Partners Capital

Sustainable Investing Report
2023–2024

Contents

1.

Executive Summary

Amid a challenging macro-economic climate and swift monetary tightening, polarised debates on the role of ESG have continued. In the U.S., ESG has become increasingly politicised and this has led to "anti-ESG" legislation being passed. Across the rest of the world, the ESG regulatory environment continues to evolve, thereby leaving global investors increasingly pulled in different directions due to diverse regulations across jurisdictions. In response to these challenges, we have further refined our Sustainable Investing strategy[1], and remain confident in the promising and valuable opportunities Sustainable Investing provides for us and for our clients.

1. As highlighted on the next page.

The State and Future of ESG

1. Recent research indicates a minor dip in sustainable fund inflows in 2023 compared to 2022, but overall, sustainable investment assets have rebounded to 2021 levels. We expect to see **ESG integration** and **impact investing** remain the **two key pillars** of Sustainable Investing, with the energy transition positioned as a significant impact investment theme.

2. We anticipate ongoing scrutiny and further **politicisation of ESG** in 2024, against the backdrop of upcoming elections in the U.S., UK, and European Parliament.

3. **Climate change** will continue to be a key driver in sustainable investing discussions. COP28 highlighted the need for more private capital to meet **net zero pledges** and the **1.5°C global warming scenario.** The credibility of countries' and companies' pledges will be put to the test in 2024.

4. We expect to see a continued proliferation of **stewardship approaches**, with more investors becoming active owners, driving long-term sustainability improvements benefiting the environment, society, and companies themselves.

5. The regulatory landscape will become stricter to **combat greenwashing**, with more rigorous assessment of sustainable investment products worldwide. **New regulations** like the UK's Sustainability Disclosure Regulation (SDR) and potential changes to the EU's Sustainable Finance Disclosure Regulation (SFDR) are expected. The International Financial Reporting Standards (IFRS) sustainability and climate change disclosures will promote more harmonised reporting from 2024 onwards.

2023 Sustainable Investing Progress

2023 Manager Survey

We expanded our Asset Manager ESG Integration Survey in 2023, adding further emphasis on climate change and DEI. We received 190 manager responses across all asset classes, representing c. $44B of our overall AUM[2].

Diversity, Equity & Inclusion (DEI)

As part of our Diverse Manager Initiative, we approved 14 diverse funds / co-investments in 2023. We also enhanced our data collection and are now able to track manager diversity at the investment committee, fund ownership and investment team levels. This data is used to inform sourcing, in manager monitoring and in client reporting.

Manager Selection Enhancement

We further integrated ESG considerations into the due diligence process, embedding comprehensive ESG assessments into our manager selection process.

Manager Engagements

We initiated systematic manager engagements with 40 managers comprising c. $14B of overall AUM. These engagements aim to improve managers' ESG integration practices with the aim of improving the overall level of ESG integration across our clients' portfolios.

Thematic Deep Dive

We published our Clean Hydrogen Investment Framework, assessing the fuel's role in global decarbonisation.

Private Equity Environmental Focussed Fund

We continued to deploy capital in our dedicated Private Equity Environmental Focussed Fund. To date, we have committed more than $100M to nine fund opportunities and two co-investments, resulting in diversified exposure across the fund's six sectoral focus areas (as described in this report).

2. The number of responding managers varies by the underlying survey questions.

Focus Areas for 2024 and Beyond

We are committed to offering what we believe to be the best investment opportunities to our clients so that they can achieve their investment objectives and our Sustainable Investing efforts support us in this regard. In 2024, our Sustainable Investing team will be focussing on the following areas:

Task Force on Climate-Related Financial Disclosures (TCFD)

We will publish our first TCFD report in June 2024. In preparation for that, we will continue working on improving our climate-related data collection and investigate the main drivers of our financed emissions.

Diverse Manager Research Initiative

We will enhance our diverse manager research initiative by broadening our sourcing efforts of diverse managers and driving collaboration across our asset class teams.

Sustainable Investing Reporting

We intend to continue to improve our ESG reporting to our clients. Our aim for 2024 is to provide clients who wish to receive ESG reporting with more comprehensive coverage of their total portfolios and a stronger focus on what we believe to be impactful sustainability indicators.

Impact Investment and the Energy Transition

We intend to conduct further research on impact investments, particularly those related to the energy transition. We will continue to support the growing number of clients seeking to increase their exposure to this theme.

Manager ESG Engagement Programme

We are committed to continuing our Asset Manager ESG Integration Engagement Programme with the aim of driving measurable improvements in ESG practices across all engaged managers.

2.

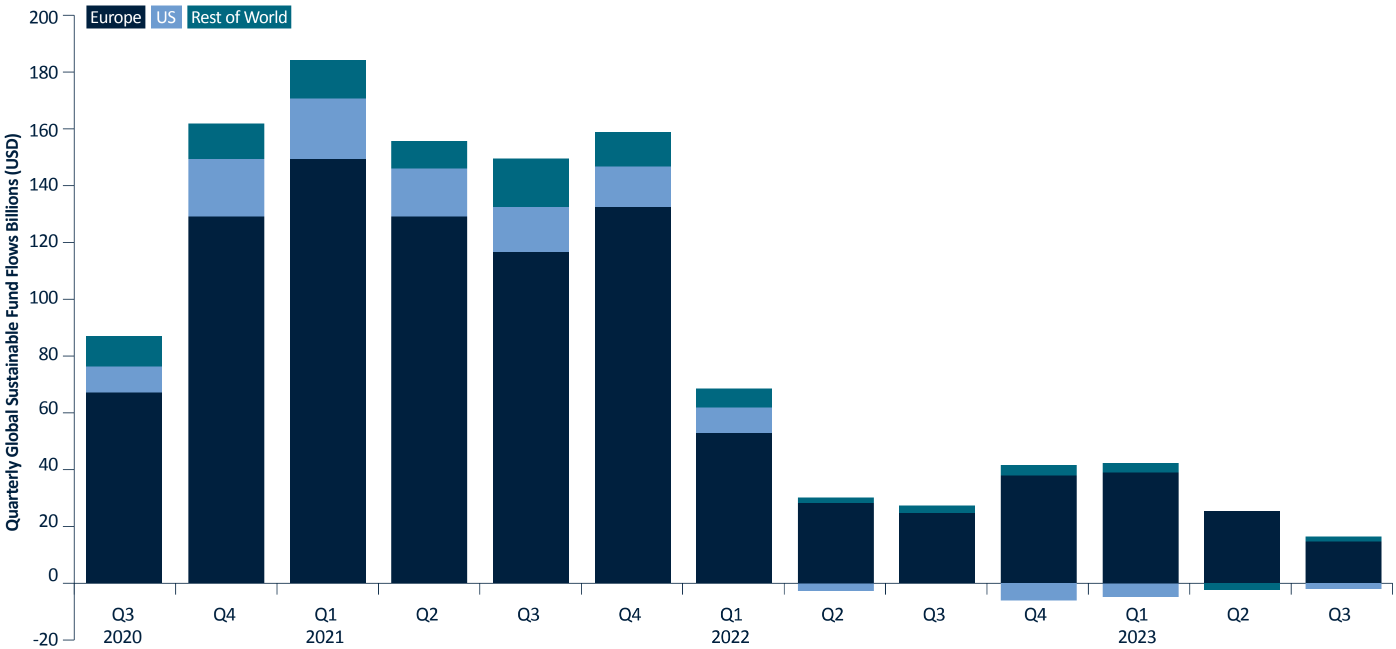
The Macro of Sustainable Investing: Key Themes and Market Developments from 2023

In our 2022 Sustainable Investing Report, we stated that ESG was at critical cross-roads as doubts were raised about the inconsistencies of ESG as a concept and whether ESG labelled products deliver what they promise. The underperformance of so-called sustainable funds in 2022 as a result of the energy crisis in Europe added to this backlash.

A year on, criticism of the ESG concept continues, however the overall impact of criticism has been limited. Latest research shows that whilst there has been a deceleration in fund flows since Q1 2022, global sustainable funds have still attracted c. $80B of capital in the year to Q3 2023.[3] The divergence across geographies remains, with Europe comprising c. 85% of global sustainable fund assets.

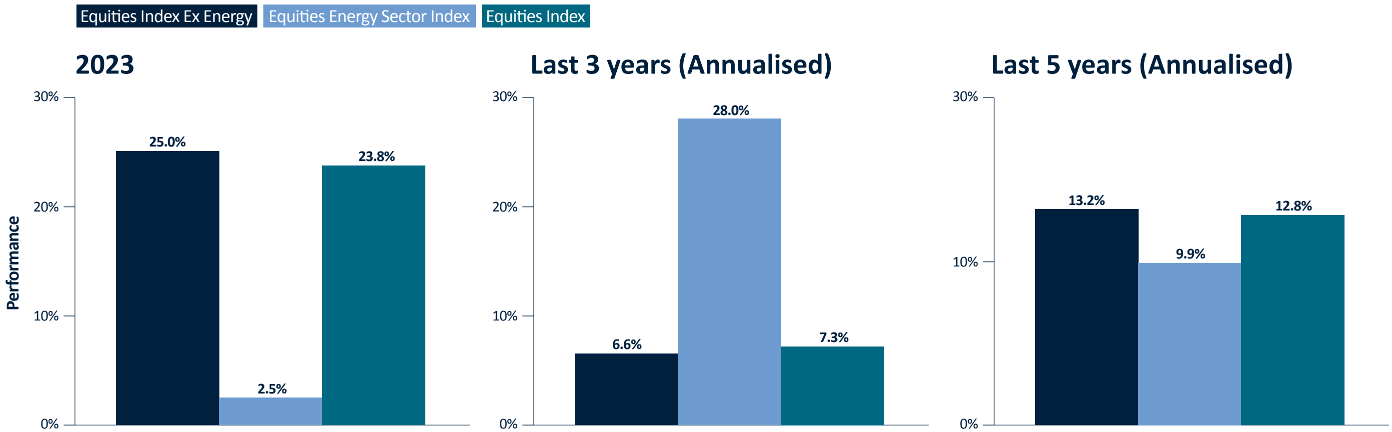
3. Morningstar Global Sustainable Fund Flows

Quarterly Global Sustainable Fund Flows[3]



Many mainstream investors believed that to be an ESG fund they needed to exclude certain sectors from investment portfolios that were deemed to be unsustainable, such as fossil fuels. In an effort to market their products as "green" to investors and comply with new regulations, many fund managers excluded the energy sector (comprising fossil fuel related industries) from their investment universes. As a result, much of the underperformance of ESG funds in 2022 was driven by their relative underweight to energy, a period during which the energy sector significantly outperformed mainstream equity benchmarks and sustainability indices that excluded energy companies. This outperformance reversed in 2023 and looking over the last five years, the energy sector has lagged broader equity markets, with the equities index ex-energy returning +13.2% compared to +9.9% for the energy index.

There is still widespread confusion in the marketplace as to how ESG is related to investment decision-making. Whilst exclusions have a purpose in investment portfolios to express values and beliefs, sustainable investing is more than simply excluding certain sectors or introducing skews to supposedly more sustainable sectors.



Note:
Equities Index represented by MSCI World Index Net USD. Energy sector is c. 5% of the MSCI World Index

Inconsistent terminology has hampered communication on ESG and contributed to the perception of greenwashing. According to research, 73% of asset managers are having discussions with clients and 57% of firms are creating communication pieces to address the misconceptions of ESG.[4] The CFA Institute (CFAI) the Global Sustainable Investment Alliance (GSIA), and the Principles for Responsible Investment (PRI) collaborated in 2023 to establish a harmonised (and widely accepted) set of definitions for Sustainable Investing terms (as displayed to the right). Their definitions for screening, ESG integration, thematic investing, stewardship and impact investing are broadly aligned with our own.

We continue to believe that an important distinction needs to be made between "ESG integration" and "impact investing" – two fundamentally different but not mutually exclusive concepts. We believe that asset managers and investors who integrate financially material ESG considerations into their investment decision making can make better long-term investment decisions. Supplementing traditional fundamental analysis with financially material ESG considerations gives investors a different vantage point to assess a prospective investment and allows them to assess the risk-return profile of such an investment more holistically. Therefore, ESG integration is not necessarily about generating positive impact. To have real-world impact that helps address global challenges, investors need to turn to impact investments.

Screening: Applying rules based on defined criteria that determine whether an investment is permissible.

ESG integration: Ongoing consideration of ESG factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns.

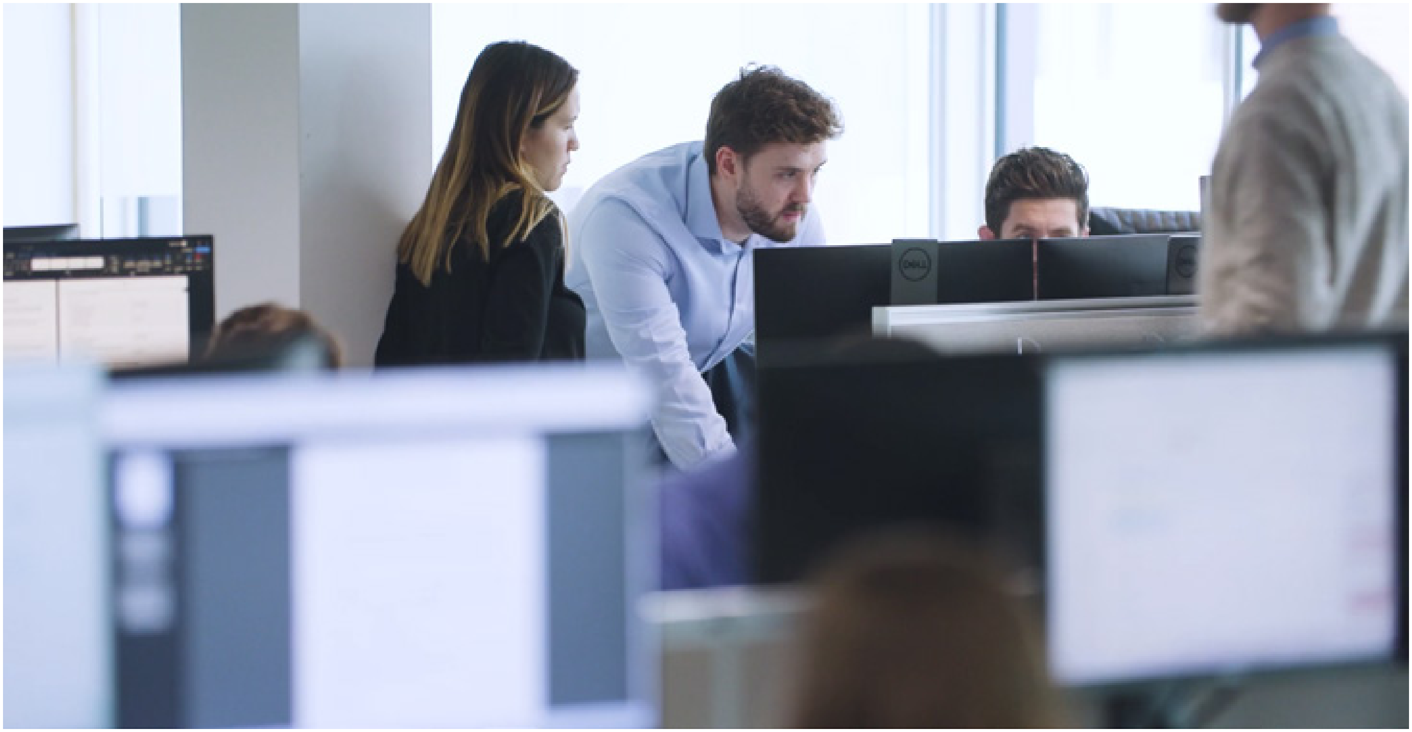
Thematic investing: Selecting assets to access specified trends.

Stewardship: The use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend.

Impact investing: Investing with the intention to generate a positive, measurable social and/or environmental impact alongside a financial return.

4. https://www.cerulli.com/press-releases/asset-managers-and-institutional-investors-stay-committed-to-esg-despite-political-pressures

Impact investing looks to explicitly combine the goals of making positive environmental or societal changes and competitive investment returns. In private markets, through our dedicated Private Equity Environmental Focussed Vehicle, we are identifying opportunities relating to climate change. We recognise that many of the technologies required to meet global climate goals and net zero targets do not yet exist and funding the development and commercialisation of these technologies presents an opportunity to have meaningful impact. We also aim to selectively deploy capital into sectors that we believe have the potential to have a positive impact on society and our work with a North American Litigation Finance manager is one example of this.



CASE STUDY

North American Litigation Finance Manager (NALF)

NALF's litigation funding strategy provides capital to cases that focus on areas of social impact, with a focus on delivering lasting change for underserved minorities. The strategy has a particular emphasis on environmental, civil rights and housing cases. Historically, these areas have been underfunded, making NALF's investments highly additional.

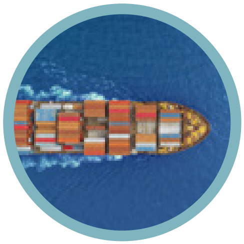
Partners Capital Role:
Partners Capital identified that litigation funding could play a unique role in delivering impact. As a result, we ran a manager screen over the course of three years to identify a manager who could deliver on an impact strategy in this sector without significantly enhanced risk and/or lower return. After meeting NALF, Partners Capital worked closely with them for a year to pre-launch and help shape the portfolio. This included excluding any areas which might fall foul of generic concerns about litigation funding's effect on society (such as mass tort) and ensured the strategy was appropriately sized. As well as influencing the investment proposition, Partners Capital also worked with NALF to shape their approach to impact measurement and reporting and will continue engaging with them on this in 2024 and beyond.

Partners Capital Private Equity Environmental Focussed Vehicle

During 2023, we continued to make strong progress in deploying our dedicated $143M Private Equity Environmental Focussed Fund. We believe climate change is the biggest environmental challenge facing society today; the world needs to urgently reduce global greenhouse gas emissions if we are to stand a chance of preventing the worst effects of climate change, requiring an economic transformation on the scale of the first Industrial Revolution. The scale and pace of change required is enormous, requiring us to transform business models, supply chains, and consumer behaviour. This transition is well underway, but we are also very much in the early innings. The core focus of the fund is to invest in products and services enabling this transition, and thereby aiming to reduce greenhouse gas emissions. The production and consumption of energy accounts for around three quarters of global greenhouse gas emissions. Within this the key contributors to

Power

Invested in a renewable energy services business involved in development, construction, operations and maintenance, and optimisation of grid-scale solar PV and storage assets in the UK.



Transportation

Invested in one of the top 5 battery manufacturers globally, focussed on production of lithium batteries for electric vehicles. The company has existing contracts with several leading vehicle manufacturers globally.

Industry

Invested in a German company specialising in refurbishment and maintenance of industrial roofs. The company has a growing solar offering, whereby refurbishments are paired with rooftop solar, providing industrial facilities with renewable energy.

Built Environment

Invested in a company that provides software and hardware solutions for homeowners to purchase electricity from renewable sources, reduce their electricity consumption and sell surplus energy and flexibility back to the power grid.

emissions are: 1) electricity generation (commonly known as the power sector), 2) transportation, 3) industrial production and manufacturing, and 4) the built environment (including the heating and cooling of buildings). The agriculture sector is responsible for a further 12%. Investing in products and services that enable decarbonisation across these five broad sectors is therefore the core focus of the fund. Circular economy, a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products, is also a key enabler of waste, and in turn emissions reduction.

To date, we have committed to nine fund opportunities and two co-investments, resulting in diversified exposure across these six core pillars, with the aim to achieve similar diversification once the fund is fully deployed.

We include an example investment from some of the underlying asset managers for each of the pillars[5] below:

5. These examples are not representative of all the underlying company exposures within the Fund.

Food & Ag

Invested in a company developing whole cuts of alternative proteins using fermentation and food-grade microorganisms to mimic the texture and taste of traditional meat.

Circular Economy

Invested in a business that specialises in recycling unsold retail food in the US, diverting it from landfill. Food is processed using proprietary technology to be donated to food banks or used to produce renewable natural gas via anaerobic digestion.

Outlook for 2024 and beyond

We expect that the discussions around the concepts of ESG and sustainable investing will continue in 2024 and beyond, fueled by a politicisation of the conversation against the backdrop of the upcoming elections around the world. Over time, we believe that ESG will be more and more ingrained in mainstream investing, where financially material to the investment thesis, and where relevant to the different investment strategies across the different asset classes. At the same time, we expect impact investments to become more prominent in investment portfolios. As tackling climate change, through financing the energy transition, and addressing social topics such as Diversity, Equity and Inclusion (DEI) or supply chain issues come to the forefront of sustainable investing. We will continue to push research and investment into compelling ESG and impact opportunities through both our public and private markets investments.

In our view, there are four key topics that will shape the Sustainable Investing landscape in the years to come – Climate Change, Stewardship, Sustainability Reporting and Regulation.

1. Climate Change

2. Stewardship

3. Sustainability Reporting

4. Regulation

1.

Climate Change

Issue: In September 2023, global average temperatures were 1.8°C above pre-industrial levels. We are currently not on track to meet the actual energy transition pathways that we believe are necessary.

Developments in 2023: The energy transition megatrend is evidenced by the strong growth in net-zero commitments over the last three years, with a total of $150T of financial commitments to net-zero by 2050 or sooner and c. 90% of global emissions covered by country level net zero pledges. As these commitments are translated into actions, this should provide a supportive backdrop for products and services accelerating the transition to net-zero.

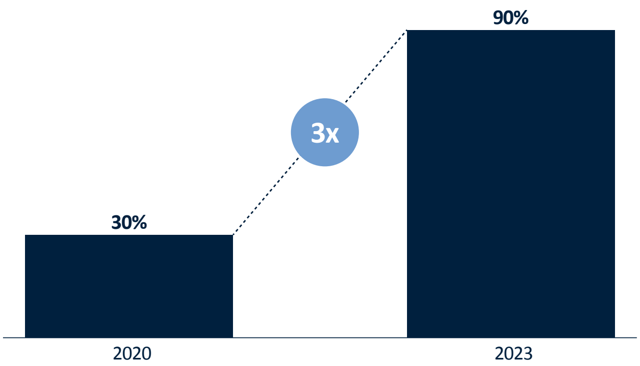
The year ended with the COP28 Climate Summit in Dubai, the scene for the conclusion of the first global stocktake[7], an exhaustive appraisal of how much progress has been made in combatting climate change and how far the world still must go. It highlighted that global efforts are lagging significantly behind the pace and scale that is necessary to avoid the most harmful consequences of climate change based on existing policies, even if fully implemented. To get on track for limiting warming to 1.5°C, global annual emissions must be reduced by 42% compared with emissions projections based on policies currently in place in just seven years and by 28% for the Paris Agreement 2°C pathway. This highlights that a significant gap remains between national commitments and the efforts to enact those commitments.

6. Climate Action Tracker, United Nations Climate Change Race to Zero, Glasgow Financial Alliance for Net Zero (GFANZ).

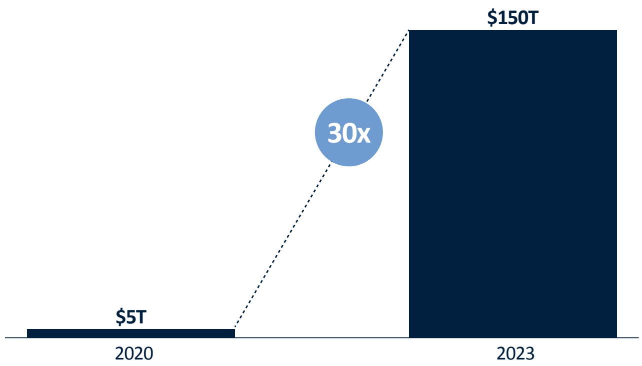
7. United Nations Framework Convention on Climate Change- https://unfccc.int/documents/631600

Net Zero Commitments[6]

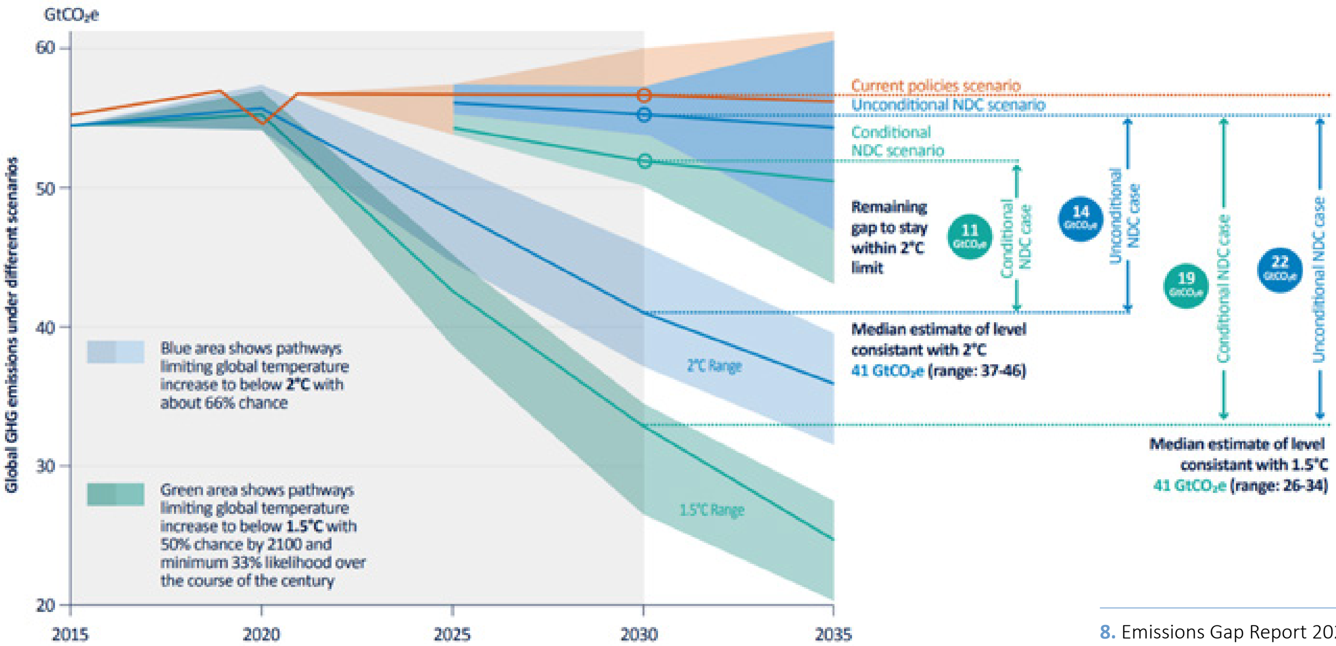
Emissions covered by country net-zero commitments



Financial commitments to net-zero



Global GHG emissions under different scenarios[8]



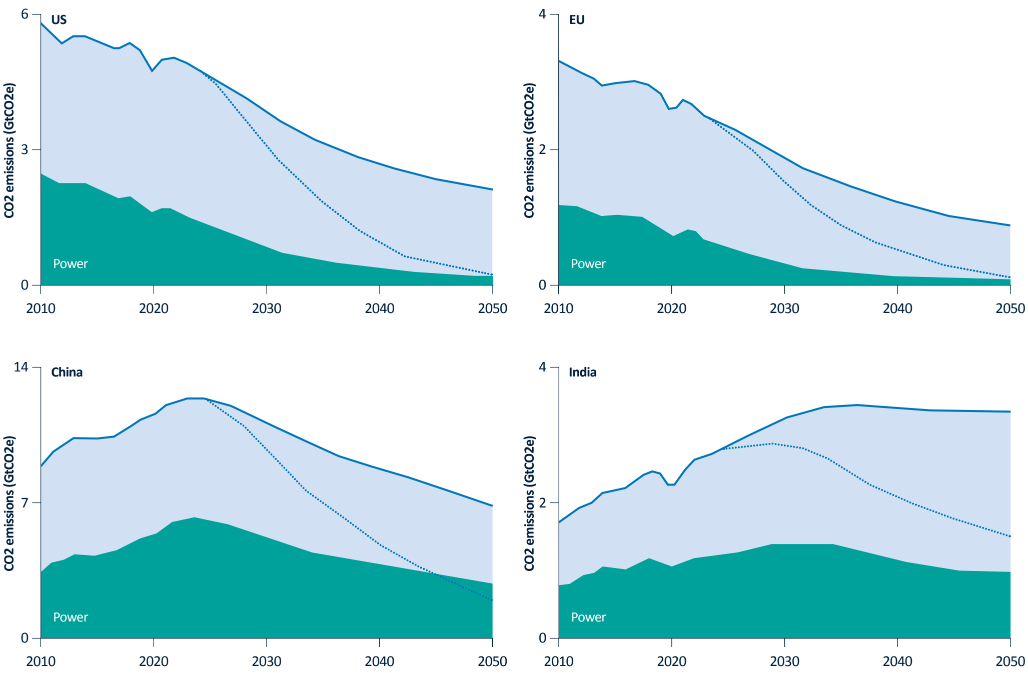
8. Emissions Gap Report 2023

Nationally Determined Contributions (NDCs) represent countries' climate pledges and short- to medium-term plans to reduce greenhouse gas emissions. Unconditional NDCs are based on what countries could implement using their own resources whilst Conditional NDCs factor in receipt of international support. Although Unconditional and Conditional NDCs for 2030 are estimated to reduce global emissions compared with current policy projections by 2% and 9% respectively, assuming they are fully implemented, these are still well above the range of emissions pathways needed to limit warming to 2°C or lower.

Global energy-related emissions are still increasing and only expected to peak in 2024. However, there has been a diverging trend across geographies: whilst the US and EU are on a downwards trajectory, China remains on an upward curve with China's total greenhouse gas emissions only expected to peak around 2025[9]. Although the country is the world's largest emitter, it also dominates many aspects of clean energy technology supply chains – how these trends evolve and materialise will be key to getting on track to required emissions pathways for net zero.

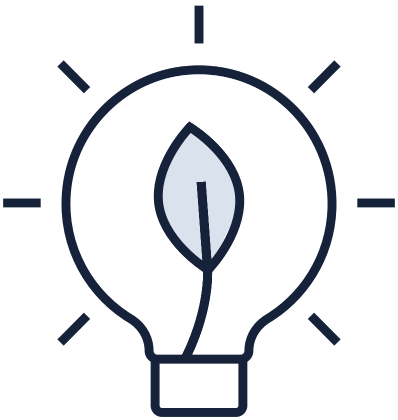
9. World Energy Outlook 2023

CO2 Emissions (Gt CO2) trends of major emitters



The dotted line represents the Announced Pledges Scenario (APS) which assumes that all climate commitments made by governments including Nationally Determined Contributions (NDCs) and longer-term net zero targets will be met in full and on time. The bold line represents the Stated Policies Scenario (STEPS) which reflects current energy-related policies that are in place and provides a more conservative benchmark for the future than the APS by not taking for granted that governments will reach all announced goals.

Outlook for 2024: As the current evidence points towards overshooting the 1.5°C warming limit, minimising the magnitude and duration is vital. The global stocktake is not just a progress measurement review but part of the Paris Agreement's "ratchet mechanism" to encourage countries to scale up their climate ambitions, including new targets for 2030 and 2035. Although nearly every country agreed to "transition away from fossil fuels" which was a first in years of international climate negotiations, there was still no final commitment to phasing out fossil fuels this decade. As a result, 2024 will be a key year to see accountability for implementing new commitments to lower emissions targets and the policies to achieve those goals.

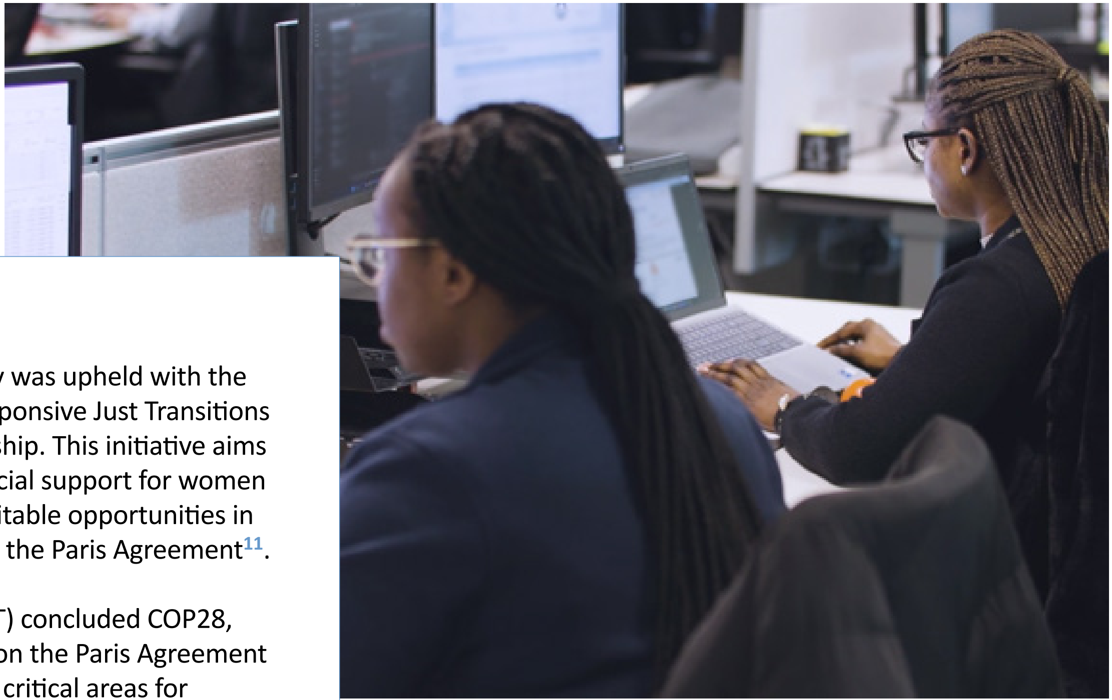


COP28 Summary

COP28, held in Dubai from November to December 2023, focussed on four key pillars:

i. Fast tracking a just, orderly, and equitable energy transition;
ii. Fixing climate finance;
iii. Focussing on people, lives, and livelihoods; and
iv. Underpinning everything with full inclusivity[10].

The event saw the launch of the Global Decarbonisation Accelerator (GDA), initiating actions to reduce emissions and transition to sustainable energy. More than 50 companies committed to net-zero operations by 2050, to end routine flaring, and to achieve near-zero methane leakage by 2030. In terms of climate finance, $792M was pledged to operationalise Loss and Damage. Commitments were made towards sustainable agriculture and food systems, with $3.2B committed to implementing a declaration endorsed by 159 heads of state and government.



The principle of inclusivity was upheld with the launch of the Gender-Responsive Just Transitions & Climate Action Partnership. This initiative aims to ensure improved financial support for women and girls and provide equitable opportunities in the transition required by the Paris Agreement[11].

The Global Stocktake (GST) concluded COP28, checking global progress on the Paris Agreement goals. The GST addressed critical areas for achieving a 1.5°C pathway and emphasised addressing the significant finance gap in climate action, especially for developing countries. While criticisms were raised about the document's weak language and the urgent need for unprecedented transitions, a historic milestone was reached when nearly every country agreed to "transition away from fossil fuels"[12], the first such agreement in 28 years of international climate negotiations.

The summit also agreed to triple renewable energy capacity by 2030 and double energy efficiency measures. This could open up considerable funding opportunities for investors as policymakers are pressured into delivering implementation structures so capital can flow into renewable energy installations. This, along with significant investment in carbon removal technologies such as carbon capture and storage or nature-based solutions, will be another key focus for investors. We will continue to work with our clients to help construct transition plans and portfolios to achieve their net zero targets.

10. https://www.cop28.com/en/news/2023/08/31/22/deliver-transformative-climate-action

11. COP28 The UAE Consensus

12. The Global Stocktake (GST)

Net zero investment portfolios within our multi-manager, multi-asset class investment model

Where our clients want to fulfill net zero pledges and invest accordingly, we work together with them on achieving their goals. The following example is a potential recommendation for a clients' investment portfolio and centers on the higher impact endeavors of driving increased asset alignment to net-zero and investing in solutions that will drive down emissions in the broader economy.

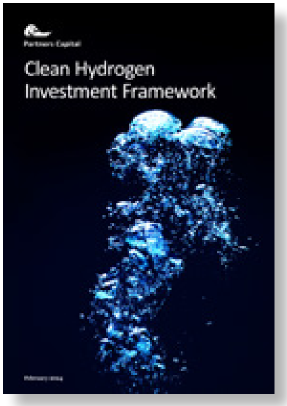
The proposed approach was modelled around the Net Zero Investment Framework, developed by the Institutional Investors Group on Climate Change (IIGCC) while adjusting to make the strategy appropriate for a multi-asset class portfolio that is primarily invested via third-party managers. Equity owners have the most readily available levers, with majority equity owners having the greatest power to influence, and so the primary focus for the approach was on Global and Hedged Equities and Private Equity.

The approach can be summarised as:

i. **assessing net-zero alignment of both managers and underlying companies (where possible),**
ii. **identifying laggards in both categories as targets for engagement,**
iii. **driving greater net-zero alignment within the portfolio through engagement, primarily with managers, to bring about net-zero commitments which over time should lead to emissions reductions at underlying portfolio companies, and**
iv. **investing in climate solutions.**

The focus, at least for the initial five years, would then be on driving both portfolio and real-world emissions reduction by creating greater alignment within the portfolio. Divestment and the use of offsets did not form part of this recommendation, with a view to revisit these levers in the future especially as the offset market develops.

Partners Capital Clean Hydrogen Investment Framework



The growth of the clean hydrogen market is a pivotal component of the global energy transition roadmap. In sectors where direct electrification is impossible or uneconomic, clean hydrogen can and must play a major role in decarbonisation. Our *Clean Hydrogen Investment Framework* provides an overview of hydrogen's current role in the global economy today, an analysis of the applications in which clean hydrogen will be most competitive, and an evaluation of the technology and cost challenges it faces. The long-term potential for clean hydrogen use is a critical factor influencing investment decisions related to the energy transition, and this whitepaper (available on the Partners Capital website) offers research to support the assessment of those opportunities.

2.

Stewardship

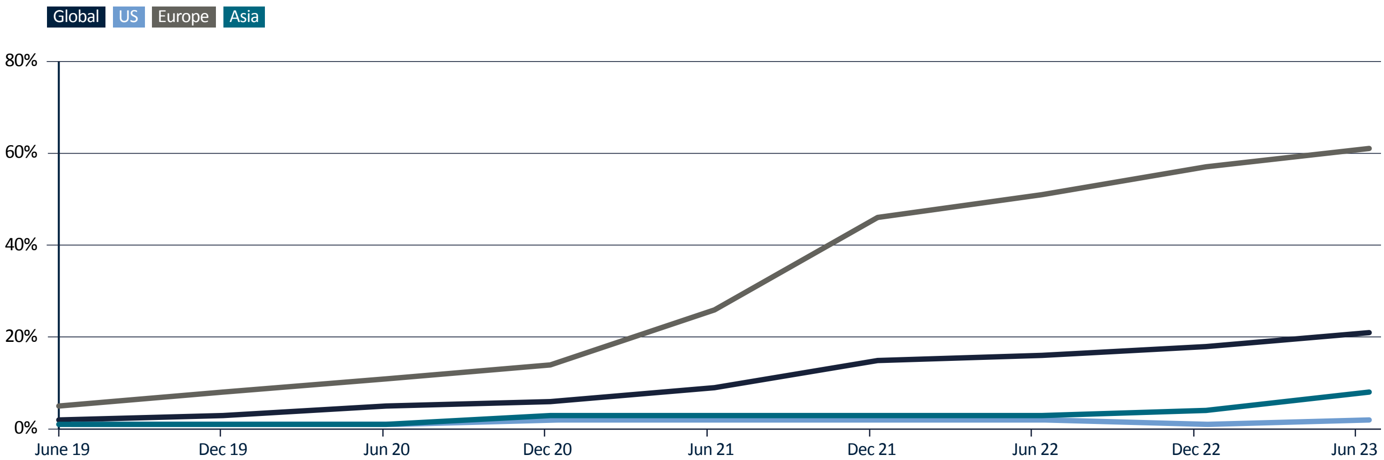
Issue: Both exclusionary and engagement-driven investment approaches have merit in investment portfolios. For many investors, exclusions may represent the best way to express their values and beliefs, however engagement with management teams of underlying portfolio companies might, in some situations, be more effective when trying to achieve positive real-world impact.

Developments in 2023: In our view, the recent evolution of the regulatory landscape has contributed to more exclusionary driven investment approaches. More than 20%[13] of total global AUM now uses at least one restriction screen. This is more prominent in the European market where almost 60% of AUM uses screens (primarily excluding controversial weapons and thermal coal), compared to 8% in Asia and less than 2% in North America. We believe that this trend is to a certain extent a reflection of the introduction of the EU's recent Sustainable Finance Disclosure Regulation (SFDR) which came into effect in 2021. To qualify for SFDR Article 8 funds, managers need to promote a fund with environmental or social characteristics. For SFDR Article 9 funds, managers must promote a fund with sustainable investment as its objective. For both funds, managers might want to avoid any potential greenwashing accusations by, for example, shying away from investing in certain sectors like fossil fuel or controversial weapons.

13. Morgan Stanley

14. Morgan Stanley Sustainable Funds Quarterly Tracker

Rates of Restriction Screening[14]



Outlook for 2024: Our client base has a broad spectrum of sustainable investment objectives which we work to implement in their portfolios. For some clients, this includes exclusionary approaches, from imposing revenue thresholds to excluding certain sectors entirely, based on the belief that there is minimal scope to improve the ESG and sustainability profile of these sectors to contribute to a more sustainable world. Other asset owners maintain the belief that engagement and constructive dialogue with underlying management teams is more impactful, which aligns with our overarching principles. We believe the proliferation of exclusionary investment approaches will continue as further regulatory requirements come into practice. However, there remains an important role for stewardship in the future which will include actively engaging with portfolio companies to reduce their externalities. The key will be for asset managers to document their positive impact on portfolio companies and how they have achieved this impact.

3.

Sustainability Reporting

Issue: Whilst there have been signs of harmonisation and standardisation of sustainability reporting around the world, we think that reporting of relevant ESG and sustainability data by companies will remain sub-standard until the relevant published frameworks are put into practice.

Developments in 2023: There has been a general move towards consolidating different reporting frameworks in 2023, with the International Sustainability Standards Board (ISSB) taking the lead. We believe that the issuance of the ISSB inaugural standards IFRS S1 and IFRS S2 in June 2023 represents an inflection point for global corporate sustainability disclosure and is likely to improve sustainability disclosure by underlying companies.

The EU's Corporate Sustainability Reporting Directive (CSRD) has also been in effect since the beginning of 2023. The directive requires EU businesses to report on the environmental and social impact of their business activities, helping stakeholders evaluate firms' sustainability performance and related risks. It replaces the Non-Financial Reporting Directive and significantly increases the number of firms subject to EU sustainability reporting requirements. However, the execution of the materiality assessment is the key element in the reporting and will largely determine the extent of its scope for specific companies.

IFRS S1: Requires companies to communicate the sustainability-risks and opportunities they face over the short, medium, and long-term.

IFRS S2: Climate-related Disclosures for companies to communicate climate-related risks and opportunities.

Overview of reporting frameworks[15]

Task Force on Climate-Related Financial Disclosures (TCFD)
Created in 2015 to help companies and other organisations more effectively disclose climate-related risks and opportunities.

Taken Over Monitoring Responsibilities

International Sustainability Standards Board (ISSB)
Independent standard-setting body within the IFRS Foundation

Complement

Global Reporting Initiative (GRI)
Founded in 1997, aiming to help organisations become more transparent by creating a global common language for reporting impact. In 2016, GRI transitioned to establishing the first global standards for sustainability reporting.

Climate Disclosure Standards Board (CDSB)
Established in 2007, to provide a framework to integrate climate-related information into mainstream financial reporting

IFRS
The ISSB of the IFRS Foundation has assumed responsibility for the SASB Standards

Consolidates

Value Reporting Foundation (VRF)
Formed in 2021 through the merger of the SASB and IIRC. It has now consolidated into the IFRS Foundation to support ISSB and drive connectivity between sustainability disclosure and financial statements.

Establishes

Carbon Disclosure Project (CDP)
Established in 2000, CDP runs a global disclosure system for investors and companies to manage their environmental impact.

Sustainability Accounting Standards Board (SASB)
Founded in 2011, the Standards help companies disclose relevant sustainability information to their investors.

Consolidates

International Integrated Reporting Council
Established in 2010, the IIRC developed the International Integrated Reporting Framework to improve the quality of information and promote a more cohesive approach to corporate reporting.

Outlook for 2024: The rigour of data used in sustainability reporting should be on par with broader financial reporting and although the industry is not there yet, this is what companies should aspire to. There are many proactive steps being taken towards the harmonisation of sustainability reporting, including for instance the ISSB taking over the monitoring responsibilities of the TCFD in 2024. Investors believe there are some unsupported claims in sustainability reporting, so improvements to the quality of ESG data is crucial for better investment decision making. It must be noted that although better data availability and reporting will help businesses improve their sustainability strategies, it is not a panacea, nor will better information and data help save the world. It remains for investors to use this information to direct capital to support critical initiatives, such as the energy transition.

There remain two main reporting obstacles to be overcome in 2024: (1) ESG-data challenges in private markets and (2) Impact reporting, where aggregation at the portfolio level remains problematic. The ESG Data Convergence Initiative (EDCI) aims to drive convergence around meaningful metrics for private markets and generate reliable and comparable data.

15. Auditboard

4.

Regulation

There continues to be regulatory developments across different geographies with stricter stances on ESG reporting and on greenwashing. In the marketplace, we are transitioning from a voluntary-tilted disclosure regime towards mandatory disclosure requirements which has affected and will continue to impact how the ESG landscape evolves. Although increased regulation will help drive ESG practices forward, it remains a concern to asset owners due to rising implementation and integration costs.

EU

The Sustainable Finance Disclosure Regulation (SFDR) came into effect in 2021 and is designed to improve transparency in the market for sustainable investment products and to prevent greenwashing. SFDR helps identify those products that are sustainable investments or promote specific ESG characteristics. The European Commission’s public consultation in 2023 provided important insight into the potential direction of the regime in 2024 and beyond. This includes exploring the establishment of a sustainability product categorisation system (despite originally designed to be a disclosure regime), addressing misalignments with other sustainable finance regulation and quality of data.

Taxonomy Regulation: Framework was founded in 2020, intended to provide a common language to identify to what degree economic activities can be considered “sustainable”. The regulations initially focus on environmental sustainability and activities that are aligned with a net zero trajectory by 2050.

US

In 2023, the US Securities and Exchange Commission (SEC) has taken a stricter stance on greenwashing. This includes adopting amendments to the "Names Rule" for registered funds which addresses fund names that are likely to mislead investors about a fund's investments and risks – this represents another step towards ESG Fund integrity.

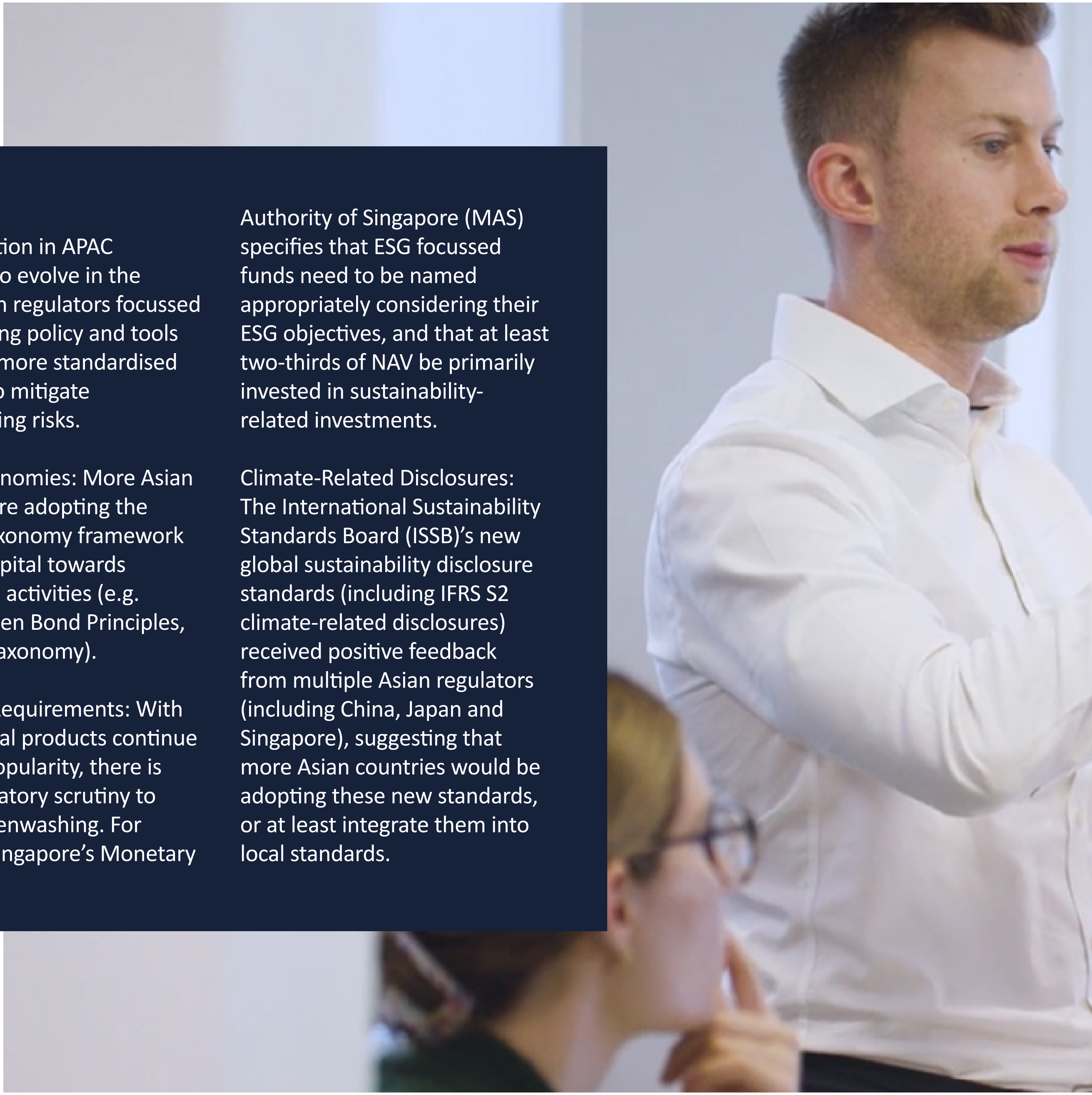
In addition, there have been rule enhancements to promote comparable and reliable information for investors concerning incorporation of ESG factors into investment decisions. In 2023, the Department of Labor's "ESG Rule" became effective – this recognises the potential materiality of ESG factors in investment decisions and advises managers to document their processes and reasoning for consideration of such factors where relevant to their investment strategy.

In 2024, climate-related disclosure requirements related to Scope 1, 2 and 3 emissions are expected to be published, to be effective in 2026.

UK

Task Force on Climate-related Financial Disclosures (TCFD): The Task Force was created to improve and increase reporting of climate-related financial information. In an annual report, organisations disclose how climate-related risks and opportunities are considered in managing investments setting out their Governance, Strategy, Risk Management and Metrics & Targets related to climate change. The FCA is the first securities regulator to introduce mandatory TCFD-aligned disclosure requirements for asset managers and asset owners. Partners Capital will produce its first annual TCFD report in 2024.

FCA Sustainability Disclosure Requirements (SDR): Overall intention to address "greenwashing" in financial products and provide greater clarity to investors about the sustainability of their products. In 2023 the FCA established four sustainable investment labels: Sustainability Focus, Sustainability Improver, Sustainability Impact and Sustainability Mixed Goals. These four investment labels, an anti-greenwashing rule and rules around the marketing of investment funds based on their sustainability characteristics are set to be rolled out in 2024.



Asia

ESG regulation in APAC continues to evolve in the region, with regulators focussed on leveraging policy and tools to provide more standardised guidance to mitigate greenwashing risks.

Green Taxonomies: More Asian countries are adopting the EU-style taxonomy framework to direct capital towards sustainable activities (e.g. China's Green Bond Principles, Korea's K-Taxonomy).

ESG Fund Requirements: With ESG financial products continue to rise in popularity, there is more regulatory scrutiny to reduce greenwashing. For example, Singapore's Monetary Authority of Singapore (MAS) specifies that ESG focussed funds need to be named appropriately considering their ESG objectives, and that at least two-thirds of NAV be primarily invested in sustainability-related investments.

Climate-Related Disclosures: The International Sustainability Standards Board (ISSB)'s new global sustainability disclosure standards (including IFRS S2 climate-related disclosures) received positive feedback from multiple Asian regulators (including China, Japan and Singapore), suggesting that more Asian countries would be adopting these new standards, or at least integrate them into local standards.

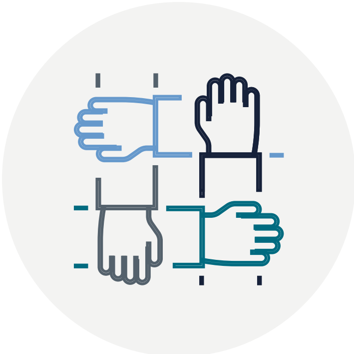
Outlook for 2024: We expect the ESG regulatory landscape to tighten further in many jurisdictions, with the ultimate goal of tackling greenwashing and overstated sustainable investment claims. 2024 will be a pivotal year for ESG regulation with the focus on addressing inconsistencies between sustainable finance regulations across different geographies and actual implementation of the introduced requirements. Climate-related reporting will also be at the forefront of regulatory developments. In 2024, Partners Capital will produce its first annual TCFD report, detailing how we take climate-related risks and opportunities into account in managing investments. Climate-related disclosure requirements are also expected to be published in the US and potentially Asia next year.

3.

Diversity, Equity and Inclusion (DEI)

At Partners Capital, our multi-level approach to diversity, equity and inclusion (DEI) begins internally by fostering a diverse workforce. Our focus extends to identifying diverse asset managers through our Diverse Manager Initiative, monitoring DEI progress of our managers via our Annual Asset Manager ESG Integration Survey and encouraging best practice via our manager engagement programme.

Partners Capital is committed to cultivating and sustaining a diverse workforce and inclusive work environment, two things which we believe are vital to our mission to deliver excellence to our clients. Our firm's commitment to DEI is sponsored by our CEO, Arjun Raghavan and our Firm's Global People Committee, which consists of seven senior leaders. On behalf of the Firm, our People Committee establishes and monitors goals and corresponding measurement mechanisms to hold ourselves accountable and execute our commitment to DEI. There are three core goals which focus on culture, talent and leadership:



Partners Capital Firm-Level Commitment to Diversity, Equity and Inclusion: 3 Key Objectives and Progress in 2023

Objective #1: Culture

Increase Inclusivity in the Workplace

DEI Council: Our employee led DEI Council promotes DEI awareness and education, in addition to championing DEI day-to-day. Programming this year included 14+ newsletters and events celebrating commemorative observances including Women's History Month and Black History Month.

Education: We offer a number of DEI-focussed trainings and resources to our global team. We welcomed several impactful and thought-provoking speakers this year, including Retired Colonel Merryl Tengesdal and Lord Simon Woolley. Additionally, every team member completes unconscious bias and inclusion training and has access to an internal DEI portal that contains resources including a DEI glossary and inclusion best practices. Finally, inclusion is incorporated into other trainings as well, such as the management development training to foster inclusive leadership and communications.

Benefits and Policy: We have continued to revise parental leave policy in favour of providing family friendly policies for both primary and secondary caregivers. This year we increased our primary caregiver policy to 26 weeks.

Objective #2: Talent

Recruit and Retain a Diverse Workforce at all Levels

Talent Acquisition: We continued to enhance our talent acquisition approach and sourcing methods to diversify hiring pipelines and enable an inclusive hiring process. This included on-campus recruiting across a range of higher-education institutions to bolster our ability to source diversity earlier on. We also hired two regional Heads of Talent Acquisition in 2023 to further drive this work.

Partnerships: We continued to invest in and develop our DEI partnerships (e.g. CEO Action, SEO, Girls Who Invest, 10,000 Black Interns, GAIN, TOIGO, The Dinner Group, Inc), many of which we use to bolster our talent sourcing efforts. We welcomed 14 interns from partnerships this year and are looking forward to hosting additional interns in 2024.

TDG The Dinner Group, Inc.
SEO Career Seizing Every Opportunity
GAIN
TOIGO Bringing Diversity to Life
CEO ACTION FOR DIVERSITY & INCLUSION
girls who invest

Measurement: We believe measuring the success of our actions with respect to DEI is critical. We have continued to hold ourselves accountable via quarterly DEI and headcount reporting for the Board, increased hiring process transparency and our annual culture and employee engagement survey, where we ask specific questions on DEI.

Objective #3: Leadership

Increase the Retention and Development of Diverse Leaders

Mentorship: Partners Capital participated in a global mentoring programme for women with the 30% Club. Twenty-two Partners Capital team members participated and an additional 22 will participate in 2024.

30% Club
GROWTH THROUGH DIVERSITY

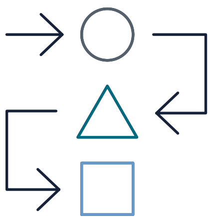
Women's Leadership Network: Our women's leadership network aims to create engaging, supportive and inclusive spaces for women at Partners Capital to foster a sense of community, enhance career development and mentorship, and uplift women in their personal and professional lives. The women's leadership network sponsored programming throughout the year including a mentoring programme for rising female leaders.

Performance Development: We believe that embedding DEI into our internal process and policies is critical. Examples include: All team members have an Inclusion objective and we further embedded inclusion into our feedback mechanisms.

Diverse Manager Initiative

At the investment level, a core focus of our firm's DEI efforts is our Diverse Manager Initiative. Since 2019, Partners Capital has been integrating DEI into our relationships with our asset managers through the inclusion of DEI-specific questions in our annual Survey, adjustments to our underwriting criteria to reduce biases, and the creation of a dedicated research team focussed on the Initiative. We engage with managers to enhance DEI policies and practices, using this ongoing dialogue as a key instrument for continuous improvement.

The basis for our sourcing and engagement efforts is DEI data collection. 2023 saw significant enhancements in data collection and transmission across our research teams, focussing on diversity metrics of managers with whom we interact. This involved logging and tracking relevant manager interactions in our internal CRM system and creating mandatory DEI data points that we now collect for new manager relationships. We track manager diversity at the investment committee and fund ownership levels, and monitor diversity within investment teams as an indicator of manager potential to reach our DEI criteria over time. Managers with diverse investment teams not meeting our DEI standards at the investment committee or fund ownership level may become targets for engagement on DEI performance. This data collection effort has allowed us to create a dynamic DEI Dashboard within our internal CRM system which will act as a self-service platform for the Firm for DEI data and analytics, utilised primarily by the investment and business development teams.



2023

saw significant enhancements in data collection and transmission across our research teams

Partners Capital Definition

- We define diverse managers as having ≥50% representation of women and/or underrepresented ethnic groups at the:
  1. Investment Committee, and/or
  2. Fund Ownership level
- Underrepresented racial/ethnic groups include individuals who are: Black, Hispanic/Latinx, Native American, Pacific Islander, and Asian.

Definition Rationale

- Our definition (≥50% threshold) is in line with peer institutions who we believe have the highest standard of integrity when measuring diversity.
- We believe having a majority on both (i) ownership and/or (ii) key investment decision makers more accurately represents a diverse leadership composition of the underlying funds.

In 2023, we made substantial progress in our Diverse Manager Initiative as a core Sustainable Investing priority. Our key investment objective overall is to find and invest in what we believe to be the most talented managers. We believe that having best-in-class "DEI" policies and practices in place is crucial for organisations to strive and make better long-term decisions, including investment decisions by our asset managers. As such, our Firm targets investing in at least one new diverse manager per asset class grouping (Public Equities, Private Equity & Private Equity Real Estate, Absolute Return & Credit, and Private Debt & Uncorrelated Strategies), or four diverse managers, per year. Within 2023, we achieved our 2023 commitment objective through commitments to 14 diverse funds / co-investments across all four asset class groupings, with seven representing new manager relationships.

4.

The 2023 Asset Manager ESG Integration Survey

Our annual Asset Manager ESG Integration Survey ('Survey') has been running since 2016, when we started assessing the ESG approaches of a select group of our asset managers on behalf of one of our institutional clients. Our Survey evaluates our third-party fund managers' ESG practices across six core pillars of ESG integration which underpin an overall classification.

The six core pillars comprise:

1. Policies and Infrastructure
2. Due Diligence, Investment Decision-making and Portfolio Management
3. Climate Change
4. Diversity, Equity and Inclusion
5. Measurement and Reporting
6. Asset Class Specific Questions

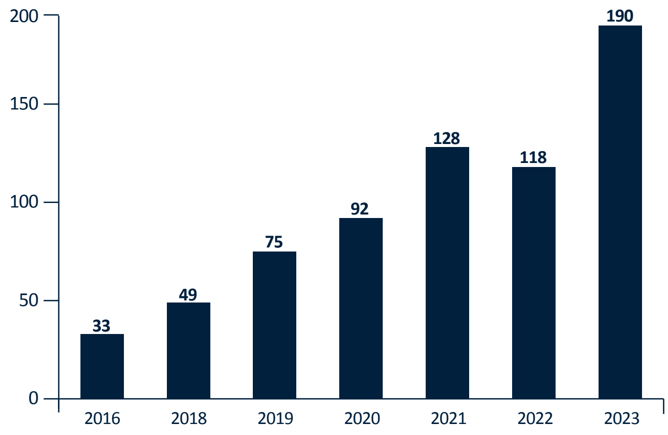
The pillar-focussed, asset class specific format of the survey has been consistent since 2021 but the questions asked under each pillar typically change slightly each year as we respond to developments in the market. Our Survey reflects our belief that good ESG integration is no longer just about having ESG policies in place or dedicated ESG resources. It is more about the actual integration of financially material ESG factors into the investment process, evidenced by strong proof statements and examples that matter to LPs.

Furthermore, the enhanced detail in the 2023 questions has allowed us to generate more specific insights based on geography (location of fund manager headquarters), firm size and asset class. 2023 saw explicit questions on net zero commitments and emissions reduction target setting; more in-depth questions on manager-level DEI statistics, targets and practices; and a greater focus on proof statements showing how ESG considerations directly impact investment decisions.

Insights from our 2023 Asset Manager ESG Integration Survey

Compared with previous years, the overall number of responses to the Survey has increased to 190 managers or c. $44B of our overall AUM based on September 2023 holdings and uncalled illiquid commitments made since 2016. The number of responding managers in 2023 represents the largest number of responding managers since the inception of our survey. As can be seen, the sample size of our survey has grown considerably since 2016 and as such the mix of managers in each year has changed to some extent. However, as we seek to build long-term relationships with our managers, a core subset of managers have been consistently surveyed across multiple years.

Number of responding managers



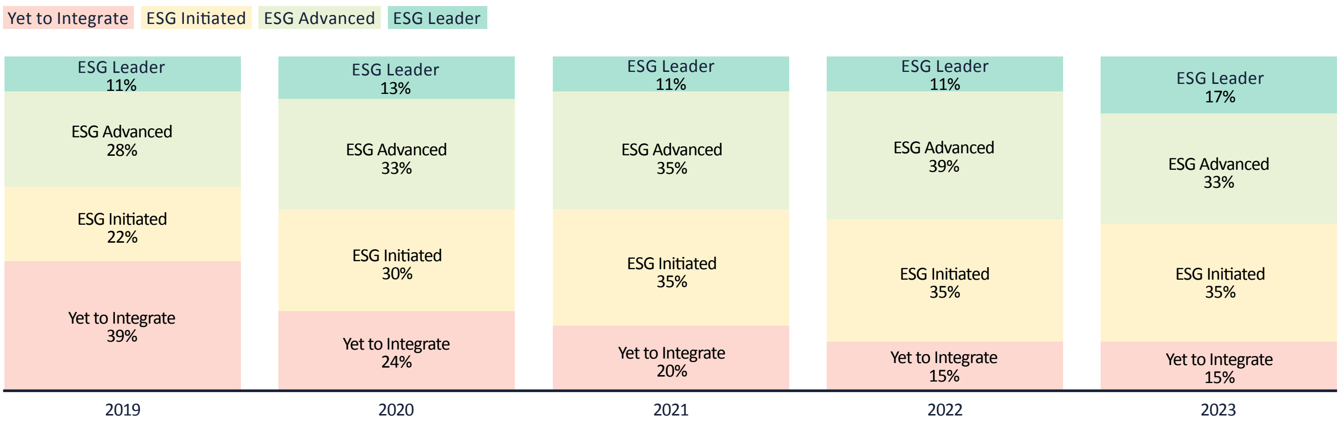
Note:

16. In our Sustainable Investing Report 2022, we presented data based on the 93 responses received at the time. We subsequently received an additional 25 responses, bringing the total in 2022 to 118

Based on their responses to our Survey, we classify third-party fund managers into four distinct categories. These categories facilitate comparison amongst and across asset classes. The classification process is designed so that managers are evaluated against criteria that are relevant to their asset class rather than taking a one-size-fits-all approach. This framework ensures that managers are not penalised for the limits on ESG integration that their investment strategy imposes. However, not all managers have responded to all survey questions and, as a result, the sample sizes between sections in the analysis later in this section vary. A full breakdown of each of our four categories is outlined below:

Four tiers of ESG Integration	Public Equity, Liquid Credit, Private Equity, Private Debt, Real Estate	Absolute Return Hedge Funds, Commodities, Other Liquid Strategies
ESG Leader	• Meet criteria required to be "ESG Advanced" and also demonstrates strong differentiating factors, e.g. multiple years of experience integrating ESG factors, or use of a proprietary framework for assessing ESG factors.	
ESG Advanced	• Highly integrated ESG resources and tools that result in an ability to generate differentiated insights on underlying portfolio companies, create value to the point of delivering competitive advantage and expectation of better societal outcomes. • Active ownership through engagement with portfolio company management teams. • Reporting to limited partners on ESG activities.	• Investment process incorporates ESG factors in decision making to the extent possible. • Reporting to limited partners on ESG activities. • Substantial internal policies procedures and initiatives to address the firm's environmental impact and effect on local communities.
ESG Initiated	• Have a clear ESG policy. • Clearly integrate ESG criteria into their investment decision making. • Engagement through at least proxy voting.	• Investment strategy focussed on "doing no harm". • Firm's internal ESG policy focusses on the firm's impact on people and the planet.
Yet to Integrate	• Do not have an explicit ESG policy (firm or investment strategy). • Do not truly integrate ESG criteria into investment decision-making at a base level.	• Personnel and governance policies are below threshold.

The overarching conclusion that we can draw from the managers responding to the Survey is that these asset managers are making steady progress on the integration of financially material ESG considerations into their investment processes. The results of our survey for a subset of 46 managers that have responded every year between 2019 and 2023 indicates that the allocation of Yet to Integrate managers within our initial sample declined from 39% to just 15%, indicating that almost a quarter (24%) of the total sample have started to integrate ESG into their investment process, which they were not doing in 2019. From 2022 to 2023, the most notable change was that a further 6% of managers enhanced their ESG integration processes to the extent that we elevated them to ESG Leader status from ESG Advanced. Despite this positive conclusion across our common sample, the overall level of ESG integration varies hugely across asset classes. We draw out some additional conclusions from the Survey over the rest of this section.



Notes:

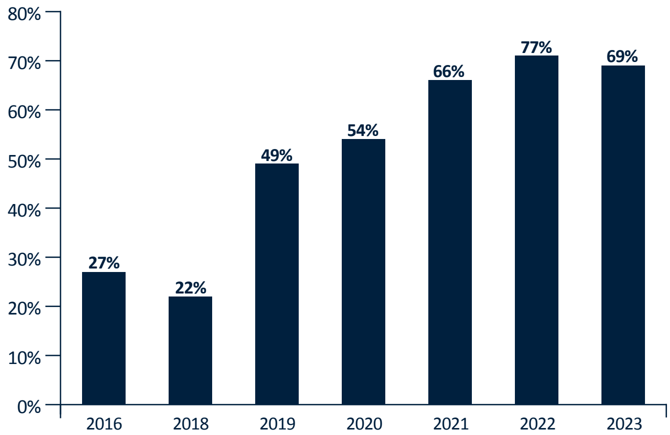
17. Source: Partners Capital's Asset Manager ESG Integration Surveys. The overall number of managers surveyed has changed each year.

18. The allocations shown here are based on 46 managers who responded to survey each year between 2019 and 2023. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

Policies and Infrastructure

Policies and Infrastructure set the direction for ESG integration and form one of our core Survey sections. We have been tracking three indicators of ESG strategic priority across our managers since 2016. These comprise managers with ESG policies, managers with dedicated ESG resources and managers that are signatories to normative codes (such as the UN PRI). While ESG policies and PRI Signatory status are now assumed to be table stakes, especially for large asset managers, they remain key factors for many LPs to look out for as both set a precedent for how asset managers value and incorporate ESG factors into investment analysis.

% of responding managers with an ESG policy[19,20]



Key Engagement and Survey Insight

Over the past three years, the number of managers responding to our survey with ESG policies has remained around 70%. Engagement calls conducted throughout 2023 highlighted that small, emerging managers and managers with niche strategies often have no formal ESG policies in place but still integrate financially material ESG factors if they deem them to be relevant to the underlying investment case.

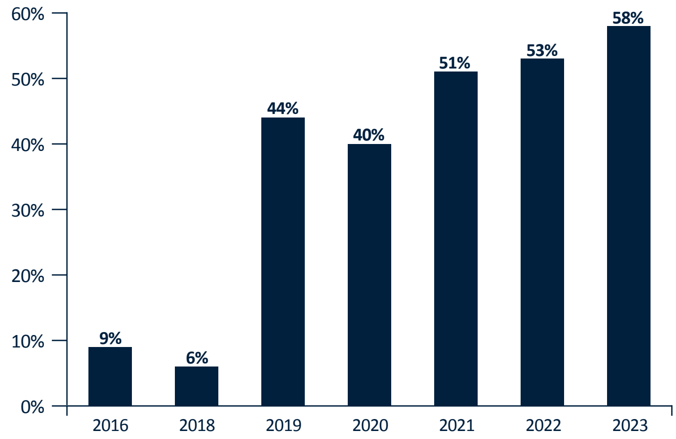
For example, two Absolute Return managers and one Hedged Equities manager that we engaged in 2023 had no formal ESG policies but instead focussed on integrating specific governance factors (e.g., management quality) surrounding individual investments as the managers deemed those to be material to their investments.

As a result of these conversations and the broader results of our Survey, we know that the overall baseline level of ESG integration is likely to be higher than the c. 70% of managers that responded to the 2023 Survey as having a formal ESG policy.

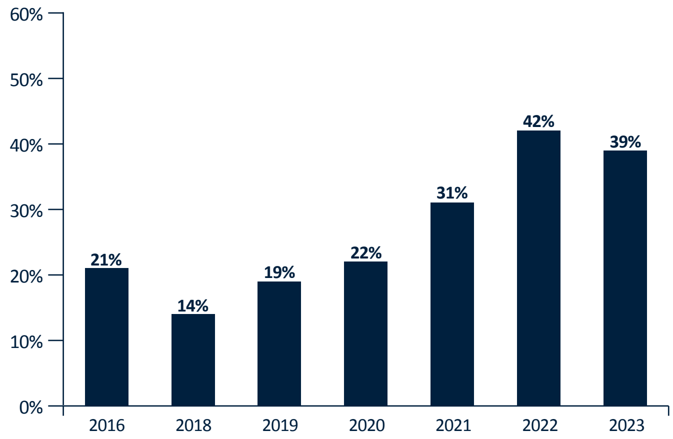
The share of respondent managers with dedicated ESG resources has also steadily increased over time indicating that ESG is being increasingly embedded at the organisational level and is strategically important. Within the context of our Survey, dedicated ESG resources are defined as team members with either a dedicated ESG role within a fund manager's team or dedicated responsibility for ESG integration within their investment role.

Approximately 40% of managers responding to the 2023 Survey are signatories to the UN PRI or other "best practice" bodies focussed on ESG integration, an increase in absolute terms from 2022. Normative codes act as external reference points for fund managers to ensure that they are benchmarking ESG practices versus peers. We will continue to engage on this point as part of our engagement programme.

% of responding managers with dedicated ESG resources[19,20]



% of responding managers that are signatories to normative codes[19,20]



Notes:

19. Source: Partners Capital 2023 Asset Manager ESG Integration Survey

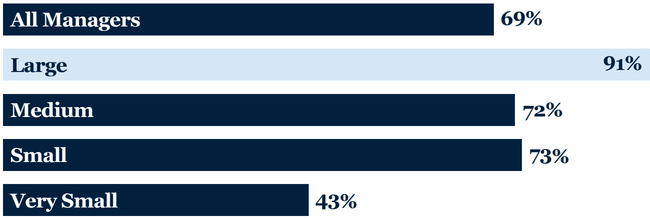
20. 2023 allocations shown here are based on full sample of 190 managers who responded to the Survey as of 31 December 2023. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

Board level oversight of ESG processes and the linking of key decision maker remuneration with ESG integration are additional metrics that can be used to evaluate the strategic importance given to ESG integration within an organisation.

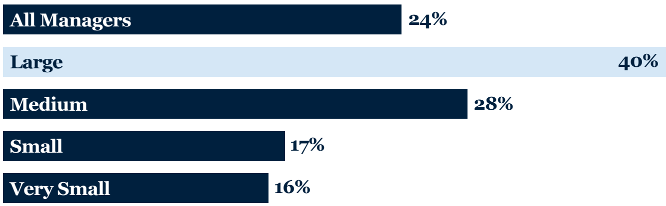
We were positively surprised that 69% of all managers responding to the 2023 survey indicated they have board or executive level oversight of ESG processes. We will continue to engage with the remaining 31% that are yet to make ESG integration a strategic priority for their executive teams. Within our data, there is a distinct positive correlation between organisation size and executive oversight of ESG processes. We believe this stems from larger firms facing greater scrutiny on ESG matters, making it a leadership priority, and the fact that larger firms simply have greater resources. Conversely, very small respondent asset managers are less likely to have executive oversight of ESG integration.

We also found that 24% of all managers responding to the 2023 Survey tied key decision maker remuneration to ESG key performance indicators, with large organisations being more than twice as likely as small and very small organisations do so.

Board level oversight of ESG process by organisation size across all responding managers[21,22]



% of responding managers where ESG is a component in key decision maker remuneration by organisation size[21,22]



21. 2023 allocations shown here are based on full sample of 190 managers who responded to survey as of 31 December 2023. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

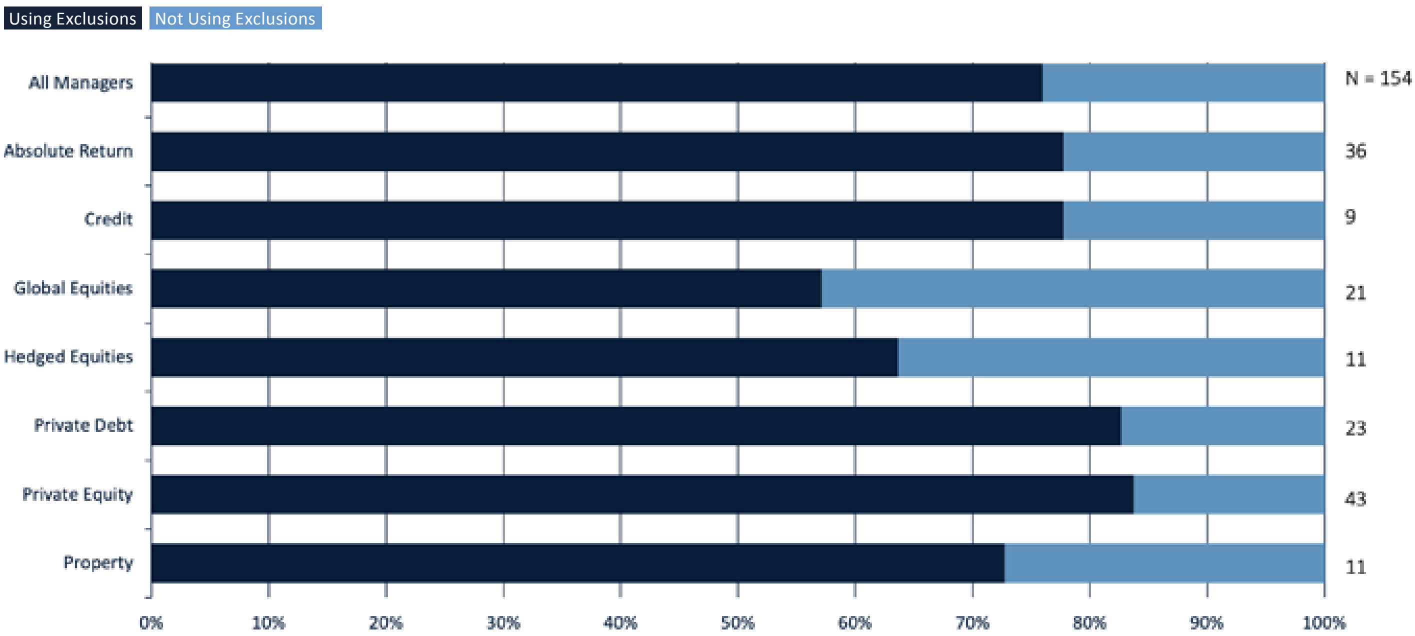
22. Large managers comprise fund managers with over 100 employees, medium managers comprise managers with between 50 and 100 managers, small managers comprise those managers with 16-50 employees, very small managers comprise those with 15 or less employees.

Due Diligence, Investment Decision Making and Portfolio Management

Exclusions

Exclusions represent the simplest, and often swiftest, way of ensuring that capital is not invested into problematic entities. We found that 76% of managers responding to the 2023 Survey had some form of exclusions in place, ranging from very systematic approaches to excluding companies on sanction lists, to more complex ethical screens that were designed by dedicated ESG specialists. While we believe that there are more nuanced ways of integrating ESG considerations into the investment process, exclusions are a very effective way of either complying with government-led sanctions or reflecting ethical points of view. The level of exclusions used varied widely by asset class but was broadly consistent across organisation size, ranging from 68% for large organisations to 82% for small organisations.

Responding managers using exclusions by asset class



23. Partners Capital 2023 Asset Manager ESG Integration Survey.
24. Data based on 154 manager responses to this question received as of 31 December 2023. All 190 surveyed managers were asked to complete this question.
25. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

Key Survey Insight

Responding Global Equities managers had the lowest usage of exclusions across our survey universe. This is a product of many strategies having a global opportunity set and most strategies involving some form of human input into the stock selection and portfolio construction process. As a result, because companies are reviewed by investment team members prior to addition to their portfolios, many managers had no hard exclusions in place. Some example manager responses are below:

A concentrated small-cap activist manager responded: *"Our strategy (which involves sizable investments in a concentrated portfolio of companies) contemplates that the investment team is performing deep fundamental research on companies both in our portfolio and potential prospects. The research process results in a written product (the "one pager") identifying risks and considerations. We would expect that our research process would uncover that a company was violating national or international laws, regulations and/or other commonly accepted global norms (to the extent material)."*

A sustainability themed manager responded: *"Generally, we do not adopt a screen-based approach as part of our investment process. We believe our portfolio process embeds sustainability analysis into each investment decision and, as a result, our process naturally leads us away from those stocks that are typically filtered out by a list-based approach. Such sectors that our process has led us away from include the Utilities and the Oil & Gas sectors, Airlines, Mining and tobacco stocks."*

This contrasts sharply with some of the Absolute Return managers within our universe, where systematic strategies program exclusion lists into their order and trade execution systems to avoid any trading in sanctioned entities.

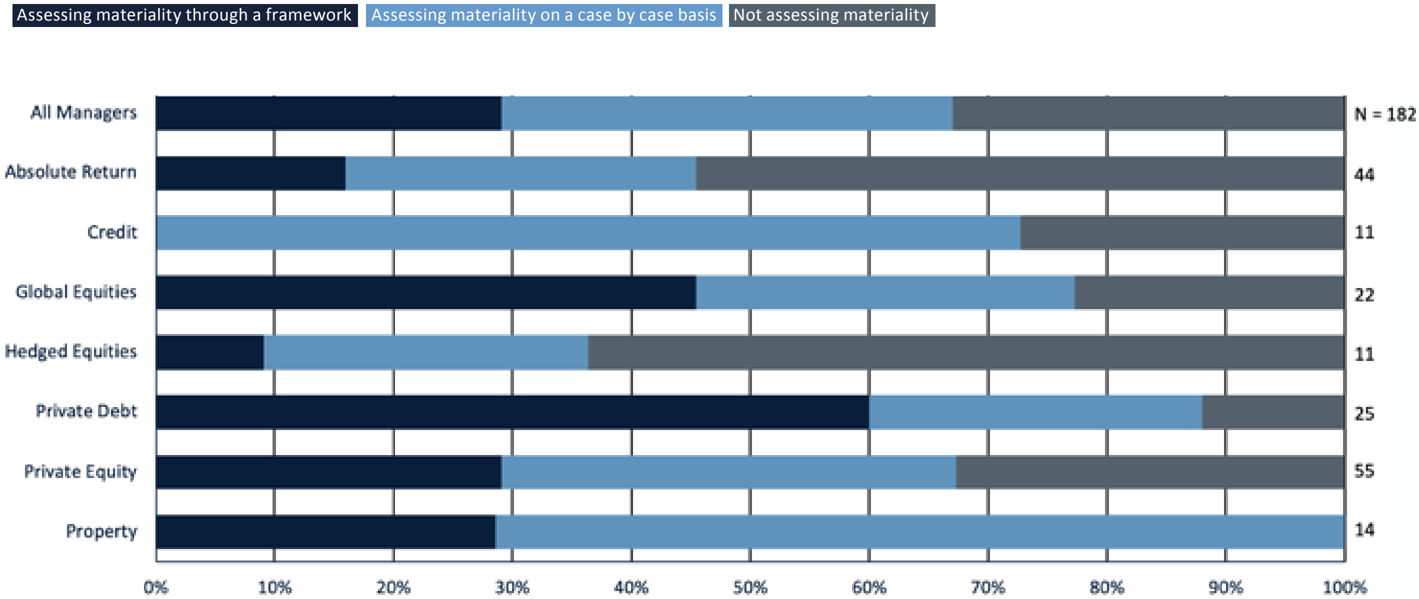
Materiality

We believe that the most meaningful way of integrating ESG factors into the investment process is by ensuring those considered are relevant to the manager's strategy. Across all responding managers, 33% of managers did not assess the financial materiality of ESG factors to their investments. Of the remaining managers, 38% assess materiality on a case-by-case basis (integrating it as and when they believe it to be relevant) and the remainder use either a third-party or proprietary materiality framework.

Materiality frameworks aid managers in identifying opportunities and mitigating risks in a consistent and repeatable manner, with one example being the Materiality Map developed by the Sustainability Accounting Standards Board (SASB).

Consideration of financial materiality of ESG factors varied greatly by asset class, with all responding Property managers claiming to assess materiality but less than half of Absolute Return and Hedged Equities managers doing the same. This again highlights the limits imposed by investment strategy on ESG integration but also the possibility that managers could be considering financially significant factors without labelling them as ESG. This can often be the case for financially material governance considerations as we have discussed in the examples above. We will continue to communicate our expectations around ESG integration and engage with managers on identifying financially material ESG factors as part of our engagement programme.

Assessment of materiality across responding managers by asset class



26. Source: Partners Capital 2023 Asset Manager ESG Integration Survey.

27. Data based on 182 manager responses to this question received as of 31 December 2023. All 190 surveyed managers were asked to complete this question.

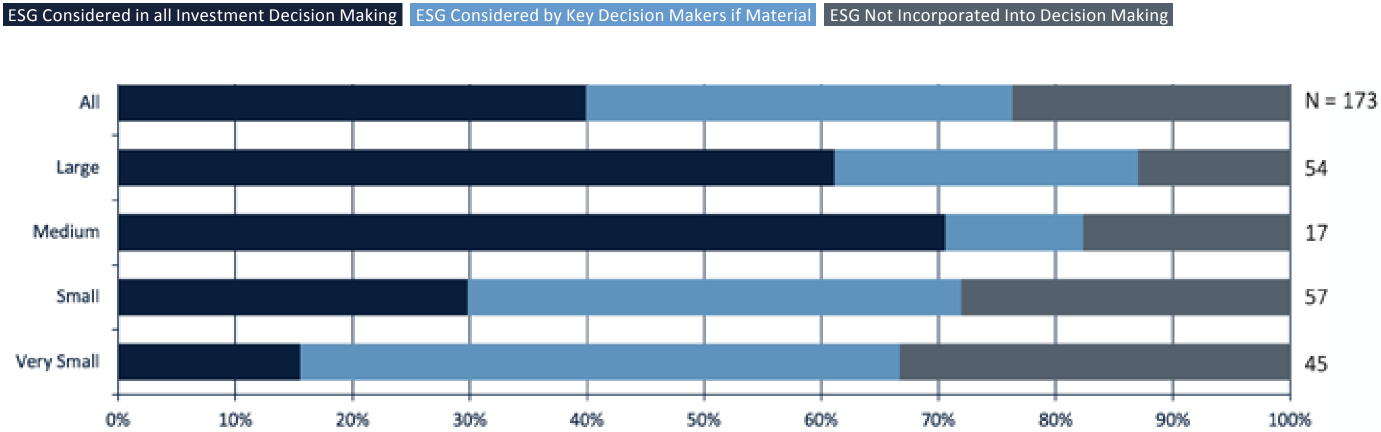
28. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

Investment Decision Making

Systematic consideration of financially material ESG factors pre-investment and as part of ongoing monitoring is a key demonstration of a manager's commitment to ESG integration. Over three quarters of managers responding to the 2023 Survey stated that relevant ESG risks and opportunities are considered and documented by key decision-makers. For more than half of this subset, every investment decision includes an assessment of ESG factors, for example a specific section in every investment memo.

This same information by asset class is not shown here, but interesting patterns were discernible in the data. Key decision makers at all Property managers consider ESG factors in their investment programmes and, of those, 90% make an assessment of ESG factors as part of every single investment decision. At the other end of the scale, 45% of Hedged Equities managers do not incorporate ESG into investment decision making, with less than 10% of managers in this asset class considering ESG factors in every investment decision. The consideration of ESG by key decision makers also varied widely by fund manager size. Key Decision makers at medium and large funds were approximately four times more likely to consider ESG than very small firms and twice as likely as small firms.

Consideration of ESG by key decision makers at responding asset managers by organisation size



29. Source: Partners Capital 2023 Asset Manager ESG Integration Survey.

30. Data based on 173 manager responses to this question received as of 31 December 2023. All 190 surveyed managers were asked to complete this question.

31. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

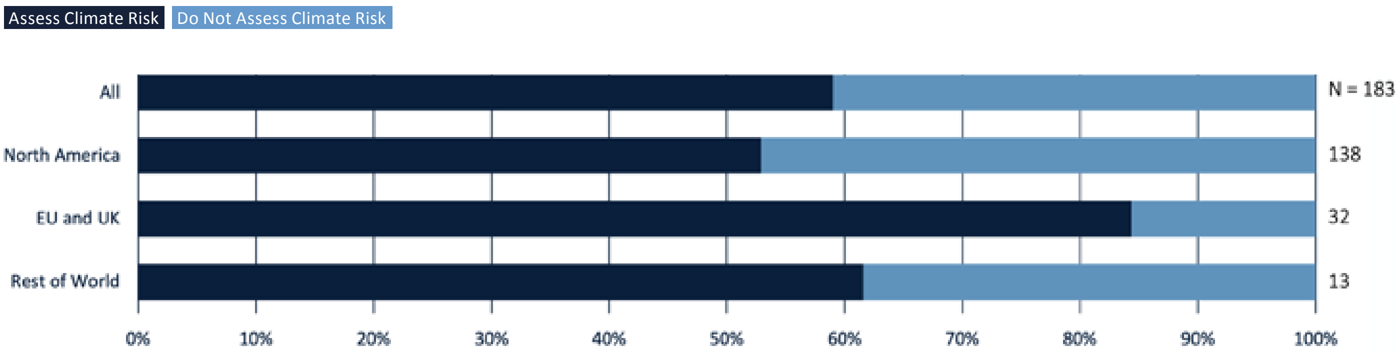
32. Large managers comprise fund managers with over 100 employees, medium managers comprise managers with between 50 and 100 managers, small managers comprise those managers with 16-50 employees, very small managers comprise those with 15 or less employees.

Climate Change

Climate change is increasingly taking centre stage as a global priority and presents both risks and opportunities to investors across asset classes. Our 2023 Survey featured an extended set of questions on the degree to which managers are assessing exposure to climate risk, measuring greenhouse gas emissions associated with investments, setting net zero strategies, and engaging with portfolio companies.

Of all responding managers, almost 60% reported that they assess climate risk representing an increase in both absolute and percentage terms from 2022, when 50% of managers responding to the climate change section of the survey stated that they assessed the climate risk of their investment strategy.

Managers assessing climate risk in investment decision making by location of fund manager headquarters



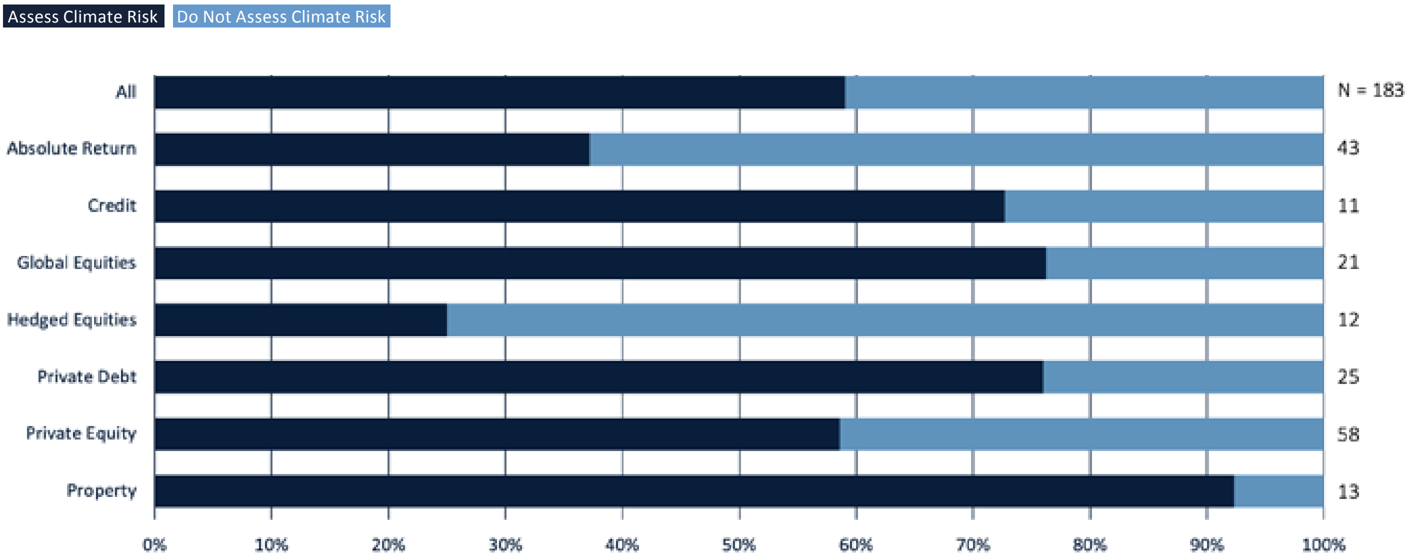
33. Source: Partners Capital 2023 Asset Manager ESG Integration Survey.

34. Data based on 183 manager responses to this question received as of 31 December 2023. All 190 surveyed managers were asked to complete this question.

35. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

36. Large managers comprise fund managers with over 100 employees, medium managers comprise managers with between 50 and 100 managers, small managers comprise those managers with 16-50 employees, very small managers comprise those with 15 or less employees.

Responding managers assessing climate risk by asset class



By asset class, there is a significant variance in the percentage of managers integrating climate change. Property managers, as their assets face acute physical and financial risks due to climate change, have the highest levels of climate risk assessment with 92% of respondent managers indicating that they integrate climate risk into their investment process. Unsurprisingly, Hedged Equity and Absolute Return managers, who often have shorter holding times so their assets are less exposed to climate risk, have the lowest levels of climate risk integration.

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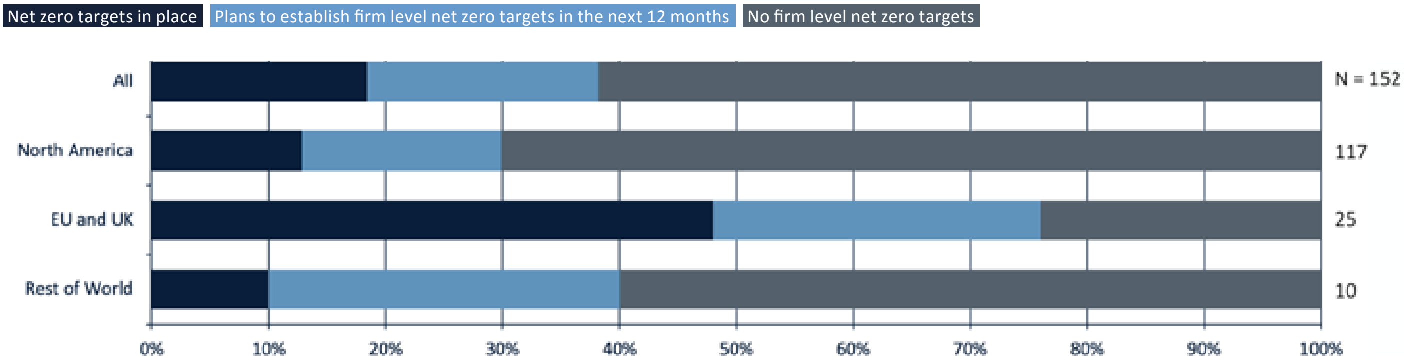
37. Source: Partners Capital 2023 Asset Manager ESG Integration Survey.

38. Data based on 183 manager responses to this question received as of 31 December 2023. All 190 surveyed managers were asked to complete this question.

39. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

In keeping with our firm commitment to operational carbon neutrality, a key metric from the 2023 Survey is the percentage of managers with either a firm net-zero target in place or with the intention of setting such a target in the next 12 months. Nearly 40% of responding managers fall into these groups, with 18% of responding managers already having a target in place, representing an increase in both percentage and absolute terms from just under 15% of managers who stated that they had a target in place in 2022. The responses differed greatly by geography, with managers in Europe and the UK closer to setting such targets.

Responding managers with firm level net zero targets in place by location of fund manager headquarters

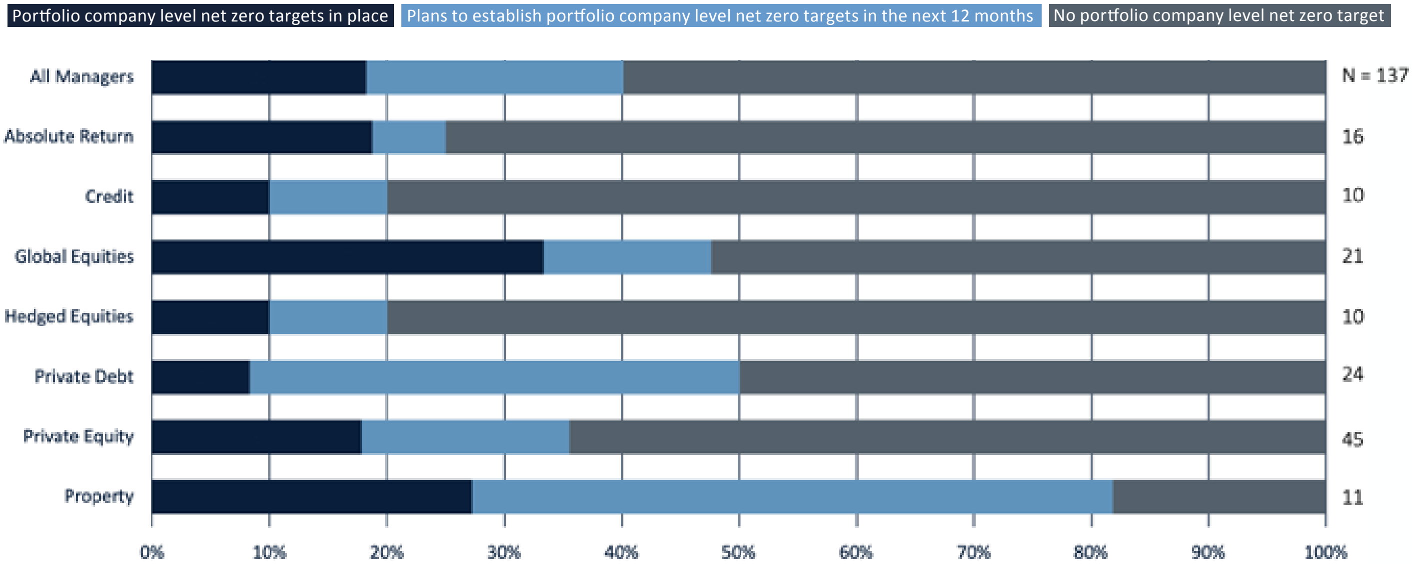


40. Source: Partners Capital 2023 Asset Manager ESG Integration Survey.

41. Data based on 152 manager responses to this question received as of 31 December 2023. All 190 surveyed managers were asked to complete this question.

42. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

Number of responding managers setting portfolio company level net zero targets by asset class



43. Source: Partners Capital 2023 Asset Manager ESG Integration Survey.
44. Data based on 137 manager responses to this question received as of 31 December 2023. All 190 surveyed managers were asked to complete this question.
45. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

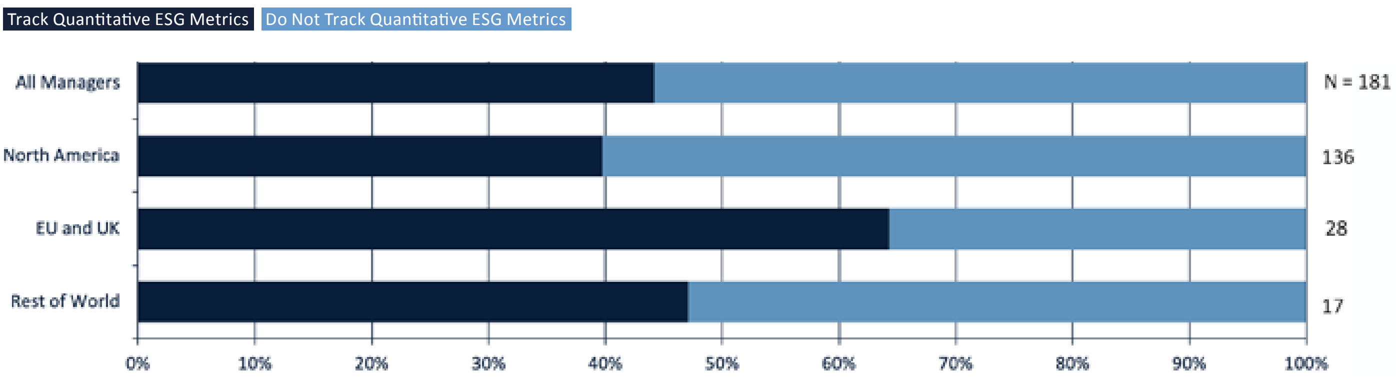
Managers were also asked whether net zero targets were in place at the portfolio level. Like the firm level, around 40% of responding managers stated that they either set net zero targets at the portfolio level or intend to do so in the next 12 months. The percentage of managers with existing portfolio company net zero target setting in place was relatively low across all asset classes with Global Equities and Property managers being the most likely to have targets in place at 33% and 27% respectively. We plan to continue to engage with our managers and track their progress on this point as setting interim and final net zero targets at a portfolio level is becoming increasingly important with more asset owners setting targets for their organisations. Credible and consistent approaches to decarbonisation will play a key part in achieving these targets.

Measurement and Reporting

In our 2023 Survey we also addressed Measurement and Reporting as a topic to be able to better monitor how managers' portfolios are changing over time. Now, 44% of all responding managers track quantitative ESG metrics across their portfolios, with the highest rates of adoption in the UK and EU (as measured by the fund manager's headquarters location) and across Property, Private Debt and Global Equities managers by asset class. Over time, we will continue to engage with managers to encourage them to track quantitative metrics and report those consistently back to LPs.

Some of our mangers are also in scope for external reporting frameworks such as the Taskforce on Climate Financial-Related Disclosures (TCFD). Of all responding managers, only 3% produced a TCFD report. We expect this number to increase in the future, as TCFD reporting is expected to become mandatory in more jurisdictions.

Responding managers tracking quantitative ESG metrics by location of fund manager headquarters



46. Source: Partners Capital 2023 Asset Manager ESG Integration Survey.

47. Data based on 181 manager responses to this question received as of 31 December 2023. All 190 surveyed managers were asked to complete this question.

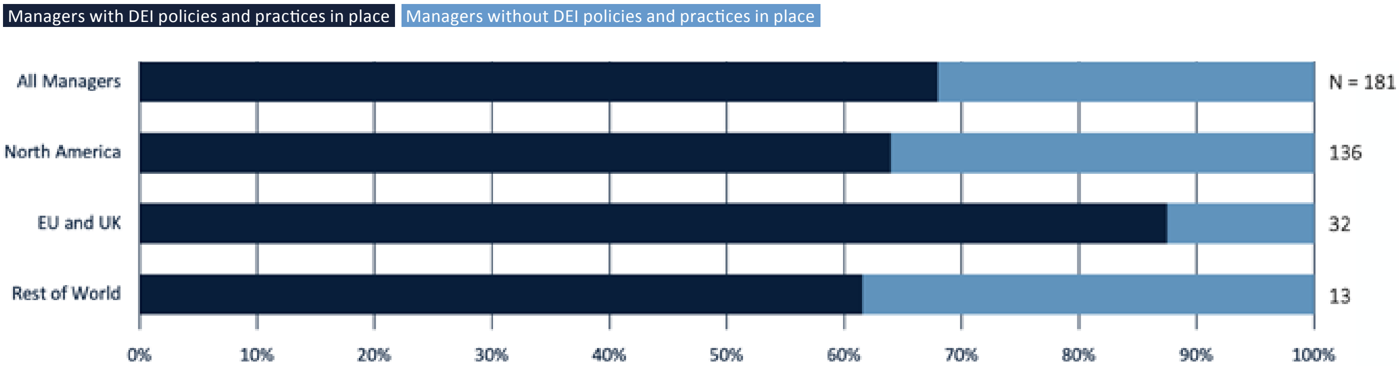
48. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

Diversity, Equity and Inclusion (DEI)

DEI remains a focus for both Partners Capital and our asset managers, with the majority of respondent managers in all asset classes implementing formal DEI processes and policies. Compared with 2022, the percentage of responding managers with DEI policies has decreased from 74% to 68% but this is an increase in absolute terms.

In our 2023 Survey, we focussed on collecting additional information from our managers on DEI. The more granular data will be used to help inform our diverse manager initiative as we aim to increase the diversity of the asset managers on our platform over time.

Responding managers with DEI policies and practices in place by location of fund manager headquarters



49. Source: Partners Capital 2023 Asset Manager ESG Integration Survey.

50. Data based on 181 manager responses to this question received as of 31 December 2023. All 190 surveyed managers were asked to complete this question.

51. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

5.

2023 Asset Manager Engagements[52]

Why is Partners Capital engaging with third-party asset managers?

Our engagements are rooted in our belief that if financially material ESG considerations are being incorporated into investment decision-making alongside fundamental financial analysis, better investment decisions can be made. The asset managers with whom we have invested our c. $53B[53] of assets collectively manage $2T in total assets. We believe engaging with them to improve their ESG practices, and in turn influencing their portfolio companies, can have a highly leveraged impact on the world.

52. All case studies referred to in this section have been anonymised.

53. As of 30 September 2023.

What does Partners Capital's engagement programme look like?

In 2023, Partners Capital engaged with 40 managers comprising c. $14B of our overall AUM. This represents a significant expansion of our programme compared to our previous approach, which involved engaging with managers on a case-by-case basis. As it relates to the asset managers we work with, we are acutely aware that there is no one-size-fits-all approach to ESG integration. We target our engagements accordingly, making them asset class and strategy specific.

The programme focusses on managers who we believe are behind the market or their peers in terms of ESG integration, especially those with whom we have invested a significant amount of capital and where ESG considerations are relevant to their strategy. We believe we have the greatest ability to effect change via these managers and improve the overall level of ESG integration across our client portfolios. We engage with our asset managers across all of our six pillars, illustrated through one of our longer-term engagement relationships.

ENGAGEMENT CASE STUDY

Global Hedged Equities Manager (GHE)

GHE is a global hedged equities asset manager focussed on the US, Canada and Western Europe. We initially engaged with the manager in 2021 following GHE's appointment of an ESG analyst, and have engaged on ESG matters several times since. We advised GHE on where they were positioned versus best practice and where we needed to see further improvements to their processes despite their recent progress. Enhancements by GHE over the period include: 1) Considerable ESG infrastructure building (resources, provision of data and proprietary dashboards), 2) Integrating ESG risk data into decision making, 3) Development of a formal DEI policy and improved transparency on DEI metrics, and 4) Engaging with portfolio companies on ESG topics.

Details of the engagement through time are shown on the following page.

AUGUST 2021

Engagement call with Head of ESG following Partners Capital 2021 Survey.

- Encouraged building of analytical capabilities and carbon emissions reporting, and recommended assessment of ESG risks for prospective investments. In addition, we pushed GHE to improve transparency on their Diversity, Equity and Inclusion (DEI) approach.
- GHE started evaluating material ESG factors during due diligence in specific cases and have now adopted the Sustainability Accounting Standards Board (SASB) materiality framework to do this more systematically and effectively.

AUGUST 2022

Engagement call with Investor Relations (IR) following Partners Capital 2022 Survey

- Encouraged development of formal ESG reporting. GHE was open to this suggestion and produced their first ever formal ESG report in December 2022.
- We recommended UN PRI membership to publicly highlight the importance of integrating ESG factors to LPs. GHE are cautious of the operational requirements from such external commitments and are still reviewing other third-party bodies in this space.
- We discussed the adoption of a formal DEI policy which was subsequently implemented with transparent DEI-related information.

SEPTEMBER 2022

Engagement call with Head of ESG and IR

- Partners Capital provided GHE with a gap analysis outlining ESG positioning versus peers.
- We recommended systematic integration of ESG data into decision making. GHE now track quantitative ESG metrics to help manage their portfolios and are working on expanding their analytics coverage.

JANUARY 2023

Engagement call with Head of ESG and IR

- GHE highlighted that their ESG dashboard now live for use as a risk management tool across the investment team. GHE are working on carbon footprinting their portfolios.
- We recommended the integration of climate change risk on a systematic basis. GHE are aiming to build carbon analytics including net zero targets, but this remains in the early stages as they undergo a data provider evaluation exercise.
- We encouraged continuing development of targeted engagement programme for their portfolio companies.

AUGUST 2023

Engagement call with Head of ESG and IR

- GHE rolled out training to the investment team to encourage engagement with portfolio companies on relevant ESG topics. As part of the engagement programme, GHE have conducted robust benchmarking vs peers in terms of carbon emissions targets.
- We advised GHE to build case studies highlighting how ESG factors impacted investment decisions to improve transparency and LP reporting.

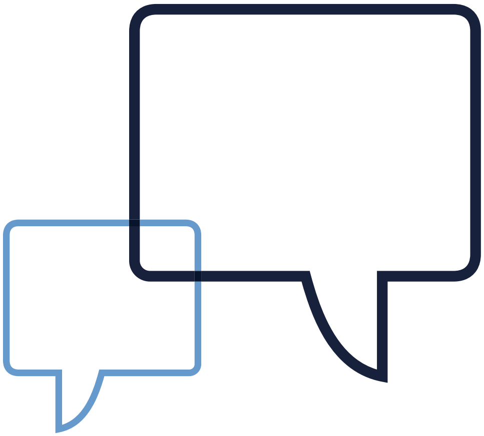
SEPTEMBER 2023

Joint engagement call with client and Head of ESG and IR

- A UK charitable health foundation wanted to understand the rationale behind a newly established position in a tobacco company given their goal to limit exposure to tobacco in their portfolio.
- The manager was able to give us and the client comfort that the portfolio company is transitioning to reduced risk products where societal and health outcomes are significantly different to traditional cigarettes. Their sustainability strategy is fully aligned with a transition to smoke-free products, with the significant R&D resources and management incentives evident signals of the business's intent.
- Following this correspondence, the client maintained their investment in the fund, and we were reassured of the positive trajectory that GHE is on towards further improving their ESG integration approach.

How does engagement work in practice?

Our engagement programme is designed to be collaborative and constructive, drawing on what we believe to be best practice across investment strategies and managers. Our aim is to support our engaged asset manager in improving their ESG integration capabilities. We anticipate having multiple meetings with all the managers that we engage with. If it is deemed that insufficient progress has been made, the asset class and Sustainable Investing teams will jointly engage with the managers and revisit expectations. We have identified four stages for engagement and will move managers through these stages as appropriate and depending on managers' responses to our engagements.



1. Educations and Expectation Setting

- Outline why ESG is important to Partners Capital and its clients, and what our expectations for the corresponding manager are where it should improve its approach.

- Assist managers with ESG and DEI policy implementation. Policy setting is important as it acts as a frame of reference for progress evaluation.

- Provide managers with feedback on their performance vs. peers. Educate on materiality frameworks and available third-party ESG data providers (if applicable and additive to the investment strategy).

2. Policy and Execution Review

- Seek out proof statements that indicate policies are being adhered to.
- If policies are not being adhered to, expectation setting will be revisited.
- Continue education on materiality frameworks and push for implementation.

3. Review progress on ESG integration in investment decision making

- Seek out proof statements on ESG integration in investment decision-making.
- Deep dive on best practice asset class-specific ESG integration.
- Asset class heads and research analysts provided with a progress update report.

4. Progress Review

- If sufficient progress has been made, engagements may be de-prioritised subject to new developments that may warrant further discussion.
- If no progress has been made, joint engagements may be carried out with asset class heads and the Sustainable Investing team and expectation-setting will be revisited.

The bulk of the work for our long-term engagements takes place in the education and expectations-setting stage. During this stage we provide managers with feedback highlighting their strengths and weaknesses relative to their asset class-specific peer group as illustrated by the following case study. Managers' scores against each of our six key pillars are derived through a qualitative scoring framework and reviewed by our asset class and Sustainable Investment research teams for consistency. This analysis, including case studies that managers may have shared relating to ESG integration, climate policies or DEI during the annual survey process, form the basis of any advice we provide to managers in our engagement programme. We plan on continuing to share this information with our managers as our engagements progress over time.

ENGAGEMENT CASE STUDY

Global Private Debt Manager (GPD)

Global Private Debt Manager (GPD) make investments in distressed and dislocated credit opportunities.

ESG Engagement Areas: 1) Policies & Infrastructure 2) Due Diligence, Investment Decision-making & Portfolio Management 3) Diversity, Equity & Inclusion

Engagement Summary and Outcomes: Partners Capital initially engaged with GPD following their 2021 survey response which highlighted that ESG factors were not embedded in their investment process leading to a Yet to Integrate classification. Following this initial dialogue, no immediate progress was made as the manager underwent a corporate restructuring.

Initially, no response was received to our 2022 survey, so we actively re-engaged with the manager in early 2023 to reiterate the value and importance of ESG to Partners Capital and its clients. During this engagement, we found GPD to be highly receptive, displaying a strong willingness to learn about and adapt to our expectations. We were pleased to hear that over the period, GPD had developed and implemented an ESG policy, the first stage in our engagement framework. Furthermore, the manager had onboarded a third-party data vendor and adopted the Materiality Map developed by the Sustainability Accounting Standards Board (SASB) to improve ESG risk assessments. This represented a much more thoughtful and structured approach to integrating financially material ESG factors into investment decision making and as a result we were confident in upgrading GPD's classification to ESG Initiated.

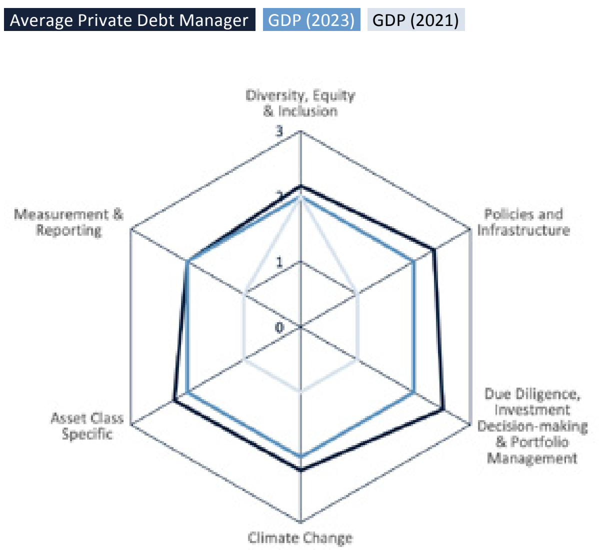
In our ongoing engagements, we communicated that to further improve their classification, GPD should, amongst other things, include an ESG section in all investment memos, which they now do. GPD have also provided strong additional evidence of ESG integration in the investment process through investment examples. In the immediate term, GPD are prioritising consolidating their ESG infrastructure across the restructured business. We will continue to work with the manager to build on their capabilities in 2024, including more deeply assessing climate risks in their portfolio construction.

Engagement Areas for 2024:

1) Development of DEI policy to formalise their commitments.

2) Despite strong operational environmental programmes, GPD needs to improve their assessment and measurement of climate change risks and opportunities facing their investment strategies.

GPD vs. Average Private Debt Manager[54] (N=25)



54. The Average Private Debt manager sample is based on Partners Capital approved managers that responded to the 2023 Asset Manager ESG Integration Survey. The 2021 and 2023 GPD scores are based on Partners Capital assessments of the manager's ESG practices from the 2021 and 2023 Asset Manager ESG Integration Surveys respectively.

The case study below from a Private Debt manager exemplifies what we believe to be a "Gold Standard" DEI Policy:

CASE STUDY

DEI Policy Example

Excerpts from the Private Debt Manager Diversity, Equity, and Inclusion Policy

Why DEI?	**Why We Believe DEI Is Important** It's the right thing to do. We believe that we should be part of the solution in promoting equity, equality, and social justice within the communities in which we operate. **It's good business. By fully leveraging diverse experiences, backgrounds, and perspectives, we believe we can create better outcomes for our investors, our portfolio companies and our employees. Our performance and long-term success are directly attributable to the talent we can attract and retain.**
DEI Objectives?	**Our Goals** We seek to generate quality returns for our investors by building high-quality teams and cultivating a culture where people can be their authentic selves. This culture provides a range of welcomed perspectives and ways of thinking, ultimately resulting in benefits to our investment process and support infrastructure. We aim for our team's diversity profile to reflect the underlying diversity levels in the communities where we operate. We recognise that this representation and equity do not currently exist broadly in our industry. We seek to be a leader in enacting programmes, policies and partnerships that advance representation, and also educate our existing team and support and empower our underrepresented employees to rise within the firm.

Examples of what Private Debt Manager is doing

Private Debt Manager has had a formal DEI Council since 2018

- Council's goal: "Our DEI Council drives a strategic framework to attract, develop, engage and advance diverse talent within an inclusive, welcoming environment."

The firm has a variety of internal policies and programmes to promote inclusive environments, including:

- Fair Pay policies.
- Working Family Support policies.
- Educational Events and Celebrations programming.

Employee Resource Groups include:

- Private Debt Manager Black Alliance: focusses on leadership, development, and recruitment of persons of colour, as well as giving back to the community.
- Private Debt Manager Network of Empowered Women: focusses on expanding the representation and skills of female professionals at every level.
- Out at Private Debt Manager: promotes an inclusive, respectful, and diverse workplace environment that empowers LGBT+ employees and their families.

Firm Make-Up:

- Private Debt Manager provided make-up statistics for the Board of Directors and wider firm team and highlighted that it was actively seeking to add one additional diverse candidate to the board.

ENGAGEMENT CASE STUDY

North American Credit Manager (NAC)

NAC are an emerging distressed and event-driven manager investing in liquid credit and equity opportunities.

ESG Engagement Areas:

1) Due Diligence, Investment Decision-making & Portfolio Management;
2) Climate Change

Engagement Summary and Outcomes: We classified NAC as Yet to Integrate following its 2021 and 2022 survey responses as there were no signs that financially material factors were integrated into NAC's investment decision making. Whilst the survey response provided by NAC in 2023 did allude to a slightly more thoughtful approach to ESG in investment decision making, the manager did not explicitly state how and to what extent ESG risks factored into each investment decision. As part of our four-step engagement framework, we initiated engagement with NAC in 2023, outlining our expectations regarding ESG integration in the distressed credit space. This included making sure that financially material factors are embedded in investment memos and systematically defining the materiality of these factors. During our engagement with NAC in September 2023, the manager highlighted that they view ESG risks as akin to other traditional financial risks and that it was considering them in investment decision making if deemed relevant however they were not explicitly assessing the materiality of these factors. After encouragement, the manager shared specific examples of investment memos and case studies in order for us to verify how ESG considerations were being integrated. Though we recognised this as a step in the right direction for NAC, we also encouraged the manager to implement an ESG materiality framework to more systematically inform their investment decisions.

The case studies provided and the positive sentiment from the engagement itself, as well as the manager's willingness to engage further and improve its integration practices, gave us sufficient confidence to upgrade their classification to ESG Initiated. While the engagement is still in its early stages, areas for further improvement in their ESG practices have already been identified.

Engagement Areas for 2024:

1) Introduce and adopt a formal materiality framework to better identify strategy-relevant ESG risks and opportunities.

2) Onboard external ESG data vendor to support ESG integration efforts.

3) Assist NAC in measuring and offsetting their operational carbon footprint to help reduce the firm's environmental impact.

6.

Appendix

Partners Capital Sustainable Investing Affiliations

As part of our advocacy work, Partners Capital is a signatory to the UN PRI, publicly demonstrating our commitment to Responsible Investing. As a signatory, Partners Capital pledges to pursue the PRI's six principles for responsible investment. Additionally, Partners Capital actively engages in the IIGCC, furthering our commitment to examine the impact of climate change on investments and to collaborate with like-minded investors on environmental impact.

We also worked again with Carbon Footprint Ltd, a UK-based environmental consultancy, to calculate and offset the operational carbon emissions for Partners Capital for 2022. The project covered direct emissions associated with our operations, i.e., heating, electricity, and travel (also known as Scope 1 and 2 emissions), and the indirect emissions from staff commuting and our purchased goods and services (i.e., emissions associated with electrical equipment purchases or legal advice, also known as Upstream Scope 3 emissions).

PRI Principles for Responsible Investment

IIGCC The Institutional Investors Group on Climate Change

Carbon Neutral Organisation

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Global Head of Sustainable Investing, Managing Director

Global Sustainable Investing Team

Vasishta Dasari
Principal

Private Equity / Impact Focus

Rachel Goldstein
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Co-Investments / DEI Focus

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Client CIO / Sustainable Investing

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