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MEMORANDUM

TO: Vermont Pension Investment Commission ("VPIC")
FROM: Meketa Investment Group ("Meketa")
DATE: October 31, 2023
RE: Interim Update: Meketa 2023 Climate Investment Policy Options report for VPIC

In this interim update on Meketa's 2023 Climate Investment Policy Options report for VPIC, we describe the analysis we are working on and summarize four broad climate investment policy options that we plan to include in the final report. Please note the research for the report is currently underway. We thank the VPIC for the opportunity to work with them on these vital investment issues.

Report Content

Meketa plans to include five sections in its 2023 climate report for VPIC: 1) Climate Investment Trends; 2) Findings from climate survey of VPIC public and private managers; 3) Analysis of VPIC Public Markets Climate Data; 4) Climate Scenario Analysis; and 5) Climate Investment Policy Options for VPIC.

1) **Climate Investment Trends**. This section is intended to provide a backdrop for developments on climate investment issues, including information on energy transition developments, current state of climate investment data and regulatory frameworks, and comparison of long-term (10-year) returns to equity market broad indices with no fossil fuel exclusions, with fossil fuel exclusions, and based on transition metrics, based on the MSCI ACWI as the parent index, with end-date of December 31, 2022 to compare to data on VPIC portfolio, and updated end-date of September 30, 2023 for additional color as energy markets shift.

2) **Findings from Climate Survey of VPIC public and private managers.** Meketa received responses to the survey from all VPIC investment managers. The survey includes questions on portfolio management and monitoring of climate issues, including Scope 1, Scope 2 and Scope 3 metrics, fossil fuel exposure, and green revenue exposure.

3) **Analysis of VPIC public markets climate data**. Meketa is analyzing VPIC public markets climate data including Scope 1, Scope 2, Scope 3 metrics, Science-Based Target initiative, fossil fuel exposure, green revenues, and renewable energy generation revenues. The report will include explanation of availability of data, including where metrics are based on estimates versus company-reported data.

4) **Climate Scenario Analyses**. Meketa plans to include analysis of macro climate scenarios based on the VPIC target asset allocations. We anticipate including results from a 1.5-degree Celsius and 2.0-degree Celsius scenarios, compared to a baseline that does not include climate.

Climate Investment Policy Options

Meketa plans to include four Climate Investment Policy options for VPIC, as summarized below. Each option carries its own pros and cons. The options are not mutually exclusive. Addressing climate risks and opportunities is still an art, not a science, and one for which institutional asset owners continue to evolve their approaches.

Broad Climate Investment Policy Options for Consideration

Approach	Implementation	Pros	Cons
Climate Aware (Current)	Maintain existing approach to investment climate risk and opportunities	No additional time and resources required	Low-to-medium expected contribution to lowering real economy climate risks and increasing risk-adjusted return of investment portfolio.
Energy Supply Exclusion (Broad FF Exclusion)	Exclude fossil fuel suppliers, and maintain rest of existing approach to climate risks and opportunities	Minimal to medium implementation costs and resources, depending on approach to private markets and immediate versus long-term approach	Low expected contribution to lowering real economy climate risks and expected low contribution to improving risk-adjusted return of investment portfolio over the next 10-20 years. May reduce investment options, in asset classes such as private credit. Would constrain VPIC engagement efforts.
Portfolio-wide Net Zero Goal	Adopt a portfolio-wide net zero goal of, for example, 7% annual reduction in emissions employing investment shifts to reduce portfolio emissions, increase investment in climate solutions and engagement.	Expected long- term contribution to lowering real economy climate risks and to potentially improving risk-adjusted return of the investment portfolio.	Systematic annual reduction in portfolio emissions may be misaligned with economy emission reductions. Most time and resource intensive. Implementation would likely evolve as conditions change.
Portfolio-Wide Real Economy Net Zero Goal	Take greater advantage of opportunities and attention to material risks by increasing investment in climate solutions and engagement; using backward-looking and forward-looking metrics to monitor results of engagement and investment strategies.	Expected greatest long- term contribution to lowering real economy energy transition risks and to potentially improving risk-adjusted return of the investment portfolio	Would require additional internal and outsourced resources, such as an additional full-time staff person to amplify VPIC engagement efforts, and regular annual monitoring of climate metrics for portfolio, underlying asset classes and manager strategies. Implementation would likely evolve as conditions change.