

CLIMATE CHANGE POLICY:

The Race to Net Zero Carbon

On 27 June 2019 the UK became the first major economy in the world to pass into law a commitment to bring all greenhouse gas emissions to net zero by 2050¹

While the UK's 2050 target is commendable, there is a need for more rapid action. Many investors recognise the importance of acting on climate change.

Indeed, the [IPCC sixth assessment report](#) could not be clearer: limiting global warming to 1.5°C or 2°C requires “*rapid and deep*” emissions reductions in “*all sectors*” of the global economy. Accelerated climate action is “*critical*” to achieving sustainable development.

The role for investors is made crystal clear: annual climate finance flows must increase by between three and six times to meet average annual needs until 2030. The report finds that “*there is sufficient global capital and liquidity to close investment gaps*”, but barriers remain.

Investors such as us must respond, not just because it is the right thing to do environmentally and socially, but also because we view it as a key stewardship responsibility on behalf of our clients. Failing to respond to climate change and put in place mechanisms to achieve net zero carbon will put capital at risk and also increase the chances of being negatively impacted by policy adjustments and new regulation.

Montanaro (“MAM”) has responded to this need for rapid action.

This document summarises our approach to the climate crisis for our investments.



¹ <https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law>

Investments

Montanaro became a signatory to the [Net Zero Asset Managers initiative](#) (“NZAM”) in 2021.

This followed two years of extensive engagement with our investee companies to understand how they were responding to climate change and in 2020, we launched Project: Net Zero Carbon, a long-term engagement initiative encouraging companies to set and meet net zero carbon targets. We publish an annual report on our company’s progress and actively encourage our companies to set Science-Based Targets (SBTs), viewing the Science Based Targets initiative (SBTi) as the gold standard. Our NZAM commitment is a natural step for us to take: the setting of explicit climate related targets across our investment portfolios that are measurable and quantifiable. We explain our proposed methodology below.

OUR NET ZERO TARGET & METHODOLOGY:

Our target is two-fold and designed to ensure our portfolio emissions achieve net zero by at least 2050:

1. In the interim, to see a **50% reduction in portfolio emissions by 2030**, relative to 2019 base levels. This trajectory should continue to meet our overall goal by 2050.
2. **50% of the designated AUM will have implemented a Science Based Target by 2030 and 100% of AUM will be covered by 2040.**

Proportion of AUM to be managed in line with net zero:

Our NZAM target covers 70% of our assets under management. Our target covers Montanaro’s open ended funds (both Ireland and UK domiciled). We work with the asset owners of our segregated accounts to understand their own approaches to net zero carbon and implement actions accordingly. We also manage two Investment Trusts and a net zero carbon committed is something that is being discussed by the respective Investment Trust Boards.

Montanaro manages listed equity portfolios only. Our specific allocation to “Climate Solutions” comes via our impact strategy, the Better World Fund. The Fund utilises themes to select companies that are contributing to environmental and societal solutions. Two of these themes relate to the environment: Environmental Protection and Green Economy. Allocation to companies contributing to these themes is currently 26%.

Selected reporting frameworks:

- [PAII Net Zero Investment Framework](#): used to set an annual 7% emissions reduction target across our portfolios. The 7% annual reduction target will apply across each of our in-scope portfolios. The 7% emission reduction year-on-year target is derived from the P2 model in the IPCC special report on global warming and aligned to a 1.5°C scenario (and a 50% reduction in emissions by 2030).
- [Science Based Target initiative \(SBTi\) for Financial Institutions](#): 50% of the designated AUM will have implemented a Science Based Target by 2030 and 100% of AUM will

be covered by 2040²

Baseline:

The baseline year for the reporting frameworks is 2019. Target metrics are:

- Financed emissions (Scopes 1 & 2) – XX tCO₂e invested
- % of companies with SBTi targets

Scope emissions coverage:

The targets cover Scope 1 and 2 emissions and aims to include Scope 3 once data is sufficiently available. Data disclosure continues to be an issue in our Small & MidCap markets.

Fossil fuel exposure:

MAM does not invest directly in fossil fuel companies across any of its investment portfolios (100% of AUM).

Physical climate risk:

Physical climate risk is appraised in our investment analysis. We use MSCI and company sourced data to measure the environmental intensity of our companies across carbon, water and waste. Where available, we record the carbon intensity of companies across Scopes 1, 2 and 3 based on tonnes of carbon used per million US Dollars of sales generated. We do the same for water and waste. This allows us to compare the carbon intensity of companies across our Approved List as well as within a given sector or Portfolio.

In addition to the above, we also record two MSCI scores related to how well companies are managing the transition to a low carbon economy:

Finally, we consider the quality of a company's environmental reporting and if they have a Net Zero Carbon target or other environmental targets in place.

Engagement:

We are in the fifth year of conducting a long-term net zero engagement project where we contact companies from across our approved list to encourage better disclosure and ambitious target setting with regard to climate change. We advocate for investee companies to commit to Science Based Targets and report against recognised frameworks such as CDP and TCFD. Our Net Zero Carbon engagement reports can be viewed [here](#).

² SBTs are recognised when a target is set, rather than when a commitment to set a SBT is made. Under SBTi, you need SBT targets in place by 2040 in order for companies to be Net Zero by 2050.

Operations

In an effort to reduce the carbon footprint MAM as a firm has on the environment, we have supported a number of high-quality, innovative, and verifiable carbon removal solutions, aligned with science.

Examples of these projects include a pioneering Direct Air Capture (DAC) company leveraging renewable and geothermal energy in Kenya; sequestering carbon through bio-oil injection into geological reservoirs; and a project utilising microbial carbon mineralisation to lock away CO₂ in agricultural soils. Additional projects include biochar initiatives and soil sequestration efforts through regenerative agriculture. All are independently verified to ensure their integrity.

One early success has been the transfer of our office to a renewable energy contract, no mean feat given we had to win the agreement of larger multinational companies who exist in our block. This shows that although we are a small business, we can have a wide impact.