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The Investment Engineers

ROBECO PRIVATE EQUITY

ESG ENGAGEMENT REPORT 2018

Authors
Silva Deželan, PhD
Zhana Andreeva

Dear Reader,

The following document contains selected content from the complete 2018 ESG Engagement Report of Robeco Private Equity. Should you be interested in the complete version of this year's report please let us know (ir@robeco.nl).

Kind regards,
Robeco Private Equity

About Robeco Private Equity

Robeco Private Equity is the private equity division of Robeco Institutional Asset Management B.V. ('Robeco') and was founded in the year 2000. Based in Rotterdam and London, Robeco Private Equity offers institutional investors distinct private equity solutions in the European mid-market and sustainability segment. Robeco Private Equity's diverse offerings give institutional clients exposure to primary private equity funds, secondary private equity funds, and co-investments in selected private companies.

As one of the first investment managers to launch a private equity strategy with an ESG engagement program, Robeco Private Equity is a leader in ESG integration.

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Executive summary

The results of our latest annual ESG survey and our engagement activities over the last twelve months suggest that private equity fund managers have largely embraced the integration of environmental, social and governance (ESG) factors in their investment processes. At the same time, new regulatory and other developments are constantly raising the bar and forcing managers to add new elements (e.g., climate risk assessment) to their existing ESG frameworks.

The overall performance of fund managers in our ESG Engagement Program remained strong in 2017. The average and median ESG scores for the 63 fund managers that participated in this year's survey are now close to 70%, which indicates that most of them now have functioning ESG frameworks in place. Despite the relatively stable overall scores on a year-to-year basis, some fund managers have seen their scores change. The four newcomers to our ESG Engagement Program were all rated A or B, which reflects the relatively high level of ESG integration that we observe among the European mid-market buyout managers in our ESG due diligence. Palatine Private Equity is a good example of such a manager. We describe its exemplary ESG framework as a case study in Chapter 3, together with the case study of 21 Partners, whose best-practice approach came into evidence in the years when they were part of our ESG Engagement Program.

The reputational risk of portfolio companies in private equity funds that we monitor remains relatively low. The analysis of ESG-related news stories and alerts by RepRisk shows that the clear majority of the monitored portfolio companies were not involved in any ESG-related incidents. Those that received negative media attention experienced relatively low impact and coverage. To increase awareness of ESG issues and encourage better communication regarding incidents, we are continuing to work together with fund managers whose portfolio companies have had to deal with incidents.

The findings obtained as a result of our engagement on human rights and labor issues in the supply chains of apparel companies generally show that these companies and the private equity fund managers that own them are extremely aware of the risks of human and labor rights abuse in their supply chains. An exception to this were pure online retailers that appear to face less pressure from their investors and customers. We have started this engagement due to the numerous ESG incidents that the sector has been coping with the increasing number of initiatives aimed at improving the labor conditions in the apparel sector suggests that there is an awareness and willingness among peers and investors to share best practices and innovations. However, communication by private equity fund managers about how to monitor and manage risk in their apparel companies could be better.

The number of private equity fund managers committed to contributing to the UN Sustainable Development Goals (SDGs) through their portfolio companies has increased further in 2017. Most portfolio companies whose positive impact fund managers were able to quantify, contribute to SDG 7 and SDG 12. These relate to sustainable energy and sustainable consumption and production.

A survey of how private equity fund managers currently manage climate-related risks and opportunities indicated that half of the respondents have already incorporated climate-related risks and opportunities into their investment strategy and process in some way. In addition, 38% of the fund managers have integrated their process for climate-related risks into their overall risk management. However, only 24% of managers currently engage with their portfolio companies to encourage better disclosure and practices around climate-related risks. The survey results also showed that only about one-fifth of managers currently use emission data or analysis in investment decision-making. These percentages show clear potential for improvement.

The findings and results summarized in this report are encouraging. However, they also indicate that there are areas where further progress is possible. Through our ESG engagement activities, which have been recognized by the PRI, we draw the attention of private equity managers to the emerging issues and continue to assist them in their efforts.

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