SOROS
Fund Management LLC

2022 Climate Action Progress Report

Soros Fund Management LLC

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We believe that the historic events of 2022 – from breakthrough climate legislation in the U.S. to the war in Ukraine – underscore the urgency and the opportunity of Soros Fund Management LLC (SFM)'s Climate Action Strategy. Over the last year, we thought deeply about how a global energy crisis, market volatility, and our role as a fiduciary intersect with the transition to a low-carbon economy.

SFM's differentiated approach came into focus in 2022, as the term "ESG" (Environmental, Social, and Governance) became a political lightning rod. Investors initially used ESG integration as a framework to account for potential risks and opportunities beyond the traditional financial assessment. As investors' ESG expertise progressed, their approaches began to differ and each investor used the term "ESG investing" to reference their own approach. While the practice of evaluating ESG risks and opportunities can be valuable, wide variation in the definition and approaches has all but rendered the label "ESG" meaningless. Corporations and investors must demonstrate how specific aspects of E, S, and G benefit their stakeholders and ultimately their business strategy.

We believe sustainability initiatives create different degrees of value for companies, and companies will have different effects on people and the planet. Combining these all into a single score or rating fails to capture this nuance and can be misleading. ESG ratings have been linked to black box methodologies that can be easily gamed and are ill-equipped to measure real world outcomes. Corporations and funds have used ESG scores, strategies, and statements to convince consumers they are contributing to environmental and social progress while often doing the opposite.

Some parties have seized on the ambiguity around the term "ESG" to further a political agenda that opposes environmental and social progress. We believe corporations need to counter these attacks by transparently demonstrating where their approach adds value, and by discontinuing efforts that trend towards "greenwashing."

Our impact strategy is designed to avoid common pitfalls of ESG integration and achieve real-economy impact. As a family office, we are prudent investors with a unique vantage point and the flexibility to respond to market conditions and evolve our approach. We are initially focused on two sustainability themes, climate transition and diversity, equity, and inclusion (DEI), that we believe pose material risk and opportunity for us as investors and for the companies in which we invest. We evaluate additional sustainability themes where they can have a material effect on our portfolio. When evaluating a theme, we develop a perspective and an approach to integrate the theme into our investment process via bottom-up analysis and partnership within the investment team.

Our goal with this report is to demonstrate how SFM integrates climate into our investment decision-making; we are doing so with depth, humility, and teamwork. Our 2022 report highlights where our strategy has evolved, where our approach has yielded results, and where we fell short. An equitable climate transition will be shaped by tradeoffs and tough questions. We will continue to address these questions alongside others, even as the information and tools available to us — and our perspective — may change.

When we published our 2021 Climate Action Progress Report, we opened a dialogue with the public for the first time. We see numerous benefits to transparent reporting; we are sharing our methodology and insights with others, learning from our readers, holding ourselves accountable, and building firsthand experience in climate reporting to better advise the companies and asset managers with whom we work. We hope that you will share your feedback with us on this report and our Climate Action Strategy at impactstrategy@soros.com.

Dawn Fitzpatrick
Chief Executive Officer and Chief Investment Officer

Hilary Irby
Head of Impact Strategy

ABOUT SFM AND OUR IMPACT STRATEGY

Soros Fund Management LLC (SFM) is the principal asset manager for the Open Society Foundations (Open Society), the world's largest private funder of independent groups working for justice, democratic governance and human rights. SFM was founded as a hedge fund by George Soros in 1970, and its financial success enabled Mr. Soros to create Open Society to pursue his philanthropic vision. Today, SFM's mission is to protect and grow Open Society's resources. SFM invests globally in a wide range of strategies and asset classes, including public equities, fixed income, commodities, foreign exchange, alternative assets and private equity.

Our impact strategy ensures that SFM's investment decisions are well aligned with Open Society's goal to address the world's urgent, common challenges by advancing justice, equity and human dignity. We aim to avoid investments in designated areas that are in direct conflict with Open Society's priorities. Beyond that, our goal is to support a sustainable future for people and planet. As investors, we have a voice in financing, strategy and corporate governance decisions that make a difference to economies and ecosystems.

Climate change is a significant threat to the social and natural systems that Open Society is working to strengthen and build. According to the Intergovernmental Panel on Climate Change (IPCC), limiting warming to 1.5° Celsius will require an average investment of $3.5 trillion annually through 2050.[1] Those of us who manage capital must be responsible stewards of this investment, helping ensure that all sectors rapidly decarbonize, and that we prioritize peoples' wellbeing along the way. It is for these reasons that SFM's impact strategy starts with climate action.

1 https://www.ipcc.ch/site/assets/uploads/sites/2/2019/02/SR15_Chapter4_Low_Res.pdf

EXECUTING ON OUR STRATEGY

We aim to transform our investment portfolio into a net zero portfolio before 2040. The most recent IPCC research finds that current global commitments track towards 2.8°C of warming.[2] Society is facing a significant gap between what is needed to curb global temperature rise and committed policies and financial flows.

This year we assessed our net zero and interim emissions reduction targets against recommended decarbonization ranges and reference scenarios from various standard setters. We found our targets, which are aligned with the 1.5°C pathway laid out by the IPCC, to be on the ambitious end of these ranges. Our strategy is designed to be flexible to changing inputs and tools, and we will continue to evaluate our targets in view of global progress on climate mitigation.

Achieving SFM's net zero emissions portfolio will require a shift in the way we deploy our financial capital. We are aiming to make this shift via the four pillars of our strategy:

1. Establish interim and long-term emissions reduction targets and report on our progress
2. Restrict fossil fuel exposure
3. Engage actively with companies and sectors
4. Invest in climate solutions

EMISSIONS REDUCTION TARGETS

In 2022, SFM continued to make progress toward our emissions reduction targets, and we are on track to meet or exceed our 2025 target. By 2040, we are committed to achieving net zero portfolio emissions across all scope 1, 2, and 3 emissions and all greenhouse gases, not just carbon dioxide.[3] See Appendix A for an overview of the emissions covered in our analysis and further explanation on emissions 'scopes'. As such, much of our work in 2022 focused on ensuring that we have an accurate picture of our portfolio emissions, partnering with our portfolio managers to address areas of concern and expanding visibility to evaluate emissions across supply chains and asset classes.

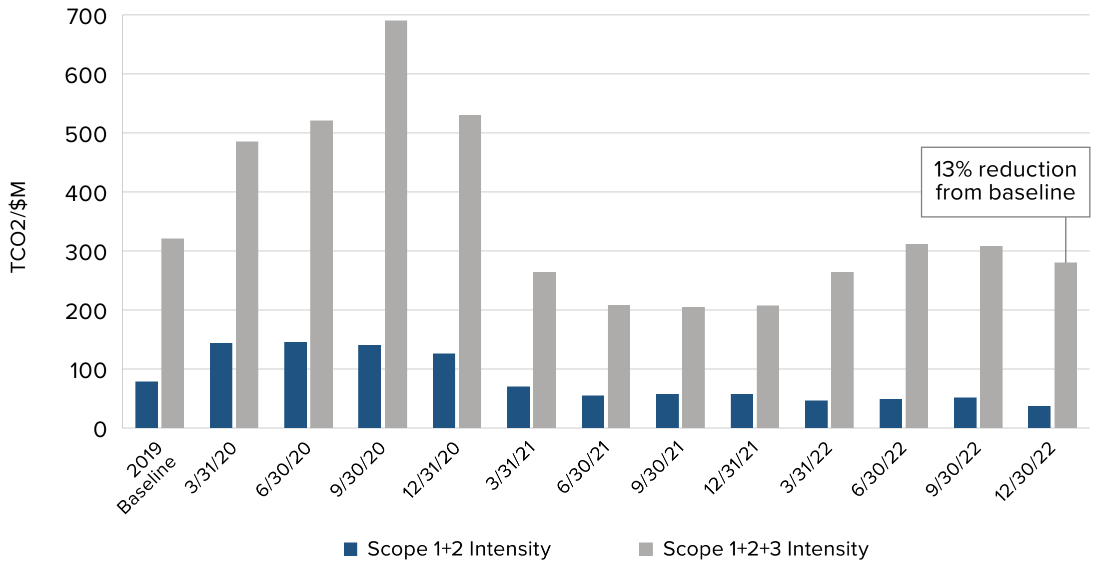
While our net-zero commitment applies to scopes 1, 2, and 3 across all asset classes in our portfolio, our internal annual targets currently focus on scope 1 and 2 emissions for public equity and credit where the emissions data and calculation methodologies are most established. See Figure 1. We use mechanisms like our fossil fuel restrictions to manage other asset classes and scope 3 emissions while we pursue data sources that are reliable enough to set annual targets. We also track these emissions to ensure we understand our exposure. As shown in Figure 2, we have seen a 13% reduction across total emissions intensity (scopes 1, 2, and 3) since 2019. We continue to expand the coverage of our calculations and targets as better data and methodologies become available.

2 https://report.ipcc.ch/ar6syr/pdf/IPCC_AR6_SYR_SPM.pdf
3 The Greenhouse Gas Protocol 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.

Figure 1: Investment Portfolio Coverage

	% Total
Covered	74%
Public Equity and Credit	54%
Private Equity and Credit	20%
Uncovered	26%
Total	100%

Figure 2: SFM Portfolio Carbon Intensity by Scope



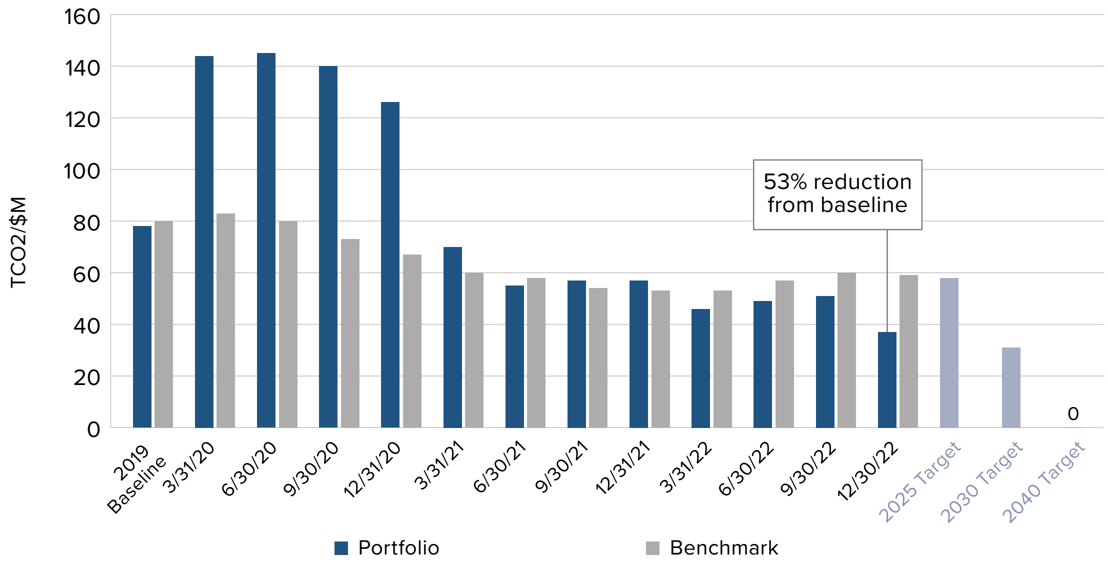
Notes:
[1] 2019 Baseline is the monthly average carbon intensity for 2019.
[2] Quarterly intensity is calculated using a rolling 3 month average.
[3] Calculation covers public equity and credit and private equity and credit that is held internally.

SFM is committed to setting emissions reduction targets at 5-year intervals until we achieve a net zero portfolio. In addition to our 2040 net zero goal, we established 2025 and 2030 targets from a 2019 baseline, as follows:

- Reduce SFM's portfolio emissions intensity (TCo2/$M invested) by 25% by 2025
- Reduce SFM's portfolio emissions intensity (TCo2/$M invested) by 60% by 2030

SFM has tracked portfolio emissions intensity since we launched our Climate Action Strategy in 2020. Our emissions intensity calculation reflects the relative economic weight of equity versus debt financing. See the full calculation methodology in Appendix B. Our quarterly portfolio intensity through 2022 is aligned with the reduction glide path established by our strategy and interim targets. As of year-end 2022, Scope 1 and 2 emissions intensity[4] was 53% lower than baseline (see Figure 3). While this is a relatively dramatic reduction, we do not think it makes sense to adjust our interim targets at this time. Our path to net-zero will not necessarily be linear, especially as we remain committed to engaging with companies in carbon-intensive sectors and as we expand the coverage of our calculation. It is also important to note that emissions data continues to be an imperfect measure of impact. Last year, for example, we saw several cases where companies' emissions increased because they improved reporting to cover more of their business. Generally, we view enhanced coverage as a sign of positive progress; this example demonstrates why we conduct deeper analysis to understand the nuance that an emissions metric fails to capture.

Figure 3: SFM Portfolio Carbon Intensity Scope 1 & 2

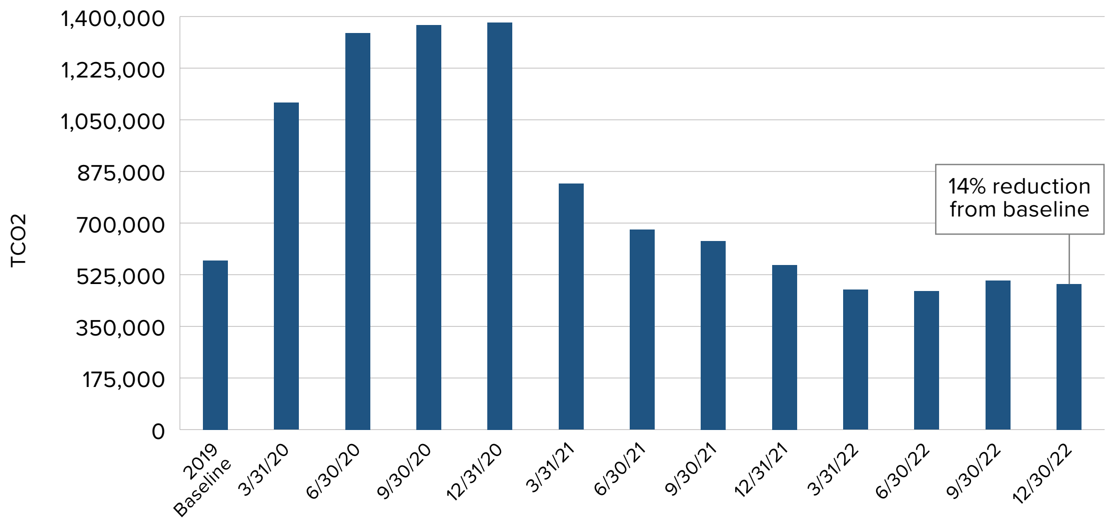


Notes:
[1] 2019 Baseline is the monthly average carbon intensity for 2019.
[2] Quarterly intensity is calculated using a rolling 3 month average.
[3] Portfolio calculation covers public equity and credit and private equity and credit that is held internally.
[4] The benchmark is a 60/40 blend of the MSCI ACWI and the BofA global corporate index.

We rely on emissions intensity, rather than absolute financed emissions, to set reduction targets and as our primary measure of progress over time. Intensity based targets allow us to expand our asset class coverage as data availability and calculation methodologies improve. This approach is less sensitive to changes in our exposure across asset classes over time. See Appendix C for further explanation on why we use an intensity metric. We also believe it is important to track our absolute financed emissions as disclosed in Figure 4.

4 This intensity calculation uses the modified EVIC methodology described in Appendix B.

Figure 4: SFM Portfolio Financed Emissions by Scope 1 & 2



Notes:
[1] 2019 Baseline is the monthly average financed emissions in 2019.
[2] Quarterly financed emissions are calculated using a rolling 3 month average.
[3] Calculation covers public equity and credit and private equity and credit that is held internally.

On a practical level, we are operationalizing SFM's emissions reduction targets by embedding them into our internal portfolio managers' decision-making processes. We do this by setting individual emissions budgets for our portfolio managers, and by incentivizing investments in climate solutions and transition companies via our climate-results based programs.

Monitoring the voluntary carbon market

2022 was an interesting year for the fragmented, fast-moving ecosystem of organizations, investment opportunities, and various institutional arrangements which together comprise the voluntary carbon market or VCM. It has become apparent the activity is too widespread to ignore. While we do not intend to use carbon offsets to achieve our 2025 and 2030 portfolio emissions reduction goals, we may consider the possibility of using high integrity carbon credits to neutralize residual emissions in the future. Similarly, we continue to advise our portfolio companies to focus on real decarbonization efforts to meet interim targets. We point companies to the Science Based Targets Initiative (SBTi)'s work on beyond value chain mitigation. SBTi states that "carbon credits may only be considered to be an option for neutralizing residual emissions or to finance additional mitigation beyond their science-based emission reduction targets."[5]

With so much in flux—from new market entrants and investment products to new governance efforts like the Voluntary Carbon Markets Integrity Initiative (VCMI), the Integrity Council for the Voluntary Carbon Market (ICVM), the UN Secretary-General's High Level Expert Group on Net Zero Integrity (UN HLEG), together with the ongoing implementation of the Paris Agreement Article 6 package—we believe the next 2 years will be critical to determining the future status of carbon markets in the coming decades. If carbon markets continue to exist and indeed are going to grow, which we believe they will, they must be as effective as possible in supporting the climate transition and climate justice outcomes.

As the VCMI, ICVCM and UN HLEG wrap up their work, we are exploring what high integrity carbon markets principles can mean in practice; how to protect high-integrity carbon market participants from reputational and financial risk; and how to demonstrate the sort of carbon market activities that will best support a just climate transition.

5 https://sciencebasedtargets.org/resources/files/SBTi-criteria.pdf

Setting our emissions reduction trajectory has allowed us to estimate an annual emissions budget for SFM's entire portfolio. We then allocate a portion of this overall budget to each portfolio manager. This allocation is tied to the intensity of their portfolio benchmark, meaning that portfolio manager's targets reflect the sectors and geographies underlying their strategy. In 2022, we launched a custom tool that we developed for portfolio managers. It allows them to monitor the emissions intensity of their portfolio, estimate the impact of potentially adding or divesting a particular security and track their portfolio intensity against their target. We developed this in house because we needed a tool that would reflect our tailored approach to calculating and managing carbon intensity.

This is especially important because currently available emissions data does not fully convey the real economy impact of the companies we invest in. For example, an electric vehicle (EV) manufacturer may not yet report its scope 3 emissions. This presents a gap from a climate perspective, as the scope 3 category is where we see the difference between an EV company and a manufacturer of internal combustion engine (ICE) vehicles with significant tail pipe emissions. Another example might be a steelmaker, whose high carbon intensity would put it out of scope for an investor trying to align their portfolio with an aggressive energy transition. However, that steel company might make critical energy transition solutions like turbines, solar panels, and EVs, and have an ambitious plan to decarbonize their business. SFM's climate-results based programs are designed to address these types of gaps in a company's available data and to fortify our emissions reduction approach:

Climate-Results Based Programs

	Description	Methodology	2022 Highlights
Climate Solutions Adjustment	Without reliable Scope 3 data to reflect differences in emission profiles for product use, there is no clear way 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.	We identify climate solutions using data on the impact of companies' products and services on environmental objectives. We apply a 50% discount on GHG emissions for climate solutions investments to address shortcomings in scope 3 data and incentivize investment in climate solutions.	• Expanded the geographic coverage of our climate solutions flag to cover more UK based companies.
Right Path Program	Many high-emitting sectors are essential to both the economy and the energy transition, and do not yet have viable low-carbon alternatives. Portfolio manager emissions reduction targets coupled with our path to net zero can make it difficult to remain invested in these sectors, and in some cases, we would like to retain a seat at the table to support their transition.	Portfolio managers apply to the program by demonstrating that a company has an ambitious, credible transition plan and by committing to increased engagement around decarbonization. Our internal review committee evaluates and approves right path candidates. Approved companies receive a 75% discount on GHG emissions. This discount is a blunt tool, and we are evaluating the best way to gradually reduce the discount over time while giving companies the necessary time to do the tough work of decarbonizing their business. We engage with right path companies at least two times per year and track progress on specific KPIs related to their transition strategy.	• Finalized internal review committee for Right Path company approval, including representatives from SFM's impact strategy, risk, and leadership teams. • Provisionally approved two Right Path candidates and engaged with company management teams. • Validated set of industry specific KPIs with Right Path companies to assess their progress over time.

Figure 5: Adjusted Carbon Intensity (TCO2/$M)		
	Intensity	**Share of Total Exposure**
Base Intensity	44.44	100.00%
Right Path Program	(6.90)	-0.28%
Public Climate Solutions Adjustment	(0.73)	-7.59%
Final Adjusted Intensity	36.81	92.12%

Notes:
[1] As of 12/30/22
[2] Calculation covers scope 1 & 2 emissions intensity for public equity and credit and private equity and credit that is held internally.

FOSSIL FUEL COMMITMENTS

SFM's fossil fuel restrictions are aligned with our belief that near-term climate action, and long-term energy security, are incompatible with continued fossil fuel production and consumption. A recent study from the International Energy Agency (IEA) charts a pathway to an accessible, affordable net zero energy system by 2050; this pathway does not include any new oil and gas fields or coal mines beyond projects already committed as of 2021.[6] We recognize that this pathway will continue to include obstacles both predictable and unpredictable.

Our approach to fossil fuels is aimed at addressing some of these obstacles, recognizing that the energy transition will be unevenly implemented and ratcheting up our restrictions over time. For example, in our current policy on coal power production, we do not allow investments in companies or projects with coal production greater than 20% of total revenue for companies in OECD countries only. This 20% cap does not apply to companies operating in non-OECD countries, as we believe OECD countries should be held to a higher standard and lead the transition away from coal. See Appendix D for a summary table of our fossil fuel restrictions.

INVESTING IN CLIMATE SOLUTIONS

While we remain committed to increasing our investment in the solutions critical to preventing the worst impacts of climate change, our total climate solutions investment went down in 2022. This was the result of several factors. We were able to exit some of our earlier investments and hope to recycle that capital into more climate solutions investments in the future. Also, several companies we invested in as private companies became public and were subject to share price declines affecting the total value of our climate solutions portfolio. While our deal pipeline remains robust, we are selective about the opportunities we

6 https://www.iea.org/reports/net-zero-by-2050.

pursue. Throughout 2022, we believed valuations for many private market investments were very high and found few compelling new investments that met our bar for climate impact and prudent investing. We continue to explore investments that support the energy transition and look for opportunities to drive resource efficiency, as well as sustainable food and water supply.

Figure 6: Total SFM Climate Solutions Investments

Category	Market Value ($M)
Private[1]	974
Public[2]	321
Total	1,295

Notes:
[1] Market Value as of 12/30/22. Includes companies where SFM made a private investment prior to their initial public offering.
[2] Average market value from 12/1/22-12/30/22.

ENGAGEMENT

Corporate Engagement

In 2021, we established the foundation for our corporate engagement strategy by building out key relationships. In 2022, we deepened our work to understand and engage on each company's specific climate strategy within the context of their industry, regulatory regime and geography. Our aim is to partner with the companies we invest in to bring value.

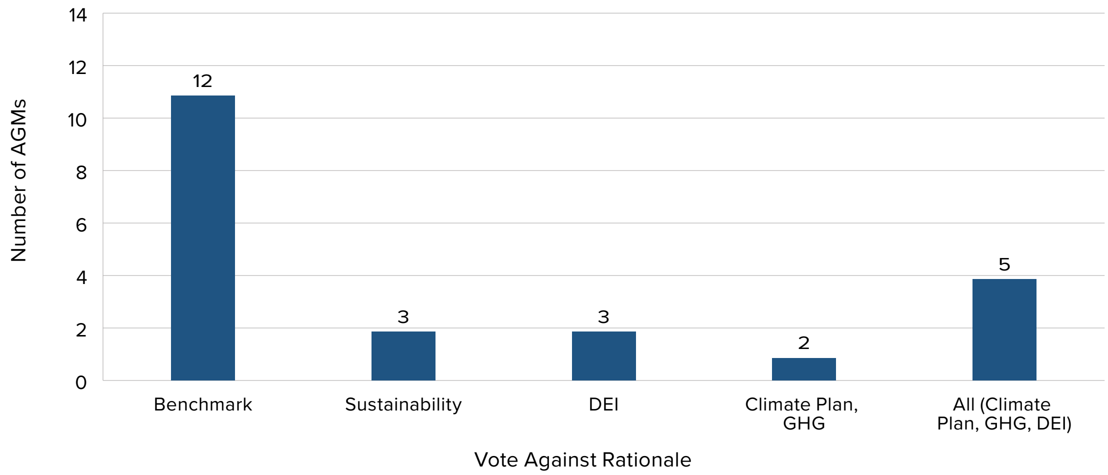
Our proxy policy is often the starting point in our engagement to help ensure companies consider non-financial risks and opportunities, like building credible, ambitious climate transition plans. The policy has been effective in driving productive dialogue with companies. ISS, our proxy advisor, provides us voting recommendations based on their benchmark policy, their sustainability policy, and a custom lens that layers in SFM's proxy policy expectations for companies related to DEI and climate.[7]

We began the 2022 proxy season with a significant number of companies in our portfolio that did not meet our proxy voting expectations. In several of these cases we voted against the reelection or election of company Board Directors. We always review ISS' benchmark and sustainability recommendations, but do not always vote consistent with them. The investment stewardship team together with portfolio managers make final voting decisions based on our own research and SFM's mission and values.

7 On climate, we expect companies to disclose scope 1 and 2 emissions and a credible climate transition plan. On DEI, we expect companies to disclose DEI data for gender and race and ethnicity, and a DEI strategy.

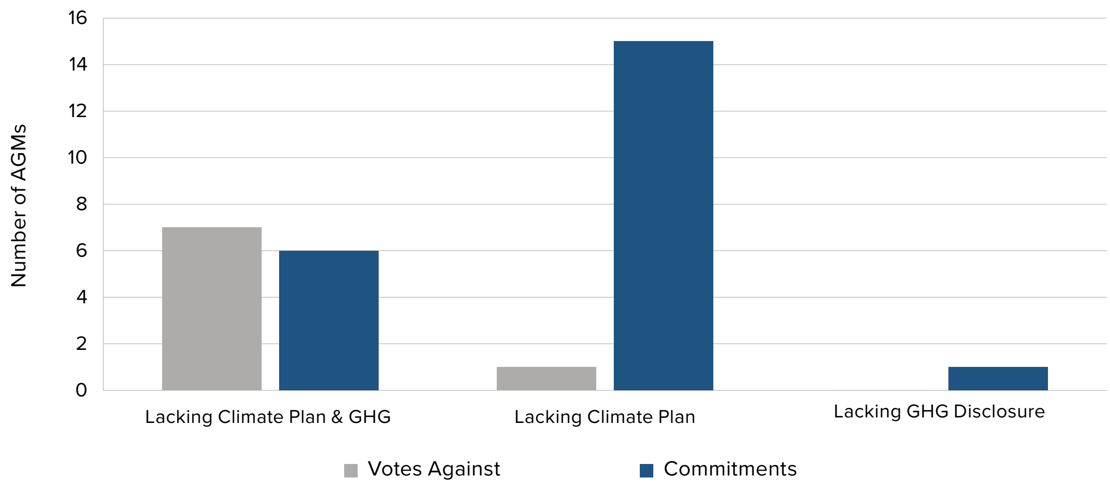
See Figure 7 for an overview of SFM's votes against directors in 2022.[8]

Figure 7: 2022 SFM Votes Against Directors



In other cases, we made voting exceptions for companies that demonstrated significant progress and made commitments to meet our expectations in 2023. Our climate-related engagement, which focused on companies disclosing scope 1 and 2 emissions and a credible transition plan, yielded more than 20 new commitments in total from portfolio companies. See Figure 8 for an overview of how we voted based on companies' climate disclosures. We spent time with these companies discussing how they might strengthen the credibility of their climate transition plans (see sidebar), or in many cases, set emissions reduction targets for the first time.

Figure 8: 2022 Vote Decisions Based on Climate Disclosures



8 "Benchmark" refers to our third-party proxy advisor's benchmark policy, a standard policy that makes recommendations based on market-specific regulations and governance best practices. "Sustainability" refers to our third-party proxy advisor's sustainability policy, which makes recommendations "consistent with the objectives of sustainability-minded investors and fiduciaries. "DEI" refers to cases where we voted against companies who failed to disclose DEI data, "GHG" refers to companies who fail to disclose scope 1 and 2 emissions data, and "Climate Plan" refers to companies who fail to disclose a credible climate transition plan.

More than ten companies sought our feedback on planned disclosures and establishing their transition strategies during 2022.

When we prepare for an engagement, we research business models, regional regulatory requirements and existing climate disclosures and bring deep subject matter expertise into our conversations with management. We also offer to share a set of materials – SFM's climate toolkit – we developed to provide portfolio companies with guidance and resources on climate disclosures and plans (see sidebar). Our toolkit addresses frequently asked questions and includes links to credible standard setters and instructions related to our proxy policy, carbon accounting, reporting frameworks, target setting and carbon credits.

Through our engagement we saw improved corporate climate reporting and transition planning. For example:

- Eco Animal Health Group Plc shared their strategic plan with us to review, specifically requesting feedback on metrics and frameworks, and asked what we saw others doing in their industry. Subsequently, the company has collected and disclosed baseline emissions data and publicly committed in their annual report to developing reduction targets as part of a measurable transition plan.
- Access Intelligence, with whom we shared our climate toolkit and have engaged since 2021, has progressed on their climate disclosures a great deal. In their 2022 reporting they disclosed scope 1 and 2 emissions and reduction targets for the first time and laid out a plan for capturing scope 3 emissions across their supply chain.

9 https://www.cdp.net/en/guidance/guidance-for-companies/climate-transition-plans

What makes a climate transition plan credible?

We consider climate transition plans to be key drivers of corporate action on climate mitigation. They lay out a strategy for companies to assess climate risks and opportunities in their operations and value chain and provide commitments that shareholders can use to hold companies accountable. For this reason, SFM's proxy voting policy sets disclosure of a credible climate transition plan as an expectation for all portfolio companies. There is no "one size fits all" for company climate transition plans, and we always consider a company's size, sector, and the emissions intensity of their business model when evaluating their plan. In our climate toolkit, we point companies to CDP's definition of a climate transition plan as a starting place:

"A time-bound action plan that clearly outlines how an organization will achieve its strategy to pivot its existing assets, operations and entire business model towards a trajectory that aligns with the latest and most ambitious climate science recommendations, i.e., halving greenhouse gas (GHG) emissions by 2030 and reaching net-zero by 2050 at the latest, thereby limiting global warming to 1.5°C."[9]

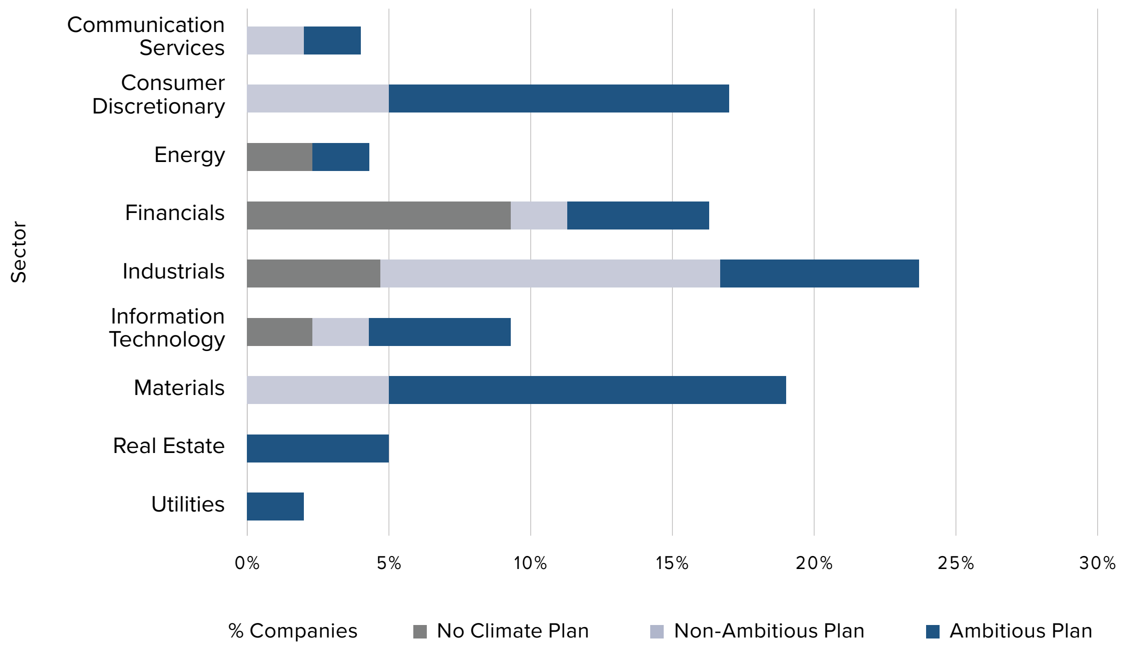
We look for markers of credibility within three broad buckets: climate risks have been adequately assessed and addressed in the plan, targets are ambitious commensurate with a 1.5°C trajectory and embedded across the business strategy, and the plan establishes decision-making and accountability mechanisms to ensure progress. We start by reviewing qualitative reporting, emissions data and TCFD disclosures. Scenario analysis, third party verification of climate data and approved science-based targets are strong indicators that risks are well understood and targets are sufficiently ambitious. To assess accountability and implementation, we look for plans that allocate significant CapEx and OpEx to climate, designate specific roles to execute on climate goals, orient reporting structures to senior management and Board levels, ensure lobbying activities and trade association membership actively support Paris Agreement goals and align incentives for leaders (i.e., executive compensation) and supply chain partners with climate outcomes.

In addition to company materials, we review external research from sources like Climate Action 100+ and the Transition Pathway Initiative, plus other industry or company-specific secondary analysis and news reporting. Where necessary, we conduct a benchmarking analysis to understand if a company's management of risks, opportunities, and glide path to net zero are in line with peers and with the geographies, technologies, and regulatory regimes that will shape its future operations.

Looking ahead to the 2023 proxy season we are starting to see a greater percentage of our portfolio holdings disclosing scope 1 and 2 emissions, with roughly 75% of companies meeting our emissions disclosure expectation. Much of our climate engagement will now focus on working with companies to develop their climate plans, encouraging them to move beyond simple goal setting and toward best-in-class planning.

In 2023 we will further tailor our engagement to industry-specific decarbonization conditions. Figure 9 shows an approximate snapshot of our equity portfolio companies by industry and their stage in transition planning.[10] Generally, we find that companies in carbon intensive sectors already have a plan in place, though often these plans can be more clear, transparent and ambitious. Companies in the finance sector are lagging, and companies in the consumer discretionary sector are furthest along.

Figure 9: 2023 Portfolio Climate Plans by Sector



Finally, we would note that our engagement extends beyond a company's climate transition plan to understand the social context of the companies in which we invest. In cases where a company's operations – including its climate transition activities – may negatively impact local communities, we will raise this in our dialogue with them. We regularly ask companies about topics like community engagement, worker rights, and health and safety where it is material to their business strategy or where we think there is an opportunity to embed this in their transition planning.

10 We use imperfect indicators to distinguish between "ambitious" and "non-ambitious" plans. An ambitious plan denotes that the company has formally committed to setting SBTs or has an approved SBT or has otherwise set long and interim emissions reduction targets in line with a well below 2-degree pathway. A non-ambitious plan means the company has a climate transition plan but does not have science-aligned targets.

Right Path Program

Companies in our right path program are an important focus of our engagement. We hold meetings with right path companies twice a year and conduct intense analysis to understand the company and how it fits within the transition picture. Our aim is to ensure companies demonstrate progress and encourage them to accelerate their transition path.

We begin our analysis by studying the industry and its sectoral decarbonization path, taking stock of the technological and policy shifts necessary to decouple emissions from revenue growth. We benchmark all right path candidates against a set of their peers, selecting metrics that indicate the credibility, ambition, and feasibility of the companies' climate transition plans. Some examples include carbon intensity per unit of production, climate targets, alternative fuel use, CapEx spend on decarbonization, and executive compensation tied to climate targets. Two companies joined our right path program during 2022.

Third Party Manager Engagement

In 2021, we established our third-party manager engagement program by sending out a survey to our managers, collecting and analyzing the data, and reporting back results so that managers understand how they compared to their peers. We also met with each manager to understand opportunities and any best practices. While most firms had an ESG policy, a very small percentage calculated their financed emissions.

In 2022, we refined the survey for more effective data gathering and collected and analyzed the data to drive engagement in 2023. A small subset of managers either began to calculate their financed emissions or improved the calculation. We will focus 2023 engagement on calculating emissions and setting reduction targets. We recognize that some managers' strategies do not lend themselves to calculating financed emissions, and our focus this year will be to work with managers for whom setting carbon reduction targets will be possible.

DATA

All four pillars of SFM's climate action strategy – emissions reduction targets, fossil fuel commitments, climate solutions and engagement – depend on good data. Rather than rely on other's interpretation of good data, we have developed our own analysis, tools and methodologies. Our data strategy aims to address the current limitations and gaps in ESG data, and to identify solutions to streamline the process for companies to deliver and investors to leverage quality data.

2022 continued to present data challenges as we expanded our analysis and executed our strategy. Two examples are the lag in emissions data availability, and the lack of data for private companies.

Emissions Data Lag and COVID-19 Adjustment

Companies typically report GHG emissions annually and this data is generally available to investors with a two-year lag. As a result, in 2022 we had to grapple with the impact of COVID-19 entering our analysis in the form of 2020 emissions. To ensure we did not dramatically underestimate our portfolio financed emissions and to protect portfolio managers from a sharp increase in emissions intensity in 2023, we were conservative and adjusted the 2020 scope 1 and 2[11] emissions data to smooth the effects of the disruption to economic activity. We developed sub-industry level adjustment factors that reflected the median change in the annual emissions trend and applied these to company level 2020 emissions to calculate "COVID adjusted 2020 emissions".[12] While we felt it was important to keep our methodology simple and uniform, we made exceptions for two industries:

1. Airlines – because airlines experienced an especially dramatic disruption to their business, we ultimately decided to use 2019 emissions data. This very likely overstated their emissions because we know that air travel did not return to pre-pandemic levels in 2022. However, we felt comfortable taking a more conservative approach.
2. Utilities – in 2020, the utilities sector had the largest annual increase in renewables capacity.[13] To ensure we did not erase reductions tied to legitimate and sustained decarbonization, we assumed only 50% of the reduction in emissions was due to COVID.

Private Company Data

While emissions data for public companies is still far from perfect, data from private companies is in its infancy. Most private companies do not calculate or report on their annual emissions and we have not identified any aggregate data sources for this information. To expand our analysis to cover private companies, we estimated their emissions using sub-industry median intensity from public companies (measured in metric tons of CO2/millions of dollars of revenue). In 2023, we will continue to work to get better emissions data on private companies.

EVIC versus revenue-based intensity

There is ongoing debate in the investment community about the merits of measuring carbon intensity based on EVIC (enterprise value including cash) versus revenue. EVIC-based intensity may be more comparable across different industries because of its lower variance. Some argue that revenue-based intensity is less subject to market volatility and more closely linked to the real economy and actual decarbonization progress. We believe it is valuable to calculate and track both metrics in addition to financed emissions. Our portfolio carbon emissions reduction target and carbon budgets for public investments rely on EVIC based intensity. However, we focus on revenue-based intensity for private investments due to our use of sub-industry level emissions factors (which are revenue-based) and the quality of historical data.

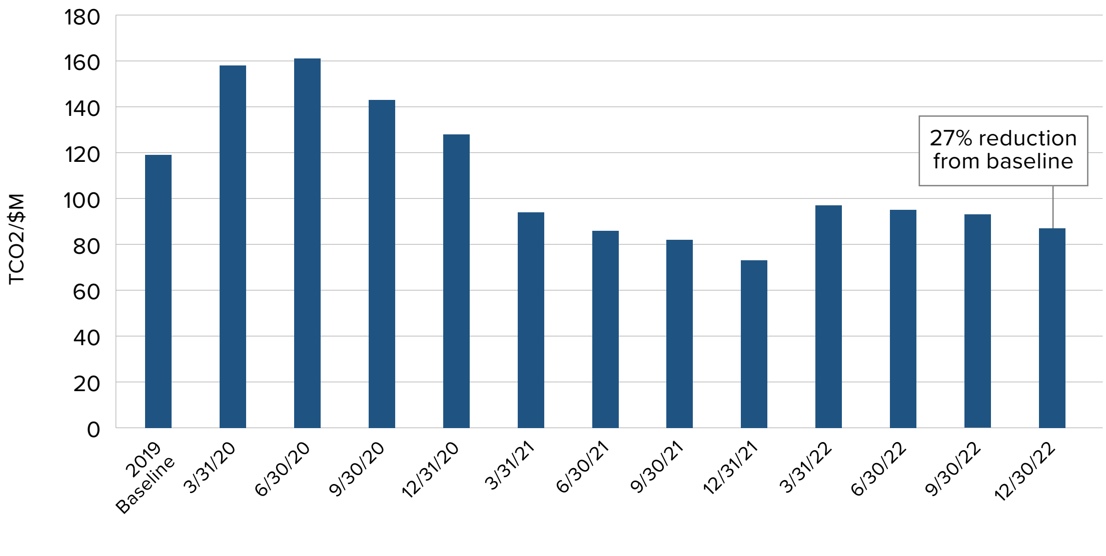
Unless otherwise noted, all intensity calculations in this report are based on the modified EVIC method detailed in Appendix B. See Figure 10 for portfolio carbon intensity calculated using the revenue-based methodology, weighted average carbon intensity.

11 We tested a similar approach to adjusting scope 3 data but ultimately determined the historical Scope 3 data from 2018 and 2019 was too unreliable to set an effective baseline for the calculation.

12 In sub-industries where median emissions decreased relative to the 2019/2018 year over year change, companies received no adjustment.

13 https://www.iea.org/articles/global-energy-review-co2-emissions-in-2020

Figure 10: SFM Portfolio Weighted Average Carbon Intensity Scope 1 & 2



Notes:
[1] 2019 Baseline is the monthly average carbon intensity for 2019.
[2] Quarterly intensity is calculated using a rolling 3 month average.
[3] Calculation covers public and private equity and credit.

SFM OPERATIONS

In 2022, we measured the emissions generated by SFM's operations for the first time. When we launched our climate action strategy in 2020, our priority was measuring and reducing our financed emissions. This remains our top priority today. At the same time, we see the value in methodically taking stock of SFM's scope 1, scope 2, and operational (non-financed) scope 3 emissions.

Though SFM has worked to reduce the carbon footprint of our operations for several years, 2022 was the first time we measured the emissions generated by SFM's operations. Steps we already have taken include transitioning from data center to cloud-based technologies, replacing inefficient computers with more efficient equipment, and reducing paper usage. In 2022 alone, we rolled out a firmwide laptop program to replace an aging fleet of PCs. Through this program, we reduced SFM's total number of PCs by 53%, from 670 to 315, and reduced our PCs' average power consumption by 175,500 watts. We also migrated firmwide telephone and conference room services to zoom, thereby decommissioning 200 desk phones, equivalent to 1,400W of power consumption. In our London office, we eliminated on premises infrastructure and migrated email, storage and printing to cloud-hosted services.

In 2022, we collected our operational emissions data from 2019 onwards across all categories outlined by the Greenhouse Gas Protocol (GHGP) and assessed the materiality of each category. Our impact strategy team partnered with members of SFM's facilities, IT, accounts payable and administrative functions to collect data for all our data centers and offices — in the greater New York City area, London, Dublin and Hong Kong. See Figure 11 for the findings of our 2021 calculations. In addition to scopes 1 and 2, we calculated the following scope 3 categories: purchased goods and services and business travel.

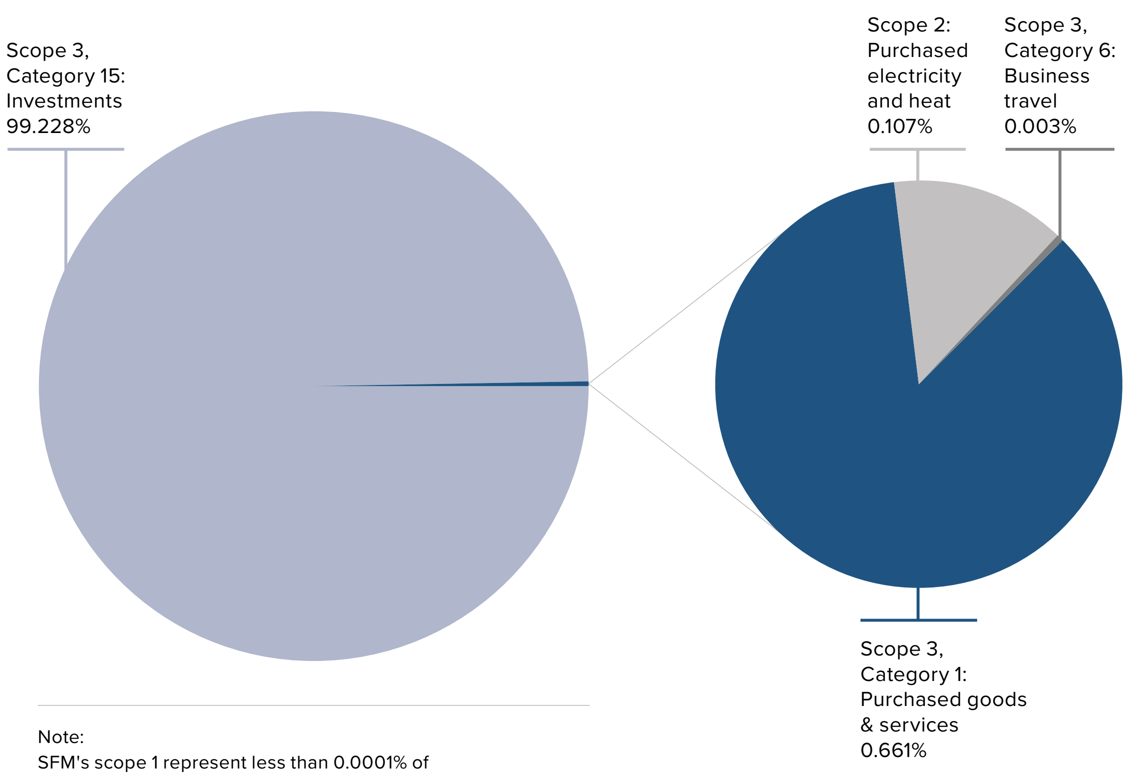
We did not calculate emissions from two operational scope 3 categories that are relevant but that we deemed less material: employee commuting and waste.

This effort reaffirmed our conviction that our investments, which drive roughly 99% of SFM's total emissions footprint, are our most significant climate impact by size and materiality. We also learned that measuring emissions across our operations is not an easy feat. Our experience examining utility bills, meeting with property managers, and trialing calculation methodologies gave us an appreciation for the complexities many companies face when it comes to carbon accounting. It made us sharper evaluators of companies' sustainability reporting and reinforced our support for regulation that sets clear rules for corporate reporting standards.

Finally, measuring our operational emissions gave us a deeper understanding of where emissions are generated in our day-to-day activities and where to target further reductions. We are building a process to systematically track our operational emissions over time, and do not expect to do a deep dive annually, rather to continue focusing on efforts to reduce top drivers of emissions in our operations and value chain: energy consumption of our data centers and offices, purchased goods and services and business travel.

We will continue this work in 2023 and 2024. By the end of 2023, we will finish migrating SFM's core trading and risk systems to cloud solutions, reducing our data center computation and storage needs by more than 50%. We plan to decommission our New York data center in 2023 and close our Virginia data center in early 2024.

Figure 11: SFM 2021 Emissions



Note:
SFM's scope 1 represent less than 0.0001% of total emissions and are not displayed on the chart.

2023 GOALS

Several of our 2023 climate action goals build on the 2022 objectives we shared in our last report, as outlined in the table below. We are also expanding to new goals and program areas in 2023, including:

- Improve emissions data collection for existing asset classes, including private assets and third-party manager holdings
- Expand to new asset classes, including real estate, structured credit and ETFs/Indices
- Continue to track opportunities and themes in climate solutions, focus in 2023 on the built environment and sustainable food supply
- Extend analysis of physical risk, working together with SFM's risk team
- Determine the best-fit sector and geographic heatmaps for climate risk, build our own if needed
- Continue to engage portfolio companies to accelerate decarbonization efforts, including making clear what should be reflected in a credible climate transition plan
- Address biodiversity and nature in our climate commitments and policies
- Evaluate methods to measure impact and avoided risk
- Improve and automate our climate data infrastructure
- Expand programming and processes for internal climate education and knowledge sharing

PROGRESS AGAINST 2022 GOALS

2022 GOAL	HOW DID WE DO?	WHERE ARE WE HEADED?
Continue to reduce the carbon intensity of our portfolio and expanding coverage for our emission intensity reduction analysis to include all possible asset classes	• Stayed on track to meet our 2025 emissions reduction target • Expanded portfolio coverage to include third-party hedge fund managers for the first time • Sourcing data for private equity and credit has proved challenging, we are relying on industry estimates until better data is available	• Improve emissions data collection for existing asset classes, including private assets and third-party manager holdings • Expand to new asset classes, including real estate, structured credit, and ETFs/ Indices

...continued

2022 GOAL	HOW DID WE DO?	WHERE ARE WE HEADED?
Validate our emissions reduction approach against appropriate reference scenarios	• Extensively researched methodologies and frameworks with which to align our targets to a 1.5°C pathway • Difficult to find a credible methodology suitable to the size and variation of assets in our portfolio, though broadly our targets are well within recommended ranges for asset managers	• Continue to assess best available guidance to ensure our emissions reduction targets and glide path are aligned with the latest climate science and tailored to sector-specific pathways when appropriate • Monitor SBTi's evolving guidance for financial institutions
Grow our climate solutions investment portfolio	• Continued to work with our existing portfolio. While we reviewed a high volume of deals in 2022, few cleared our hurdle for investment	• Continue to track opportunities and themes in climate solutions
Formalize our approach to climate risk management	• Researched available data options to quantify transition and physical risk	• Reevaluate strategy related to physical risk, working together with SFM's risk team • Determine the best-fit sector and geographic heatmaps for climate risk in our portfolio
Prioritize our internal and external efforts to improve climate data	• Launched a deep dive into the ESG data ecosystem, meeting with dozens of organizations in the space to map the key providers and gaps • Determined there is still a long way to go for this effort to have meaningful impact on our work	• Continue to prioritize our near-term needs, while exploring longer-term and bigger picture opportunities to improve climate data

...continued

2022 GOAL	HOW DID WE DO?	WHERE ARE WE HEADED?
Track key regulatory developments, including the SEC's draft rule on climate-related disclosure	• In June 2022, SFM submitted a letter[13] to the SEC commenting on the draft rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors • Letter registers support for the SEC's objective and provides comments on sections of the rule we see as beneficial to investors and suggestions where the SEC could improve the rule to ensure commercially practical outcomes	• Formalize our process for monitoring developments in climate and ESG-related regulations
Use our voice as shareholders to continue pressing companies for transparency and measurable change	• Saw improved disclosures in dozens of cases where we engaged with companies over a one-to-two-year period • Methods to measure progress are not as sophisticated as we would like. As the tools underlying engagement program evolved, we have not captured consistent KPIs	• Evolve our engagement to set more ambitious expectations for portfolio companies, including making clear what should be reflected in a credible climate transition plan • Develop and test outcome measurement approach and metrics
Build on our engagement with third-party managers to exchange best practices and encourage progress on transparency and performance	• Streamlined and distributed climate and DEI surveys to third-party managers in Fall 2022 • Process of reviewing the results from the 2022 surveys prompted us to reassess the cadence and the impact of our third-party manager surveys	• Evaluate our engagement strategy for third-party managers to ensure strong linkages to SFM's climate commitments and real-world impact • Ensure climate goals and expectations are well integrated into our third-party manager pre-investment and due diligence process

14 https://www.sec.gov/comments/s7-10-22/s71022-20132237-302759.pdf

...continued

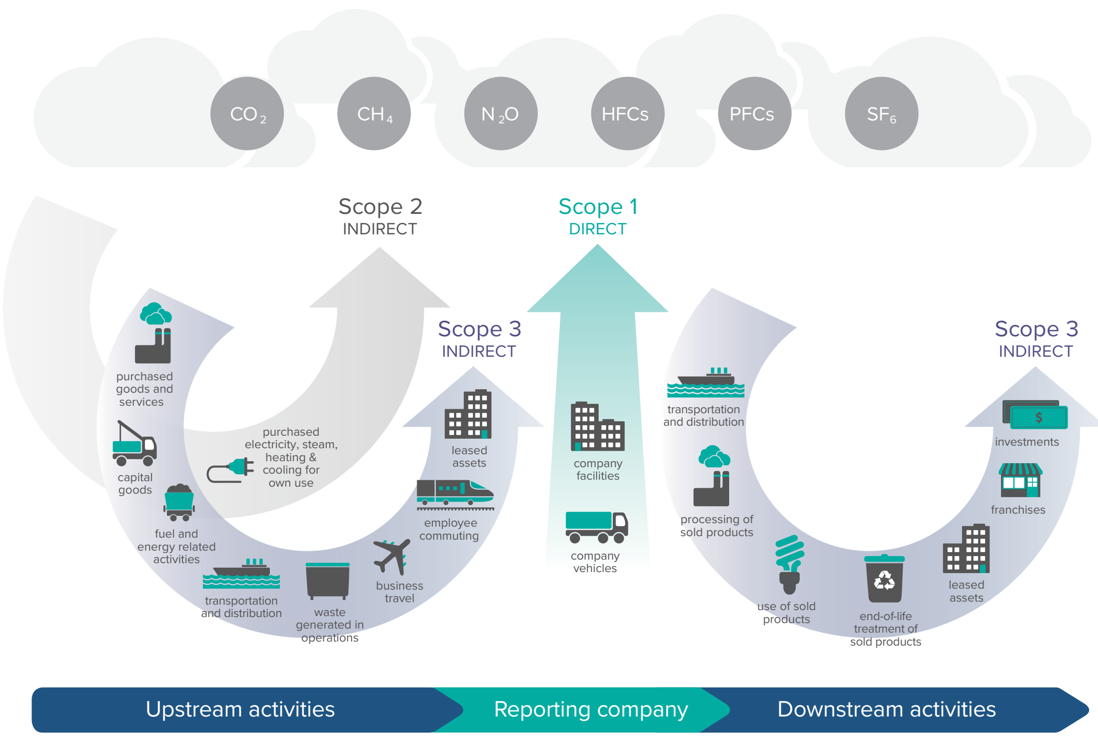
2022 GOAL	HOW DID WE DO?	WHERE ARE WE HEADED?
Engage in regular dialogue with partners across the industry to ask ourselves how we can best progress our work, and create our own solutions where they do not exist	• Solicited feedback and collaborated with partners on a range of issues throughout 2022, from our first climate report to our restrictions policy to the carbon credits ecosystem • Created our own solutions in several cases; developing a COVID-adjustment methodology for our emissions data, and replacing incomplete data with our own research and tools to validate companies' progress against our proxy policy	• Explore formal memberships with organizations working on investment stewardship and carbon accounting
Advance our internal efforts to minimize our corporate footprint	• Conducted a full accounting of SFM's operational GHG footprint, assessing the materiality of various emissions categories • Effort was more time and resource-intensive than we expected, and there were some emissions categories for which we were not able to conduct a full assessment, including waste and employee commuting	• Consistently report on top material categories of our operational emissions

APPENDIX A. 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."[15]

Figure 12: Overview of GHG Protocol scopes and emissions across the value chain



Source: Greenhouse Gas Protocol Corporate Value Chain Reporting Standard

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

APPENDIX B. SFM CARBON INTENSITY METHODOLOGY

Modified EVIC Carbon Intensity

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.

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

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

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

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. Total Company Emissions = Annual Scope 1 + Scope 2 Emissions (measured in tons of CO2)
    a. If a company does not report emissions (as is currently the case for most private companies), we use sub-industry average emissions intensity (total company emissions / revenue) scaled by the company's annual revenue.
2. Exposure is netted at the issuer level. Only issuers with net long exposure are included in the calculation.
3. For private companies we use total valuation in place of market cap.
4. Equity: Debt Multiplier
    a. Multipliers are calculated and applied at the sector and credit quality (investment grade v. high yield) level.
    b. Sector Equity Cost of Capital is the average Equity WACC (weighted average cost of capital) for the MSCI US Index (MXUS) by sector.
    c. Sector Debt Cost of Capital is the average Effective Yield for a collection of BofA sector and credit quality specific fixed income indices.
    d. 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.
    e. We update our Equity: Debt multipliers quarterly and use a 4-year rolling average to reduce volatility.

Weighted Average Carbon Intensity

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

APPENDIX C. WHY ARE WE USING EMISSIONS 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).

APPENDIX D. 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

APPENDIX E. TASKFORCE ON CLIMATE-FINANCE DISCLOSURE (TCFD) ALIGNMENT MAP

SFM supports the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The following table summarizes our progress in aligning our Climate Transition Plan 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 plan 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 6–18
	• **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 neutral portfolio thereafter.	Emissions Reduction Targets Pages 6–11
	• **Ending all investments in new fossil fuels 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, and certain oil and gas companies.	Fossil Fuel Commitments Page 11
	• **Actively engage 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 will require a credible climate transition plan. To further strengthen these corporate disclosures and plans, we intend to be a strong driver of more accurate and timely data across asset classes for public and private assets.	Engagement Pages 12–16

TCFD THEME	APPROACH	REFERENCES
STRATEGY ...continued	• **Investing in climate solutions.** SFM is actively investing to support the climate transition, in areas such as electric vehicles, battery technology, sustainable infrastructure financing, and renewable energy. • **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.	Investing in Climate Solutions Pages 11–12 SFM Operations Pages 18–19
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 impact strategy. We are committed to transparency, via a public website, on our process and progress with a minimum of annual updates. We will disclose our portfolio's carbon footprint across available scopes, including our data sources and methodology. • **Board Role in Oversight:** i. Head of Impact Strategy presents on climate mitigation initiatives and emissions reduction progress 2x a year to the Board/Committees ii. 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:** i. 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 Operating Officer, General Counsel, Head of Impact Strategy, among others ii. Portfolio managers meet quarterly with impact strategy team to review progress and glide path toward their individual carbon reduction targets iii. Carbon reduction goals linked to compensation iv. Where practical, trading system restrictions have been implemented to support our climate goals	

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 avoid being part of the problem. Many carbon intensive industries such as utilities and construction play a crucial role in the climate transition. 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 fossil fuel exposure by 2025 • Ensuring our investment professionals have a solid understanding of policy environment/regulatory barriers and opportunities	Data Pages 16–18
	• Monitoring progress in carbon markets and negative emissions technologies • Prioritizing engagement with carbon-intensive sectors • Driving enhancement of climate data to better meet current and future needs and striving to use best available data	Monitoring the Voluntary Carbon Market Page 9
	• 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	Corporate Engagement Pages 12–16
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:* • 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	Emissions Reduction Targets Pages 6–11
	• Corporate Engagement & Proxy Progress (number and type of engagements, AGMs voted, commitments received) • Third-party Manager Engagement Progress (survey responses, meetings held) • SFM Operational footprint	Emissions Reduction Targets Pages 6–11