ROCKEFELLER
ASSET MANAGEMENT

Our Approach to Net Zero Alignment

At Rockefeller Asset Management (RAM), ESG-integrated research emphasizing "improvers" coupled with in-depth shareholder engagement is core to our philosophy of delivering alpha and positive outcomes. As long-term investors serving our clients, we believe that climate change is transforming markets and recognize the risks and opportunities for investment portfolios. In September 2021, RAM joined the Net Zero Asset Managers Initiative and committed to manage select investments in line with achieving net zero greenhouse gas emissions by 2050 or sooner. We believe these commitments will increase the probability of exceeding investment performance and shareholder engagement objectives.

Defining Net Zero Targets

Leveraging guidance from the Institutional Investors Group on Climate Change (IIGCC), we intend to align portfolio and asset level targets for committed strategies with sectoral science-based pathways that are consistent with achieving net zero global emissions by 2050. The targets below apply to the total share of committed assets under management. We aim to review and update targets at least every five years to account for scientific, regulatory, market, and firm-specific developments.

Reduce scope 1, 2, and material scope 3 GHG emissions by 2030* *Baseline year: 2019	Increase exposure to climate solutions by 2030	Increase share of aligned, aligning or committed assets to deliver on portfolio emission reduction targets	Utilize engagement to create shareholder value and catalyze positive change
Portfolio emission metrics (absolute emissions, WACI, implied temperature) may vary depending on the investment approach.	Likely measured by green revenues or capital expenditures. This target depends on asset growth in Rockefeller's Climate Solutions strategy and may be refined with updated guidance from the IIGCC.	We assume a linear year-on-year increase in aligned, aligning, and committed asset exposure from baseline to reach 100% of committed AUM by 2040.	Engagement efforts prioritize net zero material sectors[1], financed emissions concentration, and lack of science- based targets to achieve asset alignment and portfolio emissions targets.

The above targets are based on a joint analysis of the IIGCC's Paris Aligned Investment Initiative (PAII) net zero investment framework and a current state assessment of RAM strategies as of June 2022. While we are confident in our commitments, successful implementation is conditional on several factors, including but not limited to:

[1] See Appendix 1 for the list of net zero material sectors as identified by the IIGCC's PAII Net Zero Investment Framework.

(1) Collaboration and coordination between investors and clients to decarbonize portfolios through real-world emission reductions and support climate solutions innovation.
(2) Governments and policy makers delivering on ambitious 1.5°C temperature goals.
(3) Relative positive performance of net zero managed strategies and other economic and market dynamics that may impact asset flows, the timeline, or scope of targets.
(4) Corporations, especially in hard to abate sectors, setting science-based targets and executing.

Managing a Net Zero Strategy

The goal of committed strategies is to increase the probability of outperformance by aligning assets with greenhouse gas (GHG) emission reduction sectoral pathways required by the Paris Agreement and engaging with companies to drive change. We believe investors can achieve real economy emissions reductions in their portfolios by increasing the share of aligned assets. Ideally, emissions reductions are absolute and aligned with sectoral and/or regional decarbonization pathways. This philosophy is commonly referred to as "real economy emission reductions."

1. Assessing Net Zero Alignment

Universe Selection

Aligned with RAM's ESG Improvers philosophy, which focuses on ESG trajectory rather than leaders or laggards, we do not intend to limit the investable universe of committed strategies to only companies with leading environmental practices or net zero aligned or aligning businesses. We will consider investing in companies that are:

- Operating in high emitting industries with societal dependencies such as transportation, cement, and certain forms of energy production and distribution.
- Classified as committed, aligning, aligned, or net zero by external data providers. We may invest in or re-classify companies labeled as "not aligned" if we believe the company is misclassified based on our bottom-up, fundamental research.
- Identified by fundamental research as having the potential to reduce emissions and/or provide solutions in line with net zero objectives.

Net zero alignment should result in portfolio GHG emission reductions across Scope 1, 2, and material Scope 3. This is measured using third party analytics and company information such as Science-Based Targets Initiatives information, estimated carbon budgets, and detailed plans to achieve targets. If a company is not part of the pre-identified universe or identified as "not aligned" or "not collected", analysts can leverage additional third-party data and research, engage in a direct dialogue with the company, or produce original analytics to explore a case for its inclusion in a committed strategy. A net zero alignment assessment methodology, whether outsourced to data providers or carried out internally in fundamental or quantitative research, should follow the IIGCC's PAII Net Zero Investment Framework, as illustrated below.

Net Zero Criteria	Alignment Maturity Scale				
	Not Aligned	Committed	Aligning	Aligned	Net Zero
1. Ambition		Clear goal to achieve net zero emissions by 2050	Clear goal to achieve net zero emissions by 2050	Ambition to achieve net zero by 2050 for 95% Scope 1&2 and material Scope 3	Ambition to continue achieve net zero through 2050 for 95% Scope 1&2 and material Scope 3
2. Targets			Short or medium term target in line with sector and regional science-based net zero pathways	- 1.5°C-aligned reduction targets covering at least 95% of Scope 1&2 and material Scope 3 - Timelines: LT, 2036 and 2050 / MT, 2026-2035 / ST, up to 2025	- 1.5°C-aligned reduction targets covering at least 95% of Scope 1&2 and material Scope 3 - Timelines: LT, 2036 and 2050 / MT, 2026-2035 / ST, up to 2025
3. Emissions Performance				Adequate performance over time in relation to targets set in line with sector and regional science-based net zero pathways	Currently matching levels of emission intensity required by the sector and regional pathway by 2050
4. Disclosure			Disclosure of scope 1, 2 and material scope 3 emissions data	Disclosure of scope 1, 2 and material scope 3 emissions data	Disclosure of scope 1, 2 and material scope 3 emissions data
5. Decarbonization Strategy			Qualitative plan relating to how the company will achieve stated reduction targets	Quantified plan relating to how the company will achieve stated reduction targets	Quantified plan relating to how investment plan or business model is expected to continue to achieve net zero over time
6. Capital Allocation Alignment				Explicit commitment to align or phase out planned CAPEX in line with net zero reduction targets	Explicit commitment to continue direct CAPEX in line with net zero

2. Measuring Portfolio-Level Emissions

Portfolio managers overseeing net zero strategies and analysts will monitor progress against targets. By understanding individual company GHG emission pathways, exposure to climate solutions, share of aligning, aligned or committed companies, engagement results, and actions to improve, we increase the probability of delivering on targets and emission reductions over time.

Baseline Measurement

The first step in delivering on portfolio-level emission reduction targets is to measure the emissions financed by a given net-zero committed portfolio. Where possible, we anchored baseline assessments in 2019. For committed portfolios launched after 2019, baseline is set at the first quarter after inception.

Choice of Metrics

Portfolio emissions may be expressed in absolute or intensity terms (CO2e/$mn revenues) depending on nuances within the portfolio such as concentration of holdings. Monitoring portfolio emission pathways using intensity-based metrics like Weighted Average Carbon Intensity (WACI) may be more suitable for large portfolios with wide market representation. Conversely, pairing intensity metrics with absolute metrics, such as owned emissions, may be more suitable for smaller, more concentrated portfolios.

Baseline Recalculation

Sector and region weights relative to the benchmark are likely to change over time based on our views and the market environment. We believe that portfolio decarbonization should not be achieved by broadly allocating away from high-emitting sectors. To not disincentivize owning companies in higher-emitting sectors and engaging to drive change, adjustments may be made to baseline emissions through the process of re-baselining. The current suite of accepted net zero frameworks lacks standardized guidance on this nuance. We intend to evolve with industry best practices once developed.

3. Conducting Engagement

Direct dialogue with select companies helps us maximize shareholder returns and catalyze positive change. To do this, we review the most material issues for each company and identify those where the company could improve. We then engage management teams, and boards, to understand their approach to managing specific issues and propose ways they might improve ESG performance to enhance long-term value.

These engagements aim to be tailored to each company's unique business model and are implemented in a consultative manner. While many of our engagements are productive from the onset, there may be instances where we need to increase the intensity of engagements. This is achieved through our four-stage escalation process: 1) constructive dialogue, 2) official letter, 3) collaborative action, and 4) shareholder resolutions. This process is intended to maximize the effectiveness of our efforts to catalyze positive change.

4. On Climate Solutions

As climate change transforms economies and markets, we believe investing in high quality businesses that provide climate change mitigation or adaption solutions or are increasing the share of revenues from more sustainable sources is a critical component of achieving net zero by 2050. Achieving this target is dependent on asset growth within certain strategies and companies delivering scalable and innovative solutions. Currently, consensus on treatment of climate solutions within net zero targets has not been established. As net zero frameworks and methodologies evolve, we intend to update our strategy accordingly and follow industry best practices.

Appendix

1. Net Zero Material Sectors

Industries with TPI emission reduction pathways
GICS Industry
Electric Utilities
Auto Components
Automobile
Multi-Utilities
Paper & Forest Products
Construction Materials
Airlines
Mining & Integrated Production
Air Freight & Logistics
Integrated Oil & Gas
Oil & Gas Exploration & Production
Oil & Gas Equipment/Services
Oil & Gas Refining & Marketing
Oil & Gas Storage & Pipelines
Coal & Consumable Fuels

Net Zero Material sectors are defined as those in NACE code categories A-H and J-L	
NACE SECTOR CODE	NACE SECTOR NAME
A	Agriculture, Forestry And Fishing
B	Mining And Quarrying
C	Manufacturing
D	Electricity, Gas, Steam And Air Conditioning Supply
E	Water Supply; Sewerage, Waste Management And Remediation Activities
F	Construction
G	Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles
H	Transportation And Storage
J	Information And Communication
K	Financial And Insurance Activities
L	Real Estate Activities

Source: IIGCC's PAII Net Zero Investment Framework

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