

OVERVIEW - HOW TO USE THIS FRAMEWORK

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.

KEY CONSIDERATIONS

- 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.
- Other considerations and frequently asked questions are addressed in our [FAQ document](#), which will be updated on a periodic basis to include and address questions ILPA receives. If your question has not been answered in our FAQ, please contact ILPA at esg@ilpa.org.

ESG ASSESSMENT FRAMEWORK

POLICIES AND COMMITMENTS TO STANDARDS

COMPONENT	NOT PRESENT	DEVELOPING	INTERMEDIATE	ADVANCED
Status of Current Policy	ESG policy is lacking or limited; there is no mention of governance and ESG ownership considerations or examples which illustrate a policy in action	Policy details the GP's approach to identifying and managing ESG factors; reference to basic governance and ownership considerations <i>*Note, pertaining to ESG Policies - LPs should keep in mind that firm level policies may not always apply to specific funds and should ask for clarification where needed</i>	Policy is tailored to the GP's strategy and investable sectors; there is a clear governance structure detailing ESG oversight responsibilities and processes and an approach to identifying material risks and discussing them with portfolio companies GP is able to provide examples illustrating policy integration efforts in prior fund investments	Building upon "Intermediate," policy is shared publicly and references materiality and how ESG considerations drive value creation, including look-forward assessments and commentary tailored to industry segments in which the GP invests GP is able to speak to historical policy revisions, including what changed and why
Approach to Policy Review	No policy implemented; no plans to develop an approach towards the management of ESG considerations	GP may reference plans to periodically review or further develop its ESG policy, but detail regarding frequency and timing is lacking	GP conducts a periodic review (i.e. every 2-3 years) of its ESG policy and can share recent findings and updates	GP reviews its ESG policy annually and can comment on its evolution (prior findings and how they were addressed, how it keeps pace with industry developments, etc.)
Industry Standards and Best Practices	No commitments to industry standards (e.g., PRI signatory) or plans to adopt a set of standards in the next few years	GP has identified a set of standards which it has informally adopted or begun working towards formal adoption	GP is a PRI signatory or has formally adopted at least one set of industry recognized best practices	GP may have multiple, formal commitments to industry standards or best practices and can demonstrate these commitments are integrated into processes, documentation, training and reporting GP actively participates in driving best practice or standard adoption in the industry
Contractual Commitments	No contractual commitments related to ESG made or referenced in fund formation contracts, LPAs or side letters when requested by investors	Contractual commitments to ESG appear in side letters and may vary from LP to LP	References and commitments to ESG are included in private placement memorandums (PPMs) and side letters	Commitments to ESG are referenced in LPAs and tend to include a commitment to annual ESG reporting

GOVERNANCE

COMPONENT	NOT PRESENT	DEVELOPING	INTERMEDIATE	ADVANCED
ESG Ownership	No governance/ ownership in place for ESG considerations	ESG oversight is represented via steering committee or exec level ownership as a shared responsibility (e.g., part of legal, compliance or investor relations) ESG considerations do not factor prominently in investment committee dialogue or investment decisions	Senior leadership is more actively involved with ESG issues, augmented by dedicated ESG staff or third party experts helping guide the process Individual(s) charged with ESG oversight sits on investment committees and ESG considerations are included in committee dialogue and investment decisions	Leadership-driven accountability for ESG ownership extends throughout the organization; including investment and deal team professionals, to ensure ESG considerations are integrated into decision making and operating processes <i>*It is common for larger, advanced GPs to have one or more dedicated ESG resources supporting staff throughout the organization</i>

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ESG ASSESSMENT FRAMEWORK: CONTINUED

GOVERNANCE

COMPONENT	NOT PRESENT	DEVELOPING	INTERMEDIATE	ADVANCED
Capacity Building and Training	No training programs focused on ESG	Ad-hoc ESG training provided for some staff, including new hires responsible for executing some part of the ESG policy	There are more systematic, regular efforts to provide training internally to inform investment teams of ESG best practices Training may focus on ESG integration and capacity building, but also should generate awareness around how and when to work with consultants, service providers and field experts	Systematic, regular efforts to provide training for all staff; training includes recognizing ESG-related risks and opportunities specific to the sectors staff cover Training programs also extend to portfolio companies, providing those boards and leadership teams with industry/sector materiality-based topical training

COMMUNICATIONS AND REPORTING

COMPONENT	NOT PRESENT	DEVELOPING	INTERMEDIATE	ADVANCED
Approach to Communication	Little or no coverage of ESG topics at AGMs, LPAC meetings and periodic communications with investors	GP occasionally references ESG at AGMs, LPAC meetings and in its annual report	Coverage of ESG topics appears regularly at AGMs, LPAC meetings, in regular communications with investors and in an annual report which includes case studies and KPIs Communication/discussion of ESG risks should be proactive and is not limited to incident reporting or problematic situations	Building upon "Intermediate," communications and discussion of ESG extends beyond risk mitigation and revolves around challenges, recent learnings, targets/goals and updates on progress, and ties to value creation in the portfolio
Incident Reporting	No policy detailing GP's approach to ESG-related incident reporting or evidence exemplifying treatment of prior reported incidents <i>*Note, for all four categories - LPs may have differing definitions for what constitutes an "incident;" ILPA suggests LPs share and discuss that definition with their GPs</i>	GP has a basic approach to ESG-related incident reporting; able to provide limited examples of prior incident communications	Clearly detailed approach to ESG-related incident reporting, GP is able to provide examples of prior communications detailing incidents, resolutions and plans that ensure future incidents are avoided	Building upon "Intermediate," GP demonstrates a strategic approach to incident remediation and prevention as an organization and can speak to how prior incidents (across funds) have informed its strategy
KPIs and Reporting	No ESG KPIs or reporting in place, plans and procedures for collecting future KPIs and managing reporting are not present	KPIs may be basic in nature (or a work in progress) and may include yes/no answers to a binary set of questions Reporting is often ad-hoc, or focused on future capacity building objectives and less on material risks and opportunities	Materiality-based process in place for determining relevant ESG KPIs Annual reporting includes both qualitative and quantitative updates on ESG considerations, including examples and case studies at the portfolio company level	Materiality-based KPIs remain in constant view as part of an integrated process that includes benchmarking against targets Annual reporting includes both qualitative and quantitative updates on ESG considerations, including examples and case studies at the portfolio company level with clear linkages to value creation, and broader, stewardship based objectives and sustainability outcomes

ESG ASSESSMENT FRAMEWORK: CONTINUED

INVESTMENT PROCESS

COMPONENT	NOT PRESENT	DEVELOPING	INTERMEDIATE	ADVANCED
Due Diligence	ESG factors are not a consideration in the investment due diligence process	ESG diligence is typically conducted by a third-party, focused on compliance-based risks with inclusion in investment committee process on an ad-hoc basis	ESG diligence is typically a GP-led process (often augmented by third-party experts) focused on material risks Risks identified during diligence are discussed and factor into investment committee decision making	Building upon "Intermediate," ESG diligence includes a process for assessing ESG related value creation opportunities utilizing a materiality-based assessment framework and encourages significant input from investment, legal and compliance and HR teams
Post-Investment Management	No monitoring or management of ESG considerations takes place after an acquisition occurs	Monitoring and management of ESG considerations is limited and tends to be ad-hoc or reactive	Monitoring and management of ESG considerations occurs as part of a structured process that includes portfolio company onboarding and annual reviews where risks identified during diligence are examined and actions taken to address any findings are discussed	Monitoring and management of ESG considerations and KPIs are featured as an ongoing part of the GP's management and value creation process ESG assessments are conducted for all portfolio companies on an annual basis, board members are trained and accountable for material ESG considerations
Exit and After Sale	No ESG considerations are incorporated into the exit planning process	GP provides ESG related information to buyers upon request or on an ad-hoc basis	ESG-focused value creation and enhanced risk management considerations feature into investment marketing materials and the data rooms shared with investment bankers and potential buyers	Building upon "Intermediate," GP also formally measures and analyzes the impact of ESG on investment performance and reports on progress at time of exit GP also supports buyers by providing required information and processes to continue any ongoing sustainable investment initiatives at time of sale

ESG ASSESSMENT FRAMEWORK: DEI SUPPLEMENT

RESPONSIVENESS TO DEI

COMPONENT	NOT PRESENT	DEVELOPING	INTERMEDIATE	ADVANCED
Policies and Governance	<p>GP does not have a stated DEI Policy, Code of Conduct and Family Leave Policy</p> <p>GP does not have a governance process in place addressing ownership of DEI considerations</p>	<p>GP has written policies that include a stated DEI Policy, Code of Conduct (addressing sexual harassment and discrimination) and a Family Leave Policy (in jurisdictions where leave is not mandated)</p> <p>Processes addressing DEI priorities have clear ownership, commonly with human resources (and HR alone, or a DEI/ESG specialist); policy compliance can be illustrated with evidence and examples</p>	<p>Building upon “Developing,” GP is able to discuss and provide context re: policy updates and improvements made over the past three years, and can detail any claims of sexual or general harassment, misconduct or discrimination made against current and/or former employees</p> <p>Clear ownership of DEI processes and priorities at the senior executive level; organization leads regular, ongoing conversations about DEI priorities and objectives and management is able to articulate meaningful DEI goals and targets and the steps being taken to address them</p>	<p>Building upon “Intermediate,” GP is able to demonstrate recent progress towards stated DEI goals and targets and discuss potential evolution of policies; staff at all levels demonstrate an awareness and understanding of the DEI processes and priorities in place</p>
Diversity Metrics at GP Level	<p>GP does not track or provide diversity metrics at the management company level</p>	<p>GP can provide diversity metrics (upon request and where legally permissible) at the management company level consistent with the ILPA Diversity Metrics Template on an annual basis</p> <p><i>*Note, An Updated ILPA Diversity Metrics Template will be released with the next version of the ILPA DDQ in Q4 2021</i></p>	<p>Building upon “Developing,” GP proactively reports to all LPs diversity metrics (where legally permissible) consistent with the ILPA Diversity Metrics Template and also reports diversity metrics on hiring, promotions and employee turnover</p>	<p>Building upon “Intermediate,” GP provides the aforementioned diversity metrics and has begun providing commentary and qualitative analysis focused on pay equity and carry distribution</p>
Diversity Metrics at Portfolio Company Level	<p>GP does not track or provide diversity metrics at the portfolio company level</p>	<p>GP reports diversity metrics (where legally permissible) for portfolio company boards consistent with the ILPA Diversity Metrics Template on an annual basis</p>	<p>Building upon “Developing,” reporting also includes portfolio company c-suite/ executive management team metrics</p> <p>GP leadership actively discusses DEI priorities and future planning with portfolio company leadership and boards</p>	<p>Building upon “Intermediate,” reporting on diversity metrics also includes qualitative management commentary; GP sets diversity targets at the portfolio company board level</p> <p>DEI conversations with portfolio company leadership and boards is results oriented, with indicators of progress evident in the data that is shared</p>

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DEI SUPPLEMENT: CONTINUED

COMPONENT	NOT PRESENT	DEVELOPING	INTERMEDIATE	ADVANCED
Recruiting	Recruiting policy/process does not reference or address DEI considerations	Recruiting policy/process references DEI considerations but lacks goals or policies which directly address those goals	<p>Recruiting policy/process includes goals that foster a more inclusive recruitment process (e.g., actively casting a net beyond traditional recruiting pipelines, working with minority candidate followships/ recruiting organizations)</p> <p>Recruiters, hiring managers and staff participating in the hiring process have undergone training discussing systemic racism and unconscious bias</p>	<p>Building upon "Intermediate," GP recruitment policy/process includes goals and steps taken to address systemic racism, unconscious bias and advancement of diverse staff and underrepresented groups</p> <p>Staff in recruitment roles may see incentive compensation tied to achievement of these goals</p>
Employee Engagement	No formal employee engagement programs (e.g., mentorship/ sponsorship programs, employee resource networks) in place to improve and encourage retention	GP has employee engagement and retention programs (e.g., mentorship/sponsorship programs, employee resource networks) in place but lacks measurable goals and/or objectives	Building upon "Developing," formal employee engagement programs are in place with specific targets to help increase retention and promotion of diverse staff and under represented groups	<p>Building upon "Intermediate," GP also regularly conducts employee engagement/feedback surveys (ideally, administered anonymously via third party) to assess culture firmwide, with attention to inclusion</p> <p>GPs should be able to share high level findings of these surveys and discuss forward looking engagement objectives</p>

ESG ASSESSMENT FRAMEWORK: CLIMATE SUPPLEMENT

RESPONSIVENESS TO CLIMATE RISKS AND OPPORTUNITIES

COMPONENT	NOT PRESENT	DEVELOPING	INTERMEDIATE	ADVANCED
Governance	No governance structure is in place to ensure climate-related risks and opportunities are assessed and managed	Climate considerations mandated by regulators are reviewed and managed by GP's internal risk/compliance function	GP has a defined process for conducting climate assessments with ownership and accountability for these responsibilities at the management level GP invests in capacity building (training, resourcing, research participation in industry groups, etc.) for investment professionals to promote climate awareness across the organization	Building upon "Intermediate," GP has a framework and process in place for both training /capacity building at portfolio companies and monitoring how portfolio companies implement and follow through as a result
Strategy	No strategic or guiding principles detailing how climate-related risks and opportunities are considered across funds and portfolio companies	Process for assessing and managing climate risks may be ad-hoc and often run by third party consultants or counsel Assessments may be done at the fund level, i.e. the risks climate change poses broadly to the sectors in which the GP invests	Process for assessing and managing climate risks is GP-led, but may be augmented by consultants and counsel Assessments are often done on a deal-by-deal basis and may include identifying opportunities for value creation in addition to risk analysis	GP assesses and manages climate risks and opportunities across its entire portfolio at both a macro and deal-by-deal level In addition to assessing risks and opportunities, firm is able to produce a clear strategy implementation plan referencing climate-related metrics and long-term goal setting; the strategy is informed by GHG emissions data measured with robust methodology at the portfolio company level
Risk Management	No framework or process identified for tracking and managing climate-related risks	Ad-hoc consideration and responsiveness to major influences such as current regulations and extreme weather events with decisions based on historical data	GP includes climate risk as a factor in pre-acquisition due diligence (inclusive of investment committee deliberation) and identifies portfolio holdings with the highest exposure GP monitors climate risks that may affect valuations based on material climate indicators and scenario analysis	There is a formal process for assessing and managing climate risks and opportunities led by a dedicated team of experts Climate considerations are a core part of portfolio company management strategy
Metrics and Targets	No process for identifying or collecting targeted, climate-related KPIs and no climate-based reporting	Ad-hoc (often anecdotal) reporting on one or more climate-related metrics	GP conducts a materiality-based assessment to identify pertinent climate-related KPIs at the portfolio company level GP reports on material KPIs on an annual basis	Building upon "Intermediate," GP sets targets aligned with climate science for its portfolio companies and reports annually on progress towards these targets. Through these targets, the GP shows ambition for the portfolio to become net zero by or before 2050

WORKSHEET: ESG ASSESSMENT FRAMEWORK

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 DDQ as a point of reference.

This worksheet was created for use in tandem with the Framework to help LPs map GP responses to corresponding sections of the ILPA DDQ. It may also be used to take notes

and/or assign scores to the quality of a GP's response. ILPA has intentionally forgone assigning numerical scores to each category because the relative weighting and score assigned can vary greatly by organization.

**Note, Basic Questions (BQ), Detailed Questions (DQ)*

POLICIES AND COMMITMENTS TO STANDARDS

COMPONENT	DDQ LOCATION	NOTES
Status of Current Policy	ESG Policy - BQ 10.1, DQ 10.1.1, DQ 10.1.2, DQ 10.2.2, DQ 10.2.3	
Approach to Policy Review	Policy Review - DQ 10.1.2	
Industry Standards and Best Practices	Formal Commitments - BQ 10.2, BQ 10.3, DQ 10.1.3	
Contractual Commitments	Contractual Commitments - BQ 10.5, DQ 10.1.4	

GOVERNANCE

COMPONENT	DDQ LOCATION	NOTES
ESG Ownership	ESG Ownership - DQ 10.2.4, DQ 10.2.6	
Capacity Building and Training	Training - DQ 10.2.7, DQ 10.3.4	

WORKSHEET: ESG ASSESSMENT FRAMEWORK, CONTINUED

COMMUNICATIONS AND REPORTING

COMPONENT	DDQ LOCATION	NOTES
Approach to Communication	Communication - DQ 10.4.1, DQ 10.4.2	
Incident Reporting	Incident Disclosure - 10.4.3	
KPIs and Reporting	Materiality - DQ 10.2.1, DQ 10.2.2 KPIs and Reporting - DQ 10.4.1	

INVESTMENT PROCESS

COMPONENT	DDQ LOCATION	NOTES
Due Diligence	Due Diligence - DQ 10.2.2, DQ 10.2.3	
Post-Investment Management	Post-Investment - DQ 10.3.1, DQ 10.3.2, DQ 10.3.3, DQ 10.3.4, DQ 10.3.5, DQ 10.3.7	
Exit & After Sale	Exit - DQ 10.3.6, DQ 10.3.7	

WORKSHEET: DEI SUPPLEMENT

RESPONSIVENESS TO DEI

COMPONENT	DDQ LOCATION	NOTES
Policies and Governance	<p>DEI Policy, Code of Conduct, Family Leave Policy - BQ 14.1, BQ 14.2, BQ 14.3, BQ 14.4, BQ 14.5, BQ 14.6, BQ 14.7, BQ 14.8, BQ 14.9, BQ 14.10, DQ 14.1, DQ 14.2</p> <p>Claims of sexual or general harassment, misconduct, or discrimination - BQ 14.13, BQ 14.14, BQ 14.15, DQ 14.8</p>	
Diversity Metrics at GP Level	<p>ILPA Team Diversity template is provided in Appendix A</p> <p>Promotions - DQ 14.5</p> <p>Departures - DQ 14.6</p>	
Diversity Metrics at Portfolio Company Level	Board Members - DQ 14.7	
Recruiting	Recruiting - BQ 14.12, DQ 14.3	
Employee Engagement	Employee Engagement - BQ 14.11, BQ 14.12, DQ 14.4	

WORKSHEET: CLIMATE SUPPLEMENT

RESPONSIVENESS TO CLIMATE RISKS & OPPORTUNITIES

COMPONENT	DDQ LOCATION	NOTES
Governance	Governance - DQ 10.2.2, DQ 10.2.3, DQ 10.2.4, DQ 10.2.6, DQ 10.2.7, DQ 10.3.4	
Strategy	Strategy - DQ 10.2.2, DQ 10.2.3, DQ 10.2.4, DQ 10.2.5, DQ 10.2.6, DQ 10.3.1, DQ 10.3.2, DQ 10.3.3, DQ 10.3.4	
Risk Management	Risk Management - DQ 10.2.2, DQ 10.2.3, DQ 10.2.4, DQ 10.2.5, DQ 10.2.6, DQ 10.3.1, DQ 10.3.2, DQ 10.3.3, DQ 10.3.4	
Metrics and Targets	Materiality - DQ 10.2.1, DQ 10.2.2 Measuring/ Reporting - DQ 10.3.2, DQ 10.3.7, DQ 10.4.1	



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