

Screening and categorisation

ESG in the investment cycle

OBJECTIVES

- Confirm compliance with the fund's policy and basic requirements.
- Identify early key issues that may have a significant impact on the investment and/or DD process.
- Build a common understanding with the company of ESG requirements, risks and opportunities.
- Enable the fund manager to plan the ESG DD.

ACTIVITIES

ENSURE COMPLIANCE WITH EXCLUSION LIST

- Ensure all the investments comply with any applicable lists of excluded/prohibited activities.

ENSURE COMPLIANCE WITH KEY G&BI REQUIREMENTS

- Identify 'red flags' early. G&BI issues can significantly impact the ESG DD or breach the fund's policies and LP's requirements.

IDENTIFY KEY ESG RISKS, IMPACTS AND OPPORTUNITIES

- Identify the key ESG aspects of an investment and the applicable ESG standards (e.g. local regulations and IFC Performance Standards).

BUILD A COMMON UNDERSTANDING WITH THE COMPANY

- Build a common understanding of the key ESG aspects to be managed and assess the company's willingness and capacity to address them. Present the ESG business to the company.

CATEGORISE AN INVESTMENT'S INHERENT E&S RISKS AND IMPACTS

- Assign an inherent E&S risk/impact category to each investment. Take into account the company's (and subsidiaries') business plan, sector, technology, scale of operations, location, contractors and supply chain issues.

DEFINE THE SCOPE OF AND PLAN THE ESG DD

- Define key ESG factors to be assessed at DD and allocate the resources required to conduct an adequate DD.

OUTPUTS

- Identification of 'no go' issues and 'red flags'.
- Understanding of key ESG aspects of the investment.
- Assignment of an inherent E&S categorisation.
- Preliminary view of company's commitment and ability to manage ESG.
- Plan and budget for DD.
- ESG section in the screening memorandum prepared by the fund's deal team for the IC.

TOOLKIT RESOURCES

ESG in the investment cycle: screening and categorisation (includes an inherent E&S risk/impact categorisation system)

E&S checklist (select key questions)

G&BI checklist (select key questions)

Sector profiles

E&S topics

Business integrity

CDC guidance: Assessing companies' CCTR

CDC guidance: Working with management

CDC Code of Responsible Investing

Reference materials