Introduction

Philosophy

In 2021, CAML's CEO, Russell Busst, signed the Statement of Support for the TCFD Recommendations to complement our efforts, as PRI signatories since 2012, to assist our clients to better understand the risks and opportunities of our underlying investments through enhanced disclosure and the integration of climate risk factors into our bottom-up credit assessment.

A global shift toward a lower-carbon economy is likely to influence the behaviour of issuers and the markets over the longer term. This transition will require a large amount of capital allocation from the private sector, creating potential investment opportunities for asset managers and companies appropriately positioned for the changes.

Understanding how the associated risks and opportunities affect our clients' investment universe, and their likely impact on issuers' ability to be better positioned for the shift to a lower-carbon business model, is a component of our investment assessment when constructing portfolios. This applies from a fundamental perspective, e.g. the presence of stranded assets, as well as a relative value perspective requiring a more complete understanding of the relative risk/reward relationships by issuer.

Our Business Model

CAML manages predominantly investment grade fixed income portfolios for Insurance Companies, Lloyd's Syndicates, Funds at Lloyd's and associated group companies. Portfolios largely comprise the technical reserves and/or Corporate Capital for these institutions. The majority of CAML's contractual counterparties are in London, Bermuda and Europe.

Client portfolios are managed in accordance with Investment Guidelines that form part of an Investment Management Agreement between the client and CAML. Most portfolios are discretionary mandates.

Governance

Conning's aim is to is to build sustainable economic value for its clients through commitment to strong corporate governance and transparent reporting.

Board Oversight

The CAML Board sits on a quarterly basis and is responsible for addressing climate related issues and how they relate to the following items:

- Business plans and strategy
- Key Performance Indicators and objectives
- Budget planning

The CAML Board and CEO have tasked the consideration of climate-related issues to the CAML Chief Operating Officer (COO) and the Head of Credit Research - Europe. The COO periodically reports to the Board on progress and discusses and plan future commitments.

Management's Role in Assessing and Managing Climate-related Risks and Opportunities

Climate-related risks and opportunities are assessed on operational and investment bases.

The COO is involved in assessing the company-wide emissions and carbon profile concerning CAML's Scope 1, 2 and 3 emissions and offsets in collaboration with Carbon Neutral (see Metrics below). CAML's Head of Credit Research – Europe, forms part of the core team tasked with a bottom-up ESG analysis of each individual issuer and assigning ESG ratings to investee companies as part of the overall credit rating process. Portfolio Managers and senior management can view portfolio metrics for each client's portfolio on a quarterly basis with our ESG and Carbon Dashboards.

Strategy

The climate impact of our heavily-debt focused client portfolios is relatively small over a short-term, two-year period. However, we acknowledge that the same issuers may be contributing to larger climate damage as entities.

In the medium-term, our ability to meet clients' evolving needs with regard to ESG and climate factors will become a key differentiator as Conning continues to educate its clients on best-practice metrics, while maintaining a fully integrated bottom-up ESG approach as part of the investment process.

In the longer-term, these objectives will converge with issuers that are better prepared for transition to a low-carbon economy demonstrating longer-term sustainability and value potential.

The three levels of climate-strategies are: Aware; Focused; and Reduction. These three strategies broadly align with where we expect most of our clients to be in the short-, medium- and long-term, although individual client goals will move at different paces.

CAML has conducted an analysis of the possible impact of climate change by aggregating our firmwide client exposure and gathering the data from our ESG and Climate Dashboards in the form that we send to clients on a quarterly basis. We have data to understand the MSCI Climate Value at Risk (CVAR) in scenarios where companies target 1 C of warming, 2 C and 3 C. All these scenarios are set against the backdrop of the MSCI 'aggressive' physical scenario. The 'aggressive' scenario corresponds to extreme weather hazards corresponding to the 95th percentile of the cost distribution arising from climate-related events.

The results as at December 2023 are shown in Table 1 below. In every currency, our client portfolios have a carbon emissions intensity lower that of a broad-based corporate index. In addition, the CVAR sensitivity is lower in our portfolios than for the corporate indices we measure against. The CVAR represents a theoretical change in enterprise value of the entities in which we invest due to transition and physical risks. It does not represent a predicted change in the value of our, mostly fixed income, investment portfolios.

Table 1	% of assets	MSCI Carbon Intensity (tonnes/MM USD Revenue)	MSCI CVAR 2 C - aggressive scenario	MSCI Warming Potential (C)
US dollar	78	71.0	-2.9	3.3
British pounds	11	45.3	-2.5	2.3
Euro	8	46.5	-2.5	3.1

Canadian dollar	3	13.6	-0.8	3.3

Resilience of the Organisation's Strategy

Due to the nature of CAML business operations, GHG emissions relating to Scope 1, 2 and 3 are relatively low. The largest contributor to this is international travel. CAML measures and reports these emissions using 2019 data to target a reduction whilst offsetting GHG emissions by purchasing carbon credits and certifying as a Net Zero entity under the CarbonNeutral Protocol.

On a portfolio basis, the impact on CAML is limited but climate considerations may affect the issuers we invest in for our clients if dictated by client mandates or if we do not believe that climate risks are appropriately reflected in bond pricing or assessment of creditworthiness. Conning uses CVAR metrics to gauge the sensitivity of our portfolios relative to an index as well as to compare CVAR evolution over time. Since we have not previously disclosed metrics for TCFD, we do not have a prior comparison.

Risk Management

Process for Identifying and Assessing Risks

Climate Risk is taken into consideration in the evaluation of the impact of climate risk on the credit profiles of issuers, predominantly as part of the 'bottom-up' part of the investment process, especially those most exposed to physical or transition risk. Conning considers whether an issuer's credit profile has the capacity to successfully transition to a lower carbon emissions environment over a reasonable time horizon.

Process for Managing Risks and Integration

For ESG-focused strategies, Conning employs ESG and Carbon dashboards to further promote the integration of ESG factors in portfolio construction and portfolio management. These dashboards also provide an aggregated overview of any given portfolio allowing us to identify, measure and monitor the underlying ESG characteristics, including climate-change related risks.

Subject to client goals the ESG characteristics of the portfolio can then be changed to limit or exclude exposure to certain issuers with weak or worst-in-class ESG characteristics. Even where specific ESG goals do not exist, we continue to provide our ESG dashboards to provide further insight into the portfolio and underlying exposures to help our clients meet their risk Identification, Measurement, Monitoring, Management, Control and Reporting (IMMMCR) regulatory obligations.

Climate 'Targeted' strategies are more client-driven and typically apply at the top-down part of the process, where managers may be required to construct portfolios that reduce carbon emissions and/or places limits on high carbon emitting names and/or industries/sectors. As such, these strategies are applied at the portfolio construction phase of the investment process.

Metrics and Targets

The CAML Board has pledged to offset its carbon footprint with net zero carbon emissions for all business operations from and including 2023. CAML partners with Climate Impact Partners and has identified appropriate projects to offset emissions and achieve a CarbonNeutral® certification.

CAML's Scope 1, 2 and 3 emissions in 2023 were 0.7 tCO2e, 21.8 tCO2e and 93.8 tCO2e, respectively. This compares to 333.8 tCO2e, 369.0 tCO2e and 2,7082.2 tCO2e for Conning Holdings Limited according to CarbonNeutral.

From a portfolio perspective, we mainly focus on Carbon Intensity, Warming Potential and MSCI's CVAR for monitoring purposes. On a client basis, some clients may target an average MSCI ESG Rating or total Scope 1 and 2 emissions in addition to the above metrics.