

PEI Responsible Investment Forum NY 4-5 March 2020

USS PE ESG Manager Monitoring Framework Amended for Public Disclosure

Framework provides indicative criteria not a checklist

USS PE Manager Monitoring Framework I

Rating/ KPIs	RI Policy & Process	Capacity/Governance	ESG Due Diligence	Stewardship & portfolio management
<p>3 - Outstanding, exemplary</p> <p>USS likely to note & commend some aspect of RI practices</p>	<ul style="list-style-type: none"> • Comprehensive ESG and RI related Policies and statements - no gaps • Applicability to USS assets clearly defined • Accountabilities within the firm clearly articulated • Policy(ies) updated within last 24 months • Evidence and references to ESG included in fund DDQs and data rooms and LP communications – offered as core to GP proposition. 	<ul style="list-style-type: none"> • Evidence of commitments to capacity building for market e.g. <ul style="list-style-type: none"> - Commitment to TCFD - Leadership role in diversity & inclusion • Material references to ESG in LP reporting and deal documentation • ESG KPIs for firm and/ or portfolio companies set by GP & reflecting materiality • Use of climate change scenario tools & ESG research providers • GP sustainability/ CSR/ ESG policies / reporting public on web • Candid detailed PRI report • Public profile, leadership on ESG shared at events 	<ul style="list-style-type: none"> • Evidence via case studies of ESG considerations in due diligence. • Detailed disclosures in response to RI questioning • Likely use of expert consultants • Comfortable talking off-cuff, open and confident answers. • PMs involved in ESG discussions • Possible sharing of information from PMIC packs • Evidence that DD findings link to inclusion of ESG in value creation plans and valuations. 	<ul style="list-style-type: none"> • Evidence that ESG is systemically included in portfolio reviews and monitoring processes. • Material information obtained / used by fund managers • ESG shortfalls addressed at portfolio companies/progress tracked by GP • Asset managers involved - often alongside ESG expertise. Clear governance processes in place (links to policy above) and record keeping . • Ability to identify - and share with LPs - awareness of key ESG risks within fund portfolios. • Processes in place to prioritise engagement/stewardship activities. • Firm and/or investee asset / KPIs identified /targets set. • Likely systems in place to evidence and track ESG performance data.

USS PE Manager Monitoring Framework II

Rating/ KPIs	RI Policy & Process	Capacity/Governance	ESG Due Diligence	Stewardship & portfolio management
<p>2 – Good</p> <p>USS unlikely to make any material comments as pretty comfortable with the fund's commitment & implementation</p>	<ul style="list-style-type: none"> Firm may have more than one RI-related policy document, perhaps provides detail about the governance of ESG Clearly applied to USS assets. Approach covers diligence and monitoring/ ownership of assets. But some questions likely still arise out of their documentation Little or no involvement in any outside initiatives on ESG. Likely to have less information in the public domain. 	<ul style="list-style-type: none"> Evidence of house level involvement in ESG integration Evidence of internal commitment/ leadership Deal team involvement in response to our questions Evidence of ESG dedicated service providers/advisors Reporting of portfolio company ESG initiative Possibly a PRI signatory or involvement in other industry initiatives related to ESG, but PRI reporting unlikely to be very detailed or publish case studies. GP organises events covering ESG for PCs or LPs Evidence of ESG training – though not always linked to investment Sharing of good practice Limited information on website on ESG & likely provided to LPs on request. 	<ul style="list-style-type: none"> Reasonable evidence of ESG due diligence, but RI consider scope a bit limited/ incomplete answers. This may be because of an unwillingness to disclose, or GPs prioritisation of time/ disclosure to LPs, or less systematised/ retrievable record keeping but unable to rate higher without more detailed disclosures. 	<ul style="list-style-type: none"> Good compliance based monitoring. Plus ESG data capture for portfolios - but materiality of ESG KPIs is not always evident Some examples of initiatives and targets may be set by the GP, but not systematic across whole portfolio or uniform within the same sectors. Initiatives may appear to be portfolio company led. GP influence more difficult to determine. ESG-related initiatives probably in place for the firm but Deal team may have limited involvement ESG initiatives not really fully integrated into asset management plans.

USS PE Manager Monitoring Framework III



USS

Rating/ KPIs	RI Policy & Process	Capacity/Governance	ESG Due Diligence	Stewardship & portfolio management
1 – Fine USS likely to make specific points to encourage progress	<ul style="list-style-type: none"> • ESG or RI policy available but basic. • Little evidence of thoughtful input from the GP firm • Lack of clarity regarding application to USS assets • Unclear what processes are within scope of policy • Unclear accountability within the firm • Policies not been refreshed in 3+ years 	<ul style="list-style-type: none"> • Emergent practices or tick box approach • Processes not fully embedded or developed • IR or Sole person appears to take responsibility and initiatives. • Unclear how integrated across the firm. • Possibly ad hoc practices. • Unwillingness to commit responses to paper. • Lack of senior leadership. • Unlikely that policy is in public domain or on website 	<ul style="list-style-type: none"> • Closed answers and inability/unwillingness to respond openly to further questions arising in conversations. • Lack of appropriate GP acknowledgment or address to ESG concerns, particularly in new areas. • Very little information on case studies proffered. • Same select case studies may be rolled out year on year. 	<ul style="list-style-type: none"> • Ad hoc awareness of ESG risks in portfolio but not captured at firm or portfolio level. • Limited assessment of materiality. • GP may outsource monitoring processes - with lack of clarity regarding how the information is used in house. • Often a compliance/ legal dept based function, not linked to the value creation plans. • Asset managers are less likely to be involved. • Lack of evidence on how due diligence findings are acted upon in asset management/monitoring processes.
0 – Weak USS likely to raise matters that should be addressed	<ul style="list-style-type: none"> • No policy available • Avoidance of written materials on ESG 	<ul style="list-style-type: none"> • Unclear how ESG (or CSR) is covered • No evidence of involvement in any market initiatives 	<ul style="list-style-type: none"> • No evidence of ESG in due diligence shared with USS (RI) 	<ul style="list-style-type: none"> • No evidence of portfolio monitoring on ESG, no target setting, no governance or risk mapping on ESG risks in portfolio shared with RI. • Inability to answer portfolio based questions