CLIMATE POLICY

FEBRUARY 2025

We have long recognised climate change as a systemic risk that affects us as investors and stewards of our clients' capital. Both physical and transition risk can manifest themselves over many years and pose threats to long-term value creation. Integration of these risks is a part of our analysis, however as active owners and stewards we also factor climate change into our engagement activities. This policy sets out our current expectations of companies with regards to climate change and our approach to engagement with our investee companies. This should be read alongside other policies including our Stewardship and Engagement Policy and Responsible Investment Policy.

Given the dynamic nature of climate change and the accompanying response as well as technological evolution we will update this policy in accordance with these changes as and when necessary.

OUR EXPECTATIONS

As a systemic issue, climate change, and the transition to a lower carbon economy, will impact most companies in some way. We expect companies to be aware of the potential risks that they are exposed to and the potential impact that they have, and to manage and mitigate these risks and impacts. We also encourage companies to embrace the potential opportunities that may be presented by the substantial economic changes required.

- There should be effective independent board oversight of climate-related risks and opportunities, and this should inform strategy and capital allocation.
- Where material, boards should oversee the development, implementation and disclosure of comprehensive transition plans that include robust greenhouse gas (GHG) emission reduction targets at a minimum over the near term (5-10 years) and long term (2050). The board should monitor and disclose progress towards delivering these targets.
- Boards should ensure that they are 'climate competent' and disclose how they achieve this.
- There should be sufficient oversight of climate risks and disclosures, and an Audit Committee should ensure that financial and non-financial disclosures are consistent with these.
- The board or an appropriate committee should have explicit oversight of the company policies and practices regarding direct or indirect lobbying (via trade associations) to ensure that this does not run counter to the ambitions of the Paris Agreement.
- Boards should ensure that sufficient resources are available to support all aspects of the work required.

As investors, in order to be able to make an informed assessment of these potential risks and opportunities we also expect companies to disclose decision-useful information in a timely manner that can help build our understanding of each company that we invest in on behalf of our clients. We believe that the Taskforce for Climate-related Financial Disclosures (TCFD) and the CDP frameworks provide robust channels for these climate disclosures.

ENGAGEMENT

As long-term, global investors, we recognise the role we can play in the decarbonisation of our society and the transition to a net zero economy. We realise there is no one-size-fits-all approach with many companies at different stages of their transition. This will depend on industry, geography or current corporate governance and climate risk assessment approach. We will employ our stewardship capabilities, using engagement in particular, to work with our investee companies on their path to being a part of the low carbon economy, no matter what stage of their transition they are at. Our climate engagement is framed by our expectations that companies work towards setting an actionable science-based plan in line with credible 1.5-degree pathways. We acknowledge that factors such as individual country starting points and nationally determined contributions (NDC's), clean energy development constraints, technology settings and end markets differ materially across companies. Our engagement and escalation activities take these factors into account. By fostering robust corporate governance, we aim to ensure companies can manage and mitigate climate-related risks, embrace opportunities, and in doing so protect long-term value for our clients.

The key considerations which will frame our engagement with a company as set out in our expectations are notably:

1. The materiality of climate impact and climate risk for the company in question
2. Overall governance, awareness and management of climate risk and potential opportunities
3. Emissions disclosure
4. Emissions reduction strategy
5. Net zero alignment ambition.
6. Disclosure of well-defined short- and medium-term targets.
7. For high impact sectors
    a. Capex alignment
    b. Consistency of financial statements with climate ambitions
8. Incentive alignment
9. Climate reporting - for example use of the TCFD framework or CDP

We endeavour to engage in a constructive manner leveraging our strong relationships to generate the greatest effect. We may engage with the Board of Directors, executive management or specialist roles such as the Chief Sustainability Officer, for example.

In order to inform our engagement, we build an understanding of our investee companies' alignment to net zero. With respect to net zero our assessment of where a company sits will be framed by the table below, along with general criteria for categorisation:

Category	Criteria
Achieving net zero	Emissions performance at net zero and expected to remain so.
Aligned to net zero	The company has set a science-based target and is on track to meet it.
Aligning to net zero	The company has set a science-based target but is not yet on trajectory to meet it.
Committed	The company has committed to set or has already set a net zero or science-based target.
Initial Climate Action	The company is making efforts to reduce emissions but is yet to commit to a net zero target due to technical, social and/or economic barriers.
No Action	The company is making no or insufficient efforts to measure and reduce its emissions and has not made a commitment to achieve net zero emissions.

Through our engagement efforts we aim to support investee companies moving from their current position in the transition to the top category "Achieving net zero". This will augment and give greater information to clients in addition to those committed assets that have specific targets based on adoption of science-based targets. Where appropriate we will take part in collaborative engagements with other investors.

The journey to a low carbon economy will not be easy, especially for companies with high emissions or those that operate in difficult to abate sectors. However, this does not imply that inaction is appropriate. In hard to abate sectors we recognise that there may be technical, social or economic barriers that climate action that falls short of setting a science-based target may still be seen as effectively managing climate risk.

ESCALATION AND VOTING

As set out in our Stewardship and Engagement policy, we recognise that our 'standard' engagement approach – seeking constructive dialogue with management – may not always yield the results aimed for. Where there is limited progress on an engagement or where it relates to an issue which may impact the investability of a company we may escalate the issue through other stewardship activities such as voting, collaboration or ultimately divestment.

As long-term investors we expect the companies in which we invest to focus on delivering durable shareholder value. This means that we expect management to consider long-term risks and opportunities presented by sustainability (environmental & social) and governance factors.

In making decisions as to whether engagement will be escalated, a number of factors will be considered, for example:

- The particular circumstances giving rise to an issue.
- How this compares to perceived best practice.
- The explanations provided by the company.
- The potential impact for our clients.
- Whether there is a history of related issues.
- Where accountability sits for dealing with the issue raised.

When voting we consider our voting decisions on a case-by-case basis. We will support climate-related proposals that promote good corporate practice in line with our Global Corporate Governance Principles, and we believe these will enhance long term value-creation for our clients. These could include enhanced disclosure, reduction of GHG emissions (as much as is practicable), and the setting of emissions reduction targets.

We will pay particular attention to and will take a case-by-case approach to votes on a company's climate action plan / Say on Climate Management Proposals and we are willing to work with companies to ensure their plans are robust and aligned with a net zero pathway. In particular, we will focus on the level of ambition, the boundaries and for high emitting sectors, taking account of the technological feasibility of emission reduction pathways. The issues we want to guard against include proposals that defer near-term action, rely on unproven technologies, or set long-term goals without appropriate short- or medium-term targets.

Where proposals promote progress but could still be considered below best practice, we will continue to engage to encourage ongoing improvement.

For companies in high emitting sectors, we may vote against executive compensation proposals if there is evidence that material climate issues are not being disclosed and managed effectively.

For high emitting companies, we may vote against re-election of a board, or board members (including the Chair), where climate-related risks are not being considered or adequately addressed. This may be due to:

- Continued lack of performance of environmental practices or managing material risks
- Lack of management accountability for climate-related initiatives.
- Company practices not aligned with declared climate-related targets or goals including direct and indirect lobbying activities.

We recognise thermal coal as a particularly concerning and substitutable source of carbon emissions. We advocate that across all of our assets, companies transition away from thermal coal mining and thermal coal power generation as fast as technically, economically and socially practical. A key aim is to have an actionable plan to exit thermal coal (defined as <5% revenue or generation) as soon as is practical with an aspiration to exit by 2030 in developed economies and 2040 in emerging economies.

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