CITY OF LONDON | THE GLOBAL CITY

Investment Statement on Climate Change:

Expectations for Investment Managers

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This document sets out the position of the City of London Corporation with regards to our financial investments and the impacts of climate change.

Our Approach to Climate & Sustainability

It is unequivocal that climate change represents a significant risk to the value of the City Corporation's investments, but also our core mission to maintain a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK. This is why we adopted our ambitious Climate Action Strategy in 2020. This strategy outlined four commitments:

2027

Net Zero in our own operations by 2027

2040

Net Zero in our value chain by 2040

2040

Net Zero in the Square Mile by 2040

Climate resilient in our buildings, public spaces and infrastructure

As an asset owner, we support the objective of the Paris Agreement to keep global warming well below 2°C and preferably 1.5°C – the level considered 'safe' by the Intergovernmental Panel on Climate Change (IPCC). We are alarmed that the IPCC's AR6 report which highlights the significant and accelerating impacts of climate change, and which notes that 1.5°C might be exceeded by 2040 without urgent action.

It is incumbent upon asset owners and consistent with our fiduciary duty to act in response to climate risk. We recognise that maintaining appropriate risk-adjusted returns from our portfolio requires an investment approach that prioritises change from firms in the real economy and the economic transformation of entire sectors. In response we have adopted a three-pronged approach to climate:

1. Accelerating Climate Integration:

Working directly with our investment managers to ensure their investment processes are fit-for-purpose and aligned with Paris goals.

2. Rapidly Decarbonising Investments:

Aiming to cut 24% of financed emissions from our portfolio by 2025 through focused engagement and asset allocation decisions.

3. Collaborating for Outsized Impact:

Driving change in the wider investment management ecosystem by focusing and motivating others and modelling good practice.

This means that as an asset owner we will:

- Expect our managers to comply with a set of climate expectations.
- Adopt a transparent escalation process for engagements with investment managers.
- Adopt an open stance to investment strategies incorporating climate solutions and negative carbon assets that offer competitive risk and return characteristics.
- Promote a just and net-zero carbon transition, advocating for the adoption of investment strategies and business models that are consistent with 1.5°C and ensure economic shocks to workers, communities and consumers are mitigated

We will not require immediate divestment from sectors or high emission assets. We expect our investment managers to make these judgements. However, where managers continue to hold high emission assets, we will require a detailed explanation of the transition pathway of these assets, expected upside, and steps the manager is taking to manage downside risk.

Climate & Sustainability Expectations for Manager Selection & Monitoring

Reflecting the scope and impact of climate risks to our investments, the imperative to drive systematic change from investment managers, and to achieve our own emissions targets, below we set out minimum expectations for current and prospective investment managers.

These minimum expectations will operate on a comply or explain basis and we will work with all managers to support full compliance over time.

Time-Bound Expectations

1. By end 2022, all managers should set out a net zero target for 2050 or earlier at firm level. This should be consistent with the Science Based Targets Initiative.
2. By end 2022, all managers should set out a clear transition pathway at firm level, with milestones for 2025 and 2030. Consistent with viable decarbonisation pathways, interim milestones should reflect at least 50% emissions reductions from 2018 levels by 2030 at the latest. Appropriate governance, training, and remuneration policies are expected.
3. By end 2022, all managers should have made their first disclosure against all 11 recommendations of the Taskforce for Climate-Related Financial Disclosures.

Investment Process

4. Managers will document their process for identifying, evaluating, and managing physical climate and climate transition risks and opportunities in the investment process of the relevant mandate. This should cover fundamental analysis of sector transition pathways, whether an investee company's offerings impair or improve the present and future, and how growth would be impacted by a realistic price on carbon.
5. Investment models should integrate scenarios aligned to the 1.5°C ambition in the Paris Agreement (e.g. IEA NZE 1.5°C) and not overly rely on negative emissions technologies or offsets.
6. A statement regarding treatment of high emission sectors/assets within the mandate. This should include risk controls, metrics being monitored, and thresholds for exit. Treatment of high emission assets such as thermal coal should be consistent with science-based target requirements for phase out.

Engagement and Active Ownership

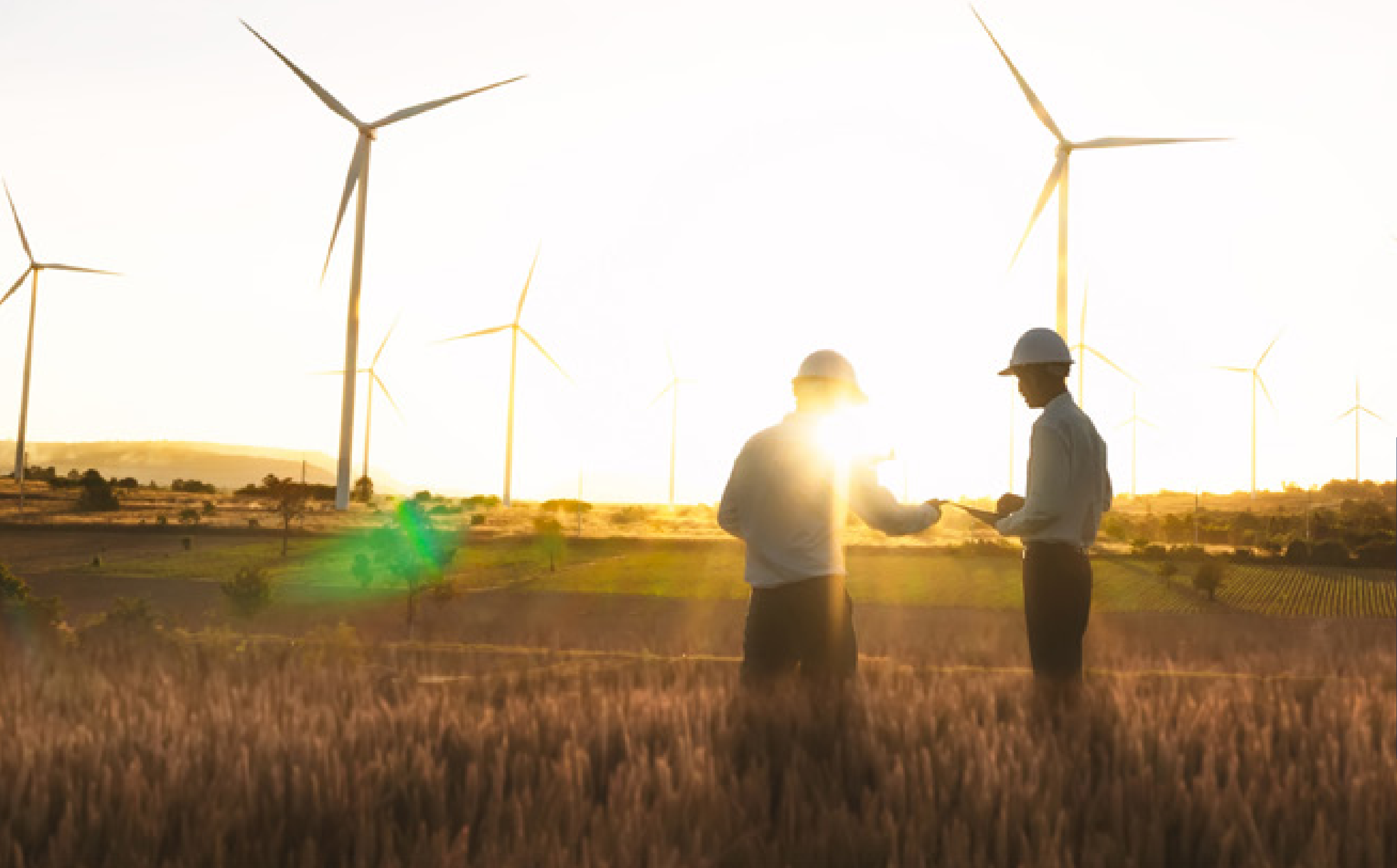
7. A presumption to vote in favour of shareholder resolutions on climate change on a comply or explain basis.
8. Engage investee companies to publish 1.5°C transition plans with short- and medium-term science-based targets. These plans should include steps to align capital expenditure, remuneration strategies, and public engagement including corporate lobbying with 1.5°C. Transition plans should also incorporate social risks and opportunities to ensure a just transition. All investee companies should have set a science-based target before 2025.
9. An engagement escalation policy should be disclosed which will include details of how and when engagements will be escalated. This should include escalation to public statements, voting against management-proposed resolutions, and ultimately divestment or refusal to purchase new bonds in active strategies.

Reporting & Transparency

10. Disclosure of holdings, voting record and engagement activity at least every six months.
11. Develop environmental impact reporting for investments, including climate impact (positive and negative). Impact performance should be reported alongside financial performance.
12. Routine sharing of climate-related insight and research, including sectoral roadmaps and perceived policy barriers to decarbonisation.

Engagement on Climate & Sustainability Risks and Opportunities

We aspire for all our managers to become climate leaders with comprehensive climate risk management process, and exposure to the upside of the transition. However, we recognise that best practice continues to evolve, that there are meaningful differences between asset classes, and that some managers will take time to align their strategies with our minimum expectations.



We will engage with each of our investment managers in good faith to support compliance with our expectations and we are keen to give our investment managers the space to develop the most appropriate strategies for reducing climate risk exposure. In many cases, our expectations are not new and nor do they deviate from expected market norms. Managers have had a number of years to evolve significant and sophisticated approaches to managing climate risk.

Therefore, from the publication of this statement, managers will have 6 months to bring themselves into alignment. During this process, we expect managers to write to us explaining how they meet our expectations. We will arrange a follow up meeting to discuss alignment and possible actions, which we expect will focus on areas where a manager diverges from our expectations. As appropriate this meeting may be also be attended by our advisors.

1. Formal Letter:

If we are unsatisfied with ongoing compliance with our minimum standards after receiving a manager's explanation, we will issue a formal letter outlining the remaining challenges and our preferred action to the CEO. Depending on the nature of the issue, we may elect to make this letter public.

2. Engage Co-investors:

Should issues persist, we will engage with other co-investors in the relevant mandate.

3. Exit:

If a manager is unwilling or unable to make further commitments in response to an issue, we will replace them. We will write to the relevant manager explaining our decision.

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