

# ESG DUE DILIGENCE

A GROWING WORKSTREAM  
FOR PRIVATE EQUITY INVESTORS



# ESG DUE DILIGENCE

## An introduction to ESG Due Diligence and Insights from TriVista's 2022 ESG Study

With the growing global focus on sustainability, Private Equity investors are beginning to take a closer look at Environmental, Social, & Governance (ESG) aspects of new target investments.

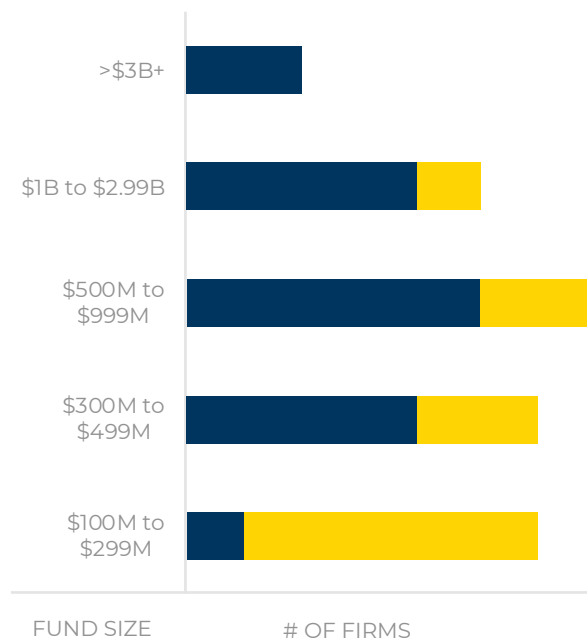
In Q3 2022, TriVista asked ~40 respondents from 25 Private Equity firms about their approach to ESG Due Diligence.

NEARLY ALL PE FIRMS POLLED WITH FUND SIZES >\$300M ARE CONDUCTING ESG DUE DILIGENCE ON AT LEAST 70% OF TRANSACTIONS.

### ? WE ASKED

Have you/your firm ever conducted ESG Due Diligence as part of your due diligence process on an acquisition/investment target?

Source: TriVista 2022 ESG due diligence survey; n=40



## ESG AND ESG DUE DILIGENCE EXPLAINED

### WHAT IS ESG?

ESG encompasses a broad range of considerations for investors and corporations alike. While some aspects may vary by industry, it typically includes environmental stewardship, social and stakeholder equity, and general corporate governance.

#### Social

- Health and Safety
- Diversity, Equity, and Inclusion
- Employee Engagement and Welfare
- Labor Standards and Human Rights
- Impact on Society

#### Environmental

- Climate Change
- Energy and Water Use
- Waste and Recycling
- Direct and Indirect Emissions

#### Governance

- Transparency and Disclosure
- Ethics and Compliance
- Board of Directors
- Critical and Systemic Risk Management
- Supply Chain Management
- Product Management



## WHAT IS ESG DUE DILIGENCE?

ESG Due Diligence (ESG DD), is a comprehensive review of the programs, processes, and metrics an organization uses to measure, benchmark, and improve performance across these focus areas

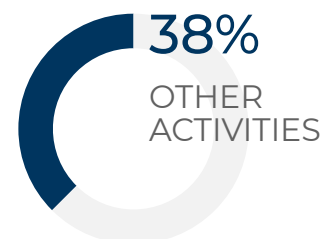
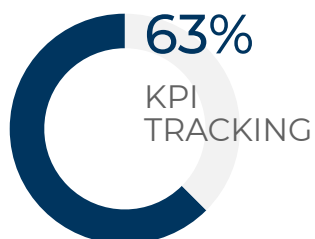
1. ESG Due Diligence is a risk-oriented materiality analysis
2. Findings can help drive investment decisions, and guide post-close improvement priorities
3. Tailored industry benchmarks allow organizations to form the basis for action plans during an ownership phase

It's a common misconception that ESG and Environmental DD are one in the same. While environmental due diligence frequently focuses on a company's physical real estate (e.g., soil contaminants), ESG Due Diligence provides a holistic review of an organization's entire value chain and considers how each aspect of ESG impacts the world.

**Across the board, the only consistent ESG monitoring conducted post-close is KPI tracking for reporting purposes.**

### ? WE ASKED:

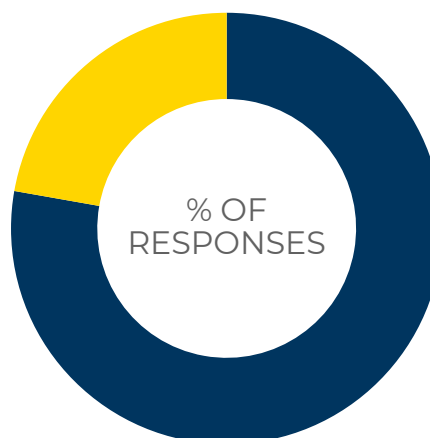
What type of ongoing ESG monitoring is your firm conducting throughout your portfolio? Shows the percentage of firms completing each ESG monitoring activity for each firm conducting ESG due diligence.



FOR PE FIRMS WHO HAVE NOT COMPLETED ESG DUE DILIGENCE HISTORICALLY, OVER HALF WILL SOON START TO CONDUCT ESG DUE DILIGENCE ON SOME DEALS.

### ? WE ASKED






























Over the next 3 years, do you envision conducting ESG Due Diligence as part of your standard due diligence approach for new investments?



**78%**  
of survey respondents will start conducting ESG DD

# DEFINING E, S, AND G

ESG benchmarks vary by industry, and ESG Due Diligence focus must adapt to each unique business model.

FOCUS AREA/ISSUE		 CONSUMER GOODS	 FOOD & BEVERAGE	 INDUSTRIAL & AERO	 METALS & MINING
ENVIRONMENTAL	Greenhouse Gas Emissions				
	Air Quality				
	Energy Management				
	Water and Wastewater Management				
	Waste and Hazardous Materials Management				
SOCIAL	Diversity, Equity, and Inclusion				
	Human Rights and Community Relations				
	Data Security and Customer Privacy				
	Product Quality and Safety				
	Labor Practices and Employee Health & Safety				
GOVERNANCE	Supply Chain Management				
	Business Ethics and Competitive Behavior				
	Critical and Systemic Risk Management				
	Management of the Legal and Regulatory Environment				
	Materials Sourcing and Efficiency				

Source: SASB Materiality Finder

## OUR ESG DUE DILIGENCE APPROACH

Our ESG Due Diligence approach focuses on risk mitigation, leveraging in-house experts across all functional areas. We include a comprehensive review of ESG programs, processes, and metrics.

Our reports are based on standards from the **Sustainability Accounting Standards Board (SASB)** and the **Global Reporting Initiative (GRI)**, and can be shared with management teams, limited partners, investment committees, and board members.

We compare industry-specific ESG requirements to TriVista's industry knowledge as well as leverage our strong supply chain knowledge to create a well-rounded report.

# ESG GLOSSARY

	FOCUS AREA/ISSUE	DEFINITION
ENVIRONMENTAL	Greenhouse Gas (GHG) Emissions	Direct (Scope 1) GHG emissions that a company generates through its operations, including GHG emissions from stationary and mobile sources
	Air Quality	Air quality impacts resulting from stationary and mobile sources as well as industrial emissions
	Energy Management	Management of energy in manufacturing and/or for provision of products and services derived from utility providers not owned or controlled by the company
	Water and Wastewater Management	Water use, water consumption, wastewater generation, and other impacts of operations on water resources
	Waste and Hazardous Materials Management	Management of solid wastes in manufacturing, agriculture, and other industrial processes
	Ecological Impacts	Impacts on ecosystems and biodiversity through activities including land use for exploration, natural resource extraction, project development, construction
SOCIAL	Human Rights and Community Relations	Relationship between businesses and the communities they operate in, including community engagement, cultivation of local workforces, impact on local businesses
	Customer Privacy	Management of risks related to the use of personally identifiable information and other customer or user data for secondary purposes
	Data Security	Management of risks related to collection, retention, and use of sensitive, confidential, and/or proprietary customer or user data
	Access and Affordability	Ability to ensure broad access to its products and services, specifically in the context of underserved markets and/or population groups
	Product Quality and Safety	Ability to offer products that meet expectations with health and safety characteristics and addresses issues involving unintended aspects of products
	Customer Welfare	Ability to provide consumers with manufactured products and services that are aligned with societal expectations and addresses related concerns
	Selling Practices and Product Labeling	Social issues that may arise from a failure to manage the transparency and accuracy of marketing statements, advertising, and labeling of products and services
	Labor Practices	Uphold commonly accepted labor standards in the workplace, including compliance with labor laws and internationally accepted norms and standards
	Employee Health and Safety	Ability to create and maintain a safe and healthy workplace environment that is free of injuries, fatalities, and illness (both chronic and acute)
	Employee Engagement, Diversity, and Inclusion	Ensure that its culture and hiring and promotion practices embrace the building of a diverse and inclusive workforce
GOVERNANCE	Product Design and Lifecycle Management	Incorporation of environmental, social, and governance considerations in characteristics of products and services provided or sold by the company
	Business Model Resilience	Capacity to manage risks and opportunities associated with incorporating social, environmental, and political transitions into long-term business model planning
	Supply Chain Management	Management of ESG risks within the supply chain, including environmental and social externalities created by suppliers through their operational activities
	Materials Sourcing and Efficiency	Issues related to the resilience of materials supply chains to impacts of climate change and other external environmental and social factors
	Physical Impacts of Climate Change	Manage risks and opportunities associated with direct exposure of its assets and operations to actual or potential physical impacts of climate change
	Business Ethics	Approach to managing risks and opportunities surrounding ethical conduct of business, including fraud, corruption, bribery, fiduciary responsibilities
	Competitive Behavior	Social issues associated with existence of monopolies, which may include excessive prices, poor quality of service, and inefficiencies
	Mgmt. of the Legal and Regulatory Environment	Approach to engaging with regulators where conflicting corporate and public interests have the potential for long-term adverse environmental and social impacts
	Critical Incident Risk Management	Use of management systems and scenario planning to identify, understand, and prevent or minimize the occurrence of low-probability, high-impact accidents
	Systemic Risk Management	Management of systemic risks resulting from large-scale weakening or collapse of systems upon which the economy and society depend

SOURCE: SASB MATERIALITY FINDER

# TRIVISTA

TriVista is a leading advisory firm focused on operations, supply chain, technology, and executive recruiting that provides transaction advisory services to private equity firms, and performance-improvement support to operating companies. We've partnered with the world's top investors and executive leadership teams to transform businesses and drive enterprise value.



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