1. Overview

All funds should report to LPs (and potentially to other stakeholders) on the implementation of their ESMS and the E&S performance of their portfolio companies. It is fairly standard for this to be an annual report, although some fund managers also include E&S aspects in their quarterly reports. Many funds also increasingly use other communication channels to discuss E&S matters in a more proactive manner including ad-hoc calls or emails, Advisory Committee meetings, investor days and inviting investors on site visits etc. These help to build a mutually supportive relationship between the fund and its LPs.

2. Guidance and advice

- Disclosure of information during fund raising
  During fundraising, it is important that the fund manager discloses sufficient information on its E&S management to potential LPs, as this could attract LPs and/or expedite their due diligence process. A well-conceived E&S policy and a good ESMS will signal to a potential investor that the fund's approach and commitment are solid. Where the fund manager has a track record with other funds, information demonstrating how it has supported and enhanced its portfolio companies' management of E&S risks can offer good starting points for engagement with LPs. Investors may ask to see examples of due diligence, E&S coverage in legal agreements and ESG reports to LPs. As such, ensuring that progress on priorities identified during due diligence can be clearly followed through the document trail is important in demonstrating an effective system.

  However, some fund managers may not have fully designed an ESMS when they contact LPs. In these cases, LPs may be able to provide guidance to fund managers on how to develop it in alignment with LPs' expectations.

- Reporting to limited partners
  Many LPs (and all DFI LPs) require fund managers to report at least annually on the E&S performance of their portfolio companies and of the funds themselves. The purpose of this reporting is twofold. First, it allows LPs to assess how E&S improvements have been implemented within portfolio companies, what challenges may have been encountered and how these were addressed. Second, it offers an opportunity for LPs to check that the fund is still being managed in line with the E&S commitments made by the fund, and/or whether there have been any material changes

to the fund's portfolio, strategy, management or focal sectors to justify a change in scope of, or approach to, E&S management. Reporting should also address the steps the fund has taken to ensure continued implementation of its ESMS, such as additional training, recruitment, and partnerships with external advisors or re-assignment of internal responsibilities.

Reporting by fund managers to LPs typically incorporates the following information:

- Update on the implementation of the E&S policy, procedures and fund terms, as well as any changes or deviations. It should also outline plans for the following reporting period, including matters such as whether a review of the ESMS is planned and whether a training programme will be delivered.

- For each portfolio company, a summary of the following:
  - The situation at initial investment: This should include the E&S risks, impacts and opportunities identified, a summary of any ESAP, the inherent risk rating assigned to the company, and a judgement regarding the quality of the company's E&S management systems or ability to manage its E&S risks.

  - An update of progress during the reporting period, including milestones achieved (particularly those on the ESAP agreed with the fund manager), challenges encountered, responses to challenges, and any performance indicators that are being tracked such as number of lost time incidents, volume of water used, emissions of certain pollutants etc.

  - A summary of the priority actions for the following year. It should be easy to follow up on priority actions from the report one year to the next, with an update on progress made over the year and any discrepancies explained.

- It can also be useful to highlight the fund's role in helping the company to achieve milestones or identify new business opportunities, as well as highlight the effect of any sector or geographic trends that might affect it.

- Discussion of what incidents or accidents that occurred in portfolio companies over the reporting period, and whether/how these were appropriately reported, investigated and mitigated and how further incidents were prevented, including evidence to substantiate this.

  - Leading funds will discuss E&S-related developments that have occurred in the reporting period that could affect the implementation of the ESMS by the fund and the fund's management of portfolio companies. For example, heightened strike action in a particular sector to which the fund is exposed or political tensions regarding land or water rights. Leading funds might also highlight initiatives they have undertaken to share best practice between companies such as hosting training for them or facilitating the sharing of expertise between companies in related sectors.

  An example of a reporting template could be found here.

- Ongoing engagement with limited partners
  Fund managers should consider contacting LPs to get guidance on E&S management and have regular meetings or calls to discuss E&S performance. Ongoing communication enables a constructive and trusting relationship to be built up between fund manager and LP that can be mutually beneficial. Many DFI LPs, including CDC, welcome being contacted for advice regarding E&S matters (e.g. challenges faced by fund managers). DFIs can draw upon their experience and may be able to suggest solutions or possible ways forward — or put the fund in touch with others who might be able to help.

  An increasing number of fund managers incorporate E&S into their mainstream LP communications, including Advisory Committee meetings, investor days, site visits and quarterly reports, as E&S is increasingly seen as a material feature of the fund performance that should be reported together with other information. LPs typically welcome this.

- Public disclosure
  Some LPs now actively encourage funds in which they invest to report publicly on their approach to managing E&S issues in their portfolios in order to encourage public transparency in the investment sector. This is particularly the case in certain domiciles that have introduced recommendations or requirements for fuller disclosure, such as the UK Stewardship Code and the Code for Responsible Investment in Southern Africa (CRISA).

  This information should be included either in annual reports already prepared by the fund and/or on the fund manager's website. Reports should focus on providing a balanced, objective and complete snapshot of the fund's investments. To contextualise the reporting, information on the fund's ESMS should be included. Additionally, examples of how these E&S values and approaches have contributed to improving performance or mitigating risk in portfolio companies should be given.

- Reporting under PRI
  Membership of bodies or international initiatives may also trigger reporting requirements. For example, adoption of the UN PRI requires (after a one-year grace period) annual reporting against its framework, including mandatory public disclosure of some information.