Gramercy Funds Management

Task Force on Climate-related Financial Disclosures

August 2024

A Better Approach To Emerging Markets ™

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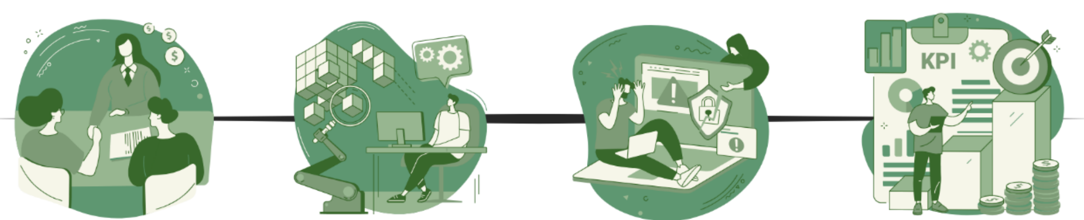
Introduction

Gramercy is a dedicated emerging markets investment manager headquartered in Greenwich, Connecticut, with offices in London, Buenos Aires, Miami, West Palm Beach and Mexico City. The firm also has lending platforms in Mexico, Turkey, Peru, Pan-Africa, Brazil and Colombia. Founded in 1998, the firm seeks to provide investors with a better approach to emerging markets, delivering attractive risk-adjusted returns through 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 U.S. SEC, a Signatory of the Principles for Responsible Investment (“PRI”), the Net Zero Asset Managers Initiative (“NZAMI”) and a Supporter of the Task Force on Climate-related Financial Disclosures (“TCFD”).

Our mission is to positively impact the well-being of our clients, portfolio investments and team members. In alignment with this mission, we work diligently to evaluate the current and future operating and investment environments. We recognize that incorporating climate considerations into our business and investment decisions can create long-term benefits for our firm, our portfolios and the communities where we invest.

The Four Pillars of TCFD



GOVERNANCE
Outlines the organization's governance around climate-related risks and opportunities.

STRATEGY
Explains how the organization identifies, assesses, and manages climate-related risks.

RISK MANAGEMENT
The actual and potential impacts of climate-related risks and opportunities on the organization’s business, strategy and planning.

METRICS & TARGETS
Discloses the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Why Publish A Task Force on Climate-related Financial Disclosures (TCFD) Report

A TCFD report provides a structured and transparent framework for companies to disclose climate-related financial risks and opportunities. This report enhances stakeholders' understanding of how climate impacts our governance, strategy, risk management and metrics & targets. Forward-looking information and metrics may facilitate or improve decision-making for investors, regulators and other stakeholders, fostering more informed and sustainable financial markets.

As investors in emerging markets, we see numerous opportunities to make compelling, measurable progress towards global climate targets. Our approach is grounded in dialogue and cooperation with our portfolio investments.

Governance

At Gramercy, the two components of our governance activities for climate-related risks and opportunities are integration and oversight. The heads of our Investment Strategy

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Groups are responsible for integrating environmental, social and corporate governance (ESG) principles, including climate, into our investment process. Oversight of these actions is provided by our Head of ESG, the ESG Committee and the Management Team.

> *"Gramercy has always sought 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. We view our adoption of an integrated approach to ESG, focused on risk management, as a meaningful component of our endeavours as well as a contributor to our broader firm goal of delivering a better approach to emerging markets."*
>
> *-Robert Koenigsberger, Managing Partner and CIO of Gramercy Funds Management*

Approach

Gramercy **incorporates climate-related risks and opportunities** into its investment strategies and **contemplates several types of risk**. We evaluate each investment strategy and determine the **most appropriate approach based upon our level of influence**.

The ESG Committee, which includes our CIO, portfolio managers, research analysts and our Head of ESG, plays a pivotal role in our governance framework. Our Chief Compliance Officer participates in all Committee business but is not a formal member. The Committee holds a standing monthly meeting and convenes on an ad hoc basis to discuss new initiatives or investments that warrant special consideration. All members of the investment team are encouraged to attend and contribute to the monthly ESG Committee meetings, fostering active participation and information sharing.

Our Head of ESG collaborates with the Investment Strategy Groups and Compliance to ensure adherence to the firm's ESG Policy. Additionally, the Head of ESG is responsible for our relationships with external global sustainability agencies such as the PRI, NZAMI, TCFD and the Emerging Markets Investors Alliance ("EMIA"). Investment restrictions and reporting requirements vary among our strategies, reflecting the level of influence we can exert and the specific needs of our investors. Key aspects of our ESG Policy include incorporating ESG analysis into the investment decision-making process, obtaining ESG disclosures from investee entities, applying risk management practices to avoid negative impacts from ESG issues and providing transparency to our clients.

Oversight of our ESG and climate approach is shared by the ESG Committee and the Management Team. The ESG Committee leverages the expertise of investment team members to prompt analysis and review of specific investments and relevant macro topics. The Head of ESG attends Investment Committee meetings, promotes information sharing and ensures a consistent level of oversight. With direct communication lines to the CIO and senior investment professionals, the Head of ESG reports to the Chief Operating Officer and provides quarterly updates to the Management Team on the firm's ESG policies, climate-related commitments and associated risks and opportunities. In addition, we collaborate with our clients to develop procedures that address climate risks. Gramercy engages with issuers to address climate-related risks and opportunities, collaborating with other emerging markets investors and participating in organized campaigns to influence positive change and drive sustainable practices.

The consideration of climate-related risks and opportunities is an important aspect of our governance process. An increased frequency of climate-related events can lead to market volatility, impact prices and create operational challenges. We believe that voluntary controls are more efficient and cost-effective than reactionary government-imposed regulations. We recognize the long-term benefits that can accrue from investment initiatives that explicitly contemplate their environmental impact. Our proactive governance approach includes leading creditor committees, advisory boards and exercising investment and legal rights throughout the investment lifecycle.

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Strategy

Climate-related risks and opportunities present themselves to varied degrees within our investment strategies. Credit positions acquired in the primary or secondary markets are typically limited to engagement unless we are actively restructuring the credit. Private investments offer a greater degree of influence and potentially, a greater degree of progress. Special Situations investments may provide opportunities for Gramercy to 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 factor into our analysis of the overall investment outlook and influence 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 portfolio investments and how these plans impact their outlook. We apply our expertise in emerging markets to appropriately calibrate risk/reward and to guide capital allocation.

Responsible Investing

ESG Integration: Incorporates environmental, social, and governance (ESG) principles into investment decision-making processes.

Green Investments: Opportunistically invests in green energy, technology, and infrastructure.

Active Engagement: Engages with issuers to address climate risks and opportunities, promoting sustainable practices rather than opting for divestment.

Collaboration with Stakeholders: Works with international organizations and other investors to drive collective efforts towards sustainability.

Transparent Reporting: Provides regular updates to clients and stakeholders regarding our initiatives.

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, as are the pathways the issuer would follow in a transition 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. We favor engagement with issuers rather than blanket divestment. Engagement takes the form of independent action with specific portfolio investments 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, the related opportunities and how they affect client capital and the long-term potential for growth.

The Identification and Assessment of Risks

Transition Risks refer to the potential financial impacts arising from the shift towards a low-carbon economy, encompassing policy & legal, technology, market and reputation risks. These risks are assessed over short (1-3 years), medium (4-10 years) and long-term (11+ years) timeframes, with classifications of low, medium, or high severity. In emerging markets, transition risks are currently less prevalent, but they are expected to increase as climate change mitigation efforts gain traction. Factors such as greenhouse gas (GHG) pricing and regulatory changes will likely become more significant in the medium to long term, affecting market dynamics and consumer behaviour. If not addressed, these transition risks could become chronic, particularly beyond the ten-year mark.

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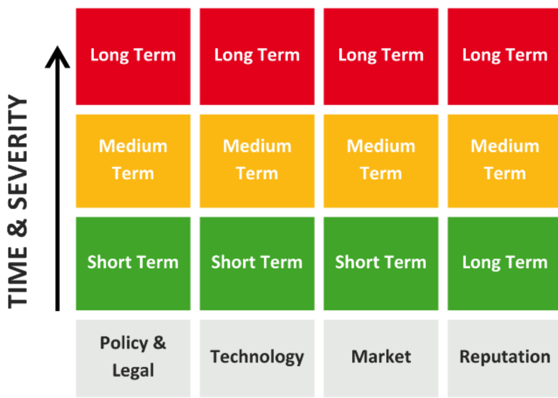
Transition Risks

Policy & Legal	**Technology**	**Market**	**Reputation**
Source Climate policies such as carbon taxes or transition subsidies, increased regulation.	**Source** Advancements facilitate or promote low carbon operations.	**Source** Changes in customer demand or supply chains.	**Source** Customer or other stakeholders change their perceptions.
Impact Greater reporting obligations and higher related costs.	**Impact** Increased costs to transition to lower emissions products/services.	**Impact** Decreases in revenues, shift in corporate plans.	**Impact** Decrease in sales, changes in underlying customer demand.

Policy and Legal Risks arise from regulatory changes and new legislation regarding climate change. Currently. these risks are less pronounced within emerging markets, but if global efforts to mitigate climate change intensify, the likelihood of stricter regulations increases.

We believe transition risks in the policy and legal area to be far less prevalent in the near-term for emerging markets. While there is emerging evidence of measures like GHG pricing and emissions reporting, solid legislation and regulation are generally not yet present. However, if the world gradually moves towards a net-zero environment, the response to climate change will likely increase the risks brought about by the policy and legal framework globally. Looking ahead eight to ten years, we believe 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 European Union (EU) Sustainable Finance Disclosure Regulation will lead to more localized regulation in emerging markets. 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 could be quite different from today.

Companies may face compliance costs, legal liabilities and reputational damage if they fail to adapt to new environmental standards. Over time, the absence of proactive measures could lead to chronic risks, affecting long-term business viability and investment returns.



Technology Risks: Technology risks involve potential challenges and uncertainties associated with adopting innovative technologies aimed at reducing carbon emissions and transitioning to a low-carbon economy. In emerging markets, these risks are currently less pronounced as alternative technologies are still in early development stages. However, as innovation progresses, the risks of obsolescence and the need for substitution will become more significant. Ultimately, the response to climate change will heighten these technology risks, impacting market competitiveness and operational viability.

Market Risks: Market risks pertain to the potential financial impacts resulting from shifts in consumer behavior and market dynamics as the world transitions to a low-carbon economy. In emerging markets, these risks are currently less prevalent, with expectations that customer behaviour will not change rapidly in the near term. However, over the next eight to ten years, increased awareness and demand for sustainable products may alter market conditions significantly. As climate change efforts gain momentum, these market risks will become more pronounced, affecting the outlook for emerging market assets and entities.

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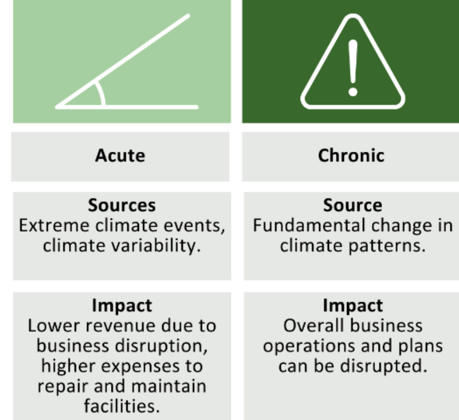
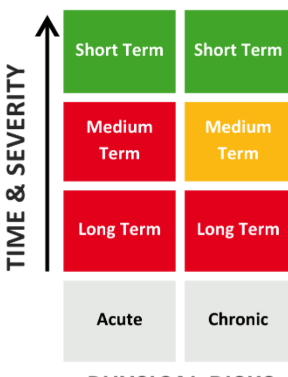
Reputation Risks: Reputation risks refer to the potential negative impacts on a company's image and stakeholder perceptions due to its environmental practices and responses to climate change. In emerging markets, these risks are currently less ingrained in the public consciousness, making them a longer-term concern. However, as global awareness of climate issues increases, companies in these markets will face growing scrutiny regarding their sustainability efforts. Ultimately, failure to address climate-related challenges could lead to significant reputational damage, affecting customer loyalty and investment opportunities.



Physical Risks: Physical risks are the potential impacts of climate change on assets and operations, categorized as either acute or chronic. Acute risks involve severe weather events, such as floods or hurricanes, which can cause immediate damage to infrastructure and disrupt operations. Chronic risks refer to long-term changes in climate patterns, such as rising sea levels or prolonged droughts, which can gradually undermine the viability of assets. These risks are also assessed over short, medium and long-term timeframes, with varying degrees of severity. If not mitigated, physical risks are expected to become more entrenched over time, particularly beyond eleven years.

Risk Management

Our approach to climate and climate-related risk management addresses several risk types, including operational, reputational, regulatory and litigation. We aim to mitigate these risks within the scope of our investment strategies, recognizing that our ability to effect change varies across our investment universe. In our risk management process, we primarily focus on Scope 1 and 2 emissions to ensure that our direct and indirect energy consumption is aligned with our climate goals. For public investments, we rely on publicly available information, which informs our analysts' research, including the evaluation of climate-related factors. During meetings with issuers, we address concerns ranging from emissions management to the long-term viability of products or facilities.



In private investments, we can exert greater scrutiny and influence, mandating due diligence and action on climate-related matters when necessary. Sometimes, investment opportunities are based on advancing climate-related progress or addressing corporate malfeasance.

Our risk management tools are rooted in fundamental research and engagement. We believe direct dialogue with issuers about climate-related concerns is the most effective means of achieving long-term success. Divestment is a last resort, reserved for the most egregious instances of issuer disinterest. We do not support publicly criticizing divested entities, as this can hinder future opportunities for dialogue.

Metrics & Targets

We utilize a comprehensive set of metrics to assess climate-related risks and opportunities. These include tracking and disclosing the emissions associated with our investments (financed emissions) and setting portfolio emissions reduction targets to

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drive down emissions within our investment portfolios. When a borrower does not measure their own emissions, we rely on an external, well-known ESG data provider to model their emissions and assess the associated risks. We measure the physical impact of our investments related to climate change and we assess political risks, considering the influence of political actions and policies on our investments. Our investment decisions and progress tracking are further informed by actual and modelled data from third-party sources.

Carbon Intensity Decrease

Our in scope assets for **NZAMI** experienced a **20% decline in weighted average carbon intensity** from December 2022 to June 2024.

Furthermore, our strategy for managing climate-related risks and opportunities involves setting specific targets to reduce emissions within our investment portfolio over time. We aim to increase our exposure to portfolio investments that are decarbonizing at rates aligned with the Net Zero by 2050 target. Our long-term commitment is to achieve net zero emissions by 2050 through active engagement as well as strategic investments that support this goal.

Investment Opportunities

Collaboration

- Principles for Responsible Investment
- Task Force on Climate-related Financial Disclosures
- Net Zero Asset Managers Initiative
- Emerging Markets Investors Alliance

Investment opportunities could arise from businesses related to green energy and cleaner technologies. Innovations in these areas are likely to enhance the economic growth of emerging markets by providing cleaner and more reliable power. These opportunities are further supported by potential funding from multilateral organizations and private groups.

Involvement with international organizations like the PRI, EMIA, TCFD and NZAMI may expose Gramercy to opportunities for collaboration and / or investment to benefit our clients. In addition, these groups are a tremendous source of information and learning to ensure we keep abreast of market developments and trends and subsequently consider how these may impact our investment pipeline and related scenario analysis.

A Practical Application

As part of our commitment to achieving Net Zero, our Capital Solutions team has adopted carbon intensity reduction targets. Portfolio managers and investment analysts integrate carbon intensity considerations into their investment decisions. High emitters are identified through Scope 1 & 2 emissions data, with estimates provided by external ESG data providers when necessary. Investments in these high emitters are restricted to those either with, or willing to adopt, a Net Zero commitment. Our ESG framework aligns with established policies and procedures, ensuring operational consistency with broader environmental, social and governance standards.

Looking Forward

As part of our mission to positively impact the well-being of our clients, portfolio investments and team members, Gramercy is committed to enacting measurable change in our portfolio investments, our overall financed emissions and our firm. We believe that incorporating 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 offers numerous opportunities for compelling, measurable progress towards global climate targets. We look forward to continuing our efforts which are grounded in dialogue and cooperation.

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