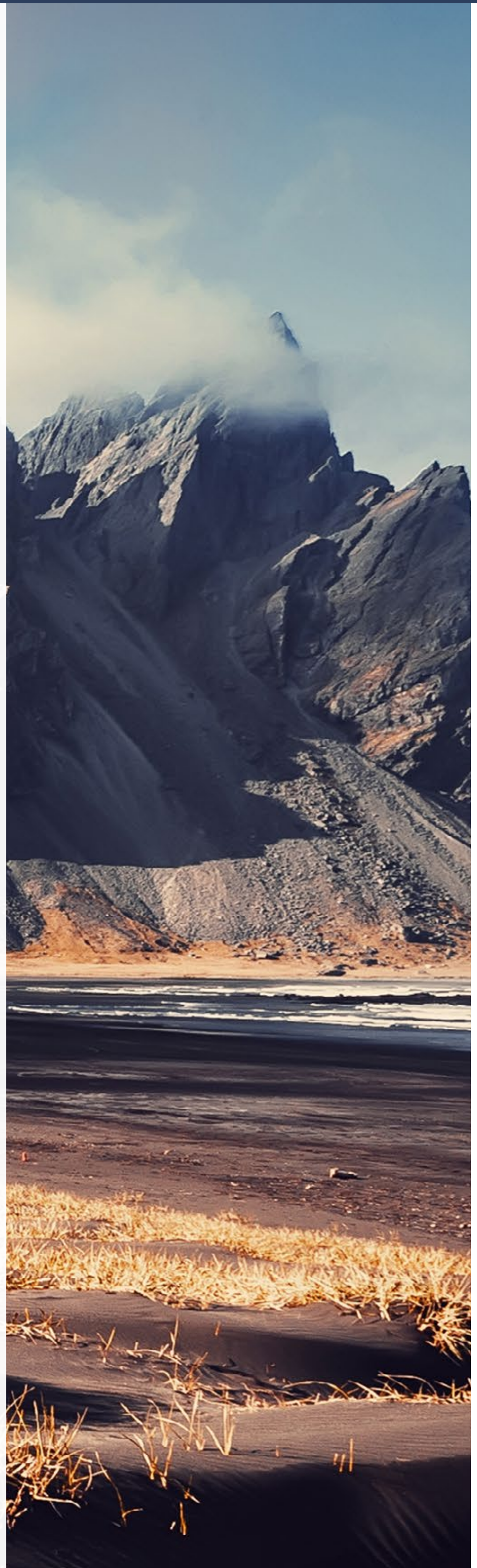
Affirmative Investment Management

2023 TCFD
Climate Report

Contents



For a view of AIM's impact reporting, visit the LO Funds – Global Climate Bond impact report

Introduction

Affirmative Investment Management Partners Limited (AIM) is a dedicated impact fixed income manager. Its mission is to mobilise mainstream capital to help address the major challenges the world faces, which includes supporting the Paris Agreement to limit global warming to 1.5°C this century and the Sustainable Development Goals (SDGs). AIM is also a signatory of the Net Zero Asset Managers initiative and supporter of the TCFD.

AIM has a broader mission than traditional asset managers, investing both for impact and competitive financial returns. The experienced teams it accesses are focused on investing in the impact bond market, using a rigorous approach to building impact bond portfolios while generating mainstream financial returns.

Climate and sustainability have been central to AIM's investment process since it was first established in 2014.. Its comprehensive proprietary impact-investment-verification framework, SPECTRUM (see page 11), includes assessment of positive impact in supporting climate-change mitigation and adaptation, and negative screening for activities that are harmful to the environment and society. AIM applies its SPECTRUM assessment to both the use of proceeds and the issuer.

The SPECTRUM framework determines the investment universe for AIM portfolios and all AIM portfolios are invested in bonds that have passed the SPECTRUM verification analysis, which is built on bottom-up sustainability and credit research. Engagement is an important part of AIM's verification and impact reporting processes and the firm actively engages on several climate themes, including physical risk and net zero.

AIM's investible universe comprises SPECTRUM-verified use of proceeds green, social and sustainability bonds and unlabelled pureplay bonds.

In 2022, 82% of AIM's AUM was invested in labelled and unlabelled green and sustainability bonds, with the latter including use of proceeds in environmental sectors, and 74.2% was in use of proceeds green bonds and green pureplay bonds.[1]

AIM's investment process and impact reporting have won several awards in recognition of its leadership and consistency across investing for positive climate impact and the quality and transparency of its disclosure.

Since 2017, AIM has published detailed annual impact reports covering climate performance, and in 2019 it started integrating TCFD recommendations into its impact reporting. AIM published its first standalone TCFD report in 2022.

AIM addresses all four of TCFD's recommendations in this report: Governance and management; Investment strategy; Risk management; and, Metrics and targets.

[1] Page 24 of the 2023 Impact Report: https://affirmativeim.com/wp-content/uploads/2023/08/lo-gcb-impact-report-2023-final.pdf

Our recognitions

Environmental Finance Bond Awards 2023 Winner – Impact report of the year (for investors)

Environmental Finance Sustainable Investment Awards 2022 Winner – Best sustainability reporting by an asset or fund manager: medium and small (fixed income)

Environmental Finance Bond Awards 2021 Winner – Impact report of the year (for investors)

'Best sustainability reporting by an asset manager medium and small (fixed income)' at the Environmental Finance Sustainable Investment Awards (2020)

Environmental Finance Sustainable Investment Awards 2019 Winner – Best fixed income firm initiative for ESG investment process

cfi.co 2022 – Best Social Impact Investment Manager Winner UK

cfi.co 2016 – Best Green Bond Team Winner UK

Morningstar – Morningstar ESG Commitment Level of Leader. For AIM – December 2022

'Impact asset manager of the year' at the Australian Impact Investment Awards (2021)

Towards Sustainability – Toward sustainability label for our flagship fund

SFDR Article 9 classification for all European funds – EU Sustainable Finance Disclosure Regulation, effective 10 March 2021

01

Governance and management

Oversight and sustainability governance at AIM

AIM was founded in 2014 with a mission to mobilise mainstream capital to address major challenges facing the world, including supporting the Paris Agreement and the UN Sustainable Development Goals (SDGs). Its goal is to manage fixed income portfolios that generate positive environmental and social impact without compromising financial returns.

AIM's governance and management structures are focused on the sustainability and climate-change mitigation and adaptation profile of its SPECTRUM investable universe and portfolio holdings in pursuit of its mission.

The firm's board of directors is responsible for the oversight of AIM's accountability to its corporate mission. The board meets on a quarterly basis and is responsible for approving all company policies, including sustainability and climate-related policies and commitments.

At the end of 2022, AIM was acquired by MetLife Investment Management (MIM), the institutional asset management business of MetLife, Inc.

This as an exciting opportunity for AIM to apply its ESG impact and transition investment solutions to a broader opportunity set, given the scale of MIM's AUM and involvement in a wider range of asset classes, such as private debt and real estate. Following the acquisition, AIM became part of the MIM platform. The AIM Portfolio Management team continues to focus on managing SPECTRUM portfolios, operating from a shared location where team members have immediate access to MIM's deeper and wider credit research capabilities. The Sustainability team is also colocated in order to allow the wider MIM platform to leverage its specialist expertise.

Sustainability is part of MetLife's business strategy and is integrated across its operations. Its sustainability strategy is closely aligned with the SDGs to contribute to meaningful change around the world, prioritising five SDGs for their relevance to its business: good health and well-being; gender equality; decent work and economic growth; reduced inequalities; and climate action. MetLife is committed to net zero GHG emissions for its global operations and General Account investment portfolio by 2050 or sooner.[1]

AIM continues to have a simple but effective sustainability portfolio management structure in that it relies on Sustainability and Credit teams to independently assess all issuances against its proprietary SPECTRUM criteria for admission into its investible universe. Issuances must pass both the Sustainability and Credit teams' research separately, and both bond and issuer must satisfy AIM's proprietary SPECTRUM analysis.

The Portfolio Management team can therefore construct portfolios from the SPECTRUM universe where all issuances have passed rigorous impact and ESG-risk assessments. Both the Sustainability and Credit teams have individual veto power for all of AIM's investments.

As part of the Verification Committee, the Sustainability team meets once a week to formally discuss impact bonds and determine entry into the investible universe. Individual analysts conduct in-depth reviews of each impact bond for presentation to the team, which then makes a decision to include or not by majority vote.

Activity	Responsibility
Sustainability as part of our corporate mission	Board of Directors
Sustainability research	Sustainability team
Impact bond approval into investment universe	Sustainability team, Credit team
Construction of impact fixed income portfolios	Portfolio Management
Sustainability reporting	Sustainability team
Compliance of portfolios with impact investible universe	Compliance team
Disclosure	Sustainability team

All research and decisions are captured in AIM's internal data management system, ARCH, which feeds into the firm's compliance and trading systems. The SPECTRUM investible universe is therefore intentionally restricted, with climate being a key determining factor. The Portfolio Management team can select securities from this restricted investible universe to construct AIM client portfolios.

Evidencing is core to AIM's business, which in this context means detailed, robust climate-scenario assessment and impact reporting.

Sustainability is truly integrated across all levels of AIM's governance, management, and organisational structure.

[1] https://sustainabilityreport.metlife.com/content/dam/metlifecom/us/sustainability/Sustainability-2023/sustainability-report-site/pdf/2022-sustainability-report.pdf

02

Investment strategy and risk management

AIM's SPECTRUM framework

AIM's investment process is designed to generate positive environmental and social impacts without compromising financial returns.

Since inception, AIM has assessed all its investments using its proprietary SPECTRUM criteria. SPECTRUM can be applied across different types of issuers including sovereigns, supranational, municipals and corporates. In 2022 and 2023 AIM has been updating its approach to sovereigns as this segment of the market continues to evolve.

AIM's investment process is designed to generate positive environmental and social impacts without compromising financial returns.

During the verification phase, the Sustainability team applies AIM's proprietary SPECTRUM Bond® criteria to identify bonds and issuers for inclusion in its impact investment universe.

AIM's verification analysis takes a robust and disciplined approach to analysing the application of ESG principles as its starting point as the Sustainability, Credit and Portfolio Management teams seek to identify eligible investments.

AIM's assessment of climate risks and opportunities covers the short, medium and long term. The climate assessments across different time horizons are used to inform the SPECTRUM verification process, active engagement on climate and an innovative approach to impact reporting.

Impact bond verification overview

S — **SUSTAINABLE**
Aligned with its purpose to support the UN SDGs and Paris Agreement on climate change

P — **POSITIVE EXTERNALITIES**
Positive environmental and/or social externalities associated with the issuance

E — **ETHICS AND ISSUER CONDUCT**
Issuers must have appropriate governance, policies and operational conduct

C — **CREDIT**
Issuers must have a strong financial structure

T — **TRANSPARENT**
Issuers with clear and transparent reporting and disclosure

R — **RESPONSIBLE ISSUER**
Issuers with strong integrity and environmental and social standards, as well as a clear commitment to a sustainable model

U — **USE OF PROCEEDS**
Ability to determine use of proceeds to assure funded activities meet its criteria

M — **MATERIAL AND MEASURABLE**
Issuers with reporting on material and measurable environmental and social impact

Sustainability   Credit

SPECTRUM taxonomy

SPECTRUM is inherently designed to assess and mitigate transition risk and support a low-carbon economy.

Since inception, AIM has maintained an internal environmental and social sector taxonomy that is reviewed and updated annually, as required, to determine eligible investments. These targeted sectors are selected based on the key roles they play in a sustainable transition in support of the Paris Agreement. The environmental sectors are selected based on market and academic research, such as the IEA and IPCC reports and Climate Bonds Taxonomy, with the goal of limiting global warming to below 1.5°C this century following a net zero-by-2050 trajectory.[1]

Environmental sectors

Energy

- Renewable energy generation
- Energy efficiency and renewable energy storage technologies
- Grid transmission, distribution, and infrastructure efficiencies and resilience
- District heating and cooling infrastructure

Resource efficiency

- Pollution prevention and remediation: air, water and soil
- Waste management, reduction and recycling
- Circular economy-related activities
- Efficient and lower-carbon manufacturing products and processes

Transport

- Clean and low-carbon public and private fleets and related infrastructure
- Policies and planning supporting the uptake of sustainable transport

Buildings

- Buildings certified against recognised sustainability building standards
- Buildings undergoing energy efficiency improvements

Resilience

- Infrastructure and systems aimed at preventing and reducing the impact of climate change, including flood-prevention infrastructure, warning systems and disaster response

Information and communication

- Infrastructure development and enhanced efficiency of telecommunications and broadband networks
- Computer programming, consultancy and related activities aimed at delivering positive environmental impacts

Land management and marine environment

- Sustainable agriculture and forestry
- Integrated landscape planning
- Biodiversity conservation and ecosystem restoration
- Sustainable enterprise fishing

Water resource management

- Water-use efficiency: new and retrofitted water supply and consumption infrastructure
- Water restoration and water-quality management, particularly with innovative materials and technologies, and practices

Social sectors

Education, training and employment

- Access to education, safe schools, teaching materials and teachers, food programmes and financial incentives for families
- Employment training for new and re-entering job seekers in green and new-economy sectors

Financial inclusion and sustainable enterprises

- Access to microfinance and financial services in underserved communities through regulation, financial institutions and technology
- Access to funding for SMEs
- Technical, energy and resource-efficiency capacity building for SMEs

Global health

- Access to immunisation and other medical resources and services, through financing, distribution infrastructure and training
- Access to healthcare in the form of hospitals, clinics, trained healthcare workers and information
- Innovation in healthcare products, financing, distribution and services

Food security

- Crop insurance and risk-sharing schemes to increase producer resilience to climate and other stresses
- Water-rights institutions to protect access by vulnerable groups
- New cropping techniques and resilient crop varieties
- Expanded market access through financial, regulatory and physical infrastructure

Empowerment of women and vulnerable groups

- Activities promoting gender equality, e.g. education and training for women and girls
- Access to improved maternal and child-health services
- Social and regulatory services to support protection and resilience of vulnerable and war-ravaged groups

Social housing

- Affordable housing for vulnerable groups
- Access to credit for housing for disadvantaged groups
- Shelter/temporary housing facilities
- Activities and initiatives addressing homelessness
- Integrated community planning

[1] Climate Bonds Initiative (2021) Climate Bonds Taxonomy

SPECTRUM taxonomy

AIM's taxonomy is pragmatic: it largely represents investment opportunities available today based on the use of proceeds market.

As the market expands, and technological and commercial progress continues, the taxonomy used for SPECTRUM will be reviewed and updated. AIM recognises the important role climate adaptation and environmental management play in a sustainable net zero economy and from the outset it has included sectors such as water and wastewater management, which are critical for life, well-being and sustainable ecosystems. AIM actively encourages issuance that targets these activities.

AIM also monitors and actively engages with developments in green taxonomies globally, the most notable being the EU Sustainable Finance Taxonomy, with which its internal taxonomy is closely aligned. Developments in the market and its regulation continue to inform and improve AIM's research and investment strategy.

Supporting the Paris Agreement is a fundamental goal of the SPECTRUM framework, which includes supporting the long-term goal of limiting global warming well below 2°C this century, compared to preindustrial levels, and pursuing efforts to limit to 1.5°C. Eligible sectors under the SPECTRUM framework are therefore selected on the basis that they are aligned with a low-carbon and climate-resilient economy, based on review of science-based and market research, such as the IEA Net Zero by 2050 and Climate Bonds taxonomy.[1]

However, it cannot be solely about the long term. AIM believes that interim climate goals are critical for accountability and monitoring purposes in order to ensure consistency between funded assets and the issuer's climate-risk profile when considering the issuer's overall ESG strategy. Achieving this consistency means reviewing historical metrics, such as issuer carbon footprint and intensity, as well as forward-looking strategies such as decarbonisation and net zero strategies along 2030 and 2050 intervals.

SPECTRUM exclusion policies

Alongside its eligibility criteria, AIM also applies exclusion policies that help it to screen out and manage transition risk. For example, it has a zero-tolerance approach for thermal coal mining, and production and exploration or extraction of unconventional oil and gas. Thermal coal-power generation remains the largest single source of energy-related CO_2 emissions, according to the IEA.[2] AIM, therefore, seeks to avoid investing in corporate issuers that generate 20% or more of their revenues from thermal coal-power generation. It recognises that the energy sector globally is undergoing rapid transformation and may grant a transition exemption on a case-by-case basis where power-producer issuers can demonstrate a verified science-based transition strategy with an at-most-2°C-warming scenario, and with a preference given to 1.5°C-warming scenarios.

AIM has additional exclusion policies, details of which are available on its website.

Active engagement on climate

As impact fixed income investors, AIM sees engagement with issuers as an important action for achieving positive environmental and social impact.

Engagement enables AIM to build closer relationships with relevant issuers, gain a more granular understanding of issuers' sustainability strategies and, importantly, provide a platform for it to encourage them to adopt the highest levels of ambition and transparency around sustainability. AIM also engages with issuers that are excluded from its SPECTRUM investible universe in order to promote sustainability beyond its portfolios and to help them understand what they need to do to become eligible. AIM's engagements often lead to enhanced understanding of how best to engage on key issues and promote industry-leading standards.

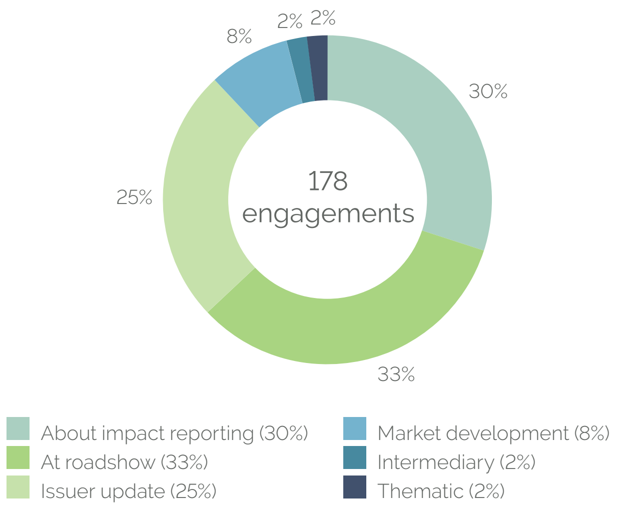
AIM's engagements

From July 2022–June 2023, the Sustainability team carried out 178 engagements, up from 170 in the previous year. Its roadshow engagements increased the most, representing 33% of this year's engagements, compared to 22% last year. Part of this increase is explained by the growing engagement with issuers coming to market. Beyond this increase, the proportion of engagements of each type remains broadly unchanged. The largest proportion of engagements are with issuers included in the investible universe, though a significant number of engagements are conducted with issuers that are excluded. AIM also engages with brokers and other asset managers, and these are shown as 'Market Development' and 'Intermediary' in the chart below.

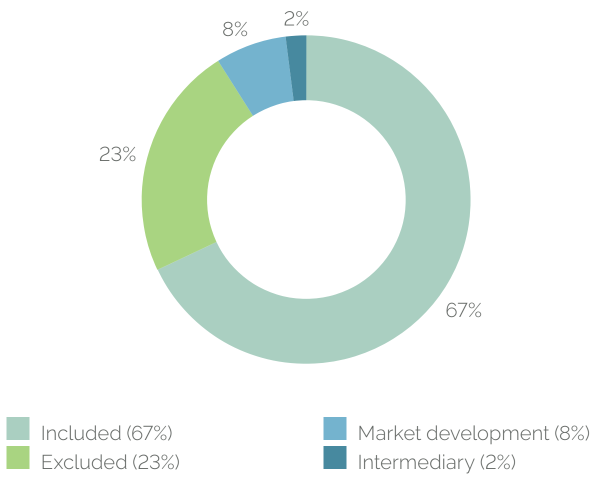
Each year, AIM has held a series of thematic engagements to deepen its knowledge and champion best practices in and around key themes such as adaptive capacity, net zero and/or human rights. In 2023, its thematic engagements explored how issuers manage the human-rights risks associated with the automotive supply chain (see page 16).

AIM also became an endorser of Advance, a stewardship initiative launched by the PRI where institutional investors work together to take action on human rights and social issues. Investors use their collective influence with companies and other decision makers to drive positive outcomes for workers, communities and society. Advance focuses on industries that are critical for the low-carbon transition, such as metals and mining, and the renewables sector.

Type of issuer



Type of engagement



[1] International Energy Agency (2021) Net Zero by 2050, A Roadmap for the Global Energy Sector
[2] International Energy Agency (2022) Coal: https://www.iea.org/fuels-and-technologies/coal

Thematic engagement 2023

Human-rights in EV supply chain

As part of its most recent thematic engagement series, the Sustainability team spoke to issuers from the automotive sector regarding its management of human rights in the supply chain for electric vehicles (EVs).

Intent

1. Deepen its understanding of how key players identify, manage and disclose human-rights risk
2. Advocate for industry-leading standards
3. Engage on human rights as part of AIM's role as a participant in the PRI Advance initiative

Approach

- Both a thematic and collective approach to engaging on human-rights issues in the EV supply chain
- The definition of human rights used is grounded in the International Bill of Human Rights.
- AIM selected issuers along the EV supply chain in all the major regions for targeted one-to-one engagements
- AIM engaged with issuers both within and outside its SPECTRUM universe and tailored our questions to each issuer

Outcomes

- Each issuer in AIM's engagement aligns its human-rights policy with UN Guiding Principles on Business and Human Rights
- Issuers have widely varying levels of development in their ability to identify, manage and disclose on human-rights risks
- All the automotive manufacturing issuers AIM spoke to regularly engage with investors on human-rights risk management
- Several mining issuers, for example copper miners, had not previously received targeted investor interest on the topic.
- Issuers' remediation efforts range from pausing operations on specific sites to terminating relationships with suppliers
- There is wide variation in disclosure on human-rights risk management and performance across business and supply chain

Engaging on physical risk

Following AIM's forward-looking physical-risk assessment of green bonds, which it conducted with South Pole between 2019-2021, the firm integrated some of its insights into a pilot as part of its SPECTRUM verification process in 2022.

The pilot focused on project-level physical-risk scenario assessment since AIM portfolios are predominantly in use of proceeds bonds, supporting hard assets that generate positive environmental and/or social impacts across the world.

A three-step assessment found that green assets can be just as vulnerable to physical risks as non-green assets. However, through extensive engagement, AIM also found that several green bond issuers were sophisticated in their risk and vulnerability identification and management. Access to data and disclosure related to physical-risk assessment and management is still in its infancy and the firm will continue to actively engage on the matter to encourage greater meaningful disclosure on the subject.

The pilot assessment in 2022 identified 17 issuers that were lagging on disclosure on physical risk and adaptive capacity and AIM went on to conduct a thematic engagement with these issuers to gather more information.

AIM's three-step assessment

Forward thinking

Hotspot analysis

Engagement and assessment

Results

Most issuers perform some kind of physical-risk assessment or are planning to conduct it. However, few issuers provide details on the timeframe of these assessments or the climate models used, and disclosure remains very uneven across issuers and sectors, with limited information provided publicly.

The majority of issuers in this engagement look at risks at the asset level, at least when assessing mitigation measures. Among the rail issuers, some are prioritising assessing the segments of their networks that show the greatest risks, with whole-network assessments planned by 2030.

CASE STUDY | LO Funds – Global Climate Bond 2019-21

Three-step physical-risk analysis

The three-step physical-risk analysis, originally conducted in 2019 in collaboration with South Pole, sought to incorporate an issuer's awareness and any actions taken that related to specific climate risk exposure and vulnerability for the project(s) identified. High exposure to climate-related hazards could negatively impact an asset's ability to deliver benefits by causing partial or complete damage to equipment and infrastructure.

Step 1 Forward-looking physical risk assessment

The first part of AIM's three-step process assessed physical risk under four global-warming pathways, using geospatial climate modelling of localised climate impacts for each asset and provided a measure of physical risk as a negative percentage change in output. This yielded an indicative measure of the extent to which a specific asset is exposed to disruptive and potentially destructive impacts of climate change.

Percentage of LO Funds - Global Climate Bond covered by analysis (%)	Portfolio risk score at 1°C	Portfolio risk score at 2°C	Portfolio risk score at 3°C	Portfolio risk score at 4°C
58%	0.3%	1.5%	7.8%	31%

Step 2 Hotspot analysis

The second step assessed the potential future exposure of projects and assets to specific climate-related hazards. AIM looked at five hazards directly related to the impact performance of renewable-energy assets, assessing the change in frequency or intensity of the hazard under different climate-change scenarios (see table below).

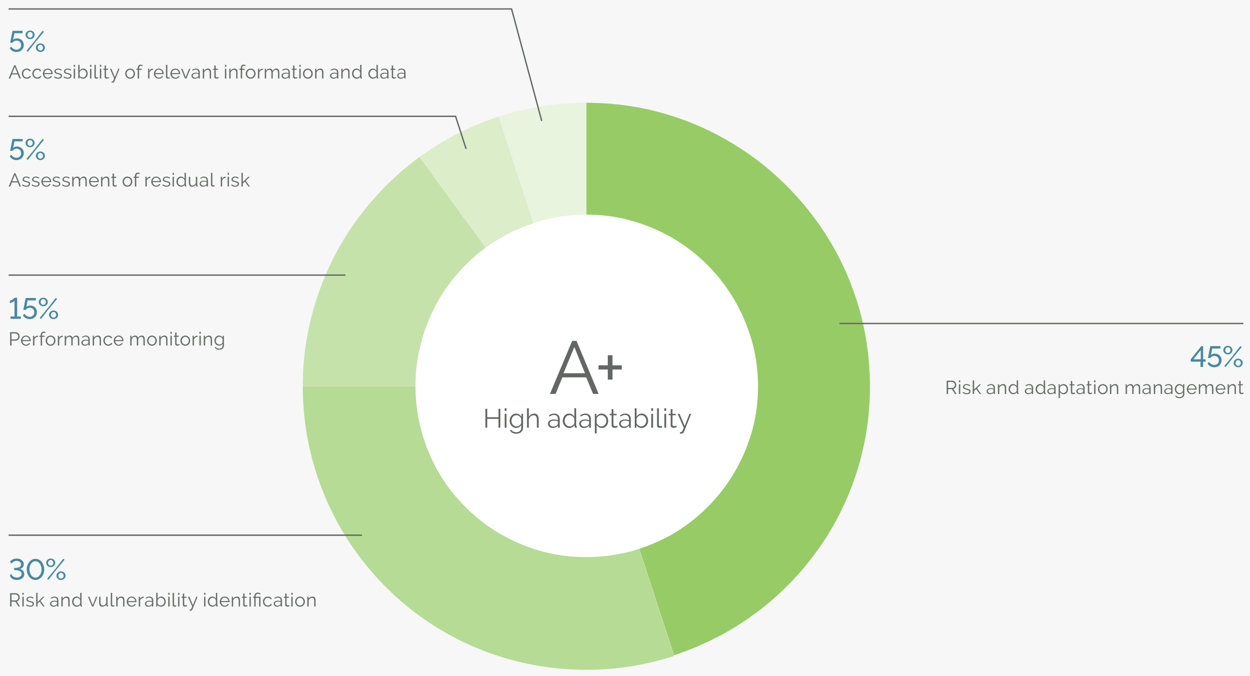
Hazzard	Indicator
Heavy precipitation	Monthly maximum consecutive five-day precipitation (Rx5day)
Floods (river)	Inundation height for 100-year return period
Coastal flooding (sea level rise – storm tides)	Inundation height for 100-year return period
Heatwave	Warm spell duration index (WSDI)
Mean temperature	Daily mean temperature

Step 3 Adaptive capacity engagement and assessment

AIM developed a methodology with South Pole to identify and engage with impact bond issuers to assess their adaptive capacity to future climate change. High exposure to climate-related hazards could negatively impact an asset's ability to deliver benefits by causing partial or complete damage to equipment and infrastructure.

Adaptive capacity is the capacity of an organisation, project or asset to adjust to "actual or expected climate and its effects", as outlined by the Intergovernmental Panel on Climate Change (IPCC) definition of adaptation. To assess the adaptive capacity and resilience planning in place for projects funded by green bonds within its portfolios, AIM held targeted thematic engagements with eight key issuers. The engagement explored and collected data relating to adaptation and resilience measures, such as early-warning systems or special design choices to increase resilience, which in turn served to guide the assessment and scoring process. The process was built on five pillars:

Adaptive capacity matrix:



Each pillar was scored based on the robustness of policies and procedures in place. Scoring at a more granular level, and providing supporting documentation within its internal reports, allowed AIM to perform more robust and informed engagement. The score for each pillar was then weighted and aggregated to produce a final issuer-level score, which allowed comparisons across issuers and sectors.

Evidencing AIM's climate commitment through reporting

The SPECTRUM investible universe is built around a mission: to select impact bonds yielding positive environmental and social benefits supporting the Paris Agreement and Sustainable Development Goals. Impact reporting is an important part of evidencing its effectiveness in delivering on this mission.

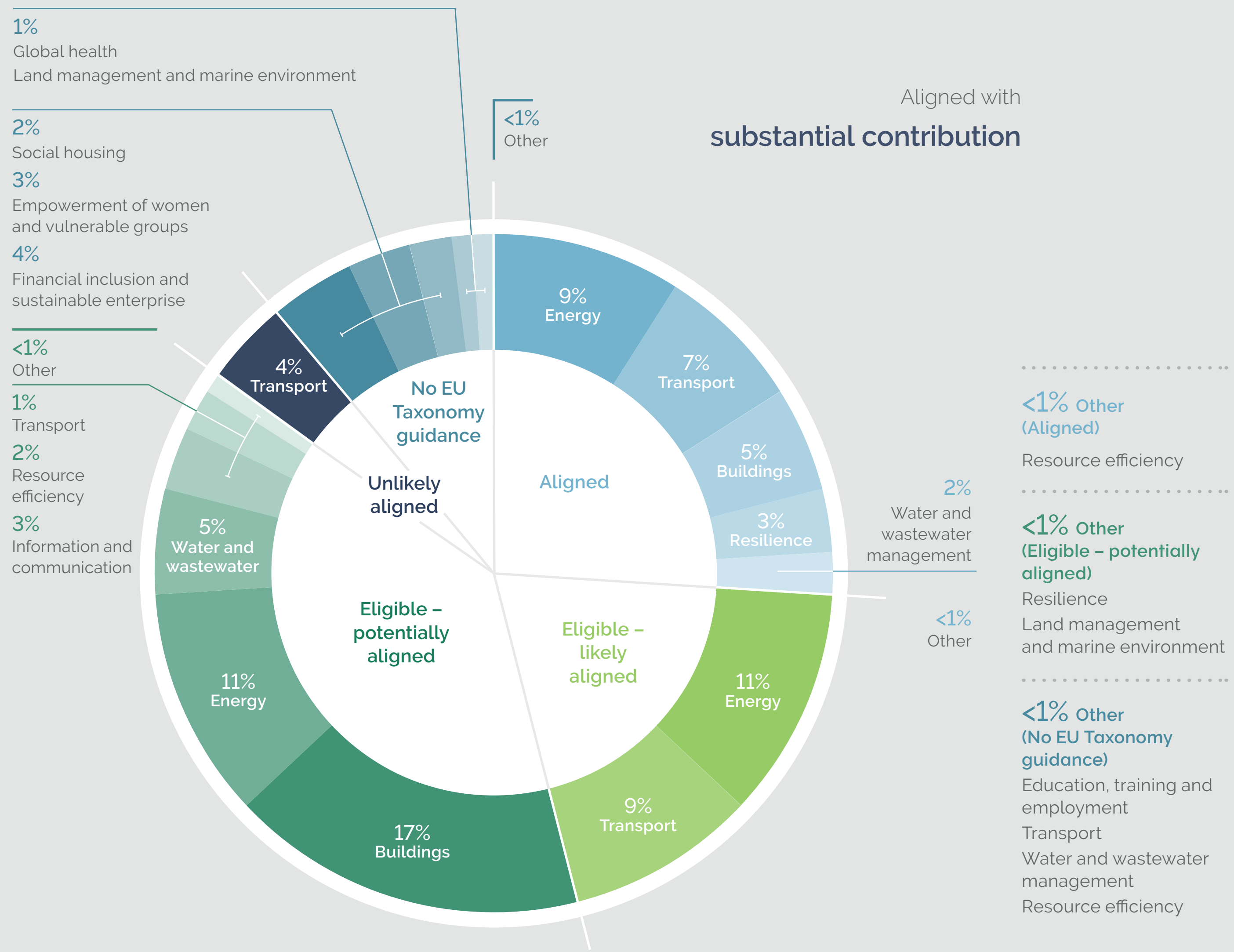
Every year, the Sustainability team collects data on the use of proceeds and impact-performance indicators of the bonds it invests in. The use of proceeds bond structure defines the types of activities to which issuers can allocate proceeds and is typically accompanied by annual impact reports. However, publicly available data is not adequate to support comprehensive and harmonised impact reporting: there are gaps in the data and issuers use different methodologies to calculate their impact metrics. To address this shortcoming, the Sustainability team engages with issuers to access additional data and applies a common methodology to calculate key climate metrics such as potential avoided GHG emissions. It also takes a conservative approach in its impact calculations and seeks to limit double-counting by pro-rating impact to its portfolio holdings on a time-weighted basis.

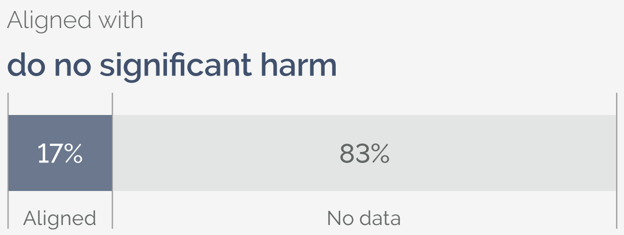
In 2023, the Sustainability team expanded its EU Taxonomy study to cover alignment and eligibility, rather than merely give an indication of eligibility. This move took it from commenting on where EU Taxonomy guidance exists to commenting on where projects and activities align to the EU Taxonomy. This is the first time AIM has reported on its portfolio's EU Taxonomy alignment.

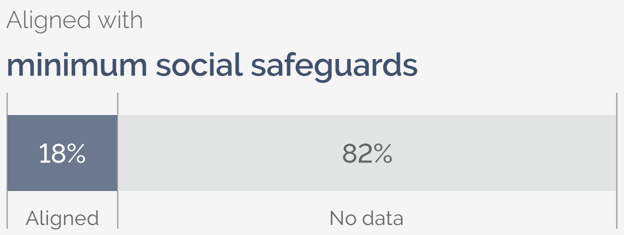
CASE STUDY | LO Funds – Global Climate Bond 2022

EU Taxonomy alignment and eligibility

The chart shows alignment and eligibility of the portfolio by sector:







Coverage ratio of 89% of 2022 average portfolio holdings

In 2022, AIM portfolios supported over 2,700 projects across 165 countries. The climate-related GHG metrics to which AIM portfolios are subject are detailed in its impact reports as well as in section 3 of this report.

Example topics covered in AIM's impact reports include bottom-up sector and geography mapping, net zero alignment of funded projects, the potential avoided emissions of our portfolios, how issuers manage physical risks and a deep-dive into the carbon intensity of its portfolios.

We also include Sustainable Finance Disclosure Regulation (SFDR) reporting as standard across all our portfolios.

Sustainable Finance Disclosure Regulation reporting (SFDR)

The EU's Sustainable Finance Disclosure Regulation (SFDR) sets out disclosure requirements that apply to investors and financial advisers. It affects EU financial market participants and non-EU financial market participants that are managing EU-domiciled funds or marketing into the EU.[1]

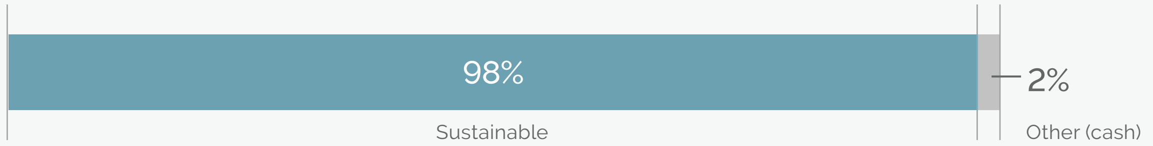
The table opposite reports against the mandatory Principal Adverse Impacts (PAIs) as stipulated by the SFDR. The LO Funds – Global Climate Bond is an Article 9 fund, meaning that it has a sustainability objective, has a minimum commitment to make sustainable investments, and fully complies with the disclosures required under SFDR. Since this year is the first year AIM has been required to report against the PAIs, it has not provided a comparison between this year and last year.

Defining sustainable investments

SFDR's definition of a sustainable investment is relatively broad. It must (i) contribute to an environmental or social objective, (ii) it must not significantly harm other environmental or social objectives, and (iii) it must follow good governance practices at the investee-company level.

AIM uses its SPECTRUM process to determine whether an investment can be considered a sustainable investment and has not needed to make any adjustments to satisfy the SFDR principles. The LO Funds – Global Climate Bond commits to hold a minimum of 85% in sustainable investments. Over 2022, it significantly exceeded this minimum with 98% in sustainable investments.

Defining sustainable investments



Coverage for each metric has been included because the figures vary significantly depending on the metric and AIM believes it is important to understand the results in the context of the achieved coverage. Data products in this space are evolving rapidly and coverage has already increased and products improved since last year.

The EU's SFDR continues to develop. In April this year, the European Supervisory Authorities published a consultation paper proposing amendments.[2] This included clarification of what constitutes a sustainable investment, compliance with the Do No Significant Harm (DNSH) principle, GHG emissions-reduction targets and the use of Paris-aligned or climate-transition benchmarks in justifying the Article 9 label. The consultation closed in July 2023.

Other regions around the globe are now following the EU's lead. The US Securities and Exchange Commission (SEC) is working on ESG disclosure rules for investment companies and advisers, and rules to address misleading naming of investment products. The UK Financial Conduct Authority (FCA) conducted a consultation on its Sustainability Disclosure Requirements (SDR) and investment labels. Australia and New Zealand have announced plans to align sustainable finance frameworks and the Australian government recently included A$14.2m in its budget for establishing a sovereign green-bond programme, supporting the Australian Securities and Investment Commission's (ASIC) work on greenwashing and funding the development of a sustainable-finance taxonomy.

While there is no specific legislation in Japan, there are sustainable-finance guidelines issued by governmental bodies, such as the Ministry of Environment, the Financial Services Agency and the Ministry of Economy, Trade and Industry. These follow international best practice such as ICMA's principles.

SFDR Article 9 classification for all European funds

PAIs[3]	Value	Coverage[4]	Data source[5]
Mandatory PAIs			
GHG emissions (scope 1)	6,037tCO_2e	79%	S&P
GHG emissions (scope 2)	1,577tCO_2e	79%	S&P
GHG emissions (scope 3)	31,799tCO_2e	79%	S&P
Carbon footprint	85.8tCO_2e/EURm	79%	S&P
GHG intensity of investee companies	284.6tCO_2e/EURm	79%	S&P
Exposure to companies active in the fossil-fuel sector (see page 24)	5%	29%	Clarity AI
Share of non-renewable energy consumption	53%	27%	Clarity AI
Share of non-renewable energy production	44%	5%	Clarity AI
Energy consumption intensity per high-impact climate sector	2.4GWh/EURm	11%	Clarity AI
Activities negatively affecting biodiversity sensitive area	1.5%	28%	Clarity AI
Emissions to water	0t/EURm invested	10%	Clarity AI
Hazardous waste ratio	0.9t/EURm invested	18%	Clarity AI
Violations to UNGCP and OECD guidelines	0%	28%	Clarity AI, ISS Datadesk and in-house research
Lack of processes and compliance mechanisms to monitor compliance with UNGCP and OECD guidelines	0%	26%	Clarity AI
Unadjusted gender pay gap	17%	21%	Clarity AI
Board gender diversity	34%	37%	Clarity AI
Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical and biological weapons)	0	31%	Clarity AI
Sovereign and supra PAIs			
Sovereigns and supras: GHG intensity incl. LULUCF	56.8tCO_2e/EURm	8%	S&P
Sovereigns and supras: GHG intensity excl. LULUCF	56.2tCO_2e/EURm	8%	S&P
Sovereigns and supras: investee countries subject to social violations	0	3%	Clarity AI
Optional PAIs			
Share of bonds not issued under EU legislation on environmentally sustainable bonds (see below)[6]	83%	89%	Issuer reported
Severe human rights issues and incidents identified	0 cases	28%	Clarity AI

[1] PRI (Feb 2022), Investor Briefing: EU Regulation on Sustainability-Related Disclosures in the Financial Services Sector.
[2] The European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA).
[3] For definitions of the PAIs please refer to 'Annex 1 principal adverse sustainability impacts statement' that can be found here: https://www.eiopa.europa.eu/publications/principal-adverse-impact-and-product-templates-sustainable-finance-disclosure-regulation_en
[4] The LO Funds – Global Climate Bond is held 91% in corporates and 8% in sovereigns. Coverage figures should be reviewed with this in mind, as 8% coverage on the sovereign metrics is high rather than poor coverage.
[5] Some data sources have been amended compared to last year's reporting so data is not directly comparable. Clarity AI data pulled 17/07/2023.
[6] This metric is based on the EU Taxonomy alignment case study that can be found on pages 21.

Understanding PAIs

AIM takes the view that some of the PAIs can be misleading if presented without context, and therefore provides additional detail for the following:

Exposure to companies active in the fossil-fuel sector:
Given that AIM's portfolios are impact portfolios with strong verification processes, it may seem surprising that there is any exposure to companies active in the fossil-fuel sector. Exposure in this portfolio comes from the following issuers and AIM believes it is important to explain their levels of exposure since it could otherwise be inferred from the PAI that these are purely fossil-fuel companies. Its holdings in each of the issuers below are in labelled bonds only.

Issuer	Fossil-fuel exposure per SFDR definition[1]	Other fossil-fuel exposure[1]
A2A SpA	6.2% natural gas distribution, 1.7% thermal coal transmission and distribution,	13.8% natural gas power generation, 1.4% petroleum power generation, 0.6% thermal coal power generation
Hera SpA	52% natural gas power distribution	7.8% natural gas power generation
SSE Plc	10.1% natural gas distribution	19.7% natural gas power generation, 0.5% petroleum power generation

Climate-integrated investment and risk management

Assessing climate risk and opportunities is fundamental to the SPECTRUM investment process. All AIM strategies have an explicit climate and sustainability objective: climate, as well as sustainability, factors are determinant in a bond and/or issuer entering its investment universe. Portfolio managers therefore construct portfolios on a risk-adjusted-returns basis from a defined universe where climate risk and opportunity have already been factored in. If an impact bond framework and/or issuer does not meet its climate and environmental criteria, they cannot be included in AIM's portfolios.

[1] Revenue exposures from S&P.

03

Metrics and targets

Reporting on AIM's Net Zero Asset Management targets

In 2021, AIM became a member of the Net Zero Asset Management (NZAM) initiative and in the third quarter of 2022 its net zero target was formally accepted by NZAM, which means that 2023 is the first year in which it has reported on its progress towards its NZAM targets.

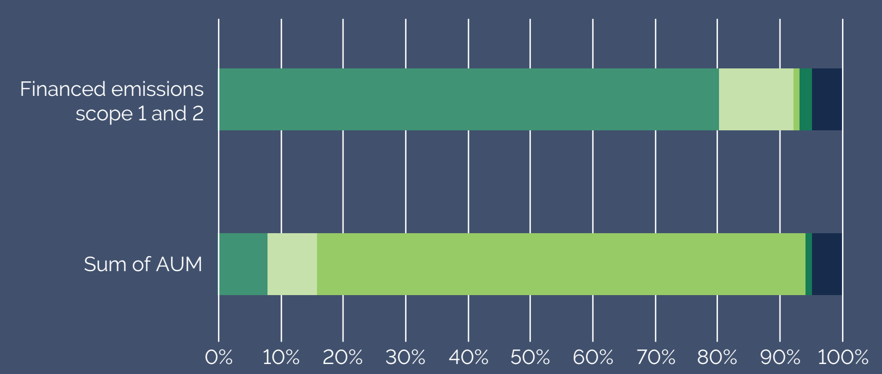
AIM's targets

By 2030, 85% of financed emissions from corporate bond issuers held in its portfolios will be invested in issuers that are considered Paris-aligned.

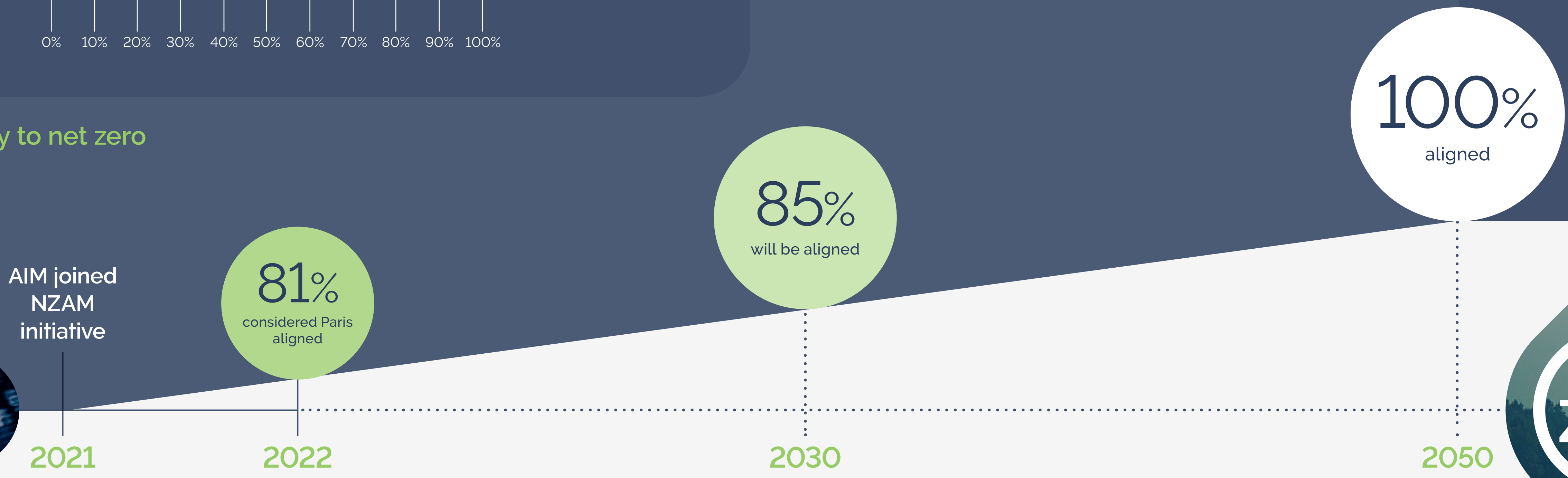
Progress so far

In 2022, 81% of AIM's portfolio-financed emissions were from issuers considered Paris-aligned. This provides a strong basis to increase the coverage of its targets in the future.

Sector effects on financed emissions



Pathway to net zero



Net zero alignment

In determining whether a company is aligned with a net zero future, AIM uses robust forward-looking assessments including the Science-Based Targets Initiative. These assessments compare an entity's targeted emissions reductions with the reductions required to achieve net zero emissions by 2050, to determine whether it can be considered aligned. This is supported by AIM's research approach, which allows it to consider not only the strength of the targets, but also the strategy to achieve them.

Financed emissions

For its target, AIM has used financed emissions to apportion alignment across its portfolios. This helps to align its focus with the real-world emissions impact of portfolio companies, ensuring that it must target higher emitters first and foremost. Financed emissions can be viewed as the proportion of the invested entities' total emissions that are attributable to AIM's investment.

Alignment is currently heavily determined by sector. Those sectors that have more-advanced target-setting methodologies display very high coverage. The Sustainability team's focus must therefore be on industrials and financials in particular, which performed comparatively poorly. It also expects the currently shown performance to be a marginal overestimate, as scope 3 emissions are currently not included in the financed-emissions assessment due to data issues. Once scope 3 data is sufficiently robust to be included, the GHG impact of financials will increase. The team expects industrials to be the near-term focus as, across all portfolios, just 6%[1] of financed emissions from industrials come from industrials that are committed to setting science-based targets soon. Given these systemic challenges in increasing coverage, it is great to see strong performance against the targets for those sectors that can be easily assessed.

Breakdown of intra-sector alignment

[1] https://affirmativeim.com/wp-content/uploads/2023/08/lo-gcb-impact-report-2023-final.pdf

CASE STUDY | LO Funds – Global Climate Bond 2022

Assessing the net zero alignment of SPECTRUM portfolios

Following a pilot covering 2021, AIM has conducted a full assessment of the net zero alignment of its 2022 funded projects.

This analysis helps AIM understand how its projects align with a net zero-by-2050 future, which is required to achieve the Paris Agreement objective of limiting global warming to 1.5°C this century. Investing in line with these targets is a critical part of AIM's mission.

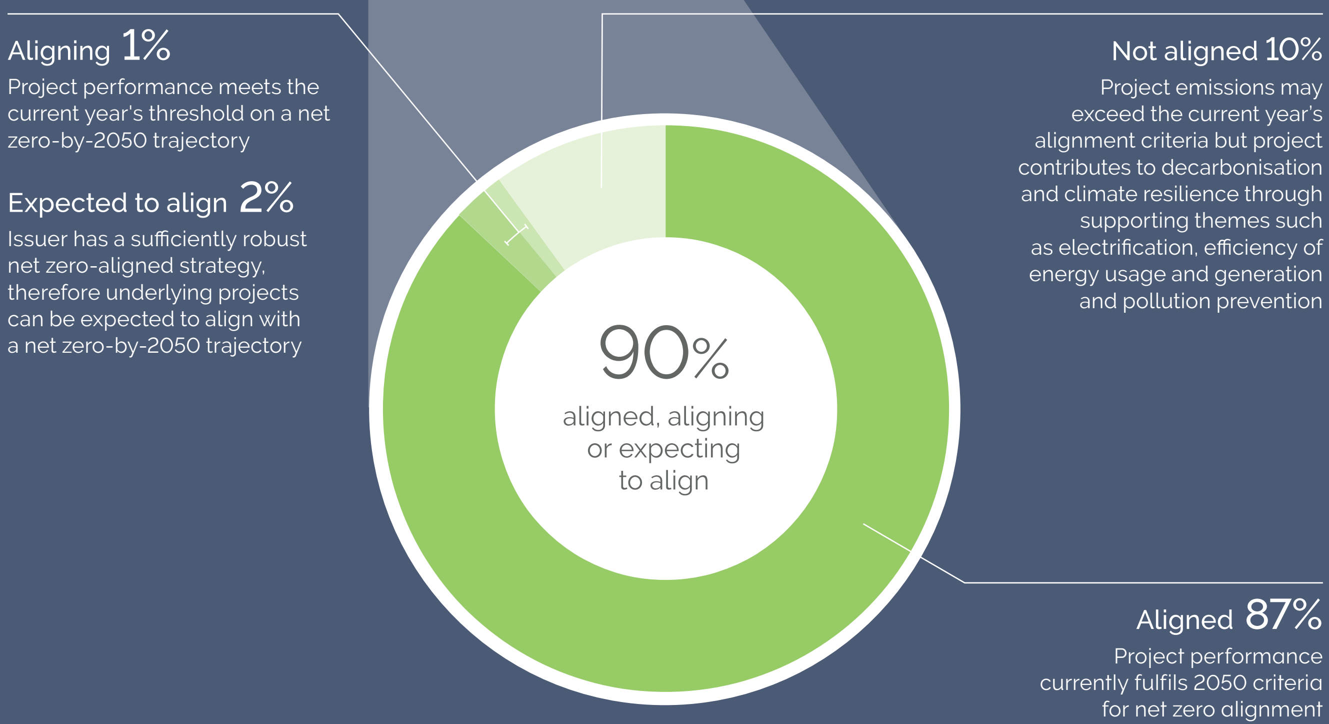
To be suitable for this analysis, projects have to have a climate goal. Social projects, which do not, are therefore not eligible. So, AIM has focused on the three sectors that make up most of its funded projects: energy, transport and buildings.

Out of the pool of eligible projects, 42% had data available. Within that component, 90% were aligned, aligning or expected to align with a net zero-by-2050 future. This evidences the effectiveness of AIM's SPECTRUM verification process in selecting projects that actively support the transition towards a net zero world.

The Sustainability team acknowledges that data is not sufficiently complete/available to fully run net zero-alignment analysis across its portfolios.

Eligible pool data availability

Alignment of eligible pool with data



CASE STUDY | Renewable energy in the Philippines

Burgos wind farm project

Issue: **Asian Development Bank Green Bond**

Project:
A19. Philippines: 150MW Burgos Wind Farm
Construction and operation of a 150MW wind-farm project in the province of Ilocos Norte.

Net zero-by-2050 status:
Aligned
The project performance currently fulfils 2050 criteria for net zero-alignment.

Electrification and renewable energy in the Philippines can be considered fully aligned to a net zero future. This project funded the development of a wind farm in the region of Ilocos Norte in the Philippines. The project has been built in two phases. Phase 1 included the installation of 29 wind-turbine generators with a capacity of 87MW, the construction of a wind-farm substation; and the construction of a 42km transmission line. Phase 2 consisted of the installation of an additional 21 wind-turbine generators with a capacity of 63MW. The wind farm covers an area of approximately 686 hectares across three local districts or 'barangays' – Saoit, Poblacion and Nagsurot.

Climate-related disclosure in decision-making

The proprietary SPECTRUM investment process makes climate-related disclosure a critical component of decision-making and 100% of its investible universe has been assessed and passed on climate-related analysis. This approach is well aligned with the TCFD guidance to focus on decision-useful disclosure and metrics.

The TCFD recommendations support AIM's Responsible Issuer review by providing structure and incentive for issuers to disclose on how climate and sustainability are governed, their previous performance and forward-looking climate strategy, as well as their climate-risk management and disclosure of relevant metrics and targets.

Examples of the climate disclosures AIM assesses include: GHG emissions and intensity analysis (scope 1,2 and 3); climate and Paris-aligned decarbonisation strategies with focused incremental goals; climate governance and management structure; assessment of pattern and practice of controversies; alignment of business activities to a low-carbon and climate-resilient economy on a historical and forward-looking basis; and supply-chain management and physical-risk.

Measuring potential avoided GHG emissions

A bottom-up assessment of the potential avoided GHG emissions of the projects funded by a bond's proceeds is the most comprehensive way to demonstrate the robustness of the SPECTRUM methodology in generating positive climate impact.

Since its first impact report in 2017, AIM has independently measured the GHG emissions abatement impact of SPECTRUM portfolios following the Carbon Yield methodology, which it co-developed with Lion's Head Global Partner and ISS ESG with funding from the Rockefeller Foundation. Carbon Yield calculates impact in terms of the potential avoided emissions (PAE) enabled by funded projects in terms of tonnes of CO_2e/year/US$1m.

CASE STUDY | LO Funds – Global Climate Bond 2022

Carbon Yield™

AIM's 2023 impact reports covered 65% of its 2022 AUM for PAE analysis. The remaining proportion was deemed either ineligible, as those holdings related to activities not expected to have significant mitigation potential, such as cash and/or social bonds, or was not covered due to insufficient data.

AIM's assessment with ISS ESG shows that across its 2022 portfolios, it achieved a Carbon Yield of 120.7tCO_2e of avoided emissions per US$1m per annum. This equates to avoiding 141,608 tonnes of CO_2e in total, which in turn is equivalent to the carbon that over 200,000 acres of US forests would sequester in one year. This translates to estimated GHG savings of 54% in a scenario where these projects were not funded.[1]

AIM remains conservative with its avoided-emissions analysis, using a dynamic IEA baseline that assumes current climate policies will be implemented in the future when it assesses its climate mitigation impact.[2] The importance of using conservative methodologies and of encouraging issuers to adopt best practice and be transparent about how they calculate GHG impacts is discussed in AIM's impact reports.

2022 SPECTRUM Portfolio Carbon Yields:

- STEPS
- NZE

Funded-projects avoided emissions 120.7tCO_2e per US$1m per annum → This equates to 54% GHG-emissions savings

CARBON YIELD

Funded-projects avoided emissions 73.2tCO_2e per US$1m per annum → This equates to 42% GHG-emissions savings

[1] US EPA See Acres of U.S. forests sequestering CO_2 for one year section: Greenhouse Gases Equivalencies Calculator – Calculations and References | US EPA
[2] IEA, Stated Policies Scenario (STEPS)

2022 TCFD recommended issuer metrics disclosure

AIM has reported on several of these metrics since 2019 in its portfolio impact reports but here, in its first standalone TCFD report, is a comprehensive list of TCFD recommended metrics:

Metric	2022	Unit	Definition
Coverage			
Emissions data coverage of AUM	86.5%	% of AUM	Issuer scope 1, 2 and 3 GHG emissions data for the calendar year 2020, where available, or 2019. Where possible AIM takes reported emissions data. If it is absent, estimated emissions are used. Both are supplied from S&P Trucost. Reported or estimated scope 2 emissions reflect location-based emissions, which are more conservative figures compared to using market-based emissions.
Issuer GHG metrics			
AUM WACI [1] (scope 1 and 2)	59.3	tCO_2e/US$m revenues	AUM exposure to carbon-intensive companies. Scope 1 and scope 2 GHG emissions are allocated based on aggregated portfolio weights (the current value of the investment relative to the current portfolio value).
Corporate and Agency WACI (scope 1 and 2)	39.6	tCO_2e/US$m revenues	WACI value for AIM's corporate and agencies holdings (covers 72% of AUM)
Sovereign and Regulator WACI Production-based Approach	19.7	tCO_2e/US$m PPP-GDP in 2021	WACI value for sovereign and regulator holdings (covers 10% of AUM) using a production-based approach, which covers domestic consumption and production emissions as well as those linked to exports.
Sovereign and Regulator WACI Territorial Approach	19.7	tCO_2e/US$m	WACI value for sovereign holdings (covers 10% of AUM) using a territory-based approach covers production-based emissions as well as emissions attributable to imports.
Total Carbon Emissions (scope 1 and 2)	11,374.6	tCO_2e	Absolute GHG associated with AIM's AUM.
Carbon Footprint (scope 1 and 2)	14.2	tCO_2e/US$m Invested	Total carbon emissions of AIM's AUM normalised by the market value of its portfolios

[1] Weighted Average Carbon Intensity – see page 38

Metric	2022	Unit	Definition
Green assets			
Investment in SPECTRUM impact bonds	99%	% of AUM	Investment in bonds that have passed the SPECTRUM verification process. Remainder in cash and equivalents.
Investment in green and sustainability bonds	85%	% of AUM	Refers to unlabelled (pureplay) and unlabelled use of proceeds green and sustainability bonds. Sustainability bonds include environmental and social use of proceeds. The remainder of the investments are in social bonds and SPECTRUM aligned bonds.
Investment in green bonds	75%	% of AUM	Refers to labelled use of proceeds green bonds and unlabelled (pureplay) use of proceeds green bonds.
Investment in green projects	88%	% of aggregated portfolios use of proceeds sector distribution	Investment in green projects through use of proceeds bonds on a portfolio time-weighted basis. Use of proceeds data was available for 95% of portfolio holdings. Green projects occur in green and sustainability use of proceeds bonds, hence this % being higher than investments in green bonds.
Investment in net zero-by-2050 aligned or aligning projects	89%	% of projects supported for which data was available	Investment in projects determined as aligned or aligning to a net zero-by-2050 trajectory that were eligible for analysis and with available data. 48% of projects were eligible for net zero analysis with available data.
Climate targets			
Net Zero Asset Managers approved target	85%	% of financed emissions from corporate bond issuers held in SPECTRUM portfolios will be invested in issuers that are considered Paris-aligned by 2030	Paris alignment is determined as setting verified scienced-based targets or equivalent verified decarbonisation commitments. AIM's target refers to 90% of its AUM as it deliberately excluded sovereign bonds from the target currently given the lack of commonly accepted and appropriate methodology to assess sovereign alignment. However, the sovereign bonds that are included in the SPECTRUM Investible universe all continue to be assessed for their climate policies and risk management, and are largely in use of proceeds green, social and sustainability bonds.
Net Zero Asset Managers Initiative commitment	90%	% of AUM	As an NZAM signatory, AIM committed to supporting the goal of net zero GHG emissions by 2050, in line with global efforts to limit warming to 1.5°C. This includes committing to support investing aligned with net zero emissions by 2050 or sooner.

Assessing the climate-related risk of SPECTRUM portfolios

GHG metrics are used to estimate positive climate impact, and to analyse climate-related transition risk. This supports the understanding of positive impacts within the context of how well financed GHG emissions, intensity, and exposure have been managed.

To do this, AIM considers a range of project and issuer-level metrics as recommended by TCFD and SFDR, on the basis that this combination of data provides the most comprehensive view available.

Project Metric	tCO_2e per annum
Scope 1 and 2 GHG emissions footprint	84,508
Scope 1, 2 and 3 GHG emissions footprint	106,573

For examples of project-level metrics, see pages 30-31 and 33.

Issuer carbon metrics

Issuer GHG-emissions metrics are calculated by the Sustainability team, in line with the TCFD recommendations for asset managers. These metrics include the Weighted Average Carbon Intensity (WACI).

AIM also reports issuer carbon metrics aligned with the requirements of the European Commission's Sustainable Finance Disclosure Regulation (SFDR).

A key difference between TCFD and SFDR metrics is that TCFD metrics only cover scope 1 and 2 emissions, while SFDR metrics cover scope 1, 2 and 3 emissions. The table below shows the results of the issuer GHG emission analysis of the 2022 portfolio holdings and featured both SFDR and TCFD metrics to facilitate comparisons and highlight the different emission scopes coverage.

Issuer metric	TCFD reporting (scope 1 and 2)	SFDR reporting (scope 1, 2 and 3)
WACI		
Aggregated portfolio WACI[2] (tCO_2e/US$m)	59.3	279.2
Aggregated coverage	87%	87%
Benchmark WACI (tCO_2e/US$m)	182.8	433.3
Portfolio WACI vs benchmark WACI	68% lower	35% lower
WACI breakdown		
Corporate WACI[3] (tCO_2e/US$m revenue)	39.6	242.7
Sovereign WACI[4] (tCO_2e/US$m PPP-adjusted GDP)	19.7	36.5
Emissions footprint[5,6]		
Scope 1 emissions (tCO_2e)	8,760	8,760
Scope 2 emissions (tCO_2e)	2,615	2,615
Scope 3 emissions (tCO_2e)	n/a	44,613
Total GHG emissions (tCO_2e)	**11,375**	**55,988**
Carbon footprint (tCO_2e/US$m invested)	**14.2**	**69.9**

WACI helps to capture AIM portfolios' current carbon-risk levels. Comparisons with a mainstream benchmark show WACI to be a compelling indicator of AIM's positive climate impact, evidencing its commitment to investing in responsible issuers. For a deep dive into AIM's WACIs, see page 38.

[1] In relation to scope 1 and 2 emissions

Assessing Weighted Average Carbon Intensity (WACI)

GHG emissions metrics for SPECTRUM portfolios are calculated in line with the TCFD recommendations for asset managers. These metrics include the Weighted Average Carbon Intensity (WACI).

What is Weighted Average Carbon Intensity?

WACI provides a weighted average of the carbon intensity for each issuer held within the portfolio, calculated based on tCO_2e per US$1m of revenue (for corporates) and tCO_2e per US$1m Purchasing Power Parity-adjusted GDP (for sovereign-related issuers).[1]

WACI

WACI is a snapshot metric; it shows a portfolio's carbon-intensity at one point in time and does not capture issuers' emission-reduction commitments or the decarbonisation trajectory. It is influenced by the portfolio's sectoral composition; some sectors are inherently more carbon intensive than others. WACI is not a key driver for decisions made within the SPECTRUM process; however it is as an indicator of the effectiveness of the climate assessment performed as part of the SPECTRUM validation process.

$$\sum_{n}^{i} \left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} \times \frac{\text{issuer's scope 1 and 2 GHG emissions}_i}{\text{issuer's US\$m revenue}_i} \right)$$

[1] The WACI should be regarded as an assessment of the carbon profile for the share of the portfolio covered by the analysis. The WACI was calculated by maintaining original portfolio weights. The same approach was used for the benchmark.

CASE STUDY | LO Funds – Global Climate Bond 2022

CASE STUDY | LO Funds – Global Climate Bond 2022

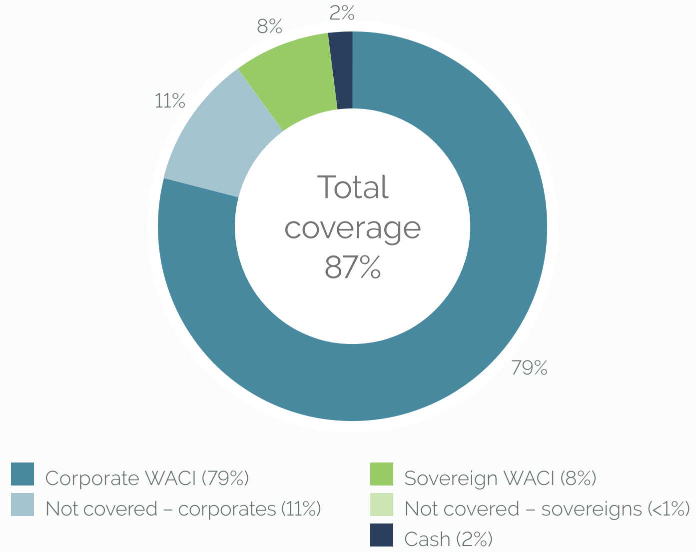
Reporting on WACI

In addition to supporting progress towards its own net zero target, this example portfolio also has a relatively low aggregated WACI.

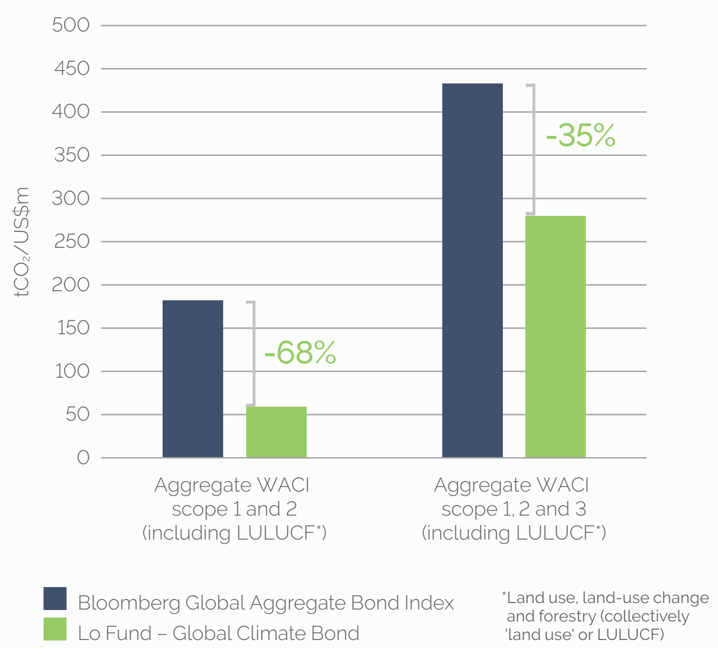
The team was also able to raise the WACI coverage of this SPECTRUM portfolio to 86.6%, an increase of almost seven points on last year's coverage.

Alongside the portfolio WACI, separate WACI figures have also been calculated for sovereigns, and regulators, and corporate and agency issuers. These two types of issuers pose different methodological and data-availability challenges, with the methodologies and data behind corporate WACI being more advanced than those of sovereign issuers. For this reason, the two figures cannot be directly compared. Publishing both figures ensures that AIM continues to deliver the highest level of transparency in its reporting.

2022 WACI coverage by portfolio weights



Portfolio vs Benchmark WACI



Benchmarking WACI results

In line with its previous reporting, AIM has continued to provide a benchmark for the portfolio WACI to help contextualise a portfolio's performance. The example portfolio had an aggregated scope 1 and 2 WACI of 58.9tCO_2e/US$m.[2] When scope 3 emissions are included, the aggregated WACI increases by nearly five times to 279.6tCO_2e/US$m.[3]

Using the same data sources and methodology, AIM calculated an aggregated WACI for Bloomberg Global Aggregate Bond Index, achieving an 84% coverage. The Bloomberg Global Aggregate Bond Index's benchmark aggregated scope 1 and 2 WACI is 182tCO_2e/US$ while its aggregated scope 1, 2 and 3 WACI is 433.3tCO_2e/US$m. That means the portfolio's aggregated scope 1 and 2 WACI is 68% lower than the benchmark and its aggregated scope 1, 2 and 3 WACI is 35% lower than the benchmark equivalent. These figures should be taken as indicative only, as calculating WACI for a large global multi-asset class benchmark such as the Bloomberg Global Aggregate Bond Index continues to have inherent complexities.[4]

[2] Aggregated scope 1 and 2 WACI combines corporate scope 1 and 2 WACI and sovereign scope 1 and 2 WACI including sovereign emissions from LULUCF. Excluding LULUCF emissions leads to only marginal changes to aggregated WACI and has hence not been considered in this comparison. Aggregated WACI figures excluding LULUCF are however reported in the [summary table reference].
[3] Aggregated scope 1, 2 and 3 WACI combines corporate scope 1, 2 and 3 WACI and sovereign scope 1, 2 and 3 WACI including sovereign emissions from LULUCF.
[4] Challenges in calculating mainstream index WACI include data gaps and difficulties in mapping index constituents, which may feature several subsidiaries and/or special-purpose vehicles, to the ultimate issuing entity to better reflect its emissions profile.

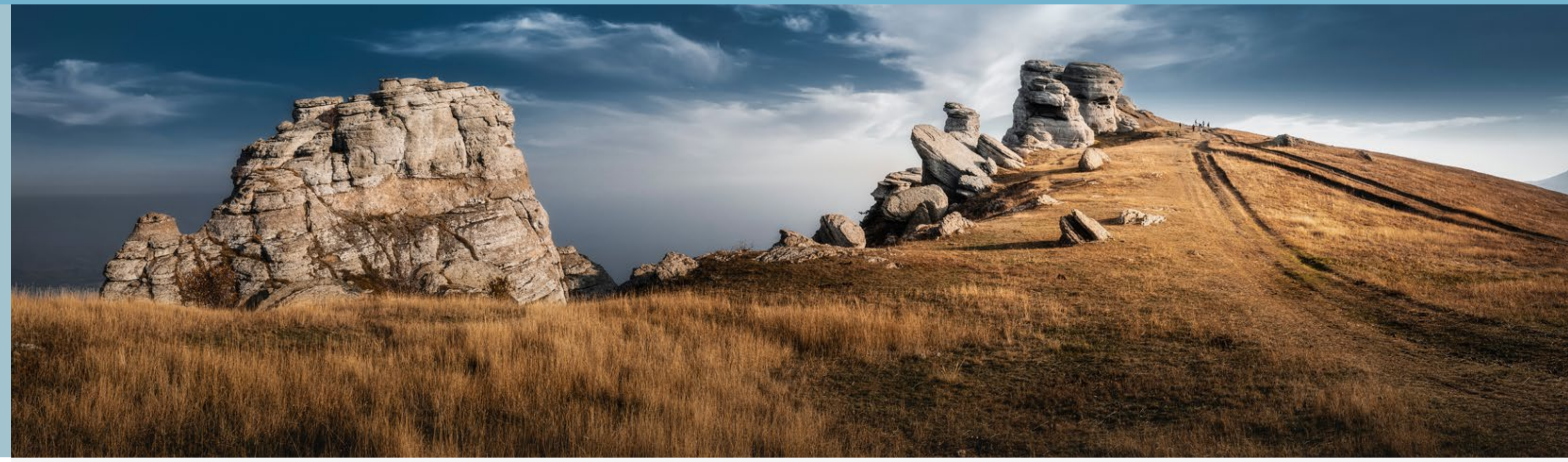
CASE STUDY | LO Funds – Global Climate Bond 2022

Corporates and agencies WACI

The portfolio had a corporates and agencies (corporate hereafter) scope 1 and 2 WACI of 41tCO_2e/US$m revenue and a scope 1, 2 and 3 WACI of 242.7tCO_2e/US$m revenue in 2022.

Corporates and agencies:

Issuers including utilities, industrials, financial institutions, supranationals and government-related agencies not covered under the "sovereigns and regulators" category.

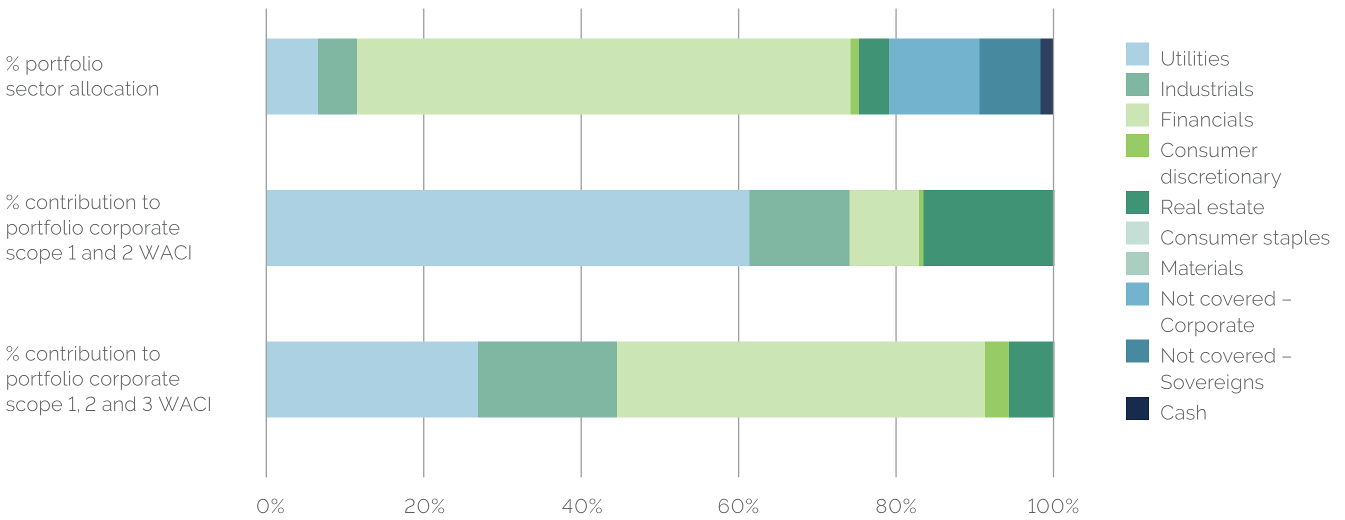


Corporate scope 1 and 2 WACI of **41** tCO_2e/US$m revenue in 2022

Just 10 issuers contribute **66%** of the portfolio's corporate scope 1 and 2 WACI

Financials represent **63%** of portfolio allocations, but contribution to scope 1 and 2 WACI is **9%**

Corporate WACI contribution vs. portfolio sector distribution



In line with previous years, the main contributions to the WACI figure come from the limited portfolio allocations to a small number of sectors with high scope 1 and 2 emission intensities.

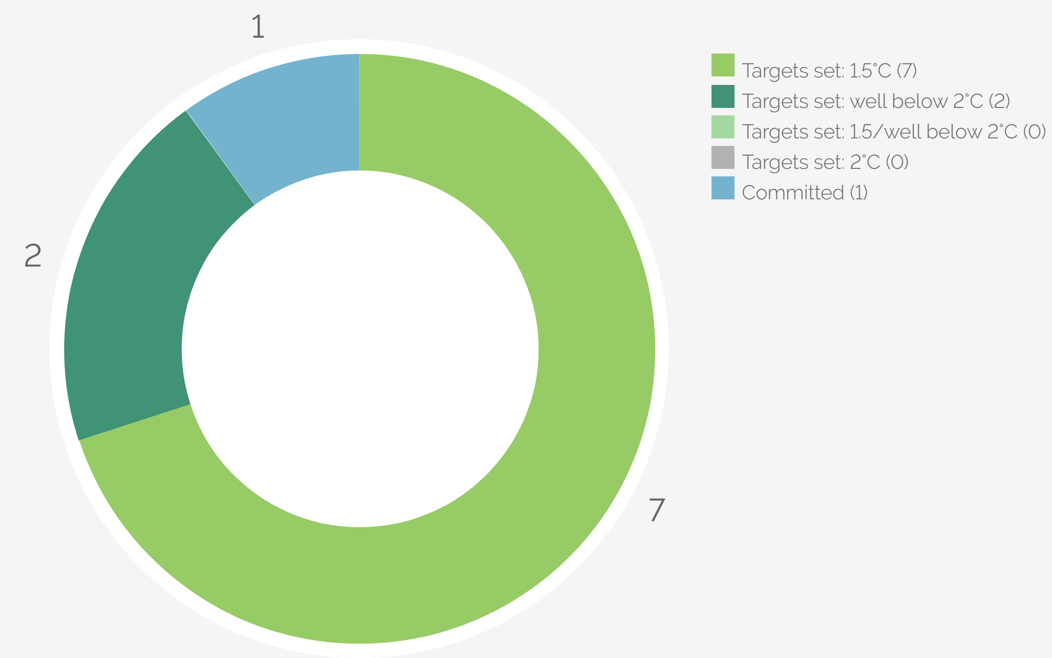
For example, while utilities represent just 6.6% of the portfolio allocation, they contribute over 61% of the scope 1 and 2 corporate WACI. Similarly, real estate is the second-largest contributor at around 17%, despite accounting for less than 4% of portfolio allocations.

Just 10 issuers – eight utilities, one real estate and one industrial corporate – contribute 66% of the portfolio's corporate scope 1 and 2 WACI.

These issuers all have a relatively high scope 1 and 2 emission intensity, which is in line with expectations given that they all operate within relatively emission-intensive sectors. However, despite this, all of the top 10 WACI contributors have either set or committed to setting a science-based target, under the Science Based Target initiatives (SBTi) with seven issuers having aligned their targets to a 1.5˚C pathway. These SBTis targets, which are third-party assessed, are one indicator in AIM's Responsible Issuer assessment. They signal that these issuers have set credible emission-reduction commitments as part of their forward-looking strategies and that their emission intensities are expected to fall in the coming years.

At the other end of the scale, financials represent the largest share of portfolio allocations (62.6%) but their contribution to scope 1 and 2 WACI is just under 9%. However, when scope 3 emissions are included, the corporate WACI shifts quite significantly, with financials becoming the largest driver of WACI at almost 47%. This is in line with expectations, with the majority of emissions for financials being linked to their lending and financing portfolios.

Presence and ambition of science-based targets for top 10 WACI contributors



CASE STUDY | LO Funds – Global Climate Bond 2022

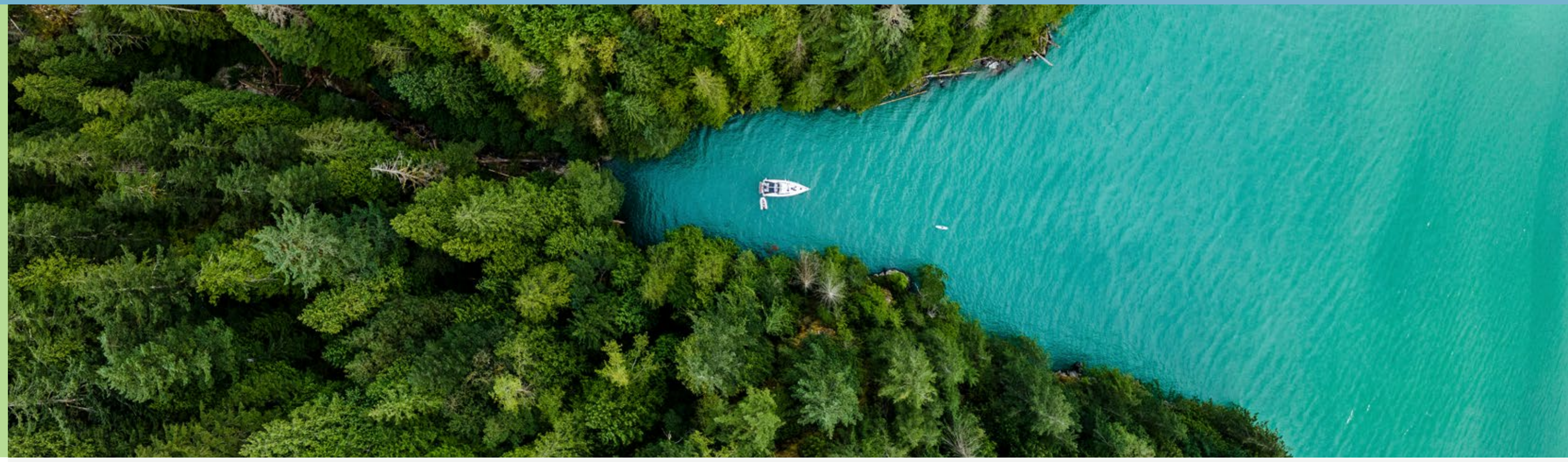
Sovereigns and regulators WACI

The sovereigns and regulators (sovereign hereafter) WACI figure covers all sovereign-related entities, including central governments/treasuries, sub-sovereigns and municipalities.

In its 2022 impact reports, AIM refined its sovereign WACI methodology to be in line with Partnership for Carbon Accounting Financials' (PCAF) new definitions of scopes for sovereign emissions (see graphic below).[1] The updated definitions provide a more intuitive categorisation of sovereign scope 1, 2 and 3, while also aligning with the territorial approach for sovereign scope 1, 2 and 3 WACI that PCAF adopted last year, which covered both production-based emissions and emissions attributable to imports. This approach has the advantage of addressing the demand and supply-driven emissions of a sovereign entity and neutralising carbon emissions biases towards either net importers or exporters.

Sovereigns and regulators:

Sovereign-related entities, including central governments/treasuries, sub-sovereigns and municipalities.



Updating scope 1, 2 and 3 definitions

2021 PCAF definitions[2]

Scope 2
GHG emissions attributable to gross imports

Scope 3
GHG emissions attributable to gross exports

Updated 2022 PCAF definitions[3]

Scope 1 | 2022
Domestic GHG emissions from sources located within the country territory

Scope 2 | 2022
GHG emissions occurring as a consequence of the domestic use of grid-supplied electricity, heat, steam and/or cooling that is imported from another territory

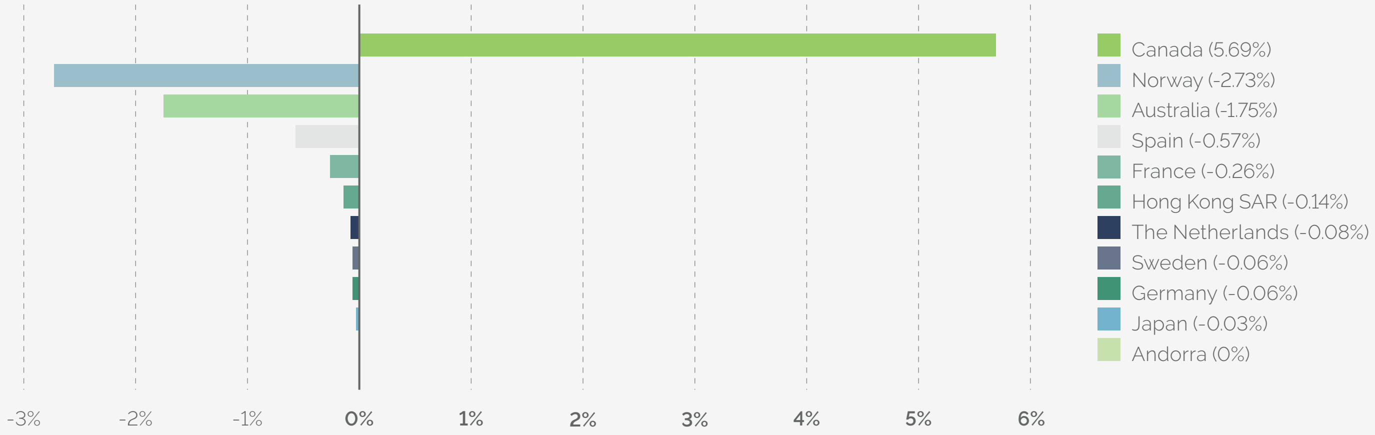
Scope 3 | 2022
GHG emissions attributable to non-energy imports as a result of activities taking place within the country territory

AIM has also followed PCAF's recommendation to report emissions both with and without land use, land-use change and forestry (collectively 'land use' or LULUCF).

Land use plays an important role in regulating GHG emissions as vegetation and soils act as carbon sinks by absorbing CO_2 from the atmosphere. Human activities related to land use can impact this process, leading to GHG fluctuations. Calculation of LULUCF emissions aims to capture these human-induced carbon releases and removals from terrestrial systems.

The recommendation to report both with and without LULUCF emissions is intended to improve the clarity of the reporting, as there are variable views surrounding the carbon accounting of these emissions due to a degree of data ambiguity. Additionally, there is variance between different sovereigns' inclusion of LULUCF emissions in their mitigation strategies and targets, and LULUCF emissions can distort other emissions trends within countries. Last year, AIM only reported emissions including land use, but this year's chart shows that the portfolio WACI is slightly different when land use is excluded. The chart shows the significant contribution land use makes to WACI, and how the positive contribution of Canada balances out the negative contributions of other states in the portfolio, leaving the WACI figures excluding and including land use to be extremely close.

LULUCF contribution to portfolio sovereign WACI scope 1 and 2



Negative contributions
-5.68%

Positive contributions
5.69%

[1] PCAF (2022), The Global GHG Accounting and Reporting Standard for the Financial Industry: https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf
[2] https://carbonaccountingfinancials.com/files/consultation-2021/pcaf-draft-new-methods-public-consultation.pdf
[3] https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

CASE STUDY | LO Funds – Global Climate Bond 2022

Sovereigns and regulators WACI highlights

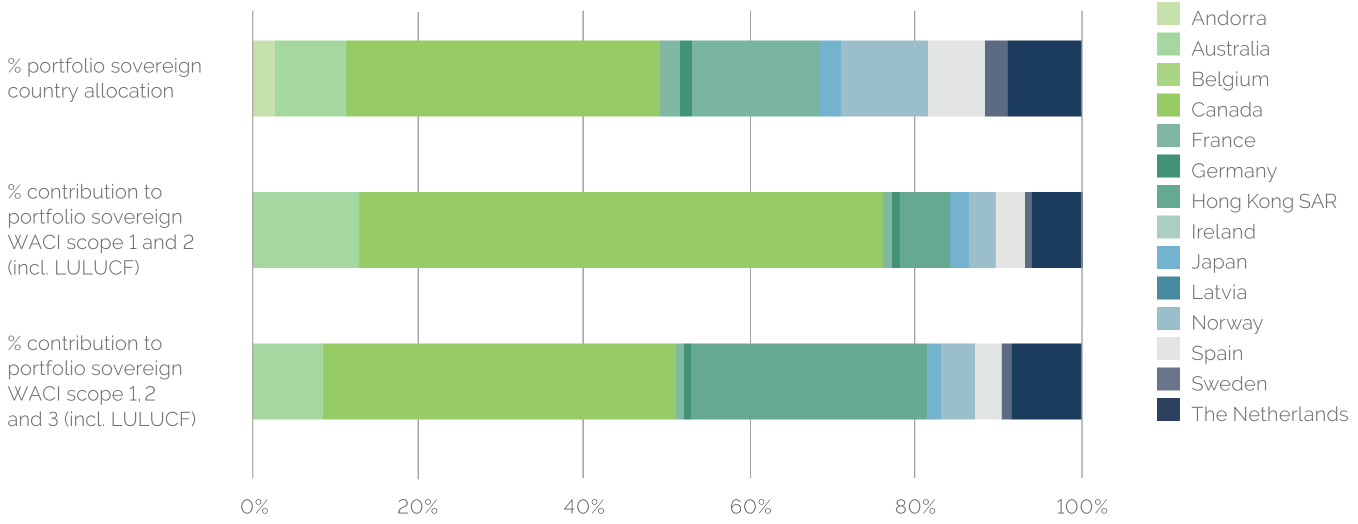
Sovereign scope 1 and 2 WACI stood at 17.5tCO_2e/PPP-adjusted US$m GDP when excluding LULUCF, and 17.9tCO_2e/US$m when including LULUCF. Scope 1, 2 and 3 WACI figures, unsurprisingly, are considerably higher at 36.5tCO_2e/US$m and 36.9t$CO_2e/USm excluding and including LULUCF, respectively.

The largest contributor to the portfolio's sovereign WACI figures is Canada, due to sub-national bonds issued by the provinces of Ontario and Quebec. While Canada does have the largest sovereign portfolio allocation, its contribution to both scope 1 and 2 WACI (63.2%) and scope 1, 2 and 3 WACI (42.5%) (including LULUCF) is disproportionate to its portfolio weighting.[1]

All sub-national entities in the portfolio have been mapped to their respective countries for WACI calculations. Hence, Canadian sovereign issuers' high emissions intensity reflects the country's resource-rich economy, with emissions being driven mainly by oil and gas activity, and the transport sector.[2]

Australian issuers provide the second-highest contribution to scope 1 and 2 WACI (including LULUCF), at 12.8%. Like Canada, the issuers held in this portfolio are sub-national issuers, including the governments of Queensland and New South Wales.

Sectoral breakdown % sovereign WACI allocation vs. contribution



Accounting for emissions of sub-national issuers presents significant data availability challenges. While mapping sub-national issuers to their relevant country provides an indication of an issuer's potential emissions intensity and allows AIM to cover them in WACI calculations, this mapping is not reflective of specific sub-national contexts. For example, the emissions of a state that is more or less heavily involved in carbon-intensive activities compared to other states within that country could be over or underestimated by this method of mapping. AIM is committed to continuing to refine its approach to sovereign WACI calculations as data availability for sub-sovereign issuers improves.

[1] Contribution shares relate to WACI including LULUCF emissions.
[2] https://www.canada.ca/en/environment-climate-change/services/environmental-indicators/greenhouse-gas-emissions.html

Corporate sustainability

AIM's mission has always been to mobilise mainstream capital to address the challenges the world faces. It manages fixed income portfolios that generate positive environmental and social impacts without compromising financial returns, with all investments supporting the Paris Agreement and/or the SDGs.

AIM has always recognised that its own corporate sustainability is central to achieving this mission and that it must hold itself to the same standards that it expects from the issuers and bond issues in which it invests.

In December 2022, AIM was acquired by MetLife Investment Management (MIM), MetLife Inc.'s institutional asset management business. MIM has integrated all of AIM's personnel, including the Portfolio Management and Sustainability teams. This is an opportunity to apply AIM's ESG impact and transition investment solutions to a broader opportunity set and wider range of asset classes, such as private debt and real estate.

At MIM, sustainability commitments and agenda are set at the parent level, MetLife Inc., and apply to subsidiaries. Sustainability is part of MetLife's business strategy and is integrated across its operations. MetLife's sustainability strategy is closely aligned with the SDGs to contribute toward meaningful change around the world. It prioritises five of the 17 SDGs, given their relevance to its business: good health and well-being; gender equality; decent work and economic growth; reduced inequalities; and climate action.

AIM Affirmative Investment Management

MetLife Investment Management

Net zero commitment

NET ZERO

MetLife is committed to net zero GHG emissions for its global operations and General Account investment portfolio by 2050 or sooner.[1] This ambition is part of MetLife's overall business strategy to create long-term value for colleagues, customers, shareholders and the communities where it operates. For MetLife, this means working toward an inclusive, resilient and thriving environment for present and future generations.

As a purpose-driven company, MetLife continues to adapt to meet the needs of a rapidly changing world. MetLife's net zero commitment builds on its longstanding history of environmental stewardship. This includes addressing climate change and supporting a just transition to a low-carbon economy, which requires collective action from diverse stakeholders. MetLife's commitment is supported by a comprehensive approach, interim targets and key initiatives intended to help improve the environment. To learn more about this commitment, please read MetLife's 2022 Sustainability Report at metlife.com/sustainability

Interim targets on the way to net zero (by 2030 unless otherwise indicated):

Global operations:

- ✓ Reduce scope 1, 2 and 3 business travel emissions by 50%[2]
- ✓ Two-thirds of suppliers to set emissions-reduction goals aligned with climate science[3]

General account investments:

- ✓ Engage emitters responsible for at least 50% of public corporate portfolio-financed emissions on climate annually[4]
- ✓ Reduce GHG emissions for managed real-estate equity investments by 50%[5]

2030 diversity, equity and inclusion commitments

Diversity, Equity and Inclusion (DEI) is a global business, sustainability and workforce imperative for MetLife. MetLife's commitment and accountability are cultivating a purpose-driven and inclusive culture that builds and values diverse talent to innovate for today, tomorrow and the future so that MetLife fulfils its promise to its customers in the communities it serves around the world. The broad set of 2030 DEI commitments is designed to address the needs of the underserved and underrepresented through a mix of investments, products and services, supply chain, volunteering and community efforts. Each commitment is anchored to the business strategy and informed by the SDGs. The financial components of these commitments total more than US$2.5bn by 2030.

- ✓ Originate US$1bn in investments that advance firms owned by women, minorities and disabled persons
- ✓ Reach US$5bn in spend with diverse suppliers
- ✓ US$150m in funding to support underserved and underrepresented communities
- ✓ Commit 800,000 employee volunteer hours with a focus on DEI underserved communities
- ✓ Provide solutions and insights to address the needs of the underserved
- ✓ Support research that advances understanding of DEI issues
- ✓ Advance workforce diversity by consistently achieving top-quartile positioning across each ethnically and racially diverse category in the US and/or female officers globally

MetLife publishes sustainability reporting on an annual basis covering operational sustainability, the workforce, customers, communities and investments. Reporting and additional information on MetLife's approach to sustainability can be found here: metlife.com/sustainability

[1] The net zero commitment applies to GHG emissions from MetLife, Inc.'s global owned and leased offices and vehicle fleets, employee business travel, supply chain and assets in MetLife's General Account investment portfolio, which includes the general accounts of MetLife, Inc.'s wholly owned insurance company subsidiaries, where reliable data and methodologies are available. While reliable methodologies and data sets pertaining to certain GHG emissions are not available at this time, MetLife is committed to identifying and measuring relevant climate data as methodologies and standards evolve. Emissions are tracked in accordance with the GHG Protocol, unless otherwise directed by regulators. Additional information about MetLife's General Account investment portfolio is available here.

[2] Applies to GHG emissions from MetLife, Inc.'s global owned and leased offices (fuel, gas and electricity consumption) and global vehicle fleet (scope 1 and 2 emissions), and employee business travel (scope 3 category 6), where reliable data and methodologies are available. Target has a base year of 2019 and target year of 2030. Emissions are tracked in accordance with the GHG Protocol, unless otherwise directed by regulators.

[3] "Two-thirds" based on spend; target measures MetLife suppliers that make public commitments to reduce GHG emissions by 2025 or later, aligned with the aims of the Paris Agreement. This applies to upstream GHG emissions from the production of products purchased or acquired by MetLife, Inc. (scope 3 category 1) and from the production of capital goods purchased or acquired by MetLife, Inc. (scope 3 category 2), where reliable data and methodologies are available. Emissions are tracked in accordance with the GHG Protocol, unless otherwise directed by regulators.

[4] Applies to MetLife, Inc.'s financed GHG emissions associated with its General Account public corporate portfolio (scope 3 category 15), where reliable data and methodologies are available. Emissions are tracked in accordance with the Partnership for Carbon Accounting Financials standards, unless otherwise directed by regulators. While reliable methodologies and data sets pertaining to certain GHG emissions are not available at this time, MetLife is committed to identifying and measuring relevant climate data as methodologies and standards evolve. Additional information about MetLife's General Account investment portfolio is available here.

[5] Applies to GHG emissions directly generated and associated with power consumed on site (including scope 1 and 2 emissions and excluding scope 3 tenant emissions) for owned and controlled real estate investments within MetLife, Inc.'s General Account (scope 3 category 15), where reliable data and methodologies are available. Excludes emissions from the operation of leased assets (scope 3 category 13). Target has a base year of 2019 and target year of 2030. Emissions are tracked in accordance with the GHG Protocol, unless otherwise directed by regulators. While reliable methodologies and data sets pertaining to certain GHG emissions are not available at this time, MetLife is committed to identifying and measuring relevant climate data as methodologies and standards evolve. Additional information about MetLife's General Account investment portfolio is available here.

Operational carbon footprint 2022

Overall AIM corporate carbon footprint

	GHG emissions 2019	GHG emissions 2020	GHG emissions 2021	GHG emissions 2022
Scope 1 – GHG emissions from direct sources	0tCO_2e	0tCO_2e	0tCO_2e	**0tCO_2e**
Scope 2 – GHG emissions from electricity purchased	4.5tCO_2e	3.4tCO_2e	3.2tCO_2e	**3tCO_2e**
Scope 3 Category 6 – Business travel – flights and train trips	31.3tCO_2e	21.3tCO_2e	3tCO_2e	**62.1tCO_2e**
Scope 3 Category 7 – Employee commuting	–	–	–	**5.3tCO_2e**
Scope 3 – Emissions from remote working	–	8.6tCO_2e	5.1tCO_2e	**2.7tCO_2e**
AIM carbon footprint	35.8tCO_2e	33.3tCO_2e	11.4tCO_2e	**73.1tCO_2e**
	15	18	20	22
Per capita	2.4tCO_2e	1.9tCO_2e	0.6tCO_2e	**3.3tCO_2e**

AIM's carbon footprint substantially increased in 2022, largely as a result of the resumption of business travel following the lifting of COVID-19 travel restrictions. The inclusion of employee commuting and the fact that AIM's team has grown also contributed to the increase. A per capita footprint is included to show that the carbon footprint per person did not increase as rapidly as the absolute.

Scope 1 – Direct GHG emissions from sources owned and controlled by AIM
0tCO_2e

Scope 2 – Indirect GHG emissions from the generation of electricity purchased by AIM
3tCO_2e

Approach for calculating AIM's 2022 scope 2 GHG emissions

Source	2022 electricity consumption (kWh)	GHG emissions conversion factor (kgCO_2e per kWh)	GHG emissions (kgCO_2e)
Office (scope 2)	15,548	0.19338	3,006.67 (3tCO_2e)

To derive scope 2 GHG emissions, a location-based approach has been used which is in line with the UK government's guidelines for corporate-carbon-footprint reporting. In the table above, AIM's office electricity consumption in 2022 is multiplied by the GHG emission conversion factor for the electricity supplied to the UK grid to give a total GHG emissions figure.[1]

Scope 3 – Scope 3: GHG emissions resulting from assets or activities not owned or controlled by AIM **70.1tCO_2e**

Scope 3 – Category 6: Business travel

AIM's scope 3 GHG emissions from Category 6: business travel includes all AIM-related flights and train journeys taken by staff. For each trip, AIM gathered data for the distance travelled and the class of cabin booked. MyClimate's travelling emissions calculator was used to determine GHG emissions for each journey.[2]

Scope 3 – Category 7: Employee commuting

Staff commuting was included within the Scope 3 calculations for 2022 following the lifting of COVID-19 restrictions. AIM gathered distance travelled, the normal type of commute and the frequency of commuting for each employee and multiplied that by the conversion factors relevant to the employee's location.[3,4,5]

Scope 3 – Emissions from remote working

Despite the return to office working in 2022, remote working is also accounted for in calculating AIM's carbon footprint for the year. While there is no standardised methodology for calculating the GHG emissions from remote working, the Sustainability team used the resources available to calculate these as effectively as possible.

Energy-related emissions were derived by calculating the electricity consumption of a typical work-from-home setup and the additional consumption of gas when working remotely and then applied appropriate conversion factors to give a GHG emissions figure.

AIM recognises that the largest source of emissions is its financed emissions. These are reported on pages 32-33. As such, they are not included in our scope 3 emissions reporting.

Offsetting AIM's corporate carbon footprint

AIM has compensated for unavoidable GHG emissions resulting from its internal operations by purchasing Certified Emissions Reductions (CERs) generated by UNFCCC-certified projects in developing countries. To address AIM's 2022 carbon footprint, it purchased CERs that support small-scale solar-power projects in remote locations in India. The project includes 10 small-scale solar projects that supply to the grids in Gujarat and Rajasthan, both of which have power deficits. AIM's CERs are contributing to electricity security and as well as clean power, avoiding emissions that would have otherwise occurred from fossil fuel-based power generation.[6]

[1] https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2022
[2] https://co2.myclimate.org/en/flight_calculators/new
[3] https://tfl.gov.uk/corporate/transparency/freedom-of-information/foi-request-detail?referenceId=FOI-0354-2021
[4] https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2022
[5] https://www.navitime.co.jp/pcstorage/html/co2info.html
[6] https://offset.climateneutralnow.org/national-solar-power-development-programme-india?searchResultsLink=%2FAllProjects%3FCoBenefitsId%3D436 (also image source)

Glossary

AIM – Affirmative Investment Management

BNEF – BloombergNEF

C – celsius

CDP – Carbon Disclosure Project

CER – Certified Emission Reductions

CFI – Capital Finance International

CO_2 – carbon dioxide

CO_2e – carbon dioxide equivalent

DEI – Diversity, Equity and Inclusion

DNSH – Do No Significant Harm

ESG – Environmental, Social and Governance

EU – European Union/Europe

EV – electric vehicle

gCO_2e/kWh – grams of CO_2 equivalent per kilowatt hour

GHG – Greenhouse Gases

GRI – Global Reporting Initiative

GWh – gigawatt hour

ha – hectare

IEA – International Energy Agency

ISS ESG – Institutional Shareholder Service inc. ESG

km – kilometre

KPI – key performance indicator

kWh – kilowatt hour

l – litres

LULUCF – land use, land-use change and forestry

m – metre

MIM – MetLife Investment Management

MW – megawatt

MWh – megawatt hour

NZAM – Net Zero Asset Manager Initiative

NZE – Net Zero Emissions Scenario

OECD – The Organization for Economic Cooperation and Development

PAE – Potential Avoided Emissions

PAI – Principal Adverse Impacts

PCAF – Partnership for Carbon Accounting Financials

PRI – Principles for Responsible Investment

Rx5day – Monthly maximum consecutive five-day precipitation

SDG – Sustainable Development Goals

SFDR – Sustainable Finance Disclosure Regulation

SME – small and medium-sized enterprises

SPECTRUM – AIM's verification methodology (see page 11)

STEPS – Stated Policies Scenario

t - tonne

TCFD – Task Force on Climate-Related Financial Disclosures

tCO_2e – tonnes of CO_2 equivalent

t/EURm – tonnes per million of EUR revenue

tCO_2e/EURm – tonnes of CO_2 equivalent per million of EUR revenue

tCO_2e/PPP-adjusted US$m – tonnes of CO_2e per Purchasing Power Parity adjusted millions of US dollars

tCO_2e/US$m – tonnes of CO_2 equivalent per million of US dollars

UK – United Kingdom

UN – United Nations

WACI – Weighted Average Carbon Intensity

WSDI – Warm spell duration index

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