

February 2020

# 2019 Private Equity Environmental, Social and Governance ('ESG') Survey

Aberdeen Standard Investments

For professional investors only, in Switzerland for Qualified investors only – not for use by retail investors.

Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.

# 1. ASI Private Equity Overview

# Overview of Aberdeen Standard Investments Private Equity

Experienced team providing access to consistent performance areas of private equity and venture capital

Leveraging our large and connected team, networks and research capabilities

**AUM:** £10bn  
**Professionals:** 40+  
**Fund commitments:** 1,000+

**Capabilities:** Ranging from early stage venture through growth and buy out capital

## Office locations



As at 30 June 2019 Source: Aberdeen Standard Investments, AUM is calculated as NAV + Unfunded

Consistent track record across a range of capabilities

Primary investments



Secondary investments



Co-investments



Bonaccord Capital Partners



Venture capital



Investment trust



# ESG at Aberdeen Standard Investments Private Equity

## Progress in 2019

***ASI has been a UN PRI signatory for over 10 years and has recently been awarded a PRI rating of A+.***

- ESG has been considered as part of our private equity investment activity for a decade and has been refined and focused over this period.
- Every new investment made by the Private Equity team this year was subject to full ESG due diligence. During the year we declined a healthcare investment on ethical grounds.
- We continuously monitor and seek to influence ESG progress via due diligence, Advisory Board representation, reporting, manager meetings and this annual ESG Survey.
- Our newly established Private Equity ESG Committee meets quarterly and was formed to strengthen our capabilities and drive ESG initiatives.
- We are currently finalising a review of our co-investment process leveraging enhanced ESG due diligence first piloted in 2019. This is likely to result in an improved approach to our pre-deal screening and post deal monitoring of ESG.



## 2. ESG Survey Results

# Overview

The fifth edition of the annual ESG survey and the second time it has been conducted on a global basis

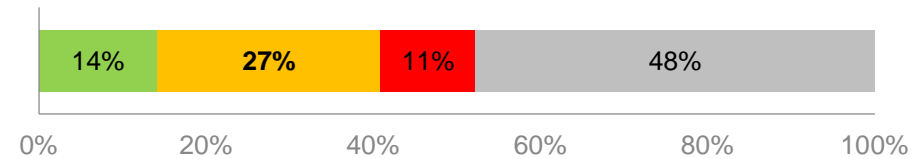
- The ESG survey aims to monitor the current level of ESG engagement at both the General Partner ('GP') and underlying portfolio company level.
- GPs were asked ten questions, five of these were broad ESG questions in order to ascertain the importance of ESG generally within each private equity firm. The first five questions were broadly in line with 2018 – the most significant change this year being the inclusion of a question on the UN Sustainable Development Goals, a key focus for firms globally. The remaining five questions were more detailed in nature and designed to highlight the extent to which private equity managers monitor specific KPIs at portfolio and GP level.
- Our ESG survey includes European, North America and Asian GPs. Given the relative nascence of ESG in both North America and Asia, GPs in these regions were asked the first five questions only. Therefore data from Questions 6-10 relates to European responses. Over time, we hope to extend the full survey to those North American and Asian GPs that have advanced ESG practices.
- Ratings were assigned by us based on GPs' responses according to the following definitions:
  - **Green:** GP has a clear process in place to monitor the criteria and it is implemented across the majority of its underlying portfolio companies;
  - **Amber:** GP considers the criteria to some degree (or has plans to do so), however it is not yet fully measured or implemented in respect to the majority of portfolio companies;
  - **Red:** GP does not have a process in place and has no current plans to do so.
- An overall ESG rating based on responses to all ten questions was assigned to each GP (five questions in the case of North America and Asia). To maintain the integrity of future surveys and relationship with our portfolio GPs, individual GP responses will not be shared in the following sections.

# Overall ESG Ratings

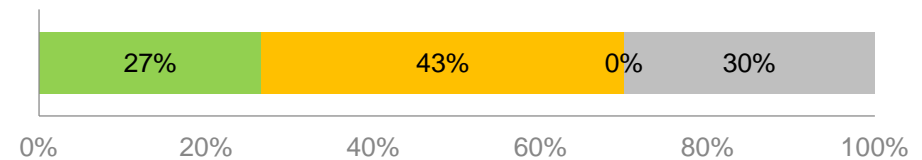
Continued strong ESG engagement in Europe; an improvement in quality from Asian GPs but low engagement in North America

- The survey was sent to 176 GPs across Europe (60), North America (82) and Asia (34) with an overall response rate of 52% which is in line with last year. 70% of European GPs responded to the survey (2018:81%). The response rate in North America and Asia improved this year – the former saw a response rate of 40% (2018:31%) and the latter 50% (2018:45%).
- ESG remains an important consideration for GPs in Europe, with a consistent number of respondents achieving a Green rating in 2019 (27% vs. 26% last year). Encouragingly, we observed an improvement in the performance of our European GPs, resulting in no Red ratings for this cohort.
- We are encouraged by the higher response rate in Asian and North American GPs surveyed. Both regions saw fewer Green ratings this year but also fewer Red ratings. Historically, North American GP engagement has been noticeably lower than other regions. This trend continued in 2019, exacerbated by the increased sample size.
- The survey results did not show a strong correlation in rating based on the size of the GP. Lower mid-market GPs remain as focused on ESG as large GPs, despite being more resource constrained.

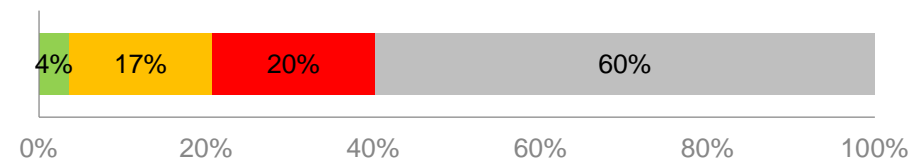
Overall Rating - Global



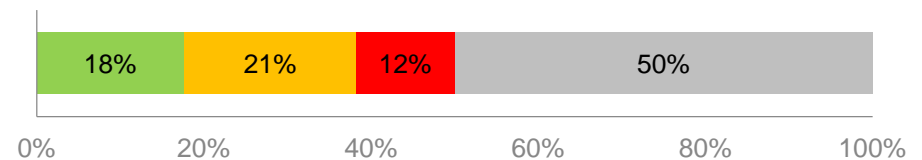
Overall GP Rating - Europe



Overall GP Rating - North America

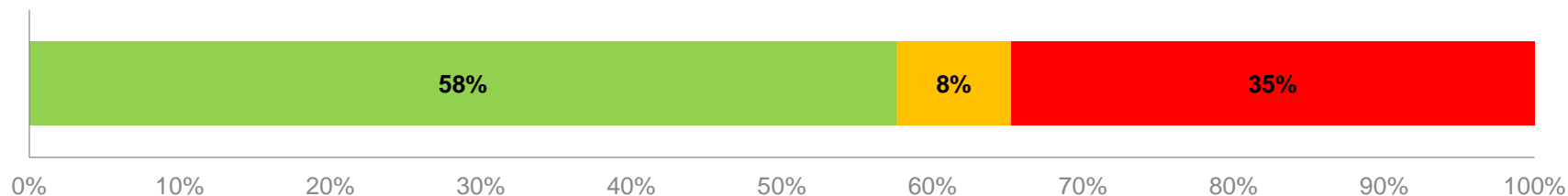


Overall GP Rating - Asia



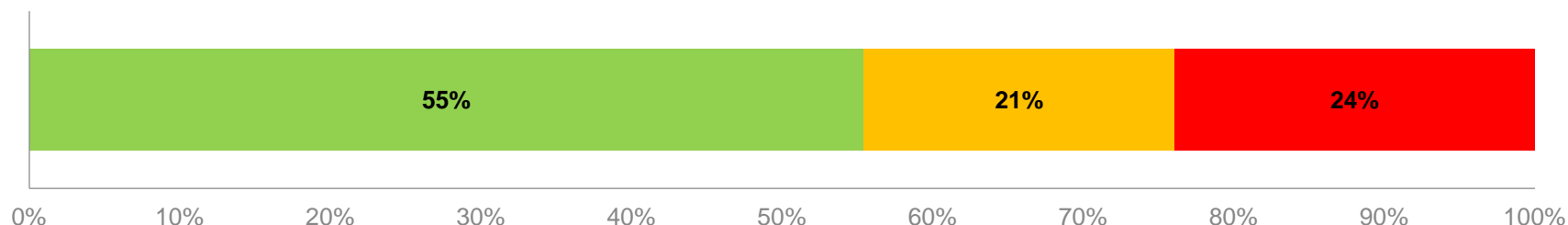
■ Green ■ Amber ■ Red ■ Non-respondents

**Question 1: Have any significant initiatives been implemented to improve ESG standards in the GP and across the portfolio in the past year? If so, please provide evidence.**



- An open question designed to allow GPs to describe their ESG initiatives. As such, the ability to achieve a Green score was far less prescriptive than in other questions. It is encouraging to see more than half of the respondents drove at least one positive ESG change in the year, with many implementing several initiatives.
- There is a relatively wide dispersion by region: less than one-third of North American respondents said they had implemented initiatives to improve ESG, while Asia and Europe saw 59% and 79% of GPs respectively obtaining a Green rating.

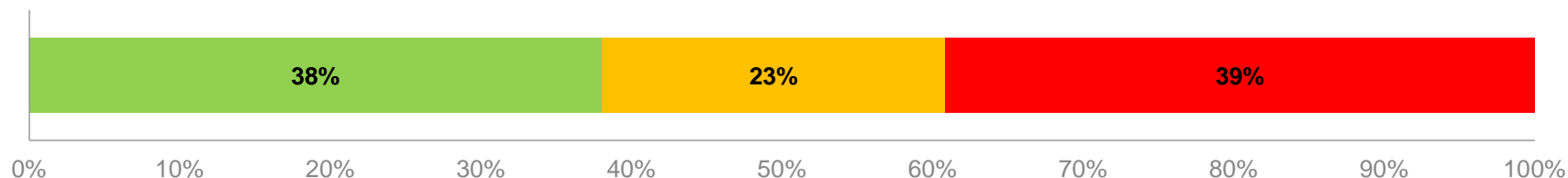
**Question 2: Do you have an ESG policy and actively engage with your portfolio investments on the detail, scope and effectiveness of their ESG policy? If so, please provide evidence of this engagement.**



- The majority of GPs have an ESG policy in place and engage with their portfolio companies on ESG. Again, there are significant regional differences: Europe led the way with 88% of GPs scoring Green; none of our European GPs were rated Red on this question. In Asia and North America, 53% and 15% of GPs scored Green on the question respectively. The strong results in Europe and improving score in Asia are encouraging. In our opinion, North American results confirm our view that our GPs in the region are behind the curve in terms of ESG policy vs. Europe and Asia.

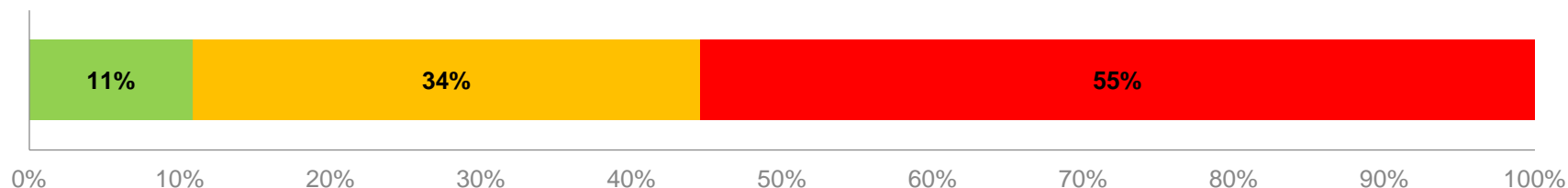


### Question 3: Are you a member of the UN PRI or UN Global Compact or any other relevant organisation? If not, why, and/or do you plan on becoming a signatory?



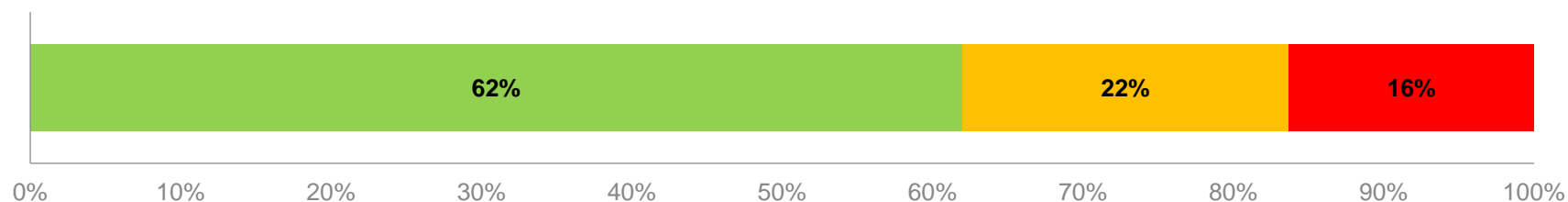
- Only 38% of surveyed GPs said they are a formal signatory of the UNPRI, UN Global Compact or similar. Taking into account those who are considering becoming a signatory, the number is still less than one-third. North American GPs scored poorly – only 3% are formal signatories to one of the above organisations and only 15% are considering becoming a signatory. In Asia, approximately one-third of GPs are signatories and one-third are considering becoming a UN PRI signatory. Unsurprisingly, European GPs are well ahead of other regions with 69% of GPs obtaining a Green score however there is room for improvement, particularly in light of how advanced ESG practices are in the region.

### Question 4: Do you incorporate the UN Sustainable Development Goals into your value creation strategies? If so, what value does it bring? If not, why not?



- The UN SDGs have attracted significant attention from European private equity in recent years with an increasing number of GPs becoming aware of the goals. Some GPs have started to incorporate the UN SDGs into their value creation strategies by identifying how their portfolio companies can contribute to achieving the goals. There are a few outliers in the European GP sample who are effectively monitoring and reporting on the UN SDGs. Most European GPs are seeking industry guidance before committing to the UN SDGs. With increasing awareness of the SDGs, we expect to see an improvement in these scores in the near term.
- Two-thirds of European GPs are either incorporating or considering the SDGs, this is 41% for our Asian sample and 18% in North America.

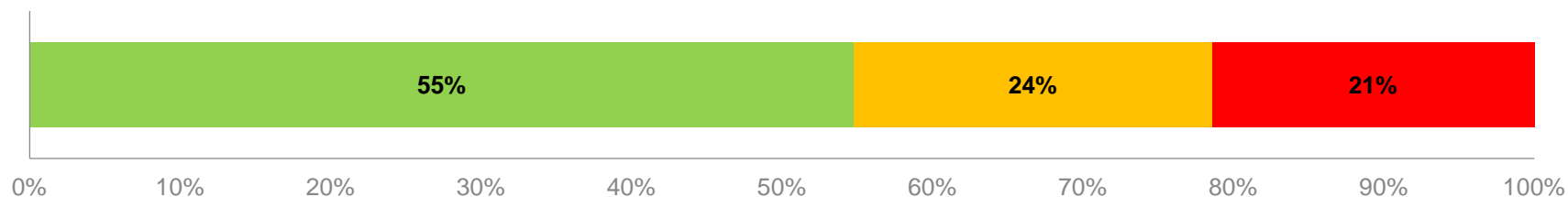
## Question 5: Who is responsible for implementing the firm's ESG policy and engaging with portfolio companies on the topic?



- This question is two-fold and seeks to understand how much resource has been dedicated to ESG as well as engagement with portfolio companies.
- Across the first five questions, this question saw the highest proportion of Green ratings with most GPs dedicating internal resource to ESG. Whilst we are encouraged by the number of GPs who have dedicated resource to ESG there is disparity across managers and regions
- Anecdotal evidence implies that firms with a “Head of ESG” (or similar title) more actively engage with their portfolio companies. Nevertheless, several smaller firms without full-time resource scored Green, highlighting that GPs likely to be more resource-constrained can be as effective at engagement with portfolio companies provided deal teams and senior staff are committed to ESG.
- On a regional basis, 88% of European GPs scored Green on this question, 47% in Asia and 36% in North America.

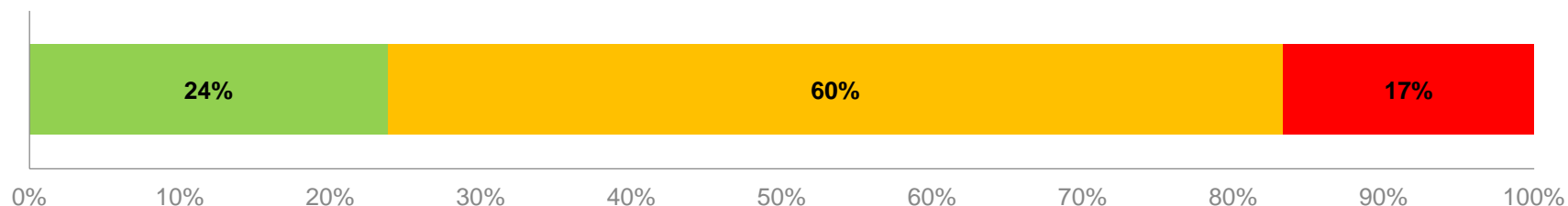
***The following questions were only asked of our European GPs and should be taken into consideration when analysing the results.***

## Question 6: In the last year, what actions have been taken at the GP level to improve any positive environmental impact and reduce any negative environmental impact?



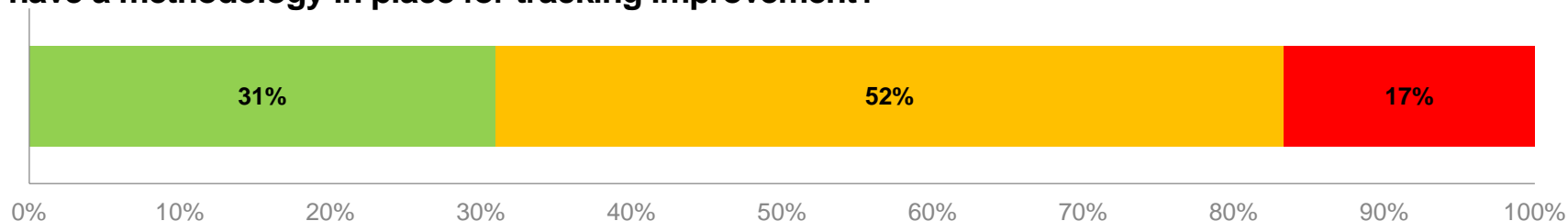
- More than half of respondents have taken meaningful action. This typically includes carbon offsetting and reduced air travel. Some GPs also reported holding workshops to address their environmental impact and propose solutions.

## Question 7: Please describe the GP's approach to reducing reliance on single-use plastics. How do you encourage portfolio companies to reduce their use of such products and monitor progress?



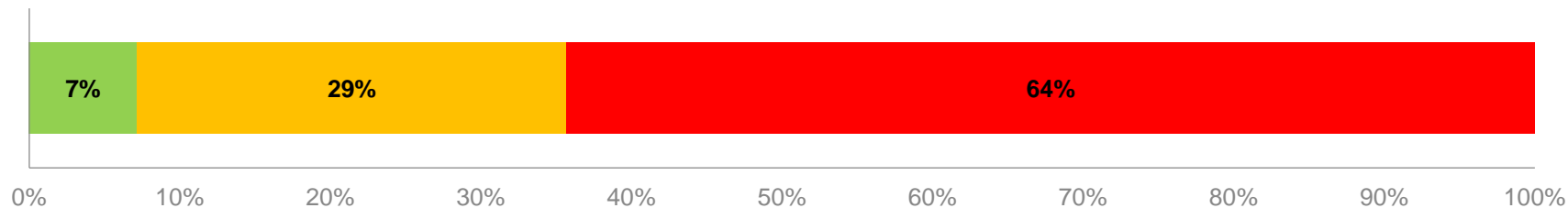
- GPs able to demonstrate efforts to reduce reliance on single-use plastics both at the GP *and* portfolio level obtained a Green score. As a result, the 60% Amber score includes managers who have implemented measures to reduce plastic waste at either the GP or portfolio company level. Therefore, the majority of our European GPs (84%) are taking some action.
- Efforts include supplying employees with reusable water bottles, increased use of recycled materials, optimisation of supply chain and manufacturing with the aim of reducing plastic production and waste.

**Question 8: How are you influencing employee diversity in your portfolio, particularly at senior management level? Do you have a methodology in place for tracking improvement?**



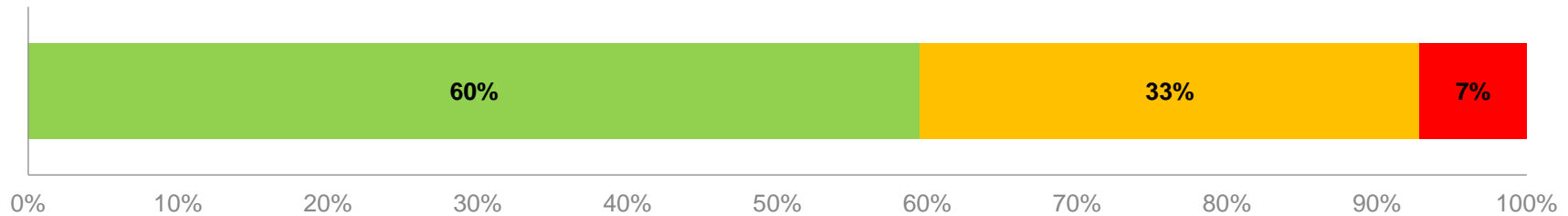
- GPs who: 1) are encouraging diversity and 2) are tracking diversity progress or implementing diversity initiatives obtained a Green rating. It is encouraging to see that some managers have implemented plans to increase the percentage of women in senior management roles within a set time frame or implemented initiatives such as mentoring or workshops to address the topic.
- While several respondents indicate they promote gender / diversity initiatives and encourage diversity at portfolio company level, many have yet to establish monitoring procedures. The general trend is encouraging but clearly the industry is still maturing in this respect.

**Question 9: Have you reviewed the gender pay gap across your portfolio? If so, what actions (if any) have you taken as a result?**



- Given the requirement for some UK based companies to report on gender pay gap, UK GPs generally obtained a better score than European peers. While reviewing the gender pay gap is not a requirement for most GPs, several respondents reported tracking the number of women on boards or in senior management roles whilst simultaneously encouraging companies to promote diversity.

**Question 10: How do you assess the threat of cyber security attacks within the GP and at portfolio company level?  
What steps have been taken to improve cyber security practices?**



- Cyber security threats are taken seriously by 60% of the GPs in our sample. These managers have formal processes for assessing threats and improving cyber security at both GP and portfolio company level.
- Most GPs appoint external providers to run regular tests and ongoing security assessments. We are seeing an increased focus on cyber security pre and post-investment in Europe, with GPs cognisant of risk but also opportunity in this space.
- Some GPs that scored Amber only implemented cyber security practices at either the GP or company level.

## 3. Summary

# Summary

## Next steps following the 2019 survey results

- It is evident that the majority of European GPs continue to view ESG as an area of importance and are making clear steps to improve their ESG capabilities – as evidenced by no European GP being rated as an overall Red. The key development area continues to lie in their ability to measure and effectively monitor their portfolios on key ESG-related metrics, especially in relation to environmental, diversity and UN SDG initiatives.
- We are encouraged by the progress made by some Asian GPs with many remaining committed to building and improving ESG practices. A high number of Asian respondents highlighted specific initiatives implemented in the last year to improve ESG performance.
- The survey suggests that North American GPs are currently not as engaged on ESG as their counterparts in Europe and Asia. The majority of GPs did not respond (60%) and only 4% of respondents were rated Green.
- Following completion of the survey, the ASI team will engage with core GPs who either did not respond or those that scored poorly relative to peers. Furthermore, survey results will be incorporated into the assessment of new investment opportunities for ASI client mandates.
- ESG remains a core component of our investment philosophy and we continue to emphasise its importance in discussions with GPs in order to influence positive change.

# Important information

Past performance is not a guide to future results. The value of investments, and the income from them, can go down as well as up and clients may get back less than the amount invested.

Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments

The views expressed in this presentation should not be construed as advice or an investment recommendation on how to construct a portfolio or whether to buy, retain or sell a particular investment. The information contained in the presentation is for exclusive use by professional customers/eligible counterparties (ECPs) and not the general public. The information is being given only to those persons who have received this document directly from Aberdeen Asset Managers Limited or Standard Life Investments Limited (together "Aberdeen Standard Investments") and must not be acted or relied upon by persons receiving a copy of this document other than directly from Aberdeen Standard Investments. No part of this document may be copied or duplicated in any form or by any means or redistributed without the written consent of Aberdeen Standard Investments.

The information contained herein including any expressions of opinion or forecast have been obtained from or is based upon sources believed by us to be reliable but is not guaranteed as to the accuracy or completeness.

Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use by Standard Life Aberdeen\*. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, Standard Life Aberdeen\* or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

\* Standard Life Aberdeen means the relevant member of Standard Life Aberdeen group, being Standard Life Aberdeen plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time.

Aberdeen Asset Managers Limited is registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen, AB10 1XL, Standard Life Investments Limited is registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL, and both companies are authorised and regulated in the UK by the Financial Conduct Authority

[www.standardlifeinvestments.com](http://www.standardlifeinvestments.com)

© 2020 Standard Life Aberdeen, images reproduced under licence

GB-110220-109788-1

For professional investors only, in Switzerland for Qualified investors only – not for use by retail investors.



# Important information

This content is available in the following countries/regions and issued by the respective entities detailed below:

## Europe, Middle East and Africa

**United Kingdom (UK):** Aberdeen Asset Managers Limited, registered in Scotland (SC108419) at 10 Queen’s Terrace, Aberdeen, AB10 1XL. Standard Life Investments Limited registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Both companies are authorised and regulated in the UK by the Financial Conduct Authority. **Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Portugal, Spain, and Sweden:** Aberdeen Asset Managers Limited, registered in Scotland (SC108419) at 10 Queen’s Terrace, Aberdeen, AB10 1XL. Standard Life Investments Limited registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Both companies are authorised and regulated in the UK by the Financial Conduct Authority. **Switzerland:** Aberdeen Standard Investments (Switzerland) AG. Registered in Switzerland (CHE-114.943.983) at Schweizergasse 14, 8001 Zürich. **Abu Dhabi Global Market (“ADGM”):** Aberdeen Asset Middle East Limited, 6th floor, Al Khatem Tower, Abu Dhabi Global Market Square, Al Maryah Island, PO Box 5100737, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. **South Africa:** Aberdeen Asset Managers Limited (“AAML”). Registered in Scotland (SC108419) at 10 Queen’s Terrace, Aberdeen, AB10 1XL. AAML holds a Category I financial services provider (FSP) licence in terms of the Financial Advisory and Intermediary Services Act, 2002, (FAIS) under licence 43675.

## Asia-Pacific

**Australia and New Zealand:** Aberdeen Standard Investments Australia Limited ABN 59 002 123 364, AFSL No. 240263. In New Zealand to wholesale investors only as defined in the Financial Markets Conduct Act 2013 (New Zealand). **Hong Kong:** Aberdeen Standard Investments (Hong Kong) Limited. This document has not been reviewed by the Securities and Futures Commission. **Indonesia:** PT Aberdeen Standard Investments Indonesia. PT Aberdeen Standard Investments Indonesia is an investment manager license holder, registered and supervised by the Indonesia Financial Services Authority (OJK). **Japan:** Aberdeen Standard Investments (Japan) Limited **Malaysia:** Aberdeen Standard Investments (Malaysia) Sdn Bhd, Company Number: 200501013266 (690313-D). **The People’s Republic of China (“PRC”):** Aberdeen Standard Asset Management (Shanghai) Co., Ltd in the PRC only. **Taiwan:** Aberdeen Standard Investments Taiwan Limited, which is operated independently, 8F, No.101, Songren Rd., Taipei City, Taiwan Tel: +886 2 87224500. **Thailand:** Aberdeen Standard Asset Management (Thailand) Limited. **Singapore:** Aberdeen Standard Investments (Asia) Limited, Registration Number 199105448E.

## Americas

**Brazil:** Aberdeen Standard Investments is the marketing name in Brazil for Aberdeen do Brasil Gestão de Recursos Ltda. Aberdeen do Brasil Gestão de Recursos Ltda. is an entity duly registered with the Comissão de Valores Mobiliários (CVM) as an investment manager. **Canada:** Aberdeen Standard Investments (Canada) Limited, (“Aberdeen Standard Investments”), is registered as a Portfolio Manager and Exempt Market Dealer in all provinces and territories of Canada as well as an Investment Fund Manager in the provinces of Ontario, Quebec, and Newfoundland and Labrador. **United States:** Aberdeen Standard Investments is the marketing name for the following affiliated, registered investment advisers: Aberdeen Standard Investments Inc., Aberdeen Asset Managers Ltd., Aberdeen Standard Investments Australia Ltd., Aberdeen Standard Investments (Asia) Ltd., Aberdeen Capital Management LLC, Aberdeen Standard Investments ETFs Advisors LLC and Standard Life Investments (Corporate Funds) Ltd.

For professional investors only, in Switzerland for Qualified investors only – not for use by retail investors.