

A modern glass skyscraper at dusk, with a landscaped plaza and a waterfall in the foreground. The building's interior lights are on, and the sky is a mix of blue and pink. A person is walking on the plaza in the foreground.

International perspectives

Workshop on ESG and Sustainability in Private Equity

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General trends

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Private Equity and the responsible investment journey

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Maturing market

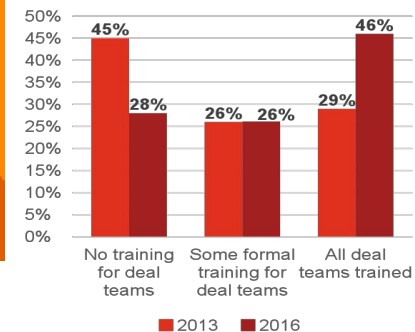
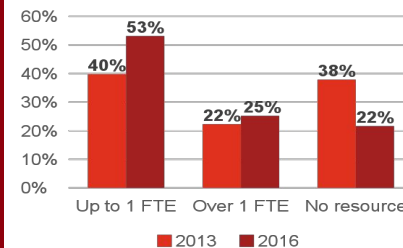
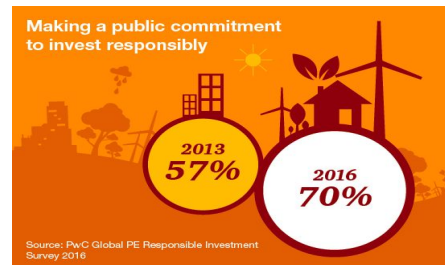
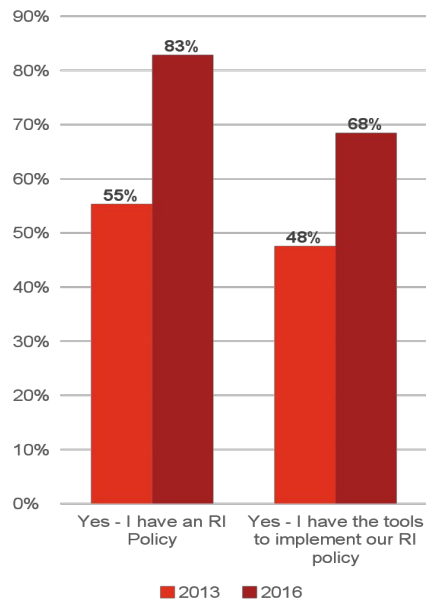
- Building the structure for responsible investment – policy, reporting, disclosure, people, training
- Embedding ESG management in the deal cycle

Maturing market – commitment, policy, tools, people

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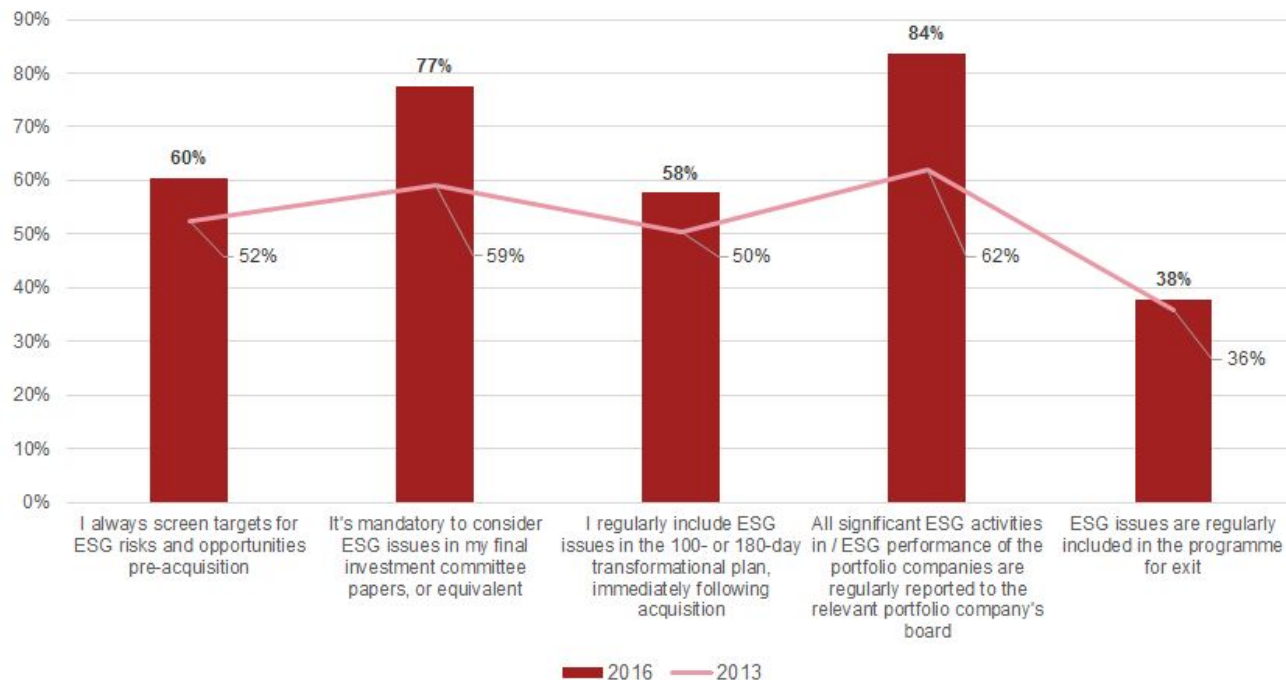


Maturing market – embedding in the deal cycle

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Key messages

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Maturing market

Accepted value

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General trends

- Building the structure for responsible investment – policy, reporting, disclosure, people, training
- Embedding ESG management in the deal cycle
- Establishing the financial business case for ESG management – influencing price and informing decisions
- Belief in the value of good ESG management, but fewer than expected putting a value on it

Accepting value - the business case

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Top drivers:

- **Risk management**
83% said it was in their top three drivers with **44%** putting it top
- **Investor pressure:**
60% said it was in their top three drivers with **17%** putting it top

40% applied a material discount in their valuation and/or did not invest in a company based on poor ESG performance

41% are prepared to pay a premium for a target company due to its strong ESG performance

14% received a premium for strong ESG performance in your portfolio company at exit

20% estimate the value created by any of the ESG activities of the portfolio companies

Only **38%** **regularly include ESG issues in the programme at exit**

Horizon scanning: government agenda (SDGs)

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Maturing market

Accepted value

Horizon scanning

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- Investing in ESG management – policy, reporting, disclosure
- Embedding in the deal cycle – dedicating time, formal training

- Establishing the financial business case for ESG management – influencing price and informing decisions
- Belief in the value of good ESG management, but fewer than expected putting a value on it

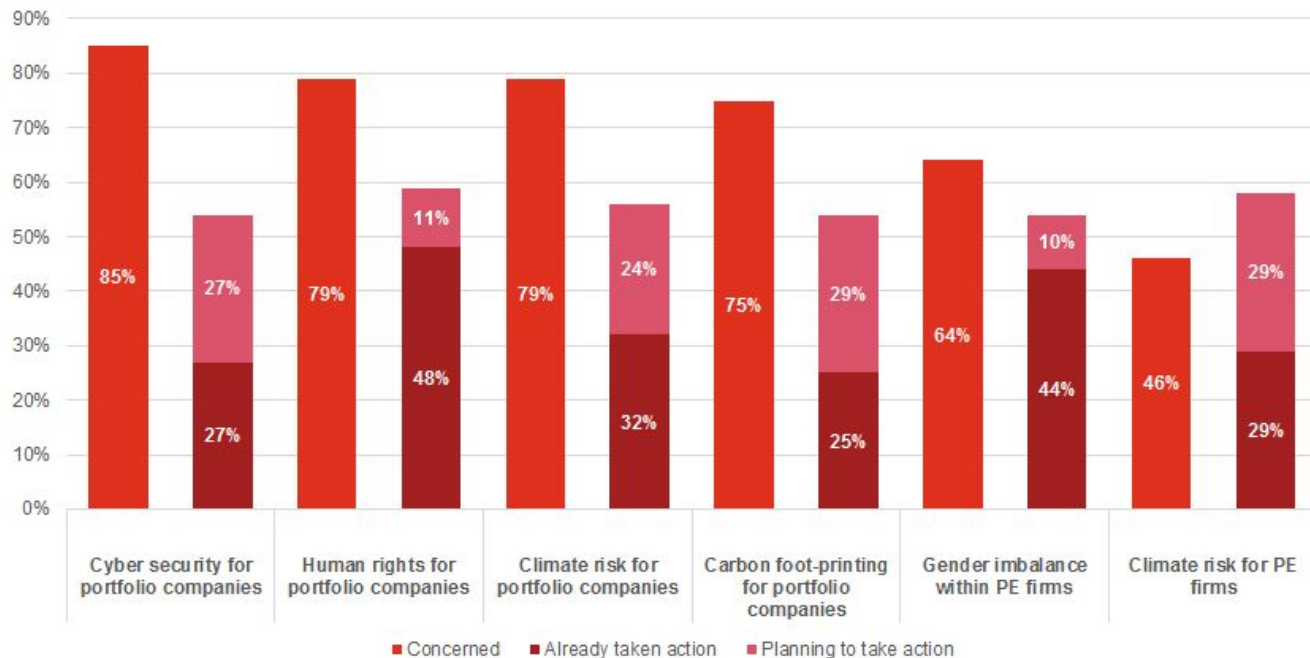
- Identifying risks e.g. cyber security and human rights, but not taken action yet to mitigate them
- Aware of government agenda on SDGs

Horizon scanning: risk and mitigation

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Horizon scanning: government agenda (SDGs)

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Alignment and benefit



Action



Key messages

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Maturing market

- Investing in ESG management – policy, reporting, disclosure
- Embedding in the deal cycle – dedicating time, formal training

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Accepted value

- Establishing the financial business case for ESG management – influencing price and informing decisions
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Horizon scanning

- Identifying risks e.g. cyber security and human rights, but not taken action yet to mitigate them
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General trends

Are we nearly there yet? ... the journey

Are we there yet?.....the journey

A maturing process to responsible investments



What does best practice look like?

- Formalisation of ESG training for deal teams
- Strong ESG governance building on a partner taking ultimate responsibility, supported by a dedicated ESG team reflecting the size of the firm

- Ambitious RI policies not only stating the firm's commitment, but describing the processes in place to embed ESG at both deal cycle and house levels
- Development of sophisticated ESG tools to support the implementation of the RI policy. The tools should be adapted to the investment mandate of the firm

- Systematic screening of target companies for ESG risks and opportunities and documentation of findings in the investment papers
- Inclusion of ESG considerations into the 100-180 day plan, when relevant
- Systematic inclusion of ESG considerations throughout the hold period and in preparation for exit

- Systematic review of newly acquired portfolio company's ESG performance to create a baseline, followed by ongoing monitoring during the hold period (i.e. at least annual)
- Formal processes for portfolio companies to report significant ESG incidents to the PE house
- Portfolio company's Board has oversight of ESG activities

- Estimation of the value created by ESG initiatives at portfolio companies when relevant

- Value created or protected by ESG initiatives is systematically reflected in valuation calculations or premiums
- Systematic withdrawal from the deal process for poor ESG performance of a target company on material issues

- Disclosure of ESG activities to investors at least annually and following any significant ESG incidents
- Systematic inclusion of ESG considerations into contractual agreements with limited partners (e.g. LPAs, side letters)

- Section of the PE firms' website dedicated to ESG matters
- Standalone or integrated ESG report publicly available

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Key results

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The SDGs are on the business radar - 62% think they're important enough to include in their reporting...but looked at another way, 63% are making no meaningful engagement



Key results

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Companies are prioritising SDGs they think are most relevant to their business but they don't align with those of citizens.

Most popular business priorities



Least popular business priorities

Most popular citizen priorities

Alarmingly, businesses' least prioritised goals are those that are most important to citizens

We selected two commonly used business indicators per SDG and scored how well each company is reporting on their priority SDGs.

Most SDG reporting is still at a qualitative level only

Average reporting quality
2.03/5



Reporting quality scoring method:

- 0 Not reported
- 1 Descriptive comment
- 2 Description of ambition
- 3 Quantified KPI
- 4 Quantified KPI and target
- 5 Quantified KPI and target and link to societal value

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General trends



General trends - SDGs and TCFD

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“ Business as usual won't work. The top five long-term business risks are all sustainability risks: Water crises, failure of climate-change mitigation and adaptation, extreme weather events, food crises, and profound social instability. This means sustainability must be an integrated part of business risk management.

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SUSTAINABLE DEVELOPMENT GOALS

General trends



General trends - SDGs

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Launched at PRI in Person in
September 2017

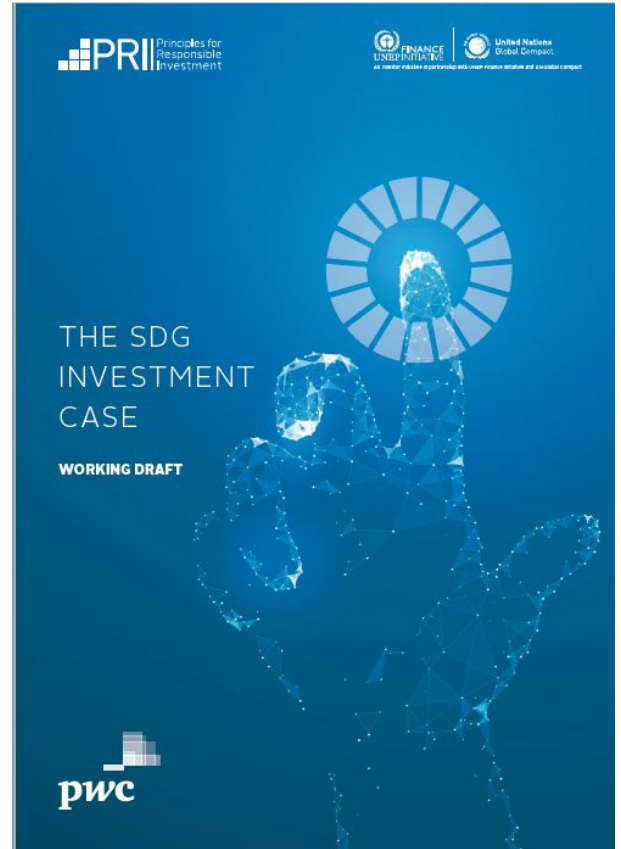
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Making the case for why
investors should engage with the
SDGs

General trends

5 areas explored:

- Fiduciary duty
- Macro risks and opportunities
- Micro risks and opportunities



General trends - SDGs

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“The SDGs provide a unique opportunity to elevate communication on sustainability. Governments have emphasized this agenda through SDG 12 – recognizing how important it is for companies to adopt sustainable practices and integrate this information into their reporting cycles. The expectations on companies are huge. Companies that align reporting and communication with the SDGs will be speaking in the same language that increasingly is adopted by governments, foundations, NGOs and even investors.”

Lise Kingo

CEO & Executive Director, United Nations Global Compact

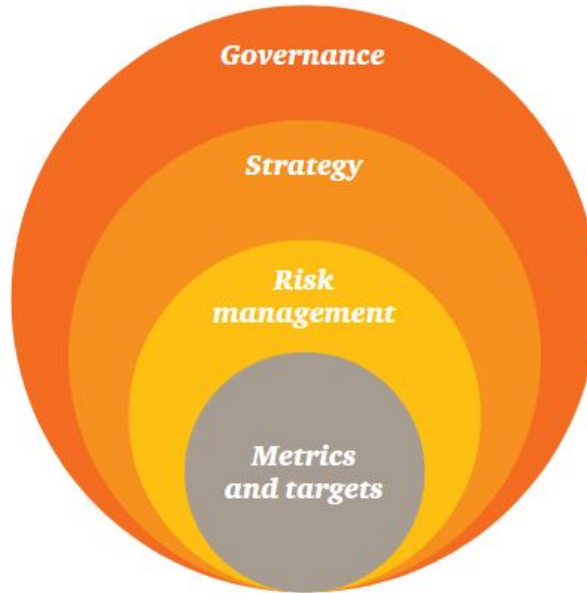


TCFD core recommendations

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Governance

The organisation's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

Risk management

The processes used by the organisation to identify, assess, and manage climate-related risks

Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

What makes TCFD different?

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WORKSHOP ON ESG AND SUSTAINABILITY IN PRIVATE EQUITY

Monday 11 December at PWC's offices in Oslo
Dronning Eufemias gate 8, 0191 Oslo

PROGRAMME

8:00 - 8:30	Breakfast - Coffee and croissants are served
8:30 - 8:35	Opening - Carsten Bienz (NHH)
8:35 - 9:00	Introduction to ESG Sveinung Jørgensen (HIL) & Lars Jacob Tynes Pedersen (NHH)
9:00 - 9:30	ESG and Value Creation in PE - Jaideep Das (ERM)
9:30 - 9:35	<i>Break</i>
9:35 - 10:05	The GP's perspective on ESG I - Jackie Roberts (Carlyle)
10:05 - 10:35	The GP's perspective on ESG II Narve Reiten & Line Tønnessen (Reiten)
10:35 - 10:45	<i>Break</i>
10:45 - 11:05	The LP's perspective on ESG I Susanne Gloersen (Formuesforvaltning)
11:05 - 11:25	The LP's perspective on ESG II Jon Fredrik Vassengen (Argentum)
11:25 - 11:45	International Perspectives Jeanett Bergen (PWC)
11:45 - 12:10	Short Discussion and Closure

