

# Taskforce on Climate-related Financial Disclosures Report

2022



**GoldenTree**  
ASSET MANAGEMENT

EST. 2000



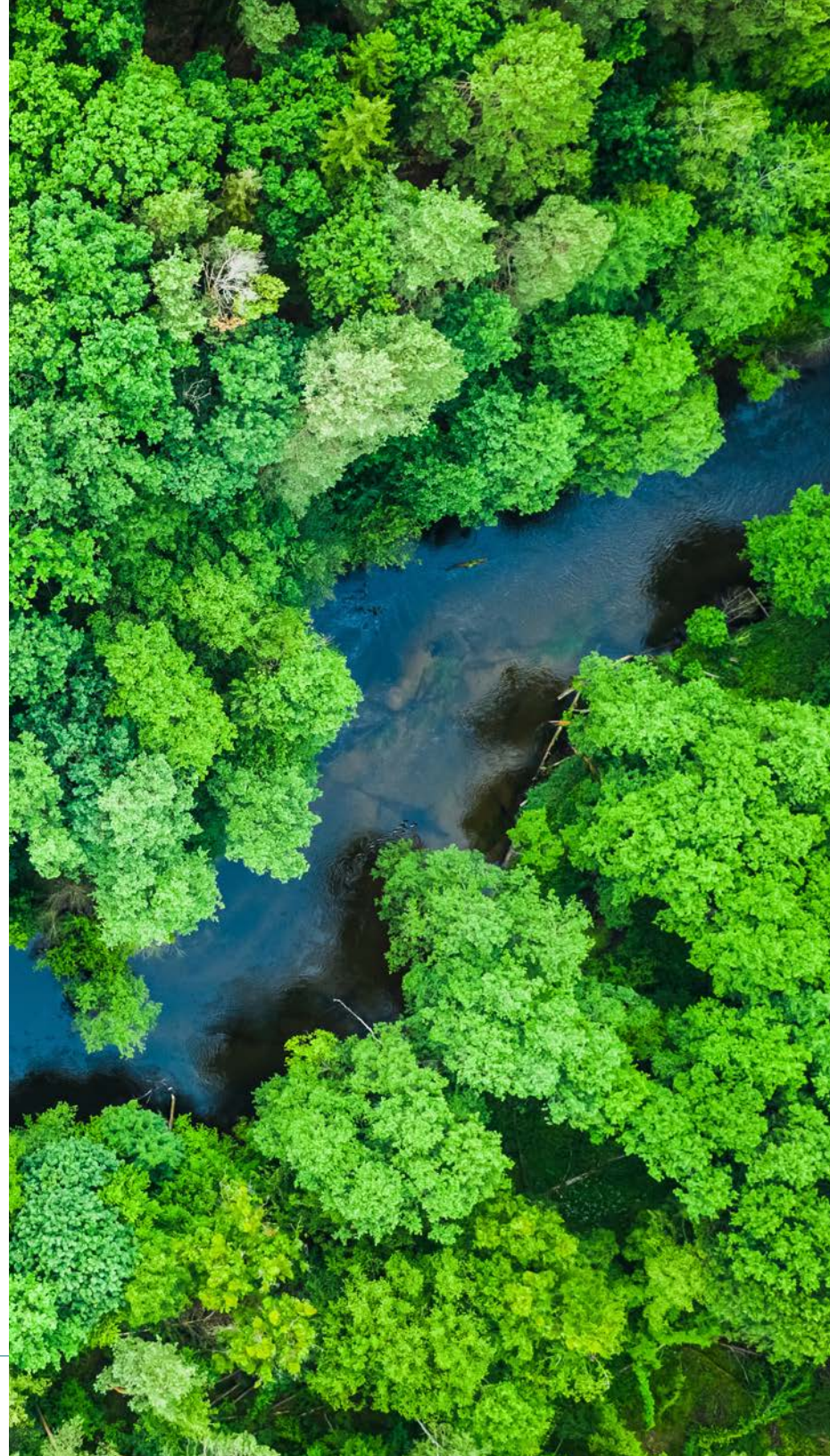
# Introduction

GoldenTree is a global asset management firm specializing in opportunities across the credit universe, including high yield bonds, leveraged loans, distressed, structured products, emerging markets, private credit and credit-themed equities.

The firm's value-based investment approach emphasizes a high margin of safety, attractive relative value and a catalyst to drive total return. As fiduciaries of our clients' assets, it is incumbent on us to consider material factors that could impact the risk-adjusted returns of our investments, including risks posed by climate change.

GoldenTree supports the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) as a consistent framework for organizations across various sectors to disclose decision-useful information regarding climate risks. We recognize the importance of assessing the impact and have expanded the breadth of data used in our second year of assessing our firm-level carbon footprint. This includes measuring the carbon intensity of our investment portfolio for the first time in 2022, which allows us to monitor trends going forward.

GoldenTree recognizes that in order to make meaningful contributions to reducing the impacts of climate change, our actions must be measured and thoughtful, and viewed as a journey. We aim to summarize the groundwork which we laid in prior years and showcase how we have continued to build upon this foundation to advance our ongoing process of providing transparency into our firm-level and portfolio-level operations.





## Core Elements of Recommended Climate-Related Financial Disclosures



01

### GOVERNANCE

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



02

### STRATEGY

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



03

### RISK MANAGEMENT

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



04

### METRICS AND TARGETS

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

# Governance

GoldenTree established its ESG Committee in 2019. The ESG Committee is comprised of three Executive Committee members, as well as Senior representatives from the Legal, Business Development and Portfolio Management functions.

The ESG Committee determines GoldenTree's ESG Policy and guidelines and is responsible for governance and oversight of the ESG program. The ESG Committee also sets how climate risks and opportunities are incorporated within the investment decision-making process, and our lead portfolio managers receive quarterly updates from the ESG Committee on the current state of ESG implementation and relevant metrics. Members of the ESG Committee regularly update senior members of the firm on ESG related updates as needed.

Within each strategy vertical at GoldenTree, investment professionals are responsible for assessing potential environmental factors, including climate-related risks and opportunities within a wider ESG assessment process for all investments. While tools and processes vary by investment type, assessments are ultimately vetted and incorporated into decision-making for each strategy.

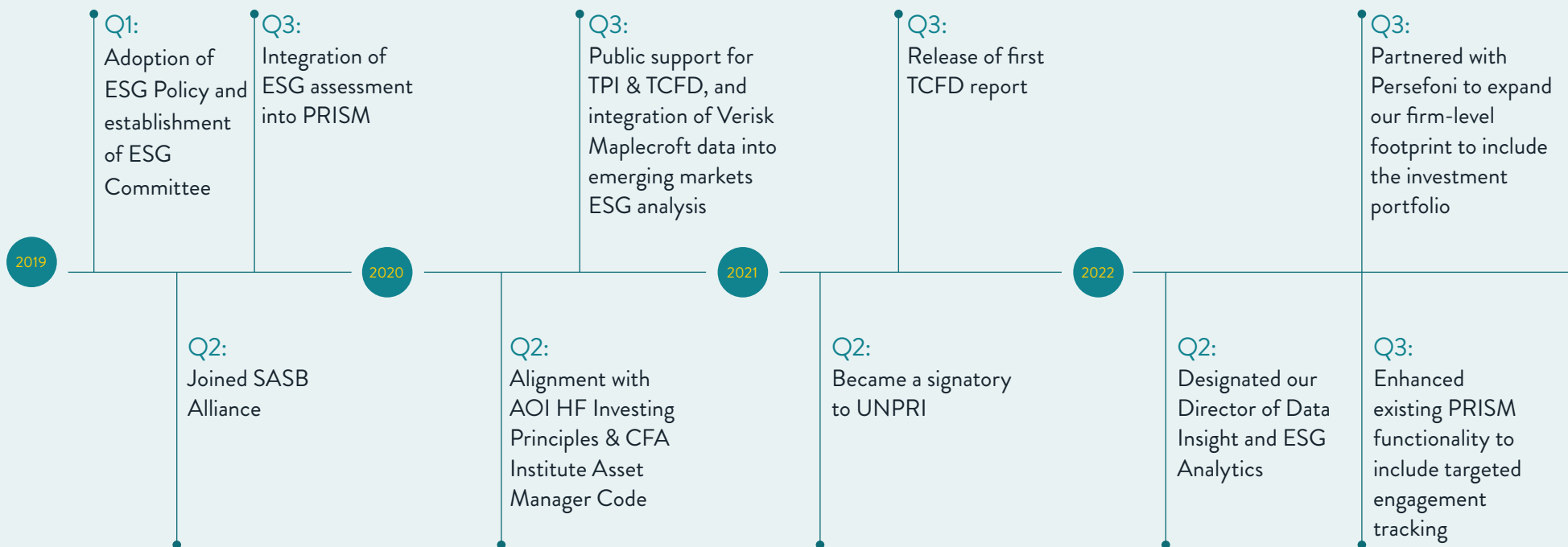
For certain investments, where feasible, we use our position as an influential shareholder with companies to advance ESG priorities, including climate-related risks and opportunities where relevant.



# Governance

In an effort to continue building upon and augmenting our approach to climate risks and opportunities, and to ESG more broadly, GoldenTree has aligned itself with a range of organizations that can provide unique insights into best practices

in responsible investment, as well as topic-specific areas including climate change. These include the SASB Alliance and UNPRI. A summary of GoldenTree's ESG journey, including the establishment of these relationships, is summarized below.





# Strategy

GoldenTree invests across various different industry sectors. As such, climate-related risks and opportunities are assessed as deemed material for each investment. Given that our holding periods for corporate investments can range from 12–24 months, our strategy emphasizes near-term mitigation of downside risks associated with material ESG factors. In situations where GoldenTree is an influential shareholder, we may capitalize on investments that present climate-related opportunities, or engage in value creation opportunities where we have greater ability to meaningfully influence corporate policies. For example, GoldenTree has worked with investee companies that utilize carbon offsets or are investing in technologies to reduce their carbon footprint, as well as working with investee companies to incorporate board members with clean energy or ESG experience.

As deemed material in our investment due diligence process, we may consider both physical and transition risks relevant to the investment opportunity. These are defined here.

## PHYSICAL RISKS

Impacts to assets, infrastructure and operations as a result of the acute (e.g. hurricanes and other extreme weather events) and chronic (e.g. sea level rise, changes in precipitation patterns and changes in infectious disease patterns) effects of climate change.

## TRANSITION RISKS

Policy, legal, market, technology and reputational implications that could arise from the shift to a low-carbon economy and/or as a result of the physical impacts of climate change.

The issuers that GoldenTree invests in may be affected by both physical and transition risks in a variety of ways. For instance, corporate issuers may see an impact on the integrity or value of assets, on business productivity, or on changes in demand for products or services. For sovereign issuers, climate change has the potential to affect economic growth, impact prices and inflation and influence employment, as well as changes in population growth and labor productivity. Given the diversity of our portfolios, the scope, time horizon, and nature of impact associated with identified climate-related risks or opportunities are considered on an investment-specific basis.



# Strategy

GoldenTree's approach to climate risk rests upon understanding issuers' climate risks, mitigants and adaptation measures, and anticipating how these may affect their business operations. Our industry specialists may situationally evaluate environmental factors such as carbon emissions, waste mitigation practices, utilization of alternative fuel and energy efficiency. GoldenTree's industry specialists can situationally evaluate an individual company's environmental practices or externalities to determine whether there are any regulatory or reputational risks that may arise in the near-term.

GoldenTree's investment professionals consider a broad array of potential risks and opportunities across our investment strategies, providing us with the opportunity to avoid issuers with significant climate-related risks and to capitalize on climate opportunities as our role in each situation allows.

GoldenTree views evaluating environmental risk factors at the investment level and portfolio level as a part of our fiduciary duty to maximize returns to investors while minimizing risks. To manage risks, we focus on both applying a robust pre-investment diligence process to avoid and mitigate risk to the extent possible, as well as actively monitoring throughout the lifecycle of the investment. For instance, in our corporate investments, the fundamental analysis inclusive of ESG and operating factors, is updated in our proprietary system on a quarterly basis. These insights are reviewed alongside other factors as part of ongoing decision-making on whether to sell, trim or add to each respective position.

We utilize different tools and processes for our various investment types, as summarized on the following page. During 2022, GoldenTree has also made advancements in further integrating third party ESG data into our analysis of potential investments.



# Risk Management

## GOLDENTREE'S ESG APPROACH BY INVESTMENT TYPE

CORPORATE	<p>ESG factors are included within GoldenTree's proprietary investment analysis tool, the Portfolio Ranking Investment Selection Model (PRISM). Our industry specialists use the PRISM system to evaluate issuers in our portfolios on an ongoing basis, monitoring changes in fundamentals and investment catalysts, including ESG factors. GoldenTree's industry specialists leverage the Sustainability Accounting and Standards Board ("SASB") materiality framework within PRISM, and also have access to SASB industry standards to aid in the identification and ongoing monitoring of material ESG factors for corporate issuers. Use of these resources allows our analysts to identify climate-related risks and opportunities specific to industry sectors where relevant.</p>
DISTRESSED	<p>GoldenTree may also utilize its position as an influential shareholder in companies that have undergone restructuring to advocate for policies that advance our ESG priorities. Specifically, we seek to advance ESG priorities by</p> <ol style="list-style-type: none"> <li>1 Encouraging management to address ESG concerns as an element of corporate strategy,</li> <li>2 Exercising independent diligence to determine additional potential areas for ESG improvements, and</li> <li>3 Using available avenues of influence to advocate for improvements we deem worthwhile and consistent with our objectives.</li> </ol> <p>With respect to climate change, we leverage the TPI Management Quality Framework in our engagements as an influential shareholder with management in order to systemically evaluate and drive progress on companies' management of GHG emissions and efforts toward a low-carbon transition.</p>
STRUCTURED PRODUCTS	<p>GoldenTree engages with all of our CLO managers and relevant parties of structured products investments on their approach to ESG and best practices via regular surveys. We incorporate responses into the structured finance analytics tool that we utilize, allowing the investment team to take into account CLO managers' ESG practices when evaluating new investments or when monitoring existing holdings. GoldenTree is in the process of working with a third-party survey provider to facilitate the seamless collection of data across potential investments.</p>
EMERGING MARKETS	<p>We work with the data provider Verisk Maplecroft, which calculates an independent ESG Score based on factors mapped to the UN SDGs for each EM country in GoldenTree's investment universe. This ESG score is then factored into the firm's proprietary Fundamental Sovereign Index (FSI) Score, which forms the foundation of our quantitative analysis of the creditworthiness of EM sovereigns.</p>
PRIVATE CREDIT	<p>In evaluating its private credit investments, GoldenTree utilizes the same approach as that for corporate investments. Additionally, we will request an annual ESG or sustainability report of the sponsor or company and as needed may request them to make Representations or Warrants on certain ESG factors raised by GoldenTree.</p>



# Case Study: California Resources

Environmental and climate related factors played a key role in GoldenTree's assessment and ultimately in our decision to invest in California Resources Corporation ("CRC"), a key oil and gas producer in the state of California.

One of GoldenTree's first actions in getting involved with CRC was to reconstitute the company's board with new directors, including a GoldenTree designee had previous carbon capture and sequestration ("CCS") expertise. We also subsequently spearheaded the appointment of another board member with significant CCS experience in the California market. Fast forwarding to today, CRC is now the clear leader in California CCS initiatives and recently entered into a carbon management JV with Brookfield Renewable which has committed an initial \$500mm investment and has already signed an agreement for a significant CCS project. CCS technology can facilitate reduced carbon dioxide emissions into the atmosphere by capturing these emissions and sequestering them safely underground.

GoldenTree has been a driving force behind the CCS assets at the company; several of these carbon sequestration projects have been recognized by the state's Energy Commission as a leading example of CO2 sequestration sites.

During November 2021, the company further adopted a 2045 Full-Scope Net Zero goal, inclusive of Scope 1, 2, and 3 emissions, which places the company in a unique leading position within its industry.



# Case Study: Hexion

In our investment in Hexion, an intermediate chemical company, GoldenTree was well-positioned to take a leadership role in the restructuring of the business and in effecting positive environmental change.

During 2020, the company announced new sustainability goals that were focused on value creation and minimizing climate impacts throughout its business lifecycle. The company further committed to entirely new products incorporating sustainability attributes by 2030.

In May 2021, the company also announced a greenhouse gas emission reduction goal as one component of its Sustainability Growth Platform. Specifically, the company has committed to reducing absolute carbon emissions by 20% by 2030; this commitment is inclusive of both Scope 1 and Scope 2 emissions.

Later in 2021, Hexion announced that it was ranked within the top four companies in the North American chemical sector according to an ESG assessment from V.E., a division of Moody's ESG Solutions.

In 2021 Hexion also committed to the UN Global Compact Initiative, which includes principles in the areas of human rights, labor, anti-corruption and the environment.



## HEXION'S SUSTAINABILITY GOALS



- Product Sustainability
- Innovation
- Research and Development
- Climate Change
- Associate Safety and Well-being
- Product Stewardship
- Spills and Environmental Releases

## SUSTAINABLE PRODUCTS



Hexion defines sustainable products as those that include one or more of the following attributes in its value chain:

- Improving energy efficiency
- Reducing material consumption
- Increasing use of sustainable raw materials
- Contributing to the circular economy
- Mitigating climate change

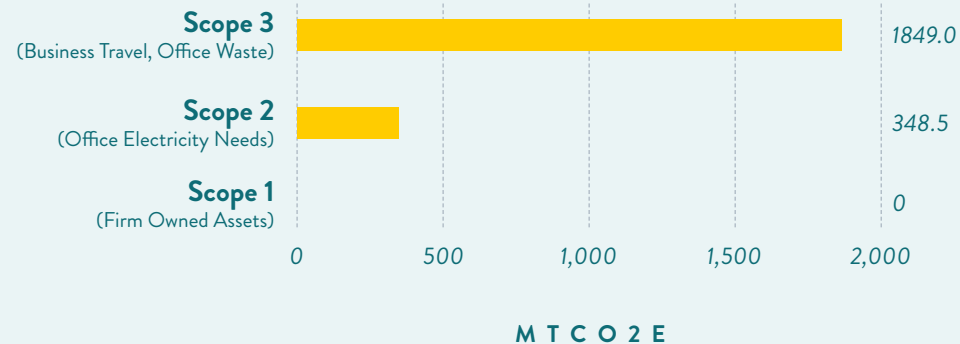


# Our Firm's Carbon Footprint

In our second year of assessing our carbon footprint – looking at calendar year 2021 – we have expanded our Scope 3 to include business travel and have partnered with Persefoni, a leading carbon accounting firm, in this effort. Through this partnership, GoldenTree can report our firm-level emissions with greater confidence and is also working with Persefoni towards providing information on our portfolio-level emissions for the first time. We look forward to leveraging the detailed emissions information that Persefoni provides.

Across our six global offices and with our employee headcount of 270 we generated 2,197.5 metric tons of carbon dioxide equivalent in 2021. Emissions by scope are shown in the table on this page.

## 2021 GOLDENTREE FIRM EMISSIONS BY SCOPE



*Disclosure: GoldenTree aligns with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard to calculate our Scope 1, 2 and material Scope 3 GHG emissions, from our global operations. As stated in this report, along with the wider financial services industry, we are looking to the Partnership for Carbon Accounting Financials guidance to incorporate Scope 3 Category 15 emissions into our annual disclosure. In 2021, our operational Scope 3 emissions does not include 'financed emissions', though this was and continues to be a priority area for GoldenTree.*

*The reporting period that our GHG emissions operational footprint covers is January 1 2021 to December 31 2022. This is in line with our disclosure of financial performance and the reporting timeline that follows. We therefore use the GHG protocol using the operational control approach. Reported Scope 2 emissions covers electricity by our offices. Reporting Scope 3 emissions covers the road, rail and air travel of our people, hotel stays of our people for business purposes, and waste generated in the operations of our offices.*

*We continue to monitor the global regulatory landscape in respect of GHG accounting and requirements to produce inventories, and are cognizant of the differing jurisdictions and their evolving priorities. Our intention is to provide full transparency over our current material operational emissions, and in time financed emissions, to inform how GoldenTree align with the global decarbonisation trajectory.*

# Firm-level Behavioral Shifts

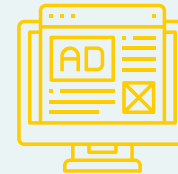
It is our intent to continue measuring our carbon footprint on an annual basis and to strive towards year-over-year reductions as we implement changes in the way that we work. Several behavioral shifts in our business have occurred over the last several years including those summarized below.



Smartcool software installed within our London office building to monitor the fan and motor of the building air conditioning to reduce energy consumption.



Utilize new re-useable bottles that are made with at least 35% recycled glass and are 100% recyclable and bottled at source. GoldenTree also utilizes a coffee pod recycling program.



In 2018, our firm shifted to using digital marketing materials in lieu of printed presentations



GoldenTree has switched to using energy-efficient lightbulbs in most locations.



# 2022 Spotlight

## DIRECTOR OF DATA INSIGHT AND ESG ANALYTICS

This year we made great strides on an internal initiative to further our capacity to assess and monitor ESG data and information related to our investment portfolios. During 2022 we promoted Rainbow Chik, our Director of Data Insight, to the position of Director of Data Insight and ESG Analytics. In this capacity, Rainbow assists in providing dedicated data analytics and reporting to the ESG Committee on factors across our investment strategies. Rainbow has played an integral role in building our internal systems for use by investment professionals and client ESG reporting.





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