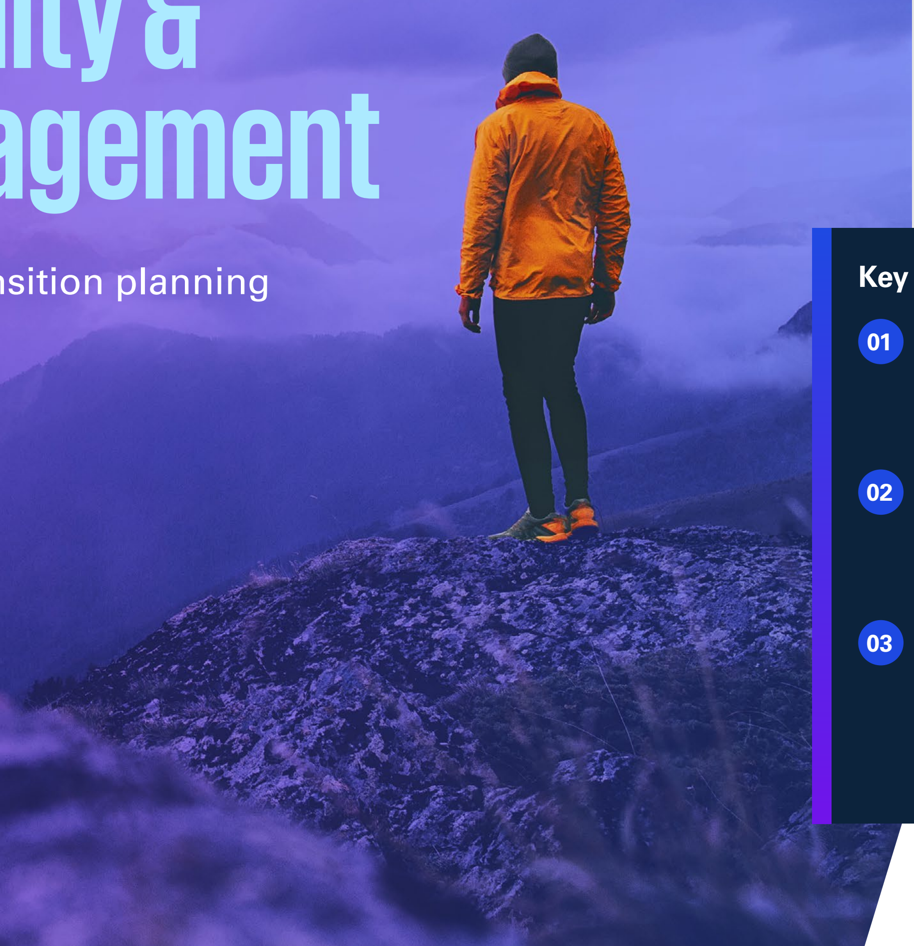
Transition Plans: Private Equity & Asset Management

Sector-specific steps for transition planning



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Private equity funds and asset managers have a unique ability to drive decarbonisation in the real economy through the financial assets that they invest in and manage on an ongoing basis.

Transition plans provide a means for the industry to show not only its alignment with frameworks such as NZAMi & GFANZ or regulations such as PS21/24 and SDR, but also demonstrate commitments to value creation under a decarbonising economy to current and future investments. Firms which can successfully forecast and plan for a Net Zero economy will be able to take advantage of emergent markets and new sources of revenue as they arise across different sectors and asset classes.

Key challenges to consider

01 The process for valuation and due diligence of potential investments is likely to come under a great amount of internal scrutiny as the uncertainty over Net Zero and climate change increases – new frameworks will need to be developed to embed these new risks and opportunities

02 Your assets and portfolio companies may all be approaching a Net Zero transition in very different ways – this can drive differences in data availability and quality as well as ambitions and targets which may already be set, all of which will need to be consolidated at an asset, sector, and group level.

03 Firms will face a fundamental decision in strategy regarding Net Zero between investing/divesting certain asset classes or companies, or supporting their transition to Net Zero through active investment or participation. Both have considerable differences in effort, cost, and outcome and will need to consider overall business ambition and strategy.

Further considerations for your transition planning steps

Step 1 Diagnose

- When developing a GHG baseline across your investments, ensure that you work with data providers to understand how you can account for more challenging methodologies across your investments and how their emissions flow back to your exposure, including plans to plug proxies or estimates where direct data may not be available.
- Assessing your transition plan readiness against your peers needs to consider what sectors you are participating in now and which you will in future – as this will heavily influence your progress and ability to compare like-for-like regarding transition plan ambition.
- When constructing an ESG materiality assessment, ensure that a consistent methodology is applied across all investments where possible, and taking into views at the investment or sectoral level and consolidating into a shared set of risks.

Step 2 Strategise

- When diagnosing the efforts that may be required or the actions available for given investments to decarbonise, ensure you conduct an assessment of which companies or assets currently have transition plans of their own and how this might impact your managed emissions under a business-as-usual scenario.
- Understanding the likely decarbonisation pathways for individual sectors and the costs associated with these pathways will help you identify which asset classes or companies will struggle the most to align to a given temperature pathway or climate target and could demonstrate where you may need to support additional investments (or seek alternative sectors to invest into).
- Set credible targets, including interim and non-carbon (e.g. engagement) targets, across all investments, ensuring that these do not conflict with existing legal account mandates in place.

Step 3 Transform

- A high level of proactivity in terms of stewardship and engagement, with clear linkage through to profitability and returns to ensure fiduciary duty is maintained, can vastly improve the success of your transition plan. This includes working with and supporting/challenging investments with their own transition plans, as well as with clients to encourage Net Zero alignment of mandates/investment policies.
- Embed feedback loops from individual asset or company forecasting/scenario analysis back into the investment decision making process at the front desk as well as the centralised planning process to ensure the plan remains fit for purpose.
- Consider the flow-on impacts from your decarbonisation scenario modelling and baselining into your capital allocation frameworks, and look for how to make the case for increasing capital directed to climate solutions, companies and projects.

Step 4 Report

- In order to minimise greenwashing risks, it is important for firms to develop integrated and streamlined ways of covering all regulatory reporting needs to ensure consistency of messaging across the board.
- The required governance and controls surrounding the collection of data from assets and portfolio companies in both the formation of and monitoring of your emissions baseline may be highly material to your overall transition and may require direct partnerships to foster better data quality practices.
- Effectively communicating and demonstrating your ability to decarbonise while realising growth prospects from rapidly evolving investment risks and opportunities can unlock competitive edge in the market and generate opportunities going forwards in green markets.

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Integration with the Transition Plan Taskforce

KPMG's four-step approach to transition planning, outlined in full in our talkbook *Transition Plans: Moving Beyond Disclosure*, is based off leading guidance from the Transition Plan Taskforce (TPT) and is designed to feed directly into developing a TPT-compliant strategy. This includes the Final Disclosure Framework which was released by the TPT in October 2023.

Our approach is designed to provide key insights and lay out actions which companies can take when preparing to disclose in line with the TPT framework, as well as line up with the TPT Transition Planning Cycle. Our sector-specific insights and challenges are also intended to fit alongside the TPT's Sector Guidance launched in November 2023, providing companies in those sectors with KPMG's views on particular focus areas as you prepare your transition plan in line with the new guidance.

For more information, get in contact with the team at KPMG and learn more about how we can help you develop a transition plan and prepare your business for success in a changing climate.

TPT transition planning cycle

01 Re-assess

02 Set your ambition

03 Plan your actions

04 Implement your plan

KPMG's approach

Step 1 – Diagnose

We work with you to baseline your current climate and sustainability position, risks and opportunities to understand the size of the challenge

Step 2 – Strategise

We help define and set your decarbonisation ambition and develop a strategy and set of levers and scenarios to achieve it

Step 3 – Transform

We design and implement the right operating models, governance processes, and valuation frameworks to execute and track your transition

Step 4 – Report

We support you in working across your organisation to get the right data to feed into your reporting strategy and public transition plan as well as getting your message out to the market

TPT disclosure framework

Ambition

1. Foundations

Action

2. Implementation strategy
3. Engagement strategy

Accountability

4. Metrics and targets
5. Governance

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