navera
INVESTMENT MANAGEMENT

Climate Report 2024

FOR THE 12 MONTHS FROM

01 January 2024 to 31 December 2024

navera
INVESTMENT MANAGEMENT

At a glance

WHO WE ARE

£8bn

assets under management

as at 31 December 2024

EST. 1993

First fund launched in 2018

100%

employee owned

74

employees

including a 26-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

Stewardship

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

Caroline Stokell
CEO

Ross Ciesla
CIO

At the time of writing this report, there is much uncertainty in global markets. This is also true of efforts to mitigate and adapt to climate change. 2024 was the first year that global temperatures rose more than 1.5°C from pre-industrial temperatures. Extreme weather events such as the devastating hurricanes in the US and wildfires and flooding in Europe caused substantial damage to infrastructure and communities. These have lasting economic effects such as increased insurance costs or reduced mortgage availability. However, the regulatory backdrop has become less supportive: the Trump administration confirmed that the US will be leaving the Paris agreement and in Europe there are substantial changes proposed to environmental regulations only recently signed into law.

Despite the shifting regulatory backdrop, we have not changed our approach. We continue to be long-term investors in high-quality, resilient businesses with strong financial characteristics. Our aim is to ensure portfolio companies mitigate the potentially material financial risks they face such as carbon pricing mechanisms, shifting customer preferences or disruption from extreme weather. We undertake targeted engagements with our companies to encourage them to reduce their emissions intensity, increase efficiency and improve resilience.

We are therefore pleased to show significant progress in our reported climate metrics. We previously set 2030 targets for reducing our in-scope portfolios' carbon footprint and their weighted average carbon intensity (WACI) from a 2019 baseline. We are delighted that we have reached both targets, rather earlier than we expected, with a reduction of 66% in carbon footprint and 69% in WACI.

The majority of companies in our portfolios are reducing their operational emissions intensity – meaning that their revenues are growing faster than their emissions. In fact, half of our equity holdings are growing their businesses while also reducing their absolute emissions. For more detail, please see the Strategy section on page 39.

We hope you enjoy reading this report, which includes several company examples and how we consider climate within our research and strategic thinking.

Caroline Stokell
CEO

Ross Ciesla
Chief Investment Officer

Compliance statement

The disclosures in this report are consistent with the TCFD Recommendations and Recommended Disclosures, as well as Annexure 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 Navera Executive Team.

Unless stated otherwise, all carbon data in this report has been sourced from Sustainalytics.

All data is at 31 December 2024.

If you would like to discuss this or any other aspects of our stewardship work further, please contact your portfolio manager or Sam Cotterell on the email address below.

This report was written by

Sam Cotterell
Investment Partner
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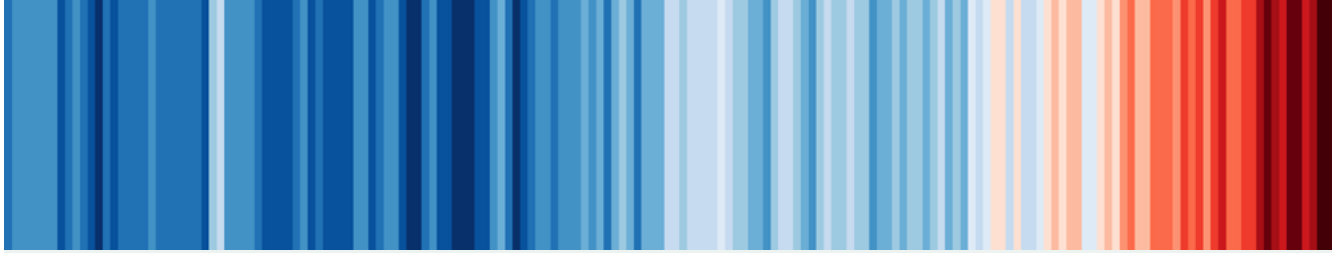
Our progress – milestones

Climate change and our role



> "2024 was the first year that global temperatures rose more than 1.5°C from pre-industrial temperatures."

Global temperature change (1850–2024): each stripe represents the average temperature for a year.
Blue = cooler-than-average, red = hotter-than-average.

The effects of climate change pose increasing risks to the financial system and economies of the world, as well as introducing potential physical or transition risks at an individual company level. As an active investment manager with a long-term view, we need to incorporate climate risk into our analysis and encourage resilience in the financial system and individual companies.

2024 was the first year that global temperatures rose more than 1.5°C from pre-industrial temperatures. While this does not mean that the Paris agreement has been breached (this would require higher temperatures to be sustained for a decade or longer) we are seeing extreme weather events such as flooding, droughts and wildfires.

These are having a significant impact. An analysis of US home insurance showed that people living in the highest 20% of climate risk areas paid 82% more than those in the bottom 20%.[1] In some locations, insurance companies are already refusing to provide insurance to residential and commercial customers.

People in the highest climate risk areas paid 82% more for insurance than those in low-risk areas.

We strongly believe that all companies need to be aware of their physical and transition risks with regards to climate change. Collecting data and building robust policies and processes to reduce emissions, as well as disclosing this information, 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, such as carbon taxes, or customer preferences for lower-carbon products.

Financial loss from failing to adequately prepare for the physical risks of climate change is also becoming a reality. We have expanded our conversations with companies to discuss their resilience and preparedness for climate change, particularly extreme weather events that could disrupt both their own operations and supply chains.

Although it appears that the US will not be furthering climate regulations or required disclosures, many European, Asian and even some US individual states do require disclosure. US companies with global revenues will therefore still need to collect, monitor and disclose data on these issues.

1. Analyses of U.S. Homeowners Insurance Markets, 2018-2022: Climate-Related Risks and Other Factors (January 2025)

Continued but slow progress in overall energy markets

The IEA Global Energy Market Review[2] for calendar year 2024 showed that demand for energy is still rising (+2.2% in 2024) but energy-related CO_2 emissions are rising more slowly (+0.8%). Global GDP was +3.2% in 2024, meaning energy efficiency is still improving. We are, however, yet to see declines in absolute emissions globally, which are required if we are to successfully combat climate change.

Renewables accounted for 38% of growth in total energy supply (and nuclear an additional 8%). Encouragingly, oil is now below 30% of total energy demand for the first time, 50 years after peaking at 46%.

Electricity demand continues to outpace overall energy growth. This is helping to reduce overall energy intensity levels and break the direct correlation of GDP growth and GHG emissions as there is a considerably higher share of low-carbon energy in electricity generation than in the overall energy supply.

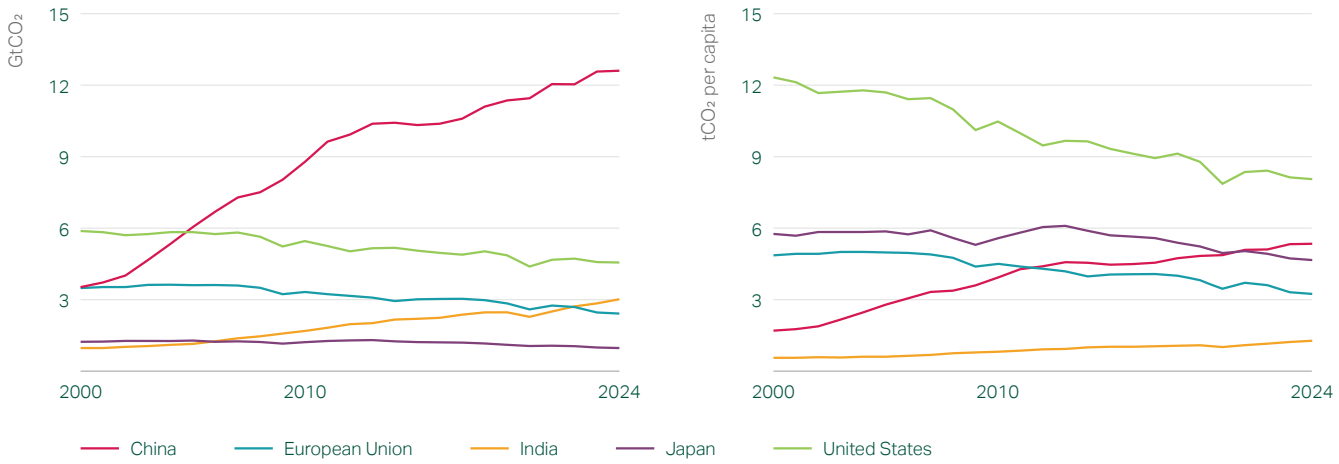
Electricity demand growth of 4.3% included strong growth in EVs and datacentres (25% and 20% respectively). Global electricity consumption in buildings increased by more than 600 TWh (5%) in 2024, accounting for nearly 60% of total growth in electricity consumption. Key drivers included rising demand for air conditioning, which was bolstered by severe heatwaves in countries such as China and India, and demand for power from new data centres.

80% of the increase in electricity generation was from renewables (+700GW, a new record) and nuclear. Renewables now account for 40% of total electricity generation. This continues to be driven by the falling cost of renewables (and particularly solar), enabling them to be competitive or, in many cases, cheaper than fossil fuel alternatives.

China continues to be the leader in low-carbon technologies, adding the majority of wind and solar PV generation (over 400GW of the total 700GW), and two of the six nuclear projects completed around the world in 2024. They have a further six nuclear projects under construction. China also has the highest number of EV and heat pump sales globally.

As Figure 1 shows, China is still the largest absolute emitter in total with the US being the second largest and India now taking third position. On an emissions per capita basis, however, the US is the largest (although declining), with China rising to second position. India is, by a large margin, one of the lowest of the key regions on an emissions per capita basis. This is a particular problem given India is still rapidly increasing absolute emissions as both the population and standards of living continue to increase. Although China and India are making considerable investments in low-carbon energy, they are also having to invest in fossil fuels to meet demand.

Figure 1. CO_2 total emissions and CO_2 per capita emissions by region, 2000-2024



Source: IEA

2. https://www.iea.org/reports/global-energy-review-2025

While global investment in renewables has nearly doubled since 2010, investment in electricity grids, at around $300 billion a year, has barely changed. This needs to double by 2030 to over $600 billion a year to cover the necessary overhauls, according to the IEA.[3]

According to the Bloomberg NEF New Energy Outlook 2024 report[4], the world will need to nearly double its grid network to 111 million km, equivalent to almost three-quarters of the distance to the sun. The price tag for this overhaul will be about $24.1 trillion between now and 2050. Almost half of the estimated $24.1 trillion will need to be spent on distribution networks to homes and businesses, followed by $9.6 trillion on high-voltage transmission. Investment in electric vehicle charging accounts for the remainder.

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 are essential enablers of increased electrification, which is required 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, evaluate their progress and encourage best practise where required.

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 and evaluate their progress on these issues. Where required, we are prepared to be a critical friend and encourage them to move towards best practice.

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. Engagements with portfolio holdings have revealed specific examples of the financial benefits of climate preparedness, from increased resilience to reduced costs of energy.

Many of our equity holdings do not have a significant carbon footprint in their own operations, but 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.

3. https://www.reuters.com/sustainability/climate-energy/eu-power-grid-needs-trillion-dollar-upgrade-avert-spain-style-blackouts-2025-05-05
4. https://www.bloomberg.com/news/articles/2024-05-21/grid-investment-must-outpace-renewables-for-net-zero-bnef-says

Governance

We have one purpose: to protect and grow our clients' wealth for the future.

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. Our people are central to protecting and growing our clients' wealth. We have a strong commitment to fostering a culture of openness and inclusivity to drive business success.

Since our company was founded over 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.

Our stewardship and engagement work supports our analysis of companies and contributes to our understanding of our investments and ability to meet our clients' financial objectives. For example, we look at the durability of growth prospects, competitive positioning, quality of management, governance structures and capital allocation.

We also incorporate climate issues and other material environmental or social risks. 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. We expect companies to have assessed the physical risks of climate change and their resilience and preparedness for events such as wildfires, drought or flooding.

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. We believe in providing a sense of security through common-sense investing.

2 **Partnership**

We believe in the power of partnership. This cultural mindset is deep-rooted in our team. The investment team comprises 26 experienced investment professionals who are committed to providing a personal service to all our clients. We are 100% owned by our team, creating stability and focusing us on achieving our 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 long-term success of these businesses, taking the time to understand and support their strategy.

Governance structure

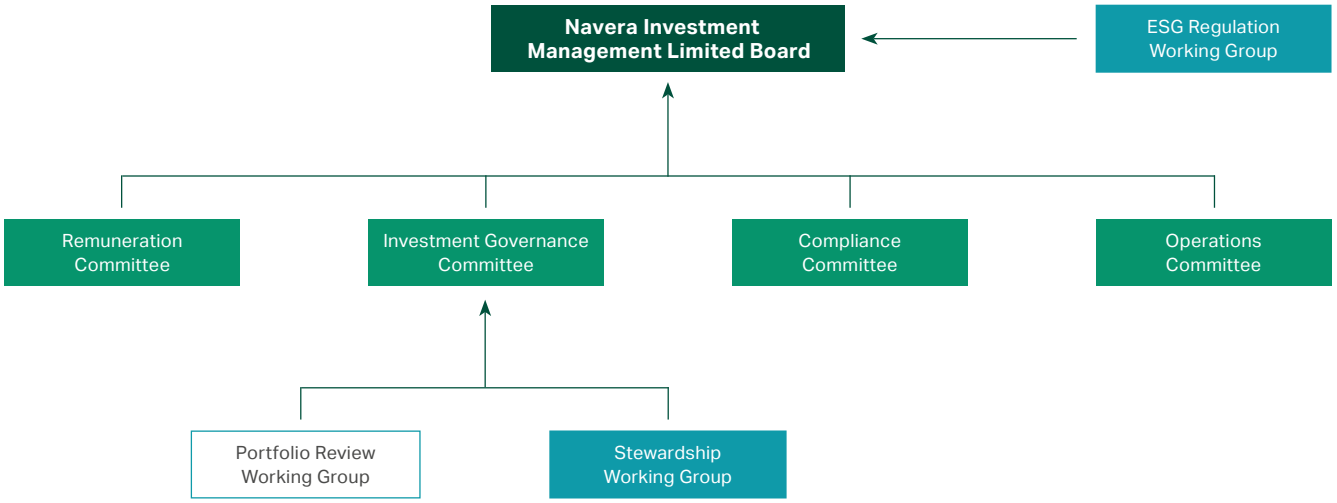
Our board has four directors: the Executive Chair, Mark Rayward, and the Chief Executive Officer, Chief Investment Officer and Chief Operations and Technology Officer. Our Compliance Officer/MLRO is an attendee. The board oversees the entire business, including strategy, resourcing and risk management. This includes the management of climate-related risks and opportunities. The board delegates specific responsibilities to board committees and working groups (see Figure 2). 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.

Figure 2. Structure of relevant committees and working groups



Forum	People	Description	2024 climate-related actions
NIML Board	**Chair**: Mark Rayward (Exec Chair) **Membership**: four, plus one attendee **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.
Investment Governance Committee	**Chair**: Ross Ciesla (Chief Investment Officer) **Membership**: Deputy CIO, Head of Research, Head of Investment Support, Senior investors, Compliance Officer **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) **Membership**: Senior investors, CEO, Deputy CIO, Head of Research **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. Monitors ESG-related data providers.	• Identified engagement priorities, including climate change mitigation and adaptation and natural capital. • Full internal review of voting and engagement policy. • Encouraged more timely emissions data from data providers.
Portfolio Review Working Group	**Chair**: Will White (Investment Partner) **Membership**: CIO, Investment Support analyst **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.	• Monitoring of client outcomes from ESG risk perspective including monitoring carbon intensity per portfolio.
ESG Regulation Working Group	**Chair**: Sam Cotterell (Investment Partner) **Membership**: three board members, Compliance Officer/ MLRO **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 NIML.	• Increased resourcing for stewardship and ESG-related matters. • Monitored overall emissions and published second Climate Report.
Compliance Committee	**Chair**: Alison Fawcett (Compliance Officer/MLRO) **Membership**: Chair of Executive Management Committee, Chief Operations and Technology Officer, compliance managers, operations manager **Meetings**: four	Oversees compliance, risk, regulatory reporting and the regulatory timeline, including ESG issues such as climate change.	• Oversight from a regulatory implementation perspective.

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 our 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 70% of our employees, including all eligible[5] members of our investment team and other senior staff, were equity holders in the business at the end of 2024. In 2025 we are increasing this further to all employees with over a year's service through a Share Incentive Plan. Share ownership facilitates an appropriate level of long-term incentive, particularly as discretionary investment management is our sole business.

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.

5. Eligible means all those who have been with the company for more than one year.

Our portfolios

Strategy

Incorporating climate change considerations is a natural part of our analysis

We are an independent and employee-owned discretionary investment management business. We have always focused on a single objective – to protect and grow the value of our clients' capital ahead of inflation over the longer term.

Given this long-term approach, 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 an important role to play in the journey to a low-carbon future and net zero by engaging with and encouraging best practice from our investee companies. Climate change 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.

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

Net Zero Asset Managers Initiative

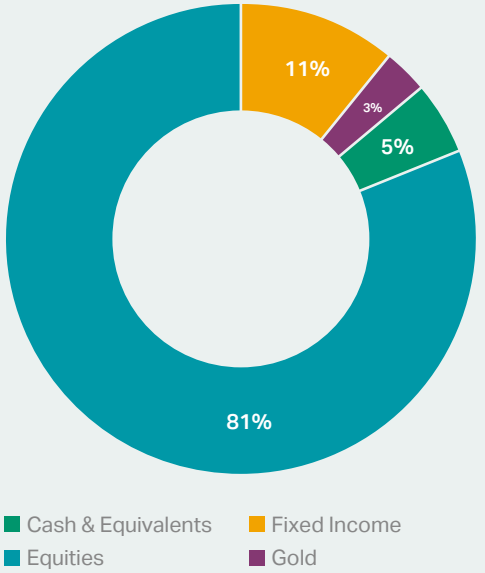
CDP

PRI Principles for Responsible Investment

Asset class considerations

Our climate considerations should be viewed in the context of the relevant holding period and weighting 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.

Figure 3. Breakdown of assets under management by asset class



Non-equity holdings

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 fixed income holdings are 11% of our total AUM as shown in Figure 3. We typically hold investment grade, reasonably short-term debt. Nearly 75% of our fixed income holdings have a maturity of less than 5 years and under 1% have a maturity of over 10 years.

Our corporate bond holdings tend to be held to maturity. Our prime consideration is whether the coupon and par value can be paid over the time horizon of each 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 available financial return expected from these assets and that any identified ESG risk, including physical or transition risk from climate change, 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. 56% 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. This currently applies for over a quarter of our corporate fixed income AUM.

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.

For risk management reasons, 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. The UK and European governments have set net-zero targets, whereas the US has requested to leave the Paris agreement (for the second time) and is expected to do so in 2026. US Treasuries account for 14% of our sovereign debt (i.e. <5% of our fixed income holdings and <0.6% of total AUM). We do not currently consider government debt in our reported metrics 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 hold post-2019 responsibly sourced gold and to promote high ethical standards in the gold market.

Equity holdings

The equity investments we make are intended to be held for at least five years and often considerably longer. 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. As show in Figure 3, equity holdings were 81% of our AUM at the end of December 2024 and are therefore the focus of our research and risk allowance. The majority of this section is therefore of particular relevance to our equity holdings.

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 extreme weather events, rising sea levels 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.

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. 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, although disclosure could be improved in some cases.

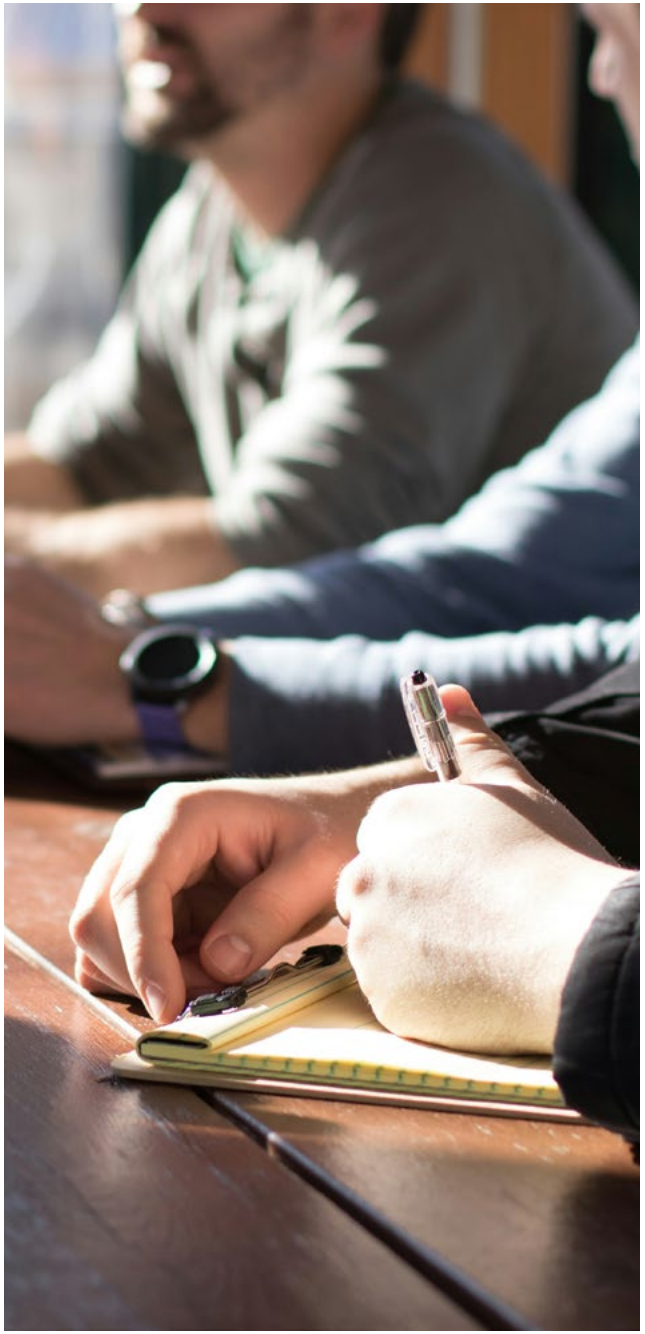
If we deem a risk to be material for a company that has little appetite for improvement or constructive engagement, it is highly unlikely that we would invest in that business. If we already had a holding, we would look to exit. Where we sell holdings outright, we always write to management to explain our rationale.

Our approach to climate scenarios

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.

We have considered scenario analysis in two different ways:

- Qualitative analysis, considering physical risks, transition risks and opportunities
- Quantitative analysis, specifically Climate Value at Risk and Implied Temperature Rise.



Qualitative scenario analysis

We have undertaken qualitative analysis of physical and transition risks for our investment holdings using scenarios from the Network for Greening the Financial System (NGFS). We are not intending to judge which outcome is most likely but consider the potential impact on our portfolios of three different scenarios as described in Figure 4.

Figure 5. Scenario analysis: physical risks for our investment portfolios

Category	Identified risks	Net Zero 2050 1.5°C scenario		Delayed Transition 2°C scenario		Current Policies 3°C scenario		Mitigation strategies for our portfolios
		L	S	L	S	L	S	
Acute	Impact from extreme weather events such as floods, drought, hurricanes or cyclones.	Medium	High	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

L = Likelihood of issue under this scenario S = Significance: level of financial risk to corporates under this scenario

Figure 4. NGFS scenario overview

Net Zero 2050 1.5°C scenario	Stringent climate policy and focus on innovation enable global net zero CO_2 emissions by 2050. Reasonably orderly transition.
	Carbon prices High
	Technology change Fast change
	Temperature change progression Rises to a peak in mid-2030s, before reducing slowly.
Delayed Transition 2°C scenario	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.
	Carbon prices No change to 2030 and then high
	Technology change Slow change before 2030; Fast change post 2030
	Temperature change progression Rises to a peak c.2050 before slowing or reducing.
Current Policies 3°C scenario	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 No change
	Technology change Slow change
	Temperature change progression Temperature continues to rise, surpassing 2°C by 2050 and continuing to rise to 3°C or above.

Figure 6. Scenario analysis: transition risks for our investment portfolios

Category	Identified risks	Net Zero 2050 1.5°C scenario		Delayed Transition 2°C scenario		Current Policies 3°C scenario		Mitigation strategies for our portfolios
		L	S	L	S	L	S	
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.
		● ●		●		●		
	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 low-carbon energy, proactive with supply chains for compliance.
		● ● ●		● ●		●		
Technology	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 ● Long-term

L = Likelihood of issue under this scenario S = Significance: level of financial risk to corporates under this scenario

We believe that all companies need to be aware of their physical and transition risks with regards to climate change. Collecting data and building robust policies and processes to reduce emissions, as well as disclosing this information, can offer financial advantages. We encourage companies to focus on potential financial benefits, such as lower costs from renewable energy and avoiding financial penalties that may arise from regulation, such as carbon taxes, or customer preferences for lower-carbon products. Financial loss from failing to prepare adequately for the physical risks of climate change is also becoming a reality.

We have engaged with companies individually on these topics. The most material issues in this area will vary by company, as will the actions they need to take. For example, for some companies their manufacturing footprint will be most material, while for others their supply chain structure will be more relevant. Our focused approach and deep understanding of our investee companies' operations helps us to identify these differences.

We recognise that it takes time for companies to put systems in place to measure, monitor and manage their broader environmental risks. Although our investee companies now disclose their own operational emissions, the broader emissions value chain is still generally less well understood and monitored. We continue to focus on what steps companies are taking to collect the data they need and to encourage their supply chains to have robust plans in place to reduce emissions.

Example

Engaging with companies for better disclosure and target setting

Company
Fiserv

Asset class	**Sector**	**Geography**
Listed equities and fixed income	Financial services	North America

In 2021, at our first meeting with Fiserv's Head of CSR, we discussed their efforts on ESG and reporting. Their existing report focused heavily on social issues and lacked any substantial quantitative data. Fiserv assured us that they were working to collect this data and aimed to submit emissions data to the CDP in 2022.

This disclosure was achieved as promised, which we raised in our post-AGM letter to the chair in 2022. We also noted that they had begun reporting in line with SASB and GRI frameworks, in which they disclosed their greenhouse gas emissions across Scope 1 and 2 for the first time.

When we met with the head of CSR again, he highlighted that our feedback had been important and helpful, and he encouraged us to continue sharing our thoughts. Now that Fiserv had begun measuring its emissions and established a baseline, we asked them to begin setting GHG emissions reduction targets. We were told that this was already being considered and could be in place within two years.

In Fiserv's 2024 CSR Report we were delighted to see a GHG target aiming to achieve a 50% absolute reduction in Scope 1 and 2 emissions by 2030 compared to a 2019 baseline published. The head of CSR again mentioned the role that our discussions played in highlighting the importance of these targets and encouraging management to set them.

Figure 7. Our emissions data engagement with Fiserv

In 2024, we increased our dialogue with companies on physical risks and resilience. This is in response to extreme weather events becoming a more frequent occurrence as the global average temperature continues to rise ahead of many scientists' expectations.

Example

Engaging with companies on physical risk and resilience

Companies
Labcorp and Intuitive Surgical

Asset class	Sector	Geography
Listed equities	Healthcare	North America

Engagement for information

In our meetings with the teams at Labcorp and Intuitive Surgical we wanted to be sure that they were preparing for extreme weather events, which are becoming more frequent in the US. Senior leaders at both companies reassured us that this was indeed being considered.

As a critical provider of diagnostic testing in the US, Labcorp has focused on site-by-site resilience against hurricanes and floods (e.g. sandbags, boarding and back-up generators), whereas Intuitive Surgical's efforts have been around diversification of its supply chain to ensure vital medical supplies reach hospitals. For example, basic drapes (essential plastic sheets that keep surgical robots sterile during procedures) were solely sourced in the Dominican Republic. Hurricanes could disrupt this vital supply chain, so Intuitive Surgical is now manufacturing small volumes of drapes in their Mexican factory. Both also referenced the need to utilise data centres in multiple locations on different electricity grids.

Company example

Improvements in disclosure and evidence of cost savings

Company
Align Technology

Asset class	Sector	Geography
Listed equities	Healthcare	North America

We were delighted that Align Technology disclosed global GHG emissions for the first time during 2024, reporting a notably lower emissions profile than had been estimated by third parties. We have engaged with the company many times on the topic and will continue to encourage further disclosure and target setting.

Align is increasing its solar capacity and now generates over 2000 MWh annually, resulting in nearly $400,000 in annual utility savings. The company plans to double its solar capacity to roughly 4,000 kW, which is expected to drive more than $1 million in annualised utility savings.

Since 2016, Align has been able to reduce the amount of polymer content used in their aligner fabrication process by 50% and reduce the amount of resin used in aligner moulding by 33%. The company continues to develop new production processes and intends to reduce this further. The use of intra-oral scanners has also reduced the need for polyvinylsiloxane (PVS) impression material by 80% per case since 2018.

In addition, 100% of Align's plastic scrap and waste from its Chinese operations is reused in floor tiles, and waste from its Mexican and Polish production facilities is used by third parties for energy generation.

Such examples highlight the meaningful cost savings that can be found through measures that reduce environmental impact.

Structural growth opportunities

In a challenging global backdrop, we believe we need to find companies with predictable, compounding growth in order to achieve our clients' financial objectives. We look for companies that have strong balance sheets, durable and resilient growth, and strong moats to protect their businesses and sustain profitability. Companies able to successfully harness opportunities from the energy transition, from a revenue and/or cost perspective, could benefit financially.

Figure 8. Scenario analysis opportunities for our investment portfolios

Category	Identified opportunities	Net Zero 2050 1.5°C scenario		Delayed Transition 2°C scenario		Current Policies 3°C scenario		NIML Strategy
		L	S	L	S	L	S	
Innovation	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.
		● ●		● ●		● ●		
Efficiency	Cost reduction from focus on resource efficiency — e.g. reducing waste, water usage, circular economy and low-carbon 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 low-carbon energy sources, cut waste and obsolescence.
		● ● ●		● ●		● ●		

● Short-term ● Mid-term ● Long-term

L = Likelihood of issue under this scenario S = Significance: level of financial risk to corporates under this scenario

One of the ways we find potential investment opportunities 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.

Central to the thinking behind our **All change: wire and rewire** structural growth driver 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	
Revenue opportunities	
Company AMETEK	
Sector Industrials	**Geography** North America

AMETEK is a leading global manufacturer of mission-critical electronic instrumentation and electromechanical devices. Through its advanced technologies – including specialised instruments, control systems, and analytical tools – AMETEK plays a vital role in accelerating the clean energy transition, improving resource efficiency and advancing global electrification efforts.

For instance, the RTDS Simulator from AMETEK supports large-scale renewable energy integration in Australia, while the CarbonStream Subsea CO_2 Meter enables reliable monitoring for carbon capture and storage projects. These innovations help address some of the most pressing challenges in decarbonising the energy system.

AMETEK's technologies are also instrumental in the development of high-voltage direct-current (HVDC) transmission systems, which are essential for incorporating more renewable electricity into power grids. HVDC systems demand accurate, real-time data to safely and efficiently regulate energy flow. To meet this need, one of the world's largest offshore wind farms in the UK is utilising an AMETEK computing solution. This embedded computing card provides the real-time control necessary to transmit wind-generated electricity reliably and with minimal losses.

AMETEK's commitment to sustainability is also evident in its own operations. Since 2019, the company has achieved a 20% reduction in absolute Scope 1 and Scope 2 greenhouse gas emissions and a 10% improvement in energy intensity, underscoring its dedication to reducing environmental impact across its value chain.

We also consider **Regulation** to be a structural growth driver and environmental regulation is a key part of this. Although the new administration means that the US will not be furthering climate regulations or required disclosures (and might water down existing ones), many European, Asian and even some US individual states do require disclosure. US companies with global revenues will therefore still be required to collect, monitor and disclose data on these issues.

To reduce the administrative burden on companies, the EU has announced revisions (under the 'Omnibus package') to its environmental regulation. However, the core elements of the CBAM, CSRD and CSDDD remain. In the UK, the Labour government has confirmed plans for the UK CBAM to start from 1st January 2027 and other countries are also considering whether to respond with their own carbon taxes on imports, including Australia, Malaysia, Serbia, Turkey and even the US, according to some reports.

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 discuss regularly 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.

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.

Figure 9. Companies are supporting the real economy to transition through various means

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	Providing funds to invest in new, unproven technologies
• AMETEK • Bunzl • Cadence Design Systems • DSM-Firmenich • Synopsys • Themo Fisher Scientific	• Themo Fisher • Scientific • Adobe • Bunzl • Intuit • LSEG • Kerry	• CDP supply chain programme – Avery Dennison • Microsoft • Alphabet • Mastercard	• Amazon • Microsoft • Alphabet	• Microsoft – Climate Innovation fund • Amazon – Climate Pledge fund

Quantitative scenario analysis

To provide forward-looking metrics, 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.

1. Low carbon transition – value at risk

The Morningstar Sustainalytics Low Carbon Transition – Value at Risk (LCT-VaR) model we use 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.

Figure 10. Percentage of enterprise value (including cash) at risk under different scenarios

	IPR FPS	IEA NZE	IPR RPS	Coverage
Core strategy portfolios*	4.9%	3.9%	2.2%	81%
All portfolios	4.9%	4.0%	2.1%	80%
MSCI AC World Index	5.0%	6.1%	3.8%	92%

The data covers our corporate holdings only (equities and fixed income) and does not include sovereign or supranational debt, funds, gold or cash.

*Core strategies include our pooled vehicles and discretionary portfolios 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 less capital-intensive companies, it is not surprising that our companies are less likely to be affected by transition risks.

NGFS scenarios

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: Net Zero 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.

Please see Figure 4 on page 14 for further details.

2. Implied temperature rise

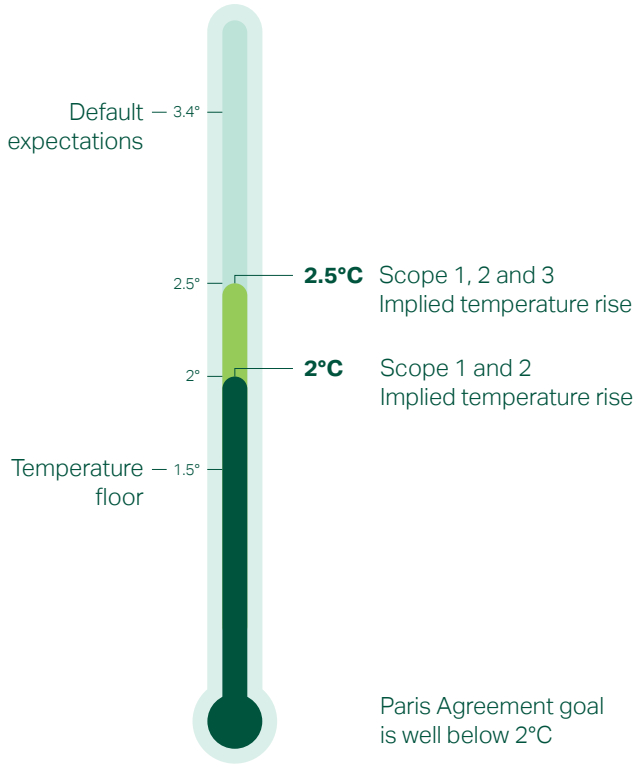
For our implied temperature rise analysis, we used Bloomberg data that follows the CDP/WWF methodology.[6] The data covers our corporate holdings (equities and fixed income) and does not include sovereign or supranational debt, funds, gold or cash.

Individual company scores allow assessment of which companies are being ambitious in their climate goals, and which companies we should consider engaging with to ensure that strategies are being implemented to use only their fair share of carbon.

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 a Scope 1 and 2 (operational emissions) basis, our portfolios score 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 2.5°C. On an operational emissions basis, the portfolio is therefore close to alignment with keeping temperatures below 2°C. We will continue to engage with companies to improve disclosure and targets and work towards aligning fully with the Paris agreement.

Figure 11. Implied temperature rise for our core strategies



Weighted average temperature scores for our core strategies based on the CDP/WWF methodology

The full table of weighted average temperature scores and the enterprise value and cash emissions weighted temperature score for both core strategies and total AUM is shown in the Appendix: Implied temperature rise.

Implied temperature rise

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. The company's GHG reduction target implies an annual reduction rate that is consistent with an ambition heading toward X°C, under the assumption that all companies behave the same. It does not provide: (a) insights into the company's operational or financial performance, (b) the company's historical GHG emissions or c) evidence of a credible climate transition plan to achieve those goals.

For companies with ambitious and robust targets, the best possible score is 1.5°C (the 'temperature floor'). For companies with no forward-looking targets that meet the criteria, a default score of 3.4°C[6] is used. This implies that these companies are expected to decarbonise along a 3.4°C pathway, consistent with current global policies. This includes some of our companies that have targets but where they are not verified by SBTi or submitted to CDP.

6. CDP–WWF Temperature Scoring Methodology

Disclosure and targets for our core equity holdings

We are pleased that all of our current equity holdings now monitor and report on their emissions. This is despite many of them being based in the US, where there are no federal requirements for them to do so. However, many of them operate in other countries (or US states) where reporting is mandated and others recognise the potential risks and opportunities associated with greenhouse gas reporting.

All of our companies now monitor and report on their emissions.

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 Figure 12). Many of these are science based and we encourage our companies to have their targets approved by the SBTi.

We monitor our companies' performance against their emissions targets. We are delighted to note that some portfolio companies have been able to adopt more ambitious targets during 2024. These include **Kerry**, who have increased their Scope 3 target to a 1.5°C aligned scenario with absolute reduction of 30% by 2030 and **Bunzl** who have added an absolute target reduction of Scope 1 and 2 emissions by 90% by 2050 to their existing 2030 target. This has moved them from being aligned with SBTi in an under 2°C scenario to being aligned with 1.5°C. We are pleased to note that a further two companies (**Broadridge** and **Marsh & McLennan**) have moved from 'Committed to setting SBTi targets' to 1.5°C aligned.

As part of their emission reduction plans, many of our equity holdings have embraced the use of low-carbon energy in their own operations. Twenty-one companies disclose the amount of renewable energy used across their operations and 20 have targets on renewable use, including 7 that have already achieved their 100% renewable targets.

Figure 12. Emission reduction targets of core equities held

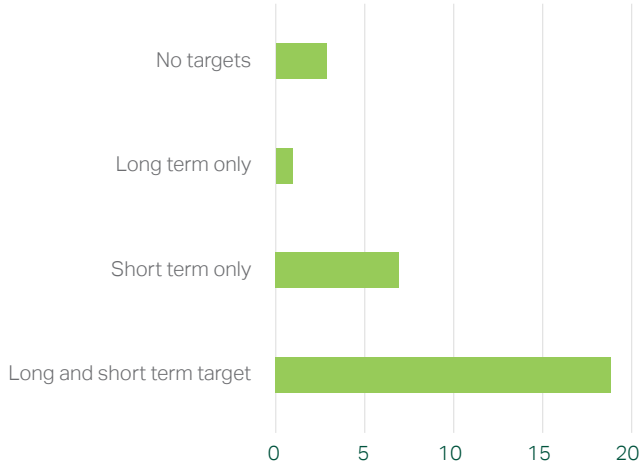
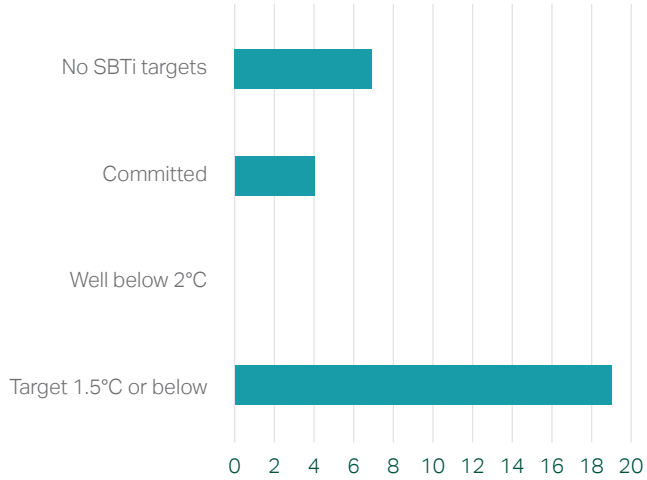


Figure 13. Science-based target initiative commitments of core equities held

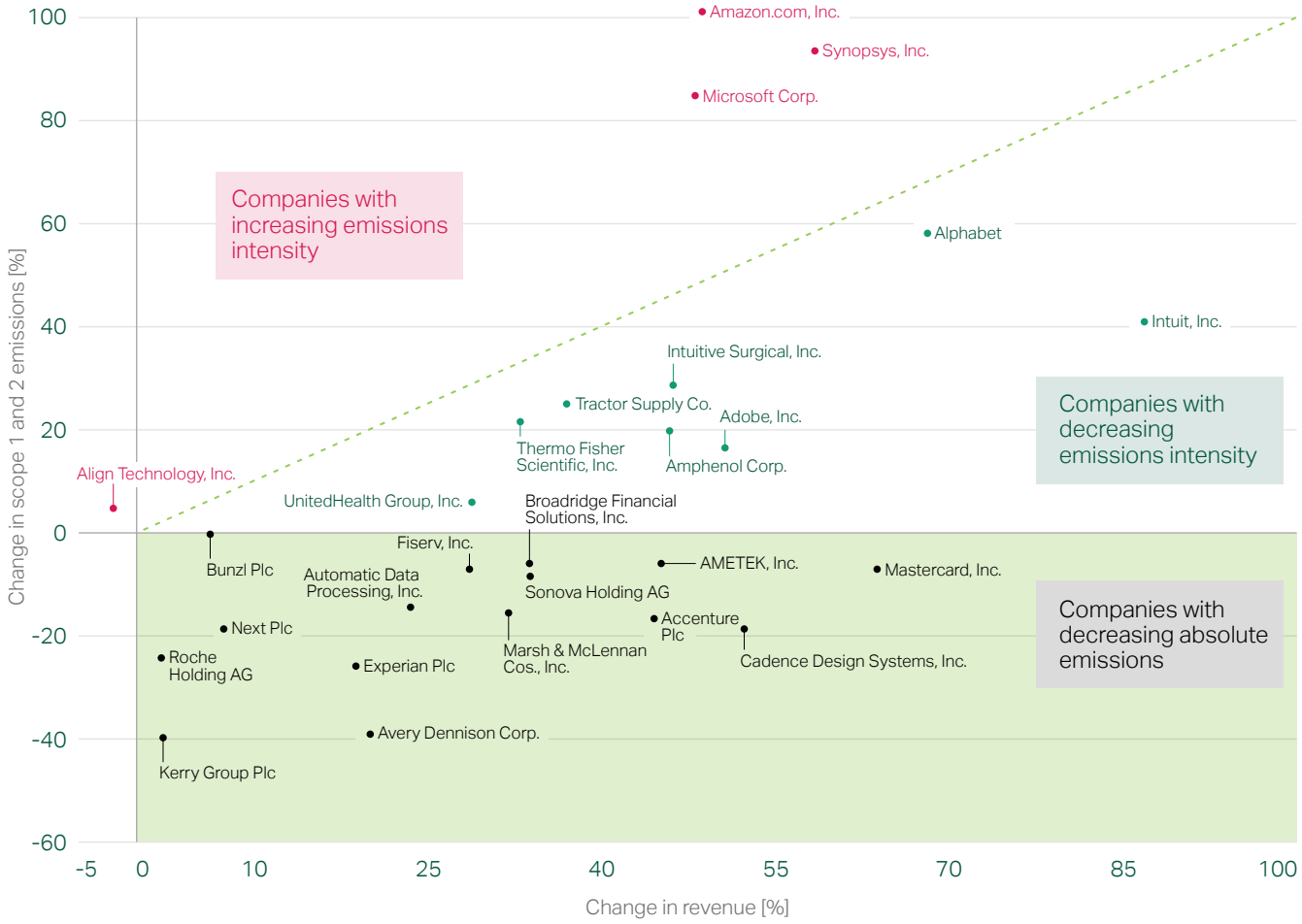


Committed — companies which have committed to set approved science-based targets by SBTi within two years

Breaking the link between growth and increased emissions

As discussed, we invest in businesses that exhibit compounding revenue growth and often have structural tailwinds of growth behind them. Some of our companies also make small tuck-in acquisitions as part of their growth strategy. We therefore often look at emissions of companies compared to revenues to help compare performance across companies. We are delighted that many of our companies have managed to break the link between growth and increased emissions. Figure 14 shows that the vast majority of our companies have reduced their emissions intensity on a revenue basis (shown below the dotted line) over the past four years. In fact, half of the companies owned at the end of 2024 have grown revenues while simultaneously reducing their operational emissions. These are highlighted in the bottom right quadrant of Figure 14 and include **Accenture**, **AMETEK**, **Automatic Data Processing (ADP)**, **Avery Dennison**, **Broadridge Financial Solutions**, **Bunzl**, **Cadence Design Systems**, **Experian**, **Fiserv**, **Kerry Group**, **Marsh & McLennan**, **Mastercard**, **Next**, **Roche** and **Sonova**.

Figure 14. Growth in revenue versus growth in operational emissions for core equity holdings (2020-2023)



Source: Morningstar Sustainalytics

Please note that where companies have taken part in more significant acquisitions or corporate restructuring, they have not been included in this analysis (i.e. LSEG, DSM-Firmenich and Labcorp). Data is from 2020-2023 to reflect comparable revenue and emission data. Comparable data for Align and UnitedHealth Group is only available for 2021-2023 and data for Intuitive Surgical is from 2021-2024.

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 2024, we held over 150 meetings with senior leaders from the companies we hold (including 35 specific 1:1 ESG meetings with our companies), voted on 740 proposals at company meetings and sent 28 letters as part of our efforts to work with companies for long-lasting change. Meetings with 13 of our companies included specific climate issues, often alongside other environmental, social and governance topics.

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. Clear communication with stakeholders about why certain issues are value creative for a company in the long term is essential in this environment. We continue to promote a focus on materiality for each individual business model and not box-ticking exercises.

In the light of continued extreme weather events and increasing global temperatures, we are having more discussions with companies about the resilience of their businesses and supply chains. Examples of climate preparedness in some of our healthcare companies' supply chains are given earlier in this section. We also discussed resilience and disaster planning with **Tractor Supply** as nearly 80% of its merchandise comes from just nine distribution centres, making it potentially vulnerable to disruption.

Meetings with one third of our companies included discussions on specific climate related issues in 2024.

Case study

Company
Tractor Supply

Asset class	**Sector**	**Geography**
Listed equities	Consumer discretionary	USA

Given the likelihood that extreme weather events will become more frequent due to climate change, we discussed business continuity with Tractor Supply. Their ability to operate successfully through the pandemic showed that their plans and processes allow them to adapt quickly, but they have also put their business continuity plans to the test during several tornadoes.

As part of its customer-centric approach, the company aims to be the last store to close during emergencies and first to reopen. Tractor Supply's logistics teams monitor the weather and global events for anything that might disrupt their supply chains. They also have processes to check on team members when extreme weather events hit and can offer practical and financial assistance if necessary. As they have grown, they have increased their number of distribution centres, so deliveries can be managed from different centres when necessary. They also have 16 smaller mixing centres that can cover distribution. The company also commented that, in addition to financial benefits, investing in renewables has helped them to cope with grid failures.

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. One such meeting in 2024 was with **Avery Dennison**, where it was clear that various advances in technology are giving an opportunity for both environmental and financial benefits as well as questioning some widely held assumptions about best practice.

Advocacy and collaboration

We believe in fostering strong relationships with our investee companies and therefore often prefer to have a 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.

In 2024, we signed the Global Investor Statement to Governments on Climate Change to encourage governments to set credible, clear pathways and regulations to help economies move towards net zero.

Engagement example

Company
Avery Dennison

Sector	**Geography**
Materials	USA

As part of our ongoing corporate engagement activities, we held a meeting with Avery Dennison, a global provider of digital identification technologies, including radio-frequency identification (RFID) solutions. The discussion provided insight into the company's approach to sustainability, particularly its roadmap to achieving a 70% reduction in Scope 1 and 2 greenhouse gas emissions by 2030, from a 2015 baseline.

Environmental impact of RFID production

RFID tag manufacturing has historically been associated with environmental challenges, particularly due to the use of harmful acids in the antenna etching process. In response, Avery Dennison is working to replace chemical etching with an internally developed laser cutting technology, which the company classifies as a trade secret. While laser technology is not new, recent advancements over the past three years have significantly improved quality and reduced costs, making the process more feasible at scale. The laser-based process is expected to lower operating expenses but requires a higher capital expenditure investment upfront.

Manufacturing efficiency improvements

The company is also focused on reducing the energy intensity of its manufacturing operations. A key initiative includes transitioning from natural gas powered drying ovens to more efficient infrared drying technologies. These upgrades are designed to lower energy consumption and emissions while maintaining production efficiency. Notably, all capital expenditures for sustainability initiatives are assessed against Avery Dennison's standard return on total capital threshold of 18%, ensuring alignment between environmental objectives and financial discipline.

Paper sourcing and life-cycle assessment

Another topic of discussion was the environmental footprint of recycled versus virgin paper. While recycled paper is often viewed as the more sustainable option, recent research suggests it can be more carbon-intensive due to the energy and water demands of the recycling process. Avery Dennison has conducted an in-house life-cycle assessment, which found that several types of recycled paper have a higher environmental impact than certain virgin paper alternatives. Based on these findings, the company is prioritising deforestation-free virgin paper sourcing over recycled paper, as part of its broader sustainable materials strategy.

Our portfolios

Risk management

Our focused approach allows us to understand the material issues facing each individual business.

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 all risks in investment portfolios including environmental and social risks.

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 the long term to provide above-inflation returns. 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 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 present 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 compounding 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, are capital intensive and/or are overly cyclical and therefore do not comply with our investment philosophy.

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 of our core strategies are considerably lower (85-90%) than the MSCI AC World Index. Similarly, most of our companies do not have a considerable impact on nature in their own operations but we do have exposure to food and beverage ingredients companies where this is a material issue.

This does not mean that we are complacent: in our view, all companies have a duty to reduce emissions in their own operations and protect the earth's natural resources that we are moderately or highly dependent on for over 50% of world GDP.[7] 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.

7. https://www.pwc.com/gx/en/issues/esg/sustainability-compliance-to-reinvention/corporate-sustainability-reporting-directive/managing-nature-risks-from-understanding-to-action.html

The 26 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 and other material social and environmental issues. Having a focused approach allows us to fully understand the material issues facing each business. We then spend time understanding the 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 and boards and management teams that are concentrating on building the long-term success of the business. This means that alongside strategic positioning, they should have a clear understanding of their environmental footprint, the physical risks from climate change and opportunities or risks presented by the energy transition. In addition, they should understand the importance of securing the required talent in their employee base, ensuring resilience in supply chains and upholding the human rights of workers.

A good understanding of these issues and strong governance practices around them tend to lead to greater resilience. Companies are more likely to be on the right side of regulatory requirements, consumer perception and also have a fuller understanding of their own business so that when the unexpected happens, they can adapt more quickly and with more confidence.

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 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 in the most material environmental and social risks that they face.

Building our expertise

Environmental research and best practice, along with other sustainability topics, is developing quickly and we therefore aim to constantly 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, members of the TNFD forum and take part in relevant collaborative engagements. We are proud to be listed as a signatory to the UK Stewardship Code for the fourth year running in 2024.

> We aim to constantly develop our thinking and seek out best practice from industry groups and experts.

During 2024, sessions attended by members of our investment team included those organised by:

- Brokers: Bernstein, Jefferies, JP Morgan, Redburn, Stifel, TD Cowen and UBS.
- Industry bodies and regulators: the CFA Institute, Principles for Responsible Investment (PRI), International Corporate Governance Network (ICGN), Personal Investment Management & Financial Advice Association (PIMFA), and the Financial Conduct Authority (FCA).
- Global organisations: the CDP and Taskforce on Nature-related Financial Disclosures (TNFD).
- ESG data providers: Morningstar, MSCI ESG, ENCORE.

Feedback and key points from such sessions are provided to the wider investment team at our weekly investment team meeting and notes are saved in our research database.

Example

Changing regulatory landscapes

Given the continued pace of change in regulation, we often seek external guidance and training to ensure we understand the latest developments and implications for our holdings. In 2024, the related areas we concentrated on were EU regulations and potential changes with the incoming Trump administration.

We attended several calls on upcoming regulations that are likely to be material for our companies, including the EU Corporate Sustainability Reporting Directive (CSRD), and the EU Deforestation Regulation (EUDR). These regulations cover European companies and also non-EU companies that have significant business in the EU. We also attended sessions on the EU Carbon Border Adjustment Mechanism (EU CBAM), which will apply to certain goods imported into the EU. In early 2025, the EU announced their proposed Omnibus package, designed to simplify EU sustainability rules and reduce the reporting burden, particularly for smaller companies.

One call focused on the breadth and depth of the CSRD compared to the Non-Financial Reporting Directive (NFRD) it replaced. The CSRD covers 10 categories, 80 disclosure topics and 1,100 datapoints, including carbon, biodiversity, circular economy, water, waste, pollution, workforce and business conduct. Companies must apply a double materiality assessment when considering which topics to disclose against. Following on from the double materiality assessments we participated in with **DSM-Firmenich** and **Kerry** in 2023, in 2024 we participated in a double materiality assessment for **Experian** at the company's request.

Other sessions focused on the EUDR (delayed until at least December 2025) and its potential implications for our portfolio companies. The regulation imposes a reporting burden on companies importing any of the listed products or derivative products into the EU market. To satisfy this reporting burden, companies are increasingly having to conduct full mapping of their supply chains into all tiers.

The EU CBAM will initially focus on cement, iron, steel, aluminium, fertilisers, hydrogen and electricity. We are currently in a transitional phase, with financial obligations now delayed until 2027. Importers of these products will be required to purchase and surrender CBAM certificates based on the embedded emissions of their imported goods and the prices are tied to the average auction prices of the EU Emissions Trading System (EU ETS) allowances from the previous week. The proposed Omnibus regulation reduces the companies required to fulfil this regulation by 90%, even though approximately 99% of carbon should still be covered. In conjunction, EU ETS free allowances will phase down, with substantial impact on EU manufacturing companies producing these products. It is interesting that other countries, particularly in Asia, are taking note of the impact of this on companies that supply into the EU market. According to Jefferies, eight other countries are also considering a similar strategy to the EU CBAM.

In the run-up to and post the US election we also attended several calls on the likely changes to regulations under a Trump administration. It is clear to us that the politicisation and debate over environmental and social issues and the role of companies will continue. We continue to encourage companies to consider environmental and social factors that are *material* to their businesses. Importantly, they will need to clearly communicate the rationale behind these decisions and the impact on the long-term success of their company. We would also note that although the US will not be furthering climate disclosures, given that regulators in Europe, Asia and even some US individual states do require disclosure, US companies with global revenues will still be required to collect, monitor and disclose data on these issues.

Example

Assessing AI impact on energy usage and grid requirements

Actions and outcomes

- Engaging with our companies on the issue.
- Attending non-finance industry conferences focused on R&D in technology.
- Expert and broker sessions on capex expectations and energy demands from data centres, including for generative AI use.
- Expert and broker sessions on electricity grids, permitting developments, generation capacity (including nuclear) and developments in battery technology and other energy storage solutions.

Electrification has been key to decarbonisation efforts for many years. Now, in response to the rapid development of generative AI, the hyperscalers (Amazon Web Services, Microsoft Azure, Google Cloud Platform, IBM cloud and Oracle) are building many more datacentres, which are greatly increasing demand for electricity. Total capex spending by the hyperscalers rose from $156bn in 2023 to over $250bn in 2024, and is expected to reach $350bn in 2025. While electricity capacity has historically grown at about 3% per annum, demand from datacentres, AI and crypto is growing at over 20%. These contributed to the faster electricity demand rise of 4.3% in 2024. If this continues, by 2040 electricity will be scarce and increasingly expensive, even in the US, which currently enjoys significantly lower power prices than the UK and Europe.

We have engaged with companies on this issue, including **Microsoft** and semiconductor software design companies **Cadence** and **Synopsys**. We also attended a technology R&D conference that focuses on finding solutions to major emerging tech problems. Energy requirements were a key part of the discussions, and it was clear that substantial efforts are being made to reduce the energy used by semiconductors and AI models. This can already be seen in steep declines in energy required to train models and, importantly, for inferencing (AI models' responses to queries).

Both Cadence and Synopsys are key players in the drive to design less energy-intensive chips. Meanwhile, in an engagement with Microsoft, it was clear that the company remains committed to its climate goals, despite the increase in data centre energy demand, although they admit this will now be even more challenging.

The issue is also being discussed in terms of how to improve energy grids, for example by reducing bottlenecks in permitting new projects and connecting completed projects to the grid. The US has over 2,600GW of clean energy capacity awaiting connection to the grid, twice their total capacity at the end of 2023 of 1,280GW. We continue to monitor developments in battery and other storage technologies.

Nuclear power is increasingly being discussed as a solution that provides low-carbon baseload energy, and the largest cloud hyper-scalers announced nuclear energy partnerships and projects in 2024. Cost and time are still the main challenges for nuclear energy. Although it is increasingly understood that the localised cost of energy (LCOE) does not encapsulate total cost when intermittency and grid connections are considered, nuclear is still an expensive power source. This is compounded by lengthy approval processes. However, scale and efficiency in China have enabled them to make the LCOE of nuclear more competitive. Meanwhile, in the US, siting new nuclear plants at former coal plants is a cost-saving Inflation Reduction Act (IRA) initiative that has gained traction.

Example

Keeping up to date with best practice in climate reporting

Actions and outcomes

- CDP-PCAF Webinar on newly updated PCAF methodology
- Updated methodology for CDP-WWF Implied Temperature Rise

We attended a webinar hosted by PCAF which talked through their updated methodologies for calculating financed emissions. Of relevance to us was the new methodology on the sovereign debt, which we currently do not include in our financed emissions calculations. This new methodology uses PPP-adjusted GDP to attribute emissions to investors in government debt. We intend to incorporate this updated methodology in next year's report to provide a more comprehensive image of our total portfolio financed emissions.

We also adopted the new CDP-WWF methodology for Implied Temperature Rise (ITR) to reflect recent changes in climate science. The changes involved moving from a linear annual reduction model to a compound annual reduction model, adjusting the definition of short/medium/long term, setting a temperature floor of 1.5ºC instead of the previous 0ºC, and changing the default of no target to 3.4ºC from 3.2ºC. However, as of the cutoff date to prepare this report, our data provider Bloomberg did not update their scores to reflect the new CDP-WWF methodology. So, in the spirit of fair representation, we adjusted the Bloomberg data to apply the temperature floor of 1.5ºC and to change the default of no target from 3.2ºC to 3.4ºC.

Example

Increasing knowledge of nature-based risks which are inherently linked with climate

Actions and outcomes

- Natural Capital Opportunities, Risks and Exposure (ENCORE) Nature Module to assess broad natural-capital risks and opportunities.
- Preparation for CERES Valuing Water Finance Initiative (VWFI) engagement with Microsoft.
- Several engagements with investee companies on water and nature.

We attended the Jefferies Nature Capital Conference, which had speakers from the UK Centre of Ecology and Hydrology. They highlighted that according to the World Economic Forum Global Risks Perception Survey, biodiversity loss and natural resource shortages rank as the 3rd and 4th most severe risks in the next 10 years. The World Wide Fund (WWF) estimates that the total quantifiable economic value of water to be around $58tn per year. These insights point to potentially material financial dependencies that are relevant to our investee companies.

In 2024, we began exploring the potential use of ENCORE to assess the impact and dependency of our investee companies on nature and ecosystem services. While ENCORE provides a great starting point to understand our exposure, it has several limitations.

- Nature-related risks and dependencies are location specific, while ENCORE is based on industrial activity rather than a location-specific analysis.
- ENCORE is based on International Standard Industrial Classification of All Economic Activities (ISIC), while several of our investee companies can be categorised into different ISICs.
- ENCORE does not consider the nuances of company activities and operations.

That said, it is still a helpful tool that could be applied in future engagements and research for initial screening to understand where risks and dependencies exist for current or future investments.

We also began preparations for a collaborative engagement with **Microsoft** through the CERES Valuing Water Finance Initiative. Preparations included reviewing the CERES VWFI benchmark and assessing Microsoft's performance against this benchmark. This will allow us to focus on financially material aspects of water where Microsoft is behind industry standards, such as on water quality. Separately, in our own engagement with Microsoft in 2024, we were pleased to hear that their new AI datacentres will not use water for cooling. We asked them to provide more details in their next report about how this technology will work and whether older datacentres can be retrofitted with this technology.

In an engagement meeting with **Tractor Supply** we discussed their water usage, which has ticked up over the years. It was reassuring to hear that Tractor Supply is in active partnership with local authorities in drought-stricken areas to reduce their water consumption. Tractor Supply also works on restoring wetlands around rivers and lakes to replenish water.

Internal communications

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. Members of the team also frequently provide presentations and training sessions to colleagues. In 2024 these included:

- European regulation updates on areas such the Corporate Sustainability Due Diligence Directive, EU Deforestation Regulation (as well as digital-related acts) and their relevance to our holdings.
- Updates on regulatory and policy developments such as the UK anti-greenwashing and Sustainable Disclosure Regulations.
- Updates on our broader engagement activities, such as industry group commitments and collaborative engagements.
- Reporting for our own business such as our Climate Report and progress against our net zero commitments.

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.

The data points we monitor vary by company to ensure that the most material ESG risks for each company are captured.

As our data on ESG issues comes from multiple sources, we continue to build our internal ESG database to track numerous data points for investee companies and companies we are monitoring for potential inclusion in portfolios. The data points we monitor vary by company to ensure that the most material ESG risks for each company are captured. Climate-related datapoints include:

- Ratings from ESG data providers.
- Carbon emissions and carbon intensity.
- Whether the company has a net-zero target and if so, whether this has been approved by the Science-Based Targets initiative (SBTi).
- CDP and Nature Benchmark scores.
- Renewable energy usage and targets.

Monitoring ESG and climate risks in portfolios

Our Portfolio Review Working Group aims to ensure that clients are receiving consistent outcomes from a performance and risk perspective. Alongside monitoring financial performance and volatility metrics, the group also monitors 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.

Figure 15. 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 portfolios

Metrics and targets

The portfolios in our core strategies account for 86% of our total AUM.

Our investment-related emissions

We track emissions associated with all the portfolios we manage. Our focus at this stage is on our portfolio holdings' operational emissions (Scope 1 and 2 emissions). Our targets include all portfolios in our core strategies. These portfolios are unconstrained, meaning that we are able to reflect our best ideas fully without being constrained by tax considerations or particular income or ethical restrictions.

We invest in direct equities, corporate fixed income, sovereign and supranational debt, cash and gold. For emissions purposes, we focus on our equity and corporate fixed income holdings, as the methodology is more developed. Third-party investment funds are a very small part of our core strategy universe (0.2%) and these have also been included in the 2023 data onwards.[8]

Supranational debt, gold and cash are all considered to have zero carbon emissions under the PCAF[9] methodology we use. We do not include these asset classes in our calculations as changes in weighting in assets classes might influence results.

We also invest in the sovereign debt of UK, US and some European countries. We will review including these securities in our calendar 2025 report. 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.

Figure 16. Where our targets are focused, as a proportion of our total AUM

Combining the core strategy portfolios and the asset classes considered, 74% of our total AUM is currently in scope for our emissions targets. A further 9% of our overall assets are considered to have zero emissions (cash, gold and supranational debt).

8. Funds provide Scope 1 and 2 data only and do not provide Scope 3 emissions.
9. Partnership for Carbon Accounting Financials: https://carbonaccountingfinancials.com/

Our targets for portfolio emissions

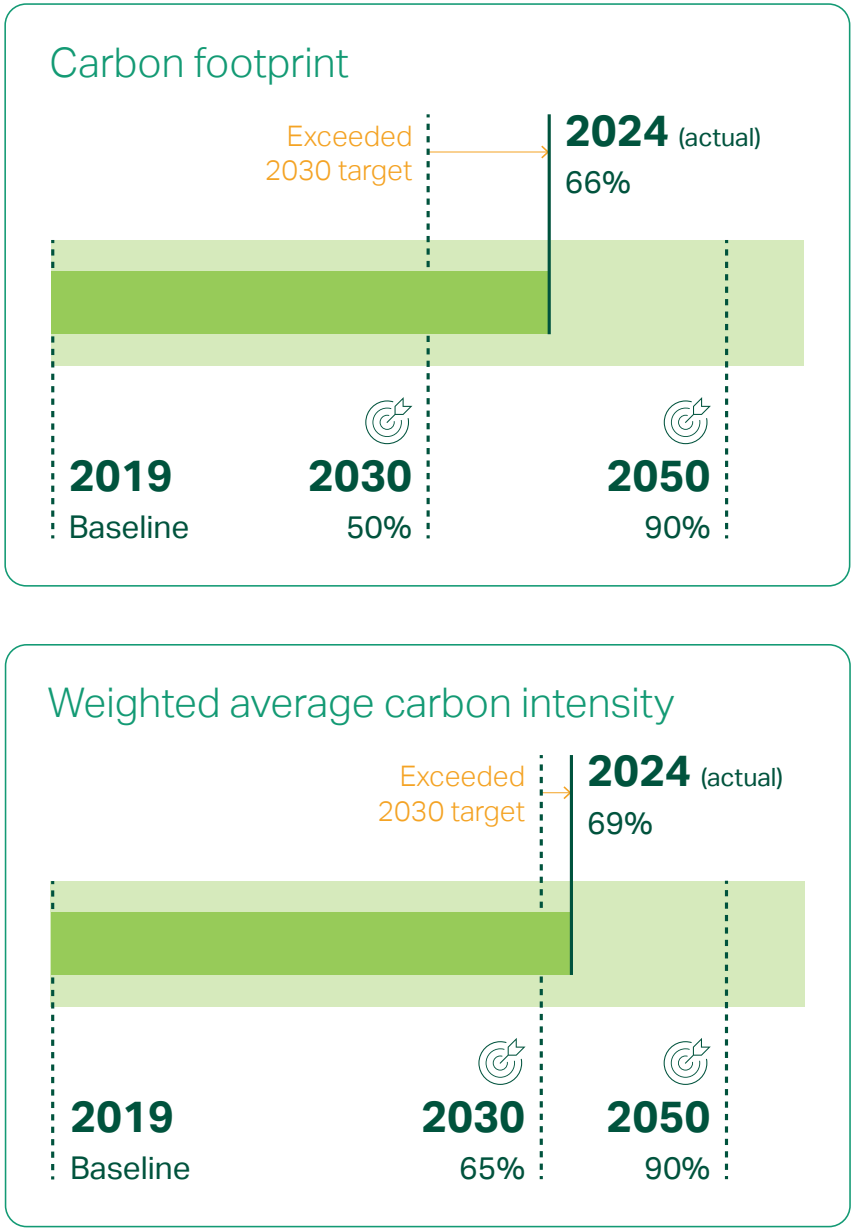
As a growing business, we concentrate on a reduction in emissions intensity. During 2023, we set a target of a 50% reduction in our carbon footprint and a target of reducing our weighted average carbon intensity (WACI) by 65% by 2030 from a 2019 baseline. We have reported WACI to our clients for their individual portfolios since 2021.

Carbon footprint (also called financed emissions intensity) is the share of emissions based on the percentage of a company that is owned, normalised for value of total assets. Weighted average carbon intensity is emissions as a proportion of revenues and based on percentage weighting within the portfolio. For further details on the methodology used, please see the Appendix: Emission data methodology.

As Figure 17 shows, we have now (unexpectedly) achieved both these outcomes. We will continue to focus on maintaining and improving this over the coming years. It should be noted that 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 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.

Figure 17. Our targets and progress



We are pleased with our emissions reductions to date. These have been driven by investing in high-quality companies exhibiting the financial characteristics we value, including predictable compounding revenues, strong cash flow generation, strong profitability and balance sheet strength, coupled with good governance structures and management teams that focus on the long term. We note that our absolute Scope 1 and 2 emissions of our in-scope assets have reduced by 11% between 2019 and 2024, even though the actual AUM included has risen by 161%. Please see Appendix: Financed emissions for full details.

Our absolute Scope 1 and 2 emissions of in-scope assets have fallen 11% while the AUM included has risen by 161%.

Given the types of companies we invest in, we recognise that our emissions are always likely to be considerably lower than a global index. We also recognise that as climate change has become recognised as a systemic risk and low-carbon energy and other technologies are gaining traction, a broad range of corporates have started to focus on their emissions. We are therefore also pleased to show that while our carbon footprint starting point was considerably lower than the MSCI AC World index (15.3 versus 86.4) we have also managed to reduce our emissions by a higher percentage than the index over the five years in review (decline of 66% versus 52%).

Figure 18. Our carbon footprint progression versus target

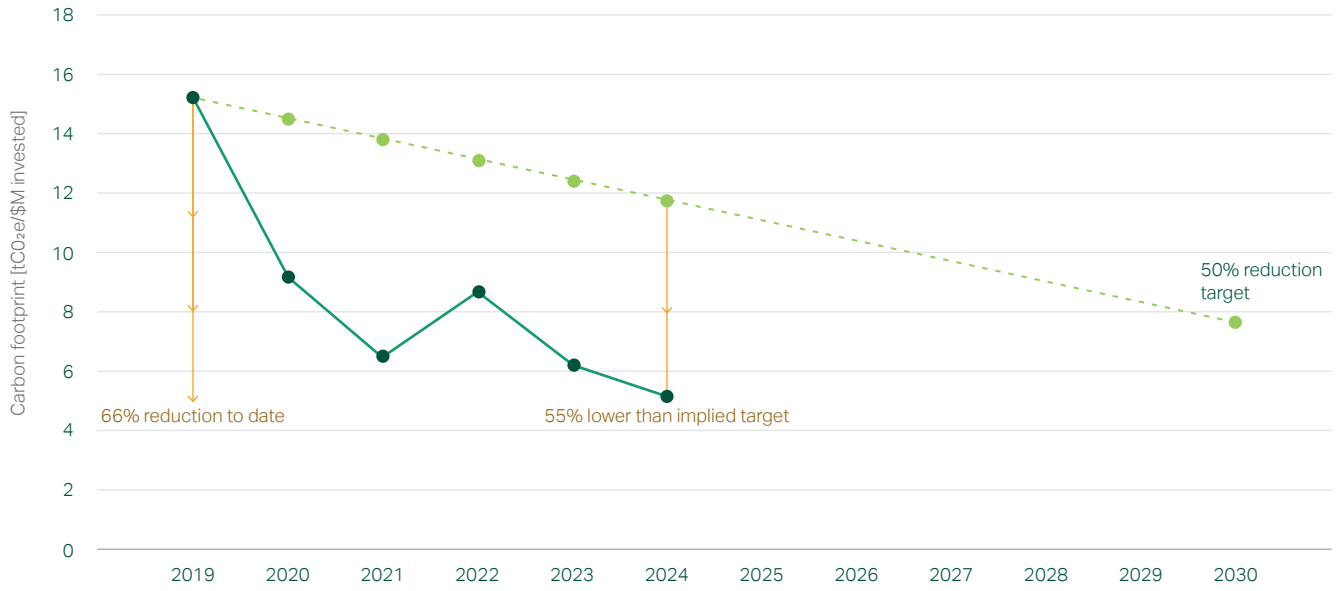
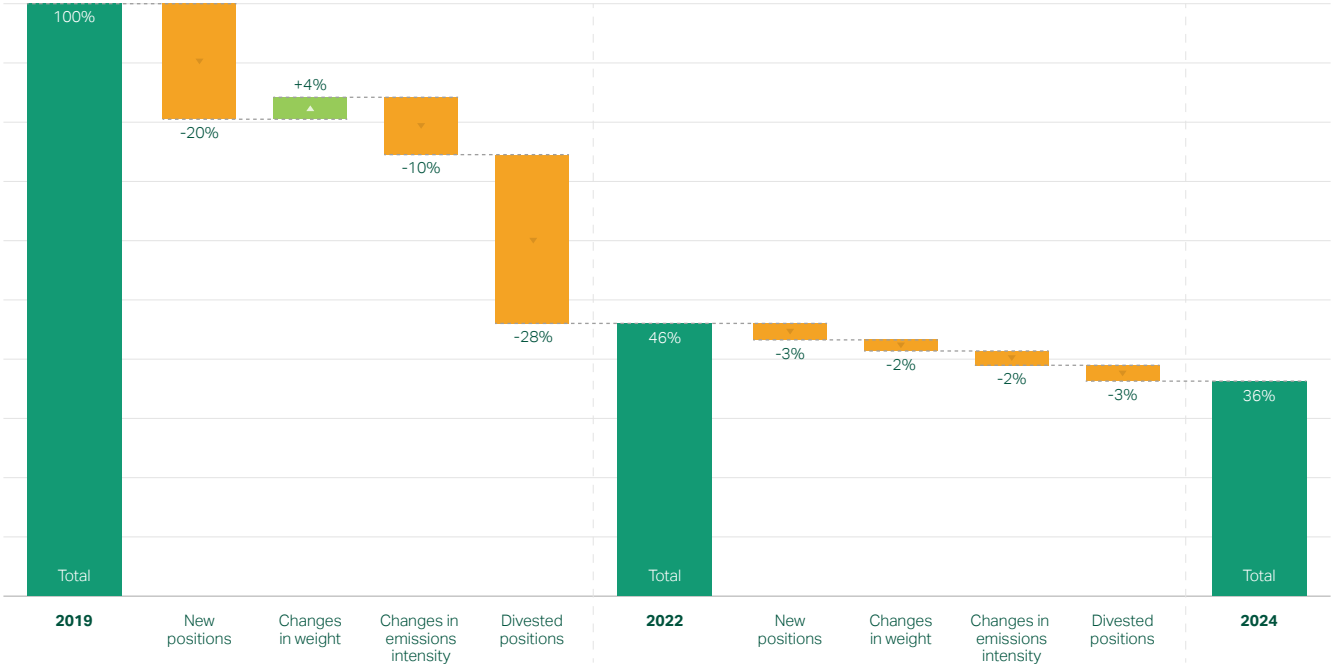


Figure 19. Carbon footprint progression of core strategies versus the broader equity market

Figure 20. Attribution of portfolio weighted average carbon intensity progress



Between 2019 and 2022 WACI decreased by 54%. 28% of this reduction was due to divestment from TSMC and Berkshire Hathaway and 20% was due to adding holdings with lower carbon intensity than existing positions. 10% was due to an improvement in carbon intensity by companies held, particularly **Infineon**, **Kerry** and **Avery Dennison**.

Between 2022 and 2024 carbon intensity decreased by a further 21%. Of this, 6% was due to divestments (particularly from Infineon), 6% to adding positions with less carbon intensity than existing ones. 6% to an improvement in carbon intensity in companies held (largely **DSM-Firmenich** and **Avery Dennison**). This second period (2022-2024) is therefore split more evenly between portfolio construction decisions and actual carbon intensity reductions at companies. We would expect further reductions to be more dependent on company carbon intensity improvements.

Total AUM emissions

This includes all portfolios where we have a discretionary mandate and covers the same asset classes as our core strategy in-scope assets (equities, corporate bonds and third-party funds from 2023). We do not currently have targets for emissions on a total AUM basis, but include them in the interests of transparency in the appendix. The trends are very similar to our in-scope core strategy emissions (which is as expected, given that our core strategies make up the majority of the AUM). We continue to increase the percentage of our total AUM included in our core strategies.

Scope 3 emissions

Scope 3 emissions include all GHG emissions in an organisations value chain that are not in their operational emissions. This includes emissions from supply chains, transportation and the use or disposal of products. 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 exceed 90% of a company's total emissions. Scope 3 can therefore be the most material source of an organisation's emissions, even though the organisation is not in direct control of them.

For completeness, we include our Scope 3 emissions in the appendix to this report on a best-efforts basis. Some of the Scope 3 emissions included are based on estimates from third-party data providers and many companies are still expanding their understanding and data collection abilities for Scope 3 emissions, including reporting on new sub-categories. Please see Figure 21: Scope 3 emissions – considerations for further discussion of the benefits and complexities of Scope 3 emissions.

Figure 21. Scope 3 emissions – considerations

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.
- 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.

Further notes on data used and changes in reporting

As discussed in last year's report, there is a timing mismatch between our reporting and our investee companies reporting the latest calendar year emissions data. When preparing this report, the most recently available emissions data for our investee companies was their 2023 calendar year emissions. This is the case because investee companies release their 2024 calendar year emissions in May–July of 2025, after our cutoff of April 2025, which is needed to prepare this report in a timely manner. So, although we label these figures as our '2024 portfolio emissions', they in fact reflect 2023 investee company emissions numbers but 2024 portfolio security weightings.

As this also happened last year, in this year's report we have restated our 2023 portfolio emissions numbers to reflect the updated calendar year 2023 emissions of our investee companies. These were only released after we published our 2023 report.

Nonetheless, while our 2024 portfolio emissions figures and our restated 2023 portfolio emissions figures are based on the same underlying 2023 investee company emissions, they are different due to portfolio construction decisions made over the year. These include adjustments to bond allocations, addition or removal of individual equities and changes in portfolio weights of existing holdings.

We expect this trend of restatements to continue, unless there is an enhanced timely release of emissions data by corporates around the world or reporting requirements for UK based financial services companies are modified to align better with underlying reporting.

According to International Sustainability Standards Board recommendations, location-based scope 2 data is used if available, and otherwise market-based scope 2 data is used.

Unless otherwise stated, all calculations and aggregations in this report are performed by Navera Investment Management based on underlying carbon emissions data sourced from Sustainalytics.

Our own business

Strategy

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.

As our only business is discretionary investment management, our largest risks relate to portfolio performance. These risks and how we approach them are detailed elsewhere in this report.

Figure 22. Scenario analysis: risks for our own business

Category		Identified risks	Net Zero 2050 1.5°C scenario		Delayed Transition 2°C scenario		Current Policies 3°C scenario		Mitigation strategies
			L	S	L	S	L	S	
Transition risks	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 noncompliance.	High	Medium	High	Medium	Medium	Low	Governance structures in place to ensure effective resource planning and ability to meet regulatory obligations and reporting requirements.
			● ●		● ● ●		● ● ●		
	Market	Failure to anticipate disruptive new technologies in our portfolios may result in underperformance 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.
			● ●		● ●		● ●		
Physical risks	Acute	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.
			● ●		● ● ●		● ● ●		
	Chronic	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.
			●		● ●		● ●		

● Short-term ● Mid-term ● Long-term

L = Likelihood of issue under this scenario S = Significance: level of financial risk to corporates under this scenario

Figure 23. Scenario analysis: opportunities for our own business

Category	Identified opportunities	Net Zero 2050 1.5°C scenario		Delayed Transition 2°C scenario		Current Policies 3°C scenario		NIML Strategy
		L	S	L	S	L	S	
Growth	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.
		● ● ●		● ●		● ●		
Efficiency	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

L = Likelihood of issue under this scenario S = Significance: level of financial risk to corporates under this scenario

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.

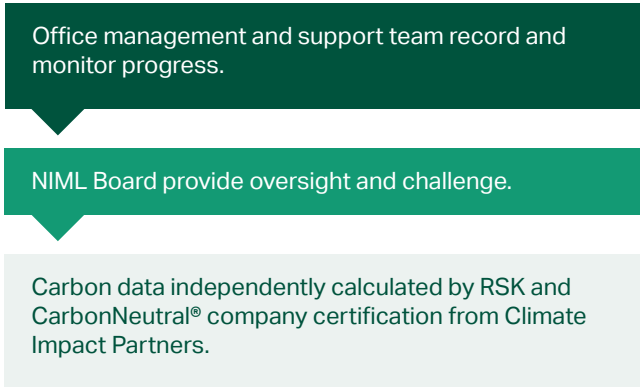
Everyone in our business is encouraged to attend presentations held each year to discuss our previous year's carbon footprint and where improvements could be made.

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.

Our own business

Risk management

Figure 24. Risk framework for Navera Investment 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 as described previously.

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 an 81% reduction in emissions from 1990 levels by 2035.[10]

Everyone in our business attends training sessions about 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 and encourage suggestions from across the business.

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 (excluding 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.

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.

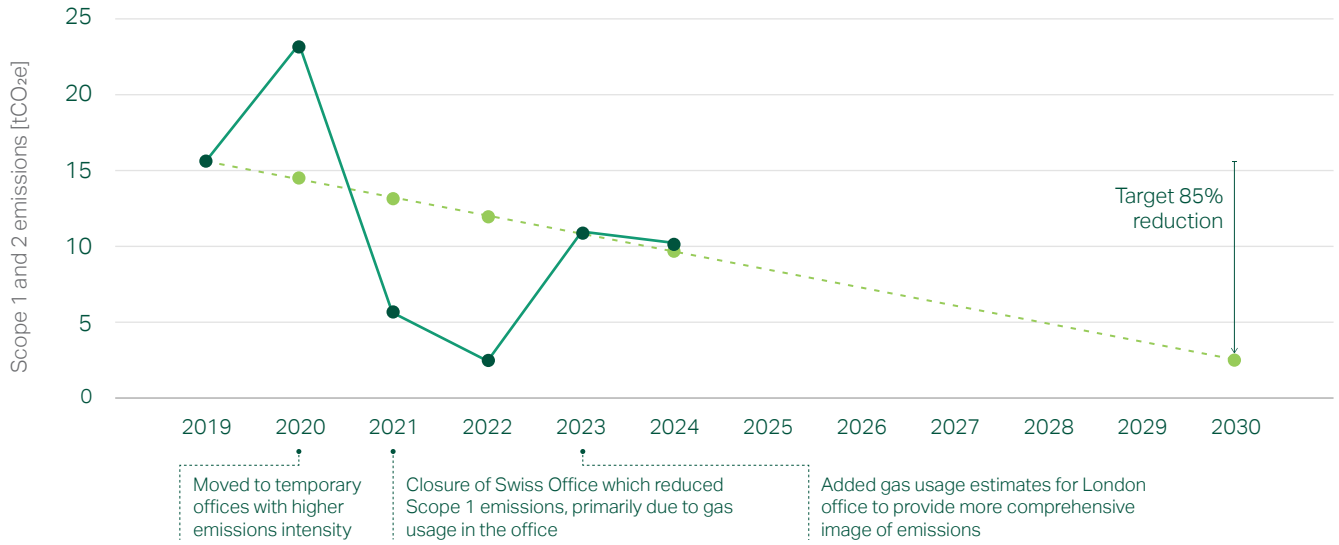
As detailed in the climate scenario analysis section of this report we assess our own exposure to physical and transition risks presented by climate change. While we believe the risk is low, we ensure we have the right systems, business processes and controls to mitigate any exposure to these risks.

10. https://www.gov.uk/government/publications/uks-2035-nationally-determined-contribution-ndc-emissions-reduction-target-under-the-paris-agreement

Metrics and targets

Our targets set during 2022 were based on absolute operational emissions (Scope 1 and 2 (market based)) and our Scope 3 emissions per full-time employee equivalent.

Figure 25. Operational emissions compared to target

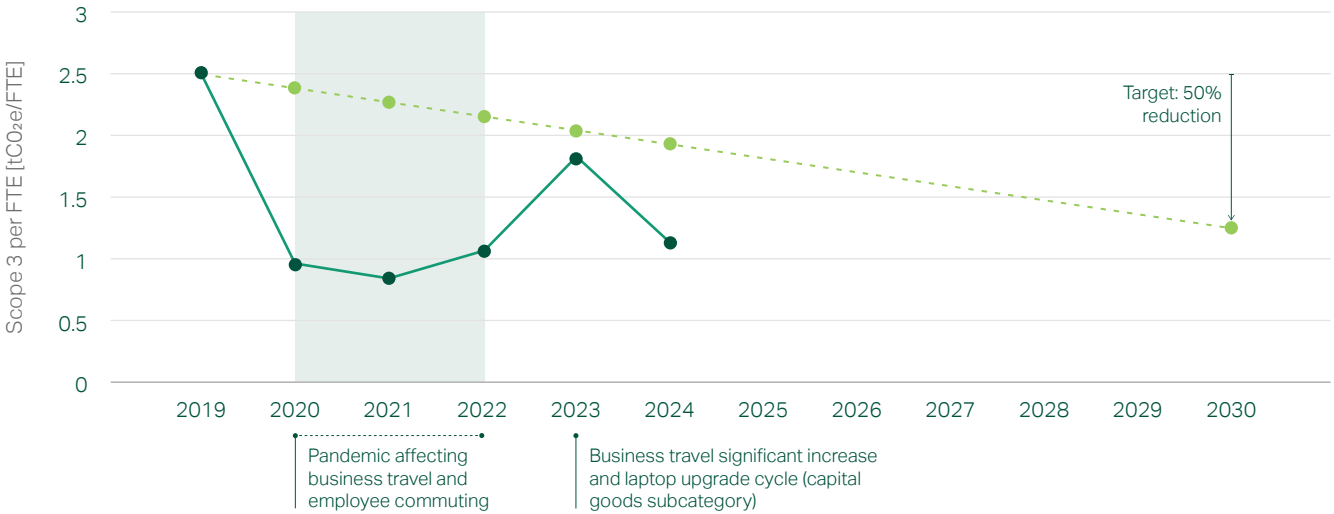


We are pleased that our operational emissions continue to reduce from our 2019 base year. Our historical scope 1 and 2 data include various one-offs which make consistent comparisons challenging, aside from working patterns being severely disrupted in 2020 and 2021 due to the pandemic. For example, in 2020 we moved offices in London but due to a flood we spent much of the second half of the year in a temporary office facility which had higher electricity utilisation rates. We then moved back to our own offices, which were designed with sustainability in mind. In 2021, we closed our Zurich office. In 2023, we updated our methodology to include our share of gas used in our London office (not previously available from our landlord) to provide a more comprehensive image of our emissions. Emissions from 2023 are therefore more reflective of our true trend of operational emissions.

Our targets were originally made with reference to market-based scope 2 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. Given new guidance from the ISSB, we provide market-based and location-based Scope 2 emissions in the Appendix: Our own emissions.

We continue to look for ways to be more efficient and reduce our environmental impact. It will be challenging to significantly reduce our emissions to our original 2030 target of an 85% reduction in absolute operational emissions (and a reduction of 90% by 2050). Reaching these targets will require considerable efforts from our landlord and UK infrastructure more broadly, particularly given the changes of scope in the interim as discussed above.

Figure 26. Scope 3 emissions (except financed emissions) per full-time employee equivalent (FTE)



Similarly to our operational emissions, our Scope 3 emissions were severely disrupted through the covid pandemic. This particularly impacted business travel and employee commuting, which are our largest contributors to Scope 3 emissions at 36% and 27% respectively. Business travel is a requirement both to give excellent service to our clients and to visit our companies and see, first hand, developments around the world. While our emissions from this sub-category reduced in 2024 from the catch-up year of 2023, we expect this to remain lumpy and a significant portion of our emissions.

As with our operational emissions, we also continue to investigate ways to reduce our Scope 3 emissions to ensure we meet our goal of a 50% reduction in these emissions per full-time employee by 2030 and a 90% reduction by 2050. Given the proportion of travel in our Scope 3 emissions, the 2050 target will require changes to infrastructure in the UK and globally.

Appendix

Emission data methodology

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

- Absolute carbon 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:

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

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

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

There are positives and negatives for each of these measures, which is why we continue 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 • Can track changes in emissions within portfolios • Allows for attribution of emissions within investments.	• Comparisons between portfolios or providers are difficult due to portfolio size importance • Change in amount of assets managed may mask underlying changes in the emissions • 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 • Focuses investors on the higher-emitting companies rather than on largest holdings • Directly attributes emissions per $m invested.	• Changes in underlying companies market values can be misinterpreted • 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 • Enables comparison across companies in portfolios of different sizes • More easily understood by asset owners • Does not penalise companies for growth.	• Skews to companies held with highest weightings which may not be reflective of emissions profile overall • Tends to favour higher price point companies • Can only be used for listed equities and corporate bonds.

Financed emissions

(Greenhouse gas emissions from our portfolios)

In-scope emissions 2019-2024

Absolute emissions

tCO_2e	2019	2020	2021	2022	2023	2024
Scope 1 and 2	43,135	35,869	36,517	41,892	38,353	38,580
Scope 3	516,252	319,505	669,400	836,243	685,613	744,009

Intensity metrics

	2019	2020	2021	2022	2023	2024
Carbon footprint [tCO_2e/$m Invested]	15.27	9.22	6.56	8.74	6.26	5.23
Weighted average carbon intensity [tCO_2e/$m revenue]	53.91	37.45	25.20	20.86	18.87	16.62

Included AUM ($)

	2019	2020	2021	2022	2023	2024
In-scope assets	2,824,214,449	3,889,374,996	5,567,802,481	4,794,956,659	6,125,520,491	7,372,354,767
% coverage	77%	80%	84%	83%	85%	86%

Total AUM emissions 2019-2024

Absolute emissions

tCO_2e	2019	2020	2021	2022	2023	2024
Scope 1 and 2	59,042	49,415	47,113	52,097	48,801	45,600
Scope 3	664,341	402,133	782,842	976,570	808,612	839,172

Intensity metrics

	2019	2020	2021	2022	2023	2024
Carbon footprint [tCO_2e/$m Invested]	16.67	10.45	7.22	9.34	6.78	5.42
Weighted average carbon intensity [tCO_2e/$m revenue]	56.78	40.69	27.01	22.16	17.59	14.64

Included AUM ($)

	2019	2020	2021	2022	2023	2024
In-scope assets	3,542,076,216	4,730,375,687	6,528,053,338	5,580,538,420	7,194,281,024	8,410,781,137
% coverage	73%	77%	81%	81%	84%	85%

Total AUM ($)

	2019	2020	2021	2022	2023	2024
	4,834,608,815	6,141,699,392	8,045,163,480	6,930,333,822	8,611,773,643	9,861,564,527

Includes direct equities and corporate fixed income plus third party funds (Scope 1 and 2 only) from 2023.

Implied temperature rise

Core strategies	Scope 1 and 2 by % weight [WATS]	Scope 1,2, and 3 by % weight [WATS]	Scope 1 and 2 TR by financed emissions [ECOTS]	Scope 1,2, and 3 TR by financed emissions [ECOTS]
2023	1.95°C	2.57°C	1.91°C	2.57°C
2024	2.04°C	2.47°C	1.94°C	2.71°C

Total AUM	Scope 1 and 2 by % weight [WATS]	Scope 1,2, and 3 by % weight [WATS]	Scope 1 and 2 TR by financed emissions [ECOTS]	Scope 1,2, and 3 TR by financed emissions [ECOTS]
2023	1.94°C	2.56°C	1.95°C	2.57°C
2024	2.04°C	2.46°C	1.95°C	2.70°C

Please note that as discussed in the **Strategy** section, CDP-WWF methodology for implied temperature rise has been modified with higher bands. We have not restated our 2023 numbers, but given the more punitive methodology, we are pleased that there has not been a material negative impact on the weighted average temperature score or the enterprise value and cash emissions weighted temperature score.

Portfolio implied temperature rise

In 2024, the CDP-WWF update the methodology for Implied Temperature Rise (ITR) to reflect recent changes in climate science. The changes involved switching from a linear annual reduction model to a compound annual reduction model, adjusting the definition of short/medium/long term, setting a temperature floor of 1.5°C instead of the previous 0°C, and changing the default of no target to 3.4°C from 3.2°C. However, as of the cutoff date to prepare this report, our data provider, Bloomberg, did not update their scores to reflect the new CDP-WWF methodology. So, in the spirit of fair representation, we adjusted the Bloomberg data to apply the temperature floor of 1.5°C and to change the default of no target from 3.2°C to 3.4°C.

The corporate implied temperature rise 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.

Our own emissions

	2019	2020	2021	2022	2023	2024	% change from 2019
Scope 1 [tCO_2e]	15.5	23.2	5.5	2.4	10.8	10.1	-35%
Scope 2 – Market based [tCO_2e]	0	0	0	0	0	0	n/a
Scope 2 – Location based [tCO_2e]	12.5	26.5	19.1	15.2	16.3	16.4	31%
Scope 3 [tCO_2e]	121.6	50.1	46.9	63.4	116.02	83.4	-31%
Scope 3 / FTE* [tCO_2e/FTE]	2.51	0.99	0.87	1.08	1.87	1.16	-54%

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

Glossary

Assets under management (AUM)	Aggregate value of client assets managed from which we earn operating revenue.
CO_2e/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).
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.

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