

# 2023 Climate Action Progress Report

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Soros Fund Management LLC

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**As the pivotal 2030 global climate targets grow nearer and catastrophic weather events become more frequent, the urgency to mitigate the most severe impacts of climate change is increasingly paramount. Achieving these targets necessitates an unwavering commitment across all sectors, with investors playing a critical role given their substantial influence and reach.** However, a concerning trend has emerged with numerous companies and financial institutions scaling back their climate pledges, jeopardizing global efforts to combat climate change.

It is essential that asset owners maintain their resolve in driving the energy transition. The stakes are exceedingly high, and the consequences of inaction are severe. The energy transition is not just an environmental necessity; it is a strategic imperative for fostering sustainable economic growth.

The economic ramifications of climate change are profound, encompassing health costs, reduced agricultural productivity, infrastructure damage, economic displacement and soaring insurance costs. A March 2024 report from the Swiss Re Institute highlighted that 2023 had a record breaking 142 natural catastrophes resulting in over \$100 billion in insured losses globally, marking the fourth consecutive year of such substantial losses. They estimate that “insured losses could double within the next ten years as... extreme weather events become more frequent and intense.”<sup>1</sup> Notably, eight of the ten costliest wildfires by insured loss since 1970 occurred within the past eight years,<sup>2</sup> and the wildfire risk appears to be high for much of the globe again in 2024. With spiraling costs from severe storms and wildfires already challenging the US insurance industry, implications for the housing market could be dire with ripple effects across communities that are difficult to fathom.<sup>3</sup>

Beyond the immediate costs of natural disasters, the acceleration of climate-related impacts is likely to prompt stringent government regulations targeting high-emitting companies. This transition risk could impose substantial costs on both companies and investors. A well-planned, steady transition would be more cost-effective than a haphazard, rapid one. Similarly, the societal impacts of climate change will undoubtedly have unequal impacts on companies and sectors that will be difficult to mitigate once in motion. According to the UN, such additional challenges across the globe may include heightened competition for land and water, escalating food insecurity, mass migration and social unrest.<sup>4</sup>

By steadfastly supporting and enhancing commitments to the energy transition, investors have the power to spur innovation, build resilient economies and secure a sustainable future. The path forward demands bold action and unwavering dedication to critical climate goals.

Our 2023 report reiterates SFM’s commitment to achieving our targets for 2030 and beyond and highlights our ongoing efforts to contribute to a sustainable and resilient future. As always, we hope that you will share your feedback with us on this report and our Climate Action Strategy at [impactstrategy@soros.com](mailto:impactstrategy@soros.com).



**Dawn Fitzpatrick**

Chief Executive Officer and Chief Investment Officer



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Chief Sustainability Officer and Head of Impact Strategy

1 <https://www.swissre.com/press-release/New-record-of-142-natural-catastrophes-accumulates-to-USD-108-billion-insured-losses-in-2023-finds-Swiss-Re-Institute/a2512914-6d3a-492e-a190-aac37feca15b>

2 <https://www.swissre.com/risk-knowledge/mitigating-climate-risk/wildfires.html>

3 <https://www.nytimes.com/interactive/2024/05/13/climate/insurance-homes-climate-change-weather.html>

4 <https://www.un.org/en/un75/climate-crisis-race-we-can-win>

## 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 financial 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 aligned with Open Society's goal of addressing 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 degrees Celsius will require an average investment of \$3.5 trillion annually through to 2050.<sup>1</sup> Those of us who manage capital must be responsible stewards of this investment, helping ensure that all sectors decarbonize as rapidly as practicable while prioritizing peoples' wellbeing along the way. It is for these reasons that SFM's impact strategy starts with climate action.

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<sup>1</sup> [https://www.ipcc.ch/site/assets/uploads/sites/2/2019/02/SR15\\_Chapter4\\_Low\\_Res.pdf](https://www.ipcc.ch/site/assets/uploads/sites/2/2019/02/SR15_Chapter4_Low_Res.pdf)

## EXECUTING ON OUR STRATEGY IN 2023

We are committed to transforming our investment portfolio to achieve net zero emissions before the year 2040. Recent research by the IPCC indicates that the current global commitments are projected to result in a warming of 2.8°C.<sup>2</sup> This highlights a substantial discrepancy between the necessary actions to limit global temperature increases and the existing policies and financial commitments.

Our targets are aligned with an ambitious pathway to 1.5°C, as laid out by the IPCC. 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 change mitigation.

Achieving SFM's net zero emissions portfolio requires a shift in the way we deploy our financial capital. We continue 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. Invest in climate solutions
4. Take an active role engaging with companies and sectors

### EMISSIONS REDUCTION TARGETS

In 2023, SFM progressed 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.<sup>3</sup> See [Appendix A](#) for an overview of the emissions covered in our analysis and further explanation on emissions 'scopes'.

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 and our benchmark cap<sup>4</sup>, we established 2025 and 2030 targets from a 2019 baseline, as follows:

- Reduce SFM's portfolio emissions intensity (TCO<sub>2</sub>/\$M invested) by 25% by 2025
- Reduce SFM's emissions intensity (TCO<sub>2</sub>/\$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.

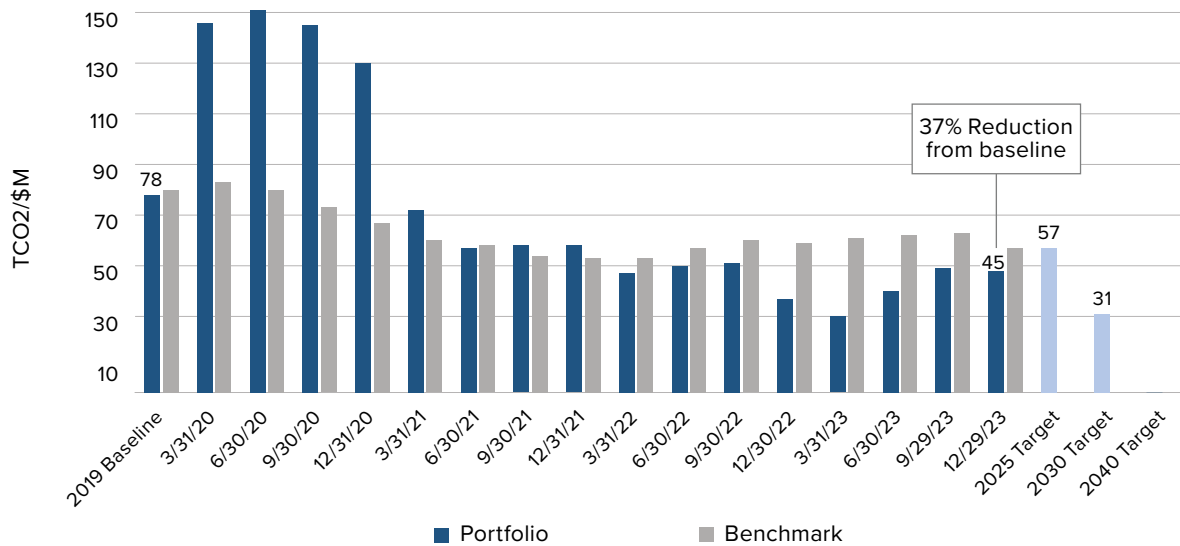
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<sup>2</sup> [https://report.ipcc.ch/ar6syr/pdf/IPCC\\_AR6\\_SYR\\_SPM.pdf](https://report.ipcc.ch/ar6syr/pdf/IPCC_AR6_SYR_SPM.pdf)

<sup>3</sup> 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.

<sup>4</sup> Portfolio emissions intensity is capped by SFM's portfolio benchmark intensity which is a 60/40 blend of the MSCI ACWI and Bank of America Global Corporate Index.

**Figure 1: 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.

Our quarterly portfolio intensity through 2023 is aligned with the reduction glide path established by our strategy and interim targets and represents a 37% reduction from baseline as of year-end. Unsurprisingly, our progress has not been linear, with higher portfolio carbon intensity at the end of 2023 compared to 2022. This was driven by increased investment into carbon intensive industries such as utilities and materials.<sup>5</sup> We believe that these industries are crucial to the climate transition and that it is important to leave room in our targets to hold carbon intensive companies if paired with focused engagement. For more details on how we engage with companies in carbon intensive industries see the Corporate Engagement section.

**Portfolio Manager Targets**

On a practical level, we have operationalized 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 companies that support emissions reduction.

Our emissions reduction trajectory allows 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

<sup>5</sup> Similarly, the dramatic increase in intensity between 2019 and 2020 was primarily driven by two companies in carbon intensive industries which were responsible for less than 2% of investment exposure but nearly 50% of our financed emissions.

tied to the intensity of their portfolio benchmark, meaning that portfolio manager’s targets reflect the sectors and geographies underlying their strategy. We developed a custom tool in house that allows portfolio managers to monitor the emissions intensity of their portfolio against their benchmark and estimate the impact of potentially adding or divesting a particular security.

**Climate-Results Based Programs**

Currently available emissions data does not fully convey the real economy impact of the companies we invest in. 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**

<b>Climate-Results Based Program</b>	<b>Description</b>	<b>Methodology</b>
<b>Right Path Program (RPP)</b>	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.
<b>Climate Solutions Adjustment</b>	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.



In 2023, we evaluated Right Path Program candidates in the steel, cement, and utilities industries. The utilities sector presents a unique challenge. While we believe it has a place in the RPP, the sector's nuances have made it difficult to incorporate into our existing framework. We are developing a sector-specific approach to utilities given their criticality to the transition. See below for more.

See [Appendix C.1](#) for a comparison of SFM's portfolio intensity with and without the adjustments applied through these programs.

### Utilities - On the right path?

The utility sector stands out as a difficult industry in both its significance to the climate transition and the challenges to incorporate into our Right Path Program. Utilities' carbon intensities are often so high that even with the RPP discount they can be carbon-prohibitive in our investment portfolio. Scope 1 and scope 3 emissions are most challenging – for those that produce their own power, scope 1 emissions are high, and for those that purchase power for customers or provide gas for customers, scope 3 emissions are also high.

This challenge is amplified by the regulated nature of utilities. Most utilities work with their regulators to develop integrated resource plans to ensure long-term, reliable power supply to the service territories in which they operate. Authorized returns on investment are similarly set by regulators and heavily influence utilities' plans. Though shareholders can advocate for progress and engage with utilities, the arguments for climate progress (or regression) are usually won through the regulatory process. While there are many sophisticated, climate-focused organizations that participate in the regulatory process, it falls outside the scope of where we think our engagement will have meaningful impact.

While not all utilities are setting ambitious goals, we believe that those that are should be able to benefit from the RPP. The first challenge will be identifying how best to account for utilities' carbon footprints amidst our own emission reduction goals. We plan to benchmark utilities across a range of metrics beyond just reduction targets (e.g., coal phase out plans, forward decarbonization capex plans, percentage of low carbon generation). With the top tier of utilities identified, we will decide how to amplify the benefits of the RPP for those companies. Two avenues we are considering, for example, are: 1) further emission discounts beyond the current RPP benefit and 2) tracking utility performance against its own benchmark separate from the larger portfolio. The second challenge will be to understand the best way to press utilities to advance their climate transition, which likely starts with the regulatory environments in which they operate. We will continue enhanced engagement as part of the RPP process. We are also reviewing state-level regulatory policies and will consider 1) if utilities' regulatory frameworks are misaligned with carbon reduction goals and 2) if utilities are making use of progressive regulatory tools available to them (e.g., coal securitization). We believe that utilities will play a crucial role in the climate transition; we want to make sure that our frameworks help drive them towards their ultimate potential.

## Scope 3 Emissions

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 [Appendix C.2](#) for details on investment portfolio coverage. We use mechanisms like our fossil fuel restrictions to manage scope 3 emissions while we pursue data sources that are reliable enough to set annual targets. We also track these emissions separately to ensure we understand our exposure. See [Appendix C.3](#) for details on our scope 3 intensity. We continue to expand the coverage of our calculations and targets as better data and methodologies become available.

### Supply Chain Transparency: Addressing Environmental and Social Risks

Gaining transparency into portfolio companies' supply chains is crucial for understanding a range of important environmental and social risks. We expect this to become an area of increased focus for companies due to growing regulatory pressure.

Supply chain transparency will be a core component of getting access to improved scope 3 emissions data. According to the UN Global Compact, on average, scope 3 accounts for over 70% of companies' total emissions while only 30% of companies disclose this data.<sup>6</sup> Without accurate company specific data, we are unable to capture the full impact of the companies we invest in. Disclosure standards vary by jurisdiction. While the SEC's recently announced rules on climate-related disclosures do not include scope 3, the European Sustainability Reporting Standards (ESRS) do.

Beyond emissions, supply chains are key to understanding companies' broader climate risk. Extreme weather drives unpredictable swings in the cost of inputs, both through commodity prices and disruptions in shipping channels from drought. Better supply chain data can help companies understand and manage this risk while also giving insight into their impact on natural systems. Here we also expect emerging regulations to lead to better data availability with the EU Regulation on Deforestation-Free Products requiring companies importing or exporting commodities from the EU to verify and prove their products are deforestation-free by the end of 2024.

Supply chain considerations also extend to the intersection of climate and human rights, where a just transition is not possible if the technology used to drive decarbonization is made with forced or child labor. Solar panels have received scrutiny for their supply chain reliance on the Xinjiang region of China. In 2023, approximately \$1B worth of solar panels were detained by U.S. Customs and Border Protection in connection with the Uyghur Forced Labor Prevention Act (UFLPA).<sup>7</sup> Electric Vehicles (EVs) have faced similar issues in connection with Xinjiang and also due to the prevalence of child labor in cobalt mining which is a critical component of EV batteries. SFM is formalizing an approach to assess and address forced labor in the supply chain.

<sup>6</sup> <https://www.iss-corporate.com/library/are-european-companies-ready-for-scope-3-disclosures/>

<sup>7</sup> From US Customs and Border Protection. \$1.11B in electronics shipments were denied entry in 2023 due to suspected use of forced labor. According to industry analysts, the majority of products in this category are solar panels.

## FOSSIL FUEL RESTRICTIONS

SFM's fossil fuel restrictions are aligned with our belief that near-term climate action, and long-term energy security, are compatible with limiting fossil fuel production and consumption. The International Energy Agency (IEA) has charted 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.<sup>8</sup> We recognize that this pathway will continue to include obstacles both predictable and unpredictable.

Our approach to fossil fuels is aimed at acknowledging some of these obstacles, recognizing that the energy transition will be unevenly implemented and there is a practical necessity of ratcheting up our restrictions over time. For example, in our current policy on coal power generation, we do not allow investments in companies or projects where coal accounts for more than 20% of power generating capacity for companies in OECD countries. This 20% cap does not apply to companies operating in other countries, as we believe OECD countries should be held to a higher standard and lead the transition away from coal.

We recognize there may be instances where companies fall outside our restriction thresholds through sale of an asset or changes in corporate structure rather than the wind down of fossil fuel assets. When possible, we will review investments with this in mind to maintain the intent of the restrictions. See the *Ensuring Carbon Transparency and Accountability in Asset Divestments for Carbon-Intensive Industries* sidebar for further considerations on this topic.

See [Appendix D](#) for a summary table of our fossil fuel restrictions.

<sup>8</sup> <https://www.iea.org/reports/net-zero-by-2050>

<sup>9</sup> [https://assets.bbhub.io/company/sites/63/2022/06/GFANZ\\_-\\_Managed-Phaseout-of-High-emitting-Assets\\_June2022.pdf](https://assets.bbhub.io/company/sites/63/2022/06/GFANZ_-_Managed-Phaseout-of-High-emitting-Assets_June2022.pdf)

## Ensuring Carbon Transparency and Accountability in Asset Divestments for Carbon-Intensive Industries

As companies execute on their carbon reduction plans, they face the challenge of how to meet the targets they have set. For carbon-intensive industries such as oil and gas and power production, some of the highest emitting assets may still be economically viable and without a wind down plan in place. One common path for these companies is to divest the relevant asset, thereby immediately removing it from their reported carbon footprint.

This practice gives the appearance of emission reduction progress at the company-level but has no reduction impact on global emissions. Assets may transfer to other public companies with less of a climate focus or, even more impactfully, to private owners with little public accountability. This poses two issues: 1) The opacity surrounding private transactions complicates efforts to accurately monitor and evaluate the effectiveness of climate transition initiatives and 2) absent public scrutiny, private holders can run assets 'dirtier' focusing less on methane leak and routine flaring reductions, for example. Absent transparency guardrails, emission reduction strategies that heavily rely on asset divestments should be viewed with skepticism.

As such, it is critical to develop and encourage approaches that maintain the carbon transparency of divested assets. Transactions that involve the ownership transfer of assets with the potential for high emissions must account for ongoing emissions of the asset. This could be done by sellers incorporating reporting or reduction commitment requirements into the sale agreement. In debt-funded transactions, lenders could also incorporate climate conditions into lending agreements to maintain accountability if neither the buyer nor seller make such commitments unilaterally. This lender-driven approach will also be in the best interest of lenders who are making their own financed emissions reduction commitments.

If emissions management and transparency are not embedded into the transaction terms and ownership is transferred to a non-transparent third-party, then carbon accounting standards should require the selling company to continue to account for the emissions of the asset in perpetuity. This should be carried at the same level as the last full year of asset operation under the seller's control, potentially as a new scope 3 category. Alternatively, emerging emissions disclosure regulations must find ways to put private companies in scope for high emitting sectors. Smaller public companies are more likely to avoid accountability as well – regulators should continue to push for more stringent size-related exemptions, particularly in high emitting sectors, to keep more companies in scope.

Ideally, climate conscious companies find ways to wind down their high emitting assets (a "managed phaseout")<sup>9</sup> in a transparent manner, but asset sales will remain a routine part of business. Normalizing the continuity of climate disclosures and emission reductions for such assets will be an important step in ensuring global climate goals are met – not just those at the company level.

## INVESTING IN CLIMATE SOLUTIONS

Despite our commitment to increasing investment in the solutions critical to preventing the worst impacts of climate change, our total investment in climate solutions decreased in 2023 due to multiple 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. Again in 2023 few investments met our criteria for climate impact and prudent investing. High valuations persisted in the private market, resulting in fewer capital raises in aggregate. When there were private deals, capital was often injected pro-rata by existing investors to avoid testing the market on price.

We continue to explore investments that support the energy transition, drive resource efficiency, and enhance sustainability in food and water supplies.

**Figure 2:**  
**Total SFM Climate Solutions Investments**

Category	Market Value (\$M)
Private <sup>1</sup>	545
Public <sup>2</sup>	237
<b>Total</b>	<b>782</b>

Notes:

[1] Market Value as of 12/30/23. Includes companies where SFM made a private investment prior to their initial public offering.

[2] Average market value from 12/1/23-12/29/23.

10 <https://www.iea.org/reports/electricity-2024/executive-summary>

## Balancing Benefits and Risks: Addressing the Impact of AI on Climate and Society

Artificial Intelligence (AI) technologies have the potential to deliver incredible benefits across society while also posing a range of material risks to companies, consumers, workers, and the world at large. The convergence of AI and climate captures this dynamic well. AI promises to make substantial contributions to climate change mitigation and adaptation by increasing efficiency, accelerating innovation and enhancing predictive capabilities. At the same time, it risks exacerbating environmental problems through increased energy and water usage and as a tool to accelerate extractive and unsustainable industries.

AI's capacity to optimize processes in new ways will have a direct impact on greenhouse gas emissions. Efficiencies driven by AI spanning activities such as logistics, grid power, and agriculture, have the potential to make existing processes less carbon intensive. Moreover, AI-enhanced modeling capabilities can expedite the processing of data, facilitating the advancement of solutions still in their early stages. The integration of "digital twins" offers a cost-effective means to rapidly assess new designs and processes and refine them before costly pilot efforts. AI can also be a powerful tool for climate change mitigation as impacts intensify. Early detection of extreme weather events can help governments develop more targeted response plans and extend emergency response lead times.

Despite the many benefits, AI also introduces and exacerbates climate risks. While the exact magnitude is up for debate, AI's contribution to ballooning data center energy and water consumption is receiving increasing scrutiny. The International Energy Agency estimates that electricity consumption from data centers, AI and cryptocurrency combined could more than double by 2026 to ~1000 TWh relative to 2022 consumption.<sup>10</sup> While electricity consumption impacts could be offset by continued expansion of clean energy sources, solving the water consumption challenge, whereby evaporation of cooling water can reduce locally available water, may prove more difficult.

The efforts to identify, manage and disclose AI-related risks - climate and otherwise - should come from all parties throughout the AI supply chain. Companies developing AI technology should make clear the impacts of their products to their customers and stakeholders while companies using third-party AI technology should in turn do the same for their usage of AI. While we have focused on the environmental risks, the full set of risks associated with AI are far-reaching, including biases, privacy, intellectual property, among others. We believe that it is critical that these risks are assessed and disclosed within one framework that is both accessible and impactful for all stakeholders.

## CORPORATE ENGAGEMENT

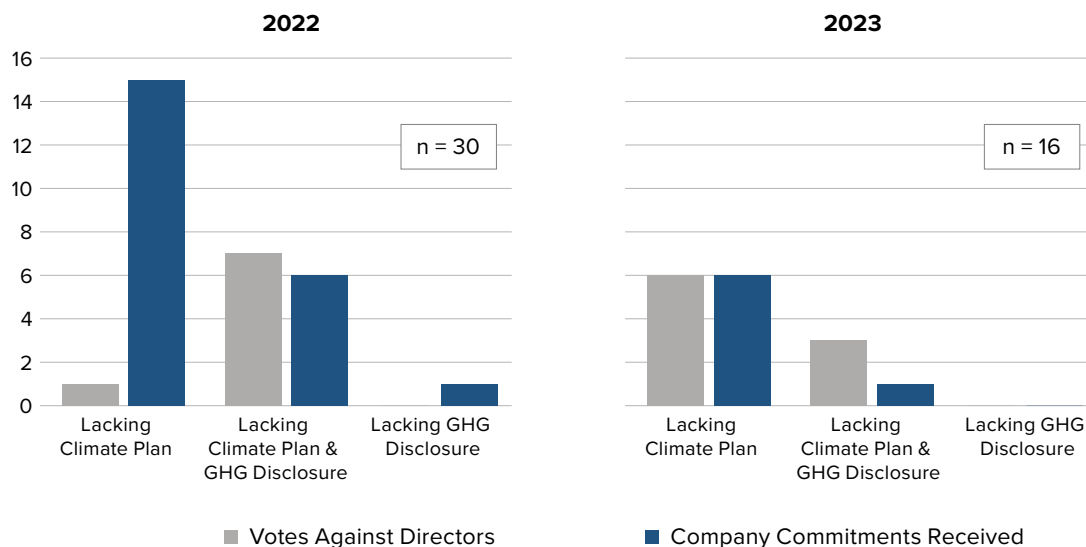
Corporate engagement is one of our most important tools as investors. To frame those engagements, we maintain a proxy voting policy that lays out our expectations for our portfolio companies. Our proxy voting policy is built on ISS's benchmark and sustainability policies, with SFM's custom expectations and engagement learnings informing our final vote. Last year, we asked companies to disclose both scope 1 and 2 emissions in addition to a credible climate transition plan that included reduction targets. As the decarbonization path becomes clearer, we expect companies to publish their expanded strategies while providing more detail about their progress. See Updates to SFM's Proxy Voting Policy for our plan to update this policy in 2024 and 2025.

In 2023, we held 44 engagement meetings with companies both meeting and not meeting our disclosure expectations. We continued to vote against the reelection of directors for companies that did not meet our proxy voting expectations and where engagement was not productive.

Year over year, we saw fewer companies that did not meet expectations. This was driven by companies that either made progress or delivered on their prior commitments. When companies did not meet expectations in 2023, we were less likely this year to receive acceptable commitments and more likely to vote against existing directors. Figure 3 presents data from both 2022 and 2023, comparing outcomes for companies that did not meet our expectations. These companies fall into two groups: 1) those that formally committed to reaching our expectations in the upcoming year, and we voted for the reelection of directors and 2) companies where engagement was unsuccessful, and we voted against reelection of directors.

This outcome was driven partially by unfulfilled prior commitments and/or companies not willing to make disclosure commitments.

**Figure 3: Engagement Outcomes for Companies With Insufficient Disclosures**



The core of SFM's corporate engagement strategy is to maintain open dialogue with portfolio companies, understand real world challenges and advocate for meaningful and achievable decarbonization progress. At the onset of engagement, we familiarize ourselves with company-specific characteristics including industry, regulatory regime, geography and size. This allows for more thoughtful engagement and enables us to focus on fit-for-purpose decarbonization pathways. Still, companies must make progress. If they are not willing to engage, progress too slowly or fail to meet commitments they have set during engagement, we may vote against the reelection of directors.

The following two engagement examples from this year, representing companies in different industries and at very different stages in their decarbonization pathway, highlight the benefits of this context-driven approach:

- A small travel booking company in our portfolio has relatively low scope 1 and 2 emissions and much higher scope 3 emissions. Rather than spend time setting scope 1 and 2 decarbonization targets that would have a minimal impact, the company is focusing its efforts on influencing its customers to make smart, sustainable travel decisions. As the company executes on this strategy, we understand that they will set meaningful decarbonization goals for their scope 3 emissions. We have been supportive of management and this strategy because our engagement has given us confidence the company is prioritizing its most meaningful emissions, and they are demonstrating progress.
- For a carbon intensive manufacturing company, we reviewed the details of select planned projects, including projected emissions reductions, to understand whether the company could meet its decarbonization targets. In this case, we sought clarification on KPIs to gain confidence that plans were moving forward at the expected rate. We find that forward-looking data, such as planned capital expenditure tied to decarbonization, give us the best confidence that a company's plan is credible. In some cases, the data exposed concerns about the credibility of the company's plans and sparked further dialogue.

Since we launched our engagement program, we have seen the positive feedback loop that incremental climate engagement can create. In our experience, companies that meaningfully engage with us are more likely to demonstrate progress year-over-year. This is why our Right Path Program requires companies to commit to enhanced engagement – we want carbon intensive companies on the leading edge of decarbonization to be rewarded for their efforts in the form of a lower cost of capital and to remain recognized leaders. The engagements have a compounding effect whereby future conversations with our engagement targets start from an elevated perspective and can dive deeper on the details. The two examples discussed above are a good example of that contrast. The travel booking company started from a very different stage of transition than the manufacturing company at the onset of engagement. The level of our conversations is very different but both companies are making progress. Ultimately, we can raise both our ambitions as well as corporate ambitions over time in ways that positively reinforce one another.

New companies that enter the portfolio are sometimes behind the curve on decarbonization. In many cases, these companies welcome engagement and seek perspectives on how they can best meet our expectations over time. Based upon our experience engaging with many companies on their climate strategies, we are well equipped to share success stories and point to best practices that are already publicly disclosed by others.

We are committed to partnering with our portfolio companies on this long-term journey, especially as we approach the 2030 cliff where many companies set some of their first reduction targets.

## UPDATES TO SFM'S PROXY VOTING POLICY

We have updated our proxy policy and throughout 2024 we are communicating about our incremental expectations for 2025.

- **Scope 3** – It is imperative that all companies evaluate and ultimately disclose their scope 3 emissions. Thus, we are asking that companies review scope 3 emissions in 2024 and commit to disclosing material scope 3 emissions in 2025.
  - ◆ We understand this may mean some data will be restated in the future. Companies should not be penalized for their good faith efforts.
- **Carbon intensive companies** – While we believe all companies will benefit from enhancing their climate-related disclosures, those in carbon intensive sectors must act with the most urgency. We expect to see these companies making progress year-on-year aligned with indicators that reflect the quality of their planning. Thus, in 2025 we expect these companies to disclose:
  - ◆ A near-term (2030 or sooner) target and a long-term target (such as net zero)
  - ◆ Capital expenditures tied to decarbonization
  - ◆ An analysis reviewing the alignment of company and trade group lobbying efforts with a company's stated climate transition plan

## Climate Action Plans - The Importance of Capex and Lobbying Disclosures

We consider climate transition plans to be a critical disclosure of corporate action. They present a company's assessment of 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 the expectation for all portfolio companies to disclose a credible climate transition plan. We always consider a company's size, sector, and the emissions intensity of their business model when evaluating their plan. There is no "one size fits all" for company climate transition plans.

We are focused on elements of transition plans that we believe best demonstrate credible company commitments, including disclosing capital expenditures (capex) tied to decarbonization and ensuring company and trade group lobbying align to climate goals. For some companies the climate transition requires a massive transformation, and mapping investment in the transition is the clearest forward-looking indicator that a company is pursuing its targets. We also want to understand where non-decarbonization capex is being spent and whether that capex is being allocated to projects that are incompatible with a company's goals.

Since much of the transition will be supported or impeded by regulation and government incentives, we want to ensure that companies and their affiliated trade groups align their lobbying efforts with their stated goals. We will look for a company's assessment of whether its trade groups' climate-related positions are aligned with the company's own commitments. If there is a gap, companies should either reconsider their affiliation or identify steps they can take to influence the trade group's positions.

# SFM OPERATIONS

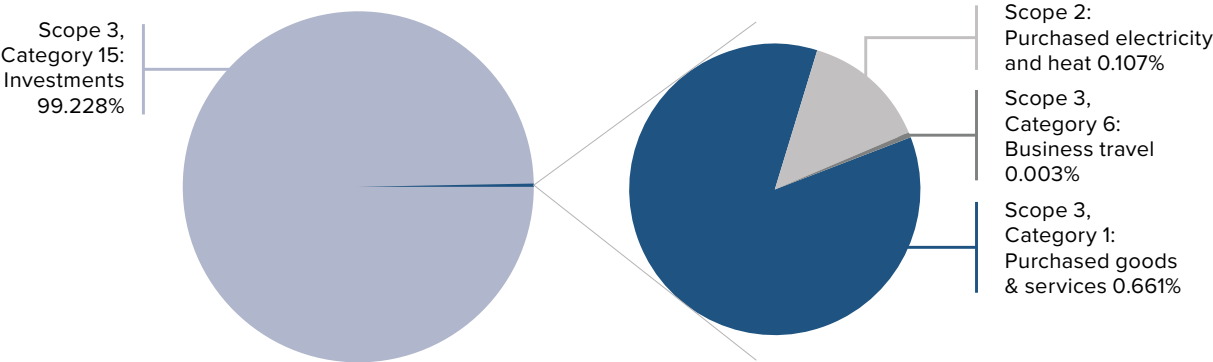
SFM has approximately 190 employees and is headquartered in New York City with additional offices in London, Dublin and Hong Kong. Our operations remain a small contributor to our carbon footprint. In 2022, we conducted a carbon footprint analysis to better understand the magnitude and breakdown of our emissions by scopes 1, 2 and 3. This exercise confirmed to us that our scope 3 emissions, specifically our financed emissions from our investments, are the core contributor to our overall inventory.

The results of our 2022 analysis of our 2021 data are shown in Figure 4. While our operations will continue to change over time, we do not believe that there has been a meaningful shift in the relative breakdowns by category. Though we intend to revisit this analysis as necessary in the future, we remain focused on our financed emissions for the purposes of year-over-year measurements.

Despite the lower materiality, we remain committed to finding more efficient ways for SFM to operate. In recent years we have upgraded a range of our hardware infrastructure, including phones, workstations and printers to both right size our fleet and use more energy efficient technology. In 2023, we continued this effort by replacing over 100 monitors for our employees. We will continue to review our hardware on a cyclical basis to identify new opportunities for upgrades.

We also continue to reduce our data center footprint, opting for more efficient cloud solutions that are more flexible based on operational needs. Our project to decommission one of our US-based data centers, for example, continued through 2023 and is anticipated to be completed in 2024.

**Figure 4: SFM 2021 Emissions**



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



# 2024 GOALS

Several of our 2024 climate action goals build on the 2023 objectives we shared in our last report, as outlined in the table below. We are also expanding to new goals and program areas in 2024, including:

- Continuing to reduce the carbon intensity of our portfolio and aim to expand coverage for our emission intensity reduction analysis to remaining asset classes (subject to current data/methodology constraints)
- Prioritizing our internal and external efforts to improve climate data
- Formalizing our approach to climate risk management and continue to expand our analysis of physical climate risks within our portfolio
- Strengthening our climate solutions investment portfolio
- Tracking and contributing to key regulatory developments and challenges, including the SEC’s rule on climate-related disclosures
- Using our voice as shareholders to continue encouraging companies towards more transparency and measurable change
  - ◆ Requesting information on companies’ plans to disclose scope 3 emissions – prioritize scope 3 categories that are material to their business
  - ◆ Engaging carbon intensive sectors on disclosures related to:
    - Decarbonization capex
    - Degree to which company’s lobbying efforts and the lobbying efforts of affiliated trade groups are aligned with companies transition plans
- Expanding focus on impact in third-party manager due diligence process
- Engaging in regular dialogue with peers and partners across the industry to advance decarbonization, and create solutions where they do not exist
- Advancing our internal efforts to minimize our climate footprint

# PROGRESS AGAINST 2023 GOALS

2023 GOAL	HOW DID WE DO?	WHERE ARE WE HEADED?
Improve emissions data collection for existing asset classes, including private assets and third-party manager holdings  Improve and automate our climate data infrastructure	<ul style="list-style-type: none"> <li>• Streamlined data collection and took steps to improve climate data infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to optimize our data collection and management</li> </ul>

2023 GOAL	HOW DID WE DO?	WHERE ARE WE HEADED?
Expand to new asset classes, including real estate, structured credit, and ETFs/Indices	<ul style="list-style-type: none"> <li>Expanded our analysis to include carbon intensive ETFs/Indices and explored data sources for real estate and structured credit</li> </ul>	<ul style="list-style-type: none"> <li>Expand coverage to remaining ETFs/Indices, real estate, and structured credit</li> </ul>
Continue to track opportunities and themes in climate solutions, focus in 2023 on the built environment and sustainable food supply	<ul style="list-style-type: none"> <li>While few investments met our criteria for climate impact and prudent investing, we evaluated a range of opportunities</li> </ul>	<ul style="list-style-type: none"> <li>We expect to maintain a strong pipeline of opportunities and to continue exploring investments that support the energy transition and drive resource efficiency</li> </ul>
<p>Extend analysis of physical risk, working together with SFM's risk team</p> <p>Determine the best-fit sector and geographic heatmaps for climate risk, build our own if needed</p>	<ul style="list-style-type: none"> <li>Explored available physical risk data and identified portfolio companies with highest risk</li> <li>Performed high level heat mapping</li> </ul>	<ul style="list-style-type: none"> <li>Explore options to identify climate risk in portfolio companies' supply chains</li> </ul>
Continue to engage portfolio companies to accelerate decarbonization efforts, including making clear what should be reflected in a credible climate transition plan	<ul style="list-style-type: none"> <li>Evaluated climate transition plans and improved ability to identify credible plans, elevating proxy voting expectations for 2025</li> <li>Engaged with companies on opportunities to improve</li> </ul>	<ul style="list-style-type: none"> <li>Adjust RPP to better address unique challenges of utilities industry</li> </ul>
Address biodiversity and nature in our climate commitments and policies	<ul style="list-style-type: none"> <li>Researched available frameworks and data sources</li> <li>Targeted deforestation for our initial focus and identified portfolio companies most at risk</li> </ul>	<ul style="list-style-type: none"> <li>Build out an engagement framework for companies with high deforestation risk</li> <li>Explore additional biodiversity and nature themes and risks</li> </ul>
Evaluate methods to measure impact and avoided risk	<ul style="list-style-type: none"> <li>Standardized tracking of companies that SFM has divested from or restricted due to environmental and social risks</li> </ul>	<ul style="list-style-type: none"> <li>Continue to evaluate different methods to measure the cumulative impact of these actions</li> </ul>
Expand programming and processes for internal climate education and knowledge sharing	<ul style="list-style-type: none"> <li>Formalized climate-focused orientation as part of onboarding process for all new hires, including non-investment professionals</li> </ul>	<ul style="list-style-type: none"> <li>Incorporate emerging issues into orientation content</li> <li>Seek additional firmwide opportunities to build investment team knowledge on impact themes</li> </ul>

# APPENDICES

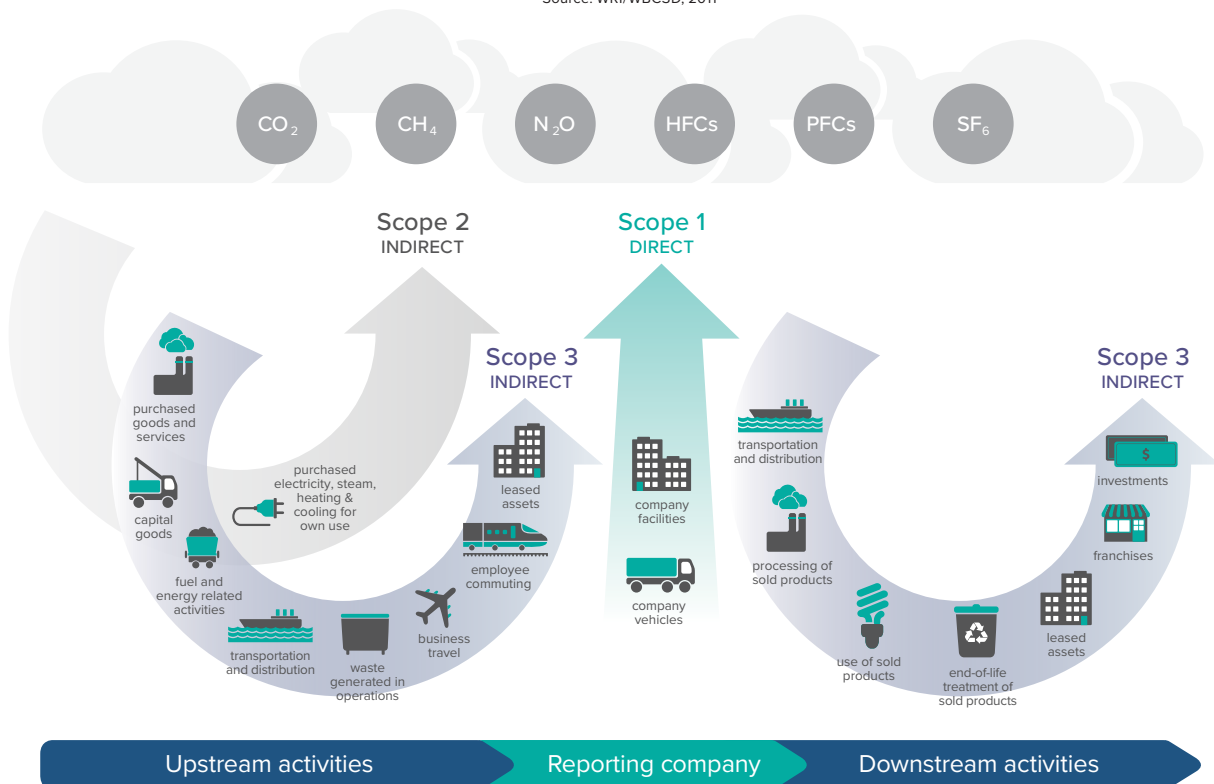
## APPENDIX A. WHAT EMISSIONS ARE COVERED BY OUR ANALYSIS?

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.”<sup>11</sup>

**Figure 5: GHG Protocol scopes and emissions across the value chain**

Source: WRI/WBCSD, 2011



Graphic Source: [GHG Protocol scopes and emissions across the value chain](https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf)

<sup>11</sup> [https://ghgprotocol.org/sites/default/files/standards\\_supporting/FAQ.pdf](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, and calculate our emissions accordingly.

#### Step 1: Calculate Company Financed Emissions

$$\begin{aligned} &\text{Company Equity Financed Emissions} \\ &= \frac{\text{Market Cap} \times \text{Equity:Debt Multiplier}}{(\text{Market Cap} \times \text{Equity: Debt Multiplier}) + \text{Long Term Debt}} \times \text{Total Company Emissions} \end{aligned}$$

$$\begin{aligned} &\text{Company Debt Financed Emissions} \\ &= \frac{\text{Long Term Debt}}{(\text{Market Cap} \times \text{Equity: Debt Multiplier}) + \text{Long Term Debt}} \times \text{Total Company Emissions} \end{aligned}$$

#### 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

$$\begin{aligned} \text{Fund Equity Financed Emissions} &= \sum \frac{\text{Fund Equity Exposure}}{\text{Market Cap}} \times \text{Company Equity Financed Emissions} \\ \text{Fund Debt Financed Emissions} &= \sum \frac{\text{Fund Debt Exposure}}{\text{Long Term Debt}} \times \text{Company Debt Financed Emissions} \end{aligned}$$

### 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:

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. o 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

$$\text{Weighted Average Carbon Intensity} = \sum \left( \frac{\text{Fund Exposure to Issuer}}{\text{Fund Total Exposure}} \times \frac{\text{Total Company Emissions}}{\text{Company Revenue (\$M)}} \right)$$

#### 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.

## APPENDIX C. SUPPLEMENTAL FIGURES

Appendix C.1 Adjusted Carbon Intensity (TCO2/\$M)		
	Intensity	Share of Total Exposure
Base Intensity	42.70	100.00%
Right Path Program	(3.54)	-0.67%
Public Climate Solutions Adjustment	(0.59)	-3.77%
Final Adjusted Intensity	38.57	95.56%

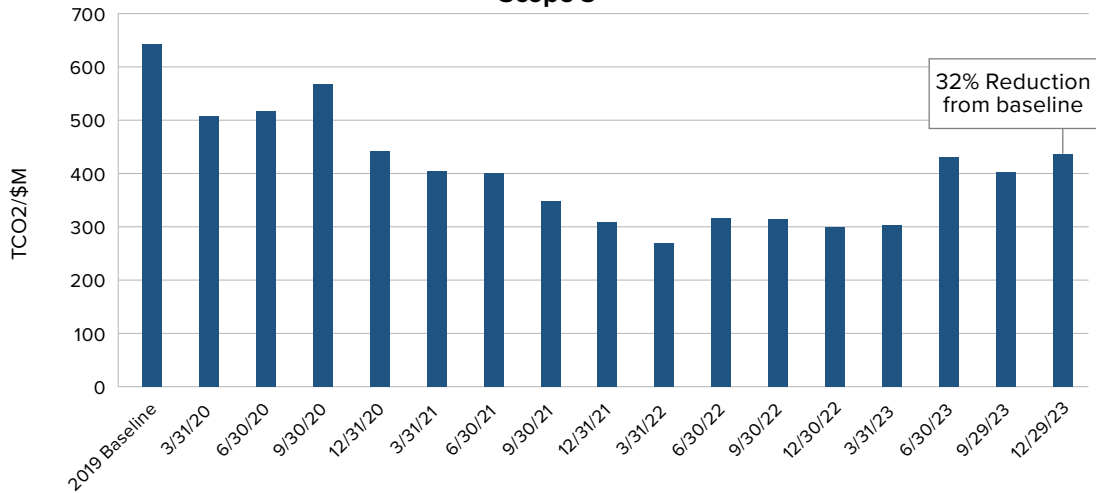
Notes:

[1] As of 12/29/23

[2] Calculation covers scope 1 & 2 emissions intensity for public equity and credit and private equity and credit that is held internally.

Appendix C.2 Investment Portfolio Coverage	
	% Total
Covered	70%
Public Equity and Credit	51%
Private Equity and Credit	19%
Uncovered	30%
Total	100%

### Appendix C.3: SFM Portfolio Carbon Intensity Scope 3



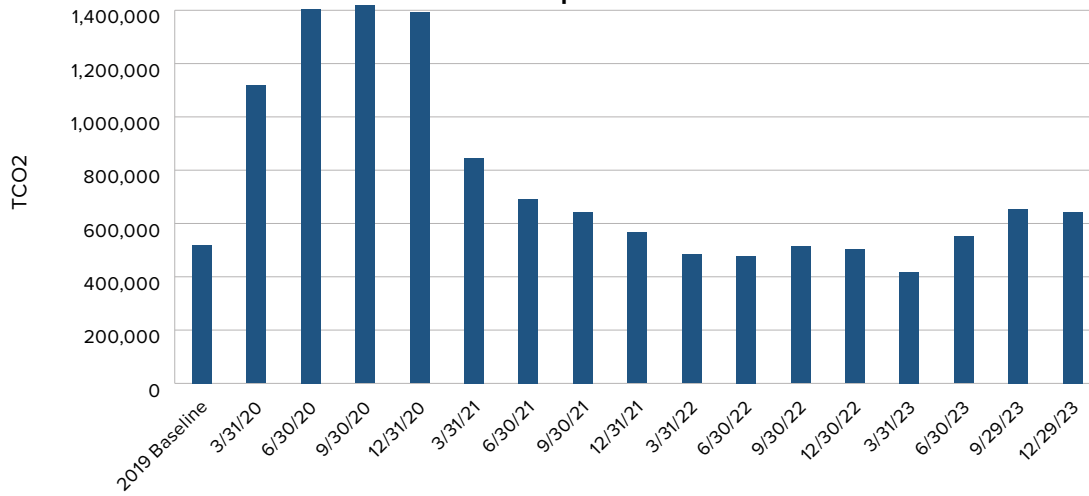
Notes:

- [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.

Scope 3 emissions data is still inherently unreliable both when comparing emissions across companies and industries but also when looking through time. Our data provider has modified their methodology over time, moving from modeling emissions at the sector level to a more granular sub-industry level.

They now also incorporate company reported data that meets their minimum quality threshold. While we have used historical data in the past, a more detailed analysis revealed that the largest changes in our portfolio scope 3 intensity were explained by these methodological changes. As a result, we have chosen to use emissions for financial year 2021 for historic portfolio data (2019-2022), rather than the data that was available at that time. Going forward, we continue to explore our options to improve the scope 3 data ecosystem.

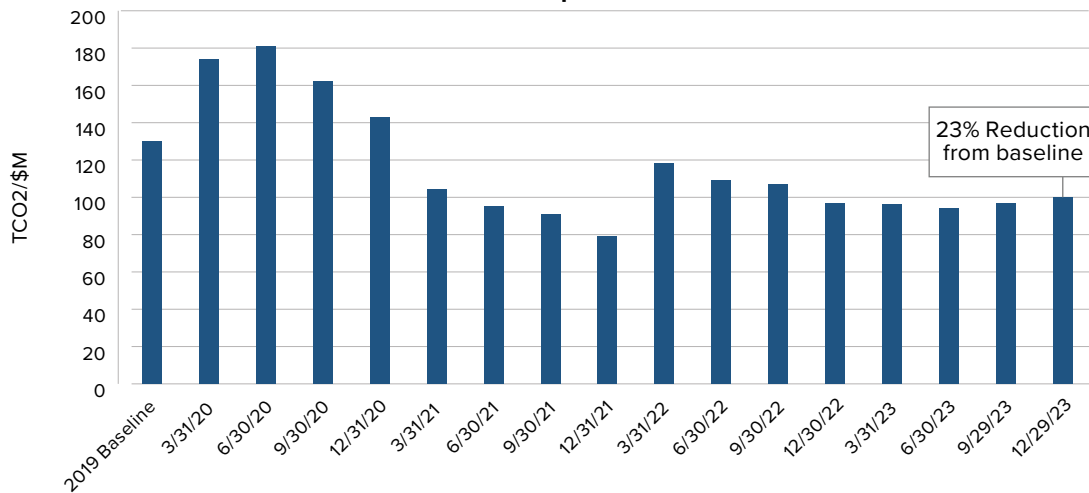
### Appendix C.4: SFM Portfolio Financed Emissions Scope 1 & 2



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.
  - [4] Due to data constraints, not all asset classes are covered for the full historical time series.
- As a result, financed emissions have grown relative to 2019 baseline, while portfolio intensity has decreased.

### Appendix C.5: 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.



## APPENDIX D. SUMMARY OF SFM'S APPROACH TO FOSSIL FUEL COMPANIES AND PROJECTS

Business	Commitment	Effective Date	Measure
<b>Fossil Fuel Supply</b>			
<b>All Fossil Fuel</b>	<ul style="list-style-type: none"> <li>No new private investments</li> <li>Eliminate exposure to companies/projects that supply fossil fuels by 2025</li> </ul>	<ul style="list-style-type: none"> <li>August 2020</li> <li>By 2025</li> </ul>	<ul style="list-style-type: none"> <li>Industry classification</li> </ul>
<b>Thermal Coal</b>	<ul style="list-style-type: none"> <li>No investments in companies or projects if thermal coal is a material part of the business</li> </ul>	<ul style="list-style-type: none"> <li>August 2020</li> </ul>	<ul style="list-style-type: none"> <li>Inclusion in FFI Solutions' Carbon Underground 200 (CU200) list for coal (applies to public companies)</li> <li>Coal mining revenue share &gt;1% in ISS</li> </ul>
<b>Oil &amp; Gas</b>	<ul style="list-style-type: none"> <li>No long investments in largest public oil &amp; gas companies</li> </ul>	<ul style="list-style-type: none"> <li>August 2020</li> </ul>	<ul style="list-style-type: none"> <li>Inclusion in top 80% of CU200 list for oil &amp; gas (applies to public companies)</li> </ul>
<b>Fossil Fuel Demand</b>			
<b>Coal-Fired Power Plants</b>	<ul style="list-style-type: none"> <li>No investments in companies or projects with plans to build, expand or acquire coal-fired electricity generating capacity</li> </ul>	<ul style="list-style-type: none"> <li>August 2020</li> </ul>	<ul style="list-style-type: none"> <li>Global Energy Monitor data on planned expansion</li> <li>Company disclosure documents</li> </ul>
	<ul style="list-style-type: none"> <li>No investments in companies or projects with coal share of power production &gt;20% in OECD countries or China</li> </ul>	<ul style="list-style-type: none"> <li>August 2020</li> </ul>	<ul style="list-style-type: none"> <li>Electricity generating capacity from coal &gt;20% in ISS</li> <li>Share of revenue from power generation &gt;5% in ISS</li> <li>Global Energy Monitor data on retirement plans</li> </ul>

## APPENDIX E. 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 F. TASKFORCE ON CLIMATE-FINANCE DISCLOSURES (TCFD) ALIGNMENT MAP

SFM supports the Financial Stability Board’s Task Force on Climate-related Financial Disclosures recommendations. The following table summarizes our progress in aligning our Climate Transition Plan with the TCFD recommendations.

TCFD THEME	APPROACH	REFERENCES
<b>STRATEGY</b>	<p><i>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:</i></p> <ul style="list-style-type: none"><li>• <b>Setting ambitious near-term reduction targets.</b> 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.</li><li>• <b>Taking an active role engaging companies and sectors to accelerate their climate transition business models.</b> SFM has, and will continue to, vote against the re-election of directors of public companies that do not disclose their scope 1 and 2 GHG emissions with a credible climate transition plan. In 2024, we are asking companies to, at a minimum, assess the materiality of scope 3 emission categories to facilitate future disclosure. In 2025, we are asking certain carbon intensive sectors to disclose both decarbonization-related capex as well as an analysis of the alignment between their transition plans, their lobbying efforts and the lobbying efforts of affiliated trade groups. Our intention is to be a persistent driver of more accurate and timely data and disclosure across asset classes for public and private assets.</li></ul>	<p><a href="#">Executing on Our Strategy in 2023</a> P. 6-15</p> <p><a href="#">Emissions Reduction Targets</a> P. 6-10</p> <p><a href="#">Corporate Engagement &amp; Updates to SFM’s Proxy Voting Policy</a> P. 13-15</p>

TCFD THEME	APPROACH	REFERENCES
	<ul style="list-style-type: none"> <li>• <b>Investing in climate solutions.</b> SFM is actively investing to support the climate transition, in areas such as electric vehicles, battery technology, sustainable infrastructure financing, and renewable energy.</li> <li>• <b>Implementing and strengthening low-carbon practices across our operations.</b> While our scope 1 and 2 emissions are minimal, we are committed to reducing our climate impact where possible.</li> </ul>	<p><a href="#">Investing in Climate Solutions</a> P. 12</p> <p><a href="#">SFM Operations</a> P. 16</p>
<p><b>GOVERNANCE</b></p>	<p>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.</p> <ul style="list-style-type: none"> <li>• <b>Board Role in Oversight:</b> <ul style="list-style-type: none"> <li>i. Chief Sustainability Officer (CSO)/Head of Impact Strategy presents on climate mitigation initiatives and emissions reduction progress ~2x a year to the Board/Committees</li> <li>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</li> </ul> </li> <li>• <b>Management Role in Oversight:</b> <ul style="list-style-type: none"> <li>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, CSO/ Head of Impact Strategy, among others</li> <li>ii. Portfolio managers meet quarterly with impact strategy team to review progress and glide path toward their individual carbon reduction targets</li> <li>iii. Carbon reduction targets linked to reviews and compensation</li> <li>iv. Where practical, trading system restrictions have been implemented to support our climate goals</li> </ul> </li> </ul>	

TCFD THEME	APPROACH	REFERENCES
<p><b>RISK MANAGEMENT</b></p>	<p>As a large family office with an in-house investment team, we have flexibility to invest across asset classes, geographies and investment strategies.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• Eliminating fossil fuel exposure by 2025</li> <li>• Ensuring our investment professionals have a solid understanding of policy environment/regulatory barriers and opportunities</li> <li>• Monitoring progress in carbon markets and negative emissions technologies</li> <li>• Prioritizing engagement with carbon-intensive sectors</li> <li>• Driving enhancement of climate data to better meet current and future needs and striving to use best available data</li> <li>• 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</li> </ul>	<p><a href="#">Executing on Our Strategy in 2023</a> P. 6-15</p>
<p><b>METRICS AND TARGETS</b></p>	<p><i>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:</i></p> <ul style="list-style-type: none"> <li>• Carbon intensity (2019 baseline + 3 month rolling average) – scope 1 &amp; 2 at investment level</li> <li>• Percentage of portfolio currently covered by analysis</li> <li>• Climate solutions investment exposure</li> <li>• Corporate engagement &amp; proxy progress (number and type of engagements, AGMs voted, commitments received)</li> <li>• SFM operational footprint</li> </ul>	<p><a href="#">Executing on Our Strategy in 2023</a> P. 6-15</p> <p><a href="#">SFM Operations</a> P. 16</p>