



Principles  
for Responsible  
Investment

An investor initiative in partnership with  
UNEP FI and the UN Global Compact

# Responsible Investment in Private Equity

## Case Studies

Edition 2, December 2009



UNEP **Finance Initiative**  
Innovative financing for sustainability

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[\\*Additional studies included in the second edition of this report](#)

## About the Case studies

The PRI began its work on Private Equity in March 2008 by engaging with a broad range of key funds and investors in the sector. One of the obstacles we frequently faced when initiating these dialogues was some uncertainty about what Responsible Investment and the PRI could mean for private equity. This was the case for many General Partners, Fund of Funds and Limited Partners.

The aim of these case studies is therefore two-fold. First, they are intended to help support the implementation of RI in private equity through sharing best practice. But the second purpose is to help raise awareness that RI is ultimately a component of fiduciary duty. That is, the objective of RI is to contribute to improving long-term, risk-adjusted investment returns.

The case studies are presented both from the perspective of private equity firms (General Partners) that want to build better companies (e.g. by reducing risk, improving operational efficiency, supporting strategy implementation, exploiting new market opportunities, etc...), and from the perspective of investors (Limited Partners) that are working with their General Partners in new ways.

This document was first published in July 2009 and updated in November 2009. Development of the Case Studies was overseen by the PRI's Steering Committee on Private Equity. This Steering Committee was established in September 2008 with representatives from asset owners, asset managers, private equity houses and industry associations, including both PRI signatories and non-signatories. More information on the PRI Steering Committee is available at [www.unpri.org/privateequity](http://www.unpri.org/privateequity)

We will periodically update the document with new examples of RI in private equity. PRI signatories are encouraged to share their stories so that we can continue to help build better companies and improve investment returns. For more information or to contribute a case study please contact [info@unpri.org](mailto:info@unpri.org).

In addition to these case studies, in July 2009 the PRI released a Guide for Limited Partners on Responsible Investment in Private Equity, with the goal of helping PRI signatories apply the Principles to this asset class. This Guide is directed at Limited Partners but can provide insight for General Partners as well. This guide is available at [www.unpri.org/privateequity/LPGuide](http://www.unpri.org/privateequity/LPGuide).

## Case Study 1

# AlpInvest Partners – Introduction of ESG in the investment process



**“The relationship between GPs and LPs should return to a stronger alignment of interests and involve a superior governance model in areas such as corporate social responsibility and principals for responsible investment”**

**Wim Borgdorff**, AlpInvest Partners N.V.

### About AlpInvest

AlpInvest Partners N.V. ('AlpInvest') is one of the largest independent private equity investment managers in the world with over EUR 40 billion in commitments received since 2000. The firm invests across the full range of private equity investment channels: primary fund investments, secondary investments, co-investments and mezzanine investments. We have committed to funds of over 200 GPs worldwide and invested directly in companies through more than 140 equity and mezzanine investments. AlpInvest operates from offices in Amsterdam, New York, Hong Kong and London.

### AlpInvest's approach to ESG issues

AlpInvest's prime responsibility is delivering good returns to its investors. We believe that giving due regard to ESG issues can positively impact both our investment returns and our reputation. Hence, we want our investments to be with General Partners and companies that take their corporate social responsibilities seriously.

### Developing a CSR policy

In 2008, we laid down our standards in the AlpInvest Corporate Social Responsibility (CSR) Policy. The AlpInvest policy includes both our CSR standards as well as guidelines on implementation of CSR in our organization and processes. Our CSR standards are consistent with the Principles for Responsible Investment (PRI).

The key objective of our policy is to create more transparency and promote disclosure related to CSR topics within the investments we make. This is about making CSR an investment consideration for every one of our private equity investments; we do not limit our focus to 'socially responsible' or 'cleantech' investments.

### Implementing a CSR policy

We realize that CSR is a new topic for many players in the Private Equity industry and we do not expect all GPs to have their policies ready and implemented immediately. But we believe that by starting the dialogue and by taking a leadership role within the industry, an increasing number of parties will recognize the importance of the topic and solid standards will develop in due course.

Our CSR policy includes integration of ESG in the investment and portfolio management processes across each of our investment channels, as well as organizational changes, participating in industry dialogue, including involvement in the PRI Private Equity steering committee, and the publication of an Annual Review. This case study focuses especially on the implementation of ESG in the investment and portfolio management processes in our primary fund (fund-of-fund) investments business.

## Making CSR an integral part of our investment activities

We want CSR to be an integral part of our investment activities, not a responsibility that only resides with our CSR officer and CSR committee. Our Fund Investment team was therefore closely involved in translating our CSR policy into guidelines and tools for integrating CSR in investment analysis and portfolio management.

Following a training of all investment professionals in July 2009, CSR is now part of the investment analysis for new fund investments and also given due regard in portfolio management.

## Integrating CSR in our investment analysis

The main objective for CSR in our investment analysis is to investigate a GP's approach to CSR topics. We hereby specifically look at:

- A GP's CSR standards, both for their own organization and their portfolio companies
- Integration of CSR into a GP's core processes, including investment analysis and portfolio management
- CSR reporting standards of a GP, to their LP base as well as to the general public

In order to facilitate the collection of the information, we developed a CSR survey that is sent to a GP as part of a new fund due diligence process. The survey includes both open- and close-ended questions that are broadly consistent with the approach presented in the PRI LP Guide. If the information gathered in the survey is limited or unclear, the investment manager can decide to engage directly with the GP to seek additional or supporting information. The due diligence conclusions are included in the investment proposal, along with an indicative rating on how advanced the GP's approach to CSR is. CSR is therefore taken into account in each investment decision we make.

## Integrating CSR in portfolio management

For CSR in portfolio management, our focus is on:

- Monitoring CSR developments at GPs their portfolio companies
- Promoting CSR with GPs and other parties in the industry

The objective of monitoring CSR developments is to follow the progress that is made and to be able to respond properly to material ESG events or changes in the performance of a company or a GP. We are also required to report these developments and incidents to our investors. However, good quality and timely CSR information from GPs, both for their organization and their portfolio companies, is currently often not available. Through engagement initiatives we encourage GPs to improve their CSR reporting.

Our investment professionals promote CSR within GPs and the broader industry by, wherever possible, discussing sustainability and corporate governance with GPs and other parties in the private equity industry, e.g. at GPs' annual meetings, fund advisory board meetings and industry conferences.

## Outcomes

We have taken a first step with integrating ESG into our investment process. Going forward, we will regularly monitor and evaluate the CSR implementation internally and follow the CSR developments in the industry. Based on our findings and the progress that will be made within the industry, we will further fine-tune our approach.

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

October 2009

## Case study 2

# KKR and Alliance Boots



**“We continue to actively support Alliance Boots to integrate ESG issues fully into daily business operations.”**

**Ken Mehlman** Managing Director & Head of Global Public Affairs, KKR

### About KKR

Established in 1976, KKR is a leading global alternative asset manager. Led by founders Henry R. Kravis and George R. Roberts, KKR manages funds that make investments in private equity, fixed income and other assets in North America, Europe, Asia and the Middle East. Throughout its history, KKR has brought a long-term investment approach, focusing on working in partnership with management teams of its portfolio companies and investing for future competitiveness and growth.

### KKR's approach to ESG issues

Through our Washington, DC-based industry trade association, KKR worked to develop responsible investment principles that are based on the PRI and the United Nations Global Compact. In addition, we also became a PRI signatory in 2008.

ESG has long been a part of KKR's due diligence process. Our pre-investment review includes factors such as a company's compliance with relevant laws and regulations and its relationships with employees and the communities in which it has operations.

At KKR, we are committed to implementing the PRI by incorporating ESG criteria into our investment processes and in our portfolio management.

### Acquiring Alliance Boots

Alliance Boots is an international pharmacy-led health and beauty group headquartered in Switzerland, with two core business activities, pharmacy-led health and beauty retailing and pharmaceutical wholesaling and distribution. It operates more than 3,200 health and beauty retail stores and a wholesale network of over 370 pharmaceutical distribution centres delivering to over 140,000 pharmacies, doctors, health centres and hospitals.

In 2007, KKR met with Alliance Boots Executive Deputy Chairman Stefano Pessina and it became clear that both parties shared a vision on the long-term value creation potential for Alliance Boots and agreed to partner to take the company private. Both shareholders share the vision that corporate responsibility and sustainability are an integral part of the value creation.

## Relevance of ESG issues to the investment

Alliance Boots is committed to placing excellence in ESG principles at the centre of what it does and how it communicates. These fundamental principles are embedded into the working practices of all employees, to ensure that the business practices are socially, environmentally and economically sustainable across the Group.

Progress towards the Group's goals in this area are monitored and tracked through a scorecard, which is driven by annual targets segmented into four areas: community, environment, marketplace, and workplace. With this scorecard, ESG is not seen as an additional activity, but instead integrated into daily routines – and thus regarded as an activity that delivers value by either reducing costs or generating new commercial opportunities.

## Measures of success

Alliance Boots continues to achieve recognition for its ESG agenda; in May 2008 it was awarded Gold status for its achievements in the Sunday Times 'Business in the Community Companies that Count' survey, and in 2008 the Spanish wholesale business was awarded the Best Initiative award in the ESG category for its 'Act Now' campaign, by *Correo Farmaceutico*, the leading weekly Spanish pharmaceutical publication.

## Decision-making process and criteria

The ESG agenda at Alliance Boots is established in consultation with the Group's stakeholders, including government, academics, the media, suppliers, customers, employers, shareholders and NGOs. These groups outline key ESG priorities they believe Alliance Boots should be focusing on, and it is their priorities, together with the commercial strategy and values of the business as a whole, which determine the final list of activities that will comprise the overall ESG programme at Alliance Boots. Eco-efficiency savings have been made in the areas of store design and transport. So Alliance Boots has been able to deliver both cost savings and reduce its carbon impact.

## Outcomes

Key to success of the ESG agenda is quantitative measurement. This enables proper management and assessment of the initiative's success, allowing for clear target-setting and for the measurement of real outcomes. For example, transport initiatives have reduced the road kilometres driven by 8.5 million and have reduced transport emissions by 4.78%, saving £1.6 million in fuel costs.

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

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

July 2009

## Case Study 3

# Doughty Hanson and Avanza Group



**“ESG engagement is central to Avanza’s strategy of becoming a leading operator in our market sector. Doughty Hanson’s emphasis on sustainable business practices has already produced results and is helping us to generate earnings, cut costs and manage risks in areas which might otherwise have been overlooked.”**

**Jesus Lopez Torralba** CEO, Avanza

### About Doughty Hanson

Doughty Hanson has built up a successful track record over 23 years investing across Europe in three asset classes: mid-market buyouts, real estate opportunity funds and early-stage technology venture capital. With over €5.3bn in assets under management, the firm has eight offices across Europe and 130 staff, including 58 investment professionals. The buyout team is currently investing from its fifth fund, which raised €3bn in 2007. Doughty Hanson employs an active ownership investment strategy and focuses on building market-leading companies with strong management teams.

### Doughty Hanson’s approach to ESG issues

Doughty Hanson prides itself on being a leading practitioner of ESG engagement in private equity. We were one of the first private equity groups to sign up to the PRI in June 2007 and were the first to appoint an in-house head of sustainability to coordinate ESG implementation across our portfolio in June 2008.

### Acquiring Avanza

In February 2007 we acquired Avanza, Spain’s largest urban bus operator, and the work we are carrying out at there is representative of our approach. Doughty Hanson believed that the group presented an attractive opportunity to develop its regional network as the Spanish bus industry continued to consolidate. Its stable cash flows and recession-resistant business model as well as the long-term nature of its concessions meant that Avanza was an attractive leverage buyout candidate.

### Relevance of ESG issues to the investment

Avanza’s business model is also attractive from an ESG standpoint: public transport is an essential part of the solution to combat climate change and local air pollution.

ESG issues have long been important for the company (e.g. the pilot use of alternative fuels and engines meeting strict emission requirements), and managing them well can contribute to reducing costs and growing the business. Direct cost savings are associated with fuel efficiency (reduced fuel use and carbon footprint) and with improved safety (reduced maintenance, lost time and injuries).

## ESG due diligence

Prior to acquisition ESG issues were addressed at due diligence by the Doughty Hanson deal team as well as external consultants. A comprehensive ESG review of the business was performed by our in-house head of sustainability shortly after his arrival in June 2008.

The review involved discussions with senior investee company management and comprehensive site visits to a representative number of locations. It also considered the views of various key stakeholders including local municipalities, customers and regulators.

Throughout the process we considered a range of ESG issues from the perspective of both risk and opportunity for the business. These included: fuel storage, fuel efficiency, fuel type and use, climate change impacts, water conservation, land impacts, health and safety and service efficiency.

## ESG improvements

Together with management we developed an action plan to address the findings of the review and sought specialist external support to address specific initiatives such as advanced fuel management (telematics).

Enhanced governance of environmental and social issues includes formal arrangements to manage ESG issues and resulted in systems being certified to international standards of good practice.

We have established fuel reduction policies and targets, arranged driver training and piloted a live driver and fuel use (telematics) system. These initiatives are expected to reduce fuel use by 2.5% to 5% over two years and save €0.7m to €1.4m (2,000 to 4,000 t CO<sub>2</sub>e) a year.

We are investigating the potential for solar power at suitable locations to help secure concessions and generate additional income (€150k a year).

Health and safety initiatives in streamlining systems and the greater efficiencies achieved to date have resulted in savings of €200k a year.

## Outcomes

The business is now better placed to manage risk and better positioned to secure future concessions. A number of municipalities have commented upon the ESG improvements made by the company and Doughty Hanson believes that Avanza's ESG credentials helped the group win the competitive tender for the Zaragoza Tramway concession in June 2009.

The ESG initiatives we are implementing at Avanza continue to evolve and we are currently evaluating studies on several topics including water conservation, waste reduction, alternative fuels and engine efficiency.

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

July 2009

## Case study 4

# Cordiant and Banro



### About Cordiant

Founded in 1999, Cordiant is a Montreal-based fund manager with four successful funds under management and \$1.4 billion in subscriptions since inception. Cordiant invests in emerging markets, from Latin America to Eastern Europe to Africa and Asia.

Because of the long-term nature of Cordiant's investments, some with a term of up to 15 years, understanding risks is imperative. As such, we build a complete picture of the investee company, its owners, its managerial team and the business environment in which it operates.

### Cordiant's Approach to ESG Issues

Cordiant has always been a proponent of environmental, social and governance (ESG) screening when evaluating potential investments.

Our position is that this is not merely a feel good approach to investing but, rather, an integral part of risk management and due diligence. Identification and management of potential risks – which include Operational, Legal, Regulatory, Financial and ESG – reduces the chance of backlash during the life of an investment, thereby increasing its return.

Environmental and social risks include health and safety matters, land acquisition and community relations, damage to the natural environment and the physical security of both employees and structures. From the perspective of governance, we want to be assured that managerial teams are sufficiently experienced and have the necessary depth to grow the business. Corporate ownership and transactions must be transparent and beyond reproach.

Investing in emerging markets brings with it its own particular risks to consider, which include:

- the quality of infrastructure to allow for uninterrupted production and easy transportation of raw materials and finished product
- the stability of the political regime
- the health of the economy and possible susceptibility to fluctuations in exchange rates
- access to sufficient numbers of skilled staff.

Investment analysis is never as simple as running through a checklist. Obviously, every company is different and each will require some degree of trade-off. However, if any of the risks identified above cannot be mitigated or if management is unwilling to engage to affect change, then Cordiant does not invest.

## Investing in Banro

In 2005, Cordiant invested in Banro, a junior gold exploration and development company that holds title to the Twangiza-Namoya gold belt in the South Kivu region of Democratic Republic of Congo (DRC). The company employs more than 1,300 people, most of whom live in the communities within the area of exploration.

The DRC is a country devastated by years of civil war, where famine and disease are widespread and where much of the infrastructure has been destroyed.

## Relevance of ESG issues to the Investment

Banro's mining operations will likely have a significant impact on the region and its population, and these impacts can represent risks to the investment. In the Niger Delta region of Nigeria, for example, foreign oil installations have been hard hit by terrorist attacks and sabotage – by-products of a community alienated from the economic benefits generated by the oil industry.

Eager to avoid the same missteps, Banro has produced a Social Baseline and Impact Assessment, a Stakeholder Engagement Plan and a Community Development Plan. The data and material generated for these studies will be compiled into an Equator Principles-compliant environmental, socio-economic, health and safety impact assessment.

Cordiant played a key role in shaping the company's Corporate Social Responsibility programme and orchestrated a partnership between the Banro Foundation and CARE International. Using the UN's Millennium Development Goals, they are working to create long-term economic and social benefits for the communities near Banro's operations.

## Outcomes

Using local labour wherever possible, today Banro has become an important source of employment for surrounding communities, as well as employing and training more than 35 geologists who have graduated from DRC universities.

Among its many achievements, the Banro Foundation has built a new high school and provided clothes, furniture and school supplies to students; local medical clinics have been renovated and a new health centre is being built; clean drinking water has been provided to four communities; and roads and bridges are being built to develop the infrastructure essential for growth and prosperity.

The lesson to be learned from the Banro experience – where business disruptions have been kept to a minimum – is that proactive engagement with the local community leads to a greater understanding of the risks involved in an investment. In turn, that understanding helps to minimise those risks and increase the investment's projected returns.

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

September 2009

## Case Study 5

# Permira and Birds Eye Iglo



**“Birds Eye Iglo is the big player in the European frozen food market. The perception that private equity only takes a short term view has not been our experience under Permira. In fact, it has allowed us to take a long-term, strategic view in our attitude towards sustainability and with Permira’s support we have the potential to get even bigger.”**

**Martin Glenn** Chief Executive, Birds Eye

### About Permira

Permira is a European private equity firm with a global reach. The Permira funds’ investment activity focuses on six core sectors: Chemicals, Consumer, Financial Services, Healthcare, Industrial Products and Services, and Technology, Media and Telecommunications. The firm’s teams are based in Frankfurt, Guernsey, Hong Kong, London, Luxembourg, Madrid, Menlo Park, Milan, New York, Paris, Stockholm and Tokyo, advising funds with a total committed capital of approximately €20 billion. Since 1985, the Permira funds have completed over 190 private equity investments.

### Acquiring Birds Eye Iglo

A company backed by the Permira funds acquired Birds Eye Iglo, a European frozen food company, in November 2006. A part of the consumer giant Unilever since 1943, Birds Eye and iglo are both instantly recognisable household names across much of Europe. But in the years leading up to Permira’s acquisition Birds Eye Iglo had shown consistent underperformance. Shifting consumer tastes away from frozen food had stunted Birds Eye’s growth, while the company had been starved of investment for a number of years.

### Relevance of ESG issues to the investment

Birds Eye Iglo is a business that has a close relationship with the natural environment. Fish contributes 35% to group sales; as a result, Birds Eye has a long-standing commitment to marine sustainability. It was the first company to stop sourcing cod from the North Sea in 1999 and it took a leadership role alongside the WWF to establish the Marine Stewardship Council (MSC).

Central to Permira’s value creation plan for Birds Eye was rejuvenating the group’s brands. The Birds Eye brand had lost ground to chilled alternatives, which had begun to be seen as fresher and healthier. The Birds Eye management, led by Martin Glenn, was given a brief to grow the Birds Eye business by strengthening and developing the company’s brands. Putting sustainability at the heart of the Birds Eye brand was a key part of this process.

## Engaging consumers with more sustainable products

Birds Eye Iglo has focused on developing new products since it was acquired by the Permira funds, with sustainability at the heart of the group's new product range. The Omega 3 Fish Finger, launched in 2007, is sourced from sustainable Alaskan Pollock, and has resulted in a 3,000 tonne reduction in the company's yearly cod purchase, the equivalent of over 1.5 million fish. Birds Eye Iglo has also made a broader commitment to sustainable development by working to improve fish stocks for new species that are launched, whilst new innovations for Peas and Spinach are underpinned by a world class sustainable agriculture programme. Elsewhere, salt has been reduced across the Birds Eye range – ready meals, pies and burgers all meet the FSA 2010 salt model – while cooking oil has been reformulated to reduce the amount of saturated fat contained in some products by 75%.

## Building relationships with stakeholders

Underpinning this transformation in the group's approach to sustainability has been the active development of strong relationships with policymakers, the media, campaign groups, NGOs and other industry stakeholders. The company's relationship with the MSC and WWF helps Birds Eye Iglo to review and update its sustainable fishing policies. Birds Eye Iglo has also worked closely with the UK Government's Waste and Resources Action Programme (WRAP) to reduce waste packaging. Changes made mean that, for example, WRAP now considers Birds Eye's fish fingers carton weight best in class for a 300g product.

## Outcomes

The success of Birds Eye Iglo's integrated sustainability programme can be measured, not just in the positive impact that Birds Eye Iglo has had on the environment such as marine habitats or packaging use, but in the strengthened Birds Eye Iglo brands and the resultant improvement in the financial performance of the company.

In 2007, the first full year of Permira ownership, Birds Eye recorded its first year of sales growth in four years, while as a result of Birds Eye Iglo's investment in marketing there has been a general improvement in consumer attitudes to frozen food. Furthermore, in 2008, UK sales of the Birds Eye brand grew by 6.0%.

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

July 2009

## Case Study 6

# The New Zealand Superannuation Fund and Direct Capital Partners



**“It is a natural step for Direct Capital to fully integrate environmental, social and governance factors into our investment management and to report on these to our Limited Partners. We see this as positive for investors and companies alike.”**

**Mark Hutton** Director, Direct Capital



### About The New Zealand Superannuation Fund

The New Zealand Superannuation Fund (NZSF) is managed and administered by the Guardians of New Zealand Superannuation (“the Guardians”). The Fund’s purpose is to reduce the tax burden on future New Zealand taxpayers of meeting the cost of New Zealand Superannuation. The Fund began investing in September 2003 and as at 31 May 2009 assets under management totalled \$13.1 billion.

### About NZSF and ESG issues

The Guardians are founding signatories to the PRI and believe that, regardless of asset class, the boards and management of investee companies are best aligned with the interests of long-term investors when companies uphold internationally accepted standards of corporate behaviour and appropriately manage ESG risks. With private equity (PE) investments, there has been little transparency or reporting by GPs on ESG issues to LPs.

As an LP, the Guardians have rarely been able to veto individual investments in pooled funds when ESG concerns arise. Nor have we been able to set specific ESG standards. Over the last year, we have therefore focused on influencing the private equity industry as a whole through participating on the PRI PE Steering Committee.

Many GPs do integrate ESG criteria into their investment decision-making process. However, good practice includes developing plans to systematically manage ESG risks, both pre- and post-investment, and reporting on these issues to LPs.

### About Direct Capital and ESG issues

One of our New Zealand PE managers, Direct Capital, recently became a PRI signatory and is a good example of a GP committed to integrating responsible investment (RI) practices.

Direct Capital’s investments are typically in mid-sized companies requiring capital to expand. This year, prior to investing in a new Direct Capital fund, (called DC IV) we widened the scope of our internal due diligence to include the following RI criteria.

1. Did Direct Capital include ESG risks and opportunities in their due diligence process?
2. What ongoing attention was given to these issues post-investment?

### 3. What was their communication and involvement with LPs on these issues?

We reviewed two major investments in depth – a fish-farming company and a transport investment. Direct Capital appeared to have the environmental and health and safety aspects in hand, hiring external consultants to conduct assessments, assess actions and calculate costs. We established that it would not be difficult for Direct Capital to enhance their investment and reporting process to incorporate ESG considerations more fully.

We discussed including ESG conditions in the investment contract for the DCIV Fund with Direct Capital. They saw this as an opportunity to improve investment management and to meet the evolving expectations of their broader institutional and retail market.

## Outcomes

This has resulted in the investment mandate including the following:

1. DCIV will ensure that due diligence for each investment includes consideration of environmental, social (including health and safety, employees, human rights, consumer and community issues) and governance risks.
2. DCIV has committed to monitor and report to LPs on each portfolio company's:
  - (i) plans to address, manage or minimise any environmental or social issues arising from their operations identified by Direct Capital during due diligence of the portfolio company or which otherwise come to their attention
  - (ii) compliance with the principles of the UN Global Compact
  - (iii) corporate governance.

As the Guardians are a cornerstone investor in DCIV our influence is stronger than it might be with international PE Funds. It is still rare to see integration of ESG factors included explicitly in PE mandates, but this is likely to change.

Based on our progress with our managers, and through the PRI, we are currently refining our own RI guidelines for PE in the following areas:

- Our due diligence of GPs will assess if the GP has RI guidelines and in some cases we may work with the manager to develop these.
- We will review previous investments to assess if ESG considerations have been included in the pre- and post-investment process.
- We will request that the GP report to LPs on material ESG issues.
- The work of the PRI Steering Group has greatly assisted our dialogue with our GPs. We believe that through collaborative PRI action, the involvement of PE industry bodies and examples of good practice like Direct Capital, RI will soon become accepted as a core part of private equity management.

[www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz)

July 2009

## Case study 7

# KKR and Energy Future Holdings

### Energy Future Holdings

**“This is one of the most significant developments in America’s fight against global warming. Environmental Defense commends KKR and TPG for not only dropping TXU’s applications for eight proposed coal plants in Texas, but also for the many other commitments they have made to reduce air pollution and global warming emissions.”**

**Fred Krupp** President of Environmental Defense

### About KKR

Established in 1976, KKR is a leading global alternative asset manager. Led by founders, Henry R. Kravis and George R. Roberts, KKR manages funds that make investments in private equity, fixed income and other assets in North America, Europe, Asia and the Middle East. Throughout its history, KKR has brought a long-term investment approach, focusing on working in partnership with management teams of its portfolio companies and investing for future competitiveness and growth.

### KKR’s approach to ESG issues

Through our Washington, DC-based industry trade association, KKR worked with other association members to develop responsible investment principles that are based on the PRI and the United Nations Global Compact. In addition, we became a PRI signatory in 2008.

ESG has long been a part of KKR’s due diligence process. Our pre-investment review includes factors such as a company’s compliance with relevant laws and regulations and its relationships with employees and the communities in which it has operations.

At KKR, we are committed to implementing the PRI by incorporating ESG criteria into our investment processes and in our portfolio management.

### Acquiring TXU

In February 2007, KKR, TPG and Goldman Sachs executed a definitive merger agreement to acquire a Texas utility (TXU Corporation) now known as Energy Future Holdings (EFH). EFH is an example of how KKR has factored ESG issues into the investment process.

### Relevance of ESG issues in the investment

Before the acquisition, TXU was aggressively pursuing plans to construct 11 new coal-fired plants in an effort to meet the growing demands of electric utility customers in Texas. Some environmentalists and local cities criticized these plans as irresponsible and an unnecessary threat to the environment. When we began examining the possibility of investing in TXU, we began a dialogue with consumer groups, regulators, environmental organizations, organized labor, and local community and economic groups to proactively address their concerns.

As a result of these discussions, the investor group significantly amended the Company's business plan including:

- Reducing the number of new coal plants from 11 to three without harming electric reliability
- Committing to a voluntary emissions reduction plan to offset 100% of key emissions from new coal-fired power plants and reduce nitrogen oxides, sulphur dioxide and mercury emissions
- Reducing retail energy prices, resulting in a total 15% price reduction in 2007, and that was held in place through 2008, for most residential consumers
- Committing \$5 million per year for five years to continue funding the successful TXU Energy Aid program, which has been helping thousands of families in critical situations for over 25 years
- Committing \$400 million for conservation and efficiency efforts to reduce electricity use

The transaction was endorsed by a number of key environmental leaders, labor unions and government officials, including Environmental Defense Fund, AFL-CIO, International Brotherhood of Electrical Workers, Natural Resources Defense Council, Texas Economic Development Council, and mayors and city councils across Texas.

## Maintaining progress and measuring success

Luminant, an EFH subsidiary and the company's competitive power generation business continues to build on its environmental leadership position. Already a major purchaser of wind power, it is now building the first lignite plants in the USA with zero mercury emissions.

The company continues to hold itself accountable to its commitments and is transparent about its progress. On its website, a "scorecard" is updated regularly and informs the public and key stakeholders on the progress of the commitments. The company also provides regular updates through investor calls, investor meetings and presentations.

## Outcomes

As a result of the initial consultation with stakeholders, both the investors and EFH developed a strong relationship with the Environmental Defense Fund. In addition, a Sustainable Energy Advisory Board (SEAB) was established during the transaction. The SEAB is comprised of individuals who represent the interests of EFH's principal stakeholders, including the environmental community, customers, economic development interests, labor, and reliability and technology interests. The SEAB offers a forum for these constituencies to discuss and influence the company's direction, while allowing EFH to better understand how its businesses affect these communities.

Today, EFH has a business plan and a way of operating that is better for consumers, the environment, communities and the long-term future of the company.

[www.kkr.com](http://www.kkr.com)  
[www.energyfutureholdings.com](http://www.energyfutureholdings.com)  
July 2009

## Case study 8

# Blackstone and Equity Healthcare



### About Blackstone

The Blackstone Group is one of the world's leading investment and advisory firms with \$93.5 billion assets under management (as of June 30, 2009). Blackstone's alternative asset management businesses include the management of private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, collateralized loan obligation vehicles and closed-end mutual funds. Blackstone also provides financial advisory services, including mergers and acquisitions, restructuring and reorganization advisory as well as fund placement services.

### Blackstone's approach to ESG issues

When Blackstone's founders established the firm in 1985 their vision was to create an institution that would have a positive, lasting impact on the global economy. They believed that how they went about achieving attractive returns for their investors was as important as the returns themselves.

Before making any decision, the firm performs a rigorous analysis of the relevant environmental, public health, safety and social issues and continues to monitor those issues during its period of engagement.

Blackstone conforms to the:

- U.S. Private Equity Council Guidelines for Responsible Investment (2009)
- U.K. Walker Report Guidelines (2007)

### The healthcare challenge

Employers and employees across the United States are increasingly struggling to contend with rising health care costs. Healthcare spending in the United States is predicted to grow by 11% in 2009, almost triple the Consumer Price Index (CPI) inflation rate. Prohibitively high costs have had a serious and lasting impact on public health as well as the fiscal health of companies around the world.

In addition to costs associated with coverage and claims, estimates for the hidden costs of lost employee productivity in the U.S. due to the approximately fifty-two million avoidable sick days, is roughly \$8.5 billion annually.

### An innovative solution

Equity Healthcare is the result of Blackstone's years of experience at driving transformational change at the companies it owns. With healthcare costs having long challenged employers worldwide, Blackstone decided to bring in an expert to study the issue and develop a marketable solution.

The single greatest impediment to meaningfully improving health care benefits offered to the employees of small and midsize companies is cost. But Blackstone recognized that there should be a way to organize its combined employee base and group purchasing power to negotiate better healthcare benefits for employees at more competitive prices. While group-wide procurement is a time-tested practice deployed by private equity firms to cut costs across their portfolio companies, Blackstone is the first to bring this scale of group-wide procurement to health care.

Conceived in 2008, Equity Healthcare makes it possible for private equity-sponsored companies, regardless of size, to deliver higher quality, more comprehensive benefits that are typically only available to the employees of the United States' largest companies.

Equity Healthcare achieves immediate savings for its affiliates with significantly reduced administrative fees and then achieves further cost savings by focusing attention on the three to five percent of individuals who are responsible for half of an employer's annual healthcare costs. These individuals receive personal attention that helps them better manage chronic conditions such as diabetes, asthma and heart disease. State-of-the-art technology is also used to find opportunities to improve care by monitoring screenings, prescriptions, and other aspects of individual care.

At no additional cost to the employee, Equity Healthcare provides a full-service health and wellness program. Members gain access to a host of personalized services that provide the support and guidance needed to make informed healthcare decisions that will ultimately improve their overall health.

The keystone of the program is the Personal Nurse Advocate Service, which assigns a personal nurse to each employee requiring case management to help them better access and make use of available resources, manage chronic conditions and tackle various lifestyle issues. Equity Healthcare offers a higher ratio of nurse-to-members than care management programs offered by most other health plans.

## Outcomes

As cost savings become increasingly important to managing corporate balance sheets in the current economic climate, Equity Healthcare looks increasingly compelling. Equity Healthcare's targeted claim savings is 3-5% per member-company and approximately \$600 per employee, per year. Cost savings across twenty-three of Blackstone's U.S. portfolio companies alone is projected to be \$50 million in year one and \$140 million by year three.

With added scale comes increased leverage and, therefore, Blackstone has made Equity available to other private equity-sponsored companies. Additionally, member companies may remain in Equity Healthcare indefinitely even after their private equity sponsor exits their investment in that company.

As private equity investing continues, Equity Healthcare has the potential to dramatically expand healthcare benefits for an ever-growing number of people nationwide, which will have a lasting impact on public health.

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

September 2009

## Case Study 9

# Blue Wolf Capital Management and Finch Paper Llc



### About Blue Wolf Capital Management

Adam Blumenthal and Josh Wolf-Powers founded Blue Wolf Capital Management in April 2005. Since then, the firm has made five investments – four in pre-fund, oneoff vehicles, and one by Blue Wolf Capital Fund II, L.P., (the “Fund”) – the firm’s first institutional private equity fund. The Fund, a control-oriented middle-market buy-out private equity fund, focuses on companies in North America. It was formed to realize significant capital appreciation by investing in attractive companies whose value is obscured by complexity, and in particular, in companies that manage the complexities associated with three powerful constituencies that deter most middle-market private equity investors: government, labour unions, and creditors armed with the power of the bankruptcy court. For further information see, [www.blue-wolf.com](http://www.blue-wolf.com)

### Blue Wolf’s approach to ESG issues

Blue Wolf’s investment strategy assumes the importance of environmental, social, and corporate governance (ESG) issues in the investment decision-making process, and its staff includes individuals with government, labour relations, and operations management experience that understand how ESG issues impact on all businesses. Blue Wolf makes control investments in middle-market companies in sectors underserved by private equity, and manages situations involving multiple stakeholders where ESG issues often arise. Among the stakeholders can be government, either as customer, policy-maker, regulator, market influencer, or provider of subsidy; and labour unions, both as a potential source of deals and in the creation of value post-acquisition. Blue Wolf also has expertise in resolving issues borne from organizational mismanagement and/or corporate governance failures. Blue Wolf Capital Management is a signatory of the Principles for Responsible Investment (PRI).

### Acquiring Finch Paper

Finch Paper was over 140 years old when Blue Wolf made its investment in 2007, and was led by an inflexible and litigious group of over 100 descendants of one of the company’s founders. The company was and is a leader in the premium uncoated printing paper market, manufacturing over 250,000 tons per year for advertising materials, book publishing and business office uses from its single mill in Glens Falls, New York – making it an attractive investment opportunity. In 2001, there had been a bitter six-month long strike, and at the time of Blue Wolf’s acquisition of the company, it had seven collective bargaining agreements covering workers represented by five unions. The existence of a fractured ownership group, the history of contentious labour relations, and the need to implement a state-of-the-art environmental programme presented obstacles to a successful transaction.

## Relevance of ESG issues to the investment

Blue Wolf contacted officials at the United Steelworkers of America (the lead union at Finch) to satisfy concerns about our ability to work with the unions to improve operations. In addition to dealing with labour issues, Blue Wolf's ultimate success in acquiring Finch, at a price below that established in a competitive bidding process, was based on our willingness to provide the sellers with liquidity for 161,000 acres of Adirondack Forest timberlands. We were confident in this transaction because of our ability to sell the timber to a unique buyer, one to which the family owners would have never agreed to sell to, The Nature Conservancy. As a result of this transaction, 161,000 acres of environmentally sensitive forestland was transferred to the ownership of The Nature Conservancy, and ultimately, much of it in turn passed on to New York State.

The Nature Conservancy also re-hired Finch Paper LLC to manage the land for them in a sustainable manner.

## Outcomes

The acquisition of Finch Paper is an example of how Blue Wolf's investment strategy works. In this instance, because of our ability to navigate a series of complicated situations, including a divided family ownership, contentious labour relations, material environmental concerns, and the sale of land and equipment, we were able to acquire a \$25 million of annual EBITDA business for \$52.5 million. Moreover after taking control of the company, we were able to use the goodwill generated to rationalize the company's cost structure, create incentive plans for both management and hourly staff, reposition the brand name and refinance to reduce interest costs.

[www.blue-wolf.com](http://www.blue-wolf.com)

July 2009

## Case Study 10

# Blackstone: Hilton Hotels



**“We are just scratching the surface of what we can do, and are in a great position to build on these results and really make a difference. While we have a long journey ahead, we now have a robust global platform and tools to support both our sustainability and company wide objectives, driving hotel performance and economic and social value in the process.”**

**Christopher J. Nassetta**, Hilton’s President and Chief Executive Officer

### About Blackstone

The Blackstone Group is one of the world’s leading investment and advisory firms with \$93.5 billion assets under management (as of June 30, 2009). Blackstone’s alternative asset management businesses include the management of private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, collateralized loan obligation vehicles and closed-end mutual funds. Blackstone also provides financial advisory services, including mergers and acquisitions, restructuring and reorganization advisory as well as fund placement services.

### Blackstone’s approach to ESG issues

When Blackstone’s founders established the firm in 1985 their vision was to create an institution that would have a positive, lasting impact on the global economy. They believed that how they went about achieving attractive returns for their investors was as important as the returns themselves.

Before making any decision, the firm performs a rigorous analysis of the relevant environmental, public health, safety and social issues and continues to monitor those issues during its period of engagement.

Blackstone conforms to the:

- U.S. Private Equity Council Guidelines for Responsible Investment (2009)
- U.K. Walker Report Guidelines (2007)

### Acquiring Hilton Hotels Corporation

Blackstone purchased Hilton Hotels Corporation (“Hilton”) in November 2007, acquiring one of the most valuable global collections of brands in the hotel industry. The Hilton family of hotels includes more than 3,300 hotels and 550,000 rooms in 77 countries, proudly serving more than a quarter billion guests a year with its 130,000 staff. Since Conrad Hilton started the company with one hotel in Cisco, Texas in 1919, the Hilton Hotels Corporation has endeavored to set the industry standard for hospitality.

Blackstone’s rationale for investing in Hilton was based on its strong brand, premier real estate, loyal customer base and attractive growth opportunities for the business, particularly in the international market.

### Relevance of ESG issues to the Investment

As it conducted its rigorous due diligence in advance of the acquisition, Blackstone recognized the significant impact of Hilton’s business practices on the environment, the brand as well as on the

company's bottom line. Sustainability quickly became a critical component of the investment thesis and, as a result, Hilton underwent a comprehensive review of its global operations to identify current environmental impacts. Hilton engaged sustainability consultant, Blue Skye to assist in this analysis.

The findings were compelling. Estimates for Hilton's annual company-wide environmental impacts included the following:

- 6.8 million tons of CO<sub>2</sub> (equivalent to 1.7 million cars)
- 600,000 tons of waste (enough to fill 30,000 Olympic swimming pools)
- 190 million cubic meters of water (equivalent to supplying 40,000 households with water for a year)
- Purchases of case goods such as dressers, bookshelves, and cabinets, in North America alone that are the equivalent of 2,000 acres of forest.

The brand impact was also apparent with customers increasingly gravitating towards eco-friendly hotels as environmental issues have become mainstream concerns around the world.

## A programme of action

The challenge for the company was to implement a program that addressed these concerns in a meaningful, cost-effective way that best positioned the business for future growth while not compromising the company's core mission of providing the highest level of hospitality to its guests. An added challenge was layered on a few months later with the onset of the worldwide financial crisis, which seriously impacted the hospitality and tourism industries.

Blackstone worked to put in place a management team that understood the social and business value of implementing a sustainability program. In April of 2008, under the direction of a newly appointed Vice President of Global Sustainability, Hilton unveiled a broad-reaching, company-wide sustainability program and a set of aggressive short-term targets (to be reached by 2014):

- 20% reduction in energy consumption from direct operations
- 20% reduction in CO<sub>2</sub> emissions
- 20% reduction in output of waste
- 10%, reduction in water consumption
- Integration of sustainability into building design, construction and operations
- Promoting renewable energy as a source of power for operations (not only to reduce Hilton's overall carbon footprint but to develop a viable commercial infrastructure for powering its buildings).

Hilton has also integrated sustainability practices into the guest experience, with eco-friendly bath products and inviting guests to save water by reusing towels and other linens.

## Outcomes

For the full year ending December 2008, Hilton achieved 1-3% reductions in electricity, water use, fuel use and CO<sub>2</sub> emissions and an estimated \$15-20 million in cost savings.

As the world financial crisis continues to impact the hospitality sector, Hilton has maintained its commitment to its sustainability goals. The company recognizes that sound environmental policies are not only reducing the company's impact on the communities where it operates, but are also enhancing the guest experience, improving operational efficiency, driving cost savings and bolstering the brand.

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

September 2009

## Case Study 11

# Abraaj Capital and JorAMCo



JORDAN AIRCRAFT MAINTENANCE LIMITED

**“In recent years JorAMCo has enjoyed significant growth and development. This has challenged us to also expand our view of how we create value for our shareholders and society. Areas related to ESG increasingly require systematic and diligent approaches to ensure they are as well managed as other areas of our business. Not only because they are responsibilities we take very seriously, but because they represent new growing opportunities, in the form of increased efficiencies and productivity, cost savings, service differentiation, ability to attract and retain top talent, and reputation enhancement.”**

**Bashir Abdel Hadi** Chief Executive Officer, JorAMCo

## About Abraaj Capital

Dubai-based Abraaj Capital is the largest private equity group outside Europe and North America, and invests in the growing Middle East, North Africa and South Asia (MENASA) region. Since inception in 2002, it has raised about US\$7 billion and distributed almost US\$3 billion to investors.

## Abraaj's approach to ESG issues

Abraaj is a private equity firm dedicated first and foremost to generating superior returns for our investors. While striving to deliver these returns by unlocking value in our partner companies, we are mindful of our wider social responsibilities. Abraaj is committed to driving sustainable, positive change in the communities in which we operate by investing in them for their wider long-term welfare. With our extensive reach and penetration, our mission is to instill the virtues of corporate social responsibility into each and every one of our partner companies and hereby positively impact the lives of thousands in our stakeholder community. As such, we can perhaps help others around us discover ways they can contribute to the region's wider development.

## Acquiring JorAMCo

The Jordan Aircraft Maintenance Company (JorAMCo) is an independent maintenance, repair, and overhaul (MRO) service provider offering a range of airframe maintenance services to Airbus, Boeing and Lockheed aircraft fleets. JorAMCo headquarters and operations are located at Queen Alia Airport in Jordan.

In 2005, through an international bidding process, 80% of JorAMCo was acquired by Abraaj Capital while the remaining 20% was retained by the Jordanian Government through Royal Jordanian airline.

The investment in JorAMCo provided Abraaj an entry into the lucrative and growing MRO industry through a well-established player with potential for tremendous growth and operational enhancements. At the time of investment there was obvious scope to improve operational efficiencies and marketing to enhance revenues.

The post-acquisition strategic plan for JorAMCo was to develop the company into a major player in the aircraft MRO business by building on its strong reputation for quality and competitive pricing. An aggressive post-acquisition efficiency improvement programme – including construction of a new hangar – has doubled capacity. A number of improvements to workflow processes have been implemented including IT systems, man-hour and inventory management, and service and training capacity has been greatly increased.

## Relevance of ESG issues to the investment

Abraaj also believes that sustainability-oriented innovation will be a major catalyst for growth. We asked JorAMCo to conduct a sustainability benchmarking and assessment, and then to establish a sustainability strategy and a baseline sustainability report. The assessment considered issues raised by stakeholders around the geographical context, the sectoral context and also global sustainability trends. Eight major issue areas for JorAMCo and its stakeholders include good governance, accountability and transparency, management excellence, customer care, attracting and retaining top talent, health and safety, human rights, environmental performance, and community development.

With our support as an active partner, JorAMCo has demonstrated leadership in transparency by being one of the first companies in Jordan and the Arab region to produce a sustainability report. It is also, to our knowledge, the first independent aircraft maintenance, repair and overhaul company in the world to issue a sustainability report.

## Training local people

One example of JorAMCo's innovative approach to these issues is the development of the JorAMCo Training Academy. JorAMCo's policy is to support the local community by hiring local labour – mainly from Al-Jeeza and Madaba – and develop their technical skills. This brings economic and social benefits and prosperity to the local community as well as helping to lower the greenhouse gas emissions associated with travelling to work. With an investment of US\$900,000, the Academy opened its doors in 2008 as a training centre for graduating professionals in the MRO field supplying the Jordanian and the regional community with highly qualified technicians and mechanics.

The JorAMCo Academy, considered the first of its kind in the MENA region, provides comprehensive training facilities including classrooms, workshops and hangars, and the convenience of JorAMCo's main facilities within walking distance. After four years of academic and applied practice, graduates are ready to work as certified aircraft technicians, many of whom will choose to join JorAMCo.

## Outcomes

This initial approach to evaluating sustainability management within partner companies has provided Abraaj Capital with the beginning of a reporting process to roll out across the rest of the investment portfolio. To that end Abraaj developed the Ethical Framework for Investment for each partner company to sign up to. Based in part on the United Nation's Global Compact, the Ethical Framework for Investment is a tool to guide partner companies toward implementing basic ethical principles throughout their business activities.

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

July 2009

## Case Study 12

# Actis: Middle East Food and Trade Company



“Actis has demonstrated invaluable support as a value-adding investor in our business. They have worked alongside myself and the team to grow the business aggressively and to adopt international best practice across all business functions. Thanks to this partnership, REM has now completed its transition from being a closed family business to being a developed corporation with institutional shareholders.”

**Mohamed El-Rashidi** Chairman of El-Rashidi El-Mizan

### About Actis

Actis, headquartered in London, was spun out of the Commonwealth Development Corporation (CDC) in 2004 and is a leading private equity investor in emerging markets, with 100 investment professionals working in twelve offices across Africa, China, India, Latin America and South East Asia.

Actis has US\$5 billion funds under management with commitment from over 100 institutional investors and invests in three asset classes: private equity, infrastructure and real estate.

### Actis’s approach to ESG issues

We demand a rigorous analysis of ESG issues as part of our investment appraisal process and insist that investee companies follow the highest international standards enshrined in our ESG Code. Our dedicated ESG team actively engages with portfolio companies promoting our ESG strategy which includes:

- Policies on climate change, environment, health, safety, social and business integrity issues
- Sustainability Guidelines and Health and Safety Guidelines for Real Estate Funds
- Energy efficiency and reduction of CO<sub>2</sub> emissions in all portfolio companies.

Actis is a signatory to the PRI and we are also members of UNEP FI and Transparency International. Actis was a nominee for the 2009 FT/IFC Sustainable Investor of the Year Award.

### Acquiring Middle East Foods, Egypt

Middle East Food and Trade Co (MEF) was set up as the holding company of El-Rashidi El-Mizan Confectionary Company (REM), which is Egypt’s leading producer of “Halawa” and “Tahina” – two traditional staple food products made from sesame seed. In what was regarded as the first ever management buyout in Egypt in 2002, Actis acquired 65% of the equity through ordinary shares and an interest-free shareholder loan.

Actis conducted a comprehensive due diligence at the time of the buy out and saw scope to add value by professionalizing management practices, including:

- Strengthening corporate governance
- Sourcing an expert to help drive the management information system upgrades
- Identifying a health and safety programme
- Strengthening financial reporting capabilities
- Providing corporate finance support to the management team when considering acquisitions.

## Relevance of ESG issues to the Investment

Actis focused on MEF's current and planned ESG management systems and how to take them forward. We met with senior management, including the CEO, the Supply Chain Director, the R&D/QA Director and the Engineering Department Manager, as well as LRSN-M, a Hazard Analysis and Critical Control Points (HACCP) consultancy firm based in Egypt.

An ESG due diligence conducted at the plant revealed a strong commitment to product safety and quality and a desire for improvement. However a number of weaknesses were identified:

- Implementation/ownership of the HACCP system was poor, especially at the factory worker level
- The planned HACCP system would have considerable overlap with the Good Management Practices (GMP) system already in place especially in the Product Safety and Product Quality areas
- There was a danger of initiative overload
- There was little formalisation of environmental responsibilities and procedures n The growing outsourcing programme made it difficult to implement product quality, product safety and other ESG programmes at the factory worker level.

## Outcomes

Actis assisted MEF in implementing a robust management system approach with both ISO 14001 environmental management system and an OHSAS 18001 health and safety management system. Furthermore, a new HACCP system was designed to fit into an ISO documentation format.

We clarified responsibility for ESG issues by appointing an overall champion to lead the implementation of the ESG systems. And we established regular monitoring of key ESG indicators and processes for reporting back to the board.

Five years later, MEF emerged a much stronger market leader, exporting to 25 countries, with double the production capacity, double the product portfolio and the highest level of accredited systems in the industry. In 2007 Actis sold MEF via an auction process to Citadel Capital, a Cairo based private equity firm.

Although it is difficult to isolate the exact extent to which ESG actions contributed to the gain, it is widely accepted that implementation of food safety management systems enhances the value of food businesses.

[www.act.is](http://www.act.is)

July 2009

## Case Study 13

# Robeco's responsible private equity investments

**ROBECO**

### About Robeco

Working out of Robeco's offices in Rotterdam, Zurich and New York, Robeco's private equity investment team is composed of 12 experienced investment professionals, supported by representatives from the Finance & Operations and Legal departments of Robeco Alternative & Sustainable Investments. Established in 2001, the team has raised multiple private equity funds of funds. While the focus initially was on mainstream private equity investments and regular fund of fund products, in recent years the team has shifted its focus to sustainable and responsible private equity investments.

### Robeco's approach to ESG issues

In 2003 the Robeco private equity investment team saw that client demand for responsible investment solutions was increasing as were the number of sustainable or clean technology funds coming to the market for funding. There was an opportunity to bring new products to market.

In this respect, a relationship was developed with its parent company Rabobank, which attaches a lot of importance to contributing to sustainable development in its role as a financial institution, to provide expertise and credibility to Robeco's efforts in the field of sustainable private equity.

### Launching Responsible Entrepreneurship Guidelines

In 2004, Robeco was one of the first asset managers worldwide to introduce an ESG-focused program investing in private equity – the Robeco Sustainable Private Equity Program ('RSPE'). The fund of funds committed its capital of nearly USD 250 million to a mixture of both clean tech focused private equity funds and mainstream private equity funds, which were willing to adopt a set of responsible entrepreneurship guidelines (the 'Responsible Entrepreneurship Guidelines' or 'REG'). Rabobank's Corporate Social Responsibility Department acted as formal Investment Advisor to the program.

### Reactions to the Responsible Entrepreneurship Guidelines (REG)

The funds' experiences implementing the Responsible Entrepreneurship Guidelines have been diverse and appear to be related to geography and fund size. Since 2004, in the United States, private equity firms have become more positive about responsible investing. However, many remain hesitant to state their commitment to responsibility in writing, such as in a side letter agreement. This appears to be related to fears of litigation and questions regarding the limiting nature of the REG in terms of investment universe.

Private equity firms in Europe, including a number of well-known names in the sector, have embraced the concept of responsibility earlier than their North American counterparts. Furthermore, an explicit commitment to an annual progress report on the subject of responsibility does not appear to be a contentious point in most cases.

In emerging markets most private equity firms have been surprisingly well educated on the subject of responsibility. The most experienced private equity investment teams in emerging markets were sponsored by development finance institutions, such as CDC and EBRD and these institutions strongly promoted sustainable development. Adopting the REG is therefore rarely an issue for emerging market private equity funds.

The acceptance of the Responsible Entrepreneurship Guidelines has been better with smaller funds (growth capital funds, small buyout funds) than with larger funds (large buyout funds). Large funds appear to be less open to changing their current investment process than smaller funds that typically have a somewhat more flexible (less institutionalized) approach.

## After the REG

In 2006 Robeco signed the Principles for Responsible Investment ('PRI') and based on the PRI, we developed the Robeco Principles for Responsible Private Equity (hereinafter, the 'Principles'). These are at the heart of the successor fund to RSPE that we launched in 2008 – the Robeco Responsible Private Equity II ('RRPE II'). It has a target fund size of €250 million and will invest exclusively in private equity funds that are prepared to commit to and implement the Principles.

By subscribing to the Principles, investee funds of RRPE II commit themselves to:

- Implement ESG criteria in their investment policies and ownership practices
- Stimulate underlying portfolio companies to adhere to ESG standards (notably the UN Global Compact)
- Report annually on the investee fund's ESG efforts
- Actively share and exchange experiences in this field with Robeco and other interested parties.

Key to the RRPE II fund's responsible investment strategy is the engagement approach, whereby Robeco enters into an active dialogue with its fund managers on responsibility issues, their relevance for private equity investments and their implementation in investment processes.

These Principles are now easier to work with than the REG for the following reasons. Firstly, they are based on a universally accepted standard for responsible investing and thus more easily accepted by fund managers. Secondly, whereas the REG were focused on improving the ESG performance of portfolio companies, the Principles focus on what really can be influenced from a fund of funds manager's perspective: the investment decision-making and ownership processes of the investee funds.

## Outcomes

In conclusion, Robeco was one of the first to recognise the trend towards responsible private equity and to develop specialized products around it. We have learned from the experience of implementing our Responsible Entrepreneurship Guidelines, and responded to initiatives such as the PRI by developing our own investment principles tailored to private equity funds.

Although in the beginning it was not easy to find and convince the first clients, the focus on responsible private equity has definitely paid off. It has strengthened Robeco Private Equity's reputation as an innovative fund manager and it has attracted new institutional clients, including internationally.

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

July 2009

## Share your experience with Responsible Investment in Private Equity

The PRI will continue to collect and publish case studies about responsible investment in Private Equity. For more information, or if you would like to send us your case study, please contact [info@unpri.org](mailto:info@unpri.org).

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Principles  
for Responsible  
Investment

An investor initiative in partnership with  
UNEP FI and the UN Global Compact

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UNEP **Finance Initiative**  
Innovative financing for sustainability