

How an impact firm reports ESG data to LPs

Daniele Gatti, CFO at Ambianta, shares his insight on ESG reporting at a firm focused on positive environmental impact.

Philippa Kent

Ambianta is a €1.2 billion AUM growth-buyout firm based in Milan, Italy, and has invested in 33 mid-market businesses since 2007. The firm exclusively invests in businesses "whose products or services generate a resource efficiency or pollution control impact," and where the impact is "at the origin of growth, uncontroverted, measurable and material," according to the firm's website.

We spoke with CFO Daniele Gatti about what environmental, social and governance - ESG - data its LPs are looking for and how Ambianta reports it to them.

How does Ambianta report on ESG to LPs?

At Ambianta we separate environmental impact from ESG, because the first refers to our investment strategy while the second is a management best practice, and we report to LPs on both. We developed "Environmental Impact Analysis," a proprietary methodology that we use to measure the environmental impact of our portfolio on 11 environmental metrics. For ESG management, we developed the "ESG in Action" program to create value and manage risks in our daily operations and at portfolio level. Both methodologies have become industry references and are recognized by industry participants.

We report environmental impact to LPs once a year, company by company, and we report ESG progress to LPs on both a quarterly and annual basis. As part of the quarterly reporting process, we describe achievements in the sustainability and ESG space at GP and at portfolio level. As part of the Q4 quarterly report, we include a detailed company-by-company section called "ESG achievements," and we describe our sustainability and ESG-related matters in an annual "ESG & Environmental Impact Report." We also use LP-developed templates in instances where there is one they require us to use in inbound enquiries.

What data are used to measure ESG performance in portfolio companies?

We monitor specific portfolio company KPIs as part of our "ESG in Action" program. This provides us with an understanding of our effectiveness in delegating to management teams the integration of ESG guidelines in their operating practices. Portfolio company KPIs are selected following pre-investment

ESG due diligence and materiality analysis, which provide the foundation to identify the most material risks for each company.

Where possible, we define a KPI for each ESG issue identified, which will be used by the management team and ESG team to monitor progress and report achievements. The final list of KPIs is included in the "ESG Action Plan," a document that enables us to engage management in ESG conscious practices, and delegate accountability to support processes and practices in line with our framework.

Both cross-portfolio and portfolio company KPIs are monitored and reported to the board on a monthly basis and shared with LPs on a quarterly as well as annual basis, as previously described.

In addition to specific KPIs, we encourage companies to select a mix of preventative (voluntary and mandatory certifications) or remedial (ad hoc) actions for each material risk identified as part of the materiality analysis, which we require each company to perform as part of the "ESG in Action" program. Since 2019 we've also required Ambienta III portfolio companies to run a third-party carbon footprint analysis to evaluate the greenhouse gas emissions caused by the operations of each portfolio company and create a baseline to benchmark future performance.

Do all LPs want to see generic data on ESG or are reports tailored?

Despite growing consensus that the integration of relevant ESG factors into company value creation models and corporate reporting is key to long-term business success, a single, globally accepted set of standards for reporting ESG information does not currently exist. For this reason, we developed our own reporting system. When we receive an inbound enquiry from an LP, the data we report typically includes a variety of factors, from generic information at GP level, such as ESG practices, to more specific information at portfolio level, such as policies approved or progress against specific ESG indicators for each portfolio company.

Do you use any specific consultants or software for ESG?

We use specific consultants to perform a pre-acquisition ESG due diligence, which helps us identify and address material ESG risks and opportunities, both prior to investment and during the ownership period. We also use them for a carbon footprint analysis on business operations of each portfolio company for the relevant reporting year.

Do the LPs have different elements of ESG that they want reported?

The data we report to LPs include a variety of factors from more general achievements at GP level, to specific actions completed at portfolio level. However, as a standardized, globally accepted ESG reporting system does not currently exist, we occasionally receive LP generated requests that we try and accommodate by following the proposed format.