



British  
Private Equity &  
Venture Capital  
Association

# Responsible Investment

A guide for private equity  
and venture capital firms

Authored by



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Private equity firms are seeking to improve their ability to manage the risks and opportunities arising from environment, social and governance issues. This document provides some guidance on current best practice.

# Preface

Responsible investment is now one of the foremost issues on the corporate agenda. Whilst the concept itself may not be a new one, the years since the financial crisis have given it additional momentum which has ensured it is now firmly embedded right at the heart of the debate on the role of business.

The notion that a company or its investors should take wider impacts into consideration has been a part of corporate culture for some time, no less so than in private equity and venture capital. Our industry has demonstrated an admirable compliance with environmental, social and corporate governance (ESG) principles stretching back many years.

What has changed is the pressure on private equity to show an active engagement with ESG issues. What was once a reputational issue has now become a mainstay – many institutional investors, as signatories to the UN Principles for Responsible Investment, now expect fund managers to be able to demonstrate a deeper commitment to ESG issues by having a coherent and structured framework in place.

Significantly, ESG risks are now considered to have a material impact on investment valuation. Many private equity and venture capital houses have already recognised the value of ESG initiatives not only in achieving environmental and social change, but also in reducing costs and minimising risks. Responsible investment is considered fundamental to value creation.

Now in its third edition, this guide aims to serve as a reference tool for private equity and venture capital fund managers, offering detailed and practical advice throughout the investment life-cycle, from due diligence through to exit, accompanied by a number of case studies to demonstrate how some BVCA members have integrated an ESG framework into their investment strategy.

This publication would not have been possible without the individuals and organisations listed on the right who assisted in the development of this guide. In particular special thanks go to Adam Black, Patricia Hamzahee, Dushy Sivanithy, Penny Lattore and Phil Case.



## Tim Hames

Director General, BVCA

## Jeremy Lytle

Investor Relations Partner, ECI  
Chair, BVCA Responsible Investment  
Advisory Board

## With thanks to:

### Adam Black

Doughty Hanson

### Phil Case

PwC

### Michele Giddens

Bridges Ventures

### Alison Hampton

HgCapital

### Patricia Hamzahee

FleishmanHillard

### Simon Hill

3i

### Beth Houghton

Palatine Private Equity

### Penny Lattore

Waterman

### Dushy Sivanithy

Pantheon

# Executive summary

Increased stakeholder pressure and new regulation has forced the rise of the Responsible Investment (RI) agenda within the private equity community. This agenda encourages investors to better evaluate the environmental, social and governance (ESG) implications of their decision-making, both in areas they directly control and also in areas over which they can exert a strong influence.

In the marketplace, ESG issues can have a real impact on business value and investment risk, and a well-founded approach to these issues can be a means by which private equity (PE) houses and portfolio companies can balance risks, create opportunities and, ultimately, differentiate themselves from their competitors. But many General Partners (GPs) are just starting to understand and act upon this agenda. Many portfolio companies, particularly consumer facing businesses, in fact recognise that a strong ESG focus can enhance their brand value and reputation. They communicate beyond their products and services to emphasise their positive social, economic and environmental impacts on the societies in which they operate.

As part of our role in supporting the PE community to face new industry challenges, the BVCA has put together guidance to help our members understand the RI agenda and to embark on the next stage of their ESG journey.

## Starting out

From a GP perspective, it is essential that there is a structured and strategic approach to ESG issues, taking into consideration the PE house's market positioning, its ESG ambitions, its stakeholder needs and its internal resource availability. Based on our experience, the most effective ESG issue management comes from this strategic planning stage, in which GPs clearly evaluate their own RI values and principles, setting out intentions on how they will perform future business under a documented framework. This would ordinarily include decisions on how to evaluate ESG risk generally and in the context of an investment, an appetite for ESG risks and a means to evaluate future performance.

Effective ESG issue management also sees GPs considering the potential issues at all key stages of the investment lifecycle, including as wide a value chain as possible, to ensure that risks are readily identified and opportunities maximised. This includes the need to understand long-term value creation in the context of long term ESG issues (i.e. the sustainable development agenda) which may transcend the immediate investment horizons, but which may ultimately impact value creation opportunities for subsequent buyers, and beyond.

## Responsible investing

In a deal context, ESG evaluation can include:

- Top level screening – high-level checks to help GPs understand a potential acquisition and its alignment with the defined PE house ESG vision;
- Business profiling – taking into account inherent sectoral and/or geographical ESG risks and opportunities relative to the target's commitment to manage ESG issues, capacity and track record; and

- Due diligence – effective acquisition due diligence to understand a target’s performance in greater detail in relation to current and reasonably foreseeable ESG issues.

During the ownership period, active management of ESG issues will be required, and this could include managing issues arising from due diligence or from supplementary detailed reviews. It is the GP’s role to encourage the adoption and integration of responsible business practices into portfolio companies’ day-to-day activities including the identification and effective management of key ESG risks. Ordinarily this may require the determination of how a portfolio company can be incorporated within the existing PE house ESG framework and establishing requirements for management, monitoring, measuring and reporting.

**Exit**

Exit planning should ideally start prior to an investment being finalised to ensure as smooth an exit as possible. Once an exit strategy starts to form, the early review of likely ESG requirements and key portfolio performance elements can be extremely useful, allowing the GP to deal with any potentially material issues in an up-front manner. Consideration should be given as to the likely ESG disclosure requirements which will help to maximise portfolio value – this may depend on the type of exit under consideration.



**A note on external ESG advisors**

External advisors are frequently used to provide expertise on ESG issues, and to supplement internal PE house resources. GPs should not be solely reliant on this external support, and should seek to internalise at least some of this knowledge where appropriate. However, the use of external experts may be appropriate in certain situations, like detailed site reviews, where internal competencies are insufficient. This will need to be determined by each GP as part of its own ESG strategy.

# Introduction

Evidence is mounting that private equity and venture capital firms view responsible investment (RI) as important. This publication is intended to increase General Partners' (GPs') awareness of the RI factors to consider when determining strategy and policy, and throughout the investment life cycle.

According to the PwC publication *Responsible Investment: Creating Value from ESG Issues*, 79% of private equity firms expect investor interest in RI to increase in the next two years.

The private equity (PE) model has traditionally been recognised to be inherently strong on governance issues. Yet, just a few years ago, other ESG issues (particularly, those more aligned to the "E" and the "S") did not typically feature as business priorities for the houses. So what has changed?

## Development of the ESG agenda

Financial firms originally viewed ESG issues purely from the perspective of reputational risk. Today, they increasingly recognise their effect on business and financial risk, as well as the opportunities for investment, new business and market access. Additionally, stakeholder expectations regarding good practice in RI are rising fast, with financial services firms increasingly held accountable for their business practices.

Investors are becoming more socially and environmentally aware. They are avoiding or selling investments seen to be materially harmful or likely to suffer negative commercial or reputational impact. The recent economic crisis has exposed certain ethical concerns in the financial services sector (e.g. mis-selling scandals) and dramatically lowered public and stakeholder trust. Restoring that trust has become a key priority and RI presents an important way of beginning to address that need.

## Development of responsible investment in the PE sector

Specialist financial services firms such as Actis, Generation Investment Management and Earth Capital Partners were amongst the first to focus specifically on ESG issues. Asset managers investing in publicly listed companies pioneered the practice of firstly negative screening, then more recently positive engagement and influence, concentrating on the regulatory and reputational risks arising from poor ESG management in portfolio companies.

Traditionally, privately-held companies and their investors faced less scrutiny than their publicly-listed counterparts. However, investor and market expectations, regulatory requirements and business risks and opportunities have evolved rapidly in recent years. Managers of privately-held investments are, therefore, also increasingly integrating ESG considerations into their businesses. This is partly because their controlling interests, board representation and detailed operational

**“Doughty Hanson was an early advocate of responsible investing within the private equity asset class and continues to champion its potential for value creation. The work we are doing alongside our management teams continues to yield tangible results across many of our portfolio companies and forms a core part of our strategy for building better businesses.”**

Stephen Marquardt  
CEO, Doughty Hanson

knowledge, afford opportunities to firstly understand ESG aspects and impacts in detail, and then to make changes to improve ESG performance.

PE houses have started focusing on the impact of environmental issues such as climate change, on business and investment risk. Within the corporate world as a whole, there are well-known examples of ESG issues impacting both companies and their investors. Climate change is the current hot topic but others that have been significant include: labour issues in the supply chain, health and safety (e.g. BP), and corruption (e.g. Siemens).

The sector increasingly views RI as, potentially, a means to differentiate portfolio companies, balancing risks and creating new business opportunities. While approaches to RI may differ across the sector, dependent on the size and strategy of the PE House, the importance of the agenda applies across the entire spectrum of GPs, from small venture capital managers through to large PE houses.

The UN Principles of Responsible Investment (UNPRI) form PE's primary framework for RI, providing a voluntary and aspirational structure for the incorporation of ESG considerations into investment decisions. Today, over 1000 asset owners and investment managers are signatories to the UNPRI. This includes leading UK PE houses such as Actis, BC Partners, Bridges Ventures, Cinven, Doughty Hanson, Silverfleet Capital Partners and Triton Advisers. As an increasingly high profile initiative, a key milestone for the PE sector was the creation in September 2008 of the UN PRI Steering Committee on Private Equity.

Recent developments show how RI is gaining in importance. The US Private Equity Growth Capital Council (formally the Private Equity Council), whose members are among the world's best known private equity firms, published a set of Responsible Investment Guidelines in 2009 and PE associations representing the US, UK, Australia, France, Brazil and Europe have established permanent working groups. The ESG Disclosure Framework issued in 2013 and endorsed by trade bodies and major LPs from around the world is the latest sign of the growing importance of RI for private equity.

The UNPRI has also published a guide which is aimed at supporting LPs in their RI decision-making, much of which is focused on their relationship with GPs.

Many PE houses already consider certain ESG issues during pre-acquisition due diligence, particularly focusing on compliance and potential ESG-related liabilities.

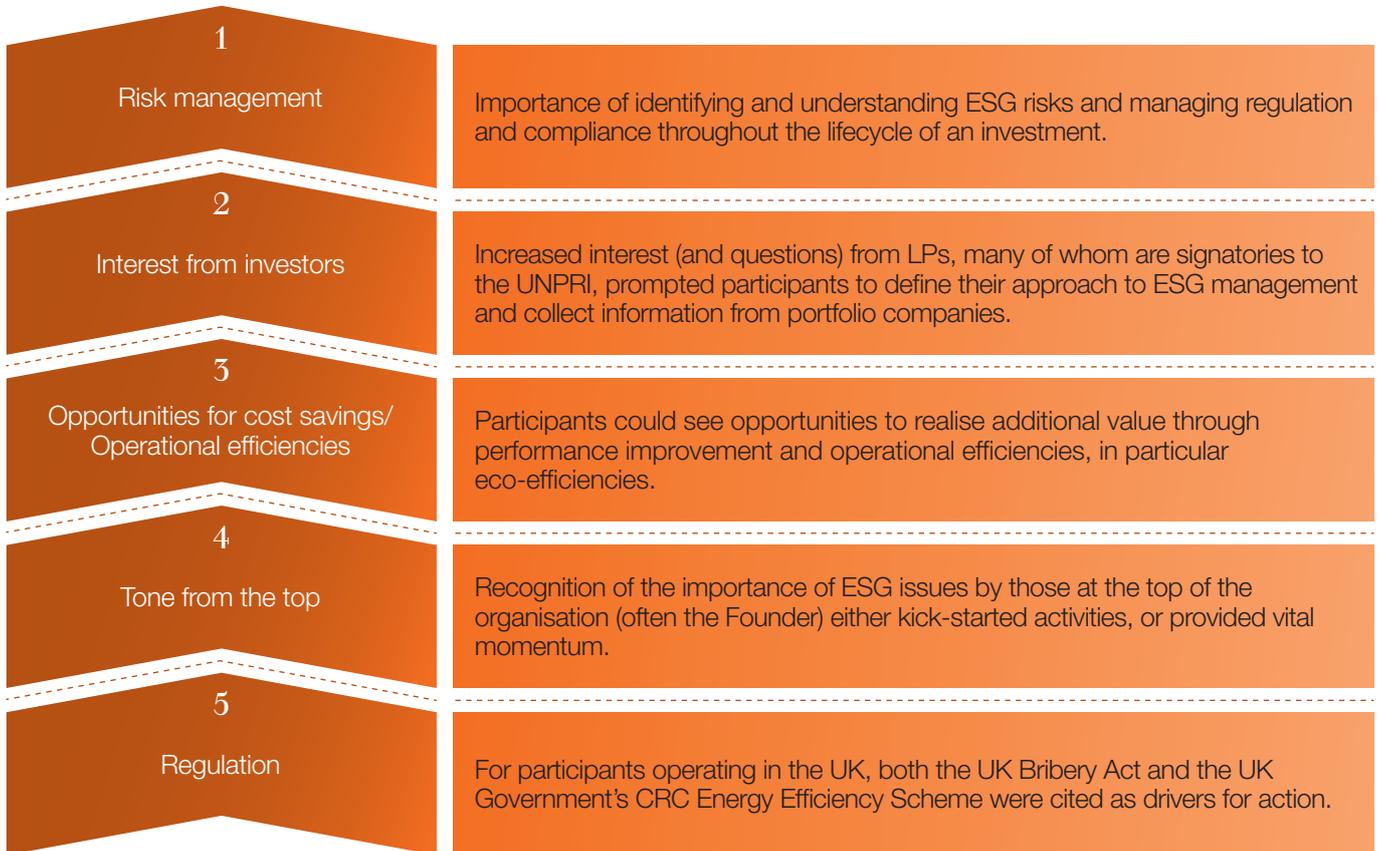
Some PE firms are working towards a more structured and strategic approach under an over-arching sustainability strategy, linked to the firm's business strategy.

Drivers for action on the ESG agenda are examined in the box below, but two dominate all others:

1. Risk management;
2. The growing interest and pressure from investors.

An example of multiple drivers is seen in the growing response to climate change. Investments can be impacted by both actual climate change and the policy responses to it such as carbon caps. Energy-intensive industries are particularly affected. Public policy, which is increasingly encouraging new technological developments, can stimulate business opportunities and investments. There is growing market demand for technologies that address climate change.

## Drivers for action



Source: PwC, Putting a Price on Value

## Strategic management

Most GPs have some element of ESG consideration in their investments, but sometimes this is executed in an ad hoc manner. Taking a more strategic approach can ensure that opportunities are maximised. GPs should stop to consider:

- Why am I devoting resource to these activities?
- How do I want my efforts to be perceived by stakeholders?
- What progress do I want to have achieved in three-to-five years?

A defined strategy can significantly support ESG-related decision-making during the investment life cycle, but can also give support during fundraising activities by providing a framework for meaningful responses to LP enquiries, and by helping to demonstrate a proven RI track record.

When planning their RI strategies, PE firms should consider the following success factors:

**Ambition** – A firm should have a bespoke ambition and vision, which guides its approach and risk appetite. Having defined the desired outcome, a firm can plan the progressive actions and structures needed to achieve this. There is no single right answer, scenario or means of implementation. Each firm should decide its own path based on its level of ambition, which may change over time as the RI programme becomes more fully integrated. RI should also be aligned with the firm's overall business strategy and risk management procedures.

**Suitability to stakeholders** – A firm interested in developing an RI approach to its investment strategy should consider matching this not only to its own values and principles but also to those of its key stakeholders, particularly investors and its diverse portfolio companies. Some investors may, for example, require certain sectors or activities to be excluded – such as alcohol, tobacco, defence industries, etc.

**Leadership** – Identifying a firm's future ambition requires the commitment of senior management and boards – this is critical to the success of any RI strategy. Articulated from the top, RI strategy should be intrinsically linked to the firm's overall objectives. This allows a consistent message to be conveyed throughout the firm and to be reflected over time in its overall business strategies.

**Defining a policy or policies** – Having established a broad strategy, PE firms should consider defining and communicating not only principles of investment (for example the UNPRI), but also a more specific ESG policy, or series of policies covering different aspects of the agenda, such as climate change, bribery and corruption etc. Careful consideration should be given to whether policies will cover only investments or the management firm as well, with many stakeholders expecting the latter.

**Defining a governance framework** – Implementation of an RI approach requires effective governance to outline ownership of the strategy and ESG policies, as well as to define who is responsible for RI management activities within the investment cycle. Governance should extend to portfolio companies, with primary ESG contacts being established, and reporting arrangements being agreed in advance (e.g. by integrating ESG metrics/KPIs into board reports or balanced scorecards).

**“To HgCapital, responsible investment is about investing in opportunities that seek to generate both financial value and sustainable growth. We believe that businesses which actively engage with social responsibility achieve higher performance than their peers who do not do so, and this enhances returns to investors. HgCapital's RI approach supports the backbone of its investment philosophy which is to invest in growth companies and sectors, rather than turnaround or distressed investing.”**

Nic Humphries, Managing Partner  
HgCapital

## CASE STUDY

### HgCapital

During 2012, HgCapital developed an RI policy to set out its approach and the measures to embed it into the investment process and portfolio company engagement.

A typical HgCapital investment is in a fast-growing niche business, probably acquired from its founders. As a result, we do not expect our investments to have a developed ESG policy in place at the time of investment. Instead, we screen for ESG red flag concerns at an early stage, and consider whether anything identified means we do not go ahead (if it falls into one of our exclusions) or requires a remediation plan as a condition of our investment. Under our policy, we now require a fuller ESG diligence report to be completed prior to investing which provides a high-level overview of the risks and opportunities of the investment.

Recent examples of pre-acquisition ESG considerations include determining that the target's anti-bribery and corruption training should be refreshed (which became part of the 100-day plan); and identifying opportunities for better communication of the sustainability benefits of a target's products to differentiate its offering for end users.

Our post-acquisition engagement focuses on identified areas for improvement. We have engaged across the portfolio to assist with a robust adoption of anti-bribery and corruption policies. For those companies which need to focus on employee retention or talent management, we provide expert support to put employee engagement measures in place (such as net promoter scores). Following a review of ESG risks and opportunities for one of our portfolio companies done at our instigation, we are delighted that they have improved the communication of their products' energy efficiency and their sustainability policies. From 2013, we are asking all new portfolio companies to report annually against ESG Key Performance Indicators.

**Internal engagement** – Successfully integrating RI into the business strategy and daily operations of a PE firm requires internal buy-in, as well as the enhanced awareness of employees and management about the issues and their relevance. Firms that succeed in developing and executing an effective approach to RI have staff who are trained and fully committed, regarding this as an integral component of their daily roles and responsibilities.

**Integration into core business** – Procedures should be set out, outlining how a firm plans to integrate RI into its strategic approach to investment. They should show how the firm’s overall RI ambition will be integrated into the existing investment cycle, from investment screening to portfolio management and, finally, exit. The ultimate goal is to integrate RI into the firm’s investment cycle, making it central to the firm’s investment approach.

**Engagement with portfolio companies** – GP expectations of portfolio company management teams in this area should be set from the outset, and support provided to develop strategies and implementation programmes that deliver clear ESG performance improvement. “Support” in this context might involve assistance with setting an effective governance structure, recruitment or provision of ESG expertise, and help in building a business case for investment in eco-efficiency measures or in new “responsible” products designed to increase top line income.

**Measurement** – PE houses and portfolio companies need to measure progress to understand how they are enhancing value, satisfying stakeholders and growing businesses in key sustainability areas. Measurement and upwards reporting is also critical at the strategy level, to facilitate evaluation of the house’s progress in meeting objectives. This enables the house to assess whether it needs to correct its course or to adjust its ambition and goals.

**Reporting** – In an era of increasing transparency and accountability for the PE sector, consideration should be given, from the outset of designing an RI programme, to the nature of information that should be divulged to stakeholders, when and in what format (for example, online, in annual reports etc). Only by considering desired reporting outputs from the beginning, can necessary inputs (data, performance metrics, case studies etc) be collected over time.

## Responsible investment policy

It is fundamental for PE and VC firms to first set out clear RI values and principles, which will inform their investment strategy and which will allow assessment of any given potential investment against these principles. Setting out the RI values and principles is best achieved by drawing up an RI policy, with separate E, S and G sections.

The policy should, as a minimum, include:

- A commitment to **compliance with all relevant legislation**;
- A commitment to “**continuous improvement**” in ESG performance;
- Any **excluded activities or sectors**.

Some investors specify sectors in which funds cannot be invested, or the PE house makes a policy decision to avoid certain sectors e.g. gambling and adult entertainment sectors.

## CASE STUDY

### 3i – Lekolar

3i completed the buyout of Lekolar in February 2007. Lekolar is the leading supplier of educational and learning material, furniture, toys, stationery and arts & crafts to pre-schools and secondary schools in the Nordics. As part of the investment case we identified potential for operational improvements and consolidation of the supply chain following a rapid buy-and-build strategy completed between 2004 and 2006. Since our investment, we have worked with management to consolidate Lekolar’s supply chain platform and achieve savings by moving to a direct sourcing model in China and Eastern Europe. This provides Lekolar with greater transparency and scrutiny of working conditions in the supply chain and an opportunity to demonstrate active management of CSR risks to customers.

In 2012, Lekolar refreshed its code of conduct which sets out the minimum standards expected from suppliers and incorporates issues such as freedom of association, child labour, discrimination, fair wages, and appropriate working hours. These requirements are based on standards defined by the International Labour Organisation, a UN agency focusing on labour practices. The code is supported by a management framework that seeks to ensure compliance through on-going monitoring of suppliers.

Lekolar’s experienced sourcing team has been operating in China since February 2011. This team plays a vital role in working directly with the company’s local suppliers to ensure that they adhere to the code of conduct and meet quality and CSR expectations. Similar audits of Eastern European suppliers are conducted by the experienced purchasing and technical staff from the Swedish headquarters. Lekolar is a member of the Ethical Trading Initiative (“ETI”), an alliance of companies, trade unions and voluntary organisations that work to improve the working lives of poor and vulnerable people. The ETI provide on-going support and advice on supply chain management. Their feedback on Lekolar in 2012 was very positive and confirmed that all objectives had been met during the year.

In addition to these excluded sectors, some leading PE houses are now specifying “referral sectors” as well – i.e. sectors which give rise to concern on environmental, social or ethical grounds, but which may not be specifically excluded provided there is further review and justification; and

- The **ESG standards** which the PE house will apply in judging potential investments.

For some, this will simply be “legal compliance” even in developing countries, where national regulations are neither as stringent nor as well-enforced as in developed countries. However some stakeholders may prefer to see a commitment to consistently high ESG standards across the PE house’s investments – for example, a commitment to work towards alignment with the IFC Performance Standards and related Sectoral Guidelines\*.

Note that setting such standards does not necessarily imply the need to comply with them from the outset: compliance may be expressed to be “aspirational” – i.e. a commitment to achieve specified standards during the period of the PE house’s ownership of the portfolio company.

## Responsible investment approach at the pre-investment stage

Decisions made during the pre-investment stage can be critical to influencing a GP’s ESG impacts. Where GP strategies exist on ESG issues, pre-investment evaluation of a target company should assess whether the proposed transaction would, in principle, create synergies, conflicts or opportunities in relation to these strategies.

### Decision process

During the investment process, the PE house will need to make decisions about how to evaluate ESG risks and opportunities across the value chain. This approach will depend on:

- The PE house’s vision and level of maturity of RI approach (see options in the diagram overleaf);
- The PE house’s RI Policy commitments – e.g. the standards set for ESG performance and/or the existence of any sectoral “exclusions”;
- The materiality of the ESG risks and opportunities in terms of the magnitude of their expected effect on the financial ‘bottom-line’ as well as on other stakeholders including employees, customers, and the environment and society at large.
- The PE house’s strategy for building ESG expertise, in terms of the balance between internal or external evaluators. If an internal strategy is preferred, then staff need to be equipped with tools to aid ESG issue evaluation and be trained for the role. Training should include an understanding of where a higher level of expertise is required – that is, when to bring in a competent ESG professional – which should not only be confined to situations where the law requires it;
- The PE house’s views of the ESG risks and opportunities which are inherent to the sectors and geographies involved in the potential investment. To take a simple example, an investment in a chemicals manufacturing company

\* The International Finance Corporate (IFC) is the private sector arm of the World Bank group. The IFC Performance Standards are intended to provide a reference for businesses in emerging markets for environmental and social standards. They also include a section on appropriate assessments and management systems to identify and address social and environmental risks with a view to ensure the continuous improvement of the sustainability performance of a business within the limits of its resources. Associated with the IFC Performance Standards are the World Bank group’s general and industry specific Environmental, Health and Safety (EHS) Guidelines. The EHS Guidelines are technical reference documents with general and industry-specific examples of good international industry practice.

**“During our due diligence, USS looks for assurance on the processes the potential GP has in place to monitor and manage environmental, social and governance issues. This includes reviewing how potential risks- or opportunities – have been addressed in existing portfolio companies.”**

David Russell,  
Co-Head of Responsible  
Investment, Universities  
Superannuation Scheme

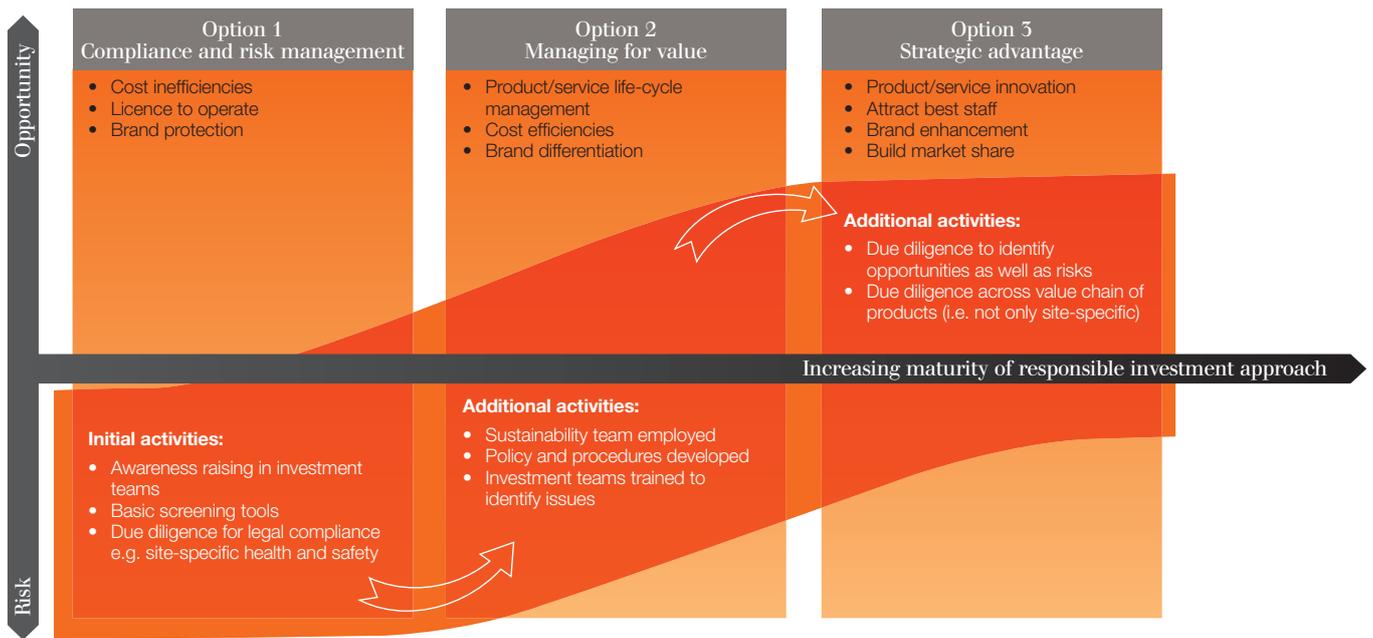
based in a developing country would be expected to have higher inherent ESG risks and opportunities than a consultancy services company based in a developed country, and hence require more extensive ESG risks and opportunities evaluation.

Note that it is important to consider “top tier” suppliers’ countries of operation when considering inherent geographic ESG risk – see the “value chain” comments in the top-level screening section on page 13; and

- The timing of the evaluation and the level of ESG information available. ESG evaluations could begin as soon as the investment opportunity is identified, with the depth of the evaluation being dependent on the amount of information available. However, many PE houses understandably only commission external due diligence assistance at the “exclusivity” stage.

**Fig 1: This diagram illustrates the choices to be proactively made with respect to a PE house’s desired market positioning on RI and the respective extent of ESG management / due diligence required.**

### Setting the PE house position on ESG values and principles



## CASE STUDY

### Doughty Hanson

#### Balta Group

Doughty Hanson is committed to responsible investment and part of the firm's strategy to achieve this is to regard ESG considerations as being integral to the business, particularly in respect of the activities of the company's portfolio.

The PE firm works across the full spectrum of ESG issues, ranging from environmental efficiencies and improved health and safety, through to product development, supply chain sustainability and longer-term business process management. The approach involves working in partnership with company management to validate existing initiatives and implement new ones where required.

The activities at Balta Group, a leading European manufacturer of wall-to-wall carpets and rugs are representative of Doughty Hanson's approach to responsible investing and typical of its work at the portfolio company level.

#### Balta Group

Balta Group has evolved from a small family business to become a market leader in interior decoration. The group manufactures rugs, wall-to-wall carpets and carpet tiles for sale across Europe, Asia, the US and the Middle East. The company has manufacturing operations in Belgium and Turkey, a distribution centre in the US and exports its products to more than 80 countries.

In late 2010, Balta acquired Domo Group, adding market share, a broader product range, access to the contract market and vertical integration through yarn production. Prior to the acquisition, Balta identified significant potential synergies in the areas of sales and marketing, procurement, manufacturing and working capital reduction. In addition, environmental and health and safety (EHS) issues were investigated at due-diligence and included within the business integration plan for the company, resulting in additional sustainability initiatives associated with product research and development and enhanced safety practices.

#### Impact

On completion of a baseline review by Doughty Hanson's in-house Head of Sustainability, and subsequent workshop and visits, the firm gained a more complete understanding of the business from the perspective of EHS and broader sustainability. Notable initiatives and achievements arising from these interactions include:

- Addressing energy efficiency and installing on site solar power (resulting in cost savings and additional revenues of €1.7 m a year and saving some 4,750 tonnes carbon annually). There continues to be an on-going effort to reduce energy use, including the replacement of co-generation units, which create energy from waste heat, at two plants in Belgium;
- Tackling waste minimisation (Since 2009 the company has recycled or re-used over 77,500 tonnes of waste and recycled over 64,000 m<sup>3</sup> water);
- Enhancing recognised standards of good management practice (resulting in better governance and risk management);
- Providing training and improving safety culture (resulting in improved performance and reduced lost time and amounting to costs savings of €1.6 m since 2009);
- Addressing supply chain and product range sustainability, through for example, the use of timber from certified sustainable sources, development and sourcing of more environmentally benign production techniques and raw materials, and the development of products with reduced ecological footprints (resulting in total annual revenues of some €4m);
- Enhancing the existing management and governance of occupational health, safety and environmental (HSE) matters through input on organisational change and through support during the search for and recruitment of senior HSE Executives for the company.

**“Balta Group has long held the view that strong environmental and health and safety performance makes sound business sense, and as the market leader, we are committed to enhancing our health and safety performance and to reducing our environmental impacts. We believe the work we are doing in this area is good for our business from a risk reduction perspective and also as a means of reducing cost and helping to grow the top line. Doughty Hanson has been actively involved in and strongly committed to our work in this area by providing in-house sustainability and HSE expertise to support our management team, validate some of our efforts and to identify new areas of focus at an operational and strategic level”**

Carl Verstraelen  
CFO, Balta Group

# The pre-investment phase

## A three-step pre-investment process

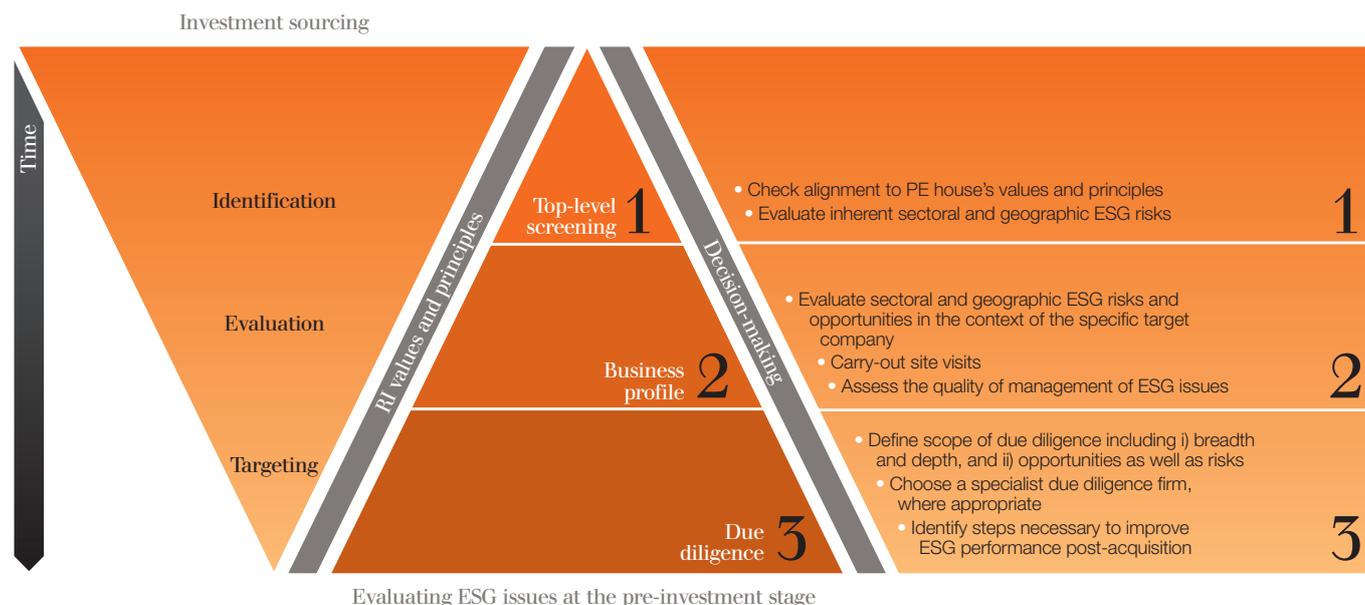
### Note on decision-making

ESG issue evaluation should be considered at all decision points, particularly where inherent environmental or social risks are high. To facilitate this process, leading PE houses now include sections for ESG evaluations at each stage of their process documentation, and require the ESG issues evaluation to be recorded alongside other material issues.

Once the ESG evaluation is complete, and fully understood by the investment team, it needs to be considered in the context of the overall investment. ESG information gathered during this stage, could provide a useful “baseline” to inform initial improvement programs and guide preliminary discussions with management over such improvements.

**Fig 2: As the investment sourcing process focuses down onto fewer investment targets, the corresponding evaluation of ESG issues needs to become more thorough. The PE house’s RI values and principles must be considered at all stages of the ESG issue evaluation. The results of the evaluation should be fed into the decision-making process all stages.**

### ESG evaluation process

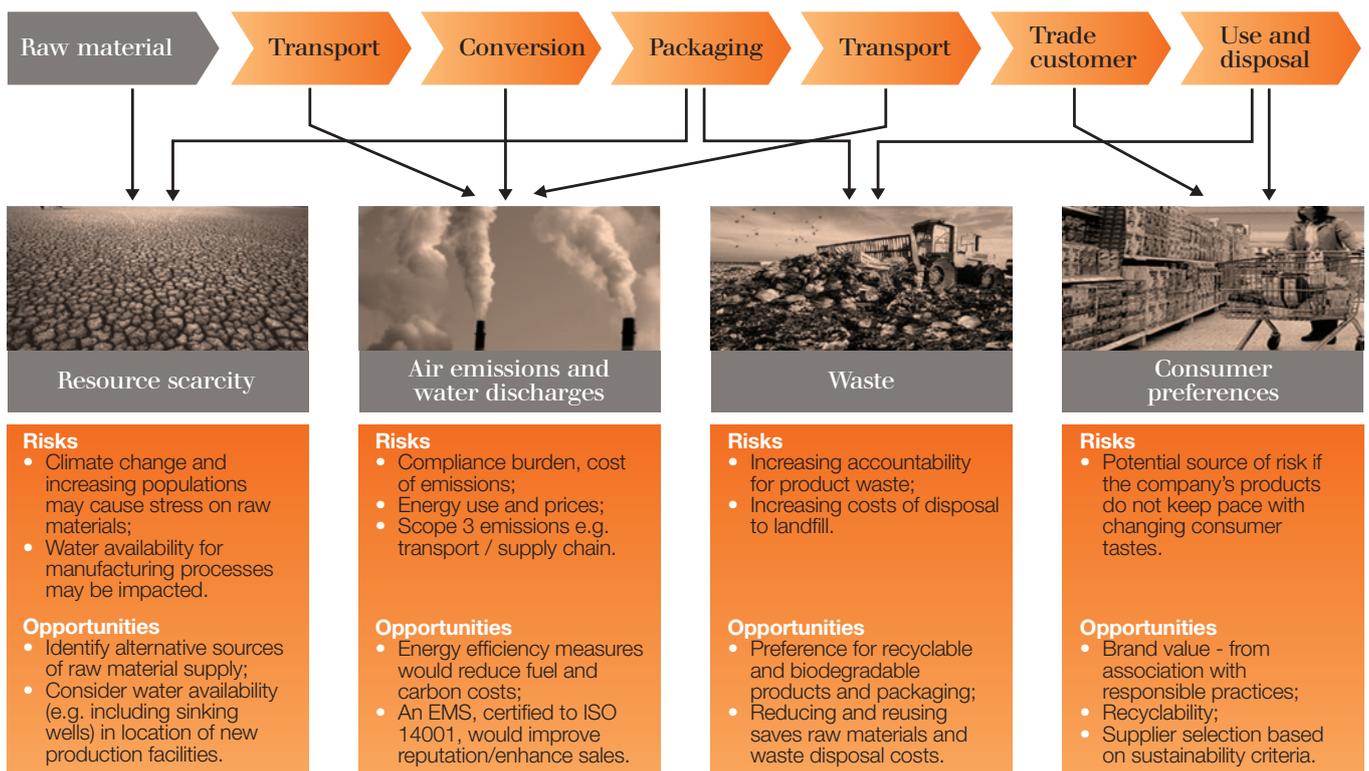


## 1. Top-level screening

At this initial stage, when very little company-specific ESG information is available, the ESG assessment approach needs to be light touch. However, various elements should be considered:

- Simple checks should be undertaken to ensure **alignment to the PE house's values and principles**. This prevents time/expense being put into evaluating a potential acquisition which simply cannot proceed on ESG grounds (e.g. an investment in a sector which is specifically excluded by the RI policy). PE houses should ensure that their RI policies are well-communicated, available internally, and embedded into investment memorandum templates, to facilitate such checks.
- **Inherent sectoral and geographic ESG risks** should be evaluated at this early stage. Many PE houses rely either on checklists or ESG sector briefing notes to guide investment professionals on the level of inherent risks by sector or geography. Internal investment procedures are often then aligned to these pre-set inherent risk levels – e.g. for investment opportunities in a “low” inherent ESG risk sector, internal policy may be to take no further ESG evaluation action (on what are likely to prove to be immaterial issues). Conversely, a “medium” or “high” inherent ESG risk rating may dictate the need for further investigation at a later stage.
- It is important to consider ESG risks and opportunities in the light of the **target company's entire “value chain”**. That is, the target company may operate at a relatively benign part of the chain from an ESG perspective – e.g. a packaging company in the example used below – but may still be exposed to higher risks in the upstream or downstream parts of the same chain. Where supply chains are based in developing countries, inherent ESG risks are likely to be higher.

### ESG risk and opportunity – manufacturing company



Where top-level screening checks indicate that further consideration of ESG issues is warranted, there are again two main options: either continue evaluating the target company internally, or commission external ESG due diligence.

## 2. Business profiling

Internal evaluation may take the form of “business profiling” – i.e. considering the inherent sectoral and geographic ESG risks in the context of the specific target company. Are the company’s actual activities typical of the sector, or are there activities which raise or lower the inherent ESG risk level accorded? For example, a company may have been accorded a “high” level of inherent ESG risk at the top-level screening stage because of a belief that the company is involved in manufacturing. However, on closer examination, the activity may actually be found to be assembling components – a lower order of inherent risk.

Site visits may be required at this stage to gain a full understanding of the business. In certain circumstances where the sector and/or geography of the target company is known to carry high inherent levels of ESG risk, it is essential to engage the support of external specialist consultants in evaluating ESG risks and opportunities. However, ESG expertise is not always essential to make such a visit worthwhile. Much can be gleaned by asking simple questions, for example:

- what raw materials are used and what wastes are produced? And are these labelled as hazardous?
- are environmental permits or licences required to operate?
- is the workforce based in developing countries, large, non-unionised or involves a significant element of temporary or migrant labour (all of which raise concerns over labour standards)?
- are material contracts negotiated with public officials?
- is there currently any consideration of ESG issues in the company’s supply chain?

Having established exactly what the company’s operations involve, and having identified the ESG aspects of those operations (a process which may be deemed to require external specialist support), the next consideration should be to evaluate the overall quality of management of ESG issues.

Three facets of ESG management should be evaluated:

- i. **Commitment:** are senior management committed to a sustainability agenda? How is this evidenced? What is the “tone from the top”? Many companies have statements of values or principles, or specific policies covering “Business Conduct” and/or “Corporate Responsibility” which will help to answer these questions.
- ii. **Capacity:** are specific human resources allocated to managing ESG issues – e.g. a sustainability director, a corporate responsibility team, or an environment, health and safety manager? If so, are these specialists well trained to perform their roles?
- iii. **Track record:** what does available information reveal about the target company’s track record in managing ESG issues (e.g. from an internet search

or from discussions with customers)? Is this consistent with what management have disclosed? Sometimes, NGO campaigns against the target company, community unrest, or pending environmental prosecutions are revealed which cast the company in quite a different light.

### 3. Due diligence

Whatever the proposed investment, consideration should be given to effective ESG due diligence during acquisition. The overall aim of due diligence is to understand the target's ESG performance in greater detail, including associated risks and opportunities that could impact either the overall business case or the business value. While some issues can be unique to a particular sector or even a business, many core principles will apply across sectors and investment opportunities. In addition, the weighting of each issue will depend not only on the target's location and activities, but also on the GP's defined RI principles and strategy.

GPs should ensure that the **due diligence scope** identifies ESG risks and opportunities as effectively as possible. The scope will vary depending on the nature, location and activities of a business, and this can be informed by your top level screening and business profiling. Some issues to consider when defining the scope are included in the table at the end of this document. Where internal resources or expertise do not adequately cover ESG issues and/ or the particular sector under consideration, external consultancy support is likely to be essential.

The **choice of specialist firm to employ is an important one**, and should depend not only on the nature of expertise required (environmental, health and safety, supply chain expertise etc), but also on the scale and reach of the consultancy's office network and the "fit" with the target company's geographic operations. Some PE houses are now establishing "panels" of preferred ESG due diligence suppliers so that help is available at short notice when needed.

Due diligence should consider both current and reasonably foreseeable ESG issues, so providing maximum visibility of the risks and opportunities. The scope should cover not only legal compliance but also non-regulatory issues. This could include recognised reporting standards like the Global Reporting Initiative,<sup>1</sup> sector-specific concerns (e.g. carbon foot-printing for the food sector or social capital for the service sector), and/or investment community agreements (e.g. the UNPRI and the Equator Principles<sup>2</sup>).

Traditionally, ESG due diligence has focused on legal compliance liabilities – typically at a site level. Contamination liabilities, asbestos risks and environmental regulatory compliance are all examples of issues which have been at the centre of specialist investigations in the past – mainly to check whether there are any financial implications which may impact investment economics.

This type of due diligence still has its place. However, the **scope of ESG due diligence is now beginning to change** – in two key respects:

- i. **Breadth and depth:** ESG due diligence should consider the target company's whole value chain (please see page 31 of the Guide), as, for example, broader environmental issues – such as climate change or water scarcity – might have an impact on the quality, availability or price of raw materials in the future.

<sup>1</sup> [www.globalreporting.org](http://www.globalreporting.org)

<sup>2</sup> [www.equator-principles.com](http://www.equator-principles.com)

**“At Palatine we start thinking about ESG from the start of the deal process. We use ESG tools to identify both industry and company specific issues. This means we identify any problems early and can engage outside ESG experts if needed.”**

Beth Houghton  
Investment Director  
Palatine Private Equity

- ii. **Opportunities as well as risks:** due diligence should also include consideration of the upsides so as to evaluate the potential for, among others:
- **New markets or income streams:** development of products designed to respond to climate change (e.g. renewable energy, clean tech products) or to changing consumer tastes. Examples of the latter include consumer labels such as Fair Trade or organic products, or sustainably managed timber or fish resources;
  - **Eco-efficiencies:** simply “doing more with less” makes clear business sense by saving money from using less energy or raw materials, whilst benefiting the environment; and
  - **“Industrial ecology”:** one company’s waste product can be another company’s raw material. By identifying the potential synergies, the first company can save on waste disposal costs, whilst the other has a source of cheaper raw material – whilst both companies benefit the environment and can gain brand value or reputation enhancement by communicating their approach through sustainability reporting.

GPs should try to **allow sufficient time and access** for ESG due diligence wherever possible, as this will maximise the opportunity for a comprehensive asset assessment. They should encourage both positive and negative due diligence reporting, which provides as holistic a picture of the asset as possible. Additionally, ensuring that reports cover both the inherent business risks and existing mitigation strategies allows a full evaluation of effective management procedures.

If possible, one team member should have responsibility for the ESG due diligence workstream. This person should ideally have a detailed understanding of the identified issues and liaise with external advisors in good time (so avoiding any last minute “surprises”).

External ESG due diligence, covering both opportunities and risks, should be commissioned prior to the investment being made. However, unless there are known ESG problems which need to be investigated fully (when an early external appointment would be appropriate), external **ESG consultants should generally be commissioned at the “exclusivity” stage** of the investment, when incurring such expenditure can be justified in the context of the likelihood of completing the transaction.

In this exclusivity “window”, much can be achieved by consultants accessing data rooms for information and by discussing ESG issues with the target company’s management. That is, **it is often not necessary to undertake exhaustive enquiries**, incurring high costs and tying up valuable investment team and target company’s management’s time, **to arrive at valid and valuable conclusions** about the target company’s ESG risk/opportunity profile. Known poor ESG performance of a particular target does not necessarily prevent investment if the potential for substantial improvement can be demonstrated. On the contrary, this may represent a significant opportunity to add value by reducing costs, identifying new business areas, improving staff loyalty, improving reputation and ultimately boosting marketability. Equally, where access to management, and/or the data available, is limited, the gaps in knowledge and understanding should be flagged to investment committees, with a view to ensuring that these are addressed post acquisition, and that the research findings are integrated into the post-acquisition planning.

Crucially, a good ESG due diligence report should clearly articulate not only the risks and opportunities in both qualitative and quantitative terms, but also **identify the steps necessary to be taken to improve ESG performance post-acquisition**. Only then can ESG action plans be properly integrated into the company-wide work streams that are created as part of the post investment ownership process.

Note: the above ESG due diligence steps are equally important where “bolt-on” acquisitions to existing investments are being considered, as such acquisitions can have the effect of materially altering the ESG risk profile of the original investment.

## CASE STUDY

### Palatine Private Equity

Palatine Private Equity has a comprehensive framework and system for ensuring that it integrates responsible investment practice into the way it does business, including a programme of active portfolio company engagement. This includes conducting wide ranging independent ESG reviews to identify pertinent issues, opportunities and objectives, Board engagement with ESG management, and compiling legal registers and compliance guidance for Environment and Health & Safety management.

#### Hallmark Hotels business model and ethos

Hallmark Hotels is a group of eight luxury hotels, founded in 2007, with locations across England, catering for the 4\* consumer and corporate markets. The group has been built by buying existing under-performing hotels operating in distinctive buildings and prime locations and in each case transforming the business, the operation, the presentation and the customer offer to create thriving new businesses, all operating to a high level of quality and management.

Quality management has included a firm focus on key sustainability themes, aimed at helping to underpin the all-important customer experience, while managing rigorous compliance and resource efficiency that contributes to the bottom line. Strategic themes include health & safety, sustainable HR management, environmental efficiency and community engagement. A “Green Management Strategy” brings all this together across the Group and is highly visible in the ‘backstage’ areas of the hotels where staff do much of their work. Very little of this would have been possible in the existing hotels without the Palatine investment and the joined-up group-wide sustainability approach led by the Hallmark management, with full support from Palatine.

#### Initiatives

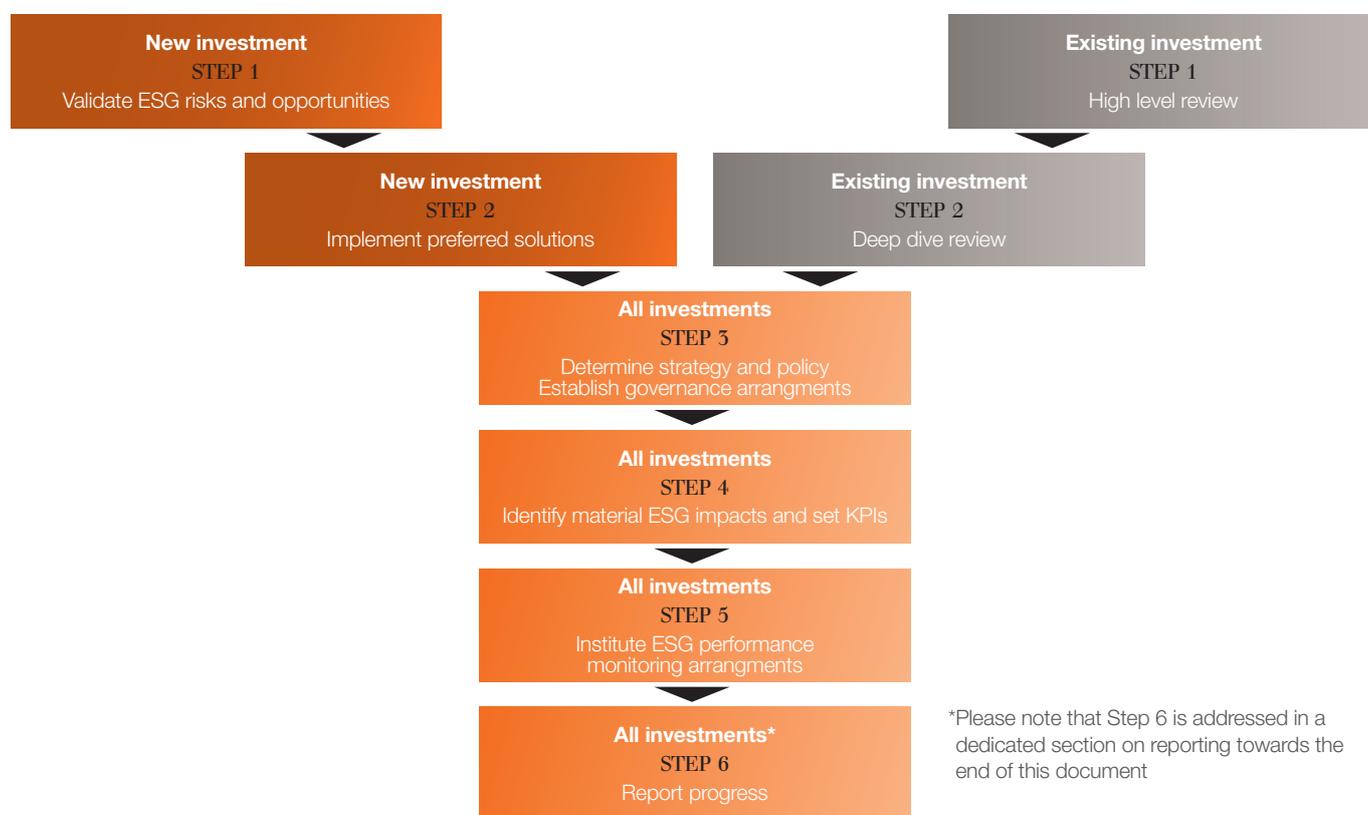
- **Health & safety:** a critical area for both staff and customers in the hotel context, maintaining exemplary standards of management is always high on the governance agenda.
- **HR management:** taking active steps to buck the damaging high churn trend that is well known in the industry has revolved around transforming HR processes, including a right-first-time recruitment process, staff development and succession planning, and staff engagement.

- **Environmental management:** proactive management began by identifying and monitoring all the activities, infra-structure and equipment within the hotels that could be better managed for efficiency, aiming to save energy, water use and waste, particularly waste to landfill. Duty managers have a schedule of measures integrated into their roles, including, for example, night-time shut down of equipment only needed during the day. Having captured all the quick-wins, and with the benefit of year-on-year measurements now in place, Hallmark are focusing on strategic investments in energy saving heating and lighting, water saving devices, new waste management regimes, as well as establishing long-term performance goals.
- **Green champions:** to make sure that staff are engaged and informed to help with the sustainability push, each hotel has appointed a Green Champion to guide and engage the rest of their team. Ideas are encouraged from all levels, and are shared across the Group via the Green Champion network.
- **Sustainable purchasing:** a strategic relationship with a larger hotel chain with an established sustainable supply chain meant that Hallmark could tap into their sustainable purchasing expertise, networks and efficiencies from the start. Recent initiatives have successfully resulted in fewer fresh food deliveries, and instigation of sustainable food waste management with waste operators - a key issue in catering.
- **Community engagement:** Each hotel has its own long-term community partnership, chosen by the local staff who also lead on projects and fund-raising, and share good practice and ideas across the Group. Every hotel in the Group now provides a significant number of quality, local jobs, while relationships with local colleges aim to bring the next generation into the industry through work experience schemes.

# The ownership phase

## Managing ESG issues during the ownership phase

The actions required to manage ESG issues during ownership will vary depending on whether the portfolio company is a pre-existing asset, or newly acquired. Nevertheless management steps do share common elements, as shown in the diagram below:



## Immediately post-investment

ESG issues are rarely so material that they prevent an investment progressing, but their significance could delay a transaction or merit inclusion within post-acquisition performance improvement plans. Working closely with portfolio company management helps to ensure action plans take into account ESG value creation and value protection opportunities, arising from due diligence and post deal engagement activities:

### 1. Validate ESG risks and opportunities identified during the pre-acquisition phase

Whatever the identified issues, pre-acquisition due diligence provides the information for a baseline from which future strategies should evolve. Correspondingly, revisiting recommendations made in the relevant ESG due diligence report(s) is urged as part



of the post-acquisition performance plan. For example, ESG risks or opportunities may have been identified in pre-acquisition reports, but these are likely to have been based on only limited information and/or restricted access to management, given the time and/or cost constraints involved. It follows that further work is needed, immediately post-acquisition: firstly to validate the scale of a perceived ESG risk, and the likelihood of it crystallising, and secondly to validate the “size of the prize” for a perceived ESG opportunity. The validation process should involve:

- Early discussions with portfolio company management representatives. It is possible that the company’s management team will not have seen pre-acquisition reports before, so it is important to check that the ESG risks and opportunities identified are, in their view, realistic and theoretically valid;
- The identification of options for implementation of initiatives designed to address ESG risks or leverage ESG opportunities. Inevitably, there will be several implementation options to address these, and discussions with internal (and potentially external) specialists are advisable to identify them. For example, say that one opportunity identified was to improve the energy efficiency of a data centre, aimed at simultaneously saving money and improving the “carbon footprint” of the business: options might include the separation of “hot aisles” from “cold aisles”, server virtualisation, or simply the installation of more energy efficient hardware.
- The quantification of costs and benefits (whether financial, environmental, social or reputational) and therefore the returns available on any investments required. This will support the identification of preferred solutions.
- Prioritisation: quite often, what starts out as a “long list” of potential ESG risks and opportunities can be whittled down to a “short list” of actionable items through the validation process.

## 2. Implement the preferred solutions from point 1 above, taking care to integrate ESG activities with those other activities being initiated as part of bespoke portfolio action plans (e.g. the 100 or 180 day plan)

- To use the above example, if an investment in a data centre is being planned anyway, it makes sense to ensure that the investment results in as “green” and safe a centre as possible. Aside from achieving the twin aims of operational cost savings and a reduced carbon footprint described above, there is also the potential for a reputational benefit, through being seen by key stakeholders to operate a “responsible business”.
- Conversely, if ESG work streams are not integrated in this way, there is a high risk that planned actions will be implemented without due regard for ESG issues (at best, an opportunity missed), and that ESG initiatives will simply be shelved or even abandoned as being insufficiently urgent, or of low priority.

Once the immediate post-acquisition ESG priorities have been successfully progressed through the above actions, the management of ESG issues during the ownership phase should follow the remaining four steps described in the “post-investment stage” section overleaf.

### Top Tips

As soon as reasonably practicable after signing, engage with portfolio management to ensure ESG forms part of the strategy and improvement process moving forward. A good starting point is to work with portfolio management and/or your external advisers to close out ESG issues identified at due diligence

Don’t forget that a “buy and build” strategy will impact upon ESG considerations. Bolt-on acquisitions that may be planned will potentially impact the ESG profile of an acquired business (e.g. what was not identified as being an ESG issue of concern during initial due diligence may become an issue of concern following a bolt-on acquisition or merger)

### New investment

#### STEP 2

Implement preferred solutions

### Top Tips

To ensure portfolio company action planning encompasses material ESG issues, involve portfolio company ESG specialists and nominate a dedicated point person for ESG issues at the portfolio company and within the GP

## Post-investment stage

As significant shareholders, and custodians of LP capital, GPs have a responsibility to encourage the companies in which they invest to adopt and pursue responsible business practices. Moreover, they have a clear financial interest in so doing: overseeing the management of ESG issues during the ownership period of an investment has the potential to protect or significantly enhance profitability, and value/saleability on exit.

It is likely that any ESG due diligence undertaken at the time of purchase will have been limited in its scope. This is because traditional due diligence in this area has focused on:

- ESG legal compliance issues only (the “E”, and some of the “S” of ESG);
- risk and liability concerns only (rather than opportunities too); and
- site specific issues (rather than issues covering the whole value chain of the company).

As a result, GPs may not have sufficient insight into the broader ESG risks and opportunities impacting their current portfolios. To remedy this, GPs may wish to consider the following two steps:

### 1. High level review

If the above due diligence scenario is recognised to be case, the immediate question which arises is “where do I start?” After all, a full ESG review of the existing portfolio of companies (which would most likely need to involve an external specialist) would be a costly and time consuming exercise. A high level review of the portfolio through surveys, management interviews or audits may, however, be a solution. It can be a useful tool to determine:

- Which companies to focus attention on: this can be determined by considering inherent ESG risks in the existing portfolio, which will likely vary by sector and by geography.

For example, companies operating in manufacturing industries present inherently higher levels of environmental risk than those operating in service sectors. Equally, companies with supply chains extending into developing countries will likely represent higher inherent levels of social risk (through concerns over labour standards) than those operating in, say, western Europe. Finally, the geographic location, coupled with the nature of a company’s business model (e.g. whether sales agents are used, whether government contracts or licences are features and so on) will be key determinants of inherent bribery and corruption (i.e. governance) risk.

Applying a high level “sieve” for these inherent ESG features will help eliminate those portfolio companies that are unlikely to require immediate attention, and will also serve to focus efforts on those companies that would repay the investment of time, and potentially money, in reviewing the management of material ESG issues.

Having identified the universe of portfolio companies on which to focus attention, the high level review recommended can then help to determine:

- How ESG issues relate to each company: what are the ESG issues, and which of these is material, demanding management attention?

### Top Tips

Throughout the ownership period, keep your deal team informed and make efforts to align with their processes (i.e. do not create additional work load for the investment professionals, rather seek to slot in ESG considerations using established routines and processes)

### Top Tips

Check that the criteria used to focus attention on specific companies in the high level review are sufficiently robust and a true reflection of your investments

Note that sometimes the smaller investments or the seemingly innocuous might hold the bigger risks. To help with understanding this always seek some level of validation from competent specialists

- Management attitudes and actions taken to date on ESG issues: what is the “tone from the top” at each priority portfolio company in respect of ESG issues? Are board members kept up to date on material issues, such as the company’s health and safety record?
- Areas of unmanaged risk: occasionally, ESG risks have not even been identified, let alone well managed. It is important to take stock of the quality of risk evaluation and management, and then to improve the companies’ “corporate radars” so as to be able to identify areas of stakeholder concern in this area, well in advance of ESG issues crystallising as problems (by which stage a company’s ability to manage an ESG problem will most likely be impaired by the need to “fire fight”).
- Areas of unrealised opportunity: aside from leading edge PE houses, this is frequently an under-researched topic. It often takes time and some investment to realise gains from ESG opportunities, so identifying potential well in advance of exit is essential.

Once a high level review is complete, and a (typically small) number of companies have been identified where further action to effectively manage ESG issues is required, a “deep dive review” can be implemented.

## 2. Deep dive review

Following a high level review, or where detailed ESG due diligence has identified issues which should be tackled outside of the 100-day plan, GPs can focus resources on those companies and supply chains with the most unprotected and unrealised value. This may take the form of:

- Site audits – the High Level Review may not have included a site visit. If not, this is highly recommended at the deep dive review stage. A site visit or audit will help to understand the context in which management will be striving to manage ESG issues effectively, and the risk management procedures currently being followed. If expertise is not available internally to conduct such a visit, and there is no appetite for commissioning external support, a simple site visit checklist may help to identify key issues systematically.
- Discussion with board representatives and those responsible for managing ESG issues on site. It is important to establish the extent of board involvement with and knowledge of ESG issues (please see step 3 below), as well as to understand how risk and opportunity management procedures are applied in practice. Only then can the overall picture be compared with good management practice in the sector concerned, and for any gaps to be identified which require attention.

The remaining steps required to institute effective ESG risk and opportunity management arrangements are common to both new investments and existing portfolio investments. Please see steps 3 to 6 below.

## 3. Determine strategy and policy and establish governance arrangements

- Determine portfolio company ESG strategies. ESG issue management should be a strategic consideration for a portfolio company, and also for a PE house owner – as it is a key driver of value protection and enhancement. Value cannot be maximised without integrating consideration of ESG issues into the way a company is governed and operates – to be sustainable, it needs to become simply the way business is done.

**“The potential will always exist for a crisis to arise at an investment and ESG issues could very easily be the trigger. Notably, allegations need not be true for a crisis to escalate and so understanding how a portfolio company regards crisis management generally is an important task for any truly active GP.”**

Adam Black  
Partner and Head of Sustainability  
Doughty Hanson

Existing investment  
STEP 2  
Deep dive review

### Top Tips

ESG issues cannot be effectively managed remotely for long so ensure someone competent to do so is going to take a look whenever possible

Embed consideration of ESG issues wherever possible rather than view as an add on

ESG issue management must form part of your change management processes

All investments  
STEP 3

Determine strategy and policy  
Establish governance arrangements

This step should involve the same considerations as for the GP: in what remains a largely voluntary agenda, there are choices to be made, proactively, as to each company's desired market positioning, and within what timeframe this is to be achieved. Please see Figure 1 on page 10 for an illustration of the range of strategic approaches currently deployed in the market.

- Develop a sustainability (or ESG) policy: GPs will wish to ensure that portfolio companies have robust sustainability policies which reflect their own values (so as, inter alia, to help protect both the portfolio company and the GP from reputational risk). As a minimum, it is recommended that policies contain:
  - A commitment to compliance with all relevant legislation; and
  - A commitment to “continuous improvement” in ESG performance.
- Secure board level sponsorship: as with other strategic issues, board level sponsorship and oversight of the ESG management programme is essential. As owners, often with board representation, private equity houses have an ideal opportunity (and arguably a responsibility) to influence the “tone from the top”. Articulating a company's values and ethos is important to demonstrate to all staff (and there will inevitably be laggards, as well as leaders, to be engaged) the importance of ESG issues to the company's future success.
- Allocate responsibility for managing ESG issues to designated personnel at portfolio companies. Where internal expertise is insufficient or unavailable, and expertise cannot be made available from the private equity house owners, this may merit the support of expert consultants.
- Consider capital expenditure budget requirements. Implementing effective ESG initiatives, such as those identified through the prioritisation process described on pages 18 and 19, will often require an up-front investment, which should be planned for and budgeted.

#### 4. Identify what ESG impacts need managing, establish a limited number of Key Performance Indicators (KPIs) covering the full ESG agenda, and collect baseline data on each

- It will clearly not be possible to track ESG performance improvement over the period of ownership without relevant data. But what should be measured? Clearly, one place to start would be measurement of progress under the initiatives identified in new investment, step 2 above. However, it would be sensible to think more broadly: the key is to consider each aspect of a company's operations from an ESG perspective, before identifying the impacts arising from those aspects. For example, energy consumption (an environmental aspect), may contribute to climate change (an environmental impact). Or, off-shoring a call centre (a social aspect), may give rise to labour or human rights concerns (a social impact).
- Once all relevant impacts are mapped, appropriate criteria should be used to consistently determine the materiality of the impacts - such as regulatory requirements, the financial consequences of a failure to manage the issue, and so on. Finally, **material** ESG impacts should be the subject of objectives and targets, underpinned by KPIs. This process is the foundation of any formal management system for ESG impacts (such as ISO 14001 for environmental impacts, OHSAS 18001 for health and safety impacts and so on).

#### All investments

##### STEP 4

Identify material ESG impacts and set KPIs

#### Top Tips

All portfolio companies are different and so their ESG issues will also differ. Whilst recognising that there may be a need for some generic KPIs (depending on LP interest and GP approach) try to ensure that portfolio company ESG KPIs are tailored and applicable to each investment

- Some large blue-chip companies set dozens of ESG KPIs: Marks and Spencer, for example, has set 180 ESG commitments to achieve by 2015. However, this is unlikely to be appropriate for the SME businesses that make up the majority of PE house investments. Generally 10-15 KPIs would be more the norm, covering the full scope of ESG issues. Some PE houses are now setting “core” ESG KPIs, which all portfolio companies are required to track, plus “sector specific” KPIs, recognising that some sectors have particular ESG issues to manage. All KPIs should be “normalised” to take account of business growth or contraction: examples of core KPIs (with the normalisation factor shown in the right hand column) might include:

Issue	KPI	Metric / Measurement unit
<b>Environment:</b> climate change	Greenhouse gas intensity	Tonnes of CO <sub>2</sub> pa/\$revenue
<b>Social:</b> employee attraction and retention	a) Job creation or b) Employee turnover	a) Net no. of jobs created or b) No. of jobs replaced
<b>Governance:</b> bribery and corruption	Percentage of employees (for which bribery and corruption is a relevant issue) who have completed training	Total percentage of employees (for whom bribery and corruption is an issue) that have completed training in the last 12 months

- Beware of over-enthusiasm! A common trap to fall into, once momentum for action to manage ESG issues has been gained, is to start managing material ESG impacts, without first establishing a baseline of performance – that is, where have you started from? Without an accurate baseline it is difficult to track progress over time, so as to quantify benefits and report achievements.

### 5. Initiate a regular ESG performance monitoring programme, linked to the chosen ESG KPIs

- At a practical level, an ESG performance monitoring programme should be put in place, preferably linked to existing board reporting systems – it is important that the board (and not just the ESG specialists) have access to regular performance monitoring data. For example, a “balanced scorecard” approach should be used wherever possible (combining weighted financial and non-financial metrics), so that ESG issue management is integrated into general strategic business management.
- Where monitoring processes show that ESG performance is off track, action should clearly be taken to really understand, and where appropriate, remedy, the situation. For example, a decrease in CO<sub>2</sub> from business travel might indicate a positive switch to video-conferencing, but might equally simply reflect a downturn in business activity levels (and commensurate reduction in business travel). If the latter, supporting the portfolio company in reviewing the appropriateness of the “normalisation factor” would be a good place to start in rectifying the misleading reporting. Action would then be needed to address any underlying failure to reduce normalised CO<sub>2</sub> levels.
- Communication. ESG performance improvement is normally achieved through a combination of equipment/process change and behaviour change. It follows that incentives are required for staff to change their behaviour (even to simply “switch it off” to save energy). Incentives need neither be complex nor expensive: for example, tracking and regularly communicating performance internally, coupled perhaps with engendering competition between teams, can deliver real results.

**All investments**  
**STEP 5**  
Institute ESG performance monitoring arrangements

**Top Tips**

**Detailed ESG reporting should be owned by the portfolio company and will form part of their management process after the GP has exited**

**The GP should be satisfying themselves that the portfolio monitoring and disclosing applicable and relevant KPIs that will satisfy the demands of their stakeholders and assist at exit**

**The GP should be asking for only salient ESG data from the portfolio. Namely, information that benefits the GP in understanding portfolio ESG performance, or which might help inform a GP instigated ESG initiative**

## 6. Report ESG performance improvements and, if possible, the value added

Please see the section on responsible investment reporting on page 28 for guidance on the subject of ESG reporting.

All investments

STEP 6

Report progress

### CASE STUDY

#### Bridges Ventures

##### Qbic Hotel

Qbic Hotel London is a brand-new budget boutique hotel in London's East End which opened in November 2013. Located in Whitechapel, Tower Hamlets – in the 2% most deprived local authority districts in England\* - the hotel offers affordable yet stylish accommodation.

Featuring innovative design, sustainable practices and community initiatives, Qbic Hotels' strategy is to retrofit existing unused buildings, providing a viable use for a site which would otherwise be largely empty, and bringing economic dynamism to underserved locations.

Developed by Paul Rinkens and Paul Janmaat in Amsterdam, Bridges identified Qbic as an exciting hotel concept with great potential to generate strong returns for investors as well as positive impact. Bridges worked intensively with the management team to bring regeneration and sustainability to the heart of the company's strategy, including environmental and social considerations into the business model as key drivers to its potential commercial success.

Qbic aims to contribute to the regeneration of the local area encouraging economic dynamism and job creation in the community. The hotel plans to recruit at least 50% of its staff locally and approximately 20% from the charities Food Cycle and Bike Works, both of which help to train and assist people back into work.

The Bridges team provided management with significant support on modelling a sustainability strategy for the first site, including the introduction of a number of environmentally friendly features – resulting in a projected reduction of 30%+ CO2 emissions over benchmarks for similar developments and faster planning permissions for site development.

Other initiatives included introducing the management to the Green Business Tourism Scheme to build consumer awareness of the hotel's sustainability features, as well as promoting community engagement and supporting the use of recyclable materials.

Bridges and the management team plan to roll-out the Qbic concept to other locations across the UK.

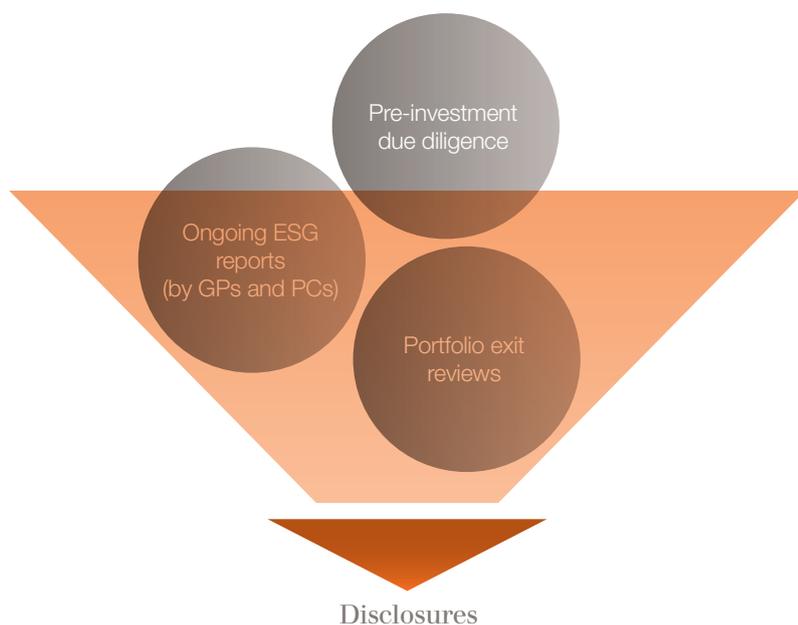
\*Index of Multiple Deprivation 2010

# The exit phase

## Preparing for exit

Planning for a successful exit should start prior to an investment being made as the GP may need to make early strategic decisions as to how to manage ESG matters during exit. The focus on ESG issues throughout the ownership phase may be influenced by the proposed exit strategy (e.g. IPO or secondary buyout). This in turn will influence the extent to which ESG risks need to be minimised and/or opportunities for value enhancement proactively managed from acquisition onwards. The portfolio company's own positioning on the ESG agenda will also play a vital role, as this will determine the nature and extent of the GP's involvement. This may range from supporting and enhancing existing initiatives to setting a completely new agenda. In addition, as each portfolio company's exposures are different, it will be necessary to review the exit strategy on a case by case basis.

Nearing the term of the investment, the GP should consider an early portfolio company review so that any material ESG concerns can be identified prior to divestment, giving sufficient time for action to be taken to correct or mitigate problems. Holistic preparatory work, irrespective of the specific exit strategy, may help to maximise portfolio value. This may be particularly valuable for investments that have been held for a long time and where initial acquisition due diligence may not have matched current best practice. In such circumstances, a detailed audit or review may be necessary. However, where adequate ongoing portfolio engagement and ESG reporting has been encouraged, this may merely require collation of up-to-date information in an appropriate format.



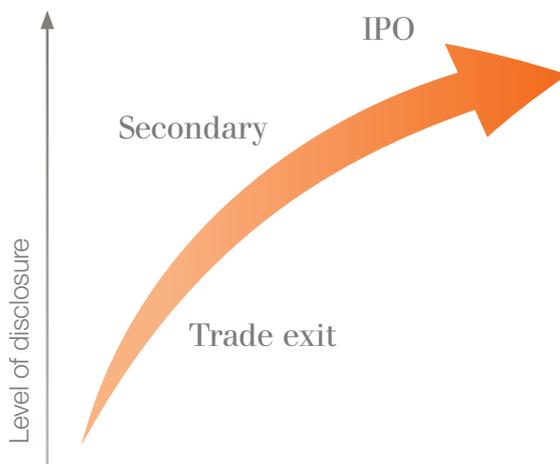
The original acquisition due diligence report can serve as a baseline against which improvements (or otherwise) in ESG performance and, therefore, overall business value can be effectively assessed. On exit, an internal high-level review may be pertinent to identify “lessons learnt”, both positive and negative which can help to inform the GP’s wider ESG strategy, policies and procedures. Regular ESG reports prepared during the lifespan of the investment (e.g. periodic reports to LPs or other stakeholders, as part of voluntary or mandatory reporting schemes, etc) may also be a source of valuable information during the exit process.

A GP should assess the benefit of including ESG material in data rooms to provide additional information to potential bidders, and a holistic perspective on the business’s ESG performance over the investment period. The GP should prepare for any “awkward” topics which may be raised in relation to ESG performance, and agree internally what responses will be made.

### ESG issues and types of exit

The strategy on disposal will be determined in part by the GP’s chosen method of exit. For example, the level of data presented by the GP is likely to be more robust and detailed when selling through an IPO than via a secondary exit or trade exit.

- i. IPO: IPOs come with associated listing requirements, public scrutiny and reporting, stakeholder pressure and increased need for transparency. Growing sustainable capital markets also present a platform for GPs to exit their portfolio companies to ESG conscientious investors, but this also comes with more demanding investors. As a result GPs should prepare more detailed disclosures when considering an IPO. Increasing regulation on mandatory reporting (most recently on greenhouse gas emissions) will require further transparency associated with portfolio companies’ activities.
- ii. Secondary exits: This type of exit has proliferated over the last few years. Inter private equity house trading may mean that the potential acquirer may not have the synergies with the industry to fully understand ESG implications for a particular sector. As a result, the GP may need to answer more detailed questions from technical advisors appointed by the acquiring GP, who will also scrutinise the disclosed information in detail.



#### Top Tips

**Towards the end of the investment, review material ESG concerns and mitigate them**

**Use original due diligence reports as a baseline to build understanding of material ESG issues**

**Assess the benefit of providing ESG material in data rooms for potential bidders**

- iii. Trade sale: Trade buyers, motivated by synergies, are more likely to have increased awareness of the likely ESG issues impacting the business. Therefore the level of detail required in disclosures may be reduced or at the least more targeted to those identified issues. Familiarity with the industry sector may mean that (with the right information disclosed) the level of Q&A is also reduced, although the questions presented may be the most “challenging”. In these cases, it is prudent for GPs to prepare their responses for those potential questions.

## Enhanced value

It has been widely recognised within the industry as a whole that implementing and maintaining ESG strategies during the investment and ownership periods can have a positive impact upon exit. Although the market is still young and firm quantified data on the financial impact of strong ESG performance is not widely available, it is believed that a positive GP and portfolio company attitude towards ESG issues, translated into improved ESG performance, can result in higher exit prices. The most significant contributing factor to this enhanced exit value from ESG issues is without a doubt good market reputation, both for the portfolio company and for the GP. This is a “win-win” situation for GPs, who will see both an improved return on their investment and also additional opportunity at fundraising, as LPs are increasingly looking for evidence of sound ESG issue management in fundraising documentation.

Finally, there is the potential for long term value creation, which is often more difficult to generate within the ownership period for a GP. In the majority of cases, sustainability improvements may require longer periods of time to come to fruition than the expected ownership period, and therefore significant investment in this area may be difficult to justify in terms of short-term return. However, appropriate management of the longer-term sustainable business strategy may be critical to the ultimate performance of the business in a changing social, economic and physical environment. Often, it will be a case of the GP “doing the right thing” without the ability to justify their actions in short-term economic terms. However, there is also an increasing trend to scrutinise long term ESG initiatives set up, or proactively supported, by exiting GPs, even if these have yet to produce positive results at the time of divestment. Long term ESG strategies and the existence of a workable plan may be seen as offering the potential for value creation by interested parties.

It is therefore essential that the GP makes sure that an ESG ethos is entrenched not only within their own investment managers, but also the portfolio company. This will ensure continuity of the projects beyond subsequent owners. Where social and environmental programmes are implemented as part of the ESG policy, liaison with stakeholders may also be necessary, and this should be driven by the GP with due regard to the risks and opportunities that this sort of engagement can create.

# Responsible investment reporting

## Current practice

GPs should be able to demonstrate how their RI approach and activities are aligned with investors' expectations. Consideration should be given, from the outset of designing an RI programme, to the nature of information that should be divulged to stakeholders, when and in what format (for example, online, in annual reports, etc.). Only by considering desired reporting outputs from the beginning, can necessary inputs (data, performance metrics, case studies, etc.) be collected over time. GPs should be able to demonstrate how their RI approach and activities are aligned with investors' expectations.

Relatively few GPs are currently reporting their own stance on responsible investing. Rarer still are those who are gathering sufficient data from portfolio companies to be able to provide a comprehensive picture of portfolio wide ESG performance, alongside financial performance. However, market pressures, alongside several recent reporting developments, are likely to trigger change.

## Recent responsible investment reporting developments

A number of responsible investment reporting and disclosure initiatives have recently been developed for LPs and GPs. The most relevant ones for private equity are summarised below.

### ESG Disclosure Framework for Private Equity

The ESG Disclosure Framework, launched in March 2013, has been developed to help GPs better understand why LPs want ESG related information, and to help rationalise the types of questions that LPs are increasingly asking GPs on ESG matters. The framework was developed following a 16 month consultation and drafting process that involved more than 40 LPs from 11 countries, 20 private equity associations, and 10 GPs.

The Framework aims to:

- Provide guidance on the rationale behind ESG related questions,
- Facilitate an informed discussion between GPs and their LPs, and
- Be used as a practical tool and not as a prescriptive rule.

The ESG Disclosure Framework consists of eight elements common to many LPs who seek more structured ESG disclosures from their GPs (see text box, right). Guidance is also provided on the disclosure of information around unexpected events that might pose reputation risks to an LP, GP or portfolio company. PwC's recent survey of the PE industry found that, in the UK and France, some 70% of GP respondents intend to use this framework. It is worth noting that the

### ESG Disclosure Framework

#### Section 1 – During fundraising

1. ESG policies
2. Identifying and managing ESG risks and creating value
3. Working with portfolio companies
4. LP monitoring
5. Managing and disclosing material ESG – related incidents

#### Section 2 – Life of the fund

6. Implementation of policies and processes
7. Material changes to ESG risks and opportunities
8. Material ESG-related incidents requiring disclosure to LPs

framework is not prescriptive and therefore it is important that GPs liaise closely with their LPs to understand their interpretation of each of the points.

## Principles for Responsible Investment (PRI) Reporting Framework

The UN-backed PRI launched its new responsible investment reporting framework for signatories in October 2013 following 2.5 years of design and consultation process. The new reporting framework has a reporting deadline of end of March annually.

Key features of the framework:

- The framework consists of a number of direct asset class reporting modules, e.g. in private equity, infrastructure and property, and one module for indirect investors. Each direct module covers all related assets of the house (not fund by fund reporting).
- The framework has a certain level of mandatory public disclosure and each module therefore contains indicators in both mandatory and voluntary categories.
- GPs are required to disclose how they consider RI and ESG matters:
  - When fundraising and in agreements,
  - In pre-investment evaluation activities,
  - In post-investment monitoring/ownership activities,
  - At exit, and
  - When disclosing information to stakeholders.
- LPs are required to disclose how they consider RI in the selection, appointment and monitoring of GPs.
- Two main outputs will be generated from each signatory's reporting: one public RI report containing a subset of the information reported and one confidential RI assessment report with absolute scores and benchmarking per applicable reporting module and indicators.

## The Institutional Limited Partnership Association (ILPA) due diligence questionnaire

- ILPA's due diligence questionnaire was released in October 2013 following a six month stakeholder review. It has been developed to be used in LPs' diligence processes.
- It covers a range of topics related to fund diligence with one specific section covering governance (section 9) and one addressing ESG issues (section 10). The questionnaire also makes references to the ESG Disclosure Framework and the PRI.
- The questionnaire is intended to replace customised versions used by many LPs, thereby reducing the administrative burden for all parties in the fundraising process. By comparison, the ESG Disclosure Framework contains higher level guiding principles for communication practice with LPs during fundraising and life of the fund.

**“Aided by the tailwinds of investors’ need for greater transparency and recent ESG disclosure initiatives which APG contributed to, we see enhanced communication and systematic reporting of ESG performance soon evolving into best practice for GPs.”**

Marta Jankovic  
Senior Sustainability and  
Governance Specialist  
APG Asset Management

The above developments are likely to drive improvements in reporting, both in terms of quantity and quality of reporting. Since annual reporting of essentially the same information would be reputationally untenable, reporting developments are also likely to drive an improvement in ESG activity and performance across the board. The PRI reporting framework in particular will shine a public spotlight on GP and LP approaches to managing ESG issues. LP signatories are likely to raise more questions and seek greater clarification from GPs as they themselves need to report on how RI criteria are considered in the selection and monitoring of GPs. This in turn will prompt GPs to better articulate their approach to RI and to demonstrate the benefits of such an approach.

A greater focus on reporting will stimulate the dialogue between GPs, LPs and other stakeholders up and down the investment chain, and in so doing, it will contribute to better alignment of interests and expectations between involved parties.

## Implications

As a first step towards ESG reporting, consider preparing information specifically to meet investor interest (only). This could take the form of placing anonymised ESG due diligence reports, or ESG portfolio review reports, in a data room during fund raising. Alternatively, a standard statement could be prepared on the GP's ESG ethos, policies and procedures – to be deployed in response to investor interest: this would perhaps obviate the need to complete the increasingly detailed ESG questionnaires now being used by growing numbers of LPs to elicit information. It is also worth noting that there are mandatory reporting requirements to consider in addition to those discussed above, for example, the Carbon Reduction Commitment (CRC) which affects both portfolio companies and GPs. The CRC has now entered its second phase, with an annual reporting deadline of July 31st.

- The journey towards full ESG reporting needs to be carefully considered. There is inevitably an expectation from key stakeholders that reporting will be repeated at regular intervals (often annually). This means that progress has to be demonstrated between report dates, requiring underlying active ESG issue management programmes and effective upwards reporting to the GP (using agreed metrics rather than simply case study examples). Where relevant data is available, however, transparent ESG disclosure can add real value, both in terms of reputation and enhanced investor relations.
- Quantifying the value added does however, remain a challenge. Although the private equity industry is showing increasing appetite to understand the impact on ESG issues on value, there is no generally accepted methodology for quantifying the financial value of ESG initiatives to companies and their shareholders. Nevertheless, it is now possible to quantify the value derived from ESG issue management by using a range of proven techniques.

**“We see excellent examples of good ESG reporting out there, but the industry still has some way to go. The best reporting reassures us that the General Partner applies a dependable ESG process, helps us understand the ESG performance of the portfolio, and alerts us to any ESG risks or incidents early on.”**

Ebba Schmidt  
Responsible Investment Manager  
UK Pension Protection Fund

### Top Tips

Determine which stakeholders you intend to address with reporting (e.g. LPs only or public reporting) and understand their requirements and expectations, as set out via recent initiatives

Decide which disclosure frameworks you will follow, and streamline your reporting efforts accordingly

If you are a PRI signatory, prepare early for the annual (mandatory) reporting requirements, ensuring that you take into account that sections of your submission will be in the public domain

# Summary of key ESG risks and opportunities

Economic performance	Environmental performance
<p><b>Direct value generated and distributed</b> – how does the target contribute to the local or national economy?</p> <p>Implications of <b>climate change</b> – what could the longer term considerations be for the target in a carbon- constrained world? Does this potentially undermine the current business model?</p> <p><b>Pensions</b> Defined benefit plan obligations – does the target have defined benefit plans for its employees? Are these in line with recognised best practice for the sector, and what percentage of the workforce is covered?</p> <p><b>Government assistance</b> – does the target receive government incentives or similar?</p> <p><b>Wages</b> relative to local norm – how well is the workforce remunerated relative to accepted (including legal) local standards?</p> <p><b>Local spending</b> on supplies – how much of the target’s supplies are sourced from the local market place? i.e. how much of the economic benefit generated by the target remains in the local community?</p> <p><b>Local labour</b> supply – how much of the target’s labour force comes from the local area and, therefore, what percentage of the local population benefits from the target’s activities? This is also a social performance factor.</p> <p><b>Infrastructure investment</b> and service provision for public benefit – how much financial benefit does the target recycle to the local community to improve welfare, services and infrastructure? This could include pro bono support.</p> <p><b>Tax</b> – understanding your total tax contribution improves your understanding of your tax contributions, enhances your ability to be transparent for public and internal communication and provides you with a more sophisticated management tool for decision making.</p>	<p><b>Material usage &amp; recycling</b> – what is the indirect impact of raw material manufacture required for the target? How much of this material comes from recycled or sustainable sources?</p> <p><b>Energy usage, energy savings and energy saving initiatives</b> – what is the direct contribution to carbon emissions from the target’s activities? Will this represent a significant constraint in a carbon-constrained world?</p> <p><b>Water usage and sources</b> – what is the direct impact on water resources of the target’s activities? Will the business still be viable in a water-constrained world?</p> <p><b>Biodiversity</b> – how does the target’s activity impact on global and local flora and fauna?</p> <p><b>Emissions, effluents and wastes from both normal and abnormal (e.g. accident) conditions</b> – what are the outputs of the target’s activities, and how can these be mitigated or minimised?</p> <p><b>Mitigation of product and services impacts</b> – does the target (need to) take action to minimise the total environmental impact of its product? Could stakeholder perception of these impacts reduce the target’s viability in the longer term?</p> <p><b>Compliance with environmental laws</b> – is the target in material compliance with relevant local, national and international environmental laws? Could non-compliance represent a significant risk of prosecution and/or business interruption?</p> <p>Impacts of <b>transportation of goods, raw materials and labour force</b> – what is the carbon footprint associated with logistics, business travel and commuting?</p> <p><b>Environmental protection, expenditure and investment</b> – has the target allowed sufficient provisions within the business model for current and future required environmental expenditure? Are provisions associated with legal compliance or a move towards best practice?</p>

Social performance	Supply chain management / producer responsibility
<p><b>Workforce profile and turnover</b> (by number, region, contract, benefits etc) – are statistics suggestive of a balanced work force with equal opportunities? Is employee retention supporting or hindering the business?</p> <p><b>Collective bargaining</b> agreements – percentage of workforce covered.</p> <p><b>Notice periods</b> for operational changes – are contractual and operational changes notifiable within reasonable periods?</p> <p><b>Health and safety compliance and performance</b> – is the target at risk of fines, penalties or regulatory intervention? Does the target take appropriate steps to protect the health and safety of its employees?</p> <p><b>Training</b> provided, including performance and development reviews – is employee development encouraged to ensure that human capital is directly contributing to the business with maximum impact? Does this effectively contribute to staff retention and motivation?</p> <p><b>Diversity</b> of staff and equal opportunities (pay relative to gender, age and ethnic origin) – is this in line with recognised best practice?</p> <p><b>Human rights</b> conformance and awareness – does the target ensure that human rights of its employees are considered and protected?</p> <p><b>Non-discrimination</b> – is there sufficient evidence that employees are treated fairly and equally? Is there any litigation underway or pending which could have a significant adverse impact on the target (financial or otherwise)?</p> <p><b>Freedom of association</b> and collective bargaining – does the target meet legal requirements or best practice?</p> <p><b>Child labour</b> rates, and measures to combat this. Forced and compulsory labour rates, and measures to combat this – does the target meet legal requirements or best practice in this area? Is there a risk of reputational damage or litigation which could impact the target?</p> <p><b>Security practices</b> – are personnel in high risk areas provided with sufficient security and protection? Are security personnel sufficiently trained in understanding human rights of employees or others?</p> <p><b>Indigenous rights</b>, based on number of violations and actions taken – is the target considerate of indigenous rights? Is there a risk of reputational damage associated with previous or current activities? Could there be significant market opportunities to improve this reputation?</p> <p><b>Community</b> programmes to manage business impacts on the local population – are mechanisms in place to minimise impacts on the local community or to create positive effects?</p> <p><b>Corruption</b>-related incidents, anti-corruption policies and actions taken – does the target take a firm stance on anti-corruption, and have there been any incidents which could result in penalties or negative publicity?</p> <p><b>Public policy</b> positions, e.g. lobbying and political donations – could any of these public positions result in positive or negative reputational impact?</p> <p><b>Anti-competitive behaviour</b> – is there a risk of penalties, legal intervention or reputational damage?</p> <p><b>Overall business compliance with relevant laws and regulations</b> – are there risks associated with fines or regulatory intervention? Has the target allowed sufficient contingency within the business model for reasonably foreseeable legal requirements?</p>	<p>Investments with <b>human rights</b> screening/clauses – have agreements been made to ensure legal liability through the supply chain is minimised in key areas?</p> <p><b>Suppliers undergoing screening for environmental and social performance</b> (see individual sections) – does the target take actions to encourage improved ESG performance, and does it monitor actual performance?</p> <p><b>Customer health and safety across product lifecycles</b> – are there issues associated with products and services which could impact the end user, and result in negative publicity?</p> <p>Product and service <b>labelling</b> - does this conform with legal requirements or seek to meet best practice standards?</p> <p><b>Marketing communications</b> relative to laws, standards and voluntary codes of practice – do these meet relevant standards or have there been any breaches which could represent a material risk? Has marketing improved product image among stakeholders?</p> <p><b>Complaints data</b> regarding breaches of customer privacy – has there been any significant evidence of such breaches?</p>

**Bold** – likely core considerations for any transaction.

# Additional sources of information

## **ESG Disclosure Framework**

([www.bvca.co.uk/Portals/0/library/Files/Responsible%20Investment/ESG\\_Disclosure\\_Document\\_FINAL.pdf](http://www.bvca.co.uk/Portals/0/library/Files/Responsible%20Investment/ESG_Disclosure_Document_FINAL.pdf))

## **Global Reporting Initiative (GRI)**

([www.globalreporting.org](http://www.globalreporting.org))

*An international, multi-stakeholder effort to create a common framework for voluntary reporting of a company's global economic, environmental, and social practices.*

## **Institutional Limited Partners Association (ILPA)**

Due diligence questionnaire

([www.ilpa.org/2013/due-diligence-questionnaire-tool-is-now-available/?force\\_cat=16](http://www.ilpa.org/2013/due-diligence-questionnaire-tool-is-now-available/?force_cat=16))

## **Institutional Investors Group on Climate Change (IIGCC); A Guide on Climate Change for Private Equity Investors**

([http://www.iigcc.org/\\_\\_data/assets/pdf\\_file/0017/269/IIGCCGuideonClimateChangeforPrivateEquityInvestors.pdf](http://www.iigcc.org/__data/assets/pdf_file/0017/269/IIGCCGuideonClimateChangeforPrivateEquityInvestors.pdf))

## **Organisation for Economic Co-operation and Development (OECD)**

- OECD Guidelines for Multinational Enterprises ([www.oecd.org/daf/investment/guidelines](http://www.oecd.org/daf/investment/guidelines))
- OECD Anti-Bribery Convention ([www.oecd.org/daf/nocorruption/convention](http://www.oecd.org/daf/nocorruption/convention))
- OECD Principles of Corporate Governance ([www.oecd.org/daf/corporateaffairs/principles/text](http://www.oecd.org/daf/corporateaffairs/principles/text))

## **PwC**

*PwC Global Private Equity Responsible Investment Survey 2013*

([www.pwc.com/en\\_GX/gx/sustainability/publications/assets/putting-a-price-on-value\\_pwc-private-equity-survey.pdf](http://www.pwc.com/en_GX/gx/sustainability/publications/assets/putting-a-price-on-value_pwc-private-equity-survey.pdf))

## **UN Global Compact** (<http://www.unglobalcompact.org/>)

*The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption are derived from:*

- The Universal Declaration of Human Rights (<http://www.un.org/Overview/rights.html>)
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work (<http://www.ilo.org/public/english/standards/decl/declaration/text/>)

- The Rio Declaration on Environment and Development  
([http://www.un.org/esa/dsd/agenda21/res\\_agenda21\\_00.shtml](http://www.un.org/esa/dsd/agenda21/res_agenda21_00.shtml))
- The United Nations Convention Against Corruption  
(<http://www.unodc.org/unodc/en/treaties/CAC/index.html>)

**UN Principles of Responsible Investment:**

- UNPRI; Responsible Investment in Private Equity; A Guide for Limited Partners  
(<http://www.unpri.org/files/PE%20LP%20Guide%20FINAL.pdf>)
- UNPRI; Responsible Investment in Private Equity; Case Studies  
(<http://www.unpri.org/files/PrivateEquityCS151209H.pdf>)









British Private Equity & Venture Capital Association

1st Floor North, Brettenham House, Lancaster Place, London WC2E 7EN

T +44 (0)20 7420 1800 [bvca@bvca.co.uk](mailto:bvca@bvca.co.uk) [www.bvca.co.uk](http://www.bvca.co.uk)