ESG Transparency A Private Equity Index

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Executive Summary

This report presents **Orbis Advisory** and **ITPEnergised's** first annual Transparency Index analysing 160 Private Equity (PE) firms' Environmental, Social and Governance (ESG) reporting performance, based solely on information companies publicly disclose through websites, reports, and portals.

Using our carefully developed criteria, centred around Responsible Investing and Internal Sustainability, the index showcases five firms that embody ESG transparency best practice: 3i, Macquarie Infrastructure and Real Assets, Brookfield, Epiris and Cinven.

The report identifies several findings around PE houses' ESG transparency performance, including common strengths and weaknesses, sectoral variations in score, correlations between company attributes and sustainability performance as well as links between internal ESG initiatives and external engagement. These key insights along with the index's top performers inform the report's recommendations to PE firms looking to build upon their ESG strategies or that want guidance on their ESG journeys.

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Director's Welcome

We are delighted to be launching Orbis Advisory and ITPEnergised's first annual report based on our 'ESG Transparency: Private Equity Index 2020'.

With an already pressing need for resilient societies and businesses, COVID-19 has accelerated sustainability momentum around the world. The global pandemic has catalysed a new level of action and cooperation by and between government, regulators, finance, and business, working to make societies more sustainable. Heightened expectations of key stakeholders, not least Limited Partners (LPs), concerning sustainability performance further the need for ESG integration and transparency. This comes in response to growing evidence that strong ESG credentials, beyond benefitting people and planet, present a huge business opportunity for improved financial performance. PE firms have significant scope to gain leadership in this realm and attract further investment.

This research assesses the ESG public reporting performance of 160 carefully selected British Private Equity and Venture Capital Association (BVCA) PE firms (criteria selection discussed in methodology). We analyse to what extent environmental sustainability, social responsibility and governance considerations are embedded in their business and assets under management (AUM). This report offers a fresh perspective on the importance of ESG transparency and our findings indicate that strong progress has been made, with some of the top firms displaying impressive and fully integrated ESG commitments. It was encouraging to learn that many of the firms from our research are already submitting to various benchmarks, such as GRESB Infrastructure (GRESBI) and the Principles for Responsible Investment (UNPRI), as well as aligning with the Task Force on Climate-related Financial Disclosures (TCFD). Beyond celebrating high performing firms, the aim of this report is to demonstrate best practice and provide guidance to lower performing companies that are starting their ESG journey.

We are delighted to share the results of our analysis and add to the huge momentum we are seeing around sustainability. We look forward to carrying out the same research yearly, following participants' improvements and sharing learnings along the way.

Rupert Clark-Lowes
Founder

Orbis Advisory

Jonny Clark
Managing Director

ITPEnergised

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Introduction

This report comes at a time of much uncertainty - the COVID-19 pandemic continues to impact global public health, supress financial markets, and limit social connection. What remains certain, however, is that more than ever, PE firms need strong ESG strategies that build resilience into their business models. This is vital in the context of a warming planet, in view of increased stakeholder pressure and is a valuable business opportunity.

Despite the significant influence that widespread lockdowns have had on individual behaviour, global emissions are estimated to have fallen by around only 7% this year.[1]. Atmospheric CO_2 concentrations continue to rise and a move to a low carbon economy is vital. In this context, environmental sustainability, but also social responsibility and governance considerations, are increasingly viewed as important matters for action and consideration across all spheres of society.

Furthermore, investors are putting pressure on PE firms to develop and disclose their ESG policies. LPs are increasingly considering ESG criteria, ranging from board diversity to carbon emissions and human rights, when making investment decisions. This is because investors, from the largest to the smallest, recognise that these factors are financially material and ultimately impact corporate performance. “ESG analysis drives deeper company insights and better investor outcomes”.[2] Many LPs, such as USS or Aberdeen Standard Investments to name just two, are publicly disclosing ESG monitoring frameworks they use to rank companies from leaders to laggards when evaluating investment opportunities. Thus, it is crucial for PE firms to live up to this growing demand for ESG transparency and action.

Last, but not least, there is increasing evidence that strong ESG credentials, by identifying related risks and opportunities, are beneficial to business. For example, when the markets began to rebound in April, investors were quick to realign funds toward companies and sectors better resistant to future shocks. Companies that exhibited strong ESG performance proved to be the primary focus. By the end of March 2020, 59% of U.S. ESG Exchange Traded Funds (ETFs) were outperforming the S&P 500 Index, while 60% of European ESG ETFs beat the MSCI Europe Index[3].

Photo: Neven Krcmarek / unsplash.com

Dan Grandage

Head of ESG, Private Markets RE Global Listed & Investment Strategy Aberdeen Standard Investments

ESG transparency is the first step towards gaining deeper company insights and better investor outcomes. At Aberdeen Standard our investment decisions value companies that place ESG at the centre of their business strategy, risk management approach and target setting. The focus on ESG management and transparency is repeatedly increasing in importance to all stakeholder groups; so my advice would be to start now and develop or build upon your current ESG strategies if your organisation hasn’t begun the journey already.”

Data from Morningstar Direct showed that more than 70% of ESG funds across all asset classes performed better than their counterparts during the first four months of the year[4].

ITPEnergised and **Orbis Advisory's** PE ESG Index was created in this context. Its purpose is to assess the transparency with which PE houses around the world disclose their ESG practice as well as the quality of these processes. The report includes all companies based on the following three criteria:

- Included in the BVCA's General Partner (GP) list;
- Publicly accessible website; and
- Excluding Venture Capitalists (VCs), Entrepreneurs, Founders, Start-ups, Investing in Ideas, or Impact Investors.

The index ranks 160 PE firms' ESG reporting and transparency performance. It investigates the breadth of each company's public disclosure through websites, annual reports, and portals. Our assessment uses 80 criteria centred around two themes: Responsible Investing ("a strategy and practice to incorporate ESG factors in investment decisions and active ownership"[5]) and Internal Sustainability (the role ESG plays in their own business operations).

Conducting thorough market research allows us to identify where PE firms are located along the spectrum of ESG transparency and action. By quantifying company performance, and comparing current operations with best practice, we hope that consideration of ESG in the PE sector can become ubiquitous, a win for the environment and investors alike. Our understanding of ESG best practice relies on BVCA criteria[6] which considers the firm's overall ESG framework, thematic engagement on various ESG topics across the portfolio, and involvement with at least one portfolio company's ESG risks and opportunities. It is important for PE firms to complement ESG transparency with action in order to achieve value and benefit.

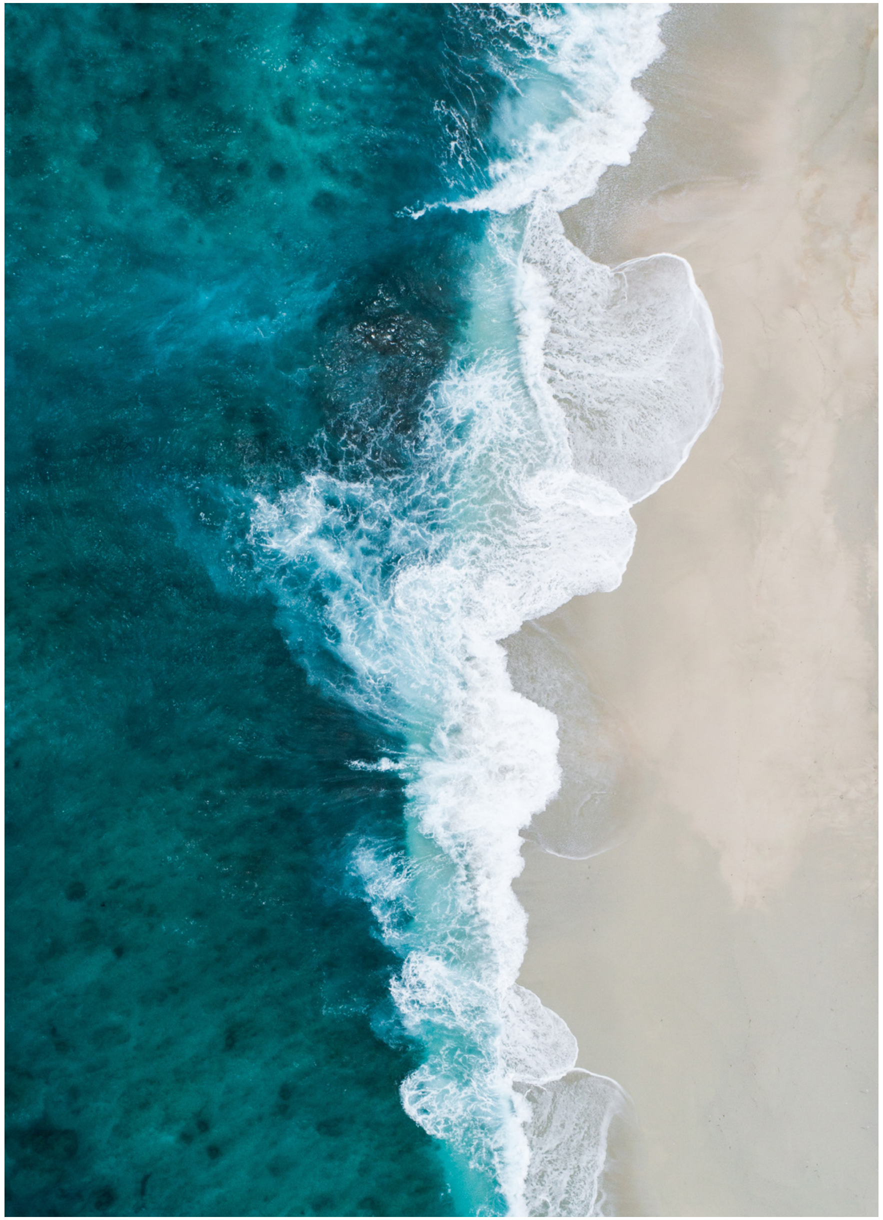


Photo: Shifaaz Shamoon / unsplash.com

Footnotes

[1] Climate change: Covid drives record emissions drop in 2020 - BBC News
[2] https://www.aberdeenstandard.com/en/insights-thinking-aloud/article-page/esg-in-active-equity-investing
[3] https://www.bloomberg.com/news/articles/2020-03-31/esg-stock-resilance-is-paving-the-way-for-a-surge-in-popularity?sref=X7rIMzds
[4] https://www.morningstar.com/articles/986454/what-the-pandemic-means-for-sustainable-investing
[5] https://www.unpri.org/an-introduction-to-responsible-investment/what-is-responsible-investment/4780.article
[6] https://www.bvca.co.uk/Our-Industry/Responsible-Investment/Excellence-in-ESG

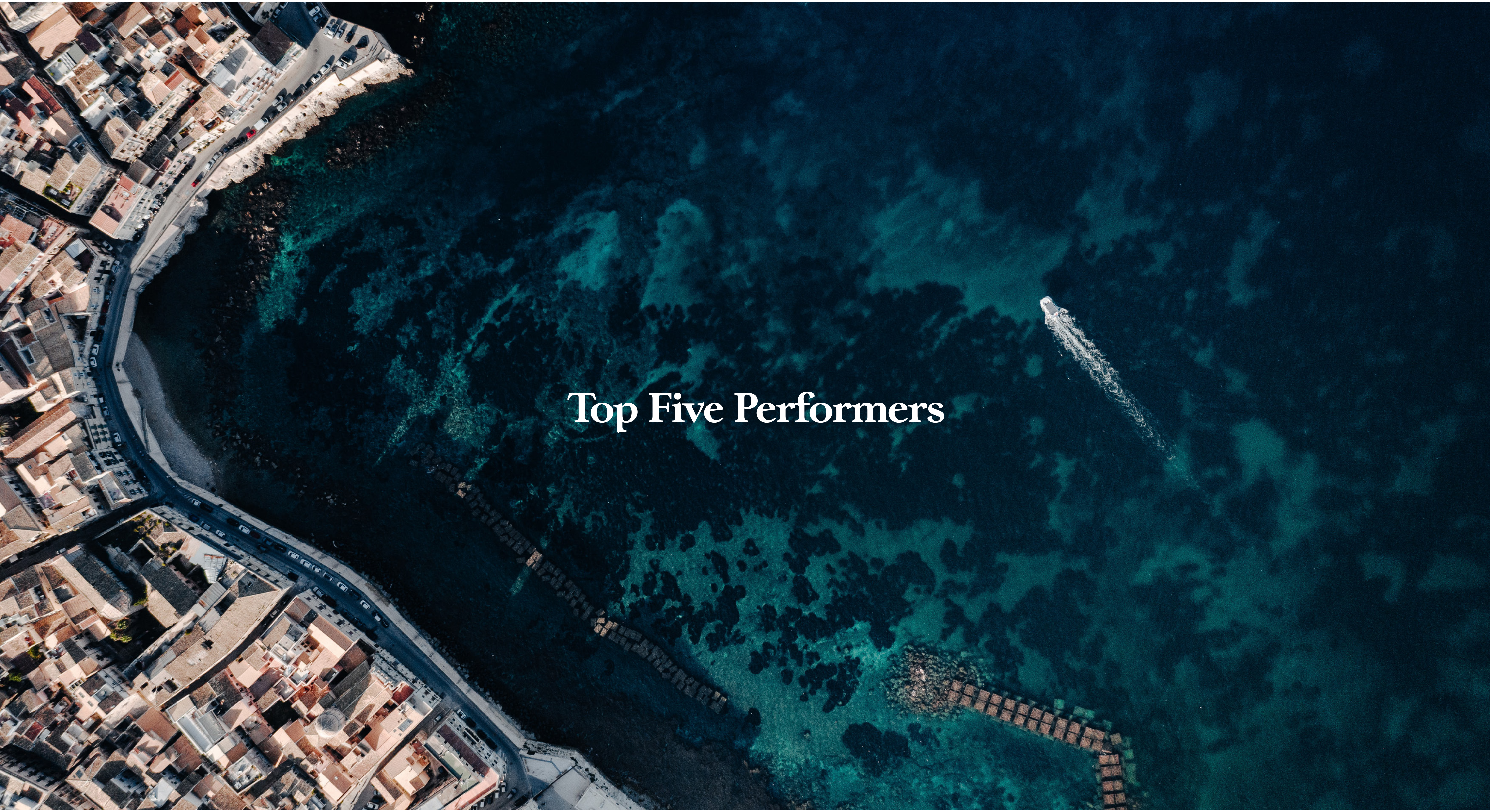


Photo: Jacob Buchhave / unsplash.com

Top Five Performers

3i

3i is an international investment company focusing on PE and infrastructure. Its PE arm has £8.8 billion AUM across four core sectors: business and technology services, consumer, healthcare and industrial.

1st

Their performance across all seven of the index's sections was of the highest level. In terms of Responsible Investing, ESG considerations are monitored throughout the investment's lifecycle: pre-investment due diligence is supported by a proprietary ESG risk assessment tool and a strict investment exclusion policy against harmful activities; regular post-investment meetings are carried out to keep track of ESG performance; and exit plans include material ESG matters. 3i's Internal Sustainability is equally impressive across E,S, and G categories: environmental metrics, such as office GHG emissions, are closely monitored and publicly disclosed; charitable donations and relevant employee support policies ensure they live up to its their commitments; and governance-wise, the Chief Executive is responsible for the firm's ESG approach.

Simon Borrows

Chief Executive

Why is ESG important for your business?

A responsible approach to managing our business and our portfolio has been key to how we have operated since 3i was founded in 1945. Our purpose at that time was to contribute to rebuilding post-war Britain by providing growth capital to small businesses. The responsibility that came with that original purpose still guides our behaviour today.

Over the years, we have built a strong reputation and track record by investing and managing our portfolio responsibly and by operating according to high standards of conduct and behaviour. We have achieved this through a relentless focus on strong governance, both at 3i itself and in our investee companies.

We believe that this has allowed us to earn the trust of our shareholders, other investors and investee companies, and to recruit and develop employees who share our values and ambitions for the future.

What are the main benefits you have seen from integrating ESG into your investment and asset management processes?

We have long believed that a responsible approach to investment is an important value driver for our portfolio. In our experience, companies with high ESG standards are better run, better at identifying and managing their business risks and generate more sustainable earnings growth.

We have been investing according to a formal Responsible Investment Policy for over a decade. This policy is embedded within our investment and portfolio management processes and informs our investment decisions and our behaviours as a responsible manager of our assets.

It is not only a risk management tool, but also a framework to assess the many opportunities which arise from the development of solutions to sustainability challenges within our portfolio and more broadly.

What advice would you give to those firms just starting on their ESG journey?

Our advice to firms starting out in their ESG journey would be to view this as a long-term value creation driver, rather than just a risk management tool.

What is the business most proud of with regards to your ESG strategy and implementation process?

We invest our proprietary capital, which is evergreen. With patient capital, we have been able to focus on investing to deliver long-term, sustainable returns.

We have also fostered a culture of probity and integrity with our employees, which promotes an awareness that we can achieve our purpose and deliver attractive returns while minimising our impact and the impact of our portfolio on the environment and making a positive contribution to society.

Top Five Performers

Macquarie Infrastructure and Real Assets (MIRA)

Macquarie Infrastructure and Real Assets (MIRA) is a multinational alternative asset manager, specialising in infrastructure, real estate, renewables, and agriculture, and managing $132 billion of AUM. We assessed their PE arm.

2nd MIRA's second place ranking derives from their strong performance across both Responsible Investing and Internal Sustainability. They undertake robust pre-investment ESG due diligence and Engagement Post- Investment. Particularly notable is their disclosure of retrospective case studies to display best practice in investment. Their internal sustainability policies are clearly disclosed and equally address ESG considerations. Regarding environmental performance, for example, 60% of their staff occupy a sustainability rated office. They also take part in a host of external certifications and benchmarks, most notably UNPRI, GRESBI and TCFD.

Brookfield

Brookfield is a multinational asset management company focusing on real estate, renewable power, infrastructure and PE. Its PE arm is responsible for $70 billion in AUM and specialises in business services, industrials and residential.

3rd Brookfield's third place ranking is primarily due to its impressive scores in the Responsible Investing section as well as social and governance policies internally. They adopt a strong ESG focus across their portfolio, from pre-investment due diligence all the way through to their exit strategies. In line with their UNPRI commitment, Brookfield create post-investment and exit remediation plans for material ESG considerations. In terms of their own operations, Brookfield prioritise employee well-being and engagement with the communities in which they operate.

Top Five Performers

Epiris

Epiris is a PE firm that invests in a range of sectors from education to industrials. It has invested £1.4 billion of equity since 2011.

4th

Epiris achieved fourth-position in our index thanks to its post investment engagement strategy and Internal Sustainability. Epiris provides transparent accounts of its portfolio engagement on its website. One example is portfolio company Knight Square's health and safety protocols designed to identify and manage physical risks to residents, visitors, staff and contractors across its nearly 4,000 developments. It is the only UK residential property manager to have been awarded a five star rating by the British Safety Council. Examples of great governance like this helped Epiris score highly. Internal Sustainability, evidenced in public ESG policy and company commitments, was also one of Epiris's strong suits. For example, Epiris committed to reporting its own ESG performance to investors and other stakeholders on an annual basis.

We are proud to have worked with management teams over many years to deliver valuable and sustainable ESG improvements that have had a tangible impact on the world around us."

Why is ESG important for your business?

We believe that careful management of Environmental, Social and Governance ("ESG") issues is not only good business practice but also an essential part of delivering strong and sustainable returns for investors.

What are the main benefits you have seen from integrating ESG into your investment processes?

We have integrated ESG management into our operations and those of our portfolio companies and at all stages of the investment lifecycle – from screening and identification pre-acquisition, through management and reporting during our ownership, to disclosure to prospective buyers at exit. This approach means that, when we come to sell an investment, we are able to demonstrate to the next owner the contribution that ESG management has made to the portfolio company's performance.

What advice would you give to those firms just starting their ESG journey?

We have identified four areas that are material to every business, and where we can share expertise and resources across the current and future portfolio to drive progress towards ambitious goals over the medium to long term: climate change, sustainability, people and ethics.

What is the business most proud of with regards to your ESG strategy and implementation process?

We are proud to have worked with management teams over many years to deliver valuable and sustainable ESG improvements which have had a tangible impact on the world around us. Nonetheless, we believe there is more that we can and should do to promote our values.

Top Five Performers

Cinven

Cinven is a European PE firm with 11bn in AUM across business services, consumer, financial services and healthcare, among others.

5th

The firm scored particularly well in general sustainability and post-investment engagement, placing them in the index's top five performers. Cinven's high overall sustainability score is supported by their alignment with the UNPRI and detailed ESG policy. Cinven has adopted a guiding principle of transparency manifest in its ESG public disclosure. Post-investment engagement was another area where Cinven's active ownership approach stood out. The firm maintains regular dialogue with its portfolio companies through formal Board meetings, ad hoc meetings, calls with relevant ESG representatives, and events such as Cinven's Annual Portfolio ESG Conference. This exemplary commitment to portfolio ESG gave the firm a top score in post-investment engagement.

Cinven

Matthew Sabben-Clare

Partner and Chair of Cinven ESG Steering Group

Why is ESG important for your business?

At Cinven, our approach to responsible investing and ESG is core to our investment strategy. We have been incorporating ESG considerations into our investment cycle for many years and have been a signatory to the PRI since 2009. ESG is closely linked to our corporate values – Ambition, Commitment to Excellence, Empowerment, Partnership and Respect - which also guide the approach we take with our portfolio companies in managing both ESG risk and opportunity.

What are the main benefits you have seen from integrating ESG into your investment and asset management process?

Cinven sees ESG as not only part of its overall risk management programme but increasingly as a key value driver. The consideration of ESG is a significant part of our interaction with portfolio companies; and the ESG processes we have in place enable us to have a better understanding of how our portfolio companies operate and where opportunities may exist. Our engagement with the senior management of our portfolio companies on ESG-relevant topics ensures that ESG is firmly on the board's agenda and is a key priority for the business.

What advice would you give to those firms just starting out on their ESG journey?.

Ultimately, the portfolio company has to own its ESG development because only then will it be able to build a sustainable business for the long term. If Cinven is going to support sustainable change, responsibility must lie at the portfolio company level. At the same time, it is a two-way process. We see examples of very strong practices within our portfolio companies that we can learn from, as well as help other portfolio companies to apply. When it works well, both teams are learning.

What is the business most proud of with regards to your ESG strategy and implementation process?

One area where we are seeing focus grow is on the 'S' in ESG. Historically, it has been far easier to understand environmental risk factors and opportunities, as well as the governance aspects within a business. By contrast, it has been far harder to understand social factors and to provide a practical framework on how to make improvements. However, we recently started working on a research project with the Institute for Sustainable Leadership at Cambridge University to develop a framework for measuring social initiatives and outcomes in our portfolio companies.

There has been input from our peer group of GPs, who are helping inform what good looks like in relation to social outcomes within a private equity-backed business and we are pleased that this appears to be an area where the private equity industry will increasingly be focusing its attention.

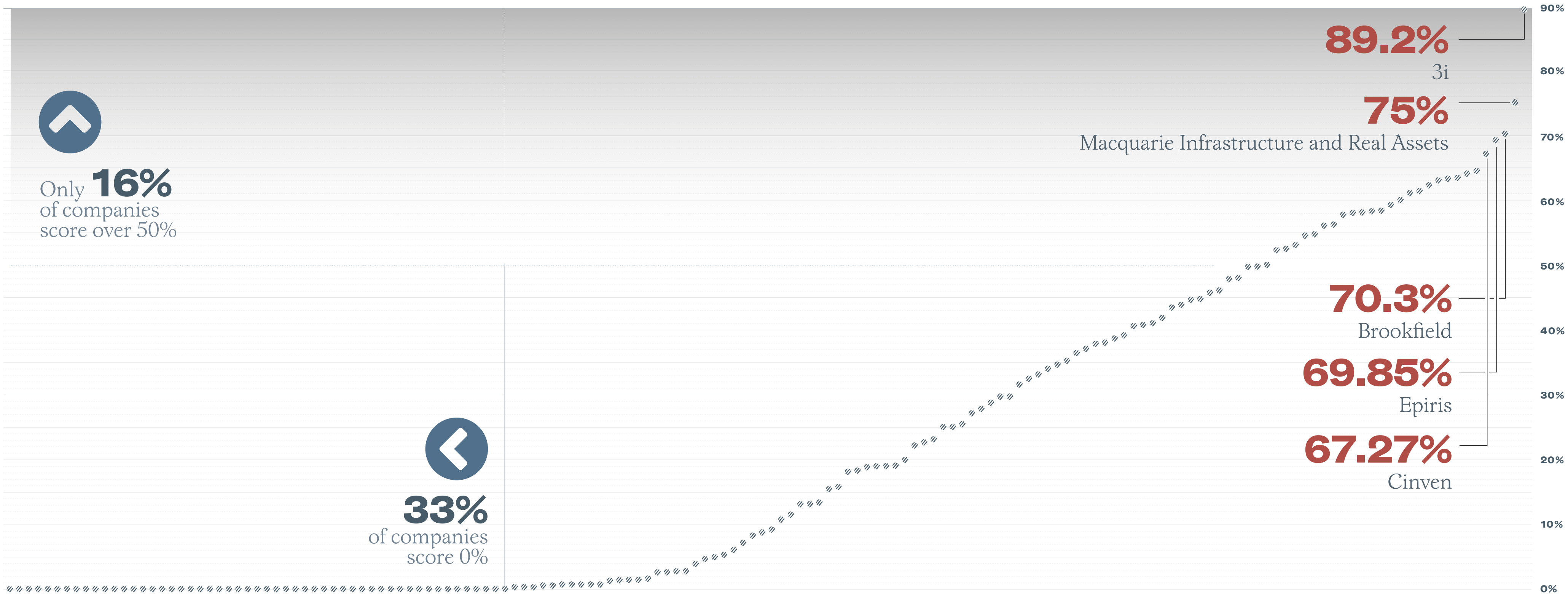
Findings

Photo: Alex Wong / unsplash.com

Findings

The figures presented in this section illustrate key observations from our research. The graphs display common strengths and weaknesses; sectoral variations in score; correlations between company attributes and sustainability performance; and links between internal ESG initiatives and external engagement.

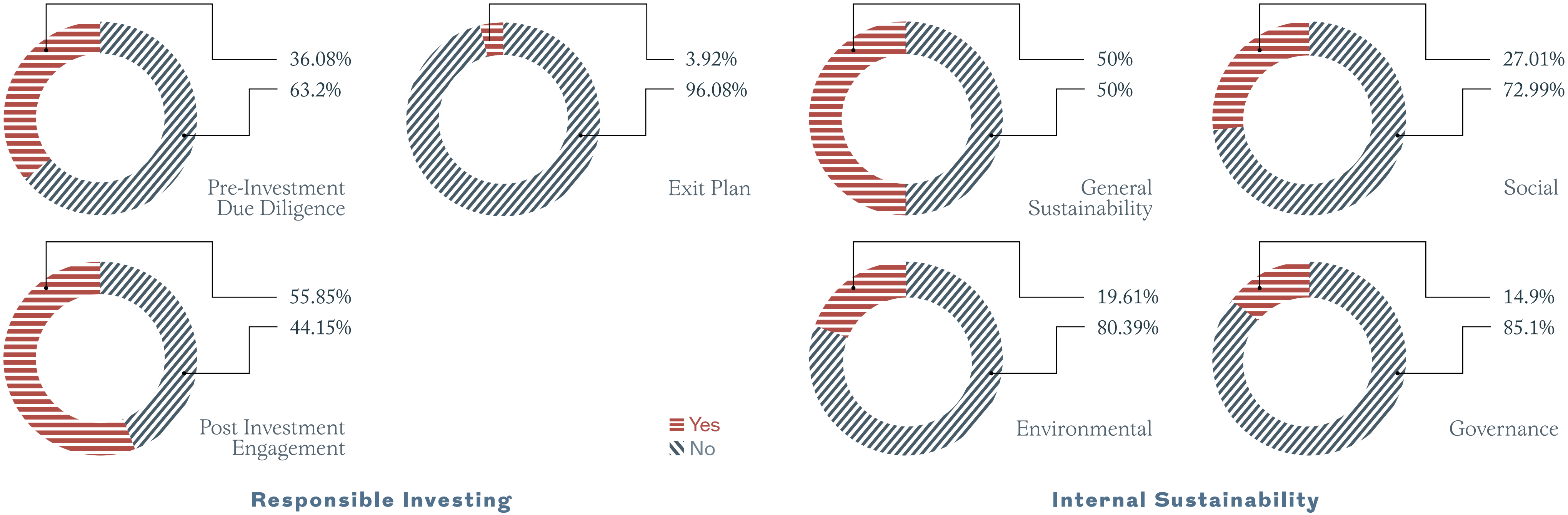
Finding 1: Distribution of all company scores



This graph reveals great disparity between PE firms in terms of their ESG transparency performance. On one hand, top performing firms display an impressive integration of sustainability considerations, both in their investment decisions and internal management. 16% of companies scored greater than 50% on our set of criteria. On the other hand, the results also highlight that 33% of companies assessed made no mention of sustainability or ESG on their website or other key public documents. Most of the remaining companies made some references to ESG, showing they were aware of its relative importance to their business, but did not communicate if or how they incorporate concrete ESG strategies into their operations.

Finding 2: Score by section

Of the 7 sections in our questionnaire, on average companies scored best at 'post-investment engagement', that is, how well the company collaborates with their acquisition to incorporate ESG into their business. Leaders in this area set E, S and G Key Performance Indicators (KPIs) for their acquisition, provide ESG workshops and monitor ESG performance regularly. By contrast, companies had the lowest performance in the 'Sustainable Exit Plan' section, which investigates whether ESG is considered for PE firms strategizing an exit approach. Only a handful of firms exhibited strong ESG performance in this area. Examples of best practice here include having a specific strategy for ensuring ESG is considered upon exit and designing processes to reflect and learn from past investment cases.



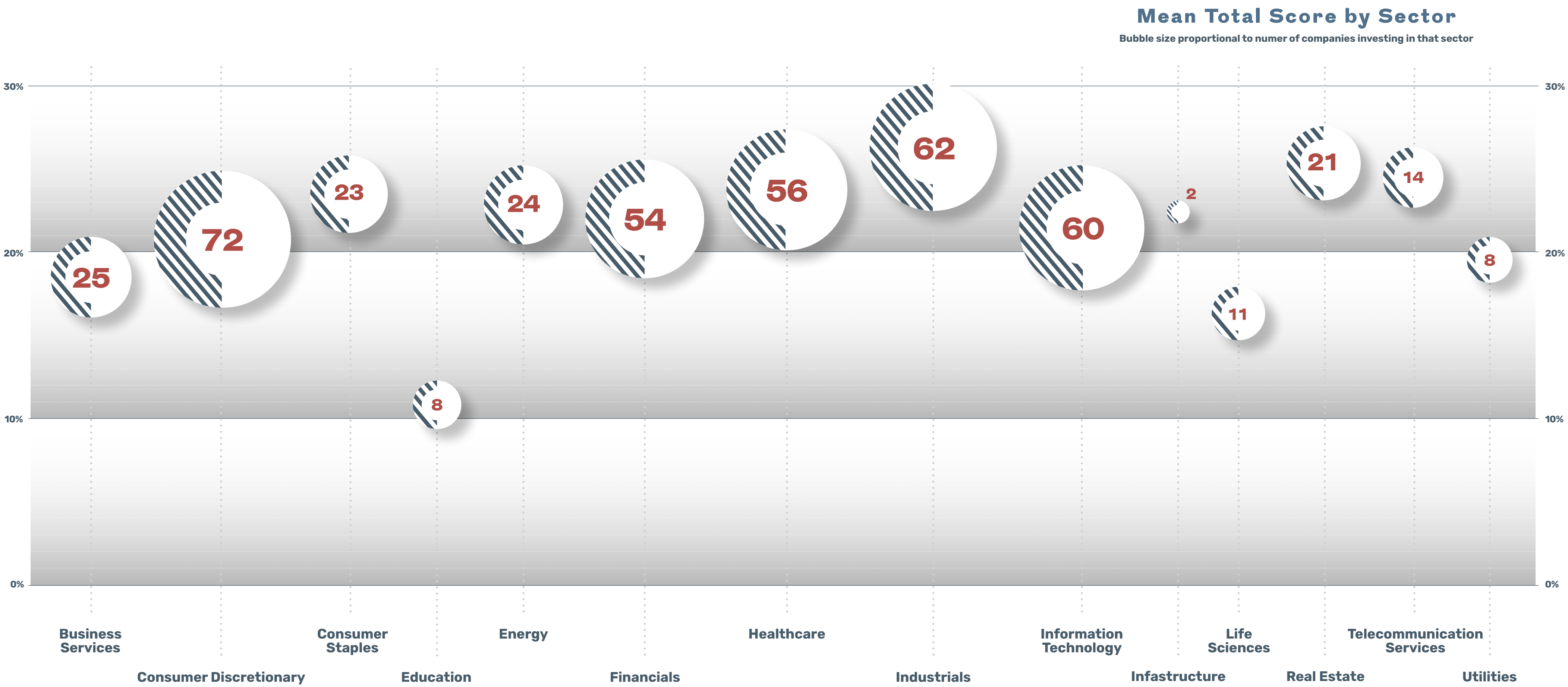
Finding 3: Score by size

Many would argue good ESG practice only becomes feasible when a company reaches a certain size[7]; however our research demonstrates this is not true with regards to the selected PE firms. We correlated company AUM (used as a proxy for company size) with their ESG score and found no significant relationship. Many companies with AUM less than £5billion scored excellently in our research. 3i, the highest performer, is not amongst the 30 largest companies we investigated.

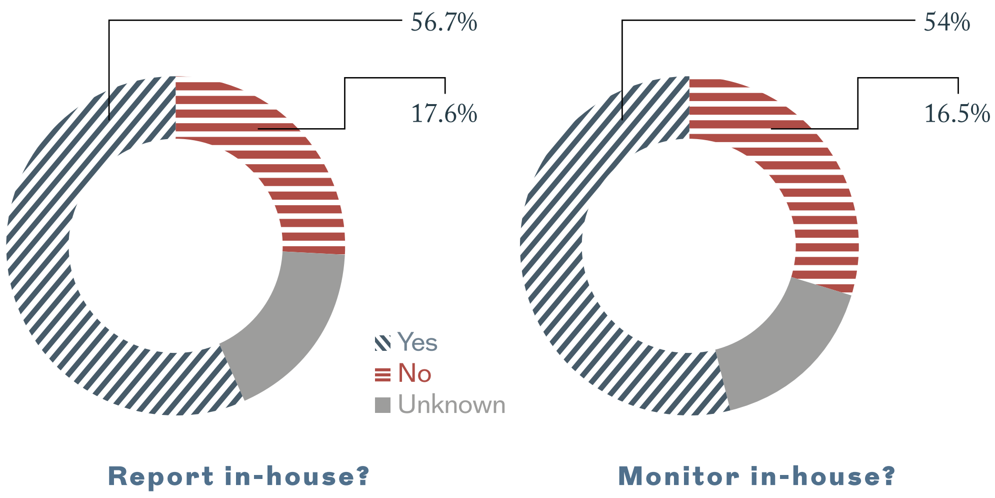
Footnotes
[7]Drempetic. S., Klein. C. and Zwergel. B. (2019). The Influence of Firm Size on the ESG Score: Corporate Sustainability Ratings Under Review. Available online: https://link.springer.com/article/10.1007/s10551-019-04164-1

Finding 4: Score by sector

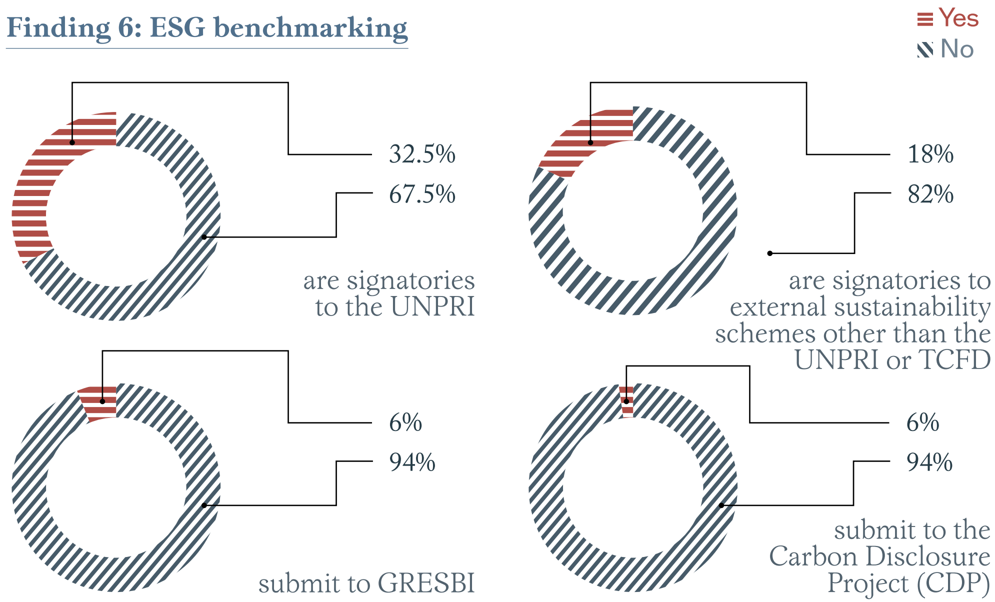
Another key area of analysis we focused on was whether companies that invest in certain sectors outperform those that invest in others. Our research suggests this is not the case. A company's ESG performance is independent of the sector(s) it invests in. ESG is sector-agnostic and can be incorporated into a PE firm's operations regardless of where their capital generally flows.



Finding 5: In-house ESG practice and Responsible Investment



Finding 6: ESG benchmarking



Companies that have their house in order regarding ESG performed remarkably better against the Responsible Investing criteria than those that did not. Perhaps by understanding the benefits of implementing good ESG internally, PE companies recognise how important good ESG structures are to their acquisition companies, both financially and environmentally. The key message: lead by example. Companies should aim to have strong Internal Sustainability policies to demonstrate best practice to their portfolio. Internal ESG structures such as 'board level ESG oversight' can also benefit companies by integrating sustainability into company culture, which may then trickle down to the portfolio level.

It is worth noting however that a thorough materiality assessment should be carried out to identify the relevant ESG risk areas the PE firm should focus on as these can influence revenue, margins and required capital. Stakeholder considerations and especially investor priorities need to be taken into account in this process.

Benchmarks provide a standardised framework and enable businesses to evaluate their performance against peers. They constitute a key facet of transparency by giving investors and other stakeholders insight into how PE firms are performing. Additionally, benchmark results show areas for improvement and help create a roadmap for future improvement. Similarly to this report, benchmarks allow PE firms to see what current best practice is and provide a standardised framework to build from. This encourages firms to move beyond the realm of compliance with legislation to proactive ESG development and innovation.

Fnding 7: Climate risk

Photo: American Public Power Association / unsplash.com

Climate change presents financial risk to the global economy. The TCFD was created by the Financial Stability Board to improve and increase companies' reporting of climate-related financial information. Our research showed that 7% of PE firms encouraged investments to assess climate risk.

Aligning business strategies with the TCFD recommendations is best practice for mitigating climate risk and will be mandatory for a number of businesses by 2025, with a significant portion of requirements in place by 2023[8]. This will benefit investors by making it easier and more accessible than ever before to assess potential investments' ESG activities in the pre-investment due diligence phase. PE firms will also be required to disclose climate-related risks and opportunities in their investment lifecycle. We therefore expect mandatory TCFD alignment to improve company transparency. This should materialise in an improved average score for our research over the coming years.

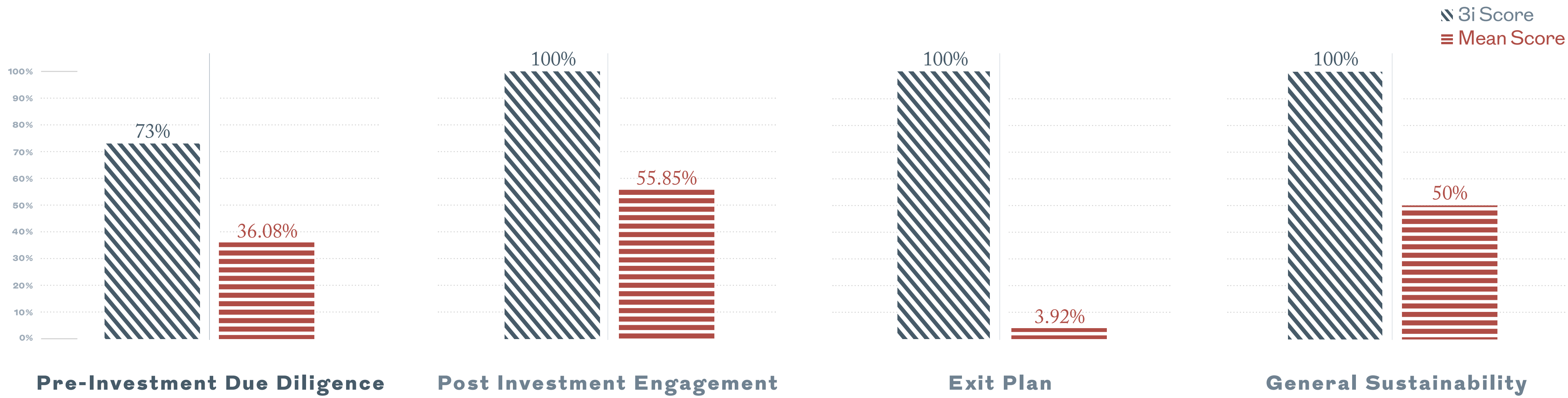
Footnotes
[8]https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcfd-taskforce-interim-report-and-roadmap

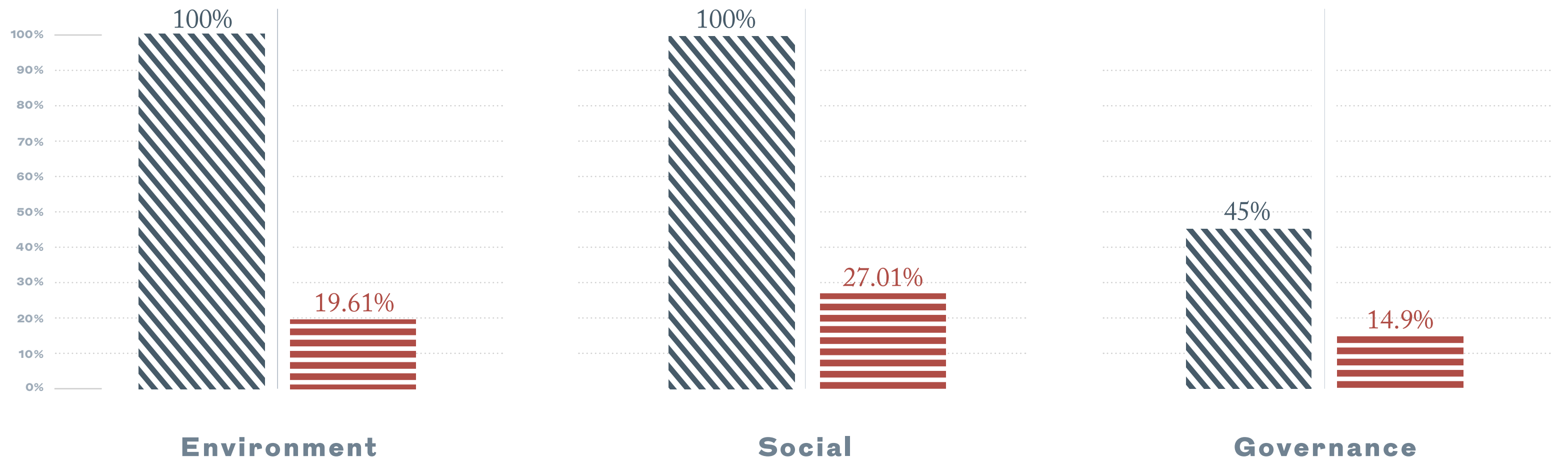
Case Study

Photo: Chuttersnap / unsplash.com

Case Study: 3i

3i ranked first in this year's assessment, a symbol of ESG best practice in the PE sector. Their performance warrants further investigation; here we look at the different initiatives that set them apart from the competition across our assessment's seven sections.





In our experience, companies with high ESG standards are better run, better at identifying and managing their business risks and generate more sustainable earnings growth."

Simon Borrows
Chief Executive

3i scored full marks across five of our seven sections. First, in terms of pre-investment due diligence, 3i have designed and use a proprietary ESG risk assessment tool. They also abide by a strict exclusion policy which prevents investment in businesses with ties to gambling, weapons, tobacco, chemicals and forced labour, among others.

Second, regarding post-investment engagement, 3i conduct bi-annual ESG monitoring meetings for each of its acquisitions. They also promote relevant Environmental, Social and Governance initiatives for each individual acquisition, such as mandating minimum labour standards.

Third, their exit plans include disclosure of material ESG matters. They report how such considerations were managed throughout investment and their future impacts.

Fourth, their general approach to sustainability is exemplary. They state that a responsible approach to investment will add value to their portfolio. Practically, they seek to ensure staff have sufficient information, training and resources to ensure they can effectively manage ESG matters within investment activities. Another notable policy includes quantifying and reporting their organisation's GHG emissions in line with the GHG Protocol's Corporate Accounting and Reporting Standard.

Fifth, their Internal Environmental Sustainability is of the highest standard in terms of KPI setting, reporting, and policy. Examples include minimising waste, maximising recycling, close collaboration with landlords to ensure offices' energy efficiency and including environmental considerations in procurement processes. Furthermore, 3i monitor and disclose all office GHG emissions by scope.

Sixth, in terms of social sustainability, 3i invests both in its employees and the wider community. Their commitment to being an equal opportunities employer is achieved by collecting diversity data but also setting out principles on equality and diversity, providing a framework for their implementation and setting out unacceptable behaviours. They made significant charitable donations to the local community in FY2019-20, aimed towards the financially disadvantaged, the elderly and young people.

Finally, regarding governance sustainability, ESG is a board-level consideration at 3i, with responsibility lying with the Chief Executive. The firm's in-house sustainability team is in charge of oversight.

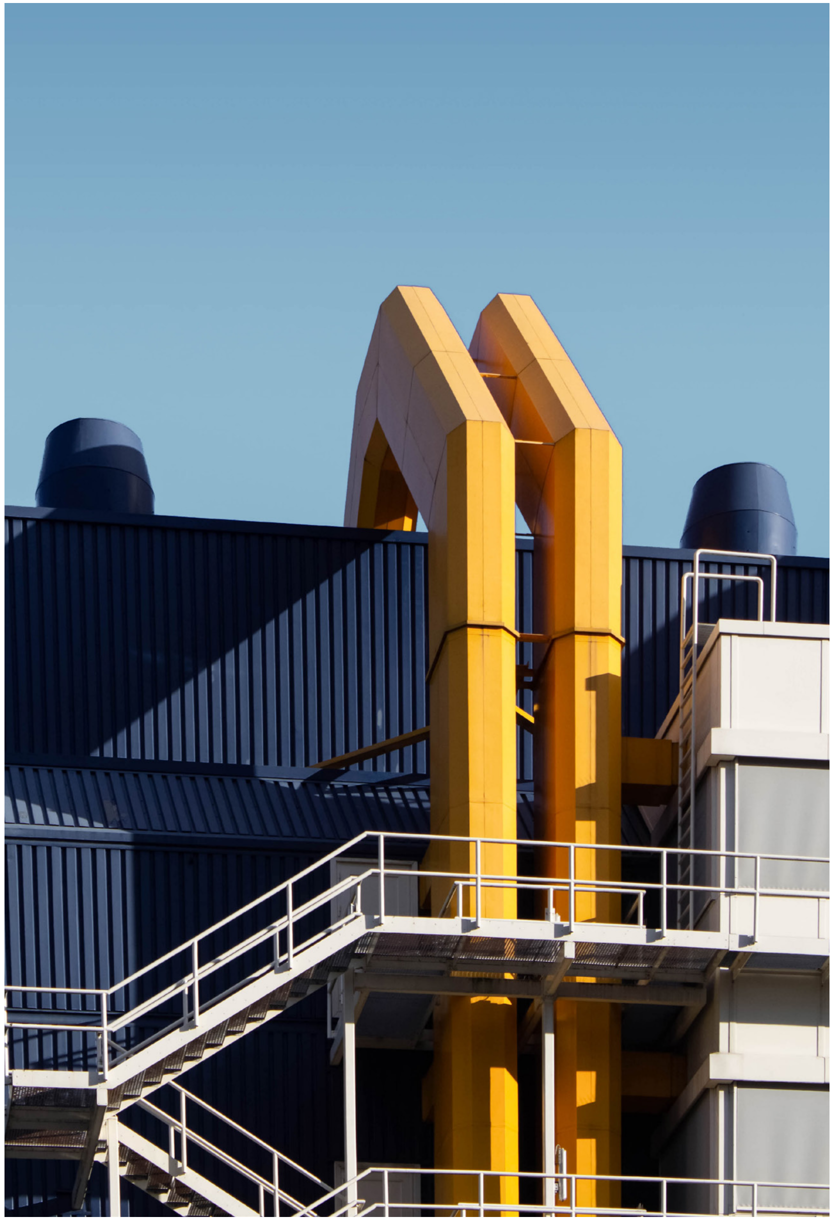


Photo: Victor Garcia / unsplash.com

Photo: Ryan Searle / unsplash.com

Key recommendations

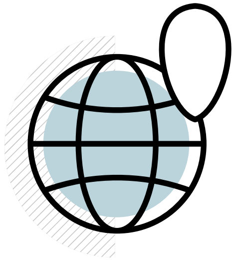
We have analysed our data to produce recommendations for how PE firms can best improve their ESG disclosure. Below are our key recommendations:

Peer Review

Review leading firms' approach to ESG, as detailed in this report, and research other high scoring peers to find examples of best practice.

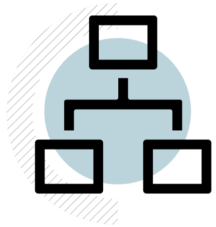
Materiality Assessment

Identify key ESG risks and opportunities most relevant to your business through a materiality assessment and engagement with key investors and stakeholders.



ESG Roadmap

Use this information to create an ESG roadmap, including milestones aligned with best practice and the business's strategic objectives for both product and larger group.

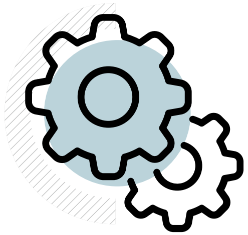


Governance Structure

Allocate roles and responsibilities for the oversight, assessment and management of an ESG alignment process.

KPI Evaluation

Create a platform or database to measure and monitor performance against the agreed KPIs.

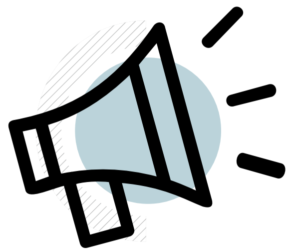


Strategy Integration

Consider your long term ESG strategy by focusing on risk management and opportunity creation. Develop an implementation plan for its incorporation into the investment life cycle (Pre-deal, Origination & Pre-Assessment, Due diligence & Investment Approval, Investment holding period and Exit).

Benchmark Selection

Select benchmarks for participation that align with the business's aspirations and stakeholders.



Communication Plan

Define how ESG policy and performance is communicated to investors and all other stakeholders. This could be on your website, through an ESG Policy or in the business's annual report.

Photo: Joshua Fuller/ unsplash.com

Conclusion

In this first year of research, our results showcase top performing PE firms that incorporate ESG at the heart of their investment strategies and Internal Sustainability Policies. Their ESG performance is clearly communicated to key stakeholders and the public, demonstrating an understanding of the importance of transparency and external communications. Top-scoring firms in this report provide examples of best practice for firms who are still at the beginning of their ESG journey. Our research does indeed highlight that many PE firms still have a long way to go. We hope they use our recommendations to transition towards full ESG alignment. PE firms that enjoy leadership status with regard to ESG can expect to reap benefits from their reputational authority, competitive advantage and increased interest from LPs, all the while building resilient businesses for the future.

Congratulations to this year's top performers for their exemplary engagement and transparency in ESG. We look forward to seeing how the PE sector will continue to build private sector momentum towards transitioning to a low carbon economy.

Photo: Karsten Wurth / unsplash.com

ESG Research Methodology

Photo: Dan Meyers / unsplash.com

ESG Research Methodology

1 . Sample selection

Participating companies for this study were sourced from the BVCA membership directory, the industry representative for PE and VC firms in the UK. As of January 2020, the BVCA had 783 members; participants for this research were deliberately sourced from the BVCA's GP list (of which there are 359 members), as this group best represents the profile of a typical equity investment house. Two further criteria were established to define the bounds of the participant pool:

- Companies have publicly accessible websites; and
- Companies do not self-describe as any of the following: *VCs, Entrepreneurs, Founders, Start-ups, Investing in Ideas, or Impact Investors.*

Given this analysis was strictly limited to the transparency of publicly available ESG practices, the former is self-explanatory. The latter criteria were included to limit the analysis to the more established, traditional PE houses where the incorporation of strong ESG principles could have significant positive implications. The types of company excluded by that list are either investing in new ideas for growth maximisation or deliberately in companies with strong, pre-existing ESG practices, both of which offer less opportunity for the PE firm to enact change. These final exclusions left a list of **160 BVCA members** that represent the population sample for this analysis.

2. Assessment Criteria

Companies were assessed between February and April 2020 based on publicly available information and policies sourced through their websites. This includes, but is not limited to, information found via annual reports, Corporate Social Responsibility reports, sustainability portals, and links to external sources directly correlated with the subject company. Transparency provides a signal to the market that ESG issues are pertinent to the core values of the business.

Each company was scored on 80 questions across two overarching categories: Responsible Investing and Internal Sustainability. Answers to the questions are binary (i.e. Is the company a UNPRI signatory: Yes/No?) and a 'Yes' is only awarded if the assessor finds evidence that can be unequivocally linked to the question. Responsible Investing questions review the transparency of the investing company's ESG engagement across the investment lifecycle:

- Pre-investment due diligence;
- Post-investment engagement; and
- Exit plans

Internal sustainability questions assessed the effectiveness with which investment firms integrate ESG in-house, across 4 key criteria:

- Reporting;
- KPI setting;
- Practicable initiatives; and
- Policies.

3. Scoring

Each company was provided a score out of 100 based on binary responses to the criteria outlined above. To arrive at question scores, weights were first given to the two overarching question categories, then sub-weights were allocated to each of their sub-categories, before scores were assigned at the individual level. The high-level weights assigned to the broadest categories are outlined in Table 1.

Table 1: High-level weighting of question categories

Component	Component Weighting (%)	Section	Section Weighting (%)
Responsible Investing	75	Pre-Investment Due-Diligence	25
		Post-Investment Engagement	25
		Investment Exit Plan	25
Internal Sustainability	25	General Sustainability (Policies and Statements)	3.75
		General Sustainability (External Benchmarking)	3.75
		Environmental Sustainability	2.5
		Social Sustainability	7.5
		Governance Sustainability	7.5

At the highest level, the Responsible Investing category was assigned a 75% weighting as it is seen as the area where PE firms can add the most value through implementing strong ESG due-diligence procedures, active ESG management and a sustainable exit policy. In-house ESG practices likely have proportionally less impact due to the lean operating models of PE firms. PE investors are likely to be exposed to lower levels of ESG risk than many of their portfolio companies, due to their typical small office spaces and workforces, hence the weighting of 25% of the Internal Sustainability category.

The score for the Responsible Investing category was divided equally between its three sections. Pre-investment due-diligence, post-investment engagement and investment exit plan were given an equal weighting of 25% as these practices are deemed of equal importance in adding long-term value and mitigating ESG risk for portfolio companies. For the Internal Sustainability category, general sustainability policies and statements and external benchmarking were each assigned a weighting of 3.75%. The Environmental Sustainability section was weighted lower (2.5%) than the Social Sustainability and Governance Sustainability sections (7.5%) due to the fact that PE firms typically have small environmental footprints.

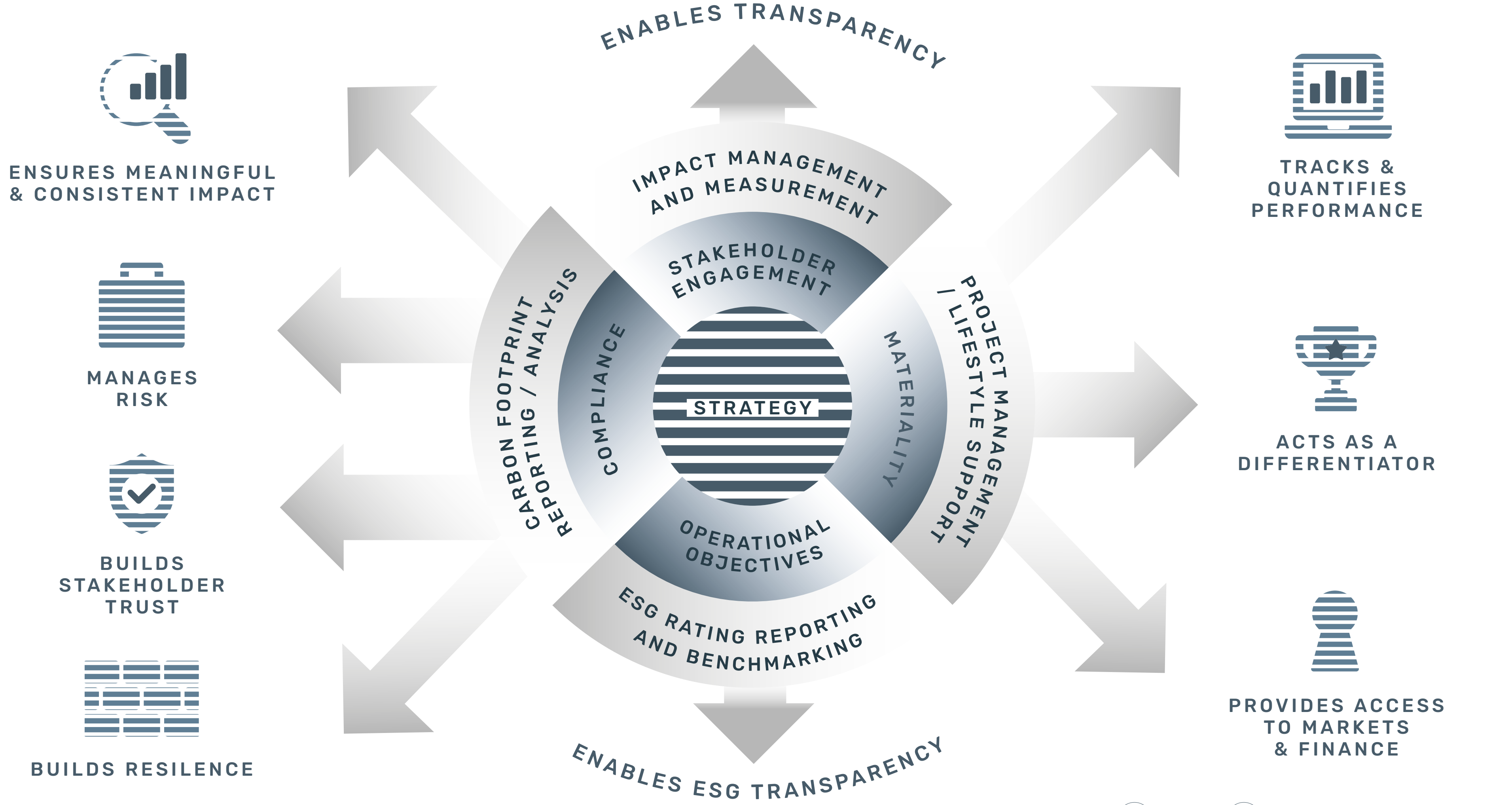
Some question sub-categories are scored by our so-called threshold rule. This means that companies do not have to provide evidence of alignment with every criterion within a sub-category to receive full marks for said sub-category. For example, the Internal Sustainability sub-category on ESG policies questions whether a company publicly discloses 8 types of ESG policy. The company only needs to meet the threshold of 4 out of 8 ESG policies to receive full marks for that sub-category.

4. Quality Control

Each answer was justified by a link to, or an extract from, the applicable company's website. This enabled regular quality checks to be carried out to verify that each assessor was consistent in their regard for what constitutes a Yes/No response to each criterion.

Our services

Orbis Advisory and **ITPEnergised** partnered at the beginning of 2019 to strengthen our responsible investment capabilities. The **ITPEnergised** and **Orbis Advisory** team has significant technical expertise and commercial experience in the environmental, energy and sustainability fields qualifying it to best help Clients assess, manage, and develop their ESG Programmes. Together we are big enough to provide our clients with the depth and strength of knowledge and experience they need, but small enough to deliver dedicated client care and hands-on delivery.



Our services: Orbis Advisory

Orbis Advisory is a boutique business consultancy providing energy, sustainability & wellness advisory services to businesses and their assets.

Through our wide range of services, we help our clients integrate ESG into their business, create innovative and responsible solutions for their key assets, and put people and planet first. Our work is designed to deliver sustainable value through market insight, cost reduction, operational efficiency, and risk management. We take pride in our technical expertise, strong commercial understanding of clients' business priorities and entrepreneurial spirit.

orbis

Putting People & Planet First

Strategy

We offer strategic environmental & social governance (ESG) advice that reflects your way of doing business, aligns with your corporate strategy and is easy to communicate to key stakeholders.

Measurement & Reporting

An essential step in a robust energy & sustainability plan which will identify where the material emissions are within your business, asset portfolio, products & services or supply chain.

Compliance & Risk

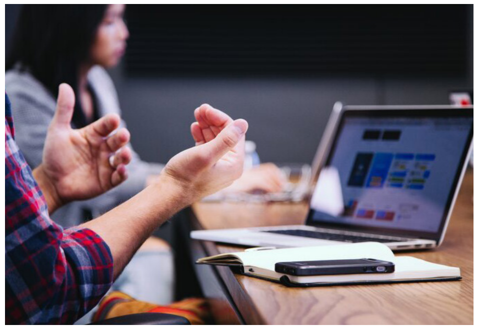
Our team of experts have a thorough understanding of the current legislation which applies to your business and will work towards futureproofing you against impending legislative changes.

Health & Wellbeing

The biggest asset your business has is its people - the biggest asset they have is their health & wellbeing - so it makes good business sense to look after it.

Benchmarks & Frameworks

We help your organisation choose the most appropriate benchmark and help you through the process from the corporate level right down to your companies individual assets or office spaces.



Communications & Engagement

We assist you to carry out stakeholder engagement which is focused, provides clear recommendations for sustainability strategy and delivers guidance on developing competitive advantage at the same time.

Our services: ITPEnergised

ITPEnergised – What we do

We are a team of industry leading trusted technical advisors who aim to meet and exceed our clients' aspirations, targeting growth markets and clients.

ITPEnergised is a leading technical consultancy, providing environmental and engineering services across a number of sectors, including onshore renewable energy and storage, offshore renewables, oil & gas and the Industrial Manufacturing sectors. We are big enough to provide our clients with the depth and strength of knowledge and experience they need, but small enough to deliver dedicated client-care and hands-on delivery. We also work with a wider network of trusted experts when required.

We work closely with you at every stage, bringing the full range of our expertise to the project and with 5 key principles. Collaboration and support, innovation and entrepreneurship, client-focus, technical excellence and having as much fun as possible doing it!

Visit the **ITPEnergised** group offices in:

Bristol, London, Edinburgh, Glasgow, Buenos Aries, Lisbon, Madrid, Delhi, Beijing, Canberra, Auckland

Earth. Smart. Solutions

BVCA Description

The British Private Equity & Venture Capital Association (BVCA) is the industry body and public policy advocate for the private equity and venture capital industry in the UK.

Its membership comprises more than 750 influential firms, including over 325 private equity and venture capital houses, as well as institutional investors, professional advisers, service providers and international associations.

The BVCA exists to connect all of the internal components of the industry - investors, fund managers, entrepreneurs and companies, advisers and service providers - to each other, and to represent their interests to government, parliamentarians, officials and regulators, the media, other sections of the business community and society at large.

It seeks to improve the efficiency of the sector, individually and collectively, by widening access to it and awareness of it, to assist personal and professional development through training programmes and to produce research publications of value recognised both within the industry and beyond it.

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