MASTER IN FINANCIAL MANAGEMENT

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IN-COMPANY PROJECT: WRITTEN REPORT

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Engaging in irregularities is severely sanctioned in correspondence with article 64 of the Examination rules. We hereby declare that we have not engaged in any such irregularities.

VLERICK BUSINESS SCHOOL

Gimv
Building leading companies.

'Market & internal analysis of a PE firm's portfolio companies' valuation with an emphasis on ESG reporting & incorporation'

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PROJECT SUBMITTED IN FULFILLMENT OF THE DEGREE OF MASTER IN FINANCIAL MANAGEMENT

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We wish the reader of this report a lot of fun.

Kind regards,

Cédric Cambien, Anthony Leroy & Stephen Omez

EXECUTIVE SUMMARY

Gimv is a private equity firm that specializes in the European midmarket space. Therefore it is not immune to the new developments in the financial markets in both Belgium and Europe. A green wave is flowing over Europe and brings along new regulations, stricter reporting standards, higher expectations from customers and the need for improved valuation techniques. Private equity firms have to adapt to these new changes. This report conducts an extensive revision of the valuation processes of Gimv and evaluates the possible integration of ESG metrics into these processes. In the second phase, an extensive outlook into the future regulation and disclosure requirement is given.

The first part of the paper required a study of the internal valuation documents of Gimv and was combined with a literature review on the valuation techniques of Gimv's peers. Both Gimv's techniques and those of the peers were checked against guidelines provided by the appropriate legal frameworks. Following this initial research an exploratory analysis was performed on the historical data of Gimv's portfolio companies. The initial results of the exploratory analysis prompted a volatility analysis of the valuations of these portfolio companies. The findings of the first part of the report show that the current valuation technique of Gimv, the multiples method combined with a discount that corrects for liquidity, market circumstances etc. appears to be the industry standard. The main reason for this choice can be found in the speed and efficiency by which a valuation can be conducted in this way. The exploratory analysis and the following volatility analysis provided insights on the size of the discounts applied by Gimv. The first part of the paper concludes that a reduction in the size of the discounts would bring the valuation of the portfolio companies closer to their fair value.

For the second part of this paper, an examination on the current and future reporting standards and the possibility to incorporate these into valuation practices is performed. Overviews of the different regulatory frameworks, ESG rating practices and academic literature are given next to interviews with experts in the field of ESG. Additionally, the current sustainability approach of Gimv and its listed European peers are evaluated by reviewing their annual (sustainability) reports. The regulatory research concludes that the vast alphabetic soup of rules and standards will consolidate towards two frameworks, one established by the EU and one set up by the ISSB. The attempted construction of a ESG scoring framework yielded interesting insights in how ESG scoring remains very difficult even when enough data could be amassed and in how ESG scoring, even when done by experts, still result in biased outcomes. Finally, although Gimv is on track to become a leading company in terms of reporting, more efforts will have to be made to gather data, to explain their negative externalities and allow for thorough reviews of their portfolio companies.

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1 INTRODUCTION TO GIMV

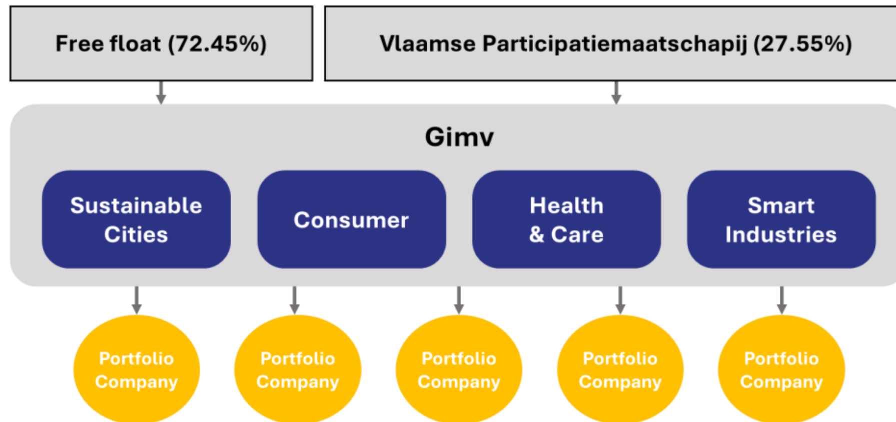
Gimv is a listed European investment firm founded in 1980 by the Flemish government as the regional successor of the national investment company. From the beginning Gimv has invested in innovation and entrepreneurship. Initially, the aim was to support Flemish companies in their expansion and internationalisation, but over the last decade the investment company started investing in foreign companies. Gimv's strong balance sheet and efficient access to capital allows it to be an evergreen fund, holding flexible and long-term positions in its portfolio companies. This flexibility is translated into a wide range of investment structures such as buyouts, growth capital and venture capital. It invests both majority and minority stakes.

Gimv focuses on four areas, Sustainable Cities, Consumer, Health & Care and Smart industries. The combined portfolio across these areas consists of 55 companies employing approximately. 15,000 professionals and achieves a combined turnover of EUR 2.8 billion. Gimv targets companies that provide answers to social issues of tomorrow such as sustainability, ageing population, healthcare, urbanisation, globalisation, ecological food, renewable energy and so on. The four investment platforms have their own focus and drive and together their investments contribute to the future of society via the Sustainable Development Goals (SDGs).

- The Consumer platform focuses on companies that respond to the needs and preferences of consumers who consciously choose an active, healthy and ecologically responsible lifestyle. Its main investment focuses are Food & Beverage, Pet Food & Care and Home & Family. The most recent acquisition within this platform is the investment in Sofutator, a comprehensive digital learning platform with over one million users.
- The Health & Care platform focuses on healthcare and life sciences via investments in pioneering biotechnology, innovative medical technology and leading service companies. One of its most famous investments is the recent IPO of Biotalys, a biotech firm active in food and crop protection.
- The Smart Industries platform groups companies that excel in their sector through innovative engineering and intelligent technologies. Within this platform there are investments in software developers & value-added IT services; technical products, appliances & related services; and companies with an advanced manufacturing expertise. The largest company with a revenue of EUR 745 million is Cegeka, which is an independent, European IT services provider.
- The Sustainable Cities platform looks at leading companies that are specialised in energy, environment, infrastructure, chemicals, and logistics. Climate change and urbanisation are essential drivers for growth in these sectors. Its key investment areas are Construction & Materials; Energy & Environment; Mobility & Logistics; and Industrial Services.

Gimv's operations are differently structured compared to most of its peers. Gimv started out as a vehicle for the Flemish government to buy stakes in private companies and to help them grow abroad. Today the mission of the company has changed but one can see its history in the way it is structured. Gimv's structure is more like a management holding company where all the investments can be directly found on the balance sheet, instead of making use of a separate fund. The only source of returns on their investments is the return when they sell a portfolio company, as they do not charge management fees, nor do they earn a carried interest.

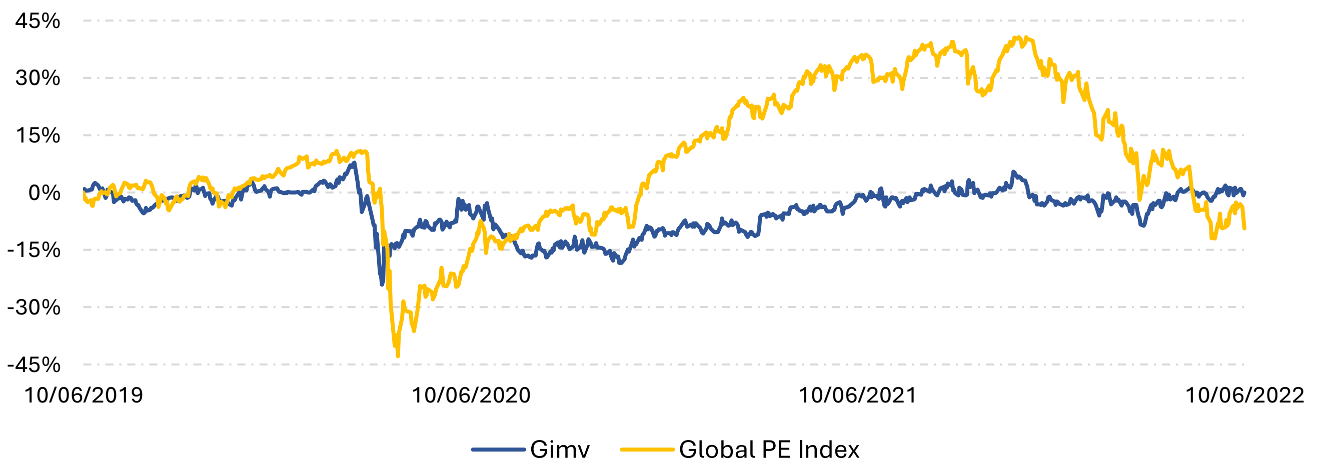
Figure 1: Structure of Gimv



Source: Own creation

Gimv is publicly listed on Euronext Brussels since 1997, and as we can see on the graph below, their share price is less volatile than the Global private equity (PE) index. The lack of volatility can be ascribed to the stable course Gimv has been running over the past few years. No scandals and no extreme profits. Investors know what to expect, which is a stable stock. We observe a less severe drop during the COVID-19 crisis, and a more stable recovery, for Gimv had mostly mature, cash generating companies in its portfolio. The index however recovered spectacularly, yet converges back to the status quo which Gimv never left.

Graph 1: Gimv's share price versus Invesco's Global Private Equity ETF



Source: Yahoo Finance

2 PROBLEM STATEMENT

Gimv is a private equity firm that specializes in the European midmarket space. Therefore, it is not immune to the new developments in the financial markets in both Belgium and Europe. A green wave is flowing over Europe, pushed by the European Union and asked for by the inhabitants of European countries (Khan, 2021). New regulation is being put into place to ensure fair and transparent reporting of non-financial metrics. International Financial Reporting Standards (IFRS) regulation is adapting accordingly. On top of the legislative changes (IFRS, CSRD, EU taxonomy, ...) and the higher expectations by the public, one observes higher unrest on the financial markets. After the COVID-19 crisis, the economy is now struggling with high inflation due to supply chain issues whilst at the same time the largest armed conflict on the European continent since the second world war is happening in Ukraine (Arnold, 2022; Hollinger, Edgecliffe-Johnson, Primrose, & Li, 2022; Seddon, Reed, & Olearchyk, 2022). Causing a decline in the Euro compared to the Dollar, and bouldering an already high inflation (Stubbington, 2022). The STOXX Europe 600 has lost already lost 17% since the beginning of the year[1], the crypto markets are tumbling from their all-time highs and even traditional stable companies are becoming more difficult to predict (El-Erian, 2022).
Private equity firms have to adapt to all these new changes. Investment wise they will have to take the macro-economic developments into account. Reporting towards their stakeholders will become more comprehensive as quality reporting will be required on both financial and non-financial metrics. Additionally, questions on how to accurately value portfolio companies arise as these new non-financial metrics become ever more important. One cannot remain blind for their added value. This work will tackle both the valuation and reporting challenges and make use of the following questions and sub-questions. Gimv's mission statement can be defined by its slogan "Building leading companies" and it has always been in their DNA and interest to be on the forefront of innovative reporting standards. The International Private Equity and Venture Capital Valuation (IPEV) guidelines were developed in cooperation with Gimv. Furthermore, it is in the company's interest to utilize the most modern and accurate techniques to value their (future) portfolio companies. The rapport will formulate answers on the posed research questions and make recommendations on the topics of valuation and ESG (reporting and incorporation).

1. "Describe how Gimv values the portfolio companies on a quarterly basis and suggest possible alterations to the valuation techniques to get closer to the fair market value."
    - *Is the multiple approach still appropriate?*
    - *What are the key differences and similarities between the multiple valuation and the discounted cash flow technique?*
    - *How should a private equity firm handle abnormal situations?*
    - *How do the peers of Gimv value their portfolio companies? What is the market doing?*

[1] *Based on level of June 17th 2022*

2. “Gimv utilizes an additional calibration (discount) in order to accurately value its (future) portfolio companies. Investigate and describe said calibration.”
   - *Is it still correct to apply a discount or can there also be a premium?*
   - *How big should this discount/premium be?*

3. “Investigate and describe the ESG developments with a focus on the value of a company. How can Gimv incorporate the ESG aspect into the calibration phase of the multiple valuation?”
   - *To what extent is the current method linked to the quality of the sustainability of Gimv itself & its portfolio companies and which ESG KPI’s have a significant influence on the calibration?*
   - *How can Gimv incorporate the ESG aspect into the calibration phase of the multiple valuation?*

4. “What is your view on the future of ESG and its development?”
   - *Is ESG just a hype or is it here to stay?*
   - *Should ESG play a more prominent role when conducting said calibration?*
   - *Do companies that score well on ESG effectively perform better?*
   - *How can private equity, and in particular Gimv, play a role in this?*

5. “Benchmark Gimv on their ESG presentation and results. How are peers doing it?”
   - *Can Gimv call itself a leading company in this domain?*

The first two research questions may seem of minor importance, but they are certainly not to be underestimated, as the recent example of the investment company Sofina shows. On May 18, Fraser Perring of Viceroy Research, who is known for being one of the first to accuse the German payment company Wirecard of fraud, dropped the name of Sofina at a financial conference in Hamburg. As a result, the Bel20 share plummeted 8,6% that day, wiping out more than EUR 800 million of market value. Perring targets Sofina mainly because of its large position in the Indian educational app Byju's. The participation represents more than ten percent of Sofina's total portfolio value, but according to Perring, the company is worth a lot less. With his attack, he criticises the grandiosity of the holding which in recent years has fulfilled its promise as an undiscovered listed pearl and, after a sustained rally, noted at a premium of more than 20% to the portfolio's net asset value (NAV) at the end of last year. Perring takes advantage of the recent uncertain stock market climate to question the valuation practices of Sofina. The whole saga surrounding Sofina's intrinsic valuation and other perils caused the share to lose more than 53% of its market value this year. As comparison, the share prices of Gimv and Ackermans & van Haaren fell year-to-date by 0% and 12% respectively.

Furthermore, as the unrealised valuation result amounts to 41% of the net income of EUR 251million for the financial year 2021, this once again demonstrates the great importance of a sound valuation method in order to obtain a fair value for these not yet realised gains.

3 RESEARCH METHODOLOGY

3.1 Portfolio valuation optimization

In the first part of this report, extensive research was conducted into Gimv's portfolio companies' valuation and how they compared to their listed European peers. For the internal analysis Gimv provided quarterly valuations of their portfolio companies, which allowed for a detailed examination in terms of techniques and the resulting volatilities throughout the lifetime of an investment. Given that peers do not publish their exact valuations, it is impossible to perform such volatility study on their portfolio companies. The peers' valuation techniques are assessed by analysing their annual reports and comparing them with Gimv's methods. Furthermore, those techniques were checked against guidelines provided by the appropriate legal frameworks. A large advantage is the possible use of Gimv's own data for it allows to have accurate and transparent data. It is often very difficult to find accurate information on the portfolio companies of PEs, therefore the second-best source of information, the annual reports, were used. This enabled the research to produce significant and robust results which lead to definitive conclusions.

In addition to the first researching efforts an exploratory analysis is performed on the internal data provided by Gimv. In this exploratory analysis, the companies of each investment platform are analysed on several distinct parameters such as discount, multiple categories, average peer multiple, stake, exit value differences etc. Given that Gimv provided said data over several quarters, a volatility analysis of the terminal valuation is possible. In line with academic research, the volatility of portfolio companies' valuation is measured as the standard deviation on the average, which gives a relative percentage and allows for comparison. Furthermore, since Gimv is looking for measures that could decrease said volatility we investigate different alterations of the current valuation method by making use of a scenario analysis. Without the information provided by Gimv, these techniques cannot be used, and therefore a large level of transparency of Gimv was required. A huge advantage of the used techniques is the statistical significance the recommendations of the report now bear. A disadvantage is that these techniques are inexhaustive. It is impossible to test for every scenario in a scenario analysis. Therefore, clear communication from Gimv on what is important to test and what not was vital.

For this section we use the annual reports of Gimv's peers as a secondary source. Although secondary sources that are published by a company may be biased, the annual reports are audited and should therefore reflect the reality. Another reason for this data source is availability. The data provided by these annual reports is not available through other sources. As companies want to protect their data, Gimv's peers do not publish their raw data sets. While this may cause some relevancy and accuracy issues (Hox & Boeije, 2005), there is no way to obtain said information from another source.

Finally, in addition to examining peers' valuation techniques and comparing them with Gimv's, an extensive explanation on the current regulation mechanisms and different academic perspectives will be given. There are no disadvantages to performing a legal study of the subject one is discussing. Since Gimv worries about the coming of new legal frameworks and wants to be a leading player when it comes to reporting standards, it is necessary to provide them with a comprehensive overview of the current and future regulatory standards.

3.2 ESG reporting and incorporation

For the second part of this report, an examination on the current and future reporting standards and the possibility to incorporate these into valuation practices is performed. Overviews of the different regulatory frameworks, ESG rating practices and academic literature are given next to interviews with experts in the field of ESG. Additionally, the current sustainability approach of Gimv and its listed European peers are evaluated by reviewing their annual (sustainability) reports.

The first part of the ESG incorporation and reporting section focuses on Gimv's approach and comparison with its peers. Given the increasing importance of ESG in the investment process, Gimv recently introduced a survey for reporting purposes towards the management of their portfolio companies. Since this is a preliminary survey, it does not measure everything that the company wants to report on. The current ESG reporting is evaluated trough the annual report and said survey. Next, their approach is compared with a carefully selected sample of peers and an evaluation is done based on a range of objective parameters and a more subjective qualitative assessment. The advantage of comparing with peers is that Gimv can be benchmarked and learn from them on how to improve their own workings. The selection of these peers is crucial, and for this reason the sample is selected in close consultation with the management of Gimv.
An important part of ESG reporting is complying with the current guidelines and standards, therefore an overview of the most relevant frameworks with regard to the activities of Gimv is given. Because of the current 'alphabet soup' of different regulations, it is impossible to incorporate every framework, so four set of standards/guidelines are discussed as they either influence the company's current reporting or might affect future (consolidated) regulation. This section of regulatory frameworks is further discussed in the interview segment, as some of the interviewees are part of a regulatory body. Moreover, a look into the future regulatory frameworks should give Gimv some insights on what to expect in the upcoming years, which will allow them to already integrate these outlooks into their current surveys and reporting method. The obvious drawback of this is that the other frameworks are left on the outside of the scope of this report. The choice of which regulatory framework to include has to be made based on relevance, proximity to the current situation of Gimv and the wishes of Gimv. Next an overview of the most used and renowned ESG rating agencies and their scoring mechanisms is provided. This analysis gives an insight in the substantial differences between these scores as they make use of somewhat different criteria.

Lastly, corporate sustainability and ESG in total is linked with enterprise value. This is established by using a two-folded approach. Next to an overview and processing of academic literature, an insight in experts' opinion is provided through multiple interviews. These interviews vary from attending a conference on ESG reporting and analytics to one-on-one conversations with interviewees from several backgrounds. As described by Alsaawi (2011), there are four types of qualitative interviews: structured interviews, unstructured interviews, semi-structured interviews and focus group interviews. Given the scope of the research, the semi-structured interview method is used. This allows interviewers to both establish a pre-planned list of questions, but still go into depth via interaction on some specific subjects. Contrary to the structured interview, where the interview is strictly controlled by the interviewer, this method allows for depth and richness of the responses. Furthermore, it has been recommended by Dörnyei (2007) that the interviewer pilots these open-ended questions in advance. While qualitative interviews allow for a more in-depth answer and thus opinion, they limit the number of questions that can be asked. This could be seen as a limitation since given the time constraint, not a lot of questions can be asked. Another disadvantage of qualitative interviews also linked to time constraint is the limitation in number of interviews and thus opinions. As interviews are time consuming given the fact that the interviewer "has to go through a long process, starting from establishing access to making contact with participants, conducting the interview followed by transcribing the data and making use of it" (Alsaawi, 2014), it is difficult to have a very wide set of interviews. To overcome this problem, a set of highly valuable interviews will be conducted. The roster of people interviewed were ESG-professionals, regulators, asset managers, academics and ESG experts. This set of interviews is then deducted into an opinion, which will be useful for Gimv's ESG journey.

4 PORTFOLIO VALUATION – DESKTOP RESEARCH

Together with the management of Gimv, peers were selected and analysed on how they value their portfolio companies on a quarterly basis. The selection is based on three criteria: listed, European, and similarity in investment activity. All peers are using the multiples method to value their portfolio companies on a regular basis. PE funds do still have minor variations in their specific way of implementing the market multiples. In this section, the most remarkable and relevant variations are summarized using clippings from their annual reports. The implementation provides ideas for a more stable multiple valuation method, and possibly insights for a valuation closer to the fair market value.

4.1 Comparable companies' valuation

Wendel

"New investments are valued through a weighted average of the current year multiples implied by the deal and valuation by listed peer-group multiples over a period of eighteen months. On the first NAV following the acquisition, valuation is weighted at 100% on acquisition multiples and 0% on listed peer-group multiples. **The weight of the acquisition multiples linearly decreases to 0% over eighteen months**. The weight of the listed peer-group multiples linearly increases to 100% over eighteen months."; "The enterprise value corresponds to **the average of the values calculated using EBITDA and EBIT of two reference periods**: the previous year and the budget for the current year." ; "Enterprise value of the comparable companies is obtained by adding market capitalization (<u>the average closing price over the last 20 trading days</u>) and net financial debt (gross face value of debt plus pensions booked in balance sheet less cash) at the same (or similar) date as that applied to the net debt of the company being valued."; "**Certain peer-group companies can be more heavily weighted** if their characteristics are closer to those of the company being valued than are those of the other companies in the sample." (Wendel, 2022)

3i Group

"A liquidity discount is applied to the enterprise value, **typically between 5% and 15%**, using factors such as our alignment with management and other investors and our investment rights in the deal structure." (3i Group, 2022)

CapMan

"The changes in the peer group earnings multiples and the peer group discounts are typically opposite to each other. Therefore, **if the peer group multiples increase, a higher discount is typically applied**. Because of this, a change in the peer group multiples may not in full be reflected in the fair values of the fund investments." (CapMan, 2022)

Deutsche Beteiligungs

"The multiple is predominantly derived from the starting multiple. These starting multiples are extrapolated in line with the development of the reference multiple which is in turn determined using **the median for a peer group of similar companies** that are as comparable as possible (so-called calibration)."; "For the sake of consistency, an exception to the rule exists for single companies that have been included in the portfolio for a longer time. Instead of calibration, premiums or discounts are applied to the **median of the peer group** in order to account for the differences between the portfolio companies and the peer group companies in terms of business model, geographical focus of their business activities and their size." (Deutsche Beteiligungs AG, 2022)

HAL Trust

"The following factors may, among other things, be considered when selecting multiples: the multiple paid at the time of the investment; the multiples the Company generally would be prepared to pay for comparable investments; multiples of a meaningful sample of comparable quoted companies. When referring to multiples of comparable companies, **a discount of at least 20% is taken into account for limited marketability**, unless there is a strong possibility of a short-term realization." (HAL Trust, 2022)

4.2 Comparable transactions valuation

Another kind of multiples valuation that is used by the peers is the comparable transaction analysis. Market transaction multiples may be used if transactions of companies whose business and profile are similar to those of the firm being valued are observed in the market and relevant comparative amounts for these transactions are available in sufficiently reliable and detailed form. Additionally, it is required for the transaction to have taken place within the last 12 to 18 months.
Although this is a method that Gimv also mentions as one of the methods used to value their portfolio companies, practice shows that this method is hardly, if at all, applied. It can be said with some certainty that this technique is probably also only used to a small extent by the peers in practice, even though most of them officially state in their annual reports that they make use of it. This is due to the fact that for most companies only a limited number of suitable transactions are available, so that the obtained multiple would consequently not reflect the entire market. Moreover, this valuation method has little added value compared to the additional amount of work it requires, depends primarily on the assessment of the valuation team, and is less consistent than the comparable companies' analysis.

5 PORTFOLIO VALUATION – LITERATURE REVIEW

5.1 Regulation authorities

In the first part of the literature review, the current regulation regarding portfolio company valuation and ESG reporting will be elaborated upon. First, an overview of the relevant IFRS regulation is presented (IFRS 7 and 13). As this regulatory framework is the foundation of the recently introduced International Private Equity and Venture Capital (IPEV) guidelines, it is essential to have a clear understanding of these two standards. Afterwards, the new IPEV guidelines will be elucidated. In the last section of the regulation, an outline of the recent Sustainable Finance Disclosure Regulation (SFDR) is given. This new regulation intends to increase the transparency on sustainable reporting of financial market participants. US GAAP falls outside the scope of this report as the focus of our research is Gimv. IFRS is applicable to our entire research sample.

IFRS 13

As IPEV has to be compliant with IFRS, these standards form the basis of the regulatory framework that is applicable to PE funds. IFRS describes how PE funds have to evaluate their portfolio companies and how to report on the kind of and the extent of their liabilities and exposures that come from these assets. The main concept here is "fair value" and is elaborated in IFRS 13.

IFRS 13 defines fair value as: "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price)". This implies that the asset, in this case a portfolio company, should be valued at a "fair value" that would be paid in case of an exit between independent market participants at measurement date. The fair value concept assumes there is an active market where market participants are trading assets and liabilities on a frequent basis, so that the market's dynamics establishes competitive and reliable pricing. Other assumptions on said market include that it is the principal and most advantageous market for the given asset or liability. This implies that you have to look at the market with the highest volumes/activity and this at the highest value after transaction costs.

Since the main principle of IFRS (13) is to "increase the consistency and comparability in fair value measurements and related disclosures through a fair value hierarchy", the standard is looking at valuation methods on three distinct levels. Level 1 inputs receive the highest priority and are based on the listed prices for the assets or liabilities. In the case of PE funds, this means that the level 1 input is the share price of the portfolio company on the stock exchange. If the portfolio company itself is not listed, but there are similar quoted companies, the price of these similar companies will be used as level 2 input for fair value measurement. Lastly, level 3 inputs are the lowest in the hierarchy and indicate that there are no identical or similar quoted assets or liabilities. In a PE setting this can be translated into unobservable inputs such as the company's own data, relevant market data, future growth expectations, etc… (Deloitte, 2022).

When it comes to fair value measurement, IFRS 13 uses three distinct valuation techniques: market approach, cost approach and income approach. The market approach uses market prices of identical or similar assets or liabilities. Using (earning) multiples as a valuation technique is an example of a market approach. The second approach is focused on the replacement cost of the asset or liability. This will be irrelevant in a PE setting and thus this report, as it is not possible to establish the replacement cost of a portfolio company. Thirdly, the income approach looks at future (discounted) cash flows to form a fair value of the business's current operations (Deloitte, 2022).

IFRS 7

Whereas IFRS 13 elaborates on the fair value and how to measure it, IFRS 7 goes into detail on the disclosure requirements of financial instruments. These disclosure requirements include the kind and level of risk exposure that come from said financial instruments. IFRS 7 comprises two main components: "information about the significance of financial instruments" & "information about the nature and extent of risks arising from financial instruments". The first component of IFRS 7 elaborates on how to report both the statement of financial position and the statement of comprehensive income of the financial instruments held. In the statement of financial position, companies have to disclose the size and significance of the position held, this is represented by the fair value compliant with IFRS 13. In the statement of comprehensive income, companies should report on the items of income and expense. Both segments describe that financial assets should be shown at fair value through profit and loss.
In the second part of IFRS 7, the standard stipulates how companies have to report on the kind and level of exposure that the above-mentioned financial instruments bring with them. For the risk assessment segment, a distinction between qualitative and quantitative disclosures is made, with each its own reporting guidelines. For the qualitative disclosures, IFRS 7 requires companies to report on the kind of risk exposures, which processes the company has in place and how these risk exposures shift over time. On the quantitative side of disclosure, companies have to provide quantitative data on to what extent the company is exposed. This quantitative data has to be accompanied by disclosures on the credit, liquidity and market risk (Deloitte, 2022).

IPEV

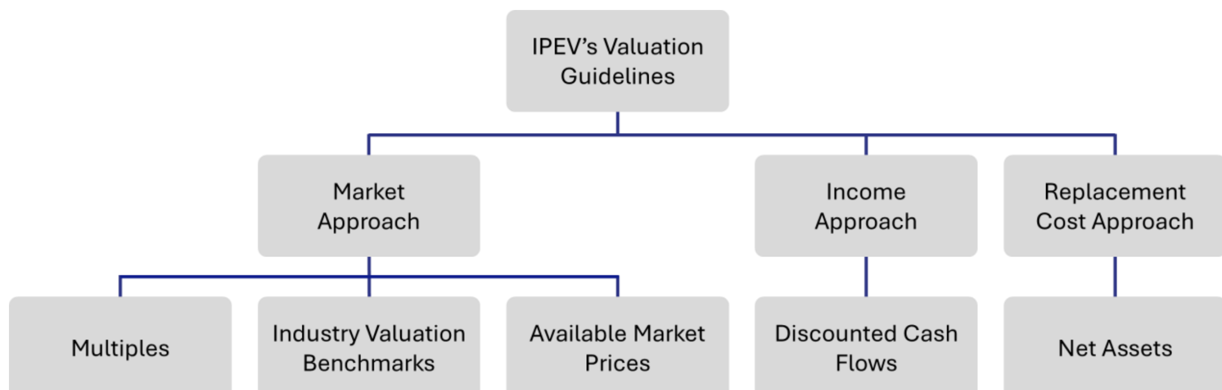
As the IPEV guidelines are compliant with the above explained IFRS regulation, some concepts such as fair value will not be re-explained. Keeping in mind that IPEV was established to provide limited partners with the best possible fair value information, IPEV sets out recommendations on PE/Venture Capital (VC) portfolio company valuations. These companies have to be seen in a broad sense and range from "privately held (i.e., unlisted) Investments in early-stage ventures, management buyouts, management buy-ins, infrastructure, credit and similar Investments and Investments in Funds making such Investments" (IPEV, 2018). Since the whole idea of IPEV is to obtain an accurate fair value of the portfolio companies, the most important recommendations are consistency and appropriateness.

In order to guarantee these factors, IPEV recommends that the funds have a robust valuation policy with laid out guidelines and a good documentation of the used inputs and assumptions. The first IPEV valuation guidelines were published in 2015. Since then, three new sets of guidelines were announced to keep up to date with the latest developments in the PE/VC landscape. Whereas the first IPEV publications are full sets of (updated) guidelines, the last publication of 31st March 2020 is slightly different. This special set of valuation guidelines was published to tackle the different market situation due to the COVID-19 pandemic. Because of these uncertain and volatile times, PE/VC companies encountered multiple problems while trying to value their portfolio companies correctly. The "special valuation guidance" was launched to help managers and investors establish the correct fair value. Examples of these special guidance include but are not limited to:

- "Fair value does not equal a 'fire sale' price", it should represent a valuation based on what is known and could be known at the valuation date
- Consequent way of valuing should still be used
- If government subsidies are assured, they could be taken into consideration
- "Market participant views matter – greater uncertainty may translate into greater risk which may translate into greater required returns which may translate into lower asset values"
- Using recent transactions as a benchmark might become incorrect as the calculated expansion in said transactions might become less substantial

Although accounting standards don't require a hierarchy in valuation techniques, IPEV recommends the use of (earnings) multiple valuation techniques over discounted cash flows (DCF) based valuations[2]. Within this category the earnings before interest, taxes, depreciation and amortization (EBITDA) multiple method is the most frequent used. As one explanation for a preference towards observable market based multiple valuation, IPEV argues that DCF-based valuations have a higher level of subjectivity when it comes to the used inputs. As previously mentioned, there is no hierarchy in valuation techniques and the company itself is thus free to choose the most appropriate valuation technique.

Figure 2: Valuation techniques endorsed by IPEV



Source: Own creation

[2] *IPEV suggests that each investment should be treated individually when selecting the most suitable valuation technique.*

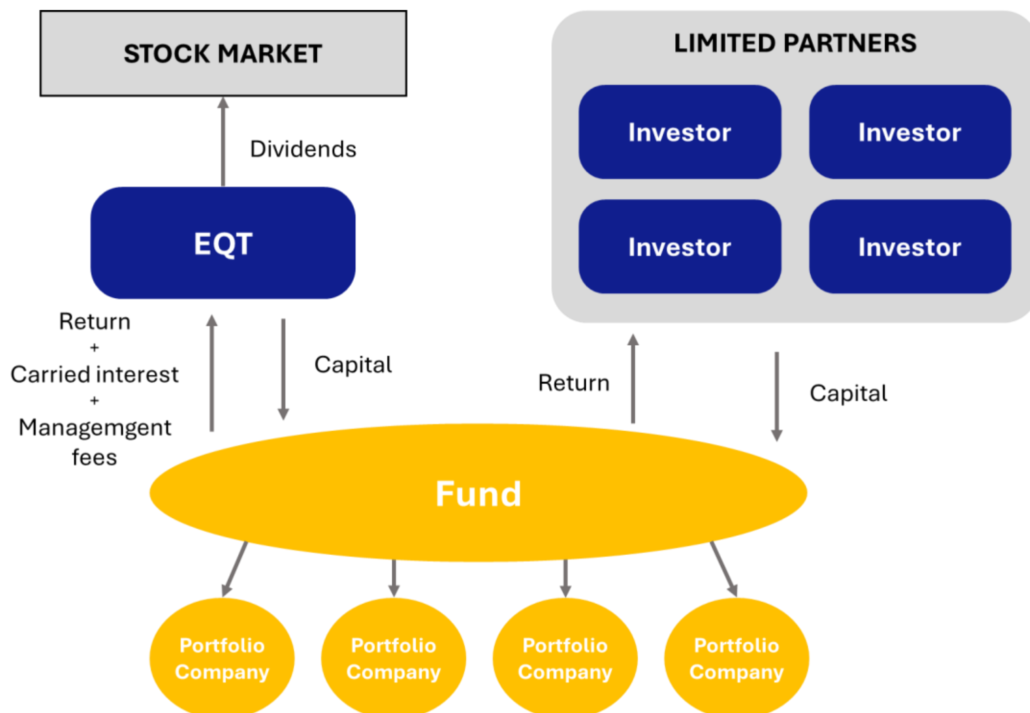
The net assets technique will most likely be used in very specific situations where a business' value creation is mainly a result of an increase in the fair value of its assets. An example of such asset intensive company is a fund-of-fund.

5.2 Common practices in PE

Structure of a private equity fund

Most often PE funds use the structure as shown below (figure 3). This structure allows for good standards on flexibility and tax transparency. Usually, the funds have a lifespan of 3-5 years of investing and then another 3-5 years of selling the bought assets. Realizations on sold assets are usually not reinvested. Pes frequently use the IRR as the standard key performance indicator (KPI) as it neatly shows the cash-to-cash performance. An example of a listed private equity using such a structure is EQT. As shown in the introduction Gimv is structured differently[3]. In this example EQT earns money by charging management fees, by claiming carried interest (fees for above hurdle rate performances) and by receiving returns on their own investment into the fund[4].

Figure 3: Structure of EQT AB



Source: Own creation

[3] *Gimv is listed on the stock market in a more traditional way, where the Management holding is the one to go public whereas EQT is a fund that went public. These are the two main ways in which PEs can go public.*

[4] *An often-used form is the 2 – 20 structure, where a fund charges 2% for the management of the capital and receives 20% of the gains when a certain hurdle rate is reached. Returns on invested capital is only possible if the managing partners invest in the fund.*

Importance of valuation

Most PE funds conduct valuations on a quarterly or semi-annual basis, for reporting and analysis purposes. Since PE funds have an investment horizon of typically 3-5 years, they tend to have less interest in valuing companies on a more frequent basis. These periodical valuations will be more useful as a fair value representation to the investors (LPs) and to assess the evolution of the overall fund performance. As can be seen in the hierarchy above, most general partners (GPs)/management companies make revenues from management fees and carried interest, since the carried interest is only realised at exit, the current portfolio valuation has no impact on the renumeration of the management. In a typical PE fund, the portfolio companies are non-listed companies, who report less frequently on (non)financial performance, compared to their listed peers. This would impose a problem if the PE fund would have an interest in valuing its portfolio companies on a more frequent basis.

Nor GP nor investors need those day-to-day valuations in order to make their investment decisions. On top of that, usually the fees for GPs are based on the capital committed and not on the underlying valuation of the fund and performance fees are often paid on realized gains. Nevertheless there is some interesting research of Jenkinson, Sousa and Stucke (2013) in which they analyse whether portfolio companies' valuations are fair, whether the extent of conservative or aggressive valuations differ during the life of a PE fund, and at what stage interim performance measures predict ultimate performance. First, they find evidence that over the entire life of a fund, valuations are conservative, and tend to be smoothed (valuations understate subsequent distributions by around 35% on average). Second, they observe an exception to this general conservatism in the period when follow-on funds are being raised, with valuations being inflated during fundraising, and a gradual reversal once the follow-on fund has been closed. Third, the study proves that these performance figures reported during fund-raising have little power to predict ultimate returns. These findings demonstrate that investors should be extremely wary of basing investment decisions on the performance of interim NAV performance. Consequently, it is clear that fair valuation remains a very important aspect as fund managers still would like to track the performance of the different investments they made, the same goes for the investors of the fund. If fund managers and investors want to be sure the portfolio investments are valued at fair value an industrywide adopted and consistent valuation methodology needs to be adopted.

Next, Lahr and Kaserer (2012) state that many PE firms are reluctant to change valuations in the absence of value determining events such as a change of ownership. Periods without such events can be long, which can lead to NAVs containing less and less current information. This research again shows that valuing non-listed portfolio investments is notoriously difficult, which is reflected by the great variety of valuation methods allowed by international private equity valuation guidelines. Furthermore, it once again outlines the greater importance than ever of a consistent and industrywide prescribed method for the interim valuation of portfolio investments.

5.3 Several techniques to value portfolio companies in PE

Market multiple approach: best value driver(s)

The current research aimed at determining the best value driver to use in a market multiple valuation is not extensive. However, we would like to outline the findings of the most important studies. Keun Yoo (2006) examines the impact of combining simple multiple valuation methods. The aim of the study is to improve the overall valuation by boosting the accuracy (and reducing the volatility, but this is only implicitly mentioned). In order to combine multiple valuations, a weighted average is used on the different valuation outcomes. As a way of back testing, the study uses the actual stock price as a benchmark to evaluate the performance of the newly introduced method. Combining different historical based multiple valuation outcomes of a company, improves the accuracy of the valuation. However, when a combination of historical and forward-looking multiples is used, the valuation accuracy is not improved. This implies that while one historical multiple might have information that is not captured by another historical multiple, and that combining these two multiples increases the accuracy, the combination of historical and forward-looking multiples gives no additional value. These findings are contrary to those of Liu, Nissim and Thomas (2002), as this study concluded that forward-looking multiples have a higher accuracy in predicting a company's valuation than historical multiples.

Next, according to Goedhart, Koller and Wessels (2020), the EBITDA multiple is often in the mid valuation range and often serves as the best estimate of the enterprise value. It delivers such a strong performance because it excludes differences in sales, financing structure and tax differences. Furthermore, the EBITDA multiple is seen as the most widely used among professionals, 84% of respondents in a survey conducted by Mukhlynina and Nyborg (2020) indicated that they always use EV/EBITDA as a part of their valuation. These findings are confirmed by several other researches performed during the last two decades: Lie and Lie (2002) argue that EBITDA multiples generally yield better estimates than earnings before interest and taxes (EBIT) multiples, the empirical findings of Gupta (2018) reveal that least prediction errors are observed for the EBITDA multiple, and Pétursson (2016) finds that EV/EBITDA is one of the three most widely used multiples in relative valuation and delivers consistently one of the best results.

Is applying a discount the right way to calibrate?

Since many PE firms accept the IPEV Valuation Guidelines that are based on the notion of fair value, valuation methods are largely the same across funds. However, there are still many free parameters to be chosen at the firm's discretion. One of these free parameters and probably the most important one, is the discount applied to the market multiple. Throughout the years, there has been some research on the reasoning behind the adoption of a discount and this section will shortly elaborate on this topic with its most important findings in literature.

Micah (2007) investigated discounts for acquisitions of unlisted targets that average approximately 15% to 30% relative to multiples paid to acquire comparable publicly traded firms. In his analysis he found evidence that acquisition discounts are partly affected by information asymmetry, as would be expected in an environment in which a bidder is buying a firm that may not have made many (verifiable) public disclosures before being sold.
Next, there are Rodríguez and Rubio (2019), who developed a model applying a broader variety of control factors in ratios, especially the profitability and risk variables, as well as the traditional industry, size, year and country, alongside other personal motivations such as control and the type of buyer. Their research covers a period of 11 years and represents clear evidence for analysts and regulators on the necessity to apply a marketability discount in private equity valuations, calculated with similar rules. They argue the use of a standard and fair marketability discount would avoid erroneous equity valuation conclusions, giving accuracy to the investment decisions.
Based on these studies, it can be concluded that applying a discount to the market multiples is indeed a proper way to approximate the fair value of private companies. Moreover, this is again confirmed in the study done by Block (2007), who looked at 91 paired acquisitions between 1999 and 2006, and drew comparisons based on five different valuation multiples. The results reveal that private companies generally trade at multiples 20%-25% lower than public companies. Furthermore Block (2007) shows that the discount can be explained by size difference and other characteristics of public versus private firms.

Discounted cash flow technique

The discounted cash flow method is inherently forward looking. The DCF method makes use of predicted future cash flows, to find the value of an asset today. The method lends itself to richer analysis compared to most other valuation methods. The difficulty of this method lies in the prediction of the future cashflows and the calculation of the discount factor. In most DCF based valuations, free cashflow will be used to calculate the companies' enterprise valuation. Other popular possibilities include but are not limited to dividend-based methods (dividend growth model and dividend yield model) and earnings-based methods (Nel, 2009). Assumptions that are critical include, but are not limited to: future cashflows, growth rates and cost of equity. As a slightly different (perpetuity) growth factor could have a very substantial impact on the terminal valuation, many professionals (Bancel, & Mittoo, 2014) and regulatory authorities (IPEV, 2018) alike see this as a somewhat subjective valuation method. Next to subjectivity, another problem that often occurs when examining DCF valuations is the principle of "garbage in garbage out". In some cases, the valuing party might have a hard time finding verifiable and reliable data, this results in wrong or misinterpreted input. Even with a good understanding and handling of the DCF model, this bad input ends up creating a "garbage" output. Although DCF, together with multiple valuation, is the most used technique at the moment of acquisition, most PE funds resort to solely multiple valuation once it is a portfolio company and the NAV has to be established in the balance sheet (Peer comparison).

Multiples versus DCF method

Both multiples and DCF methods have their advantages and disadvantages, in practice the choice between the two often comes down to circumstances and preferences. Kim and Ritter (1999) argue that the use of either method depends on the degree of uncertainty of the future cash flow projections. When there are high levels of uncertainty one ought to use multiple valuations, whilst otherwise DCF methods are preferable. Furthermore, when looking at professional use of both methods, one observes that both methods are often used in tandem. Where multiples are first used to find a value range, later when more detailed information is available on the company (balance sheet, income statement, cash flows) a richer analysis via the DCF method can be performed (Burgess, 2021; Mukhlynina & Nyborg, 2020). Nel (2009) enforces these findings by arguing that multiple valuation could be used as a main valuation technique when both information and time are limited.

Not only circumstances dictate which method professionals and academics use, but also their personal preference. Multiple studies show that not only academics prefer to use multiples, but professional analysts as well (Asquith, Pathak, & Ritter, 2005; Bradshaw, 2005; Demirakos, Strong, & Walker, 2004; Liu, Nissim, & Thomas, 2002). One of these studies, conducted by Mukhlynina and Nyborg (2020), asked 4000 professionals their preference in valuation methods. The study confirmed the claim about the preferences of professionals being skewed towards multiples. The main reason, according to these studies, is the comprehensiveness and the lower amount of required time. Other advantages of the multiple valuation technique are its efficiency, simplicity and comprehensiveness. This is because price multiple valuation makes use of the current industry growth rate and the price of equity set by the market. Additionally the technique avoids the difficult and lengthy process of finding an appropriate discount rate (Baker & Ruback, 1999).

Beneath these preferences lie multiple rational arguments on why one ought to use which method. Fernández (2002), researched over 40 different valuation methods and concluded the following: “The most suitable method for valuing a company is to discount the expected future cash flows, as the value of a company’s equity arises from the company’s capacity to generate cash (flows) for the equity’s owners.” Damodaran (2001) partially follows Fernández (2002) by stating that DCF models show the capability of assets to generate a stable future cash flow. He however employs a more nuanced view and adds that relative valuations methods reflect the current market sentiment. This last argument is according to Lauro (2019) one of the most overlooked advantages of the multiple method.

Both methods also have their shortcomings. A strong argument against the DCF method is that, despite being widely used amongst professionals, it seems that the fundamental understanding of key concepts such as Weighted Average Cost of Capital (WACC), debt shields and terminal values, is not always on point (Burgess, 2021). Whilst the flip side of using multiples is its three clear limitations. It is based on short term earnings such as the last twelve months (LTM) or a short-term forecast of. It does not take into account the full structure of the earnings forecast. The method also does not take into account discounting (Cornell & Gokhale, 2016).

6 DESKTOP RESEARCH – ESG

Gimv recognises the speed with which all three components of ESG are claiming their space in the financial ecosystem. The sense of urgency Gimv, but also their competitors, displays, is the consequence of undeniable trends that took form recently. Furthermore, as Gimv has a widespread presence within Europe, its stakeholders also augment their pressure. The word that has a presence throughout ESG is 'sustainability', but within Europe the focus is mainly on the environmental aspect of the acronym. In recent years, a continuous increase in both occurrence and severity of natural disasters could be observed (Jenkins, 2022). These harmful and horrible events are universally recognised as a problem and create an increased call to action.

Additionally, one can also see the economic opportunities and risks that come with an increased scarcity of natural resources, which will no doubt have an impact on the production of goods and the consumption of those goods.[5] To make a company future proof, one has to integrate ESG in the development of its services and products, and one has to look at the possible innovations sustainability brings along and integrate them into the company's operations. It means that having a separate ESG track record is not enough, the approach towards ESG should touch everything a company does. This will allow the company to maximise its ability to grab the business opportunities that come along with all these changes. The efforts will be translated in better working products and services, and a more efficient use of resources, such as water, energy and waste in the current processes. Next to the possible benefits that come with embracing ESG, there are also clear risks, such as disrupted supply chains or failed productions, when ESG is not incorporated correctly into the firm.

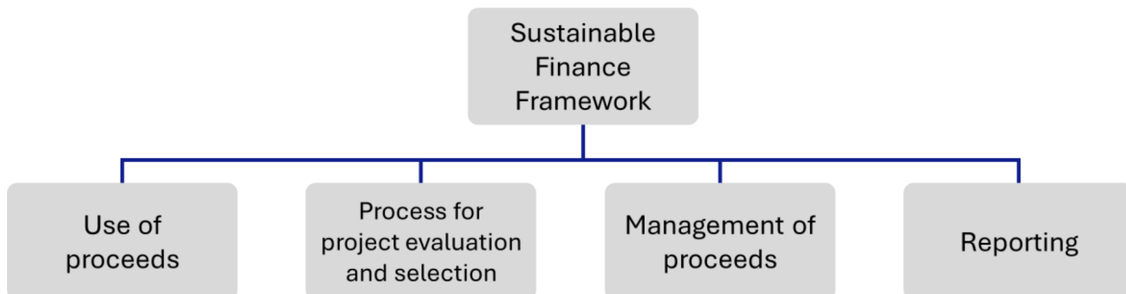
Furthermore, it is likely competitors will engage and take a closer look at ESG. Those who do, will reap the benefits and have a competitive advantage over the late adopters, who will face increased competition as customers will side with the party that sells better and less carbon intensive products. Lastly, since the world is changing at a rapid pace, regulators have to follow suit. Some regulators are taking a leading role in order to level the playing field. Especially in the EU, where companies will soon have to increase transparency on their ESG activities. Transparency is not only necessary to adhere to the rules of governing bodies but also to ensure your stakeholders they are not placed in undesirable situations. Clear communication to the outside world about one's track record will not only be necessary but mandatory. For this reason, Gimv is taking on a proactive role and is already aiming for high standards on their ESG reporting.

[5] *PwC UK on December 3rd 2021: Climate change and resource scarcity*

6.1 Gimv's sustainability approach in the investment process

Since Gimv's founding in 1980, it was in the fund's core DNA to incorporate the social context and challenges into a way of conducting business. "Gimv was founded to support Flemish companies in their growth and to be a turbo-driver for Flanders' socio-economic fabric" (Gimv, 2021), in terms of today, this includes sustainable and ESG driven investments. To integrate this ESG context into Gimv, it handles a two-folded approach: Gimv as a responsible company itself and as a responsible investor. The fact that Gimv invests from four distinct platforms allows for an increased sustainable strategic added value. To align the ESG strategy with the overall investment strategy, Gimv uses the United Nations (UN) Principles for Responsible Investment (PRI) and SDGs as guidelines. The firm aligns its funding strategy with its mission, sustainability strategy and responsible investing objectives, through the issuance of green, sustainable and social financial instruments. In addition to diversifying its investor base, it also allows Gimv to invest responsibly and impactful.
On the 8th of March 2021, Gimv announced the issuance of a sustainable bond. This was the first ever sustainable bond for the company and had an aggregate amount of EUR 100 million. An elaborate sustainable finance framework provided the backbone for said green bond. This framework was built on the four core components that can be found in figure 4.

Figure 4: Core components of Gimv's sustainable finance framework



Source: Own creation, Gimv

The use of the proceeds component describes which investments are eligible when using the money provided by green, sustainable or social financial products. The possible investments have to provide a link with United Nations' SDGs. In the case of the above-mentioned green bond, Gimv will not use the money of such a bond to invest in companies that are specialized in fossil-fuel activities or technologies. Next, there is the process for project evaluation and selection. After the platform investment teams have selected eligible investments, the portfolio will be evaluated and ratified by the Investment Committee. To make sure that ESG is incorporated in every step of the investment process, potential portfolio companies have to go through an initial ESG scan. This pre-investment scan is part of the due diligence process and will identify ESG opportunities and risks. During the active ownership of the company, Gimv will continue with such scans for annual ESG reporting purposes. In the management of proceeds part, Gimv manages the net returns of the green, sustainable or social financial instruments.

6.2 Sustainability approach of Gimv's peers

The first step is to perform well on sustainability, the second step is to report about your practices. How could the rest of the world otherwise know what the company is or not doing? Reporting about non-financial information will become as professional and structured as reporting on financial information. Today however it is not. Today there is still arbitrariness in the way most firms go about their reporting, which makes it even more important to look out of the window and see the different options one has. In this section, reporting practices of Gimv's peers are analysed in order to find the best-in-class reports and benchmark the report of Gimv against them.

Table 1: Overview Gimv's peers' Sustainalytics' score and ESG report

Company	Sustainalytics		ESG section as % of annual report	Section on website?	Separate ESG report (pages)?
	Score[6]	Ranking[7]			
Gimv	11.1	23	10%	YES	NO
Wendel	8.9	8	28%	YES	NO
3i Group	11.6	31	6%	YES	YES (71)
DBAG	26.8	364	6%	NO	NO
Eurazeo	17.7	115	9%	YES	NO
Tikehau	12.0	36	10%	NO	YES (65)
EQT	18.7	127	5%	YES	NO
AvH	12.5	41	14%	YES	NO
Kinnevik	8.2	5	35%	YES	YES (46)
Oakley	-	-	9%	YES	NO
CapMan	-	-	3%	NO	NO

Source: Own creation

[6] *Score is based on ESG risk exposure, the lower the score the less exposure to risk: Negligible (0-10); Low (10-20); Medium (20-30); High (30-40); and Severe (40+)*

[7] *Ranking based within the industry group 'Diversified Financials' compromising 911 companies*

(Eurazeo, 2022)

Eurazeo has incorporated sustainable development into its business through a proactive ESG strategy since 2008. They have formalized this approach with the creation of its O⁺ strategy, which is built on two flagship commitments: reach carbon net neutrality and foster a more inclusive society. To materialize the carbon net neutrality pillar, they have set an ambitious target of 2040 divided into three key faces: Eurazeo's carbon footprint, the portfolio's carbon footprint and the balancing of residual emissions. Next, the inclusive society pillar is unfolded into three activities: investments for a more inclusive economy focused on healthcare; promotion of gender diversity translated in 2030 objectives; and a sponsorship program for equal opportunities. To align the investments with their ESG strategy, Eurazeo has, among other things, created three funds dedicated to the ecological transition (Smart City II, Transition Infrastructure Fund and Sustainable Maritime Infrastructure), which can be compared to the structure of Gimv in which investments are separated between the four platforms. Moreover, the rollout of ESG is incorporated in all phases of the investment process at the pre-investment stage, for example, 100% of the acquisitions are aligned with their exclusion policy and are subject to an ESG due diligence. Additionally, they also try to include ESG criteria as much as possible in their financing (25 financing operations in 2021). Next, during the investment period, ESG acceleration is implemented via Eurazeo's 'O⁺ essentials progress plan'. This plan encompasses 20 criteria on which a portfolio company can make progress, and performance is measured with a dashboard based on the number of criteria reached.

Figure 5: Eurazeo's O⁺ essentials progress plan

Source: Eurazeo's 2021 annual report

The report shows how this plan is put into practice by performing a case study where variable compensation based on ESG (15%), history of the Corporate Social Responsibility (CSR) commitment, ESG ratings, awards and initiatives, and memberships with professional associations are among the topics that are discussed.

The second main part of Eurazeo's ESG report concerns the non-financial performance statement. In this section Eurazeo analyses the primary risks and opportunities created by ESG and classifies them into four categories: Investment activity, Employee-related matters, Environmental matters, and Ethics. Within those categories risk mitigation mechanisms are explain and further elaborated upon.

The ESG report ends with a list of indicators and the methodology used to gather these data concerning the following topics: working conditions & freedom of association, equal treatment, attractivity & employability, climate change, and responsible use & consumption of resources. On the level of portfolio companies, Eurazeo states it has adopted a proactive approach to gather taxonomy information for an even wider scope, which will be published in the O+ progress report covering all assets under management (AUM) and presented at the end of the first half of 2022. They say it will describe the work undertaken to comply with ESG leadership and sustainable finance regulations.

To conclude, Eurazeo's activities are strengthened through their long-standing history in ESG, which gives them credibility. Eurazeo's report gives a good overview of what they want to achieve. Their list of KPIs is extensive yet pretty well tailored to their activities. It is however pretty easy to set a goal on a timeline of 20 years. This goal of becoming net neutral is of course not feasible in the short term, but setting one long goal is not enough, it has to be accompanied by smaller goals which are achievable in the short term. That is why the 0+ is a great initiative, as it helps to motivate the portfolio companies of Eurazeo. Ofcourse are the medals a bit cheap as they are awarded by Eurazeo themselves and because they can pick and choose what to achieve. Eurazeo states at the beginning of their report they want to propel every SDG forward through their actions, this is a bit contradictory to their specific KPIs. It is also quite impossible to work on every SDG at the same time, which takes away a bit of credibility at the beginning of their report. Finally, Eurazeo does a good job in reporting on their KPIs with hard figures, this is because of the EU taxonomy directive.

(Kinnevik, 2022)

Kinnevik start its sustainability report by outlining the strategy via their own internal framework, extended with the integration of the external SDGs. The internal framework addresses sustainability on both Kinnevik itself as a responsible company and on the portfolio side as an active owner. The material topics are the same within both levels, with specific goals, targets and objectives for each level, as well as a set of KPIs for the portfolio companies.

Table 2: Internal sustainability framework of Kinnevik

	Kinnevik	Portfolio
Environment	• Net zero greenhouse gas emissions from Kinnevik's operations excluding the portfolio from 2020 and onward (Scope 1, 2 and 3 excluding investments)	• 50% reduction in greenhouse gas emission intensity in Kinnevik's portfolio by 2030 compared to 2020 (Scope 3 from Investments)
Society	• 40/60 gender composition in all Kinnevik teams by 2022 • Measure all managers on inclusive leadership annually	• 10% of capital invested per year into new companies should go to female founded or led companies • Follow-on investments conditional upon clear D&I progress
Governance	• Deliver an annual total shareholder return of 12-15% over the business cycle	• 5 percentage point improvement in annual average ESG score across portfolio

Source: Kinnevik

On each of the topics explained above, an extensive analysis with detailed figures on the progress of the company is made and reported upon. Next, they elaborate on their approach to sustainability linked financing, and they illustrate with some examples how their portfolio companies implement the ESG strategy in practice together with portfolio level KPIs. Finally, the report is concluded with an explanation of Kinnevik's negative impact and their methods of mitigation.

When we recapitulate, we see that Kinnevik starts its report by explaining their commitment to the SDGs and how they combine these with ESG. Although these SDGs do not play a significant role in the rest of the report Kinnevik does mention which companies contribute in what way. Kinnevik proudly announces that 'Simple Feast' (one of their portfolio companies) contributes to eradicating hunger and waste by providing healthy meals. Selling overpriced plant-based meals in rich, hunger free western societies is of course not doing anything to eradicate hunger. The report dedicates an entire chapter to the sustainable financing operations of Kinnevik, which gives a strong statement on where their priorities lie. Kinnevik understands that an ESG valuation is an extension of a risks & opportunities analysis. They create credibility for themselves by disclosing hard figures on a lot of their KPIs following an ESG structure, a lot of them are of course preliminary such as: "Has set relevant GHG reduction targets in line with Paris Agreement". These steps are good but just the first steps non the less.

(EQT, 2022)

While EQT has no separate ESG report and has dedicated the lowest percentage of their annual report to ESG, the Swedish fund provides additional ESG related information on their website. Looking at the 2021 annual report, it is noticeable that EQT is working on an ESG integrated strategy and reporting implementation. Although they already have some sustainable initiatives such as EUR 10 billion ESG-linked credit facilities, most of the reporting is done on fund level and not on investment level. The report mentions an investment playbook with seven tools that work as a growth driver through future-proofed investments: 1) Thematic and sector-based approach; 2) Local-with-locals; 3) House of value creation; 4) Governance model; 5) EQT network; 6) Digitalization; and 7) Sustainability. In each of these tools, ESG is integrated and proves that the fund is working on an increased integrated reporting and strategy approach. The sustainability tool mentions the direct link between the investment advisory teams and its growing dedicated sustainability team. This close interaction helps to act as a centre of excellence and supports the implementation of sustainability related topics across the organization in dialogue with key external stakeholders.

Within the investment process, there is a central role for digitalisation and sustainability through an in-house-developed AI tool (Motherbrain) which incorporates the UN SDGs into the decision making. Next to this initial deal sourcing procedure, ESG has an impact as material topics are identified through a sustainability due diligence assessment. In this materiality analysis, EQT incorporates the UN SDGs at a target level in relation to which global challenges EQT can contribute, both as corporate and at scale in the role as investment advisors. Next, with an employee base of 1,160 people, EQT puts an emphasis on Diversity, Equity & Inclusion (DEI) for better decision-making and performance. Although the reporting on this looks rather preliminary (women per segment and geographical roots), the fund wants to increase its performance in this segment through a development framework and an EQT Academy.

Finally, regarding the reporting of climate and environment, EQT mainly focuses on greenhouse gas (GHG) emission by scope and source. Although the non-investment scope 3 emissions are not included, this part still constitutes 96% of the total emissions. This remarkable number is the result of EQT's extensive business travel. While the business travel emission lowered in 2020 due to COVID-19, it once again increased in 2021. The 2030 science-based targets for business travel are located in between the current level and the 2019 level (respectively 12,593 and 6,092 tons of CO_2).

In the notes, the report elaborates on the GHG emission of its portfolio companies by scope and fund. Although this gives an indication of the companies' sustainability, it is not entirely accurate, as not all companies are included, and some estimates are used for included companies. Further, EQT explains its 2030 targets where they aim to reduce the office energy consumption emission by 50%, the indirect emissions from business travel by 30%, etc. Furthermore, the fund specifies the working of its task force on climate-related financial disclosures, the stakeholder engagement and materiality analysis and the usage of the Global Reporting Initiative (GRI) content index.

EQT is one of the first PE funds that signed up for the Science based Targets initiative, which sets a reduction of GHG emission as a target for companies. This initiative is in line with the Paris agreement. Currently, EQT is still in the preliminary phase and setting its targets, gathering information, etc. In order to reach these targets, EQT will partner up with the EQT foundation, which is already quite advanced in climate technology. Furthermore, this foundation is focused on "driving global philanthropic activities and investing in impact innovation" (EQT, 2022).

Although EQT is on a good trajectory with setting up their own EQT foundation and committing themselves to emission reduction targets, there is still a long way to go. While it is nice to set emission reduction targets, these targets should be on a complete portfolio (scope 3) level. This will require further data gathering and processing. Currently, EQT's main emission reduction goal is focused on business travel. As business travel engulfs 96% of the total emissions on fund level, this will be an important target. While EQT is more reporting on its initiatives to reduce GHG emissions in its office, this seems rather negligeable as it only comprises 4% of the total emissions. This side of the reporting could be considered as greenwashing[8]. When it comes to the S part of the ESG story, EQT seems rather uninvolved in this. The Swedish fund only reports on some indicators such as gender diversity and age per function (at fund level). In line with the sustainability reporting, the fund does not report on the social impact of its portfolio companies.

[8] *Further down in the report this topic will be expanded upon, for now the following definition will do: "Disinformation disseminated by an organization so as to present an environmentally responsible public image." ~ Oxford languages*

(3i Group, 2022)

3i Group's 2021 separate sustainability report starts with the business explanation followed by a statement from the Chief Executive Officer (CEO), in which he declares 3i's ESG strategy is composed out of 3 key priorities: Invest responsibly; Recruit and develop a diverse pool of talent; and Act as a good corporate citizen. Furthermore, 3i states it is committed to maintain their reputation on transparent reporting, claims it works hard to prepare itself for reporting in alignment with the Task Force on Climate-Related Financial Disclosures (TCFD) framework by 2024, and explains it will sharpen their ESG data collection and their understanding of the risks climate change brings for their portfolio. The introduction is wrapped up by the explanation of the governance framework, which shows that sustainability is the responsibility of the very top of the company, and external benchmarking with four indices.

In the second chapter, "A responsible investor", 3i explains the impact they can have when they use their EUR 26 billion AUM. They state that as an individual company 3i does not have a lot of impact, but with the combined strength of their portfolio they can achieve progress on many sustainability issues. The approach to responsible investment is fourfold: Long term stewardship; Thematic origination; Careful portfolio construction; and Rigorous assessment and management. Additionally, the group only invests in companies that are committed to the environment, fair and safe working conditions, business integrity, and good governance. An extra layer is added when portfolios are constructed as 3i only invests in companies that thrive under climate change and resource scarcity, and demographic and social change. They disclose, albeit on a high level, their different steps on how they asses ESG factors before, during and after investing in a company. 3i ends this chapter with discussing the portfolio's main ESG concerns and the related risk management mechanisms.

The next section is about their commitment towards being a responsible employer, in which 3i explains how they commit themselves to the modern slavery act and how they internalise DEI thinking. The latter is supported with numbers from their social balance sheet such as numbers on ethnic diversity, gender diversity and social diversity. What follows is a long list of reasons why 3i is a great employer. It is more a hidden recruitment marketing brochure than anything else.

In last section of the report, 3i explains what it means with being a good corporate citizen. They explain their standards of conduct and behaviour and say they train every employee in those standards. Every employee also has a mandatory conduct objective against which they are assessed as part of their annual performance review. 3i continues by elaborating on their compliance policies and their views on taxation, which are fairly straight forward. A large part of this chapter is dedicated to showing the different initiatives 3i itself took to improve their ecological footprint. It is in this part that we see their first hard numbers. These numbers show their evolution in CO_2 emissions in all three scopes and their paper waste. Next to their environmental efforts, 3i discloses what actions they took to support the community and how they handle their stakeholders.

To conclude, it is a pretty hollow report which is very extensive but not specific enough, with a lot of pages used to explain the reader quite obvious material and many referrals to other documents. Furthermore, there are missing hard and raw numbers regarding their actual ESG performance. Positive is the linking of performance with the code of conduct and the measuring of the scope 3 emissions.

(Tikehau Capital, 2021)

Tikehau's 2020 sustainability report starts with a company introduction together with key numbers and a message from the founders about the urgency of climate change. Then there is a chapter in which Tikehau shows why they are a committed company. A timeline of milestones is given, followed by an introduction of who is responsible for what part of the sustainability strategy within a governance framework. Tikehau utilises the SDGs framework to visualise their sustainability metrics and focuses a lot on the CSR framework to showcase their sustainability. They have identified five key CSR themes for the Tikehau group to focus on: Governance and business ethics; Climate change; Talent, diversity and inclusion; Innovation and digitalisation; Beyond business lines. Every theme is supported with a short overview of the actions Tikehau has taken.

Furthermore, there is a section dealing with the sustainability within the investment strategy. Tikehau's investment policy has integrated ESG factors into its valuations and allows for ESG risk mitigating factors. They see ESG evaluation as a good management practice which helps to minimize risks and source opportunities. In a matrix, consisting of the different subdivisions of the group and the different ESG integration steps, they show what subdivision undergoes which efforts. The chapter finishes with a slide on how far the group already complies with the SFDR of the EU.

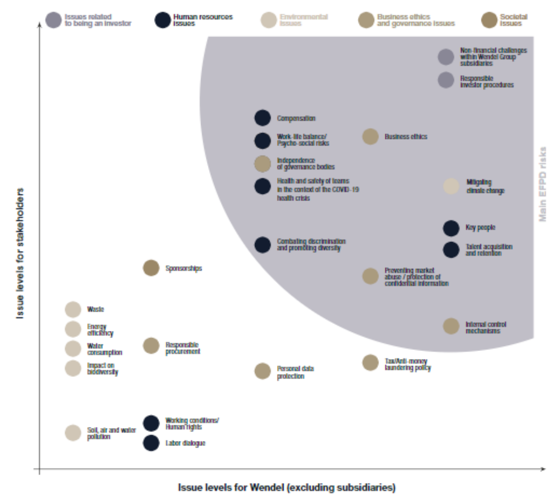
Next, the focus on climate change and the impact approach are highlighted. The former just repeats the four investing steps and the tons of CO_2 equivalent per business unit, the latter shows how Tikehau's efforts relate to the SDGs. Finally, sustainability investing across activities is the last and longest chapter of the report. It shows the efforts and gives examples of actions taken by the different subdivisions of Tikehau, combined with the different SDGs those actions fall under. They disclose KPIs on a portfolio basis, but not a single number is given from a specific portfolio company. When they do give an example of the actions a portfolio company took, they differentiate between the achievements of the portfolio company and what Tikehau brought to the table. This way the reader can see the added value of Tikehau. The different goals and practices mentioned earlier in the report are now repeated but on a subdivision level.

In conclusion, Tikehau has written a very clear and strong sustainability report. The fact that it is not integrated into the annual statements is often unhandy as it requires the reader to search for information in another document. The SDGs are mentioned but do not have anything more than a supporting role, which is fine. They illustrate the global impact their actions can have without them becoming the goal of these actions. Tikehau prefers the CSR framework over the ESG framework. They link their goals and commitments to CSR and explain very clearly how they are trying to reach them. The report would become a lot stronger if Tikehau would disclose more detailed information on their portfolio companies and would release hard figures on their overall performance.

(Wendel, 2022)

With 151 pages, Wendel publishes by far the largest sustainability report of all the peers. The report is introduced with standard information on the company, such as key figures, their main sources of permanent capital, mission & vision statement and a short overview of their ESG strategy. A noteworthy sentence is their mission statement which is nearly identical to Gimv's: "Engaging with entrepreneurial teams to build sustainable leading companies.". Also similar to Gimv is their 'double strategy', where they set goals based on two premises. First, empower excellence and second build sustainable companies. The report continues by explaining that Wendel's ESG efforts are coordinated by the sustainable development department and by the ESG steering committee and how these bodies engage in a constructive dialogue with their stakeholders. Wendel bases their ESG needs on a risk mapping exercise, which results in the figure on the right. Surprisingly only one of the environmental issues made it into the grey area (main risk area) and not a single societal issue. All the other main issues are HR, governance or investing related. Wendel as an investor does not lose sight of what they are and of what their impact can be. With this diagram they show that they have to create the environment that enables their portfolio companies to thrive and become sustainable. Then, some pages follow on all their ESG highlights of the year and on all the different scores they receive. Most highlights are about winning a prize or receiving a rating of some kind. Wendel publishes scores of 8 different agencies of which MSCI, Sustainalytics and Dow Jones sustainability index are the most important.

Figure 6: Risk mapping exercise Wendel



Source: Wendel annual statements 2021

Following their overall performance are 25 pages on their actual ESG strategy and actions. It is in this section that their consolidated performance on ESG is explained and shown. They go ahead with elaborating on the group's strategy: "Empower excellence and build leading sustainable companies". "Uphold the highest governance, ethics, and environmental and operational management standards" is the part where creating an environment of excellence is explained. Here Wendel explains its governance policies, such as the anti-money laundering, how they prevent market abuses by their portfolio companies and how they uphold compliance standards. As Wendel sees dealing with ESG as dealing with systemic risk, they also describe the possible benefits as well as the possible risks of not performing those actions. No hard figures on KPIs are given. Environmental performance follows on governance. Here the company explains every ESG policy they have integrated and what the results of those policies are. The published metrics are scope 1-2-3 emission results and a pie chart on how these emissions are distributed by expenses category. In addition to the emissions numbers, Wendel also publishes results on their waste policy.

The social part of ESG is documented significantly better than the first two parts, showing more KPIs and explaining their meaning more extensively. Further, an elaboration on Wendel's 'building leading sustainable companies' -strategy follows. The first step of having a strong ESG performance as an investor is to integrate ESG into your investment cycle. The second step, according to Wendel is to clearly define in what you can and cannot invest. Wendel has defined four priority themes: Equality and diversity; Climate; Health & safety; and Sustainable designed products. If these four are not a priority for the company, Wendel does not invest. Wendel concludes the section by stating which SDGs their strategy supports and towards which ones they would like to contribute by 2030.

Next, to conclude the first large part of the report, some forward looking topics are dealt with. It starts with the climate as a whole, and where Wendel has conducted a risk assessment exercise for all its subsidiaries on the risks of climate change. In order to conduct this assessment, Wendel relied on the TCFD framework. Wendel shows its alignment with the framework's recommendations and to which threats their portfolio companies are still exposed. However, it is not done on a company level but on a group level. Additionally, Wendel already looked which of their activities would fall under the EU taxonomy legislation and measured the size and impact of these activities. The last forward-looking issue concerns the company's ESG roadmap. The roadmap gives an extensive overview of the ESG targets set for 2023, which are aligned with the 'double strategy', and states clearly defined KPIs the company as a whole has to reach.

In the second large part of the report, Wendel has chosen four majority participations for an external ESG review. The review starts off with an overview and strategy focus of the company, and an explanation of their different commitments towards ESG and CSR. The focus is tied to multiple SDGs, which are supported by the actions of the company. Next, the results, which are metrics on a selection of KPIs tied to the strategy focus of the company, of last year are shown alongside the results of the two previous years. Furthermore, the review looks into the future by describing the action plan that will be followed to improve the previously shown metrics. Finally, the analyses of these companies are interwoven with the different SDGs they claim to support, which are often referred to when the performance of the KPIs on ESG are discussed. The review of these portfolio companies' performance is, remarkably enough, more detailed the one on Wendel as a whole.

In summary, Wendel has made an incredible long and detailed report, where they describe their different initiatives in great detail and explain the different frameworks they utilise and show a convincing path towards their long term goals. However, they remain unconvincing when it comes to actual hard numbers reporting. They neatly measure their scope 1-2-3 emissions but do not give us a lot more to go on. Their chapter on taxonomy is a description of what parts of their company would fall under review and not how they would fair during an audit. Wendel is the only one to allow a thorough review of some of their portfolio companies (the ones in which they have the largest stake) and to allow an audit of their reporting practices, albeit a limited one.

7 LITERATURE REVIEW – ESG

Nowadays, thousands of companies around the world are measuring, managing and reporting on ESG issues, which is a fairly recent phenomenon since most companies only initiated their ESG strategies in the last few years. This is because of a growing awareness amongst companies of the need to be or at least appear to be socially responsible, either to fend off pressure from interest groups and media, or to market themselves to customers. Therefore, companies are appointing employees to execute these strategies and are setting public, ambitious targets on issues ranging from water usage management and carbon reduction to diversity and employee safety. Moreover, using criteria based on ESG considerations and engaging with companies on ESG issues has become an increasingly important aspect of investment decision making. Nevertheless, as both companies and investors are spending more resources on ESG issues, an important question has become which ESG aspects are financially material and why. Furthermore, the lack of a standard framework in order to facilitate comparison of firm performance on many of the issues deemed material by individual firms, is challenging for investors and other stakeholders.

7.1 Current regulation guidelines and standards

Given the increased attention to ESG and sustainability, reporting on these segments will become important and even mandatory in the future. While the EU is still working on an obligatory legal framework, certain standards and guidelines are already in place. In the next section, a brief overview of these current guidelines and initiatives will be given.

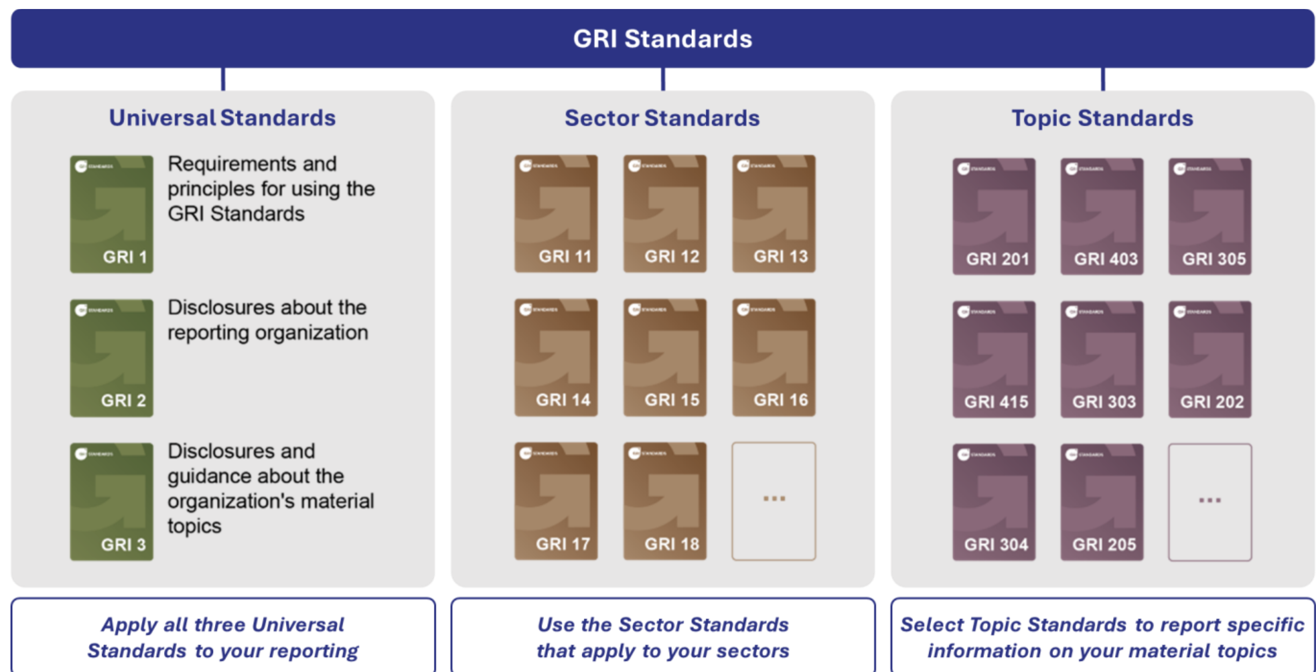
Global Reporting Initiative

GRI was developed by the Global Sustainability Standards Board (GSSB) and its first set of guidelines was launched in 2000. Given its independent non-profit roots, GRI published an initial non-binding sustainability framework. After the launch of three new sets of guidelines, GRI adopted the SDG framework in 2015, this was followed by the introduction of the GRI sustainability Reporting Standards in 2016. The latter meant a transitioning from laying out guidelines to providing an initial set of global standards. GRI describes itself as: “global best practice for reporting publicly on a range of economic, environmental and social impacts” (GRI, 2022). It is meant to deliver the best possible information on companies’ sustainable efforts. The GRI Standards are set out “as a modular system of interconnected standards” (GRI, 2022). GRI Standards consist out of three distinct type of standards:

- Universal Standards (GRI 1, GRI 2 & GRI 3) Explain key concepts for sustainability reporting. Specifies the requirement and reporting principles that the organization must comply with to report in accordance with the GRI standards.
- Sector standards: Provide information for organizations about their likely material topics. The organization uses the Sector Standards that apply to its sectors when determining its material topics, and when determining what information to report for the material topics.
- Topic Standards: The Topic Standards contain disclosures for the organization to report information about its impacts in relation to particular topics. The Topic Standards cover a wide range of topics. The organization uses the Topic Standards according to the list of material topics it has determined using GRI 3.

As can be seen in the figure below, each type of standards has its own requirements laid out in separate standards or guidelines.

Figure 7: GRI Standards



Source: Global Reporting Initiative

All disclosures in the GRI Standards contain requirements. The requirements list information that an organization must report or provide instructions that the organization must comply with to report in accordance with the GRI Standards. Although GRI is not mandatory, it has since its foundation been a profound advocate for the shift to mandatory sustainability reporting. This is why GRI is welcoming the idea of a European ESG reporting directive in the form of the Corporate Sustainability Reporting Directive (CSRD) led by the European Financial Reporting Advisory Group (EFRAG). This new directive will incorporate GRI standard concepts and other ESG reporting frameworks. In the next section (future regulation), CSRD will be further examined.

Sustainable Accounting Standards Board (SASB)

SASB is a global non-profit organization that was founded in 2011 “to help businesses and investors develop a common language about the financial impacts of sustainability” (SASB, 2022). The set of standards is available for 77 industries, with each its own set of industry specific subset. Recently, SASB merged together with the International Integrated Reporting Council (IIRC) and formed a new body: the Value Reporting Foundation. This body has as a purpose to offer: “comprehensive suite of resources including integrated Thinking Principles, the Integrated Reporting Framework, and SASB Standards designed to help businesses and investors develop a shared understanding of enterprise value” (SASB, 2022). According to SASB, this contributes significantly towards the simplification of different guidelines and standards. Whereas GRI reports on the sustainable efforts of a company, SASB allows companies to recognize and report on financially-material information. The concept of materiality, as is well known in other financial reporting areas, is introduced into reporting on sustainability. Since SASB is a US founded nonprofit organization, it has no substantial impact on Gimv’s ESG reporting. Nonetheless, SASB is included in this section for its relevance in the upcoming legislation by the International Sustainability Standards Board (ISSB), which was founded by the IFRS. ISSB will use SASB and its materiality concept as the foundation of its reporting directive. This new regulation will be further examined in the next section (future legislation).

Sustainable Finance Disclosure Regulation

The SFDR regulation was introduced by the European commission on December 9th 2019 and went into action on March 10th 2021. SFDR was introduced to improve transparency in the market for sustainable investment products and to increase transparency around sustainability claims made by financial market participants. The new regulation is the core part of the sustainable finance plan, which was introduced in 2018 and also includes the implementation of the new EU taxonomy regulation, which will be examined in the next section. As this is a new European regulation, UK based companies do not have to comply with SFDR. Since the initial implementation in March 2021, several supplementary standards were put in place, of which the latest one was launched in January 2022. Within this sustainable finance plan, the EU laid out a 10-point action plan, which intends to “leverage financial markets in order to address sustainability plans” (Morningstar, 2021). As can be seen, some parts of the SFDR regulation are not applied yet and have thus no impact on Gimv for the moment. However expectations are that the SFDR will come fully in effect in the near future, Gimv would therefore do well to prepare for the impact of these new regulations. Looking at what is most applicable at the moment, we end up at the SFDR 8 and 9 standards. Although every fund has to report on their sustainability risks, to be in line with SFDR, funds that have an ESG focused investment strategy have additional reporting obligations. Those funds that integrate ESG principles into their investment policy, have to report in line with SFDR 8 regulation. If a fund would profile itself as an impact investor (fund that pursues sustainable goals), this falls under SFDR 9 and would also require additional reporting duties.

Task Force on Climate-related Financial Disclosures

Like the GRI, TCFD gives recommendations on ESG disclosure. Through these recommendations, TCFD aspires to provide investors with information on how to price ESG related risks and opportunities of the companies they (aim to) invest in. The first climate-related reporting guidelines were launched in 2017 and are built around four core elements: Metrics and Targets, Risk Management, Strategy and Governance (TCFD, 2022). The framework established by the TCFD will provide the foundation of the new set of standards that the ISSB (an IFRS body) is currently working on (see section 8.1 for the summary of the conference with Jean-Paul Servais).

7.2 Future regulation

As can be seen in the current regulation, there are many different sets of guidelines and standards. Given this significant difference in reporting, investors encounter a lot of trouble in identifying best in class performers. This creates an environment in which companies that do a good job in measuring their ESG performance, might have a disadvantage. As Jean-Paul Servais mentioned during the digital finance conference[9], greenwashing is the biggest issue in ESG reporting (Miller, Walker, & Klasa, 2022; Mundy, 2022). Currently, different government bodies and regulators are working to solve the problem of this "alphabet soup" (Jean-Paul Servais, 2022) of different guidelines and standards. In the section below, an overview will be given of the different European and global initiatives that should bring clarity in ESG-reporting. An increase in clarity should pave the way to more interest in sustainable investments, which would help the EU to meet its 2030 energy targets and reach its objectives laid out in the European Green Deal.

EU Taxonomy

As mentioned in the previous section, the EU Taxonomy is one of the ten core parts of the EU Sustainable Action Plan. This set of guidelines will allow companies to determine the environmental sustainability of their economic activities. By identifying the sustainability of companies' operations, the EU Taxonomy will aid investors to make better informed decisions. This classification system will establish a list of which operations/activities can be considered as sustainable. The regulation uses six distinct climate-oriented targets:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems.

[9] For reference see chapter 8.1 of this report

Corporate Sustainability Reporting Directive

As sustainability is one of the biggest drivers of changes in (non) financial reporting, the EU requires unified reporting laws and regulations. The current EU regulation already obliges large (listed) companies to report on regular basis on ESG. The CSRD or Non-Financial Reporting Directive (NFRD) as it is often referred to, will increase the number of companies that will have to report on their ESG performance. Next to this, more requirements will be put in place and a formal audit will be necessary. Currently around 11 700 companies in the EU are already inside the scope of the CSRD. It is expected that the scope of CSRD will further expand over the upcoming years. Under the directive, companies have to report on subjects related to: "environmental matters, social matters and treatments of employees, respect for human rights, anti-corruption and bribery, diversity on company boards (CSRD, 2022). The first set of standards will be introduced by October 2022 (CSRD, 2022).

7.3 Rating agencies and their ESG scores

A small group of rating agencies has emerged as powerful arbiters in the world of socially responsible investing, where more and more companies are weighed according to their environmental impact, social responsibility and good governance. However, the green scores they award and resell are by no means always objective and reliable. For instance, the same company may receive a totally different score from one rating agency than from another. This is because there is no generally accepted standard for sustainable investment, so consistency is often hard to find. The ESG score of a company therefore has something subjective and arbitrary.

Cockx and Depuydt (2022) screened the largest twenty shares on the Brussels stock exchange, with the result that the sustainability scores assigned by green rating agencies such as MSCI, S&P Global, Sustainalytics and Refinitiv varied widely. The ESG scores were set out on a scale from 0 to 100 and for no less than one in three companies the difference between the best and the worst score was at least 50 percentage points. Moreover, it turned out that more than 65 percent of the companies receive ratings that can be a third higher or lower, depending on the rating agency that screens them.

Finally, an example of the listed chemical group Solvay shows once again that the sustainability ratings have an arbitrary character. In September 2021, the activist fund and shareholder of Solvay, Bluebell Capital, demanded the resignation of CEO Ilham Kadri because in their opinion the company was not sustainable enough. In a letter, the fund criticised Solvay for discharging hazardous waste into the sea at its plant in Rosignano (Italy), which the Belgian chemicals giant denied. In response, Bluebell informed the rating agency MSCI, which had given Solvay the highest possible sustainability rating (AAA). A bit later, the score was lowered to AA, which, according to the activist fund, proved that Solvay was pretending to be greener than it was and was therefore engaging in greenwashing.

Nevertheless, the head of sustainability at Solvay, Pascal Chalvon, stated that the adjusted score had nothing to do with the intervention of Bluebell Capital. He referred to the fact that MSCI had decided to increase the weight it gives to corporate governance, thus putting less emphasis on aspects such as environmental and social responsibility. Given the historically high presence of family shareholders in Solvay's capital, this made the company less independent in the eyes of Anglo-Saxon investors. S&P Global, on the other hand, gives an exactly opposite assessment and considers the chemical company to be state of the art in corporate governance.

Similarity with credit ratings and 2008 financial crisis

The subjectivity and commercial aspect linked to the sustainability ratings of rating agencies is reminiscent of the role played by these same rating agencies and their credit ratings in the run-up to the 2008 financial crisis. An article published by the Financial Times in 2010 shows that the conflict of interest between these agencies and investment banks that pay companies like Moody's and S&P for their services, was, in retrospect, one of the causes (Kirchgaessner & Sieff, 2010). The rating agencies acted as a supposedly independent and important arbiter for investors on the risk associated with highly complex financial products, such as collateral debt obligations. However, ultimately these analysts failed in their task. The agencies each rated more than 10,000 residential mortgage-backed securities between 2006 and 2007, and then downgraded thousands of the securities within a year, shaking the global financial system. In hindsight, it turned out that the agencies were aware of the impending financial collapse, but in the interest of preserving market share, they decided to continue their practices. They failed to incorporate their growing awareness of fraud in the credit sector into their rating practices, as it was seen as a potential blockage to revenue.

7.4 Corporate sustainability and enterprise value

Sustainable investments have exploded over the last few years, with global ESG AUM accounting to EUR 2.61 trillion in December 2021, up from EUR 1.22 trillion at the end of 2019 (Morningstar, 2022). These figures clearly reflect how financial markets and investors collectively take positive account of ESG in their capital allocation decision. However, such a favourable appraisal by investors is in contrast with a yet unresolved debate concerning the impact that a firm's engagement in ESG practices has on its enterprise value. In the light of this discussion, recent research advocates for a strengthening of the theoretical efforts directed toward providing a fine-grained understanding of the mechanisms which underlie the relationship between a company's ESG strategy and its firm value, as the current studies' findings follow an inconclusive pattern. (Wang, Gibson, & Zander, 2020).

The mixed evidence reveals that the relationship between ESG performance and a firm's total value is not as simple as merely comparing direct costs and benefits. In fact, ESG performance may interact in a complex way with other value sources in determining a firm's total value. Accordingly, the latest research encourages exploring the moderating factors which shape this relationship differently across companies (Magrizos, Apospori, Carrigan, & Jones, 2021). Nevertheless, in this section the several views, concerning the relationship between ESG and value creation, are summarized. These views stem from studies conducted over the past five years, which is a deliberate choice because ESG research has only developed strongly in recent years.

Positive relationship

Li, Gong, Zhang and Koh (2018) used a cross-sectional dataset consisting of 350 listed firms to investigate whether superior ESG disclosure affects enterprise value. Their conclusion is a positive association between ESG disclosure level and value, which suggests that improved transparency & accountability and enhanced stakeholder trust play a role in increasing enterprise value. In addition, they report the association is more profound when CEO power is greater. Their evidence is strong and consistent for the three different aspects of ESG.

Next, the study of Pollard, Sherwood and Klobus (2018) demonstrates, through a cross-sectional analysis of developed ESG research, that ESG premia longitudinally and geographically provide excess returns. Furthermore, this study presents the potential for ESG premia to take its place alongside other well-documented risk premia such as momentum, volatility, size, value, and liquidity. Finally, in the research of Efma and Avanade (2022) who investigated the attention on ESG by banks, it shows that companies that lead in sustainability perform better financially, are more innovative and have better credit ratings.

ESG reporting and transparency

Yu, Guo and Luu (2018) had a look at 1996 large cap companies and used the Bloomberg ESG disclosure score to evaluate the relationship between a firm's value and ESG transparency. The findings suggest that more ESG data is beneficial to value and that ESG transparency can be viewed as non-financial information that provides additional insight to investors. As a result, an increase in ESG disclosure reduces investors' information asymmetry and agency costs. With regard to the determinants of ESG transparency, the analysis notices that companies with greater size, a lower percentage of institutional investors, fewer insider holdings, higher R&D intensity and better liquidity disclose more on ESG issues.

However, one should be careful with the non-financial information disclosed as some companies hide the true effects of their products, services or actions, or manipulate some information until it turns out to be favourable to them. These practices are called greenwashing and it makes it seem as though the company is very concerned about the environment and society, but in fact stakeholders are just mislead through the fraudulent information they get. The many recent scandals show that the consequences for a company can be enormous when such matters come to light. The topic is still very actual as the recent example of the police raid on the premises of DWS and its majority owner Deutsche Bank as part of a probe into allegations of greenwashing at the asset manager shows (Miller & Walker, 2022). The research by the German financial regulator had been triggered by reports in the media stating that the asset manager marketed and sold so called green financial products 'greener' or 'more sustainable' than they actually were. Moreover, former DWS executive, Desiree Fixler, declared that the company's 2020 annual report contains misleading claims over more than half of the group's EUR 850 billion assets being invested using ESG criteria. As a result of this investigation, it turned out that sufficient factual evidence had emerged contrary to the statements made in the sales prospectuses of DWS funds, showing that ESG factors were not taken into account at all in a large number of investments. Consequently, CEO of DWS Group, resigned hours after the police raid and shares fell by more than ten percent in the hours after the event.

Change in ESG performance

Likewise, there is the research of Giese, Lee, Melas, Nagy and Nishikawa (2019) which suggests that evolutions in companies' ESG characteristics may be a useful financial indicator. In the case of a positive evolution, they state that companies' ESG information is transmitted to their valuation and performance, both through their idiosyncratic risk profile (higher profitability and lower exposures to tail risk) and their systematic risk profile (lower costs of capital and higher valuations).

Non-linear relationship

Sun, Yao and Govind (2019) propose and test an inverted-U-shaped relationship between CSR and shareholder value, the fundamental measure of firm performance. Additionally, they incorporate marketing capability as a critical firm attribute to moderate the non-linear link between CSR and shareholder value. Their results show that an initial increase in CSR engagement positively vitalizes enterprise value, but the effect turns negative when a firm pursues excessive CSR commitment. Notably, however, they find this negative association does not apply to companies with high marketing capabilities.

No relationship

Breedt, Ciliberti, Gualdi and Seager (2019), however, indicate that any benefit from incorporating ESG data in investment decisions is already captured by other well-defined and common equity factors. Their research shows that the integration of unenriched, ranked, and ready-to-use ESG information yields no additional benefit. Nonetheless, they find it does not seem to have a negative impact on returns either.

Imprecise relationship

The study of Awaysheh, Heron, Perry and Wilson (2020) examines the relation between CSR and financial performance by benchmarking companies against industry peers in a given year to identify best-in-class and worst-in-class companies. The findings disclose the best-in-class firms to outperform their worst-in-class and mid-80% counterparts in terms of operating performance and higher relative market valuation. Moreover, when they controlled for endogeneity, they found that the significant relation between operating performance and CSR categories disappears, which calls into question whether the relation is causal. It suggests that endogeneity issues may partially explain why literature has found mixed results. However, Awaysheh et al. (2020) still believe that by contrasting the best-in-class or top 10% within an industry to other firms in the industry, their research proves that companies making significant investments in CSR receive higher relative market valuations than those that do not.

Long-term focus

It can reasonably assumed that creating value from ESG practices urges considering both present and future outcomes, and is intrinsically associated with the long-term. According to this idea, Fuente, Ortiz and Velasco (2021) shifted their attention to a single source of a firm's total value: the growth options (GO) value. This way results not only show whether ESG practices destroy or create value, but also how this process takes place. Their empirical evidence reveals an inverse U-form relationship between a firm's ESG performance and GO value, which is consistent with the research of Sun et al. (2019). Fuente et al. (2021) give the following explanation for the process behind this inverted U-relationship: "ESG practices accumulate social capital and enhances stakeholder trust, which might increase stakeholder willingness to make firm-specific investments that are crucial for optimally managing GO. However, this positive effect of ESG performance on GO value reverses from a certain breakpoint due to the risk reducing effect of ESG performance.". Moreover, they conclude that the relation is found to be stronger for the environmental and social pillars.

Next, based on these findings, the authors examined the influence of GO on the impact of the ESG performance on the enterprise value. The analysis revealed that GO negatively moderates the ESG-firm value relationship, and thereby makes these practices less valuable in companies with a higher proportion of GO. This can be explained by sub additive effects between ESG practices and GO in expanding the potential of a business' operations, as well as by the need to serve a wider range of stakeholders (both current stakeholders already engaged in ESG and future stakeholders brought in by GO).

8 ESG - EXPERT OPINIONS

The first section of this chapter will display summaries of the different presentations given at the Digital Finance Conference organised by Vlerick Business School. Thereafter section 8.2 extensively summarises the qualitative interviews done with industry experts.

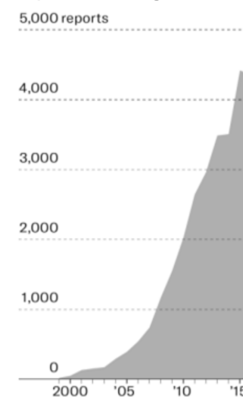
8.1 Digital Finance Conference (24th of May at Bluepoint Business Center Antwerp)[10]

Robert Kaplan on the use of valid and auditable triple bottom line accounting

ESG is fundamentally flawed as it represents 3 domains that are totally different. Whereas the E is physical and can be measured like accounting can, the output of both the S and the G is nearly impossible to measure. Sustainable reporting establishes an overview of both positive and negative externalities from corporate decisions. Professor Kaplan (Harvard Business School) focuses on two points: first do no harm and secondly, do some good. Although this might seem obvious, he focuses on conscious investing. Companies invest consciously when they focus on their own expertise and supply chain. The investments allow every stakeholder to thrive. Professor Kaplan emphasises that investing does not equal charity, as charity is not sustainable. The reporting of these actions and sustainability as a whole should be done via a balanced scorecard. This will allow for a positive impact on the triple bottom line reporting. Reporting on the triple bottom line encourages companies to include non-financial data into their decision process, furthermore companies will have to start measuring their ESG data in order to bring forth change.

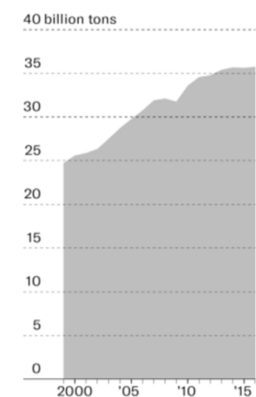
Professor Kaplan is puzzled by graph 2 which shows how emissions only have gone up since companies started to release more and more reports on their emissions. He concludes that reports alone are not sufficient to stop emitting GHGs. He suggests a reporting model that allows to trace back accountability throughout the value chain. Professor Kaplan asks for a shift from scope 1[11] to scope 3 – reporting, where scope 3 emissions are treated the same way we treat COGS in our financial bookkeeping. Companies have to report their emissions on a product level. The next company in the supply chain can then add their emissions and so on until the customer consumes the final product. The professor encourages large companies to pressure their entire value chain to follow suit. This would allow for scope 3 reporting, a carbon tax and a legal framework around ESG. The model also protects 'good companies' from being disadvantaged by 'bad companies' because they are not penalized for their polluting behaviour and greenwashing.

Graph 2: CSR reports using GRI



Source: GRI

Graph 3: Global GHG emissions



Source: Worldometer

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[10] *All of the opinions in section 8.1 were gathered during the Digital Finance Conference organised by Vlerick.*

[11] *Scope 1: Direct GHG from own operations, Scope 2: Quantify suppliers, Scope 3: Include upstream and downstream GHG next to own operation*

“After we have measured all our metrics, what do we do with it. How does a good or bad ESG performance change a company’s valuation?” A good measurement of the data, which is easy for the E, but quite hard for both the S and G allows for informed decisions by consumers and investors. They will be prepared to pay for a positive ESG score. Professor Kaplan notes that a legal framework will help for investors and consumers to reward companies for their ESG efforts. For this legal framework, Kaplan looks at both legal and global accounting regulatory authorities and introduces the first speaker of the regulatory track: Jean-Paul Servais.

Jean-Paul Servais on the Belgian and international perspective on ESG disclosures

Given the increased interest in sustainability/ESG, Jean-Paul Servais director and chairman of the FSMA and vice chair of the International Organization of Securities Commissions (IOSCO) notices that there is a substantial demand for corporate disclosures on this subject. According to Servais, it is rare that investors and companies alike demand such a legislation. Since there are currently a multitude of guidelines and standards, it is most appropriate that this shifts to one (universal) set of standards. This set of standards could then be accompanied with supplementary local disclosures. As with current financial/accounting disclosures, this new legislation will require 3rd party verification in the form of auditors. To show the increased interest in sustainable investing, Jean-Paul shows that around 60% of the NAV held by Collective Investment Schemes (CIS), consists of SFDR 8 & 9 eligible investments. While this part keeps on increasing, the article 6 eligible investments[12] is decreasing. IOSCO is an international organization of financial market supervision and is on board in establishing these new laws.

Recently, SASB[13] introduced new standards which include scope 3 emissions, it is a fairly new practice to include this. In Glasgow a new (IFRS) body was created to introduce ESG disclosure regulations that will be similar to IFRS’ accounting/financial disclosure standards. This International Sustainability Standards Board (ISSB) intends to merge with other standards such as SASB, CDSB & VRF, to create a universal set of standards which allows for easy corporate comparison. Currently, IOSCO is evaluating whether it will endorse the standards by ISSB. This set of standards will be established in negotiation with the US SEC and the EU commission. Since this new standard will only be implemented in some time, Servais describes Greenwashing as the biggest tread to ESG reporting. Because of the soup of current standards and guidelines, some companies see opportunities in greenwashing and thus misleading the investment universe.

Not only will ISSB copy the TCFD, according to the draft published, the core content and recommendations will also be consistent with TCFD. ISSB’s standards will be open, which means that if they are not applicable, then other (applicable) standards should be considered. As ISSB will also built on SASB standards, it will incorporate the (double) materiality concept of said regulation. In essence, ISSB intends to consolidate and internationalize other guidelines such as SASB, TCFD, etc. When asked about the link between CSRD and ISSB, Servais could not provide a concise answer. This was the first time that he mentioned the upcoming CSRD regulation in his presentation. According to the FSMA chairman, it will be decisive to coordinate on timing. A bad coordination on this part could result in a type of “form shopping”, where companies decide on the most convenient regulation.

[12] *This article refers to companies where it is business as usual, no significant environmental/ESG efforts are done*

[13] *US, sponsored by the industry*

Kyle Mofatt on the SEC's climate agenda

Mr. Mofatt is a partner at the auditor PwC and specialises in accounting. Previously he was active for 10 years at the Securities and Exchange Commission of which the last six months as the Chief Accountant and disclosure program director. As mentioned by Jean-Paul Servais, the SEC is working on further ESG regulation. Some parts are being elaborated in discussion with the ISSB. Since climate is a higher priority to President Biden, the one that disclosure standard that is being developed now is predominantly focused on sustainability and climate. Although the standard is not yet fully developed, some government officials and corporates alike have announced that they will defy the standard in court. The PwC partner could not guarantee that the standard will hold in court due to current reporting regulation. If the standard were to be denied by the court, Moffatt mentions that this would only imply a delay of implementation.

Ilse Lampaert on integrated reporting in practice

Ms Lampaert is responsible for delivering advice about sustainability reporting at KBC bank. This speaker discussed whether ESG reporting should be integrated into the financial reporting or not. Since most future reporting standards will focus on integrated reporting, companies should start with this type of reporting. Companies should address interconnectivity of inputs (human, natural, financial etc.), to establish an integrated reporting. This implies that companies have to include their ESG report into the annual report, if desired they can also publish an additional ESG report.

Pierre Gurdjan on ESG metrics driving executive rewards (the UCB roadmap)

Pierre Gurdjan is Member of the Board of Directors at UCB and has ben at McKinsey & Company for more than 27 years. Mr. Gurdjan believes that the societal impact as a whole is the key to conducting correct behaviour in accordance with CSR. Their largest challenge lies in the measurement of the societal impact their products and services have. To keep track UCB utilises its own framework consisting of four pillars: Innovation; Employees; Access to medicine; Health of the planet. When asked about the value of ESG efforts mister Gurdjan responses that when a company manages its ESG well, it can be safely assumed other aspects of their business are managed well also. He thinks its borderline impossible, with today's standards, to calculate the exact value of an improved culture and improved sustainability efforts.

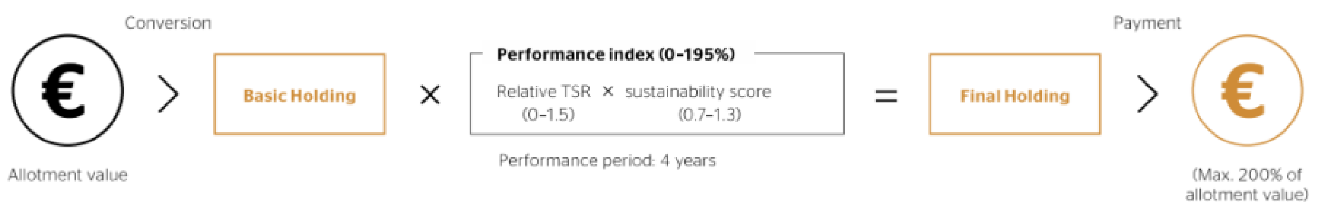
Professor Xavier Baeten on how executive remuneration can contribute to a better world

Prof. Baeten is a professor in sustainability at the Vlerick Business School. Prof. Baeten shows that executive pay is a hot topic today. As more and more voices rise to exchange "greed for good" that ask for a change in the remuneration requirements. In order to achieve this change companies will have to install metrics beyond just the E part of the ESG framework. These metrics have to be different for every company, as the company has to focus on what its activities are otherwise the performance part of the executive pay disappears. Improving the environment from the company's own perspective by doing what they are good at is the correct approach, according to the professor.

The professor has identified four ways to translate metrics into remuneration via long- and short-term incentives. These four ways can be illustrated by examples and are sometimes used interchangeably as there is not one correct way or solution to executive pay. All four do make use of short- and long-term goals as they are both necessary in order to achieve quick wins and therefore motivation whilst not losing sight of the larger, overall goals of the future.

The first method is: “specific indicators”. Companies like the RELX group us very specific goals and tie them to a part of the remuneration (10%). Every goal takes up a part of that 10% following a certain weight scheme. An example is the decrease in total waste send to a land fill by 33% in 2015. This is a clear-cut goal that determines 25% of the 10% of the executive’s pay. The second method is making use of “multiplier”. This means an arbitrary multiplier is chosen that will uplift (or reduce) the remuneration based on the performance of the metric the multiplier acts on. The extraction below is the example of the company Continental.

Figure 8: Continental multiplier formula



Source: Digital finance conference, presentation professor Xavier Baeten

Third is the external evaluation which is being practiced by for example the company Snam. This method is very straightforward as they select multiple indexes of which the performance determines a part of the pay. The last method is the self-evaluation method. Here a company creates its own framework that allows to give scores to certain actions. These scores then determine the executive pay. Unilever is one of these companies that uses this method. They installed an internal organ to determine the scores.

Professor Baeten says the impact of such payment schemes cannot be underestimated. As these schemes determine what will be measured. It is often the topics that are measured that are also paid the most attention to. At the same time, he pleads for a certain level of restrained and he sympathises with the companies that only dedicate a small percentage of their executive remuneration to ESG performance. It is better to start of small and grow than to crash and burn. The professor finishes with stating that the goals, on which the compensation will be based, must be in line with the overall strategy.

Peter Plochan on climate change causing the greatest big data problem organizations will face

The first speaker of the Sustainability & Technology track starts off with an overview of quotes from different heads of industry and with a SAS quote: “Climate change is an opportunity for innovation fuelled by data and analytics”. Next, he provides an overview of the current Sustainability, ESG and Climate (reporting) wave. As already mentioned in the legislation part of this report, there are quite a few guidelines/frameworks when it comes to the disclosure part of ESG. Although it might seem as an abundance in regulation and time inquiring subjects, the sustainability “wave” might be one of the biggest business opportunities in years. Companies that manage to not only disclose and comply with the disclosure regulation, but also tap into sustainability opportunities, will be able to create a substantial added value. According to the risk management specialist, the biggest driver in this transition will be technology/data and a clear set of standards. Standardisation in disclosure requirements and data handling will increase transparency and unlock the entire potential of ESG driven companies.

In line with the opening speaker of the conference (Bob Kaplan), Peter Plochan is a believer of GHG emission driven approach when it comes to (environmental) sustainability. This should be examined over the entire value chain as “the chain is only as strong as its weakest link”. Once again, technology will play an enabling role in this implementation.

Qayyum Rajan on leveraging outside-in ESG data using natural language processing (NLP)

The second speaker in the Sustainability & Technology track is an entrepreneur and founder of ESG Analytics. ESG Analytics is an Artificial Intelligence (AI), data driven company that maps out a company’s ESG performance through the use of alternative data. This alternative data could be drawn from many different external data points such as news, public watchdogs, independent reports processed using natural language, processing algorithms. These data sources outside of the company, can provide unique insights into investment opportunities and ESG performance. Once this all this data is processed through AI learning, the output can be publicly disclosed by the company and serve as an indicator of their ESG performance. As ESG rating agencies are under a lot of scrutiny because substantially different or even biased scores for the same company, an AI approach could solve this issue as uses a significant higher amount of data compared to the traditional scoring methods.

8.2 Hans Verboven (CEO of Sustacon)

As the founder and director of Sustacon, Hans Verboven improves companies' ESG reporting and performance as a consultant. Sustacon serves mid-sized and family companies, mostly specialized in the construction sector. Well known Sustacon clients include, but are not limited to, Van Moer Logistics, Foodmaker, Van Roey, Aertssen, etc. For these companies, Hans Verboven and his team develop and implement sustainable strategies that create long term added value. Specific projects consist of setting up frameworks, identifying company specific KPIs and help with abiding reporting directives. While developing an ESG strategy, Prof. Verboven is quite skeptically towards starting from a SDGs perspective. If you start determining your ESG agenda top-down on the basis of SDG, then it could be considered as greenwashing. Strategies should start from the ESG problems that the company can tackle, they should be based on a PESTEL and SWOT. Next a bottom-up approach can match the strategy with the appropriate SDGs.

When asked about ESG performance, Prof. Verboven links ESG performance with good overall corporate governance. As the first is mostly driven by the latter. ESG should always be strategically linked with long-term as ESG consultant Hans Verboven looks at it as a measure of enterprise risk management. When evaluating a company and the economic performance, the exposure of the company to the EU taxonomy should be considered. Next to this, an important aspect whether the company is ESG/economical viable. In line with the presentation of Ilse Lampaert (KBC) at the digital finance conference, Prof. Verboven is a profound believer of integrated reporting and advocates that ESG should be integrated within the overall strategy of a company and its risks and opportunities. While the reporting impact of the new CSRD regulation will be minimal for big companies, it will be very substantial for the medium sized companies. The latter will have to go from not reporting on ESG, to fully comply with the new regulation that has an expected announcement date around October. For consulting companies, this new regulation will provide a business opportunity as around 50,000 companies in Belgium alone, will have to do some form of reporting. One of the biggest advantages of the new CSRD and EU Taxonomy legislation is related to greenwashing. Whereas companies currently could claim to be carbon neutral by only reporting on scope 1&2 emission. This will be impossible under the future regulation as this will be clearly specifying what is green and what not.

Looking at ESG scoring mechanisms, Prof. Verboven considers this as a black box. The only things that can objectively be specified and compared are CO_2 impact and material consumption. Luckily, those two are the biggest and most urgent issues at the moment. Mapping the entire ESG performance and giving a certain score to this is rather difficult as can be seen in the substantially different ESG scores that companies receive from rating agencies such as MSCI, Bloomberg, Sustainalytics, etc. Due to the lack of publicly available data, it is currently very hard to develop a suitable ESG scoring framework. According to Prof. Verboven, towards ESG, it is mainly about the impact you are going to have on climate change and on the use of non-renewable resources. Instead of such a scoring framework, companies should focus on using preliminary surveys that indicate the actual ESG performance. This is perfectly in line with what Gimv is doing, as they just launched their first survey. Prof. Verboven's opinion is that these initial surveys have the most added value as this is an indication of the direction that Gimv's portfolio companies are heading to (ESG wise). In the context of Gimv, the ESG consultant suggests listing material usage and issues at every participation. Next to this, Gimv should look at the disclosure issues/requirements in every participation. Given that the most important factors are exposure, ROE and risk management, Gimv should look for the things and identify the material risks that can impact the business model.

The entire interview can be found in the appendices (see Appendix XII).

8.3 Sadi Podevijn (Secretary-General at Accounting Standards Committee)

Ms Podevijn is the secretary-general at the Belgian accounting standards committee and currently has a position in the Belgian delegation that helps developing the future EU ESG reporting regulation. Given the increasing demand in a consolidated ESG reporting directive, the EU Commission is working on a consolidated set of standards. As explained in the legislation section, CSRD will replace the current "alphabet soup" of different guidelines and standards. The interviewee Ms Podevijn is in the European working group that is currently discussing said directive. CSRD will be part of the non-financial reporting directive and consists of two levels. Level is currently developed and will form the legal basis at European level. The three European institutions (European Commission, European Council and European Parliament) are working on this and will all have to approve the final agreement. For the practical implementation, the European Commission relies on its European advisory body EFRAG. EFRAG is given the authority to develop the concrete standards and will thus develop the concrete content of CSRD.

Currently ISSB is also developing a consolidated set of reporting standards, this regulation will be based on (among others) TCFD and SASB. According to Ms Podevijn, CSRD will be aligned with this other set of standards to avoid double reporting requirements for international companies. One of the Member States in Europe has now also asked to start working with a kind of building blocks for this CSRD directive. This would be a common basis, both at the ISSB in London and in European legislation, and one could then give its own emphasis. Although, ISSB want to develop one universal set of guidelines, it will not work closely together with the European Commission and EFRAG. According to the CBN secretary general, this is because the composition and origin of the ISSB regulation body. In line with IFRS, ISSB is composed of people from governmental bodies and corporates alike. As many of these corporate representatives come from big four (EY, PWC, Deloitte, KPMG) offices, secretary-general Podevijn argues that this only reinforces the position of these big four companies. Small audit and accounting companies will (just as in IFRS) have trouble in adhering to the new reporting directive. For this reason, IASB will never feel called upon to look at what the European Commission/EFRAG doing at a European level.

Contrary to Belgian law, European regulation, and thus CSRD, divides companies into three different size categories. CSRD will only require medium-and large-sized companies to report on ESG performance as part of the NFRD in the annual report. While medium-sized companies (probably) will only require a “light” reporting, the sample of large European companies will have to fulfill the full set of disclosure requirements. Since most of the European companies are small and medium sized enterprises (SMEs) the biggest part of the 55,000 companies that will have to comply with CSDR, will have to do the “light” version. When asked about the impact of the future regulation, Ms Podevijn gives a brief but concise opinion. According to the interviewee, CSDR and the EU Taxonomy will have little to no impact on the sustainability of companies. The big companies that are already reporting on ESG, will just continue and were already punished or rewarded for their ESG performance by their share- and stakeholders. Small- and medium-sized companies that are not listed but obliged to report in any way due to the new regulation, will not be motivated to become more sustainable. The new regulatory framework will be a significant administrative burden for these companies, but will not have a lot of impact.

The entire interview can be found in the appendices (see Appendix XV).

8.4 Tjeerd Krumpelman (Global Head of Sustainability at ABN Amro)

The next interviewee, Tjeerd Krumpleman is active as the global head of advisory, reporting & engagement in the department of sustainability at ABN Amro. This places him in between an expert on regulation and an investment specialist as he works closely together with ABN Amro's deal and investment team.
When it comes to reporting, Mr. Krumpleman sees the upcoming CSRD and EU Taxonomy as a very positive development. The maturity phase of sustainability requires a much more consolidated legislation around it, this should create a level playing field and should allow for better comparison between companies. Whereas the EU Taxonomy will serve as a manual to indicate what we can call sustainable, CSRD will provide increase the transparency and comparability around ESG reporting. Although this new regulation will be carrying a heavy burden on companies, he considers it as a small price to pay for "what we have to achieve together". Contrary to Sadi Podevijn and Hans Verboven, Mr. Krumpelman is convinced that CSRD and EU Taxonomy will have a positive impact on companies' sustainability. Although good reporting or transparency on itself does nothing, this structure will provide a path for direct cash flows towards more sustainable investments. If these proposed regulations are later on combined with green asset ratios that reflect the sustainability level of companies' balance sheet, a context is created where you can steer companies to a more sustainable policy.
Although companies and some governments state that the EU is moving too fast with this regulatory framework and that there is already too much regulation, Mr. Krumpelman indicates that this is just a "game" between regulators and corporates. "Companies will always complain that there is too much regulation". In line with the regulation on money laundering and fiscal fraud, banks will be held accountable for ensuring that their customers comply with regulations. According to Mr. Krumpelman, this could at some point be represented in different interest rates based on ESG performance. This is also an advantage of the upcoming regulation. Currently there is no standard or guideline that allows banks to compare the sustainability/ESG performance of its clients, CSDR and EU Taxonomy will be a game changer in this. Although the ABN representative does not expect banks to deny loans to unsustainable companies, he expects a flexible pricing mechanism to be put in place. On the other hand, he estimates that banks might become reluctant to grant loans to unsustainable/non-ESG compliant companies, as this carries a certain reputational risk.
Just as the difference in private equity funds' views on profitability, he states there is a substantial difference in ESG rating scores. Although a uniform reporting directive helps in comparing companies, it will take some time until a framework is created that gives one objective ESG/sustainability score. For private equity funds specifically, Mr. Krumpelman sees the sustainability trend as an opportunity as these funds can contribute to the transformation of a company and create added value along the way.

The entire interview can be found in the appendices (see Appendix XIV).

8.5 David Veredas (Head of Centre for Sustainable Finance at Vlerick)

As both a Professor at Vlerick Bussines School in Sustainable Finance and a member of the Kind Baudouin Foundation, Professor Veredas is involved in the reporting/accounting and investment aspects of sustainability and ESG in general. Given the different measurement methods in ESG, prof. Veredas acknowledges it is very hard to develop a scoring framework. As a member of the Vlerick Center for Sustainable Finance, he contributed to the development of such a framework, where they identified a set of KPIs and compared this with both sector and non-sector comparable companies. With a framework similar as the one explained in this report, prof. Veredas encountered the same data issues. Given the limited availability of ESG data, it is hard to come up with a reliable ESG score.

Recently, the King Baudouin Foundation started looking into private equity funds as a way to increase its sustainable investments. As a member of said foundation, prof. Veredas elaborates on their ESG driven investment strategy: “the main investment policy is to go only for the best in class”. SFDR plays a dominant role in this investment process. As explained in the legislation section in this report, only funds that are classified under SFDR 8&9 can be considered sustainable. Prof. Veredas goes even one step further and only sees funds that classify as SFDR as really sustainable. This implies that the King Baudouin Foundation only considers SFDR applicable funds for their investments. According to professor Veredas, more and more funds will take on such an approach in an investment process.

When asked whether Gimv should invest in a brown company and turn it green, or only invest in green companies, Professor Veredas is more fond of the first option. In his opinion this option is even better for sustainability in general, as this path brings the biggest transition with it. Another angle in this equation is that if Gimv as a sustainable investor would not invest in such brown company, another (non-sustainable) investor would still do so. In this way, the company will never be turned into a sustainable one. Although this could be considered as an extra value adding lever for private equity funds, they should communicate their intentions clearly and in full transparency. In this case the private equity fund should also have a very clear ESG strategy that is in line with the overall strategy. If the fund does not fulfill both requirements, it will be considered as unsustainable and thus will be punished be (potential) investors and shareholders alike.

The entire interview can be found in the appendices (see Appendix XVI).

8.6 Alex McKay (Associate Director ESG and Sustainability at Anthesis London)

As part of the ESG and Sustainability strategy team, Alex McKay helps both corporate and private equity clients in reporting on ESG/sustainability performance. Most of Ms McKay's clients are UK based and are looking for guidance with their initial reports on ESG and sustainability. As part of the strategy team, Ms McKay is responsible with both defining a clear ESG strategy and the reporting part. Contrary to most of the previous interviewees, the Anthesis associate director doubts that there will be an in-depth alignment between ISSB, CSRD and other frameworks such as TCFD and SASB. While both ISSB and CSRD mention that they want to align as much as possible, they have different aims. Whereas ISSB is mostly focused on converting ESG performance into a financial impact, CSRD looks at the sustainable impact of a company on the wider world. With such a different aim, ESG consultant McKay's opinion is that it will be very hard to get these frameworks properly aligned.

Comparing the current reporting of private equity funds with corporate clients, McKay assesses that corporate clients are ahead of the funds. Most of the funds are still struggling with gathering accurate data. While private equity funds usually not report their ESG metrics against a framework, they are still subject to the principles for responsible investing. Next to gathering data on their portfolio companies, investment funds should also disclose on how they encourage ESG growth in their participations.
Although frameworks can be useful in obtaining targets, companies should first establish a list of material topics. Further on in the process, the company can derive targets an KPIs to measure and report on these topics. This approach makes sure that the company tackles only the relevant ESG issues and is not blindly following frameworks such as the SDGs. While these SDGs might provide a common language, Ms McKay argues that they are an open invitation for greenwashing. According to her, many companies use these SDGs as a piece of colour in their annual report and then forget about them until the next annual report.

When asked about the ideal ESG investment strategy for a fund such as Gimv, Ms. McKay joins the opinion of Professor Veredas. Gimv should invest in brown companies and turn them green instead of investing in companies that are already considered green. As these brown companies exist, investors should make sure that they become as green as possible through a proper guidance and ESG strategy. Nonetheless, Gimv should be very clear with its intentions when considering such an approach. There is nothing wrong with using the ESG transformation as an extra value lever, this strategy should be disclosed in full transparency and backed by a comprehensive due diligence.

The entire interview can be found in the appendices (see Appendix XVII).

8.7 Wim Van Hyfte (Global Head of ESG investments and research at Candriam)

Although Wim Van Hyfte is the global head of ESG investments at Candriam, he approaches ESG from a rather analytical point of view. Mr. Van Hyfte started his career as a quant and was later appointed at fund manager of several sustainable funds. Given his academical background, Mr. Van Hyfte translates all sustainable impacts to financial metrics. According to him, this is what leads to a better understanding of the ESG environment and taps on the sustainable potential.

When reflecting on the potential investment strategies of Gimv. Mr. Van Hyfte advises to be very cautionary in buying brown companies and using a sustainable transition as an extra lever in value creation. Gimv should do a very thorough due diligence and declare its strategy in advance. If investors do not agree with the transition potential, Gimv could risk substantial reputation damage. Nevertheless, the ESG expert is convinced that private equity funds should exert their power on portfolio companies to drive sustainable growth. Even if the fund is not a majority shareholder, it has the obligation to force companies on a more sustainable trajectory. Although this might decrease the deal flow, it is obligatory if a fund wants to present itself as sustainable.

Looking at the impact of non-financial metrics, Mr. Van Hyfte proposes to look at carbon emissions. As most of the non-financial (sustainable) metrics can be translated into carbon emission, this allows the company to put a price on these metrics.

The entire interview can be found in the appendices (see Appendix XVIII).

9 GIMV'S CURRENT PORTFOLIO COMPANY VALUATION PRACTICES

In line with the IPEV guidelines, Gimv uses the multiple valuation method for their mature company investments, which are around 80% of the portfolio. The remaining 20% are mainly early-stage investments in pre-revenue companies in the Health & Care platform (Biotech & Medtech) and are valued at cost or at the price determined in the last investment round. However, the valuation mechanism of these companies is beyond the scope of this report, as we are performing an analysis on the standardised multiple method applicable to the mature portfolio companies. These are established businesses with an identifiable stream of turnover or profit that can be considered to be maintainable.

Gimv's method of quarterly determining the value of their portfolio companies is as follows. In the first year of investment, a portfolio company is valued at investment cost. After that year, a group of comparable listed companies is created, and the average multiple (without outliers) is extracted. Afterwards, the market-based multiple is corrected for differences between the peer group and the company. This correction takes the form of a discount applied on the peer group multiple. During this first multiple valuation the peer group multiple gets aligned with the entry multiple. Special attention goes to avoiding the multiple effect during this first-time valuation. Typically, a discount of 20% to 30% is applied. This discount is driven by several factors:

- Extrapolation with entry multiple
- Specific risk profile of the company
- Earnings growth forecasts of the company
- The ability to control the realisation process (i.e. minority vs majority stake)
- Size, reliance on small number of employees, diversity of product range, diversity and quality customer base, level of borrowing, differences in markets, competitive position...

For all the subsequent valuations, Gimv monitors the differences between the portfolio company and peers and adjusts for these differences if a structural change appears in the parameters described above. The key focus is the consistent use of discount rates. Changes in discounts are only for structural reasons (mainly linked with risks and earnings growth/stability).

Gimv makes use of three different multiples: LTM EBITDA; LTM EBIT; and LTM sales. Depending on the industry in which the company operates, the most appropriate multiple is selected. The group of comparable companies, the multiple and the discount are determined by the investment team during the investment process of the specific company. Therefore, these factors rely heavily on the judgement of these professionals.

There are situations in which the multiple approach is not used. In the case of extraordinary market circumstances or company-specific facts, exceptions are made. For example, when a portfolio company is in its exit phase or it is undergoing an intensive structural transformation. These are situations where the financials do not accurately represent the current financial health of the company.

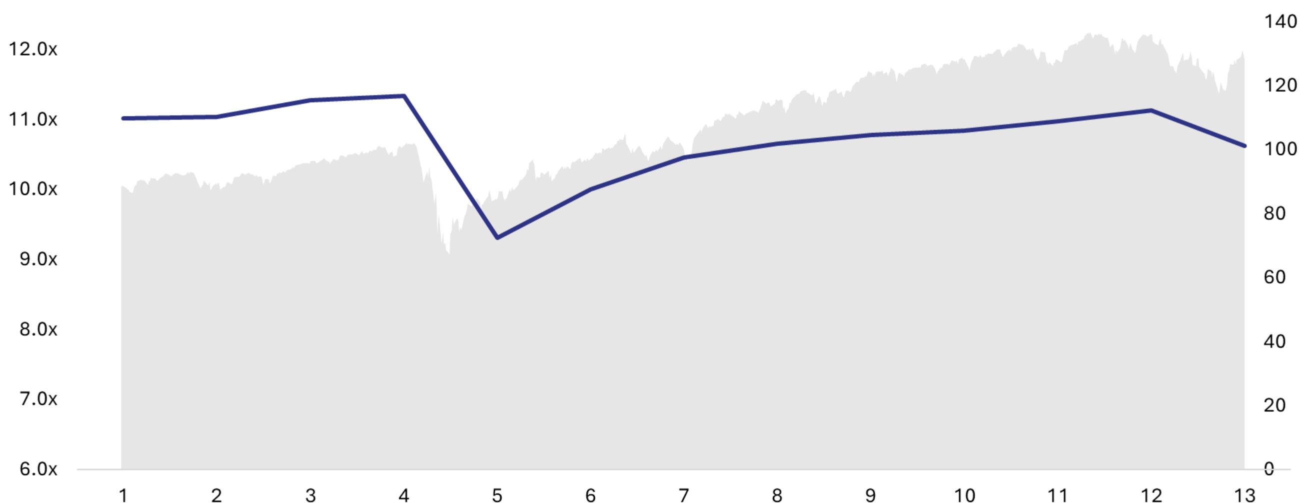
For instance, in the case of Laser 2000, the company suffered from the COVID-19 measures and Gimv provided it an extra loan for it believed in the future potential of their operations. Consequently, they adjusted Laser 2000's valuation because of these exceptional circumstances. The value of operations was set at zero, and the equity stake of Gimv was valued at the remaining value of the debt outstanding to them.

9.1 Exploratory analysis

For the companies valued with the standard multiple method, the LTM EBITDA multiple is used in 68% of cases. We therefore choose to carry out the descriptive analysis on the LTM EBITDA multiple as this figure can be seen as representative. Moreover, it is not statistically sound to perform the analysis on different multiples as the nominal sample size of the other kind of multiples is too small. Lastly, one can observe that the EBITDA multiple is the most commonly used multiple in practice, as it closely reflects the operational cash generation.

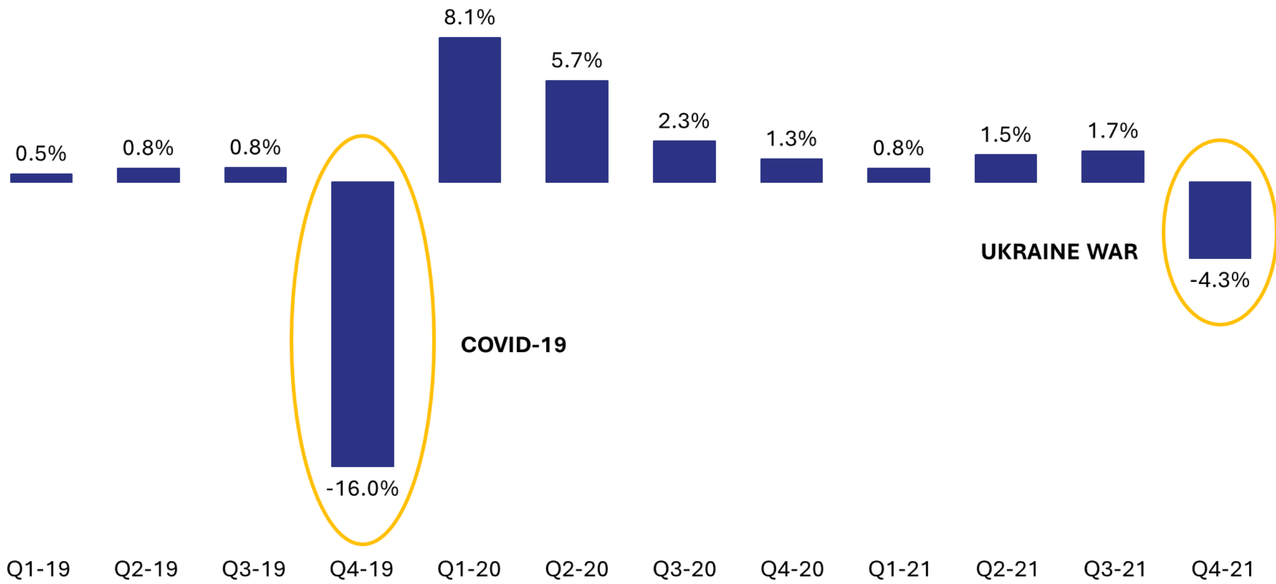
Looking at graph 4, the average LTM EBITDA evolution displays a clear similarity with the economic development, which is represented by the MSCI World index. At the start of the period, the economy flourished until an economic recession occurred due to the COVID-19 crisis. Because of this the average multiple drops by 16%. A rapid and prolonged recovery followed where the average multiple barely misses pre-corona levels. Finally, in the last quarter the outbreak of war between Russia and Ukraine causes another fall of 4.3%.

Graph 4: Average LTM EBITDA multiple and MSCI World index evolution



Source: S&P Capital IQ and Finance Yahoo

Graph 5: Evolution LTM EBITDA multiple



Source: Company data

The average multiple shows a volatility[14] of 7.7% over a period of 12 quarters, which in our opinion is a reasonable number. As can be observed in table 3, the five portfolio companies with the highest volatility are Impact (12.6%), Alro (12.5%), France Thermes (11.8%), ALT Technologies (11.7%) and ACCEO (11.1%). Without those companies, average volatility drops to 6.1%. Also, if Q4-19 and Q1-20 were to be excluded (effect of COVID-19) from the dataset, the volatility decreases to 5.6%. This strengthens our opinion that the volatilities of the peer multiples are low and acceptable.

[14] *Volatility is measured by dividing the sample standard deviation by the average multiple*

Table 3: LTM EBITDA multiples evolution and their volatility figures

	Q4-18	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	VOL
Alro	-	-	-	-	7.1	9.9	8.5	8.3	8.6	8.5	10.6	10.3	9.4	12.5%
ALT Technologies	9.1	9.9	10.1	10.2	8.0	7.2	10.1	10.1	10.3	10.5	9.8	11.8	9.9	11.7%
AgroBiothers	12.1	12.1	12.3	12.1	10.1	10.4	11.1	12.0	11.7	11.9	12.2	12.1	11.9	6.1%
Blendwell	-	-	-	-	-	9.9	8.7	9.7	8.9	8.9	9.0	9.4	9.3	4.7%
Impact	10.2	9.7	9.3	10.6	6.6	7.5	8.1	9.1	9.8	9.9	9.2	10.3	9.8	12.6%
La comtoise	-	-	12.5	13.5	11.9	12.7	13.2	13.2	12.5	12.8	12.5	12.9	13.3	3.7%
The Wallfashion House	8.1	8.7	7.4	7.2	7.4	6.9	6.5	7.2	7.4	7.6	8.4	8.5	8.2	8.8%
United Dutch Breweries	11.6	10.5	11.3	10.9	9.6	12.1	12.3	12.3	11.8	12.0	12.9	12.2	10.7	7.9%
Wolf Lingerie	10.8	10.8	12.2	12.2	9.0	9.1	11.0	12.1	12.0	11.1	11.3	10.8	10.5	9.6%
ACCEO	14.3	14.8	14.5	13.0	10.4	10.7	12.0	12.3	13.4	13.3	13.9	13.9	11.5	11.1%
Groupe Claire	-	-	11.8	11.5	9.9	10.0	11.6	11.3	11.5	11.5	11.7	11.3	11.2	5.7%
Incendin	10.6	10.3	10.7	11.5	9.9	10.2	11.1	11.1	10.9	10.8	10.7	11.2	10.6	4.1%
Köberl	-	-	-	-	-	9.4	10.8	11.1	11.4	11.6	11.2	10.9	10.5	6.3%
Wemas	9.5	9.3	9.6	9.6	9.5	9.7	10.5	9.1	9.8	10.7	10.6	10.8	11.2	6.7%
Arseus Medical	9.2	9.8	9.7	9.3	7.8	8.8	9.8	9.9	10.1	10.6	9.7	9.8	10.2	7.5%
Eurocept Group	12.4	12.2	12.6	12.8	11.1	11.9	12.0	12.0	11.8	11.6	11.9	12.1	12.5	3.8%
France Thermes	14.5	14.5	14.0	14.5	11.4	13.5	10.7	11.2	12.1	11.8	12.0	11.6	10.7	11.8%
MEDI-MARKT Homecare	-	-	-	11.3	9.6	10.2	10.5	10.2	10.1	10.2	10.3	10.4	10.0	4.2%
AVERAGE	**11.0x**	**11.0x**	**11.3x**	**11.3x**	**9.3x**	**10.0x**	**10.5x**	**10.7x**	**10.8x**	**10.8x**	**11.0x**	**11.1x**	**10.6x**	**7.71%**

Source: Gimv

9.2 Back testing of final enterprise value against exit value

Exploratory analysis

In this chapter the back-testing approach is applied on the sales approach of Gimv. Back testing is the general method to see how a model would have performed ex-post. The test assesses the viability of this model by discovering how it would play out using historical data. In this case the sale of 17 participations over the last 6 years were examined. On average, the companies from the sample were owned by Gimv for 5 years and 7 months with an exit multiple 22% higher than the entry multiple. This shows that, besides creating value via EBITDA expansion, Gimv also creates value via multiple expansion. Furthermore, the exit multiple is lower than the peer multiple in 9 out of the 17 cases, and lower than the used multiple in 3 out of the 17 cases. It shows that the discount applied to the peer multiple is appropriate. At the same time the average difference between the exit multiple and the peer multiple is 0%, this would then imply that applying a discount would not be correct. It is the presence of the large outliers that makes an implementation of a solution based on the averages of the sample set impossible. These findings demonstrate the difficulty of determining the correct discount. Even the decision of applying a discount at all is not straightforward.

Moreover, applying a discount of, on average, 24% on the peer multiple causes the average exit value to be 42% higher than the book value, whilst the median difference between the exit value and the book value is only 35%. These figures indirectly imply a higher intrinsic value of the portfolio companies and thus the total NAV. According to this reasoning, Gimv's potential share price could be between €71.6 and €75.3. This value could be even higher as a leverage process is applied to get from the enterprise value to the NAV, this is portrayed by table 4 below.

Table 4: Leverage effect on equity value

	DISCOUNT	NO DISCOUNT	DIFFERENCE
Enterprise value	€ 100 000 000	€ 140 000 000	+40%
- Debt	€ 20 000 000	€ 20 000 000	
Equity value/NAV	€ 80 000 000	€120 000 000	+50%

Source: Own calculations

Scenario analysis

A scenario analysis was used to test the effect on increases in the value of the portfolio companies and on the number of overpriced companies when changes in the discount are made[15]. Reducing the discount implies a reduction in the conservativeness of the Gimv's valuation method, resulting in more companies receiving a valuation higher than they are actually worth. The table below displays the five scenarios that were tested. In the first four scenarios all discounts are downsized by 500, 1000, 1500 and 2000 basis points respectively, in the last scenario all discounts are set to zero.

From scenario 1 to scenario 5, the discounts used decrease, consequently, the value differences between the exit value and the book value decrease, and the number of overvalued companies increases. Based on these results, we are in favour of the resolution proposed by scenario 2. In this situation, discounts are diminished by 1000 basis points, which results in the NAV of the portfolio increasing by approximately 15%, while only one company is overvalued. Especially, this last consideration is very important for the assessment of the scenario's, as Gimv wants to keep its conservative valuation policy. For it is not favourable to have overpriced companies in the portfolio valuation. Finally, we would like to highlight the result of the number of overvalued companies in scenario 5, which is in line with the exploratory analysis and where 9 of the exit multiples were lower than the peer multiple.

Table 5: Scenario analysis on alterations of the discount applied

	Average discount	Median discount	Average diff. EXIT EV-final EV	Median diff. EXIT EV-final EV	Increase in EV	Difference EXIT vs used multiple	#overpriced companies
BASE	24.1%	25%	42.1%	35.0%	0.0%	36.1%	0
-5%	19.1%	20%	33.3%	26.5%	6.6%	28.1%	1
-10%	14.1%	15%	25.5%	19.1%	13.2%	21.1%	1
-15%	9.1%	10%	18.6%	12.5%	19.8%	14.8%	3
-20%	4.1%	5%	12.4%	6.6%	26.4%	9.2%	7
0%	0.0%	0%	7.8%	1.2%	32.0%	3.0%	8

Source: Own calculations

[15] *Overpriced if the last enterprise valuation is greater than the price paid at exit*

Table 6: Sold participations of Gimv over the last 6 years

Company	Platform	ENTRY	EXIT	ENTRY mltple	EXIT mltple	Peer mltple	Discount	Latest EV	EXIT price
Incendin	Sustainable Cities	Dec-14	Mar-22	6.3x	10.4x	11.24x	25%	€ 83,492,386	€ 110,000,000
Wolf Lingerie	Consumer	Dec-13	Feb-22	7.6x	8.2x	11.29x	25%	€ 46,577,583	€ 56,000,000
Summa	Smart Industries	Aug-16	Sep-21	7.0x	10.0x	8.12x	20%	€ 69,347,317	€ 110,000,000
Equipe Zorgbedrijven	Health & Care	Dec-15	Nov-21	6.8x	13.1x	9.51x	25%	€ 97,818,000	€ 210,000,000
Itho	Sustainable Cities	Feb-16	Dec-20	10.8x	7.5x	9.68x	25%	€ 154,514,265	€ 190,000,000
Sureca	Sustainable Cities	Mar-16	Aug-20	8.5x	13.8x	9.20x	20%	€ 146,857,495	€ 275,000,000
Legallais	Consumer	Feb-16	Jul-19	10.2x	10.7x	10.83x	25%	€ 136,123,306	€ 171,200,000
Hansea	Sustainable Cities	Mar-14	Jul-19	8.9x	12.9x	11.02x	25%	€ 117,610,516	€ 183,508,000
Mackevision	Smart Industries	Nov-14	Jan-18	1.3x	2.3x	1.51x	20%	€ 77,643,705	€ 124,000,000
Oldelft	Health & Care	Feb-12	Mar-19	7.3x	8.4x	10.63x	20%	€ 39,732,657	€ 45,000,000
BMC Groep	Sustainable Cities	Mar-07	Jan-17	6.3x	6.4x	5.71x	30%	€ 62,600,000	€ 63,681,563
Brakel	Sustainable Cities	Dec-15	Nov-17	7.0x	8.3x	9.42x	25%	€ 54,999,399	€ 76,000,000
Almaviva	Health & Care	Nov-13	Oct-17	6.5x	9.0x	8.79x	25%	€ 262,648,470	€ 405,000,000
Altair (Brunel)	Consumer	Dec-10	Apr-16	6.5x	9.4x	10.97x	30%	€ 66,758,000	€ 82,720,000
OneDirect	Consumer	Aug-10	May-16	8.1x	9.6x	9.36x	25%	€ 27,175,000	€ 41,116,800
VCST	Smart Industries	May-09	Mar-16	8.9x	5.6x	8.17x	25%	€ 167,070,000	€ 190,395,187
Punch Powertrain	Smart Industries	Mar-10	Aug-16	8.0x	8.3x	8.45x	20%	€ 285,618,000	€ 1,011,000,000

Source: Gimv

10 INDUSTRY TRENDS IN VALUATION PRACTICES AND POSSIBLE ALTERATIONS

Based on the findings in the annual reports of the peers and the academic research performed on different valuation methods, we propose three approaches to decrease the volatility in the earnings market multiples used for the valuation of Gimv's portfolio companies. Which of the three is most optimal to implement depends on the importance one attaches to the advantages and disadvantages.

1. Take the average of the multiple within a timeframe of the last 20 trading days on the day you extract the data of the peer group. This approach is used by Wendel Group (headquartered in Paris, France) and is accepted in the audit carried out by Deloitte and Ernst & Young (Wendel, 2022).
   - Biggest advantage: Simple but effective strategy
   - Biggest disadvantage: Additional work

2. Take an average of the enterprise values resulting from different backward-looking multiples. The mix of multiples (sales, EBITDA and/or EBIT) you chose depends on which industry the portfolio company operates in and on qualitative judgement. This method is confirmed by Keun Yoo (2006), who examined the impact of combining simple multiples by taking the weighted average. According to his research, combining these different historical based multiple valuation outcomes improves the accuracy of the valuation.
   - Biggest advantage: Hardly any additional work
   - Biggest disadvantage: Academic soundness

3. Keep the current specific multiple approach for each company but include the historical evolution of the market multiple. Based on our own assessment, we propose to assign a weight of 45% to the peer multiple of the actual quarter, 35% to the peer multiple of the previous quarter and 20% to the peer multiple of the second last quarter. By using this method, you avoid making the valuation completely dependent on the most recent multiple. The most recent multiple may contain any extreme events that cause a serious change in the valuation. However, this change may be too severe and may only incorporate the short-term view. Nevertheless, one should also be aware that the historical multiples must be applied to the relevant historical EBITDA figures, otherwise we are comparing apples and oranges. This method which assigns weights to the historical multiples, was applied to the data set available and resulted in a decreased multiple volatility from 7.33%[16] to 5.22%, which implies a reduction of 28.8%. Nonetheless, one should be cautious with this number, as we didn't incorporate the change in EBITDA.
   - Biggest advantage: High decrease in volatility
   - Biggest disadvantage: A lot of additional work

[16] *This figure differs from the figure mentioned earlier because in this calculation less periods are incorporated*

11 EFFECT OF ESG ON VALUATION CALIBRATION

When one wants to alter the valuation of a company based on ESG metrics, one should have objective reasons to do so. It is often said that valuation is more art than science, but that does not mean one can make valuations based on 'fingerspitzengefühl'. Valuations have to be based on factors that can be calculated, objectified and controlled. In this chapter different methods are being looked at in order to find a way to incorporate ESG metrics into the valuation method of Gimv. The most suitable place to introduce ESG metrics, would be during the calculation of the discount factor. The discount factor Gimv utilises is based on different circumstances of the company being valued: entry multiple, size, minority/majority stake, specific risk profile of the company and so on. An extra element could be the ESG performance of the company. Every choice made to decide upon a method to incorporate ESG is contingent but not arbitrary as there is more than one good method that could be used.

11.1 Selecting KPIs for the scoring framework

Before a framework can be constructed a decision on the target companies has to be made. Gimv could decide to use the same framework with all the same aspects for every company in the portfolio, but a more precise approach would be to differentiate per investment platform. This allows for the use of more precise metrics as some KPIs will obviously be relevant for the Health & Care platform, but not for the Consumer platform. This approach can be further extended to specify different KPIs per company within the same platform. In this case, the advantage of precision is augmented but the drawback is the increased consumption of time.

The first step in building the scoring framework is deciding upon the metrics that will be evaluated. Hundreds of KPIs can be found to measure ESG performance. Gimv therefore faces a tough choice. Gimv already conducted a large survey on how mature their portfolio companies are when dealing with certain topics regarding ESG, the so called '0-measurment'. The topics that were researched were based on 11 themes that, according to Gimv, can be relevant for all the companies within the four different investment platforms. The themes are: Carbon footprint; Health & safety; Quality management; Recruitment development and retention; Responsible research; Societal impact; Responsible supply chain management; Sustainability vision; Sustainable product design; Waste management. Based on the questions of the survey, additional research and our own experience in building KPI frameworks we selected approximately 350 KPIs that could be used and can be found in the appendices (see Appendix XX). The next step is selecting a certain number of KPIs per theme. The selection of the amount of KPIs per theme is a though choice as one will have to consider the necessity of the metric, the measurability of the metric, the time consumption per metric and the fact that when you do not include a metric, portfolio companies might disregard these or assume they have no importance at all.

Nevertheless, there are a large number of alternatives to the method just prescribed, as Gimv could decide to select KPIs based on what existing scoring frameworks say is important. They could rely on the framework of MSCI, which developed a convenient tool[17] that allows one to search per industry the topics that are, according to MSCI, the most important, or on the framework of Sustainalytics. Next, Gimv could look at what their competition is doing and select the same KPIs. This would allow for comparability. A last alternative is to look at future possible legislative frameworks. For example, under SASB the term double materiality emerged. SASB suggests that companies copy the materiality idea from financial reporting and adopt it into their ESG-reporting. Materiality allows for companies to detect which aspect of ESG is important enough to report on.

11.2 Determining the relative performance of the KPIs

The scoring part is where the step from the '0-measurment', to a full-blown scoring system is made. After selecting the different KPIs, one has to decide how the scoring mechanism will work as each individual KPI will need a separate scoring mechanism to determine the performance of the measured KPIs. This is by far the hardest part of developing the framework as there are multiple sound ideas on how to give a score.

Benchmarking

The basis of the scoring aspect is the benchmark one uses, as it is used to decide whether a score is good or bad. A first option Gimv could opt for is to benchmark all the scores of their portfolio companies against each other. The advantage of this approach is the relative ease with which information can be collected. Gimv can steer which information their portfolio companies need to find and present in order for the scoring mechanisms to work. Thus, resulting in a fast-paced process that allows for a complete view. However, there are some disadvantages to this approach as well. The scope of peers is very limited. Gimv does invest in companies which fit in the same investment platform, but rarely can these companies be called true peers. This makes comparing them a difficult and non-robust process. Secondly, the number of possible peers is low, which will make the choice in scoring mechanisms limited, as some scoring mechanisms require a large number of peers. Finally, the end result will be an internal score, which will only hold value for Gimv and its respective portfolio company.

A second option would be for Gimv to compare the scores of their portfolio companies with their peers outside of Gimv's portfolio. The advantage of this method is the scope of companies one can reach to, and thus the number of peers that can be compared. In addition, the score the portfolio company receives holds meaning to others (only when the process that made Gimv arrive to that score is sound and fair), and it will give a good view on how well the portfolio company is doing within the industry. Nonetheless, the disadvantage of using a benchmark of peers is the gathering of information. Companies, especially smaller ones, often do not disclose information (precise enough) on their ESG metrics. Even if enough peers would have information available, the process to find all of this by looking through the unstandardised annual statements and ESG reports, would remain excessively time consuming. In the future, however, this process could become a lot easier to implement as a lot of companies will have to disclose their ESG data in a more structured and standardised way due to new EU legislation.

[17] *The MSCI materiality map can be found on the following web address: https://www.msci.com/our-solutions/esg-investing/esg-ratings/materiality-map*

Thirdly, instead of using self-constructed benchmarks, Gimv could also use third party references. Gimv could look at industry averages for the respective portfolio company and use those as a reference point. This data is often easier to access and will be less time consuming. Nevertheless, Kotsantonis and Serafeim (2019) warn about using not self-constructed benchmarking and industry averages. According to them data providers still lack transparency and often do not disclose thoroughly enough their sources for constructing said benchmark. In addition, averages are glued to their industry which allows for a skewed interpretation of the results as one can be best of class in the coal industry but still not be a sustainable company.

Scoring mechanism

After a benchmark is decided upon, a scoring mechanism has to be imposed. It is very difficult to decide on how one can give a score to ESG metrics. When one tries to consult the literature on this subject, papers are published on how ESG-scores relate/corelate to/with financial performance (Yoo & Managi, 2022) or on how ESG scores have to be interpreted (Brounen & Marcato, 2018), but almost none of the literature is dedicated to the construction of a score when given a measured KPI. If we look at the private industry of ESG scoring we do find information on how to construct a score. MSCI (and others) are quite transparent on their scoring methods.

Established mechanisms: Gimv could base its scoring mechanism on already established mechanisms developed by large scoring companies, as it has some clear advantages. Firstly, if in the future, you do want to be assessed by one of these scoring companies it will certainly help your score if you focus on what scoring companies find important. Secondly, these companies already have a lot of experience in this activity and have performed many assessments with success. It is also most likely their methods will be taken into consideration when governments build their legislative framework on how to audit ESG performance. On the flip side of using the techniques of these companies are the disadvantages. The large ESG rating companies publish quite a lot of documents on their methods and although one can learn quite a bit from these documents, they often do not contain the exact formula the company uses to asses a specific metric. This for the obvious reasons that they would like to asses companies themselves and do not want to give their competition insights on how they operate. Furthermore, although one could argue these rating companies ought to have the best insights and be aware of the latest developments, it is no guarantee. Their view on ESG and sustainability can differ strongly from Gimv's or is not suited nor precise enough for relatively smaller companies like Gimv's portfolio companies. Alternatively, instead of focusing on one company to provide all the answers, Gimv could look at multiple sources and dependent on the KPI pick the scoring mechanism they prefer. A lot of organizations already have established formulas. An example of such an organisation is S&P Global, who made a carbon index for which they have provided their formulas to calculate carbon metrics (S&P Global, 2022).

Own scoring mechanism: Gimv could work out their own scoring mechanism in order to convert a measurement of a KPI into a score, which has the advantage of flexibility. As undoubtedly some of the KPIs will measure policies or will not directly ask for a quantitative answer, a correct and robust formula has to be chosen. Nevertheless, it is beyond the scope of this report to find a formula for every single KPI we have proposed (350+). We can however show an example to illustrate the different choices Gimv will have to make, this can be found in the appendices (see Appendix XIX).

Consequently, as we now have calculated the ratios, we need to give them a score. Scoring can happen in multiple ways. The easiest method is to create an index with measurements from industry peers. This index, together with the measurement of the portfolio company, ought to be normalized to get rid of outliers and put everything on the same scale. Next, one has to look where the measurement of the company in question is situated on that index to give it the score depending on the percentile in which it is located. This method is also used by rating agencies such as MSCI and Refinitiv. Using percentiles has distinct advantages such as easy and straightforward in its use, and easy to understand. In addition, making use of percentiles leaves little room for subjectivity and biases. Notwithstanding, one should be careful as this is only viable when there is a sufficient number of peers. An alternative is to compare the measurement with industry averages. Then a decision has to be taken what the formula will be in order to transform a, for example, two standard deviation above average difference into a score out of, for example 5. Although this method solves the problem of percentiles when facing a small sample of peers, it creates a new one, subjectivity. For example, scoring better than the average logically results in a good score, but should the scoring be linear? Answering that question objectively is very difficult. An illustration: one could argue that scoring a little better than average should result in a much higher score since the last steps to become completely sustainable are sometimes the most difficult. Another downside to this method is that the averages within industries move and therefore a KPI measurement that is borderline perfect and is extremely difficult to improve will result in a high score initially but will then inevitable drop back towards an average score.

During the interview with Hans Verboven (see Appendix XII) the suggestion was made that when the evaluation of all the metrics is done with the same subjectivity, there still can be a usable outcome. Subjectivity would still be present, but the result would be comparable. Nonetheless, it only works when the companies have been assessed by the very same person who keeps the same level of subjectivity for all observations. Unfortunately, this is quite unlikely and certainly limits the number of companies that can be compared. If Gimv were to use the subjective approach, it could be argued that comparison with sector averages is not really necessary anymore. The person carrying out the assessment could assess all the scores on a given scale (e.g. 1-5). However, this method is absolutely not recommended for measurable KPIs such as CO_2 but could be an option when one needs to evaluate a cycling policy, for example.

Lastly, a decision has to be taken on the weights assigned to the different metrics. Gimv has already asked each portfolio company the relevance of the all the metrics for their own business. It could use the answers to those questions as a starting point in setting the weights. When all weights are determined, it can aggregate the scores per investment platform or for Gimv as a whole. Another approach is to look at Gimv as a whole to find out what the firm finds important, and determine the weights accordingly. In this case all KPIs for the different portfolio companies get assigned the same weights. The rationale behind this method could be the fact that Gimv is often talked about as one structure and will most likely receive ratings on a group level. Additionally, it would enhance the alignment with the group's ESG strategy. Finally, a combination of the two is possible as well. By implementing both the weights given per respective platform and the weights given by Gimv, we combine the best of both worlds. Nonetheless, a drawback could be the complexity of the framework as it would become harder to see what weights are really relevant. Furthermore a decent amount of correlation between the two weight tables would be present regardless.

11.3 Dashboard and implementation of the scores

After we have calculated all of our scores it is time to construct the dashboard. The goal of the dashboard is to show the results and to give advice on how these results should be interpreted. The scores of the individual KPIs have to be aggregated into scores for E, S and G. This is done by simply taken the weighted average scores, using the weight distribution Gimv picked earlier on. A delta could be added, which would represent the difference between the performance of the current year and the previous year. In the dashboard we introduce the concept of 'red flags'. The red flags indicate when a metric has such a score it is unacceptable and which renders the overall score automatically bad[18]. This concept can be enlarged by adding orange flags, which would then be scores that do not permit the overall score to be good. The dashboard should show which metrics cause flags to appear and whether these are new or old problems. Finally, the dashboard should be a guiding instrument for the valuation team to take into consideration. It is borderline impossible and often not desirable to translate the overall ESG score into a valuation. What can and should be done is for the dashboard to become a comment on every valuation decision next to the ones the valuation team already takes into consideration. The team will then have to decide on how to change the discount factor. This way the ESG scores are still interpreted and understood but not blindly followed.

[18] *On an arbitrary scale used as an example of bad – medium – good.*

11.4 Alternatives to the scoring framework

Sustainable profit & loss (P&L) and net present value (NPV)

The sustainability profit and loss statement is an alternative way to implement ESG factors into valuations of portfolio companies, according to professor Veredas (see appendix XVI). Companies such as Puma, Vodaphone and other mayor players already use the method to incorporate externalities in their sustainability assessments (Puma, 2021). Instead of looking at the discount factor via comments, it directly influences the enterprise value of the companies. The P&L statement is constructed through looking at all the different externalities a company causes, both the positive and the negative ones. These are then translated into losses and profits for the company and added to the enterprise value. This follows from the idea that an ESG assessment and a risk assessment are closely related. Professor Veredas suggests implementing sustainability assessments into the NPV assessment of a company. This is a combination of utilizing the sustainable P&L and the discount factor technique. When we make use of the NPV assessment we have to take time into consideration. We will have to foresee the externalities if the years to come and construct future sustainable cashflow statements. These cashflow statements look at the ins and outs of cash because of the ESG performance of a company. This performance not only influences the cash flows but also the timeframe the NPV can look at. The better a company performs in terms of ESG the further the NPV can look into the future.

New lever

It becomes clear that when an investment opportunity has to be assessed not only the current situation of the company has to be taken into account, but also the future state of the company has to be evaluated. To evaluate this future state we look at what could bring value in the future. As we have established throughout this report, the presence of ESG – factors holds value, therefore the absence of ESG holds the prospect of value. Companies with a horrible ESG score could therefore be more valuable for Gimv as they can be improved and made more valuable. Gimv can than earn a profit for making a company sustainable. This profit is of course to offset the risk that the company cannot be turned green and becomes a stranded asset. The transformation of a company into a sustainable company can be seen as a new lever of value for PEs. Clearly this is an aspect that our framework is missing but it's also not that easy to implement potential value in our framework as measures of growth potential should be looked at rather than the 350+ we suggested. Metrics such as the willingness to change and the drive for improvement of processes are way more important. A combination could be used where the new lever method is used when evaluating a company for investment and using the scoring framework when it the company is already part of the portfolio.

Delta

An elaboration on the previous alternative would be to still look at the KPIs that were suggested in the constructed framework but only evaluate the company on the difference between the scores within a certain timeframe for example a year. The framework then would not have to be adapted but a company would just have to be evaluated twice, one time now and on time in a year. Although the idea holds merit, its better suited for when a company wants to link its remuneration to its ESG performance. The company could then use the same metrics it values its companies on to evaluate its managers. To solely look at the delta for valuation is rather difficult because it would be impossible to compare or benchmark the change to something, bringing change has varying levels of difficult depending on the timeline the change is happening on.

Benchmark by goals set

A scoring framework could be obsolete if we would focus, internally, on reaching our own goals. Gimv could identify its sustainability goals for every portfolio company early on. Strong debate with the portfolio companies is advised. The score the companies get is the evolution towards those sustainability goals. The closer they get the higher the score. A practical example of the benchmark by goals set principle can be found in the annual statements of Eurazeo. The PE firm employs their own framework called O⁺, where they determine 20 KPIs/goals per portfolio company and based on how many of these goals have been reached the portfolio company receives a medal. Although we place this method under alternatives, it's quite easy to implement this within the framework by playing with the weights. However just like the previous alternative these goals suit themselves better for an evaluation of the performance of the management rather than measuring how well a company is doing at ESG. Of course the setting of goals and targets have different secondary advantages for a company's ESG performance. Setting goals helps to achieve them, for it gives everyone something to strive for. They can also help with handing out quick wins, which are vital for motivation at the beginning of a process. Next to the obvious benefits at the beginning of a process, people receive a sense of pride after reaching a goal which enables them to continue doing well (Gómez-Miñambres, 2012).

11.5 Conclusion

Although building a fully-fledged scoring framework did not lie withing the realm of possibilities due to the enormous amount of choices that had to be made and the lack of both data from peers and from the portfolio companies of Gimv, we can however provide our opinion, supported by experts opinion, on how the construction of such a framework should happen.

The outline of the framework should be split up between the different investing platforms, to allow for a higher level of precision when the KPIs are selected. These KPIs ought to be selected based on what Gimv finds important, a thought exercise should be set up to determine the five to ten most important metrics per theme out of the list of 340+ KPIs. These themes should also differentiate, based on relevancy, when a different investment platform is used. We advise Gimv to benchmark the performances of their portfolio companies against the industry averages. Although, this method has its drawbacks, it is the only option that is feasible at the moment. In addition, we strongly advise for the supervision of the scoring efforts to be centralised as it will allow for a single source of bias when non-quantifiable metrics are assessed. When a measurable metric is being transformed into a score we suggest to let one standard deviation of difference from the mean to be a point of difference an a scoring scale going from 1 to 5. Finally, setting the weight per metric should according to us be a two folded system, where both the portfolio company and Gimv assign weights based on what they both find important. When the scores are calculated the scoring framework can be constructed and added as a comment, which will have to be evaluated by the valuation team.

A finished, robust, scoring framework that incorporates ESG metrics into the valuation of companies is one of the most challenging undertakings the investing world is dealing with right now. The industry experts that we have contacted confirmed that consolidating the entire ESG performance into one score is borderline impossible. When we draw a comparison with the financial scoring systems we see that they also do not propose one single metric to measure the financial performance of a company. In addition, in recent years questions have been raised on the accuracy of different established scoring frameworks. Many of these frameworks that result in a single score show very limited correlation with each other. A study from MIT and the University of Zurich (Agnew, Klasa, & Mundy, 2022) concluded that these correlations vary between 0.38 and 0.71, which is very low certainly when compared with a correlation of 0.92 between credit rating agencies (Agnew et al., 2022). These large differences between the ESG scores can be partially explained by the commercial motives these rating companies have and confirm the difficulty of building a sound ESG scoring framework. Many companies that try to build a scoring framework face the same difficulties we have faced. The low quantifiability of the S and the G, the difficulty in applying the correct weights and the arbitrariness when assigning a score. All these difficulties come forth from the large umbrella term ESG has become, it often embraces concepts that have otherwise no connection with each other.

Gimv already has a proven and robust way to value companies and is quite good at it. The implementation of the scoring framework will therefore not be an easy task. In order to make sure Gimv can consider all its options we have suggested alternatives which each come with a new set of challenges. The ‘New lever’ idea looks very promising and should definitely be explored by Gimv. Transparency is key here, for taking on the extra risk might be concerning for their shareholders. The ‘delta approach’ should certainly be included in the scoring framework of Gimv, but only when the framework is up and running and has a proven track record, as it will add another layer of complexity. The benchmark by goals set is interesting for compensation purposes, but not for scoring mechanisms. Lastly, both the NPV and the sustainable P&L approach look very promising and should definitely be explored further. These two methods might be viable alternatives for the complex scoring framework, yet when enough data can be gathered it is our belief the scoring framework is the best option, regardless.

12 VIEW ON THE FUTURE OF ESG AND ITS DEVELOPMENT

12.1 Finding a way through the spider's web of legislation and regulations

Current regulation applicable to Gimv

Currently, there is no uniform standard, and many companies are confused as in what standard or guideline they should follow. There is a multitude of frameworks that look at ESG from a different angle, which results in a different focus and thus reporting methodology. This is also reflected in the significantly different ESG scores that companies receive from scoring agencies such as Sustainalytics, Bloomberg, MSCI, etc. The lack of uniformity in standards could also be perceived as the perfect “opportunity” for companies to greenwash as the actual ESG performance of companies cannot be compared and objectively evaluated. Next to this, listed companies, such as Gimv, are obliged to report on non-financial metrics such as sustainability, but auditors don’t have to (in depth) verify the content of such sustainability reporting.

Future regulation

Both the European Commission and the ISSB are currently working on a consolidated set of standards. While the European CSDR and EU Taxonomy will only be applicable to companies active in Europe, the ISSB standards will serve as a global regulation framework. As touched upon in the interview with Sadi Podevijn, the European Commission and EFRAG will align their standards with the ISSB guidelines as much as possible. On the other side, ISSB will not look at the European regulators, but base itself on SASB and TCFD (among others). According to Ms Podevijn, this is linked to the composition of the ISSB as a regulatory body. Since a substantial part of the ISSB consists of big four representatives, they will steer this new regulation to a framework that is beneficial for them. This is something that is also reflected in the current IFRS accounting regulation.

For Europe specific, the European Commission and EFRAG are establishing a new regulation CSRD. Together with the EU Taxonomy this will form the core of the EU Green Deal. Whereas EU Taxonomy will give some clarity on what is sustainable and what not, CSRD will serve as a consolidated set of disclosure standards. The latter should prevent companies from greenwashing and make sustainability reporting more transparent and comparable. Although all the interviewees/experts agree that a homogenous reporting directive is needed, some (such as Sadi Podevijn & Hans Verboven) think that this new regulation will have little to no impact on companies’ sustainability. They expect that this will be a heavy administrative burden to the European companies but will have no real sustainable impact. We partially follow this opinion as in the near future non-listed (family) companies will probably not change their sustainability behaviour, since they will not be punished or rewarded for this. However, some banks are already looking into an ESG impact on the interest rate. If this is implemented, said companies will have an incentive to change their sustainability policy. As it is the case that such a flexible interest rate will only be possible with a clear and uniform reporting directive, CSRD is a step in the right direction.

12.2 Dissecting the three separate aspects of ESG

Environment

It is in the area of 'E' that most progress has been made in recent years, and it is also the aspect that will become most important in the future. Climate change is entailing ever more tangible consequences that once again emphasise the urgency of the planet's survival. If the GHG emissions are not drastically reduced fast enough globally, it will become very costly for society anyway. The most important KPIs that show that as a company you are contributing to this issue, is by trying to have an influence on the scope 1, 2 and 3 emissions of your business activities, and reduce them as much as possible. Most companies here focus too much on scope 1 and 2, and then claim to be climate neutral when they get them down to zero. However, this is a very easy solution and even a kind of greenwashing since for many companies 90% of their emissions are in scope 3, certainly in the case of private equity. Companies will need to implement processes that take into account scope 3 as much as possible, and thus try to exert influence further down the supply chain. Furthermore, practices responding to the circular economy such as the use of recycled material within the topic of the scarcity of raw materials on the planet, are of high added value. Finally, in practice, many KPIs are proposed regarding the environmental aspect, but it is clear that the matters just mentioned create the largest part of the impact.

Social

The ‘S’ of the ESG acronym is the most difficult theme to grasp and quantify. Given that this S element is ever evolving over time and is very society specific, it is especially hard to find a comprehensive measurement method. These factors in combination with an urgent climate situation, push the social element somewhat to the background in the current and upcoming ESG/sustainability disclosure frameworks. As can be seen in the peer ESG overview, many companies are struggling with this part and are just getting started with its measurement and reporting. While it is good that companies start to report on their diversity, it might not be sufficient to only include gender- and age diversity as many do. Although this might have been enough a couple of years ago, the ever-evolving social context is already looking at LGBTQ+ and ethnical diversity. Furthermore, more and more stakeholders will look at the social impact of a business’ operations. Nonetheless, these last few parameters still remain more a nice to have than a must have for most investors.

Governance

Next to the social element, governance is quite difficult to quantify. Yet, it is of utmost importance as bad governance has a very significant impact on the overall ESG and business performance. This is why not many experts and reporting directives alike go into depth on this element, they consider good governance as a given. It is important to keep in mind that a company's main ‘raison d'être’ is still to reward the shareholders financially as best as possible, and that without this good performance, the broad spectrum of stakeholders cannot be served optimally.

12.3 The role PE firms could play

There is no doubt that in order to roll out the sustainability transition globally, a lot of money will be needed. PE can certainly play a large role in this, as it concerns a separate group with a lot of capital to deploy. PE firms with a distinct investment need can assist companies in becoming sustainable by being an active shareholder. For the company, it is an alternative source of financing for their sustainability transition. PEs utilise different tactics to make money, such as leveraging their buyouts and improving the cash flows of the company. In addition to optimising the company through professionalisation, internationalisation, buy and build strategies etc. The result of these actions is often an elevated exit multiple applied to a higher EBITDA. However, the potential financial result could be even higher if a PE succeeds in utilising the lever of sustainability, where the PE transforms a company into a sustainable company.

This is where, according to Indahl and Jacobsen (2019), a new term called Private Equity 4.0 appears. It refers to a growing number of PE firms adding to their existing capabilities the effective management of ‘externalities’ and ESG factors. In that environment, firms who can turn their ESG principles and practices into a core competence, could create a competitive advantage that enables them to bring about significant increases in efficiency and long-run value. Nonetheless, one must be aware that deal sourcing could suffer as not every entrepreneur selling his business is willing to go along with this story. This point of view was confirmed during our interview with Wim Van Hyfte (see Appendix XVIII).

12.4 Can we talk about a long-term trend or is it just a hype?

According to ESG proponents, sustainable investing is not only good for the environment and society, but also provides investors with superior returns. The fact that ESG has gained tremendous momentum in recent years is evident from an analysis done by asset manager Pimco (2022). Between May 2005 and May 2018, ESG was mentioned in fewer than 1% of earnings calls. But once it became mainstream, it quickly became ubiquitous in the corporate landscape as by May 2021 it was mentioned in almost a fifth of earnings calls. However, this sustainable investing balloon appears to be deflating now that returns are disappointing, with the war in Ukraine proving to be yet another wake-up call. Many 'sustainable' investment funds turned out to have Russian assets in their portfolio that were suddenly worth hardly anything after the announcement of Western sanctions against Russia (Agnew et al., 2022). On top of this, these funds shunned polluting oil and gas companies, which have seen their share prices explode, giving the sustainable investors an extra jolt.

With all these negative developments in recent months, the acronym ESG is starting to get a bad connotation. ESG itself is the successor of earlier acronyms such as SRI and CSR, and now consultants with ESG in their job titles are starting to replace it with 'sustainability', the successor of ESG. It reminds one of the late 1990s when internet companies added '.com' to their names to increase their value. The consequence of this period is well known and after the dotcom crash[19] all these companies removed the addition again. Nevertheless, we are convinced that ESG, and especially the 'E' aspect, will be very prevalent in the long run. The past has taught us that disruptive trends are first hyped up, then crash and later on become widely accepted. The dotcom bubble and the digital revolution that took place over the past 10 years have confirmed this. For this reason, Gimv will reap the benefits from their efforts and will be able to make use of their expertise to position itself as a leading company.

Attitude at the supranational level

During the climate debate in the European Parliament in recent weeks, the feasibility of the current Green Deal has not been questioned. Reducing GHG emissions with 55% below 1990 levels by 2030 and making Europe climate-neutral by 2050 were already colossal tasks under normal circumstances with well-oiled economies. Today the largest armed conflict since the second world war is holding Europe in its grasp and yet no doubt exist about the achievability of these climate plans. In our opinion, policymakers are realising that these targets are becoming difficult to reach, yet do not alter course for these goals have been set with a large consensus and still hold the best chance we have to slow down the rising temperatures. Elsewhere in the world, the climate transition does not go smooth either. About five years ago, two of the most important coal companies in the United States, Peabody Energy Corporation and Alpha Metallurgical Resources, were heading towards bankruptcy. In the past year however, their shares rose by 485% and 986% respectively. Despite all the green initiatives coal has suddenly become a sought-after substitute for the expensive oil and gas. We conclude that everyone has enormous plans to combat global warming, but major economic and demographic changes currently are in the way of actually tackling the problem.

[19] *The dotcom bubble was a rapid rise in U.S. technology stock equity valuations fuelled by investments in Internet-based companies during the bull market in the late 1990s. The value of equity markets grew exponentially during this period, with the technology-dominated Nasdaq index rising from under 1,000 to more than 5,000 between the years 1995 and 2000. Things started to change in 2000, and the bubble burst between 2001 and 2002 with equities entering a bear market.*

13 HOW CAN GIMV IMPROVE ITS ESG REPORTING?

Gimv has decided to include their sustainability report into its annual statements which is certainly applaudable for multiple reasons. Firstly, the reader does not have to search for extra documentation, but has every bit of information in one place. Secondly, connections and referrals to the financial information can be made without having to refer to another document. Thirdly, it leaves no discussion on which document is the most important one, both the financial and non-financial information are equally worthy. Moreover, in this way they show that ESG is not a separate 'thing', but is embedded in the strategy. Some of Gimv's peers have chosen to write a separate sustainability report. By doing so they cause inconveniences for readers. An example of such a peer was Tikehau. By wanting to write a separate report they managed to publish their sustainability report months after their financial statements. Publishing months after the financial numbers creates the impression that Tikehau does not want people to read the report, whilst they most likely wrote the separate report to express its importance and for marketing purposes.

A sustainability report should always contain a voice from the top to showcase the importance of the sustainability strategy and to express their support towards the future plans of the firm. This sustainability strategy should also come from a risk/opportunity point of view. When ESG is talked about in terms of possible profits and losses people really start to pay attention. The current report of Gimv, and those of its peers do not incorporate sustainability throughout their documents and sustainability is still largely confined to one single chapter. Some of Gimv's peers do already combine risk assessments with a sustainability assessment, Gimv however has not yet caught on to this practice.

Furthermore, the setting of goals, both long term and short term, is important and the sustainability report is an ideal place to do so. As we have already discussed, the setting of goals has a motivating effect and is important to reach those set goals. Short term goals will allow for motivation and incentive, whilst the long-term goals create direction and vision. An example of setting goals and KPIs in a transparent and easy to understand way is via the O^+ framework of Eurazeo (see chapter 6.2) . Companies however have to be careful, not every goal that is sustainable is therefore useful. They should focus on their own core business and try to have an impact there. On top of that, in the case of PE it is important to divide the specific goals between two levels: the PE company itself and the portfolio companies. PEs can only have impact through their holdings and this approach facilitates this as much as possible.

Firms have to report on those goals in order to be transparent towards stakeholders, but also to stay honest with themselves. The reporting on goals and actions should be done by hard numbers. Sustainability documents write too often about the achievements of the firm without supporting their claims with hard numbers. These hard numbers can only be obtained if the firm has done the necessary measurements. Gimv for example has already done their 0-measurement and reports on the results of that measurement, this is a first step but a very important one. Therefore, Gimv is already ahead of those peers that have not yet taken measurement initiatives.

In addition to the question ‘How to report?’, the question ‘How not to report?’ is of equal importance. Greenwashing is still a big concern for many and should be dealt with. Greenwashing can occur even when it was not intended. Often when reports mention the SDGs of the UN, they want to link their own actions with a framework that a lot of people understand. But sometimes these actions hollow out the purpose of these SDGs. For example, selling ice cream cones, would technically help in achieving SDG 2 ‘Ending world hunger’. Ofcourse this not the spirit of that SDG. Trying to convince everyone that your company is a hero for the hungry people, whilst in reality it really is not, is considered greenwashing. Many expect greenwashing to become less of a problem when standardization is achieved through regulation by for example the EU. Experts’ opinion (see interviews) however state that the problem of greenwashing will only increase when regulators increase the amount of transparency obligations and the number of detailed measurements grows, for companies will become better at ‘playing the game’. (see interview ...) The future will tell whether greenwashing will increase or not, what is certain is that the consequences for greenwashing are becoming more and more severe. On the 31st of May German authorities raided offices of DWS and on the 12th of June the SEC started an investigation on the sustainability claims of Goldman Sachs (Financial Times, 2022). Investors however are of the opinion that fund managers are better suited to tackle the problem that is called greenwashing. According to Capital Group (2022), 54% of global investors point towards increasing the transparency on how fund managers invest, as the most effective way of combating greenwashing.

Gimv is on track to become a leading company in terms of reporting, but is not there yet. More efforts will have to made to gather data, to explain their negative externalities and allow for thorough reviews of their portfolio companies.

14 CONCLUSION

As financial markets are not always stable but can go through significant swings because of (extra)ordinary events, it is important for private equity funds to handle a consistent valuation technique. Whilst consistency should guarantee valuations that reflect fair value, temporary, substantial jumps in peer multiples can cause the fund's valuations to become quite volatile. In this report the volatility of the peer multiples is defined as the standard deviation divided by the average multiple. After establishing a definition, a volatility analysis was conducted on the peer multiples. Through additional volatility analyses and literature review, three different methods were established that decrease the portfolio company's volatility. The first method consists of taking the last 20-day average multiple on the day one extracts the data of the peer. This approach is used by Wendel and is accepted by the auditors Deloitte and EY. The second suggestion includes the use of an average of the enterprise values resulting from different backward-looking multiples. Combining this mix of (earning) multiples improves the accuracy of the valuation (Keun Yoo, 2006). We however would suggest that Gimv remains using the current specific multiple approach for each company but includes the historical evolution of the market multiple. A weighted average of the present and historical multiples decreases multiple volatility from 7.33% to 5.22%. Gimv uses a peer multiple valuation technique. For this multiple valuation, four different earning metrics are used: EBITDA, EBIT, sales and budgeted EBITDA. As the peers are often publicly traded a discount (of 20%-30%) is applied. This valuation technique is in line with the current IPEV valuation guidelines and is similar to what can be observed in the annual reports of Gimv's peers.

In the ESG section of this paper, an outlook on the future disclosure requirements and ESG developments is given. The current alphabet soup of different guidelines and standards will be replaced by CSRD, a European standard that will uniform companies' ESG reporting and allow stakeholders to more objectively compare sustainability performance. Next to this standard, the ISSB is working on an international regulatory framework that should allow companies to translate ESG performance into financial metrics. According to the interviewed regulator, both frameworks will be aligned as much as possible. Although most of the interviewees and we doubt the sustainability impact of CSRD, all of the interviewed experts are convinced that the new regulatory framework will bring an urgently needed uniformity in ESG reporting. This will allow for a better ESG performance comparability between companies. The increased transparency in future ESG reporting could allow Gimv to build a robust ESG scoring framework. Today, one has to resolve the lack of data with secondary measures such as the use of industry averages. Next to the suggested scoring framework an alternative can be found in the sustainability P&L approach, which neatly captures both the positive and negative externalities of one's actions.

Greenwashing remains a large concern despite the increased efforts of regulatory authorities and the risen awareness by producers and consumers alike. Accurate and transparent sustainability reporting is more important than ever, this can be confirmed by looking at the endeavors of Gimv and its peers. The conclusion of the report is that whilst Gimv is on track to become a leading company in terms of reporting, but is not there yet. More efforts will have to made to gather data, to explain their negative externalities and allow for thorough reviews of their portfolio companies.

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Appendix I – Glossary

AUM	Assets Under Management
CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
DCF	Discounted Cash Flow
DEI	Diversity, Equity and Inclusion
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EFRAG	European Financial Reporting Advisory Group
ESG	Environment, Social and Governance
EU	European Union
EV	Enterprise Value
GHG	Green House Gas
GO	Growth Options
GP	General Partner
GRI	Global Reporting Innitiative
IFRS	International Financial Reporting Standards
IPEV	International Private Equity and Venture Capital Valuation
ISSB	International Sustainability Standards Board
KPI	Key Performance Indicator
LTM	Last Twelve Months
NAV	Net Asset Value
NFRD	Non Financial Reporting Directive
NPV	Net Present Value
PE	Private Equity
PRI	Principles for Responsible Investment
SASB	Sustainability Accounting Standards Board
SFDR	Sustainable Finance Disclosure Regulation
SDG	Sustainable Development Goal
TCFD	Task Force on Climate-related Financial Disclosures
UN	United Nations
VC	Venture Capital
WACC	Weighted Average Cost of Capital
SME	Small Medium Enterprise

Appendix II – NAV methodology Wendel

Valuation following an acquisition

New, unlisted investments are valued through a weighted average of the current year multiples implied by the deal and valuation by listed peer-Group multiples (cf. next section of the methodology) over a period of 18 months. On the first NAV following the acquisition valuation is weighted at 100% on acquisition multiples and 0% on listed peer-Group multiples. The weight of the acquisition multiples linearly decreases to 0% over 18 months. The weight of the listed peer-Group multiples linearly increases to 100% over 18 months.

Valuation by listed peer-Group multiples

The preferred method for valuing unlisted investments is comparison with the multiples of comparable listed companies. The value of shareholders' equity of the companies in Wendel's portfolio is determined as their enterprise value minus net financial debt of investments (gross face value of debt plus pensions booked in balance sheet less cash) appearing in the most recent financial statements. If net debt exceeds enterprise value, the value of shareholders' equity remains at zero if the debt is without recourse to Wendel. Wendel's percentage ownership is determined by the features of the equity instruments held by Wendel, non-controlling interests and co-investor managers, if any. Enterprise value is obtained by multiplying measures of each company's earnings by stock-market multiples of similar listed companies. The measures of earnings most often used in the calculation are recurring EBITDA (earnings before interest, taxes, depreciation and amortization) and recurring EBIT (before goodwill). The choice of earnings measures used can be adjusted depending on the sector in which the subsidiary operates or its business model. In this case, Wendel publishes an explanation of the adjustment. The enterprise value corresponds to the average of the values calculated using EBITDA and EBIT of two reference periods: the previous year and the budget (or budget update) for the current year. For NAV as of December 31, the budget for the new year being available, the calculation is based on the latest estimate for the year just ended (or the actual if available) and the budget for the new year. Stock-market multiples of comparable companies are obtained by dividing their enterprise value by their realized or expected EBITDA or EBIT for the reference periods, or in the case of fiscal years that are different from the calendar year, the closest fiscal year.

Enterprise value of the comparable companies is obtained by adding market capitalization (the average closing price over the last 20 trading days) and net financial debt (gross face value of debt plus pensions booked in balance sheet less cash) at the same (or similar) date as that applied to the net debt of the company being valued. Comparable listed companies are chosen based on independent data and studies, information available from Wendel's subsidiaries, and research carried out by Wendel's investment team. Certain peer-Group companies can be more heavily weighted if their characteristics are closer to those of the company being valued than are those of the other companies in the sample. The peer Group remains stable over time. It is adjusted when a company is no longer comparable (in which case it is removed from the peer Group) or when a company is newly considered as belonging to the peer Group for the investment being valued. Non-representative multiples are excluded from the peer Group, such as occur during takeover offers or any other exceptional circumstance affecting the measures of income or the share price, or when reliable information is missing.

Valuation by transaction multiples

Transaction multiples may be used when the transaction involves a company whose profile and business are like those of the company being valued. In this case, reliable information must be available on the transaction, in sufficient and explicit details, so that there is minimum ambiguity on the transaction implied multiples. In some cases, the multiple used to value an investment will be an average, either straight or weighted, of the peer Group multiple and the transaction multiple. If used, the transaction multiple is applied for a period of six months.

Other methods

If a valuation by peer-Group comparison is not relevant, other methods may be used. Depending on the nature of the business, the characteristics of the asset and market practices. These include expert appraisals, valuation by discounted future cash flows, sum of the parts, and other methods.

Purchase offers

Purchase offers received for unlisted investments may be considered if they are firm, fully financed, and have minimal conditionality and as well as a high probability of being accepted. In this case, Wendel uses the average either straight or weighted of the internal valuation and the purchase price offered. Relative weight can be based on the specific terms of the offer. The price of a purchase offer is applied for a period equal to that of the said offer extended by two months after the expiry date of the offer. A purchase offer is considered if received prior to the date of the Executive Board approval of the NAV.

Price of dilutive or accretive capital transactions

To the extent justified by the circumstances, the price of a capital transactions that have a significant dilutive or accretive effect, overall or on certain shareholders, can be used to value the entire related investment. In that case, the methodology employed is the same as for recent investments made by Wendel (cf. “valuation following an acquisition” section of this methodology). The principle of valuation at the price paid is not applied in the event Wendel, or any other shareholder, exercises an option to acquire shares or subscribe to a capital increase at an exercise price set on the basis of a situation that predates the exercise.

Appendix III – NAV methodology EQT

Valuation based on earnings multiples

EQT AB Group applies earnings multiples to determine the fair value for investments with revenues, maintainable profits and/or maintainable positive cash flows. The earnings multiples applied are derived from multiples from a basket of publicly traded companies (a peer group) and multiples from comparable transactions. For this purpose, the EQT AB Group normally uses the EV/EBITDA multiple. If another earnings multiple is more suitable for a specific investment, it should be used instead, and the reason for doing so should be properly motivated and documented.
The multiples for publicly traded companies used by EQT AB Group should be from the date when the valuation is performed. Each individual company in the peer group is evaluated for every valuation date to determine if the company is appropriate from a financial, geographic and operational standpoint. In addition, assessments are made in order to determine whether there exist any additional companies appropriate to include in the peer group.
The multiples for comparable transactions should not be more than 18 months old. In cases where there are no comparable transactions at hand it is considered whether relevant to include a basket of comparable transactions from a wider definition of the industry in which the investment operates in. As investments may be realized through trade sale (majority basis) as well as through stock listing (minority basis), all transactions may be considered in the valuation, without applying a minority discount. Earnings figures are adjusted for exceptional or non-recurring items, the impact of discontinued activities and acquisitions and forecast downturns in profits. The valuation process and all changes to the peer group, the comparable transactions and any earnings adjustments are documented and approved by EQT management.

Valuation based on discounted cash flows

In the absence of significant revenues, profits or positive cash flows, methods such as the earnings multiple are generally inappropriate. The DCF technique is flexible in the sense that it can be applied to any stream of cash flows or earnings. In the context of private equity valuation, this flexibility enables the valuation technique to be applied in situations that other techniques may be incapable of addressing. Discounted cash flow techniques imply that expected cash flow amounts are discounted to a present value at a rate that represents the time value of money and reflects the risks of the specific instrument. The discount rate is based on current market conditions and the expected return from the investment.

Valuation based on quoted prices

Investments quoted on an active market are measured at the latest available quoted price for the individual asset on the measurement date. Blockage discounts that reflect the quantity of the investment held or any other discounts are not applied.

Unobservable inputs to valuation techniques

When measuring fair value, the EQT AB Group uses non-observable market inputs in its valuation techniques. Significant unobservable inputs include: EBITDA multiples (based on budgeted/forwardlooking EBITDA and EBITDA multiples of comparable listed companies for an equivalent period), credit ratings, discount rates, capitalization rates, physical and geographic location of assets, price/book as well as price/earnings ratios and enterprise value/ sales multiples. A significant portion of the investments is measured at EBITDA multiples. EBITDA multiples used show wide ranges.

Appendix IV – NAV methodology Eurazeo

Net Asset Value (NAV) is determined by Eurazeo based on net equity as presented in the Eurazeo company financial statements, adjusted to include investments at their estimated fair value, in accordance with the recommendations set out in the International Private Equity Valuation Guidelines (IPEV).

Based on these recommendations, which propose a multi-criteria approach, Eurazeo's preferred method for valuing its unlisted investments is based on comparable multiples (stock market capitalization or transactions) applied to earnings figures taken from the income statement. Where necessary, these are adjusted to reflect a recurring level, such as that established in a transaction. The multiple adopted is based on an acquisition multiple revalidated at each valuation date using medium-term market multiple trends. These multiples are determined either independently by a corporate bank or using public data.

When the comparables method is not relevant, other valuation methods are adopted, such as the Discounted Cash Flow method. Growth companies are generally valued with reference to the valuation adopted during the latest fundraising if still relevant on the valuation date. Where applicable, the impact of structuring based on preferred shares is taken into account in the overall valuation of the relevant investments. The calculated valuations are corroborated by external appraisers which determine their own valuation ranges in accordance recommendations.

Eurazeo Real Assets' investments are valued, in part or in full, based on expert values, according to the weight of their real estate component and the nature of their business. Net cash and cash equivalents of various operating assets and liabilities and Eurazeo treasury shares are valued at the valuation date. Treasury shares allocated to share purchase option plans are valued at the lower of the closing price and the strike price.

Net Asset Value is reported after adjustment for the taxation of unrealized capital gains and invested capital likely to be due to management teams. The number of shares is the number of shares comprising the Eurazeo share capital less any treasury shares earmarked for cancellation. This methodology, as well as its parameters insofar as they remain relevant, are constantly applied over time. Sample comparables are also stable, as much as possible, over the long-term.

Appendix V – NAV methodology HgCapital

Our valuation policy is applied consistently, in accordance with the IPEV Valuation Guidelines. Each company has been valued individually, based on the trading multiples of comparable businesses and relevant and recent M&A activity; this resulted in an average EBITDA multiple for the top 20 investments of 27.4x (22.1x at 31 December 2020).
The basis of the approach continues to be to apply a relevant multiple to suitable earnings-based performance metric. We take a considered approach in determining the level of maintainable earnings to use in each valuation, in line with the IPEV Valuation Guidelines. An earnings-based valuation is most appropriate where the investment is an established business with a stream of maintainable earnings. Where the company has negative earnings or significantly depressed earnings, a revenue based valuation can be used. Most holdings have been valued using the LTM earnings, or the best available information at the reporting date. The earnings figure used may be adjusted on a pro-forma basis reflecting acquisitions, disposals or other adjustments to the extent a buyer would make such adjustments. In selecting an appropriate multiple to apply to a company's earnings, we look at a basket of comparable companies, primarily from the quoted sector, but also making use of M&A data.
We then cross-check the existing valuation against a range of other valuation techniques. We also use back testing to understand substantive differences that legitimately occur between an exit price and the previous fair value assessment to inform our valuation policy.

Appendix VI – NAV methodology Kinnevik

In assessing the fair value of our unlisted investments, we apply IFRS 13 and the International Private Equity and Venture Capital Valuation Guidelines, whereunder we make a collective assessment to establish the valuation methods and points of reference that are most suitable and relevant in determining the fair value of each of our unlisted investments. While a valuation in a recent transaction is not applied as a valuation method as such, it can typically provide an important point of reference and basis for the valuation of a specific investment, especially as it pertains to Kinnevik's younger investee companies where traditional valuation techniques tend to be less applicable and accurate. For new share issues, consideration is taken to whether newly issued shares have preferential rights, such as liquidation preferences to the company's assets. Valuation methods include forward and trailing revenue, GMV, and profit multiples. When performing valuations based on multiples, consideration is given to differences in size, historic and future growth, profitability and cost of equity capital. In its valuations, Kinnevik also considers the strength of a company's financial position, cash runway, and funding environment. While Kinnevik seeks to reflect market movements in the fair value assessments as outlined in the above mentioned frameworks, we firmly believe the fundamental long-term value of each investment will to a significantly higher degree depend on each company's unique characteristics and potential.

Appendix VII – NAV methodology Deutsche Beteiligungs

The portfolio companies are measured using the multiples method. One indirectly held international fund investment is measured using the DCF method.
In case of the multiples method, the total enterprise value is determined at first by applying a multiple for a reference value of the company to be valued. In the past, the reference values used were exclusively profitability indicators. In the year under review, two portfolio companies were measured initially using revenue as the reference value since these companies are still in the start-up phase. Reference values used in the past generally were earnings before interest, tax, depreciation and amortisation (EBITDA) and earnings before interest, tax and amortisation (EBITA). The total enterprise value was generally measured as a mean on the basis of EBITDA and EBITA, in exceptional cases solely on the basis of EBITDA. As a new data source was used for the first time, valuations as at the reporting date were based for the first time exclusively on the basis of EBITDA. The reference value is derived from a portfolio company's current financial metrics. To obtain a sustainably achievable reference value, these metrics are adjusted for special effects such as non-recurring expenses or discounts for risk projects. In addition, discounts or premiums are applied to the reference values used if there is current information that is not yet reflected in these financial metrics.
The multiple is derived from comparable recent transactions if representative recent transactions for the portfolio company were observed on the market and relevant comparative amounts for these transactions are available in sufficiently reliable and detailed form. Since there are generally no listed companies that are comparable with the portfolio company to be valued (especially in terms of size, growth rates and margins), the multiple is predominantly derived from the starting multiple. These starting multiples are extrapolated in line with the development of the reference multiple which is in turn determined using the median for a peer group of similar companies that are as comparable as possible (so-called calibration). This calibration is applied consistently.
For the sake of consistency, an exception to the rule exists for single companies that have been included in the portfolio for a longer time. Instead of calibration, premiums or discounts are applied to the median of the peer group in order to account for the differences between the portfolio companies and the peer group companies in terms of business model, geographical focus of their business activities and their size. The peer group multiples are obtained from external data sources. As at 30 September 2021, a changeover was made to another provider in order to improve quality of inputs. In this context, we have taken into account the further development of our investment strategy by reorganising the peer groups and defining sector-specific peer groups for each sector.
The investment in an externally-managed international fund was measured using the DCF method. Under this method, the net proceeds expected by the manager to be received from the sale of the last remaining portfolio company (after deduction of carried interest) are discounted to the valuation date by applying a discount rate.

Appendix VIII – NAV methodology Tikehau Capital

Tikehau Capital takes into consideration, inter alia, the following assessment methods:

- The transaction value method: transactions over the last 12 months or the last months of activity if the company has not completed a full 12-month financial year since the equity stake was acquired, unless Tikehau Capital is aware of a valuation considered more relevant
- The discounted cash flow method (DCF): this method determines the present value of the cash flows a company will generate in the future. Cash-flow projections, prepared with the management of the company in question, include a critical analysis of the business plan of these companies. The discount rate used is the weighted average cost of capital, which represents the cost of debt of the company and the notional cost of estimated equity, weighted by the proportion of each of these two components in the financing of the company. This rate is set next to that used by analysts for listed companies in the same sector
- The stock market comparables method: valuation multiples of the company under assessment are compared with those of a sample of companies in the same or a similar industry. The average of the sample then establishes a valuation benchmark applicable to the assessed company
- The industry transaction method: valuation multiples of the company under assessment are compared with those of a sample of companies sold in the same or a similar industry. The average of the sample then establishes a valuation benchmark applicable to the assessed company

Appendix IX – NAV methodology Oakley Capital Investments

The Company primarily invests in portfolio companies via the Funds as a Limited Partner. The Funds are unquoted equity securities. The Company's investments in unquoted equity securities are recognised in the consolidated balance sheet at fair value, in accordance with IPEV Valuation Guidelines and IFRS 13 and are considered Level III investments. The valuation of unquoted fund investments is based on the latest available Net Asset Value ('NAV') of the Fund as reported by the corresponding general partner or administrator, provided that the NAV has been appropriately determined using fair value principles in accordance with IFRS 13.

The NAV of a Fund is calculated after determining the fair value of that Fund's investment in any portfolio company. The fair value is determined by the Investment Adviser by calculating the Enterprise Value ('EV') of the portfolio company and then adding excess cash and deducting financial instruments, such as external debt, ranking ahead of the Fund's highest ranking instrument in the portfolio company. A common method of determining the EV is to apply a market-based multiple (e.g. an average multiple based on a selection of comparable quoted companies) to the 'maintainable' earnings or revenues of the portfolio company. This marketbased approach presumes that the comparable companies are correctly valued by the market. A discount is sometimes applied to market-based multiples to adjust for points of difference between the comparables and the company being valued.

Appendix X – NAV methodology CapMan

The changes in the peer group earnings multiples and the peer group discounts are typically opposite to each other. Therefore, if the peer group multiples increase, a higher discount is typically applied. Because of this, a change in the peer group multiples may not in full be reflected in the fair values of the fund investments.

The valuations are based on euro. If portfolio company's reporting currency is other than euro, P&L items used in the basis of valuation are converted applying the average foreign exchange rate for corresponding year and the balance sheet items are converted applying the rate at the time of reporting. Changes in the foreign exchange rates, in CapMan's estimate, have no significant direct impact on the fair values calculated by peer group multiples during the reporting period. The valuation of CapMan funds' investment is based on international valuation guidelines that are widely used and accepted within the industry and among investors. CapMan always aims at valuing funds' investments at their actual value. Fair value is the best estimate of the price that would be received by selling an asset in an orderly transaction between market participants on the measurement date.

Determining the fair value of fund investments for funds investing in portfolio companies is carried out using International Private Equity and Venture Capital Valuation Guidelines (IPEVG). In estimating fair value for an investment, CapMan applies a technique or techniques that is/are appropriate in light of the nature, facts, and circumstances of the investment in the context of the total investment portfolio. In doing this, current market data and several inputs, including the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, and the financial situation of the investment, are evaluated and combined with market participant assumptions. In selecting the appropriate valuation technique for each particular investment, consideration of those specific terms of the investment that may impact its fair value is required.

Different methodologies may be considered. The most applied methodologies at CapMan include the price of recent investments, which is typically applied in the case of new investments, and the earnings multiple valuation technique, whereby public peer group multiples are used to estimate the value of a particular investment. CapMan always applies a discount to peer group multiples, due to e.g. limited liquidity of the investments. Due to the qualitative nature of the valuation methodologies, the fair values are to a considerable degree based on CapMan's judgment.

The Group has a Monitoring team, which monitors the performance and the price risk of the investment portfolio (financial assets entered at fair value through profit or loss) independently and objectively of the investment teams. The Monitoring team is responsible for reviewing the monthly reporting and forecasts for portfolio companies. Valuation proposals made by the case investment professionals are examined by the Monitoring team and subsequently reviewed and decided by the Valuation Committee, which comprises the Group CFO, Head of Monitoring team and either Risk Manager of the relevant fund or Head of the relevant investment team. The portfolio company valuations are reviewed in the Valuation Committee on a quarterly basis. The valuations are back tested against realised exit valuations, and the results of such back testing are reported to the Audit Committee annually.

Appendix XI – NAV methodology 3i Group

The enterprise value is determined using one of a selection of methodologies depending on the nature, facts and circumstances of the investment. Where possible, we use methodologies which draw heavily on observable market prices, whether listed equity markets or reported merger and acquisition transactions, and trading updates from our portfolio. As unquoted investments are not traded on an active market, the Group adjusts the estimated enterprise value by a liquidity discount. The liquidity discount is applied to the total enterprise value and we apply a higher discount rate for investments where there are material restrictions on our ability to sell at a time of our choosing. A small number of our private equity investments are valued using a discounted cash flow ("DCF"), and for these assets we do not apply a liquidity discount.

Methodology	Description	Inputs	Adjustments	% of investment basis portfolio valued on this basis
Earnings (Private Equity)	Most commonly used Private Equity valuation methodology Used for investments which are typically profitable and for which we can determine a set of listed companies and precedent transactions, where relevant, with similar characteristics	Earnings multiples are applied to the earnings of the Company to determine the enterprise value **Earnings multiples** When selecting earnings multiple, we consider: 1. Comparable listed companies current performance and through the cycle averages 2. Relevant market transaction multiples 3. Exit expectations and other company specific factors For point 1 and 2 of the above we select companies in the same industry and, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and geographic focus **Earnings** Reported earnings are adjusted for non-recurring items, such as restructuring expenses, for significant corporate actions and, in exceptional cases, run-rate adjustments to arrive at maintainable earnings The most common measure is earnings before interest, tax, depreciation and amortisation ("EBITDA") Earnings are usually obtained from portfolio company management accounts to the preceding quarter end, with reference also to forecast earnings and the maintainable view of earnings Action, our largest asset, we value using run-rate earnings	A liquidity discount is applied to the enterprise value, typically between 5% and 15%, using factors such as our alignment with management and other investors and our investment rights in the deal structure	**80%**
Discounted cash flow (Private Equity/ Infrastructure/ Scandlines)	Appropriate for businesses with long-term stable cash flows, typically in Infrastructure or alternatively businesses where DCF is more appropriate in the short term	Long-term cash flows are discounted at a rate which is benchmarked against market data, where possible, or adjusted from the rate at the initial investment based on changes in the risk profile of the investment	Discount already implicit in the discount rate applied to long-term cash flows – no further discounts applied	**8%**

Consistent with IPEV guidelines, all equity investments are held at fair value using the most appropriate methodology and no investments are held at historical cost.

Appendix XII – Interview with Hans Verboven

How can PE funds use ESG to improve their economic performance?

It depends on several factors such as your definition of ESG, what is the purpose of your ESG reporting (marketing, compliance or belief), etc. Professor Verboven's opinion is to look at it as a measure of enterprise risk management. For PE companies you have to focus on the companies that you have in your portfolio and assess them individually. On the measurement (return side), you have to look at the strategic link between ESG and long-term return. Looking at the economic performance, one of the things to consider is EU Taxonomy (the green deal), what is the exposure of the company. When evaluating a company, this should be taken into account in the evaluation model. The most important question here is whether the company is ESG/economical viable. Another question is if good ESG performance comes from economic performance or if good economic performance comes from good ESG performance. Pr. Verboven's general opinion is that in the family companies that he works with, ESG performance most of the times is driven by a good overall corporate governance.

How do companies best develop their ESG strategy?

ESG must be integrated within the overall strategy of a company with its own risks and opportunities. What is the current management mechanism, what is my strategy? How are we strategically and operationally prepared to respond to ESG? Cyber fraud is a highly probable and a highly impactful risk, but in a lot of companies top management mechanisms are in place and you don't get in, then you can discard it. On the other hand, for the construction industry and concrete companies, sand has become a scarce commodity. That is a huge risk with a very high impact and today the management mechanisms will be very weak. What can you do about it? Look for alternatives such as circular concrete, and then an environmental risk is given an economic translation. If one can solve this, one will have both a positive environmental effect and a positive profit effect on the business model. So, hence a long explanation to say that this strict separation between strategy, ESG strategy, risk matrix (environmental awareness) and ESG matrix (with inside-out and outside-in) is actually a bit outdated.

You do expect the EU Taxonomy and CSDR to become law? Companies will have to report, how extensive will that be?

Yes. It is difficult to say. There is a huge business in there. If you know that 250 employees, EUR 40 million turnover and EUR 20 million balance total are the benchmarks. If two of the three factors are met, then as a company you are going to be required to report on the impact of the company through double materiality. The real content will not be released until October, but you can already guess what that will look like. CO_2 is certainly already included, and that also has to be verified by the financial auditor. So you actually get a kind of accounting of the ESG data, which is then audited.

Most annual reports already have a certain sustainability component. Those you see in the current market, do you think this reporting is sufficient?

There are reports that are so comprehensive that they will comply with the CSRD regulation with minimal adjustments. There are currently none that already comply 100%. Is it going to be a heavy effort for the big companies? No, not at all. For the small companies, the impact will be huge, because they will have to go from nothing to something, so they will have an issue with it.

In reports, how can one avoid greenwashing despite good intentions?

The big problem is about the definition of what is green and how far do you have to look? CO_2 neutrality is one of them. Today, there are companies that claim they are CO_2 neutral, because they do a part of offsetting and especially outsource most of their activities, which is then in scope 3. They say that they are CO_2 neutral on scope 1 and scope 2, but imagine that I am a project developer and I realise fantastic buildings and am CO_2 neutral. That is not possible, the construction sector is the most CO_2 intensive sector there is. But how can you claim this correctly? You can show this correctly by measuring the CO_2 impact on scope 1 and scope 2, so everything you have control over. Then you can say that you are CO_2 neutral between those narrow boundaries, but then to me you are greenwashing. However, this is still legally possible. In the future, these definitions will be better defined and one of the big advantages of the EU Taxonomy is that they just try to clearly name a green activity. This will also be interesting for Gimv because there are different approaches to the definition of green. The same: What is the definition of ethical investment? The EU Taxonomy puts forward for example that a building is a green building if 30% of its weight is of circular origin.

What is certainly going to happen to buildings is that the CO_2 impact during the life cycle will also become a standard and objectifiable. Then you'll really be able to say, look, this is now a green construction and I as a contractor am mainly green. This will be determined for different business activities and then you could have a different rating. This is important for investment funds and other companies because the banks will be forced to charge an extra risk premium on credits for non-green activities or give a discount on credits for green activities. You will then be penalised for those non-green activities that do not comply with the EU Taxonomy. Then of course it becomes interesting. First, you have the standardisation. You can say one-to-one what is sustainable within a certain framework, but of course there is always the possibility of interpretation. And secondly, you get the benefit of it.

You briefly mentioned something about those scores that are given. How do you look at all those scores?

That still seems far too much of a black box to me. The only thing you can really say, something that can be substantiated and also calculated in my opinion, is CO_2 impact and material consumption (waste). Is company X more sustainable than company Y, according to those criteria, I find that difficult. Of course, it's becoming a whole business to map ESG data, platforms that are created and so on. What does it say? I'm actually quite sceptical about that, because if those results always diverge so much, what should you take? I find that a very difficult matter. I think that towards ESG, it is mainly about the impact you are going to have on climate change and on the use of non-renewable resources. Those will be the two big issues, and they happen to be the two things you can best measure. You can also scan social reports for male/female ratios and age and so on, but yeah...

Companies are not yet required to do ESG reporting, but would they do well to commit to certain statements or write reports on their current ESG performance, even though they may not yet be up to scratch?

I hear two noises from my clients. If they publish, they are convinced that it is useful. There are several reasons. For one, because recently large banks are teasing their clients. Secondly, the employer branding aspect comes into play. Is it greenwashing then? No, it is just an extra benefit of something that is good to do. To answer your question really concretely, the most valuable reports are the ones that report for the first time, so do a zero meeting, and then set themselves some strategic and operational goals that can relate to the wide range of sustainability issues.

Then the discussion is whether they are going to communicate transparently about it or not. Then you very quickly notice: put your money where your mouth is or vice versa, who really wants to go for it. Then you can be sure that they will be followed up, that voluntary commitment works and it ensures that you will do those things because next year you will have to report on them again. You can't make it then, when you put the two reports next to each other, to say: it was nice but we'll leave it for now. I now have an example of a company where we looked at the report for the second time and find that certain objectives have not been achieved because it is far too difficult or because simply nothing has been done about it internally. That is painful, but on the other hand, it also fits in a bit with the company culture, that you then say in all honesty "we had this in mind and it didn't work out because of this and that reason, and yes, next time better". If you publish it that way, I think that your story becomes much more authentic, and that it also reflects positively on your current employees, your future employees, your suppliers, your customers. This brings us back to the first question, that perhaps it is more a demonstration of good governance, of the fact that you are a good company, than that it makes you good.

What universal issues should an ESG report not lack? And perhaps issues that most companies overlook, but which you say are important anyway. What issues do a lot of companies report that actually are not important?

I think what should definitely not be missing from a good report is the link with the strategy and the voice at the top. This is to show that it is serious, and that voice is always a combination of the way of working (core business) and the sustainability strategy. You will only get ESG on the board's agenda if you really start to determine it from that risk/opportunity standpoint. For the type of subjects that should be in the purely ESG report and you start reporting according to the GRI. You can't just stick to the table of contents of GRI, it has to be broader. You have to start telling personally what you do as a company and the positive impact you have as a company from the idea of shared value creation. How can I, from my core expertise, my services and my products, make a positive contribution to solving social or environmental problems, or simply economic growth. Even luxury cars fulfil needs, so you can have a positive impact with that too. So you definitely have to be able to tell that. Another aspect is to show that you create as much value as possible for as many stakeholders as possible, but in a way that has as little negative impact on the world as possible. So the scope of topics should be broader than those mentioned in the GRI assurance list. Furthermore, what may not be missing? It must be balanced between product/services, environmental impact and people & organisation. What is also interesting is to start from the existing certifications and make the link with SGDs.

The SDGs are perhaps something else I can comment on. I am not a great advocate of drawing up strategies on the basis of the SDGs. If you start determining your ESG agenda top-down on the basis of the SDGs, then I think you can speak of greenwashing. The SDGs are about a global and diverse agenda for the most diverse stakeholders. These are all very nice themes, but you can only really have an impact on a number of them. Then I say: just start from the idea that what is the added value of a company and see what problems you can solve. Make your strategy, base that on your PESTEL and SWOT, look at the competition and what you are good at, make a business case. Then look via a bottom-up how this matches up with those SDGs. And then look at how you can have a little more impact through this framework. You can say that you are working on these topics through your business operations, but you need a strategic framework that is tailored to the company's DNA and which incorporates the challenges in the ESG context.

In the context of our research, do you have any issues that you would like to elaborate on?
I would like to know, being Gimv, what the list of material issues are that I should check in every participation I have. And secondly, what are the disclosure issues that I want to know about the companies in which I participate, and how far do I go in following this up? It's about participations, so we shouldn't be silly about that, it's about exposure, ROE, risk management. You have to look for those things, the most material risk that can have an impact on the business model.

We are currently working on a certain scorecard. However, we are a bit stuck on determining those scores in relation to a certain benchmark. Do you have an idea how you can determine these scores objectively and in a standard way?
That is really very difficult. On that spot, we are still very far from the goal. If I were to be asked that question as a project, I would not dare to answer it. You should actually have a balance sheet databank of useful ESG data, where you can compare things on the basis of codes. In order to compare, you need data, and that data is indeed not yet available, and the data that is available now has not been sufficiently verified. It may be an easy solution to put it that way, but at the moment I think it is still too early and that we have to wait for large data platforms that will connect things. If you start comparing both companies at the moment, based on the little data that is there now, there are too many reasons to explain certain differences and the data on those reasons behind the differences is not there yet.

Appendix XIII – Interview with Bjarne Brié

Academic studies tend to analyse companies' sustainability through ESG scores. Whereas this is no issue for big listed companies, smaller private companies practically don't report on their ESG initiatives or performance. This explains the discrepancy in amount of research between public and private companies. As Bjarne is mainly involved with public companies, banks and insurers, the main focus of his PhD and thus academic knowledge is on such entities.

In the case of banks and insurers, they have to explain how green their portfolio is through being compliant with SFDR and EU taxonomy. With SFDR mainly being focused on the issuance of sustainable financial products. Within our research especially SFDR 8 and 9 are applicable to Gimv in case they want to issue green bonds etc. Funds that profile themselves are green but don't offer green bonds or similar products are not subject to SFDR. This implicates that SFDR is not mandatory for the equity part of the finance structure. EU taxonomy will divide sectors in brown or green according to their ESG performance. According to the research, while the EU is still focused on the E side of ESG, the US is already quite advanced in the three pillars.

Is it possible to link financial data to ESG: How can we incorporate ESG in valuations?

Studies on this subject are quite ambiguous, although a lot of studies have been conducted, there is no real consensus. While there are both positive and negative results, only the studies with a positive relationship between ESG and performance get media attention. The biggest issue here is, once again, the lack of data. Next to this, the scope of the research might vary quite substantially.

- How do the researchers measure data (do they measure market data or are they focusing on accounting-based measures)?
- What is their geographic scope?

If we look at the results of such papers, we notice that market-based observations (data), often have a more positive relationship between ESG and financials. This would mean that financial markets values the ESG efforts/performance. Looking at the accounting-based measures, there is a bigger difference in positive and negative findings. This implies that there is still no proof of a positive link between ESG and operational excellence/performance. During the Covid period, some studies looked at strong ESG performing companies pre-covid and examined whether these companies have an (dis)advantage in covid. Not many of these papers have a real answer or conclusion. In order to look into this subject, we should read journals of higher quality. Bjarne suggests papers such as the ones below. While a lot of the studies up until now focus on whether a company reports on a specific topic or not, Bjarne's study looks at to what extend companies report on every aspect of ESG. According to him not a lot of research has been conducted in this manner.

Could you introduce the concept double materiality?

Just like materiality is a concept in financial data. It could be introduced into ESG reporting. When auditors examine a companies' financial reports, they use a certain materiality to decide if something is important for the company. Translated into an ESG context, this means that investors decide a certain threshold for ESG events (reporting on sustainability, climate change, etc.). This threshold would make a distinction between (material) ESG events which have a significant impact on the (value of the) company and immaterial events. If both above mentioned materiality levels are combined, the concept of double materiality is obtained. Although not a lot of research has been conducted on this subject, it might be interesting to examine this for Gimv. First you have to examine the threshold ESG materiality level, once this is identified, look at which events or KPI's have a material impact on the organization. The next paper conducted a similar research and found that when ESG scores are combined with standards, investors don't react on non material events/KPI's. Another result is that investors globally react strongly on ESG performance. The three most used standards for similar research are GRI (Global Reporting Initiative), SASB and TCFD (Climate Disclosures).

What about ESG scores?

A lot of the popular ESG scores are under constant criticism, because of the significant discrepancies between each other, it seems that the ratings are rather subjective. Each rating agency uses other weights and measurement techniques. Another issue with the current ratings is that they don't focus on outcomes, but on actions. This means that although the company's actions don't really contribute to sustainability, said company will be rewarded because they took (minimal) actions. At the moment, there is more focus on input instead of on output. Bjarne thinks this will shift in the coming years. A possibility to shift from input to output is to send out surveys to the portfolio companies in order to examine the impact of the portfolio company's ESG efforts.

In academic research, the most used ESG ratings are Refinitiv, Bloomberg and MSCI. A third shortcoming of these ratings is that sustainability doesn't stop on a company level. In order to have a correct view on the ESG policy of a company, the whole value chain should be taken in consideration. Bloomberg has some very detailed information on this matter.

Appendix XIV – Interview with Tjeerd Krumpelman

How do you see the future regulations coming from Europe towards companies? Legislation such as EU Taxonomy and CSRD, what is your view on this?

I see this as a very positive development. I think that the maturity phase of sustainability requires much more legislation around it, which also makes it possible to talk more about a level playing field, to bring about a little more uniformity. The EU Taxonomy brings a kind of manual to indicate what we can now call sustainable, and the CSRD will bring about some transparency in reporting. There is still a lot of work to be done, but uniformity and mutual comparability at a high-quality level are necessary there too. So what you have seen in recent years is that quite a few initiatives concerning sustainability ambitions and reporting have evolved in the right direction. CSRD, EU Taxonomy and other developments in due diligence, sustainability standards, etc. make this mutual comparability and this level playing field possible. I think that is very positive, but I also realise that many people are not happy with it. It entails a higher administrative burden, but that is a small price to pay for what we have to achieve together.

Do you think that, because of these new regulations, companies will actually become more sustainable?

Only a good report or only transparency does nothing, but you have to see it in the context of the total plans of the world, not only the European Union. If you want to be able to steer on sustainability, if you want to direct capital flows towards everything that sustainability entails, then you first have to establish a structure that determines what is sustainable. If you later introduce a green assets ratio that obliges financial parties to be transparent about how sustainable their balance sheet is, or their financing, and you then introduce incentives into the market from regulators, central banks or politicians, then you do have a means of steering. You then have the context with which you can steer your policy, organised.

Do you think that companies are ready for the amount of regulation that the European Union is coming up with?

No, they are not, and that is where the main objections now come from. Businesses think that the European Union is moving too fast. Yesterday, there was also the fuss in the European Parliament about all those plans not being good enough, but businesses and banks are always saying this. Every time, they say that there is too much legislation, that it is all coming much too fast and that it all costs much too much money. That's just the game between the regulator and business/society. You shouldn't make it unreasonable, but the urgency for the planet is high and so are the regulators. If we don't do it soon enough, it will become very expensive or very costly in some other way.

How do these regulations come back to ABN Amro? How is it different from ordinary businesses?

The financial sector is held partly and increasingly responsible for ensuring that the customers they serve comply with regulations. We've seen that before, when it came to money laundering and tax avoidance, the financial sector was held responsible. So you see this more and more with sustainability legislation and regulation. The funny thing is, most companies are held responsible for their own scope 1 and 2 impact, while when you talk about sustainability within banks, it's actually about the customers, and rightly so. That is a heavier role than, for example, the role played by Solvay, a wonderful Belgian company, which mainly looks at responsibility within its own business process. They look at what the customer does with their product, but they don't see that as their responsibility. When we grant a loan to a company, the impact of that company is added to the impact of ABN Amro. The responsibility that we have, also in legislation and regulations, goes further and further in this respect. As a sustainability person, I think that's a good thing, but you can also question it.

Do you already see an evolution in the provision of credit by the banks, or is it really a matter of waiting until the European regulations come through before the banks really start working on it?

I can already see that almost all financial institutions, certainly in Europe, have been asking their customers questions about the sustainability of the loans they grant. There is a commercial side to it, but also a risk side. So if an ABN Amro customer does unsustainable things with the money they borrow, that is a risk for the bank. We don't want to finance certain activities for reasons of sustainability. So this has been going on for a while now and it is being tackled seriously. What you then see in these laws and regulations is that they are made heavier and faster, and simply become stricter, no longer voluntary but compulsory, and where there is also supervision from the ECB. That is a very heavy form of supervision for the financial sector.

How can banks know that they are granting a loan to someone who has sustainable intentions, without there already being a legal framework around this?

They need to know, but that uniformity is still lacking, but that is what EU Taxonomy and CSRD will bring. For a long time now, you can't just say 'I'm lending money to a company and what they do with it, that's up to them'. You have to know what happens to the money you lend, and you have a responsibility to do so, but you also have to want to know, not only from a sustainability perspective, but also from a risk perspective and all kinds of other reasons. The focus of many banks has always been solely on a risk assessment of whether they would get their money back. That is a kind of credit check, and what banks have been doing for some time now is asking what is actually going to happen with the money. Not only to exclude the possibility of things happening with it that are not allowed, but also to know whether things will happen with it that the bank does not want, and that is where the positive side comes in. If the client says that he is going to do very sustainable things with it, then the bank can help to advise and stimulate even more sustainability.

How far-reaching do you think this will become under the new regulations? Will there really be industries, such as the gambling industry, which currently falls under leisure activities, that will fall by the wayside completely? Is that not going to be taken too far?

I do not think that they will not get credit any more, but I think that it may become more expensive for them. The priority is first of all the green taxonomy, the stimulation of sustainability, you see that also with green bonds and social bonds: 'Can we price that more attractive? Can we create an incentive there so that it becomes easier to finance?'. If you reason this through, it means that if it is not sustainable, then it should be priced accordingly. Is that so crazy? Then it becomes more expensive for gambling companies, tobacco companies, the fossil sector and so on, who are not sufficiently engaged in the transition to sustainability. I would also not know how a gambling company should make the transition to sustainability, because it is very difficult to make gambling sustainable, and tobacco too, for that matter. So they will probably have to pay a price for it. So the essence of this whole taxonomy is that it at least makes price differentiation possible. Whether that will actually happen? That depends on a lot of other factors, but price differentiation is already there. There are already a lot of laws and regulations prescribing how banks should put a price on certain risks. This is nothing new for banks; it is already part of modern legislation. What is new is that we are now going to do that from a sustainability perspective.

These regulations will actually be able to set standards, do you think that will actually work? Because it seems very difficult to me to say when something is good or bad, when we are talking about sustainability.

Yes, but it is also very complicated to say something about capital allocation, or about credit risk in South America, or about credit risk of a coal plant over the next 30 years. I often hear that it is complicated, but many things in the financial sector are very complicated. We have never found that boring. If you look at the IFRS legislation, it is extremely complicated, it has been around for years, it is updated every year, and within a bank like ABN Amro a few hundred people work on it because it is so complicated. Chartered accountants are trained for years because it is complicated to audit the financials, so you there are so many things complicated. It shouldn't be a hindrance, if it was easy, we would have done it a long time ago.

Do you know how that will work, because IFRS is also working on a kind of sustainability framework? Will a bank like ABN Amro that is required to report in IFRS also have to apply the other ESG legislation or will one of the two suffice?

What IFRS is trying to do is to develop a global standard on sustainable reporting, with which the local standards will then have to comply. Whether this global standard will then also become compulsory, I do not know, but the one does not exclude the other. Just because you comply with CSRD does not mean you cannot comply with IFRS.

Do you think we will move towards objective scores for companies like MSCI and Sustainalytics are already trying to do? Is this where we are going?

That is certainly a lot to ask, and one of my tasks is to work with all those rating agencies for ABN Amro. You see that there is enormous multiformity there; one rating agency may find ABN Amro very good while another may find us very bad. They also all have a different purpose. Sustainalytics is something else than MSCI, and the Dow Jones sustainability index is something else again. I see an enormous need among all kinds of parties for one score, so one number for sustainability. I suspect that this will come one day, but I am still quite sceptical about this because we do not have one number for creditworthiness, or for 'Is this a good company? Your definition of good or creditworthiness will always differ, but we have agreed on an accounting method that calculates a solvency ratio. In private equity, for example, what is a profitable company? Everyone has their own definition of what profit is, from adjusted to underlying profit and so on, while there is an accounting method. So one number for sustainability, yes I recognise that, but it actually tries to make something complex into something very simple. I am cautious about that.

Actually, we are asking this question because that was one of our tasks within the project, but we have to admit that we did not succeed because we are constantly coming up against all the different possibilities that you can use to assess certain things.

No, indeed, you can't get out of that. Professional investors and rating agencies can't work it out either. It would be very nice if we could give all our customers a number, where 10 is better than 1, but if you look at how many people are working at Sustainalytics and S&P, there are hundreds of people working there to work out a methodology. That is really very complicated. That you didn't succeed is more than normal. I would have thought it worse if you had said that the three of you had come up with it, that's just not possible. What is possible, however, is that if you have very clear criteria, for example in the real estate sector, you say: we want at least this certificate and energy label. Then you can score using those criteria. In your credit policy too, you ask for certain things and on the basis of those you grant a credit.

Do you think that private equity firms will have to report much more precisely, so go into much more detail about their portfolio companies? Or do you think that regulations will make that mandatory?

Most regulations have a clear scope under which something does or does not fall. My suspicion is that capital providers will want it more and more from their own motivation, or will get more and more demands from the stakeholders around them. It is also possible that the legislator will make it mandatory, depending on the scope. I do think it will turn to larger organisations, which of course can also be private equity. But I think that society and the stakeholders themselves will increasingly demand it. Then at some point you have to deliver.

Do you think ESG provides opportunities for private equity companies?

Certainly, I think that there is a separate group of wealthy people with separate investment needs that can be met in sustainable companies with a slightly higher risk and return. Private equity firms and active shareholdership are all criteria that can also help enormously in the sustainability transition and can be very profitable. High risk, high return in a different way than a bank providing capital.

How can you see through greenwashing and how can you avoid greenwashing by accident?

You can never rule it out, and sometimes it does happen unintentionally. I believe that the maximum you can do to avoid it is to be fully transparent and, for example, to always mention both the positive and negative impact. I still see the positive contribution to the SDGs a little too often, but every company - and that is not a bad thing at all - also has a negative impact. You also have to be transparent about that. If you do your best to be transparent about both and indicate what you are doing to increase the positive impact and reduce the negative impact, then you do not exclude it, but you reduce the risk of greenwashing as much as possible.

Appendix XV – Interview with Sadi Podevijn

What is your take on the many new reporting standards coming to us from the European Union?

There is a lot on the rise. The European Commission, the European Council and the European Parliament are working on the draft of a directive on sustainable reporting. At European level, we have the accounting directive, to which an important change was made a few years ago as a result of the NFDR. This NFDR amended the accounting directive by requiring a number of items of information to be included in the annual report. This only applies to very large companies. The idea of a draft that will adapt this accounting guideline is now being played with. An even more extensive reporting will now be required in the annual report, this will be about ESG reporting.

How does such a directive come about? There is always a draft first, which is prepared by the European Commission. Then a council working group is set up at the level of the European Council. In this council working group, experts from all member states are invited to discuss the draft. They propose adjustments, etc., because there may be clauses in it that are not actually applicable in their country. This is how they actually try to reach a consensus on the directive. This is then passed on to the European Parliament, which is called the tripartite dialogue. The communication and consideration of the directive by the three parties: the European Commission, the European Council and the European Parliament.

As you know, the presidency of the European Commission changes every six months. At the moment, it is France, and since sustainable reporting is an important topic, every country wants to put an agreement on this on its list of achievements during its presidency. That is why France is pushing hard to get this directive through. At the moment, such a council working group is taking place. I am sitting on it as an expert for Belgium. So, I am following all the discussions very closely. Even after the full covid pandemic, only one person per Member State may be physically present. For Belgium, this is the permanent diplomat. But if I get a call, I help and give advice on the direction in which we (Belgium) want to push this directive.

How far have we got with this directive? Quite far, in fact, it is as good as ready. I would therefore like to hear your questions on this matter. Please note that all the answers to these questions are provisional. As long as the directive has not been approved by the three parties, there is no directive. There are still many question marks over the scope, the specific directives and the entry into force. There are, of course, many points on which there is already provisional agreement, and which are unlikely to change. Before I give you the floor, an important point of this legislation is the architecture. This legislation consists of two levels, level 1 and level 2. Level 1 means that we are actually establishing a legal basis at European level (3 institutions). For the practical implementation, the European Commission will actually be given the authority to develop the content of these European standards by EFRAG (a European advisory body). So EFRAG will determine the concrete content. Let me give you an example: the European directive will state that climate-related information must be included in this sustainability reporting. This is formulated in very general terms. The European Commission has asked EFRAG to develop European standards. These standards will specify the issues that European companies will have to report on. So, Europe actually sets the broad guidelines, but the detailed information will be found in the standards issued by EFRAG. EFRAG has already published some standards in October. Until 8 August, everyone can react to that.

Since you haven't mentioned it yet, I assume this is about the CSRD legislation? This is part of the full European Sustainable Action Plan, the so-called Green Deal? Last week we attended a conference with Jean-Paul Servais as a guest, and here we learned that the IFRS is actually in the process of drafting guidelines as well. For this purpose they created a new body: ISSB. Is there much contact between ISSB and the committee that draws up CSRD?

Yes, this is true, it also includes sustainable finance. Of course, this is a very pertinent question. I made a PowerPoint for the CBN plenary meeting that took place last Wednesday. I will bring it in for some further clarification. I can't forward them under any circumstances, but I can show you the relevant issues.

To answer your question: to demonstrate that there is a clear alignment between ISSB and EFRAG (CSRD), you can find it on this slide (shows slide). There are clear similarities on the slide. There is still plenty of discussion about this. One of the Member States in Europe has now also asked to start working with a kind of building blocks for this CSRD directive. This would be a common basis, both at the ISSB in London and in European legislation, and one could then give its own emphasis. The common basis would be optimal for international companies. This would avoid having to redo the entire reporting process when reporting to the ISSB under European regulations.

From which side do you look at each other? Do you work together on this basis? According to what we have understood, ISSB will mainly base itself on the concept of SASB and TCFD. Will they use this as a foundation and will they work together with you?

I don't know, I can't judge. I don't know exactly how they go about drafting these ISSB regulations. I do know that there is a call from Europe for cooperation. But that is a bit like the whole fuss about European accounting standards and IFRS. It is exactly the same, IFRS are also drawn up in London. There are the international accounting standards, issued by the IFRS Foundation, they don't look at Europe either. They are not going to look at what is determined in Europe, they make their own legislation. As a personal note, I have to add that the IFRS was largely composed by people working for the big four. They can then determine this standard themselves, and that is what they do. They set the standard in these international reporting standards. That is, of course, very dangerous for the others; those who do not work at such a big firm find it very difficult to follow. Companies that have to apply IFRS go (more easily) to these large offices to still be able to comply with the mandatory reporting. For this reason, IASB will never feel called upon to look at what they are doing at European level. They are going to do their own thing, because they will certainly be able to attract these large customers. This is all very politically driven. This is why ISSB will not listen to EFRAG; conversely, EFRAG will seek inspiration from what the ISSB will release of standards. The Europeans have now said that it will be important to align as much as possible with what the ISSB will now do. Otherwise, companies that report internationally will have to report twice. The administrative burden associated with this is therefore incalculable. That is also the whole fuss about international reporting standards and local GAAP (Belgian, French, etc.). These are all based on the European accounting standard.

Of course, that explains a lot if you look at it this way. The legislation that is used as the foundation for the ISSB guideline, the SASB and TCFD, were drawn up in consultation with the sector and therefore, just like IFRS, together with the big four. So in this way you actually have a kind of conflict of interest on both sides?

This is certainly true... Welcome to the world. This has been going on for years. The IASB in London is also a private organisation and they sell their guidelines. The reporting that large companies have to do is not small, of course. They are also directed towards investors. Small family businesses do not benefit from such extensive IFRS reporting; they are not listed. That is also the reason why it takes so long before these international reporting standards become mandatory. One should not forget that in Belgium, for example, 97% of the companies are SMEs. Hence also the reason why IFRS has not been adopted in Belgium for these small companies. Now, of course, for the first time SMEs are also targeted. The sustainable reporting directive also mentions SMEs. It is true that the listed SMEs are targeted, but still, for the first time. Surely, this will entail a certain cost for Belgian companies. I have to say that the Belgian government does not want to be seen to be doing anything, so they want to do everything they can to achieve something with this sustainability reporting. On the other hand, they are also against the fact that the administrative burden on companies will increase even further. This is a consideration that will have to be made when the European directives are implemented in national legislation. This also has to be done; it is not because Europe has finally reached a directive that it has already been transposed in Belgium. This directive provides a whole range of options; which one are we going to look at? There will be a lot of political debate about that.

During the conference, it was about greenwashing. Because of the current alphabet soup of terms and guidelines, the sector expects clarity. Is there a danger that companies will move for the sake of advantageous regulation, as was done in the past for so-called tax heavens. Companies would go ESG standard shopping, as it were.

You have a point here. The reason that Europe is coming up with a standard here is to make it possible to compare companies. Large companies in particular want to take advantage of this. In the current annual reports, we can already see that companies are going to report on this and are therefore going to profile themselves as green. The disadvantage at present is that no comparison is possible. That is also the reason why Europe wants to come up with machine-readable reporting. Reports can be compared even more easily this way. In this way, Europe wants to curb the proliferation of directives and standards. Again, you will still have two types of standards: on the one hand you have the standards drawn up by the ISSB, on the other hand the European standards. Hopefully both will have a common basis, but there will always be their own emphasis.

Do you think Europe will succeed and that a comparison of ESG performance will be possible?

Yes, I think so. We are now the 3rd of June, I think there is at least one council working group meeting a week going on in Europe. Since France's presidency expires at the end of June and they really want to get this in, it will come soon. It has been clear since January that France has put this high on the agenda. There are still some issues to be sorted out, such as the entry into force, audit directive, etc. Since this new directive will have to be monitored, the question now arises as to who will monitor it. Is it the auditor or is it another independent party? Then there is the question of the scope, who will have to do this reporting? That is the large companies and the companies of social importance. What is social interest? Those are the companies such as all credit institutions, all insurance institutions and all listed companies (except micro companies). Which companies are exempt? Subsidiaries of European parent companies and subsidiaries of non-European parent companies, if they report on the basis of the European directive. Furthermore, simplified standards for SMEs will be published. A kind of light version. These do not exist yet. A remark in this regard: in Belgian accounting law, we distinguish between small companies and large ones. In Europe, there are 3 categories, small, medium and large companies. This means that in Belgium, the obligations for medium-sized companies are the same as for large companies. At the Belgian level, we will therefore have to add a new level. Since the standards for medium-sized companies (the light version) are not the same as those for large companies, Belgian accounting law will have to provide for an adjustment here, so that a category will be added. I do not think that the government is currently aware of this. This new category would only have to be implemented for sustainability reporting.

So a significant number of companies will have to report in Europe?

Currently, about 11,000 companies in Belgium are subject to sustainability reporting, under the new regulation this number would increase to 55,000. This is a rumour that I have heard. In Europe, only the large companies will have to follow the full regulation. Most of those 55k will therefore have to do the light version. So for Gimv it will be partly full, partly light. Currently, the regulations for large companies come into effect for financial years on or after 2024. For listed SMEs 2026. This is normal, the standards for the "light" version are not there yet. EFRAG has only published the guidelines for full reporting.

What is Belgium emphasizing in the negotiations?

Up to now, Belgium has emphasized intangible assets. Companies must include information about these intangible assets in their sustainability reporting. The problem is that these intangible assets are also included in the accounts. It was not at all clear what the difference was between the intangibles. So there actually has to be an alignment between the intangibles that one sees on the balance sheet and the intangibles that one includes in the sustainability reporting. That was the point made by Belgium, and it was also followed by other Member States. Another point that has not yet been resolved concerns the monitoring of this reporting. This reporting will be part of the annual report (initially this was not the case). The current version states that this must be included in the annual report. The auditor must check the annual report, but at present he is not required to check the non-financial disclosures. Now we want to go further and have the auditor check the sustainability reporting. How exactly are we going to do that? You have annual accounts, which are accompanied by an annual report, which means that the auditor must express an opinion on the annual accounts and a part of the annual report; this will be difficult. Europe wants to include the sustainability report in a separate section of the annual report. This makes it easier to distinguish between the part where the auditor performs his audit and the rest. That is the reason why this would now be included in a separate section of the annual report; this can still change.

Another point is, Europe says there is a possibility that the statutory auditor does not have enough knowledge of sustainability to meet the reporting requirements. Others may be much more versed in this. Europe wants to leave the choice to Member States to let external experts decide whether sustainability reporting meets the requirements. In this case, the audit of that reporting is not done by the statutory auditor, but by an external expert. Belgium agreed to this in the event that this external expert is subject to the same strict conditions as the ordinary auditor. The ordinary auditor is subject to very strict requirements; it should be the same for the external expert. The external expert cannot be just anyone, but someone who delivers reliable quality. This brings us into the water of the ESAS, the international audit standards. There is currently no international standard for sustainability reporting. They are now working hard to install this. Currently, there is still an option for the statutory auditor to audit the sustainability reporting, at the moment there is still a whole debate on this subject.
The European Commission proposes that the statutory auditor must also be able to conduct the audit of sustainability reporting, unless the member state says that this must be done by an external expert. The European Council says that an external expert cannot under any circumstances be an auditor. The European Parliament states that a statutory auditor cannot do the auditing at all, not even a member of the same network, thereby forcing Member States to work with external experts. This shows that there are still many contradictions between the institutions involved, and at present we do not yet know in which direction this will go. Belgium is of the opinion that it can be an auditor, but that the company should have the opportunity to use an external expert (provided that they meet certain quality requirements).

In previous discussions with experts, we heard that a lot of things are difficult to measure or map for companies. These experts actually expect that the two things that can already be mapped, being emissions (scope 1 & 2) and use of materials, will already be tested in the near future. Is this also something that the directive focuses on? Or are many other issues going to be included?
This discussion is mainly at the level of the standards (level 2). This is really substantive and for this you should look at EFRAG's publications. However, this is only an exposure draft, these standards have not yet been approved and are therefore conditional. This draft still has to be approved by all member states, so this will be a fierce debate. It is not possible to pin down the content. EFRAG publishes this in full transparency, so these drafts can be consulted and commented on. Anyone can react to these standards until 8 August. They want to present a first set of standards to the European Commission before November.

Do you think a lot will change after the implementation of the new regulation? Will companies become more sustainable due to this regulatory framework?
No, in my opinion this will not change a lot about the sustainability of companies. Companies will not be driven to become more sustainable, they just will have to report more on their ESG efforts and performance. The big companies that are already reporting on ESG, will just continue and were already punished or rewarded for their ESG performance by their share- and stakeholders. Small- and medium-sized companies that are not listed but obliged to report in any way due to the new regulation, will not be motivated to become more sustainable. The new regulatory framework will be a significant administrative burden for these companies, but will not have a lot of impact.

Appendix XVI – Interview with David Veredas

We would like to hear some of your insights and how you think about ESG metrics in company valuations. We tried to build a framework, but as many researchers are currently struggling with this subject, we think it will not be possible to develop such a framework in the timeframe of this project.

You are partially right, it is a very difficult subject. When it comes to reporting, since a few years, we always make the distinction between financial reporting and non-financial reporting. Financial reporting is always reported in euros or any other financial metric, while non-financial reporting is measured in many different ways. If we for instance take the S in ESG, we look at gender diversity, equality, origin, etc. For the E, we look at GHG emission, materiality use, etc. As you can see, we use many different metrics in the non-financial reporting, while there is only one in financial reporting. This contradiction creates a lot of problems if you want to incorporate non-financials into financials (what the intention of your paper is). I see two possible methods you can do it. The first way is to convert non-financial information into euros. There is a technique for that: the environmental p/l, this was developed by PwC for Puma. Other companies such as Phillips and Vodafone also used or still use it. The environmental p/l identifies 7 groups of ESG dimensions, one of them is GHG emissions, biodiversity, water/earth pollution. For each of these dimensions, the environmental p/l puts monetary values to it. The easiest dimension to explain this is the GHG dimension. The methodology comes up with something that is called the social cost of carbon. This is in terms of monetary units, the damage that the company is doing to society for the emission of gasses. The social cost of carbon follows quite closely the cost of carbon emission rights in the system of the European Union. In this way, you translate non financials in euros.

The second way is to better understand how the NPV is affected by ESG. That is probably closest to what you want. There are three factors that impact the NPV equation. The first one is the cash flows, second the discount and a third is time. Suppose that a company is not sustainable, while there are changes in consumer preferences, in regulation, taxes, subsidies and there are also changes in technology. These changes, might allow a competitor that is sustainable to flourish. The company that is not investing in sustainability might become stranded in this way. How is this reflected in the NPV? Through time: the amount of future cash flow periods, might decrease. Another way is through the cash flows themselves, these might reduce. Next to this, the uncertainty of future cash flows might increase, this increases the WACC/ discount, which lowers the present value of these cash flows. The WACC is also influenced by the cost of debt. This cost of debt might increase for companies that are not investing in sustainable assets/ projects. Some companies that are for example investing in coal plants, receive loans against interest rates of up to 25%. The cost of equity is also influenced through the b. As unsustainable companies will become more volatile, this will increase the cost of equity and thus increase the WACC/discount. These are the four ways ESG or lack of it, may affect the NPV. The difficult thing is that there is no methodology that quantifies these effects easily. There is no direct quantifiable link between cash flows and sustainability. Same for the other factors.

We were trying to build a framework, which results in a premium or discount on the liquidity factor of a company. We could indeed also look at the (negative) cash flows.

You could indeed look at it more positively. I've just given you the negative side, but you could also have a positive impact from esg performance. When it comes to sustainability in companies, from a strategic point of view, we need to make a difference between two types of companies. One company that has sustainability at its core business, for instance a company that specializes in solar panels. Next to this, you have companies that do not have sustainability as its core business, but their operations become sustainable. Think about a company such as Duvel, their product is not sustainable, but their could transform their operations to become more sustainable. Actually, a good example here is Brussels Beer project, it is becoming the most sustainable brewery company in Belgium.

This brings us to a question that we received from Koen Dejonckheere (CEO of Gimv). Gimv's slogan is building leading companies. What is the most valuable for them: investing in companies that have a good ESG score, or investing in companies that are on a path to a good ESG score?

I did a podcast on this subject with the chief investment officer at ING. Should an investor invest in companies with a good ESG score or should the investor invest in a brown company and help them become green. You can do two things, you can invest in a green company and make it greener, but possibly more interesting is investing in a brown company and make it green/ more sustainable. This is also better for sustainability in general. That said, this could only work if the brown company has a plan, a strategy. The pledges that many CEO's do to become more sustainable etc. are as Greta Turnberg says, blablabla. They don't work anymore, the company needs a real strategy. The strategy should be clear on how to become more sustainable. If such a strategy is in place, investing in a brown company, could be worth it.

You could also argue that investing in green companies, encourages brown companies to become green in the first place, so that they also can receive investments.

This could only work if 2 companies operate in the same market and are very close competitors. In this case, the brown company is at risk of becoming stranded. This brown company would then have the incentive to transform itself.

This follows neatly on the scores that we were talking about. How do you determine which company is brown and which is green, where is the cutoff? How does that work?

That is why we have all these data providers that analyze the sustainability data of companies, such as Sustainalytics, MSCI and alike. They do all these reports. Where is the threshold? That depends on the sustainability appetite (comparable with the risk appetite) of the investor. It depends on the sustainability investment policy. Each investor should have such a policy. For example, I'm in the King Baudouin Foundation and our investment policy is to go only for best in class.

So you think that the market and thus Gimv's investors will accept that Gimv invests in brown companies, if they put them on a green trajectory?

If there is a clear strategy, that is short term with clear deliverables that can be verified by an independent auditor, this should be the case. They should also be very transparent about their sustainability intentions with this company.

Deutsche Bank had some serious greenwashing issues the last week, how should companies avoid greenwashing? When is something greenwashing?

How can companies avoid greenwashing? Exactly with monitoring, reporting and being transparent on their intentions and actions. Verification also plays a crucial role here, this verification should be done by an independent auditor. The monitoring and reporting should not be used in an inhouse framework, but in an external framework. One of the most famous frameworks (for GHG emissions), is the science-based target initiative. If Gimv goes for this framework and after some years an independent auditor comes to verify, this should work.

Do you think greenwashing will be gone after the EU imposes its new regulation?

No, not at all. Greenwashing will be still be here. First of all, geographically, the new regulation will only be introduced for European companies. And as you know, the European Union, in terms of emissions counts for only 7.8%, so the EU is not really the problem. That said, within the EU, most of the legal frameworks are for large listed companies, there is little to no legislation on this for SMEs and private companies.

Do you think this will change because of the new legislation? Will mid-sized companies also have to report?

No, they will not have to report on this. They can report on a voluntary basis, but they will not be obliged. There are talks in the European Commission to include SME’s, but as you know there is a significant time difference between talks and the implementation of new regulation.

How do you compare a difference in policies between companies?

That’s a difficult one. Normally what happens, when you want to compare companies from an ESG perspective, you look at every dimension. There are a number of groups per dimension and for every group, there is a number of KPIs. I come back to the start of the meeting, all these KPIs are measured in different ways. That is the difficulty of bridging non and financial information. Many companies have dashboards for these KPIs.

If Gimv were to invest in a company, what does it have to look for next to the financial side? Assuming that the financial side is pretty solid, what does it have to look for on the non financial side? When investing in a brown company?

Let me link back to the regulation side of the story. As mentioned, I am part of the King Baudouin Foundation, we are currently investing in private equity. We are looking at some very small private equity funds, these funds fall under an European regulation. There is a regulation (SFDR) that qualifies (among others) private equity funds according to their ESG performance and intentions. A private equity fund either qualifies as article 6, 8 or 9. Each fund that is under the European umbrella has to qualify itself as one of these articles. Article 6 is business as usual (not very sustainable or no sustainable intentions), article 8 is promoting sustainability, but not really enforcing it, so that is a bit of greenwashing to me and article 9 is truly sustainable. This is a measure to define the investor universe. When we look at possible funds, we only look at article 9 funds, the others are immediately excluded.

How should a private equity fund report on its portfolio companies? They already sent a preliminary survey to their portfolio companies, but many of them are not really involved in ESG. How should they tackle this?
Now we come back to the idea of investing in brown companies as a strategy. The company today may fall under article 6, but the idea is that in 5 years, it falls under article 9. I find that the European regulation for this transition is not well done. There is a bit of a void for this transition. Here we come back to the reputational risk for Gimv to invest in an article 6 company, in that case Gimv has to communicate clearly that however they are investing in an article 6 company, they want to transition it to an article 9.

Doesn't Gimv risk to become an article 6 company if they invest in too much brown (article 6) companies?
That I don't know… I guess that as a listed company, they have to communicate in a transparent way. That is a strategic choice, and it has to be well communicated and explained. It is the case that if a fund classifies or aspires to classify as an article 9, some/a manager of the fund has to have a background in sustainability or ESG. They have to have ESG credentials.

What is the difference between ESG scores such as Sustainalytics, MSCI, Bloomberg, etc.? How do you look at those scores?
It is a very big problem, everyone is aware of this. No one has a straight answer on this. We know there is a huge difference between these scores. As you probably read in De Tijd, it has been like this for years. When you look at the processing of ESG data, everything starts with the reporting and framework. At the moment there are multiple reporting standards and frameworks. After this, the different rating agencies, use different methodologies. This provides further degrees of freedom. This results in an outcome that can be anything.

We have built a kind of framework that resembles these the ones from these rating agencies. Although we don't have the same amount of data, we compared the company's performance with sector averages, next we gave a weight to these specific KPIs and this results in a final score. How would you tackle this situation?
At the centre of sustainable finance, we have built a similar framework. We have build on a sustainability index for SMEs. Unfortunately, the paper is not publicly available. In a sense, going back to the averages, we take the sector where the company operates, but also in between sectors. So the idea of taking the sector is that each company wants to be the best in class. We also have to be fair and take into account that different sectors have different characteristics. You might be the best in class in the coal sector, but as this is a very polluting sector, you're still not sustainable. You need to put all this in perspective. Considering both approaches, we built the index. I was once again thinking about investing in brown companies or not. I don't know if Gimv is investing in all Belgian companies or not (hears mostly Benelux,/Western Europe). I believe if a pe fund invests into a company and becomes a substantial shareholder and has the power to change things, it is better for Gimv as a sustainability driven fund to invest in a brown company, than not. Because there will always be another pe fund that is not sustainable that will invest in this company. In this case, the company will remain brown.

What about minority stakes?

When they invest and are able to change things, they have the possibility to implement a strategic plan, to decarbonize, with milestones, transparency, etc. They have the power to make this happen, I think it is a good idea to invest in this company. This is also currently a point of discussion. Should funds such as BlackRock disinvest their (for example) oil participations? The idea is that if they disinvest, someone else will invest. There is always a demand for a company such as EXXON because of their substantial dividends. So, perhaps these funds are better off staying in these types of companies and helping them to become more green.

Is a good ESG performance the consequence of the fact that the company is already doing good, or is a company doing good because of a good ESG performance?

I don't think there is one answer to this question. You have examples of both cases. It is hard to say what came first. Some companies are doing good and then start to perform on ESG, others were founded with ESG in mind.

Appendix XVII – Interview with Alex McKay

What do you think about the current guidelines/ standards and the upcoming ESG regulation?
First of all, everyone has always been predicting that all guidelines and standards will be streamlined, and this hasn't happened at all up until now. To be honest, I even doubt that this will ever happen. I'm not convinced that it is feasible given that both ISSB and CSRD have different aims. Although they will try to align as much as possible, there will always be a big gap between those two. At the end of the day, they have different aims. Next to this, it feels as some other standards as TCFD are going nowhere. These bespoke, topic specific standards will continue. EFRAG and ISSB will just be more coded and resemble financial accounting. They will be stricter. I work with GRI a lot, there is that materiality question, that has got to continue as well. The other things are so business specific in some way, that they will have to be codified. I don't know how the regulators will work around that.

You're the first one that thinks there will be such little alignment between all the standards, this is quite interesting to hear.
I do think they will align as much as they can but they just have different goals. ISSB is mostly focused on putting a financial metric to the ESG performance, this is driven by the IFRS accounting regulation. CSDR is looking at the impact on the wider world.

You also do the reporting on PE funds. What do you expect in the reporting of such funds?
As a general rule, they are a little bit behind the corporate clients, these clients are already more involved into sustainable/ ESG reporting. Most of them (pe funds) are still struggling with gathering data to report on. Measuring the one office is quite easy, it becomes a lot more difficult if you need to report on the carbon emissions of your whole portfolio. That is what they are starting right now. Maybe on the portfolio diversity. For Private equity, those are the two main things at the moment, that we are seeing is the most important. Diversity and carbon emission. They are mostly not reporting against a framework, but are subject to pri (principles for responsible investing). There should also be the subject as how they are encouraging their portfolio companies to become ESG focused or driven. At the moment, it is mostly informal. It's a process, it is getting more formal, more data driven. It's a slow process, but corporate went through it 10 years ago maybe.

How do you look towards frameworks, which one is the most appropriate?
Well once again, I look at this from a corporate client perspective. We have a process that we go through, we start with working out what is material for the organization and then setting a strategy. I always recommend companies to report against a strategy. That might be separated by the ESG or people planet profit, other times it might be really specific topics such as carbon, human rights, innovation, I don't know. I would always encourage people to report against that. To some degree, that core content, whether it is from gri or other, that slots in within those pillars. There are lots of ways to slice the cake. The content stays the same in a way. SDGs people love. It kind of provides a common language. It can be a kind of greenwashing. It is a nice piece of colour you stick on your page and that you forget about over the next 12 months. I'm quite skeptical about it. Sorry I'm quite negative about them.

How can companies avoid greenwashing?

Goes back to materiality, making sure you report on the right teams. It has got to be relevant. Transparency, report on the right things, not only on the things you want. Also report on the negative side of things, the negative impact. And data, having the right data to back up your claims. Not only raw numbers, but data that you could theoretically compare.

How do you start building a framework?

We start with materiality, we do some benchmarking, we talk to stakeholders, we do some surveys, we talk with a wide range of stakeholders (such as suppliers, customers, investors). From that we identify the top three material topics. From there we build the strategy and identify the KPIs. The targets are set on this, these targets are based on existing metrics such as GRI, SDG, etc. Trying to push everyone that we work with to best practice. If we're going to set a carbon target, why don't push for the highest target.

What is in it for the companies/funds?

The prime principle is that their investors are starting to ask questions. Next to this, I really believe that there is a potential financial benefit in the long term. There is a good business reasoning behind it.

All the conversations are focused at the E of ESG, what is your opinion on this?

The g makes for a boring read. Not the most exciting, but it needs to be in there and needs to be proven. Certainly in Pe you need to tick al the boxes. The problem with the S is that is harder to measure. Comparatively, the E is easier to measure. There is human rights impact, it is five layers down the supply chain, companies sometimes don't have a lot of visibility on this level. It is messy and more complicated. Certainly, pe is more focused on the E.

These funds report on diversity (age and gender).

Once again, diversity is easy to measure. Problem with social is that you have to keep in account the GDPR regulation. What else should be measured? Health and safety is also quite easy to measure and important. Stuff like modern slavery up the value chain, etc. It requires a process that your tracking these measures. You have to be on top of this. Human rights in the supply chain is very important. Looking at the S, I focus on the supply chain. You would hope that the company's own social part is in order, this should also be checked in the supply chain.

How can these measurements be turned into a score?

I would not... There are organisations doing that. Again, I think that the material issues will be very different for pe as each company has its own material topics. I don't think there will ever be a perfect solution to that. In my opinion, there will never be a number that summarizes everything.

In the Belgian press, there was a renewed discussion on sustainability. In this day and age, do you need sustainability to remain profitable, or does a good sustainability come from profitability?

You can't be a sustainable business if you're not making a profit. You have to make profit. You can be a profitable company and have a very negative sustainability impact. How far you will be profitable, this is another discussion. There is a certain a reputational risk.

Should Gimv invest in companies that are already green or should they invest in a brown company and turn them green.

Certainly the second way. This will have the biggest imapact. These brown companies exist, let's make sure that they become as green as possible.

What about investors, if these investors see that Gimv invests in brown companies, they can consider this as an extra risk. How can Gimv communicate their intentions?

Due an appropriate due diligence and make sure it is possible. Back the data to your shareholders. Report on your ESG performances.

Do you think that new regulation will contribute to companies' sustainability or just be an administrative burden?

Between the experts, there is certainly a concern that it doesn't matter how we do things. Since sustainability rporting etc. Companies have taken action. Small businesses will certainly have a lot of trouble in adhering to this new regulation.

Appendix XVIII – Interview with Wim Van Hyfte

The Head of Responsible Investing at HSBC recently said that climate change has no economic impact? How is it that a person in that position says such things?

I find it very strange that someone with such a title would dare to claim such a thing. Apart from that, in se he is right. From the activity of HSBC, being a bank with their loan book, that is short term. That is different with respect to a pension or insurance fund that has long term liabilities. The average maturity at HSBC will be about five to seven years, so if you take that really literally, he has a point. Why? The severe impact of climate change will probably only manifest itself within 10 years. So from their point of view, these are things that are not impacting their loan book at the moment. I do find it very irresponsible that someone in his position, knowing that climate change and its enormous physical impact has been widely validated and moreover HSBC has committed itself to the climate, dares to make such a statement. Ultimately, he also has a kind of moral responsibility from somewhere to accept that climate change is proven and it has an economic impact, and that in his position he cannot abuse the uncertainty about the trajectory. I think we as a financial sector have a role to play in walking that path. Climate change is forward-looking and it is our moral obligation to do something about it.

How would an investor like Candriam look at Gimv, which invests in 'brown' companies to turn them into 'green' companies. In other words, with the motive of carrying out this green transition.

That would probably be flagged in our case, but not necessarily as a negative. We are going to look at the activities themselves and what type of processes can be improved, and is the company planning to do that. Then we will analyse a whole scope of indicators to see if a company is capable of doing it. In the steel sector, for example. Currently, 5-6% of European emissions come from this sector, but the technology to make it green is also very expensive. We are therefore going to assess whether this transition is really feasible, because some things are just not easy to make sustainable. The few companies that we consider credible are those that invest heavily in green technology. We will then be able to regard them as transition stories. This means that Gimv must communicate very extensively and in detail about the targets and feasibility of each of their companies.

Do you think there is a role for both private equity and funds, through active shareholdership, to stimulate that sustainability story?

My answer is 200% yes. That's typical of the industry now, I think we have much more power than in the past. We are also expected to do things like that. That we, as an active shareholder, are going to exert pressure, in an even activist style. I take a position in a company and I am going to push it towards a transition story, that is increasingly the expectation of our customers. We even work together with our competitors for this, and have already done so for a number of European energy companies. Despite this, many people think that we are not like private equity or private debt, but we are doing this more and more. If we link this to Gimv, I would venture to say that this is the role they will have to play if they want to green themselves. They would then have to create the image of an active player with clear targets for the companies they invest in. As private equity players, they have precisely the tools and the capacity to do what we as asset managers have somewhat fewer tools for.

The approach is also different, of course. Gimv must also be able to win that deal, so in this way they increase the chance of missing out on deals. It is easier said than done, in our opinion.
I think you are right, they are probably going to be able to source fewer deals. But this is not only an aspect of sourcing fewer deals, but also of how do you want to market yourself as a company. It is the CEO and the board who ultimately have to decide where they want to go with Gimv. Within private equity there is still a whole story to be written about sustainability, but this does have an impact on deal flow.

How do you view the wide range of different ESG scores? If it is improved, do you think there is a future for these scores?
I myself do not think that it needs to be improved. There is a huge conflict of interest on the data provider side, but I don't understand the criticism of the different scores. It is very simple, if you look at their credit recommendations, you will see a lot of differences. Those agencies all have a certain analysis model to calculate the creditworthiness, and data providers at ESG level actually work in exactly the same way. Those frameworks differ from each other and on top of that there is an analyst who has to pass judgment on that company, so it is logical that there are differences in those scores. I find it positive that there are differences, because then I can market myself as an asset manager with my own analysis. The regulators are just annoyed because they themselves made the mistake of never working towards standardisation of the data. I think the data needs to be standardised, which will put some of the role of data providers out of business, but then there will be comparability between companies. However, everyone can continue to look at data in their own way, just as analysts look at financial reports of companies in their own way.

How can non-financial impact on the environment be measured?
The most obvious way is to look at emissions. There are many indicators that are related to that, and then it is very simple, you just start looking at the reduction in those indicators. You have to scale it, of course; you always have to compare it to something that reflects the size of the company. If you see a reduction in a company's emissions, you can see that the company is working on its internal processes to reduce those emissions. You can do the same with water consumption and so on. Can you then translate these figures financially? Yes you can, just put a price on it. For example, you have the price of a tonne of emissions. Based on that, you can calculate a financial cost and impact in terms of EBITDA.

Appendix XIX – Example own scoring mechanism

Asking a portfolio company for its amount of emitted CO_2 is too vague. A more precise question would be to ask for their Scope 1-2-3 emissions. We choose, for the sake of this example, scope 1. A first step is to make the input relative to the size and activity of the company. When we look at the companies per platform and compare them with the correct peers, the 'similar activity' part should be covered. For size we will have to decide on the denominator via which we will create a ratio. Revenue, EBITDA, number of products produced, machine operating time, per KWh used electricity, ... Are all viable options. It is important that the denominator can place the emissions into perspective. An often used denominator is revenue. Revenue has as an advantage that it is a relatively easy metric to find. It is also an 'easy to understand' metric. Of course every choice of denominator also comes with disadvantages. Choosing revenue will most likely favour those companies which have higher pricing levels than their peers.

Appendix XX – List of KPIs scoring framework

ESG	Theme	KPI
E	Carbon footprint	Carbon emissions energy & logistics (tCO2)
E	Carbon footprint	Total energy consumed (MWh)
E	Carbon footprint	Percentage grid electricity (%)
E	Carbon footprint	Percentage renewable energy (%)
E	Carbon footprint	Carbon emissions energy & logistics (tCO2)
E	Carbon footprint	Keeping track of different business travel modi used (Y/N)
E	Carbon footprint	Number of EVs or % of total fleet
E	Carbon footprint	Logistics efficiency (tCO2 per km)
E	Carbon footprint	Carbon emissions logistics (tCO2)
E	Carbon footprint	Carbon emissions (tCO2)
E	Carbon footprint	Specific energy use (MWh per m€ revenue)
E	Carbon footprint	Environmental management (high, medium, low)
E	Carbon footprint	Energy consumption
E	Carbon footprint	Gas consumption
E	Carbon footprint	Renewable energy consumption
E	Carbon footprint	Fuel consumption
E	Carbon footprint	Total energy consumption
E	Carbon footprint	% renewable energy
E	Carbon footprint	Own energy production
E	Carbon footprint	Own renewable energy production
E	Carbon footprint	Assessment of carbon footprint (strong, medium, weak)
E	Carbon footprint	Carbon emissions - Scope 1
E	Carbon footprint	Carbon emissions - Scope 2
E	Carbon footprint	Carbon emissions - Scope 3
E	Carbon footprint	Carbon footprint (kg/sales)
E	Carbon footprint	Amount of Green IT initiatives
E	Carbon footprint	% of Green IT and subcontractors
E	Carbon footprint	# environmental litigations and incidents
E	Carbon footprint	Total use of electricity
E	Carbon footprint	Total fuel consumption for car and machinery
E	Carbon footprint	Number of hours idling
E	Carbon footprint	Energy intensity
E	Carbon footprint	% reduction in idling hours per year
E	Carbon footprint	Number (and which) initiatives taken to enable employees to do sustainable energy management outside working hours
E	Carbon footprint	Energy mix (own/purchased) + % green energy
E	Carbon footprint	Average emissions fleet of commercial vehicles
E	Carbon footprint	Average emissions fleet of machines, trucks and cranes
E	Carbon footprint	Average fleet eco-score
E	Carbon footprint	Number of kilometres by bike
E	Carbon footprint	Number of employees who regularly come by bike
E	Carbon footprint	Biking policy (strong, medium, weak)
E	Carbon footprint	Number of kilometres of commuting
E	Carbon footprint	Number of transport kilometres by water
E	Carbon footprint	% of company cars replaced by cars with less CO2 emissions between years x and y

E	Carbon footprint	Number of exceptional transports
E	Carbon footprint	Number of hours idling
E	Carbon footprint	Direct (scope 1) greenhouse gas emissions
E	Carbon footprint	Energy indirect (scope 2) greenhouse gas emissions
E	Carbon footprint	Other indirect (scope 3) greenhouse gas emissions
E	Carbon footprint	Reduction of greenhouse gas emissions
E	Carbon footprint	NOx, SOx and other significant air emissions
E	Carbon footprint	Compensation of CO2 emissions (afforestation and investments in CO2 reducing projects or renewable energy)
E	Carbon footprint	CO2 emissions
E	Carbon footprint	Emissions of ozone-depleting substances (ODS)
E	Carbon footprint	% of projects that help combat climate change
E	Carbon footprint	Avoided amount of GHG by doing projects
E	Carbon footprint	% of green financing
E	Carbon footprint	Co2 emissions due to energy used by buildings, and common areas/machines
E	Carbon footprint	# bike parking space
E	Carbon footprint	# showers for bikers
E	Carbon footprint	# charging stations for electrical vehicles
E	Carbon footprint	Total electricity consumed from indirect renewable and non-renewable sources (per any classification of building (purpose, age, ...))
E	Carbon footprint	Total driven product kilometres (distance producer-consumer)
E	Carbon footprint	Emissions emitted by necessary transport
E	Carbon footprint	% of transport by freight train
E	Carbon footprint	% of transport by freight boat
E	Carbon footprint	% of transport by truck
E	Carbon footprint	Co2 emissions due to commuting by employees
E	Carbon footprint	# projects without carbon emissions
E	Carbon footprint	# installed solar panels
E	Carbon footprint	% of energy is of own creation
E	Carbon footprint	# of charging stations for EV's on premises
E	Carbon footprint	% of products with recognisable sustainability labels such as Bio, Fairwear, FSC, PEFC, etc
E	Carbon footprint	% of clients we had a dialogue with about the sustainability of a product/service
E	Carbon footprint	% of clients with whom a sustainable alternative was discussed
E	Waste management	Product waste (tonnes)
E	Waste management	Product waste analysis
E	Waste management	# of packaging materials used
E	Waste management	# of packaging waste
E	Waste management	Recyclable packaging material (%)
E	Waste management	# of audits conducted with waste as a subject
E	Waste management	# of available waste certificates
E	Waste management	Water consumption (m^3)
E	Waste management	Water consumption / finished product (m^3/ton)
E	Waste management	How extensive is the waste management plan (very, medium, not at all)
E	Waste management	# kg hazardous waste produced
E	Waste management	# kg medical waste produced
E	Waste management	How extensive is the waste - water plan (very, medium, not at all)
E	Waste management	# m^3 water displaced to local rivers

E	Waste management	# m^3 water displaced from local rivers
E	Waste management	# measures to consume less water during droughts
E	Waste management	Impact of transportation on the biodiversity (around the premises)
E	Waste management	#m^3 tap water used / #m^3 rain water
E	Waste management	# m^3 water used for non production purposes
E	Waste management	# m^3 rainwater used for non production purposes
E	Waste management	# of initiatives taken/proposed to reduce water use
E	Waste management	# of initiatives taken/proposed to improve biodiversity
E	Waste management	% water permeability of the site in m^2 compared to the total non-built area
E	Waste management	% of green zones compared to buildings on terrain
E	Waste management	% of source material ends up as waste
E	Waste management	# of money spend on the treatment of waste (removal of the premises, ...)
E	Waste management	degree of information towards the customer (=products with information on the impact of the product in the environment/# products)
S	Health & safety	# of infractions
S	Health & safety	Reporting of and learning from mistakes culture (strong, medium, weak)
S	Health & safety	Safety culture (policies and procedures) (strong, medium, weak)
S	Health & safety	# of reported accidents
S	Health & safety	# accidents that caused work incapacitation
S	Health & safety	% of accidents was researched
S	Health & safety	How strong us the risk management system (strong, medium, weak)
S	Health & safety	How strong is the health and safety program integrated (strong, medium, weak)
S	Health & safety	# of times heath and safety incidents are reported to the board of directors
S	Health & safety	How well known is the working accident prevention policy (very, medium, not well)
S	Health & safety	# lost time injuries
S	Health & safety	# lost days due to injury
S	Health & safety	Amount of days with an accident
S	Health & safety	% buildings that underwent a safety and health assessment
S	Health & safety	# incidents of non compliance with safety standards
S	Health & safety	% of employees that indicate to feel safe at work
S	Health & safety	Assessment of the impact on the health and safety of the customer (strong, medium, weak)
S	Health & safety	# incidents of non-compliance with the health and safety regulation of services
S	Health & safety	% of employees represented in formal joint health and safety committees for managers
S	Health & safety	Number of employees with back problems
S	Health & safety	Number of employees with lungs problems
S	Health & safety	Number of incapacity certificates
S	Health & safety	% of high risk functions
S	Health & safety	% of employees, who perform risky or physically demanding work, who are frequently informed and adjusted regarding preventive measures
S	Health & safety	# health and safety issues addressed in formal agreements with trade unions
S	Health & safety	# health campaigns (fruit at work, start to run, safety at work, ...)
S	Health & safety	% of employees that smoke
S	Health & safety	% of smokers that stopped smoking last year
S	Health & safety	% of employees that was offered a program to stop smoking
S	Health & safety	Number of physical (and mental) health and well-being evaluations of employees per year (whether or not legally required or in the presence of a company doctor)

S	Health & safety	# of initiatives taken to encourage sports and exercise among employees (e.g. provided with a pedometer, free subscription or discount at sports clubs, possibility to do brainstorming sessions in group while moving, etc.)
S	Health & safety	% of occupational accidents or safety incidents that are closely investigated (resulting in preventive measures for the future)
S	Health & safety	Number of employees qualified to administer first aid
S	Health & safety	% high-risk services/equipment permanently provided with written (and graphic) safety instructions
S	Health & safety	Platforms/tools that allow employees to report (anonymously or not) and ask for help with bullying, harassment and violence, sexually transgressive behaviour and so on
S	Health & safety	Compliance with ISO 45001 certification (strong, medium, weak)
S	Health & safety	How safe are our products/services to our clients/patients (very, medium, not at all)
S	Health & safety	# accidents with our clients from normal behaviour/use with our services/products
S	Health & safety	Injury frequency number
S	Health & safety	Incidents of non-compliance with the health and safety impacts of services
S	Health & safety	Level of safety for the client (very, medium, low)
S	Quality management	% of products undergo Quality assurance procedures
S	Quality management	Number of employees dedicated to quality management (#)
S	Quality management	Vastness of the policies & procedures in place (great, medium, weak)
S	Quality management	Customer satisfaction (%)
S	Quality management	Returned items (#)
S	Quality management	Product recalls (#)
S	Quality management	Average duration of downtime (hrs.)
S	Quality management	Disruptions (#)
S	Quality management	How rigid are the quality control systems (very, medium, not at all)
S	Quality management	% of products experience recalls?
S	Quality management	% of product/service arsenal that experiences recalls
S	Quality management	Satisfaction by clients/patients (high, medium, low)
S	Quality management	% happy customers
S	Quality management	# of patients treated by the company's product/service
S	Quality management	Net promoter score
S	Quality management	# complaints by customer
S	Quality management	% of clients that made a complaint this year
S	Quality management	% returns/reruns
S	Quality management	% of products with recognizable (sustainability) labels such as Bio, Fairwear, FSC, PEFC, etc.
S	Quality management	% of customers engaged in dialogue about product/service sustainability
S	Quality management	Number or % of customers surveyed per year
S	Quality management	# of recurring quality issues
S	Quality management	% of quality issues have been resolved
S	Quality management	Margin for error allowed in production
S	Quality management	What is the highest quality certificate
S	Quality management	# of process adjustments based on complaint analyses
S	Quality management	Number of hours spent on maintenance of machines
S	Quality management	# of employees solely responsible for quality
S	Quality management	# hours in quality training
S	Quality management	# employee ideas or suggestions that were included
S	Quality management	% of spare parts in stock

S	Quality management	# approved innovation projects
S	Quality management	# approved internal innovation projects
S	Quality management	# hours spent solely on improving company procedures
S	Quality management	# efficiency gains
S	Quality management	How strong is the innovation culture within the company (strong, medium, weak)
S	Quality management	# improvements were suggested by employees / year
S	Quality management	# of conducted experiments (to improve the workings of the company) / year
S	Quality management	% of budget for investing in new equipment
S	Recruitment, development & retention	Accidents (#)
S	Recruitment, development & retention	Number of fixed contracts
S	Recruitment, development & retention	temporary contracts (#)
S	Recruitment, development & retention	# employee surveys conducted
S	Recruitment, development & retention	Turnover (%)
S	Recruitment, development & retention	Absenteeism (%)
S	Recruitment, development & retention	Diversity (also at board level) (%)
S	Recruitment, development & retention	# hires/year
S	Recruitment, development & retention	# departure/year
S	Recruitment, development & retention	Net job creation
S	Recruitment, development & retention	# women hired
S	Recruitment, development & retention	# women working at the company
S	Recruitment, development & retention	% of women working at the company
S	Recruitment, development & retention	# managers
S	Recruitment, development & retention	% of managers are women
S	Recruitment, development & retention	# disabled people working at the company
S	Recruitment, development & retention	How many of the following are being done?: - Formalisation of an internal charter on diversity and inclusion issues - Signing external charters or obtaining labels on diversity and inclusion issues - Implementing a policy of retention and training of senior employees for better employability. - Installation of equipment to improve accessibility of the workplace for people with disabilities. - Employment/apprenticeship/internship of people from urban policy areas. - Measures to promote profile diversity within governance bodies. - Other initiatives
S	Recruitment, development & retention	Average age of the workforce

S	Recruitment, development & retention	Average seniority of the workforce
S	Recruitment, development & retention	Amount spent on training by the company
S	Recruitment, development & retention	Amount spent on training by the company / # employee
S	Recruitment, development & retention	% of sales spent on training by the company
S	Recruitment, development & retention	How strong is the strategy or initiatives on talent recruitment, development and/or retention? (strong, medium, weak)
S	Recruitment, development & retention	#employee surveys sent out
S	Recruitment, development & retention	% of employees engaged in the employee survey
S	Recruitment, development & retention	# hiring mistakes (leave<1.5 year)
S	Recruitment, development & retention	# short stays (leave <3 year)
S	Recruitment, development & retention	Average stay employees (years)
S	Recruitment, development & retention	# New employees
S	Recruitment, development & retention	% Gender diversity
S	Recruitment, development & retention	Average seniority per division
S	Recruitment, development & retention	Average age per division
S	Recruitment, development & retention	Short time absences
S	Recruitment, development & retention	Average training hours / employee
S	Recruitment, development & retention	Total amount of training hours
S	Recruitment, development & retention	% employees engaged in training
S	Recruitment, development & retention	# of training programs an employee can choose from
S	Recruitment, development & retention	Amount spent on trainings
S	Recruitment, development & retention	% of budget spent on training
S	Recruitment, development & retention	Retention rate
S	Recruitment, development & retention	% of employees indicating they are happy with their job
S	Recruitment, development & retention	% of employees indicating they are indifferent about their job
S	Recruitment, development & retention	% of employees indicating they are dissatisfied with their job
S	Recruitment, development & retention	Net promoter score for the company as an employer

S	Recruitment, development & retention	Results of the employee engagement survey (happiness at work, commitment towards the organization, promotion of the company, work life balance) (strong, medium, weak)
S	Recruitment, development & retention	% local people employed (country of origin = same as place of the company)
S	Recruitment, development & retention	% of internationals working for the company
S	Recruitment, development & retention	Awareness around burn out (strong, medium, weak)
S	Recruitment, development & retention	# employees who are long-time ill
S	Recruitment, development & retention	% of employees with long-time illnesses
S	Recruitment, development & retention	% of long time ill employees that came back to work full time
S	Recruitment, development & retention	% of employees with a burn out
S	Recruitment, development & retention	% of employees that know the names of executive committee of Gimv
S	Recruitment, development & retention	% of employees that indicate that they receive work that is tailored to them (not to easy not to difficult)
S	Recruitment, development & retention	% of employees that indicate they have the correct tools and means to do a good job
S	Recruitment, development & retention	% of employees that took a sick leave (+3 days/year)
S	Recruitment, development & retention	% employees that did not use all of their holidays
S	Recruitment, development & retention	# vacancies
S	Recruitment, development & retention	Average number of days a vacancy remains open
S	Recruitment, development & retention	# teambuilding exercises / year
S	Recruitment, development & retention	% of employees with from a different ethnic origin
S	Recruitment, development & retention	% of employees with a disability
S	Recruitment, development & retention	% of employees per age category
S	Recruitment, development & retention	% part-time employees, interim contracts, traineeship contracts
S	Recruitment, development & retention	% homework hours / total hours worked
S	Recruitment, development & retention	% of employees that indicate they receive adequate pay for work
S	Recruitment, development & retention	% of employees that indicate they receive clear instructions
S	Recruitment, development & retention	% of employees that indicate they are comfortable with the substance of their job
S	Recruitment, development & retention	% of employees that indicate they are comfortable with the workload they receive
S	Recruitment, development & retention	# of measures taken regarding prevention and reduction of stress, burnout, focus retention, time management etc

S	Recruitment, development & retention	# of platforms/ways in which employees can communicate ideas, complaints and suggestions for improvement
S	Recruitment, development & retention	Average duration of absence
S	Recruitment, development & retention	% of employees that took their parental leave
S	Recruitment, development & retention	% of employees that indicate to have active hobbies and a significant social life outside of work
S	Recruitment, development & retention	Happiness of the employees about the efficiency and management of the organisation
S	Societal impact	Revenue from 'healthy' products (%)
S	Societal impact	Level of ingredients (grams / 100 grams product)
S	Societal impact	# infractions to community guidelines (laws broken, ...)
S	Societal impact	Happiness indicator from community around the company (very, medium, not at all)
S	Societal impact	# of communications towards stakeholders outside of the company
S	Societal impact	# Social media posts
S	Societal impact	# followers on social media, outside of the company
S	Societal impact	# operations with involvement of the community around the company
S	Societal impact	# projects from local society supported (both financially and non-financially)
S	Societal impact	# operations audited for possible corruption
S	Societal impact	How strong is the transparency policy to inform consumers about safety and health risks and effects on the environment (e.g. with logos, instructions for use, extensive product information available online, etc.) (very, medium, weak)
S	Societal impact	# subsidies received from the government
S	Societal impact	# other financial support received from the government
S	Societal impact	# complaints from people living around the company
S	Societal impact	# infrastructure investments made by the government, which improves the working of the company
S	Societal impact	# of cooperation's with sector federations
S	Societal impact	# conversations with stakeholders from outside the company
S	Societal impact	Amount of financial support for political parties or community initiatives
S	Societal impact	Amount of financial support for political parties or community initiatives
S	Societal impact	Amount of cooperation's with society for philanthropic purposes
S	Societal impact	# hours worked for the community/ total hours worked
S	Societal impact	# employees via social employment
S	Societal impact	# attended/given keynotes, debates, interviews
S	Societal impact	# LinkedIn post
S	Societal impact	# LinkedIn reach
S	Societal impact	# LinkedIn interaction
G	Responsible supply chain management	# of supplier selection criteria
G	Responsible supply chain management	Fairtrade (% of rev.)
G	Responsible supply chain management	How extensive is the risk mapping process (very, medium, limited)
G	Responsible supply chain management	% of suppliers audited
G	Responsible supply chain management	# of suppliers in corruption sensitive countries

G	Responsible supply chain management	# of steps in the supply chain
G	Responsible supply chain management	# of steps that are endangering the climate goals of Gimv
G	Responsible supply chain management	% of formalized responsible purchasing charters and/or supplier code of conducts with suppliers
G	Responsible supply chain management	% of products from suppliers denied because of quality control systems
G	Responsible supply chain management	% of suppliers with whom dialogue was entered into social themes
G	Responsible supply chain management	% of suppliers which may jeopardise the right to freedom of association and collective bargaining
G	Responsible supply chain management	% suppliers at significant risk of child labour incidents
G	Responsible supply chain management	# of Incidents or violations of the rights of specific ethnic groups (indigenous people, ...)
G	Responsible supply chain management	# of Operations subject to human rights assessments or impact assessments
G	Responsible supply chain management	% of major investment agreements and contracts containing human rights clauses or that have undergone a human rights screening
G	Responsible supply chain management	# of supplier interviews regarding sustainability
G	Responsible supply chain management	# of sustainability criteria in supplier assessment
G	Responsible supply chain management	# of Long-term cooperation with suppliers (+5 years)
G	Responsible supply chain management	# time to make products
G	Responsible supply chain management	# time for delivery of resources after order
G	Compliance culture	How strong/extensive is the code of conduct (strong, medium, weak)
G	Compliance culture	How well is geographic risk mapping integrated (strong, medium, weak)
G	Compliance culture	Geography risk mapping (Y/N)
G	Compliance culture	How strong is the regulatory overview/dashboard (strong, medium, weak)
G	Compliance culture	# times is the dashboard been updated this year
G	Compliance culture	How strong is the data breach policy (strong, medium, weak)
G	Compliance culture	# of data breaches (#)
G	Compliance culture	How many of the following subjects are covered by the code of ethics: - Anti-corruption - Child labour/forced labour - Conflicts of Interest - Money laundering
G	Compliance culture	How high is the level, responsible for the code of ethics: - The CEO - The board of Directors - Management - The Compliance Director
G	Compliance culture	# compliance trainings per year
G	Compliance culture	how accessible is the whistle blower system (very, medium, weak)
G	Compliance culture	# voting members of the shareholder governance body
G	Compliance culture	# independent members on the shareholder governance body

G	Compliance culture	# trading corruption sensitive countries (Countries with a score below 50 according to the 2021 Corruption Perceptions Index)
G	Compliance culture	For how many of the following has the company experienced any material social litigation in the past? : - Yes for : discrimination or harassment - Yes for : contractual termination with employee - Yes for : dismissal of employees - Yes for : invitation to Labour Court - Yes for : strike(s) - Yes for : dismissal in top management - Yes for : others causes
G	Compliance culture	# of women on the Board of Directors or Supervisory Board
G	Compliance culture	% of women in Board of directors
G	Compliance culture	% women in executive committee
G	Compliance culture	% of women in management positions
G	Compliance culture	% of C-level women
G	Compliance culture	% of employees familiar with the values of the company
G	Compliance culture	Workshops or initiatives focussing on the values of the company
G	Compliance culture	Amount of actions that go against the values of the company
G	Compliance culture	% of employees familiar with the mission and vision statement
G	Compliance culture	Amount of legal actions drawn up against the company
G	Compliance culture	Amount of legal infractions, drawn up by an officer of the law
G	Compliance culture	Employee representation in the board of directors
G	Compliance culture	Employee representation in the executive committee
G	Compliance culture	Employee representation in the shareholder committee
G	Compliance culture	amount of infractions on the code of conduct by employees
G	Compliance culture	% of operations which underwent scrutiny for corruption
G	Compliance culture	Amount of GDPR infractions
G	Compliance culture	Perception of safety to speak up about corruption or mismanagement (strong, medium, weak)
G	Compliance culture	# evaluations of compliance processes / year
G	Compliance culture	% employees followed compliance awareness training
G	Compliance culture	Feedback from subcontractors and suppliers about our CSR procurement code of conduct (strong, medium, weak)
G	Compliance culture	# how strong is the integration of the GDPR culture

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