August 2022

GAM: COMMITTING TO NET ZERO

Marketing material for Professional Investors only

GAM Investments

THE CLIMATE CHALLENGE

The need to decarbonise our economy remains critical if we are to avoid the worst impacts of climate change. Governments and the finance sector are starting to reorientate around this imperative. However, navigating this transition, alongside the need for energy security and affordability, will not be straightforward.

The latest Intergovernmental Panel on Climate Change (IPCC) Working Group III assessment starkly warned that the world is currently on track to reach a 3˚C warming scenario. The report shows, without a shadow of a doubt, that the global economy must transition urgently towards net zero. Over the last decade, a consistent expansion of policies and regulations addressing mitigation has led to the avoidance of emissions that would otherwise have occurred and increased investment in low-greenhouse gas (GHG) technologies and infrastructure. However, policy measures do not address all regions and sectors, and progress on the alignment of financial flows towards the goals of the Paris Agreement remains slow, with tracked climate finance flows distributed unevenly across regions and sectors. The IPCC assessment warns that climate finance is currently three to six times lower than what is needed to keep warming well below 2˚C.

This transition is the biggest economic transformation since the industrial revolution, creating both increasingly significant risks, but also one of the biggest investment opportunities for the coming decade.

Here we aim to outline our commitments and approach to supporting our clients in navigating this transition.

OUR COMMITMENT TO OUR CLIENTS

We believe climate change is a critical issue that will transform the economy, and the drive to decarbonise will shape the investment landscape and how our clients choose to invest. We consider managing climate risks, at an investment and systemic level, as part of overall risk management, and we are committed to providing solutions to help our clients navigate the low carbon transition and to meet the net zero commitments they have made.

Our strategy focuses on three areas:

- **Committing to net-zero** – implementing targeted stewardship and policy advocacy in support of achieving global net-zero emissions by 2050 or sooner
- **Building out climate analytics** – to better incorporate climate risks and opportunity into our investment decisions and help our clients understand their climate exposure
- **Developing new climate products and solutions** – to facilitate the decarbonisation of client portfolios and increase investment in climate solutions

OUR NET ZERO COMMITMENT

In July 2021, we joined the Net Zero Asset Managers (NZAM) initiative and committed to support the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C, and to support investing aligned with net zero emissions by 2050 or sooner.

INTERIM TARGETS

In line with our NZAM commitments, we submitted our initial interim targets in July 2022. These targets cover 36% (USD 12.5 billion) of our Investment Management assets under management (AuM) as at 31 December 2021[2]. This includes all funds classified as equity or corporate fixed income.

Asset classes not currently in scope include for example sovereign, mortgage-backed and insurance-linked securities, multi-asset, and alternatives. This is due to methodological and data limitations. We are actively working with membership bodies such as the Institutional Investors Group on Climate Change (IIGCC), and research providers such as MSCI, to support the development of methodologies and data. We are committed to increasing our in-scope assets as these improve. Client mandates are initially out of scope but we will be engaging with our clients to determine the most appropriate way to support their net zero goals.

For our equity and corporate fixed income funds, our three targets are:

1. Engagement - 90% of financed emissions in material sectors are either assessed as net zero, aligned with a net zero pathway, or the subject of direct or collective engagement and stewardship actions by 2030.
2. Net zero coverage - 75% of AuM in material sectors considered to be achieving net zero, 'aligned' to net zero, or 'aligning' to net zero by 2030.
3. Decarbonisation - Primarily through engagement, seek to achieve a 50% reduction in financed carbon emissions (carbon emission per USD million invested attributed using enterprise value including cash (EVIC)) by 2030.

Net Zero Asset Managers initiative

The Net Zero Asset Managers initiative (NZAM) is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. The initiative is designed to enable and accelerate the role that asset managers play in helping to deliver the goals of the Paris Agreement and ensure a just transition. This group of investors now totals 273 asset managers with USD 61.3 trillion in assets under management[1].

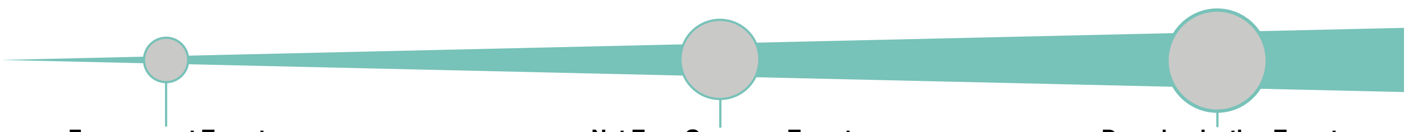
Commitments:

- Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management (AuM)
- Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner
- Review our interim target at least every five years, with a view of ratcheting up the proportion of AuM covered until 100% of assets are included.

[1] Figures are as at 31 May 2022.

[2] This does not include our Fund Management Services business.

By 2030



Engagement Target
90% of financed emissions in material sectors are either assessed as net zero, aligned with a net zero pathway, or the subject of direct or collective engagement and stewardship actions by 2030.

Net Zero Coverage Target
75% of AUM in material sectors considered to be achieving net zero, 'aligned' to net zero, or 'aligning' to net zero by 2030.

Decarbonisation Target
Primarily through engagement, seek to achieve a 50% reduction in financed carbon emissions (carbon emission per USD million invested attributed using EVIC) by 2030.

DRIVING PROGRESS

Active engagement is a key lever to better understand and manage the risks and opportunities associated with climate change, and to drive meaningful progress. We drive progress in the following ways.

- **Engagement** – Climate change is a key engagement theme. We engage with companies to implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risk, take action to reduce GHG emissions across the value chain, consistent with the Paris Agreement's goal or net-zero emissions by 2050; and provide enhanced corporate disclosure in line with the final Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. We engage directly and as part of collaborative initiatives such as Climate Action100+ and encourage enhanced disclosure and science-based target-setting through our support for the CDP (previously the Carbon Disclosure Project).
- **Voting** – Voting is an important mechanism to signal our views as shareholders and to escalate engagement where appropriate. We expect companies to identify and report material and business-specific risks, including climate-related risks. In line with our voting principles, we will consider voting against relevant directors where we consider there are material failings in risk oversight of environmental and social issues, including climate change and will consider voting against the Board Chair or other responsible directors of companies in high impact sectors that do not take proactive measures to address and disclose climate-related risks.
- **Policy advocacy** – Government commitments and policy is critical to achieving the Paris goals. We support and engage in policy advocacy through the Principles for Responsible Investing (PRI) Global Policy Reference Group, the Institutional Investor Group on Climate Change (IIGCC) and the UK's Investment Association (IA). We are signatories to the Global Investor Statement on Climate Change.
- **Collaboration** – collaboration is central as we actively look to work with industry initiatives and other stakeholders to drive progress. We actively support leading climate-related organisations including CDP, Climate Action100+, Climate Bond Initiative, IIGCC, Net Zero Asset Manager initiative, Powering Past Coal Alliance (PPCA) Finance Principles, TCFD and Transition Pathway Initiative. We also sit on the Steering Committee of Climate Action 100+, participate in key working groups within IIGCC, including the Net Zero Toolkit WG, Climate Solutions WG and co-chairing the corporate programme, are members of the Climate Bond Initiative Transitions Investors Advisory Council, and members of the FCA Climate Financial Risk Forum. Given the increasingly critical role of data, we work closely with our research providers to enhance data and methodologies.

POSITION ON FOSSIL FUELS

We recognise that fossil fuels will continue to play a role in the energy mix, albeit at a necessarily much more limited level. We may therefore continue to hold companies with fossil fuel exposure in our portfolios.

We consider engagement, to drive effective decarbonisation, to be the more impactful approach to deliver real world emissions reductions relative to divestment, and as active managers, we will escalate or exclude where we consider insufficient progress is being made.

As signatories to the Powering Past Coal Alliance (PPCA) Finance Principles, we commit to supporting the just transition away from unabated[3] coal power generation by no later than 2030 in the OECD and European Union, and no later than 2040 in the rest of the world.

Our GAM Sustainability Exclusions Policy, which applies to over 80% percent of the in-scope AuM, restricts investments in high impact fossil fuels, including thermal coal and oil sands.

REPORTING AND ROADMAP AHEAD

We will publish progress on our targets annually and as part of our TCFD-aligned reporting. We have already seen significant decarbonisation across our funds since 2019 so will monitor progress to determine whether an updated target or baseline year would be appropriate. We also expect year-on-year variability given we are active investors. We will indicate if any restatement or re-baselining is required.

We are committed to reviewing our interim target at least every five years, with a view of ratcheting up the proportion of AuM covered until 100% of assets are included. Our near-term focus will be on our sovereign assets and client mandates.

[3] 'Unabated' refers to coal power generation without any technologies to substantially reduce CO^2 emissions, e.g. operational carbon capture and storage.

ADDITIONAL Q&A

1. What about our operational impact?

GAM's operational emissions are primarily derived from energy use in our office facilities and business travel. We measure our Scope 1 and 2 emissions, as well as business travel (predominantly air travel), which is our largest source of operational Scope 3 emissions[4].

We have been able to minimise our direct emissions in recent years by locating our offices in modern buildings with strong sustainability credentials. Our largest office, in London, is rated BREEAM 'Excellent' for sustainability best practice, a rating only awarded to the top 10% of new non-domestic buildings in the UK. In Zurich, GAM is located in Prime Tower, a modern building with various environmental certifications including LEED Gold (Leadership in Energy and Environmental Design) and green property gold (Credit Suisse: quality seal of approval for sustainable property).

We have the following operational targets:

- Renewable energy: All GAM-managed global offices to be using 100% renewable electricity resources by the end of 2022. At the end of 2021, 83% of our staff were based in office buildings which source only renewable electricity.
- Business travel: Maintain our total distance travelled by air at a level at least 25% below our 2018 figures. We achieved this in 2021 and will maintain the same target for 2022.
- Carbon offsetting: 200% carbon offsetting of our reported operational Scope 1, 2 and 3 emissions. GAM has been certified as a CarbonNeutral® company for its operational emissions since 2019. We are committed to ensuring that any offsets meet the Oxford Principles for Net Zero Aligned Carbon Offsetting.

2. Which framework have you used for target setting?

NZAM proposes to use one of the three or a combination of the suggested frameworks. We have selected the Paris Aligned Investment Initiative's Net Zero Investment Framework (NZIF) originally developed by the IIGCC which gives guidance on target setting. As of May 2022, the NZIF methodology was the most commonly used by signatories, followed by Science Based Targets initiative for Financial Institutions (SBTi). A much smaller proportion used the Net Zero Asset Owner Alliance Target Setting Protocol (TSP), a combination or their own methodology. We are considering using SBTi to verify our targets in the future.

3. Why have you selected financed carbon emissions?

We have selected financed carbon emissions (carbon emission per USD million invested attributed using EVIC). This provides comparability across equity and corporate credit asset classes and measures emissions relative to enterprise value (rather than revenue or sales). There are limitations associated with all of these normalising factors as a single approach is rarely best suited to a mix of business models, sectors or markets. Additional metrics such as exposure to climate solutions, absolute emissions and weighted average carbon intensity are used for monitoring. As methodologies and data quality and availability develop, we may choose to adapt or add to the selected metric. We also recognise that in future years we are likely to need to report on an inflation adjusted EVIC measure. We are publishing against the recommended 2019 baseline year (31 December 2019). The baseline values are calculated on an aggregated basis for in scope funds with data coverage of at least 80%. We have already seen significant decarbonisation since 2019 so we will monitor progress to determine whether an updated target or baseline year would be appropriate. We also expect year-on-year variability given we are active investors. We will indicate if any restatement or re-baselining is required in light of the above in future years.

[4] Please see The Greenhouse Gas Protocol for definitions of scope 1, 2 and 3 – ghg-protocol-revised.pdf (ghgprotocol.org)

4. What about a target for climate solutions?

We have not set an explicit target for allocation to climate solutions. This is primarily due to methodological and data limitations. We are actively participating in the IIGCC Climate Solutions Working Group with the aim of developing guidance to measure climate solutions at portfolio level and across asset classes.

In 2021, we launched two products with explicit carbon-related objectives. Our Sustainable Climate Bond strategy invests in green and sustainability bonds with clear use of proceeds linked to carbon reduction and our Sustainable Emerging Equity strategy has a binding target of 50% lower weighted average carbon intensity (WACI) relative to the benchmark. We are developing additional strategies for launch in 2022.

5. What does 'net zero', 'aligned to net zero', or 'aligning to net zero' mean?

The following definitions are provided by Net Zero Investment Framework (NZIF). We continue to identify and develop the most appropriate way of measuring this. We expect measures on alignment and credibility of transitions plans to evolve significantly over the coming years.

- Net Zero: A company which is already achieving the emissions intensity required by the sector and regional pathway for 2050 and whose ongoing investment plan or business model will maintain this performance
- Aligned to net zero: Companies that have: a long term 2050 goal consistent with achieving net zero, a long term 2050 goal consistent with achieving global net zero, current emissions intensity performance (scope 1, 2 and material scope 3) relative to targets, disclosure of scope 1, 2 and material scope 3 emissions, decarbonisation strategy, a clear demonstration that the capital expenditures of the company are consistent with achieving net zero emissions by 2050
- Aligning to net zero: A long-term 2050 goal consistent with achieving global net zero, current emissions intensity performance (scope 1, 2 and material scope 3) relative to targets and a decarbonisation strategy

6. What is the baseline year for these targets?

These targets are set based on the NZIF guidance and availability of data. NZIF proposes to use end of 2019 as the baseline year across all targets. For the decarbonisation target, we are using the baseline as suggested by NZIF. However, for engagement and portfolio coverage targets, we are using end of 2021 data as there was limited availability of data to carry out the assessment.

Additional information

Climate change statement
gam-policy_climate-change-statement.pdf

Sustainability Report
gam_sustainability-report-2021_online.pdf

GAM Climate Bond Impact Report
gam-climate-bond-impact_report_202205_en_online.pdf

Sustainability exclusions policy
gam-policy_sustainability-exclusion.pdf