CLIMATE RISK AND ENERGY TRANSITION QUESTIONNAIRE FOR PRIVATE EQUITY MANAGERS

The following questions are a tool for institutional investors to consider as part of due diligence before committing capital to a private equity, infrastructure, or real assets manager. General partner responses to these questions would provide investors with important information about how a manager is pivoting its portfolio to adhere to a 1.5 degree pathway and adapt for the energy transition in order to reduce financial risks.

Climate Questionnaire for Private Equity Managers

1. **IS THE FIRM INVESTING ITS PORTFOLIO TO ALIGN WITH SCIENCE-BASED CLIMATE TARGETS TO LIMIT GLOBAL WARMING TO 1.5^{0}C?[1]**

   - **Will the FIRM commit to immediately end all new financing or investment in fossil fuel companies and projects?**
     Immediately discontinue all new financing of or investment in fossil fuel companies and/or new projects beyond the current portfolio, including new construction and add-ons.[2]
   - **Will the FIRM commit to cease flaring and venting by 2025?**
     For natural gas upstream or midstream assets, end natural gas flaring and venting by 2025, and eliminate all fugitive emissions.[3]
   - **Will the FIRM set a goal to Achieve Fossil-Free Energy Portfolio by 2030?**
     Will the firm commit to ensure that a majority of energy holdings are in renewable energy by no later than 2025, with all energy holdings fossil-free by 2030.[4]
   - **Will the FIRM commit to retire fossil fuel energy assets by 2030?**
     - Align with the UN IPCC 1.5 degree Celsius pathway on coal.[5]
     - Begin decommissioning oil and gas power plants and pipelines, and cap exploration and production infrastructure and other related fossil fuel assets no later than 2030.[6]

2. **WILL THE FIRM DISCLOSE FOSSIL FUEL EXPOSURE, EMISSIONS, AND IMPACTS?[7]**

   - **Will FIRM disclose all fossil fuel assets and financial estimates and assumptions regarding asset impairment?**
     - Disclose all oil, natural gas, and coal assets in the asset manager's equity and credit portfolios, and financial estimates and assumptions around future commodity prices, cash flows, asset impairment, and asset retirement obligations.
   - **Will the FIRM commit to disclose all direct and indirect emissions in absolute and intensity terms[8] and climate-related community impacts?**
     - Disclose all direct and indirect emissions (Scope 1, 2, and 3 as defined by the GHG Protocol and the Partnership for Carbon Accounting Financials [PCAF])[9] in absolute and intensity terms as well as other climate impacts, environmental violations and litigation, and climate-related community impacts for its entire portfolio.
     - Report 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.

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

- **Will the FIRM disclose a portfolio-wide climate transition plan?**
  - Asset managers should disclose a portfolio-wide climate transition plan with GHG emissions reduction targets and annually report metrics on progress toward those targets, capital expenditures due to climate impacts and for transition activities, and a commitment to increase clean energy investments, year over year.[10]
- **Will the FIRM disclose the role of voluntary carbon offsets immediately and cease their utilization by 2025?[11]**
  - Disclose plan to reduce the use of carbon offsets to zero by 2025.
  - Disclose details about the procurement and holding of offsets in the firm's investment portfolio as well as the GHG emissions reductions achieved and anticipated from these offsets projects.
  - Disclose whether and to what extent it has purchased offsets over the reporting period and retired offsets as compensation for any gross emissions during the reporting period.
  - Disclose the registry number and details of the projects underlying any carbon offsets acquired, and whether emissions were purportedly reduced, avoided, or removed. For removal, indicate the expected time period of emissions storage.
  - While offsets are in use, state all assumptions used to calculate the GHG emissions changes.
- **Will the FIRM disclose use of carbon removal, carbon utilization and storage, and related technologies?[12]**
  - The FIRM and its portfolio companies should disclose any use of carbon dioxide removal, carbon capture utilization and storage, and related technologies.
  - Disclose plans to reduce investment in CDR/CCUS and instead plan to meet GHG targets through bonafide emission reductions.
- **Will the FIRM disclose comprehensive analyses under various climate warming scenarios and decarbonization timelines?**
  - Disclose a comprehensive climate risk management strategy under a 1.5 degrees Celsius global warming scenario consistent with science-based emissions targets, as well as scenarios above 1.5 degrees Celsius, including at least 2 degrees Celsius and 3 degrees Celsius, assuming both orderly and disorderly transition scenarios, as outlined by the Network for Greening the Financial System.[13]

4. WILL THE FIRM INTEGRATE CLIMATE AND ENVIRONMENTAL JUSTICE?

- **How will the FIRM establish robust due diligence, verification, and grievance redress mechanisms to ensure that all human rights and land rights are respected?**
  - Asset managers shall establish robust due diligence, verification, and grievance redress mechanisms to ensure that all human rights and land rights are respected across their portfolio companies.[14]
  - Will the FIRM require all portfolio companies to adopt no-deforestation, no peat, and no exploitation (NDPE) policies?[15]
  - How will the FIRM develop a just transition program with impacted communities and workers?
    - Engage with impacted communities to develop a just transition program both for the workforces facing dislocation from the energy transition, and communities impacted by current fossil fuel holdings to ensure remediation of health and environmental harms, including land use changes and deforestation, infringement of land rights and the rights of Indigenous peoples, natural resource extraction, disruption to local economies, air and water pollution, harm to public health and safety, and worker dislocation.[16]

5. WILL THE FIRM PROVIDE TRANSPARENCY ON POLITICAL SPENDING AND CLIMATE LOBBYING?[17]

- **Will the FIRM disclose political spending and climate lobbying at asset manager, portfolio company, and trade association level?**
  - Companies should be consistent in their policy engagement in all geographic regions and they should ensure any engagement conducted on their behalf or with their support is aligned with restricting global warming to the 1.5 degrees Celsius scenario. As such asset managers must annually disclose the political spending and climate lobbying of: the asset manager and its executives; its portfolio companies and their executives; the associations, alliances, coalitions, or think tanks of which it is a member or to which it provides support.

- **Will the FIRM provide transparency on alignment with global standards on responsible corporate climate lobbying?**
  - Make a public commitment to align all climate change lobbying for the asset manager, its subsidiaries, and associations, alliances, and coalitions of which it is a member with the goal of restricting global temperature rise to 1.5 degrees Celsius above pre-industrial levels.
  - Establish an annual monitoring and review process to ensure that all direct and indirect climate change lobbying activities across all geographies are consistent with the goal of restricting global temperature rise to 1.5 degrees Celsius above pre-industrial levels.
  - Establish a clear framework for addressing misalignments between the climate change lobbying positions adopted by the associations, alliances and coalitions of which it is a member and the goal of restricting global temperature rise to 1.5 degrees Celsius above pre-industrial levels.

Endnotes

1 See the following examples of target setting: Science-based targets initiative, corporate net zero standard, Net Zero Asset Owner Alliance Protocol Fourth Edition
2 Asset managers should at a minimum align with the IEA World Energy Outlook 2022 updated roadmap to NZ50 markers such as no new oil and gas field development, phase out coal no later than 2030 in advanced economies, Net Zero electricity by 2035. Asset managers should not expand beyond their current fossil fuel portfolios through new acquisitions, new construction, or add-ons by existing or newly acquired portfolio companies.
3 In 2020, Alliance Bernstein, CalSTRS, and Legal and General Investment Management endorsed ending routine flaring in Texas by 2025. In Dec 2023, Bloomberg Philanthropies, Environmental Defense Fund (EDF), IEA, the UN Environment Programme (UNEP) through the International Methane Emission Observatory (IMEO), and RMI, announced a new effort to embed transparency and accountability in global efforts to reduce methane from the oil and gas sector's initiative, which calls for an end to routine flaring by 2030.
4 Previously the average holding time for portfolio companies was 5 years, but recent market challenges have led to longer holding periods that creeped up to an average of 5.7 years. Even with these slower exits, private equity firms could achieve fossil free portfolios by 2030 particularly if they halt new acquisitions.
5 IEA's May 2021 "Net Zero by 2050" called for phase out of the least efficient coal plants by 2030 & retrofitting of remaining coal plants. The United Nations Intergovernmental Panel of Climate Change said OECD countries should phase out existing coal investments by 2030, with all coal investments in other countries following suit by 2040.
6 According to the UN IPCC 1.5 degrees Celsius pathway, asset managers and owners are advised to end all new fossil fuel exploration and production and shift towards renewable energy. United Nations, "Secretary-General's statement on the IPCC Working Group 1 Report on the Physical Science Basis of the Sixth Assessment", August 9, 2021.
7 The Oregon Treasury's Pathway to Net Zero for the state retirement system disclosed baseline emissions data for each asset class, both listed and unlisted, reporting both absolute emissions and emissions intensity as well as the share of the overall portfolio's emissions.
8 See Partnership for Carbon Accounting Financials (PCAF) and "Greenhouse Gas Accounting and Reporting For the Private Equity Sector." May 2022, UN Principles for Responsible Investment, ERM, and iCI Working Group.
9 See Partnership for Carbon Accounting Financials (PCAF) and "Greenhouse Gas Accounting and Reporting For the Private Equity Sector." May 2022, UN Principles for Responsible Investment, ERM, and iCI Working Group.
10 The Goldman Sachs Green Capex Mosaic (pg. 26) cites the need for $3 trillion in annual Green Capex to reach Net Zero, and lists the distribution among different infrastructure/technology focus areas. Investment in renewables should comprise $1.15 trillion of the $3 trillion annual capex needed, or around 38%, and energy efficiency and electric grid investments should be another 37% combined, or $1.13 trillion.
11 Bloomberg, "Junk offsets feeding a wave of greenwashing, study shows," August 24, 2023
12 The Goldman Sachs Green Capex Mosaic recommends only around $90 billion of the $3 trillion in annual Green Capex be directed to CCUS, or around 3% of investment. Reuters, "Carbon capture and storage hopes are pipe dreams, for now," Nov. 23, 2023: International Energy Agency cited CCUS' history of "unmet expectations" and "underperformance"; Institute for Energy Economics and Financial Analysis, Carbon capture has a long history. Of Failure, Sept. 2022.
13 Network for Greening the Financial System, "Scenarios Portal"
14 United Nations Declaration on the Rights of Indigenous Peoples
15 United Nations Principles of Responsible Investment, "Deforestation as systemic risk: An opportunity for investors collective action"; Rainforest Action Network, "Principles For Paris-Aligned Financial Institutions: Climate Impact, Fossil Fuels, And Deforestation," September 16, 2020.
16 Resources include the UN Just Transition and Renewable Energy Business Brief, International Labour Organization Guidelines for a Just Transition, IEA Recommendations on People-Centred Clean Energy Transition.
17 UNPRI's Investor Expectations on Corporate Climate Lobbying