CLIMATE STANDARDS FOR PRIVATE MARKETS INVESTORS

Private funds managers must demonstrate they are facilitating a low-carbon economy and building resilient investment portfolios with clear enforceable climate commitments. They should provide transparency on targets set and progress toward them, including real world emissions reductions and decreasing exposure to fossil fuels while scaling up low-carbon energy.

The following climate standards are a policy tool for institutional investors to consider, which include concrete timelines to ensure private markets portfolios pivot to adhere to a 1.5 degree pathway and adapt for the energy transition in order to reduce financial risk for funds currently tied to fossil fuels investments.

Climate Standards for Private Markets Investors

1. **ALIGN PRIVATE MARKETS PORTFOLIOS WITH SCIENCE-BASED CLIMATE TARGETS TO LIMIT GLOBAL WARMING TO 1.5ºC[1]**
    - Commit to no new investments in fossil fuel expansion[2]
    - Cease gas flaring and venting by 2025[3]
    - Achieve a fossil-free energy portfolio by 2030[4]
    - Retire fossil fuel energy assets by 2030[5]

2. **DISCLOSE FOSSIL FUEL EXPOSURE, EMISSIONS, AND IMPACTS[6]**
    - Asset managers will disclose all fossil fuel assets and financial estimates and assumptions regarding asset impairment
    - Asset managers will disclose all direct and indirect emissions (Scopes 1, 2 and 3) in absolute and intensity terms[7] and climate-related community impacts

3. **REPORT A PORTFOLIO-WIDE ENERGY 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.[8]
    - Disclose role of voluntary carbon offsets immediately and cease their utilization by 2025[9]
    - Disclose use of carbon removal, carbon utilization and storage, and related technologies[10]
    - Disclose comprehensive analyses under various climate warming scenarios and decarbonization timelines[11]

4. **ASSET MANAGERS WILL INTEGRATE CLIMATE AND ENVIRONMENTAL JUSTICE**
    - 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[12]
    - Require all portfolio companies to adopt no-deforestation, no peat, and no exploitation (NDPE) policies[13]
    - Develop a just transition program with impacted communities and workers[14]

5. **ASSET MANAGERS WILL PROVIDE TRANSPARENCY ON POLITICAL SPENDING AND CLIMATE LOBBYING[15]**
    - Disclose political spending and climate lobbying at asset manager, portfolio company, and trade association level
    - Provide transparency on alignment with global standards on responsible corporate climate lobbying

Private markets investors must build low-carbon, resilient investment portfolios

The climate crisis is accelerating, shows no signs of abating, and projections of economic damages are skyrocketing – yet the capital markets are still lagging on an energy transition. Since 2021, the US alone experienced **climate-related weather disasters costing over $460 billion** that caused **over 1,800 deaths.**[16] For fiduciaries with a long-term investment horizon, the forecasts are even more alarming. Climate **change damages are projected to cost $38 trillion a year by 2049,** cutting nearly 20% of global income.[17]

As private markets have grown to nearly $15 trillion, private equity, private infrastructure, and real assets firms have sunk tens of billions of dollars into energy – with the vast majority in fossil fuel assets dedicated to drilling oil, fracking gas, and burning coal, in addition to refineries, pipelines, and gas export terminals.

Research by the Private Equity Climate Risks consortium reveals alarming new details about the extent of private equity investment and the environmental impacts. The report revealed that just 21 firms are responsible for **over 1.17 gigatons of annual emissions.**[18] This research provides valuable insights for institutional investors with private equity, private infrastructure or real assets allocations, and should be integrated into climate risk assessments, due diligence protocols, and sustainability policies.

The shift of substantial capital into private markets has meant a growing segment of the economy is "going dark" without the safeguards of disclosure or regulation. The lack of transparency in private equity impedes climate progress, with private companies lagging far behind in reporting emissions and climate commitments. The Net Zero Asset Owner Alliance noted the risk that "publicly traded companies may push some actors to sell brown assets into the less transparent private market," requiring "increased focus on private assets and on asset managers investing in them" to ensure effective decarbonization.

For investors with large private equity, private infrastructure, or real assets portfolios, additional policy tools are crucial to addressing the absence of regulatory guardrails on governance and transparency. Most large institutional investors have taken important steps to incorporate sustainability into their investment policies as part of a fiduciary duty to mitigate risks as they seek returns.

- Two of New York City's largest public retirement systems have made commitments to reach net zero by 2040, and the implementation plan for the New York City Employees Retirement System (NYCERS) and Teachers' Retirement System (TRS) were the first US public funds to specifically address private markets. The policy includes intent to develop interim portfolio emissions reduction targets for private equity, real estate, infrastructure, and alternative credit. Other private market provisions include an expectation that all asset managers have a net zero goal or science-based targets plan by 2025; integration of an assessment of just transition; exclusion of investments in the production, exploration, or extraction of fossil fuels.

  The New York City Comptroller announced a proposal in October 2024 to exclude midstream and downstream fossil fuels from future private markets investments, expanding on the NYC pensions' leadership on addressing climate risk.

- The New York State Common Retirement Fund's Climate Action Plan commits to Net Zero by 2040, and toward that goal the system announced "no new private market investments in funds focused on the extraction or production of oil, gas and coal."

- California Public Employees Retirement System and the California State Teachers Retirement System have each set portfolio-wide net zero targets by 2050 with interim targets to reduce emissions by half by 2030, consistent with the United Nations' Intergovernmental Panel on Climate Change.

- The Dutch pension fund ABP is not committing any new money to fossil fuels in public or private markets, which includes phasing out any legacy commitments to exploration and production of oil, gas or coal as well as suppliers of fossil fuel production equipment.

- The Ontario Teachers Pension Plan has made good progress toward its interim emissions targets toward Net Zero 2050, in part through private markets by shedding some fossil fuel exposure and decarbonization at certain assets.

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. 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.

6 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.

7 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.

8 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.

9 Bloomberg, "Junk offsets feeding a wave of greenwashing, study shows," August 24, 2023

10 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.

11 Network for Greening the Financial System, "Scenarios Portal"

12 United Nations Declaration on the Rights of Indigenous Peoples

13 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.

14 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.

15 UNPRI's Investor Expectations on Corporate Climate Lobbying

16 National Oceanic Atmospheric Administration, annual data from 2021-2023 and 2024 YTD January - Sept 10.

17 AP, "New study calculates climate changes' economic bite will hit about $38 trillion a year by 2049," April 17, 2024

18 www.PEClimateRisks.org