

Climate Action Strategy

Soros Fund Management

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INTRODUCTION

At **Soros Fund Management (SFM)**, the principal asset manager for the **Open Society Foundations**, we are proud to protect and grow Open Society's resources, sustaining its missions of supporting people across the world who work for justice, equity and free expression.

Climate change is a crisis which demands an urgent and sustained response from all aspects of society, including governments, civil society, businesses and investors. The Intergovernmental Panel on Climate Change has found that in order to prevent the worst impacts of a climate change, global average temperature rise should be limited to well below 2 degrees, and ideally 1.5 degrees Celsius above pre-industrial levels. Achieving this temperature target requires a net zero emissions global economy by mid-century.

The Open Society Foundations see the injustice of the climate crisis as both systemic and structural and recognize that fairness, inclusion and participation must be at the heart of a systems-change approach to climate. SFM recognizes that acting on climate change is an economic imperative.

Solutions to a just climate transition are complicated; they require the transformation of long-established sectors and systems, and not all of the solutions are apparent today. Critical functions that society depends on—such as mobility, power and heat—are served by deeply interconnected business models, infrastructure, policy and technology, and all are built around fossil fuel dependent systems. Radical action is required to drive potential pathways to decarbonize these massive systems and to do it quickly.

With our unique portfolio platform, large stable asset base, and a single client focused on driving change for the greater good, SFM can be a powerful force to help drive the transition to a low-carbon, climate-resilient global economy. SFM aims to be part of the solution, not just avoid being part of the problem. Therefore, our climate transition strategy is grounded in the science-based goal of achieving global net zero emissions. We are taking immediate steps to end investments in fossil fuel production, align our portfolio with an aggressive pathway to net zero carbon emissions, invest in climate solutions and take an active role engaging companies and sectors to accelerate their transition to fossil fuel-free business models. Every facet of our transition strategy is aimed at rapidly reducing emissions in the real economy, not just mathematically reducing our portfolio emissions.

In addition to the actions we are taking immediately in our own portfolio, SFM will partner with other leaders on the climate transition, including industry actors, banks, NGOs, community leaders and investors, to identify targets and pathways for climate transition in carbon intensive sectors.

OUR COMMITMENT TO CLIMATE TRANSITION

SFM is committed to aligning our investment portfolio with an aggressive pathway to achieve net zero carbon portfolio emissions by no later than 2040. We make this commitment with the expectation that governments must follow through on their own commitments to ensure the objectives of the Paris Agreement are met.

We will achieve a net zero emissions portfolio by:

- Reducing our portfolio-wide carbon intensity and supporting the aggressive transition of carbon-intensive sectors to net zero
- Ending all new investment in fossil fuel companies by no later than 2025 and divesting existing exposure
- Using our capital and our voice as a meaningful lever to further a just climate transition and sustainable development
- Investing in climate solutions

REDUCING OUR PORTFOLIO-WIDE CARBON INTENSITY:

As SFM works towards a net zero emissions portfolio, we will reduce the carbon intensity of our portfolio per dollar invested by at least 25% by 2025 and 60% by 2030, from a 2019 portfolio baseline. We will establish subsequent five-year targets and aim for a fully net zero emissions-aligned portfolio as rapidly as possible, but no later than 2040. To achieve these reductions, each of our internal portfolio managers (PMs) is assigned annual emissions reduction targets and has access to a desktop tool to actively analyze their portfolio emissions.

In order to ensure our actions are driving real economy impact, we have created two climate-results driven programs that target the largest shortcomings in the available data and aim to incentivize behavior that fosters the low carbon transition.

- **Right Path Program:** Companies in carbon intensive industries that have committed to an ambitious and credible climate transition are eligible to receive an emissions reduction benefit that is reflective of their future potential. PMs interested in participating must rigorously demonstrate the company has an ambitious, credible transition plan and commit to increased engagement to advocate for further progress. This program is designed to give companies time to execute their strategies, especially given the current lag in emissions data, and then hold them accountable with heightened scrutiny to their pledges.
- **Climate Solutions Adjustment:** Without reliable Scope 3 data, it can be difficult to incentivize investment in companies with products and services that make a meaningful contribution to the transition to a low carbon economy. To address this shortcoming, we apply a 50% discount on GHG emissions for climate solutions investments. We intend to remove this adjustment when reliable company level Scope 3 data becomes available.

ELIMINATING EXPOSURE TO FOSSIL FUELS

SFM recognizes that achieving a net zero emissions global economy by mid-century is incompatible with nearly all ongoing fossil fuel production (supply) and consumption (demand). We strongly believe that global climate action will make most fossil fuel production unpopular and unprofitable over the long-term, while fundamentally reshaping the business models of companies and projects across a wide range of carbon-intensive sectors. The transition of carbon-intensive sectors must occur rapidly over the near-term to achieve net zero and avoid the worst impacts of the climate crisis.

Therefore SFM is committed to addressing both **fossil fuel supply and demand** in our efforts to accelerate the global transition to a low carbon economy as quickly as possible. We will continue to raise the bar for our investments as viable alternatives become available.

We will limit our direct exposure to **fossil fuel supply** as follows:

- **Thermal coal:** We do not invest in companies or projects involved in the production of thermal coal for which coal is a material part of the business.
- **Oil and gas:** We do not make private investments in oil and gas companies or long investments in the largest publicly listed oil and gas companies (responsible for ~80% of global oil & gas carbon reserves), unless they have committed to a goal of net zero emissions by 2050. SFM will not invest in, and will divest from, any public company or project that is directly involved in Arctic exploration or production, including all activities in offshore locations, or in the Arctic National Wildlife Refuge.
- **All fossil fuels:** By 2025 we will avoid any new direct investment and will divest (as long as cost of liquidity is not overly punitive) exposure to fossil fuel companies and projects (including oil and gas services and distribution) unless they are clearly demonstrating rapid progress on decarbonization and minimizing methane emissions, including specific goals and actions on Scope 3 emissions. Should we make such an exception, we will continue to engage with companies and monitor their progress on near-term targets and must see sustained progress in order to maintain investment.

When considering investments in companies and projects that contribute materially to **fossil fuel demand**:

- **Utilities:** Given the importance of electrification in the energy transition, utilities play a unique and critical role. We aim to be nuanced in our approach to this sector, taking into account corporate, regulatory, and geopolitical context.
 - We do not invest in companies or projects with plans to build new coal-fired electricity generating capacity, including expansion or acquisition of existing facilities.
 - We do not invest in companies in Organisation for Economic Co-operation and Development (OECD) countries or China with greater than 20% generating capacity from coal, unless the company has published credible plans to retire such assets by 2030. In line with our aim to support a just transition, we believe OECD countries should be held to a higher standard and lead the way in moving away from coal. We do not currently enforce a cap on existing coal power production in non-OECD countries.
- **Other carbon intensive sectors:** We prioritize engagement with portfolio companies in carbon intensive sectors and use tools such as our Right Path Program to ensure we are focused on companies with ambitious and credible climate transition plans that are driving measurable progress.

USING OUR CAPITAL AND OUR VOICE TO HELP ACCELERATE THE TRANSITION TO THE LOW CARBON ECONOMY:

We recognize that our influence extends beyond the direct targets and restrictions we set for our investment portfolio. Therefore, SFM aims to influence the actions of others in the investment sector encouraging them to join us and our peers on an aggressive climate transition path, specifically:

Using Our Capital

As shareholders we:

- Educate companies about our own path to net zero and our belief that the cost of capital will be impacted by climate action or lack thereof.
- Encourage companies to adopt aggressive strategies for their own emissions reduction and to consider climate-related financial risks and opportunities.
- Require all portfolio companies to disclose GHG emissions (including data on [Scope 1, 2 and, where reasonable, Scope 3 emissions](#)) and publish credible climate transition plans. Climate transition plans must include targets to reach net zero greenhouse gas emissions by 2050 or earlier, with realistic interim milestones. We vote against directors of companies that do not disclose emissions data, and against directors of companies that do not publish credible climate transition plans. We expect these commitments to include specific near-term goals and actions on Scope 3 emissions.
- Urge firms to, at a minimum, make climate-related financial disclosures using the Task Force on Climate-related Financial Disclosures (TCFD) framework and encourage companies to discuss such climate-related disclosures at annual shareholder meetings.
- Promote remuneration policies that support the climate transition through transparent key performance indicators, and the appointment of board directors with required skills and expertise to address the climate impacts likely to affect the business.

Using Our Voice

As members of the investment community, we seek opportunities where SFM's voice can be most catalytic to:

- Influence companies, peer institutions and other market participants by sharing learnings from our own path, improve data quality and disclosure, and use our voice and capital to accelerate the transition to a low-carbon future.
- Partner with other leaders on the climate transition, including industry actors, banks, NGOs, community leaders and investors, to identify targets and pathways for climate transition in carbon-intensive sectors.
- Emphasize both climate risk and the potential significance of climate change on financial performance, and aim to identify metrics and tools that we, and others in the investment community, can use to guide our actions as we collectively pursue an aggressive climate transition.
- Participate in select networks and organizations and work in close partnership with other leading voices on climate action and transparency in line with the framework established by the TCFD.

- Work with data providers, academics, NGOs, corporations, banks and our peers to address the significant challenges with existing climate data — both to enhance the methodologies used to make such assessments and encourage greater disclosure in order to improve the quality, scope and coverage of climate-related financial data for our platform and others.

INVESTING IN CLIMATE SOLUTIONS

SFM recognizes that innovation in technology, business models, and finance will be critical to preventing the worst impacts of climate change. We believe investing in viable climate solutions can help us achieve the goal of net zero emissions and resilient communities and ecosystems, while also maintaining our disciplined and prudent investment thesis. We are using our large, stable asset base and unconstrained mandate to increase our investment in climate solutions. We are pursuing a phased approach starting with energy supply and demand as well as strategies that directly address emissions reductions. Subsequently, we will expand our capacity to invest in resource efficiency, sustainable food and water supply, and will explore investment opportunities in adaptation and resilience solutions.

GOVERNANCE

Each SFM Portfolio Manager is assessed on progress towards their annual emissions reduction goal. This is taken into account along with all other objectives in determining performance and discretionary compensation.

SFM reports to our board on our climate mitigation initiatives and emissions reduction progress at least two times a year. On an annual basis, we will review our Climate Action Strategy and will report publicly on our progress toward achieving our goals. As opportunities become viable to take a more aggressive approach, we pledge to do so.