Partners Capital

# Task Force on Climate-Related Financial Disclosures (TCFD) Report

**2023**

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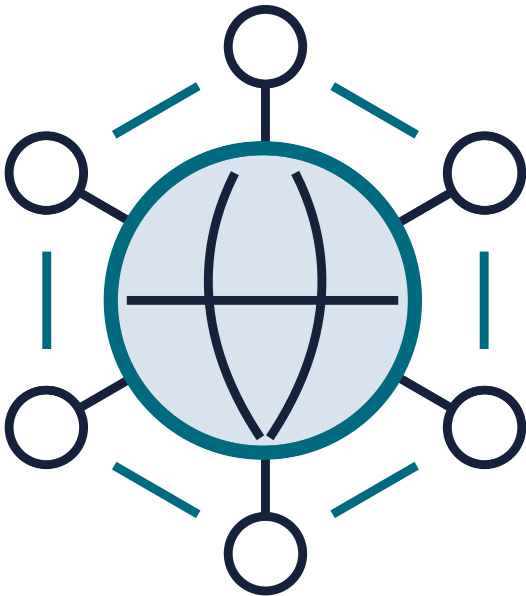
# 1.

# Introduction

Partners Capital believe that climate change is one of the biggest environmental challenges facing society today. To prevent the worst effects of climate change, global greenhouse gas emissions need to be reduced urgently, requiring an economic transformation on the scale of the first Industrial Revolution. The scale and pace of change needed is enormous, which will force the transformation of business models, supply chains, and consumer behaviour. The financial services industry can play a significant role, by steering private capital to climate solutions and by making sure that investment decisions take financially material environmental, social, and governance (ESG) considerations, including climate change risks and opportunities, into account.



We believe that transparent disclosures on our approach to climate-related risks and opportunities will help satisfy the informational needs of our clients, investors and the wider market.

We are pleased to present the first annual Climate Report of the Partners Capital Group entities (collectively referred to as "**Partners Capital**" or the "**Firm**"), as specified below, aligned with the Recommendations of the Task Force on Climate-Related Financial Disclosures ("**TCFD**")[1].

| Partners Capital Investment Group Entities | Jurisdiction |
|---|---|
| Partners Capital LLP ("PCLLP") | United Kingdom |
| Partners Capital Europe SAS ("PCE") | France |
| Partners Capital Investment Group LLP ("PCIG LLP") | United States |
| Partners Capital Investment Group (Asia) Pte Ltd ("PCIG Asia") | Singapore |
| Partners Capital Asia Limited ("PCAL") | Hong Kong |

This report sets out the TCFD-aligned group-level disclosures of the Firm (the "Report"), in relation to climate-related matters, for the reporting period 1 January 2023 to 31 December 2023 (the "Reporting Period"). The report has been prepared to apply the TCFD Recommendations to the Firm's assets under management, including where the Firm acts as investment manager or investment advisor in respect of its client portfolios, as well as fund or portfolio manager with respect to any of the pooled vehicles (generally consisting of fund-of-fund structures) that are managed by one of the Firm's group entities. In this Report, the Firm's managed products and services are together referred to as "Portfolios".

1. This report is also consistent with the climate disclosure requirements in Chapter 2 of the FCA's ESG Sourcebook. Please see the Partners Capital LLP Annex.

# Our Approach

Partners Capital manages bespoke multi-asset class portfolios for its clients, investing across both public and private markets, predominantly through third-party asset managers. Partners Capital tailors these investment portfolios depending on the clients' risk profile, time horizon, liquidity constraints, sustainability preferences and investment objectives. Client portfolios are constructed using Partners Capital pooled vehicles or direct investments in the underlying investment funds (or a combination of both). The Firm's pooled vehicles are fund-of-fund structures covering each of the major asset classes, which allow our clients to invest with who we believe to be the best asset managers in each asset class.

Our investment model is based on the "Yale Endowment" model, core tenets of which include high, stable risk levels, multi-asset class diversification and allocations to alternative asset classes, such as Private Equity. Partners Capital has implemented a global Sustainable Investing approach, and related practices, which apply to all the entities within the Partners Capital Group.

We believe that climate reporting in certain parts of asset management (e.g. private markets and alternative asset classes) is still maturing, with significant data and methodological challenges present. The limited availability of environmental, social or governance ("ESG") related data on investee companies and securities and the ESG reporting we receive from the underlying asset managers with which we invest, also impacts our climate reports. Despite the informational and methodological challenges across asset classes we are pleased to be able to make a fair and reasonable TCFD aligned disclosure on a best-efforts basis.

## 2023 Sustainable Investing Highlights

1. Manager Selection Enhancement: Further integrated sustainability considerations into our asset manager due diligence process, with the expansion of our Asset Manager ESG Integration Survey in 2023 including increased emphasis on climate change. Of responding managers to our 2023 Survey, almost 60%[2] reported that they assess climate risk in their investment decision making process. This represented an increase in both absolute and percentage terms from 2022, when 50% of managers responding to the climate change section of the survey stated that they assessed the climate risk of their investment strategy.

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

3. Thematic Deep Dive: Following the publication of the Partners Capital Energy Transition Framework in 2022, in 2023 we continued our thought leadership on the topic with the publication of our Clean Hydrogen Investment Framework. It provides detailed insights into hydrogen's role in the global economy today, an analysis of the applications in which clean hydrogen will be most competitive, and an evaluation of the technology and cost challenges it faces.

4. Carbon Footprint: Partners Capital continued to be operationally carbon neutral as a firm in 2023, partnering with a third-party consultant, Carbon Footprint Ltd (more detail in the Strategy section).

2. Data based on 183 manager responses received as of 31 December 2023 to the Asset Manager ESG Integration Survey. All 190 surveyed managers were asked to complete this question. Data based on an equal weighted basis to remove the impact of market movements and fund flows.

# 2.

# Governance

### 1. The Board's oversight of sustainability-related risks and opportunities

Partners Capital has a Board of Directors, comprised of executive and non-executive directors (the "**Board**"). The Board is ultimately responsible for governance and oversight activities of the Firm, including its portfolio management, investment advisory services and fund management activities; this includes the establishment of an effective and resilient governance and risk management framework. The Board delegates certain management responsibilities to certain sub-committees, individuals, and/or teams within the Firm's structure. The Audit and Risk Committee (which is a sub-committee of the Board consisting of at least two independent non-executive directors) has been established to provide independent oversight and challenge, as well as assist the Board in evaluating the firm's current risk appetite, framework, exposure, and future risk strategy.

## 2. Management's role in assessing and managing sustainability-related risks

The management of sustainability-related risks (including climate-related matters) are incorporated into Partners Capital's overall governance processes, and the Firm has allocated dedicated resources with appropriate experience and expertise to manage the Firm's sustainable investing strategy. The Firm has appointed a Global Head of Sustainable Investing, who is responsible for developing the Firm's sustainability-related policies and controls and advising the Firm's senior management on the sustainable investing strategy, which includes climate risk management. The Firm's sustainable investing strategy and policies are approved by the Firm's Chief Investment Officer and Chair of the Client Committee. The Global Head of Sustainable Investing ensures that senior management are well equipped with the knowledge to understand industry best practices around ESG and sustainability risk management.

The Sustainable Investing Team, which is overseen by the Global Head of Sustainable Investing, is responsible for implementing the Firm's Sustainable Investing Policy. This includes, but is not limited to, overseeing the Asset Manager ESG Integration Survey and assessment process for the third-party asset managers with whom Partners Capital invest, preparing the Firm's sustainability-related disclosures and client reporting approach, and providing training to the Investing Team on the Sustainable Investing Policy and escalation approach for identified sustainability risks. The Sustainable Investing Team also work closely with Risk and Compliance to ensure that the firm's sustainable investing processes are compliant with relevant regulation and that relevant sustainability factors are being embedded into our global risk management frameworks. Where a material sustainability-related risk is identified, the Sustainable Investing Team will work with Compliance to ensure that this is escalated to the relevant members of senior management, and if appropriate, to the firm's Operational Risk Committee and the Board via the Audit and Risk Committee.

The table on the next page sets out the teams and Committees involved in the assessment, management and oversight of sustainability – related risks.

## Exhibit 1

| Committee / Team | Role / responsibilities | Governance Activity |
|---|---|---|
| Sustainable Investing Team | • Implementing Partners Capital's Sustainable Investing strategy<br>• Overseeing the ESG Asset Manager Integration Survey and assessment process<br>• Preparing the Firm's sustainability-related disclosures and client reporting approach<br>• Training the Investing Team on the Sustainable Investing policy and escalation approach for identified sustainability risks<br>• Currently, the team consists of nine team members who have a background in investing, research, client relationship management, and Sustainable Investing | Assessment and management of climate risks |
| Client Committee[3] | • Governance for all client decision making, interactions, strategies, reporting and communications, including those related to sustainable investing | Oversight of climate risks |
| Operational Risk Committee[4] | • Primary decision-making body responsible for the identification, reduction and mitigation of legal, regulatory, financial, organisational, personnel, technological and operational risks, including those in relation to sustainability risk management | Oversight of climate risks |
| Compliance Team | • Ensure the firm is kept up to date with regulatory updates with respect to ESG and sustainability risk management<br>• Advising on sustainability risk policies and processes in relation to the firm's regulatory obligations<br>• Review of client and regulatory disclosures, client communications and marketing materials to ensure greenwashing risk is minimised<br>• Participate in the assessment of third-party asset managers during the Asset Manager ESG Integration Survey process | Oversight of climate risks |
| Risk Team | • Consider sustainability risks when establishing the risk profile (and/or related methodologies) with respect to our client portfolios and pooled vehicles<br>• Monitor investment compliance with ESG Investment guidelines and restrictions with respect to our client portfolios and pooled vehicles | Assessment and management of climate risks |

3. The Client Committee is comprised of several senior members of the Firm, including the Head of EMEA and the Head of London and certain Partners and Managing Directors within the global Investment team.

4. The Operational Risk Committee is comprised of several senior members of the Firm including the Global Chief Operating Officer, Head of Operational Risk, Head of Research Operations and members of the Risk and Compliance teams.

**Below we have set out managements' day-to-day responsibilities in implementing the processes Partners Capital has established in assessing and managing sustainability-related risks for the Portfolios we manage.**

## 2.1. Due diligence and approval of third-party funds

Partners Capital has implemented a robust due diligence and approval process for each of the third-party funds in which we invest. The Research Operations Team have day-to-day responsibility for the oversight of the manager due diligence process.

We believe that the integration of financially material ESG factors and stewardship insights into investment decision making (if relevant to the underlying investment strategy), helps asset managers to make better long term investment decisions for their, and ultimately our, clients. Given a combination of changing consumer preferences and regulation, we believe that financially material ESG factors are of increasing importance to asset valuations. 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.

We seek to assess the degree to which our managers integrate financially material ESG factors into their investment process and their stewardship and engagement approaches. The Sustainable Investing Team support the Asset Class Research Teams with this assessment before we formally approve a manager for investment. Thereafter, the Sustainable Investing Team ensure that the assessment is ongoing through the life of the relationship including during our formal 3-year due diligence updates, ongoing risk reporting and in our periodic interactions.

As further discussed within the Risk Management section below, the Firm has designed an Asset Manager ESG Integration Survey, which is the most formal assessment of how the third-party managers with which we invest incorporate sustainability considerations, including climate change issues, into their investment decisions.

## 2.2. Portfolio Management

Partners Capital provides either advisory or discretionary management services to its clients in relation to Partners Capital managed pooled vehicles and third-party investment products. Where Partners Capital provides advisory services to a client, Partners Capital will provide investment advice with the client retaining discretion over the investments within the Portfolio. Where Partners Capital provides discretionary management services, the client team will have discretion over the investments within the portfolio with oversight by the firm's Client Committee and Investment Committee.

Where a client has specific sustainability-related investment preferences, whether under an advisory or discretionary management agreement, it will be the responsibility of the Investment Team, and in particular the Client Manager with oversight from the Client Head, to ensure that these preferences are incorporated into the management of their portfolio.

The Firm's managed pooled vehicles aim to provide Partners Capital's clients access to what we believe to be, the best asset managers in each major asset classes. The Pooled Vehicle Portfolio Management Team ensure adherence to the pooled vehicle's strategy, including with respect to the agreed sustainability-related characteristics, where applicable.

## Exhibit 2

The below table sets out the teams and individuals with day-to-day responsibilities for the key processes Partners Capital has established to assess and manage sustainability-related risks for the Portfolios we manage.

| Committee / Team | Role / responsibilities | Governance Activity |
|---|---|---|
| Research Operations Teams | • Oversight of the due diligence and approval process for new third-party funds / asset managers | Oversight of climate risks |
| Asset Class Research Teams | • Assess new third party funds/ asset managers | Assessment and management of climate risks |
| Client Head | • Oversight of the investment decision and recommendations made by the Client Manager are in line with the global sustainability risk management framework and client sustainability preferences. | Oversight of climate risks |
| Client Manager | • Ensure any investment decisions and recommendations made on behalf of a client are done so in line with the global sustainability risk management framework and client sustainability preferences | Assessment and management of climate risks |
| Asset Class Head | • Ensure the approval and ongoing monitoring of the third-party funds/ asset managers within their asset class is conducted on an ongoing basis | Assessment and management of climate risks |
| Asset Class Investment Committee | • Oversight of the due diligence and monitoring process of the third-party funds/ asset managers within their asset class | Oversight of climate risks |
| Pooled Vehicle Portfolio Manager | • Ensure that investment decisions made within the pooled vehicle are done so in line with the global sustainability risk management framework<br>• Maintain adherence to the pooled vehicle's strategy, including with respect to the agreed sustainability-related characteristics of the pooled vehicle, where applicable | Oversight of climate risks |

## Outlook

Partners Capital has enhanced its internal governance structure in relation to sustainability risk management in 2024 by establishing a Global Sustainable Investing Committee (the "Committee") to act as the main governing body to oversee and update the Firm's strategy on sustainability risk and disclosures. The Committee will adjudicate on the suitability of third party-managers and co-investments, where necessary, or identified controversial exposures in our client or pooled vehicle portfolios and any material changes to our Sustainable Investing Policy.

The Committee will be chaired by the Global Head of Sustainable Investing and comprise of the Head of Research Operations, Chief Investment Officer, Chair of Client Committee, and the Head of Asia Pacific Compliance.

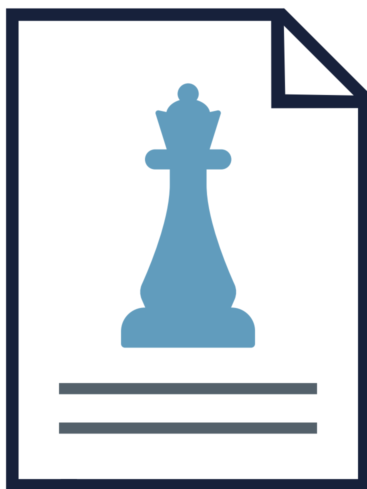
The Sustainable Investing team will continue to be responsible for the implementation of Partners Capital's Sustainable Investing strategy. The team will prepare and provide the Committee with quarterly reports, including but not limited to, the monitoring of third-party managers and/or controversial exposures in our client and pooled vehicle portfolios, for the Committee's consideration.

Where and when required from a regulatory, investment or client risk perspective, the Sustainable Investing Committee will escalate material matters to the Operational Risk Committee, Global Investment Committee or Client Committee as appropriate.

# 3.

# Strategy

We believe that ESG factors – if financially material – are becoming of increasing importance to asset valuations through a combination of regulation and consumer behaviour. Accordingly, we believe that asset managers that incorporate these factors into their investment decision making, augmenting classic financial due diligence, will have a more holistic understanding of asset valuation and prospects. This section of the report summarises some of the approaches our asset managers take when assessing climate risk and their net zero considerations, how we steer capital to potential climate solutions and some of the decarbonisation strategies of our clients, where applicable in line with their sustainability preferences.



# 1) Climate Risk Assessment

## Third Party Asset Managers

Partners Capital manages bespoke multi-asset class portfolios for our clients, investing across both public and private markets. We invest our clients' portfolios predominantly through third party fund managers and as part of our due diligence process and ongoing monitoring of them, we review the extent to which ESG factors are incorporated in their investment processes. The primary tool that we use to understand our asset managers' ESG integration and climate risk management approaches is our Asset Manager ESG Integration Survey. In the Survey, which is being used as part of our due diligence process of new asset managers, we have a dedicated section on climate change to enable us to identify how asset managers oversee climate-related risks and opportunities as part of their investment process as well as assessing whether managers themselves have net zero strategies. Compared with 2022, our 2023 survey featured an extended set of questions on the degree to which managers are assessing exposure to climate risk, measuring greenhouse gas emissions associated with investments, setting net zero strategies, and how they are engaging with portfolio companies on climate change.

190 asset managers responded to our 2023 Asset Manager ESG Integration Survey representing c. $44B[5] of our overall assets under management. Of all responding managers, almost 60%[6] reported that they assess climate risk in investment decision-making representing an increase in both absolute and percentage terms from 2022, when 50% of managers responding to the climate change section of the survey stated that they assessed the climate risk of their investment strategy. We have also noticed differences in manager practices across different jurisdictions based on the location of the asset managers' headquarters (Exhibit 3), with responding EU and UK managers adopting a higher rate of climate risk assessments in their investment decision making processes than those in other regions of the world. We believe that this is likely in part due to varying regulatory developments: In the UK the Financial Conduct Authority (FCA) was the first securities regulator mandating climate-related disclosure requirements for asset managers and asset owners, and in the EU the Corporate Sustainability Reporting Directive (CSRD) came into effect in the beginning of 2023, significantly increasing the number of firms subject to EU sustainability reporting requirements. This regulation requires large EU businesses or parents of a group that is "large" on a consolidated basis[7] to report on the environmental and social impact of their business activities, helping stakeholders evaluate firms' sustainability performance and related risks and allowing for such assessments in investment decision making. Climate-related disclosure requirements are lagging somewhat in other jurisdictions but are expected to be published and implemented in the US and Asia in the near future. Therefore, we expect this will encourage an increasing number of asset managers in these regions to undergo climate risk evaluations going forwards.

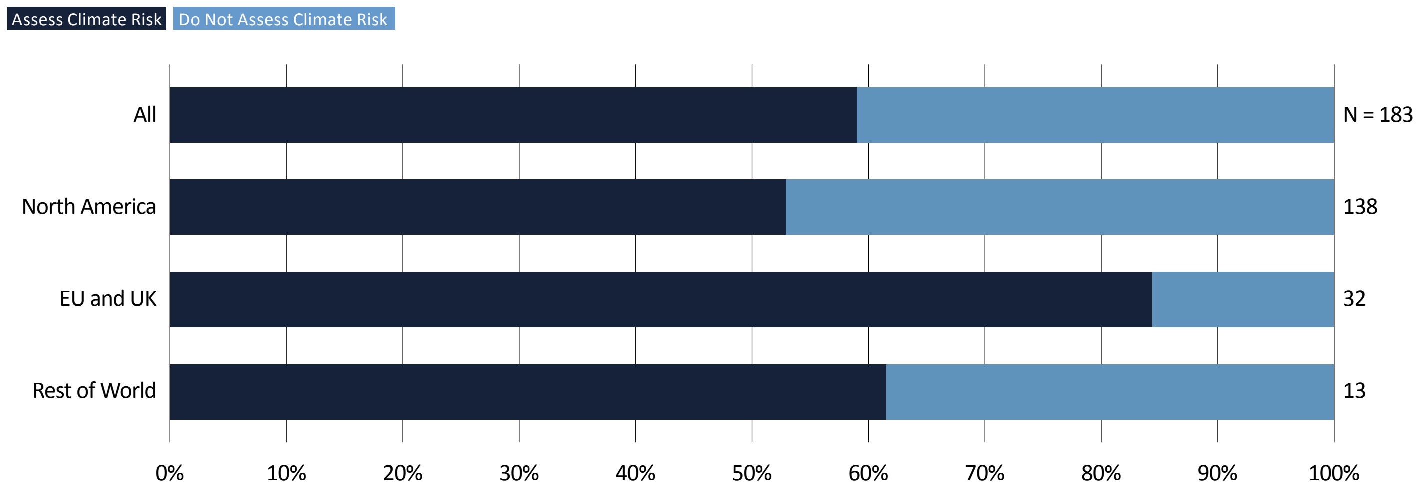
5. Based on 31 December 2023 holdings and uncalled illiquid commitments made since 2016. There were a varying number of responses to each of the questions which has been stated for each chart in this report, with results shown on an equal weighted basis to remove the impact of market movements and fund flows.

6. Data based on 183 manager responses to this question received as of 31 December 2023.

7. All EU-based companies that are themselves "large" or that are parents of a group that is "large" on a consolidated basis, i.e., who meet two of the following criteria: (i) Turnover above EUR 40 million (ii) Balance sheet total above EUR 20 million and (iii) Average yearly number of employees above 250.

## Exhibit 3

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



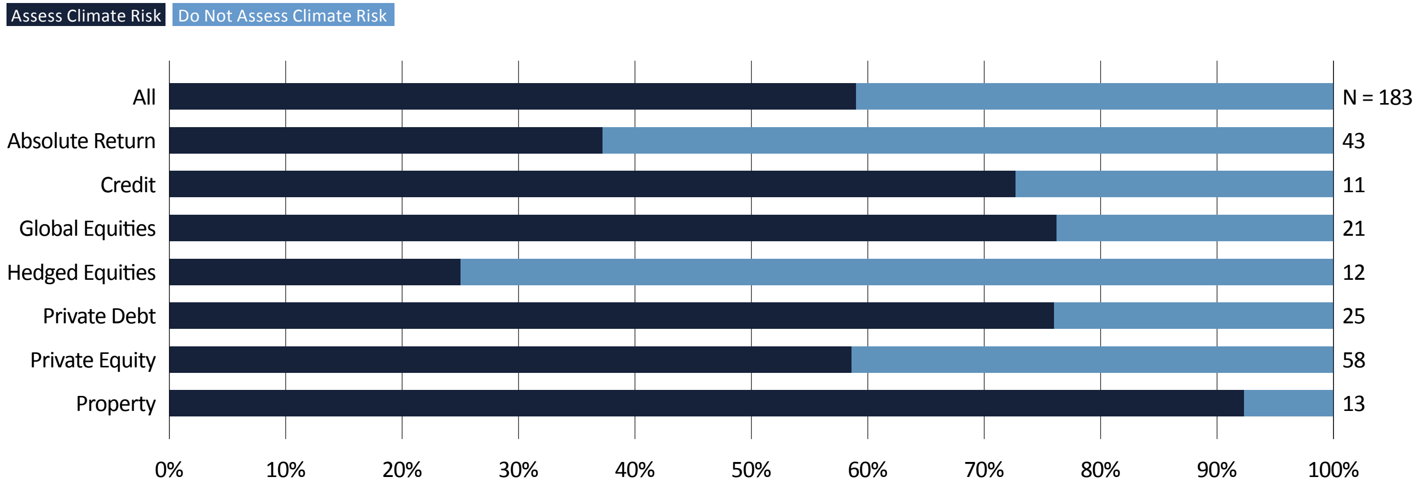

**Source:** Partners Capital 2023 Asset Manager ESG Integration Survey.

Data based on 183 manager responses to this question received as of 31 December 2023. All 190 surveyed managers were asked to complete this question. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

As an outsourced investment office, we partner with several asset managers across different asset classes. Of all responding managers, we found that in 2023, there was a significant variance in the percentage of managers integrating climate change by asset class (Exhibit 4). Managers that consider an investment's financial exposure to climate risk, typically do so by evaluating both physical risks – risks of financial loss from the increased frequency of extreme weather events, fire, flooding, extended droughts, and other physical risks generally associated with climate change, as well as transition risks – risks associated with the transition to a lower-carbon economy including shifts in government policy, technological developments and other changes in the economic landscape that could impair an asset's valuation.

## Exhibit 4

Responding managers assessing climate risk by asset class




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

Data based on 183 manager responses to this question received as of 31 December 2023. All 190 surveyed managers were asked to complete this question. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

Amongst the asset classes that we invest in, we found that property managers, as their assets face acute physical and financial risks due to climate change, have the highest levels of climate risk assessment with 92% of respondent managers indicating that they integrate climate risk into their investment process. Exhibit 5 illustrates how one of our property managers is incorporating both physical and transition risks into their investment decision making, whilst Exhibit 6 provides an example of a Private Debt manager undergoing a physical risk assessment for a potential property loan. In comparison, Hedged Equity and Absolute Return managers, who often have shorter holding times so their assets are less exposed to climate risk, have the lowest levels of climate risk integration.

## Exhibit 5

REAL ESTATE MANAGER CASE STUDY

### Physical and Transition Risk Mitigation

As a real estate manager, Manager A has embedded ESG factors, including climate risk, into their investment decision making process. The manager considers both the physical risks, such as extreme weather events as well as the transition risks, including regulatory and policy changes (e.g., carbon taxes) and climate-related business trends that may affect their assets and portfolio companies. The manager believes that this is also an opportunity for companies and properties to potentially increase profitability and long-term growth through their sustainability efforts.

**Physical risk mitigation:** Manager A utilises their insurance coverage tool to ensure they have adequate and appropriate insurance coverage to mitigate potential physical risks within the portfolio including, but not limited to, wind, earthquakes, hail, flooding and fire. Each potential new investment is evaluated to determine if adjustments to their existing insurance coverage are required, and any incremental insurance costs are incorporated into their insurance and deal underwriting models. The manager plans to overlay historic insurance loss claims data with the results of their climate screening to further understand these potential risks.

**Transition risk mitigation:** To address transition risks and opportunities, Manager A proactively seeks to implement energy, water and waste saving initiatives, including low-and no-cost operating improvements and capital-intensive retrofits across the portfolio. The manager seeks to benchmark and track progress on their sustainability initiatives where appropriate and identify opportunities for improvement. Where practical, the manager utilizes green lease clauses and obtains green certifications, labels and ratings. Additionally, the manager may invest in ESG solutions, such as renewable energy systems and technologies that reduce greenhouse gas emissions, for its assets.

## Exhibit 6

### REAL ESTATE DEBT CASE STUDY

### Physical Risk Assessment for a Potential Loan

- Manager B originated a loan secured by a multifamily property. The property is located in a region with a water shortage concern stemming from a drought that has extended c. 15 years.
- Manager B used Moody's to conduct a physical climate risk assessment as part of the due diligence process to assess water stress and drought risk. The report indicated a Red Flag risk for Water Stress risk overall and highlighted concerns for consumptive use between the current period and 2040. This score indicated extreme competition for water resources and potential for future water supply failure.
- While the Sponsor had a budget for renovations, there was no plan to provide any improvements aimed at a reduction of water usage or greenhouse gas emissions.
- The region is actively enforcing water management and planning guidelines, with future development heavily scrutinized. While the anticipation and preparedness for a drought is a positive development, these guidelines may impact business development and population growth which could have a negative impact on the Property in terms of occupancy and valuation.
- Manager B was unable to get comfortable with the risk and passed on the investment.

## Clients

Partners Capital 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 guide us in our mission to deliver the best long-term investment outcomes for our clients. While our Sustainable Investing Policy aligns with most of our clients' beliefs, some clients have additional sustainable investment preferences. In such cases, we commit to assisting them in the ongoing development of tailored sustainable investment policies which reflect their values, and building portfolios which adhere to these policies.

In practical terms, the process of developing and implementing a Sustainable Investing strategy for our clients comprises three stages: education, ESG strategy and policy development, and subsequent implementation and reporting. We present clients with a summary analysis of current ESG best practices across their peer group and spend time highlighting the potential trade-offs between stringent sustainable investment policies with hard exclusions versus policies with greater focus on engagement and what the impact of setting ESG targets may have on the final portfolio. Sustainability approaches require tailoring to individual clients given their different sustainability and climate-related beliefs, with examples including establishing a dedicated energy transition allocation and engaging with managers on developing net zero strategies for their business. Where specific targets are set within sustainable investment policies, Partners Capital will monitor progress and adherence to these, allowing clients to hold us accountable.

At the overall portfolio level, we model a client's expected forward looking returns based on their asset allocation through a proprietary mean variance optimizer ("MVO"). At our core, we are scenario-based investors, not investing for the base case, but for what survives the range of scenarios best and this capability allows us to reflect the impact of set scenarios on a client's expected forward looking returns. Exhibit 7 provides some insights into how we apply energy transition scenarios and how this could be adapted for client specific preferences.

## Exhibit 7

### Scenario Analysis

Energy transition scenarios will be defined by the pace of decarbonization overall, progress on different breakthrough technologies (CCUS, green hydrogen, bioenergy, small modular nuclear, etc.), government policy initiatives, regulation, consumer behaviour, progress of carbon taxation, and trading / relative cost / prices of alternative energy sources. This is not an exhaustive list, but rather the price list of factors that define our scenarios. These energy transition scenarios will impact our macro-economic scenarios through the crowding of capital across sectors, inflation, energy prices generally and economic growth rate. Therefore, the energy transition scenarios feed into the macroeconomic scenarios, which in turn drive tactical asset allocation recommendations from a top-down perspective.

Going forward, we aim to expand our capabilities so that we can conduct different types of analysis, for example factoring in energy transition pathway-based scenarios into client forward-looking expectations. As part of this skill building, we are involved in The Institutional Investors Group on Climate Change's (IIGCC) working group and will continue to leverage our relationship here to inform ourselves of best practice as it relates to integrating climate change considerations when investing in different externally managed asset classes.

## 2) Path to Net Zero

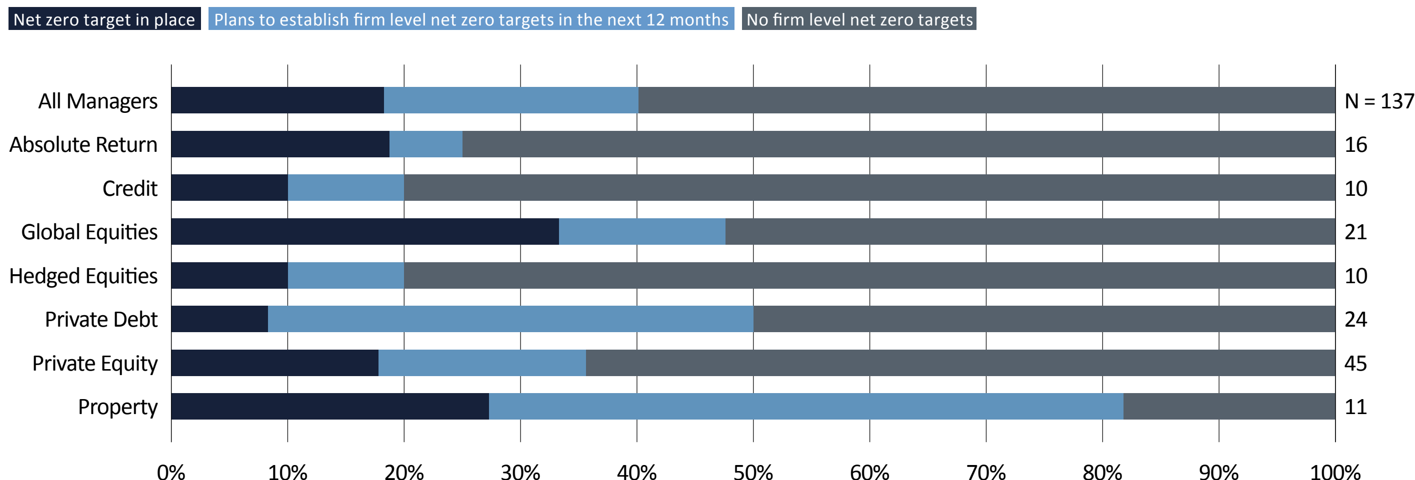
### A) Manager Net Zero Commitments

In keeping with our firm commitment to operational carbon neutrality, a key metric from our 2023 Asset Manager ESG Integration Survey was the percentage of responding managers with either a firm-level net-zero target in place or with the intention of setting such a target in the next 12 months. Nearly 40% of responding managers fall into these groups, with 18% of responding managers already having a target in place, representing an increase in both percentage and absolute terms from just under 15% of managers who stated that they had a target in place in 2022. However, it still indicates that there is a gap between our managers' ambitions to mitigate climate change related risks to the portfolio and making sure that they are "walking the talk" within their own businesses.

Managers were also asked whether net zero targets were in place at the portfolio level. Like the firm level, around 40% of all responding managers stated that they either set net zero targets at the portfolio level or intend to do so in the next 12 months. The percentage of managers with existing portfolio company net zero target setting in place was relatively low across all asset classes with Global Equities and Property managers being the most likely to have targets in place at 33% and 27% respectively (Exhibit 8). Clearly not all managers within our sample are able to engage with portfolio companies but this still highlights that there is a gap between managers being willing to mitigate risk in their portfolio through portfolio management and managers taking positive action to help portfolio companies address their own challenges as it comes to setting net zero targets. We plan to continue to engage with a subset of our managers, where we believe there is opportunity to drive emission reductions for their underlying portfolio companies and scope to set interim and final net zero targets at a portfolio level.

## Exhibit 8

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




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

Data based on 137 manager responses to this question received as of 31 December 2023. All 190 surveyed managers were asked to complete this question. Results are shown on an equal weighted basis to remove the impact of market movements and fund flows.

Credible and consistent approaches to decarbonisation will play a key part in achieving these targets and adopting a carbon accounting program can form part of an overarching decarbonisation strategy to help track progress over time and inform long-term emission reductions opportunities. Governments globally are implementing policies that price carbon, aiming to reduce greenhouse gas emissions and regulations that require companies to report emissions are being enacted in various jurisdictions around the world. Measuring and managing emissions can help get ahead of these risk factors, mitigating future financial burdens or operational constraints. Exhibits 9 and 10 highlight a couple of example approaches that managers are taking to drive emissions reduction across their portfolio companies.

## Exhibit 9

### CASE STUDY

## Global Public Equities Manager

Companies being transparent about their environmental impact and disclosing carbon related information is key to help transition to a net zero future. Manager C has engaged with companies in their largest firmwide holdings that are identified as high carbon emitters by their primary carbon data provider. The purpose was to gain transparency into the steps these companies are taking to reduce their carbon footprint, and what reports will be made accessible to the investment community to monitor progress. They also identify engagement targets and help to advance the collective ESG effort through active participation in systematic investor-led initiatives, such as the CDP Non-Disclosure Campaign. CDP has recognized Manager C as a particularly effective engagement lead in terms of influencing subsequent portfolio company disclosure, encouraging them to publicly disclose their climate, forest, and water-related data.

## Exhibit 10

### CASE STUDY

## North American Private Equity Manager

Manager D has a bespoke outcomes framework to assess investee company alignment with net zero. Manager D has also developed a set of core ESG metrics stemming from its global ESG goals, including GHG emissions and renewable energy usage. These are consistent with the metrics identified in the ESG Data Convergence Initiative, which represents a partnership of Private Equity stakeholders committed to streamlining the private investment industry's historically fragmented approach to collecting and reporting ESG data. Additionally, the manager has partnered with two carbon footprint measurement companies to scale carbon measurement and reduction across its portfolio companies.

## B) Client Decarbonisation Transition Plans

The investment world remains early into its discovery of how best to plan over several decades to arrive at a multi-asset class investment portfolio manifesting assets whose total net greenhouse gas emissions are zero or negative. Transitioning an investment portfolio over a multi-decade period to net zero emissions requires strategic thought and planning across a range of specific decisions. Being thoughtful about how and when together we can realistically reach net zero is an important consideration. We guide clients to be practical when aiming to decarbonise their portfolios, to ensure the investment program does not sacrifice returns in the near term.

There are several different paths a client can take to reach a net zero emission target in their portfolio, with a key early decision being whether you are investing to avoid emitters or investing in those sectors and companies who will contribute most to carbon reduction. The way forward is dependent on which phase of the transition to net zero you are currently in, with a focus on divesting from high emitters the simplest way to reduce portfolio emissions. Exhibit 11 provides an example of a potential recommendation to transition towards a net zero investment portfolio.

Investing in the suppliers of technology that reduce carbon will also have a potentially significant impact on reaching your net zero target as most are net negative emitters. This includes companies that focus on carbon capture, green hydrogen electrolysers, dedicated carbon sequestration, software that makes power plants more efficient, and carbon offsets, among others. Carbon capture may well have one of the largest negative carbon footprints considering Scope 3 emission impact on huge industries including natural gas, steel, and cement. However, a portfolio constructed of just these companies today is extremely risky given the infancy of these technologies and could lead to concessionary returns (e.g., from carbon offsets such as a reforestation businesses). While it is important to invest in these strategies, we guide clients to appropriately size these investments and stage into them over time based on the maturity of the technology.

## Exhibit 11

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

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

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

The approach can be summarised as:

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

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

## C) Investing in Climate Solutions

Given the need to rapidly decarbonise, the universe of climate-related investment opportunities is vast, and we believe no one manager can have insights into all the sectors (power, transport, industry, agriculture/food tech, buildings and recycling) that are aligned with the energy transition. There is huge complexity associated with each sector and in our view, we believe that it is extremely important that our managers can understand the risks and exposures that run through their portfolios under different energy pathway scenarios (across various assumptions regarding government policy support, technological breakthroughs, capital sources, foreign competition, consumer backlash, and costs/prices). Our observation is that very few asset managers can do this, which limits the capital we can deploy in the energy transition theme today. We will not allocate to an asset manager if we do not think they have the toolkit to navigate this opportunity set. As such we focus on investing in specialized managers that focus on a subset of the energy transition opportunity.

“Clean Tech 1.0” was a period between 2004 and 2012 which saw a rapid rise in cleantech investments as investors, often inexperienced in the sector, allocated significant capital into climate technologies driven by high energy prices and government incentives. While we did not participate in “Clean Tech 1.0”, where investments largely experienced disappointing returns, we have spent time studying this period to derive key lessons learned. While we believe that the current energy transition investment megatrend will play out differently, we have observed past trends starting to repeat themselves such as certain sub-sectors reaching lofty valuations driven by the rush of capital into these areas, and a rapid rise in the number of climate-focused strategies coming to market with several being executed by teams with limited relevant domain expertise or experience. As such, we have been intentionally cautious about deploying capital, however, we have executed climate-focused investments across Private Equity, Venture Capital, Private Debt, and Public Equities, and all our asset class research teams are responsible for sourcing net zero investment opportunities and broader investment opportunities related to the energy transition.

We have a dedicated environmentally focussed fund which invests in a combination of Private Equity, Venture Capital, and growth infrastructure, where investments are focused on those with the potential to accelerate the energy transition and achieve decarbonization (Exhibit 12). Alongside direct fund allocations, we also have a robust deal flow of climate-related co-investment opportunities with our established relationships. For example, a recent Private Equity co-investment was in a company that provides efficiency management software to solar power installations, brought to us by a leading technology lending manager and we have since made a follow-on transaction into the business.

## Exhibit 12

During 2023, we continued to make strong progress in deploying our dedicated $143M Environmental Focused Private Equity Fund. Climate change is one of the biggest environmental challenge facing society today; the world needs to urgently reduce global greenhouse gas emissions to prevent the worst effects of climate change, requiring an economic transformation on the scale of the First Industrial Revolution. The scale and pace of change required is enormous, requiring transformation of business models, supply chains, and consumer behaviour. This transition is well underway, but we are also very much in the early innings. The core focus of the fund is to invest in products and services enabling this transition, and thereby aiming to reduce greenhouse gas emissions.

The production and consumption of energy accounts for around three quarters of global greenhouse gas emissions. Within this, the key contributors to emissions are: 1) electricity generation (commonly known as the power sector), 2) transportation, 3) industrial production and manufacturing, and 4) the built environment (including the heating and cooling of buildings). The agriculture sector is responsible for a further 12%. Investing in products and services that enable decarbonisation across these five broad sectors is therefore the core focus of the fund. Circular economy, a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products, is also a key enabler of waste, and in turn emissions, reduction. As at year end 2023, we have committed to nine fund opportunities and two co-investments, resulting in diversified exposure across these six core pillars, with the aim to achieve similar diversification once the fund is fully deployed. We include an example investment from some of the underlying asset managers for each of the pillars[8] on the next page:

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

## Power

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

## Transportation

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

## Industry

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

## Built Environment

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

## Food & Ag

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

## Circular Economy

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

## D) Partners Capital Operational Carbon Footprint

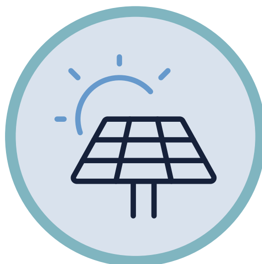
Partners Capital is supportive of the UK's net zero target, where the government committed to a 100% reduction of greenhouse gas emissions by 2050 compared with 1990 levels. Partners Capital has made progress on net zero as a firm and in 2023 we worked with Carbon Footprint Ltd, a UK-based environmental consultancy, to calculate and offset our operational carbon emissions for 2022. The project covered direct emissions associated with our operations, i.e., heating, electricity, and travel (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, Upstream Scope 3 emissions). In the future, we may seek to extend this calculation to our downstream scope 3 emissions as well, to include the emissions associated with our clients' investment portfolios. Once we have this information, we will be able to consider setting interim emissions reduction targets and a possible net zero target, but acknowledging the spectrum of client sustainability preferences and also the data challenges with climate reporting that still need to be overcome, especially associated with multi-asset class portfolios (more detail on the data limitations in Metrics & Targets section).

Our 2022 carbon footprint is 115% higher than in 2021 with an estimated 1,554 tonnes $CO_2$e for 2022 vs. 723 tonnes $CO_2$e for 2021. The increase is predominantly driven by a return to normality and business travel post COVID, and an increase in capital goods paid for (predominantly furniture and equipment) as the employee headcount grew by c. 14% between the two years. Although the increase in carbon footprint from 2021 to 2022 is sizeable, we remain in line with peers when looking at our carbon intensity on a per employee basis. A more useful comparison will be versus our operational carbon emissions for 2023, which we will calculate in 2024.

| Metric | 2021 | 2022 | % change on base year |
|---|---|---|---|
| Scope 1 & 2 GHG emissions (tonnes) | 208.7 | 191.9 | -16% |
| Scope 3 GHG emissions (tonnes) | 514.5 | 1,362.2 | 165% |
| **Total GHG emissions (tonnes)** | **723.2** | **1,554.1** | **115%** |
| **Tonnes of $CO_2$e per employee** | **2.6** | **4.8** | **88%** |

Changes to the carbon intensity of emissions per employee have been driven by changes in our scope 3 emissions (predominantly through flights and purchased goods and services). Reductions in our Scope 1 and Scope 2 emissions have stemmed from a reduction in our overall electricity consumption which is strong positive given the overall increase in head count. We neutralised our 2022 operational carbon footprint by purchasing carbon offsets, selecting 3 "Gold Standard" certified projects (Exhibit 13).

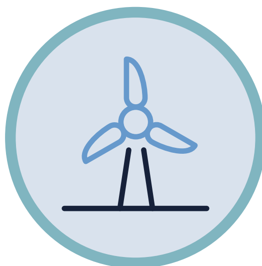
**Exhibit 13**



## India

### Solar PV Plant

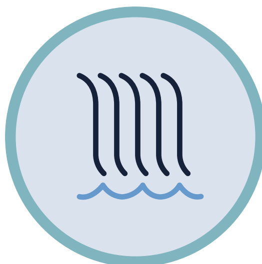
- 300 MW solar power project at Bhadla, Rajasthan, India
- Projected emissions reduction 492,382 $tCO_2e$ per annum.
- Partners Capital contribution equivalent: 600 tonnes



## Thailand

### Wind Power Generation

- The project will create various short- and long-term employment opportunities to the local community
- Generate clean electricity utilising wind energy.
- Projected emissions reduction 73,396 $tCO_2e$ per annum.
- Partners Capital contribution equivalent: 600 tonnes



## Zambia

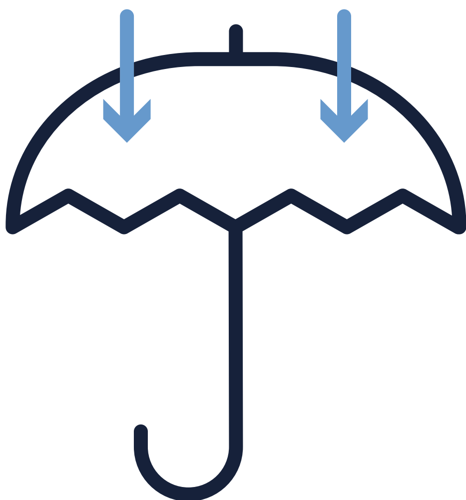
### Western Province Safe Water

- Rehabilitation and maintenance of vital safe water sources
- Trains the communities on best WASH practices
- Partners Capital contribution equivalent: 360 tonnes

# 4.

# Risk Management

**This section of the Report summarises the Firm's processes for identifying, assessing and managing climate-related risks.**



## 1) Third Party Asset Managers

### A) Identification and Assessment of climate-related risks

Climate change presents both risks and opportunities to investors across asset classes. We ensure that we are appropriately integrating climate considerations as well as other ESG factors into our manager selection process.

We undergo an extensive assessment of a manager's ESG practices during the active due diligence phase of our overall manager selection process, to determine the extent to which ESG factors are incorporated into a manager's investment process. This process supplements the high-level information that our Asset Class research teams would have gathered in their initial due diligence of the manager. Once the key sustainability risks, including climate change risks, have been identified and assessed, these are discussed with the Asset Class Investment Committee to approve. In the instance where the Asset Class research team has been unable to obtain sufficient information on the manager's ESG practices in time for the meeting, the Sustainable Investing Team will conduct further due diligence and include their assessments in the investment committee materials as soon as possible thereafter.

## Exhibit 14

| Stage | How sustainability risks are integrated in the manager selection process |
|---|---|
| **Initial Due Diligence** | • Asset Class research teams, where reasonably practical seek to gather high level, but critical firm/fund-level information on key ESG areas. This includes whether policies are in place, the extent to which investment tools are used to identify sustainability risks such as data providers and materiality frameworks, and any engagements with portfolio companies on these topics. |
| **Active Due Diligence** | • When a manager moves to active due diligence, the Sustainable Investing Team undertake a comprehensive evaluation of their ESG practices through our proprietary Asset Manager ESG Integration Survey.<br>• Assessments are made across all of our six core pillars of ESG integration, including climate change, and are included in Asset Class Investment Committee materials. |
| **Asset Class Investment Committee Approval and Post-Approval** | • Discussion of specific sustainability risks and opportunities during the Asset Class Investment Committee meeting if needed, with key details relayed to client teams.<br>• The Sustainable Investing Team, where applicable, will engage with the manager on specific approaches where the manager appears to be lagging. |

In the active due diligence phase, we evaluate our third-party asset managers' ESG practices across six core pillars of ESG integration. We consider climate change to be a systemic risk and therefore it represents a core pillar that is assessed across all asset classes in every manager due diligence.

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

We have four categorisations of ESG integration that we assign for each manager based on the survey responses, namely: Yet to Integrate, ESG Initiated, ESG Advanced, and ESG Leader. We have a qualitative scoring framework against which we use to score the managers and the classification process is designed so that managers are evaluated against criteria that are relevant to their asset class rather than taking a one-size-fits-all approach. An illustrative breakdown of each of our four categories is outlined in Exhibit 15:

## Exhibit 15

| Four tiers of ESG Integration | Public Equity, Liquid Credit, Private Equity, Private Debt, Real Estate | Absolute Return Hedge Funds, Commodities, Other Liquid Strategies |
|---|---|---|
| **ESG Leader** | • Meet criteria required to be "ESG Advanced" and also demonstrates strong differentiating factors, e.g. use of sustainability linked loans ("SLLs") where the manager links payable interest rates to company sustainability performance, or manager undergoes detailed climate scenario analysis. | |
| **ESG Advanced** | • Highly integrated ESG resources and tools that result in an ability to generate differentiated insights on underlying portfolio companies, create value to the point of delivering competitive advantage and expectation of better societal outcomes.<br>• Active ownership through engagement with portfolio company management teams, including on climate-related issues.<br>• Reporting to limited partners on ESG activities. | • Investment process incorporates ESG factors in decision making to the extent possible.<br>• Reporting to limited partners on ESG activities.<br>• Substantial internal policies procedures and initiatives to address the firm's environmental impact and effect on local communities. |
| **ESG Initiated** | • Have a clear ESG policy.<br>• Clearly integrate ESG criteria into their investment decision making.<br>• Engagement through at least proxy voting. | • Investment strategy focused on "doing no harm".<br>• Firm's internal ESG policy focuses on the firm's impact on people and the planet. |
| **Yet to Integrate** | • Do not have an explicit ESG policy (firm or investment strategy).<br>• Do not truly integrate ESG criteria into investment decision-making at a base level. | • Personnel and governance policies are below threshold. |

We use information from each of the six underlying core pillars to arrive at the overall manager classification, with no one pillar more heavily weighted than another in the scoring framework. The "ESG Leader" classification is awarded to a manager that meets all the requirements of an ESG Advanced manager as well as additional differentiating factors. Exhibit 16 is an example of such a distinguishing factor within Private Debt, where the manager uses sustainability linked loans ("SLLs") as a mechanism to create economic incentives to drive company sustainability improvements.

## Exhibit 16

**CASE STUDY**

### Sustainability-Linked Loans

Sustainability-Linked Loans (“SLLs”) are used by private lenders as a tool to support sustainable economic activity and growth. SLLs are designed to create economic incentives for companies to improve across a set of pre-defined Sustainability Performance Targets (“SPTs”) with managers linking payable interest rates to company sustainability performance.

Example 1: Manager E worked closely with a data center provider to devise a set of SPTs that align closely with the business’s long-term ESG goals to become a carbon-, waste- and water-neutral firm by 2030 and to be 100% renewable energy powered.

Example 2: Manager E worked with a portfolio company in France to structure an SLL containing two environmental SPTs. One SPT is linked to Science-Based Target Initiative (SBTi) for carbon emissions reductions in line with best practice Net Zero guidelines whilst the second is linked to a company-specific recycling target.

In recognition of the existing and emerging regulatory requirements of climate specific risks, we significantly enhanced the climate change section of our Survey over the last few years. We increased the breadth and specificity of questions asked, covering several areas including measurement of greenhouse gas emissions associated with investments, setting net zero strategies, and engaging with portfolio companies on climate change. We have included examples in Exhibit 17 of some of the key climate related questions we ask and how we assess the responses. However, these are just illustrative examples, and the list of included climate change questions will naturally change and evolve over time as we respond to developments in the market.

## Exhibit 17

| Focus Area | Example Questions | Yet to Integrate | ESG Initiated | ESG Advanced |
|---|---|---|---|---|
| **Assessment of climate risk exposure** | 1. Do you assess the strategy's exposure to climate risk? Please select the ways in which you assess the strategy's exposure to climate risk.<br>2. If you do not believe climate change is relevant to your investment strategy, please explain how you arrived at this conclusion. | • We do not assess the strategy's exposure to climate risk | • We qualitatively assess the strategy's exposure to climate risk<br>• We monitor the carbon footprint of the portfolio | • We perform climate scenario analysis using climate pathways (e.g. IEA's 1.5-degree scenarios)<br>• We utilise the IIGCC net-zero investment framework to assess investee company alignment with net-zero<br>• We assess physical risk exposure (e.g. climate value-at-risk) |
| **Measurement of climate risks** | 1. How do you measure and report the greenhouse gas (GHG) emissions associated with your investments? Describe the methodology used. If you do not measure and report GHG emissions, please explain why not, or the current status of your efforts.<br>2. Do you set time bound carbon reduction targets (e.g., 2030/2050) for any of your strategies? | • We do not calculate our GHG emissions<br>• We do not set timebound targets | • Long term targets only<br>• Detailed explanation provided where target setting is not wholly relevant to the strategy (e.g., methodological guidance for Private Debt managers is in its infancy) | • Detailed explanation of methodology used and benchmarking of methodology vs. external frameworks<br>• Medium- and Long-term targets |

**Exhibit 17**

*continued*

| Focus Area | Example Questions | Yet to Integrate | ESG Initiated | ESG Advanced |
|---|---|---|---|---|
| **Net Zero** | Partners Capital expects its third-party fund managers to develop net zero strategies for their investment portfolios and for their firms.<br>a) Does your firm have a net zero strategy in place?<br>b) What percentage of the investment portfolio do you aim to have covered by net zero targets by 2030 / another date?<br>c) What plans do you have in place to bring your strategy up to your stated net zero alignment target? | • No – we have no plans to do so in the future<br>• % of portfolio aimed to be covered by net zero targets: 0-25% / No data<br>• No Plans | • % of portfolio aimed to be covered by net zero targets: 25-50%<br>• High Level Description of plans<br>• No – we are planning to establish net zero targets in the next 12 months | • Yes – we have a net zero strategy in place for our business (+ detailed explanation, including the targeted net zero date, below)<br>• % of portfolio aimed to be covered by net zero targets: >50%<br>• Detailed description of plans to bring portfolio in line with targets |
| **Organisational climate risk management** | 1) Have you implemented any initiatives to reduce the environmental impact of your business?<br>2) Please detail any improvements to your environmental footprint as a result of these initiatives. | • No initiatives in place | • Some initiatives in place | • Several initiatives in place |
| | | | Energy efficiency improvements / waste reduction programme / recycling programme / water efficiency enhancements / policy to reduce business travel / purchasing carbon offset credits / programmes to reduce environmental footprints of employee commuting | |

## B) Management of climate-related risks

The processes outlined above help us to gauge the ESG integration practices, including the approaches to climate change risks, of our underlying managers. In 2023, we did this across the majority of the managers on our platform, including all of our largest manager relationships notwithstanding those subject to any specific sensitivities, and for all new manager approvals, unless manager specific circumstances prevented us from doing so. The managers' responses help us to conduct peer comparisons across asset classes to identify instances where their ESG integration practices might be exceeding peers or lagging. These comparisons, along with the amount of capital we have invested in the managers and the relevance of sustainability considerations to their strategy form the basis of our engagements. These engagements are the primary method in which we manage climate-related risks with our third-party managers, for example where we identify that their climate risk assessment approaches can be improved. Our engagements are rooted in our belief that if climate considerations are being incorporated into investment decision-making alongside fundamental financial analysis, better investment decisions can be made. Exhibit 18 is an example of a Global Hedged Equities asset manager that we have engaged with on different aspects of climate risk management since 2021.

## Exhibit 18

**Partners Capital Engagement with Manager F, a global hedged equities asset manager focussed on the US, Canada and Western Europe, with whom we have engaged with on multiple occasions since 2021 on climate.**

- Encouraged building of analytical capabilities and carbon emissions reporting *[2021]*
- Recommended systematic integration of ESG data into decision making. Manager F now tracks quantitative ESG metrics to help manage their portfolios and are working on expanding their analytics coverage *[2022]*
- ESG dashboard now live for use as a risk management tool across the investment team. Manager F is working on carbon footprinting their portfolios *[2023].*
- Recommended integration of climate change risk on a systematic basis. Manager F is aiming to build carbon analytics including net zero targets, but this remains in the early stages as they undergo a data provider evaluation exercise *[2023]*. Partners Capital will be seeking an update from the manager on their data collection assessment and progress in 2024.
- Encouraged continuing development of targeted engagement program for their portfolio companies. Manager F rolled out training to the investment team to encourage engagement with portfolio companies on relevant climate topics. As part of the engagement program, Manager F has conducted robust benchmarking vs peers in terms of carbon emissions targets *[2023]*.

Partners Capital engaged with 40 managers in 2023, comprising c. $12B of our overall AUM[9]. We are acutely aware that there is no one-size-fits-all approach to ESG integration and therefore tailor our engagements accordingly, making them asset class and strategy specific. Timelines against which to expect progress will subsequently vary by manager but typically if no progress has been made within 18 months since initial engagement, expectation setting will be revisited and along with other potential escalatory steps. Some of our engagements were climate-specific spanning climate risk integration in portfolio management, net zero policy development and operational carbon footprint.

Engagements can also happen on two levels, not only through Partners Capital engagement with the third-party asset managers with whom we invest on their approaches, but also the asset managers may engage directly with investee companies on material ESG and climate specific considerations. Where relevant to the asset manager and their underlying strategies, we work with them on net zero policy development and encourage them to engage with their underlying portfolio companies on the topic. Through our Asset Manager ESG Integration Survey, we monitor the progress of responding managers on this topic including implementation plans when setting targets. Where managers have specified that they plan to establish firm level net zero targets or indicated their plans to develop a net zero strategy for their portfolio companies in the next 12 months, we use this as a basis to engage and help them achieve their goals as well as aiming to hold them accountable.

Exhibit 19 highlights a public equities manager that has active engagement with portfolio companies regarding climate disclosures and net zero considerations, whilst Exhibit 20 demonstrates a Private Equity manager that has engaged with an investee company to improve the sustainability of its business operations.

9. Based on AUM as of 31 December 2023.

## Exhibit 19

### EQUITIES MANAGER CASE STUDY:

## Active engagement with portfolio companies on joining Science Based Targets Initiative (SBTi) and initiatives to minimise business environmental impact.

Manager G developed a public markets climate change engagement framework, identifying four levels of disclosure-related performance for companies:

- Level 1: disclose greenhouse gas emissions either to Carbon Disclosure Project (CDP) or in their own reporting.
- Level 2: disclose on climate-related risks and opportunities.
- Level 3: participate in the Science Based Targets initiative (SBTi).
- Level 4: aligned with a goal of net-zero emissions no later than 2040 and in the manager's view are showing leadership on climate action.

In 2021 the manager wrote to companies, calling on them to disclose and act on climate change in line with their framework. The manager warned that, in their proxy voting from 2021, they would generally vote against the re-election of the Chairs of portfolio companies that did not disclose their emissions either in company reporting or via CDP. In 2022, the manager gave notice that, starting in 2023, they would generally vote against the re-election of the Chairs of portfolio companies that had not formally committed to setting science-based targets (SBTs) with the Science Based Targets initiative (SBTi). This was in line with their view that emissions-reduction targets aligned with a 1.5C pathway must be the norm for every business. The manager seeks to achieve 60% SBT coverage by 2025, and 100% coverage by 2030. Climate engagement in 2023 continued to focus particularly on portfolio companies that have not formally committed to setting SBTs with SBTi. Based on the companies on their prospective investment list, in 2023, 52% of companies participated in the SBTi, an increase from 22% in 2020.

## Exhibit 20

**ENGAGEMENT CASE STUDY WITH PORTFOLIO COMPANY:**

### Sustainability Strategy and Journey to Carbon Neutrality:

Manager H has partnered with a healthcare company that provides medicine, pharmacy, and health management services, to improve the sustainability of its business operations. The company recognizes the impact of climate change, and the management team has worked closely with Manager H's Sustainability Team to design and implement a sustainability strategy with a commitment to reach carbon neutrality.

Working together with Manager H and an external consultant, the company was able to calculate its carbon footprint and identify the emission intensity of various activities and establish its decarbonization roadmap accordingly. Warehouse operations and goods delivery represented the bulk of its carbon footprint, with various initiatives undergone to reduce emissions and energy usage and improve their overall environmental impact:

- Introduction of recyclable packaging: Recyclable packaging has replaced 70% of traditional packaging material. The lifecycle of recyclable packaging material is expected to be between 7 to 10 years.
- Introduction of paperless policy: Paperless documentation, e-membership cards and digital coupons
- The company now uses intelligent air conditioning systems capable of remote monitoring, analysis and optimisation to reduce the energy consumption in the distribution hubs, where temperature and humidity control are key. Achieved an annual electricity saving of 50% for refrigeration by implementing this in 70% of its distribution hubs.
- Energy-saving intelligent lighting systems and automated guided vehicles (AGVs) were also introduced in the distribution hubs, with energy efficient equipment and materials introduced in pharmacies.
- Replacing current diesel delivery fleet with electric vehicles with the aim to complete the full transition by 2025.

## 2) Climate change considerations in client portfolios

Partners Capital tailors investment portfolios depending on a range of factors including but not limited to the clients' risk profile, time horizon, liquidity constraints and investment objectives. In addition, where clients have specific sustainability-related investment preferences, we commit to assisting them in constructing portfolios that are aligned with their sustainability preferences. The extent of climate change considerations in client's investment portfolios is therefore influenced by these sustainability beliefs.

As well as detailing the underlying asset manager ESG integration of clients' portfolios using results from our diligence and ongoing monitoring, we also assess and report on our clients' public equities exposure across a range of climate-related metrics. Partners Capital uses a third-party ESG data provider for the Public Equity allocations within client portfolios. We combine this information with stock level data from our third-party asset managers to build a picture of the climate risk and opportunities within our clients' Public Equities allocation, with the level of coverage dependant on underlying stock level data disclosed by managers. An example of the environmental specific metrics can be seen in an extract of our Sustainable Investing Dashboard (Exhibit 21) and looking ahead, we are aiming to develop the Dashboard to monitor more sustainability metrics.

## Exhibit 21

| Environmental Metrics | Illustrative Portfolio | Global Equities Index[10] |
|---|---|---|
| Carbon Intensity ($tCO_2$ / $M sales) | 115 | 126 |
| % portfolio reporting GHG emissions | 78% | 89% |
| % portfolio in emissions reducing Science-based targets initiative (SBTi) | 40% | 41% |
| % portfolio with quantitative carbon reduction targets | 81% | 92% |
| % portfolio with executive oversight of environmental strategy | 86% | 96% |
| % portfolio with >20% operations with high toxic waste or emissions | 12% | 15% |
| % portfolio with >20% highly water-intensive operations | 9% | 12% |

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Capital deployment, exclusion strategies and emissions measurement are all possible elements of a long-term strategy that moves any given investment portfolio toward net zero emissions. Some examples that our clients have taken towards net zero greenhouse gas emissions include:

1) Investing in climate solutions. Across both Public and Private Markets, we are sourcing opportunities for our clients to invest in the energy transition.

2) Implementing exclusions from areas such as coal and tar sands. We have several clients who, for example, screen fossil fuels exposure out of their portfolios (primarily executed via exclusionary equity trackers). As it relates to public equity portfolios, using the information from a third-party ESG data provider, we have further screening capabilities and can investigate companies' revenue exposure to sectors such as thermal coal, and other potentially undesirable sectors.

3) Measuring and monitoring the carbon footprint of the portfolio. For a group of institutional clients, we assess how the emissions of the Global Equities portfolios that we manage compare to the emissions generated for an equivalent dollar amount invested in the Global Equities benchmark (MSCI All Country World Index). When clients specifically request whole-of-portfolio emissions analysis or data on private markets, we are able to provide analysis on the public equities portfolio complemented by sector-based estimates for the private markets portfolio (more detail in the Metrics & Targets Section).

10. MSCI All Country World Index as at 31 December 2023

# 5.

# Metrics and Targets

Partners Capital manages bespoke multi-asset class portfolios for its clients, investing across both public and private markets, predominantly through third-party asset managers. Our investments span many asset classes, including Public Equity, Private Equity, Private Debt, Absolute Return, Liquid Credit and Real Estate. Data availability and reliability with respect to ESG and climate change varies significantly across the different asset classes and is also influenced by the nature of the underlying asset managers that we invest with. We believe that climate reporting is still maturing, with some significant data and methodological challenges still existing within the different asset classes, in particular private markets, although data is improving.

## Methodology

We are reporting on the following five key metrics as recommended by the TCFD framework: Scope 1, Scope 2 and Scope 3 GHG emissions, Weighted Average Carbon Intensity (WACI) and Carbon Footprint. More information on the definitions and calculation methodologies are included in the Appendix.

We have obtained information on our asset managers' climate risk integration approaches from our 2023 Asset Manager ESG Integration Survey. To obtain the requisite data to calculate the TCFD metrics for the calendar year ending 31 December 2023 and further carbon metrics, we sent a dedicated climate change survey to a subset of our managers (60+) in May 2024. The managers were selected based on existing knowledge of their approaches, where we believed climate data might be available for these strategies, as well as the scale of the relationships to ensure we covered a significant portion of our invested assets from a risk materiality perspective. We also believe we will have greater ability to effect change going forwards regarding data collection and reporting with managers where we have invested a significant amount of capital.

Across the different asset classes, we received data covering c. $7B of AUM. In these managers' disclosures, a range of methodologies or disclosure frameworks were used (such as The Partnership for Carbon Accounting Financials (PCAF) and The EU Sustainable Finance Disclosure Regulation (SFDR) to name a couple) as

well as a mixture of proxy and actual data, some of which referenced earlier reporting periods. We believe this apparent lack of consistency in reported climate-related information from our underlying managers does not allow for suitable aggregation and comparability across organisations. As a result, we have used our own estimations as the basis for this report. Going forward, where possible, we will engage with our managers and encourage them to work closely with their portfolio companies to obtain reliable and consistent climate-related information. We also note that regulatory developments will require companies to disclose climate information in the future although the timelines associated with this will vary across different jurisdictions.

Certain assets, equating to c.$8.3B, are considered not applicable to our greenhouse gas emissions calculations and therefore have been excluded from the AUM for which we have TCFD metrics. This includes cash and cash investments, government bonds, inflation linked bonds and Absolute Return funds with no directional sector exposure. Uncalled illiquid capital (c.$7.0B) has also been excluded from the AUM covered.

In Exhibit 22, we estimate the core TCFD metrics per asset class and at the aggregate level. We also provide our methodological approaches per asset class in the estimations of these core TCFD metrics.

## Exhibit 22

| Asset Class | % Coverage of in Scope AUM | Scope 1 Emissions (Metric Tonnes) | Scope 2 Emissions (Metric Tonnes) | Scope 3 Emissions (Metric Tonnes) | Weighted Average Carbon Intensity<br>Scope 1 and 2 Carbon Intensity $1M Sales (Metric Tonnes CO2) | Carbon Footprint<br>Scope 1 and 2 Carbon Intensity $1M Invested (Metric Tonnes CO2) |
|---|---|---|---|---|---|---|
| Partners Capital | 83% | 784,207 | 229,733 | 12,282,223 | 71 | 34 |
| Global Equities | 52% | 562,966 | 124,541 | 7,482,784 | 74 | 41 |
| Private Equity | 16% | 118,756 | 41,475 | 2,641,897 | 60 | 23 |
| Private Debt | 8% | 51,524 | 18,288 | 1,347,964 | 67 | 25 |
| Absolute Return | 2% | 46,800 | 7,500 | 551,492 | 176 | 73 |
| Credit | 1% | 2,926 | 33,293 | 192,408 | 74 | 20 |
| Real Estate | 5% | 1,236 | 4,637 | 65,679 | 36 | 3 |

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## Asset Classes

### Global Equities

Of all of our asset classes, our public equity programme has the most data available. The majority of our global equities data coverage came through disclosed manager holdings, which we linked with carbon emissions data from companies sourced from MSCI, a third-party ESG data provider (1). The information available through MSCI is a combination of both disclosed company emissions data (actual) and MSCI's own industry/sub-industry-based estimates where this data is not available (proxy). Where we had partial stock look-through information available for funds, we extrapolated the data for the remainder of the portfolio, assuming that the remaining fund holdings have the same carbon intensity as the known proportion of the portfolio (2). Where we had no stock-look through available for funds, we linked Q4 2023 sector exposure data to GICS sector carbon intensity data from MSCI ACWI Index (3). There is a large confidence interval around this approach, but we believe this is the most accurate estimate we can share at present based on the data that we have available (Exhibit 23).

## Exhibit 23

| Asset Class | Data Source | Method | % Coverage of in Scope AUM | Scope 1 Emissions (Metric Tonnes CO2) | Scope 2 Emissions (Metric Tonnes CO2) | Scope 3 Emissions (Metric Tonnes) | Weighted Average Carbon Intensity<br><br>Scope 1 and 2 Carbon Intensity $1M Sales (Metric Tonnes CO2) | Carbon Footprint<br><br>Scope 1 and 2 Carbon Intensity $1M Invested (Metric Tonnes CO2) |
|---|---|---|---|---|---|---|---|---|
| Global Equities | Stock Look Through Calculation (1) | Proxy and Actual | 39% | 447,991 | 102,799 | 6,556,601 | 73 | 41 |
| | Scaled Stock Look Through Calculation (2) | Proxy | 11% | 92,361 | 14,752 | 632,744 | 73 | 41 |
| | Sector-Based Estimation (3) | Proxy | 2% | 22,614 | 6,990 | 293,439 | 90 | 41 |

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**Private Equity**

Whilst Private Equity data disclosures are improving, the level of ESG data disclosure remains relatively low compared to public markets. For most of our Private Equity data coverage, we have used company industry level information which has been assumed to have the same industry-level carbon intensity as the MSCI ACWI global equities index (1). Where no GICS industry data was available for companies, we used funds' sector data and assumed that these have the same carbon intensity as GICS sector carbon intensity data from MSCI ACWI Index (2). We note the wide confidence interval that comes with these estimations, which is higher for sector-based estimates than for industry-based estimates, but we believe this is the most accurate estimate we can currently share based on the data that we have available (Exhibit 24).

## Exhibit 24

| Asset Class | Data Source | Method | % Coverage of in Scope AUM | Scope 1 Emissions (Metric Tonnes $CO_2$) | Scope 2 Emissions (Metric Tonnes $CO_2$) | Scope 3 Emissions (Metric Tonnes) | Weighted Average Carbon Intensity<br>Scope 1 and 2 Carbon Intensity $1M Sales (Metric Tonnes $CO_2$) | Carbon Footprint<br>Scope 1 and 2 Carbon Intensity $1M Invested (Metric Tonnes $CO_2$) |
|---|---|---|---|---|---|---|---|---|
| Private Equity | Industry-Based Estimation (1) | Proxy | 12% | 86,672 | 29,677 | 1,983,151 | 58 | 21 |
| | Sector-Based Estimation (2) | Proxy | 4% | 32,084 | 11,797 | 658,746 | 68 | 29 |

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### Real Estate

Similar to the industry-based estimation approach taken for the Private Equity allocation, our Real Estate exposure was calculated using proxy GICS Industry intensities from the MSCI ACWI index (Exhibit 25). Industry exposure was derived from holdings data shared by fund managers.

## Exhibit 25

| Asset Class | Data Source | Method | % Coverage of in Scope AUM | Scope 1 Emissions (Metric Tonnes $CO_2$) | Scope 2 Emissions (Metric Tonnes $CO_2$) | Scope 3 Emissions (Metric Tonnes) | Weighted Average Carbon Intensity<br><br>Scope 1 and 2 Carbon Intensity $1M Sales (Metric Tonnes $CO_2$) | Carbon Footprint<br><br>Scope 1 and 2 Carbon Intensity $1M Invested (Metric Tonnes $CO_2$) |
|---|---|---|---|---|---|---|---|---|
| Real Estate | Industry-Based Estimation | Proxy | 5% | 1,236 | 4,637 | 65,679 | 36 | 3 |

### Private Debt

The Private Debt asset class has similar data coverage limitations especially in sourcing carbon emissions information on small and mid-cap companies and is also more challenging especially when lending is secured against multiple assets in different sectors. For the sector data that we have obtained for our Private Debt programme, the relevant carbon metrics are noted in Exhibit 26, using the same sector-based estimation approach.

## Exhibit 26

| Asset Class | Data Source | Method | % Coverage of in Scope AUM | Scope 1 Emissions (Metric Tonnes $CO_2$) | Scope 2 Emissions (Metric Tonnes $CO_2$) | Scope 3 Emissions (Metric Tonnes) | Weighted Average Carbon Intensity<br><br>Scope 1 and 2 Carbon Intensity $1M Sales (Metric Tonnes $CO_2$) | Carbon Footprint<br><br>Scope 1 and 2 Carbon Intensity $1M Invested (Metric Tonnes $CO_2$) |
|---|---|---|---|---|---|---|---|---|
| Private Debt | Sector-Based Estimation | Proxy | 8% | 51,524 | 18,288 | 1,347,964 | 67 | 25 |

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**Absolute Return**

The Absolute Return asset class is comprised of funds that are uncorrelated to traditional asset classes such as public equities and span multiple different types of strategies. These include equity long / short, fixed income relative value and event-driven managers to name a few as well as multi-strategy funds that allocate across multiple strategies and asset classes. There is currently no widely accepted standard to help Absolute Return managers apportion emissions associated with derivatives and short positions with these methodological inconsistencies contributing to the data issues within the asset class.

For a subset of funds, most notably fundamental equity long / short strategies, where we believe sector information is more relevant, we have provided emissions metrics using the sector-based estimation approach outlined previously but focussing only on long exposures (Exhibit 27). Strategies that are not expected to have meaningful net sector tilts or that have extremely high turnover (e.g., high frequency trading strategies) for example, do not fall in scope of our calculations.

## Exhibit 27

| Asset Class | Data Source | Method | % Coverage of in Scope AUM | Scope 1 Emissions (Metric Tonnes $CO_2$) | Scope 2 Emissions (Metric Tonnes $CO_2$) | Scope 3 Emissions (Metric Tonnes) | Weighted Average Carbon Intensity<br><br>Scope 1 and 2 Carbon Intensity $1M Sales (Metric Tonnes $CO_2$) | Carbon Footprint<br><br>Scope 1 and 2 Carbon Intensity $1M Invested (Metric Tonnes $CO_2$) |
|---|---|---|---|---|---|---|---|---|
| Absolute Return | Sector-Based Estimation | Proxy | 2% | 46,800 | 7,500 | 551,492 | 176 | 73 |

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**Liquid Credit**
Like the sector-based estimation approaches above, our Liquid Credit exposure was calculated using proxy GICS Sector intensities based on the MSCI ACWI benchmark (Exhibit 28).

## Exhibit 28

| Asset Class | Data Source | Method | % of AUM in Scope | Scope 1 Emissions (Metric Tonnes $CO_2$) | Scope 2 Emissions (Metric Tonnes $CO_2$) | Scope 3 Emissions (Metric Tonnes) | Weighted Average Carbon Intensity<br><br>Scope 1 and 2 Carbon Intensity $1M Sales (Metric Tonnes $CO_2$) | Carbon Footprint<br><br>Scope 1 and 2 Carbon Intensity $1M Invested (Metric Tonnes $CO_2$) |
|---|---|---|---|---|---|---|---|---|
| Liquid Credit | Sector-Based Estimation | Proxy | 1% | 2,926 | 33,293 | 192,408 | 74 | 20 |

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## Targets

A climate-related target is a commitment which may be imposed on a managed portfolio, relating to particular climate metrics, in order to manage risks and opportunities. Partners Capital has not yet integrated any express climate-related targets in its management of any of its Pooled Vehicles. This is because our clients have a range of sustainability and climate-related beliefs and therefore imposing specific targets would require the express agreement of all clients in the management of these vehicles.

However, where clients have specific climate preferences and want to fulfil net zero pledges for example, we work together with them on achieving their goals. This includes assessing net-zero alignment of both managers and underlying companies (where possible), subsequent engagements with these managers that might be lagging to aim to reduce emissions and also investing in climate solutions.

## Conclusion and Outlook

The results of the required metrics included in this report should be interpreted cautiously given the underlying estimations that have been made. Compared to MSCI ACWI, the results illustrate that the assets in scope of our analysis have both a weighted average carbon intensity and carbon footprint which are both lower than for the MSCI ACWI (71 vs 120 metric tonnes CO2 per $1M of sales, and 34 vs 49 metric tonnes CO2 per $1M invested, respectively). However, it is worth noting that there are significant variations in the results by asset class, which are naturally driven by the underlying industry and sector exposures within each asset class. We would also stress there are large confidence intervals around the provided figures, given that we have mainly relied on sector- and industry-based estimates for our calculations. Changes in the underlying asset allocation and sector exposures by the asset managers that we work with will continue to have a significant impact on our carbon metrics going forward.

ESG regulation will continue to evolve in the next couple of years, with a likely focus on addressing inconsistencies between sustainable finance regulations across different geographies and actual implementation of the introduced requirements. Climate-related reporting is likely to be central of any future regulatory developments. We believe this will increase the coverage of climate-related disclosures from our underlying managers that will also allow for aggregation and comparability. To help drive improvements in climate data collection we will continue to engage with our asset managers and encourage them to also engage with their portfolio companies to obtain reliable climate-related information.

# 6.

# Partners Capital LLP Annex

## Compliance Statement

Our group level approach to each of the TCFD's recommendations does not deviate per entity. As such, the disclosures in this Report have been drafted to reflect our group level approach and activities in relation to climate-related risks and opportunities for 2023. To ensure compliance with the climate related disclosure requirements in Chapter 2 of the FCA's ESG sourcebook, we have indicated within this Annex the climate related metrics and targets data with respect to our UK entity, PCLLP.

The Report has been prepared to apply the TCFD Recommendations to PCLLP's assets under management, including where PCLLP acts as investment manager or investment advisor in respect of its client portfolios. This Report encompasses all the investment advisory activities of PCLLP, which are included in the Firm's AUM.

Partners Capital is a global business and the full report addresses our global AUM base accordingly. However, for the purposes of TCFD reporting, the estimated emissions of PCLLP are also illustrated in Exhibit 29. These calculations apportion AUM on an asset class by asset class basis to PCLLP, therefore assuming that the carbon emissions intensity of PCLLP investments is the same as the global business.

## Exhibit 29

| Asset Class | % Coverage of in Scope AUM | Scope 1 Emissions (Metric Tonnes) | Scope 2 Emissions (Metric Tonnes) | Scope 3 Emissions (Metric Tonnes) | Weighted Average Carbon Intensity<br><br>Scope 1 and 2 Carbon Intensity $1M Sales (Metric Tonnes CO2) | Carbon Footprint<br><br>Scope 1 and 2 Carbon Intensity $1M Invested (Metric Tonnes CO2) |
|---|---|---|---|---|---|---|
| Partners Capital | 81% | 261,528 | 84,556 | 4,289,646 | 70 | 33 |
| Global Equities | 45% | 175,806 | 38,892 | 2,336,759 | 74 | 41 |
| Private Equity | 13% | 34,951 | 12,206 | 777,527 | 60 | 23 |
| Private Debt | 14% | 33,039 | 11,727 | 864,365 | 67 | 25 |
| Absolute Return | 2% | 15,734 | 2,521 | 185,410 | 176 | 73 |
| Credit | 1% | 1,535 | 17,472 | 100,975 | 74 | 20 |
| Real Estate | 5% | 463 | 1,737 | 24,610 | 36 | 3 |

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**Will Jagger, Partner**
Partners Capital LLP

# Appendix

| Data point | Definition / methodology |
|---|---|
| **Scope 1 GHG emissions** | **Direct GHG emissions** – These occur from sources that are owned or controlled by the investee company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.; emissions from chemical production in owned or controlled process equipment. |
| **Scope 2 GHG emissions** | **Electricity indirect GHG emissions** – Scope 2 accounts for GHG emissions from the generation of purchased electricity consumed by the investee company. Purchased electricity is defined as electricity that is purchased or otherwise brought into the organizational boundary of the company. Scope 2 emissions physically occur at the facility where electricity is generated. |
| **Scope 3 GHG emissions** | **Other indirect GHG emissions** – Scope 3 is a reporting category that allows for the treatment of all other indirect emissions. Scope 3 emissions are a consequence of the activities of the investee company, but occur from sources not owned or controlled by the company. Some examples of scope 3 activities are extraction and production of purchased materials; transportation of purchased fuels; and use of sold products and services. |
| **WACI: Weighted average carbon intensity** | Portfolio's exposure to carbon-intensive companies, expressed in tons CO2e / $M revenue. The formula can be expressed as: $\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} * \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i}\right)$ |
| **Carbon Footprint** | Total carbon emissions for a portfolio normalized by the market value of the portfolio, expressed in tons CO2e / $M invested. The formula can be expressed as: $\frac{\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{issuer's market capitalization}_i} * \text{issuer's Scope 1 and Scope 2 GHG emissions}_i\right)}{\text{current portfolio value (\$M)}}$ |

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