

Sustainability-linked Value Creation Questions

The questions below can serve as an addendum to existing due diligence questionnaires (e.g., UN PRI's or ILPA's), as stand-alone questions, or as a tool for engagement with GPs.

Pre-Investment

1. During due diligence, how do you integrate the quantification of sustainability-linked risks and opportunities? (check all that apply)
 - ☐ We systematically identify and quantify the financial impacts of sustainability-related material risks and opportunities for all target companies as part of our standard due diligence. *(If checked, ask them to describe the process and expand on the answer)*
 - ☐ We incorporate and quantify the financial impacts of sustainability-related risks into the due diligence process on a case by case basis – only if critical and material (e.g., potential lawsuits from environmental issues, major infraction). *(If checked, ask them to describe the process and expand on the answer)*
 - ☐ We assess potential cost savings from sustainability initiatives (e.g., energy savings, waste reduction, regulatory compliance benefits). *(If checked, ask how is this done)*
 - ☐ We evaluate revenue-generating opportunities linked to sustainability trends (e.g., new market access, more sustainable products) *(If checked, ask how is this done?)*
 - ☐ We identify and assess material sustainability-related risks and opportunities for each potential investment qualitatively, but do not yet quantify them in financial terms. *(If checked, ask why not? Do you have plans or the skills to do this?)*
 - ☐ Other (please explain)

Post-Investment

2. Post-investment, describe the processes that are in place to ensure the financial impact of initiatives related to material (or potentially material) sustainability issues are effectively monitored and integrated into the broader strategic goals of the portfolio company. *This is an opportunity to dig deeper into the firm's process and understand how robust GP investment is in sustainability aligned value creation.*
 - ☐ **Risk management.** Sustainability-linked risks are incorporated into the company's risk management framework to proactively manage challenges that could undermine value creation and ensure resilience. *(If checked, please expand on how your firm does this)*
 - ☐ **Sustainability-linked financial KPIs.** Sustainability-driven KPIs (e.g., circularity, water management, energy efficiency) are aligned with financial and operational goals, ensuring they contribute directly to the portcos profitability. *(If checked, please expand on how KPIs are chosen and describe your monitoring and review processes)*
 - ☐ **Leadership.** A team, officer or operating partner tasked with driving sustainability initiatives that have measurable value creation. *(If checked, please expand on how your firm does this)*

- ☐ **Management incentives.** Management's performance incentives are structured to ensure executives are incentivized to create sustainability-linked value. *(If checked, please expand on how your firm does this)*
- ☐ **Other stakeholders.** Stakeholders, customers, and suppliers are involved in sustainability efforts, enhancing brand loyalty, operational efficiency, and subsequently creating business value. *(If checked, please expand on how your firm does this)*

3. How does the Fund allocate capital (CapEx and OpEx) to sustainability-driven strategies that enhance a portco's future financial performance and value creation? *(Check all that apply.)*

- ☐ We require portcos to allocate capital to sustainability-driven projects and initiatives that demonstrate a clear return on investment (e.g., energy efficiency, waste reduction, product innovation, lower employee turnover). *(How do you assess the return on investment?)*
- ☐ We undertake a financial analysis of key material sustainability issues, prioritize them and embed them into the overall capital allocation decisions rather than as separate expenditures. *(How are you tracking the return on your capex and opex? And how will you know these initiatives are driving value?)*
- ☐ We require portcos to allocate a percentage or fixed amount of CapEx and/or Opex funding to mission-critical sustainability initiatives regardless of its return on investment. *(What have you learned from this process? Would you consider including financial KPIs to your sustainability initiatives?)*
- ☐ We require portcos to prioritize investing in sustainability initiatives that reduce financial, regulatory and operational risks (e.g., supply chain, compliance, carbon pricing exposure). *(What have they learned from the process? Have you considered the price of inaction regarding sustainable innovation as a driver for growth?)*
- ☐ Sustainability-related capital and resources allocation occurs only when required by investors, regulators or specific buyer preferences at exit. *(Do you track the return on this capex and opex? How will you know these initiatives are driving value?)*
- ☐ Other *(please explain)*

4. Does the Fund systematically track and report on the financial impact from sustainability initiatives at the Portco level through an integrated system of financial metrics, such as those in the NYU Stern ROSI™ framework or other financial models?

☐ Yes

If selected, please explain how and how often. Then, proceed to Question 4.1.

☐ No

If selected, please provide an explanation. **Do not** proceed to the remaining questions. *(What would they need to begin to track this?)*

- 4.1. Which of the following types of financial benefits resulting from sustainability-linked strategies do you monitor? (Check all that apply.) *Ask the GP to provide an example for any of the checked boxes.*
- ☐ Operational efficiencies (e.g., lower energy costs, waste disposal costs, water costs)
 - ☐ Innovation and growth (e.g., new sustainable products or services)
 - ☐ Sales and marketing/customer loyalty (e.g., price premium, increased market share)
 - ☐ Employee productivity and retention
 - ☐ Risk mitigation (e.g., fewer regulatory fines, reputational damage, climate risk)
 - ☐ Better stakeholder engagement (with regulators, NGOs, suppliers, etc.)
 - ☐ Increased valuation at exit (did sustainability investments improve exit multiples?)
 - ☐ Not applicable. We do not track this information
 - ☐ Other (please explain)

Investment Exits

Please answer this question only if “Increased valuation at exit” was selected in Question 4.1. If not, **do not** proceed beyond this point.

5. What is your process for determining when and how sustainability value drivers are factored into company valuations at exit?
- ☐ Sustainability value drivers and their associated financial outcomes are systematically incorporated into the company narrative and valuation at exit as part of our standard process. *(Can you explain how you are doing this? Is there a “greenium” multiple? What process are you using and who is doing it?)*
 - ☐ We tailor our exit approach based on the buyer’s interest in sustainability. *(How does this process differ from your standard process? What is usually highlighted and quantified?)*
 - ☐ Sustainability issues are factored into the exit process qualitatively, with a focus on sustainability outcomes, but no quantification of the financial benefits. *(Can you provide an example of how that was done? Did it have an impact on the deal? If so, how?)*
 - ☐ Sustainability-driven value creation is not currently factored into company valuations at exit. *(Why not? Do you plan to change this? If so, what is the timeline?)*
 - ☐ Other (please explain)

- 5.1. When demonstrated sustainability performance is included in the exit strategy, it:
- ☐ Enhances the exit price. *(Ask for examples. Ask if they can quantify and by how much?)*
 - ☐ It expands the universe of potential buyers. *(How do you know? Please provide a few examples)*
 - ☐ Other (please explain)