

Rutland's ESG commitment

For Rutland Partners, effectively identifying and managing the ESG performance of investments goes beyond a box-ticking exercise.

Generating high returns at all costs just isn't a viable approach to investing any more, as environmental, social and corporate governance (ESG) issues have become an integral consideration for private equity fund managers over the past decade. A growing number of institutional investors – notably public bodies and large pension funds – have a duty to report on the impact of their underlying investments to their own stakeholders, and are therefore increasingly seeking fund managers with a formalised approach to these matters.

Rutland has made a concerted effort to be at the forefront of this revolution in its infancy, putting in place an extensive policy highlighting its commitment to the United Nations' Principles for Responsible Investment (UNPRI), to the 10 principles of the United Nations Global Compact, and to prohibit investments in sectors or situations that it considers to be unethical. The policy also sets out a systemic method of evaluating, monitoring and reporting on ESG issues for potential investments and existing portfolio companies. "We want managers in our businesses to go beyond paying lip-service to ESG matters – our system of KPIs and ongoing progress monitoring ensure they are empowered to capitalise on opportunities for improvement." says Mike Harris, partner.

• A holistic approach

Rutland considers all aspects of ESG when evaluating potential investments and driving change in their portfolio, with five key areas of responsibility: environmental management, people management, community engagement, business ethics and corporate governance.

• Effective due diligence

All material ESG issues are identified during the due diligence stage of every portfolio company acquisition. This involves the completion of a comprehensive 50-item ESG checklist prior to investment and an appropriate action plan in respect of issues that have been identified. Rutland's Investment Committee is then committed to taking into consideration all issues identified during the due diligence phase. Should the investment go ahead, any identified material ESG issues will be incorporated in the 180-day plan for prioritised action post-acquisition.

• ESG action plan and monitoring

Post-investment, Rutland retains the services of an experienced ESG consultancy that is well established in the field. The consultant will spend a full day on-site immediately following an investment, conducting extensive interviews with management, which will then be presented in a detailed report to Rutland. This report will identify potential areas of ESG risk and opportunity, and recommend actions for improvement – each business is assigned an ESG rating and up to 20 prioritised action points, which are systematically reviewed in the future to track progress.

• Seize business opportunities

ESG is not just seen as a number of risks to manage. The Rutland team firmly believes that improvements in the areas of health and safety, energy usage reduction or communication with employees can have a material impact on commercial performance, be it due to increased productivity or enhanced reputation in the market. These opportunities are also turned into action points and monitored throughout the life of the investment, empowering management teams to drive progress in their business.

• Transparency and LP engagement

With institutional investors increasingly proactive in monitoring their managers, Rutland is committed to full transparency with their limited partners on ESG matters. At least once a year but also on an ad-hoc basis should circumstances dictate, Rutland will report on developments in their ESG practices and disclose any issues – or confirm that none have arisen. In addition, Rutland offers the standardised LPs Responsible Investment Due Diligence Questionnaire, which provides investors with further insight into Rutland's ESG commitments and policies.

A number of investors now have their own monitoring and rating systems in place to evaluate fund managers on ESG practices. In recent years feedback received has rated Rutland very highly in this regard, categorising Rutland as a manager genuinely committed to ESG, with institutional processes in place to apply ESG criteria in investment decision-making, management and reporting.



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**Mike Harris, partner,
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