

This section provides background to the climate-related Metrics and Targets pillar, outlines the disclosure requirements of TCFD and includes fund manager guidance on implementing the climate-related Metrics and Targets pillar. Guidance is also provided on developing a carbon footprint and how fund managers should consider financed emissions. A table of recommended climate-related metrics for fund managers starting their climate change journey and those that are more mature is included. Last, step-by-step guidance to set and use climate-related targets is included, along with examples of potential targets.

The guidance notes, tools and templates relevant to this section include:

- [GHG accounting and reporting guide](#)
- [Climate-related metrics table](#)

Key Messages

- Metrics and targets are used to assess and manage relevant climate-related risks and opportunities, and to help fund managers measure, monitor and report climate-related impacts.
- Fund managers should develop climate-related metrics to measure and manage climate-related risks and opportunities within their portfolio companies and in the investment decision-making process.
- Metrics and targets should also be developed to demonstrate how investment strategies and portfolios are aligning with a low carbon future, and should be included the fund manager's transition plan.
- At a fund level, financed emissions are the share of GHG emissions associated with investments (emissions associated with portfolio companies) and are likely to represent the largest part of a fund manager's carbon footprint.
- Metrics serve as indicators of performance across the TCFD pillars and provide a feedback loop to support continuous improvement against targets.
- Climate-related targets should be set for material climate-related metrics and used to drive performance in line with the strategic intent of the fund manager.

1 Background and TCFD requirements

Metrics and targets are used to assess and manage relevant climate-related risks and opportunities, and to help fund managers measure, monitor and report the climate-related impacts on their business. To be useful, metrics must be clearly understood, measured, and reported internally and externally. Metrics serve as indicators of performance across the TCFD pillars and provide a feedback loop to support continuous improvement against targets. The relationship between climate-related metrics and the other TCFD pillars is outlined in Box 3.

Box 3: Climate-related metrics in the context of the TCFD pillars

Governance: Climate-related metrics ensure an organisation's board and management can effectively manage the impacts of climate-related risks and opportunities. Metrics are also essential for informing stakeholders about how senior management tracks and manages risks and opportunities. Climate-related metrics, such as remuneration, can show how directors and managers are incentivised to achieve climate-related objectives.

Strategy: Climate-related metrics are critical to measuring and describing the impact of risks and opportunities on the organisation's business and the resilience of its strategy under different climate-related scenarios.

Risk management: Climate-related metrics support the measurement of risk exposures and levels as part of an organisation's broader risk management processes. In conjunction with risk tolerances, risk appetites, and risk thresholds, climate-related metrics inform the degree of risk the organisation is prepared to accept and its risk response.

Information adapted from [TCFD Indicators and Targets](#) [30].

The TCFD guidance on disclosures relating to the Metrics and Targets pillar is as follows [19]:

[View table](#)

2 Fund manager context

The purpose of metrics and targets is to reflect the estimated potential impact of climate

risks and opportunities, provide a degree of comparability between funds and fund managers, and to understand trends and improvements over time towards a long-term goal. This equates to three use cases for fund managers and investors:

- The first use case relates to understanding the value that is at risk from climate change during an asset hold. To enable this, fund managers should develop climate metrics which are used to measure and manage climate-related risks and opportunities within their portfolio companies.
- The second use case supports the understanding of climate risks and opportunities for investment decisions.
- Finally, the third use case enables partnerships with other capital providers who want to align their investment strategy. Metrics and targets should be developed to demonstrate how investment strategies and portfolios are aligning with, for example, a well below 2°C scenario and which are typically communicated within a transition plan.

3 Metrics: practical guidance and tools

3.1 Introduction

The TCFD suggest that several characteristics and principles are fundamental for achieving effective disclosure and management of climate-related metrics. These include:

- **Decision-useful:** Climate-related metrics should be relevant to the organisation's risks and opportunities.
- **Clear and understandable:** Climate-related metrics should be clear and include important context to aid understanding.
- **Reliable, verifiable, and objective:** Climate-related metrics should be free from bias and value judgment and support controls to allow for data verification.
- **Consistent over time:** There are three time horizons relevant to climate-related metrics: current, historical, and forward-looking. Forward-looking metrics may be based on methodologies such as scenario analysis and includes climate-related targets.

An additional important characteristic is that the metrics chosen must be **material** to the organisation. Section 2.3 of [Risk Management](#) addresses the concept of materiality in further detail.

- [3.2 Categories of metrics](#)

Climate-related metrics can be grouped into two broad categories:

1. Metrics related to GHG emissions

- **Absolute emissions:** Absolute value of emissions is useful to compare how emissions change over time for an individual portfolio company, fund or fund manager, and are important for target setting.
- **Intensity-based emissions:** This normalises emissions, allowing for comparisons between portfolio companies, funds and fund managers. There are three key types [\[30\]](#):
 - Economic intensity – total GHG emissions per monetary unit. This is typically revenue for portfolio companies and revenue or investment for fund managers.
 - Physical emissions intensity – emission per activity. This will depend on the sector, and cannot be applied across a portfolio, but could be requested from portfolio companies. Denominator could be Megawatt hour (MWh) of electricity produced, tonne of product, or square metre (m²) of real estate.
 - Weighted carbon intensity – assessment of the exposure to carbon-intensive companies, reported as tonnes of carbon dioxide equivalent (tCO₂e) per unit of revenue, weighting companies based on market capital.

2. Metrics related to climate risks and opportunities - both qualitative and quantitative

Fund managers will need to define, measure, track and disclose metrics at different levels, including at the level of:

- fund manager;

- fund;
- investment process (e.g., due diligence); and
- portfolio company.

Further, fund managers more advanced in their climate journey with developed transition plans should develop metrics and related targets linked to their specific transition journey. Further information on transition plans is in the [Strategy section](#) and the [Climate-related metrics table](#) has guidance on what metrics should be tracked and at what level.

3.2.1 GHG emissions metrics

Absolute GHG metrics

Absolute GHG emissions are one of the metrics all fund managers need to track. This section briefly explains the GHG accounting and reporting process, with additional detail provided in a step-by-step process in the **GHG accounting and reporting guide**. This section also covers Scope 3 financed emissions, the most relevant GHG emissions metric for fund managers. The guidance in this section of the toolkit is aligned to the [ICI's Greenhouse Gas Accounting and Reporting for the Private Equity Sector \[40\]](#), which has further detail on how fund managers can aggregate and report their GHG emissions at a fund level.

Box 4: Carbon footprint and the GHG Protocol

A company's carbon footprint is typically calculated in accordance with the guidelines of the GHG Protocol which supplies the world's most widely-used GHG accounting standards. The GHG Protocol's Corporate Accounting and Reporting Standard provides the accounting platform for most global corporate GHG reporting programmes.

The GHG Protocol defines three 'scopes' of GHG emissions as outlined below and in Figure 23.

Scope 1. Emissions are all direct GHG emissions which are emissions from sources that are owned or controlled by the company. For example, burning diesel in on-site generators or

natural gas in on-site boilers.

Scope 2. Indirect GHG emissions are energy-related emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity. For example, emissions generated from the consumption of purchased electricity, heat or steam for own use.

Scope 3. Emissions are indirect emissions from activities upstream and downstream in an organisation's value chain, from sources not owned or controlled by the organisation. Scope 3 emissions have 15 distinct categories. For example: Category 1 includes emissions generated from purchased good and services. Category 15 (investments) is the most relevant category for fund managers as it is applicable to investors and companies that provide financial services, and refers to a wide range of types of finance, from equity to debt, to project finance.

Figure 23: GHG Protocol emission scopes [3]

[View Figure 23](#)

A summary of the recommended GHG accounting and reporting process is shown below (adapted from Greenhouse Gas Accounting and Reporting for the Private Equity Sector [42]):

Figure 24: Summary of recommended GHG accounting process

[View Figure 24](#)

- [Steps 1 and 2](#)

Steps 1 and 2 explain GHG emissions data collection and accounting of Scope 1 and 2 emissions at corporate level. This approach applies to the day-to-day operations of any corporate organisation, including fund managers and their portfolio companies.

Measuring the carbon footprint of a fund manager's portfolio can be a useful exercise. It enables comparisons to benchmarks, helps identify portfolio hot spots (such as areas to prioritise for further analysis) and identifies opportunities for directing capital and engagement efforts towards reducing emissions.

Calculating a carbon footprint for the fund manager and/or portfolio companies is usually applied in line with the GHG Protocol Accounting Standard. The most common way to calculate GHG emissions is through applying emission factors to activity data. Emission factors provide the emissions (most commonly kilograms of carbon dioxide equivalent) associated with certain activities (for example combustion of 1 litre of fuel or travelling 1 kilometre) and presented as an intensity (for example 2.2kg CO₂e/litre). The formula to calculate GHG emissions using emission factors is:

GHG Emissions = Activity Data x Emission Factor x Global Warming Potential (where relevant)

A step-by-step process for using this methodology to calculate Scope 1 and 2 emissions is featured in the GHG accounting and reporting guide. This guidance is aligned to the [GHG Protocol Accounting Standard](#).

- [Step 3](#)

Under the GHG Protocol, all organisational footprints must include Scope 1 and 2 emissions. Fund managers should focus their attention on the Scope 1 and 2 emissions of their portfolio companies initially. However, reporting on Scope 3 emissions is becoming best practice and fund managers should start building Scope 3 emissions data over time. There is more flexibility when choosing which Scope 3 emissions to measure and report, and fund managers can tailor these to reflect their environmental and commercial goals.

Additional guidance on Scope 3 emissions is included in the GHG accounting and reporting guide, which is aligned to the [GHG Protocol Corporate Value Chain \(Scope 3\) Standard](#) [43].

It is important for fund managers to note that regulators in major jurisdictions around the world have introduced, or are preparing, mandatory reporting requirements of Scope 3 emissions for companies, which will be heavily influenced by the ISSB Standards of the IFRS Foundation. The ISSB Standards recently confirmed that reporting on Scope 3 emissions will be included as part of required company disclosures [44].

- [Step 4](#)

Financed emissions

Step 4 addresses financed emissions (Scope 3 category 15). At a fund level, financed emissions are the share of GHG emissions associated with investments (emissions associated with portfolio companies) and are likely to represent the largest part of a GP or LP carbon footprint (typically greater than 95 per cent) [[42](#)].

Scope 3 category 15, financed emissions (or investments), refers to a wide range of types of finance, from equity to debt, to project finance, and managed investments and client services.

The **GHG Protocol Corporate Value Chain (Scope 3) Standard** outlines two methods for calculating emissions for category 15.

1. **Investment-specific method:** This involves collecting emissions data from the investee company and allocating emissions based upon the share of investment. This is aligned with the step-by-step process provided in the GHG accounting and reporting guide.
2. **Average-data method:** This involves using revenue data combined with environmentally extended input output (EEIO) data to estimate emissions from the investee company and allocating emissions based upon share of investment.

The average-data method can be useful for screening the portfolio to understand hotspots and identify key investments which are more carbon-intensive, or where there is a lack of data available from portfolio companies.

The Partnership for Carbon Accounting Financials (PCAF) developed the [Global GHG Accounting and Reporting Standard](#) for the financial industry. This standard sets out how Scope 3 category 15 emissions from certain asset classes should be accounted for and attributed to financial institutions, and is aligned with the GHG Protocol. Based on the PCAF Standard, Scope 3/category 15 GHG emissions from loans and investments should be allocated to the reporting institutions based on the proportional share of lending or investment in the borrower or investee, called the attribution factor. In other words, financed emissions are to be calculated using total emissions multiplied by an attribution factor. Examples of how this is calculated are outlined in the section below.

Data availability and quality are key factors which impact the ability of fund managers to report on financed emissions. In response to this, and to allow for a consistent way to disclose data quality, PCAF has developed a data quality hierarchy. This hierarchy allows for different emission calculation approaches.

The PCAF recommends fund managers use the emissions calculated from each portfolio company, as per the methodology outlined in the step-by-step process in the GHG accounting and reporting guide. However, where portfolio companies have not yet calculated Scope 1 and 2 emissions, or where data may not be readily available, there are other options that can be used to fill gaps, so a more complete inventory of financed emissions can be achieved. These include using:

- Physical activity data, which relates to Scope 1 or 2 emissions sources, for example electricity and fuel consumption. This is similar to the methodology outlined in the step-by-step process in the **GHG accounting and reporting guide**, but may not be as comprehensive.
- Physical activity data, which does not directly relate to Scope 1 or 2 emissions sources, for example tonnes of products sold.
- Economic data, as opposed to physical activity, such as revenue or outstanding company value. One of the tools for this is the [Joint Impact Model \(JIM\)](#) and can be used to fill the gap in GHG emission data in developing markets and also to apply the PCAF attribution methodology.

These alternative options may be useful for fund managers looking to estimate the GHG emissions of a new target during a due diligence, where time is limited and data may not be readily available.

How to calculate financed emissions?

Scope 3 category 15 emissions are calculated by aggregating the portion of emissions attributed to the fund manager. In the case of private equity, both Scope 1 and 2 emissions for the underlying portfolio companies should be included. The inclusion of Scope 3 is optional but will be calculated in the same way. This is illustrated in Figure 25.

Figure 25: Example of inclusion of portfolio companies in Scope 3: Category

15 carbon footprint [\[42\]](#)

[View Figure 25](#)

Attribution factors

When calculating financed emissions, fund managers attribute only a share of the GHG emissions of their portfolio companies as part of their financed emissions. This share is proportional to the equity held in the company by funds or accounts they manage or advise. In line with PCAF, attribution to the financial institution should be calculated as follows:

[View Figure](#)

This is aligned with the PCAF Global GHG Standard, where the outstanding amount is defined as the outstanding value of the investment the fund manager holds in the portfolio company, referred to here as simply the value of equity and/or debt in the portfolio company [\[42\]](#). Fund managers should determine the outstanding amount consistently across their portfolios, and choose either the calendar or financial year-end outstanding amount [\[42\]](#). The same approach should then be used each year. The examples below outline how financed emissions should be calculated.

a. Calculating the attribution factor

Figure 26: Example of attribution factor calculation [\[42\]](#)

[View Figure 26](#)

b. Calculating the financed emissions associated with a fund

Figure 27: Example of calculating financed GHG emissions [\[42\]](#)

[View Figure 27](#)

For more detail on calculating Scope 3 financed emissions, please refer to the PCAF [Global GHG Accounting and Reporting Standard](#) and the [ICI's Greenhouse Gas Accounting and Reporting for the Private Equity Sector methodologies](#).

Intensity metrics

There are limitations in terms of carbon footprints and the relationship to risk. Carbon footprints rely on historical and backward-looking data, limiting their applicability for forward-looking scenario analysis. Despite significant improvements in carbon data disclosure, gaps and uncertainty in the data continue, particularly relating to Scope 3 emissions. This limits the ability of fund managers to aggregate portfolio company carbon footprints and to compare absolute emissions between portfolio companies, funds and fund managers.

Fund managers should therefore also calculate intensity metrics. A GHG emissions intensity metric measures the aggregated emissions rate of an investment portfolio relative to a representative indicator. This allows for an easier comparison as there is a common shared denominator between the assessed entities.

- [3.2.2 Other metrics - climate risk and opportunity](#)

Defining metrics for material transition and physical climate risks, as well as climate-related opportunities, is an essential component of addressing the TCFD requirements. Also, fund managers often have significant influence in encouraging behaviours in portfolio companies and as such, may wish to set metrics and targets linked to positive climate behaviours, aligned with their strategic intent. The [TCFD Metrics and Targets Guidance](#) provides additional detail on metrics and targets which may be useful for fund managers.

- [3.2.3 Summary of metrics](#)

A summary of both GHG emissions-related metrics, metrics related to transition and physical climate risks, and metrics on climate-related opportunities, are in the [Climate-related metrics table](#).

4 Targets: practical guidance and tools

4.1 Introduction

A climate-related target refers to a specific level, threshold, quantity, or qualitative goal that

the organisation wishes to meet over a defined time horizon to address its climate-related risks and opportunities [30].

A common target for organisations involves making commitments to reduce GHG emissions.

- **4.2 Characteristics**

Good/best practice principles and characteristics for targets, as outlined by the TCFD, include [30]:

- **Aligned with strategy and risk management goals:** Climate-related targets should be designed in consideration of an organisation's strategy and risk management processes. Organisations should set targets at the level (fund, sector, portfolio) that best suits their business activities and strategy.
- **Linked to relevant metrics:** Climate-related targets should be linked to defined metrics in order to measure and track progress against targets.
- **Quantified and measurable:** Climate-related targets should be quantified and measurable, where possible.
- **Clearly specified over time:** Climate-related targets should be defined clearly over time and specify the following:
 - **Baseline:** Clear definition of baseline time period against which progress will be tracked, with a consistent base year across GHG emissions targets.
 - **Time horizon:** Defined time horizon by which targets are intended to be achieved.
 - **Interim targets:** An interim target is a checkpoint between the current period and the target end date in which an organisation assesses its progress and makes any adjustments to its plans and targets.

Organisations may find it useful to disclose medium-term or long-term targets for the key target dates of 2030 and 2050.

- **Understandable and contextualised:** Climate-related targets should be presented in a manner that aids understanding (and includes descriptions of any limitations).

- **Periodically reviewed and updated:** Organisations should have a clear process for reviewing climate-related targets, at least every five years, and updating if necessary.
 - **Reported annually:** Organisations should report on climate-related targets on at least an annual basis, including any new targets as well as progress against existing targets.
- [4.3 Step-by-step guidance for setting targets](#)

A simple step-by-step process for setting climate-related targets is outlined in Figure 28.

Figure 28: Simplified climate change target setting process

[View Figure 28](#)

Once targets are fixed, one of the main objectives of fund managers will be to support portfolio companies in implementing concrete actions to achieve the identified targets. This support can consist of company-by-company discussions, training on data collection and metrics, technical and financial support for energy/carbon reduction assessments, development of decarbonisation reduction plans, and support in identifying, assessing and managing climate risks.

- [4.4 Net zero and science-based targets](#)
- For targets to have a meaningful impact, and contribute towards tackling climate change, they should be aligned with science. This means best practice targets aligned to a trajectory of keeping global temperature rises to well below 2°C as committed by the Paris Agreement. Many companies are now being more ambitious and aligning to a 5°C trajectory, to achieve net zero emissions by 2050 or sooner.

Net zero refers to the balance between the amount of GHG emissions produced and the amount removed from the atmosphere. A credible net zero target requires a reduction in Scope 1, 2 and 3 GHG emissions, consistent with reaching net zero emissions no later than 2050 [42]. Any residual emissions that cannot be eliminated need to be offset¹ using natural carbon sinks (for example, trees, the ocean and soil) or

man-made carbon removal methods (such as carbon capture and storage) [42].

Through their long-term investment strategies and considerable influence over their portfolio companies, fund managers are well positioned to support portfolio companies for a low-carbon transition, by setting mid and long-term firm-level science-based targets (SBTs). The [Science Based Targets initiative](#) (SBTi) defines and promotes best practice in emissions reductions and net zero targets in line with climate science and has introduced a range of target setting protocols and guidance. For example, [guidance for the private equity sector](#) was launched in November 2021, and a [financial institution net-zero standard](#) is due to be launched by 2024.

SBTi recommends firms set both short-/mid-term targets and long-term targets. These short-and long-term targets help investors to track progress and make management accountable by progressing from climate intent to climate action [35]. In line with the latest climate science, SBTi recommends fund managers consider 2050 or earlier as their timeline for long-term (net zero) targets and a minimum of five years to a maximum of 15 years as the timeline for setting up short or mid-term targets.

- [4.5 Examples of targets](#)

Table 10 outlines examples of possible targets for fund managers, broken up between those that are starting out or developing and those that are more advanced or transformative.

Table 10: Examples of targets, adapted from TCFD [30]

[Table 10](#)

¹For more information on how carbon offsets can be used credibly and responsibly, consult The Oxford Principles for Net Zero Aligned Carbon Offsetting and SBTi's Corporate Net Zero Standard.