SOROS
Fund Management LLC

SFM Climate Action 2021 Progress Report

March 2022

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INTRODUCTION

Soros Fund Management (SFM) is the principal asset manager for the **Open Society Foundations** – one of the world's largest private philanthropic funders. SFM was originally founded by George Soros in 1970, and its financial success enabled Soros to create Open Society to pursue his philanthropic vision. Today, SFM is proud to protect and grow Open Society's resources, sustaining its mission of supporting people across the world who work for justice, equity and free expression.

Climate change threatens both the principles Open Society has pledged to protect and the assets underpinning the Foundations' work. The latest scientific research from the Intergovernmental Panel on Climate Change (IPCC) is a reminder that climate impacts – from rising sea levels to record breaking wildfires – are rapidly mounting and disproportionately affecting poor and vulnerable populations. Reducing the risks of poor execution and seizing the opportunities to further the transition to a low carbon economy is an urgent priority for Open Society and SFM.

Solutions to a just transition are complicated; they require the transformation of long-established sectors and systems, and many of the technologies needed to achieve these are not fully developed. 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 largely around fossil fuel dependent systems. Pathways to decarbonize these massive systems and to do it quickly require radical, creative and determined action.

SFM aims to be part of the solution, not just to avoid being part of the problem. In August of 2020 we launched our climate action strategy in which we committed to transition to a net zero greenhouse gas emissions (GHG) portfolio as rapidly as practicable and by no later than 2040. With our unique portfolio platform, large stable asset base, and a single client focused on driving change for the greater good, we believe we have a unique platform and a responsibility to be transparent about our methodology and measures to reducing financed emissions as well as the challenges we face along the way.

We know we must accelerate our efforts and are taking steps already 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.

We recognize this is a collective challenge, one in which not all of the solutions are apparent today. Therefore, in addition to the actions we are taking immediately in our own portfolio and operations, we continue to pursue new information and ideas and will partner with other participants in the transition, including industry actors (with a focus on carbon intensive sectors), banks, NGOs, the investment community and data providers to identify and build pathways to accelerate the transition to a low carbon economy.

CLIMATE ACTION STRATEGY OVERVIEW

We are aligning our investment portfolio with an aggressive pathway to achieve net zero carbon emissions before 2040. We will achieve a net zero emissions portfolio by:

- **Reducing the carbon intensity per dollar invested by at least 25% by 2025 and 60% by 2030**[1]. We will continue to establish and disclose aggressive 5-year reduction targets until we achieve a net zero portfolio thereafter.
- **Ending all new investment in fossil fuel companies by no later than 2025 and divesting existing exposure** (including oil and gas services and distribution) unless companies clearly demonstrate rapid progress towards credible decarbonization pathways, including significantly cutting methane emissions. Since 2020, we have been restricting private fossil fuel investments, as well as public investments in thermal coal mining, coal-fired power generation > 20% of capacity, and certain oil and gas companies.
- **Taking an active role engaging companies and sectors to accelerate the transition of their business models to the low carbon economy.** Since 2021 we have been voting against the re-election of directors of public companies that do not disclose their GHG emissions. In 2022 we have started requiring a credible plan to transition to a low carbon economy. To further strengthen these corporate disclosures and plans, we intend to be a strong driver of more ambitious plans and accurate, timely data across public and private assets.
- **Investing in climate solutions.** SFM is actively investing to support the transition to a low carbon economy, in areas such as electric vehicles, battery technology, sustainable infrastructure financing, and renewable energy. SFM will explore ways to invest in more resilient ecosystems and infrastructure and adaptive measures with our partners.

For more detail on how we will implement our Climate Action Strategy, please see our detailed Policy.

1 From a 2019 baseline

EXECUTING ON OUR STRATEGY

SFM is committed to achieving a net zero emissions investment portfolio by 2040 or sooner. We have made good progress towards our ***2025 target of at least a 25% reduction in our portfolio emissions intensity***, from a 2019 baseline (12-month average for 2019, which was already lower than our portfolio benchmark at that time). Our 2030 reduction goal is at least 60% from our 2019 baseline and we will continue to commit to public 5-year reduction targets until we reach a net zero portfolio.

SFM ***does not intend to use offsets*** to achieve our 2025 and 2030 portfolio emissions reduction goals. Should we plan to use permanent offsets to neutralize our residual emissions in the future, we will report on our intentions and our action.

This is a difficult process — we are working with imperfect inputs, and adopting and building new mechanisms and tools. We intend to be transparent about the mistakes we make and what we learn from them.

PORTFOLIO EMISSIONS REDUCTION

Our commitment is ***to achieve net zero portfolio emissions across all Scope 1, 2 and 3 GHGs***, including methane, NOx, and other GHGs. Though considerable gaps and inconsistencies remain, company reporting and methodologies for estimating unreported Scope 1 and 2 emissions data are fairly well established. We believe Scope 3 emissions are crucial to understanding the full impact of our portfolio. However, inconsistent reporting and estimated Scope 3 emissions make it more difficult to assess on a portfolio-wide basis (see discussion of limitations for Scope 3 emissions in the Data section of this report). We hope that Scope 3 reporting will improve as demand for this information grows. The inclusion of Scope 3 emissions in the SEC's proposal for climate-related disclosures has the potential to accelerate this process. In the meantime, our current strategy and tools focus on assessing Scope 1 and 2 emissions. We are monitoring (but until data is more reliable will not impose reduction targets on) Scope 3 portfolio emissions based upon currently available data and we have observed a large reduction since 2019.

While we ultimately aim to cover all of our assets, this calculation currently covers public equity and credit. SFM is unique among endowment and foundation asset managers in that the majority of our public assets are held directly. This gives us an ability to have real time visibility into where dollars are invested and put first order pressure on the companies in which we hold equity and/or debt.

What emissions are covered by our analysis?

Our emissions intensity calculation and portfolio reduction targets are based on company level GHG emissions data that is reported in CO2 equivalents. The scientific community continues to debate the time horizon assumption for the Global Warming Potential (GWP) calculation used to convert other GHGs to CO2 equivalents, which is important to our understanding of the impacts of powerful GHGs like methane. We do not currently have sufficient data to separately measure GHGs in our portfolio or to test the assumptions used to aggregate to a final value in CO2 equivalents. However, these are areas we continue to explore using best available guidance and data, including from the IPCC.

Definition of Scope 1, 2 and 3 Emissions:
"The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions."[2]

2 https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf

Carbon Intensity Calculation

Many asset managers treat public equity and credit holdings the same when calculating the carbon intensity of their portfolio. We believe it is important to capture the relative economic weight of equity versus debt financing. As owners, equity holders benefit (or suffer) more from a company's business model and have more influence over the future direction of the company. Accordingly, we feel it is appropriate that equity holders should be responsible for a larger portion of the company's emissions. See Appendix B for details on our calculation.

We understand that achieving ambitious portfolio emissions reduction targets can make it difficult to remain invested in high emitting sectors. We also recognize the importance of retaining a seat at the table in these sectors that are critical to both the economy and the energy transition. We believe our *Right Path Program* (described on page 8) achieves this objective by giving companies with the most rigorous transition plans credit for their commitments upfront and prioritizing engagement to advocate for meaningful progress. This allows us to continue to invest across sectors while working towards our commitment to support the transition to a low carbon economy.

Why are we using intensity?

While we believe portfolio companies should report on and set targets on absolute emissions to ensure they will meet net zero goals, we believe an intensity measure is more appropriate for our portfolio to ensure our decisions are tied to the real economy. As a large and dynamic investor, SFM varies our exposure across asset classes over time, and we have opted for a measure and target setting structure that is invariant to these changes. Using intensity ensures that changes in allocation levels do not result in changes to our tolerance for high vs. low emitting companies (e.g. we do not believe our tolerance for high emitters should increase if our allocation to equities decreases).

Portfolio Manager Targets

In order to achieve our portfolio intensity reduction targets, we must coordinate across our internal portfolio managers (PMs). SFM's firm-wide commitment implies a carbon budget for each year, which is allocated across PMs based on the relative intensity of their portfolio benchmark. We work closely with PMs to develop strategies to achieve their targets and have developed a range of tools to give them visibility into the emissions profile of their portfolio.

Climate-Results Based Programs

Our goal is to see the impact of our climate strategy in our 2025 and 2030 portfolio intensity. This may be difficult because forward looking data and data that reflects the full scope of company emissions is not yet consistently available, which leaves us with an incomplete picture. In the interim, 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 our emissions reduction approach. The Right Path Program and Climate Solutions Adjustment outlined below aim to incentivize aligned behavior and ensure capital is a tool used to foster the transition. These programs support our PMs as they invest in and engage with companies helping us achieve our climate goals.

Transparency is integral to both programs to ensure they genuinely remain aligned with our goals of aggressively reducing risks of climate change. We have documented clear selection criteria and report our portfolio carbon intensity on a disaggregated basis (base + adjustments = final adjusted intensity).

RIGHT PATH PROGRAM

Many high emitting industries such as utilities and construction play a crucial role in the transition to a low carbon economy. We believe it is important to retain a seat at the table and not walk away from these industries as we work to reduce our carbon intensity. In our Right Path Program, companies that have committed to a credible climate transition (and where they are providing goods or services where there is currently not a low- or zero-carbon alternative in context of the necessary scale, delivery, and viable cost), 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. Approved companies receive a 75% discount on GHG emissions. This discount will be adjusted down over time to reflect the pace of innovations and breakthroughs in decarbonization technology that is unique to each sector. We continue to explore the best mechanisms to tie our Right Path Program to industry pathways and our intention is for the reduction to taper off by 2030. 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.

How do we see carbon offsets fitting into net zero commitments?

SFM does not include the use of offsets against our 2025 and 2030 portfolio emissions reduction goals. We understand that companies and investors may be unable to zero out their emissions given current technological and economic constraints. At the same time, we have concerns that carbon offsetting can prolong the hard work required to decarbonize business models and industrial practices. SFM is pursuing every emissions reduction lever available to reach net zero before considering carbon credits, and we are advising our portfolio companies to do the same. For organizations that have reduced their emissions as much as possible and would like to offset their residual emissions, we encourage them to use permanent offsets and to disclose gross emissions, offsets used and net emissions in compliance with the accounting guidelines agreed at COP26.

We are optimistic about the pace of innovation and are closely following global efforts to establish and implement strong guardrails in carbon markets.

CLIMATE SOLUTIONS ADJUSTMENT

Without reliable Scope 3 data to reflect differences in emission profiles for product use, there is no clear signal to differentiate between a company that provides products and services that contribute to the transition to a low carbon economy and their competitors who do not. To address this shortcoming, we apply a 50% discount on GHG emissions for climate solutions investments. These are currently identified in two ways:

- At the company level: Based on Institutional Shareholder Services (ISS) classification of revenue as contributing towards environmental objectives. Companies in the top 10% are classified as climate solutions.
- At the security level: Green Bonds that follow the International Capital Market Association's Green Bond Principles and that are not issued by oil and gas companies.

How do we view short positions?

There is a growing debate about how to treat short positions in GHG emissions accounting. We recognize that shorting can be an important tool for a portfolio manager to express their investment view and to hedge risks, which in both cases may include ESG factors. However, when it comes to the low carbon transition, investors must focus on rapidly reducing emissions in the real economy. This belief underpins every piece of our climate transition plan, including how we measure our progress.

Our view is that emissions from short and long positions should *not* be netted. We believe that netting short emissions creates too much opportunity for investors to obscure the emissions profile of their portfolio by taking small short positions in very high emitting companies, rather than making true substantive progress towards decarbonizing their long portfolio.

For example, an investor could offset the entire financed emissions from a $100M investment in the MSCI World Index with a $1M short position in its highest intensity company. Although this netting holds mathematically, we believe that the uniquely wide distribution of company emissions, uncertainty in emissions data and imperfect relationship between emissions and environmental impact (no Scope 3, backward looking metric) make it difficult to create a robust portfolio decarbonization approach with netting. We believe this could undermine the credibility of asset manager net zero commitments.

To avoid this problem, we believe investors interested in using shorting to pursue ESG impact should track and report the emissions of their short positions separately from emissions of their long portfolio, including showing the impact of the largest contributors, which we may consider doing in the future.

FOSSIL FUEL COMMITMENTS

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). Despite current concerns about global energy security leading to calls for increased fossil fuel production, we expect government policy will eventually focus on how long-term energy security is well aligned with the transition to a low carbon economy. We strongly believe that this will make most fossil fuel production unpopular and unprofitable over the long-term despite near-term pressure. This will eventually fundamentally reshape 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 and medium-term to achieve net zero and avoid the worst impacts of the climate crisis.

Therefore, in our efforts to accelerate the global transition to a low carbon economy as quickly as possible, SFM is committed to addressing both fossil fuel supply and demand. We will continue to raise the bar as viable alternatives to fossil fuels become increasingly available. In the interim, we see company engagement as a critical tool in accelerating this transition.

Figure 1: Summary of SFM's Approach to Fossil Fuel Companies and Projects

Business	Commitment	Effective Date	Measure
Fossil Fuel Supply			
All Fossil Fuel	• No new private investments • Eliminate exposure to companies/projects that supply fossil fuels by 2025	• August 2020 • By 2025	• Industry classification
Thermal Coal	• No investments in companies or projects if thermal coal is a material part of the business	• August 2020	• Inclusion in FFI Solutions' Carbon Underground 200 (CU200) list for coal (applies to public companies) • Coal mining revenue share >1% in ISS
Oil & Gas	• No long investments in largest public oil & gas companies	• August 2020	• Inclusion in top 80% of CU200 list for oil & gas (applies to public companies)
Fossil Fuel Demand			
Coal-Fired Power Plants	• No investments in companies or projects with plans to build, expand or acquire coal-fired electricity generating capacity	• August 2020	• Global Energy Monitor data on planned expansion • Company disclosure documents
	• No investments in companies or projects with coal share of power production >20% in OECD countries	• August 2020	• Electricity generating capacity from coal >20% in ISS • Share of revenue from power generation >5% in ISS • Global Energy Monitor data on retirement plans

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. 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. Therefore we do not currently enforce a cap on existing coal power production in non-OECD countries, though we tolerate only limited exposure (20% or less) in OECD countries.

We consider few additional exceptions to our fossil fuels restrictions and in all cases we intend to actively engage. For more information, see our detailed Policy.

INVESTING IN CLIMATE SOLUTIONS

SFM believes 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 net zero emissions, while also maintaining our disciplined and prudent investment standard. We are committed to increasing our investment in climate solutions and are pursuing a phased approach starting already with energy supply and demand, as well as strategies that directly address emissions reductions. We will continue to expand our capacity to invest in resource efficiency, sustainable food and water supply, and will explore investment opportunities in adaptation and resilience solutions.

CORPORATE ENGAGEMENT

SFM is working with portfolio companies, particularly those in carbon intensive sectors, to ensure they are taking an aggressive approach to reducing their emissions impact. We believe that using our voice as shareholders is one of the most powerful tools we have to ensure that companies are fit for a low carbon economy, and plan for the physical and transition risks that climate change will bring.

We start by focusing on the quality of a company's disclosure and forward-looking plans so that we may understand where they are today and where we expect them to be in the future. If we have concerns about that path, we work with companies to understand the gaps and whether they are addressing them. SFM shares both guidance and resources. We recommend, though do not require (see Proxy Voting section for more detail), that portfolio companies report through CDP and follow the TCFD framework for GHG reporting. Our corporate engagement activities include:

- Sending private letters to companies urging specific actions on climate
- Holding one-on-one meetings with companies to evaluate transition strategies and share best practices
- Working with company management to develop carbon reduction plans and business models to adapt or address opportunities in the transition to a low carbon economy
- Serving as a trusted climate resource at portfolio companies' request and sharing third-party resources with companies interested in accelerating their transition activities
- Voting against the re-election of all directors on a board for companies that fail to take appropriate steps on climate
- Monitoring companies' progress against their published targets over time, and tracking outcomes of engagement efforts

As low carbon transition capabilities advance — including greater data availability, increased understanding of best practices, and wider climate solutions technology access — the expectation is that corporate transition plans will grow more ambitious and our engagement priorities and proxy policy will progress in kind.

SFM will strongly consider divestment if no progress is made through company engagement over a reasonable period of time. We always assess specific investment decisions in the context of meeting our fiduciary duties and acting as prudent investors.

Proxy Voting

SFM takes our responsibility as shareholders very seriously and we seek to vote all our proxies. We engage with companies in a supportive and constructive manner with the goal of enhancing and protecting our investments. Each proxy voting decision offers an opportunity for our PMs to gain a deeper understanding of a company's values and priorities and it allows our investment team to share their views with management. While our custom proxy policy determines initial voting recommendations, members or our investment and Impact Strategy teams review company governance considerations and make voting determinations based upon their knowledge of the company and our company specific engagement priorities.

Our proxy policy directs us to vote against the re-election of directors when certain climate goals are not met. In 2021 we voted against the re-election of directors in companies that did not disclose GHG emissions (including data on Scope 1, 2 and, where reasonable, Scope 3 emissions). In 2022, we will vote against directors of companies that do not publish credible climate transition plans or commit to do so within an agreed upon timeframe. Climate transition plans must include targets to reach net zero GHG emissions by 2050 or earlier, with realistic interim milestones. We expect these commitments to include specific and mensurable near-term goals and actions on Scope 3 emissions.

SFM intends to vote in favor of shareholder resolutions that align with our climate action strategy provided they create the correct incentives to move a company on its pathway more quickly. For example, in the past we have supported resolutions that:

- Committed to increasing climate disclosures, improving climate risk management, or publishing climate strategies
- Promoted remuneration policies that supported GHG emission reduction
- Appointed board members with required skills and expertise to address climate impacts likely to affect the business

THIRD-PARTY ASSET MANAGER ENGAGEMENT

To achieve our climate action goals across our entire investment portfolio, we aim to bring our third-party investment managers along on our journey. Therefore, SFM's Impact Strategy team works closely with our Manager Selection Group (MSG) to engage with managers on priority Environmental, Social and Governance (ESG) issues, including the transition to a low carbon economy.

We share with our third-party managers the key elements of our Climate Action Strategy, information and best practices, and identify areas of alignment and non-alignment at the fund and firm level. We have initiated dialogue with each manager to exchange best practices and create a set of knowledge-sharing resources to use in the future. Our third-party manager engagement activities include:

- Conducting an annual ESG survey and providing a report to each manager on how they compare to the broader group
- Holding one-on-one meetings with each manager to discuss the report
- Compiling learnings and resources to strengthen internal practices and share with managers

CLIMATE DATA

The current lack of consistent and mandatory reporting for ESG data leads to many limitations and shortcomings. Each ESG data provider uses their own methodology leading to a wide range of ratings across providers. Our approach to ESG data avoids the use of ratings and pursues best available raw data (with transparency of source) to drive our Climate Action Strategy. Our approach to data and the tools we have developed are intentionally flexible and we aim to elevate our methodology and/or data sources as best practices and what is available evolve.

At a field level, we believe there is a significant opportunity to enhance ESG data to better meet current and future needs and that SFM can play a role by:

- Encouraging companies to disclose key performance indicators tied to their transition strategy, including forward-looking metrics
- Identifying gaps in the current data ecosystem and companies that are well positioned to address these issues
- Pushing current data providers to improve data quality and include more granular and transparent component level data

The following sections outline how we use data to support our Climate Action Strategy.

EMISSIONS DATA

In our current analysis and reporting, we rely on Scope 1 and 2 emissions data on our portfolio companies from ISS. This data has allowed us to footprint our portfolio and set emissions intensity reduction targets. However, emissions data broadly suffers from several key limitations:

- Timing: Companies annually report emissions resulting in a 2-year data lag (our 2021 portfolio uses 2019 emissions data). This makes it difficult to measure and reflect recent improvements by our portfolio companies including changes that are driven by our engagement efforts
- Coverage: Our current data set covers only public companies
    - Within this universe, not all companies report emissions. 35% of our public equity and credit holdings covered by our analysis rely on modeled versus company reported Scope 1 and 2 emissions
- Unreliable Scope 3 data: Due to the poor quality of company reported Scope 3 data, most Scope 3 emissions are modelled and "sector representative"
    - While we track our aggregate Scope 3 exposure using this data, we do not believe it is currently useful for comparing individual companies within sectors and we do not include it in our carbon intensity calculation or reduction targets at this time

The current ESG data marketplace's shortcomings — data lag, coverage limited to public companies, and Scope 3 unreliability — mean that we must make assumptions or leave asset classes uncovered. We are regularly reviewing the market and attempting to find new data sources to fill these gaps. We believe that those who are able to solve this challenge will address one of the largest hurdles to gaining a complete picture of an investment portfolio's climate impact.

PROXY VOTING

We use ESG data from ISS to help determine proxy voting decisions. In 2021, we identified which portfolio companies disclosed Scope 1 and 2 emissions data. In 2022, we are expanding our proxy voting policy to vote against directors of companies that do not have a credible climate transition plan. Given the previously outlined ESG data challenges, we combine the use of ISS data with in-depth manual review of companies' plans, to help make this determination. The ISS data is limited by:

- Incomplete coverage: Small and mid-cap companies and non-US companies often do not meet ISS's coverage threshold
- Lack of granularity: ISS provides an overall assessment of a company's climate transition plan. To meet our internal climate plan evaluation criteria, we look for more granular data to tailor the assessment and track companies' progress against their targets. We currently collect and track this data manually and hope it will be available on a larger scale in the future. This includes items such as short- and medium-term targets, capital allocation and executive remuneration alignment with targets, and climate lobbying

CLIMATE SOLUTIONS

Without Scope 3 data, it can be difficult to differentiate between a "green" company (that provides products and services that contribute to the transition to a low carbon economy) and their less green competitors. As a stand-in when assessing public companies, we use data from ISS that measures the positive impacts of companies' revenue across eight environmental objectives: mitigating climate change, contributing to sustainable energy use, optimizing material use, conserving water, promoting sustainable buildings, achieving sustainable agriculture and forestry, preserving marine ecosystems, and preserving terrestrial ecosystems. We believe this is currently our best available option, but also hope to address the following limitations in the future:

- Limited company reported data on climate solutions revenue
- Incomplete coverage, especially for small and mid-cap companies and non-US companies
- Methodology and classifications are not universally agreed upon or verified (as is the case with something like the EU taxonomy). We make manual adjustments for products and services we do not believe rise to the level of a climate solution

FOSSIL FUEL RESTRICTIONS

Our restrictions on fossil fuel supply and demand are driven by the following data sources:

- FFI Solutions' Carbon Underground 200 (CU200) which identifies the largest publicly traded coal, oil and gas companies by total reserves. We believe FFI Solutions' methodology is robust and transparent
- ISS's data on revenue from coal mining and power generating capacity from coal. We have found this data to be relatively reliable, but it could be improved by providing more transparency on the data source and underlying time period for each company

- Global Energy Monitor's Global Coal Plant Tracker which provides unit level data on coal fired power plant status and capacity. We use this data to identify which companies have credible plans to retire coal fired power generating capacity by 2030. Data is sourced from government data, company reports, and news and media reports. While we believe the data is reliable, it can be challenging to map it to our other data sources, especially given the complex corporate structure of some entities

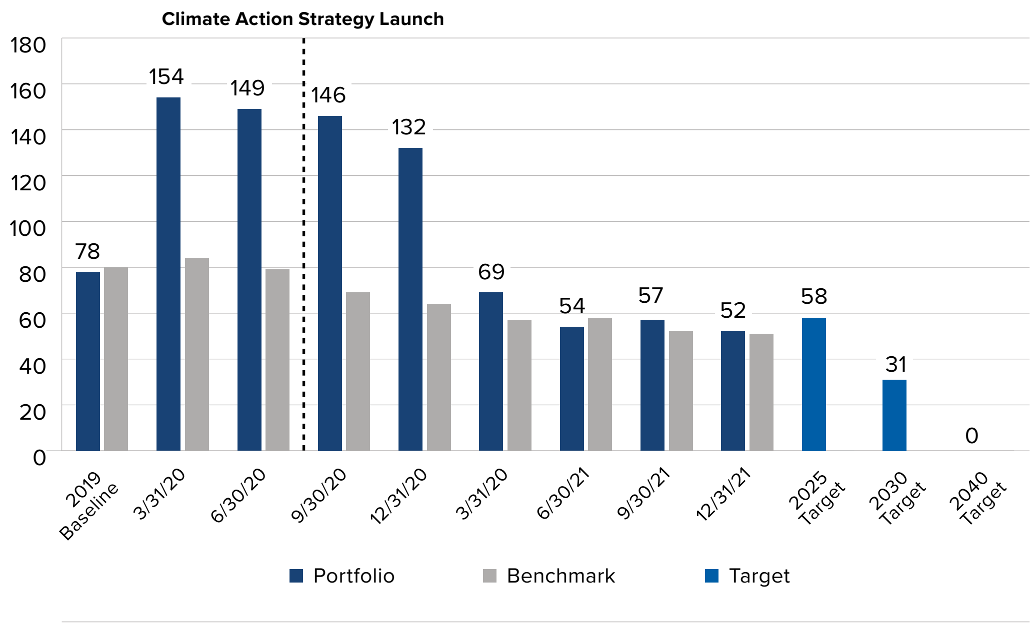
OUR PROGRESS IN 2021

PORTFOLIO EMISSION INTENSITY REDUCTION IN 2021

SFM started on an aggressive path to reduce the carbon intensity (TCO2/$M invested) of our investment portfolio with the launch of our Climate Action Strategy heading into the 3rd quarter of 2020.

As we started analyzing our portfolio emissions, we observed how sensitive aggregate portfolio intensity is to individual positions in high emitting companies. As reflected below, the dramatic increase in intensity between 2019 and 2020 was primarily driven by 2 companies responsible for less than 2% of investment exposure but nearly 50% of financed emissions.

Figure 2: SFM Portfolio Carbon Intensity Scope 1 & 2 (TCO2/$M)



[1] 2019 Baseline is the monthly average carbon intensity for 2019.
[2] Monthly intensity is calculated using a rolling 3 month average.
[3] The benchmark is a 60/40 blend of the MSCI ACWI and the BofA global corporate index.

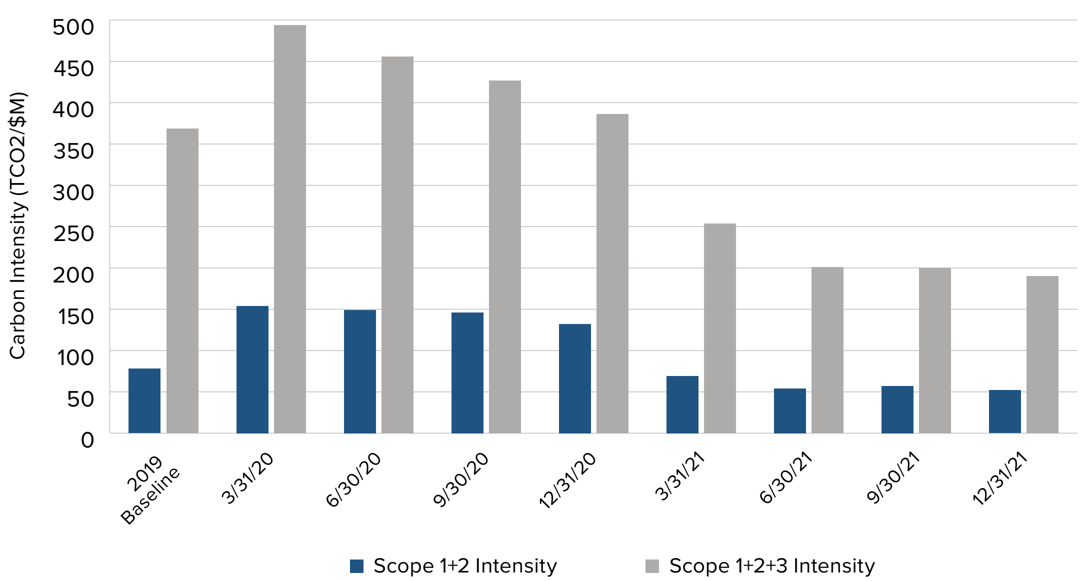
As previously outlined, our Right Path Program and Climate Solutions Adjustment are results driven programs that add more depth to our emissions reduction glide path. These public equity programs ensure that we stay on a downward emissions trajectory without excluding "transition" companies and climate solutions, and they allow us to account for the lack of forward-looking corporate carbon transition data.

Figure 3: Adjusted Carbon Intensity as of 12/31/21 (TCO2/$M)

	Intensity	Share of Total Exposure
Base Intensity	55.39	100.00%
Right Path Program	(2.77)	(0.25%)
Public Climate Solutions Adjustment	(0.92)	(7.61%)
Final Adjusted Intensity	51.70	92.14%

Portfolio Company Scope 3 emissions are important in understanding the full impact of our investments. However, our current portfolio intensity assessment focuses on Scope 1 and 2 emissions. While we track our aggregate Scope 3 exposure using the available data, we do not believe it is currently useful for comparing individual companies within sectors and we do not include it in our carbon intensity calculation or reduction targets at this time. We have observed a 49% reduction in Scope 3 emissions since 2019 associated with our existing carbon transition efforts indicating the combined impacts of our approach appear to be having the intended effect.

Figure 4: Portfolio Carbon Intensity by Scope



SFM is actively making private investments to support the transition to a low carbon economy, in areas such as electric vehicles, battery technology, sustainable infrastructure financing and renewable energy.

Figure 5: Private Climate Solutions Investment[3]

	Market Value ($M)
Equity	1,296
Credit	511
Total	1,807

Our commitment is to reduce emissions intensity across our entire investment portfolio. In 2021 we started building our program in public equities and debt where we have the best data coverage and more developed methodologies. In 2022 we intend to expand to private investments, structured credit and assets held by non-transparent third-party managers. Our 2025 and 2030 reduction target are intended to cover 100% of our portfolio, subject to data availability and established measurement methodologies.

Figure 6: Investment Portfolio Coverage

	% Total
Covered	50%
Public Equity	34%
Public Credit	17%
Uncovered	50%
Total	100%

CORPORATE ENGAGEMENT

SFM launched its ESG-focused corporate and third-party manager engagement and proxy voting programs in 2021. The purpose is to drive progress on the low carbon transition in a collaborative and productive manner. In total, we held more than 100 meetings with corporates or third-party managers.

Our active public equity portfolio holdings can range from 150-250 companies. We aim to engage and vote our proxy policy at companies where we hold a long-term, material position. During 2021, SFM communicated with 143 companies regarding our proxy policy and met with leadership at 63 companies to discuss their climate transition and DEI efforts. In these engagement meetings, 26 companies asked us for additional resources or requested follow up conversations.

Nearly one-third of the companies we met with are in carbon intensive sectors.

3 This includes private climate solutions investments that have since gone public.

Proxy Voting

SFM actively voted in 138 annual general meetings in 2021, the first year of implementing our ESG- linked proxy policy. This number does not include meetings where we held only one votable share or abstained from voting on all proposals.

In 56 of these meetings, SFM voted against the election of one or more directors.

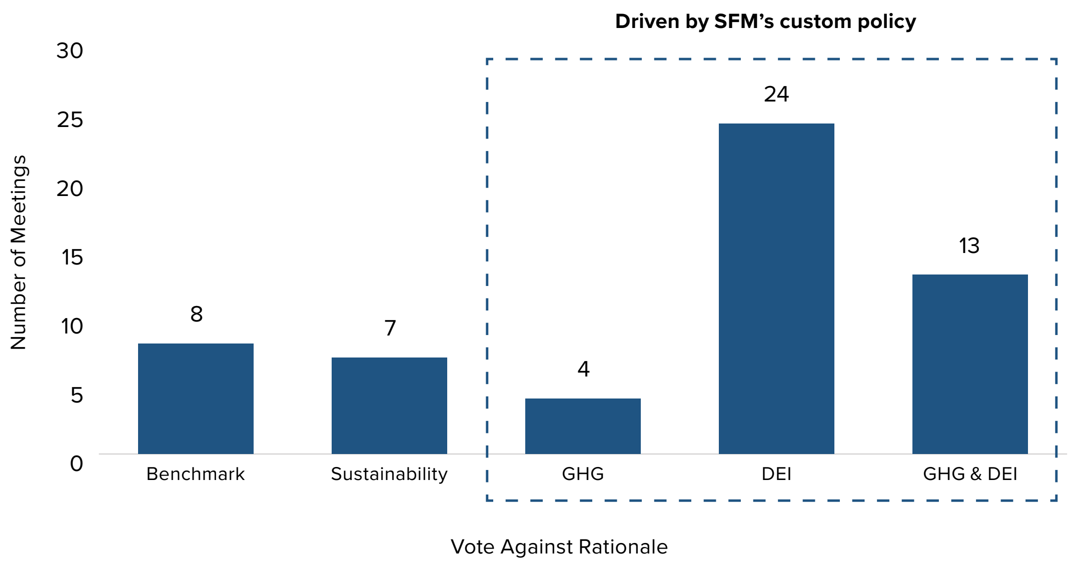
The vast majority - 86% - of cases where SFM voted against directors were instances where we voted in line with our new proxy policy, in accordance with ISS's sustainability research or our custom proxy requirements on climate and DEI.

Figure 7: Annual General Meeting Votes

	Number of Meetings	Percent of Total
Total Annual Meetings Voted	138	
Total Votes Against	56	41%
Based on ISS Benchmark Policy	8	14%
Based on 2021 SFM Proxy Policy	48	86%

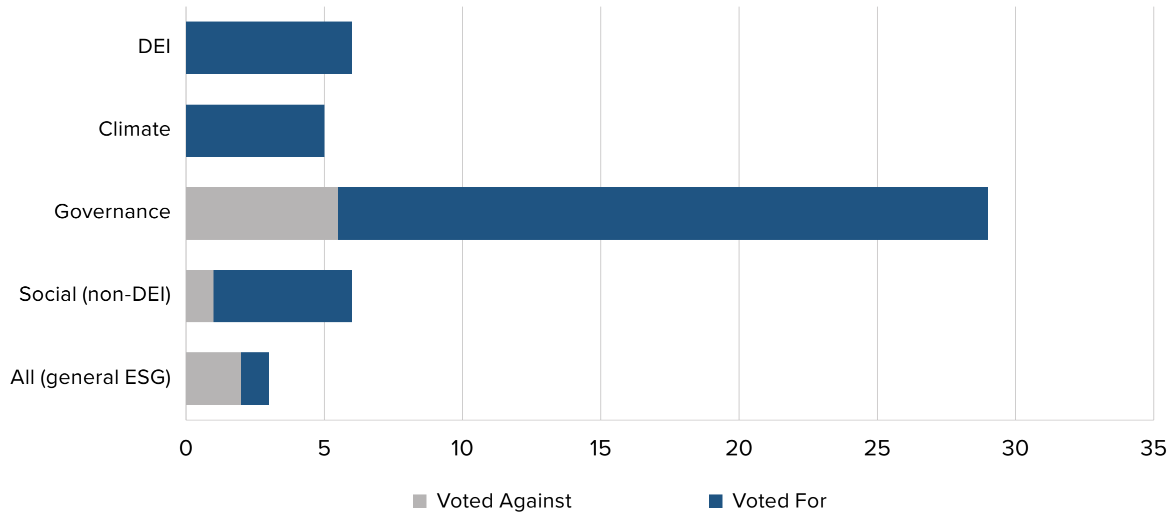
SFM voted against directors based on ISS's benchmark recommendations, ISS's sustainability recommendations, and/or failure to meet one or both of the following requirements of our proxy policy: disclosure of Scope 1 and 2 greenhouse gas emissions or disclosure of gender and racial/ethnic workforce data.

Figure 8: SFM Voted Against Directors at 56 Annual Meetings



SFM voted on 49 ESG-related shareholder resolutions in 2021. In total, SFM voted in favor of 82% of these proposals. Eleven of these proposals directly related to SFM's key priorities (climate transition and DEI), and SFM voted in favor of 100% of these proposals.

Figure 9: SFM Voted "For" 100% of Climate and DEI Shareholder Resolutions



SFM voted against 9 shareholder proposals in total, 4 of which were director elections proposed in an "extraordinary shareholders" meeting connected to a takeover situation. The other 5 related to transitioning to public benefit corporations, a policy to include non-management employees as director candidates, and requiring an independent board chair and linking executive pay to social criteria at a company where we felt confident the appropriate guardrails were already in place.

THIRD-PARTY MANAGER ENGAGEMENT

In 2021 SFM surveyed 46 third-party managers and received responses from 42 firms. We met with 35 managers to explore their ESG and DEI practices in more depth. The manager survey findings indicate whether and how asset managers are progressing on the climate transition, revealing:

- Close to 75% of respondents do not have exposure to fossil fuel companies nor plans to invest in the future
- More than 80% have not undertaken a carbon foot printing exercise nor set portfolio carbon intensity reduction targets
- Only 13% require portfolio companies to disclose their GHG emissions

GOALS FOR 2022

While we are pleased with early progress on our Climate Action Strategy, we recognize that it will be a long and complicated journey for companies, investors, governments and individuals to transition to a low carbon economy. As we move forward, SFM will continue to accelerate progress on our climate strategy. In 2022, our key priorities include:

- Continuing to reduce the carbon intensity of our portfolio and expanding coverage for our emission intensity reduction analysis to include all possible asset classes (subject to current data/methodology constraints)
- Validating our emissions reduction approach against appropriate reference scenarios
- Growing our climate solutions investment portfolio
- Formalizing our approach to climate risk management
- Prioritizing our internal and external efforts to improve climate data
- Tracking key regulatory developments, including the SEC's draft rule on climate-related disclosures
- Using our voice as shareholders to continue pressing companies for transparency and measurable change:
    - Holding companies accountable to targets set in 2021 and expanding proxy policy to include disclosure of a credible climate transition plan
    - Urging companies in high emitting sectors to adopt Science Based Targets (SBTs)
    - Encouraging the adoption of credible interim targets
    - Advocating for Scope 3 reporting
    - Discussing how companies can align capital allocation, governance and lobbying decisions with their climate transition plans
    - Encouraging actions that increase adaptive capacity
- Building on our engagement with our third-party managers to exchange best practices and encourage progress on transparency and performance
- Engaging in regular dialogue with partners across the industry to ask ourselves how we can best progress our work, and creating our own solutions where they do not exist
- Advancing our internal efforts to minimize our corporate footprint

GOVERNANCE

SFM uses a team-based approach to drive firmwide ESG initiatives. With oversight and direction from our Board (internally called our Investment Committee), our Leadership Team — includes our Chief Investment Officer, Chief Risk Officer, Chief Legal Officer, Head of Impact Strategy, among others — ensures we leverage the firm's full capabilities and the necessary resources are allocated to our ESG initiatives.

PERFORMANCE REVIEWS

Each SFM Portfolio Manager has a carbon reduction goal as part of their annual performance targets. Progress on that goal is taken into account along with other objectives in determining performance and discretionary compensation.

REPORTING

SFM is committed to reviewing our Climate Action Strategy and reporting on our progress on an annual basis. As opportunities become viable to take a more aggressive approach, we pledge to do so.

SFM OPERATIONS

While SFM's financed emissions represent the firm's most significant climate impact, we are committed to implementing and strengthening low carbon practices across our operations. SFM has approximately 200 employees and is headquartered in New York with offices in London, Dublin and Hong Kong. All of our offices are leased, and our New York office is LEED Gold Certified, Hong Kong is LEED Silver Certified, and London is rated Excellent by the BREEAM standard.

During 2021, we continued taking meaningful steps to manage our operational footprint:

- We have reduced the size of our New York headquarters office. Since 2019, we have subleased 38% of our office space
- To help reduce our energy usage, our IT department completed several projects which:
    - Reduced the size of our Disaster Recovery datacenter by 70%, thereby significantly reducing power and cooling needs for its operation
    - Transitioned to cloud-based technologies which will lead to further datacenter reductions in future years
    - Replaced old, inefficient desktop computers and monitors with newer, more efficient equipment, which average 50% of previous power utilization
    - Significantly reduced paper use by removing personal printers, transitioning to e-signing via DocuSign and ensuring all remaining printers default to double-sided printing
- We launched a reusable plate and cutlery program in 2021 which eliminates approximately 150,000 disposable units of tableware per year
- We installed a new Vivreau water system in 2021 which eliminates 7,500 cans of seltzer annually
- Our travel footprint reduced nearly 90% in response to the pandemic. As we move back to more traditional operations, we have asked our team to think responsibly about need for and approach to travel
    - Every user at SFM now has a license for Zoom Meetings, which can be used to host meetings virtually, helping to avoid the travel required to meet in person

APPENDIX A

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE

SFM considers the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) recommendations in our transition to a low carbon economy. The following table summarizes our progress in aligning our Climate Action Strategy with the TCFD recommendations.

TCFD THEME	APPROACH	REFERENCES
STRATEGY	*As an investment firm, our financed emissions represent our most significant climate impact.* We are committed to aligning our investment portfolio with an aggressive pathway to achieve net zero carbon emissions no later than 2040. SFM's climate action strategy embeds consideration of climate-related risks and opportunities across the firm's investment strategies and operations. We will achieve a net zero emissions portfolio by:	Executing on Our Strategy Pages 6-12
	• **Setting ambitious near-term reduction targets.** We intend to reduce the carbon intensity of our portfolio by 25% by 2025 and 60% by 2030. We will continue to establish and disclose aggressive 5-year reduction targets until we achieve a net zero portfolio thereafter	Portfolio Emissions Reduction Pages 6-9
	• **Ending all investments in new fossil fuel companies by 2025 and divest existing exposure** (including oil and gas services and distribution) unless companies are clearly demonstrating rapid progress on decarbonization and minimizing methane emissions. We have already restricted private fossil fuel investments, as well as public investments in thermal coal mining, coal-fired power generation > 20% of capacity, and certain oil and gas companies	Fossil Fuel Commitments Pages 9-10

...continued

TCFD THEME	APPROACH	REFERENCES
STRATEGY	• **Taking an active role in engaging companies and sectors to accelerate their climate transition business models.** SFM has, and will continue to, vote against the re-election of directors of public companies that do not disclose their GHG emissions (since 2021). Starting in 2022 we require companies to disclose a credible climate transition plan. To further strengthen these corporate disclosures and plans, we intend to be a strong driver of more ambitious plans and accurate, timely data across asset classes for public and private companies	Corporate Engagement & Third-Party Manager Engagement Pages 11-12
	• **Investing in climate solutions.** SFM is actively investing to support the transition to a low carbon economy, in areas such as electric vehicles, battery technology, sustainable infrastructure financing, and renewable energy. SFM will explore ways to invest in more resilient infrastructures and ecosystems and adaptive measures with our partners	Investing in Climate Solutions Page 11
	• **Implementing and strengthening low-carbon practices across our operations.** While our Scope 1 and 2 emissions are minimal, we are committed to reducing our climate impact where possible	SFM Operations Page 21

TCFD THEME	APPROACH	REFERENCES
GOVERNANCE	SFM uses a team-based approach to drive our Climate Action Strategy. Oversight and direction from our Board (internally called our Investment Committee) and our Leadership Team ensures that we leverage the firm's full capabilities and allocate the necessary resources to our ESG initiatives. We are committed to transparency on our process and progress on a website, which we intend to update on an annual basis or more frequently. We intend to disclose our portfolio's carbon footprint across available scopes, including our data sources and methodology. • **Board Role in Oversight:** ◦ Head of Impact Strategy presents on climate mitigation initiatives and emissions reduction progress at least 2x a year to the Board/Committees ◦ Investment Committee considers climate related risk and opportunities when guiding SFM strategies and policies, as well as monitoring performance against the firm's Climate Action Strategy • **Management Role in Oversight:** ◦ Implementation and management of SFM's Climate Action Strategy is led by our Leadership Team — includes our Chief Executive Officer/ Chief Investment Officer, Chief Risk Officer, Chief Legal Officer, Head of Impact Strategy, among others ◦ Portfolio managers meet quarterly with impact strategy team to review progress and glide path toward their individual carbon reduction targets ◦ Carbon reduction goals are linked to compensation ◦ Where practical, trading system restrictions have been implemented to support our climate goals	Governance Page 20-21

TCFD THEME	APPROACH	REFERENCES
RISK MANAGEMENT	As a large family office with an in-house investment team, we have flexibility to invest across asset classes, geographies and investment strategies. Our Climate Action Strategy is designed to ensure that we have the tools and knowledge to identify, assess, and manage climate-related risks within our investment portfolio. However, climate change presents broader market risk and SFM aims to be part of the solution, not just to avoid being part of the problem. Many carbon intensive industries such as utilities and construction play a crucial role in the transition to a low carbon economy. We believe it is important to take an active role engaging companies and sectors to accelerate their transition to fossil fuel-free business models. Steps we are taking to manage these risks include: • Eliminating exposure to fossil fuel companies by 2025 • Ensuring our investment professionals have a solid understanding of the climate policy environment and regulatory barriers and opportunities • Monitoring progress in carbon markets and negative emissions technologies • Prioritizing engagement with carbon intensive sectors • Driving enhancement of ESG data to better meet current and future needs and striving to use best available data ◦ Including urging portfolio companies to report emissions data to CDP, ISS, and other data providers in alignment with credible standards like the Greenhouse Gas Protocol	

TCFD THEME	APPROACH	REFERENCES
METRICS AND TARGETS	This report reflects our progress against the metrics and targets used to assess our Climate Action Strategy. Some of the key metrics we track are: • Portfolio carbon Intensity (2019 baseline + 3 month rolling average) – Scope 1 &2 at investment level • Percentage of portfolio currently covered by analysis • Climate solutions investment exposure • Corporate Engagement & Proxy Progress (level of engagement, AGMs voted) • Third-party Manager Engagement Progress (survey responses, meetings held) • SFM Operational footprint	Our Progress in 2021 Pages 15-19

APPENDIX B

SFM CARBON INTENSITY METHODOLOGY

Step 1: Calculate Company Financed Emissions

Company Equity Financed Emissions

$$= \frac{\text{Market Cap x Equity:Debt Multiplier}}{\text{(Market Cap x Equity:Debt Multiplier) + Long Term Debt}} \text{ x Total Company Emissions}$$

Company Debt Financed Emissions

$$= \frac{\text{Long Term Debt}}{\text{(Market Cap x Equity:Debt Multiplier) + Long Term Debt}} \text{ x Total Company Emissions}$$

Equity:Debt Multiplier Calculation

$$\text{Equity:Debt Multiplier} = \frac{\text{Sector Equity Cost of Capital}}{\text{Sector Debt Cost of Capital}}$$

Step 2: Calculate Fund Financed Emissions for Long Exposure

$$\text{Fund Equity Financed Emissions} = \sum \frac{\text{Fund Equity Exposure}}{\text{Market Cap}} \text{ x Company Equity Financed Emissions}$$

$$\text{Fund Debt Financed Emissions} = \sum \frac{\text{Fund Debt Exposure}}{\text{Long Term Debt}} \text{ x Company Debt Financed Emissions}$$

Step 3: Calculate Fund Portfolio Intensity

$$\text{Total Fund Portfolio Intensity} = \frac{\sum \text{Fund Equity and Debt Financed Emissions (tCO2)}}{\sum \text{Fund Equity and Debt Exposure (\$M)}}$$

Notes for Equity:Debt Multiplier Calculation:

1. Equity:Debt Multipliers are calculated and applied at the sector and credit quality (investment grade v. high yield) level.
2. Sector Equity Cost of Capital is the average Equity WACC (weighted average cost of capital) for the MSCI US Index (MXUS) by sector.
3. Sector Debt Cost of Capital is the average Effective Yield for a collection of BofA sector and credit quality specific fixed income indices.
4. To classify companies as HY/IG, we observe actual credit ratings to the greatest degree possible and assign HY/IG status based on this. For unrated companies, we use a logistic regression to predict credit quality based on equity cost of capital.
5. We update our Equity:Debt multipliers quarterly.