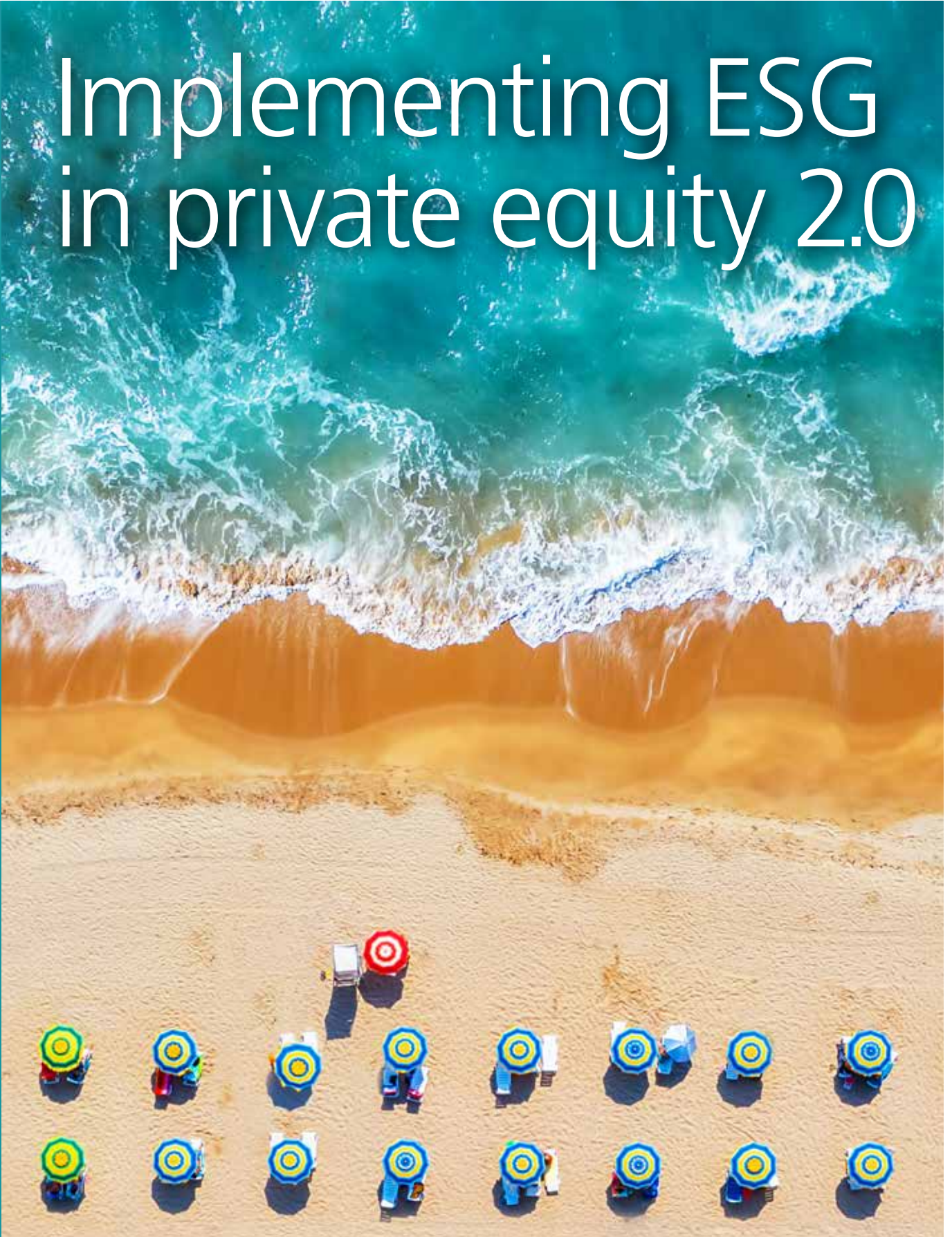




**Capital Partners**  
your partner for alternative investments

# Implementing ESG in private equity 2.0



“Every business leaves a footprint on society and the environment, and every business has the ability to manage this footprint.”

H.S.H. Prince Max von und zu Liechtenstein, CEO of LGT Group

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# Foreword



H.S.H. Prince Max von und zu Liechtenstein

The year 2020 will go down in people's memories and history books as the year of the COVID-19 crisis. At the time of the launch of this new guide, the crisis is still ongoing and has taught us that ESG considerations are now more important than ever. The focus of ESG on themes like health and safety, supply chains and stable employment has helped to address critical challenges related to the COVID-19 crisis and has shown the importance of resilient investment and management approaches. In response to the coronavirus-induced economic crisis, governments around the world have committed to huge stimulus programs, totaling trillions of dollars. In many countries, there have been calls to embed sustainability goals into the new spending initiatives to ensure that money is deployed in a socially and environmentally responsible way. Some countries have already begun to integrate sustainability goals into their stimulus projects. Such initiatives will keep ESG and climate change high on the political and economic agenda and will lead to an expanded opportunity set for sustainable investments.

At LGT Capital Partners (LGT CP), we consciously integrate social and environmental factors into our investment strategies. Our goal is to create long-term value for all of our stakeholders: our clients, shareholders, employees, suppliers and society as a whole.

The private equity industry is of particular interest to us, given its ability to steer the management of its portfolio companies towards a more comprehensive value creation strategy that integrates ESG targets. Against the backdrop of mounting environmental, economic, social and political challenges the private equity industry has the opportunity, the obligation and the self-interest to become a driving force for more sustainable business practices. At LGT CP we are eager to support the much needed shift in the private equity industry towards a more long-term and comprehensive value creation ambition that addresses the broader footprint of companies in society and the environment. In this context, we have decided to no longer invest with private equity firms who decide to ignore ESG criteria in their investment approach and to integrate a firm-wide ESG value creation competence in our investment and allocation decisions.

Since we published our first guide to ESG implementation in private equity in 2017, the industry has increasingly embraced ESG integration and today most private equity investors actively integrate ESG into their investment activities and own business operations. The goal of the first guide was to contribute to faster adoption of ESG best practices in the private equity industry by highlighting examples of ESG best practices from a select number of our general partners (GPs). Three years later, we are pleased to see that considerable progress has been made.

Now, we are publishing a new edition of our guide to ESG implementation in private equity. This new publication highlights the latest developments in ESG integration, ranging from topics such as climate change and diversity to concrete and active management of value creation through ESG integration. It shows examples from a number of different managers reflecting the continuous ESG developments in the four key areas of ESG practice: manager commitment, investment process, ownership and reporting.

We hope you enjoy the new guide and that you will find it inspiring. We encourage you to read the case studies in this guide and to consider how your firm can further enhance its approach to ESG. We welcome any feedback you might have, and we look forward to discussing the progress made in this important area of investing.

A handwritten signature in blue ink, appearing to read 'Max C.', with a stylized, flowing script.

H.S.H. Prince Max von und zu Liechtenstein  
CEO LGT Group

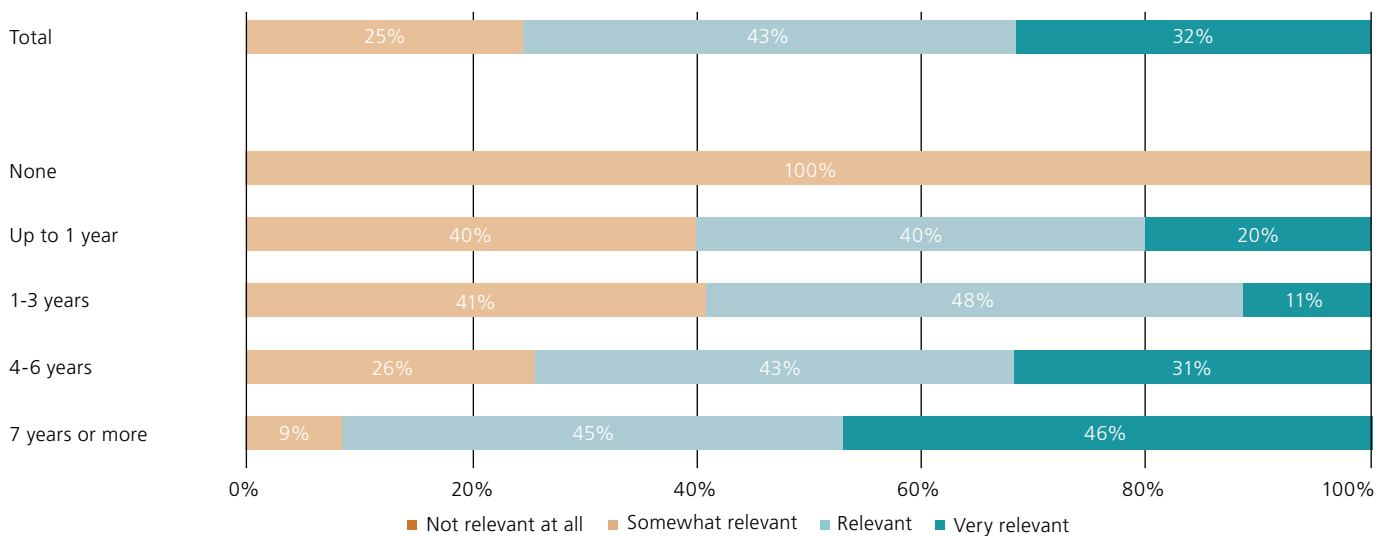
# Raising the bar on ESG

This guide marks the second time that we are sharing best practices on ESG with the wider private equity community. We have shared our views and thoughts on ESG for many years with our own GPs, in a process described in the chapter “What we expect from our managers.” In those discussions, we point GPs to specific policies and practices that make for ESG excellence in their firms. We also think it is important to share best practices more broadly, with GPs and other investors in private equity, who are looking to further develop their approach to ESG. In addition, as ESG is constantly evolving, we believe it is important to continue sharing the latest insights, trends and developments. This second guide aims at doing just that.

## A changed ESG landscape

We are releasing this guide in a very different ESG landscape from 2017. Back then, ESG had already gained significant traction in private equity, but there remained much work to do in developing robust standards for the bulk of the industry. Three years later, ESG is much more mainstream in the industry. Our own recent survey of 117 GPs on the topic shows that 100% of respondents believe that ESG is “relevant” to investment decision-making.<sup>1</sup> Furthermore, a significant proportion think it is “very relevant” as shown in the chart in Figure 1. Since 2017, many GPs have stepped up their ESG efforts, increasing their know-how and experience. For example, GPs are getting more granular on the ESG key performance indicators (KPIs) they track, in order to help them better manage the ESG risks and opportunities within their portfolio companies. They have also more deeply embedded ESG processes into their investment decision-making, monitoring and reporting activities.

Figure 1: Relevance of ESG in investment decision-making



Source: LGT Capital Partners

<sup>1</sup> “ESG and the SDGs: Insights from private equity managers”, LGT Capital Partners, 2020



Value creation is the ultimate goal of all private equity owners in managing their investments, and integrating material ESG topics supports this goal. As such, many ESG activities are shifting to focus on specific outcomes that can enhance a company's bottom line, whether in terms of eliminating costs or generating additional revenue streams. As such, it is interesting to see what topics managers specifically focus on within Environment, Social, and Governance.

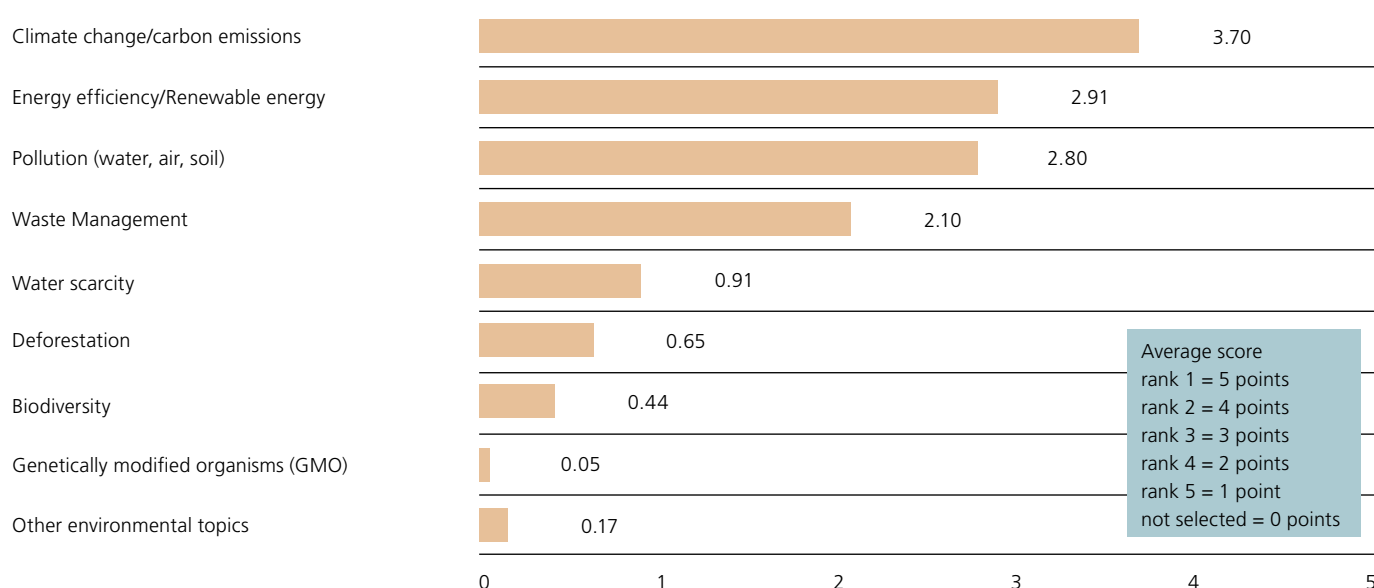
### What GPs think about E, S and G?

Among all the "E" issues, climate change is the one that currently most concerns managers, according to our study. As a result, we see more managers focusing on carbon emissions in their portfolio companies and some managers have even started working towards carbon neutrality of their portfolio companies.

Among "S" topics, Health & Safety stands out as the number one concern for private equity managers. The focus can be linked to the increasing attention for health and safety issues in many jurisdictions around the world, as well as the growing conviction that employee well-being is critical to the success of a business. Managers also place considerable emphasis on child labor and human rights, where breaches of global norms are taken very serious and can result in significant reputational and financial damage to portfolio companies and investors.

Private equity managers have been integrating governance considerations into their investment decision-making long before ESG came to prominence. It reflects the distinctive nature of private equity investing, where strong governance lays a stable foundation for managers to build value in portfolio companies. Among governance-related topics, Bribery & Corruption stands out as the number one concern for our managers. In a way, this is not surprising as this coincides with the growing importance of legal and compliance issues more generally in corporate board rooms. Board independence and accounting practices are also high-priority ESG concerns for managers, as they both help to create the right conditions for successful companies.

**Figure 2: What are your most important environmental topics?**

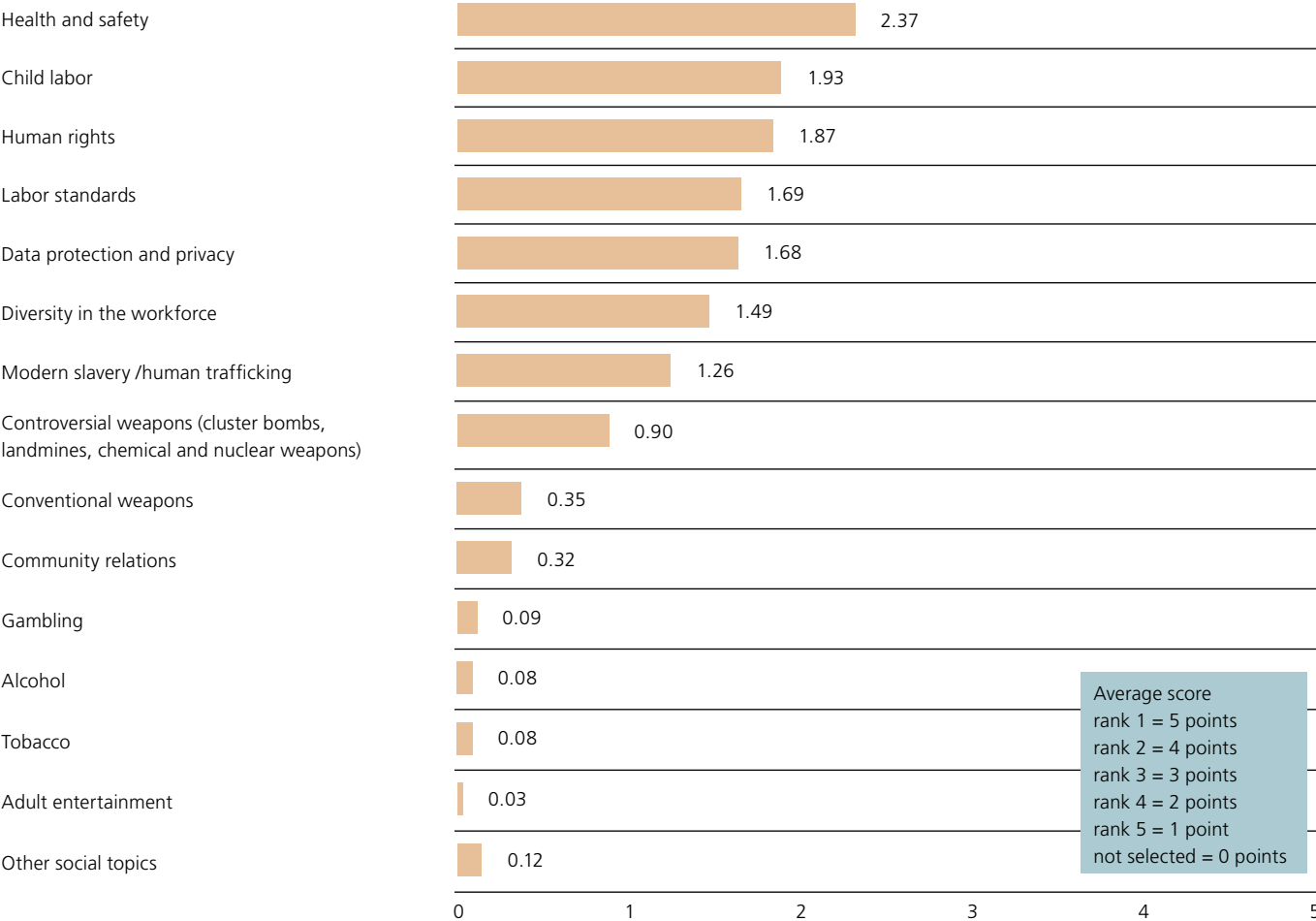


How GPs are approaching the SDGs

Some managers are starting to incorporate the Sustainable Development Goals (SDGs) into their ESG work as a way of making their efforts more outcome oriented. The SDGs provide a framework to address environmental and social challenges, and investors are increasingly demanding that managers show results in terms of the SDGs. Of the 17 goals, GPs clearly prioritize those that can be linked to a clear investment case and commercial opportunity for portfolio companies, as well as goals that reflect trends that could change the shape of industries or fundamentally alter business models.

The rise in prominence of the SDGs for GPs has coincided with the increasing importance of impact investing more broadly. With impact investing, investors target a social and/or environmental return in addition to financial returns. Many private equity managers have already taken concrete steps to help turn the promise of the SDGs into an investable reality. More than a quarter of them (28%) currently integrate the SDGs into their investment activities in some way, and another 34% plan to start doing so in the next two years.

Figure 3: What are your most important social topics?



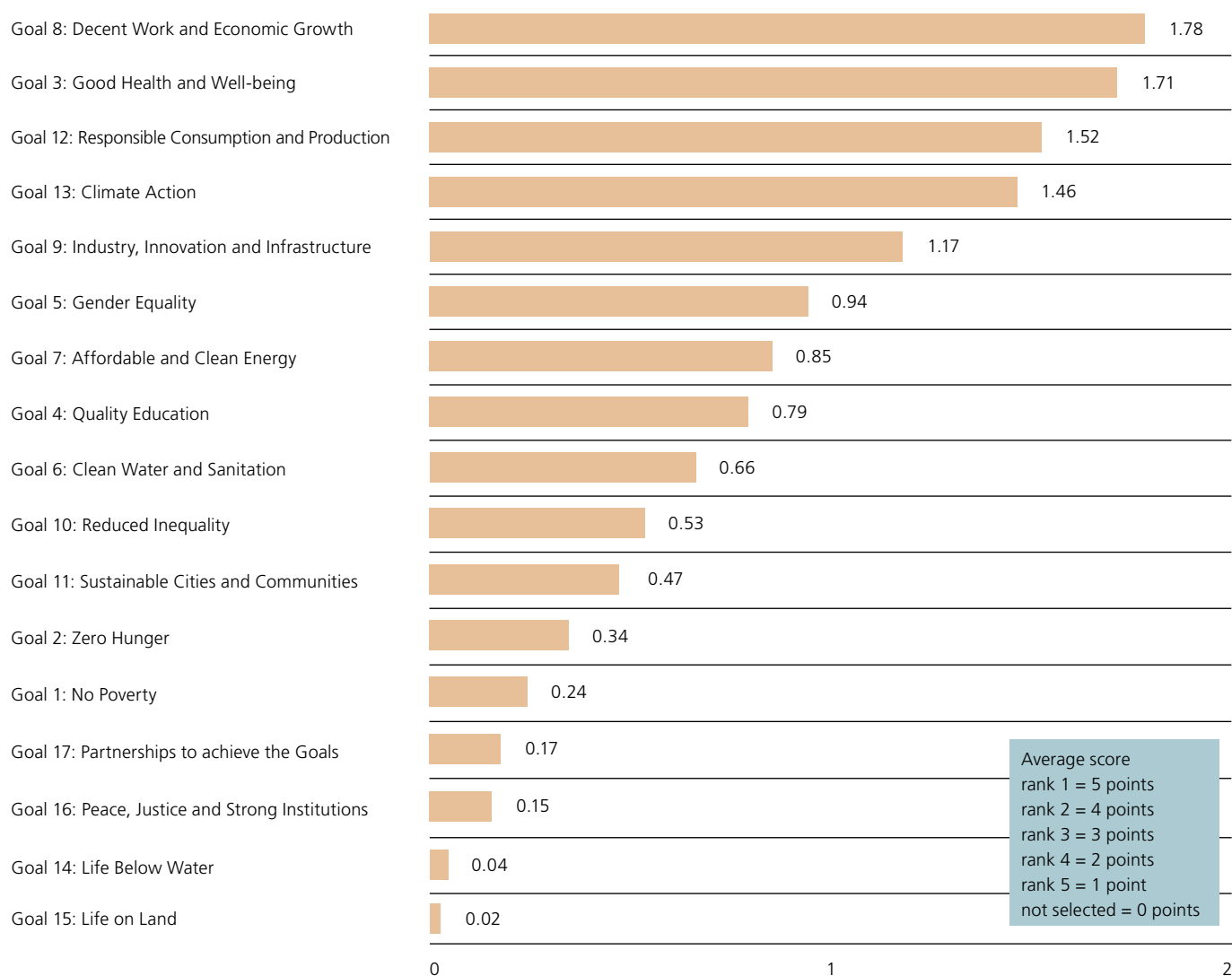
Source: LGT Capital Partners



### Leveraging the case studies in this guide

In the case studies that follow, we look at two examples of outstanding ESG practices by managers in each of the four ESG areas: commitment, investment process, ownership and reporting. We encourage you to consider these examples in the context of the respective ESG area. The examples provided are not meant to be prescriptive, but rather illustrative of what can be done. We encourage you to think about what these examples could mean for your firm, and of course, we would welcome any questions you might have.

**Figure 4: What are the most important SDGs for you?**



Source: LGT Capital Partners

# What we expect from our managers

LGT CP takes a holistic approach to assessing GPs on ESG, focusing on selecting the best GPs that also share our commitment to high standards on ESG issues. Our due diligence process seeks to assess a GP’s overall commitment to ESG and the sophistication of their approach. We examine whether GPs have institutionalized ESG processes in place and whether they have a willingness or plan to continuously improve on ESG or in specific ESG areas. Managers are asked to support their answers with evidence and examples.

In the assessment, we ask GPs about, and score them on, four key areas of ESG practice:

- GP commitment – the extent to which they have demonstrated their commitment to ESG through actions, such as defining a policy, committing to an industry initiative like the Principles for Responsible Investment (the PRI) and engaging with their portfolio companies
- Investment process – the extent to which they have formally integrated ESG into their investment processes, using it as a framework in due diligence for evaluating investments and identifying areas for improvement
- Ownership – the extent to which they have exhibited active ownership through activities like defining ESG guidelines, establishing key performance indicators (KPIs) or assigning ESG responsibilities for portfolio companies
- Reporting – the extent to which they have provided regular and relevant reporting on ESG on a portfolio company level and on the aggregate fund level

Managers receive a score of 1 to 4 (where 1 = excellent and 4 = poor) on each of the four areas, resulting in an overall rating for each manager, which is then documented in our monitoring system. Managers who receive low scores (3 or 4) on specific indicators are encouraged to improve over time.

### How we monitor managers on ESG

We monitor the ESG risks of our fund investments as part of the firm’s overall monitoring process. Towards this end, LGT CP conducts regular monitoring calls with fund managers in order to discuss a range of issues related to the partnerships, including ESG risks. The aim is to ensure the manager’s continued adherence to its own or external ESG guidelines and continued improvement of practice. Issues addressed during monitoring are logged into an ESG assessment template.

We also monitor individual portfolio companies for ESG controversies by leveraging a solution that tracks in real time more than 80,000 independent information sources in 20 languages. This enables us to engage with managers on ESG on a well-informed basis, as well as offer advice on further ESG integration.

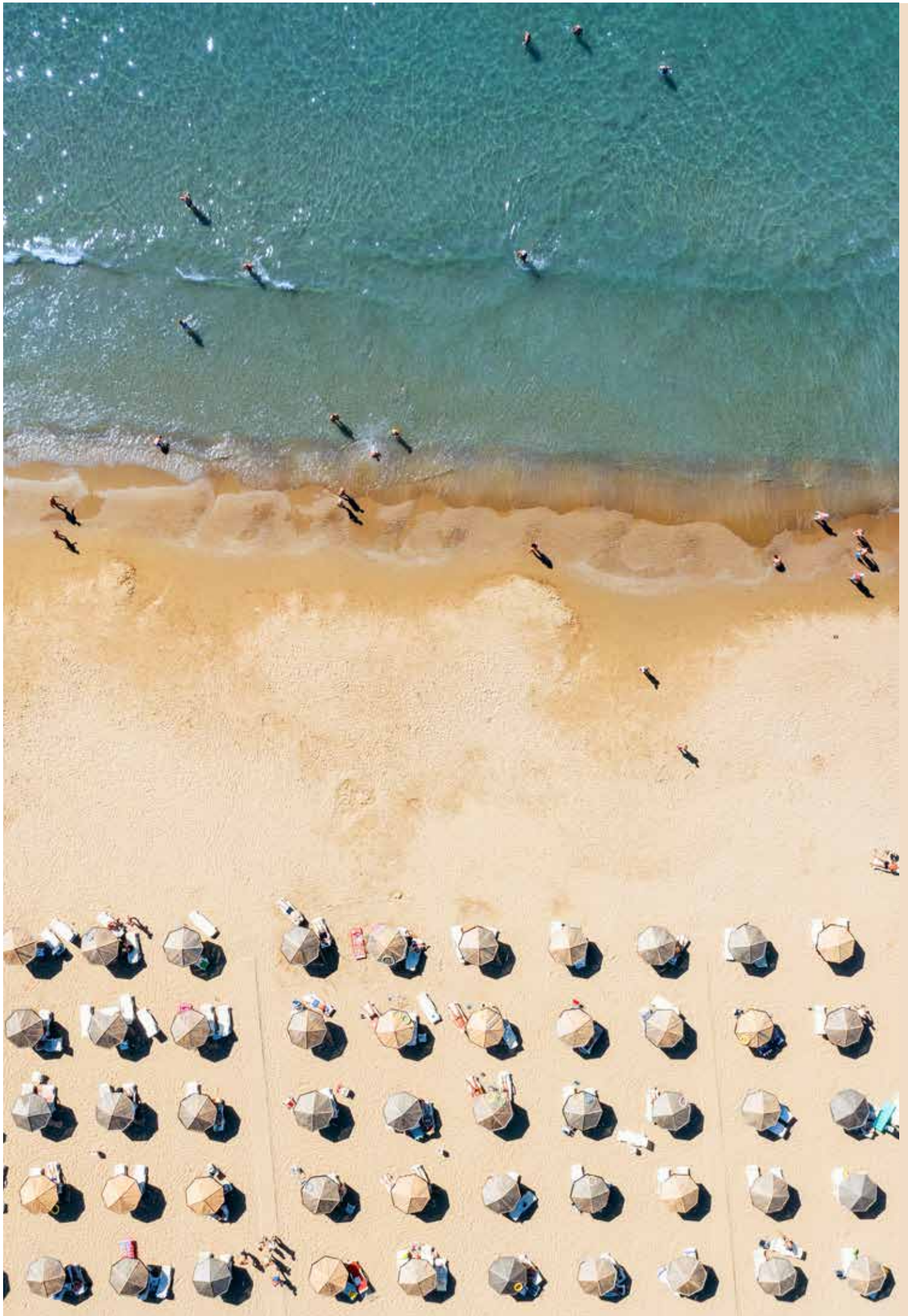
Figure 5: Four-tier ESG rating system

Rating	Description
1	Manager is genuinely committed to ESG, with institutional processes in place. Applies ESG criteria in investment decision-making, is an active owner and reports on ESG
2	Manager has taken steps to integrate ESG into its approach and investment process. Process is institutionalized, but manager may not follow through on all levels (e.g. reporting)
3	Manager demonstrates some commitment to ESG or has begun some initiatives, but lacks institutionalized processes
4	Manager demonstrates little or no commitment to ESG

Source: LGT Capital Partners

“As the Trust continues to learn more about ESG, I become even more convinced of the material financial impacts ESG factors have on a company’s results, and ultimately returns for investors. Regardless if one agrees with ESG factors or not, investors who ignore them do so at their own peril.”

Hershel Harper, Chief Investment Officer of the UAW Retiree Medical Benefits Trust, USA



# GP commitment to ESG

When assessing a GP's overall commitment to ESG, we look for firms to formulate a policy that reflects their views on ESG and outlines how it will be integrated into their business. This includes their investment process and the full investment cycle, up until the moment of selling an investment.

The policy should clearly commit the GP to following certain standards, and it should describe the firm's approach to ESG in their due diligence, ownership period and reporting work. This means that the investment beliefs and associated activities described in the policy should be relevant to the investment strategy. They should be material to the portfolio companies and executable for the professionals involved. In practice, some managers may be more focused on mitigating ESG risks, while others might seek to achieve CO2 emission reductions or work towards net zero goals.

A GP's ESG commitment sets out the key priorities that are relevant for a manager's investment strategy. As mentioned, this could have a strong focus on risk mitigation. Doing things right, including all stakeholders and avoiding pitfalls along the way is always a good starting point. The first case example illustrates how this can be done and what type of risk framework an investor can use to go from commitment towards implementation at portfolio company level.

Clear positioning on the SDGs or climate change is increasingly common among managers, and some have aligned their commitment and investment strategy with specific goals in mind. The second case example in this chapter describes in detail how this can work in practice. It also shows the challenges of implementing such an approach, with setting specific targets and a commitment to the Paris Agreement as part of the considerations.



# AEA Investors LP (AEA)

## ESG commitment with a focus on ESG risks and opportunities

### GP snapshot

- A global private investment firm with over USD 15 billion of assets under management and approximately 90 investment professionals, focused on private equity and private debt investments in the middle market
- Invests in middle market companies in North America and Europe, targeting buyouts in the value-added industrials, consumer and services sectors
- Recently created AEA-Bridges Impact Corp, a special purpose acquisition company seeking a merger with a business that can benefit from the global mega-trends that underpin the UN SDGs
- Latest fund: AEA is currently investing out of a USD 4.8 billion middle market fund and a USD 877 million lower middle market fund

### ESG overview

AEA formalized its ESG efforts in 2015 with the adoption of an ESG policy. This written policy captures the best practices AEA's investment team have conducted for many years and illustrates AEA's commitment as a responsible fiduciary to its portfolio companies and limited partners. AEA believes that attention to ESG issues is important to protect the reputation of all stakeholders and garner investor confidence in AEA's commitment to these issues.

AEA has designated an operating partner and an investment professional as the firm's ESG leaders. Together, they are responsible for developing and sharing ESG practices across the firm. AEA expects all of its investment teams to stay current on material ESG issues related to their respective

portfolio companies. The firm provides training to its senior investment staff on how to identify and mitigate ESG issues in its diligence and monitoring process, and all new associates are trained each year as part of the on-boarding process.

Once under AEA's ownership, the firm provides its portfolio company management teams with a framework to develop and implement ESG initiatives. While AEA has always carried out an ESG review of new investments and has monitored ESG for its portfolio companies, beginning with its most recent funds, the firm has enhanced its approach. It now engages an experienced third-party ESG consultant to support the entire ESG process, from diligence through to on-going portfolio operations. Going forward, AEA will incorporate the materials provided by its ESG consultant to report to its Limited Partner Advisory Committee (LPAC) on an annual basis.

### Policy and commitment

AEA's ESG policy fully integrates ESG considerations into the investment process, allowing AEA to assess prospective investments in any industry. This includes identifying risks and opportunities unique to their operations pre-signing, developing action plans tailored to their ESG risk management requirements post-close, and developing proactive monitoring and reporting processes to satisfy stakeholder interests during ownership.

The policy and commitment from AEA focusses on value maximization and the avoidance (or identification and mitigation) of risks. The policy covers the entire investment process. Governance and monitoring are other important areas of the overall policy. Practically, AEA has translated their policy and commitment into a well thought-out ESG framework.

### AEA framework

Under the ESG policy, AEA's private equity investment teams assess ESG risks and opportunities during due diligence according to the comprehensive AEA ESG Risk Review Framework (the "Framework"). The Framework covers risks that affect stakeholders across government, communities, customers, employees, and supply chain, as well as overall data privacy and security. It was developed with reference to both the UN Global Compact and the PRI.

### AEA's risk assessment

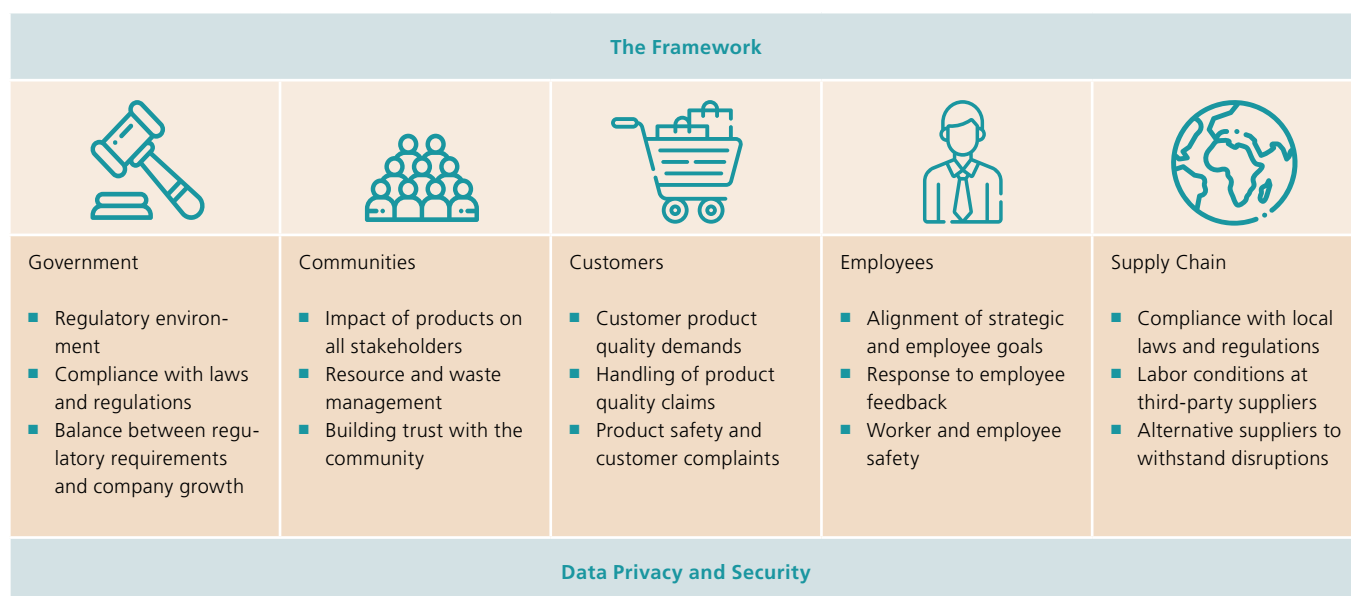
For every prospective investment, AEA and its ESG consultant complete the AEA Risk Assessment (the "Assessment"), which is ultimately fed into the investment decision-making process. The Assessment is a compilation of findings that show a potential target's key risk areas, which must be reviewed by the Investment Committee (IC) before an investment can be approved. If the IC determines that an identified risk area is material and would be difficult to monitor and mitigate, AEA may choose not to invest in the opportunity. In addition to material risks and areas for improvement, the Assessment also includes potential opportunities for value creation. In recent years, AEA has put greater emphasis on understanding how trends in ESG can drive industry growth, create new markets and provide a competitive advantage.

### AEA's ESG risk management plan

If the potential investment becomes a portfolio company, AEA and its ESG consultant will share the Framework, Assessment and other relevant diligence materials with management and discuss expectations for risk management during AEA's ownership. Collectively, the group will review the Framework and stakeholder considerations to build a comprehensive evaluation of ESG risks and opportunities.

Subsequent to this evaluation, management is tasked with creating an ESG Risk Management Plan (the "Risk Management Plan"), which typically includes mitigation actions for the identified risks, metrics and deadlines for monitoring improvement, and the listed person(s) responsible for managing these risks. Using the Framework and Assessment as a guide, the Risk Management Plan prioritizes key risk areas by exposure, potential impact, and adequacy of existing mitigation efforts. Typically, the plan includes areas that should be monitored monthly (e.g. health and safety) as well as longer initiatives targeted to improve certain functions (e.g. cyber security) where progress can be reported at quarterly board meetings.

Figure 6: AEA ESG Risk Review Framework





The Risk Management Plan includes the following items:

- prioritization based on risk likelihood, impact and adequacy of mitigation efforts
- qualitative discussion of high and medium priority risk areas
- data on compliance and discussion of specific lapses as applicable
- description of remediation plan
- owner(s) of the issue on the portfolio company management team
- results tracking methodology and frequency of board review

AEA expects its management teams to focus on ESG as a strategic initiative. The ESG policy, by design, provides for a broad interpretation of what constitutes an ESG risk or initiative, which gives the management team the independence, as well as responsibility, to decide what should be included in the Risk Management Plan. By placing this responsibility with management, AEA ensures that the individuals closest to the ESG risk area have the ongoing obligation of assessing materiality from the beginning of the investment period through AEA's ownership and beyond. During AEA's ownership, management has the ongoing responsibility of updating the Risk Management Plan and presenting to the Board on an annual basis. AEA and its ESG consultant review each updated plan to help ensure that management has thought through ESG risks comprehensively and appropriately incorporated evolving risk areas as well as best practices for mitigation.

Figure 7: AEA Risk Management Plan

ESG Risk Management Plan	Company ABC Annual ESG Risk Management Plan								
	Issue Area	Priority (H/M/L)	Risk Mgmt Considerations	Person(s) Responsible	Planned Actions	Time Frame/ Due Date	KPI/Frequency (if applicable)	Status	Comments
	Product Safety								
	Worker Health and Safety								
	Ethics and Compliance								
	Supply Chain Social and Environmental Management								
	Social and Labor Conditions								
	Data Privacy and Security								
	Environmental Management								

Source: AEA Investors LP

Climate change is both a material investment risk and a physical risk, with significant effects on human communities that damage human flourishing. We all have a role to play in supporting the transition to a carbon-neutral economy.

Mark Rider, CIO, Christian Super, Australia

# Evoqua Water Technologies: providing sustainable water treatment solutions

AEA's portfolio company, Evoqua Water Technologies ("Evoqua"), is an example of how AEA's commitment to ESG integration can lead to sustainable outcomes. The firm is a leading provider of mission critical water treatment solutions to support its customers' full water lifecycle needs. Through its company mission, "Transforming Water. Enriching Life," Evoqua is dedicated to addressing complex water treatment challenges, servicing over 200,000 installations across the globe and over 90% of Fortune 500 companies.

During due diligence on Evoqua, AEA recognized the ESG value of Evoqua's business model, which is providing water treatment solutions to customers to help them be environmentally sustainable. Under AEA's ownership, the firm has supported the focus and scaling, both organically and through add-on acquisitions, of Evoqua's core business lines oriented around areas that are critical to sustainability: water treatment as well as industrial and municipal water usage efficiency and re-use.

Under AEA's stewardship, Evoqua has taken significant steps to lead by example, adding Sustainability as Evoqua's fourth core value alongside Integrity, Customers, and Performance. Moreover, Evoqua publishes an annual Sustainability Report for its employees and shareholders, which highlights the company's corporate responsibility programs and latest accomplishments. Evoqua has also completed a comprehensive materiality assessment, and has since collected baseline data on internal metrics across multiple corporate social responsibility and environmental areas to improve operations and drive product and service innovation. Key examples of Evoqua's sustainability processes, actions and results include:



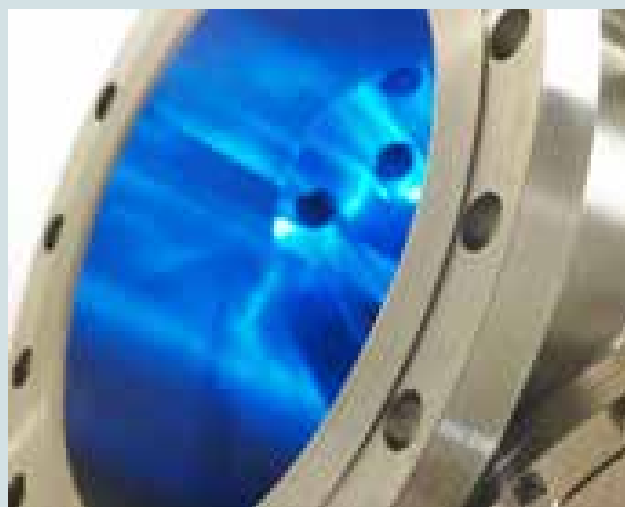


# evoqua

## WATER TECHNOLOGIES

- Enhancing safety performance, including implementing a loss-prevention system to reduce behaviors that can lead to incidents
- Environmental stewardship by tracking and driving waste, water, and energy consumption reduction. This has included actions that span recycling programs, eliminating wood pallets and other water and electricity usage efficiency actions. Since 2017, Evoqua has achieved a 36% reduction in water usage and an 18% reduction in power usage at five of its largest manufacturing facilities
- Environmental stewardship through a fleet management process designed to minimize miles driven, and track and reduce fuel consumption of its trailer fleet

Looking ahead, AEA continues to identify additional opportunities for Evoqua to improve its sustainability strategy and performance. Examples include setting environmental and social performance targets, aligning sustainability programs with its sustainability development goals, understanding and reducing impacts in the supply chain, and quantifying and communicating the environmental and social benefits of its products.



# Summa Equity (Summa)

## Strong ESG commitment by linking the SDGs to value creation in companies

















### GP snapshot

- Founded in 2016, with currently nearly 30 employees based in Stockholm and Oslo and USD 1.5 billion in assets under management
- The first private equity firm to align its investments with the SDGs, with two funds that have a thematic, Nordic lower mid-market buyout focus
- Latest fund: Summa is currently investing out of Fund II, which closed in 2018 at USD 710 million

### ESG overview

Summa was founded in 2016 to invest for the purpose of solving global challenges. The GP seeks to invest in and develop companies that provide competitive, innovative solutions to global challenges, as defined by the Sustainable Development Goals (SDGs). The firm's three investment themes are derived from insights about the underlying megatrends and business opportunities related to the SDGs, overlaid with the GP's strong industry competencies. The three themes are defined as Resource Efficiency, Changing Demographics and Tech-Enabled Solutions. Summa believes that companies that develop innovative solutions to challenges related to these themes are likely to outperform and will be more resilient to the challenges of the future.

Figure 8: How Summa links ESG to the SDGs through thematic investing

	 <b>Environmental</b>  <b>Resource efficiency</b>	 <b>Social</b>  <b>Changing demographics</b>	 <b>Governance</b>  <b>Tech-enabled business</b>
<b>Proactive sourcing</b>	Examples <ul style="list-style-type: none"> <li>■ Waste &amp; recycling</li> <li>■ Aquaculture/AgriTech</li> <li>■ Energy efficiency</li> </ul>	Examples <ul style="list-style-type: none"> <li>■ Health Care &amp; Life Sciences</li> <li>■ Elderly products/services</li> <li>■ Education &amp; training</li> </ul>	Examples <ul style="list-style-type: none"> <li>■ RegTech" / HSEQ SaaS</li> <li>■ "Fintech"</li> <li>■ Security &amp; surveillance</li> </ul>
<b>Big Data/AI/Digital</b>	<ul style="list-style-type: none"> <li>■ Resource efficiency software &amp; technology</li> </ul>	<ul style="list-style-type: none"> <li>■ Digital security</li> <li>■ Digital health</li> <li>■ Healthcare analytics</li> </ul>	<ul style="list-style-type: none"> <li>■ Cloud computing/IoT</li> <li>■ Data analytics</li> <li>■ Digital market places</li> </ul>
<b>Opportunistic</b>	<ul style="list-style-type: none"> <li>■ Infrastructure services</li> <li>■ Material technology/biomaterials</li> <li>■ Alternative energy &amp; storage</li> </ul>	<ul style="list-style-type: none"> <li>■ Public services</li> <li>■ Migrant services</li> </ul>	<ul style="list-style-type: none"> <li>■ Communication &amp; collaboration software</li> <li>■ Vertical &amp; Functional SaaS</li> </ul>
<b>Target SDGs</b>	   	  	  

Source: Summa

The investment themes are fundamentally linked to a range of underlying ESG issues, which are drivers of ESG-related impacts. As such, Summa's strong commitment to ESG considerations is at the core of the investment model, as illustrated in Figure 8. Furthermore, Summa has been a PRI signatory since the early days of the firm's founding.

A growing number of private equity firms are adding management of externalities and ESG to their existing capabilities to create value and mitigate risk. Summa integrates ESG and in particular the SDGs into its investment as well as value creation strategy, as drivers of superior risk-adjusted long-term returns. They call this approach "Private Equity 4.0"<sup>2</sup>

Summa therefore aims to work with portfolio companies to grow competency in the SDGs, the associated business opportunities and impact measurement. Summa believes that a future-relevant purpose, deliberate focus on stakeholder needs and proactive management of externalities are fundamental to value creation.

#### **How Summa translates its ESG commitment**

As company owners, Summa aims to co-create the winning companies of the future economy, by delivering sustainable financial performance alongside positive impact. Summa takes an active approach to ownership, by partnering with portfolio companies on their growth journey. The emphasis on ESG starts in the investment phase, when Summa applies a holistic view to the SDGs in assessing an investment, considering questions like:

- What challenge is the company solving?
- Are there clear ways where focus on ESG and the SDGs can improve the position of the company?
- Ultimately and core to Summa's investment thesis – to what extent is impact on people and planet a driver of value creation?

Once a company is acquired, Summa has a common approach to value co-creation with portfolio companies, called Via Summa. One example of how SDGs and ESG are incorporated into the value co-creation work is through a focus on "Sustainability Is Business." This is the first step in the firm's approach to support portfolio companies to grow SDG knowledge and identify new business opportunities. In a full-day workshop, portfolio company teams map their company's current SDG footprint and identify the material contributions they can make from a stakeholder perspective. The SDGs are then applied as a lens through which the main stakeholder groups are analyzed, to understand SDG-related shifts and risks and articulate related business development opportunities.

Company boards play an important role in supporting management to capture the value of their ESG and SDG position, as well as to actively address ESG risks. These are integrated elements of the annual board cycle for Summa portfolio companies.

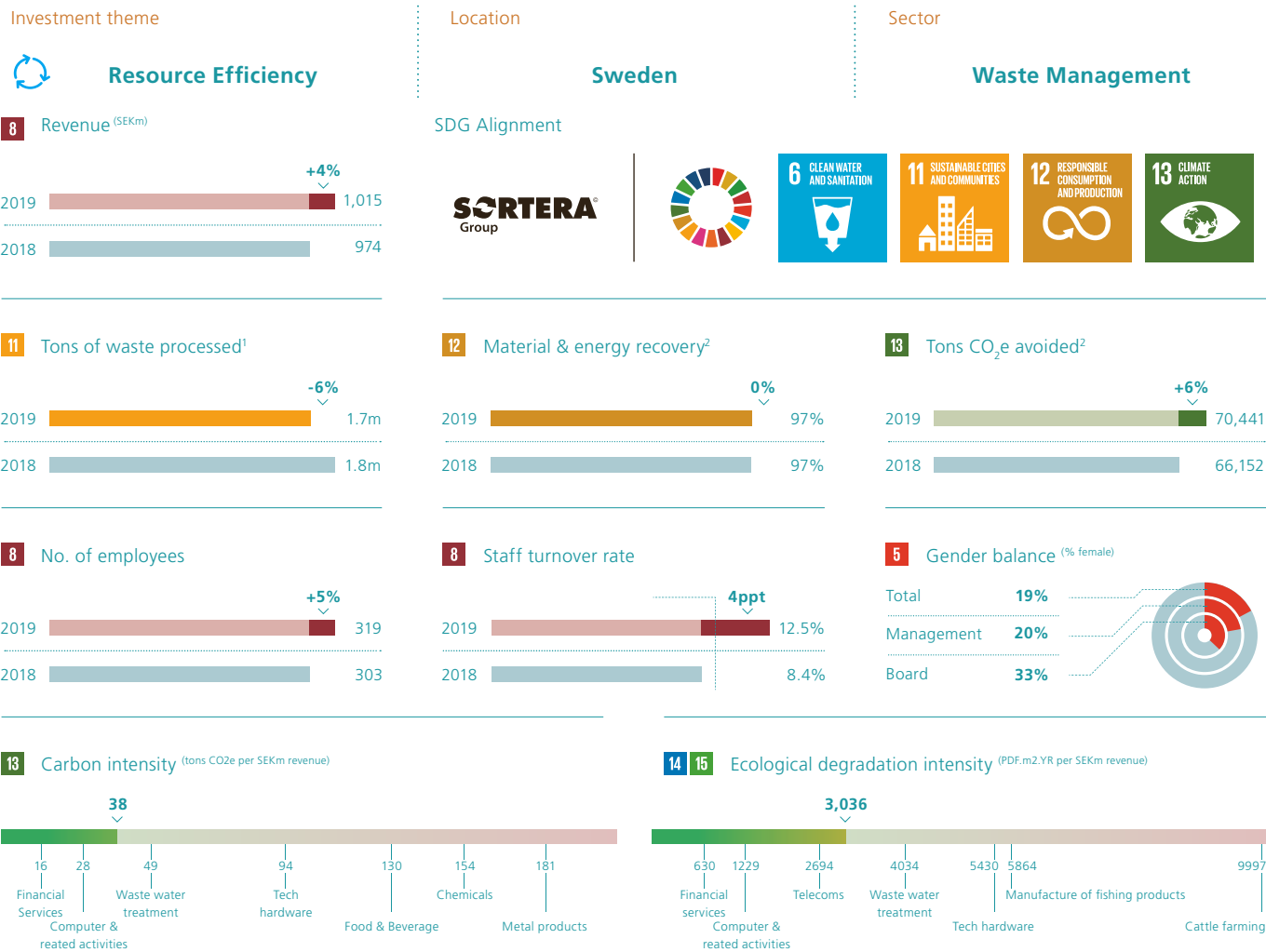
<sup>2</sup> The approach was acknowledged in a 2019 article in the Journal of Applied Science, "Private Equity 4.0: Using ESG to Create More Value with Less Risk."

Summa publishes an annual Portfolio Report, which shares value creation examples from portfolio companies as well as key performance indicators (KPIs) that track SDG impact, both positive and negative. The scorecard shown in Figure 9 is an extract from the Summa 2018 Portfolio Report. It highlights the key ESG and SDG metrics of EcoOnline, a technology-enabled portfolio company that helps companies optimize safe handling of chemicals in the workplace. EcoOnline’s proprietary software facilitates workplace safety through better management and documentation of industrial chemicals in a user-friendly and cost-efficient way. For example, the Risk Assessment module enables a tailored assessment of material risks for each company in relation to chemicals management at the workplace. At the same time, Safety Datasheets provide digital documentation on chemicals at use as well as related precautionary routines.

Sharing and learning

At the core of Summa’s mission is the goal of also inspiring and influencing the broader financial industry to embrace the SDGs. For example, Summa is a member of the steering group and implementation working group of the SDG Impact Initiative. The two groups contribute to the development of the SDG Impact Practice Standards for private equity. Summa is also in a partnership with Impact Weighted Accounts Initiative (IWAI), a Harvard Business School research initiative aimed at monetizing business impact and determining a company’s net impact position.

Figure 9: ESG and SDG performance of Sortera Group

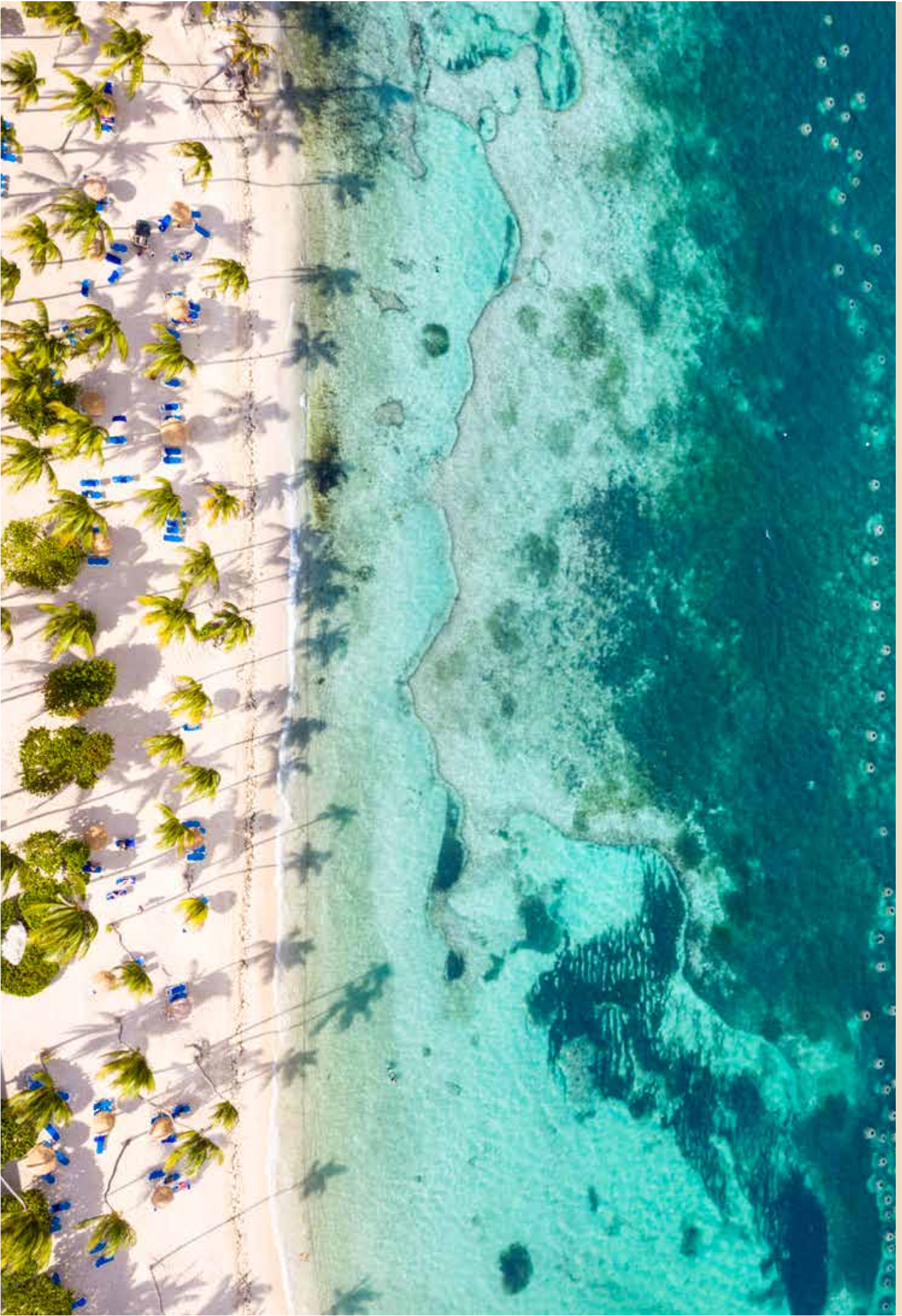


<sup>1</sup> Backfilling, Energy Recovery and Material Recycling, <sup>2</sup> Estimated by Normative, based on data on the tonnage of the various waste categories handled.  
Source: Summa



“Momentum in ESG has accelerated substantially and it is becoming clear to participants that you will not be able to raise capital unless you have a sophisticated ESG approach in place.”

Per Olofsson, Head of Alternative Investments, AP7, Sweden



# Integrating ESG into the investment process

When evaluating a GP's approach to ESG in investment decision-making, we look for evidence of a consistent process, which ensures that each investment has undergone ESG due diligence. This includes having clearly defined responsibilities within the team, as to what due diligence is done and when. In our view, ESG due diligence can be done effectively either internally or by external consultants, but it can also be a mix of the two. We also want to see evidence that the key findings of ESG due diligence have been discussed within the investment committee, which is ultimately responsible for the performance of portfolio companies.

Typically, GPs carry out several levels of due diligence on any given opportunity, starting with an evaluation of the strategic fit for the fund they manage and ending with detailed due diligence on different topics at the target. In our experience, ESG considerations start with a quick sanity check for red flags and excluded industries. If it passes this test, full due diligence on the business can begin, with a focus on identifying material risks and

opportunities. For specific topics, such as environmental due diligence, many GPs appoint external consultants, who conduct specialist due diligence similar to outsourced legal due diligence. Summarizing and prioritizing the outcomes is a key responsibility for the manager.

Subsequently, GPs consider whether ESG risks can be mitigated, whether they are significant enough to require a price reduction and how they can be addressed going forward. Importantly, GPs should also evaluate ESG opportunities. ESG opportunities and value creation can come from a focus on resource efficiency (including energy consumption) and from social impact such as ongoing employee development and engagement.

At this stage, investors might already agree on KPIs to track in the next stage of the investment cycle, the holding period or ownership phase. This facilitates clear and relevant reporting later on. The identification of key ESG issues can also be translated into mitigating action items and specific targets to be achieved.



# Genstar Capital (Genstar)

## Identifying material ESG issues in companies, using in-depth due diligence findings from ESG research specialists

### GP snapshot

- A San Francisco-based private equity firm founded in 1988, with approximately USD 19 billion in assets under management
- Focused investments in targeted segments of the financial services, healthcare, industrial, and software industries
- Closed Genstar Capital Partners IX with USD 7 billion of committed capital in February 2019

### ESG overview

Genstar has always considered ESG factors in its investment and ownership decisions, recognizing that proper ESG management mitigates risk and has a positive influence on long-term financial performance. In 2015, it adopted a formal ESG policy and became a signatory to the PRI and contributor to the Guidelines for Responsible Investment developed by the American Investment Council.

Genstar's ESG approach focuses on identifying material ESG risks and opportunities in due diligence, working with company management to develop action plans to mitigate and manage material ESG issues. This includes monitoring ESG initiatives throughout the ownership period, and reporting on ESG progress to investors and other stakeholders.

The firm's ESG Committee, which includes senior investment management and a compliance officer, supervises the overall ESG program and strategy. At the same time, the team's investment professionals take the lead on tactical ESG activities, given their proximity to companies and ability to drive change. Genstar also leverages the expertise of third-party consultants to help identify and monitor ESG risks across their portfolio. All employees attest to the GP's ESG policy annually and receive periodic training on the implementation of the policy as needed.

### Investment process

Since the adoption of its ESG policy in 2015 (which was expanded in 2018 to cover add-on acquisitions when specific thresholds are met), Genstar has developed a systematic approach to ESG due diligence that is completed for every prospective investment. Since ESG factors vary across industries, operations and geographies, the GP engages a third-party ESG consultant to provide a tailored and robust analysis focusing on the most material ESG factors for each investment. For example, the material ESG factors in a financial services business vary significantly from an industrial distributor. For the former, ESG analysis focuses on data privacy and security, ethics, and diversity, whereas for the latter, it focuses on employee health and safety, as well as managing social and environmental issues in the supply chain.

ESG analysis is initiated alongside other third-party work streams during confirmatory due diligence pre-investment.

As a first step, the Genstar investment team works with the ESG consultant to review available documentation on the company, including the employee census (for determining healthcare coverage requirements), policies and procedures, contracts, and litigation and other factors. They also look at the company's public presence to understand its operations and general ESG risk-profile.

Then, the consultant interviews members of the company's management team to gain a more nuanced picture of the company's relevant ESG risks. After speaking with management, the consultant produces an ESG report that details in-depth the material ESG risks and opportunities for the company, current systems and programs in place to manage the ESG factors and recommended initiatives to enhance the company's ESG performance. The process culminates in the Genstar deal team synthesizing the material findings from the ESG report to include in the IC materials for consideration.

# Accruent, LLC: improving compliance, data privacy and employee engagement

Accruent, LLC (Accruent) is a software and services provider for managing facilities and real estate. Prior to the acquisition of Accruent, the due diligence of the company's business operations identified a number of main risk areas for management to prioritize. During the initial due diligence review, Accruent's employee net promoter score (eNPS), a measure of employee engagement, was negative (-8). In the two years under Genstar's ownership, the Company's eNPS rose dramatically to 20, a 28-point increase. The strong engagement practices adopted, including establishing culture-based focus groups, led to a positive increase.

With Genstar's assistance, Accruent has also greatly improved its ethics and compliance program by implementing robust policies and training, procuring an anonymous reporting hotline, and conducting risk assessments for individual business units. Moreover, Accruent made data privacy improvements, including developing more robust privacy and security policies and implementing a formal process for reviewing data privacy and security provisions in customer contracts. In addition, Accruent completed a full General Data Protection Regulation (GDPR) compliance audit in 2018 under the guidance of outside counsel.

Genstar's focus on material ESG risks during due diligence and the subsequent implementation of ESG action items within the Accruent organization allowed it to deliver a business with a strong ESG profile to a publically listed strategic acquirer.



# NewQuest Capital Partners (NewQuest)

**Assessing the ESG profile of companies using the IFC’s investment Exclusion List and Performance Standards**

**GP snapshot**

- Founded in 2011, with offices in Beijing, Hong Kong, Mumbai and Singapore and over USD 2.4 billion in assets under management
- Secondaries specialist focused on providing liquidity solutions for single assets and portfolios through both direct and fund solution transactions in the Asia-Pacific region
- Latest fund: NewQuest is currently investing out of a USD 1 billion fund

**ESG overview**

NewQuest has had an ESG policy since its inception in 2011, which addresses the firm’s commitment to responsible investment by integrating ESG considerations into the evaluation and subsequent management of its portfolio companies. It recognizes the constraints of a fund focused on the secondary direct and fund solutions market, so it is designed to implement a realistic approach to fulfill its ESG commitment.

The firm’s general counsel and chief operating officer (COO) are responsible for ESG, overseeing these activities with guidance from the firm’s managing partner. The firm’s six partners comprise the IC and ensure that ESG due diligence is considered as part of the investment process and incorporated in regular portfolio monitoring procedures. The team also works closely with the GPs of the firm’s solution investments on ESG reporting.

**How ESG considerations are embedded into the investment process**

ESG risks and opportunities factor into all investment decisions and are included in investment memos. ESG issues are discussed at the IC and impact the ultimate investment decision. NewQuest is a signatory to the PRI and has adopted an ESG policy based on PRI guidance. NewQuest has also adopted the investment Exclusion List of the International Finance Corporation (IFC) and applies risk ratings to potential investments according to the IFC Performance Standards and Environmental and Social Categorization (Figure 10), based on industry, country and transparency indices. Desktop ESG due diligence is performed to categorize each

Figure 10: IFC Environmental and Social Categorization

IFC category	Description
A	Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.
B	Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
C	Business activities with minimal or no adverse environmental or social risks and/or impacts.
FI	Business activities involving investments in financial institutions (FIs) or through delivery mechanisms involving financial intermediation.

Source: NewQuest Capital Partners

investment from an ESG risk perspective. NewQuest avoids investments in IFC's Category A companies entirely. Additional onsite ESG due diligence is typically performed for category B companies, and investment decisions are made with the results of the ESG due diligence in mind.

Materiality of ESG factors is determined based on IFC standards, economic costs, reputational risk, and regulatory or compliance risks. Additionally, since NewQuest often acquires portfolios of direct positions (i.e., more than one direct position simultaneously), it also considers the materiality of the specific target company within the larger portfolio.

For each transaction, ESG representations, warranties and covenants are incorporated into deal documentation. Given the firm's business model of acquiring secondary stakes, this can prove challenging. In direct secondary transactions, sellers are reluctant to give significant representations and warranties relating to the operations of the underlying target company, especially in transactions involving minority stakes. However, the firm tries to obtain such representations and covenants around ESG-related issues where feasible. NewQuest requires similar ESG policies and standards from its managers for fund solution transactions.

#### **Key steps of the ESG due diligence process**

During the initial screening of transactions, NewQuest assesses and categorizes each investment as Category A, B, C or FI, according to IFC's Environmental and Social Categorization. The firm also checks whether the investment falls into NewQuest's investment Exclusion List (which mirrors the IFC's Exclusion List). NewQuest declines any investment on its Exclusion List, and subject to categorization of the investment (among other factors), NewQuest determines the scope and scale of further ESG due diligence.

For transactions where NewQuest directly acquires single assets or portfolios, NewQuest typically performs ESG due diligence in phases. In the initial phase, through internal resources and/or external ESG consultants, NewQuest categorizes the investment, determines key ESG risks and prepares an ESG due diligence questionnaire tailored to the investment, industry and risk. If the potential investment is deemed a higher ESG risk and forms a material part of the overall investment, further onsite due diligence, where feasible, is conducted by outside ESG consultants.

For fund solution transactions where NewQuest works with an existing manager to acquire single assets or portfolios, the firm seeks to ensure proper ESG guidelines and policies are in place. It also assesses the quality of ESG management at the underlying portfolio companies. In addition, NewQuest works closely with the managers to ensure ongoing ESG reporting for the underlying portfolio companies. Often, the managers in fund solution transactions adopt NewQuest's reporting formats and work closely with the firm on ESG issues, including ESG value creation opportunities.



# Hospital group: performing in-depth due diligence on ESG risks at facilities

A recent transaction completed by NewQuest illustrates the GP's ESG due diligence process, which involved a leading obstetrics and gynecology ("O&G") specialty hospital group ("the Group") operating in middle and western China. After evaluating the Group's operations, industry and geographic focus, NewQuest assigned the company a Category B rating. The team then prepared a bespoke ESG due diligence questionnaire tailored to a hospital operator, which focused on the Group's key ESG risks. Through this process, NewQuest obtained reasonable comfort and noted that all facilities operated by the Group are accredited for both JCI and TÜV Rheinland, the US and German safety and services standards for hospital operations.

Given the potential risk factors associated with hospital operations and the scale of the investment, NewQuest recognized the need to perform in-depth on-site ESG due diligence. NewQuest engaged a leading external consultancy group specialized in environmental, health, safety, risk and social consulting services relating to hospitals in Asia to perform an independent ESG review. The consultant performed in-depth due diligence on three of the major facilities operated by the Group in Chengdu and Kunming. These three facilities represent the largest revenue and profit contributors to the Group and are projected to have significant impact on its future growth. The consultant's work involved desktop review of compliance, on-site due diligence and interviews with local management.

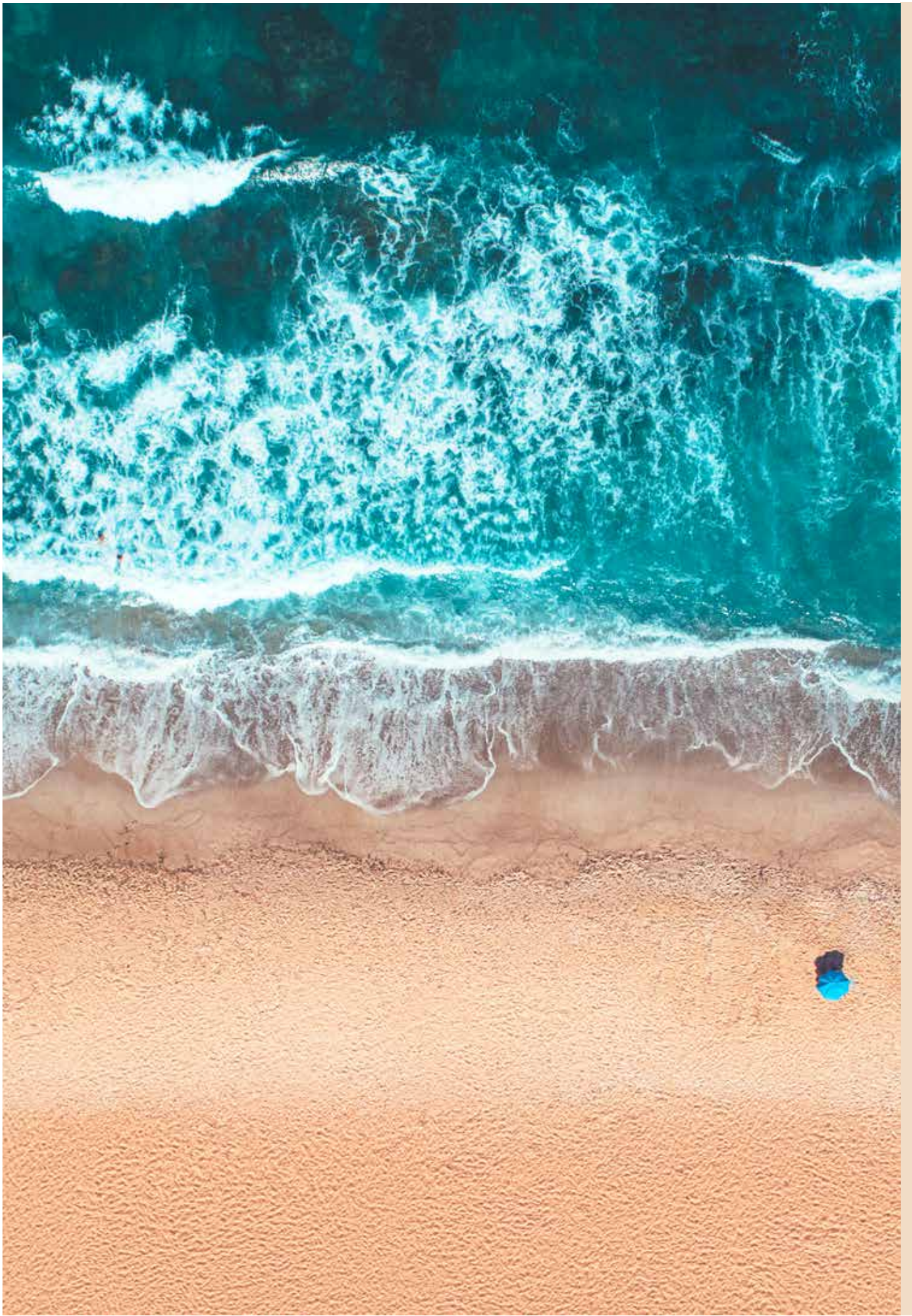
The detailed review indicated that certain permits and licenses for the hospitals' operations were lacking. These findings, their potential impact and mitigating actions were discussed with NewQuest's IC to ensure that investment decisions were made with the results of the ESG due diligence in mind. While these risks were deemed to be manageable, ESG representations, warranties and covenants were incorporated into deal documentation, and the NewQuest investment team is working with management on targeted mitigating plans as part of its ongoing portfolio management process.



“The Church Commissioners regard climate change as a vital issue for investors. We have pledged to align our portfolio to net zero greenhouse gas emissions by 2050, in line with analysis which suggests that our biggest risk in the long term is the economic, environmental and social damage that will occur if the global average temperature rise is not restricted to below 2°C”

Bess Joffe, Head of Responsible Investment, Church Commissioners for England Pensions, United Kingdom







# Integrating ESG into the ownership phase

We believe that GPs should define minimum criteria for all companies, such as complying with recognized industry standards in their field and addressing the most material ESG risks and opportunities in their business. Minimum requirements should be the same across the portfolio and should be the very first priority of any ESG action plan. Usually the basis for this work is completed during due diligence, as described in the prior chapter.

Ideally, we would like to see that GPs agree to an ESG action plan with portfolio company management. This should include regularly scheduled updates from management at board level on the ESG plan, in particular key business-related risks and opportunities. In addition, the GP should identify KPIs for each company, which should be collected from the company on a regular basis. Some indicators should ideally cover the entire portfolio, while others will be company specific. Overall, we believe the focus should be on quality and relevance rather than quantity. Particular attention should be spent on making sure the sources of information for the KPIs are consistent over reporting periods, and as always, with a focus on materiality.

From our own experience, the area that gets the most attention from company management teams is governance-related KPIs, followed by social indicators and environmental indicators. Given the global attention

to climate change and increased regulatory pressure, we expect an increasing focus on emissions and climate change risks (both physical and transition risks) going forward. Environmental topics that are closely monitored and reported on include resource efficiency, recycling and circularity. Price and market factors are important inputs and can be part of a transition risk framework.

As strong performance on social factors contributes to a healthier, more engaged workforce, we expect social KPIs to have a strong focus on employee welfare, including training, health and safety and diversity and inclusion. Other relevant social and governance KPIs will include training on a code of conduct, anti-bribery and corruption, and information/cyber security and data protection.

The area of ESG practice that represents something of the “final frontier” for private equity is measuring the impact of ESG work on the performance of the company. This is difficult to do, as disentangling the effects of ESG actions from other types of value creation at the portfolio company is a daunting task. Nevertheless, some of our managers are attempting to measure this impact as part of their preparations for exit. We are pleased that Triton provides insights in how a manager can quantify the value of its ESG activities, which they can subsequently use in the management of their portfolio and the subsequent exit preparations.

Using its Sustainable Business framework to identify key ESG areas of focus for portfolio companies

GP snapshot

- Based in London, Munich and New York, with a team of 200 professionals and approximately USD 30 billion in funds under management
- A leading European investor in software and services businesses, with an increasing global presence
- Over 35 operational professionals provide practical support to management teams to help portfolio companies realize their growth ambitions
- Latest fund: currently investing out of several different funds

ESG overview

Hg takes an active approach to managing ESG during its ownership. This starts with a Sustainable Business onboarding and maturity assessment within the first months of acquisition to identify areas for improvement. The manager considers how it can support companies to realize the ambitions of their Sustainable Business framework. As part of Hg’s ongoing engagement, each business is reassessed on an annual basis, and Hg follows up to ensure appropriate actions are taken to improve as required. ESG forums help company management teams to share best practice, network and receive support.

Sustainable Business framework

Hg’s Sustainable Business framework outlines key ESG areas of focus and how Hg can support its businesses. The framework is tailored specifically to software and service companies and is used to assess the businesses Hg owns throughout its ownership. The three key components of the framework are:

- Essentials – these are the minimum ESG requirements that Hg expects from all of its businesses, including strong standards and practices around governance, business integrity, risk, compliance, data and cybersecurity
- Employees – Hg believes that a diverse workplace with engaged and motivated staff are vital for growth and business success. The manager focuses on: diversity of talent and equal opportunity, engagement and motivation, growing businesses and talent, as well as purpose and culture
- Society – Hg aims for its portfolio companies to make a positive external impact by acting transparently and contributing to society by building strong customer relationships and engaging with the community

Figure 11: Hg’s Sustainable Business framework



Source: Hg

# Data-as-a-Service provider: ESG focus on cybersecurity

With Hg's focus on the technology sector, cybersecurity is always a major concern when partnering with a new portfolio company. Businesses are facing an ever-increasing threat to their operations and finances through more frequent, sophisticated and targeted cyberattacks. These attacks can impair business operations, generating a reduction in productivity and lost opportunity costs. They can also generate direct economic loss (via fines, ransom and fraudulent payments) and reputational damage.

In the private equity world, this reputational impact can extend to the fund manager and is a direct threat to shareholder value. However, it is possible to protect the investment and shareholder value of each company and, in doing so, demonstrate a well-managed business, potentially creating additional value at realization.

## **Standardized assessment**

To ensure its IT capabilities are leading edge, Hg has developed an in-house technology team. This team works directly with businesses in the Hg portfolio, and cybersecurity is one crucial area that they help with. Over the last two years, the team has created and implemented a standardized, end-to-end cybersecurity assessment for all the businesses in Hg's network, employing industry best-practice frameworks and standards across non-technical (for example, risk management and education) and technical control areas (for example, network protection).

Hg assessed the portfolio company's cybersecurity framework back in 2017, as part of the Technology team's regular Cybersecurity Maturity Assessments. Following that assessment, the team highlighted that there was room for improvement for cybersecurity measures and identified five focus areas to improve the cybersecurity of the company.

## **Portfolio company example**

Within Hg's portfolio is a Data-as-a-Service provider of supply chain information that allows global purchasing organizations in industries with complex regulatory requirements to drive operational excellence. The company is a global leader and partner of choice for supply chain risk and performance management. It has offices across the world, with a network of over 150,000 suppliers across industrial, infrastructure and natural resources sectors.

### Five focus areas for cybersecurity improvements

In line with Hg's standard cybersecurity framework, the company was assessed against, and responded to, five key focus areas. Some examples of actions taken include:



#### 1. Identify (governance and risk):

This involved the company's ability to initially capture and quantify the main cybersecurity risks and threats to the business, along with their associated remedial plans. It included carrying

out an education and awareness training for all staff, which provided the foundation for a new, engaged and institutional mindset on cybersecurity running throughout the organization, including at senior executive level.



2. Protect: Recommendations and observations within the Hg assessment guided the company to implement established technology processes and systems to protect the business. For instance, the team

deployed anti-malware end-point protection standards across the business and introduced patching mechanisms, statistics and processes to ensure the company's IT systems are kept up to date.



3. Detect: The portfolio company deployed a new, managed-service SIEM (Security Incident Event Management) system to enhance security analytics and event alerting for the business.



4. Respond: Hg believes that all businesses should prepare from a fundamental position of "when" rather than "if" a cyberattack occurs. This means assessing how quickly a business is able to detect and

respond to an attack, in order to minimize the impact. The detection capabilities (SIEM) established at the company were a key recommendation, along with ensuring that there was a well-defined incident response plan, supported by an external expert security company.



5. Recover: Hg's team assisted the company in reviewing the robustness of data backups for critical IT systems. Enhancements were deployed throughout the business to ensure effective backup coverage. These

are tested on a regular basis to maintain the ability to streamline recovery efforts in case of a cyber-incident.

The portfolio company has achieved significant improvements in its scores on Hg's regular Cybersecurity Maturity Assessments – doubling its score within the first 12 months. Within two years, the business moved into the top quartile of performers amongst Hg's entire portfolio.



# Triton

## Mapping the SDGs and calculating the financial value of ESG

### GP snapshot

- Based in Europe, with a team of over 350 employees and approximately USD 11.3 billion in assets under management
- Currently invested in 41 companies with combined sales of over USD 16 billion and over 80,000 employees
- Invests primarily in the German-speaking countries, the Nordics and the Benelux region, focusing on the sectors: business services, consumer, health and industrials
- Latest fund: currently investing out of Triton Fund V, a USD 5.7 billion fund

### ESG overview

Triton seeks to grow and improve portfolio companies for long-term sustainability and for the benefit of multiple stakeholders. As such, it recognizes the importance of ESG issues in protecting and creating value for its investors, portfolio companies, and the communities where its portfolio companies operate. It therefore takes a proactive approach to ensure ESG factors are assessed pre-investment and then supports portfolio companies during ownership to effectively manage their material ESG risks and opportunities.

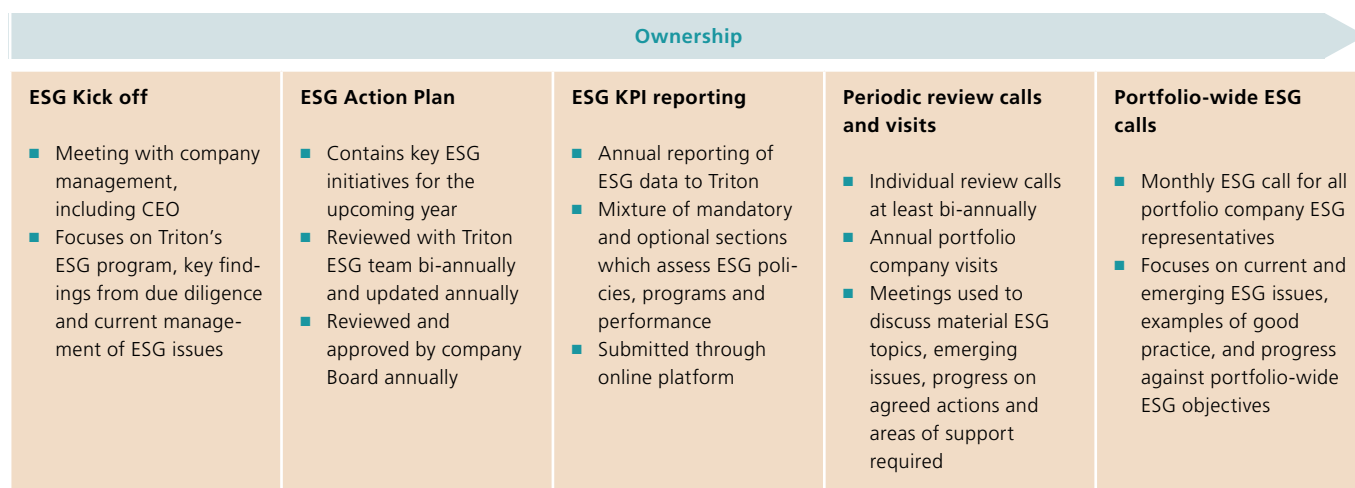
Triton has a four-person ESG team fully dedicated to its ESG initiatives, including supporting portfolio companies through the ownership phase. Triton supports its portfolio companies in improving ESG performance through a process shown in Figure 12.

### New ESG focus areas

Triton conducts portfolio-wide analyses on an ongoing basis to gauge progress and performance in absolute terms and relative to external ESG frameworks. On the back of this, and as part of the overall ESG ownership process, Triton introduced new ESG focus areas, including the following:

- Mapping impact on the SDGs
- Climate-related risks and opportunities and the Task Force on Climate-related Financial Disclosures (TCFD)
- Energy transition strategy and carbon offsetting
- Financial valuation of ESG improvements

Figure 12: Triton ESG process during ownership



Mapping impact on the SDGs

Triton believes that the SDGs can help businesses to identify and prioritize ESG activities, as well as demonstrate measurable impact. During 2019, Triton’s ESG team conducted a mapping exercise to identify the most material SDGs for Triton as an organization and for its portfolio companies. Armed with these insights, Triton aligned its most material ESG topics to SDGs where it can make the biggest contribution. The team identified specific SDGs to prioritize and demonstrate impact going forward. Triton intends to build on this by adopting future material ESG factors for portfolio companies and to review its KPI reporting to enhance the impact on the SDGs. Several Triton portfolio companies have already started to use the SDGs to guide their sustainability strategy and have incorporated this into their public sustainability reporting, as illustrated in the examples of OptiGroup and Flokk.

Climate-related risks and opportunities and the Task Force on Climate-related Financial Disclosures

Climate change is a material topic for the majority of Triton

portfolio companies. Some are exposed to climate-related risks, such as companies with large energy footprints, while others stand to benefit from climate-related opportunities, such as those developing low-carbon products and services for solving climate challenges. Triton has supported its portfolio companies to assess material physical and transition risks and opportunities, and management responses to these. During its 2019 ESG forum, the ESG team ran a dedicated session on this topic and set the objective for each company to complete the assessment, as shown in Figure 13. Each portfolio company is required to get its assessment reviewed at board level so that climate-related risks and opportunities are managed appropriately going forward.

The ESG team is also consolidating these assessments to better understand Triton’s exposure to climate-related risks and opportunities at a portfolio level. Triton also conducted a gap analysis of its internal processes against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This has indicated how it could improve when climate-related issues are considered in the investment process.

Figure 13: Assessing climate change risk for portfolio companies

How might your companies be affected?

A 4°C world

- Flooding of coastal cities
- Dry regions becoming drier
- Wet regions becoming wetter
- Unprecedented heat waves
- Substantially exacerbated water scarcity
- Increased frequency of high-intensity tropical cyclones
- Irreversible loss of biodiversity

A 1.5°C world

- Drastic emissions reductions
- Large scale electrification
- Phase out of fossil fuels
- Growth in renewables
- Higher emissions prices
- Shift in consumer behaviour towards lower impact goods, services and lifestyle

- Identify relevant physical risk, transition risk and opportunities for your company
- Summarise how these risks and opportunities are likely to impact your company
- Identify how these risks and opportunities will impact your company financially e.g. costs and revenues

	Type of risk or opportunity	How will your business be impacted?	What is the likely financial impact?
Physical risk	What is the climate-related risk or opportunity?	How does your business stand to lose out to the risk?	How will your business’s costs be affected by the risk or opportunity?
Transition risk		How does your business stand to benefit from the opportunity?	How will your business’s revenues be impacted by the risk or opportunity?
Opportunity		Which part(s) of your business will be affected? In which locations or divisions?	How will the value of your business’s assets be impacted by the risk or opportunity?

Source: Triton

### Energy transition strategy and carbon offsetting

Following its work with portfolio companies to identify managing broader climate-related risks and opportunities as described previously, Triton recently developed an energy transition strategy to support the decarbonization of its portfolio. This focuses on supporting portfolio companies to improve their energy efficiency, increase the proportion of renewable energy they consume, and take responsibility for remaining carbon emissions. On the latter, Triton has partnered with ClimateCare to create a carbon offset program, which allows portfolio companies to compensate for their residual emissions. Triton is using its offset program to raise awareness of climate-related risks and opportunities and to incentivize its portfolio companies to proactively manage these by placing a cost on carbon emissions.

In 2019, Triton offset over 300,000 tons of CO<sub>2</sub> associated with reported Scope 1 and 2 emissions of portfolio companies and Scope 2 and Scope 3 (business travel) of its own direct operations.

### Financial valuation of ESG improvements

Triton has piloted an exercise to estimate the financial value created from ESG initiatives at portfolio companies during the year. This initially focused on energy efficiency, absenteeism, and health and safety. Figure 14 summarizes the initial results for the financial value created or lost due to changes in ESG performance between 2017 and 2018. This exercise is helping Triton to demonstrate both improvements in ESG performance and the financial value created or protected from ESG initiatives during the ownership phase. As stated throughout this guide, the ultimate goal of good ESG integration is fully aligned with this. ESG should be able to support both business value protection (downside protection) and business value creation (upside protection).

Figure 14 provides a “heat map” of the financial value of the ESG efforts of Triton’s individual portfolio companies. For example, Portfolio Company 8 experienced an increase in accident rates and absenteeism compared to the previous year, presenting financial risk to the company. This has enabled Triton to prioritise support in these areas. A strong positive example is Portfolio Company 15, which has been able to create over EUR 300,000 in value through cost savings (or avoidance of additional costs) in all three ESG areas (energy, low incidents/injuries, low absenteeism).

Figure 14: Estimating the financial value of ESG

	Sector	Energy	H&S - Injuries	Absenteeism	Total per PC	Key
PC1	Business services					Value creation > € 100,000
PC2	Industrials					Value creation < € 100,000
PC3	Industrials					Not included
PC4	Business services					Value loss < € 100,000
PC5	Consumer / health					Value loss > € 100,000
PC6	Business services					
PC7	Industrials					
PC8	Business services					
PC9	Industrials					
PC10	Industrials					
PC11	Consumer / health					
PC12	Industrials					
PC13	Consumer / health					
PC14	Business services					
PC15	Consumer / health					
PC16	Industrials					
PC17	Business services					
PC18	Business services					
PC19	Industrials					
PC20	Business services					

Source: Triton

# OptiGroup

## Material SDGs for a supplier of facility and packaging solutions

OptiGroup is a leading European provider of services and solutions related to facility supplies, industrial packaging, safety products, and paper products. Its wholesale distribution services provide a wide range of products that include cleaning and hygiene products, industrial packaging, personal protective equipment (PPE) and paper products to over 110,000 customers. The company serves a diverse customer base including commercial printers and publishing houses, paper re-sellers, industrial clients, facilities management businesses and public sector facilities including hospitals.

Given the nature of the business and the sector it operates in, OptiGroup has identified five SDGs as the most relevant to the business:

- SDG 12 (Responsible consumption and production) – the company aims to produce sustainable products
- SDG 8 (Decent work and economic growth) – the company aims to have firm control of its supply chain.
- SDG 13 (Climate Action) – the company focuses on reducing carbon emissions
- SDG 16 (Peace, justice and strong institutions) – the company ensures strong anti-bribery measures and business ethics
- SDG 5 (Gender equality) – the company seeks to ensure diversity and inclusion in its hiring and promotion practices

Figure 15: SDG reporting by OptiGroup

### OptiGroup's sustainability agenda

Based on a materiality analysis, which is an assessment of the most critical sustainability issues for the Group and its stakeholders, OptiGroup has identified five focus areas:



### Contribution to global goals

In 2018, the UN Sustainable Development Goals (SDGs) were analysed to determine the goals where OptiGroup can make the largest contributions. Six SDGs were identified as most relevant to the business, and the Group will continue to create activities and measures that contribute to the achievement of these goals.

Source: OptiGroup

# Flokk

## Material SDGs for a Scandinavian furniture designer and producer

Flokk is the market leader in the design, development and production of workplace furniture in Europe. The company's roots are in Scandinavia, and it operates as a house of brands, managing and developing a portfolio of nine product brands. Flokk partners with its 2,500 employees and 1,500 distributors, dealers and importers who help to liaise with its customers.

Flokk has identified a number of SDGs that are material and relevant for its operations. The company is committed to using 100% renewable energy by 2025, in line with SDG 7 (Affordable and Clean Energy). For its material sourcing, the company is focused on using recycled materials with continuous increasing percentages over time. This supports SDG 12 (Responsible Consumption and Production), SDG 14 (Life Below Water) and SDG 15 (Life on Land). The strong focus on ecolabels and avoidance of chemicals contributes directly to SDG 3 (Health and Well-being).



Source: Flokk

Figure 16: SDG reporting by Flokk



Source: Flokk

### Long-term sustainability goals as stated by Flokk

In addition to our annual goal, we operate according to a set of strategic goals, aiming to ensure the greatest possible correlation with the current global strategy, goals and action plans.

### Climate - GHG (CO<sub>2</sub>) Emissions And Energy

- Reduce average energy consumption per produced product by 20% by 2020 (based on 2010 figures)
- 100% renewable energy & fossil fuel free by 2025

### Flokk's contribution to:

- UN Sustainability Development Goals 7 and 13
- The IPCC report's goal of reducing GHG emissions by 45% by 2030, in order to reach the 1.5 degree target

### Resources - Materials And Waste

- Increase the share of recycled materials used in the product to an average of 60% by 2020
  - 1,000 tonnes of recycled post-consumer plastics by 2022
  - Increase the recycled share of metals to 100% for aluminium and 50% for steel by 2025
- 100% FSC certified or reused wood paper and cardboard by 2022
- Facilitate the disassembly of our products at end of life, so that over 90% of the materials are recycled or recovered

### Flokk's contribution to:

- UN Sustainable Development Goals 12, 14 and 15
- The EUR Plastic Strategy launched in January 2018

### Health and Chemicals

- Products and their manufacture must be free of chemicals that are hazardous to the environment and/or health
- All standard fabrics must achieve the EU Ecolabel by 2022

### Flokk's contribution to the UN Sustainable Development Goal 3

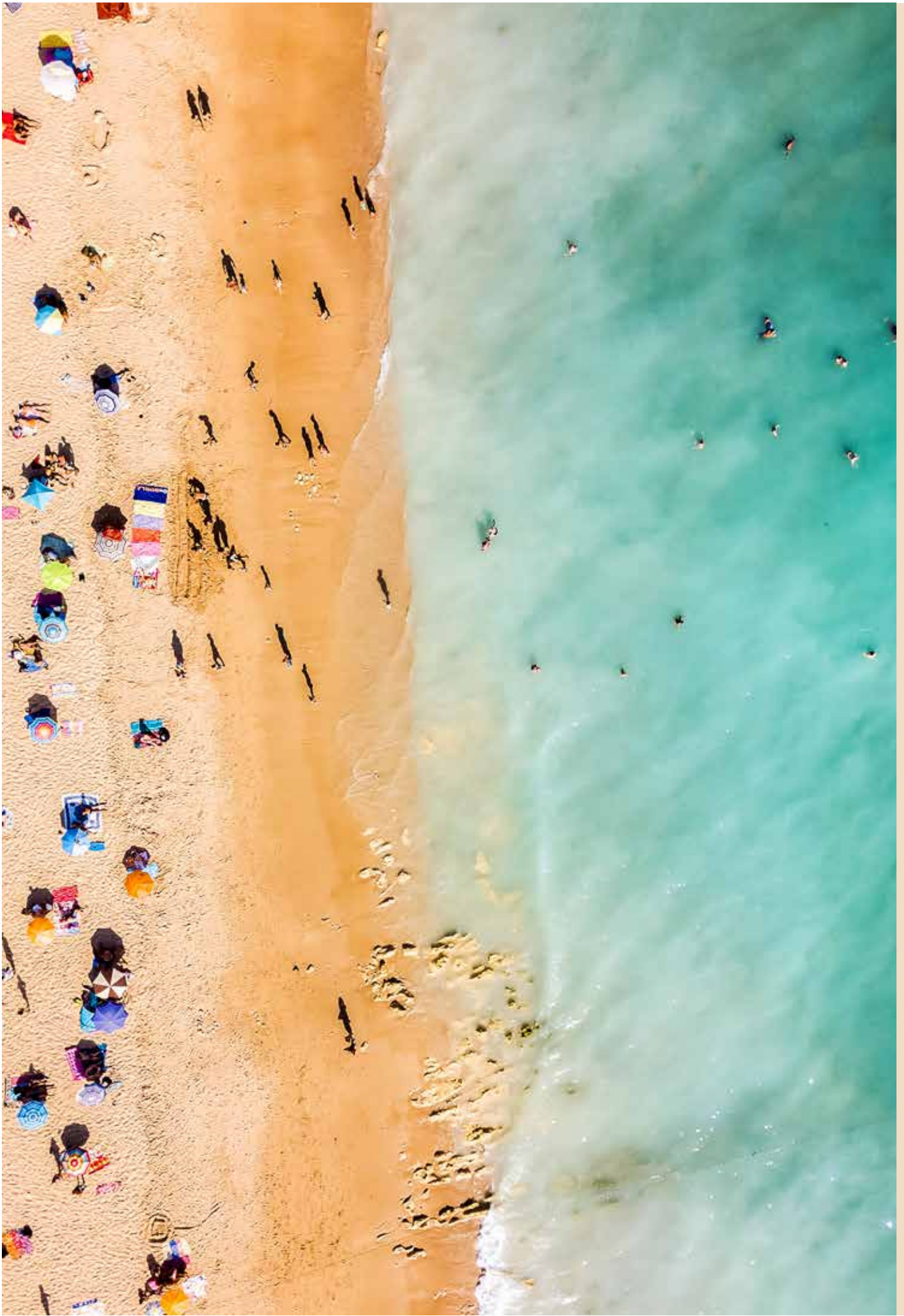
### Competence - Commitment - Communication

- We seek to achieve our long-term goals through professional and multi-stakeholder partnerships and initiatives - UN Sustainable Development Goal 17
- Our Employees should be ambassadors for, and have in-depth knowledge of, our Environmental & Energy Policy, performance and goals



“Sustainable investing is an integral part of EPF’s investment process as it is about being actively and responsibly engaged in how our members’ funds are deployed, while at the same time improving the performance of our overall assets.”

Rohaya Mohammad Yusof, Chief Investment Officer, EPF, Malaysia



# Integrating ESG into reporting

In reporting, we like to see evidence that a GP is engaging with portfolio companies to implement relevant policies and processes relating to each company's area of business. Ideally, they would track a set of KPIs corresponding to their various ESG targets. A selection of these could be aggregated to show us, the LP, how the portfolio as a whole is developing on ESG, as most investors will want to compare ESG performance across their portfolios.

Ultimately, this requires industry standards on basic KPIs, such as CO2 emissions, water use, employee turnover and safety, as well as governance-related KPIs. Based on industry and geography, such KPIs allow investors to benchmark their private equity portfolios against similar companies in the public markets. There are a number of market initiatives underway to standardize monitoring and reporting of ESG performance of privately held companies, which help to facilitate progress in this important area.

The area of integrated financial reporting is another important aspect of ESG reporting. As this is directly applicable to companies, investors are at least one-step

removed. Nevertheless, they can play a role in encouraging companies to adopt existing standards, such as SASB, the GRI and Harvard Business School's Impact-Weighted Accounts Initiative.

Risk monitoring and transparent incident reporting are an integral part of best practice in ESG reporting. Timely, open communication is recommended when ESG incidents occur. As a private equity report from the PRI states: "LPs expect to hear about material ESG incidents from their GPs before they read about them in the press."

Whatever methodology a GP chooses to apply, it should allow them to identify the ESG risks and opportunities in their portfolio and prioritize efforts to address them. GPs should demonstrate engagement with portfolio company management teams, who will ultimately drive the implementation. We are looking for transparency, not perfection in terms of ESG information on the underlying portfolio companies. Ideally, the initiatives from the ownership phase find their way into materially relevant and transparent ESG reporting.

# GenBridge Capital (GenBridge)

## Monitoring companies' ESG action plans through an extensive reporting framework

### GP snapshot

- Based in Beijing, with a team of 22 professionals and approximately USD 600 million in assets under management
- Invests in next generation consumer brands, retail and service formats in China, driven by new technology and retailing platforms to meet evolving consumer demands

### ESG overview

Since inception, GenBridge has based its Environmental and Social Management System (ESMS) on the ESG guidelines and performance standards of the IFC. The ESMS aims to provide institutionalized policies and procedures for managing ESG risks and opportunities, and integrating the ESG considerations into the lifecycle of the investment.

GenBridge initially appointed one of the co-founders of the firm as the ESG manager to oversee all ESG matters and to make sure adequate resources are available for the implementation of relevant ESG policies. Two deputy managers supported by external consultants specializing in environmental and social due diligence help the deal team carry out ESG due diligence, establish an ESG action plan and monitor it at the project level.

### ESG reporting to investors

GenBridge aims to provide its investors with insight into its ESG approach, activities and progress. The activities and documents GenBridge uses to report to its investors include the following:

- Annual ESG Report – GenBridge published its first Annual ESG Report in 2020, which provided a comprehensive introduction of its ESG management and illustrated its portfolio companies' ESG performance
- Report ESG performance during annual general meeting – ESG coverage is usually a topic integrated in the firm's annual general meeting, during which GenBridge introduces and showcases how it works with portfolio companies on ESG issues
- Customized ESG reports to investors – every year, the GP prepares customized ESG reports for a number of investors with specific reporting requirements
- Share project-level ESG reports with investors – as per the request of certain investors, GenBridge shares the environmental and social due diligence report of each project with the investors, so they can see the ESG performance and risks of each project. This also allows for feedback on ESG management

### Reporting of ESG performance at portfolio companies

GenBridge evaluates and monitors the ESG performance of all portfolios throughout the investment cycle, including:

- Key milestone – ESG action plan: ESG provisions, including the management's commitment to carrying out the action plan, is typically negotiated and agreed as a part of the final investment agreements
- Post-investment stage: an Annual Monitoring Report (AMR) is agreed with each portfolio company after the closing, specifying the periodic reporting (at least once a year) on environmental and social performance. It is based on key items in the ESG action plan, includes any ESG-related incidents during the reporting period and addresses any outstanding or potential ESG performance issues
- Pre-divestment stage – ESG audit or evaluation: ESG issues are given early consideration prior to the exit plan, as new investors (particularly strategic investors) are also interested in the company's ESG status

GenBridge has designed the ESG Control Sheet shown in Figure 17 to summarize and provide a quick overview that all the portfolio companies have progressed on ESG matters. It also helps the ESG managers and the deal team to track issues during the investment lifecycle.

Figure 17: ESG control sheet

Portfolio information		ESG in Investment decision process					Post-investment monitoring & reporting			Exit process
Portfolio Companies ("PC")	Sector	Deal Sourcing	Pre-IC Action Preliminary assessment & reporting	ESG DD		IC Approval ESG factors consideration	Action Plan PC's commitment on further ESG actions	Pre-agreed Annual Monitoring Report (AMR)	Annual ESG Review	Pre-divestment E&S audit/ evaluation
PC 1	Retailing Formats	*	N/A		√	√	*	√	√	N/A
PC 2	Brands	*	N/A		√	√	*	√	√	N/A
PC 3	Retailing Platform	*	N/A		√	√	*	√	√	N/A
PC 4	Retailing Platform	√	√	√		√	√	√	√	√
PC 5	Retailing Platform	√	√	√		√	√	√	√	N/A
PC 6	Retailing Platform	√	√	√		√	√	√	**	N/A
PC 7	Retailing Platform	√	√		√	√	√	√	**	N/A
PC 8	Brands	√	√	√		√	√	√	**	N/A

\* The PCs were invested before ESMS established. Further negotiation to enter into a post-investment side letter in respect of the ESG action plan is required for follow-on investments.

\*\* The first annual ESG review is to be performed in the year 2020.

Source: GenBridge Capital



# Annual ESG review

The excerpted annual ESG monitoring report below shows an example of GenBridge's annual review results. The business model of portfolio company 4 ("PC 4") provides a one-stop solution for delivery restaurants in China, including location, facilities, maintenance and operational support on the online delivery platforms. As with most companies in the fast-growth stage, the most material and fundamental ESG risk we identified is the lack of an ESG management system at the corporate level. Given the nature of the business, the most material ESG issues are food waste management and the monitoring of cooking fumes. The report focuses on the detailed target and related timeline for each step agreed in the action plan. It summarizes the periodic improvements that the company has achieved and provides follow-on requirements.

Figure 18: Annual ESG review examples

ESG Action Plan (in excerpt)					Annual ESG Review Results		
Performance Standards (PS)	Category of Findings/Issues	Corrective Action Required	Prio. (Low Med. High)	Timing	Improvements seen in the latest AMR	Completion Status	Next Follow-up
PS1: Assessment and Management of Environmental and Social Risks and Impacts	Absence of Environmental and Social Management System (ESMS)	To establish a policy defining the ESG objectives and principles An ESMS is to be established and maintained appropriate to the nature and scale of the operation of the investee	M	6 mos.	Adopted an overarching policy to guide it for achieving sound ESG performance. Such policy provides for a framework for ESG assessment and management process.	100%	Monitor the maintenance and implementation of the ESMS in the next Annual ESG Review (expected to be performed in 2020)
	Deficiency on organizational capacity and competency	Lack of designation of specific roles and responsibilities on ESG management	L	6 mos.	COO, one of the co-founders, was designated as ESG management role and responsibilities, who is in charge of the overall operation. A number of ESG responsibilities are assigned to different working levels to support the COO in accordance with the newly established ESMS.	100%	Monitor the maintenance and implementation of the ESMS in the next Annual ESG Review (expected to be performed in 2020)
PS 3: Resource Efficiency and Pollution Prevention	Wastewater and waste oil management issue - lack of wastewater or waste oil monitoring	To obtain and review the wastewater and waste oil monitoring reports from landlords	M	6 mos.	Adopted a whole set of operation SOPs (for wastewater and waste oil management, fire safety management, food safety procedures & management).	100%	Review the implementation of the operation SOPs
		To take measures to ensure the landlords' treatment is in compliance with the local regulatory requirements			A key person is assigned to perform, monitor and report the performance of such SOPs in each operation site, including requesting landlords' relevant reports and ensuring the compliance with local laws.		
	Air emission management issue - lack of cooking fume monitoring	To establish and implement a guidance on cooking fume purifier inspection and maintenance To obtain cooking fume monitoring reports	M	6 mos.	The SOPs also contain the standard process required for monitoring and managing the cooking fume purifier. Most of the operation sites have engaged licensed third party contractors to receive and process the used cooking oil nationwide in a clean and green way.	80%	Suggest the company take measures in tracking and ensuring the final destination of the cooking oil reported by the engaged contractors

Source: GenBridge Capital



# KKR & Co. (KKR)

## Using external frameworks to focus reporting on relevant topics

### GP snapshot

- Global investment firm managing multiple alternative asset classes, including private equity, credit and real assets
- Strong focus on private equity having raised 22 private equity funds since inception
- A team of approximately 1,500 employees, including over 470 investment professionals, manage USD 222 billion in assets
- Private equity professionals organized by industry expertise focused on six core sectors and by geography with 20 offices across four continents

### ESG overview

KKR began reporting publicly on its efforts to incorporate ESG-related issues in its investment decision-making processes when it released its first ESG report in 2011. Since that time, KKR has published an annual, public ESG report on its vision, progress over the past year and focus areas for the coming year.

While the report has evolved significantly in the breadth and presentation of the content, some core principles have remained in place. Among these, one of the most critical principles has been to use, wherever possible, third-party frameworks to report content. This principle is also relevant to how KKR incorporates ESG-related issues into its investment processes. The firm believes it is beneficial to align with proven practices and established frameworks to boost outcomes, while also being efficient with time and resources.

### Establishing material topics

When KKR was developing its first public ESG report ten years ago, there were few relevant models for alternative asset managers to follow. KKR's main sources of inspiration at that time were corporate reporting and, to some extent, large investment banks. Neither group provided a clear roadmap for where KKR should focus its ESG reporting.

In the absence of close benchmarks, KKR turned to the well-established Global Reporting Initiative (GRI) Sustainability Reporting Guidelines — particularly the principles for materiality and stakeholder inclusiveness — to report content. In addition, KKR took into account the GRI’s reporting principles for defining the quality of reported information, “including balance, comparability, accuracy, timeliness, clarity, and reliability.”

### Using KPIs to report progress

As a 2009 signatory to the PRI, KKR recognized the growing importance of the principles to the investment community and decided to leverage the principles for organizing its reporting efforts. Starting in 2010, KKR has organized some of its key ESG activities and objectives around the six principles of the PRI. Figure 19 highlights some key priorities that are updated every year, and which are described in more detail in its public ESG report. While not all objectives lend themselves to quantitative assessment, KKR has sought to add quantitative metrics where possible, such as the number of investments discussed during weekly ESG diligence calls.

The KPIs have also enabled KKR to publicly report on some of the key ESG outcomes of their portfolio companies, as shown in the case studies that follow.

### Informing due diligence

As KKR continues to evolve in its management of ESG issues and reporting specifically, the foundation set in 2010 continues to be relevant. KKR continues to leverage third-party frameworks, while also maintaining a balanced and clear approach. For example, in 2017, KKR announced that it started using the topics defined by Sustainability Accounting Standards Board (SASB) for its work to diligence potential investments. The SASB topics are also informing asset-level reporting for fund investors in select funds.

### Improved efficiency and effectiveness

Over its ten-year ESG reporting journey, KKR has continued to grow its ESG resources and benefited from leveraging established, credible third-party ESG and responsible investing frameworks. This practice has helped systemize and streamline its ESG management efforts, as well as improve the effectiveness and credibility of its reporting to investors and other stakeholders.

Figure 19: Key performance indicators

Our Commitment	2019 Progress	Select 2020 Objectives
Identify ESG risks and opportunities pre-investment (PRI 1)		
Assess potential private equity investments as part of the Investment Committee process, which involves the ESG diligence group	<ul style="list-style-type: none"> <li>■ Built and began testing an ESG-related module in a technology platform that supports the investment process across private markets diligence</li> <li>■ Expanded consideration of Sustainability Accounting Standards Board (SASB) issues to various business units during review of and reporting on new portfolio companies</li> <li>■ Reviewed more than 225 companies through 40 meetings of the ESG diligence group</li> </ul>	<ul style="list-style-type: none"> <li>■ Finalize tools and guidance that were tested in 2019</li> <li>■ Develop a standardized ESG reporting template for Investment Committee discussions</li> </ul>
Provide guidance to KKR investment professionals for identifying and assessing opportunities	<ul style="list-style-type: none"> <li>■ Completed developing 77 industry-specific reporting templates detailing ESG considerations likely to have financially material impacts according to SASB for the ESG diligence group to use with investment teams</li> </ul>	<ul style="list-style-type: none"> <li>■ Roll-out global training on tools and guidance that were piloted in 2019</li> </ul>
Integrate ESG considerations when assessing potential investment targets for relevant non-private equity asset classes	<ul style="list-style-type: none"> <li>■ Updated and circulated KKR’s “Gating Issues” list, which includes high-profile or high-risk businesses where early scrutiny is needed for us in all KKR businesses</li> <li>■ Developed more comprehensive responsible investment approach for our credit business</li> </ul>	<ul style="list-style-type: none"> <li>■ Publish global ESG policy that covers various asset classes in 2020</li> <li>■ Roll-out global training on tools and guidance that were tested in 2019</li> </ul>

Source: KKR

# Barghest Building Performance (BBP) drives energy solutions

Energy use in buildings is one of the greatest emitters of greenhouse gas emissions globally, so buildings are a major contributor to climate change. Barghest Building Performance (“BBP”), KKR’s first impact investment, is helping address this problem.

BBP is a Singapore-based provider of commercial solutions dedicated to reducing energy consumption and carbon emissions for large buildings and industrial users, while also decreasing related expenses for customers. BBP provides its customers with real-time monitoring of their heating, ventilation, and air conditioning (HVAC) systems to drive efficiency, reliability, and resilience. By using sensors, software algorithms, equipment controls, and customized engineering design, buildings can achieve a 10 to 40 percent reduction in electricity consumption. With operations in Southeast Asia, India, China, and Taiwan, BBP is looking to accelerate growth and geographic expansion.

As a strategic partner, KKR uses its network and expertise in organizational design to support this ambition, while also building strategic partnerships in the industry to scale the company’s business. The company’s ESG impact can be directly measured by the kilowatt-hours of electricity saved and tons of CO2 emissions avoided by customers who use BBP’s solutions. In 2018, BBP’s energy solutions reduced electricity use by more than 33.8 gigawatt hours, equivalent to reducing greenhouse gas emissions by nearly 17,000 tons. In line with its impact investing strategy, KKR and BBP collaborate to improve BBP’s ESG management practices as well.

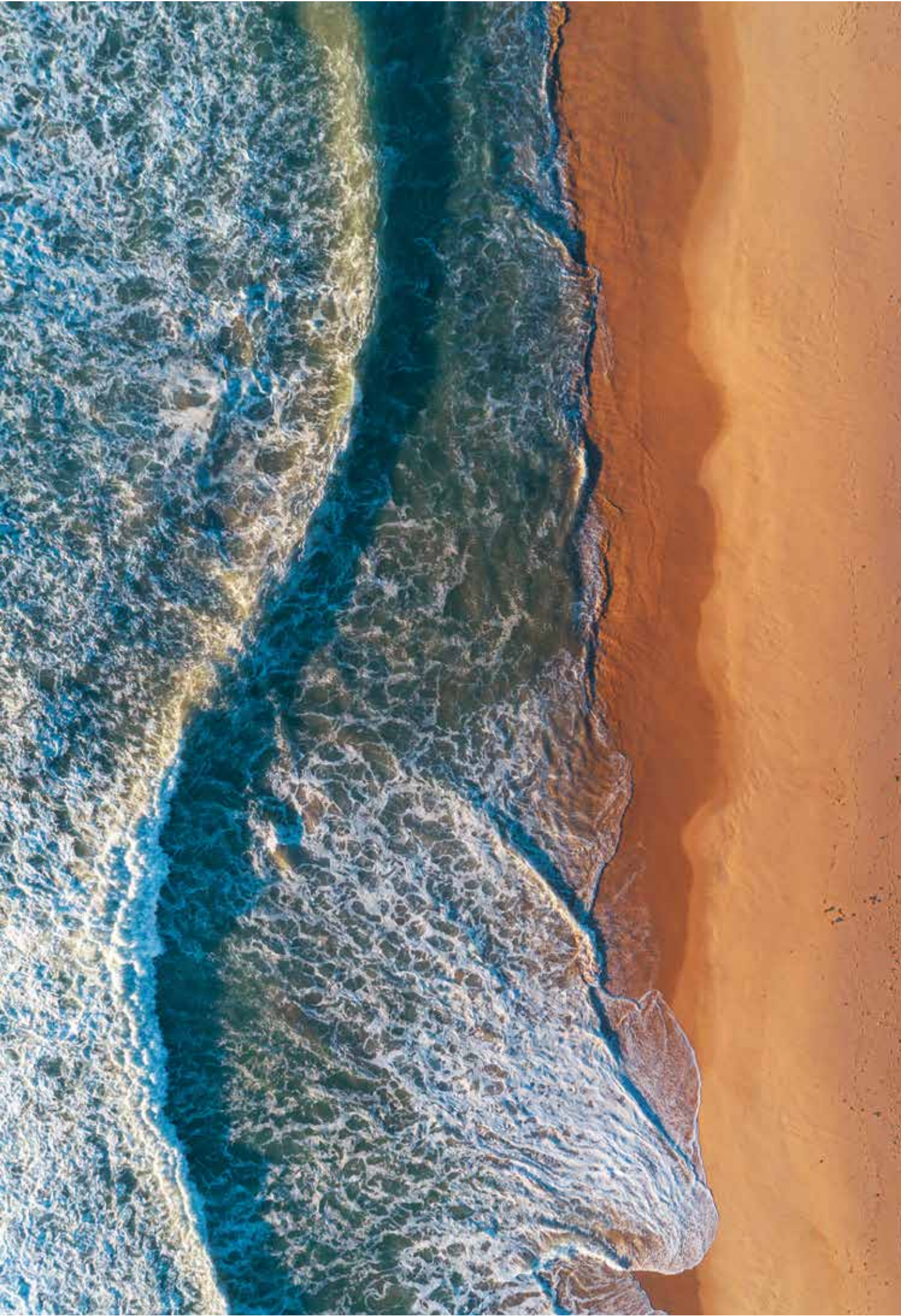


Metric	Impact
Electricity consumption	Reduced electricity by 33,8 gigawatt hours in 2018
Greenhouse gas emissions	Energy savings equals 17,000 ton reduction in CO2 emissions in 2018

Source: BBP

The case study about the company from the private equity portfolio shown above represents what we believe to be the most demonstrative example of a portfolio company providing emergency response services in 2018, as identified by the Global Public Affairs team. The specific portfolio company identified is not representative of all of the investments made, sold, or recommended to advisory clients, and it should not be assumed that the investment in the company identified was or will be profitable. All information and data are as of December 31 2018, unless otherwise noted.





“We believe that ESG factors can be best implemented within private equity as the general partners control the companies they own. We are expecting that ESG integration leads to better risk management, which will support better outcomes for the companies’ stakeholders.”

Nicolas Schaeppi, Senior Portfolio Manager and Member of IC, Retraites Populaires, Switzerland



# Summary

The case studies presented in this guide show that there is no one “right way” of integrating ESG considerations into private equity decision-making. Approaches vary as much as the GPs themselves, as they each pursue different strategies and styles of investing in a wide variety of industries and geographies. Amid this variation, however, the efforts of some GPs are clearly on the cutting edge of ESG integration, as they focus on concrete outcomes and further standardization of ESG practices. This will ultimately help to keep the ESG toolbox business-relevant and more useful to GPs.

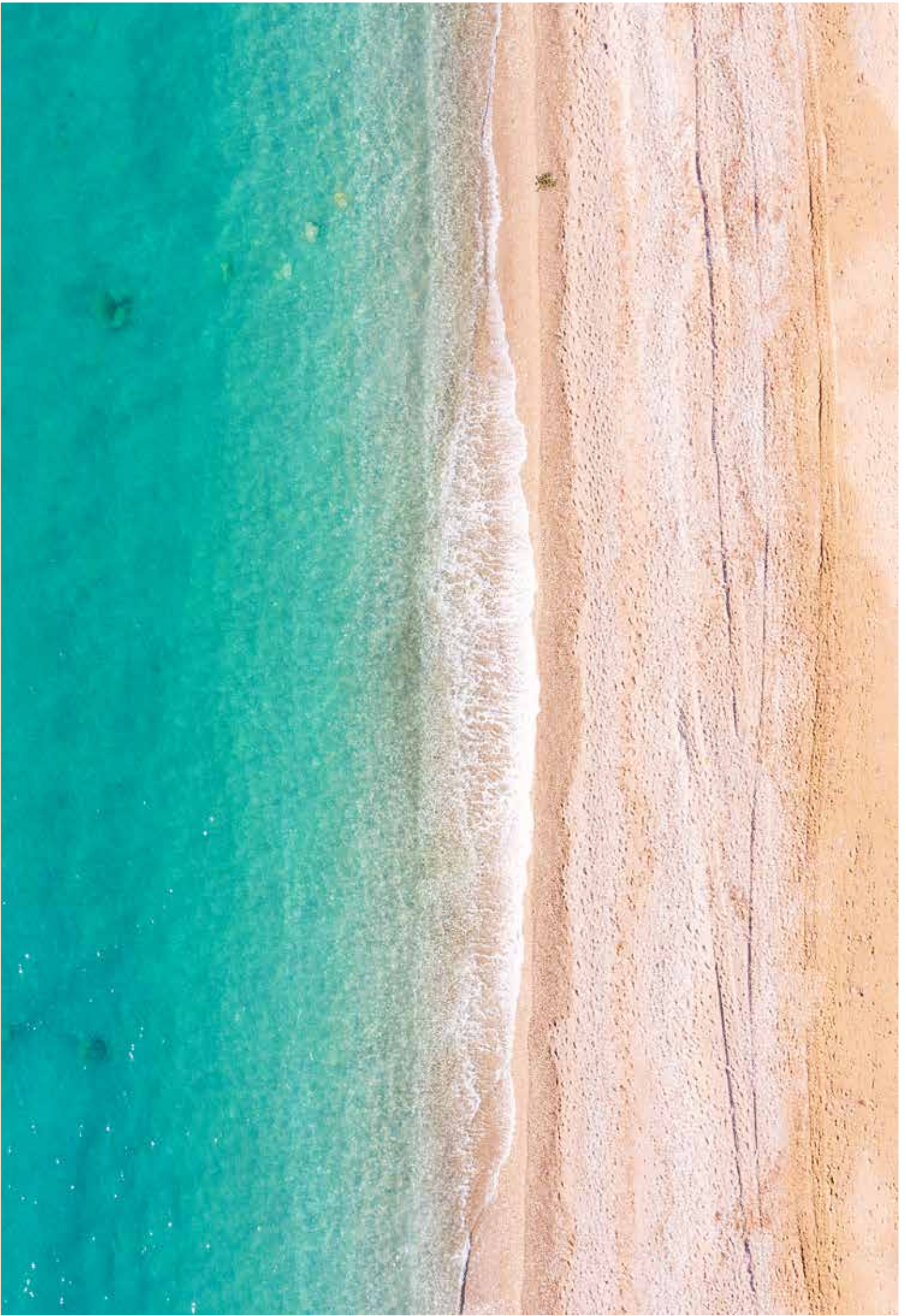
We have seen that GPs can demonstrate their commitment to ESG in different ways, but doing so requires much more than simply adopting an ESG policy or joining an ESG-related trade body. It requires concrete actions to truly integrate ESG into the way the GP manages its investments. With AEA, this takes the form of its ESG Risk Review Framework, a core tool for identifying and addressing ESG risks and opportunities. For Summa, it means identifying opportunities for ESG value creation by linking desirable investment outcomes to the SDGs. In both cases, the GP’s commitment means embedding ESG deeply into the organization’s investment culture.

For the investment process, effective ESG integration typically entails identifying material issues early on, even before formal due diligence has begun. Towards this end, NewQuest leverages a widely recognized existing framework, the IFC’s investment Exclusion List and Performance Standards, to apply the initial ESG “go/no go” screen. They also use the framework to determine the materiality of various ESG factors for due diligence. Subsequently, best practice requires a systematic approach for capturing the full range of ESG risks and opportunities. Some firms may do this in house, while others rely on an external partner that specializes in ESG due diligence. Genstar does the latter, benefiting from professional ESG support that identifies key issues and recommends ways to enhance a company’s ESG performance. It provides strong ESG insights to inform the GP’s IC decision-making.

The work on company transformation begins post-investment, and it includes efforts to mitigate identified ESG risks and capitalize on opportunities. Typically, GPs will agree to an ESG action plan with portfolio company management, with provisions for regular follow-up at board level. Hg does this through its Responsible Business framework, which it uses to identify key areas of ESG focus for companies and the resources required for achieving ESG objectives. At the same time, Triton takes these efforts to the next level, by integrating the SDGs and climate change into its management of ESG issues, and it even calculates the financial value of the ESG enhancements it makes.

The last link of the ESG value chain is reporting on outcomes. This begins with GPs engaging with their portfolio companies to establish a set of KPIs corresponding to their various ESG targets. These metrics facilitate the GP’s own ESG monitoring and internal reporting on companies, and they lay the groundwork for reporting to investors. GenBridge recognizes the value of strong internal ESG monitoring, as evident in its extensive ESG framework that includes detailed control sheets and risk monitoring reports that capture the pertinent issues, all in an effort to keep ESG action plans on track. We see how such systems can be utilized subsequently for investors, through the public reporting work of KKR, which is able to provide material ESG KPIs for both individual portfolio companies and at the portfolio level.

Ultimately, all of these efforts contribute to value creation for investors, whether by mitigating long-term risks, capturing emerging opportunities or providing transparency.





# LGT Capital Partners'

## ESG journey

LGT CP has a long-held commitment to incorporating ESG considerations into its client programs and its business overall. Since 2003, many of our programs have had a responsible investment clause written into their governing documents, authorizing us to exclude investments that are substantially exposed to arms-related activities, violations of human rights, irresponsible treatment of the natural environment or other non-ethical conduct of business. Consideration of ESG issues is an integral part of our investment process, as our investment teams are responsible for taking into account ESG considerations when performing due diligence on investments. Any opportunity that is pursued will have been vetted for such issues.

LGT CP has been a signatory to the PRI since 2008. In 2018, Tycho Sneyers, a managing partner and chairman of the firm's ESG Committee, joined the board of directors of the PRI. LGT CP also participates in the Carbon Disclosure Project (CDP), the European Sustainable Investment Forum (Eurosif), the Montreal Carbon Pledge and Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+.

### ESG in our investment and monitoring process

Consideration of ESG issues is an integral part of our investment process, which we have developed to align with the PRI. Our investment teams are responsible for taking into account ESG considerations when performing due diligence on investments. These assessments form an important input for the discussions held by the investment committee in reaching a decision over whether to invest. We then monitor our portfolios for a wide range of risks, including those related to ESG. In addition, we conduct bespoke monitoring for certain clients to confirm compliance with their specific ESG or ethical frameworks and policies.

We have developed processes to integrate ESG principles according to the requirements of the various assets classes and investment structures. For example, for our private equity, hedge fund and multi-manager long-only portfolios, we focus on assessing the ESG practices of our managers and engaging with them to raise standards in this area. For our public equity and fixed income portfolios, however, we focus on individual security selection because we benefit from considerably more publicly available information for making an ESG assessment. This has enabled us to develop a proprietary tool, known as the "LGT ESG Cockpit," for identifying and assessing the ESG risks and opportunities of each holding in these portfolios.

### Adherence to international conventions on controversial weapons

In addition to completing our own ESG analysis, we apply guidelines from Sustainalytics to avoid exposure to companies involved in the manufacture, storage or transportation of controversial weapons, such as land mines, cluster bombs/ munitions and biological, nuclear and chemical weapons. The partnership enables LGT CP to develop portfolios that comply with international conventions on these weapons.

### Policy on coal

In 2020, LGT CP also implemented a group wide policy on coal (Coal Exclusion Policy). In order to combat climate change and to shift our investments in a way that supports an energy supply that is consistent with a scenario compliant with the Paris Agreement, LGT CP excludes thermal coal production and power generation from thermal coal from its investment portfolios. Coal-fired power production is currently already not compliant with any scenario that limits global warming to 2° Celsius or less.

# About us

LGT Capital Partners is a leading alternative investment specialist with over USD 65 billion in assets under management and more than 550 institutional clients in 40 countries.\* An international team of over 550 professionals is responsible for managing a wide range of investment programs focusing on private markets, liquid alternatives and multi-asset class solutions. Headquartered in Pfaeffikon (SZ), Switzerland, the firm has offices in New York, Dublin, London, Paris, Frankfurt, Vaduz, Dubai, Beijing, Hong Kong, Tokyo and Sydney.

## 65+

USD BILLION  
AUM

## 550+

INSTITUTIONAL  
INVESTORS

## 550+

EMPLOYEES  
GLOBALLY

## 12

LOCATIONS  
WORLDWIDE



\* AUM is estimated and subject to change. Private equity assets are stated in terms of committed capital.

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