

1. Overview

All funds should have an effective system for monitoring and periodically reviewing the adequacy of their ESMS. In order to do this, appropriate records need to be kept, documenting the process followed for each investment and the progress made or challenges encountered. Reviewing the successes and challenges faced when implementing the ESMS can reveal important lessons and insights to improve the system and make it more effective. Continuous improvement is a key component of the ESMS.

When assigning roles and responsibilities funds should be clear about who will conduct performance reviews and how corrective actions/changes to the ESMS will be implemented and approved.

2. Guidance and advice

Fund managers should monitor the adequacy of their ESMS to ensure it is appropriate to deliver the fund's strategy and commitments, manage ESG matters and meet stakeholders' (e.g. LPs) expectations and requirements. Any deficiencies, including lack of capacity/expertise, should be addressed within a reasonable timeframe. Responsibility for monitoring the ESMS adequacy should be clearly identified.

- Elements of performance management
 - Evaluation of the E&S policy against changes in the fund's investment strategy, priority sectors, geographies, or shareholdings. In light of such changes, fund managers should evaluate whether the ESMS is still relevant, achievable and applicable, and revise the ESMS as appropriate.
 - Performance evaluations of people assigned responsibility for managing and implementing the ESMS. Fund managers should assess whether the people responsible for the implementation of the ESMS still have the capacity and commitment to continue successfully driving implementation of the system.
 - Processes to assess how thoroughly and consistently E&S issues are addressed by Investment/Portfolio Officers. Check whether screening memos, due diligence reports, investment memos, investment agreements and monitoring reports contain adequate and relevant information, with clear follow-up of key issues between documents demonstrating progress over time. It is useful to compare levels of detail between investment/Portfolio Officers and deal teams to identify

any gaps or inconsistencies.

- Mechanisms to get feedback from the various teams, which should follow the ESMS.
- Process to approve changes to the ESMS (may require LPs approval).
- Process to ensure the implementation of corrective actions to improve the system and to address the limitations/development areas identified. For example:
 - Additional training and awareness raising
 - Improving the oversight mechanisms
 - The inclusion of E&S performance in personal objectives
 - Improved tools and guidance
 - Additional use of consultants to advise the team
 - Peer-to-peer learning within the team
- Assessment of global trends in managing E&S issues in sectors in which the fund is active, as this will help to assess whether the ESMS should be revised and/or whether additional training should be provided. For example, an increased focus on transparency in the extractives sector could suggest that portfolios need to be more actively monitored in these sectors.