

Sustainability

Case Study

ESG integration in private equity

Introduction

Private equity (PE) is shares in a company that aren't available through public markets. Environment Agency Pension Fund use different investment managers to invest money in PE on our behalf and Stafford Capital Partners (Stafford CP) [formerly Robeco] is one of these.

As of the 31 March 2020 we had around £30m [c 1%] of the Fund invested through Stafford CP. Since 2004 Robeco and now Stafford CP have worked with their sub-set of PE managers on Environmental, Social and [company] Governance (ESG) issues, the ESG Engagement Program. This enhances the integration of ESG when managers are assessing and monitoring the companies in which they invest.

The following case study on the manager Demeter shows how ESG integration and reporting can be improved over time and is an ever evolving journey. EAPF committed EUR 3.8m to Demeter Fund 1 in 2006. This fund invested in a total of 22 companies during its lifetime.

[Click to read the ESG Engagement Program Case Study on Demeter](#)



STAFFORD
CAPITAL PARTNERS

ESG Engagement Program Case Study:

Demeter

June 2020



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1 About Stafford Capital Partners

1.1 Stafford Capital Partners

Stafford Capital Partners (“Stafford”) is a leading private markets investment and advisory group with a global presence and USD 6.8 billion under management and advice from over 140 institutional investors worldwide. Founded in 2000, the firm is 100% employee-owned and has specialist investment teams in timberland, infrastructure, agriculture, private equity, and private credit. The company counts over 70 professionals, 2/3 of which are investment professionals, working from 8 offices around the world. Since 2010, Stafford is a signatory of the UN Principles for Responsible Investment.

The European team (formerly known as Robeco Private Equity)¹ complements Stafford Private Equity team, currently based in the US and Australia, ensuring a global presence in all target investment regions. The combined private equity business represents USD 3.1bn of assets under management and advice.

1.2 ESG Engagement Program

To be able to create value private equity funds have to manage environmental, social and governance (ESG) risks in their portfolio companies and take advantage of ESG opportunities. That is why Robeco Private Equity (now Stafford Capital Partners)) started a structured dialogue on ESG integration with private equity managers back in 2004, being one of the first asset managers in the industry to launch a private equity strategy with an ESG Engagement Program. The program currently includes over 60 private equity managers.

Demeter is a good example of a sustainability-focused private equity firm that very early on recognized the relevance of a broader ESG framework for its investment process being systematically implemented across its portfolio companies. This case study describes the milestones in the firm’s ESG journey since the inclusion in Robeco Private Equity’s ESG Engagement Program and outlines its ESG framework as it is today.

¹ Stafford acquired Robeco’s private equity business in June 2020. The Stafford and Robeco private equity teams have known each other for many years through a common investment strategy in the field of sustainability, with the combination of these teams representing one of the most experienced private equity teams globally for responsible private equity investing. This document provides a historical perspective on the dialogue between Robeco Private Equity and Demeter hence the name Robeco Private Equity has been preserved when referring to the past events.



2 Demeter

2.1 Overview

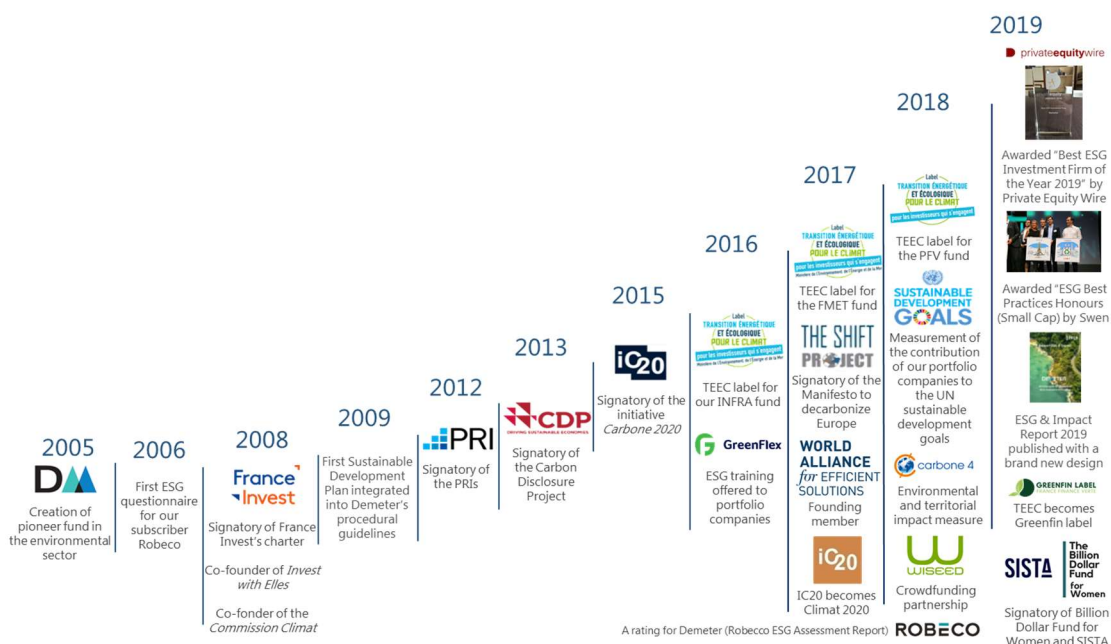
Demeter is one of the European private equity and venture capital pioneers in sustainable investment. Demeter invests in companies in the ecological transition sectors, at all stages of their development: innovative start-ups, rapidly growing medium-sized companies, and infrastructure projects across Europe. Demeter's team includes 37 people who are based in Paris, Lyon, Grenoble, Metz, Munster, and Madrid.

Combining financial performance and environmental impact has been Demeter's goal since its creation in 2005. Demeter's investments in sustainable cities, sustainable agriculture, renewable energies, energy efficiency, modern and sustainable mobility, sustainable industries and innovation and circular economy all contribute to solutions for the climate risk adaptation and mitigation, and to the transition to the low-carbon economy. The manager believes that excellence in corporate social responsibility and corporate governance drives societal value and enhances company valuations.

2.2 ESG Journey

Demeter entered the Robeco Private Equity ESG engagement program in 2006. Robeco was the first (and only) investor at the time that requested Demeter to fill out an ESG questionnaire. The milestones in Demeter's ESG journey since then are illustrated in Figure 1 and explained in more detail below. Robeco's recommendations and feedback on the annual ESG assessments are incorporated in this journey

Figure 1. Demeter's ESG integration over time



Source: Demeter



Demeter was categorized as ESG follower in Robeco Private Equity's first ESG assessment. In its first feedback in 2007 Robeco Private Equity recommended Demeter to start monitoring the ESG performance of its portfolio companies. In response to the next two annual ESG assessments, Robeco further advised Demeter to take the following ESG actions under consideration:

- use a combination of screening tools or engagement instruments in its investment process,
- monitor and document ESG performance and issues of all portfolio companies on a regular basis,
- encourage portfolio companies to improve working conditions by organizing environmental, health and safety training programs for employees,
- develop incentive plans for the employees and encourage their development, and
- monitor ESG risks in supply chains.

Demeter introduced a Sustainable Development Plan and integrated it into the company's procedural guidelines in 2009. This plan became the foundation of Demeter's monitoring framework for its portfolio companies. In its 2010 and 2011 feedback, Robeco Private Equity encouraged Demeter to sign up to the UN PRI and disclose ESG KPIs to investors on a regular basis. After becoming a PRI signatory in 2012, Demeter was encouraged to engage with its portfolio companies on implementing ESG policies through management systems, setting up ESG action plans and improve ESG reporting. Demeter did introduce an ESG reporting system with a KPI sheet for portfolio companies in 2014. Robeco Private Equity has advised it to define targets for ESG-related KPIs and monitor their realization as the next step.

Demeter created an ESG Committee that defines the focus and direction of its ESG strategy and priority initiatives in 2018. Next to the internal members, the committee also includes investors and CEOs of portfolio companies. In the same year Demeter appointed a dedicated Sustainability and Impact Officer to strengthen the process for its non-financial reporting, engage with portfolio companies in improving their ESG footprint and promote innovative initiatives, such as the territorial impact assessment conducted in conjunction with Carbone 4 for its Paris Green Fund. In 2019, Demeter identified voluntary ESG Ambassadors within the management company. Each of them represents one of Demeter's activities and they meet on a monthly basis. The ESG Ambassadors make proposals regarding the ESG strategy to the ESG Committee, define and monitor ESG objectives at the activity level. Their role involves facilitating the sharing of ESG best practices among the teams and portfolio companies.

Demeter's commitment to ESG principles has been strengthened by signing the AFIC Charter in 2008 and the UN PRI in 2012. Demeter further endorsed the Carbon Disclosure Project at the end of 2013 and subscribed to the 2020 Carbon Initiative, iC20, in 2015. Through iC20 Demeter made a commitment to measure the direct and indirect carbon footprint of its portfolio companies and reduce their greenhouse gas emissions in the long term. In 2019, Demeter started formally supporting different gender parity initiatives and joined the Companies committed to nature: Act4nature France biodiversity initiative.

Continuous improvements in its ESG framework have made Demeter one of the ESG leaders. After improving ESG scores from Robeco Private Equity's annual assessments year after year, Demeter was awarded an A+ rating for its ESG efforts in 2019.



2.3 ESG Framework

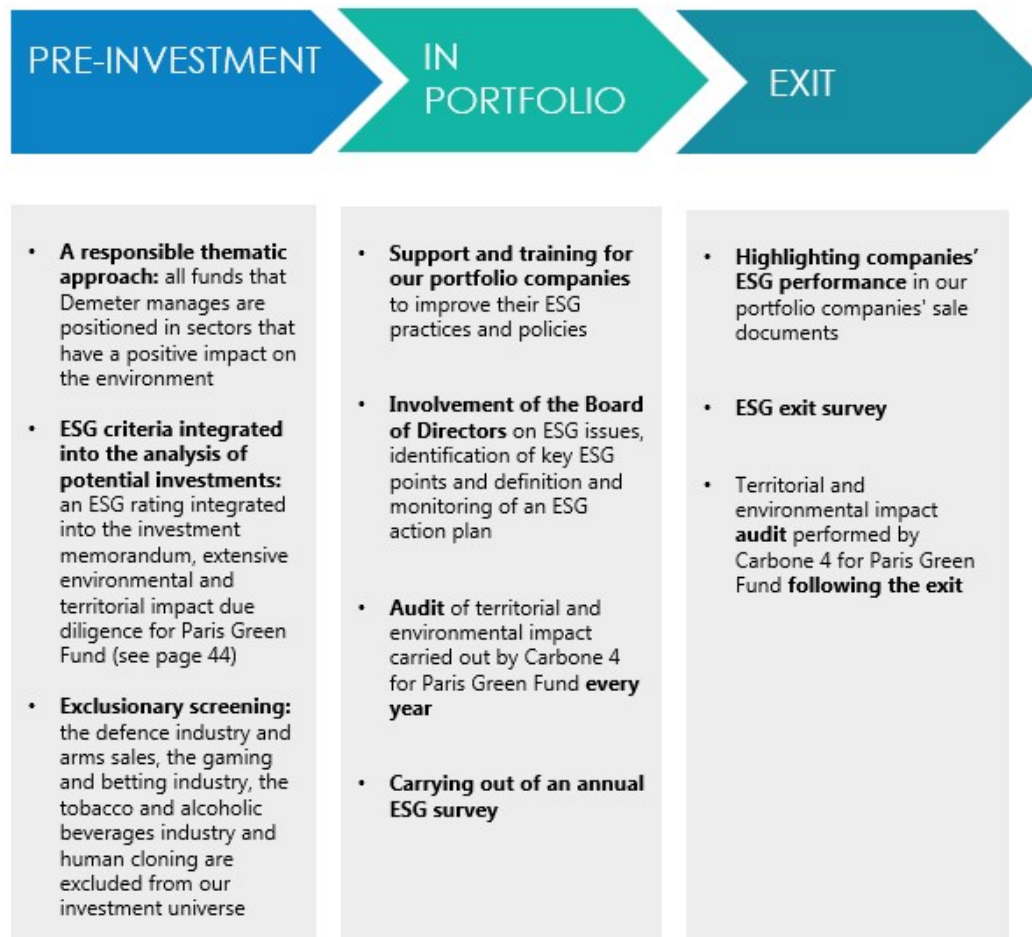
Responsible investment is integrated in Demeter's strategy by default as the manager only invests in companies that are active in the ecological transition sectors. Demeter's ESG strategy is reviewed bi-annually by the ESG Committee and validated by the Demeter's board with the same frequency.

Demeter evaluates portfolio companies prior to investing, during the presentation to the advisory committee (that included the evaluation of ESG components) and after the investment has been finalized. ESG criteria are integrated into the investment memorandum and discussed in investment committee for each investment. Post-investment, Demeter monitors companies using a detailed valuation grid of the three ESG pillars. Six areas are evaluated in more detail:

- 1) environmental protection,
- 2) respect for human rights,
- 3) continuous improvement of working conditions, employment conditions and professional relations,
- 4) social commitment,
- 5) responsible behavior with suppliers and customers,
- 6) transparency and effectiveness of corporate governance.

Companies are assessed on how they score relative to each criterion in the framework to determine whether they are aligned with the market practices, below or above them. If a particular criterion cannot be assessed at the time of the audit because it is not known, this is being flagged so that the investment partner in charge of the investment knows what issues to raise with the company in the future. Figure 2 illustrates Demeter's ESG integration in different stages of the investment process in more detail.

Figure 2. Demeter’s approach to ESG integration through the investment life cycle



Source: *Demeter ESG & Impact Report 2020*

Throughout the monitoring phase Demeter helps its portfolio companies improve their ESG approach by:

- integrating ESG into their 100-day plan as soon as a company joins their portfolio,
- conducting an ESG survey when companies first join their portfolios and then annually in order to incorporate their answers in the ESG report, as well as during the exit phase,
- identifying the risk areas and opportunities to create value related to ESG and establishing an ESG action plan, the progress of which is monitored by the Board of Directors.

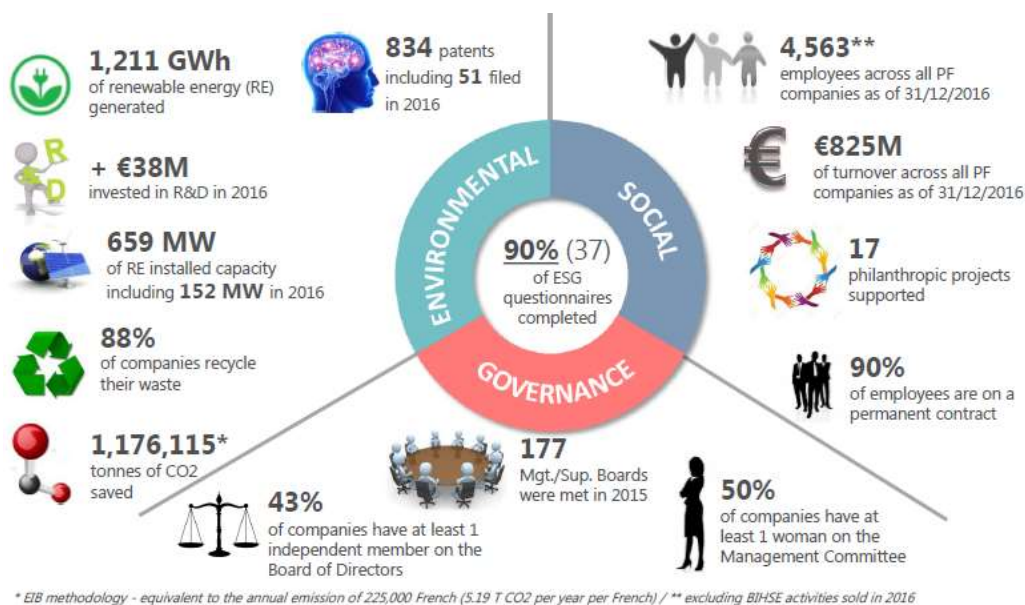
Demeter sends an ESG survey to all portfolio companies every year to track their progress. Half of the indicators in the ESG survey are qualitative, the other half is quantitative. Information gathered through the survey is used to compile Demeter’s annual ESG report. ESG performance of portfolio companies is also integrated in Demeter’s exit memorandum.

For the Paris Green Fund, Demeter has introduced a detailed impact assessment throughout the investment process. It has engaged Carbone 4 to perform a detailed due diligence on an investment's energy impact, carbon impact, impact on production and consumption of renewable energy, circularity, air quality, fair transition, and resilience. This assessment helps the management of the company and Demeter's investment team identify improvement areas and prepare an action plan. Post-investment Carbon 4 performs annual assessments of progress and measures the environmental and territorial impact of each company. Companies' impact gets reported as part of the fund's impact at every stage of its lifecycle.

2.4 ESG Reporting

Demeter started including ESG information in its reporting to investors in 2014. After reassessing its sustainable development plan in 2015, the manager introduced a global ESG report on its portfolios, measuring the ESG impact of its investments as shown in Figure 3. This report became available to investors during 2016 and was also published on the company's website. Demeter's global ESG report now includes 80 ESG indicators.

Figure 3. Demeter's global report on key ESG indicators as introduced in 2016

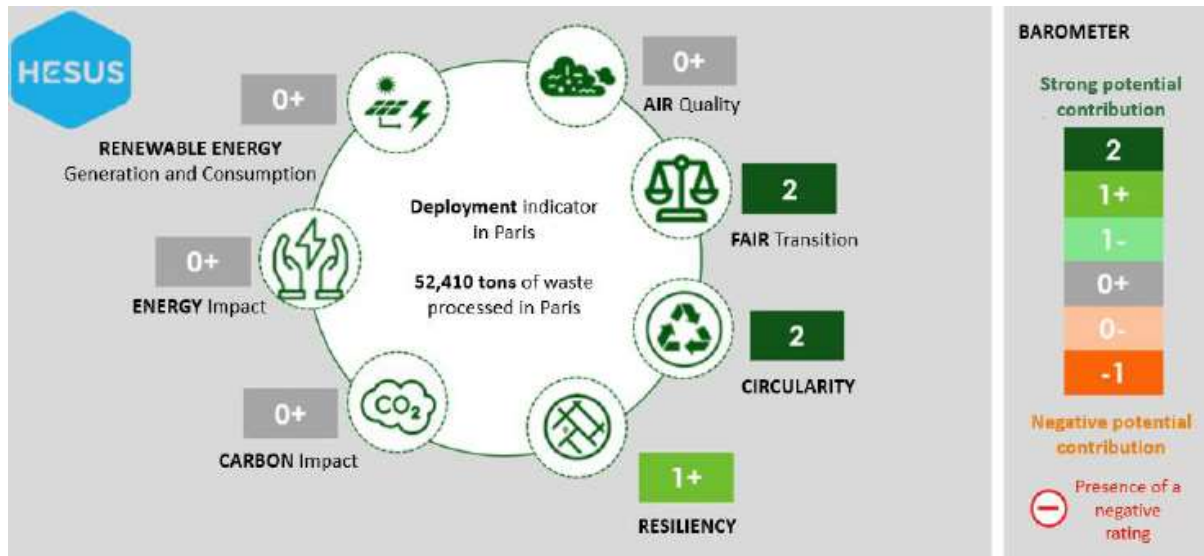


Source: Demeter Partners ESG 2016 Report

In 2018, Demeter enriched its ESG report with data on the contribution of its portfolio companies to the 17 Sustainable Development Goals (SDGs). Not surprisingly, over 80% of Demeter's portfolio companies contribute to the Sustainable Development Goal 13, which seeks to encourage measures to combat climate change and its repercussions. As a result of its cooperation with Carbone 4 and close work with portfolio companies Demeter is now also able to evaluate and track environmental

and territorial impacts of its companies (in the Paris Green Fund) over time. Carbone 4's initial and annual assessments represent the basis for reporting on the environmental and territorial impact of the fund at every stage of its lifecycle. An example of this impact reporting is presented in Figure 4.

Figure 4. An example of Carbone 4's territorial and environmental impact introduced by Demeter in 2018



Source: Demeter ESG & Impact Report 2019

Demeter has made significant progress in its ESG reporting since its beginnings in 2014. The firm now publishes a comprehensive annual ESG and impact report which provides insights into the ESG performance and the environmental impact of its portfolio companies across different funds. The novelties introduced in 2019 suggest that Demeter's journey is not over and that investors can count on more comprehensive ESG and impact reporting and management going forward.



3 Contact

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Stafford Capital Partners is a member of the United Nations' Principles for Responsible Investment (UNPRI). These principles are an internationally agreed upon framework to help institutional investors incorporate Environmental, Social and Governance (ESG) qualitative considerations into investment decision-making and ownership practices. Stafford Capital Partners is acknowledged by the UNPRI, when compared against our peers, as incorporating a solid framework for ESG considerations into its investment decision process (selection, assessment and monitoring of investments). For more information about UNPRI, visit www.unpri.org.

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