



PROJECT: NET ZERO CARBON

CLIMATE CHANGE
ENGAGEMENT

Montanaro Investment
Team
Progress Report: 2021

Introduction

Montanaro Asset Management was founded in 1991 by Charles Montanaro. We are an independent investment boutique focused exclusively on quoted Global Small & MidCap equities. We view our clients as our partners and seek to grow their investments sustainably over the long-term.

We are a B Corporation, a business certified for meeting the highest verified standards of social and environmental performance, transparency and accountability. At the 2019 United Nations Climate Change Conference in Madrid (COP25), Montanaro joined fellow “B Corps” by announcing a net zero carbon target for its business which it will seek to achieve by 2030.

In 2019, as we began work on achieving our net zero carbon target, we launched “**Project: Net Zero Carbon**”, a long-term engagement effort targeted at encouraging our investee companies to set climate-related targets of their own. At the end of 2020, we published the first summary of our net zero engagements.

This report focuses on our net zero carbon engagements in 2021. While last year we focused on the holdings within our Better World Fund, this year we have expanded the project across the Montanaro Approved List, a list of approximately 260 companies that were approved for potential investment by our Investment Committee following thorough due diligence. This has allowed us to learn about a broader group of companies, markets, sectors and geographies and support even more businesses with their environmental objectives.

It has been another ground-breaking year on the Sustainability front for our investment team. We were fortunate to play a small role at COP26 as a member of the GFANZ *Real Economy Transition Plans* taskforce, chaired by Mark Carney. We also co-chaired the B Corp Finance Coalition, which led a coalition of investment companies to COP. One member of our team was even fortunate enough to meet John Kerry, US Climate Envoy, at the conference.

Our engagement work helps us to assess, understand and influence the ESG risks and impact opportunities of the businesses in which we invest. This has helped us to deliver strong investment returns to our clients during the year. **Supporting these aims is what ultimately sits at the heart of *Project: Net Zero Carbon*.**

Contents

Executive summary	3
How to: “Hurry Up & Get on With It”	8
Alfen (Netherlands).....	9
Ameresco (USA)	10
Atea (Norway).....	11
Biffa (UK)	12
Bio-Techne (USA)	14
Dexcom (USA)	15
Entegris (USA)	16
Esker (France).....	17
HGears (Germany)	18
Marshalls (UK).....	19
Middlesex Water (USA).....	21
NCAB (Sweden)	22
Severn Trent (UK).....	23
Shionogi (Japan).....	25
Spirax Sarco (UK).....	27
Unity Software (USA)	28
SparkChange (UK)	29
ShareAction (UK).....	30
Conclusions	31
Glossary.....	33

Executive summary

Our companies are advancing along the pathway to net zero carbon. That, at least, is the headline summary from our 2021 climate change engagements. There are tangible signs of progress as management teams respond to investor pressure, government action and the realities of climate science, explained with forensic detail in the latest report published by the [Intergovernmental Panel on Climate Change](#) (IPCCC). Much more needs to be done, however. A shift needs to occur, from one of carbon measurement and base-line target setting, to the credible delivery of transition plans that lead to material carbon reduction. In short, companies must now step on the net zero accelerator. Looking ahead, our message for 2022 can be distilled to: *“Hurry Up and Get on With It”*.

Across the market, net zero commitments have grown at an exponential rate. It is possible to view this development both positively and negatively. According to [Net Zero Tracker](#), an international research initiative, one in three of the largest listed companies in the G20 nations now has a net zero target, up from one in five last year. Yet just 20% of these targets are aligned with a 1.5°C scenario, according to the [Science Based Targets initiative](#) (SBTi). Outside of the G7, this rate falls to just 6%. A similar picture exists in the US. Of the 412 companies in the Russell 1000 index which have pledged to reduce emissions, just 65 have set goals in line with a 1.5°C scenario, according to [Just Capital](#).

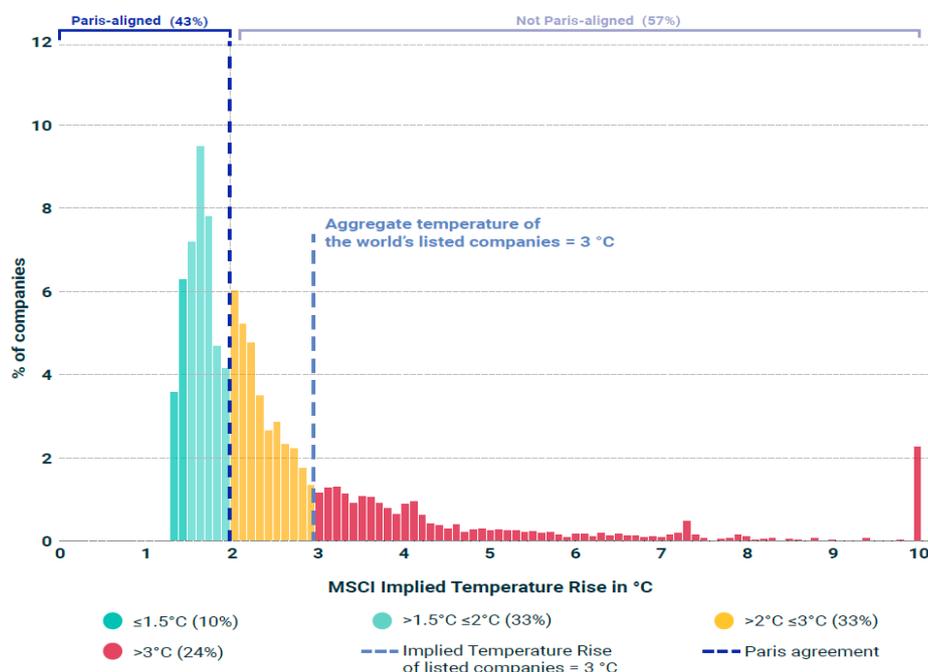
How do companies on the Montanaro Approved List (the companies in which we invest across all of our Funds) compare? A marked increase has been made in the last year, both in setting targets and aligning these with climate science. In 2020, just 11 of our companies had set climate targets with SBTi. This number has jumped to 45 in the last year and of these, 31% have aligned targets with 1.5°C. We expect this percentage to grow significantly in 2022 as a number of our companies are waiting for their targets and methodologies to be verified by the SBTi before they can be officially announced. Just two companies out of the 45 have set 2°C targets, indicating that, where targets are set, the majority of our management teams are pursuing the most aggressive science-based targets in support of [The Paris Agreement](#). It is now time for the other companies on our Approved List to step up and set their companies on the pathway to net zero.

The stark reality remains that too few companies are setting targets or underpinning environmental objectives based on climate science. A gap that needs to be bridged is that which exists between descriptive reporting and the provision of hard factual data. In corporate reporting by FTSE 100 companies, mentions of “net zero” have increased by a staggering 370% over the last two years, according to [Datamaran](#), an ESG analytics company. The same is again true in the US, where mentions of “net zero” in corporate press releases have risen by five times in two years, according to the data provider [Sentieo](#). Statistics such as these highlight the increased focus on net zero, but also a major problem: writing descriptively about climate change is easy and announcing a net zero target is relatively straightforward. Achieving a target and setting out a transition pathway underpinned by climate science is deeply complex.

We continue to see too many examples of descriptive reporting among Small & MidCap companies. While some are more detailed than others and at least indicate that work is being done on this important issue – for example analysis of Scope emissions to calculate baseline figures that can be used to set future targets – an overreliance on descriptive reporting may lead to accusations of greenwashing.

Indeed, we are concerned that the gap between commitments and real-world action is growing. A report published by MSCI in October 2021, [The MSCI Net-Zero Tracker](#), found that despite the plethora of net zero announcements, listed companies are emitting carbon at a rate that would lead to warming of nearly 3°C. This would be catastrophic, as [this video](#) from *The Economist* vividly portrays. Less than half of listed companies are on track to keep warming below 2°C, while only 10% are aligned to 1.5°C.

Listed companies are on track to make the world 3°C warmer



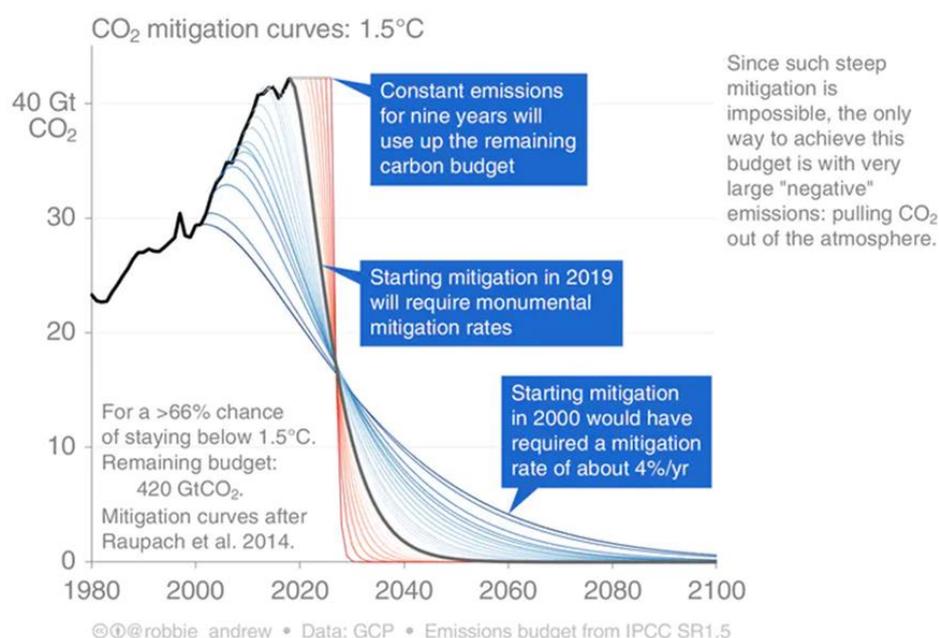
Progress towards achieving such targets is too little and too slow. The coronavirus pandemic illustrates the scale of the climate challenge. According to analysis from the [Columbia Climate School](#), in 2020 during the Covid-induced economic shutdown, global carbon emissions fell by 6%. Yet to keep the 1.5°C scenario alive, emissions need to fall by 8% a year between now and 2030. This is a monumental task.

Consider that in June 1988, the newly appointed administrator of Nasa’s [Goddard Institute for Space Studies](#), James Hansen, gave [the following testimony](#) to the US congress:

*“I would like to draw three main conclusions. **Number one**, the earth is warmer in 1988 than at any time in the history of instrumental measurements. **Number two**, the global warming is now large enough that we can ascribe with a high degree of confidence a cause and effect relationship to the greenhouse effect. And **number three**, our computer climate simulations*

indicate that the greenhouse effect is already large enough to begin to effect the probability of extreme events such as summer heat waves”.

Had the world followed Hansen’s most aggressive suggestions and cut emissions then, net zero would have been achieved by decarbonising at a steady rate of 2% (still a huge challenge given technological constraints and the population explosion that has since occurred). The stark reality is that we have left it far too late to pursue anything other than a rapid and brutal decarbonisation of the economy, as the graph below indicates. We haven’t just left our homework until the night before the deadline, we have an entire PHD to start and finish mere hours before it is due.



So how is our engagement project seeking to deliver the rapid and urgent change that is needed? How can we help to bridge the divide between announcements and real-world action?

Our engagement efforts have highlighted several problems that must be tackled in the months ahead:

- 1) The real-world problem:** corporate “talk” is not translating into action with the necessary speed. While change is happening – net zero was a concept few of our companies spoke about even five years ago – the pace of change needs to increase. Baseline calculations should now be complete (if not, the company should be considered an extreme net zero laggard) and targets must be underpinned by climate science and support a transition pathway, both to 1.5°C and the cutting of global greenhouse gas emissions by 50% by 2030, in line with the Paris Agreement and the Glasgow Climate Pact. Our engagement efforts continue to focus on ensuring that targets, where they are announced, are science-based and underpinned by a credible transition pathway.
- 2) The standards problem:** a multitude of frameworks and standards exist. We are concerned that small companies, with limited internal resources, may get left behind in

the race to net zero as they struggle to understand how investors want them to approach climate change. A report from “Bankers for Net Zero” highlighted the risk of neglecting smaller companies, which in the UK account for 52% of turnover and a quarter of the workforce: *“self-evidently, the UK Government cannot meet its long-term climate goals if it doesn’t take the 99% of British businesses with fewer than 250 employees with it”*. Specifically, more needs to be done to help companies understand how they should report on their approach to climate change, including target setting and transition pathways. This year, Montanaro’s *Project: Net Zero Carbon* has incorporated major collaborative initiatives. We have been one of the few boutiques to have contributed to the work of the [GFANZ](#) taskforce. Specifically, we are part of workstream three, which focuses on *Real Economy Transition Plans*. A summary of this work was included in GFANZ’s inaugural [Progress Report](#), published as the group’s chair, Mark Carney, spoke on Finance Day at COP26. Its aim is to provide improved guidance on how companies should plan and report on their transition to net zero. GFANZ is aiming to bring existing frameworks together: Assessing Low-Carbon Transition; SBTi; CDP; Climate Action 100+; TCFD; Transition Pathways Initiative; and suggest how companies can best utilise what already exists in the market.

- 3) The CEO problem:** To borrow a phrase from Mark Carney, a *“tragedy of the horizons”* exists where today’s CEOs – those setting net zero targets – are unlikely to be running the same companies in 2030 or 2050. They must be held accountable for the transition towards net zero in the meantime. This is a problem that we confront in our own industry as well as across our investee companies. In response, we have co-chaired the [B Finance Coalition](#), which we formally launched at COP26. This group of 11 finance firms has asked companies in our sector to amend their constitutional documents to align with broader stakeholder needs. As B Corporations, we have all done this and believe it leaves our businesses better placed to tackle the climate crisis. Whoever is on our Board will have to ensure that the business is being managed in a way that delivers social and environmental good, now and in the future. In our engagements, we are asking companies to tie executive remuneration to climate change and ensure that they have sufficient environmental expertise on the Board.

- 4) The voting problem:** owners of company shares have two “superpowers”: they can choose to sell shares, or they can exercise their voting right. In July, institutional investors managing more than \$14tn of assets, led by the Institutional Investors Group on Climate Change, called on companies to each make one director responsible for their net zero commitment and to give investors an annual vote on environmental progress. As is so often the case, this initiative is focused on LargeCap companies. We continue to see few explicit opportunities to vote on the environmental strategy of the smaller companies in which we invest. We continue to discuss this with management teams and hope that we will see more opportunities in the future to link voting to our climate change engagement efforts.

5) The laggard problem: to some extent, the sectors of the economy that are the most polluting are the ones that have taken the greatest steps when it comes to reporting on environmental initiatives (this does not mean that they are not still the most polluting businesses). This is understandable: they have faced the most shareholder and societal pressure. The result is that sectors that haven't faced such intense pressure from their stakeholders are lagging. Interestingly, this applies particularly to the Technology and Healthcare sectors, areas of the economy that we have high exposure to across our Funds. A report by [ClientEarth](#), published in February 2021, reviewed climate reporting among the FTSE 250: *"Notably, the Technology sector is the clear laggard, with not one company providing a clear link to climate change-related factors in its discussion of its business model"*. Meanwhile, *"there was a very clear difference in the quantity and quality of climate change-related disclosures by companies in the FTSE 100 compared to the companies that we reviewed in the FTSE 250"*.

These problems are not going to be solved overnight, but shareholders and the companies in which they invest must work together to tackle them. The stakes for companies – and investors – are high: if a net zero target is deemed too weak, it can cast doubt on a company's investment plans and lead to downgraded expectations for returns and asset values.

Let us end on a message of hope, because despite the loud voices of the naysayers and doomsday headline writers, there is much to be optimistic about. We must remember that while climate change poses clear and obvious risks to the investment landscape, opportunities exist too.

COP 26 saw the first ever Finance Day and the message was loud and clear: the role for the private sector in confronting the climate crisis is vast, the opportunities unprecedented. This was something noted by Sir David Attenborough in his speech at the conference: *"A new industrial revolution powered by millions of sustainable innovations is essential and is indeed already beginning. We will all share in the benefits of affordable clean energy, healthy air and enough food to sustain us all. Nature is a key ally, whenever we restore the wild it will recapture carbon and help us bring back balance to our planet"*.

COP26 did not solve the climate crisis, but it has invigorated stakeholders across the board. New net zero pledges were announced; fossil fuel funding has been further limited; pledges were made to reduce methane emissions and end deforestation. Much like the commitments that our companies have made, these now need to translate into action: *"Hurry Up and Get on With It"*.

As investors, we can play an important role in a transition that can bring about a better world. The environmental, social and investment benefits that this will bring should motivate us all.

Ed Heaven, Head of Sustainable Investment

December 2021

How to: “Hurry Up & Get on With It”

Climate action needs to accelerate. Our engagement efforts this year have allowed us to crystallise our thoughts on what we would like to see from our companies in response to the climate crisis. These include:

1. Set clearly defined climate-related targets, such as net zero carbon goals that are aligned to climate science (preferably 1.5°C).
2. Use external frameworks for independent assessment and verification of environmental targets. Have you considered the SBTi?
3. Measure carbon across Scopes 1, 2 and 3. If this is not possible, be upfront with the limitations of data collection. What are the main challenges?
4. Map out a transition pathway to support long-term targets. How will your business support the halving of global emissions by 2030, in line with the Paris Climate Accord?
5. Provide clear and transparent annual reporting of data, with explanations of limitations and data gaps.
6. Tie executive remuneration to sustainability targets. If not, why not?
7. Have adequate environmental expertise on the company’s Board. Is climate change seen as a Board level priority?
8. Allow shareholders the opportunity to vote on the company’s environmental approach at AGMs.
9. Spell out the opportunity for your business: the transition to a better world should be seen as one of immense economic opportunity and growth. How is your business positioned to benefit?

Alfen (Netherlands)

18 October 20201

Alfen operates at the heart of the transition towards a green economy by providing smart grids, EV chargers and energy storage. Whilst their products and services are important for improving renewable infrastructure, we wanted to know how Alfen is addressing carbon emissions at a corporate level.

Alfen: Hans Nagtegaal (Environment Manager); Adriaan Van Tets (Investor Relations)
Montanaro: Guido Dacie-Lombardo; Kate Hewitt

Hans explained that the company has set an 90P. This means that, despite the growth of the business, carbon emissions are forecast to remain flat. These targets have been certified using the SKAO performance scale, a Dutch scheme that consists of five levels known as the “carbon ladder”. Levels one and two are very basic and involve data gathering, but little reporting. Level three is awarded to companies that record Scope 1 and 2 emissions and publish them. Level four (the level Alfen has been awarded) is for companies that record and report their Scope 3 emissions and have set targets for improvement. Hans went on to describe Level five as being extensive carbon coverage of the entirety of a company’s supply chains. Very few companies have met this requirement due to the challenges posed by Scope 3 and full carbon analysis of a company’s supply chain.

We asked if other reporting schemes have been considered by the company and were told that Alfen are assessing the appropriateness and feasibility of using the Science Based Targets initiative (SBTi). This is something that we encouraged.

This call was useful in understanding how Alfen consider climate change from an operational perspective. The company report carbon emissions on a six-monthly basis and are audited by the SKAO scheme. In addition, the company have committed to maintaining carbon emissions at a constant level for two years despite the growth of the company. Adriaan told us that “ESG is part of the Alfen DNA”. We would like to see additional stretching emissions targets post-2022 and will discuss this with the company next year.

Ameresco (USA)

10 September 2021

Ameresco is an environmental consultancy firm based in the US. We spoke to them to management to understand how they help their clients to reduce their emissions and how they consider their own carbon footprint when undertaking new projects.

Ameresco: Doran Hole (CFO); Eric Prouty (Investor Relations); Leila Dillon (Investor Relations)

Montanaro: Mark Rogers; Kate Hewitt

The company noted that that more of their customers have set net zero carbon targets, which is a promising trend and has prompted Ameresco to produce a [Net Zero White Paper](#) exploring the issue. We discussed some of the challenges associated with achieving these targets. A major challenge is larger businesses with numerous premises and office locations. Ameresco noted that it was important to tailor carbon reduction measures to the specifics of each location, as the energy needs and available efficiency measures of sites will differ by region (e.g. depending on the availability of local renewable energy sources).

Ameresco said they had learnt this from their own experience when gathering data on carbon emissions across different facilities and regions. Ameresco had to gather baseline numbers across 70 offices and from this point establish targets that were feasible for the business whilst taking into account the various geographical contexts of each location.

Ameresco help their customers to reduce greenhouse gas emissions. Ameresco is also committed to reviewing their own carbon footprint and are in the process of developing plans to achieve net zero carbon from direct operations. The company have yet to set their target because they are still in the process of measuring a baseline from which to develop their transition pathway.

Atea (Norway)

26 August 2021

Atea is the market leader in IT infrastructure and related services for businesses and public sector organisations in the Nordic and Baltic regions.

Atea: Andreas Antonsen (Director of Corporate Responsibility)

Montanaro: Yannis Gidopoulos; Kate Hewitt; Ed Heaven

We spoke to Andreas regarding the “2030 Plan” that Atea has announced. This is the sustainability framework that is in place at the company and includes Atea’s carbon emission reduction plan. The current goal is to achieve a 50% reduction in CO₂ emissions by 2030. This includes phasing out fossil fuels, reducing air travel, halving transport emissions and using 100 % renewable energy. This reduction target was first certified by the SBTi in 2018.

While we are pleased that this existing target has been verified in terms of its alignment to the Paris Agreement, we wanted to see if there was any appetite at the company for more ambitious target setting. Andreas explained that Atea is hoping to set a net zero carbon target and wish to do so in line with the latest guidance from SBTi.

In addition, their current SBTi commitment is to aim for well-below 2°C of warming. However, given the strictest commitment would be to aim for 1.5°C, we asked if Atea would look to strengthen their target. Andreas confirmed

that they will and explained that when they originally made the SBTi commitment back in July 2018, “well-below 2°C” was the most stringent category offered.

Atea is keen to retain their position as ESG leaders and as a consequence have moved to set increasingly stringent emissions targets. Choosing to enhance existing targets and keep pace with evolving best practice indicates that the firm is unwilling to rest on their laurels. We look forward to seeing the publication of these more stringent targets and will monitor ongoing progress.

1:1 Achieve a 1:1 ratio between IT units sold vs recycled. For each one we put on the market, we'll take back at least one unit—extending IT lifespan and preserving resources.	1M+ Provide sustainability training to over 1M people, featuring a range of inspiring modules on how to leverage IT to meet local and global challenges.
TP2B Achieve Atea's vision as The Place to Be. This entails being an industry leader by continuing to build a diverse, gender-equality based workforce where together we build the future with IT.	-50% Achieve at minimum a 50% reduction in CO ₂ emissions at Atea. This includes phasing out fossil fuels, reducing air travel, halving transport emissions and using 100 % renewable energy.
100:1 Make our innovation handprint much larger than our carbon footprint, reaching a 100:1 ratio by leveraging power of IT, especially in the areas of blockchain technologies, AI and robotics.	2030

Biffa (UK)

18 January 2021

A waste management company with an increasing focus on providing solutions to support a circular economy.

Attendees from Biffa: Richard Pike (CFO)

Attendees from Montanaro: Mark Rogers, Kate Hewitt, Ed Heaven

We have engaged extensively with Biffa in 2021, including a sit-visit to see the company's plastic recycling facilities in June (see separate report: *Plastic Fantastic, Biffa Polymers Site Visit*).

Our engagements commenced with a call in January with the company's CFO, Richard Pike, to learn more about the ESG commitments made by the company. Sustainability goals include dedicated environmental targets, including a CO₂ reduction of 50% by 2030 and ceasing the purchase of fossil fuel collection vehicles in favour of electric vehicles.

Biffa have a well-explained transition pathway and the corporate stance supports the "get on with it" theme of this paper. Biffa state "*we have an ambitious plan, and we are getting on with delivering it*". Biffa's targets are explained below and on the [company's website](#):

2030: targets are based on existing technology and realistic deployment. This deliverable strategy builds the foundations for the next phase of our long term ambition of reaching net zero emissions across our direct operations (Scope 1 and 2 emissions) by no later than 2050:

- 50% reduction in CO₂ emissions
- 20% increase in collection route efficiency
- Cease buying fossil-fuelled vehicles
- Buy 100% renewable electricity
- Develop our renewable energy capability.

2040: The path to net zero depends on many factors some of which are not fully within the company's control, but they recognise that the waste sector is a key player in enabling the UK's transition to a zero emissions future.

- No fossil-fuelled vehicles
- Heavy plant (e.g. compactors, shovels, excavators) to reach net zero emissions
- All site fuels to be replaced by net zero emissions electricity.

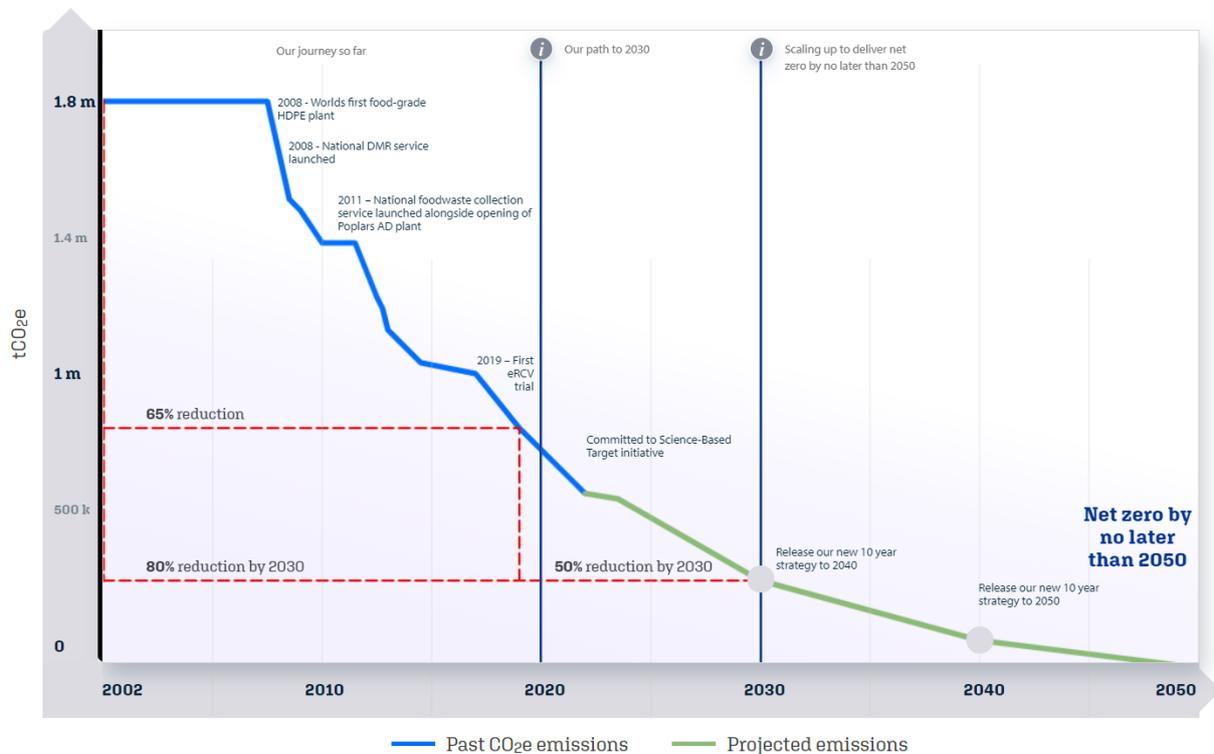
No later than 2050: Emerging technology and process innovation will bring opportunities to further accelerate the reduction of emissions and allow Biffa to achieve net zero emissions by no later than 2050.

- Increase use of renewable energy on site
- Societal shift away from non-recyclable material

- Exploit carbon capture and storage to accelerate emissions reduction
- Pre-treatment of landfill material to further decrease active waste to landfill below 10%
- Deploy environmentally beneficial offsetting for residual emissions at 2050.

The Carbon Trust currently verify the company’s carbon emissions performance and Biffa is in the process of gathering Scope 3 data so they can meet SBTi commitments and report annually on their trajectory to net zero. In addition, Richard mentioned that the company does not want to go down the route of carbon offsetting as they did not believe that this truly adhered to the necessary carbon reduction targets.

We will continue to monitor the company (as with all investee businesses) but are pleased with the roadmap Biffa have laid out.



Bio-Techne (USA)

17 September 2021

Bio-Techne develops, manufactures, and sells life science reagents, instruments and services for the research and clinical diagnostic markets worldwide.

Bio-Techne: David Clair (Investor Relations)

Montanaro: Kate Hewitt

Bio-Techne is still developing its approach to climate change. As a relatively small company, there are internal resource challenges. Nevertheless, the company committed at its most recent investor day to assess and benchmark carbon emissions. David explained that measurement would initially cover Scopes 1 and 2. He also said that the exercise would not cover all facilities globally, but major sites in Europe and the US (including Minneapolis and California which account for the largest percentage of the company's total carbon footprint).

David also emphasised that Bio-Techne do not have a dedicated ESG team. Sustainability initiatives are led by himself and the General Council for the company. This means that their efforts should be understood as the first steps in a long-term process. Work will commence on measuring Scope 3 emissions, although the setting of forward-looking targets for emissions reductions is slightly further off.

David said that they hope to disclose their first set of emissions data in the next Corporate Social Responsibility (CSR) Report. We have suggested that given the company's size, they utilise existing external frameworks such as the SBTi.

Bio-Techne are taking important first steps and are evolving their approach to CSR and environmental reporting. David was keen to talk about the challenges that resource constraints pose when it comes to setting environmental agendas within the company. Nevertheless, they are hoping to measure and improve upon their carbon performance.

Dexcom (USA)

15 September 2021

Dexcom is a provider of continuous glucose monitoring 'CGM' systems for people with diabetes, as well as patients seeking to track the impact of diet, sleep, and exercise on glucose levels.

Dexcom: Sean Christensen (Investor Relations); Matthew Carey (Investor Relations)

Montanaro: Charles Montanaro; Kate Hewitt

The company has a strong impact case and is well aligned with the Better World Fund Healthcare theme. However, the social good associated with the company's products does not preclude Dexcom from taking steps to reduce the carbon footprint of its operations. During our engagement with the company, we wanted to establish how they consider carbon and how they measure and report on their efforts to address carbon emissions.

We discussed the overarching environmental policy: "Respect and Protect the Environment". Previously the focus of this policy was the reduction of waste. Going forward there will be more of an emphasis on growing the ability to capture the data needed to quantify carbon emissions. Sean said that Dexcom is currently at the beginning of this project, which is the implementation of software to gather the emissions data covering direct operations. The expectation is that once this data has been gathered and analysed, a baseline will be established. A carbon reduction target will follow.

Dexcom was very open about the challenges it faces when it comes to measuring, reporting and improving upon its carbon emissions. The company is keen to work towards collecting and using emissions data to create forward looking targets. They also said that addressing reporting gaps to ensure sustainability reporting includes all relevant information is a key focus for the future. This company is at the beginning of its environmental journey. There is much to do, and we will be working with management to encourage swift progress.

Entegris (USA)

12 October 2020

Entegris supplies high performance specialty chemicals to the semiconductor industry that maximize manufacturing yields, reduce manufacturing costs and enable higher device performance for customers.

Entegris: Bill Seymour (Investor Relations)

Montanaro: Nere Asumendi; Kate Hewitt

The production of semiconductors is essential for technological advancements. These bring greater efficiency and aid a transition to a low carbon economy. We wanted to engage with the company as it is a new holding in the Better World Fund and we wanted to learn more about the operational footprint of the business and assess the approach taken to recording and reducing emissions.

The latest Corporate Social Responsibility (CSR) report covers activity from 2020 and describes their sustainability ambitions for the next 10 years. The company has set “2030 Innovation Goals” to outline their CSR agenda. Entegris has a four-pillar approach to CSR: Innovation, Safety, Personal Development & Inclusion and Sustainability.

Currently, Entegris have a goal to source 100% of electricity from renewable resources. In order to achieve this the company has purchased Renewable Energy Certificates (RECs) and verifiable agreements directly from its utility provider, but there is still research being undertaken on the best way to go about this in the future.

Entegris is measuring Scope 1 and 2 emissions for the first time. This data has been included in the new CSR report. There is an intention to record intensity and set energy reduction targets using the well understood energy usage per \$ of revenue metric. This will be tracked over the coming years to measure reduction efforts and set future targets.

We asked if future targets would include a commitment to achieve net zero carbon. Bill noted that while customers and investors are increasingly concerned with net zero, the current focus is on measuring energy intensity and setting a credible transition pathway before considering a long-term target, such as net zero.

This was a useful call to establish how Entegris approach managing environmental risks. Entegris measures and reports on its carbon footprint but there is room to expand this reporting to include Scope 3 emissions. They do have a future target to source 100% renewable electricity and we will be engaging with the company in the future about additional interim targets it can set to allow investors to fully assess its transition plans.

Esker (France)

6 September 2021

Esker is a French company that specialises in software that helps businesses automate their back-office systems by dealing electronically with orders and invoices.

Esker: Emmanuel Olivier (COO and Director General); Emilie Exartier (Investor Relations)
Montanaro: Guido Dacie-Lombardo; Kate Hewitt

We have seen from the company's latest Sustainability Report that Esker seeks to integrate sustainability into its business decisions and is transparent regarding carbon emissions, paper waste production and other metrics concerning its environmental footprint. While we applaud transparency and the disclosure of Scope 1, 2 & 3 emissions, we were keen to speak to management regarding their future plans. We discussed the importance of forward-looking carbon targets and asked if Esker had plans to introduce such measures. The company replied that this was indeed something that was in discussion but unfortunately, they did not feel able to implement such targets yet. The measuring and reporting of carbon emissions only began in 2018 and as a consequence, setting a base level from which reductions could be measured is difficult due to the distorting influence of the pandemic and remote working.

We also asked about the possibility of using third party initiatives to help set goals and substantiate reported targets, emissions levels and the businesses' wider environmental trajectory. They said that this is something that they would investigate (for example use of SBTi).

Another topic under discussion was that of Esker's digital carbon footprint. This is an important area for the company given its specialism in software. We discussed how the developers strive for efficiency which in turn has an impact on energy usage. In addition, we touched upon the migration to cloud-based servers rather than on premise facilities. Esker are encouraging all new clients to move to this service which is more flexible and resource efficient. This means it is a key feature of their digital carbon footprint reduction plan.

We look forward to monitoring the ongoing development of the Esker climate change strategy. We would like to see the next Sustainability Report build on current reporting to include future targets and plans, ideally to include external verification.

HGears (Germany)

12 November 2021

hGears specialises in e-mobility, particularly e-bikes. They also produce e-tools (power tools mainly used by professionals) and have a long-standing automotive business (with conventional motorcycle and other industrial applications).

hGears: Pierluca Sartorello (CEO), Daniel Basok (CFO)

Montanaro: Andrea Shen; Kate Hewitt

The company only recently IPO-ed and is yet to publish a Sustainability Report. Despite this, management were keen to consult with us on what we think is important to include when reporting on sustainability issues. We scheduled this call to discuss disclosure and to find out more about the approach to climate action and to encourage this to be a focus of reporting.

The inaugural Sustainability Report will be published at year-end alongside the Annual Report. To develop reporting hGears analysed ESG reporting by peers in order to understand industry standards. Carbon emissions will be included as a Key Performance Indicator (KPI) that will be monitored on an ongoing basis. hGears has already reduced emissions by replacing all the fossil fuel powered furnaces in their German facilities with electric furnaces. The first report will include Scope 1 and 2 emissions data, with an aim to reduce from this baseline going forward.

We discussed the possibility of setting a net zero carbon target in the future. Pierluca said that the culture of the company is to be ambitious and whilst this was something that has yet to be discussed, he was interested to know more and thought that this type of stretching goal would be in keeping with their approach. We suggested that they look at the SBTi methodology and standards.

We look forward to seeing the company's inaugural Sustainability Report. It is great to see such effort being devoted to the sustainability strategy and reporting following such a recent IPO. The ambition and enthusiasm to pursue stretching targets shown on this call is promising. We look forward to reading the report when it is published and following up with the management team.

Marshalls (UK)

15 September 2021

Marshalls is the leading manufacturer and supplier of natural stone and landscaping products in the UK.

Marshalls: Chris Harrop OBE (Director of Sustainability)

Montanaro: Ed Heaven; Mark Rogers; Manroop Bal; Kate Hewitt

Chris has been a leading figure in the innovative approach to sustainability taken by the company for many years. The company makes for an interesting case study as its carbon footprint is one of the largest of the companies on Montanaro's Approved List. The company is innovating fast, however and we consider it to be an ESG leader within its sector due to its excellent standards of reporting and environmental achievements to date.

As an example of its innovative approach, Chris explained plans to use CO₂ from carbon capture projects to cure concrete bricks. This will create the first carbon negative concrete bricks in the market. He also described plans to issue a Solar Reflectivity Index (SRI) score for all materials. This is intended to help combat urban heating which is exacerbated by the building materials used. He hoped that the inclusion of these scores would allow architects and contractors to factor in the potential heat that could be generated based on the materials they select for certain projects. This is something that is not widely done.

Chris also informed us that Marshalls has implemented a new goal to achieve net zero by 2030 in line with a 1.5°C degree scenario (this builds on a pre-existing commitment to aligning greenhouse gas emission reduction targets to well below 2°C). This updated target has been developed in line with new guidance from the SBTi. Chris said that the new target covered Scopes 1 and 2 and there are reduction targets in place for Scope 3. He also noted that Marshalls supports the Task Force on Climate-Related Financial Disclosures (TCFD) in line with the UK Government's expectation that listed companies should disclose according to TCFD recommendations.

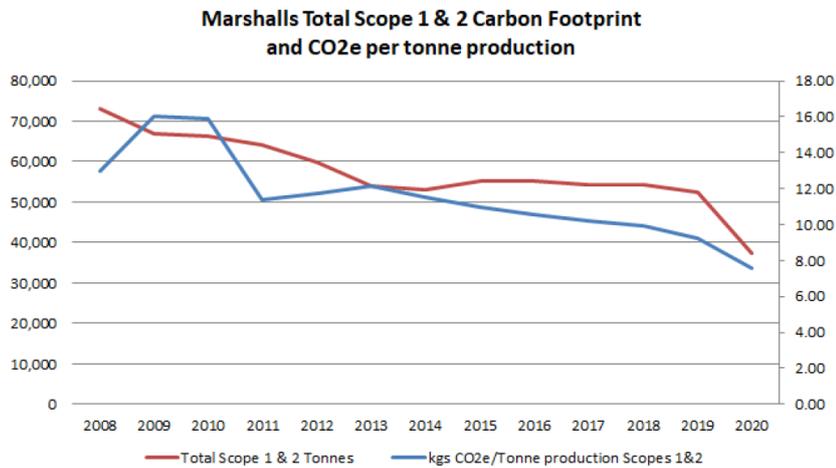
These future plans follow on from a recent publication entitled [Marshalls' Climate Challenge](#). This report outlines the specific challenges faced by the construction industry when it comes to addressing the climate crisis. It concludes by issuing a call to action to the sector by challenging Marshalls' competitors to outperform them when it comes to addressing climate change.

Marshalls has achieved a number of environmental targets to date:

- Carbon emissions targets approved by the Science Based Targets initiative;
- 50% reduction in overall carbon footprint between 2008 and 2020;
- All production plants use 100% renewable energy;
- 8,000 tonnes of CO₂e saved from green electricity in 2020;
- Carbon foot-printing of products since 2008;
- In the last 5 years, Marshalls' permeable paving has prevented 322,000m³ of flood water, equivalent to 192 Olympic swimming pools;
- 14-year partnership with the Royal Society for the Protection of Birds.

50% Reduction in Carbon Since 2008

Our total carbon footprint has decreased by over 50% since 2008, even with acquisitions of CPM in 2018 and Edenhall in 2019. This is particularly seen in our relative footprint which also significantly decreased – this is the measure we use to take into account our carbon emissions relative to output.



The company is a leader among its peers and takes an innovative approach to reducing the environmental footprint of its operations and products. The recent strengthening of its carbon emissions target to set a new more ambitious net zero goal is testament to the work Marshalls continues to do to address ESG risks and maintain a transparent approach to disclosure.

Middlesex Water (USA)

16 September 2021

Middlesex Water is a water utility operating in New Jersey, Delaware, and Pennsylvania. The company collects, treats and distributes water for domestic, commercial, and municipal use and fire protection purposes.

Middlesex Water: Dennis Doll (Chairman, President, CEO); Bernadette Sohler (Corporate Affairs)

Montanaro: Mark Rogers; Gaspar Arino; Ed Heaven; Kate Hewitt

By supplying safe water and repairing water infrastructure, the company is well aligned to Sustainable Development Goal 6 (Clean Water and Sanitation) and our Better World Fund Environmental Protection theme. However, our ESG analysis highlighted that Middlesex Water is underperforming in terms of their carbon reporting. This was the second engagement with the company on this subject. We spoke to management last year and were keen to hear what steps had been taken since we last engaged.

Bernadette told us that a new CSR report is due to be published before the end of 2021 (this was made available in October 2021). This report includes data on Scope 1 and 2 emissions from two of the company's largest plants. Significantly, this excludes the newly constructed water treatment plant that uses ozone as the method for disinfection, which we were informed has a distorting influence on overall carbon emissions.

Dennis explained that there are a number of public health benefits with the Ozone Plant, compared to traditional water chlorine treatment methods. However, a downside of this new method is a higher energy intensity. The opening of the facility will therefore have a negative impact on carbon emissions, but management argued that this should be factored into wider positive impact of the project. This is a good example of the friction that can exist between a service that provides a positive social impact but comes with an environmental cost. We urged the company to include this in future reporting to that investors can fully understand the environmental intensity of the business.

We were informed that the majority of the carbon emissions associated with the company are attributable to energy procurement in order to pump water through water systems. The reality is that this is energy intensive and as with last year, the company has few renewable energy options in its main geographies.

Bernadette talked about the work that had been done on climate change resilience to ensure the security of the company's facilities in the eventuality of an extreme weather event. Dennis also talked about the importance of water source protection. These wider environmental efforts have been undertaken alongside the work to address carbon emissions.

The disclosure and measuring of their carbon emissions has improved since the inaugural report from last year, which is a promising first step. We would like this improvement to continue and see full reporting across the business in the years ahead.

NCAB (Sweden)

12 October 2021

NCAB purchases Printed Circuit Boards (PCBs) from a network of manufacturers, primarily in China.

NCAB: Iris Tolonen (Researcher from Trossa AB, a consultancy service for sustainable development)

Montanaro: Nere Asumendi; Kate Hewitt

Using the “Integrated PCB production” concept, NCAB assumes overall responsibility in relation to its customers – from design support, prototyping, production and quality control to final delivery. The company is in the process of reviewing its sustainability strategy and is conducting a stakeholder dialogue to gather views on what issues should receive the most focus. The consultation was conducted by a third party, Trossa AB.

Historically, sustainability reporting from NCAB has focussed on social issues and in particular its supply chain. NCAB is assiduous when it comes to auditing its approved manufacturers and is incredibly transparent when it comes to reporting, not only the audit process, but the outcomes and next steps that result from this process. This has been the focus due to past materiality assessments that indicated labour rights are one of the most important ESG risks that the company has to manage.

However, this means less focus and fewer resources have been directed to environmental risks. As a consequence, we emphasised the importance of addressing climate related risks and improving disclosures on how the company includes consideration of these risks in its sustainability strategy.

We informed Iris that, although past reporting had been useful, it was lacking important information. Managing labour rights and providing safe working condition throughout the supply chain is, of course, extremely important but climate change is a risk for all businesses and constitutes a big reporting gap when it is not addressed properly in a company’s sustainability strategy.

We are always happy to participate in stakeholder consultations, particularly in cases where we can guide companies to address their environmental risks. The fact that NCAB is eager to gather views to advance its sustainability planning is indicative of a strong motivation to improve. We want to see the results of this consultation over the coming year and expect our feedback to be included in future reporting.

Severn Trent (UK)

24 November 2021

Severn Trent is a British water company providing water and wastewater services.

Severn Trent: James Bowling (CFO), Rachel Martin (IR)

Montanaro: Ed Heaven; Mark Rogers; Kate Hewitt

Severn Trent has had its emissions reduction targets approved by SBTi and is aligned with a 1.5°C future. The company has created a Triple Carbon Pledge. This involves a commitment to net zero operational carbon emissions by 2030; 100% renewable energy by 2030; and 100% electric vehicles by 2030.

We asked what Scopes are covered by the SBTi approved target. James told us that currently this target covers both Scopes 1 and 2 emissions. However, Severn Trent will aim for 70% of suppliers (by emissions) to also be SBTi certified in order to cover Scope 3.

James was able to give examples of innovative ways Severn Trent is aiming to tackle Scope 1 emissions through carbon sequestration. He said he was particularly excited about projects involving process emissions associated with waste and sludge treatment processes. Currently these are the most difficult aspect of the business to decarbonise and account for 71% of Scope 1 emissions, but this is where the biggest opportunity lies.

Something that we thought was very innovative was Severn Trent's internal carbon tax programme, whereby the business divisions associated with the highest GHG emissions must pay an effective carbon tax and contribute to a central pot that is used for carbon reduction projects. This incentivises efficient environmental decision making and an entrepreneurial approach to carbon reduction.



We asked why Severn Trent had opted to pursue its own Triple Carbon Pledge, rather than use the SBTi net zero framework alongside their recently approved emissions reduction targets. James said that this was due to the generation of energy from the company's own renewable assets not being eligible for inclusion in the SBTi framework. This is equivalent to over half the electricity Severn Trent Water uses (53% as of 2021) and therefore, the company has decided to use a different methodology for the transition plan.

We consider Severn Trent to have one of the most comprehensive and ambitious carbon reduction plans of the companies on our approved list. They are “talking the talk and walking the walk”. As a consequence, we have asked management to participate in an event that Montanaro will host next year to showcase their environmental efforts as part of our “Hurry Up and Get on With It” campaign for 2022.

Shionogi (Japan)

18 November 2021

Shionogi is a Japanese drug discovery-based pharmaceutical company. The company focuses on two core therapeutic areas: infectious disease and the Central Nervous System.

Shionogi: Yumi Murakami (Investor Relations)

Montanaro: Andrea Shen

We noted that Shionogi featured in the list of the top 10 public companies with the most thorough emissions-reduction targets in [The MSCI Net-Zero Tracker Report](#). We wanted to discuss this achievement as well as the recent approval of the company's carbon targets by the SBTi.

We asked how Shionogi had formulated its emissions reductions target. We were told that they had used the tools provided by the SBTi and set the required reduction target using emissions measured in 2019 as the baseline year. In order to reach the 1.5°C target by the end of 2030, Shionogi will have to reduce Scope 1 and 2 emissions by 4.2% every year and Scope 3 by 1.82% per year.

Progress towards this target is monitored by the Senior Executive Officer in charge of Environment, Health and Safety. In addition, the Sustainability Management Department conducts daily monitoring. Monitoring results are reported to the Board of Directors on a quarterly basis. In other words, there is clear executive level oversight.

In addition, the company has set a 2050 carbon neutral target, a goal that has been influenced by the Government of Japan's national target for the same year (something we highlighted in last year's report is the influence of Japan's national target on the country's private sector). As a point of interest, the company has also explained that aiming for 2050 should be considered a strategic "vision". There is a belief that this target could be achieved early, but this relies on two things: 1) increased global momentum to net zero; and 2) the emergence of accessible and innovative GHG reduction technology.

We also asked about the role of carbon offsets in achieving the company's climate goals. Shionogi plans to meet its SBTi commitment by significantly reducing Scope 2. They hope to achieve this by aggressively introducing renewable energy into major factories and offices. From 2021 to 2030, the company is switching one factory or office to renewable energy every year. In 2021, the Shionogi headquarters in Osaka was switched to renewable energy. While the company recognises that others in the pharmaceutical industry have set goals for 2050 with offsets in mind, Shionogi does not anticipate the need to use offsets.

We wanted to know if Shionogi had considered the use of the SBTi net zero framework to set a science based, net zero target. Yumi replied that Shionogi are aware of this framework but did not feel able to commit to it yet as their Scope 1 reductions will be dependent on technical innovations. Shionogi are therefore focussing on the achievement of targets that are already set.

This was an informative exchange with a company that has been lauded for its carbon goals. Shionogi has mapped out interim and long-term goals and have taken into account governmental ambitions for carbon neutrality. We look forward to seeing how the development of new technologies for addressing Scope 1 emissions may expediate the reductions and lead to earlier targets being set.

Spirax Sarco (UK)

9 September 2021

Spirax-Sarco is an industrial engineering company specialising in steam systems.

Spirax-Sarco: Sarah Peers (Group Head of Sustainability)

Montanaro: Stefan Fischerfeier; Ed Heaven; Kate Hewitt

We spoke to the Group Head of Sustainability following the announcement of the company's new "One Planet" strategy which included a new and more ambitious net zero carbon target. The new target aims to achieve net zero greenhouse gas emissions by 2030, 10 years earlier than the original target. It was explained to us that the original 2040 target was seen as "*a stake in the ground*" but there was always the intention of setting a more ambitious target.

To understand if a more ambitious target was achievable, the company undertook a comprehensive exercise led by an external consultant. We asked if they had considered aligning their targets with the SBTi and were told that this is a step that is currently being considered. We encouraged this move as external verification provides an important point of comparison between companies and ensures alignment to the Paris Climate Agreement.

Pleasingly, the company subsequently announced its public commitment to the SBTi in October 2021.

We also asked about the influence of sustainability considerations on the business strategy. We were told that the executive committee are incredibly supportive of the One Planet commitments. We were told that the business strategy was designed alongside the One Planet objectives and as a consequence they are harmonised. Therefore, they are not seen as separate but rather as two sides of the same coin. The sustainability of products and services is now elevated within the design and development process meaning there is a deep level of integration between sustainability and business planning.

We discussed the challenges associated with achieving net zero. These include the direct sales business model, meaning travel is very important to the company. Whilst this is not anticipated to be a significant barrier in some countries due to the increased prevalence of electric vehicles powered by renewable grid energy and the anticipated decarbonisation of public transport, the lack of infrastructure in other countries will mean visiting some clients in a low carbon manner may prove difficult. In addition, the availability of renewable energy in some countries is also a barrier. There are also some industrial processes which are hard to decarbonise. For example, furnaces are reliant on fossil fuels due to the temperatures that must be reached. However, there is a confidence that the necessary technological advances will be delivered to achieve net zero.

We were pleased with the ambition shown by Spirax-Sarco to set aggressive sustainability goals, not only for net zero carbon but also additional environmental and social commitments.

Unity Software (USA)

23 November 2021

Unity Software provides software tools to game developers to help them create, operate, and monetise their games. In October 2021, Unity committed to set a Net Zero target in line with the new SBTi framework.

Unity Software: Stephen Palmtag (Investor Relations)

Montanaro: Guido Dacie-Lombardo; Ed Heaven; Kate Hewitt

We were very pleased to see the recent commitment to set Net Zero carbon reduction targets with the SBTi. Stephen said that this is core to the culture and mission of the company. Immediately post-IPO Unity wanted to pursue ESG efforts. The Social Impact team wanted to set a Net Zero goal straight away and not put off climate action efforts. This is why the team have already recorded and offset emissions from last year.

We discussed what the main challenges could be to reaching the Net Zero goal. Stephen said that the rapid growth forecast for the business is likely to be the key obstacle to overcome. This will inevitably lead to emissions increases through the hiring of more staff and a greater need to travel.

We also spoke about the role that carbon offsets might play in the pursuit of its climate goals. Stephen said he was unsure how the role of offsets in the achievement of Net Zero would change in order to meet the requirements of the SBTi, but was able to elaborate on the role of offsets to date. Unity Software has recorded its GHG emissions and is aiming to reduce these. It has exciting projects to help achieve this for clients as well as for direct business activities, such as Nature Conservatory. This involves making digital twins and using software to create emissions reductions. Where offsetting is used, Unity has selected a third party called Cool Effect to help when choosing projects. This involves a vetting procedure to assess quality.

Unity is an example of a carbon neutral company that is aiming to reduce its emissions and achieve Net Zero. There are plans to publish the first specialised sustainability report in April 2022.

Additional engagements:

SparkChange (UK)

16 November 2021

SparkChange is a provider of specialist carbon investment products.

SparkChange: Anthony Gordon (Head of Trading Operations); Jan Ahrens (Head of Research)

Montanaro: Alex Magni; Mark Rogers; Manroop Bal; Ed Heaven; Kate Hewitt

SparkChange have devised a strategy that makes use of Carbon Allowances. Carbon allowance markets are mandatory markets set up by governments to reduce emissions. One carbon allowance permits the user to pollute 1 tonne of CO₂ with no expiry date. Regulators reduce the number of permits annually, driving up the price and scarcity value. This incentivises companies to invest in emission reduction technologies as this becomes less costly than buying carbon allowances. Polluters are therefore given a choice; either reduce emissions or compete to buy more allowances.

SparkChange hope to participate in the EU Emissions Trading Scheme and purchase allowances to store them in a registry account. This deprives polluters from accessing the permits and therefore forces climate action. In addition, during the holding period of the carbon allowance the EU cancels the available emissions and as a consequence, for every year the allowance is held, a climate dividend is created. The intention is to create a positive climate impact by both influencing the behaviour of carbon intensive industries and creating a climate dividend.

Whilst we do not use these products, nor are SparkChange an investee company, we wanted to learn about their approach to portfolio decarbonisation and the use of market instruments to lower emissions. It is interesting to see the way in which investors are taking an innovative approach to challenges of creating a green economy.

ShareAction (UK)

29 November 2021

ShareAction is a charity that coordinates the stewardship efforts of institutional investors to create effective collaborative engagement.

ShareAction: Helen Wiggs (Head of Corporate Climate)

Montanaro: Ed Heaven; Kate Hewitt

ShareAction is bringing investors together to tackle climate change via their Investor Decarbonisation Initiative. We wanted to find out more about this initiative and get feedback on our own approach.

Helen explained the history of the collaborative engagement efforts organised by ShareAction. She said that the Investor Decarbonisation Initiative had initially focussed on heavy industry in order to target the worst polluters, they had then taken a sector-by-sector approach in order to coordinate engagement amongst their supportive investor group. Their latest sectoral target has been the chemical industry, [an industry that accounts for 5.8% of global GHG emissions](#). ShareAction also scrutinises the lending practices of banks and reviews the projects they finance to ensure they are aligned with appropriate climate action.

Unfortunately, due to the size of the companies that ShareAction tend to target, we have been unable to join the investor initiative as the companies on our approved list do not feature in the charity's campaign coverage. We were, however, able to pick Helen's brain on what she thought were valuable areas of focus when it comes to engaging with smaller companies on climate change. She said it is important to ensure that companies are keeping up to date with relevant reporting requirements, such as TCFD. Alongside this, appropriate scenario planning and a team with the resources to implement sustainability initiatives such as carbon pricing are important considerations. She also emphasised the importance of the SBTi and developing short and mid-term targets that are approved in line with a 1.5°C scenario.

Helen asked us where we think ShareAction could focus in the future from a sectoral position in relation to climate change. We noted that the Technology sector continues to be a climate laggard when it comes to reporting. Given these businesses are increasingly influential in the economic system and sit at the top of many global equity indices, this could be something to consider.

The valuable work of ShareAction in coordinating collaborative engagement between investors means that they are able to orchestrate meaningful change through directing stakeholders. We have participated in their campaigns in the past and will look to do so again in the future. In the meantime, we were pleased to be able to gather feedback from Helen on how to approach our engagement.

Conclusions

During the year, management and company representatives were extremely receptive to our climate change engagement efforts. We thank them all for the time they gave to us. Every company that we approached was willing to engage with us and was keen to share their environmental plans and hear our perspectives. All are taking some steps to measure carbon data. However, some are further along this path than others when it comes to the publication of environmental information. In addition to differing standards of transparency and disclosure, some companies remain, in our opinion, some way from setting formal climate-related targets, such as net zero. While we are sympathetic to the many challenges that companies have confronted in recent years, not least the pandemic, the pace of change needs to rapidly improve in 2022. Every business will face issues in the years ahead if we do not deal with climate change.

We have continued to urge our companies to set stretching targets and have recommended the use of the Science Based Targets initiative (SBTi) as a third-party verification scheme. This ensures that targets adopted by companies are in line with the latest climate science and support the Paris Agreement. This initiative evidences that businesses are taking the necessary steps to limit global warming, ideally in line with 1.5°C above preindustrial levels. We continue to monitor how many of our investee companies adhere to SBTi and have their targets approved. Over the last year, there has been an increase in the number of companies on our Approved List committing and publishing targets with this important initiative. We anticipate that some of the companies that we have spoken to during this year's engagements will be included in the next wave of companies taking action to achieve the Paris Climate Agreement.

While some of our Approved List companies have further to go than others, the vast majority are attempting thoughtful forward planning. We remain mindful of resource constraints experienced by smaller companies and attempt to offer as much assistance as we can on how to direct their time and efforts in the most resource efficient ways. Nevertheless, we do not lose sight of the need to push for action on climate goals and will continue to ask for more transparent reporting and more ambitious target setting as we proceed with our engagement project in 2022.

Kate Hewitt, ESG & Impact Specialist
December 2021

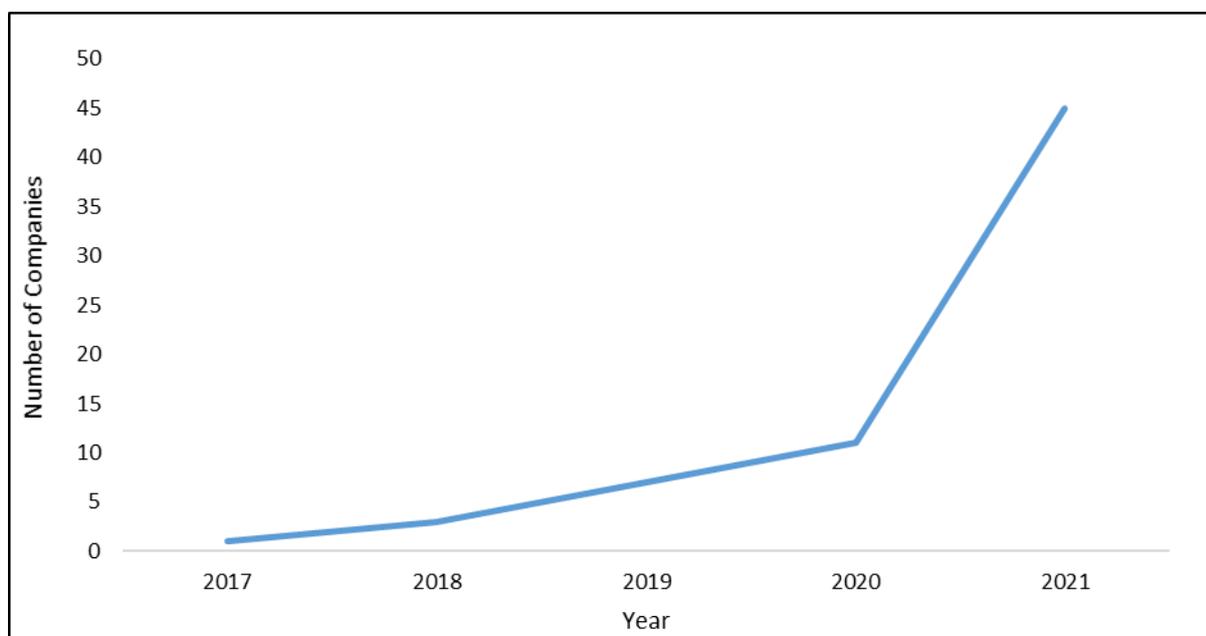
SBTi Commitments

At the end of October 2020, **11 companies on our Approved List had made SBTi commitments.**

By the end of October 2021, **45 companies on our Approved List had made SBTi commitments.**

In 2020, **4%** of our Approved List had committed compared to **17% this year.**

Number of companies on our Approved List with SBTi commitments from 2017 to 2021:



Progress Towards our Target

By the end of September 2021, **10% of the Better World Fund Portfolio** was made up of companies that have either already achieved carbon neutrality or net zero emissions or have credible strategies to achieve this by 2030.

Glossary

The language used when discussing climate change can seem a bit opaque. Different terms are often used interchangeably, leading to confusion. We hope that the below helps.

[Carbon Allowances](#) – Market instruments used in emissions trading schemes. This puts a price on a unit of carbon dioxide that can be emitted so polluters must pay for their emissions. These can be traded as part of Emissions Trading Schemes (ETS). There are many ETS covering different regions with the EU ETS being the largest.

[Carbon Neutral](#) – Using carbon offsetting techniques equivalent to emissions released, without the need for emissions reductions to have taken place. In addition, Carbon neutrality has a minimum requirement of covering Scope 1 & 2 emissions with Scope 3 encouraged and there is no requirement for a company to reduce its emissions on a certain trajectory in order to be carbon neutral.

[Carbon Offsets](#) - Projects that avoid or reduce greenhouse gas emissions to the atmosphere. They can be used to reduce or “offset” an organisation’s scope 1, 2 or 3 emissions, as a net adjustment. Offsets are useful for institutions that cannot eliminate their emissions altogether to reach absolute zero but instead have residual emissions that must be removed through offsetting. Carbon removal includes both natural and technological approaches, ranging from growing trees to removing CO₂ from the air with machines. This variety of approaches means some methods are more effective and long-term than others and introduces the risk of greenwashing. The [Oxford Offsetting Principles](#) outline a best practice approach to selecting offsetting projects.

[COP26](#) - The UK hosted the 26th UN Climate Change Conference of the Parties (or COP26) in Glasgow on 31st of October to the 12th of November 2021. The COP26 summit aims to bring parties together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change.

[Net Zero Carbon](#) - Reducing emissions in line with latest climate science to get as close as is feasible to absolute zero emissions and balancing remaining residual emissions through carbon offsetting measures. Net zero must cover Scope 1, 2 & 3 emissions and an organisation must be reducing its emissions along a 1.5°C trajectory across all three Scopes.

[The Paris Climate Agreement](#) - The Paris Climate Agreement was approved by 196 parties at COP21 in 2015 and agreed to hold the increase in global average temperatures well-below 2°C and pursue efforts to limit the increase to 1.5°C. Presently, global temperatures have risen by 1°C since pre-industrial levels. Holding warming to 1.5°C could mean that 11 million fewer people are exposed to extreme heat, 61 million fewer people are exposed to drought and 10 million fewer people are exposed to rising sea level impacts compared to 2°C warming. Governments and companies setting and achieving net zero targets will be key to limiting warming to 1.5°C.

[Renewable Energy Certificates](#) - or RECs are a tradeable, market based instrument that represents the legal property rights to a megawatt hour (MWh) of electricity generated and delivered to the grid from a renewable energy resource. These certificates can be used to verify the origin of the electricity purchased by a company and can be used to lower an organisation's Scope 2 emissions.

[Science Based Target initiative](#) - The SBTi mobilises companies to set science-based targets and boosts their competitive advantage in the transition to a low-carbon economy. Targets adopted by companies to reduce emissions are considered "science-based" if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement—to limit global warming to well-below 2°C above preindustrial levels and pursue efforts to limit warming to 1.5°C.

[Scope 1](#) - Account for direct emissions that result from activities within an organisation's control (for example, fuel combustion, company vehicles, manufacturing processes and fugitive emissions).

[Scope 2](#) - Indirect emissions associated with procured energy (for example, electricity, heat, or steam purchased and used).

[Scope 3](#) - All other indirect emissions across an organisation's value chain, for example, purchased goods and services, business travel and end-of-life treatment of sold products. The variety of elements that can be included in the definition of Scope 3 emissions often means this is the hardest Scope to accurately collect data on.

[END]