



CLIMATE ACTION PROGRESS REPORT 2023



Time for action

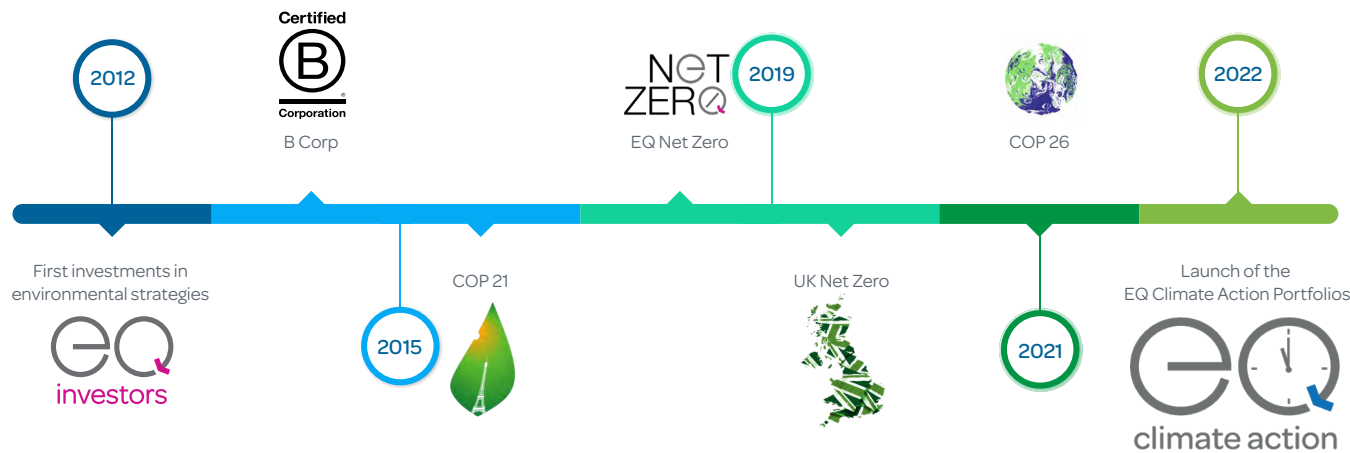
Climate change is widespread, rapid and intensifying.

Climate change has always been an important investment theme at EQ Investors and has featured in our portfolios for over 10 years. However, with a warming world and changing environment, we acknowledged that more needs to be done.

Our ambition is to make climate a key discussion point in the financial system and drive changes for the good of the planet. Simultaneously, while working closely with financial advisers and clients, it became increasingly clear to us that a growing number of investors wanted their investments to fight climate change and support the transition.

This led to the launch of the EQ Climate Action strategy, designed with a view to put climate at the centre of our investment decisions and capture the once in a generation investment opportunity created by a transitioning global economy.

We are extremely proud to share the first annual report for the EQ Climate Action strategy, highlighting the progress made on its three climate objectives: engagement, carbon reduction and climate solutions.



EQ Investors (EQ) was set up as a values-led wealth management company, being one of the UK's first Certified B Corporations and part-owned by The EQ Foundation, our registered charity.

EQ has always been at the forefront of innovation. We first began investing in environmental equities over a decade ago and have continued to adapt to with the global economy.

In 2019 we set our own corporate-level climate targets, and in 2022, following the Glasgow Climate Conference, we developed and launched this unique climate-focused investment strategy.



As part of the B Corp Climate Collective, EQ has committed to net-zero emissions by 2030 and is a Race to Zero business. In addition to our portfolio carbon reporting tool, we are working across our business to reduce, manage, and offset our operational carbon footprint.

The climate landscape

In spite of the chaos, human ingenuity provides a cause for optimism.

Climate challenges

- Humanity's use of fossil fuels for energy, transport, agriculture, and materials has resulted in a significant rise in the concentration of greenhouse gases such as carbon dioxide (CO₂) in the Earth's atmosphere.
- These greenhouse gases can remain in the atmosphere for centuries, growing in concentration, and intensifying the challenge. As a result, the Earth has already experienced global warming – a rise in average temperatures - of almost 1.15°C.
- In 2015, 196 countries signed the UN 'Paris Agreement' to keep global temperatures within 2°C versus pre-industrial levels - later revised to 1.5°C. This involves net zero commitments, both from corporates and governments.
- Net zero refers to a state where the global economy emits no new emissions. 2050 is the agreed date to achieve the temperature goal of the Paris agreement.

Investment opportunities

- ✓ To achieve net zero ambitions, the global economy is embarking on a system wide change that is affecting everything from energy to transportation, and from food to industry.
- ✓ Current green investment of around \$2 trillion annually needs to rise to \$5 trillion a year to meet international temperature goals.
- ✓ This creates an optimistic landscape for investors, as investment by one entity creates revenue for another. For the first time in a generation, there is an alignment of policy, regulation, consumer demand and investment towards a new set of technologies.
- ✓ A landmark for green investment is the US Inflation Reduction Act. This legislation made provisions for more than \$350 billion in investments incentives directed towards decarbonisation.
- ✓ By investing in companies that are aligned to this transition, the EQ Climate Action portfolios are set to directly benefit from these global tailwinds.

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Climate Action: our portfolios approach

The EQ Climate Action Portfolios were designed to put climate at the centre of our investment decisions. We have designed three objectives that guide this, and help us act on climate change within the financial system. The remainder of this report looks at these three objectives in more detail.

1

Engagement: The EQ Climate Action portfolios are committed to becoming 50% aligned to science-based targets by 2025, 80% by 2030, and 100% by 2040. We aim to achieve this through dedicated engagement that pushes for ambitious climate plans across our portfolio companies.

2

Carbon reduction: The portfolios targets a lower carbon footprint than a global equity benchmark, and for this footprint to reduce over time.

3

Climate solutions: The portfolios targets investment into those companies with products and/or services that are climate solutions or companies issuing debt where the proceeds will be used for green activities.

The Climate leadership categories:

To meet these objectives, we target maximum alignment to those leading companies in respect to the climate change challenge:



Low carbon companies

Leaders in carbon efficiency, with emissions at least 33% lower than their industry peers.



Climate solutions

Companies whose products and/or services provide solutions to decarbonisation, which includes themes like: renewable energy, energy efficiency enablers, green transport, power grids, green homes, circular economy and batteries.



Transition leaders

Companies that may currently have higher emissions than industry peers, but are on a credible, science-based path to decarbonising their business models.

Climate category alignment

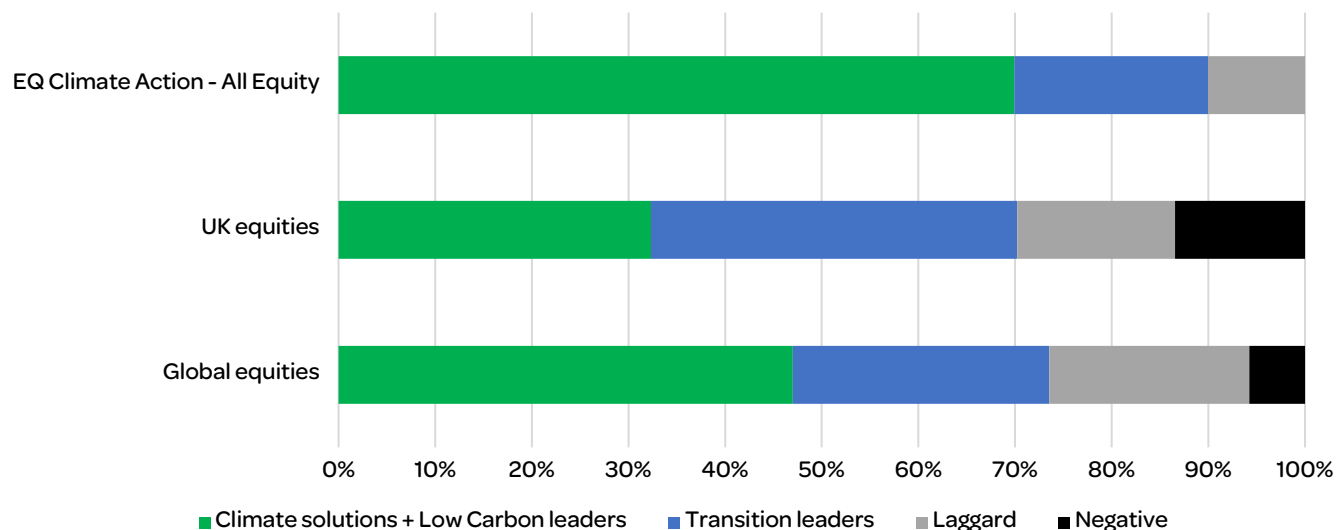
We invest with a climate lens. How do traditional investments compare?

When comparing the EQ Climate Action portfolios to traditional investments, the impact of our investment selection is clear.

The EQ Climate Action portfolios invest in more companies that show climate leadership, shown in higher alignment to companies that are low carbon leaders, climate solutions or transition leaders. The portfolios also have zero exposure to “negative” companies, defined here as the following industries: armaments, adult entertainment, gambling, tobacco,

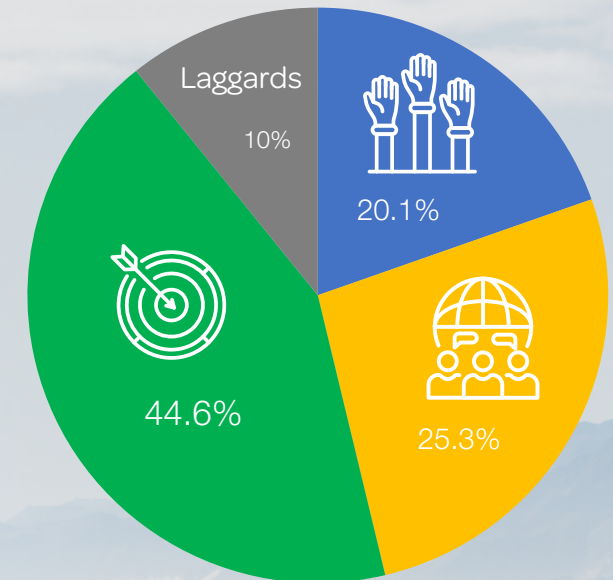
fossil fuel extraction and production, and thermal coal dependent electricity generation.

Investing without this climate lens will mean investments in fossil fuel majors, and companies that show high emissions without a reduction plan. This leaves the investor exposed to the risk of stranded assets. Stranded asset risk refers to the scenario in which energy companies cannot develop the fossil fuel reserves they own, and need to write-off the value attached to those assets.



Source: EQ investors, EQ Climate Action All Equity and benchmarks, May 2023

EQ Climate Action categories



Source: EQ Analysis, EQ Climate Action All Equity and benchmarks, June 2023

To demonstrate that our investment objective is being met, we identify leadership in companies in respect to the climate change challenge, and we target to maximise alignment to these in the EQ Climate Action portfolios.

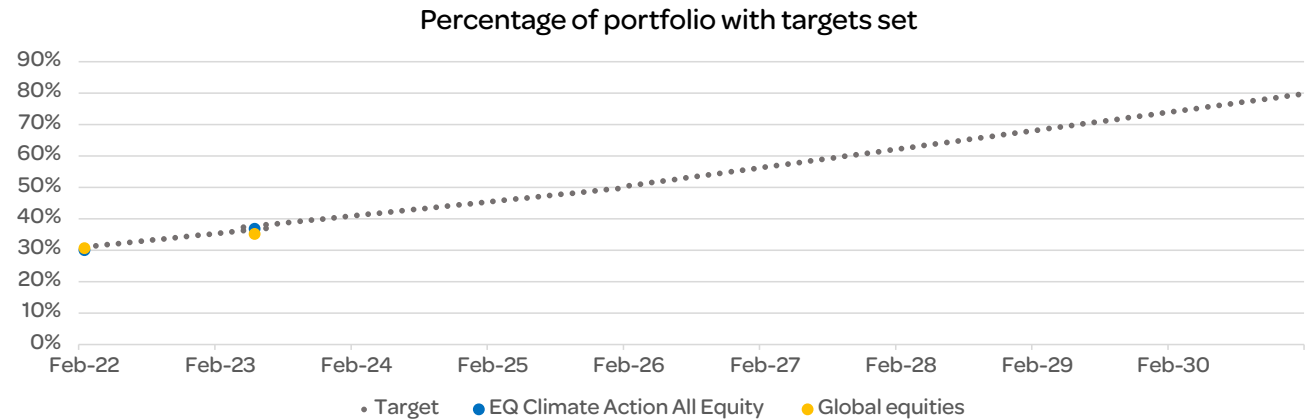
The small allocation to laggard companies is intentional, as we aim to drive real-world change in these companies’ climate alignment through our own dedicated engagement, and that of our fund managers.

Accelerating the transition

The global economy depends on action within carbon-intensive sectors to meet our needs. To transition to a low carbon economy, we need to decarbonise these sectors.

We invest in profitable businesses with credible, science-based plans to reduce their emissions, as well as selected companies where our managers see an opportunity to engage for change. In order to judge whether a company is ambitiously transitioning, we look at whether their targets have been independently verified by the Science Based Targets initiative (SBTi).

A key objective of the EQ Climate Action portfolios is for all holdings to have science-based targets in place by 2040. Here we plot the start of this journey, with progress to be compared to that of a traditional global equity benchmark.

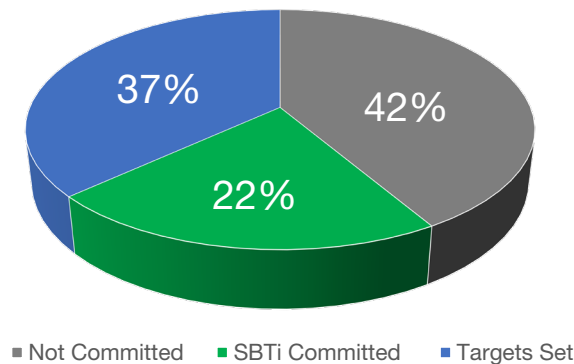


Source: EQ Climate Action all equity and benchmarks holdings; MSCI and sciencebasedtargets.org, May 2023.

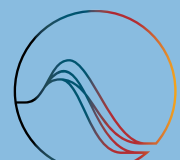
Where are the EQ Climate Action portfolios on their net-zero journey?

Already, 37% of the portfolio companies have set and are managing their business to their SBTi-approved target, with a further 22% committed to doing so in the next two years.

Engagement will target the remaining 42% that currently lack a commitment to SBTi, to accelerate their transition to net-zero.



Source: EQ Climate Action all equity and benchmarks holdings; MSCI and sciencebasedtargets.org, May 2023.



SCIENCE BASED TARGETS

The Science Based Targets initiative is a partnership between CDP (formerly Carbon Disclosure Project), The UN Global Compact, The World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). It was set up to mobilise the private sector to take a lead on urgent climate action, and is now helping develop guidance and frameworks for science-based climate targets.

The initiative lays out sector-specific frameworks against which it judges and independently verifies corporate decarbonisation plans. The SBTi verification has emerged as the “gold standard” to identify whether a corporate climate plan is ambitious enough to align with the goals of the Paris Agreement.

Pushing for positive change

To contribute to real world change, EQ engages and partners with fund managers that share our ambition.

As shareholders, investors have stewardship tools at their disposal that allows them to hold the companies they own to account, and raise their sustainability ambitions.

The EQ Climate Action Portfolios aim to ambitiously use voting and engagement to improve climate leadership within all invested companies.

We want to push for positive change in companies that currently lag behind in their climate goals, and create real- world change.

Here we share some examples of EQ's climate engagement over the last year and a specific company example from one of our chosen fund managers.

CRODA

As part of its strategic engagements, EQ has chosen to engage on the chemicals sector, which have high carbon footprints. EQ joined ShareAction collaboration on chemicals, with opportunities to join engagement calls with Croda and Air Liquide.

Another focus is the banking and insurance sector, as these companies finance and underwrite fossil fuel projects, disconnected with our climate goals.



Both sectors are generally under-represented in most investor engagement campaigns, so we believe we can add real value. EQ joined ShareAction working group covering Europe's 25 largest banks.

Fund manager engagement example:



Historically a US-based fossil-fuel power generator, the AES Corp has been phasing out coal generation activities while simultaneously growing its renewable energy business. AES is targeting a full phase out of all remaining coal activities by 2025, currently 20% of the company's electricity generating capacity is coal related.

Engaging with AES

The Kayne Anderson fund management team met with the Chief Financial Officer of AES in early May 2022, pushing for details on its strategies to retire coal. The engagement was initiated as certain coal-fired facilities did not have concrete plans for retirement, with worries that the 2025 targets may not be met.

In early April 2023, AES announced an agreement to terminate the Power Purchase Agreement at its 205 MW 'Warrior Run' coal plant in Maryland, USA. AES plans to repurpose the site for renewable energy facilities. This sets the company back on target.

Fund: Kayne Anderson Renewable Infrastructure Fund

Kayne Anderson
Capital Advisors, L.P.

Portfolio footprint

Carbon emissions are the best proxy we have to understand a company's climate change contribution, and to understand the difficulty a business has to reach net zero by 2050.

All companies are responsible for some carbon emissions, but as investors we must distinguish between the leaders and laggards in each sector.

The higher a company's relative emissions compared to its peers, the more likely the company is to suffer from risks associated with the transition to a low-carbon economy. For example, a theoretical carbon tax would put a cost on each tonne of carbon emitted.

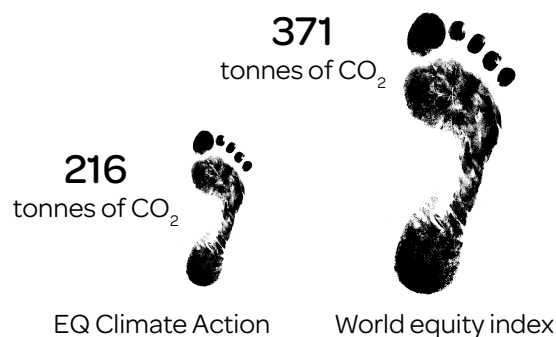
We need to measure companies Scope 1, 2 and 3 carbon emissions to understand its total climate contribution.

The EQ Climate Action portfolios aim to keep the total associated carbon emissions lower than market benchmarks, and we do this by focusing investments into low carbon leaders in each sector. These companies show their peers “the way forward”, and also allows us to avoid exposure to the risks we outlined.

This year we launched a tool that allows us to compare the carbon footprint of any of our investment portfolios against a benchmark of global companies.

Here we show an example from the calculator, demonstrating that the carbon footprint of investing £1 million in the EQ Climate Action All Equity portfolio is 42% lower than investing the same amount in global equities. This means that the companies in our portfolio show a significantly smaller climate change contribution and are more carbon efficient.

Carbon calculator



Scope 1
Direct emissions:
Company facilities
Company owned vehicles

Scope 2
Indirect emissions:
Purchased heat and electricity

Scope 3
Indirect emissions:
Material inputs
Product usage
Waste and disposal
Outsourced supply chain

Decoupling revenues and emissions

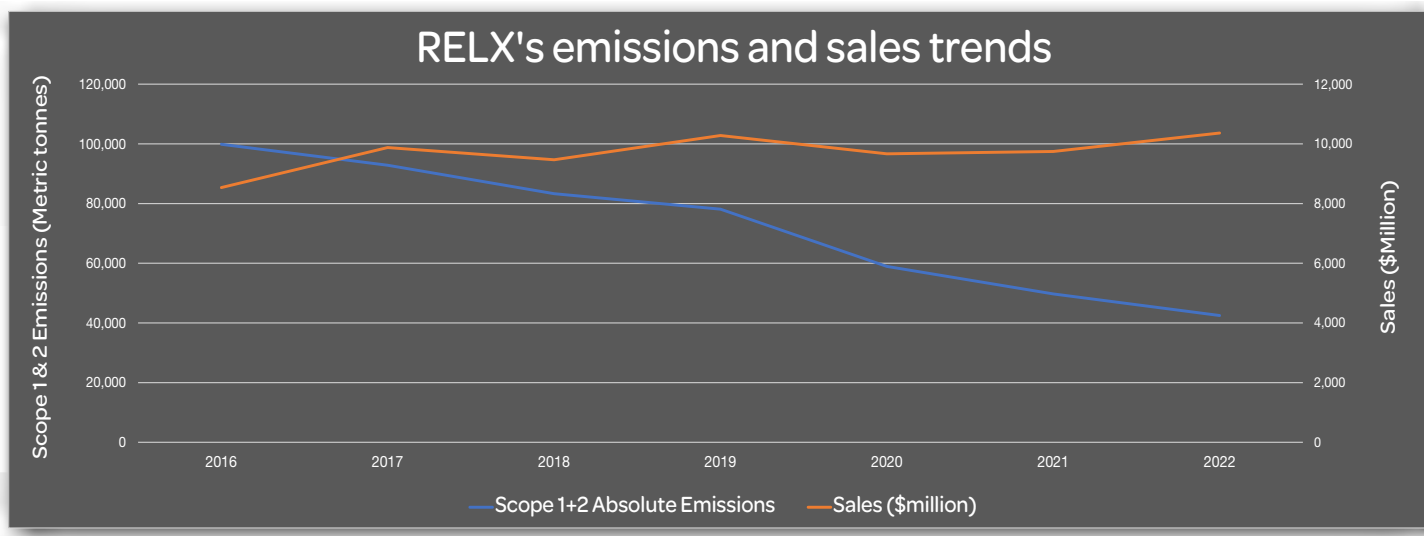
To stay on track with global commitment to the Paris Accord, companies need to decarbonise their absolute emissions by approximately 7.6% year-on-year up until 2050. To achieve this, revenue growth needs to decouple from emission growth.

CASE STUDY:



RELX is a UK Based analytics company, providing information and decision tools for businesses. It has managed to achieve an impressive reduction in absolute scope 1 & 2 emissions while growing sales through:

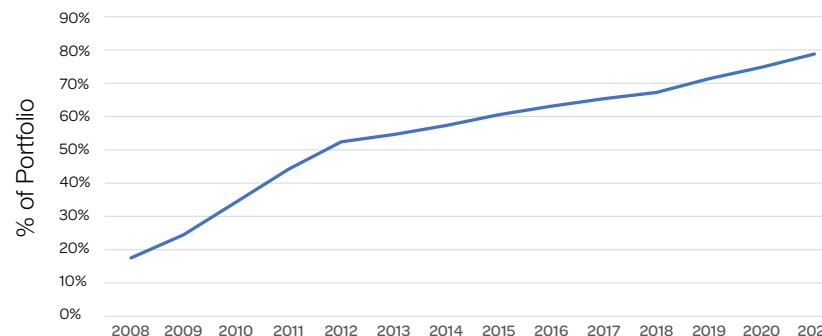
- Moving to green tariffs and renewable energy certificates so that the businesses' energy consumption is 100% renewable.
- Consolidating of its office space to reduce energy use.
- Upgrading the energy efficiency of its data centre hardware, which accounts for 39% of the total energy use.



Scope 3 reported emissions

Ideally all companies should reduce absolute scope 3 emissions, alongside their scope 1 and 2. However, the data quality and disclosure is still too sparse to draw meaningful conclusions. The good news is that scope 3 data disclosure is improving – from 17.5% in 2008 to 78.8% in the most recent reporting year.

EQ Climate Action portfolio company Scope 3 disclosure trend

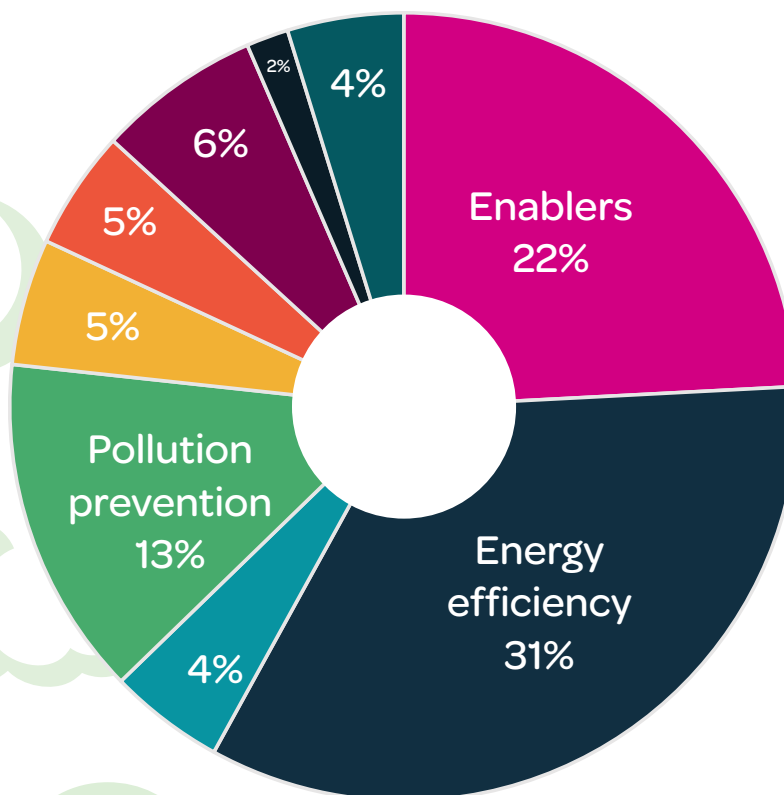


Investing in solutions

One way to invest for climate action is to invest in companies that develop climate solutions, and green bonds¹ which help finance these.

Most people may think of wind turbines or solar panels as climate solutions, but there are a wide variety of products and/or services, and their enabling components, that help avoid emissions when implemented.

All of these need to be supported to solve different sources of emissions. Here we break down the EQ Climate action portfolios' climate solutions into industry-standard themes.



¹Green bonds
Green bonds are bonds issued by government, corporates, financial institutions to secure financing for projects that will have a positive environmental impact, such as ecosystem restoration or reducing pollution.

Source: EQ investors, EQ Climate Action All Equity. May 2023.

Enablers - 22%

This includes all of the enabling components that are essential to build the final climate solution product, including semiconductors, batteries or sensors.

Energy efficiency - 31%

This includes industrial automation technologies, cloud infrastructure and software programmes that aid environmental performance improvements.

Green buildings - 4%

This includes efficient heating & cooling systems, lighting, insulation and sustainable construction.

Pollution prevention - 13%

This includes circular economy businesses and alternative materials.

Renewable technology - 5%

This includes the solar and wind value chain, and fuel cells.

Renewable utilities - 5%

This includes electric utilities that use predominantly renewable power.

Sustainable agriculture - 6%

This includes alternative agricultural practices, equipment or produce.

Sustainable infrastructure - 2%

This includes electricity grids and rail transport infrastructure, construction of sustainable infrastructure.

Sustainable transport - 4%

This includes clean transport, including electric vehicles and public transport.

Renewable energy systems

We invest in the entire chain of activities that allow electricity grids to become greener.



[First Solar](#) (US): A solar panel manufacturer.

▶ Renewable technology



[SolarEdge](#) (US) A solar inverter manufacturer; inverters help convert solar energy to electricity currents.

▶ Enablers



[Array Technologies](#) (US) provide ground-mounting sun-tracking systems that can help maximize solar energy capture and efficiency.

▶ Enablers



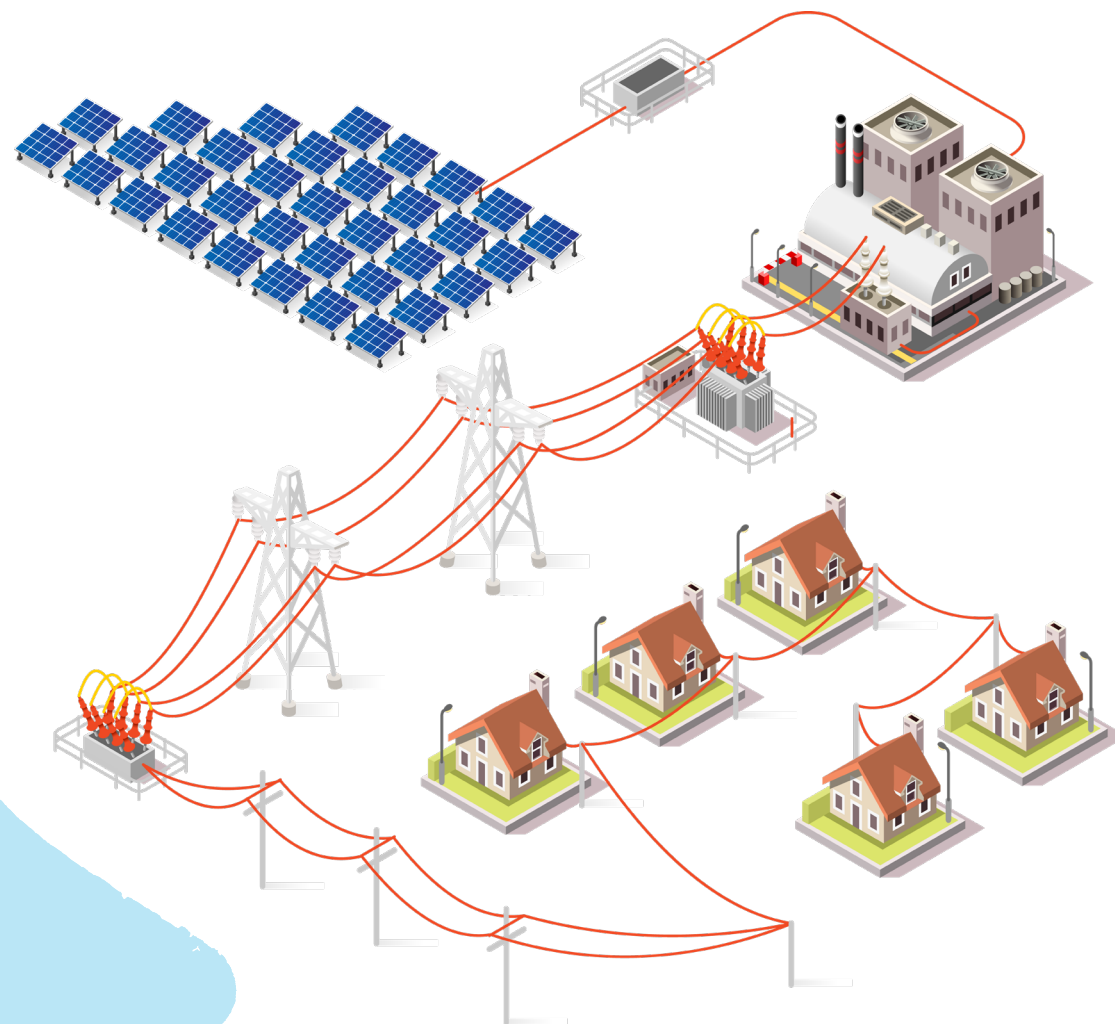
[Bluefield Solar](#) (UK) owns and manages over 120 solar farms in the UK.

▶ Renewable utilities



[EDP](#) (Portugal) is an electric utility business that transmits electricity to homes and industry, while also working to increase green electricity sources.

▶ Renewable utilities





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