CLIMATE POLICY

December 2023

Scope

This policy is applied by Quaero Capital SA, Quaero Capital LLP and Quaero Capital (France) SAS (each a "QUAERO CAPITAL Entity” and together, "QUAERO CAPITAL") with respect to unlisted and listed investments held by a collective investment scheme managed by a QUAERO CAPITAL Entity[1] other than managed accounts or dedicated vehicles not marketed to third parties (each a “Fund”).

Objective

The purpose of this policy is to set out the guidelines for QUAERO CAPITAL’s Climate Policy, which is a core part of QUAERO CAPITAL’s strategy.

Policy

The empirical evidence of global warming and the impact of human activity on the pace of this warming are, in QUAERO CAPITAL’s view, unequivocal. If unmanaged and unmitigated, the impact of climate change will be devastating to both society and the global economy.

QUAERO CAPITAL acknowledges the responsibility of the asset management industry in the fight against climate change and takes climate issues into account as an integral part of its responsible investment policy.

QUAERO CAPITAL sees the integration of climate risk as a core part of its fiduciary duty to clients. It also believes that the climate transition provides great opportunity for enhanced financial returns as well as positive impact, and as such continues to innovate and develop opportunities for clients in this sphere.

QUAERO CAPITAL recognises and supports the Paris agreement ambition to keep global temperatures to at most 2 degrees above pre-industrial levels, and the further ambition to limit warming to 1.5 degrees, as fundamentally important for society as well as its own investments.

QUAERO CAPITAL has signed the statement of support for the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD). As such, QUAERO CAPITAL makes annual disclosures in line with the recommendation in the Annual Sustainability Report, outlining QUAERO CAPITAL’s strategy and targets.

QUAERO CAPITAL is part of the Net Zero Asset Manager Initiative and aims its investments to be in line with the Paris Agreement by 2050. Our intention is to increase our engagement efforts with companies in which we invest to encourage them to set SBTs themselves.

Governance and Oversight

Climate risk management is a priority – both the responsibility to steer investments through these risks, but also to identify the many opportunities through the transition to a zero-carbon future in investments that deliver not just attractive returns but a positive impact on the trajectory of that transition.

The **ESG Committee** determines the strategy of the firm in terms of ESG and Climate Risks, including review of the policies that are drafted by the ESG team and the legal department. These are then reviewed by the **Management Committee**.

[1] This applies to all funds investing in listed securities except *Quaero Capital Funds (Lux) – World Opportunities.*

The **ESG team** is responsible for the implementation of all policies except for the voting policy which is the responsibility of the **legal department**.

The **Board of Directors** includes in its responsibilities to oversee and monitor the delivery of the group's climate strategy, alongside progress on responsible investment.

Strategy

1. Develop and launch financial products which invest in companies and/or assets that are part of the solution to climate change

The great transition required to address the risk of climate change creates both risks and opportunities across almost every industry and market. QUAERO CAPITAL identifies many attractive investment opportunities in assets exposed to these changes, companies that it believes are accelerating the energy transition through innovation and scaling of important technologies.

As an indication, QUAERO CAPITAL manages several funds that aim to be part of the solution to climate change:

- Quaero Capital Funds (Lux) - Accessible Clean Energy[2]. The objective of the fund is to maximise total returns while contributing to decarbonisation by investing and taking an active role along the clean energy value chain
- Three private equity infrastructure funds with a significant focus on renewable energy assets
- Two real estate funds investing in French real estate that manage assets to minimise energy intensity through effective energy management and renovation

QUAERO CAPITAL aims to continue developing products that have similar objectives in the future.

2. Perform climate-related exclusions

QUAERO CAPITAL's intention is to have a policy to guide the investment teams of the firm to invest in and support listed companies that are making the important transition to renewable energy sources, and to exclude from the portfolios of funds[3] the companies that are not.

a. Coal exclusion

QUAERO CAPTIAL aims to exit from coal by 2030 at the latest and in this direction excludes investments in:

- Companies that make 10% or more of revenues from coal mining and/or coal thermal power generation
- Electricity production companies with coal-powered plants contributing ≥ 10% generation and whose carbon intensity is not in line with the objectives of the Paris Agreement (unless there are credible commitments to reduce emission intensity by 2035)

Model used

The Exclusion list is aggregated using the Global Coal Exit List from Urgewald[4] and The Transition Pathway Initiative (TPI) Tool[5].

[2] The objective of *Quaero Capital Funds (Lux) - Accessible Clean Energy* fund is to maximise total returns while contributing to decarbonisation by investing and taking an active role along the clean energy value chain. This includes a wide variety of companies including those involved in clean energy technology development and production (including solar, wind, bioenergy, hydraulic, geothermal energy), renewable energy transmission and distribution, smart grid management, energy storage technologies including hydrogen and batteries, carbon capture and renewable energy services, raw materials used in the clean energy value chain and energy efficiency products, systems and processes. The fund provides access to a large and diverse set of industries via an active, long-only listed equities strategy offering daily liquidity. The fund is categorized as an SFDR Article 9 Product.

[3] This applies to all funds investing in listed securities except *Quaero Capital Funds (Lux) – World Opportunities.*

[4] https://coalexit.org/

[5] https://www.transitionpathwayinitiative.org/sectors

QUAERO CAPITAL follows the Paris-compliant trajectory for the power sector's carbon intensity as determined by the International Energy Agency (IEA) in its biennial Energy Technology Perspectives report. This modelling is used to translate emissions targets made at the international level into sectoral benchmarks, against which the performance of individual companies is compared. This framework is known as the Sectoral Decarbonisation Approach.

Exceptions

QUAERO CAPITAL also recognises the importance of encouraging companies to reduce their dependence on coal-powered energy and to invest in renewable power sources, aligning their activities with the objectives of the Paris Agreement over time. Different countries are expected to contribute at different paces to the objectives of the Paris Agreement, reflecting the diversity of their economic status.

QUAERO CAPITAL therefore removes power generators from its Exclusion list if they have made credible commitments to reduce carbon intensity to a level consistent with the IEA's Paris-compliant trajectory by 2035. The evaluation is both a quantitative and qualitative assessment, reviewing planned disposals and capex plans. Consideration for removal from the Exclusion list must be agreed by the ESG Committee quarterly.

b. Unconventional oil and gas exclusion

QUAERO CAPTIAL listed funds that are article 9 under SFDR and/or have the ISR label exclude unconventional oil and gas. The exclusion conditions are as follows:

- Perimeter: UPSTREAM
- Production: companies with a share of unconventional fossil hydrocarbons production > 30%
- Expansion: companies with short-term expansion plans in unconventional fossil hydrocarbons > 0%

Model used

The Exclusion list is aggregated using the Global Oil & Gas Exit List from Urgewald[6].

Unconventional fossil hydrocarbons comprised of fracking, tar sands, coal methane, extra heavy oil, ultra deepwater, arctic and oil shale

Private Equity Infrastructure

QUAERO CAPITAL Private Equity Infrastructure team ensures that the funds they manage do not invest and/or finance:

- coal-fired power stations,
- coal mines intended for thermal use (production of electricity), or
- diversified assets,

unless those investments meet the following criteria:

- *for electricity production plants and heating networks:* coal represents less than 20% of the total production mix, or the emissions factor of power or heat production is lower than 500 gCO2e/kWh (the global average of power production emissions factor). This limit can be higher as long as a business plan is agreed to achieve such target within a reasonable timeframe,
- *for conglomerates:* the turnover of the activity related to coal (extraction, processing, etc.) must be 10% lower than the total turnover of the asset.

[6] https://coalexit.org/

3. Integrate climate risk in ESG analysis and investment process

For QUAERO CAPITAL funds[7], the integration of ESG analysis has contributed to the careful management of climate risks.

Material physical and transition climate risks are evaluated through QUAERO CAPITAL bottom up ESG analysis performed by the ESG team, alongside third party ESG data and ratings.

Both acute and chronic **physical risks** are evaluated with the assistance of IPCC Scenarios, desk-top research as well as discussions directly with the company management.

Transition risk is considered a greater risk than physical risk for QUAERO CAPITAL's investments, therefore significant time is spent understanding the scale of these type of risks. The results of this research are integrated in the analysis from the ESG team and taken into account in each investment decision where these factors are considered material.

Resources used for this analysis include CDP reports, company sustainability reports, and PRI reports including reports such as the 'Inevitable Policy Response', identifying areas of potential future regulatory change.

4. Engage with companies we invest in to address climate risks and report in line with TCFD recommendations and NZAM

Investors have a significant role to play in the carbon transition and QUAERO CAPITAL takes this role seriously. QUAERO CAPITAL believes that engaging and voting on climate risk and policy enhances the value of clients' assets.

In 2019, QUAERO CAPITAL became signatory to CDP (formerly Carbon Disclosure Project), an organisation which requests a full and thorough response from public companies on climate strategy using TCFD recommendations.

QUAERO CAPITAL is also signatory to the Institutional Investors Group for Climate Change (IIGCC) to support the lobbying of companies and governments to better address the risks of climate change.

In 2022 QUAERO CAPITAL joined the Net Zero Asset Manager initiative and in 2023, we set an interim target for at least 45% of our assets under management to be managed in line with the attainment of net zero emissions by 2050 or sooner, with a target of 70% of investments setting their own Science-Based Targets by 2030. As a result of these commitments, we put in a place a second engagement step specifically requesting companies to set their own SBTs in all our listed funds.

These targets will be reviewed on an annual basis. The ESG team will monitor the proportion of each fund with SBTs every 6 months and report to the ESG committee.

Scope

Through those 3 initiatives, we do active engagement, encouraging the implementation of proactive and ambitious environmental strategies and practices for all our public equity and fixed income funds.

For real assets funds, we engage with projects/assets on a case-by-case basis regarding carbon footprint and other environmental topics

Process

QUAERO CAPITAL applies a TCFD-centred proxy voting policy that reflects a commitment to mitigating the risks and impacts of climate-related issues.

[7] This applies to all funds investing in listed securities except *Quaero Capital Funds (Lux) – World Opportunities*.

5. Report on portfolio's environmental footprint and impact for selected strategies[8]

A quarterly carbon footprint evaluation helps the ESG team monitor how well portfolios are aligned with the objectives of the Paris Agreement. QUAERO CAPITAL believes the transparency is important for asset owners to consider in their own climate impact decisions.

QUAERO CAPITAL Annual Sustainability Report and monthly factsheets of relevant funds include weighted average carbon intensity (WACI) in line with TCFD disclosure guidance.

For specific funds, additional metrics can be reported on. Here are several examples:

For *QCF (Lux) – Accessible Clean Energy* which invests in companies in the clean energy value chain, impact metrics are reported. These metrics include annual supply of renewable energy and % of revenue aligned with climate change mitigation.

For *QCF (Lux) – Infrastructure Securities* and *QCF (Lux) – Bond Investment Opportunity* a commitment has been made to maintain a carbon intensity below that of the universe, ensuring the investment process favours company best managing climate risks.

6. Plan to achieve QUAERO CAPITAL operational carbon neutrality

The material physical and transition risks QUAERO CAPITAL faces relate to its investments.

Indeed:

- In terms of location, the cities where QUAERO CAPITAL has offices are not subject to material physical or transition risks related to climate change
- As a service company, QUAERO CAPITAL has very limited operational risk related to climate change

However, the Group does believe that its own operational footprint is important; that every business and individual have a responsibility to reduce their own footprint no matter the size.

The ESG team has undertaken an extensive annual process of mapping QUAERO CAPITAL principal carbon emissions in line with GHG protocols since 2019. This includes:

- Scope 2 emissions – electricity use in offices
- Scope 3 emissions – business travel and employee commutes

The objective is to reduce the Group's footprint. As a result of this work, QUAERO CAPITAL aims to reduce its carbon emissions through:

- Minimising business travel emissions where possible – this includes use of trains over planes and maximising the use of video conferencing
- Encouraging employees to commute by public transport or bicycle; also, a working from home policy reduces the number of miles commuted each week
- Maximising energy efficiency in office buildings through careful selection of office locations and switching energy providers to 100% renewable contracts

Alongside these efforts QUAERO CAPITAL commits to offset remaining carbon emissions through carbon offsets. The Group believes this is a valuable and effective tool only if it is with fully audited and verified programs to ensure the projects are additive, meaningful and permanent.

Resource

QUAERO CAPITAL has an internal ESG team which focuses exclusively on sustainability. Their responsibilities include company ESG analysis, ESG reporting and management and integration of Sustainability and Climate Policy.

To assist the team in the delivery of the Climate Policy, QUAERO CAPITAL is:

- Signatory to CDP which provides access to CDP reports and data
- Signatory to IIGCC which contributes to QUAERO CAPITAL's engagement efforts

[8] This applies to all funds investing in listed securities except *Quaero Capital Funds (Lux) – World Opportunities.*

- Subscriber to Conser portfolio checks, which provides QUAERO CAPITAL with carbon footprint portfolio data as well as exposure to green sectors and fossil fuels
- Subscriber to MSCI ESG data and ratings, which includes carbon intensity metrics as well as multiple other valuable ESG metrics
- Subscriber to Carbon4, which provides data set to help us measure the impact of the portfolio.