

# Task Force on Climate-related Financial Disclosures Report

Intech<sup>®</sup> Investment Management LLC

January 2022

## Introduction

Intech seeks to assess, monitor, and manage the potential effects of climate change on our investment process and client portfolios, as well as on our business operations. In December 2019, we signed the Statement of Support for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

We prepared this report in accordance with the TCFD recommendations as they relate to asset managers. Our annual report describes how we assess and manage climate risks across our investment process and business operations.

### Recommended Climate-Related Financial Disclosures



#### **Governance**

The organization's governance around climate-related risks and opportunities

#### **Strategy**

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

#### **Risk Management**

The process used by the organization to identify, assess, and manage climate-related risks

#### **Metrics and Targets**

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: Task Force on Climate-related Financial Disclosures

## Governance

Intech's Sustainability Committee brings to life our commitment to sustainable development. The committee, comprised of company leaders across all business functions including the CEO and CIO, aligns our broad view of sustainable development with our [mission and values](#), our clients' values, and the needs of our communities. The committee is tasked with identifying and promoting sustainability initiatives, enacting those endeavors, and measuring their impact. Intech actively embraces an environmentally aware culture and encourage employees to take steps towards creating positive sustainability through various means.

As a TCFD supporter, climate risk is specifically included as a theme in the Sustainability Committee's initiatives regarding our approach to climate-related issues. The Committee determines how it can influence internal decision-making by identifying, assessing, and managing climate-related risks and opportunities and strengthening policies and implementing relevant programs, practices, and behaviors. Specifically, Intech's Sustainability Committee and the ESG integration sub-committee regularly discuss and review the strategic direction related to the ESG research agenda, use and development of ESG data and ESG integration into Intech's investment process.

## Portfolio Management

While Intech does not have employees dedicated solely to climate change due to its mathematical investment process, all portfolios are managed on a team basis. Climate and environmental risk factors have been implemented in all our strategies to various degrees depending on each client's investment objective. Dr. Adrian Banner (CEO/CIO) oversees the management of all portfolios and is an active member of Intech Sustainability Committee. In addition, Intech's Investment Risk Committee is responsible for overseeing management of ESG/climate-issues, risks and opportunities, and their integration.

## Strategy/Risk Management

### Investment Process

Intech's investment process utilizes a mathematical approach that uses the natural volatility of stocks to build a portfolio that attempts to outperform the target benchmark index over the long term while managing the risk over various dimensions. The investment process aims to capture an excess return in the form of a rebalancing premium, by systematically rebalancing the portfolio to a set of target weights for each stock.

We take a risk-based approach to ESG. We combine third-party ESG ratings that emphasize the impact of stock-specific issues with extensive internal statistical analysis of broad and persistent ESG themes. This allows us to integrate ESG considerations into our investment process in a manner complementary to the rest of the portfolio constraints, while maintaining the target of consistent long-term outperformance. Our ESG risk factors and ESG specific constraints are one of many dimensions in which we measure and manage risk and are subject to a similar process as the other factors and constraints we consider in our process.

For the clients that specifically desire an improved ESG profile versus the benchmark (ESG score boost, carbon reduction...), we aim to provide strategies that consistently satisfy this goal in a way that balances the resulting risk and return outcomes.

Our strategy in term of ESG integration is to manage ESG-based systematic risks, including environmental consideration, in a manner that is consistent with our investment approach. Additionally, we have the flexibility to create enhanced bespoke ESG solutions and low carbon solutions based on various ESG preferences.

### Proxy Voting and Company Engagement

We exercise the voting rights on behalf of our clients who delegate this responsibility to Intech, which is an important part of our fiduciary obligation. Thus, we vote to achieve outcomes aligned with our clients' long-term economic interests.

We partner with Institutional Shareholder Services, Inc. (ISS), which offers a range of different voting policies from which our clients may choose to reflect their voting preferences. For clients who delegate proxy-voting authority to us, Intech uses ISS Sustainability Proxy Voting Guidelines unless otherwise directed. These guidelines seek to support global governing bodies promoting sustainable business practices that advocate for stewardship of the environment, fair labor practices, non-discrimination, and the protection of human rights. ISS Climate Proxy Voting Guidelines are also available to Intech clients.

Additionally, to maximize the impact of our engagement efforts in conjunction with other investors, we use ISS's pooled engagement service. Each year, ISS engages with over 100 companies on our behalf due to our belief that engagement plays a critical role in helping to identify, understand, and appropriately consider ESG risks, including climate change. Our collaboration with ISS strengthens our voice, not only on climate change, but also on human rights, labor rights, environmental risks, and corruption issues by jointly engaging companies alongside other investors. ISS facilitates dialogue with companies who fail to meet responsible business conduct standards, face credible allegations, or lack transparency in their ESG risk mitigation efforts. They also facilitate the management process with real-time reporting that implements global stewardship codes and reporting frameworks, including the PRI.

For climate-related engagements, ISS evaluates a company's exposure to climate-related risks, assesses management's climate awareness, evaluates their risk-management approach, and encourages the adoption of industry best practices. ISS encourages companies to adopt the TCFD framework and improve disclosures. This helps investors make more informed investment decisions in the knowledge that a company has a risk-management process in place to help it handle an array of climate risks.

## Collaborative Initiatives

As a signatory to Climate Action 100+, we work with other investors to ensure the world's largest corporate

greenhouse gas emitters take necessary action on climate change. In 2021, Intech joined the Investor Agenda and the Net Zero Asset Managers Initiative. Addressing climate change requires a global collective effort and we aim to collaborate with our industry peers to achieve this objective. These initiatives provide a forum of collaboration within the asset management industry on climate action, help shape, and promote best practices in term of ESG investments, corporate engagement, investor disclosures, and policy advocacy.

## Product Development

Given the potentially significant investment opportunities in proactively addressing climate change, we expect to offer more investment strategies that can help to enable the low-carbon transition. We can potentially customize an investment strategy to conform to a specific set of carbon-intensity constraints, and we make sure that our current and prospective clients are aware of this capability. In addition to the many customized solutions tailored to our clients' specific ESG objectives, Intech offers a Global ESG flagship product. The strategy is benchmarked to the MSCI World Index and seeks to boost Environmental, Social, and Governance (ESG) scores above the index while maintaining carbon intensity below the index.

## Business Operations

Considerations of physical risks to our operations that are outside of our direct control include analyzing the changes in key climatic parameters such as extreme weather events and rainfall that are likely to impact our operations, and employee health and wellbeing. For example, our operations in West Palm Beach, Florida, are likely to be susceptible to physical risks such as floods, tropical storms, and severe hurricanes. These events could affect our employees in the affected region and impact our operations. To mitigate the risk of business disruptions at our main office, we are able to allow for the seamless transition of work from our West Palm Beach location to our secondary office in Princeton, New Jersey. Both locations are configured to allow staff from either location to effectively work from the other location in the event of an unplanned event or work entirely remotely.

We have also taken steps to improve the energy efficiency of our two facilities. Our company headquarters in West Palm Beach, FL is Gold LEED® certified, a recognized symbol of sustainability achievement and leadership in the construction industry. We also conserve resources and reduce pollution across many areas of our operation, continually evaluating new opportunities to reduce our environmental impact.

- Adopting more web-based meetings
- Defaulting to paperless presentations and reports
- Offering employees remote working options
- Requiring suppliers to detail their sustainability efforts
- Providing employees reusable coffee mugs and tableware
- Promoting our corporate recycling program

## Metrics and Targets

### ESG Integration

In 2021, we incorporated ESG risk factors and constraints into all of our strategies. Our research has shown that ESG characteristics can introduce material systematic risks to portfolios. As a result, we developed proprietary ESG factors and constraints that help us manage the risks induced by ESG-related issues.

We combine widely accepted, third-party ESG ratings that emphasize stock-specific impacts with proprietary statistical analysis that reveals related attributes that are broad and historically persistent. This technique allows us to conduct robust back-testing and integrate ESG considerations as risk factors in a manner consistent with other portfolio risk constraints.

Currently, Intech evaluates ESG considerations across five risk factors, two of which are environmental and carbon emission related. These factors are part of our multi-dimensional risk estimation model, which includes other factor-specific risks such as momentum, size, beta, etc. Combined with country, sector and stock-specific risks, our optimization process establishes

portfolio-level risk exposures and adapts them to balance their contributions to return generation, diversification and risk.

Intech can also tilt these ESG exposures at the portfolio level, which includes lowering the carbon intensity of a portfolio relative to its benchmark for clients seeking to lower the carbon intensity of their portfolios.

Every Intech strategy incorporates environmental and carbon factors for risk management purposes, regardless of whether a strategy has an explicit sustainable mandate.

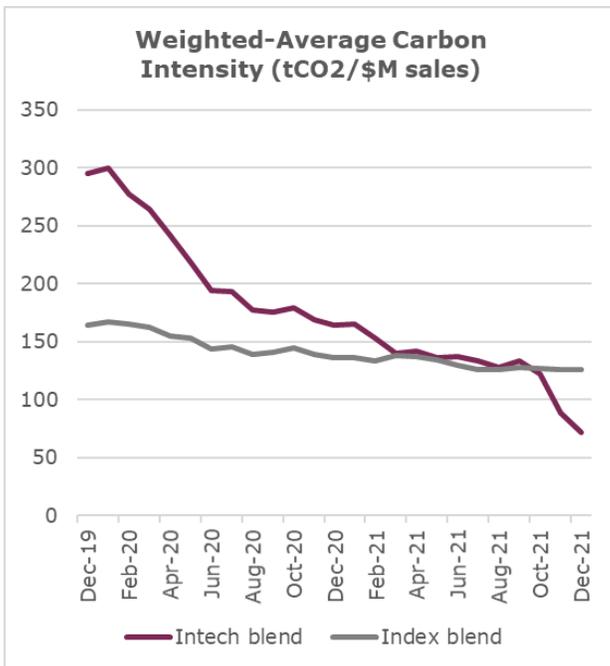
### Carbon Emission Measurement and Reporting

We measure the carbon footprint of all the portfolios we manage. We rely on MSCI data for this analysis, which is a global provider of company-level carbon and environmental metrics. Our preferred measure is carbon intensity (Tons of CO<sub>2</sub>e/ USD mn revenue). It allows for a comparison of the carbon emission between companies of different sizes since it is normalized by sales level.

At a portfolio level, using the carbon intensity allows us to calculate the weighted average carbon intensity and to compare it to the weighted average carbon intensity of the benchmark. The carbon intensity data we use are based on MSCI Scope 1 (direct emissions from fossil fuel combustion) and Scope 2 (indirect emissions resulting from electricity usage) but not Scope 3 (all other emissions) for which the data coverage is more limited. We will continue to monitor the data availability for scope 3 emissions from third party providers in 2022 for potential future inclusion as recommended by the TCFD.

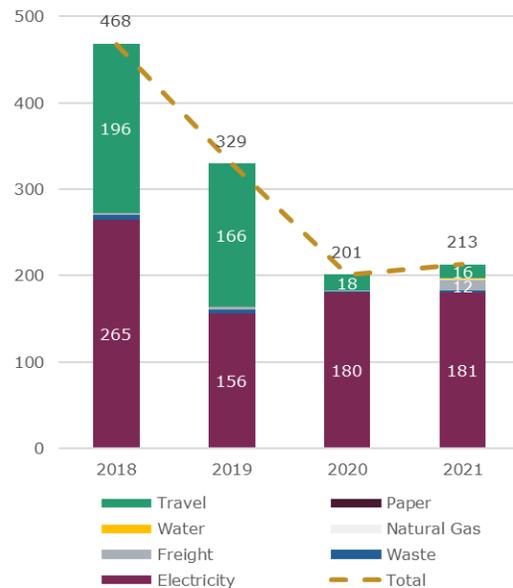
As of December 31, 2021, the portfolio weighted average carbon intensity aggregated at the firm level was 72 tCO<sub>2</sub>e/US\$M sales compared to the equivalent aggregated benchmark carbon intensity of 126 tCO<sub>2</sub>e/US\$M sales. That constitutes an overall 43% reduction in carbon intensity in our portfolios relative to the blended benchmark.

Our portfolios' weighted average carbon intensity has decreased significantly since 2019 reflecting the gradual integration of ESG and carbon risk factors and constraints in all our portfolios and the increase demand from our clients for strategies with explicit carbon intensity reduction.



At the corporate level, our preliminary evaluation shows that Intech total carbon emission for 2021 was around 213 tons of CO2. This result is consistent with Intech carbon emission for 2020 but is significantly lower than pre-pandemic levels. We will continue to offer flexible work practices for our employees and encourage the adoption of web-based meetings in lieu of travel when appropriate as part of our commitment to minimize Intech's corporate footprint.

Intech total estimated emissions:



## Target setting and Climate Action Plan

As a signatory of the Net Zero Asset Managers initiative, Intech is currently working on the first disclosure to the initiative that will include the initial percentage of portfolio that will be managed in line with net zero, baseline and target year, as well as the methodology used with target setting. This information will be shared in our next update to the TCFD.

## Conclusion

We recognize that climate change is one of the most pressing issues today. As a TCFD supporter, we are committed to formulating a firm-wide approach to accelerating clean economic growth and supporting the transition to a low-carbon global economy. We will continue to work towards implementing the TCFD recommendations and will report accordingly on an annual basis.

## Disclosures

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Intech is a private, quantitative asset manager investing on behalf of pension funds, governments, endowments, foundations, and other institutional investors worldwide. Having pioneered the application of Stochastic Portfolio Theory in 1987, Intech continues to seek distinctive alpha sources for clients in five continents. Today, Intech provides investment solutions encompassing ESG, absolute return, defensive equity, and traditional long-only strategies.

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