

Formalising ESG: Building from Best Practice

In this current climate, managing risk and building resilience is becoming increasingly important for all businesses. Environmental, Social and Governance (ESG) performance is an integral part of building risk controlled and value focused funds and portfolios.

Creating a structured approach to ESG can maximise benefits.

Stakeholders— including Limited Partners (LPs), communities, and employees— increasingly expect General Partners (GPs) to demonstrate that they invest responsibly and incorporate ESG factors into their investment decisions. Furthermore, as ESG factors increasingly affect the business value of portfolio companies, a more structured approach to ESG consideration can enhance GPs performance optimisation.

How a formal ESG approach helps:

- **Communicates commitment:** A clear and consolidated ESG strategy and policy demonstrates confidence and provides detail to respond to key stakeholders' expectations and requests.
- **Aligns expectations and builds trust:** By clarifying and articulating ambitions and commitments, a formalised ESG approach can build trust among stakeholders including LPs, investment professionals, regulators, portfolio company employees and local communities as they are confident their material ESG considerations are being met.
- **Establishes consistent implementation:** A formal ESG approach encourages consideration and guidance as to how to implement and integrate ESG criteria across teams and portfolios.
- **Quantifies and tracks performance:** ESG frameworks which identify and monitor key indicators over time can identify efficiencies, cost savings and opportunities and ultimately add value.

GPs scale, scope and objectives should be reflected in an ESG approach – there is no 'one size fits all.' The use of international frameworks can be helpful but are not an absolute requirement. Instead, a considered and practical approach which focuses on long-term resilience and value will be of most benefit to GPs.

The *Environmental, Social and Governance (ESG) Strategy Series* offers a topical and practical perspective on how ESG can benefit business. Each month, our Sustainable Business team will provide the best of their insight, findings and project experience on how ESG can build value. We welcome inquiries and feedback at esg@itpenergised.com or

