SUSTAINABLE DEVELOPMENT GOALS

Responsible Investment Guide for the Private Equity & Venture Capital Sector in Spain

pwc

Ascri
ASOCIACIÓN ESPAÑOLA DE CAPITAL, CRECIMIENTO E INVERSIÓN

Letters of introduction

ASCRI

At ASCRI we work for the economic and social development of both the portfolio companies of our Private Equity & Venture Capital funds and of the economy in general, always striving to defend nature, justice and the commitment to society.

All of this is enshrined in our ESG-SDG application policy, which is a cornerstone of the Association and of the Private Capital and Venture Capital sector as a whole. Impact investing is a key feature of our business, proof of this being the recently-created ASCRI awards, recognizing the best ESG-SDG policies applied to portfolio companies, our active presence and participation in the Madrid 2019 Climate Summit and this Guide, which we have drawn up in collaboration with PwC.

The 220 managers, investors and advisers forming part of ASCRI work shoulder to shoulder in their commitment to sustainability and social inclusion.

Our sincerest thanks to the 32 Venture Capital and Private Equity firms and Investors from our Association, as well as to PwC, for their involvement in putting together this Guide, which we trust will become a benchmark for the Private Capital industry.

Miguel Zurita and Jose Zudaire
Chairman of ASCRI and Managing Partner and Co-CIO Altamar Capital Partners and General Manager of ASCRI, respectively.

PwC Foundation

Recently we have seen the return of concepts that were not always a priority, such as purpose, long-term sustainability, returns for all stakeholders and social and environmental impact to the agendas of boards of directors, steering committees and consequently of investors. At the same time, the Sustainable Development Goals have given the business sector an opportunity to contribute towards a shared agenda. At the PwC Foundation, we strive to solve major problems and contribute to generate trust in society. That is why we regard it as being very important for the private equity sector, which is essential for our country's development, to make further inroads in integrating these issues into their investment management and reporting framework. Only when all players integrate these issues into their strategy using a common language, can we ensure a fair, sustainable and prosperous future.

Santiago Barrenechea
Chairman of PwC Foundation

PwC

The economic implications of the environmental and social challenges are becoming increasingly evident.

Investors are not oblivious to this reality and know how much it matters for the long-term survival of their investments. Given that they are directly exposed to them, investors are increasingly endeavoring to assess and understand how organizations are identifying and responding to these challenges.

With it's a heavily management-oriented focus and long-term vision, the Private Equity sector is naturally used to integrating environmental, social and governance (ESG) issues in to both their own and investee companies' management structures, and regarding it to be a cornerstone for operational excellence and ability to protect and significantly increase the value of their investments throughout the life cycle.

Even so, the fact is that, in current context, not everyone knows what the letters ESG entail in management and investment terms, and this brings other challenges such as failures to respond to information requests or a low level of alignment between the manager's team and those of its portfolio companies.

This guide is meant to help respond to these challenges, providing management guidelines to enable Private Equity funds and managers and their portfolio companies alike take a consistent and organized approach in the integration of these issues.

Ignacio de Garnica and Pablo Bascones
PwC Private Equity leader and PwC Sustainability and ESG leader, respectively.

Contents

Executive summary

Increased sustainable finance regulations in Europe, greater awareness of aspects that go beyond purely economic issues, combined with the major challenges faced by organizations (greater transparency, shareholder engagement, climate change, value chain risks, circular economy, Sustainable Development Goals -SDG-, etc.) have prompted the financial community to make further commitments to sustainability in recent years.

Through an increasingly structured approach, the financial sector is working to systematically integrate extra financial criteria in their decision-making process. In particular, with a heavily management-oriented focus and long-term vision, the Private Equity & Venture Capital sector has steadily integrated environmental, social and governance (ESG) issues into both its own and its portfolios' management, as can be seen from the results of our survey.

84%

consider ESG issues in their investment decisions and management.

56%

take SDGs into account in their investment strategy or approach.

14%

have ESG-dedicated teams.

75%

have a Responsible Investment Policy.

50%

of respondents have made public responsible investment commitments.

28%

have a system for monitoring their portfolio's ESG performance.

Figures based on answers to the PwC survey conducted for the Private Equity & Venture Capital sector operating in Spain, distributed among ASCRI's members and in which 32 Private Equity & Venture Capital firms took part.

Yet differences in the investment strategies and the wide range of issues that can be considered within ESG, has made it difficult to create performance standards or guidelines which has meant that ESG criteria to be considered, is yet to be harmonized.

This guide is intended as a practical tool that provides guidelines for integrating these issues into the management of the Private Equity and Venture Capital firms themselves (also referred to hereinafter as General Partners, “GPs” or managers), making them ready to respond to market trends and investor demands (“LPs”).

It also provides recommendations for building ESG criteria into each and every stage of their activities, from fundraising to divestment. The table below provides a brief summary of the recommendations which are explained in further detail throughout chapter 3.

Figure 1: Recommendations for integrating ESG criteria in management

The guide has also sought to go one step further and bring in to action guidelines for responding to the 2030 Agenda, marked by the Sustainable Development Goals. It includes certain guidelines such as: assessing priority SDGs and their integration in the investment strategy, identifying the SDGs impacted by the investment, disclosing in the annual report its contribution to priority SDGs or integrating in Due Diligence (DD) processes an assessment of the portfolio company’s contribution to SDGs, among others.

1

Introduction, current context and role of the financial sector

1.1. Understanding the global and sector context

Apart from the immediate challenges faced, Organizations must also be aware of new risks and demands that are prompted by the environmental and social phenomena that has dominated the global scene. Playing an active role in understanding and managing these issues is critical in ensuring sustainability, profitability, success and even long-term survival.

Faced with this reality, as would be expected, each player is taking steps to ensure it adapts to this new operational context: regulators are exploring new instruments for promoting the creation of sustainable economies, sectoral organizations and multilateral bodies are developing guidelines, standards and other tools that help the international community and investors, who understand how much these issues matter in the long term, are increasingly building them into their decision-making processes.

Integrating non-financial aspects into management is therefore the only alternative for organizations which, in the short term, must tackle six challenges that will be crucial in their business activities:

- Responding to the growing demand for greater transparency.
- The need to change the relationship with its stakeholders, especially with its shareholders.
- Managing the climate crisis.
- The need to understand its activities as part of a global value chain.
- The end of the linear economic model and the need to evolve towards a circular economy.
- The private sector's role in achieving the Sustainable Development Goals (SDGs).

The following pages address each of these challenges and, where appropriate, focuses on the role of the financial sector in managing each of them, before giving a detailed approach to the sector's role in the current operational context.

European Union Green Deal

The EU Green Deal (December 2019) sets the roadmap for achieving carbon neutrality by 2050, with a target of a 55% interim reduction in CO_2 emissions by 2030. Between now and 2021, the EU is set to develop a legislative package that includes reforms regarding climate change, renewable energies, energy efficiency, sustainable mobility, circular economy, etc.

Challenge 1: Commitment to transparency

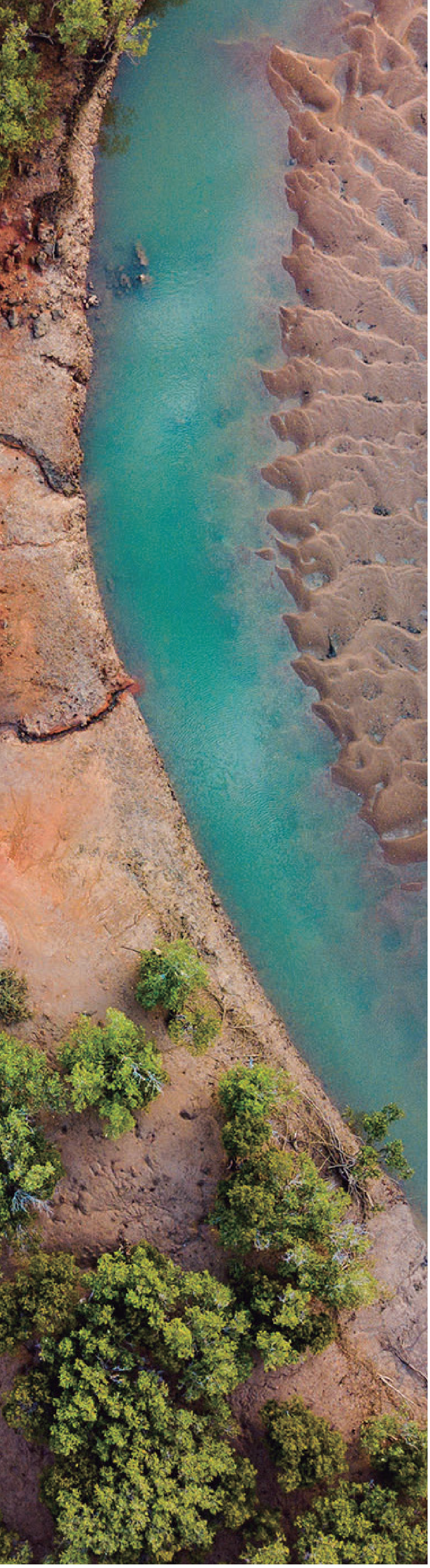
Many public and private organizations must cope with growing demands from their stakeholders, especially investors, for transparency in their non-financial performance. This has prompted a representative upturn in transparency and accountability regulations, which in Spain is embodied by Law 11/2018, on non-financial information and diversity, under which not only listed but also unlisted companies that meet certain criteria must disclose information and submit it for independent verification, and even specifies the form and substance of the content that must be reported.

Challenge 2: Shareholder engagement, a key aspect of the organizations' vision

European Directive 2017/828, which aims to encourage long-term shareholder engagement, seeks to get shareholders more involved in the companies in which they invest, in the firm belief that the long-term strategies naturally integrate non-financial objectives such as employee welfare or environmental protection.

The Directive sets forth the obligation to disclose information on significant transactions and also introduces other corporate governance and market-functioning improvements, such as making it mandatory for directors of listed companies to be individuals and to develop and publicly disclose a policy on shareholder engagement with certain contents. Furthermore, the application of this policy must be publicly reported every year.

Another disclosure obligation is that asset managers must inform institutional investors about investment decisions and how they encourage shareholder engagement and integrate assessments of the medium to long-term performance of the investee company, including its non-financial performance.



Challenge 3: The climate emergency

The signing of the Paris Agreement in 2015 was a landmark achievement that brought all the signatory nations under one common cause: to undertake ambitious efforts to combat climate change and adapt to its effects, with enhanced support to assist developing countries to do so. As such, it charted a new course in the global climate effort, focused on keeping global warming to 2°C above pre-industrial levels.

The financial community, like other players, has committed itself to this objective, which calls for a new development model that reduces the financial system's exposure to carbon-intensive assets.

Following this trend, in 2018 the Task Force on Climate-related Financial Disclosures (TCFD) set up by the Financial Stability Board (FSB)[2], published a set of recommendations for organizations to effectively integrate climate change-related risks in their strategies, policies, risk management systems, etc., and for organizations to disclose this information to investors, financial institutions and insurers.

In 2016, the European Commission set up the High-level Expert Group on Sustainable Finance (HLEG) to develop a comprehensive roadmap for a sustainable financial system in the EU, one of the key goals being to adapt and mitigate climate change.

In this context, in June 2019 the European Commission published new guidelines on climate-related corporate information. These guidelines give companies practical recommendations on how to better report on the impact their activities are having on the environment, and how climate change is impacting their businesses.

Spain is drafting legislation to meet its economy decarbonization commitments to the European Union, with a view to 2050. The mainstays of the new regulations are the reduction of greenhouse gases (GHG), the introduction of renewable energies and energy efficiency.

The Bank of Spain is also encouraging financial institutions to identify, quantify and mitigate climate risks, acknowledging that they could impact financial stability.

Another key movement of the financial sector is the Global Investor Statement on Climate Change, an agreement that was signed by more than 400 institutional investors in the months preceding the signing of the Paris Agreement, in which they made a public commitment to tackle the challenges associated with climate change from their sector. The implementation of this public commitment triggered the Climate Action 100+ initiative, which seeks to ensure that the largest greenhouse gas emitters complete the energy transition effectively. To date, more than 360 investors have already signed up for this initiative.

(2). *The Financial Stability Board (FSB)* is the international body that monitors and makes recommendations about the global financial system. At present it has 68 member institutions, comprising ministries of finance, central banks, and supervisory and regulatory authorities, international organizations, standard-setting bodies and regional consultative groups: www.fsb.com

Challenge 4: Extending the organization's limits - the value chain

The UK Modern Slavery Act 2015 was one of the first examples of legislation to explicitly address Human Rights in the value chain. Now other countries have adopted similar legislation, or plan to do so. In 2017, France passed the Duty of Vigilance Law, which requires Human Rights Due Diligence processes. Other governments have taken similar measures and new initiatives and laws on compulsory Human Rights Due Diligence for organizations, such as the Modern Slavery Act in Australia and the Responsible Business Initiative in Switzerland.

Not only are regulations changing, but so too are guidelines and recommendations on Business and Human Rights. To date, 22 countries around the world, including Spain, have adopted National Action Plans (NAP) on Business and Human Rights.

For their part, investors are increasingly more acquainted with the United Nations' requirements on Human Rights, and on how to apply due diligence to assess these issues in their potential investments. For the last few years, especially in Western Europe, investors have begun paying special attention to issues such as decent wages, discrimination and equal pay, customer and employee privacy, among others.

Initiatives like the Corporate Human Rights Benchmark, which emerged in 2013 as a collaboration led by investors and civil society organizations and focused on creating the first open and public benchmark of corporate human rights performance, show that the investment community understands and shares the potential risk posed by poor performance in the value chains of their portfolios.

Challenge 5: Circular Economy

For years, growth in population and welfare has increased the demand for resources, which has reached unsustainable levels. This situation poses significant risks for society and organizations alike, mainly related to the scarcity of resources and the economic impacts that this may have. In other words, organizations are also exposed to the risks of linear practices (using scant, non-renewable resources; prioritizing sales of new products, non-collaboration, non-innovation and non-adaptation) which entail impacts of different kinds (scarcity of resources, more restrictive legislation, sanctions, price volatility) that could jeopardize their survival.

Against this backdrop, at the end of 2015 the European Commission approved a package of measures known as the "Circular Economy Package", devised to stimulate Europe's transition towards this new model of production and consumption based on sustainable use of natural resources, while at the same time maintaining, for as long as possible, the value of the products and materials in the productive system –repeated use of resources– and minimizing waste. Among other issues, the package brought in new measures to prevent waste production, and to encourage the use of products that efficiently use durable, repairable and recyclable resources, and the implementation of systems that foster reuse activities.

In other words, the circular economy offers the private sector opportunities to cut costs, develop new lines of business, reduce environmental impacts or stay ahead of growing regulations, among others. In this regard, the next few years will see disruptive business models that will call for new models of finance and greater investor engagement.

Challenge 6: Change of paradigm and common language: Sustainable Development Goals and 2030 Agenda

On 25 September 2015, following an unprecedented consultation process, 193 world leaders adopted 17 global goals to eradicate poverty, protect the planet and ensure prosperity for everyone as part of a new sustainable development agenda. Through 169 associated targets, these goals provide a plan for national and international sustainable growth and make a universal call to action and seek to tackle issues such as climate change, economic inequality, sustainable consumption, innovation and infrastructure, among others.

The central governments of the signatory countries are boosting the SDGs through high-impact public policies and structural changes. Within the 2030 Agenda framework, Spain identified nine accelerator policies and ten transformative measures, each with a different focus, which should serve to boost the implementation of the Action Plan.

Since then, in Spain the 2030 Agenda and its 17 Sustainable Development Goals have mobilized state, regional and local government bodies to unparalleled extents. This has prompted major progress, yet at the same time it has highlighted the areas where delays persist, and which aspects must be corrected in order to make headway.

This is undeniably going to lead to stricter requirements with respect to the Goals and Targets considered most relevant. Institutions will keep on adapting to accommodate these issues, public policies will be developed to support their achievement, funds and budgets will be allocated to them, and visibility will be given to initiatives, projects and entities that are contributing to their achievement. Similarly, efforts will be made to align all possible players involved using different strategies, one of the most effective and immediate being regulatory development on the most material issues.

In this context, governments have spotlighted the private sector as one of their key allies for achieving the goals. Even though public spending and official development aid will contribute to achieving the SDGs, according to the calculations, their contribution will be, at most, $1 trillion a year, while the United Nations Commission on Trade and Development (UNCTAD) estimates a yearly budget of $12 trillion between 2015 and 2030. This is why capital flows from the private sector, either through new distributions or by redirecting existing capital flows, will be essential.

Annex I includes an approach to the private sector's role in the contribution to each SDG.

Investors are looking closely at the SDGs in this regard, not just due to economic opportunities, but also because they are a way to coordinate the most pressing environmental, social and governance issues that need to be addressed. This provides a "materiality filter" for the environmental, social and governance issues that must be considered in assessing the long-term resilience of their assets and portfolios and their exposure to new solutions and economic models that will respond to long-term economic transformations.

Finance plays an important role in society. Therefore, the SDGs could become the common reference framework upon which future investment decisions are based and the usefulness of finance is judged. This will make it possible to gauge the impact of investors on the real world, and a way for responsible investors to reflect issues such as climate change, labor conditions and diversity into their decisions across all levels.

1.2. The financial sector and its response

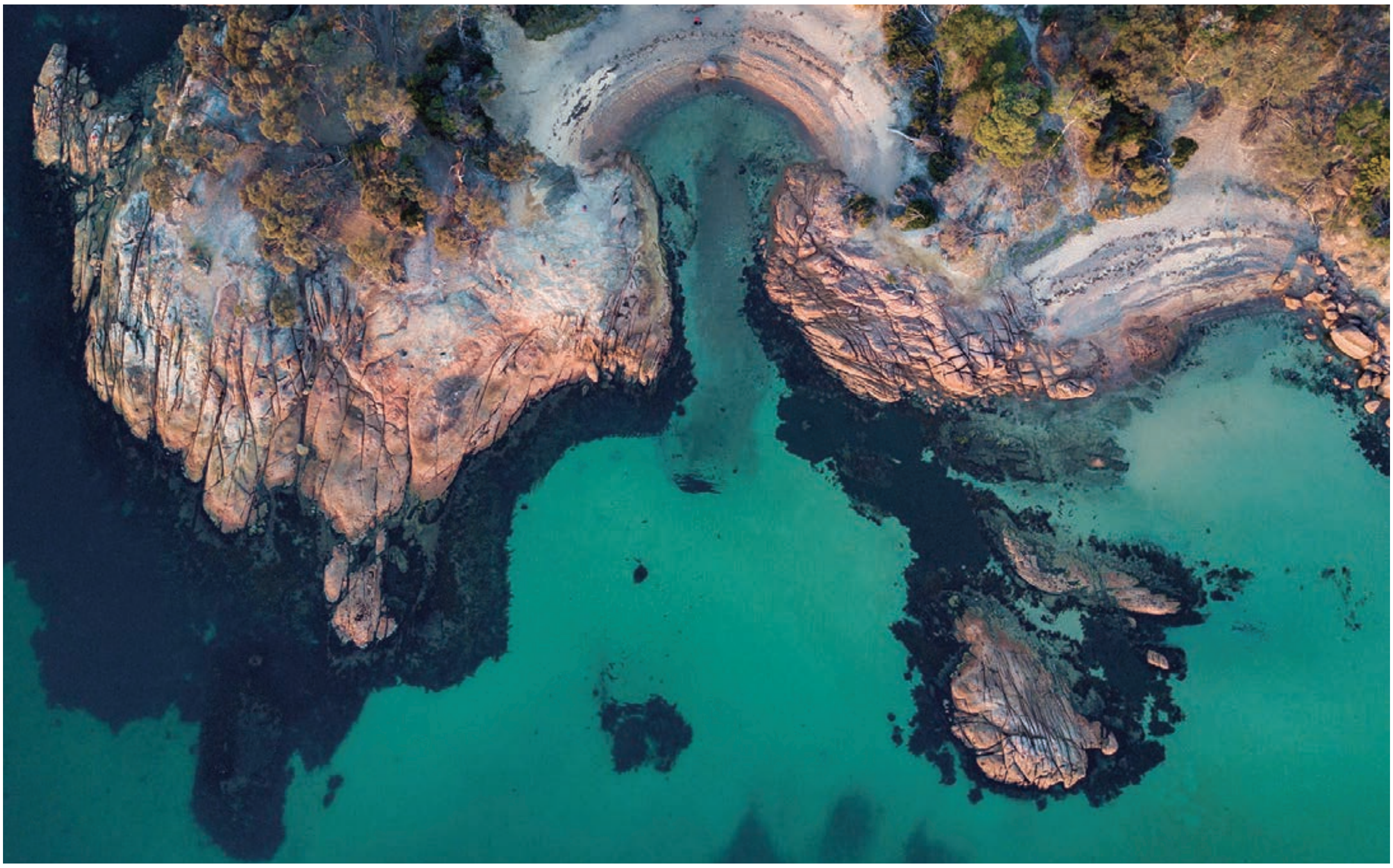
> *"Europe's financial sector must lead the green transition and make our Union the global destination for sustainable investment. There is no greater return on investment than a healthy planet and economy".*
>
> **Jean-Claude Juncker**

Strictly speaking, sustainable finance means funding investments while taking in to account environmental, social and governance considerations. To a certain extent, its emergence is tied to the 2030 Agenda, because different bodies and central banks began working on initiatives after the Agenda was adopted. One of the pioneers is the European Commission's Action Plan for Financing Sustainable Development, which will focus on redirecting capital flows towards sustainable investment, managing financial risks ensuing from climate change, environmental degradation and social issues, and promoting transparency and long-term financial and economic activity. The Action Plan on Sustainable Finance also proposes amendments to the sustainability requirements outlined in the MiFID II Directive.

The emergence of these initiatives underscores the financial community's commitment to sustainability, understood as the integration of ESG criteria into management, investment decisions and the role of managers as owners and creditors, referred to in the sector as responsible investment.

The first responsible investment initiatives date back to the 1970s and 1980s, with the creation of the first socially responsible fund and the application of the first exclusion strategy. The first indexes for gauging corporate environmental, social and governance performance were devised in the 1990s and, for years, the most representative was the Dow Jones Sustainability Index, created in 1999.

In 2003, backed by the World Bank, a group of international banks created the Equator Principles, with the aim of integrating environmental, social and governance criteria into project financing and associated risks.



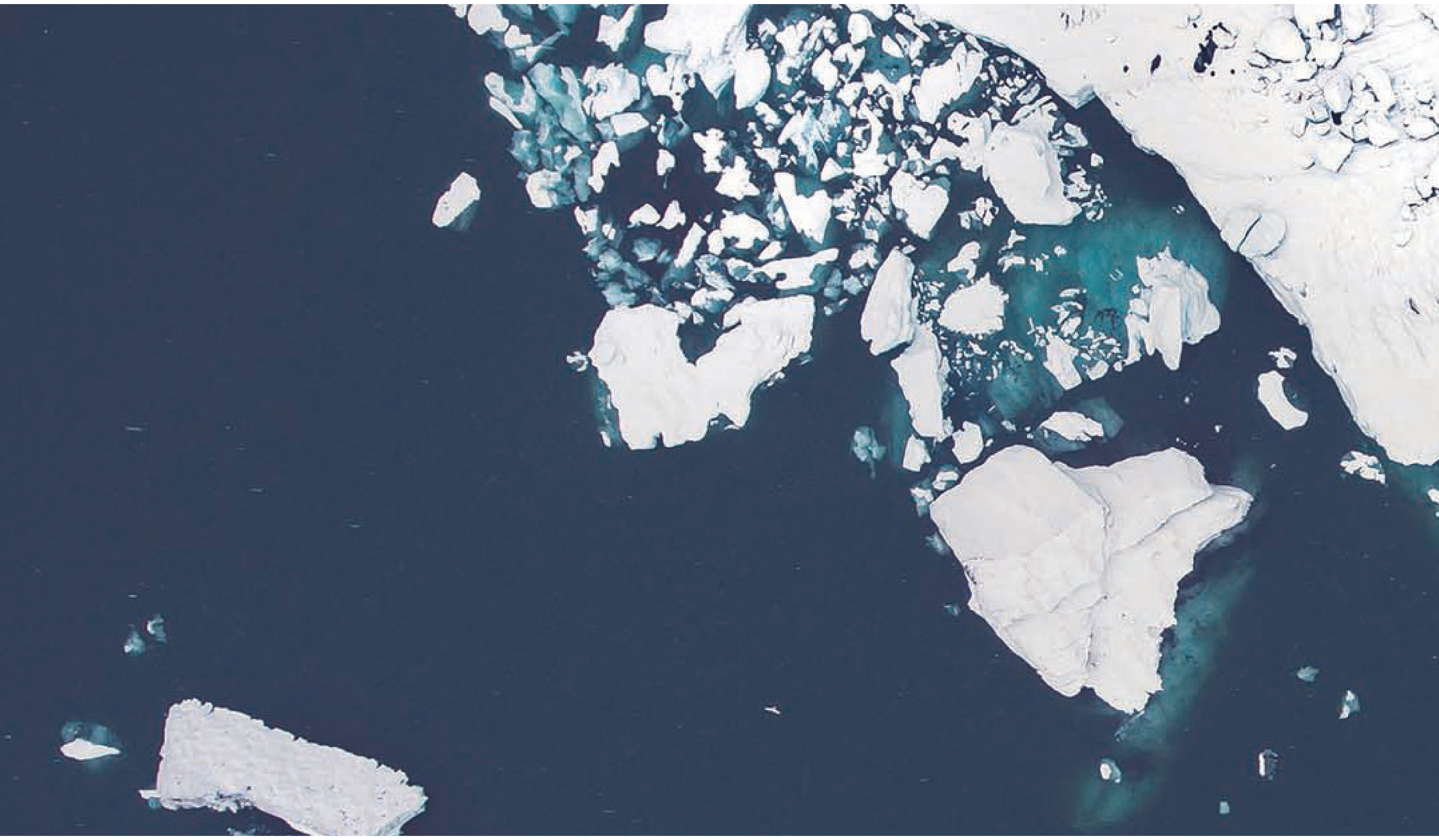
These were followed in 2006 by the United Nations Principles for Responsible Investment (UNPRI), devised by a group of investment professionals as a clear reflection of the growing importance of environmental, social and governance issues in investment practices and as a framework to help anyone wishing to adopt them voluntarily, to integrate these issues in their investment and management decisions. Ever since, the number of signatories has grown exponentially, and currently exceeds 2,300 all over the world.

The reasons behind the financial community's growing interest have differed from the outset, although these remain the most relevant and representative:

- Reputation: the "responsible investor" label remains an important lever for gaining access to public and private financing and a key issue in the "license to operate", both now and in the future.
- Investors' interest: the fact that investors have been relatively quick to consider ESG issues has also been and continues to be an accelerator for the sector. Nowadays, increasingly more European fundraising operations depend on the quality of the ESG approach applied by Private Equity & Venture Capital firms.
- Investors' awareness of the benefits from integrating these issues in their investments: better risk coverage, identification of potential sources of savings, brand enhancement, employee engagement, social involvement, anticipation of major changes, transformation and leverage in innovation.

"LPs need managers to take sustainability seriously and rigorously and to show that for them it is not simply a tick-the-box exercise". Today's market is mature enough to distinguish the managers that believe in it from of those that do not build these issues into their management and have no intention of doing so".

Oriol Pinya, ABAC Capital



There is also an undeniable and growing recognition that ESG issues matter and that top management is committed to them. Company managers are taking central stage in promoting and integrating ESG issues into their organizations' agenda at all levels, keenly aware of their importance and their capacity to generate long-term value both internally and externally.

Be that as it may, the fact is that extra-financial criteria are now systematically built into the decision-making process at a global level, and the sector is taking an increasingly structured approach to including these aspects in its management. It is more keenly aware of how sustainability contributes to value creation in investments and its potential to mitigate environmental and social impacts, whether in terms of reducing risks, increasing operational efficiency or improving innovation, boosting brand appeal and achieving its strategic positioning.

"Our investment philosophy is based on meeting a real need by leveraging technology, but at the same time generating a positive social impact".

Beatriz González, Seaya Ventures

Companies with well-established responsible investment schemes perform better financially and enjoy better risk management, governance and institutional ownership.

2

The point of departure: current maturity in integrating ESG criteria in Private Equity & Venture Capital

2.1. Global context

The first firm steps towards integrating ESG criteria in the private equity sector were taken around 2005 by Private Equity & Venture Capital managers, which gradually structured their response to these issues and, since 2010, have seen their Limited Partners taking a growing interest in them. Even though France and the United Kingdom have led the way in this regard, other European countries and other regions are making great headway in this field.

This can be seen in the annual ESG issue integration surveys that PwC have conducted in the sector in the six years since the first edition[3], and that point to major progress in the integration of environmental, social and governance aspects both internally and in their activities.

Broadly speaking, according to the last survey conducted in 2019, commitment to ESG criteria has peaked and is turning into a leadership issue, with 91% of respondents stating that they have a formal responsible investment policy or are in the process of preparing one. The survey also shows how new global trends like SDGs, climate risks and Human Rights are having a significant impact in the responsible investment field.

91%

of respondents have or are developing an ESG or responsible investment policy.

(3). *Putting a price on value* (2013), *Bridging the gap* (2015), *Are we nearly there yet?* (2016) and *Older and wiser* (2019).

There are also signs that ESG issues are being reported to governing bodies more often and in more detail, and that ESG responsibilities are being better defined within firms. Furthermore, we see greater conviction around the importance of ESG issues to value creation, with the relevance of LP pressure as a lever for integrating such issues in management having dropped to 6%.

Awareness of and alignment with SDGs within the financial community is on the rise. Managers are starting to map existing investments to specific SDG targets, identifying new investment opportunities aligned with the SDGs and exploring strategies that will allow them to attain their targets. SDGs are increasingly regarded as a common global language, with the potential to guide and shape investment strategies.

67%

have identified and prioritized the relevant SDGs for their investments in 2019.

2.2. The situation in Spain

The Spanish Responsible Investment market is on the brink of a new stage of quality growth, supported by international initiatives, administrations and the outstanding demand from investors.

To ascertain its current degree of maturity with respect to the international environment, PwC has conducted a survey for the Private Equity & Venture Capital sector operating in Spain, which has been distributed among ASCRI members. The survey has put into context the extent of progress made by entities at a local level and the commitments that the sector will make in the coming years.

32

Private Equity & Venture Capital firms[4] have taken part in the survey.

ASCRI and its role in encouraging the integration of Responsible Investment

ASCRI, in its role as the Private Equity & Venture Capital industry's representative in Spain, has the capacity to keep on raising awareness in the sector and further the integration of these issues in management. In view of this, in 2018 the association announced a new category in its annual awards, to recognize the best ESG initiative, in order to acknowledge the sector's efforts to adapt to this context.

(4). According to ASCRI's figures, more than 350 Private Equity & Venture Capital firms are operating on the Spanish market, of which 205 are international firms, 137 are private domestic firms and 19 are public domestic firms. The survey was sent to the 134 managers that are members of ASCRI.

The survey evidences this positive move towards the integration of Responsible Investment, and 84% of firms[5] state that they include ESG criteria in their management and investment decisions, attaching the same level of importance as to other issues traditionally considered in these processes.

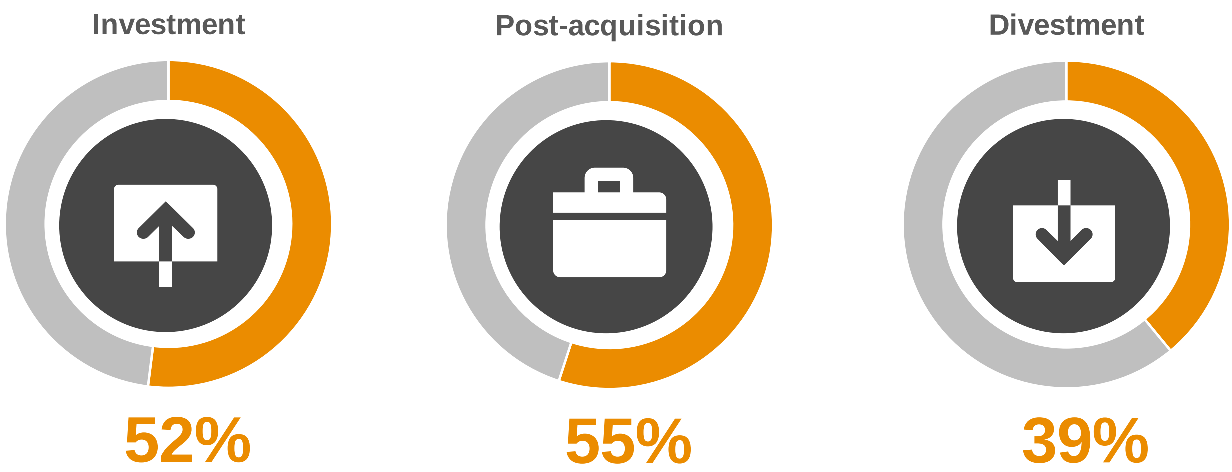
Both internationally and in Spain, Responsible Investment seems to be regarded as a cornerstone of value creation, especially in terms of risk management in organizations and differentiation from competitors.

When the integration of these issues in the investment life cycle is analyzed in detail, there is also great parallels between what is happening in Spain and globally. In both cases, the integration of ESG issues in the investment and post-acquisition phases is more generalized, without being so widespread in the divestment/exit phase.

"We are making determined efforts to integrate ESG issues throughout the investment cycle. We regard it as an essential tool both for identifying risks and for generating value in our companies".

Gonzalo de Rivera, Alantra Private Equity

Figure 2: Firms that have a formal procedure for integrating ESG criteria in the different stages of the investment process (%)



An unquestionable fact is the growing, significant interest in adopting express ESG commitments, as more than 50% of respondents have publicly acquired commitments and 75% have a Responsible Investment Policy.

For both General Partners and Limited Partners, the three most widespread practices in integrating ESG issues are adopting a commitment or policy, endorsing the Principles for Responsible Investment (UNPRI) and integrating ESG issues in risk maps.

Additionally, as would seem logical, regular reporting on ESG issues has been identified as one of the most widespread practices among managers -50% have a formal procedure in place-, while among LPs, it is integrating ESG issues in third party agreements/contracts, as 40% of entities have a formal process in place.

public responsible investment-related commitments.

(5). The conclusions reached in this chapter only refer to the organizations that took part in the survey.

The less mature nature of the Spanish sector in integrating these issues is mirrored by the more practical aspects such as the monitoring of ESG performance indicators in their portfolios, pointing to a wider gap with respect to the global environment, where 88% of entities have an ESG performance monitoring system, compared to a mere 28% of Spanish firms engaging in these practices.

The sector's youth is also reflected in the existence of formal ESG-related organizational structures, though it is true that the comparison is not very representative, considering the average size of firms in the sector in Spain and globally.

In this respect, only 14% of the firms surveyed said they have a dedicated ESG team or employee, compared to the international counterparts, where 35% of firms have a defined ESG structures. Even so, the firms are aware of this growing need, as indicated by their expectations for the next two years.

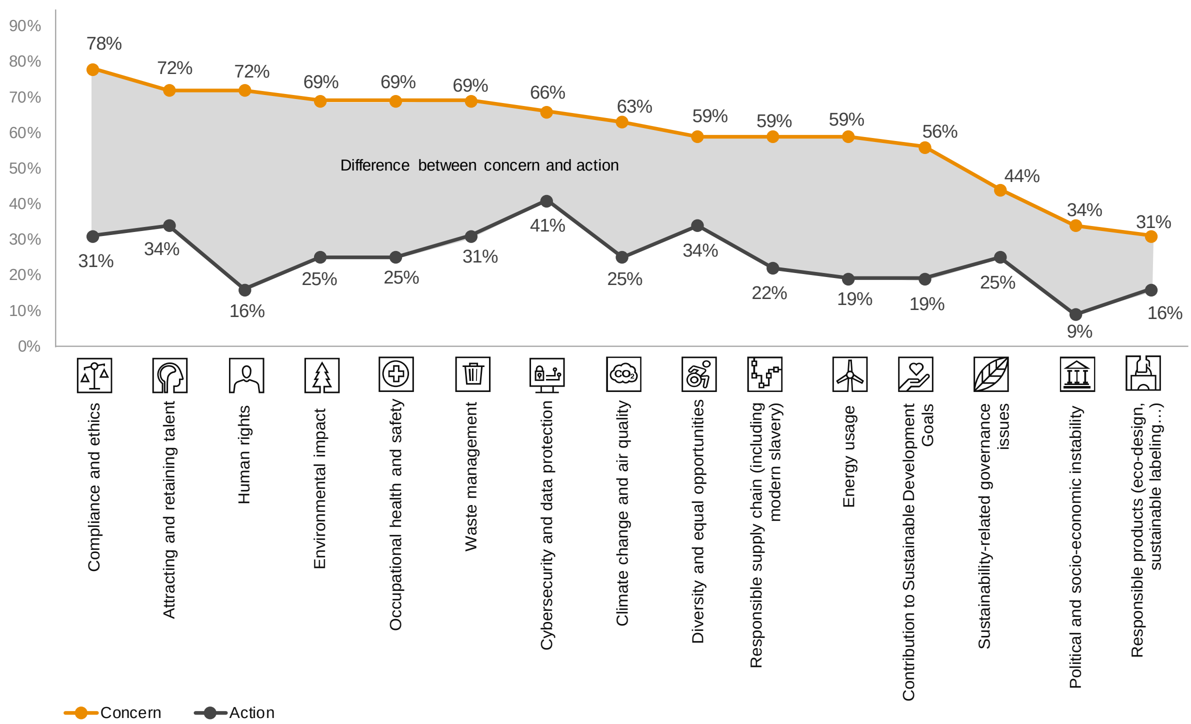
In Spain, the three main concerns of GP's are compliance and ethics, attracting and retaining talent and cybersecurity and data protection. For LPs, they are climate change, environmental impact and Human Rights, which seems more aligned with global concerns.

As shown in Figure 3, the fact is that there is still a significant gap between the concerns and the implementation of measures to manage them. In this respect, whilst 70% plus of firms are "Very concerned" about issues like compliance and ethics, attracting and retaining talent or Human Rights, only around 30% of these firms are taking steps to manage them, and a mere 16% in the case of Human Rights.

Cybersecurity and data protection are the issues where most action have been taken, and this makes sense in view of the European Union's recent data protection regulations and the increase in the number of security incidents.

Spain	Global	
14%	**35%**	**firms that have a dedicated ESG team or employee.**

Figure 3: Level of concern ("very concerned") and management measures in place (% of firms)



What does seem to be true is that SDGs have become a material issue both abroad and in Spain, and 56% of Spanish firms claim to take them into account in their investment approach or strategy. This goes to show that the issue is no longer just a differentiating factor but instead becoming a "must" throughout the sector.

Nevertheless, the ways in which the integration approach is addressed do differ. According to the survey, 41% of firms in Spain, and 67% of firms globally, have identified and prioritized the SDGs relevant to their current and future investments. Other approaches, such as collaboration with stakeholders or defining quantitative indicators and monitoring how investments contribute to the SDGs, are still being consolidated.

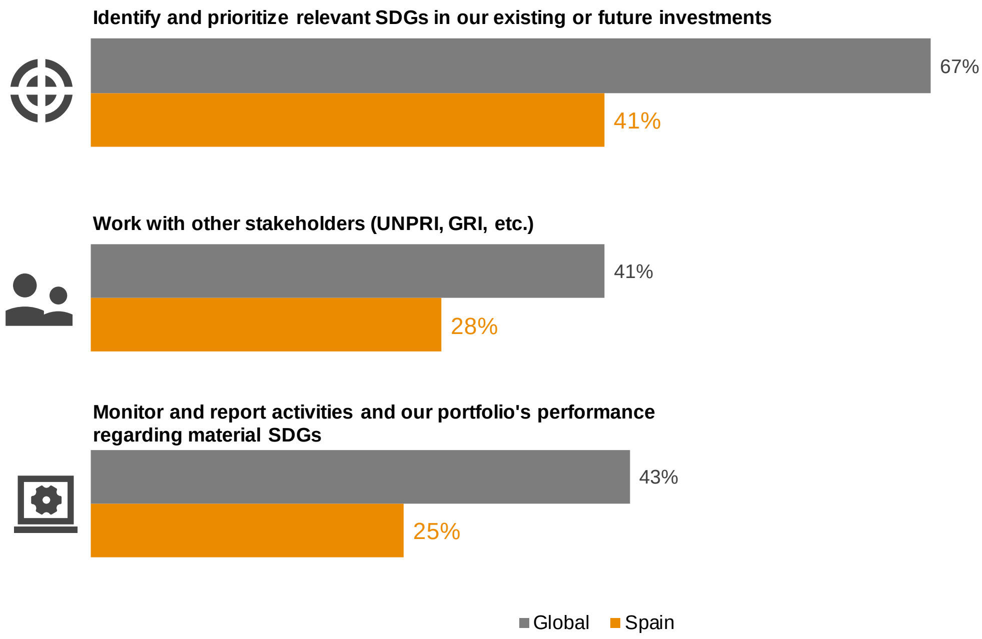
"At EQT, we regard SDGs as the roadmap we must set ourselves in all of the company's activities. Therefore we systematically measure our contribution to their achievement both in our in-house activities and in executing our investments from the first stages of assessment".

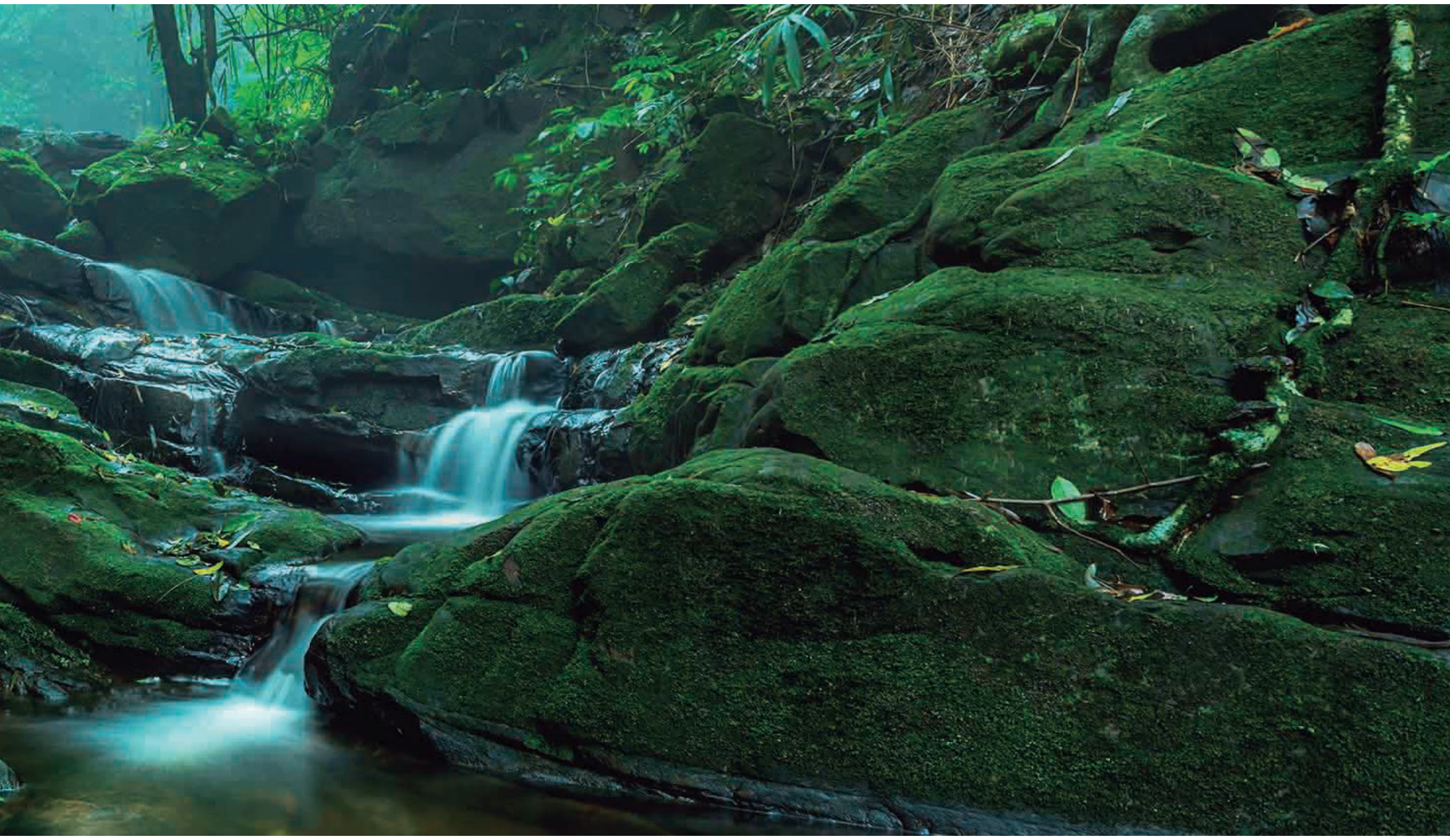
Carlos Santana, EQT Partners

56%

firms in Spain that say they take SDGs into account in their investment strategy or approach.

Figure 4: Maturity in SDG integration





3

Best practices for integrating ESG criteria into management

3.1. The reason behind a best practice guide

Investors want to ensure that their investments can articulate long-term sustainable value creation strategies and identify not only growth opportunities but also the less predictable and less known risks to their activities.

To date, it has not been easy to meet this demand. Many fund managers are not sure exactly what information investors need or in what format they want it.

There is also a communication-related barrier: the managers that have identified ESG risks and opportunities are very often incapable of communicating them effectively, especially to their LPs. To a great extent, this is due to the fact that the people responsible for ESG issues are not fully involved in the investment process, so there is no consistent discourse in this respect.

That is the raison d'être for this guide, based on sector-specific reference sources and interviews with different players within the sector. It outlines a series of guidelines or best practices for responding to these growing demands from all parties and aligning the interests of all the stakeholders that are to a greater or lesser extent involved in the investment process and in the integration of environmental, social and governance issues in their internal and investment management.

Axis and how it fosters best ESG practices through its funds

Building a sustainable growth model calls for talent and entrepreneurial skills. Present and future environmental, governance and social challenges can only be met by fostering the entrepreneurial spirit that encourages the development of new business models, products and solutions. AXIS, the venture capital and private equity firm owned by the Spanish Official Credit Institute (ICO), has gained experience in this field by supporting Spain's business network in its first stages of development, promoting the creation and growth of companies in different sectors, including sustainability-related sectors. AXIS integrates sustainability criteria in all the spheres of action of its funds, seeking to identify sustainable projects, companies and entrepreneurs and promoting best practices through Fond-ICO Global, Fond-ICO Pyme and Fond-ICO Infraestructura.

Investors see ESG issues as critical in fully understanding the profiles of different companies and knowing how ready they are to face future challenges.

3.2. Practical guide for integrating Responsible Investment in management

The first step in effectively integrating ESG issues is to analyze and understand the status quo, as well as the degree of ESG ambition, which will be driven by both external demands (especially from LPs) and internal demands. Not all firms have reached the same level of maturity, and this will dictate the efforts needed to effectively integrate these issues in to their management and decisions. In this respect, three levels of current and/or desirable maturity could be considered:

- **Leaders:** the leaders include forward-looking firms that define commitments, values, objectives and ESG metrics and identify risks and opportunities for their investments, fully integrating them in to their strategy and long-term decision making and effectively communicating these.

- **Followers:** this group comprises the firms capable of integrating ESG issues in their corporate risk management, identifying and working to mitigate such risks. However, there is no strong ambition for visibility. Few of them have integrated ESG goals in their management, so they cannot make any headway in these issues.

- **Laggards:** firms in this third group limit themselves to regulatory compliance, deeming sustainability-related aspects to be tangential to their strategies, risk management and identification of opportunities and that do not tend to be tied in any way to their long-term strategy. Most of them only make a vague commitment in this regard.

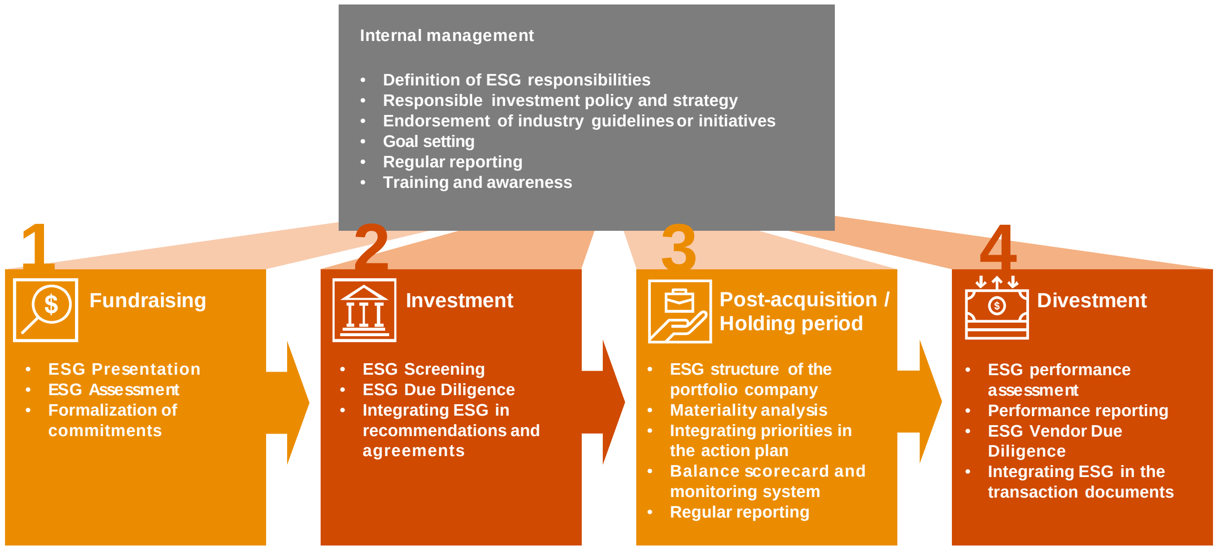
Once the current level of maturity and the short, mid- and long-term levels of ambition have been identified, the next step is to define the commitment to be made, the working methodology for achieving it and how it will be monitored, as well as the resources that will be allocated to this initiative in order to ensure proper integration and compliance.

Integrating ESG criteria: a source of opportunities for Portobello

Portobello has managed to realize the real value of integrating ESG criteria in its management for competitive differentiation, cost savings and increased returns on investments. An example of this is its commitment to local job creation, especially evident in its investee companies Angulas Aguinaga and Sidecu, or the stricter ESG controls in its investees' supply chains (associated with country risk or the risk inherent in certain products and their packaging), positioning the firm ahead of its competitors, especially in the food sector.

The following pages include a series of guidelines for defining these issues. This list is not meant to be exhaustive but rather intended to help investors and managers integrate responsible investment in their internal and portfolio management. We have included a summary of the main elements described in them for ease of reference.

Furthermore, whenever deemed appropriate and bearing in mind their growing relevance in the sector, an approach has been suggested with regards to the integration of SDGs in best internal and external management practices. These have been marked with the symbol:



ESG issues, at the heart of management in Oquendo

Oquendo's Responsible Investment Policy underpins the integration of ESG issues in its decision-making. This can be seen at all stages of the investment cycle: in screening, through exclusions and consideration of relevant aspects; during selection, in which a materiality analysis is carried out and an ESG report is commissioned from external consultants to assess the starting point, identify areas of improvement and possible non compliances. In the execution, the results of the aforementioned activities are confirmed with management interviews and visits. All this information is weighed up in the investment decision and, if it goes ahead, an action plan is drawn up. During the holding period, the portfolio is reviewed once a year and, in parallel, Oquendo seeks to engage with its investee companies and to influence the performance of their boards of directors.

3.2.1. Integration of ESG criteria in internal management

A systematic approach to ESG issue identification and management is key to a firm's operational excellence and provides transparency in management and strategy. The following best practices for integrating ESG criteria into internal management stand out on account of their importance and potential for bringing change:

Definition of ESG responsibilities

It is essential to designate at least one ESG officer, who will be responsible for these issues either as part of other duties or roles, or else is dedicated exclusively to these issues. If the firm has sufficient resources available, these duties can be shared out among a larger team of professionals. Whatever the case, the following recommendations should be taken into account:

- ESG decisions should be linked to one of the firm's high-ranking executives or officers and, to a certain extent, ESG operations should be linked to the investment team. By doing so, these issues will be integrated more evenly at all levels and will carry more weight when dealing with third parties.

- To avoid overlapping and the sharing of responsibilities, some duties can be transferred to other professionals or areas with cross-functional responsibilities (reporting, institutional relations, etc.), ensuring that all messages are properly aligned.
- This structure could be reinforced by setting up an ESG working group or committee, including employees of different ranks and positions to oversee the integration process. This committee could be used to address specific issues identified during the investment process and also to support the investment/operating teams, guaranteeing ESG accountability at the highest levels of the firm. In the most ambitious firms, this Committee reports directly to Management.
- Some firms appoint several employees to act as "ESG ambassadors", with responsibility for implementing the guidelines and creating a culture among their colleagues.

Altamar and its formalized ESG structure

Altamar has a three-tier corporate ESG structure formed by people from throughout the organization,

1. ESG Committee: led by the founding partners, its members include four of its parent company's directors. Its main remit is to define the group's ESG strategic initiative by approving an Annual Action Plan and promoting the firm's ESG activities at the highest level.

2. Working Group: cross-functional group formed by the SRI and CSR teams, together with representatives of all the different asset investment areas. Its remit is to monitor compliance with the Annual Action Plan and ensure successful integration of the SRI and CSR policies across all functions.

3. SRI and CSR Teams: responsible for daily ESG activities and for implementing the tasks defined in the Annual Action Plan.

Definition of the responsible investment strategy

Most fund managers take some ESG elements into account in their investments, but this tends to be approached as an ad hoc process. Yet addressing these issues with a more strategic approach can ensure that risks are minimized and opportunities maximized. In this respect, a responsible investment strategy is a distinguishing feature for the highest governance body's endorsement of ESG issues. In other words, a clear-cut strategy supports decision-making throughout the investment life cycle, and also during fundraising activities, by providing a framework for responding to LP enquiries, helping to demonstrate the effectiveness of implementing responsible investment practices.

When defining its responsible investment strategy, the manager should ask his or herself at least the following questions:

- **Motivation and scope: why and for what purpose?**
- **Ambition: How far do I want to go?**
- **Resources and methodology: How am I going to do it?**
- **Reporting: how, when and who am I going to tell?**

A first approach to SDGs as part of the strategy can start by mapping the investments (sectors or "themes" that the strategy focuses on) onto the SDGs to which they contribute. As an example of this relationship, the table below gives examples of the direct relationship between different investment themes or areas and the Sustainable Development Goals.

Table 1: How investments contribute to the SDGs

Sustainable Development Goals	Healthcare	Education	Agriculture and food security	Energy	Water and sanitation	Transport infrastructure	Telecommunications	Ecosystems	Social protection
1. No poverty	✓	✓	✓	✓	✓				✓
2. Zero hunger	✓		✓						✓
3. Good health and well-being	✓			✓	✓				✓
4. Quality education	✓	✓			✓		✓		✓
5. Gender equality		✓							✓
6. Clean water and sanitation	✓				✓				
7. Affordable and clean energy	✓	✓		✓					
8. Decent work and economic growth		✓				✓			
9. Industry innovation and infrastructure	✓	✓		✓	✓	✓	✓		
10. Reduced inequalities									✓
11. Sustainable cities and communities				✓	✓	✓	✓		✓
12. Responsible consumption and production	✓		✓	✓	✓			✓	
13. Climate action	✓		✓	✓				✓	
14. Life below water					✓			✓	
15. Life on land			✓					✓	
16. Peace, justice and strong institutions									
17. Partnerships for the goals									

Source: PwC research.

Some "traditional" investment strategies are already implicitly integrating this "positive impact" approach that seeks to fully integrate SDGs in the strategy, whose clearest example is impact investing.

How ESG issues are integrated in Talde's procedures

Major global trends such as climate change, scarcity of resources, demographic growth, technological advances and social inequality will significantly influence markets, businesses and wider society, and will have implications for companies in terms of the risks and opportunities that need to be assessed and considered. In order to invest in companies in a socially responsible manner and create maximum long-term value, at TALDE we are encouraging the research and monitoring of environmental, social and governance issues by building them into our routine procedures.

Development of the responsible investment policy

Along with the strategy, the policy defines an action framework and fosters better informed and more responsible decisions and transactions, establishing the guiding values and principles underpinning its investment strategy, used to assess any potential investment. The policy also serves as an ESG issue management guide for employees.

Drawing up a responsible investment policy can be approached in different ways and can be more or less complex and more or less ambitious. Whatever the case, when this process is being performed, it should take into account:

- The policies of other peers that the firm uses for reference or comparison purposes, either in this or other issues.
- The investment policies of the firm's LPs, taking into account the standards to which they adhere, their restricted sectors or activities or the focus of their own policies, where applicable, in order to decide whether to limit or extend the response to those requirements.
- Others LPs considered best practice in the integration of these issues in their management (e.g. the Norwegian Sovereign Wealth Fund).
- The requests from the sector's opinion leaders or reference initiatives (such as UNPRI transparency reports or, in the case of real estate funds, GRESB[6] information requirements).

There are also global guidelines on the contents that a Responsible Investment Policy must include, such as the UNPRI guide "Writing a Responsible Investment Policy for Asset Owners". However, this must at least include:

- A **commitment to comply with applicable laws**;
- A **commitment to "continuous improvement"** with respect to its ESG performance;
- **Sector exclusion criteria** due to specific incompatibilities with the manager's or its investors' ESG principles (e.g. gambling, weapons, tobacco, etc.). In addition to these excluded sectors, some managers lower the exclusion criteria in certain sectors that, despite posing environmental, social or ethical risks, might not be specifically excluded provided that there is an additional review and justification.
- **The ESG standards** that will be used **as a benchmark** to assess potential investments. For some managers, "ESG" assessment is limited to "regulatory compliance", even in countries where regulations are not so strict or applied rigorously. However, more and more stakeholders are calling for a bigger commitment to consistently high ESG standards, like the Performance Standards of the International Finance Corporation[7]. It must be stressed that establishing such standards or rules does not necessarily imply that they will have to be complied with from the start: it can begin with an "aspirational" compliance,
i.e. the commitment to reach the specified standards during the holding period.

The responsible investment policy can cover only the investment activities or also the manager's in-house activities. It can also provide detailed coverage of all the ESG issues that are deemed relevant by the manager, or else be backed up by specific policies on these aspects, such as climate change, corruption and bribery, diversity and equality, etc.

Last of all, it should be published, as doing so can serve as the manager's ESG positioning window with its stakeholders (especially investors), highlighting its commitment to responsible investment. In this respect, not all of the policy's contents have to be published, but there must be some type of policy available for external use that in turn is backed up by a more detailed and operational internal policy.

(6) Launched in 2009, GRESB (*Global Real Estate Sustainability Benchmark*) is the leading ESG benchmark for real estate investment portfolios: www.gresb.com
(7). https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards

Endorsement of industry guidelines or initiatives

Any policy and strategy-related commitments made can be underpinned by adhering to guidelines, reporting frameworks or sector initiatives, and the United Nations Principles for Responsible Investment, explained in the previous chapter, stand out on account of the weight they carry in the sector.

Goal setting

The strategy and policy-related commitments made must be backed up by specific qualitative or quantitative goals, aligned with standardized metrics (e.g., GRI or SASB[8]) and, where applicable, with the SDGs that have been deemed a priority and the goals set as an action framework.

In highly mature organizations, progress towards achievement of these goals is related to remuneration of the people responsible for their implementation.

Regular reporting/disclosure

ESG reporting is one of the first decisions that must be taken as part of the responsible investment program designed, including decisions about the nature of the information to be disclosed, the deadlines to be considered and in what format this information will be disclosed, so that, once the outputs have been agreed, the inputs can begin to be gathered. Managers must report or disclose information in order to keep a log of progress being made on ESG issues and the actions that have been taken. Showing how the integration of ESG issues contributes to value-creation is another key goal.

According to UNPRI recommendations set forth in its document "ESG monitoring, reporting and dialogue in private equity", reporting should comply with the following principles:

- Report on the manager in general terms and report material information about the specific fund in which the LP invests.
- Ensure that the limits of the reported information are clear and the information is materially relevant.
- Align and, whenever possible, integrate the reports with the fund's financial reporting cycle, instead of operating on an independent timetable.
- Designate people to be responsible for preparing and overseeing the reports.
- Take into account the differences in the maturity and ESG approach of the different investment vehicles.
- Consider what format and reporting frequency is required for the different types of reporting.
- Base the reporting on LP-GP dialog in order to anticipate and disclose any change in the LP's reporting requirements.

At present there are different ESG information reporting and disclosure schemes, and the main ones in the Private Equity sector are as follows:

- United Nations Principles for Responsible Investment (UNPRI[9]) Reporting Framework. The UNPRI reporting framework is the world's biggest project for reporting responsible investment information. It was developed by investors, for investors, and requires signatories to report every year on their responsible investment activities. This ensures:
  - Accountability of PRI and its signatories.
  - A standardized transparency tool.
  - Signatories' participation in a continuous improvement process.

- InvestEurope ESG Disclosure Framework[10]: Launched in March 2013, this reporting framework was developed in the spirit of helping managers better understand LPs' demands on ESG issues and to help standardize the questions frequently asked by LPs to their GPs.

(8) *Global Reporting Initiative (GRI) y Sustainability Accounting Standards Board (SASB), son los dos organismos líderes en la monitorización y reporting de información sobre el desempeño ambiental, social y de gobierno de las organizaciones.*
(9). *https://www.unpri.org/signatories/reporting-for-signatories*
(10) *https://www.investeurope.eu/industry-standards/external-resources*

- Reports on specific matters that are relevant for the manager and/or its investors. In this respect, climate change is becoming the leading topic on which investors want to learn more. A growing number of LPs see climate change as both a risk and a key long-term opportunity for their investments and are seeking input from GPs to ensure that these issues are properly addressed. In this respect, in 2018 UNPRI published the guide: "Implementing the TCFD recommendations: a guide for asset owners" to help managers to comply with the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD).

  In line with these growing demands, the PRI reporting framework voluntarily included climate-related indicators in the Strategy&Governance module to help investors with disclosures in line with the TCFD recommendations. Reporting these indicators will be mandatory from 2020 onwards.

- Reporting as per specific frameworks. There are sector-specific reporting frameworks and indices that help investors understand their portfolios better and, at the same time, facilitate a comparable ESG performance framework. One of them, for example, is the GRESB Real Estate index. There are also others on specific subjects, like the Carbon Disclosure Project (CDP), which has different questionnaires (water, climate change, supply chain).

ESG Disclosure Framework

This consists of eight items that most LPs ask managers about at different moments of their relationship, to allow the managers to give a more structured response to their ESG information needs.

During fundraising, the LPs ask for information about…

- ESG policies and their influence on the investment process.
- The ESG risk identification and management process and value creation.
- The work performed in the portfolios.
- The mechanisms LPs can use to oversee the manager's practices.
- The management and reporting of ESG-related material incidents.

Throughout the Fund's life, the LPs ask for information about…

- The implementation of responsible investment policies and processes.
- Material changes in the ESG risks and opportunities identified in the portfolios.
- The existence of material incidents that need to be disclosed outside the initially established frequency.

ESG-related reports are typically issued annually, but can be supplemented with more regular disclosures to certain stakeholders in relation to the most significant ESG issues (e.g., in quarterly performance reports for LPs).

Demeter Partners: Continuous improvement of ESG reporting

Demeter Partners uses different tools to report ESG performance. First of all, the firm prepares a yearly ESG activity report on the firm and its portfolio companies, and since 2018 this also includes their contribution to the 17 SDGs. Since 2018, the firm also issues an annual specific territorial and environmental impact report for the "París Fonds Vert" fund. As a signatory of the Responsible Investment Principles, from 2012, the firm issues a yearly Transparency Report. It has been responding to several ESG questionnaires of its LPs for several of its funds since 2006, as well as the CDP questionnaire since 2013.

Those firms that have identified and prioritized the SDGs upon which to base their business activities can carry out a reporting exercise in this respect. To this end, different guides and tools have been devised to help the firms in this process, one example being "Integrating the SDGs into Corporate Reporting- A practical guide" and "An analysis of the goals and targets", both published to be used together in 2017 by GRI and the United Nations, with the support of PwC. Even though these documents are generally intended for large corporations, they can serve as a guide for other kinds of firms in their reporting process.

Training and awareness

It is important to have ESG-trained teams at all levels: starting with the back-office for PRI reporting issues and responding to the LPs' requirements, among others, and ending with the investment teams, which must be capable of identifying the ESG issues that affect each sector of activity, conduct and interpret ESG due diligences and implement action plans for tackling the key gaps identified.

These training efforts can be supplemented by other practices such as encouraging people, especially asset managers, to provide regular updates on the best management practices applied in their portfolios, in-house collaboration sessions where the different asset managers share their own experiences with other teams, a specific section of the corporate intranet or regular newsletters.

This point can also be backed up with "decalogues" or action guides on specific subjects for employees, which can be subsequently extended to other collaborators.

Some firms prefer to get their employees involved in community activities as part of a shared value-creation culture and as a starting point for raising employee awareness in relation to social and environmental issues.

Women's International Network: EQT with diversity

In 2019, EQT made a formal commitment to diversity through the Women's International Network (WIN) initiative. By doing so, the firm seeks to respond to women's professional motivations and ambitions, fostering working environments that give them the opportunity to develop their skills.

This commitment is being consolidated both in its existing and potential teams -through specific requirements to headhunters- and in the suppliers who work with the firm (at least 25% of their employees must be female). It is also steadily being passed onto the investment life cycle, improving women's integration not only in the management team but as part of the junior talent of the portfolio companies.

3.2.2. Integration of ESG criteria in the manager's activities

How best practices are integrated into the manager's activities will largely depend on how far the fund can influence its portfolios. Managers without significant influence should at least ensure alignment with their investment policy and strategy, as well as with their sustainability requirements, by promoting regular dialog as a mechanism for promoting the integration of ESG issues into their portfolios.

The following pages include best practices for integrating ESG issues into a manager's activities. The information is divided into four stages: fundraising, investment, holding period/post-acquisition and divestment.

Integration of ESG issues in the investment cycle in Miura

Miura Private Equity has been fostering a positive impact in its portfolio of investee companies throughout the investment cycle for years. Miura uses its ESG policy to promote best practices in the business and environment of its portfolio companies, setting short- to mid-term commitments. At the same time, it sets reporting standards aligned with the UN Sustainable Development Goals and discloses its progress in its biannual ESG reports.

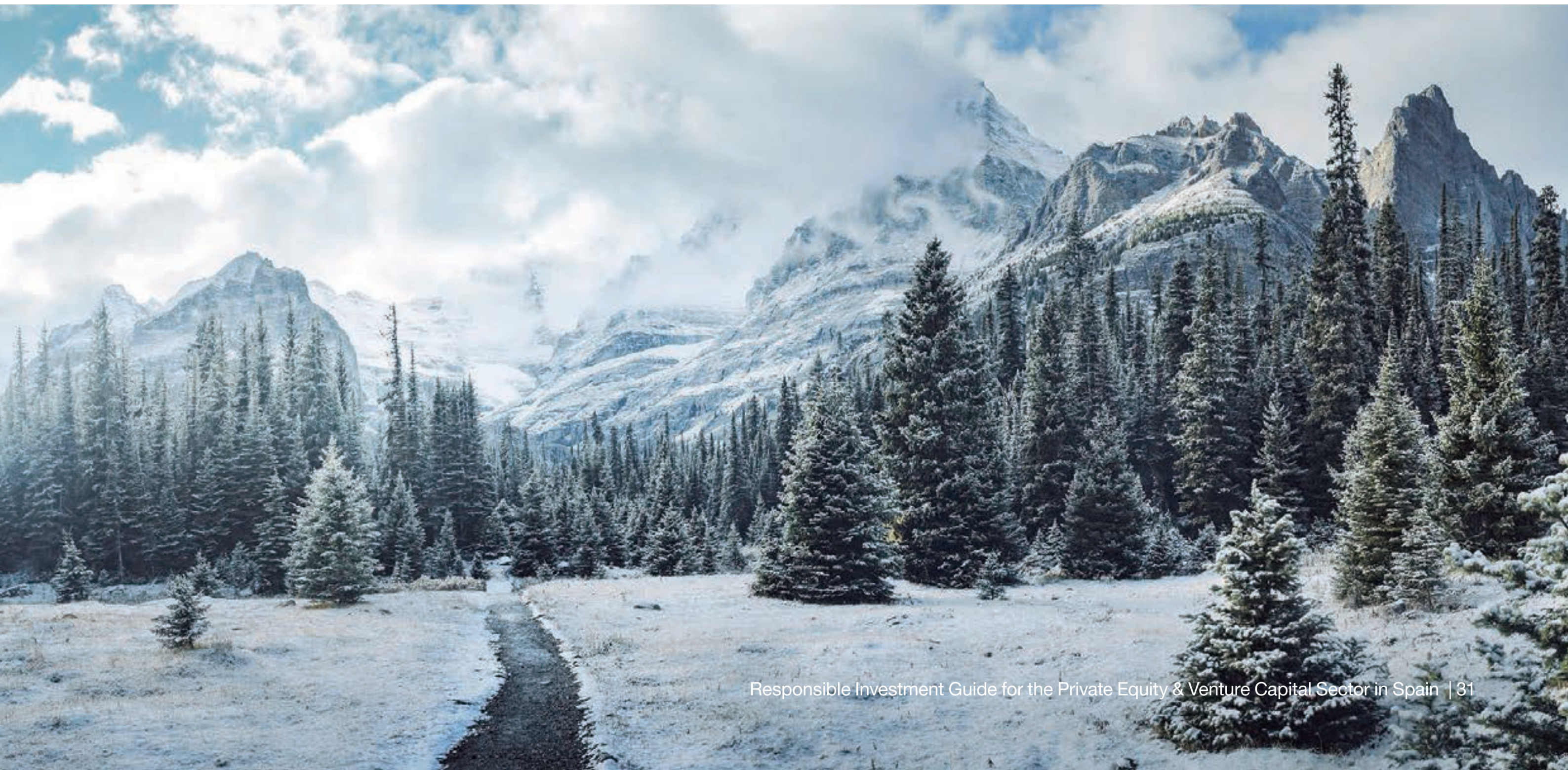
I. Fundraising

At the fundraising stage, the manager should disclose enough information to allow any LP that has expressed an interest in ESG issues to assess whether its interests and expectations are aligned, and to understand the manager's current and future ESG approach.

Presentation of the ESG approach (GP)

The ESG commitments acquired by the General Partner or manager can be formalized in different ways, as explained in the previous section. In any case, before embarking on the investment process, in the fundraising stage the General Partner (GP) should show the investor or Limited Partner (LP) the specific and operating dimension of its ESG approach. The global consistency of the approach (from investment to sale, including how the manager itself operates) and the integration of the materiality concept in the portfolio management, will convince an LP that the GP takes ESG issue integration seriously. Among other matters, the manager should show the investor:

- That their ESG approaches are aligned. To do so, the manager should present the policies, procedures and systems that govern its transactions and its decision-making processes. A responsible investment policy, endorsement of the UN Responsible Investment Principles, integration of ESG issues in the manager's or fund's regulations or examples of regular ESG reporting to investors, are some examples of the documents that the GP could use as evidence.



- How ESG management policies, procedures and/or systems are structured internally. At this point, the manager should demonstrate how it puts the established commitments and guidelines into practice, so as to systematically identify value-creation opportunities, material-risk management and identify possible areas of future development. For instance, the managers could show their internal ESG organizational chart, both at the management and operational levels, the existence of specific ESG training plans, the inclusion of ESG information in transaction memoranda, agreements signed with external ESG service providers or the integration of ESG issues in certain internal functions such as the risks and investment teams (through interviews, for example).

"At Nauta, we strive to anticipate our investors' demands, formalizing our commitment with working standards based on ethics and quality, which is why we have drawn up a code of ethics that applies to all our professionals. This makes us far more credible in our investors' eyes in fundraising stages, during which those same investors, and especially institutional ones, put unprecedented pressure on issues that are not strictly financial".

Daniel Sánchez, Nauta Capital

- How these issues are passed onto their portfolios. The manager's role vis-à-vis its portfolio companies will be to oversee and encourage integration of ESG issues throughout the investment's life cycle. In this respect, the GP could explain how it addresses these issues in the composition of its portfolio companies' boards and management teams, what tools it uses to build an ESG culture and how it expects its portfolio companies to put these issues into practice in their strategy, risk management, monitoring through a common set of indicators applied to both the manager and its portfolio companies and reporting. Evidence of these measures could be the due diligence reports of the investment process, the action plans put in place during the holding period, and the minutes of the portfolio companies' board meetings, showing how the portfolio companies include these periodic ESG performance reports/ tools or issues (which, in turn, will form part of the manager's own ESG reports).

Soria District Heating: example of how Suma's commitment is materialized in its portfolio companies

Suma Capital helps its portfolio companies to integrate ESG issues in their management. The portfolio company of the Soria District Heating ("Red de Calor de Soria") Sustainability Fund is rolling out Spain's largest biomass heat network, supplying renewable heating and hot water to the city of Soria. ESG and KPI monitoring targets have been defined to measure their performance, along with the SDGs that will be impacted directly by their performance. Furthermore, members of the portfolio company's Board have been assigned responsibility for ESG issues. This degree of integration led to it being granted the 2019 ASCRI award to the Best ESG Initiative.

Assessing the ESG approach (LP)

An LP needs detailed insight into how the GP integrates environmental, social and governance issues in its investment practices, as well as knowing who is responsible for their integration, so as to have sufficient information on the GP's management of ESG issues, before signing a commitment with them. The most widespread practice is for the LP to prevent the manager from investing in certain sectors (tobacco, alcohol, pornography, weapons, etc.) or in certain geographical areas.

Some investors draw up ESG assessment questionnaires and methodologies for their GPs, based on their priorities and degree of ambition, which they use to establish their assessment thresholds and the performance improvement proposals they make to their GPs.

BBVA Quality Funds: the gatekeeper who facilitates the Due Diligence and analysis of the investments in illiquid vehicles

Supported by the Quality Funds unit, BBVA AM analyzes the risk associated with potential investments in private markets, including an in-depth analysis of their environmental, social and governance performance, which informs the investment decision. Even though this analysis is currently conducted on a case-by-case basis, BBVA AM is in the process of devising a rating methodology for standardizing the assessment criteria, providing feedback to poorly-performing managers so as to make them "investable" in a given timeframe.

Public tools are also available for this assessment stage in order to standardize demands and reduce paperwork, such as the the UNPRI "Limited Partners' responsible investment due diligence questionnaire" or the "Institutional Limited Partnership Association (ILPA) due diligence questionnaire" with the key ESG issues that should be included in the GP's ESG performance assessment process.

Additionally, an increasing number of investors are finding it difficult to efficiently process all the information requested, which varies in format and is very difficult to compare. Therefore, they are devising highly structured formal requirements, with their own detailed ESG criteria integration manuals for asset managers, including the application of specific ESG information and management systems.

Regarding SDG matters, recently the United Nations Development Program's SDG Impact initiative has published a consultation draft of "The SDG Impact Practice Standards - Private Equity Funds", a document intended to serve as a guide for assessing the effectiveness of SDG integration in asset managers, assessing the generation of positive environmental and social impacts.

Formalization of commitments

There are different approaches for addressing these issues but integrating ESG criteria in fundraising has become a "must", with both parties entering a mutual commitment which formalizes and ensures the continuity of the dialog that starts at this stage. This formalization can take the form of including ESG criteria in the Limited Partnership Agreement or through side-letters to the agreement.

Based on their mutual commitments, both parties can move forward jointly in integrating ESG issues into management. Depending on their investment strategy and material issues, they then draw up a roadmap with certain indicators that the GP should track internally and in its portfolio companies, producing performance reports with appropriate contents and at the agreed intervals, following the relationship channels in place between both parties.

Systematic integration of ESG issues in Arcano's investment memoranda

As an investor in third-party-managed Private Equity funds, Arcano cannot influence management of each fund or underlying companies. That is why the ESG critical analysis is conducted when making the decision to invest. In this regard, all the investment memoranda submitted to the Investment Committee include an analysis of the potential investment's ESG performance.

II. Investment Stage

Including ESG issues in the investment analysis provides far more information about the target, with possible risks and opportunities being identified from a different perspective to any traditional analysis. In this stage, ESG practices are screened before undergoing a due diligence and integrating any ESG issues identified in recommendations and agreements.

"While selecting the investment, we focus on integration and engagement. We look for firms that build sustainability into their investment process, or firms in which progress can be made throughout the holding period, and so represent an opportunity for creating greater value".

Jaime Martínez González, BBVA AM

"Our ESG procedures require us to ask all the underlying funds for regular information about their SRI policies, using a formal ESG questionnaire whose results are submitted to the Investment Committee. Their answers are scored in line with an internal model that enables us to classify them and gauge their progress. We also include ESG clauses in all our investment agreements".

Miguel Zurita, Altamar Capital Partners

ESG Screening

During the first stage, where little specific ESG information is available, a high-level screening can be performed.

This process should consider at least the following issues:

- Alignment with the manager's values and principles.
- Risks and opportunities inherent in the regions, sectors and business models of the potential investments.

It is essential to have a preliminary assessment of the full value chain of each potential investment, identifying the most relevant ESG issues needing to be taken into account, the risks and opportunities, with this analysis not being limited just to the organization's own activities. The example in Figure 5 includes research of ESG risks and opportunities linked to an industrial firm's value chain.

The screening can be performed with publicly-available tools like CDC Toolkit or SASB, or proprietary tools, such as risk assessment and decision-making procedures (decision tree).

The screening can include identifying the most important SDGs, considering the performance (in terms of impact) of certain sectors or regions. GPs can decide, based on SDG integration in their responsible investment policy and strategy, which possibilities are best suited to their SDG ambitions and that their investment decision be guided by this approach.
Just as with the ESG approach, there are tools for assessing a given target's contribution and impacts on the SDGs, such as PwC's SDG Selector and SDG Navigator or the Global Compact's SDG Industry Matrix.

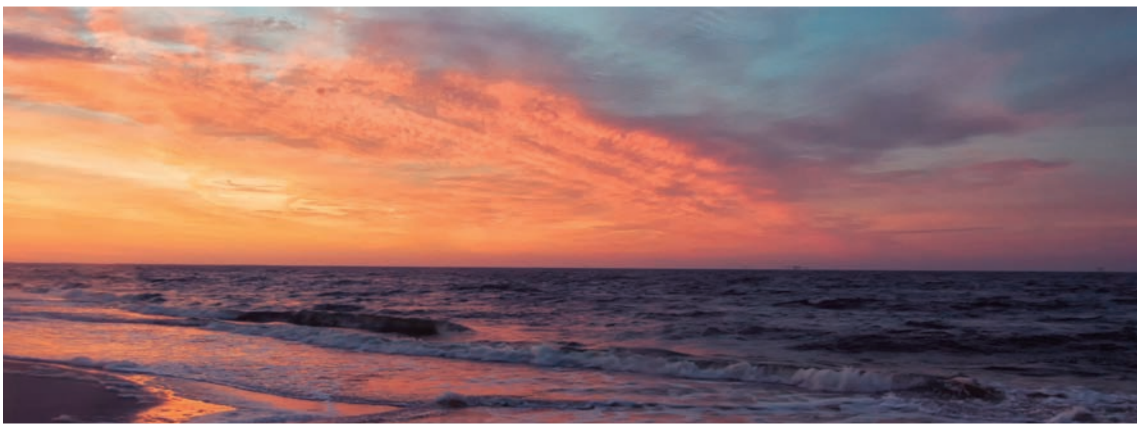
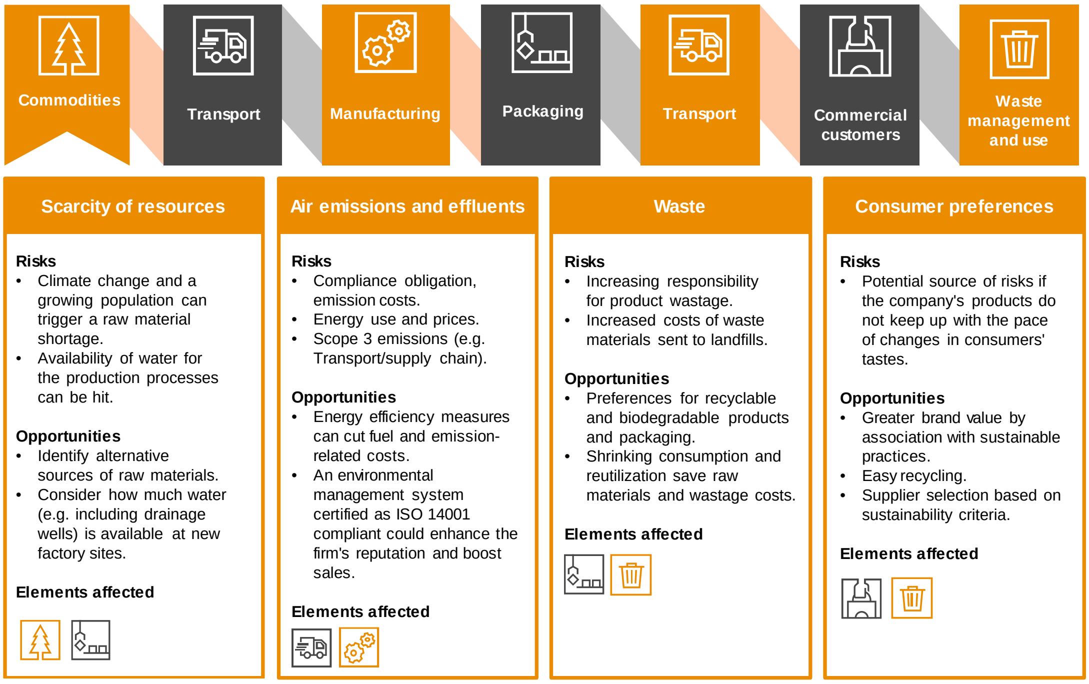


Figure 5: Example of research of ESG risks and opportunities related to an industrial company's value chain



ESG Due Diligence (DD)

Regardless of the target and initial screening results, the possibility of carrying out an ESG due diligence during the investment process must be considered.

Traditionally, ESG due diligences have focused on purely operational environmental issues, such as the existence of compliance-related environmental liabilities, typically at the facility level (e.g., contamination, presence of asbestos, environmental regulatory compliance, etc.), essentially as means of verifying whether any financial implications are likely to affect the transaction.

Whilst the approach adopted should not preclude this type of due diligence, the objective of an ESG due diligence must be broader and deeper. An ESG DD identifies and assesses all current and future ESG aspects potentially relevant to the business across its entire value chain, based on reasonable perspectives and forecasts, and in doing so provides the maximum coverage of risks and value-creation opportunities possible, focusing in particular on any issues identified as material and going beyond legal requirements.

Broadly speaking, common assessment principles can be applied to all sectors and potential investments, although there are a few ESG issues that need consideration for only specific sectors or even for a specific business. Furthermore, the degree to which each issue is relevant will depend on the target's geographical location and business activities, and on the responsible investment strategy and principles defined by the manager. For example, a given Human Rights-related aspect may be highly relevant for a clothing firm with suppliers in Asian countries but not so much for a software company that only operates in Spain.

The comprehensiveness and detail of an ESG DD can differ in terms of the conclusions of previous research, the resources available, the degree of ambition or the shareholding approach.

> *"Nazca has systematically been performing an ESG Due Diligence in all its transactions since 2016".*
>
> **Catalina Chalbaud, Nazca Capital**

Where in-house resources or expertise cannot adequately cover the particular ESG issues relevant to the sector in question, independent consultants may need to be consulted to provide a more expert and focused view, and provide specific recommendations tailored to the requirements of the manager and the potential investment alike.

The screening process must therefore take into account the knowledge and expertise required (climate change, health and safety, supply chain, etc.) and also the scale and scope of the network and its proximity to the target's operating locations. In this regard, some managers are defining ESG Due Diligence service provider panels to have short-term support available whenever necessary.

ESG DDs are increasingly becoming part of the global due diligence process, even though they are usually carried out in the "exclusivity" stage of the investment, when the investment is highly likely to go ahead, due to the specificities associated with the documentation that needs to be reviewed and information to be requested from the company's management. This also represents an opportunity for working with and accessing the portfolio company's management team. That said, as all stakeholders are increasingly more familiar with these issues, the ESG DDs are more often included in the more preliminary stages of the due diligence process.

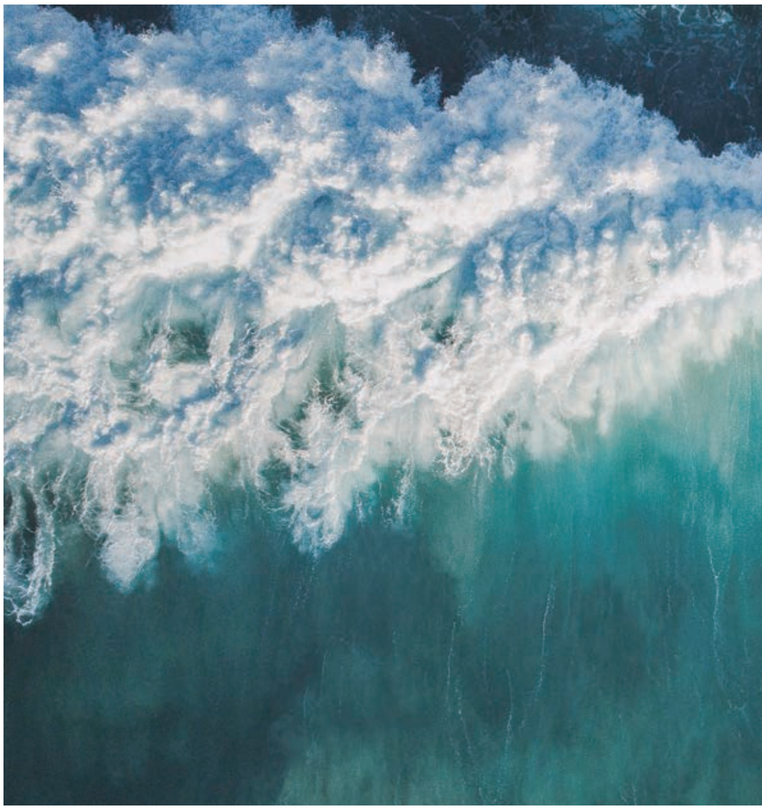
Significant conclusions around how the portfolio company handles ESG issues can be drawn from both the access and lack of access to ESG-related information and in the process ensuring that these issues are included in the post-acquisition stage. In this respect, the due diligence report must not only outline the risks and opportunities identified, but also the steps needed to improve ESG performance in subsequent stages, prioritized, on a preliminary basis, in line with their importance in the transaction's context and the degree of maturity that the portfolio company demonstrates in this area.

The investment's value-creation potential and its social and environmental impact can be assessed in detail and quantified as part of the ESG due diligence or as an independent DD. The ESG DD will pinpoint where the positive impacts are happening, how far they can be extended and how any negative impacts can be reduced or mitigated. It can also include a preliminary assessment of the target's risks and opportunities in terms of SDG contribution.

Integration of ESG issues in recommendations and agreements

A best practice for reinforcing ESG commitments is to include the main DD conclusions in the investment recommendations made to the investment committee and in the documentation associated with the investment process (pitches, reports to the governing body, etc.).

These issues should also be built into the investment agreement (shareholders' agreements) either as clauses, undertakings or letters of intent that feature ESG issue integration as part of the new contractual relationship between the parties.



III. Post-acquisition / Holding period

Most of the value created when Private Equity & Venture Capital managers apply ESG policies emerges in the management stage. The key challenge in this stage is to strike a balance between encouraging active ESG management in the portfolio companies and setting realistic expectations. In this stage, ESG issues are articulated by: defining an ESG governance structure, identifying priorities or material aspects, developing and implementing an action plan, monitoring it and reporting progress and material issues.

Definition of the ESG governance structure in the portfolio company

Defining the ESG issue management structure in the portfolio companies is a key aspect for protecting and maximizing value. This step would be equivalent to the ones that the manager takes to integrate ESG issues in its internal management. It includes:

- Developing a corporate responsibility/ sustainability policy that, in turn, is aligned with the manager's values and principles. It should at least contain a commitment to comply with all applicable regulations and to continuously improve integration of ESG issues in its management.

- Backing ESG from the Board: the manager's presence on the portfolio companies' Board represents an opportunity and a responsibility to ensure that the ESG priorities are adequately implemented and to demonstrate to employees management's commitment and the importance of these issues to the company.
- Defining responsibilities: as with the manager's team, it is important to hand over operational responsibilities to other team members who can implement the guidelines, depending on the size and resources of the portfolio company.

To ensure the correct integration of these issues and the alignment interests with chosen team members, ESG goals and achievements can be linked to compensation.

Abac Capital's ESG Champions

As part of its investment process, four years ago, ABAC Capital appointed an "ESG Champion", as the first post-acquisition step towards ESG integration.

The ESG Champion, who is a member of the portfolio company's Steering Committee, is responsible for implementing and monitoring the ESG issues included in the 100-Day Plan, and is also responsible for promoting and giving the ESG culture visibility inside the organization.
The ESG Champion is a key position for the manager, who maintains a direct relationship with the person, giving them visibility both inside and outside the company.

Once a year, the ESG Champions of all the portfolio companies meet at the ESG Day, where they share experiences and best practices.

Definition of priorities- materiality analysis

In the post-acquisition stage, the ESG DD report recommendations should be reviewed to validate the risks and value-creation opportunities identified.

The first step is to organize a working session with the new portfolio company's staff in order to analyze the results of any due diligence reports and assessments, and to decide on the priorities relating to the integration of ESG issues into management.

This process will finish with the prioritization of the ESG issues to be implemented. Priority definition depends on several factors that can be assessed in a detailed ESG materiality analysis. This will refine the assessment carried out in the ESG due diligence, adapting it to the new portfolio company's situation. The list of "topics" to be included in this analysis can be selected with reference to existing standards such as GRI or SASB, or other sources that offer a level of guidance on these issues, such as the UNPRI.

Issues will be prioritized in line with their importance within the organization and for stakeholders (including the manager company itself and its investors). The reference for this analysis can be the investors' public reports and policies, guides or reports published by the sector's opinion leaders, the contents of the most recent regulations, press clippings with the organization's news and research conducted by other companies in the sector, among others.

At this point, from the materiality perspective, the SDGs can be used to prioritize the organization's material issues in a framework that considers the current, potential, positive and negative impacts that the organization's activities trigger all along the value chain.

Integrating priorities in the Action Plan

Based on the priorities defined in the previous stage, the main ESG issues will need to be integrated in the Action Plan that is to be implemented in the portfolio company in order to address the risks and gaps identified and to realize opportunities throughout the holding period with different time horizons (100-day plan, 3-year plan, 5-year plan, etc.).

Among other issues, the Action Plan can include: developing or adapting the corporate policies for integrating ESG issues, identifying and prioritizing the SDGs to which the company contributes, defining an ESG risk management system and organizing in-company training, among others.

The Action Plan should include goals and targets, and achievement reviews will be conducted from time to time with on-site visits so that the actions proposed in the Plan can be followed up.

The Action Plan can prioritize action on the SDGs, based on the magnitude, severity and likelihood of any negative impacts occurring; and also on their importance for key stakeholders. Actions will also be prioritized in line with their capability of creating or increasing the business's competitive advantages, considering the SDG positive impacts.

ESG balanced scorecard and monitoring system

Monitoring the portfolio companies' ESG performance entails defining a system of indicators (see Figure 6). This should at a minimum be aligned with the system of key indicators for the manager and its investors, so that it can cater to all "upstream" information requests.

Despite having a uniform set of indicators for the entire portfolio, assessing the materiality of the various ESG issues (as explained above) will help prioritize or focus in on each portfolio company's key indicators when defining the monitoring frequency or setting performance improvement targets.

ESG assessment and action protocol

Nazca has devised an action protocol with the measures that each of its portfolio companies must take in line with the degree of maturity of their ESG policies and the outcome of the ESG DD process. This protocol entails measuring a set of parameters common to all companies, after which the companies are ranked on an ESG barometer in line with their results. The degree of compliance of the measures in place is then monitored periodically. The portfolio companies' ESG performance is taken into account when assessing Nazca's investment team, thus ensuring its commitment to complying with the proposed action plans.

Figure 6: Some examples of ESG indicators

ESG Dimensions

Environmental	Social			Governance		
ESG Themes						
Environment	Community Relations	Human Resources	Health and Safety	Supply Chain	Corporate Governance	Business Ethics
• GHG emissions • Energy consumption • Water pollution • Waste generation	• Social acceptability • Stakeholder pressure	• Employee retention • Talent attraction • Training • Diversity	• Work-related accidents • Working conditions • Psychological issues • Work-related stress	• Outsourcing conditions • Environmental impact of the procurement process	• Responsibility and governance roles • Diversity in the Board's management • Transparency	• Bribery and corruption • Money laundering • Data privacy • Human rights

Some managers also have their own methodologies for assessing the portfolios' ESG performance with respect to defined KPIs. This assessment is then used to define the bespoke action plans for each of them.

The indicators could be defined using the SDGs and the targets impacted by the portfolio company, and therefore measure the contribution to their achievement, by mitigating the negative impacts and enhancing the positive impacts of the firm's activities.

Alantra ESG Performance Tool

In 2019, Alantra PE launched an ESG reporting tool for the Alantra PEF III fund's portfolio companies, so as to have a standardized methodology for monitoring their ESG management. This has led to Alantra PE issuing its first "ESG Annual Performance Report", which outlines changes in the portfolio companies' performance and lays the foundations for the fund's future value-creation in ESG issues. This document has been shared with all current LPs. An ESG officer, responsible for monitoring these issues, has been designated in each Alantra PE investment team and each portfolio company. Likewise, in each manager there is a partner with general responsibility for ESG policy and practices, who liaises with the Head of Investor Relations.

Regular reporting on progress and material issues

In practical terms, integration of ESG issues must be combined with a regular accountability process, preferably linked to other Board reporting systems, so that not only ESG specialists have access to quantitative performance information on non-financial issues.

This periodic sustainability performance reporting can be tailored to the manager's own needs (ESG KPIs, established ESG objectives, internal ESG performance ratings or information requests from LPs and other stakeholders, etc.), or else consist of a sustainability report that follows a general reporting standard such as GRI.

In this respect, it is worth recalling what was discussed in the first part of this document, that in December 2018 the Spanish authorities passed Law 11/18, making it compulsory for certain companies to publish and independently verify specific information on their environmental, social and governance performance every year, and this may affect some of the firms in the portfolio.

It can also be interesting to back up this general sustainability reporting with other kinds of reports on specific subjects like environmental footprint or socio-economic impact; and with other tools for disclosing issues pre-defined as "relevant" (for example, environmental incidents, reputational crises or cases of corruption).

"For us, a key tool when making investment decisions are our funds' impact reports".

Esther Carrillo, Loreto Mutua MPS

IV. Divestment (exiting)

At this stage, it is important to highlight how much value has been gained thanks to the efforts made from the start to integrate ESG issues into management. ESG practices may become as important as other traditionally relevant aspects such as financial, fiscal or legal issues, as improved performance may help attract different investment flows, especially from long-term investors. In this respect, different tools can be put into practice, such as an ESG performance analysis, performance reporting or vendor due diligence.

ESG Performance Assessment

The point of departure involves analyzing the company's ESG performance between 6 months and 1 year before the selling process, to have enough time to take action before the transaction and be able to re-prioritize if necessary.

Performance Reporting

After the analysis, the next step can be to produce a report on the portfolio company's ESG performance, based on the established indicators and objectives. Depending on the exit method, the report can vary in its level of detail or comprehensiveness, and the information could be audited by an independent third party to make it even more robust, particularly when considering quantitative indicators.
At this point, another step that can be taken is to translate the environmental and social impacts into economic terms, that is to say, monetize the impacts.

> *"When the time comes to divest, not only do we strive to make the portfolio companies more profitable, but also better companies".*
>
> **Enrique Tombás, Suma Capital**

ESG Vendor Due Diligence (VDD)

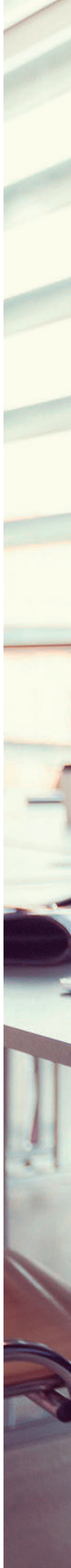
At this stage, some firms carry out an ESG due diligence to showcase all the actions taken since the start of the investment, in addition to reporting on the degree of progress in implementing them. The VDD should include information on the main risks identified and the mitigation plans in place, as well as the value-creation opportunities and the measures in place to seize them, so as to demonstrate and ensure there is potential for improvement and value-creation in the short- and mid-term.

Just like the process carried out at the investment stage, the VDD can include details around how the portfolio company has contributed to addressing the environmental and social challenges of its sector or region, and the efforts it has made to mitigate the negative impacts and boost the positives, taking advantage of the opportunities that the SDGs offer in this respect.

Integrating ESG in the transaction documents

There are different ways in how these issues can be incorporated in transaction documentation. For instance, the "comfort letter" can outline the different indicators and objectives proposed, as well as their level of achievement. This will showcase accountability and the progress made on the issues identified at the start and the results achieved throughout the investment life-cycle. The transaction memorandum can also list the ESG issues, not only including details of the advances made but also any fields where there is still room for improvement.

> *"For us, the exiting is the time to take stock of how effective we have been in our efforts to make our portfolio's companies better companies. The challenge now is to know how to communicate the improvements achieved during the holding period to our investors".*
>
> **Marisa González, Portobello Capital**



Annexes

Annex I. Sustainable Development Goals and the Private Sector’s role

The 17 Sustainable Development Goals and their 169 targets represent a global agenda for responding to the most relevant global challenges. While it is undeniable that the public sector still plays a key role in SDG achievement, the private sector can make a very significant contribution through its capacity for economic transformation and the environmental and social impacts of its activities.

This annex outlines the private sector’s role in achieving the SDGs, to make it easier to understand their importance in the current operational context and understand how organizations and their activities are aligned with SDGs.

Goal	What does it mean?	What can the private sector do?
1 FIN DE LA POBREZA	End poverty in all its forms.	Foster decent wages (higher than the minimum wage) throughout the company’s value chain. Create employment opportunities for vulnerable groups and develop inclusive and accessible business models that generate positive impacts on communities, developing countries and areas hit by social and environmental crises.
2 HAMBRE CERO	End hunger, achieve food security and improve nutrition and promote sustainable agriculture.	Support small producers, encourage sustainable practices in the primary sector supply chain and promote people’s access to healthy and sufficient food (food, health and well-being). Research and develop agricultural technology (equipment, biotechnology, irrigation and fertilizers). Carry out food bank collection campaigns.
3 SALUD Y BIENESTAR	Ensure healthy lives and promote well-being for all at all ages.	Promote the monitoring and control of workers’ health in all links of the value chain to improve the welfare of society as a whole through health and welfare programs in the company. Promote the adoption of decent working conditions throughout the value chain and create awareness campaigns on work culture and health prevention. Promote active health care providers in emerging markets.
4 EDUCACIÓN DE CALIDAD	Ensure inclusive and equitable quality education.	Develop continuous training schemes for employees and stakeholders. Scholarship programs for vulnerable groups or those at risk of exclusion. Generate more skilled and productive workers all along the value chain. Provide a foundation on which to build in the future in emerging countries by allowing better access to job and wage opportunities that allow for social climbing.
5 IGUALDAD DE GÉNERO	Achieve gender equality and empower all women and girls.	Foster policies and procedures to ensure the same employment rights and opportunities. Promote equal pay for men and women. Training schemes, work-life balance. Develop programs for the economic empowerment of women and girls for greater economic growth and social development.

Objetive	What does it mean?	What can the private sector do?
6 AGUA LIMPIA Y SANEAMIENTO	Ensure availability and sustainable management of water and sanitation for all.	Companies can measure their water footprint and bear water management in mind by reducing, reusing and recycling water safely, repairing leaks and implementing efficiency improvements.
7 ENERGÍA ASEQUIBLE Y NO CONTAMINANTE	Ensure access to affordable, reliable, sustainable and modern energy for all.	Encourage the use of renewal energy sources and check the energy efficiency of its activities. Develop an energy policy and adopt an energy management system. Promote affordable energy in local communities from renewable sources (installation of solar panels) and access to energy in basic infrastructures (schools and hospitals). Foster the development of energy storage systems.
8 TRABAJO DECENTE Y CRECIMIENTO ECONÓMICO	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.	Companies can assess their economic impact, check their policies on human rights and occupational risk prevention and ensure that they are respected throughout the supply chain. Promote productivity, the use of technology, entrepreneurship and education. Boost the local economy and culture through training, recruitment and development of local activities
9 INDUSTRIA, INNOVACIÓN E INFRAESTRUCTURA	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.	Review the value chain activity performance-related infrastructures, detecting any deficiencies and working to improve them locally (developing local communities and generating business opportunities for themselves). Include small and medium-sized enterprises in its supply chain. Encourage the use and development of efficient and sustainable technologies, including entrepreneurship training and Ph.D. degree students in developing R&D&I.
10 REDUCCIÓN DE LAS DESIGUALDADES	Reduce inequality within and among countries.	Ensure that workers are paid a living wage (including internships/grants) and establish an acceptable ratio between what the best paid executives and the worst paid workers earn, in order to promote social advancement through employment. Promote decent employment throughout the value chain, offering development opportunities, scholarships and social action or cooperation projects.
11 CIUDADES Y COMUNIDADES SOSTENIBLES	Make cities and human settlements inclusive, safe, resilient and sustainable.	Reduce its negative social and environmental impact by obtaining sustainable construction certificates for its assets and reducing emissions from transport. Choose to buy renewable energy, and to invest in technology, innovation and using resources efficiently. Encourage its employees to use public transport, flexible schedules, and company vehicles with efficiency criteria. Develop green areas and correctly manage water supply and waste water.
12 PRODUCCIÓN Y CONSUMO RESPONSABLES	Ensure sustainable consumption and production patterns.	Reduce the intensity of energy and resource use in production and operation, reducing the need for new resources and avoiding waste dumping by extending the life of products, repairing and recycling them. Promote tools for monitoring the value chain and its performance and ensure proper use, awareness and training in the principles of the circular economy.

Objetive	What does it mean?	What can the private sector do?
13 ACCIÓN POR EL CLIMA	Take urgent action to combat climate change and its impacts.	Reduce their greenhouse gas emissions (use renewable energy sources, follow efficient processes, use emission control and carbon capture/storage technology) and manage climate-related financial risks. Involve public authorities and other companies, promoting R&D&I and developing mitigation plans and awareness campaigns for the population and workers.
14 VIDA SUBMARINA	Conserve and sustainably use the oceans, seas and marine resources for sustainable development.	Encourage respect for underwater life-related regulations throughout the value chain, review the need for packaging of their products and identify opportunities to reduce, reuse and recycle. Respect ecosystems, promote sustainable urbanization on the coast and inland, and encourage the use of sustainable marine technologies.
15 VIDA DE ECOSISTEMAS TERRESTRES	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.	Assess its environmental impact, work to reduce it and build biodiversity conservation into its strategy. Respect environmental regulations, use environmental management systems, sustainable resources and encourage these practices in the supply chain, seeking sustainable supplies of soy, palm oil and wood/paper. Eliminate paper waste through reduction, reuse and recycling.
16 PAZ, JUSTICIA E INSTITUCIONES SÓLIDAS	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.	Respect Human Rights and comply with local laws governing tax and business practices in all countries where they operate, establishing a corporate code of ethics. Ensure that their supply chain does the same, promote the rule of law in the countries where they operate and assess their operations in conflict zones.
17 ALIANZAS PARA LOGRAR LOS OBJETIVOS	Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development.	Formalize a systematic approach for addressing one or some of the SDGs. Encourage partnerships with the public sector, civil society, universities and other organizations and address those common issues considered material within the organization or its partners. Train the employees and value chain in SDGs and render accounts on their SDG performance.

Annex II. Possible issues for consideration in an ESG Due Diligence

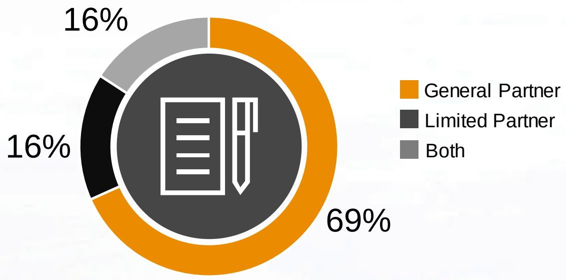
Below is a list of some of the main issues that can be taken into account in carrying out an ESG due diligence. This list will have to be tailored to each investment process, according to the industry, the regions of operation, the degree of maturity and ambition and the regulatory and sector trends.

Aspect	Issues to consider
Corporate Governance	• Corruption cases, policies and mitigation and prevention measures • Position regarding public policies, e.g. political donations and lobbying • Patterns of anticompetitive behavior • Board structure and roles • Remuneration of directors and officers • Organizational structure and distribution of responsibilities, especially in ESG • Business ethics • Relations with third parties (clients, collaborators, suppliers) • Existing corporate governance policies and procedures (corruption, conflicts of interest, bribery, money laundering, relations with stakeholders, transparency) • Identification, appraisal and monitoring of ESG risk and opportunity management • Programs in place to improve the company's ESG performance • Monitoring and reporting of ESG issues both internally and to stakeholders • Internal control systems • Endorsement of initiatives/associations • ESG-related certificates and standards
Environment	• Identification and assessment of environmental impacts (use of resources, waste generation, emissions, impact on biodiversity) and measures to mitigate negative impacts • Existing environmental policies and procedures (environmental management, climate change, biodiversity, use of resources, waste production, integration of environmental criteria in the processes, e.g. construction and refurbishment in Real Estate, etc.) • Climate change resilience • Anticipation of environmental regulatory and sector trends • Environmental expenditure and investment • Relations with third parties for improving environmental performance • Responsiveness to environmental incidents • Environmental innovation
Value Chain	• Approval and monitoring of suppliers in governance, social and/or environmental issues • Driving force forthe value chain • Relations with the value chain (channels, intensity of the relationship, standards and codes governing them, etc.) • Local supplier procurement policy • Collaborator training and awareness
Social	• Workforce profile (gender, age, categories, type of contract, etc.,) employee turnover and absenteeism • Talent attraction and retention strategy • Freedom of association and collective bargaining • Periods of advance notice for operational changes • Employee remuneration based on sector figures • Occupational health and safety compliance and performance • Training given to employees, especially on ESG issues and associated expenditure • Performance assessments • Diversity and equal opportunities • Human rights action approach • Existing social policies and procedures (remuneration and benefits, diversity and equality, training and development, health and safety, Human Rights, etc.) • Employee and subcontractor health and safety performance • Contribution to local employment at all levels • Investment in the community and involvement in stakeholder programs
Others	• Direct value generated and distributed • Public subsidiaries received • Donations or contribution to third-sector entities • Cybersecurity and data protection • Product and consumer safety

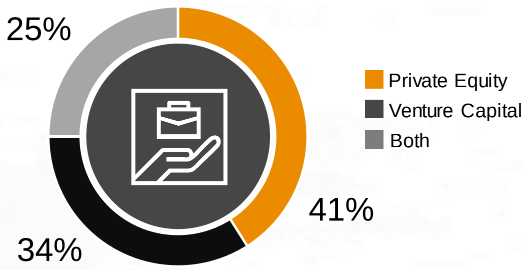
Annex III. Breakdown of survey participant profile

Listed below are the characteristics of the profile of the 32 firms that took part in the survey used to draw up the guide.

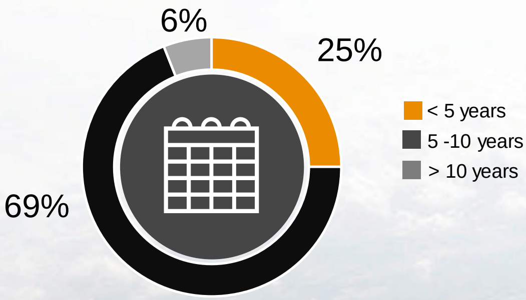
Type of Partnership



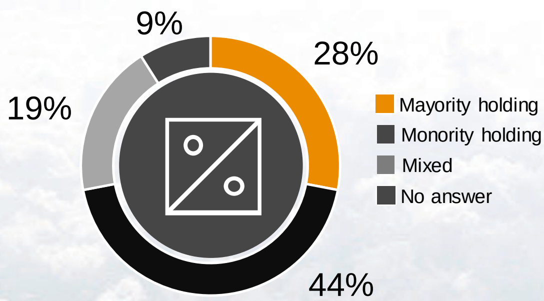
Investment Category



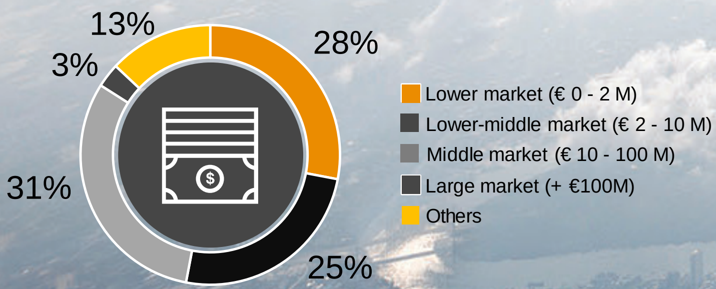
Average Investment Period



Investment approach



Controlling Interest Size



Annex IV. Additional information sources

- *A Guide to ESG Due Diligence for Private Equity GPs and their Portfolio Companies, Invest Europe,* 2018.
- *A practical guide to active ownership in listed equity,* UNPRI, 2018.
- *Applying enterprise risk management to environmental, social and governance-related risks,* COSO & WBCSD, 2018.
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- *Guide ESG Capital Investissement acteur du développement durable,* PwC, 2018.
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- *Integrating ESG in Private Equity. A Guide for General Partners,* UNPRI, 2014.
- *Integrating the SDG into Corporate Reporting - A practical guide and An analysis of the goals and targets,* PwC, 2018.
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- *Limited partners' responsible investment due diligence questionnaire,* UNPRI.
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- *The SDG Impact Practice Standards. Private Equity Funds,* UNDP, 2019.
- *Writing a responsible investment policy,* UNPRI, 2012.

Annex V. Acknowledgments

We are sincerely grateful to the 32 firms that have participated in the production of this guide. A special mention goes to the firms that have taken part in the consultation process, contributing reviews to the Guide and helping to create best practices.

- Abac Capital
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- Demeter Partners
- EQT Partners
- Loreto Mutua
- Miura Private Equity
- Nauta Capital
- Nazca Capital
- Oquendo Capital
- Portobello Capital
- Talde Private Equity
- Seaya Ventures
- Suma Capital

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