

1. Objectives and overviews

- Integrating ESG into the investment decision

The objective at this stage is to enable the fund's investment committee (IC) to make an informed investment decision that takes ESG factors into account.

The IC needs adequate information and time to consider the analysis and findings of ESG due diligence (DD), so that these findings can be assessed in the context of the deal as a whole. This generally takes the form of an ESG summary in the investment paper, although the IC may also request a copy of the action plan (and rarely some additional information). The investment paper(s) should provide a summary of ESG DD findings, including:

- Materiality of key environmental and social (E&S) and governance and business integrity (G&BI) risks and gaps against applicable requirements/ standards (e.g. IFC Performance Standards or the BII side letter).
- Realistic assessment of a company's willingness and capacity to address key ESG risks and impacts.
- View on whether there are any real value-adding opportunities.
- Realistic assessment of the costs and time required to address any issues and capitalise on opportunities, and how this fits with the broader investment case for the business.
- Any outstanding issues of which the IC should be aware.

Where appropriate, it is important to ensure that obligations to limited partners (LPs) have been honoured (e.g. right of prior review of some DD reports) and that the views of LPs have been taken into account.

An overview of the activities of the investment decision stage is shown in the graphic below.

[Click to view diagram](#)

2. Activities

2.1 Provide input for the investment decision

The input for the investment paper to be discussed at the IC should be prepared or signed off by the ESG officer (or person(s) responsible for the ESG DD) with input from other team members, as appropriate (particularly investment officers).

IC members should be given access to relevant DD documents (e.g. full E&S and/or G&BI DD report) on request, in addition to the ESG summary in the investment paper/report.

- [Elements of a good ESG summary for the IC](#)

A good ESG summary would typically include the following information:

- E&S inherent risk rating assigned to the deal with a clear justification.
- A brief summary of the DD process.
- DD conclusions, highlighting the materiality of key ESG factors (including those related to the company's commitment, capacity and track record (CCTR)) and gaps against applicable standards and potential opportunities.
- Main actions to be implemented to address identified risks/gaps and to materialise opportunities (full action plan may be provided).
- Summary of how the fund manager intends to influence and monitor ESG matters throughout the investment period.

2.2 Make an investment decision

The IC should consider ESG DD findings in the context of the deal as a whole and use it to validate or question the information from other DD work streams (e.g. financial and legal

DDs). The following questions (which are the same ones that guide the DD process) can help the IC to arrive at an appropriate decision.

- Possible questions/discussions points at IC

Discussion points at the IC meeting may include:

- Materiality of ESG risks to the business (i.e. are they financially or otherwise significant and could they be avoided or mitigated?).
- Does the company comply with applicable laws, regulations and international standards and guidelines on key ESG factors laid out in the fund's ESG Policy and LP's requirements?
- Is the company's management system sufficiently well developed and implemented to successfully manage ESG factors, or does it need to be improved?
- Does the company's CCTR on addressing ESG matters indicate its willingness and ability to undertake any necessary improvements?
- Is an action plan required? Where there are gaps, how can these be addressed and what resources will be required? The plan should highlight steps that should or must be taken as a condition precedent to investment or as commitments to be fulfilled during the active ownership stage.
- Are there opportunities to add value by adopting new or better production processes, stronger management systems or by gaining certification to improve access to new markets?
- How do the proposed ESG improvements fit with the business plan and the fund's view of the company's likely future profitability (improvements may require capital/staff time and may generate future efficiency or revenue benefits)?
- Were there any limitations to the DD and any resulting potential unquantifiable risks?
- How does the fund intend to maintain influence and oversight on ESG matters going forward?

- Are there potential reputational risks to the fund manager and LPs?
- The investment committee meeting: Integrating ESG factors into the investment decision

Good practice in considering ESG matters at the IC should include the below (see also the ESG management systems section):

- A voting member of the IC should have responsibility for ensuring that ESG factors are adequately discussed and a clear conclusion is reached.
- Ideally, the ESG officer(s) should attend the IC meeting to answer questions directly. If the ESG Officer does not attend, then the IC member with responsibility for directing consideration of ESG matters should be able to ask the ESG Officer(s) questions before the meeting and share the ESG Officer's views.
- It should be clear that any key unresolved questions raised by the IC that require additional investigation or engagement with the company must be resolved and/or reported back to the committee prior to approval.

3. Outputs

Key outputs of the investment decision stage:

- The IC minutes including ESG matters discussed and any related decisions made (e.g. conditional approval subject to the company fulfilling ESG conditions precedent prior to investment).
- If legal negotiations between the fund manager and company materially fail to achieve the desired outcome as described by the investment paper/report or requested by the IC, the deal team should revert to the IC with the company's counter proposal.

- Where the IC has granted conditional approval, ensure that conditions or outstanding actions and/or documentation have been completed/attained and reviewed prior to drawdown.

Assuming the investment is approved, the fund team will use the DD record and IC meeting minutes during legal negotiations, ownership and monitoring.