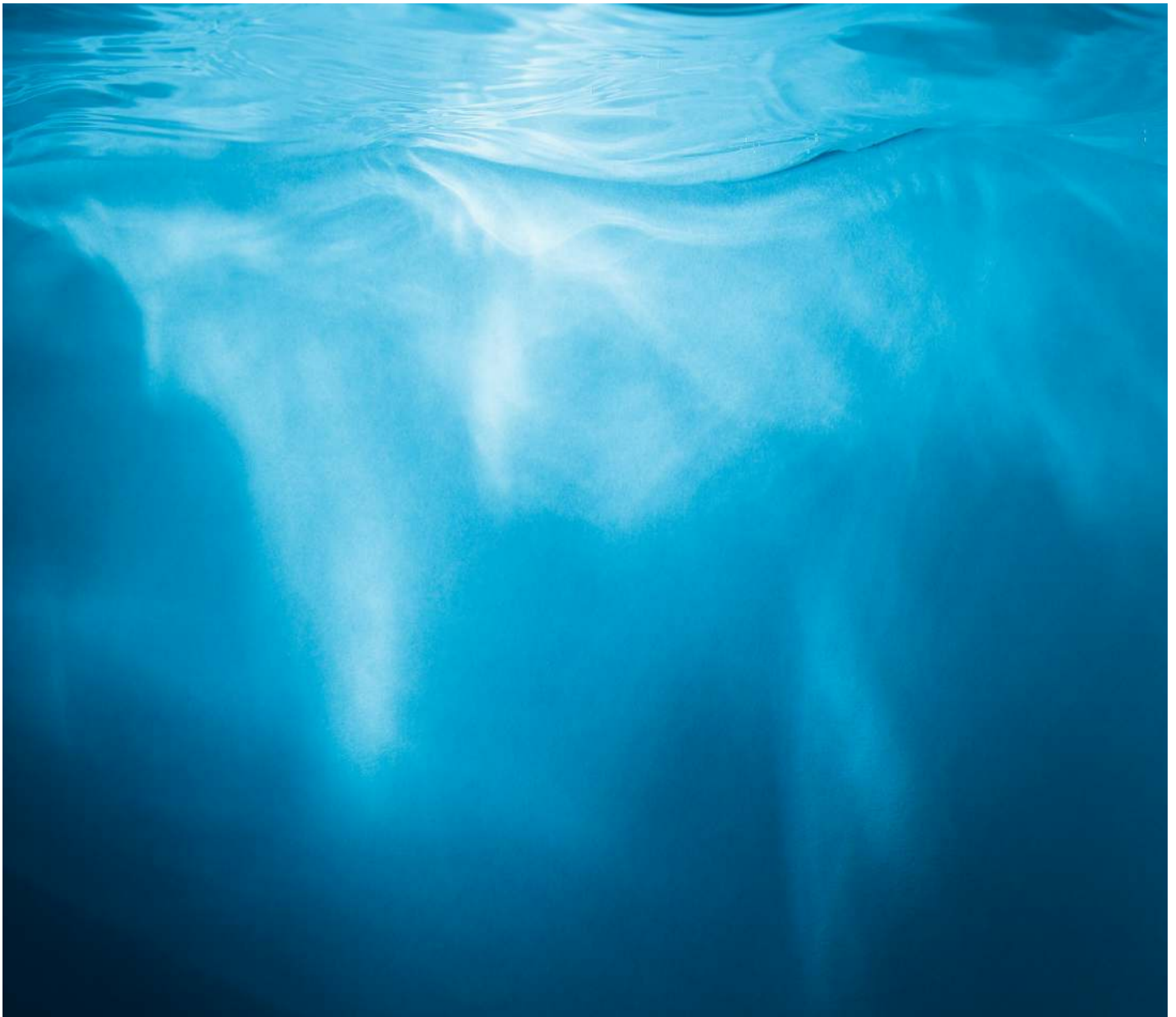




2024 **Net Zero Investment Consultants Initiative**

Covering reporting period 1st January 2023 - 31st December 2023



Contents

- 1 Foreward
- 2 Executive summary
- 3 Who we are and what net zero means to us
 - 3.1 Our services and clients
 - 3.2 The importance of Net Zero for our client base
 - 3.2 Net zero as a journey
 - 3.4 Our net zero principles
 - 3.5 Governance, roles & responsibilities
- 4 Integrating climate change and net zero into our investment process
 - 4.1 Advice to clients
 - 4.2 Data and analysis
 - 4.3 Investment manager selection
 - 4.4 Our discretionary services
 - 4.5 Results and case studies
- 5 Engagement
 - 5.1 With the investment industry
 - 5.2 With regulators & policy makers
- 6 Our own climate footprint
- 7 The future
- 8 Appendix 1:
NZICI commitment mapped to report
- 9 Footnotes

1

Foreward

As we wrote last year, climate change is with us today and the evidence of its impact continues to mount. The global economy faces significant hurdles as it grapples with its effects, from physical risks such as extreme weather events to transition risks associated with shifting regulation and technological advancements. For investors, the implications are far reaching, and we believe that to deliver long-term portfolio returns we must incorporate a broad and nuanced understanding of climate considerations into our investment decisions. This is why we are integrating climate and sustainability considerations across our entire research process rather than isolating them within a specialist team unconnected to financial decision making. This integration requires a common language and consistent standards which are reflected in the climate and net zero components of our new manager assessment framework, explained in section 4 of this report.

A growing minority of our clients have decided to go further than just managing the impact of climate on their portfolio and their opportunities. Nearly 20% of our clients by assets have included net zero objectives in their investment policy, which means they are also concerned with the impact of their portfolio on the climate. They want to contribute to the solution, thus mitigating long-term damage to all portfolios and the economy as a whole. This report addresses how we are supporting those clients and helping others seeking to join them, through authentic and realistic policy setting as well as return-focused implementation. We do not believe that clients have to choose between long-term portfolio returns and contributing to emissions reduction; rather, the two can be aligned. For the economy as whole, net zero is not a cost, it is a benefit; this is why more and more investors are realizing their interests lie in playing a positive sum game and working to improve the economic opportunity set. Ultimately, we are all in this together.

The interaction of climate change and investing is a complex field and one thing we have learned is that different approaches work for different investors. There is no 'right answer' to net zero and our role is to enable our clients to make their biggest contribution to climate outcomes while also meeting their long run return goals. This cannot happen without deep partnership and collaboration; our work benefits hugely from the challenges and questions our clients' bring us as well as their ambitions and vision.

Despite the seriousness of the challenges, I find this a tremendously exciting time to be an investor. I cannot recall a time when we saw more disruptive innovation across so many branches of physics, chemistry and biology combined with the urgency to commercialize and prove out paths to profitability. Transition to a low carbon future is offering a rich vein of new investment opportunities for those willing to look forward and imagine a different future. By working together with our clients and industry partners, we believe we can make a meaningful impact — while there is still time.



Kristen Tongberg
Head of Investment Strategy Office

Executive Summary

2.1 WHO WE ARE

Cambridge Associates is a global investment firm with \$568 billion of assets under advisement¹. We aim to help private clients, endowments and foundations, and pension plans implement and manage custom investment portfolios implemented through third party managers. Most of these assets represent advisory mandates where we work in partnership with clients to meet and exceed their investment goals. \$72 billion of these assets are discretionary mandates where we operate under individually negotiated Investment Management Agreements that specify our mandate including if and how net zero goals may be incorporated.

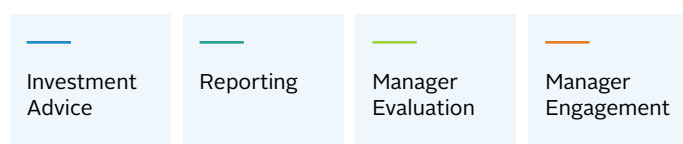
2.2 THE IMPORTANCE OF NET ZERO

We believe long horizon investors such as many of our clients will benefit from staying ahead of the curve and building climate considerations into both their risk management and their search for investment opportunities. We also consider climate change a huge systemic risk that no investor can diversify away. This is why a growing number of investors consider it in their interests to shift the whole economic opportunity set in a better direction by actively contributing to economy-wide net zero goals and integrating net zero into their investment approach.

2.3 NET ZERO AS A JOURNEY

Integrating net zero across our firm is a journey, not an event. The way the investment world understands climate has been steadily evolving, and as the industry has developed its thinking, we have been evolving our processes and capabilities. For us, net zero investing is fundamentally a forward-looking idea; it means understanding and influencing the path of real-world emissions over the next 30+ years without undermining our fiduciary duty to our clients. It doesn't mean reacting solely to backward-looking data such as portfolio emissions, even if they remain helpful for risk management. It is important to us to avoid getting bogged down in detail and process, so our approach is to prioritize pragmatic action over perfectionism and to focus where interested clients can make the biggest difference most easily.

We continued to make progress over 2023. Our commitment requires integrating net zero alignment into:



2.4 ADVICE TO CLIENTS

We recognise that to provide informed advice to our clients requires constant learning and development for our staff. Over 2023, we continued to roll out education and training on net zero so that teams across the globe could competently present to clients on net zero and strategic climate issues.

We also regularly share with our clients a number of research reports helping them to understand the importance of climate and net zero issues and how they might respond to these in their investment planning and implementation.

One of the most significant developments in 2023 was the introduction of a Manager Assessment Framework, which is described in detail in section 4.3.

2.5 OUR DISCRETIONARY BUSINESS

As an investment manager, our approach to Net Zero is determined by distinctive features of our business model: Firstly, almost all the portfolios we manage are bespoke, for single clients and where those clients set the investment policy. We cannot impose net zero goals, but we can educate clients on the potential approaches and benefits and enable them to implement should they make that decision. The second distinctive feature is that our clients' portfolios are almost entirely implemented through third-party investment managers and across a wide range of public and private asset classes. Our tools for net zero portfolio implementation are therefore primarily how we select manager mandates (asset class/strategy) and how we select managers to implement them. Our decision point is not whether to hold or not a certain security.

Given the bespoke nature of our client relationships, a net zero strategy may employ any of a range of different tools to achieve real world impact, and different tools will be most effective in different asset classes. At a high level we define a net zero portfolio as where a) the client has documented for our mandate the intention to align with net zero goals and b) the client has agreed a strategy which sets clear criteria for the way the portfolio is invested with a view to increasing the scale and pace of decarbonization in the world economy.

2.6 THE FUTURE

Nobody can say they have a perfect solution for net zero investing today; we are proud of how much we have achieved since 2021 but acknowledge that there is further to go. The introduction of our new Manager Assessment Framework will support efforts to engage systematically with investment managers, track progress over time, and build net zero aligned portfolios. We have described the Framework in deeper detail in section 4.3 – in which we also acknowledge that there is only so much we can achieve without universal adoption and standardization.

We continue to educate our clients and collaborate with industry groups to push the investment management industry harder in pursuit of future solutions.

3

Who we are & what net zero means to us

3.1 OUR SERVICES & CLIENTS

Cambridge Associates is a global investment firm that aims to help private clients, endowments and foundations, and pension plans implement and manage custom investment portfolios that generate outperformance so they can maximize their impact on the world². Today, we have specialized investment teams in private equity, hedge funds, real assets, credit, and co-investing and we serve more than 1000 clients worldwide³.

We are a hands-on investment partner, offering discretionary and non-discretionary portfolio management services to best support our clients' internal resources and expertise:

Outsourced CIO

For Investment Committees who want to fully delegate portfolio management, our discretionary OCIO model replicates the best practices of leading in-house investment offices. We are responsible for portfolio strategy, implementation, day-to-day management, and operations. The committee focuses its time on investment policy, spending, and other tasks where members can have the highest impact as fiduciaries.

Non-Discretionary Portfolio Management

For organizations with Investment Committees who need an investment team to provide daily portfolio oversight but wish to stay involved in portfolio management decisions, we provide directive recommendations on asset allocation, portfolio structure, and manager selection. The Committee approves portfolio changes.

Staff Extension Services

For organizations with significant investment staff, we augment their in-house resources with our extensive manager networks and deep portfolio construction and asset class expertise.

Alternative Asset Management

We have five decades of experience providing specialized investment advice, cultivating deep manager networks, and analyzing robust data in private equity, hedge funds, real assets, private credit, secondaries, and co-investments. We manage specific alternative asset class mandates for clients.

As with our total portfolio solutions, we can engage on either a discretionary or a directive non-discretionary basis.

Our assets under advisement are \$568 billion⁴, broken down by client type below:

By client type	Total
Endowments, Foundations, & Healthcare	\$257
Corporate & Insurance	\$66
Families & Family Foundations	\$133
Government & Union	\$112
Grand total	\$568

3.2 THE IMPORTANCE OF NET ZERO FOR OUR CLIENT BASE

As we wrote in our 2023 research report *From Policy to Implementation: A Net Zero Playbook for Investors*, the scientific community tells us that climate change is a threat to human well-being and that the window of opportunity to secure a livable and sustainable future for all is rapidly closing⁵. If societies fail to act, there may be catastrophic impacts on the global economy, asset values, and portfolio returns.

For us, acting can be summarized as reducing net greenhouse gas emissions to zero by around 2050, which would be consistent⁶ with the goals of the 2015 Paris agreement, i.e., "Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C"⁷. This in turn will require a large-scale transformation of the global economy, putting climate at the center of economic—and investment—outcomes for decades. We believe long horizon investors such as many of our clients will benefit from staying ahead of the curve and building climate considerations into both their risk management and their search for investment opportunities. Over 2023, we have been building and extending our capabilities in what we call 'climate competence' as a component of how we advise our clients, manage money and assess investment managers.

Climate competence is about smart investing to maximize risk-adjusted returns in a changing world and we consider it in the best interests of all long horizon investors. Climate competence, however, is a different idea to net zero investing and it is important to make this distinction clear. The former is about winning a zero-sum game of relative performance and takes the path of the climate, good or bad, as a given. But runaway climate change is a systemic risk that no investor, however smart, can diversify away. In that scenario, we are all going down with the ship. This is why a growing number of investors are adopting approaches that aim to support the goal of net zero by 2050. They consider it in their interests to play the positive sum game of shifting the whole economic opportunity set in a better direction.

This is particularly pertinent for long or indefinite horizon investors.

A conceptual challenge is that net zero is a collective goal, wherein the benefits are shared and can be realized only by acting alongside other market participants. Since carbon today permeates every sector of the economy and we all share the same planet, a diversified investor cannot achieve net zero 'by themselves'; this requires broad economic decarbonization. Net zero investing entails using the way a portfolio is managed to encourage and finance climate-positive change in the real world such as portfolio companies putting themselves on the path to net zero emissions. It is not axiomatic that this must be either positive or negative for relative returns, but we are clear that collective success will lead to substantial absolute financial and other benefits for all. This is an unfamiliar kind of goal in our industry and we are a global firm with clients across many jurisdictions with different regulatory expectations or where there is no investor consensus on portfolio climate action. For these reasons it is also clear to us that our clients need to make this decision themselves, with our help, and determine what net zero means to them and the most effective steps they can take. There is no one template we can, or have a right, to impose on them.

3.3 NET ZERO AS A JOURNEY

When we chose, in 2021, to become a signatory of the Net Zero Investment Consultants Initiative (NZICI) it was on the understanding that this represented the next stage of a journey towards net zero integration rather than an end point.

The way the investment world understands climate has been steadily evolving: The first large-scale manifestation was the movement to divest portfolios from fossil fuel companies. We now recognize that divestment is largely (though not entirely) a symbolic gesture and far from an adequate response by itself. The advent of widely available company GHG⁸ emissions data prompted a focus on portfolio-financed emissions and managing them down until this was in turn recognized as a blind alley from the perspective of real-world change. More recently, investor initiatives such as the Net Zero Asset Owners Initiative or the Paris Aligned Investors Initiative have articulated all-encompassing frameworks for net zero investing, but each acknowledge there are asset classes where methodologies are lacking and that what they are really providing are toolkits, not templates.

To adopt a net zero investment strategy is fundamentally a forward-looking idea; it means understanding and influencing the path of real-world emissions over the next 30+ years while not undermining our fiduciary duty to our clients. What it doesn't mean is reacting solely to backward looking data such as portfolio emissions, even if that remains helpful for risk management. As the investment

industry has developed its thinking, we have been evolving our processes and capabilities and will continue to do so.

3.4 OUR NET ZERO PRINCIPLES

One of the challenges in a field as complex and dynamic as net zero investing is the danger of getting bogged down in detail and process. Our approach is to prioritize pragmatic action over perfectionism and to focus on identifying where interested clients can make the biggest difference most easily. We also need to wrestle with the knotty real-world challenges such as how net zero investors should treat currently high emission sectors that need to transition to different business or technology models. Ignoring these is equivalent to sitting on the side-lines of net zero. To help us evaluate net zero progress in a pragmatic and flexible way through our organization, we devised a set of principles to guide us, including:

- Leverage existing frameworks
- Drive long-term returns
- Prioritize real-world emissions reductions
- Target portfolio transparency
- Embrace flexibility
- Lead with a core approach, which clients can then accept, customize, or reject
- Consider fossil fuel assets carefully
- Engage with the hard questions
- Focus where it matters

3.5 GOVERNANCE ROLES & RESPONSIBILITIES

Following on from our net zero commitments and the formation of NZICI, Cambridge Associates appointed Simon Hallett, an experienced investor and Partner in the firm as its first 'Head of Climate Strategy' (HCS), a role intended to coordinate delivery of the firm's commitment by integrating climate considerations throughout our investment work and designing a meaningful net zero approach our clients can choose without sacrificing return goals. To ensure diversity of thinking and foster buy-in across the firm, we simultaneously created a Net Zero Think Tank, chaired by the HCS and consisting of senior investment colleagues representing different asset classes and client groups. The Think Tank's role is to develop Cambridge Associates' approach to a) meeting the NZICI commitment and b) communicating key messages to colleagues, clients, and prospects. The Think Tank reviews and approves strategic proposals before escalating them as necessary for decision.

Integrating climate change & net zero into our investment process

4.1 ADVICE TO CLIENTS

Our first NZICI commitment is to integrate net zero thinking across our investment services. Our net zero journey didn't begin with NZICI, however. In 2015, we published our first research report distributed to all clients entitled *Risks and Opportunities from the Changing Climate: Playbook for the Truly Long-Term Investor*. This was followed in 2019 by *A Summary of Climate Change Science for Investors* and then in July 2021 by *Investing for a Net Zero World*. Nevertheless, following our co-founding of NZICI in September 2021, we broadened and accelerated our work. Given our business model already described, where it is ultimately our clients' choice of whether and in what way to adopt net zero goals, education and enabling are the prime tools we can employ.

Below, we provide an update for each area of focus over 2023:

Investment Advice

- Developed standard client presentations on net zero and climate.
- Expanding tools available to investment teams to measure emissions and climate risk.

Reporting

- Upgrading CA systems to more easily measure and report net zero alignment.

Manager Evaluation

- Developed new ESG-DEI Manager Assessment Framework which includes climate competence and net zero assessment.
- Created accompanying videos, resources, and guidance documents for researchers to apply the new framework.

Manager Engagement

- Upgraded internal systems to more easily and systematically track CA's engagement activity and outcomes with managers.
- Created internal engagement challenge to further motivate Researchers to engage across ESG, DEI, and NZ topics.
- Released [Strategic Investor Engagement: Driving Stewardship for a Net-Zero Future](#) in Q4 2023.

Over 2023, we published the following thematic research papers to help support our clients in navigating Net Zero and associated ESG considerations:

- [From Policy to Implementation: A Net Zero Playbook for Investors](#)
- [Climate Solutions Investing: Your Toolbox for Building a Diversified Investment Portfolio](#)
- [Climate Tech's Evolution: The Maturation to a Competitive, Returns-Focused Thematic Investment Sector](#)
- [A Social & Environmental Equity Investing Framework for Better Real-World Outcomes](#)
- [Is Now a Good Time to Invest in the Energy Transition?](#)
- [Strategic Investor Engagement: Driving Stewardship for a Net Zero Future](#)
- [2024 Outlook: Sustainability & Impact](#)

Advice to clients case study 1. Fossil fuel stewardship

During ongoing portfolio monitoring for a client with a fossil fuel exclusion policy, a CA Client Team (Client Team) highlighted a large, underlying position in a North American Oil and Gas ETF within one of the client's legacy⁹ public equities funds.

Where exclusions were not possible, the client's policy required appropriate company voting and stewardship on climate topics. In this case, the ETF format constrained the manager's ability to exercise voting or stewardship practices. The Client Team and the client jointly engaged the manager over several meetings, e-mails, and an engagement letter, to communicate the client's climate stewardship expectations.

The manager was open to feedback that engaging with oil and gas companies on climate topics was important for clients. They informally agreed to hold future oil and gas positions for the strategy directly through stocks, which could be covered by the manager's stewardship and voting practices.

Advice to clients case study 2. Investigating high-emitting positions

A CA Client Team reached out to all 13 managers in a client's hedge fund portfolio for data to support creating the portfolio's annual carbon footprint. The team highlighted the client's most carbon intensive holdings at that point in time, and engaged directly with a manager whose holdings showed a significant increase in emissions from the prior year. The Client Team aimed to re-emphasise the client's net zero strategy and evaluate whether the specific positions responsible for the higher emissions were inconsistent with the client's strategy. The Client Team gained comfort with the manager's explanation that the positions had plans to reduce their emissions in place. The

Client Team will continue monitoring the portfolio and investigating areas of potential misalignment.

Advice to clients case study 3. Measurement & investor reporting

Prior to making a client commitment to a Private Equity fund, a CA Client team sought to gain more conviction about the manager's approach to sustainability. The team asked about the manager's plans to set net zero targets, requested additional detail about the manager's third party ESG due diligence, and pressed the manager for specific examples of supporting ESG improvements across portfolio companies. The Client Team identified ESG and Climate measurement and reporting as areas for improvement, and shared data provider recommendations to support the manager. The manager agreed to implement ESG and Climate measurement for the fund by the end of 2026, and to report data to investors by the end of 2027, reflecting a combined, consistent effort made by the client, the Client Team, and other LPs who led similar discussions with the manager.

Advice to clients case study 4. Enabling climate stewardship

A CA Client Team conducted a sustainability review of a client's private investment portfolio to highlight active areas for improvement that the client could use for their own engagement activities. The review focused on the client's stewardship priorities of climate and DEI topics, assessing topics such as managers' climate reporting, their approach to net zero alignment, and their approach to diversity. The review highlighted climate reporting, DEI policies, and integrating DEI in the investment process as areas for improvement across the managers, which supported the client to have richer engagement dialogue with its managers in the months following the review.

4.2 DATA AND ANALYSIS

We gather climate-related data metrics for two reasons. Firstly, it enables clients to track climate characteristics such as portfolio alignment or emissions. Secondly, it helps identify and quantify climate-related risks and opportunities present in portfolios. Once quantified, investors can make decisions that maximize opportunities and manage risks. Climate-related benchmarks can be established, and targets can be set. Metrics are calculated at a whole-portfolio level to be tracked over time, but also at a fund-level to identify risk hotspots and to inform engagements with managers. Using either actual or proxy data, climate-related metrics that are quantified for client portfolios include:

- Absolute carbon emissions (tCO₂e),
- Relative carbon emissions metrics including carbon intensity, weighted average carbon intensity, and tCO₂e/\$M Invested,

- Portfolio exposure to companies with science-based targets (SBTs),
- Portfolio exposure to 'green revenues', referring to areas such as alternative energy, energy efficiency, and sustainable agriculture.
- Exposure to managers with a specific (>50%) and intentional focus on climate solutions investments.

These metrics represent both a snapshot 'point-in-time' assessment (carbon footprinting metrics and green revenues), and an assessment of a portfolio's future trajectory (SBTs). Cambridge Associates use two main data sources for climate-related information. The first is to assess data provided by fund managers. The second is the use of an external data provider, currently MSCI. The firm has exposure to a broad range of asset classes across public and private securities with varied degrees of data availability. In public markets such as equity and credit, widespread security level data is available, albeit of varying quality, that can be accessed through managers or through data platforms such as MSCI. In private markets, very few companies currently report climate data and, where they do, it is not centrally available. To assess quantitative climate characteristics of private investment programs, we use public market proxies at the sector level. For example, we assume that a company's emissions characteristics are equivalent to the average of public companies in the same GICS sector. There is no equivalent way of proxying alignment data, however. We supplement publicly available quantitative data with qualitative information assessed during our due diligence process or acquired via an annual survey of managers.

4.3 INVESTMENT MANAGER SELECTION

We see the need to provide our clients with consistent, transparent and rigorous evaluation of financially material sustainability considerations in investment strategies. In 2023, we rolled out a Manager Assessment Framework (MAF) that required a wholesale rebuilding and expansion of our approach.

Assessment Framework

This framework was finalised over Summer 2023, with training across our Research groups beginning in Autumn 2023 and implementation beginning in Spring 2024, with coverage of the majority of strategies targeted by end 2024. Integrating sustainability risks and opportunities into our investment process is necessarily an ongoing task, and this new research framework should be seen as one component of a process of continuous improvement and raising standards.

For examples, with regards to Climate Competence and Net Zero Alignment, we took the opportunity to ensure that our framework incorporated industry-leading guidance from the Paris Aligned Investment Initiative's Net Zero Investor Framework (NZIF) and the Supplementary Guidance

on Target Setting, as well as the Institutional Limited Partners Association's ESG Assessment Framework. Our climate assessment framework is effectively two separate modules. The first assesses how effectively an investment manager integrates climate risks and opportunities into the firm's policies and governance, communications and transparency, investment process, and investment outcomes and portfolio construction. These are aggregated into a five-level integration assessment, from 'none' to 'very advanced'.

The second module is an assessment of net zero alignment; its goal is to indicate how effective a manager might be as a component of a portfolio seeking to align with net zero, acknowledging that different managers or asset classes may play different roles. We take NZIF's approach of placing portfolio companies on a "maturity scale" of how they are aligning with net zero goals and adapts it to the practice of asset manager due diligence. The outputs are expressed in language (aligned, aligning etc.) that matches the scale proposed in the NZIF. Investment in climate solutions is incorporated flexibly, according to its importance to the strategy; for a manager where financing solutions is the primary role, this will be given higher relative importance in the assessment than for one seeking broad market coverage.

Our approach allows for some flexibility in certain asset classes (e.g., risk managed strategies and other diversifiers) where there is no existing industry framework for assessing net zero alignment. The expectation is that we will incorporate these asset classes once industry guidance becomes available. This dataset will support efforts to engage systematically with investment managers, track progress over time, and build net zero aligned portfolios.

Engagement Priorities

Engaging with asset managers is one of the key stewardship activities CA undertakes to effect positive change and achieve the best outcomes for clients. Managers are also the counterparty with which we hold the greatest potential scope for influence. We view our relationship with asset managers as a long-term partnership, and we seek to continually have constructive dialogue with them to explore ways to better meet clients' evolving needs.

Recognising the need for continuous improvement, each assessment will formalize CA's engagement agenda and will include priority topics for engagement over the course of the relationship with the manager. Some topics may be addressed over the short term (less than 12 months), while some topics may be priorities over the medium term (by the next fundraising cycle if a private investment fund), or over the long-term (beyond a fundraising cycle). Discretion is given to the Researcher to determine the best pathway and timeline for seeking optimal outcomes. We place an emphasis on disclosure and accountability, materiality, tailoring engagements per manager, and taking a constructive and long-term approach. CA especially focuses

on topics of Governance, Climate Risk and the Transition to Net Zero, and Diversity, Equity and Inclusion.

Manager engagement case study 1. Climate reporting & processes

CA engaged with manager investing in small-cap buyouts, who was early in their ESG and climate journey, with limited ESG integration in its investment processes. Over meetings and e-mail correspondence, CA discussed ESG in deal processes, ESG reporting, and Climate risk integration with the manager, and sought clarifications from them about investments with potentially controversial elements. CA shared ESG guidelines and best practices with the manager, including for client reporting as well as tools for assessing climate risk and decarbonizing investments. CA also provided input about current market standards held by European clients. The manager was open to considering the materials and recognized their need to improve sustainability practices and reporting at the firm. They stated they would consider annual ESG and DEI reporting, and participation in the ESG Data Convergence Initiative following their fundraising period. The manager received CA feedback positively, making firm-level and portfolio-level ESG and emissions reporting available to LPs upon request. CA will monitor the manager's progress along these dimensions.

Manager engagement case study 2. Emissions disclosures

CA engaged with a value-oriented, Asia-based manager investing in public equities around ESG disclosures and transparency. While CA has engaged the manager over a couple of years, discussions in March 2023 focused on holdings-level carbon emissions disclosures. Initially, the manager pushed back, stating they did not wish to advantage CA's investors over others by sharing this data, while they also did not want to publicly share their list of holdings. CA clarified that emissions data should be provided to all of the manager's investors and explained that clients needed this data to complete their own emissions reports. As a result, the manager set out to publish ESG disclosures by the end of the year. In January 2024, the manager made its first ESG report for investors available in their investor portal. The report details the firm's ESG framework and various disclosures, including the portfolio's total carbon emissions and carbon intensity per dollar of AUM and revenue for the two prior years.

4.4 OUR DISCRETIONARY SERVICES

Aligning with the Net Zero Asset Managers Initiative (NZAMI)

Clause 5 of our NZICI commitment says that in respect of our discretionary services we will align with the Net Zero Asset Manager Initiative as soon as practically possible and within two years of making the commitment. Cambridge Associates is not a NZAMI signatory, though there is

substantial overlap between its commitments and those of NZICI discussed earlier in this document. We understand aligning with NZAMI to mean we will set out targets using the NZAMI framework and hold ourselves accountable with annual public reporting. Below we set out our targets as well as the reasoning behind them.

Introduction

Net zero is a collective global goal that spans all countries and industries. No investor can achieve net zero ‘by themselves’, and neither can investors as a group achieve this outcome without contributions from supportive policy and regulation, science, technology, corporations, or behavior of consumers. Our role as investment managers is to help clients who wish to adopt a net zero approach determine the most effective actions we can take on their behalf to increase the pace and scale of decarbonization in the real economy, and then put those into practice in the most efficient way while meeting their respective risk and return requirements. As an investment manager, our approach to Net Zero is determined by distinctive features of our business model:

Firstly, almost all the portfolios we manage are for single clients: the investment guidelines of each portfolio — including NZ Commitments— are governed by a bespoke investment management agreement (IMA) negotiated with the client. We therefore cannot impose net zero goals, but we can educate clients on the potential approaches and benefits and enable them to implement should they make that decision. Given the bespoke nature of our client relationships, a net zero strategy may employ any of a range of different tools to achieve real world impact, and different tools will be most effective in different asset classes. Our clients have different beliefs, starting points, capabilities, and flexibility. Some clients have broadly diversified asset allocations while others are limited to a single asset class. So even if a decision to adopt Net Zero is taken, the approach with each client is likely to differ.

The second distinctive feature is that our clients’ portfolios are almost entirely implemented through third-party investment managers and across a wide range of public and private asset classes. This means we delegate the appraisal and selection of individual securities. Our tools for net zero portfolio implementation are therefore primarily how we select manager mandates (asset class/strategy) and how we select managers to implement them. Our decision point is not whether to hold or not a certain security.

What we mean by a net zero portfolio

At a high level this means a portfolio where a) the client has documented for our mandate the intention to align with net zero goals (defined as net zero emissions by 2050 with appropriate¹⁰ interim targets) and b) the client has agreed a strategy which sets clear criteria for the way the portfolio is invested with a view to increasing the scale and pace of

decarbonization in the world economy. We can employ a range of tools to support this goal, including:

- Investing with managers who use proxy voting and engagement to encourage portfolio companies to adopt science-based targets and credible transition plans (climate alignment).
- Investing with managers who use net zero alignment as a material component of asset selection within their given sector.
- Investing in mandates focused on providing capital to climate solutions or support low carbon transition in less developed countries.
- Seeding new products or strategies that better support any of the above.
- Excluding or minimizing investments that rely on continued fossil fuel dependence or that perpetuate deforestation.

Our NZAMI framework targets

The proportion of assets we initially assess to be managed in line with net zero, as described above and below is 2.9% of AUM as of June 2024 (see 4.5 for data methodology) and we anticipate this will increase to 15% by March 2028, acknowledging that this is not within our legal discretion but an outcome we hope to reach or surpass as clients increasingly choose to adopt net zero approaches. We already have a potential ‘pipeline’ of a further 5% of AUM that have a stated net zero ambition but without full target setting and strategy. Below indicates the default target setting framework we use for individual client portfolios though in practice these may vary somewhat between clients for reasons detailed above.

Baseline	2019 is the preferred base date for emissions and climate solutions comparisons but individual portfolios may differ according to availability, recency of relationship.
Targets	2025 - 70% of portfolio emissions from in-scope ¹¹ assets are from companies/assets aligned/aligning with net zero or held by managers whose voting and engagement policies support alignment. Rising to 90% in 2030. 2030 - Allocation to climate solutions either double from the base date or reach 10% of in-scope assets. 2030 - Portfolio decarbonization milestone: -50% emissions decline by 2030 from a 2019 base, net zero by 2050. Preferred measure tons CO2e per \$ AUM.
GHG scopes included	Scope 1 and 2 emissions currently included and Scope 3 for material sectors, where data is available. We will look to include Scope 3 emissions in our reporting and targets when data coverage and quality improve sufficiently.

Methodology	We take the Net Zero Investment Framework as a benchmark of good practice for target setting and adapt as necessary for our business model and client needs. SBTi and TPI data are used to define corporate alignment, but more development is needed in this area.
Scenarios	IPCC Special Report on 1.5°C, P1/P2/P3 pathways interpreted as requiring 50% GHG reduction by 2030 from a 2019 base.
Fossil fuels	Portfolio's designated as net zero will have no manager strategies wholly or largely focused on upstream oil, gas or coal production & exploration. No strategies with more than de minimis exposure to thermal coal production or coal fired power generation. Natural run-off allowed for legacy assets.
Additional observations	Our approach to net zero focuses on contributing to real world decarbonization with the levers we and our clients directly control. Financed emissions are not directly in our control and are a backward-looking metric. We would not rebalance a portfolio solely to meet an emissions level in a specific year since this may undermine both real world climate goals, such as funding renewables, as well as a client's financial objectives.

4.5 RESULTS AND CASE STUDIES

We have been tracking a series of data points, consistent with our NZICI reporting obligations, that help us understand the progress we and our clients are making. To ensure as much of an apples-to-apples comparison as possible, we have defined 'in-scope' clients where we have substantially engaged relationships, either discretionary or advisory, aiming to capture results from calendar 2023¹². Out of the 680 in-scope client relationships, we found the following:

- While all clients received our Net Zero Playbook for Investors research report, 131 (\$132B/23% of AuA) additionally benefitted from specific education in form of either at least one meeting with key client personnel where net zero was a specific agenda item, or in form of a tailored report to them.
- 169 (\$133B/24% of AuA) had access to actual or proxy baseline carbon emissions data on their portfolio, for asset classes where it is available.
- 50 (\$104B/19% of AuA) clients had decided to incorporate a net zero ambition of some form into their policy while 21 (\$72B/12% of AuA) clients had gone beyond this to set a specific net zero target for 2050 or sooner along with interim target(s) and the intention to be aligned with the goals of the Paris Agreement.
- 122 (\$123B/21% AuA) clients have agreed a formal goal to increase exposure to 'climate solutions' however defined.

Year on year comparison of commitment metrics:

	2022	2023
Clients with a Net Zero Agenda or Tailored Report (AuA)	20%	23%
Clients with Access to Baseline Carbon Emissions Data on their Portfolio (AuA)	20%	24%
Clients with Net Zero incorporated in their Investment Policy (AuA)	16%	19%
Clients with a Net Zero Target of 2050 or Sooner (AuA)	8%	12%
Clients with a Formal Goal to Increase Exposure to Climate Solutions (AuA)	23%	21%

Client Engagement Case Studies

UK Foundation

A UK Foundation with assets more than £1bn wanted to make a net zero commitment, in the form of net zero by 2040. We discussed with them the different channels of investor influence and what would be meaningful vs presentational in the context of the practical strategies available to them. As a result, they agreed a holistic net zero strategy with the aim of maximizing their impact on real world emissions reduction as well as supporting biodiversity outcomes, not just meeting a portfolio emissions target. This strategy includes elements of manager engagement as well as capital allocation, including a target for managers primarily and intentionally focused on climate solutions. Long term targets are complemented by actionable and specific short- and medium-term targets.

US Foundation

A US Foundation with assets more than \$5bn wished to adopt a strong and credible climate stance but struggled to relate publicly available net zero frameworks with the work of a busy investment office and an already carefully crafted investment portfolio. We showed them how defining a set of principles would help them prioritize manager engagement where it would be most impactful and highest likelihood of success. We coached them tailored engagement with specific high priority managers and built with them a template for collaborative manager conversations aimed at achieving positive change while reinforcing their relationships with valued long-term partners. In capital allocation we helped them landscape the climate solutions opportunity set and define near term actionable goals. The net result ensured that the investment office gained confidence in, and ownership of, a plan that would have meaningful impact without compromising their goal of excellent financial performance.

Engagement

5.1 WITH THE INVESTMENT INDUSTRY

Cambridge Associates is member and signatory to a number of initiatives and field building organizations that enable us to do this work more effectively at scale. Our participation ranges from founding members, board and steering committee involvement, working group members, signatories, and event speakers. A few examples of these organizations include Institutional Investors Group on Climate Change (IIGCC), Initiative Climate International (iCI), Glasgow Financial Alliance for Net Zero (GFANZ), Confluence Philanthropy, Mission Investors Exchange, Intentional Endowments Network (IEN), UK Stewardship Code, ILPA ESG and DEI work, Investment Consultants Sustainability Working Group (ICSWG – US and UK), Gender Smart, Interfaith Center on Corporate Responsibility (ICCR), ESG Data Convergence Initiative (EDCI) amongst others. We have long been engaged within the investment industry to improve practices and transparency around sustainability. Our commitment to net zero has enabled us to continue that work and give more dedicated energy toward net zero specific engagement. As examples, in our work with the IIGCC we hosted a series of events in 2023 including a roundtable for family office and institutional investors, which explored practical approaches to net zero target setting as well as levers for real world change that work for those utilising externally managed investments.

In March 2023, we also hosted our first Impact Investing Forum (IIF) in London, which brought together industry thought leaders and investors for interactive sessions and themes related to sustainable and impact investing. The forum included a client panel showcasing their impact journeys, as well as sessions that focused on active shareholder engagement, the energy transition, and biodiversity. We engaged in discussions on what we, as investors and fiduciaries, can do with the opportunities and risks ahead.

5.2 WITH REGULATORS & POLICY MAKERS

Although policy advocacy is not a core component of our work as firm, we recognize net zero is a collective goal, wherein the benefits can be realized only by acting alongside other stakeholders. We have had the opportunity to engage with policymakers in several forms over the last few years and find these engagements to be most effective when we raise our voice alongside our peers. Specifically, we have found the Investment Consultants Sustainability Working Groups, both in the US and UK, thoughtful partners in this work.

Over 2023, we also collaborated closely with the IIGCC, participating in over ten roundtables, seminars or other

events, and hosting two IIGCC workshops at our London office. The IIGCC is heavily focused on lobbying and engagement in the industry, and we have fed into their data and events to help create tools for more effective investor stewardship.

We aim to promote greater transparency on climate in all our advocacy work and provide constructive feedback where most applicable to our work with clients.

6

Our own climate footprint

In 2021 we set a goal to reduce our organizational carbon footprint 33% by 2025 from its 2019 baseline, from 7.23 tCO₂ per employee to 4.85tCO₂ per employee. Since most of our emissions come from air travel combined with space heating/cooling these are the focus of our attention. New travel policies have been instituted which combined with increased hybrid/remote working will reduce our travel related emissions.

In 2023, we moved our Boston headquarters to the Winthrop Center, the largest 'Passive House' office building in the world, which uses 65% less energy than the average commercial space in Boston.

A summary of our 2023 carbon footprint can be found below:

Emissions type	Summary definition	CA's 2023 emissions	Ways to reduce
Scope 1 (direct)	From operations owned or controlled by CA.	128 tCO ₂ e	Limited progress to be made.
Scope 2 (indirect)	From generation of electricity we purchase and use.	676 tCO ₂ e	Switching offices to renewable or lower carbon intensity electricity providers.
Scope 3 (indirect)	From our value chain, both upstream and downstream.	13,890 tCO ₂ e	Engage suppliers to adopt Science Based Targets, track them, switch where necessary. Continue to reduce emissions from flights.

A change of data vendor has enabled us to increase the quality of data and increase the scope of its coverage, but this data only became available in the fourth quarter of 2024. This makes comparison with our previous baseline impossible so we are in process of redefining our targets based on a new baseline.

The future

We have several important ongoing projects that will continue to broaden the scope and impact of our net zero work with clients. Principal among these is the rollout and calibration of the upgraded manager assessment framework described in 4.3.

With approximately 160 manager research professionals¹³ conducting around 5,000 manager meetings per year, we hope to complete this by the end of 2024. We are also planning more efficient ways of accessing emission and alignment data across portfolios, managers, and securities.

It is more and more apparent to us that there are two big hurdles stopping more asset owners adopting meaningful net zero goals: 1) Process complexity and 2) a difficulty mapping climate impact onto actionable investment decisions consistent with resources and return needs. We want to address this challenge directly so are planning a new research report and materials aimed at simplifying net zero strategy and providing actionable paths to implementation.

Net zero goals are collective, and neither we nor our clients can achieve as much as we would like without progress from the investment management industry, as well as in regulation and standard setting. We are advocating constructively for this progress. Given our longstanding reputation in private investing, this is where some of our most important engagements are happening, for example through ILPA¹⁴ and iCI¹⁵ where we are encouraging transparency of climate data and ambition from fund managers in what climate goals they expect from their portfolio companies.

As we noted in 3.3, building climate and net zero capability across our firm is a journey, not an event. The field is dynamic, and the investment industry's understanding of best practice is evolving fast. Nobody can say they have a perfect solution for net zero investing today. This document is designed to describe the steps we have taken and where we still need to make progress. We are proud of how much we have achieved since 2021 but acknowledge that there is further to go.

Appendix 1: NZICI commitment mapped to report contents

COMMITMENT 1

Integrate advice on net zero alignment into all our investment consulting services as soon as practically possible and within two years of making this commitment.

Sections 4.1, 4.2, 4.3, 4.5.

COMMITMENT 2

Work with our institutional asset owner clients to identify the investment risks from climate change, highlight the importance of net zero alignment and, where applicable, support our clients in developing policies that align their portfolios to a net zero pathway

Sections 4.1, 4.2, 4.3, 4.5.

COMMITMENT 3

Support efforts to decarbonize the global economy by helping our clients prioritize real economy emissions reductions, reflecting the target of 50% global emissions reduction by 2030 or sooner using existing decarbonization methodologies

Sections 3.2 4.1, 4.2, 4.3, 4.5.

COMMITMENT 4

Assess and monitor asset managers on the integration of climate risks and opportunities in their investment decisions and stewardship and reflect this evaluation in our client recommendations

Sections 4.2, 4.3.

COMMITMENT 5

Align with the Net Zero Asset Manager Initiative as soon as practically possible and within two years of making this commitment

Section 4.4.

COMMITMENT 6

Set emissions reduction targets across all our operational emissions in line with 1.5°C scenarios

Section 6.

COMMITMENT 7

Where suitable net zero methodologies do not exist, work collaboratively for the benefit of our clients to address these challenges, seeking harmonized methodologies

Sections 5, 7.

COMMITMENT 8

Engage, independently or as a group, with regulators and policymakers, to facilitate the transition to net zero carbon emissions, addressing any barriers to our clients adopting and achieving their net zero targets

Section 5.

COMMITMENT 9

Report progress by our firm against the commitments made here at least annually in the public domain. This document represents our first progress report.

[7] Paris Agreement article 2

[8] Greenhouse gases – principally CO₂, methane, and nitrous oxide

[9] The position pre-dated the client's relationship with CA and was not initially invested by the CA Client team.

[10] Appropriate meaning consistent with limiting temperature rise to significantly below 2 degrees and as close as possible to 1.5 degrees, as referenced in the 2015 Paris agreement.

[11] Assets are in scope where there is sufficient transparency, established methodology and relevance to incorporate in net zero strategy and target setting.

[13] As of December 31, 2023.

[14] ILPA is the Institutional Limited Partners Association

[15] iCI is Initiative Climat International

9

Footnotes

[1] As of December 31, 2023. "Assets under advisement" include the portfolio values of the firm's global clients that receive investment advice or management and performance reporting. In a limited number of instances, client portfolio values include assets for which Cambridge Associates is only responsible for reporting performance and does not have an investment advisory responsibility. For portfolio values without final December 31, 2023 data available, assets from the prior quarter or estimates have been used.

[2] The terms "CA" or "Cambridge Associates" may refer to any one or more of six investment affiliates that were established for the sole purpose of providing our investment services in various regulatory jurisdictions around the globe.

[3] Data is as of June 2023.

[4] As of December 31, 2023. "Assets under advisement" include the portfolio values of the firm's global clients that receive investment advice or management and performance reporting. In a limited number of instances, client portfolio values include assets for which Cambridge Associates is only responsible for reporting performance and does not have an investment advisory responsibility. For portfolio values without final December 31, 2023 data available, assets from the prior quarter or estimates have been used.

[5] Intergovernmental Panel on Climate Change AR6 Synthesis Report C.1

[6] Intergovernmental panel on Climate Change AR6 Report Working Group 3 C.2