

Introduction

All funds need to have an environmental and social management system (ESMS) commensurate with the level of environmental and social (E&S) risks and impacts associated with current and potential portfolio companies and that takes into account the fund manager’s capacity and structure. It should be noted that an ESMS is more than a set of documents. It is the way in which a fund manager ensures that ESG aspects are well managed. The documents are just a part of the fund management system.

This section provides guidance on designing and implementing a ESMS.

A fund’s ESMS should include the following key elements:

- **E&S policy:** The framework for the whole management system. The policy should articulate the objectives and principles that guide the fund manager/fund, applicable requirements for the fund and portfolio companies, and accountability and responsibility for its implementation.
- **Roles, responsibilities and oversight:** A clear definition of who is responsible for developing and driving the ESMS and stating who will participate in each element of its implementation.
- **Procedures:** What needs to be done at the various stages of the investment cycle. These should be underpinned by specific tools to ensure consistent application.
- **Performance management:** A periodic review to refine and improve the systems. The fund will need to consider how, when, and by whom these reviews are undertaken.
- **External communication:** The fund should consider the variety of channels available to communicate with its limited partners (LPs) and other stakeholders about how the management system is functioning alongside the E&S performance of the portfolio.

Click the relevant heading on the sidebar to the right for more information about each element.

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