Draft Disclosures:

For Use by Limited Partners (LPs) and their Consultants in Due Diligence, Monitoring, and Evaluation of General Partners (GPs)

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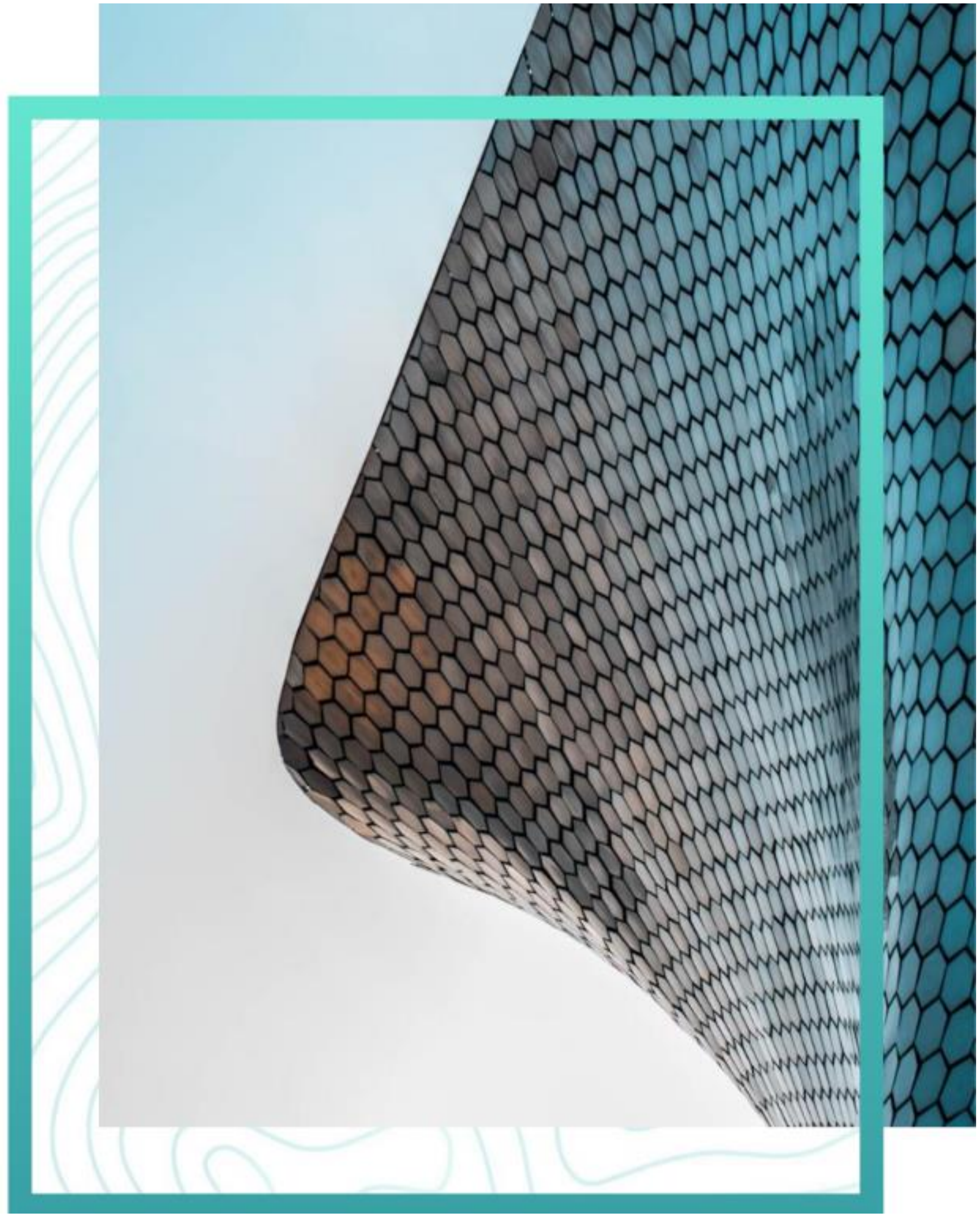

Authors & Acknowledgements

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The project team was led by Mike McCreless of Impact Frontiers and Delilah Rothenberg of the Predistribution Initiative, and included Ellen Carey Maginnis, Peter Bent, Jackson Gates, Victoria de Castro, Amanda Feldman, Nao Sudo, and Shannon Mullins.

About Impact Frontiers

Impact Frontiers is a non-profit learning and market-building collaboration for investors seeking to integrate impact alongside financial considerations in investment decision-making.

About the Predistribution Initiative

The Predistribution Initiative (PDI) is a non-profit working with institutional investors and their stakeholders to co-create improvements to market and investment structures that share more wealth and influence with workers and communities, ultimately reducing system-level risks.

Contents

Purpose and Scope

This document is one of three outputs produced as part of the *Investor Influence* (formerly *Investor Contribution 2.0*) project co-led by Impact Frontiers and the Predistribution Initiative (PDI). It is designed to be read and used alongside its accompanying documents, including:

- *Investor Influence in Private Markets: How investors' activities can result in changes in outcomes for people and/or the natural environment* – This is a white paper which explores how investors themselves - aside from their investees - can influence outcomes – both positive and negative - for people and the environment. It proposes organizing constructs for investors in private capital markets to understand pathways of such influence and serves as a foundation and important context for this document.
- *Causal Investor Impact Template* – This is a template designed to support investors in companies in expressing and evaluating claims of causal investor impact through capital allocation and/or non-financial engagement.

This document includes draft disclosures developed through the project and a wider consultation and co-creation process from 2021 through mid-2023, including input from an earlier body of work that the PDI and Impact Frontiers teams helped lead with the Impact Management Project (IMP) in 2020 exploring the concept of "Negative Investor Contribution."

The draft disclosures are designed to support Limited Partners (LPs) by developing tools for them to assess General Partners (GPs), with a particular focus on private equity (PE), private debt (PD), and venture capital (VC) asset classes (collectively referred to in this document as *private capital*). The draft disclosures assess Investor Influence on social and environmental outcomes – both positive and negative – as well as capture early warning signals of potential resulting system-level financial risks. They can also be used as a roadmap for GPs when considering policies and procedures to minimize potential negative impacts and system-level risks of their own actions.

The document is designed to support not only impact investors, but also investors seeking to understand how potential negative impacts can contribute to negative externalities and therefore system-level financial risks to portfolios. Similarly, investors seeking positive impacts and positive externalities may find value in some of the disclosures which relate to practices that can lead to improved outcomes. Future phases of this project will likely involve assessing other asset classes, as well as providing self-assessment tools for LPs to evaluate their own practices.

The draft disclosures focus primarily on topics of concern to stakeholders, including civil society, labor advocates, asset owners and allocators, academics, among others, as assessed through a literature review and via this project's consultation and co-creation process.[1] The disclosures are not designed to assess portfolio company operations products, and services, but rather Investor Influence at the fund manager level. This is because a significant amount of work has already gone into established measurement and management tools at the portfolio company level, but not at the fund manager level. The topics identified can be broken down into two categories:[2]

1. Investment Structure: Investment structure issues of interest include:
    a. The capital structure of companies – which, in private markets, is often strongly influenced by a company's investors. Capital structure has been noted to affect companies' ability to offer quality jobs and produce quality and affordable goods and services. Weak (i.e., highly leveraged) capital structures may also inhibit companies from having the resources to invest internally in other improvements, including those that affect the environment.
    b. The structure of funds and their management firms – including tax, waterfall, and fee and carried interest structures – and the fund term and holding periods.

2. Investment Governance: Issues of interest here include the incentive structures of funds, key performance indicators (KPIs), accountability mechanisms, responsible political conduct, and approaches to diversity, equity, and inclusion (DEI).[3] Investment governance also covers policies, procedures, and accountability mechanisms for any particular investment-related activity that can affect outcomes for end-stakeholders.

The draft disclosures focus on topics that are not currently well-covered based on a landscape review of frameworks designed to assess private sector impacts, dependencies, risks, and opportunities. As such, issues which are well-covered by other frameworks, such as fund manager fees, DEI, responsible political conduct, and tools for evaluating portfolio company products, services, and operations are not included.

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[1] See the IC 2.0 Research and Resources database relating to investment structures and governance for further information. This dynamic and evolving database serves as a compendium of resources and literature on each topic covered, which has informed development of the *Proposed Performance Disclosures*, as well as the *Context and Rationale* sections of this document.
[2] These categories differ from those outlined in the *Investor Influence* white paper. This is because while some topics are purely related to governance and not investment structures, every topic covered – including investment structures – includes some aspects of governance. For instance, a fund manager may have policies and procedures related to specific investment structures.
[3] Investment governance is different than corporate governance, the latter of which focuses on portfolio companies, and the former of which focuses on the governance of the investment institutions themselves.

The scope for this phase of the project did not include a deep dive into specific investment structures that are increasingly used as innovative approaches for private capital investors to deepen their impacts. For instance, various forms of permanent capital vehicles, worker ownership, community ownership, revenue based financing, and redeemable equity models are not considered in detail. While blended finance is also relevant to investment structure, it is covered in the accompanying *Investor Influence in Private Markets* white paper. In terms of governance, detailed questions on tying carried interest to social and environmental outcomes are not included given the early-stage nature of such practices. Draft disclosures may be more useful at a later stage once further research has been conducted on the topic.[4] PDI anticipates a deep-dive into these topics in a future phase of this project.

In total, this document includes nine topics for disclosure relating to investment structures and investment governance, including:

1. Compensation Ratios
2. Fees
3. Leverage
4. Sale Leasebacks
5. Tax
6. Lobbying and Political Spending
7. Anti-competitive Practices
8. Interventions to Support Long-term Sustainability
9. Stakeholder Engagement

Each topic includes several specific draft disclosures for further refining, piloting, and testing by investors. The disclosures are not intended to be prescriptive guidance and do not require use in their entirety to be piloted. Rather, this document is intended to serve as a reference from which investors can pick and choose disclosures relevant to their investment objectives and interpretation of fiduciary duty.[5]

Future rounds of consultation and co-creation on these draft disclosures are recommended and may best be facilitated by standard-setting or similar organizations that develop measurement and management frameworks. Additional input is necessary to assess the quality, integrity and

[4] For instance, see the Impact Linked Compensation Project at: https://impactlinked.co/

[5] For instance, if an asset owner or allocator determines that it is within its fiduciary duty to reduce negative externalities which can affect the health of human and natural systems – and therefore the economy, markets, and the investor's diversified portfolio – then these disclosures can provide helpful insights into assessing relevant impacts, dependencies, risks, and opportunities.

robustness of these disclosures - particularly their decision-usefulness and potential unintended negative consequences to avoid. Opportunities for further refinement documented from this phase of the project are included in the next section.

Putting the Disclosures into Practice – Opportunities and Challenges for Further Refinement

The questions in this document are designed for LPs to use as they see fit, depending on their respective investment strategies, goals, and capacities to gather and process the information. Below is feedback collected during this phase of the project on the draft disclosures' usefulness and practicality. While a significant amount of feedback was integrated into the draft disclosures in this document, the following points are outstanding for consideration:

- *Purpose of the data:*
    - The disclosures were designed both for impact investors, as well as other investors who may not identify as impact investors, but who are seeking to measure and manage systemic and systematic risks. However, some respondents highlighted that the following could benefit from further research and clearer explanation: (a) the pathways through which investment structures and governance practices impact stakeholders, and (b) the feedback loops through which those impacts then manifest as financial risks and opportunities in investor's diversified portfolios. Many LPs do not understand the negative impacts that can result in part due to decisions about investment structures and investment governance. More research and socialization are needed to educate investors – particularly trustees, board directors, chief investment officers, investment teams, and stewardship teams – about the value-add and decision usefulness of these disclosures. To the extent that some of the information requested is already collected by an LP's deal team, but not assessed in the context of social and environmental issues, guidance could be developed to support LP's deal teams and stewardship teams in coordinating and aligning on collection and use of data.
    - A future phase of work to support asset owners and allocators (in the context of private capital, LPs) in assessing their own influence on outcomes for people and the environment would help them make use of the disclosures proposed in this document. PDI manages other workstreams which support asset owners and allocators in evaluating their own investment governance models and financial analysis tools so that they can consider system-level factors in their structuring, pricing, and allocation of capital, as well as engagement with investees and fund managers.

- *Evaluation of data:* Guidance on "what good looks like" for each of the topics covered would be helpful. However, this would require developing consensus on such norms, taking into consideration various contexts and working alongside standard-setters. While this work was out of scope for this project, there may be opportunities to partner with organizations such as the United Nations Research Institute for Social Development to develop such guidance.

- *Procuring, standardizing, and analyzing the data:* A technology-based or alternative intelligence tool could gather the information in a standardized format and support LPs in analyzing the data, as well as GPs in producing the data efficiently. It could also be helpful to break down the disclosures more granularly into fund-level versus portfolio company level data.

- *Phased approach:* Some disclosures include tables with significant data requests. In the early stages of piloting disclosures, it may be helpful to focus on the text-based questions in each disclosure versus some of the tables, and then integrate the tables into reporting later.

- *Use of the data:*

  - Data could be used as an input into the initial public offering process or other exit scenarios. This may call for expansion of the disclosure topics to include considerations specific to exits.

  - Data could be used for both capital allocation and engagement decisions by LPs, as well as for collective action; and guidance would be helpful for different scenarios, particularly when considering lead or non-lead, majority or minority, controlling versus non-control investors.

  - The disclosures could be useful for the International Sustainability Standards Board (ISSB) and Global Reporting Initiative (GRI) in development of their own disclosures to assess financial institutions, as well as by the European Union's Sustainable Finance Reporting Directive (SFDR) and United Kingdom's Sustainable Finance Directive (SDR), among other initiatives underway.

- *Avoiding unintended negative consequences and poor outcomes:*

  - Efforts should be made to ensure the data cannot be easily "gamed" or result in unintended negative consequences.

  - The project should seek to avoid promoting disclosure for disclosure's sake. The disclosures should inform changes in practice.

- It would be helpful to look at examples of past disclosures which are perceived to have backfired, like CEO-to-worker pay ratios in the United States, given compensation ratios have grown despite the enhanced data availability. Understanding and controlling for these dynamics will contribute to this project's effectiveness.

- *Interoperability, harmonization, and alignment with existing standards:*
    - As this project moves forward, it should seek to align with, build from, and integrate as much as possible with leading disclosure tools – such as those of the Institutional Limited Partners Association (ILPA), ESG Data Convergence Initiative – and other private capital reporting mechanisms relating to positive and negative impacts and risks.
    - It could be helpful to see where alignment and collaboration is possible with other initiatives working on principles for responsible labor practices in private capital, such as the Labor Principles for Private Equity of the Private Equity Stakeholder Project (PESP) and guidance from the North American Buildings Trade Union.

- *Inclusive approach to co-creation of disclosures:* In general, the consultation and co-creation period included strong representation from asset owners and allocators, asset managers, service providers in the financial services community, civil society, labor advocates, and academics. However, there was relatively weaker participation levels from companies themselves. Some participants noted that companies often express concerns about investors' due diligence and reporting processes being too onerous, investors distorting investees' theories of change, potentially higher interest rates charged by impact investors, and lack of equity capital. In a future phase of engagement on these disclosures, it will be important to build stronger participation from the corporate community, across both large and small companies. Participation across geographies including Emerging Markets and Developing Economies (EMDEs) is also critical.

Format

The Proposed Disclosures are designed to cover various phases of the investment cycle, particularly due diligence, monitoring, and exit. Each topic and its corresponding disclosures are structured to include the following sections:

- *Context and Rationale* – Brief, high-level narrative summaries of the literature review and key takeaways from the co-creation and consultation process which informed each disclosure. Specific data upon which the summaries are based may be found in the files compiled in the Research and Resources database.[6]
- *Proposed Due Diligence Disclosures* – Questions that LPs can ask GPs during due diligence and/or prior to making a fund commitment.
- *Proposed Performance Disclosures* – Questions that LPs can ask GPs throughout and following the investment period. For ease of use, the monitoring and exit phases are grouped together in a single "Performance Phase," to be completed by GPs annually.
- *Additional Considerations* – Highlights additional considerations related to the disclosure topic and/or resources related to the topic at hand which were discussed in the consultation and co-creation process.

[6] The IC 2.0 team recommends that the *Context and Rationale* section for each disclosure be further fine-tuned in future phases of this project. Feedback received during the project highlighted that LPs may not be aware of how issues relating to investment structures and investment governance may contribute to positive or negative outcomes for stakeholders and system-level risks or opportunities. Significantly more time, resources, and effort would be required to comprehensively build out the *Research and Resources* database and extract the relevant data from it; for instance, through a meta-analysis. While such an extensive review was not possible within the scope of this project, the PDI team is looking into launching a separate initiative to map these "impact pathways" in collaboration with academic partners, as well as opportunities to draft case studies and other approaches to socialize these topics with both LPs and GPs.

Topics and Corresponding Disclosures

1. Compensation Ratios

Context and Rationale: Concern is growing about high executive compensation exacerbating socio-economic inequality globally. When wealth aggregates disproportionately to a few individuals, they are well-positioned to invest in assets such as real estate and equities, expanding valuation multiples to a point where barriers to entry for investment become higher for the less advantaged, and concentrating wealth further. Consolidated wealth can contribute to imbalanced power dynamics relating to societal influence and voice, via investment, philanthropic, and policy decisions. High pay ratios between executives and the average worker push the United Nations Sustainable Development Goal, SDG 10: Reduced Inequalities, further out of reach.[7]

In terms of systematic risk in financial markets and macroeconomic dynamics, there is rising evidence that socio-economic inequality can lead to secular stagnation, "debt traps," asset bubbles, polarization, and social instability. Literature (which may be found in the Research & Resources database) suggests that private capital fund manager compensation of the larger fund managers can be even higher than corporate executive compensation.

Strategies at the portfolio company level may include paying living wages to workers, narrowing executive-to-average-worker compensation ratios (including through distributions of equity ownership to non-executives), and/or investing in products and services for the underserved. However, if the rate of wealth of the fund manager grows at an exponentially faster rate than for workers in portfolio companies, the wealth gap can be expected to grow. Additionally, asset owners and allocators, as well as academic research, have highlighted the ways in which high fund manager compensation can lead to a significant transfer of wealth from pensioners to private capital fund manager executives. As such, even when private capital funds are integrating compensation ratio considerations into their portfolio company operations, large fund managers may systematically be growing economic inequality.

Proposed Due Diligence Disclosures:

A. Provide the GP's policy(ies), including targeted thresholds applicable for:

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[7] Goal 10 aims to reduce inequality within and among countries, and is one of the 17 sustainable development goals (SDG) set forth by the United Nations (UN) Department of Economic and Social Affairs. https://sdgs.un.org/goals/goal10

a. Compensation of portfolio company executives relative to the mean and median worker
b. Compensation of GP top executive relative to the mean and median worker across portfolio companies

B. For each compensation-related policy the GP has in place:
   a. Describe how long the policy has been in place and its date of last review/approval by leadership / governing body
   b. Describe any standard(s) adopted
   c. Describe how oversight of the policy is managed, including roles, responsibilities, training, reporting, and enforcement

C. If the GP does not have a policy, explain if the GP intends on developing a policy, including the anticipated:
   a. Standard(s) adopted
   b. How oversight of the policy will be managed
   c. The timeline for developing the policy

D. If the GP does not intend on developing the policies listed above, explain why.

E. Complete the below questions and table using data from your most recent vintage fund with a comparable strategy to the fund under diligence, using and specifying a single currency for compensation totals. If you do not have a previous fund with a comparable strategy, please specify this, and complete the below based on your expectations for the fund under diligence. Data should be based on average portfolio company performance across the fund's portfolio. Please include all forms of compensation for each type of role, including base salary and any performance-based compensation, specifying the valuation methodologies and estimates used for carry, option, and stock-based compensation in footnotes.

   1) Provide the name and vintage of the most recent fund referenced, or specify whether your responses refer to projections for a future fund
   2) Specify which types of corporate executives are included in this calculation by title
   3) Specify the mean and median compensation for the corporate executives (as a group) listed:
      a) Mean
      b) Median
   4) Specify which types of GP executives are included in this calculation by title
   5) Specify the mean and median compensation for the GP executives (as a group) listed:

a) Mean
b) Median

Table:

	Estimated at Avg. Portfolio Company (total number)		Estimated Mean Compensation		Estimated Median Compensation		Estimated Mean Corp. Exec. Comp. to Worker Ratio		Estimated Mean GP Exec. Comp. to Worker Ratio	
Workforce Type*	At Acquisition	Currently or at Exit**	At Acquisition	Currently or at Exit**	At Acquisition	Currently or at Exit**	At Acquisition	Currently or at Exit**	At Acquisition	Currently or at Exit**
Full-time										
Part-time										
Contingent / Contracted / Gig workers										

* Please exclude c-suite and comparable corporate executives from the Workforce Type.
** This wording is designed to accommodate GPs reporting for the most recent comparable fund, which may or may not yet be fully realized OR for GPs completing the table for the prospective fund under due diligence, using projections.

F. Provide any further commentary that would be helpful in assessing the GP's policies on compensation.

<u>Proposed Performance Disclosures:</u>

a. Please complete questions in section "E" above for the current invested fund.
b. Provide any changes to and violations of policies relating to compensation ratios during the reporting period in the below table. Please write "Not Applicable" if the GP does not have any relevant policies.

Policy	Description of Exception, Material Change, or Violation	Rationale (if applicable)	Potential Risks	Mitigating Actions Taken

Additional Considerations:

- Recognizing that fees and carried interest scale with assets under management (AUM), and that smaller fund managers often do not have sufficient resources from a traditional fee and carried interest structure, participants in the consultation and co-creation process generally agreed that there should there be a firm-level or fund-level AUM threshold under which this topic is not considered material. However, this threshold was not defined at this stage. The project team recommends that the threshold be determined through further consultation, co-creation, and piloting and testing of the disclosures. For first-time fund managers and strategies, it may not be realistic or practical to request completion of certain questions based on estimates or goals.

- The topic of pay ratios is context-specific. For fund managers investing internationally, participants shared views that compensation ratios should factor in the costs of living in different geographies. For instance, a moderately sized fund manager who is based in New York and investing in Lagos will likely have an outsized compensation ratio, even if portfolio company workers in Lagos are paid a relatively high wage within the context of that city and type of work. However, when the cost of living is factored in, the ratio would decrease.

- There was general agreement from consultation participants that living wage is a critical baseline. This did not detract from the topic of risks and negative outcomes related to wealth and income inequality. In developing countries, and even in developed countries, addressing poverty is often a first priority; but participants also acknowledged that narrowing wealth gaps helps to balance power dynamics, build agency amongst stakeholders, and reduce cycles of dependency. In developing countries, there is a delicate balance of being mindful of compensation ratios, while also not distracting from enhancing access to formal or secure employment and living wages (or equivalent for small business owner across geographies).

- It is important to ensure that the requested disclosure includes all forms of labor (full-time, part-time, contracted / outsourced / gig-work) as opposed to full-time and/or even just including part-time to avoid incentivizing reporting entities to outsource labor in an effort to improve their disclosed compensation ratios. On the other hand, a comparison of compensation between full-time executives and part-time or contingent labor may be difficult to analyze and use for decision-making.

- To capture context-based information, it may be helpful for GPs to report pay ratio data for each portfolio company, including a description of the primary geographies where each portfolio company operates.

- There may be resources on best practices at the company level suitable for analysis of a fund manager, including approaches that take geographic differentials relating to cost of living into account. For instance, significant work has been undertaken by As You Sow and shared in its annual report, The 100 Most Overpaid CEOs. This could be explored further in a future phase of this project.

- Additional questions that could be considered for this section include whether the GP is tying carried interest to social and environmental outcomes or instituting clawbacks for negative impacts.

- The important topic of employee ownership is recognized, but it is not included in this phase of the project's draft disclosures.

- One participant in the consultations noted that "*The focus on total quantum of compensation seems to miss a key part of the equation. There is evidence (cited by Edmans and others) to suggest that long-term equity-based compensation, even in very large amounts, has a net positive impact on society due to the economic benefit spillovers. Long-term compensation tied to the ongoing growth and success of the company seems very different from a golden parachute or one-time cash award.*"[8] This will need to be investigated further in a future phase of this work.

[8] For instance, see Executive Compensation: A Modern Primer (harvard.edu) Alex Edmans and Xavier Gabaix* Journal of Economic Literature 2016, 54(4), 1232–1287 http://dx.doi.org/10.1257/jel.20161153

2. Fees

Context and Rationale: Stakeholders, including companies, labor advocates, communities, consumers, and LPs have expressed concern about negative impacts from fees charged by GPs that are not explicitly disclosed at the time of a transaction. Evidence in the Resources and Research database points to the shifting of uncompensated risk and return to GPs' stakeholders due to this practice.

A review of case studies and academic literature highlights concerns about high fees charged to portfolio companies, which when combined with high leverage and asset stripping practices, can leave companies with weak financial positions and lack of ability to offer quality jobs and quality and affordable goods and services. A lack of financial resources may also inhibit companies from operating in environmentally responsible ways, although research to substantiate this possibility is not as well-developed as social impacts.

Unexpected fees are also noted to be of concern to LPs, given implications for reduced net returns, which can negatively impact asset owners such as pensioners.

Proposed Due Diligence Disclosures:

A. Provide the fund's reporting templates and policies on fees charged to:

   a. Portfolio companies
   b. LPs

   Reporting policies may cover the frequency of reporting, scope, and any principles adhered to in the practices of charging fees.

B. For each compensation policy the GP has in place, provide the policy, and describe:
   a. How long the policy has been in place, and its date of last review/approval by leadership / governing body
   b. Standard(s) adopted, if any
   c. How oversight of the policy is managed, including roles, responsibilities, training, reporting, and enforcement

C. If the GP does not have templates or a policy, explain if the GP intends on developing them, including the anticipated:

   a. Standard(s) adopted, if any

b. How oversight will be managed
c. The timeline for developing the templates and policy

D. If the GP does not intend on developing a policy, explain why.

E. Please provide the last completed reporting templates for the most recent vintage fund with a comparable strategy.

<u>Proposed Performance Disclosures</u>:

A. Provide the completed fee template for the reporting period (to assess fees against portfolio company financials and (projected) returns).

B. Provide any changes to and violations of policies relating to fees during the reporting period in the below table. Please write "Not Applicable" if the GP does not have any relevant policies.

Policy	Description of Exception, Material Change, or Violation	Rationale (if applicable)	Potential Risks	Mitigating Actions Taken

<u>Additional Considerations:</u>

This topic requests templates as opposed to providing them, assuming many LPs are already using the ILPA Reporting Template for fees, expenses and carried interest - or similar versions. Reference to existing templates and guidance reduces the reporting burden and enhances interoperability. However, fee transparency is often requested for LPs to be able to assess their net returns. Additional guidance may be helpful for LPs to assess potential negative impacts of certain fee practices on other stakeholders using this data.

3. Leverage

Context and Rationale: Stakeholders, including companies, labor advocates, communities, consumers, and LPs have expressed concern about negative impacts from high leverage ratios, such as deterioration of quality jobs and quality and affordable goods and services, as well as bankruptcies and other restructurings that can shift uncompensated risk to GPs' stakeholders. A lack of financial resources may also inhibit companies from operating in environmentally responsible ways, although research to substantiate this possibility is not as well-developed as social impacts. The use of significant amounts of leverage for dividend recapitalizations has come under particular scrutiny. Weak capital structures across companies may contribute to systemic and systematic risks related to social inequality and financial instability.

This disclosure may be most relevant to private equity as currently worded versus private debt or venture capital. However, the wording of the question could be modified to be tailored to private debt strategies. Additionally, while venture capital investments historically have not relied heavily on leverage, changing market dynamics recently have resulted in more venture-backed companies raising debt financing in the face of lower valuations. As such, questions about leverage may be appropriate in certain venture capital funds or transactions.

Proposed Due Diligence Disclosures

A. Does the GP have a stated policy and approach to leverage at the portfolio company level? If yes, provide the policy, and specify:

   a. How long the policy has been in place, and its date of last review/approval by leadership / governing body
   b. Leverage ratios that serve as thresholds (i.e., pre- versus post-closing debt to EBITDA) not to be breached except for special, specified circumstances
   c. Any standards adopted or referenced
   d. Protections for portfolio company workers' pensions in bankruptcies
   e. The procedure for approving exceptions to the defined thresholds, including an assessment of the portfolio company's ability to continue to offer quality jobs and quality and affordable goods and services, as well as maintain environmental commitments
   f. The procedure for calculating adjustments to EBITDA
   g. Restrictions on the uses of funds from debt financing (i.e., dividend recapitalizations)
   h. Whether carried interest is only charged on unlevered returns
   i. How oversight of the policy is managed, including roles, responsibilities, training, reporting, and enforcement

B. If the GP does not have a policy, procedures, or estimates, explain if the GP intends on developing them, including the anticipated:

a. Standard(s) adopted, if any
b. How oversight of the policy will be managed
c. The timeline for developing the policy

C. If the GP does not intend on developing a policy, explain why.

D. For the most recent vintage fund with a comparable strategy, please complete the following table:

Portfolio Company	Debt-to-equity Ratio		Debt-to-EBITDA Ratio			Dividend Recapitalizations			Credit Ratings		Has the company filed for bankruptcy or engaged in out-of-court restructurings during the holding period?	Number of defaults, covenant breaches, and/or equity cures Include one paragraph of each instance below the table.	Percentage of staff laid off or terminated during the investment period (adjusted for acquisitions)
	At acquisi-tion closing	Currently or if applicable at exit	Pre-acquisi-tion	Current debt to adjusted EBITDA (or at exit, if applicable)	Current debt to reported EBITDA (or at exit, if applicable)	#	Value	% of closing debt	Pre-acquisition	Post-acquisition			

Proposed Performance Disclosures:

A. Complete the above table for each portfolio company acquisition in the current invested fund.

B. Provide any changes to and violations of policies relating to the GP's approach to leverage during the reporting period in the below table. Please write "Not Applicable" if the GP does not have any relevant policies.

Policy	Description of Exception, Material Change, or Violation	Rationale (if applicable)	Potential Risks	Mitigating Actions Taken

Additional Considerations:

- Among the questions, the project team received feedback that charging carried interest only on unlevered returns is not a current practice, but that it could be interesting to raise awareness via these disclosures as a potential practice for investors to adopt.

- In the literature reviewed for this project, cost-cutting relating to quality jobs and quality and affordable goods and services is often attributed to high leverage levels, sometimes complemented by high fees charged to portfolio companies, as well as asset stripping. However, given that cost-cutting can also be a product of overpaying for an asset, there may be a case for including questions on this dynamics as these disclosures evolve.

4. Sale Leasebacks

Context and Rationale: This topic may only be relevant to the private equity asset class, particularly funds that pursue leveraged buyout strategies. Stakeholders, including companies, labor advocates, communities, consumers, and LPs have expressed concern about negative impacts from sale leasebacks and other activities involving the sale of a company's assets (known colloquially as "asset stripping" to those who are critical of the practice). Literature in the Research and Resources Database suggests that when combined with high fees charged to portfolio companies and/or leverage, sale leasebacks can leave companies with weak capital structures and lack of ability to offer quality jobs and quality and affordable goods and services. A lack of financial resources may also inhibit companies from operating in environmentally responsible ways, although research to substantiate this possibility is not as well-developed as social impacts. Weak capital structures across companies may contribute to systemic and systematic risks related to social inequality and financial instability.

As with all investor activities included in this template, sale leasebacks practices do not necessarily result in negative outcomes for end-stakeholders and the environment. As one participant in the consultations highlighted, *"sale-leasebacks aren't necessarily used for asset stripping. Sometimes they can be a completely neutral way of improving a company's capital structure."* A focus on risk management policies, improved data, and additional research can help LPs assess the context of these varying situations.

Proposed Due Diligence Disclosures:

A. Does the fund anticipate engaging in sale leasebacks of any portfolio company assets? If yes:
    a. What estimated percentage of the portfolio, in terms of both:
        i. Number of investments
        ii. AUM

B. Does the fund have policies and thresholds related to risk management of sale leasebacks, including reference to any protections for portfolio companies in place? If yes, provide the policy(ies) and describe:
    a. How long the policy has been in place, and its date of last review/approval by leadership / governing body
    b. Standard(s) adopted, if any
    c. How oversight of the policy is managed, including roles, responsibilities, training, reporting, and enforcement

C. If the GP does not have a policy or estimates, explain if the GP intends on developing a policy, including the anticipated:

a. Standard(s) adopted, if any
b. How oversight of the policy will be managed
c. The timeline for developing the policy

D. If the GP does not intend on developing a policy related to sale leasebacks, explain why.

E. For each portfolio company in the most recent vintage fund with a comparable strategy as the fund under due diligence, complete the following table. For companies without sale-leaseback agreements, complete the fields as "Not Applicable".

Portfolio Company	Value of Sale-leaseback agreements to PPE* at acquisition	Value of Sale-leaseback agreements to PPE at current time (or exit)	Total debt: PPE at the current time (or exit)	Percentage increase in expenditures resulting from the sale-leaseback agreement

*Property, plant, and equipment

<u>Proposed Performance Disclosures:</u>

A. Complete the same table from the Due Diligence Disclosures for each company in the current fund with figures from the reporting period.

B. Provide any changes to and violations of policies relating to sale-leasebacks during the reporting period in the below table. Write "Not Applicable" if the GP does not have any relevant policies.

Policy	Description of Exception, Material Change, or Violation	Rationale (if applicable)	Potential Risks	Mitigating Actions Taken

5. Tax

Context and Rationale: Globally, governments and stakeholders are growing concerned about tax avoidance. Tax havens collectively cost governments between $500 billion and $600 billion a year in lost corporate tax revenue through legal and dubious means.[9]

Taxes provide essential resources needed for governments to function, as well as to provide services and infrastructure shared by the commons. Particularly in developing countries and distressed communities, taxes are critical inputs to sustainable development. During the consultation phase for these disclosures, the project team heard that while progress is being made to measure and manage corporate tax responsibility in terms of disclosures to governments, less progress has been made on tax transparency disclosures to other stakeholders. Additionally, most existing guidance has focused on corporate disclosure, with few tools and little guidance for investor-level activity.

Proposed Due Diligence Disclosures:

A. Does the GP have a stated policy and approach to responsible tax structuring of funds and portfolio companies? If yes, please share these with reference to whether they are at the:
   a. GP level
   b. Fund level
   c. Portfolio company level

B. For each tax related policy that the GP has in place, provide the policy and specify:
   a. Any standard(s) adopted, including the minimum tax rate, definition of tax haven, and jurisdictions which fall under that definition
   b. Whether the fund has a stated objective to enhance the profitability of portfolio companies by engineering lower tax payments (applicable at fund level only)
   c. Any blacklisted countries in which the entity (e.g., fund, special purpose vehicles, and portfolio companies) may not operate and their tax rates
   d. The approach to fee and carry waivers (applicable at the fund level only)
   e. How long the policy has been in place, and its date of last review/approval by leadership / governing body

[9] https://www.imf.org/external/pubs/ft/wp/2015/wp15118.pdf

f. How oversight of the policy is managed, including roles, responsibilities, training, reporting, and enforcement

C. If the GP does not have a stated policy(ies) and approach to responsible tax structuring, explain if the GP intends on developing a policy, including the anticipated:

   a. Standard(s) adopted, if any, including the minimum tax rate
   b. Whether the fund has a stated objective to enhance the profitability of portfolio companies by engineering lower tax payments
   c. Any blacklisted countries in which the fund, special purpose vehicles, and portfolio companies may not operate and their tax rates
   d. Approach to fee and carry waivers
   e. How oversight of the policy will be managed
   f. Timeline for developing the policy

D. If the GP does not intend on developing a policy, explain why.

E. List any entities under the GP's control, including GP entities, which are domiciled in jurisdictions which have been defined as tax havens in the GP's policy. If the GP does not have a policy, list the information requested based on a third-party definition of tax havens, and specify which third-party source is referenced, including the minimum tax rate.

__Proposed Performance Disclosures__:

A. List any entities under the GP's control, including GP entities, which are domiciled in jurisdictions which have been defined as tax havens in the due diligence phase.

B. Provide any changes to and violations of policies relating to tax practices during the reporting period in the below table. Please write "Not Applicable" if the GP does not have any relevant policies.

Policy	Description of Exception, Material Change, or Violation	Rationale (if applicable)	Potential Risks	Mitigating Actions Taken

Additional Considerations:

Future work can modify corporate disclosure guidance to be applicable for investor-level disclosures. Acknowledging these constraints, investors may wish to refer to the following resources which provide more guidance on responsible tax practices:

- Tax Justice Network is a non-profit organization that provides research and analysis of tax abuse and recommendations to address these challenges. Their website contains research, country and industry profiles, and tools to help investors and other stakeholders navigate alternative, equality-focused tax policies.

- The Global Reporting Initiative's (GRI's) 207 Standard, has recommended disclosures on tax transparency.

- The Principles for Responsible Investment (PRI) has developed resources and guidance on responsible tax, which are primarily targeted at portfolio companies, but could potentially be further adapted for investor-level disclosures.

- The European Union has developed guidance on "non-cooperative jurisdictions for tax purposes" which lists countries which have failed to fulfill their commitments to comply with tax good governance, as well as other guidance aligned with the EU's work to fight tax evasion and avoidance.

- While there is not broad global consensus on what constitutes a tax haven, the B Team, a non-profit that advocates for economic systems change and new corporate norms, has developed *Responsible Tax Principles* which emphasize transparency, fairness, and accountability in corporate tax strategies and can be applied at the investor or portfolio company level globally.

6. Lobbying and Political Spending

Context and Rationale: Scrutiny is growing over private sector lobbying and political spend practices. Companies and investors can engage in lobbying and political spending that conflicts - whether knowingly or not – with their stated environmental and social objectives, and in ways that result in negative impacts and/or systemic and systematic risks.

Proposed Due Diligence Disclosures:

A. Does the GP have a policy and approach to responsible lobbying and political spend that prohibits conflicts with the firm's stated mission, goals, and objectives?

B. For each lobbying and political spend policy the GP has in place, provide the policy(ies) and describe:
   a. The scope (e.g., inclusion of the GP and/or controlled entities, as well as whether the policy(ies) include consideration of trade associations of which the GP or its controlled entities are a member)
   b. How long the policy(ies) has (have) been in place, and date of last review/approval by leadership / governing body
   c. Standard(s) adopted, if any
   d. How oversight of the policy(ies) is (are) managed, including roles, responsibilities, training, reporting, and enforcement

C. If the GP does not have a policy and procedures, explain if the GP intends on developing them, including the anticipated:
   a. Standard(s) adopted and scope, covering details as described above
   b. How oversight of the policy will be managed
   c. The timeline for developing the policy

D. If the GP does not intend on developing a policy, explain why.

E. Include a report detailing the GP's, its controlled entities', and trade associations' (of which the GP and its controlled entities are a member) lobbying and political spend activities for the prior year.

Proposed Performance Disclosures:

A. Include a report detailing the GP's, its controlled entities', and trade associations' (of which the GP and its controlled entities are a member) lobbying and political spend activities for the prior year.

B. Provide any changes to and violations of policies relating to responsible political conduct during the reporting period using the below table. Please write "Not Applicable" if the GP does not have any relevant policies.

Policy	Description of Exception, Material Change, or Violation	Rationale (if applicable)	Potential Risks	Mitigating Actions Taken

Additional Considerations:

- Questions arose during the consultation and co-creation period about whether lobbying, at least in certain forms, could also be considered part of thought leadership and advocacy. For instance, suggestions have been made that investors who are focused on sustainability, positive impact, and a reduction of systemic or systematic risks should seek to influence public policy in alignment with such efforts. The questions in this section could potentially be used by LPs to understand such practices of GPs in addition to misaligned activities.

- Investors may wish to refer to the following resources which provide more guidance on lobbying and political spending and which may be adapted for use at the fund manager level:
  - UNPRI has produced research and guidance on this topic highlighting the potential risks and recommended investor actions, including their report *The Investor Case for Responsible Political Engagement*.
  - The International Corporate Governance Network (ICGN), a network of institutional investors promoting effective standards of corporate governance and investor stewardship, present principles and guidance for investors' engagement on this topic in their report *Political Lobbying and Donations*.

- The United Nations Global Compact's *Towards Responsible Lobbying* report provides a six-step diagram to help companies identify if their lobbying practices are being conducted responsibly.

- The *Responsible Lobbying Framework*, developed by a multi-stakeholder working group, identifies globally applicable principles and standards of responsible lobbying and can be used as an evaluation tool of a specific organization's lobbying activities and practices.

- The Center for Political Accountability and The Wharton School's Zicklin Center for Business Ethics Research produced a *Model Code of Conduct for Corporate Political Spending* which provides a framework to guide not only companies' political spending, but also their assessment of its impact and related ethical and societal considerations.

- The University of Michigan's Erb Institute on Corporate Political Responsibility offers an actionable, non-partisan template to help companies determine whether and how to engage in civic and political affairs responsibly.

7. Anti-competitive Practices

Context and Rationale: Several dynamics relating to anti-competitive practices and industry consolidation have been identified in the literature review. Roll-ups comprise a growing share of portfolio company acquisitions, often involving geographic market concentration. While a certain degree of industry consolidation is natural and can be beneficial, negative systemic impacts from excess market concentration were identified in the literature review, including reduced consumer welfare, monopsony dynamics in labor markets, lack of diversification in financial markets, procyclical market behavior that can result in inflated asset prices and credit crises, and reduced innovation and dynamism in the economy. Mergers and acquisitions may also result in significant job losses. Finally, various practices at the GP firm-level and portfolio company-level can contribute to anti-competitive behavior, including the use of non-competes and the existence of interlocking directorates.

Note - This topic may apply more to private equity and venture capital asset classes versus private debt.

Proposed Due Diligence Disclosures:

A. Has the GP or its controlled entities been subject to a prior regulatory antitrust investigation? [10]
    a. If so, under what circumstances?
    b. Is (are) the entity(ies) subject to a consent decree(s)?

B. Does the GP have a stated policy(ies) to:
    a. Add-ons or roll-ups that limit market concentration to a certain threshold for a given region
        i. If other parameters are used to limit market concentration, list them here
    b. The use or prohibition of non-competes at the firm and portfolio company levels
    c. Interlocking directorates at the portfolio company level

C. For each policy the GP has in place, provide the policy(ies) and describe:
    a. How long the policy has been in place, and its date of last review/approval by leadership / governing body
    b. Standard(s) adopted, if any

[10] Antitrust investigation is a broad term used to describe inquiries into potential violations of competition laws. It can cover market competition inquires, fair competition examinations, monopoly regulation review and market behavior assessment among other inquiries related legal examination conducted by government authorities or regulatory agencies to determine whether there have been violations of antitrust laws.

c. How oversight of the policy is managed, including roles, responsibilities, training, reporting, and enforcement

D. If the GP does not have the above policies and procedures explain if the GP intends on developing them, including the anticipated:
   a. Standard(s) adopted, if any
   b. How oversight of the policies will be managed
   c. The timeline for developing the policies

E. If the GP does not intend on developing relevant policies, explain why.

F. In the GP's most recent vintage fund with a comparable strategy, provide the average, median, and maximum number of acquisitions that portfolio companies made.

G. In the GP's most recent vintage fund with a comparable strategy, please complete the below table for each portfolio company acquisition:

Portfolio Company	Part of an Add-on or Roll-up Strategy? (Y/N)	Staff at Acquisition			Staff Currently, or at Exit (as applicable)			Number Laid-off / Redundant During the Investment Period		
		F/T	P/T	Temp/ Cont	F/T	P/T	Temp/Cont	F/T	P/T	Temp/Cont

Notes: 1) Y/N = yes or no; 2) F/T = full-time employees and workers; 3) P/T = part-time employees and workers; 4) Temp/Cont = temporary or contingent workers; 5) Please complete the table using absolute numbers.

Proposed Performance Disclosures:

A. Provide the average, median, and maximum number of acquisitions that portfolio companies have made to date.

B. Please complete the table in part "G" above for the current fund.

C. Provide any changes to and violations of policies relating to anti-competitive practices during the reporting period in the below table. Please write "Not Applicable" if the GP does not have any relevant policies.

Policy	Description of Exception, Material Change, or Violation	Rationale (if applicable)	Potential Risks	Mitigating Actions Taken

Additional considerations:

- There may be value in establishing a firm-level or fund-level AUM threshold under which this topic is not considered material.
- Another related topic identified as part of the co-creation and consultation process was capital concentration amongst large fund managers relative to smaller and emerging fund managers. This is a topic particularly relevant to practices at the LP level – perhaps more than at the GP level – as such, we anticipate covering this more extensively in a future phase of this project.

8. Interventions to Support Long-term Sustainability

Context and Rationale: In private equity and venture capital, ten-year closed-end funds may restrict sustainable investment strategies for opportunities that take longer to mature or materialize. For instance, certain new innovations or infrastructure may require longer investment periods, investments in a company's workforce may take a longer period to pay off, or investments in less developed markets may have a slower growth trajectory.

In both private equity and venture capital, valuation methodologies can be prioritized that emphasize time-value-of-money elements, such as internal rate of return (IRR), which may have inherent tensions with long-term sustainability. In venture capital, the expected growth trajectory may push companies to grow too quickly (for instance, via the practice of "blitzscaling"), to the point where they cannot fulfill commitments to long-term sustainability.

Users of this disclosure should consider whether this topic is relevant to all three sub-asset classes in focus (private equity, private debt, and venture capital).

Proposed Due Diligence Disclosures:

A. List and describe any interventions the GP is taking to promote long-term sustainability. Descriptions should also include any efforts undertaken to avoid unintended negative consequences of certain interventions.

Intervention	Implementing? Y/N	How the Intervention Supports Long-term Sustainability	Potential Risks or Unintended Negative Consequences of the Intervention	Controls Implemented to Manage Risks and Unintended Negative Consequences
Holding periods of investments are planned to be longer than industry average				
Promoting use of valuation methodologies that do not include time value of money (e.g., Total Value Paid In (TVPI) or Multiple on Invested Capital (MOIC)) in addition to IRR				

Intervention	Implementing? Y/N	How the Intervention Supports Long-term Sustainability	Potential Risks or Unintended Negative Consequences of the Intervention	Controls Implemented to Manage Risks and Unintended Negative Consequences
Carry or other forms of compensation are tied to long-term outcomes				
Investment structure allows for more balanced pace of growth (e.g., revenue-based financing, redeemable equity)				
Other…				

__Proposed Performance Disclosures:__

A. Complete the following table for any relevant interventions undertaken, reflecting:

Intervention	Description of the Intervention	Whether the Intervention was at the Fund-level or Portfoio Company-level (and number of Portfolio Companies)	Positive Impacts, Including Evidence of the Causal Relationship	Unintended Negative Consequences, Causal Relationship, and Response Taken
Holding periods of investments are planned to be longer than industry average				
Promoting use of valuation methodologies that do not include time value of money (e.g., TVPI or MOIC) in addition to IRR				
Carry or other forms of compensation are tied to long-term outcomes				

Intervention	Description of the Intervention	Whether the Intervention was at the Fund-level or Portfoio Company-level (and number of Portfolio Companies)	Positive Impacts, Including Evidence of the Causal Relationship	Unintended Negative Consequences, Causal Relationship, and Response Taken
Investment structure allows for more balanced pace of growth (e.g., revenue-based financing, redeemable equity)				
Other…				

B. Complete the below table to summarize changes or exceptions to the relevant policy(ies), as well as known violations of the policy(ies) during the reporting period. Please write “Not Applicable” if the GP does not have any relevant policies.

Policy	Description of Exception, Material Change, or Violation	Rationale (if applicable)	Potential Risks	Mitigating Actions Taken

Additional Considerations:

- For venture capital, future disclosures could include a question about emphasis on profitability versus revenue growth, or other metrics versus revenue growth.

9. Stakeholder Engagement

Context and Rationale: There is mounting evidence that stakeholder engagement – including engagement of workers and communities affected by investments – can be an important tool for investors and companies to understand risks and manage potential negative impacts associated with potential and current investments. Stakeholder engagement is a best practice referenced by the International Finance Corporation's (IFC) Performance Standards on Environmental and Social Sustainability, as well as the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the United Nations Guiding Principles (UNGPs).

Effective stakeholder engagement can help investors and companies identify (and therefore manage) potential negative impacts. These practices can also help investors stay ahead of the curve on issues that, through the concept of "dynamic materiality," are becoming risks to enterprise value, or that could aggregate to the point of contributing to systemic or systematic risks in the economy/markets.[11] Many of the topics covered in the *Investor Influence in Private Markets* project have been sourced through stakeholder engagement.

Proposed Due Diligence Disclosures:

A. Does the GP have:
   a. A policy on stakeholder engagement at the GP level which includes engagement of workers and communities affected by its practices and investments? If yes, does that policy:
      i. Engage affected stakeholders as part of strategy development at the fund level;
      ii. Assess positive and negative impacts prior to undertaking an investment;
      iii. Communicate impacts and systemic/systematic risks publicly; and
      iv. Integrate stakeholder feedback into investment decision making?
   b. A policy committing to public transparency on beneficial ownership of all controlled entities, including at the GP and portfolio company levels?
   c. A policy against use of forced arbitration in employment contracts?
   d. A grievance mechanism available to all stakeholders, designed according to best practices?

B. Does the GP have:

[11] For further reference on this practice, PDI and Oxfam America recently published a paper on this topic…

a. A policy on stakeholder engagement at the portfolio company level? If yes, does that policy:
    i. Require portfolio companies to communicate impacts and systemic/systematic risks publicly; and
    ii. Integrate stakeholder feedback into investment decision making?
b. A policy committing portfolio companies to public transparency on beneficial ownership?
c. A policy against the use of forced arbitration in portfolio company employment contracts?
d. Requirements for portfolio companies to have grievance mechanisms for all stakeholders designed according to best practices?

C. For each stakeholder engagement policy the GP has in place, provide the policy(ies) and describe:
    a. How long the policy has been in place, and its date of last review/approval by leadership / governing body
    b. Standard(s) adopted, if any
    c. How oversight of the policy is managed, including roles, responsibilities, training, reporting, and enforcement

D. If the GP does not have these policies and mechanisms, explain if the GP intends on developing them, including the anticipated:
    a. Standard(s), if any
    b. How oversight of the policy will be managed
    c. The timeline for developing them

E. If the GP does not intend on developing the relevant policies and mechanisms, explain why.

Proposed Performance Disclosures:

A. Provide the grievance log for this reporting period, reflecting material grievances at the fund manager level and portfolio company level, and explain how material grievances are defined and identified.

B. Complete the below table to summarize changes or exceptions to the stakeholder engagement policies, as well as known violations of the policies during the reporting period. Please write "Not Applicable" if the GP does not have any relevant policies.

Policy	Description of Exception, Material Change, or Violation	Rationale (if applicable)	Potential Risks	Mitigating Actions Taken

Additional Considerations

- Beneficial ownership transparency means that the ultimate owners of an entity – i.e., the natural persons who control an entity possibly through a web of different companies, trusts, foundations or other entities – are disclosed through a central public registry.

- A grievance mechanism is a formal complaint process that can be used by individuals, workers, communities and/or civil society organizations who are negatively affected by certain business activities. Resources related to grievance mechanisms include:
  - Green Climate Fund's Independent Redress and Accountability Mechanism (GRAM)
  - International Finance Corporation's Compliance Advisor Ombudsman (CAO) Grievance Mechanism Toolkit
  - UN Office of the High Commissioner for Human Rights - Meeting the UNGPs Effectiveness Criteria for Grievance Mechanisms
  - The Australia and New Zealand Banking Group Limited (ANZ) is a multinational banking and financial services company, which aligns to the UN Guiding Principles (UNGPs) and whose website contains information on their grievance mechanism for addressing negative impacts that may arise from their investments and corporate lending. This may serve as an example for other financial institutions such as fund managers.

- Forced arbitration is a legal mechanism that requires individuals or employees to resolve disputes with a private sector entity through arbitration instead of going to court and typically involves clauses in contracts (such as employment agreements or consumer contracts) that mandate arbitration as the exclusive method for dispute resolution. The concern with forced arbitration is that it can undermine individuals' access to justice, limit their legal rights, and potentially allow the private sector entity to avoid accountability for wrongdoing.