

# LP Sustainability Maturity Model Tool

NYU Stern CSB

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# Key themes from the LP interviews – a need for improved sustainability analysis and ongoing monitoring of performance

## Key Findings from LPs

### Unclear How to Use Sustainability Data

While LPs have begun collecting sustainability data from GPs and portcos, they **often do not look at the data after the initial DDQ exercise**

### Lack of Standardization / Quality of Data

LPs report that they receive **inconsistent metrics from GPs** (different data shared for different portcos, different FYs, etc.)

GPs note that they receive similar, yet **non-standardized DDQs**, requiring different answers

### Lack of Maturity / Education

While some LPs highlighted advanced sustainability reporting practices, many are just beginning their sustainability journey and others view it as a tick-the-box exercise

## Relevant LP Quotes

- “Establishing **consistent metrics that any GP could report on** would be helpful, in order to establish a minimum baseline and allow for aggregation”
- “Wishes there was a common scoring framework in the industry like GRESB as current scorecard is basic – would rather **aggregate real data instead of assessment scores**”
- “In regard to the DDQ, see some benefit of an academic institution denoting the most important questions and most material issues by sector”
- “It is all about **activating the sustainability data, so that it can play a larger role in exits**”
- “To the extent that **existing tools like PRI DDQ and SASB could be combined to triage where they should focus time** on specific investments, that would be helpful”
- “See issue of the same things being asked in slightly different ways in the DDQ”

# NYU Stern CSB Assessed LP Processes Across the Investment Lifecycle



## Current Practice

- Defining Internal Strategy**
  - ESG in investment policy
  - Starting to define what ESG metrics to track
  - Defining owner of ESG function
- GP Initial Assessment**
  - DDQ (ILPA + PRI)
  - ESGDCP
  - DDQ assessment model
  - ESG scorecard
  - Discussions over 1 yr period
- GP / LP Agreement**
  - LPA
  - Side letter
- GP/PortCo Ongoing Assessment**
  - Rely on sustainability reports
  - Collect minimal ESG reporting data from portcos and GPs
- LP Reporting**
  - Most don't do anything with the data they collect (best in class aggregates data from LPs and reports back)

## Limitation / Issues

- Defining Internal Strategy**
  - General lack of sophistication in regard to including sustainability
- GP Initial Assessment**
  - DDQ often not standardized; often lacking key sustainability questions
  - Lack of understanding of how "mature" GP is on sustainability
- GP / LP Agreement**
  - LP has limited influence on what it can require in LPA or side letter
- GP/PortCo Ongoing Assessment**
  - Lack ability to aggregate real data instead of assessment scores
  - No current continuous assessment process
- LP Reporting**
  - GPs and portcos sending ESG data to LPs but report they aren't looking at it

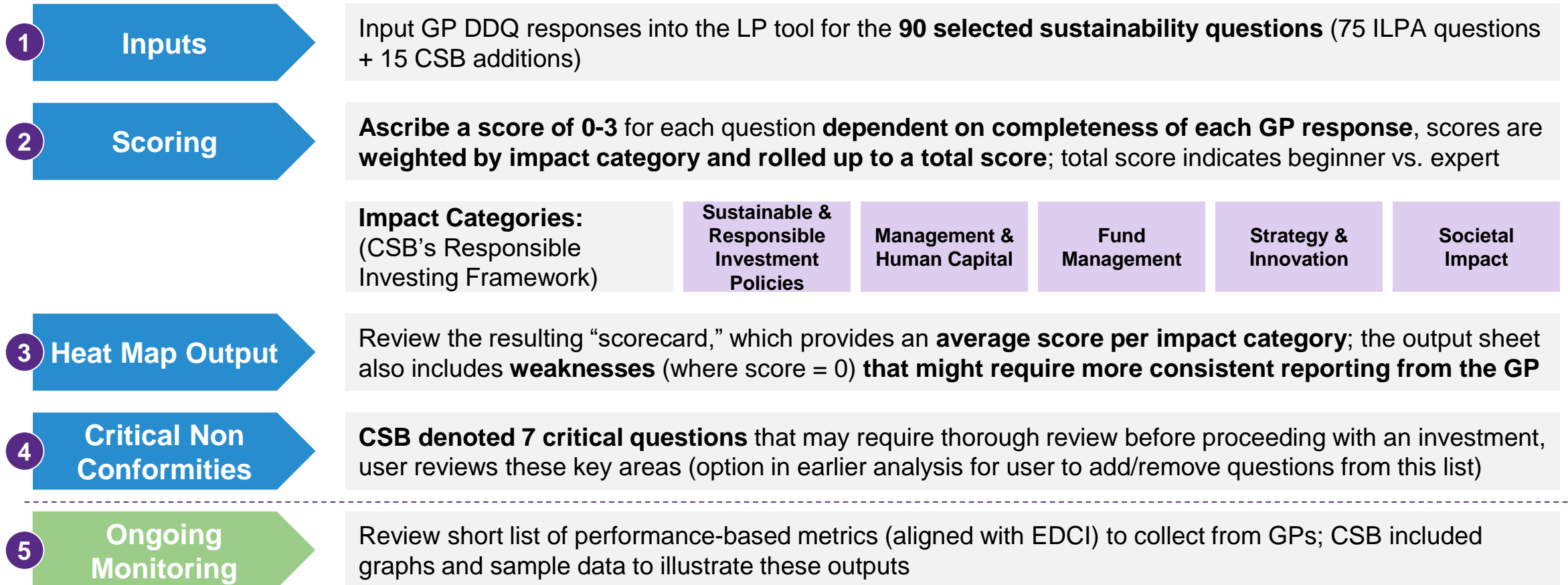
## Areas of opportunity

- Defining Internal Strategy**
  - Intro guide for LPs
- GP Initial Assessment**
  - ILPA addendum tool that identifies key sustainability questions and assesses PE firm sustainability maturity**
- GP / LP Agreement**
  - Best in class examples
- GP/PortCo Ongoing Assessment**
  - Define what sustainability data is relevant**
  - Outline performance-based metrics for ongoing monitoring**
- LP Reporting**
  - Best in class examples



# CSB pulled the most important sustainability questions from the ILPA DDQ as the basis for the analysis

## Logic Flow of LP Tool



# Heat Map Example with Category Descriptions

| Average Score | Bucket  | Scoring Definitions:  |
|---------------|---|---|
| 1.4 out of 3  | Sustainable and Responsible Investment Policies | Total score of less than 30 is defined as remedial.<br>Total score between 31-50 is defined as beginner.<br>Total score between 51-80 is defined as advanced.<br>Total score of greater than 80 is defined as expert. |
| 1.3 out of 3  | Management and Human Capital                    |   |
| 1.9 out of 3  | Fund Management                                 |   |
| 1.9 out of 3  | Strategy and Innovation                         |   |
| 1.7 out of 3  | Societal Impact                                 |   |
| <b>53.3</b>   | <b>&lt;-- WEIGHTED TOTAL SCORE</b>              |   |

## Sustainable & Responsible Investment Policies

- *A sustainable and responsible investment policy defined by firm priorities and monitored implementation*

## Management & Human Capital

- *Management approach is guided by a robust responsible investment strategy and diverse and ESG-credentialed senior leaders*

## Fund Management

- *Fund management practices with respect to handing dry powder, subscription lines of credit, additional fundraises, and reporting*

## Strategy & Innovation

- *Describes the firm's capabilities in meeting its sustainable investment policy throughout its pre- and post-investment processes*

## Societal Impact

- *How well the PE firm and its portfolio companies are contributing to positive impacts and reducing negative societal impacts*

# The ongoing monitoring section of the tool denotes outcome-oriented performance metrics to be collected by the LP

## Need for Ongoing Monitoring

LPs noted a need for consistent metrics that GPs could report on and a desire for real data – practitioners would like for sustainability data to play a larger role in exits.

A strong sustainability metric is performance-based and outcome-oriented while attached to specific commitments and targets. CSB used EDCI metrics as the basis for a short list of the most important sustainability metrics to be tracked across industries.

Process:

- CSB expanded each EDCI metric to include specific commitments and targets
- Included a few additional categories: Circularity, Water Use, and Sustainable Sourcing & Procurement

LPs can use the ongoing monitoring section as an educative piece to see what type of data (+ related commitments and targets) they can be tracking or as an actual data input and tracking exercise.

## EDCI Metrics (Section Aligned with EDCI)

The [ESG Data Convergence Initiative](#) is the major sustainability data standardization effort within PE.

EDCI Metrics:

- **GHG Emissions** (scope 1, scope 2, scope 3)
- **Renewable Energy** (% renewable energy usage)
- **Diversity** (% women on board, % women in C-suite, % underrepresented groups on board, % LGBTQ on board)
- **Work-Related Accidents** (injuries, fatalities, days lost due to injury)
- **Net New Hires** (net new hires (organic and total), turnover)
- **Employee Engagement** (employee survey (yes/no), employee survey response rate)

# Performance-based metrics examples to be used for ongoing performance monitoring

| Source | Category                           | Sub-category         | Description  | KPI 1  | KPI 2   | KPI 3   |
|--------|------------------------------------|----------------------|--|--|---|---|
| EDCI   | GHG Emissions                      | Emissions by Scope   | (1) Commitment to net zero based on 2030 and 2050 goals, scope 1, scope 2, and scope 3 emissions aligned with SBTI, (2) reporting to TCFD, and (3) third-party audited (4) Data for last year at minimum, up to 3 years recommended  | <b>Scope 1 emissions, numerical value</b>  | <b>Scope 2 emissions, numerical value</b>   | <b>Scope 3 emissions, numerical value</b>   |
| EDCI   | Renewable Energy                   | Fuel Consumed        | (1) Total fuel consumed, (2) percentage natural gas, (3) percentage renewable (a) Targets for 2030 and 2050 (b) base year (c) performance to time-based targets [revised SASB metric]  | <b>Total fuel consumed, numerical value</b>  | <b>% natural gas, fuel consumed</b>   | <b>% renewable, fuel consumed</b>   |
| CSB    | Diversity                          | Employee Composition | Percentage of employees by historically underrepresented group by level in current year (a) Short and long-term targets with a defined period (b) base year (c) performance to time-based targets  | <b>% of employees historically underrepresented, by level</b>  |   |   |
| EDCI   | Work-related Accidents             | Work Safety          | Total recordable incident rate (TRIR) for (a) full-time employees, (b) part-time employees, (c) contract employees, and (d) short-service employees  | <b>Total recordable incident rate, full-time employees</b>   | <b>Total recordable incident rate, part-time employees</b>  | <b>Total recordable incident rate, contract employees</b>   |
| EDCI   | Net New Hires & Turnover           | Involuntary Turnover | Involuntary turnover rate for (a) direct (b) contract (c) migrant employees in current year (a) Short and long-term targets with a defined period (b) base year (c) performance to time-based targets  | <b>Involuntary turnover rate, direct employees</b>   | <b>Involuntary turnover rate, contract employees</b>  | <b>Involuntary turnover rate, migrant employees</b>   |
| CSB    | Circularity                        | Circularity          | Percentage of products made from (1) recyclable materials (2) recycled material and 3) reused materials from production/end of life (a) Short and long-term targets with a defined period (b) base year (c) performance to time-based targets  | <b>% of products made from recyclable materials</b>  | <b>% of products made from recycled materials</b>   | <b>% of products made from reused materials from production/end of life</b>                               |
| CSB    | Water Use                          | Water Use            | (1) Total water withdrawn, (2) total water consumed (3) volume of wastewater treated and released; percentage of each in regions with High or Extremely High Baseline Water Stress (a) Short and long-term targets with a defined period (b) base year (c) performance to time-based targets [revised SASB metric] | <b>Total water consumed, numerical value</b>   | <b>Volume of wastewater treated and released, numerical value</b>   | <b>% of total water consumed in regions with High or Extremely High Baseline Water Stress</b>             |
| CSB    | Sustainable Sourcing & Procurement | Certifications       | (1) Percentage of products sourced by all suppliers that are certified to a third-party environmental and/or social standard (2) percentages by standard (a) Short and long term target with a defined period (b) base year (c) performance to time-based targets  | <b>% of products sourced by all suppliers that are certified to a third-party environmental and/or social standard</b> | <b>% of products sourced by all suppliers that are certified, by standard (standard 1 - user defined)</b> | <b>% of products sourced by all suppliers that are certified, by standard (standard 2 - user defined)</b> |