

ESG MONITORING, REPORTING AND DIALOGUE IN PRIVATE EQUITY: AT A GLANCE

The aim of the PRI guidance on [ESG monitoring, reporting and dialogue in private equity](#) is to support an exchange of information, underpinned by dialogue, that will keep Limited Partners (LPs) informed about the ESG characteristics of their private equity investments and the responsible investment practices of their General Partners (GPs).

For a comprehensive understanding of what LPs and GPs are trying to achieve through this process and current practices in monitoring and reporting on ESG during the lifetime of the private equity fund, refer to the guidance document in full. Its objectives are to:

- Support LPs in developing their own monitoring practices and enhance their effectiveness
- Support GPs to anticipate and respond to increasing ESG-related monitoring requests from LPs
- Help facilitate dialogue and improve understanding between GPs and LPs on the topic of ESG disclosure through case studies and good practice examples

The most critical reason for monitoring funds on ESG performance is so that the LP can factor its analysis into investment decisions. GPs have emphasised the usefulness of having LP feedback on the ESG information that they report, which:

- Gives them a better understanding of their performance
- Supports internal objective-setting for their responsible investment activities
- Helps them to better understand the LP's responsible investment objectives and priorities

BEFORE YOU START

FOR LPS

- Prior to making the fund commitment, what ESG information, and at what frequency, did each of my GPs agree to give me?*
- What ESG information matters to my investments and stakeholders?
- What information do I need to monitor ESG within my fund(s)' portfolio(s)? Why is it important; and how often do I need it?

- Have I discussed my ESG information needs directly with my GPs?
- Have my expectations changed in terms of ESG information since making the fund commitment?
- Is the ESG information we request unique to our organisation?
- What additional resources (if any) will we need to process the information we receive from our GPs, and will we need to make any changes to our own internal procedures?
- How will the information be published and sent to investors? How will the information be used for future investment decisions? What feedback will I provide to GPs based on information collected?

FOR GPs

- What information did we agree to share with LPs during fundraising?*
- What information do I currently share with LPs? At what frequency?
- What information can I report proactively?
- What is the best method of reporting given the investors and type of fund?
- What information can and cannot be shared, and why?
- How can we ensure monitoring and reporting contributes to value protection and enhancement?

GPs may consider including a statement of purpose in their ESG reporting, articulating their approach and objectives for reporting. For example, if the GP focused on risk mitigation and/or value creation, or whether the GP thinks about ESG integration as sound overall business management, or whether it has a more fundamental sustainability goal.

*LPs and GPs are referred to PRI resources, [Limited Partners' Responsible Investment Due Diligence Questionnaire](#) and [Incorporating responsible investment requirements into private equity fund terms](#), for guidance on establishing expectations on ESG during fundraising and fund commitment.

ESG MONITORING AND REPORTING FRAMEWORK¹



I. POLICY, PEOPLE AND PROCESS

LP objective²: Establish if a GP is acting in a manner consistent with investment policies, processes, and agreed-upon fund terms regarding ESG management.

1.1 What updates have you made to your responsible investment policy/guidelines and/or strategy?

CORE

1.2 What changes have you made to how responsible investment is resourced and structured at the firm?

CORE

1.3 How has your responsible investment policy/guidelines and/or strategy been implemented?

CORE & **ADDITIONAL**

1.4 How does your firm manage the ESG aspects of its own operations (corporate responsibility)?

ADDITIONAL



II. PORTFOLIO

LP objective: Understand positive or negative ESG developments that may impact portfolio companies in the fund.

2.1 What is the ESG risk and opportunity profile of the portfolio companies in the fund? Have there been any changes to the ESG risk and opportunity profile of the fund in response to emerging ESG issues, and, if so, which ones?

CORE

2.2 How are ESG factors managed by the portfolio companies in the fund?

CORE & **ADDITIONAL**

2.3 Report specific ESG indicators for portfolio companies.

ADDITIONAL

2.4 Describe your approach to assessing the risks and opportunities that climate change poses to your portfolio companies.

ADDITIONAL

2.5 Describe your approach to assessing the environmental and social benefits created by your portfolio companies.

ADDITIONAL



III. MATERIAL ESG INCIDENTS

LP objective: Determine if responses to portfolio-level incidents and incident reporting are consistent with relevant investment terms, the fund's policies, and LP-stated objectives regarding incident disclosure.

3.1 Immediate notification of material ESG incidents.

CORE

3.2 Periodic summary of material ESG incidents.

CORE

CORE Disclosures elicit the key information that an LP can use to monitor their investments and assess the RI performance of their fund managers.

ADDITIONAL Disclosures support a more detailed understanding of RI performance.

This framework helps LPs to structure their monitoring requests and GPs to report information, with the aim to achieve consistency in LP-GP communication.

PRINCIPLES OF DISCLOSURE

- Report on a whole fund basis, and report information relevant to the specific fund that the LP is invested in.
- Ensure the boundaries of the reported information are clear, and that the information is materially relevant.
- Disclosed information should be:
 - Accurate and credible
 - Balanced and objective
 - Clear and accessible
 - Comparable and consistent
 - Complete and timely
- Where possible, the ESG reporting process should be aligned, and where practicable integrated, with the fund's financial reporting cycle, rather than operating on a separate timeline.
- Allocate responsibilities and oversight for ESG reporting.
- Consider what format and frequency of reporting is needed for the different types of disclosure.
- Maintain LP-GP dialogue on ESG reporting in order to communicate/anticipate any changes in LP reporting requirements.

¹ An Excel version of the Framework is available on the private equity page of the PRI website.

² The Limited Partner Objectives are from Section 2 of the ESG Disclosure Framework for Private Equity, published in March 2013.