

Private Equity Science- Based Target Guidance Walk-Through

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

PARTNER ORGANIZATIONS



United Nations
Global Compact



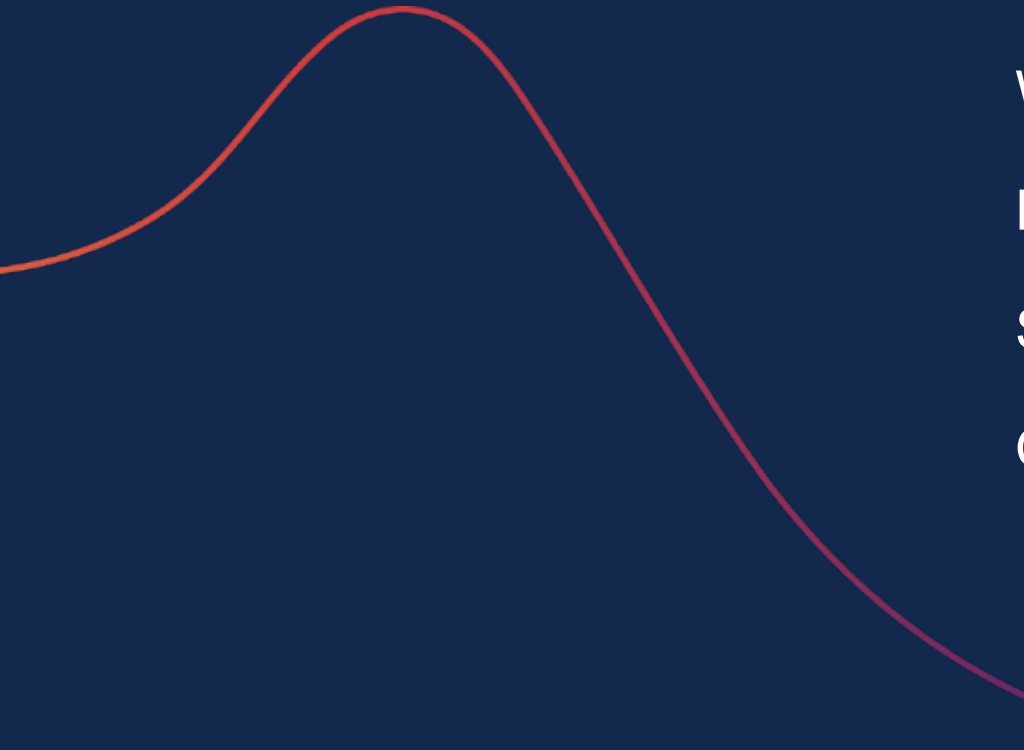
WORLD
RESOURCES
INSTITUTE



WE MEAN
BUSINESS
COALITION



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.*

INTRODUCTION TO THE SBTi

What is the Science Based Targets initiative?



DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

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**.

Founding Partners



United Nations
Global Compact



WORLD
RESOURCES
INSTITUTE



In collaboration with



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





SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Relevance of PE Guidance

BUSINESS CASE FOR SBTs

RISKS & OPPORTUNITIES

REDUCE RISK EXPOSURE

e.g., Reputation risk through to stranded asset



Meet evolving definition of fiduciary duty and mitigate legal risk



Building credibility and reputation

ADD VALUE

e.g., identify and capitalize on opportunities, innovation



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.

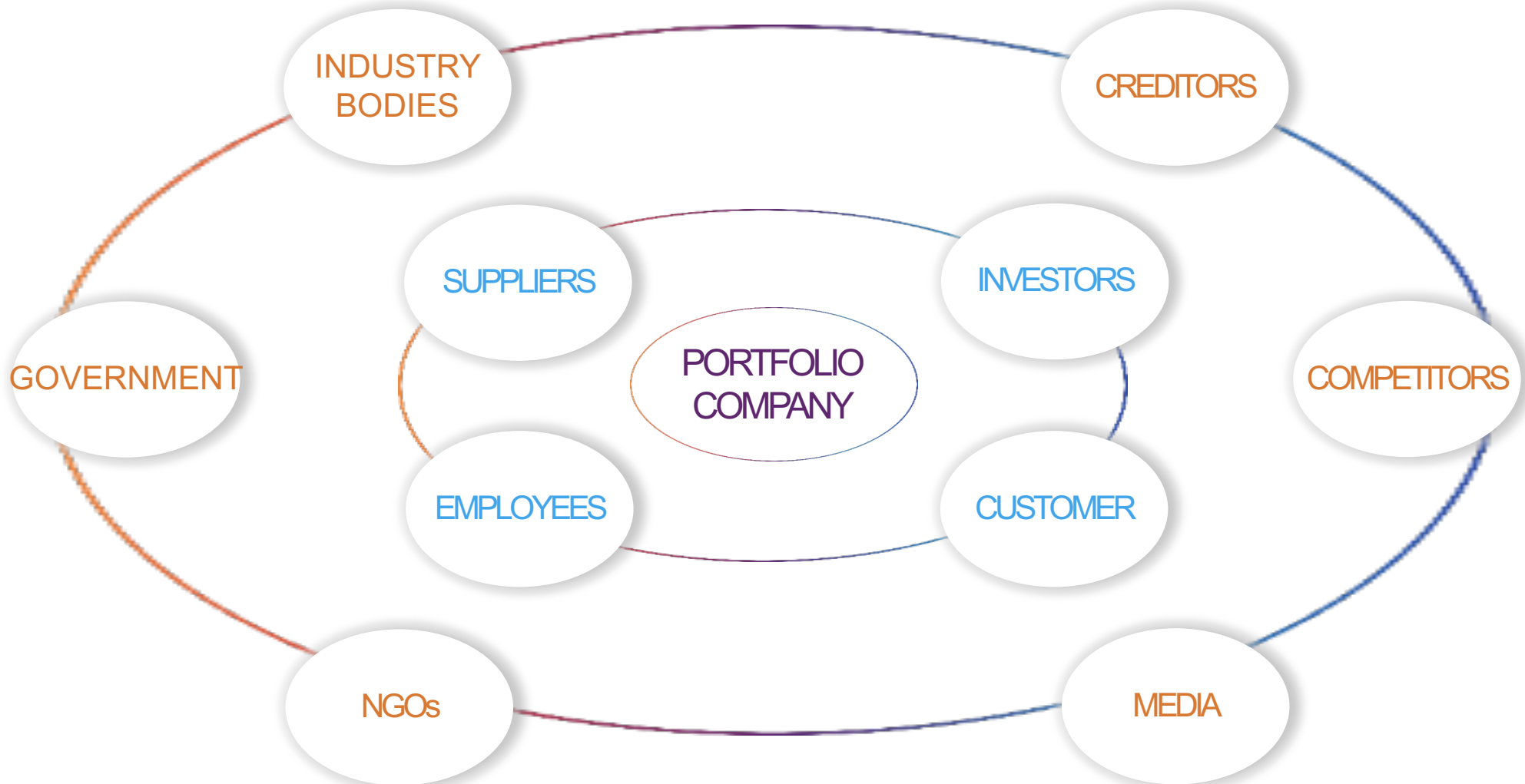
We believe that SBTs increase competitiveness by building business resilience and driving innovation. As an early adopter, we are already seeing these benefits within our own portfolios.

”

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

AT LAUNCH (NOV. 2021)

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
- Axcel 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

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**

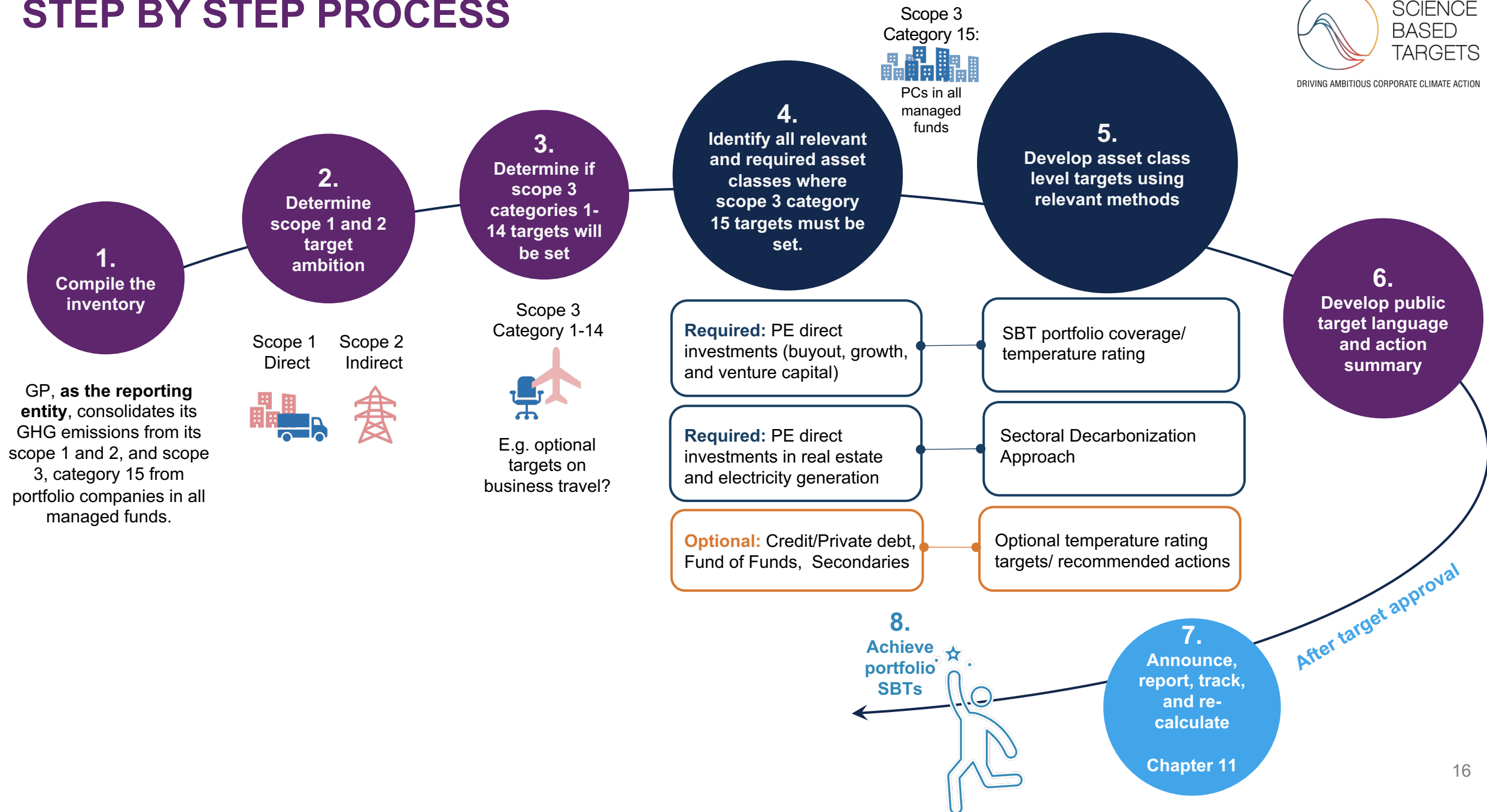


Steps to setting SBTs

KEY REQUIREMENTS AND RECOMMENDATIONS

Topic	Requirements	Recommendations
Scope 1 and 2	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)	-
Scope 3	Set a target for scope 3 category 15 emissions (loans and investments)	Set a target for scope 3 categories 1-14 emissions (including business travel)
Scope 3 coverage	Set targets for all required asset classes, and disclose the percentage of assets under management (AUM) covered by portfolio targets	Set targets on all activities where methods are available
Scope 3 target timeframe	Set near-term targets: <ul style="list-style-type: none"> • Five-10 years under the Sectoral Decarbonization Approach (SDA) • Maximum of five years under the SBTi Portfolio Coverage and Portfolio Temperature Rating methods 	Set long-term targets: <ul style="list-style-type: none"> • 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
Actions	State the planned actions for reducing greenhouse gas (GHG) emissions	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
Progress	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	Annually disclose scope 3 GHG emissions

STEP BY STEP PROCESS



STEPS 1 TO 3

GHG INVENTORY AND PE FIRMS' OWN TARGETS

Scope 1 and 2 (required)

Absolute reduction target =
Base year \leq 2020, $4.2\% \times (\text{target year} - \text{base year})$
Base year $>$ 2020, $4.2\% \times (\text{target year} - 2020)$

and with sufficient forward-looking ambition



Scope 3, cat. 1-14 (optional)

Absolute reduction target =
Base year \leq 2020, $2.5\% \times (\text{target year} - \text{base year})$
Base year $>$ 2020, $2.5\% \times (\text{target year} - 2020)$

Reputational risk if not set



STEP 4

ASSET CLASSES

Asset Class		Target Boundary Requirement	Method
Private equity direct investments	Electricity generation	Required: 100%	Sectoral Decarbonization Approach
	Real estate	Required: 67%	
	Buyouts , including co-investments Growth capital <ul style="list-style-type: none"> • ≥ 25% of the fully diluted shares of the portfolio company (PC) <u>and</u> board seat(s) 	Required: 100% of PCs that meet coverage conditions	Portfolio Coverage Approach (recommended for majority-controlled PCs) or Temperature Rating
	Venture capital , including start ups <ul style="list-style-type: none"> • ≥ 15% of the fully diluted shares of the PC <u>and</u> board seat(s) • > 50 people <u>and</u> • > €10 million annual revenue or €10 million balance sheet <u>and</u> • In existence for more than 5 years 	Required: 100% of PCs that meet coverage conditions	
Credit / private debt, including infrastructure debt		Optional	Temperature Rating
Secondaries / Fund of funds		Optional	[No established method]

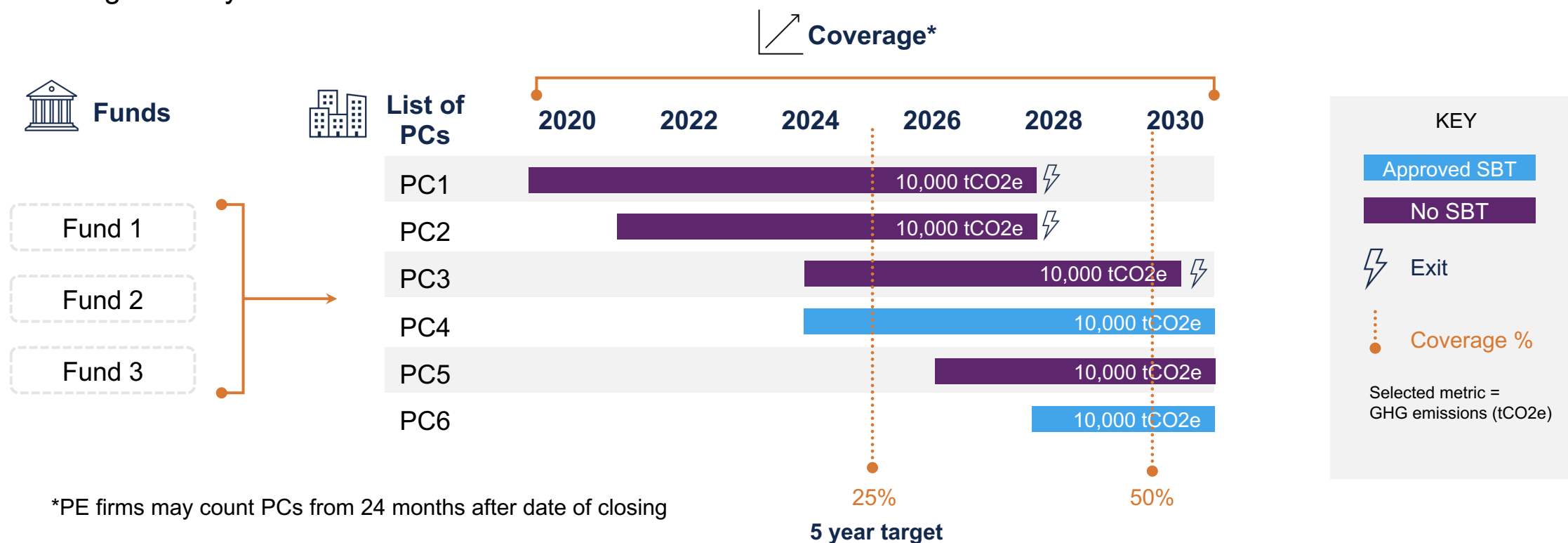
For asset classes that are not listed in the table above, please consult the [Financial Sector Science-Based Targets Guidance](#)

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.



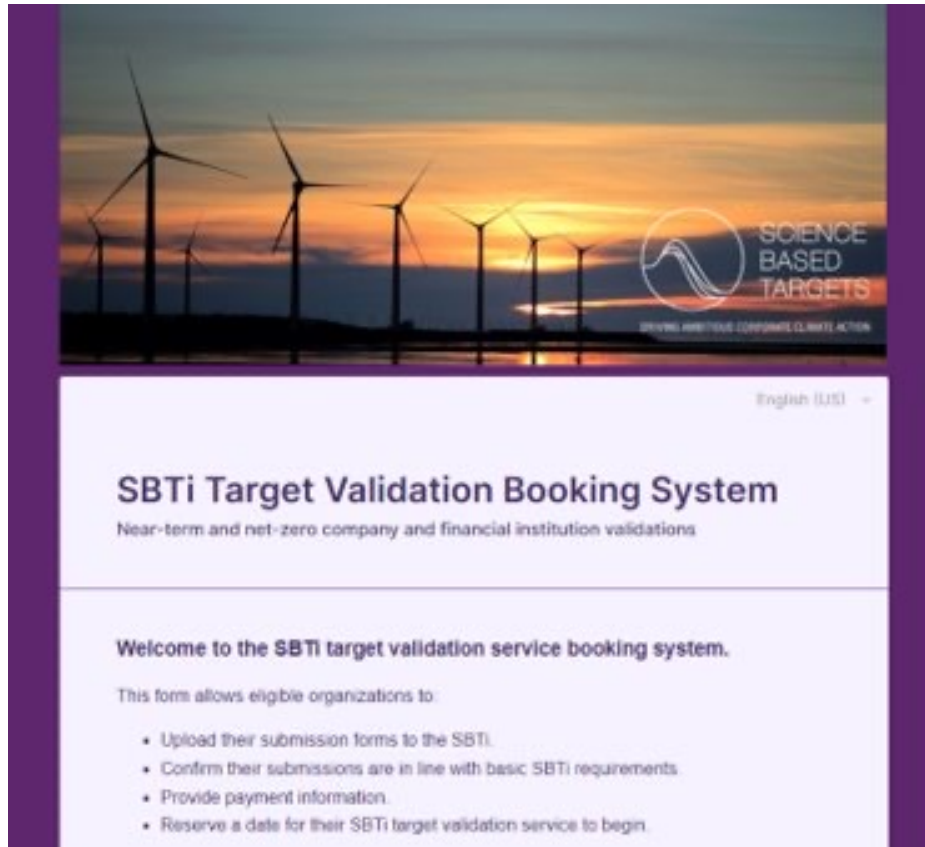
STEP 6

TARGET VALIDATION TEMPLATE (EXAMPLE)

Activities	Selected metric total (GHG or financial)	AUM of activity	Activity covered (%)	Target-Setting Method	Proposed target ambition	Description & Rationale for exclusion
Electricity generation	50,000 tCO ₂ e	\$50 million	100%	SDA	50% reduction per MWh by 2030	n/a
Real estate	70,000 tCO ₂ e	\$700 million	67%	SDA	70% reduction per m ² by 2030	67% minimum target boundary requirement
Buyout, Growth	250,000 tCO ₂ e	\$18 billion	75%	Portfolio Coverage	40% by 2025 and 100% by 2030	< 25% ownership threshold
Private debt	-	\$5 billion	0%	-	-	Optional
Etc.

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

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

Asset class	Method	Target language
Corporate instruments (equity, bonds, loans), Private Equity	SBT Portfolio Coverage	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.

FSN Capital Partners

Scope 1 and 2 targets: FSN Capital Partners commits to reduce absolute scope 1 and 2 GHG emissions 60% 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**



Q&A

PARTNER ORGANIZATIONS



United Nations
Global Compact




WORLD
RESOURCES
INSTITUTE




IN COLLABORATION WITH

WE MEAN
BUSINESS
COALITION



 sciencebasedtargets.org

 [/science-based-targets](https://www.linkedin.com/company/science-based-targets)

 [@ScienceTargets](https://twitter.com/ScienceTargets)

 info@sciencebasedtargets.org

 [Science Based Targets](https://www.youtube.com/ScienceBasedTargets)

