

# CLIMATE CHANGE POLICY: The Race to Net Zero Carbon

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**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 2050<sup>1</sup>**

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 in investment portfolios and across their own operations.

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, both at the investment and corporate level.**

**This document summarises our approach to the climate crisis for both our investments and our operations.**



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<sup>1</sup> <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 the publication of our inaugural “Project: Net Zero Carbon” report. At the end of 2021 [we published our second update to this project](#). Prior to signing up to NZAM, we also participated in a collaborative initiative with a small group of asset managers, launched in March 2019, which aimed to stimulate net zero carbon targets.

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 METHODOLOGY:

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

Our NZAM target covers 70% of our assets under management (£2.8 billion at 31 March 2022). Our target covers Montanaro’s open ended funds (both Ireland and UK domiciled). We are working with the asset owners of our segregated accounts to understand their own approaches to net zero carbon. 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 36%.

### 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 2040<sup>2</sup>

### Baseline:

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

- Financed emissions (scopes 1&2) - xxtCO2/\$ invested
- % of companies with SBT targets

<sup>2</sup> 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.

**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:

**Low Carbon Transition Management:** this indicator measures how well a company manages risk and opportunities related to the Low Carbon Transition. It combines Management assessments for the following key issues: Carbon Emission for all companies; Product Carbon Footprint; Financing Environmental Impact; Opportunities in Clean Tech; and Opportunities in Renewable Energy where available. Higher scores (on a scale of 0-10) indicate a greater capacity to manage risk.

**Low Carbon Transition Score:** this is a company level score that measures a company's level of alignment to the Low Carbon Transition. Companies with higher Low Carbon Transition scores (on a scale of 0 - 10) are more aligned with the Low Carbon Transition compared to the companies with lower scores.

We assess environmental management culture (in accordance with UN Global Compact Principles 7-9); supply chain management; and the extent to which a company's products/services are a positive influence on the environment. We also record whether a company's operations are certified by a national or global standard (e.g. ISO 14001).

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 third 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:

- [2020](#)
- [2021](#)

# Operations

**At the UN Climate Change Conference (COP 25) in Madrid in December 2019, MAM joined fellow B Corporations to publicly commit to achieving Net Zero Carbon across our operations by 2030, some 20 years ahead of the 2050 targets set in the Paris Agreement.**

While our footprint is small, it is important to demonstrate leadership and practice what we are preaching to our investee companies.

Abundance Investment, Adam Smith International, Allbirds, Allplants, Artfinder, Bates Wells, Bulb, C-Level, Carbon Analytics, ClimateCare, DAME, Davines, Delphis Eco, Do Nation, Don't Cry Wolf, Dopper, Dr. Bronner's, Easthall Farm, Ella's Kitchen, EQ Investors, Flooglebinder, Form Nutrition, Forster Communications, Freestar Drinks, Futerra, Gong Communications, Green Element, Humankind Research, innocent drinks, Intrepid Travel, Invivo Healthcare, L&Co



LEAP, Living Alive, Mindful Chef, **Montanaro Asset Management**, On Purpose, One Stone Advisors, Patagonia, Pelorus Consulting, PROPER Snacks, Provenance, Pukka Herbs, TISC Report, Shoremount, Society, SunFresh Produce, Systemiq, The Body Shop, The Cheeky Panda, The Guardian, The TYF Group, Toast Ale, Tricordant, Verco Advisory Services, Volans, Waterbomb, Wessanen, WHEB Asset Management, Wholegrain Digital, Wildwood Ecology

Since then, we have been working with Environmental Consultant [Green Element](#) to measure our carbon footprint and identify carbon reduction opportunities.

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.

Updates to our operational net zero carbon transition will be included in the Better World Fund annual impact report which is available on our website.

## **Monitoring:**

Our net zero commitments are coordinated by our “Net Zero Steering Group” which is chaired by our Head of Sustainable Investment. The group meets on an ad-hoc basis and reports formerly into quarterly meetings on MAM’s Sustainability Committee.