight each portfolio company's performance in what Apax regards as key areas of investment risk and opportunity.

The firm has developed a set of over 100 general KPIs across ESG areas, allowing Apax to gather qualitative and quantitative data from its portfolio companies. In so doing, Apax is able to provide transparency on the portfolio's ESG footprint to the fund investors. A sustainability software system facilitates and streamlines data capture of the KPI information, as well as providing a central repository for ESG information and related supporting documentation.

In its most recent sustainability report, Apax reported on a selection of 16 of the ESG KPIs for 27 portfolio companies across all its buy-out funds. These are reported both by sector and by fund, with company names anonymised. In addition, Apax publishes a year-on-year portfolio snapshot, dating back to 2012, the first year the firm began collecting this data. The snapshot shows the evolution of portfolio performance across five KPIs: portfolio company participation level, reported CO_2 emissions, the number of employees, codes of ethics and diversity policies.

Further detail can be found in the publicly available report, which is shared with investors. Apax also uses the KPI data to inform its responses to any individual LP questionnaires that it might receive.

2016 ESG performance data:(1) by Fund

		ENVIRONMENTAL						SOCIAL (2)							GOVERNANCE		
Company	Sector	CO2 emissions (tons)	Electricity (Kwh)	Business Travel by Air (Miles)	Water used (m3)	Waste treated (tons)	Environmental incidents	Employees FTEs	Women FTEs	Men FTEs	Diversity policy	Sick days (FTEs)	Voluntary turnover	Workers Council	Code of conduct	Anti-corruption policy	Cyber security function
Apax Europe VI																	
Company A	Healthcare	47,541	59,402,437	0	355,747	1,863	No	7,572	5,935	1,619	Yes	70,072	1,280	Yes	Yes	Yes	Yes
Company B	Healthcare	-	-	-	-	-	No	4,317	3,005	1,312	Yes	32,675	301	No	Yes	Yes	No
Apax Europe VII																	
Company A	Consumer	56,723	108,346,559	1,364,303	93,350	667	No	8,455	8,117	338	No	58,389	1,440	No	Yes	Yes	No
Company B	Healthcare	46,857	41,368,783	66,493,839	107,190	1,451	No	5,750	2,852	2,567	Yes	366	882	Yes	Yes	Yes	Yes
Company C	Services	2,400	1,394,000	115,000	5,000	11	No	845	380	465	Yes	7,717	254	Yes	Yes	Yes	Yes
Company D	Tech & Telecom	468	272	3,882,723	-	-	No	1,014	305	702	No	-	114	No	Yes	Yes	No
Company E	Tech & Telecom	-	-	-	-	-	No	544	179	365	Yes	-	37	Yes	Yes	Yes	Yes
Company F	Tech & Telecom	13,275	85,682,875	10,779,548	223,292	27	No	25,342	14,837	10,505	Yes	70,497	3,993	Yes	Yes	Yes	Yes

(1) Only those portfolio companies which participated in the KPI collection exercise are featured in the performance data overview

(2) Employees are reported in FTEs but sick days and voluntary turnover in some instances are reported in total employees

2.4 DESCRIBE YOUR APPROACH TO ASSESSING THE RISKS AND OPPORTUNITIES THAT CLIMATE CHANGE POSES TO YOUR PORTFOLIO COMPANIES.

ADDITIONAL

Relevance

A growing number of LPs consider climate change as a key long-term risk to their investments and are seeking information from GPs to ensure that this is being given due consideration. Some LPs may also have their own obligation to evaluate climate risk across underlying investments. Others may see the opportunities presented by climate change and wish to understand how these are being considered.

The purpose of this disclosure is to describe at portfolio level how the GP considers climate change risk and opportunities across the fund. Relevant disclosure might include a strategic view on the key risks and opportunities at the portfolio or sector level and on how the total portfolio is positioned towards a transition to a low-carbon economy. This includes, for instance, transition risks (policy and legal, technology, market, and reputation) and physical risks (acute and chronic). For further guidance, see the PRI-Institutional Investors Group on Climate Change (IIGCC) Guide on climate change for private equity investors, which provides two sets of questions that LPs and GPs can use in due diligence and when engaging with their fund and portfolio company investments respectively.

CARBON FOOTPRINTS TO SUPPORT DECARBONISATION TARGETS

Carbon footprints are useful to[14]:

- ✓ Respond to demand from regulators, peers and stakeholders;
- ✓ Support investors' portfolio decarbonisation targets;
- ✓ Enhance investment manager and company dialogue;
- ✓ Evaluate financial risks linked to a price on carbon (sector and company level) and identify opportunities for energy savings; and
- ✓ Encourage companies to disclose more and better quality data about their emissions.

A carbon footprint is not a measure of:

- × A portfolio's total climate risks and/or opportunities;
- × A portfolio's total climate impact; or
- × How well a portfolio is positioned regarding the low-carbon economy.

THE TCFD

The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) issued recommendations that outlined consistent and reliable disclosures on climate-related financial risks, providing investors, lenders, insurers and other stakeholders with the information necessary to manage these risks and opportunities[19]. The TCFD recommends disclosing information according to the following structure:

- **Governance:** the organisation's governance around climate-related risks and opportunities.
- **Strategy:** the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.
- **Risk Management:** how the organisation identifies, assesses and manages climate-related risks.
- **Metrics and targets:** the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.

The PRI Reporting Framework now includes climate-related indicators in the Strategy and Governance module to support investors in disclosing in line with the TCFD recommendations. These indicators are voluntary to report and responses will be summarised in a stand-alone climate transparency report.

13 See Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, TCFD, (2017) and An asset owner's guide to the TCFD recommendations, PRI, (2018)

14 A guide on climate change for private equity investors, PRI and IIGCC, (2016)

2.4 IN PRACTICE

ADDITIONAL

PE MANAGERS AND TCFD RECOMMENDATIONS: ROBECO PRIVATE EQUITY SURVEY RESULTS

Robeco Private Equity has integrated climate-related indicators based on the TCFD recommendations in its ESG survey for 2017. The new indicators are part of the PRI 2018 Reporting Framework. Of the 63 private equity fund managers in Robeco Private Equity's ESG program included in the survey, almost half focus on clean tech and resource efficiency-related investments. This group has already incorporated climate-related risks and opportunities into their investment strategy and process. 32% of the respondents also report they have undertaken some activities to respond to climate change risk and opportunity, while almost one-fifth currently performs no such activities.

Governance
The Chief-level staff and Investment Committees are most commonly responsible for oversight and/or implementation of climate-related issues (44%), followed by investment analysts. Almost one-fifth of the private equity managers employ an external ESG consultants for the assessment and oversight of climate risks which they then managed internally.

Strategy
Almost half of the analysed private equity managers (48%) have processes in place to determine which climate issues could have a material impact on their activities, 22% have integrated climate change issues in their investment policies, and 57% address climate change and related issues as a long-term trend. With respect to the activities undertaken to respond to climate change risk and opportunities, most respondents (41%) target low-carbon or climate-resilient investments, 29% reduce portfolio exposure to emissions-intensive or fossil fuel holdings and 22% use emissions data or analysis in their investment decision making.

Risk management
38% of the rivate equity managers have integrated their process for climate-related risks into overall risk management. Only about one-quarter currently engage on the issue with investee companies.

Targets and metrics
Survey results show that private equity managers currently apply a mix of tools to manage emissions risks and opportunities. Encouraging portfolio managers to monitor emissions risk (21%) and measuring the carbon footprint of their companies (16%) are the most popular. The use of other tools is very limited.

Robeco Private Equity will use these results as input for future dialogue with the private equity managers in its ESG programme.

2.4 IN PRACTICE

ADDITIONAL

CLIMATEWISE

ClimateWise is a global insurance industry leadership group facilitated by the University of Cambridge Institute for Sustainability Leadership. In collaboration with ERM, it has launched an open-source framework to support investors in assessing the financial impact the transition to a low-carbon economy will have on infrastructure investments. The framework aligns with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). It leverages scenario analysis as a “ground breaking” approach to assess climate-related financial risk.

The rationale behind transition risk in the TCFD context is that a sudden and disorderly transition to a low-carbon economy will financially impact investment portfolios. Transition risks include policy changes, carbon taxes, reputational impacts, and shifts in markets and technology. These vary across geographies, sectors, time horizons and in line with commitments to limit global temperature rises. The framework and step-by-step guide provides a methodology, open-source high-level tools and case studies to help quantify these variations in transition risk across portfolios and within various asset types.

The study concludes that transition risk exposure is limited to a small proportion of infrastructure asset classes. However, this exposure could grow significantly in the coming years as the market recognises these emerging risks. This is particularly true in a 2°C scenario by 2030, where the value of impacted assets and portfolio companies is expected to be considerable. Visit the website to download the open-source framework and how-to guide.

This new ClimateWise framework supports quantification of climate-related financial risk as recommended by the TCFD. This enhances investors' ability to manage risk and capture emerging opportunities from the low-carbon transition.

2.4 IN PRACTICE

ADDITIONAL

INDUSTRY COLLABORATION: INITIATIVE CLIMAT 2020 (IC20)

A group of French private equity firms have joined together in order to make their own contribution to the Paris climate agreement objective of limiting global warming to 2°C.

They recognise that climate change will have significant impacts on the global economy, human societies and ecosystems. They believe that these consequences will generate both risks and opportunities for the companies in which they invest.

The IC20 signatories commit to reducing the greenhouse gas emissions of those portfolio companies for which it is considered a material issue, and delivering sustainable performance. This approach is in line with the TCFD recommendations and the expectations under Article 173 of France's Energy Transition for Green Growth Act regarding climate risks and transparency.

The IC20 signatories are committed to:

- Recognising that climate change will have effects on the economy which represent risks and opportunities for businesses;
- Joining forces to contribute , at their level, to the objective of COP21 of limiting global warming to 2°C; and
- Contributing to reducing the greenhouse gas emissions of their portfolio companies and ensuring their sustainability.

The initiative uses the following methodology:

- During the investment phase: assessment of carbon impact on the company's future development.
- During the holding phase: Climate change awareness training for management teams; materiality analysis of the company's carbon impacts; depending on the degree of materiality, a thorough calculation and detailed action plan to reduce emissions and adapt to climate change.
- During the exit phase: evaluate improvements made and major progress achieved.

2.5 DESCRIBE YOUR APPROACH TO ASSESSING THE ENVIRONMENTAL AND SOCIAL BENEFITS CREATED BY YOUR PORTFOLIO COMPANIES.

ADDITIONAL

Relevance

LPs are increasingly interested in understanding the environmental and societal benefits of their investments and their real-world impact. They may seek to measure the impacts of their mainstream portfolios, or those from specialist impact portfolios or other thematic portfolios. Some investors consider that the UN SDGs are emerging as a useful framework against which to measure impact. Nascent SDG-based standards and frameworks are in development and may become more widely adopted in future. For the private equity industry, measuring most of these impacts may be early days.

This disclosure might include either quantitative or qualitative information about the environmental and social benefits that arise from the activities of portfolio companies in a fund. These might include not only the impacts of ESG initiatives (e.g. better productivity in the company or energy cost savings) but also could include the positive contribution of portfolio companies to address environmental and social megatrends and challenges. For this purpose, and where appropriate, the GP could consider aligning outcomes and impacts to existing frameworks such as the Global Network for Impact Investing (GIIN) and the SDGs.

As part of this disclosure, GPs might report on jobs created in the portfolio, or provide case studies of individual portfolio companies contributing to solving environmental and social challenges through their products or services.

2.5 IN PRACTICE

ADDITIONAL

GENERATION

Sustainability focused public and private equity manager, HQ UK

Generation Investment Management issues an annual Impact Report for its 2014 vintage growth equity fund, Climate Solutions Fund II. As the name suggests, the fund invests in growth-stage businesses delivering resource efficiency solutions across a variety of end markets including transportation, the built environment, industrials, food, energy and agriculture.

Generation's impact framework is focused on determining the most relevant and material ESG factors for its portfolio given its investment strategy and process. The investment strategy is to deploy growth capital to climate solutions businesses where climate materiality is a key issue; a life cycle assessment approach therefore helps determine the net environmental benefits of the portfolio companies' products and services.

Generation is also able to estimate a theoretical financial value that could be realised by a business by assigning a price on externalities such as carbon pollution and water use. The firm recognises that quantifying social and governance impact is more difficult, and hence focuses on identifying the most relevant and material metrics across social factors, i.e. internal stakeholders (employees) and external stakeholders (supply chain participants and the communities it operates in), and governance factors (management alignment, board structure and reporting and disclosure practices).

Finally, each company's impact is mapped against the SDGs. The report is bottom-up, and is provided in its entirety to Generation's LPs, alongside an aggregated fund summary and detailed company profiles.

Since sustainability analysis and impact monitoring are integrated in Generation's investment process, its impact report also aims to provide integrated financial and ESG performance of its portfolio companies over time. Generation believes data, including ESG data, should be viewed in the context of the broader sustainability issues for which its portfolio companies are providing a solution, which forms the investment thesis for each investment.

2.5 IN PRACTICE

ADDITIONAL

PARTNERS GROUP

Global private markets investment manager, multi asset, HQ Switzerland

PG LIFE, Partners Group's "impact-at-scale" offering, aims to deliver risk-adjusted market rate returns alongside quantifiable social and environmental impacts, in line with the UN Sustainable Development Goals (SDGs). While the framework around the Goals – the underlying targets and indicators – provide strong directional guidance for where impact-seeking private capital can devote resources, individual managers must develop a methodology to assess, measure, manage, track and report that impact.

PG LIFE does this by integrating impact throughout the investment cycle. During due diligence, deal teams build an impact logic model that explicitly links the target's products and services to an SDG target by connecting the company's outputs to positive outcomes for society or the environment. This is supplemented by the selection of impact KPIs from industry-standard sources, such as the SDG Compass and the Global Impact Investing Network's IRIS database, and an assessment of the significance of impact by applying the Impact Management Project's Shared Fundamentals framework.

During ownership, Partners Group builds on this diligence to measure, track and report the portfolio company's specific positive impacts. This includes an on-boarding step at the outset of the ownership period where Partners Group confirms the relevance of the impact metrics selected, and projects impacts based on the business plan and the company's ability to credibly report these metrics with the appropriate back-up data. PG LIFE companies then report annually on the agreed-upon metrics, along with the related source data. This can then be aggregated and reported to stakeholders.

Examples of impact metrics include tons of greenhouse gas emissions avoided, the number of individuals with increased access to healthcare services, and the number of young children of working parents who have access to local, affordable and safe childcare.

SECTION 3: MATERIAL ESG INCIDENTS

LIMITED PARTNER OBJECTIVE:

Determine if responses to portfolio-level incidents and incident reporting are consistent with relevant investment terms, the fund's policies, and LP-stated objectives regarding incident disclosure[15].

3.1 IMMEDIATE NOTIFICATION OF MATERIAL ESG INCIDENTS

CORE

Relevance

LPs seek honest and open communication from the GP on incidents that could have serious reputational implications for the LP, and/or serious financial implications for the investment, in a timely manner, subject to legal sensitivities and agreements made with individual LPs during fund commitment.

GPs often rely on reporting by their portfolio company management teams, either directly or via board representation regarding incidents. GPs need to have processes in place to meet LPs' expectations, and be mindful of the sensitivities associated with such incidents, which may have an impact on timing and manner of such reporting. Having a formal process for investigating ESG incidents at portfolio companies gives them greater insight into the company and provide an opportunity to address root causes and share lessons more widely across the portfolio, as appropriate.

The purpose of this disclosure is for the GP to report, or to fulfil an obligation through the fund terms to report[16], material ESG incidents on an immediate basis, acknowledging that the exact timing might vary due to the nature of each incident and associated legal and commercial sensitivities.

LPs expect to hear about material ESG incidents from their GPs before they read about them in the press. Material ESG incident reporting requires an upfront and mutually agreed definition of what constitutes "material" and agreement on the timing and format of notification between the LP and the GP and its underlying portfolio companies. Incident reporting would likely include mention of any investigative process undertaken and any remedial actions and/or adjustments to internal protocols to prevent future such incidents.

There is no universal definition of a material ESG incident: this will vary according to LP investment beliefs and the situation at hand. However GPs should be able to understand the scope of the LP's position on this through upfront discussion, continued dialogue and by erring on the side of caution regarding incident notifications.

The ILPA defines incidents as "specific events that impact the fund, including developments related to regulatory compliance. In general these disclosures should act as assurances that all investors are able to access relevant information surrounding potential conflicts of interest and any events that may impact any individual LP[17]."

In the France Invest Reporting Recommendations, an ESG incident is defined as "an event that may have a material impact on the investment and/or its shareholders, particularly but not exclusively in terms of public health, the environment, labour disputes or, more generally, business ethics."

CDC Group, the UK's DFI, defines ESG incidents as "including those that result in loss of life, serious injury, material adverse impacts on communities and/or the environment, material breach of law or side-letter requirements". It provides a template for serious accident reporting in its online and publicly available ESG Toolkit for Fund Managers under CDC Templates.

15 ESG Disclosure Framework for Private Equity, Section 2

16 See Incorporating responsible investment requirements into fund terms, PRI, (2014), Section 2 point 4

17 This language is taken from the drafted ILPA Principles 3.0. The exact wording is subject to change before publication which is planned for 2018. The PRI will update the wording in this document, if needed, upon publication of the ILPA Principles 3.0.

3.2 PERIODIC SUMMARY OF MATERIAL ESG INCIDENTS

CORE

Relevance

The LP may request summary and periodic reporting of ESG incidents to seek an understanding of how incidents are being dealt with and lessons learnt from such incidents to minimise the potential for reoccurrence, as a demonstration of the GP's capabilities. The LP may prefer an annual summary of ESG incidents over ad-hoc reporting, or it may prefer to have both incident reporting systems in place.

This disclosure typically allows GPs to meet LP requests for a periodic summary of material ESG incidents (if any) that occurred within the portfolio.

Responses would likely include:

- Information on any material ESG incidents that have occurred during the agreed reporting period;
- Description of any immediate crisis management procedures or remedial actions;
- Sharing of lessons learnt and any preventative measures put in place;
- Confirmation that the situation is being thoroughly monitored.

3 IN PRACTICE

CORE

GLOBAL PRIVATE EQUITY FIRM (ANONYMOUS)

To support incident monitoring and appropriate investor disclosure, this GP has established an internal reporting process. This includes a straightforward internal system for the GP's investment advisory teams to communicate incidents and the potential impact, timing and next steps to key functions within the firm. Each reported incident is assessed for further handling. The process is a complement to portfolio companies' own crisis management processes.

The process further provides internal guidance on what constitutes an incident. Reporting is encouraged when there is any doubt about the significance or relevance of an event. A non-exhaustive list of potential areas on which to report is supplied, covering: brand, media, human, material, operational, financial, infrastructural, legal and regulatory issues. If information is material to an investment or to the GP, it will be shared with the investors of the relevant fund as appropriate. Methods for sharing information will depend on the nature, materiality and urgency of the situation, but could include fund-wide emails, calls with LPs, public updates via the website and social media or through regular fund reporting.

3 IN PRACTICE

CORE

COLLER CAPITAL

Global private equity secondaries firm, HQ UK

As a secondaries investor, Coller Capital expects its underlying GPs to know what material ESG issues exist in their portfolio companies, and it expects managers to be able to describe how they define ESG materiality (including material incidents). In deciding upon a suitable definition, Coller Capital suggests that the underlying GP should take into consideration the impact upon the fund(s), namely potential harm to reputation and/or financial loss or loss of value.

On material ESG incidents, the underlying GP is to use its best judgement, but they might include the following:

- A serious health and safety incident resulting in multiple injuries and/or fatalities and/or impact on continued licence to operate;
- A serious product safety incident resulting in harm to consumers and/or a product recall or boycott and/or impact on continued licence to operate;
- A serious environmental pollution event resulting in harm to human health and/or the environment and/or impact on continued licence to operate;
- A serious employee relations breakdown or trade union action resulting in serious production impact and/or impact on continued licence to operate;
- A serious fraud, bribery or corruption incident resulting in a product boycott and/or impact on continued licence to operate; or
- A serious cyber security/data security event resulting in a material impact to a business.

Coller Capital also views any ESG-related allegation that has the potential to materially impact, in a negative way, the reputation of an underlying GP and/or its portfolio companies (and possibly even itself or its investors) as something to be considered material by underlying GPs.

CHAPTER 4. WHAT NEXT FOR ESG MONITORING AND REPORTING?

Risks and opportunities related to ESG factors are continually evolving. This guidance does not try to cover every possible issue or topic, but instead provides a high-level framework that will guide the exchange of relevant information. However, it is worth noting that, at the time of writing, the following emerging issues could impact directly on monitoring and reporting practices in the private equity sector in the future.

QUALITY OF DATA AND CONFIDENCE BUILDING MEASURES:

As the quality and abundance of data collected and shared by private equity owners and investors grows, so too will demands for data assurance. Already included in the PRI annual reporting framework, assurance of data is a common practice amongst large corporates and is an area to watch[18].

AUTOMATION AND TECHNOLOGICAL ADVANCES:

As data quality improves, technology will enable the processing and analysis of that data. One area to monitor is the further automation of reporting processes. Sample practices highlighted in this report demonstrate the use of some reporting tools that involve a degree of automation in data collection and sharing. Data analysis tools continue to evolve and will increasingly be used to supplement monitoring and reporting efforts in the private equity sector.

SUSTAINABLE DEVELOPMENT:

In 2015, agreement was reached on the SDGs, which set global targets for 17 sustainable development objectives. Much more than their predecessors, the Millennium Development Goals, the SDGs have gained traction among investors and large companies. The SDGs are emerging as a useful framework for investors to report their impacts against. Nascent SDG-based standards and frameworks are in development and may become more widely adopted in future.

BENCHMARK CAPABILITY:

As 'big data' technology improves, LPs and GPs will have more access to databases that allow benchmarking of portfolio company ESG performance, and reporting may involve the use of increasingly sophisticated KPIs.

18 Introducing confidence-building measures to PRI signatories, PRI, (2018)

MONITORING AND REPORTING SOFTWARE

A growing number of products and services have been developed to support investors in tracking ESG data. The list below is for informational purposes only. The PRI does not endorse any of these products.

ClearlySo ATLAS helps investors assess the social and environmental impact of their venture capital and private equity investments and guides them towards a sustainable investment strategy. Using seven pieces of company information, along with publicly available data, ClearlySo ATLAS analyses each investee company and provides actionable recommendations for identified risks and opportunities relating to social and environmental issues. All results are mapped to the UN SDGs as a globally recognised standard.

eFront ESG is an information collection portal that allows GPs or LPs to collect and analyse portfolio ESG information and allows GPs to report ESG information to their investors. LPs collect ESG policies and processes from GPs and their underlying portfolio, while GPs collect ESG information from their underlying assets.

iLEVEL is a portfolio monitoring and analytics solution offered by Ipreo. It can also be used to collect ESG data from portfolio companies and/or GPs and analyse materiality in a timely, consistent manner to enhance investment decisions, drive ESG discussions throughout the portfolio, and streamline the reporting requirement process.

Preqin Solutions' ESG & Impact module is a cloud solution for private capital firms to automate annual surveys, streamline KPI collection and aggregation, create custom action plans, and centralise policies and due diligence documents.

Reporting 21 is a portfolio monitoring product designed specifically for ESG data. It has been designed to facilitate collection, analysis, comparison, consolidation and reporting of extra-financial data: qualitative, quantitative and attachments. It can be used by GPs and LPs, as well as by portfolio companies for their own EHS monitoring and for audit trails.

RepRisk provides daily-updated data on more than 100,000 public and private companies worldwide to help investors monitor ESG and business conduct risks related to their business and investments. Its research process takes an outside-in approach to assessing a company by analysing information in 16 languages from media, stakeholders and other public sources external to a company.

Turnkey Group has built an ESG platform and analytics tools that allow investors to measure and report the sustainability KPIs of their portfolio companies in a consistent and transparent manner. The platform facilitates a comparison of ESG performance across portfolios and can be used to identify opportunities for internal cost-saving and strategic optimisation, leading to financial benefits while also mitigating risk.

APPENDIX A: REFERENCE SOURCES

The following is the full list of key documents that were reviewed in preparation of this guidance:

GP/LP resources:

- A Guide on Climate Change for Private Equity Investors (PRI & IIGCC)
- Bridging the gap: Aligning the Responsible Investment interests of Limited Partners and General Partners (PwC)
- CDC Annual ESG Report Template (CDC)
- ESG Commission: Recommendations to facilitate the dialogue between GPs and LPs, France Invest, October, 2017
- ESG Disclosure Framework for PE (Multiple LPs, GPs and Sector Organisations)
- ESG Due Diligence Questionnaire for Private Equity Investors and their Portfolio Companies (Invest Europe)
- LP Due Diligence Questionnaire and Accompanying Guidance (PRI)
- PRI Reporting Framework (PRI)
- Professional Standards Handbook (Invest Europe)
- Reporting on Environmental, Social, and Governance Considerations in the Private Equity Sector: A Report for General Partners (BSR)

Finance sector and listed equity resources:

- Appendix 27: Environmental, Social and Governance Reporting Guide (Hong Kong Exchange)
- ESG Reporting Guide - A Support Program for Nasdaq Issuers [Focus Area: Nordic & Baltic Markets] (NASDAQ)
- Exchange Guidance and Recommendations (World Federation of Exchanges' (WFE) Sustainability Working Group)
- Financial Stability Board Taskforce on Climate-Related Financial Disclosures recommendations (TFCD)
- Model Guidance on Reporting ESG Information to Investors: A Voluntary Tool for Stock Exchanges to Guide Issuers (Sustainable Stock Exchanges Initiative)
- OECD Guidelines for Multinational Enterprises (OECD)
- Paving the way towards a harmonised carbon accounting approach for the financial sector: Progress report of the Platform Carbon Accounting Financials (PCAF)
- Responsible Business Conduct for Institutional Investors: Key Considerations for Due Diligence under the OECD Guidelines for Multinational Enterprises (OECD)
- Your guide to ESG reporting: Guidance for issuers on the integration of ESG into investor reporting and communication (LSE)

Broader sustainability resources:

- Carbon Disclosure Framework (CDP)
- Climate Disclosure Standards Board Framework for reporting environmental information & natural capital (CBSD)
- Consolidated Set of GRI Sustainability Reporting Standards 2016 (GRI)
- IRIS (Global Impact Investing Network)
- ISO 26000 (ISO standard)
- Natural Capital Protocol (Natural Capital Coalition)
- SASB Materiality Map™ (SASB)
- Social Capital Protocol (WBCSD)
- Sustainable Development Goals (UN)
- The International <IR> Framework (International Integrated Reporting Council)
- UNGC's Communication on Progress: COP (UNGC)
- UN Guiding Principles Reporting Framework (UN)

APPENDIX B: MAPPING THE FRAMEWORK TO OTHER KEY DOCUMENTS

Disclosure Area	Core or Additional	Disclosure	ESG Disclosure Framework	PRI LP DDQ*	PRI Reporting Framework	Invest Europe Handbook	France Invest
I. Policy, people and process	CORE	1.1 What updates have you made to your responsible investment policy/guidelines and/or strategy?	6	1.1, 1.2, 1.3	SG 02, PE 02	3.2 (of Investor Reporting Guidelines)	
	CORE	1.2 What changes have you made to how responsible investment is resourced and structured at the firm?	6	2.6, 2.7	SG 07, 08		
	CORE & ADDITIONAL	1.3 How has your responsible investment policy/guidelines and/or strategy been implemented?	6	2.2, 2.3, 2.4, 2.5, 3.2, 3.6, 3.7, 4.2	SG 10, PE 01, 05, 07, 08, 09, 13, 14	3.2	3.1.3 ESG integration in the investment process
	ADDITIONAL	1.4 How does your firm manage the ESG aspects of its own operations (corporate responsibility)?					3.1.3 Business conduct
II. Portfolio	CORE	2.1 What is the ESG risk and opportunity profile of the portfolio companies in the fund? Have there been any changes to the ESG risk and opportunity profile of the fund in response to emerging ESG issues, and, if so, which ones?	7	2.1	PE 15	4.2 (c)	
	CORE & ADDITIONAL	2.2 How are ESG factors managed by the portfolio companies in the fund?	7	3.1, 3.3, 3.4, 3.5	PE 07, 09, 10, 11		3.2.2 Environment –existence of a formalised environmental approach
	ADDITIONAL	2.3 Report specific ESG indicators for portfolio companies.			PE 09	4.2 (c)	3.2.2 All
	ADDITIONAL	2.4 Describe your approach to assessing the risks and opportunities that climate change poses to your portfolio companies..			SG Climate-related indicators		3.2.2 Environment – climate change
	ADDITIONAL	2.5 Describe your approach to assessing the environmental and social benefits created by your portfolio companies.					3.2.2 Social – job creation
III. Material ESG Incidents	CORE	3.1 Immediate notification of material ESG incidents	8	4.3	PE 16	3.2 and 4.2(c)	
	CORE	3.2 Periodic summary of material ESG incidents	8	4.3	PE 16	3.2 and 4.2(c)	3.1.3 ESG integration in the investment process (only the last indicator)

Please note that the ILPA Standardized Due Diligence Questionnaire adopts the PRI LP Responsible Investment DDQ in section 10 of its guidance. The ESG section of ILPA's DDQ will therefore map to this ESG Monitoring and Reporting Framework in line with the mapping above for the PRI LP Responsible Investment DDQ.

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The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org