DECEMBER 2023

BROOKFIELD AND NET ZERO

AN ASSESSMENT OF CANADA'S LARGEST PRIVATE EQUITY FIRM

INVESTORS *for* PARIS COMPLIANCE

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EXECUTIVE SUMMARY

Brookfield is Canada's largest private equity investor.[1] In May 2021, Brookfield committed to net zero financed emissions by 2050 across its $850 billion AUM, including its subsidiaries.[2] And, Chair of Brookfield Asset Management and Head of Transition Investing is Mark Carney, the co-Chair of the Glasgow Financial Alliance for Net Zero and the ex-Governor of the Bank of Canada and of the Bank of England.[3]

However, since its net zero commitment, Brookfield has continued to invest in hundreds of fossil fuel assets. Shareholders are in need of more information to ensure that climate transition risks and opportunities are in fact being fully disclosed and addressed.

Brookfield engages in the full gamut of private investment deal types, from traditional private equity investments with their associated equity, board seats, and management control to private credit, and everything in between. It is the former private investment style which is the primary focus of this report, but the principles discussed can apply to all private investment types.

Private equity plays a unique role in the financial ecosystem as a source of relatively patient capital — 5 year average holding periods[4] — with management influence over acquired assets. Private equity investors are able to make long-term structural decisions without the short-term pressures of quarterly earnings calls. Private equity invests in or lends to unlisted companies wanting to scale up or restructure. Compared to public equity, the financial risks and opportunities for private equity are larger[5] and their investments are subject to less transparency. These factors also mean that private equity is well-positioned to capitalize on the net zero transition if the motivation exists. The flexibility, capital, and management influence held by general partners offers the potential to capture transition opportunities.

For limited partners and shareholders to ensure their private equity investments are transitioning properly requires comprehensive disclosures about:

- The full scope of climate risk across all asset classes,
- How these risks are being mitigated, and,
- How opportunities in climate solutions are being exploited.

Net zero guidance for the private equity sector has been published by SBTi, IIGCC, ICi, and TCFD, among others. To help shareholders understand best practices we have summarized key criteria in Appendix I of this report. The best practices outlined in Appendix I are designed primarily for general partner-style investments, but the principles they represent can be applied to most private investments.

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1 Private Equity Investor, PEI 300 (Mar. 2023).

2 Brookfield Asset Management, NZAM Interim Progress Report (Dec. 2022) at 1.

3 Brookfield, Brookfield Raises Record $15 Billion For Inaugural Global Transition Fund (Jul. 2022).

4 Harvard Business Review, Private Equity Should Take the Lead in Sustainability (Jul.-Aug. 2022).

5 Harvard Business Review, The Strategic Secret of Private Equity (Sept. 2007).

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pg 3: "Brookfield Place" by Photographing Travis is licensed under CC BY 2.0.

We acknowledge that Brookfield is still early in its net zero journey, but our analysis finds serious gaps in Brookfield's emissions reporting and weaknesses in its emissions reduction target coverage. Data from the Private Equity Climate Risks (PECR) project indicates that Brookfield is reporting a small fraction of its material emissions (see Figure 1 and the Financed Emissions Reporting section of the report). And, less than a quarter of its assets under management are being managed in alignment with net zero, with no clear timeline for increasing that number.[6] Downstream emissions also appear to be excluded from Brookfield's emissions reduction targets.

Brookfield has stated concerns regarding PECR's methodology — its statement is available in Appendix II.

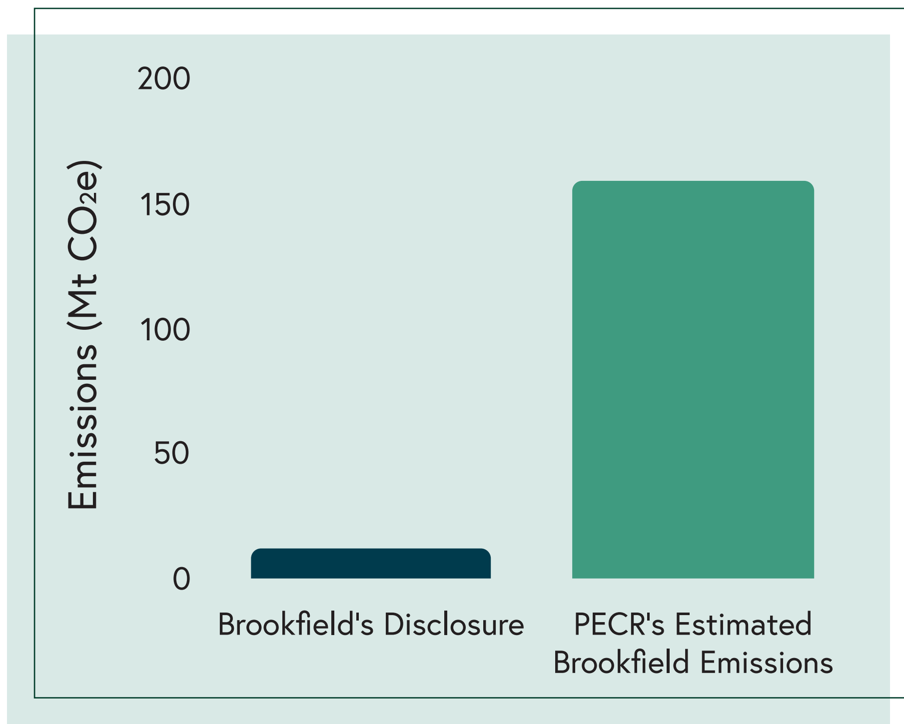

FIGURE 1.
Brookfield's financed emissions disclosure (2022) vs. PECR's estimate of Brookfield's energy-related financed emissions (2023).

In addition, Oaktree Capital Management, representing 22% of Brookfield's AUM, is excluded from Brookfield's net zero target and associated reporting, and does not have its own net zero target or provide comprehensive emissions disclosure. Oaktree is primarily engaged in private credit, though also engages in some traditional private equity. It has a stake in at least 118 fossil fuel assets.[7] Brookfield decided to allow Oaktree to maintain relative operational independence despite acquiring majority ownership, partly due to regulatory concerns.[8] However, operational independence does not shield Brookfield from Oaktree's climate transition risk.

In terms of a net-zero aligned transition strategy, Brookfield and its subsidiary Oaktree are each taking steps in the right direction, but neither have comprehensive net-zero aligned investment policies. There is little data to track implementation. Both remain invested in fossil fuel assets without transition plans. Finally, regarding lobbying for sound climate policy, we do not see evidence of the kind of activity that Brookfield acknowledges is necessary.

6 Brookfield Asset Management, Net Zero Asset Managers Initiative Interim Progress Report (Dec. 2022) at 1.

7 PECR, Brookfield Emissions (December 2023). (Note: filtered for upstream, midstream, and downstream. Also filtered for Oaktree.)

8 Bloomberg, Howard Marks Sees Industry Consolidation After Brookfield Tie-Up (March 2019).

The fact that Brookfield has committed to increasingly invest in net zero transition opportunities via its transition funds may help enable the economy-wide net zero transition. More information is needed to evaluate this commitment.

In order to build confidence among its shareholders and fund investors that Brookfield is serious about its net zero commitment, the company needs at a minimum, to:

- Expand financed emissions reporting to include: Oaktree, all asset types, material scope 3 emissions, complementary metrics, and clearly defined emissions attribution boundaries.
- Provide an ambitious timeline for portfolio-wide net zero alignment, including emissions reduction targets that explicitly include scope 3 downstream emissions.
- Establish a net zero-aligned acquisition strategy, including negative screens for:
  - Thermal coal that cannot be phased-out to align with the IEA Net Zero by 2050 scenario, and
  - Oil and gas expansion.
- Create an active ownership strategy vis-a-vis portfolio company transition plans, with timelines and consequences for non-compliance along with reporting on transition progress.
- Report comprehensively on company exits and their relationship to real world emissions.
- Report comprehensive and up-to-date climate impact metrics on Brookfield Transition Funds and green financing instruments.
- Engage in more robust lobbying for supportive financial sector and broader economy net zero policies.

These recommendations are further detailed in the 'Recommendations' section below. They are based on our analysis of Brookfield's climate disclosures as well as emissions data from the PECR project, outlined in the body of this report. The guidelines by which we assess Brookfield's transition plan are provided in Appendix I. Appendix II outlines the financed emissions data methodology used by the PECR group.

TABLE 1. Summary of private equity net zero best practices and Brookfield's performance.
Note: Sources and specifics of best practices are provided in Appendix I, and for Brookfield are available throughout the report.

	PRIVATE EQUITY NET ZERO BEST PRACTICES	BROOKFIELD
CLIMATE TRANSITION RISK REPORTING	Scope: Financed emissions, scope 1, 2, and 3 (where 3 represents at least 40% of overall emissions) Years: Base year (2015 or later) & proceeding years Metrics: Absolute financed emissions & complementary metrics	Reports scope 1 and 2 absolute financed emissions (tCO_2e) for assets under "operational control," other than Oaktree • Base year (2020) and 2022 data reported • Reports share of AUM invested in fossil fuels, other than Oaktree Oaktree: No financed emissions reporting
INTERIM & LONG-TERM TARGETS	Scope 1-3 inclusive Aligned with fair share of 50% absolute GHG reductions by 2030 from 2019 base year Ambitious timelines for full portfolio coverage	50% reduction of scope 1 and 2 emissions of in-scope portfolio companies by 2030 • Currently only applies to 24% of AUM; vague plans to increase coverage over time • Does not include downstream scope 3 emissions 100% scope 1 and 2 AUM coverage (where Brookfield has operational control) by 2050 Oaktree has not set any interim or long-term emissions targets.
ACQUISITION	Requirement for practical net zero trajectory Investing in coal only if being phased out by 2030 in OECD and by 2040 everywhere; no investment in oil and gas expansion	Vague commitment to consider climate risk in acquisitions No mention of net zero viability as a requisite for acquisition No timeline for exclusion of thermal coal; no mention of oil and gas expansion Oaktree: Conducts ESG assessment, no exclusion policy

	PRIVATE EQUITY NET ZERO BEST PRACTICES	BROOKFIELD
ACTIVE OWNERSHIP	Within 12 months work with acquired companies to develop a net zero target and associated plan Annual reporting on portfolio company net zero progress Consequences for failure to progress	Develops decarbonization plans for each company (except Oaktree) No disclosure of portfolio company transition plans, and no reporting of progress Company management executes decarbonization plan No timelines or consequences for failure to progress on transition plans, but ongoing monitoring Oaktree: will divest or reduce its position where climate risks go unaddressed. No timeline.
EXIT	Report on exits and how they contribute to net zero	Considers — but does not report on — how ESG may contribute to company valuation upon exit Oaktree: no stated sustainability-oriented exit policy
CLIMATE SOLUTIONS	Clearly defined climate solutions targets Quantitative metrics for assessing impact of climate solution investments	$15 billion transition fund, aspiring to $200 billion transition business (no timeline). $7 billion in green bonds, debt, & securities issued in 2022 No impact metrics related to green investments since 2021 Oaktree: no targets
LOBBYING	Lobbying industry and government in support of net zero	Some financial industry advocacy and climate group memberships; some publications of articles and white papers. Fails to publicly lobby in support of key public policy climate measures

BROOKFIELD ASSESSMENT

KEY RESOURCES

- Brookfield, 2022 Net Zero Asset Managers Interim Progress Report (December 2022)
- Brookfield Asset Management, 2022 Sustainability Report (June 2023)
- Brookfield Infrastructure Partners, 2022 Sustainability Report (August 2023)
- Brookfield Renewable Partners, 2022 ESG Report (May 2023)
- Oaktree Capital Management, 2022 Responsibility Report (July 2023)

FINANCED EMISSIONS REPORTING

This year, Brookfield Corporation ('Brookfield', formerly Brookfield Asset Management) reported a second year of absolute scope 1 and 2 emissions for 100% of portfolio companies where it has operational control. This includes the financed emissions of its subsidiaries, with the exception of Oaktree Capital Management ('Oaktree') which represents about 22% of Brookfield's AUM.[9]

While Brookfield claims not to maintain operational control of Oaktree, there is not complete operational independence. Brookfield raises funds on Oaktree's behalf.[10] Brookfield does not offer an internal definition of "operational control," but states that it has operational control of nearly 70% of its investments, and excludes Oaktree from its financed emissions reporting.[11] This means that Brookfield is reporting emissions for about 50% of its AUM. While this disclosure admits to the omission of Oaktree, there is no further explanation of included assets.

Oaktree discloses a fraction of its emissions profile, namely its scope 1 and 2 emissions, while its scope 3 reporting only covers business travel.[12] According to our correspondence with Brookfield, Oaktree is working on calculating and disclosing its financed emissions.

Brookfield reports two years of emissions data, which indicates a small reduction in emissions — from 12.1 Mt (million tonnes) CO_2e in 2020, its base year, to 11.8 Mt CO_2e in 2022. Brookfield explains this 2.5% reduction as coming from "carbon reduction initiatives and a change in business activity following the global COVID pandemic."[13] More information is necessary to determine whether and how these emissions reductions are associated with Brookfield's portfolio net-zero alignment.

This emissions data leaves out the majority of Brookfield's financed emissions by failing to include material downstream scope 3 emissions and Oaktree.

9 Oaktree Capital Management has $183 billion AUM, of which Brookfield owns 61%.

10 Brookfield, Q4 2022 CONFERENCE CALL (February 2022) at 6.

11 Brookfield Asset Management, 2022 Sustainability report (June 2023) at 44.

12 Oaktree, 2022 Responsibility Report (July 2023) at 58.

13 *Ibid*, at 71.

"Brookfield Place, Toronto, Ontario" by Ken Lund is licensed under CC BY-SA 2.0.

For context on how much may be missing from Brookfield's disclosure of its climate transition risk, we look to an alternative source of financed emissions data. The non-profit consortium Private Equity Climate Risks ('PECR') estimated financed emissions data for Brookfield and its subsidiaries as of Q3 2023 (see Appendix II for their methodology). The data is based on an analysis of Brookfield's 729 upstream, midstream, and downstream energy assets in which it has any investments.

Private Equity Climate Risks ('PECR') provided an asset breakdown and estimated financed emissions associated with Brookfield's energy portfolio. The methodology used for these estimates are available in Appendix II.

PECR estimates that Brookfield's financed emissions are up to 159 million metric tonnes (Mt) CO_2e, over 13 times more than Brookfield's own disclosure (see Table 2).[14] These calculations are solely inclusive of Brookfield's energy assets, and exclude equity and bond holdings.[15] PECR's data includes the entire emissions for assets that Brookfield does not operationally control, leading to a possible over-estimate. On the other hand, the data does not include downstream scope 3 emissions for midstream oil & gas companies (i.e. pipelines), and nets out any overlapping emissions between upstream and downstream oil & gas companies (i.e. if upstream is 100 Mt CO_2e and downstream is 200 Mt CO_2e, downstream is only counted as 100 Mt CO_2e).

14 PECR, Brookfield Emissions (December 2023).

15 The list of assets was shared with Brookfield and Oaktree for review prior to PECR's calculation of emissions estimates, and Brookfield and Oaktree declined to object to any of the assets listed, to identify any assets omitted, or to provide emissions estimates of its own, beyond citing the Brookfield 2022 Sustainability Report and the Oaktree Responsibility Report.

TABLE 2. Brookfield's financed emissions disclosures vs. PECR's estimate of Brookfield's financed emissions.

BROOKFIELD FINANCED EMISSIONS		INVENTORY BOUNDARY	SCOPE 1 AND 2	SCOPE 3*
Brookfield's reporting[16]	2020	Operational control, excluding Oaktree (50% AUM)	12.1 Mt CO_2e	Not reported
	2022		11.8 Mt CO_2e	Not reported
PECR Data	2023	All energy investments**	Up to 159 Mt CO_2e	

*While Brookfield does disclose financed emissions, it does not disclose the scope 3 emissions of its portfolio companies.
**Methodology details in Appendix II

In terms of complementary metrics, Brookfield's 2022 Sustainability Report states that its "fossil fuel exposure is less than 11% of [its] business in terms of assets under management," excluding Oaktree.[17] Our calculation indicates that Brookfield had approximately $65.5 billion in exposure to fossil fuels in 2022.[18] This information helps shareholders better understand the scale of assets exposed to transition risk.

16 *Ibid.*

17 Brookfield Asset Management, 2022 Sustainability Report at 53.

18 At the time of publication, Brookfield reported $825 billion in AUM (Brookfield Asset Management, 2022 Sustainability Report (Dec. 2022) at 4); From this we subtracted the $170 billion in AUM which Oaktree reported for the same period (Oaktree, 2022 Responsibility Report (July 2023) at 6).

Otherwise, Brookfield does not report complementary metrics to help contextualize its absolute emissions, such as financial or physical emissions intensity, though two of its subsidiaries — Brookfield Renewable[19] and Brookfield Infrastructure Partners — do.[20]

Across all Brookfield subsidiaries, material downstream emissions are not reported. Brookfield, alongside Brookfield Infrastructure Partners, states its intentions to collect material downstream emissions data in its 2022 sustainability reports. PECR identified 218 fossil fuel assets in Brookfied's portfolio.[21] As such, the lack of material downstream emissions reporting represents a substantial gap.

Brookfield Renewable Partners also provides its own financed emissions reporting, explaining in relative depth the types of investments that are included. It discloses 1.6 $MtCO_2e$ across all scopes, of which 87.9% is scope 3.[22] This represents 13.6% of Brookfield Corporation's reported emissions. This is more thorough than Brookfield's organization-wide reporting. However, PECR estimates that Brookfield Renewable is responsible for 2.85 Mt CO_2e.[23] This is entirely in relation to its investment in InterEnergy, a Caribbean utility company, which Brookfield has invested in with the stated intention to support their net zero transition.[24]

While operational control boundaries are an acceptable method of financed emissions accounting, they can present a transparency problem.

[19] Reports year-over-year financial emissions intensity, and physical emissions intensity of its electricity generation investments (Brookfield Renewable Partners L.P., 2022 ESG Report (May 2023) at 23).

[20] Reports financial emissions intensity (Brookfield Infrastructure Partners, 2022 Sustainability Report (Dec. 2022) at 31).

[21] PECR, Brookfield Emissions (December 2023). (Note: filtered for cogeneration, compression, power station, power generator, pipeline, processing, production, storage, tanker, terminal.)

[22] Brookfield Renewable Partners, 2022 ESG Report (May 2023) at 23.

[23] PECR, Brookfield Emissions (December 2023).

[24] InterEnergy, InterEnergy Announces Partnership with Brookfield and Stonepeak to Accelerate the Net-Zero Transition (October 2022).

EMISSIONS REDUCTIONS TARGETS

Although Brookfield has set a net zero financed emissions by 2050 target that applies across all its AUM, its interim target of 50% reduction in scope 1 and 2 emissions by 2030 against its 2020 base year only currently applies across a fraction of it. In its inaugural NZAM report, which explicitly excludes Oaktree, Brookfield stated that about a third of its AUM is being managed in line with net zero by 2050, representing $147 billion in assets.[25] If we include Oaktree, this covers less than a quarter of Brookfield's AUM. In its 2022 Sustainability Report, Brookfield increased coverage to 24.4% of AUM (34% of non-Oaktree AUM).[26] As part of its commitment to NZAM this target's coverage is to increase, but Brookfield does not specify at what rate and timeline.

Brookfield has stated its intention to use the NZAM-endorsed Net Zero Investment Framework (NZIF)[27] and the IEA Net Zero Emissions scenario in target-setting and defining alignment with net zero. While Brookfield does not offer the transparency necessary to determine whether it is adhering to specific asset class appropriate target-setting methods, proper adherence to NZIF and IEA would align closely with SBTi's net zero targeting guidelines. To be clear, the IEA Net Zero by 2050 calls for a nearly halving of global carbon emissions by 2030 from 2019, and achieves this objective with no offsets from outside the energy sector, and with low reliance on negative emissions technologies.[28]

However, Brookfield changed what it considered to be in line with net zero by 2050. Its interim target changed between its 2022 NZAM Interim Report and its 2022 Sustainability Report from 66% absolute emissions reduction from 2020 by 2030 to 50% absolute emissions reduction by 2030. Brookfield did not explain this change.

Furthermore, the NZAM Commitment requires inclusion, where possible, of "material portfolio emissions." Given Brookfield's sizable energy portfolio, scope 3 downstream emissions represent material emissions. This was substantiated by PECR's research. Brookfield does not explicitly include its scope 3 downstream emissions in its emissions reduction targets.

It is also worth highlighting that Brookfield's current interim target coverage is not representative of its portfolio in terms of emissions intensity. Brookfield's interim target only covers 12% of its reported portfolio emissions which excludes Oaktree. Those same assets make up 24% of Brookfield's AUM. For Brookfield's interim targets to sufficiently reduce emissions in order to align with a 1.5°C warming scenario, Brookfield will need to target more emissions-intensive investments.

Brookfield opposes the notion of fossil fuel exclusion in its portfolio, opting to instead "go where the emissions are" and decarbonize its assets.[29] In order for that premise to be valid, those emissions-intensive assets must be considered when designing interim targets. While annually increasing AUM included in its interim target, these increases should not solely target easy-to-transition assets. Rather, given the lengthy current timeline for entire portfolio integration (2050), Brookfield must ensure its portfolio's worst emitters are expediently slated for transition.

The concept of 'going where the emissions are' is further discussed below.

25 $147 billion of $635 billion AUM. Brookfield claims this target represents a third of its AUM, but that does not account for Oaktree. (Brookfield Asset Management, Net Zero Asset Managers Initiative Interim Progress Report (Dec. 2022) at 1).

26 Brookfield Asset Management, 2022 Sustainability Report (June 2023) at 69.

27 *Ibid*, at 44.

28 IEA, Net Zero by 2050 (May 2021) at 13 and Appendix Table 4.

29 Brookfield Asset Management, 2022 Sustainability Report (June 2023) at 53.

NET ZERO STRATEGY

ACQUISITION

For Brookfield to achieve net zero, it would need to ensure that all carbon-intensive assets considered for acquisition have a reasonable potential to be aligned with net zero by 2050. To be clear, this means ambitious scope 1 to 3 emissions reductions, and only relying on offsets to address otherwise difficult/impossible to abate, remnant emissions.[31]

As part of its due diligence process, Brookfield and its subsidiaries consider climate risk.[32] In defining climate risk due diligence, Brookfield references the SASB (Sustainability Accounting Standard Board) Engagement Guide (alongside its asset-specific processes). However, SASB's Guide does not point asset managers towards a net zero-conscious acquisition process. Rather, it prompts potential investors as to how they may best identify company-specific risks as they relate to changing political and regulatory circumstances, and physical climate risks.[33]

Brookfield has rejected the premise of excluding high-emitting assets from potential acquisition.[34] Rather, Brookfield states that it targets high-emitting assets with the intent to decarbonize them and increase their value. Indeed, some high-emitting assets may be good targets for decarbonization; however, certain assets hold tremendous risk where phaseout is not imminent, like thermal coal.[35] For example, since Oaktree's September 2021 investment in Australia's newest coal power generation station, Bluewaters, the Australian Energy Market Regulator has predicted the station will close ahead of schedule, by 2029.[36]

"Enabling the transition to net zero means going where the emissions are, and then helping get on a path that brings those emissions down."

—Building a Global Financial System for Net Zero, Brookfield, 2022[30]

[30] Brookfield, White Paper: Building a Global Financial System for Net Zero (May 2022).

[31] According to the IPCC 6th Assessment Report, global CO2 emissions excluding negative emissions from CO2 removal still fall 45% from 2020 to 2030 in 1.5°C compatible pathways that meet sustainability constraints. (Summary for Policymakers at B.6.2).

[32] Brookfield Asset Management, 2022 Sustainability Report (June 2023) at 19.

[33] SASB, Engagement Guide for Asset Owners and Asset Managers (June 2023).

[34] Brookfield Asset Management, 2022 Sustainability Report (June 2023) at 53.

[35] UNPRI, Phasing out Investments in Thermal Coal (June 2018).

[36] ABC News, "System operator predicts Bluewaters, Australia's newest coal-fired power plant will close by 2029" (Feb. 2023).

"Bluewaters Power Station" by Steven McGuinnity is licensed under CC BY-NC 2.0.

Brookfield is also silent on investing in oil and gas expansion, despite this being in direct opposition to net zero transition.

In 2021, following a previous float, Brookfield increased its stake to 49.3% in the operation of the Dalrymple Bay Coal Terminal.[37] The Australian coking coal export terminal is leased until 2051, with an option to extend the lease until 2100.[38] The terminal has not been cited as a target of phaseout, although in 2022 Dalrymple Bay Infrastructure announced that it was exploring the feasibility of a green hydrogen plant. Brookfield has also recently purchased expanding oil and gas assets, like its 2021 takeover of Inter Pipeline.[39]

Brookfield's $15 billion Global Transition Fund's premise of "going where the emissions are" requires clear reporting to ensure that fossil fuel assets are in fact being transitioned or wound down in line with a 1.5 degree future. Where companies turn out to have no viable path towards net zero, they should be divested from (or pursue asset retirement). While there is a transition opportunity available through investing in carbon-intensive assets, particularly with essential infrastructure like utilities, there also exists inherent climate risk.

[37] Australian Financial Review, Brookfield reverses course on Dalrymple Bay coal terminal (September 2021).

[38] Queensland Competition Authority, Dalrymple Bay Coal Terminal Access Undertaking (May 2019).

[39] Brookfield, Brookfield Infrastructure and Inter Pipeline Announce Subsequent Acquisition Transaction and Completion of Offer (September 2021).

Michele Jackson / Alamy Stock Photo

BROOKFIELD TRANSITION FUND: LIVING UP TO THE PROMISE?

Brookfield's Global Transition Funds (BGTF) are based on a high climate risk/opportunity asset acquisition strategy. The original BGTF raised $15 billion, and Brookfield is aiming at $20 billion for its second fund.[40] The funds are part of Brookfield's broader strategy to develop a $200 billion transition business over the next ten years.[41] The fund aims to finance development of clean energy, transition technology, and to transition high emissions industries. In regards to the inaugural BGTF, Chair and Head of Transition Investing at Brookfield Asset Management, Mark Carney, stated:

> *"With the global carbon budget being rapidly run down, now is the time for comprehensive, determined action. That means deploying capital across the economic spectrum from scaling clean energy generation, to transforming traditional utilities and to providing sustainable solutions for heavy industries like steel and cement. This Fund provides significant scale of capital with catalytic long-term investment the world needs to help put our planet on a sustainable net-zero pathway."*[42]

This model has the potential to realize the unique opportunity of private equity in providing some of the financing needed to achieve net zero, but also comes with significant climate risks. For example, as part of the original BGTF, Brookfield agreed to acquire Origin Energy,[43] an Australian utility company that operates one of Australia's largest coal-fired power stations.[44] While Brookfield has stated its intention to retire the Eraring coal power station, the Australian Government's failure to develop sufficient alternative energy capacity has led to a likely extension on the lifespan of the plant.[45] While the Origin deal has not closed, and its extended lifespan is not a result of Brookfield's action, it exemplifies the political and regulatory risk associated with taking on carbon-intensive assets. Successfully decarbonizing essential infrastructure is a welcome step, but one that comes with an elevated burden of due diligence to ensure potential to transition.

Brookfield has not yet released any metrics regarding the impact of investments made through its transition fund. While this is understandable for the time being, as the fund only started investing in the last year, ongoing measurement and public reporting on the emissions of the fund's investments will be essential to ensuring the legitimacy of climate claims tied to the fund. The inaugural fund aims to cumulatively avoid 53 $MtCO_2e$ by 2033.[46] Public disclosure of impact metrics will be essential in assessing the fund's success.

See recommendations for transition fund disclosures, below.

40 Bloomberg, Brookfield Seeks $20 Billion for Next Energy Transition Fund (February 2023).

41 New Private Markets, Brookfield to launch Global Transition Fund 2 in H1 this year (February 2023).

42 Brookfield, Brookfield Raises Record $15 Billion For Inaugural Global Transition Fund (June 2022).

43 This deal has yet to go through at the time of publication. Nasdaq, Australian competition regulator extends decision on Brookfield's $9.9 bln Origin Energy deal (September 2023).

44 Brookfield, Brookfield and EIG Consortium Sign Binding Agreement to Acquire Origin Energy (March 2023).

45 Reuters, Australia to Consider Extending Life of Largest Coal Power Plant (September 2023).

46 Brookfield Asset Management, 2022 Sustainability Report (June 2023) at 9.

ACTIVE OWNERSHIP

Brookfield encourages all its portfolio companies to transition, and those that meet certain criteria are counted towards the proportion of its AUM aligned with net zero by 2050.

According to Brookfield, following acquisitions where it gains operational control, it works with portfolio companies to develop an ESG integration plan. This includes a climate risk and opportunity assessment, developing a pathway to decarbonization based on emissions data, and ongoing monitoring. Responsibility of executing ESG plans is passed to management of portfolio companies.[47]

For a portfolio company to be considered "aligning with net zero" and included in Brookfield's interim target scope, it must first develop a transition plan that includes:

- Baseline emissions measurements and projections,
- Identification of decarbonization opportunities, and
- A plan for implementation of science-based targets.

Portfolio company management is tasked with executing its transition plan.

Brookfield's active engagement policy does not apply to its majority-owned subsidiary Oaktree. While Brookfield had not yet published a statement on climate consideration of acquisitions at the time of its Oaktree purchase, it has now released a framework for portfolio company engagement. Despite making up 28.6% of Brookfield's AUM, Oaktree is excluded from all Brookfield sustainability reporting, and Brookfield does not engage with companies within Oaktree's portfolio.

Oaktree has not yet reported on financed emissions, set an interim target, or developed a transition plan. However, Oaktree does outline an engagement strategy, which includes conducting ESG assessments, tracking ESG engagement, and potential divestment or reduced investment where ESG risks are left unresolved.[48] Unfortunately, Oaktree's lack of accompanying metrics or targets poses a challenge to verifying the efficacy of its engagement strategy.

The above active ownership policies do not offer specific timelines for integration of portfolio companies within Brookfield's net zero target, nor do they mention any consequences in instances where companies fail to transition. There remains the risk that Brookfield fails to transition high-emissions assets while keeping them within its portfolios.

47 Brookfield Asset Management, 2022 Sustainability Report (June 2023) at 31.

48 Oaktree, 2022 Responsibility Report (July 2023) at 57.

ACTIVE OWNERSHIP AND CAERUS OIL & GAS

Brookfield's failure to extend its net zero policies to Oaktree and, by extension, to Caerus Oil & Gas stands out as a case where Brookfield's active climate ownership policy falls short.

Oaktree was a major initial financier of Caerus in 2009 and continues to have a significant ownership share alongside Anschutz and Old Ironsides Energy.[49] Caerus is an oil and gas exploration, development, and extraction company. PECR estimates its emissions at 19 Mt CO_2e annually.[50]

Meanwhile, Caerus has not indicated any intention to align its operations with net zero, or even reduce net emissions. The climate section of its annual ESG report focuses on steps being taken to mitigate marginal methane emissions in production, while simultaneously labeling its natural gas production as part of the energy transition.[51] It has not developed a transition plan, and boasts the potential for expansion of its 5,300 future drilling locations in addition to its 7,400 currently producing wells.[52] Caerus' expansion, alongside expansions of other Brookfield portfolio companies such as Natural Gas Pipeline Company of America[53] and NorthRiver Midstream,[54] shows a lack of policy to bar new expansions of oil and gas infrastructure. This is contrary to the pathway to net zero by 2050 set out by the IEA.[55]

Brookfield purchased a majority share in Oaktree with knowledge of the assets that it managed. Caerus is not an outlier in Oaktree's portfolio, which contains numerous oil and gas companies including Strawn Petroleum Holdings,[56] Diversified Gas and Oil,[57] and Palmilla Energy,[58] among others. The failure of Oaktree to sufficiently engage portfolio companies, which is evident in the case of Caerus, undermines Brookfield's portfolio company engagement strategy claims.

49 PECR, Brookfield Emissions (December 2023).

50 *Ibid.*

51 Caerus, Environmental, Social, Governance Report 2022 (August 2023) at 5.

52 Caerus, Operations (n.d.).

53 NS Energy Business, Gulf Coast Southbound Expansion Project Phase Two US (2021)

54 NorthRiver Midstream, NEBC Connector.

55 IEA, World Energy Outlook 2022, (Oct. 2022) at 79.

56 Oaktree, Special Situations Portfolio Companies.

57 Diversified Gas and Oil, Diversified Gas & Oil PLC Announces Strategic Participation Agreement, (October 2020).

58 Business Wire, Announcing the Formation of Palmilla Energy LLC (September 2016).

"white smoke from factory chimney" by Pawel Czerwinski on Unsplash.

INVESTING IN CLIMATE SOLUTIONS

Brookfield features in its 2022 Sustainability Report an ambition to grow its renewable energy and transition AUM to $200 billion[59] and features $7 billion in green bonds and sustainability-linked loans (SLL) in 2022 as "supporting the world's transition to a net-zero economy."[60] We note that neither green bonds nor SLLs guarantee any emissions reductions, with "sustainability-linked" instruments coming under extensive criticism for greenwashing.[61]

The Transition Funds include investments in:

- Clean energy,
- Power transformation services,
- Nuclear energy, and
- A "diverse set of other sustainable solutions."[62]

The final category of "other sustainable solutions" lacks sufficient detail to assess. Similarly, Brookfield does not indicate what projects qualify as an SLL, but for its Green Bond and Preferred Securities Framework, it lists:

- Green buildings,
- Renewable energy generation,
- Energy efficiency and management, and
- Sustainable water and waste management.

Brookfield stated in its green bond framework an intention to publicly report on the quantitative results, e.g. energy savings, renewable capacity developed, of its green financing instruments.[63] However, no results have been published since August of 2021. Brookfield's August 2021 report claimed annual emissions savings of 8,089 t CO_2 from $1.1 billion of green bonds.[64] While an early report, and likely not fully representative of the impact of ongoing sustainable financing, Brookfield has not published any further metrics in relation to those green instruments, though Brookfield Renewable has reported on installed capacity.[65]

Brookfield's investment in climate solutions are significant, but could benefit from more clearly defined guardrails, like those proposed in the GFANZ document that defines transition finance. In addition, metrics to report on their impact on real-word emissions are needed to assess the efficacy of its sustainable financing efforts.

59 Brookfield Asset Management, 2022 Sustainability Report (June 2023) at 9.

60 *Ibid*, at 7 and 55.

61 See for example: Fintech.global, "FCA reveals greenwashing concerns in the sustainability-linked loan market" (July 3, 2023), and Bloomberg.com, "Empty ESG Pledges Ensure Bonds Benefit Companies, Not the Planet" (October 4, 2022).

62 Brookfield Asset Management, 2022 Sustainability Report (June 2023) at 53.

63 Brookfield, Green Bond and Preferred Securities Framework (November 2021) at 9.

64 Brookfield, Green Bond Report (August 2021) at 12.

65 Brookfield Asset Management, 2022 Sustainability Report (June 2023) at 53.

EXIT

Brookfield does not comprehensively report on whether and how its exits from portfolio companies contribute to the economy's net zero transition. That being said, Brookfield does consider ESG considerations as part of its value creation leading to an investment exit. And, "where applicable," Brookfield prepares "qualitative and quantitative data that summarize the ESG performance of the investment and [provides] a holistic understanding of how [it] managed the investment during the holding period." Neither the metrics used, nor the actual assessments, are made publicly available.

LOBBYING

Brookfield offers a broad commitment to climate lobbying in its climate strategy, stating a commitment to "facilitate knowledge sharing and advocate, where necessary, across multiple channels."[66] It also acknowledges the need for governmental action in addressing the climate crisis, stating that "credible public policy can provide the foundation for the transition to net zero."[67] Brookfield has not published any formal statement as to its broader lobbying goals or specific stances on specific climate policy.

Its self-noted advocacy includes:[68]

- Collaboration on GFANZ initiatives,
- Contributions to white papers and articles on decarbonization, and
- An array of climate group memberships.

Whereas Brookfield claims to "seek opportunities to work with public stakeholders where we can help shape public opinion and influence government actions,"[69] its lobbying for major climate policy has been largely invisible. Brookfield's Sustainability Report claims that Brookfield Renewable advocated for the passage of the U.S. Inflation Reduction Act ('IRA'), though no public statement made prior to passage could be found to verify that claim.[70] While Brookfield advocated for the IRA's passage, broader and public support for key climate policies would help bolster support for the necessary regulatory and policy changes needed to enable a 1.5 degree future.

When Brookfield initially appointed Mark Carney Vice Chair and Head of ESG Investing, it cited the importance of his past and ongoing advocacy work as a key aspect where Carney could bring value to Brookfield.[71] Acting as the United Nations Special Envoy for Climate Action and Finance, and Co-Chair for GFANZ, Carney has simultaneously been promoted to Chair of Brookfield Management and Head of Transition Investing.[72]

66 *Ibid,* at 61.

67 Brookfield, Transforming Businesses for a Zero-Carbon World, (May 2021).

68 Brookfield Asset Management, 2022 Sustainability Report (June 2023) at 65.

69 *Ibid*, at 64.

70 *Ibid*, at 66.

71 GlobeNewswire, Brookfield Announces Appointment of Mark Carney as Vice Chair and Head of ESG and Impact Fund Investing (August 2020).

72 Brookfield, Leadership (n.d).

Carney has been publicly outspoken regarding the need for ambitious governmental intervention in addressing the climate crisis. He has given speeches on the fundamental intersection between climate policy and macroeconomic policy, and has advocated in favor of escalating carbon taxes. But, Brookfield has been absent in lobbying for actual specific pro-climate policy, such as with the proposed emissions cap for the Canadian oil and gas sector.

In fact, companies in Brookfield's portfolio are engaged in fossil fuel lobbying which actively opposes a net zero transition. For example, Inter Pipeline Ltd. which was acquired by Brookfield Infrastructure in 2021, is a member of the Canadian Association of Petroleum Producers (CAPP).[73] CAPP is one of Canada's most active lobbying groups[74] and opposes key climate policies such as emissions caps[75] while promoting oil and gas expansion. Both financial institutions and oil companies have chosen not to renew their CAPP memberships over climate concerns in recent years.[76, 77]

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[73] CAPP, Associate Members.

[74] Canada's National Observer, Big Oil Rebrands its Lobbying Efforts (July 2023).

[75] CAPP, Discussion Paper on Federal Options to Cap and Cut GHG Emissions (September 2022).

[76] CBC, Scotiabank no longer a member of oil and gas lobby group CAPP (May 2022).

[77] Global News, Total writes off $9.3B in oilsands assets, cancels CAPP membership (Jul. 2020).

RECOMMENDATIONS

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In theory, private equity investments have the capacity to help transition companies. Board control paired with longer investment outlooks enable a dedicated private equity investor to identify and execute transition opportunities.

Brookfield, Canada's largest private equity investor, has the opportunity to not only achieve its net zero commitment, but also live up to its potential to be a leader in the net zero transition. Based on our analysis, the following recommendations would help address the significant gaps in Brookfield's climate action plan:

EMISSIONS REPORTING

- Expand financed emissions reporting to include all assets, Oaktree, material scope 3 emissions, complementary metrics, and clearly defined emissions attribution boundaries.

INTERIM & LONG-TERM TARGETS

- Provide an ambitious and specific timeline for portfolio-wide net zero alignment, beyond Brookfield's general commitment to align its entire portfolio by 2050 from the 24% of AUM covered today.
- Expand scope of emissions reduction targets to include scope 3 downstream emissions.

ACQUISITION STRATEGY

- Establish a net zero-aligned acquisition strategy, including filters for coal and oil and gas expansion, that at least align with the IEA Net Zero by 2050 scenario.
- Develop a viable pathway to net zero for all new acquisitions prior to investment committee decision.

ACTIVE OWNERSHIP

- Create a net zero aligned active ownership strategy with timelines and consequences for non-compliance.
  - For example, SBTI recommends developing Paris-aligned targets within 12-months of acquisition, followed by net zero transition strategies, and regularly reporting progress towards targets.
  - Consequences for non-compliance could include portfolio company executive bonuses, management change, or potential for reduction in stake/divestment with non-compliance.
- To be clear, net zero alignment refers to scope 1 to 3 financed emissions as well as the criteria outlined in the IEA's Net Zero by 2050 report and updates thereto. This precludes oil and gas expansion and limits the use of offsets and CCUS to marginal emissions.

INVESTING IN CLIMATE SOLUTIONS

- Disclose resulting impact metrics from financing with 'green' or 'sustainable' labels, as well as from transition fund investments.
- Development of clear definitions and updated metrics for climate solutions financing to avoid greenwashing.

EXITS

- Comprehensive reporting on company exits and their relationship to the economy-wide net zero transition.

LOBBYING

- Ensuring the firm shows up publicly on the right side of specific climate policy debates, for example oil and gas sector emissions caps.
- Ensuring that portfolio companies are not engaged in lobbying counter to the goals of the Paris Agreement, for example membership in industry organizations that lobby against climate regulations.

APPENDIX I. PRIVATE EQUITY & NET ZERO BEST PRACTICES

There are three categories of actions that private equity firms can adopt to ensure progress towards net zero:

1. Comprehensive reporting of climate transition risk,
2. Interim and long-term net zero goals aligned with climate science, and
3. A net zero strategy, which includes policies covering:
   a. Acquisition,
   b. Active ownership and engagement,
   c. Climate solutions investing, and
   d. Paris-aligned political and industry lobbying.

Each of these elements, and associated best practices are described in more detail below.

These best practices are geared towards traditional private equity investments, which involve general partner investments, board seats, and management control; however, the principles can also inform limited partners in selecting general partners, and also net zero planning for alternative private investments, like private credit.

REPORTING CLIMATE TRANSITION RISK

> *"PE firms that fail to [...] disclose fossil fuel investments and lending make themselves susceptible to risk of stranded assets and reputational damage."*
> —SBTi[78]

Climate transition risk is the financial risk associated with carbon-intensive assets that may lose value as a result of the economy's net zero transition whether as a result of climate regulation, low-carbon technology developments, or changing customer preference, among others. For financial institutions it is primarily reported in terms of absolute annual financed greenhouse gas emissions[79] that are not associated with legitimate net zero transition strategies, for example, those certified by the Science-Based Targets initiative.

KEY SOURCES OF BEST PRACTICES:

- IIGCC, Net Zero Investment Framework Component for the Private Equity Industry (May 2023)
- KPMG, TCFD Implementation Considerations for Private Equity (Oct. 2022)
- ICI, Greenhouse Gas Accounting and Reporting for the Private Equity Sector (May 2022)
- SBTi, Private Equity Sector Science Based Target Setting Guidance (Nov. 2021)

[78] SBTi, Private Equity Sector Science Based Target Setting Guidance (Nov. 2021) at 30.

[79] Reported based on the methodology set out by the Partnership for Carbon Accounting Financials, Financed Emissions, the Global GHG Accounting and Reporting Standard (Dec. 2022).

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Guidance for measuring financed emissions is provided by PCAF and the GHG Protocol. The latter outlines three ways to determine the boundaries of institutional GHG inventories: operational control, financial control, and equity share.

For private equity firms, the Science Based Targets initiative ('SBTi') recommends reporting financed emissions according to the operational or financial control methods.[80] Operational control involves reporting 100% of emissions where the firm holds "full authority to introduce and implement its operating policies,"[81] which may require approval of joint financial partners.[82] Financial control also involves reporting 100% of a portfolio company or an asset's emissions where the firm holds "the majority risks and rewards of ownership of the operation's assets."[83] The control approach requires that all portfolio companies also report based on the control method.[84]

Because the PCAF emissions accounting methodology is based on shifting company value, complementary metrics are also necessary to interpret the cause of increases or decreases, such as:

- Financial commitment: annual investments, direct project financing, and lending to fossil fuel projects and companies.[85]
- Physical emissions intensity: emissions per unit of physical output allows comparison within a sector.
- Share of renewables: for investment in energy companies, share of energy produced by renewable generation.[86]
- Dollar intensity: emissions per dollar of revenue or WACI (weighted average carbon intensity) helps compare emissions intensity across portfolios.[87]

According to the SBTi, financed emissions should be reported for scopes 1 to 3 where scope 3 represents 40% or more of emissions[88] for both investment and lending activities within managed funds. Some exclusions are permitted by SBTi, namely:

- Private companies acquired within 24 months or less and without validated science-based targets,[89] and
- Where the private equity firm does not have operational or financial control.

Using control as an emissions reporting boundary presents a potentially significant gap in climate risk disclosure, especially where private equity firms have major non-controlling investments in high-carbon assets. An example of an alternative and more ambitious boundary is provided by the Ontario Teachers' Pension Plan, which has set a target to align the portfolio companies in which it has significant stakes, either minority or control.[90]

Finally, even though private equity involves ownership and management control, SBTi recommends that associated emissions be reported as scope 3, category 15 financed emissions.[91]

80 SBTi, Private Equity Sector Science Based Target Setting Guidance (Nov. 2021) at 34.

81 *Ibid*.

82 ICI, Greenhouse Gas Accounting & Reporting for the Private Equity Sector (May 2022) at 16.

83 SBTi, Private Equity Sector Science Based Target Setting Guidance (Nov. 2021) at 34.

84 ICI, Greenhouse Gas Accounting & Reporting for the Private Equity Sector (May 2022) at 16.

85 SBTi, Private Equity Sector Science Based Target Setting Guidance (Nov. 2021) at 30.

86 ESG Data Convergence Initiative, "Metrics" (n.d.).

87 KPMG, TCFD Implementation Considerations for Private Equity (Oct. 2022) at 80; See also: ESG Data Convergence Project, Metrics (accessed Sept. 2023).

88 SBTi, Private Equity Sector Science Based Target Setting Guidance (Nov. 2021) at 28.

89 *Ibid*, at 28.

90 Ontario Teachers' Pension Plan, 2022 Annual Responsible Investing and Climate Strategy Report, at 15.

91 Per the GHG Protocol (*Ibid*, at 23).

SETTING TARGETS

In order to reduce transition risk, financial institutions should set interim and longer-term financed emissions reduction targets across all financed emissions in line with the Paris Agreement. This means interim targets for 2030, consistent with a fair share of the 50% global reduction in scope 1 to 3 greenhouse gasses from a 2019 base year, identified as a requirement in the IPCC special report on global warming of 1.5°C.[92]

For private equity companies in the Net Zero Asset Managers initiative (NZAM), they are committed to ratchet up the amount of their AUM committed to net zero over time. This vague commitment can result in delayed action, so adding ambitious AUM coverage goals and timelines is required. For example, the Ontario Teachers' Pension Plan has committed 67% of portfolio emissions to be covered by 2025, and 90% of portfolio emissions to be covered by its interim target by 2030.[93]

For transparency, private equity firms should disclose the percentage of their total investment and lending activities covered by portfolio targets.[94]

These targets should be set at the group or parent company level for all subsidiaries and funds.[95] The SBTi recommends three different target-setting methods for private equity, depending on the asset class, the:

- Sectoral decarbonization approach (SDA),
- Science-based target coverage approach (SBT), and
- Temperature rating approach.

The SDA involves setting physical intensity targets that converge with established net emissions intensity pathways, e.g. the IEA net zero pathway.

The SBT approach requires investee company targets be reviewed through SBTi's validation process. SBTi recommends setting a target that "all current and future funds, starting from the base year selected by the firm, are on a linear path to 100% SBT coverage by 2040, at the latest."[96]

In cases where the SBT approach is too cumbersome, SBTi suggests the Temperature Rating method, which involves translating investee companies' emissions targets to an equivalent future temperature and where no target is set assuming a default of 3.2°C.

For Limited Partners, IIGCC recommends setting a target of private equity financing to General Partners aligned with net zero, e.g. 45% of private equity committed capital will be managed by General Partners in alignment with net zero by 2030.[97]

To ensure accountability, private equity firms should continuously report on their progress towards these targets.

[92] See for example: IIGCC, Net Zero Implementation Framework Implementation Guide (March 2021) at 28.

[93] Ontario Teachers' Pension Plan, 2022 Annual Report, at 40.

[94] IIGCC, Net Zero Implementation Framework Implementation Guide (March 2021) at 30.

[95] *Ibid*, at 22-23.

[96] *Ibid*, at 28.

[97] IIGCC, Net Zero Investment Framework Component for the Private Equity Industry (May 2023) at 21.

NET ZERO STRATEGY

A net zero plan also requires details on how the company will achieve its targets. GFANZ provides financial sector-wide support on developing net-zero transition plans.[98] For private equity in particular, there are four opportunities to ensure progress towards net zero:

- The preliminary decision to acquire an interest in a company,
- Engagement with the company throughout the holding period,
- The timing and structure of an exit, and,
- Ongoing broader net zero lobbying with industry and governments.

Best practices for each are provided below.

For Limited Partners, the following elements can form part of a filter when selecting General Partners in which to invest. They can also be used to engage with existing investments with General Partners to establish credible net zero plans. Limited Partners should report on these engagements.[99]

ACQUISITION

If committed to net zero, the initial decision of a private equity firm to invest or lend to a new company has a significant impact on its climate risk because it typically involves long-term holding periods and significant financial commitments.

In order to align with its net zero commitment, the decision to invest or lend should be based on the company or asset's realistic potential to align with a net zero future. This would involve a managed phaseout of high-emitting assets that are unable to align with net zero and the development of a net zero transition plan for remaining assets.[100] To be clear, this means no new or expansion of existing fossil fuel production.[101]

According to the SBTi, some companies are incompatible with a net zero future, and should be excluded from consideration, such as thermal coal companies.[102] There may be instances where thermal coal forms part of an acquisition, but would need to be the subject of a managed phaseout in accordance with Paris-aligned guidance.[103] The Powering Past Coal Alliance Declaration says that coal phase out is needed in OECD countries by 2030 and globally by 2040.[104]

To enable this assessment, investment committees need good data to assess current and future climate risks and opportunities. To ensure accountability, investors then require ongoing reporting against stated decarbonization plans over the hold period and upon exit.

A private equity net zero strategy requires an explicit net-zero aligned acquisition policy.

98 GFANZ, Recommendations and Guidance on Financial Institution Net-zero Transition Plans (November 2022).

99 SBTi, Private Equity Sector Science Based Target Setting Guidance (Nov. 2021) at 19.

100 GFANZ, Defining Transition Finance and Considerations for Decarbonization Contribution Methodologies, Consultative Document (Sept 2023).

101 IEA, Net Zero by 2050: A roadmap for the global energy sector report (May 2021) at 99.

102 GFANZ, Defining Transition Finance and Considerations for Decarbonization Contribution Methodologies, Consultative Document (Sept 2023) at 29.

103 See for example: GFANZ, The Managed Phaseout of High-emitting Assets (June 2022).

104 Powering Past Coal Alliance Declaration (2017).

ACTIVE OWNERSHIP

During ownership, General Partners can use their influence over management to prioritize the development, implementation, and reporting on progress towards company net zero targets. SBTi recommends that private equity firms put in place company engagement strategies that prioritize:

1. Setting Paris-aligned targets across their portfolio within 12-months of acquisition;[105]
2. Publishing targets and transition plan in integrated financial reporting (per TCFD recommendations);
3. Ending capital expenditures in new high-carbon projects, increasing capital expenditures in low-carbon projects, and setting a clear timeline for the closure of existing high-carbon assets;
4. Reviewing and ratcheting up targets and transition plans in light of evolving climate science; and
5. Lobbying in support of net zero.

The IIGCC guidance for private equity also provides clear engagement actions that are expected across various asset classes, at varying levels of control, with specific timelines, both for General Partners and Limited Partners.[106]

Additionally, where IEA's net zero roadmap cites no new oil and gas fields beyond existing approved developments, net zero by 2050 portfolio alignment necessitates the barring of oil and gas expansion by portfolio companies.

To track progress on private equity climate engagement strategies, investors need reporting on portfolio companies and asset decarbonization. Indeed, the ESG Data Convergence Initiative just announced that it will start collecting data for its private equity membership regarding portfolio company decarbonization and net zero commitments.[107]

EXIT

A private equity investor's exit from a portfolio company or asset can involve the company going public, being bought by another private investor, or filing for bankruptcy. Ideally, when a private equity firm exits an investment this supports the company's or assets' ongoing decarbonization. However, some investments may not have a realistic path to decarbonization, and will need to be wound down[108] to minimize the private equity investor climate risks, e.g. thermal coal and other non-transitioning fossil fuel assets.

Environmental Defense Fund Business recommends private equity firms commit, where possible,

> *[...] to sell assets only to companies with net zero commitments and transparent emissions reporting [and] for oil and gas, investors can ask buyers to address asset retirement, ensuring that wells and facilities are decommissioned appropriately.*[109]

[105] SBTi, Private Equity Sector Science Based Target Setting Guidance (Nov. 2021) at 28.

[106] IIGCC, Net Zero Investment Framework Component for the Private Equity Industry (May 2023) at Figure 7 for GPs, at Figure 8 for LPs.

[107] EDCI, September Newsletter.

[108] See winding down advice from US consulting firm BSR, Exit Strategies for Dirty Assets (n.d.).

[109] EDF Business, Private equity enters the race to zero (Feb. 2022).

GFANZ provides some guidance in The Managed Phaseout of High-emitting Assets which includes:

- Ensuring that capacity for continued service remains following phaseout,
- Ensuring there is sufficient capital to execute the phaseout,
- Specification of escalation policy for failure to complete a phaseout,
- Designing a tailored local lobbying plan, and
- Setting targets and continually monitoring progress.

A comprehensive net zero strategy will include reporting on exits and how these align with economy-wide net zero transition.

INVESTING IN CLIMATE SOLUTIONS

A private equity net zero transition plan is not just about minimizing climate risks; it is also about maximizing climate-related opportunities, which include investing in the technologies that are necessary to enable the transition. Indeed, increased investment in this underfunded asset class is necessary to enable a sustainable transition. In its recently released consultation document, GFANZ defines climate solutions as follows:

> *Technologies, services, tools, or social and behavioral changes that directly contribute to the elimination, removal, or reduction of real-economy GHG emissions or that directly support the expansion of these solutions. These solutions include scaling up zero-carbon alternatives to high-emitting activities — a prerequisite to phasing out high-emitting assets — as well as nature-based solutions and carbon removal technologies.*[110]

The document also provides several additional attributes that ensure the investment is in fact a climate solution.[111] According to GFANZ, to ensure this financing is taking place, it's critical that signatories properly define the asset class, track their financing to this asset class, and quantify or approximate the expected real-world economy emissions reduction impacts of their capital allocations.[112]

Setting investment targets for this segment is also recommended.

[110] GFANZ, Defining Transition Finance and Considerations for Decarbonization Contribution Methodologies, Consultative Document (Sept 2023) at 15.

[111] *Ibid*, at 16.

[112] *Ibid*, at 15.

LOBBYING

In order to enable a net zero transition within their portfolios, private equity firms will need to lobby within the financial sector and beyond for supportive policies. Without such policies, private equity firms will not meet their net zero targets. Lobbying forms a key part of net zero commitments under the Glasgow Financial Alliance for Net Zero (GFANZ).[113]

To ensure net zero portfolio alignment, private equity investors need to ensure their portfolio companies are only engaged with political lobbying that supports the goals of the Paris Agreement. A UN expert group on net zero emissions commitments cites steps for net zero aligned industry lobbying practices.[114] Recommendations include:

- Advocating for climate action within industry associations,
- Developing an escalation strategy for when industry associations do not lobby in alignment with net zero, and
- Ceasing membership where the association fails to comply.

113 See for example: Net Zero Asset Managers initiative, Commitment (n.d.) at 8 and 9.

114 UN High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions (Nov. 2022) at 25.

APPENDIX II.
EMISSIONS DATA METHODOLOGY

"Cotton grass" by Alaska Region U.S. Fish & Wildlife Service is marked under the Public domain.

The Brookfield financed emissions data collected by the Private Equity Climate Risks ('PECR') is:

- Based on the fossil fuels assets of Brookfield's energy portfolio companies as of Q3 2023;
- Relates to upstream (i.e. oil exploration and production), midstream (i.e. oil & gas distribution, transportation, storage, refineries, and processing), and downstream (i.e. power generation) energy infrastructure; and
- Results from stationary combustion, fugitive, and process emissions.

These emissions are attributed to Brookfield if it is invested at any level.

For midstream fossil fuel companies, the data only includes the emissions from the process of and fugitive emissions associated with transporting, storing, and processing the fuels (i.e. not end-use combustion).

To avoid double counting, downstream (i.e. power generation) emissions were only added into the total when downstream values exceeded the upstream emissions values (and vice versa).

A more detailed description of the data collection methodology enlisted for the PECR emissions data referenced in the body of this report is available at peclimaterisks.org/brookfield-emissions/.

Upon review of the methodology and data inputs enlisted by the PECR to develop their financed emissions estimates, Brookfield provided the following statement:

> *"Brookfield has reviewed the report and notes that it cites emissions data that are based on unclear inputs and deploys an opaque methodology that appears to run counter to standard global reporting requirements. It also substantially misconstrues our corporate structure and presents emissions data in a manner that lacks context, making it susceptible to significant inaccuracies."*

While Brookfield objects to PECR's estimation, it does not provide an alternative accounting of the downstream emissions associated with its energy portfolio. This has resulted in a substantial undercounting of emissions. As such, we encourage Brookfield to offer more robust emissions disclosures in order to ensure shareholders are able to accurately assess the transition risk associated with their holdings.

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