REPORT ON PROGRESS
PRIVATE EQUITY

2014/15

Principles for Responsible Investment

FINANCE INITIATIVE UNEP | United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

THE SIX PRINCIPLES

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

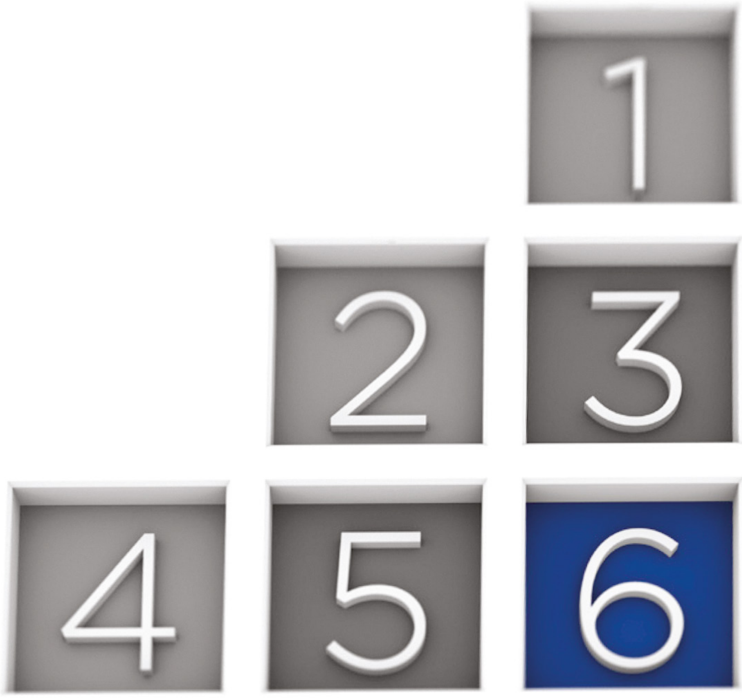
2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

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

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

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

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



PRI PRIVATE EQUITY PROGRAMME

The PRI PE programme provides practical support and guidance to signatories that are seeking to enhance their approach to investing responsibly in private equity. The programme's execution and strategy is overseen by a PRI signatory Advisory Committee. Further details on the programme and publicly available resources can be found on the PRI website.

Signatories can sign up for regular updates on the PE programme and relevant industry developments by contacting the PRI (info@unpri.org).

Some values (and wording around denominators) have been changed from a previous version of this report due to a statistical error.

CONTENTS

FOREWORD AND MARKET NOTE

Adam Frost
Responsible and impact investment manager, Partners Group, and Chair of the PRI Private Equity Advisory Committee

Trends shaping the private equity sector over the past decade have provided momentum to the integration of responsible investment by LPs and GPs.

As the private equity industry grows, so do expectations that it will operate responsibly and transparently. The expansion of the private equity industry is mainly driven by growing global institutional assets, of which pension funds are the largest contributor, having grown 6% p.a. over the last decade to USD 35 trillion in 2015, and by pension schemes' increasing allocations to private markets, which were negligible in 1995 and now stand at around 2%.[1] This growth coincides with increasing transparency in how the sector operates. Responsible investment offers a way for private equity investors to respond to such expectations by demonstrating how they and their portfolio companies are well managed.

Although the demand for private equity solutions is growing and more capital is being raised, institutional investors are consolidating their commitments and will prefer to work with those investment managers who can sustainably create value over the long term. Building on their traditional strategies, private equity managers are now developing additional ways to add value to their portfolio companies to benefit their clients. Leading private equity investors are focusing on operational value creation in their portfolio companies.[2] This provides a natural springboard for responsible investment integration.

The past decade has also witnessed increasing recognition of the pressures that society and the environment will face in the future. Trends such as climate change, government fiscal strains and ageing and growing populations are combining to create significant investment opportunities. This is well illustrated by the need for sustainable infrastructure. McKinsey estimates that current annual infrastructure investment of US$2.5-3.0 trillion is only half the amount needed to meet projected average annual demand of US$6 trillion in the next 15 years.[3] Much of the shortfall will have to be provided by private investment.

Responsible investment is essentially about the relationship between investors and society. In the next decade the private equity sector is well placed, due to its inherent corporate governance advantages and long term investment horizon, to make a strong, positive contribution. This will benefit private equity LPs, GPs and, ultimately, society.

Fiona Reynolds
Managing Director, PRI

The PRI private equity programme was launched in 2008 and, as of March 2016, we now count over 600 PRI signatories with investments in private equity.

Alongside this remarkable growth, an industry dedicated to providing specialised ESG tools and services for Limited Partners (LPs), General Partners (GPs) and their portfolios has sprung up. GPs are testing sophisticated methods of ESG integration, and activity is branching out of Europe and gaining credence in North America and Asia.

In this, our first Report on Progress in Private Equity, you'll find the most reliable snapshot of responsible investment in private equity to date, based on 306 PRI signatories' submissions[4] to the Reporting Framework on their PE investments in 2014/15. LPs can use this report to understand best practices and to factor this into their dialogue with GPs.

LP expectations have been the drivers of initial activity, a trend which has already been charted.[5] To keep the momentum alive, the PRI strongly urges LPs globally to follow the example of their peers and demonstrate leadership by signing the Principles – and by asking GPs to demonstrate adherence to ESG integration practices.

How can an LP's manager selection practices assure them about a GP's processes for enabling sustainable returns? What is the most that an LP can do during manager selection, appointment and monitoring to understand a GP's mandate, investment strategy and operational capabilities? The report points towards a fully integrated approach, one that includes assessing a manager's responsible investment processes.

1 TW Global Pension Asset study 2016, TW Global Alternatives study 2014
2 Understanding private equity's outperformance in difficult times, Partners Group, 2012
3 Financing Change: How to mobilize private-sector financing for sustainable infrastructure, McKinsey, 2016
4 See Appendix II for the list of private equity respondents to the PRI Reporting Framework 2014/15
5 See Bridging the Gap: Aligning the Responsible Investment interests of Limited Partners and General Partners, PwC, 2015 and ESG in Private Equity – 2015, Malk Sustainability Partners, 2015

PRI PRIVATE EQUITY REPORTING DATA: WHAT DOES IT TELL US?

WE FOUND

Since 2009, the GP signatory base has shown rapid growth whereas LP growth has been modest, though steady.

There is a gap between LP responsible investment due diligence and the translation of these findings into fund documentation and manager evaluation practices.

While many investors are considering responsible investment factors to some extent in all three stages of selecting, appointing and monitoring managers...

- 35% of respondents assign specific weighting to these factors during selection.
- 44% stipulate in fund formation contracts that GPs report on agreed ESG implementation activities.
- 48% include responsible investment criteria as a formal component of overall manager performance evaluation.

GPs are doing well in their policy, fundraising and pre-investment practices but do not, as a whole, have systematic processes in place for assessing and monitoring the impact of ESG issues on company value.

- 32% of respondents stated that ESG issues had impacted terms in the investment agreement/SPA. 25% stated that ESG issues had impacted investments in terms of prices offered and/or paid.
- 17% define ESG performance targets for over half of their portfolio companies.
- 40% disclose ESG issues in pre-exit information in all or a majority of cases.
- 26% are measuring changes to ESG performance; 14% are measuring how ESG issues impact financial performance.

WE ENCOURAGE

ALL SIGNATORIES

- Use this report and your PRI Assessment Report to compare yourself to peers and identify areas for improvement.
- Take advantage of the PRI's guidance and support on how to implement responsible investment within PE.
- Use the PRI as a platform to engage in the LP-GP dialogue on how to align expectations on responsible investment and achieve a common industry language.

LIMITED PARTNERS

- Use this report to identify common and leading responsible investment practices when in dialogue with GPs during the phases of due diligence, commitment and monitoring.
- Talk to managers about their PRI Transparency and Assessment reports.
- Encourage your peers to join the PRI and to apply responsible investment processes to their private equity investments.

GENERAL PARTNERS

- Measure the ESG impacts of your portfolio.
- Contribute to industry research and debate – through the PRI or independently – to advance the industry's understanding of responsible investment strategies and techniques.

ABOUT THE DATA: CHARACTERISTICS AND PERFORMANCE

Of 936 reporters, 257 were investing indirectly in private equity through externally managed funds and 292 were investing directly in private companies. .

The overarching PRI Report on Progress 2015 notes a faster proportional growth of GPs incorporating responsible investment in their PE investments than LPs (6.0 percentage points year-on-year versus 0.9 percentage points). And since 2009, the GP signatory base has shown rapid growth whereas the LP growth has been modest, though steady, as illustrated by Figure 1.

It seems that a core group of LPs are driving uptake of responsible investment in private equity and the associated multiplier effect means that the number of GPs that formalise their commitment to responsible investment will only increase in future, particularly during fundraising cycles. The more LPs that start to incorporate ESG factors into their selection, appointment and monitoring of managers, the more significant this effect will be.

Figure 1: Growth of PRI PE signatory base

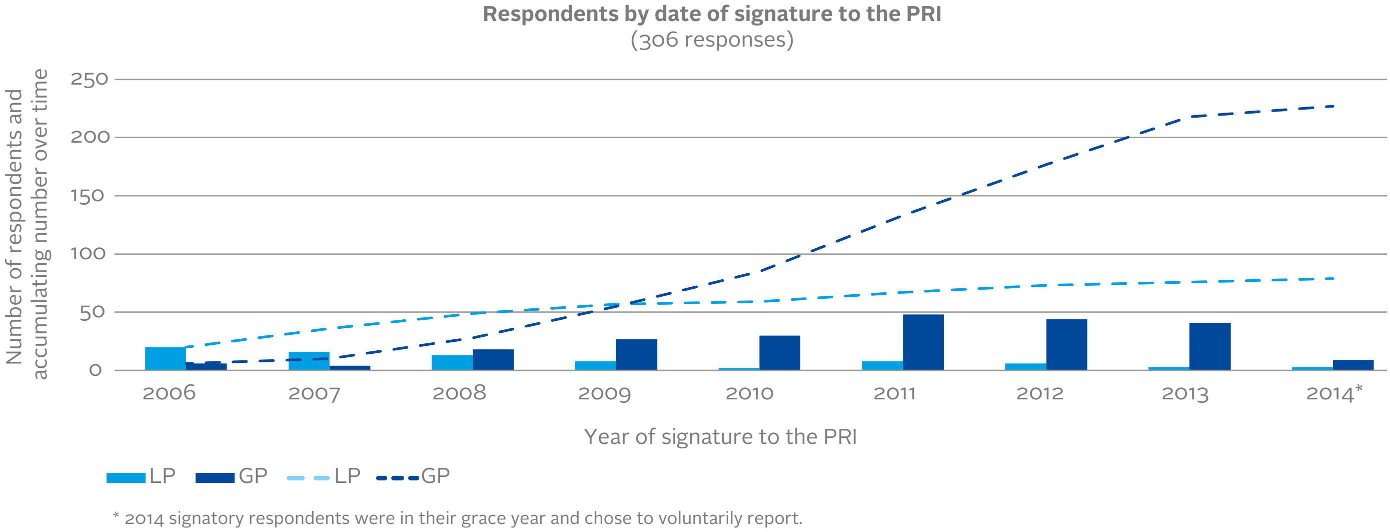


Figure 2: Regional breakdown

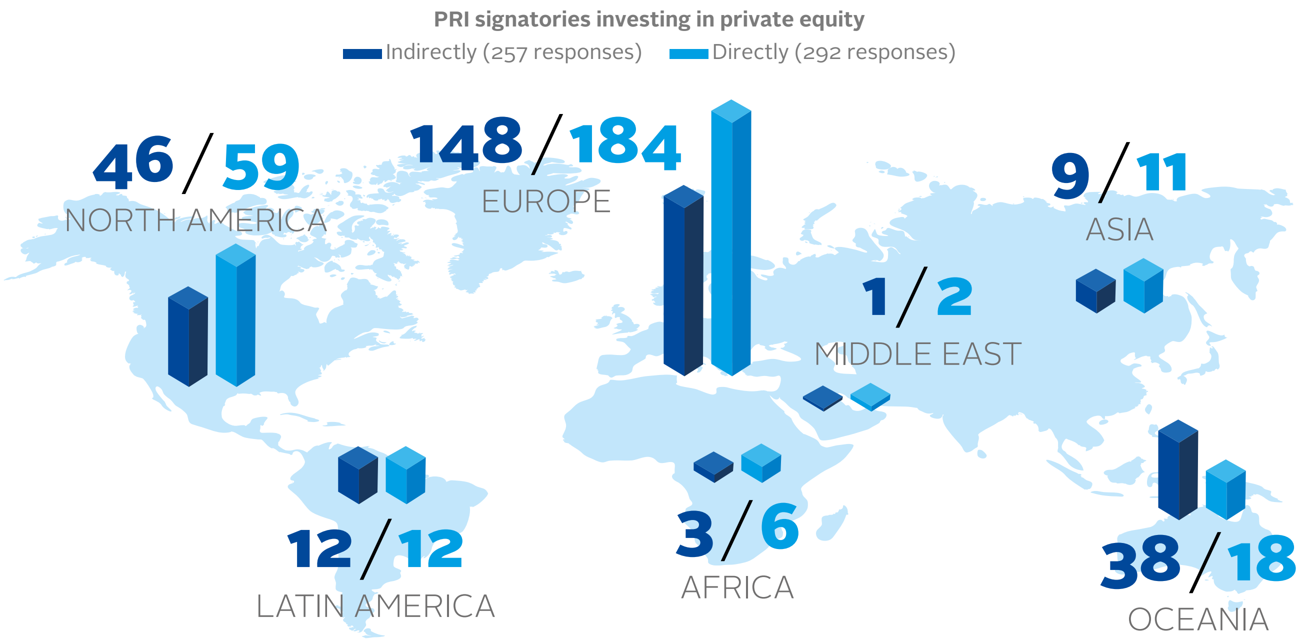
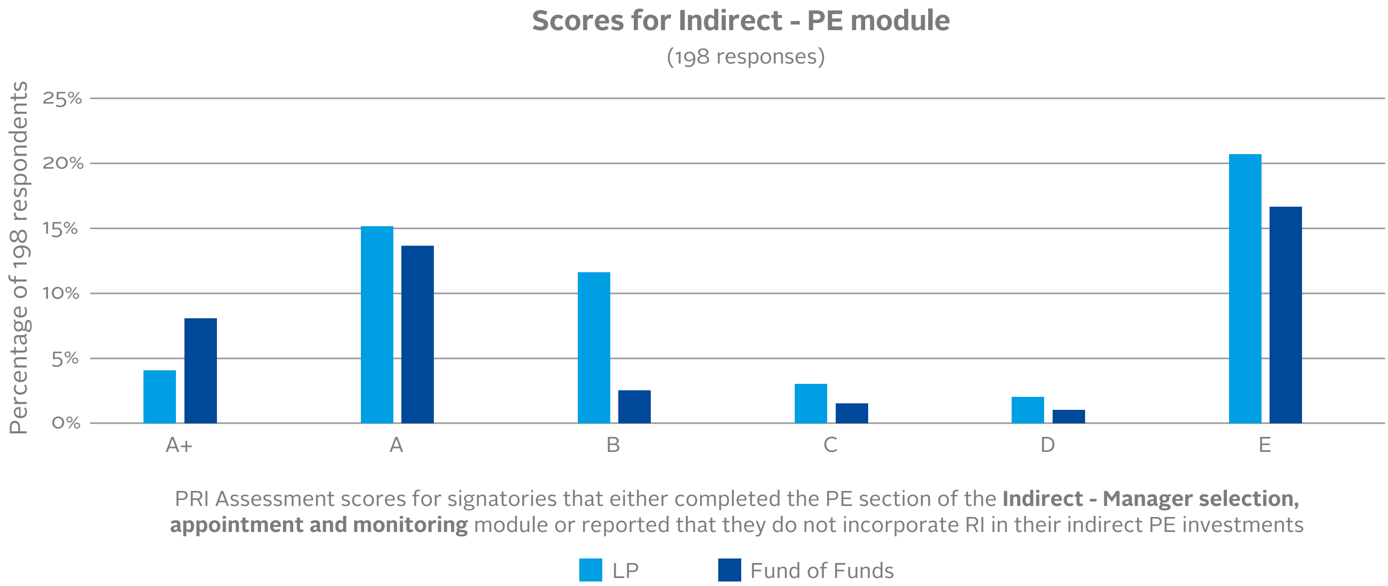
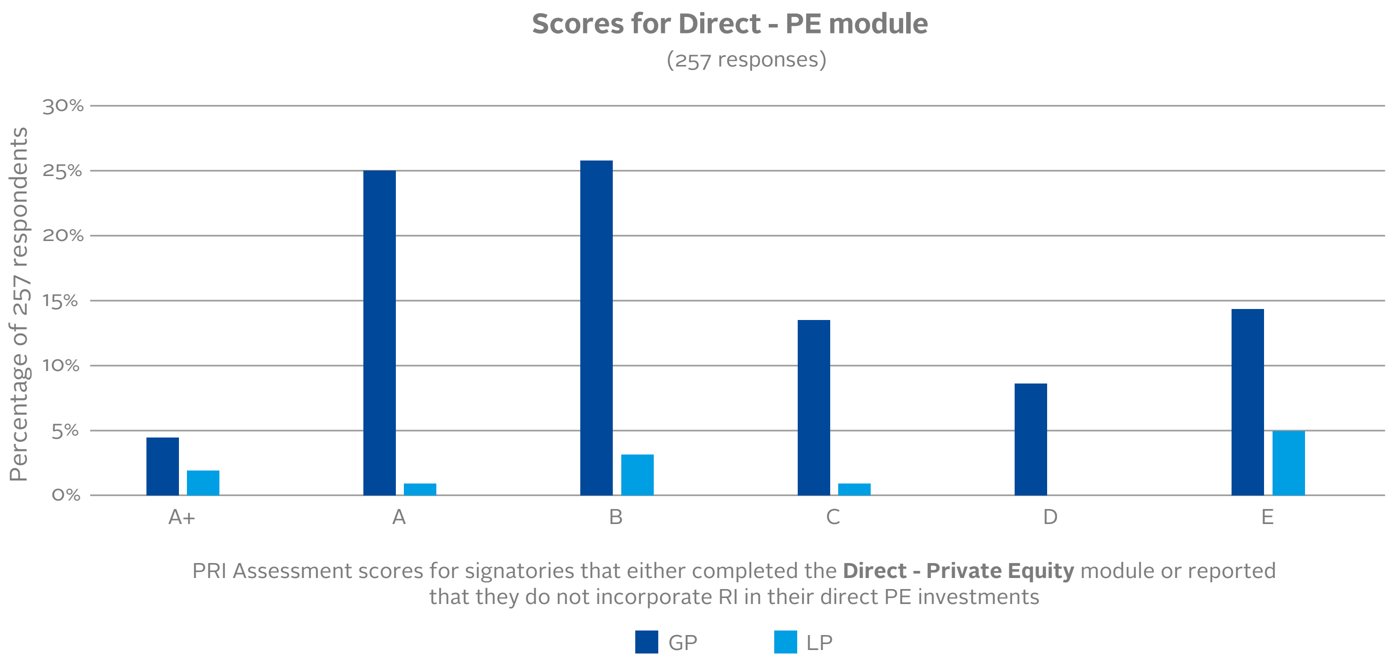


Figure 3: Performance



PRI Assessment scores for signatories that either completed the PE section of the **Indirect - Manager selection, appointment and monitoring** module or reported that they do not incorporate RI in their indirect PE investments



PRI Assessment scores for signatories that either completed the **Direct - Private Equity** module or reported that they do not incorporate RI in their direct PE investments

For an explanation of the assessment process and of the scoring bands, see Appendix I.

European signatories received a disproportionately high quantity of the scores in the top two bands. This can be at least partially explained by the fact that European signatories have typically been signed up to the PRI for longer, and have had more time to develop advanced ESG integration practices. Rapid development in the sector over the past few years has made responsible investment in private equity a dynamic and continually refined process. There are many examples of the good practice developed and the lessons learned available from these early starters to speed up the learning process for newer comers. It is the PRI's role to aid this learning process and to act as a platform to align the LP-GP dialogue on responsible investment.

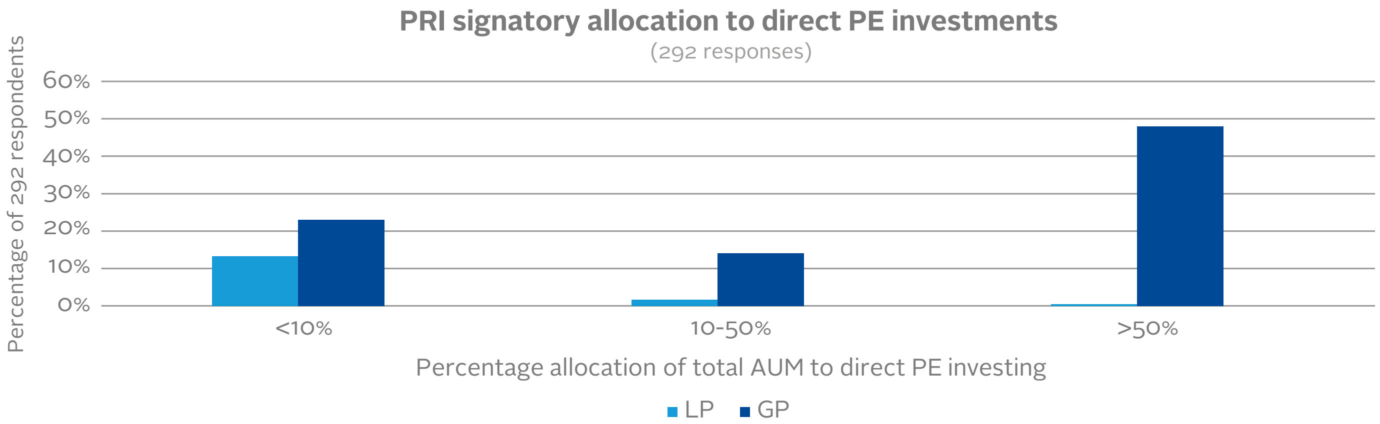
GUIDANCE FOR LPS AND GPS

The PRI Guide for Limited Partners helps LPs implement ESG considerations into their policies, ownership activities and reporting requirements for their private equity investments. It also gives GPs an indication of LP motivations and the types of ESG-related processes that they might seek disclosure from their GPs on.

The PRI Guide for General Partners provides a framework for GPs to integrate ESG factors into their private equity investment activities, linking this with organisational governance, structure and culture. The good practice suggested is based on interviews with over 50 GPs and LPs worldwide. LPs can use this to generate more informed discussions with their GPs during both fund selection and monitoring.

DIRECT PRIVATE EQUITY INVESTMENTS

Figure 4: Allocation



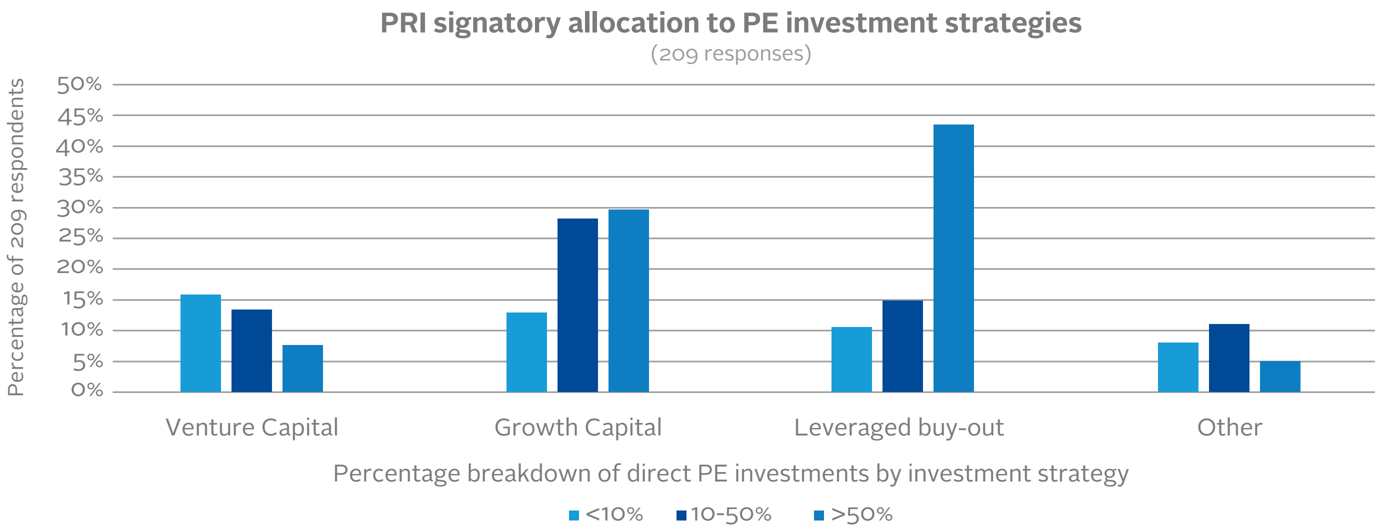
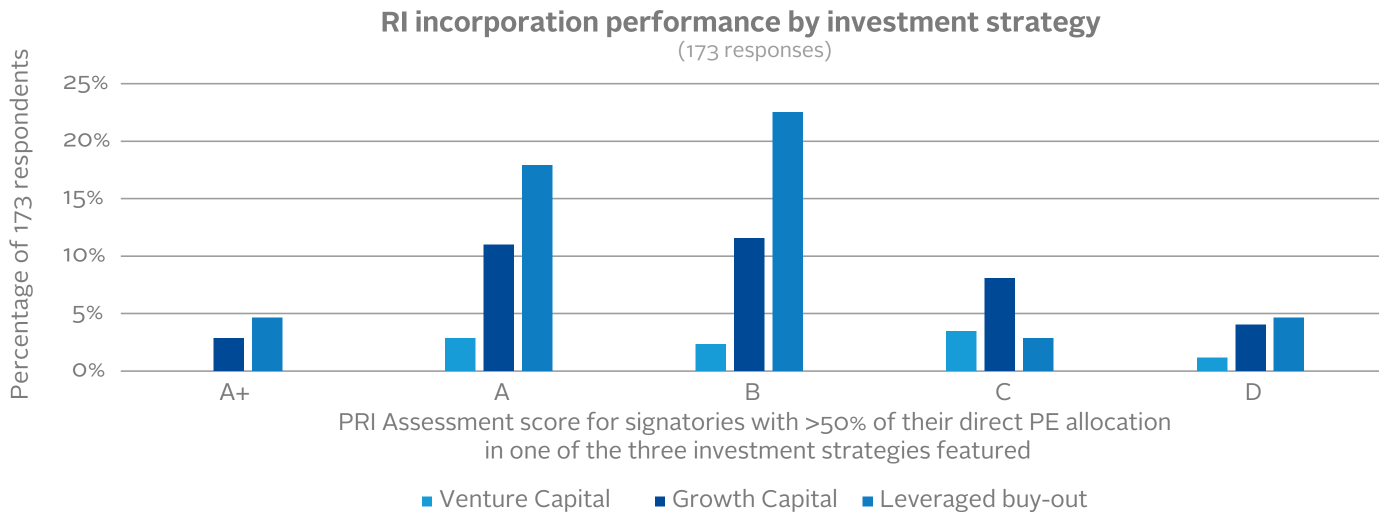
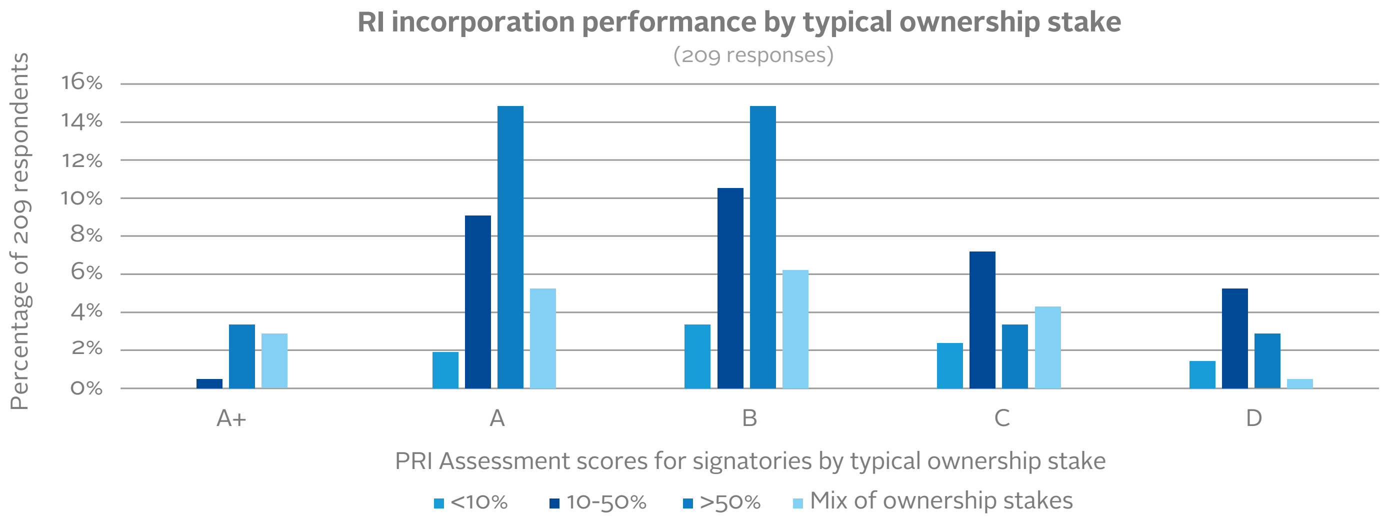


Figure 5: Performance by investment strategy and ownership stake





It is important that LPs consider and contextualise both the investment strategies used and the typical ownership stakes held when in dialogue with their GPs – e.g. venture capital GPs should be peered against each other, and not compared to large buyout firms.

Where signatories specialise in an investment strategy (manage more than 50% of assets in one strategy), leveraged buy-out and growth capital see better ESG incorporation performance (see Figure 5). The more formal processes related to implementing an ESG programme (developing a policy, setting objectives, establishing a reporting system) are not always compatible with small cap venture capital investment. Similarly, signatories that typically hold a minority stake in their investments do not score as well as signatories that hold more significant stakes and are generally better positioned to influence company operations (see also Figure 5).

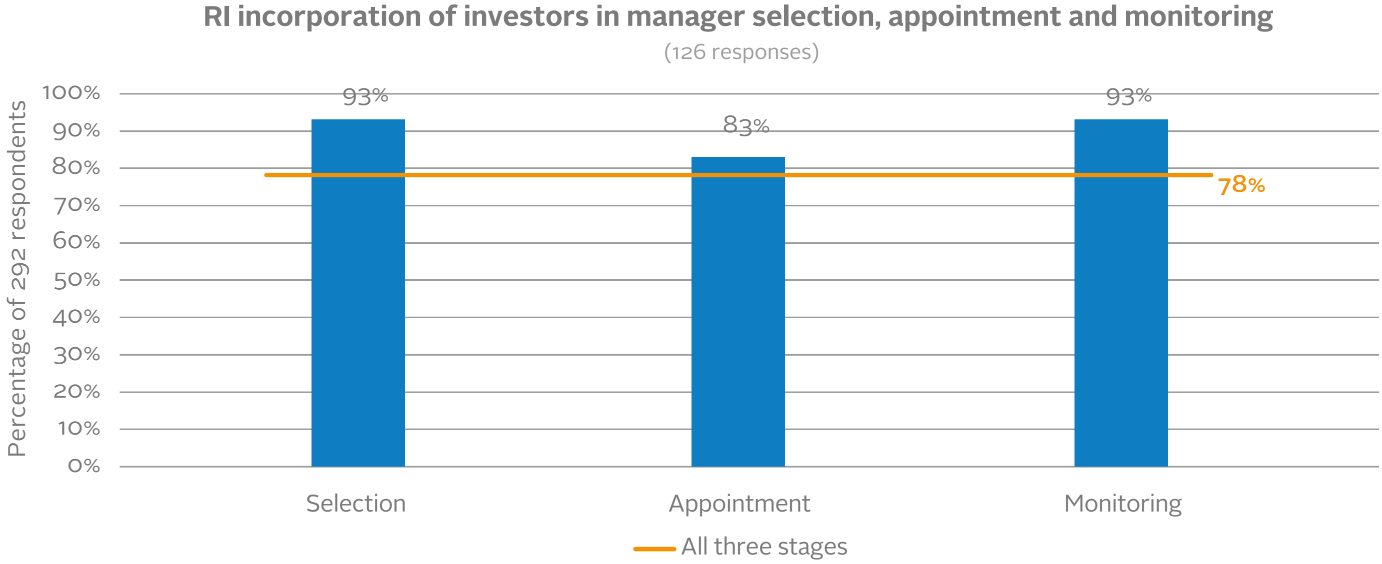
It is also important to appreciate the potential ESG impact of a venture capital investment when making allocation decisions: venture capital can be used to fund innovative environmental technologies, create jobs, install effective governance processes in fledgling companies, etc.

LIMITED PARTNER DEMAND: SELECTING, APPOINTING AND MONITORING MANAGERS

Of the 257 responders that invest indirectly in PE, through externally managed funds, 185 indicated that they integrate ESG in these investments to some extent. For the 126 signatories that completed the PE section of the Indirect – Manager Selection, Appointment and Monitoring module (most of whom did so on a voluntary basis)[6], we can examine exactly what they report doing.[7]

78% reported that they consider responsible investment factors to some extent in all three stages of manager selection, appointment and monitoring, yet there is a gap between responsible investment due diligence and the systematic translation of these findings into fund documentation and manager evaluation practices.

Figure 6: LP demand



SELECTION

93% of module respondents told us that they are incorporating ESG in their manager selection processes. Common selection practices include reviewing the GP's responsible investment policy, discussing the manager's governance and management of responsible investment, or simply asking whether the GP is a signatory to the PRI and/or other relevant organisations.

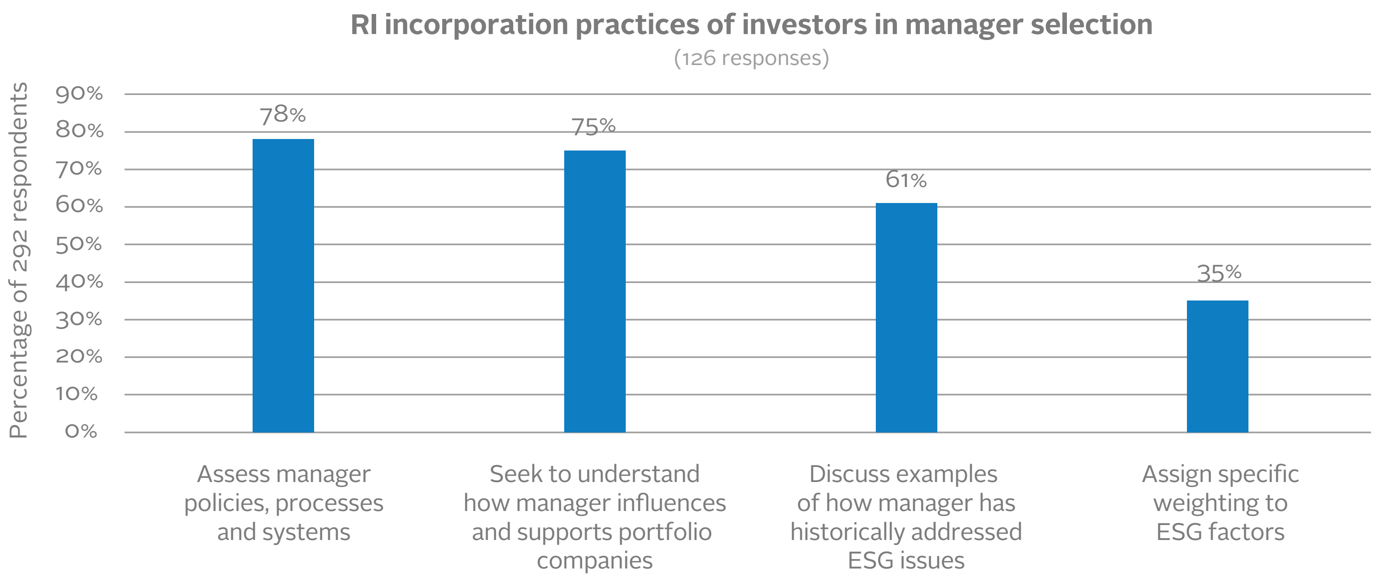
Whilst this level of incorporation is encouraging, and is an incredibly effective driver for increased attention to responsible investment from GPs, these are rather high-level practices and LPs should strengthen and formalise their processes for taking the results of responsible investment into consideration. It is important that LPs begin to challenge their managers beyond a possible 'tick-box exercise' on how responsible investment policies are being implemented and how they are adding value. Fewer investors are systematically looking at how to assess and, critically, weight the information received from GPs in their manager selection processes – as illustrated by Figure 7.

> "It is important that LPs begin to challenge their managers on how responsible investment policies are being implemented and how they are adding value."

6 Completion of PRI Reporting Framework modules is voluntary for those investing less than 10% of AUM in that asset class.

7 126 is used consistently as the denominator throughout this chapter, regardless of whether the reporting indicator under analysis was mandatory or voluntary to complete. For further explanation, see Appendix I.

Figure 7: Selection



PRI LIMITED PARTNERS' RESPONSIBLE INVESTMENT DUE DILIGENCE QUESTIONNAIRE (LP RESPONSIBLE INVESTMENT DDQ)

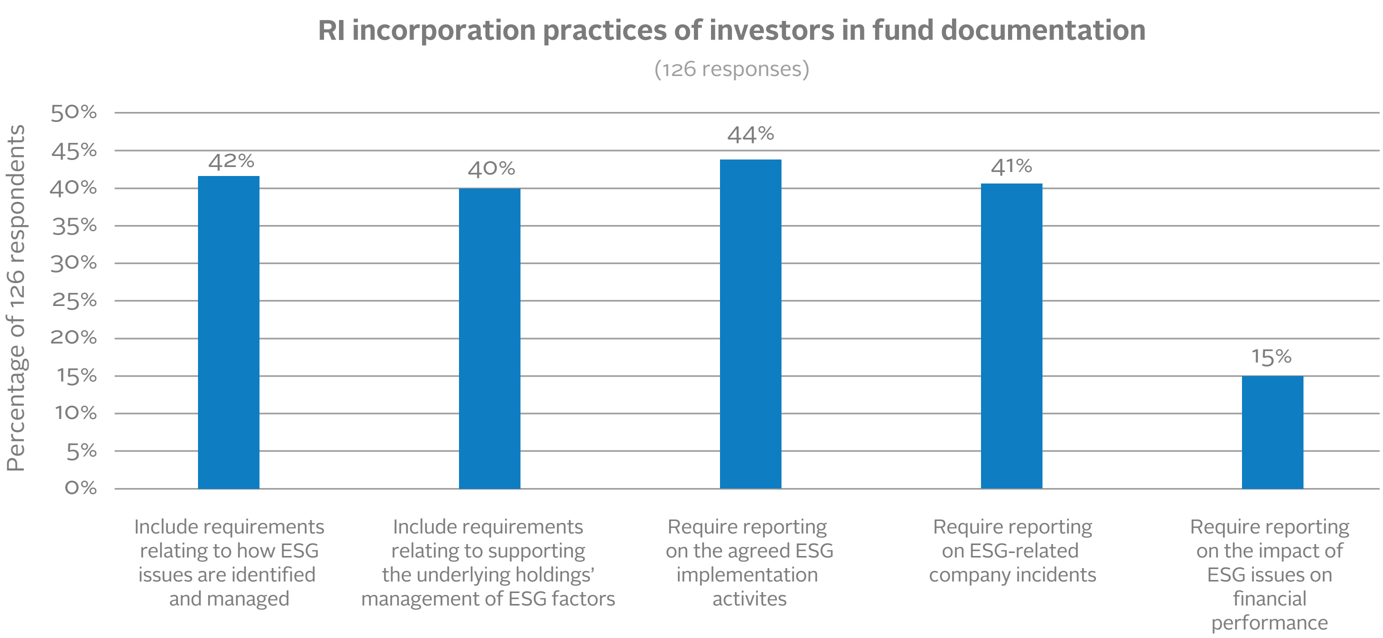
The LP Responsible Investment DDQ is the industry standard for LP ESG-related due diligence. It is an adaptable list of questions that LPs can ask GPs pre-commitment to understand and evaluate their processes and accountability mechanisms for integrating material ESG factors into investment practices.

The DDQ is not intended to be used as a check-list, but as a tool to establish dialogue. Any opportunities for improvement that are identified by the LP may form a basis for engagement either pre- or post-commitment. It is accompanied by a guidance document designed to enhance the LP-GP dialogue.

APPOINTMENT

Fewer module respondents, at 83%, are incorporating responsible investment into their appointment practices, compared to selection and monitoring. Less than half are incorporating specific responsible investment requirements into fund documentation, through the Limited Partnership Agreement (LPA) or a side letter, as illustrated by Figure 8. LPs can use the fund documentation negotiations to formally commit the GP to demonstrate the delivery and impact of their responsible investment processes that were discussed during fundraising.

Figure 8: Appointment



The mandating of responsible investment activity through fund documentation is a fairly recent practice (except of course for Development Finance Institutions). Results suggest that it should be considered as direction of market at this point. It is not always clear to LPs what they can reasonably request from GPs through such documents. The LP must also decide what types of ESG provisions should be prioritised in the negotiating process.

One such provision is for ESG reporting, and **44% of respondents do typically stipulate that GPs report on the agreed ESG implementation activities in fund documentation.** But what do LPs exactly mean by ESG reporting, and what is most material to them? At this stage, **41% ask for reporting on ESG-related company incidents.** This corresponds with a recent industry survey of 100+ LPs on perceived ESG and reputational investment risks, which established that the second highest ranking concern for LPs is "[GPs] concealing bad news from investors".[8] It is therefore important that GPs can demonstrate an efficient ESG incident reporting system.

Far fewer LPs, at **15%, require their GPs to report on the impact of ESG issues on financial performance.** Although requiring GPs to report on the financial impact of ESG integration would be considered very advanced, and will likely generate many responses of "it can't be done", it is important to start asking the question as that is the only way to compel the relevant actors towards making this connection.

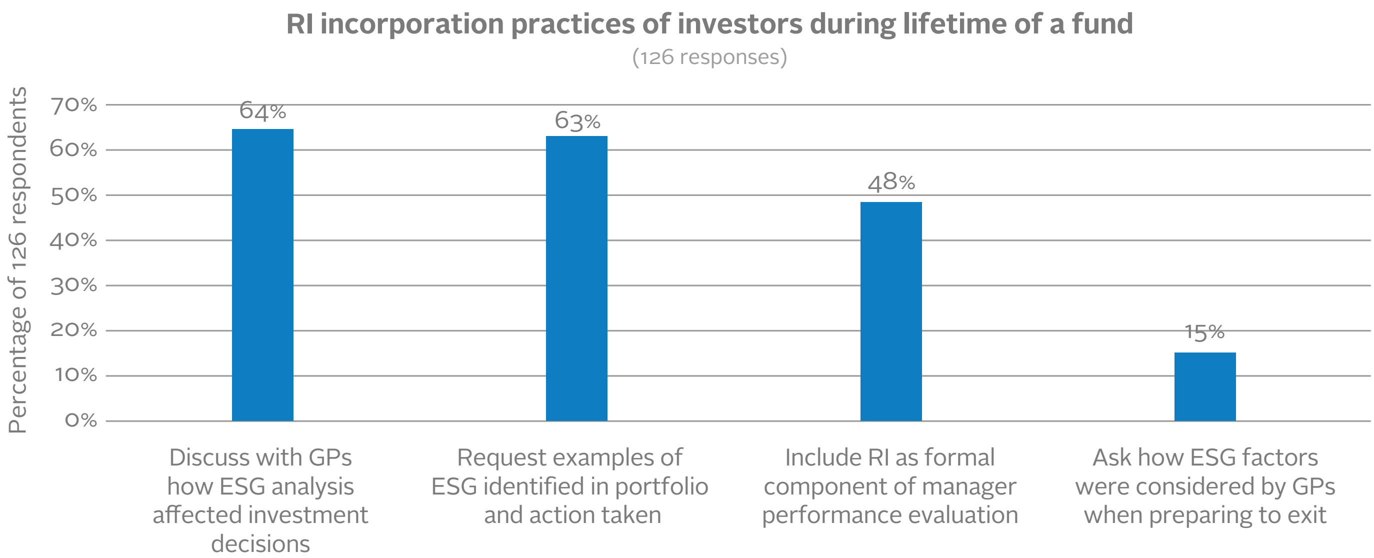
"44% of respondents typically stipulate that GPs report on the agreed ESG implementation activities in fund formation contracts."

8 Reputational Risk in Private Equity Index, IAG and Thompson Taraz, 2014

MONITORING

LPs can use the ESG-related information provided by GPs during the lifetime of the fund to gain a deeper understanding of the GP's approach to responsible investment and to stimulate progress. **93% of module respondents told us that they are integrating responsible investment in their manager monitoring processes.**

Figure 9: Monitoring



> "Discussing with GPs how ESG factors are being incorporated into exit preparations demonstrates how the GP thinks about ESG integration in terms of value."

Including responsible investment criteria as a formal component of overall manager performance evaluation is perhaps the most effective means of driving continuous improvement in responsible investment activity across an investor's private equity portfolio. It is also good practice for investors to discuss with GPs how ESG factors are being incorporated into exit preparations, as it demonstrates how the GP thinks about ESG integration in terms of value and the depth of their approach.

GENERAL PARTNER PRACTICE: INTEGRATION AND OWNERSHIP

Of the 292 responders that invest directly in private companies, 244 indicated that they are incorporating ESG issues into their investment decisions and ownership practices to some extent. For the 209 signatories that completed the Direct – Private Equity module, we can examine exactly what practices they report doing.[9]

Overall, scores are stronger in policy, fundraising and pre-investment practices. This suggests that private equity signatories are predominantly in the early stages of implementing responsible investment programmes (as illustrated in Figure 1, most respondents have signed the PRI since 2011). As signatories implement their responsible investment policies in new investments and across the existing portfolio, we expect to see the post-investment figures improve.

INCORPORATING RESPONSIBLE INVESTMENT WITHIN THE FIRM

In the PRI Guide for General Partners, GPs are advised that the ESG integration process involves more than simply formalising what they are already doing. A GP has to examine, in depth, whether it is taking into account the full spectrum of ESG issues in its investment analysis and working with portfolio companies on all issues relevant to the business. To do this, it is important that an appropriate organisational structure and culture is in place and that the GP has a clearly defined policy and set of objectives whereby to guide their efforts. Formal commitment from the top (Board, CEO or Investment Committee level) is crucial to enabling successful responsible investment implementation. GP signatories are demonstrating strong performance in this area, as illustrated by Figure 10.

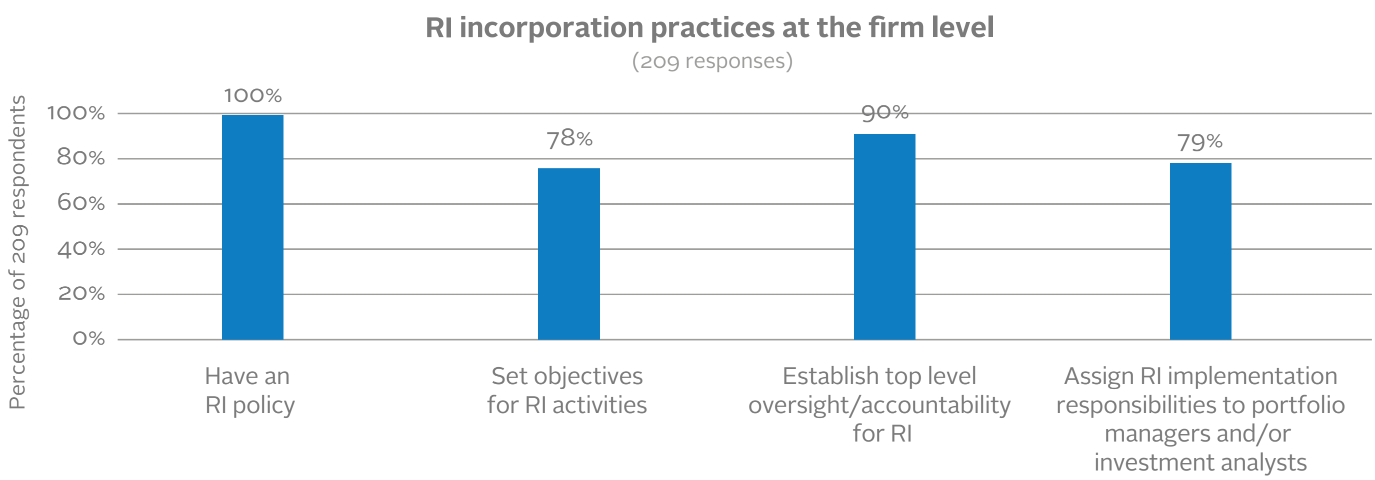
In terms of implementation responsibilities for responsible investment, as per Figure 10, **79% of module respondents reported that this lies with the portfolio managers and/or investment analysts.** This figure is very encouraging as it implies an integrated approach towards responsible investment. However, only **37% include responsible investment in the personal development/training plans and 26% include responsible investment in the appraisal process of their portfolio managers and/or investment analysts.** An LP could then query the thoroughness of an integrated approach if the HR component is not properly followed through.

ESG IN FUNDRAISING AND FUND FORMATION

Three quarters of GP respondents stated that their fund placement documents (private placement memorandums or similar) refer to responsible investment. 45% go further and make formal commitments to ESG in fund formation contracts, LPAs (Limited Partnership Agreements) or side-letters in all or a majority of cases. These findings suggest that whilst responsible investment is being marketed by GPs as part of their value proposition, far fewer are going on to make binding agreements in this area. Conversely, as per the findings in the previous chapter, only a relatively small number of LPs are seeking formal commitments regarding ESG factors through contracts when committing to a fund. Increased pressure from LPs is required to make responsible investment practices in fund formation more common going forward.

> "Whilst responsible investment is being marketed by GPs as part of their value proposition, far fewer are going on to make binding agreements in this area."

Figure 10: Firm-level responsible investment incorporation

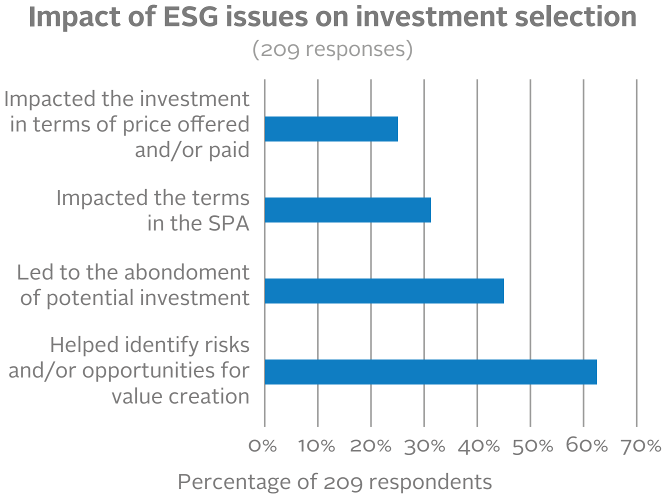


9 209 is used consistently as the denominator throughout this chapter, regardless of whether the reporting indicator under analysis was mandatory or voluntary to complete (with the exception of Indicator PE 05 which is applicable to GP reporters only, in which case the denominator is explicitly stated as "GP respondents" rather than "module respondents"). For further explanation, see Appendix I.

INTEGRATING ESG FACTORS INTO THE INVESTMENT PROCESS

INVESTMENT SELECTION

Figure 11: ESG integration in investment selection



While a majority of module respondents report ESG issues as having helped identify risks and/or opportunities during due diligence, far fewer report impact on specific investment decisions, such as investment terms or prices paid. Should the impact of ESG issues on pricing negotiations become more common practice, GPs will become increasingly aware of their relevance when it comes to preparing for future exits.

INVESTMENT AGREEMENT AND OWNERSHIP

GPs can use the deal structuring process to seek formal commitment from the portfolio company to adhere to an ESG policy/guidelines or to manage ESG risks and/or opportunities identified during due diligence through the 100-day plan or an ESG-specific action plan.
As many as **59% of respondents reported that they typically encourage continuous improvements in the management of ESG issues from their investees during deal structuring, but only 33% did so in writing.** See Figure 12 for examples of ESG issues that are being actively managed by PRI signatories.

> "It is important that the GP works with portfolio company management to develop an ESG action plan, since they are ultimately responsible for its delivery."

GPs should develop a systematic approach towards translating the findings from ESG due diligence into an agreed upon action plan with portfolio company management. The way in which a GP engages with portfolio company management will vary (GPs that are majority shareholders with board positions are generally better positioned to influence company management than minority GPs), but at a minimum, directors may influence portfolio company behaviour by tracking actions concerning the management of ESG issues.

Only **17% of respondents reported that over half of their portfolio companies define operational performance targets for ESG issues.** There is clearly scope for GPs to improve the efficacy of ESG management at the company level through portfolio-wide goal-setting and a systematic approach to regular monitoring.

> "There is scope for GPs to improve the efficacy of ESG management at the company level through portfolio-wide goal-setting and regular monitoring."

It is important that the GP works with portfolio company management to develop an ESG action plan, since they are ultimately responsible for its delivery. Examples of the types of ESG activities that portfolio company management are taking include creating ESG committees or manager positions, performing ESG audits, devising company training plans and establishing dialogue and regular reporting. For effective management, it is also important that accountability for ESG activity is held at the highest level. **Only 29% of module respondents stated that responsibility for ESG issues is allocated to the board or senior management in over half of their portfolio companies.**

A third of module respondents request portfolio company reporting on ESG issues annually if not more frequently (either standalone or integrated). Only when GPs have regular ESG reporting systems in place for their portfolio companies are they in a position to analyse the information needed to support the adoption of the leading practices described in the next section.

Figure 12: Signatory examples of ESG issues managed during ownership[10]

SIGNATORY	ESG ISSUE	SECTOR(S) OF THE INVESTMENT AFFECTED	IMPACT (OR POTENTIAL IMPACT) ON THE INVESTMENT	ACTIVITIES UNDERTAKEN TO INFLUENCE THE INVESTMENT AND ITS RESPONSE
Actis, UK	Food safety	Consumer - Food producer	Poor floor installation; leading to potential cross contamination of food product.	The E7 factory ceramic tile flooring has been completely taken out and replaced by industry gold standard Acrylicon flooring (this was an Actis ESG finding in due diligence). The new flooring is also being installed at the new E7 factory unit which is due to open in Q1 2015.
EQT, Sweden	Supply chain risks	Consumer Goods and Retail	The associated ESG risks in the supply chain include, for example, violation of international/universal labour and human rights (including children's rights) and product health and safety. If not managed appropriately, these risks could lead to for example a damaged reputation/brand and product recalls with lost revenues and negative impact on company value as a result.	Firm support of a responsible approach to supply chain management. The portfolio company has for example implemented a supplier code of conduct based on internationally recognised principles including a number of zero-tolerance practices within key areas. All suppliers must sign the code of conduct and compliance is checked through audit and re-audit visits.
Impax Asset Management, UK	Flora and fauna	Wind farm environmental permits affected by prevalence of rare birds in the area	Permitting delays.	On-going engagement with authorities and local stakeholders.
FMO, Netherlands	Use of heavy fuel oil boiler	Multiple industries	Resource efficiency and cost savings due to more efficient operations.	FMO advised the company to replace the heavy fuel oil boiler with a biomass boiler.

10 Ref. PRI Reporting Framework indicator PE 19; publicly available responses only

EXAMPLES OF BEST PRACTICE

There are three low-scoring areas of the Direct-PE module where leading signatories are demonstrating advanced practice.

ESG VENDOR DUE DILIGENCE

Proving the value of ESG management at exit is the ultimate endorsement for a GP to maintain top-level and internal buy-in for a responsible investment programme. As ESG issues are more widely considered at exit, ESG information is increasingly a standard part of the vendor information request: **40% of module respondents reported that they now disclose ESG issues in pre-exit information in all or a majority of cases.** See Figure 13 for some examples of signatory pre-exit ESG-related disclosure and practice.

In 2013, the PRI commissioned a PwC survey on trade buyer attitudes towards evaluation of ESG in M&A transactions[11]. Its key finding was that, whilst good ESG performance is usually integrated in the valuation of a company (and difficult to quantify), poor performance on ESG factors can negatively impact valuation and hence may be used as a lever in price negotiations.

Depending on the ESG requirements of the GP's preferred exit route, the GP may need to demonstrate a sound longitudinal management of ESG issues to a certain standard to avoid delays or discounts. ESG vendor due diligence is also an opportunity to highlight any potential value from ESG initiatives that may not have been yet realised.

Figure 13: Signatory examples of ESG-related pre-exit practices[12]

As described in section OA 13.2 in this report, we always do an integrity check on the potential buyers in order to avoid contributing to money laundering when exiting a company. Preferably we want to find a buyer that will continue the work with ESG issues on the same or higher level as Swedfund.

Swedfund International AB, Sweden

ESG issues are a key consideration for any incoming purchaser in the mining industry and so the company we are exiting will need to make sure ESG issues are not only fully disclosed but that the company has detailed management plans in place. Furthermore, we need to ensure that the company retains sufficient provisions or financial assurance for environmental rehabilitation and has in place a robust mine closure plan so that local communities continue to enjoy the benefits accrued during operations long after we have exited and operations have ceased.

Taurus Funds Management, Australia

11 The integration of ESG issues in M&A transactions: Trade buyer survey results, PwC, 2013

12 Ref. PRI Reporting Framework PE 17.2; publicly available responses only

IMPACT MEASUREMENT

GPs with established ESG monitoring processes can measure changes in ESG performance over time and attempt to establish the value of ESG integration practices by analysing how ESG performance might be linked to financial performance as investments are realised: **26% of module respondents are measuring changes to ESG performance; 14% are measuring how ESG issues impact financial performance.**

Figure 14: Signatory examples of impact measurement[13]

> In general, we select only investments whose ability to generate positive societal impact is integral to their success as a business. As a result, we consider ESG issues to be at the heart of strong financial performance.
>
> In terms of measuring specific ESG interventions, we quantify the financial impact of our ESG approach wherever possible (e.g. cost savings through energy efficiency) and we support this with qualitative assessments, such as the role upskilled personnel may have played in improving productivity and customer satisfaction within portfolio companies.
>
> **Bridges Ventures, UK**

> CDC has produced case studies of investments where the financial performance of a company has improved through its approach to ESG issues (http://www.cdcgroup.com/The-difference-we-make/Case-Studies/Adenia-Partners/). CDC also measures costs savings as a result of ESG initiatives, for example, in an East African real estate investment where energy savings through solar panel installation reduced the company's operational costs as well as its carbon emissions.
>
> To further strengthen its approach to improving financial performance through ESG, in 2014 CDC produced value creation frameworks for sectors including education and healthcare. In 2015 CDC intends to expand its value creation frameworks to other sectors.
>
> **CDC Group, UK**

TRANSPARENCY

The lowest score in the Direct-PE module is for public transparency. Increased disclosure demonstrates the positive role that private equity can play in aligning investment practices with the broader objectives of society and the long-term health and stability of the market as a whole, but only **21% of module respondents are publicly disclosing ESG information on their private equity investments.**

While GPs will be hesitant towards disclosure outside of the privileged client relationship, **22% of respondents are not even disclosing potentially value creating ESG information on their private equity investments to their clients/beneficiaries.**

13 Ref. PRI Reporting Framework PE 18.2; publicly available responses only

APPENDIX I

ABOUT THE PRI REPORTING FRAMEWORK AND ASSESSMENT PROCESS

ABOUT THE PRI REPORTING FRAMEWORK

Reporting is compulsory for all asset owner and investment manager signatories to the PRI (following a one-year grace period for new signatories).

The PRI Advisory Council agreed in May 2011 to develop a new Reporting Framework for signatories with elements of mandatory public disclosure. PRI set up a widely consultative process to develop this framework. This was piloted in the summer of 2012 with over 360 signatories participating. There have been two collections of signatory data from this new mandatory version of the Reporting Framework covering 2013/4 and 2014/5 signatory activities.

There are two key objectives of the Reporting Framework, which are to provide a standardised transparency tool for signatories to demonstrate their implementation of the Principles and to enable the assessment of their progress and capabilities, facilitating learning and development. Comprehensive information on the Reporting Framework is publicly available on the PRI website.

ABOUT THE ASSESSMENT PROCESS

The assessment component of the PRI Reporting Process aims to achieve three objectives:

1. Facilitate learning and development, outlining how the implementation of responsible investment within signatories compares year-on-year, across asset classes, and with peers at the local and global level;
2. Identify areas for further improvement; and
3. Facilitate dialogue between asset owners and investment managers on responsible investment activities and capabilities.

Each module completed by the signatory is scored according to the following broad ranges: >95% (A+), 76-94% (A), 51-75% (B), 26-50% (C), 1-25% (D), 0 (E).

DATA LIMITATIONS

Signatories that indicate they invest in an asset class but do not implement responsible investment in that asset class will receive an “E” score. It should be noted that, out of the 47 signatories that scored “E” in their direct private equity investments, 45 invest <10% of their AUM in PE.

The PRI Reporting Framework is in an evolutionary process, moving towards improving the capture of responsible investment activities and outcomes. There are current challenges that we have identified which should be taken into account when analysing the data:

Mandatory and voluntary reporting

All signatories are required to report on asset classes that represent >10% of their assets under management. They may choose to report voluntarily on asset classes that make up <10%. Individual modules are comprised of mandatory to disclose indicators and voluntary indicators that are disclosed at the discretion of each signatory. The PRI works with all the data submitted, but certain conclusions are limited if they are taken from voluntary responses.

Self-reporting

The PRI does not validate or assure the data provided and is therefore reliant on the quality of information which is provided.

Denominators

Analysis is based on the responses of 936 PRI signatories, although some voluntary reporters did submit their report shortly after the deadline and therefore have Transparency Reports on the PRI website. 306 PRI signatories reported on their private equity investments through the private equity section of the Indirect – Manager Selection, Appointment and Monitoring module and the Direct – Private Equity module. See Appendix II for the list of respondents.

The denominators used in the report, 126 responses for the Direct module and 209 responses for the Indirect module, are used consistently whether the reporting indicator under analysis was mandatory or voluntary to complete (with the exception of Indicator PE 05 which is applicable to GP reporters only, in which case the denominator is explicitly stated as “GP respondents” rather than “module respondents”). The report makes the assumption that reporters that chose not to complete a voluntary indicator are not implementing the practices of that indicator, and therefore their numbers are included within the total denominator to present a conservative estimation of signatory uptake of these voluntary-to-report practices.

For example, Figure 11 refers to a total denominator of 209 respondents but it was in fact a voluntary module completed by 155 respondents (reference Indicator PE 12). The denominator of 209 therefore includes the number of respondents that (i) do not integrate ESG issues in their investment selection processes, or (ii) indicated that they do integrate ESG issues in their investment selection processes but chose not to complete this voluntary indicator.

Outputs and outcomes

The mainstay of the PRI Reporting Framework is capturing processes and policies. The PRI has sought additional input to capture the outcomes of responsible investment activity, and hence the indicators in this area are fewer and are primarily voluntary. At present, much of the detail is available through the free text indicators, analysis of which will continue. This will help the PRI to develop subsequent reporting frameworks that have indicators coded from previous signatory responses.

APPENDIX II

LIST OF PRIVATE EQUITY RESPONDENTS TO THE PRI REPORTING FRAMEWORK 2014-5

Signatory	Completed SAM-PE module	Completed Direct-PE module	Date of signature to the PRI
Signatory category: Asset owners (79)			
AP1	•		2007
AP2	•		2006
AP3	•		2006
AP6	•	•	2012
AP7	•		2008
ASR Nederland N.V.	•		2011
Australian Capital Territory	•		2008
AustralianSuper	•		2007
AXA Group	•		2012
British Columbia Municipal Pension Plan	•		2007
BT Pension Scheme	•		2006
Caisse des dépôts et consignations - CDC	•	•	2006
California State Teachers' Retirement System CalSTRS	•		2008
Canada Pension Plan Investment Board	•		2006
CARE Super	•		2006
Catholic Superannuation Fund	•		2006
CBUS Superannuation Fund	•		2006
CDC Group plc	•	•	2009
Christian Super	•		2006
Church Commissioners for England	•		2014
Economus	•		2007
Elo Mutual Pension Insurance Company	•		2008
Environment Agency Pension Fund	•		2006
Esmee Fairbairn Foundation	•		2013

Signatory	Completed SAM-PE module	Completed Direct-PE module	Date of signature to the PRI
Signatory category: Asset owners (79)			
ESSSuper	•		2007
Fonds de solidarité FTQ		•	2011
Government Employees Pension Fund of South Africa	•		2006
HESTA Super Fund	•		2006
HOSTPLUS	•		2009
Infraprev	•		2007
ING Groenbank N.V.		•	2012
Insurance Australia Group (IAG)	•		2008
International Finance Corporation (IFC)		•	2011
Keva	•		2008
KLP	•		2007
Lifeyrissjodur Verzlunarmanna (Pension Fund of Commerce)	•		2006
Local Government Superannuation Scheme	•		2007
London Pensions Fund Authority (LPFA)	•		2007
MAIF	•		2009
Mistra	•		2008
Mode Interieur Tapijt & Textiel (MITT)	•		2008
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)	•	•	2011
Nest Sammelstiftung	•		2012
Omega Overseas Investment Corporation	•	•	2009
Ontario Teachers' Pension Plan	•	•	2011
OPSEU Pension Trust	•	•	2010

Signatory	Completed SAM-PE module	Completed Direct-PE module	Date of signature to the PRI
Signatory category: Asset owners (79)			
Pensioenfonds Metaal en Techniek	•		2007
Pension Protection Fund	•		2007
Pensionfund Metalektro (PME)	•		2006
Pensions Caixa 30 FP	•		2008
Petros	•		2006
Ratos AB		•	2013
Real Grandeza		•	2009
Sameinadi lifeyrissjodurinn (United Pension Fund)	•		2007
SPOV	•		2007
Stichting Bewaarder Beleggingen Menzis	•		2011
Stichting Pensioenfonds ABP	•		2006
Stichting Pensioenfonds Zorg en Welzijn	•		2006
Stichting Spoorwegpensioenfonds	•		2007
Suva	•		2014
Swedfund International AB	•	•	2012
Swiss Re Ltd	•	•	2007
The Central Church Fund of Finland	•		2008
Tradeka Corporation	•	•	2008
Trust Waikato	•		2007
Unilever Pension Funds (Univest Company)	•		2013
Universities Superannuation Scheme - USS	•	•	2006
Vaekstfonden	•		2008
Varma Mutual Pension Insurance Company	•		2011
VERKA VK Kirchliche Vorsorge VVaG	•		2014
VidaCaixa	•		2009

Signatory	Completed SAM-PE module	Completed Direct-PE module	Date of signature to the PRI
Signatory category: Asset owners (79)			
Vision Super	•		2006
West Midlands Pension Fund	•		2011
Zurich Insurance Group	•		2012
Signatory category: Investment managers (227)			
21 Partners		•	2009
3i Group plc		•	2011
A Plus Finance SAS		•	2012
AAC Capital Benelux		•	2013
Abenex Capital		•	2011
Accent Equity Partners AB		•	2012
Access Capital Partners	•		2008
Actera Group		•	2010
ACTIAM	•		2006
Actis		•	2009
Activa Capital		•	2010
Adams Street Partners LLC	•	•	2010
ADM Capital		•	2008
Advanced Capital	•		2013
Adveq	•		2010
Akina Limited	•	•	2013
Alberta Investment Management Corporation	•	•	2010
Albright Capital Management		•	2008
Alden Impact Capital		•	2011
Alder Fund I AB		•	2012
Allegro Funds Pty Ltd		•	2011
Alpha Private Equity Fund 6 Management Company SARL		•	2011
AlpInvest Partners B.V.	•	•	2009

Signatory	Completed SAM-PE module	Completed Direct-PE module	Date of signature to the PRI
Signatory category: Investment managers (227)			
Alter Equity		•	2013
Altius Associates Ltd	•		2012
Alto Invest		•	2010
Ambienta SGR SpA		•	2012
Amethis Luxembourg S.à.r.l		•	2013
APAX PARTNERS LLP		•	2011
Apax Partners MidMarket SAS		•	2011
APG Asset Management	•		2009
Appian Holdings		•	2012
Arcano Group	•		2009
Ardian	•	•	2009
Arle Capital Partners Limited		•	2012
Armstrong Asset Management Pte. Ltd.		•	2011
ASN Bank	•		2010
Astorg Partners		•	2011
Astra Investimentos		•	2006
Atico Asset Management		•	2010
Auda International L.P.		•	2011
Avanz Capital	•		2013
Azulis Capital		•	2012
Baird Capital Partners Europe Limited (BCPE)		•	2011
BaltCap		•	2008
BC Partners		•	2009
Berkeley Partners LLP		•	2012
Birch Hill Equity Partners Management Inc.		•	2011
Blue Wolf Capital Partners		•	2009
Bpifrance Investissement	•	•	2010

Signatory	Completed SAM-PE module	Completed Direct-PE module	Date of signature to the PRI
Signatory category: Investment managers (227)			
Brandon Capital Partners Pty Ltd		•	2012
Bridgepoint		•	2013
Bridges Ventures		•	2009
British Columbia Investment Management Corporation	•	•	2006
BRZ Investimentos Ltda		•	2011
Cap Decisif Management		•	2011
Capital Croissance		•	2012
Capital Dynamics	•	•	2008
CapMan Plc		•	2013
Capricorn Investment Group, LLC		•	2008
CapVest Partners LLP		•	2012
Capzanine		•	2011
Cerea Partenaire		•	2011
CHAMP Private Equity		•	2009
Cinven		•	2009
Clessidra SGR S.p.A.		•	2010
Committed Advisors	•		2013
Commonfund	•		2013
Continuity Capital Partners Pty Limited	•		2011
Cordiant		•	2008
Corpfin Capital Asesores, S.A., S.G.E.C.R.		•	2012
CRP Companhia de Participações		•	2011
CVC Capital Partners		•	2012
Dansk Vaekstkapital	•		2011
Danske Bank		•	2011
DCA Capital Partners		•	2013

Signatory	Completed SAM-PE module	Completed Direct-PE module	Date of signature to the PRI
Signatory category: Investment managers (227)			
Demeter Partners		•	2013
Deutsche Zurich Pensiones, E.G.F.P., S.A.	•		2012
DGF Investimentos		•	2009
Direct Capital Limited		•	2009
Doughty Hanson & Co		•	2007
East Capital		•	2012
Edmond de Rothschild Investment Partners		•	2012
Egeria		•	2013
EIG Global Energy Partners		•	2013
Emerging Capital Partners		•	2010
eQ Asset Management Ltd	•		2010
EQT		•	2010
Ethos Foundation	•		2006
Eurazeo		•	2011
Eurazeo PME		•	2009
Evolem		•	2013
Explora S.A.		•	2013
FINADVANCE		•	2012
First Reserve		•	2009
Five Arrows Managers		•	2012
Fondinvest Capital	•		2010
Foresight Group LLP		•	2013
Freeman Spogli & Co		•	2010
FSN Capital Partners		•	2012
G Square		•	2012
Generation Investment Management LLP		•	2006
Global Environment Fund		•	2011
Golding Capital Partners	•		2013

Signatory	Completed SAM-PE module	Completed Direct-PE module	Date of signature to the PRI
Signatory category: Investment managers (227)			
Growth Capital Partners LLP		•	2011
Halder Beteiligungsberatung GmbH		•	2013
Hamilton Lane	•		2008
Hermes GPE	•	•	2010
HgCapital LLP		•	2012
HPE Growth Capital		•	2009
IDF Capital		•	2013
IDFC		•	2009
IDI EMERGING MARKETS		•	2012
Idinvest Partners	•	•	2011
Impax Asset Management		•	2008
Indochina Capital Corporation	•	•	2012
Inseed Investimentos Ltda		•	2011
Intermediate Capital Group plc		•	2013
Investec Asset Management		•	2008
Investindustrial		•	2009
Investisseurs & Partenaires		•	2013
Iris Capital		•	2010
JCM Capital (provisional signatory)		•	2014
Kaeté Investimentos Ltda		•	2011
Karmijn Kapitaal		•	2013
Keensight Capital		•	2012
Keyhaven Capital Partners Limited	•		2013
Kohlberg Kravis Roberts & Co. L.P.		•	2009
LBO France		•	2011
Leon CVM Capital Management		•	2010

Signatory	Completed SAM-PE module	Completed Direct-PE module	Date of signature to the PRI
Signatory category: Investment managers (227)			
LGT Capital Partners	•		2008
Litorina		•	2014
Long Wharf Real Estate Partners, LLC.		•	2011
Lunar Capital Management		•	2012
Macrocapitales SAFI	•		2012
Magnum Capital Industrial Partners		•	2014
Main Capital		•	2014
MBK Partners		•	2013
MBO Partenaires		•	2013
MCH PRIVATE EQUITY INVESTMENTS, SGECR, SAU		•	2011
MN	•		2009
Montefiore Investment		•	2013
N+1 Private Equity		•	2011
NeoMed Management (Jersey) Limited		•	2010
Newbury Partners	•	•	2014
NewQuest Capital Partners		•	2011
NewWorld Capital Group, LLC		•	2011
NextStage		•	2012
NiXEN Partners		•	2011
Nord Capital Partenaires		•	2012
North Sky Capital		•	2011
NorthEdge Capital LLP		•	2012
Obviam AG	•		2011
OFI Asset Management	•		2008
Oikocredit International		•	2012
Omnes Capital		•	2009
Orchid Asia Hong Kong Management Company Limited		•	2010

Signatory	Completed SAM-PE module	Completed Direct-PE module	Date of signature to the PRI
Signatory category: Investment managers (227)			
Pacific Equity Partners		•	2012
PAI Partners		•	2010
Palatine Private Equity LLP		•	2014
Palero Capital GmbH		•	2011
Pampa Capital Management LLP		•	2012
Panoramic Growth Equity		•	2009
Pantheon Ventures	•		2007
Paprico AG		•	2011
Par Equity LLP		•	2010
Partech International		•	2009
Partners Group	•	•	2008
Pencarrow Private Equity Management Limited		•	2012
Performa Investimentos Ltda.		•	2011
Permira Holdings Limited		•	2011
PGGM Investments	•		2008
Pioneer Capital Partners		•	2013
Portbank Asset Management		•	2013
Portobello Capital		•	2012
Pragma Capital		•	2010
Private Equity Partners SGR S.p.A.		•	2011
Priveq Advisory AB		•	2011
Public Investment Corporation (PIC)		•	2009
QIC	•		2008
Quadriga Capital		•	2012
Qualium Investissement		•	2010
Red Mountain Capital Partners, LLC		•	2012
Resource Capital Funds		•	2013

Signatory	Completed SAM-PE module	Completed Direct-PE module	Date of signature to the PRI
Signatory category: Investment managers (227)			
Riviera Gestora de Recursos Ltda		•	2011
Robeco	•		2006
RobecoSAM AG	•		2007
Royal London Asset Management		•	2008
Sarona Asset Management	•	•	2010
Satori Capital, L.L.C.		•	2009
SEDCO Capital	x	•	2014
Segulah Advisor AB		•	2013
Siguler Guff & Company, LP	x	•	2013
Silverfleet Capital Partners LLP		•	2011
Skandinaviska Enskilda Banken (SEB) AB		•	2008
South Suez Capital Ltd		•	2013
SPF Beheer	•		2008
Stafford Private Equity Pty Ltd	•		2010
StepStone Group LP	•	•	2013
Suma Capital SGECR		•	2013
Syntrus Achmea Asset Management	•		2007
Taaleritehdas		•	2010
Taurus Funds Management Pty Limited		•	2011
Terra Firma Capital Partners		•	2011
The Abraaj Group		•	2009
The Oblate International Pastoral Investment Trust	•		2010
Tokio Marine Capital Co., Ltd.		•	2013
TPG Capital Advisors, LLC		•	2013
Treetops Capital LP		•	2012

Signatory	Completed SAM-PE module	Completed Direct-PE module	Date of signature to the PRI
Signatory category: Investment managers (227)			
Trilantic Capital Partners Europe		•	2014
Triton Advisers Limited		•	2012
TRPE Capital		•	2013
Truestone Impact Investment Management		•	2012
Truffle Capital	•	•	2012
Turenne Capital Partenaires		•	2012
UFG Asset Management		•	2014
UI Gestion		•	2010
Unigestion	•		2013
Vantage Capital Fund Managers (Pty) Ltd		•	2013
VantagePoint Capital Partners		•	2011
Vinci Partners Investimentos Ltda.		•	2012
Water Asset Management LLC		•	2013
Weinberg Capital Partners		•	2011
Westmount Pacific LLC		•	2009
WHEB Group		•	2012
XAnge Private Equity		•	2011
XPV Capital Corporation		x	2010

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The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

The six Principles were developed by investors and are supported by the UN. They are voluntary and aspirational, offering a menu of possible actions for incorporating ESG issues into investment practices. In implementing the Principles, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

PRI Principles for Responsible Investment

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

United Nations Environment Programme Finance Initiative (UNEP FI)

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

More information: www.unepfi.org

UNEP FINANCE INITIATIVE

UN Global Compact

Launched in 2000, the United Nations Global Compact is both a policy platform and practical framework for companies that are committed to sustainability and responsible business practices. As a multi-stakeholder leadership initiative, it seeks to align business operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to catalyse actions in support of broader UN goals. With 7,000 corporate signatories in 135 countries, it is the world's largest voluntary corporate sustainability initiative.

More information: www.unglobalcompact.org