Climate Planning and Strategy in Private Markets

Climate Primer Series Pt. 4 — October 2024

The Value of Portfolio Climate Planning

As climate management becomes an increasingly material investment and business consideration, developing a coherent and right-sized portfolio climate strategy for a private market investment strategy and portfolio assets can support value creation and risk mitigation. Private market GPs and corporates are increasingly developing sophisticated climate strategies, including emissions tracking, disclosures, reduction targets, and decarbonization initiatives, as a core component of strategic planning.

One key driver for portfolio climate management is the increase in demand for climate disclosures and transition strategies from major asset owners and corporates. Whether marketing a new Fund to major LPs or bidding for a corporate contract with a major multinational, private market investors and corporates are increasingly likely to encounter demand for climate disclosures, emissions reduction targets, and decarbonization strategies.

In addition to meeting investor and customer requests, preparing for regulatory requirements is another primary driver of strategic climate planning at the portfolio- and corporate-level. Corporate disclosure regulations including the Corporate Sustainability Reporting Directive (CSRD) in the E.U., California's Climate Corporate Data Accountability Act (CCDAA) in the U.S., the Streamlined Energy and Carbon Reporting Regulation (SECR) in the U.K., and new disclosure requirements under the Canada Business Corporations Act are all set to begin mandating disclosures in the coming years, creating additional incentives for companies to begin developing accurate and auditable emissions inventories in preparation. Further, public agencies across jurisdictions, including the U.S. Department of Energy (DOE) funding, are dedicating resources to supporting private sector energy transition and decarbonization, offering financing and tax incentives for companies who proactively adopt strategic climate initiatives.

Key Steps for Strategic Climate Planning

1. **Baseline Emissions Tracking**
   The first step in strategic portfolio climate planning is commonly developing a GHG emissions inventory. Developing a comprehensive GHG emissions inventory aligned to standards developed by the GHG Protocol can support companies in identifying the primary sources of their climate footprint across Scopes 1, 2, and 3 emissions sources. Standard practice is to begin by establishing a baseline emissions inventory, inclusive of Scope 1 (direct) and Scope 2 (indirect) emissions sources, as the most direct corporate climate impacts (see Part 2 of Malk's Climate Primer Series for an overview of emissions tracking considerations). Once a baseline Scope 1 and 2 GHG inventory has been established, corporates should continue to track direct and indirect emissions on an annual cadence to measure relative emissions-intensity year-over-year and begin to measure Scope 3 (value chain) emissions.

2. **Baseline Emissions Reporting and Disclosure**
   Once a baseline GHG inventory has been established, GPs and corporates can issue either private stakeholder disclosures or public climate disclosures in annual reporting. Disclosure of baseline GHG

emissions is an increasingly standard practice to meet inbound stakeholder disclosure requests and proactively strengthen corporate sustainability communications. For GPs committed to Fund-level ESG disclosures, such as those standardized through the ESG Data Convergence Initiative (EDCI), portfolio-level GHG emissions disclosures will be critical for meeting Firm commitments and investor expectations.

3. **Emissions Reduction Targets**
   Once emissions data has been captured, the next step for asset owners is typically establishing emissions reduction targets, particularly for high-emitting portfolio assets. Best practice is for targets to be based on a shorter-term time frame, with a target year approximately 5-15 years from the base year when the baseline inventory was calculated. Longer-term targets (e.g., net zero by 2050) are less comprehensive and actionable than short-term targets. To accommodate for growth, companies may consider setting emissions reduction targets on a per-unit basis (e.g., $1K revenue, 100 units produced) to identify relative reductions in emissions intensity as the Company and its aggregate emissions grows. As a leading practice, GPs and portfolio companies can consider formally affiliating reduction targets with the Science Based Targets Initiative (SBTi), the leading independent body responsible for accrediting emissions reduction targets and corporate climate action (see Part 3 of Malk's Climate Primer Series for an overview of SBTi targets and alignment).

4. **Decarbonization Initiatives**
   Companies should leverage emissions-intensity data captured through GHG tracking to identify the highest-leverage opportunities for reduction across their operations. Emissions reduction opportunities will vary across portfolio assets based on operational energy- and emissions-intensity and value chain emissions. As such, decarbonization strategies and emissions reduction initiatives should be tailored to the operations of each asset individually in a GPs portfolio (see Part 1 of Malk's Climate Primer Series for an overview of decarbonization strategies in private markets).

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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