ANCHOR
CAPITAL ADVISORS LLC

Climate-related Risks & Opportunities

Introduction

At Anchor, we recognize the urgency of climate change and have worked to harness market solutions to help address the challenge. We also believe in the importance of providing greater transparency on our approach to managing climate-related risks and opportunities across our business and operations.

In our first Task Force on Climate-related Financial Disclosure (TCFD) Report, we provide an overview of our strategy and approach to climate-related risks and opportunities, including how the management and oversight of climate change is integrated across our investment strategy.

We also recognize that climate change is highly complex and that it is inherently difficult to project how related financial risks will materialize across the global economy and markets. In addition, climate scenario analysis is relatively new and evolving rapidly, including with respect to underlying assumptions, methodologies and data. As such, this report represents the first step in our journey with the commitment to deepening our understanding of and advancing our approach to climate-related risks and opportunities over time.

We have developed a systematic bottom-up process to identify, assess and manage potential climate risks and opportunities

ESG analysis is fully embedded in our research process, with the same fundamental analyst undertaking both Financial and ESG analysis. Climate-related risks and opportunities are systematically identified and analyzed across all our investment strategies. We gather information from a variety of sources and utilize bottom-up research to examine how risks may uniquely affect the companies we invest in.

Our process involves:

1. **Gathering data from external data sources and company interactions:** We rely on MSCI ESG database to build this screen. MSCI has one of the most comprehensive underlying dataset available for the widest range of securities, including ADRs. We also rely on United Nations Global Compact database to supplement the information from MSCI.

We utilize negative and positive screens to exclude names from the universe that don't fit into our philosophy. We start of by excluding industries and companies that we have deemed uninvestable, like gambling and tobacco. While we do own heavy industries that are known to generate higher emissions like CO2, we focus on companies within these industries that are committed and have a track record of improvement. We focus on independence of the board and the diversity of the workforce and hence, exclude some of the worst companies on these metrics.

2. **Bottom-up fundamental ESG research:** Once we screen out the stocks that don't fit into our ESG and fundamental criteria, we focus on bottom up review of a company. In doing this analysis, our goal is to assess the risks and opportunities that are presented to a company under review. While doing our analysis, we focus on

    - Industry attractiveness
    - Sustainable Competitive Moats
    - Sustainable Development Goals
    - Corporate Governance & Management track record

3. **Assessing risk and opportunities at the portfolio level:** After an analyst completes thorough fundamental analysis on a company, the investment committee, comprised of all portfolio managers and analysts, assesses all material factors, including ESG considerations, in its review of these securities.

After a stock is approved we carry that ESG assessment to the portfolio construction and risk management process, where we make inclusion and sizing decisions.

We address climate-related risks through company engagement and our proxy voting process

As investors who hold shares of publicly traded companies, we have a unique ability and responsibility to influence corporate leadership to embrace their role as a significant part of the solution to climate change.

Climate-change risks can impact performance of the companies today and we believe it is no longer an option for investees and asset managers to ignore these risks. We encourage companies, especially in the heavy industries, to aggressively pursue a path toward a carbon neutral future through the adoption of emissions reduction goals.
We strive to accomplish this through proxy voting and by collaborating and partnering with organizations like CDP who are specifically engaged in climate action, across the vast majority of companies we invest in.

Governance

At Anchor, different parts of our organization have responsibilities in executing and implementing Anchor's ESG efforts, including considerations related to climate change.

Our board oversees all of Anchor's investment activities, including strategy and implementation and this includes considerations related to climate change. To make sure that these activities are integrated and aligned throughout the investment process, the Board has authorized setup of an ESG Oversight Committee and have defined responsibilities for various teams. The ESG Committee, with members from various departments in our organization, allows Anchor to coordinate sustainability matters from a company-wide perspective, and has the authority to approve policies, and set practical guidelines for the implementation of our sustainable investing strategy.

The Board has directed the ESG Committee, CIO and the investment team to create our ESG investment processes and policies to steer Anchor portfolios away from carbon intensive companies.

Research analysts are responsible for taking the lead on coordinating stewardship activities for their respective companies and portfolio managers are responsible for thorough ESG integration into the investment process.

Strategy: Managing the risks and advancing the opportunities

Anchor's bottom-up approach to climate-change and other ESG factors helps us to understand climate-related risks and could provide us opportunities to benefit from the transition towards a carbon-neutral world.

Our fundamental analysts analyze how risk factors such as changing technologies, new regulations, and natural disasters could affect a company's direct operations, value chain, and reputation. We also actively analyze and invest in companies that are developing technologies and disrupting existing carbon-intensive business models.

Anchor's CIO and the investment team, has put strategic emphasis on climate change. In analyzing companies, we look at both transition and physical risks.

The TCFD framework organizes risks into two broad categories—transition and physical impact risks. It makes clear climate risk is relevant to numerous industries and manifests itself in a variety of ways.

Climate-related risks are apparent in the short, medium, and long term. Given the rapid change in technology, we consider short term to be 1-2 years, medium term to be 3-5 years, and long term to be 5 plus years.

In analyzing companies and how they can potentially be affected by climate change, we look at both transition risks and physical risks. Potential materiality of climate related issues depends on a company's sector/industry and its own operating model.

Under transition risks we analyze and incorporate into our analysis the following risks:

- Regulatory Risk – how prepared is the company for change in carbon regulation.
- Operating Risk – business operations at risk due to impacts of climate change.
- Reputation Risk – how companies are viewed by key stakeholders and customers.
- Litigation Risk – lawsuits against companies for alleged failure to disclose climate risk.

In addition, we also incorporate the physical risks that could potentially arise from changes to the environment that are produced directly by the continuing concentration of greenhouse gases in the atmosphere and the consequent increase in temperature, precipitation, sea level and other factors.

In our physical stress test, we examine the effect of heat stress, water stress, extreme precipitation, sea level rise, and flooding on our properties. The climate policy that we assume in our stress test is a high-emissions policy. We assume that the concentration of GHGs increases even more than expected under current policies and that therefore temperature and other environmental risks worsen relative to business-as-usual expectations.

We are concerned about companies and industries that are at risk of being stranded. These include but are not limited to carbon intensive utilities that are slow to move away from fossil fuels, oil and gas exploration companies, highly carbon intensive metals and mining companies, whose products can be substituted by lower carbon-intensity products and agriculture and forestry companies impacted due to physical risks.

We are also concerned about assets with exposure to direct physical climate risk, including insurance companies that are impacted by hurricanes and flooding, utilities that get impacted because of wildfires and manufacturing companies that can get impacted because of rising energy costs.

Climate-change can provide opportunities to companies that are disruptive and that are constantly innovating. These include companies in utilities sectors that heavily invested in renewable energy sources, solar panel and wind turbine manufacturers that profit from increasing investments in renewables, electric vehicle manufacturers/sensors and connectivity manufacturers, auto makers and auto part makers developing electric vehicles and waste management and recycling.

Some examples of physical risk include the following. For insurance companies we have to be concerned about them underwriting business in areas that have the potential for rising sea levels. For utility companies, in certain parts of the country, we have to be concerned about causing wildfires and loss of life, and property.

ESG risks and opportunities are systematically integrated into investment decisions for most of our assets under management. We believe a thorough assessment of climate-related risks and opportunities is appropriate for all investment strategies across market capitalization, style, and geography.

Our fundamental analysts have primary responsibility for identifying climate-related risks and opportunities, communicating with the Investment Committee and ESG Committee regarding their findings, and making recommendations to address risks and opportunities, as appropriate.

Climate-risk Scenario Analysis

Studies have shown how climate change is negatively impacting our planet in different ways: rising sea levels, changing weather patterns, and increasing severity of storms, all of which have economic, environmental, and human consequences. While the physical impact is visibly negative, the extent of impact on the economy and the overall society is still unclear.

The impact of a transition to a lower carbon economy in our investment strategies depends on the path taken and the pace of change, among other variables. Our nimble investment team, flexible strategy and comprehensive risk management provide a foundation to manage and mitigate potential risks arising from climate change.

We use a variety of stress-testing techniques to calculate the potential impact of climate-change for the sectors that will most likely be negatively impacted by this change.

There are certain sectors that are at risk of being stranded. These include, but are not limited to, carbon intensive utilities that are slow to move away from fossil fuels, oil and gas exploration companies whose business model and very existence is in question, over the longer-term and highly carbon-intensive metals and mining companies, whose products can be substituted for lower carbon-intensity products.

In these cases, we seek to identify companies that contribute to more efficient energy production while minimizing overall environmental impacts. For example, we favor utilities that have a road-map to zero carbon emissions by increasing their renewable production. In each stress test scenario, we estimate the impact on discounted cash flows during the transition period and the ability to run the operations under extreme physical scenarios.

Metrics and Targets

Anchor Capital Advisors LLC Weighted Average Carbon Intensity (tCO2/$mil of revenue)				
	All-Cap Value/Balanced*	**Mid-Cap Value**	**Small-Cap Value**	**Tocqueville Value Amerique**
Carbon Intensity - Anchor	195.0	260.1	172.6	105.0
Benchmark**	216.0	260.4	173.6	144.0
Negative contributors (weighted)				
1	Idacorp, Inc.	Alliant Energy Corporation	Idacorp, Inc.	Entergy
2	Entergy Corporation	Entergy Corporation	Skywest, Inc.	NextEra Energy, Inc
3	Air Products & Chemicals, Inc.	Portland General Electric Co.	PDC Energy, Inc.	Shell PLC
Positive contributors (weighted)				
1	Franco-Nevada Corporation	First American Financial Corp	Exp World Holdings Inc	Apple
2	Apple Inc.	Hasbro, Inc.	Hingham Institution for Savings	W.R. Berkeley
3	W. R. Berkley Corporation	Gartner, Inc.	Safety Insurance Group, Inc.	First American Financial

*Source: Anchor Capital, MSCI. Data as of 12/31/2022. *For Balanced: Data only for the equity portion of the portfolio. **Benchmarks: All-cap value/Balanced equity portion: Russell 1000 Value; ; Mid-cap value: Russell Mid-cap Value; Small-cap value: Russell 2000 Value; Tocqueville Value Amerique: MSCI Americas IMI*

The Path Forward

This report is the first step in our application of TCFD recommendations. We are committed to continuing our work with various stakeholders, including clients, public organizations and peers to improve methodologies on climate-related risk analysis and disclosures and to furthering climate-related opportunities to facilitate the transition to a sustainable low-carbon economy.

Per the TCFD recommendations, which acknowledge that implementation is a journey that will evolve over time, we will continue to refine our climate initiatives and disclosure in a way that progresses our ability to more effectively manage risk-and-capture strategic growth opportunities while helping to inform the broader market. We look forward to continuing our engagement on this important topic and leveraging the breadth of our businesses to navigate the transition to a low-carbon economy.

This report is illustrative of the process and subject to change.