

CLIMATE POLICY

May 2021

A. Climate policy

The empirical evidence of global warming, and the impact of human activity on the pace of this warming, is 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 continue to innovate and develop opportunities for clients in this sphere.

QUAERO CAPITAL recognises the Paris Agreement ambition to keep global temperatures to 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 will make annual disclosures in line with the recommendation in the annual Sustainability Report, outlining QUAERO CAPITAL's strategy and targets.

B. 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.

At QUAERO CAPITAL the Management Team is responsible for determining its approach to climate risk as well as sustainability. This includes setting the company-wide values that QUAERO follows, committing the firm to policies, initiatives and actions related to climate change.

The ESG Committee advises the Management Committee on climate policy and action and oversees the implementation of the policies and initiatives.

The Head of Sustainability is accountable for the implementation of these strategies and reports directly to the Management Committee on progress on these policies, initiatives, and actions.

As Climate policy is a core part of QUAERO CAPITAL's strategy, the board includes in its responsibilities to oversee and monitor the delivery of the group's climate strategy.

C. Strategy

1. Develop and launch financial products which invest in companies 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.

Currently QUAERO CAPITAL manages *Quaero Capital Funds (Lux) - Accessible Clean Energy* that prioritises investments in the clean energy value chain. This strategy allocates capital to public companies and finance green projects with a measurable positive impact. QUAERO CAPITAL aims to continue developing sustainable products in the future.

2. Integration of climate risk in ESG analysis and investment process

For all directly managed funds, the integration of ESG analysis has assisted in the careful management of climate risks. Material physical and transition climate risk is evaluated through QUAERO CAPITAL bottom up ESG analysis performed by the ESG team alongside fund investment teams. Both acute and chronic physical risk are evaluated with the assistance of IPCC Scenarios, desk-top research as well as discussions directly with the company management. Transition risk is considered the greater risk for its investments, therefore significant time is spent understanding the scale of these challenges. This research is integrated in the analysis from the ESG team and considered 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.

Climate-related exclusions

The intention of the policy is to invest in and support listed companies that are making the important transition to renewable energy sources, and to exclude from the portfolios of funds¹ those companies that are not. QUAERO CAPITAL will exclude investments in:

- Companies that make more than 20% of revenues from coal mining and/or coal thermal power generation
- Electricity production companies with coal-powered plants contributing >20% generation and whose carbon intensity is not in line with the Paris agreement (unless there are credible commitments to reduce mission intensity by 2035)

QUAERO CAPITAL will follow 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.

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 Paris agreement over time. Different countries are expected to contribute at different paces to the Paris Agreement also, reflecting their differing economic status.

QUAERO CAPITAL therefore will exclude power generators from this 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

¹ Note: This applies to all funds investing in listed securities except *Quaero Capital Funds (Lux) – Yield Opportunities* and *Quaero Capital Funds (Lux) – World Opportunities* which are sub-managed by asset managers outside of the QUAERO CAPITAL Group.

assessment, reviewing planned disposals and capex plans. Consideration for exclusion from this list will be agreed by the ESG Committee quarterly.

This list is aggregated using the Global coal Exit List from Urgewald and The Transition Pathway Initiative TPI Tool.

QUAERO CAPITAL infrastructure private equity strategies, ensure that the funds do not invest and/or finance: coal-fired power stations, coal mines intended for thermal use (production of electricity), or diversified assets, only provided they can be eligible if they meet the following criteria: (x) 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) or higher to the extent a business plan is agreed to achieve such target within a reasonable timeframe, (y) conglomerates: the turnover of the activity related to coal (extraction, processing, etc.) must be 10% lower than the total turnover of the asset.

3. Engagement with investee companies to address Climate Risk and report to TCFD recommendations

Investors have a significant role to play in the carbon transition and QUAERO CAPITAL takes this role seriously. The entity became signatory to CDP (formerly Carbon Disclosure Project) in 2018, 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.

QUAERO CAPITAL is particularly well positioned to exercise a significant influence on investee companies in its small cap funds due to its large positions and long-term time horizons. This team is especially focused on engagement, both through the CDP Disclosure campaigns and directly with companies. It encourages the implementation of proactive and ambitious environmental strategies and continues to look for other organisations and platforms through which to engage companies.

QUAERO CAPITAL believes that this engagement and voting on climate risk and policy enhances the value of clients' assets.

4. Reporting on each portfolio's environmental footprint and impact for selected strategies² and when possible

A quarterly carbon footprint evaluation helps us monitor how well aligned the portfolio is with a 2-degree scenario and QUAERO CAPITAL believes the transparency is important for asset owners to consider in their own climate impact decisions. Future annual reporting will include weighted average carbon intensity (WACI) in line with TCFD disclosure guidance. This makes emissions comparable across companies by dividing carbon emissions by revenues in a given year for each company the funds invest in.

For QUAERO CAPITAL's financial products that focus on investing in companies in the clean energy value chain impact metrics are reported. This includes annual supply of renewable energy and % of revenue aligned with climate change mitigation.

5. Achieving operational carbon neutrality

As an asset manager with offices in Geneva, Paris, London, Zurich and Luxembourg, the material transition and physical risks QUAERO CAPITAL faces relate to its investments. The group does however believe that its own operational footprint is important; that every business and individual has a responsibility to reduce their own footprint no matter the size.

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The ESG team undertook an extensive process of mapping QUAERO CAPITAL principal carbon emissions in line with GHG protocols. This included:

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

The priority is to reduce the group's footprint. As a result of this work, QUAERO CAPITAL will aim 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 via cycle-to-work schemes and subsidies. In addition, 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 meaningful tool only if it is with fully audited and verified programs to ensure the projects are additive, meaningful and permanent.

D. Data Source

QUAERO CAPITAL has an internal ESG team focused exclusively on sustainability including company ESG analysis, ESG reporting and management and integration of Sustainability and Climate policies.

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 the entity engagement efforts
- Subscriber to Conser portfolio checks, providing 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