

# INFRASTRUCTURE INVESTOR RESPONSIBLE INVESTMENT DUE DILIGENCE QUESTIONNAIRE

## ABOUT THIS DUE DILIGENCE QUESTIONNAIRE

The *Infrastructure Investor Responsible Investment Due Diligence Questionnaire (DDQ)* has been developed to help investors understand and evaluate infrastructure investment managers' approaches to integrating material environmental, social and governance (ESG) factors into their investment practices, and to understand where responsibility for doing so lies within the investment manager's organisation. An additional aim of the DDQ is to encourage a globally consistent approach to due diligence and ESG disclosure by infrastructure managers. The questionnaire is divided into four sections, covering managers':

- General approach towards responsible investment;
- Responsible investment processes before investing;
- Post-investment responsible investment processes; and
- Disclosure practices with regards to their responsible investment processes.

The DDQ was developed by the PRI with the help of its Infrastructure Advisory Committee. Further guidance was sought at workshops in Melbourne, New York and London attended by over 150 infrastructure investors, managers and advisors. The DDQ has been tailored specifically for infrastructure investors but is based on the PRI's [LP Responsible Investment DDQ](#), which was originally developed for private equity investors through extensive industry consultation with a global working group of LPs and GPs.

## WHY USE THE DUE DILIGENCE QUESTIONNAIRE?

All investors have different philosophies, drivers and liabilities which shape their decision-making processes. Infrastructure funds, sectors and assets also vary greatly. Convergence between infrastructure investors and managers on ESG management and disclosure is therefore best achieved through dialogue rather than checklists.

This DDQ seeks to act as a starting point for such dialogue by providing a baseline list of questions that investors can ask managers in the investment due diligence or pre-commitment phase. From this baseline, the PRI encourages investors to tailor a list of questions to suit their broader objectives and their strategy, size, experience and resources. The PRI hopes that uptake of this DDQ will help to streamline industry practices and curb the proliferation of different approaches which could ultimately become counterproductive for both investors and their infrastructure managers.

## HOW TO USE THE DUE DILIGENCE QUESTIONNAIRE

The DDQ should be seen as an important part of an investor's due diligence when looking to allocate capital to an external investment manager. It should not be considered in isolation, but rather used to support a wider information-gathering process that will enable investors to make the most informed decision possible about selecting an investment manager. Therefore, to support the questions in the DDQ, investors should:

- Consider what additional investor and industry-specific resources are available to enhance their understanding and analysis of investment managers' answers. For example, investors and managers might also refer to the private equity LP due diligence guidance document, LP Responsible Investment DDQ (2015);
- Consider whether it is appropriate to add additional questions to those included in the DDQ - for example, in relation to an investment's contribution to the Sustainable Development Goals - to ensure they receive as comprehensive and relevant answers as possible; and
- Engage with investment managers after receiving the completed questionnaire to seek additional information and clarification, where necessary, and to lay the foundations for ongoing dialogue.

Please note that the DDQ is designed to apply to managers investing via both unlisted infrastructure equity and debt vehicles. Where questions apply to managers of equity vehicles only, this is indicated at the start of the question.

## FURTHER READING FOR ASSET OWNERS / LIMITED PARTNERS

Below we list further (non-asset class specific) reading for asset owners.

[INVESTMENT POLICY: PROCESS & PRACTICE](#) – A guide to help asset owners revise and develop investment policy, incorporating long-term factors such as ESG considerations.

[ASSET OWNER STRATEGY GUIDE](#) – A guide to crafting an investment strategy which incorporates responsible investment considerations including context setting, vision and mission, investment principles, defining medium and long-term ambitions (e.g. financial returns and ESG outcomes), and implementation.

[ASSET OWNER MANAGER SELECTION GUIDE](#) – A guide on what ESG-related issues asset owners need to think about when looking to select an investment manager.

[DEVELOPING AN ASSET OWNER CLIMATE CHANGE STRATEGY](#) – A guide to help asset owners respond to climate change, including reducing emissions and identifying, monitoring and managing climate-related financial issues.

[THE SDG INVESTMENT CASE](#) – A guide to help investors understand the SDGs, the expectations placed on them by the SDGs, and why investors should actively seek to contribute to them.

## POLICY

### 1. WHAT ARE YOUR ESG-RELATED POLICIES AND HOW DO ESG FACTORS INFLUENCE YOUR INVESTMENT BELIEFS?

- 1.1 Can you provide a policy that describes your approach to identifying and managing ESG factors within the investment and portfolio management processes?
- 1.2 What plans do you have, if any, to further develop management of ESG factors?
- 1.3 Do you commit to any international standards, industry (association) guidelines, reporting frameworks or initiatives that promote responsible investment practices?
- 1.4 Do you make formal commitments relating to ESG integration and ESG restrictions in fund formation contracts, limited partnership agreements or in side letters when requested by investors?

## PRE-INVESTMENT

### 2. HOW DO YOU IDENTIFY AND MANAGE MATERIAL ESG-RELATED RISKS AND USE ESG FACTORS TO CREATE VALUE?

- 2.1 How do you define the materiality of ESG factors? Please give two or three examples of ESG factors that you have identified as material to assets in your most recent investments.
- 2.2 Describe your process for identifying and understanding, and provide an example from your most recent investments of: (i) potentially material ESG risks, including long-term risks, (ii) ESG-related opportunities and (iii) the time frame in which these come to play during due diligence.
- 2.3 Once identified, how might the identification of: (i) potentially material ESG risks and (ii) ESG-related opportunities impact the investment decision, for example by validating the decision, reducing the amount invested or declining the investment? Please give an example from your most recent investments.
- 2.4 How are ESG risks and/or ESG-related opportunities reported to, considered and documented by the ultimate decision making body, such as the Investment Committee?
- 2.5 Describe your approach to (and process for) understanding and managing ESG risks and opportunities at the portfolio level (e.g. carbon footprint of the portfolio, exposure of assets to extreme weather events due to climate change, etc.). How do you leverage ESG-related insights and best practices between assets within a portfolio?
- 2.6 During deal structuring, what is your approach to (and process for) integrating ESG-related considerations into transaction documentation and/or the post-investment action plan?
- 2.7 Please describe how: (i) oversight responsibilities and (ii) implementation responsibilities for ESG integration are structured within your organisation. Please list the persons involved and describe their role, position within the organisation and how they are qualified for this role. Please also describe any external resources you may use.
- 2.8 Do you provide training, assistance and/or external resources to your staff to help them understand and identify the relevance and importance of ESG factors in investment activities? If so, please describe what kind of training is provided.

## POST-INVESTMENT

### 3. HOW DO YOU CONTRIBUTE TO ASSET OR PROJECT COMPANIES' MANAGEMENT OF ESG-RELATED RISKS AND OPPORTUNITIES?

- 3.1 How do you assess that adequate ESG-related competence exists at the asset or project company level? How do you ensure that the management team for each asset devotes sufficient resources to managing ESG factors that have been identified?
- 3.2 What monitoring processes do you have in place on assets or project companies' management of ESG factors? Is the oversight of ESG-related risk, including long-term risk, included on the agenda of the asset or project companies' board meetings?
- 3.3 What data do you capture on ESG performance? How do you define ESG performance targets?
- 3.4 If you invest via equity vehicles: Give two or three examples of how you have contributed to management of ESG factors and stewardship for assets in your portfolio. If you invest via debt and/or equity vehicles: Specify any initiative(s) on which you worked with management, and/or which you supported, with the aim of achieving a positive ESG outcome. Alternatively, can you provide examples of initiatives the asset or project company was already undertaking that you identified as existing good practice?
- 3.5 Do you measure whether your approach to ESG factors has affected the financial and/or ESG performance of your investments? If so, please describe how you are able to determine these outcomes.
- 3.6 If you invest via equity vehicles: How do you use your interaction with the board to influence the management of ESG factors in each of your portfolio assets?
- 3.7 What is your approach to incorporating ESG considerations into preparations for exit and the post-exit phase?

### 4. HOW CAN INVESTORS MONITOR AND, WHERE NECESSARY, ENSURE THAT THE FUND IS OPERATING CONSISTENTLY WITH AGREED-UPON ESG-RELATED POLICIES AND PRACTICES, INCLUDING DISCLOSURE OF ESG-RELATED INCIDENTS?

- 4.1 Which channels do you use to communicate ESG-related information to investors? Can you provide samples of ESG-related disclosures from an earlier fund? If not, please indicate whether you would consider introducing ESG-related disclosures.
- 4.2 Is the management of ESG factors included on the agenda of the Limited Partners Advisory Committee, annual general meeting, and/or investor annual/quarterly updates?
- 4.3 Describe your approach to disclosing and following up on material ESG incidents to your investors.