

# THE PRIVATE DEBT INVESTOR ESG DUE DILIGENCE QUESTIONNAIRE

The Private Debt Investor ESG Due Diligence Questionnaire (DDQ) is designed for use by indirect investors (i.e. Limited Partners or asset owners) when assessing potential private debt managers. The intention is for those investors to integrate the following questions into their standard due diligence questionnaires to help them understand and evaluate a manager's approach to integrating material ESG factors into their investment practices and to understand where responsibility for doing so lies within the investment manager's organisation. Investors are encouraged to tailor the list to suit their objectives, and to incorporate it into commercial due diligence processes.

The DDQ acknowledges that what constitutes effective and relevant disclosure can be defined only through discussions between an investor and a manager, due to both the diverse nature of the private debt asset class and differing approaches to ESG management and disclosure among investors and managers.

## POLICY & GOVERNANCE

1. **What are your ESG-related policies and how do ESG factors influence your investment beliefs?**
  - 1.1 Please provide a copy of your 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?
  - 1.5 Does the investment manager annual employee performance review or remuneration metrics reflect any component for the inclusion of ESG?
  - 1.6 Who is directly responsible for setting the ESG incorporation strategy and framework for the fund/mandate?
  - 1.7 What is your process and frequency of any formal review of responsible investment policies and practices?

## PRE-INVESTMENT

### 2. How do you identify and manage material ESG-related risks?

- 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 long-term material factors to investments in your most recent fund or mandate.
- 2.2 Describe your process for identifying and understanding: (i) potentially material ESG risks, including long-term risks and (ii) the time frame in which these come into play during due diligence. Please give an example of where you have identified ESG risks from your most recent fund or mandate.
- 2.3 Once identified, how might the identification of potentially material ESG risks impact the investment decision, for example validating the decision, reducing the amount invested or resulting in declining the investment? Please give an example from your most recent fund/previous role for new funds.
- 2.4 Describe your process of engagement with the (private) equity sponsor or co-lending parties on existing ESG integration processes. How do you ensure alignment in ESG strategy and negotiate commitments in transaction documentation?
- 2.5 How are ESG risks reported to, considered and documented by the ultimate decision making body, such as the Investment Committee?
- 2.6 Describe your approach to (and process for) understanding and managing ESG risks (e.g. carbon footprint of the portfolio, borrower's exposure to environmental or social regulatory risks etc.). How do you leverage ESG-related insights and best practices between assets within a portfolio?
  - 2.6.1 Does the investment manager assess the exposure of its fund(s) to climate risk, and measure and monitor the carbon footprint of its investment portfolio?
- 2.7 During deal structuring, what is your approach to (and process for) integrating ESG-related considerations into lending terms and/or on-going monitoring of a borrower?
- 2.8 Please describe how: (i) oversight responsibilities, and (ii) implementation responsibilities for ESG integration are structured within your transactions. Please list the persons involved and describe their position within the organisation and how they are qualified for this role. Please also describe any external resources you may use.
- 2.9 Do you provide training, assistance and/or external resources to your deal team 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 a borrower's management of ESG-related risks and opportunities?

- 3.1 How do you assess that adequate ESG-related capability exists at the borrower level? How do you ensure that the management team for each borrower devotes sufficient resources to managing ESG factors that have been identified?
  - 3.2 What monitoring processes do you have in place on a borrower's management of ESG factors? Is the oversight of ESG-related risk, including long-term risk, included on the agenda of regular meetings with the borrower's management?
  - 3.3 What data do you capture on ESG performance? How do you define ESG performance targets?
  - 3.4 Specify any initiative(s) on which you worked with the borrower's management or private equity sponsor to identify and instigate, and/or which you supported, the borrower to achieve a positive ESG outcome. Alternatively, can you provide examples of initiatives the borrower was already undertaking that you identified and/or supported as existing good practice?
  - 3.5 Do you measure whether your approach to managing ESG considerations has affected the financial and/or ESG performance of your investments? If yes, please describe how you are able to determine these outcomes.
  - 3.6 Do you exchange ESG insights with related stakeholders (e.g. co-lenders or private equity sponsors)? Give an example how collaboration led to an ESG initiative supported by the borrower's management?
  - 3.7 What is your approach to incorporating ESG considerations into preparations for repayment or refinancing, and the post exit phase?
- ### 4. How can investors monitor and, where necessary, ensure that the fund or mandate 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 or mandate? 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.