

Preqin's Response to SEC Climate Change Disclosure

Dear Chair Gensler,

On behalf of Preqin Ltd., we thank you for the opportunity to share our thoughts on the importance of climate-related transparency in the private markets. Preqin is The Home of Alternatives™, the foremost provider of data, analytics, and insights to the alternative assets community. We have pioneered rigorous methods of collecting private data for almost 20 years, with an unwavering focus on alternative assets management. Our revolutionary analytics platform provides more than 110,000 professionals with cutting-edge workflow tools and insights to how they raise capital, source deals and investments, understand performance, and stay informed.¹ As a signatory of the UN's Principles for Responsible Investment and a carbon net-neutral company, we are highly motivated to deliver actionable ESG data and insights to our clients and embed ESG into the way we operate.

The industry needs more urgency in addressing transparency around climate change and we are grateful for the SEC's focus on this issue. We believe that climate change is a critical ESG factor, but the industry would benefit from its inclusion as part of a more holistic ESG guidance. It would be hard to meet market and public demand for ESG transparency by separating climate change from other ESG factors, such as those related to governance and social issues, including diversity, child labor and human trafficking. For that reason, we will refer to ESG throughout this commentary to be inclusive of metrics related to climate change.

In 2020, we launched Preqin ESG Solutions, which is the industry's leading standard for how ESG factors, including those related to climate change, at a firm-, portfolio-, and asset-level are measured, compared, and communicated.² Our ESG data provides the private markets with its first highly detailed and comparable breakdown of LPs, GPs, and funds' ESG profiles.

Our response below is based on our ESG data and our conversations with market participants. We hope it can prove useful to the SEC in determining its guidance regarding climate change disclosure.

Preqin is open to further discussion and communication regarding our submission. As a leading data provider, we are happy to provide the SEC with underlying ESG data and analytics on request.

The Industry Needs Clear ESG Standards Based on Existing Frameworks

Preqin helps bring transparency to the private markets by aggregating and collecting data from GPs, LPs, and other market participants. Given the role we play, we are well placed to help the SEC in its aim to provide more transparency around ESG factors. Preqin developed ESG Solutions, which is a comparable framework for comparing ESG factors in the private markets, to address a need our LP clients identified for comparable, consistent, and reliable information related to ESG.

¹ <https://www.preqin.com/about/who-we-are>.

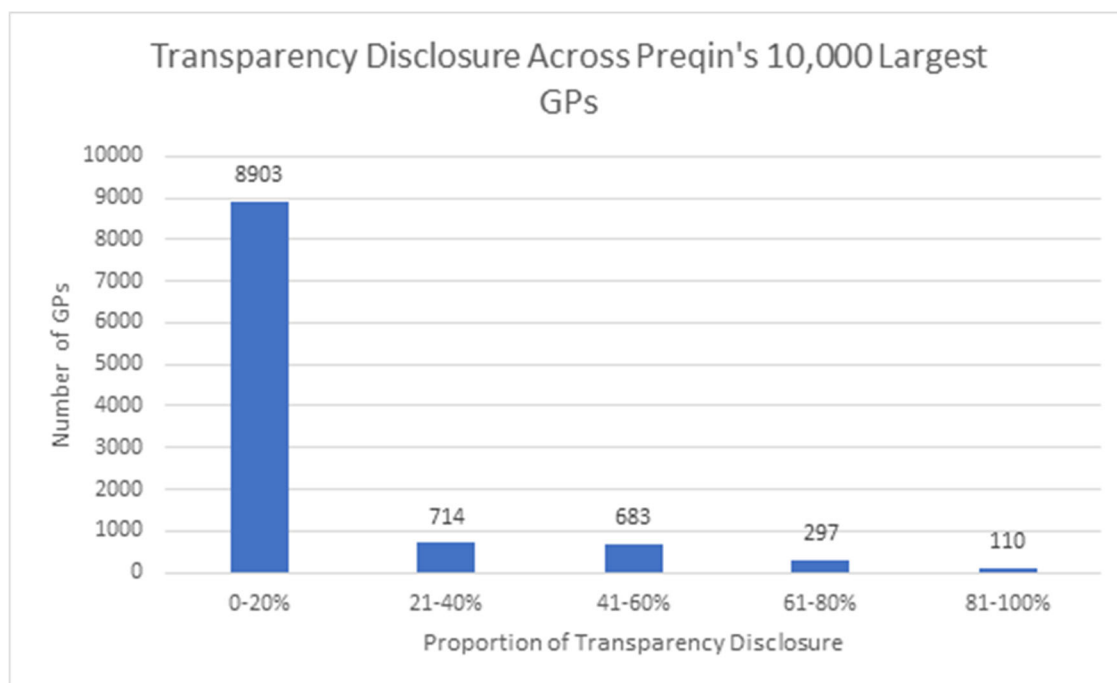
² Preqin, *ESG Transparency & Risk Methodology*, February 2021, <https://docs.preqin.com/pro/Preqin-ESG-Transparency-and-Risk-Methodology.pdf>

After extensive industry review and discussions with market participants, we developed our objective framework by incorporating those of existing providers that were already widely accepted within the industry. The industry was supportive of this approach because it reduced ‘framework fatigue’ and reduced an operational barrier by not requiring additional GPs to learn yet another framework, which would have resulted in a time and resource burden. Furthermore, a single aligned framework increases investor and asset manager communication around risks and opportunities because they both speak the same ESG language. Based on our experience, we would recommend the SEC pursue a similar approach in leveraging existing frameworks, such as SASB and TCFD, that have been well received and are widely adopted by the industry.

Data in Private Markets

We believe the industry needs more transparency across the investment chain (investors, asset managers, companies) to drive the flow of capital toward sustainable investments. To provide this transparency, Preqin is collecting disclosure information on the largest GPs and LPs to provide insight into ESG information in private markets. We have identified 37 ESG indicators impacting GPs and 12 impacting LPs, which we aligned with existing industry ESG frameworks, including PRI, TCFD, SASB, and ILPA.

Our data indicates the majority of asset management firms do not actively disclose against key ESG factors. This lack of transparency can be due to a number of reasons, including privacy, lack of an ESG process at the firm or lack of incentives to disclose data.



The current median transparency disclosure, as measured by Preqin, sits at 5% for GPs, indicating that on average, a firm has disclosed only 2 of 37 data points. The information that is commonly disclosed tends to skew towards policies (Code of Conduct, Privacy, Whistleblower) vs. raw data or performance measures (AUM, Scope 1, 2, 3 emissions, the number of companies in the portfolio with whom engagements were conducted on ESG policies or issues). This has material implications because

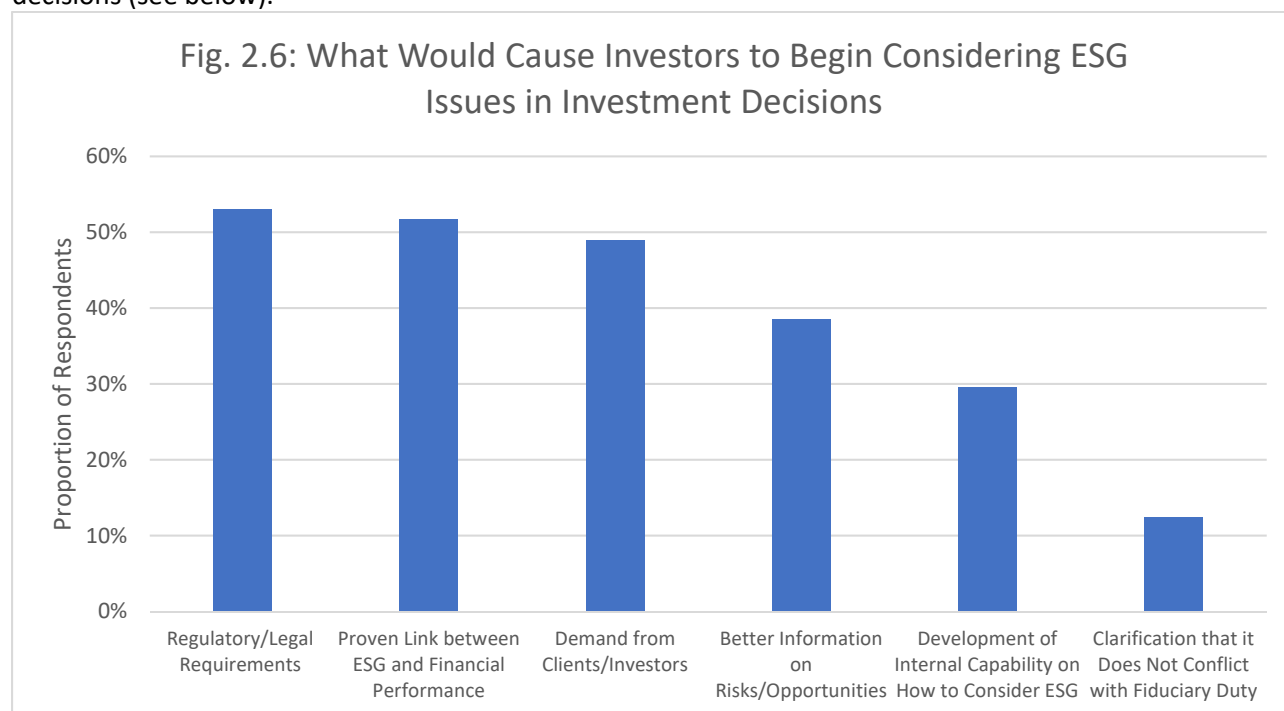
it indicates that there is a significant lack of transparency around quantitative ESG data available to investors and the public.

Policy data frequency on Preqin's platform typically falls within the 10-30% range of disclosure, meaning out of all GPs' ESG information that has been collected, approximately 10-30% have a disclosure for any given data point. The raw data/performance measures fall below the 10% threshold and become even lower as we investigate asset-level information. For example, when looking at disclosure frequency around GHG emissions at the firm level, only 6% of firms disclose this type of information; at the portfolio-level it is 4%.

While many organizations highlight the dangers of climate change and firms are eager to champion carbon neutrality, only 10% of GPs on Preqin's platform directly address climate change through statements, policies, or initiatives. Urgency is needed to push tangible change in the way climate change is communicated, analysed, and reported.

The Demand for More ESG Data

Based on Preqin's Investor Surveys conducted in November 2020, one of the top 3 reasons of why investors view ESG decisions as little to no importance is lack of information/data.³ While 8% and 29% of investors view ESG as extremely important or considerably important, respectively, reliable data remains one of the largest barriers for further ESG integration. The same survey respondents collectively identified regulatory/legal requirements as the top reason they would begin to consider ESG issues in investment decisions (see below).



³ Preqin, *Investor Outlook: Alternative Assets*, H1 2021, <https://www.preqin.com/insights/research/investor-outlooks/preqin-investor-outlook-alternative-assets-h1-2021>

In addition to the impact the SEC's regulations could have on the investor space, investors confirm that the top two reasons fund managers establish an ESG policy is due to investor demand (78%) and industry standards (67%). ESG disclosure and transparency encouraged by the SEC can and will undoubtedly lead to material change in the way we are able to ingest, analyse, and compare data in the financial sector.

Conclusion

The SEC is in an optimal position, given its market oversight, to create substantial change in the way investors, asset managers, and companies approach climate-related reporting. Through Acting Chair Lee's Questions for Considerations, it is evident the organization has a strong grasp of the landscape given the detailed issues they raise. There is opportunity for the SEC to create material change in the way we think about ESG disclosure and transparency not only to our private market players, but to the wider, general public as sustainability is pervasive every industry.

Going further, the SEC could, and should mandate how this information is disclosed, what format it should be presented in and what exactly should be covered. Preqin would likely utilize this data and overlay it with other ESG-focused data sources in order to provide a broad and clear metric from which LPs could make fully informed decisions, with ESG being a key driver of the decision-making process.

Preqin is a firm that was founded on providing data transparency, with quality, consistent data across private markets. We encourage the SEC's full exploration into finding ways we can identify material climate-related issues and encourage consistent disclosure of the underlying data to ensure our economies are accurately accounting for these risks and opportunities to enable a sustainable future.