



## Securities and Exchange Commission

Chair Gary Gensler  
100 F Street, NE  
Washington, DC 20549

June 14, 2021

**Re: Public Input Welcomed on Climate Change Disclosures, Acting Chair Allison Herren Lee, March 15, 2021**

Chair Gensler,

We appreciate the Securities and Exchange Commission's (SEC's) timely request for Public Input on Climate Risk Disclosures.<sup>1</sup> We write to share our views and recommendations as the Private Equity Stakeholder Project, a non-profit that seeks to identify, engage, and connect stakeholders affected by private equity with the goal of engaging investors and empowering communities, working families, and others impacted by private equity investments.

The SEC's request for comment on disclosures of climate risk comes at a critical time as we face an urgent need for decisive action to limit the temperature increase to 1.5°C by all political and economic actors. The US has recommitted to the Paris Agreement and governments are expected to commit to carbon reductions, but in order to achieve the scale necessary to avert the most devastating climate chaos, corporations must take dramatic and immediate action.

According to the International Energy Agency's (IEA's) recent Net Zero By 2050 report, "The unwavering policy focus on climate change in the net zero pathway results in a sharp decline in fossil fuel demand, meaning that the focus for oil and gas producers switches entirely to output – and emissions reductions – from the operation of existing assets."<sup>2</sup>

As a regulator, the SEC must ensure that companies account for their own contributions to climate change through transparency on emissions and other impacts, disclose the climate-related risks in their portfolios, and share with the public their steps to mitigate both impacts and risks.

The following pages include our suggestions in response to the SEC's request for input, particularly as it relates to private market actors, such as in Question 14:<sup>3</sup>

What climate-related information is available with respect to private companies, and how should the Commission's rules address private companies' climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?

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<sup>1</sup> SEC public statement, Public Input Welcomed on Climate Change Disclosures, March 15, 2021 <https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>

<sup>2</sup> IEA, Net Zero By 2050, May 17, 2021 <https://www.iea.org/reports/net-zero-by-2050>

<sup>3</sup> SEC public statement, Public Input Welcomed on Climate Change Disclosures, March 15, 2021 <https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>

## Climate Disclosures from Private Equity are Crucial

Private equity is a large and growing industry with substantial climate-related exposures. Private equity firms' portfolios are both contributing to climate change through energy use and fossil fuel investments, as well as being exposed to risks from climate change. The risks range from weather-related threats to physical assets, harm to frontline communities' air quality or water sources from fossil fuel operations, the risks to conventional fuel-related assets from the transition to clean energy, and the opportunities and risks of investing in renewable energy sources.

The private funds sector has continued its two-decade growth spurt, reaching \$7.4 trillion in global assets under management in 2020.<sup>4</sup> Much of private equity's capital is drawn from institutional investors with fiduciary obligations to public and private pension funds, all of which need fuller disclosure to understand the risks.

Public pension funds have diversified portfolios that are invested across capital markets in publicly traded and alternative assets, with \$5 trillion in assets. These funds invest on behalf of nearly 15 million public sector workers and over 11 million retirees, distributing \$232 billion in benefits each year.<sup>5</sup> Alternative assets such as private equity have grown in importance to public pension funds, reaching an average allocation of 19 percent.<sup>6</sup>

Pension funds and other institutional investors are expected to continue to increase their allocations to private equity, per McKinsey.<sup>7</sup> Additionally, private equity firms and other private funds managers have sought to expand to new investors, such as the recent change to allow retail investors based on changes to SEC income requirements for "accredited investors."<sup>8</sup>

Corresponding to the period of private equity's growth, over the past two decades the number of companies listed on public markets has declined by nearly half, as Credit Suisse research illustrated.<sup>9</sup> McKinsey found that the number of US-private-equity backed companies doubled to 8,000 between 2006 and 2017, while publicly traded firms dropped to 4,300.<sup>10</sup> Another feature of this trend is that in recent years, private equity firms seeking to exit portfolio companies have turned increasingly to secondary buyouts, rather than through IPOs,<sup>11</sup> further adding to the ranks of companies trading hands in private markets without interacting with public markets.

As climate change manifests in growing threats to companies and the economy, the SEC has a critical role to play in establishing rules around how market participants account for their contributions to climate change,

<sup>4</sup> McKinsey, Global Private Markets Review 2021, published April 2021, <https://www.mckinsey.com/~/media/mckinsey/industries/private%20equity%20and%20principal%20investors/our%20insights/mckinseys%20private%20markets%20annual%20review/2021/mckinsey-global-private-markets-review-2021-v2.pdf>

<sup>5</sup> <https://publicplansdata.org/quick-facts/national/>

<sup>6</sup> <https://www.nasra.org/investment>

<sup>7</sup> McKinsey, Global Private Markets Review 2021, published April 2021

<sup>8</sup> McKinsey, Global Private Markets Review 2021, published April 2021

<sup>9</sup> Credit Suisse, "The Incredible Shrinking Universe of Stocks," March 22, 2017, [https://research-doc.credit-suisse.com/docView?language=ENG&format=PDF&sourceid=em&document\\_id=1072753661&serialid=h%2B%2FwLdU%2FTIaitAx1nrmfYsPRAuTFRGdTSF4HZlvTkA%3D](https://research-doc.credit-suisse.com/docView?language=ENG&format=PDF&sourceid=em&document_id=1072753661&serialid=h%2B%2FwLdU%2FTIaitAx1nrmfYsPRAuTFRGdTSF4HZlvTkA%3D)

<sup>10</sup> McKinsey Global Private Markets Review 2019

<https://www.mckinsey.com/~/media/mckinsey/industries/private%20equity%20and%20principal%20investors/our%20insights/private%20markets%20come%20of%20age/private-markets-come-of-age-mckinsey-global-private-markets-review-2019-vf.ashx>

<sup>11</sup> Deloitte, "The Growing Private Equity Market," Nov. 5, 2020, <https://www2.deloitte.com/us/en/insights/industry/financial-services/private-equity-industry-forecast.html/#endnote-sup-38>

their risks, and their mitigation efforts. This includes companies that are publicly traded and those that are privately held. Without stronger disclosure requirements for both listed and unlisted companies, the SEC cannot fulfill its mission to protect investors; maintain fair, orderly and efficient markets; and facilitate capital formation.<sup>12</sup>

## Private Equity's Impacts and Exposure to Climate Risks

The trillions in assets managed by private equity firms cover every sector and industry, all of which will face impacts from the growing effects of climate change and each of which must take steps to reduce environmental impacts.

We urge the SEC to give priority to private equity's investments in energy, with the vast majority of private equity's capital invested in conventional energy, which contains the most carbon intensive assets. The billions in energy assets held by private equity managers extend across the fossil fuel industry, including pipelines, LNG export terminals, coal plants, power-generation plants, fracking and drilling.

In 2020 and 2019, private equity firms expanded their exposure to energy, investing at least \$100 billion more, according to the American Investment Council,<sup>13</sup> even with the challenging conditions of the pandemic in 2020 that depressed energy demand.

Over the past decade, energy investments have largely underperformed, posting low or negative returns on investors' capital, illustrating the combined financial and climate risks of conventional energy investments.<sup>14</sup>

Based on a Preqin analysis, *Bloomberg* reported in April 2020 that oil- and gas-focused funds have been among the lowest-yielding asset classes for private capital over the past 10 years. The median internal rate of return (IRRs) for these funds is about five percentage points lower than those of comparable buyout firms.<sup>15</sup>

According to *Cambridge Associates*, for the 184 mature and maturing private equity energy funds with vintage years between 2004 to 2014, performance on average lagged broader private equity returns by 0.56x on a net multiple on paid-in capital basis (MOIC).<sup>16</sup>

Investors' capital faces acute risk in private equity because the strategies rely on debt, which increases risks and amplifies losses when investments are unsuccessful or market conditions change.

For example, the volatility in oil markets in 2020 induced by the Covid pandemic sparked a string of bankruptcies in the oil and gas sector, with the majority filed by private-equity backed companies.<sup>17</sup> Notably, 2020 saw an increase in bankruptcies with debt loads greater than \$1 billion, with an unusually high number

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<sup>12</sup> <https://www.investor.gov/introduction-investing/investing-basics/role-sec>

<sup>13</sup> American Investment Council, 2020-Q3 Private Equity Industry Investment Report  
<https://www.investmentcouncil.org/wp-content/uploads/2020-q3-private-equity-industry-investment-report.pdf>

<sup>14</sup> Private Equity Stakeholder Project, "Private Equity Energy Bets Burn Investors," April 2021, [https://pestakeholder.org/wp-content/uploads/2021/04/PESP\\_Report\\_PrivateEnergy\\_March2021-v4-2.pdf](https://pestakeholder.org/wp-content/uploads/2021/04/PESP_Report_PrivateEnergy_March2021-v4-2.pdf)

<sup>15</sup> Rachel Adams-Heard, "Private Equity Can't Escape the Pain of Shale Country's Collapse," *Bloomberg*, April 1, 2020, <https://www.bloomberg.com/news/articles/2020-04-01/private-equity-can-t-escape-the-pain-of-shale-country-s-collapse>

<sup>16</sup> Cambridge Associates, "Real Asset Dynamics: PE Energy," *Cambridge Associates*, May 2020, pg. 4  
<https://www.cambridgeassociates.com/insight/real-asset-dynamics-pe-energy/>

<sup>17</sup> Private Equity Stakeholder Project, "Private Equity-backed companies dominate 2020 oil and gas bankruptcies," <https://pestakeholder.org/private-equity-backed-companies-dominate-2020-oil-and-gas-bankruptcies/>

relative to the prior six years. More than two thirds (71%) of 2020's multibillion-dollar bankruptcies were backed by private equity.<sup>18</sup>

Investors lost millions in 2017 when a \$2 billion energy-focused private equity fund was reduced to nothing when its bets on oil and gas markets failed.<sup>19</sup>

It is necessary for private equity firms to recalibrate their approach to fossil fuels, accounting for the impacts of current holdings and aligning undeployed capital with the IEA's assertion that, "There is no need for investment in new fossil fuel supply in our net zero pathway."<sup>20</sup>

The SEC must act now to protect investors by requiring disclosures by private equity firms of their exposure to fossil fuels and the leverage their funds assume, in order for investors to have adequate information to assess the risks of participating in comingled funds.

## Rhetoric vs. Reality in Environmental, Social and Governance Investing

The idea of incorporating Environmental, Social and Governance (ESG) factors into investment decisions has gained significant traction, but in practice private funds investors do not have adequate information to distinguish between greenwashing and genuine, meaningful integration of ESG.

Climate change's impacts are uneven, with communities of color and the global poor already experiencing disproportionate harm. Continued reliance on fossil fuel energy will deepen racial disparities because communities of color have long shouldered the burdens of disparate health impacts of poor air quality or water contamination due to proximity to power generation facilities, refineries and oil extraction operations.

For investors to evaluate the risks, asset managers must disclose how portfolio companies have contributed to environmental injustice and their efforts to mitigate and repair the disparities. Simultaneously, private equity firms employ thousands of workers in conventional energy investments, who should participate in a just and equitable transition.

The private equity industry in recent years has sought to emphasize its efforts to include ESG considerations in investment strategy, including highlighting its acquisitions of renewable energy assets.<sup>21</sup>

However, the industry has been less forthcoming about its more extensive exposure to fossil fuels and the corresponding community and environmental impacts.<sup>22</sup> Over the past decade, private equity firms spent nearly \$154 billion on oil, gas and coal, compared to \$41 billion in renewables.<sup>23</sup> These figures indicate that fossil fuels have made up nearly 80% of energy investments by private equity.

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<sup>18</sup> Private Equity Stakeholder Project, "Private Equity-backed companies dominate 2020 oil and gas bankruptcies,"

<https://pestakeholder.org/private-equity-backed-companies-dominate-2020-oil-and-gas-bankruptcies/>

<sup>19</sup> Wall Street Journal, "From \$2 billion to zero: A private-equity fund goes bust in the oil patch," <https://www.wsj.com/articles/from-2-billion-to-zero-a-private-equity-fund-goes-bust-in-the-oil-patch-1500210002>

<sup>20</sup> International Energy Agency, "Net Zero By 2050," May 17, 2021 <https://www.iea.org/reports/net-zero-by-2050>

<sup>21</sup> <https://www.investmentcouncil.org/sustainability/>

<sup>22</sup> For example, Private Equity Stakeholder Project, "Blackstone's Description of ESG Practices Leaves Out Key Information on its Fossil Fuel Investments," Nov. 2020, <https://pestakeholder.org/wp-content/uploads/2020/11/PESP-Blackstone%E2%80%99s-ESG-report-leaves-out-information-on-its-fossil-fuels.pdf>

<sup>23</sup> Politico, "When companies go green, the planet doesn't always win," March 30, 2021 <https://www.politico.com/news/2021/03/30/companies-green-planet-doesnt-always-win-478460>

The purported focus on ESG by private equity continues to be largely subjective, varies widely among firms, and has not yet resulted in substantive public disclosures of climate impacts or risks.

A recent survey of private equity firms by PwC found that although firms increasingly claim to incorporate ESG into their strategic thinking, “Significant gaps remain between concerns about individual ESG issues and the actions being taken to address them.”<sup>24</sup> The survey found that “47% have not undertaken any work in understanding the climate risk exposure of portfolios.”<sup>25</sup>

The narrower investment space of dedicated ESG funds or Impact investing strategies shares a similar challenge of subjectivity, as recently noted in the SEC Division of Examinations Risk Alert issued April 9, 2021 which said:<sup>26</sup>

The staff noted, despite claims to have formal processes in place for ESG investing, a lack of policies and procedures related to ESG investing; policies and procedures that did not appear to be reasonably designed to prevent violations of law, or that were not implemented; documentation of ESG-related investment decisions that was weak or unclear; and compliance programs that did not appear to be reasonably designed to guard against inaccurate ESG-related disclosures and marketing materials.

Climate, environmental, and associated justice-related disclosures should be integrated into a broader suite of ESG disclosures because investors are also seeking information about human capital management, racial equity, diversity and inclusion, political spending, and taxes.

The SEC should also pursue stronger human capital reporting, especially quantitative metrics rather than just qualitative narrative.

The lack of clarity and consistency in the implementation of ESG strategies confirms the urgency of the SEC’s guidance. As the request for public input suggested, the SEC should develop “disclosure rules with an eye toward facilitating the disclosure of consistent, comparable, and reliable information on climate change.” This would help create an even playing field for companies, and encourage meaningful implementation of ESG strategies to the benefit of markets, stakeholders and the climate.

## Parity for Both Listed and Unlisted Companies

The US is home to hundreds of private equity firms, the largest of which range from assets of over \$600 billion to \$4 billion.<sup>27</sup> Several of the largest firms are publicly traded, including The Blackstone Group, Apollo, KKR, the Carlyle Group. At the same time, there are large firms that remain privately held such as Warburg Pincus, TPG and Bain Capital. Hundreds of other firms are private with a wide range of assets under management.

For the publicly traded firms, current climate disclosures are inconsistent and vague and do not provide detail

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<sup>24</sup> PwC, “Global Private Equity Responsible Investment Survey 2021,” <https://www.pwc.com/gx/en/services/sustainability/publications/private-equity-and-the-responsible-investment-survey.html>

<sup>25</sup> PwC, “Global Private Equity Responsible Investment Survey 2021,” <https://www.pwc.com/gx/en/services/sustainability/publications/private-equity-and-the-responsible-investment-survey.html>

<sup>26</sup> SEC Division of Examinations Risk Alert issued April 9, 2021 <https://www.sec.gov/files/esg-risk-alert.pdf>

<sup>27</sup> Private Equity International, PEI 300 Top Private Equity firms, <https://www.privateequityinternational.com/database/#/pei-300.#1> Blackstone \_ and #298 Vector Capital <https://www.vectorcapital.com/about>

either on individual portfolio companies' or sector-wide exposures to climate risk. At the same time, firms are not disclosing the contributions to climate change from portfolio companies' direct and indirect emissions (scopes 1, 2 and 3).

Both listed and non-listed private equity firms with assets greater than \$100 million are required to register as investment advisors.<sup>28</sup> They are required to file an annual form ADV and brochure that includes a risk disclosure. However, the disclosures of climate-related risk are subjective, inconsistent, vague and rarely quantitative. The SEC could use the existing registration and disclosure requirements as the framework, but should take the opportunity to enhance the climate risk disclosures.

For members of the public and investors, there is no way to discern which companies have greater climate impacts, which are engaged in greenwashing through misleading ESG policies, and which may be genuinely working to disclose and mitigate climate impacts and emissions.

We urge the SEC to establish disclosure standards across both listed and unlisted firms, to ensure that private market players are subject to equivalent disclosure requirements. Failing to do so would inadvertently incentivize companies to avoid becoming publicly listed, meaning fewer companies would be subject to disclosures and therefore the publicly available information would be limited – impeding progress on providing investors with adequate information to evaluate climate-related risks.

In a recent *Politico* article, Lee Reiners, executive director of Duke University's Global Financial Markets Center and a former regulator at the Federal Reserve Bank of New York said, "If you create additional ESG disclosure requirements for public companies and did nothing else, you'd be further burdening public companies and providing incentive to stay private longer. We need a way to bring some level of accountability to private markets so they don't get off scot-free."<sup>29</sup>

We urge the SEC to develop rules that require disclosures for all private equity firms, listed and unlisted.

## Disclosures Must be Comprehensive

Private funds must provide comprehensive disclosures in order for investors and the public to evaluate the risks and contributions to climate change. Disclosures should include quantitative metrics and qualitative information about governance, strategy, and risk management. In particular, investors want climate-related and ESG disclosures that cover both physical risks and transition risks that affect enterprise value, and also that indicate the impacts that issuers have on society, the global financial system, and investors as a whole.

The disclosures should cover:

- Climate risks and impacts for the private equity firm overall
- Sectoral exposure that has climate impacts or risks, particularly to energy and fossil fuels
- Fund-level exposures to energy and fossil fuels, including comingled funds
- Individual portfolio companies' risks, leverage and contributions to climate change

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<sup>28</sup> <https://adviserinfo.sec.gov/>

<sup>29</sup> Politico, "When companies go green, the planet doesn't always win," March 30, 2021  
<https://www.politico.com/news/2021/03/30/companies-green-planet-doesnt-always-win-478460>

For each of the above, disclosures should include:

- Disclosures of direct and indirect emissions (Scope 1, 2, and 3) as well as other climate impacts, spills, accidents, explosions, citations for environmental violations
- Plans and timeline with benchmarks to transition to a pollution free portfolio
- Plans to ensure a just transition both for the workforce of and for communities impacted by current fossil fuel holdings
- Political spending and how it aligns with the UN PRI's Investor Expectations on Corporate Climate Lobbying<sup>30</sup> including:
  - Corporate and executive political spending – lobbying and campaign contributions
  - Political spending by portfolio companies and their executives
  - Membership in trade associations and how those trade associations' lobbying positions align with the goals of the Paris Agreement
- A qualitative discussion of risk management and a firm's business model and strategy under various climate-related scenarios, including a 1.5 degree warming scenario consistent with science-based emissions targets, as well as scenarios above 1.5 degrees

We thank you for the opportunity to provide comment on the existential threat of climate change, and the critical role of the SEC to establish consistent, meaningful disclosure rules for private equity firms to ensure that investors and the public have information to adequately assess the impacts these firms' investments have in contributing to climate change, and how they are managing the risks and the transition to clean energy.

Sincerely,

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<sup>30</sup> UN PRI Investor Expectations on Corporate Climate Lobbying [https://www.unpri.org/Uploads/i/k/t/Investor-Expectations-on-Corporate-Climate-Lobbying\\_en-GB.pdf](https://www.unpri.org/Uploads/i/k/t/Investor-Expectations-on-Corporate-Climate-Lobbying_en-GB.pdf)