French Energy-Climate Law 2021 Report

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Partners Capital Europe SAS

Introduction

This report has been prepared based on requirements set out in Article 29 of the French Energy-Climate Law (No. 2019-1147) and the Implementing Decree (No. 2021-663) taken pursuant to Article L. 533-22-1 of the Monetary and Financial Code.

Article 29 of the Energy-Climate Law seeks to enhance disclosure of information regarding how environmental, social and governance (commonly termed "ESG") criteria are taken into account in firm's investment policy and processes, as well as on the means implemented to contribute to the energy and ecological transition.

Scope

This report applies to **Partners Capital Europe SAS** in France, with €727 million in assets under management (as at 31 December 2021). Much of the information included outlines our group-level approach to the integration of environmental, social and governance criteria into our investment processes. However, this statement has been prepared taking into account the investment activities carried out by Partners Capital Europe SAS in Europe, and the nature of the bespoke discretionary-managed client portfolios that have been constructed for our European clients and should therefore not be relied upon in reference to our other group entities or products.

Due to the nature of implementing tailored investment portfolios for our clients, we have summarised our general approach to the integration of ESG criteria into our investment processes, but the level to which these factors are taken into account will vary on a client-by-client basis, depending on the client's specific investment objectives. We encourage our clients to contact their Client Manager should they wish to discuss the approach taken to consideration of ESG criteria in relation to the management of their portfolio, or if they would like to explore the implementation of a bespoke responsible investment policy.

General approach to consideration of ESG criteria in our investment strategy

Partners Capital Europe SAS manages multi-asset class portfolios for our clients, investing across both public and private markets. Our investment philosophy focuses on risk management, tactical asset allocation and investment selection, and we predominantly invest via third-party asset managers. Our dedicated asset-class research teams have been established to focus on asset manager due diligence and identify who we believe to be the best asset managers in each asset class for inclusion in our clients' investment portfolios. Therefore, our approach to integrating ESG criteria into our investment process consists of understanding the degree to which a manager has integrated ESG factors into their process and engaging with our managers to help them improve their ESG integration practices over time.

As a group, Partners Capital holds core beliefs about how investing our portfolios in a responsible manner can have a positive impact on the environment and society, and the importance of embedding the consideration of sustainability risks into our investment processes. These core beliefs inform our investment decision-making and portfolio construction process and include the following principals:

1. We believe that businesses that have positive impact on the environment and society, and govern themselves in the most responsible way, are more likely to contribute positively to achieving the best investment outcomes for our clients. We understand that investing in businesses that fail to address these issues may negatively impact portfolio performance and increase risk in the portfolio. This is driven by a belief that these financially material ESG issues are becoming more relevant today, not less, driven by policymakers, institutional capital and broader society becoming increasingly focused on the major challenges impacting humanity and our planet.

2. We believe that we can have impact, beyond the outperformance we deliver to clients, primarily by:
    a. Preferencing managers who invest responsibly and engaging with them to facilitate further improvement.
    b. Allocating to sectors of the economy and specific investments that are expected to have the most positive environmental and social impact in the future.
    c. Collaborating with other like-minded investors.

Integration of ESG criteria in our investment due diligence processes

For new asset manager investment approvals and for our existing managers on an annual basis, we determine the degree to which the manager integrates ESG factors into their decision-making process through our proprietary ESG Integration Survey. The survey is informed, amongst others, by the due diligence questionnaire produced by the United Nations-supported Principles for Responsible Investment (PRI). The survey is a valuable tool in assessing a manager's ESG integration capabilities, which we supplement with our qualitative assessment of the manager garnered through the numerous interactions we have before approving a new investment. Finally, we adapt our approach to assessing ESG integration depending on the nature of the underlying investment.

Most notably, the expected level of ESG integration for those managers investing in sectors with heightened ESG risks (e.g. the energy sector, or certain geographic markets), is higher than that for a manager investing in a sector with lower inherent ESG risk. Where an ethical or reputational issue has arisen during our due diligence, this will also be referred to our Responsible Investment Committee for consideration. In the past, we have considered and rejected investments on the basis of their adverse environmental or social impacts.

We also recognise that the levers available to investors to exercise responsible investment differ by asset class. For example, credit investors have limited opportunities to engage with companies compared to equity investors, because they do not have voting rights. Similarly public equity investors typically hold minority stakes while private equity investors have larger, often control, stakes, thereby affording them more control to influence companies and exercise stewardship. In recognition of these differences, we have tailored our ESG Integration Survey by asset class to include targeted questions that relate to the unique levers relevant to that asset class.

Engagement with asset managers

During our regular monitoring of the investment managers in which we have invested, we highlight the importance of the integration of material ESG considerations into their investment decision making process and set the expectation that the manager's process should improve over time. We aim to assist our managers in improving their ESG integration, particularly those who we deem to have the greatest room for improvement, through sharing industry best practice. Influencing the behaviour of our asset managers, who manage multiples of the total capital that we have invested in their funds, has the potential for Partners Capital to have a highly leveraged impact on the world.

Exclusions

Partners Capital has a minimal firm-wide exclusion policy in place for directly held public equities but maintains a presumption against divesting assets for reasons unrelated to their expected risk adjusted return. This is due to a combination of a belief that engagement is more likely to yield positive results than exclusion and a practical reality of our investment strategy which is dominated by investment via third-party managed funds. Nonetheless, we have chosen to exclude companies operating in the tobacco, coal, controversial weapons and "payday" lending sectors from our directly held public equity strategies, which clients may have an allocation to as part of their investment portfolio. We will also invest in any share class of an asset manager that adheres to these exclusions over a share class which does not, if doing so does not impose a meaningful cost. Such exclusions are reviewed periodically and updated by the Partners Capital Responsible Investment Committee.

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Client reporting

ESG Investment Dashboard

We believe that effective measurement of ESG factors and the impact, both positive and negative, of investment portfolios has the potential to catalyse significant change in the behaviour of both asset managers and business owners and management. Accordingly, we aim to be at the forefront of emerging trends and best practice with regard to ESG measurement. We have developed an ESG dashboard which allows clients to monitor their adherence to their responsible investment policies. The frequency with which the ESG dashboard is presented to clients is dependent on the client in question, however all clients that have expressed an interest in such reporting will receive it at least annually and may request to receive it more frequently if they wish.

The dashboard comprises five sections; the portfolio's aggregate exposure to sensitive sectors, a set of ESG metrics for the public equities portfolio which is calculated using third-party data, the extent to which the portfolio's underlying managers are integrating ESG factors (measured through our ESG Integration Survey), the percentage of equity managers that engage with underlying management teams and the percentage of the portfolio invested in sectors that have the potential to have a positive environmental or social impact (e.g. Healthcare). As we recognise that appropriate ESG and impact reporting is driving positive change, we aim to improve the quality of our reporting over time and stay abreast of trends and best practice regarding ESG measurement. The dashboard is therefore updated regularly to incorporate new datapoints as they become available.

ESG and Impact Annual Report

Partners Capital publishes an annual ESG and Impact Report which is distributed to our global client base and summarises our annual activities in relation to the integration of ESG factors into our investment processes, as well as our engagement with our asset managers and efforts to enlarge the universe of investment opportunities with positive environmental and societal impact. It also illustrates our reporting efforts for client portfolios with respect to ESG metrics provided alongside normal financial performance attribution reporting.

Article 8 and 9 products under SFDR

Currently, the discretionary portfolios and products managed on behalf of the clients of Partners Capital Europe SAS are all classified as Article 6 based on the requirements set out in the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ("SFDR"), as they do not promote specific environmental or social characteristics.

In light of the SFDR Regulatory Technical Standards (RTS), which have been developed by the European Supervisory Authorities through the Joint Committee (JC), and are due to come into force on 1 January 2023, Partners Capital will undergo a review of the SFDR classifications applied to client portfolios, taking into account additional requirements laid out in the RTS in relation to financial products (including discretionary portfolios) that offer underlying investment options. Partners Capital will provide clients with updated SFDR disclosures before the end of 2022, in line with the enhanced disclosure obligations and prescribed templates as required under the RTS.

Membership in charters, codes or ESG-related associations

Partners Capital collaborates with our clients, asset managers and leading asset owners across the investment industry, to seek to establish best practices regarding ESG integration and enhance the impact that we can have. We have actively sought partnerships and opportunities to grow our network in order to deepen our knowledge and broaden our impact in this rapidly evolving space.

Partners Capital became a signatory to the UN-supported Principles for Responsible Investment in 2020, publicly demonstrating our commitment to responsible investing.

Furthering our commitment to understanding the impact of climate change on investments and collaborating with like-minded investors on environmental impact, Partners Capital joined the Institutional Investors Group on Climate Change (IIGCC) and is contributing to and engaging with the Investor Practices programme to help our clients and asset managers better integrate climate risks and opportunities into their investment process. Deeper understanding of climate risks and opportunities enables Partners Capital to better safeguard our investors' assets and enhance long-term value.

Partners Capital Europe SAS's products and client portfolios are not currently aligned with any product-specific initiatives, labels or charters in relation to ESG.

Internal resources deployed

Partners Capital Europe SAS do not have any specific resources that are dedicated to the consideration of environmental, social or governance criteria in the investment strategy. However, at the group level, Partners Capital have dedicated resources to the firm's ESG efforts in the following ways:

1. Partners Capital ESG Team
   Partners Capital's ESG Team is made up of five of our global employees who are responsible for driving the firm's strategy around the integration of ESG factors into our investment strategy. Two of these individuals spend more than 50% of their time focused on ESG aspects, and three have hybrid roles with a considerable portion of their workload expected to be focused on driving the group's ESG efforts. In June 2022, Partners Capital appointed a Global Head of Sustainable Investing, who is based in London and is dedicated to enhancement of our engagement with asset managers on ESG integration, working with our clients on developing their responsible investment policies as well as further developing the firm's ESG reporting capabilities.

2. Partners Capital Investment Team
   While the ESG Team comprises our dedicated resources to furthering Partners Capital's ESG efforts, that team is also heavily reliant on the broader investment team, which comprises separate portfolio management and research teams, to puts its policies and initiatives into practice. For example, our portfolio management teams have ownership of individual client relationships and responsibility for managing individual client portfolios. Therefore, any policies, tools and initiatives the ESG Team put in place related to client portfolios (e.g. producing our ESG dashboard) are actioned and implemented by the respective client teams. Similarly on the research side, this team has ownership of existing manager relationships and responsibility for sourcing new managers for our portfolios. Therefore, any tools and initiatives the ESG team put in place in relation to managers (e.g. the annual ESG integration survey) is done in conjunction with the research team.

3. ESG Data Providers
   Partners Capital subscribe to a third-party data provider of environmental, social and governance data. In our view, ESG-related reporting by underlying companies and reporting provided to us by our fund managers lacks consistency and comparability. Therefore, for our public equity portfolios, we instead source our own ESG data which we apply to the underlying holdings of our public equity managers to produce client portfolio-level ESG reporting such as our ESG dashboard. We source a range of datasets from this provider including their global norms data, company ESG ratings, company ESG metrics, business involvements screening and climate-related data.

Actions taken to strengthen the entity's internal capabilities

Our ESG Team have focused their efforts on enhancing the internal communication around ESG developments to help train our global team in this important space. The ESG team distribute monthly update emails to highlight recent developments in relation to ESG and sustainable investing that may have implications for the firm and our investments, and to keep the team well informed on updates relating to our firm wide ESG strategy. In addition, periodic training is provided to our investment team on our manager assessment and engagement and client ESG dashboard. In June 2022, Partners Capital appointed a Global Head of Sustainable Investing who will be a dedicated resource focused on driving the ESG effort internally, serving as a domain expert for the broader investment team, and to strengthen engagement with clients on ESG issues.

Consideration of ESG criteria in Partners Capital's governance processes

Partners Capital's ESG Team have day-to-day responsibility for defining the firm's processes around the integration of financially material ESG criteria and engagement insights into the company's investment policy. This includes developing our asset manager ESG Integration Survey and due diligence practices, identifying investment opportunities in the ESG space and implementing our client reporting framework. Furthermore, the ESG Team will support senior management and the Executive Committee in defining key priority areas of focus for the firm with respect to our global ESG strategy. Our Global Head of Sustainable Investment, who has extensive experience in integrating ESG and sustainability factors into investment processes across asset classes, reports directly into the Global CEO, which provides a valuable reporting channel directly into the Executive Committee and Board of Directors and ensures that senior management are well equipped with the knowledge to understand industry best practices around ESG and sustainability.

The ESG Team also work closely with Risk and Compliance to ensure that the firm's ESG processes are compliant with relevant regulation and that relevant ESG factors are being embedded into our global and local risk management frameworks. Major ESG risks that are identified will also be escalated to the firm's Operational Risk Committee and the Global Board of Directors via the Audit & Risk Committee.

Remuneration

Partners Capital has designed its remuneration policies and practices to be consistent with promoting sound and effective risk management, which includes sustainability risks. Our remuneration practices are aligned to the business strategy, objectives, values and long-term interests of the firm.

Where employees are eligible for discretionary variable bonuses, in setting these bonuses, we would always consider the overall results and performance of the firm. In addition, a portion of variable pay comprises a deferred award that is invested alongside our clients during the vesting period. Therefore, by embedding good governance practices and integrating sustainability factors into our investment decision-making, and by linking employees' remuneration with the overall performance of the firm, we believe that our remuneration policies incentivise employees to consider all material risks that our portfolios may face, which increasingly includes adverse sustainability risks.

Engagement Policies

Partners Capital's exposure to public equities is generally limited to our Public Equities Co-investment Programme, where clients are able to directly access the top positions of who we deem to be our highest conviction active equity managers, without the payment of third-party fees and the, at times, onerous liquidity terms of these funds. Given that this stock selection is based on the due diligence undertaken by these third-party managers, we do not directly engage with or monitor the investee companies directly, but instead communicate the level of interaction we expect our managers to have with their underlying portfolio companies.

Due to predominantly investing via third party fund managers rather than directly holding shares in public companies, Partners Capital has developed an approach to engagement and stewardship that focuses on our relationships with third party managers with which we invest. Further to the information included in this report, additional information on our manager engagement process can be found in our disclosures under the European Shareholders Rights Directive II.

Public Equities Co-investment Programme – Proxy Voting Process

As outlined above, Partners Capital offer a public equities co-investment programme to our clients that involves co-investing directly in a select number of stocks alongside our third-party managers, based on their due diligence and investment thesis. Given the nature of this investment programme, we do not engage with or monitor these investee companies directly. However, where Partners Capital own stocks directly, we exercise our shareholder right to vote. Partners Capital has retained Institutional Shareholders Services Inc. (ISS) to assist in the proxy voting process, and follows ISS' Sustainability Policy recommendations. The policy recommendations seek to promote support for global governing bodies advocating for sustainable business practices such as environmental stewardship, fair labour practices, non-discrimination, and the protection of human rights. The recommendations are underpinned by internationally recognized sustainability-related initiatives, such as the UN PRI.

Copies of our Global Proxy Voting Policy, which outlines the procedures we follow with respect to exercising the proxy voting rights on behalf of our clients, as well as our proxy voting records are also available to our clients upon request.

Information on the European Taxonomy

Currently, environmental aspects are becoming increasingly important to companies and financial services firms and the European Commission has worked to map certain economic activities to their level of sustainability under Regulation (EU) 2020 / 852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment ("the EU Taxonomy Regulations"). The Taxonomy Regulations define when an economic activity will be considered to be environmentally sustainable where it: (1) contributes substantially to one of the defined environmental objectives; (2) doesn't significantly harm any of the environmental objectives; (3) complies with a series of minimum social safeguards; and (4) complies with specified performance thresholds known as "technical screening criteria".

In order to be able to identify whether activities or investments are consistent with the objectives defined as environmentally sustainable by the EU, companies and financial services firms have begun work to analyse their activities and investments. However, there is a lack of reliable data currently made available by companies and due to Partners Capital predominantly investing via third party fund managers, there is an additional layer of complexity in obtaining the required data. Therefore, Partners Capital is not currently able to calculate the proportion of sustainable investments that we have exposure to as part of client portfolios and we will seek to update our reporting as soon as such data is available.

Risk Management Processes

When approving third party managers for inclusion in our investment universe, Partners Capital takes into account sustainability risks by scoring each manager with respect to the level of ESG integration based on internal methodology. In addition, an annual ESG integration survey is carried out which enables us to update and evolve our risk management framework and maintain oversight of any ESG risks with respect to each manager. Our ESG integration survey allows us to take into account the environmental, social and governance risks that could have real or potential negative impact on our portfolios and we expect to adapt and refine our third-party manager risk management processes as ESG reporting methodologies and data availability improve over time. Where significant ESG risks are identified, investments are referred to our Responsible Investment Committee for consideration.

As outlined above, for our directly held equity positions, a screening process is deployed which prevents exposure to certain sectors. Through subscription to a third-party data provider, we also monitor the exposure of these portfolios, as well as the underlying holdings of our public equity managers and obtain ESG ratings and metrics and climate-related data to ensure that the we take into account ESG risks that could have a negative impact on these investments.

Alignment with objectives under the Paris Agreement

We are in agreement with the scientific community that human activity, most notably the burning of fossil fuels for the production of energy, has caused the atmospheric changes which have led to increased temperatures and the associated effects such as rising sea levels. We believe that accounting for the potential impacts of climate change is an imperative for any long-term investment strategy.

In that regard, our ESG Integration Survey has a section dedicated to climate change, which addresses the manager's approach to integrating climate risks into their investment process and the way in which they run their businesses. In particular, we ask whether managers assess the strategy's exposure to climate risk, to what extent they check whether prospective investments have net-zero carbon business plans in place, and whether their organisation has made a net-zero commitment.

We believe an equally important factor that will determine the world's ability to meet the goals of the Paris Agreement is financing climate solutions. In that regard, we have recently allotted specific resources to private markets investment research to identify potential investments into companies and specialist manager funds in a diversified set of environmental sustainability sectors and themes including renewable energy generation & storage, transportation & mobility, industrial processes & management, food & agriculture, smart buildings, and water, waste, plastic & recycling.

Alignment with long-term objectives relating to biodiversity

Partners Capital does not currently have a strategy for alignment with long-term biodiversity impacts. However we do align with the long-term objectives relating to biodiversity in the following ways. Firstly, we determine the degree to which our managers integrate ESG factors into their decision-making process, primarily via our proprietary ESG Integration Survey and through our regular interactions with managers. We recognise the rising importance of biodiversity impacts, which can be a material environmental consideration for certain companies. Through our survey and our regular interactions, we set clear expectations to our managers that they should be considering the ESG risks material to their investee companies, which includes biodiversity impacts. As noted above, we have recently allotted specific resources to private markets investment research to identify potential investments into companies and specialist manager funds in a diversified set of environmental sustainability sectors and themes, which may include opportunities focused on having a positive impact on biodiversity.

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