ESG research and integration developments in listed asset classes

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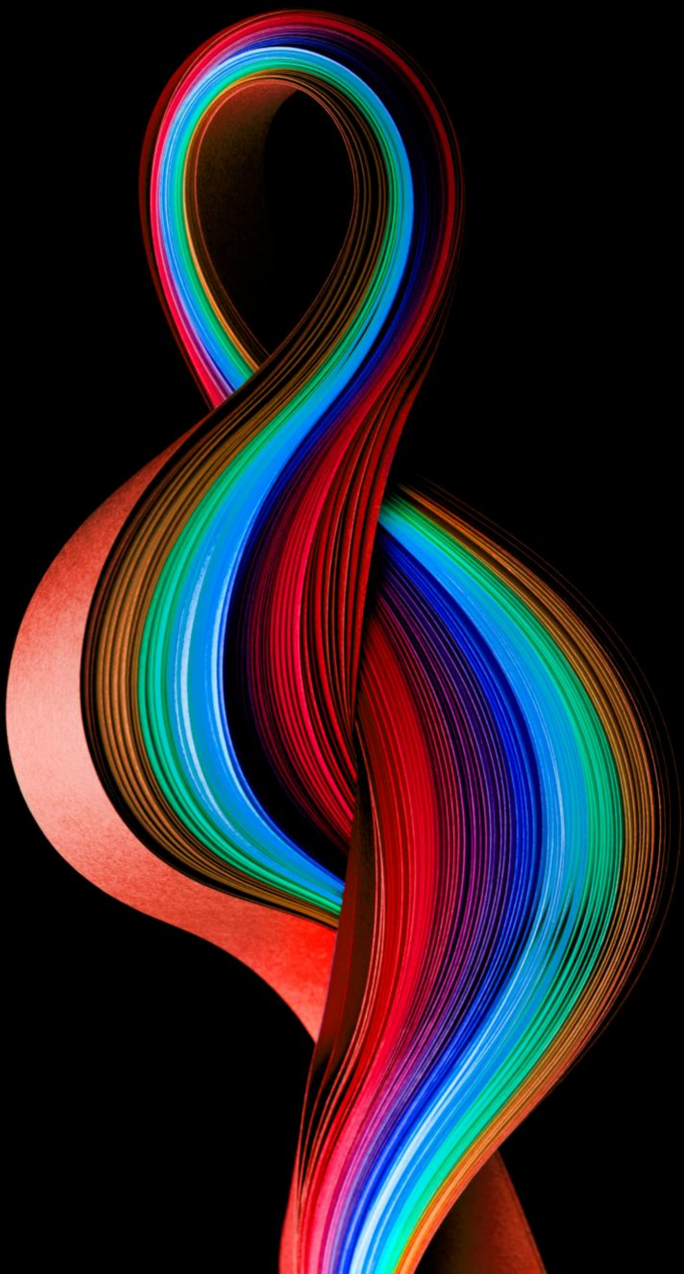

ESG research and integration for listed assets[1] help us to assess and consider individual holdings for environmental, social and governance factors including adverse impacts. Our sustainable investment assessments enable these calculations and have been developed to seek to align with sustainable development goals and to provide a more holistic view of investee companies that consider business models, operational activities and their sustainability ambitions.

Our approach centres around 5 key areas:

1. Fundamental Research on transition issues via virtual sector teams (VSTs)
2. Quantitative scoring models for priority ESG factors
3. Filters and Screening tools to identify worst performers
4. Stewardship and Engagement to influence issuers to adopt best practice
5. Monitoring and oversight

We are increasingly embedding ESG considerations and sustainability measures that reflect the UN Sustainable Development Goals as part of our investment process and will continue to expand the number of portfolios to which they are applied.

[1] Listed assets relevant for ESG research and integration process described here: equity, fixed income, liquidity, and multi-assets. Alternatives assets follow a different, specific integration sub-process on ad-hoc basis for each of the specific asset classes. Further details on Alternatives process are defined further in this report. ESG research and integration is a global initiative mainly conducted out of our five main investment offices, but it is implemented to different extent by international offices.

2023 highlights

In 2023, we focused on four priorities:

1. Virtual sector teams leading on analytical frameworks development across sectors

2. Further embedding our expertise across the broader investment platform

3. Enhancing the accuracy of our ESG analysis

4. Incorporating biodiversity risks and opportunities into the investment process

2023 highlights (cont'd)

1 Virtual sector teams leading on analytical frameworks development across sectors

Our ESG research and integration framework is supported by a large and experienced global investment platform. ESG integration is a collaborative process involving responsible investment experts, portfolio managers and analysts. Our approach combines an assessment of issuers' ESG credentials which is conducted and monitored by our 12 Virtual Sector Teams (VSTs). VSTs may leverage expertise across certain asset classes and geographies, by tapping into over 120 investment analysts and portfolio managers to better understand key sector attributes while ensuring our ESG assessments are targeted to the sector. Our ESG materiality framework is currently being further refined to ensure that for each sector key ESG themes and underlying issues are identified and assessed. Sector scoring models focus on themes with the highest level of financial materiality and relevance to our assessment of investee companies.

2 Further embedding our expertise across the broader investment platform

In addition to the virtual sector teams, each asset class has established a monthly ESG committee to bring together representatives from the responsible investment, asset class and risk teams. The committees oversee ESG integration implementation in our investment processes with a focus on new ESG or sustainable product launches and changes, issuer considerations as well as new sustainable policies and processes.

3 Enhancing the accuracy of our ESG analysis

We maintain frequent dialogue with data providers and undertake appropriate systematic checks to challenge and ensure quality of data. New providers are added on an ongoing basis to cater for new investment solutions and to further strengthen the accuracy of our ESG scoring and analysis. In 2023, we have engaged with several data providers and on-boarded 6 providers to support the development of our climate policies and to advance social considerations within our strategies.

4 Incorporating biodiversity risks and opportunities into the investment process

Over the course of 2023, we developed an enhanced due diligence process to review companies that had been flagged as high risk due to their impact on nature and biodiversity.

To derive the list of high-risk companies, we referred to the following sources:

- Finance for Biodiversity Foundation's top 100 most impactful companies.
- RepRisk ESG risk exposure scores and biodiversity controversy flags.

Leveraging these two sources, we filtered our portfolio to identify companies likely to have the highest negative biodiversity impact and created a list of issuers to be prioritized for enhanced due diligence.

Members of the responsible investment team conducted the enhanced due diligence process on companies that were flagged for review and share the outcomes, to allow relevant asset class investment teams to consider within the investment process, the findings of biodiversity risks of these companies which could potentially impact their valuations,

To assess these companies, we referred to Nature Action 100's investor expectations to build the enhanced due diligence template. This methodology ensures that we drive a level of consistency in terms of what is being asked of companies across sectors from a biodiversity perspective.

For each expectation, companies were flagged as either low risk (clear alignment with expectation), medium risk (some alignment with expectation) or high risk (no alignment with expectation). An overall biodiversity risk level was then assigned to the company based on how the company performed against each expectation. The outcomes of these assessments were communicated to investment analysts in order to socialise the biodiversity risk level of a given company.

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