3i Group plc set near-term science-based emissions targets which were validated by the Science Based Targets initiative (SBTi) in March 2024. These cover both 3i's direct operations and its investment portfolio. Working towards the achievement of these targets will ensure that 3i and its portfolio companies meet stakeholder expectations and regulatory requirements in relation to the transition to a low carbon economy, says 3i's Sustainability Senior Manager, Hanna Senakosava.

What is 3i's motivation behind setting the targets and what benefits do you see in setting them?

Reducing the emissions associated with our own operations and our portfolio is an important part of delivering our sustainability strategy. Our strategy is based around the three priorities of investing responsibly, recruiting and developing a diverse pool of talent and acting as a good corporate citizen.

Invest responsibly

Our approach to responsible investment is driven by more than just a desire to 'do the right thing'. It also supports the delivery of attractive returns from our portfolio over the long term. Having a viable decarbonisation strategy is an important strategic and commercial priority for many of our portfolio companies, as they strive to meet the expectations of the customers and the communities that they serve, as well as the decarbonisation objectives set by the governments of the countries in which they operate. As long-term investors, we therefore want to ensure that our portfolio companies are in a good position for the transition to a low carbon economy. Being 'transition ready' and having science-based targets in place will also help make our portfolio companies more attractive to potential buyers.

Recruiting and developing a diverse pool of talent

We are a people business, and our success is built on recruiting, retaining and developing talented employees that work collaboratively to deliver our purpose. Setting out a clear climate strategy, backed up by credible targets is important in communicating clear objectives to our staff and inspiring them to work towards our shared goals.

Act as a good corporate citizen

With fewer than 250 employees across six office locations, our direct environmental footprint is small. Our impact on the environment is determined largely by our portfolio. That said, we are keen to reduce our direct impact on the environment and have therefore set science-based targets to reduce the emissions from our own operations. We are committed to play our part, however small, and to lead our portfolio companies by example.

"As long-term investors, we therefore want to ensure that our portfolio companies are in a good position for the transition to a low carbon economy. Being 'transition ready' and having science-based targets in place will also help make our portfolio companies more attractive to potential buyers."

Hanna Senakosava

What are 3i's targets and what is covered by them?

Scope 1 & 2 (own operations)

3i Group plc commits to reduce its absolute Scope 1 and 2 (market-based) GHG emissions by 42% by FY2030 from a FY2023 base year.

Scope 3 (portfolio emissions)

3i Group's portfolio targets cover 82% of its total investment by invested capital as of FY2023. 3i commits to:

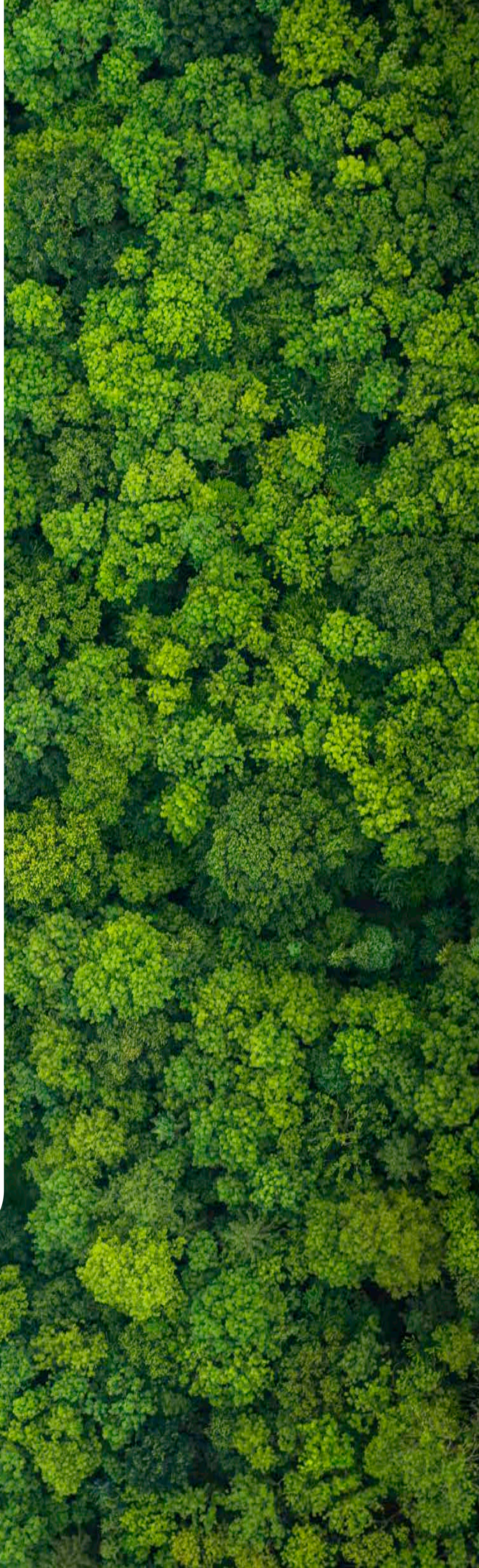
- 31% of its listed and eligible Private Equity portfolio by invested capital setting SBTi validated targets by FY2028 and 100% by FY2040 from a FY2023 base year
- A 68% per megawatt-hour ("MWh") reduction in GHG emissions from the electricity generation sector within its eligible portfolio by FY2030 from a FY2023 base year

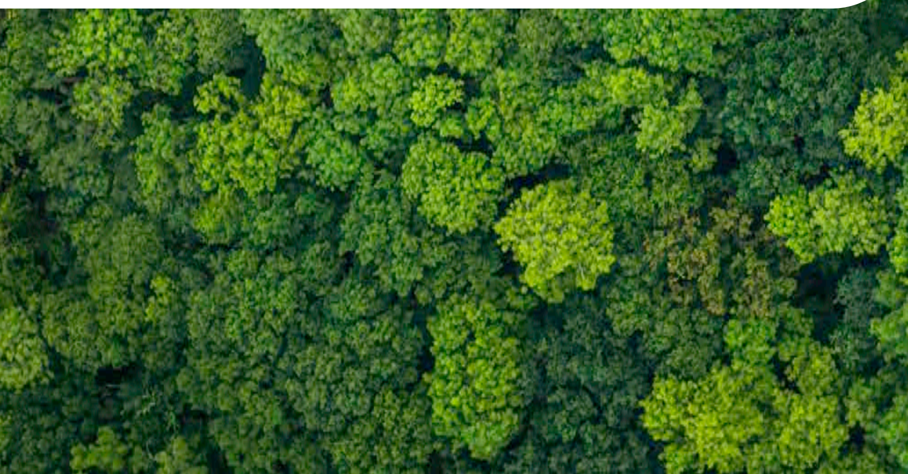
We have developed several different targets in line with the SBTi guidance for the Private Equity industry and Financial Institutions. The first target covers the emissions from our own operations. These are principally emissions from electricity, heating and air conditioning in our offices.

We then have two targets relating to our portfolio, in line with SBTi guidance which prescribes a different target-setting methodology depending on the nature of the portfolio company.

Most of our portfolio companies are covered by the **portfolio coverage approach target**. This is essentially a target of targets, which requires our portfolio companies themselves to set SBTs. Only companies where we have a board seat and own or manage more than 25% of the equity are included in this target. This target is measured using invested capital.

A special approach, called **sector decarbonisation approach**, is required for electricity generation companies. It requires us to reduce the emissions intensity of our portfolio of electricity generation companies by a certain percentage in line with the overall sector reduction necessary for achieving the Paris Agreement goal. The SBTi prescribes a special approach in this case because the electricity generation sector is crucial to the transition to a low carbon economy.





Why did you not include any other Scope 3 categories in your target?

We want to focus on categories of Scope 3 where we have the most impact. As the majority of our emissions are generated by our portfolio, we have decided to not go beyond the SBTi's requirements in the first instance.

Why did you choose SBTi as a framework?

We reviewed a number of possible target-setting frameworks before settling on the SBTi. We chose the SBTi framework because it is based on science, has achieved widespread credibility and has been adopted by many companies. This means our targets can be checked against a published methodology and benchmarked against those set by our peers, providing great transparency and comfort for our stakeholders. While there were some published frameworks that provide a high-level approach to target setting for financial institutions at the time of the review, none of them were as detailed as the SBTi guidance and none provided specific guidance for the Private Equity industry. Validation from SBTi also helped us to be confident that the targets have been set in line with the guidance provided.

Why did you not commit to nor set a net zero target?

SBTi has not yet published the final net zero guidance for the Private Equity industry or for Financial Institutions. We would like to follow the same approach to net zero as we did for our near-term targets, namely to follow public guidance, to provide comfort to our stakeholders that our targets are based on science and can be considered credible.

How are you planning to achieve the targets?

We are already working on progressing our targets.

As it relates to our operations, our strategy to meet the target involves engaging with our landlords on the energy efficiency of our premises and on using less carbon intensive energy sources. We are also engaging with energy suppliers directly or through our landlords on the procurement of renewable electricity.

As it relates to portfolio targets, our plan is based on our engagement with portfolio companies to help them to align for transition. As part of that, we expect our portfolio companies to measure and report to us their Scope 1 and 2, and where appropriate, Scope 3 GHG emissions, to develop decarbonisation plans and to set their own science-based targets.

What are the challenges that you foresee in achieving the targets?

We and our portfolio companies rely on governments across the world to continue to facilitate the expansion of the renewable electricity industry to meet the requirements of the energy transition. The achievability of our targets might be impacted if progress against that objective slows or stalls.

Some of our portfolio companies will have to rethink their business models or redesign a number of processes to be able to achieve their targets. In some cases, this could require significant investment, absorbing financial resources and management focus. As long-term investors, our focus will be on working with our portfolio companies to ensure that they are ready for the challenge of the energy transition and prioritise long-term success over shorter-term priorities.