ESG Metrics in Private Equity

An industry guide to the use of ESG metrics in the context of Private Equity

KPMG

Sustainable Markets Initiative

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FOR THE HARMONY OF NATURE, PEOPLE AND PLANET

TERRA CARTA

CONCORDIAE NATURAE, HOMINUM ET PLANETAE

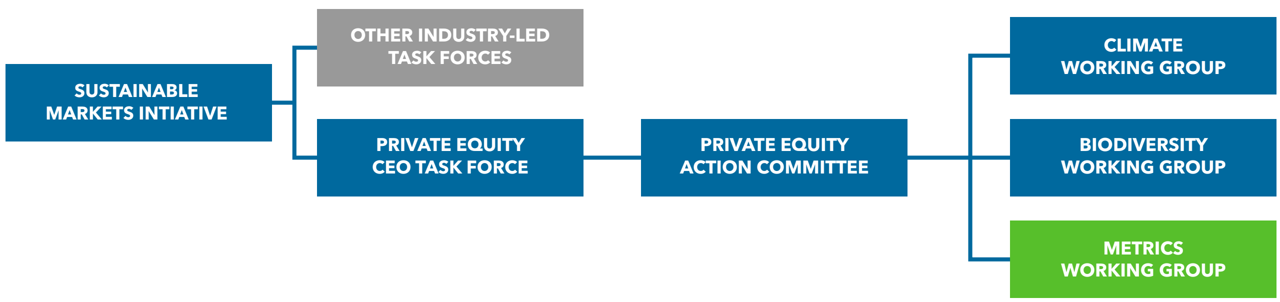
The Sustainable Markets Initiative's Terra Carta, is a mandate setting ambitious and practical action to help the private sector accelerate their progress towards a sustainable future.

Background & Acknowledgements

The Sustainable Markets Initiative (SMI) launched in 2020 at the World Economic Forum Annual Meeting in Davos by His Majesty King Charles III when he was The Prince of Wales. The SMI is a network of global CEOs across industries working together to build prosperous and sustainable economies that generate long-term value through the balanced integration of natural, social, human, and financial capital. These global CEOs see themselves as a 'Coalition of the Willing' helping to lead their industries onto a more ambitious, accelerated, and sustainable trajectory.

The SMI focus - for Nature, People and Planet' - is at the heart of global value creation. This is evident through its Terra Carta, which serves as the mandate for the SMI and provides a practical roadmap for acceleration towards an ambitious and sustainable future; one that will harness the power of nature combined with the transformative power, innovation, and resources of the private sector.

The Private Equity Task Force was launched in 2021 and is the first ever CEO-level private equity working group established to align on ways the industry can effect change. It leverages expertise within each member firm across three current priority areas: climate change, biodiversity, and sustainability-related metrics.



THIS DOCUMENT IS THE PRODUCT OF THE **METRICS WORKING GROUP**, A SUBGROUP OF THE SMI PRIVATE EQUITY TASK FORCE

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ESG Data Convergence Initiative | Invest Europe | LSTA
SMI Asset Manager & Asset Owner Taskforce | SMI Infrastructure Measurement & Transparency Taskforce
UN-supported Principles for Responsible Investment

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Executive Summary

Regulatory and stakeholder demands are driving up the need for private companies, and their investors, to collect, report, and analyze ESG metrics, in order to more holistically consider factors that may impact value. There is a plentiful assortment of frameworks, standards, and guidance around the world that lay out the universe of useful reporting metrics and where they should be utilized.

This paper is different.

It is neither a framework nor a standard and instead, it is a thought process informed by various market participants. This thought process is positioned around a fundamental question: **How to identify ESG metrics relevant to decision-making** that have the ability to influence business strategy, investment opportunity, risk mitigation, and value creation.

This thought process starts with a *consideration of material factors*, including those specific to Private Equity; for example, geography and regulation, business maturity, ownership and influence, and hold period. Private Equity firms will consider their level of influence over a portfolio company and what ESG strategy they can pursue to maximise their performance improvement impact.

Next are *industry considerations*. Private Equity firms will consider the relative importance of different ESG themes, from which metrics can be derived, within a specific industry. This assessment will also help in understanding where to prioritize the roll out, or continuation of, of an ESG strategy.

This paper culminates in an *assessment of the current and desired maturity state* for the selected ESG performance data. Private Equity firms will consider the business risks and opportunities associated with monitoring each ESG performance area and the associated metrics, as well as the potential outcomes that focusing on these areas may achieve.

This is a dynamic ongoing thought process loop of assessment, action, and reaction. The substance and form of the thought process will be unique to every Private Equity stakeholder, as it is tailored and implemented as appropriate.

This paper intends to provide a way of thinking that is focused on the **ultimate objective of making the Private Equity industry more resilient to a range of factors over the long-term, in line with the industry's fiduciary duties, and achieving enhanced business outcomes.**

The guidance provided in this paper is designed to be complementary to existing standards, frameworks, and regulations. All considerations are made in the context of the wider regulatory environment[1] and leverage metrics detailed in existing frameworks and standards.[2]

To illustrate this thought process, the report organizes the ESG metrics landscape into ten themes (climate change, circular economy, biodiversity, diversity and inclusion, human capital & employee engagement, product quality & stewardship, health & safety, business resilience & supply chain management, data governance & cybersecurity, and corporate governance). Case studies follow from this to highlight four use cases - from the perspectives of a Private Equity Investment Team, a Portfolio Company, an Investor (LP), and from the perspective of a Private Equity fund (GP).

There are major challenges to better incorporating the analysis of ESG performance into Private Equity investing, including the complexity of ESG topics and how they affect company value and performance over time. Increasing investor (LP) demand for ESG performance data creates industry divergence when there is a lack of an agreed-upon approach to evaluating ESG metrics in investment decisions, and difficulty in collecting complete, consistent, and reliable ESG data.

Nevertheless, if these challenges can be overcome, Private Equity is uniquely positioned to realize enhanced value creation and broader societal impacts driven by measurement, monitoring, and action on key ESG performance metrics.

1. Influenced, but not limited to, regulatory initiatives established by the SEC, CSRD, SFDR, and ISSB
2. For example in EDCI, GRI, UN PRI, and SASB

Why focus on metrics?
An introduction

The opportunity and collaboration: why focusing on metrics is a good starting point

There has been growing focus on the use of non-financial data for value creation in Private Equity. Industry participants, who operate with a wide variety of investment strategies and scopes, have to navigate a myriad of ESG frameworks, many of which have been developed for corporate reporting and do not consider the nuances of Private Equity investors. There is an opportunity to provide clarity and guidance, and engage in a meaningful way to focus on the relevance of ESG performance data for value creation and risk mitigation and benefit to Private Equity investors.

The SMI Private Equity Taskforce ("PESMIT") established the Metrics Working Group, which has produced this report in an effort to offer a perspective on how Private Equity can better use metrics to manage risk, drive value, and create longer term, more resilient businesses.

This paper has been written around the following three constructs:

1. ESG data is an important aspect of investment analysis and portfolio company management in private markets
2. A materiality lens will help Private Equity Firms (GPs), investors (LPs), and portfolio companies leverage specific ESG metrics for value creation and risk mitigation - focusing on the most significant levers for a company in a specific sector
3. Private Equity offers a structure to facilitate data collection and active engagement to further sustainable development in private markets

By suggesting an industry-led approach to ESG metrics, through greater consistency, comparability, and understanding of the role of ESG as part of the investment process, Private Equity firms hope to build a more profitable and sustainable future for their organizations and the world at large.

The industry has become adept at collecting metrics to varying levels of success. At the same time, Private Equity firms vary greatly in strategy, geography, and sector asset allocation. This report has taken the approach to identify common themes from existing ESG frameworks and industry insights, and layer in a concept of materiality to propose a view on how ESG metrics can be better used to mitigate risk, enhance value, and support sustainable growth.

This paper is designed to be utilized by all stakeholders in Private Equity – general partners ('GP'; also referred to as Private Equity firms), limited partners ('LP'; often the term for investors), and portfolio companies (investments managed by GPs, with funding provided by LPs).

Use cases considered and the ESG themes identified

Collecting ESG metrics has become a requirement, both in public and private markets, either explicitly by regulation or implicitly through investor (LP) demand. For Private Equity firms, (GPs), much of the demand for ESG metrics reporting has come from investors (asset owners who invest as limited partners - LPs). As fiduciaries, GPs and LPs collect financial and operational metrics to track performance and risk. GPs and LPs are now building ESG metrics into their analysis to have a wider awareness of risk, value, and also to be aware of the impact of their investments on society and the planet, which is believed to be tied to long-term risk and value creation.

Consequently, the current dialogue for which ESG metrics to track and report in Private Equity has focused on the relationship between GPs and LPs. This dialogue, and the harmonisation of the ESG metrics used, continues to be addressed by industry initiatives such as Invest Europe's ESG Reporting Guidelines, which include a comprehensive voluntary GP-LP ESG reporting template, and the ESG Data Convergence Initiative ('EDCI'), with over 250 firms publicly signed up to the data convergence framework, which harmonizes ESG data collection. Consistency and convergence in LP ESG data reporting requests is largely supported by the contributors to this report.

This report builds upon these efforts to harmonize reporting, and addresses how ESG metrics can be used in practice during investment analysis and portfolio company management - with an account for each GP's style of Private Equity ownership. By sharing observations, the working group hopes to offer a helpful perspective on the effective uses of ESG metrics to the wider marketplace.

Focusing on evaluating and supporting private companies in understanding how metrics are understood, collected, and used can drive progress - and since these companies are the source of the metrics, apply a different lens from the aforementioned GP-LP reporting challenges. **The goal is to integrate business and operating strategy with ESG metrics to drive more informed investment decision making, and also integrate such metrics with portfolio company ownership, where relevant.**

The Metrics Working Group identified four use cases for ESG metrics in Private Equity:

	Use Case	Description	Interaction with Metrics	
Focus for this paper	**Investment Decision**	Identify what ESG factors are incorporated into investment decisions during due diligence	GPs investment teams utilise ESG metrics along with financial and operational metrics	**These use cases are the focus for this report.** The source of the data for most ESG metrics is from portfolio companies, which, if used effectively, can be analyzed and monitored for risk mitigation and value creation.
Focus for this paper	**Portfolio Company**	How portfolio companies collect and use ESG data	Private Equity held portfolio companies are increasingly using metrics to drive action and be more transparent among their own stakeholders (e.g., customers, boards, GP sponsors)	
	Investor ('LP')	How LPs collect and use the data in due diligence questionnaires for their investment partners	LPs monitor progress on ESG alongside financial and operational metrics for invested funds and underlying portfolio companies.	The dialogue between the GPs and LPs remains the focus of existing efforts to harmonize data and improve reporting. This paper builds on how to use this data more effectively.
	Private Equity Firm ('GP') & Regulatory	How GPs collect and use ESG data, meet regulatory requirements and LP demands	As firms that manage private equity funds, GPs are facing increasing regulatory pressure that includes ESG and climate related disclosures in certain jurisdictions.	

Understanding the integration challenges

There are several major challenges to better incorporate ESG data into Private Equity, and there is no uniform agreement among GPs, LPs, portfolio companies, and wider stakeholders on how to do it.

ESG is a broad, all-encompassing topic.

Globally, there are numerous evolving ESG standards with topics that range from climate change and sustainability to diversity, human rights, consumer protection, and corporate governance. Depending on the situation, certain ESG factors may significantly impact portfolio companies and funds, while others may be irrelevant.

Challenge: *Identifying key ESG metrics by applying a materiality lens that accounts for different sectors, investment styles, and other factors*

Investors are increasingly requesting more ESG data.

This includes ESG data for the PE firm itself, the data collected by the PE firm in aggregate of its portfolio companies, and individual portfolio company level data. Data becomes difficult to compare if all industries and companies are placed in the same peer group.

Challenge: *Assess data collection, analysis, and aggregation at the fund level with a targeted and focused approach*

There is no agreed-upon approach for prioritizing ESG metrics in the investment-decision making process.

ESG is one of many topics considered when deciding whether to invest in a portfolio company. Priority topics should vary depending on factors such as the sector of the portfolio company and whether an IPO is expected.

Challenge: *Demonstrate how ESG factors contribute to a value assessment.*

Commentary from the Metrics Working Group:

“Providing ESG data for data’s sake does not automatically result in better decision-making and outcomes; the effective use of ESG data is that which helps further positive business outcomes.”

“We need to focus - in the last year we had 170 standalone LP ESG questionnaires, all multi-page, all different formats. All of them different enough that we couldn’t use consistent responses for them.”

“We need to move from ‘tick the box’ ESG metrics to strategic ESG; where we use ESG metrics to improve outcomes.”

It is difficult to collect complete, consistent, and reliable ESG data

GPs must commit valuable time and resources to obtain and measure ESG data from portfolio companies. The ability to collect ESG data is driven by whether the portfolio company has the ability to prepare requested data, as well as the PE firm’s influence and degree of control over the portfolio company. Even having a controlling interest does not mean the PE firm controls the day-to-day activities of a portfolio company or has direct access to required information.

Challenge: *Implement data collection processes to mitigate legal and compliance risks associated with inaccurate ESG data and enhance the identification of decision critical ESG data for potential value creation or risk mitigation purposes.*

Introducing materiality in Private Equity ESG metrics

A three step process

Understanding the use of ESG metrics in Private Equity is challenging because of the diverse investment mandates of Private Equity firms, the lack of public disclosure, and the broad scope of topics covered under the umbrella of ESG. Meanwhile, the demand for ESG data has grown, driven by both investor (LP) demand and regulatory requirements in specific geographies. This data collection and reporting exercise can be all consuming, with limited resources being able to use the data to support decision-making. The need for rationalization means that a materiality lens can help when collecting ESG data to ensure the data being collected is effectively utilized.

Understanding Materiality - The Three Step Approach to Materiality

The collection and analysis of ESG metrics in Private Equity can be viewed through two layers of materiality review to ensure that time spent on ESG metrics, at the GP, LP, or portfolio company level is relevant to value creation and/or risk mitigation. The first step looks at the different factors of a Private Equity investment and how that can impact the ability to collect, report, and act on ESG metrics. Certain factors may indicate how much influence a GP has over a portfolio company's ESG strategy and performance reporting, as well as what a portfolio company is able to do and should focus on.

After this assessment has been made, industry specific considerations are addressed by an industry materiality lens, for example primarily leveraging SASB's Materiality Map,[1] and allowing for focus to be applied to ESG metrics that have greater relevance to specific industries. It might be acceptable for a company in a specific industry to meet a baseline level of ESG metrics in one ESG theme, whereas for another ESG theme, the company may wish to develop more advanced reporting and analysis capabilities. ESG metrics will have greater relative importance depending on the industry and nature of the company's operations.

This paper proposes assessing the use of metrics in line with a concept of materiality. The concepts of materiality introduced in this report are aligned with the IFRS Foundation (IASB and ISSB) definition of materiality, which is focused on information so important that its absence or misstatement could be reasonably expected to influence investor decisions. The importance and assessment of materiality is also dealt with in Invest Europe's ESG Reporting Guidelines and the inherent reporting template, which includes some functionalities to take account of materiality.

It is not linked to 'Double Materiality,' which is a broader approach that the EU has adopted to meet all stakeholder information needs. As EU regulation evolves, subject companies will be required to not only assess risks to their own business model but also how their business model impacts its wider stakeholders and the world more broadly (often defined as 'double materiality'). Such companies need to understand their own impact before they can assess their wider impact on the environment. Evolving regulations, such as the EU Corporate Sustainability Reporting Directive (CSRD) increase the need for companies to understand ESG performance data.

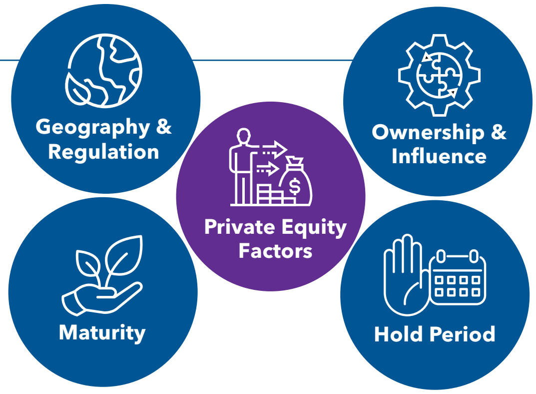
Lastly, this report offers recommendations on what ESG metrics to collect and measure based on different levels of industry practice. This allows the reader to assess where they are in their ESG journey.

STEP 1	**Private Equity Materiality Considerations**
STEP 2	**Industry Specific Materiality Considerations**
STEP 3	**Baseline, Developing and Advanced Practices - Expectations for ESG Metrics in Private Markets**

1. SASB has merged with the IFRS Foundation to create the International Sustainability Standards Board ('ISSB'). Further information on the SASB Materiality Map can be found here.

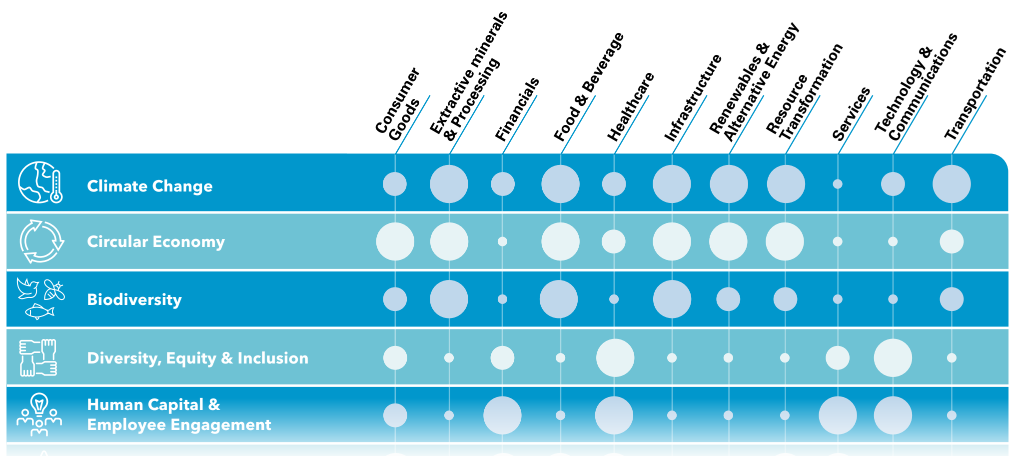
STEP 1

A variety of materiality factors, unique to Private Equity, may be considered when collecting, measuring, and analysing ESG metrics



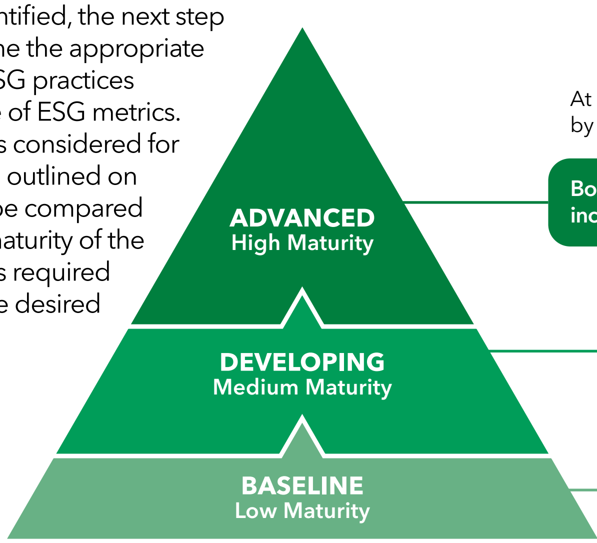
STEP 2

Having considered the Private Equity materiality factors, an industry focus is recommended. ESG metrics have differing implications across industries – understanding where to focus and delve deeper is important to focus on collecting decision-useful information.



STEP 3

Once the relevant ESG focus areas are identified, the next step is to determine the appropriate maturity of ESG practices including use of ESG metrics. The use cases considered for this report, as outlined on page 6, can be compared against the maturity of the ESG practices required to achieve the desired outcomes.



At a high-level, the maturity of each ESG theme can be summarized by the below expectations:

Advanced: Board-level monitoring of ESG metrics against business impacts, including benchmarking, target-setting

Developing: Demonstrate evidence that policy is being implemented, trained, with ownership and accountability. This can include enhanced metrics reporting, emerging holistic ESG strategy, awareness across organisation

Baseline: Develop policy, meet regulatory requirements, reporting of high-level metrics

This report also provides the potential outcomes of collecting and monitoring each ESG theme:

OUTCOMES	– Awareness of developing business issues, including impact on specific organization/sectors. – Deeper understanding competitive forces and positioning. – ESG strategy is integrated into business strategy and culture. – Compliance with local and national regulations in current and new markets.

STEP 1
Private Equity materiality considerations

A variety of factors play a role in the level of influence a Private Equity firm can have on its portfolio companies, and how it approaches and measures ESG performance across the portfolio.

Private Equity firms have different styles when managing their investments, including how active they are, whether they take a majority stake, and if they support or engage with the company on operational improvements. Additionally, they invest across multiple different types and sizes of companies. Among other things, this means data aggregation across portfolios does not necessarily lead to insights that help GPs manage ESG risks and opportunities. The four factors below affect all Private Equity investments.

Where a portfolio company sits on each spectrum influences the ability to produce, collect, and utilize ESG metrics. GPs may first consider these four areas when determining which metrics to collect from portfolio companies.

Geography & Regulation

Consider the ESG regulatory landscape and stakeholder needs of the portfolio company to determine regulatory and disclosure requirements and relevant geography specific implications and incentives.

LOCAL — GLOBAL — INTEGRATED

Maturity

Consider the ability of the portfolio company to collect and analyze ESG data and establish data driven decisions

LOW — MEDIUM — HIGH

Ownership & Influence

Consider the ownership stake of a Private Equity firm in a portfolio company and the resulting ability to influence management or initiate policies and strategies.

MINORITY — JOINT CONTROL — MAJORITY

Hold Period & Time to Exit

Consider the length of the hold period and time to exit the investment in the portfolio company. If the hold period or time to exit is short, a GP will have less ability to influence a desired ESG strategy.

SHORT (< 3 YEARS) — MEDIUM (3-5 YEARS) — LONG (> 5 YEARS)

Identifying the Core ESG Themes

Consensus was achieved across the PESMIT Metrics Working Group of the need to rationalize and focus the wide-ranging ESG metrics currently collected. The Metrics Working Group agreed a way to do this is by establishing core ESG themes. Ten themes emerged following several group collaboration sessions, review of policies and procedures of several firms, analysis of portfolio company ESG data collection templates, and individual interviews with Metrics Working Group participants. The ten themes are:

- **Climate Change**
- **Circular Economy**
- **Biodiversity**
- **Diversity, Equity & Inclusion**
- **Human Capital & Employee Engagement**
- **Product Quality & Stewardship**
- **Health & Safety**
- **Business Resilience & Supply Chain Management**
- **Data Governance & Cyber Security**
- **Corporate Governance**

These ten themes represent ESG topics relevant to most portfolio companies. By using these themes as the basis for assessing ESG performance, a comprehensive set of ESG metrics can be established to provide a robust view of a portfolio company's non-financial position.

STEP 2
Industry-specific materiality considerations

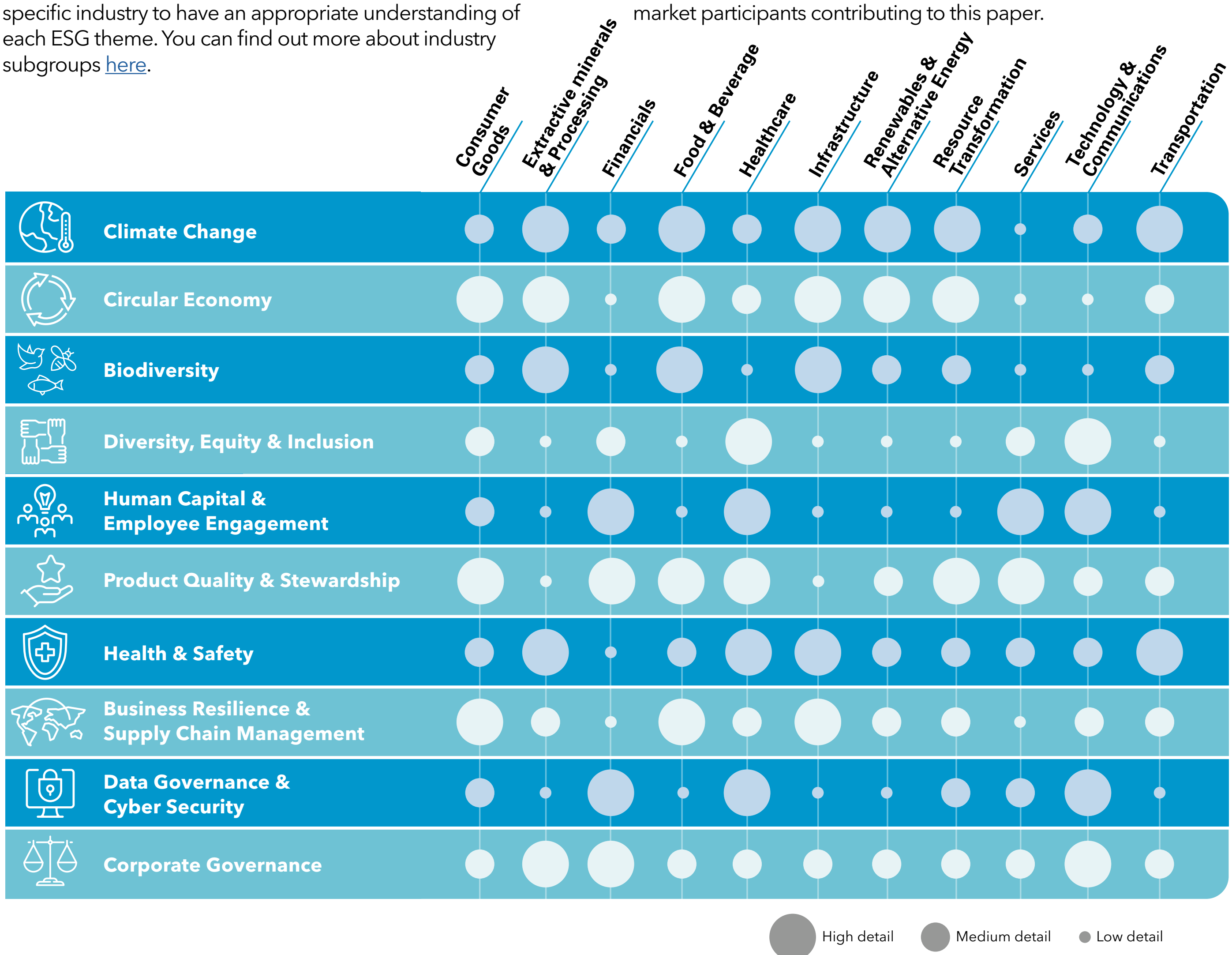
Getting started with ESG metrics can be overwhelming, especially for companies with less mature reporting functions. Knowing the relevance of each area of ESG performance data in each industry helps with prioritizing the roll out of an ESG strategy.

After assessing the Private Equity industry-specific materiality considerations in Step One, an industry level lens can be applied to each ESG theme. Step Two informs the ESG metrics most relevant to the strategic, financial, and operational effectiveness of a portfolio company and consequently the metrics that are more decision-useful.

The size of the bubbles relates to the suggested depth of focus for each ESG metric that might be helpful for a company in a specific industry to have an appropriate understanding of each ESG theme. You can find out more about industry subgroups here.

The below industry specific materiality matrix provides guidance on how to prioritize relevant ESG themes within an industry group, therefore optimizing the resources available to collect and analyze the ESG performance data.

Please note - these industry groups are aligned to the ISSB/SASB industry classifications. The materiality assessments (bubble sizes) have been made using a combination of the SASB Materiality Map and assessments made from the subject matter experts and market participants contributing to this paper.

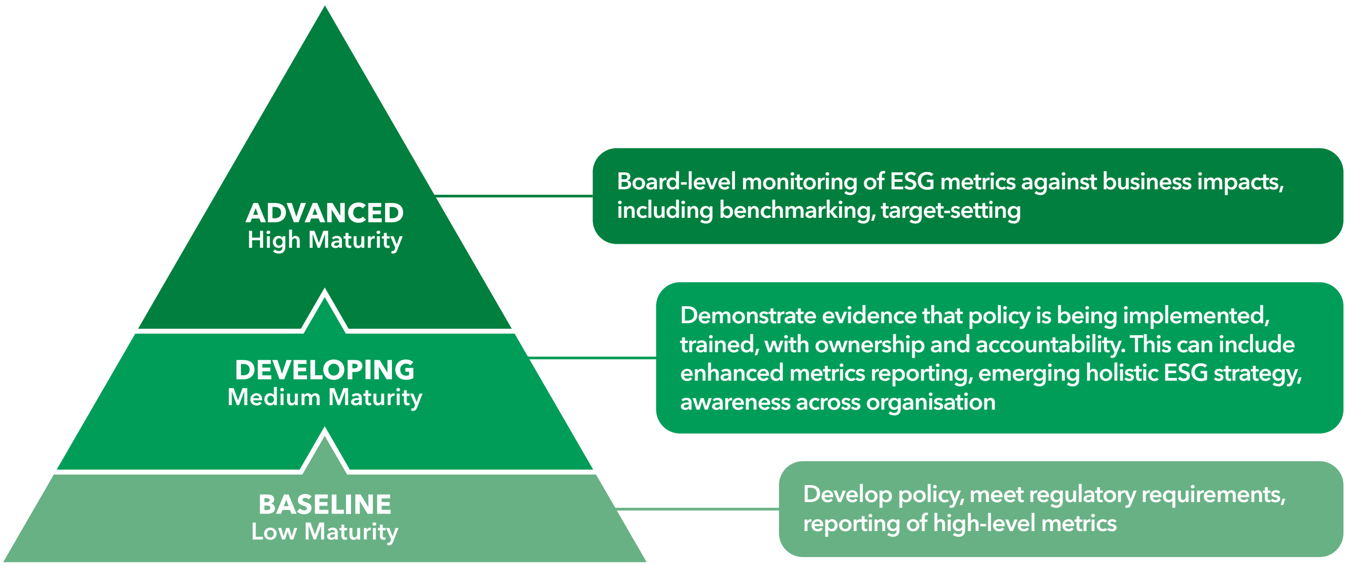


Interpreting this infographic:

The ten themes identified are not ranked in any particular order - they are a simplified approach to various themes from which ESG metrics can be derived and provide a holistic view of an organization. The bubbles should be interpreted as a suggested and relative level of detail to which a theme might be analyzed within a specific sector.

STEP 3
Baseline, developing, and advanced practices and expectations for ESG Metrics in Private Equity

After Step 1 and 2, where the Private Equity and industry-specific materiality lenses have been applied, the areas of ESG focus can be identified. Step 3 assesses the current and desired maturity of each ESG theme at a portfolio company. This remains a dynamic topic as the landscape evolves, and thus Step 3 requires an ongoing feedback loop including assessment, action, and review.



Private Equity firms, and their portfolio companies, need to balance their available resources against the importance of collecting and analyzing ESG data. As a result, the ability to prioritize is important to advance ESG maturity according to the relevance of the ESG themes for a portfolio company and refine the ESG metrics that are monitored. In addition to understanding the business risks and opportunities associated with each ESG theme, it is also critical to assess the potential outcomes that action around these themes may provoke - for example, not every investment will require material improvements in respect of all ESG factors.

With a complete picture of (1) the business maturity in the selected ESG focus areas, (2) the potential outcomes that may emerge as a business moves along the maturity scale, and (3) the investment required to realize those outcomes, the Private Equity firm, and its portfolio companies, are better equipped to make decisions regarding the next steps in their ESG strategy.

Focusing on what ESG Metrics to collect and why

The following section will take a deeper dive into some of the metrics currently used by Private Equity firms to measure success and areas requiring further attention in the ten ESG themes outlined earlier. It is important to be aware of the materiality concepts introduced earlier in this paper when assessing what level of detail may be targeted.

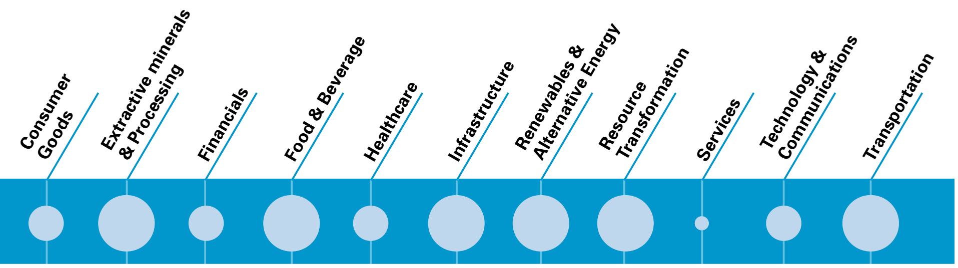
Interpreting the metrics tables
The suggested metrics in each ESG theme table have been determined through discussion with the Metrics Working Group and KPMG's assessment of industry practice. As a result, three categories have been developed, as defined below:

BASELINE
Baseline application of metrics for each ESG theme.

DEVELOPING
Developing towards more advanced application of metrics associated with the ESG theme.

ADVANCED
Advanced application of metrics within the ESG theme based on current industry practice.

Climate Change†



Maturity	Example Metric(s)	Illustrative example of measurement	Why this is important	Reference frameworks
BASELINE	• GHG emissions (Scope 1, 2)	In 2019, Scope 1 direct emissions, from combustion of fuel sources owned or controlled by Company, were 7,000 metric tons carbon dioxide equivalent (mtCO2e). This was calculated using emission factors applied to primary data or average data obtained from fuel receipts, purchase records, metering, fuel expenditure data, and average prices. Scope 2 indirect location-based emissions, from purchased electricity, were 82,000 mtCO2e. This was calculated using utility bills and metered consumption.		
DEVELOPING	• GHG Scope 3 categories deemed material and climate (transition and physical) risk assessment • Analyze financial impact of property fair value over time to understand the impact of rising temperatures on specific geographies	In 2020, the company evaluated two categories of scope 3 indirect value chain emissions. Category 6 business travel emissions were 13,000 mtCO2e, as reported by the third-party travel agency. Category 7 employee commuting emissions were 4,000 mtCO2e, an estimate calculated based on average vehicle emissions and average distance employees live from the office. The company also should consider the impact of climate change on their business operations. An illustrative example could be to track the fair value of a property portfolio over time to see if areas with rising temperatures are negatively impacted by climate change.	The reduction targets for greenhouse gas emissions set by the company ended up reducing cost (e.g., transportation costs by shifting from air and towards sea and trucking transportation). If a jusridiction applies a carbon tax, reducing emissions can help to reduce costs. Reputation risk may be decreased.	SDG 13 - Climate Action PAS 2060 TCFD guidelines Greenhouse Gas protocol GRI 305: Emissions SASB EDCI UN PRI LSTA ESG Integrated Disclosure Project
ADVANCED	• Reduction of absolute emissions *(compared to a target)* • Reporting in line with TCFD recommendations	Carbon emissions metrics were incorporated into TCFD-aligned reporting published by the company. In 2021, the company announced its intention to reduce absolute scope 1 and scope 2 location-based emissions by 50% by FY2030, from a fiscal 2019 baseline. In 2021, it achieved a 20% reduction in scope 1 emissions and a 15% reduction in scope 2 location-based emissions, from FY2019 base year emissions. This will continue to be monitored and progress will be reported to the Board. The company is investigating establishing a Net Zero Carbon initiative culminating in 2040, and has set up an internal working group how best to meet this target.		

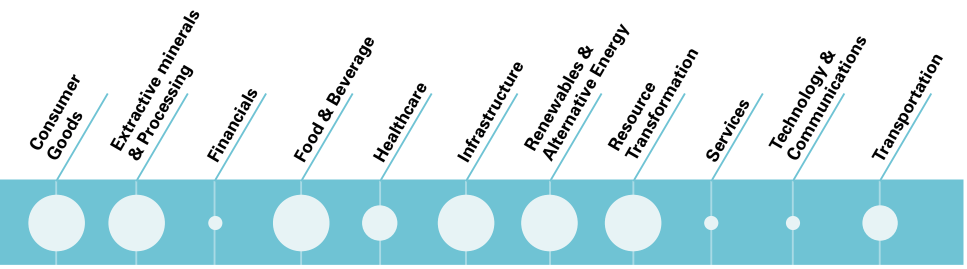
OUTCOMES - WIDER SOCIO-ECONOMIC IMPACTS - CLIMATE CHANGE[1]

The societal benefits of climate action may include:

- avoidance of costs associated with rising sea levels and more intense hurricanes; crop-damaging heat waves, pests and flooding, and drought and wildfires.
- conservation of water resources to avoid water shortages that may raise food production costs, lower water quality, or increase droughts.
- preservation of ecosystems and species that provide multiple benefits such as protection from storm surges, water filtration, lumber availability, and fisheries avoidance of resource conflicts and migrations.
- personal household cost savings through energy efficiencies and renewable energies; improved public health due to reductions in asthma and other respiratory illnesses that result from poor air quality; job creation in the renewable energy sector.

† GPs may also want to consider the following:
- Applicability of the above standards and regulations (e.g., public companies, private companies, etc.)
- Qualitative disclosures required by the above standards and regulations
- Other ESG-related proposals such as the SEC's proposed amendment to the Names Rule and proposal for enhancement of disclosures by certain investment advisers and investment companies
- Reporting frameworks required by regulation versus voluntary reporting frameworks
- Any relevant qualifications or exclusions in respect of particular fund strategies.

Circular Economy†



Maturity	Example Metric(s)	Illustrative example of measurement	Why this is important	Reference frameworks
BASELINE	• Understanding the amounts of: – Waste generated from operations – Amount of waste recycled – Use of recycled materials	In 2019, the company's manufacturing facilities generated 25,826,550 pounds of waste to landfill. This is calculated based on review of material handling and waste diversion processes, as reported by waste vendors. In cases where certified or otherwise documented weights were not available due to industry challenges, they have been estimated based on waste audits, historical data, or extrapolation for similar facilities in size and scope. Of this waste, 40% of it was recycled.	By investing in sustainable products, the company was able to decrease the costs of their product inputs by using recycled material, decrease their carbon footprint from waste, and attract new customers. Adopting circular business models such as product-as-a-service has led to higher customer retention (through subscription model) opened up new markets and lower the customer acquisition and retention cost. Lessening the dependency on virgin critical raw materials that face high prices and high price volatility reduced the risk for both the company as well as investors.	SDG 12 - Responsible Consumption & Production GRI 301 EFRAG CSRD - Circularity Circular Transition Indicator WBCSD
DEVELOPING	• Does the company have a strategy to design for end-of-life products? • Percentage of raw materials from: – recycled content, – renewable resources, and – renewable and recycled content • Has the company set a waste to landfill target?	The company has developed a holistic strategy that aims to reduce landfill waste through the implementation of closed-loop product life cycles. Recognizing the importance of incorporating recycled raw materials to the Company's parts, the raw materials in their operations during 2020 consisted of 35% recycled content and 40% renewable resources. The company would like to eliminate waste to landfill by 2035.		
ADVANCED	• % material circularity which is composed of % circular inflow; • % recovery potential and % actual recovery	A company may measure this % of weight of the products brought on the market. If revenues are used then a company may provide it as the % for the total amount of revenues. It uses the Circular Transition Indicators framework to build out its Circular Economy strategy. For a company, reusable or recyclable materials were used to generate 40% of the $6.2 million of revenues earned in 2021. The company also monitors recycled materials as a % of weight of the products brought on the market.		

OUTCOMES - WIDER SOCIO-ECONOMIC IMPACTS - CIRCULAR ECONOMY[2]

In principle, circularity creates an economy and business activities with lower emissions, less impact on nature and more socially equal workforce and access. These actions can lead to:

– better use of natural resources like forests, soil, water, air, metals and minerals - as illustrated in The Ellen MacArthur Foundation's butterfly diagram

– recovery of products put on the market for new purpose

– lower emissions through reduced food loss, waste and less extraction of resources and manufacturing of products

– reduction of hazardous materials disposed of into the environment, lowering the impact on nature, ecosystem decline and biodiversity loss but also human health (e.g., microplastics).

– employment creation through stimulated innovation for new business models focused on reuse, repair, re-manufacturing and sharing

† GPs may also want to consider the following:

- Applicability of the above standards and regulations (e.g., public companies, private companies, etc.)
- Qualitative disclosures required by the above standards and regulations
- Other ESG-related proposals such as the SEC's proposed amendment to the Names Rule and proposal for enhancement of disclosures by certain investment advisers and investment companies
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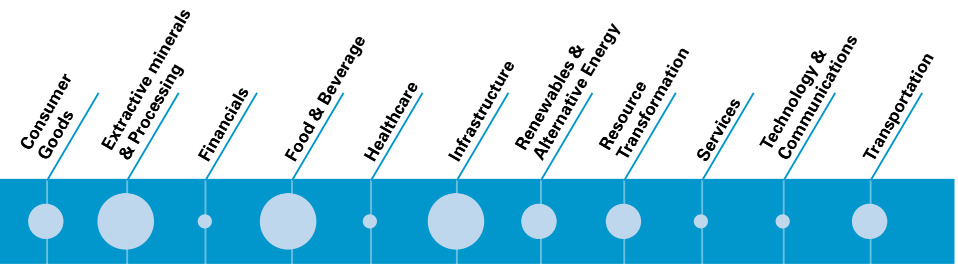
Biodiversity†



Maturity	Example Metric(s)	Illustrative example of measurement	Why this is important	Reference frameworks
BASELINE	• The number of significant impacts of activities, products, and services on biodiversity	A potential baseline in the company direct operations/assets/production sites can be analysed by the Integrated Biodiversity Assessment Tool (IBAT) tool	For investors, biodiversity loss presents physical, regulatory, financial, and reputational risks. Businesses can improve competitiveness by responding to societal concerns and consumer preferences. Through understanding, assessing, and managing nature-related dependencies and impact, risks, and opportunities (DIRO), investors/companies can play their part in halting biodiversity loss while improving portfolio resilience and business performance. Companies can also foster better relationships with local stakeholders (including rights-holders), around business operations.	SDG 14 - Life below water SDG 15 - Life on land GRI 304 Biodiversity SASB TNFD SBTN Nature Capital Protocol
DEVELOPING	• Nature-related impact and dependencies, risks, and opportunities in the companies' direct operations and up-and downstream value chain	The material impacts to biodiversity from the company's operations are GHG emissions, water pollutants, solid waste, soil erosion, and water usage.		
ADVANCED	• Does the company: – Set science-based targets for nature and pilot the TNFD framework? – Analyse number of habitats protected or restored, could mention that an improvement in MSA (mean species abundance) was found improved in surrounding area?	Understanding whether a company sets science-based targets relevant to the company is a advanced metric. The impact of biodiversity degradation may be linked to potential impacts on operations and financial company performance via scenario analysis and availability of resources. The company can set goals to conserve land for every acre it develops with their operations. It can also identify if any IUCN red list species have been impacted in its activities.		

OUTCOMES - WIDER SOCIO-ECONOMIC IMPACTS - BIODIVERSITY[3]

The 5 drivers of biodiversity loss are: land/sea-use change, direct exploitation, pollution, climate change, pollution, and invasive alien species.

Biodiversity and nature protection can lead to health and social benefits including:

– improved air quality
– improved climactic conditions
– noise reduction
– attractive living environment
– healthier lifestyles and physical activities
– reduced social tension
– increased societal engagement

† GPs may also want to consider the following:
- Applicability of the above standards and regulations (e.g., public companies, private companies, etc.)
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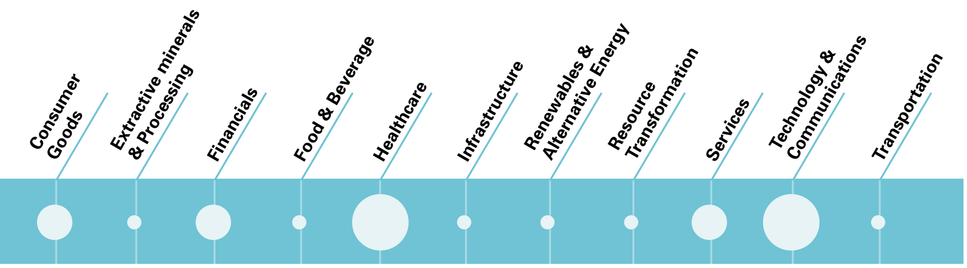
Diversity, Equity & Inclusion

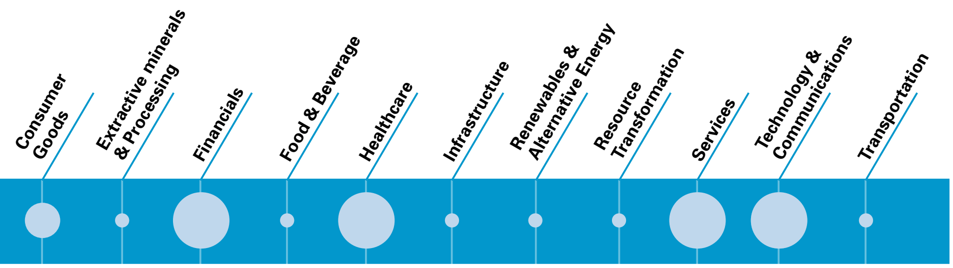


Maturity	Example Metric(s)	Illustrative example of measurement	Why this is important	Reference frameworks
BASELINE	• Percentage of gender and high level ethnicity spread within an organisation. The categories for this will differ depending on the jurisdiction. • % representation may be reported at group level, but also for important sub levels that require focus, e.g., Board, Executive Group, Non-Exec Management, Professional, and all other employees.	Sample representation of core DEI statistics differ depending on legal regulations in various jurisdictions. For example, the categories identified in the US EEO-1 form are not as relevant or applicable to a different jurisdiction, so a local approach might be more beneficial. At a high level, DEI can be captured as follows but check local regulations to ensure permissibility: Data sets - Group Level, Board, Executive, Non-Executive Management, Other Employees Categories can include: - Age % by level - Gender % by level - Race % by level - LGBTQ+ status - Disability status	A more diverse workforce and leadership structure can lead to higher employee engagement and retention. This may have the benefit of a productive and inclusive culture with multiple perspectives. There are also potential cost savings by increasing retention, lowering recruitment costs and costs to train and onboard new employees.	[SDG 5 - Gender Equality] [ILPA Diversity in Action Framework] [GRI 405: Diversity and Equal Opportunity] [SASB] [EDCI]
DEVELOPING	• Gender Pay Gap- Ratio of basic salary and remuneration of women to men • Spend with diverse suppliers - e.g. women, minority or veteran owned businesses • What types of employee affinity groups, leadership development programs, and accelerator initiatives?	For gender pay gap calculations, the company calculated the pay gap ratio at 96:100 (average basic salary for women is (96% of what it is for men). In 2022, $22 in every $100 spent with suppliers was with diverse owner businesses. The company has employee affinity groups addressing minority representation in the given market and/or geography.		
ADVANCED	• % of promotions/hires that are diverse, • difference in % hires of diverse candidates vs. local industry representation • whether employee engagement / inclusion has increased vs last year. • Employee participation in business affinity groups and leadership initiatives	Advanced companies understand that "inclusion" is as important as "diversity," and so they also look at employee engagement numbers and participation in leadership development programs and affinity groups, as that is more of an advanced indicator to show what an organization is doing to develop its employees.		

OUTCOMES - WIDER SOCIO-ECONOMIC IMPACTS - DIVERSITY, EQUITY & INCLUSION

DEI initiatives can bring together people, perspectives, and ideas to create stronger companies and build a fairer society with equal opportunities. The aim is to increase equity for all people, not just those from traditionally represented populations. This can lead to increased employment and earning potential for individuals from disadvantaged groups.

Human Capital & Employee Engagement

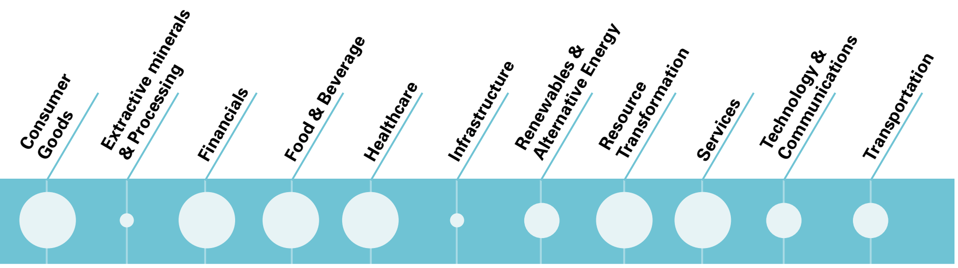


Maturity	Example Metric(s)	Illustrative example of measurement	Why this is important	Reference frameworks
BASELINE	• Does the company perform an annual employee engagement survey? What is the response rate of this survey?	In 2021, the company gained 172 new hires. The voluntary turnover rate was 8% and involuntary turnover rate was 3%. In 2021, the company conducted an employee satisfaction survey that was sent to all full-time and part-time employees. The response rate was 87%.	By tracking engagement, the company can implement policies and programs to increase engagement, which may lead to higher retention and increased productivity.	SDG 8 - Decent work and economic growth GRI 401: Employment SASB EDCI
DEVELOPING	• Average hours of training per year, excluding Health & Safety training, per employee compared to industry averages or minimum compliance requirements • Does the company do ad hoc employee engagement or "pulse checks" scores after significant business events and monitors impact on turnover rates.	During the last fiscal year, employees received an average of 17 hours of training against an industry average of 19 hours. Recently the company acquired a competitor, which resulted in the departure of key sales leaders. An employee engagement survey post-deal showed that many did not understand the go-to-market strategy for the combined company. Without a targeted response from new leadership, voluntary turnover increased by 25% from prior periods in the sales department.		
ADVANCED	• What benefits are provided to full-time employees that are not provided to temporary or part-time employees?	The company has an equal employment promise - short-term and temporary employees receive the same benefits as full time employees (e.g., vacation days and health insurance). In line with full time employees, part-time employees are eligible to enroll in the company's retirement savings programs and potentially receive the company match.		

OUTCOMES - WIDER SOCIO-ECONOMIC IMPACTS - HUMAN CAPITAL & EMPLOYEE ENGAGEMENT

Employee engagement can lead to societal benefits including:

– increased employee safety
– healthier employees (e.g. less likely to be obese, less likely to suffer from chronic disease, more likely to eat healthier, more likely to exercise due to reduced workplace based stress)
– happier employees and better home lives



Product Quality & Stewardship

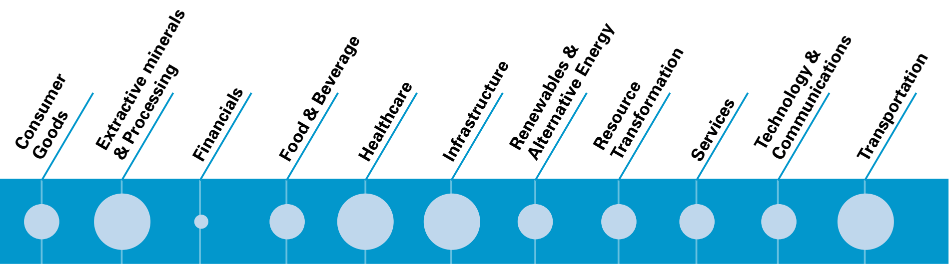
Maturity	Example Metric(s)	Illustrative example of measurement	Why this is important	Reference frameworks
BASELINE	• Does the company have a product risk program that: – tracks incidents of non-compliance concerning product and service information and labeling consumer protections including marketing communications, and health and safety impacts of products and services – conducts robust due diligence on suppliers and relevant third parties including ongoing monitoring.	The company develops and maintains a risk program that effectively (and demonstrably) assesses and addresses product quality and stewardship. Through this program, the company had no reported incidents of non-compliance concerning product and service information and labelling, marketing, communications, and health and safety impacts of our services.		
DEVELOPING	• Number of: – recalls issued and – total units recalled – customer complaints – complaints from wider stakeholders	The company issued one voluntary recall related to a safety issue at one of our manufacturing partners. Included in the company's board report, a company highlighted that one voluntary recall was issued in 2022. The company had 1,200 complaints in total; 450 were related to product quality. Within the product quality complaints, 350 were related to one product in a specific geography. If the company was operating in a services based industry, there are risks around advertising & marketing (often measured by complaints numbers and resolutions).	By tracking instances of non-compliance, recalls, and the effects of its products, the company can build trust with customers and employees, decreasing reputational risk.	GRI 416: Customer Health and Safety GRI 417: Marketing and Labeling SASB
ADVANCED	• Independent assessment of the health and safety and product quality impacts of product and service categories In services-based industries, there are risks around advertising/ marketing, pricing and monitoring of resolution of customer issues - all of which can be made into industry specific metrics.	An independence review was conducted of customer issues and complaints resulting from products or services that the company offers. This highlighted the increased risks of product / service offerings in specific markets and a robust improvement (and remediation plan) can be implemented as a result.		

OUTCOMES - WIDER SOCIO-ECONOMIC IMPACTS - PRODUCT QUALITY & STEWARDSHIP

Product stewardship is the act of minimizing the negative health, safety, environmental, and social impacts of a product and its packaging throughout all lifecycle stages. This involves conserving natural resources, combating pollution, and protecting biodiversity.

Product quality minimizes waste and reduces harmful effects to both the environment and customers. Ethical product labeling and selling practices protect customers and foster trust in the global business community.

Health & Safety

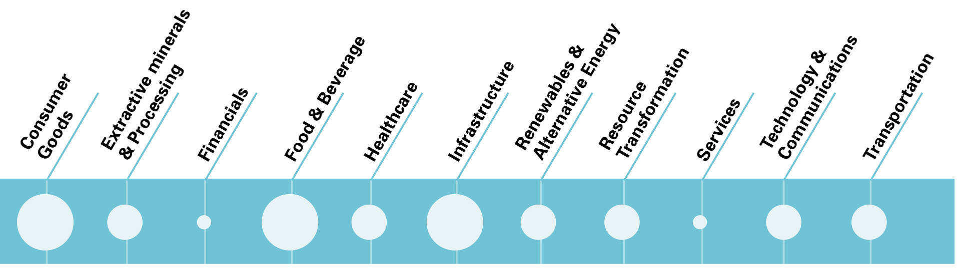


Maturity	Example Metric(s)	Illustrative example of measurement	Why this is important	Reference frameworks
BASELINE	• Total recordable incident rate - TRIR - calculated by the number of recordable incidents per 100 full-time workers during a one-year period. • Fatality rate - often calculated as number of fatalities per 100,000 employees for industry comparison • Days Away, Restricted or Transferred - DART rate - calculated using the following formula: Number of recordable injuries and illnesses that resulted in Days Away, Restricted or Transferred X 200,000 (represents 100 employees working 40 hours a week for 50 weeks during a calendar year) divided by total employee hours worked. The Lost Time Injury Rate can also be used.	During 2020, to compare its operations to that of its peers, the company performed a deep dive assessment of its facilities by assessing the following: – TRIR - 1.4 – Fatality rate - 0% – DART - 1.65 The company was then able to compare this across industry data and began monitoring this on a regular basis to identify trends.	In the US, companies with more than 10 full-time employees are subject to injury recordkeeping requirements. By monitoring the health and safety of workers throughout its supply chain, the company can minimize the risk of reputational harm and legal liability associated with potential health and safety violations. Health & Safety is not just about an organization's employees, as safety incidents have the potential to harm the broader community and surrounding areas. In addition to legal fees, there can be fines and potentially even criminal charges.	GRI 403: Occupational Health and Safety SASB EDCI SDG 3 - Good Health & Wellbeing
DEVELOPING	• Near miss frequency rate - often calculated by # of near misses divided by 100 employees • Average hours of health, safety, and emergency response training for 2) full time employees, b) contract employees and c) short-service employees • Total monetary losses because of legal proceedings associated with employee health and safety violations	During 2020, to compare its operations to that of its peers, the company performed a deep dive assessment of its facilities by assessing the following: – NMFR - Near miss frequency rate of 4% – Health, safety, and emergency response training of 12 hours for full-time employees, 10 hours for contract employees, and 4 hours for short-service employees – In 2021, the company incurred $600,000 of expenditures in legal proceedings associated with employee health and safety violations.		
ADVANCED	• Develop safety balanced scorecard that connects strategy elements including mission, vision, values, strategic focus areas, and operational elements such as objectives, metric measures, targets, and initiatives would further support a data-driven safety culture.	At a very high level, tracking advanced indicators (safety observations, audits, training, site walks, employee perception, leadership engagement, etc.) versus lagging indicators or performing predictive analysis. An example lagging indicator could be measuring events (long-term data) based on their severity.		

OUTCOMES - WIDER SOCIO-ECONOMIC IMPACTS - HEALTH & SAFETY

A safe and healthy workplace protects workers from injury and illness, which has long-term benefits for the wider community such as reduced health care costs.

Business Resilience & Supply Chain Management†



Maturity	Example Metric(s)	Illustrative example of measurement	Why this is important	Reference frameworks
BASELINE	• New suppliers that were screened for material ESG issues.	In 2022, the company has approximately 100 active suppliers across 26 countries and assessed that 34 of these suppliers have a social responsibility code of conduct in place.	Supply chain management is important because end-to-end visibility into the supply chain allows a company to make data-driven decisions that can enable the organization to adapt to disruptions and maintain business continuity. This visibility into the supply chain allows a company to effectively manage risks (such as business disruption or reputational harm), realize efficiencies (such as reduced costs of material inputs and increased labour productivity), create sustainable products (accessing new markets and improving customer loyalty), and build a culture of responsibility (by attracting and retaining engaged employees and building relationships with external stakeholders	[GRI 204: Procurement Practices] [GRI 414: Supplier Social Assessment] [SASB]
DEVELOPING	Direct suppliers' social responsibility audit: • non-conformance rate and • associated corrective action rate for - priority nonconformances and - other nonconformances	The company has regular third-party social responsibility audits conducted on its behalf to ensure that the production facilities of the company's third-party suppliers are aligned with the company's expectations, the law and regulatory requirements related to human rights, fair and safe labour practices, environmental protection, and ethical business conduct. Upon completion of the audit, suppliers are required to address any findings for corrective actions in a timely manner while providing regular updates to the company. In 2020, 40 suppliers were audited and 20% of these suppliers received non-conformance results. All priority and other non-conformance audit findings have either been remediated by our suppliers, or such remediation is in the process of being actively and diligently pursued by the applicable suppliers, with regular updates on the status of that remediation provided to the company.		
ADVANCED	• Percentage % of: - Tier 1 supplier facilities and - supplier facilities beyond Tier 1 that have been audited to a labour code of conduct, - percentage of total audits conducted by a third-party auditor	Each year the company assesses all active supplier locations that are in scope for their Supplier Social Responsibility Program. Material, country, and political-specific risk factors are reviewed as part of this assessment, along with supplier-specific factors such as prior audit performance and participation and performance in capability building efforts and the supplier's role in relation to our business. These results are used to identify Tier 1 (high risk) suppliers, Tier 2 (medium risk) suppliers, and Tier 3 (low risk) suppliers. In 2021, 100% of Tier 1 suppliers, 50% of Tier 2 suppliers, and 25% of Tier 3 suppliers were audited to a labour code of conduct. Of these audits 100% were conducted by an independent third-party auditor.		

OUTCOMES - WIDER SOCIO-ECONOMIC IMPACTS - BUSINESS RESILIENCE & SUPPLY CHAIN MANAGEMENT [4]

Supply chain management can lead to societal benefits including: avoidance of breakdowns that may threaten human life, such as the ability to obtain basic necessities like food and water; improved healthcare with medical treatment delivery; protection from climate extremes such as threats from power blackout in the winter; foundation for economic growth with highway systems, railroad networks, ports and airports; improved living standards driven by low costs of exchanging goods; job creation in areas like management of transportation, warehousing, inventory management, packaging and logistics information; opportunity to decrease pollution through development of more sustainable processes and methods. Poor supply chain management results in disruption and lack of access to certain goods.

† GPs may also want to consider the following:

- Applicability of the above standards and regulations (e.g., public companies, private companies, etc.)
- Qualitative disclosures required by the above standards and regulations
- Other ESG-related proposals such as the SEC's proposed amendment to the Names Rule and proposal for enhancement of disclosures by certain investment advisers and investment companies
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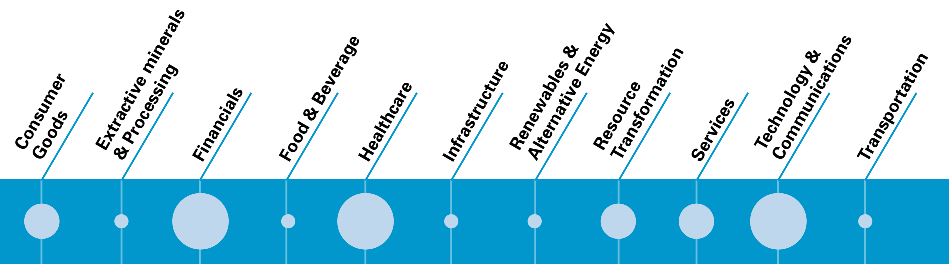
Data Governance & Cyber Security



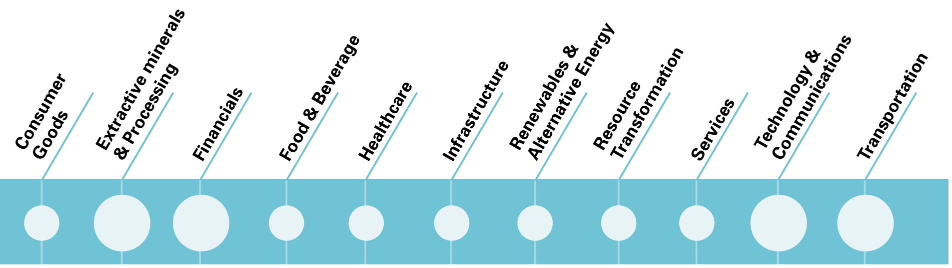
Maturity	Example Metric(s)	Illustrative example of measurement	Why this is important	Reference frameworks
BASELINE	• Does the company have: – A data governance policy? – A cyber security policy? – An effective training program to ensure awareness of the requirements of the policy?	The company has a data governance policy that covers data access, usage, and integrity. The cyber security policy addresses requirements with hardware, software, and communication platforms such as email, social media and workplace tools. It undertakes annual training to ensure employees are aware of their responsibilities.	Tracking data breaches and building governance processes around data protection allows a company to improve data protection systems, decreases losses and associated costs from breaches, which can lead to compliance with data protection laws, increased trust with customers, and decreased reputation risk.	GRI 418: Customer Privacy SASB
DEVELOPING	• Number of data breaches • percentage involving personally identifiable information (PII) • number of customers affected	During 2021, the company had two data breaches affecting 12,000 customers. One of the breaches involved personally identifiable information (PII), which affected 1,500 of the total 12,000 customers.		
ADVANCED	• Number of users whose data is used for secondary purposes	0% of the company's users' data is used for secondary purposes.		

OUTCOMES - WIDER SOCIO-ECONOMIC IMPACTS - DATA GOVERNANCE AND CYBER SECURITY

Cybersecurity can lead to societal benefits including:

– prevention of theft or damage of personally identifiable information (PII), protected health information (PHI), personal information, intellectual property data, government and industry information systems
– technological progress that fosters societal development
– trust in adoption of digital technologies for humanitarian and environmental purposes

Corporate Governance



Maturity	Example Metric(s)	Illustrative example of measurement	Why this is important	Reference frameworks
BASELINE	• Does the company have policies that cover: – Anti Bribery & Corruption – Board and Executive Committee Articles – Corporate Social Responsibility – Executive Compensation – Modern Slavery – Risk Register – Shareholder Rights – Succession Planning	The company has all the relevant policies and undertakes an annual review of these policies, overseen by an independent reviewer.	A strong corporate foundation of ethics policies can increase the company's trust among employees and customers in the marketplace. Tracking legal actions and monetary losses allowed the company to understand where policies and enforcement may need to be strengthened to keep their corporate trust and reputation intact.	GRI 418: Customer Privacy SASB UNPRI* GRI 205: Anti-Corruption SASB SDG 16 - Peace, justice and strong institutions
DEVELOPING	• Number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices • Does the company have: – An anti bribery policy? – A code of conduct? – Training and development plans for employees on its corporate governance policies and procedures?	During 2022, the company was involved in two legal proceedings for employees that were accused of insider trading. The company trains all employees annually on its corporate governance processes and code of conduct. This training addresses all regulatory requirements within the industry. There is an annual policy confirmation where employees are required to read and acknowledge updates to internal policies and procedures as well as external regulatory and industry developments that affect their work.		
ADVANCED	• Amount of net revenue in countries that have the 20 lowest rankings in Transparency International's Corruption Perception Index	The company's CFO reviewed financial statements to determine that the company had $15 million in net revenue from customers located in two countries that are in the 20 lowest rankings in the Transparency International Corruption Perception Index. The CFO decided to flag these accounts for the Chief Compliance Officer to develop a strategic plan for the company to mitigate potential corruption risks with these clients.		

OUTCOMES - WIDER SOCIO-ECONOMIC IMPACTS - CORPORATE GOVERNANCE

With effective corporate governance, companies may gain the trust of stakeholders and improve economic returns both for the company, which enhances the lives of its employees, and the communities it operates in. With effective corporate governance, companies can support their communities, provide opportunities for the people in those communities, and embrace sustainable practices that protect the environment.

Introducing the illustrative case studies

Understanding the different points of view of Private Equity market participants makes it easier to apply a value-led approach to ESG metrics. The following case studies are illustrative examples of effective uses of ESG metrics in situations that correspond to the use cases earlier in this paper.

CASE STUDY 1:

The Portfolio Company Perspective

From the perspective of an illustrative portfolio company, this example looks at what forces are involved for PeakGear LLC, a sporting goods company that did not focus ESG efforts in relevant areas and looks at the implications of interventions made by EliteGP, their Private Equity owner.

CASE STUDY 2:

The Investment Decision Perspective

Awareness of ESG topics at the GP level is critical to having a better understanding of value in a deal process. In this illustration, AcuteFocus GP is assessing an investment in GeonSur, a healthcare provider. AcuteFocus GP needs to ensure its deal team has adequate awareness of ESG areas that may have significant impact on the inherent value and risks when looking to invest in GeonSur.

CASE STUDY 3:

The Investor (LP) Perspective

This case study focuses on an illustrative investor (LP). Evergreen is an LP that has spent considerable time building out their ESG strategy in recent years.

CASE STUDY 4:

The Private Equity Firm (GP) & Regulatory Perspective

Finally, the last illustrative example highlights AcornGP, which is required to report climate data because of national regulation. AcornGP has identified direct links to tangible value creations by leveraging the ESG data collected for regulatory purposes for wider value creation analysis.

CASE STUDY 1: **The Portfolio Company Perspective**

From the perspective of a portfolio company, this case study looks at what forces are involved for a sporting goods company that did not focus ESG efforts in relevant areas.

PeakGear LLC and EliteGP

– PeakGear, a sporting goods company operating in the United States, has received investment from EliteGP in return for a majority stake in the company

– EliteGP sees high growth potential based on their expectations of the sporting goods market and plans to hold the investment for 5+ years as it believes it can build out its footprint significantly.

– PeakGear's management team is keen to learn more from EliteGP who appoint a sales specialist to sit on their Board.

– EliteGP's sales specialist recommends that PeakGear sets NetZero targets to attract a wider, more eco-conscious customer base and produces compelling sales forecasts to support the direction.

– PeakGear does not have a highly developed ESG reporting function. It must now understand its climate emissions and set appropriate targets to reach NetZero, before issuing a press release.

Applying the Three Step Process, explained earlier in this paper:

STEP 1

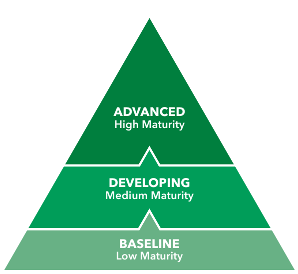
Factor	Focus	Description
GEOGRAPHY	**BASE**	There is no current climate emission reporting required by US law. Although the SEC is considering an approach to climate reporting, there is currently no requirement to monitor or set emissions targets. If the portfolio company was operating in a jurisdiction with required climate reporting, it may need to consider data gathering requirements relevant to setting emissions reductions targets ahead of any other metrics.
MATURITY	**LOW / MEDIUM**	PeakGear's CEO is interested in ESG but the company is at an early stage of its ESG reporting and awareness.
OWNERSHIP	**MAJORITY**	EliteGP has a majority stake in PeakGear -, so can influence management decisions and strategy. If EliteGP had a minority stake, it may need to reconsider its ability to influence the portfolio company's adoption of ESG-related targets
HOLD PERIOD	**LONG**	EliteGP is planning a 5 year plus hold period. If the GP has a short or medium hold period, it may need to reconsider its influence over ESG-related targets or goals.

PeakGear realizes it needs to go beyond base regulatory compliance in understanding its emissions profile to set NetZero targets. EliteGP has only just invested and therefore will be influencing management for some time through its board control and long hold period.

STEP 2

While climate emissions are an important consideration for PeakGear, it is not as carbon intensive as other industries. As such, high level emissions data would be sufficient to understand PeakGear's emissions profile. Due to the immature ESG strategy at PeakGear, the team focus their energy on the NetZero project, rather than ESG areas that may require more detail. Supply chain and business resilience is a high-detail topic for the consumer goods industry because of its reliance on third party manufacturers, various global regulations, and potential impacts to reputation risk.

STEP 3



PeakGear has an immature ESG program and had not previously calculated its carbon footprint on its operations. Given pressure to increase sales, the low maturity of PeakGear's ESG program, and a lack of dedicated staff to ESG, the Procurement and Operations teams were charged with gathering data, scoping and hiring external consultants to conduct the footprint calculations and data assurance, and then linking to their product sales strategy.

While this project was underway, there were negative press reports about poor labor conditions at one of PeakGear's larger suppliers. This damaging press affected the company's reputation with its customers and investors, which negatively impacted sales for the year. Investors and wider stakeholders demanded answers about compliance with local labor laws, factory conditions, and programs and actions to improve these conditions.

PeakGear re-directed the immediate ESG effort to human rights/labor conditions at their suppliers and away from the NetZero project, causing significant wasted effort.

The Board recommended an ESG strategy is established within PeakGear, with the initial focus on PeakGear's supply chain, before extending to a wider focus.

Not focusing on the relevant ESG metrics impacted PeakGear's ability to identify a key issue that impacted its supply chain which negatively impacted sales.

CASE STUDY 2: **The Investment Decision Perspective**

An investment team at AcuteFocus GP is conducting due diligence on GeonSur LLC. The team would like to understand GeonSur's awareness of ESG topics as they believe it is a crucial component of overall diligence.

AcuteFocus GP & GeonSur LLC

– AcuteFocus is a GP conducting due diligence on a healthcare provider, GeonSur.

– AcuteFocus have developed an approach to assess the ESG practices of a target during due diligence, which includes evaluating performance against ESG metrics established for data and cyber governance, as well as product stewardship.

– AcuteFocus requests information on GeonSur's data protection oversight, policies, procedures, and breaches, and interviews some sales professionals to understand the economics and sales tactics for GeonSur's products.

STEP 1

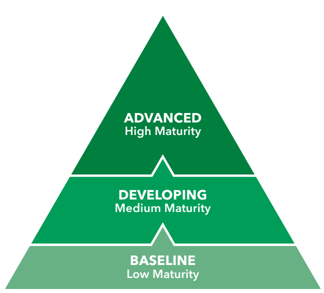
Factor	Focus	Description
GEOGRAPHY	ADVANCED	The target, GeonSur, is located in the US and therefore has to comply with HIPAA, GDPR and local regulations. There are greater expectations from investors, debt issuers, employees, and patients for healthcare data management.
MATURITY	MEDIUM	GeonSur's CEO has taken an interest in its ESG strategy by building out a program over the last 3 years. The company has some metrics and unbinding targets. If the target company was at a low level of maturity, the GP may need to consider the educational investment needed to upskill personnel at the target company.
OWNERSHIP	MAJORITY	The planned investment will be majority ownership and so AcuteFocus GP will be able to influence management decisions at GeonSur.
HOLD PERIOD	LONG	AcuteFocus GP is planning to hold the investment for 5-7 years and therefore has a longer time horizon to influence management on its ESG strategy.

Patient privacy and data security is a high-specificity topic for health care companies, given the high level of regulation around access to patient data. AcuteFocus GP decides to focus on the metrics for data privacy to build into their broader analysis of GeonSur.

STEP 2

AcuteFocus' investment teams use both GRI and SASB metrics to guide their questions for GeonSur's teams. These include number of customer complaints – for data privacy and sales, leaks, theft or losses of data, description of policies and practices to keep PHI secure, billing analysis and sales training and customer support models.

STEP 3



Because of the importance of HIPAA compliance for health care companies and knowing that the company's ESG program is at a medium level of maturity, AcuteFocus wants GeonSur to develop a advanced approach on patient privacy and ensure that it complies and exceeds all regulatory expectations for product stewardship.

During diligence, the team finds that the company had one data breach in the last year, where only 2% of the customer base was affected and no PHI was breached. Similarly, there were only a small number of customer complaints with positive reviews on publicly available sources.

AcuteFocus, through its majority stake and longer hold period, will influence the company's data security practices and policies post-close. AcuteFocus is excited to support GeonSur's management to review data protection practices and develop policies to prevent future breaches and maintain a consumer first approach to sales.

CASE STUDY 3: **The Investor (LP) Perspective**

This case study focuses on Evergreen LP, an investor who has spent considerable time building out its ESG strategy in recent years.

– Evergreen LP incorporates ESG considerations into its investment policies due to its view that they are additive to investment performance and in line with fiduciary duties.

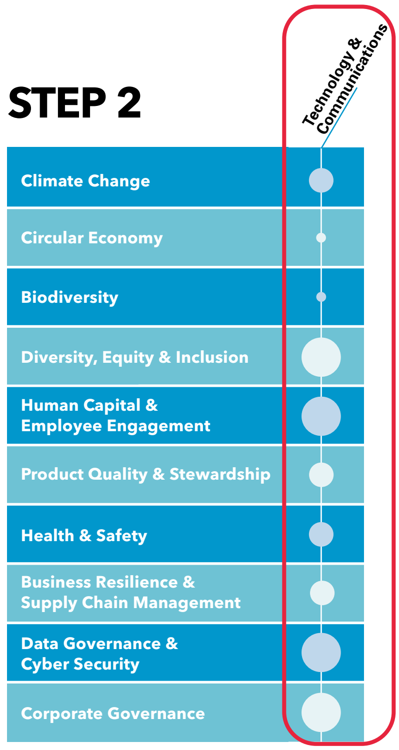
– Evergreen LP is developing a due diligence questionnaire ('DDQ') to send to BlueSkyGP, which holds a significant portion of its investment portfolio in technology companies.

– Evergreen LP plans to use as a starting point the DDQ template developed as part of the ESG Data Convergence Initiative. Understanding that the DDQ is intended to establish dialogue and may vary depending on BlueSky's strategy, size, experience, and resources, Evergreen LP performs the following assessment to identify the key questions to ask the BlueSky.

STEP 1

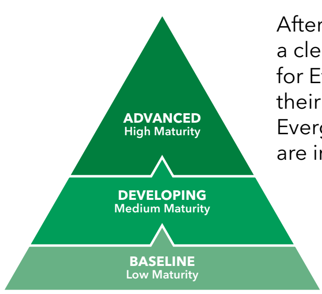
Factor	Focus	Description
GEOGRAPHY	ADVANCED	Whether BlueSky GP operates in a jurisdiction with or without mandatory reporting requirements, it will need to meet the demands of Evergreen LP's DDQ.
MATURITY	MEDIUM	Approximately 60% of BlueSky GP's portfolio companies are collecting and reporting adequate ESG metric data to satisfy Evergreen's requirements.
OWNERSHIP	MAJORITY	BlueSky GP mainly invests through majority stakes and therefore can influence its investments to report required ESG data. If BlueSkyGP manages a portfolio that is mostly minority owned, Evergreen LP may need to consider how it adapts its review of questionnaire responses accordingly. Evergreen LP may need to discuss with BlueSky GP what is possible with regards to getting the required data.
HOLD PERIOD	LONG	Evergreen LP asks BlueSkyGP about its average hold period, which is 4.5 years. As a result, Evergreen LP informed BlueSky GP that it plans to track the data and its associated trends accordingly.

STEP 2



There are some baseline ESG metrics applicable to all – but certain industries may benefit from understanding specific areas more deeply. The bubbles help identify which areas may need further analysis.

STEP 3



After assessing BlueSky GP through Steps 1 & 2, there is a clearer view of which areas may require a priority focus for Evergreen LP to consider. The suggested metrics and their uses, as highlighted in this paper, can be utilized in Evergreen LP's DDQ to incorporate areas of inquiry which are important to Evergreen's view of ESG material factors.

CASE STUDY 4: **The Private Equity Firm (GP) & Regulatory Perspective**

AcornGP is required to report climate data because of a national regulatory requirement. AcornGP has identified direct links to tangible value creation by leveraging the ESG data collected for regulatory purposes for wider value creation analysis.

– For regulatory reporting purposes, AcornGP reports global scope 1 and scope 2 GHG emissions aggregated across its portfolio.

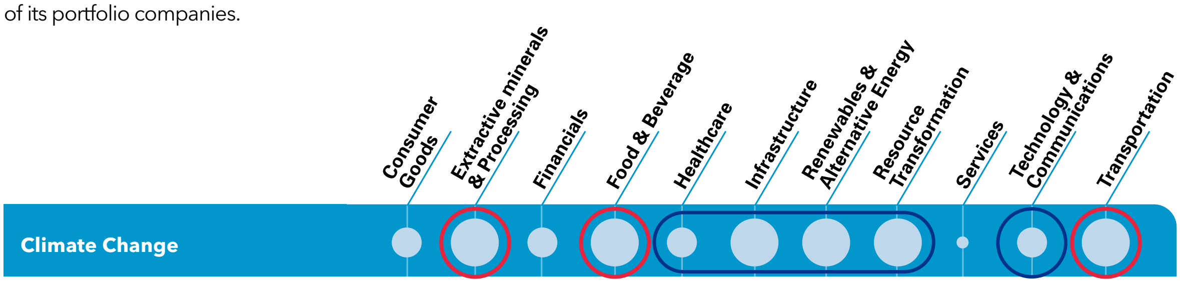
– AcornGP is interested in developing a qualitative context for the data across its portfolio so that it can use this data to make business decisions and create value.

STEP 1

Factor	Focus	Description
GEOGRAPHY	DEVELOPING	AcornGP operates in the UK and is therefore subject to mandatory TCFD reporting, for which it will report aggregated scope 1 and 2 emissions across the portfolio.
MATURITY	MEDIUM	AcornGP has not established any ESG related targets or metrics, but is feeling pressure to do so from its LPs.
OWNERSHIP	VARIES	AcornGP holds a large portfolio across which its ownership levels vary. AcornGP is interested in understanding the emissions profile of its portfolio at a more granular level so that it can determine where to focus on emissions reductions that have the most impact and create the most value, especially where it has the ability to influence such reductions through majority ownership.
HOLD PERIOD	VARIES	AcornGP holds a large portfolio across which the hold periods vary. AcornGP believes that there is greater potential for value creation in emissions reductions at portfolio companies with longer hold periods due to their ability to influence management teams when they work with them for longer periods of time.

STEP 2

AcornGP aggregates emissions from all of its portfolio companies. If portfolio companies do not have actual data, they are required to develop estimates. AcornGP would like to assess where emissions reductions in its portfolio have the greatest potential for value creation (e.g. cost reductions, avoided costs, attraction of new customers, avoidance of reputational harm, etc.). AcornGP determines it will embark upon a three-year project to perform deep dive assessments of the emissions profiles of its portfolio companies.



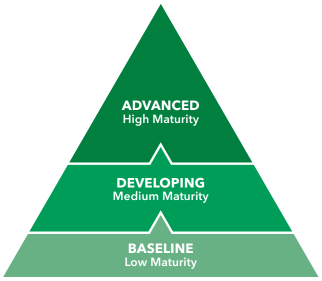
Year 1: Assess portfolio companies in Extractive Minerals & Processing, Food & Beverage, and Transportation industries. These industries have the highest materiality for emissions reporting, and the companies AcornGP holds in these industries have more mature emissions reporting. They also may experience more pressure from stakeholders to reduce emissions, have the largest opportunity to reduce emissions and may realize the most value from achieving such reductions.

Year 2: Assess portfolio companies in Healthcare, Infrastructure, Renewables & Alternative Energy, Resource Transformation, and Technology & Communications industries. These industries have a medium materiality for emissions reporting, with moderate level of maturity in their emissions reporting, moderate level of pressure from stakeholders to reduce emissions, and may realize a moderate level of value from achieving such reductions.

Year 3: Roll out process used in Years 1 & 2 to the remaining sectors - Consumer Goods, Financials, and Services industries.

As emissions are less material to these companies, there is less inherent value in reducing emissions compared with the wider portfolio. AcornGP still wants to perform a comprehensive assessment to understand the qualitative context behind the emissions of portfolio companies as part of their overall emission impact at the GP level. This will help the GP to assess volume of emissions from these portfolio companies, data integrity of emissions reported by these portfolio companies, and any potential risks that may be within AcornGP's portfolio companies even if they have a relatively smaller emissions profile.

STEP 3



AcornGP assesses its portfolio companies as laid out in Step 2. This assessment involves a review of each portfolio company's emissions reporting maturity and emissions data integrity (transparency, accuracy, consistency, completeness, relevance). AcornGP also performs inquires to understand any qualitative factors relevant to the emissions. This may include the boundaries of the emissions calculations, the regions in which the emissions are generated, and any targets or goals related to emissions reductions.

Based on this assessment, AcornGP develops a scoring mechanism and scores each portfolio as Priority, Core, or Additional. The following considerations are applied:

(1) Emissions reporting maturity ranked as baseline, developing, or advanced

(2) Emissions reporting risk ranked as low, medium, or high

AcornGP utilizes these scores to determine the portfolio companies with which it will further engage to enact emissions reporting improvements and/or emissions reductions targets.

Below is an illustrative example of AcornGP's assessment and resulting actions:

INVESTMENT DETAILS				ASSESSMENT RESULTS			
Industry	**Ownership**	**Hold Period**	**Emissions as % of portfolio**	**Maturity**	**Risk**	**Tier**	**Actions**
Transport	Majority	Medium	8%	Baseline	High	Prioirity	AcornGP initiates high engagement with Transport portfolio companies and directs significant resources towards improving emissions reporting. Efforts may include educational workshops on emissions reporting, standardised templates, setting of emissions reductions targets, and verification of emissions data.
Healthcare	Significant Minority	Short	2%	Advanced	Medium	Core	AcornGP initiates moderate engagement with portfolio company and directs minimal resources towards improving emissions reporting. Efforts may include high level trainings on emissions data gathering, standardised templates, data integrity, and reporting. The short hold period may impact Acorn GP's ability to collect, analyze, and take actions on the data.
Services	Minority	Long	<1%	Baseline	Low	Additional	AcornGP monitors the portfolio company but does not undertake significant engagement efforts on emissions reporting. Efforts may include periodic communications on emissions regulatory updates and standardised templates.

An overview of the reporting landscape

This non-exhaustive table illustrates some ongoing ESG reporting initiatives. Each initiative may focus on different stakeholders, objectives, and instruction. PE stakeholders may utilize this table to understand some of the common influences across the ESG reporting landscape. This information can aid PE stakeholders in their ESG reporting journey. However, PE stakeholders must consider this broader reporting landscape in the context of their specific circumstances, considering the following: Applicability of these frameworks and any others not listed here; Whether the frameworks are voluntary; Where the information will be reported (e.g., in a financial report); The data needs of any required metrics; Qualitative disclosures required by the frameworks.

BODY	FRAMEWORK	DESCRIPTION	FOUNDATION	FOCUS AREAS
Regulatory				
Securities Exchange Commission (SEC)	Enhancement and Standardization of Climate-Related Disclosures for Investors	Proposed rule addresses climate-related risks	– TCFD – GHG Protocol	– Emissions – Human capital metrics expected in the future
European Commission	Corporate Sustainability Reporting Directive (CSRD)	Report sustainability information based on European Sustainability Reporting Standards (ESRS), as proposed by the European Financial Reporting Advisory Group (EFRAG) The Directive also asked EFRAG to take into account SASB, IIRC, IASB, CDSB, and CDP, and to integrated the content of global baseline standards to be developed by the ISSB (page 48 of this guidance)	– TCFD – GRI – GHG Protocol – TNFD - Taskforce on Nature Related Financial Disclosures – EU Green Deal	European Commission drafts are expansive, thus this is not an exhaustive list of all the metrics required. Selective metrics to list may include: - emissions - total amount of waste generated - land use or habitat change - total water withdrawals - pollutants to air, water and soil - training and skills development indicators - pay gap between women and men - number of board meetings and attendance rate for administrative, management and supervisory bodies and committees - political contributions and lobbying or advocacy activities
	Sustainable Finance Disclosure Regulation (SFDR)	Transparency in relation to sustainability risks, consideration of adverse sustainability impacts in investment processes and the provision of sustainability-related information with respect to financial products	– EU Taxonomy – EU Green Deal – UN Sustainable Development Goals & Paris Agreement	– Sustainability risk policies; – Adverse sustainability impacts; – Remuneration policices.
Standard Setters				
ESG Data Convergence Initiative	Metrics selected from the most accepted and widely regarded frameworks	Industry-led partnership of private equity stakeholders committed to streamlining the industry's approach to collecting and reporting ESG data	– TCFD – SASB – GRI – WEF – SFDR	– Emissions – Renewable energy – Diversity – Work-related accidents – Net new hires – Employee engagement
International Sustainability Standards Board (ISSB)	As of April 2023, there are currently two proposals in draft - IFRS S1 for general requirements and IFRS S2 for climate requirements. These standards will be finalized in 2023.	Objective to deliver decision-useful information to investors, lenders, and creditors. Individual jurisdictions may decide to require or permit application of ISSB standards, once final, as a basis for sustainability reporting.	– TCFD – SASB – CDSB – IIRC – WEF	– Sustainability-related risks and opportunities – Industry-specific disclosures – Disclosure of transition planning and scope 1-3 emissions when material – Points to sources of guidance to meet investor needs – Financial effects over the short, medium, and long term
Institutional Limited Partners Association (ILPA)	Diversity in Action Framework	Concrete actions for private markets participants to advance diversity, equity, and inclusion	N/A	Foundational activities for carrying out, communicating, tracking, and advancing DEI within an organization, required for being a part of ILPA's DIA Initiative, and broadly applicable to those outside of it

BODY	FRAMEWORK	DESCRIPTION	FOUNDATION	FOCUS AREAS
Standard Setters *continued*				
Invest Europe	ESG Reporting Guidelines (and by extension the Investor Reporting Guidelines)	Consistent framework for investors to understand a GP's, and its underlying portfolio companies', approach to and performance on sustainability – with the possibility to aggregate data at fund level.	– SFDR – EDCI (ESG Data Reporting Initiative) – EDC (European Data Cooperative) – WEF – NVCA questionnaires – Existing member reporting questionnaires and practices – Various other standards and industry initiatives (TCFD/SASB/GRI/ESG_VC, etc.)	– Comprehensive guidance and mapping of ESG reporting requirements and expectations from both an EU regulatory and a (voluntary/international) standard perspective – Voluntary tool for GP-LP reporting across a wide range of ESG factors (24 areas in all) building on the core concept of materiality. – Guidance covers EU SFDR Article 8 (promoting environmental and/or social characteristics) and addresses some aspects of impact investing which includes products under the EU SFDR Article 9 (products investing exclusively in sustainable investments).

Glossary

DEI	Diversity, Equity & Inclusion
DDQ	Due Diligence Questionnaire
EDCI	ESG Data Convergence Initiative
ESG	Environmental, Social and Governance
GP	General Partner – an industry term used to describe a private equity firm
GRI	Global Reporting Initiative
ILPA	Institutional Limited Partners Association
ISSB	International Sustainability Standards Board
LP	Limited Partner – an industry term used to describe investors in Private Equity funds
Materiality *(in the context of this paper)*	Concepts introduced in this paper that are specific to the private equity ecosystem and not related to the EU definition of materiality, including double materiality.
PE	Private Equity
PESMIT	Private Equity Sustainable Markets Initiative Taskforce
Portfolio Company	Companies that receive investment from PE funds
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goal
SEC	Securities and Exchange Commission

Sustainable
Markets
Initiative