

**ILLINOIS STATE TREASURER'S OFFICE
SUSTAINABILITY/EQUITY DIVERSITY AND INCLUSION
DUE DILIGENCE QUESTIONNAIRE**



**OFFICE OF THE ILLINOIS STATE TREASURER
MICHAEL W. FRERICHS**



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Investment Philosophy

The Treasurer seeks to invest all funds under its control in a manner that provides the highest risk-adjusted investment return for beneficiaries using authorized instruments. To achieve this objective, the Treasurer has a responsibility to recognize and evaluate risk and opportunity factors that may have a material and relevant financial impact on the safety and/or performance of our investments.

Thus, consistent with achieving the investment objectives set forth herein, the Treasurer and its agents shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, due diligence and investment ownership in furtherance of the Treasurer's investment goals to fulfill its fiduciary duty, to maximize anticipated financial returns, and minimize projected risk.

Sustainability factors shall be implemented within a framework predicated on the prudent integration of material sustainability factors, including, but not limited to (1) environmental, (2) social capital, (3) human capital, (4) business model and innovation, and (5) leadership and governance factors, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership, given that these tangible and intangible factors may have material and relevant financial impacts. Other relevant factors such as legal, regulatory, and reputational risks that contribute to an optimal risk management framework and are necessary to create long-term investment value should also be considered.

The sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and helps assess the reliability of future cash flows and debt repayments. Similar to financial accounting, sustainability accounting has both confirmatory and predictive value, thus, it can be used to evaluate past performance and be used for future planning and decision-making. As a complement to financial accounting, it provides a more complete view of an investment fund or portfolio company's performance on material factors likely to impact its long-term value.

Included in this package are many of the frequently asked questions previously received. For further questions regarding this Questionnaire, please contact Maria Oldani directly at 217.782.9598 or via email at moldani@illinoistreasurer.gov.



Frequently Asked Questions

1. What is the purpose of this document?

The goal of the Treasurer's Office is to assess how investment managers integrate sustainability factors within a framework predicated on the prudent integration of material sustainability factors, including, but not limited to (1) environmental, (2) social capital, (3) human capital, (4) business model and innovation, and (5) leadership and governance factors, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership, given that these tangible and intangible factors may have material and relevant financial impacts. The sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and helps assess

2. Are Investment Managers expected to provide answers to any "sensitive" questions in this document?

Investment managers are not required to divulge sensitive information, especially if it violates a non-disclosure agreements with other parties. It is also understood that investment managers may need to use caution in providing information to organizations they feel are not genuinely interested in committing to their fund. However, as fiduciaries, the Treasurer's Office does not feel restricted from asking sensitive questions. The Investment Managers' right to protect confidential information is no greater than the Treasurer's right to inquire about information they feel is relevant to the transparency and alignment of their potential/current partnership. If Investment Managers are more comfortable providing certain answers in person, in a redacted format, or at a later stage in the diligence process, they are encouraged to do so. However, Investment Managers should provide an explanation in these instances, using this document to that end, as well as seeking further direction from the Treasurer's Office.

3. Are Investment Managers expected to answer questions that are not applicable to their specific fund?

This questionnaire seeks to address questions specific to incorporation of sustainability factors as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership, given that these tangible and intangible factors may have material and relevant financial impacts on portfolio companies. Investment Managers should use their best judgment to answer questions that are relevant to their organization. For skipped questions in the Detailed Questions section, Investment Managers should provide a brief, one sentence statement explaining their rationale for not answering. For the skipped questions in the Basic Questions section, "N/A" should be populated in the "Reference" field.

4. Will the Treasurer's Office use a Investment Manager's answers in the Basic Questions section (yes/no questions) as the sole criteria for their ultimate investment decision?

No, the basic questions are intended to provide the Treasurer's Office with a top-level checklist, and a framework to highlight issues that need further clarity. The Treasurer's Office will review the expanded answers in the Detailed Questions section, as well as their own follow-up questions, before making any investment decisions.

5. Will the Treasurer's Office only use this document? In what format should additional questions be sent to the Investment Manager?

One of the goals of this document is to minimize, not eliminate, the variations in the diligence processes administered by the Treasurer's Office. While the Treasurer's Office believes that this is a comprehensive document that covers the central questions institutional investors should ask Investment Managers pertaining to the incorporation of sustainability factors, as well as equity diversity and inclusion, it may be necessary to supplement this document with additional questions.



Investment Manager Information

Firm: General Information

Date of Completion: MM/DD/YYYY

Firm Name:

Address:

Street:

City:

State/Country:

Postal Code:

Phone Number:

Regulatory Body(s) that Supervises Firm:

Firm Contact (for requesting additional information):

Title:

Phone Number:

Email Address:



Basic Questions

1.0 Firm Governance / Risk Management / Compliance	Yes	No	Reference*
1.1 Has the Firm adopted the CFA Institute's most recent Code of Ethics and Standards of Professional Conduct or a substantive equivalent?	<input type="checkbox"/>	<input type="checkbox"/>	
1.2 Does the Firm obtain Environmental Impact Studies for each of its portfolio company and property investments?	<input type="checkbox"/>	<input type="checkbox"/>	
2.0 Sustainability Integration	Yes	No	Reference*
2.1 Does the Firm have a Sustainability Policy (or equivalent ESG/SRI policy)?	<input type="checkbox"/>	<input type="checkbox"/>	
2.2 Does the Firm have a Corporate Social Responsibility Policy?	<input type="checkbox"/>	<input type="checkbox"/>	
2.3 Is the Firm a signatory to the United Nations Principles for Responsible Investing (UNPRI) ?	<input type="checkbox"/>	<input type="checkbox"/>	
2.4 Is the Firm and/or any of its affiliated entities organized in a country that is a member of the Organization for Economic Co-operation and Development (OECD) ?	<input type="checkbox"/>	<input type="checkbox"/>	
2.5 Does the Firm have policies that encourage portfolio companies to adopt external standards and codes (such as the United Nations Global Compact)?	<input type="checkbox"/>	<input type="checkbox"/>	
2.6 Does the Firm make formal commitments relating to sustainability integration in fund formation contracts when requested by investors?	<input type="checkbox"/>	<input type="checkbox"/>	
3.0 Diversity and Inclusion	Yes	No	Reference*
3.1 Does the Firm have a formal Diversity and Inclusion policy or initiative? If 'yes', provide a copy of the policy (as referenced in Appendix A).	<input type="checkbox"/>	<input type="checkbox"/>	
3.2 (Only if 'no' to 3.1) Would you be willing to develop and implement a policy or initiative within one year?	<input type="checkbox"/>	<input type="checkbox"/>	
3.3 Does the Firm have a Code of Conduct that covers harassment, discrimination and/or workplace violence? If 'yes', provide a copy of the Code (as referenced in Appendix A).	<input type="checkbox"/>	<input type="checkbox"/>	
3.4 (Only if 'no' to 14.3) Would you be willing to develop and implement such a code within one year?	<input type="checkbox"/>	<input type="checkbox"/>	
3.11 Does the Firm have a formal mentorship program for minorities and/or women?	<input type="checkbox"/>	<input type="checkbox"/>	
3.12 Does the Firm work with organizations that promote the attraction and retention of women and minorities within private equity, venture capital or private credit? If "yes", provide a list of these organizations, as well as any additional programs you have embraced (as referenced in Appendix A).	<input type="checkbox"/>	<input type="checkbox"/>	
3.13 Has the Firm put procedures in place for the reporting and investigation of harassment and/or discrimination? If 'yes', provide these procedures (as referenced in Appendix A).	<input type="checkbox"/>	<input type="checkbox"/>	
3.14 (Only if 'no' to 14.13) Would you be willing to establish and communicate procedures within one year?	<input type="checkbox"/>	<input type="checkbox"/>	
3.15 Have there been any claims of sexual or general harassment, misconduct or discrimination against any current or former Firm employees (while employed by the Firm) within the last 5 years?	<input type="checkbox"/>	<input type="checkbox"/>	



Detailed Questions

1.0 General

- 1.1. Does the product being reviewed integrate material sustainability factors, including, but not limited to, (1) environmental factors, (2) social capital factors, (3) human capital factors, (4) business model and innovation factors, and (5) leadership and governance factors, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership given that these tangible and intangible factors may have material and relevant financial impacts? If not, is there a version of this strategy that incorporates sustainability factors?
- 1.2. How does the Firm define the materiality of sustainability factors? Give 2-3 examples of sustainability factors that have been identified as material to portfolio companies in the most recent fund.
- 1.3. Once identified, how might (i) potentially material sustainability risks, and (ii) sustainability-related opportunities impact the investment decision?
- 1.4. How are sustainability risks and opportunities reported to, considered, and documented by the ultimate decision-making body, such as the Investment Committee?
- 1.5. If the product does not incorporate sustainability factors, are sustainability factors considered in the investment research and decision process for this strategy?
- 1.6. Please describe your firm's sustainable investing policy/mandate for this strategy. If possible, please attach relevant documents.
- 1.7. Please provide one emerging ESG issue or trend that you believe will increasingly become material to private equity investments over the next 3-4 years, and how is your firm addressing it in your policies and practices.

2.0 Policy

- 2.1. Please describe your firm's sustainable investing policy/mandate for this strategy. If possible, please attach relevant documents.
- 2.2. How frequently is the policy/mandate reviewed and updated?
- 2.3. How do you monitor compliance with the stated policy/mandate?
- 2.4. Does your firm have staff dedicated to monitoring compliance with the policy/mandate? If so, please provide their biographies.
- 2.5. Does your firm have a dedicated sustainable investing research team? If so, please provide (1) their bios and (2) detail the process by which they work with the portfolio managers and, if applicable, traditional research analysts. If not, how do other investment professionals/staff integrate sustainable investing factors into their responsibilities?
- 2.6. What data or information is collected and used to assess sustainability factors? Does your firm utilize internal or external resources (or both) to acquire data, information, and analyses on sustainability factors facing portfolio



companies? If third-party research providers are utilized (e.g. Sustainalytics, MSCI, SASB, ISS, etc.), please list those providers and detail how their reports/analyses/scores are utilized to assess sustainability risks and opportunities.

- 2.7. Does your firm send out company questionnaires to collect more sustainability data and information?
- 2.8. How, and to what extent, are sustainable investing factors integrated into the investment decision-making process? Please describe:
 - 2.8.1. What sustainability factors are consistently evaluated? (i.e. Is there a focus on megatrends impacting the global economy, like resource scarcity or low carbon, for example, or does your firm apply an expanded sustainability framework that recognizes, for example, environmental, social, and governance factors?)
 - 2.8.2. For the sustainable investing factors evaluated, how is materiality determined, prioritized, and addressed at the security, sector, or country level? Please describe this process using specific examples.
- 2.9. Does your firm maintain watchlists for securities, sectors, or countries with high sustainability risks or opportunities?
- 2.10. Does your firm conduct portfolio scenario analysis or value-at-risk analysis to assess the impact of sustainability factors on overall portfolio risk and return?
- 2.11. Explain how risks and opportunities associated with sustainability factors are identified, weighed, and integrated to influence investment decisions.
 - 2.11.1. Please provide examples of how sustainability factors positively and negatively impact an investment decision.
 - 2.11.2. Provide a detailed recent example of an investment decision that incorporated sustainable investing factors (risk or opportunity/security level/etc.) and describe how those factors influenced the outcome.
- 2.12. Does your firm utilize materiality standards from the Sustainability Accounting Standards Board (SASB)? If so, explain the rationale and way they are incorporated. If not utilized, please explain why.
- 2.13. How is analysis of sustainability factors integrated with traditional financial analysis for securities, sectors, and countries? Are the results of the sustainable investing factor analysis implemented in a qualitative manner (i.e. to inform a buy/sell/hold decisions) or quantitative manner (i.e. to adjust forecasted variables), or both? Please provide an example to illustrate your approach to blending sustainable and traditional analysis.
- 2.14. How can the Treasurer's Office monitor and, where necessary, ensure that the Fund is operating consistently with agreed-upon sustainability-related policies and practices, including disclosure of sustainability-related incidents?
 - 2.14.1. What channels does the Firm use to communicate sustainability-related information to investors? Can the Firm provide samples of sustainability disclosures from an earlier fund? If not, indicate whether the Firm would consider introducing sustainability disclosures.



2.14.2. Describe the Firm's approach to disclosing and following up on material sustainability incidents to investors.

3.0 Diversity and Inclusion

- 3.1. Is the Firm under the control of minority persons, women, veterans, or persons with a disability (MWVD Persons)?¹ Please explain and provide supporting data detailing how the Firm is under the control of such groups within the meaning of the applicable definitions.
- 3.2. Is the Firm owned by MWVD Persons? Please explain and provide supporting data detailing how the Firm is owned by such groups within the meaning of the applicable definitions.
- 3.3. What is the percentage of the Firm's intended use of subcontractors for this project, if any, that are owned by or under the control of MWVD Persons? Please explain and provide supporting data detailing how such subcontractors are owned by such groups within the meaning of the applicable definitions.
- 3.4. Please provide the number and percentage of the Firm's senior executive leaders (i.e. partner, president, COO, managing director, or other senior executives) who are MWVD Persons. Please cite with supporting data.
- 3.5. Please provide the number and percentage of the Firm's staff (i.e. all full-time and part-time employees) who are MWVD Persons. Please cite with supporting data.

¹ As set forth in Section 30 of the State Treasurer Act, 15 ILCS 505/30, it is an aspirational goal of the State Treasurer to use businesses owned by or under the control of qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability ("MWVD Persons") for not less than 25% of the total dollar amount of funds under management, purchases of investment securities, and other contracts. As used herein, the following definitions apply: (i) "minority person" means a person who is any of the following: American Indian or Alaska Native, Asian, Black or African American, Hispanic or Latino, Native Hawaiian or Other Pacific Islander; (ii) "woman" means a person who is of the female gender; (iii) "veteran" means a person who (1) has been a member of the armed forces of the United States or, while a citizen of the United States, was a member of the armed forces of allies of the United States in time of hostilities with a foreign country and (2) served under one or more of the following conditions: (a) served a total of at least six months, (b) served for the duration of hostilities regardless of the length of the engagement; (c) was discharged on the basis of hardship; or (d) was released from active duty because of a service connected disability and was discharged under honorable conditions; (iv) "person with a disability" means a person with a severe physical or mental disability that: (1) results from: amputation, arthritis, autism, blindness, burn injury, cancer, cerebral palsy, Crohn's disease, cystic fibrosis, deafness, head injury, heart disease, hemiplegia, hemophilia, respiratory or pulmonary dysfunction, an intellectual disability, mental illness, multiple sclerosis, muscular dystrophy, musculoskeletal disorders, neurological disorders, including stroke and epilepsy, paraplegia, quadriplegia and other spinal cord conditions, sickle cell anemia, ulcerative colitis, specific learning disabilities, or end stage renal failure disease; and (2) substantially limits one or more of person's major life activities. Another disability or combination of disabilities may also be a disability if it is determined to cause a comparable degree of substantial functional limitations similar to the foregoing list of disabilities.

Firms are owned or under the control of MWVD Persons, if the firm: (a) is at least 51% owned by one or more persons who are citizens or lawful permanent residents of the United States and are minority persons, women, veterans, or persons with a disability ("MWVD Persons") that control such company's management and daily business operations; or (b) is under the real, substantial, and continuing control (not pro forma) of MWVD Persons that have the exclusive or ultimate and sole control of the business (including, but not limited to, capital investment and all other financial matters, and comprehensive hiring) and that have the power to cause the direction of the management and policies of the business and make the day-to-day as well as major decisions in matters of policy, management, and operations. Control shall be exemplified by possessing the requisite knowledge and expertise to run the particular business and control shall not include simple majority or absentee ownership.



- 3.6. Please describe the development of and/or any significant changes to the Firm's Diversity and Inclusion policy and Code of Conduct policy.
- 3.7. Describe the development of and/or any significant changes to the Firm's Diversity and Inclusion policy and Code of Conduct policy that are expected in the next year.
- 3.8. Describe the Firm's process for recruiting new employees to the investment team? Operations team? Administrative team?
- 3.9. If applicable, describe the Firm's formal mentorship program.
- 3.10. What percentage of the Firm's female employees were promoted in the last 3 years? What percentage of the Firm's minority employees were promoted in the last 3 years?
- 3.11. What percentage of the Firm's female employees departed in the last 3 years? What percentage of the Firm's minority employees departed in the last 3 years?
- 3.12. For investments made by the Firm during the last five years, what is the average percentage of female board members per company? Average percentage of minorities? Data should be as-of the earlier of the most recent quarter-end or the date the investment was exited. Only include investments in which the Firm held a majority interest (either directly or through "club deals").
- 3.13. If any claims of sexual or general harassment, misconduct, or discrimination have been made against any of the current and/or former Firm employees (while employed by the Firm) within the last five years, please provide details for each claim, including the charges, investigative process, and outcome, including disciplinary action.
Note: Individual names should not be provided and are not being solicited in the questionnaire.

4.0 Proxy Voting and Engagement

- 4.1. Does your firm engage with the companies in which you invest on sustainability risks and opportunities?
 - 4.1.1. Please how and to what extent your firm engages companies on sustainability risks or opportunities.
 - 4.1.2. What are the reasons behind such engagement and on what issues do you typically engage?
 - 4.1.3. Do you have a method of evaluating your engagement with companies? If so, please describe.
 - 4.1.4. If you do not engage with companies, please explain why.
- 4.2. Do you engage public policymakers or lawmakers on sustainable investing issues? If so, please describe those interactions, the concern addressed, and relevant outcomes. Please provide any recent examples.
- 4.3. Please describe your firm's proxy voting policy. If possible, please attach the proxy voting guidelines that govern your voting decisions.



4.3.1. If unavailable, please explain why.

4.4. Is a third-party provider utilized for proxy voting? If so, please list the firm.

4.5. Does your firm's proxy voting policy (or that of the third-party provider) incorporate sustainability factors? If not, are you able to incorporate those issues upon client request?

4.6. How do you implement your voting guidelines and ensure that votes are executed as intended?

5.0 Firm Participation and Reporting

5.1. How, if at all, are sustainability issues incorporated into the general operation of your firm?

5.2. Does your firm publish an annual sustainability report? If so, are the sustainability initiatives reported in the context of the United Nations' Sustainable Development Goals? Please provide an electronic copy of the most recent annual sustainability report.

5.3. Are there specific sustainability issues or trends that are a primary for your firm from a near-term (three to five years) goal perspective? Please provide details about those objectives and the strategy for addressing them.

5.4. Is your firm a signatory to the United Nation's Principles for Responsible Investment (UNPRI)?

5.4.1. If so, please explain how the six principles have been incorporated into the firm? Also, please provide the most recent PRI assessment scores (overall and modules). If applicable, please provide an electronic copy of your assessment report.

5.4.2. If not, what are your reasons for not signing?

5.5. Are there other sustainable investing initiatives or organizations that your firm is a member of or participates in? If so, please detail.

5.5.1. If applicable, please list the sustainable investing conferences that your firm attends.

5.6. Does your firm provide sustainable investing impact and/or United Nation's Sustainable Development Goals (SDG) reporting to clients? If so, please provide an electronic copy of the most recent report(s).

5.7. If applicable, please describe the nature and type of sustainable investing performance data that you collect, how you utilize this information, and provide an example (redacted if necessary) of an investor or stakeholder communication detailing those performance trends.

5.8. For real estate investments only, please provide a summary of GRESB scores for your fund(s) for 2017 and 2018, and briefly explain what factors drove year over year changes.

Appendix A - Requested Documents (if applicable) *

1. Sustainability/ESG Policy
2. Code of Ethics/Conduct
3. Team Diversity Template
4. Diversity and Inclusion Policy
5. List of organizations and programs the Firm has embraced, which promote the attraction and retention of women and minorities within private equity
6. Procedures for the reporting and investigation of harassment and/or discrimination
7. Conflicts of Interest Policy