

Partners Group

Using SASB Standards and complementary tools in private equity

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Introduction

Partners Group is a global private markets investment manager committed to integrating ESG into investment due diligence and active ownership on behalf of its clients. We believe that ESG strengthens our investment approach by identifying material risks and value creation opportunities that could otherwise be overlooked without an ESG lens. Partners Group has developed an industry-leading approach to responsible investment, which takes into account industry ESG standards and principles, such as those outlined by SASB, and the UN Principles for Responsible Investment (PRI). When we seek to achieve positive impact through a company's product or services, we align our unique strategy with principles from the Impact Management Project (IMP) and the United Nations Sustainable Development Goals (SDGs) to achieve meaningful outcomes. Our consistent achievement of A+ ratings from UN PRI over the last six years speaks to the rigor of our responsible investment approach. We support our peers in adopting these standards and frameworks by sharing how we apply them in our investment process. In this way, we hope to promote greater transparency and comparability in ESG and impact integration across the industry.

This case study outlines how Partners Group navigates the ESG ecosystem, and how our approach has been shaped by key principles, frameworks, and industry standards shaping responsible investment, ESG, and impact integration. To demonstrate the practical application of these concepts, the case study examines our direct equity investment in EyeCare Partners, the largest vertically integrated medical vision services provider in the US, which we acquired in December 2019 on behalf of our clients. While this case study will focus specifically on SASB, UN PRI, IMP, and the UN SDGs, the Task Force on Climate-related Financial Disclosures (TCFD) framework is also an important tool in our ESG toolbox. As an eyecare services platform, climate change is not a

high-materiality consideration for EyeCare Partners, however, the TCFD framework has helped to shape our broader climate change strategy, which is especially relevant for our industrial and infrastructure investments.

Due Diligence

PRI's Principle 1 calls for investors to "incorporate ESG issues into investment analysis and decision-making processes." This principle is demonstrated by the ESG integration in Partners Group's due diligence processes across our four asset classes. This case study focuses primarily on ESG integration in our direct equity investments; however, we also use PRI resources when we adapt our ESG due diligence approach to the nuances of each asset class. For example, for primary and secondaries investments, our Due Diligence Questionnaire for investment managers is compliant with UN PRI's Principles. We also engage with UN PRI to maximize our ESG integration in debt investments.

To put PRI's Principle 1 into action, SASB Standards are useful when identifying material ESG considerations. Specifically, Partners Group has developed a proprietary ESG assessment tool employed by investment teams across our private equity, infrastructure, real estate, and debt investment teams. Using SASB Standards, the tool identifies the most material ESG topics for a target investment by automatically flagging the most relevant SASB disclosure topics and metrics based on the target's industry and sector. Investment teams use these SASB disclosure topics and metrics as a roadmap for ESG due diligence.

The due diligence process for Partners Group's investment in EyeCare Partners demonstrates how this tool works in practice for direct equity investments. EyeCare Partners is the largest vertically integrated medical vision services provider in the United States. Under SASB's classification, the company falls

Figure 1: Example ESG Due Diligence Considerations for EyeCare Partners based on SASB Standards

Issue Category	SASB Disclosure Topic	SASB Accounting Metric
Data Security	Patient Privacy & Electronic Health Records	Number of data breaches, percentage involving personally identifiable information, and number of customers affected in each category
Employee Engagement, Diversity & Inclusion	Employee Recruitment, Development & Retention	Voluntary and involuntary turnover rate for employees
Selling Practices & Product Labeling	Pricing & Billing Transparency	Description of policies or initiatives to ensure that patients are adequately informed about price before undergoing a procedure

To view SASB's Health Care Delivery Standards and see a quick snapshot of SASB's other industry standards, the [Materiality Map](#) is a useful starting place.

within the healthcare sector and healthcare delivery industry. Based on SASB Standards for this industry, our ESG assessment tool flagged the most material SASB disclosure topics for the company, such as patient privacy, employee retention, and pricing transparency.

Guided by these disclosure topics, our investment team worked with an external ESG due diligence provider to evaluate EyeCare Partners' performance by collecting data on specific SASB metrics tied to each disclosure topic. This data helped the investment team to form a view on ESG risks and value creation opportunities, which they outlined in the investment memo for consideration by Partners Group's Global Investment Committee. Specific examples of the key SASB disclosure topics and associated metrics reviewed during due diligence are outlined in Figure 1.

Active Ownership

Post-acquisition, Partners Group's approach to ESG integration is aligned with UN PRI Principle 2, to be "active owners and incorporate ESG issues in . . . ownership policies and practices." For Partners Group, this means systematically identifying and executing strategic, KPI-linked ESG value creation and protection opportunities for all direct lead investments. As in due diligence, we use SASB's Standards to operationalize UN PRI's Principle 2 during ownership.

For example, during due diligence, we identified two high-priority ESG topics for EyeCare Partners: (1) employee recruitment, development, and retention and (2) data security. During ownership, Partners Group's ESG & Sustainability team will work closely with our investment and Industry Value Creation teams, and in partnership with company management, to strengthen performance on these topics. We have already begun the process of onboarding management to our ESG approach, identifying opportunities for action, and executing quick wins. For example, we have implemented an upgraded HR Information System and are working closely with management on a broader effort to enhance employee benefits to increase retention.

To make the case to management teams for prioritizing ESG, we leverage SASB's mapping to financial impact channels, combined with model projects from similar portfolio companies, to demonstrate how these ESG issues can create or protect value for the company. Specifically, SASB topics include direct ties to income statement, cash flow and balance sheet factors for companies. This evidence-based determination helps reveal specific value creation and protection levers available through management of ESG issues likely to affect financial or operating performance. This content is a factor in helping Partners Group identify and explain to management teams exactly how specific ESG issues can impact financial performance.

Figure 2. Channels of Financial Impact for Employee Recruitment, Development & Retention in the Health Care Delivery Industry

Revenue			Operating Expenses		Non-Operating Expenses		Assets		Liabilities		Risk Profile	
Market Share	New Markets	Pricing Power	Cost of Revenue	R&D	CapEx	Extraordinary Expenses	Tangible Assets	Intangible Assets	Contingent Liabilities & Provisions	Pension & Other Liabilities	Cost of Capital	Industry Divestment Risk
■		■	■					■				

■ High Impact ■ Medium Impact

As discussed, employee recruitment, development, and retention is an ESG priority for EyeCare Partners. SASB's evidence indicates that, for healthcare delivery companies, performance on this topic can directly impact four financial drivers: (1) cost of revenue; (2) market share; (3) pricing power; and (4) intangible assets. (See figure 2.)

To support these insights from SASB, Partners Group can draw on case studies from our existing portfolio to demonstrate why this ESG topic matters to the company. For example, we have a majority investment in a UK-based healthcare delivery company called Voyage Care, which has been working on employee recruitment, development, and retention since 2018. Projects and metrics related to this topic have been incorporated into the objectives for Voyage's Executive Committee and Senior Team. These include improving employee rewards and benefits, enhancing initiatives around employee health and wellbeing, reviewing and updating Voyage's learning and development curriculum, and conducting the company's first employee engagement survey. To measure Voyage's progress, Partners Group tracks employee turnover, one of SASB's key metrics for this topic. From 2018 to 2019, Voyage decreased its employee turnover rate by 2 percentage points, which directly impacts recruitment and training costs and productivity levels.

Using Voyage as a model, we will work with EyeCare Partners to implement similar projects that will drive progress on this topic. The primary goal of this work will be to achieve material improvement during our ownership period. SASB's Standards will help us to measure this improvement and articulate how EyeCare Partners has become a more valuable asset by managing key ESG issues.

SDG Alignment

Partners Group also uses key principles and frameworks in its strategy that aim to achieve impact beyond ESG integration. PG LIFE, our "impact-at-scale" investment strategy, has a dual mission of achieving attractive financial returns along with positive impact. The IMP principles contribute to our impact assessment methodology. We also incorporated the UN SDGs to shape our impact goals and believe SASB tools can support firms with their ongoing impact measurement and management.

The goal of PG LIFE is to invest in companies whose core products and services contribute to the achievement of the SDGs. This strategy relies on our proprietary impact assessment methodology, which assembles data and evidence to demonstrate how a particular investment's core business model drives impact on a specific SDG target. To determine the strength of this impact, our methodology employs the IMP's five dimensions to outline the "What," "Who," and "How Much" of the potential impact, as well as define PG's contribution to impact and identify any risks to achieving it.

EyeCare Partners is a recent PG LIFE investment and an example of how Partners Group assesses SDG-alignment for PG LIFE candidates during due diligence. EyeCare Partners provides essential ophthalmology services, primarily to elderly patients who access services through Medicare. Our PG LIFE impact assessment for EyeCare Partners focused on determining the extent to which these core healthcare services contribute to SDG target 3.8, to "achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all."

Our impact assessment focused on two key considerations to determine EyeCare Partners' alignment with SDG 3.8: (1) service quality and safety and (2) access and affordability. To understand the company's performance on these topics, we examined data on access to care for low-income (Medicaid/Medicare) patients and patient satisfaction scores. This data provided evidence of EyeCare Partners' likely contribution to SDG 3.8, given the proportion of Medicare and Medicaid patients accessing critical ophthalmology services (representing more than half of patient visits), along with EyeCare Partners' strong patient satisfaction scores (including a Net Promoter Score well above industry average, as of the end of 2019).

In addition to assessing impact potential during due diligence, Partners Group seeks to actively measure and manage the impact of PG LIFE investments during ownership. The SASB Standards are useful for monitoring this impact on an ongoing basis. For example, SASB has mapped its Standards to the SDGs to identify how companies' operating activities link to the goals. Specifically, SASB has developed an SDG mapping tool that identifies connections between financially material ESG disclosure topics and SDG targets. For target 3.8, two important SASB disclosure topics are service quality and safety and access and affordability. Partners Group will continue to monitor these topics for EyeCare Partners, in order to assess the company's ongoing SDG contribution, disclose impact performance to PG LIFE investors, and identify levers to scale impact during ownership.

Conclusion

This case study demonstrates how ESG standards and frameworks can be used during the investment process, from defining a firm's commitment to responsible investment to shaping the ESG due diligence process to measuring performance and impact during ownership. Our approach is one example of how private equity investors can adapt these standards, frameworks, and principles to complement their specific responsible investment strategies. Whatever approach investors take, the first step in using these tools is to understand what each offers before incorporating them into the relevant investment activities.