

Case Study

# Castik Capital's proactivity helps firm overcome SFDR complexity



CASTIK CAPITAL

*The Luxembourg-based private equity firm worked with UL Solutions to analyze its already robust ESG data collection and reporting process in preparation for the EU's Sustainable Finance Disclosure Regulation*



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Castik Capital, a European private equity firm headquartered in Luxembourg, is proud of its strong environmental, social and governance (ESG) roots. The firm signed the United Nations Principles for Responsible Investment (PRI) pledge mere months after its founding in 2014. Shortly after, Castik Capital launched its data collection and reporting program relying on 360 Sustainability Software to onboard its first portfolio asset, Waterlogic. Within a few years, Castik Capital was collecting quarterly data from its entire portfolio of assets, sharing this information with fund investors and using it to meet annual PRI reporting obligations.

When the European Union announced the SFDR in 2019, Castik Capital was confident in the strength of its data collection and reporting process. The firm had already established a repeatable collection process and a baseline for comparing year-over-year performance. However, the SFDR is prescriptive, and Castik Capital wanted to ensure its current processes would fully address SFDR requirements. The challenge would be applying the firm's KPIs to the Principal Adverse Impact (PAI) indicators contained in the SFDR.

Castik Capital would have to review each existing KPI against the detailed SFDR requirements in preparation for the 2023 reporting deadline, and the firm was eager to begin the process.

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*“We had already established a solid base and developed excellent internal processes, so the only thing that we had to do to be compliant with SFDR was to complete a gap analysis and introduce the KPIs which we didn't have before,” said Csilla Csipkes, ESG manager, Castik Capital*

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# Establishing a uniform set of metrics

As the firm's portfolio included companies from a wide range of industrial specialties along with varying levels of ESG maturity, Castik Capital had to overcome two compliance hurdles.

First, the firm needed to design its PAI reporting methodology with the right balance between harmonization and flexibility. To be successful, Castik Capital would need to integrate each company's specific ways of working into its entity-level reporting. Not doing so could be detrimental to the completeness of data and KPI relevance.

For example, capturing energy use in a third-party managed data center is a unique process applicable only to IT companies. Reporting on an IT company's value chain emissions carries an additional set of energy KPIs.

The second hurdle involved the aggregation of Castik Capital's investee data. SFDR carbon footprint calculations, or greenhouse gas (GHG) intensity, call for combining traditional sustainability data with financial enterprise value metrics. To prepare for any future SFDR Level 2 adjustments, Castik Capital wanted a centralized data collection, storage and reporting process that controlled user-access permissions and distributed responsibilities for data submission and review.



## About the SFDR

The SFDR is a disclosure framework for EU financial market participants and financial advisers (asset managers, banks, insurers and investment firms). The SFDR also applies to non-EU financial market participants who promote themselves in the EU and have EU shareholders and participants. The SFDR is part of a broader legislative effort by the EU to move toward sustainable growth and reach net zero emissions by 2050, in line with the Paris Agreement.

SFDR Level 1, which became effective in March 2021, requires firms to make Principles-Based Disclosures on ESG-related activities for both the sectors in which they are investing and on their portfolio companies.

SFDR Level 2, which became effective on Jan. 1, 2022, requires financial market participants to report Principal Adverse Impacts on 16 mandatory sustainability factors as well as one PAI indicator related to climate and another based on social, employee, human rights, anticorruption or antibribery sustainability factors.

The deadline for reporting 2022 Level 2 disclosures is June 30, 2023. SFDR disclosures must be published in financial market participants' marketing materials and websites.

## The solution

To overcome these challenges, Castik Capital turned to the UL Solutions advisory team in 2021.

As part of the discovery phase, the team conducted a comprehensive gap analysis of the firm's current KPIs. While Castik Capital's ESG efforts were already advanced, the UL Solutions gap analysis led to additional data collection and reporting by aligning each investee company's KPIs with high-quality standards such as GRI and GHG Protocol.

Additionally, the UL Solutions team hosted interactive workshops to discuss the new SFDR reporting

requirements with Castik Capital and its portfolio companies.

Active participation by the investee companies allowed Castik Capital to gather feedback and gain information about the unique environmental data management processes faced by each company, the challenges they expected from the PAI indicators and how the indicators applied to each company's overall operations.

Finally, the collaborative nature of the workshops helped Castik Capital identify what support measures each company needed to ease the data collection and management process.

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*"It's going to be a very multilevel, very fine-tuned report," said Anastasia Didion, investor relations manager, Castik Capital. "That's the beauty of what we built together; we literally can have a report at whatever level we wish."*

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## CASE STUDY

It was through these conversations that UL Solutions and Castik Capital prepared a final set of aligned KPIs and SFDR PAIs. By working across its entire portfolio of companies, Castik Capital created a robust and repeatable process for complying with the SFDR. Today, the firm's PAI indicators are aligned with ESG-reporting best practices, and data collection and reporting are harmonized for optimized quality, relevance and consistency.

360 Sustainability Software, which helped systemize SFDR data collection, analysis and reporting, and enhanced the firm's existing reporting efforts, was foundational to Castik Capital's data management procedures. Whether the data is aggregated to the company, investment fund or entity level, Castik Capital can now report on numerous environmental and social metrics.

Most importantly, 360 Sustainability Software is flexible enough to accommodate future reporting needs and portfolio growth, giving Castik Capital the freedom to grow and evolve without worrying about compliance.

**With scalability to support future growth, built-in data checks to ensure quality and the centralization of all sustainability-performance data, 360 Sustainability Software can ease data management and reporting for portfolios of all sizes.**

**To learn more about increasing your SFDR readiness and ESG transparency with UL Solutions, visit [UL.com/360](https://UL.com/360)**

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*"We rely a lot on our reporting — all analysis and future target setting will be based on the data-collection program that was set up," Csipkes said. "The UL Solutions advisory team really helped us establish solid reporting procedures."*

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## About Castik Capital

Founded in 2014, Castik Capital focuses on identifying and developing investment opportunities across Europe. The firm has three funds — Epic I, Epic I-b and Epic II — with a total volume of more than €3 billion. Assets include a mix of manufacturing, healthcare and software companies.

Castik Capital practices active stewardship, with ESG roundtables meeting regularly to collaborate on and optimize their sustainability efforts through industry benchmarks. Castik Capital is a signatory of the United Nations Principles for Responsible Investment and reports annually on its responsible investment activities.





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