22 January 2018

On behalf of the Public Affairs Executive (PAE) of the EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY

Response to the European Commission public consultation on "Institutional investors and asset managers' duties regarding sustainability"

I. Questions addressed to all respondents

a) General overview

1.	Do you think relevant investment entities should consider sustainability factors in their investment decision-making? Yes – No - No opinion Please explain the reasons.

Invest Europe response:

Yes.

- Invest Europe supports the European Commission's work to ensure that material sustainability factors are assessed, consistently taken into account and disclosed by institutional investors and asset managers. However, there are two important topics that ought to be considered and addressed:

    1. It is crucial that an accepted definition of "sustainability" (e.g. Brundtland report) is used and the scope captures *all* aspects of sustainability (climate change, environment, social *and* governance). Policymakers should be careful not to favour certain components over others, thus creating distortions and new forms of unsustainable finance.

    2. There needs to be clarity on what is meant by the concept of "material" sustainability. We would assume that this encompasses material *business risks* (e.g. operational risks or sustainable supply chain risks) as well as material *opportunities* (e.g. new or disruptive sustainability services or technologies). Even disruptive/beneficial technologies can present material sustainability risks/opportunities that need to be understood and managed.

- We recognize the (fiduciary) duty of institutional investors and asset managers to incorporate sustainability factors in their investment decisions and monitoring as such factors may have a long-term impact on value creation, performance and destruction, and/or where beneficiaries on whose behalf the investor or manager is acting may have actively indicated that sustainability should be taken into account.

Sustainability factors are also manifest through financial measures and therefore their management is entirely consistent with the exercise of fiduciary duty in the same way that any other risk or opportunity impacting financial performance should be addressed. "Sustainability" should be seen as one of many factors to be taken into consideration for a business decision, which should always serve the interest of the person to whom fiduciary duties are owed. Indeed, while we agree that sustainability should be recognised/defined as a legitimate purpose, it is important that investment entities respect (i) the specific contractual obligations and agreements and (ii) the basic principle that all business decisions and actions need to be taken in *the best interest* of the persons to whom a fiduciary duty is owed (e.g. the fund or the clients).

However, it is up to asset managers and asset owners (the two groups are not the same) to decide and agree on *how* they consider sustainability factors in their investment decision-making given that they might have different (responsible) investment approaches (practices, policies and processes), clients (retail & institutional) and beneficiaries, and operate under different (national) legislation. They should be (made) *transparent* about their approach towards their clients and other stakeholders.

- Further thought should also be given as to whether to pursue non-legislative or legislative action. Recognising that both options have merits, there are some issues that ought to be considered:

  1. We believe that the Commission's work could be valuable so long as it is *permissive* (i.e. it clarifies that *all types* of asset managers *may* take account of sustainability considerations as part of their fiduciary duties) and *provides guidance* (perhaps pointing to evidence that sustainability issues are likely to have a positive impact on long-term value);

  2. Actual legislation if, ultimately, required will need to be carefully thought through to ensure it is fit for purpose, practical and workable within a private equity context. Hence, we especially welcome the Commission's systemic approach and objective to understand both the individual and cumulative effects of any potential policy options;

  3. As these are still relatively early days in the integration of sustainability in fiduciary duty, a legislative approach risks hard-wiring solutions that might not ultimately be the best.

- Finally, asset managers (and the financial sector more generally) cannot be expected to deliver a sustainable economy *on their own*. If tax and regulatory policies better reflect the full social costs of certain activities, then it will be much easier for asset managers to allocate resources in a way that is sustainable but they need those signals to come from public policy.

2. What are the sustainability factors that the relevant investment entities should consider? (Please make a choice and indicate the importance of the different factors (1 is not important and 5 is very important). (Please refer to the definition in the Glossary).

Invest Europe response:

	Yes	No	No opinion
Climate factors (these include climate mitigation factors as well as climate resilience factors)	X		
Other environmental factors	X		
Social factors	X		
Governance factors	X		
Others (please specify)			

Importance for:

	1	2	3	4	5
Climate factors				X	
Other environmental factors				X	
Social factors				X	
Governance factors				X	
Others					

Please specify, which specific factors within the above categories you are considering, if any:

Invest Europe response:

- Each of these factors can be (very) important. However, as alluded to above, we would emphasise the importance of addressing and working towards sustainability with a 'whole economy' approach. The aim should be to foster a broad mindset, which truly embraces *all* principles of ESG albeit the level of importance/relevance has to be considered in each specific case. Sustainability cannot and should not be broken apart into different components - it has to be integrated from the beginning and there should be no trade-offs between the different elements of sustainability in a broader sense.

- Moreover, the choice and assessment of the importance of ESG factors will vary from one investment entity to another. What is relevant for a certain investment entity may not necessarily be important for another. Not all factors will likely have the same impact for the concerned stakeholders. A strong governance function for example will facilitate the identification and management of other sustainability factors that are relevant for a certain investment. Also materiality may differ depending on the ESG issue in question, the timeframe, the investment practice and strategy, market, country, and company.

- From a pure private equity perspective, there are two documents produced by Invest Europe which include more information on the kinds of (general and specific) ESG issues in relation to the management of the fund's portfolio companies that should/could be taken into account by private equity fund managers:

1. the Invest Europe 2015 Professional Standards Handbook - This includes concrete information on the responsible investment and ESG risks and opportunities that should be considered and reflected in the different stages of a private equity fund's life, from early-stage planning and fund management to making investments and portfolio management:

   Environmental

   - Environmental risks could concern a range of factors including resource use/depletion, water scarcity, waste production and disposal; emissions to air, land and water; energy use, cost of carbon and climate change; biodiversity and habitat conservation.
   - Conversely, environmental opportunities may include energy (or other resource) efficiencies, waste reduction or the development of new products with positive environmental attributes (e.g. using timber labelled as being from sustainably managed forests).

   Social

   - Social factors are those that affect the workforce, customers, suppliers and communities of a portfolio company. These can include stakeholder dialogue and human rights issues, such as the right of association and freedom to bargain collectively, observance of core labour standards in areas including health and safety, child labour, illegal or forced labour, employment of migrant labour, trade union rights and discrimination in the labour market.
   - Managed badly, social factors can give rise to risks to brand and reputation (e.g. a key supplier attracting negative publicity for poor labour practices), to the attraction and retention of high quality staff, and to productivity (e.g. strikes at production facilities). There may also be legal consequences for the company and its directors.

   Governance

   - Risk factors related to corporate governance at the prospective portfolio company include fraud, bribery, corruption and other breaches of legal rules applying to the company. Poorly structured incentivisation packages can also adversely affect governance.

2. the Invest Europe ESG Due Diligence Questionnaire for Private Equity Investors and their Portfolio Companies - This covers a range of questions in relation to ESG factors that can impact the performance of a portfolio company and/or an investment, including the private equity fund manager itself.

ESG/Sustainability governance

- Maturity of ESG policies, systems and processes
- (Standalone) ESG policy
- Resources (roles & responsibilities) - a designated point person for day-to-day ESG matters
- (ESG) Improvement programme and implementation
- Competence and training, including ESG training to staff
- Materiality assessment
- ESG committee/steering group
- ESG risk register
- Corporate risk register
- Standards, certifications and member associations
- Monitoring & reporting of ESG issues and performance
- Audit and review of ESG processes and systems
- Memberships of relevant organisations
- Reputation risk assessment

Environment

- Environmental policy (commitments and targets), including its review and update
- Chemicals/hazardous substances handling & supply chain/production process
- Organisational arrangements/resources
- Soil and groundwater contamination, including remedial plans
- Environmental induction/training
- Risk & opportunity assessment
- Certification/standards for environmental management system
- Environmental permits/licences/consents
- Environmental improvements (in terms of performance, standards and compliance)
- Carbon and other GHG emissions (baseline assessment and measures)
- (Compliance with) Permits/licences/consents
- Organisational arrangements/resources, including third party specialists
- Incidents/(regulatory) breaches
- Emergency preparedness and response (environmental and safety incidents)
- (Monitoring and reporting of) Carbon emissions / (Risk assessment of) Climate change
- Product Stewardship
- Resource efficiency/ management (including primary energy, waste, water)
- (Sustainability performance of) Supply chain

- Waste management
- Financial provisions (to address environmental liabilities)

Social

- Health and Safety (H&S) Policy, including risk register and risk assessments, and management system
- Supply chain risk assessment and management
- Accidents/incidents
- Safety culture (review and improvement actions)
- Enforcement
- Modern slavery/Human rights/Child labour (policies and processes to identify, assess and address risks across the company and its supply chain)
- Social related claims, complaints and enforcement actions
- Insurance/Compensation policy (including employee industrial injury claims)
- Human Resources, covering *inter alia* employment practices, contracts, age, grievance mechanism, wage standards
- Community investment and stakeholder engagement programmes
- Anti-discrimination policy
- Freedom of association and collective bargaining (worker representation)
- Diversity and equal opportunity policy
- Compliance with International Labour Organisation (ILO) standards and HR policies
- Data privacy and security (including cyber security)
- Supply chain
- Certification/standards, including IT security management system
- Consumer health and safety
- Responsible purchasing policy
- Community involvement

Governance

- Corporate governance (management)
- (Corporate) Code of Conduct
- Board structure and role, including diversity
- Gifts and corporate entertaining policy
- Corruption/fraud detection and resolution
- Audit Committee
- Breaches/enforcement, including litigation actions
- Whistle-blowing policy, including the resolution of grievances

- Ethics in business activity
- Executive compensation (performance and pay ratio)
- Anti-bribery or anti-corruption (ABC) policy, including training and due diligence

3.	Based on which criteria should the relevant investment entities consider sustainability factors in their investment decision making? Please explain.

Invest Europe response:

- The Invest Europe Professional Standards Handbook notes that investing responsibly helps ensure that a [private equity fund manager] is doing no harm to the industry, the portfolio companies and their stakeholders. While Invest Europe appreciates that the search for "criteria" against which to judge ESG factors seems to be a valid concern for regulators, we believe that this would be a challenging exercise. There are no criteria that would facilitate the evaluation of ESG factors for all investments on a consistent basis, as each investment needs to be considered qualitatively on its merits. That is, a given ESG issue may be material for one investment and immaterial (or less material) for another.

- Certain sectors and countries of operation may carry differing levels of *inherent* environmental and social risk. The purpose of risk evaluation is to judge how well management is managing these inherent ESG risks. Existing global responsible investment guidelines are often used by investors to frame ESG expectations, for example the UN Global Compact's Ten Principles. Particularly in countries where protection from environmental and social regulation cannot be relied upon (because it does not exist, is insufficient, or the standard of enforcement is poor), many members will also rely on the IFC Performance Standards for their "criteria", as being the minimum or floor for standards. We refer to the Invest Europe Responsible Investment Bibliography that compiles many relevant guidelines and best practice examples for the private equity industry, available on the Invest Europe website.

- From a pure private equity perspective, the Invest Europe Professional Standards Handbook sets out the industry's recommended approach to responsible investment from the point of view of both *the fund manager* (the one operating the fund – in industry jargon, often referred to as the General Partner or GP) and – albeit to a lesser extent – *the investor* (the one investing into the fund - in industry jargon, often referred to as the Limited Partner or LP). Generally, private equity fund managers are expected to support a prudent and sustainable approach, and to influence the management of ESG risk and opportunity factors in portfolio companies so as to reduce risk and/or create value, with a view to long-term sustainable change.

  Private equity fund managers consider sustainability factors where and when they are relevant (and material) to their portfolios. How and why depends on who they are, who their beneficiaries are, etc. Hence, materiality/relevance should be considered in each specific case.

4. Which of the following entities should consider sustainability factors in their investment decision-making? (Possibility to select several answers).

If so, please indicate the level of impact that this would have (1 is the smallest impact and 5 is the highest impact).

Invest Europe response:

	Yes	No	No opinion
Occupational pension providers	X		
Personal pension providers	X		
Life insurance providers	X		
Non-life insurance providers	X		
Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)	X		
Individual portfolio managers	X		

Level of impact:

	1	2	3	4	5
Occupational pension providers				X	
Personal pension providers				X	
Life insurance providers				X	
Non-life insurance providers				X	
Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)				X	
Individual portfolio managers				X	

Please explain.

Invest Europe response:

- First of all, we strongly believe that the approach to assess the *level* of impact, as mentioned in this question, needs to be reconsidered. The level of impact on/of the investment decisions of different institutions will depend on the *nature and location of the investee*, not the type of provider.

- While we support that the above-mentioned investment entities should take into account sustainability factors as part of their fiduciary duties, we would note that one single solution, disregarding the breadth and variety of practitioners, perspectives and market practices covered by the target audience of "institutional investors and asset managers", would not be appropriate.

  Especially in a broader context of a diversified portfolio, the European Commission should take account of the nature of the investment portfolios of different institutional investors and specific characteristics of different asset classes when potentially prescribing how to integrate sustainability in *pre-investment* and *post-investment* periods.

  Private equity firms, for example, have a specific business model that is focused on identifying and managing key opportunities and risks, including those related to ESG factors, in their investment portfolios. Through their model of active management of their portfolio companies and ability to influence and direct management through their often controlling shareholding, private equity firms are particularly well suited to integrating and managing ESG matters.

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b) Problem

5. To your knowledge, what share of investment entities active in the EEA (European Economic Area) currently consider sustainability factors in their investment decisions?

Invest Europe response:

Invest Europe does not have the necessary data to answer this.

	All or almost all	More than two thirds	More than half	More than a third	None or almost none	No opinion
Occupational pension providers						
Personal pension providers						
Life insurance providers						
Non-life insurance providers						
Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)						
Individual portfolio managers						

6. To your knowledge, which is the level of integration of sustainability factors by the different investment entities (active in the EEA)?

Invest Europe response:

Invest Europe does not have the necessary data to answer this.

	High integration	Medium integration	Low integration	No integration	No opinion
Occupational pension providers					
Personal pension providers					
Life insurance providers					
Non-life insurance providers					

Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)					
Individual portfolio managers					

7. Which constraints prevent relevant investment entities from integrating sustainability factors or facilitate their disregard?

   Please provide the importance of the different constraints that you consider relevant (1 is not important and 5 is very important).

<u>Invest Europe response:</u>

	1	2	3	4	5	No opinion
Lack of expertise and experience					X	
Lack of data/research				X		
Lack of impact on asset performance			X			
Inadequate methodologies for the calculation of sustainability risks			X			
Inadequate sustainable impact metrics			X			
Excessive costs for the scale of your company				X		
No interest from financial intermediaries			X			
No interest from beneficiaries/clients			X			
European regulatory barriers		X				
National regulatory barriers		X				
Lack of fiscal incentives		X				
Lack of eligible entities	X					
Others (please specify)						

Please provide more details on what the constraints/reasons are and how they limit the integration of sustainability factors:

Invest Europe response:

Invest Europe is not in a position to quantify the share of investment entities active in the EEA that currently consider sustainability factors in their investment decisions, or to assess the level of integration of sustainability factors by the different investment entities. While the industry is advancing rapidly in this area, not every practitioner in the private equity industry will be as advanced in its consideration and application of ESG policies and procedures. The depth and scale of implementation and integration can vary.

Based on the experience of those members who are considering ESG as part of their investment decision-making, we have identified the above constraints. Within that context:

- It is important to stress that not all relevant investment entities will be faced with the same constraints or to the same extent.
- The lack of data/research and available resources, in particular in case of smaller private equity firms, and the lack of knowledge (related to the former) constitute a barrier.
- Other constraints include:
    - differing levels of interest in the topic within the investor base (e.g. for smaller fund managers with a large non-institutional investor base);
    - differences between different EEA regions.

8. How challenging is it for relevant investment entities to integrate the different sustainability factors? (1 is not challenging and 5 is very challenging) Please refer to the definition in the Glossary).

Invest Europe response:

	1	2	3	4	5	No opinion
Climate factors *(these include climate mitigation factors as well as climate resilience factors)*				X		
Other Environment factors			X			
Social factors			X			
Governance factors			X			

Others (please specify)						

Please explain.

Invest Europe response:

Our above rating is based on the following:

- 4 for climate risk: The TCFD (FSB Task Force on Climate-related Financial Disclosures) call for scenario analysis is new for all and therefore challenging.

- 3 for environment: Mature now, with over 20 years of experience in some sectors.

- 3 for social: Some elements are only now emerging, such as forced labour, diversity and gender pay gap, while others are more established, e.g. human rights, health & safety.

- 3 for governance: Again, mature in the sector's experience of evaluating/managing it - other than more recent elements such as data security/GDPR, anti-bribery and corruption measures. Worth noting also is that the private equity ownership model lends itself well to good corporate governance practices at the portfolio company level.

In addition, it is important to keep in mind that:

- the areas identified above contain a broad range of factors and can have different 'sub' ratings. Especially in case of emerging issues, investors may find it more challenging to integrate these as they lack experience in assessing how their investment entities are impacted; and

- the number of new and complex ESG issues to deal with increases constantly (for example, cyber security). They require specialized knowledge and expertise that private equity investors might not have in-house.

In any case, in light of the above challenges, we should note that not every practitioner in the private equity industry will be as advanced in its consideration and application of ESG policies and procedures. Over the last few years, Invest Europe and other industry associations, international organisations and financial institutions have produced several pieces of guidance on responsible investment in private equity, aimed at promoting and increasing awareness and spreading/disseminating best practice among fund managers **and** investors. Examples include:

1) the PRI's "Integrating ESG in private equity - A guide for General Partners", which aims to provide practical guidance on how fund managers can develop a framework for the integration of ESG factors within their organisation *and* investment cycle;
2) the PRI's "Responsible investment in private equity – A guide for Limited Partners," including substantive guidance for how an investor might integrate ESG considerations into (a) investment policy and investment decisions, (b) ownership activities (i.e. monitoring and engagement), and (c) the disclosures sought from a fund manager and underlying portfolio companies;

3) the Environmental, Social and Corporate Governance (ESG) Disclosure Framework for Private Equity, which sets forth due diligence and disclosure questions;
4) the PRI's Guidance on Incorporating ESG Provisions in Fund Terms, including guidance on what to consider when negotiating the terms of a private equity fund, in particular identifying current and emerging best practice, as well as potential constraints, and offering practicable options to investors and fund managers that are considering how they might incorporate responsible investment into fund terms;
5) the PRI's Limited Partners' Responsible Investment Due Diligence Questionnaire, which aims to help investors understand and evaluate a fund manager's processes for integrating material ESG factors into their investment practices and to understand where responsibility for doing so lies; and
6) the Invest Europe ESG Due Diligence Questionnaire for Private Equity Investors and their Portfolio Companies, which aims to help fund managers gauge how advanced a portfolio company is with its ESG policies and reporting.

For a comprehensive overview, please see the Invest Europe Responsible Investment Bibliography.

c) Policy options

9. In which area should relevant investment entities consider sustainability factors within their investment decision-making? Please make a choice and indicate the relevance of the different areas (1 is minor relevance and 5 is very high relevance).

Invest Europe response:

	Yes	No	No opinion
Governance	X		
Investment strategy	X		
Asset allocation	X		
Risk management	X		
Others (please specify) In all areas mentioned above as sustainability factors are highly relevant within each and every one of them. Potential additional areas could be: value creation and ownership/ stewardship, in line with the private equity business model.	X		

Relevance for

	1	2	3	4	5
Governance				X	
Investment strategy				X	
Asset allocation				X	

Risk management				X	
Others Value creation Ownership/stewardship				X	

10. Within the area of governance, which arrangements would be most appropriate to enable the integration of sustainability factors? (1 is not appropriate and 5 is very appropriate).

Invest Europe response:

	1	2	3	4	5	No opinion
Specific sustainability investment Committee						X
Specific sustainability member of the Board						X
Sustainability performance as part of remuneration criteria						X
Integration of sustainability factors in the investment decision process					X	
Integration of sustainability checks in the control process					X	
Periodic reporting to senior management/board					X	
Others (please specify) While all of the above would/could be appropriate to some extent, it is worth noting that a certain level of discretion should be left with the investment entity. Final arrangements will vary on a case-by-case basis, taking into account the specificities of the investment entity at hand (size, investor type, legal structure, jurisdiction, etc.). In addition, if the aim is that ESG becomes an integrated mindset rather than a stand-alone issue, none of the above actions (taken individually or together) should lead to following a check-the-box approach to sustainability, rather than an integrated approach.						

11. Should insurance and pension providers consult their beneficiaries on an annual/periodic basis on their preference as regards sustainability factors? Yes – No – No opinion Please explain.

Invest Europe response:

Invest Europe is not in a position to form an explicit opinion on this. However, there are two issues that ought to be taken into account:

- We would suggest not considering this as a separate exercise. The periodic requirement should be the same and part of any mandatory recurring desired risk level review and/or KYC (Know Your Customer).
- Importantly, any duty to consult and pay attention to the preferences of beneficiaries should be seen as separate from the duty to consider ESG issues that can be material to investment risk and return.

12. Within the portfolio's asset allocation, should relevant investment entities consider sustainability factors even if the consideration of these factors would lead to lower returns to beneficiaries/clients in the medium/short term? Yes – No – No opinion Please explain.

Invest Europe response:

Yes.

Primarily from the perspective of a manager of a private equity fund:

- Financial performance and sustainability can go hand in hand and should not be mutually exclusive. It is not clear why consideration of sustainability factors would lead to lower returns to beneficiaries/clients in the medium/short term*. Given their importance and relevance (as stated above) they should always be considered. However, any explicit decision to favour one criteria over the other should be clearly communicated to stakeholders — or the longer term value be emphasised as the objective.
- The private equity investment model is there to build long-term sustainable value. This will not be possible if ESG matters are not considered and do not form an integrated part of the investment decision and operational value creation and preservation agenda/strategy.

  Private equity investors' expertise lies in analysing information to identify attractive, long-term investment opportunities. The assessment of the responsible investment policies for compliance with the investor's own expectations is a part of the decision process for many.

* If and where it were to lead to a negative impact on medium and short-term returns, this may be acceptable if (over)compensated by adequate long-term returns.

13. Within the area of risk management, does the current set of corporate disclosures provide the relevant investment entities with adequate information to perform sustainability risk assessments in respect of investee companies?

    Yes – No – No opinion

    Please explain where the possible gaps are, if any:

Invest Europe response:

No. More thorough analysis is usually required.

- There exists a lack of data and what is available and used by private equity investors is still largely qualitative by nature. The lack of standardization at all levels makes it even more challenging.
- Private companies are mostly targets of private equity activity and many of them do not produce sustainability data, so fund managers are often the catalysts for such reporting to be instigated.
- The availability of sustainability data varies widely between companies but private equity firms typically have the opportunity to do in-depth due diligence, in which sustainability aspects can be further investigated/analysed.

14. Do the overall information or risk metrics available enable the relevant investment entities to adequately perform sustainability risk assessments?

    Yes – No – No opinion

    Please explain where the possible gaps are, if any:

Invest Europe response:

No. It is worth mentioning though that often material sustainability risks will have been uncovered during due diligence and could hence be considered in an overall risk assessment.

Overall, however, there exists a lack of data and what exists and is being used by private equity investors is largely qualitative by nature.

15. Do you think that uniform criteria to perform sustainability risk assessments should be developed at EU level?

    Yes – No – No opinion

Please explain.

Invest Europe response:

No.

One size does not fit all, and the approach required will depend on inherent risk levels (which vary by company, sector and geography) and the level of management response to managing the risks.

In addition:

- over time, risk factors can change and new risk factors can emerge. Developing uniform criteria may lead to skewed risk assessments;
- different areas of risk factors need to be considered in different situations. A base set of disclosure requirements could though possibly help to ensure efficiencies in the system.

16. In case material exposure to sustainability factors is identified, what are the most appropriate actions to be performed by the relevant investment entity?

Invest Europe response:

- There are various strategies/processes which can be deployed/followed individually or in combination, depending on the circumstances.

- From a pure private equity perspective, in addition to a comprehensive overview of the actual ESG factors that should be considered throughout a private equity fund's life, the Invest Europe Professional Standards Handbook includes guidance on how private equity fund managers should address and deal with such ESG risks and opportunities (see relevant extracts below).

  Concretely, the Handbook prescribes that where a private equity fund manager has identified risks and opportunities - including ESG risks and opportunities - that are deemed (potentially) material to the success of the investment or are particular focus areas of the investor, the fund manager should ensure that practices are developed to mitigate (associated) (downside) risks and pursue opportunities. These practices should also be included in post-investment action plans. How this will eventually be implemented in practice will vary on a case-by-case basis.

  Handbook extracts:

  [Note that the Handbook refers to investors as LPs and to fund managers as GPs.]

  Environment

  - The Handbook recommends that management of private equity investments should include an ongoing evaluation of the likely impact of portfolio companies, their products and their supply chains on the environment. Such evaluation should take into account the efficacy of environmental risk management policies and procedures (e.g. leading companies institute full environmental management systems, certified to ISO14001).

- Consideration should also be given to the likely impact of environmental factors on the portfolio companies and their supply chains (e.g. climate change, extreme weather events, etc.).

➔ GPs should therefore recommend to the boards of portfolio companies, pursuant to shareholder documents, to identify and take material environmental factors into account in the formulation of the portfolio company's business plan.

Social

- The Handbook recommends that management of private equity investments should include an ongoing evaluation of the likely impact of social factors on the businesses (e.g. availability/quality of workers, conduct of staff or business partners, trends in customer attitudes, etc.) as well as the social impact of products (e.g. responsible marketing, or health and safety concerns) or operations.
- Consideration should also be given to the completeness and effectiveness of any existing socially related policies and procedures, to manage risks and leverage opportunities and to the need for, and implications of change.

➔ GPs should recommend to the boards of portfolio companies to identify and take material social factors into account in the formulation of the portfolio company's business plan.

Human rights (covering workplace and supply chain issues) are likely to be an integral part of the social factors and board level discussions may include development of strategies to prevent direct and indirect involvement in human rights violations.

Depending on the size and nature of the business, a portfolio company should also consider integrating its management of social factors into a full corporate sustainability programme and publishing progress reports on a regular basis, as part of a defined external stakeholder engagement strategy. A private equity fund manager should ensure that such items are put on the agenda for board discussion where appropriate.

Governance

- In the case of private equity, a portfolio company is likely to be provided with guidance on governance requirements by the fund manager at initial investment. In some cases, the implementation of specific requirements will be a condition of closing the transaction.
- The Handbook recommends that, if not already in place, the GP should typically ensure that each portfolio company has appropriate governance structures to safeguard against fraud, bribery, corruption and other breaches of legal rules applying to the company and to ensure internal financial control, quality assurance, risk and conflict management and transparent reporting and communication.

➔ To ensure that portfolio companies are applying appropriate good governance practices and standards, the GP should ensure it remains up to date and familiar with legal rules, good practice and guidance in the respective countries and industries in which its portfolio companies are based. Typically, the fund manager should periodically review the adequacy of its practices and standards.

➔ The GP should also consider the incentivisation packages in light of their impact on alignment with the objectives of long-term growth and good corporate governance.

Effective corporate governance, once installed, should support the decision-making process and follow-through within the organisation and the alignment of interests across the stakeholders in the business including management, employees, the fund manager and investors in the fund. Such alignment of interest is also part of a responsible investment framework. Ensuring the GP's governance objectives are achieved, whilst preserving the autonomy of the portfolio company board to drive business growth and not hamper it with bureaucratic processes and controls, is an important balance to achieve.

17. Should relevant investment entities disclose how they consider sustainability factors within their investment decision-making? Yes – No – No opinion Please explain.

Invest Europe response:

Yes.

- It is good practice that investment entities (in this case, private equity fund managers) provide disclosure on sustainability factors to their own investors, as well as a broader group of stakeholders when appropriate (and to the extent that sharing the information would not risk breaching (commercial) confidentiality).
- In the case of private equity specifically, investor reporting on responsible investment matters is increasingly becoming standard practice in the industry. Institutional investors can and do have substantial access to ESG information from fund managers that are incorporating ESG risks and opportunities into their investment processes. As investment into private equity funds is often based on a direct relationship and engagement between the fund manager and its investors, the asset class provides a very direct way for long-term investors to obtain ESG information, often in addition to the standard disclosures, ensuring the specific needs of investors are addressed, provided investors have asked for such reporting and specified to fund managers what type of disclosure is needed.

  Disclosure and transparency, including ESG-related reporting to investors, is one of the main areas covered in the Invest Europe Professional Standards Handbook (and Invest Europe Investor Reporting Guidelines), which makes clear that the provision of information is a key topic to agree up-front between the manager and its investors. As such, throughout the entire life of a fund and the investment process/cycle, there should be a high level of transparency and disclosure between fund managers and their investors on ESG issues, though the degree and frequency of disclosure (if any) will vary across the industry. In addition, direct dialogue often takes place between the fund manager and their investors after investment.

  Relevant Handbook extracts include:

  [Note that the Handbook refers to investors as LPs and to fund managers as GPs.]

GENERAL

- GPs will typically be asked by LPs to provide information both during due diligence and throughout the life of the fund. Suitable arrangements should be made to respond to queries from LPs promptly as they arise, as well as complying with the obligations in the fund documents on reporting and, if relevant, meetings.

- Overall, GPs should also have an appropriate communication strategy, reflective of their operations and scale, and should clearly define and document their responsible investment policy and the procedures for compliance with such policy. Furthermore, it is important that the fund manager demonstrates to its wider stakeholder community (e.g. employees of portfolio companies, consumers, etc.) sound ESG practices and standards that are both appropriate and proportionate to its own business.

- A website is a good starting point for the GP to generally provide basic information regarding themselves and their investments in a timely fashion. As such, the GP's website could include information on the size and investment strategy of the different funds; investments made; and policies regarding responsible investment.

- Many GPs also provide their investors with access to a secure specific investor relations website where more detailed information is regularly made available.

FUNDRAISING DOCUMENTS – DUE DILIGENCE MATERIALS

- As a relationship-based investment model, the main source of information for private equity LPs and GPs on their investments is the direct questioning and diligence by the managers of their investments. The core information on the ESG policies and practices is obtained during the fundraising process. The increased awareness of ESG risks and opportunities has resulted in increased expertise within professional investment organisations, including in some cases dedicated ESG professionals, who utilise developed diligence tools and approaches to identifying these risks.

- The use of due diligence data rooms can be an effective and efficient way to provide information to prospective LPs. The GP's fundraising team will normally assemble a comprehensive data pack of documents about the fund, its investment strategy and the GP's prior track record, collectively comprising the due diligence materials. This material will often contain confidential and proprietary information from the GP as well as, potentially, on current portfolio companies and their ESG situation.

- In addition, the fundraising team may respond to specific investor questionnaires covering a variety of topics, including for example ESG disclosure.

- Within this context, it is worth noting that in March 2013, the Environmental, Social and Corporate Governance (ESG) Disclosure Framework for Private Equity was developed. The Disclosure Framework helps managers to report ESG-related information to their investors. It sets forth due diligence questions (which may be effective for many LPs when considering whether or not to invest in a fund), and disclosure questions (which may be applicable during the life of a fund).

  As set out in the Framework, during fundraising a GP should seek to disclose information sufficient to enable an LP that has expressed an interest in ESG management to:

1. assess if the GP is aligned with the LP's ESG-related policy and investment beliefs;
2. assess the GP's policies, processes, and systems for identifying ESG-related value drivers and managing material ESG-related risks; and to identify possible areas for future development;
3. understand if and how the GP influences and supports its portfolio companies' management of ESG-related risks and pursuit of ESG-related opportunities;
4. assess how the GP will help the LP to monitor and, where necessary, ensure that the GP is acting consistently with the agreed-upon ESG-related policies and practices as set forth at fund formation;
5. assess the GP's approach to managing and disclosing material incidents at the GP and portfolio companies.

- In November 2015, the PRI published a Limited Partners' Responsible Investment Due Diligence Questionnaire, which aims to help investors understand and evaluate a fund manager's processes for integrating material ESG factors into their investment practices and to understand where responsibility for doing so lies.

  The Questionnaire builds upon the ESG Disclosure Framework for Private Equity (see above): where the Disclosure Framework provides high-level guidance and explains the rationale behind asking ESG-related questions, the LP Responsible Investment DDQ provides a detailed list of such questions that LPs can ask GPs pre-commitment.

  The Questionnaire focuses on the following areas: (1) establishing the GP's approach towards ESG integration; (2) establishing the GP's processes for ESG integration; and (3) establishing the GP's communication practices on managing ESG factors.

FUND DOCUMENTS

- The fund documents should set out the key terms and provide the legal/contractual framework within which the GP will operate the fund.

- Private equity funds increasingly have contractual provisions for disclosure of ESG matters. As the fund investment is a private transaction, investors can agree the specific information exchanges and ESG focus that concerns them in the contractual documents establishing the fund. As per the Handbook:

  - One of the matters that the fund documents should address is the responsible investment approach of the GP and/or the fund and the procedures for ensuring compliance with any associated policies.

  - In addition, the fund documents should contain provisions regarding the GP's obligations to provide reports to LPs. These provisions should address *inter alia* the form and frequency of responsible investment reporting.

ANNUAL LP MEETINGS

- The Professional Standards Handbook recommends that an annual meeting of LPs be held. An annual meeting provides an excellent opportunity for the GP and LPs to meet together in person. GPs increasingly include ESG updates and reports as a core part of their presentations to investors as well as updating LPs on the progress of the fund(s) and providing an overview of developments in the market, along with any relevant updates on the GP's team or processes.

- Regular conference calls or webcasts are an efficient method of keeping all LPs up-to-date between annual meetings. Having a secure area on the GP's website, or using one of the secure electronic data site providers is an increasingly common way for GPs to make documents and notices available to LPs.

THROUGHOUT THE LIFE OF THE FUND

- During the life of a fund, as per the ESG Disclosure Framework for Private Equity (see above), a GP should seek to disclose information sufficient to enable an LP that has expressed an interest in ESG management to:

    1. establish if a GP is acting in a manner consistent with the GP's investment policies, processes, and agreed-upon fund terms regarding ESG management;
    2. understand positive and negative ESG-related developments that may impact portfolio companies in the fund;
    3. determine if responses to GP and portfolio company incidents and incident reporting are consistent with relevant investment terms, the fund's policies, and the LP-stated objectives regarding incident disclosure.

MAKING INVESTMENTS

- A GP that has created governance structures and due diligence processes for responsible investment factors should, as per the Handbook, report to LPs on its findings on a suitably regular basis.

- The GP may also choose to send unsolicited reports on responsible investment factors and performance to all LPs, or report following a significant incident with ESG implications.

If yes, what areas should the disclosure cover? Please make a choice and indicate the relevance of disclosure within the different areas (1 is minor relevance and 5 is high relevance):

Invest Europe response:

	Yes	No	No opinion
Governance	X		
Investment strategy	X		
Asset allocation	X		
Risk management	X		

Other (please specify) Value creation	X		

Relevance for:

	1	2	3	4	5
Governance				X	
Investment strategy				X	
Asset allocation			X		
Risk management				X	
Other Value creation				X	

If yes, where?

	Yes	No	No opinion
Pre-contractual disclosure (e.g. prospectuses)	X		
Semi-annual/annual reports	X		
Periodic reports	X		
Website	X		
Newsletters		X	
Factsheets		X	
Marketing materials	X		
Others (please specify)			

d) Impacts for stakeholders

18. Which stakeholder groups would incur costs and which would benefit from integrating sustainability factors within investment decision-making by relevant investment entities?

Invest Europe response:

	Benefits	Costs
Occupational pension providers	X	X
Personal pension providers	X	X
Life insurance providers	X	X
Non-life insurance providers	X	X
Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)	X	X
Individual portfolio managers	X	X
General public	X	X
Retail investors	X	X
Financial advisors	X	X
Service providers (index provider, research providers…)	X	X
Other stakeholders (please specify)		

Please explain.

Invest Europe response:

First of all, we would like to note that to a large extent many of the above entities already include sustainability factors in their decision-making (as indicated elsewhere in our response).

From a holistic point of view, all would / could benefit in one way or another (in the short term and/or the long term) and almost all of them would / could also have to incur costs when they have to invest in setting up ESG data, processes, policies, etc. However, it is uncertain how this balances out and the exact benefits and costs are difficult to assess.

Generally, private equity fund managers experience the following benefits and costs:

Benefits

- Ability to attract investors with specific sustainability requirements
- Improved financial performance
- Reputational benefits/external communication
- Internal communication/recruitment
- Lower costs at the level of the portfolio company

Costs *(though it should be noted that part of these costs will be borne by the portfolio companies and hence only indirectly impact the fund manager)*

- Loss of specific financial opportunities (for instance non-sustainable products/projects)
- Consultancy costs, additional resources
- Legal counsel costs, PR counsel costs
- Compliance costs - In terms of disclosure and reporting, any cost implications tend to be in relation to the *collection and processing* of the underlying information rather than accessing it. As the process for ESG diligence and reporting becomes more standardised and fund managers and their portfolio companies increasingly integrate them throughout their operations, these costs will become less important compared to the benefits of mitigating the risks and identifying the opportunities.

In general, there are many reasons why institutional investors and asset managers take ESG risks and opportunities into account in their investment decisions. While ultimately the specific rationales in any given case will depend on the particular investor, possible reasons include:

- risk management;
- value creation at investment level related to sustainability/ESG initiatives/stakeholder engagement;
- alignment of investment policies with the long-term interests of beneficiaries of the institutional investor;
- seeking a positive social or environmental impact of investments;
- ethical considerations / demonstrating social responsibility;
- specific requirements from clients on whose behalf the institutional investor invests funds;
- legal or regulatory constraints (e.g. compliance with relevant environmental, works, health and safety legislation);
- additional long-term value creation.

II. Questions addressed to end-investors

1. Do you take into account sustainability factors when you choose your investment products or investment entity? Yes – No If you don't consider sustainability factors, please explain why and what would change your mind? Please explain the reasons.

Invest Europe response:

As the European association for private equity and venture capital, representing both private equity fund managers and the investors investing into their funds (pension funds, insurance companies, etc.), it is difficult for us to answer these questions from *an individual investor perspective*.

In general, institutional investors are increasingly encouraging private equity fund managers to consider the ESG dimension to their activity, not least because of increasing demands on these investors from their stakeholders and from regulation, as well as their long-term investment outlook.

For many institutional investors consideration of ESG issues will be integrated as part of their overall fund due diligence process. This can be done by the investment team itself or, particularly for larger investors, the ESG policy may well be dealt with by a separate team that operates across all asset classes in which the investor invests. Overall, larger investors can deploy more resources and more specialised resources but Invest Europe and other organisations are developing and disseminating industry standards and tools (such as questionnaires) to better empower smaller investors/firms and specifically those with limited resources. As such, institutional investors are constantly improving their knowledge thanks to the work of regional and global organisations (PRI, GRI, UN Global Compact, CDP, Integrated Reporting, etc.).

Although private equity is an industry where there is a lot of good ESG practice, and an area on which institutional investors are focused, there remain contrasts between jurisdictions and between investors as to the practical application and their level of engagement with ESG. Investors will be at different stages in their integration of ESG considerations, with some more developed than others.

However, the industry as a whole is developing rapidly in this area and an increasing number of private equity investors are actively adopting ESG policies and practices. The progress that the European private equity industry has made in this field is reflected in recent guidance published by Invest Europe (e.g. the Professional Standards Handbook) and other international organisations like the PRI (see the Invest Europe Responsible Investment Bibliography).

The industry's professional standards set out in the Invest Europe Professional Standards Handbook provide a general framework, leaving sufficient flexibility for institutional investors to implement them in a tailored way, adapted to their business's own model and processes.

Some relevant Handbook extracts are set out below. *[Note that the Handbook refers to investors as LPs and* *to private equity fund managers as GPs.]*

1. Fundraising: Due Diligence at LPs

- The due diligence that a prospective investor will undertake before deciding to commit to a fund (the period known as 'fundraising') will normally look at a number of factors relating to the GP's operations:

    - corporate governance processes, culture and values;
    - policies and procedures (including in the field of responsible investment);
    - investment, divestment and portfolio company decision-making processes;
    - reporting processes;
    - compliance and risk management processes;
    - business continuity plans; and
    - conflicts of interest management and resolution procedures.

- The consideration of ESG as a separate factor might be an important element of the due diligence process. However, this will vary from investor to investor. While some investors might have quite a rigorous quantitative approach to factoring in ESG to their due diligence, many others have a more qualitative approach. For some, the issues highlighted by ESG policies have traditionally been an integral part of due diligence, rather than being identified as a separate issue.

2. Selecting and remunerating asset managers

- When selecting and remunerating asset managers, institutional investors take into account asset managers' integration of ESG issues into investment strategies.

Selection of asset managers

- LPs increasingly include responsible investment in their due diligence and the outcomes will to a greater or lesser extent be a factor in their selection of managers.

Remuneration

- ESG secures both long-term value creation and a GP's licence to operate: in both cases it accordingly has an impact on carried interest long-term entitlement and performance (although, strictly speaking, currently only financial returns affect the carry).

- Private equity manager remuneration is based primarily on incentives aligned to the return made by investors. As a sound ESG approach enhances the value of the business and enables it to identify ESG opportunities and address ESG risks, the implementation of ESG is rewarded through the greater success of the business. In other words, ESG's positive contribution to long-term performance will translate into better investment returns and hence remuneration for managers.

a.	If you consider sustainability factors, indicate the importance of the following sustainability factors for your investment decision (1 is the smallest impact and 5 is the highest impact).

Invest Europe response:

In light of the above comment, Invest Europe is not in a position to provide one single answer which would represent the views of all Invest Europe's institutional investor members. Ultimately, the answer will vary from investor to investor and will depend on a variety of factors including the investor's maturity when it comes to ESG factors.

	1	2	3	4	5	No opinion
Climate factors *(these include climate mitigation factors as well as climate resilience factors)*						
Other environmental factors						
Social factors						
Governance factors						
Others (please specify)						

b.	If you consider sustainability factors, is there sufficient information on the different sustainability factors provided by asset managers and institutional investors to help you take informed investment decisions?

Invest Europe response:

In light of the above comment, Invest Europe is not in a position to provide an answer to this.

	Yes	No	No opinion
Climate factors *(these include climate mitigation factors as well as climate resilience factors)*			
Other environmental factors			

Social factors			
Governance factors			
Others (please specify)			

Level of information for

(1 is very little information and 5 is very extensive information)

	1	2	3	4	5
Climate factors					
Other environmental factors					
Social factors					
Governance factors					
Other factors					

If you indicate that there is insufficient information, what kind of information would allow you to consider sustainability factors when you choose your investment products or investment entity? Please explain and indicate how you would like to receive it.

Invest Europe response:

Not applicable.

III. Questions specifically addressed to relevant investment entities

1.	As a relevant investment entity do you consider sustainability factors? Yes – No Please explain why.

Invest Europe response:

As the European association for private equity and venture capital, representing both private equity fund managers and the investors investing into their funds, it is difficult for us to answer these questions from *an individual firm or private equity fund manager's perspective*.

Where relevant, we have provided a response from the perspective of the European private equity industry *as a whole*, based on common market practice and established best practice. Our answers do not therefore reflect specific strategies of individual member firms.

The industry's professional standards set out in the Invest Europe Professional Standards Handbook provide a general framework, leaving sufficient flexibility for private equity fund managers to implement them in a tailored way, adapted to their business's own model and processes. As is the case for institutional investors, individual fund managers will be at different stages in their integration of ESG considerations, with some more developed than others, but the industry as a whole is developing rapidly in this area.

In general, although the wider impact of their activities is something that investors and the portfolio companies into which funds invest have been taking into account for some time, fund managers are more and more aware of the benefit that a specific focus on the management of ESG issues can bring for value protection and creation. Putting systems in place to systematically reduce costs and minimise risks and to exploit opportunities, such as promoting supply chain sustainability and improving employee engagement, all generate benefits.

For those private equity managers who have an ESG framework in place, ESG matters constitute an integrated part of the investment decisions and operational value creation and protection/preservation agenda, thus contributing to the on-going development and resilience of the company also after investment.

a.	In which areas does your entity consider sustainability factors?

Invest Europe response:

	Yes	No
Governance	X	
Investment strategy	X	

Asset allocation	X	
Risk management	X	
Valuation	X	
Disclosure	X	
Other (please specify) Value creation and Ownership *Note:* Our answer is based on the recommendations for private equity fund managers set out in the Invest Europe Professional Standards Handbook.	X	

Please explain.

Invest Europe response:

In addition to an overview of the responsible investment factors that ought to be considered and reflected in the different stages of a private equity fund's life, the Invest Europe Professional Standards Handbook includes concrete guidance on how to take this forward.

Some relevant Handbook extracts from a fund manager's perspective are set out below. *[Note that the Handbook refers to investors as LPs and to fund managers as GPs.]*

1. **Fund formation: Early-stage planning at the GP group**

   Responsible investment considerations including their incorporation into the GP's organisation and its investment and portfolio monitoring processes and policies, are already taken into account by fund managers when doing their early-stage planning.

   The same applies to the marketing strategy including what type of LPs will be targeted for the fund and the resulting regulatory requirements for marketing, the structural impact on the fund, and other specific requirements of the targeted group (such as ESG or other reporting needs).

2. **Making investments - the GP**

- When making investments on behalf of the fund, the GP should implement the fund's investment policy with due skill, care and diligence and in accordance with the agreements the GP has made with the LPs in the fund. Given that the success of an investment may be impacted not only by its financial performance but also by other performance criteria, a private equity GP should be mindful of:

- the risks posed and opportunities presented to its portfolio companies by ESG factors. It is also important that ESG risks and opportunities are considered across portfolio companies' value chains;
- its own LPs' approaches to responsible investment and should seek to comply with their requirements, which may include expectations in relation to reporting on responsible investment factors in the investment and ownership processes and in some cases exclusion from investing in certain sectors;
- the responsible investment impact of the conduct of its business and should give due consideration to material risks and opportunities associated with ESG and potential other responsible investment factors throughout the period of its investment in each respective portfolio company and more generally throughout the life of the fund.

- Against this background, GPs should integrate consideration of responsible investment risks and opportunities into their due diligence and investment approval processes and keep their investment documents and processes under periodic review.

  Any staff training needs on responsible investment and ESG matters should be identified, addressed and kept under regular review.

- Evaluation of responsible investment matters should not be limited to legal compliance, but could also include any additional standards and practices that could materially impact an investment from an ESG perspective; potential future regulation and marketplace factors such as existing or emerging voluntary standards; consumer expectations and client requirements; long-term ESG value creation projects; materiality and consistency with the investment project; and broader operational issues that could have a reputational as well as value creation or preservation impact.

3. Portfolio investment

- A GP should aim to ensure that its own and its portfolio companies' awareness and due consideration of responsible investment and ESG guidance and codes of conduct as applicable to the sectors and geographic regions in which each portfolio company operates are maintained throughout the life of the investment.

  More concretely, the GP should ensure that at portfolio company board and management level there is appropriate awareness and adequate knowledge of responsible investment and ESG matters relevant to the country and sector the portfolio company operates in, including familiarity with appropriate external guidance issued by national, supranational and private bodies.

- Where the GP has identified ESG risks and opportunities that are deemed (potentially) material to the success of the investment or are particular focus areas of LPs, the GP should ensure that practices are developed to mitigate associated risks and pursue opportunities. These practices should also be included in post-investment action plans. See also Question 16 in Section I.

  The implementation and effectiveness of these practices should be monitored (and reported on) as appropriate, and therefore the GP should consider how it will obtain relevant ESG data from the portfolio companies. Noting that the ESG context could evolve, the GP should undertake to regularly review and update its responsible investment risk/opportunity analysis and revise, remove or add governance and monitoring frameworks (including policies, procedures and tools for implementation) as appropriate.

- A GP may be in a position of considerable influence as regards the development, implementation and monitoring of ESG strategies, policies and practices in place at portfolio companies.

  The GP, ideally through the information produced and provided by the portfolio company, should be in a position to identify, monitor and support the mitigation of relevant risks and the recognition and pursuit of opportunities in responsible investment matters within the portfolio company. Where appropriate, the GP, through its board representation or through the exercise of shareholder voting or contractual rights, where so permitted, should be available to assist and advise the portfolio company on how to investigate and address the ESG factors that are relevant for the business. The GP should ensure that it remains informed of the progress being made towards achievement of ESG objectives.

- Examples of some of the practical arrangements for achieving integration of responsible investment include:

  - using ESG information requests/questionnaires for the portfolio company;
  - using a standardised or industry-specific ESG investment checklist and formally addressing ESG factors in the investment process;
  - putting in place an ESG value creation and/or ESG risk mitigation action plan based on these due diligence findings;
  - including ESG site visits during the due diligence and ownership phase;
  - defining an ESG business plan with expected savings and value creation; and
  - tracking and evidencing ESG value creation.

b. What kind of sustainability factors do you consider? (Please refer to the definitions provided in the Glossary).

Invest Europe response:

	Yes	No
Climate factors *(these include climate mitigation factors as well as climate resilience factors)*	X	
Other Environment factors	X	
Social factors	X	
Governance factors	X	
Others (please specify)		

Please explain.

Invest Europe response:

Please see our response to Question 2 in Section I.

c. In case you have products targeting sustainability factors what time horizon do they target? (Several answers possible).

Invest Europe response:

Short term (up to 3 years)	
Medium term (4 - 9 years)	
Long term (> 10 years)	
Other (please explain) This will differ on a case-by-case basis and may vary from one fund manager to another and from one investment to another.	

d. In your view, what is the relevant time frame within which risks and opportunities related to sustainability factors typically materialize?

Invest Europe response:

	Short term (up to 3 years)	Medium term (4 - 9 years)	Long term (> 10 years)	No opinion
Climate factors *(these include climate mitigation factors as well as climate resilience factors)*				
Other environment factors				

Social factors				
Governance factors				
Others (please specify) There is no such thing as a "typical" period for ESG risks and opportunities to materialise. It will depend entirely on the nature of the risk/opportunity as well as on the asset, its location, and the quality of management of ESG issues. Some ESG "opportunities" have long pay-back periods, and some shorter, although investment committees are unlikely to authorise any initiatives that take longer than, say, 3 years to pay back (and probably typically a shorter payback is required). Conversely, some ESG risks can materialise very quickly (e.g. an instance of bribery or corruption), whereas others can take years to manifest (e.g. environmental contamination).				

e. Within your governance policy, which measures/arrangements do you have in place?

Invest Europe response:

	Yes	No
Specific sustainability investment Committee		X
Specific sustainability member of the Board		X
Integration of sustainability factors in the investment decision process	X	
Integration of sustainability checks in the control process	X	
Periodic reporting to senior management/board	X	
Others (please specify) Our answer is based on the recommendations for private equity fund managers set out in the Invest Europe Professional Standards Handbook. Individual member firms may have specific governance arrangements.		

f. In integrating sustainability factors in your investment decisions, which elements do you consider?

Invest Europe response:

	Yes	No
External sustainability ratings		X
Internal sustainability ratings	X	
Sustainability benchmarks	X	
Due diligence analysis	X	
Others (please specify) Typically, private companies are not externally rated.		

In case you use external ratings of issuers, please indicate which ones?

Invest Europe response:

Not applicable.

In case you use internal sustainability ratings, please explain how you get the relevant data?

Invest Europe response:

Common practice in the industry includes:

- requesting information from investments.

In case you use sustainability benchmarks, please describe these and explain how you get the relevant data.

Invest Europe response:

Common practice in the industry includes:

- the use of external databases such as SASB.

In case you perform a due diligence analysis which elements do you consider?

	Yes	No
Governance arrangements		
Commitment of management of the investment target on sustainability factors		
Methodologies for the calculation of market and regulatory sustainability risks		
Valuation		
Quality and frequency of available information		
Sustainability risk adjusted performance		
Others (please specify) It is difficult for Invest Europe to answer this on behalf of the full industry. The ultimate response will vary on a case-by-case basis, from one fund manager to another, and some of the suggested options may not even be applicable.		

g. In your risk assessment how do you measure the impact of sustainability risks on your portfolio?

<u>Invest Europe response:</u>

	Yes	No
Internal quantitative model		
Third party quantitative model		
Qualitative fundamental analysis		
Others (please specify) It is difficult for Invest Europe to answer this on behalf of the full		

industry. The ultimate response will vary on a case-by-case basis, from one fund manager to another.		

Please explain.

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer that would apply to the whole industry.

h. Do you disclose information on how you integrate sustainability factors in your investment decision making? Yes – No Please explain.

Invest Europe response:

Yes. Please see our response to Question 17 in Section I.

If yes, where do you disclose such information?

Invest Europe response:

	Yes	No
Pre-contractual disclosure		
Semi-annual/annual reports		
Periodic reports		
Website		
Newsletters		
Factsheets		
Marketing materials		
Others (please specify) Please see our response to Question 17 in Section I,		

which is based on the recommendations for private equity fund managers set out in the Invest Europe Professional Standards Handbook. Individual member firms may have specific governance and disclosure arrangements.		

i.	Do you disclose information on the outcome of sustainability assessments? Yes – No Please explain.

Invest Europe response:

Yes, though the way in (and channels through) which a fund manager discloses this kind of information may differ from how they disclose information on how sustainability factors are integrated in their investment decision making.

If yes, where do you disclose such information?

Invest Europe response:

	Yes	No
Semi-annual/annual reports		
Periodic reports		
Website		
Newsletters		
Factsheets		
Marketing materials		
Others (please specify) Please see our response to Question 17 in Section I, which is based on the recommendations for private equity fund managers set out		

in the Invest Europe Professional Standards Handbook. Individual member firms may have specific governance and disclosure arrangements.		

j. Do you take into account sustainability factors in your investment decisions due to related national legal requirements or related soft law provisions? Yes – No

Invest Europe response:

Yes.

Good ESG integration entails both national legal and soft law requirements (e.g. UN Global Compact), depending on the context of the investment.

If yes, please specify the relevant provisions and describe the related costs (financial and non-financial) that you incur as well as the method by which you implement these.

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer to this that would apply to the whole industry.

k. Do you currently incur the following costs and benefits due to the integration of sustainability factors?

Invest Europe response:

Please see our response to Question 18 in Section I.

Potential benefits:

	Yes	No
Ability to attract investors with specific sustainability requirements		
Improved financial performance		

Reputational benefits/external communication		
Internal communication/recruitment		
Others (please specify)		

Ability to attract investors with specific sustainability requirements - please explain and, when possible, quantify in EUR:

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer to this that would apply to the whole industry.

Improved financial performance - please explain and, when possible, quantify in EUR:

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer to this that would apply to the whole industry.

Reputational benefits/external communication - please explain and, when possible, quantify in EUR:

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer to this that would apply to the whole industry.

Internal communication/recruitment - please explain and, when possible, quantify in EUR:

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer to this that would apply to the whole industry.

Others - please explain and, when possible, quantify in EUR:

Invest Europe response:

Please see our response to Question 18 in Section I.

Potential costs:

Please see our response to Question 18 in Section I.

	Yes	No
Decreased financial performance		
Loss of specific financial opportunities (for instance non-sustainable products /projects)		
Consultancy costs		
Legal counsel costs		
Compliance costs		
Others (please specify)		

Decreased financial performance - please explain and, when possible, quantify in EUR:

Invest Europe response:

Not applicable.

Loss of specific financial opportunities - please explain and, when possible, quantify in EUR:

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer to this that would apply to the whole industry.

Consultancy costs - please explain and, when possible, quantify in EUR:

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer to this that would apply to the whole industry.

Legal counsel costs - please explain and, when possible, quantify in EUR

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer to this that would apply to the whole industry.

Compliance costs - please explain and, when possible, quantify in EUR:

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer to this that would apply to the whole industry.

Others - please explain and, when possible, quantify in EUR:

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer to this that would apply to the whole industry.

2. What would be the level of costs associated with the integration of sustainability factors in investment decision making in the different areas? Please tick the relevant box. *(Costs as % of the AUM)*

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer to this that would apply to the whole industry.

	< 0.5% of the AUM	0.51% to 1% of the AUM	1.01% to 3% of the AUM	3.01% to 5% of the AUM	> 5% of the AUM	No opinion
Governance						
Investment policy						
Valuation						
Risk management						
Disclosure						

Overall cost						

3. Please explain whether integration of sustainability factors in any of the above mentioned areas would lead to particularly significant (or potentially disproportionate) impacts in terms of costs or benefits incurred by stakeholders.

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer to this that would apply to the whole industry.

4. Do you engage with your clients/beneficiaries as regards their sustainability preference? Yes - No

Invest Europe response:

Invest Europe is not in a position to provide a consistent answer to this that would apply to the whole industry.

If so, could you estimate the average costs associated to that engagement in proportion to the assets under management?

Invest Europe response:

Not applicable.

< 0.5% of the AUM	
0.51% to 1% of the AUM	
1.01% to 3% of the AUM	
3.01% to 5% of the AUM	
> 5% of the AUM	
No opinion	

5. What could be the benefits associated with the integration of sustainability factors? Please, specify and quantify where possible and relevant.

<u>Invest Europe response:</u>

- When managed well, social factors can add real value. Examples include:
  - establishing a reputation as an "employer of choice" through progressive employment policies and practices (thereby reducing recruitment costs and improving productivity);
  - maintaining a "social license to operate" (through strong community relations); and
  - ensuring continuity of supply (through effective supplier selection, engagement and auditing).

- Examples of environmental benefits include:
  - improved energy efficiency / reduced carbon emissions / reduced costs;
  - reduction in packaging raw materials / costs;
  - reduction in waste generated / waste to final disposal / landfill; and
  - improved product design - e.g. cradle to cradle design - design with the environment in mind etc.

- Good management of governance factors can also add real value. Examples include:
  - improved organisational safety culture and performance leading to a reduced number of incidents;
  - better organisation-wide integration of ESG practices through training (thus avoiding a silo mentality on ESG implementation);
  - increasing stakeholder motivation and incentivisation; and
  - fewer accidents and reduced insurance costs.

IV. Additional information

1. Are there other specific points not covered by the questionnaire that you would like to raise?

Invest Europe response:

No.

Contact

For further information, please contact Erika Blanckaert (erika.blanckaert@investeurope.eu) at Invest Europe.

About the PAE

The Public Affairs Executive (PAE) consists of representatives from the venture capital, mid-market and large buyout parts of the private equity industry, as well as institutional investors and representatives of national private equity associations (NVCAs). The PAE represents the views of this industry in EU-level public affairs and aims to improve the understanding of its activities and its importance for the European economy.

About Invest Europe

Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors.

Our members take a long-term approach to investing in privately held companies, from start-ups to established firms. They inject not only capital but dynamism, innovation and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe's leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them.

Invest Europe aims to make a constructive contribution to policy affecting private capital investment in Europe. We provide information to the public on our members' role in the economy. Our research provides the most authoritative source of data on trends and developments in our industry.

Invest Europe is the guardian of the industry's professional standards, demanding accountability, good governance and transparency from our members.

Invest Europe is a non-profit organisation with 25 employees in Brussels, Belgium.

For more information please visit www.investeurope.eu.