2024 REPORT ON SUSTAINABLE INVESTING

TfL
PENSIONFUND

MAYOR OF LONDON

Transport for London

1. Introduction

Maria Antoniou, *Chair*

CHAIR'S LETTER

On behalf of the Trustee of the TfL Pension Fund, I am pleased to present our seventh Annual Sustainable Investing Report.

This year's report highlights key developments in our journey towards a more sustainable investment portfolio. The Trustee continues to explore the most important topics in sustainable investing, while recognising that some challenges exist in this evolving field, and direct the Fund's investment and stewardship activities accordingly.

The global imperative to accelerate the energy transition is undeniable, and there is a clear need for vast amounts of investment in new infrastructure to support the energy transition. With unprecedented levels of government support like the US Inflation Reduction Act 2022 and similar initiatives elsewhere, there is a historic opportunity for investors like the Fund to facilitate a huge wave of much needed infrastructure building by providing capital while at the same time harvesting strong financial returns.

The Fund has been actively investing in clean and renewable energy projects over the last decade, however, this year it ramped up capital deployment in response to the accelerating momentum and as the Fund's asset size continues to grow. The Fund will source investments that are primary and secondary beneficiaries of the energy transition mega trends, both at home and overseas. The investments will aim to deliver a tangible and positive impact on CO_2 emission reductions, aligning well with the Fund's commitment to achieving a 55% reduction in carbon emissions by 2030, net zero by 2045 and to have 15% of the Fund's investment portfolio in ESG-tilted investments by 2025.

We are actively reshaping our investment mandates to align with our net zero carbon journey. There are currently uncertainties associated with the speed of decarbonisation globally, due to technological challenges and with nuance and complexity introduced by energy security and the need for a 'just transition'. We believe that the Fund's capital should drive positive change while recognising that decarbonising the portfolio well in advance of the real world (and broader market) may have an impact on investment returns. In light of this, we are balancing our commitment to the ambitious targets with a pragmatic approach, investing in both 'transitional' companies and those leading the charge towards a low-carbon economy. Engagement with portfolio companies will be instrumental in driving progress.

The Trustee recognises there are crucial social and environmental issues other than climate change that demand our attention. That is why the Fund has expanded its stewardship capabilities through a holistic voting and engagement service with Sustainalytics. Through this new service, there is a clear focus on themes including human rights, human capital and labour rights, biodiversity and circular economy. The Fund is making investments into social infrastructure, critical industries and lower income countries within emerging markets (EMs) too. These all contribute toward the Fund's wider sustainability goals.

PLEASE CONSIDER THE ENVIRONMENT BEFORE PRINTING THIS REPORT. A PRINTER FRIENDLY VERSION CAN BE FOUND HERE

Furthermore, the Trustee has put much thought into enhancing the format of presenting this report's content for members. A conversation has been recorded, between the Chair of the Investment Committee and the Chief Investment Officer Pensions, to convey important points about our net zero journey. The video helpfully sets the scene for the achievements and priorities covered in this report and is a recommended watch (it is available via this **link**). Meanwhile, to enhance readability, we have reduced the length of the report to focus on the most significant developments. We welcome your feedback as we continue to refine our sustainable investment strategy.

KEY HIGHLIGHTS

INDUSTRY LEADER

The Fund received the top 5-star rating across all asset classes and 4 stars in policy governance and strategy, in PRI's 2023/24 assessment, continuing a track record of excellent performance.

CARBON REDUCTION

As of 31 March 2024, the Fund's carbon emission intensity has reduced by 53% compared to the 2016 baseline, well on track to meet the 55% interim target by 2030.

ACCELERATED SUSTAINABLE INVESTMENTS

The Fund expanded its clean energy portfolio by committing $400m into energy transition and renewable energy strategies, including a £33m direct acquisition of an onshore windfarm in Cambridgeshire.

In addition, the Fund also committed £100m to an EM direct equity fund sponsored by International Finance Corporation (IFC) which will make targeted and commercially viable investments, and with close to 40% of deals focusing on climate, lower income countries, inclusive business, and/or gender equality investments.

INCREASED ESG-TILTED ASSETS

The allocation reached 13.5% this year, at c. £2bn and nearing the 2025 target of 15%. One of the mandates that contributes significantly to the ESG tilted allocation is the infrastructure debt mandate managed by IFM, which has over 90% of capital invested in sustainable assets. This report has included a **link** to a recorded video from IFM in which the manager discusses how they are managing climate risk and capturing opportunities for the Fund.

RESHAPING INVESTMENT MANDATES

Implemented net zero investment guidelines in the fixed income mandate, with equity guidelines under development. This report has included a **link** to a recorded interview in which the Fund's CIO (Chief Investment Officer) Padmesh Shukla discusses with the portfolio manager how the guidelines were designed with the Fund's input.

SCAN QR CODE TO VIEW OUR 2024 TCFD REPORT

ENHANCED STEWARDSHIP

The Fund signed up to Sustainalytics's most comprehensive stewardship programme, Engagement 360. This will expand the Fund's engagement footprint to six 'meta themes' covering key ESG issues. Sustainalytics will also provide an ESG voting overlay that will complement the proxy voting agent Glass Lewis's traditional corporate governance policies with specialist voting guidance on specific ESG topics.

REGULATORY DISCLOSURES

The Fund published its fifth Taskforce for Climate-related Financial Disclosures (TCFD), which was made mandatory for UK pension schemes in 2021. It contains the updated Climate Scenario Analysis, which is an integrated risk assessment to understand the climate related risks associated with the Fund's assets, liabilities (pension benefits) and covenant (of the sponsoring employer).

The results show that the Fund's exposure to climate related risks is limited and is being mitigated. If you wish to read the detailed analysis results, it can be found in the Member Highlights section from page 1 of the TCFD report available on the Fund's website, **here**.

Contents

BACKGROUND 06

- Investment beliefs
- Timeline and Milestones
- Sustainability Progress: Checklist

CLIMATE CHANGE ACTION Noteworthy progress made since our last publication 10

- Fund Carbon Emissions
- Environmental Footprint Analysis

STEWARDSHIP Environmental and social impact 12

- Partnership with Sustainalytics
- Stewardship through Investment Managers

SUSTAINABLE DEVELOPMENT GOALS & CASE STUDIES 16

- Portfolio Impact Analysis based on the UN Global Goals Framework
- Case studies – Investment Activities with Material ESG Outcomes

WHAT'S NEXT 21

2. Background

INVESTMENT BELIEFS

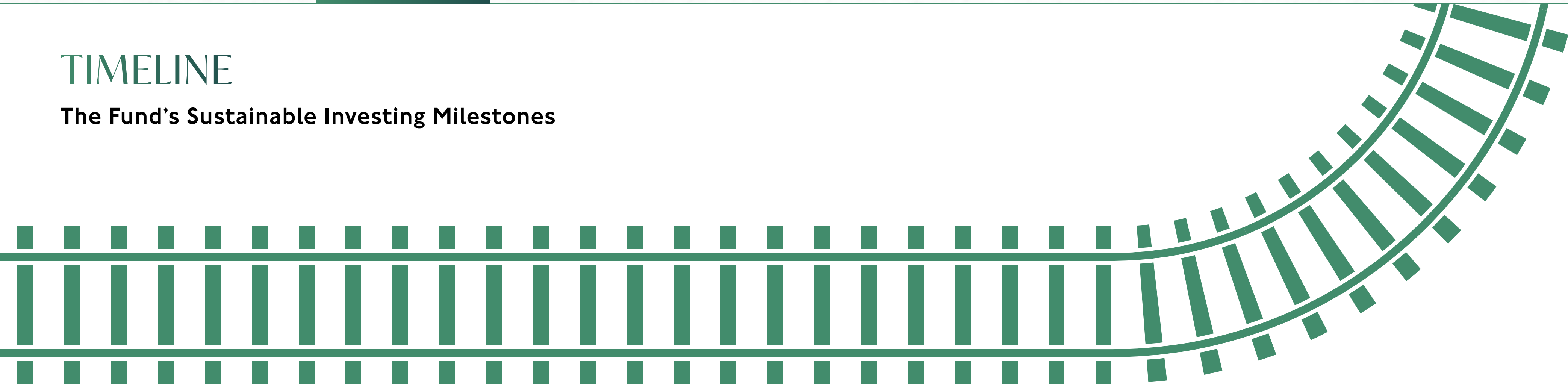
As we begin to delve deeper into the Fund's framework and activities over the year, we set out the Trustee's Investment Beliefs, which are available on the Fund's website **here**.

The belief statements are:

- working assumptions agreed by the Trustee Board and designed to create a framework for investing to help the Fund achieve its goals
- essential to discussions and decisions surrounding the investment strategy
- updated in 2023 following a thorough review and include four specific ESG beliefs
- reviewed at least every three years, and
- the review process involves four stages – education (training), information (using a questionnaire to collect trustee views), discussion, and documentation; with final signoff by the Trustee Board.

TIMELINE

The Fund's Sustainable Investing Milestones



OUR JOURNEY

2014 | £7.3Bn
- ✓ £7Bn AUM milestone

2017 | £9.8Bn
- ✓ 1st PRI reporting submitted

2018 | £10.3Bn
- ✓ £10Bn AUM milestone
- ✓ 1st Sustainability Report released

2019 | £11.0Bn
- ✓ Partnership started with stewardship specialist Sustainalytics
- ✓ Started to exclude holdings that generate significant revenues from thermal coal

2020 | £10.6Bn
- ✓ ESG clauses incorporated into investment management agreements
- ✓ 1st TCFD published
- ✓ The highest score A/A+ received across all 9 areas from PRI

2021 | £13.1Bn
- ✓ Announced Net Zero Commitment

2022 | £14.4Bn
- ✓ Received the highest scores in all but 1 category in PRI's new reporting system

2023 | £14.2Bn
- ✓ Published first Net Zero Carbon Journey Update; the Fund is ahead of target
- ✓ Introduced integrated climate scenario testing in TCFD

2024 | £15.0Bn
- ✓ £15Bn AUM milestone
- ✓ Net zero investment guidelines incorporated into fixed income mandate
- ✓ Ramped up investments into renewable energy

2025
- ✓ Projected to reach 15% ESG tilted asset allocation target

£bn figures represent the Fund's asset under management.

SUSTAINABILITY PROGRESS CHECKLIST

The Fund has used an action plan for ESG and climate-change integration (developed by the legal adviser Sackers) as its Sustainability Progress Checklist since 2019. The action plan is broken down into 9 actions. On each action there are 4 stages– Behind the Curve, On the Back Foot, On the Front Foot and Getting Ahead. The Fund has progressed to Getting Ahead, the most advanced stage, on all but 2 actions (actions 4 and 6).

ACTION PLAN	GETTING AHEAD
1. SETTING INVESTMENT BELIEFS	Trustee board spends time on training before discussing and agreeing a responsible investment beliefs statement including a position on climate change risks. Trustee board discusses ESG beliefs at least annually. Where applicable, trustee seeks to align beliefs with sponsor views. Considers alignment of strategy with UN SDGs.
2. REVIEW EXISTING MANAGERS	Full consideration of each manager's ESG capabilities with specialist input from investment consultants. Managers which require most attention identified and engaged with. Where no improvement is forthcoming or possible within current mandates, these will be reviewed. All managers expected to demonstrate deep ESG integration. Integrates corporate environmental data into manager investment processes.
3. SET A DB INVESTMENT STRATEGY	For active mandates: considers diversification across sources of climate risk as well as traditional asset classes. Positive allocation to sustainable investment or investment in assets aligned with a below 2°C pathway. Consider tilting portfolio away from lower scoring ESG assets or sectors such as high carbon emitters.
4. DOCUMENT A POLICY	**On the Front Foot (current)**: Trustee develops a stand-alone responsible investment policy which supplements the Statement of Investment Principles (SIP). This may start with existing manager mandates but will progress to deeper integration of ESG factors over time. The policy is periodically reviewed. **moving to => Getting Ahead**: Extensive responsible investment policy with detailed consideration of ESG in each asset class, detailed climate change policy and stewardship policies. Climate change risk embedded across other trustee governance and internal control frameworks and considered as part of an integrated risk management framework (including any climate change risks pertinent to the scheme sponsor covenant).

SUSTAINABILITY PROGRESS CHECKLIST (continued)

ACTION PLAN	GETTING AHEAD
5. ONGOING MANAGER MONITORING	Develops a robust monitoring process – reporting qualitatively and quantitatively against each manager. Managers expected to demonstrate integration of ESG in investment processes. Measures alignment of listed equity and corporate bond portfolios across 2° transition sectors and technologies.
6. APPOINTING NEW MANAGERS	**On the Front Foot (current):** ESG credentials key in tender process. Investment management agreements negotiated to include specific ESG requirements. **moving to => Getting Ahead:** Responsible investment requirements are incorporated across all asset classes including e.g. side letter terms in private equity funds.
7. STEWARDSHIP & ENGAGEMENT	Managers are expected to report in detail on their engagement policies and how these have been implemented. Appoints proxy voting and engagement service reflecting trustee's ESG beliefs and position on climate risk.
8. SCENARIO TESTING	Quantitative risk assessment, covering the full investment portfolio, liabilities, and covenant, to identify exposure to transition and physical risk under different climate scenarios.
9. REPORTING	TCFD report goes above and beyond requirements, including incorporating all optional disclosures. Material use of additional voluntary disclosures used to communicate progress with wider stakeholders.
10. INDUSTRY INVOLVEMENT	Trustee board keeps abreast of industry discussions and attends events to improve knowledge and observe best-practice. It is a UN PRI Signatory. Joining investor groups such as IIGCC. Engage with policy makers to improve practice across the industry.

3. Action to Combat Climate Change

FUND CARBON EMISSIONS

55% REDUCTION BY 2030 AT THE LATEST

100% REDUCTION NO LATER THAN 2045

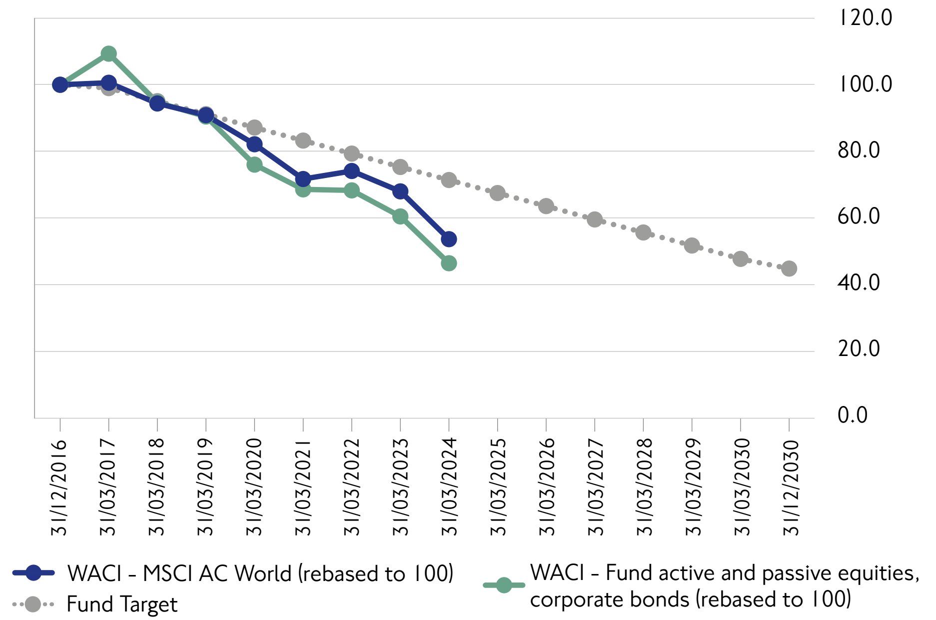
WHAT'S THE AMBITIOUS TARGET?

- The Trustee has committed the Fund to an **ambitious Net Zero Carbon Plan** which will see the Fund achieve a 55% reduction in its carbon emissions intensity by 2030 at the latest and a 100% reduction no later than 2045 vs the 2016 baseline.

HOW HAS THE FUND BEEN DOING?

- The Fund has been analysing the carbon intensity of companies in its **active equity, passive equity** and **corporate bond** portfolio through MSCI dataset since 2016.
- As of 31 March 2024, the Fund's carbon emission intensity has **reduced by 53%** as compared to 2016 baseline; it is on track to reach the 2030 reduction target which is 55%.
- When comparing the Fund's pace of decarbonisation against the target, the Fund has achieved the level where it was projected to reach by mid-2029, meaning that the Fund is now **5 years ahead of its target**.
- The Fund also achieved good progress on carbon reduction against **its benchmark** MSCI AC World; carbon reduction is 7% more than the reduction from the benchmark.
- The Fund has increased coverage of emissions data to include wider asset classes as it also pushed the fund managers to improve data availability.

WEIGHTED AVERAGE CARBON INTENSITY – FUND VS BENCHMARK (CO_2e in tons per \$m sales, rebased to 100)



ENVIRONMENTAL FOOTPRINT ANALYSIS

The Fund continues to work with LGT Capital, using their LGT Cockpit tools that provides an alternative measurement of the Fund's environmental footprint extending to energy consumption, water, and waste.

The Fund's active equity portfolio delivered better performance in 3 categories relative to the benchmark. In particular, the Fund continued to significantly outperform the benchmark on greenhouse gas emissions, energy consumption, and waste generation. For water withdrawal, although the Fund's active equity portfolio water usage levels this year are lower than the ones last year, the result shows that the levels are above the benchmark, meaning that the industry on average has been progressing better than the Fund's portfolio. That is mainly due to the stock selection in the equity names within the Materials sector.

Measure per USD 1m of revenue	Greenhouse gas emissions	Energy consumption	Water withdrawal	Waste generation
TfL Pension Fund equity portfolio	76.3 metric tons CO_2 p.a.[1]	232.9 megawatt hours p.a.	1,323.6 cubic meters p.a.	40.1 metric tons p.a.
Custom benchmark	161.4 metric tons CO_2 p.a.[1]	383.6 megawatt hours p.a.	1,133.6 cubic meters p.a.	151.2 metric tons p.a.
Difference per USD 1m of revenue	**53% lower CO_2 emissions p.a.[1]** corresponds to CO_2 emissions of 40 cars	**39% lower energy usage p.a.[1]** corresponds to energy usage of 90 people	**17% higher water usage p.a.[1]** corresponds to water usage of 4 people	**73% lower waste generation p.a.[1]** corresponds to waste generation of 217 people

1 CO_2 and other gases that are recalculated into CO_2 equivalent
Source: LGT Capital Partners, Refinitiv. Data as of 31 March 2024.
The average emission of a new car in Europe equals CO_2 equivalent of 2.13 metric tons per year for driving distance of 20,000 kilometres per year and 106.6 g/km CO_2 emission. The average electricity consumption in Europe is 1.671 megawatt hours per capita per year. The average water usage in Europe is 44.165 cubic meter per capita per year. The average amount of household waste in Europe is 0.513 metric tons per capita per year. Calculation basis of 2023 (GHG, water), 2022 (waste) and 2021 (energy).

4. Stewardship

A) PARTNERSHIP WITH STEWARDSHIP SPECIALIST

The Trustee has partnered with Morningstar Sustainalytics ("Sustainalytics") since December 2019, a leading independent ESG research provider and stewardship specialist to carry out focused engagements with companies from the Fund's public equity and corporate fixed income holdings. Previously, the Fund subscribed to three streams of engagement namely Global Standards Engagement, Material Risk Engagement and Thematic Engagements (Climate Change-Sustainable Forest and Finance theme).

In April 2024, the Fund subscribed to a new service, Engagement 360, to enhance the Fund's stewardship activities. Engagement 360 is Sustainalytics' most comprehensive offering, encompassing six 'meta themes' under the Thematic Stewardship Programme. The meta themes include Net Zero, Biodiversity and Natural Capital, Human Rights, Human Capital, Circularity, and Governance. Implementing Engagement 360 significantly broadens the reach of the Fund's engagement efforts. The meta themes give a clear focus on social and other important subjects in addition to climate change.

The Fund also has access to the ESG Voting Policy Overlay where Sustainalytics provides vote recommendations that align to widely accepted ESG principles, sustainability objectives, ongoing corporate engagements and ESG issues most important to investors.

Below are the engagement statistics at the end of June 2024 for the Fund's segregated public equity and bonds portfolio. Milestones are Sustainalytics' five-stage tracking of progress in achieving the engagement objective. The number of AGMs (Annual General Meetings) assessed represents the number of AGMs where voting recommendations were provided by Sustainalytics ESG Voting Policy Overlay. It is important to note that these statistics would be higher if passive equity holdings were included.

The engagement statistics can be broken down into categories of E, S and G as per the chart below.

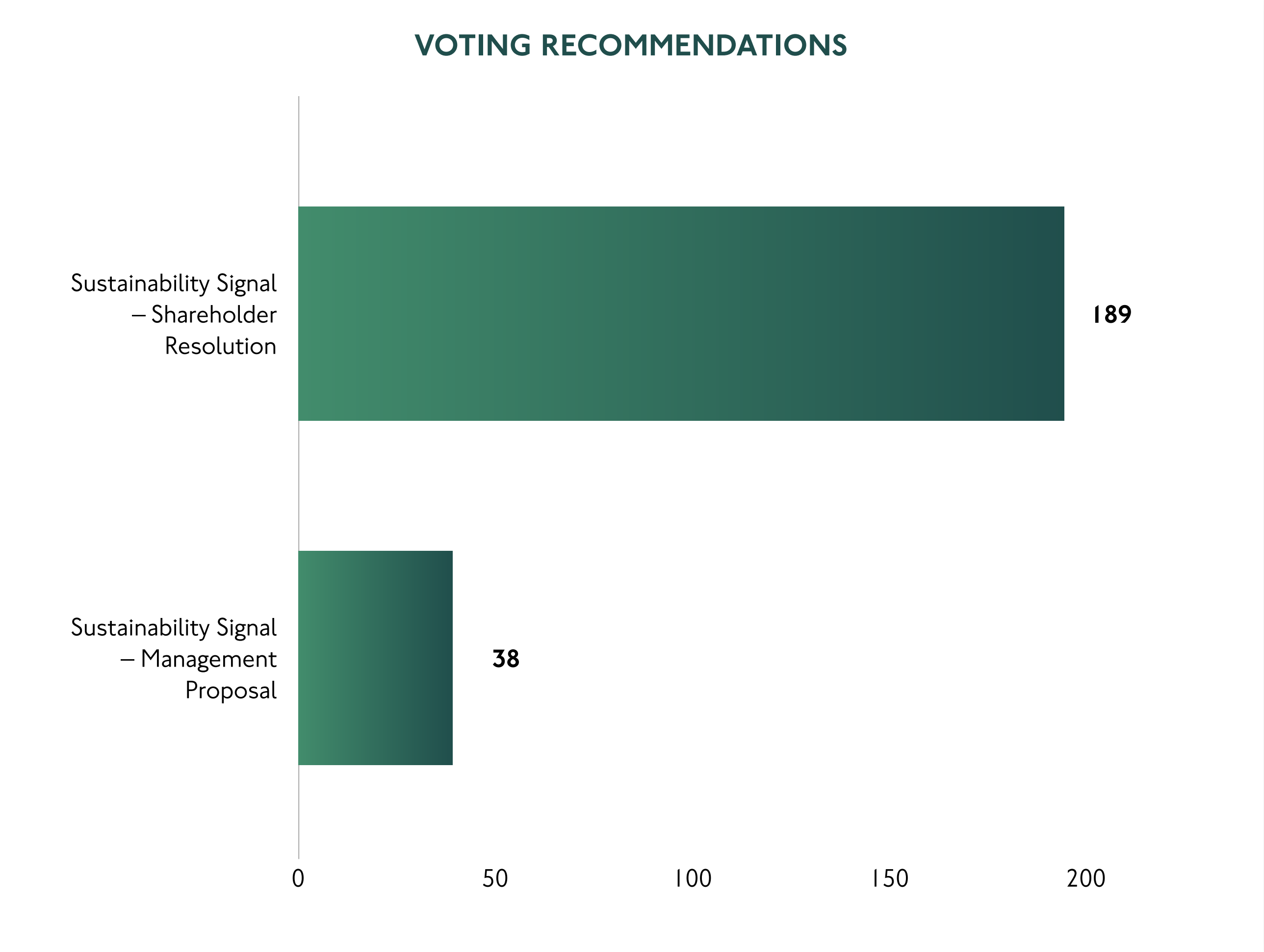
94
ENGAGED COMPANIES

132
TOTAL ENGAGEMENTS

58
MILESTONES ACHIEVED

73
AGMs ASSESSED

ESG VOTING POLICY OVERLAY



The ESG Voting Policy overlay is a framework used to generate voting recommendations based on three signals (Sustainability, Research and Engagement based signals). Since April 2024, Sustainalytics provided voting recommendations on 227 sustainability-linked resolutions, of which 38 were proposed by management and 189 were put forward by shareholders. Of these, Sustainalytics recommended a vote in support of 35 management-sponsored and 133 shareholder-sponsored sustainability resolutions.

Full information on annual voting statistics for all the Fund's equity mandates, as well as most significant votes including the voting outcomes for these, are highlighted in the Implementation Statement for the Statement of Investment Principles – which is included in page 21 of the Fund's annual report and accounts for the year ending 31 March 2024 and can be found **here**.

SCAN QR CODE TO VIEW ANNUAL VOTING STATISTICS IN THE IMPLEMENTATION STATEMENT

B) STEWARDSHIP THROUGH INVESTMENT MANAGERS

CORONATION FUND MANAGER (PUBLIC EQUITY INVESTMENT MANAGER)

ESG Case: In today's digital world, data is crucial for business operations, leading to a need to protect the digital rights of consumers, suppliers, employees, and stakeholders. Data privacy protects personal information, while cybersecurity prevents unauthorised access to systems and networks. Sensitive or personal data is vulnerable to data mismanagement or cybercrime. The high cost of cybercrime ($7.2 trillion in 2022, projected $10.5Tn by 2025) has pushed data security up the risk agendas of many companies.

Companies can face negative impacts from data breaches, including fines, litigation costs, reputational damage, and severe social consequences. Data privacy emerged as a primary concern when evaluating Coronation's exposure to global EM, particularly in the financially and technologically driven sectors, given their extensive use of personal information.

Engagement objective: To assess whether companies are appropriately managing the risks associated with data privacy breaches and cybersecurity incidents and to ensure these companies have effective risk management practices in place.

Engagement progress: Engagements with 11 companies so far have led to satisfactory responses from 10, with ongoing monitoring for improvements. Key findings highlight that breaches are unique and complex, requiring nuanced defences. Companies face challenges such as anticipating attacks, managing costs, and ensuring data privacy and cyber security extends to outsourced service providers. Regulatory environments vary and are evolving, making it essential for companies to stay updated. Effective risk management includes robust governance structures, dedicated leadership, comprehensive privacy policies, regular training, and external audits or certifications.

Conclusion: The engagement project has reinforced Coronation's commitment to ESG principles, particularly in the areas of governance and social impact of its investments and consequently lead to better risk management and long-term value creation.

NOMURA ASSET MANAGEMENT (PUBLIC EQUITY INVESTMENT MANAGER)

ESG case: Nomura recognises the improvement of **medical access in low and middle-income countries** as a critical social issue. In 2019, Nomura signed the Access to Medicine Index (ATMI), an international initiative managed by the Access to Medicine Foundation (ATMF), to address this challenge. This index provides detailed insights into how 20 of the world's leading pharmaceutical companies perform on ensuring people living in low- and middle-income countries have access to the medicines, vaccines and diagnostics they need. In 2022 8th ATMI index, Daiichi Sankyo was ranked in 17th place. Nomura was appointed as the lead investor for Daiichi Sankyo by ATMI and initiated engagement to enhance the company's evaluation on this index.

Engagement objective: Enhancement in the disclosure of key performance indicators (KPIs) related to improving the company's medical access policies.

Engagement progress: Nomura requested the company to quantify their social impact and to set future targets. The company acknowledged Nomura's suggestions and agreed to consider improving their disclosure methods. They also noted that certain company-specific factors, such as an ability to leverage sales networks of major global pharmaceutical partners for overseas sales, might not be fully considered in the ATMI evaluation. Nomura provided feedback on these unique factors to ATMF.

Daiichi Sankyo has begun disclosing the number of patients treated with their flagship cancer drug, Enhertu. They are also considering setting appropriate KPIs to further improve medical access through cost reductions. ATMF plans to conduct a periodic review of its evaluation in 2024, taking Nomura's feedback into account.

Conclusion: This case study highlights Nomura's proactive steps to address healthcare inequalities, showcasing their role as a lead investor in enhancing Daiichi Sankyo's performance on the Access to Medicine Index (ATMI). Nomura's commitment to active ownership is evident as they engage with the company to drive positive change whilst collaborating with external stakeholders like the ATMF. Their efforts to improve access to essential medicines can significantly impact public health in low and middle-income countries, demonstrating the potential of sustainable investments to achieve meaningful social outcomes beyond financial returns.

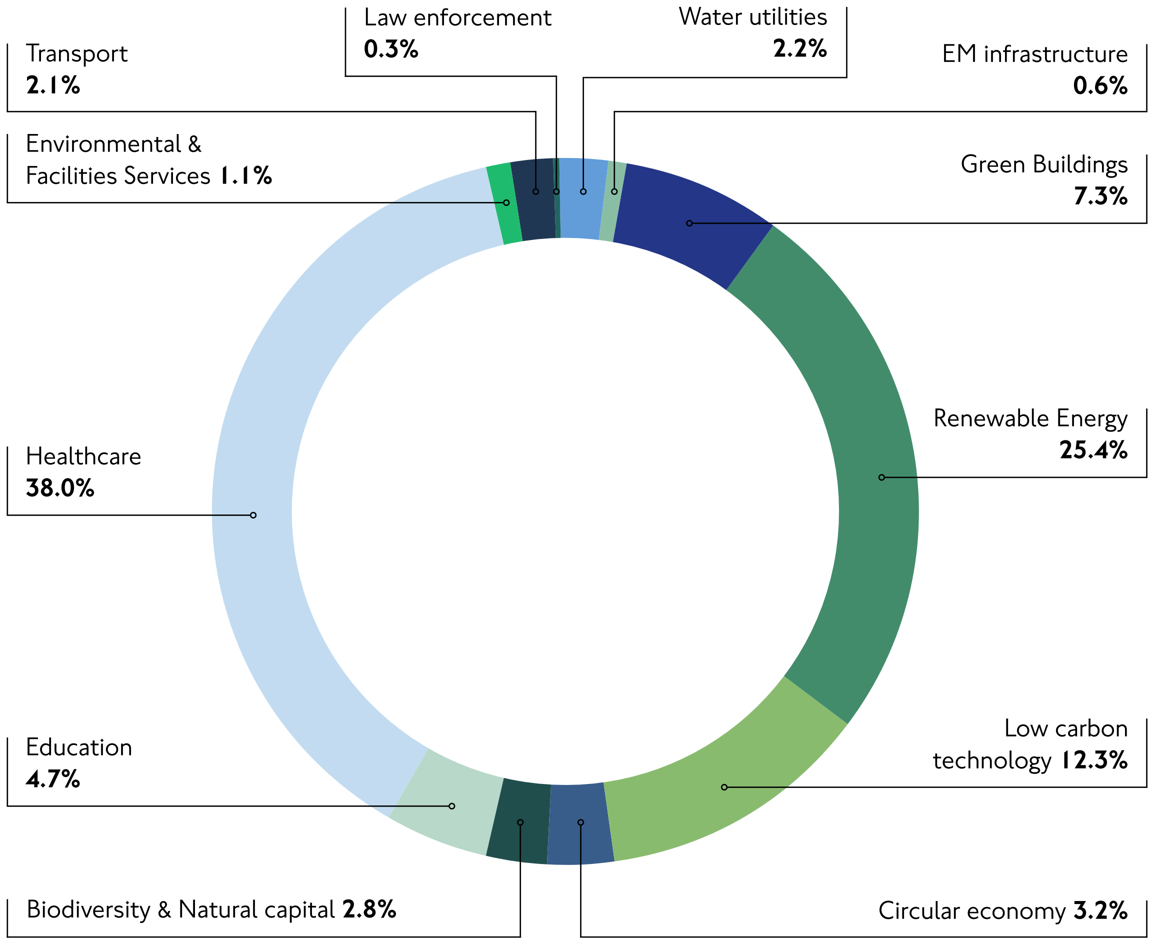
5. Sustainable Development Goals and Case Studies

LEADING THE WAY IN SUSTAINABLE INVESTMENTS

As of March 2024, the percentage of investments with an ESG tilt is 13.5% (£2.0billion). These investments are diversified across private markets (69%) and public markets (31%). Notably, Renewable Energy and Low Carbon Technology are clear leaders with a combined investment of approximately £755 million and a projected upward trend with a rich investment pipeline.

The ring chart on the right shows the exposure to different sectors within the Fund's ESG tilted allocation. These sectors have strong linkages to the UN's 17 Sustainable Development Goals (SDGs) which are a blueprint for global sustainability and prosperity. Each of the 17 goals represent an urgent call to action to address global issues that affect people and the planet now and into the future. They include challenges such as poverty, inequality, climate change, economic growth, peace, and hunger.

ESG TILTED INVESTMENTS – BREAKDOWN

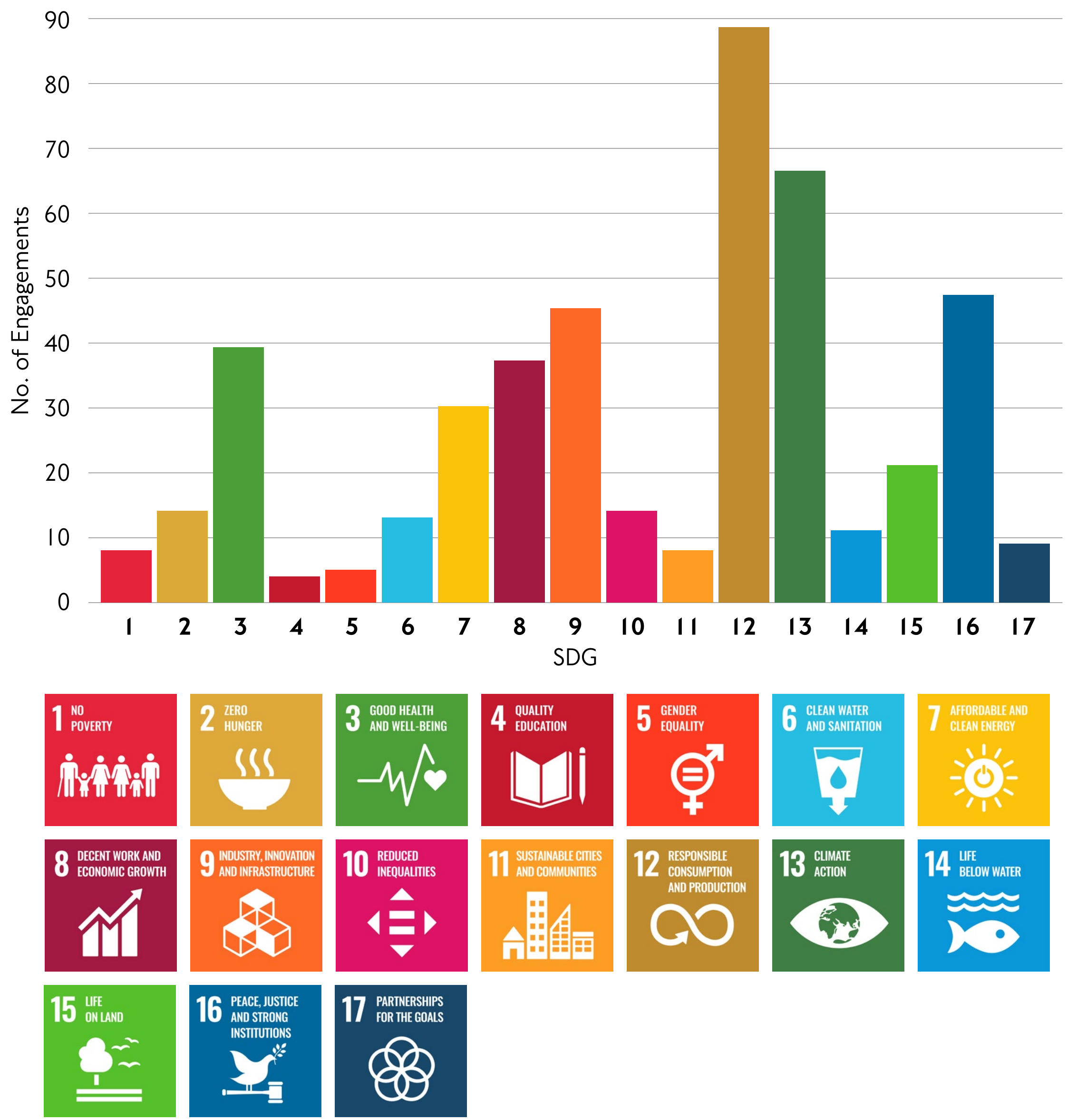


FOCUSED ENGAGEMENTS DRIVE PROGRESS ON SDGs

Sustainalytics conducts SDG-aligned proactive engagements that enable the Fund and fellow investors to align their interests in addressing specific systemic issues across the ESG spectrum. The chart illustrates the breakdown of engagements across the 17 SDGs. The top three areas of focus include:

- **Consumption & Production (88 engagements):** engagements with companies to promote sustainable business practices, including efficient resource management, waste reduction, and responsible consumption patterns. This focus resulted in 88 engagements within SDG #12.
- **Climate Change (66 engagements):** these engagements under SDG #13 reflect the Fund's commitment to climate action. This highlights efforts to reduce greenhouse gas emissions and support communities adapting to climate change. The Trustee is conscious of the importance of promoting not only a transition towards a net zero emissions economy and portfolio, but also encouraging a just transition, which is included in the engagements. This has become increasingly relevant in light of the recent cost of living crisis in the UK from rising energy prices.
- **Peace & Justice (47 engagements):** Engagements associated with SDG #16 (Peace, Justice and Strong Institutions) underscore the Fund's commitment to responsible and ethical practices within its investments.

ENGAGEMENT PER SUSTAINABLE DEVELOPMENT GOALS

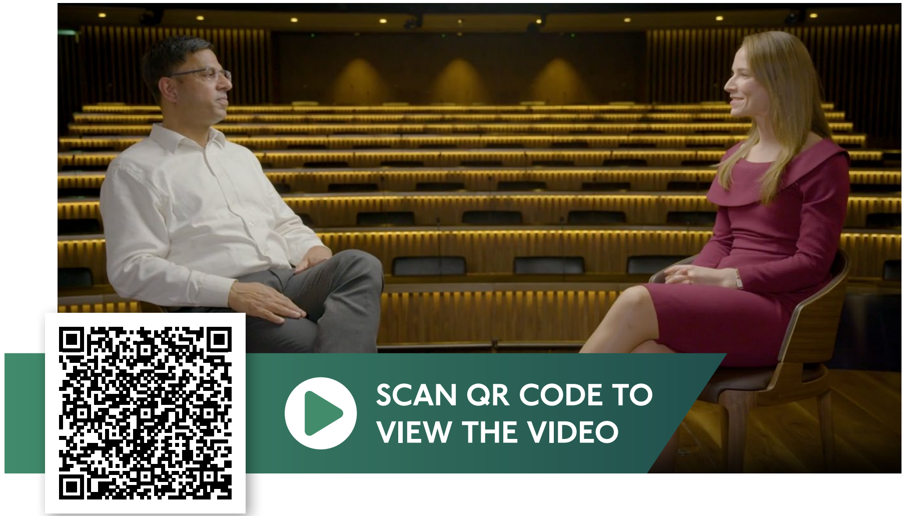


INVESTMENT CASE STUDIES

Investments which meet the Fund's return profile and strongly contribute to the Trustee's sustainability objectives

INTERVIEWS FROM THE INVESTMENT MANAGERS

This year the Fund invited two of its managers to present to readers the excellent sustainable investment work that has taken place within their mandates, in the form of recorded videos.



Goldman Sachs Asset Management (GSAM) – The Fund worked with GSAM to incorporate net zero guidelines into the fixed income mandate. The guidelines set forward-looking alignment targets while allowing investment in 'transitional' companies that demonstrate a credible path to net zero, with engagement being a key component. In the video **link**, the Fund's CIO Pensions Padmesh Shukla will interview the GSAM portfolio manager Sophia Ferguson and discuss how this has come to fruition.

IFM – it has managed the Fund's infrastructure debt mandate since 2014. Over the past decade, the Fund has instructed IFM to intentionally and significantly evolve the £190m mandate to address the climate challenge and take advantage of opportunities – from having 1/3 of the portfolio in conventional power and midstream oil& gas assets in 2015, to investing predominantly (over 90%) in green and sustainable assets today, while all midstream oil& gas assets will be phased out by 2025. In the video (**available here**), the Fund's portfolio manager David Cooper will speak alongside their sustainability specialist Adelaide Morphett. They will explain the critical role that infrastructure will play in the climate transition, how IFM manages climate risks, capture opportunities and applies these to the Fund's portfolio.

CAMPUS UTILITY SYSTEM (DISTRICT ENERGY) – APPALACHIAN STATE UNIVERSITY, USA | HARRISON STREET

SUSTAINABLE DEVELOPMENT OPPORTUNITY

In 2023, Appalachian State University ("App State"), an institution of the University of North Carolina system, entered a Public-Private Partnership ("PPP") with a joint venture between Harrison Street and Radnor Property Group to develop the initial phase of an Innovation District in Boone, North Carolina.

Harrison Street's investment spans over a 156-unit faculty/staff housing development, and a renewable, net zero district energy system ("DES"). The housing development incorporates cutting edge energy efficiency features while preserving affordability. The DES supports the University's transition to renewable energy and includes 90x – 800-foot geo-exchange wells for heating and cooling, and a microgrid consisting of 3 wind turbines and over 450 kW of on-site solar power to supply the district and thermal energy system.

The PPP uniquely combines different assets and utilizes multiple financing, contracting and ownership structures. Harrison Street worked with App State to creatively structure, finance, and transfer risk for each asset of the District.

DELTA FIBER | STONEPEAK

A leading owner and operator of fixed telecom infrastructure in the Netherlands, providing broadband, TV, telephone and mobile services to B2C and B2B customers under the brands DELTA and Caiway over a predominantly fiber network. DELTA Fiber is one of the fastest growing fiber companies in the Netherlands with more than 1,150 employees and over 1.5 million addresses throughout the Netherlands already connected to the DELTA Fiber network. DELTA Fiber's ambition is to provide as many households and companies as possible with access to fast internet and to grow to up to two million connections by 2025.

INVESTMENT OVERVIEW

Date	April 2022
Location	Europe (HQ in Schiedam, Netherlands)
Ownership	49.2% (including co-investment)
Status	Active, operating
Sector	Communications
Business Description	Fixed telecom infrastructure

STONEPEAK IMPACT

Set ambition to be net zero by 2040 and validated its near-term GHG emission targets though the **Science-Based Targets initiative (SBTi)**	**100% of CO_2 emissions** in own operations are compensated
Achieved 100% renewable energy use for the last three years (2023, 2022, 2021)	**~7% increase of women** in management positions (from 2021)
Employee NPS (Net Promoter Score) improved further from +29 in 2022 to +32 in 2023	**Established annual gender pay gap** assessments in 2022

KEY SUSTAINABILITY CONSIDERATIONS

Optimizing carbon footprint in direct operations and supply chains as the business continues to expand. In addition, given the disaggregated nature of the infrastructure, exploring the potential impact of physical climate risks on business operations

A focus on talent attraction and retention to support the company's growth

Increased importance of cybersecurity and customer privacy due to risks associated with collection and storage of user information

KEY INITIATIVES DELIVERED

Conducted double materiality assessment to shape and strengthen sustainability strategy and roadmap

Established $1.85 Bn sustainability-linked loan facility tied to the achievement of ESG goals – (1) achieving above industry employee engagement scores, (2) improving gender diversity, and (3) achieving net zero emissions across scope 1 and 2 GHG emissions

Linking key ESG priorities and resulting KPIs and targets to stakeholder value creation

Delta Fiber and Stonepeak engaged a third-party science-based expert to undertake physical risk assessments of Delta Fiber's assets in 2023

Providing employees with ongoing cybersecurity training, implemented ISO27001 certification and continuing to enhance security improvements to keep client information safe

Under Stonepeak's ownership, Delta Fiber enhanced its ESG strategy to focus on the three pillars of enabling a better digital life, taking responsibility towards society, and respecting the planet, and linked them to long-term sustainable value creation

Source: Delta Fiber Company Information (2021).

6. What's Next

The Fund will focus on several key areas to further advance its sustainability goals in the coming year:

- **Investment mandates:** conduct a review with equity managers to assess the feasibility and potential impact of integrating net zero guidelines on returns and risk profiles
- **Carbon data disclosures:** continue the project with managers in the alternative asset classes to improve data coverage and quality, including the reporting of avoided emissions for green assets
- **Asset allocation:** further deploy capital into ESG tilted sectors to reach the 15% target in 2025
- **Stewardship partnership:** deepen the partnership with Sustainalytics to optimise the new stewardship solution and improve the Fund's voting and engagement outcomes, incorporating biodiversity and social sustainability lenses in addition to climate change

7. Glossary

AMNT
Association of Member Nominated Trustees.

Climate Action 100+
An investor initiative to ensure the world's largest corporate GHG emitters take necessary action on climate change.

Carbon Intensity (Weighted Average Carbon Intensity)
Carbon intensity (or emission intensity) measures the carbon emissions per unit of output (expressed as CO_2e tonnes / $m Sales). Weighted average means each company's carbon intensity is adjusted by its weight in the Fund's total portfolio (as a percentage of the total market value.

CDP
formerly the Carbon Disclosure Project. The CDP is an international non-profit organisation that helps companies and cities disclose their environmental impact.

CO_2e
"Carbon dioxide equivalent" or "CO_2e" is a term for describing different GHG in a common unit. For any quantity and type of GHG, CO_2e signifies the amount of CO_2 which would have the equivalent global warming impact.

COP
The United Nations Climate Change Conference. COP stands for Conference of the Parties, and is attended by countries that signed the United Nations Framework Convention on Climate Change (UNFCCC) – a treaty agreed in 1994.

DB
Defined Benefits, a type of pension schemes in the UK.

ESG
Environmental, Social and Governance.

Fiduciary Duty
The legal duty of one party (the fiduciary) to act in the best interests of another (the principle). In the investment chain there are a number of these relationships including the duty that boards have to shareholders, the duty between trustees and beneficiaries and the duty between asset managers and their clients.

GHG
Greenhouse Gases.

Global Standards Engagement
Sustainalytics engages with companies that severely and systematically violate international standards, thus aim to resolve the incident, and to improve the company's future ESG performance and risk management to ensure no recurrence of such incidents.

IIGCC
The Institutional Investors Group on Climate Change (IIGCC) is a global membership organization for investors that focuses on climate change. The IIGCC's mission is to help the investment community make progress toward a net zero and resilient future by 2030.

Material Risk Engagement
Sustainalytics helps high-risk portfolio companies to better identify, understand and manage their material ESG issues.

Sustainalytics engages with companies that are assessed as severe or high risk by the ESG Risk Rating (Risk Rating score of 30 or higher). Engagement dialogues are closed once a company is assessed to have an ESG Risk Rating score of 28 or lower.

MSCI
MSCI is a global provider of equity, fixed income, hedge fund stock market indexes, and multi-asset portfolio analysis.

Paris Pledges
By joining the pledge, businesses, cities, civil society groups, investors, regions, trade unions and other signatories promised to ensure that the ambition set out by the Paris Agreement is met or exceeded to limit global temperature rise to less than 2 degrees Celsius.

Scope 1 Emissions
Direct emissions from owned or controlled sources.

Scope 2 Emissions
Indirect emissions from the generation of purchased energy.

Scope 3 Emissions
Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organisation (in this case, the Fund's investee companies), but that the organisation indirectly impacts in its value chain. Scope 3 emission sources include emissions both upstream and downstream of the organisation's activities, such as business travel, procurement, waste and water.

UN Sustainable Development Goals (SDGs)
The Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, climate change, environmental degradation, peace and justice.

Statement of Investment Principles (SIP)
Statement of Investment Principles sets out a pension scheme's governing body's investment strategy, including the investment objectives and investment policies they adopt.

Stewardship
A purposeful dialogue between shareholders and boards with the aim of ensuring a company's long-term strategy and day-to-day management is effective and aligned with shareholders' interest. Good stewardship should help protect and increase the value of investments

TCFD
TCFD stands for Task Force on Climate-related Financial Disclosures. The Financial Stability Board (FSB) created the TCFD in 2015 to develop recommendations for how companies should report information about climate change risks and opportunities.

Thematic Engagement (Climate Change-Sustainable Forest and Finance)
Launched in July 2021, this Engagement is intended to address climate risk and advocate for reductions in direct and indirect emissions in the context of global forest systems which targets companies throughout forestry-linked value chains to promote science-based emissions reduction strategies, transparent climate-related disclosure, and sustainable practices to mitigate impacts from climate change.

TPI
Transition Pathway Initiative. A global initiative that was created in 2017. The TPI's goal is to help investors make more informed decisions about companies' readiness to transition to a low-carbon economy. The TPI focuses on high-impact sectors and provides open access to analytical tools and downloadable reports.

PRI
The Principles for Responsible Investment (PRI) is a global network of financial institutions that work together to promote responsible investing. The PRI's goal is to help investors understand the implications of sustainability and incorporate environmental, social, and governance (ESG) factors into their investment decisions.

Voting rights
Equity investors typically enjoy rights to vote at annual and extraordinary general meetings (AGMs and EGMs). The resolutions on which shareholders vote will vary according to individual countries' legal frameworks. They may include voting on an individual director's appointment, remuneration or mergers and acquisition.

Please consider the environment before printing this report.

A 'PRINTER FRIENDLY' VERSION CAN BE FOUND HERE.