2024

LPs’ expectations on their GPs’ Net Zero strategy

How do LPs integrate climate in their investments and what do they expect from their GPs in terms of climate and carbon commitment

Carbometrix

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EXECUTIVE SUMMARY

As the climate crisis intensifies, the global push for Net Zero emissions trajectory and stricter regulations has made **climate strategy a central focus for private market investors**. To better understand how Limited Partners (LPs) play a pivotal role in driving change, Carbometrix has conducted a **six-month study** on how **they reshape the global climate expectations** on private markets and on **how General Partners (GPs) can adapt**.

Here are the **key takeaways** from our research:

Rising climate expectations from LPs	Limited Partners (LPs) are intensifying their focus on climate issues, driven by **regulatory pressures** (e.g., SFDR, TCFD) and **their own Net Zero commitments**, which **increasingly extend** to General Partners (GPs) and their portfolio companies.
Regulatory frameworks as catalysts	**Regulations and frameworks**, like the SFDR in Europe or the TCFD, and Net Zero initiatives have emerged over the past 10 years and are shaping the climate agenda on private markets, pushing LPs and GPs to **align portfolios with Paris Agreement's objectives** and **disclose standardised climate data**.
European LPs lead the way	**European investors** are at the **forefront** of climate commitment due to strong regulatory requirements, business impact and societal expectations, positioning **Europe as a global leader** in sustainable finance.
Insurers and pensions funds at the forefront	**Insurance companies and pension funds** are among the **most committed and active** LPs in Net Zero initiatives. This is due to their specific understanding of climate risks and their long-term investment horizons.

ESG due diligences have become standard practices	LPs increasingly use **ESG scoring during pre-investment due diligence**, with **stricter climate and carbon criteria** to assess and compare GPs' alignment with sustainability goals. For equal financial performance, they will choose **the GP with the most robust and ambitious ESG policy**.
Climate and carbon data quality is a key challenge	LPs struggle with **inconsistent and unreliable carbon data**, particularly in private equity markets. This challenge is amplified by **regional discrepancies**, with **European GPs typically more advanced** in carbon performance reporting. Thus, showing robust climate and carbon data governance is a **key differentiating factor** for GPs.
LP-GP collaboration to reach Net Zero	As more and more LPs commit to reaching Net Zero emissions by 2050, their **GPs are expecting to mirror their climate ambitions**, emphasizing collaboration on Net Zero targets and demanding measurable progress through transparent reporting.
Specific Net Zero frameworks exist for each type of investors	LPs and GPs willing to engage in a Paris-aligned decarbonization strategy can **join different alliances or initiatives committing to reaching Net Zero emissions**. They offer specific guidance depending on the characteristics of each investor with varying levels of ambition.

INTRODUCTION

As the *Emissions Gap Report 2024* published by the UNEP in October 2024 warns, without substantial increases in climate commitments and immediate action, global temperatures are on track to rise by 2.6°C to 3.1°C by the end of the century. The financial sector is therefore facing an unprecedented pressure to contribute to the global effort to reach Net Zero emissions by 2050.

If listed-asset investors have generally started to integrate climate considerations into their investment strategies from the early 2000s onward - on a voluntary or regulatory basis -, private market investors have delayed the incorporation of a climate strategy into their investment policies as they faced fewer regulatory pressures to disclose their climate risks. Yet, following the Paris Agreement of 2015 and the emerging of national regulations (e.g. the EU's Sustainable Finance Disclosures Regulation) and international standards (e.g. the Task-Force on Climate-Related Financial Disclosures), private market investors are increasingly called upon to align their portfolios with sustainability objectives, not only to mitigate climate risks but also to seize the opportunities presented by the green transition.

In this context, **Limited Partners (LPs)** have emerged as key actors to drive change, redirecting financing flows towards more sustainable funds and using their influence to shape the environmental, social, and governance (ESG) agendas of their investments. This is even more relevant in non-listed markets, where transparency and accountability have historically been challenging issues. Today, addressing climate risks is no longer just a matter of regulatory compliance but a strategic imperative to protect against stranded assets, enhance long-term value, and preserve institutional credibility.

To better understand **how LPs address climate issues**, incorporate them in their investment strategies and reshape the global expectations on private markets, Carbometrix has:

- **Reviewed the main reporting and Net Zero frameworks** dedicated to investors to understand how LPs use them as part of their strategy;
- **Analysed Sustainability reports from LPs** based in Europe, North America and Asia and investing worldwide to gain in-depth knowledge on LPs' climate actions and commitment and on how they report on sustainability issues;
- **Conducted exclusive interviews** with executives working on ESG in various LP organizations in Europe with very different investment strategies, to understand how they effectively engage on climate issues and what they expect from their General Partners (GPs).

We have gathered the insights we collected along our 6-month research in this document, which aims at **synthesising how LPs are addressing climate issues**, how their **expectations towards their GPs evolve** on this topic, and **what are the forces at work** in terms of climate strategy in private equity markets and **practical recommendations to tackle them**.

The objective of this study is to provide private market investors with better knowledge on **how to include climate and Net Zero issues into their strategy** and **meet their LPs' expectations**.

I. An increasing engagement from LPs on climate issues

To comply with new standards

As a continuation of the Paris Agreement signed in 2015, recent years have seen an uptick in regulations and frameworks aimed at standardising climate-related financial disclosures in both public and private markets. Thus, LPs are now integrating climate issues into their strategies largely in response to national or international regulations and/or to international standards.

The TCFD guidance and the SFDR: the flagship reporting standards

The **Task Force on Climate-Related Financial Disclosures (TCFD)** appears to be one of the most widely used reporting frameworks by LPs when it comes to assess and disclose climate risks. Created in 2015, it provides a **standardised framework** for organizations to disclose **climate-related financial risks and opportunities**, helping investors make informed decisions in the context of a transitioning economy. According to the TCFD's 2023 Status Report, over 80% of the largest asset managers and 50% of the largest asset owners reported in line with at least one of the 11 recommended disclosures. This high level of adoption was confirmed by our research since half of the organizations we interviewed showed support for the TCFD reporting and incorporate TCFD’s guidelines in their climate report.

Over 80% of the largest asset managers and 50% of the largest asset owners reported in line with at least one of the 11 recommended disclosures.

TCFD's 2023 Status Report

However in Europe - specifically in the European Union (EU) - the reference in terms of climate reporting is now the **Sustainable Finance Disclosure Regulation (SFDR)**. Implemented in 2021, the philosophy of this regulation is to increase the transparency and the comparability of non-financial information disclosed by and available to investors on the public and private markets. The SDFR has two ultimate goals: **to avoid greenwashing** and **to redirect investments towards sustainable assets**, thus financing the transition to a low-carbon economy.

Investors subject to the SFDR, i.e. all "financial market participants" established in the EU, selling products in the EU and/or investing within the EU, have to publish a certain number of standardised information, including **14 Principal Adverse Impacts (PAIs)**, out of which **5 are directly related to energy or carbon** issues.

The Principal Adverse Impacts (PAIs)

Defined by the SFDR, they represent the **impacts** of investment decisions resulting in a **negative effect** on sustainability factors.
SFDR lists **45 PAIs**, out of which **14 are mandatory**. Out of these 14 PAIs, **5 are related to carbon and energy issues**:

- GHG emissions scope 1, 2 and 3
- GHG intensity of investee companies
- Share of investment in companies active in the fossil fuel sector
- Share on non-renewable energy consumption and production
- Energy consumption intensity per high-impact climate sector

> ***"We systematically ask the Principal Adverse Impacts of the funds, as well as the scope 1, 2 and 3 GHG emissions of their underlying assets"***
>
> *The Head of Sustainability Investment in an Insurance company*

A trend towards consolidated norms

The Sustainable Finance Disclosure Regulation (SFDR) and the Task Force on Climate-related Financial Disclosures (TCFD) have undoubtedly become **cornerstone frameworks** for investors seeking reliable climate and sustainability reporting standards, among many other initiatives and guidelines. Recently, however, we observe a **global movement toward harmonising these guidelines** to streamline disclosures and enhance comparability across markets. In 2023 for instance, the TCFD was incorporated into the **International Sustainability Standards Board (ISSB)**, established by the International Financial Reporting Standards (IFRS) Foundation as a strategic shift to create the new international climate reporting norms - just as the IFRS are today the undisputed global accounting standards.

To maintain their competitiveness

Besides regulatory constraints, the increasing commitment of Limited Partners (LPs) to climate action reflects both a response to immediate financial risks and an alignment with broader environmental and societal expectations.

The rising importance of the "E" in ESG policies

Private equity investors have considered ESG factors in their investment policies since the early 2000s, though the emphasis and sophistication of these considerations was primarily put on governance issues and managing reputational risks related to controversial industries or practices. However, **since 2015** with the Paris Agreement and the UN Sustainable Development Goals (SDGs), **Environment** - and **climate change**, in particular - have emerged as **a critical focus area**. This responds to a shift in societal values that rewards sustainability and punishes environmentally detrimental practices - which in the end affects investments' ROI. This trend reflects the view that **long-term value creation requires prioritizing environmental stewardship**.

100 % of LPs we interviewed believe that a robust ESG policy would improve their long-term private equity returns.

Protecting and enhancing financial value: deriving benefits or avoiding losses

Most LPs we interviewed believe that **having a robust climate strategy can positively influence financial performance**. In 2021, a Pitchbook survey highlighted that 47% of LPs thought that a robust ESG policy would improve their long-term private equity returns. 3 years later, 100% of the panel of LPs we interviewed agreed to that statement. Some of these LPs view climate-focused investments as **value-generating opportunities**, arguing that carbon-intensive investments are at risk of losing value as the global economy transitions toward Net Zero, increasing their exposure to stranded assets. Many LPs are thus now working to **mitigate this risk by proactively decarbonizing their portfolios**.

Yet, most LPs still treat climate more cautiously, **balancing ESG goals with financial returns**. In that perspective, climate change is not always perceived as a risk but also as an opportunity to address new business. This is even more true for LPs investing in **Venture Capital-focused GPs**.

Engaging in Net Zero as a differentiation strategy

As the climate movement gains momentum, some LPs position themselves as **leaders in adopting Net Zero commitments**, i.e. in setting decarbonization targets at their portfolio level to reach Net Zero GHG emissions by 2050. Most of them do so by committing to a **recognised framework**, including SBTi, Net Zero Asset Owners (NZAOA) or Net Zero Asset Managers (NZAM) - *see below*.

Establishing a clear, ambitious target to achieve Net Zero Greenhouse Gas (GHG) emissions **sets pioneering LPs apart in sustainability**, appealing to socially responsible investors, clients, and other stakeholders. Early action not only strengthens their reputation but also allows LPs to **navigate the Net Zero transition more smoothly**, gaining a competitive edge before the broader market adopts similar commitments.

> ***"Climate change has been identified as a potential source of reputational risk tied to changing customer or community perceptions of an organization's contribution to or detraction from the transition to a lower-carbon economy."***
>
> *Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017*

Nevertheless, the **restrictive aspect** of these Net Zero frameworks may, today, **frighten certain LPs**. For example, one of the LPs we interviewed clearly stated that it did not wish to commit to a Net Zero framework to date as it did not want to impose these constraints on its GPs and to overly restrict its GPs' selection.

> ***"We did not find the right Net Zero framework to commit to yet. However, we ambition to offer Net Zero portfolios to our investors in the future. We need to make GPs align with our strategy."***
>
> *Head of Responsible Investment in a LP organization*

II. Varying levels of ambition among LPs

Navigating among the main climate and Net Zero Frameworks

As part of our analysis, we have identified 22 climate-related frameworks dedicated to investors, which have multiplied over the past ten years. Among them, we have then selected **11 "unmissable" frameworks for Limited Partners**, based on their level of ambition and their global adoption. They belong to four categories:

- **"Regulations and Reporting" frameworks**: aiming at guiding LPs in disclosing extra-financial information;
- **"Net Zero engagement" frameworks:** providing guidelines to engage in a Net Zero strategy;
- **"Target-setting" frameworks:** defining methodologies for LPs to set Paris-aligned decarbonization targets, ensuring the reach of Net Zero GHG emissions by 2050;
- **"Hybrid" frameworks**, combining Net Zero engagement and target-setting methodology.

Here are these **main frameworks dedicated to LPs** and what they aim to achieve:

Frameworks	Type	# members as of Nov.24	Description
Sustainable Finance Disclosures Regulation (SFDR)	Regulation & Reporting	All financial institutions operating or investing in the EU	EU' sustainability disclosure regulations for financial institutions. Defined metrics to disclose under the Principal Adverse Impacts (PAIs) including financed emissions.
Partnership for Climate Accounting Financials (PCAF)	Regulation & Reporting	500+ signatories	The most widely used standard to measure and report financed emissions for financial institutions.
Task-Force on Climate-Related Financial Disclosures (TCFD)	Regulation & Reporting	1,800+ financial firms	A framework for ations to report climate change impacts and risks related to climate change. Absorbed by ISSB in 2023.

Frameworks	Type	# members as of Nov.24	Description
International Sustainability Standards Board (ISSB)	Regulation & Reporting	n.a.	An emanation of the IFRS foundation that defines standards for disclosure of sustainability and climate-related information. Absorbed the TCFD in 2023.
Net Zero Asset Managers (NZAM)	Net Zero Commitment	325 asset managers	An international initiative gathering asset managers committed to reaching Net Zero emissions by 2050.
Climate Action 100+	Net Zero Commitment	700+ investors	An investor-led initiative to encourage large companies to reduce their GHG emissions and fight against climate change.
Paris-Aligned Asset Owners (PAAO)	Net Zero Commitment	57 asset owners	An initiative coordinated by the NZAOA which aims to align investment portfolios with the goals of the Paris Agreement.
Net Zero Investment Framework (NZIF)	Target Setting	180+ investors	A framework created by and for investors to help them set targets to reach Net Zero emissions by 2050.
SBTi for Financial Institutions *Soon to be replaced by Financial Institutions Net Zero (FINZ)*	Net Zero Commitment, Target Setting	271+ financial institutions	SBTi is the most widely recognised framework to set Net Zero targets. They have defined sector-specific guidance for financial institutions, including private equity.
Net Zero Asset Owners Alliance (NZAOA) + Target-Setting Protocol (TSP)	Net Zero Commitment, Target Setting	88 asset owners	A framework gathering asset owners collaborating to reach Net Zero emissions by 2050. They have created the Target-Setting Protocol, i.e.as a methodology to set decarb. targets aligned with the Paris Agreement.

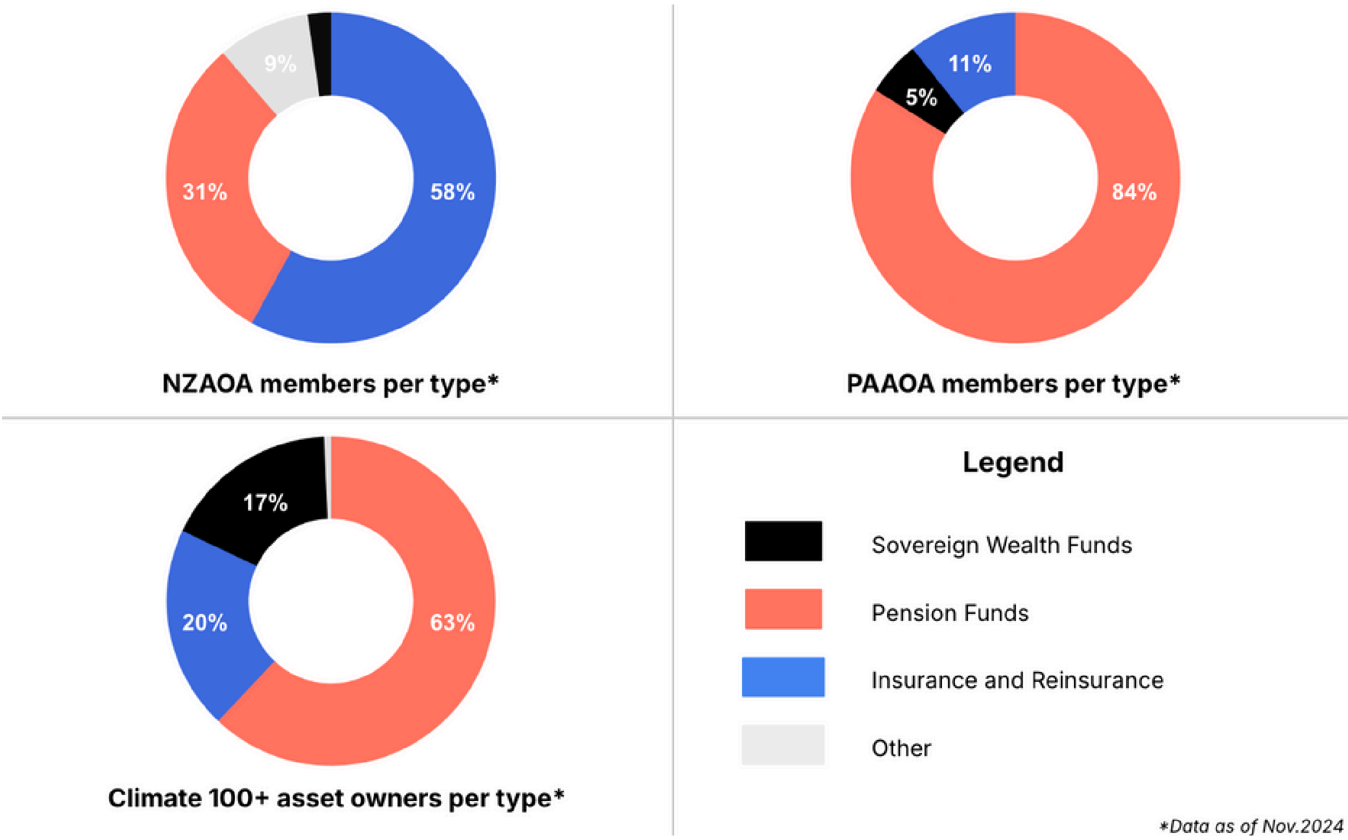
Main climate frameworks dedicated to LPs

- For more detailed information on these frameworks and Carbometrix's opinion on them, you can view **our dedicated articles on our website**:
  - The Sustainable Finance Disclosures Regulation (SFDR)
  - The International Sustainability Standards Boards (ISSB) and the TaskForce on Climate Related Financial Disclosures (TCFD)
  - The Science-Based Targets Initiative (SBTi)
  - The Net Zero Asset Owner Alliance (NZAOA)
  - Climate Action 100+ (CA 100+)
  - The Net Zero Investment Framework (NZIF)

Climate ambitions by LPs' typology

Our research has demonstrated that the **level of climate commitment among Limited Partners (LPs) varies significantly based on their typology**. Pension funds, insurers and reinsurers, sovereign funds, funds of funds and other categories of LPs manifest different degrees of ambition in their climate goals, influenced by their specific investment strategies and knowledge of the market, their regulatory environments and stakeholder expectations.

To explore these variations, we reviewed the members of key climate commitment frameworks dedicated to Limited Partners: the **Net Zero Asset Owners Alliance (NZAOA)**, **Paris-Aligned Asset Owners (PAAO)** and **Climate Action 100+**. We did not integrate Net Zero Asset Managers (NZAM) in our analysis as its members can be both GPs and LPs and many are only GPs.



Insurers and pension funds are among the most active participants in climate alliances, demonstrating their heightened commitment to climate action compared to other investor types. This trend is driven by their specific exposure and long-term investment horizons:

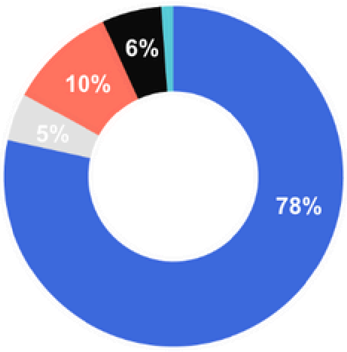
- **Insurers**, whose core business involves assessing and managing risk, are **particularly vulnerable to climate-related impacts**, such as extreme weather events that increase claims and disrupt operations. By committing to ambitious climate goals, they ambition **to better mitigate these risks** while responding to increasing regulatory and societal pressure to address climate change.
- **Pension funds**, on the other hand, prioritise **sustainable, long-term returns for their beneficiaries**, making resilience to the transition to a low carbon economy and climate change crucial for securing future financial performance.

It is worth noting that **insurers are prominent within the NZAOA, which is the most ambitious climate action and Net Zero framework dedicated to LPs**. This increased involvement reflects their need to manage climate risk rigorously and demonstrates leadership in setting high standards for carbon reduction across the industry. This was clearly **confirmed by two European insurance companies** during our interviews with their ESG teams.

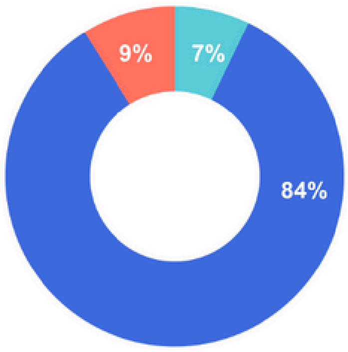
> *“As insurers, we see climate change as a risk. Thus, we want to be leader in sustainability and ESG, and **that’s why we have committed to several Net Zero initiatives.**"*
>
> *An Investment Director in charge of ESG in an insurance company*

European investors at the forefront of climate commitment

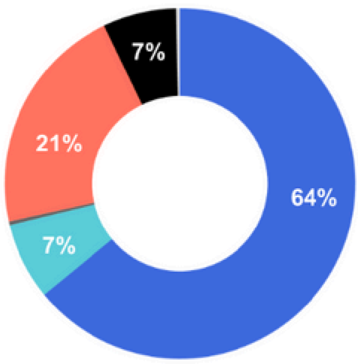
When assessing the origin of the members of the main climate-related frameworks dedicated to Limited Partners (NZAOA, PAAO and Climate Action 100+), it becomes clear **that European funds are more advanced in terms of climate and Net Zero commitment**.



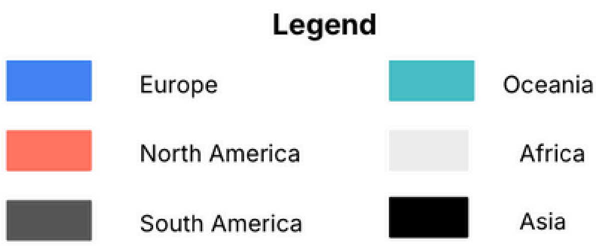
NZAOA members per geography*



PAAOA members per geography*



Climate 100+ asset owners per geography*



**Data as of Nov.2024*

Europe's leadership in sustainable finance stems from **its strong climate policies (Fit for 55, Green Deal) and regulatory frameworks like the SFDR**, which push investors toward ambitious climate goals. Public awareness and government support for green initiatives further highlight **Europe’s position as a global leader in sustainable finance and climate-resilient investment**.

III. What do LPs truly expect from their GPs in terms of climate strategy?

Keeping in mind that the level of climate and carbon commitment expected by Limited Partners varies significantly depending on their own maturity and regulatory pressures regarding climate issues, here are the **must-haves and must-dos expected by an increasing number of LPs** - in Europe mostly, but more and more in Asia and North America as well.

Showcasing credentials at fundraising

During the **fundraising phase**, LPs typically require GPs to meet specific climate-related and ESG standards as part of their due diligence process.

Exclusion policies

Most of the LPs whose ESG reports we reviewed, as well as those we met, confirmed that they implemented **"exclusion policies"**, mainly to avoid **controversial sectors** like weaponry, tobacco, etc. However, they tend to **increasingly include high-carbon-emitting industries**, like coal mining, oil and gas. Certain LPs enforce exclusion thresholds for certain high-emission activities in order to achieve their own sustainability goals.

ESG scoring

It is now common practice for LPs to conduct **ESG due-diligences** during the fundraising period to ensure their GPs are aligned with their standards, as having a strong ESG policy is perceived as a **positive factor to mitigate risks and to enhance long-term financial performanc**e. If GPs are scored on Environment, Social and Governance criteria, **climate and carbon-related criteria tend to become more stringent** in assessments as climate change becomes an increasing concern for investors.

These due-diligences are used by LPs to score their GPs in order to:

- **Compare their ESG performance** against each other, helping LPs to make investment decisions;
- **Identify in which area a GP may fall short** and where efforts should be placed should the LP decide to invest in it.

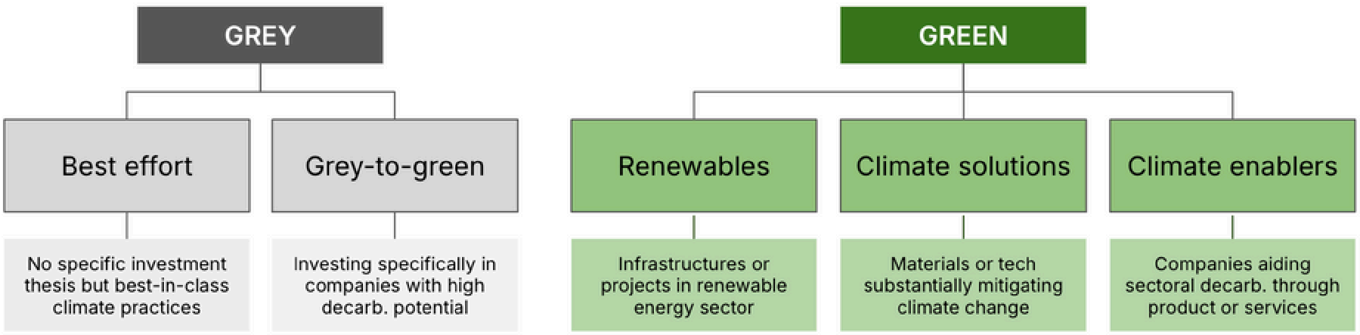
Thus, in its 2024 *"ESG in Alternatives 2024"*, Prequin stated that 60% of the LPs they surveyed had turned down an investment due to ESG concerns. This was confirmed during our interviews.

> *"Between two funds with the same financial performance,* ***we will choose the one that is more committed to ESG****, and in particular* ***to climate change****."*
>
> *An Investment Director in a LP organization*

Climate-related investment strategy

Transition-focused and decarbonization funds have multiplied over the past 10 years, illustrating **LPs' growing demand for "impact-driven" investments**. According to a 2024 MSCI study, **139 transition-labelled funds manage over $50 billion**, with 70% of them domiciled in Europe.

But besides investing directly in transition and decarbonization-labelled funds, we have noted that LPs, mostly in Europe, were more and more expecting their GPs to define a **climate-related investment strategy**, from **"grey-to-green" to "green-to-greener"**. Here are the different climate-related investment strategies we have identified along our research and interviews:



This requirement often stems from **LPs' risk management policies and regulatory obligations**. However, it's also driven by the growing number of **LPs that have established their own climate strategies and committed to achieving Net Zero emissions by 2050**. As a result, their goals and constraints effectively become those of their GPs as well.

Monitoring progress and reporting

As Limited Partners increasingly emphasise the importance of climate and carbon-related metrics in their investment portfolios, driven by growing pressures from regulators, stakeholders and their own sustainability commitments, **they expect General Partners to go beyond simply collecting data**. LPs increasingly demand that GPs adopt a more advanced approach to climate monitoring and reporting, structured along a **clear progression**:

1. **Collecting** the carbon data;
2. **Trusting** the collected data;
3. **Interpreting effectively** the data;
4. **Leveraging** the data in order to **track** decarbonization and **assess** whether portfolios and underlying investments are effectively on a net-zero trajectory.

Here below are t**he most common climate-related metrics and indicators** that GPs are expected to report annually to their LPs:

Indicators	Description	Importance rating	Additional Information
Carbon footprint Carbon	Scope 1, 2 and 3 GHG emissions of the Management company, excluding emissions related to the investments.	**Must-have**	This is the starting point of any carbon strategy, even if this metric is not the most impactful on its own for an investment company. It should be combined with financed emissions.
Financed emissions Carbon	GHG emissions resulting from the activities of companies within an investment portfolio, proportionally attributed to the investment company based on its share of financing.	**Must-have**	Calculation is encouraged by the SFDR and required by LPs as part of their own impact and risk assessment.

Indicators	Description	Importance rating	Additional Information
Carbon intensity metrics Carbon	*At fund level:* indicators like investment carbon intensity (tCO_2e per million of $ invested) and Weighted Average Carbon Intensity (WACI). *At portfolio company level:* carbon intensity (tCO_2e per million of $ of revenue).	Must-have	These indicators derive from the financed emissions computation.
Principal Adverse Impacts (PAIs) ESG	14 indicators defined by the SFDR which refer to the negative effects that investments have on ESG factors, such as carbon emissions, biodiversity loss, or social inequalities.	Must-have	Mandatory for all investment companies (both LPs and GPs) subject to the SFDR.
Climate risk assessment Environment	Physical and transition risks assessment, using either the financial materiality approach (recommended by TCFD and ISSB) or the double materiality approach (pushed by the SFDR).	Should-have	More and more required: by regulations like the SFDR and CSRD or through the TCFD recommendations.
Quantified portfolio's decarbonization plan Carbon	Carbon reduction targets relative to a baseline year, and progress toward achieving them. The computation and monitoring can be done through a dedicated framework (e.g. NZIF, SBTi) to ensure alignment with the Paris Agreement. At portfolio or fund level.	Optional	Required by Net Zero-committed LPs (e.g. members of the NZAOA).
Net Zero / Paris Agreement alignment metrics Carbon	Assessment of the current portfolio's emissions compared to science-based targets (SBTi). It can be computed by assessing the climate maturity of each underlying asset or through indicators like the portfolio's temperature score.	Optional	Required by Net Zero-committed LPs (e.g. members of the NZAOA).

Implementing a decarbonization strategy

As more LPs commit to Net Zero Emissions (the number of NZAOA members more than doubled between 2020 and 2024, from 24 to 88), **their decarbonization goals increasingly extend to their GPs by replication**. It has become more common for a Net Zero-committed LP to require their GPs **to implement a portfolio decarbonization strategy aligned with the Paris Agreement to secure refinancing**. This trend is particularly visible in Europe among members of NZAOA or PAAO *(see Section II)*.

While some LPs allow for a flexible approach to setting decarbonization targets, most expect their GPs **to commit to a Net Zero framework**. This gives LPs confidence in the rigour and alignment of their GPs' decarbonization strategy with the Paris Agreement - otherwise, demonstrating alignment with Paris-aligned decarbonization targets falls on the GP.

In this regard, **several Net Zero frameworks are available for GPs**. Here below are the main ones.

Frameworks	Type	Private market actors covered (direct & indirect investements)	Description
SBTi for Financial Institutions *Soon to be replaced by Financial Institutions Net Zero (FINZ)*	Net Zero Commitment Target Setting	LBO, Growth, VC, Infrastructure, Debt	SBTi is the international Net Zero reference. They have defined a sector-specific standard for financial institutions, which is very ambitious. Let's wait to see if the updated criteria, FINZ, aligns with other market references, like NZIF or PCAF.
Net Zero Asset Managers (NZAM)	Net Zero Commitment	LBO, Growth, VC, Infrastructure, Debt	It tends to become the Net Zero commitment standard for asset managers. It is a very flexible framework.

Frameworks	Type	Private market actors covered (direct & indirect investements)	Description
Net Zero Asset Owners (NZAOA)	Net Zero Commitment	Asset Owners	Very relevant for large institutional investors and asset owners.
Net Zero Investment Framework (NZIF)	Target Setting	LBO, Growth, VC, Infrastructure, Debt	A target setting framework created by investors for investors. It takes into account the specificities of each investment strategy (e.g. private equity, private debt, real estate, infrastructures, etc.)
Target-Setting Protocol (TSP)	Target Setting	Asset owners	Very relevant for large institutional investors and asset owners. Created by NZAOA members.
Private Market Decarbonization Roadmap (PMDR)	Strategy	LBO, Growth, VC, Infrastructure, Debt	Pragmatic approach to define a decarbonization strategy without committing to a Net Zero framework.

Overcoming the challenges of data quality and regional discrepancies

Unlike public markets, private equity is characterised by less structured data, leading to significant challenges for LPs and GPs in data governance, reliability, and interpretability.

Many LPs we interviewed emphasised **the variability in data quality they receive from their GPs, in particular when it comes to computing their GHG emissions and financed emissions**. They find it especially challenging to obtain comprehensive data for their North American and Asian investments - highlighting that European GPs are usually more advanced in ESG and climate reporting, influenced by regulatory pressures like the EU Taxonomy and SFDR or CSRD.

As LPs may struggle in analysing and interpreting their GPs' ESG data, **GPs are highly encouraged to preempt their LPs' ESG reporting requirements** as, to date, no standardised reporting framework has been clearly defined across regions and asset classes. **LPs will always value investors who demonstrate their ESG and climate performance in a transparent, rigorous, and comprehensive way**.

> *"To be honest, if the investment company is not focused on the quality of their [ESG] data collection,* ***it can be complicated to renew with them.****"*
>
> *An Investment Director in a LP organization*

CONCLUSION

The financial sector is at a pivotal moment, as the global push for reaching Net Zero emissions by 2050 intensifies. On private markets, Limited Partners are thus intensifying their focus on climate issues, driven by regulatory pressures - like the SFDR in Europe - and their own Net Zero commitments, which are increasingly imposed on General Partners (GPs). European LPs as well as insurers and pension funds lead the charge, propelled by stringent regulations and societal expectations.

Carbon and climate data quality and standardisation remain key challenges, even though new international standards are emerging, with the SFDR, the TCFD or PCAF. ESG due diligence has become a standard practice during the pre-investment period, with LPs prioritising GPs that align with robust climate criteria and demonstrate decarbonization roadmaps aligned with Net Zero frameworks. Indeed, if climate change is perceived as an investment opportunity for some LPs, the associated physical and transition risks are increasingly feared by them. Therefore, steering clear of high-carbon sectors and avoiding stranded assets are now key risk management strategies, as transition-focused funds and green investment opportunities gain momentum. GPs with strong climate strategies and transparent reporting stand out as competitive partners, appealing to LPs who view climate leadership as essential for long-term value creation and resilience in a rapidly evolving investment landscape.

How Carbometrix can help

Carbometrix provides deep **carbon expertise with an intuitive platform**, to guide private-market professionals and their portfolio companies in **effective decarbonization**.

We offer **tailored solutions to private equity firms and their portfolio companies** across the whole investment lifecycle.

	Fund raising	Due Diligence	Monitoring	Exit	Reporting
Climate strategy	●				
Financed emissions					●
Full carbon footprint		●	●	●	●
Avoided emissions		●	●	●	●
Target setting and monitoring	●	●	●	●	●
Decarbonization plan			●	●	
Climate risks		●	●	●	●
Carbon exposure & maturity scoring	●	●			●

We have worked with **+700 companies and +90 financial institutions;** managing up to **+1000B AUM**.

Some of our clients:

Find us on our website or reach out to us directly at contact@carbometrix.com.

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