Emissions Tracking in Private Markets

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Bridging the Gap: The Role of GPs in Supporting Emissions Tracking at Portfolio Companies

Across private markets, the emphasis on sustainability and climate impact has reached new heights. Private market investors are increasingly expected to track and manage carbon emissions – a 2024 report by Morgan Stanley found that 80% of global investors consider ESG factors, including carbon emissions, to be critical to their investment decisions. As a result, GPs have focused more on tracking portfolio-wide carbon data, with 92% of GPs surveyed by Malk in its State of ESG report noting carbon footprinting as a top consideration among all ESG priorities.

Nonetheless, there is a notable disparity between GPs and portfolio companies regarding the prioritization of carbon accounting. Though GPs view carbon accounting as one of the most salient ESG issues, portfolio companies rank it relatively lower in importance, with only 30% of surveyed portfolio companies tracking emissions.

Broadly, establishing a baseline of emissions provides a clear, quantifiable starting point from which companies can measure progress, set realistic reduction targets, and develop strategic plans for long-term carbon reduction. Tracking emissions accurately allows companies to identify the primary sources of their greenhouse gas (GHG) emissions across Scopes 1, 2, and 3. By understanding these sources, companies can prioritize their efforts, focusing on the most significant contributors to their carbon footprint. Bridging the gap between GPs and portfolio companies in carbon prioritization is crucial for developing and executing effective sustainability strategies that align with both regulatory requirements and investor expectations.

Drivers for Emissions Tracking

Regulations

- Mandates like the Corporate Sustainability Reporting Directive (CSRD) in the European Union are setting a new standard for detailed sustainability reporting. Once fully implemented, CSRD will require over 50,000 companies globally to provide granular emissions data and establish reduction targets across Scopes 1, 2, and 3.
- In the United States, California's Climate Corporate Data Accountability Act (CCDAA) is another critical regulatory framework pushing for greater transparency. The CCDAA applies to companies with annual revenues exceeding $1 billion that also operate in California. Beginning in 2026, these companies will be required to report their direct and indirect GHG emissions in alignment with the Greenhouse Gas Protocol standards.
- Portfolio companies that do not meet the direct thresholds required for regulations like CSRD or California emissions disclosure laws may still encounter indirect obligations. These could arise through "flow-down" requirements from larger supply chain partners or cusotmers who request emissions tracking and reporting to ensure compliance with their own sustainability commitments.

Frameworks/Industry Groups

- The Emissions Data Collection Initiative (EDCI) promotes standardized methodologies for ESG data collection and reporting, including emissions data, with 450 GPs and LPs participating since the framework's inception. Participating GPs must report on their portfolio' Scope 1 and 2 GHG emissions.
- Participating investors in other industry groups and initiatives such as the Net-Zero Asset Owner Alliance and Net Zero Asset Managers, exert significant influence over portfolio companies, and may require stringent emissions tracking and reporting as part of their investment criteria.

Getting Started With Emissions Tracking

GPs should begin by defining clear objectives for emissions tracking, aligning these objectives with their overall ESG goals and strategies. Determining the scope of tracking for each portfolio company is essential, considering factors such as the company's size, industry, and geographic location, all of which are inputs that have significant bearing on the intensity of a company's emissions profile.

Implementing effective tracking mechanisms requires careful attention to data collection and management:

- First, **identify key data sources** like energy usage, transportation, and waste, derived from a variety of inputs including energy bills, fleet mileage, etc.
- Determine the right **tools and support** needed; this might include using third-party software platforms, seeking outside expertise, leveraging internal resources, or a combination of these options to facilitate accurate and comprehensive data collection.
- Create a comprehensive view of each company's carbon footprint. Analyzing and reporting carbon emissions involves **establishing KPIs and adopting recognized reporting standards**. KPIs, such as carbon intensity metrics and absolute emissions reductions, support effective performance management over time.
- Highlight any **trends or anomalies** in emissions data, such as areas where carbon intensity is higher than expected or where certain operations are outliers. This allows GPs and portcos to scrutinize the impact of existing practices.
- Emphasize tracking emissions intensity metrics to **normalize data across different companies** and industries. This ensures that performance comparisons are fair and accurately reflect operational size and scale.
- **Benchmark emissions performance** against industry standards or similar companies within the portfolio. This can be achieved by identifying comparable business profiles that provide context on the most pressing emissions management priorities for portfolio companies.

Once this baseline is in place, portfolio companies can collaborate to develop effective decarbonization plans that align with overall sustainability goals. GPs can enhance their support by sharing their expertise, facilitating knowledge exchange among portfolio companies through topical roundtables, and recommending cost-effective vendors.

How Malk Can Help

Malk brings extensive experience in collaborating with private markets investors and their portfolio companies to implement and evaluate carbon emissions profiles, including a scalable carbon accounting solution that empowers companies to gain a clear understanding of their current emissions profile, accurately identify emissions hotspots, and uncover opportunities to develop effective long-term decarbonization strategies. **For more information, please visit www.malk.com or reach out to Brian Fox, our Head of Climate & Carbon Solutions, at bfox@malk.com.**

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