



ESG Due Diligence Fortress Model



Responsible investment- What is ESG?

The rise of Responsible Investment (RI) has not gone unnoticed among private equity investors. Specifically, Environmental, Social and Governance (ESG) aspects of organizational performance is becoming a focal point for investors. ESG management is being used to not only manage assets in a responsible manner but also help improve equity valuations. However, the emergence of ESG investing has also brought with it, a multitude of definitions, frameworks and investment strategies –so what do we mean by ESG investing? Simply put –ESG has become an umbrella term for investors, and corporates, to identify non-financial aspects that may pose both financial risk and opportunity. ESG provides the lens to analyze aspects that traditional financial analysis may have overlooked.



Furthermore, ESG has provided investors with a structured means to identify future trends and risks on potential target investments. Yet, also offers an inward spotlight on current portfolio hygiene factors. For example, portfolio companies which may be prone to high carbon emissions may be exposed to not only higher carbon taxes in coming years but may also lower the commercial attractiveness towards potential buyers on exit.

However, those same companies which are able to identify the risk early and begin to mitigate the risk through innovative measures and strategies, can take on the advantage of being a high performer in relation to their sector peers. Thus, providing investors with a better alternative compared to other potential investments with poor ESG performance. Yet more importantly, good ESG performance demonstrates a company's ability to innovate and adapt to future trends and stakeholder demands.

ESG aspects, by definition, are broad. What is important to understand, is the connection each aspect has to financial materiality. In essence, the multitude of ESG risks and opportunities which exist, need to be narrowed down to which aspects have the ability to create or destroy value over the short, medium and long-term.

Considering ESG has become an integral part of fund-raising agreements and General Partner's (GP) investment strategies, ESG Due Diligence (DD) has also become a standardized section within transaction work streams. Historically, ESG DD has been heavily

focused on compliance and possible risk aspects. However, in recent years GPs are increasingly including value creation opportunity within the assessments. Moreover, ESG has become a staple part of Investment Committees' (IC) discussions. It is uncommon that the IC includes a specific ESG position, yet in many cases, IC members are all expected to have a satisfactory understanding on ESG investing aspects. Lastly, ESG aspects impact investments decisions. There are numerous examples when an identified ESG risk was too high, leading to a non-invest.



Connecting long-term shareholder value to ESG risk and strategy – our proposition

What? We provide you with a third-party evaluation using Grant Thornton's ESG Fortress Model. Specifically, we assess ESG (Environmental, Social & Governance) aspects that are concerned with strategic optimization, competitive advantage, material risk, compliance, and internal control processes.

We apply our knowledge and strong capabilities of ESG due diligence to help you develop an effective approach to the management ESG factors, where an investor is planning to hold a majority shareholding. The scope of our ESG due diligence work will be tailored to reflect the material ESG issues inherent to the specific target company.

Why? The reporting and monitoring of ESG issues within investment decision-making are increasingly demanded by investors and some of the new

legislations by the SA Government. However, it pays to capitalize on the value that can be found through more strategic ESG management and avoid lower valuations of portfolio companies.

SNG Grant Thornton's Value - The majority of ESG Due Diligence services tend to be compliance focused, generalized, and have basic support for post-transaction strategic work. Built upon international frameworks, Grant Thornton's ESG Fortress Model offers customized company evaluations that are based on ESG issues found within all levels of a company's structure. This builds a more holistic evaluation by displaying the strengths and weaknesses of ESG integration into a firm's strategy. We provide support throughout the entire investment lifecycle for both investor and company management.



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Our premium evaluations

- 1. ESG Fortress Model** - Due diligence for M&A, portfolio health-check, post-transaction, vendor assistance and exit-readiness
- 2. Structured risk materiality assessment** - tested and proven financial materiality for company specific ESG issues
- 3. Strategic assessment** - board level and executive committee assessment, risk handling, long-term objectives regarding material ESG risks, internal controls deployed
- 4. Tactical assessment** - processes, KPIs, reporting risk, ESG reporting standards, policy alignment, stakeholder identification
- 5. ESG reporting and monitoring recommendations** - for systematic communication
- 6. Operational assessment** - effect of ESG strategic work, efficiency rating, internal reporting channels
- 7. Site visits** - creates credible judgments when triangulating desktop observations with onsite findings. Due to Covid-19 and its travel restrictions, our firm have suitable IT infrastructure that will enable us to perform remote site evaluation.
- 8. Strategic recommendations** - risk reduction, internal controls deficiencies, action plan, prioritization
- 9. ESG reporting and monitoring recommendations** - for systematic communication
- 10. Overall performance certification** - graphical visualization and summary of residual risk



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