Partners Capital

Sustainable Investing Report 2022

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Partners Capital
at a glance

Founded in 2001

Established with an ethos of independence, with our economics tied to client performance

Partners Capital Risk-Managed Endowment Approach (PRMEA)

Evolved investment approach based on our accumulated learning over 20+ years in portfolio construction and manager selection

314 Employees, 146 Investment Professionals

We recruit investment professionals from some of the most highly respected firms in the belief that it takes one to know one

$45B

AUM[2]

Sufficient size that allows us to structure bespoke partnerships with specialist managers who have the highest potential to outperform

7 Locations

One office with seven locations

58/42

rough split across institutional and private clients

Our blend of sophisticated individual and institutional clients are a source of ideas, challenge and thought leadership

Note:
2. As at 30 September 2022

2022 Sustainable Investing Highlights

Sustainable Investing Team

Hired a new Global Head of Sustainable Investing, Dr. Michael Viehs, in June 2022. He and the team are responsible for defining Partners Capital's Sustainable Investing strategy.

2022 Manager Survey

We further refined our survey in 2022, leaning on industry best practice and learnings from 2021. Our 2022 survey was sent to 155 managers and has an enhanced focus on manager engagement with investee companies.

Sustainable Investing Policy

We published our refreshed firmwide approach to Sustainable Investing, which can also be found in this report.

Partners Capital 15 degrees Fund Launch

In July 2022, we closed our inaugural private equity environmental impact fund 15 degrees, raising $143M of client commitments.

Climate Change and Carbon Footprint

In 2022, we became operationally carbon neutral as a firm.[3]

Thematic Deep-dive

In 2022, we published our Energy Transition Investment Framework and co-hosted an energy transition expert workshop entitled "Bringing the Energy Transition Down to Earth".

Manager Engagements

We stepped up our engagement efforts and pushed for improved ESG and DEI practices. In the case of three private equity managers, we made improvements to DEI practices and policies a condition of our commitments to their funds.

Diversity, Equity and Inclusion (DEI)

We have continued to invest in our key DEI initiative. We are a founding member of 10,000 Black Interns and partner with Girls Who Invest, Teach First and Seizing Every Opportunity.

Note:
3. Based on calculated 2021 carbon emissions. Further detail available in our Firm Update section.

Contents

I. Leadership Statement

While macroeconomic and geopolitical events have proved challenging for the entire investment industry over the last 12 months, the Sustainable Investing industry has faced particularly severe scrutiny. As a result of the war in Ukraine, major European nations were forced to trade off the need for secure energy supply with the associated environmental impact and, understandably, opted for energy security. The economic backdrop of geopolitical conflict, rising energy prices, rising inflation and the dramatic increase in interest rates proved a particularly difficult environment for "ESG" (Environmental, Social and Governance) labelled investment funds. These funds were typically underweight defence and fossil fuel companies and overweight companies within the technology and clean energy sectors who entered the year trading at elevated earnings multiples which suffered significant de-ratings as interest rates surged. Against this backdrop, many previously raised but seemingly unresolved questions about ESG have come to the fore: Is the conflation of concepts under the moniker of "ESG" too broad to be practically useful? Does ESG Investing result in tangible impact for the environment and society? Does it improve performance? Do data quality issues make the implementation of ESG strategies practically impossible? These questions have created a growing backlash against ESG Investing with some investors divesting from asset managers who have been particularly vocal about ESG. At Partners Capital, we welcome this important debate as we expect it will sharpen definitions, re-focus attention on data failings and pressure investors to better articulate the rationale for Sustainable Investing strategies. Our thematic paper in this report, "*ESG at Critical Crossroads*", summarises the ongoing key topics of debate about ESG and Partners Capital's view on those key questions.

Definitions for ESG, Responsible Investing, Impact Investing and Sustainable Investing collide and are inconsistent. Investment industry bodies like the United Nations-supported Principles for Responsible Investment (PRI) have attempted to narrow such definitions so that all investors can have a common language. We provide what we believe to be the simple and most generally accepted definitions in the appendix, despite there being no one generally accepted set of definitions.

We do not want a lack of precise definitions around ESG to distract us from our ultimate goal of investing sustainably over the long-term. Accordingly, we have adopted "Sustainable Investing" as our umbrella phrase which incorporates the two distinct concepts of ESG integration and Impact Investing.

The first plank of "Sustainable Investing" is the integration of financially material ESG risks and considerations into investment decision making. We believe that this will, when supplemented with traditional financial analysis, help us make better long-term investment decisions for our clients. Ultimately, ESG should help investors conduct a more comprehensive assessment of an investment. If ESG integration becomes as mainstream and accepted as we expect, it will disappear from the lexicon to be subsumed within just "investing".

A robust approach should go beyond the integration of merely quantitative ESG scores from third party data vendors. Lumping ESG metrics together into aggregate scores on companies, industries or investment portfolios is dangerously misleading to the users of such metrics. Despite the massive and well-intentioned efforts of third-party data vendors, aggregate ESG scores require factor weightings that are inevitably arbitrary. As such, quantitative ESG data should only be seen as a starting point for the fundamental, qualitative analysis of material ESG factors. The best asset managers carefully apply analytical and qualitative lenses in assessing the impact of financially material ESG risks on the value of investee companies and assets. Additionally, the best asset managers embed a framework for assessing diversity, equity and inclusion at the company leadership level and within its employment ranks.

The second plank of our Sustainable Investing strategy is *Impact Investing* which is focused on the intentional generation of positive, measurable change for society and the environment, whilst generating competitive financial returns. We seek to focus on sourcing impact investments within the energy transition, healthcare, and education sectors where we believe the best opportunities lie in generating *impact + returns*.

Progress in 2022

In 2022, we made tangible progress towards advancing our goal of investing sustainably.

1. We updated our Sustainable Investing Policy which outlines the five key pillars that support our strategy: assessment, engagement, capital deployment, exclusions, and social responsibility.

2. As a global outsourced investment office, we use our position in the industry to engage with a multitude of different asset managers across different asset classes to

promote best practice approaches. One means to assess and engage with those third-party managers with whom we invest is our annual Asset Manager ESG Integration Survey. We sent this Survey to more than 150 asset managers, receiving 93 responses to date, and obtained meaningful information about their Sustainable Investing approaches which we use to categorise each manager according to their effectiveness in integrating ESG factors into their investment decision making. We are pleased to share the high-level results of our latest survey in this report, along with case studies of specific engagements with managers which have resulted in tangible changes to their processes.

3. In July 2022, we held a final closing of our inaugural private equity environmental impact fund *15 degrees*, raising $143M of client commitments. The fund will invest through a selection of specialist private equity fund managers and in direct co-investments alongside specialist private equity managers in a set of environmental sustainability sectors, including subsectors most critical to unlocking the full potential of the energy transition. The opportunity set for the fund spans renewable energy generation and storage, electrification of transportation and mobility, decarbonisation of industrial processes and management, food and agriculture, smart buildings, water, waste, plastic and recycling and the circular economy.

Outlook into 2023 and beyond

In 2023, we will further refine our approach to Sustainable Investing. The five priorities for the next 12-18 months are:

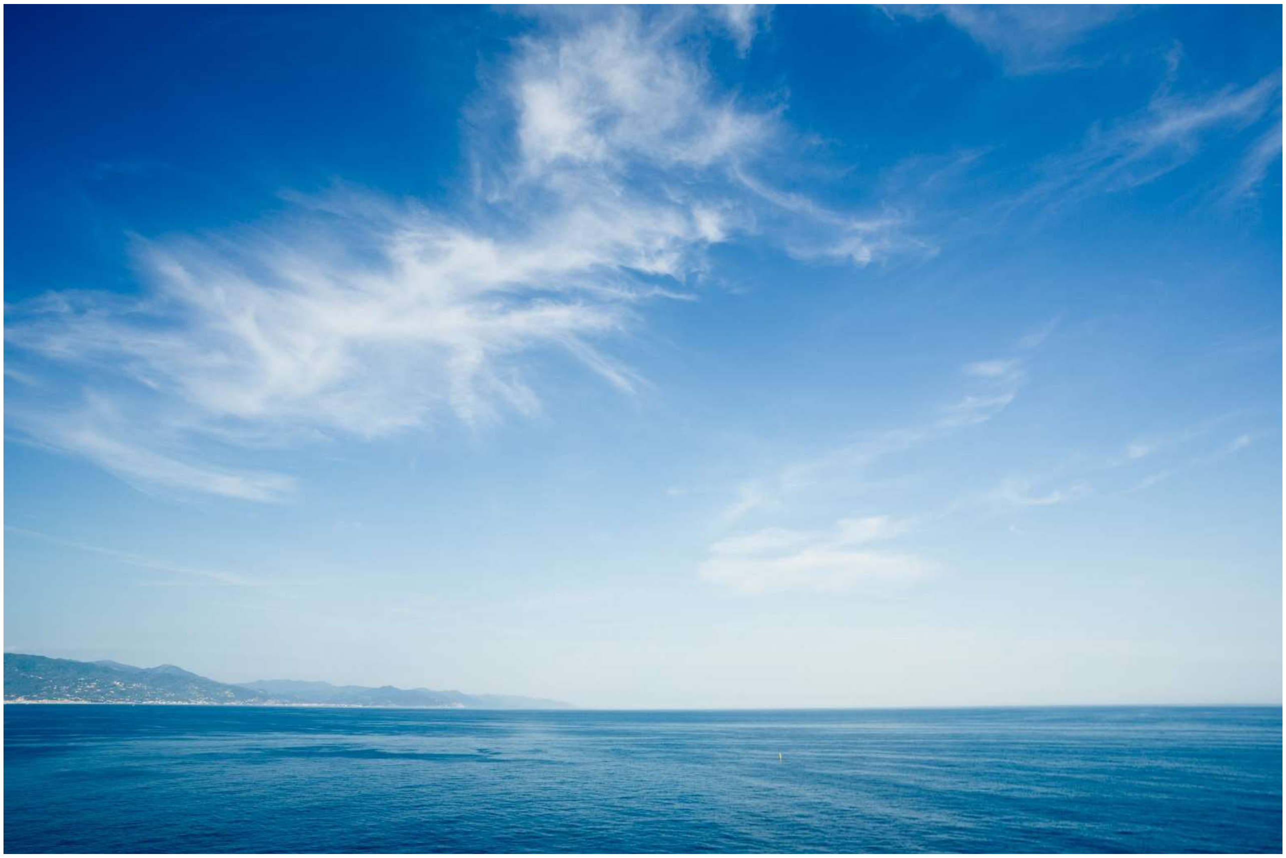
1. Designing and implementing a more systematic approach to engagement with asset managers, including processes to measure progress and document engagement themes;
2. Updating our annual Asset Manager ESG Integration Survey to reflect our evolving understanding of what integration means;
3. Finding and accessing managers with exceptional ability to integrate financially material ESG information into their fundamental research process, who have the greatest insights into the energy transition, and who are truly impactful investors;
4. Continuing engagement with like-minded investors through collaborative initiatives such as the United Nations-supported PRI and the Institutional Investors Group on Climate Change (IIGCC);
5. Supporting our clients in the design of their own Sustainable Investing Policies, based on our experience and knowledge about best practice ESG integration.

Success in driving these priorities will result in institutionalisation of our Sustainable Investing capabilities and help pass on more of our Sustainable Investing insights to our clients. We are determined to keep moving our Sustainable Investing approach forward and believe that doing so will help us to deliver the most competitive and sustainable risk-adjusted returns to our clients.

Arjun Raghavan
Chief Executive Officer

Dr Michael Viehs
Global Head of Sustainable Investing

December 2022



II. Partners Capital Approach to Sustainable Investing

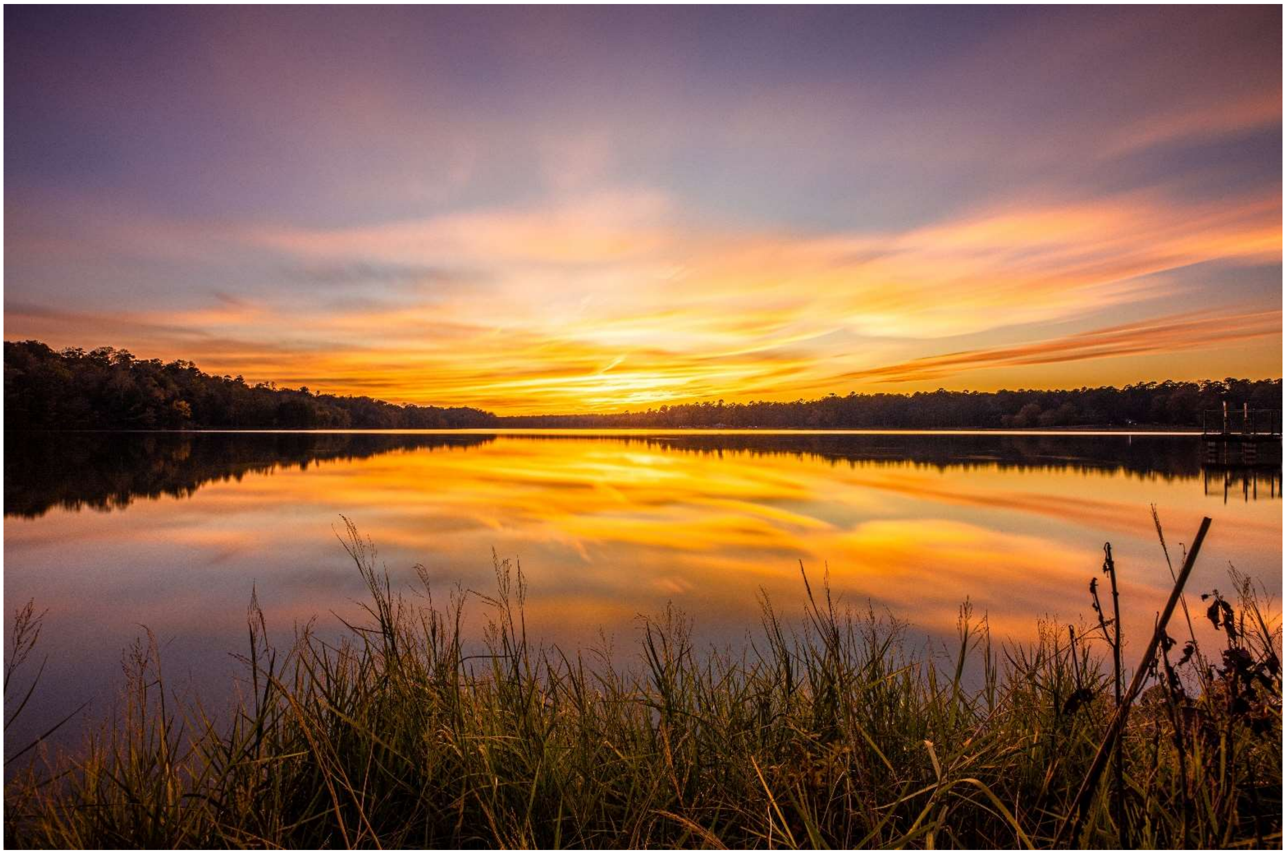
Our updated Sustainable Investment Policy includes a broader five-pillar, principles-based framework for Sustainable Investing. Those pillars are:

1. Assessment: We assess the ESG integration and stewardship approaches of the third-party asset managers with whom we invest through our due diligence, ongoing communications and monitoring which is augmented by our annual Asset Manager ESG Integration Survey.
2. Engagement: We seek to constructively engage with the third-party asset managers with whom we invest to ensure they are deploying best practice integration and stewardship approaches.
3. Capital Allocation: We seek to generate additional returns and impact by allocating capital to those asset managers who have gained investment insights through integrating material ESG

considerations and through allocating to companies and sectors who are contributing to and benefiting from sustainability trends.

4. Exclusions: We prefer engagement over blanket exclusionary approaches, and therefore we only deploy a minimal firm-wide exclusions policy.
5. Advocacy and Social Responsibility: We collaborate with our clients, asset managers and leading capital owning institutions to support the acceptance and implementation of Sustainable Investing practices across the financial services industry.

We believe that these five pillars help us to deliver impact as a business by: contributing to long-term financial outperformance for our clients, encouraging adoption of best practice ESG integration in financial markets through our engagement with those third-party managers with whom we invest and through the allocation of capital to those companies and sectors contributing to sustainability trends. The updated Partners Capital Sustainable Investing Policy, which further explains these five pillars, can be found in Appendix 2.



III. ESG at Critical Crossroads: Navigating the path forward

We believe that Sustainable Investing is at an important juncture with several often asked but hitherto not adequately resolved questions that need to be addressed. We summarise what these key questions are, along with our views to each.

What has driven the recent rise of ESG?

The Paris Agreement on climate change and the adoption of the United Nations Sustainable Development Goals (UN SDGs) in 2015, represented an inflection point for the investment industry. Since then, the rate of adoption of Sustainable Investing in its various guises amongst institutional investors has been more significant than any other investment theme or trend.

The interest from investors in Sustainable Investing and ESG accelerated most noticeably in the first half of 2020, when the Covid pandemic hit. Never was there greater demand for Sustainable Investing products. The "S" of ESG experienced its awakening: Investors and society realised that Sustainable Investing was not only about the environment or climate change, but that there were also important social considerations at play. Health and safety for workers and employee wellbeing became top of the investor agenda as the pandemic started impacting all major economies around the world. Diversity, equity and inclusion for all genders and ethnic groups in corporate ownership, leadership and overall employment has become of paramount importance in the board room. This momentum in the adoption of Sustainable Investing resulted in significant fund flows in both actively and passively managed ESG strategies.

The expansion of the industry is evident in a whole host of data points, including the growth of the PRI, with signatory AUM reaching c. $121T today, which compares to c. $60T in 2015. Between 2005 and 2018, less than 1% of company earnings calls mentioned ESG. This rose to c. 5% of earnings calls in 2020, driven by the impact of the pandemic. However, by the end of 2021, this had risen to c. 20% of companies mentioning ESG in their company earnings calls[4].

For the benefit of some of our readers, given ESG is a relatively new concept, we include here a brief description of its history. Rather than a single moment in time, ESG was born out of actions and events over several decades that evolved into our modern understanding of it today (Exhibit 1). What started as certain investors excluding "sinful" companies from investment portfolios due to religious beliefs and certain values, developed, transitioned and expanded, before becoming a mainstream concept in the 2010s. Since then, we have seen game changing initiatives including the Paris Agreement on climate change and the adoption of the UN SDGs in 2015, along with ESG considerations even being implemented into regulation on a mandatory basis in some jurisdictions.

[4] https://www.pimco.co.uk/en-gb/insights/economic-and-market-commentary/global-markets/asset-allocation-outlook/mid-cycle-investing-time-to-get-selective/?r=Institutional%20Investor&l=United%20Kingdom&s=true&lang=en-gb

Exhibit 1: Evolution of ESG over time

Date	Event	Commentary
1977	**Sullivan Principles developed**	Principles aim to promote corporate social responsibility and to apply economic pressure in South Africa in response to the apartheid system of racial segregation
1990	**First ESG Index Fund**	Domini Social Index (now MSCI LD 400 Social Index) became the first capitalization-weighted index built to track sustainable investments
1997	**Kyoto Protocol**	192 countries pledged to limit and reduce greenhouse gas (GHG) emissions in accordance with agreed individual targets
2000	**Key initiatives launched**	**Carbon Disclosure Project (CDP)** founded **Global Reporting Initiative (GRI)** launched **United National Global Compact** founded
2001	**Institutional Investors Group on Climate Change (IIGCC) founded**	To support and enable investors to move towards net-zero by 2030, with currently 375+ members representing €51 trillion AUM
2006	**UN Principles for Responsible Investment (PRI) launched**	Currently has over 5,000 signatories, representing total assets of $121T
2011	**Sustainability Accounting Standards Board (SASB) founded**	Standardised sustainability accounting and measurements across 77 industries
2014	**Montreal Pledge launched**	Inviting investors to commit to measuring and disclosing the carbon footprint of their investment portfolios
2015	**Major agreements and frameworks designed**	**UN Sustainable Development Goals (SDGs)** adopted **Paris Agreement** adopted by 196 countries **Taskforce on Climate-Related Financial Disclosures (TCFD)** created
2020	**Global COVID-19 pandemic**	Accelerates green and social bond issuance and value proposition of ESG funds, **European Union Taxonomy** for sustainable activities published.
2021	**Sustainable Finance Disclosure Regulations (SFDR) launched**	European Union introduces regulation to improve transparency around sustainability claims of financial products

What explains the recent backlash against ESG?

The sentiment around ESG was beginning to turn in 2021, when a number of high-profile critiques of Sustainable Investing began to surface, with a general feeling that the pendulum had swung too far and too rapidly. The likes of Tariq Fancy, former Chief Investment Officer of Sustainable Investing at Blackrock, garnered much attention when he criticised the asset management industry's approach to Sustainable Investing and questioned whether ESG labelled products actually deliver what they promise.

The growing chorus of scepticism around ESG continued, compounded by the Russian invasion of Ukraine in early 2022, the resulting energy crisis, and with Stuart Kirk, the former Head of Responsible Investing at HSBC Asset Management, questioning the impact of climate change on the investment industry and highlighting inconsistencies within the concept of "ESG". The Russian invasion of Ukraine has forced investors to grapple with environmental and social issues that are more obviously in conflict with each other. It has raised questions on the prevailing views of energy security, of defence and national security and to some degree, of sovereign risk. It also seems to have further polarised a debate that had become highly politicised.

The focus on energy security within national borders has become a strategic bipartisan mission for most nation states today. This appears to be slowing the rate of fossil fuel divestment by institutional investors. In addition to energy security, it has also become clearer that the clean energy economy is dependent on parts of the energy economy that are not entirely clean yet – at least in the early years of the transition ahead. Fossil fuels, through steel and other raw materials, are key inputs to wind turbines, solar panels, batteries, electric vehicles, heat pumps, and transmission infrastructure – all of which will support the energy transition.

The fossil fuel sector has been one of the strongest performing sectors in 2022 (returning c.69% to November[5]), and when absent from many portfolios, exacerbated the already significant losses which many portfolios have experienced in 2022 to date. This has occurred at a time of relatively poor performance of the "sustainable" funds sector at large – due to a combination of an underweight to energy companies in many ESG labelled portfolios and a general propensity to have an overweight to highly valued companies in, for example in technology and clean energy sectors. This led some to question the degree to which their past impressive track records were driven by a growth bias.

In the US, the backlash against ESG includes many of the Republican-leaning and oil producing states who have started divesting from asset managers because of their ESG policies: Louisiana, Arkansas, Utah and West Virginia have all made very public divestments from Blackrock in reaction to its ESG policies, in what appears to be highly politicised decisions. Florida has passed legislation to prevent ESG being considered by government related entities.

Where has this left us and what are the key questions today?

Some of the criticism since summer 2021 has been valid, with fair questions raised as to what ESG Investing means and whether it can fulfil the dual expectations of improving financial returns and having tangible impact on the environment and society. But there have also been a substantial number of false claims, misunderstandings, and misconceptions, primarily because there is no single universally accepted definition of ESG, Sustainable Investing, or sustainability more broadly.

Taking to one side the more politically driven commentary, much of the criticism is not new: generally focusing on 1) the number of concepts that have been collated under the heading of ESG, lacking clarity; 2) poor quality data provision from companies with sustainability rating providers using that poor quality data, providing metrics with what appears to be a great deal of subjectivity; and 3) perhaps most damningly, the lack of evidence that ESG Investing helps create better investment performance.

In our opinion, it is valuable that this debate is taking place – and maybe long overdue. It seems to us that Sustainable Investing is at an important crossroads with several long running questions and inconsistencies that need to be addressed. In this article, we provide our view of these issues and clarify

[5] As measured by the total return of the Dow Jones U.S. Oil & Gas Index between 1 January 2022 and 30 November 2022.

some of the misconceptions and expectations surrounding ESG Investing. For us, the key issues, with our summary views, are:

1. Evolving terminology and focus: How to define 'Sustainable Investing'? Much of Sustainable Investing has been subsumed under one heading "ESG" but we think there are two fundamentally different, but not mutually exclusive, concepts to Sustainable Investing: 1) ESG integration and 2) Impact Investing. They need to be assessed and judged separately. Much of the confusion about Sustainable Investing stems from the conflation of these concepts.

2. Exclusions vs engagement, where do we stand? Blanket exclusions are not only practically challenging, but they are also unlikely to be effective, as 'excluded' companies are often part of the solution to global challenges – for example, the transition of fossil fuel companies is likely to be amongst the largest drivers of the global energy transition.

3. Does poor data quality make Sustainable Investing practically impossible? Reporting of relevant ESG and sustainability data by companies remains poor. This also affects the quality of ESG scores provided by third party data providers who are using the information reported by companies. Whilst in theory, the improving data quality – driven by international regulatory developments – should also improve ESG ratings, we suspect that the challenges of collating disparate input factors into a single score will continue to limit their effectiveness.

4. Are we on track to meet net zero goals globally? There has been positive momentum behind climate change and commitments to net zero goals since COP26, but progress to date has been minimal and we are not on track to meet the actual energy transition pathways that have been planned. The Russia-Ukraine war has put domestic energy security firmly on national policy agendas which may further hinder progress. The decoupling of China from the US and other global partners has elevated their needs for energy self-sufficiency that has seen them recommissioning coal powered plants and only committing to peak coal production targets by 2035.

Question 1: Evolving terminology and focus: How to define Sustainable Investing?

To fully understand the current issues associated with ESG Investing, we must take a step back and start with the basics. Let's start with the simple question: 'What is ESG?' In its most basic and overarching view, ESG refers to **e**nvironmental, **s**ocial and **g**overnance factors, which is then abbreviated as 'ESG'. The term, however, comprises more than just three loosely defined themes. ESG is more granular – there is a multitude of specific "sub-themes" underneath each of the environmental, social and governance concepts. We provide our Partners Capital list of the key ESG themes that are most often referenced (Exhibit 2). This list is by no means exhaustive, but it includes, in our view, the essential ESG issues that might be financially material to a company.

Exhibit 2: Partners Capital ESG investment themes

Environmental	Social	Governance
• Animal Welfare	• Community Relations	• Anti-Bribery and Corruption Policies
• Anti-Microbial Resistance	• Diversity	• Board Composition
• Biodiversity	• Employee Wellbeing	• Board Independence
• Climate Change	• Health and Safety	• CEO Duality
• Circular Economy	• Human Capital Management	• Executive Pay
• Deforestation	• Human Rights	• Ownership Structure
• Pollution	• Labor Standards	• Shareholder Rights
• Waste Management	• Responsible Marketing	• Voting Rights
• Water Management		

One problem that has fuelled the current debate is the lack of a globalized definition of the concept. The term ‘Sustainable Investing’ still goes by many names. Different concepts are still being used in an attempt to define Sustainable Investing interchangeably, for example Corporate Social Responsibility (CSR), Socially Responsible Investing (SRI), ESG Investing and Responsible Investing. Recent global events have rightly called into question the merits of ‘ESG Investing’, necessitating a new approach.

Unfortunately, much of Sustainable Investing has been subsumed under one heading “ESG” and it is important to unbundle the “inputs” from the “outputs”. The catch-all term often conflates 1) ESG integration – the integration of financially material information that may be environmental, social or governance-related in nature – an input to an investment process; with 2) the desire to invest in companies or assets that are benefitting from or contributing to long term sustainable megatrends, such as the energy transition – an output. These are two fundamentally different, although not mutually exclusive objectives, that need to be evaluated and reported on separately to have a constructive debate.

What does ESG integration mean? The PRI defines ESG integration as “the systematic and explicit inclusion of ESG issues in investment analysis and investment decisions[6].” In our view, ESG integration means that investors should analyse all financially material factors in the investment decision making process, including ESG factors. By this definition, ESG factors become fundamental investment factors, like any other financial indicators that are considered by investors when making investment decisions. From that perspective, ESG is “nothing special” as London Business School professor Alex Edmans put it in his latest paper on “The End of ESG”[7]. We believe that the integration of financially material ESG factors helps those third-party asset managers with whom we invest to assess a potential investment more comprehensively and therefore allows them to make better, more informed investment decisions.

[6] https://www.unpri.org/Uploads/i/m/n/maindefinitionstoprireportingframework_127272_949397.pdf
[7] https://papers.ssrn.com/sol3/Papers.cfm?abstract_id=4221990

There are three key noteworthy considerations with our definition:

1. The valuation of financially material ESG risks and opportunities is no different to traditional investing: investors should integrate all relevant factors (both ESG and traditional) into valuations to assess merits.

2. Similar to other valuation factors, different asset classes require different integration approaches to fit a portfolio manager's investment approach and philosophy.

3. Perhaps the most important word in this definition is the word "material" – as we will argue below, it is important for investors to focus on analysing only financially material ESG considerations that may affect an investment and hence its long-term profitability or risk profile, not simply the entire universe of potential ESG considerations.

Materiality is what matters. Although the list of ESG sub-themes we provided earlier (Exhibit 2) is comprehensive, it would be a false assumption that every company or investor would be exposed to all of these different sub-themes within their investments, across asset classes. We expect those third-party asset managers with whom we invest to assess and evaluate those material ESG factors that may influence the valuation of the underlying strategies and investments which they make. Multi-asset class investors, like us, should take a tailored approach to evaluating the asset managers with whom they invest and their integration of financially materially ESG factors, dependent on their particular investment strategies. A global macro investment manager predominantly trading interest rates and currencies, may be less suited to integrating ESG factors at the investment or strategy level, but would still be exposed to these themes at the firm level. Conversely, a long-only equities manager specialising in life sciences investments, may be exposed to a multitude of different ESG issues across the investment, strategy and firm levels.

Impact Investing. Beyond investing with managers who fully integrate investing into their thinking and processes, the second approach to Sustainable Investing is 'Impact Investing' or allocating capital to investments which are expected to have measurable impact on society or the environment. We believe that there are impact investments which will benefit from and contribute to the sustainability megatrend. It is our view that both the capital requirements to finance these transitions and the associated disruption will leave few industries unaffected. These investments can have a positive impact on the environment and society, whilst generating a competitive financial return.

Question 2. Exclusions vs engagement, where do we stand?

Exclusion refers to avoiding or divesting investments with certain companies, countries or sectors which are viewed as detrimental to society or the environment and/or where weak corporate governance is prevalent. Most investors have long embraced ethical investing principles that have had them excluding certain sectors and companies which have weak governance, negative social impact (e.g., employ child labour) or are particularly bad for the environment (e.g., thermal coal and tar sands businesses). The greatest controversy today centres around whether all fossil fuel businesses should be excluded from investment portfolios.

On the other hand, engagement refers to a policy of not excluding such investments but owning them to have the right to influence management to change or abandon the detrimental parts of their business. We believe there to be a sound case for both exclusion and engagement.

The case for exclusion is made firstly on moral grounds. Certain investors quite simply believe it to be immoral to own certain investments. Exclusion, when executed collectively across a large group of investors, may have the effect of both raising the cost of capital and getting the attention of management to change their mix of businesses or poor governance processes. The most compelling case for exclusion from our perspective is if we have evidence that markets are underestimating the risk of such assets. With so much uncertainty around the life of any oil and gas company's reserves, which could be 10 year or could be 50 years, how can you put a value on such companies? Clearly there should be a higher risk premium put on such companies just for the lack of certainty around the value of what may become stranded assets. A final argument in favour of exclusion is that engagement can be ineffectual. Institutional investors have to work through their asset managers and asset managers may have a different view on what to exclude. Also, asset managers may not have sufficient financial clout and engagement is an expensive labour intensive activity, especially where the asset managers are aiming to convince corporate management to take actions that may well decrease their near term profits and valuation.

The case for engagement is made best when asset managers do have sufficient financial clout either on their own or in concert with other asset managers and where there is a strong case for changes that improve the ESG aspects to the company's strategy and have the potential to increase the long-term value of the business. For example, one of our asset managers is working with a number of oil and gas businesses on increasing their investments in geothermal energy production and offshore wind. It is their belief that once this comprises a meaningful proportion of their revenues and profits, they could see a material re-rating of the business as a blend of fossil fuel and renewables ratings.

Moreover, in a complex global economy, there are few obvious, absolute "good" or "bad" investments. We believe, there is no such thing as a purely "green" or "ESG" investment. There may be sustainable investments even within so called "brown" industries. We are encouraging those third-party asset managers with whom we invest to find those investments, for example, within the fossil fuel sector that can help with the transition to a low-carbon economy. The clean energy transition is highly dependent on fossil fuels. Wind turbines, solar panels, electric vehicles, charging stations and lithium-ion batteries all require fossil fuel input to their core raw materials (like steel). As we limit fossil fuel investment, we raise the cost and slow the pace of the energy transition. Even the most ambitious forecasts on the energy transition highlight that fossil fuel will remain a significant source of energy at least out to 2035.

Accordingly, at Partners Capital, we prefer engagement over blanket exclusionary approaches. We recognize that divestment or exclusionary approaches are practically challenging when generally investing via third-party fund managers. Our primary approach is to work with our third-party managers to agree with them when it is practical for them to engage with company management on key ESG issues. This "engagement" starts in the due diligence process before we make any capital commitments to the manager, and as part of our ongoing relationship with the manager.

Question 3. Does poor data quality make Sustainable Investing practically impossible?

One of the most common criticisms levelled at ESG is that there is no consensus or consistency with ESG scores and ratings from third party data providers, such as MSCI, Sustainalytics or Moody's ESG (formerly Vigeo Eiris), to just name a few, making it difficult to integrate into investment decision making. The lack of consistency is demonstrated below in **Exhibit 3** which shows the low correlation of scores across ESG data providers.

Exhibit 3: Limited correlation between ESG Scores[8]

Additionally, impact reporting and aggregating a dollar impact of various ESG facets (e.g., lives saved), remains challenging. However, it is important to distinguish between poor ESG data reporting by companies (the reporting dimension) and ESG scores and ratings provided by third party vendors which utilise this ESG reporting data (assessment dimension). Reporting of ESG data by companies is likely to improve over time, with harmonisation of sustainability reporting standards that are likely to provide more comfort to investors and enable better investment decisions. The regulatory pressure on ESG reporting reflects the transition under way in Sustainable Investing, as greenwashing or general vagueness around ESG products are being improved by increased global scrutiny. While the development of international financial accounting standards took decades, we hope for much quicker progress for sustainability standards given the urgency shrouding climate change and other sustainability challenges. The importance and relevance of high-quality

[8] The magnitude of these correlations between the various ESG data providers are similar as compared to those documented in Serafeim and Yoon (2021) and Gibson, Krueger and Schmidt (2022).

sustainability-related information for optimal investment decisions has in our view begun to be placed on the same level as traditional financial accounting. For example at COP26, the IFRS Foundation, which is responsible for setting globally-accepted IFRS accounting standards, announced that it was creating the International Sustainability Standards Board (ISSB), consolidating the Climate Disclosure Standards Board (CDSB) and Value Reporting Foundation (VRF) in June 2022.

Although it is likely that the quality of ESG scores (the assessment dimension) will improve along with ESG data quality improvements, we currently believe that the concept of aggregating disparate concepts into a single score will often be of limited value. ESG will always require a qualitative dimension. Many commentators have argued that the standardisation of ratings will be the panacea for ensuring that ESG considerations become fully embedded into investment processes. But ESG measurement cannot be easily homogenised. When integrated properly into investment decisions, it is complex and subject to interpretation in a way that must be compatible with an asset manager's overall investment philosophy and process. Amid a basket of ratings, estimates, targets, and benchmarks, asset managers can often miss the very point of why they are measuring ESG risks and considerations in the first place: to ensure that their investments endure in the long run and any risks are priced in accurately.

Finally, inconsistencies between ESG ratings seem natural. The same way in which valuation is subjective, as is a company's pricing of ESG risks and opportunities. Differentiation and divergence between ratings triggers further discussion, requiring a qualitative assessment from an investor as to which material ESG factors impact an investment. We believe that this leads to better investment decision making, rather than using an ESG score indiscriminately without further thought.

Question 4: Are we on track to meet net zero goals globally?

If the world achieves net zero emissions, it becomes easy for all investors to achieve their net zero goals. It is our belief that it will be challenging to achieve net zero by 2050, but significant progress will be made by sovereign nations, corporations, and households. There are many obstacles to the world achieving net zero, which are illuminated in our whitepaper The Global Energy Transition Investment Framework.

The current emission pathways are still far above the levels required to avoid the worst effects of climate change[9]. It is important to place these net zero and broader emissions reduction efforts into context. It has been estimated that 76% of global emissions are now covered by country level net zero pledges[10]. However, whilst there are high emissions reduction coverage figures at the country level, many of these targets remain aspirational and are not backed by concrete policy.

At the company level, progress is slightly firmer. Over 3,000 businesses and financial institutions are working with the Science-Based Targets initiative ("SBTi") to set emissions reduction targets in line with climate science, which represents solid progress.[7] There are a number of financial services specific bodies that are focussed on net zero, such as the Glasgow Financial Alliance for Net Zero ("GFANZ"), Net Zero Asset Owners Alliance ("NZAOA") and the Net Zero Asset Managers initiative. Turning to an example of progress, members of the NZAOA have set interim targets for reducing their portfolio emissions. These

[9] https://iea.blob.core.windows.net/assets/c282400e-00b0-4edf-9a8e-6f2ca6536ec8/WorldEnergyOutlook2022.pdf
[10] https://www.un.org/en/climatechange/net-zero-coalition

targets range from 20% to 60% reduction in current emissions and are all due for implementation by the end of 2024 for compliance in 2025.[11]

Turning to our own clients, of our 100 largest clients, 15 have a net zero goal. Our attempts and our clients' attempts to detail plans have been complicated by the myriad potential transition pathways and, most notably, the issue of what exclusions they are willing to commit to in order to achieve net zero by any given date, including 2050.

As such, whilst the ambition of the NZAOA members is commendable, we expect that some of these emissions reduction targets will be realised through portfolios tilting away from "brown" polluting industries. We do not recommend this approach to our clients (with the exception of thermal coal) but, in theory, investors could take such portfolio 'tilting' much further to achieve their net zero ambitions. Approximately 85% of global emissions are generated through a specific cross section of investable sectors comprising power, industry, road transportation, construction, agriculture and food. This means that a relatively straightforward exclusions strategy could move portfolios towards net zero quickly.[12] We believe that this approach would deliver apparent emissions reduction in portfolios but would not have any particular impact on the transition to a lower carbon economy which comes from engagement or owning those companies which made the largest contribution to the energy transition. It is clear that net zero strategies will need to combine tilting towards green sectors with investments in transitioning companies and corresponding engagement with non-transitioning companies, as well as investments in new technology. In addition, portfolios will be quicker to achieve their look-through emissions targets by holding significant investments with negative carbon emissions (e.g., carbon offset sectors like forestry or energy transition enablers like undersea cables).

While investment industry bodies like the IIGCC are pushing for all institutional investors to set goals for zero carbon emissions from their investments by certain dates, only a small proportion have done so. We estimate that 13% of all pension and insurance companies (by assets) have committed to net zero goals and 21% of endowments (by assets) have such goals.[13]

Our conversations with clients on setting portfolio emissions targets almost always confronts the challenges of emission measurement which is complicated when it comes to technology and other companies with negative emissions. For example, how would an undersea electricity transmission cable manufacturer be credited with the scope 3 emissions impact it has on its renewable energy customers carbon footprint? Many of our clients are not comfortable committing to specific emissions targets when they expect measurement to be relatively meaningless.

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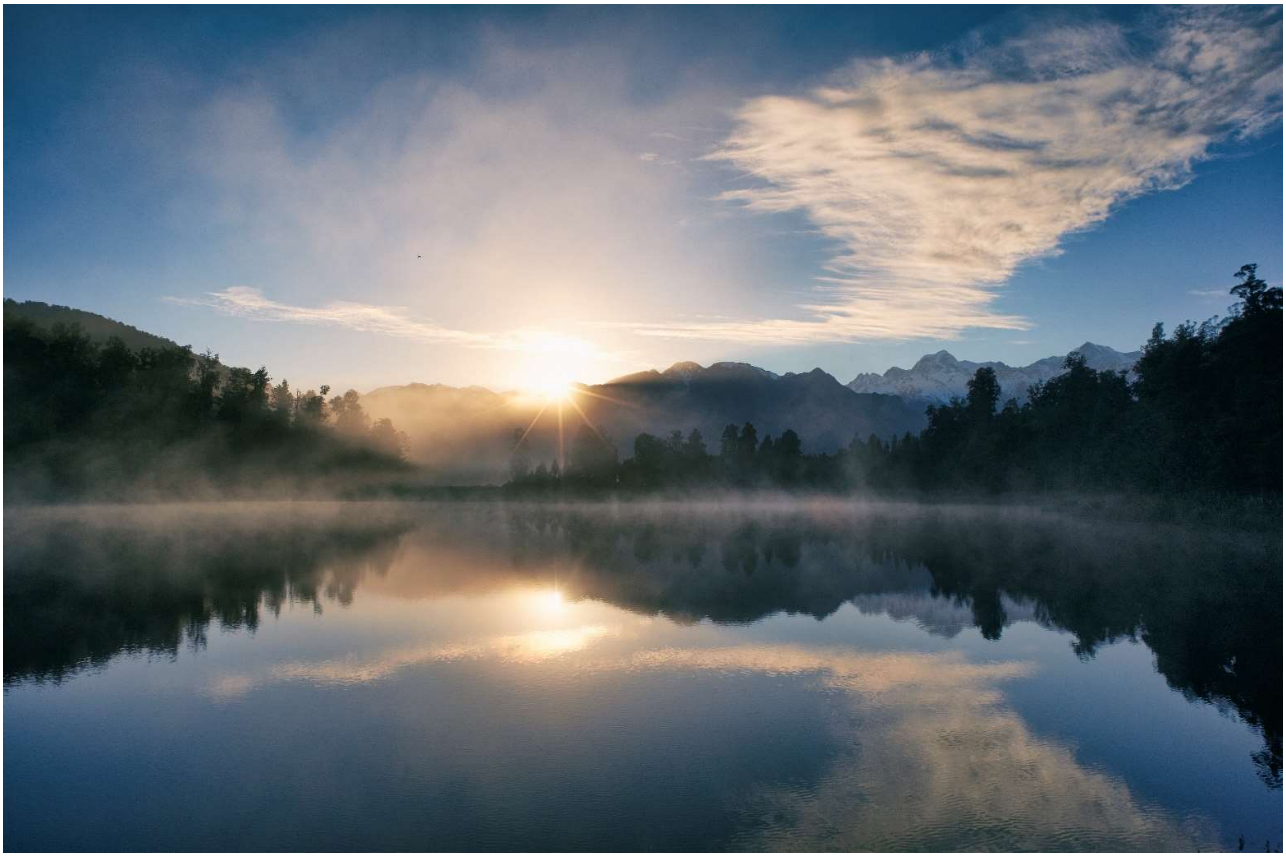
[11] https://www.unepfi.org/net-zero-alliance/resources/member-targets/

[12] https://www.mckinsey.com/capabilities/sustainability/our-insights/sectors-are-unevenly-exposed-in-the-net-zero-transition

[13] Calculated using 1.) the AUM from members of the Net Zero Asset Owner Alliance when compared to the OECD's calculation of global pension assets of $56T and global insurance AUM of $28T in 2021 (according to BlackRock), and 2.) all AUM of members of the Intentional Endowments initiative when compared to the total AUM across the top 100 global endowments (SWF Institute). Sources: https://www.unepfi.org/net-zero-alliance/alliance-members/; https://www.oecd.org/finance/private-pensions/globalpensionstatistics.htm; https://www.blackrock.com/institutions/en-zz/literature/annual-report/2022-global-insurance-report.pdf; https://www.intentionalendowments.org/net_zero_endowments; https://www.swfinstitute.org/fund-rankings/endowment.



IV. Capital Allocation

In 2022, we have continued to deploy assets into strategies focused on impactful sectors and companies. The percentage of any client's overall portfolio that is allocated to impactful sectors and also third-party asset managers with specific degrees of ESG integration is generally dictated by 1.) the clients' investment objectives and preferences for such investments and 2.) the availability of attractive Partners Capital approved asset managers across the ESG classifications used in our annual Asset Manager ESG Integration Survey.

The most prominent example of this has been our inaugural private equity environmental impact fund, Partners Capital 15 degrees Fund, LP., which held a final closing in July 2022 with $143 million in client commitments. The fund focuses on investments in pressing environmental challenges while also targeting private equity-like returns for investors. The fund has strong support from a variety of limited partners globally, including foundations, endowments, and family offices. The Fund will invest in private equity opportunities focusing on technological innovations and long-established businesses which are critical to the global energy transition. The private equity investment partnership will invest via a selection of specialist private equity fund managers and in direct co-investments alongside specialist private equity managers in a diversified set of environmental sustainability sectors and themes. These will include renewable energy generation & storage, electrification of transportation & mobility, decarbonisation of industrial processes & management, food & agriculture, smart buildings, water, waste, plastic and recycling and the circular economy. The Fund has made three fund investments thus far and one co-investment. We currently have a pipeline of three third party managers that are going through our due diligence process. The first case study below discusses the first co-investment with 15 degrees Fund, which is focused on the energy transition. For the sake of confidentiality, we have used fictious names for the third-party asset managers involved in this section.

Case Study #1:
Enterprise Software Capital (ESC)

In Q3 2022, the 15 degrees Fund committed to its first co-investment into a combination of two mission-critical renewables software providers which provide a suite of asset performance management, commercial asset management, work order, and analytics capabilities for the renewable energy market. The combined entity should be able to serve as a single-vendor solution in the market helping renewable asset owners, operators, and investors monitor asset performance, control energy output, and reduce costs. Continued build-out of renewables capacity is a core tenet of the global energy transition and the primary lever by which the power sector intends to decarbonise. The combined entity will have a scaled footprint across the US and Europe and provides the acquiror company clear synergies through access to customers earlier in their buying journey. Interestingly, this opportunity did not come from one of our decarbonisation or energy transition focused specialists, rather it was offered to us by a high conviction technology and enterprise software focused asset manager with whom we have made multiple fund investments and one prior co-investment. ESC's clear domain expertise in this area added to our thesis and conviction in the transaction.

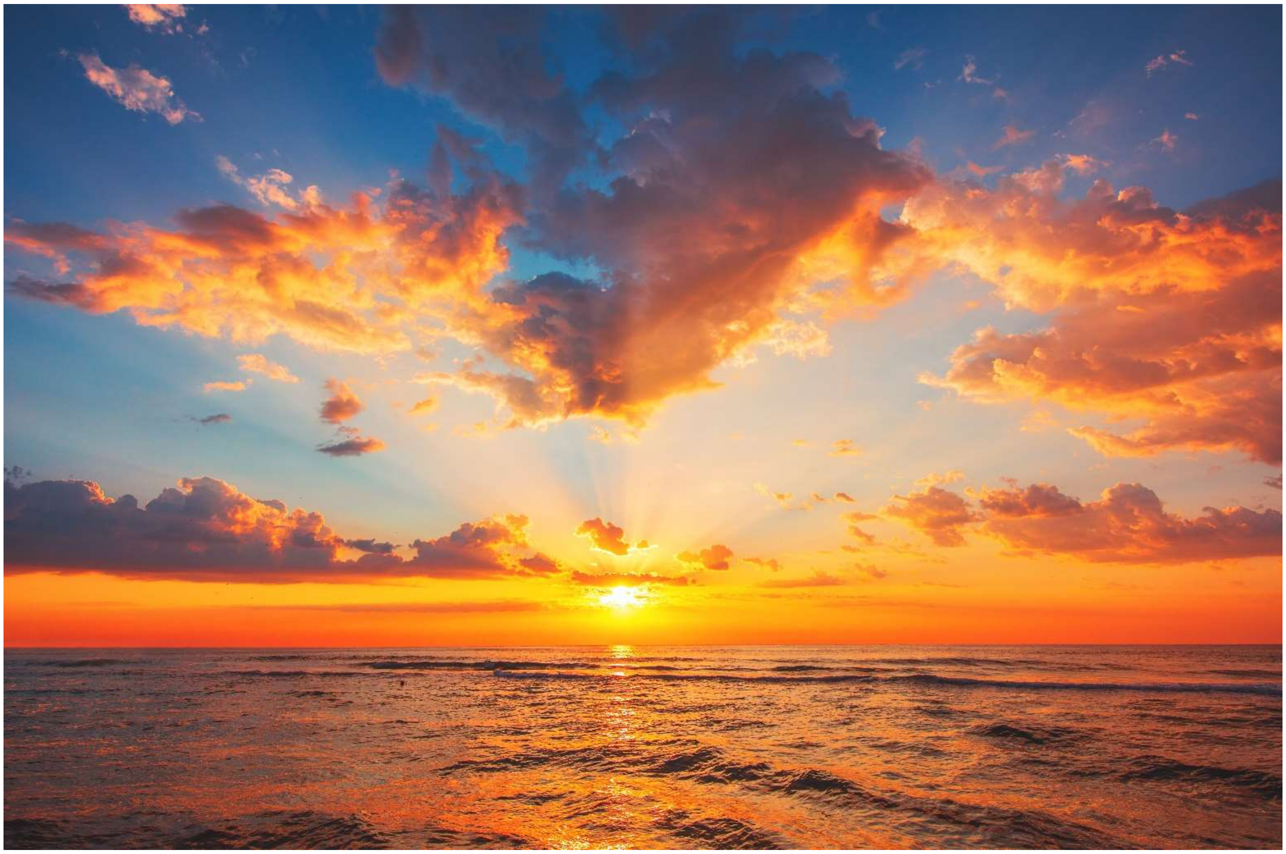
We have also deployed capital to impactful sectors and companies across our wider investment program, beyond the 15 degrees fund. We provide two such case studies below, one in the public equities space and one in the private debt space.

Case Study #2:
Transition Equity Investors (TEI)

TEI is a recently launched strategy led by a portfolio manager and team that have a successful track record of managing low-net equity strategies focused on the energy value chain. We believe long/short strategies, which benefit from high dispersion in this space, is the right method of accessing this theme in public markets. The team has successfully and slowly expanded outside of its traditional exploration and production mandate since 2012, initially into industrials and cyclicals and now into energy transition. The team will use their deep energy sector expertise to identify under the radar traditional energy businesses undergoing rapid transition, electrification businesses, and renewable energy companies.

Case Study #3:
Life Sciences Partners (LSP)

Within Private Debt, we recently committed $150M to LSP, a life science lending private debt strategy. LSP provides loans to middle market companies to help them scale, increase their market reach and, by doing so, improves health outcomes for patients. The fund is focussed on two areas: biopharma and devices and equipment. Within biopharma, loans aim to support innovative new drug development from specialist companies, particularly in oncology. The manager will aim to lend to companies developing in vitro diagnostics, new cardiology treatments, diagnostic imaging and genetics analysis. In addition to the impact lens, LSP uses an ESG check list in all of its deals which is used to review the impact of the companies they are lending to. This checklist reviews the addressable patient population of their debtors, and whether the technology, drug or service sold by the debtor is directly life-saving, directly life improving, or delivers indirect benefits. Indirect benefits are usually still additive to patient outcomes and comprise issues like reduced waiting times or ease of service.



V. Partners Capital Asset Manager ESG Integration Survey Results

Annual Asset Manager ESG Integration Survey

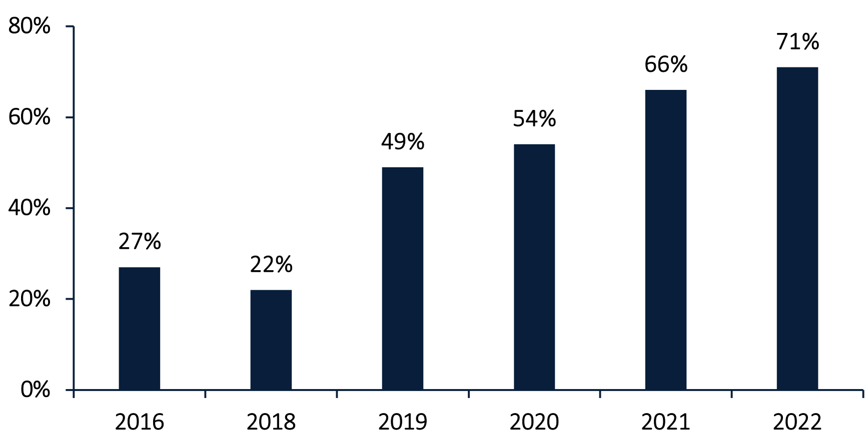
Our annual manager ESG integration survey has been running since 2016. The earliest version of our survey focused on assessing the basic elements of ESG integration, such as whether there was a firmwide ESG policy in place and whether the third-party manager had dedicated resources to support ESG integration efforts. Since then, we have made positive progress on the depth of questions asked and the scope of the survey. Starting in 2019, we have made the survey a much more comprehensive assessment of a manager's policies and processes, drawing from existing investment industry associations' ESG questionnaires including those from the PRI, Institutional Limited Partners Association (ILPA) and Alternative Investment Management Association (AIMA). In 2021, we shifted to asset class-specific surveys, allowing us to ask much more targeted questions around the sustainable investment levers unique to each asset class. We also increased the number of questions allowing for more granular delineation in manager assessments.

The scope of the survey meanwhile has also been trending positively. In 2016, the survey was conducted on a very targeted set of managers (33 in total), representing those held by a small group of our institutional clients. Starting in 2019, our aim each year has been to include a critical mass of our invested capital as part of the survey process. In 2022, the total survey universe comprises 155 managers (representing $35.2B of assets, or 77% of our AUM as at September 2022) and we have received and assessed responses from 93 managers to date (representing $23.7B of capital, or 52% of AUM). We expect to receive additional responses over the coming weeks, which will be assessed and added to our dataset as they are received. Some factors that partially explain why the number of managers surveyed each year has risen include i) commitments to new illiquid managers, and ii) implementation of our managed account platform.

Output from 2022 ESG Survey

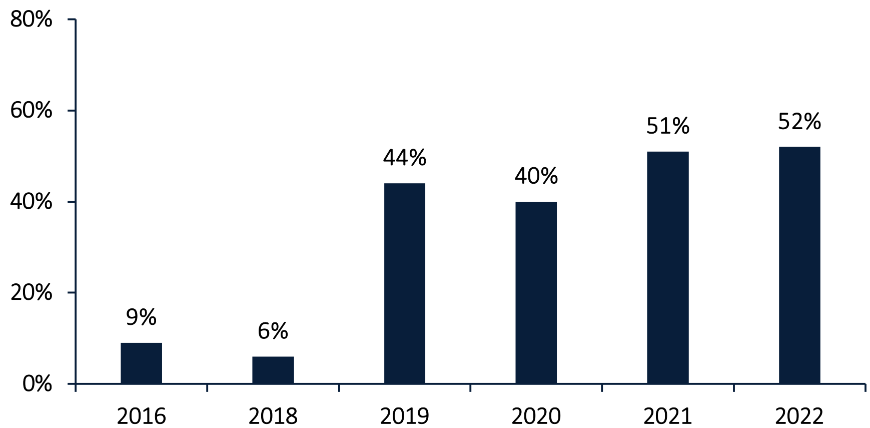
In the following section, we show how managers have progressed since 2016 in key areas such as the presence of an ESG policy, whether a manager has dedicated resources to support ESG integration efforts and what proportion of managers are signatories to normative codes, such as the PRI. The percentages shown here are as a proportion of the number of managers that were surveyed each year (i.e., not capital-weighted). Data for 2022 is based on the 93 responses received to date, and as such may change as we receive additional responses. Finally, we would highlight that while the universe has grown each year and the mix of managers in each year has clearly changed to some extent, in general we seek to build long-term relationships with our managers and many of our core relationships, where we have significant capital invested, have existed for several years and therefore a core subset of managers have been consistently surveyed across multiple years.

Exhibit 4: % of managers surveyed with an ESG policy



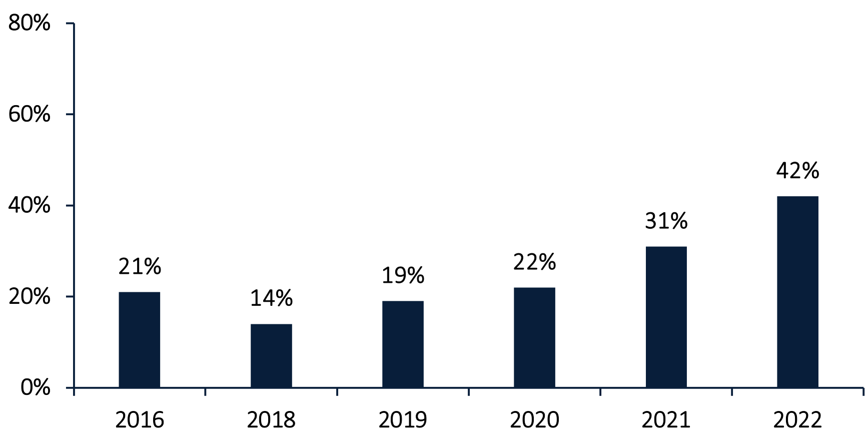
More than two-thirds of third-party asset managers surveyed in 2022 to date have a formal ESG policy in place, often the first step in integrating ESG factors into the investment process.

Exhibit 5: % of managers surveyed with dedicated ESG resources



The proportion of third-party asset managers devoting dedicated resources to ESG efforts has broadly been stable in recent years.

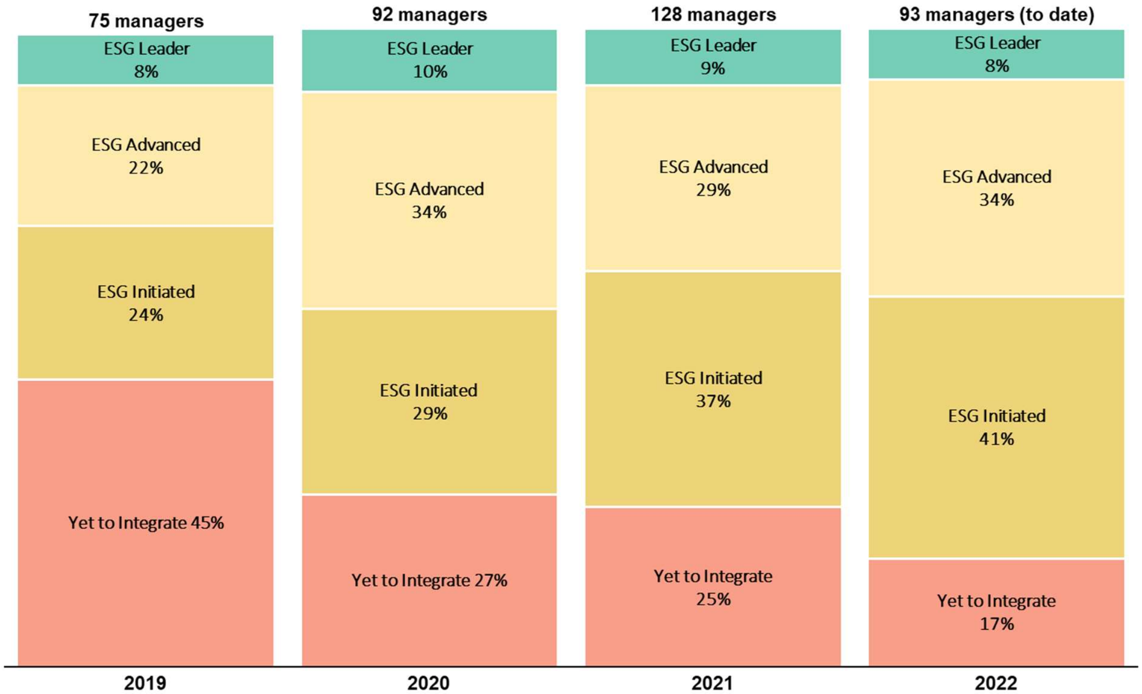
Exhibit 6: Signatories to Normative Codes.



The percentage of responding managers in 2022 signed up to normative codes, such as the Principles for Responsible Investment ("PRI"), has almost doubled since 2020.

In 2021, we amended the final output of the annual Asset Manager ESG Integration Survey from a numerical score, to four categories of ESG integration, namely: Yet to Integrate, ESG Initiated, ESG Advanced and ESG Leader. We believe this output allows us and our clients to monitor progress over the years on the extent to which managers are integrating ESG factors. This new scoring mechanism also specifies the minimum criteria that managers need to demonstrate to be considered "ESG Initiated". We have additional stretch criteria that third-party asset managers need to demonstrate to be considered "ESG Advanced". "ESG Leaders" are those third-party asset managers demonstrating truly innovative or differentiated ESG integration usually combined with extensive experience highlighting their depth of ESG factor knowledge and incorporation into investment decision-making processes. In 2019 and 2020, the survey resulted in a numerical score for each manager. We have retrospectively converted those scores into one of four categories described above using the magnitude of the score and our knowledge of the manager's approach.

Exhibit 7: Manager split into the Partners Capital ESG classifications



Based on the 2022 surveys received to date, our allocation to "Yet to Integrate" managers has fallen by around two thirds since 2019 (Exhibit 7)[14]. As a result, over 80% of those third-party asset managers (capital-weighted[15]) who responded to our survey so far in 2022, have at least a baseline level of ESG integration in their investment processes. This compares to 55% of surveyed third-party asset managers (capital-weighted) in 2019. Over 40% of our respondent third-party asset managers are either ESG Advanced or ESG Leaders which compares to 30% in 2019. The changes to the survey methodology mentioned previously had the effect of raising the threshold for being considered ESG Initiated and ESG Advanced from 2021 onwards. With this in mind, those third-party asset managers with whom we invest have made strong progress year-on-year in integrating ESG factors into their investment processes.

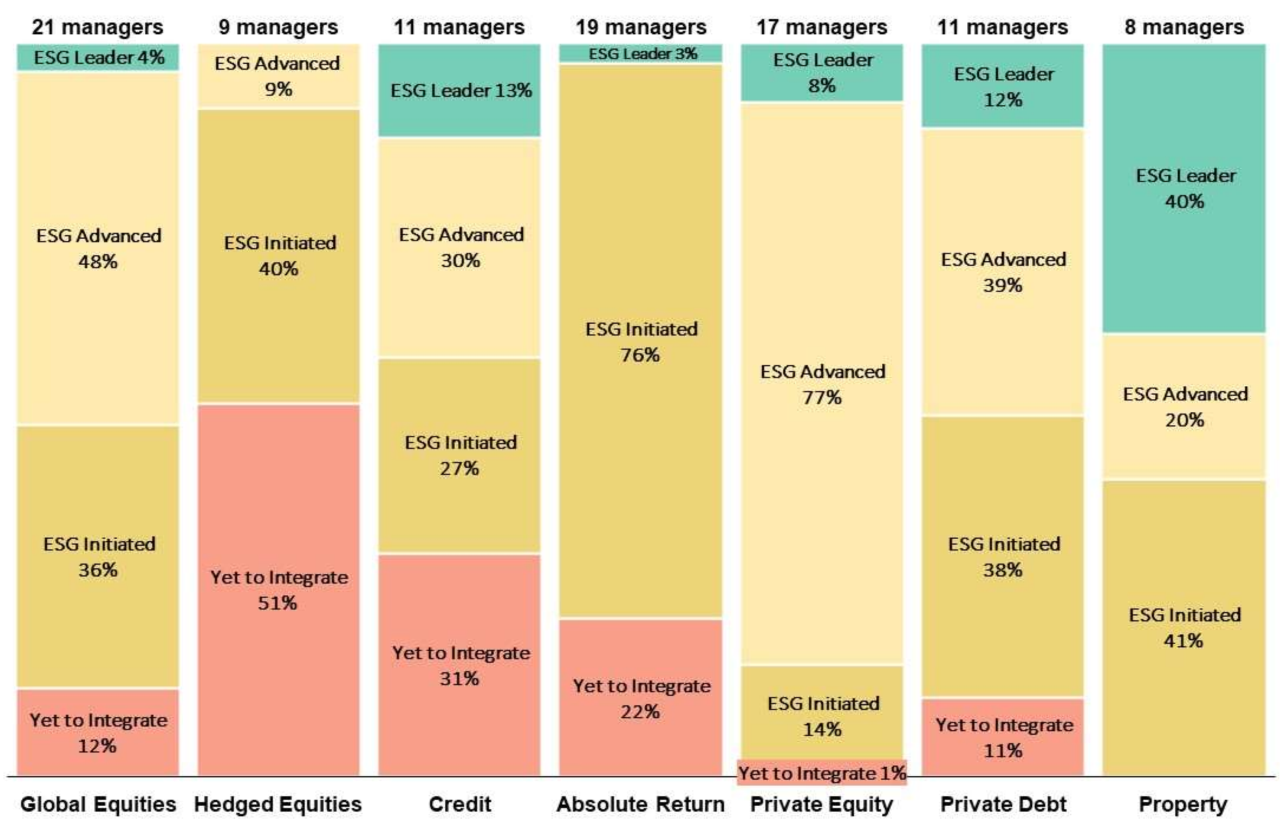
[14] Numbers may not add exactly to 100% due to rounding.
[15] Allocations are weighted by assets as at 30 September 2022. For liquid strategies we use assets invested and for illiquid strategies we use commitment amounts. In 2019 and 2020, the annual Asset Manager ESG Integration Survey resulted in a numerical score for each manager. Scores were retrospectively converted into one of four categories shown here using the magnitude of the score and our knowledge of the manager's approach.

2022 key observations by asset class

Focusing on the surveys received thus far in 2022, we would highlight the following key observations:

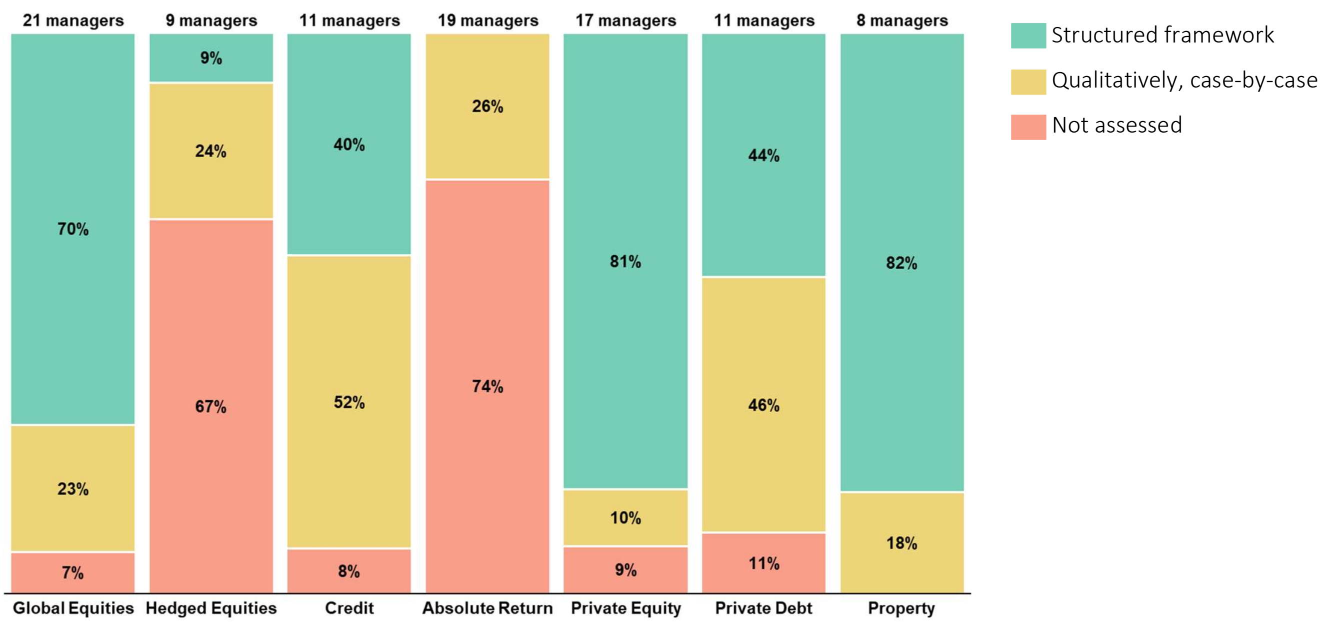
1. Larger third-party asset managers have more resources to devote to ESG integration. Our investment program tends to favour specialists over generalists, who oftentimes are smaller, boutique asset managers. This preference for specialists is particularly notable in the hedged equity asset class.
2. Within the Absolute Return asset class, in contrast to public equity, integrating ESG criteria when investing in assets such as sovereign bonds, currencies and derivative products has less relevance. Since 2021, we have utilised a tailored survey for assessing Absolute Return managers which focuses more on what is practical and relevant for such managers given their investment strategies would rarely create any ability to engage with corporate management teams.
3. The Private Equity industry was an early adopter of Sustainable Investing practices due to a combination of the nature of their investor base universe, their ability to facilitate change given the governance and ownership model which prevails in this sector and a realisation that earnings can be improved through operational improvements in areas under the broad heading of ESG.
4. Property is an asset class in which the physical risks of climate change are particularly acute and therefore assessing and managing these risks is material to financial returns. All respondent asset managers have at least a baseline level of ESG integration.

Exhibit 8: Manager split into the Partners Capital ESG classifications, per asset class



A critical step to integrate ESG considerations into the investment process of any manager in any asset class, in our view, is having a framework in place for identifying which factors are material to the company or investment in question. On this front, those third-party private markets managers with whom we invest perform very well. Across all asset classes, we find that 33% of third-party asset managers surveyed in 2022 so far assess materiality qualitatively and on a case-by-case basis. A further 39% utilise a structured framework, one that is proprietary or relying on a third-party framework (such as the Materiality Map developed by the Sustainability Accounting Standards Board (SASB)), which we generally view as being a more consistent and repeatable method of assessing materiality. Exhibit 9 shows those results by the different asset classes.

Exhibit 9: Approaches to assessing materiality



Climate considerations have risen to the top of the ESG agenda in recent years, driven by the growing urgency for the world to rapidly curb emissions in a bid to avoid the worst effects of climate change. In this year's survey, we also asked specifically how the third-party asset managers assess climate considerations for their investment strategy. For those third-party asset managers with whom we invest where climate is relevant to the strategy and where there is an approach in place, managers are evenly split between doing so qualitatively and those with a structured framework in place (e.g. monitor emissions, focus on physical risk, etc.). Still, 26% of responding managers (capital weighted) are not at all assessing the investment strategy's exposure to climate change risks – a result that might be driven by the underlying sample of responding managers, i.e. there may be managers included where climate change considerations are per se less financially relevant to their underlying strategies.

VI. Engagement

Engagement on financially material ESG matters can happen on two levels. First, Partners Capital seeks to engage with the third-party asset managers with whom we invest on their own ESG integration approaches, and second, the third-party asset managers with whom we invest may engage directly with investee companies on material ESG considerations relevant to them and their underlying investment strategies.

When it comes to engagement with third-party asset managers, we believe that we are in a highly leveraged position. Many of the third-party asset managers with whom we invest manage many multiples of the assets that Partners Capital invests with them. So, if we can initiate positive change for real world outcomes in such asset managers' practices, then the effect is multiplied as it influences those managers' non-Partners Capital AUM as well.

Before we get to actual case studies on individual engagement, there is one example of engagement which crosses almost all of our asset managers. In April of 2022, we issued our 83-page white paper entitled "The Global Energy Transition Framework." This was a major research undertaking that was intending firstly to educate our Partners Capital research team on the global energy transition for the purpose of engaging with asset managers and in evaluating investment opportunities. This whitepaper sets out our view on the most likely course and pace of the energy transition which should inform any company's strategy for their own energy transition. The document was circulated with over 150 of our asset managers which evolved into discussions at multiple levels with many of them on the energy transition. The feedback on the usefulness of our research was beyond our expectations and discussions and debates carry on today around this research and these manager's own thinking on how their portfolio companies will be affected by the energy transition.

In addition and as previously mentioned, our annual Asset Manager ESG Integration Survey has proved to be an effective catalyst for engaging with those third-party asset managers with whom we invest over the years and transferring our learning to them. Below, we share two case studies of where our engagement with third-party asset managers on ESG integration has gone beyond the simple survey process and has resulted in tangible improvements by the relevant manager, followed by two case studies of where some of our third-party asset managers with whom we invest engage with their underlying investee companies. For the sake of confidentiality, we replaced the names of the asset managers with fictitious names.

Partners Capital engagement with Asset Managers

Case Study #1:

Global generalist public equities manager – International Research Group (IRG)

International Research Group (IRG) is a global generalist long/short and long-only public equities manager focusing primarily on North America and Western Europe. The manager started business in 1999 and today manages $37B.

Engagement Summary: Partners Capital have been engaging with IRG in the past to highlight that they were behind their public equities peers in terms of their ESG practices. Over the past year, we have had several interactions with this manager dedicated to ESG, sharing our views on industry best practice and the ways in which they could improve their approach.

Key outcomes:

1. In 2021, IRG hired a dedicated resource as Head of ESG who came from a specialist ESG analyst role in their previous investment job, bringing domain expertise across both traditional investment underwriting as well as ESG Investing.
2. Since then, IRG has made strong strides forward on their ESG integration practices, including: the establishment of a comprehensive ESG policy, building infrastructure to support the ESG effort such as training sessions and purchasing third-party ESG research, and making incremental changes to the process in areas such as proxy voting and engaging with portfolio companies on ESG issues. IRG's categorisation within our framework has improved from "Yet to Integrate" previously to "ESG Initiated" today.

In addition to individual manager engagements, we also think carefully about how to scale our engagement to impact a greater share of those third-party asset managers with whom we invest. We provide one example of how we are doing this below.

Case Study #2:
Negotiating side letters alongside illiquid private equity commitments

Engagement Summary: In 2022, as a pre-requisite for a commitment to a lower middle market buyout manager, we insisted on a legally binding side letter that the manager would formally adopt a DEI policy. This policy would cover both the diversity of the asset manager's investment team but also the diversity at the Board and Senior management levels of the underlying portfolio companies held by the manager's funds.

We have subsequently broadened this initiative through the creation of an ESG and DEI section within our private equity pooled vehicle side letter. Amongst other matters, the side letter seeks to improve ESG practices and promote more inclusive DEI practices within each of the private equity asset managers that Partners Capital invests with, as well as their related funds and portfolio companies.

Engagement of third-party asset managers with investee companies

Engagement of third-party asset managers with their investee companies on material ESG matters is not a new concept. Since our founding 20 years ago, we at Partners Capital have had an intellectual bias in favour of activist asset managers in both public and private equity investing. Though not the sole investment decision driver, we expect those third-party asset managers with whom we invest to initiate stewardship efforts with any given public (or private) company where they correctly observe that management teams are not doing all that they can to create value by the means of incorporating financially material ESG factors into management's investment and other decisions. Similarly, where other shareholders take such initiative, we expect those third-party asset managers with whom we invest to join in active ownership efforts to influence management teams.

Public equity managers have a bigger challenge in influencing public company management compared to private equity investing, depending on how large a shareholder they are. However, many of the specialist equity managers with whom we have invested who focus on smaller companies, do have ready access to management and are having these sorts of dialogues with them. For other public equities managers investing in the large-cap space, influencing management may rely on collaborating with other like-minded investors through shareholder groups such as Climate Action 100+ and ShareAction. This is an explicit area of discussion in our annual ESG integration survey. We provide an example of how our third-party public equity asset managers exercise their stewardship activities below.

Case Study #1:
Environmental engagement by a global long-only equities manager – Global Brands International (GBI)

GBI is a global long-only equities manager that targets high-quality branded good and services businesses.

Engagement Summary: GBI engages with companies just as any bottom-up deep fundamental research-oriented equity manager would: to test the core components of its investment thesis over the holding period, to find out more information about the management of key risks and to push for change in areas where they believe the company could improve.

Key Outcomes:

1. In 2021, GBI made significant efforts to improve climate risk management across various portfolio companies that did not provide disclosure to the CDP or have meaningful emissions reduction targets. GBI believe that failing to get these basics right is an increasing source of regulatory and reputational risk, impacting a company's relationship with its employees, customers and investors. GBI engaged with the companies both collaboratively through the CDP's disclosure campaign and via direct, individual engagement.
2. In 2021, there were also 57 total instances of ESG-focused engagement with 23 companies held in the portfolios. These management engagements were all undertaken by senior members of the GBI investment team.
3. In the second quarter of 2022, GBI continued to engage on climate risk management, holding meetings with a number of portfolio companies where GBI encouraged them to improve their climate risk management. In addition, GBI again participated in the CDP's collaborative disclosure campaign. GBI were the lead investor for two companies and were responsible for writing to both companies on behalf of the co-signatories to the campaign. GBI also sent their own letters to their portfolio company chairs and CEOs, encouraging them to provide CDP disclosure and to set science-based emissions reduction targets.

Many of those third-party private equity managers with whom we have invested, especially those taking majority control stakes, are proactive with their portfolio companies on how ESG factors should be factored into company strategy and operations, to contribute to enhanced long-term performance. The case study below focuses on one such private equity manager.

Case Study #2:

Environmental and Social engagement by a European middle-market private equity manager – Complex Capital

Complex Capital (CC) is a pan-European middle-market buyout firm focussed on acquiring controlling interests in companies that have typically been overlooked by other private equity firms, due to recent underperformance and/or where other buyers have perceived the deal dynamics and value creation opportunities as difficult or complex to execute.

Engagement Summary: In its ESG integration strategy, Complex Capital focuses on bespoke ESG action plans for each portfolio company, prioritising the most material ESG strategic focus areas for each business dependent on their industry, their size and their overall corporate strategy. Their aspiration for each company is a targeted ESG strategy with approximately 3-6 strategic areas in focus, alongside their corporate strategy with associated ESG KPIs.

Key Outcomes:

1. Complex Capital made substantial efforts to affect a range of ESG initiatives across various portfolio companies, most notably in an engineering business, which CC realised in 2022. The business is an engineering consultancy whose aim is to accelerate an efficient, electric, and sustainable future through innovative engineering and technology that focuses on electrification, aerodynamics and thermodynamics. Despite already being a business which contributes to the reduction of carbon emissions, CC also identified other areas for ESG improvement.
2. Under Complex Capital's ownership, the engineering business enhanced its recycling activities through partnerships with battery cell manufacturers and end-of-line recycling to better support Original Equipment Manufacturers (OEM). CC also implemented reporting mechanisms which calculated scope 1-3 greenhouse gas (GHG) emissions. Finally, the engineering business has also sought to reduce gender inequality in the engineering sector through internal diversity training.

VII. Firm Update

In addition to having introduced a firm-wide approach to Sustainable Investing (as outlined in Section 2 of this report), we also made significant strides in developing our thought leadership and our own approach as a firm to sustainability:

1. Partners Capital became operationally carbon neutral for 2021;
2. We jointly hosted a workshop with the Clean Air Task Force (CATF) on the energy transition;
3. We have hired Dr Michael Viehs to lead our Sustainable Investing team; and
4. We continued to share our knowledge about the energy transition and Sustainable Investing with the wider investment industry.

1. Partners Capital becomes operationally carbon neutral for 2021

We worked with a third-party consultant, Carbon Footprint Ltd, to calculate and offset our 2021 operational carbon footprint. 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). Our total operational carbon footprint – including a buffer for the margin of error around the calculation – came to 690 tonnes of CO2e, or approximately 2.4 tonnes of CO2e per employee in 2021, which is broadly in line with the industry average. The project excluded our indirect downstream emissions (i.e., the emissions associated with our clients' investment portfolios).

We are working to reduce our emissions going forwards, but in the meantime we have neutralised our 2021 operational carbon footprint emissions by purchasing carbon offsets (also known as carbon credits). Once carbon offsets are purchased, the money paid for the offsets flows to projects that ensure the removal of one tonne of CO2e from the atmosphere. The funding generated from carbon credits is used to develop and implement carbon avoidance and removal projects globally.

We chose to support wind power projects in India and South Africa, as both countries have energy grids that are heavily dominated by coal power generation. Replacing coal power generation with renewable alternatives is essential to near term goals of the energy transition. Additionally, we have supported a programme that protects rainforests in Brazil from illegal deforestation, ensuring that the protected rainforest continues to absorb CO2e from the atmosphere, as well as continue to provide vital habitat for wildlife and essential plants used for medicinal purposes.

2. Insights from the Partners Capital and Clean Air Task Force Lunch

Partners Capital continues to provide thought leadership in the energy transition space. Following the publication of our "Energy Transition Investment Framework" in the beginning of 2022, led by our Chairman, Stan Miranda, we co-hosted a workshop focussed on the energy transition with the CATF, an energy transition think tank in September 2022. The workshop was entitled *Bringing the Energy Transition Down to Earth* and took place at the National Science Museum in London to gain a better understanding of the realistic prospects for the energy transition, challenging the overly optimistic energy pathway research that most investors appear to rely on today.

The key takeaways from this workshop were:

1. Net zero targets and the energy transition are incredibly ambitious both in a historical context and in absolute terms.
2. Short term material cost rises will not negate long term cost-curve improvements, but they do add to uncertainty around energy transition pathways.
3. The current energy crisis in Europe may place the investment in the European energy transition on hold over the near term.
4. A global carbon price is needed to de-risk energy transition investments but requires a critical political mass (e.g., Europe and the US) to become a reality.
5. Rather than a "technology first" approach, the energy transition must be approached with a holistic, systems approach pursuing multiple pathways.
6. Due to the skills required to effectively evaluate new technologies and energy transition risk, investments in the energy transition should be viewed similarly to industrial venture capital.

The workshop highlighted that the energy transition opportunity set is in a state of flux and that there will be further developments in the years ahead that will result in more attractive risk, return and impact prospects. We will continue expanding our thought leadership on the energy transition space in 2023.

3. Appointment of Dr Michael Viehs to head up the Sustainable Investing Team

In June 2022, Michael joined as our new Global Head of Sustainable Investing to strengthen our Sustainable Investing expertise. Michael brings several years of experience in Sustainable Investing, shareholder engagement, and ESG. Prior to joining Partners Capital, he was Head of ESG Integration at Federated Hermes Limited and Researcher at the Smith School of Enterprise and the Environment at the University of Oxford. Michael and his team are responsible for developing the firm's Sustainable Investing strategy, integrating ESG considerations into Partners Capital's investment processes and strengthening the firm's thought leadership in the Sustainable Investing space. In addition to his appointment at Partners Capital, he remains a pro-bono Research Affiliate at the European Center for Sustainable Finance and a part-time lecturer at the University of Applied Sciences, Upper Austria, where he teaches a course on Asset Management and Behavioural Finance.

4. Thought leadership and advocacy

In the past year, we have continued with our advocacy through investor initiatives such as the PRI and the IIGCC. We will continue to be actively involved in both organisations and engage with them to shape best practice Sustainable Investing standards for the industry.

Additionally, we have continued to provide thought leadership to the industry by sharing our insights into the energy transition specifically, and Sustainable Investing more generally on several occasions in the last year. Amongst others, our Chairman Stan Miranda spoke at the Foundations Financials Officers Group (FFOG) in Boston in October 2022 and presented our Energy Transition Investment Framework, and Michael Viehs spoke at the PRI conference in November 2022 discussing the industry relevance of two academic research papers on divestment approaches and climate change adaptations of companies.

Appendix 1 – Partners Capital Definitions

In 2022, Partners Capital introduced its set of definitions in relation to ESG and Sustainable Investing in an attempt to concisely and consistently describe the different nuances and investment approaches that have evolved around sustainability in the last decade or so.

Engagement
The dialogue that we have with asset managers to assist them in improving their investment as well as their ESG integration and active ownership approaches.

ESG
Environmental (E), Social (S), and Governance (G) factors.

ESG integration
Investment approach by which asset managers systematically consider and integrate financially material ESG risks and information into their investment decisions alongside traditional fundamental financial factors.

Exclusions
A set of companies or assets that have been excluded from the investible universe based on non-financial information to express certain values and beliefs.

Impact Investing
Investment approach by which the asset manager *intentionally* invests in companies that create a measurable positive impact for society or the environment, while also delivering competitive returns.

Responsible Investing
Investment approach integrating financially material ESG considerations as well as pursuing high standards of stewardship and fiduciary responsibility. It became the synonym for ‘ESG integration’ defined by the PRI as “a strategy and practice to incorporate ESG factors in investment decisions and active ownership.”

Screening
The process used to exclude investee companies or assets from investment portfolios based on a set of either fundamental or values-based information.

Stewardship

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society (UK Stewardship Code Definition).

Sustainable Investing

Summary term for the investment approaches ESG integration, Responsible Investing, Thematic Investing, and Impact Investing.

Thematic Investing

Investing approach whereby the asset manager “tilts” the portfolio towards a certain thematic focus, such as low carbon emissions, small environmental footprint, or a particular sectoral exposure. These approaches are often used in combination with certain exclusions screens.

Appendix 2 – Partners Capital Sustainable Investing Policy

This Sustainable Investing Policy describes our principles-based approach to Sustainable Investing and the integration of sustainability risk factors into our investment decision making. It explains why we believe that assessing the ESG integration approaches of those third-party asset managers with whom we invest, engagement with them to improve their practices and the deployment of capital into impactful opportunities help us generate better investment outcomes for our clients while at the same time having a positive impact on society and the environment.

Our policy is closely linked to our own core beliefs, which we set out in our *Sustainability Charter*[16]. Those beliefs guide us in our mission to deliver the best long-term investment outcomes for our clients.

Our policy includes five pillars:

1. Assessment: We assess the ESG integration and stewardship approaches of those third-party asset managers with whom we invest through our ongoing communications and monitoring which is augmented by our annual Asset Manager ESG Integration Survey.
2. Engagement: We seek to constructively engage with those third-party asset managers with whom we invest to ensure they are deploying best practice integration and stewardship approaches.
3. Capital Allocation: We seek to generate additional returns and impact by allocating capital to those managers who have gained investment insights through integrating material ESG considerations and through allocating to companies and sectors who are contributing to and benefiting from sustainability trends.
4. Exclusions: We prefer engagement over blanket exclusionary approaches, and therefore we only deploy a minimal firm-wide exclusions policy.
5. Advocacy and Social Responsibility: We collaborate with our clients, third-party asset managers with whom we invest and leading capital owning institutions to support the acceptance and implementation of Sustainable Investing practices across the financial services industry.

These five pillars help us to deliver impact as a business by: contributing to financial outperformance for our clients, encouraging adoption of best practice ESG integration in financial markets through our relationships with those third-party asset managers with whom we invest, and through the allocation of capital to those companies and sectors contributing to sustainability trends.

[16] https://partners-cap.com/wp-content/uploads/Sustainability-Charter_vWebsite-FINAL.pdf

1. Assessment

We believe that the integration of financially material ESG factors and stewardship insights into investment decision making, as well as having best-in-class “DEI” policies in place, help asset managers to make better long term investment decisions for their, and ultimately our, clients. As such, the integration of financially material ESG factors *alongside* traditional fundamental analysis provides asset managers with a more comprehensive assessment of an investee company or asset.

Our assessment of manager’s ESG integration and stewardship approaches begins with our initial due diligence on third-party asset managers before we formally approve them for investment. Thereafter, that assessment is ongoing through the life of the relationship including during our formal 3-yearly due diligence updates in respect of each third-party asset manager with whom we have invested, our quarterly risk reporting and in our periodic interactions.

The most formal assessment comes from our annual asset-class specific Asset Manager ESG Integration Survey which attempts to assess the quality and sophistication of the ESG integration and stewardship approaches, including approaches to DEI, of those third-party asset managers with whom we have invested.

Based on the information gathered in the survey, we assign one of our four Partners Capital ESG classifications to every surveyed manager. For asset managers to receive the highest classification, we expect them to consequentially integrate financially material ESG factors and insights from their engagements with investee companies into their investment processes whilst appreciating that the methodology will vary according to asset class and investment philosophy.

2. Engagement

We aim to constructively engage with those third-party asset managers with whom we invest to assist them in improving their ESG integration and stewardship practices, as well as their DEI approaches, especially in cases where our Survey has identified that their practices are lagging our expectations. The goal of our engagements is to establish best practice integration and engagement approaches in the asset management industry.

We believe that collaboratively engaging with asset managers on improving their ESG integration approaches will ultimately lead to better long-term financial outcomes for our clients and create a greater impact for society and the environment, rather than constraining our investment options through blanket exclusions of asset managers because of manager-specific ESG concerns.

We aim to approach our engagements with the asset managers with whom we invest in a pragmatic, but structured way. We seek to propose measurable, achievable, and time-bound objectives focused on improvements to such managers’ ESG integration practices. We also set the expectation that the managers’ processes should improve over time.

3. Capital Allocation

Alongside investing in asset managers with highly developed ESG integration and stewardship practices, Partners Capital also aims to selectively deploy capital into companies and sectors that have a positive impact on the environment and society whilst generating a competitive financial return. We remain particularly interested in investments which will benefit from and contribute to the sustainability megatrend given our expectation of both the capital requirement to finance these transitions and the associated disruption which we believe will leave few industries unaffected.

We rely on the expertise of our dedicated asset class research teams to pursue the most attractive investments in each asset class. For example, in public equities, we have been exploring energy transition long/short strategies that seek to back the future winners of the energy transition whilst simultaneously taking short positions in those companies deemed to be poorly prepared for the transition. Within private markets, we are similarly focused on identifying opportunities relating to climate change, recognising 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 whilst generating attractive financial returns.

4. Exclusions

As an overarching principle, when integrating sustainability risks into our investment decision making, Partners Capital prefers engagement over exclusionary investment approaches. We believe that investors can have a greater impact on management behaviour through active engagement and exercising voting rights.

However, Partners Capital has decided to not invest directly in companies operating in a few sub-sectors. Unless specifically mandated by our clients to do otherwise, we aim to exclude direct exposure to companies operating in the thermal coal sector, manufacturers of controversial weapons (including cluster munitions and anti-personnel landmines), tobacco producers and companies engaging in "payday lending" practices from our directly held public equities portfolios. Our view is that companies in these sectors have little scope for improving their ESG profile in the years ahead and have limited scope for contributing to a more sustainable world, unlike some oil and gas producers who may have the potential to contribute meaningfully to the transition to a low carbon economy. This is also why Partners Capital's policy does not follow a blanket exclusionary approach to companies operating in the oil and gas sector.

We aim to also apply our exclusions policy on a best-efforts basis to our discretionary pooled vehicles and client portfolios. While we seek to minimise look-through exposure to these sectors via underlying funds managed by one of our third-party managers where practically possible, there may be instances where there is indirect exposure to the excluded sectors mentioned above. In instances where we become aware of exposure to these sectors, we will engage with these managers to discuss the merits of reducing or eliminating this exposure over time. On a case-by-case basis, we may consider whether redemption from such funds is necessary where we feel the exposure is too large and unlikely to be reduced.

We understand that certain clients, regardless of our firm-wide approach to exclusions, may also seek to exclude additional sectors and/or companies from the investible universe. In those instances, we will work closely with our clients to design client-specific portfolios in line with those expectations where possible.

Proxy voting

Where Partners Capital has authority to vote client proxies, we will vote each proxy in accordance with our fiduciary duty to our clients, subject to any operational constraints. Partners Capital has retained Institutional Shareholders Services Inc. ("ISS") to assist in the proxy voting process, using its Sustainability

Policy recommendations, which is the voting policy that most closely aligns with our firmwide Sustainable Investing Policy. Its recommendations are underpinned by internationally recognized sustainability-related initiatives, such as the 'PRI', (to which Partners Capital is a signatory) which act as the policy's frame of reference.

5. Advocacy and social responsibility

We collaborate with our clients, asset managers and leading institutional investors across the investment industry to support the acceptance and implementation of Sustainable Investing practices. We actively seek meaningful partnerships and opportunities to grow our network to deepen our knowledge and broaden our impact in this rapidly evolving space.

Our clients often have their own purpose and an array of social or environmental causes that they support. Accordingly, we cannot recommend a specific sustainable investment policy that would be common to all clients. Whilst our investment program will always be governed by our own core beliefs, where our clients have additional sustainable investment preferences, we commit to assisting them in the ongoing development of their bespoke Sustainable Investing policies which reflect their specific values and to build portfolios which adhere to those policies.

As part of our advocacy work, Partners Capital became a signatory to the 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.

Partners Capital is committed to encouraging DEI. We believe that workplace diversity results in improved decision making which leads to better investment outcomes for our clients. Our DEI policy is guided by equality, fairness, inclusiveness and respect for all our employees and our aim is to create a true meritocracy, meaning that there is no discrimination on the basis of gender, race, religion, age, disability, pregnancy and maternity, and sexual orientation. Our ambition to cultivate and preserve a culture of diversity, equity and inclusion are executed through several global initiatives including our DEI council, dedicated learning and teaching, and DEI partnerships. The Partners Capital DEI Council includes team members from our seven offices worldwide who are tasked with increasing awareness about DEI in the workplace. This includes educating our global team through events and newsletters to celebrate commemorative observances (i.e., Black History Month, Pride Month, Women's History Month) and championing DEI day-to-day. In addition, our Women's Network seeks to build community and develop female talent through a global speaker series, other internal events and external conference attendance. With regards to learning, we offer a number of DEI-focused trainings and resources to our global team. 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. Mental Health Awareness training is offered to raise awareness and promote the importance of mental health. Finally, we partner with several organizations to further our DEI ambitions including: Seizing Every Opportunity (SEO); Girls Who Invest (GWI); 30% Club; 10,000 Black Interns; Girls Are Investors (GAIN); and Toigo.

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