2022 REPORT

The Task Force on Climate-related Financial Disclosures (TCFD) Recommendations

SETANTA
Asset Management

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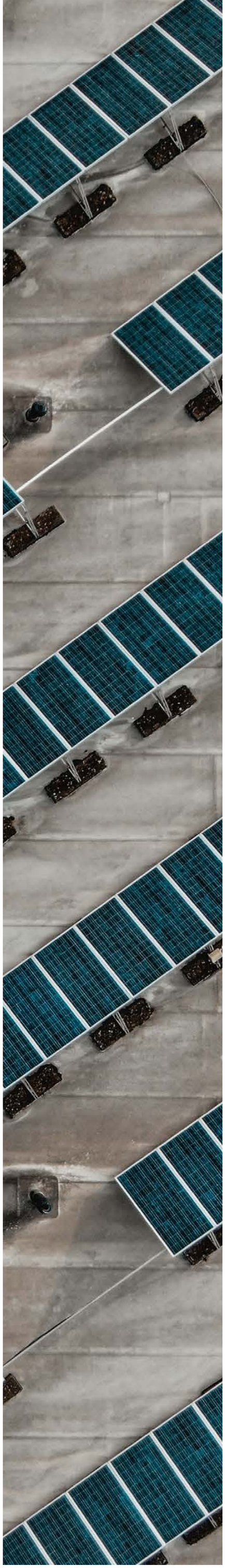


Executive Summary

Setanta Asset Management Limited ("Setanta") is a global asset management firm managing over EUR 13.2 billion in AUM (as of 31 Dec 2022) for a range of institutional clients based principally in Europe, with a significant base of clients in North America. Setanta is part of the Great-West Lifeco group of companies, and the Irish Life Group, and their work in the area of ESG investing reflects the strong commitment towards ESG from their parent company and group affiliations.

Setanta applies a long-term, active and value investing approach to its equity and multi-asset funds. Setanta provides discretionary management services to institutional investors, stating in their Responsible Investment Policy (p.1) that *"We believe that over the long-term, good quality durable businesses, bought at an attractive price will generate superior returns. We research all companies in detail, and we monitor them actively and in-depth; our investment rationale is built around long-term ownership. As such, the consideration of financially material ESG factors is core to our process"*. Setanta's integration of ESG factors is always cognizant of client mandates, some of which require greater or less consideration of climate-related factors.

This report details Setanta's climate-related strategy, management and oversight, according to the disclosure recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This represents Setanta's second TCFD Report, the objective of this document is to be transparent about the current status of climate-related strategy, management, and oversight across the four pillars recommended by the TCFD. Plans for progress in 2023 and beyond are also reflected in the report.

Governance: Setanta is supported by its Responsible Investing Committee, which reports to the Executive Management Team, who in turn report to the Board of Directors. The Responsible Investing Committee is responsible for, among other things, our firms ESG activities including overseeing compliance with ESG-related investment mandates, which implicitly include climate considerations.

Strategy: All climate-related investment strategies are mandate-driven, adhering to exclusionary criteria in combination with enhanced, voluntary climate-relevant reporting. In addition, all funds are subject to Principle Adverse Impact indicator due diligence process. By the end of 2022, Setanta's Ethical and SRI assets represented approx. 49% of total assets (EUR6.5 billion with total assets of EUR13.2 billion) of which, 47% were Article 8 assets EUR6.2 billion of total assets.

Risk Management: Climate-related risk identification occurs at Portfolio Manager level and is supported by Setanta's ESG Risk Framework. The ESG Risk framework formalizes how ESG factors are integrated into decision making, with a focus on climate and transition risks.

Metrics and Targets: Consistent with TCFD reporting recommendations, this report includes an extensive set of metrics per each of the following asset classes, identifying climate-related risks and opportunities. The most comprehensive set of climate metrics are disclosed for its main asset classes equity and corporate fixed income.

Setanta continually reviews its climate-related strategy and management processes. As part of the process of developing this TCFD report, Setanta has identified a series of items for development and improvement. Development items have been included in the Conclusion (Section D) of this report, as well as being referenced in the various Pillar sections as identified above.

Introduction and Background

1. Setanta Asset Management Limited

Setanta Asset Management Limited (hereinafter "Setanta") is a global asset management firm managing over EUR 13.20 billion in AUM (as of 31 Dec 2022) for a range of institutional clients based principally in Europe, with a significant base of clients in North America also. Setanta is part of the Great-West Lifeco group of companies, and the Irish Life Group, and their work in the area of ESG investing reflects the strong commitment towards ESG considerations from their parent company and group affiliations.

Setanta applies a long-term, active and value investing approach to its equity and multi-asset funds. Setanta provides discretionary management services to institutional investors, helping clients achieve their long-term investment objectives. Setanta's integration of ESG factors is always cognizant of client mandates, some of which require greater or less consideration of climate-related factors.

This report details Setanta's climate-related performance, strategy and metrics, according to the disclosure recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The objective of this report is to be open and transparent about Setanta's climate-related performance, indicating where areas for improvement are possible and should be targeted. The findings from this report will support Setanta in putting their climate efforts into context and provide guidance in setting up a climate change strategy on entity level.

2. What is the TCFD?

a) OVERVIEW

The Task Force on Climate-related Financial Disclosures (TCFD) was launched after the 2015 Paris Agreement by the Financial Stability Board (FSB). Considering climate transparency as a crucial factor for the stability of financial markets, the goal of the TCFD, is to improve climate disclosure through specific recommendations. These recommendations, released on June 29, 2017, are meant to provide a *"consistent framework that improves the ease of both producing and using climate-related financial disclosures"* [1]. In a context where more than 400 disclosure frameworks for corporates and 20 for investors exist, the objective of the TCFD is to create a harmonised standard for both corporate and investment climate disclosure, taking into account that domestic and local regulatory frameworks may require different levels of compliance.

TCFD Core Recommendations are split into four pillars:

- Governance
- Strategy
- Risk Management
- Metrics & Targets

Each Pillar has sub-categories with specific approaches for assessment and disclosure of the associated climate risks and opportunities.

[1] Task Force on Climate-related Financial Disclosures, Overview of Recommendations, June 2017 (https://www.fsb-tcfd.org/wp-content/uploads/2017/06/TCFD-Recommendations-Overview-062717.pdf)

b) SUPPLEMENTARY GUIDANCE FOR INVESTORS

A key FSB proposal was for the development of climate-related disclosures that *"would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks"* [2].

TCFD divides the Financial Sector into four major industries:

- Banks (lending)
- Insurance Companies (underwriting)
- Asset Owners (investing; includes public & private pension plans, endowments, and foundations)
- Asset Managers (asset management)

All are expected to report, and all have at least one set of supplementary guidance in the Core elements (Governance, Strategy, Risk Management, Metrics and Targets). All four areas are covered in TCFD Final Report Annex D **'Supplemental Guidance for the Financial Sector' (pg.22-44).**

[2] https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf

Assessment according to the TCFD recommendations

1. Governance

A) BOARD'S OVERSIGHT

Setanta's Responsible Investment strategy includes a set of policies, including the Responsible Investment Policy, Sustainable Risks Policy, Engagement Policy, Voting Policy and Principal Adverse Impacts (PAI) Investment Due Diligence Policy. These are approved by the Setanta Board of Directors at least on an annual basis. The Board has the responsibility of monitoring the policies to ensure its ongoing appropriateness. At present, while there is not an explicit mandate of the board to monitor climate-related issues specifically, the board has conducted ESG training exercises, with a specific focus on mitigating climate change and achieving net zero.

The board sits above the Setanta management stakeholder and committees' structure, as outlined in the below structure provided by Setanta. The Responsible Investment Committee (a sub-committee of the Executive Management Team (EMT), with Senior Leadership representation) communicates Responsible Investment-related content to the Board via the EMT. This content covers adherence and compliance with any stipulated ESG and / or climate criteria (e.g., coal exposure restrictions within specific client mandates), and forms a part of the Setanta Board of Directors 'pack', for further discussion at the Board level.

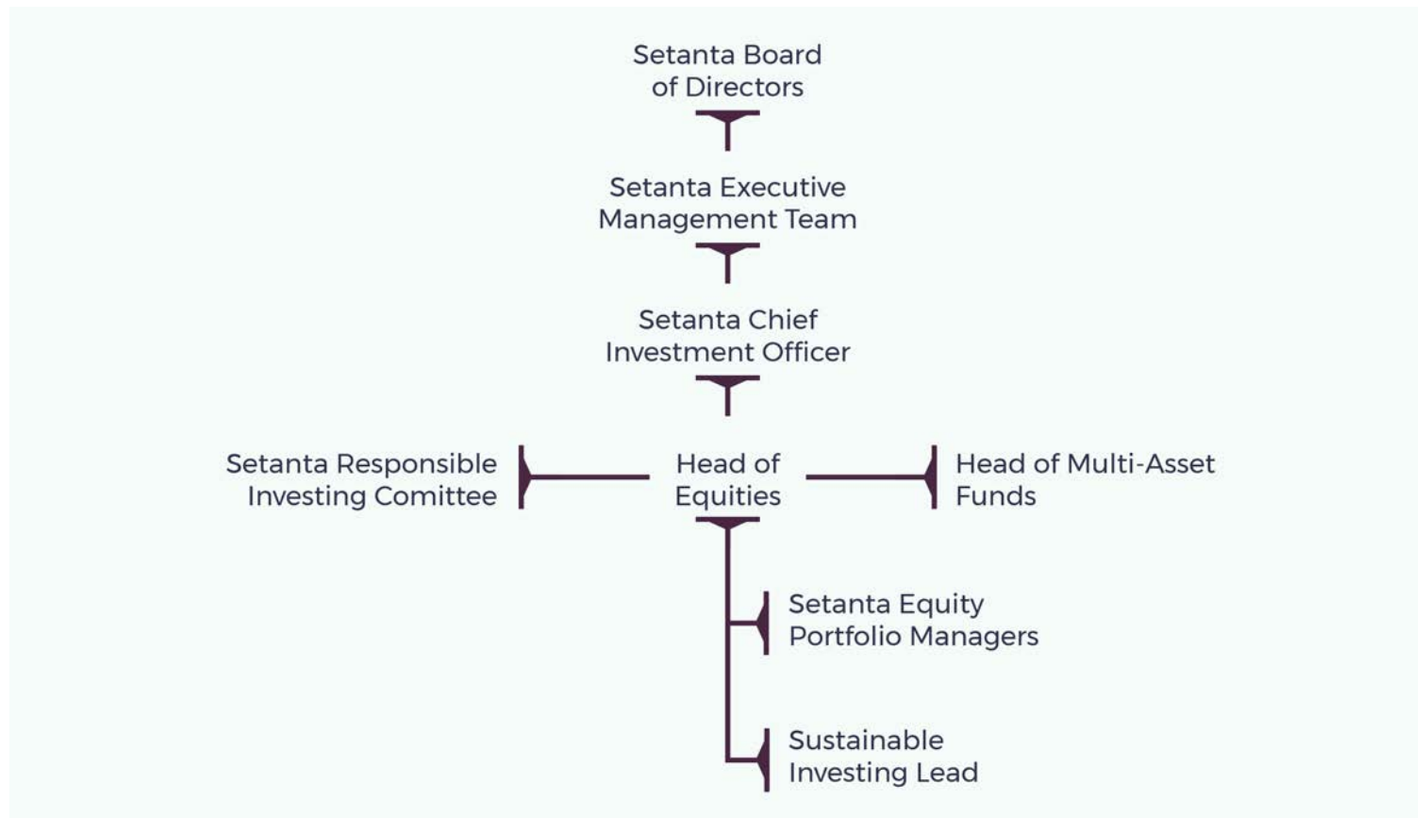


Figure 1: Setanta Corporate Management structure.

B) SENIOR MANAGEMENT'S ROLE

Setanta has established the Setanta Responsible Investment Committee ('SRIC'). The Committee is responsible for reviewing and monitoring adherence to the Responsible Investment Strategy. The committee is also responsible for reviewing, updating and approving Setanta's policies (Responsible Investment, Engagement, Voting and Sustainability policies) at least annually. The Responsible Investment Committee is comprised of:

Managing Director & Chief Investment Officer; Director, Business Development – Ireland (Chairperson); Head of Equities, Head of Multi-asset Funds; Investment Risk Representative; Head of Operations; a Senior Leadership Team representative; and the Sustainable Investing Lead.

The SRIC is also responsible for ensuring that the policies are implemented, with oversight by the Executive Committee. Key responsibilities of the RI Committee (as outlined in the RI Committee Terms of Reference) are:

- Oversight of Setanta's approach to incorporating ESG considerations into its investment management activities (including development and ongoing maintenance of the RI policy; implementation of RI policy and strategies at an asset and enterprise level response to regulatory requirements; and implementation of future plans).
- To review reporting practices as they relate to globally recognised responsible investing frameworks (e.g., UN Principles for Responsible Investment and TCFD)

The SRIC meets on a quarterly basis (or more frequently if required), and the primary function of SRIC is essentially to support and oversee Setanta's growing responsible investment activities and related reporting and to also effect specific client ESG-related requirements. Within that there is room to discuss aspects of mandate-compliance, for example where stocks have been excluded for quantitative screening. In such instances, a case would be put forward based on mitigating factors, discussion rules, and conduct a routine review.

The SRIC recognises the independence of the Investment Risk function, and in certain cases where the Committee makes decisions which could impact that independence (e.g., buy & sell decisions), the Committee understands that the Investment Risk Member cannot be involved in the process.

In terms of current and future Governance-related developments:

- Develop an explicit mandate for the Board to manage climate-related risks and opportunities issues specifically, including an integrated risk management process and data collection.
- Oversee the formulation of a specific Responsible Investment policy on climate change, supported by the Responsible Investment Committee, with formalised Board-level oversight.

2. Strategy

A) CLIMATE-RELATED INITIATIVES IN SETANTA'S CORPORATE STRATEGY

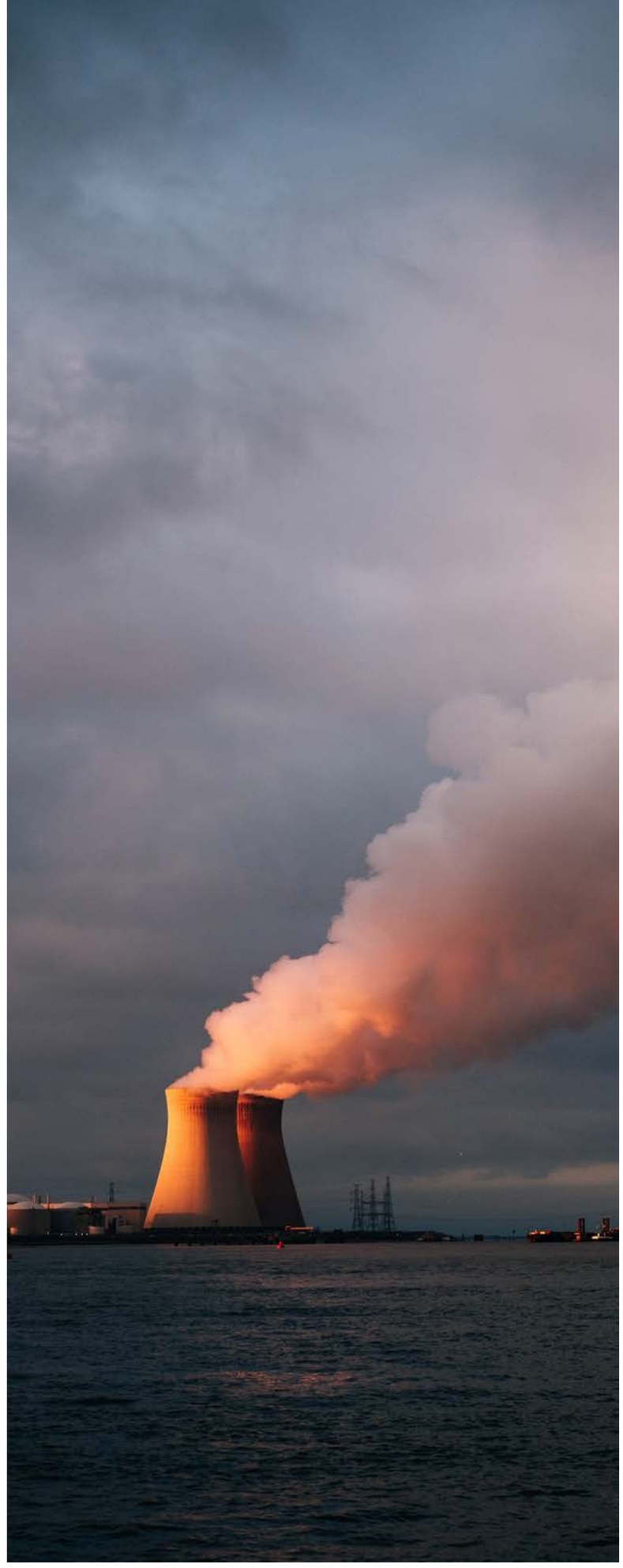
Setanta does not have a standalone sustainability or climate strategy. However, there are multiple initiatives within the wider corporate strategy that are relevant.

Investment Process: In 2021 Setanta identified responsible investing as an area for enhancement within the investment process. To that end, in 2022 Setanta undertook a firmwide responsible investment training process and conducted working groups to explore responsible investing practices. The output of this process was the development of an ESG Risk Framework, which formalizes how ESG factors, including climate, are integrated into investment decision making.

ESG AUM: Working closely with our clients Setanta has targeted to increase the proportion of our AUM with ESG considerations. By the end of 2022, Setanta's Ethical and SRI assets represented approx. 49% of total assets (EUR6.5 billion with total assets of EUR13.2 billion) of which, 47% were Article 8 assets EUR6.2 billion of total assets.)

Product roadmap: Responsible investment has been identified as an area to expand Setanta's product portfolio. We are building a net zero solution for clients, and we are also targeting the launch of a Climate Solutions equity fund and a Green Bond fund over the medium term.

Resources: Setanta is targeting an increase in resources to support our responsible investment strategy. We will hire a dedicated engagement analyst as well as an ESG reporting analyst. We also expect to expand the data and technology resources available to assist the team in assessing sustainability factors, particularly climate.



B) INCORPORATING CLIMATE-RELATED RISKS AND OPPORTUNITIES INTO INVESTMENT STRATEGIES

Setanta has established a Responsible Investment (RI) strategy, with the goal of integrating ESG considerations into investment management processes and ownership practices "where it is possible to do so while meeting our fiduciary responsibility".

Climate risk identification occurs from a bottom-up perspective at portfolio management level, and the approach is fundamental in nature. This approach is formalized in the investment process and utilizes a variety of tools in the assessment process. The methods used within this fundamental approach for incorporating climate-related risks and opportunities into investment strategies are elaborated on in section 3(a).

The performance of Setanta's investments from a sustainability perspective is monitored on a quarterly basis at the SRIC (Setanta Responsible Investment Committee). However, there is currently no mechanism for analysing concentrations of climate-related risks at either the fund or corporate level.

At present climate related risk assessment focuses on Setanta's investment. There is no mechanism for analysing climate-related risks on the broader business.

C) USING CLIMATE-RELATED SCENARIOS TO INFORM INVESTMENTS

As noted in 2(b), climate risk identification currently occurs from a bottom-up perspective at portfolio management level.

Setanta's team of investment professionals consider sustainability risks as a part of their research and analysis – this work is not carried out by a separate ESG team. Sustainability risk assessment is a qualitative process undertaken by the portfolio managers, rather than a quantitative process involving the calculation of scores.

We consider material sustainability risks in our analysis, in the main, to investments in equity securities, and, where appropriate, to other asset classes.

When evaluating sustainability risks, portfolio managers use traditional data such as company filings, earning transcripts, ESG specific and industry reports.

D) USING CLIMATE-RELATED SCENARIOS TO INFORM INVESTMENTS

Setanta does not currently incorporate climate-related scenario analysis into its consideration of the impact of climate on investment strategy. However, as part of this TCFD Report analysis, a full scenario alignment and Transition VaR assessment has occurred against Setanta's firmwide equity and corporate fixed income groupings, as a means of informing future strategy in this area. Setanta will consider using the outcomes of this scenario alignment to advise and inform the Setanta climate strategy.

In terms of current and future strategy-related developments:

Over the next 12 months Setanta is expecting to make significant material progress on ESG strategy and climate-related integration:

Sustainability Strategy & Policies:

- Develop a standalone sustainability strategy for the firm.
- Develop a mechanism for analysing climate-related risks on the broader business outside of the investment process.
- The development of an explicit mandate for the Board to

manage climate-related risks and opportunities.

+ Oversee the formulation of a specific Responsible Investment policy on climate change, including updates addressing Net Zero alignment and Article 9 plans; the policy would be supported by the Responsible Investment Committee and formalised with Board-level oversight.

Investment process: :

+ Ongoing refinement of the ESG integration framework considering factors such as greater use of specialist third party tools and incorporating ESG opportunities in a more systematic way.

Additional regulatory Alignment:

+ Within Equities, Setanta are viewing the possibility of further alignment to Article 8 status under SFDR

Product Road map/Net Zero:

+ Setanta to make a Net Zero commitment as a % of assets by the end of 2023. The Net Zero motivation, which has also been a function of the client/asset owner interest, is further motivated by a combination of Net Zero commitments at both (i) parent-level (Great-West Lifeco) and (ii) the Irish Life Group-level (of which Setanta is a member).
+ Develop a Net Zero Solution for clients over the coming 12-24 months: agree the philosophy and approach, develop and build the stewardship framework, identify and obtain resources and then launch the solution.
+ Launch a Green Bond fund and an Article 9 Equity Fund: agree the philosophy and approach, identify and obtain resources, undertake investment research and then launch the Fund.

3. Risk Management

A) INTEGRATING CLIMATE-RELATED RISKS INTO SETANTA'S OVERALL RISK MANAGEMENT

Risk management is a bottom-up process undertaken by Setanta's portfolio managers. Setanta's approach to integrating climate-related risks is outlined in our Sustainability Risk policy.

The Sustainability Risks Policy outlines the integration of sustainability risks in decision-making processes, in line with requirements set out in Article 3 of the Sustainable Finance Disclosure Regulation (SFDR). Setanta's Sustainability Risk Policy approaches sustainability risk from the perspective that ESG events may cause a material negative impact on the value of client investments. Climate risks were identified as a key material risk factor within the Sustainability Risk policy. As part of the framework, companies with large carbon footprints are scrutinized for how they plan to mitigate risks posed by their emissions.

Setanta seeks out good quality and durable businesses that have a low level of risk, to generate superior returns. Climate-related risks are identified during initial and ongoing company research. During the assessment of the operating strategy of the company (including analysis of assets and liabilities) we make a judgement on various factors like climate policy pressures, likely direction of travel of emissions, transition and physical risk. We assess these questions using traditional research methods and publicly available resources. We also assess these risks on the basis of financial materiality.

Setanta also has an independent Investment Risk function:

- The Investment Risk (IR) function is tasked with overseeing investment practices and is an independent function from Executive Management. It is also independent of portfolio/fund management, and currently does not have a direct impact on the management of the portfolios.. The IR function independently collates ESG Metrics which are reviewed with the SRIC quarterly.
- A key focus of the IR function relates to adherence to client-stipulated mandates, whereby IR will also monitor whether Portfolio Managers are in compliance with the basic client-stipulated exclusions and criteria

Climate-related risk reporting is considered at both portfolio-level and at institution-level. At portfolio-level climate-related risk reporting is client-driven and is the result of specific client requirements and/or mandates for their AUM to be managed in accordance with specific regional disclosure framework requirements. The significant examples of enhanced climate-related reporting are voluntary, non-regulatory disclosure of specific analytics.

B) POSITIONING THE PORTFOLIO WITH RESPECT TO THE TRANSITION TO A LOWER CARBON ENERGY SUPPLY, PRODUCTION, AND USE

Setanta does not have specific positioning with regards to decarbonisation, although this is expected to change over the coming 12 months as we make a net zero commitment on specific client assets.

Setanta currently conducts enhanced and voluntary reporting to a specific client in line with the client-driven mandate to align a portion of its AUM with SFDR Article 8 criteria. This reporting includes reporting carbon intensity data and exposure to fossil fuel activities. In addition, there is a specific client-driven mandate to ensure that specific funds do not invest in issuers where revenues from coal-related activities are greater than 30%.

To inform Setanta's ongoing climate strategy development regarding climate-related risks and opportunities, a series of assessments have been conducted and presented in Metrics and Targets section 4(a), assessing the Setanta

grouping of Firmwide Equity, Corporate Fixed Income and Sovereign asset class groupings (however Sovereign is subjected to a subset of available analytics. Combined, these firmwide asset class grouping represent approximately 89% of AUM (as of 31st December 2022). Analytics conducted include:

(i) Asset Class Exposure to Fossil Fuels*
(ii) Weighted Average Carbon Risk Rating (all firmwide asset class groupings)
(iii) Scenario Alignment*
(iv) Transition VaR*
(v) Power Generation Exposure / Energy Mix*
(vi) EU Taxonomy: Not-Aligned OR Likely Not-Aligned Revenues*

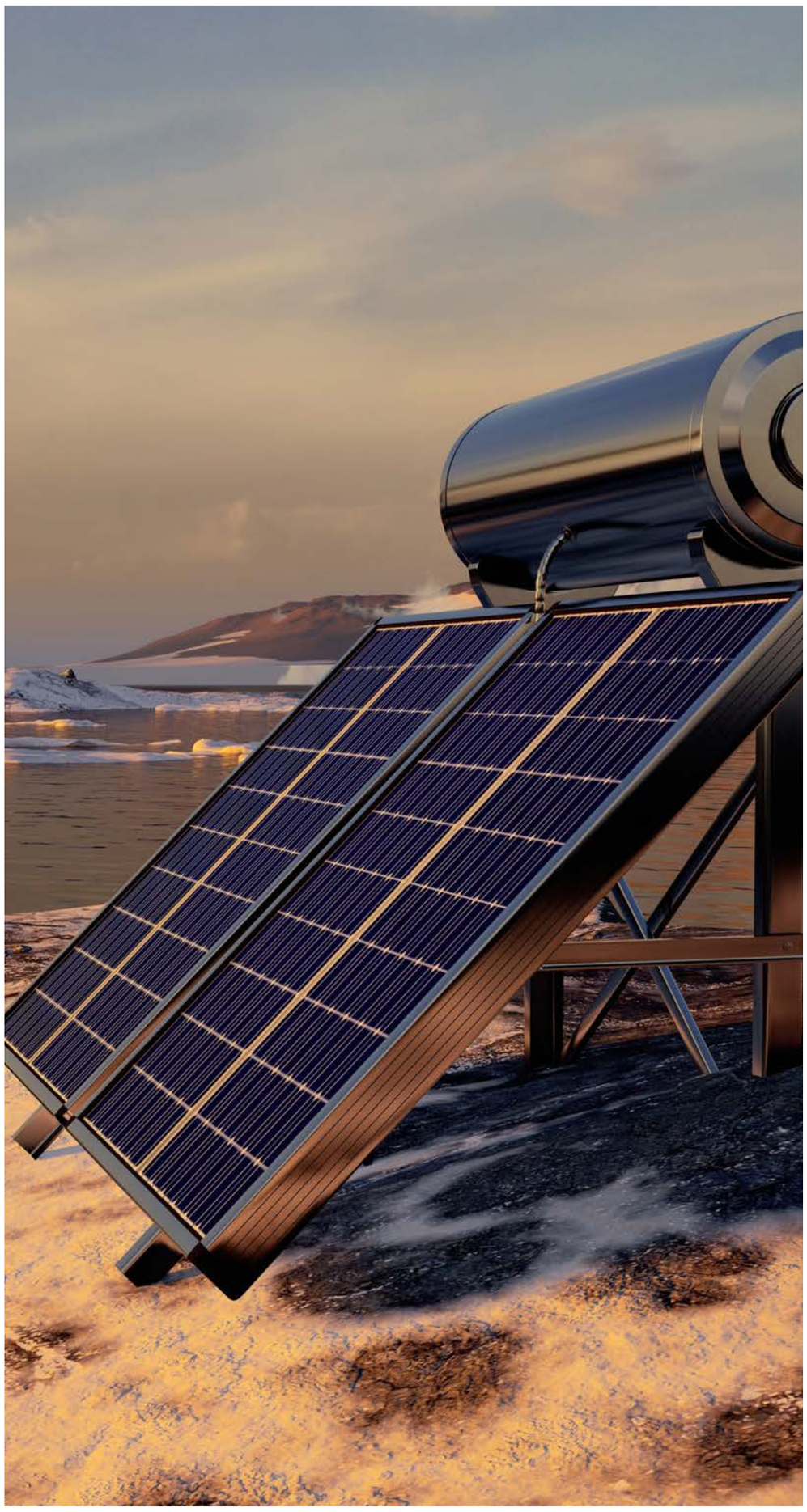
**Firmwide Equity and Corporate Fixed Income only*

C) ACTIVE ENGAGEMENT WITH INVESTEE COMPANIES AND PROXY VOTING

Setanta are an engaged asset manager. Our engagements may cover a myriad of factors including long-term objectives and challenges, the operating and decision-making frameworks, business risk and management's plans for maximizing shareholder value. We view the consideration of financially material ESG factors as core to our investment process. As such, ESG factors will form part of our engagement and voting practices where we feel they are material to the investment case, or they are required by our investment mandates.

Setanta may engage with other stakeholders in accordance with market conduct requirements. The appropriateness of these engagements is assessed on a case-by-case basis taking into consideration any potential conflicts of interest that may arise.

Setanta endeavour to vote on all security voting decisions and do not outsource the responsibility to proxy advisors. ProxyEdge, provided through Setanta's third-party vendor Broadridge, is an online solution which supports the management of meeting notifications, voting decision communication, reporting of the meetings taking place on our securities. Our objective is to vote the securities of companies for which they have proxy-voting authority, in a manner most consistent with the long-term economic interest of fund investors.



4. Metrics and Targets

The TCFD recommendations Metrics and Targets pillar includes the following disclosures:

a) Disclose metrics used to assess Climate Related risks and opportunities
b) Disclose scope 1, 2 and 3 GHG emissions
c) Describe targets used to manage climate related risks and progress towards targets

Analysis within this TCFD Disclosure section relates to three specific asset class groupings:

1. **Firmwide Equity**
   a. Asset Class value EUR 9.12bn
   b. Represents approximately 68% of total AUM
   c. Grouping represents an aggregation of all Equity holdings managed by Setanta

2. **Firmwide Corporate Fixed Income**
   a. Asset Class value EUR 1.59bn
   b. Represents approximately 12% of total AUM
   c. Grouping represents an aggregation of all Corporate Debt holdings managed by Setanta

3. **Sovereign Portfolio**
   a. Asset Class value EUR 1.05bn
   b. Represents approximately 8% of total AUM
   c. Grouping represents an aggregation of all Sovereign holdings managed by Setanta

As per section 4(b), Firmwide GHG Emissions are a foundational disclosure, covering:

(i) Absolute Scope 1, Scope 2, and Scope 3
(ii) Emissions intensity measures (including WACI and Relative Carbon Footprint)

In addition to the above disclosures, metrics coverage has been expanded to incorporate the range of cross-sector climate-related metrics TCFD required, following its 2021 update to recommended disclosures.

1. Transition Risks (including amount and Extent of Assets or Business Activities Vulnerable to Transition Risks)

   (i) Portfolio Exposure to Fossil Fuels
   (ii) Weighted Average Carbon Risk Rating (all portfolios)
   (iii) Scenario Alignment
   (iv) Transition VaR
   (v) Power Generation Exposure / Energy Mix

2. Physical Risks (and the Amount and Extent of Assets or Business Activities Vulnerable to Physical Risks)

   (i) Physical Value at Risk (VaR)
   (ii) Physical Risk Management

3. Climate-Related Opportunities (including proportions of Revenue, Assets, or Other Business

Activities Aligned with Climate-Related Opportunities)

(i) Green Revenues

4. Capital Deployment (including Amount of Capital Expenditure, Financing, or Investment Deployed toward Climate-Related Risks)

(i) Brown / Fossil Fuel Expansion (as weighted % of portfolio)

A) EMISSIONS, THE WEIGHTED AVERAGE CARBON INTENSITY, ABSOLUTE EMISSIONS AND CARBON FOOTPRINT

The Weighted Average Carbon Intensity (WACI) is the metric explicitly recommended by the TCFD for asset managers and asset owners. The WACI allocates Scope 1 & 2 GHG emissions based on portfolio weights and is comparable across asset classes. It also allows for blending fixed income and equity holdings as it is only linked to the underlying issuer, and not based on a security-level valuation. Additionally, the WACI is simple to calculate and easy to communicate to investors. The Relative Carbon Footprint[3] is an additional useful metric based on the ownership principle, which is the key logic of the GHG protocol.

Portfolio	% of AUM		Portfolio Absolute Emissions (tCO2e)				Weighted Average Carbon Intensity (tCO2e / mUSD Revenue)		Relative Carbon Footprint (tCO2e / mUSD Invested)	
			Scopes 1 + 2		Scope 3					
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Equity	78	80	567,91	636,71	6,139,297	6,333,451	140.58	149.47	55.73	69.92
Corporate Fixed Income	13	10	107,70	152,01	1,001,164	1,021,214	171.51	161.06	74.54	103.46

Table 1: Year-over-Year, GHG Emissions metrics Equity & Mixed Asset Class.

Over the past year, Table 1 highlights developments in emissions metrics for equity and mixed asset classes. Drivers of change within the Equity portfolio for Portfolio Absolute Emissions were the emissions profiles of new positions and changes in emissions within existing positions. Increases in emissions due to existing positions included both increases in emissions due to changes in ownership and, on average, increases in company-level greenhouse gas emissions for positions held year-over-year. Within the Corporate Fixed Income portfolio, year-over-year developments were driven by the inclusion of new positions within the portfolio, as emissions changes that occurred within existing positions, divested positions, and company-level emissions changes of positions held year-over year were largely muted.

3 The Relative Carbon Footprint is a normalised measure, defined as the total carbon emissions of the portfolio per million EUR invested. For further details please refer to APPENDIX I – METHODOLOGY.

(i) Equities & Fixed Income Portfolios

Portfolio	% of AUM	Portfolio Absolute Emissions (tCO2e)		Weighted Average Carbon Intensity (tCO2e / mUSD Revenue)	Relative Carbon Footprint (tCO2e / mUSD Invested)
		Scopes 1+2	Scope 3		
Equity	78	636,711	6,333,451	149.47	69.92
Corporate Fixed Income	13	152,013	1,021,214	161.06	103.46

Table 2: GHG Emissions metrics Equity & Mixed Asset Class

Table 8 illustrates the performance of the Firmwide Asset Classes side-by-side. Despite the significantly larger size of absolute carbon emissions at all Scopes 1, 2 and 3, the Equity Asset Class outperforms the Corporate FI aggregation in both WACI and Relative Carbon Footprint due primarily to less exposure to the Utilities and Energy sectors, as well as the selection of less emissions-intense issuers from the Utilities sector (was included in last year's report). Emission contributions by sector are illustrated in Figure 2 below

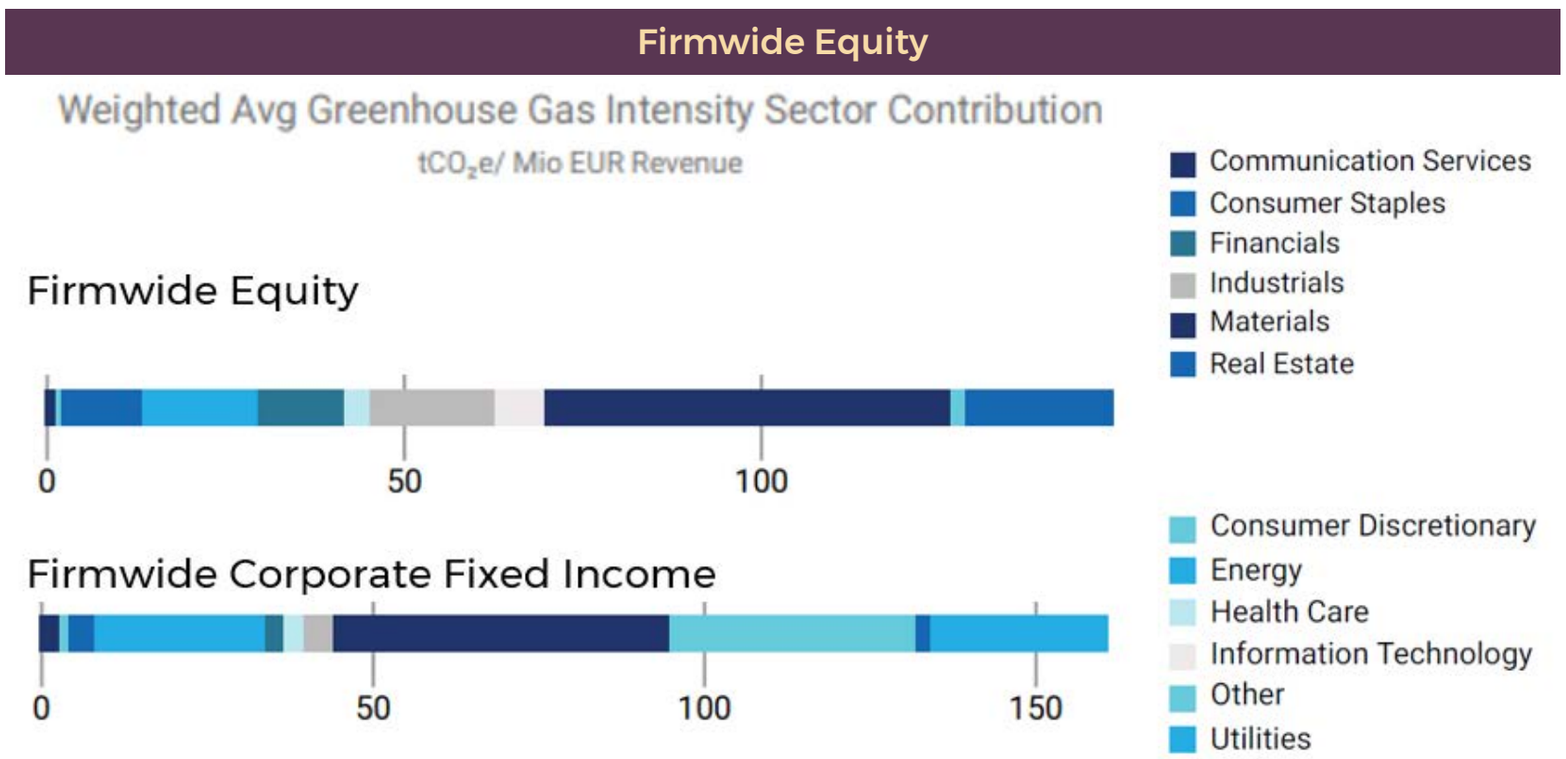


Figure 2: WACI with sector-distributions

(ii) Sovereign Portfolio

More than 50% of the sovereign AUM is invested in the Netherlands, Germany and France (unchanged from last year). As the definitions of WACIs slightly differ between corporate and sovereign portfolios, where Gross Domestic Product (GDP) is used as a proxy for Revenue, a meaningful comparison between Sovereign and non-sovereign asset class groupings is not possible. Methodology elaboration is included in the Appendix

Portfolio	% of AUM	Emissions Type	Absolute Emissions (tCO2e)	Weighted Average Carbon Intensity (tCO2e / GDP)	Relative Carbon Footprint (tCO2e / mUSD Debt)
Sovereign	9	Production	183,406	181.03	181.03
		Government	17,519	17.29	17.29

Table 3: GHG Emissions metrics Sovereign Debt Asset Class

B) TRANSITION RISKS: AMOUNT AND EXTENT OF ASSETS OR BUSINESS ACTIVITIES VULNERABLE TO TRANSITION RISKS

(i) Exposure to Fossil Fuels (Equities & Fixed Income Portfolios)

Firmwide Asset Class	Revenue Linked to Fossil Fuels		Exposure to FF Revenue, by FF Type (%)			Fossil Fuel Expansion (as unweighted % of issuers)	Potential Reserves (000's tCO2e)	Coal as % of Potential Reserves
	Absolute (EURm)	As % of Total Revenue	Coal	Oil	Gas			
Equity	155.6	3	1	70	29	7	399	0
Corporate FI	87	14	5	62	34	11	234	26

Table 4: Fossil Fuel Exposure – Firmwide Equity and Corporate class groupings

(ii) Weighted Average Carbon Risk Rating (all asset classes)

Firmwide Asset Class	Weighted Average CRR
Equity	56
Corporate Fixed Income	58
Sovereign	51

Table 5: Weighted Average Carbon Risk Rating (all asset classes)

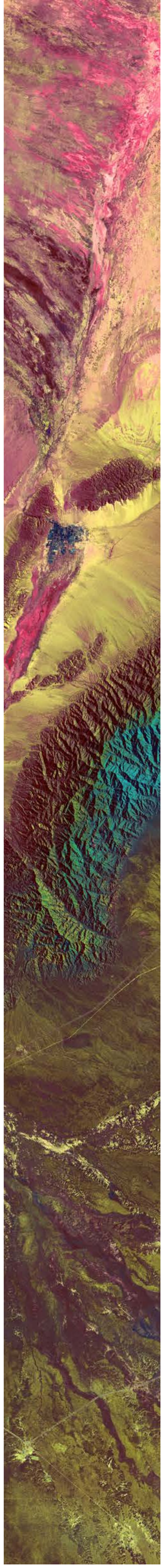
Both the Equity and Corporate Fixed Income asset-class groupings are exposed to carbon risk, with evidence of revenue linkage to Fossil Fuel activity. Both asset class groupings contain exposure to all of the Coal, Oil and Gas activities. The Equity asset class is considerably less exposed to Fossil Fuel than the Corporate Fixed Income, with revenue exposure representing 3% and 14% of total attributable revenue respectively. Last year's revenue exposure was 2% for the Equity Asset Class and 13% for Corporate FI.

In terms of Weighted Average Carbon Risk Rating, both groupings marginally outperform i.e., are scored above 50. Carbon Risk Rating is an assessment of overall strategy Carbon Risk Rating, and issuer exposure and management of material carbon issues in its own operations as well as its products and services. In addition, at each value chain stage, a company's vulnerability to carbon risks is assessed. (if > 50 is good, the Carbon risk rating has improved slightly across all three assets class from last year (Equity was 52, Corp FI 55, Sovereign 50)

(iii) Scenario Alignment and Transition Value-at-Risk

Firmwide Asset Class	Year SDS Budget Exceeded	Temperature Increase by 2050 in (°C)	Portfolio Comparison to SDS Budget (%; Red = Overshoot)			
			2021	2030	2040	2050
Equity	**2037**	**2.1**	-43.9	-30.5	+23.5	+162.7
Corporate FI	**2022**	**2.9**	+16.3	+50.4	+172.3	+476.5

Table 6: Asset Class-level Scenario Alignment data vs IEA SDS Scenario



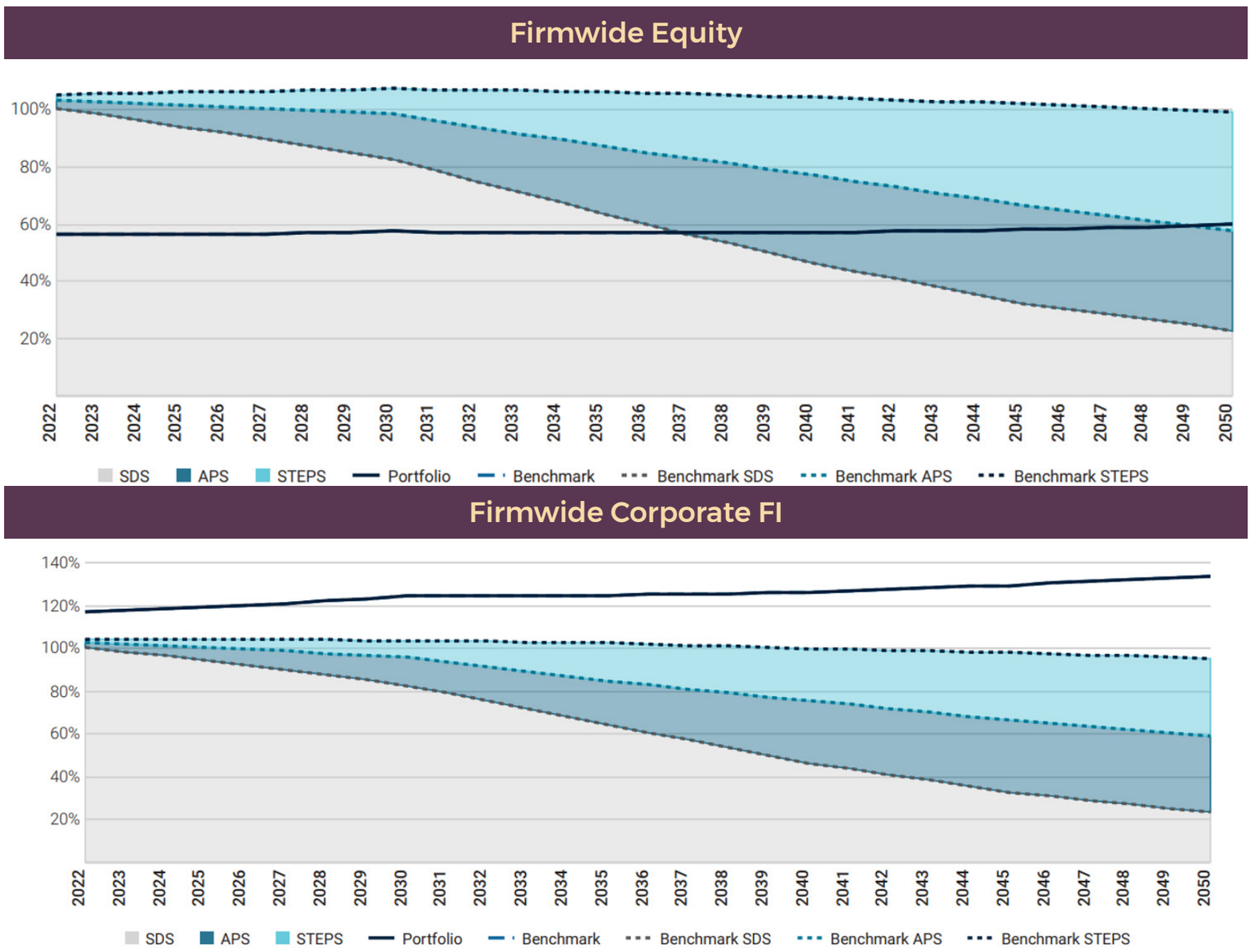


Figure 3: Graphical Representation of Asset Class-level Scenario Alignment data vs All IEA Scenarios

Climate Scenario Alignment represents one pillar of scenario analysis. This analyses the current and future emission intensity of an issuer, in order to understand which climate scenario it is best-aligned with until 2050 (for further explanation of methodology, see Appendix I). This analysis incorporates three climate scenarios provided by the International Energy Agency (IEA) in their report World Energy Outlook 2020: the Sustainable Development Scenario (SDS), the Stated Policy Scenario (STEPS), and Actual Scenario (APS).

- The Firmwide Equity asset-class in its current state is misaligned with a SDS scenario by 2050, representing a potential temperature increase of 2.1°C, and an SDS-aligned budget-exceed year of 2037.
- The Firmwide Corporate asset-class in its current state is also misaligned with a SDS scenario by 2050, representing a potential temperature increase of 2.9°C, and an SDS-aligned budget-exceed year of 2022.

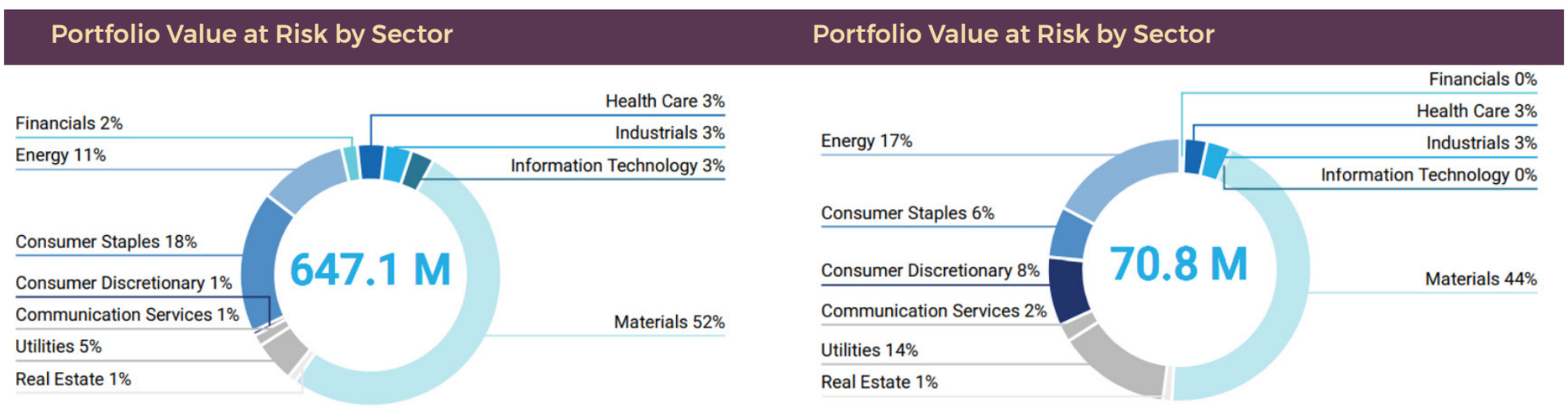


Figure 4: Asset Class-level Transition Risk (EURm based on NZE2050 scenario, with GICS Sector distributions)

As per Figure 4, the total estimated Transition Value at Risk for the Firmwide Equity asset class is EUR 647.1m (7.1% of the total grouping by weight), compared with EUR 70.8m (4.8% of total grouping by weight) . Both are based on the IEA 'NZE 2050' scenario. Both charts show the sector-level contribution to the total potential financial impact of transition risks and opportunities on the portfolio. The Value at Risk presented is a net number between the positive and negative potential share price performance in the portfolio.

Firmwide Asset Class	Asset Class Value at Risk* (EURm)	Transition Value at Risk (as % of total Assets)	Issuers at Risk (as unweighted %)
Equity	**647.1**	7.1	87
Corporate FI	**70.8**	4.8	72

Table 7: Power Generation Exposure and distribution

The Transition VaR is an equity-based analysis, and its output should not be interpreted as the potential change in price of a bond. Nevertheless, the VaR remains a useful metric for fixed income as it is a holistic indicator of the issuer's exposure to Physical or Transition Risks, even if not directly material to a bond price itself.

(iv) Power Generation Exposure / Energy Mix

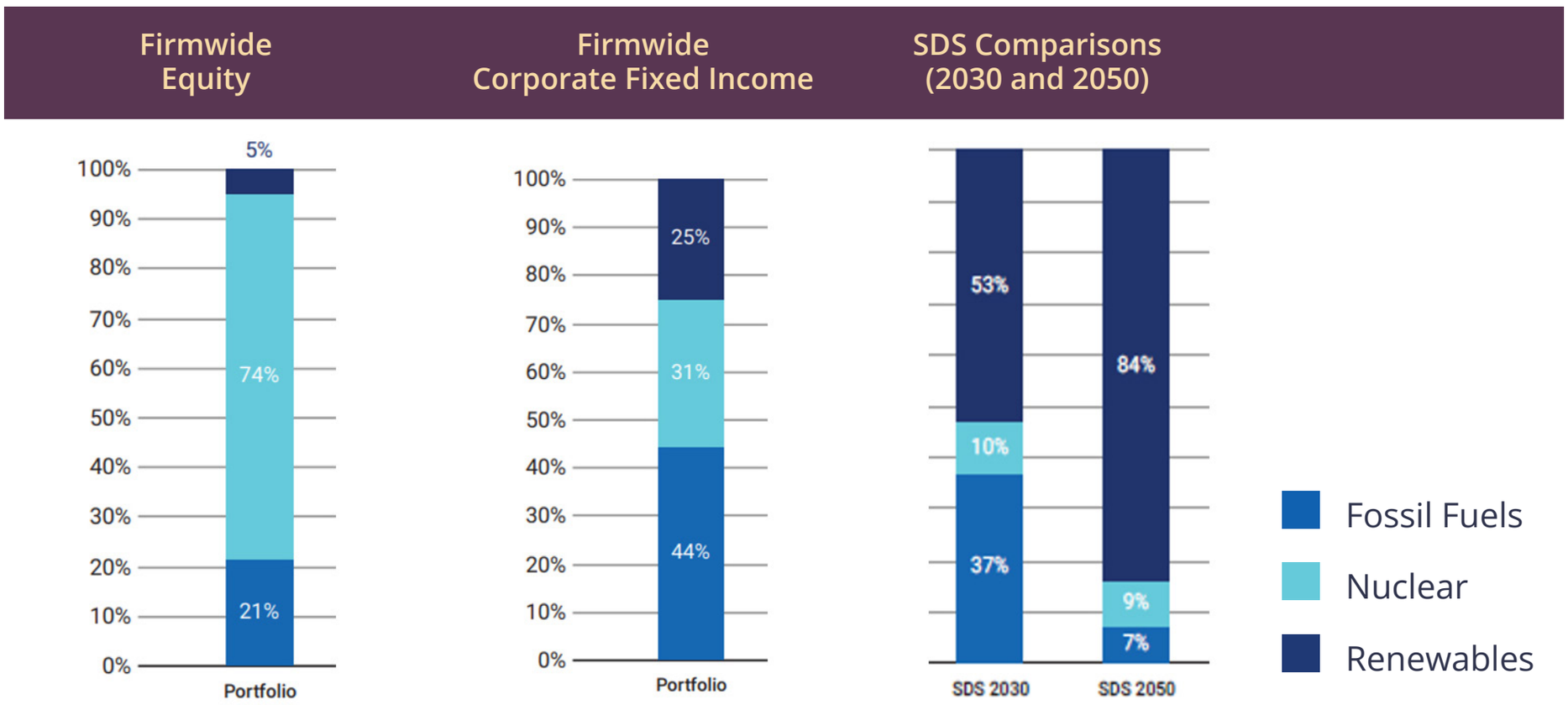


Figure 5: Power Generation Exposure and distribution

Figure 5 shows the energy generation mix in % from different sources by power generators in the portfolio. The two right-most bars are static and illustrate an SDS compatible generation mix in 2030 and 2050, according to the International Energy Agency[4]. Corporate Fixed Income outperforms Equity asset class in terms of proportional exposure to green energy source, however both remain over-exposed to fossil fuel types, and are both misaligned with an energy mix for 2030 that would represent an alignment with Paris-aligned SDS scenario. Power Generation Exposure/ Energy Mix figures provided in Figure 5 not significantly different from last year's reporting.

[4] https://iea.blob.core.windows.net/assets/4ed140c1-c3f3-4fd9-acae-789a4e14a23c/WorldEnergyOutlook2021.pdf

C) C) PHYSICAL RISKS: AMOUNT AND EXTENT OF ASSETS OR BUSINESS ACTIVITIES VULNERABLE TO PHYSICAL RISKS

(i) Physical Value At Risk (VaR)

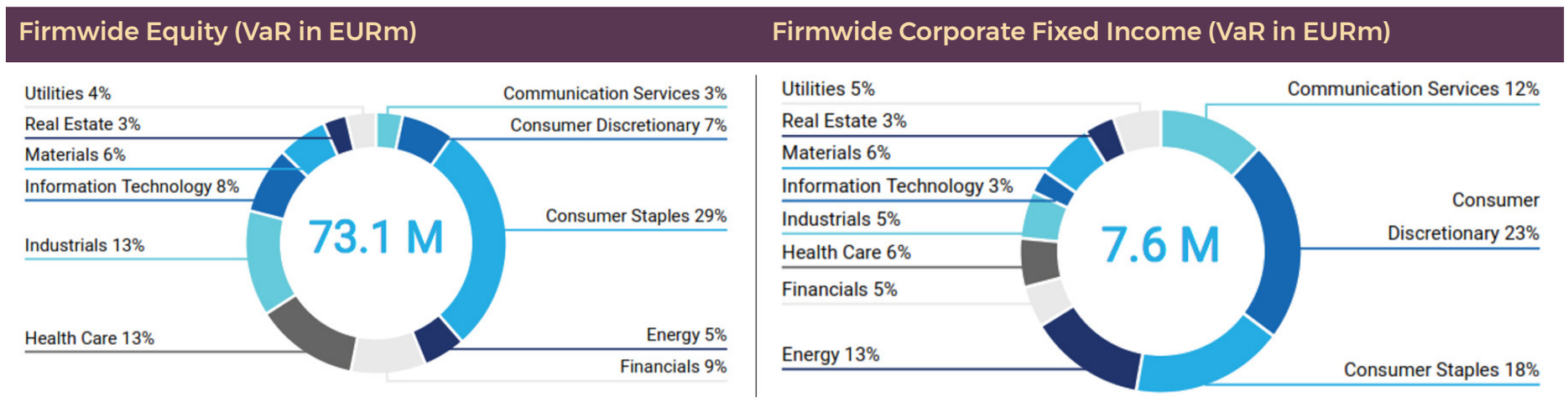


Figure 6: Physical Risk Var in EURm with GICS Sector distribution

Firmwide Asset Class	Asset Class Value at Risk* (EURm)	Physical Value at Risk (as % of total Assets)	Asset Class Change in Value by 2050 (EURm)		Issuers at Risk (as unweighted %)
			Current	Future* (Climate Change)	
Equity	**73.1**	0.8	14.41	58.64	23
Corporate FI	**7.6**	0.5	2.31	5.33	22

*Table 8: Physical VaR (*Data based on IPCC RCP 4.5 'Most Likely' Scenario)*

The Value at Risk (VaR) of an individual issuer estimates the change in share price as a result of considering the financial impact of physical risks. The VaR is computed using a valuation model based on the Economy Value Added (EVA) framework and highlights potential impact on the portfolio value in 2050 based on current risk levels and hazards due to climate change, along with total anticipated net change in value.

Aggregated-up to portfolio level, the Equity and Corporate Fixed Income asset classes display a path to Physical Risk-related damage to annual EVA of EUR 73.1 million and USD 7.6 million respectively, by 2050 (see Figure 6 for an additional GICS Sector breakdown). Both represent less than 1% of total asset values (Table 8). The 1% is unchanged from last year.

(ii) Physical Risk Management

Portfolio	Issuers at Risk (as unweighted %)	Physical Risk Score	Physical Risk Management - Assessment Categories (as % of total)			
			Robust	Moderate	Weak	Not Covered Or None
Equity	23	57	23	19	7	52
Corporate Fixed Income	22	59	37	18	11	34

Table 9: Physical Risk Management Data at Asset Class level

Physical risks that can have a financial impact on the portfolio both at the operational and the market level. The Physical Risk Score of the Equity and Corporate FI asset class groupings are in similar order of magnitude. In Table 8, the Equity asset-class shows a 22% of Issuers are at risk of Physical Risk damage, with 42% of issuers showing a Physical Risk Management assessment that is moderate or higher. (Last year 20 % of issuers were at risk of Physical damage and 27% of issuers were showing a Physical Risk Management Assessment of moderate or higher.)

Corporate Fixed Income firmwide grouping shows a roughly similar number of issuers exposed to Physical Risk (22%), with 55% showing a moderate-or-greater Physical Risk management assessment (moderate plus robust). (Last year 10% of issuers were exposed to Physical Risk and 41% were showing a moderate or higher Physical Risk management assessment.)

D) CLIMATE-RELATED OPPORTUNITIES

(iii) Green Revenues (% of portfolio holdings)

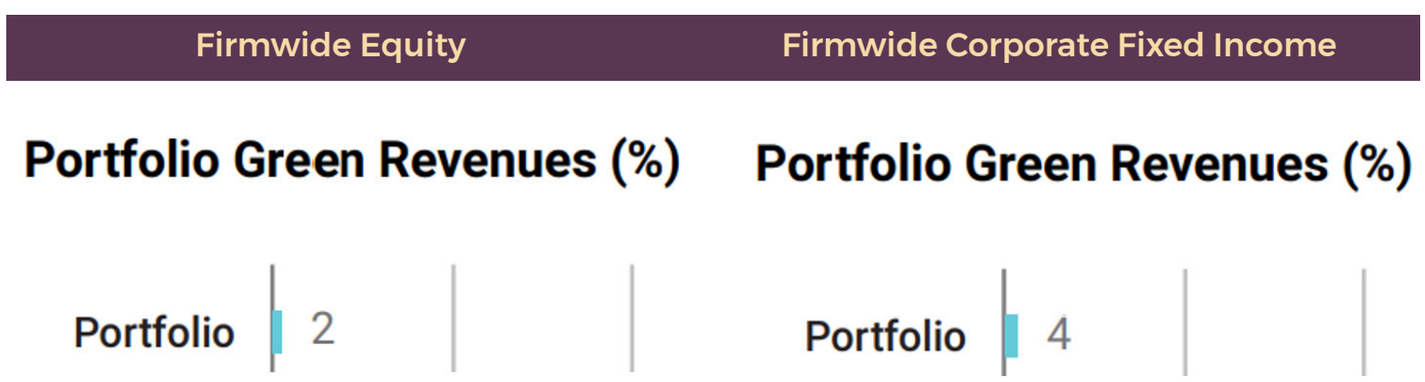


Figure 7: Portfolio Green Revenues

For both the asset class groupings, between 2% and 4% of attributable revenue to the portfolio is considered to be derived from products or services with significant or limited contribution to SDG Goal number (Climate Action). The % of Green Revenues on Firmwide Equity is unchanged from last year; Firmwide Corporate FI has increased from 2% to 4%. This assessment is derived from the ISS ESG assessment from the Sustainable Development Goals Solutions product, where percentages of revenue are attributed to products and / or services that contribute to, or obstruct, the achievement of specific SDGs.

E) CAPITAL DEPLOYMENT: CAPITAL EXPENDITURE, FINANCING, OR INVESTMENT DEPLOYED TOWARD CLIMATE-RELATED RISKS AND OPPORTUNITIES

(iv) Issuers exposed to Brown Expansion Capex (% of portfolio)

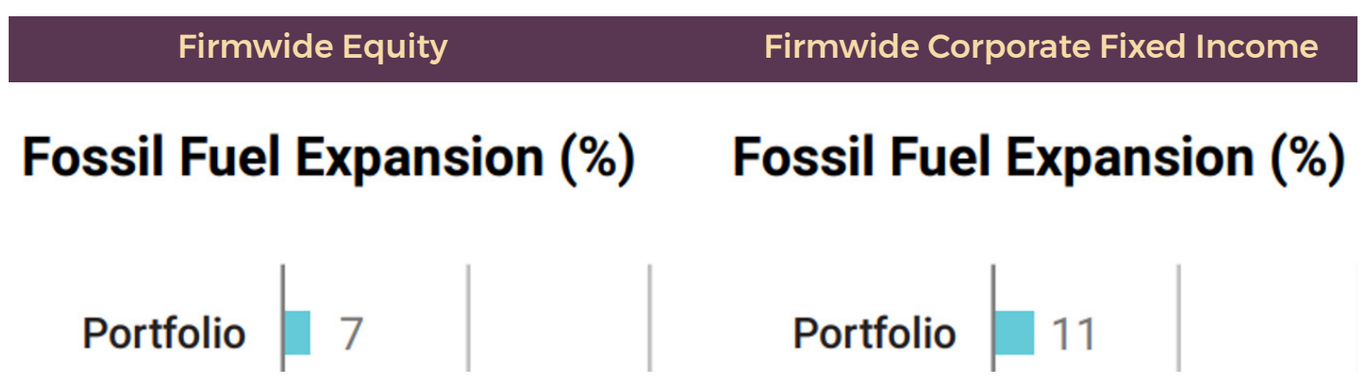


Figure 7: Fossil Fuel Expansion (as unweighted % of portfolio)

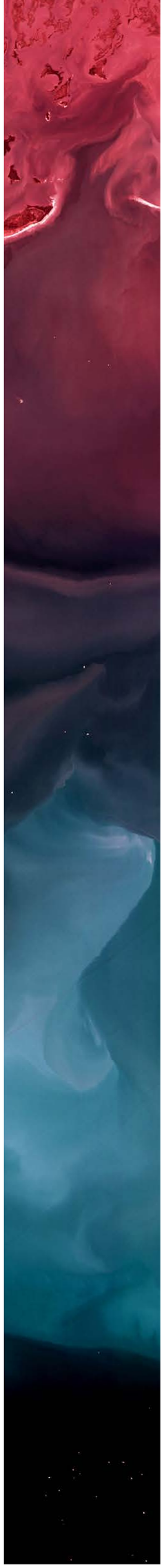
For both the asset classes, the analysis shows percentage-numbers (unweight) of the count of issuers in the portfolio that have fossil fuel relevant-assets in the previous fiscal year, 7% and 11% respectively. (This is a slight increase over last year's figures of 4% and 8% respectively). This assessment identifies issuers currently engaged in the expansion or development of fossil fuel projects or have declared plans to do so in the near future. Fossil fuel projects incorporate oil, gas, and coal extraction operations, as well as energy generation assets powered by fossil fuels, and infrastructure which is critical for the fossil fuel industry (e.g., pipelines and terminals).

F) TARGETS FOR CLIMATE-RELATED RISKS AND OPPORTUNITIES

Setanta currently has no targets specific to climate-related risks and opportunities. This may change because of the ongoing Net Zero research and broader ESG integration project. Setanta has established an intention to set Net Zero targets aligned with the IIGCC Investment Framework, with an intention to set decarbonisation and engagement targets across its investment portfolio.

*In terms of future **Metrics and Targets**-related developments:*

- Explore setting specific targets as part of the planned Net Zero and broader ESG Integration projects.



Conclusion

This report outlining Setanta's efforts along the TCFD recommendations covers the full scope of the TCFD's four categories and 11 recommendations. It has highlighted areas where demonstrates areas for further action that are being actively addressed as of the time of writing.

Through the TCFD assessment and production of this report, we have conducted an initial review of our Climate-related strategy approach and have identified a range of areas for development and improvement. This process of analysis and development is ongoing, and the outcomes of which will be incorporated into our climate strategy and future reporting.

We are already making significant progress in relation to these recommendations, the details of which has been substantively represented within the Strategy and Risk Management sections of the report. Areas of recommended improvement have included:

Governance

- The development of an explicit mandate for the Board to manage climate-related risks and opportunities issues specifically, including an integrated risk management process and data collection.
- Oversee the formulation of a specific Responsible Investment policy on climate change, including updates with regards to Net Zero alignment and Article 9 plans, supported by the Responsible Investment Committee, with formalised Board-level oversight.

Strategy

- Sustainability Strategy & Policies:
  - Develop a standalone sustainability strategy for the firm.
  - Develop a mechanism for analysing climate-related risks on the broader business outside of the investment process.
  - The development of an explicit mandate for the Board to manage climate-related risks and opportunities.
  - Oversee the formulation of a specific Responsible Investment policy on climate change, including updates addressing Net Zero alignment and Article 9 plans; the policy would be supported by the Responsible Investment Committee and formalised with Board-level oversight.
- Investment process: Ongoing refinement of the ESG integration framework considering factors such as greater use of specialist third party tools and incorporating ESG opportunities in a more systematic way.
- Additional regulatory Alignment: Within Equities, Setanta are viewing the possibility of further alignment to Article 8 status under SFDR.
- Product Roadmap/Net Zero:
  - Setanta to make a Net Zero commitment as a % of assets by the end of 2023. The Net Zero motivation, whichhas also been a function of the client/asset owner interest, is further motivated by a combination of Net Zero commitments at both (i) parent-level (Great-West Lifeco) and (ii) the Irish Life Group-level (of which Setanta is a member).
  - Develop a Net Zero Solution for clients over the coming 12-24 months: agree the philosophy and approach, develop and build the stewardship framework, identify and obtain resources and then launch the solution.
  - Launch a Green Bond fund and an Article 9 Equity Fund: agree the philosophy and approach, identify and obtain resources, undertake investment research and then launch the Fund.

Metrics and Targets:

- Explore setting specific targets as part of the ongoing Net Zero research and broader ESG integration project.

Appendix I – Methodology

1) GHG EMISSIONS

(i) Equities & Fixed Income Portfolios

Scope 1 & 2 emissions for issuers

The emissions methodology was developed over three years with the Swiss Federal Institute of Technology and includes about 800 sector and sub-sector specific models, allowing ISS ESG's researchers to calculate the GHG emissions of companies based on those criteria that are most relevant to their line of business.

A summary of the process is provided below:

- Self-reported emissions data is collected from all available sources.
- Self-reported numbers are evaluated for trustworthiness and, where necessary, discarded.
- All companies are classified according to the proprietary ISS ESG CICS (Carbon Industry Classification System) – i.e., companies are classified considering their carbon-profile, allowing ISS ESG to benchmark non-reporting companies against their reporting peers.
- ISS ESG applies its 800 sub-sector specific models to estimate the emissions of non-reporting companies according to sector-relevant financial or operational metrics.

Scope 3 emissions for issuers

ISS ESG's methodology conceptually differentiates between two sources of Scope 3 emissions: a.) emissions from a company's upstream and downstream supply chains and b.) emissions from the "use phase" of a company's product or service.

Upstream emissions include GHG emissions that occur before the primary inputs for production (raw material / machinery etc.) enter the company's operational control. Downstream emissions are those emitted after a product/ service leaves a company's control or ownership. Purchased goods and services (upstream, category 1) and use of sold products (downstream, category 11) are responsible for most of the emissions across high emitting sectors4. Among the Climate Action 100+ companies, two thirds of the Scope 3 emissions from the reporting companies were estimated to be concentrated in the 'use of sold products' category5. These findings were confirmed in ISS ESG's analysis of self-reported Scope 3 data. Only companies reporting on most of the relevant categories were considered6 to ensure a sound analysis based on high quality data.

The highest contributors to upstream emissions in most sectors were found to be Category 1 (Purchased Goods and Services), Category 2 (Capital goods), Category 3 (Fuel and energy-related activities) and Category 4 (Upstream transportation).

The highest contributors to downstream emissions in most sectors were found to be Category 11 (Use of sold products), Category 9 (Downstream transportation and distribution) and Category 12 (End-of-life treatment of sold products). The Scope 3 emission estimation approaches were designed to capture these categories to ensure a high degree of coverage.

ISS ESG uses a combination of approaches to estimate the upstream and downstream Scope 3 emissions of companies. The following table provides the overview of the Scope 3 emission estimation approaches used for companies in the ISS ESG climate universe. A unified upstream approach based on Environmentally Extended Input Output models (EEIOs) is used with downstream approaches that vary based on the type of sector and data availability. The order of preference for the downstream approach is based on the accuracy and proximity in representing the

operations and emission profile of the underlying company. The upstream and downstream approaches are described in sections 3 and 4 below.

APPROACH TYPE	UPSTREAM	DOWNSTREAM	EXAMPLE SECTORS
Bottom-up Approach	Emission Multipliers from EEIO Models	Output production or a proxy (E.g., revenue) used with standardized emission factors.	Oil & Gas Extraction Coal Mining Auto manufacture
Product Profile Top-down Approach		Downstream emission ratios from EPDs and LCAs8 used for a standardized product profile	Manufacturing Cement Electronics Electricals
Peer Top-down Approach		Emission profile of representative peers with high quality disclosure for diversified or low impact sectors	Chemicals Services Wholesale and Retail Real Estate

Carbon Metrics (Equity and Fixed Income)

Position Ownership Ratio	For equity and corporate fixed income calculations below, the adjusted enterprise value of a company (AEV) is used to represent the value of a company.
Emission Exposure	Calculated using the following formula for Scope 1&2 (the same approach is used for calculating Scope 3 emissions): $\sum_{i}^{n} Position\ Ownership\ Ratio \times Position\ Scope\ 1\&2\ Emissions_{i}$
Relative Carbon Footprint	$\frac{Emission\ Exposure}{Total\ Analysis\ Value}$
Carbon Intensity	$\frac{(\sum_{i}^{n} Position\ Ownership\ Ratio_{i} \times Position\ Scope\ 1\&2\ Emissions_{i})}{(\sum_{i}^{n} Position\ Ownership\ Ratio_{i} \times Position\ Revenue_{i})}$
Weighted Average Carbon Intensity	$\sum_{i}^{n} Position\ Weight_{i} \times \frac{Position\ Scope\ 1\ \&\ 2\ Emissions_{i}}{Position\ Revenue_{i}}$

(ii) Emissions for sovereign fixed income

The methodology was developed in accordance with the indications of the Platform Carbon Accounting Financials (PCAF) and allows ISS ESG's researchers to calculate the GHG emissions attributable to the governmental activities of a specific country. A summary of the process is provided below:

- Greenhouse gas emissions data are gathered. PCAF separates emissions caused by direct government activity from emissions caused by other sectors. Emissions from government activity is attributed directly to the government.

- The sources of data include the sectoral greenhouse gas emissions for each country published by the United Nations Framework Convention on Climate Change (UNFCCC). This approach allocates emissions to a government using expenditure input-output data from the World Input Output Database (WIOD). To cover countries for which such data is not available, a secondary approach is used, in which a country's greenhouse gas emissions are allocated to the government by using the government's consumption expenditure as part of total GDP.
- The emissions are allocated to the bond based on bond investment as part of total national debt.

To account for the different calculation possibilities as well as to offer various perspectives, ISS ESG provides data for the following two different sovereign emission categories:

Production Emissions

Emission footprint of a country's production according to International Sovereign accounting guidelines. Production emissions are calculated based on production of goods and services in each country, i.e., they include the direct emissions of tCO_2e emitted within the country's borders.

Government Emissions

Following the "Platform Carbon Accounting Financials (PCAF)" standard: This approach states that a government bond co-finances both direct emissions from the public sector and investments made by the government.

Carbon Metrics (Sovereign debt)

Emission Exposure	Sum of (Position Ownership Ratio X Position Production Emissions) OR Sum of (Position Ownership Ratio X Position Government Emissions)
Relative Carbon Footprint	$\frac{Emission\ Exposure}{Total\ Analysis\ Value}$
Weighted Average Carbon Intensity	Sum of (Position Weight X (Position Production Emissions / Position GDP) OR Sum of (Position Weight X Position Government Emissions / Position GDP)

2) TRANSITION RISK

(i) Exposure to Fossil Fuels

Revenue From Fossil Fuels, Overall and By FF Type

These graphs show the revenue linked to fossil fuel extraction for the portfolio and the benchmark. The share of revenue derived from exposure to fossil fuels, a major contributor to climate change, is a widely used quantitative metric to measure an issuer's involvement in this area. This allows investors to capture involvement for issuers beyond industry sector classification. The data covers involvement in, and revenues derived from, the following fossil fuel-related activities:

- Coal Extraction/Mining
  - Thermal Coal Mining
  - Metallurgical Coal Mining
- Coal Power Generation
- Coal Refining & Processing
- Oil Extraction
- Oil Power Generation
- Oil Refining & Processing
- Natural Gas Extraction
- Natural Gas Power Generation
- Natural Gas Refining & Processing
- Fossil Fuel Exploration
- Coal Mining Exploration
- Fossil Fuel Distribution
- Fossil Fuel Services
  - Coal Mining Services

The data covers the latest fiscal year. If issuer reporting has not been updated, older reported data may be used.

Fossil Fuel Expansion (%)

The graph shows the percent of weight of issuers that have expanded fossil fuel assets in the previous fiscal year. The factor identifies issuers currently engaged in the expansion or development of fossil fuel projects or have declared plans to do so in the near future. Fossil fuel projects incorporate oil, gas, and coal extraction operations, as well as energy generation assets powered by fossil fuels, and infrastructure which is critical for the fossil fuel industry (e.g., pipelines and terminals). The International Energy Agency (IEA) states in their Net Zero 2050 scenario (NZE), that "there is no need for investment in new fossil fuel supply" (source https://www.iea.org/reports/net-zero-by-2050). The scenario expects a sharp decline in fossil fuel demand. The graph in the Climate Impact Report is built around a binary Yes/No metric.

Reserves Potential Emissions (GtCO2e)

The graph shows the potential future emissions from fossil fuel reserves expressed in megatons of carbon dioxide equivalent (GtCO2e). The factor covers Proven (P1) oil, gas, and coal reserves as of the latest reporting year. 'Proven' is aligned with the OECD definition, 'P1 reserves are estimated quantities of mineral deposits, at a specific date, as analysis of geologic engineering data demonstrates with reasonable certainty to be recoverable in the future under the

same economic and operational conditions'.

(ii) Weighted Average Carbon Risk Rating (CRR)

The Carbon Risk Rating is a comprehensive assessment of the carbon-related performance of companies, based on a combination of quantitative indicators, forward-looking qualitative indicators, and a classification of the company's absolute climate risk exposure due to its business activities. Quantitative factors include, for example, information on the current intensity and trend of the greenhouse gas emissions of an issuer, the carbon impact of the product portfolio including revenue shares of products or services associated with positive as well as negative climate impact. Corporate policies, shifts in product and services portfolio, emission reduction targets and action plans, are some of the forward-looking indicators considered.

CRR provides a numeric score from 0 to 100 for the rated entity's overall carbon risk based on an assessment of over 100 industry-specific indicators and a carbon risk classification at the industry and sub-industry levels. Calculated as:

Weighted Average Carbon Risk Rating	$\sum_{i}^{n} Position\ Weight_i \times Position\ Carbon\ Risk\ Rating_i$

(iii) Scenario Alignment

SDS Exceed year, Temperature Score

The SDS Exceedance Year and Temperature Score metrics display the estimated temperature performance of the portfolio at the end of the analyzed period, and the year the emissions of the portfolio exceed the allocated carbon budget.

The purpose of the scenario alignment is to analyse the current and future emission intensity from the direct and indirect emission of a company (Scope 1, 2 & 3) to see which climate scenario it is aligned with until 2050. The approach is based on three climate scenarios provided by the International Energy Agency (IEA) in their report World Energy Outlook 2020. The report presents three scenarios, Sustainable Development Scenario (SDS), Stated Policy Scenario (STEPS) and Announced Pledges Scenario (APS). Each scenario expects a certain level of carbon budget and temperature increase in 2050.

Each scenario is tied to a carbon budget. A carbon budget specifies the amount of fossil carbon that can be combusted worldwide to remain within a certain temperature. The carbon budget changes depending on scenario. For example, to remain within the limits of the SDS, less carbon can be combusted compared to the scenarios that expect a significant temperature increase, i.e., the CPS. Each company's carbon budget is defined based on its revenue-based market share.

- **Sustainable Development Scenario (SDS)** - The Sustainable Development Scenario pathway is fully aligned with the Paris Agreement by holding the rise in global temperatures to "well below 2°C … and pursuing efforts to limit [it] to 1.5°C" and meets Sustainable Development Goals (SDGs) objectives related to achieve universal access to energy (SDG 7), to reduce the severe health impacts of air pollution (part of SDG 3) and to tackle climate change (SDG 13).

- **Stated Policy Scenario (STEPS)** - The Stated Policies Scenario pathway assumes today's policy intentions and targets and considers only specific policy initiatives that have already been announced.

- **Announced Pledges Scenario (APS)** - Aims to show to what extent the announced ambitions and targets,

including the most recent ones, are on the path to deliver emissions reductions required to achieve net zero emissions by 2050. It includes all recent major national announcements of 2030 targets and longer-term net zero and other pledges, regardless of whether these have been anchored in implementing legislation or in updated NDCs.

Temperature estimates on issuer and portfolio level can be used as a compliment to other climate related physical risk and alignment analysis. The temperature score should be used with caution since a single metric cannot explain the full dynamics of an issuer or portfolio contribution to the global temperature increase.

Portfolio Comparison to SDS Budget

This section of Table X shows the portfolio and benchmark over/undershoot of their specific SDS budget used with a 10-year interval. Red/positive numbers signify an overshoot while green/negative numbers signify an undershoot of the SDS budget in % for any given year.

Emissions Pathways

The "Portfolio Emission Pathway vs Climate Scenarios" graphs plot the alignment on a portfolio and benchmark level per year while the shaded areas illustrate the emission budgets per year according to the respective scenarios. The % alignment is normalized at 100% for the portfolio SDS for the current year. The slope of the portfolio line is influenced by the portfolio composition and the ownership ratio in each company. Emission reduction targets are also taken into consideration, and the expected trajectories of companies are adjusted downwards if companies set either ambitious targets, committed or approved SBTs.

(iv) Transition VaR

Summary:

The ISS ESG Climate Transition Value at Risk (TVaR) solution helps investors assess their portfolio's exposure to climate-related transition risks and opportunities. It provides forward-looking returns-based analysis, leveraging financial data and modelling via ISS ESG's EVA solution, company-specific data, and scenario inputs. The TVaR solution allows financial institutions to identify assets which may be most at risk from carbon pricing and demand changes, as well as those which may be better positioned to seize opportunities. The total estimated TVaR for the portfolio in absolute terms, including a sector-level contribution breakdown.

The TVaR presented is a net number between the positive and negative potential share price performance in the portfolio. The TVaR is concerned at issuer level with the impact of the below changes on projected issuer emissions out to 2050:

(i) Changes in demand, and

(ii) Changes in costs (including Operating costs and Carbon costs)

Input Modelling basis:

Analysis of the potential transition risks and opportunities is based on two of the most common reference transition risk scenarios, as developed by the International Energy Agency (IEA):

- **Sustainable Development (SDS)**, corresponding to a 1.65˚C temperature increase
- **Net Zero (NZE2050)**, corresponding to a 1.5˚C temperature increase

Both scenarios are part of the IEA's World Energy Outlook (WEO) series, published annually, with current data (as per Q2 2022) based on the 2021 WEO release. The temperature increases implied within the two scenarios illustrate potential futures with a high level of transition risks. The selection of these scenarios is consistent with TCFD recommendations, which propose the use of a 2˚C or lower scenario within Scenario Analysis.

The IEA's World Energy Model (WEM) which produces the scenarios, is a hybrid Integrated Assessment Model, incorporating (i) policy, (ii) market and also (iii) technology risks. The IEA's WEM models not only the energy system, but also assumptions about policy and behavioural changes, as well as relative technology cost trajectories of key low-carbon technologies compared to traditional fossil fuel alternatives.

(i) **Policy transition risks** describe the additional costs or revenues that a company may experience as a result of changes in the policy environment. Various policy risks such as carbon tax, emissions trading schemes or coal production restrictions, are often summarized under a single carbon price instrument.

(ii) **Market risk** is considered via the integration of Carbon prices per region/country, where each scenario applied to the Scope 1 and 2 emissions of specific sectors, consistent with the IEA approach. Relevant sectors with direct carbon prices are Power Generation, Energy Production and Industry. Theoretically, high-emitting companies with relatively inelastic demand would be able to pass through any additional carbon prices to counterparties. The analysis reflects this, with Power Generation companies assumed to pass through a proportion of their carbon price to other sectors' Scope 2 emissions.

The below table shows the IEA sectors used in the analysis. Companies are assigned an IEA sector using mapping based on the ISS ESG proprietary Industry classification system (CICS).

IEA Sectors:

Power Generation	Electricity and heat generating companies
Energy Production	Energy supply and transformation outside of power generation
Industry	Manufacturing and construction activities
Buildings/Services	Businesses mainly running commercial activities in facilities such as offices, shops, institutional buildings, etc.
Transport	Transport of goods and people through road, marine and aviation

(iii) **Technology risks** include the potential changes in the relative price or demand for low carbon technologies versus fossil fuel technologies. The compound annual growth rates between 2020 and 2050 in energy and power supply from each of the SDS and NZE2050 scenarios are used as proxies for potential changes in demand linked to technology risks.

(iv) **Green, Brown, and Neutral growth rates** are derived to distinguish between growing faster, slower or at the same pace as the wider economy. These growth rates are applied to the respective Green, Brown, or Neutral proportions of a company's revenue. Please refer the next section for further detail on revenues. Categorizations of green/brown energy and power supply technologies are below:

GREEN TECH	BROWN TECH
Renewables	Oil
Natural Gas with CCUS	Unabated natural gas

Coal with CCUS

Unabated coal

Nuclear

(v) **Power Generation Exposure / Energy Mix**

The graph shows the energy generation mix in % from different sources by power generators in the portfolio. The two right-most bars are static and illustrate an SDS compatible generation mix in 2030 and 2050, according to the International Energy Agency (IEA).

3) PHYSICAL RISK

(i) Physical Value-At-Risk (VaR)

Overall

Physical risk levels liked to a changing climate, amongst other factors, vary depending on the issuer's financial profile, including where the company operates, the total value of its assets, and in which countries the issuer generates its revenue. **The present analysis quantifies the current and anticipated Portfolio Financial Value at Risk emerging from individual issuers' exposure to Physical risks.** Physical risks can have a financial impact on a company at both the operational and the market level.

Operational risks are quantified by considering the costs of repairing assets damaged by Tropical Cyclones, River Floods, and Wildfires, and the loss of income due to the associated business interruptions. The impact of Heat Stress on labor productivity and the resulting increase in production costs are also considered. Market risks are quantified by the revenue at risk due to the nation-wide effects on country Gross Domestic Products (GDP) due to the combined impact of Droughts and Heat Stress on agricultural productivity, decrease in labor productivity, and human health effects. The ISS-ESG physical risk assessment assumes a one-to-one relation between GDP changes and changes in company revenue.

The ISS ESG analysis extends to the year 2050 and includes two of the most relevant scenarios, both used in the IPCC 5th Assessment Report (AR5). A "most likely" scenario built around Representative Concentration Pathway (RCP) 4.5 (equivalent to a 1-3 °C temperature rise by 2100), and a "worst-case" scenario, based on RCP 8.5 (equivalent to above 3-5 °C temperature rise by 2100). As a comparison point, the current risk level is assessed in the form of a historical scenario.

Physical Risk VaR

The Value at Risk (VaR) of an individual issuer estimates the change in share price as a result of considering the financial impact of physical risks. The VaR is computed using a valuation model based on the Economy Value Added (EVA) framework. Individual issuers are first valued without the consideration of Physical Risks to calibrate the model. For some scenarios, issuers are re-evaluated, accounting for financial changes due to physical risks. The resulting shift in share-price is the value at risk. The valuation model considers the following financial risks:

- Changes in Capital value via changes in Property, Plant and Equipment (PP&E)
- Repair Costs to damaged assets via investments in Capital Expenditure (CAPEX)
- Increases in production costs via changes in Selling, General and Administrative Expenses (SG&A) or Cost of Goods Sold (COGS)
- Change in income via SALES

For physical risk specifically, usage of the ISS EVA data allows to, for example, account not only for owned (traditional accounting method) but also for rented and leased PP&E. This is critical, as business interruptions can occur independently of whether a production facility is rented or owned.

(ii) Physical Risk Management

Physical Risk Score

The Physical Risk Score measures the change in an issuer's financial risk relative to its GICS sector (level 2) for a specific scenario. A score of 0 reflects an increase in financial risk that is large relative to the sector median, and a score of 100 represents an increase in financial risk that is low relative to the sector median.

Management Score

Each company is given a Physical Climate Risk Management Score. The Management Score shows if the company has taken physical climate risk into consideration in their risk management strategies. For a company to receive a Management Score, they must report to the CDP and specifically mention how they are affected by physical risks, the strategies they have in place, and how they expect the costs will affect their balance sheet. The more detail an issuer provides about their physical risk management strategy and risk management, the higher their score.

4) CLIMATE-RELATED OPPORTUNITIES

(i) Green Revenues positively affecting SDGA Environmental Objective: Climate Change

Portfolio Attributable Revenue (Significant and Limited Contribution)

The SDG Solutions Assessment (SDGA) measures the positive and negative sustainability impacts of companies' product and service portfolios. It follows a thematic approach that encompasses 15 distinct sustainability objectives, using the United Nations' (UN) Sustainable Development Goals (SDGs) as a reference framework. The product's focus is on assessing to what extent companies are making use of existing and emerging opportunities to contribute to the achievement of global sustainability objectives by offering (innovative) products and services with a positive real-life impact.

The SDG Solutions Assessment applies a proprietary classification of products and services into five categories – based on their direct impact on the achievement of the different sustainability objectives:

- **significant contribution**
- **limited contribution**
- no (net) impact
- limited obstruction
- significant obstruction

For Mitigating Climate Change, the share of net sales generated with relevant products and services is quantified per category. While some companies report exact figures on relevant product sales, others only report on geographic segments or do not report segment sales at all. The analyst in charge of the assessment takes all relevant and available information into account to estimate the share of net sales a company generates with relevant products. Clear estimation rules exist to ensure that results are based on reasonable assumptions with medium to high certainty.

5) CAPITAL DEPLOYMENT

(i) Brown Expansion (as % of portfolio)

The graph shows the percent of weight of issuers that have expanded fossil fuel assets in the previous fiscal year. The factor identifies issuers currently engaged in the expansion or development of fossil fuel projects or have declared plans to do so soon. Fossil fuel projects incorporate oil, gas, and coal extraction operations, as well as energy generation assets powered by fossil fuels, and infrastructure which is critical for the fossil fuel industry (e.g., pipelines and terminals). The International Energy Agency (IEA) states in their Net Zero 2050 scenario (NZE), that “there is no need for investment in new fossil fuel supply”. The scenario expects a sharp decline in fossil fuel demand. The graph in the Climate Impact Report is built around a binary Yes/No metric. Portfolio Attributable Revenue (Significant and Limited Contribution)

IMPORTANT INFORMATION

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