Capital Dynamics

RESPONSIBLE INVESTMENT IN PRIVATE EQUITY – A KEY COMPONENT OF OPERATIONAL VALUE CREATION

CAPITAL DYNAMICS STUDY BASED ON SURVEY OF GENERAL PARTNERS

April 2017

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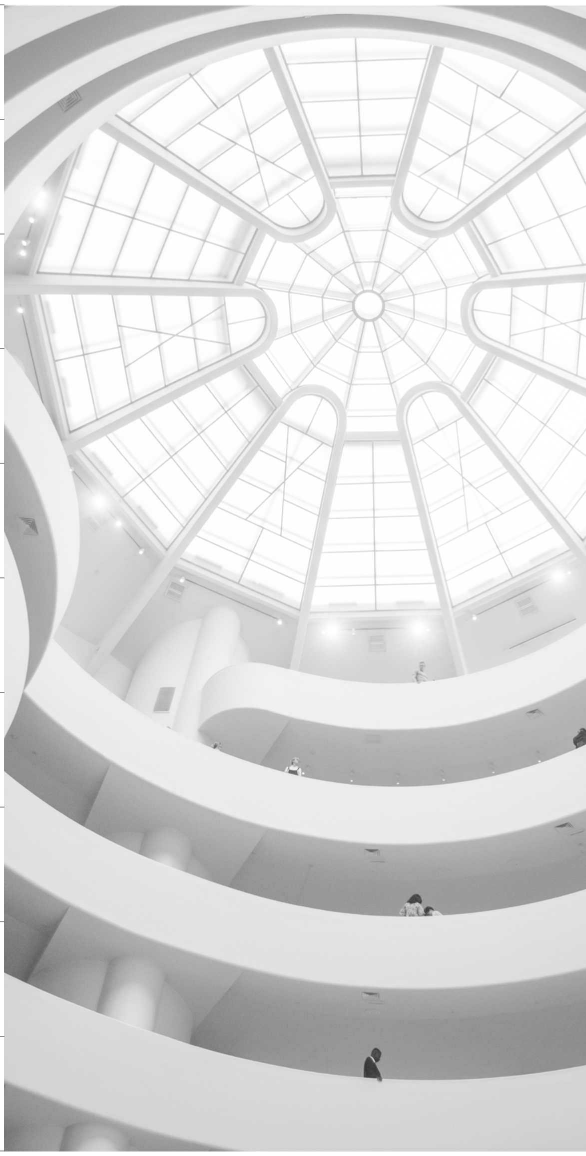
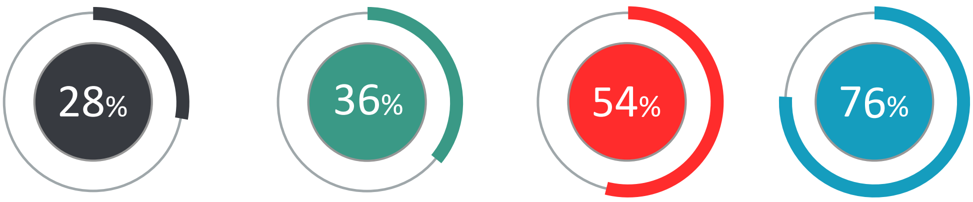


SUMMARY OF KEY INSIGHTS



28% SAID HIGHER RETURNS WAS ONE OF THE TOP DRIVERS OF IMPLEMENTING AN RI/ESG POLICY

36% MEASURED AND EXPERIENCED A POSITIVE IMPACT ON EBITDA DUE TO ESG ACTIONS

54% OFTEN OR OCCASIONALLY REDUCED AN AQUISITION BID PRICE BASED ON ESG ANALYSIS

76% SAID THAT THEY WILL INCREASINGLY USE ESG FOR VALUE CREATION

THE MAJORITY OF PRIVATE EQUITY MANAGERS FORMALIZED RI/ESG POLICIES IN RESPONSE TO INCREASING INVESTOR REQUIREMENTS. COMMITMENT TO RI/ESG IS ALSO EQUALLY DRIVEN BY THE IMPORTANCE OF RI/ESG TO INVESTMENT RISK MANAGEMENT

THE MAJORITY OF PRIVATE EQUITY MANAGERS PLAN TO ENHANCE THEIR IMPLEMENTATION OF RI/ESG IN THE AREAS OF VALUE CREATION, DATA COLLECTION FROM PORTFOLIO COMPANIES AND REPORTING TO INVESTORS

SOCIAL FACTORS ARE MORE OFTEN CONSIDERED AS AN OPPORTUNTITY FOR VALUE CREATION, WHILE GOVERNANCE FACTORS ARE MAINLY VIEWED AS A SOURCE OF RISK

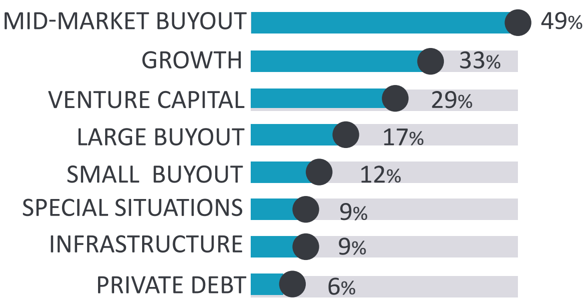
INCORPORATING RESPONSIBLE INVESTMENT PRACTICES AND CREATING SUSTAINABLE VALUE ARE BECOMING MORE VITAL TO THE OPERATIONAL VALUE CREATION MODEL

ABOUT THE STUDY

Capital Dynamics surveyed 175 general partners (GPs) from private equity funds to gauge how principles of responsible investing and environmental, social and governance (ESG) factors are implemented in the investment process. We experienced a high response rate (109 of the 175 GPs responded) with a vast majority of responses completed by professionals holding senior management positions.

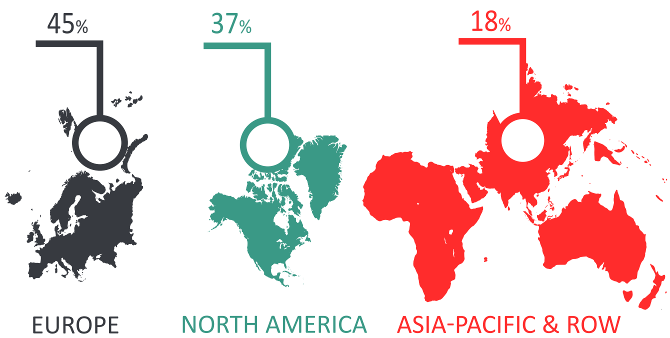
The participants of our survey were well-balanced by size of their most recent flagship fund with the majority managing mid-market funds. Similarly, in terms of headcount, most respondents were mid-sized managers with 25-100 employees. The study accurately represents the general responsible investment practices across the global private equity industry – the majority of respondents (55%) were outside Europe and all strategies of the private equity spectrum were represented.

BREAKDOWN BY STRATEGY[1]



BREAKDOWN BY HEADCOUNT

BREAKDOWN BY GEOGRAPHY



BREAKDOWN BY FUND SIZE

RESPONSIBLE INVESTMENT IN PRIVATE EQUITY

Responsible investment in private equity is defined typically as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions to better manage risk and generate sustainable, long-term returns. It should not be confused with socially responsible investing (SRI), which is most known in public equity investing and describes a portfolio construction process that attempts to avoid investments in certain stocks or industries through negative screening according to defined ethical guidelines. Furthermore, while there could be a certain overlap, responsible investment in private equity is not the same as impact investing. Impact investing is investing in projects, companies, funds or organizations with the goal of generating and measuring mission-related social, environmental or economic change alongside financial returns. However, it is also reasonable to assume that responsible investing has a social impact.

While Investors or limited partners in private equity funds may be signatories or members of various local or global responsible investing initiatives, many private equity managers or general partners of private equity funds are signatories of the Principles of Responsible Investing (PRI) or follow guidelines issued by local associations that are derived from such principles. In the United States, GPs may follow the American Investment Council Guideline of Responsible Investing, while GPs in Europe can adopt the Invest Europe ESG Disclosure Framework. GPs in the UK are required to make public disclosure in relation to the nature of their commitment to the UK Financial Reporting Council's Stewardship Code and the UK Modern Slavery Act.

PRI signatories adhere to six principles of responsible investing[2]. As institutional investors, GPs have a duty to act in the best long-term interests of their beneficiaries. In this fiduciary role, signatories believe that environmental, social, and corporate governance issues can affect the performance of investment portfolios. Some underlying portfolio companies of private equity funds, as well as GPs, are signatories of the United Nations Global Compact. It is both a policy platform and practical framework for companies that are committed to sustainability and responsible business practices. It also seeks to align business operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anticorruption and catalyzes actions in support of broader UN goals[3]. In 2015, The UN Global Compact developed 17 sustainable development goals (SDGs) that private equity firms and underlying portfolio companies may strive to align with.

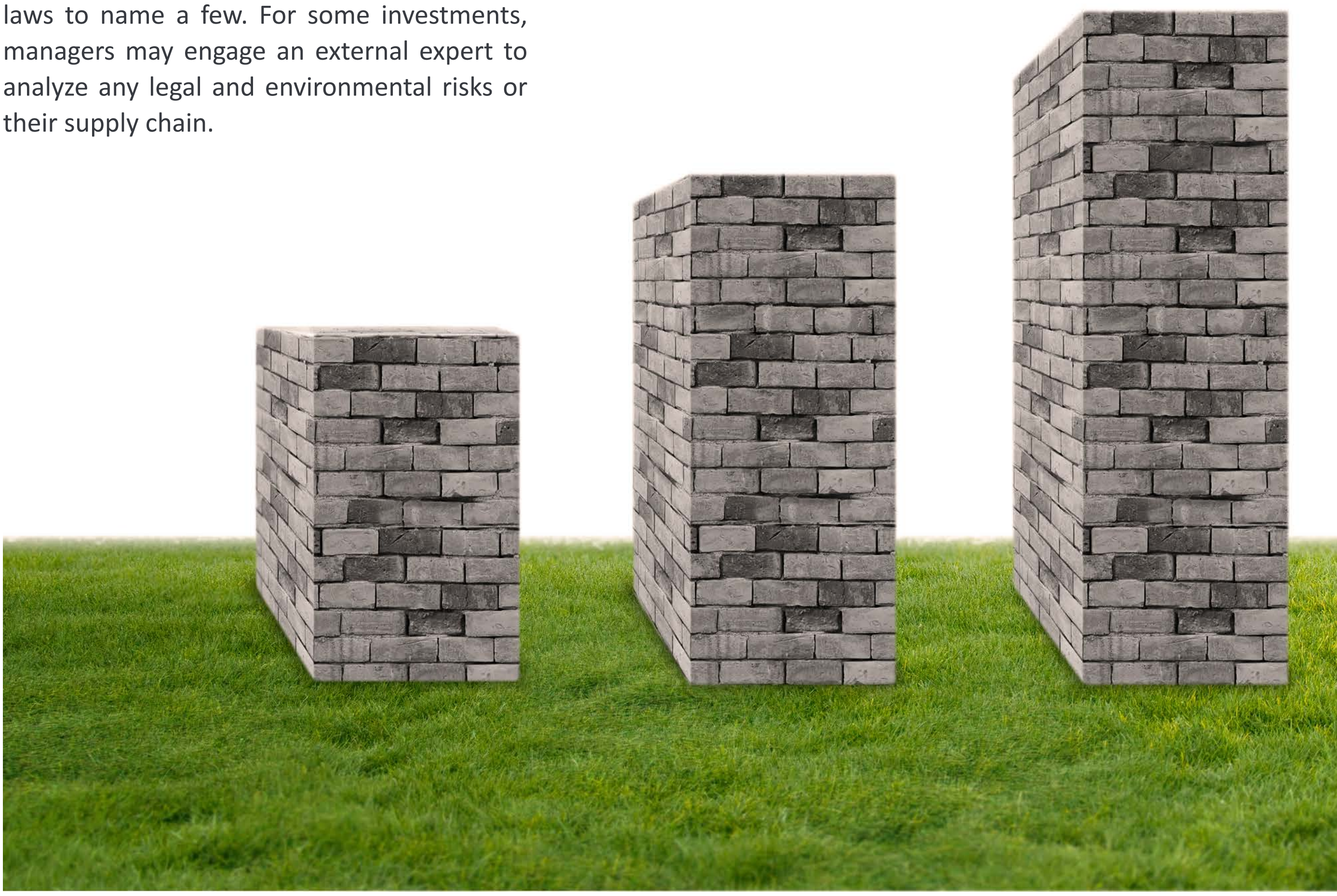
As controlling and active owners of portfolio companies, private equity managers are in the best position to manage ESG issues and drive the implementation of principles of responsible investing to help create sustainable growth and increased returns. Aligning the interest of owners and managers as well as bringing additional strategic, financial and operational expertise are at the heart of the private equity business model. Our survey provides insights into GPs' responsible investment practices and the current state of implementation of ESG factors throughout the investment cycle.

RESPONSIBLE INVESTMENT – A KEY COMPONENT OF OPERATIONAL VALUE CREATION

Although the majority of private equity firms started formalizing RI/ESG policies only after the global financial crisis, the evaluation of certain ESG risks was long part of the investment process before that. Unsurprisingly, risk management was cited as one of the major driving forces behind the GPs' efforts to implement ESG factors in the investment process. Best-in-class GPs conduct due diligence with the view to identify enviromental, social and governance risks in potential investment opportunities.

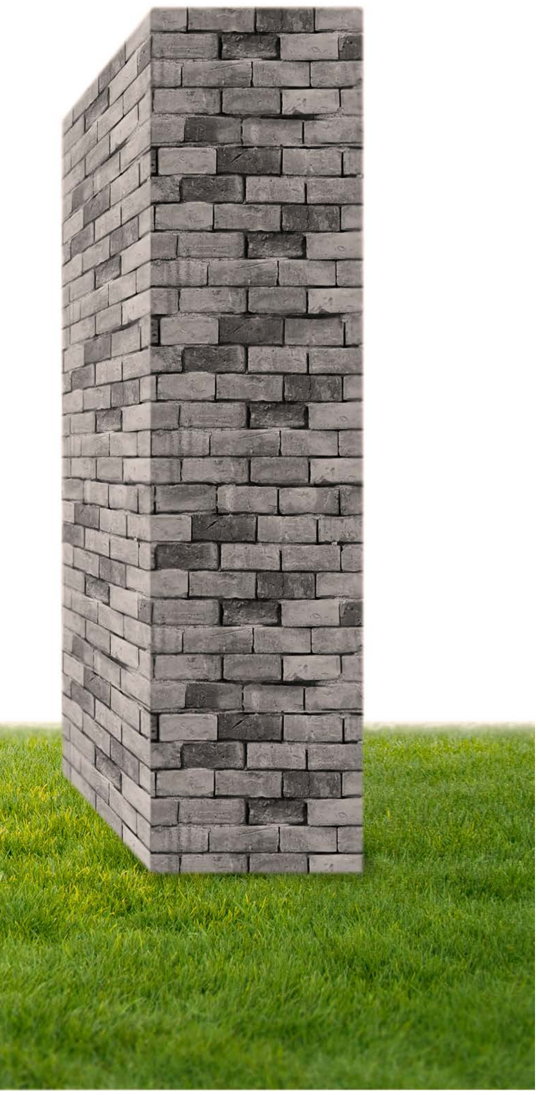
As part of their due diligence process, such firms identify any existing and potential risks stemming from environmental impacts of the business, health and safety issues as well as compliance with various policies and laws, such as anticorruption policies and labor laws to name a few. For some investments, managers may engage an external expert to analyze any legal and environmental risks or their supply chain.

In recent years, private equity managers have shifted their focus to better understand how to utilize ESG processes to generate value, post-investment. GPs recognized that an active ESG approach may result in higher returns - 28% of our survey respondents said that a potential for high returns was one of the top three drivers for the adoption of an RI/ESG policy. While this recognition can be found across all strategies and GPs around the world, the majority of firms citing this driver were from Europe and pursued the mid-market buyout strategy. Although the potential for higher returns was not the main driver for the majority of respondents, with the increasing experience in implementing RI/ESG in the investment process, more and more GPs are seeing the benefit of RI/ESG in adding value.

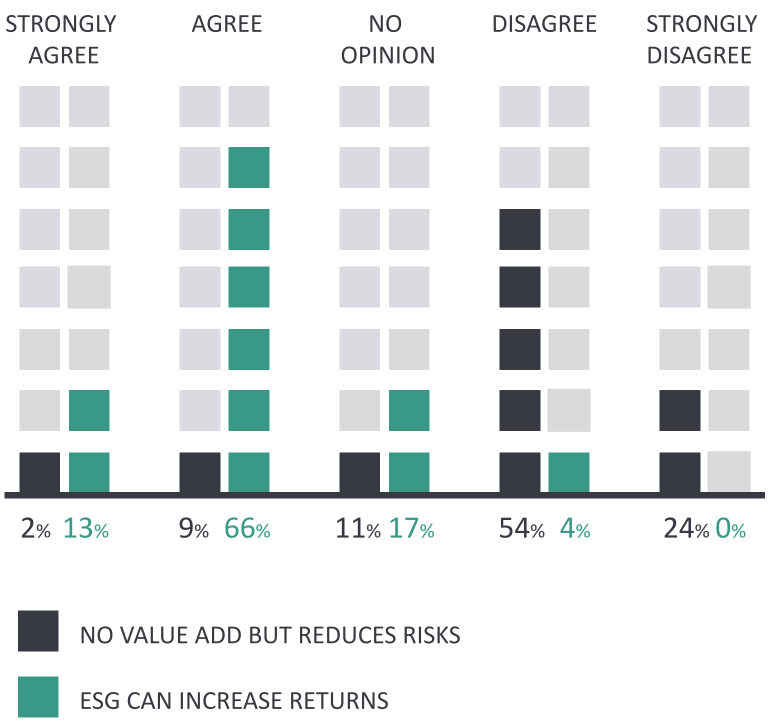


In Capital Dynamics' experience, private equity firms can draw up ESG measures and initiatives that address the companies' compliance with ESG principles, improve governance and decision-making, engage with the workforce for better health and talent retention as well as improve customer satisfaction and brand in order to gain market share.

All of these actions can directly or indirectly have a positive impact on the top line and bottom line of a portfolio company, reduce operational risk and improve asset quality; leading to an increased company valuation. The understanding of the potential value creation aspect appears to be manifesting – 78% of respondents disagreed with the statement that RI/ESG only serves as a risk management tool, but does not add value. Moreover, 79% of respondents agree that RI/ESG implementation can increase returns to investors.

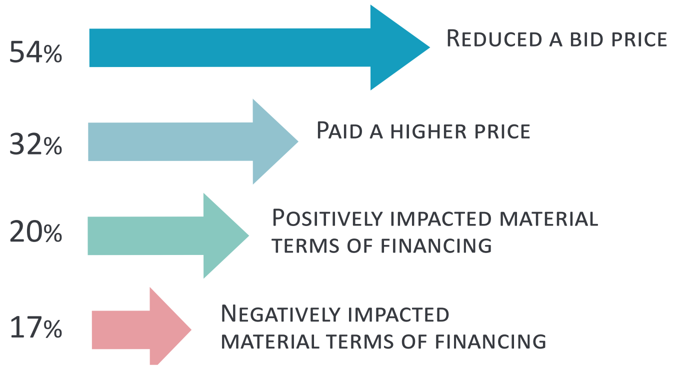


GENERAL PARTNERS' VIEW ON THE IMPACT RI/ESG CAN HAVE ON VALUE CREATION

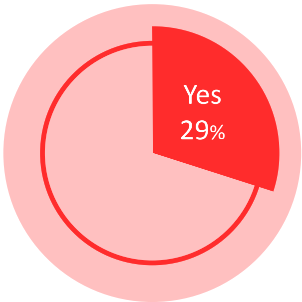


The value-add stemming from an RI/ESG implementation starts from the acquisition of a company, as it can enable GPs to identify risks, deficient standards and value creation opportunities. It helps negotiate better prices and terms due to the full awareness of risks and opportunities: 54% of our survey respondents have reduced a bid price based on findings within their ESG analysis and 32% of respondents paid a higher price based on the ESG analysis. The ESG analysis and records of the portfolio company can also have an impact on material deal financing terms, with 20% of respondents experiencing an impact.

OUTCOME OF RI/ESG ANALYSIS ON DEAL TERMS

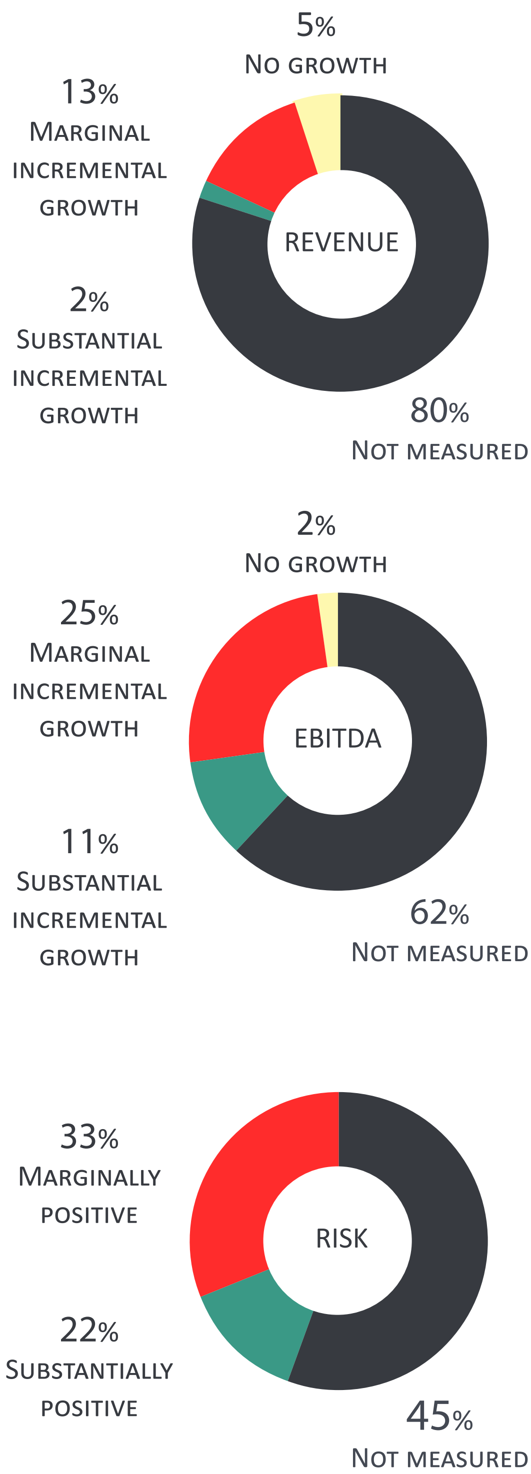


EXIT VALUATION WAS IMPACTED BY THE RI/ESG PERFORMANCE OF THE COMPANY



Implementation of RI/ESG policies during an exit process can also have a positive impact on exit valuation. Improvements in the ESG rating of the company during ownership can make the target more attractive for potential bidders and increase the number of suitors willing to commit to a deal. Furthermore, a company that is fully prepared to exit in terms of their ESG implementation and documentation can enjoy a smooth exit process, leading to an improved valuation and resulting in a higher value creation from the multiple expansion. However, RI/ESG implementation at exit is the least developed area according to respondents. Less than half of respondents said RI/ESG was integrated in their exit process. Surprisingly, only a quarter of GPs reported that buyers conducted frequent RI/ESG due diligence. The majority of GPs witnessed only an occasional acquisition diligence from buyers. Nevertheless, 29% of respondents noted that RI/ESG performance of the company had an impact on exit valuation, either positive or negative.

IMPACT OF RI/ESG ON REVENUE, EBITDA, AND RISK



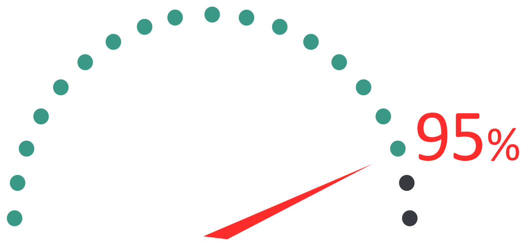
Measuring the impact on revenue can be a challenging endeavor – 80% of respondents have not yet established such metrics. However, those who do measure the impact appear to achieve growth in revenue (15%), with 2% experiencing a substantial growth in revenue.

More GPs quantify savings or costs resulting from ESG initiatives: 38% of respondents measured the ESG impact on EBITDA and almost all observed a positive impact – two-thirds of those respondents experienced a substantial increase in EBITDA due to ESG actions. Importantly, no GP experienced a decline in EBITDA despite the cost that is incurred during the implementation of ESG actions. If anything, ESG appears to pay for itself.

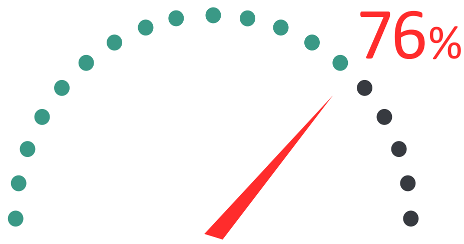
Impact measurement is more developed in the area of operational risks than in revenue and EBITDA analyses. The majority (55%) of respondents measure the impact of RI/ ESG on operational risks, with 22% of respondents reporting a substantial positive impact and 33% a marginal positive impact.

The opinion is split as to continued investment in top-quartile managers, irrespective of their commitment to RI/ESG principles: 47% of respondents believe that investors will continue investing with top-quartile managers, 38% of respondents expect that investors cease investments if top-quartile managers are not committed to RI/ESG and 15% have no opinion on this. Nevertheless, all of the responding private equity managers believe that responsible investments and ESG principles are here to stay and will only increase in importance over the years to come.

Since the beginning of the private equity industry, the road to success has continuously evolved. After the global financial crisis, the private equity model has relied heavily on operational value creation rather than financial leverage, also seeking new sources to increase returns in order to support future success. Incorporating RI/ESG practices and creating sustainable value is becoming vital to the operational value creation model. The value creation potential derived from ESG initiatives is strongly recognized by GPs. Three-quarters of our respondents said that they will increasingly use RI/ESG for value creation. Many GPs are still in the early stages of their RI/ESG programs and view the integration of such programs in the value creation process as one of their top priorities. The results of our survey suggest RI/ESG does not solely play a role in preserving value, but experienced GPs have already started to see additional benefits, resulting in increased returns to investors.



AGREE THAT RI/ESG WILL INCREASE IN IMPORTANCE



AGREE THAT THEY WILL INCREASINGLY USE RI/ESG FOR VALUE CREATION

CAPITAL DYNAMICS PERSPECTIVE

As conveyed by our survey, a continued increase in the importance of RI/ESG for GPs is expected. Further, we anticipate improvements in the way GPs communicate their RI/ESG efforts to investors and the public. For investors, it will be crucial to lift the curtain and look behind these marketing efforts. Capital Dynamics believes and observes that implementing responsible investment policies leads to robust long-term returns for investors. Most importantly, we are convinced that RI principles need to be deeply embedded into an organization's culture and values in order to be effective.

This study underpins our responsible investment approach in private equity and demonstrates that GPs who took action on RI/ESG, instead of merely talking about it, were able to measurably improve operational performance and reduce business risks for their investments. We envisage that RI/ESG will become a vital building block for the operational value creation model in private equity and, as our study shows, this trend is manifesting. Therefore, analyzing the implementation of RI/ESG principles and measuring their impact on value commands a pivotal role in due diligence.

ESG FACTORS THAT MATTER

We asked GPs which ESG factors they consider and why. Among 43 environmental, social and governance factors as recommended by the PRI, GPs were asked to indicate which were considered as a source of risk, opportunity for value creation, considered on ethical grounds or not considered at all.

Interestingly, social factors were viewed primarily as an opportunity for value creation. Customer satisfaction, employee attraction and retention as well as supply chain management were the three most relevant factors considered from a value creation perspective. Governance factors were predominantly considered as a source of risk. Bribery and corruption, conflict of interests as well as compliance were the most frequently cited factors.

TOP 10 ESG FACTORS[4] – FOR VALUE CREATION[5]

TOP 10 ESG FACTORS[4] – SOURCES OF RISK[5]

Health & safety was very important for GPs from both the risk management and value creation perspectives: it was the only factor out of the top ten to be considered both a source of risk and an opportunity for value creation.

TOP 10

ESG FACTORS[4] – ETHICAL GROUNDS[5]

Some social factors such as human rights, diversity and equal opportunities as well as governance factors such as bribery and corruption were taken into consideration on ethical grounds.

While environmental factors such as energy efficiency and waste management were selected frequently as opportunities for value creation, environmental factors such as biodiversity, land degradation and deforestation were among the least considered factors.

CASE STUDY[6] – RI/ESG AT WORK

LYCEUM CAPITAL

APPROACH TO RI/ESG

Lyceum Capital has adopted RI/ESG policies since inception in 1999. In the intervening years, their approach has become more sophisticated – they have evolved from having an investment strategy that excludes sectors to recognizing RI/ESG as a core portfolio company development area. Their RI/ESG policy is implemented throughout their operations and development processes, including their online Best Practice Centre portal. Core to Lyceum is realizing the value in identifying and managing ESG-related opportunities and risks, as well as reporting on them. Lyceum recognizes that ESG is at the heart of building sustainable, market-leading businesses that attract premium valuations - particularly from strategic buyers. All Lyceum companies face different ESG development needs - occasionally environmental, often social and governance. Lyceum's operational review pre- and immediately post-completion identifies key areas for development. This includes inducting portfolio companies into Lyceum's ESG framework and reporting cycle. Working with Lyceum's ESG Specialist Partner, management teams identify ESG risks and opportunities as well as create a reporting template that allows them to effectively monitor progress and report efficiently to the company board and Lyceum. Lyceum tracks progress across the portfolio, sharing best practices with portfolio company management teams at their regular CEO or CFO conferences and maintain a record of performance to share with investors. The following case study of Adapt demonstrates how the ESG actions of Lyceum Capital helped generate higher returns for investors.

adapt

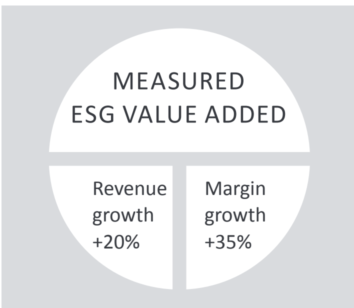
Provides IT infrastructure as a service to UK and international customers. Operating under multi-year contracts, the company provides business-critical IT infrastructure to customers for whom IT resilience is a core element of driving revenue.

INVESTMENT VISION AND STRATEGY

With exceptional sales and marketing capabilities at acquisition but only a nascent managed cloud services ('MCS') offering, the strategy for Adapt was to transform it into a leading MCS provider, delivering high margin and quality infrastructure services to customers from its own network infrastructure.

THE ROLE OF ESG IN VALUE CREATION

ESG engagement supported the approach taken to a number of higher risk matters that could have resulted in adverse performance. This proactive approach enabled the business, in fact, to convert those risks to gains.



RESULT

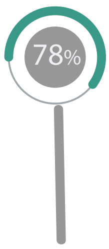
Managed Cloud Services grew from GBP 3 million in revenue and 56% gross profit margin in 2011 to GBP 29 million in revenue and 76% gross profit margin in 2016. This organic growth enabled Lyceum Capital to increase the value of the company by more than three times during ownership. Lyceum Capital sold Adapt in 2016 to Datapipe, a US managed cloud services provider.

SELECT ESG ACTIONS AND OUTCOMES

ESG CHALLENGE	ACTIONS & OUTCOMES
Minimizing power consumption of servers • Power consumption of servers varies widely according to manufacturers' specifications and quality.	• As well as ensuring maximum efficiency of its hardware's power consumption, Adapt's policy enabled it to deliver high-resilience performance for customers from data centers that had low power ratings. • Recognizing the significant power use of data centers, Adapt had a clearly stated policy of using only the most energy efficient hardware. • This allowed the group to deliver to customers' capacity needs where other competitors could not, supporting the growth in contracted revenue.
Retaining, integrating and motivating employees from acquired companies • The company's plan included targeted M&A to build functionality and accelerate the transition to MCS including add-ons in Cardiff and Leeds. • Integrating newly 'acquired' staff was key to delivering strong continued service levels for customers and driving the organic growth opportunity from contending the productivity of those staff members. • Investing in staff to ensure all training needs are kept up to date.	• Senior management devoted significant time to operations in Cardiff. This leadership engagement formed a critical part of Cardiff's operations – resulting in significant capacity and productivity gains as the group delivered on its growth plans, supporting the >35% growth in MCS margins. • The increased technical skill base supported the company's ability to deliver the extended service range and quality provided to customers, which underpinned the achieved growth. • Sickness rate was carefully tracked as an early indicator of churn risk, with systematic reporting to the board being introduced. • The technical capabilities that both operations brought to the group were key to increasing service quality, supporting sales performance and driving significant productivity gains, which underpinned the improved margins.
Ensure change of operations and back office locations does not result in a fall in quality of service • The long-term needs of the business required this change to happen. The rate of growth would be severely impacted if service levels were to drop off as part of the transfer of operations.	• The transfer of all technical operations and back office activities from the City of London to Cardiff was achieved. While some service levels suffered during the switch, the end result was a coherent and well-functioning team that delivered excellent service to customers and enabled the MCS division to grow revenues at >20%.

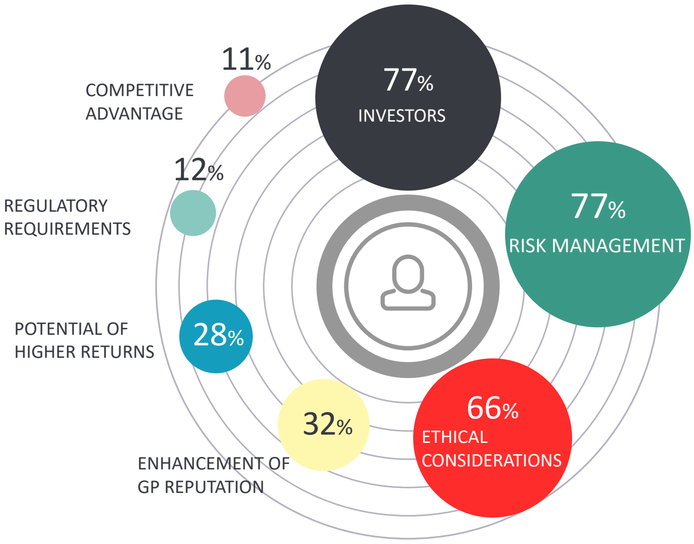
STRONG ESG COMMITMENT BY GENERAL PARTNERS

HAVE RI/ESG POLICIES



The formalization of the commitment to RI and the consideration of ESG factors is becoming prevalent among the private equity industry. 78% of survey respondents have already established RI/ESG policies, while 9% plan to establish them in the future. Only a few firms did not have such policies in place - typically venture firms - and hold the belief that ESG factors are not material to their investments. The remainder of the participants decided against explicit formalization, as RI/ESG principles are already embedded in their investment processes and culture.

TOP 3 DRIVERS FOR RI/ESG IMPLEMENTATION[7]

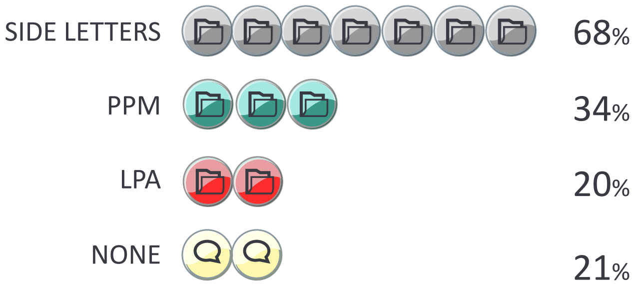


Investor requirements and risk management were the main and equally important drivers for GPs committing to RI/ESG. Many LPs, who have adopted RI/ESG principles, expect their private equity managers to have formal policies and processes in place, which has prompted GPs to show commitment by establishing such policies.

The motivation is more nuanced when results were broken down by the type of the firm. While investor requirements were the main driver for venture and growth capital firms, risk management was firmly on the agenda for those pursuing buyout, infrastructure and private debt strategies.

A geographical breakdown also revealed a slight difference among managers across different regions. Investors' requirements were the primary reason for GPs from North America and Asia-Pacific to commit to RI/ESG, while risk management was the top reason for European GPs. Additionally, ethical considerations had more weight for GPs in Europe and Asia-Pacific than for North American GPs.

FORMAL COMMITMENTS TO LPs[7]



Investor initiatives result in GPs making contractual obligations with respect to RI/ESG, primarily in the form of side letters, while one-third use private placement memoranda (PPMs). Our investment team has seen firms that supplement PPMs with ESG due diligence questionnaires to address the most common questions from prospective investors. The incorporation of ESG clauses in the limited partnership agreements (LPAs) is the least used means of commitment. At the other end of the spectrum, 21% of firms do not formalize their commitments beyond establishing a policy.

DEGREE OF RI/ESG IMPLEMENTATION VARIES SIGNIFICANTLY

Expressing the initial commitment to RI/ESG is the first step that many firms have taken in the private equity industry. It is then important to select a suitable resource to carry out ESG efforts, establish accountability and cultivate an investment culture that embodies RI/ESG principles throughout daily work in order to implement policies and processes. Our survey reveals that RI/ESG is embraced by deal teams and led by dedicated ESG professionals across many firms. Moreover, the overwhelming majority of respondents invest in continuous RI/ESG training for their employees - in fact, 73% of our respondents do so regularly.

A third of respondents have dedicated professionals spearheading ESG efforts across their organization. As expected, larger firms with headcounts of 100+ were more likely to have such dedicated resources. Accountability was shared across deal teams by two-thirds of all firms.

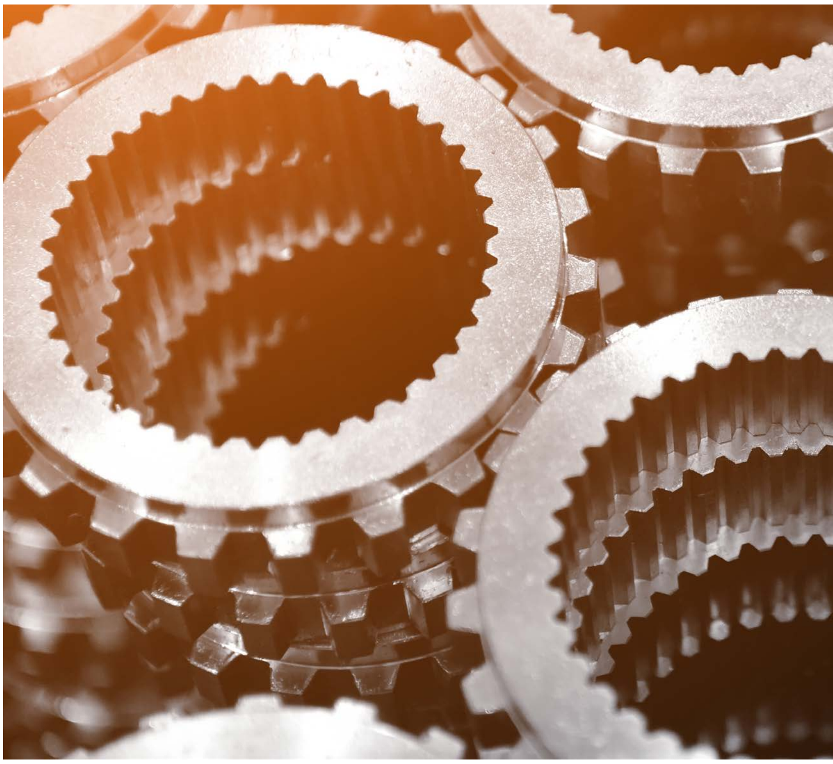
In addition, many firms engage expert consultants while conducting due diligence in order to assess specific legal, social or environmental risks in certain sectors. A significant portion of respondents continue to monitor ESG compliance and progress during holding, therefore accountability is also shared with deal monitoring teams. By and large, deal-related resources have been dedicated to addressing ESG issues for 88% of respondents.

Only 4% of respondents said that responsibility resides within their investor relations team, while 8% assign such tasks solely to compliance functions. This indicates that adequate resourcing and accountability concerning RI/ESG matters are widely recognized.

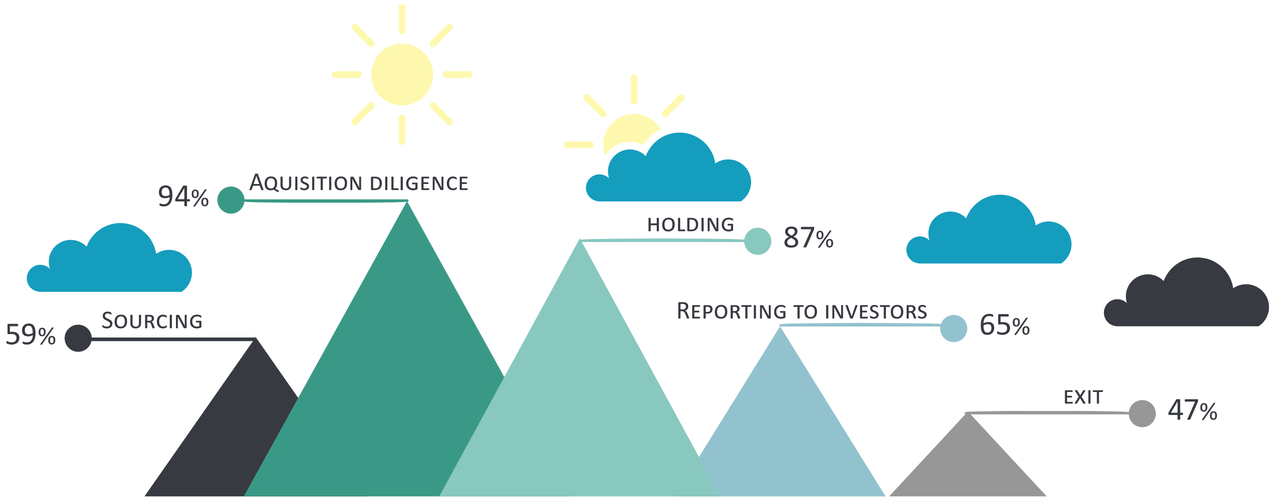
ACCOUNTABILITY FOR RI/ESG IMPLEMENTATION[7]

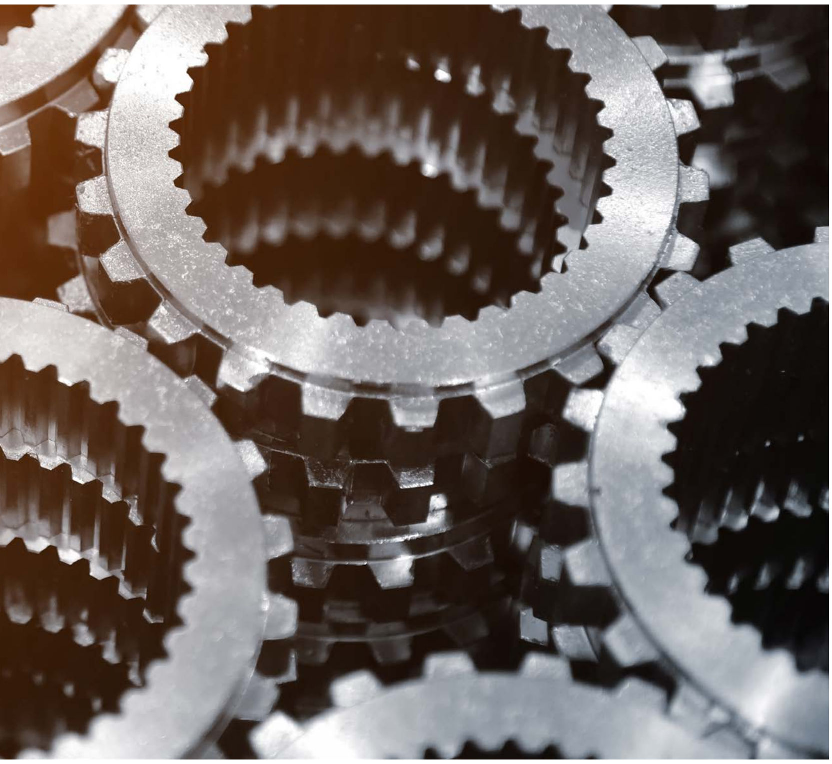
Dedicated RI/ESG professional	32%
Deal team	68%
Portfolio monitoring team	49%
Consultant	37%
Also a part of CFO/COO role	50%
Solely by CFO/COO	8%
Also a part of IR role	36%
Solely by IR	4%

When it comes to the implementation during the investment cycle, the progress varies among GPs. At sourcing, about 60% of respondents fully implement RI/ESG policies. However, more GPs, about three-quarters of respondents, refer to their RI/ESG policies in order to negatively screen target companies and generally avoid sectors that are prohibited by international conventions or typically not in favor with investors (e.g. narcotics, pornography, weapons). Some firms do not maintain a predetermined list of excluded industry sectors, but determine the suitability on a case-by-case basis. 94% of all GPs who participated in our survey said they implement an ESG analysis during their acquisition diligence process.



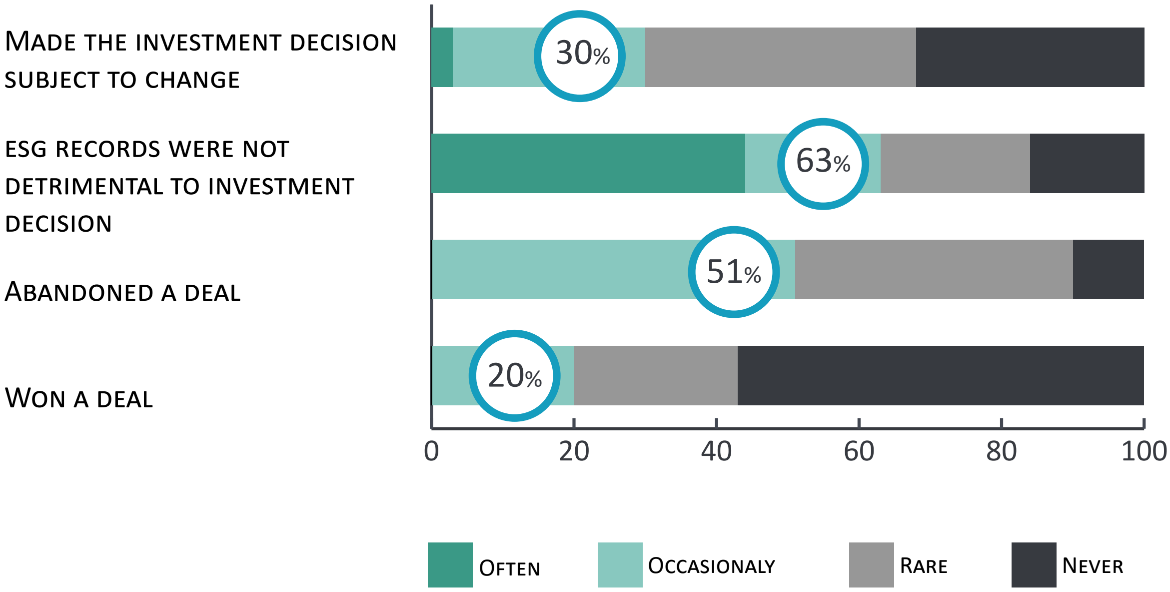
INTEGRATION THROUGHOUT INVESTMENT CYCLE[7]

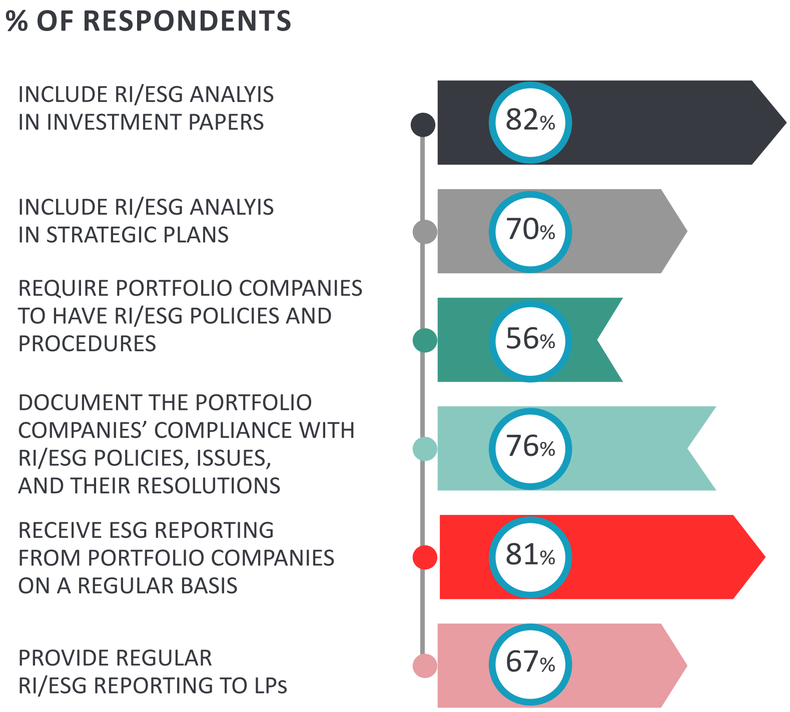




The survey results show that ESG records of a target company were often not detrimental to making investments. This could be linked to the notion that ESG issues are seen as an opportunity to enhance value during ownership of potential investments. However, in cases where records indicate substantial risks regarding the future development of a company, deals have been abandoned; in fact, half of our respondents claimed that including an ESG analysis within investment papers led to a few abandoned deals.

THE ANALYSIS OF ESG FACTORS OR THE ESG RECORDS OF A TARGET COMPANY LED TO THE FOLLOWING OUTCOMES:





82% of respondents include ESG analyses in their investment papers; however, surprisingly there is still a significant share (18%) who do not. Post-investment, fewer firms (only 70%) include ESG actions and monitoring in their strategic plan, indicating a less consistent approach among GPs.

Requiring portfolio companies to have ESG policies is one way of ensuring that RI/ESG issues are considered across the portfolio.

However, it appears that many firms only encourage companies to establish ESG policies and processes, but do not impose mandatory requirements. Only 56% of respondents reported an existence of such requirements. Most GPs (76% of all respondents) focus on ESG issues during ownership and document remedial actions by portfolio companies. 56% of respondents not only focus on the issues, but also require companies to perform regular reporting on the quantitative ESG key performance indicators. A further 25% of respondents gather qualitative information. In turn, these are reported to their fund LPs as part of the regular reporting cycle.

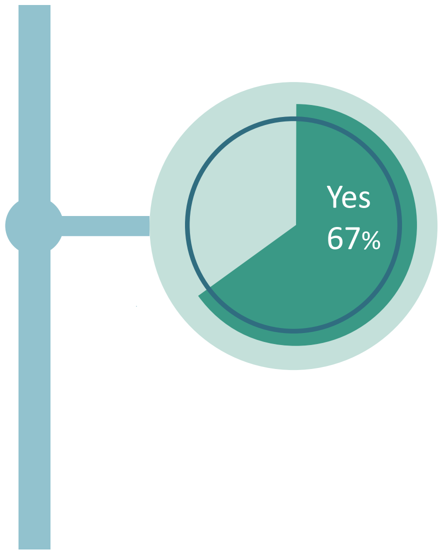
RI/ESG reporting to investors is considered to be a work in progress for many GPs. While 81% of respondents gathered ESG data from their portfolio companies, only two-thirds provide LPs with ESG reporting. This is mainly comprised of qualitative information as quantitative information is still hard to come by: only 45% of respondents provide this regularly. Encouragingly, the same number of GPs provide tailored ESG reports and communication in addition to their regular investor reports. As best practice, GPs may provide, on top of the annual ESG reports, the ESG updates at both annual investor meetings and semi-annual advisory board meetings. GPs respond to ad hoc requests to gather additional information and ESG matters are often addressed in investor meetings. If any serious infractions of the ESG policy occur, they are reported to investors via email or calls as soon as they emerge.

ESG IMPLEMENTATION IS SET TO IMPROVE

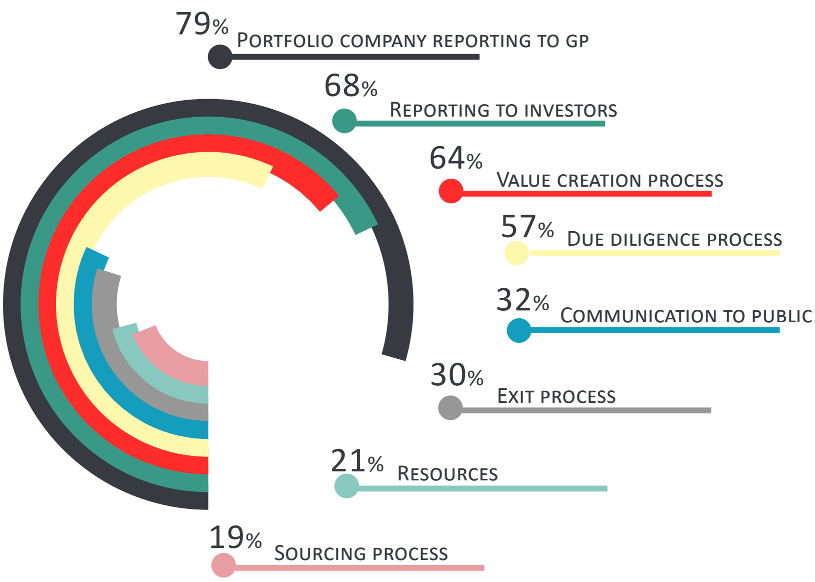
The small number of respondents who have not yet established an RI/ESG policy plan to do so in the future. Additionally, firms that have already established such policies and processes still see potential for improvements. Two-thirds of respondents acknowledged they need to further invest in their respective ESG efforts.

ESG-relevant data collection from portfolio companies and reporting to investors on ESG matters are the most pressing issues for GPs who see a need to boost the level of their ESG implementation. Finally, GPs are expected to focus on the implementation of ESG efforts as a value creation tool.

% OF RESPONDENTS THAT PLAN TO ENHANCE RI/ESG IMPLEMENTATION



AREAS WHERE GPs PLAN TO ENHANCE RI/ESG[7]



CONCLUSION

The study results show a strong industry-wide acknowledgement of the value ESG and RI can play in an investment strategy. When applied strategically, rather than as a token marketing gesture, they can produce tangible results that are directly reflected in returns for investors. Many GPs are already experiencing a positive impact on EBITDA as a result of adopting ESG/RI principles and we are not surprised by this result – what was a trend for some is now becoming a priority for many.

Capital Dynamics believes that adopting RI principles leads to enhanced long-term financial returns and a closer alignment of objectives between institutional investors, other stakeholders and society at large. This is also the reason why the company integrates ESG into its investment analysis, investment decisions and post-investment processes and was an early signatory of the Principles for Responsible Investment ('PRI') in 2008. Capital Dynamics has been and continues to be actively engaged in initiatives to improve RI standards. For example, the firm is engaged in several limited partner ('LP') initiatives to establish broadly accepted RI standards (e.g. the ESG Disclosure Framework for Private Equity) and was actively involved in creating the British Private Equity and Venture Capital Association's (BVCA) RI guidelines.

ABOUT CAPITAL DYNAMICS

Capital Dynamics is an independent, global asset manager, investing in private equity as well as clean energy and infrastructure. We are client-focused, tailoring solutions to meet investor requirements. The Firm manages investments through a broad range of products and opportunities including separate account solutions, investment funds and structured private equity products. Capital Dynamics currently has over USD 27 billion in assets under management/advisement[8].

Our investment history dates back to 1988. Our senior investment professionals average over 20 years of investing experience across the private equity spectrum[9]. We believe our experience and culture of innovation give us superior insight and help us deliver returns for our clients. We invest locally while operating globally from our London, New York, Zug, Tokyo, Hong Kong, San Francisco, Munich, Birmingham, Seoul and Scottsdale offices.

ENDNOTES

1. This question allowed multiple selections by respondents.
2. Source: www.unpri.org.
3. Source: www.unglobalcompact.org.
4. The color reflects the factor category: green-Environmental, red- Social, blue- Governance.
5. The size of words corresponds to the frequency of factors selected by respondents.
6. Source: Case study compiled and provided by Lyceum Capital, as of March 2017, and not verified by Capital Dynamics.
7. This question allowed multiple selections by respondents.
8. Capital Dynamics comprises Capital Dynamics Holding AG and its affiliates; assets under management/advisement, as of September 30, 2016 include assets under discretionary management, advisement (non-discretionary), and administration across all Capital Dynamics affiliates.
9. Average years of experience held by Capital Dynamics' Managing Directors and Directors in Investment Management.
10. Source for images: Freepik/Jcstudio, kues1, freestockcenter, Pressfoto, onlyyouqj.

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