Climate Report 2021

The race to zero

Stewart Investors

Contents

01 Introduction

Welcome to our first climate report. This report provides our clients and other stakeholders with a baseline of our climate change-related risks, opportunities and impacts, from which our progress towards zero-carbon portfolios and operations can be assessed in the years ahead.

The challenge

The challenge of reducing emissions and managing increasingly intense and frequent climate-related impacts in the global economy is complex, with varying implications for different industries, countries and companies. Climate change is also deeply interrelated with other sustainable development challenges, from biodiversity loss to improving access to energy and other basic services in developing countries. Despite these complexities, the need to rapidly decarbonise the economy and build resilience in communities so they can adapt to climate change is necessary.

Our starting point

For more than 15 years the foundation of our investment philosophy has been to invest only in high-quality companies that contribute to, and benefit from, sustainable development. In drafting our climate change statement in 2021, and reviewing various climate-focused industry initiatives, it became clear that our starting point is not the same as investors who do not share our history or focus on sustainable investing.

In 2021 our portfolios were c.90% lower in carbon than their corresponding benchmarks, free of fossil fuel extraction companies, and had more than 50% of companies contributing to climate change solutions. Consequently, our journey towards zero-carbon will be different to investors managing portfolios more closely resembling traditional higher-carbon market indices.

Carbon metrics stated are sourced from Stewart Investors and MSCI as at December 31, 2021. Company contributions to climate change solutions assessed against [Project Drawdown's climate solutions](#).

In 2021 our portfolios were c.90% lower in carbon than their corresponding benchmarks, free of fossil fuel extraction companies, and had more than 50% of companies contributing to climate change solutions.

The race to zero

While there has been a significant trend in the industry to adopt 'net-zero' targets, generally by 2050, we prefer to think of the challenge as a race to zero, as each tonne of emissions adds to global warming. We also recognise that delivering on other sustainable development challenges – particularly human development in low and middle-income countries – is crucial for achieving a zero-carbon economy.

We recognise that carbon and climate change reporting by companies and investors remains inconsistent, while approaches to achieving genuine abatement remain highly contested. The potential for greenwashing, or well-intended but ultimately ineffectual efforts, is high.

As long as the broader economy remains carbon-intensive, our portfolios will remain relatively low carbon in comparison, but they will not be able to achieve our goal of zero emissions due to the interconnectedness with the global economy. However, as the broader economy reduces emissions at the speed and scale required to keep warming well below 2°C, the gap between our portfolios and the broader market should close, even as our footprint continues to fall. Real success would see the market catching up to us in the race to zero.

Our commitments

In June 2021 we outlined our position on the issue of climate change and made four commitments:

1. **Allocate capital to high-quality companies** that are developing and implementing solutions to alleviate climate change and biodiversity loss, while not investing in fossil fuel companies.
2. **Provide full transparency of our investments** and map these to frameworks, such as Project Drawdown's climate change solutions, to both illustrate how companies are contributing to emission reductions and to help inform and focus our engagement efforts.
3. **Encourage companies to take positive actions** and use their influence across their value chains to drive emission reductions, while also striving to ensure equitable treatment of all their stakeholders in the transition to a carbon-constrained economy.
4. **Reduce emissions in our own operations** and offset whatever emissions we cannot remove.

02 Executive summary

Stewart Investors Sustainable Funds Group (SFG) is a semi-autonomous investment business within the First Sentier Investors (FSI) group. Our team has been investing in quality companies well positioned to contribute to, and benefit from, sustainable development since 2005.

Climate change is a critical social, environmental, economic, and therefore investment issue. The Taskforce on Climate-related Financial Disclosures (TCFD) has emerged as a common global framework through which companies and investors can provide consistent, decision-useful information to their stakeholders.

The end of this report details our approach to governance, risk management and strategy of climate-related risks and opportunities for both our organisation and our investing in line with TCFD recommendations. It also outlines the metrics we will report on to track our progress.

The remainder of the report focuses on our investment approach and the companies we invest in. It offers our clients and other stakeholders a clear baseline of relevant climate-related information, like the carbon footprint of our portfolios* and our efforts to encourage the companies we invest in to reduce their carbon emissions and grow their contribution to climate change solutions.

*Portfolio carbon footprints are the share of emissions attributable to an investor based on their ownership of the company. For example, if a shareholder's exposure is equal to 10% of the company's market value plus its total debt, it is allocated 10% of the company's emissions. This type of emissions accounting is called 'financed' or 'equity share' emissions and uses the Partnership for Carbon Accounting Financials (PCAF) methodology.

Report highlights

Governance, risk management and strategy

The largest climate-related risks we face relate to our ability to manage investment risks on behalf of our clients, and ensuring that our disclosures and communications remain consistent with our practices. We have processes in place to manage these risks within Stewart Investors, supported by First Sentier Investors.

> Our long history and dedicated focus on sustainable development has allowed us to embed climate change and other sustainability issues into our investment philosophy and processes.

> We have a small and diverse investment team, a flat and inclusive structure, a bottom-up approach to company analysis and engagement, and an insistence on quality and positive sustainability positioning for every investment. All this, combined with our long-term investment horizon, ensures alignment between our investment objectives and global sustainable development goals.

Emissions

> All our regional and global sustainability strategies have carbon footprints at least 80% below their respective benchmarks, with six out of nine having footprints more than 90% below (see p9 for methodology).

> In 2019 our equity share of emissions across our strategies was 173,701 tonnes of CO2-e, which was 88% below the aggregate benchmark emissions at that time.

> In 2021 emissions were 180,600 tonnes of CO2-e, which is 90% below the equivalent emissions from the aggregate benchmark emissions. Growth in assets under management of 51% (excl. cash) drove the increase in emissions between 2019 and 2021.

> Normalising these emissions per US million dollars invested shows that emissions have decreased from 12.9 to 8.9 tonnes of CO2-e per million dollars invested – a reduction of 31%, which was at least in part effected by the COVID-19 pandemic.

Solutions

We determine a company's contribution to climate change solutions by reference to Project Drawdown's research which identified c.80 climate change solutions that, if scaled, could deliver a below 1.5°C temperature increase at the end of 2021:

> 102 companies (59%) are making meaningful direct, enabling or indirect contributions to 48 different climate change solutions.

> The three largest types of contributions are in transport, energy and buildings.

> 55% of contributions are enabling contributions, where companies are producing essential components and services that make a solution possible. For example, the design and manufacturing of specialist semiconductors in electric vehicles.

> Our interactive Portfolio Explorer tool details our analysis of every company we invest in and their contribution to climate solutions.

Carbon metrics and company contributions stated are sourced from Stewart Investors and MSCI as at December 31, 2021. Company contributions to climate change solutions assessed against Project Drawdown's solutions.

Report highlights

- We have no exposure to fossil fuel extracting companies.
- At the end of 2021 we invested in 20 companies which provided services to the fossil fuel industry amounting to less than 5% of their revenues. We invested in 1 company with revenues greater than 5% from the industry.
- In the majority of cases, we believe the investee companies are working to make fossil fuel companies cleaner, safer and more efficient.

We have set a number of climate-specific targets for our organisation and investments, consistent with the Net Zero Asset Managers initiative. These include:

- Working with FSI to achieve net-zero operational emissions by 2030.
- Engaging with our investee companies so that 100% are disclosing emissions by 2025, and that 80% of financed emissions have clear targets by 2025.
- Achieving a 50% reduction in financed emissions by 2030, from a 2019 base year.
- Achieving net-zero financed emissions by 2050.

- In 2021 we met with 314 companies in 438 meetings and calls, the vast majority of which included discussions on sustainability issues like climate change.
- We engaged with six companies seeking specific improvements in their approach to climate-related activities. These included target setting, use of recycled materials and divestment of fossil fuel assets.
- Our 2022 engagement plan includes writing to all investee companies who are not disclosing emissions or who have not set targets, and encouraging them to do so. We also plan to meet with a targeted list of companies who either have high emissions or we believe can improve their approach to climate change.

Important information about data reliability and sources

The reporting period for this report is the year to December 31, 2021. We have made best efforts to ensure the data in this report is accurate and reliable. This has included comparing two different sources of information for emissions data and company targets, MSCI and Net Purpose. However, a significant number of companies still do not disclose their emissions or their disclosures are not consistent with widely adopted reporting standards like the Greenhouse Gas Protocol. Where information is not available, we have relied on estimates produced by MSCI. Estimates require assumptions that do not match individual companies' circumstances in the real world. In terms of our reporting on climate solutions, we have mapped our companies' contributions to the c.80 solutions identified by Project Drawdown. We classify these contributions as direct, enabling and indirect, and only include solutions we believe are meaningful. We provide explanations for why we believe each company is contributing to these solutions in our Portfolio Explorer tool, which also includes information on our assessment. We hope this company-level transparency will inspire discussions with clients and stakeholders.

03 About our business

We invest globally across ten* investment strategies. Our business began investing in the Asia Pacific before expanding to Global Emerging Markets (GEM), the Indian Subcontinent and Worldwide.
Our European Sustainability strategy is our most recently launched strategy. We have also been expanding our offering of Worldwide and GEM Leaders strategies, which have a focus on larger companies.

Investment analysis and engagement with companies is shared across the team.

* European (ex UK) Sustainability strategy was launched in January 2022, and will be included in 2022 reporting onwards.

Organisational profile

Stewart Investors Sustainable Funds Group as at December 31, 2021	
Assets under management	USD 21.5 billion
Number of companies held across all portfolios	173
Members of the investment team	14
Investment team locations	UK, Singapore and Australia

Sustainability investment strategies

Strategies grouped in this report as at December 31, 2021	**Assets under management (USD million)**
Asia Pacific	2,304
Asia Pacific Leaders	11,936
Asia Pacific and Japan	708
Indian Subcontinent	650
Global Emerging Markets	1,387
Global Emerging Markets Leaders	262
Worldwide	3,491
Worldwide Leaders	785
European	2

Source: Stewart Investors. Figures have been converted from the base currency of each account using the WM Reuters 4pm exchange rate as at December 31, 2021. All AUM figures are unaudited and may differ from final audited AUM figures when published. The AUM data provided is for information purposes only and should not be used for any other purpose. AUM of the strategy is shown under the investment group which currently manages the strategy and may not reflect the strategy's full history.

04 Our targets

- 100% of investee companies disclosing emissions by 2025
- 80% of financed emissions covered by targets by 2025, 100% by 2030
- 50% reduction in financed emissions by 2030
- Net-zero scope 1 & 2, & employee travel emissions by 2030
- Net-zero financed emissions by 2050
- 1.5°C aligned investment business

Targets

We are fully committed to investing and operating in a manner that aligns with and supports a zero-carbon economy. In keeping with this commitment, we have become a signatory of the Net Zero Asset Managers initiative. Being a signatory to the initiative involves a number of commitments from setting emissions targets to working collaboratively with clients and other stakeholders.

Consistent with the Net Zero Asset Managers initiative we have set a target of reducing financed emissions by 50% by 2030, using a 2019 base year. We have also set a target of achieving net-zero emissions by 2050. We will review these targets at least every five years with a view to setting targets that are more ambitious. As data improves, we will incorporate scope 3 emissions into our targets.

Our portfolios' share of our investments' emissions at 31 December 2019 were 173,701 tonnes of CO2-e, which was 88% below the aggregate benchmark's emissions at that time.* This means our target is to reduce portfolio emissions by 86,850 tonnes of CO2-e by 2030.

Achieving this goal will require the companies we invest in to disclose emissions information and set aligned targets. We will encourage all companies to report their carbon footprint by 2025, with the goal that companies contributing 80% of our portfolios' emissions have targets set by 2025. These two targets will underpin our climate-related engagements in the years ahead.

Lastly, we have a target of net-zero scope 1 and 2 emissions from business operations and scope 3 emissions from employee travel by 2030. This target includes purchasing 100% renewable energy for our standalone offices by the end of 2022. We recognise that purchasing offsets, even where they are high quality, is not the same as avoiding emissions. While we intend to buy offsets to take responsibility for those emissions we cannot avoid, we will not count these towards targets.

* Source: Stewart Investors and MSCI as at December 31, 2021.

05 Investing for zero

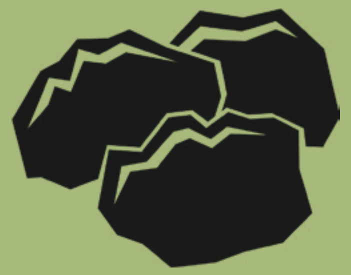
Investing proportionally across our strategies finances

of CO^{2}-e for every million dollars invested

Investing the same amount in the respective benchmarks finances

of CO^{2}-e for every million dollars invested

That's similar to burning an **extra 38.5 tonnes** of coal for every million dollars invested in the benchmark



Source: Stewart Investors and MSCI as at December 31, 2021. Equivalents for emissions are for illustrative purposes and use the US Government EPA calculator. The equivalent measures have been converted to the metric system.

About carbon footprinting

The Partnership for Carbon Accounting Financials (PCAF) methodology for portfolio reporting calculates a shareholder's or lender's share of scope 1 and 2 emissions for each company it invests in. An investor's share is based on the amount invested over the market value of the company plus its total debts. For shareholders this is sometimes called the equity share of emissions.

These emissions can be aggregated to a portfolio, strategy or whole of firm level. To calculate the benchmark comparisons for our strategies we have used the same approach by assuming benchmarks hold the same total value of investments as the strategy it is being compared to.

We provide the total footprint, which is influenced by the size of the total value of the investment strategy and on a "per US$1m invested" basis, which is useful for comparison purposes.

As different funds report in different currencies depending on where they are available, we have used US dollars to calculate our footprint for aggregation and comparison purposes.

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Our carbon footprint

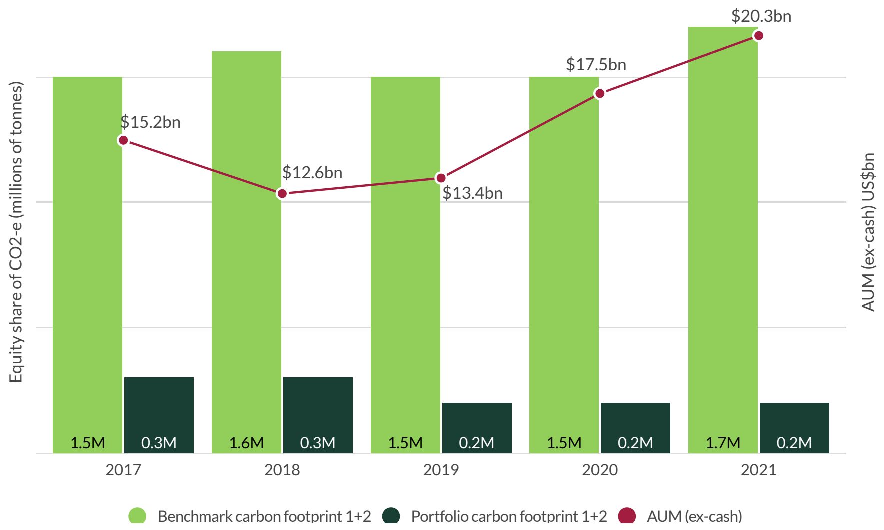
Across our strategies, our total share of emissions in 2021 was 180,600 tonnes of CO_2-e, which is 90% below the equivalent emissions from the aggregate benchmark emissions of 1,737,809 tonnes of CO_2-e.

As our assets under management grow from new and additional investments by clients, so does the share of investee companies' emissions that are attributable to us. The 2021 total footprint is 4% higher than our 2019 baseline due to a 51% increase in assets under management (in USD, excluding cash). When calculated on a per US million dollars invested basis, our overall footprint was 8.9 tonnes of emissions, which is 31% lower than it was in 2019.

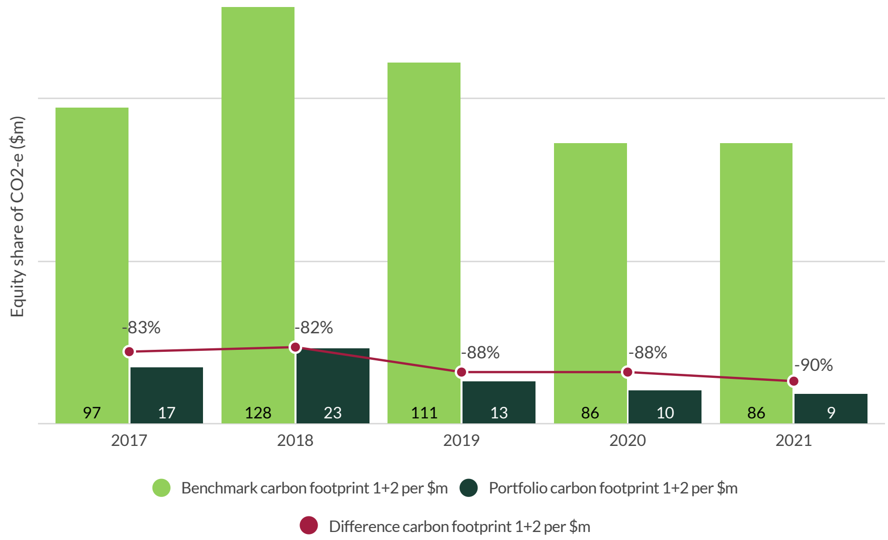
While these results are encouraging, they don't tell the full story. We believe all the companies we invest in are making meaningful contributions to sustainable development. Many companies, such as those who design and manufacture specialty computer chips for power management, including in renewable energy and electric vehicles (EVs), make contributions that directly support a reduction in emissions. One such company has calculated that their chips save 35 tonnes of CO_2 for every tonne consumed to make them.

The calculation of avoided emissions is an evolving area, which requires the development of new standards, however it is nonetheless an important consideration that is not captured in carbon footprints.

Total carbon footprint (scope 1 + 2) vs benchmark



Carbon footprint (scope 1 + 2) per $m invested



Carbon metrics stated are sourced from Stewart Investors and MSCI as at December 31, 2021.
* Source: Company Q2 2021 quarterly update.

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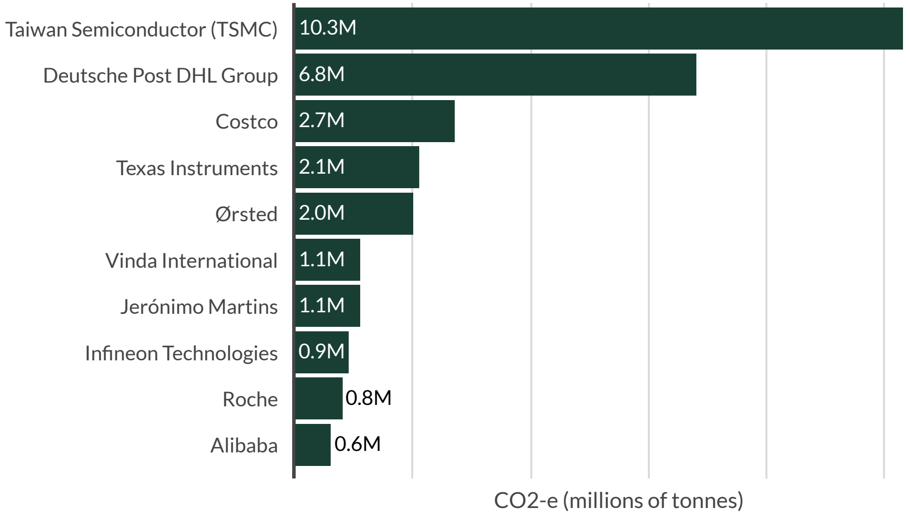
Largest emitters vs largest contributors

The companies contributing most to our portfolios' carbon footprint are different to the highest emitters overall because they are calculated based on what percentage of the company we own on behalf of clients. This means a substantial shareholding in a relatively low emitter can make a larger contribution than a small holding in a high emitter. Company size also plays a role here as the same amount of money invested results in different ownership percentages.

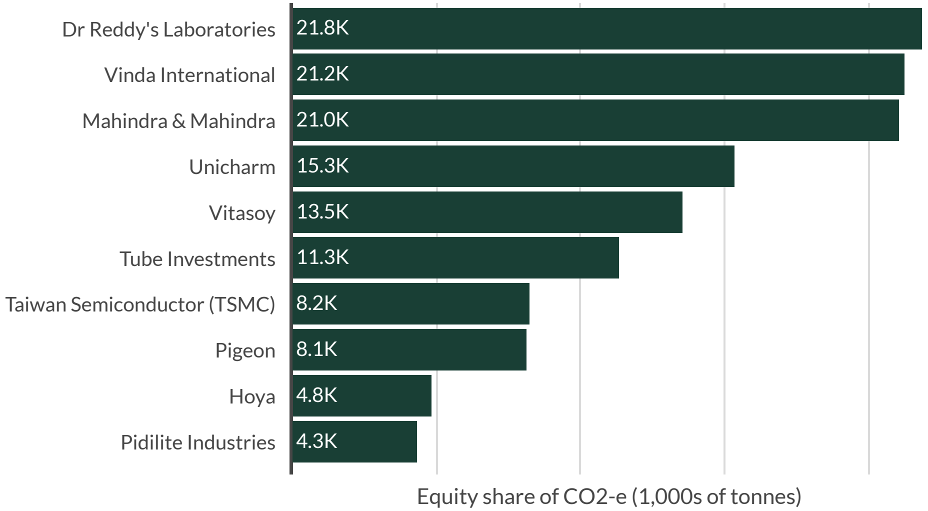
For example, if we consider those companies making the greatest impact as shown in the graphs to the right, in December 2021 we owned c.4.1% of Dr Reddy's Laboratories across our strategies. Dr Reddy's emitted 527,430 tonnes of CO2-e in 2021, making our share 21,815 tonnes. For Taiwan Semiconductor (TSMC) we owned 0.1% of the company, meaning only 8,215 of its 10.3 million tonnes of emissions are attributable to the portfolios. While the total amount invested in each company at the time was similar, TSMC was 53 times the size of Dr Reddy's, resulting in a much smaller ownership percentage.

Because of these differences both measures are important for understanding our overall impact, and for prioritising our company engagement activities.

The ten investee companies which emit the most carbon overall



The ten investee companies contributing the most to our carbon footprint



Carbon metrics stated are sourced from Stewart Investors and MSCI as at December 31, 2021. This stock information is provided for illustrative purposes to demonstrate Stewart Investors' carbon exposure. It does not constitute any offer or inducement to enter into any investment activity, nor is it a recommendation to purchase or sell any security. Holdings are subject to change.

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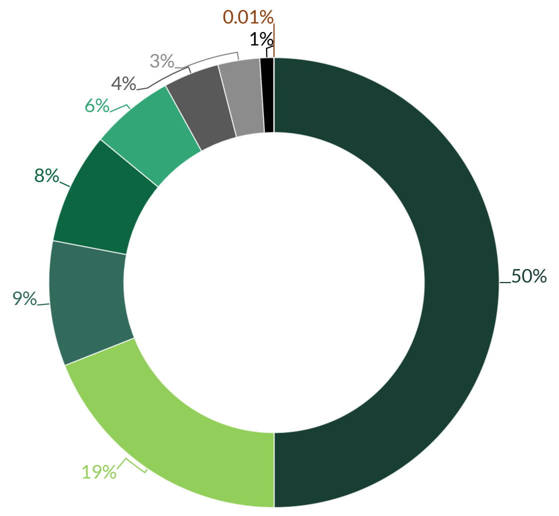
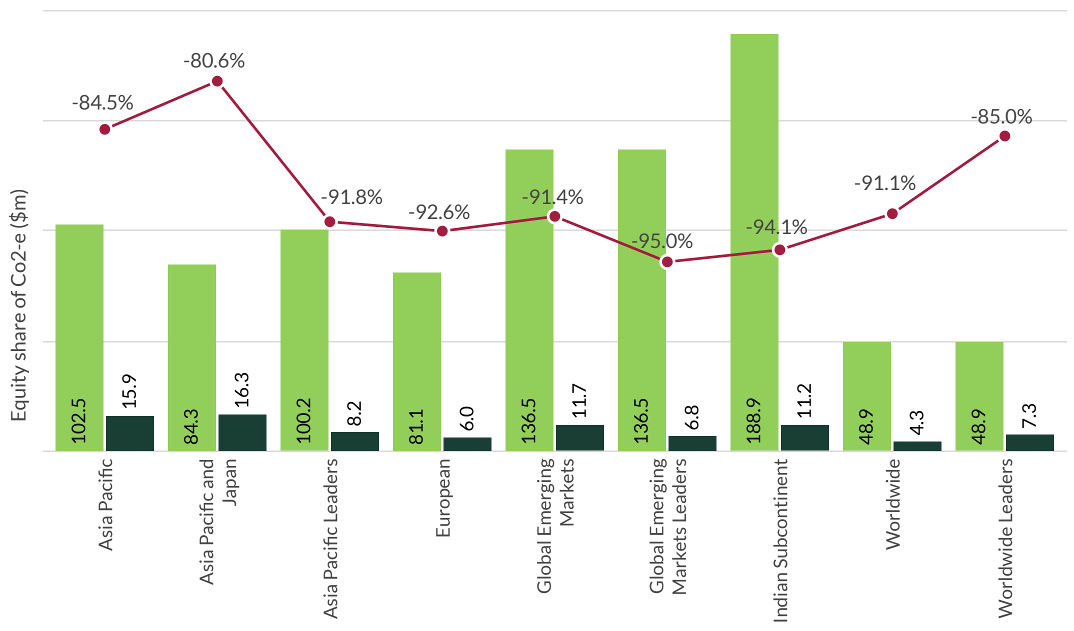
A summary of our carbon footprint by strategy

Our largest strategy, Asia Pacific Leaders, contributes around half of our overall footprint, which is roughly in line with its proportion of our assets under management. More than half of the companies in our India, GEM and Asia Pacific strategies do not currently disclose their emissions.

Carbon footprint by strategy

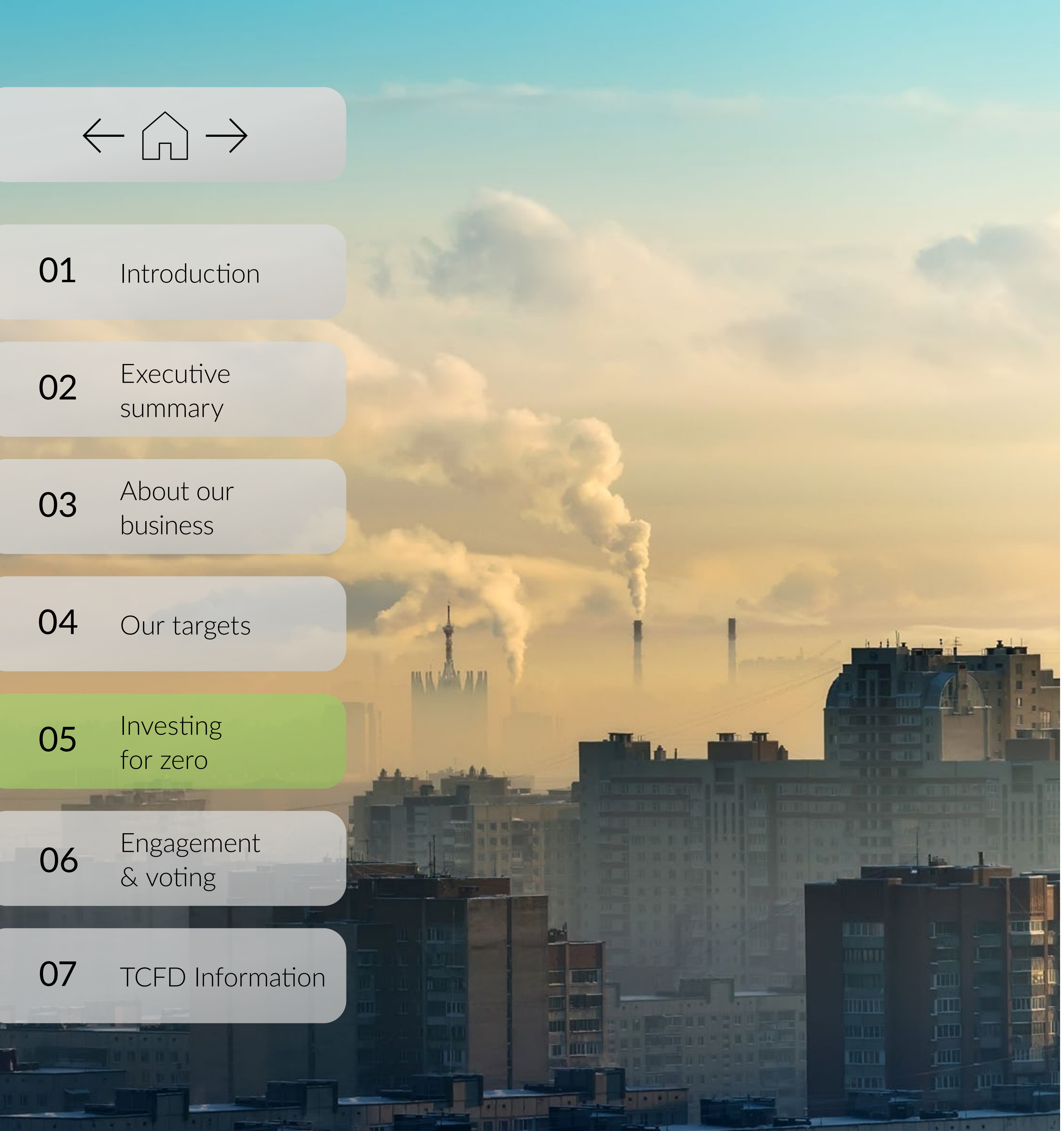


Carbon footprint (scope 1 + 2) per $m invested



All strategies have carbon footprints at least 80% below their respective benchmarks, with six out of nine having footprints more than 90% below.

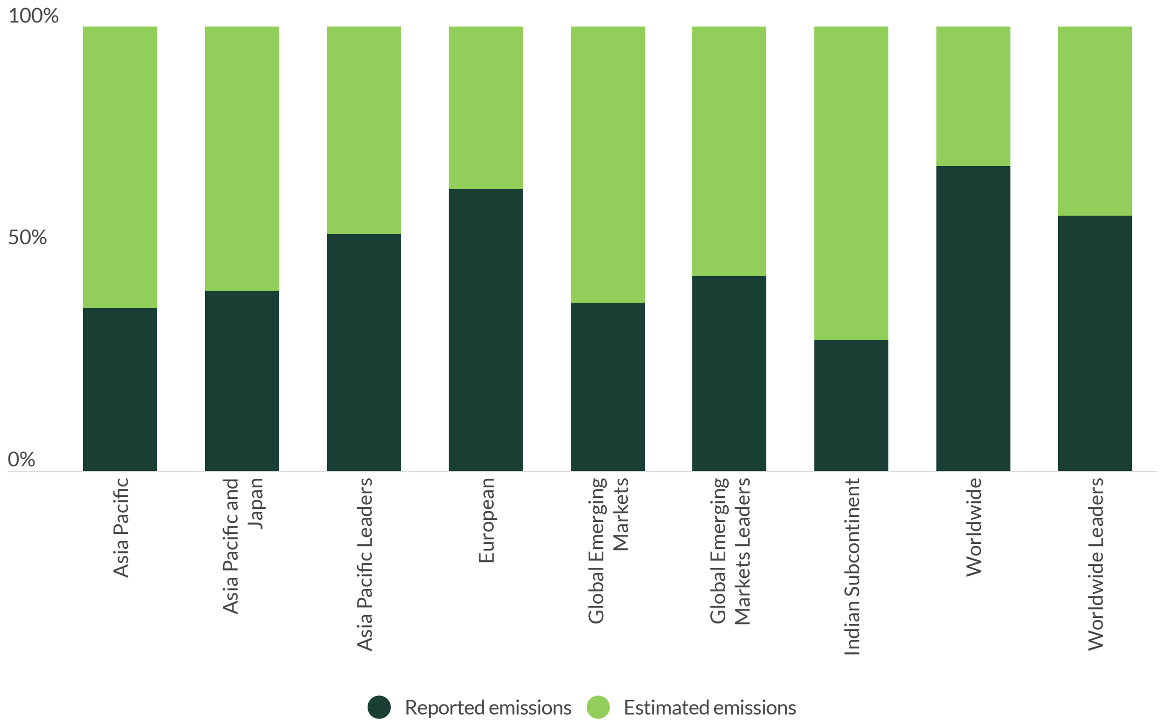
Carbon metrics stated are sourced from Stewart Investors and MSCI as at December 31, 2021.



The challenge of accurate emissions disclosure

Emissions disclosure by companies remains inconsistent or incomplete, with MSCI estimating the emissions of 57% of our investee companies. We will be engaging with these companies to encourage them to disclose and reduce emissions as outlined in the section on engagement.

Reported vs estimate emissions



Emissions data sourced from Stewart Investors and MSCI as at December 31, 2021.

Fossil fuels

Our exposure to fossil fuels

Across our strategies, we have no direct holdings in companies extracting or distributing fossil fuels.

Our strategies collectively hold 173 companies. 21 of these provide services to the fossil fuel industry, eight through IT services, while the remainder provide various products and services which for the most part improve energy efficiency or safety.*

Over the years, we have engaged with a number of these companies to encourage them to reduce their exposure to fossil fuel customers, while recognising that 18 of the 21 companies are contributing to climate change solutions in their own right.

No direct exposure to the extraction of fossil fuels

1 company with minor and falling exposures to fossil fuel generation

1 company generating more than 5% of revenue from fossil fuel company customers

Fossil fuel exposure sourced from Stewart Investors and MSCI as at December 31, 2021.

* Source: Sustainalytics as at December 31, 2021.

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Our investee companies providing services to the fossil fuel industry:

- Ansys
- Atlas Copco
- CG Power
- Constellation Software
- Cyient+
- Diploma
- EPAM Systems
- Expeditors International
- Fastenal
- Graco
- Indutrade
- Infosys
- Mahindra & Mahindra++
- Spectris
- Spirax-Sarco Engineering
- Synopsys
- Tata Consultancy Services
- Tech Mahindra
- Tube Investments
- WEG
- Zebra Technologies

While we have no direct exposure to fossil fuel extracting companies, one of our data providers, MSCI, flagged only one company, Indian financial conglomerate HDFC, due to a minority equity stake it holds in an oil and gas company. The value of the stake is less than 1% of HDFC.* We have engaged with the company to look at alternatives for this legacy investment given their primary business is supporting affordable housing in India. We are pleased to see that HFDC has started to sell down this holding.

Our European strategy holds electricity generator and renewable energy developer Ørsted. Ørsted is the only energy company we own that's electricity generation still includes some coal and gas powered supply, which our ESG research provider Sustainalytics estimates to be less than 2% of revenues.** Ørsted is a global leader in transitioning the energy system to net-zero carbon and has committed to being coal free by 2023.

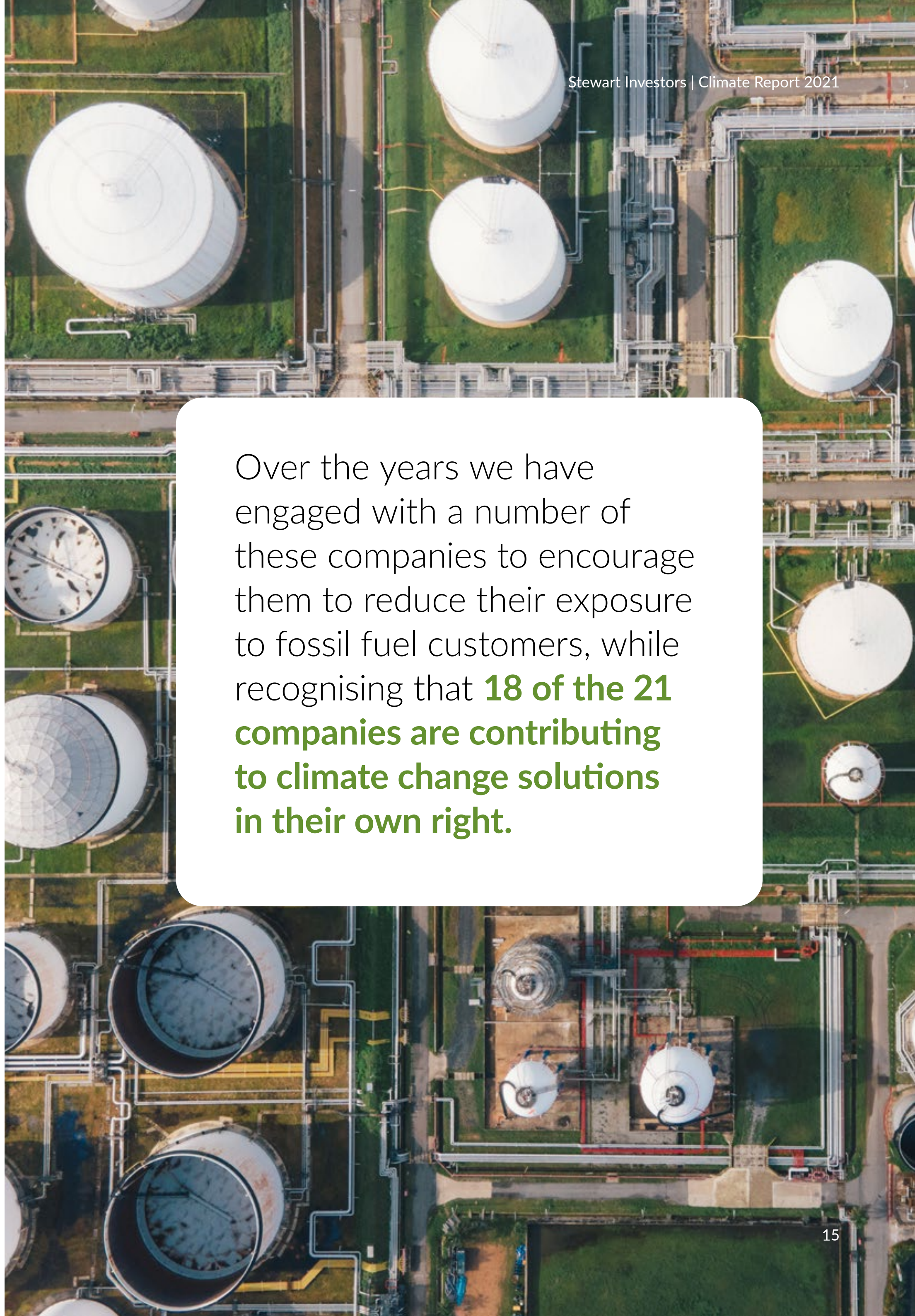
Spirax-sarco, a specialist steam company who offer their customers the energy efficiency and safety benefits of steam power, derive around 7% of revenues from the oil and gas industry. This is above the 5% revenue threshold of our harmful and controversial products and services policy, and Spirax is the only company we own that contravenes this threshold. However, the company's revenues, derived from the oil and gas industry, are falling over time.

The remainder of companies providing services to fossil fuel end markets derive less than 2.5% of revenues** from these markets as estimated by Sustainalytics.

* Source: MSCI as at December 31, 2021.
** Source: Sustainalytics as at December 31, 2021.

Company data sourced by Stewart Investors as at December 31, 2021. This stock information is provided for illustrative purposes to demonstrate Stewart Investors' exposure to the fossil fuel industry. It does not constitute any offer or inducement to enter into any investment activity, nor is it a recommendation to purchase or sell any security. Holdings are subject to change.

+ Cyient was sold down during December 2021 and exited in January 2022.
++ Flagged due to owning 29% of Tech Mahindra which is also listed.



Over the years we have engaged with a number of these companies to encourage them to reduce their exposure to fossil fuel customers, while recognising that **18 of the 21 companies are contributing to climate change solutions in their own right.**

Company targets

34% of companies disclosing targets

20% absolute or science-based targets

>50% Only the European strategy has 50% of companies disclosing targets

Company target data sourced from Stewart Investors and Net Purpose as at December 31, 2021.

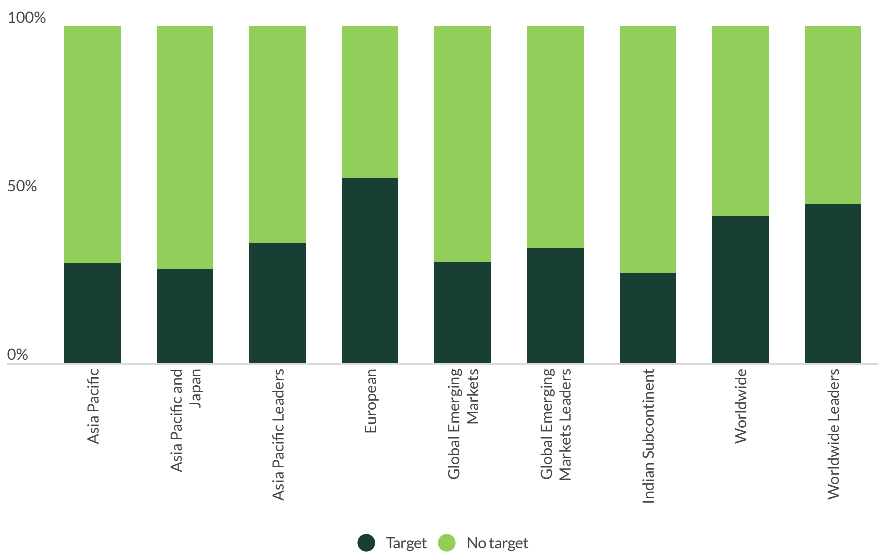
Many companies are setting targets for net-zero emissions by 2050, however long-term aspirations need to be backed by short and medium-term targets and clear plans. Companies setting targets in line with climate science is essential if we are to achieve our own target of a 50% reduction in portfolio emissions by 2030.

Given our largest capital exposure is in the Asia Pacific region, where there remains plenty of progress to be made, we hope to see the greatest improvement in disclosure and target setting from these companies. Across our Asia Pacific strategies between 28% and 36% of companies have targets.

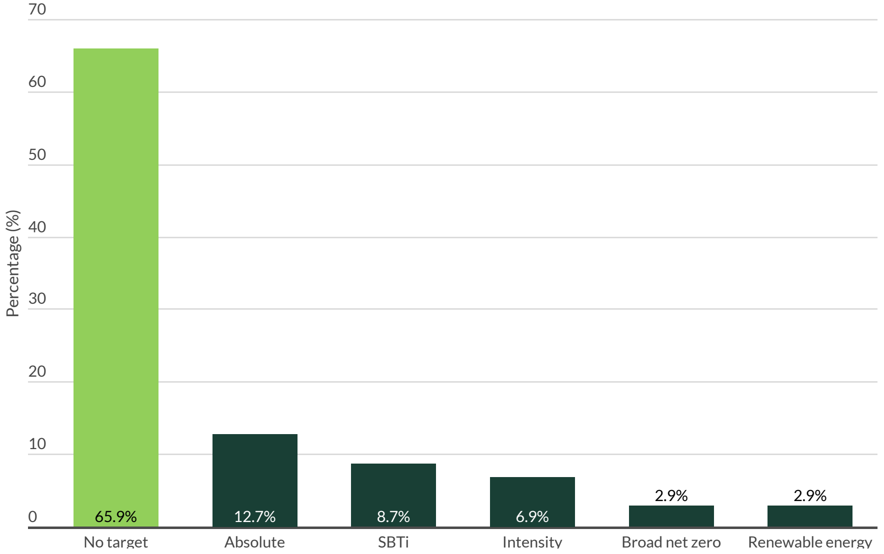
Our most recently launched investment strategy, focused on European companies, has the highest proportion of companies with targets at 55%. This is currently the only strategy where more than half the investee companies have disclosed targets.

Carbon targets

Companies with targets by strategy



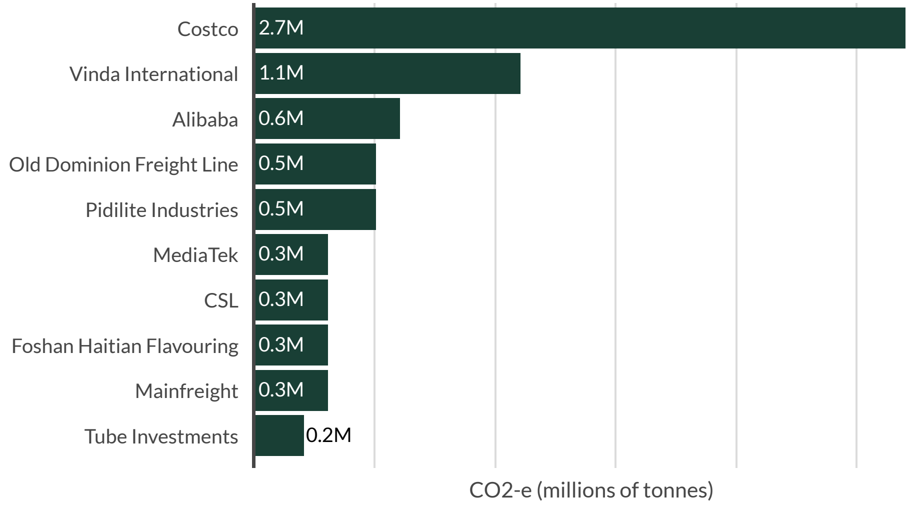
Company targets by type



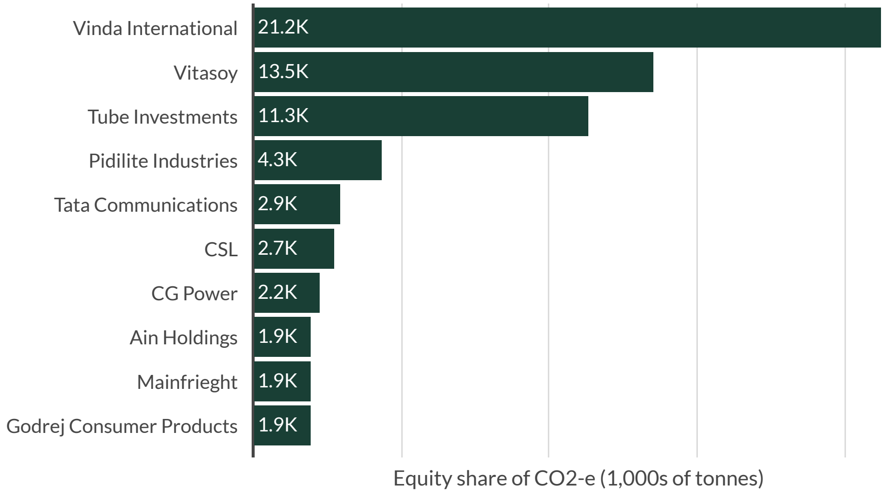
Company target data sourced from Stewart Investors and Net Purpose as at December 31, 2021.

In 2022 we will expand our engagement with companies to encourage them to disclose emissions and set reduction targets. Our priority for these companies will be those who are the largest emitters overall and those who make the greatest contribution to portfolio carbon footprints.

Largest emitters without targets



Largest contributors to carbon footprint without targets



Company target data sourced from Stewart Investors and Net Purpose as at December 31, 2021.

This stock information is provided for illustrative purposes to demonstrate Stewart Investors' exposure to companies without emissions reduction targets. It does not constitute any offer or inducement to enter into any investment activity, nor is it a recommendation to purchase or sell any security. Holdings are subject to change.

Solutions

We invest in high-quality companies contributing to, and benefiting from, sustainable development. We take a broad view of sustainable development because human and economic development are intrinsically linked to environmental sustainability.

To demonstrate these interconnections and their relationship to climate change, we have assessed the contributions the companies we invest in make against Project Drawdown's c.80 climate change solutions. We were attracted to Project Drawdown's framework because it demonstrates how scaling existing technologies and social changes could limit the maximum temperature increase to 1.5°C, as called for by the Paris Agreement. We have grouped Project Drawdown's solutions into eight categories; food, energy, transport, buildings, the circular economy, water, conservation and human development.

Project Drawdown's solutions help us understand the role companies can play throughout the value chain. This is important because we often invest in 'picks and shovels' companies who contribute to a good or service but may not actually make that good or service. For example, our companies may not make solar panels or electric vehicles directly, but their products and services enable those technologies to be developed.

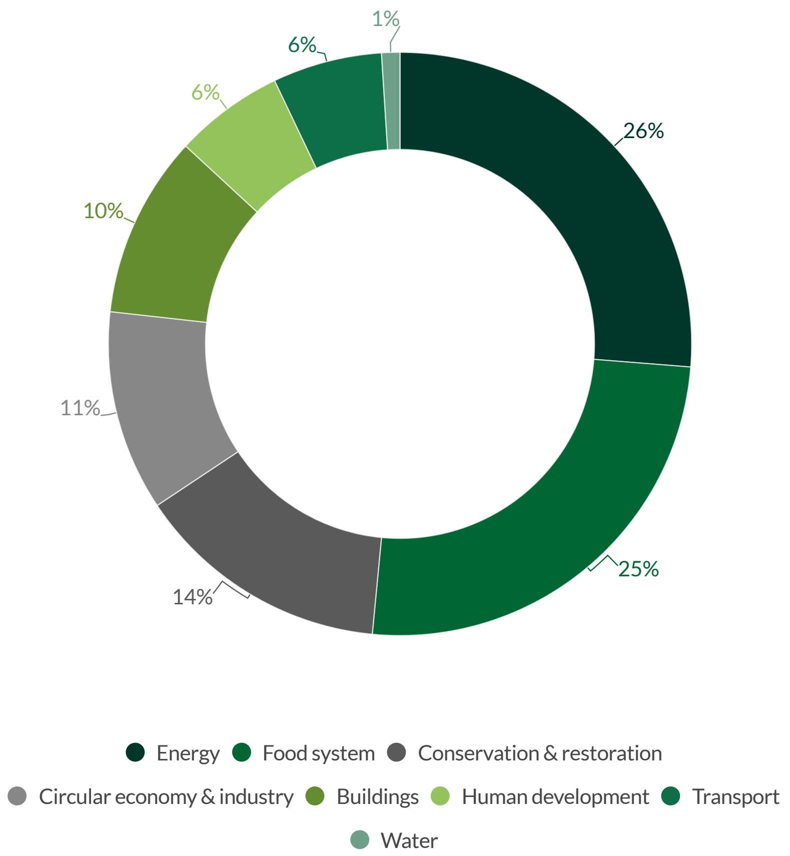
Similarly, we recognise indirect contributions of sufficient scale, such as a company that underwrites the development of new renewable-energy infrastructure through a formal power purchase agreement. To capture these different types of contributions, we separate company contributions into direct, enabling and indirect categories. More details on how we make these judgements, and the results for how we have assessed every company we invest in, are available on our website.

About Project Drawdown

Founded in 2014, Project Drawdown is a non-profit organisation that seeks to help the world reach "drawdown" — the future point in time when levels of greenhouse gases in the atmosphere stop climbing and start to steadily decline. Project Drawdown's deeply researched collection of c.80 climate change solutions, which if scaled up, can deliver the Paris Agreement's goal to cap temperature rises at 1.5°C. The full set of solutions, along with the research that backs them, are publically available on drawdown.org.

Drawdown solutions contributions

In grouping solutions, we have identified eight areas that according to Project Drawdown can deliver more than 1,500 gigatons of emissions abatement.



Source: Stewart Investors and Project Drawdown solutions data. Gigatons CO_2 Equivalent Reduced / Sequestered (2020-2050). Impact figures are for projected emissions globally.

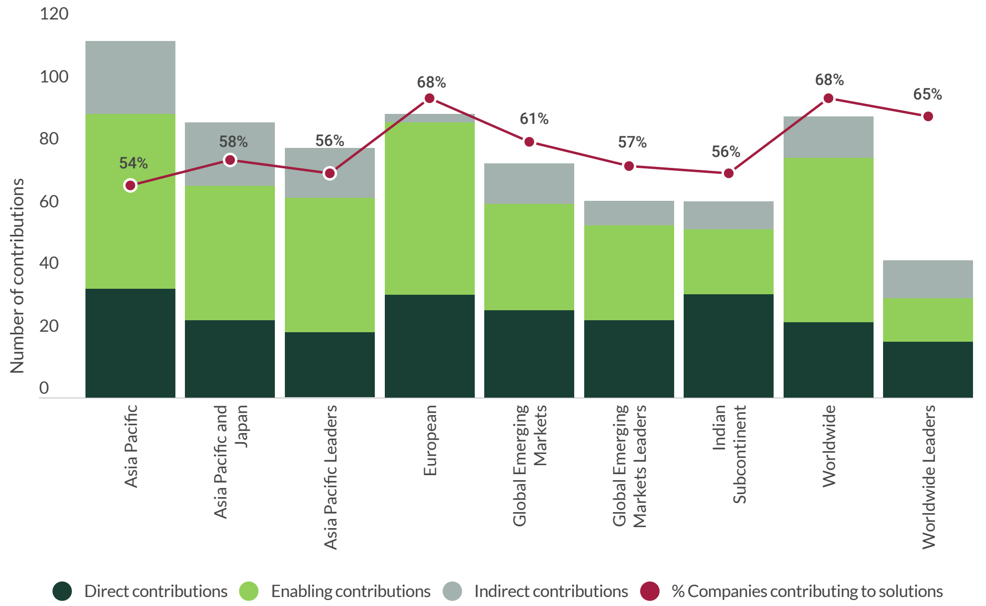
Mapping companies to Project Drawdown's climate solutions

Mapping the companies we invest in to Project Drawdown's diverse solutions provides us with a more complete view of how the companies we invest in contribute to climate action. At the end of 2021 we held 173 companies across our strategies with 102 of those making 285 direct, enabling or indirect contributions to 48 different Project Drawdown climate solutions.

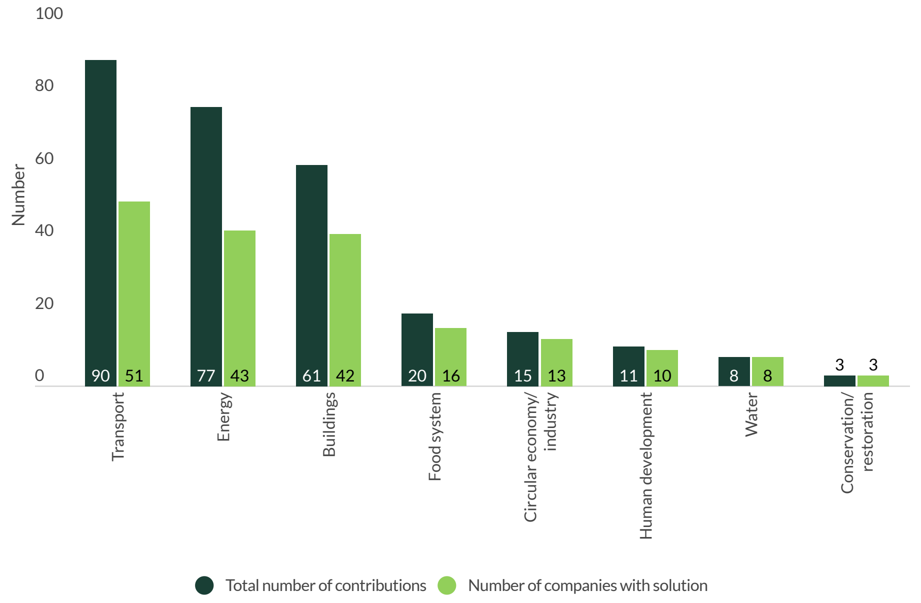
102 companies making 285 contributions to 48 different climate solutions

Stated company contributions to climate change solutions sourced from Stewart Investors as at December 31, 2021 and assessed against Project Drawdown's climate solutions.

Companies contributing to climate solutions by strategy



Climate solution types



Please note - companies can have multiple contributions.

Spotlight on solutions: Transportation

Of all the types of solutions our companies contribute to, transportation is the largest category. Helping reduce greenhouse gases caused by travel, including reducing the need to travel in the first place, is essential in combating climate change. While electric vehicles receive a lot of attention and are an important solution, public transport offers up to 23Gt of abatement potential, more than electric and hybrid vehicles combined.*

39 companies contributing to **electric cars**

Case study: 1 investee company has produced over 100,000 ICU charging points which are compatible with all electric vehicles (EVs), supporting the great auto transition to EVs.

7 companies contributing to **public transport**

Case study: 1 investee company provides brakes for trains, trucks and buses, ensuring the consistent quality needed for trains travelling at 330km/h.

20 companies contributing to **telepresence**

Case study: 1 investee company manufactures semiconductors, an essential component contributing to the reliable internet infrastructure required to help us work and connect without needing to travel.

Company data sourced by Stewart Investors as at December 31, 2021.
* Source: Project Drawdown

Spotlight on solutions: Food system

While energy, transportation and buildings are often cited climate change solutions, the food system represents over 24% of global emissions.* 16 of the companies we invest in are contributing to food system solutions that are helping to reduce emissions from farm to fork.

Sustainable food systems and human development are tightly related. For example, smallholder farmers produce deforestation linked commodities including 40% of palm oil and over 70% of cocoa, sugar and coffee. These farmers are also on very low incomes and subject to various other human rights and social issues. Building sourcing systems which sustainably intensify smallholder output, reduce deforestation, reduce fossil-based chemical inputs and improve education and health outcomes offers benefits for both people and planet.**

Extending shelf lives

Case study: 1 investee company produces microbes and enzymes that naturally extend the shelf life of fresh food, and help replace fossil fuel based agri-chemicals with more environmentally friendly alternatives.

Reducing food waste

Case study: 1 investee company provides testing technologies which are used by the food industry to ensure food is pathogen free, and thereby reducing the risk of recalls and contamination.

Improving farming practices

Case study: 1 investee company has worked with smallholder farmers to reduce deforestation and improve yields.

Company data sourced by Stewart Investors as at December 31, 2021.

* Source: Project Drawdown

** Source: LTS Report

06 Engagement & voting

6 Companies engaged with on climate change in 2021

100% of climate change proxy votes supported*

Commitment to engage with all companies not disclosing emissions and/or without targets

* 2 out of 2 votes were supported

Engagement and voting are essential parts of our role as stewards of client capital.

The ability of our efforts as investors to achieve a positive impact on emissions is tied to the effectiveness of our engagement with the companies we invest in. We engage on issues that are important for sustainability and investment improvement. Low and falling emissions reduces risks for companies, society and the environment, while investment in solutions opens up future opportunities.

We approach engagement as a constructive process to support the improvement of companies we invest with. We are active rather than activist owners and accept that some engagements may take several years. Where engagement does not go well or companies are unresponsive, this feeds into our assessment of quality. Depending on the issue and the number of attempts we have made, an erosion of quality will lead to selling our holding to protect our clients' capital.

During 2021 we met with 314 different companies, many with multiple contacts, with 438 calls/meetings in total. While climate change and carbon is a regular point of discussion with many companies, we only count engagements where we have made a deliberate effort to encourage changed practices or behaviour. In 2021 we actively engaged with six companies on issues related to climate change, and still hold all of the companies.

Company data sourced by Stewart Investors as at December 31, 2021. This stock information is provided for illustrative purposes to demonstrate Stewart Investors' approach to company engagement. It does not constitute any offer or inducement to enter into any investment activity, nor is it a recommendation to purchase or sell any security. Holdings are subject to change.

The engagements were specific to each business:

- A consumer goods company focused on healthy food and beverages: To increase use of recycled plastics and reduce plastic waste
- Global logistics and transport company: To set more ambitious targets under the Science Based Targets Initiative (SBTi)
- Vehicle auction and recycling facilitator: To undertake life-cycle-analysis to better identify impacts, including in relation to carbon emissions in emerging markets
- Large industrial company manufacturing farm equipment, solar panels and electric vehicles among other things: To expand renewable energy use and accelerate the electric vehicle transition
- An industrial company specialising in the efficient use of steam: To support ambitious emission-reduction goals while questioning the sustainability of fossil fuel customers
- An Indian housing finance company: To encourage the divestment of its holding in a legacy oil and gas company and the development of a responsible lending policy

In addition, we voted in support of two climate change resolutions, both proposed by the companies involved (Unilever and Nestlé), seeking approval of their respective climate change transition plans. Thesewere the only two climate change resolutions proposed during 2021.

2022 engagement plan

Expanding our engagement with companies to cut emissions is an important part of our plan to achieve 50% portfolio emission reductions by 2030. However, we will continue to engage on a company-specific basis because climate change is relevant to each company in different ways.

In this regard, we have established baseline information on our companies so we can understand their disclosure, targets, emissions trajectory and contribution to solutions. During 2022 we will write to all companies who are not disclosing emissions or who have not set targets and encouraging them to do so, underlining that, as shareholders, we can only achieve our goals if we race to zero together.

We will also follow up with those companies whose emissions have been consistently rising to understand their plans for reducing emissions in the future. In all cases, we will utilise our broad view of sustainable development, supported by frameworks like Project Drawdown and our commissioned research, to encourage companies to promote and invest in solutions relevant to their own businesses.

07 TCFD Information

The Taskforce on Climate-related Financial Disclosure (TCFD) is a global disclosure framework for companies, which is increasingly being adopted by regulators around the world.

Our corporate structure

MUFG

First Sentier Investors

Stewart Investors

Governance

Ownership structure

The Stewart Investors Sustainable Funds Group is a sub-brand of FSI, which is 100% owned by Mitsubishi UFJ Trust and Banking Corporation (MUTB), a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc. (MUFG). MUTB acquired FSI in August 2019.

This report refers to investment strategies operated by SFG during 2021. In this respect, governance of climate change risk occurs both within SFG and via oversight from FSI.

FSI have published their own climate change statement and TCFD-aligned reporting which captures some of our activities and describes the group's position and management of climate risks and opportunities.

Investment governance

As an investment function, we manage climate change risks through our bottom-up analysis and engagement with companies, supported by our investment philosophy and Hippocratic Oath.

FSI's Global Investment Committee (GIC) provides oversight of the investment return and risk characteristics of our pooled funds and mandates. This incorporates sustainability risks stemming from environmental, social and governance (ESG) sources, including climate change. FSI's Investment Product Research and Assurance (IPRA) team supports the GIC with investment assurance oversight, which includes systematic assessments of all aspects of investment and portfolio risk, including oversight of ESG-related risks. The Responsible Investment team collaborates with the IPRA team in carrying out its investment assurance activities, in particular as it relates to the engagement with the investment teams on their respective approaches to responsible investment and the assessment of responsible investment characteristics of the underlying investment portfolios.

We engage with the Responsible Investment team and FSI management and have representatives on FSI's Global Responsible Investment Steering Group and ESG Impact Committee.

FSI's internal audit function conduct periodic audits of investment functions. These audits include assessment of whether an investment team's stated investment philosophy and process is what occurs in practice – including management of climate change and ESG issues.

Operational governance

Stewart Investors operate from standalone offices in Australia and Singapore and we co-locate with FSI employees in Edinburgh, London and New York. The Stewart Investors management committee and senior management team oversee our operations.

In 2022 FSI established a Corporate Sustainability function, which will support us and the broader FSI business in managing operational climate change-related risks and impacts, including energy efficiency.

In 2020 we calculated our 2019 scope 1 and 2 carbon footprint, along with scope 3 emissions from employee travel as they represent a significant source of emissions attributable to our operations. We have implemented various energy-efficiency initiatives and have undertaken to purchase renewable energy for all of our standalone offices. We have also committed to purchasing high-quality offsets for emissions we are not able to reduce.

The global pandemic has made emissions calculations less reflective of our ordinary business operations, given work from home and travel restrictions. Stewart Investors' management is working with FSI to develop a plan for net-zero operational emissions by 2030.

Strategy

Investment strategy

Since 2005, our investment philosophy has explicitly sought to invest in companies well positioned to contribute to, and benefit from, sustainable development.

Every investment decision we make across our various investment strategies considers the sustainability positioning of every company from the bottom-up and includes:

- Detailed company analysis
- Written investment team discussion and debate
- Weekly team and strategy meetings to discuss investment decisions
- Meetings with company management and key stakeholders, from competitors to NGOs
- Commissioned research on various aspects of business quality, including understanding climate and related risks
- Consideration of other third-party research

The output from over 15 years of employing this investment philosophy has resulted in portfolios that are 90% lower in carbon than their corresponding benchmarks, free of fossil fuel extracting companies, and with more than 50% of companies contributing to climate change solutions.

Investing in quality companies

While positive sustainability positioning is important, it is not enough. We invest in companies with exceptional management teams and cultures, enduring franchises with strong market positions and reputations, and sound financials with low debt, sustainable margins and free cash flow. We believe that quality companies like these are in a better position to make the long-term investments and changes needed to transition their businesses to net-zero emissions.

Engagement

Company engagement is a critical part of the way that we invest. Engagement helps us build confidence in company management and to encourage companies to improve. We believe constructive engagement is vital for the success of long-term investors with a 10-year investment horizon. Climate change has long been an engagement topic for us, and in 2022 we will commence a new climate change engagement strategy.

Business strategy

As described under the governance section, we will be developing a Corporate Sustainability strategy with the wider FSI group. We look forward to providing more details on this plan during 2022.

As an asset management business our operational footprint is relatively low, however business travel has historically been a large source of emissions for us. During the pandemic this source of emissions has fallen, however we expect emissions will increase from 2020 and 2021 levels as the world opens up again.

Carbon metrics stated are sourced from Stewart Investors and MSCI as at December 31, 2021. Company contributions to climate change solutions assessed against Project Drawdown's climate solutions.

Risk management

Investment risks

Climate-related risks to the investments we make on behalf of clients is the responsibility of the investment team. As indicated in the strategy section, we believe our focus on sustainability positioning and quality are the best defence against climate-related risks.

In addition to our internal analysis, we regularly commission specialist investment research to support our knowledge-building, decision-making and engagement activities.

This research helps us to understand how the size and the speed of the net-zero transition is likely to impact the companies we invest in and provides information we can use to support our engagement activities.

Our position statement on harmful and controversial activities lays out our approach to managing risks in these sectors. We believe the risks are too great to hold companies with significant exposure to fossil fuels. We also monitor the revenues derived from the fossil fuel industry by the companies we invest in.

In addition to the work of the investment team, FSI has a Global Investment Committee, which monitors climate and other ESG risks for all investment teams. More generally, FSI's Responsible Investment Steering Group and ESG Impact Committee set policies and support investment teams with data and opportunities to collaborate. Carbon and fossil fuel exposure data used in this report is sourced via FSI from MSCI and Sustainalytics. In addition, we directly source data from Net Purpose.

Business and operational risks

FSI's Risk Management and Compliance function, and its new Corporate Sustainability function, support us in managing business-related risks from climate change. The nature of our business, our ability to work remotely, and not owning any of the office spaces we occupy, mean that our direct exposure to the physical risks of climate change are limited and manageable. Similarly, efforts to reduce or price carbon emissions would not have a material impact on our business.

The key risk for our business is the reputational and regulatory consequences if our actions do not match the statements we make regarding our approach to sustainable investment (when businesses claim to be more sustainable than they are, it is known as 'greenwashing').

How do we manage these risks?

- Having exclusively managed sustainable development focused portfolios for more than 15 years, sustainability is deeply embedded within our investment philosophy, culture and ethos.
- We have a small investment team and support functions to help maintain our culture and values while constantly revisiting our approach.
- We have a diverse team with multidisciplinary skills and qualifications relevant to climate change.
- The investment team, with support from our Impact, Communications and Engagement team, produces all investment communications.
- Our compliance team review all communications and apply high standards for evidence and sourcing of information.
- We provide full portfolio transparency (holdings over 0.5%) quarterly in our Portfolio Explorer tool where we describe the investment case, sustainability positioning and contributions the companies we invest in make, along with risks and engagement priorities in a balanced way. In order to validate climate change contributions, we use credible frameworks like Project Drawdown and the UN Sustainable Development Goals.
- We are clear and consistent in communicating our investment philosophy and process, including our qualitative focus when assessing companies.

Through improved disclosure, like this report, we believe we can continue to demonstrate an authentic, rigorous and transparent approach to sustainable investing.

Metrics & targets

Our bottom-up approach to investing means we do not feel compelled to invest in all sectors or countries, but rather we invest based on the quality, sustainability positioning and valuation of individual companies. This report includes a number of portfolio metrics to provide clients and other stakeholders a sense of how our approach results in portfolio outcomes that are consistent with our sustainable development goals and commitments.

Climate metrics are important, but can narrow the view of a company's, and therefore a portfolio's, sustainability-related risks and opportunities. However, we recognise the growing importance and usefulness of such reporting for clients and believe we can find the right balance between our broad approach to sustainable investment, and specific disclosures on individual sustainability issues like climate change.

Our reporting and use of climate metrics recognises that:

- The most relevant issues and impacts will be different for different companies due to the industry and locations where they operate, amongst other factors.
- Many issues are intrinsically linked and so reporting on single issues can miss the essential role other issues like poverty reduction, or indigenous rights, can play in climate action.
- The management, franchise and financial quality of companies influences their ability to contribute to, and respond to, sustainable development challenges.

We have selected some of the metrics for this report because they meet emerging standards like the Partnership for Carbon Accounting Financials (PCAF) and Taskforce on Climate-related Financial Disclosures (TCFD). Other metrics we have selected because we believe they are most relevant to our climate commitments and investment philosophy.

For the purposes of this report, we have aggregated all portfolios within their regional or global strategies. This produces the same overall outcome because the individual strategies mirror each other to a large degree. Where we have aggregated strategies to the SFG level, benchmark weights are aggregated based on the relative size of the respective portfolios for comparison purposes.

How do the metrics we have used relate to our climate commitments?

1. **Allocate capital to high-quality companies developing and implementing solutions to alleviate climate change and biodiversity loss, while not investing in fossil fuel companies.**
    - Financed emissions disclosure consistent with the PCAF framework, both in total and per USD$1m invested
    - Number of companies, and the number of solutions that those companies are contributing to, using our own analysis and mapping to Project Drawdown's c.80 climate change solutions
    - Fossil fuel exposure, including for companies providing services to fossil fuel companies
2. **Provide full transparency of our investments and map these to frameworks such as Project Drawdown's climate change solutions to both illustrate how companies are contributing to emissions reductions and to help inform and focus our engagement efforts.**
    - Available via our interactive Portfolio Explorer tool, which is updated quarterly on our website. Summaries and case studies are provided within this report
3. **Encourage companies to take positive actions and use their influence across their value chains to drive emissions reductions, while also striving to ensure equitable treatment of all their stakeholders in the transition to a carbon-constrained economy.**
    - Breakdown of climate change targets for the companies we invest in
    - Breakdown and description of climate change related engagement
4. **Reduce emissions in our own operations and offset whatever emissions we cannot remove.**
    - COVID-19 has affected our carbon footprint (like most companies) with employees working from home and the reduction in air travel. This has made it difficult to set an appropriate baseline from which to set targets. We will calculate, report on and set targets for our operational emissions by mid-2023.

Understanding emissions

Scope 1 All direct emissions, from sources that are owned or controlled by the relevant company.

Scope 2 Indirect emissions from the consumption of purchased electricity, heat or steam.

Scope 3 Other emissions generated from activity like employee travel.

Additional information on Taskforce on Climate-related Financial Disclosures

The Taskforce on Climate-related Financial Disclosures (TCFD) is a global disclosure framework for companies, which is increasingly being adopted by regulators around the world. We have sought to meet the TCFD's standard in this report, with two exceptions.

Risk to who?

The TCFD is focused on the risk climate change poses to the reporting company. As stewards of our clients' assets, this is clearly important, but we do not believe this tells the whole story. Our investment philosophy is to invest in high-quality companies who are contributing to, and benefiting from, sustainable development. Our reporting on climate, as with other areas of sustainable development, seeks to tell both sides of our investee companies' story – how they contribute and how they benefit.

In addition, while the TCFD is exclusively focused on climate change, we believe that climate is inextricably linked with other sustainable development challenges, from biodiversity loss to poverty alleviation. While this report does narrow the focus to climate and carbon, we encourage readers to explore the companies we invest in and the diverse ways they are contributing to sustainable development, through our Portfolio Explorer tool.

Scenario analysis

The TCFD encourages asset managers to use scenario analysis to disclose the proportion of their portfolio that is aligned with a well-below 2°C emissions pathway. We have looked at various approaches and research providers who offer products that assess portfolios on this basis. By their nature, these approaches involve assumptions, including the fair share of emissions for companies based on top-down environmental and economic models.

Our investment philosophy is bottom-up and we are active investors, meaning our portfolios look nothing like their respective benchmarks, nor do they lend themselves to top-down analysis. Our focus on quality companies is also at odds with the outputs of these models, which often assume market share for companies will remain the same for decades regardless of their quality.

While we are able to provide scenario analysis reports for clients on request, we believe including them in this report would risk being misleading, despite the analysis we have seen showing our portfolios in a positive light.

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This material is not an offer for sale of funds to US persons (as such term is used in Regulation S promulgated under the 1933 Act). Fund-specific information (if any) has been provided to illustrate our expertise in the strategy. Differences between fund-specific constraints or fees and those of a similarly managed mandate would affect performance results.

Any investment with us should form part of a diversified portfolio and be considered a long-term investment.

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About First Sentier Investors

References to 'we', 'us' or 'our' are references to First Sentier Investors, a global asset management business which is ultimately owned by Mitsubishi UFJ Financial Group, Inc (MUFG). Our investment team operates under the trading name of Stewart Investors which is part of the First Sentier Investors Group.

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