

# SBTi Overview and Alignment Strategy

## *Climate Primer Series Pt. 3 – September 2024*

### **SBTi Overview**

When developing a decarbonization strategy, investors must consider a number of factors—from limited data availability and compliance with various regulations to limited partner (LP) requests and portfolio operational details. Leveraging a recognized framework can help investors account for nuance while applying a standardized, auditable approach. One framework for firms to consider when outlining a decarbonization strategy is the [Science Based Targets Initiative](#) (SBTi). The SBTi regards the adoption of science-based targets within the financial sector to be a [critical piece](#) of the global decarbonization effort and has thus established specific [guidance](#) for private investors supporting companies in establishing accurate and achievable emissions reduction targets. Furthermore, SBTi alignment has gained traction within private equity; for example, in 2021 [six private equity firms](#) received public approval for their established SBTi targets. These are some of the first firms to receive approval since the establishment of the SBTi. Traction for the SBTi is propelled by the growing expectations of limited partners for investors to begin accounting for and reducing emissions across their portfolio.

### **SBTi Alignment**

Before establishing emissions reduction targets, it is critical to establish validated and accurate emissions estimates. Strong emissions estimates are the foundation upon which decarbonization targets can be calculated; a strong understanding of a business's carbon footprint paves the way for the development of an effective and sustainable decarbonization strategy (see Part 2 of Malk's Climate Primer Series for an overview of emissions tracking). Once carbon accounting has been completed, a firm can begin alignment with SBTi through establishing emissions reduction [targets](#).

Establishing targets can be a complex and technical process. To become SBTi validated, targets must be aligned with the Paris Agreement (i.e. reducing emissions to limit the global temperature increase to 1.5°C above pre-industrial levels). Typically, SBTi targets take the [form](#) of a percentage of emissions reduced between a base year and target year. Targets established by companies may vary both in terms of level of ambition and target-setting methodology. Level of ambition in companies' emissions reduction targets will depend on a number of factors, including the difficulty of decarbonization within the industry, the amount of external pressure for decarbonization, and the appetite for sustainability internally within a company. The SBTi has two target-setting methodologies: the [Absolute Contraction Approach](#) and the [Sectoral Decarbonization Approach](#). While both calculation methodologies have merits, according to the SBTi, nearly [two-thirds](#) of the targets approved by the SBTi were set using the absolute contraction approach. In contrast, the sectoral decarbonization approach appears to be more heavily utilized by companies within emissions-intensive industries.

## Strategic Considerations

Since its inception, the SBTi has undergone several changes, including updates to its [strategies](#) and company [resources](#) and establishing a [subsidiary](#) which will supply [target validation services](#) to assist companies in their commitment to science-based targets. In [2024](#), SBTi updated its Corporate Net Zero Standard (V1.2), which outlines the net-zero standard framework, a process for setting science-based targets, as well as SBTi's criteria and recommendations for target formulation, reporting, and other aspects of standard alignment. Additionally, in May 2024 the SBTi released information regarding its timeline for a [Corporate Net-Zero Standard V2.0 project](#), where it plans to publish major revisions to the standard to align with science and best practice, improve its approach to Scope 3 emissions, and establish other standard improvements.

Malk can support investors of all sizes and strategies with SBTi alignment. Malk's services typically include three primary steps 1) Calculating Corporate Emissions, 2) Setting SBTi Reduction Targets, and 3) Supporting the Decarbonization Process.

- 1) **Calculating Corporate Emissions:** Malk uses a customized activity survey to collect data from portfolio companies on carbon emissions. Carbon emissions will be calculated based on portfolio company activity data and information will be provided to clients alongside a detailed carbon footprint analysis.
- 2) **Setting SBTi Reduction Targets:** Malk uses a SBTi-validated target setting tool to set emissions targets. Detail on targets will be included within a comprehensive and customized decarbonization roadmap, which includes both short- and long-term recommendations.
- 3) **Supporting the Decarbonization Process:** Malk offers hands-on guidance to support the implementation of the decarbonization strategy. Malk also supports clients on stakeholder communications related to SBTi.

## How Malk Can Help

Malk brings extensive experience in collaborating with private market 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](http://www.malk.com) or reach out to Brian Fox, our Head of Climate & Carbon Solutions, at [bfox@malk.com](mailto:bfox@malk.com).

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