



ESG Incorporation in Direct Lending

This online survey is for **direct lending** investors who act as general partners (GPs) and/or limited partners (LPs).

Before completing it, PLEASE READ THE INSTRUCTIONS below.

The information gathered through this survey will inform part of the content of a report that the Principles for Responsible Investment (PRI) plans to publish in 2023 to assess the state of incorporation of environmental, social and governance (ESG) factors in investment decisions and deal valuations as well as the main challenges that private lenders are encountering.

The survey results are anonymous. They will be analyzed collectively and will be used only for the purpose of the report. No attribution to specific organizations will be made nor data will be shared with regulators. None of the raw data will be shared outside the PRI and CRISIL, the consultant that PRI has appointed to conduct the results' analysis who is bound by a Non-Disclosure Agreement.

Direct lending is an investment strategy where non-bank entities lend their capital directly to companies. It currently represents the largest portion of the private debt market. Under the definition of direct lending, we include both:

- § **bilateral deals with borrowers;** and
- § **transactions with private equity sponsors.**

In filling in the survey, please consider what applies to:

- § **Mainstream** funds, i.e. those that focus on *maximizing* risk-adjusted financial returns.
- § **Sustainability** funds, i.e. those that your organization *markets* as such, and that in addition to *considering* risk-adjusted financial returns, also aim at taking action on sustainability outcomes (the positive and negative effects of investment activities on people and/or the planet. For more information about sustainability outcomes, please see www.unpri.org/reporting-framework-glossary).

The survey is split in 6 sections and should take you about 15-20 minutes to complete in total.

We are aware that you are all pressed with time and may experience survey fatigue. With this in mind, we have constructed the questionnaire, to the extent possible, in a multiple-choice

format, with very few open-ended questions.

Questions marked with a red asterisk * are mandatory. Multiple choice answers that are listed with a circle require only one selection, those listed with a square may allow for more. At the end of the survey, you can add additional comments.

Once you have started the survey, you can go back to the sections that you have completed and modify them but, if you leave the survey before completing it fully and submitting the answers, you will lose your inputs.

1. How do you identify your organisation? *

General Partner (GP)

Limited Partner (LP)

Section A. GP - General questions

Please note that each * marks a mandatory question

2. AUM throughout the firm (incl. all the funds and asset strategies) (US\$ billion) *

n.b. Assets Under Management (AUM)

3. AUM in direct lending strategy (US\$ billion) *

4. Role in the organisation of the person filling the questionnaire (no individual names) *

5. Headquarters of the organisation *

- North America
- Latin America
- Europe
- Australia
- Asia-Pacific
- The Middle East & Africa
- Other

6. Which are the geographical regions where you have the largest direct lending exposure? *

Choose minimum 1, maximum 3 options

Please select at most 3 options.

- North America
- Latin America
- Europe
- Australia
- Asia-Pacific
- The Middle East & Africa
- Other

7. Which of these sectors form part of your direct lending strategy?

*

Please select at most 3 options.

Communications Services

Consumer Discretionary

Consumer Staples

Energy

Financials

Healthcare

Industrials

IT

Materials

Real Estate

Utilities

Other

8. **Do you have an ESG due diligence process for underwriting direct lending transactions? ***

- Yes
- No
- In development

9. **For which funds do you have an ESG due diligence process? ***

For the definition of sustainability and mainstream funds, please refer to the introduction at the start of the survey. Your progress here will be saved.

- Only sustainability funds
- Only mainstream funds
- Both sustainability and mainstream funds

10. **For mainstream funds, in addition to governance, which is traditionally considered in credit underwriting, do you assess environmental and social factors that are material to your investment separately? ***

- All
- Majority
- On a case-by-case basis

Section B. GP - Investor engagement (with borrowers)

Engagement is any communication or activity conducted with borrowers and other stakeholders **(PRE OR POST CLOSING OF THE TRANSACTION)** in order to gain insight into the company's management of ESG factors and relevant stakeholders. The aims of engagement may vary widely. Some GPs may seek to simply collect data for benchmarking and valuation purposes, while others may seek to improve the borrower's performance on certain metrics.

Please note that each * marks a mandatory question

11. Do you engage with borrowers on ESG topics? *

- Yes, for data collection
- Yes, to improve borrowers' performance on ESG metrics
- Yes, for all of the above
- No, we do not engage

12. If yes, please specify for which funds: *

For the definition of sustainability and mainstream funds, please refer to the introduction at the start of the survey. Your progress here will be saved.

- Only sustainability funds
- Only mainstream funds
- Both sustainability and mainstream funds

13. **For sustainability funds, to what extent: ***

- With all borrowers
- With some borrowers

14. **For mainstream funds, to what extent: ***

- With all borrowers
- With some borrowers
- N/A (*if you selected "Only sustainability funds"*)

15. **What do investment teams use to engage on ESG topics with borrowers? ***

Please select at most 2 options.

- Assess ESG performance for benchmarking/valuation/pricing purposes
- Identify lapses in governance
- Provide access to lenders' in-house ESG resources
- Set sustainability KPIs
- Understand how the borrower is managing material ESG risks

16. **Which do you think is the most significant stage for engaging on ESG topics with borrower entities? ***

- Pre-close for due diligence and underwriting
- Post-close for ESG KPI setting
- During the monitoring phase
- At the refinancing stage

17. **For engagement on ESG topics, do you have any additional comments? (optional)**

18. **What are the various tools/guidance that investment teams use to engage on ESG topics with borrowers? ***

- Pre-set questionnaire on ESG data collection
- List for negative screening based on a responsible investment policy
- Training on ESG topics and their materiality
- Other

19. **What is the frequency of engagement on ESG issues with borrower entities? ***

- Quarterly
- Semi-annually
- Annually
- Monthly
- Other

20. **Which mode(s) of engagement do you use for ESG issues? ***

14
Responses

Latest Response
"We have the strongest ability to influence it"

14 students (50%) answered ESG for this question.

risk and opportunity
close ESG engage
borrower

- Mail / email / survey correspondence
- In-person meetings
- Online meetings or conference calls (Zoom, Google meets, etc.)
- Virtual data gathering platforms

21. How do you report mostly on engagement with borrowers? *

- Through due diligence questionnaires
- Upon request
- Via publicly-available ESG/sustainability reports
- Other

22. For publicly-available ESG/sustainability reports, please specify: *

- Fund-level information
- By issuer

Section C. GP - ESG data collection

Please note that each * marks a mandatory question

23. **Do you collect borrowers' ESG data as part of your direct lending strategy? ***

Yes

No

24. **If yes, please specify for which funds: ***

For the definition of sustainability and mainstream funds, please refer to the introduction at the start of the survey. Your progress here will be saved.

Only sustainability funds

Mainstream funds

Both

25. **For sustainability funds, to what extent: ***

For all deals

For some deals

26. **For mainstream funds, to what extent: ***

- For all deals
- For some deals
- N/A (*if you selected "Only sustainability funds"*)

27. **What is the main purpose of collecting the ESG data? ***

- Due diligence for risk assessment
- LPs' requests
- Management of sustainability-outcomes (e.g KPI setting)
- Regulation requirements
- Other

28. **By which means do you collect ESG data? ***

- Data and service providers
- External consultants
- In-house proprietary frameworks
- Industry templates
- Other

29. **Which industry template do you use? ***

- ESG Data Convergence
- ESG Integrated Disclosure Project
- IFRS/SASB
- Global Impact Investing Network
- Other

30. **As a GP, with which frequency do you typically disclose key portfolio ESG metrics to LPs?**

*

- Quarterly
- Semi-annually
- Annually
- Never
- When requested
- Other

31. **What are the major challenges for achieving accuracy of ESG data from borrowers?**
Select top three options.

*

Please select 3 options.

- Borrower limited awareness of ESG relevant issues or data disclosure
- Different regional perceptions of ESG issues
- No standardization on disclosure
- Other lenders with lower or no ESG disclosure thresholds
- Varying regulatory requirements
- Other

32. **Do you validate the accuracy of the ESG data provided by the borrowers?** *

- Yes
- No

33. **Who is responsible for the validation of the data provided by the borrowers?** *

34. **Which of the following options would you prioritize to make ESG data collection and presentation more efficient? ***

- Increased collaboration among peer lenders
- Leveraging data from different participants in a private deal lifecycle
- Standardization of frameworks for direct lending deals
- Specifications in legal document
- Other

35. **Are you working on any of the following ways to improve the ESG data collection and quality from your portfolio companies? ***

Please select at most 2 options.

- Guiding borrowers on ESG data collection
- Increasing frequency of engagement on ESG topics
- Requiring portfolio companies to align with specific frameworks for standardising data outputs
- Providing borrower with feedback on the data collected based on in-house analysis.
- Participating in international collaboration with industry council/associations for disclosure standardisation by asset managers
- No specific actions at present
- Other

36. Does the quality of data collected vary based on the sector in which the portfolio company operates? *

Yes

No

37. Please list the 3 best sectors in terms of quality of data. *

Please select at most 3 options.

Communication services

Consumer discretionary

Consumer staples

Energy

Financials

Healthcare

Industrials

IT

Materials

Real Estate

Utilities

Other

38. **Do you monitor ESG incidents? ***

Yes

No

39. **What do you use the most to monitor ESG incidents? ***

In-house data mining

Inputs from third-party data providers

ESG ratings

Press and other news outlets

Other

40. **Do you set ESG targets for borrowers? ***

Yes

No

41. **How often is the borrowers' progress on ESG targets reviewed? ***

- Quarterly
- Semi-annually
- Annually
- Other

Section D. GP - Consideration of climate risk for investment decision making

Please note that each * marks a mandatory question

42. **As a GP, do you measure and manage climate risk when making investment decisions? ***

Yes

No

43. **If yes, please specify for which funds:**

*

For the definition of sustainability and mainstream funds, please refer to the introduction at the start of the survey. Your progress here will be saved.

Only sustainability funds

Only mainstream funds

Both sustainability and mainstream funds

44. **What is your approach to considering climate risk in your investment process?**

Select top two options. *

Please select 2 options.

- Evaluation of borrower's estimated carbon emissions based on sector
- Evaluation of borrower's reported carbon emissions, on a case-by-case basis
- Assessment of borrower's current and forward-looking emissions, incorporating any decarbonization targets, on a case-by-case basis
- Systematic methodology and process for measuring climate risk using multiple data points, e.g., through a questionnaire and measurement framework
- Other

45. **At what stage of alignment to the Task Force on Climate-Related Financial Disclosures (TCFD) reporting are your direct lending fund(s)? ***

- Preparing qualitative disclosures aligned or aligning to TCFD
- Preparing quantitative disclosures aligned or aligning to TCFD
- Exploring/sourcing guidance on alignment to TCFD
- No alignment yet
- Other

46. **Are you undertaking any initiative for Scope 3 (financed) emission calculation? ***

Yes

No

47. **Please specify which initiatives you are undertaking for Scope 3 (financed) emission calculation. ***

48. **Do you have a road map for decarbonization or for achieving net zero greenhouse gas (GHG) emissions for your direct lending portfolio(s)? ***

Yes, in-house

Exploring or sourcing guidance

Engaging with external consultants

No

49. **Do you apply, or plan to apply, sector-specific decarbonization pathways laid out by organizations such as Science Based Targets initiative (SBTi), International Energy Agency (IEA), International Renewable Energy Agency (IRENA), etc.?** *

- Yes, for the whole portfolio
- Yes, for part of the portfolio
- No

50. **Please provide information on how you apply sector-specific decarbonization pathways, and specify the pathway of which organisation you follow.** *

51. **Do you have a plan for raising topics around climate risks with borrowers?**

*

- Yes, through systematic engagement
- Yes, through ad-hoc engagement
- Yes, but only on selected topics
- No, currently no discussions on climate risks

52. **Do you use climate scenario analysis and/or any tools to measure forward-looking climate risk of companies/assets across your direct lending fund(s)? ***

Yes

No

53. **How do you intend to equip yourself in assessing climate risks of your portfolio companies in the next 3 years?**

*

Build internal proprietary frameworks

Capability enhancement by on-boarding climate risk professionals

Outsourcing to external consultants

Providing necessary training to investment teams

Other

Section E. GP - ESG-linked Pricing and Sustainability Linked Loans (SLLs)

Please note that each * marks a mandatory question

54. **Are ESG interest-rate ratchets (including sustainability-linked loans) part of your direct lending transactions?**

*

- Yes, in sustainability funds
- Yes, in mainstream funds
- No, they are not

55. **If not, is it because of one of the reasons listed in the following options?** *

- Concerns about the SLL's credibility (e.g. greenwashing practices)
- No opportunities
- Not part of the current organisation strategy
- Other

56. **How do you ensure that the borrower's KPI(s) and targets are relevant and ambitious? ***

- Rely on internal expertise
- Request a validation from external parties (e.g. second party opinion, consultant)
- Other

57. **What kind of margin mechanism adjustment do you observe or implement in ESG interest-rate ratchets or in SLLs? ***

- Mostly margin step-down (i.e. reward)
- Mostly margin step-up (i.e. penalty)
- Margin step-down and step-up
- Other

58. **Do you include ESG-related covenants into the transaction documents? ***

- Yes, in all deals
- Yes, on a case-by-case basis
- No, currently we do not
- No, but are considering adding in future

59. **Do these covenants include ESG data reporting?** *

Yes

No

60. **At what stage do you define the KPIs and the sustainability performance targets (SPTs)?** *

Pre-close of the investment

Post-close of the investment (e.g. rendez-vous clause in the credit agreement)

61. **With upward ratchets, how do you allocate the incremental interest rates?** *

To investors

To non-governmental organizations or philanthropic activities

To portfolio companies in support of their ESG endeavors

Other

62. **What type of verification do you perform on the borrower's compliance with KPIs?** *

- ESG compliance certification is provided by statutory auditors or independent third parties
- ESG compliance is only validated by company's senior management
- No particular validation of the KPI compliance
- Other

63. **In your opinion, which are the sectors best suited for SLLs?**
Select top two options. *

Please select at most 2 options.

- Communications Services
- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Healthcare
- Industrials
- IT
- Materials
- Real Estate
- Utilities
- Other

Section F. GP - GP collaboration with peers and private equity sponsors

Please note that each * marks a mandatory question

64. **Do you engage collaboratively with other private lenders of the same borrower on ESG topics? ***

Yes

No

65. **If yes, please specify for which funds:**

*

For the definition of sustainability and mainstream funds, please refer to the introduction at the start of the survey. Your progress here will be saved.

Only sustainability funds

Only mainstream funds

Both sustainability and mainstream funds

66. **What is the purpose of the collaboration with peers on ESG topics? ***

Please select at most 2 options.

- To collect ESG data and ensure disclosure consistency
- To set ESG targets
- To incorporate ESG ratchets in deals
- To save time for the portfolio companies
- To save costs (e.g. to avoid appointing third-parties to collect the data)
- Other

67. **What is the purpose of engagement with private equity sponsors on ESG topics? ***

Please select at most 2 options.

- To collect ESG data and ensure disclosure consistency
- To set ESG targets
- To incorporate ESG ratchets in deals
- To save costs (e.g. to avoid appointing third-parties to collect the data)
- Other

68. **In cases where the private equity sponsors participating in a direct lending transaction do not share the ESG data of target companies, what might be the reasons?**

*

Please select at most 2 options.

- Lack of incentives
- Lack of collaborative culture
- Lack of a common framework for collecting data
- Different relevance of ESG information in a direct lending deal vis-a-vis an equity deal
- Other

69. **If you have chosen 'Lack of incentives' above, could you suggest some incentives?** *(optional)*

70. **Do you think there should be an ESG section in standardised loan documentation to help facilitate ESG features such as ratchets and data requirements?** *

- Yes
- No

Section A. LP - General questions

Please note that each * marks a mandatory question

71. **AUM throughout the firm (incl. all the funds and asset strategies)
(US\$ billion) ***

n.b. Assets Under Management (AUM)

72. **AUM in direct lending strategy (US\$ billion) ***

73. **Role in the organisation of the person filling the questionnaire
(no individual names) ***

74. Headquarters of the organisation *

- North America
- Latin America
- Europe
- Australia
- Asia-Pacific
- The Middle East, Africa
- Other

75. Which are the geographical regions where you have the largest direct lending exposure? *

Please select at most 3 options.

- North America
- Latin America
- Europe
- Australia
- Asia-Pacific
- The Middle East, Africa
- Other

76. Which type of funds do you invest in? *

- Only sustainability funds
- Only mainstream funds
- Both sustainability funds and mainstream funds

77. How often do you enquire about ESG-related disclosures at meetings with GPs? *

- Quarterly
- Semi-annually
- Annually
- Never
- Other

Section B. LP - Engagement (with GPs)

Please note that each * marks a mandatory question

78. **LPs need to understand how GPs engage with the portfolio companies. When GPs cannot do this successfully, what should LPs do? ***

- Provide guidance and support to GPs
- Introduce external consultants to GPs
- Withdraw commitments
- Other

79. **What do you value the most from GPs on ESG topics? ***

Please select at most 2 options.

- ESG data disclosure from portfolio companies
- Identification and mitigation of ESG risks in direct lending to portfolio companies
- Improvement of sustainability outcomes by setting ESG targets for portfolio companies
- Information on the content and the frequency of engagement on ESG-related issues (e.g data collection, target setting etc.)
- Other

80. Do you require independent verification of ESG information disclosures made by GPs? *

Yes

No

81. Please elaborate on the process and extent of the verification required. Please also highlight if there are any differences between mainstream and sustainability funds. *

Section C. LP - ESG data collection

Please note that each * marks a mandatory question

82. **What are the major challenges for achieving accuracy of ESG data that you need to assess the value of investment funds?**
Select top three options. *

Please select at most 3 options.

- Borrower limited awareness of ESG relevant issues or data disclosure
- Different regional perceptions of ESG issues
- No standardization on disclosure
- Other lenders with lower or no ESG disclosure thresholds
- Varying regulatory requirements
- Other

83. **Which of the following options would you prioritize to make ESG data collection by GPs and presentation more efficient? ***

- Increased collaboration among peer lenders
- Leveraging data from different participants in a direct lending deal lifecycle
- Standardization of frameworks for direct lending deals
- Specifications in legal document
- Other

84. As an LP, what is your involvement in identifying risks at the ESG due diligence stage? *

Please select at most 2 options.

- Assessment of risks on the issues highlighted in the due diligence reports
- Responsible for the final decision
- Through external consultants
- Other

85. Do you collaborate with LP peers to seek and analyse ESG data? *

- Yes, for the majority of our commitments
- Yes, on a case-by-case basis
- No, we do not

86. If yes, please specify for which funds: *

For the definition of sustainability and mainstream funds, please refer to the introduction at the start of the survey. Your progress here will be saved.

- For sustainability funds
- For mainstream funds
- For both sustainability and mainstream funds

87. **Please clarify how you collaborate with LP peers to seek and analyse ESG data** *(optional)*

88. **Do you have a methodology to identify the ESG performance of your GPs' fund(s)?** *

Yes

No

89. **Please briefly elaborate on the methodology used.** *

90. **Do you encourage your GPs to interact on data collection and ESG integration practices?** *

Yes

No

91. **If yes, please specify for which funds:** *

For the definition of sustainability and mainstream funds, please refer to the introduction at the start of the survey. Your progress here will be saved.

- Only sustainability funds
- Only mainstream funds
- Both sustainability and mainstream funds

Section D. LP - Consideration of climate risk for investment decision making

Please note that each * marks a mandatory question

92. **For which funds do you ask GPs to measure and manage climate risks? ***

For the definition of sustainability and mainstream funds, please refer to the introduction at the start of the survey. Your progress here will be saved.

- For sustainability funds
- For mainstream funds
- For both sustainability and mainstream funds
- Neither sustainability nor mainstream funds

93. **Please elaborate on how you mandate GPs to measure and manage climate risks on mainstream funds, sustainability funds, or both. ***

94. **Does your organisation publish climate risk-related disclosures in line with Task Force on Climate-related Financial Disclosure (TCFD) recommendations? ***

- Yes
- No

95. **At what stage of alignment is your organisation to the TCFD? ***

- Preparing qualitative disclosures aligned or aligning to TCFD
- Preparing quantitative disclosures aligned or aligning to TCFD
- Exploring/sourcing guidance on alignment to TCFD
- Other

96. **Does your organization have targets and metrics in place to reach net-zero emissions? ***

- Yes
- Partially
- No

97. **Please specify the year your organisation is targeting, including interim targets, if any. ***

Elaborate if you have the same target for each direct lending fund you invest in and use this box for any other relevant comment.

98. **Do you mandate, or plan to mandate, your GPs to incorporate climate targets and metrics for the funds they manage in order to achieve net-zero emissions by the year that you are targeting? ***

- Yes, with action required immediately
- Yes, with a staged approach by investment type
- No, we do not

99. **How do you assess what GPs report to you on their climate risk assessments? ***

100. **As an LP, of those listed below, can you rank your key priorities in improving climate risk assessment? ***

Data coverage

Data resources

Data standardisation

Data costs

In-house climate expertise

101. **Are there any other priorities in addition to the ones above?**

(optional)

102. **Do you have a systematic approach to measuring GP maturity in managing climate risk? ***

Yes

No

Planning

103. **If yes or planning to, please specify the timeline to put the approach in practice. ***

104. **Which metrics and/or methodologies are you considering to measure and disclose the exposure to climate risk of the funds you invest in? ***

- Weighted-Average Carbon Intensity (WACI)
- Financed Emissions
- IIGCC Net Zero Alignment
- Science Based Target initiative (SBTi) Alignment
- Other

105. **Do you mandate your GPs to gather and report on fund emission data? ***

- Yes
- No
- Planning

106. **If yes or planning to, please specify the timeline to put the approach in practice. ***

107. **Do you require GPs to disclose how they assess climate risk differently by time horizon and sector? ***

- Yes, currently
- No, but planning in the next year
- No, but planning in the next 2-3 years
- No, we do not and we are not planning to

Section E. LP - Sustainability Linked Loans ("SLL")

Please note that each * marks a mandatory question

108. **Have you had discussions with GPs on allocating funds towards SLLs? ***

Yes

No

109. **What do you think of ESG interest-rate ratchets in direct lending transactions in mainstream funds? ***

For the definition of sustainability and mainstream funds, please refer to the introduction at the start of the survey. Your progress here will be saved.

They enhance the structure of the transaction

They do not enhance the structure of the transaction

I am not sure

110. **Do you prefer ratchets with: ***

Margin step-down (i.e. reward)

Margin step-up (i.e. penalty)

Margin step-down and up

No preference

111. **Do you have any framework/ policy to track and measure the outcomes generated by the SLLs? ***

Yes

No

112. **Please can you elaborate on such framework or policy? ***

113. **From your point of view, are SLLs a good way to achieve sustainability outcomes? ***

This means working to increase positive sustainability outcomes and/or decrease negative sustainability outcomes.

Yes

No

114. **If yes, please elaborate on why. ***

115. **As an LP, do you assess the KPI ambitions for the SLLs, and, if so, can you explain how? ***

116. **According to you, what are the improvements necessary to increase investments in SLLs? ***

- ESG compliance certification
- Effective tracking of objectives through certification
- Standardisation of regulatory requirements
- Knowledge to assess the ambition of KPIs
- Other

Section F. LP - LP collaboration with peers

Please note that each * marks a mandatory question

117. **Do you think there are ways that LPs can collaborate with each other with respect to ESG-related data and issues? ***

Yes

No

118. **Which of the following options are you in favour of? ***

Work on developing/adopting industry standards for reporting

Work on developing/adopting industry standards for GP questionnaires

Other

119. **Why do you think there are no ways for LPs to collaborate with each other with respect to ESG-related data and issues? ***

120. **Do you think there are ways credit GPs can collaborate when collecting ESG data or assessing ESG issues? ***

Yes

No

121. **If yes, please select one of the following options where credit GPs can collaborate on ESG topics: ***

- Create standard data reporting requests that are incorporated in credit documents (whether in a bilateral or a sponsor-backed deal)
- Create a joint program for engagement (when there is more than one credit investor in a deal)
- Other

Additional information

122. **Do you want to add any other relevant comments or suggest questions that we should investigate further in the future?** *(Optional)*

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