HYMANS ROBERTSON

How good are private markets managers at reporting climate data?

DECEMBER 2023

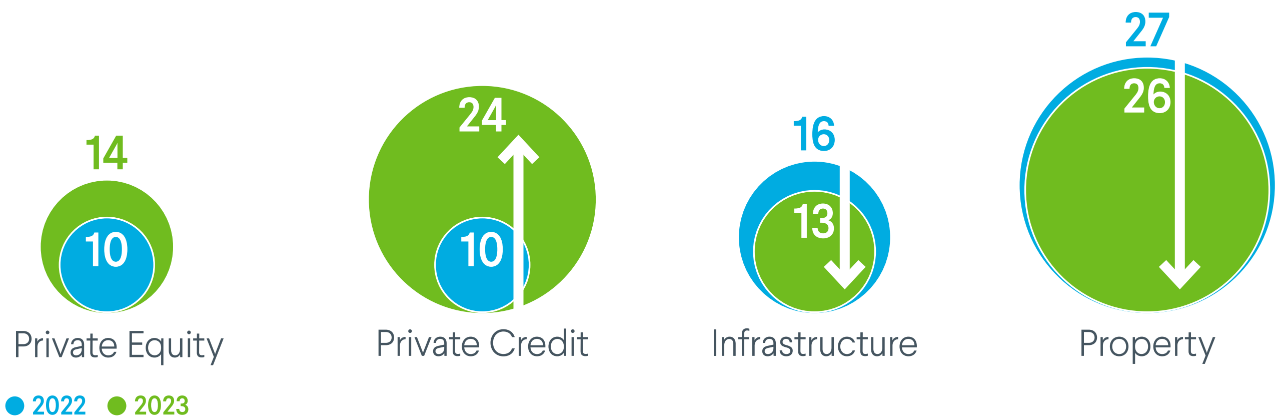
To make informed decisions on how to address climate risk, asset owners need quality data. Our 2023 survey demonstrated an improvement in both response rates and data quality, although the progress made has been limited. Continued engagement with managers is essential if change is to be seen.

Asset owners are increasingly subject to climate reporting requirements in line with the TCFD framework, and public sector pension funds are expected to fall into scope in the near term. Addressing climate issues is a core issue for many, particularly those who are setting net zero ambitions. Being able to measure and demonstrate progress is critical. But even where data provision is impractical, this does not negate the need for transparency and explanation.

Our second annual survey covered 57 asset managers and 157 funds across strategies within private equity, private debt, property, and infrastructure. Data was reported as at 31 December 2022.

Here's what we found

Response rates by asset class



Overall, response rates improved over the year since our first survey. This appears to have been driven by a small number of asset managers responding for a significant number of their funds, which points to pockets of progress being made, rather than a general trend of improvement across the industry. More detailed results of our research are set out for each asset class, later in this update.

Although it's encouraging to see progress, it's disappointing that improvements have not been more widespread, particularly given the broadening scope of the TCFD reporting requirements. We observed some interesting patterns among managers. For example, those where data was sought for a small number of funds were less likely to respond to a data request. While perhaps reflecting a lack of available data, resourcing may be another reason for a lack of response.

What was particularly encouraging was the improvements seen in reporting within private debt mandates, where both the response rates and provision of emissions data increased significantly over the year. However, progress in other asset classes was limited.

Our recommendations

We continue to believe that improvements in data collection and reporting are necessary to drive action by underlying investee entities. We recommend asset owners and other stakeholders consider the following actions:

- **Continue to ask for data**. Asset owners can drive change by making consistent requests for information. As we have seen through the improvements in stewardship reporting over recent years, the more requests that asset managers receive, the more likely they are to dedicate resource to this area.
- **Engage with managers**. It's important for asset owners to understand managers' internal processes for data collection across private market assets. Ask managers about their plans for improvement in processes and explore their own dialogue with investee entities and objectives.
- **Understand data verification processes**. For those managers who do provide data, ask them to explain their verification processes to gauge the reliability of the numbers provided. Where data is estimated, understand how estimates have been arrived at. Both steps are particularly important when using reported data for decision making purposes.
- **Be pragmatic**. There may be some assets for which data collection is impractical or uneconomic. We want to encourage reporting, but not at all costs. Understanding where asset managers are not pushing for data and why is also important.
- **Encourage transparency**. We would rather see managers reporting what they have achieved rather than not reporting at all. We urge managers to report the data they have and, where there are gaps, their assessment of both the relative significance of data gaps, and the actions that they are taking to ensure that climate risks are being managed effectively.

We'll be issuing our next survey in 2024 and remain committed to communicating the results with both our clients and the asset managers we work with to better understand their plans for improvement. We will continue to engage with managers to discuss the questions posed by our research, to encourage progress, and to support our clients in their reporting.

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Appendix: Asset class results

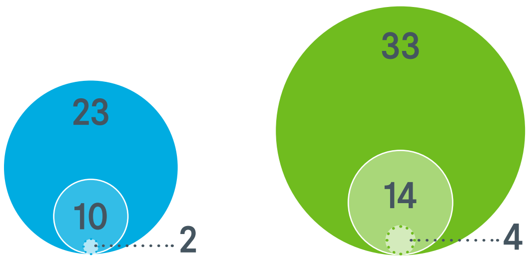
2022 2023

Number of funds for which data was **requested**

Number of funds for which **basic data** was provided

Number of funds for which **emissions data** was provided

Data supplied by private equity funds



Key takeaways

- The responses covered total assets of £19bn, a big increase on the AUM covered by last year's responses (c.£5.2bn). Several funds provided more complete responses than last year, with enough emissions data provided for us to begin to understand emissions within private equity.
- Of the four funds reporting emissions metrics, carbon footprint was most popular. Only one fund provided scope 3 data. Most data seemed to be estimated for these funds, but one fund claimed data that was 80% verified and the remaining 20% reported.
- Our future discussions will focus on those funds that have yet to provide data, although improving our understanding of managers' approach with respect to data collation, calculation and verification will also form part of our conversations.
- The closed-ended nature of private equity funds means that many of the funds in the sample are likely to be at different stages in their maturity. It's therefore unsurprising that the data remains patchy, as priority may not be being given to climate risks within more mature funds.

Data supplied by Infrastructure funds

Key takeaways

- The funds that responded in this year's exercise had a total fund value of £56.3bn (2022: £56.4) and held 241 assets between them (2022: 397). This is the largest subset of AUM within this exercise, but the lowest number of assets, indicative of the larger scale of each asset and consequently the management time that can be devoted to each. This is reflected in the higher engagement numbers for these funds.
- Infrastructure funds have more significant exposure to fossil fuels that other private market asset classes, as we would expect. However, funds also have significant exposure to climate solutions and are also more likely to have developed climate transition plans.
- A similar number of funds were responded on this year versus last, albeit slightly fewer in absolute terms. But, somewhat disappointingly, a number of managers that responded last year didn't this year, all of which fell into the category of managers from whom we only requested data on a small number of funds. We will continue to engage with managers to encourage reporting.

2022 2023

Number of funds for which data was **requested**

Number of funds for which **basic data** was provided

Number of funds for which **emissions data** was provided

Data supplied by private credit funds

0 of 48 funds reported emissions data in 2022

Key takeaways

- The funds that responded had a total fund value of £18.6bn at the reporting date (responses in 2022 covered £2.3bn) and held around 1,900 assets between them (2022: around 700). This is a vast improvement on the previous year, where even basic data provided was sparse. Three managers responded for 16 of the funds for which data was provided, suggesting that it's largely due to those managers' willingness to respond that the data coverage has improved.
- A number of managers were able to provide emissions data, a pleasant surprise following last year's absence of reporting of this data. Where reported, portfolio carbon footprints fell into a comparable range. Additionally, a handful of managers were able to provide emissions data for some of their funds, but not others. This may be indicative of broader efforts being made on data gathering and that next year's results will see further improvement. Engagement metrics were low in comparison to publicly listed funds in the credit sector, and so will form part of our dialogue with managers to understand the reliability of these figures.

2022 2023

Number of funds for which data was **requested**

Number of funds for which **basic data** was provided

Number of funds for which **emissions data** was provided

Data supplied by property funds

Key takeaways

- Engagement with general partners was typically at 100%. However, most funds with 100% engagement fell into the subset of funds that did not provide any emissions data; overall this means that there is more work to do to ensure sure those who are engaging are also reporting emissions and those who are reporting emissions are also engaging!
- In a similar vein to 2022, the carbon emissions data collected varied quite significantly. Some funds noted that, due to the nature of the properties involved, scope 1 and 2 emissions were wholly owned by tenants and therefore nil for investors. However, this scope 1 and 2 data is included in scope 3 emissions for investors – much of which is not yet measured or estimated. The overall picture is perhaps somewhat muddier than would be ideal for decision-making purposes and the standardisation of reporting would be welcome.

Further analysis will be possible as more data (including scope 3) becomes available, but in the interim, investors should engage with their property managers to better understand the nature of the data being reported and the actions that are being taken by managers.

- Overall, this year the average carbon footprint for scope 1 and 2 emissions for the property funds was very low at c.4 tCO_2/£m invested, reflective of the definition of 'ownership' of emissions. In contrast to other assets, scope 3 emissions has been more broadly reported. However, we urge caution with the reliability of these figures given coverage remains patchy.

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