



Decarbonisation Handbook for LPs

October 2023

October 18, 2023

An aerial photograph of a river with white water rapids, surrounded by dense green forest. The water is a vibrant turquoise color, and the surrounding land is lush with green trees.

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In our [2022 survey](#) of more than 100 LP organizations, many allocators indicated that ESG factors are increasingly a core investment consideration. Numerous LPs cited growing concerns about the broader impact that climate change and an energy transition could have on their portfolio investments.

A large proportion of global climate-warming emissions come from privately-owned companies, so there is an important role for both private company management and ownership to play in decarbonisation. However, decarbonisation is a complex topic that LPs are approaching in a variety of ways, and allocators often face challenges when applying climate action plans to their private market portfolios. The lack of quality, comparable data and information is a challenge, though industry efforts such as the ESG Data Convergence Initiative and the Private Markets Decarbonisation Roadmap from iCI and PESMIT have begun to address it.

Over the past several years, numerous standards, initiatives and frameworks have become available to the private equity community. We frequently hear that LPs are eager to make sense of these proliferating resources in understanding exactly how their peers approach decarbonisation in private markets. Our hope is that this handbook helps LPs better understand the different approaches leveraged today and the existing tools available to help them carry out their plans effectively.

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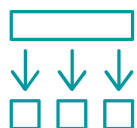
The handbook covers...



Advice on decarbonisation pathways for LPs regardless of their starting point

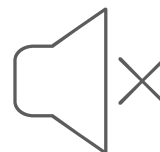


An overview of the relevant decarbonisation (and broader Environmental and ESG) **frameworks and tools available** to LPs

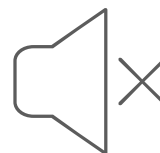


A flexible decarbonisation approach, by which LPs can choose which options best align to their objectives

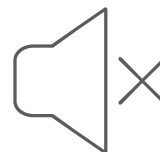
The handbook does not cover...



What an LP must do or must not do with regards to decarbonising their portfolio



A step-by-step approach on **how an LP can achieve net zero**



Guidance on **which investments LPs should make** as part of their decarbonisation efforts

The document is most applicable to buyout funds but also mentions six other asset classes where activities are asset class agnostic

- **Applicability of LP decarbonisation efforts to an asset class depends on three main factors: maturity** (availability of guidance and commonly accepted approaches), **materiality** (impact of GP emissions on climate change) and **feasibility** (LP's ability to influence and support the GP's decarbonisation journey as well as available decarbonisation levers)
- **The handbook is most applicable to buyout funds** because 1) it is a mature asset class with a strong voluntary standards environment; 2) LPs commit to buyout funds where there is direct ownership of PortCos by GPs; 3) the asset class has a high percentage of total private market AUM, positioning it to influence decarbonisation efforts
- The handbook is relevant across asset classes but may be less applicable to the following asset classes:
 - ① **Growth:** Growth funds typically take minority ownership of PortCos giving GPs less influence over PortCos. However, parts of this handbook (e.g., decarbonisation pathways) are still useful to LPs trying to understand the decarbonisation journey
 - ② **Real Estate and Infrastructure:** Industry standards and frameworks specific to these asset classes have not been covered in detail in this handbook. However, the guidance on decarbonisation pathways can be useful to these asset classes, and LPs can prioritise these asset classes given the significant proportion of global greenhouse gas emissions associated with them
 - ③ **Venture Capital:** VC funds typically require a different set of decarbonisation levers—for example, embedding decarbonisation in the business model from the start—which the handbook has not covered in depth
 - ④ **Private Credit and Secondaries:** These asset classes are at earlier stages of the decarbonisation journey due to the indirect nature of their mandate and their evolving frameworks and standard

Introduction | LPs can drive meaningful impact through their decarbonisation approach and strategy



Ensure that **GPs have a credible transition plan**

LPs can encourage GPs to develop transition plans for a low-carbon economy



Provide **transition-and-climate solutions** financing

LPs can direct funds towards scale-ups enabling the net-zero economy through net zero transition or climate solutions



Facilitate **enduring change** through engagement and stewardship

LPs are less vulnerable to systemic disruptions due to their long investment horizons and can be responsible stewards



Advocate for decarbonisation through investor initiatives

LPs can join investor-led community initiatives (e.g., Net Zero Asset Owner Alliance) to advocate for climate change



Influence **industry best practices** through mandates

Due to their position in the economic chain, LPs can encourage investments to adopt best practices

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LP decarbonisation pathways | There are seven decarbonisation pathways for LPs, from defining the point of departure to publicly disclosing progress

Define case for change



- Understand stakeholder requirements
- Educate management and board
- Assess climate-related risks and opportunities

Set ambitions



- Develop overarching ambitions and set interim targets and goals
- Pressure test and validate targets using climate scenario risk analysis

Collect climate data



- Collect critical qualitative and quantitative data from GPs (or use proxy data if required)
- Set requirements for data quality and collection

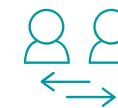
Include decarbonisation in investment decisions



- Assess GPs decarbonisation policies and alignment with LP's beliefs
- Incorporate climate data and commitment asks into side letters

The
decarbonisation
process for an
LP evolves over
time

Engage and support GPs



- Identify and prioritise GPs to engage
- Support integration of sustainability into GP's strategy through regular engagement on decarbonisation

Identify internal levers and mobilise



- Embed decarbonisation governance
- Develop a decarbonisation roadmap
- Identify key performance indicators (KPIs) and implement reporting tools

Measure progress and report outcomes



- Monitor GP progress against roadmap and self-reported targets
- Disclose externally any commitments to stakeholders and regulators (e.g., SFDR)

LP decarbonisation pathways | In addition to your own decarbonisation path as an LP, it is also critical to understand the process for your investments

- As an LP, the **majority of emissions relate to your investments** (Scope 3-financed emissions), therefore your **decarbonisation performance is heavily influenced** by each investment's progress
- For you to understand your exposure, you need to **examine your investments' decarbonisation plans and priorities**, including emissions abatement levers and progress

Although the decarbonisation process **consists of similar elements** for LPs, GPs and PortCos, there are **some key differences** for LPs to be aware of:



Given an LP's positioning in the private markets financing chain, often at least twice-removed from emitting assets, LPs typically have the **most influence over their asset's decarbonisation strategies during the fund selection process**, when they can share their expectations and requirements



GPs typically have greater influence over a PortCo's decarbonisation strategy due to having a **closer relationship with emitting PortCos**, e.g., through board positions; this enables GPs to have a **greater number of decarbonisation levers available to them** throughout a fund's life cycle, including requesting emissions reporting from PortCos, or supporting PortCos to develop a decarbonisation plan



As **PortCos are the source of investors' Scope 3-financed emissions**, it is critical to appreciate what steps PortCos take to decarbonise as their emissions reduction strategies directly affect an investors' emissions

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Decarbonisation landscape | Navigating decarbonisation frameworks and regulations requires LPs to adopt a focused approach



There are **many decarbonisation frameworks and standards** that are evolving rapidly as market maturity on the topic evolves



Starting the **decarbonisation journey does not require knowledge of every public framework** or standard



LPs can **pick and choose relevant frameworks to leverage** or apply based on their mandate and decarbonisation goals



However, **regulation changes are important to track as they are mandatory** and often differ based on the region of operations

Decarbonisation landscape | LPs face a dynamic landscape of standards and frameworks, covering disclosure, climate solutions and investor alliances



/ SEE APPENDIX FOR DETAILS BEHIND EACH ENTITY

Which frameworks provide guidance on emissions disclosures?

Official regulations and standards

- Climate-related financial disclosure
- Sustainability disclosure requirements
- ESG-related investment fund disclosure
- Climate-related disclosure rule
- Climate-related financial disclosure (expected 2024)

- SFDR
- CSRD
- ESRS
- EU climate benchmark regulation
- EU corporate sustainability due diligence directive (expected 2025 or 2026)
- US SEC (expected implementation in 2024 or 2025)

Standards, frameworks and organisations

- Emissions accounting**
 - GREENHOUSE GAS PROTOCOL
 - PCAF Partnership for Carbon Accounting Financials
- Disclosure frameworks**
 - SCIENCE BASED TARGETS
 - ISSB
 - TPT Transition Plan Taskforce
 - TCFD
 - GRI SUSTAINABILITY DISCLOSURE DATABASE
 - CFA Institute
- Reporting tools**
 - ESG Data Convergence Initiative
 - CDP DRIVING SUSTAINABLE ECONOMIES
 - GRESB
 - ESG INTEGRATED DISCLOSURE PROJECT

Which frameworks describe climate solution investments?

Official regulations and standards

- Green bond standard
- EU sustainable finance taxonomy
- Green finance taxonomy
- UK green taxonomy

Which initiatives can I join as a responsible investor?

Standards, frameworks and organisations

- Net-zero initiatives**
 - NET ZERO ASSET MANAGERS INITIATIVE
 - NET ZERO ASSET OWNER ALLIANCE
 - GFANZ
 - IIGCC The Institutional Investors Group on Climate Change
 - NET ZERO INVESTMENT FRAMEWORK 1.5C
 - Venture Climate Alliance
- Environmental initiatives**
 - Climate Action 100+ Global Investors Driving Business Transition
 - Sustainable Markets Initiative
 - initiative climat international Private equity action on climate change
 - Transition Pathway Initiative
- ESG initiatives**
 - Operating Principles for Impact Management
 - Ceres
 - PRI Principles for Responsible Investment

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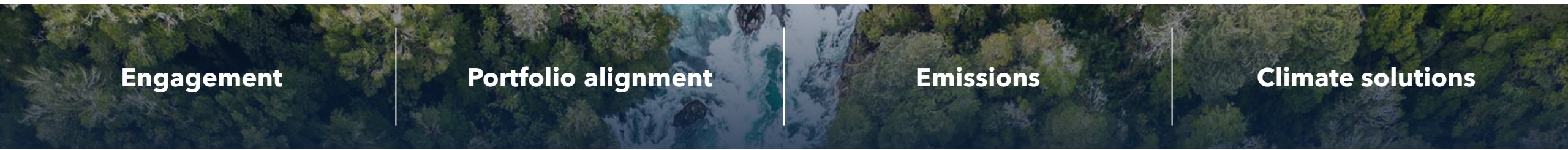
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Set ambitions | LPs can set multiple decarbonisation ambitions that can cover engagement, portfolio alignment, emissions and climate solutions



Engagement

Portfolio alignment

Emissions

Climate solutions

EXAMPLES OF AMBITION TYPES

- Engage with priority GPs annually to track decarbonisation¹
- Engage with policy makers to advocate net-zero-aligned policies

- X% of AUM invested in funds with a decarbonisation strategy
- X% of funds allocated to GPs with a net-zero target by 2050

- X% of assets to report Scope 1, 2 and 3 GHG emissions
- Reduce GHG emissions by X% by 20XX relative to the base year

- X% of funds allocated to GPs investing in climate solutions
- Allocate \$X billion annually to climate solutions

“
Continue to serve on the Climate Action 100+ Steering Committee to promote regular progress reporting and benchmarking of companies against key indicators
 PENSION MANAGEMENT AGENCY

“
 Fund managers representing 65% of invested capital to have set or **committed to setting climate targets aligned with the Paris Agreement**
 NATIONAL PENSION FUND



“
 Committed to transition their general account investment portfolio to **net-zero greenhouse gas emissions by 2050**
 LIFE INSURANCE, PENSIONS AND ASSET MANAGEMENT COMPANY

“
Committing over \$1 billion to sustainability initiatives, including \$1 billion for our Cleantech and Climate Tech Fund investments
 NATIONAL DEVELOPMENT BANK

Note: (1) E.g., ensure GPs have engagement plans for material emitters | Source: Organisation websites; State Street target setting report; market participant interviews

Set ambitions | LPs can look to three broadly accepted frameworks for advice on setting a decarbonisation ambition



	Relevance to an LP	Target types covered	How to engage as an LP	Application examples
 <p>Subset of the Paris Aligned Asset Owners group coordinated by IIGCC</p>	<p>Net-zero investment framework guided by the Paris Agreement; PE component includes specific guidance for LPs looking to decarbonise investments</p>	<p>All four target types covered (emissions, portfolio alignment, engagement and climate solutions)</p>	<p>Invest time in understanding the NZIF and methodology (link: pages 7-12; link: PE specific guidance)</p>	<p>“ We would suggest starting with the NZIF framework when setting ambitions. It also includes guidance on other levers LPs can use for decarbonisation. SENIOR RESPONSIBLE INVESTMENT MANAGER, LIMITED PARTNER</p>
<p>NET ZERO ASSET OWNER ALLIANCE</p>	<p>Paris-aligned target setting protocol for asset owners: Member LPs benefit from learning sharing and adoption of a widely accepted GP engagement approach</p>	<p>Only emissions, engagement and climate solutions covered</p>	<p>Submit an inquiry to join the Alliance (link)</p>	<p>“ We committed to the NZAOA by making a net-zero GHG emissions pledge by 2050. We have also set an ambition of reducing emissions by 25% in the next five years. SENIOR PORTFOLIO MANAGER, LIMITED PARTNER</p>
	<p>Widely used by PortCos and GPs; LPs can use it to understand or influence GP/PortCo SBTi commitments, which can affect an LP's level of ambition</p>	<p>Only emissions and portfolio alignment covered</p>	<p>Use the framework for guidance on setting targets and encourage GPs or PortCos to set SBTi-verified targets (link)</p>	<p>“ We have not officially applied the SBTi but we use them as inspiration for ambition setting and have found the SBTi PE approach the most useful. SUSTAINABILITY SPECIALIST, LIMITED PARTNER</p>

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Collect climate data | LPs should determine what information is important to collect based on their ambitions



Example questions to ask GPs

Climate governance

- **Who in your organisation implements the sustainability strategy?** Do they regularly engage with assets and provide hands-on support when required?
- Is there **board-level oversight** of climate-related issues and **progress** against plan?

Climate strategy

- What are the firm's **climate-related policies** and how do **climate factors influence investment beliefs?**
- Have you **developed a carbon transition plan** aligned with the Paris requirements? What are the levers it focuses on (e.g., climate solutions)?

Climate risk management

- Have you **identified climate change-related risks and opportunities** that could significantly affect your financial returns?
- How are **climate-related risks and opportunities documented and tracked** by the investment committee?

Climate metrics and targets

- Do you **track climate-related KPIs** for your assets? Are they standardised across your portfolios?
- Have you **set sustainability-related targets**, including emissions reduction targets, and how do you **track progress** against these?

GHG emissions data

- For how much of your portfolio do you **collect and report on Scope 1, 2 and 3 emissions data?** What service providers (if any) do you use for data collection?
- Do you **use a third party to verify your emissions** data? If so, who?

Collecting qualitative data is crucial to understand a GP's operational context

Source: ILPA ESG Assessment Framework: Climate Supplement, ILPA DDQ, Transition Plan Taskforce, IIGCC

Example resources to guide data collection



ESG component provides **questions LPs can ask GPs** ([link](#): pages 36-40)



Framework for evaluating a GP's climate progress can provide **guidance on relevant factors to consider** ([link](#): page 7)



Disclosure recommendations for high-quality transition plans can serve as a **guidance for LPs collecting information from GPs** ([link](#))



Asset Owner Stewardship Questionnaire can be used to **understand asset manager climate engagement** ([link](#))

Further resources on next page →

Collect climate data | Widely adopted data collection tools are available across private market asset classes

Example data collection tools and templates



Private Markets Questionnaire designed to **gather standardised ESG-related information** from PortCos ([link](#))



ESG data collection template created by PE stakeholders to track progress towards meeting ESG goals and benchmarking against peers ([link](#))



Reporting template with a broad set of ESG questions designed to gather a global baseline of information; private credit and syndicated loan focused ([link](#))



Reporting framework designed to gather data and benchmark funds, real estate and infrastructure focused ([link](#): real estate example)



The Private Markets Decarbonisation Roadmap (PMDR) categorises assets on their decarbonisation stages ([details on next page](#))

These resources can also be used as a guide for example questions to ask GPs

LPs to decide which data collection tools are most suitable for their portfolio

“

We often **use the EDCI as a starting point and supplement it with our own qualitative questions**, for example, do you have compensation tied to decarbonisation targets? It all depends on what aspect of decarbonisation you want to see progress in.

SENIOR VICE PRESIDENT INVESTMENTS, LIMITED PARTNER

“

We **use different reporting tools for Scope 3-financed emissions tracking for different asset classes** - we use **EDCI** for private equity, **energy reports** for real estate and are planning to start using the **ESG IDP** for private credit.

INVESTMENT DIRECTOR, LIMITED PARTNER

“

We **use the PMDR to map where fund managers are in their decarbonisation efforts** - it helps us identify those that are in earlier stages. It is also a good tool to use retrospectively.

HEAD OF ENGAGEMENT, LIMITED PARTNER

LPs should consider what key information they require (beyond standard frameworks) to avoid overburdening GPs with unique data requests

Collect climate data | The PMDR can be used to gather insights on decarbonising an LP portfolio



The PMDR is...



A **common language** for funds to describe the progress of assets on **their decarbonisation efforts** to stakeholders in a way that is mutually understood



A **comprehensive guidance** so funds can apply the approach across **different asset classes** in their portfolio



A **flexible approach**, in which funds can chose for themselves **where and how to disclose performance** (to LPs, publicly, etc.) using metrics that are most relevant to their context

~250 organisations have contributed to its development

~200

GPs consulted in combination of 1:1 and group consultations, with PESMIT and iCI cosponsors

~40

LPs consulted from across ILPA membership

~10

broader ecosystem players to ensure consistency and support



How are GPs using the PMDR to communicate to stakeholders?

- Primarily, the PMDR is a **communication tool for GPs to share their portfolios' progress** on the decarbonisation journeys to stakeholders and investors
- **Stakeholders** (including LPs) **can understand each investment's disclosed alignment level** and therefore track GP decarbonisation progress over time
- GPs can also communicate the **proportion of Decarbonisation Enablers¹** and **PortCos** with **'No current pathway to Align'** in their current portfolio

PMDR to be released early November

Note: (1) PortCos working to support a subset of Climate Solutions related to the transition to a low-carbon economy

Source: Private Markets Decarbonisation Roadmap, presented by the Initiative Climat International and the Sustainable Markets Initiative's Private Equity Task Force

Collect climate data | LPs can use proxy emissions data to start their accounting journey, and over time work with GPs to measure actuals

Proxy emissions data

- **Estimates or proxies can be used as a starting point¹** for LPs to develop an initial understanding of their Scope 3-financed emissions exposure
- LPs are likely to encounter initial data challenges but should persist as data maturity will improve over time
- **How to obtain** – use industry or sector-wide emissions factors (e.g., from International Energy Agency); this can be further refined by understanding the primary activity of each investment
- **When to use** –
 - Identify emission-intensive hotspots in a portfolio
 - Inform carbon strategy and prioritise GPs to engage
 - Use additional data (e.g., transition plans) in conjunction with proxies to get a holistic view of a GP's position
 - Disclose data externally (data should be heavily caveated as proxy)
- **When not to use** –
 - Build an accurate emissions baseline
 - Measure progress against a carbon emissions target

Actual emissions data

- Over time, LPs should **gather assured and credible actual data** to understand Scope 3-financed emissions baseline and progress
- **How to obtain** – collaborate with GPs to request PortCos to calculate the emissions baseline and use EDCI ([link](#)) for collection
- **When to use** –
 - Calculate an accurate baseline
 - Calculate emissions intensity
 - Measure progress over time and determine an emissions trajectory
 - Disclose data externally
 - Benchmark internally like-for-like funds

Further information on emissions accounting for financial institutions can be found at PCAF ([link](#)), GHG Protocol ([link](#)) and iCI and PRI ([link](#))

Collect climate data | Following emissions data collection from investments, LPs should consider what quality checks to have in place



Data quality considerations

- _____
- _____
- _____

- Is the emissions data **based on actual values or proxy values** (e.g., through external providers) and what methodology was used?
- Which **scope emissions are included** in the emissions data (e.g., only Scope 1 and 2)?
- Does the **emissions data match publicly reported information** by GPs?
- Does the emissions data **only include assets that have made the greatest decarbonisation progress**?
- Are there any **obvious red flags or errors** in the emissions data (e.g., missing data point)?
- Has the reported emissions data been **audited by a third party**?
- As both LPs and GPs progress on their data collection maturity -*
Has the GP used **PCAF scores to measure the reliability of the data**?

Collect climate data | LPs can evaluate investments in climate solutions funds during due diligence to determine resilience and value-creation potential



/ CLIMATE SOLUTIONS ANALYSIS

Example questions an LP can ask to understand whether a GP is investing in assets that will be resilient and deliver value in a low-carbon economy

Questions to supplement usual due diligence questions on page 19 of the handbook

Financials



Do you request information from investments on **green CapEx¹** and how is this **forecast to change** over the next five years?

Do you ask investments what **proportion of revenue is related to an economic activity that is enabling the net-zero transition?**

Value creation



Are you **actively addressing any barriers you foresee** to your assets generating positive returns in an economy transitioning to be low-carbon? What **opportunities have you identified** from the transition?

From a sustainability or decarbonisation maturity lens, do you **evaluate attractiveness of the asset to buyers at the time of exit?**

Green investment



What **proportion of your fund is allocated to climate solutions?**² What sectors do you invest in and how do you expect this to evolve in the next 10 years?

Are your investments **actively focused on how to enable and accelerate the transition** to a low-carbon economy? Do you **track the amount of emissions reduction** their products or services have **enabled?**

Investing in climate solutions can enable LPs to decarbonise their portfolios by 1) reducing their own Scope 3-financed emissions and 2) facilitating the decarbonisation efforts of other entities, thus supporting the transition to a net-zero economy

Example resources to evaluate GP fund impact



PMDR provides guidance with detailed examples that will **help you classify PortCos as “decarbonisation enablers”**³



Identify, measure and manage the environmental impact related to an investment or portfolio of investments in accordance with the Global Reporting Initiative (GRI) ([link](#))



Assess a company’s contribution to climate solutions in listed equity and corporate fixed income ([link](#))

Note: (1) investment spending made in economic activities contributing to the energy and ecological transition; (2) Climate solutions defined by GFANZ as technologies, services, tools, or social and behavioural changes that directly contribute to the elimination, removal or reduction of real-economy [greenhouse gas] emissions or that directly support the expansion of these solutions; (3) PortCos working to support a subset of Climate Solutions related to the transition to a low carbon economy
Source: Organisation websites, Market Participant Interviews

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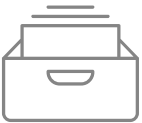


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Engaging with your GPs | Determine how and when to engage their GPs, including what priority topics to discuss

Ways in which you can engage	Topics you can engage GPs on
<p>Meetings</p>  <p>Set up annual or biannual check-ins with GPs to discuss decarbonisation progress, or integrate into existing cadence (e.g., LPAC meetings)</p> <p>“ GPs usually get overwhelmed with data requests so we try and schedule a regular hour with them to understand where they are on their decarb. efforts and how critical it is for them. ”</p> <p>HEAD OF ENGAGEMENT, LIMITED PARTNER</p>	 <p>Invest time in understanding where the GPs are on their decarbonisation efforts and what their strategic priorities are (e.g., discuss and elaborate on survey responses)</p>  <p>Share your decarbonisation targets with your GPs and provide context behind your data requests (e.g., asking for emissions data to track your own Scope 3-financed emissions)</p>
<p>Data collection</p>  <p>Use surveys or data collection templates to gather quantitative and qualitative information; use existing templates where possible</p> <p>“ We ask GPs to disclose through EDCI and follow SFDR. We also ask them to annually report on ESG KPIs using an internal reporting template. ”</p> <p>SENIOR PORTFOLIO MANAGER, LIMITED PARTNER</p>	 <p>Ensure each GP has developed and is implementing a credible transition plan that focuses on decarbonisation of the wider economy</p>  <p>Share best practices and learnings from other GPs implementing decarbonisation initiatives</p>

Prioritising your GPs | LPs can focus decarbonisation efforts by prioritising which GPs to engage with



Prioritisation criteria also available at [IIGCC \(link\)](#)

Example prioritisation criteria

LPs to decide which criteria are most important to them

LPs may choose to **prioritise factors differently** depending on the **context they operate in**

Rationale

Industry



LPs may choose to focus efforts on **high-emitting sectors** first

Size of financed emissions



LPs can **identify emissions hotspots** to tackle first

Size of LP investment



LPs typically have **more influence** over larger investments

Type of LP investment



LPs have **more control over direct investments**, e.g., through board positions

Asset class



Asset classes are prioritised for **decarbonisation maturity and feasibility**

Duration of relationship with GP or fund manager



LPs can **influence and support execution better** if they are recommitting to GP

GP exposure to climate-related risks



Reduce exposure by mitigating risks

GP leadership commitment to decarbonisation



Committed GP managers are **more likely to engage** on the topic

GP maturity on decarbonisation



GPs **may require more LP support** at the start of the decarbonisation process

Note: Asset classes prioritised based on maturity (i.e., maturity of voluntary standards, disclosure initiatives, etc.) and feasibility (i.e., number of levers that exist for investors to support and influence decarbonisation, e.g., board rights)

An aerial photograph of a river with white water rapids, surrounded by lush green forest. The water is a vibrant turquoise color, and the surrounding trees are a deep green.

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④ Practical guide to decarbonisation

① Set ambitions

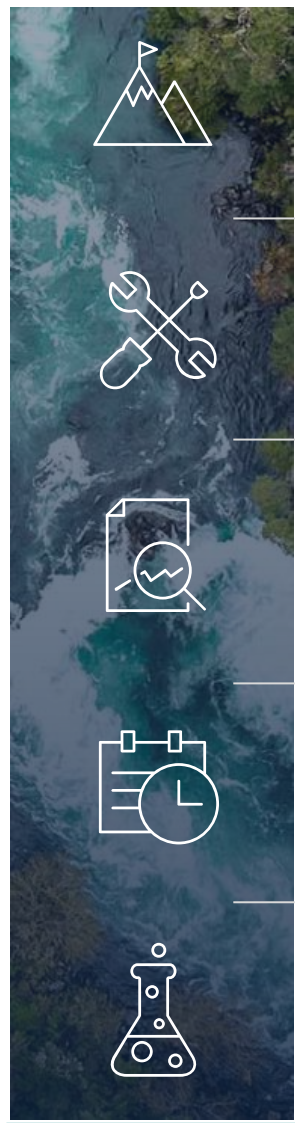
② Collect climate data

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Key takeaways and learnings



Define your climate vision and set ambitions, and consider which levers are the highest priority in order to achieve these (e.g., providing transition financing, lobbying industry participants and supporting GPs/PortCos with their efforts)

Understand what decarbonisation frameworks, standards and tools are available to you and your assets, and how they can support you

Identify which data (quantitative and qualitative) is most relevant to gather from investments in order to create a baseline and track progress, aligned with industry standards and frameworks to the largest extent possible

Define frequency and format to engage with investments to ensure a sufficient understanding of their decarbonisation efforts, and to provide necessary support, without overburdening them with requests

Experiment for success, and explore different options to find what works best for your organisation as there is no single right approach to decarbonisation

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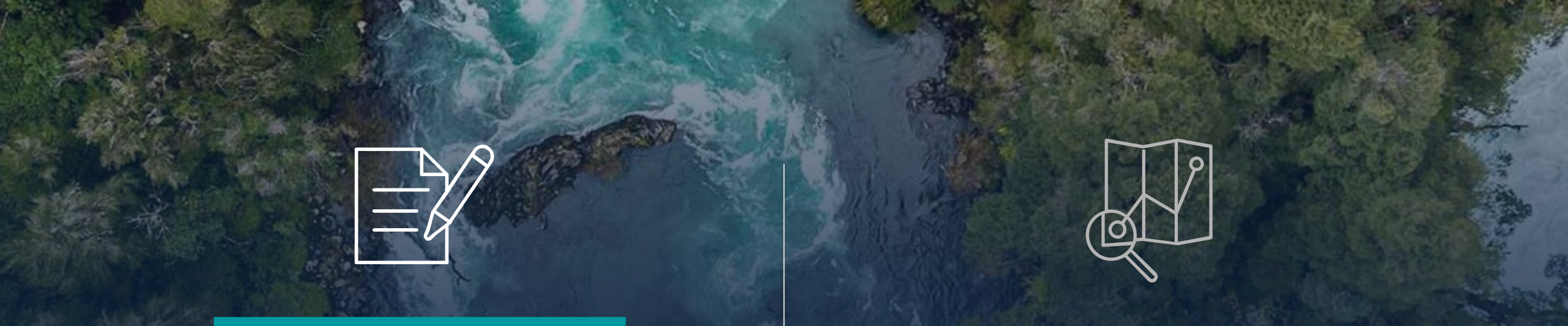
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Decarbonisation pathways - GPs and PortCos



Decarbonisation frameworks and initiatives

GP decarbonisation pathways | Although the pathways are similar to those for an LP, GPs have greater influence over assets throughout the process

Define case for change



- Understand stakeholder requirements
- Educate management and board on climate
- Assess climate-related risks and opportunities

Set ambitions



- Develop overarching ambitions and set interim targets and goals
- Pressure test and validate targets using climate scenario risk analysis

Collect baseline data



- Support PortCos with data sourcing and emissions calculations
- Engage third parties if required
- Set requirements for data quality and collection

Include decarbonisation in investment decisions



- Assess PortCos decarbonisation policies and alignment with GP's strategy



Engage and support PortCos



- Prioritise PortCos to engage
- Support integration of sustainability into PortCos strategy (e.g., set targets) and development of credible transition plans

Measure progress and report outcomes



- Monitor progress against plan including at board level
- Disclose externally any commitments

Identify internal levers and mobilise



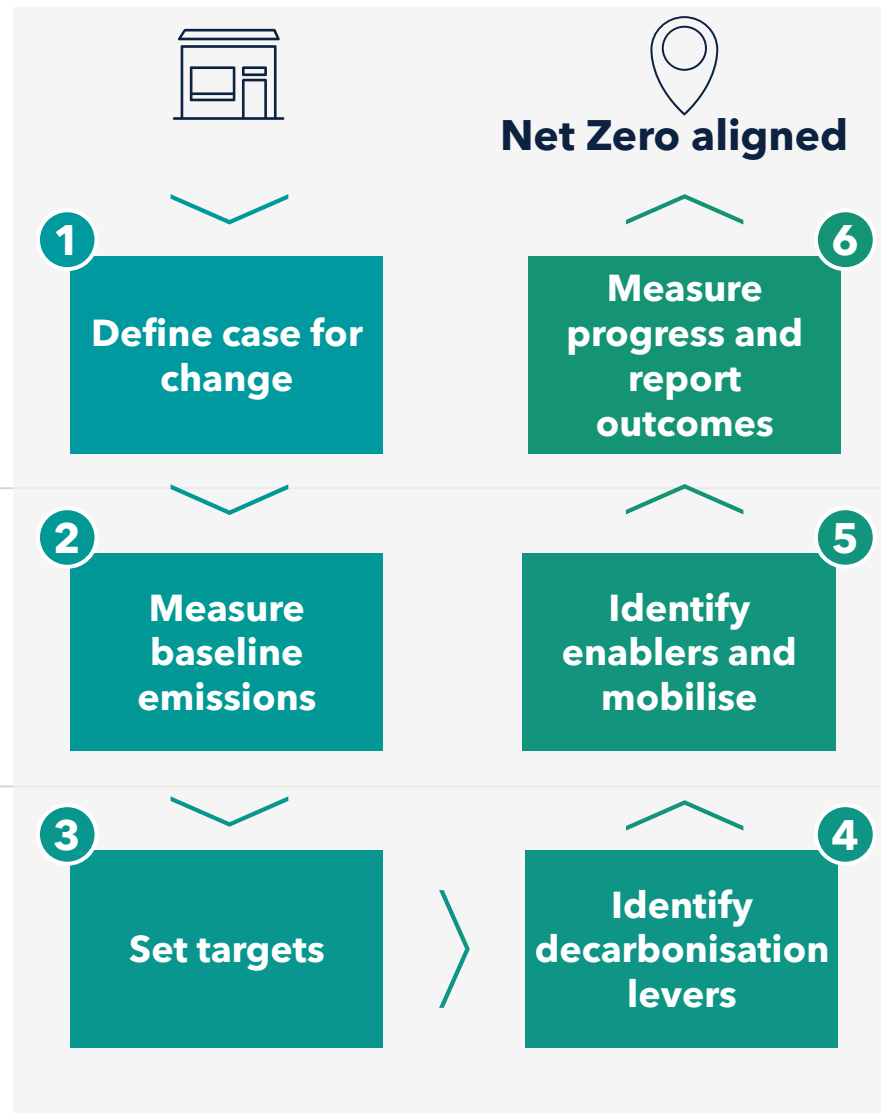
- Prioritise decarbonisation levers
- Embed decarbonisation governance
- Develop decarbonisation roadmap
- Identify KPIs and implement reporting tools

PortCo decarbonisation pathways | A PortCos decarbonisation strategy starts with defining the case for change, then setting targets

- Educate management and board
- Understand stakeholder requirements

- Calculate emissions footprint (using actual data where possible)
- Verify using an assured third party

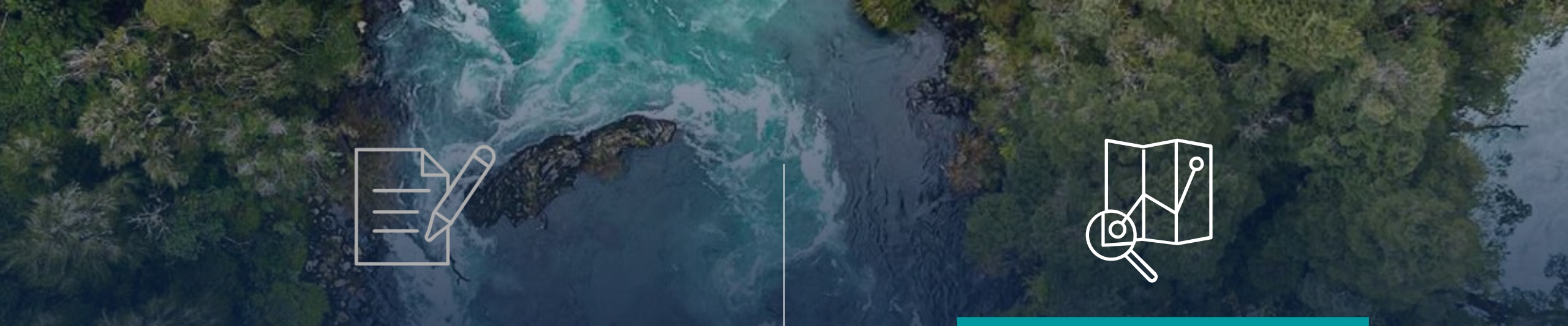
- Define near- and long-term emissions targets
- Leverage sector-specific guidance to align with 1.5 degrees Celsius
- Pressure test and validate targets using climate scenario risk analysis



- Monitor progress against roadmap including at board level
- Develop organisational awareness
- Disclose externally any commitments

- Prioritise decarbonisation levers
- Embed decarbonisation governance
- Develop decarbonisation roadmap
- Identify KPIs and implement reporting tools

- Determine and select levers to target most important decarbonisation opportunities



Decarbonisation pathways - GPs and PortCos



Decarbonisation frameworks and initiatives

Decarbonisation landscape | Which frameworks provide guidance on emissions disclosures? (part 1 of 2)

Key:  Relevant  Widely adopted

	Name	Description	Net-zero /Env./ ESG	Year enacted	Organisations in scope	Relevant for		
						LP	GP	PC
Official Regulations and Standards	UK climate-related financial disclosure	 ESG-related rules and guidance for asset managers and owners on TCFD-aligned disclosure (link)	ESG	2021	Large public and private organisations and LLPs			
	UK sustainability disclosure requirements	 FCA consulting on measures to avoid greenwashing, e.g., sustainable investment labels, disclosure requirements	Environment	2024	All organisations			
	Canadian ESG-related investment fund disclosure	 Guidance on the disclosure practices of investment funds, particularly funds whose investment objectives reference ESG strategies (link)	ESG	2022	All investment funds			
	Canadian climate-related disclosure rule	 Requires public companies to disclose climate risks and opportunities based on the TCFD recommendation	Environment	TBC	Large public and private organisations and LLPs			
	Australian climate-related financial disclosure	 Proposal for mandatory reporting of climate-related risks, targets and emissions, including Scope 1, 2 and material Scope 3 emissions	Environment	2024	Large firms and financial institutions			
	EU climate benchmarks regulation	 Establishes requirements for two low-carbon financial benchmarks, Climate Transition and Paris-Aligned benchmarks (link)	Environment	2020	EU financial benchmark administrators			
	 SFDR	 EU sustainability disclosure regulations for financial institutions, covering a range of ESG metrics, including Scope 1, 2 & 3 emissions. Establishes 3 categories of funds based on ESG integration (link)	ESG	2021	EU financial market participants, including non-EU entities marketing in the EU			
	 CSRD	 EU sustainability disclosure regulations requiring large companies to disclose a range of ESG information. Replaces the Non-Financial Reporting Directive (NFRD) (link)	ESG	2022	EU large companies (turnover >€40M), non-EU companies (EU turnover >€150M) currently ¹			
	EU sustainability reporting standards	 Reporting standards that companies subject to CSRD are required to comply with (link)	ESG	2024	EU organisations reporting under CSRD			
	EU corporate sustainability due diligence directive	 EU regulation requiring companies to meet due diligence obligations on environmental standards and human rights in their operations and supply chains (link)	ESG	2024	EU and non-EU organisations with certain employee and turnover cutoffs in 'high-impact' sectors			
		 Draft US regulations requiring companies to report a standardised set of climate-related information (link) ²	Environment	2024	All public organisations in the US			

Note: (1) Plans to expand to all listed companies (excl. micro undertakings), (2) States in the US have own regulation, e.g., climate bill in California may require large companies to report carbon footprints | Source: Sustainable Fitch; Org websites

Decarbonisation landscape | Which frameworks provide guidance on emissions disclosures? (part 2 of 2)
















Key: Relevant Widely adopted

Name	Description	Net-zero /Env./ ESG	Year enacted	Organisations in scope	Relevant for		
					LP	GP	PC
PCAF	Provides standards for measuring and reporting of financed and facilitated emissions by financial institutions (link)	Environment	2015	Financial institutions			
GREENHOUSE GAS PROTOCOL	Framework for measuring and reporting carbon emissions, to help companies make progress on their emissions targets (link)	Environment	2001	Private organisations			
TCFD	Framework for reporting implications of climate change to improve transparency in financial markets. Recommendations incorporated into ISSB ² (link)	Environment	2017	All organisations			
ISSB	Standard-setting body under the IFRS that has published standards for disclosure of sustainability and climate-related information ¹ (link)	Environment	2023	All organisations			
SCIENCE BASED TARGETS	Provides general and sector-specific guidance for setting and approving science-based targets for emissions reduction, including guidance for private equity (link)	Ne-zero	2015	All organisations (specific PE guidance)			
TPT Transition Plan Taskforce	Disclosure framework and implementation guidance for development and disclosure of credible and useful transition plans, (e.g., emissions reduction targets) (link)	Environment	2023	All UK organisations			
CFA Institute	Standards for disclosure of the approach to ESG issues by an investment product, across all asset classes (link)	ESG	2021	Investors and asset managers			
GRI SUSTAINABILITY DISCLOSURE DATABASE	Global standard covering reporting on all ESG dimensions (link)	ESG	1997	Private organisations			
CDP DRIVING SUSTAINABLE ECONOMIES	Environmental disclosure guidance and associated platform, including carbon emissions and targets disclosure (link)	Environment	2000	All organisations			
ESG Data Convergence Initiative	Collects ESG data including carbon emissions from GPs on funds and portfolio companies, and produces annual aggregated benchmarks (link)	ESG	2021	Private markets firms and investors			
ESG INTEGRATED DISCLOSURE PROJECT	Reporting template with a broad set of ESG questions designed to gather a global baseline of information that is private credit and syndicated loan focused (link)	ESG	2022	Private credit			
G R E S B	Reporting framework designed to gather data and benchmark funds focused on real estate and infrastructure (link : real estate example)	ESG	2009	Real estate and infrastructure			

Note: (1) The Sustainability Accounting Standard Board (SASB), The International Integrated Reporting Council (IIRC) and the Climate Disclosure Standards Board (BDSB) have all been consolidated into ISSB (2) ISSB will take over responsibility from TCFD for monitoring companies' progress on climate-related disclosures from 2024 | Source: Sustainable Fitch; Organisation websites

Decarbonisation landscape | Which frameworks describe climate solution investments?

Key:  Relevant  Widely adopted

	Name	Description	Net-zero/Env./ESG	Year enacted	Organisations in scope	Relevant for		
						LP	GP	PC
Official Regulations and Standards	Canadian Green and Transition Finance Taxonomy 	Establishes criteria around which activities can be defined as 'green' (low/zero-emitting activities or those that enable them), and 'transition' (decarbonising emissions activities critical for sectoral transformation)	Environment	2025	All organisations			
	UK Green Taxonomy 	Creates clarity for investors to understand companies'/ funds' environmental impact and performance and makes it easier to compare	Environment	TBC	Investors			
	EU Sustainable Finance Taxonomy 	Provides classification tool that defines sustainable economic activities and requires companies to report activities against the taxonomy (link)	Environment	2023	EU companies reporting under CSRD / financial institutions reporting under SFDR			
	EU Green Bond Standard 	Defines standards and requirements for bond issuers to claim 'green bond' status; includes a requirement for issuers to use bond proceeds to finance activities aligned with the EU Taxonomy (link)	Environment	2024/5	All organisations			

Decarbonisation landscape | Which initiatives can I join as a responsible investor?

Key: Relevant Widely adopted

Name	Description	Net-zero/ Env./ ESG	Year enacted	Organisations in scope	Relevant for		
					LP	GP	PC
NET ZERO ASSET MANAGERS INITIATIVE	Group of international asset managers committed to supporting net zero emissions by 2050; GFANZ alliance (link)	Net-zero	2020	Asset managers			
NET ZERO ASSET OWNERS ALLIANCE	Institutional investors committed to (i) decarbonising portfolios to achieve net-zero by 2050, (ii) setting interim targets every five years and (iii) regularly reporting progress; GFANZ alliance (link)	Net-zero	2019	Investors			
GFANZ	Coalition of financial institutions committed to accelerating decarbonisation of the economy (link)	Net-zero	2021	Financial institutions			
IIGCC The Institutional Investors Group on Climate Change	European-focused investors supporting progress towards net-zero. IIGCC has published guidance on net-zero investing for multiple asset classes (e.g., private equity) (link)	Net-zero	2001	Investors			
NET ZERO INVESTMENT FRAMEWORK 1.5°C	Framework providing a set of recommended actions, metrics and methodologies to help investors move toward net-zero by 2050 (link)	Net-zero	2021	Investors			
Venture Climate Alliance	Group of leading VCs committed to achieving a rapid, global transition to net-zero or negative GHG emissions by 2050 or earlier (link)	Net-zero	2023	Venture Capital firms			
ic Initiative on Climate International Private equity action on climate change	Global community of private markets firms and investors, aiming to understand and manage climate-change associated risks (link)	Environment	2015	Private markets firms and investors			
Climate Action 100+	Investor-led initiative to encourage largest corporate emitters to combat climate change (link)	Environment	2017	Investors and organisations			
Sustainable Markets Initiative	20 industry-specific task forces leading the transition to a sustainable future and whose members are CEOs of leading private-sector firms, including PESMIT, the private-equity taskforce (link)	Environment	2020	All organisations			
Transition Pathway Initiative	Global initiative to assess company performance towards a low-carbon economy. The TPI has published sets of sectoral guidance on assessment of climate governance and targets (link)	Environment	2017	Investors			
Ceres	Sustainability advocacy organisation that encourages leadership among investors and companies to take action on sustainability challenges (link)	ESG	1989	All organisations			
PRI Principles for Responsible Investment	UN-supported network of financial institutions supporting sustainable investment with annual reporting. Published guidance on incorporating ESG into investment decision making (link)	ESG	2006	Financial institutions			
Operating Principles for Impact Management	Framework for designing and implementing impact management systems for ESG issues throughout the investment life cycle. Signatories required to disclose progress (link)	ESG	2019	Investors			

Source: Sustainable Fitch; Organisation websites

ISSB analysis | The International Sustainability Standards Board consolidated existing standards and starting in 2024 will take over TCFD's responsibilities



- Various guidelines for ESG reporting, including Climate Disclosure Standards Board (CDSB), Integrated Reporting (IR) and Sustainability Accounting Standards Board (SASB), allowed ESG performance to be assessed from different perspectives but also brought complexity and higher implementation costs
 - Therefore, the IFRS Foundation¹ consolidated CDSB (January 2022), IR and SASB (August 2022) into the **International Sustainability Standards Board (ISSB)** in 2022
 - Starting in 2024, **the IFRS Foundation and ISSB will take over TCFD's responsibilities of monitoring company progress on climate-related disclosures**
-
- ISSB develops **sustainability-related disclosure standards** that facilitate the assessment and communication of information gleaned from companies and make it easily accessible to the public (especially capital markets)
 - IFRS 1 and 2 (standards providing a global baseline of sustainability-related disclosures worldwide) set by ISSB have **taken into account TCFD recommendations** and ISSB is actively supporting their implementation now

