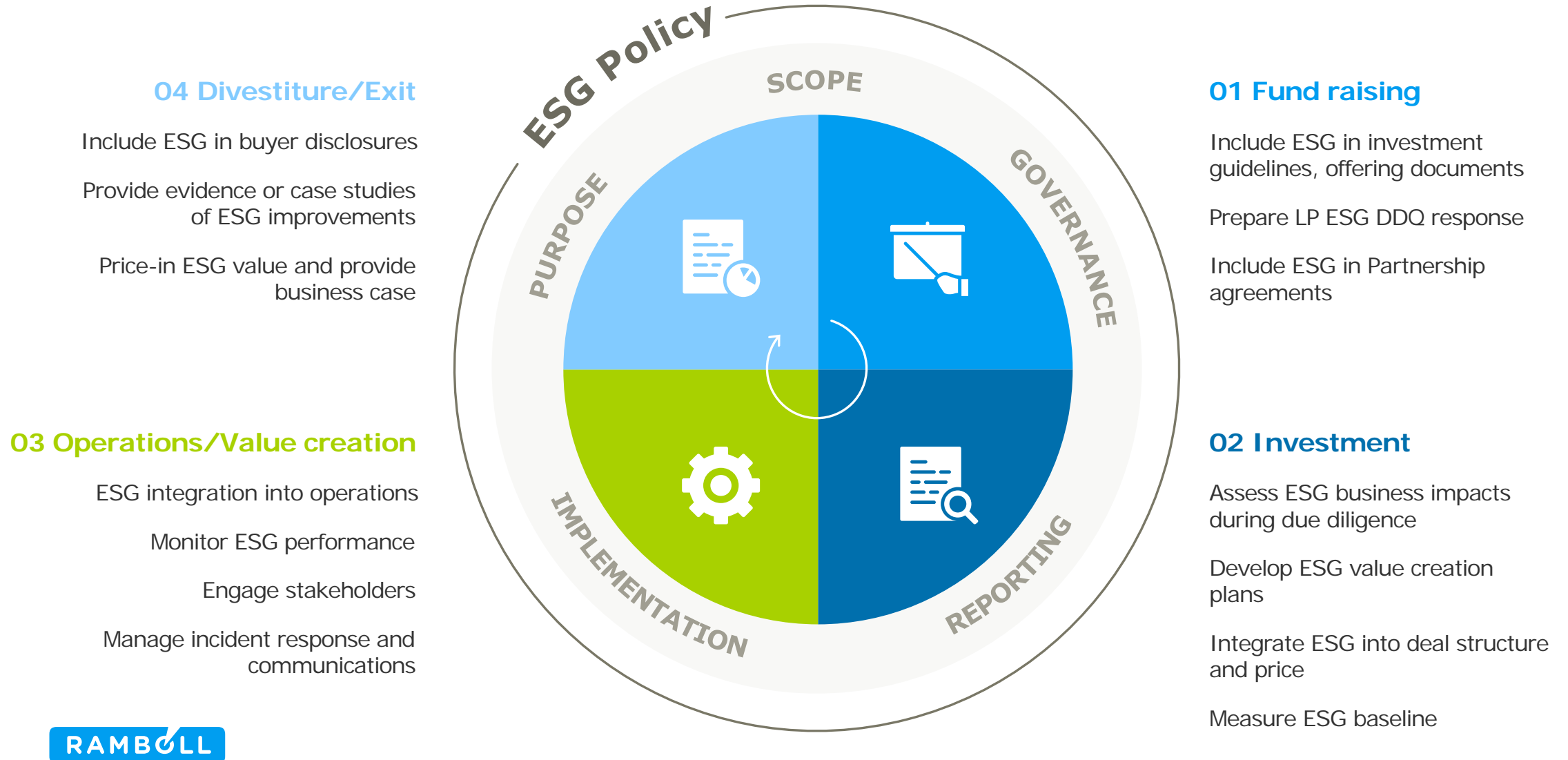


# ESG PROGRAMS: FROM POLICY TO INTEGRATION






PEI Responsible Investment Forum NYC 2020

March 4, 2020

# INTEGRATING ESG ACROSS THE INVESTMENT LIFECYCLE



# ESG PROGRAMS: FROM POLICY TO INTEGRATION

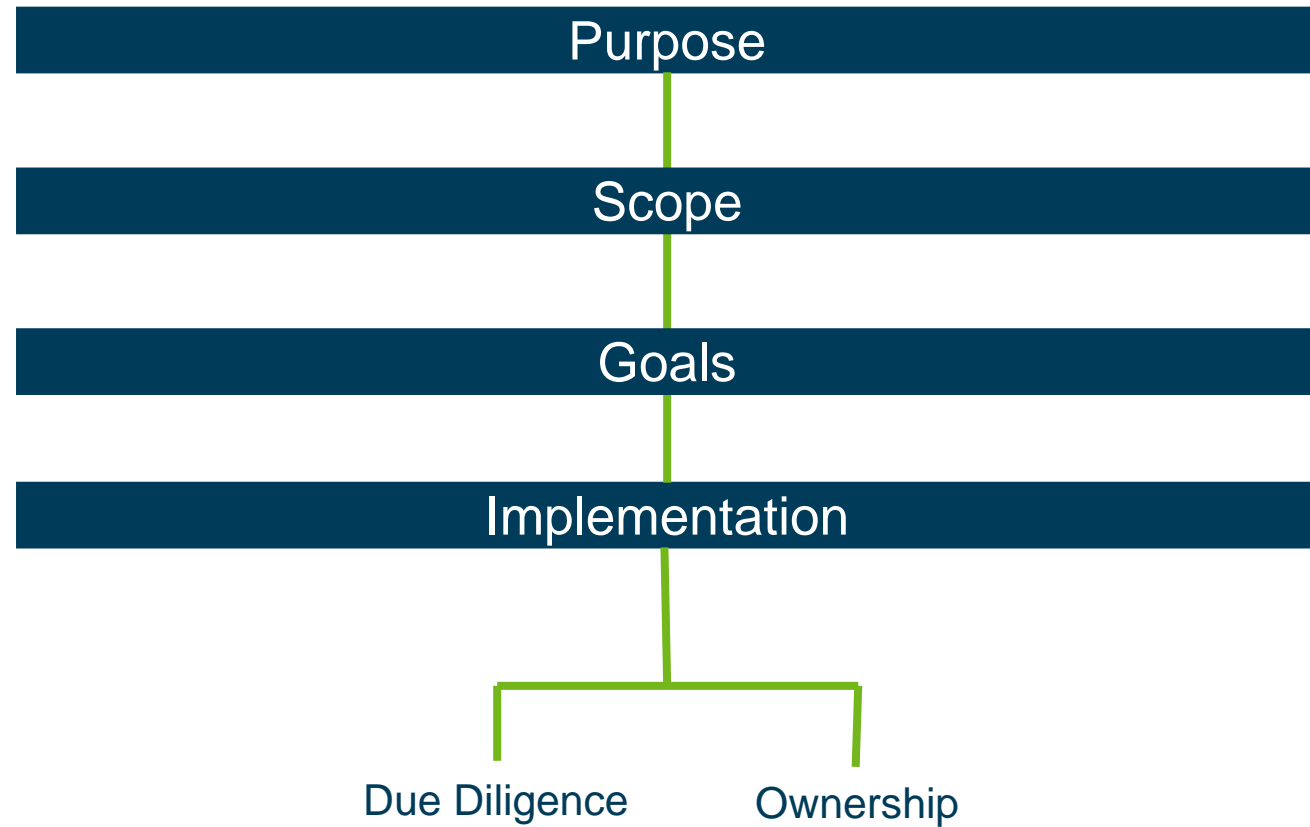
PE Firm	Oak Hill Capital	Northleaf	Capital Dynamics	Eurazeo	Warburg Pincus
HQ	NYC	Toronto	Zug	Paris	NYC
AUM (USD)	\$8B	\$13B	\$16B	\$19B	\$58B
# Investments	15	>350	>1,000	374	>190
					
	Lee Coker	Jeff Pentland	Bryn Gostin	Sophie Flak	Leela Ramnath

# ESG at Warburg Pincus

Responsible Investing for Sustainable Growth

March 2020

# Warburg Pincus ESG policy



# From ESG Policy Formation to Implementation

## Investment Process Integration

### Due Diligence

- **Identify material ESG issues**  
We track and discuss ESG issues in the pipeline and the broader market and apply sector-specific ESG due diligence guides
- **Analyze risk**  
We evaluate regulatory, operational, and reputational ESG risks; if an investment is flagged as having high ESG risk, we leverage external expertise
- **Document findings**  
For all investments, we include ESG sections into investment memoranda

### Ownership

- **Monitor material ESG issues**  
We provide active oversight through our board seats of portfolio companies, and leverage technology tools to monitor ESG reputational risks
- **Survey companies**  
We periodically collect ESG data from portfolio companies
- **Engage on ESG initiatives**  
We partner with and provide resources for portfolio companies on ESG best practices and initiatives

## ESG Support (1x1 engagements & portfolio-wide programs)

### ESG Training



### Energy Efficiency



### Cybersecurity



### Inclusive hiring



## ESG Data & Reporting

Reporting on ESG to boards

Employee and community engagement programs

Resource-efficiency programs (energy/water)

### Metrics

Sustainability reporting

Environmental health and safety (EHS) policies and procedures

Cybersecurity protocols

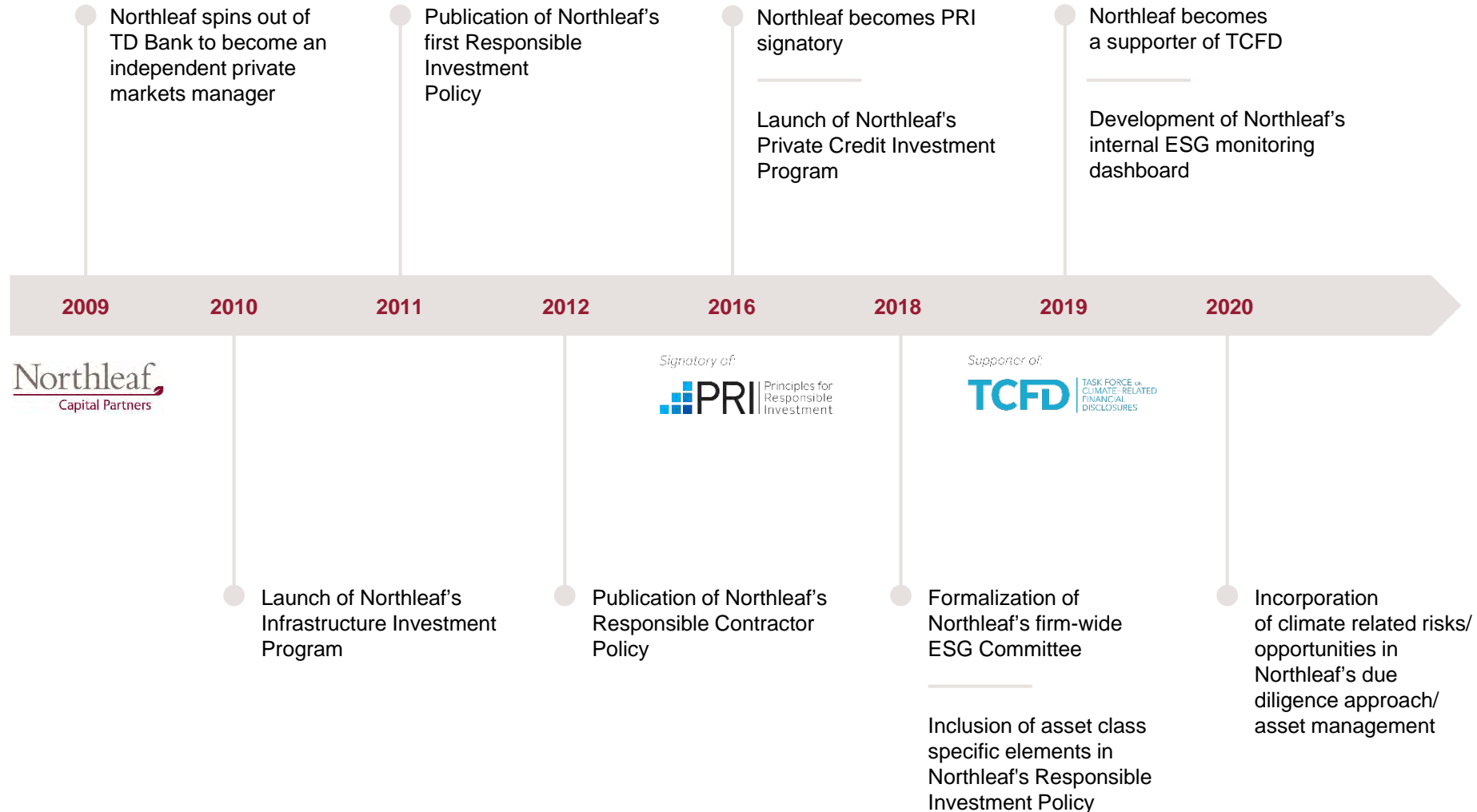


# Overview of Northleaf's ESG policy

March 2020

PRIVATE AND CONFIDENTIAL

As a long-term investor in private markets, Northleaf has long recognized that responsible corporate behaviour has a positive impact on long-term financial performance



Northleaf integrates ESG considerations into our investment activity with an appropriately tailored approach acknowledging the influence we exercise across each asset class

- **Northleaf's investment teams are responsible for assessing ESG considerations during the investment process**
- **Northleaf's investment committees have ultimate responsibility for ensuring ESG standards are maintained**

**Screening / initial review:** Identify transaction-specific ESG considerations

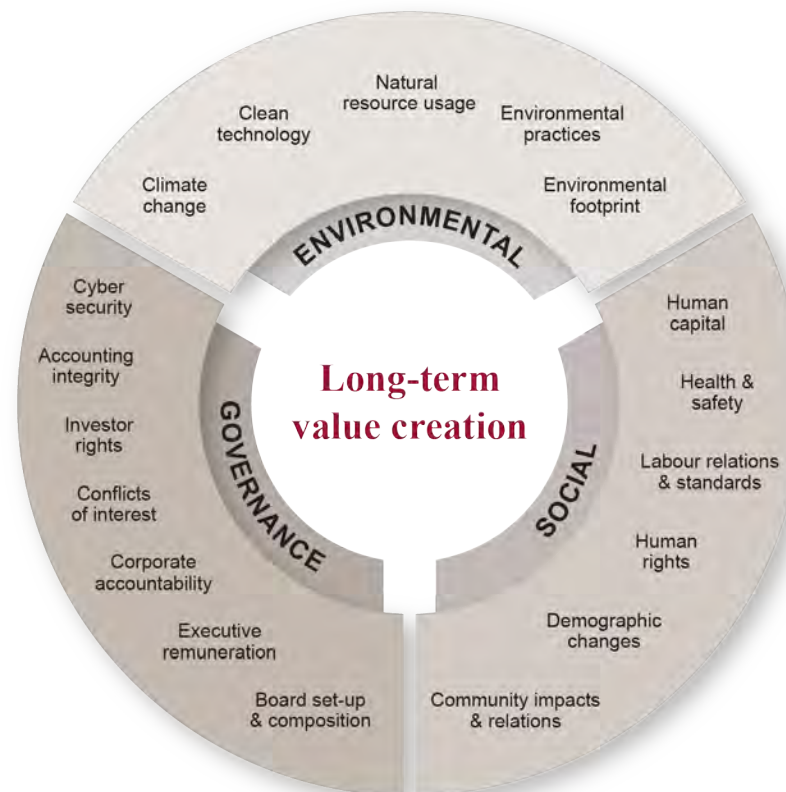
**Due Diligence:** Assess ESG opportunities, considerations and risk factors, including mitigation strategies

**Asset management / monitoring:** Engage investment partners, management teams, fund managers and boards where improved ESG practices could reduce risk or improve performance

**Reporting:** Provide investors with updates on material ESG matters through regular reports (or on ad hoc basis where required)

**The specific elements of each stage of the investment process will vary by asset class given varying levels of influence**

**ESG considerations include a wide range of factors that may have an impact (individually or in combination) on the risk/return profiles of investments**



# Northleaf is currently working to integrate the recommendations of the TCFD into its broader policy framework, processes and approach

---

- In terms of governance, the Board and Management Committee have asked Northleaf's ESG Committee to develop Northleaf's approach to climate-related risks and opportunities
  - Initial focus is bottom up review of due diligence regarding consideration of climate change risks and opportunities
  - Overtime, develop top down assessments of most significant climate risks and opportunities across portfolios
- Additional initiatives expected to include impact of climate considerations on product development / mandate design
- Will work with Northleaf's Risk Oversight Committee to consider how climate change is positioned in the firm's overall risk framework

As a first step, Northleaf's ESG Committee is working to revise its responsible Investment Policy to integrate the consideration of climate-related risks/opportunities into each investment process:

## Climate-related risks

### Physical Risks

- Acute
- Chronic

### Transition Risks

- Policy and Legal
- Technology
- Markets
- Reputation

## Climate related opportunities

- Resource Efficiency
- Energy Source
- Products and Services
- Markets
- Resilience

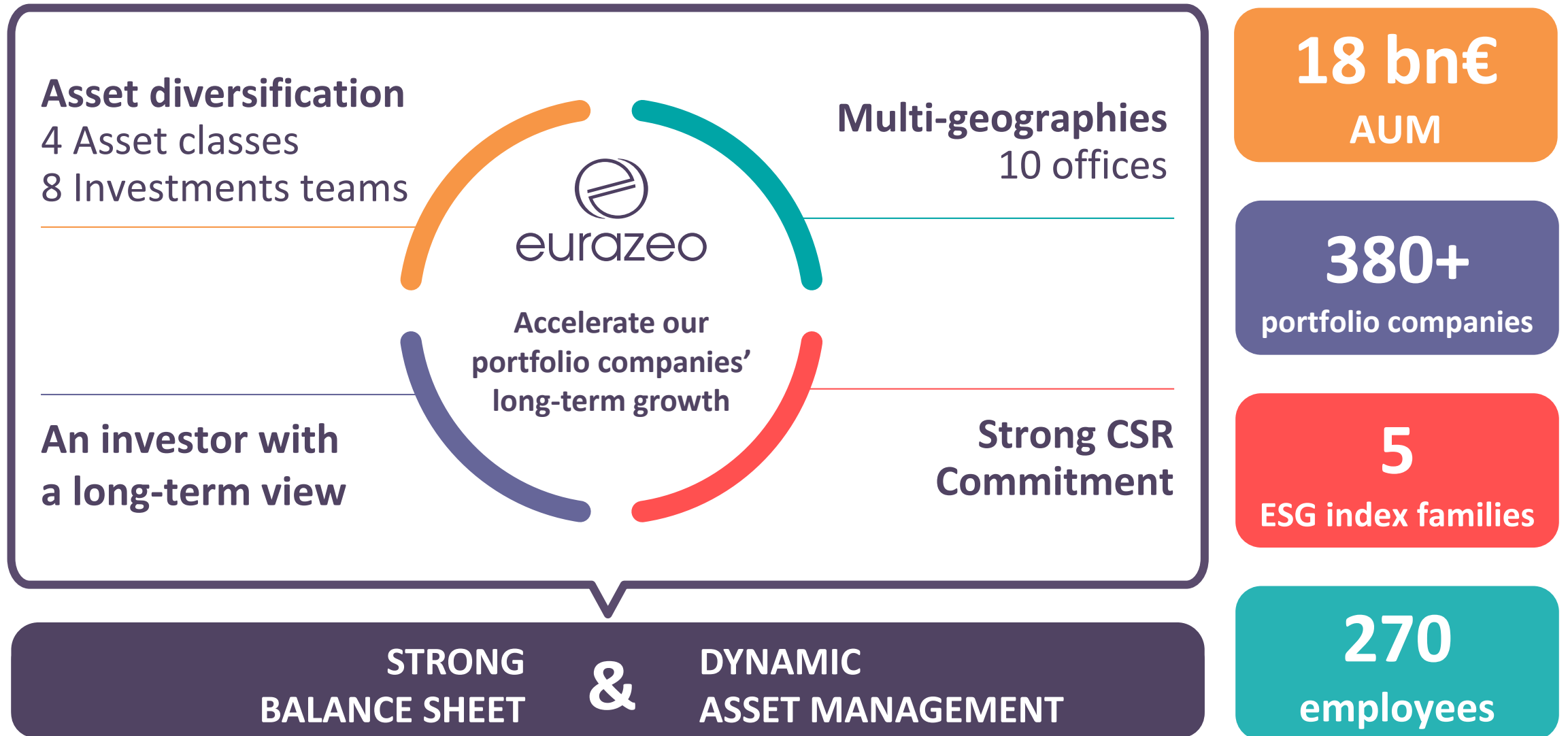
**Approach will vary across asset classes and investment structures (direct, secondary, fund investments)**

2020



# ESG Programs: From Policy to Integration

# Eurazeo: a long-term, committed and responsible investor



# CSR Strategy: a proactive approach

---



Invest  
responsibly



Create  
sustainable value

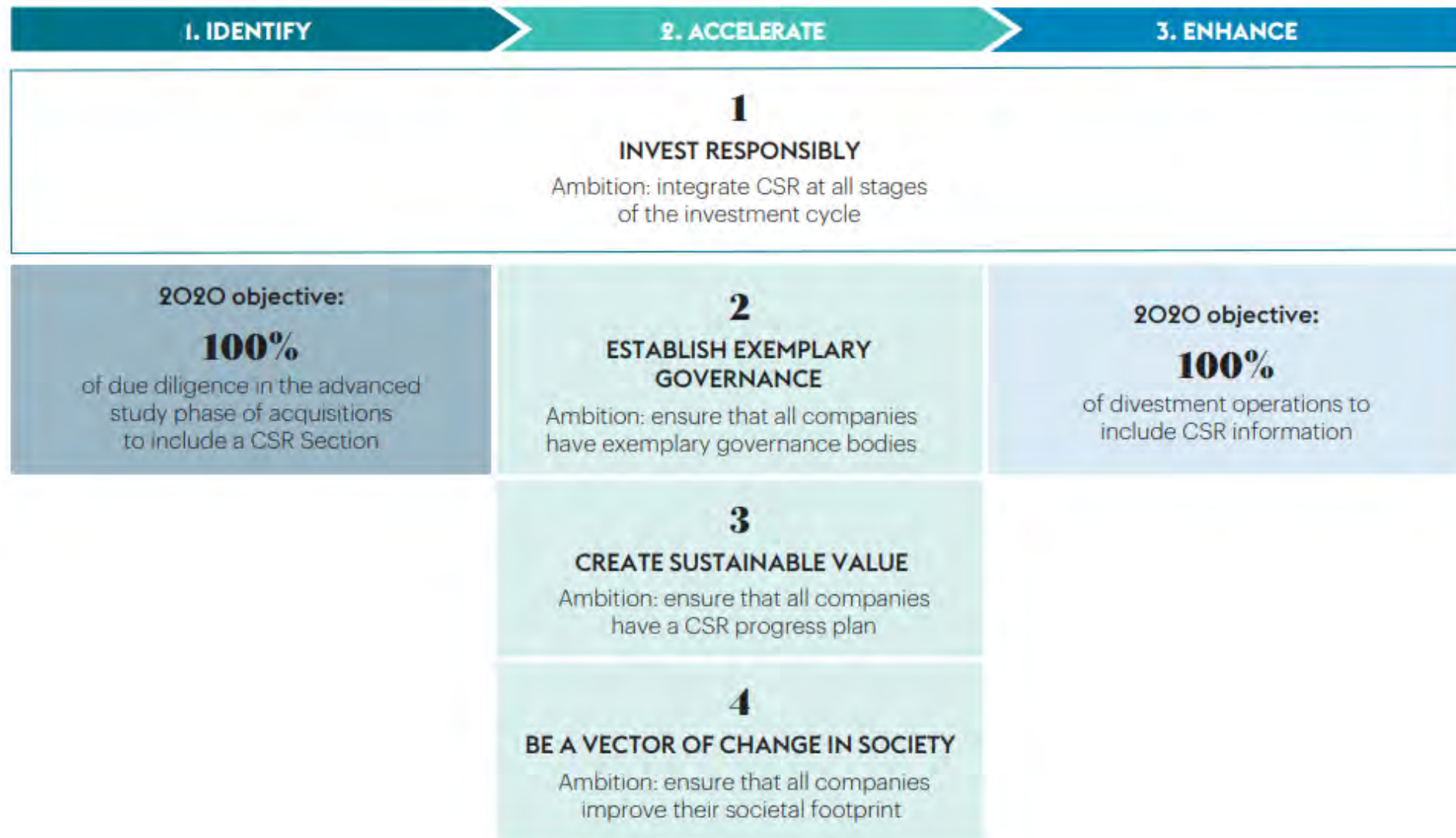


Establish  
exemplary  
governance



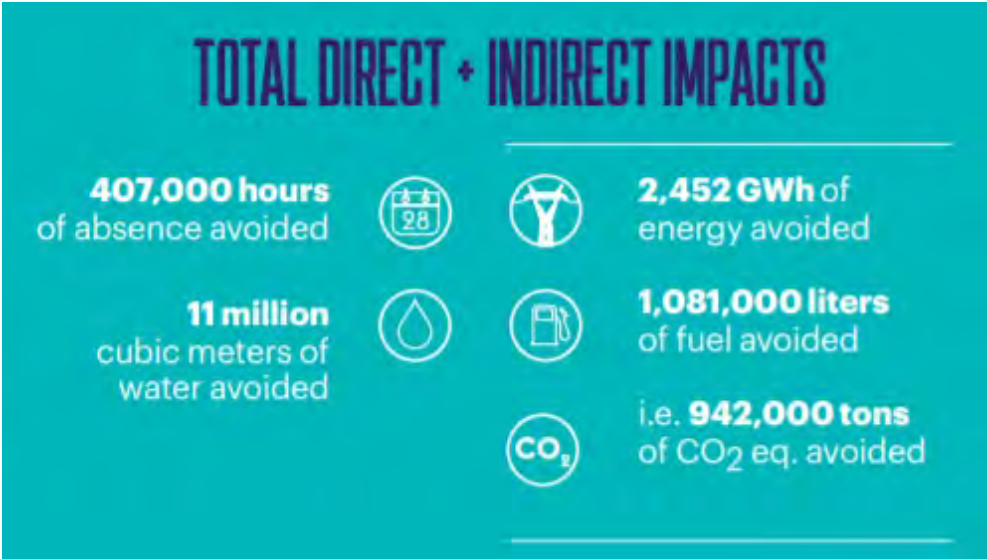
Be a vector of  
change in society

# CSR: Integrated at all stages of the investment cycle

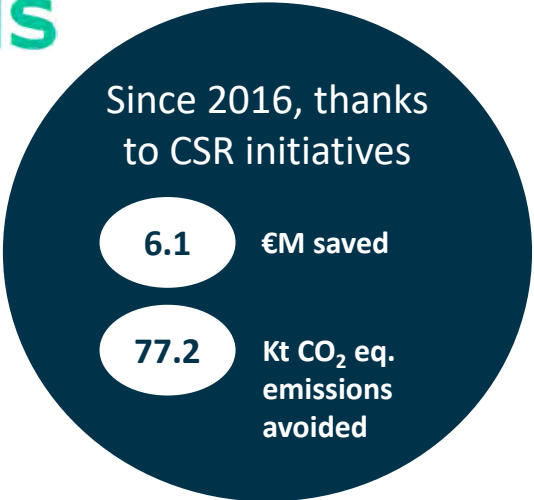


# Value creation: Measure of avoided impacts

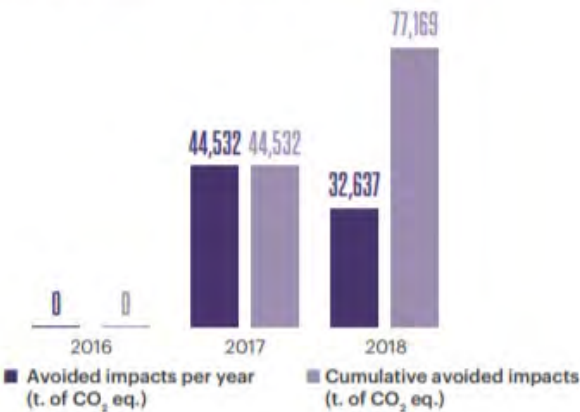
Results as of December 2018



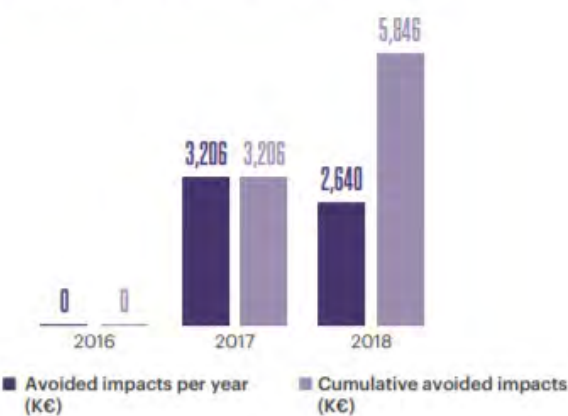
## SEQENS



AVOIDED IMPACTS:  
GHG EMISSIONS (TONS OF CO<sub>2</sub> EQ.)



AVOIDED COSTS: TOTAL ENVIRONMENTAL  
(ENERGY, WATER AND FUEL)





# RESPONSIBLE INVESTMENT DISCUSSION

March 2020

# CAPITAL DYNAMICS' RESPONSIBLE INVESTMENT PRINCIPLES



*Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (“ESG”) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.<sup>1</sup>*



As a responsible investor, Capital Dynamics is firmly committed to investing in managers, companies and projects that align with our core ESG values. All investment decisions at the firm are guided by our responsible investment policy which is based on four foundational principles:

## Principle 1

Responsible Investment (RI) leads to **enhanced long-term financial returns** for our investors<sup>2</sup>

## Principle 2

The Capital Dynamics investment platform, across all strategies, is required to follow a rigorous approach to ESG investment diligence and actively re-underwrite our rating of existing investments

## Principle 3

The data identified through our ESG investment diligence must be **tracked and analyzed** during the holding period to continually improve our RI process across each of our investment strategies

## Principle 4

Capital Dynamics understands the importance of its role as a **corporate citizen and prioritizes its commitment to the local communities** in which it operates and invests

(1) Source: <https://www.unpri.org/pri/what-is-responsible-investment>. (2) Based on internal research and market intelligence.

# OUR RESPONSIBLE INVESTMENT POLICY EVOLUTION

## Pre 2018 Policy Coverage

General firm level ESG framework

Discussion on ESG risks and diligence

High level exclusion list

## Post 2018 Policy Coverage

Firm and strategy level RI framework

Real time alerts and response protocol

Oversight via dedicated RI Committee

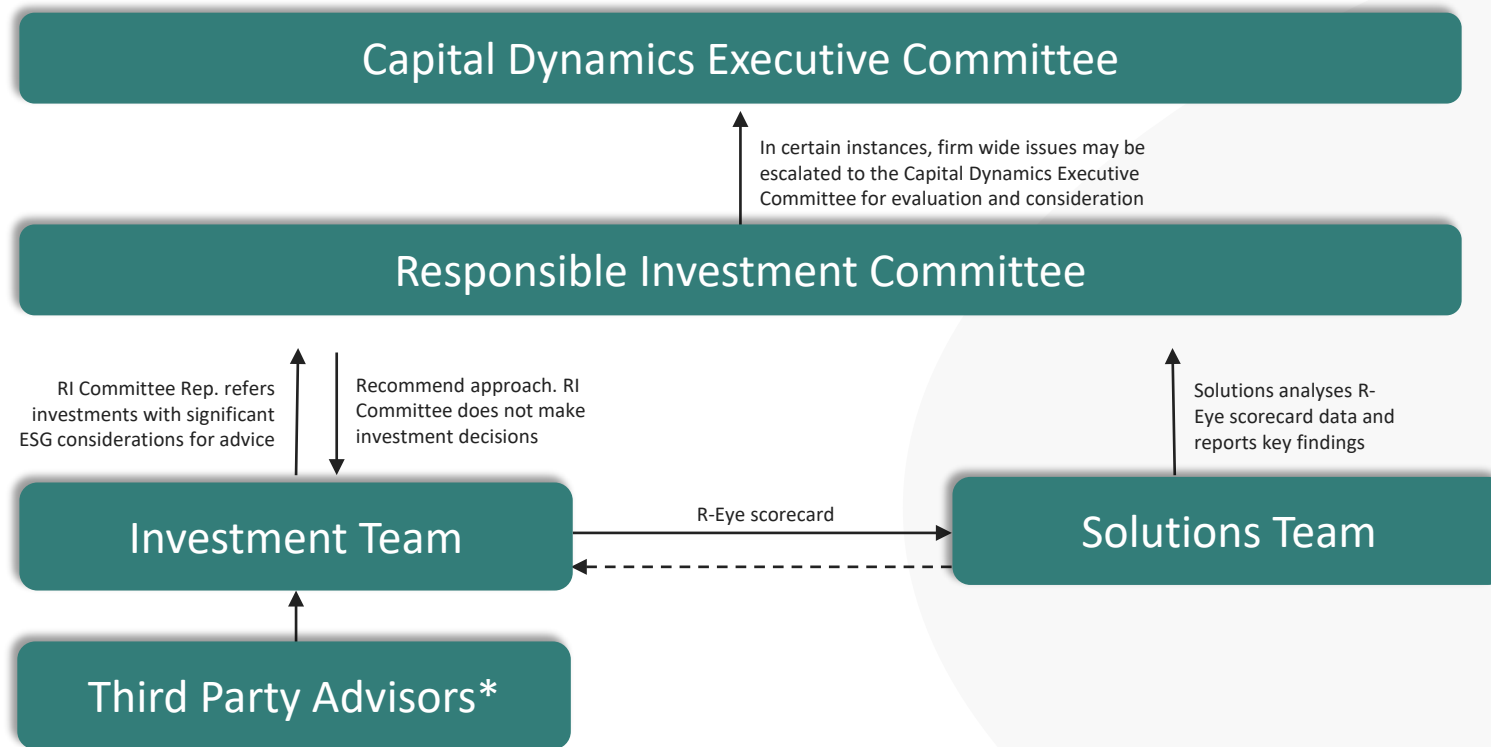
Proprietary R-Eye Rating System™

Statement on UK Modern Slavery Act

Annual policy review and attestation

Annual RI reporting to investors

# RI INVESTMENT & MONITORING PROCESS



This process applies both at the time of investment and during the ongoing monitoring of active investments.  
All decisions and recommendations are informed by Capital Dynamics RI policy which is updated and recertified on at least an annual basis

\*Not all investment decisions across Capital Dynamics engage third party advisors



# One Team. One Mission.



## 2019 ESG REPORT

A progress report on the Firm's integration of environmental, social, and governance issues for our investors, portfolio companies, and stakeholders.

# Our Responsible Investment Policy

During 2019, we updated our Responsible Investment Policy, which was first adopted in 2013. While we have retained the fundamental principles and commitments, the updated policy better aligns with our current responsible investment approach, which has matured and evolved over the years.

This updated policy considers a range of international ESG guidance documents, including the United Nations Principles for Responsible Investment, the United Nations Global Compact, the American Investment Council Guidelines for Responsible Investment, and Environmental Defense Fund's ESG Management Tool for private equity. It positions us well for the future, while remaining true to our history and the values that have shaped our Firm.

Oak Hill will, in accordance with our fiduciary responsibility to our stakeholders:

- 1 Identify ESG issues throughout our due diligence process related to potential investments.
- 2 Refuse to invest in any business that willfully exploits underserved or underprivileged communities and/or creates significant damage to society. This includes, but is not limited to, guns, ammunition, payday lending or gambling. Diligence should consider the macroeconomic environment required for potential investments to succeed and whether that aligns with the Firm's values.
- 3 Seek to grow and improve portfolio companies while benefiting multiple stakeholders. To that end, Oak Hill will work with portfolio companies on environmental, health, safety, and social issues with the goal of improving performance and minimizing adverse impacts.
- 4 Develop and maintain the resources to achieve implementation of the Firm's ESG initiatives including: an ESG Committee, ESG Officer, and working with our strategic ESG partners, BSR and EDF.
- 5 Make ESG integration an ongoing endeavor. The ESG Committee will meet to review the Firm's efforts semiannually.
- 6 Adhere to the highest standards of conduct to avoid even the appearance of negligent, unfair, or improper practices. This includes proactively complying with applicable national, state, and local labor laws in the countries in which we invest; support the payment of competitive wages and benefits to employees; provide a safe and healthy workplace in conformance with national and local law; and, consistent with applicable law, respect the rights of employees to decide whether or not to join a union and engage in collective bargaining.

- 7 | Respect the human rights of those affected by our investment activities and seek to confirm that our investments do not support companies that utilize child or forced labor or maintain discriminatory policies.
- 8 | Ensure all Oak Hill employees are aware of the Firm's culture of social responsibility dating back to its inception and encourage them to strengthen that culture. Provide ESG training for relevant Firm employees. Encourage all Firm professionals to engage in nonprofit giving and socially responsible volunteer activities.
- 9 | Encourage dialogue with our Limited Partners and other stakeholders regarding how we can manage ESG issues in a way that is consistent with their initiatives. Work with our Limited Partners to foster transparency in all aspects of the Firm's activities, including our ESG performance.
- 10 | Distribute this policy and related ESG information to all appropriate employees of our portfolio companies.



# Measuring Our Progress on Responsible Investment

We recognize our investors' increasing appetite for consistent, comparable performance data and use the PRI's reporting framework to share our progress on integrating ESG issues into our investment process. Below we map the progress of our ESG initiatives alongside the PRI's six principles.



## // Principle 1 Incorporating ESG Issues into Investment Analysis

- Since 2013, **100% of potential fund investments** presented to the Firm's Investment Committee have undergone ESG analysis through the Firm's due diligence process. We use industry-specific ESG standards in our research. Finally, we partner with EDF, BSR, and Ceres to stay informed of emerging macro and industry-specific ESG issues to include in our analysis.
- In the past three years, we have directly engaged with BSR on **9 potential transactions** for deeper dives on specific ESG issues that we have uncovered at potential investments. BSR's staff of more than 100 global sustainability experts help us understand the materiality and potential impact of emerging sustainability issues at potential investments.

## // Principle 2 Incorporating ESG Issues into Ownership

- Oak Hill's ESG Officer has completed **14 consulting engagements** to improve environmental and/or social performance at our portfolio companies. He has also engaged directly with human resources professionals at **100% of current portfolio companies** to reinforce our strong focus on employee engagement, retention, and compliance.
- The Firm has developed and hosted **14 professional development** webinars focused on ESG issues for portfolio companies since 2014. Topics have included creating a responsible sourcing initiative, mitigating risks from climate change, implementing diversity and inclusion initiatives, and how to build a veterans hiring program.
- The Firm has placed **4 EDF Climate Corps fellows** at portfolio companies. These fellows have identified specific initiatives that can reduce greenhouse gas emissions and energy costs at Oak Hill portfolio companies.



### // Principle 3 Disclosure on ESG Issues

- ESG initiatives at **100% of Oak Hill's recent investments** have been detailed in Oak Hill's annual ESG reports.
- Investment professionals, Senior Advisors, and/or our ESG Officer frequently have focused discussions regarding relevant ESG initiatives with portfolio company management teams and request company-specific ESG-related data.
- Completion of PRI Transparency Report each year since 2014.

### // Principle 4 Promotion of Responsible Investment

- Since 2011, the Firm's professionals have spoken at **12 industry forums** related to ESG in private equity, and Oak Hill's ESG program has been featured in **6 trade publications**.
- The Firm's professionals collaborated with PRI and EDF to develop **4 sets of tools and resources** to further ESG integration across the global private equity sector.

### // Principle 5 Progress Through Partnership

- The Firm has been a partner of EDF since 2010, a member of BSR since 2012, a PRI Signatory since 2013, and a member of the Ceres Investor Network on Climate Risk and Sustainability since 2017.

### // Principle 6 Reporting and Transparency

- Oak Hill has issued **7 annual ESG reports**.

*Signatory of:*



# THANK YOU

For more information, please contact:

Alan Kao  
Global Service Line Leader  
Compliance, Strategy & Transaction Services  
[akao@ramboll.com](mailto:akao@ramboll.com)  
+1 978 449 0324



Bright ideas. Sustainable change.