



2023

PROJECT: 2030

*BECOMING CARBON NEGATIVE
& REMOVING MONTANARO'S
HISTORICAL EMISSIONS BY 2030*

MONTANARO

Contents

ABOUT MONTANARO	2
OUR IMPACT TEAM.....	3
EXECUTIVE SUMMARY	4
1. INTRODUCTION.....	5
2. WHY ARE WE DOING THIS?	6
3. LEARNING FROM OTHERS	9
4. OUR INFLUENCES	10
5. OUR APPROACH	12
6. OUR METHODOLOGY.....	17
7. THE PRICE	18
8. FINANCED EMISSIONS.....	20
9. NEXT STEPS	22
10. CONTACT US	23

ABOUT MONTANARO

Montanaro Asset Management (“MAM” or “Montanaro”) is an asset management company based in London that specialises exclusively in quoted Global Small & MidCap equities. As of 31 March 2023, we managed £4 billion in client assets.

We are stock pickers at heart: we construct portfolios purely on a bottom-up basis. We aim to identify the highest quality companies with the best management teams that we can hold for the long term. We believe that you “get what you pay for in life”: it is worth paying more for a well-managed, financially sound business that operates in a growth industry and enjoys a sustainable competitive advantage. Businesses with such quality characteristics are able to “beat the fade” and maintain a high Return on Capital over the long term.

A sustainable focus is central to how we invest. We believe that the best and most sustainable investment returns come from the highest quality businesses, run by the very best management teams. ESG forms part of our definition of a company’s Quality and ESG is fully integrated into our investment process. For a company to be deemed “Quality”, it must meet the standards set out in our Ethical and ESG Policies.

In 2018, we launched the Montanaro Better World Fund, a positive impact Fund, to invest in Global Smaller Companies whose products and services are helping to solve major world problems, as identified by the UN Sustainable Development Goals. Today, we manage almost £1 billion in our positive impact strategy¹.

We believe it is not enough to just invest responsibly, however, you also have to “walk the walk”. This is why in 2019, MAM placed sustainability at its core by becoming a certified B Corporation, meeting the highest verified standards of social and environmental performance, transparency and accountability. In 2020, we amended our Articles of Association to place a legal obligation on the Board to consider the impact of Montanaro’s business on its stakeholders. We recertified as a B Corp in June 2022², a requirement of the three-year re-certification cycle, receiving a much improved score.

It is also why we are aiming not just to ensure our investment companies support the transition to a net zero economy, but that we as a business do our part too. To do the right thing, in the right way and attempt to set an example are core reasons for the targets we have set out and outline in this paper. We hope you enjoy reading about them.

Ed Heaven, Head of Sustainable Investment – May 2023

¹ As of 31 March 2023: a combination of the Dublin domiciled Montanaro Better World Fund; the UK domiciled LF Montanaro Better World Fund; and a segregated mandate for a national pension fund based in the Nordics.

² A summary of our B Corporation score is available here: <https://www.bcorporation.net/en-us/find-a-b-corp/company/montanaro-asset-management/>

OUR IMPACT TEAM



Mark ROGERS
Fund Manager &
Head of Investments



Charles MONTANARO
Fund Manager &
Chairman of MAM



Ed HEAVEN
Head of Sustainable
Investment



Kate HEWITT
ESG &
Impact Specialist



Harriet EVANS
ESG &
Impact Specialist



Manroop BAL
Renewables
Analyst

EXECUTIVE SUMMARY

This paper sets out Montanaro’s ambitious climate plan (“**Project: 2030**”) to become carbon negative and remove our historical emissions by 2030. In this, we are referring to our **operational emissions**, accumulated since the founding of the business in 1991. To achieve our carbon negative goal, we will **reduce our operational carbon emissions, measured in absolute terms, by at least 50% by 2030**, from a baseline year of 2019, in combination with **a new carbon removal plan**.

Montanaro’s operational emissions can be broken down into our **Scope 1 emissions** (direct emissions, such as the running of our office on Threadneedle Street, London), our **Scope 2 emissions** (electricity bought to heat and cool the office) and our **upstream Scope 3 emissions** (including business travel, hotel stays and IT suppliers).

We are not including our **Scope 3 downstream financed emissions** i.e. the GHG emissions associated with the economic activities of the companies in which we invest, **as we are addressing this separately in our “Project: Net Zero Carbon”**.

This paper seeks to explain our approach and methodology in **why we are going beyond net zero**, and how we aim to tackle these goals. Having made progress on reducing our operational emissions and switching to a renewable energy supplier in our office building, a new and important element of our framework is **adopting a carbon removal strategy**.

We have partnered with **Klimate**, to provide access to high-quality, innovative, and verifiable carbon removal solutions, aligned with science. In this way, we will adopt a “portfolio-type” approach, where **we will select a number of carbon removal projects and technologies**. We are looking for exposure to innovative projects such as direct air capture; deep storage bio-oil; ocean kelp; and restorative tree-planting. All will be independently verified to ensure their integrity.

Our hope is that the combination of both “Project: 2030” and “Project: Net Zero Carbon” will **provide a clear roadmap** of how we are proposing to play our part in tackling climate change.

The net sum of this project is that we have 1,381 tonnes of historical emissions to take into consideration in our project. We will now explain how we will go about this.

1. INTRODUCTION

In March 2023, we announced two new carbon targets for our business:



These targets go much further than our previous target for our operational emissions, which was to have achieved net zero carbon by 2030.

In this paper, we explain why we have set our new ambitious climate change targets, the first for an asset manager.

We try to do everything with integrity and our approach to these targets is no different. We believe in them – and after reading this note, we hope that you will be inspired to follow our example.

Underlying these targets are certain aims which are addressed in this paper:

- Lead and inspire our stakeholders;
- Learn about the carbon removal market;
- Learn more about developing technologies in this area;
- Be as transparent as possible;
- Align these targets with existing goals covering our financed emissions.

2. WHY ARE WE DOING THIS?

EVOLVING OUR CLIMATE STRATEGY

Last year, members of our Impact Team wrote a paper for the benefit of our Executive Committee: “MAM & Net Zero Carbon: Removals & Offsets”. In it, while we noted the **progress** Montanaro (“MAM”) had already made, we set out an **aim to “push boundaries...and demonstrate leadership”** when it comes to tackling climate change.

At COP25 in Madrid, we made a commitment to **achieve Net Zero Carbon (“NZC”) across our operations by 2030**. However, as we advised our Executive Committee, “to meet this target, we need to evolve our strategy and continue to explain it. This is important as achieving net zero requires action from every MAM employee. Leadership is required and this must start at the top: from the Board, throughout the Senior Executive Team and across every single desk in the company”.

GOING BEYOND NET ZERO – CARBON REMOVAL

To understand why climate change targets must consider **carbon removal** and **offsetting**, we sought to understand the basics of climate science. The world adds about fifty-one billion tonnes of greenhouse gases to the atmosphere every year³. **Zero is what we need to aim for**. This is not just the challenge of a generation; it is arguably the greatest challenge humanity has ever faced.

Carbon removal is defined as the removal of carbon emissions that are *already* in the atmosphere; solutions include direct air capture, carbon sinks (forests, soil, oceans, wetland restoration). This is not to be confused with **carbon capture technologies**, which capture the carbon emitted *after* a combustion process (often fossil fuels), but *before* it enters the atmosphere, often involving carbon storage/repurposing.

To put the scale of the transition required into perspective, consider the impact of the Covid-19 lockdowns on global emissions:

*“The International Energy Agency estimated an 8% (2.8 gigaton) drop in GHG emissions in 2020 due to the economic downturn from the global pandemic. Now comes the challenge of this era - **rebuilding the economy post-COVID while continuing to drop emissions 8% per year, every year, until 2030**”⁴.*

What is evident about this challenge, however, is that it is unlikely that just “reducing” or “replacing” carbon emissions is going to be sufficient:

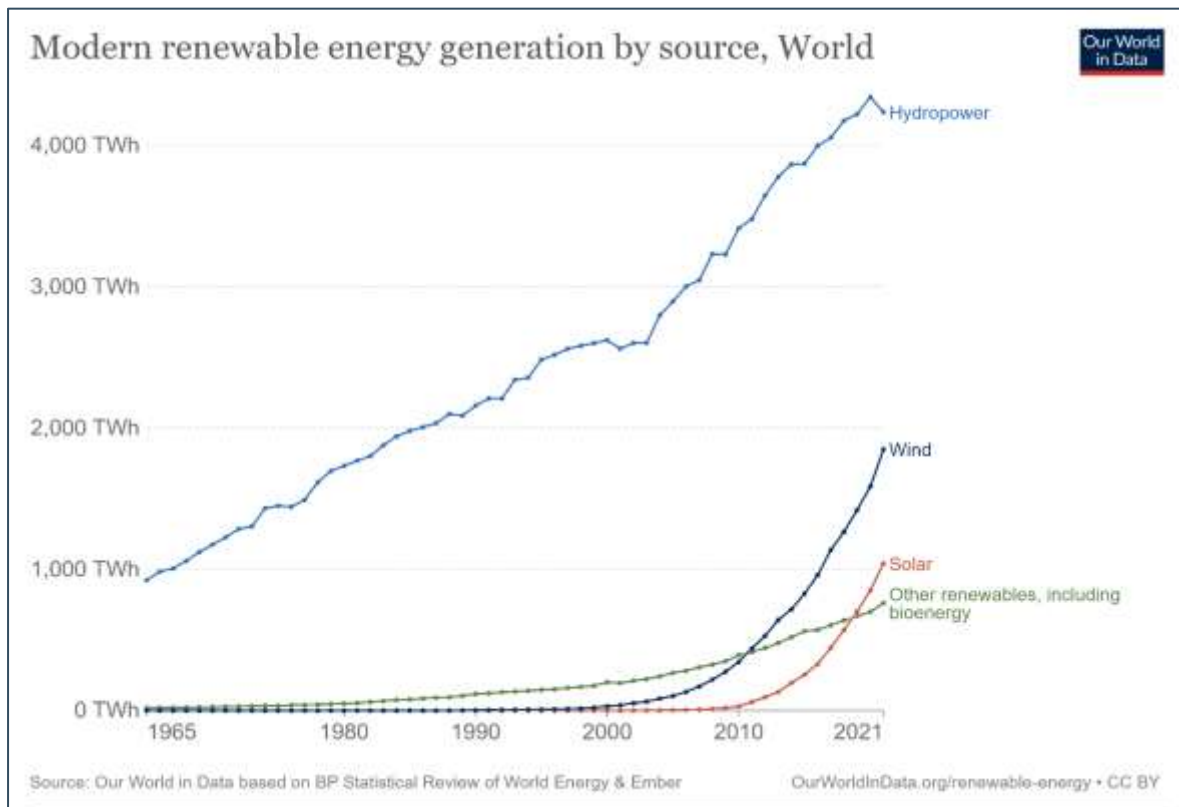
*“Failure to **achieve carbon removal at scale** places a fantastic burden on reduction efforts, nearly doubling the required global reductions to 15% every year through 2040 if the world is to have a real chance of limiting warming to 1.5 degrees Celsius”⁵.*

³ <https://www.theworldcounts.com/challenges/climate-change/global-warming/global-co2-emissions>

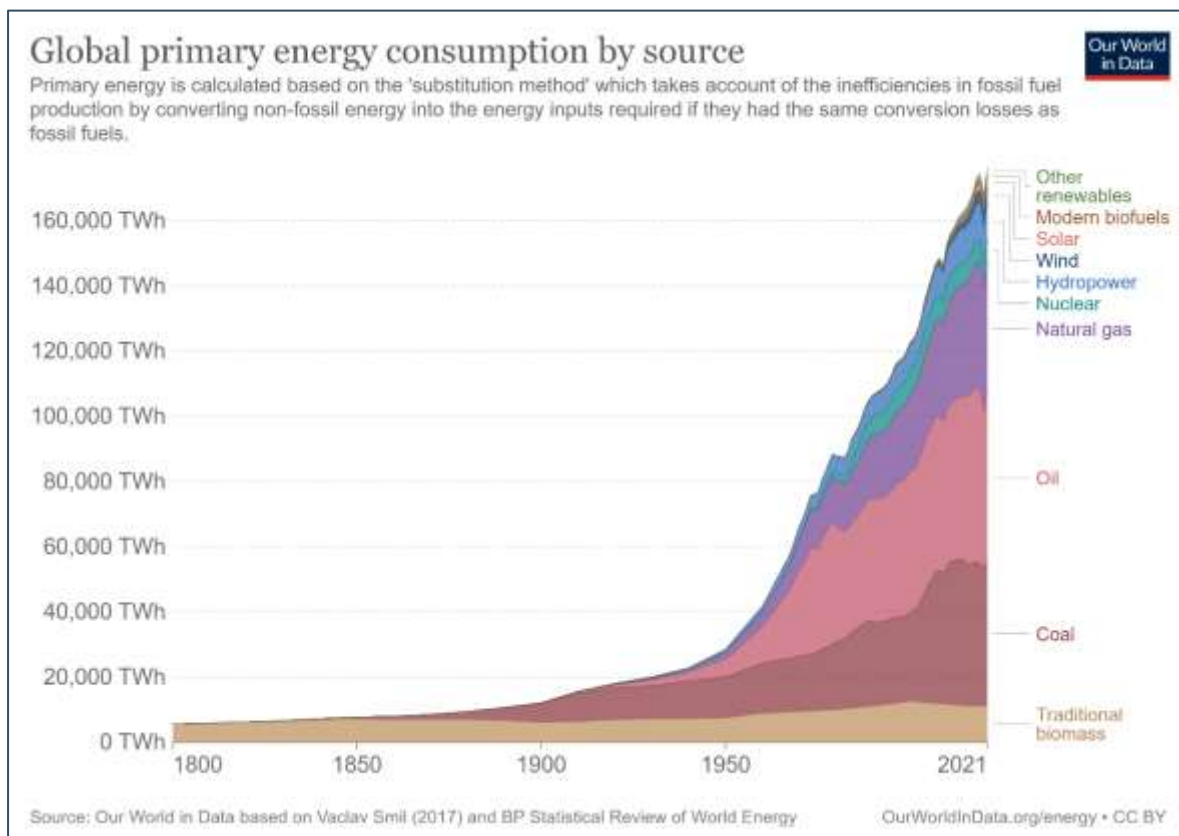
⁴ *Microsoft carbon removal, Lessons from an early corporate purchase*, Microsoft, 2021

⁵ *Microsoft carbon removal, Lessons from an early corporate purchase*, Microsoft, 2021

This is despite the **massive scale rollout of renewable energy** solutions in recent years:



The reality is that **the world remains addicted to fossil fuels**:



To achieve net zero, carbon removal is going to be needed *and at scale* if we are to limit global warming to an acceptably scientific level (as argued in the [latest IPCC report](#)). This is something Bill Gates has noted in his excellent book, “*How to Avoid a Climate Disaster*”:

“To avoid a climate disaster, we have to get to zero. We need to deploy the tools we already have, like solar and wind, faster and smarter. And we need to create and roll out breakthrough technologies that can take us the rest of the way”⁶

Essentially, the world cannot get to 1.5C without carbon removal – the limited change to global temperatures that avoids the worst impacts of climate change. **This means that, in an ambitious climate action plan, MAM must consider how to support, promote and utilise the development of early-stage removal technologies.**

⁶ *How to Avoid a Climate Disaster: The Solutions We Have and the Breakthroughs We Need*, Bill Gates, 2021

3. LEARNING FROM OTHERS

HISTORICAL CARBON EMISSIONS

As we learned more about carbon removal and offsets, we began to consider how we might go beyond net zero. We set out to also account for the **historical carbon emissions** that have accrued from our operations since we founded the business in 1991 to become **carbon negative by 2030**.



We soon realised that we needed to learn from other pioneers in this area and to leverage off the often more extensive resources at their disposal. We turned to **Microsoft** who have announced similar ambitions:

*“By 2030, we will remove more carbon than we emit... by 2050, we will remove from the atmosphere the equivalent of all carbon emissions associated with our business operations and electricity procurement from the time our company first started, in 1975”.*⁷

Achieving our ambitious goals (and for Microsoft to achieve theirs) will require some element both of carbon removal and also offsetting. Carbon removal represents only a small fraction of corporate climate procurements and investments today:

*“A handful of other organisations, including Amazon, Apple, BCG, Delta, Facebook, Google, Mars, Shopify, Stripe, SwissRe, United, and Velux, are incorporating carbon removal into their climate strategies. Shopify and Stripe, like Microsoft, are making carbon removal a core focus”.*⁸

**We do not believe any asset manager of note in Europe is yet doing this.
We might be the first.**

⁷ Microsoft carbon removal, Lessons from an early corporate purchase, Microsoft Corporation, 2021

⁸ Ibid

4. OUR INFLUENCES

HOSTING A CEO ROUNDTABLE DISCUSSION

A major influence came from a roundtable discussion on net zero that we hosted last year with Liv Garfield, the CEO of Severn Trent, a FTSE-100 water utility.

Over thirty CEOs from the companies in which we invest joined us remotely: business leaders from across the world, working in different sectors, with differing business models. The group agreed on a key message: **those who can afford to move faster and go further in tackling climate change should do so**. Setting ambitious targets was all about leadership, commitment and doing the right thing.

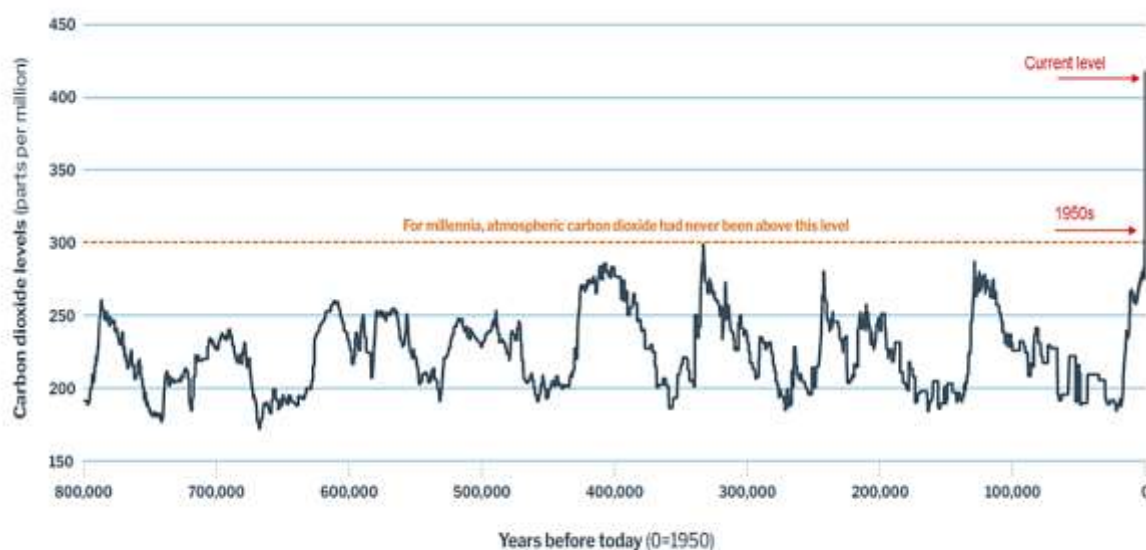
ENGAGING WITH MICROSOFT'S CLIMATE INNOVATION FUND

We contacted members of **Microsoft's Climate Innovation Fund** last year. Brandon Middaugh, a Director of the Fund, explained Microsoft's own carbon negative target; how they are approaching their historical emissions; and how this linked to the investments the Fund is making. This contact proved inspirational. Here was a business with a largely intangible business model pushing the boundaries of what is possible when it comes to tackling carbon emissions.

IPCC REPORT

Most significantly, **there is the science**. In March 2023, the Intergovernmental Panel on Climate Change (IPCC) published a summary of six key pieces of research completed over the past five years. The report made clear that there is very little hope of keeping the world from warming by only 1.5C, relative to pre-industrial temperatures. The rise in the atmospheric concentration of carbon dioxide has been exponential over our lifetimes.

If the below a chart doesn't alarm you, nothing will (as we always say to people working in finance, imagine if this was a volatility index. You would be worried).



Source: EPA's Climate Change Indicators in the United States: www.epa.gov/climate-indicators

The world has already warmed by 1.1C and consensus thinking among scientists is that it is likely to breach 1.5C sometime in the next decade. New methods and technologies will be needed to bring the planet's temperature down. These stark facts have influenced the approach we will take to meet our targets.

Our new targets demonstrate that we want to take a lead, show commitment and do the right thing. We strive to push the boundaries of what is possible, setting goals that are grounded in climate science. We believe this makes for solid foundations from which to start.

5. OUR APPROACH

We now outline our approach, which is designed to reduce and ultimately remove Montanaro's carbon footprint. We want to be as transparent as possible whilst recognising that our goals are challenging.

MONTANARO'S OPERATIONAL EMISSIONS

It is important to explain the scope of our goals. Becoming **carbon negative** and **removing from the atmosphere our historical emissions** is focused on our **operations**. We define the following under the umbrella of "*Montanaro's Operational Emissions*":

- **Our full Scope 1 emissions:** the emissions that we make directly, for example running our boilers and our computers.
- **Our full Scope 2 emissions:** the electricity or energy we buy for heating and cooling our single office on Threadneedle Street in London.
- **Our upstream Scope 3 emissions:** our *upstream* emissions includes business travel, hotel stays, our suppliers (such as our IT suppliers). We are not including our *downstream* financed emissions i.e. the emissions associated with our investment portfolios. We explain later in this note why we have taken this approach.

FRAMEWORK FOR OPERATIONAL EMISSIONS

We set out a simple framework for MAM's climate targets based on the following steps, inspired by the approach of one of the companies in which we invest⁹:

1. **REDUCE** – Identify and reduce emissions where possible;
2. **REPLACE** – Replace fossil fuel energy with renewables;
3. **REMOVE** – Remove carbon directly;
4. **OFFSET** – Where the three R's aren't feasible, offset residual emissions through accredited programmes.

"REDUCE & REPLACE":

We feel we were already making satisfactory progress to "reduce" and "replace" emissions and had achieved some success, such as the change in our building's electricity supply to a renewable energy provider.

Our aim is to reduce our operational carbon emissions, measured in absolute terms, **by at least 50% by 2030**, from a baseline year of 2019:

To date, we have achieved reductions in absolute emissions by:

- Switching to renewable energy in our office building;
- The creation of new policies such as for business travel;
- Online database – movement to more online reporting.

⁹ This is the same framework advocated by Liv Garfield, CEO of Severn Trent, in MAM's July 2022 CEO-to-CEO Net Zero Carbon Roundtable

“REMOVE”:

We wanted to understand the options available to us for the final two steps (remove & offset) which acted as a catalyst as we began to think about **going beyond net zero**.

To account for our historical emissions and become carbon negative, we need to support our absolute reduction efforts with an ambitious step: **carbon removal**. It may be helpful to define some terms:

The difference between *avoided emissions*; *removed emissions*; and carbon offsets:

Companies have typically said they are “carbon neutral” if they offset their emissions with payments to either avoid an increase in emissions or remove carbon from the atmosphere. However, these are two very different things.

Avoided emissions: One way to avoid an increase in emissions is to pay someone to not cut down the trees on the land they own. This is a good thing, but in effect it **pays someone not to do something** that would have a negative impact. It doesn't lead to planting more trees that would have a positive impact by removing carbon.

Removed emissions: In contrast, “net zero” means that a company actually removes as much carbon as it emits. The reason the phrase is “net zero” and not just “zero” is because there are still carbon emissions, but these are equal to **carbon removal**. “Carbon negative” means that a company is removing more carbon than it emits each year.

Offsets: Carbon offsetting is a process where an individual or company compensates for their own carbon emissions by funding an equivalent carbon dioxide saving elsewhere. This often involves investing in projects that reduce CO₂ emissions, such as renewable energy projects (wind farms, solar parks), reforestation projects, or energy efficiency initiatives. The main difference between this and carbon removal, is that carbon removal involves directly taking CO₂ out of the atmosphere, while carbon offsetting involves compensating for emissions made elsewhere.

The focus of our targets is not to avoid emissions, but rather to **remove carbon that has already been emitted** – both our historical carbon emissions that have been collecting in the atmosphere since 1991 and an additional amount that would take our business into a carbon negative position.

“OFFSET”:

As outlined above, we have chosen to focus on carbon removal, rather than carbon offsetting.

Offsetting carbon emissions can be used by companies, governments and individuals as a substitute to continue environmentally unsustainable operations, without taking meaningful action to directly lower their emissions. This can ultimately serve as a dangerous distraction in tackling climate change.

The world of carbon offsets has not been without controversy. A recent investigation¹⁰ found that 90% of **rainforest carbon offsets**, certified by Verra, the global leader in the verified carbon standards market, were meaningless. This includes offsets purchased by large corporations, such as Shell, easyJet, Disney, BHP and Gucci. Alarmingly, the study found that there is a large discrepancy between what these carbon offset projects are calculating and the actual resulting outcome. Only a fraction of Verra's rainforest projects led to any conclusive reduction in deforestation. Further, majorly overstating the threat to forests on their projects, has resulted in the unfounded ‘saving’ of carbon emissions.

¹⁰ <https://www.theguardian.com/environment/2023/jan/18/revealed-forest-carbon-offsets-biggest-provider-worthless-verra-aoe>

THE CARBON SOLUTIONS MARKET

To do this – in line with our paper to our Executive Committee last year – we need to invest in carbon removal projects. This is not straightforward. The carbon solutions market is nascent and changing rapidly. The cdr.fyi website shows just how nascent, tracking the main providers and the main purchasers of carbon removal credits.

As of May 2023, almost 1 million tonnes of CO₂ have been purchased, but just 7% of these credits have been delivered.

The credits are promises for the future and become realised when the various methods and technologies ranging from macroalgae, to mineralisation, to biochar, to direct-air-capture, to electrochemical ocean CO₂ capture, begin to remove carbon from the atmosphere.

As we learned more about the various options in this space, we contacted certain carbon removal companies for more information.

Charm Industrial

One such company was [Charm Industrial](https://charmindustrial.com), an innovative US start-up with financial backing from early-stage investors in Tesla and SpaceX. Charm Industrial uses plants to capture CO₂ from the atmosphere. They convert biomass into a stable, carbon-rich liquid and then pump it deep underground. This removes CO₂ permanently from the atmosphere, out of reach of wildfires, soil erosion and land use change.

What is appealing about its technology is that carbon is sequestered for an estimated 10,000 years (essentially until there is a geological release). This differs from carbon sequestration by growing a tree, which typically locks carbon away from between 13 and 100 years (depending on the type of tree).



Image from Grist / Amelia Bates

Cost

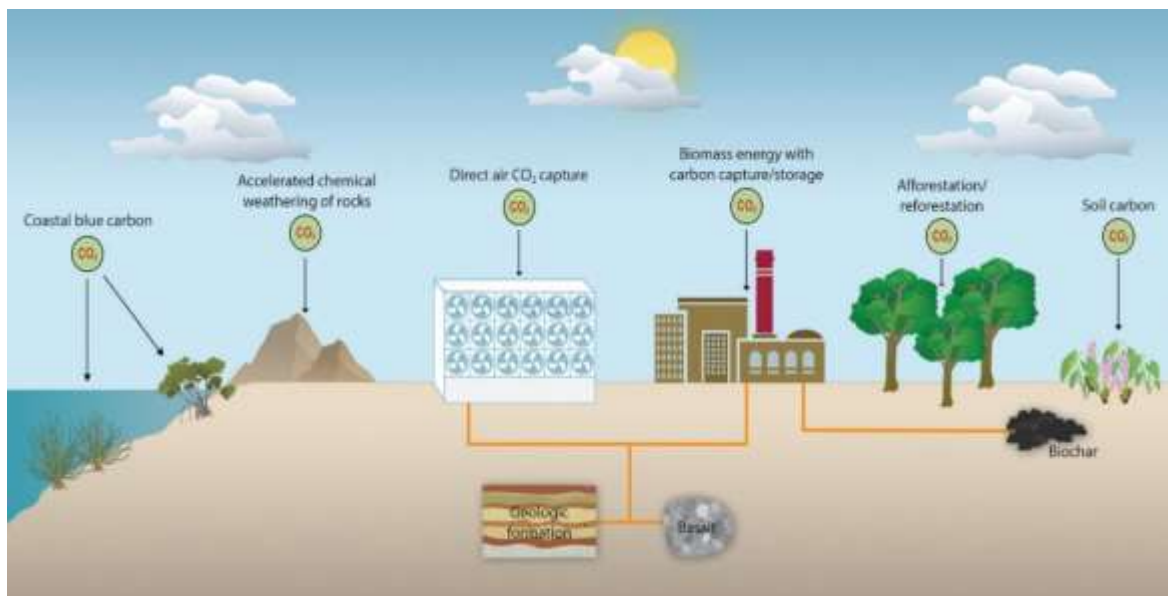
However, there is a cost. Due to the current complexity of long-term sequestration technology, some solutions cost as much as \$600 per tonne to lock away carbon, many times more than nature-based climate solutions. This cost may decline as technology becomes more efficient and as demand for new solutions grows. Charm Industrial, for example, already has some strong corporate backers (including Microsoft and Stripe), which have completed extensive due diligence on them.

'PORTFOLIO' APPROACH

We have decided against placing all of our eggs in one basket. We recognise that not all of the existing carbon removal technologies will be around in the years ahead. Some will prove successful and others will be overtaken by new alternatives.

This is why we have sought to adopt a “portfolio-type” approach, where we select a number of carbon removal providers. We also recognise that more attractive options are likely to emerge in the future.

An overview of carbon removal methods, National Academy of Sciences:



Microsoft has adopted a similar portfolio approach, that includes negative emission technologies (NET); afforestation and reforestation; soil carbon sequestration; bioenergy with carbon capture and storage (BECCs); and direct air capture (DAC).

A snapshot of Microsoft's 2021 Carbon Removal Portfolio:



Partnership with Klimate

We cannot do this alone. We have entered into a three-year partnership agreement with **Klimate**, the Danish Carbon Removal Platform. Klimate provides access to high-quality, innovative, and verifiable carbon removal solutions aligned with science. Klimate's core purpose is to scale and accelerate the development of carbon removal methods and technologies needed to achieve the targets laid out in the Paris Agreement.

6. OUR METHODOLOGY

HISTORICAL EMISSIONS

Problem - Firstly, we need to acknowledge a problem. We do not have a record of our historical carbon emissions. We did not record our carbon footprint in the 1990s, nor in the 2000s and indeed only started doing so in 2019.

Proposed solution - With Klimate's advice, we have calculated an emission factor per employee, which is simply the tonnes of CO₂e emitted per employee (tCO₂e/employee) each year. We have taken the number of people Montanaro employed at the end of each year and calculated a tCO₂e/employee figure using an average of the actual recorded data we have from 2019 to 2022.

While this takes into account two low carbon footprint years during the Covid-19 pandemic, this is offset by the fact we have only been investing (and therefore travelling) globally since 2018. In the 1990s, we only invested in the UK and had few clients in Europe and it is only from 2000 that we began to invest on the European continent.

Emissions factor - Our "emissions factor" works out at an annual rate of 2.23 tCO₂e per employee. As we do not want to undershoot our targets, to be conservative we are multiplying this by an additional "overshoot emissions factor" of 110%, resulting in a final rate of 2.45 tCO₂e per employee.

Historical emissions - Therefore, in the first year of our business when Charles was the only employee, we estimate that Montanaro produced 2.45 tCO₂e across its operations. By 1999, when the business employed 5 people, Montanaro produced 12.25 tCO₂e. Once we reach 2019 and the subsequent years up to 2022, we have real data to use.

The net sum is that we have 1,381 tonnes of historical emissions to take into consideration in our project.

FUTURE EMISSIONS

Assumptions - To calculate what we need to do to offset this historical footprint and achieve carbon negativity by 2030, we also need to make assumptions about our future emissions to calculate how many carbon removal credits we will need in the years ahead. For 2023, we took the average of Montanaro's tCO₂e in 2018, 2019 and 2022 (excluding the two years of the pandemic) to arrive at a **total expected carbon footprint of 143.2 tCO₂e**.

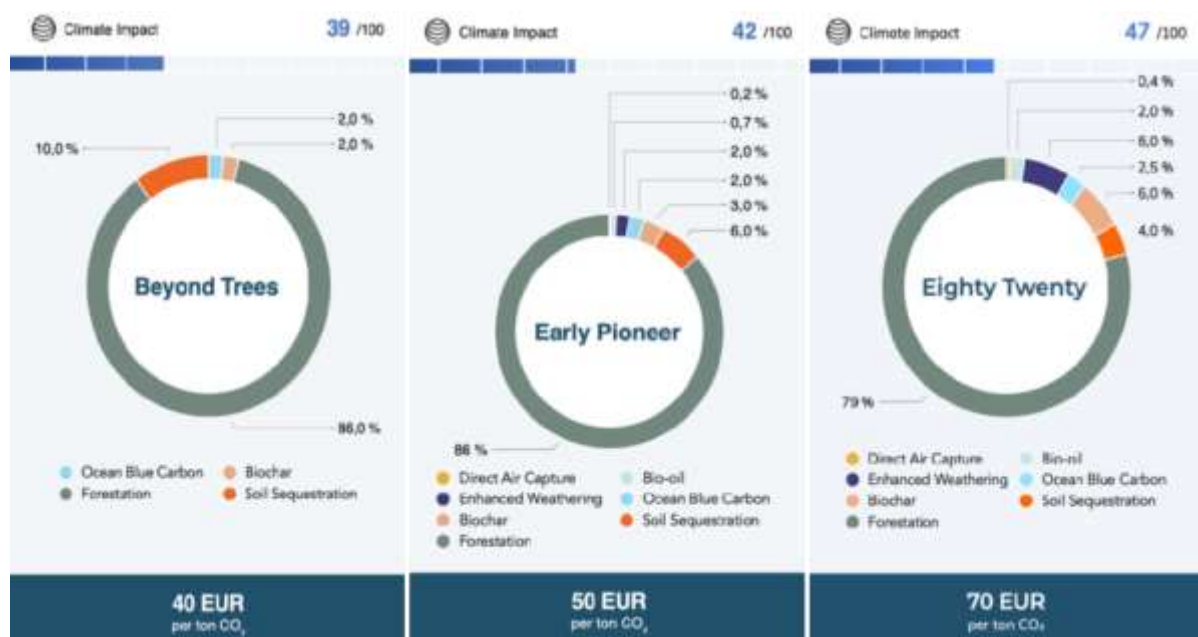
Adjustments - For the years further out, we took this figure and reduced it on an annualised basis by 7%, the amount by which we expect to be able to reduce our absolute emissions. If we reduce absolute emissions by more or less than this in any given year, we will adjust our future carbon removal credits accordingly. The incentive to reduce absolute emissions is two-fold: it will save us money as purchasing credits is a cost to the business; and it is clearly a benefit to the environment.

Based on our current projections, our total estimated future emissions will be 900 tonnes of CO₂e up to our target year.

7. THE PRICE

EXPLORING MODEL PORTFOLIOS

Having worked out our historical emissions and estimated our future emissions, we then needed to consider the monetary cost per tonne of acquiring the necessary carbon removal credits. For this, we relied on the expertise of Klimate, who helped to structure three model portfolios for us to look at. The cost under each model increased as the exposures of the portfolios differed: the first was almost 90% invested in nature-based solutions; the third solution had 20% invested in a range of innovative solutions, from Direct Air Capture to Enhanced Weathering and Biochar.



OUR CARBON REMOVAL PORTFOLIO

With Klimate's help, we are in the process of building an innovative portfolio of carbon removal projects to achieve our targets. We want exposure to innovative projects such as direct air capture; deep storage bio-oil; ocean kelp; and restorative tree-planting. All will be independently verified to ensure their integrity and will come at a not insignificant **cost of €70 per tonne of CO₂ e**.

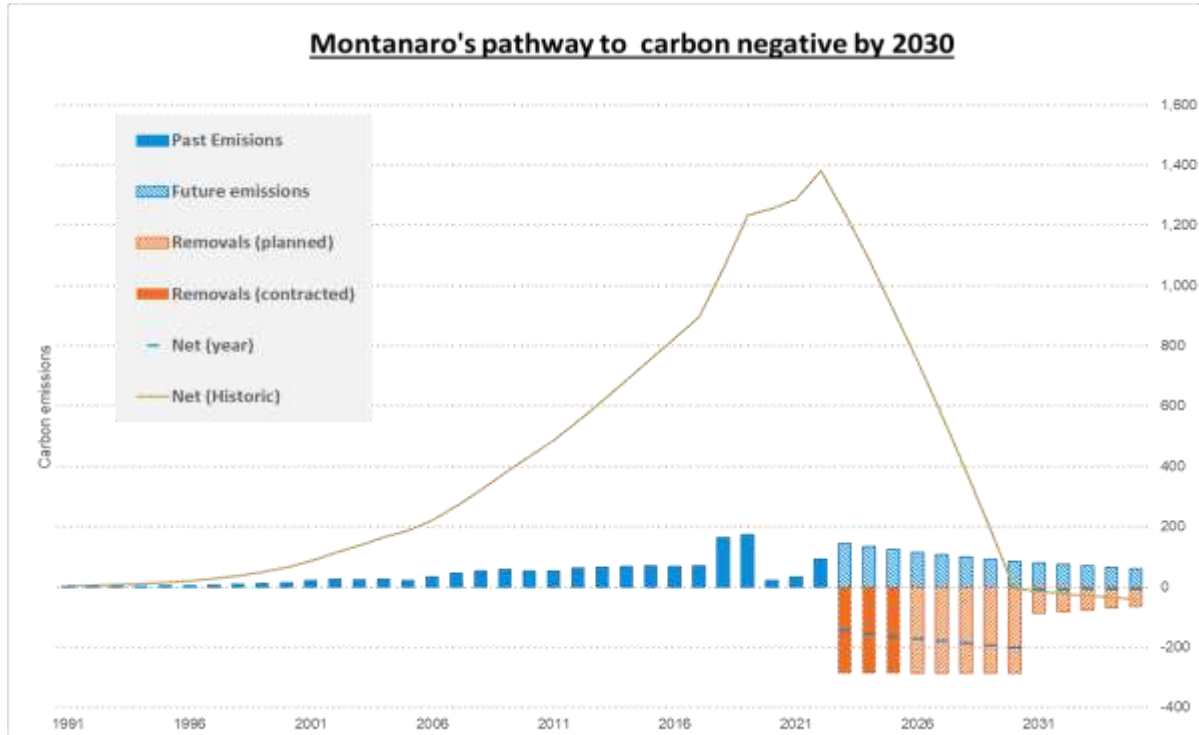
PURCHASING CARBON REMOVAL CREDITS

In conclusion, we will be seeking to address an estimated 2,281 tonnes of CO₂ by 2030 to remove our historical carbon emissions from the atmosphere and to become carbon negative across our operations.

Starting in 2023, this means that on an annual basis we will be purchasing carbon removal credits to address 286 tonnes of CO₂e. Our initial contract with Klimate will run for three years, committing us to 858 tonnes of CO₂e carbon removals, a demonstrable and clear commitment to achieving the aims set out in this paper.

EXPECTED OUTLOOK

Clearly, this journey is not going to be a straight line - think more of a meandering river rather than a Roman road - as carbon removal markets develop and as our business changes shape and size. However, based on our current expectations, our strategy should evolve broadly as shown below:



8. FINANCED EMISSIONS

If all of the above sounds exciting (and we are genuinely excited about what we are about to learn and experience from this project), there is, however, an elephant in the room.

What about our financed emissions, the greenhouse gas emissions associated with the economic activities of the companies in which we invest, which form part of our Scope 3 emissions?



SPLITTING OUR 'OPERATIONAL' AND 'FINANCED' EMISSIONS

For now, we have decided to split our carbon-tackling approach between our “**Operational Emissions**” and our “**Financed Emissions**”.

A primary reason for this is simplicity. If we were to combine our financed emissions and operational emissions, we believe this would lead to a lesser degree of transparency.

The reason for this, is **our financed emissions would dwarf every other element of our carbon footprint**, thus making it more difficult for our stakeholders to clearly understand if we were doing anything to reduce the impact of, say, our business travel or our energy sourcing. A separate approach, in our opinion, is best for now, allowing us to truly get into the detail of both sides of this complicated equation.

FINANCED EMISSIONS: GOALS SET

It is important to note: we are not neglecting the carbon footprint of our investments. Indeed, we have had the following targets in place across our Portfolios since joining the Net Zero Asset Managers initiative in 2019¹¹:

- To see a **50% reduction in portfolio emissions by 2030**, relative to 2019 base levels.
- That **50% of the designated AUM will have implemented a Science Based Target by 2030, increasing to 100% of AUM by 2040.**

Project: Net Zero Carbon

Since 2019, a major engagement effort has been in place as we have sought to use our influence as shareholders to facilitate change among our companies. **We have called this “Project: Net Zero Carbon”.** Its purpose has been to encourage companies to take measures to reduce their carbon footprint by setting net zero targets; implementing strategies to deliver on these targets; and adopting both approved and verified by the Science Based Targets initiative (SBTi).

¹¹ This covers ~70% of our assets under management and excludes our two Investment Trusts and segregated mandates, where our clients have targets in place of their own.

Progress

As of the end of 2022, progress has been encouraging. Between 2019 and 2020, the absolute emissions associated with our in-scope portfolios reduced by 23.3%. Better still, emissions were reduced by a further 24.6% between 2020 and 2021. We are aware that pandemic-induced lockdowns will have impacted these reductions, so progress may slow in future years.

During our net zero project last year, we found that between 2020 and 2021 the number of companies with SBTi commitments had risen from 11 to 45 (5.5% of AUM to 22.3%). This has increased even further with 60 companies now committed, representing 36.3% of in-scope AUM.

Together, we hope that “**Project: 2030**” and “**Project: Net Zero Carbon**” will allow us to make a difference.

9. NEXT STEPS

Reporting

We will be reporting on our progress at least on a quarterly basis and in detail annually. We will disclose the impact of our carbon removal portfolio; progress in reducing our operational emissions; as well as continuing our long-term “Project: Net Zero Carbon” engagement as we seek to encourage our investee companies to have approved and verified SBTis.

We want to lead by example. We hope to inspire the companies in which we invest, as well as our clients and other stakeholders. We hope that it will inspire you too. Together, we can make a difference.

10. CONTACT US

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