

Climate Risk and Energy Transition Questions for General Partners

With minimal public visibility and billions in energy investments, private markets emerge as a pivotal sector in the accelerating climate crisis.

Private markets are transforming finance with rapid growth reaching nearly \$12 trillion in assets,¹ but influential players like private equity are lightly regulated and exempt from most financial disclosures “leaving regulators with more blind spots concerning the risks buyout firms might pose.”²

Institutional investors across the globe are seeking to mitigate climate and transition risk in their portfolios, but are inhibited by the complexity and opacity of private market holdings.³

The [Private Equity Climate Risks Scorecard 2022](#) analyzed eight of the largest buyout firms and found that they continue to hold tens of billions in fossil fuel assets, with only a minority of their energy holdings in renewable energy.⁴

A coalition of nonprofit organizations developed a set of climate demands for the private equity industry that seek (1) **alignment** with science-based climate targets, (2) **disclosure** of direct and indirect emissions and environmental impacts, energy transition plans, political spending and climate lobbying, and (3) **integration** of climate and environmental justice with the communities impacted by the climate crisis.⁵

The United Nations is urging nations to cut greenhouse gas emissions in half by 2030, warning of catastrophic climate impacts without swift action.⁶ The International Energy Agency forecasts that demand for all fossil fuels will peak by 2030.⁷

The following set of questions are a resource to help investors assess how private equity firms are adapting their portfolios for the energy transition.

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-BLOOMBERG



1 HOW WILL THE FIRM INVEST ITS PORTFOLIO ALIGN WITH SCIENCE-BASED CLIMATE TARGETS TO LIMIT GLOBAL WARMING TO 1.5°C?

- a. Will the FIRM commit to immediately end all new financing or investment in new fossil fuel companies and/or new projects (including new construction and add-ons)?⁸
- b. Will the FIRM commit to eliminate fugitive emissions and cease flaring and venting by 2025? ^{9,10,11}

2 WILL THE FIRM DISCLOSE FOSSIL FUEL EXPOSURE, EMISSIONS, AND IMPACTS?

- a. Will the FIRM commit to disclose all oil, natural gas, and coal assets in the asset manager's equity and credit portfolios?
- b. Will the FIRM commit to disclose all direct and indirect emissions (Scope 1, 2, and 3)¹² and climate-related community impacts such as legal violations and litigation?

3 WHAT IS THE FIRM'S PORTFOLIO-WIDE ENERGY TRANSITION PLAN?

- a. Will the FIRM disclose a portfolio-wide climate transition plan? This includes reporting progress on climate transition plans throughout the firm's portfolio annually, with GHG emissions reductions targets, metrics on progress toward those targets, as well as capital expenditures due to climate impacts and for transition activities.
- b. Will the FIRM disclose the role of voluntary offsets and use of carbon removal or related carbon storage technologies?¹³
- c. Will FIRM disclose comprehensive climate risk analyses under various climate warming scenarios consistent with science-based emissions targets?¹⁴

4 WILL THE FIRM INTEGRATE CLIMATE AND ENVIRONMENTAL JUSTICE AND A JUST TRANSITION?

- a. How will the FIRM establish robust due diligence and grievance redress mechanisms to respect human rights and land rights¹⁵ and a just transition for impacted workforces¹⁶?
- b. Will the FIRM require all portfolio companies to adopt No-Deforestation, No Peat, and No Exploitation (NDPE) policies? ¹⁷

5 WILL THE FIRM PROVIDE TRANSPARENCY ON POLITICAL SPENDING AND CLIMATE LOBBYING?

- a. Will the FIRM disclose political spending and climate lobbying by the asset manager, its executives, portfolio companies, and associations of which it is a member or provides support?¹⁸



Endnotes

1. <https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/mckinseys-private-markets-annual-review#/>
2. Lim, D. and Brooke, D., "The Boom in Private Markets Has Transformed Finance, Here's How," Bloomberg, June 13, 2022 <https://www.bloomberg.com/news/articles/2022-06-14/how-the-boom-in-private-markets-has-changed-finance-quicktake>
3. IPE, "Pension funds' climate goals hindered by private markets data gaps," August 19, 2022 <https://www.ipe.com/news/pension-funds-climate-goals-hindered-by-private-markets-data-gaps/10061659.article>
4. Private Equity Climate Risks Scorecard, Private Equity Stakeholder Project and Americans for Financial Reform Education Fund, Sept 2022 <https://bit.ly/PEClimateRisksReport>
5. Additional resources and detail for each demand are available in the Private Equity Climate Risks Scorecard 2022 (refer to pages 17-20). The report and demands were developed by the Private Equity Stakeholder Project and Americans for Financial Reform Education Project, with endorsements by eleven other organizations: Action Center on Race and the Economy, Climate Finance Action, Food & Water Watch, Friends of the Earth, Greenpeace, Little Sis, NRDC, Public Citizen, Sierra Club, Stand.earth, and The Sunrise Project, <https://peclimaterisks.org/#scorecard-and-report>
6. NBC, "Now or Never: One of the biggest climate reports ever shows time is running out," March 20, 2023, <https://www.nbcnews.com/science/environment/climate-change-un-ipcc-rcna75670>
7. Financial Times, IEA forecasts fossil fuel demand will peak this decade, Oct. 26, 2022, <https://www.ft.com/content/1fd06f38-ec60-4043-bcdd-adc8a8beb006>
8. In compliance with IEA Net Zero 2050 1.5 degrees Celsius pathway, which said "there is no need for investment in new fossil fuel supply" including oil, gas and coal.
9. In 2020, Alliance Bernstein, CalSTRS, and Legal and General Investment Management endorsed ending routine flaring in Texas by 2025, while BlackRock has called for nearly eliminating flaring by 2025. Source: Crowley, K., "Investment Giants Urge Texas To End Most Natural Gas Flaring," *Bloomberg*, September 4, 2020, <https://www.bloomberg.com/news/articles/2020-09-04/investment-giants-urge-texas-to-end-most-flaring-of-natural-gas>; Watson, D., LaMair, E., "Investor Guidance on EPA Proposed Standards for Oil and Natural Gas Methane Emissions," Environmental Defense Fund, December 2, 2021, <https://business.edf.org/files/Investor-Guide-to-Commenting-on-EPA-Methane-Rule-Proposal.pdf>.
In 2020, ExxonMobil reported reducing its own routine flaring at a pace that is consistent with eliminating flaring by 2025, while confirming that ending routine flaring is "within everyone's reach." Source: Ratner, B., "BP, Shell and investment giants call for Texas zero flaring regulations. Will others follow?," Environmental Defense Fund, September 10, 2020, <https://blogs.edf.org/energy-exchange/2020/09/10/bp-shell-and-investment-giants-call-for-texas-zero-flaring-regulations-will-others-follow/>
10. Howell, A., Watson, D., Baxter, A., Malek, G., "The Burning Question: How to Fix Flaring," Environmental Defense Fund + Business, October 21, 2021, <https://business.edf.org/files/ESG-by-EDF-Flaring-Report-Book-V2-Reduced.pdf>; Schulz, R., McGlade, C., Zeniewski, P., de Oliveira Bredariol, T., "Flaring Emissions," International Energy Agency, November 2021, <https://www.iea.org/reports/flaring-emissions>
11. Environmental Defense Fund, "Methane: A crucial opportunity in the climate fight," Accessed August 16, 2022, Methane has more than 80 times the warming power of carbon dioxide over the first 20 years after it reaches the atmosphere and it is responsible for at least 25 percent of global warming today <https://www.edf.org/climate/methane-crucial-opportunity-climate-fight/>
12. UN Principles for Responsible Investment, ERM, and iCI Working Group, "Greenhouse Gas Accounting and Reporting For the Private Equity Sector," May 2022, <https://www.unpri.org/download?ac=16265> Reporting on emissions should be based on portfolio-wide gross emissions, avoided emission carbon credits, and carbon removal credits separately from one another, without netting. If carbon offsets are purchased, they should be reported separately from greenhouse gas emissions.
13. Offsets markets have significant environmental, accounting, and social integrity problems as analyzed in the following sources: Krukowska, Eva, "Carbon Offsets Have an Integrity Problem. COP26 May Help Fix It," *Bloomberg*, Nov. 16, 2021, <https://www.bloomberg.com/news/articles/2021-11-17/carbon-offsets-have-an-integrity-problem-cop26-may-help-fix-it>; New Climate Institute and Carbon Market Watch, "Corporate Climate Responsibility Monitor 2022," Feb. 2022, <https://newclimate.org/sites/default/files/2022/02/CorporateClimateResponsibilityMonitor2022.pdf>; White, Natasha and Rathi, Akshat, "Green Groups Want Offsets Disclosed as Part of the SEC's Climate Rule," *Bloomberg*, Feb. 14, 2022, <https://www.bloomberg.com/news/articles/2022-02-14/green-groups-want-offsets-disclosed-as-part-of-sec-s-climate-rule>.
14. Network for Greening the Financial System, "A call for action: Climate change as a source of financial risk," April 2019, https://www.ngfs.net/sites/default/files/medias/documents/ngfs_first_comprehensive_report_-_17042019_0.pdf; Network for Greening the Financial System, "Scenarios Portal", Accessed August 16, 2022, <https://www.ngfs.net/ngfs-scenarios-portal/>
15. United Nations, "United Nations Declaration on the Rights of Indigenous Peoples, September 2007, https://www.un.org/development/desa/indigenouspeoples/wp-content/uploads/sites/19/2018/11/UNDRIP_E_web.pdf
16. According to the International Labour Organization, a 'just transition' means 'greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind. A Just Transition involves maximizing the social and economic opportunities of climate action, while minimizing and carefully managing any challenges – including through effective social dialogue among all groups impacted, and respect for fundamental labour principles and rights.'" Source: International Labour Organization, "Frequently Asked Questions on Just Transition," https://www.ilo.org/global/topics/green-jobs/WCMS_824102/lang--en/index.htm, Accessed May 17, 2022.
17. Rainforest Action Network, "Principles For Paris-Aligned Financial Institutions: Climate Impact, Fossil Fuels, And Deforestation," September 16, 2020, https://www.ran.org/wp-content/uploads/2020/09/RAN_Principles_for_Paris-Aligned_Financial_Institutions.pdf
18. Based on the UNPRI's Investor Expectations on Corporate Climate Lobbying found here: https://www.unpri.org/Uploads/i/kt/Investor-Expectations-on-Corporate-Climate-Lobbying_en-GB.pdf

