

ESG due diligence

ESG in the investment cycle

OBJECTIVES

- Assess the ESG risks and opportunities of the proposed investment in order to allow the fund's IC to make an informed decision considering: (1) ESG factors; and (2) the company's and fund manager's capacity to address risks and capitalise on opportunities.

ACTIVITIES

DEFINE THE SCOPE OF THE ESG DD

- Define the boundaries of 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

- Assess company's 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.

Abbreviations: CCTR, commitment, capacity and track record; DD, due diligence; ESG, environmental, social and governance; IC, Investment Committee.

TOOLKIT RESOURCES

ESG in the investment cycle:
Due diligence

E&S checklist

BI checklist

Sector profiles

E&S topics

Business integrity

CDC guidance: Site visits

CDC guidance: ESG action
plans

CDC guidance: Specialist
E&S assessments

CDC guidance: Assessing
CCTR

CDC guidance: Working with
management

CDC guidance: Working with
consultants

Reference materials