CAP GEN

Climate Change Report

Management & Approach

2023

Editor's Letter

Responsible investing at its very heart, is about pragmatism. In a world where social inequality, global warming and a lack of corporate and governmental transparency (to name but a few) are threatening global stability, it simply makes sense to bake these issues into investment decision making. We don't want to put client capital at risk by placing it on the wrong side of a rapidly changing world, nor do we want to leave client capital dormant when it could find ways to drive positive change as well as power long term returns.

That much is simple, but in practical terms, it is a more complex picture. The industry has come on a long way over the past decade in reshaping itself to become more responsible, transparent and sustainable, but that transition is far from complete. What we aim to do with this report is to offer you a clear and in-depth view of the state of play in responsible investing, from our vantage as the allocators of client capital. As investors in funds, we have both insight and influence into the ways that fund managers wield their power in the marketplace. It is our responsibility to make the most of that opportunity: to share those insights with you, and to use our own influence to drive positive change. Here, we lay that process bare.

Of course, we don't just wield influence as fund buyers: we are also direct managers of individual businesses and commercial properties for our clients, and the partners in CapGen are independent owners of the business itself. Responsible investing is a tranche of a broader set of principles that govern all of these practices. What follows here, is a walkthrough of our broader impact on the world around us, as both investors and business owners.

Charlotte Thorne
Founding Partner, Capital Generation Partners

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01 / Introduction

As investors, business owners and employers, we recognise our responsibility to actively engage in the environmental and social challenges faced by the world today. This document includes Capital Generation Partners (CapGen)'s formal policies for monitoring and managing the effects of climate change on the business and on client capital.

Where possible, we have included quantitative data, including carbon emissions as a business and the total amount paid to fully offset them. We started offsetting emissions in 2020, using data from 2019 (due to the impact of the pandemic on lowering business travel). In 2019, CapGen's total emissions as a firm were 143.01 tonnes of CO_2e.The total cost to offset 143.01 tonnes of CO_2e was £1058.25. Further details and a full breakdown by scope can be found in the final section of this paper.

Our Responsible Capital Philosophy

Our primary responsibility as a business is to act as responsible stewards of capital on behalf of our clients. That ethos shapes the way that firm is structured – independent and owned by the partners – the way that we invest, and the way that we conduct ourselves in our day-to-day business practices. We also recognise that our influence in the world around us is nuanced and multifaceted; the conscientiousness with which we carry out our work on behalf of clients extends to our role as employers, as business owners and as members of our local community.

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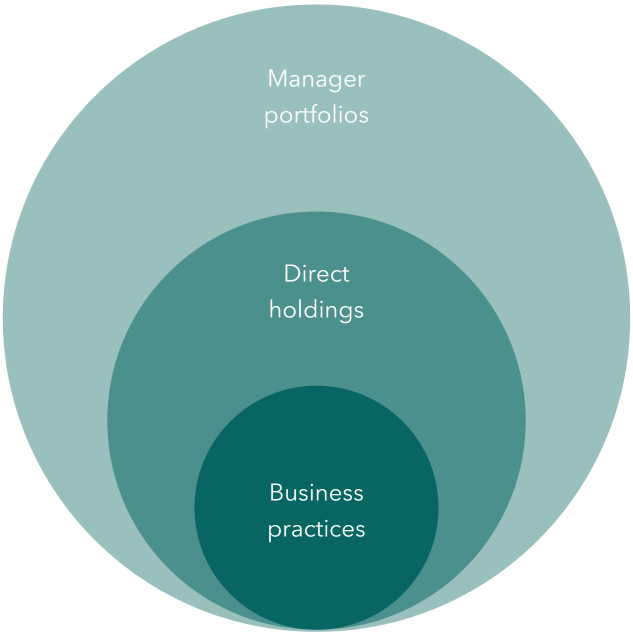
02 / Governance

As we see it, the simplest way to organise the many, complex ways in which we our behaviours and practices have an influence on the world around us, is to think in terms of three spheres. These are detailed below. We have split these spheres out in order to reflect the fact that there are different ways in which climate change can impact our business, and in which we in turn can mitigate those risks as well as attempt to drive positive change.

As a services business, our carbon footprint overall is relatively small and inflexible, which is why we choose to offset out emissions (detailed in the final section of this paper). Our view, is that while we have less direct influence as investors, the potential for us to have a positive impact on tackling climate change is far greater in that sphere than within our own business practices. That is why the bulk of this report focuses on investment activity.

Our Sphere of Influence

We work to ensure that our principles as responsible investors and business owners are reflected across our business practices.



Manager portfolios

Where we have influence, we can wield it to drive positive change.

We have instructed managers to sell out of positions where they have not met our ESG requirements.

Direct holdings

Where we can help our clients make an impact, we do so.

We have worked with our clients in buying and managing direct businesses, allowing for a major impact on individual companies.

Business practices

Where we have full control, we seek to lead by example.

We have specifically targeted ourselves with becoming carbon neutral.

Responsible Business Ownership Framework: Internal

We think that good governance and clear accountability are the cornerstones of responsible business practices. Oversight of our business practices begins with the Founding Partners and runs through every level of the firm.

Responsible Business Practices: External

As a financial services business we operate within the bounds of the Financial Conduct Authority's (FCA) and the Securities and Exchange Commission (SEC).

We have also opted to become signatories of a range of initiatives designed to meet social and environmental challenges.

We are signatories of:

The Responsible Capital Committee

Composition

The Responsible Capital Committee is chaired by leading sustainability economist Dimitri Zenghelis. The permanent members of the Committee are Charlotte Thorne, Founding Partner and Ian Barnard, CEO & Founding Partner. At each meeting, the permanent members invite representatives from different areas of the business to present and discuss their approach, monitoring and management of issues pertaining to ESG.

Mandate

The Committee agreed that its role is to set the tone and trajectory of the firm's approach to Responsible Capital. Its role is advisory in nature, but the Committee has the ability to make decisions when relevant to regulation, client demand, or the firm's overall approach to Responsible Capital. The Committee provides high level oversight of the firm's relevant risks, opportunities and activities relating to ESG. Dimitri Zenghelis's role as chair includes providing insights into the direction of climate change policy, providing thought leadership and acting as a bellwether for key topics for the Committee to cover.

Outcomes

By having a central place for monitoring, management and discussion of ESG risks and opportunities, CapGen can stay vigilant and engaged with the risks and opportunities posed to the business and to client capital by the effects of climate change.

Expertise

We know that meeting the environmental and social challenges faced by the world today is a complicated undertaking. That's why we partner with the experts, we hold ourselves to account both internally and externally, and we measure our success through our Responsible Capital Committee.

We are led and supported by a group of highly influential and experienced professionals, all of whom provide insight and guidance from different angles.

Dimitri Zenghelis

Chair of the Responsible Capital Committee

Dimitri set up the Wealth Economy Project at the Bennett Institute at the University of Cambridge and is a Senior Visiting Fellow at the London School of Economics. He was until recently Head of Policy at the Grantham Research Institute at the LSE and Acting Chief Economist for the Global Commission on the Economy and Climate. Previously, he headed the Stern Review Team at the Office of Climate Change, London, and was a lead author on the Stern Review on the Economics of Climate Change.

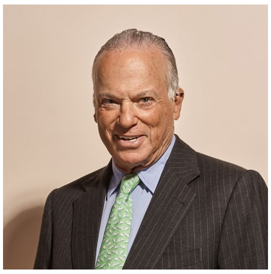
Sarah Fromson

Chair of the Investment Committee

Sarah recently retired from nearly 12 years as Head of Risk at the Wellcome Trust, supporting the investment division within risk management of its well-diversified £27 billion endowment. She was previously Chief Investment Risk Officer for RBS Asset Management.

Quintin Price
Chair of the Asset Allocation Committee

Quintin was head of Alpha Strategies at Blackrock, where he was as a member of the Global Executive Committee and was responsible for approximately $1 trillion in assets under management covering all active and passive fixed income as well as all active (fundamental & quantitative) equity strategies globally.



Michel de Carvalho
Chairman

Michel is Chair of the Heineken Supervisory Board, and has been a key driver in the firm's sustainability transformation project "Brew a Better World." Previously he served as Vice Chairman of Citi Investment Bank and Global Chairman of Citi Private Bank. Previously Michel was MD at Credit Suisse First Boston (CSFB).

Khaled Said
Managing Partner

Khaled is the voice of the client within CapGen. He chairs the Client Portfolio Committee which is tasked with making the final decisions on the content of client portfolios and sits on the Asset Allocation, Investment and Risk Committees. Khaled is also a major shareholder in companies driving social and environmental change, including Enhesa, Aurora and Ethixbase 360.

Charlotte Thorne
Founding Partner

Charlotte established and leads CapGen's Responsible Capital Committee. Charlotte began her career at HM Treasury where she advised both Conservative and Labour ministers on a range of policies including corporation tax, pensions and state aids. She also spent a year in Brussels working as a diplomat in the UK's embassy to the European Commission and worked in policy at the then FSA.

03 / Risk & Opportunity

Extract from CapGen's Sustainable Capital Report

Will the world decarbonise? Yes. A zero-carbon economy is inevitable. Investors must understand that this will happen and is already happening with impacts on every business on the planet. Companies' operations, supply chains and interdependencies with the wider economy and society at large will change, though some sectors are more exposed than others.

Growth is not only compatible for decarbonisation, it is a prerequisite. Sustainable growth will become the default business model across all business sectors. New technologies, new business models and new product markets are already driving significant decarbonisation. 'Degrowth' as means to reduce emissions will fail. It will starve innovators of resources, perpetuate global poverty and sour the political appetite for change.

How will it happen? Transformative change is already gripping key global energy and transport sectors and it is unstoppable. Wind, solar and battery costs will continue to plunge faster than any mainstream energy forecasters expect. Renewable energy and electric vehicles will become the norm within a few decades, and they will be vastly superior to the technologies they replace. Almost all fixed energy source of energy consumption will be electrified while battery technologies, together with synthetic fuels, will increasingly dominate long distance haulage and aviation. Industry, land use, heat and agriculture will be transfigured. The precise details of every technological innovation cannot be second-guessed—but the drivers of innovation must be understood and harnessed.

It's likely to happen faster than we imagine and at less cost. There have been predictions of significant negative impacts on GDP as a result of the cost of decarbonisation. These are flawed. They rely on assumptions about the speed of adoption of new technologies which are neither corroborated by previous experience of technological change nor commensurate with the enormous scale of innovation being unleashed by a structural change of this magnitude. In fact, it is more likely that as each technology reaches a tipping point and as network effects accelerate adoption, the transition to a net zero carbon future will happen faster and at less cost than we can currently predict. This process has begun.

The net removal of greenhouse gases from the atmosphere by the second half of this century is not only achievable, it is more likely than many investors imagine. For all the hype over ESG, this remarkable prospect, and the shifting landscape of risk and opportunities it presents, is a long way from being fully priced in.

Investors are well-placed to support, and benefit from, a low-carbon transition. New technologies and infrastructure requirements will be capital intensive with relatively low operational costs. Consequently, these will provide appealing opportunities to investors. At the same time these opportunities, once realised, will boost innovation, efficiency and productivity with positive impacts on economies as a whole.

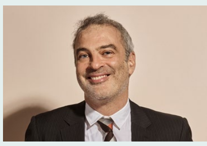
We are already witnessing increasing returns to scale in discovery and production in clean sectors. Improved battery technology, essential to ensure continual renewable energy supply given the intermittency problem of renewables (how to generate solar power when the sun isn't shining) will be one of the tipping points making the transition to renewables faster and cheaper than predicted.

This transition is already underway but will be accelerated and steered through policy and investor intervention. Once the clean innovation machine is kick-started, it will become self-reinforcing without need for policy support. In key sectors, that point has been passed leaving the way open for further positive cycles of investment intervention.

This is a moment of unparalleled opportunity. The costs and benefits of attaining a low carbon future depend on decisions and investments made today. We present a risk-opportunity assessment framework, based on complexity science, to guide investors. In the meantime, it is clear that investors and economists alike should spend less time predicting the future and more time profiting from building it.

Dimitri Zenghelis

Chair of the Responsible Capital Committee



04 / Sustainable Investment Policy

Introduction

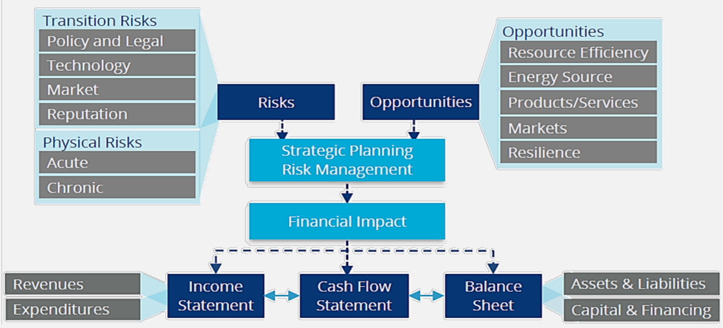
As investors of long-term capital on behalf of families and their associated endowments, the responsible stewardship of assets sits at the core of our approach. In order to protect and enhance the value of our clients' assets in a rapidly changing global economy, we incorporate sustainable investing principles into our investment analysis, decision-making processes and ownership practices.

We also believe that consideration and careful management of material ESG (environmental, social and governance) factors has the potential to positively impact investment returns and better manage risks. Alongside this, we believe it is crucial for CapGen to have the resources, skills, expertise, policies and processes to invest in assets that we believe to be future proof. As creators of bespoke portfolios, managers of direct assets and managers of commercial real estate projects, we also require the skills and resources to structure investments that reflect each individual client's values and ESG preferences.

What are ESG factors?

ESG factors are environmental, social and governance issues. These factors have a financial impact on investments. ESG factors can have direct impacts on cash flows for investments, for example a company's profitability can be reduced by greater environmental regulation leading to higher operating costs, or balance sheet impaired by damage to physical assets from climate related events (figure 1). ESG factors can also influence cash flows indirectly for example through a company's customer loyalty, brand equity, reputational standing, litigation risk or ability to source financing and talent, as well as its overall "licence to operate".

Figure 1: ESG disclosures and forward-looking strategies to manage risks and opportunities will impact P&L and balance sheets



Source: FSB-TCFD.org via Hepburn, 2017, INET Oxford

There are five key pillars on which our sustainable investing approach rests:

01

ESG Integration

ESG factors are an important part of our investment analysis and strategic decision-making processes. We are focussed on the ESG factors that may have a material impact on investment risk or return. The processes we use are aligned to the applicable asset class and strategy. We include ESG consideration in our manager selection process. Alongside the ESG integration at the core of our process, each client is unique and can have different ESG guidelines and objectives.

For fund investments we seek to integrate and manage ESG issues throughout the investment process. As part of our due diligence framework we include assessing the ESG capability of the manager including the philosophy, approach, processes and resources of the manager, how they have implemented this approach, and the quality of their reporting. The factors in our ESG framework to assess funds are; Policy, Integration, Active ownership, Reporting, Portfolio, Capability (ESG resources and commitment)). The ESG due diligence findings are documented within the research and due diligence reports produced for our Investment Committee, with potential concerns flagged for consideration.

All investments by CapGen are subject to ongoing monitoring commensurate with the nature of the underlying investment strategies/holdings. ESG factors, as outlined above, will form a part of all ongoing monitoring assessments. After making an investment we continue to monitor identified ESG risks and maintain a dialogue with external managers to ensure effective oversight. The aim is to continually enhance and improve our ESG risk management over time.

02

Stewardship & Engagement

Good stewardship sits at the heart of our service; we exist to protect and enhance the value of our clients' assets in the long term.

We aim to exercise good stewardship of our clients' assets, including through engagement with external asset managers. We seek to understand their approaches, policies and their performance and delivery and, where relevant, voting practices and records, to share information and to encourage improvements and adoption of best practices.

03

Collaboration

We seek to collaborate with peers, to share experience and knowledge to better understand the key issues we face as investors and business owners.

CapGen became a UN PRI signatory in 2020. This is a network of global investors who are committed to integrating ESG issues into their investment practices. The PRI's voluntary six principles are consistent with our approach to sustainable investment and help to guide our approach:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

04

Reporting

We seek to provide regular transparent, material and meaningful information to our clients to demonstrate the ESG risks and opportunities faced by their portfolios, and the measures we have taken to manage those risks, and results of our engagement activities.

In respect of fund investments we aim to be constructive and engaged in our interactions with managers, and we will continue to advocate for steady enhancements to their sustainability reporting.

Whilst we readily accept that data consistency and frequency remains a challenging practical factor, especially across the many asset classes and strategies that we cover, our objective is to regularly report on sustainability matters, including carbon intensity, and to seek continuous improvements to our analytical resources in this area. As part of our commitment to the PRI we will also report on an annual basis our progress in implementing the PRI's six principles.

05

Resources

We believe it is crucial for CapGen to have the resources, skills, expertise, policies and processes to reflect the full range of unique values and desired outcomes that our clients would like to see reflected in their investment portfolios. We have committed to ensuring that every member of the investment team takes the CFA Certificate in ESG Investing.

Investment Risk & Opportunity

We combine an unbiased, global multi asset approach, with a sophisticated risk management framework. This risk management framework, from an investment service and product perspective, is summarised below.

Generally, we consider risk to be a permanent and material loss of capital. We consider volatility to be the threat or possibility of such permanent and material loss. So, while volatility is endemic, actual losses have tended to cluster both in the sense that they occur in intense but brief periods of time and are incurred by a large number of market participants. In considering why these losses are experienced, we believe that, while hard to avoid, they arise not from accident but from poor investment decisions.

We strive to construct and maintain effective portfolios. Before turning to how we try to minimise risk by portfolio construction, we want to emphasise that overlaying our approach to asset allocation and manager selection is a strong belief that the greatest challenge to capital preservation and growth is pro-cyclical decision-taking. Simply put, selling at the bottom or buying yesterday's winner turns volatility - the possibility of loss - into actual loss. In managing risk, therefore, we strive to avoid such pro-cyclicality and consider expected return and ex ante risk.

Turning to actual portfolio construction, we build portfolios to mitigate the two principal sources of risk – market and structure. On market risk, we build diversification into the portfolio through a multi-asset approach. We believe that most portfolios are not suitably diversified. We mitigate market risk through a careful blend of investments and analyse the risk exposure in a multi-dimensional approach made possible by having full look through analysis of the investments and using our risk framework to usefully synthesise the data. We are also very careful to mitigate any currency risks that are inherent in the portfolio and, if necessary, will work closely with clients to build a hedging policy that mitigates this risk. On structure risk, as part of the risk management process, our analytics team produce quantitative risk analysis, measuring risk along several dimensions using multiple solutions to avoid overreliance on any given measurement, system or process.

We integrate ESG analysis into all investment decisions across all asset classes to ensure that sustainability risk is managed. We are aware that material ESG risks can be detrimental to a region, sector or individual companies' growth and therefore aim to position client portfolios to protect against these risks. We also identify climate-related opportunities and ensure portfolios are positioned to benefit from these trends. For example, we have identified energy transition as a climate-related risk and opportunity, and therefore we have access to third party funds that are able to capture the opportunities in this space.

Responsible Investing in Commercial Real Estate

The built environment contributes to 40% of the UK's carbon emissions, and by 2030 the UK government expects all commercial buildings to meet new energy standards. We work to ensure that our clients' commercial property investments are built to the highest possible environmental standards, this can include:

- Electrification of buildings, purchasing green energy sources, removing diesel backup generators and installing solar panels
- Retrofitting LED lighting and passive infrared motion sensors
- Reusing office or hotel furniture, and existing concrete sub/super-structures
- Creating green roofs and green walls
- Creating dedicated spaces for cyclists, including extended shower rooms, storage and cycle lifts

Responsible Investing in Direct Investments

We support our clients through entire lifecycle of direct holdings, from due diligence, to management and/or exit. This is an area in which we can help our clients drive real positive impact as investors. Our work in this respect has included:

- Helping a UK e-commerce jewellery business move to ethical and sustainable sourcing of raw materials
- Investing in and helping to manage budget-friendly gyms in Spain designed to give those who can't typically afford a gym membership access to health and wellness facilities
- Investing in a venture funds that backs seven environmental technology companies

05 / Corporate Responsibility

In terms of individual responsibilities, Khaled Said, the Managing Partner of the Firm, has overall responsibility for risk management at the Firm but these responsibilities are delegated among the three Principals of the Firm. Responsibilities for individual risks are set out in the risk report but as a general rule, Charlotte Thorne is responsible for regulatory risk, Khaled Said and Ian Barnard are responsible for risks related to individual funds, investments and to client servicing, and the three Principals of the Firm together share the responsibility for other risks including commercial risks, financial risks and so forth.

Risks are logged at a high level on the CapGen risk register which is also presented to the board in its entirety every quarter along with the minutes from the quarter's Business Risk Committee meeting. Climate related risks have individual entries on the register under the following classifications: market impact, reputational risk, policy & legal, technological resources, and business continuity.

The Compliance function also presents an annual risk report to the board which assesses the firm's systems and controls for risk mitigation as well as material events or changes over the previous 12 months.

Risk must be clearly apportioned within the firm. Individual department heads, who are members of the Partners Forum, have direct ownership of risk within their business area on a day-to-day basis. Compliance with the Senior Managers and Certification Regime ("SMCR") results in the annual update of the Senior Management Functions ("SMFs") Statements of Responsibilities and Responsibility Map. These further embed ownership and responsibilities for specific areas with the CEO, Board and Senior Managers. Several of those SMFs are also members of the firms Business Risk Committee ("BRC") whose sole purpose is to review existing and potential risks and consider preventative or mitigating solutions to manage those risks effectively.

The BRC, supported by the sub-committee Risk Focus Group ("RFG"), completes a detailed analysis of the inherent risks in each business line, reporting its findings to the Board, and also considers risks regarding specific matters as they arise, including climate-related risks. Department staff represent their respective business areas to provide valuable perspectives and insight into specific risks and risk mitigation within their teams as well as giving the other members the opportunity to evaluate the effectiveness of those controls and discuss enhancements or suggestions to mitigate risk further or eliminate completely where possible.

Having representatives from across the business in group discussion also allows for oversight of the climate related risks on the firm as a whole, as well as individual teams, to prevent a siloed mentality.

Environmental Responsibility

Focus areas: reducing carbon footprint, reducing waste, increasing energy efficiency.

As a services business, we are not major emitters of carbon dioxide, but we are not yet carbon neutral. We have now formally targeted ourselves with becoming so and have taken initial steps in this regard.

Carbon Emissions

In 2020 we initiated a partnership with Carbon Footprint to measure and offset our Carbon Emissions as a business. Because the global pandemic greatly reduced our carbon footprint for that year, we chose to submit data from the previous year to Carbon Footprint in order to offset the full amount that we would typically emit as a firm. Below, we include data from that initial report, and we are currently awaiting data from 2021 and 2022, as we offset our emissions on an annual basis.

Capital Generation Partners' total location based GHG emissions for 2019 were 143.01 tonnes of CO2e. → The most significant emission source is flights, accounting for 82.0% of the carbon footprint.

The total cost to offset 143.01 tonnes of CO2e was £1058.25.

Results of Capital Generation Partners' 2019 carbon footprint assessment by scope and source activity

Scope	Activity	Location Based tCO_2e	Market Based tCO_2e
Scope 2	Electricity generation	23.12	16.55
Scope 2 Sub Total		**23.12**	**16.55**
Scope 3	Flights	117.32	117.32
	Electricity transmission & distribution	1.96	1.96
	Taxi travel	0.50	0.50
	Paper	0.06	0.06
	Rail travel	0.04	0.04
Scope 3 Sub Total		**119.89**	**119.89**
Total tonnes of CO_2e		**143.01**	**136.44**
Tonnes of CO_2e per employee		**3.87**	**3.69**
Tonnes of CO_2e per £M turnover		**16.82**	**16.05**

Source: Carbon Footprint Appraisal Capital Generation Partners LLP. Assessment Period 1 January 2019 – 31 December 2019

Environmental Principles

- We are committed to reducing our impact on the environment and are initiating work with Carbon Footprint to help us reach our target to become carbon neutral, this includes monitoring and actively reducing everything from paper printing, to reducing the number of flights taken by employees, to carbon offsetting.
- We have switched our business to an entirely Cloud based system, replacing over 20 internal servers with a remote system that uses considerably less hardware.
- We take active steps to minimise waste in our office, including installing filtered water taps instead of using bottled water, and minimising the use of single use plastics.
- We have switched to a green energy supplier.

Final Word

We acknowledge the risks that come with climate change to our business, to financial services, and to society as a whole. We also recognise the role that we can play in directing capital towards managers and investment solutions that can try to reduce the effects of climate change through innovation and technology. We combine empirical measurement of risk with qualitative assessment of opportunity to try and get an accurate picture of the ways in which we can position our business for an ever changing world.

September 2023