



## ESG Assessment Framework - Key Considerations and FAQ

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### Overview

ILPA released this ESG Assessment Framework as a resource for limited partners looking to build a tool to evaluate and understand the various stages of ESG integration that peers are observing among general partners in the market today. It is designed to help LPs evaluate and benchmark GP responses to due diligence efforts, inform goal-setting conversations with GPs and measure ESG integration progress over time. The Framework categorizes activities and processes across four buckets: Not Present, Developing, Intermediate and Advanced. As ESG conversations continue to evolve, many best practices are still being developed. We expect LPs will adapt this Framework as appropriate. This Framework is meant to be representative but not exhaustive and should not be considered a comprehensive guide to best practice in the market.

The Framework and FAQ document will be updated on a periodic basis as practices evolve and to address feedback and questions received. We invite all participants in the private equity community to send any feedback or questions to [esg@ilpa.org](mailto:esg@ilpa.org).

### Key Considerations

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- ILPA developed this Framework using mid/large cap buyout managers and strategies as its reference point. While the Framework may serve as a useful starting point for evaluating managers in other private markets asset classes (venture capital, real estate, infrastructure, private credit, etc.), it was not designed with these asset classes in mind.
- Smaller managers may not have the resources to land in the Intermediate or Advanced buckets but may take actions which put them at the forefront of their peer group. For this reason, it is important to consider manager size and resources and adjust expectations accordingly.
- Category/component descriptions are meant to be directional and are not intended to replace or encompass adherence to specific local requirements or regulatory frameworks. The Framework may not include or reference every advanced practice, as these can be subjective and will continue to evolve over time. The Framework is not meant to suggest a “one-size-fits-all” approach but provide a starting point for analysis and dialogues with GPs.

### Frequently Asked Questions

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#### **What market sizes are the Framework intended for? Can I use the Framework for other market sizes?**

This Framework was created with mid-to-large cap managers and strategies in mind. Smaller managers may not have the resources to land in the Intermediate or Advanced buckets but may take actions which put them at the forefront of their peer group. For this reason, it is important to keep manager size in mind and modify expectations accordingly. There are instances in which a smaller manager might fall

into the developing or intermediate groupings and still be considered ahead of their peer group when considering the landscape of current practice today.

**What asset class was this Framework created for? Can I use the Framework for other asset classes, including venture capital, real estate, infrastructure and private credit?**

This Framework was created with private equity buyout managers in mind. It may serve as a starting point for other private markets asset classes but was not created specifically for them. When used with other asset classes, there may be nuances to consider which have not been referenced in the document.

**Why are Responsiveness to Diversity, Equity and Inclusion and Climate Risks and Opportunities broken out as separate sections?**

These two topics represent specific strategic priorities for many LP organizations and are often considered and discussed with specificity and additional detail. Though we consider both to be part of any broader ESG conversations, we have broken them out to include additional detail and topic specific considerations.

**Is it leading practice to invest only with GPs who rank in intermediate/leading categories?**

No. ESG best practices are still emerging and rapidly developing, and not all GPs will sit at the front of the curve. The Framework is not meant to penalize or de-incentivize investment with GPs that have room for growth. Instead, it is meant to provide information, contextualize areas where further progress can be made and facilitate dialogue. There are quality GPs at varying levels of ESG integration maturity. LPs consider ESG competency as an important consideration in the investment process and acknowledge that a GP's ESG integration activities will continue to evolve as sustainability-related discussions continue to mature. This resource is provided to equip LPs to monitor and measure GPs engagement on various ESG considerations over time.

**What about situations where a GP invests but does not have a majority ownership stake in a portfolio company? Do the practices outlined in the framework still apply?**

When a GP is not a majority stakeholder in a portfolio company their ability to collect certain data and influence decision making may be limited. LPs should discuss these situations with GPs to gain a better understanding for how the GP is sizing up ESG risks and opportunities in those investments and how they are discussing those risks and opportunities with majority investors.

**Can the ESG Assessment Framework be used in conjunction with the ILPA Due Diligence Questionnaire?**

Yes. The ESG Assessment Framework can help LPs evaluate GP responses to due diligence questionnaires and was created with the understanding that many LPs are already using ILPA's Due Diligence Questionnaire as an initial point of reference.

For ease of use, ILPA has included worksheet at the end of the PDF document which references where responses to specific DDQ questions would be beneficial in gauging the bucket in which a GP could be placed.

### **Has ILPA considered assigning scores or grades to each category?**

ILPA has intentionally forgone assigning a set of numerical scores to each category because the relative weighting and score assigned to each category can vary greatly by organization. LPs who wish to formulate a numerical score may do so by assigning point values to each bucket, and a relative weighting based on the importance of each category to its organization. Scores should not represent an absolute indication of where a GP sits - they should be considered a directional indicator - and should be used to start a dialogue with GPs around how further progress can be made.

For ease of use, ILPA has included worksheet at the end of the PDF document where LPs may notate their own scores or analysis, where appropriate.

### **Where can I find additional resources pertaining to ESG?**

The list of ESG resources out in the market is numerous and frequently growing. This list is not exhaustive, but features several resources worth highlighting as they have influenced or been referenced in the framework:

- [ILPA's ESG Roadmap](#)
- [ILPA's Diversity in Action Initiative](#)
- [UNPRI's Private Equity Page](#)
- [Sustainability Accounting Standards Board \(SASB\)](#)
- [Task Force on Climate Related Financial Disclosures \(TCFD\)](#)
- [The Institutional Investors Group on Climate Change \(IIGCC\)](#)

### **I have identified a best practice that is not included in the framework or have a suggestion to update the Framework. Can I send these to ILPA for consideration?**

Absolutely. Please feel free to contact [esg@ilpa.org](mailto:esg@ilpa.org) with any feedback you have. ILPA will review feedback and consider periodic updates to the framework. However, we recognize that ESG is viewed differently across LP organizations and that there is no "one-size-fits-all" approach to a framework. The ILPA ESG Assessment Framework is meant to providing a starting point, but many LPs will adapt/evolve these materials to align more closely with their organizations policies and program.