Gramercy Funds Management

Task Force on Climate-Related Financial Disclosures

Inaugural Report | 2023

Report as of December 31, 2022, published August 2023.

We are Emerging Markets®

Introduction

Gramercy's mission is to positively impact the well-being of our clients, portfolio investments and team members. To align with this mission, we seek to contemplate the current operating and investment environment and anticipate its future. We believe incorporating climate considerations into our business and investment decisions can create long-term benefits to our firm, portfolios and communities impacted by our investments. Our culture is guided by principles of integrity, transparency, responsiveness and solutions.

We believe our decisions can create a meaningful impact. As emerging markets investors, our universe offers numerous opportunities for compelling, measurable progress towards global climate targets. Our approach is based upon dialogue and cooperation with our investee companies.

In August 2022, we took action to demonstrate our commitment to this goal by becoming a Signatory to the Net Zero Asset Managers initiative ("NZAMI") and a Supporter of the Taskforce for Climate-Related Financial Disclosures ("TCFD").

> Regarding these commitments, Robert Koenigsberger, Managing Partner and CIO of Gramercy said: *"The decision to publicly announce and report on our climate-related efforts is a natural extension of what we at Gramercy have always done. We seek to partner with our investors, embrace their concerns, and arrive at solutions that reward them financially while at the same time, positively affecting the global community".*

About us: Gramercy is a dedicated emerging markets investment manager based in Greenwich, Connecticut with offices in London, Buenos Aires, Miami, West Palm Beach, and Mexico City, and dedicated lending platforms in Mexico, Turkey, Peru, Pan-Africa, Brazil, and Colombia. The firm, founded in 1998, seeks to provide investors with attractive risk-adjusted returns through a comprehensive approach to emerging markets supported by a transparent and robust institutional platform. Gramercy offers alternative and long-only strategies across emerging markets asset classes including multi-asset, private credit, public credit, and special situations. Gramercy is a Registered Investment Adviser with the SEC, a Signatory of the Principles for Responsible Investment ("PRI"), a Signatory to NZAMI and a Supporter of TCFD. Gramercy Ltd, an affiliate, is registered with the FCA.

The Four Pillars of TCFD

Governance: The two components of Gramercy's governance activities for climate-related risks and opportunities are integration and oversight. The heads of our *Investment Strategy Groups* are responsible for integrating climate considerations into their day-to-day investment decisions. Our Head of ESG, ESG Committee and Management Team oversee these actions.

Strategy: Gramercy contemplates two main classifications: transition risk and physical risk. Short, medium and long-term views are developed for subcategories within each classification. Within the context of transition risk, we look at policy and legal, technology, market and reputation. Within the context of physical risk, we look at acute (single event) and chronic (change in pattern) risks.

Risk Management: Portfolios are regularly reviewed by our investment strategy group leaders and investment positions are reviewed by our analysts who assess various climate related risks and opportunities. Public corporate and sovereign securities are scored based upon their overall ESG characteristics, including climate related matters.

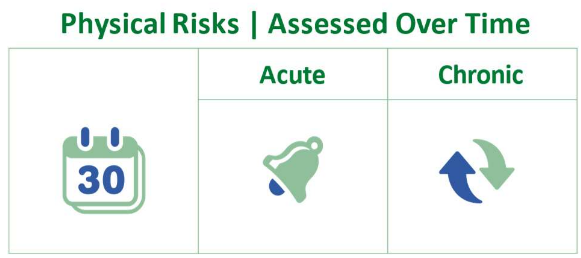
Metrics & Targets: We joined NZAMI, thereby committing to disclosing our financed emissions as well as reducing them over time, consistent with the pace of Paris-aligned pathways. We plan to achieve portfolio emissions reduction targets through active engagement with our portfolio companies and increased exposure to investee companies decarbonizing at rates in-line with Net Zero by 2050 (including firms that provide climate decarbonization solutions). We are not proponents of divestment as we believe engagement to be more effective. We are actively exploring suitable metrics and targets to appropriately measure the physical impact and political risks associated with our investment universe, strategies and benchmarks.

Gramercy continually endeavours to apply effective environmental, social and corporate governance ("ESG") investment management practices. We believe financial institutions must set the tone to facilitate change via banking, investment and insurance activities. As a fiduciary, we believe environmental, social, and corporate governance issues affect the performance of investment portfolios and should be integrated into the decision-making process to promote market stability in a sustainable global economy.

Our ESG Committee is comprised of our CIO, several portfolio managers and research analysts and Head of ESG. Our Chief Compliance Officer participates in all Committee business but is not a member. The Committee has a standing monthly meeting and also meets on an ad hoc basis to discuss new initiatives and/or investments that warrant special consideration. To further the sharing of information and the active participation of our investment team regarding our ESG initiatives, all are welcome to attend and contribute to the monthly ESG Committee meeting.

Our Head of ESG works with the Investment Strategy Groups and compliance to ensure adherence to the firm's ESG Policy. In addition, the Head of ESG is responsible for reporting to external agencies such as the PRI, the Emerging Markets Investors Alliance ("EMIA"), TCFD and NZAMI. Investment restrictions and reporting requirements vary amongst our investment strategies due to both the level of influence we are able to exert and the requirements of our investors. Our ESG roots are guided by our values and include additional measures such as: i) the investment decision-making process incorporating ESG analysis; ii) obtaining disclosure of ESG issues from the entities in which we invest; iii) ensuring leadership, innovation and sustainability are core principles underpinning our investments for avoidance, adaptation and/or mitigation of negative impacts associated with ESG issues; and iv) providing transparency for our clients to understand the commitments made by Gramercy. These roots were in place prior to our becoming a PRI Signatory in 2014.

Gramercy takes into consideration the impact of environmental/climate concerns regarding our investments. Climate related catastrophes and their frequency can lead to volatile markets, impact prices and create operational challenges. We believe voluntary controls are more efficient and cost effective than reactionary government-imposed regulations. We see both the long-term impact climate change can have on capital markets, and the need for financial institutions to prioritize investment initiatives that encourage energy transmission change and a low carbon economy.



Governance of portfolio investments is critical to our investment process. We are often proactive investors via creditor committee leadership, advisory boards, boards of directors, and even litigation. Governance is central to our investment analysis before entering an asset and continues through the value recognition process during ownership. Monitoring existing investments is an important element of our governance process. Our analysts are responsible for understanding the social, environmental and governance factors of their investments as a component of their broader credit and risk assessment. These factors also play a role in the assessment of absolute and relative valuation of investments. Beyond monitoring, we action governance and exercise investment and legal rights at all times.

Oversight of our approach to ESG and climate is shared by the ESG Committee and the Management Team. This includes assessing investments as well as overall policy for climate-related risks. The Committee takes advantage of investment team members by prompting analysis and review of specific investments as well as relevant macro topics. The Head of ESG attends Investment Committee meetings, promotes information sharing, and provides a consistent level of oversight. The Head of ESG has direct communication lines with the CIO and all senior investment professionals. Ultimately, the Head of ESG reports to the Chief Operating Officer. Beginning March 2023, a quarterly report is issued to the Management Team by the Head of ESG regarding the ESG policies of the firm as a whole along with climate related commitments and climate-related risks and opportunities at the firm and the investment strategy level as is appropriate.

Climate-related risks and opportunities present themselves to varied degrees within our investment strategies. Long credit positions acquired in the primary or secondary markets are typically limited to engagement unless we are actively restructuring a credit. Private investments offer a greater degree of influence, allowing a greater degree of progress. Special situations investments can offer opportunities where we can defend or support an instance related to climate.

Gramercy invests using actively managed bottom-up processes combined with a top-down view. Our proprietary research and sourcing of investment opportunities incorporates the impact of climate matters.

Climate related risks generally factor into our analysis of the overall investment outlook and influences our portfolios from a regional and sector allocation perspective. Issuer specific concerns are discussed along with risks such as abandoned assets or regulatory matters. Business stability, day-to-day operations and prospects for growth are all potentially impacted by climate change, mitigation and adaptation plans of our investee companies and how these plans impact their outlook. We apply our expertise in emerging markets to appropriately calibrate risk/reward and to guide capital allocation.

How Risks are Identified and Assessed

Transition Risks		Source	Impact	Critical Timeline
	Policy & Legal	Climate policies such as carbon taxes or transition subsidies; increased regulation	Greater reporting obligations and higher related costs	Long Term
	Technology	Advancements facilitate or promote low carbon operations	Increased costs to transition to lower emissions products / services	Long Term
	Market	Changes in customer demand or supply chains	Decreases in revenues, shift in corporate plans	Long Term
	Reputation	Customer or other stakeholders change their perceptions	Decrease in sales, changes in underlying customer demand	Long Term
Physical Risks		**Source**	**Impact**	**Critical Timeline**
	Acute	Extreme climate events, climate variability	Lower revenue from business disruption, higher expenses to repair and maintain facilities	Medium Term
	Chronic	Fundamental change in climate patterns	Overall business operations and plans can be disrupted	Long Term

In order to identify and assess climate related risks, we rely on our proprietary research that includes issuer reports and materials as well as third party research from sell-side brokers, data providers, index providers and global economic and financial institutions such as the World Bank. Our team evaluates the current financial condition, the outlook for stability, plans for growth and / or change and how these factors are impacted by the global macro environment. Matters such as supply chains, production and market demand are contemplated in the context of a low carbon environment with a reduced reliance on fossil fuels. Also contemplated are the pathways the issuer will follow as the world transitions to a low carbon environment. Additional consideration is given to the impact of factors that will have real implications for the issuer but that are beyond their control, such as rising sea levels or water scarcity. These factors are all part of our integrated, fundamental research.

In addition to the integrated research that takes place, we rely on engagement with issuers rather than blanket divestment. Engagement takes the form of independent action with specific portfolio companies as well as our acting collaboratively with other emerging markets investors through organized campaigns. Regardless of the specific approach employed, we examine transition and physical risks to our portfolio companies, the related opportunities and how they affect client capital and the long-term potential for growth.

Transition risks include consideration of legal and policy, technology, market and reputation risks and are viewed from the perspective of short (one to three years), medium (four to ten years) and long-term (11+ years). Transition risks are typically classified as low, medium or high. Physical risks, while also classified as low, medium or high, are contemplated to be either acute or chronic over these same time frames.

Risks presented by the increased severity of extreme variability in weather are real. Increasing evidence of the effect of climate change will become more pronounced in the long-term. Beyond eleven years, we expect the real risks to become more entrenched if they are not remedied. While the long-term risks are real, we do not believe they will become chronic in the short-term. However, if not addressed, these risks could become chronic within ten years. Beyond eleven years, chronic risks will likely exist if action is not taken.

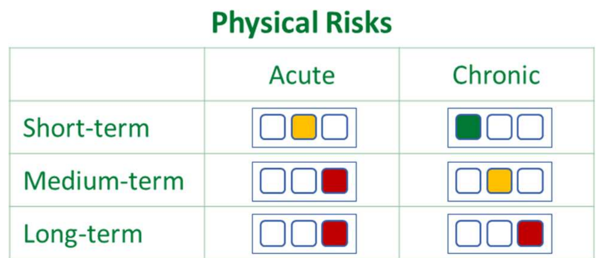
We believe transition risks in the policy and legal area to be far less prevalent in the near-term for emerging markets. We are beginning to see evidence of matters like GHG pricing and emissions reporting, but solid legislation / regulation is generally not yet present. As the world gradually moves towards a net zero environment, we believe the response to climate will increase the risks brought about by the policy and legal framework globally. We believe that looking out eight to ten years, matters such as GHG pricing are more likely to have established a foothold in emerging markets. A greater global comfort level with regulations such as the EU Sustainable Finance Disclosure Regulation will lead to more localized regulation in emerging markets. We believe that the risks already recognized in the medium-term will become more pronounced in the future, as efforts to mitigate climate change are embraced globally. The policy and regulatory environment are likely to look very different from what we see today.

The transition risks derived from technology are less prevalent in the near-term for emerging markets assets and entities. Substitution and transition require alternatives and these initiatives are still in the early stages. We believe the eventual response to climate will increase the risks brought about by the advancement of technology. Newer products make substitution and obsolescence more of a real risk. We believe that the risks that come from innovation and obsolescence which are already recognized in the medium-term will become more pronounced further in the future, as efforts to reduce climate change are embraced.

Market transition risks are far less prevalent in the near-term for emerging markets assets and entities. We do not anticipate customer behavior to shift rapidly. We believe the eventual response to climate will increase the risks brought about by market forces, affecting the outlook for emerging markets. We believe that in eight to ten years, customers of emerging markets products will make more of a difference. We believe the risks already recognized in the medium-term will become more pronounced further in the future, as efforts to reduce climate change are embraced globally. Market dynamics and consumer behavior are likely to change.

Transition risks related to reputation are far less prevalent in the near-term for emerging markets. Matters that affect reputation are not yet fully ingrained in the psyche of many in emerging markets, making this a longer-term risk. We believe the ongoing response to climate will increase the risks to reputation and begin to affect the outlook for emerging markets. The time will come when the status of “emerging” is not enough to limit their participation in the global effort to reduce climate change. As we look further down the road as habits and markets change, risks to reputation grow. Changes in all aspects of the global marketplace and regulatory structure will overflow into reputation risk.

We believe the gradual move towards a net zero / climate conscious world will produce investment opportunities. Initially, we expect these to stem from technology / green energy related businesses as cleaner and more efficient methods of powering the world come online. Market dynamics will enhance their impact when these technologies are deployed in underserved areas of the world, often in emerging markets. Constructive and environmentally sound practices will likely be a strong benefit for nations and corporates alike. We see tangible investment opportunities being derived not only from green energy and the related infrastructure, but also from the economic growth that will accompany the growth of clean, reliable power grids throughout emerging markets. Additional benefits may accrue if multilateral organizations and private groups dedicated to fighting climate change provide access to capital for emerging markets to adapt their policies and processes.



A final component of our strategy includes active collaboration and involvement with numerous international organizations such as the PRI, EMIA, TCFD and NZAMI. These commitments include a requirement to provide varied degrees of reporting and analysis related to our plans and progress. In concert with our responsibilities to NZAMI, we have engaged a third party to provide an assessment of scenario analysis which we are undertaking now and will provide results of in our next report. These efforts are aided by our contracting a well-known, climate data provider as we seek to ensure the completeness and independence of data related to the scenario analysis.

Risk Management

Our approach to climate and climate-related risk management takes several forms and contemplates several types of risks. Portfolio companies may be exposed to operational, reputational, regulatory and litigation risks. We intend to mitigate each of these to the extent possible within the boundaries of our investment strategies. Our ability to assess and affect change varies within our broad investment universe. In our public investments, we rely largely on publicly available information which forms the base of our analysts' fundamental research. Alongside the examination of financial metrics comes an evaluation of the climate and climate related factors identified above. Questions and concerns on the part of our research professionals can be vetted during meetings with the issuers, whether corporate or sovereign. Topics discussed can range from the management of emissions to the long-term viability of a product or facility due to climate related questions. Private investments may afford a greater degree of scrutiny where we find ourselves having a higher degree of influence. In addition to vetting concerns in discussions with portfolio companies, we may take the opportunity to mandate due diligence and action on the part of the borrower. In other instances, an investment opportunity may be premised on making progress in climate related matters or pursuing corrective action on corporate malfeasance.

The aforementioned risk management tools rely on our fundamental research and are accentuated by engagement. Direct dialogue with issuers regarding climate-related concerns and their ability to address them is, in our view, the most viable means of achieving long-term success. Divestment effectively removes one's voice from the conversation and is truly a last resort to be undertaken only in the most egregious instances of lack of interest on the part of the issuer. We do not believe in publicly admonishing divested entities and hindering future possibilities for dialogue.

Metrics & Targets

We joined the Net Zero Asset Managers initiative, thereby committing to disclosing our financed emissions as well as reducing them over time, consistent with the pace of Paris-aligned pathways. We plan to achieve portfolio emissions reduction targets through engagement with portfolio companies to reduce their emissions and by increasing exposure to investee companies that are decarbonizing at rates in-line with Net Zero by 2050 (including firms that provide climate decarbonization solutions). We are proponents of engagement over divestment. We are actively exploring suitable metrics and targets to appropriately measure the physical impact and political risks associated with our investment universe, strategies and benchmarks.

In concert with our commitments to TCFD and NZAMI, we have purchased third party data which provides both actual and modelled estimates for public and private investments. The incorporation of this data into our investment processes and our oversight efforts will advance us towards achieving net zero by 2050 with independent data. Measuring and monitoring are key to this process.

Looking Forward

As part of our mission to positively impact the well-being of our clients, portfolio investments and team members, we are committed to enacting measurable change in our portfolio companies, our overall financed emissions and our firm. We believe the incorporation of climate and climate considerations into our business and investment decisions can drive these changes.

As emerging markets investors, our universe in both the public and private investment arenas offer numerous opportunities for compelling, measurable progress towards global climate targets. Our approach is based upon dialogue and cooperation with our investee companies with whom we look forward to mutually beneficial success and progress.

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