ASSET MANAGEMENT

PROJECT: NET ZERO CARBON

Update for 2024

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INTRODUCTION

The facts of climate change remain stark. 2024 was another record-breaking year for global temperatures, with extreme weather events providing a reminder of the growing risks posed by a warming planet. Already, records have been broken in the New Year. January 2025 was the warmest January on record, with global surface air temperatures averaging 13.23°C, some 1.75°C above pre-industrial levels, according to the Copernicus Climate Change Service[1]. This occurred despite the emergence of La Niña, a weather phenomenon that typically brings temporary cooling. Scientists now warn that global warming is accelerating at an alarming pace, with devastating consequences unless urgent action is taken.

Despite these scientific facts, the backlash against environmental, social and governance (ESG) initiatives has intensified. Policymakers in certain regions, particularly in the US, have sought to limit the integration of ESG factors into investment decisions, framing them as politically motivated rather than financially material. Some investors, under pressure from short-term market forces, have tempered their climate commitments. Yet, as the evidence continues to mount, the need for a long-term, science-based approach to decarbonisation is clear. **To truly be a long-term investor, one must think and act beyond the current election cycle**

Montanaro Asset Management (MAM) has never viewed climate action as an optional extra. We are long-term investors who believe that sustainability is central to the financial health of businesses and the wider economy. Our commitment to net zero remains steadfast, regardless of shifting political narratives. We will continue to play our part in the transition by engaging with companies to accelerate their climate strategies and advocating for policies that support an effective and just path to net zero.

Our role in the transition

MAM has long recognised that investors have a critical role to play in addressing climate change. As a certified B Corporation, we are legally bound to consider the impact of our decisions on all stakeholders, not just shareholders but employees, customers and the environment. In 2019, we took the step of committing our own operations to net zero by 2030. We have since gone further, with a desire to be Carbon Negative across our operations by 2030. For our investment portfolios, we aim to be net zero by 2050 at the latest. This is more than enough time for businesses of all kinds to have addressed the substantial challenge presented by the transition.

2019 was the year we launched "Project: Net Zero Carbon", a long-term engagement programme aimed at encouraging our investee companies to respond to this challenge. The project is built around a fundamental belief: businesses that fail to adapt to the net zero transition risk being left behind *over the long-term*. Climate change presents both risks and opportunities and the winners will likely be those companies that act decisively. Through our engagement efforts we have worked with companies to improve their climate disclosures; set credible emission reduction targets; and adopt credible transition plans.

[1] https://climate.copernicus.eu/surface-air-temperature-january-2025

Looking ahead

The landscape has shifted significantly since we launched Project: Net Zero Carbon. When we began, few of our investee companies had committed to science-based targets. Today, a growing number have set clear decarbonisation goals, often verified by the Science Based Targets initiative (SBTi). Many more are in the process of aligning their strategies with net zero.

One of the biggest obstacles to progress continues to be the inconsistency in climate-related reporting standards. A multitude of frameworks exist and smaller companies, in particular, struggle with the complexity of compliance. While larger businesses have dedicated ESG teams to navigate disclosure requirements, many small and mid-sized companies lack the internal resources to keep up. To some extent, we welcome regulatory indications that ESG reporting requirements may be consolidated or slimmed back. The thirst for data and information should not be the enemy of the good.

Another challenge is executive accountability. Given the timescales involved, CEOs and Boards have set climate goals that extend far beyond their own tenure. This is why we continue to advocate for the integration of climate-related targets into executive remuneration packages. Companies that tie incentives to decarbonisation targets are more likely to deliver meaningful progress.

As we look ahead, our focus remains on accelerating real-world action. In 2025, we will continue to engage with investee companies to:

- **Ensure targets are science-based and independently verified:** we will push for greater transparency and accountability, ensuring that commitments align with a 1.5°C pathway and include clear interim milestones.
- **Encourage stronger transition planning:** commitments alone are insufficient. We will work with companies to ensure they develop detailed transition plans that specify how emissions reductions will be achieved.
- **Promote Board-level accountability:** we will continue to press for climate governance structures that ensure executive teams are held responsible for delivering net zero goals.
- **Support policy initiatives that drive systemic change:** individual companies can only do so much. We will use our voice to advocate for policies that create an enabling environment for businesses to decarbonise.

Despite the growing political and market pressures, MAM remains committed to being part of the solution to the world's changing climate. We will continue to support our portfolio companies in strengthening their climate strategies and push for greater accountability across the corporate sector. As ever, we will do this with our clients and their investment portfolios at the forefront of our minds.

Ed Heaven
Head of Sustainable Investments
January 2025

PROGRESS

MAM has set ambitious targets to reduce financed emissions as part of its net zero commitment. By 2030, 50% of designated Assets Under Management (AUM) are expected to have implemented Science Based Targets (SBTs), with full coverage across all AUM by 2040. These targets are key steps towards MAM's ultimate goal of achieving net zero financed emissions by 2050. To support this transition, MAM has also set interim targets, including an annual 7% reduction in portfolio emissions, in line with the PAII net zero Investment Framework and the IPCC's 1.5°C scenario.

Significant progress has already been made, with a growing proportion of portfolio companies setting and committing to science-based decarbonisation pathways. **Since 2019, absolute Scope 1 and 2 financed emissions have decreased from 47,583 tCO_2e to 14,611 tCO_2e in 2024, representing a reduction of 69%.** At the same time, the proportion of AUM covered by SBTi commitments or approved targets has risen from just **2.4% in 2019 to 40.5% in 2024**. This progress is ahead of MAM's interim targets, demonstrating the action being taken by our companies alongside our engagement efforts. MAM remains committed to accelerating this progress, ensuring portfolio alignment with global climate goals and supporting the transition to a low-carbon economy.

We have also calculated the attribution to the financed emissions change between 2021 and 2024:

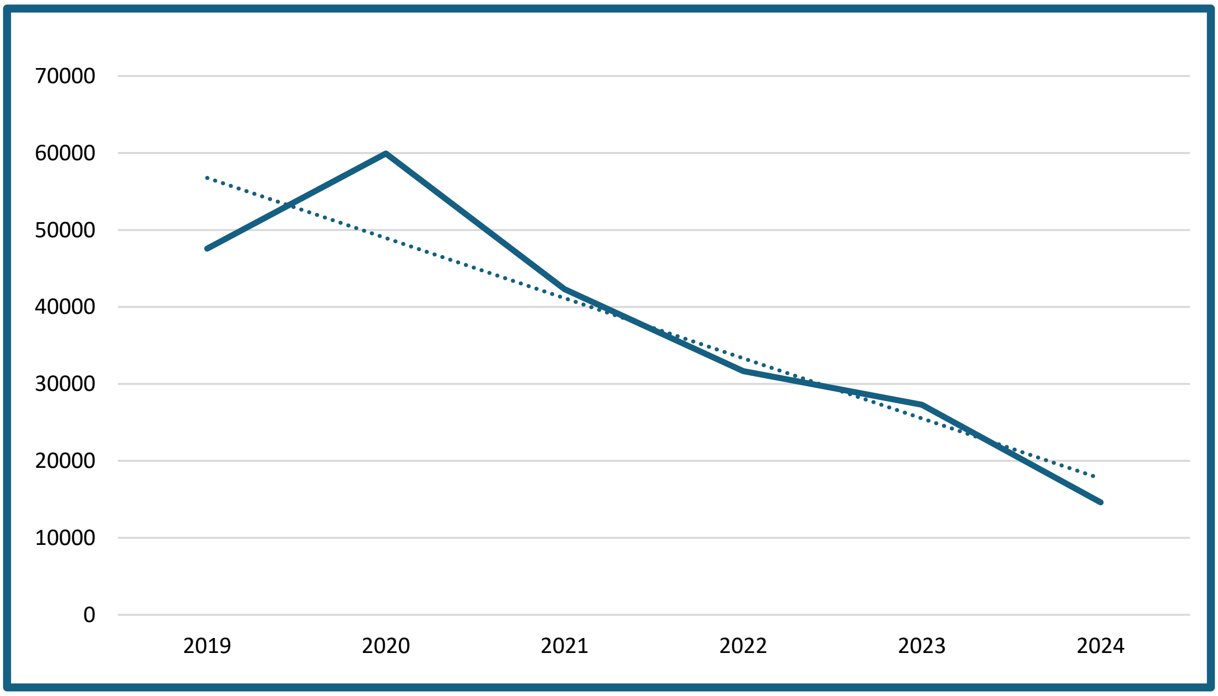
Company effect (A)	*-23.3%*
Allocation effect (B)	*-42.2%*
Total effect (A+B)	***-65.5%***

Between 2021 and 2024, financed emissions in the portfolio decreased by 65.5%, a reduction that can be attributed to two key factors: changes made by investee companies and strategic shifts in portfolio allocation. The **Company Effect**, accounting for a 23.3% reduction, reflects the emissions reductions achieved by companies that remained in the portfolio throughout this period. This means that even if the portfolio had remained unchanged, emissions would still have fallen due to actions taken by these companies, such as improving energy efficiency, transitioning to renewable energy, or implementing decarbonisation strategies.

The remaining 42.2% reduction, known as the **Allocation Effect**, captures the impact of investment decisions. This includes divesting from higher-emitting companies, reallocating capital to businesses with lower carbon footprints and adjusting portfolio weightings. Taken together, these two effects explain the total 65.5% decline in financed emissions over the period.

Although Montanaro's net zero baseline year is 2019, we have used 2021 as the starting point for this analysis, as it marks the launch of the portfolios we currently manage. As a result, this timeframe provides a more relevant measure of how investment decisions and company progress have influenced financed emissions reductions over the past three years.

Total financed carbon emissions for all in scope portfolios - Scope 1 and 2 (tonnes CO_2e)



Year	Financed Carbon Emissions (Scope 1 & 2) – Tonnes CO_2e	SBTi alignment (% AUM)
2019	4,7583	2.4%
2020	5,9938	6.2%
2021	4,2313	22.2%
2022	3,1653	32.2%
2023	2,7300	39.4%
2024	1,4611	40.5%

Portfolio-level emissions trajectory

As we advance our net zero strategy, it is essential to assess emissions trends across individual portfolios to ensure alignment with decarbonisation targets. This section examines the financed emissions trajectory of each portfolio, highlighting reductions achieved to date and the progress towards interim and long-term climate goals.

Global portfolios

The Better World Fund (BWF) has shown a significant decline in financed emissions, with Scope 1 and 2 emissions decreasing from **8,813 tCO_2e in 2019 to 1,061 tCO_2e in 2024**, representing an **88% reduction**. The proportion of AUM covered by SBTi commitments has also grown from **0% in 2019 to 27% in 2024**, reflecting increased corporate alignment with science-based decarbonisation pathways. The UK-domiciled **WS - BWF vehicle was launched**

in 2020, hence there is no available carbon data prior to this date. Since its inception, WS - BWF has maintained a relatively stable emissions profile, with Scope 1 and 2 emissions peaking at **626 tCO_2e in 2023 before declining to 591 tCO_2e in 2024**. The proportion of AUM with SBTi commitments has followed a similar trajectory, reaching **27% by the end of 2024**, indicating steady engagement with climate-aligned targets.

BETTER WORLD FUND			WS BETTER WORLD FUND (UK)	
Year	Financed Carbon Emissions (Scope 1 & 2) – Tonnes CO_2e	SBTi alignment (% AUM)	Financed Carbon Emissions (Scope 1 & 2) – Tonnes CO_2e	SBTi alignment (% AUM)
2019	8,813	0%		
2020	3,642	7.2%	315	7.0%
2021	2,623	10.8%	355	11.0%
2022	5,850	19.5%	541	19.6%
2023	2,632	32.9%	626	32.6%
2024	1,061	26.8%	591	26.9%

The **UK domiciled WS Global Select Fund was launched in 2020** and its emissions trajectory reflects steady growth in AUM covered by SBTi commitments. Financed emissions have fluctuated, peaking at **398 tCO_2e in 2023 before declining to 329 tCO_2e in 2024**, while the percentage of AUM with SBTi commitments has increased from **5.6% in 2020 to 18.2% in 2024.**

The **Global Select Fund (GSF) was launched in 2024**, which is why no financed emissions data is available for prior years. In its first year of reporting, GSF recorded **150 tCO_2e in Scope 1 and 2 financed emissions**, with **18.2% of AUM covered by SBTi commitments**. As a newly established vehicle, engagement efforts will focus on increasing the proportion of AUM aligned with science-based decarbonisation pathways to support long-term net zero objectives.

GLOBAL SELECT FUND			WS GLOBAL SELECT FUND (UK)	
Year	Financed Carbon Emissions (Scope 1 & 2) – Tonnes CO_2e	SBTi alignment (% AUM)	Financed Carbon Emissions (Scope 1 & 2) – Tonnes CO_2e	SBTi alignment (% AUM)
2019				
2020			21	5.6%
2021			68	7.1%
2022			163	9.6%
2023			398	15.0%
2024	150	18.2%	329	18.2%

The **Global Innovation Fund (GIF)** has steadily reduced financed emissions, dropping from **42 tCO_2e in 2021 to 23 tCO_2e in 2024** (a **45% reduction**). Simultaneously, the proportion of AUM with SBTi commitments has grown from **5.6% to 19.0%**, reflecting increased alignment with climate targets.

GLOBAL INNOVATION FUND		
Year	Financed Carbon Emissions (Scope 1 & 2) – Tonnes CO_2e	SBTi alignment (% AUM)
2019		
2020		
2021	42	5.6%
2022	51	8.9%
2023	51	15.7%
2024	23	19.0%

European portfolios

The **Montanaro European Smaller Companies Fund (MESCF)** has significantly reduced financed emissions, declining from **13,240 tCO_2e in 2019 to 4,358 tCO_2e in 2024**, a **67% reduction**. This progress reflects a shift towards lower-carbon investments and increased engagement on climate targets. The proportion of AUM covered by SBTi commitments has risen from **0% in 2019 to 38.2% in 2024**, though it has remained relatively stable since 2022. This indicates strong initial progress, with further engagement needed to drive additional commitments.

European Smaller Companies Fund		
Year	Financed Carbon Emissions (Scope 1 & 2) – Tonnes CO_2e	SBTi alignment (% AUM)
2019	13240	0.0%
2020	9193	4.7%
2021	6902	25.6%
2022	4462	34.1%
2023	4562	36.3%
2024	4358	38.2%

The **Montanaro Europe (ex-UK) Small and Mid-Cap Fund (WS - MEMCF)** has achieved a **93% reduction** in financed emissions since 2019, falling from **2,214 tCO_2e to 159 tCO_2e in 2024**. This substantial decline reflects progress in portfolio decarbonisation and increasing alignment with net zero objectives.

The proportion of AUM covered by SBTi commitments has grown from **6.9% in 2019 to 34.2% in 2024**, peaking at **55.1% in 2023** before a slight decline. Continued efforts are needed to sustain progress.

Europe (ex-UK) Small & MidCap Fund		
Year	Financed Carbon Emissions (Scope 1 & 2) – Tonnes CO_2e	SBTi alignment (% AUM)
2019	2214	6.9%
2020	981	8.3%
2021	585	35.9%
2022	775	45.9%
2023	296	55.1%
2024	159	34.2%

The **Montanaro European Income Fund (MEIF)** has achieved a **70% reduction** in financed emissions since its 2021 peak, declining from **18,753 tCO_2e to 2,445 tCO_2e in 2024**. This significant drop reflects progress in aligning the portfolio with net zero goals.

The proportion of AUM covered by SBTi commitments has also increased, rising from **7.1% in 2019 to 33.2% in 2024**, demonstrating stronger climate action among investee companies.

The **UK-domiciled WS-MEIF vehicle**, launched in 2020, has followed a similar trajectory. Emissions peaked at **2,441 tCO_2e in 2021** before falling to **1,004 tCO_2e in 2024**, while AUM with SBTi commitments has grown from **7.9% to 30.0%**.

European Income Fund			WS European Income Fund (UK)	
Year	Financed Carbon Emissions (Scope 1 & 2) – Tonnes CO_2e	SBTi alignment (% AUM)	Financed Carbon Emissions (Scope 1 & 2) – Tonnes CO_2e	SBTi alignment (% AUM)
2019	8,338	7.1%		
2020	16,338	7.8%	815	7.9%
2021	18,753	16.9%	2,441	16.7%
2022	7,808	29.1%	1,231	29.0%
2023	7,723	36.4%	1,601	37.6%
2024	2,445	33.2%	1,004	30.0%

UK portfolios:

The **Montanaro UK Income Fund (MUIF)** has achieved a **75% reduction** in financed emissions since 2020, falling from **28,211 tCO_2e to 3,803 tCO_2e in 2024**. This reflects successful engagement with portfolio companies and a shift towards lower-carbon investments.

The percentage of AUM with SBTi commitments rose from **4.4% in 2019 to 64.7% in 2023**, before declining slightly to **55.6% in 2024**. This suggests that while progress has been strong, some companies may have fallen out of the SBTi framework, requiring renewed engagement.

The **WS - MUIF vehicle**, introduced in 2020, follows a similar pattern. Emissions peaked at **1,069 tCO_2e in 2023** before decreasing to **688 tCO_2e in 2024**, while AUM with SBTi commitments stands at **56.2%**. Continued efforts will be needed to maintain and expand climate-aligned commitments across both vehicles.

The slight decrease in the percentage of portfolio companies with SBTi commitments between 2023 and 2024 reflects changes in portfolio composition, with some previously committed companies exiting and newly added holdings yet to adopt SBTi targets. While engagement efforts continue to drive alignment with net zero goals, shifts in holdings and company progress on formal target validation can create temporary fluctuations in commitment levels. Montanaro remains focused on increasing the proportion of AUM covered by science-based targets through ongoing engagement and investment in climate-aligned businesses.

UK Income Fund			WS UK Income Fund (UK)	
Year	Financed Carbon Emissions (Scope 1 & 2) – Tonnes CO_2e	SBTi alignment (% AUM)	Financed Carbon Emissions (Scope 1 & 2) – Tonnes CO_2e	SBTi alignment (% AUM)
2019	14,978	4.4%		
2020	28,211	9.4%	423	9.0%
2021	9,804	44.6%	740	44.4%
2022	9,880	57.0%	892	57.0%
2023	8,342	64.7%	1069	64.7%
2024	3,803	55.6%	688	56.2%

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ENGAGEMENT EXAMPLES

Company: Halma (UK)

Halma provides safety solutions, environmental monitoring and healthcare products.

Participants from the company: Head of Sustainability and Investor Relations

Participants from MAM: Kate Hewitt, Mark Rogers and Harriet Topham

Discussion:

Halma has a significant carbon footprint largely attributed to its Scope 3 emissions. When we reviewed the company's GHG emissions we noticed that while the company's Scope 1 and 2 emissions are relatively low at 14,091 tonnes, **Scope 3 emissions reach 1,439,091 tonnes**, highlighting the environmental impact of Halma's supply chain and product lifecycle.

The purpose of the engagement was to discuss Halma's approach to managing these indirect emissions and to explore potential improvements in its sustainability strategy more broadly, particularly with regards to ecological considerations. **Halma has not yet committed to the SBTi**, and we encouraged the company to formalise its emissions reduction goals to align with investor expectations for credible climate action. Given that the bulk of Halma's emissions are within Scope 3, focusing on this area could lead to a substantial decrease in their overall carbon footprint.

Halma's sustainability team expressed some challenges in addressing emissions across their diverse supply chain, especially due to the pressure of upcoming regulatory requirements like the EU **Corporate Sustainability Due Diligence Directive (CDDD).** However, they shared ongoing efforts to screen Tier 1 suppliers and ensure compliance. Additionally, Halma has undertaken a location-based review using the WWF Biodiversity Risk Filter tool to assess nature related risks. They are also exploring sustainable product design as a means to minimise resource-intensive materials and further reduce Scope 3 impacts.

By focusing on Scope 3 emissions reduction and enhancing supply chain transparency, Halma can make a meaningful impact on its overall carbon footprint.

Outcome:

The company's strategy, while early in its development, shows an understanding of the importance of tackling indirect emissions and aligns with investor expectations for comprehensive climate action. Their ongoing work on **sustainable sourcing and supply chain transparency indicates a positive trajectory toward managing Scope 3 impacts** effectively and supporting biodiversity indirectly. We encouraged Halma to continue enhancing its Scope 3 emissions strategy, as these efforts are crucial for its broader environmental goals and alignment with net zero investment portfolios.

Company: M.P. Evans (UK)

M.P. Evans Group is a company focused on producing sustainable Indonesian palm oil, with plantations across five Indonesian provinces.

Participants from the company: CEO and CFO

Participants from MAM: Kate Hewitt and Nere Asumendi

Discussion:

M.P. Evans has **committed to submitting CDP disclosures for climate, water and forests** by the 2024 deadline, aligning with their broader ESG strategy. While making significant progress, the company has identified water-related data collection as a key learning area. These efforts complement their ongoing TCFD disclosures and enhanced biodiversity data collection.

During the year the company has set **new net zero targets**. Using 2021 as a baseline, M.P. Evans has calculated its scope 1, 2 and 3 emissions and set science-aligned reduction targets:

- 28% reduction in industrial scope 1, 2 and 3 emissions by 2030;
- 90% reduction by 2050, aiming for net-zero emissions;
- 53% reduction in FLAG (Forest, Land and Agriculture) emissions intensity per tonne of CPO (Certified Palm Oil) by 2030; and
- 72% reduction in FLAG emissions intensity by 2050.

While these targets **align with SBTi guidelines**, the company has not yet formally committed to the initiative. We are pleased that M.P. Evans has set these ambitious net zero targets for 2050; we strongly encouraged the company to have these targets officially approved by the SBTi. This step would provide additional credibility and rigor to their commitments, aligning them with global best practices in corporate climate action.

M.P. Evans is on track to achieve RSPO (Roundtable on Sustainable Palm Oil) certification for all six of its mills by the end of 2024, with five already certified. A key challenge has been the reliance on smallholder farmers for one mill, which M.P. Evans is addressing by supporting them in forming cooperatives and obtaining their own RSPO certification. This benefits both the supply chain and the farmers, offering long-term advantages, including access to premium markets and improved agricultural practices.

RSPO certification plays a vital role in promoting sustainable practices across the supply chain, including climate change mitigation through the protection of high carbon stock forests and peatlands, as well as the reduction of GHG emissions. The certification also supports best management practices in plantation development, enhancing carbon sequestration and biodiversity.

M.P. Evans' commitment to achieving RSPO certification for all mills demonstrates their broader approach to sustainability, aligning with responsible climate action and addressing various environmental and social challenges across their operations.

Outcome:

M.P. Evans' proactive approach to sustainability, including its commitment to RSPO certification and science-aligned emissions reduction targets, **demonstrates how companies in high-impact sectors can contribute to net zero investment portfolios**. Their efforts in supporting smallholder farmers and enhancing data collection showcase the comprehensive nature of effective sustainability strategies.

As M.P. Evans continues to refine its approach and launch new initiatives, it offers a valuable example of how companies can align business operations with global sustainability imperatives, supporting the transition to a net zero economy.

Company: MTU Aero Engines (Germany)

A German manufacturer of aircraft engines, offering engine development, production and maintenance services.

Participants from the company: Investor Relations

Participants from MAM: Kate Hewitt and Andrea Shen

Discussion:

In this engagement, MTU provided an update on its efforts under the **CSRD.** They are actively enhancing their reporting capabilities to include comprehensive Scope 3 emissions data, specific reduction targets and a decarbonisation roadmap covering both production and the broader product lifecycle. **Although Scope 3 data is not yet publicly available**, MTU anticipates releasing this information in May 2025 as part of its new reporting framework.

MTU is also **considering a commitment to SBTi,** which would formalise its emissions reduction strategy and align it with internationally recognised standards. While the decision is pending, MTU indicated that it expects to finalise the outcome of its ongoing discussions regarding these targets in the coming year.

In terms of product efficiency, MTU highlighted recent technological advancements that align with its sustainability objectives:

- **Current Technology**: MTU's Geared Turbofan (GTF) engine is the most efficient in the narrowbody aircraft market, and its predecessor, the V2500, was similarly advanced in its time. The GTF Advantage, MTU's latest development**, is fully compatible with 100% sustainable aviation fuel (SAF),** supporting a transition towards lower-carbon aviation.
- **Future Goals**: MTU is developing the next generation of narrowbody engines, targeting over 20% efficiency improvements compared to current models. This focus on product innovation is crucial to MTU's long-term strategy for reducing environmental impact, particularly in the context of Scope 3 emissions related to product use.

MTU acknowledged that **managing Scope 3 emissions across the full product lifecycle, from supply chain inputs to end-of-life disposal, presents significant challenges.** Its current decarbonisation strategy includes emission reductions within its own production processes, while also exploring ways to lower environmental impact across its supply chain.

Outcome:

MTU's response highlights promising steps in its sustainability approach, especially in managing Scope 3 emissions and considering Science-Based Targets. The anticipated enhancements in reporting and the potential SBTi commitment indicate MTU's dedication to transparency and structured emissions reductions. We will continue to engage with the company to ensure that the aforementioned improvements in transparency and target setting come to fruition over the agreed timeline.

Company: Rational (Germany)

Rational provides innovative solutions for industrial and commercial kitchens.

Participants from the company: Head of Investor Relations

Participants from MAM: Kate Hewitt, Mark Rogers and Stefan Fischerfeier

Discussion:

We contacted Rational as we had noted that the company has **relatively high Scope 3 emissions** when compared to our Approved List average and has **yet to make an SBTi commitment**.

In response to our request for more information about the company's plans to tackle its indirect emissions we were told that Rational has been actively working to enhance its climate strategy. Scope 3 emissions, which cover both upstream (supply chain) and downstream (product use) emissions, have been a particular focus. During the engagement, Rational outlined its ongoing efforts to develop a more structured approach to managing these emissions, **with special attention to Scope 3.1 (purchased goods and services) and Scope 3.11 (use of sold products).**

The company is currently in the process of evaluating and implementing measures that will help reduce emissions across its supply chain and product lifecycle. However, this concept is still being finalised, and Rational recognises that more work needs to be done to formalise its decarbonisation strategy.

When asked about setting science-based targets, Rational indicated that it has considered various frameworks and **plans to publish its climate targets by the end of 2024**. The publication of these targets is expected to provide a clearer view of their long-term ambitions. This would mark a significant step in aligning Rational's efforts with global standards for corporate climate action, enhancing the credibility of its decarbonisation roadmap.

The company also addressed the growing demand for transparency in climate-related disclosures. As part of its obligations under the **EU CSRD,** Rational confirmed that it will include detailed climate data in its non-financial sustainability reports starting from the 2024 reporting year. This will provide stakeholders with greater insight into Rational's climate-related progress and its commitment to emissions reduction.

Outcome:

Rational's commitment to developing a structured approach to Scope 3 emissions management, combined with its intention to publish climate targets by the end of 2024, demonstrates its focus on responsible climate action. The company is making strides towards enhancing transparency and accountability through its planned disclosures under the CSRD, which will be a critical part of its broader sustainability strategy.

While Rational's work on decarbonisation is still in the early stages, **we encouraged the company to consider formalising its targets through the SBTi**. This would provide an internationally recognised framework for its emissions reduction efforts.

COLLABORATIONS

CDP

The CDP Non-Disclosure Campaign (NDC) is an initiative aimed at **driving transparency** on critical environmental issues by encouraging companies to disclose data on climate impact, water usage and forest management practices. It targets companies that have not yet participated in environmental reporting, urging them to reveal information that investors and stakeholders increasingly need to assess risk and sustainability. The campaign's importance lies in **fostering a culture of accountability:** by shedding light on emissions, water risks and deforestation impacts, companies can better understand their environmental footprint and take actionable steps to mitigate it.

Montanaro was chosen to lead engagements with companies across its Approved List that had not yet provided the requisite information. Over recent months, Montanaro reached out to these companies, **urging them to participate in the CDP's disclosure process**. By encouraging transparency, these engagements aimed to bridge information gaps and align investee companies with rising expectations for environmental accountability.

Through this campaign, Montanaro used its influence to foster greater openness, supporting these companies on their path toward comprehensive disclosure. This leadership role not only strengthens Montanaro's commitment to sustainability within its portfolio but also contributes to the wider financial sector's push for environmental transparency and data-driven decision-making.

Some success stories from this campaign are as follows:

- **4imprint Group** (UK): 4imprint submitted a CDP questionnaire for the first time, marking progress in climate transparency.
- **Alarm.com** (US): Submitted a questionnaire for the first time after Montanaro's engagement, providing additional insights into their energy and water management practices.
- **Hilton Food Group** (UK): Successfully submitted the water questionnaire, adding to its previous disclosures for climate change and forests. Montanaro's engagement secured comprehensive disclosure across all three key environmental areas.
- **Japan Elevator Service Holdings** (Japan): The company had previously submitted its climate change questionnaire but was also able to confirm the completion of the water module for this year. Montanaro will continue to monitor its engagement.
- **M.P. Evans Group (UK):** As previously discussed, following Montanaro's engagement, M.P. Evans committed to submitting CDP disclosures on climate change, water and forests by the 2024 deadline. Given its limited experience with such comprehensive frameworks, Montanaro facilitated direct support from CDP to navigate the process. This engagement improved the quality and scope of environmental disclosures, supporting long-term sustainability objectives.

- **Swedencare** (Sweden): Responded positively to Montanaro's outreach and committed to completing the climate change questionnaire. The company subsequently completed its submission as promised.
- **XP Power** (Singapore): The CEO confirmed completion of the CDP water questionnaire, contributing to enhanced transparency.

The Glasgow Financial Alliance for Net Zero (GFANZ)

GFANZ is a global coalition of financial institutions committed to accelerating the transition to a net-zero economy by 2050. Formed in 2021 in response to the climate emergency highlighted at the COP26 summit in Glasgow, GFANZ brings together major players from the financial sector, including banks, asset managers, insurers and pension funds, to help **reduce greenhouse gas emissions across industries and support global climate goals**.

GFANZ's mission is to mobilise capital and establish common frameworks that align financial activities with net-zero targets. By fostering collaboration and providing practical guidance, GFANZ supports its members in developing robust transition plans that incorporate science-based targets and **align with the 1.5°C climate goal**. The alliance also advocates for regulatory policies, standard-setting and best practices to help companies in the real economy, especially high-emission sectors, move toward decarbonisation.

One key GFANZ initiative is the Net Zero Transition Planning (NZTP) framework, which provides financial institutions with structured guidance on crafting credible and effective transition plans. GFANZ also promotes **integrating nature into net-zero strategies**, recognising that natural ecosystems play a vital role in carbon sequestration and biodiversity preservation.

Through initiatives like NZTP and workstreams that address policy alignment, carbon pricing, and nature-related strategies, GFANZ aims to empower the financial sector as a critical driver in achieving global climate objectives.

Montanaro participated in two distinct GFANZ workstreams during 2024:

1. **Policy Alignment with net zero**: This workstream focused on supporting the financial sector's role in the net-zero transition to engage with governments, regulators and international organisations to shape policies that facilitate transition finance. It examined key challenges, opportunities and solutions, focusing on ensuring an orderly transition, driving economic growth and mobilising private capital. Discussions explored how countries could develop strategic, investable National Transition Plans (NTPs) to underpin their Nationally Determined Contributions (NDCs) and attract necessary private finance. Robust national transition plans are seen as essential to unlocking capital and advancing net-zero goals.
2. **Integrating Nature into NZTP Guidance**: This workstream examined ways to incorporate nature-related considerations into the existing NZTP framework. Recognising that achieving net zero requires attention to both climate and biodiversity, the discussion explored potential updates to the guidance that would allow financial institutions to use nature-based solutions more strategically. This included addressing biodiversity, ecosystem health, and integrating nature-related risks into investor

engagement strategies. Montanaro contributed insights on embedding these nature-focused approaches into NZTP, with the group expecting supplemental guidance to be released in October 2024 to support these goals.

Involvement in these workstreams helps to provide **important resources for comprehensive, cross-sectoral approaches to net zero**, combining policy advocacy with enhanced environmental considerations.

CONCLUSION

Montanaro's commitment to net zero has driven significant progress in reducing financed emissions. Through targeted engagement, we have helped facilitate meaningful reductions in absolute emissions while increasing the proportion of AUM covered by science-based targets. We cannot take credit for this alone. We recognise that we are but one investor, so we must express our thanks to those who have collaborated with us over the last few years and our companies who have taken action to reduce their environmental footprints. Many have done so because the business case stacks up alongside the environmental case: reducing carbon emissions can lead to greater efficiencies and reduce costs over the long-term.

Despite these challenges, our 2024 engagements have shown encouraging signs of progress. More companies are taking proactive steps to improve transparency, set interim milestones, and work with suppliers to reduce emissions. Setting meaningful, science-aligned targets remains a complex task, particularly for Scope 3 emissions, which require companies to not only measure their impact but also influence behaviours across their value chains. Nevertheless, we are seeing promising developments, with companies identifying high-impact areas and committing to stronger decarbonisation strategies.

Regulatory developments, particularly in the EU, have played a crucial role in driving this shift. Frameworks such as the CSRD and CDDD are pushing companies towards greater accountability, accelerating the integration of climate considerations into corporate decision-making. While regulatory compliance is a necessary step, we believe companies should go beyond minimum requirements. Companies that adopt a proactive approach to net zero will not only mitigate risk but also position themselves as leaders in the transition to a low-carbon economy which, the science tells us, must surely arrive.

Montanaro remains committed to this journey while recognising the pressures companies and people face amid global economic challenges. Achieving net zero across our portfolios requires ambitious, comprehensive targets, including Scope 3 emissions. Beyond setting expectations, we actively engage and support companies in overcoming barriers to measurement, reporting and decarbonisation. As global climate challenges intensify, the need for ambitious and accountable corporate climate strategies has never been greater. We will continue to play our part, ensuring our investments contribute to a resilient, low-carbon future.

Appendix: Climate-Related Disclosures (Aligned with ISSB Standards)

ISSB Pillar	Disclosure Element	Montanaro's Approach
Governance	Board and management oversight of climate-related risks and opportunities	MAM's climate strategy is overseen by the **Net Zero Steering Group**, which reports to the **Sustainability Committee** and the **Executive Committee**. The **Head of Sustainable Investments** leads ESG integration, while the Board has a legal obligation (via Montanaro's B Corp status) to consider the impact of business decisions on stakeholders, including climate considerations.
Strategy	Climate-related risks and opportunities identified over short, medium, and long term	Climate risks include **transition risks** (regulatory shifts, stranded assets) and **physical risks** (supply chain disruptions). Opportunities include financing the transition to a low-carbon economy through investments in companies with strong sustainability practices and products aligned with climate solutions.
	Impact of climate risks and opportunities on business strategy and financial planning	MAM integrates climate considerations into portfolio decisions, aligning investments with net zero pathways. A **7% annual emissions reduction target** is applied across portfolios, supported by engagement with companies to set **SBTs**. In addition, we calculate and monitor our **operational carbon data** on an annual basis, ensuring transparency and accountability. In line with our commitment to achieving net negative emissions, we have continued to invest in a diversified portfolio of carbon removal projects ensuring high levels of permanence and verifiable outcomes for carbon removal. This year, our focus included supporting Octavia Carbon in Kenya, a pioneering **Direct Air Capture** company leveraging the country's renewable and geothermal energy. We also selected **carbon removal** with Charm Industrial in the United States, which sequesters carbon through **bio-oil injection** into geological reservoirs and Andes Bio, utilising microbial carbon mineralisation to lock away CO_2 in agricultural soils. Additional projects include **biochar** initiatives and **soil sequestration** efforts through regenerative agriculture.
	Resilience of strategy under	Montanaro's investment strategy aligns with the **Paris Agreement's 1.5°C scenario**, reducing financed

	different climate scenarios	emissions by **16% annually on average since 2019**, exceeding the 7% annual target. Scenario analysis informs risk mitigation, and portfolio companies are engaged on their transition plans.
Risk Management	Processes for identifying, assessing, and managing climate-related risks	Montanaro assesses climate risk through our proprietary **ESG Checklist**, which includes carbon footprint analysis, regulatory exposure, and transition risk indicators. Data from **MSCI** and direct company disclosures are used to measure emissions intensity and net zero alignment.
	Integration of climate risk management into overall risk framework	Climate risks are embedded within Montanaro's investment decision-making process, stewardship activities and engagement programme. **Engagement** encourages companies to improve disclosures and commit to **SBTi-approved targets**.
Metrics & Targets	Metrics used to assess climate risks and opportunities	Montanaro tracks **financed emissions (Scope 1 & 2)**, **percentage of AUM with SBTi commitments**, and portfolio alignment with climate targets. A key metric is the **54% reduction in financed emissions since 2019**.
	Scope 1, 2, and relevant Scope 3 emissions	Financed **Scope 1 & 2 emissions** fell from **47,583 tCO_2e in 2019 to 14,611 tCO_2e in 2024**, a nearly **70% absolute reduction**. Scope 3 data will be included as reporting improves.
	Targets for managing climate risks and performance against them	Montanaro is committed to achieving **net zero financed emissions by 2050**. Interim targets include **50% of AUM covered by SBTi-approved targets by 2030** and **100% by 2040**. Progress has outpaced expectations, with **39.1% of AUM already covered by SBTi targets in 2024**.

MAIN CONTACTS

Ed Heaven

Head of Sustainable Investments

eheaven@montanaro.co.uk

Kate Hewitt

ESG and Impact Specialist

khewitt@montanaro.co.uk

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