

ESG IN THE INVESTMENT CYCLE – SCREENING AND CATEGORISATION

OBJECTIVES

- Confirm compliance with the fund's policy and basic requirements.
- Early identification of key issues that may have a significant impact on the investment and/or due diligence process.
- Build a common understanding with the company of ESG requirements, risks and opportunities.
- Enable the fund manager to plan the ESG due diligence.

ACTIVITIES

▶ ENSURE COMPLIANCE WITH EXCLUSION LIST

- Ensure all the investments comply with any applicable lists of excluded/prohibited activities.

▶ ENSURE COMPLIANCE WITH KEY GOVERNANCE AND BUSINESS INTEGRITY (G&BI) REQUIREMENTS

- Identify 'red flags' early. G&BI issues can significantly impact the ESG due diligence or breach the fund's policies and LP's requirements.

▶ IDENTIFY KEY ESG RISKS, IMPACTS AND OPPORTUNITIES

- Identify the key ESG aspects of an investment and the applicable ESG standards (e.g. local regulations and IFC Performance Standards).

▶ BUILD A COMMON UNDERSTANDING WITH THE COMPANY

- Build a common understanding of the key ESG aspects to be managed and assess the company's willingness and capacity to address them. Present the ESG business to the company.

▶ CATEGORISE AN INVESTMENT'S INHERENT E&S RISKS AND IMPACTS

- Assign an inherent E&S risk/impact category to each investment. Take into account the company's (and subsidiaries') business plan, sector, technology, scale of operations, location and contractors' and supply chain issues.

▶ DEFINE THE SCOPE OF AND PLAN THE ESG DUE DILIGENCE

- Define key ESG factors to be assessed at due diligence (DD) and allocate the resources required to conduct an adequate DD.

OUTPUTS

- Identification of 'no go' issues and 'red flags'.
- Understanding of key ESG aspects of the investment.
- Assignment of an inherent E&S categorisation.
- Preliminary view of company's commitment and ability to manage ESG.
- Plan and budget for DD.
- ESG section in the screening memorandum prepared by the fund's deal team for the Investment Committee.

CDC ESG TOOLKIT RESOURCES

- [ESG in the Investment Cycle: Screening and categorisation](#) (includes an inherent E&S risk/impact categorisation system).
- [E&S Checklist](#) (select key questions).
- [G&BI Checklist](#) (select key questions).
- [CDC Sector Profiles](#).
- [CDC E&S Briefing Notes](#).
- [Governance and Business Integrity](#).
- [CDC Guidance: Assessing Companies' Commitment, Capacity and Track Record](#).
- [CDC Guidance: Working with Management](#).
- [CDC's Code of Responsible Investing](#).
- [Downloads/Reference Materials](#).

ESG IN THE INVESTMENT CYCLE – ESG DUE DILIGENCE

OBJECTIVES

- Assess the ESG risks and opportunities of the proposed investment in order to allow the fund's Investment Committee (IC) to make an informed decision considering: (i) ESG factors; and (ii) the company's and fund manager's capacity to address risks and capitalise on opportunities.

ACTIVITIES

▶ DEFINE THE SCOPE OF THE ESG DUE DILIGENCE

- Define the boundaries of due diligence (DD). Findings at screening should guide the scope of DD.

▶ PERFORM A DESK REVIEW

- Collect and review ESG documentation, including publicly available information and documents requested from the company.

▶ ASSESS THE COMPANY'S COMMITMENT, CAPACITY AND TRACK RECORD

- Asses company's commitment, capacity and track record (CCTR) as these are key indicators of its ability to achieve and maintain expected ESG performance.

▶ PLAN AND CONDUCT SITE VISITS

- Site visits are very valuable to confirm or change initial ESG assessments and gauge a company's CCTR and compliance with applicable ESG standards.

▶ ASSESS THE NEED FOR ESG CONSULTANTS AND ENGAGE CONSULTANTS (WHERE APPROPRIATE)

- Where appropriate, engage consultants with sound technical and geographical knowledge and expertise to assist with the ESG DD (e.g. 'High risk' investments).

▶ DEVELOP AND AGREE ESG ACTION PLANS

- Agree with the company a specific, measurable, achievable, realistic and time-bound ESG Action Plan to address any gaps/improvement areas.

▶ ENSURE INFLUENCE AND OVERSIGHT (See Investment Agreement and Ownership and Monitoring stages)

- Start considering how to ensure sufficient influence and oversight post-investment, so that the company operates in accordance with the fund's requirements.

▶ PREPARE DUE DILIGENCE REPORTS AND SUMMARY FOR THE INVESTMENT COMMITTEE

- Prepare a document for the IC summarising DD findings, including key ESG risks and opportunities, view on the company's CCTR, gaps and corrective actions.

OUTPUTS

- Record of ESG DD process.
- ESG Action Plan(s).
- ESG DD report.
- Summary of findings for the IC.

CDC ESG TOOLKIT RESOURCES

- [ESG in the Investment Cycle: ESG Due Diligence](#).
- [E&S Checklist](#).
- [G&BI Checklist](#).
- [CDC Sector Profiles](#).
- [CDC E&S Briefing Notes](#).
- [Governance and Business Integrity](#).
- [CDC Guidance: Site Visits](#).
- [CDC Guidance: ESG Action Plans](#).
- [CDC Guidance: Types of Specialist E&S Assessments and Reports](#).
- [CDC Guidance: Assessing Companies' Commitment, Capacity and Track Record](#).
- [CDC Guidance: Working with Management](#).
- [CDC Guidance Working with Consultants](#).
- [Downloads/Reference Materials](#).

ESG IN THE INVESTMENT CYCLE – INVESTMENT DECISION

OBJECTIVES

- The objective at this stage is to enable the fund's Investment Committee (IC) to make an informed investment decision that takes ESG factors into account.

ACTIVITIES

PROVIDE INPUT FOR THE INVESTMENT DECISION

- Provide input for the investment paper to be discussed at the fund's IC. This input should be prepared or signed off by the ESG Officer (or person responsible for the ESG DD) with input from other team members, as appropriate (particularly Investment Officers).

MAKE AN INVESTMENT DECISION

- Consider and, as appropriate, discuss in the IC meeting(s), ESG DD findings in the context of the deal as a whole and use it to validate or question information from other DD work streams (e.g. financial and legal DDs). ESG discussions and related decisions made should be included in the IC minutes.

PROVIDE UPDATES TO THE INVESTMENT COMMITTEE

- Revert to the IC if legal negotiations between the fund manager and company materially fail to achieve the desired outcome as described by the investment paper/report or as requested by the IC.

CDC ESG TOOLKIT RESOURCES

- [ESG in the Investment Cycle: Investment Decision](#).
- [Downloads/Reference Materials](#).

OUTPUTS

- Fund's IC minutes should include ESG matters discussed and the related decisions.
- Where the IC has granted conditional approval, ensure that conditions or outstanding actions and/or documentation have been completed/attained and reviewed prior to drawdown.
- Update the IC if legal negotiations between the fund manager and company materially fail to achieve the desired outcome as described by the investment paper/report or as requested by the IC.

ESG IN THE INVESTMENT CYCLE – INVESTMENT AGREEMENT

OBJECTIVES

- Ensure that the company's and fund manager's interests and expectations on ESG matters are explicitly aligned.
- Ensure sufficient influence and oversight.
- Secure and formalise commitments from the company to meet applicable ESG requirements including ESG Action Plans.
- Protect the fund from reputational, financial and/or legal damage by providing legal remedies in the event of default risks or other problems arising.
- Enable exit if necessary (only in extreme cases).
- Prevent inappropriate transactions (from an ESG perspective).

ACTIVITIES

▶ NEGOTIATE ESG CLAUSES

- By the time the investment agreement is being negotiated, a company should already have a good understanding of what the fund requires from an ESG perspective.
- Before signing the investment agreement, ensure that the company understands and has planned for the necessary financial and human resource to comply with the terms of the legal agreement.
- Before signing the investment agreement, ensure sufficient post-investment influence on, and oversight of, the company. The inclusion of adequate ESG terms in the legal agreement is important in order to achieve this.

▶ INCORPORATE ESG CLAUSES IN THE LEGAL AGREEMENTS

- Incorporate ESG clauses in the legal agreements. ESG clauses would typically include/cover: (i) representations and warranties; (ii) compliance with ESG applicable requirements/standards; (iii) investment monitoring; and (iv) mechanisms to address non-compliance situations.

OUTPUTS

- Shareholder's agreement or equivalent that includes appropriate ESG clauses and clearly outlines how ESG matters will be handled during the life of the investment in order to meet the fund's requirements and expectations.

CDC ESG TOOLKIT RESOURCES

- [ESG in the Investment Cycle: Investment Agreement](#)
- [CDC ESG Legal Drafting Guide for Equity Investments](#)
- [Governance and Business Integrity](#)
- [CDC Guidance: ESG Action Plans](#)
- [CDC Guidance: Working with Management](#)
- [Downloads/Reference Materials](#)

ESG IN THE INVESTMENT CYCLE – OWNERSHIP AND MONITORING

OBJECTIVES

- Guide or assist the company to ensure its ongoing compliance with applicable standards, implementation of the ESG Action Plan and continuous improvement of ESG performance including value creation.
- Stay informed and respond to new developments and/or risks relevant to companies' ESG performance.
- Maintain and build a good working relationship with the company.

ACTIVITIES

BUILD ON THE RELATIONSHIP ESTABLISHED DURING DUE DILIGENCE

- Fostering an open and trusting partnership between the fund manager and the company is key to building value in the company.

DISCUSS KEY POINTS EARLY

- Companies may face some initial difficulties in getting ESG management systems in place. The fund manager should support the company.
- It is important to: (i) establish governance mechanisms for ESG; (ii) revisit ESG DD findings; and (iii) discuss monitoring process and Key Performance Indicators (KPIs) with the company.

REGULAR MONITORING: OVERSIGHT OF AND SUPPORT ON ESG MATTERS

- Regular monitoring includes activities which: (i) take place on an ongoing basis throughout the life of an investment; (ii) are planned and structured; and (iii) are recorded in standard reports. The main objective is to ensure that ESG factors are being properly managed. This can be achieved through: (i) regular meetings with companies to discuss ESG matters; (ii) the review of ESG monitoring reports prepared by companies and other relevant information (e.g. ESG audits); (iii) periodic assessment of companies' ESG performance and ESG Action Plan implementation; (iv) site visits; and (v) engagement of consultants (if appropriate).
- Discuss ESG performance of portfolio companies at the fund's portfolio review meetings.

MANAGE UNPLANNED EVENTS

- Implement mechanisms to respond appropriately and swiftly to serious accidents (e.g. fatalities, local opposition to the company's activities), incidents or events, or other changes in the company's circumstances, to ensure that lessons are learned and applied in future.
- Serious incidents may need to be reported to various bodies (e.g. Company's Board, fund's LPs, regulators).

PREPARE FOR EXIT

- From the earliest phases of an investment, thought should be given to how ESG performance improvements can add value to a company. Towards the end of the investment, it is advisable to consolidate information in order to be able show how value creation has been linked to ESG matters.

OUTPUTS

- Greater value of each company partly due the fund's influence on, and support provided to, the company.
- Fund managers and LP's ongoing and appropriate oversight of each company's ESG performance.
- Companies' compliance with fund's ESG policies and related standards.
- Responsive and effective management of unplanned events (e.g. serious accidents).
- Good stakeholder relations, including companies and LPs.
- Records to demonstrate good ESG performance and compliance with the fund's policies.

CDC ESG TOOLKIT RESOURCES

- [ESG in the Investment Cycle: Ownership and Monitoring.](#)
- [E&S Checklist.](#)
- [G&BI Checklist.](#)
- [CDC Sector Profiles.](#)
- [CDC E&S Briefing Notes.](#)
- [Governance and Business Integrity.](#)
- [CDC Guidance: Site Visits.](#)
- [CDC Guidance: Types of Specialist E&S Assessments and Reports.](#)
- [CDC Guidance: Assessing Companies' Commitment, Capacity and Track Record.](#)
- [CDC Guidance Working with Consultants.](#)
- [CDC Good Practice: Preventing Fatalities and Serious Incidents.](#)
- [Downloads/Reference Materials.](#)

ESG IN THE INVESTMENT CYCLE – EXIT

OBJECTIVES

- Maximise the contribution that good ESG performance can make to return on investment (ROI).
- Potentially attract buyers for whom good ESG performance would be a priority and/or legal requirement.
- Prepare credible ESG materials for exit (e.g. for listing requirements or information that prospective buyers may wish to see).
- Help the company answer questions from prospective investors. For example, collate relevant ESG data which shows the extent to which business improvements have been achieved.
- Ensure the company's ESG management system is self-sustaining.
- Help mitigate post-exit reputational risks..

ACTIVITIES

▶ PLAN THE EXIT

- Nearing the end of the investment term, review any material ESG issues to ensure there is sufficient time to address any potential problems.
- Collate relevant ESG information for potential bidders. ESG improvements should be clearly laid out and evidenced.

▶ PRIVATE SELL

- Prepare the offering document (private placement memorandum (PPM)) . Include evidence of ESG improvements and how they have improved the company.
- Feature ESG improvements in the road show presentations.
- Ensure that prospective buyers cannot use ESG factors to negotiate a lower price by arguing for expensive warranties on potential ESG liabilities.
- Highlighting the operational value-add of ESG improvements in meetings with prospective buyers.
- Help the company prepare for investor questions on ESG.
- Share vendor DD documents featuring ESG DD by a consultant and an assessment of the business integrity (BI) management system.
- Prepare a data room containing all documents that buyers, and their technical advisors, might want to see.
- Consider pre-prepared answers to questions that might be asked

▶ PUBLIC FLOTATION – INITIAL PUBLIC OFFERING (IPO)

- Include ESG information in the offering memorandum, including a summary of risks, impacts, opportunities, management measures and improvements over the past years..
- Include ESG in road show slides.
- Consider answers to likely questions.
- Consider how to maintain promises post-exit.

OUTPUTS

- Financial model taking into account ESG aspects.
- Information memorandum including information on the company's ESG performance and improvements over the past years.

CDC ESG TOOLKIT RESOURCES

- [ESG in the Investment Cycle: Exit](#)
- [Downloads/Reference Materials](#).