

**KKR**

# **CLIMATE ACTION REPORT**

ALIGNED WITH THE RECOMMENDATIONS  
OF THE TASK FORCE ON CLIMATE-RELATED  
FINANCIAL DISCLOSURES (TCFD)

**KKR**

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# Introduction

**Kohlberg Kravis Roberts & Co. L.P. together with our affiliates (“KKR”), is pleased to publish our first Task Force on Climate-related Financial Disclosures (TCFD)-aligned Climate Action Report. The purpose of this report is to communicate to our investors, partners, shareholders, and other stakeholders our firmwide climate action strategy and how we consider climate across our businesses.**

The report also provides insights into the underlying processes and procedures we use for identifying, assessing, integrating, and managing climate-related risks and opportunities as a global investment firm.<sup>1</sup> The report documents activities and performance for calendar year 2020 and progress made in 2021, unless otherwise noted.

KKR has a long track record of thoughtfully integrating the consideration of environmental, social, and governance (ESG) issues into our investment process and over a decade of experience partnering with our portfolio companies on climate-related topics. For more information, please visit [www.kkresg.com](http://www.kkresg.com).

This report focuses on our work to date to develop and implement a holistic climate action strategy. We believe addressing climate change will be a multigenerational effort for society, and we approach this challenge with humility and a commitment to continuous learning and improvement. Over time, we will advance and evolve our approach to incorporating climate-related issues into the investment life cycle and expect to adjust our strategy as we do. Our work to integrate climate change risks and opportunities is – and will increasingly be – an important aspect of our firmwide ESG integration strategy.

Starting with our private markets businesses – and applying the learnings across our businesses – we have used the TCFD framework to inform our climate

Climate change is a global challenge that requires solutions at all levels. At KKR, we are thinking about both how we invest and where we invest.

Our aim is to be part of the solution by ensuring that our portfolio companies are taking climate-related risks and opportunities into account and by investing in companies that address critical climate change challenges.

strategy. As a result, we have organized this report using the TCFD’s four pillars: governance, strategy, risk management, and metrics and targets. In 2021, KKR officially became a public supporter of the TCFD recommendations.

Science, data, and extreme weather events demonstrate that the climate is changing. Climate change affects all of us as global citizens. It can also influence a business’ bottom line and its ability to compete in the future. We believe that proactively engaging on climate change is critical to managing our ability to compete and to create value for all our investors. In this regard, for example, we are committed to investing in a sustainable energy transition – one that supports and accelerates a shift to a clean energy future while recognizing the ongoing importance of supplying the conventional energy needed during the transitional period – and doing so in a responsible way. We also believe we can positively contribute to climate change solutions through our investments and ongoing engagement with portfolio companies across asset classes.

<sup>1</sup> This report describes processes used in KKR’s private markets businesses, unless otherwise expressly indicated.

# Governance

**KKR has a long track record of taking into account material ESG issues during the investment process. Climate-related issues are a component of this approach.**

We believe material ESG issues are business risks – and opportunities – that must be managed alongside other critical business matters. As such, we approach governance and management of climate change risks and opportunities as we do other key business issues.

## Responsible Investment Oversight

KKR’s senior leadership provides ultimate oversight of our responsible investment efforts. Accountability for this work extends throughout the organization, with global and regional team members collaborating to achieve strong outcomes. We have established an **ESG Committee**, which is made up of senior partners from across the Firm, to act as a single forum responsible for advancing a globally harmonized and proactive ESG agenda, including our climate strategy. To support the Firm’s efforts, we have also established a **Sustainability Expert Advisory Council** of third-party experts who advise on various areas, including climate change. For more information, please visit [www.kkresg.com](http://www.kkresg.com).

Our ESG- and climate-related activities are also overseen by our Firm’s most experienced and senior leaders through the active involvement of senior management committees. Where applicable, **Investment Committees**, which make decisions on where KKR deploys capital, oversee ESG issues that are material and relevant to new investments. Our **Portfolio Management Committees** and investment professionals have monitoring and management roles with respect to material ESG issues at portfolio companies that have been identified in the investment process. KKR also has an active **Risk and Operations Committee**, which comprises the most

senior leaders of each of KKR’s businesses. The Risk and Operations Committee meets monthly and focuses on critical operational issues, including operational oversight, legal and regulatory updates, geopolitical issues and global trends, business operations, strategic initiatives, and other significant topics relating to business operations. Our Global Head of Public Affairs, who is a member of our Risk and Operations Committee, has ultimate responsibility for our global responsible investment strategy.

Beginning in 2021, senior executives provide regular periodic reports on the Firm’s management of ESG issues, including climate change, to the Board of Directors of KKR & Co. Inc. or one of its committees. In spring 2021, we presented the Firm’s climate action strategy to the Audit Committee of the Board of Directors.

## Implementation Responsibility

In practice, the responsibility for identifying, assessing, and managing climate-related risks and opportunities lies with the investment teams, which work in partnership with subject matter experts within KKR. Our Global Public Affairs team, which includes a centralized team of experts on ESG-related matters, including climate change, regulation, and reputational topics, supports the investment teams and often helps in the due diligence process. This team also regularly engages with portfolio companies and external stakeholders on ESG matters.

The KKR Global Institute (KGI) also plays a unique role in our investment process and our work on climate change. KGI works to integrate geopolitical issues and global trends, such as climate change, into our investment process using policy and market analyses, macroeconomic analyses from the Global Macro and Asset Allocation team, and the Global Public Affairs team’s research on ESG issues.

**Figure 1: ESG-related Governance**

KKR’s senior leaders provide oversight of our responsible investing efforts, including consideration of climate-related matters. Global and regional team members, supported by subject matter experts, collaborate on an integrated approach.



The collaborative structure described above is how we incorporate climate-related risks and opportunities into the investment life cycle, with the leadership of the senior partners. The integration of climate change into the investment process is described in more detail in the Risk Management section.

## Collaboration and Partnerships

Our one-Firm approach<sup>2</sup> guides all that we do and ensures that members of various teams are involved throughout our efforts. Working together, team members collaborate with external experts<sup>3</sup> to provide resources and tools to our companies when they identify issues or opportunities. To extend our platform of expertise, and to ensure that we are on the leading edge of emerging issues and expectations, we have also established a network of external partners, including nongovernmental organizations working on climate-related issues. These partners help us and our portfolio companies understand and address various ESG issues. For more information on our partnerships, visit [www.kkresg.com](http://www.kkresg.com).

## Looking Ahead

Many of these aforementioned governance bodies are relatively new. Looking forward, we know we have work to do to further advance and integrate the consideration of climate-related risks and opportunities into our processes. We anticipate this will include ongoing training and education as well as the development of new tools and resources. We also recognize that our industry has a lot of work to do to integrate climate change into governance and decision-making. We look forward to collaborating with and learning from peers on this topic as well as engaging on industry-wide efforts to drive even more responsible investing.

### Collaborating for Climate Action

We believe it is through constructive dialogue and cross-sector collaboration that we can keep ourselves accountable for and advance climate action. KKR supports and participates in multiple climate-focused initiatives and industry-groups.

While we have a long track record of leveraging the TCFD framework as a primary input to incorporate the consideration of climate-related risks and opportunities into our investment process, we recently declared our public support for the TCFD recommendations by officially becoming a TCFD supporter. Building on our inaugural TCFD report, we are committed to continuing to apply guidance from the TCFD in our climate-related practices and disclosures in the future.

Additionally, we recently joined the Initiative Climat International (iCI), a global community of investors

who seek to better understand and manage the risks associated with climate change. iCI is endorsed by the UN-supported Principles for Responsible Investment (PRI), of which KKR is also a signatory.

We also help lead the Private Equity Working Group recently formed by Ceres, an influential nonprofit focused on sustainability issues. The working group aims to effectively address the impacts, risks, and opportunities of climate change while aligning investment practices of private equity portfolios with the goals of the Paris Agreement. As part of this effort, the working group will support Limited Partners and General Partners in establishing climate action plans with an aim to achieve net-zero emissions by 2050 by setting interim targets and tracking progress over time.

<sup>2</sup> See Important Information for additional disclosure regarding KKR's internal information barrier policies and procedures, which may limit the involvement of personnel in certain investment processes and discussions.

<sup>3</sup> Senior Advisors, Industry Advisors, and KKR Advisors are engaged as consultants and are not employees of KKR. See [Important Information](#) for more detail.

# Strategy

## Climate change presents potential risks and opportunities to our investment funds and to our Firm, and we are constantly working to better understand both.

Given the scale of our investment activities, and as an office-based company with a limited footprint, our investment portfolio is much more relevant from a climate risk and opportunity perspective and, therefore, a focus of our climate action strategy. As part of our ESG-related work, we have focused on implementing processes to identify, assess, and manage climate-related risks and opportunities, when relevant. We describe these processes in the Risk Management section that follows.

Through these processes, we have begun to understand the climate-related physical<sup>4</sup> and transition<sup>5</sup> risks and opportunities relevant to our Firm, as identified by the TCFD recommendations. To supplement our internal analysis, we also worked with Manifest Climate, an external climate consulting firm, to provide a third-party assessment of climate-related risks and opportunities in KKR's private markets portfolio. In conducting this portfolio climate review, our aim was to help set the foundation for an enhanced climate action strategy. Through a better understanding of the evolving climate issues affecting each industry, we hope to better frame and inform engagement priorities to advance climate action and build resilience across the portfolio.

### Climate Action Strategy

KKR recognizes that, as investors, we have a critical role to play in enabling and supporting climate action. We are addressing climate change by:

**Integrating climate considerations into our investment processes.** We believe climate change is relevant in different ways across industries and we are enhancing processes to identify, assess, and manage climate-related risks and opportunities in our overall ESG integration efforts.

**Investing in the energy transition.** KKR is committed to investing in a sustainable energy transition, one that accelerates a shift to a clean energy future while recognizing the ongoing importance of responsibly and safely supplying the conventional energy needed for well-being and economic growth around the world today. To achieve these goals, we invest in a diverse range of energy sources, including renewable energy such as wind- and solar-power generation. KKR is now the ninth largest owner<sup>6</sup> of solar assets in operation and under construction in the United States.

Additionally, KKR's Global Impact Fund was established to invest in businesses delivering solutions to critical global challenges across four thematic areas, including climate action and sustainable living. More information can be found in our [KKR Global Impact Fund's Overview and Highlights Report](#).

**Working with portfolio companies on climate-related issues.** Our ability to manage climate-related risks and opportunities requires us to engage, educate, and collaborate with our portfolio companies on their climate-related activities, including supporting their efforts to decarbonize their businesses. This means helping our portfolio companies think about how climate change can impact value and working to put in place strategies to manage risks or seize opportunities.

While the majority of our climate impact comes from our investment activities, we also apply our climate strategy to our own activities and work to measure and reduce greenhouse gas (GHG) emissions from our Firm's offices and operations.

<sup>4</sup> Physical risks and opportunities include extreme weather events such as cyclones, droughts, floods, and fires, as well as chronic long-term shifts, such as change in precipitation and temperate or sea level rise.

<sup>5</sup> Transition risks and opportunities include policy, legal, technology, and market changes associated with the transition to a lower-carbon economy.

<sup>6</sup> BloombergNEF, New Energy Outlook, September 2021

## Investment Risks and Opportunities

To help inform our thinking on climate risk in our portfolio, we have conducted a preliminary analysis of climate-related issues – both potential risks and opportunities – in specific industry sectors of KKR’s private markets portfolio. Our most recent exercise was completed in early 2021. By way of example, Figure 2: Impact of Climate Issues for Various Sectors 2021 on the next page shows different potential physical and transitional issues posed by climate change on various sectors. Colors indicate the relative impacts climate change issues may have on a sector, with the highest impacts in darker shades and lighter shades representing lower impacts.

Figure 2 shows that particular climate issues are common across industry sectors while providing us with a fund-level and portfolio-level perspective across climate issues. This analysis was conducted in addition to considering climate during the investment process, where relevant, as described in the Risk Management section below. The perspectives gained from information in Figure 2 are expected to provide a useful baseline for further engagement and work with portfolio companies in these sectors.

This analysis of KKR’s portfolio found that both physical and transition climate issues have potentially higher impacts on certain sectors, such as energy, transportation, manufacturing, real estate, and agriculture and food. Health care and information and communications technology, however, face greater impacts from physical issues, particularly acute issues

such as floods and storms. Conversely, the retail, financial, and consumer technology sectors generally do not experience direct impacts from physical climate issues, which, as a result, are less relevant than in other industries. However, these sectors are still expected to experience secondary impacts from industries in their value chain that are highly sensitive to physical and transition climate issues.

From an investor’s perspective, companies that are more likely to be affected by physical or transition climate issues have a more pressing need to, and may be more motivated to, anticipate, mitigate and/or avoid risks, as well as gain greater insights into the extent and complexity of impacts, associated costs, and mitigation and adaptation options. With such companies, there is often an opportunity to create value by engaging and working with them to address climate issues. As part of KKR’s climate action strategy, we are helping our portfolio companies seize these opportunities by developing and sharing resources on key topics such as measuring GHG emissions, assessing climate risk, and setting climate targets. See [Risk Management – Post-Investment](#).

### Looking Ahead

We consider this analysis to be an early step and look forward to incorporating learnings from this process into our ongoing climate risk work. In particular, we identified data gaps – including geographic limitations and inconsistent reporting – as a challenge and hope to address some of these issues as we work to improve how we monitor and track climate-related data, including annual GHG emissions performance, at portfolio companies.

**Figure 2: Impact of Climate Issues for Various Sectors (2021)**

		Sectors									
		Energy	Transportation	Manufacturing	Real Estate	Agriculture and Food	Health Care	Information and Communications Technology	Retail	Consumer Technology	Financial Institutions
		Climate Issues									
Physical	Acute	Extreme Temperatures	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
		Floods	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
		Droughts	Dark Blue	Dark Blue	Dark Blue	Light Blue	Dark Blue	Dark Blue	Light Blue	Light Blue	Light Blue
		Storms	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
		Wildfire	Dark Blue	Dark Blue	Dark Blue	Light Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
	Chronic	Ocean Acidity and Temp.	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
		Atmospheric Temp. (Seasonal Change)	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
		Cryosphere – Loss of Ice	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
		Sea Level Rise	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
		Ecosystem Services*	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Light Blue	Light Blue	Light Blue
		Human Health – Heat Stress	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
		Human Health – Air Pollution	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Light Blue	Dark Blue	Light Blue	Light Blue	Light Blue
	Transition	Regulatory	Tax and Subsidies	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Light Blue	Light Blue	Light Blue
Disclosure			Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
Greenhouse Gas Emissions			Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
Energy Efficiency			Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
Codes and Standards			Dark Blue	Dark Blue	Dark Blue	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
Legal Liability			Dark Blue	Dark Blue	Dark Blue	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
Technology		Alternative Fuels	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
		Adoption of Lower Carbon Technology	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
		Obsolescence of Current Technology	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue
		Changing Current Methods	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
Market		Change in Demand	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
		Change in Market Behavior	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Light Blue	Light Blue	Light Blue	Light Blue
		Resource Scarcity/Cost	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
Reputational	Contribution to Climate Change	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	
	Ability to Adapt to Climate Change	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	

\* Includes Pest Prevalence, Disease Vectors, Fungal Diseases, Biodiversity Loss, Water Scarcity

## Climate Scenario Analysis

KKR has begun to test the use of climate scenario analysis. In August 2020, with the help of the global consultancy Business for Social Responsibility (BSR), we ran a pilot scenario analysis workshop with our Infrastructure, Real Estate, and Global Macro and Asset Allocation teams.

The broad objectives of the scenario analysis workshop were to:

**Learn how to integrate climate change risks and opportunities** within macro analyses with the intention of eventually providing guidance to investment teams on potential investments

**Gain a deeper and more nuanced understanding of how climate change risks and opportunities** affect KKR's investment strategies by looking at various future scenarios and how they affect KKR

**Conduct a preliminary scenario analysis** so that we can learn from and replicate such analyses across funds to understand the resilience of our investments to climate change, which will inform KKR's reporting against the TCFD framework

We are continuing to evaluate how to integrate climate scenario analyses into our processes and to look for ways to integrate learnings and best practices as our climate strategy matures.

## Firm-level Risks and Opportunities

Though most of our climate focus relates to our investment activities, a discussion of climate-related risks would not be complete without consideration of climate-related risks at KKR.

As an office-based company with physical space in 21 cities across four continents, there is a possibility of business interruption due to physical climate risks. Some geographic locations are more prone to acute or chronic physical climate hazards such as flooding, wildfires, hurricanes, and rising sea levels. As a result, our Firm could encounter disruption in areas such as data and telecommunications systems, disruptions to employee travel, and an inability to make site visits – though these

are likely to be transitory events and our diversification across cities is a significant mitigant.

In addition, we have identified various Firm-level climate-related transition risks and opportunities such as:

- **Regulatory:** Governments around the world are increasingly putting in place or signaling a focus on climate-related regulation.
- **Market:** Demand is growing for low-carbon and other investment products that take into consideration climate change and associated risks and opportunities.
- **Reputational:** Stakeholders have views on whether investors are doing enough to mitigate climate change and increase the speed of the energy transition, which could impact an investor's reputation.

## Investing in the Energy Transition

KKR is committed to investing in the energy transition. Our infrastructure business has been an active investor in renewables investing over the last 10 years, and, as of June 30, 2021, we have committed approximately \$3.5 billion into renewable assets, such as solar and wind, with total capacity of over 13 GW. Recently, KKR's Infrastructure team has made a number of investments behind this theme globally, including recent investments in or partnerships with [Caruna](#), Finland's largest electricity distribution company, [NextEra Energy](#), the world's largest generator of energy from the wind and sun, and [Virescent Infrastructure](#), a newly created platform to acquire renewable energy assets in India. We intend to continue investing in the space and have recently added a team focused on sourcing and executing investments in the energy transition sector within North America.

We believe in the need for a transition from conventional energy to carbon-free sources, and we recognize that technological and commercial realities mean that conventional energy resources will remain essential for the global economy at some level for decades to come. For example, under the International Energy Association's Net-Zero Roadmap, which identified a pathway to net-zero GHG emissions by 2050, continued investment in existing conventional energy reserves is identified as necessary to satisfy critical energy needs.

As conventional energy assets will continue to be in demand through the transition, we believe that by being a responsible operator we can produce better

outcomes than if we exited and sold our assets to others. This means working directly with our portfolio companies to help them understand their exposure to ESG issues, including climate change risks and opportunities, and helping them put in place ESG strategies, including implementing projects to better monitor and reduce GHG emissions and identifying opportunities to transition to renewable energy.

Being a responsible manager of conventional energy assets and thinking through climate change considerations also helps sharpen our investment decision-making. We aim to reduce the exposure in our portfolio associated with investing in potentially obsolete assets and technologies. Instead, as we consider the energy transition, we aim to invest in regions that will play a vital role in the transition to a more efficient, sustainable energy supply. For example, our energy real assets strategy is focused on the production, development, and acquisition of existing lower-risk reserves, not on exploration.

Through our investments in the energy sector, we aim to unlock attractive returns for our investors while supporting safe and reliable energy systems that are indispensable to the everyday needs of families and businesses while managing key environmental and social risks and opportunities. We believe this approach will help meet today's energy needs in a responsible manner while transitioning to a cleaner tomorrow.

# Risk Management

**In our investment process we are guided by our Responsible Investment Policy, which was updated in 2020. This policy articulates our approach to integrating the consideration of ESG risks and value creation opportunities, including climate change, into our investment processes across various asset classes globally.**

The policy defines material ESG issues as those issues that KKR determines have – or have the potential to have – a substantial impact on an organization’s ability to create and preserve economic value as well as environmental and social value for itself and its stakeholders.

We take a materiality-based approach to integrating ESG issues, including climate, into our investment process across asset classes. To identify and assess material climate-related risks and opportunities, we use industry-specific issue topics identified by the Sustainability Accounting Standards Board (SASB) as well as the TCFD framework as primary inputs. Some differences in application exist between the asset classes due to the nature of the investment and the level of influence we have over companies’ decisions. In particular, we continue to evolve how we integrate climate considerations into our credit business, where there is a relative lack of data and influence on an ongoing basis.

## Pre-Investment

All potential investments go through a rigorous due diligence process. This process involves the evaluation of potential deals from an ESG-management perspective, which includes both climate-related risks and opportunities. The process includes early screening for critical risks, through our “Gating Issues” list, followed by an evaluation of a company’s material

### Employee Education and Training on Climate-related Matters

We provide training on our commitment to responsible investment and our various tools and resources to employees, including training related to how climate is considered in our investing process. For example, in 2020, approximately 250 KKR executives attended training sessions on how boards of directors should consider ESG-related issues, including climate change.

ESG-related issues. The Gating Issues list refers to activities, operations, or industries that raise critical ESG or reputational risks, including certain carbon-intensive industries. If a potential investment is directly or indirectly involved in activities on the Gating Issues list, our investment teams will work with the Global Public Affairs team to evaluate the best path forward, which may include declining to invest based on the implications for business value over time. Recognizing that critical ESG, regulatory, compliance, and reputational issues may change over time, the list is updated periodically to account for evolving or emerging issues.

As an additional layer of diligence, a team of cross-functional internal subject matter experts meets weekly to assess prospective investments to identify key ESG issues and gathers the appropriate information about the investment under review. This diligence group also reviews relevant considerations based on a company’s geography and industry. Extensive evaluation of ESG risks and opportunities, coupled with on-site due diligence visits and the support of external advisors where necessary, enables us to target areas of engagement and determine priority initiatives.

### Climate Risk Pre-Screening

Working with external experts, KKR has developed guidance to help screen companies for potential climate risk and opportunity exposure using subsector classifications and company-specific questions. KKR considers using the tool to be a “first look” at a company’s exposure and has been piloting this in 2021. As this process continues to be rolled out, it helps us determine whether the level of exposure warrants additional screening and/or assessment throughout the later stages of our due diligence process.

ESG issues that the investment team may uncover in the diligence phase, including climate-related issues, can affect our investment decisions. See the process as described below.

### KKR’s ESG Integration Processes

	1. Evaluate Potential “Gating Issues”	2. Conduct Diligence on Company-Specific Relevant Issues	3. Document and Review Findings	4. Monitor and Manage
<b>When</b>	Pre-Screening	Commercial and Legal/Compliance Diligence	Investment Committee Evaluation	Post-Investment
<b>What</b>	<b>Review “Gating Issues”</b> to determine whether there are any critical ESG or reputational concerns with regard to target companies, operators, issuers, and, where relevant, sponsors	<b>Evaluate material ESG risks and opportunities</b> applicable for the industry or asset type(s) with regard to the issuer or target company, including climate change risks and other portfolio-wide considerations and opportunities, where relevant	<b>Include key risks and opportunities</b> in the Investment Committee discussions and memorandums as they relate to the issuer or target company  <b>Track relevant findings</b> , even when no additional actions are needed	<b>Include key ESG risks and opportunities</b> in the Portfolio Management Committee discussions and memorandums, where applicable  <b>Engage with select companies</b> on value creation efforts  <b>Document efforts on relevant issues or incidents</b> for ongoing tracking, as relevant

Material ESG issues are often intertwined with other business issues that can make a business more or less attractive for investment. Occasionally, we may conclude that an ESG- or climate-related issue poses such a risk to an investment that the investment does not occur. In some cases, we may feel a company presents significant opportunities because of how it addresses these issues, or that interesting opportunities could arise if the company addresses the issues proactively. Understanding the risks and opportunities of individual investments helps us determine whether to invest in a company and – importantly – guides us in our strategy for working with the company in the future.

### Looking Ahead

While we believe that we have developed a robust process for integrating ESG-related issues, including climate change, into our investment process, we know there is more work to do. In particular, we aim to provide more guidance and training to our investment teams on climate change – including materiality, industry-specific risks, and regulatory trends – as well as enhance data collection processes. At the same time, we as a firm are working to better understand the implications of implementing decarbonization plans at portfolio companies and how we can integrate and value this level of ambition in the investment process.

#### CASE STUDY:

### Integrating Climate-related Considerations into Credit Investments

KKR's process for integrating ESG-related issues, including climate change, extends to our credit business. As we may not have the same access to data in our credit investments as in our private markets funds, we have developed a bespoke methodology to help our investment teams systematically consider ESG issues throughout the deal process that is consistent with KKR's approach more broadly. This process requires evaluating the assets in our traded credit portfolio using industry-specific ESG material issues identified by SASB and KKR's cross-sector priority issues as primary inputs, including the consideration of potential climate impacts and the relative carbon intensity of each sector. Through this evaluation process, we intend to not only capture those companies operating in carbon intense markets but also those that are producing goods or services that are substantially contributing to climate change mitigation or adaptation. Ultimately, we believe this ESG assessment process will help us make better investment decisions.

**CASE STUDY:****Integrating Climate Considerations into our Investment Decision-making: From Risks to Opportunities**

In July 2020, KKR acquired 100% of Viridor from Pennon Group Plc. Viridor is a leading UK waste management company operating 11 energy-from-waste (EfW) facilities as well as recycling facilities and landfills. The company operates the largest share (22%) of the UK's energy-from-waste market.

Assessing Viridor from a climate risk perspective was a critical part of our pre-investment decision-making. Waste management companies can be vulnerable to changing regulatory and market dynamics due to high GHG emissions at their operations. As such, understanding the company's emissions profile, the relative intensity of its different business units, and the overall climate impact of EfW versus alternative sources of power and waste disposal were critical parts of our diligence. In doing so, we identified opportunities for Viridor to integrate climate and circular economy considerations into its commercial strategy to position the company as a market leader in the responsible handling of waste.

To help shape this strategy, following investment we supported the establishment of an ESG and Health and Safety Committee, introducing members with key

expertise, and set up a Carbon and Circular Economy business unit within the company. The company then refreshed its ESG strategy, which included its circular economy approach to waste management, underpinned by net-zero and net negative targets – targets that are industry-leading in the UK. As part of this, KKR has supported the company as it implemented initiatives to reduce carbon emissions at the site level, including the enhancement of plastic waste sorting and recycling as well as investing in carbon capture technologies.

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**“Tackling the climate crisis requires bold action, and this pledge underlines Viridor’s ambition to drive the UK waste sector on its path to decarbonization. We are committed to doing everything in our power to achieve net-zero and net negative emissions.”**

Kevin Bradshaw  
Chief Executive Officer, Viridor

**Post-Investment**

Thoughtful consideration of ESG-related issues is a way of doing business that we believe has made us better investors. Within our private markets businesses, we actively engage with our companies on an ongoing basis. For example, our investment professionals often sit on the boards of portfolio companies. Within KKR, each region also has a Portfolio Management Committee (PMC) consisting of a chairperson and KKR executives. The PMC may also include KKR Senior Advisors and professionals from KKR's value creation group, KKR Capstone. Throughout the management process, the

applicable PMC monitors each company's progress and provides input on strategies for realizing additional value.

We leverage our investment model and our focus on operational and strategic improvements to drive value creation on ESG and climate-related issues across our investments, where relevant. In this regard, we support portfolio companies' efforts in areas that can help drive value creation and develop and share resources on key topics, including climate change. We offer them access to a range of best practices, trusted experts, tested resources, and a nuanced understanding of the climate-related issues most relevant to their business.

**CASE STUDY:****Portfolio Company Education and Support**

In 2020 we developed and launched a multi-session Climate Action Education Series, which provided portfolio companies with information, expert advice, and resources for understanding and managing climate risk. Sessions included:

**Climate Action 101**, which described the impacts of a changing climate, why it is important to business, and emerging disclosure expectations (including TCFD)

**Assessing Climate Risk**, which covered key components of climate risk assessments and how companies typically perform them

**Carbon Footprinting**, which explained GHG emissions footprints, methodologies, and helpful resources

**Carbon Offsets**, which examined the offset markets, associated benefits and risks, and how to purchase offsets with confidence

While we hold a portfolio company, our investment professionals are deeply engaged in continuous monitoring of material issues affecting the company, including ESG- and climate-related issues. To enhance our risk management processes, we allocate resources toward climate-related data collection and monitoring through the implementation of annual ESG reporting across certain private equity, infrastructure, and real estate funds. This includes collecting relevant information on topics identified by SASB for the industries our portfolio companies operate in and supplementing that data with other ESG-related information we deem material, based on our understanding of the company's business.

As part of these efforts, we incorporate TCFD-aligned questions in our internal reporting processes, such as:

- An overview of the company's governance for managing climate-related risks and opportunities
- Whether the company has evaluated and disclosed how climate-related issues may affect its strategy, business operations, and financial planning over the short-, medium-, and long-term
- The processes the company uses to identify, assess, and manage climate-related issues
- The climate-related metrics the company monitors
- Disclosure of Scope 1 and 2 GHG emissions, and if material, Scope 3 GHG emissions

We are in the process of piloting software solutions to improve our processes by automating, where feasible, our ESG and climate-related data collection and monitoring. In doing so, we aim to have more timely and accurate data and reporting at the asset, fund, and portfolio levels.

We are also working to improve our engagement with portfolio companies to improve their performance with regard to climate issues. To support these efforts, in 2021, we more than doubled our ESG team in size with new experts across specialties and geographies, including hiring a full-time resource dedicated to working with our portfolio companies on decarbonization and climate strategies. We will also continue to conduct climate action education sessions for the portfolio companies in the future. For more information, see the Portfolio Company Education and Support case study on this page. During such engagements with portfolio companies, we recommend they report their GHG emissions footprints to help inform investors and other stakeholders. As we identify companies that may be at particular risk, we will be working directly with management teams and third-party experts to help companies conduct emissions footprints and identify emissions reduction opportunities.

# Metrics and Targets

**Our climate strategy also applies to our own activities, and we are working to measure and reduce greenhouse gas (GHG) emissions from our own activities and set targets for certain funds.**

At the firm level, in 2018, KKR undertook an initiative to become carbon-neutral in our operations. We did this by first measuring our GHG emissions footprint and then implementing mitigation strategies, including purchasing high-quality<sup>7</sup> carbon offsets. By doing this, we have been carbon-neutral since 2019. We have recently moved and consolidated office space to a LEED Gold<sup>8</sup> certified building in New York City and to a BREEAM Outstanding certified space in London, which will further reduce our carbon footprint.

KKR’s 2020 GHG emissions footprint<sup>9</sup> comprises emissions from Scope 1 and 2 as well as numerous Scope 3 categories, totaling 5,930.6 metric tons CO<sub>2</sub> equivalent (mtCO<sub>2</sub>e). The footprint is based on the Firm’s direct impacts and operations; it does not account for the

impacts of our investments. Our 2020 footprint represents a significant decrease from 2019, when our emissions totaled 24,339 metric tons CO<sub>2</sub> equivalent. Much of this change is due to a significant decrease in air travel due to the COVID-19 pandemic, and we expect emissions to rebound somewhat in future years.

With regard to our investment process, we know that GHG emissions are not always a perfect proxy for climate-related risk and opportunity, so we are considering the best, most relevant indicators for our risk management and investment processes. We also know that our Limited Partners are increasingly seeking this information, and so we are moving forward on collecting GHG emissions data from our investments on a consistent basis. To date, we have calculated the Scope 1 and 2 GHG emissions footprints for a number of funds: EIGF I and II Global Infrastructure III, Europe V, Global Impact and Americas XII, representing more than 50 portfolio companies and approximately \$44.6 billion<sup>10</sup> of assets. We intend to measure GHG emissions for funds going forward.

**Table 1: 2020 Emissions Totals by Scope**

	Source	2020 Emissions	Details
Scope 1	Space Heating; Fugitive Refrigerants	536.1 mtCO <sub>2</sub> e	Estimated based on site characteristics
Scope 2	Purchased Electricity, District Heating, District Cooling	2,241.7 mtCO <sub>2</sub> e	KKR offices
Scope 3	Multiple Categories	3,152.8 mtCO <sub>2</sub> e	Commercial air travel = 53% of Scope 3 total

Scope 1 + 2 Total	2,777.8 mtCO <sub>2</sub> e
Scope 1 + 2 + 3 Total	5,930.6 mtCO <sub>2</sub> e

<sup>7</sup> Past projects were certified to highly reputable standards: Climate Action Reserve, Gold Standard, and Verified Carbon Standard.

<sup>8</sup> <https://www.usgbc.org/leed>

<sup>9</sup> Our GHG footprint describes KKR’s impact on the environment as measured in GHGs emitted in units of equivalent tons of carbon dioxide during the reporting year. KKR’s inventory is developed in accordance with the revised GHG Protocol Corporate Standard and the Corporate Value Chain Accounting and Reporting Standard. The procedures developed and executed during development of the KKR Inventory for Reporting Year 2020 satisfy ISO Standard 14064-1.

<sup>10</sup> As of June 30, 2021

## Climate-related Targets

In 2021, we set climate-related targets at certain private markets funds that are currently being raised. At these funds, we will:

**1. Continue to integrate climate-related risks and opportunities** into investment decision-making and management practices. This includes considering climate change risks and opportunities during diligence and engaging on these issues with the companies in which we invest or to which we provide financing.

**2. Ensure that all majority-owned companies develop and implement decarbonization plans** that are consistent with a sector- and market-relevant ambition to reach net-zero emissions by 2050 or

sooner. That plan is expected to be in place within two years of our investment. Where we are a minority investor, we will implement a stewardship and engagement strategy consistent with this ambition.

**3. Report to our fund investors on our assets' climate-related activities annually**, including providing Scope 1 and 2 emissions and, to the extent possible, material Scope 3 emissions data and describing the steps taken by portfolio companies in developing and implementing decarbonization plans.

## Partnering for Progress

We have a long history of working with our portfolio companies to understand and manage their environmental impacts through eco-efficiency and eco-innovation.

One example is the Green Solutions Platform, which we launched in 2008 as the Green Portfolio Program in partnership with the Environmental Defense Fund. This program supported and highlighted the work of dozens of KKR portfolio companies across a wide variety of focus areas, including energy efficiency and greenhouse gas reductions.

Another example is KKR's Eco-Innovation Award, which recognized innovative portfolio companies projects that provide environmentally beneficial solutions while creating business value.

These programs have evolved over the years and are now taking different forms, but our commitment to engage with companies on climate change strategies by addressing climate-related risks and opportunities remains the same.

# Looking Forward

## **We know there will always be more work to do to further implement and refine our climate action strategy.**

As described throughout this report, we remain focused on a number of critical areas, including:

### **Strengthening integration of climate considerations into our investment process**

We will continue looking for ways climate considerations can be further integrated into the investment process and fund-level strategies to stay in line with scientific and economic consensus, to live up to client and stakeholder expectations, and to find value for our investors. This will include continuing to develop tools and resources to help improve the consideration of climate-related risks and opportunities into our investment processes. We will also continue to provide training and education for investment teams and portfolio companies on climate-related issues.

### **Advancing our understanding of how climate issues impact our portfolio companies**

We are continuing to work to enhance our engagement with portfolio companies and to deploy a programmatic approach to climate change across our business. As part of this work we are seeking to improve our data management processes so that we – and our investors – have more timely and accurate data at the asset, fund, and portfolio levels. As we identify companies that may be at particular risk to climate change, we will also be working

directly with management teams and third-party experts to help companies measure emissions footprints and identify emissions reduction opportunities.

### **Raising our ambitions and scaling learnings and best practices**

We look forward to implementing our net-zero ambitions at certain private markets funds that are currently being raised. As part of this work, we intend to ensure that majority-owned companies at these funds develop and implement decarbonization plans that are consistent with a sector- and market-relevant ambition to reach net-zero emissions by 2050 or sooner.

Looking forward, we know that meeting – and hopefully exceeding – society’s goals to address climate change is a multigenerational effort. We also believe that involvement from the private sector – and the investment community in particular – is paramount in accelerating the transition to a low-carbon economy. We know we do not have all the answers and approach this challenge with a commitment to collaboration and to consistent learning and improvement.

We will continue to refine our understanding of how climate issues impact our portfolio companies and will also continue looking for ways climate issues can be further integrated into the investment process and fund-level strategies to stay ahead of client and stakeholder expectations and to find value for our clients.

# Additional Resources

2020 ESG, Impact, and Citizenship Report	Microsite	<a href="https://kkresg.com/">kkresg.com/</a>
	PDF	<a href="https://kkresg.com/esg-impact-citizenship-report">kkresg.com/esg-impact-citizenship-report</a>
2021 Supplementary ESG Disclosures	PDF	<a href="https://kkresg.com/esg-disclosures">kkresg.com/esg-disclosures</a>
Responsible Investment Policy	PDF	<a href="https://kkresg.com/esg-policy">kkresg.com/esg-policy</a>
2020 Sustainability Accounting Standards Board (SASB) Report	PDF	<a href="https://kkresg.com/sasb-report">kkresg.com/sasb-report</a>
UN PRI Limited Partners Responsible Investment Due Diligence Questionnaire	PDF	<a href="https://kkresg.com/ddq">kkresg.com/ddq</a>
KKR Global Impact Fund Overview and Highlights from the 2020 Limited Partner Impact Report	PDF	<a href="https://kkresg.com/impact-fund-report">kkresg.com/impact-fund-report</a>

# Cautionary Statement

## Cautionary Statement Regarding Forward-Looking Statements

This document contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Forward-looking statements may be identified by use of words such as “plans,” “expects,” “will,” “anticipates,” “believes,” “intends,” “projects,” “estimates,” the negative versions of these words or other words of similar meaning, and relate to expectations, estimates, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that do not relate strictly to historical or factual matters. The forward-looking statements are based on KKR’s beliefs, assumptions and expectations, taking

into account all information currently available to KKR. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to KKR or are within its control. If a change in such beliefs, assumptions or expectations occurs, actual results may vary materially from those expressed in the forward-looking statements. Factors that could cause actual results to vary from the forward-looking statements are discussed in KKR & Co. Inc.’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and other filings with the Securities and Exchange Commission, which are available at [www.sec.gov](http://www.sec.gov). KKR does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by law.

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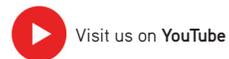
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