

Ownership and monitoring

ESG in the investment cycle

OBJECTIVES

- Guide or assist the company to ensure its ongoing compliance with applicable standards, implementation of the ESG action plan and continuous improvement of ESG performance including value creation.
- Stay informed and respond to new developments and/or risks relevant to companies' ESG performance.
- Maintain and build a good working relationship with the company.

ACTIVITIES

BUILD ON THE RELATIONSHIP ESTABLISHED DURING DD

- Fostering an open and trusting partnership between the fund manager and the company is key to building value in the company.

DISCUSS KEY POINTS EARLY

- Companies may face some initial difficulties in getting ESG management systems in place. The fund manager should support the company.
- It is important to: (1) establish governance mechanisms for ESG; (2) revisit ESG DD findings; and (iii) discuss the monitoring process and key performance indicators with the company.

REGULARLY MONITOR: OVERSEE AND SUPPORT ON ESG MATTERS

- Regular monitoring includes activities that: (1) take place on an ongoing basis throughout the life of an investment; (2) are planned and structured; and (3) are recorded in standard reports. The main objective is to ensure that ESG factors are being properly managed. This can be achieved through: (1) regular meetings with companies to discuss ESG matters; (2) the review of ESG monitoring reports prepared by companies and other relevant information (e.g. ESG audits); (3) periodic assessment of companies' ESG performance and ESG action plan implementation; (4) site visits; and (5) engagement of consultants (if appropriate).
- Discuss ESG performance of portfolio companies at the fund's portfolio review meetings.

MANAGE UNPLANNED EVENTS

- Implement mechanisms to respond appropriately and swiftly to serious accidents (e.g. fatalities, local opposition to the company's activities), incidents or events, or other changes in the company's circumstances, to ensure that lessons are learned and applied in future.
- Serious incidents may need to be reported to various bodies (e.g. Company's Board, fund's LPs, regulators).

PREPARE FOR EXIT

- From the earliest phases of an investment, thought should be given to how ESG performance improvements can add value to a company. Towards the end of the investment, it is advisable to consolidate information in order to be able show how value creation has been linked to ESG matters.

OUTPUTS

- Greater value of each company partly due the fund's influence on, and support provided to, the company.
- Fund managers and LPs ongoing and appropriate oversight of each company's ESG performance.
- Companies' compliance with fund's ESG policies and related standards.
- Responsive and effective management of unplanned events (e.g. serious accidents).
- Good stakeholder relations, including companies and LPs.
- Records to demonstrate good ESG performance and compliance with the fund's policies.

TOOLKIT RESOURCES

ESG in the investment cycle:
Ownership and monitoring

E&S Checklist

G&BI Checklist

Sector profiles

E&S topics

Business integrity

CDC guidance: Site visits

CDC guidance: Specialist
E&S assessments

CDC guidance: Assessing
CCTR

CDC guidance: Working with
consultants

CDC Good Practice:
Preventing fatalities and
serious incidents

Reference materials

Abbreviations: CCTR, commitment, capacity and track record; ESG, environmental, social and governance; LP, Limited Partner.