

ARGENTUM

ESG and Private Equity – Argentum's Perspective

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Why is ESG important?

- Argentum believes that responsible value creation ultimately provides the best returns
 - ESG is good business
- Important due to the nature of investments
- Private equity as an asset class well-positioned to be leading on ESG
 - Active ownership
 - Optimisation of resources
 - Often majority owners
 - Responsible ownership part of the business model
 - Sustainable business practices
- Developing the industry
 - Raise ESG awareness
 - Dialogue with GPs

How do we do it?

Argentum's investment process

- Two main levels for ESG-related work in Argentum
- **Prior to the investment is made**
- The GPs must disclose ESG-related assessments
- Primary investments
 - Separate analysis of the GPs views, guidelines and working methods related to ESG
 - Part of the legal framework
- Secondary investments
 - Thorough analysis of the underlying portfolio
 - Follow-up of GPs
- Co-investments
 - Specifically investigated before an investment decision is made
 - Follow-up of investments

How do we do it?

Follow-up and monitoring

- Two main levels for ESG-related work in Argentum
- **Following the investment**
- Annual monitoring of the GPs work related to ESG in the portfolio
- General assessment of the GPs based on ESG guidelines and transparency
- Set of open questions regarding ESG
 - Questions evaluated and adjusted each year
 - Last year:
 - Separate question on the UN SDGs and policies related to climate change
 - Most relevant KPI for the underlying portfolio companies
- Risk assessment of the underlying portfolio companies

How do we do it?

Follow-up and monitoring

Indicator	Human Rights	Labour	Environment	Anti-corruption
Low risk	93,6 % (93,6 %)	93,6 % (95,1 %)	81,9 % (81,0 %)	85,2 % (80,3 %)
Medium risk	6,2 % (6,2 %)	6,2 % (4,9 %)	17,5 % (18,5 %)	14,4 % (19,2 %)
High risk	0,2 % (0,2 %)	0,2 % (0,0 %)	0,7 % (0,5 %)	0,4 % (0,5 %)

452 underlying portfolio companies – (78,1 % of the portfolio)

What do we see?

62.8 %

What do we see?

- The majority of the GPs have formal ESG guidelines in place, and most of them have satisfactory guidelines
- ESG-related questions included in the DD-process prior to investments
- GPs familiar with UN Global Compact and UN Pri; few have included the SDGs
- Strong focus on ESG
 - Environmental DD
 - Tracking social factors
 - Good governance
- Work on developing ESG KPIs varies
- Positive financial effect, and will become clearer going forward

What are we looking for?

- ESG integrated in the GPs way of doing business
 - One size does not fit all
- Continuous improvement
 - The journey is important
 - 28 of 53 GPs had further developed their guidelines in 2016, or planned to do so in 2017
- Raising awareness
 - Using questions to focus on specific issues
- Examples
 - Success stories and challenges
- Tracking the GPs
 - Status and future plans
- The most important job is done in the portfolio companies, not through reporting

Challenges

- Differences among GPs
 - Challenging to find an approach that includes all managers
 - Dialogue is important
- Unlisted companies
 - Data is often not readily available
 - Harder to measure KPIs
- Financial effects
 - Often difficult to isolate from other improvements made in the company
- Breaches
 - What and when to report?

Some future trends?

- KPI's
 - Been on the agenda for a while, continues to be important
- Sustainable Development Goals
 - Increasingly important – also in PE
- Financial effects
 - Hard to isolate, but important to highlight
- Climate
 - How are the portfolio's exposure to climate risk?

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