eQ investors

CLIMATE ACTION PROGRESS REPORT

2024

Certified B Corporation

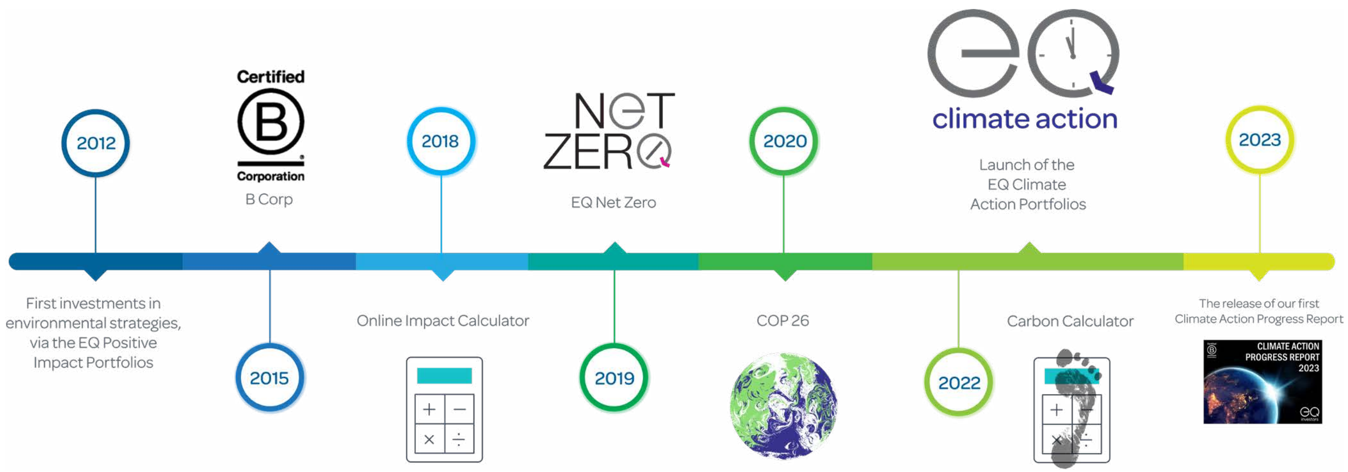
Welcome

Climate change is widespread and investors need to take action.

Climate change has always been an important investment theme at EQ Investors and has featured in our portfolios for over 10 years. However, with a warming world around us and governments increasingly springing into action, it has become a more overarching theme through which we look at the investments we manage. We understand that climate change will have material impact across sectors and all geographies, and this is creating significant investments risks and opportunities.

Simultaneously, while working closely with financial advisers and clients, it became increasingly clear to us that a growing number of investors wanted their investments to address climate change, as well as use their shareholder power to ambitiously push our economy in the right direction. This led to the launch of the EQ Climate Action strategy, designed to retain a broad investable universe while putting climate at the centre of our investment decisions.

The EQ Climate Action portfolios are managed with a dual mandate: to achieve long-term capital growth by investing in companies that show climate change leadership. We are extremely proud to share the second annual report for the EQ Climate Action strategy, highlighting the progress made on its three climate objectives: engagement to support "improvers", portfolio carbon reduction and investing in climate solutions.



EQ investors

EQ Investors (EQ) was set up as a values-led wealth management company, being one of the UK's first Certified B Corporations and part-owned by The EQ Foundation, our registered charity.

EQ has always been at the forefront of innovation. We first began investing in environmental equities over a decade ago and have continued to adapt with the global economy.

In 2019 we set our own corporate-level climate targets, and in 2022, following the Glasgow Climate Conference, we developed and launched this unique climate-focused investment strategy.

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As part of the B Corp Climate Collective, EQ has committed to net-zero emissions by 2030 and is a Race to Zero business. In addition to our portfolio carbon reporting tool, we are working across our business to reduce, manage, and offset our operational carbon footprint.

The climate landscape

In spite of the chaos, human ingenuity provides a cause for optimism.

Climate challenges

Humanity's use of fossil fuels for energy, transport, agriculture, and materials has resulted in a significant rise in the concentration of greenhouse gases such as carbon dioxide (CO²) in the Earth's atmosphere. These greenhouse gases can remain in the atmosphere for centuries, growing in concentration, and intensifying the challenge. As a result, the Earth has already experienced global warming – a rise in average temperatures - of almost 1.2°C.

In 2015, 196 countries signed the UN 'Paris Agreement' to keep global temperatures within 2°C versus pre-industrial levels - later revised to 1.5°C. This involves net zero commitments, both from corporates and governments. Net zero refers to a state where the global economy emits no new emissions. 2050 is the agreed date to achieve the temperature goal of the Paris agreement.

Investment opportunities

To achieve net zero ambitions, the global economy is embarking on a system wide change that is affecting everything from energy to transportation. Current green investment of around $2 trillion annually needs to rise to $5 trillion a year to meet international temperature goals. This creates an optimistic landscape for investors, as investment by one entity creates revenue for another. There is an alignment of policy, regulation, consumer demand and investment towards a new set of technologies.

Landmark green investment pledges include the US Inflation Reduction Act, and the EU Green Deal. These legislative changes incentivise investment and innovation towards decarbonisation, and improve their competitiveness versus incumbent fossil technology. By investing in companies that are aligned to this transition, the EQ Climate Action portfolios are set to directly benefit from these global tailwinds.

eQ climate action

Contents

Climate Action: our approach

The EQ Climate Action portfolios offer a diversified portfolio for those that see a significant opportunity in aligning investments to a low carbon world, and the risks of not doing so. The portfolios are managed with a dual mandate: to achieve long-term capital growth by investing in companies that show climate change leadership.

We have designed three objectives that allow us to measure progress towards this dual mandate. The remainder of this report looks at these objectives in more detail.

Engagement to support "improvers": The EQ Climate Action portfolios are committed to becoming 50% aligned to science-based targets by 2025, 80% by 2030, and 100% by 2040. We aim to achieve this through dedicated engagement that pushes for ambitious climate plans across our portfolio companies.

Carbon reduction: The portfolios target a lower carbon footprint than a global equity benchmark (*MSCI ACWI IMI) and for this footprint to reduce over time.

Climate solutions: The portfolios target investment into those companies with products and/or services that are climate solutions or companies issuing debt where the proceeds will be used for green activities.

The Climate leadership categories:

To meet these objectives, the EQ Climate Action portfolios invest in funds that target companies across the three climate leadership categories below. Between them, they provide the flexibility to manage portfolios to current market conditions, while remaining well placed to benefit from the tailwinds of a low carbon transition.

Low carbon companies:

Leaders in carbon efficiency, with emissions at least 33% lower than their industry peers.

Climate improvers:

Companies that may currently have higher emissions but are on a credible, science-based path to decarbonising their business models in line with the Paris agreement goals.

Climate solutions:

Companies whose products and/or services provide solutions to decarbonisation, which includes themes like: renewable energy, energy efficiency enablers, green transport, power grids, green homes, circular economy and batteries.

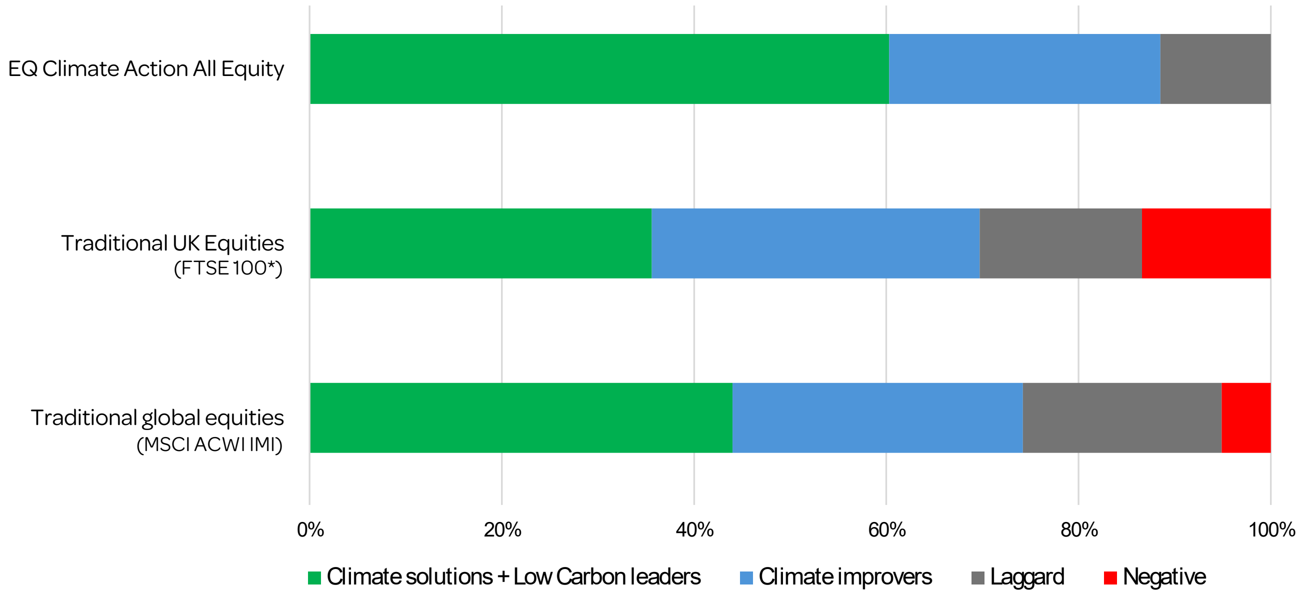
Climate category alignment

We invest with a climate lens. How do traditional investments compare?

When comparing the EQ Climate Action portfolio to traditional investments, the impact of our investment selection is clear.

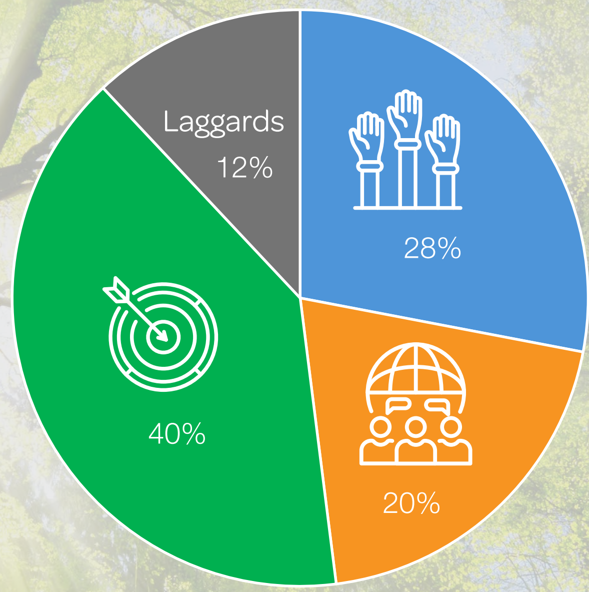
The portfolios invest in more companies that show climate leadership, evidenced by higher alignment to companies that are low carbon leaders, climate solutions or improvers. The portfolios also have zero exposure to "negative" companies, defined here as the following industries: armaments, adult entertainment, gambling, tobacco, fossil fuel extraction and production, and thermal coal dependent electricity generation. Investing without this climate lens will mean investments in fossil fuel majors, and companies that show high emissions without a reduction plan.

This leaves the investor exposed to the risk of stranded assets. Stranded asset risk refers to the scenario in which energy companies cannot develop the fossil fuel reserves they own and need to write-off the value attached to those assets.



Source: EQ investors, EQ Climate Action All Equity and benchmarks, June 2024
*Vanguard FTSE 100 Ucits ETF

EQ Climate Action categories



Source: EQ Analysis, EQ Climate Action All Equity and benchmarks, June 2024

To demonstrate that our investment objective is being met, we identify leadership in companies in respect to the climate change challenge, and we target to maximise alignment to these in the EQ Climate Action portfolios

The small allocation to laggard companies is intentional, as we aim to drive real-world change in these companies' climate alignment through our own dedicated engagement, and that of our fund managers.

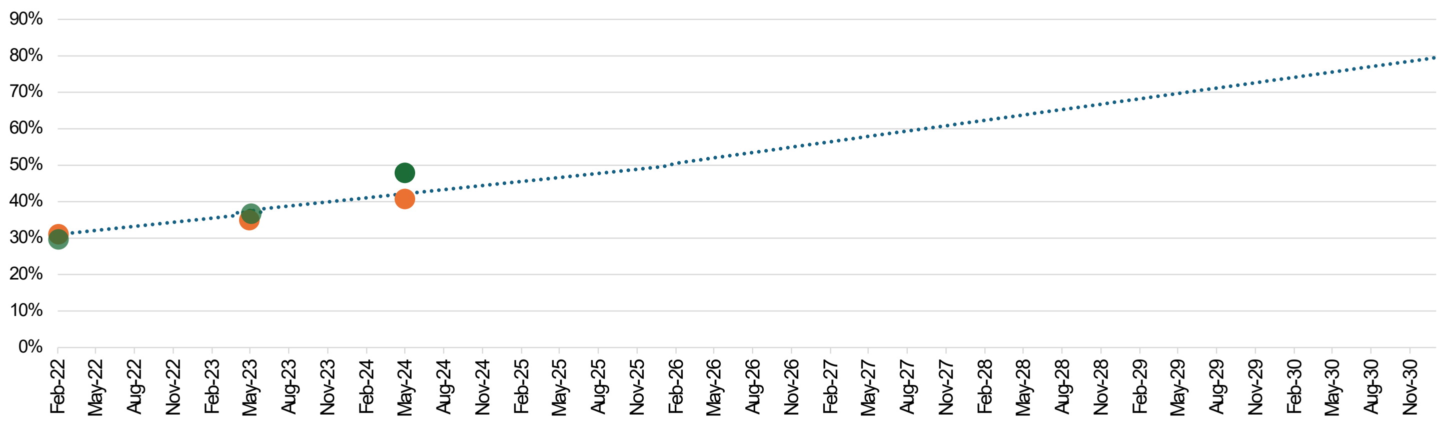
Accelerating the transition

The global economy depends on carbon-intensive sectors to meet our needs. To transition to a low carbon economy, we need to decarbonise these sectors.

We invest in profitable businesses with credible, science-based plans to reduce their emissions, as well as selected companies where our managers see an opportunity to engage for change. In order to judge whether a company is ambitiously transitioning, we look at whether their targets have been independently verified by the Science Based Targets initiative (SBTi).

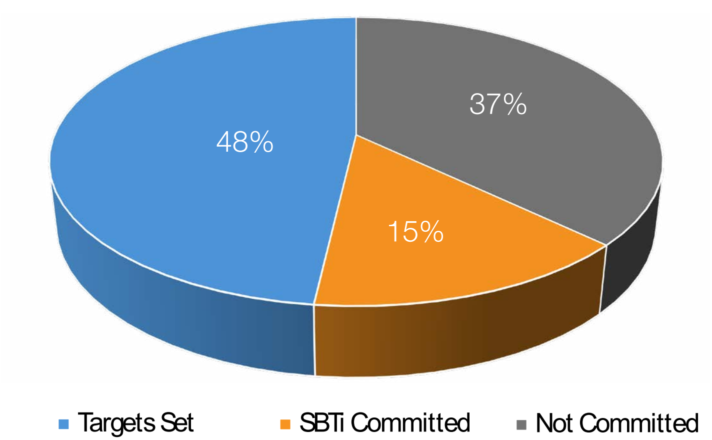
A key objective of the EQ Climate Action portfolios is for all holdings to have science-based targets in place by 2040. Here we plot our progress against that of a traditional global equity benchmark.

Percentage of portfolio with targets set



Source: EQ Climate Action all equity and benchmarks holdings; MSCI and sciencebasedtargets.org. June 2024.

Where are the EQ Climate Action portfolios on their net-zero journey?



Already, 48% of the portfolio companies have set and are managing their business to their SBTi-approved target, with a further 15% committed to doing so in the next two years.

Engagement will target the remaining 37% that currently lack a commitment to SBTi, to accelerate their transition to net-zero.

EQ Investors, EQ Climate Action All Equity; MSCI and sciencebasedtargets.org, June 2024

SCIENCE BASED TARGETS

The Science Based Targets initiative is a partnership between CDP (formerly Carbon Disclosure Project), The UN Global Compact, The World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). It was set up to mobilise the private sector to take a lead on urgent climate action, and is now helping develop guidance and frameworks for science-based climate targets.

The initiative lays out sector-specific frameworks against which it judges and independently verifies corporate decarbonisation plans. The SBTi verification has emerged as the “gold standard” to identify whether a corporate climate plan is ambitious enough to align with the goals of the Paris Agreement.

Pushing for positive change

To contribute to real change, EQ carried out engagements over the last year and partnered with fund managers that match this ambition.

As shareholders, investors have stewardship tools at their disposal that allows them to hold the companies they own to account, and raise their sustainability ambitions.

The EQ Climate Action portfolios aim to ambitiously use voting and engagement to improve climate leadership within all invested companies. We want to push for positive change in companies that currently lag behind in their climate goals, and create real-world change.

Here we share some examples of EQ's climate engagement over the last year and a specific company example from one of our chosen fund managers.

HSBC

In 2024, EQ's strategic engagement on climate once again focused on the banking industry. This year we focused on assessing how fund managers assess banks on green financing, as this is an important component of banks overall climate policy. EQ formally joined the ShareAction investor collation on banks.

This meant that we had the opportunity to directly engage with HSBC's Head of sustainability, which was also supplemented with a trip to their AGM to ask for further disclosure on emissions associated with the banks underwriting activities.

standard chartered

We also attended the Standard Chartered AGM to ask a question around the banks green financing target. The bank has good disclosure of how much green financing it does but was yet to introduce a target to increase this year on year

This year we also engaged with fund managers on physical climate risk. Physical climate risk is becoming more of a prevalent risk and can no longer be viewed as a problem in the distance.

We reached out to 16 fund managers to understand how physical climate risk is incorporated into their investment process and push them to incorporate best practice emerging in the asset management sector.

Fund manager engagement example: M&G's engagement with Weir Group

WEIR

Weir is an engineering solutions provider focused on the mining and power markets. Weir's products and services facilitate the efficient running of its customers' mission-critical operations while also shrinking their carbon footprint.

Most of the company's emissions are Scope 3 emissions from the use of its products. Most of Weir Group's top ten mining customers have public commitments in place to reduce carbon emissions from their operations. Therefore, Weir Group's product innovation will be critical for customers to meet their commitments.

M&G have met with Weir Group several times to discuss the company implementing a science-based target and linking ESG targets into the Group's remuneration framework. As part of the engagement, M&G helped Weir map out a structured pathway to net zero. This led the company to implement an SBTi target in 2023, including to reduce absolute scope 3 emissions from use of sold products by 15% by 2030.

Portfolio footprint

Carbon emissions are the best proxy we have to understand a company's climate change contribution, and to understand the difficulty a business faces to reach net zero by 2050.

All companies are responsible for some carbon emissions, but as investors we must distinguish between the leaders and laggards in each sector.

The higher a company's relative emissions compared to its peers, the more likely the company is to suffer from risks associated with the transition to a low-carbon economy. For example, a theoretical carbon tax would put a cost on each tonne of carbon emitted.

We need to measure companies Scope 1, 2 and 3 carbon emissions to understand its total climate contribution.

The EQ Climate Action portfolios aim to keep the total associated carbon emissions lower than market benchmarks, and we do this by focusing investments into low carbon leaders in each sector. These companies show their peers "the way forward", and also allow us to reduce exposure to the risks we outlined.

Carbon calculator

In 2022 EQ launched a tool that allows its clients to compare the carbon footprint of any of our investment portfolios against a benchmark of global companies.

Here we show an example from the calculator, demonstrating that the carbon footprint of investing £1 million in the EQ Climate Action All Equity portfolio is 51% lower than investing the same amount in global equities. This means that the companies in our portfolio show a significantly smaller climate change contribution and are more carbon efficient.

173

tonnes of CO_2

EQ Climate Action

354

tonnes of CO_2

World equity index

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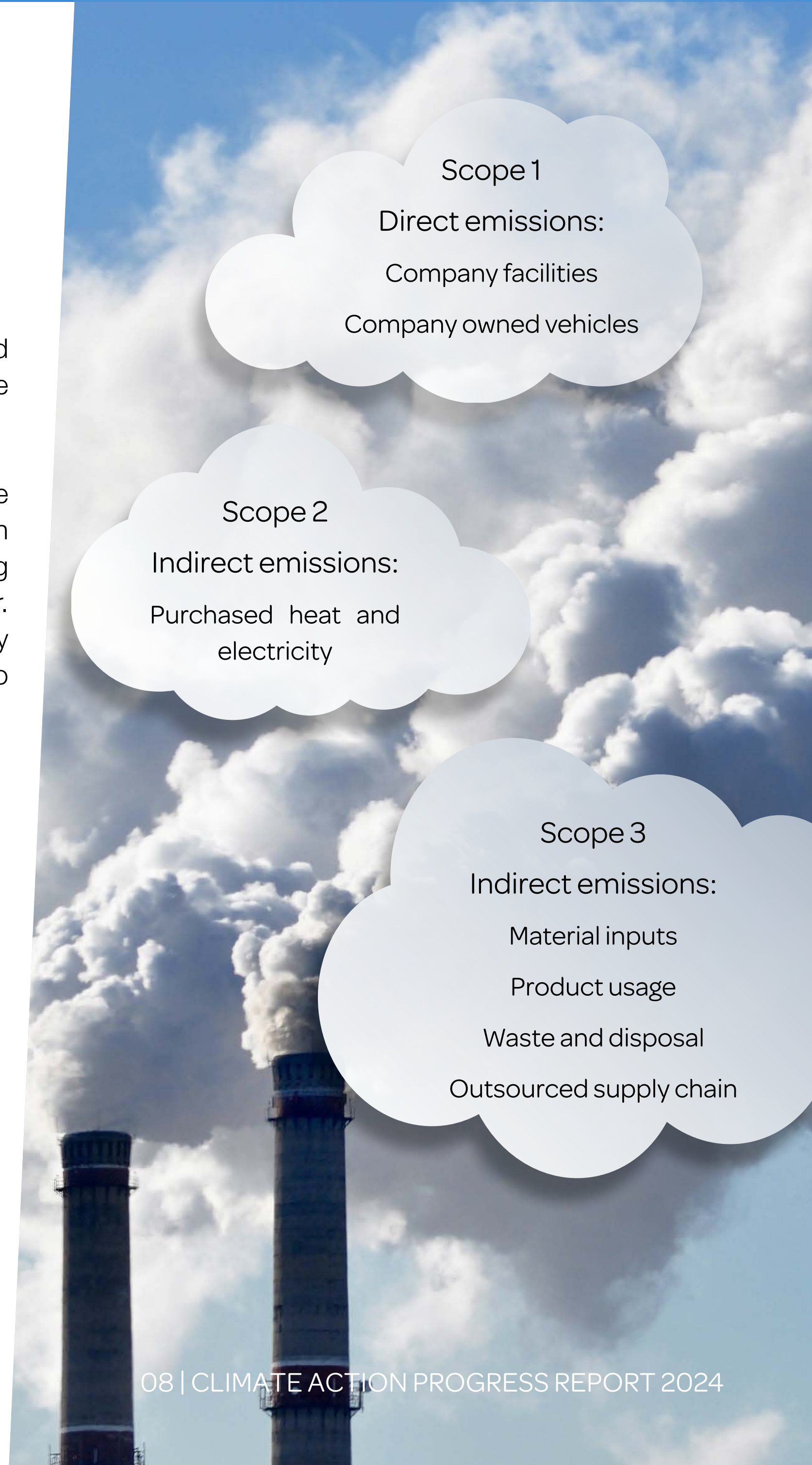
Source: MSCI. Methodology: Weighted average financed emissions (EVIC), EQ Climate Action All Equity and benchmark holdings. Combined annual emissions associated with £1m investment. June 2024.



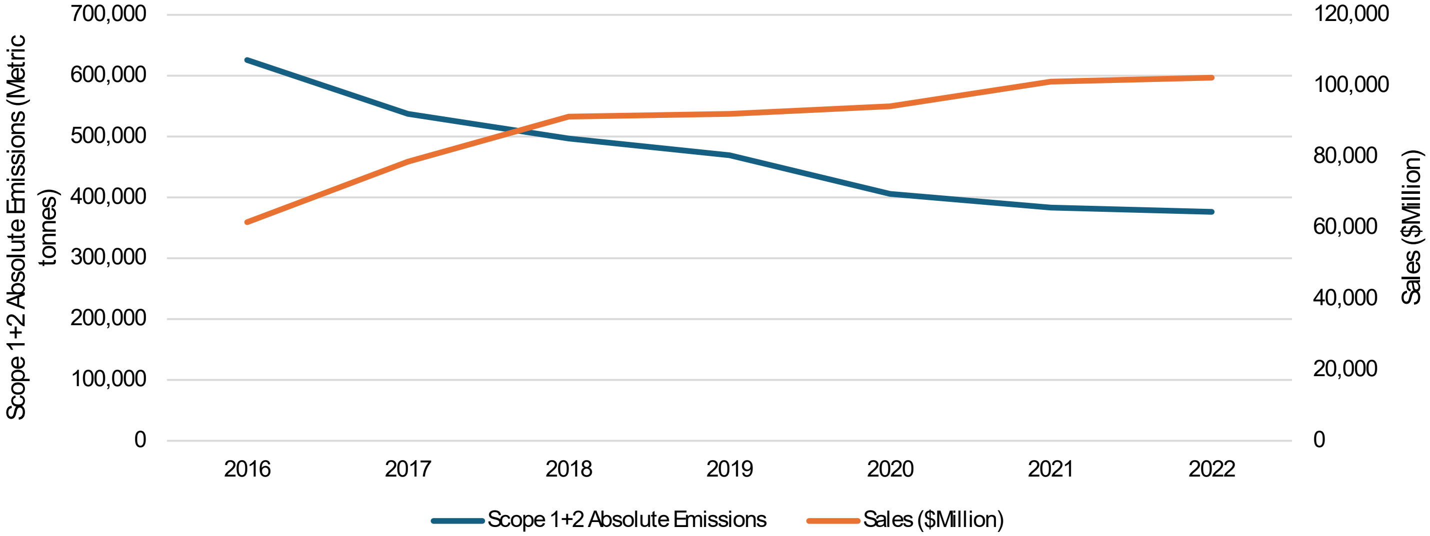
Decoupling revenues and emissions

To stay on track with our global commitment to the Paris Accord, companies need to decarbonise their absolute emissions by approximately 7.6% year-on-year up until 2050. To achieve this, revenue growth needs to decouple from emission growth.

CASE STUDY:

Dell is a US-based technology company held in the Storebrand Global ESG Plus Fund. The company is well known for developing, selling, and repairing computers and related products. It has managed to achieve an impressive reduction in absolute scope 1 & 2 emissions while growing sales through:

- Increasing electricity consumed from renewable sources from 29% in 2018 to 61.5% in 2024.
- Being one of the first companies to set emissions reductions approved by SBTi, in 2015.
- Using on-site solar generation, and renewable energy certificates as its buildings' energy source.

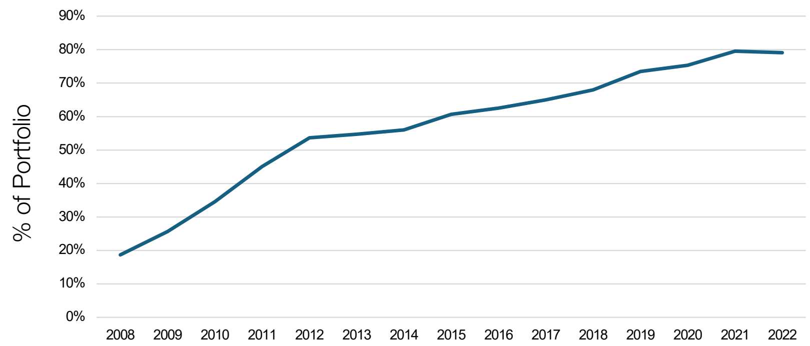


Source: MSCI, June 2024.

Scope 3 reported emissions

Ideally all companies should reduce absolute scope 3 emissions, alongside their scope 1 and 2. However, the data quality and disclosure is still too sparce to draw meaningful conclusions. The good news is that scope 3 data disclosure is improving – from 17.5% in 2008 to 79.1% in the most recent reporting year.

EQ Climate Action portfolio company Scope 3 disclosure trend



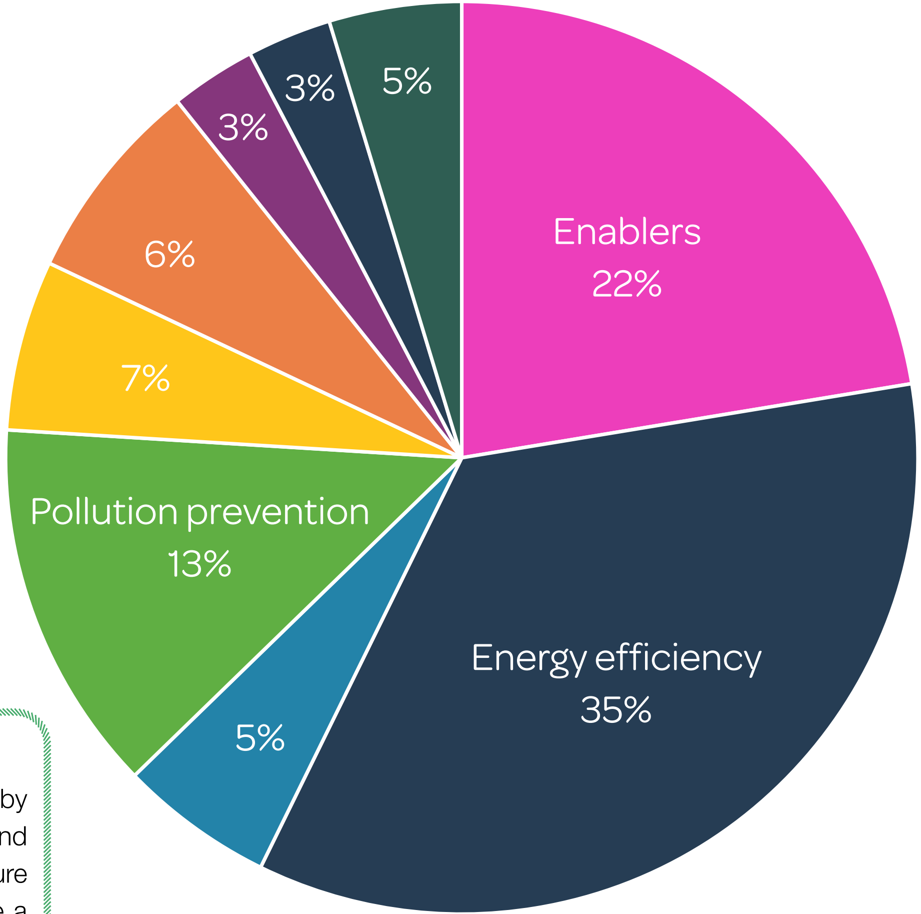
Source: MSCI, June 2024.

Investing in solutions

One way to capture the investment opportunity from our climate transition is by investing in companies that develop climate solutions.

Most people may think of wind turbines or solar panels as climate solutions, but there are a wide variety of products and/ or services, and their enabling components, that help avoid emissions when implemented.

All of these need to be supported to solve different sources of emissions. Here we break down the EQ Climate Action portfolios' climate solutions segment into industry-standard themes. Currently climate solutions account for 40% of EQ Climate Action All Equity.



Source: EQ investors, EQ Climate Action All Equity, June 2024. The diagram represents the Climate Solutions proportion of the EQ Climate Action portfolios', and not the total.

Green bonds

Green bonds are bonds issued by governments, corporations, and financial institutions to secure financing for projects that will have a positive environmental impact, such as ecosystem restoration or reducing pollution.

Enablers - 22%

This includes the semiconductor value chain, battery value chain and other core components of green technologies.

Energy efficiency - 35%

This includes industrial automation technologies, cloud infrastructure and software programmes that aid environmental performance improvements.

Green buildings - 5%

This includes efficient heating & cooling systems, lighting, insulation and sustainable construction.

Pollution prevention - 13%

This includes circular economy businesses and alternative materials.

Renewable tech - 6%

This includes the solar and wind value chain, and fuel cells.

Renewable utilities - 7%

This includes electric utilities that use predominantly renewable power.

Sustainable agriculture - 3%

This includes alternative agricultural practices, equipment or produce.

Sustainable infrastructure -3%

This includes electricity grids and rail transport infrastructure, construction of sustainable infrastructure.

Sustainable transport - 5%

This includes clean transport, including electric vehicles and public transport.

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Renewable energy systems

Here we show an example of how the EQ Climate Action portfolios invest across the value chain of solar power generation system.

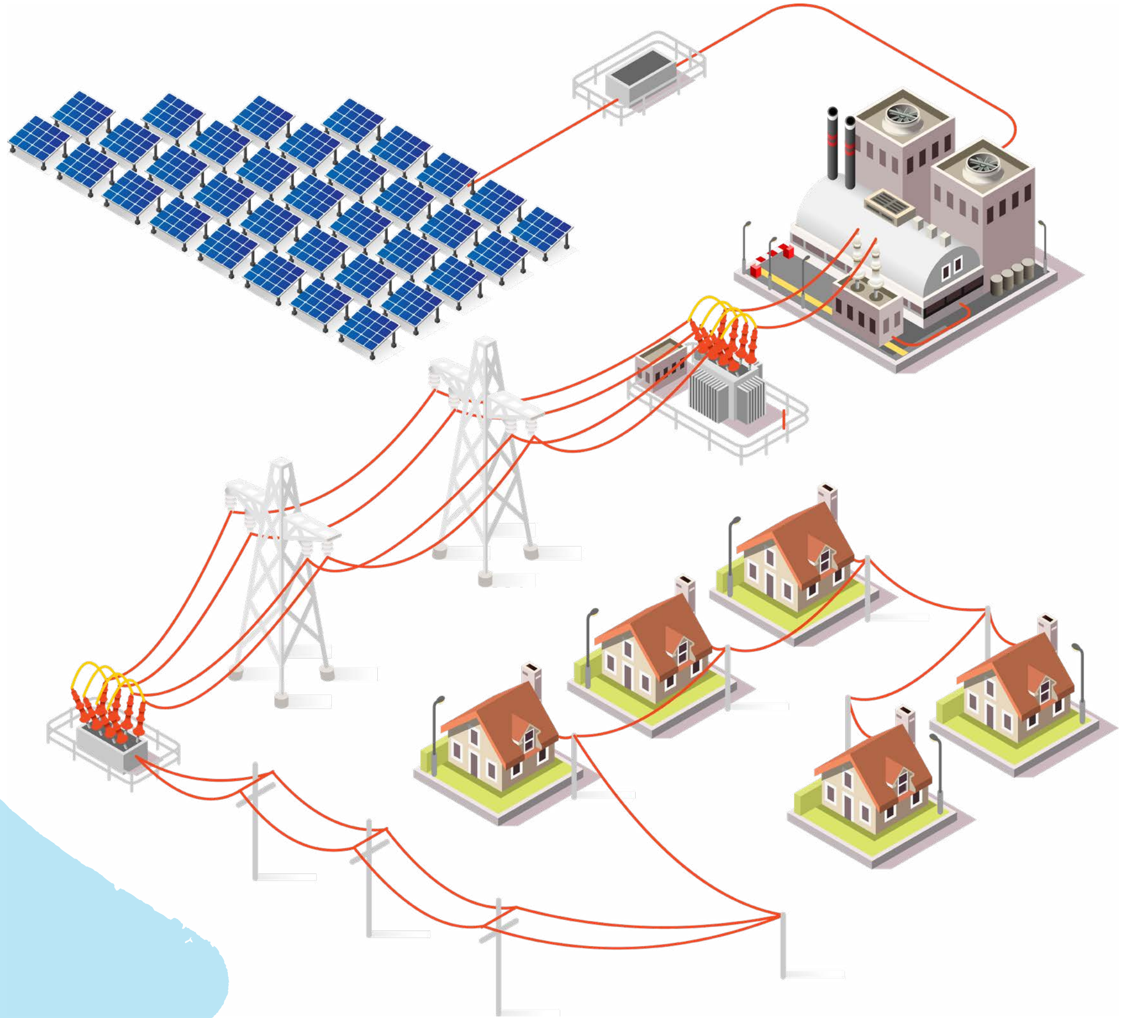
First Solar (US): A solar panel manufacturer.

Solaredge (US) A Solar inverter manufacturer; inverters helps convert solar energy to electricity currents.

Array Technologies (US) provide ground-mounting sun-tracking systems that can help maximise solar energy capture and efficiency.

Bluefield Solar (UK) owns and manages over 120 solar farms in the UK.

EDP (Portugal) is an electric utility business that transmits electricity to homes and industry, while also working to increase green electricity sources.



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EQ Investors
Centennium House
100 Lower Thames Street
London EC3R 6DL