



**OFFICE OF THE ILLINOIS STATE TREASURER
SUSTAINABILITY DUE DILIGENCE QUESTIONNAIRE**



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

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 evaluate risk and value factors that may have a material and relevant financial impact on the safety and/or performance of our investments.

Consistent with achieving the investment objectives set forth herein, the Treasurer and its agents shall prudently integrate sustainability factors into its investment decision-making processes. As a complement to traditional financial analysis, the integration of sustainability factors provides an additional layer of decision-useful information by which the Treasurer and its agents can better assess the risk and return prospects of portfolio companies, investment funds, and other investment vehicles. Such sustainability factors are indicative of the overall performance of an investment and are strong indicators of its long-term value.

Sustainability factors shall be implemented within a framework predicated on the following:

- **Materiality** – The Treasurer considers whether and to what extent a sustainability risk or opportunity exists that is reasonably likely to have a material impact on the financial condition or operating performance of a company, investment fund, or other investment vehicle.
- **Industry-Specific Information** – The Treasurer considers whether and to what extent the financially material sustainability risk or opportunity in question is relevant and applicable to individual industries.
- **Integration of Material Sustainability Factors in Internally and Externally Managed Investment Programs** – The Treasurer prudently integrates material and relevant sustainability factors, including, but not limited to, (1) environmental, (2) social capital, (3) human capital, (4) business model and innovation, and (5) corporate governance, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership in internally and externally managed investment programs.
- **Regular Evaluation of Sustainability Factors** – The Treasurer performs a recurring annual evaluation, at a minimum, of sustainability factors to ensure the factors are relevant to the evolving marketplace.
- **Additional Relevant and Financially Material Factors** – The Treasurer considers other relevant factors such as legal, regulatory, and reputational risks that contribute to an optimal risk management framework and are necessary to protect and create long-term investment value.

Sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and can be used to evaluate past performance and to plan future decision-making. As a complement to traditional financial analysis, an accounting of sustainability factors provides a more complete view of an investment fund or portfolio company's long-term value.



Frequently Asked Questions

1. What is the purpose of this document?

The goal of the Office of the Illinois State Treasurer (“Treasurer”) is to assess how investment managers integrate sustainability factors within a framework predicated on the prudent integration of material and relevant sustainability factors, including, but not limited to (1) environmental, (2) social capital, (3) human capital, (4) business model and innovation, and (5) corporate governance, financial incentives and quality of leadership 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.

2. Are GP’s expected to provide answers to any “sensitive” questions in this document?

GP’s are not required to divulge sensitive information, especially if it violates a non-disclosure agreements with other parties. It is also understood that GPs 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 GPs’ 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 partnership. If GPs 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, GPs 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, Investment Managers should provide a brief statement explaining their rationale for not answering.

4. Will the Treasurer use an Investment Manager’s answers within this questionnaire as the sole criteria for their ultimate investment decision?

No, the questions within this questionnaire are intended to provide the Treasurer with a framework to highlight sustainability related issues that need further clarity. The Treasurer will review the answers and communicate any follow-up questions in future due diligence meetings as part of the investment decision-making process.

5. Will the Treasurer 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. While the Treasurer 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, it may be necessary to supplement this document with additional questions.

Definitions

1. Sustainable Investing or [Sustainable Investment Policy](#):

The Office of the Illinois State Treasurer defines Sustainable Investing or a Sustainable Investment Policy as the policy and process of an organization that defines and describes how the organization integrates sustainability into its investment process in a systematic manner and what the priorities are for the organization in relation to the integration of sustainability.

2. Sustainability Factors:

Based on the Office of the Illinois State Treasurer’s Sustainability Investment Policy Statement, sustainability factors are classified within 5 major categories: (1) environmental, (2) social capital, (3) human capital, (4) business model and innovation, and (5) corporate governance, financial incentives, and quality of leadership.

For questions, contact Angel Herrera at 312-814-5215 or aherrera@illinoistreasurer.gov.

CONFIDENTIAL



Fund Information

Firm: General Information

Date of Completion: MM/DD/YYYY

Firm Name or Business Unit (the "Firm"):

Address:

Street:

City:

State/Country:

Postal Code:

Phone Number:

Fund Name(s):

Firm Contact (for requesting additional information):

Name:

Title:

Phone Number:

Email Address:

1. Sustainable Investment Policy

- a) Does the Firm have a Sustainability Policy (or equivalent sustainability/SRI Responsible Investing policy) that describes its approach to identifying and integrating sustainability factors within the investment and portfolio management processes? If so, please provide. If you do not have a responsible investment policy, explain why not.
- b) How frequently is the policy reviewed and updated?
- c) What team members are involved in the creation and update of the policy?
- d) **How do you monitor compliance with the stated policy and what systems are utilized to monitor compliance? Please provide examples.**
- e) Are investment professionals evaluated on their compliance with the sustainable investment policy? If so, does this impact their compensation?
- f) Does your firm have staff dedicated to monitoring compliance with the policy? If so, please provide their biographies.
- g) What are the firm's sustainability and steward priorities and how often are these reassessed?

2. Sustainability Integration

- a) **Describe how (i) oversight responsibilities, and (ii) implementation responsibilities for sustainability integration are structured within the Firm. List the persons involved, position, bios, and their integration into the investment decision-making process. Describe any external resources the Firm may use. Describe any formal organizational structures in place (e.g. committees).**
 - i) **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.**
- b) 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? Please list samples of any sustainability-related disclosures for this fund.
- c) What formal sustainability commitments have you made or do you plan to make in the Limited Partnership Agreement (LPA), side-letters, or other constitutive fund documents?
- d) **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.**
- e) **Please provide details on any reporting investor providers utilized by the firm, include context into the selection process for the provider(s), the Firm's decision-making process for determining to use the provider(s).**
- f) **If you have reported in line with the TCFD recommendations, please provide a copy of your TCFD report (as referenced in Appendix A).**
- g) **Please provide one emerging Sustainability related issue or trend that you believe will increasingly become material to the firm's asset class investments over the next 3-4 years, and how is your firm addressing it in your policies and practices.**
- h) **Describe any climate commitments or targets your firm has made or actions your firm employs, to assess and address climate-related risks and opportunities not otherwise covered in this document.**



3. Investment Strategy and Process

- a) How do you conduct (i) sustainability materiality analysis for potential investments and (ii) due diligence on potentially material sustainability risks and opportunities?
 - i) Explain your process, give two to three examples of sustainability risks and opportunities identified during screening as material to portfolio companies in your most recent fund, and disclose any tools, standards and data you use to determine which sustainability risks and opportunities are material.
 - ii) Please illustrate your sustainability due diligence process using one to two examples from a recent fund.
 - iii) Please include any relevant discussion around which frameworks and tools you use in due diligence to identify and assess climate transition and physical/adaptation risks and opportunities, including the use of scenario analysis.
- b) How are sustainability risks and opportunities reported to, considered, and documented by the ultimate decision-making body, such as the investment committee?
 - i) Describe the process you have in place and illustrate this with a recent fund example.
- c) How do sustainability risks and opportunities affect the selection of your investments?
 - i) Explain using one to two examples from a recent fund. Did they help identify risk management or value creation opportunities, lead to the abandonment of certain investments, impact the valuation of investments, or affect other deal terms?
 - ii) In addition, please include any relevant discussion around how climate-related risks and opportunities affect your investment strategy or investment selection.
- d) Does your firm maintain watchlists for portfolio companies, sectors, or geographic areas with high sustainability risks or opportunities?**
- e) During deal structuring, what is the process for integrating sustainability considerations into the deal documentation and/or the post-investment action plan?
- f) Has the firm adopted the Principles of Responsible Workforce Management?
 - i) If no, would the firm be willing to adopt these principles within one year?
 - ii) If no, does the firm encourage all portfolio companies to comply with all federal, state, and local laws covering workers' rights, including nondiscrimination, wage and hour, workers' compensation, employee benefits, health and safety, and labor relations?
 - iii) If no, does the firm encourage portfolio companies to treat their workforces with dignity and respect, to remain neutral when workers seek to exercise their freedom to join together in a union, and to negotiate in good faith with unionized workers?
- g) Does the firm provide their Limited Partners with transparency in all matters regarding portfolio company workforce issues as requested by Limited Partners and actively facilitate communication with and among their Limited Partners regarding workforce issues of concern?

4. Portfolio Company Engagement

- a) How do you contribute to the management of material sustainability -related risks and opportunities during the holding period of your investments? Please include any collaboration with co-investors on sponsored deals that may occur in the management of sustainability -related risks and opportunities.
 - i) Provide two to three examples from a recent fund highlighting how you directly contributed to any initiatives. For example, those where you worked with management to identify issues and instigated further action such as implementing relevant policies, or those you supported your portfolio company to achieve.



- II) In addition, please include any relevant discussion around the management of climate-related risks and opportunities.
- b) Does the firm identify sustainability KPI's for each portfolio company?
 - I) If so, how do you use identified sustainability KPIs? Please indicate if you set targets for them or benchmark performance against comparable companies.
 - II) If so, how do you do this, and how do you support portfolio companies to meet the targets?
- c) Upon investing in a company, does the Firm review existing compliance with sustainability or ethical business guidelines, or introduce new guidelines if necessary?
- d) How do you ensure that adequate sustainability-related competence and resources exist at the portfolio company level?
 - I) Describe one or two initiatives taken as part of your sustainability competence-building efforts in prior funds, and indicate which function, position, or role is generally given sustainability responsibilities at portfolio companies.
 - II) How does you ensure that portfolio company management devotes sufficient resources to manage sustainability factors that have been identified?
- e) If your firm takes board seats, how do you use your board seats or interaction with the board to monitor, and incentivize the portfolio company's management of sustainability risks and opportunities? This could include how sustainability objectives are linked to compensation mechanisms at the portfolio company level.
- f) Please explain any business policies and practices that recognize the workforce of the firm's portfolio companies as a critical asset and seek to maximize the value of portfolio company human capital by investing in employee skills, safe workplaces, fair compensation, and adequate health and retirement benefits. If none, please explain why not.
- g) Please explain any policies or practices that the firm's portfolio companies have adopted to respect their international human rights obligations as defined by the Core Conventions of the International Labor Organization (ILO), the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Universal Declaration of Human Rights. If none, please explain why not.
- h) Describe the Firm's processes, if any, to monitor and verify the supply chains of the portfolio companies. If applicable, are portfolio companies typically members of organizations such as the Fair Labor Association?



Supplemental Information Requested (if applicable)

**Please provide any additional materials relating to sustainability policies at the firm.

Item	Request	Yes	No
1.	Sustainability Policy **	<input type="checkbox"/>	<input type="checkbox"/>
2.	Is the Firm a signatory to the Principles for Responsible Investing (PRI) ?	<input type="checkbox"/>	<input type="checkbox"/>
3.	Diversity and Inclusion Policy	<input type="checkbox"/>	<input type="checkbox"/>
4.	TCFD Report (if applicable)	<input type="checkbox"/>	<input type="checkbox"/>