MERIDIEM
INVESTMENT MANAGEMENT

# Climate Report 2023

**FOR THE 12 MONTHS FROM**
01 January 2023 to 31 December 2023

# Contents



**Unless specified otherwise, all data in this report is as at 31 December 2023.**

MERIDIEM
INVESTMENT MANAGEMENT

# At a glance

## WHO WE ARE

**£6.8bn**
AUM
assets under management

EST.
**1993**
First fund launched
in 2018

**100%**
Independent
and employee owned

**64**
Employees
including a 23-person investment team

## WE OFFER CLIENTS

### Real returns
an investment approach aligned with our clients' financial objectives of growing their assets above inflation

### Personal service
delivering a partnership approach between our clients and our investment team

### Tailored
client service and reporting

### ESG specific
information and analysis

## OUR INVESTMENTS

### Long-term horizon
(over five years) to align with the needs of our clients

### A transparent and simple approach
investing primarily in global equities, to provide a transparent and understandable solution for clients

### ESG fully integrated
in all investment decisions

### Conviction-led
global best ideas investing

# Introduction
# from our Chief Executive Officer

On behalf of our board and all of us at Meridiem Investment Management, I am delighted to present our Climate Report for 2023. I hope it demonstrates our thinking, brings some of our engagement work to life and shows our commitment to this vital issue – both in our portfolios and in our own business.

We believe that many of the challenges we face in the world could be overcome with long-term thinking from investors, companies and governments. This is particularly true of the climate crisis, where we will require long-term commitments, development of new technology and the confidence to make difficult decisions. This is made all the harder by geopolitical tensions, war, inflation and the high debt levels of many large countries, which is why our role and responsibilities as long-term investors is so important.

*We believe that many of the challenges we face in the world could be overcome with long-term thinking from investors, companies and governments.*

We have a responsibility to play an active role in accelerating the transition of the global economy towards a net-zero emissions future. This includes holding ourselves to the same standards that we ask of the companies in which we invest.

During 2023, we set a net-zero target for our business and investment portfolios, signed off by the Net Zero Asset Managers initiative. We also published our inaugural Climate Report, incorporating the recommendations of the Taskforce for Climate-Related Financial Disclosures.

We are not naïve about the challenges involved in achieving these goals, but we are encouraged by recent significant signs of progress. The growth in solar power, electric vehicles and improvements in batteries, for example, are some welcome bright spots.

We also see reasons for optimism at a company level. Some of our investee companies have made great strides in improving emissions reporting, developing credible emission-reduction strategies, producing products that reduce emissions and helping their suppliers to tackle this issue.

We welcome and celebrate this progress, while continuing our engagements with companies to encourage further commitments and improvements that help us all move towards a lower-carbon and just world.

**Caroline Stokell**
CEO of Meridiem Investment Management

# The aim and scope of this report

This report aims to give our clients and other stakeholders a better understanding of how we consider climate-related risks and opportunities in our portfolios, as well as our own resilience as a business to climate risks. Sharing our journey so far on climate-related issues is a key part of our endeavour to go above and beyond, and put transparency and understanding into financial investing.

We aim to demonstrate how we consider climate risks and the importance of this in our investment decisions. As stewards of our clients' capital, we believe strongly in using our position to engage, understand and influence the companies in which we invest. This includes encouraging them to monitor and disclose their emissions and develop robust strategies to move towards a low-carbon future.

We also believe in leading by example. Although our own carbon footprint is small, we have made significant efforts to reduce our own climate impact.

**The four pillars of the Taskforce for Climate-related Financial Disclosure**


**Governance**
The organisation's governance around climate-related risks and opportunities.

**Strategy**
The actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy, and financial planning.

**Risk Management**
The processes used by the organisation to identify, assess and manage climate-related risks.

**Metrics and Targets**
The metrics and targets used to assess and manages relevant climate-related risks and opportunities.

Clients and other stakeholders should note that climate risks and opportunities are just one element of many risks and opportunities that we consider when analysing investments. Other factors considered include:

- Durability of growth prospects
- Competitive positioning
- Balance sheet strength
- Pricing power
- Quality of management
- Governance structures
- Other material environmental or social risks
- Specific risks relevant to each individual company.

While ESG risks (including climate) are an important part of our research and are integrated into our approach as long-term investors, we do not invest purely on the basis of any metrics included in this report.

**Compliance statement**
The disclosures in this report are consistent with the TCFD Recommendations and Recommended Disclosures, as well as Annexures C, 'Guidance for all Sectors', and Annexure D.4, 'Supplemental Guidance for the Financial Sector - Asset Managers', where relevant. We have taken reasonable measures to ensure that disclosures are explained clearly and that limitations of the data in the report are also discussed. We view climate-related best practise and disclosures as evolutionary and aim to continue improving our disclosures and work in this area.

This statement is compliant with the FCA's ESG sourcebook (section 2.2.7) and is duly signed by a member of the Meridiem Executive Team.

**Caroline Stokell**
CEO of Meridiem Investment Management

# Our role in tackling climate change

Investment managers have a key role to play in tackling the challenges of climate change. With clear evidence that climate change is happening more quickly than expected, we recognise the urgent need for credible plans that deliver positive change.

We are therefore encouraged to see signs of progress on decarbonisation, for example in the form of global renewables capacity and how our portfolio companies are addressing emissions.

*2023 was confirmed as the warmest calendar year since records began in 1850.*

2023 was confirmed as the warmest calendar year since records began in 1850, with global air temperatures 1.48°C warmer than pre-industrial levels, according to the Copernicus Climate Change Service[1]. 2023 was also the first year that every single day exceeded 1°C above the pre-industrial temperature level, and over 50% of days were 1.5°C or higher, with two individual days exceeding 2°C above pre-industrial levels. Global sea temperatures also broke the wrong sort of records, with El Niño contributing to particularly high temperatures from April to December.

Given this, it seems unlikely that the 195 states who signed the Paris Agreement of 2015 will be able to meet their pledge of "holding the increase in global average temperature to well below 2°C and pursuing efforts to limit the temperature rise to 1.5°C". However, it should be noted that we have not yet surpassed the Paris Agreement limits, because the temperature rises referred to in the Paris Agreement are long term (i.e. over a decade). So far, we are exceeding them for short-term periods only.

## The human and financial costs of climate change

These rises in temperature are already having an impact on human lives, particularly for more vulnerable and often the least culpable countries and members of society. Large numbers of extreme weather events continue to be recorded across the globe, including heatwaves, floods, droughts and wildfires. These events cause human casualties and displacements. Estimated wildfire carbon emissions increased by 30% in 2023 driven by wildfires in Canada, Europe and in Chile. Such events also have financial costs: Munich Re, an insurance company, reports that natural disasters cost $250bn in 2023[2].

We are also beginning to see repercussions for companies due to the impact of climate change on water resources. Supply chains have been disrupted due to low water levels in the Panama Canal and limits to the number of ships being allowed through, as well as individual companies having issues with water availability for factories.

*Climate change was rated as the highest risk for 2024 in the World Economic Forum risk assessment report.*

Water stress and other effects caused by degradation of nature are likely to increase risk factors to supply chains and specific company operations. It is therefore no surprise that climate change was rated as the highest risk for 2024 in the World Economic Forum risk assessment report[3] . According to a 2023 study[4], by 2050 the estimated cost of climate change will be somewhere between $1.7tn and $3.1tn per year.

Meanwhile, in his 2023 annual Berkshire Hathaway shareholder letter[5], Warren Buffet notes that the regulatory regime in some US states has increased the risk of bankruptcy for electric utilities and that: "...it is difficult to project both earnings and asset values in what was once regarded as among the most stable industries in America."

[1] https://climate.copernicus.eu/
[2] https://www.munichre.com/en/company/media-relations/media-information-and-corporate-news/media-information/2024/natural-disaster-figures-2023.html
[3] https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2024.pdf
[4] Climate change is costing the world $16 million per hour | World Economic Forum (weforum.org)
[5] https://www.berkshirehathaway.com/letters/2023ltr.pdf

## Welcome signs of progress

While the headlines make for grim reading, and the stark realities and costs of a warmer world are becoming increasingly apparent, we also see areas where significant progress is being made.

> *Clean energy has grown twice as fast as fossil fuels since 2019.*

Clean energy has grown twice as fast as fossil fuels since 2019, benefiting from government stimulus packages (post covid and the 2022 energy crisis) and continued cost reductions for these technologies.

In particular, falling costs have driven a remarkable global increase in installation of solar PV, as a result of which solar capacity increased by 85% in 2023 over 2022 to 420GW. China led this increase, accounting for over 60% of global additions (260GW), and their rapid expansion in manufacturing has resulted in a 50% reduction of solar PV module costs since the end of 2022. This means that China has added more solar capacity in one year than the US has in its entire history. In 2023, renewables accounted for a record 30% of global electricity generation[6], meaning that emissions from electricity could have already peaked.

Another bright spot has been the increase in the number of electric vehicles (EVs). Globally, 18% of new cars sold in 2023 were electric[7], with growth of around 35% compared to 2022. EVs accounted for 90% of new car purchases in Norway, 40% in China and 10% in the US (up from 2% as recently as 2020).

The rapid development of batteries is another source of good news that is contributing to sales of electric cars. In 2023, demand for EV batteries was 40% higher than 2022 and costs once again reduced, with lithium ion battery prices declining by 14% after climbing 7% in 2022 due to imbalances in metal supply chains.

Advances in materials, battery pack configurations and manufacturing processes should continue to drive down the price of batteries while improving performance. In addition, growing sales of electric cars are contributing to lower oil consumption. According to the IEA, a reduction in oil consumption of around half a million barrels of oil per day between 2019 and 2023 can be attributed to use of electric cars.

Electrification is considerably more efficient than other energy sources, with the result that our overall energy requirements should be lower when we have electrified as much as possible. In a decarbonised world, although electricity demand will increase, overall energy demand should be about 40% lower[8].

## Our role as active stewards of our clients' capital

As active investors, we aim to invest in companies that have strong financial characteristics and benefit from structural growth tailwinds. Some of our portfolio companies stand to benefit from the need to switch to a lower-carbon global economy. We can also avoid companies that our research indicates are less well positioned for a changing world. This includes those who are failing to conduct in-depth assessments to understand the risks they face or are not developing robust strategies and processes to manage their exposure to the energy transition.

> *Proactive engagement enables us to understand companies' viewpoints and encourage them to improve and follow best practise.*

Furthermore, as stewards of our clients' capital, we engage with our investee companies on material issues that may impact their businesses. This naturally includes climate-related characteristics, and we actively engage with portfolio holdings on emissions and relevant transition risks. Proactive engagement enables us to understand companies' viewpoints on these issues and encourage them to improve and follow best practise.

When we speak to our portfolio companies, many have made significant progress in their own decarbonisation plans and are excited about the opportunities that electrification and decarbonisation present. While they typically do not have a significant carbon footprint in their own operations, some play key roles in helping their clients or suppliers to decarbonise. We believe that this ripple effect has a real economy impact, leading to significant momentum for positive change towards a low-carbon future.

[6] Global Electricity Review 2024 | Ember (ember-climate.org)
[7] Includes full battery-electric vehicles and plug-in hybrids https://ourworldindata.org/electric-car-sales
[8] Eyre, N. From using heat to using work: reconceptualising the zero carbon energy transition. Energy Efficiency 14, 77 (2021). https://doi.org/10.1007/s12053-021-09982-9

# Our progress:
# Key milestones

## 2023

- Set emissions reduction targets for 2030 and 2050, approved by NZAM, for both our clients' portfolios and our own business
- Published our first Climate Report

## 2022

- Joined NZAM and IIGCC
- First client roundtables on engagement issues, including climate change

## 2021

- ESG metrics and carbon intensity data for clients' individual portfolios

## 2020

- Encouraged all companies to broaden disclosure and align with disclosure frameworks
- Joined CDP Non-Disclosure Campaign

## 2019

- Encouraged all investee companies to disclose carbon data

## 2018

- Became PRI and CDP investor signatory
- Began monitoring and double offsetting our own emissions

# Governance

Our governance structure allows efficient and effective monitoring of investments, client outcomes, operations and compliance. As a small firm that is 100% owned by its employees, the culture of our company is of paramount importance to us. We have a culture of openness and inclusivity, and we believe that having a diverse team is essential to the success of our business.

We believe in doing the right thing and doing things right. All staff review and sign our Code of Conduct document on an annual basis. This is spear-headed by our Chief Executive Officer and draws together the main points from all our conduct and compliance policies to promote high standards of conduct throughout the business.

Since our company was founded 30 years ago, we have been guided by a culture of partnership and a common-sense investment philosophy. This serves one purpose: to protect and grow our clients' wealth for the future.

Everything we do is guided by three principles:

1 **Real returns**
Our investment philosophy is aligned with our clients' objectives – to deliver long-term returns ahead of inflation. We consider risk as the potential for permanent capital loss; and we aim to provide a sense of security through common-sense investing.

2 **Partnership**
We believe in the power of partnership. This cultural mindset is deeply rooted in our team. The investment team comprises 23 experienced investment professionals who are committed to providing a personal service to all our clients. We are 100% owned by our employees; this creates stability and focuses us on achieving clients' objectives.

3 **Stewardship**
When we buy shares in companies, we become business owners. As stewards of our clients' capital, we have an opportunity and a responsibility to contribute to the durable success of these businesses, by taking the time to understand and support their strategy.

Much of our stewardship work incorporates climate issues. In particular, we encourage investee companies to disclose their emissions, set targets to reduce them and have credible plans for achieving these reductions in their own businesses and across their value chains.

## Governance structure of climate-related risks and opportunities

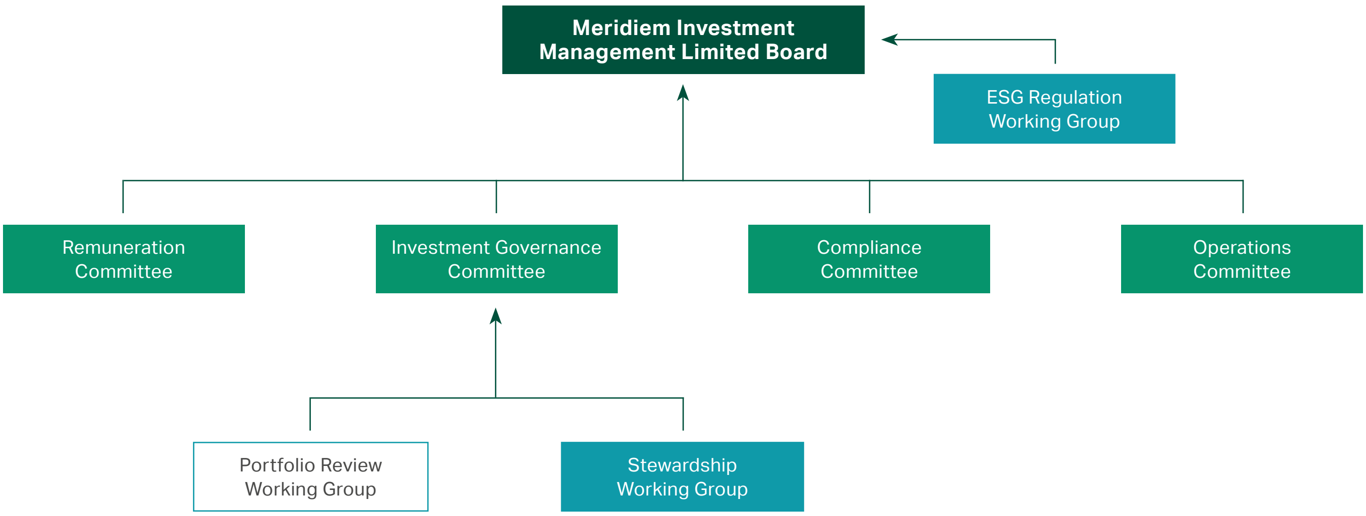
Our board has four directors: the Executive Chair, Mark Rayward, and the Chief Executive Officer, Chief Investment Officer, Chief Operations and Technology Officer. Our Compliance Officer/MLRO is an attendee. The board oversees the entire business, including strategy, resourcing and risk management. This includes the management of climate-related risks and opportunities. The board delegates specific responsibilities to board committees and working groups (see chart below). Our governance structure will continue to adapt in accordance with the needs of our business.

Our investment process is overseen by the Investment Governance Committee, which is chaired by our Chief Investment Officer, Ross Ciesla. Aligned to our clients' objectives, we take a long-term view on our investments and expect to hold companies for five years or longer.

*We believe that encouraging our portfolio companies to take a long-term approach helps build resilience into their business models.*

We believe that encouraging our portfolio companies to take a long-term approach helps build resilience into their business models. This, in turn, increases the resilience of the economies and financial markets in which they operate. Issues such as climate are therefore considered in our analysis, both from a systemic risk perspective and individual companies' exposure to physical climate risk and the required decarbonisation of our economies (please see the **Strategy** section for further details).

**Structure chart of relevant committees and working groups**



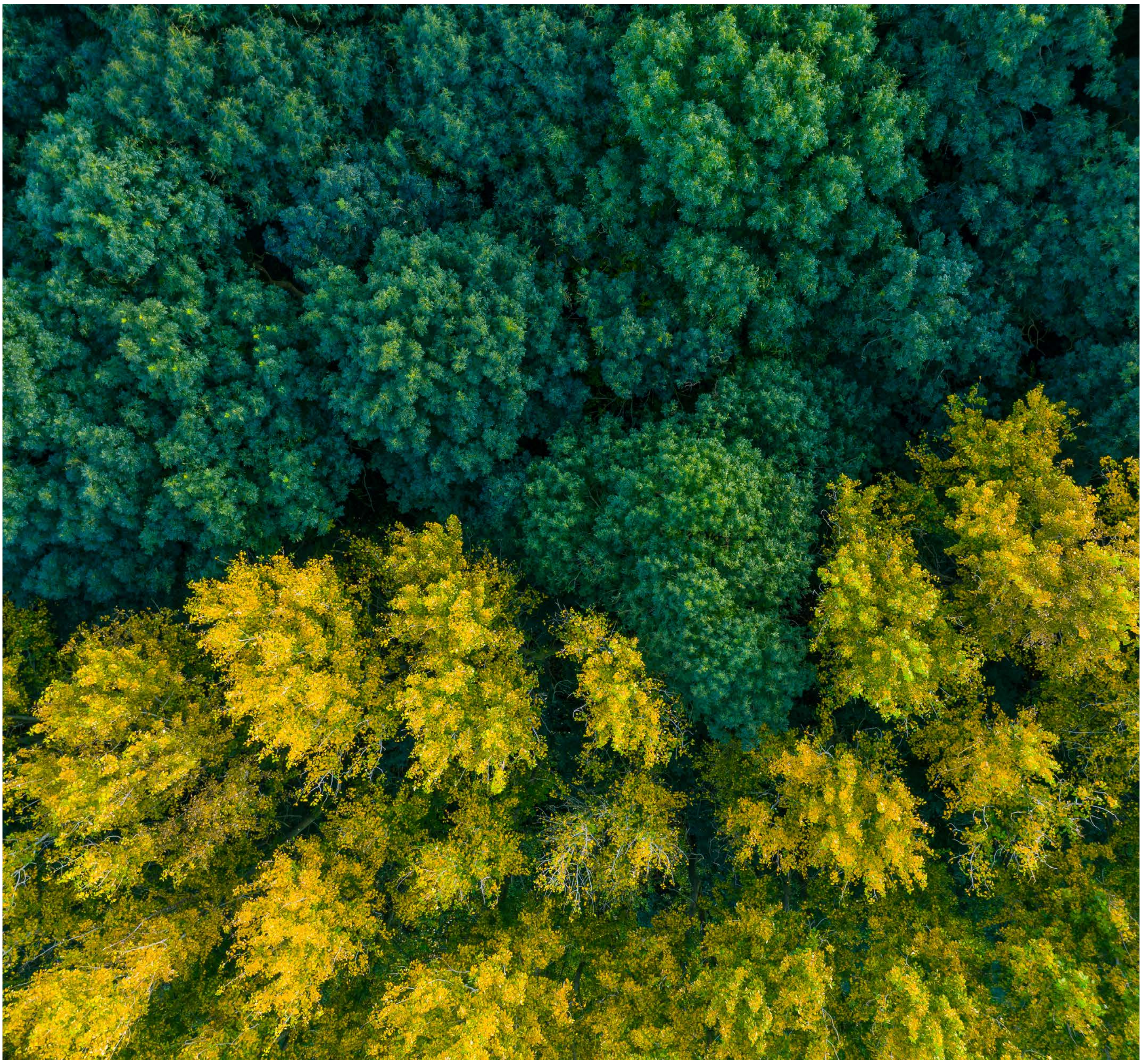
| Forum | People | Description | 2023 actions on climate |
|---|---|---|---|
| **MIM Ltd Board** | **Chair:** Mark Rayward (Exec Chair)<br>**Membership:** four, plus one attendee<br>**Meetings:** six | Oversees strategy, resourcing, financial reporting, risk management and internal controls. | • Standing item on board agenda to cover ESG regulation and requirements and stewardship matters.<br>• Approved net-zero targets and our inaugural Climate Report. |
| **ESG Regulation Working Group** | **Chair:** Sam Cotterell (Investment Partner)<br>**Membership:** three board members, Compliance Officer/ MLRO<br>**Meetings:** two | Oversees the resourcing, policies and processes to manage ESG-related regulatory requirements. Oversees responses to proposed regulation. Monitors our own operational carbon footprint and the financed emissions of MIM. | • Set net-zero targets and published inaugural Climate Report.<br>• Considered resourcing for ESG-related matters. |
| **Investment Governance Committee** | **Chair:** Ross Ciesla (Chief Investment Officer)<br>**Membership:** Senior investors, Compliance Officer<br>**Meetings:** three | Oversees investment process including portfolio performance and outcomes (financial and ESG related), research, dealing and stewardship. | • Reviewed portfolio net-zero targets. |
| **Stewardship Working Group** | **Chair:** Sam Cotterell (Investment Partner)<br>**Membership:** Senior investors, CEO, Deputy CIO, Head of Research<br>**Meetings:** two | Oversees implementation of our stewardship strategy, policy and practices. Reviews policies and discusses best practice, including those concerning climate change and disclosures around emissions. | • Identified engagement priorities, including net zero and natural capital.<br>• Reviewed ESG data providers (including climate data).<br>• Third-party review of stewardship and sustainability undertaken. |
| **Portfolio Review Working Group** | **Chair:** Will White (Investment Partner)<br>**Membership:** CIO, Investment Support analyst<br>**Meetings:** four | Seeking to ensure and affirm consistent outcomes for clients from a performance and risk perspective. Monitors financial performance, volatility metrics and third-party sustainability risk scores and carbon intensity for all clients. | • Added portfolio sustainability risk score and carbon intensity metrics to the reviews to ensure consistency of outcomes from financial return and ESG perspectives. |
| **Compliance Committee** | **Chair:** Alison Fawcett (Compliance Officer/MLRO)<br>**Membership:** Chair of Executive Management Committee, Chief Operations and Technology Officer, compliance managers, operations manager<br>**Meetings:** four | Oversees compliance, risk, regulatory reporting and the regulatory timeline, including ESG issues such as climate change. | • Oversight from a regulatory implementation perspective. |
| **Operations Committee** | **Chair:** Archana Mohan (Chief Operations and Technology Officer)<br>**Membership:** Chair of Executive Committee, Compliance Officer/ MLRO, Investment Partner, Operations leads<br>**Meetings:** four | Ensures we have the right systems, business processes and controls to mitigate exposure to operational risks. Reviews data providers and processes for client-related ESG information. | • Monitored information from data providers.<br>• Worked with them to address any issues identified. |

## Remuneration and incentives

Our incentive policy is designed to align our long-term interests with those of our clients. Equity ownership is a key part of the reward structure and vitally important for the retention and stability of our staff. With merger and acquisition activity increasing in the sector, our independence and the alignment of interests with those of our clients that this implies is appreciated by our distribution channels.

We are therefore pleased that over 60% of our employees, including all members of our investment team[9] and other senior staff, are equity holders in the business. This facilitates an appropriate level of long-term incentive. All short-term incentives are discretionary and based on investment results, stewardship work, teamwork, client service and compliance. We do not have sales targets or targets for growth in assets under management.

As part of our annual review process, all staff, including senior managers, discuss teamwork and their contribution to social and environmental issues to ensure responsible and ethical success for the business and for our clients.



[9] Eligible employees – i.e. have fulfilled relevant probation period before annual share transaction window.

# Strategy

Meridiem Investment Management is an independent discretionary investment management business. We have always focused on one single objective – to protect and grow the value of our clients' capital ahead of inflation over the longer term.

Incorporating climate change considerations is a natural part of our analysis. We consider the risks to each business as well as opportunities that the energy transition and the move to a low-carbon future can present to companies.

> *As an active investment manager, we recognise that we have a fundamental role to play in the journey to a low-carbon future.*

As an active investment manager, we recognise that we have a fundamental role to play in the journey to a low-carbon future and net zero by engaging with and seeking to influence our investee companies. Climate is a systemic risk to the financial system and economies of the world, as well as introducing physical or transition risks at an individual company level.

We also believe it is important to ensure that our own business is aligned to net zero outcomes as quickly as possible. We therefore have net-zero-aligned targets for both the investments we make on behalf of our clients and for our own business.

To help deliver our climate strategy, we are signatories to or members of:

The Net Zero Asset Managers initiative

CDP INVESTOR SIGNATORY

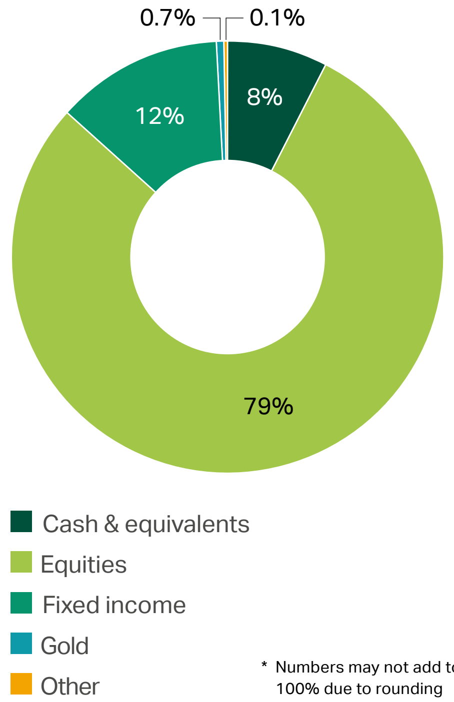
Signatory of: PRI Principles for Responsible Investment

## Climate change and our investment strategy: asset class considerations

Our climate considerations should be viewed in the context of the relevant holding period of each asset class. We invest in public global equity markets, high-quality sovereign and listed corporate debt, cash and, where appropriate, gold. We do not invest in private markets (equity or debt), infrastructure or other alternatives. Third-party funds are also not part of our core offering, but we may use them for specialist exposures, such as cash management or to access gold-related investments.

The equity investments we make are intended to be held for at least five years. Each investment decision therefore involves considering the medium- and long-term outlook, during which many ESG factors, including climate, are likely to become more prevalent. Our equity holdings were 79% of our AUM at the end of December 2023 (see pie chart below) and are therefore the focus of our research and risk allowance.

**Breakdown of assets under management by asset class as at 31 December 2023***




* Numbers may not add to 100% due to rounding

Our non-equity holdings are intended to generate cash plus returns and provide lower risk profiles than our equity holdings. The weightings to different asset classes within each portfolio reflects the risk appetite of that portfolio and our opportunity set in the equity portfolio.

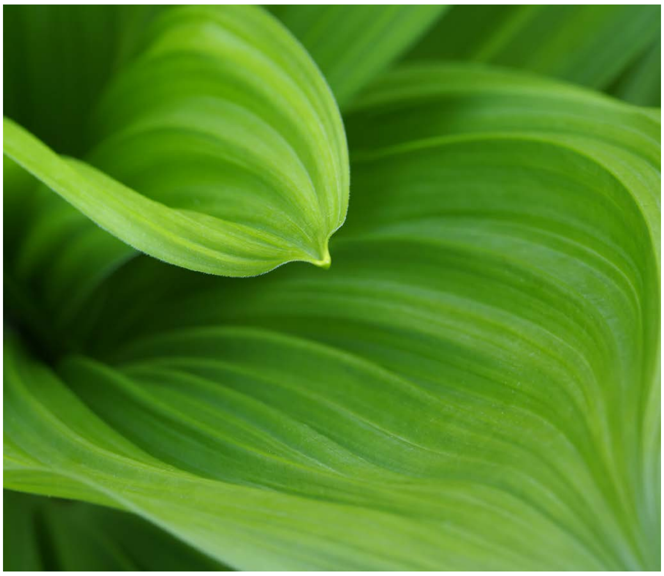
Our corporate bond holdings tend to be held to maturity. We typically hold investment grade, short-term debt. Our average maturity at the end of 2023 was approximately two years. Our prime consideration is whether the coupon and par value can be paid over the time horizon of each individual bond held. This can mean we are willing to make investments in short-dated fixed income securities that would be unlikely to be part of our equity holdings. This is due to the combination of financial return expected from these assets and that any identified ESG risk is not perceived to be a material financial risk over the timeframe of the investment.

Our corporate bond holdings are approximately 6% of our overall AUM (i.e. 50% of our fixed income holdings). Where these corporate bonds are issued by companies covered by our equity analysts, our research and any engagements with these companies cover both the equity and bond holdings in our investment universe of potential investments.

For other corporate bond holdings, alongside our own sector and company knowledge, we use third-party data providers to ensure that we understand the material environmental (and social and governance) risk factors. These providers include Sustainalytics and the CDP database.

Our sovereign and supranational debt is generally held in the currency of the underlying portfolio. This means we hold UK, US and some European government debt. While we have limited influence on country emissions, we are encouraged that these governments have set net-zero targets. We do not currently consider government debt in our analysis in this report.

Gold is held through a third-party fund and acts as a diversifier of risks, particularly extreme inflation or policy risk scenarios. The third-party gold fund we use for gold exposures has a commitment to target post-2019 responsibly sourced gold and to promote high ethical standards in the gold market.



## Our approach to climate scenario analysis

Scenario analysis is a valuable tool for considering potential outcomes in an uncertain world. It can highlight exposure to physical and transition climate risks and provide a framework for considering the likelihood and severity of these risks. For reasons discussed above, our scenario analysis is completed with our investment universe in mind.

*Scenario analysis is a valuable tool for considering potential outcomes in an uncertain world.*

We have considered scenario analysis in different ways. Firstly, we have undertaken qualitative analysis of physical and transition risks for our investment holdings and for our own business. This uses scenarios from the Network for Greening the Financial System (NGFS)[10] that represent different outcomes. We are not intending to judge which outcome is most likely but consider the potential impact on our portfolios of the following scenarios:

- Net Zero 2050: 1.5°C scenario
- Delayed Transition: 2°C scenario
- Current Policies: ≥3°C scenario.

Secondly, we have performed quantitative analysis of various scenarios for our investment holdings. We have conducted a transition Climate Value at Risk (CVaR) analysis using Sustainalytics methodology and data for our portfolios. We have also provided an Implied Temperature Rise using Bloomberg data of our current holdings as a potential guide to where current and committed actions of our portfolio holdings might lead us by 2050. These analyses help inform our engagements and focus on companies that have a larger value at risk from climate considerations and/or are unlikely to meet emissions reduction targets.

[10] https://www.ngfs.net/ngfs-scenarios-portal/

# NGFS scenario overview

The following table lays out some of the assumptions of the NGFS scenarios. These assumptions have informed our thinking about the most material transition and physical risks for both our investment portfolios and our own business.

| | Net Zero 2050 | Delayed Transition | Current Policies |
|---|---|---|---|
| | **1.5°C scenario** | **2°C scenario** | **3°C scenario** |
| **Overall description** | Stringent climate policy and large focus on innovation enable global net zero $CO_2$ emissions by 2050.<br>Reasonably orderly transition. | Annual emissions do not decrease until 2030. After this, stringent policies are required to limit warming to 2°C. Disorderly transition with high transition risks. | Only current implemented policies are preserved, with no strengthening of these policies. High physical risks as warming is not limited to 1.5-2°C. |
| **Carbon prices (serve as measure of overall policy intensity)** | High | No change to 2030 and then high | No change |
| **Technology change** | Fast change | Slow change before 2030<br>Fast change post 2030 | Slow change |
| **Temperature change progression** | Rises to a peak in mid-2030s, before reducing slowly. | Rises to a peak c.2050 before slowing or reducing. | Temperature continues to rise, surpassing 2°C by 2050 and continuing to rise to 3°C or above. |

**Scenario analysis: transition risks for our investment portfolios**

| Category | Identified risks | Net Zero 2050 | | Delayed Transition | | Current Policies | | Mitigation strategies for our portfolios |
|---|---|---|---|---|---|---|---|---|
| | | **1.5°C scenario** | | **2°C scenario** | | **3°C scenario** | | |
| | | *Likelihood | **Significance | Likelihood | Significance | Likelihood | Significance | |
| **Policy and Legal** | Costs of non-compliance to existing or new regulations | **Medium** | **Medium** | **Medium** | **Medium** | **Low** | **Low** | Horizon scan on emerging regulation and engagement with our companies. Encourage our companies to plan and act ahead to ensure compliance with future regulation. |
| | | Short-term, Mid-term | | Mid-term | | Short-term | | |
| **Policy and Legal** | Regulation increases cost of raw materials or inputs (including carbon prices) | **High** | **Medium** | **High** | **Medium** | **Low** | **Low** | Engagement with companies, encouraging increased take-up of renewable energy, proactive with supply chains for compliance. |
| | | Short-term, Mid-term, Long-term | | Mid-term, Long-term | | Short-term | | |
| **Technology risks** | Disruptive technology emergence leading to volatility and potential for lower revenues | **Medium** | **High** | **Medium** | **Medium** | **Low** | **Low** | Scan for disruptive technologies and expect our companies to be leaders rather than disrupted. |
| | | Short-term, Mid-term | | Mid-term, Long-term | | Mid-term | | |

● Short-term ● Mid-term ● Long-term

*Likelihood – likelihood of issue under this scenario
**Significance – level of financial risk to corporates under this scenario

**Scenario analysis: physical risks for our investment portfolios**

| Category | Identified risks | Net Zero 2050 | | Delayed Transition | | Current Policies | | Mitigation strategies for our portfolios |
|---|---|---|---|---|---|---|---|---|
| | | 1.5°C scenario | | 2°C scenario | | 3°C scenario | | |
| | | *Likelihood | **Significance | Likelihood | Significance | Likelihood | Significance | |
| Acute | Impact from extreme weather events such as floods, drought, hurricanes or cyclones. | Medium | Medium | Medium | High | High | High | Encourage companies to conduct risk assessments in their own operations and supply chains with contingency plans in place. |
| Chronic | Impact from sustained higher temperatures, such as higher sea levels or chronic heat waves. | Low | Medium | Medium | Medium | High | High | Encourage companies to conduct risk assessments in their own operations and supply chains and enact climate adaption strategies where required. |

Short-term Mid-term Long-term

*Likelihood – likelihood of issue under this scenario
**Significance – level of financial risk to corporates under this scenario

Our investment approach creates a focused, best-ideas portfolio of 25-40 equity holdings that we believe can achieve our clients' above-inflation investment objectives.

As outlined previously, we aim to invest in companies for the long-term and therefore look for high-quality, forward-thinking companies. In all stages of our investment analysis, from initial research to ongoing monitoring and engagements, we consider material risk factors – including environmental factors.

We assess all our investee companies' emissions, exposure to transition risks and also consider whether they are particularly vulnerable to physical risks, such as flooding or water stress. If we believe there are risks to a business that are unaddressed by management, these will be factored into our decision-making process.

*We assess all our investee companies' emissions, exposure to transition risks and consider whether they are vulnerable to physical risks.*

We are mindful that companies we invest in are at varying stages of considering these risk factors and are listed in jurisdictions that have different disclosure expectations. However, given our focus on investing in high-quality businesses with forward-looking management teams, the vast majority of our companies are already considering these issues.

When we undertake our initial research and ongoing monitoring, we look to engage with management in areas where we need more information or have concerns. If we deem a risk to be material for a company that has little appetite for improvement or constructive engagement, it is highly unlikely that we would invest in that business. If we already had a holding, we would look to exit. Where we sell holdings outright, we always write to management to explain our rationale.

**Scenario analysis: opportunities for our investment portfolios**

| Identified opportunities | Net Zero 2050 1.5°C scenario | | Delayed Transition 2°C scenario | | Current Policies 3°C scenario | | MIM strategy |
|---|---|---|---|---|---|---|---|
| | *Likelihood | **Significance | Likelihood | Significance | Likelihood | Significance | |
| New revenue opportunities to meet shifting preferences by innovating and developing new products to match consumer demand or government incentives/ regulations | **High** | **High** | **High** | **Medium** | **Medium** | **Medium** | Forms part of our **All change: wire and rewire** structural growth driver. This incorporates digitisation and automation in the global economy and the need to shift to a lower-carbon world. |
| Cost reduction from focus on resource efficiency – e.g. reducing waste, water usage, circular economy and renewable energy | **High** | **Medium** | **High** | **Medium** | **Medium** | **Low** | All companies can benefit from improved resource efficiencies. During engagements with companies we regularly discuss efforts to be more energy efficient, move to renewable energy sources, cut waste and obsolescence. |

Short-term Mid-term Long-term

*Likelihood – likelihood of issue under this scenario
**Significance – level of financial risk to corporates under this scenario

We look for companies that have strong balance sheets, durable and resilient growth, and strong moats to protect their businesses and sustain profitability. One of the ways we find these companies is by looking for structural growth drivers. These are multi-decade shifts in our economies that are likely to provide a tailwind of growth over the mid to long term.

*Two of our four structural growth drivers are inherently linked to climate change: **All change: wire and rewire** and **Regulation.***

Central to the thinking behind **All change: wire and rewire** is the recognition that meeting the demands of an increasing global population will require efficient and responsible use of our planet's resources. The pace of technological change is causing disruption across all industries as we shift to an increasingly digitised world, and continued development of new technology and materials will be essential to delivering on net zero ambitions. Many of our portfolio companies enable electrification and digitisation or help other companies monitor and reduce their environmental impact.

## Company example:

SYNOPSYS®

Synopsys is a US company that designs and verifies semiconductors. It stands at the forefront of digital transformation, contributing significantly to digitisation and electrification across sectors.

The company's innovative technology is crucial in designing and optimising semiconductors that power a wide range of applications, from smart home appliances to data centres, telecommunications infrastructure, industrial machinery and electric vehicles. This innovation not only enhances the performance of foundational technology across industries but also drives reduced power consumption and a lower carbon footprint throughout the global economy.

By adopting a holistic, system-level approach to design, Synopsys has achieved more than 50% improvement in energy efficiency in customer projects, optimising each phase of the process to ensure optimal performance per watt and advancing efficient electronics design.

Furthermore, the integration of AI into their design tools has enabled customers to reduce power consumption by up to 30% during chip design.

We also consider **Regulation** to be a structural growth driver and climate change, alongside other environmental regulations, is a key part of this. Regulators globally are increasingly making corporate disclosure mandatory for carbon emissions.

The SEC has announced rules to require large US companies to disclose their Scope 1 and 2 emissions.  In China, the main stock exchanges have announced new mandatory reporting requirements. These include Scope 1 and 2 emissions and adaption and transition strategies, with specific mentions of biodiversity and circularity. Meanwhile, the UK has announced that it will follow the EU in implementing a carbon border adjustment mechanism[11] (CBAM) and the European authorities passed the Corporate Sustainability Due Diligence Directive (CSDDD), which focuses on adverse human rights and environmental impacts in value chains.

Policies such as these will force companies to consider their own emissions as well as those in their supply chains, or pay significant penalties. These are issues that we regularly discuss with companies in our engagements because, given the complexities of global supply chains, companies need to act ahead of legislation to ensure they are properly prepared for it. Many of our investee companies acknowledge that having a deeper understanding of their environmental footprint could make them more attractive to clients and give them a competitive advantage over other businesses.

*Companies that are not actively monitoring and reducing their emissions face real financial consequences.*

Companies that are not actively monitoring and reducing their emissions face real financial consequences. While many of our portfolio holdings are not large carbon emitters, it is still important that they actively reduce emissions. However, more significant benefits are likely to result from investee companies helping their clients or suppliers to reduce emissions. Many of our portfolio companies actively help their clients and/or their suppliers to understand the regulations and related risk exposures. This can provide a competitive advantage for our portfolio companies and strengthen their right to win. We believe that this ripple effect will lead to significant positive momentum for real world, long-lasting change.

[11] https://www.gov.uk/government/consultations/addressing-carbon-leakage-risk-to-support-decarbonisation/outcome/factsheet-uk-carbon-border-adjustment-mechanism

**Companies are supporting the real economy to transition through various means, such as:**

| Providing more sustainable products / enabling customers to meet regulatory requirements | Encouraging and educating supply chains to reduce emissions | Collaborating with others to educate supply chains | Anchoring renewable projects through purchase power agreements | Moving to renewables as an energy source | Providing funds to invest in new, unproven technologies |
|---|---|---|---|---|---|
| DSM-Firmenich<br>Bunzl<br>Synopsys<br>Infineon<br>Themo Fisher Scientific | Themo Fisher Scientific<br>Adobe<br>Bunzl<br>Intuit<br>LSEG | Clean Energy Procurement Academy – Nike and Amazon<br><br>CDP supply chain programme – Accenture, Avery Dennison, Microsoft, Nike, Alphabet | Amazon<br>Microsoft<br>Alphabet | 21 portfolio companies have set renewable energy targets including Adobe, Kuehne + Nagel, Labcorp Holdings, Roche and UnitedHealth Group | Microsoft – Climate Innovation fund<br><br>Amazon – Climate Pledge fund |

## Quantitative scenario analysis

To provide forward-looking metrics, we have considered Climate Value at Risk (CVar) and Implied Temperature Rise analysis.

### 1) Low carbon transition – value at risk

For our value at risk analysis, we have used Morningstar Sustainalytics Low Carbon Transition – Value at Risk (LCT-VaR) metrics[12]. The data covers our corporate holdings only (equities and fixed income) and does not include sovereign or supranational debt, funds, gold or cash.

The LCT-VaR model provides a forward-looking metric that demonstrates how low-carbon transition risk may influence the future value of a company. This incorporates:

- A policy risk model that considers the policy costs associated with a company's emissions.
- A market risk model that considers the potential risks to a company's revenues linked to lower demand for fossil-fuel based products.

The model uses three scenarios that share some similarities with the NGFS scenarios we have used for our qualitative analysis.

The IPR: Required Policy Scenario (RPS) models the effect of policies needed to accelerate emissions reduction and hold global temperature increase to a 1.5°C outcome. The IEA: NZE scenario is the IEA's net zero pathway, keeping global warming below 1.5°C. These are closest to the NGFS Net Zero 2050 scenario and similar to each other although with different underlying assumptions on carbon capture and carbon pricing.

The IPR: Forecast Policy Scenario (FPS) models the effect of likely global policy changes on the real economy up to 2050. This scenario is expected to hold temperatures between 1.5°C and 2°C, and be somewhat disorderly.

[12] https://www.sustainalytics.com/landing-pages/value-at-risk--quantifying-the-impacts-of-a-low-carbon-transition

**Percentage of enterprise value (including cash) at risk under different scenarios:**

| | IPR FPS | IEA NZE | IPR RPS | Coverage |
|---|---|---|---|---|
| MIM Core strategy portfolios* | 4.6% | 3.9% | 2.1% | 79% |
| All MIM portfolios | 4.6% | 3.9% | 2.2% | 77% |
| MSCI AC World Index | 4.8% | 6.2% | 3.7% | 89% |

*Core strategies include all discretionary portfolios and pooled vehicles that are not constrained.

*We are pleased that the transition risk in each scenario is expected to be lower for our holdings than for the overall market.*

We are pleased that the transition risk in each scenario is expected to be lower for our holdings than for the overall market. Given our investment approach of investing in high-quality, predictable and lower capital-intensive companies, we would concur that our companies are less likely to be affected by transition risks.

**2) Implied temperature rise**

For our implied temperature rise analysis, we used Bloomberg data that follows the CDP/WWF methodology[13]. The data covers our corporate holdings (equities and fixed income) and does not include sovereign or supranational debt, funds, gold or cash.

Many companies have set science-based targets over the past decade, including the majority of our corporate holdings.

The implied temperature rise (ITR) metric gives investors and asset owners a standardised, forward-looking metric. It aims to translate diverse corporate targets, in terms of time frame and specific KPIs or scopes used, into long-term temperature trajectories, linked to the ambition of the target. This allows assessment of which companies are being ambitious in their climate goals, and which companies we should consider engaging with to ensure strategies are being implemented to use only their fair share of carbon.

The CDP/WWF methodology defines the minimum quality criteria for determining the acceptability of a target to be scored, and the steps required to identify and aggregate multiple targets to produce an overall company score. For companies with no forward-looking targets that meet the criteria, a default score of 3.2°C is used. This implies that these companies are expected to decarbonise along a 3.2°C pathway, consistent with global policies implemented to ensure reduction of emissions at this rate.

Individual company scores can then be aggregated to provide a portfolio score. Aggregated temperature scores for our core strategies and for all our portfolios are shown on the next page.

[13] https://www.cdp.net/en/investor/temperature-ratings/cdp-wwf-temperature-ratings-methodology

### MIM Core Strategy portfolios

| Scope 1 and 2 ITR by % weight (WATS) | Scope 1, 2, and 3 ITR by % weight (WATS) | Scope 1 and 2 ITR by % financed emissions (ECOTS) | Scope 1, 2, and 3 ITR by % financed emissions (ECOTS) |
|---|---|---|---|
| 1.95°C | 2.57°C | 1.91°C | 2.62°C |

### All MIM portfolios

| Scope 1 and 2 ITR by % weight (WATS) | Scope 1, 2, and 3 ITR by % weight (WATS) | Scope 1 and 2 ITR by % financed emissions (ECOTS) | Scope 1, 2, and 3 ITR by % financed emissions (ECOTS) |
|---|---|---|---|
| 1.94°C | 2.56°C | 1.95°C | 2.57°C |

Scores are based on mid-term (5-15 year) targets, as recommended by the CDP/WWF methodology. We show two different scores that are underpinned by two aggregation approaches, as suggested in the CDP-WWF methodology.

The Weighted Average Temperature Score (WATS) aggregates the temperature rise across the portfolio according to the weight of the security in the portfolio. This aggregation method is simple to apply and understand. WATS also ensures standardisation of reporting with other carbon reporting such as the Weighted Average Carbon Intensity.

The Enterprise Value and Cash Owned Emissions Weighted Temperature Score (ECOTS) aggregates the temperature rise across the portfolio according to our share (by ownership) of the emissions generated by each underlying company. The primary advantage of ECOTS is that it assigns greater weight to the most emitting companies in a portfolio. This ensures that investors place proportionate emphasis on companies that need to take most action to achieve the targets of the Paris agreement. ECOTS is aligned to the PCAF method for the carbon footprint of listed equities and corporate debt.

These two methodologies reflect our carbon metrics of weighted average carbon intensity and carbon footprint that our portfolio targets are based on (please see the **Metrics** section).

On a Scope 1 and 2 (operational emissions) basis, our portfolios score under 2°C. Perhaps unsurprisingly at this stage, when Scope 3 (which includes indirect emissions from the value chain of suppliers/customers) is included, the implied temperature rise is over 2.5°C .

Many of our investee companies are US based and have not yet been legally required to report their emissions or produce targets to reduce their emissions. However, given our focus on investing in quality businesses that are managed for the long-term, the vast majority of our companies are already monitoring and reporting their emissions. In fact, only one company is not yet providing emissions data and we are actively encouraging them to do so in our engagement work.

*Only one company is not yet providing emissions data and we are actively encouraging them to do so.*

We are also pleased to note that the majority of our companies have emissions reduction targets, with many disclosing both a shorter-term emissions reduction target as well as a net-zero target (see Chart 1 below). Many of these are science based and we encourage our companies to have their targets approved by the SBTi. However, a few of our companies that report emissions data and have targets score the default score of 3.2°C because their targets are not verified by SBTi or reported via the CDP. Other companies score well for Scope 1 and 2 but score the default score for Scope 3 either because they do not have targets for Scope 3 or they do not meet the criteria.

It should also be noted that companies that are in high-emitting sectors often have set more ambitious targets (and included Scope 3) than companies that have lower emissions profiles today. This produces a slightly counterintuitive effect that some of the higher emitters today have lower implied temperature scores than less emission-intensive companies that do not have science-based targets for all three scopes.

We monitor our companies' performance against their emissions targets and in some cases have encouraged them to make their targets more ambitious. We are delighted to note that some portfolio companies have been able to adopt more ambitious targets since we first bought them. An example of this is **LabCorp Holdings**, which originally set a 2020 target for a 15% emissions reduction, which they achieved. During 2023, they had their targets approved by SBTi to keep emissions to 1.5°C, i.e. they intend to reduce their emissions by 50% by 2030.

**Chart 1: Emission reduction targets of core equities held**

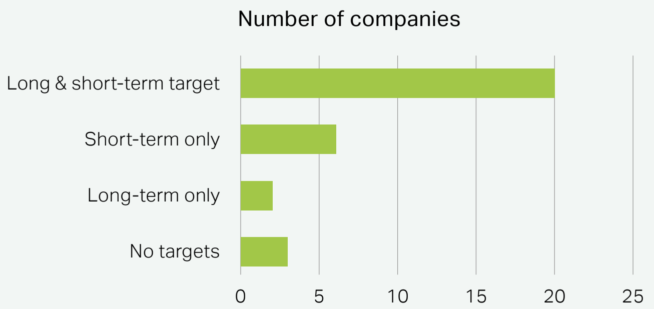
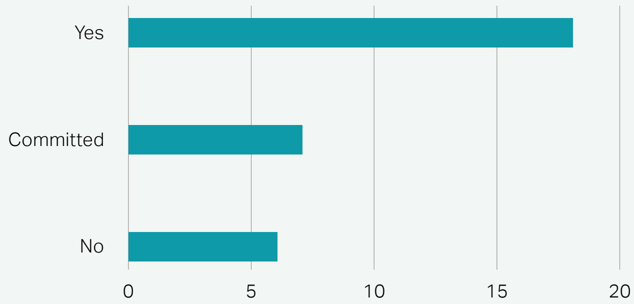



**Chart 2: Science-based target initiative commitments of core equities held**




Committed – companies which have committed to set approved science-based targets by SBTi within two years

*There has been progress in the number of our equity holdings that have SBTi targets.*

We are pleased to report that there has been progress in the number of our equity holdings that have SBTi targets. As shown in Chart 1 above, 18 companies in the portfolio now have a near-term SBTi target (up from 14 in December 2022) and 7 others have committed to doing so.

Only 6 companies have no targets or have not committed to set them which is an improvement from 8 in last year's report. Companies that have improved over 2023 include **Accenture, Labcorp Holdings** and **Synopsys**, which now have 1.5°C targets approved by SBTi. In addition, **Infineon** and **Tractor Supply** committed during 2023 to having their targets verified by SBTi. Near-term targets mean that companies have set science-based targets to roughly halve emissions before 2030. This is the most effective, scientifically sound way of limiting global temperature rise to 1.5°C.

## Engagement and voting

As stewards of our clients' capital, we believe that engaging with our portfolio companies and voting at company meetings are important ways to promote best practice. Specific company stewardship activities are led by the primary analyst for each company, supported by members of our Stewardship Working Group and other members of our investment team. Given our focused approach and high ratio of investors to investee companies, each primary analyst is able to gain in-depth understanding of specific companies and build relationships with members of their boards, senior management and sustainability teams.

In 2023, we held 152 meetings with senior leaders from the companies we hold (including 21 specific 1:1 ESG meetings with our companies), voted on 680 proposals at company meetings and sent 20 letters as part of our efforts to work with companies for long-lasting change. Meetings with 15 of our companies included specific climate and environmental issues, often alongside social and governance topics.

*In 2023, we held 152 meetings with senior leaders from the companies we hold.*

Working in partnership with companies means being a critical friend at times and holding management to account, but also providing support and guidance when needed and celebrating progress. We are mindful of the politicisation of ESG and climate concerns, particularly in the US. As an investor in many US companies, this is something we have discussed with management teams.

We strongly believe that all companies need to be aware of their physical and transition risks with regards to climate change. Collecting, disclosing and building robust policies and processes to reduce emissions can offer financial advantages. We encourage companies to focus on potential financial benefits, such as lower costs and avoiding financial penalties that may arise from regulation or customer preferences for a lower-carbon products.

Demonstrating our thinking in this area, engagements with company management at **Amphenol** and **Align Technology** in 2023 both included a focus on environmental disclosure and targets.

Engagement example:

# Amphenol

Amphenol makes connectors and sensors that are used with or in electrical products across multiple end markets. It is therefore a picks and shovels play on the trends of electrification, digitalisation and automation. Decarbonisation, including how energy is generated, how it is managed throughout the economy and how systems are made more energy efficient therefore plays to the company's strengths.

However, Amphenol had not set any long-term environmental targets. This was partly an acknowledgement that its management team would not be in place long enough to accomplish these targets, and that net zero is not achievable with current technology. We sympathise with these views, but believe that building strategies for net zero targets to be met in the future is an important step for all companies.

More importantly, Amphenol was concerned that they might not be able to meet environmental targets if their products helped reduce overall emissions but increased emissions in their own manufacturing processes. This might lead to difficult decisions over whether to prioritise overall emissions reduction in the broader economy, or not make a product in order to minimise their own emissions – particularly in a country where legal challenge is commonplace.

We see this interesting conundrum in many companies that manufacture products that are required to transition to a low-carbon future. It reinforces our view that reaching net zero is far more complex than simply reporting low emissions data, and requires a deeper understanding and a more nuanced approach. Examples that highlight this issue include:

- Wind turbines: Amphenol's sensors are used to optimise the angle of rotor blades on wind turbines, which helps to extend the turbines' longevity.
- Vertical farming: One of Amphenol's businesses has designed a waterproof connector for harsh environments used in vertical farming and agrivoltaics (combining solar and vertical farming).

We were delighted that the company did set mid-term targets for the first time during 2023, notably:

- 50% of energy used at their facilities to come from renewable energy by 2030 (from 20% today)
- Total water withdrawal at their top 20 facilities to be reduced by 15% vs 2021 levels by 2030.

However, their emissions targets remain short term (2025) and on a percentage of revenue rather than absolute basis (something the company argues for strongly given its growth from demand for products and acquisitions). We therefore see this as welcome progress, but we will continue to engage for further improvements.

## Engagement example:

align™

Align Technology is a global leader in digital dentistry and a manufacturer of dental aligners and scanners. It is the only company in our core portfolios that does not disclose any emissions data or other relevant ESG information.

We have engaged with the company for several years on their environmental disclosures, their recruitment to the board (particularly the pace of board refreshment) and succession planning.

We escalated our concerns at Align Technology's 2023 AGM by voting against the re-election of the chair of the nominating and governance committee and abstaining on the reappointment of the other members. This sub-committee is responsible for both these issues.

We explained the rationale for our votes in a letter to the CEO, and reiterated our view that failure to address these issues could have adverse longer-term financial implications for Align. The increased regulatory environment in Europe means that investors and companies operating in the region face increasing sustainability disclosure requirements. This may mean that Align reduces its pool of potential shareholders and/or becomes subject to financial penalties if it does not comply with upcoming regulation.

We would also note that in the US, states such as California are enacting their own legislation on disclosure and the SEC has (in 2024) published their rule on the issue. We believe that early preparation to comply with international reporting standards is in the best interests of companies and their shareholders. We also believe that management teams should be forward-thinking and consider low-carbon strategies for new manufacturing facilities to de-risk and financially benefit their businesses.

We met with Align to discuss these issues at two meetings in early 2024. We are pleased that the company appointed two new directors with appropriate skillsets to the board in late 2023. The company is also making some progress on environmental factors, particularly on plastic reduction through innovations in digital scanning and the manufacturing process of their aligners. However, it was clear that Align's ESG reporting will be limited to what is mandatory and it is unlikely that any environmental targets will be set in the near future. We will continue to engage on these issues, and this will be factored into our overall view of the Align investment case.

Our meetings with investee companies are opportunities to increase our knowledge of industry-specific environmental challenges, because individuals working on the frontline are often best-placed to understand the practical implications of these issues. It was therefore encouraging to hear from **Experian** that our engagements had been helpful in shaping their work to date. We were also able to learn from their experience and we can share positive examples and best practise with other companies faced with similar problems.

*Our meetings with investee companies are opportunities to increase our knowledge of industry-specific environmental challenges.*

## Engagement example:

experian

We held a meeting with Experian in late 2023 to reflect on the huge amount of progress they had made since we started engaging with them on their environmental reporting in 2019.

They now report on 83% of their supply chain emissions (from 0% in 2019). This puts them among the leading companies in our portfolios in this respect, and they have done this with a relatively small team. The team place most of the credit for Experian's progress with people – specifically their CFO, who takes on the role of executive sponsor for ESG.

Having a senior advocate to ensure a company's commitment to material issues such as emissions is an example of best practice we will look for and, where appropriate, suggest to other companies. It was also commented during the meeting that it was interactions with stakeholders (including us) that prompted the company to upgrade their reporting.

*We make our voting decisions on a case-by-case basis.*

We believe shareholder voting is an important way to communicate with companies and strengthens our efforts to build long-term partnerships. We make our voting decisions on a case-by-case basis, with a focus on materiality and a desire that management focus resources where they are most useful and effective. As we aim to invest only in well-run companies that have strong management teams and governance structures, we typically expect to vote with board recommendations.

Given that many of our investee companies have already started to disclose emissions and have made significant progress on setting targets, we have seen a reduction in shareholder proposals around carbon. The most notable proxy votes in 2023 regarding environmental disclosure were for **Align Technology**, as described in the engagement example above.

## Advocacy and collaboration

We believe in fostering strong relationships with our investee companies and therefore often prefer to have one-to-one dialogue with them. However, we also recognise that, where appropriate, joining with others is likely to have a more significant impact. We believe this is particularly true when engaging on regulation and with governments.

*Where appropriate, joining with others is likely to have a more significant impact.*

We continue to contribute to peer organisation responses to FCA discussion and consultation papers. In 2023, we again took part in the CDP's Non-Disclosure Campaign by co-signing letters to companies who did not respond to the CDP's carbon disclosure requests. We were very pleased that one of the companies we addressed in this campaign (**Intuitive Surgical**) has submitted its data for the first time in 2023. In addition, **Amazon** and **Kuehne + Nagel** were both scored for the first time in 2023.

We now have only two portfolio companies that do not disclose carbon data to the CDP. We will continue to engage directly with those companies to encourage further disclosure (although we note that one of them provides excellent disclosure through its own sustainability report). We will also expand our requests to ask companies to disclose their water and forests data, where requested by the CDP.

## Climate change and our own business strategy

Although our own footprint is small, we also need to move towards a net-zero goal as quickly as possible. We have also conducted scenario analysis for our own business.

### Scenario analysis: risks for our own business

| Category | Identified risks | Net Zero 2050 | | Delayed Transition | | Current Policies | | Mitigation strategies |
|---|---|---|---|---|---|---|---|---|
| | | 1.5°C scenario | | 2°C scenario | | 3°C scenario | | |
| | | *Likelihood | **Significance | Likelihood | Significance | Likelihood | Significance | |
| Policy and Legal | Increased costs from regulatory obligations and reporting, including costs to gather, analyse and publish data. Potential reputational or financial risks in event of involuntary non-compliance. | High | Medium | High | Medium | Medium | Low | Governance structures in place to ensure effective resource planning and ability to meet regulatory obligations and reporting requirements. |
| | | Short-term, Mid-term | | Short-term, Mid-term, Long-term | | Short-term, Mid-term, Long-term | | |
| Market | Failure to anticipate disruptive new technologies in our portfolios may result in under-performance compared to objectives and/or peers. | Medium | High | Medium | High | Low | Medium | Continuously test our structural growth trends and consider companies moats to ensure our holdings are well placed. Constant learning culture within the team. |
| | | Short-term, Mid-term | | Mid-term, Long-term | | Mid-term, Long-term | | |
| Acute physical risks | Impact on our own operations from extreme weather events such as floods, drought, hurricanes or cyclones | Low | Low | Medium | Medium | Medium | Medium | Strong business continuity plans tested during covid 19 and an office flood. We only have one office in central London. |
| | | Short-term, Mid-term | | Short-term, Mid-term, Long-term | | Short-term, Mid-term, Long-term | | |
| Chronic physical risks | Impact on our own operations from sustained higher temperatures that might lead to sea level rise or chronic heat waves | Low | Low | Medium | Medium | Medium | Medium | Strong business continuity plans tested during covid 19 and an office flood. We only have one office in central London. |
| | | Mid-term | | Mid-term, Long-term | | Mid-term, Long-term | | |

Short-term Mid-term Long-term

*Likelihood – likelihood of issue under this scenario
**Significance – level of financial risk to corporates under this scenario

**Scenario analysis: opportunities for our own business**

| Identified opportunities | Net Zero 2050 | | Delayed Transition | | Current Policies | | MIM strategy |
|---|---|---|---|---|---|---|---|
| | 1.5°C scenario | | 2°C scenario | | 3°C scenario | | |
| | *Likelihood | **Significance | Likelihood | Significance | Likelihood | Significance | |
| Potential to increase returns to our clients if we are able to predict and participate in new structural growth trends and/or new technologies through the transition. Strong portfolio returns are likely to increase demand for our services going forwards. | **Medium** | **High** | **Medium** | **High** | **Low** | **Medium** | Investment approach is to invest in high-quality businesses that are focused on the long term. We focus on our structural growth drivers to be a tailwind to growth within our companies, challenging ourselves through horizon scanning for new ideas and constantly educating ourselves about new developments. |
| Decreased costs in our operations by reducing consumption and waste, as well as further moving to renewable energy sources. | **High** | **Low** | **High** | **Low** | **Medium** | **Low** | We already use a renewable energy tariff and focus on reducing waste and recycling. As the UK moves to net zero, we expect to be able to make further improvements. |

Short-term Mid-term Long-term

*Likelihood – likelihood of issue under this scenario
**Significance – level of financial risk to corporates under this scenario

> *Although our own footprint is small, we need to move towards a net-zero goal as quickly as possible.*

We have been monitoring our own emissions and double offsetting our remaining emissions since 2018, using high-quality third-party verified offsets. We have also selected a renewable electricity tariff for our office and, wherever possible, use local, independent and fair-trade suppliers for our office.

Everyone in our business is encouraged to attend presentations held each year to discuss our previous year's carbon footprint and where improvements could be made.

We actively encourage employees to travel only where necessary and make responsible choices. At the same time, we recognise that visiting clients and companies is an important part of our service offering and investment analysis.

We intend to keep making as much progress as possible in reducing our remaining emissions, which are largely Scope 3 or relate to business travel.

We believe that our investment philosophy and our governance structures, as detailed in this report, mean that we are well-positioned to contribute to positive change. We are also mindful that we are dependent on overall UK and global net zero targets to be met to achieve some of our goals.

# Risk management

The board has overall responsibility for risk management, the supporting system of internal controls and for reviewing their effectiveness. We operate an approach of continuous identification and review of business risks.

This includes monitoring of key risks, identification of emerging risks and considerations of risk mitigations, after taking into account risk appetite. The board uses this information to consider the impact of how these risks may affect the achievement of our business objectives. Three primary sub-committees report to the board, including the investment governance committee, which has responsibility for climate-related risks in investment portfolios.

## Protect and grow

Risk is central to everything we do. We manage investment risks in this context by the way in which we invest for clients, including our focused approach to the securities that we include in our universe.

Our focus is on protecting and growing our clients' capital over a long-term view over and above inflation. To achieve this we primarily invest in the equity of a focused number of businesses for a five-year or longer time period.

This means that we invest in high-quality businesses with management teams that are focused on the durable success of their businesses and where we see strong company characteristics. These include financial and strategic factors such as balance sheets, management strength, competitive positioning, pricing power and growth prospects. They also include 'non-financial' factors such as employee welfare and talent management, human rights in the supply chain, data privacy and security, and environmental factors.

Physical risks from climate change as well as changes to regulation and customer preferences can provide both risks and opportunities to companies. We believe these all need to be considered and analysed alongside traditional financial and strategic analysis.

Our focus on companies that have predictable and persistent growth, generate free cash flow and demonstrate strong returns on investment naturally precludes us from investing in carbon-intensive sectors such as oil and gas companies, heavy industrials or mining companies. Many of these companies are heavily dependent on a commodity price and/or are more cyclical and therefore do not comply with our investment philosophy.

*There are fewer companies in our portfolios that have large emissions than there are in equity indices.*

There are, therefore, fewer companies in our portfolios that have large emissions in their own operations than there are in equity indices. The Scope 1 and 2 carbon intensity[14] of our core strategies are considerably lower (85-90%) than the MSCI AC World Index.

This does not mean that we are complacent: in our view, all companies have a duty to reduce emissions in their own operations. Furthermore, they should also participate actively in the decarbonisation of the real economy through encouraging and enabling their supply chain and customers to do the same.

The 23 people in our investment team are focused on a small number of companies (approximately 40-50, of which 25-40 are likely to be in portfolios at any one time). This means that our primary analysts, supported by the rest of the investment team, spend time researching each company in depth.

Experience has taught us that risk is better managed by having conviction ideas and knowing a small number of companies in detail, rather than holding higher numbers of lower-conviction ideas purely for the sake of diversification. This also applies to our companies' climate strategies. Having a focused approach allows us to fully understand our companies' starting points, the challenges they face and their approaches to building robust strategies to reduce their emissions while continuing to grow their businesses profitably.

Our research analysis focuses not only on what a company does but also how it does it. We believe that the best long-term investments will be in companies with strong financial characteristics that have a clear understanding of their environmental footprint, the physical risks from climate change, opportunities or risks from the energy transition and consider the rights of all stakeholders.

Regulatory changes, as well as consumer perception, are driving companies to be more aware and perform better in both climate and other environmental areas, such as biodiversity and

[14] On a weighted average carbon intensity basis as measured by Morningstar

water. Investors are also increasingly putting climate higher up the agenda with company management, with the demand for change strengthened by regulatory action.

At Meridiem, we spend time assessing the quality of company management, boards and culture to ensure that each company we invest in is prioritising the material risk factors that matter to them. We therefore expect to continue to invest in companies that are leaders in these areas, not laggards.

We use broker research, industry experts and various datasets to analyse and understand our investee companies. Our most-favoured source of information is undoubtedly the companies themselves, and we aim to speak with all our portfolio companies directly about any material factors that may affect their asset value. This allows us to understand their history, progress on their net zero journey and can tailor our approach accordingly.

As global investors, it is important that we understand each company in the context of their regulatory environment and know when companies are 'doing the right thing', without imposing requirements when they are not needed. We do, however, strongly encourage all our portfolio companies to track and reduce their emissions preferably against a science-based target. Our focused approach means that we can tailor our engagements and requests of companies to reflect their progress towards net zero and the most material climate-related risks that they face.

## Building our expertise in climate

Climate research, along with other sustainability topics, is developing quickly and we therefore seek to constantly improve our research and develop our thinking. We seek out ideas and best practice from industry groups and experts. We are investor signatories of the UN PRI, CDP and Net Zero Asset Managers initiative, and are proud to be listed as a signatory to the UK Stewardship Code for the third year running in 2023.

> *We seek out ideas and best practice from industry groups and experts.*

During 2023, members of the investment team attended various individual and group sessions on topics relevant to climate and the energy transition. These have been with a mixture of brokers, industry associations and responsible investment and framework-focused organisations such as the PRI and CDP.

**Example: the changing regulatory landscape in the US**

Given the rapid pace of change, we often seek external guidance on regulation around the world. Many of our portfolio companies are based in the US, so developments in this market are particularly important to us.

We have held discussions with a number of specialists, including a Washington-based sustainable and environmental policy expert and US-based broker analysts, on topics such as:

- The IRA[15], CHIPS and Science acts in the US and how Europe might respond to them.
- The extent and likelihood of the SEC implementing mandatory carbon disclosure rules.
- The impact of the US UFLPA[16], which focuses on the solar and textile industries but is likely to expand its scope.
- Issues with shortages of skilled labour and granting of permits that affect the connection of new renewable energy supplies to the grid.
- The potential for the US to support carbon tariffs similar to the EU's carbon border adjustment mechanism (CBAM).
- The US's focus on tax credits intended to encourage innovation and revenue opportunities, in preference to carbon prices and penalties.
- Climate litigation trends.

Given the commitments made at the Kunming/Montreal COP15 Biodiversity Summit at the end of 2022, we have increased our focus on biodiversity loss and water. These are crucial issues for asset owners – more than half of the world's GDP is moderately or highly reliant on natural resources. More fundamentally, these issues are inextricably linked with the climate crisis, and it will be impossible to solve one without solving the other. In 2023 we have:

- Joined the Nature Action 100 investor-led engagement initiative, spearheaded by Ceres and IIGCC, as an Investor Participant.
- Increased engagement with investee companies on water security, specifically around their efforts to measure, manage and disclose water-related risks.
- Supported CDP disclosure on water and forests where relevant for our holdings.

[15] Inflation Reduction Act
[16] Uighur Forced Labour Protection Act

- Met with brokers and experts to understand the implications of the Global Biodiversity Framework agreed at COP15, the TNFD framework and LEAP approach, and how companies can measure nature and biodiversity risks.

We also continue to educate ourselves in technology developments that should help us reach a low-carbon future. These range from electric vehicle and battery developments, implications and developments in the industrial gases sector and cement sector, developments in the food sector, supply chain issues such as palm oil and the impact of deforestation and land use change and development in the renewables space, as well as other clean energy areas such as nuclear fusion.

We have been monitoring the potentially disruptive implications of rapid improvements in technology (specifically generative AI) on energy consumption. Training and running large AI models is highly energy intensive: an answer from ChatGPT uses 10-100x more energy than an email, according to research from the University of Washington.

Despite the great strides made in reducing energy intensity to date, the energy intensity of AI poses a considerable risk to climate goals if further improvements cannot be made. We engaged with **Microsoft** on this issue, among other AI-related risks. The company is strongly committed to its 100/100/0 vision of 100% of electricity consumption, 100% of the time, being matched by zero-carbon energy. They recognise that this vision is far more ambitious in the light of the projected energy requirements of their datacentres in an AI-driven world. To achieve their goals they are continuing to focus on efficiency and invest in renewable energy projects.

## Communication is key

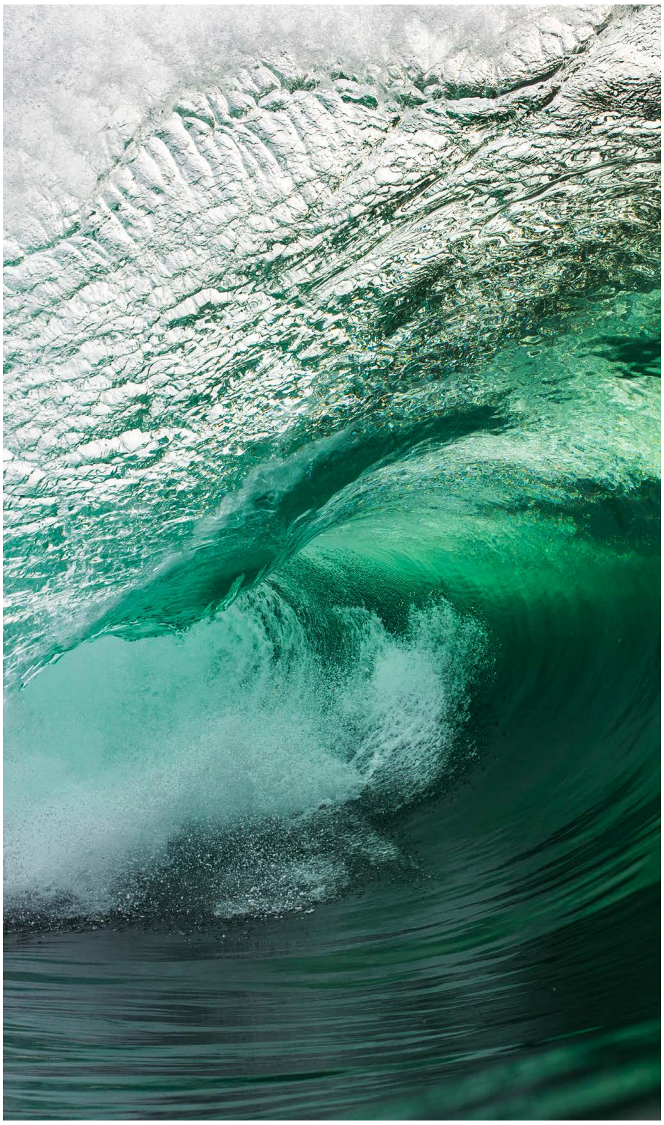
Sharing information is an important element of our collaborative approach to investment. Information from meetings is shared in our daily morning meetings and in more detail at our weekly team meetings or specific sessions on a topic. Sessions relevant to this report in 2023 included presentations on portfolio carbon emissions, development of our net zero targets and our first Climate Report, the TNFD launch and Nature Action 100.

Meeting notes are available to all team members on FactSet, giving our investment managers access to relevant information in one place. We also have an internal database which collates information on companies held in our portfolios. This includes data relevant to climate change and other ESG-related information from third-party ESG research providers such as Morningstar/Sustainalytics and Bloomberg, CDP, SBTi and information directly from our portfolio companies.

In 2023, we enhanced our data collection with information on carbon pricing from CDP reports, water targets set by our companies and the 2023 Nature Benchmark scores.

## Monitoring ESG and climate risks in portfolios

During 2023, we improved our risk monitoring by adding third-party sustainability metrics to regular reviews carried out by our Portfolio Review Working Group. This group aims to ensure that clients are receiving consistent outcomes from a performance and risk perspective. They monitor financial performance and volatility metrics, and now also monitor clients' overall corporate sustainability risk scores and weighted average carbon intensity, as provided by Morningstar. Outliers are reviewed in more depth to ensure that outcomes are in line with our clients' mandates, and any concerns that arise are raised with the Investment Governance Committee.



## Risk framework (climate change and investments)

Investment team understand the risks and actively incorporate them into investment analysis and decision making. Stewardship Working Group ensure policies and processes are in place to incorporate climate change risks into our engagements.

Investment Governance Committee provides oversight on policy, process and execution.

Third-party ESG data specialists provide independent data to validate or challenge our analysis and insights as well as calculating client outcomes.

### Our own activities

While our own emissions are very small (<1%) in comparison to those of our portfolio companies, we believe that we should reduce our own emissions just as we require our investee companies to do so. We are a UK-based business, and the UK has a net-zero target for 2050, alongside targeting a 78% reduction in emissions from 1990 levels by 2035.

Everyone in our business attends training sessions about the importance of climate change and our company's role in building a low-carbon future. Each year, our office manager gives a firm-wide presentation about our carbon footprint, highlighting our progress and areas where we can improve. We discuss changes we can all make, encourage suggestions from across the business and run sessions to highlight best practices for recycling that will reduce our Scope 3 waste emissions.

We have been monitoring our emissions from our own business practices since 2018. This includes our Scope 3 (non-financed) emissions such as business travel, staff commuting, homeworking, printing, waste and water use. We also monitor our suppliers to ensure that they have strong commitments to environmental targets.

We have significantly reduced printing and are seeking ways to reduce waste. We also continue to look for opportunities to improve the quality of our data, and use primary data wherever possible to ensure we measure our footprint as accurately as possible. Our Scope 1, 2 and 3 emissions data (except for financed emissions) is calculated independently by RSK.

We actively encourage employees to travel only where necessary and make responsible choices. At the same time, we recognise that visiting clients and companies is an important part of our service offering and investment analysis. During the pandemic, our business travel (which was a significant portion of our Scope 3 emissions) was severely curtailed. As expected, our emissions due to business travel rose again between 2022 and 2023, but remain c.50% below 2019 levels.

We double offset our remaining emissions, and our employees are involved in choosing high-quality carbon offset projects that are verified and monitored by Verra and the Gold Standard. As a result, we achieved CarbonNeutral® company certification from Climate Impact Partners, in line with The CarbonNeutral Protocol, the leading global framework for carbon neutrality.

As detailed in the Climate scenario analysis section of this report (pp.14-22), we assess our own exposure to physical and transition risks presented by climate change. While we believe the risk is low, we ensure we have the right systems, business processes and controls to mitigate any exposure to these risks.

## Risk framework for Meridiem Investment Management

Office management and support team record and monitor progress.

MIM Ltd Board provide oversight and challenge.

Carbon data independently calculated by RSK and CarbonNeutral® company certification from Climate Impact Partners.

# Metrics and targets

## Our investment-related emissions

**Methodology**
In line with the TCFD recommendations for Scope 3 Category 15 emissions (i.e. emissions from the assets in portfolios we manage), we are reporting the following emissions metrics:

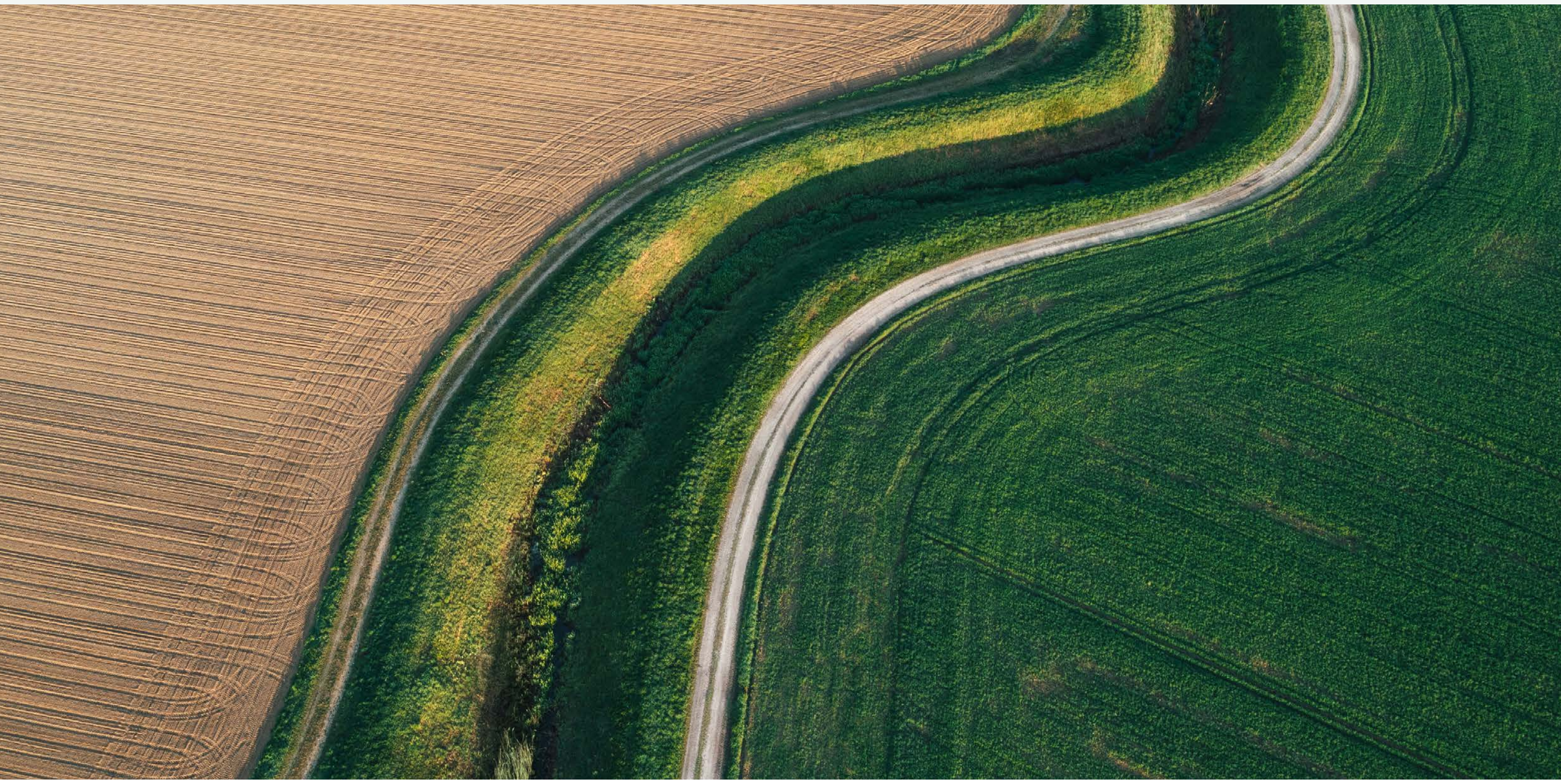
- Total carbon emissions (also called financed emissions) (Scope 1 + Scope 2 and Scope 3 separately)
- Carbon footprint (also called 'financed emissions intensity')
- Weighted average carbon intensity (WACI).

**The formulae that we have used are as follows:**

$$\text{Total carbon emissions} = \sum_{i}^{n} \left( \frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)$$

$$\text{Carbon footprint} = \frac{\sum_{i}^{n} \left( \frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)}{\text{current portfolio value (\$M)}}$$

$$\text{Weighted average carbon intensity} = \sum_{i}^{n} \left( \frac{\text{current value of investment}_i}{\text{current portfolio value}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i} \right)$$



**There are positives and negatives for each of these measures, which is why we intend to report against all three.**

| | Description | Positives | Negatives |
|---|---|---|---|
| **Total carbon emissions** | Absolute GHG emissions associated with assets under management | • Assigns absolute amount of emissions consistent with the GHG Protocol<br>• Can track changes in emissions within portfolios<br>• Allows for attribution of emissions within investments. | • Comparisons between portfolios or providers are difficult due to portfolio size importance<br>• Change in amount of assets managed may mask underlying changes in the emissions<br>• Changes in underlying companies' enterprise values can be misinterpreted. |
| **Carbon footprint (financed emissions intensity)** | Emissions are allocated based on % of company owned and normalised for value of total assets | • Allows for comparison across different portfolios<br>• Focuses investors on the higher-emitting companies rather than on largest holdings<br>• Directly attributes emissions per $m invested. | • Changes in underlying companies market values can be misinterpreted<br>• Sensitive to changes in portfolio value. |
| **Weighted average carbon intensity (WACI)** | Emissions are allocated based on portfolio % weights | • Allows for comparison across different portfolios, including different asset classes<br>• Enables comparison across companies in portfolios of different sizes<br>• More easily understood by asset owners<br>• Does not penalise companies for growth. | • Skews to companies held with highest weightings which may not be reflective of emissions profile overall<br>• Tends to favour higher price point companies<br>• Can only be used for listed equities and corporate bonds. |

Our focus at this stage of our development is on our portfolio holdings' Scope 1 and 2 emissions. For completeness, we include our Scope 3 emissions in this report on a best-efforts basis. Some of the Scope 3 emissions included are based on estimates from third-party data providers. Please see **Scope 3 emissions – considerations** on page 38 for further discussion of the benefits and complexities of Scope 3 emissions.

*The portfolios included in our analysis account for 81% of our total AUM.*

We track emissions associated with all the portfolios we manage. However, the portfolios (core strategies) included in targets account for 81% of our total AUM. Within these, we focus on equities and corporate fixed income holdings, for which the methodology is more developed. Our analysis excludes portfolios that are not in our core strategies due, for example, to tax or ethical restrictions.

In this year's report we have included third-party investment fund emissions for the first time, although these are a small part of our core strategy universe (0.4%). We are following PCAF[17] methodology for listed equities, corporate bonds and third-party funds. Cash, gold and supranational debt are considered to have zero carbon emissions by PCAF. We have not included these asset classes in our calculations: including them would reduce the carbon intensity metrics shown, and changes in weighting within asset classes might influence results.

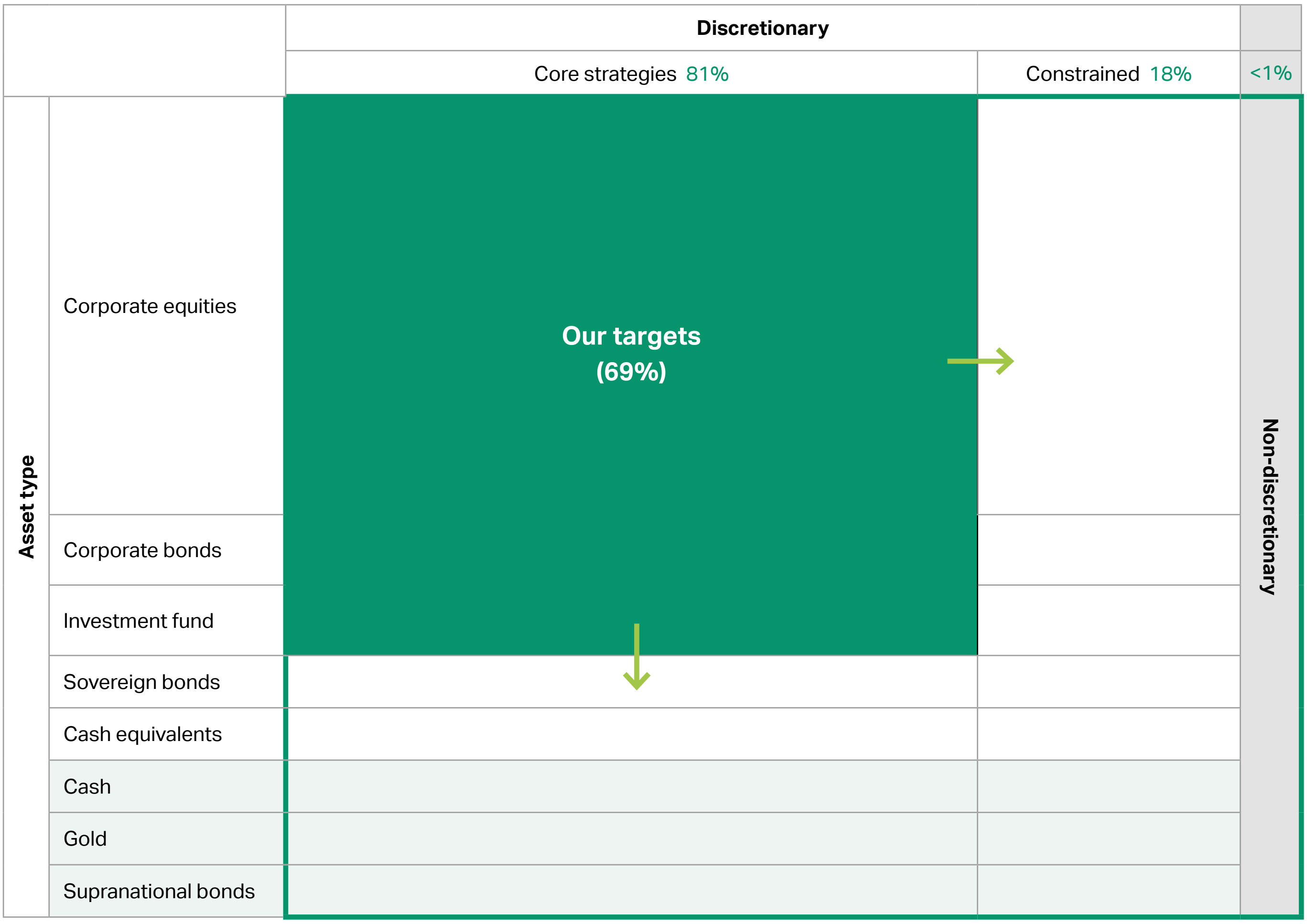
We will review including sovereign debt when we update our targets in our 2025 report. As discussed earlier in this report, we only invest in sovereign debt in the US, UK and some European countries, all of which have net-zero targets. Cash equivalents are money market funds and we do not receive emissions data from our provider for these. We intend to use recommendations from PCAF and others to increase and improve our coverage as methodologies and data collection develop.

[17] Partnership for Carbon Accounting Financials

*Overall, we are currently considering 69% of our total AUM in our emissions target setting.*

Overall, we are currently considering 69% of our total AUM in our emissions target setting. A further 10% of our overall assets are considered to have zero emissions (cash, gold and supranational debt).

**Where our targets are focused, as a proportion of our total AUM**




Arrows denote intention to increase our scope of AUM
Numbers will not necessarily add to 100% due to target

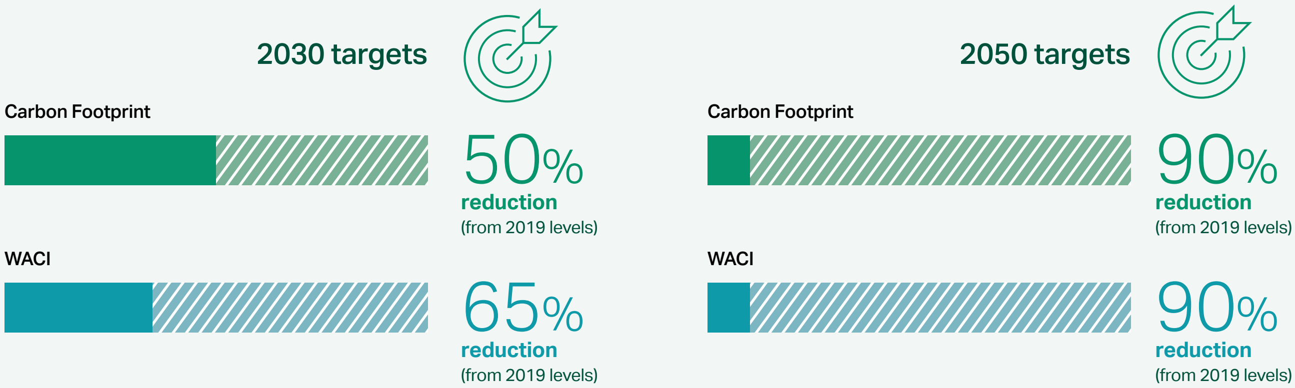
Our targets · Not yet included · Rated as zero carbon emissions · Non-discretionary

Given the significant growth in our AUM over the past few years, we are concentrating on targeting a reduction in emissions intensity. During 2023, we set a target of a 50% reduction in our carbon footprint by 2030 from a 2019 baseline. As the table on page 36 shows, we have now (unexpectedly) achieved this outcome. We will continue to focus on maintaining and improving this over the coming years.

We are also showing the reduction in weighted average carbon intensity (WACI), a measure we have been reporting to our clients for their individual portfolios since 2021. We have nearly achieved this outcome, as shown on page 36.

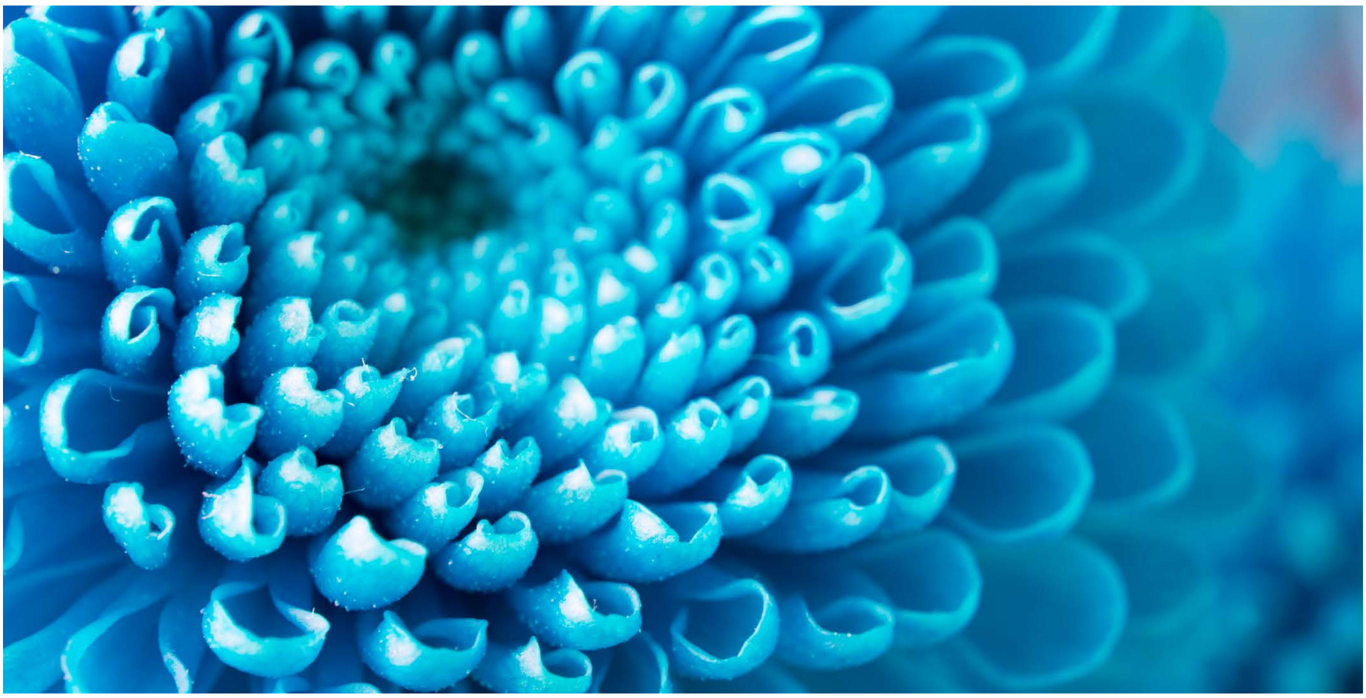
## Our targets for portfolio emissions

We have set 2030 and 2050 emission reduction targets focused on carbon footprint (Scope 1 and 2), with WACI as a secondary measure. Given that we have already met our original 2030 target for carbon footprint and are close to meeting our target for WACI, we expect further progress to be at a slower pace and also non-linear.




We will update our targets in 2025 and aim to increase our scope of AUM covered through additional portfolios and asset classes (e.g. sovereign bonds) coming into scope. We will continue to report Scope 3 emissions of our holdings. These are likely to increase in the short term as companies' ability to measure them improves and new sub-categories are added to Scope 3 emissions.

We will also continue to develop our climate reporting and follow best practise as far as is reasonably possible for both our in-scope AUM and individual portfolios.



## In-scope emissions*, 2019-2023

In-scope assets include equities and corporate bonds in our core strategy portfolios from 2019 to 2023. Third-party funds are also included for 2023 only.

**Intensity metrics**

| Intensity | 2019 | 2020 | 2021 | 2022 | 2023 | *Reduction from 2019* |
|---|---|---|---|---|---|---|
| **Carbon footprint [$tCO_2e$/$m invested]** | 15.3 | 9.2 | 6.5 | 7.3 | 6.1 | 60% |
| **Weighted average carbon intensity [$tCO_2e$/$m revenue]** | 53.9 | 37.5 | 25.2 | 17.1 | 19.2 | 64% |

**Absolute emissions**

| Carbon emissions [$tCO_2e$] | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Scope 1 and 2** | 43,135 | 35,869 | 36,154 | 34,379 | 37,395 |
| **Scope 3** | 516,252 | 319,505 | 496,961 | 669,701 | 638,000 |

| Included AUM [$] | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **In-scope assets** | 2,824,214,449 | 3,889,374,996 | 5,568,467,831 | 4,683,111,591 | 6,115,604,532 |
| **% coverage** | 77% | 80% | 84% | 81% | 85% |

*Emissions data per company is from Morningstar Sustainalytics and calculations are as per formulae given above

Overall, we are very pleased with our emissions reductions to date. These have been driven by investing in high-quality companies exposed to structural growth drivers, rather than divestment for carbon emissions reasons. We are very pleased that there has been an absolute reduction in Scope 1 and 2 carbon emissions in our portfolios in aggregate, particularly considering the increase in AUM that these emissions cover.

# Total AUM emissions*, 2019-2023

This includes all portfolios where we have a discretionary mandate. Only corporate bonds and equities are included for 2019-2023. Third-party funds are also included for 2023. We do not currently have targets for emissions on a total AUM basis, but include them in the interests of transparency.

**Intensity metrics**

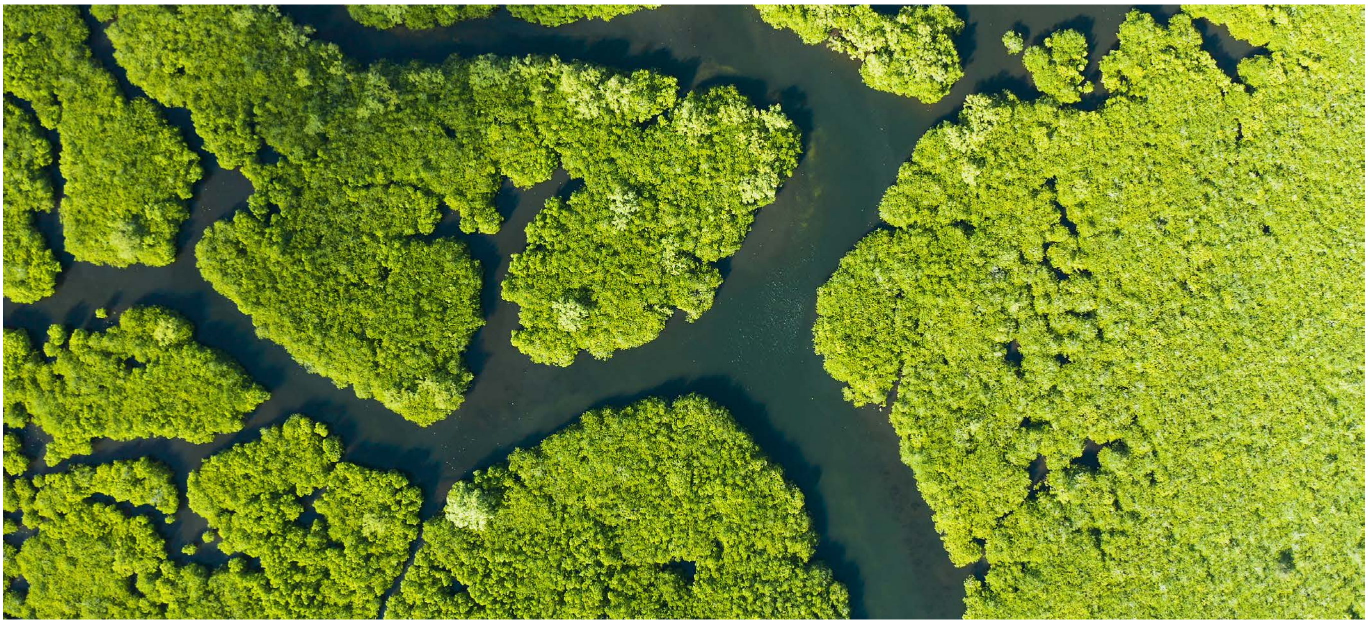
| Intensity | 2019 | 2020 | 2021 | 2022 | 2023 | *Reduction from 2019* |
|---|---|---|---|---|---|---|
| **Carbon footprint [t$CO_2$e/$m invested]** | 16.7 | 10.4 | 7.2 | 8.0 | 6.7 | 62% |
| **Weighted average carbon intensity [t$CO_2$e/$m revenue]** | 56.8 | 40.7 | 26.8 | 18.6 | 18.3 | 68% |

**Absolute emissions**

| Carbon emissions [t$CO_2$e] | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Scope 1 and 2** | 59,042 | 49,415 | 46,707 | 43,697 | 48,077 |
| **Scope 3** | 664,341 | 402,133 | 580,687 | 786,421 | 751,775 |

| Included AUM [$] | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Included AUM** | 3,542,076,216 | 4,730,375,687 | 6,531,457,602 | 5,456,619,232 | 7,162,523,450 |

*Emissions data per company is from Morningstar Sustainalytics and calculations are as per formulae in the Metrics and targets section above



## Scope 3 emissions - considerations

According to CDP, on average, 75% of a company's emissions are Scope 3 emissions. In sectors such as oil and finance, Scope 3 emissions often exceeds 90% of a company's total emissions. Scope 3 can therefore be the most material source of an organisation's emissions.

Scope 3 emissions are complex to assess because they derive from activities and assets not owned or controlled by the reporting organisation, and include all suppliers and end users. This means that data can be less reliable because:

- Many portfolio companies and companies in their value chains are based in jurisdictions where reporting is not yet a regulatory requirement.
- Many portfolio companies are just beginning to track these emissions and do not have access to reliable historical data.
- Companies' coverage of Scope 3 is expected to increase over time as more categories and geographies are added to Scope 3. This may lead to multiple restatements of data and difficulties monitoring progress over time.
- There are 15 categories within Scope 3, but companies report only on categories that they consider material. Comparing even Scope 3 emissions from similar companies can therefore be difficult. Further regulation on this issue may help.

Scope 3 data does not designate ownership of carbon emissions but instead helps to assess overall carbon exposure. Scope 3 can therefore be an indicator of climate transition and physical risk.

Scope 3 emissions often include double counting because value chains are complex and the same emissions may appear in multiple companies' value chains.

It is important to consider Scope 3 emissions in the context of a company's business model. For example, a company that outsources production may have lower operational emissions than a fully integrated business. Outsourcing may reduce operational emissions but could also increase overall emissions if the outsource provider is less efficient or has fewer regulatory requirements to reduce emissions.

By contrast, a company that is increasing its emissions could help the real-world economy to reduce emissions. This might be by producing products or services that help its customers reduce their emissions, or by taking market share from a company that is higher in carbon intensity.

A company's Scope 3 emissions can also be affected by external factors that are beyond its control or influence, such as decarbonisation of the energy system.

Other challenges of reporting, monitoring and comparing Scope 3 emissions are similar to (and often exacerbated by) the challenges we face when considering Scope 1 and 2 emissions. These include:

- Data collection and coverage
- Quality and accuracy of data
- Various legitimate approaches for calculation (sector average, spend based versus activity based, change in emissions factors used etc)
- Lack of error analysis (which should be multiplied as assumptions are made)
- Time lags in reporting by companies and inclusion of data in third-party data providers' databases. This means that estimates or prior year numbers are often used, and need to be restated the following year.
- Different ESG databases have different methodologies, so different investors may report different emissions data for the same underlying companies.

# Our own company emissions

**Scope 1 and 2 and non-financed Scope 3 emissions**

| | 2019 | 2020 | 2021 | 2022 | 2023 | *Change from 2019* |
|---|---|---|---|---|---|---|
| **Scope 1** | 15.5 | 23.2 | 5.5 | 2.4 | 10.8 | -30% |
| **Scope 2 (LB*)** | 12.5 | 26.5 | 19.1 | 15.2 | 18.8 | +50% |
| **Scope 2 (MB*)** | 0 | 0 | 0 | 0 | 2.5 | n/a |
| **Scope 1 + Scope 2 (MB)** | 15.5 | 23.2 | 5.5 | 2.4 | 13.3 | -14% |
| **Scope 3** | 121.6 | 50.1 | 46.9 | 63.4 | 116.0 | -5% |
| **Scope 3 per FTE**** | 2.51 | 0.99 | 0.87 | 1.19 | 1.84 | -27% |

*LB – location-based emissions methodology, MB - market based emissions methodology

**Scope 3 non-financed emissions per full-time employee (FTE)

As expected, after the covid pandemic our emissions increased from 2022 to 2023.

We have improved our coverage by including gas used in our offices in 2023. This data was previously not available from our landlord.

Given new guidance from the ISSB, we provide market-based and location-based Scope 2 emissions. Our targets were originally made with reference to market-based emissions, under which our renewable energy tariff has zero emissions. By contrast, a location-based methodology reflects our share of emissions from the overall UK grid. We will update these targets in our 2025 report.

We continue to look for ways to reduce our environmental impact and support the UK's commitment to reach net zero by 2050. During the pandemic, our business travel (which was a significant portion of our own Scope 3 emissions) was severely curtailed. As expected, our business travel increased again between 2022 and 2023, but our emissions from business travel remain approximately 50% below 2019 levels.

## 2030 targets

Scope 1 and 2 absolute emissions

85% **reduction** (from 2019 levels)

Scope 3 emissions per full-time employee

50% **reduction** (from 2019 levels)

## 2050 targets

Scope 1 and 2 absolute emissions

90% **reduction** (from 2019 levels)

Scope 3 emissions per full-time employee

90% **reduction** (from 2019 levels)

## Further notes on data used and changes in reporting

Since reporting in 2023, we have changed data providers from Bloomberg to Morningstar Sustainalytics. As a result, we have re-stated data so that historical data follows the same methodology as current data.

Scope 1 and 2 emissions numbers are now higher than previously stated (by approximately 7-12%) for 2019-2021 due to differences between Bloomberg's and Morningstar's methodologies for Scope 2 emissions. Morningstar prioritises location-based Scope 2 data over market-based Scope 2 data, whereas Bloomberg prioritised market-based data. This better reflects new guidance from the ISSB regarding how emissions data should be calculated. We would note, however, that many of our portfolio companies increasingly use renewable energy as a power source.

AUM covered has also marginally increased for 2019-2021 by a lower percentage than the emissions increases, due to more data availability through our new provider. This has led to slight increases in our stated intensity metrics for the years 2019-2021.

Scope 3 data has changed more materially, perhaps unsurprisingly given the increased use of estimations historically. However, the quantum of emissions remains the same.

Many companies report emissions and other sustainability data from the previous year several months after the end of the year. As this was the same in last year's report, we have updated the 2022 data for actual emissions data. This has led to a reduction in emissions data being reported for 2022 as many companies performed better than expected on this metric.

Most of the emissions data for 2023 is therefore either the data from 2022 or estimated. We expect to also restate 2023 emissions data in next year's report. This is in line with PCAF and NZAM guidance.

# Glossary

- **Active ownership:** the management of investments based on active decision-making rather than replicating an index.
- **Assets under management (AUM):** aggregate value of client assets managed from which we earn operating revenue.
- **$CO_2$e/carbon dioxide equivalent:** includes all greenhouse gas emissions (not just carbon dioxide) in a standardised unit to allow comparisons.
- **Carbon footprint:** emissions are allocated based on the percentage of a company owned, and normalised for value of total assets. Also called 'financed emissions intensity'.
- **Carbon offsets:** third-party carbon negative activities that can be funded to compensate for carbon emissions.
- **CDP:** formerly the Carbon Disclosure Project, CDP runs a global disclosure system to help manage environmental impacts. Its coverage includes emissions, forests and water.
- **Climate Impact Partners:** a specialist in carbon market solutions for climate action. Climate Impact Partners issues our CarbonNeutral® certification and helps us offset our remaining emissions through high-quality, carbon-financed projects.
- **Core strategies:** core strategies include all discretionary and pooled vehicles that are not constrained (e.g. due to tax or ethical restrictions).
- **EVIC:** enterprise value including cash.
- **Financed emissions:** absolute greenhouse gas (GHG) emissions associated with assets under management (AUM).
- **Financed emissions intensity:** emissions are allocated based on the percentage of a company owned, and normalised for value of total assets. Also called 'carbon footprint'.
- **FTE:** full-time employee equivalent.
- **GHG Protocol:** The GHG Protocol establishes comprehensive global standardised frameworks to measure and manage GHG emissions from private and public sector operations, value chains and mitigation actions.
- **Greenhouse gases (GHGs):** gases that absorb and emit radiation in the atmosphere, contributing to global warming. The Kyoto Protocol identifies seven gases as GHGs: carbon dioxide ($CO_2$), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF6) and nitrogen trifluoride (NF3).
- **IEA:** International Energy Agency.
- **Location-based Scope 2 emissions:** this reflects the average emissions intensity of grids on which energy consumption occurs.
- **Market-based Scope 2 emissions:** emissions associated with the energy a company purchases, rather than the grid average. Scope 2 emissions may therefore reflect direct purchases of renewable energy or renewable energy certificates.
- **Net Zero Asset Managers initiative (NZAM):** the relevant part of the Glasgow Financial Alliance for Net Zero.
- **PCAF:** Partnership for Carbon Accounting Financials, an industry-led body that develops and implements a harmonised approach to assess and disclose greenhouse gas emissions associated with financial investments.
- **RSK:** an environmental consultancy, and partner of Climate Impact Partners. RSK analyse our data to calculate and verify our carbon emissions.
- **SBTi:** the Science Based Targets initiative is a partnership between the CDP, United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature (WWF). They enable organisations to set ambitious science-based emissions reduction targets.
- **Scope 1 emissions:** direct emissions from owned or controlled sources.
- **Scope 2 emissions:** indirect emissions from generation of purchased energy.
- **Scope 3 emissions:** all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company. These include upstream and downstream activities. Financed emissions (including investments), purchased goods and services, transportation and distribution, use of sold products are all categories of Scope 3 emissions.
- **WACI:** weighted average carbon intensity, a measure that can be used to compare portfolio emissions and where company emissions are allocated based on portfolio percentage weights.

**Meridiem Investment Management Ltd**
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