Private Equity Science-Based Target Guidance Walk-Through

12:00 - 1:15pm EDT
June 01, 2022
AGENDA

Welcome from the SBTi  5 min
Relevance of PE Guidance  20 min
Steps to setting SBTs  30 min
Q&A  ~20 min
TODAY'S SPEAKERS

HOWARD SHIH
Research Associate
The Science Based Targets initiative (SBTi)

PAULINA TARRANT
Net Zero Engagement Manager
The Science Based Targets initiative (SBTi)

TIM CLARE
Director
Anthesis

HANNA WESTLING
Consultant
Anthesis

*The SBTi does not endorse, recommend or support any particular consultancies.
The Science Based Targets initiative (SBTi) is a global body enabling businesses to set ambitious emissions reductions targets in line with the latest climate science.
PROMOTIONAL SERIES
MORE TO COME...

Blog: 'Intro to Setting SBTs for the PE Sector'
- Part 1 and part 2 available on the SBTi website

Webinar #2: How to Achieve SBTs on PE Investments
- When: July 2022
- What: Views of how to achieve SBTs from a range of PE firms
- Who: For GPs, LPs, and portfolio companies to understand potential solutions and value for unlocking SBTs

Additional blog (topic tbc) + FAQ to be released in August 2022
BUSINESS CASE FOR SBTs

RISKS & OPPORTUNITIES

**REDUCE RISK EXPOSURE**
- e.g., Reputation risk through to stranded asset

**ADD VALUE**
- e.g., identify and capitalize on opportunities, innovation

Meet evolving definition of fiduciary duty and mitigate legal risk

Building credibility and reputation

Influencing and preparing for public policy shifts

Demonstrate leadership
BUSINESS CASE FOR SBTs

RISKS & OPPORTUNITIES

“Setting targets founded in climate science not only plays a critical role in mobilizing action towards curbing climate change, but also presents hugely attractive commercial opportunities for our industry and critically, our clients.

We believe that SBTs increase competitiveness by building business resilience and driving innovation. As an early adopter, we are already seeing these benefits within our own portfolios.”

Benoît Durteste, CEO and CIO, ICG
THEORY OF CHANGE
THE CEO’S DAUGHTER

PRESSURE FROM THE NEXT GENERATION
TAKING NEAR-TERM ACTION

"We find that conversations with management teams are increasingly about what companies can do to reduce emissions, not about why action is needed.

Setting a science-based target helps translate longer-term aspirations into the most effective and impactful near-term actions to reduce carbon emissions."

Kim Woehl, ESG Manager, Montagu
APPROVED TARGETS

VALIDATED FIRMS
- Astorg
- Bregal investments
- EQT
- FSN Capital Partners
- Hg
- ICG
- Investindustrial

Nearly all went for a portfolio coverage target of 100% by 2030.

COMMITTED FIRMS
- Altor Equity Partners
- Tikehau Capital
- Triton Partners

SUBSEQUENTLY
- Montagu Private Equity
- Axxel Management
- Eurazeo

Other Investment Companies
- JAB Holding Company S.à.r.l
- VP Capital
- GBL

All went for a portfolio coverage target of 100% by 2030.

- Accent Equity AB
- Argos Wityu
- Altor Equity Partners
- CapMan Plc
- EV Private Equity

- Summa Equity
- Vidia Equity

+ 140 other financial institutions

Nearly all went for a portfolio coverage target of 100% by 2030.

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HOW TO GET LEADERSHIP ONBOARD

“

It is helpful if you practice what you preach. It can be very hard to ask for something to be rolled out across your portfolio companies if you don’t do it on a firm level too.

For Hg this started many years ago when we calculated our footprint and became carbon neutral. Following that, our involvement and support to the iCI further helped position our SBTi commitment internally. Taking one step at a time, starting with our own firm, helped bring our leadership with us.

“

Caroline Löfgren, Chief Sustainability Officer, Hg
Steps to setting SBTs
<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1 and 2</td>
<td>Set scope 1 and 2 targets consistent with a 1.5°C pathway at a minimum (well-below 2°C aligned targets will be accepted until July 15, 2022)</td>
<td>-</td>
</tr>
<tr>
<td>Scope 3</td>
<td>Set a target for scope 3 category 15 emissions (loans and investments)</td>
<td>Set a target for scope 3 categories 1-14 emissions (including business travel)</td>
</tr>
<tr>
<td>Scope 3 coverage</td>
<td>Set targets for all required asset classes, and disclose the percentage of assets under management (AUM) covered by portfolio targets</td>
<td>Set targets on all activities where methods are available</td>
</tr>
<tr>
<td>Scope 3 target timeframe</td>
<td>Set near-term targets: • Five-10 years under the Sectoral Decarbonization Approach (SDA) • Maximum of five years under the SBTi Portfolio Coverage and Portfolio Temperature Rating methods</td>
<td>Set long-term targets: • 2050 SDA targets will not be validated until the SBTi’s Net-Zero Standard for FIs is released in 2023 • 100% portfolio coverage or the targeted portfolio temperature rating by 2040, at the latest</td>
</tr>
<tr>
<td>Actions</td>
<td>State the planned actions for reducing greenhouse gas (GHG) emissions</td>
<td>Establish a policy to phase out financial support to thermal coal by 2030 and annually disclose the annual investments, direct project financing and lending to fossil fuel projects and companies</td>
</tr>
<tr>
<td>Progress</td>
<td>Annually disclose scope 1 and 2 GHG emissions, progress toward achieving all approved scope 1, 2 and 3 targets, and actions taken to meet targets</td>
<td>Annually disclose scope 3 GHG emissions</td>
</tr>
</tbody>
</table>
STEP BY STEP PROCESS

1. Compile the inventory

2. Determine scope 1 and 2 target ambition

3. Determine if scope 3 categories 1-14 targets will be set

4. Identify all relevant and required asset classes where scope 3 category 15 targets must be set.
   - Required: PE direct investments (buyout, growth, and venture capital)
   - Required: PE direct investments in real estate and electricity generation
   - Optional: Credit/Private debt, Fund of Funds, Secondaries

5. Develop asset class level targets using relevant methods
   - SBT portfolio coverage/temperature rating
   - Sectoral Decarbonization Approach
   - Optional temperature rating targets/ recommended actions

6. Develop public target language and action summary

7. Announce, report, track, and recalculate

8. Achieve portfolio SBTs

GP, as the reporting entity, consolidates its GHG emissions from its scope 1 and 2, and scope 3, category 15 from portfolio companies in all managed funds.
STEPS 1 TO 3
GHG INVENTORY AND PE FIRMS' OWN TARGETS

Scope 1 and 2 (required)

Absolute reduction target =
Base year ≤ 2020, 4.2% x (target year – base year)
Base year > 2020, 4.2% x (target year – 2020)

and with sufficient forward-looking ambition

Scope 3, cat. 1-14 (optional)

Absolute reduction target =
Base year ≤ 2020, 2.5% x (target year – base year)
Base year > 2020, 2.5% x (target year – 2020)

Reputational risk if not set
## ASSET CLASSES

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Boundary Requirement</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private equity direct investments</td>
<td>Electricity generation</td>
<td>Required: 100%</td>
</tr>
<tr>
<td></td>
<td>Real estate</td>
<td>Required: 67%</td>
</tr>
<tr>
<td></td>
<td><strong>Buyouts</strong>, including co-investments</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Growth capital</strong></td>
<td>Required: 100% of PCs that meet coverage conditions</td>
</tr>
<tr>
<td></td>
<td>• ≥ 25% of the fully diluted shares of the portfolio company (PC) and board seat(s)</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Venture capital</strong>, including start ups</td>
<td>Required: 100% of PCs that meet coverage conditions</td>
</tr>
<tr>
<td></td>
<td>• ≥ 15% of the fully diluted shares of the PC and board seat(s)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• &gt; 50 people and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• &gt; €10 million annual revenue or €10 million balance sheet and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• In existence for more than 5 years</td>
<td></td>
</tr>
<tr>
<td>Credit / private debt, including infrastructure debt</td>
<td>Optional</td>
<td>Temperature Rating</td>
</tr>
<tr>
<td>Secondaryes / Fund of funds</td>
<td>Optional</td>
<td>[No established method]</td>
</tr>
</tbody>
</table>

For asset classes that are not listed in the table above, please consult the Financial Sector Science-Based Targets Guidance.
STEP 5

SBT PORTFOLIO COVERAGE METHOD

The **SBT portfolio coverage method** is a “target of targets”

The PE firm is required to set a five-year target, using a selected metric (GHG emissions preferably, or financial - typically invested capital), to sufficiently cover PCs setting their own SBTs, in line with a linear trajectory to 100% of PCs setting SBTs by 2040.

*PE firms may count PCs from 24 months after date of closing*
## STEP 6
TARGET VALIDATION TEMPLATE (EXAMPLE)

<table>
<thead>
<tr>
<th>Activities</th>
<th>Selected metric total (GHG or financial)</th>
<th>AUM of activity</th>
<th>Activity covered (%)</th>
<th>Target-Setting Method</th>
<th>Proposed target ambition</th>
<th>Description &amp; Rationale for exclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity generation</td>
<td>50,000 tCO2e</td>
<td>$50 million</td>
<td>100%</td>
<td>SDA</td>
<td>50% reduction per MWh by 2030</td>
<td>n/a</td>
</tr>
<tr>
<td>Real estate</td>
<td>70,000 tCO2e</td>
<td>$700 million</td>
<td>67%</td>
<td>SDA</td>
<td>70% reduction per m2 by 2030</td>
<td>67% minimum target boundary requirement</td>
</tr>
<tr>
<td>Buyout, Growth</td>
<td>250,000 tCO2e</td>
<td>$18 billion</td>
<td>75%</td>
<td>Portfolio Coverage</td>
<td>40% by 2025 and 100% by 2030</td>
<td>&lt; 25% ownership threshold</td>
</tr>
<tr>
<td>Private debt</td>
<td>-</td>
<td>$5 billion</td>
<td>0%</td>
<td>-</td>
<td>-</td>
<td>Optional</td>
</tr>
<tr>
<td>Etc.</td>
<td>…</td>
<td>…</td>
<td>…</td>
<td>…</td>
<td>…</td>
<td>…</td>
</tr>
</tbody>
</table>
TARGET SUBMISSION

SBTi VALIDATION

• Fill out **FI near-term target submission form**

• Upload submission form and supporting documentation to the **SBTi booking system**

• Reserve a date for when the SBTi target validation service will begin

• Wait for the booked date to arrive, when initial screening will begin

• Sign target validation service contract

• Answer queries received from SBTi on the target submission
STEP 7
TARGET LANGUAGE

Subject to mutual agreement before publication

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**Groupe Bruxelles Lambert (GBL)**

**Scope 1 and 2:** GBL commits to reduce absolute scope 1 and 2 GHG emissions by 50% by 2030 from a 2019 base year.

**Scope 3 Portfolio Targets**

**Headline target:** GBL's portfolio target covers 100% of the total investments and lending activities as of 2020.

**Scope 3 asset class level targets**

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Method</th>
<th>Target language</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate instruments (equity, bonds, loans), Private Equity</td>
<td>SBT Portfolio Coverage</td>
<td>GBL commits to 50% of common stock and preferred stock portfolios and 50% of eligible private equity setting validated SBTs by 2025 from a 2020 base year. GBL commits to 100% of common stock and preferred stock portfolio and 100% of eligible private equity setting validated SBTs by 2030 from a 2020 base year.</td>
</tr>
</tbody>
</table>

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**FSN Capital Partners**

**Scope 1 and 2 targets:** FSN Capital Partners commits to reduce absolute scope 1 and 2 GHG emissions 50% by 2026 from a 2019 base year.

**Scope 3 Category 1-14 targets:** FSN Capital Partners commits to reduce absolute scope 3 GHG emissions from business travel and waste by 29% by 2026 from a 2019 base year.

**Scope 3 Portfolio Targets**

**Headline Target:** FSN Capital Partners commits that 60% of its PE investments by invested capital in portfolio companies will have set science-based targets by 2026 and 100% by 2030 from a 2020 base year. FSN Capital Partners' portfolio targets cover 100% of total investment and lending activities by invested capital as of Dec 31st, 2020.

**Summary of actions**

FSN Capital Partners will implement the following strategy and actions to achieve its scope 3 portfolio targets:

- FSN Capital Partners will continue to ensure that all FSN Capital portfolio companies develop their own tailor-made ESG strategy, under which setting Science Based Targets for reduction of greenhouse gas emissions will be one of the key priorities.

...
SBTi Community Forum for FIs

https://community.sciencebasedtargets.org/

- Sign Up
- Login
- Read
- Ask
- Respond
CALL TO ACTION

“Having our targets validated by SBTi is a major step in our combat against climate change. SBTi provides the global standard for science-based targets setting, filling an essential gap to unlock ambitious emissions reductions for our portfolio companies.

There is a real urgency to collectively take action and bring about positive change: Private Equity firms must mobilise to be part of the solution.”

Sophie Flak, Managing Partner of ESG and Digital, Eurazeo
Thank you