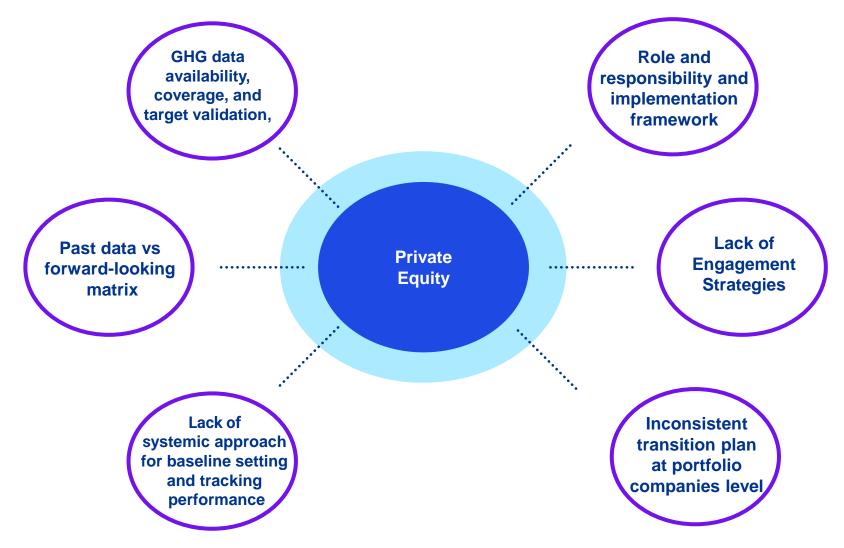


# Science Based Target Setting for Private Equity

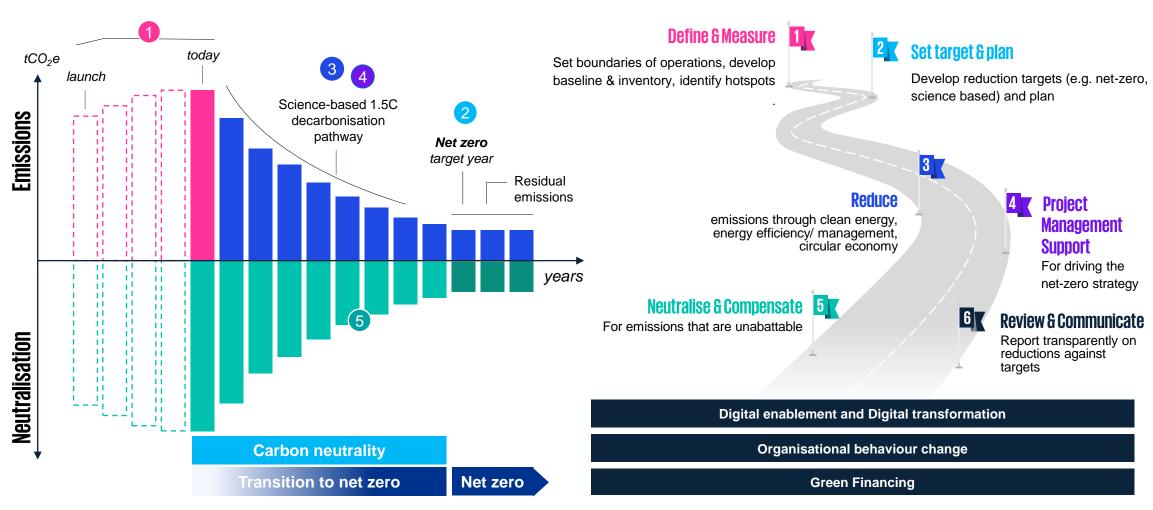
Feb 2023

# **Key challenges for Private Equity in SBTi**





# Systemic approach for baseline setting and tracking performance





### **Establish forward-looking matrix**

Monitoring progress: It is important for PE firms to monitor company progress against their objectives over time using metrics in our climate tools and dashboards.



**Pre-Investment** 



**Post-deal Engagement** 

### Standardized initial screening process considering:

- Exclusion list
- · High level risks
- Investment size

#### Outcome:

- · Full list of exclusionary preferences
- · Level of climate due diligence

### Fund managers and risk teams to track the pace of transition in portfolios companies:

For example: Temperature-Rating Model estimates the potential forward-looking environmental impact of your investing activities. Specifically, the model calculates the implied temperature pathway for a snapshot of PE's investment holdings.



### Average score-3 03°C Target 15°C 2020 2040

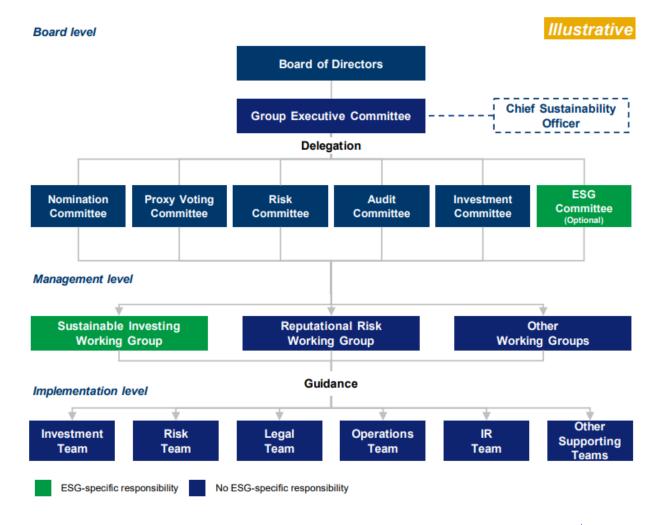
#### Outcome:

• Ensure investment teams are able to manage the transition thoughtfully, as valuations of better placed companies rise and fall



# Establish climate governance framework

**Purpose Steps** Governance: Establish key committees, usually required by corporate governance codes, **Accountability** to respond to key challenges including accountability and the board. and alignment accounts, alignment, and executive pay. These committee are the nominations committee, audit committee, and remuneration committee Develop a SBTi implementation roadmap, and develop greenhouse gas emission reduction targets for official validation by the SBTi, develop engagement strategies and help with strategic security selection and allocation decisions. **Ggovernance** Framework Operationalize the target operating model with clear reporting and monitoring line throughout the investment cycle and reporting procedures





# **Establish engagement policy and strategies**

PE firms should develop an engagement strategy to achieve Paris Agreement alignment of their PCs, assets, and borrowers, through the adoption and publication of time-bound 1.5 degrees Celsius transition plans, as well as influence GPs, LPs and PCs to adopt or align with SBTs where possible and disclose a record of engagement attempts for transparency.

### Target Disclosure and transition plans

Target disclosure and transition plans for alignment with TCFD recommendations. Such information should be published in mainstream financial reports (integrated reporting)

#### **Target Monitoring**

A commitment to review and ratchet up targets and transition plans in light of the evolving climate science

#### **Public Commitment**

A public commitment to support policies aiming to reduce emissions in line with the Paris Agreement, be transparent about lobbying activities and related expenditures, and exit third party organizations

### Understand the vision

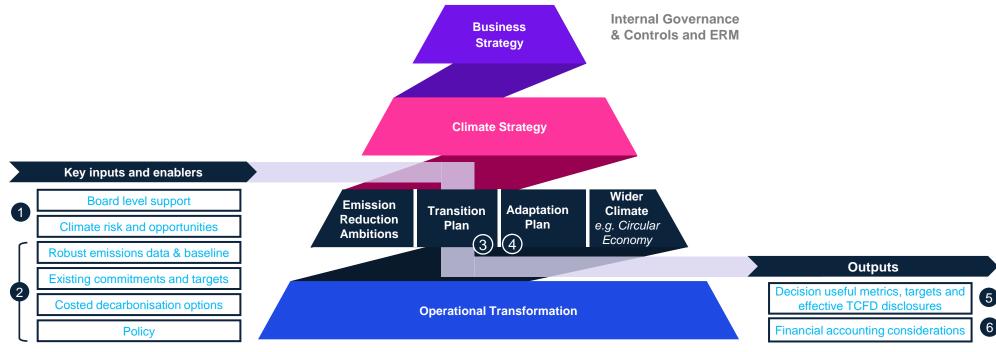
A commitment to align business models with the Paris Agreement and, more concretely, a time bound climate science—based transition target built on forward-looking climate scenario analysis,

#### **Capital Management**

Capital management plans to end capital expenditure for new high-carbon projects where the PE firm has majority control over PCs and increase capital expenditure for low-carbon projects with a clear timeline for the closure of existing high carbon assets



# Consistent climate transition plan at portfolio companies level



#### **Key considerations**

- Transition & adaptation plans will often involve significant strategic decisions and will require board level engagement to support successful delivery
- Data inputs need to be robust and regularly updated to ensure analysis is accurate, measurable and replicable
- Transition & adaptation planning should complement broader corporate strategy and be integrated with any existing scenario analysis
- As a key mitigation to climate risk, the plans should also be aligned with the existing risk management framework, and risks to plan delivery identified & managed

- Transition & adaptation plans can enable the creation of clear metrics and targets, which should form part of an effective TCFD disclosure
- Where plan delivery has financial implications, these should be reflected in the financial accounts to ensure consistency





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