



MONTANARO



Project: Net Zero

Update for 2022

Montanaro Asset Management Investment team

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Executive summary

Global temperatures are thought to have reached 1.2 °C of warming¹ relative to pre-industrial levels. Climate science shows that 1.5°C of warming should be a limit and not a target. Given meeting this target looks increasingly unlikely, investors must play their part to avoid the worsening impacts, suffering and costs that any overshoot will bring.

Our message to companies remains consistent. Hurry up and get on with it.

“The longer we wait to start taking the action needed to stay in line with our international targets, the harder and more costly it will be to reach them. The inaction of today and yesterday must be compensated for in the time that lies ahead.”

– Greta Thunberg, The Climate Book

This is the third annual report on our “Project: Net Zero Carbon” (read our previous reports [here](#)) and we have continued to evolve our approach. This reflects progress too towards our Net Zero Asset Management (NZAM) targets and related disclosures. We have also honed the way in which we select engagement targets by using carbon data to identify those portfolio holdings that appear to have particularly carbon intensive operations.

We have also tried to expand the ways in which we engage with our investee companies. During the summer of 2022 we hosted a CEO-to-CEO event focused on net zero. This was a unique event and brought business leaders together to share ideas, as well as the challenges faced when reducing emissions. We hope that this collaboration will breed innovation and a broader knowledge base. **You can read more about the event on page 3 of this report.**

We have seen the number of companies setting net zero and science based targets increase over the year. This is a promising development and shows that businesses are driven and motivated to improve their environmental performance. In conjunction with this, we have seen a dramatic reduction in the financed emissions associated with Montanaro portfolios. We set an annual 7% emission reduction target based on the P2 model from the IPCC special report on global warming. This is aligned to a 1.5°C scenario and we selected 2019 as the baseline year in order to achieve a 50% reduction in portfolio emissions by 2030 at the latest.

Between 2019 and 2020 the absolute emissions associated with our in scope portfolios reduced by 23.3%. Better still, emissions were reduced by a further 24.6% between 2020 and 2021. We are cautious, given the influence pandemic-induced lockdowns will have had on these reductions, that progress may slow in future years.

Nevertheless, the absolute portfolio emissions reductions seen since 2019 are extremely promising. It is these reductions that will lead to real-world changes and result in the carbon-free economy that the world needs.

¹ <https://www.reuters.com/business/cop/how-close-are-we-passing-15-degrees-celsius-global-warming-2022-11-14/>

CEO to CEO – A Net Zero Leaders Event

During the course of our net zero engagement project in 2021, a common piece of feedback we received from companies was that it's difficult to know where to start with climate action. There are many third party frameworks and initiatives, best practice seems to evolve rapidly and even measuring current emissions can prove challenging. Nevertheless, action is needed.

In answer to these comments and questions, we decided to host an event that would bring together over thirty business leaders from a diverse spectrum of industries. The aims were:

1. To encourage CEOs to set a tone from the top about the importance of climate change.
2. Create a network of CEOs to help provide support, guidance and share ideas amongst companies.
3. Highlight one company's journey to Net Zero to discuss the pitfalls and the triumphs that have come with making a net zero pledge.

The company we chose to lead this event was Severn Trent, a UK water company that provides clean water and wastewater services. CEO, Liv Garfield, has been instrumental in leading the company in their ambitious environmental plans. Severn Trent has made a "Triple Carbon Pledge" to achieve net zero operational emissions by 2030 and has also committed to meet science-based targets which include working with suppliers to measure and reduce emissions all along the value chain. She was able to share her experience of the challenges she has faced and the innovative solutions that have been introduced across the business to tackle emissions reduction. She spoke about the need to look to other businesses for ideas and be bold in setting targets, even when the task to achieve them may seem daunting.

We also heard from Ronan Hodge from the Glasgow Financial Alliance for Net Zero (GFANZ) taskforce. GFANZ is a group that advocates for responsible stakeholder capitalism via a global coalition of financial institutions with a joint aim of accelerating decarbonisation. Ronan gave an introduction to the group and spoke about the importance of moving from commitments alone to the implementation of these plans to achieve a real economy transition to net zero.

There followed a question and answer session conducted under Chatham House Rules. This facilitated a frank, open and free-flowing discussion between the CEOs in attendance. Liv was able to give valuable advice and set up connections that will help participants develop their own ambitious plans. Ronan was able to point to resources that will be useful for the implementation of net zero strategies and future measurement of emissions.

CEOs representing sectors as different as IT to agriculture dialled in to learn from each other about emissions reduction and creating a net zero plan. The discussions that followed the presentation served as evidence of active participation and the enthusiasm and willingness of business leaders to embark on meaningful action. **The success of this event has inspired us to organise more and facilitate further networking between like-minded, responsible business leaders in the future.**

Progress

Net Zero Asset Management (NZAM) targets

During the year we published our net zero targets in line with our commitments as a member of the NZAM initiative.

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

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

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

We have used the Paris Aligned Investment Initiative in order to set an annual 7% emissions reduction target across our portfolios. The 7% annual reduction target will apply across each of our in scope portfolios. The 7% emission reduction year-on-year target is derived from the P2 model in the IPCC special report on global warming and aligned to a 1.5°C scenario. This also equates to a 50% reduction in emissions by 2030.

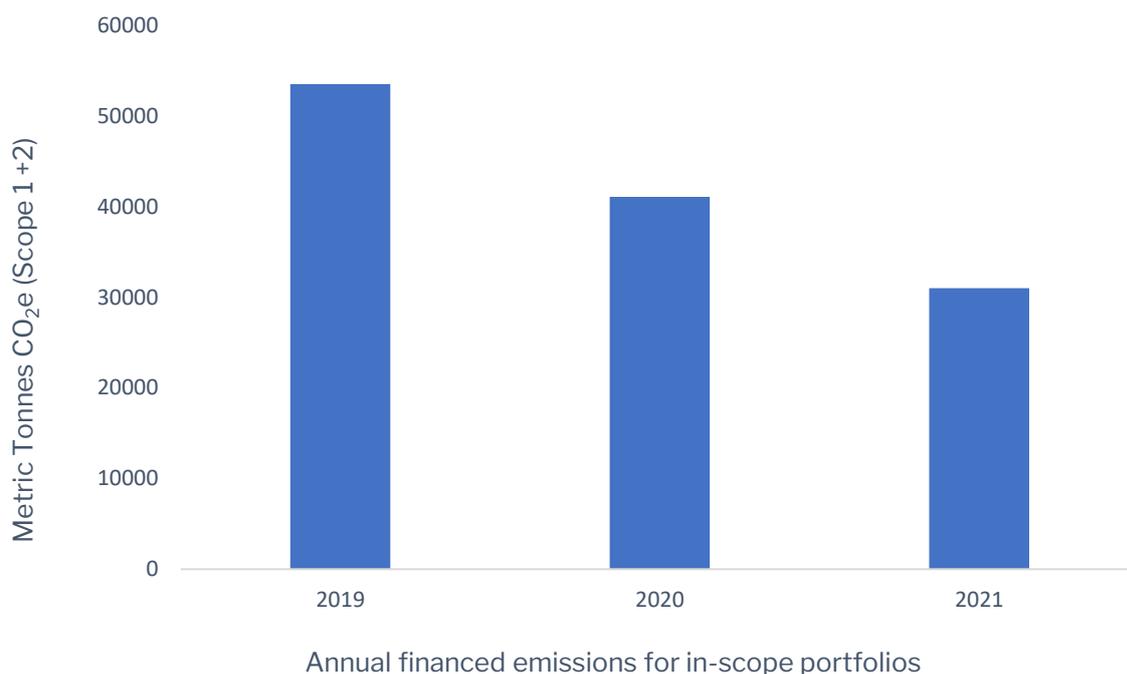
We will also aim for 100% of AUM to have Science Based Targets approved by 2040.

Another element of our NZAM requirements is reporting on our approach via the CDP. We have completed the CDP questionnaire and will be publishing our answers on the Montanaro website. This not only satisfies our commitment to NZAM, but also serves as a response in compliance with Taskforce on Climate Related Financial Disclosure (TCFD) reporting.

Annual Portfolio Emissions Reductions

Between 2019 and 2020 the scope 1 and 2 emissions associated with our open ended funds (in metric tonnes) reduced by 23.3%. In addition, there was a further reduction of 24.6% between 2020 and 2021.

The reduction from our baseline year to 2021 exceeded our aim of 7% year on year. This is incredibly encouraging although we do note the likely positive impact of Covid-19. We are also pleased with the overall improvement in forward looking targets that have been set across our approved companies. With this should come further reductions in line with the latest climate science, which we can monitor going forward.



Portfolio financed emissions are calculated by retrieving data on companies' scope 1 and 2 greenhouse gas emissions from MSCI for the financial years in question. Scope 1 emissions are those from sources owned or controlled by the company, typically direct combustion of fuel as in a furnace or vehicle. Scope 2 emissions are those caused by the generation of electricity purchased by the company. We used the percentage of outstanding shares owned by the funds for each individual stock, and then multiplied this by the carbon emissions in metric tonnes for that company. Where the data was not available, we extrapolated from the published figures to estimate the emissions for 100% of the captured portfolios. Summing for all the stocks in a portfolio gives the figure of financed emissions.

What is responsible for this reduction?

We have tried to identify the elements of our strategy that have led to this decrease in emissions.

Between 2019 and 2020 we disposed of a single company responsible for 14% of the Montanaro financed emissions. China Everbright International has been described as the first one-stop integrated environmental solution provider in China. The company provides environmental protection project and consultancy services. The Company's operations include waste to energy facilities, power from biomass and water treatment which focuses on the construction and operation of waste water treatment facilities. It also had absolute scope 1 and 2 emissions of 9,337,244 metric tonnes in 2019. This was nearly 12 times higher as the next biggest emitter that year. We engaged with the company and were told that no explicit targets in relation to its carbon footprint had been set. We subsequently sold the company. This led to a drop in the financed emissions for the Better World Fund in particular.

Beyond this, there are standout examples of absolute emissions reductions where we have retained a stake in the company and have engaged effectively with the businesses. For example, we have engaged with Chr. Hansen and Marshalls as part of our net zero project. Between 2019

and 2021 the absolute emissions reductions seen at these companies were 11.1% and 12.9% respectively according to MSCI data. In addition, notable reductions were seen at Genuit Group (formerly Polypipe) – where greenhouse gas emissions decreased by 47.4% between 2019 and 2021. Similarly, Britvic saw an emissions decrease of 24.9% over the same period. All of these companies are committed to the SBTi and have set business ambitions for 1.5°C. We look forward to further reductions in line with these commitments.

The examples above show that there is a combination of reasons for the drop in emissions we have calculated. Divestment and changes to portfolio construction account for some of the decreases we’ve seen, but we have also seen declines in the GHG emissions associated with the positions we have retained.

We attempted to calculate the attribution to the financed emissions change between 2019 and 2020:

<i>Company effect (A)</i>	<i>-10.8%</i>
<i>Allocation effect (B)</i>	<i>-12.5%</i>
<i>Total effect (A+B)</i>	<i>-23.3%</i>

The “Company effect” is calculated by evaluating the change in emissions between 2019 and 2020 if the portfolio had not changed in that time.

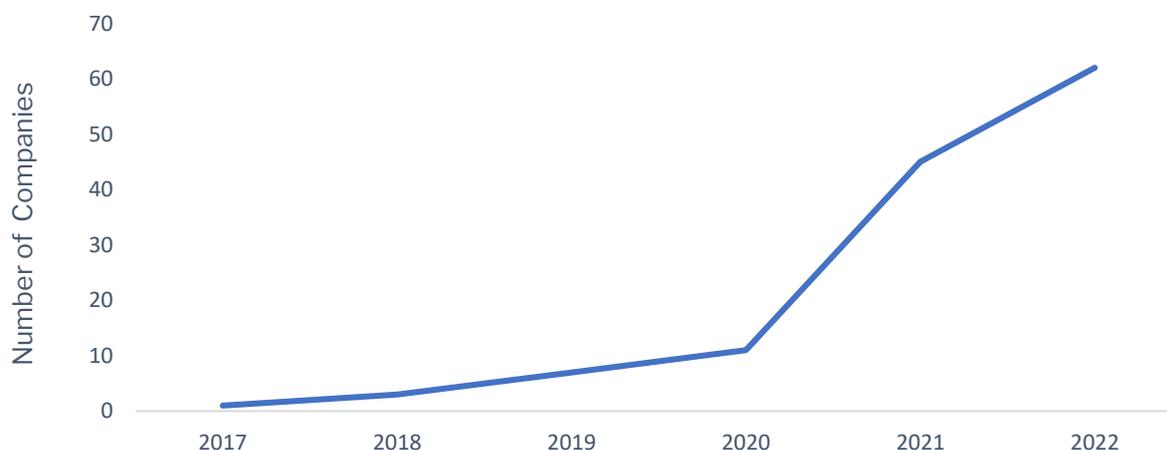
The “Allocation effect” is the difference between the Total effect and the Company effect.

We are aware that the disclosure on the MSCI database for 2021 is much lower than for 2019 and 2020. This is why we have not been able to conduct the same attribution analysis detailed above for 2021. The average portfolio coverage for 2021 is 33% (as opposed to 86% in 2019 and 84% in 2020). This means that the margin for error is bigger due to an increased reliance on estimates for that year. This reflects the lag in the update of the MSCI database with the latest figures that are reported by the companies. This delayed disclosure has led to a reliance on estimates for the 2021 reporting period. We hope that, as transparency improves, we will be able to use a higher percentage of company disclosed emissions as part of our calculation methodology. We will continue to publish our absolute portfolio emissions reductions on an annual basis. We understand that we may have to revise our absolute emissions estimates for previous years as a result of improved disclosure but hope that we continue to meet (and perhaps even exceed) our target to reach net zero.

Increase in Science Based Targets initiative (SBTi)

We have included SBTi commitments as a measurement for our engagement success as part of our new climate policy. We have stated an aim to reach 50% of the designated AUM to have implemented a Science Based Target by 2030 and 100% of AUM will be covered by 2040.

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



The chart above shows the number of companies on our Approved List with SBTi commitments from 2017 to 2022.

During the year we were also able to join a webinar led by the new CEO of SBTi, Luiz Amaral. At the time of the webinar at the end of June, Luiz had only been in this role for 100 days and was reflecting on his start at the organisation.

The purpose was to outline progress and future plans for the initiative which we've seen really take off as a standard setter and third party verifier of carbon transition planning. This is evidenced by the recent growth in commitments seen by the organisation. In the last year they have verified a third of all targets ever submitted to the organisation in its seven year history. However, with this they have faced growth related challenges; the initiative is under pressure and have a backlog of companies waiting to have their targets validated. We are hopeful that even more of our approved list may have their targets verified as the organisation works through the long list of recent submissions.

Another new project for the initiative has been the development of a streamlined target validation route exclusive to small and medium-sized enterprises (SMEs). The SBTi introduced this expedited option for SMEs because smaller companies often lack the resources and capabilities needed to set scope 3 targets and monitor progress against them. The SBTi's speedy and simplified approach for SMEs balances the need for them to take account of emissions across their value chains without imposing too great a burden on them². Since the introduction of this route, two of our approved list companies (Hufvudstaden and Merlin Properties) have made use of it to certify their greenhouse gas targets.

² https://sciencebasedtargets.org/resources/legacy/2020/07/SME-Frequently-Asked-Questions_July-2020.pdf

Net Zero Carbon 20

In addition to our commitments with the NZAM initiative. We have also set a target using the P1 Investment Management Net Zero Carbon 20 (NZC20) strategy, devised by the P1 Ethical Oversight Committee.

The target has been set for the Montanaro Better World Fund and the Montanaro UK Income Fund. **We aim for 20% of these portfolios (by asset value) to either:**

- A. Be in firms that are carbon neutral or have net zero carbon emissions, or
- B. Be in firms that have realistic, credible strategies using currently available technologies in place, for zero net carbon emissions by a defined target date, and that the target date should be no later than 2030, or
- C. Be in firms where the fund manager is actively engaging with the company board to encourage the firm to develop realistic, credible strategies using currently available technologies, for zero net carbon emissions by a defined target date, and that the target date should be no later than 2030.

The 20% cannot be reached by meeting criteria C alone. In addition, the NZC20 target requires the exclusion of carbon intensive assets. Investors that adopt the NZC20 target are required to avoid investment in firms that carry out the following activities:

- Extraction and production of coal.
- Extraction and production of oil from tar sands.
- Extraction and production of oil.

Montanaro bans companies involved in the exploration and production of coal, oil and gas. This ban encompasses both onshore and offshore extraction and we ban investment in fossil fuel refinement companies. The sustainability committee will also review the eligibility of any company that derives a significant proportion (10%) of revenue from activities related to the above activities.

The targets also define allowable mechanisms for carbon-offsetting. These should be of high-quality, realistic, and credible, based on currently available technologies and capable of being verified, meeting the requirements specified in PAS 2060 or equivalent. PAS 2060 is discussed in more detail on pages 19 and 20 in relation to our engagement with Cranswick.

Last year, we achieved 10% of the Better World Fund portfolio by asset value meeting the NZC20 requirements for A and B. We have since expanded the target to encompass the Montanaro UK Income Fund.

For the Better World Fund (portfolio as at 30th September 2022), **50% of portfolio by asset value met the criteria for A, B and C** (8% meet the criteria for A and B). Definition C includes all companies spoken to as part of our net zero project and those that are setting SBTi aligned targets. We are encouraging all investee companies to aim for a 2030 net zero target but have only included the most responsive and credible in our calculation of those meeting the C criteria

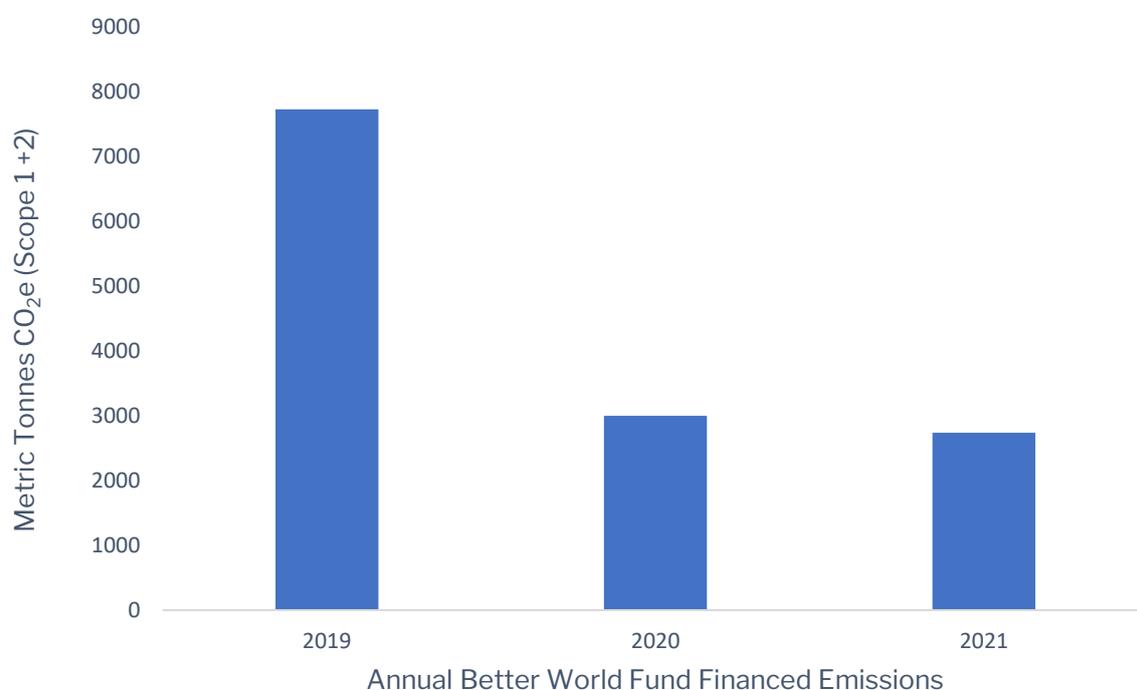
shown above.

For the UK Income Fund (portfolio as at 30th September 2022), **60% of portfolio by asset value met the criteria for A, B and C** (13% meet the criteria for A and B).

We participate in this framework alongside our other commitments on the basis that the 2030 timeline set by P1 and the fossil fuel divestment requirement mean it is more stringent than the requirements of NZAM.

The Better World Fund

The financed emissions associated with the Better World Fund decreased by **61.2%** between 2019 and 2020. There was a further decrease of **8.7%** between 2020 and 2021.



We calculated the attribution to the reduction in financed emissions seen between 2019 and 2020.

<i>Company effect (A)</i>	<i>-13.0%</i>
<i>Allocation effect (B)</i>	<i>-48.2%</i>
<i>Total effect (A+B)</i>	<i>-61.2%</i>

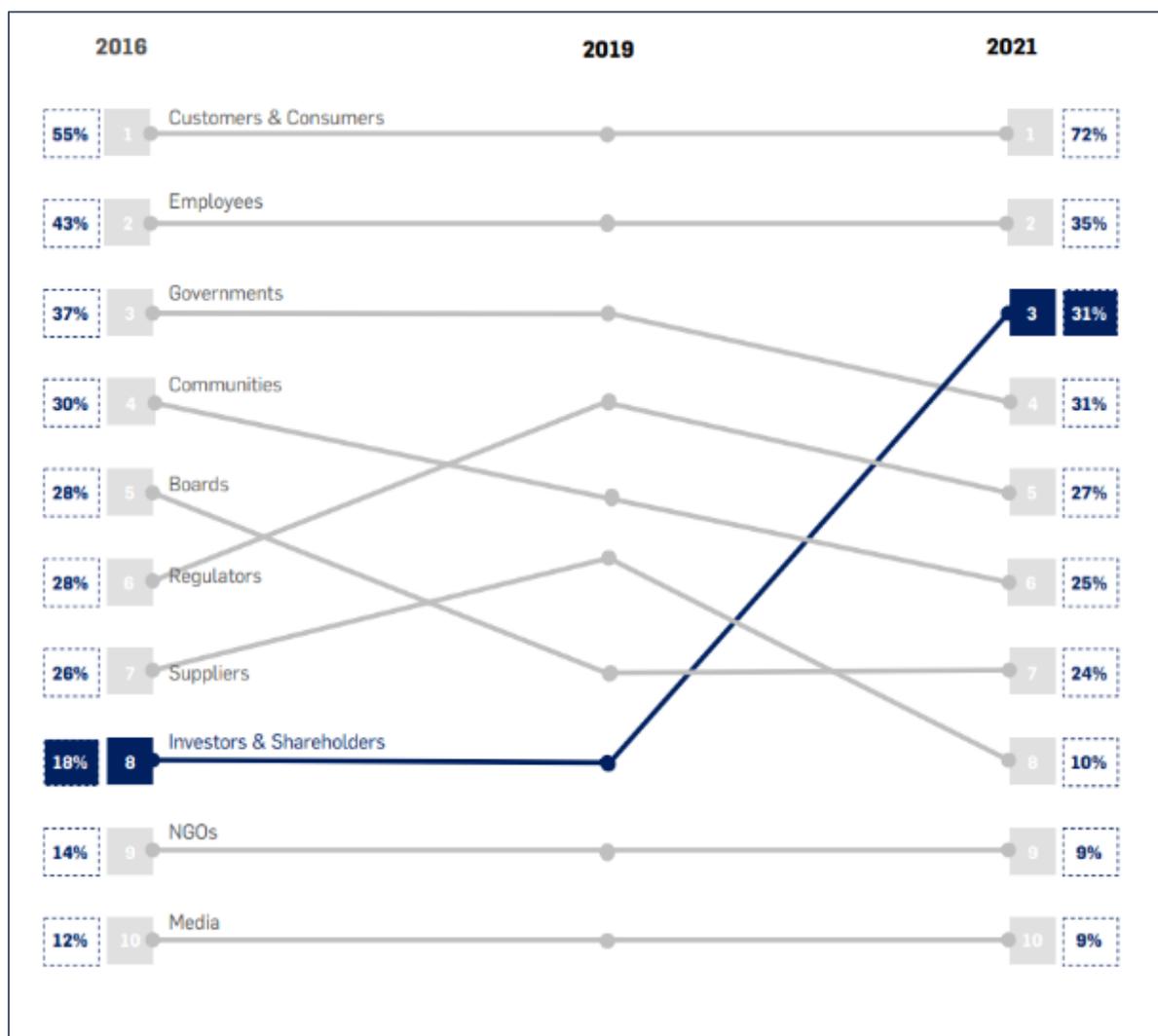
We can see that the majority of the reduction is associated with portfolio allocation choices. The divestment from China Everbright International is a notable example (read more on page 5 of this report).

In addition to a decrease in the portfolio's financed emissions, we have also seen an increase in the number of companies setting commitments with the SBTi. Between 2020 and 2022, the number of companies in the portfolio that set independently verified Paris Aligned targets increased from only 3, representing 5.5% of the portfolio (as at 31/10/2020), to **12 companies representing 21.3% of the portfolio** (as at 31/10/2022).

Engagements

Investors are influential stakeholders in businesses. Investors are using this to advocate for credible sustainability strategies and even conditioning access to capital on sustainability performance. Investor pressure to prioritise climate action is critical and the message is being heard.

The 2021 *United Nations Global Compact-Accenture CEO Study* asked, “Which stakeholder group do you believe will have the greatest impact on the way you manage sustainability over the next five years?”. Participants consisted of 1,232 CEOs across 21 industries and 113 countries. Their replies show that investor influence has strengthened significantly since the advent of the UN Sustainable Development Goals and the Paris Agreement in 2015³.



We understand the importance of our position as shareholders and will continue to use it to improve outcomes for people and planet.

³ https://www.accenture.com/_acnmedia/PDF-166/Accenture-UNGC-CEO-Study-Sustainability-2021.pdf

This year we set our engagement priorities by performing a comparison exercise using MSCI data. We recorded the carbon intensity of companies using Scope 1 and 2 emissions (tonnes of CO₂e) per million sales in USD. This meant that we were able to normalise the carbon emissions from each company so the comparison could be performed regardless of sectors, geographies and size of the businesses. We then selected our engagement targets by choosing the most carbon intense companies across a number of portfolios, according to the MSCI database.

Company: Advanced Drainage Systems (ADS)

Date: 7th December 2022

Participants from the company: Allison Justice (Investor Relations)

Participants from MAM: Kate Hewitt, Gaspar Arino, Ed Heaven and Mark Rogers

ADS is a leading manufacturer of innovative water management solutions. The company provides drainage products and services that deliver solutions for the most persistent and challenging water problems. Products are used to treat and manage stormwater runoff and help to harvest rainwater. Stormwater management solutions decrease damage from flooding and return water to the natural environment. This mitigates the physical effects of climate change. In addition, the company is helping to reuse and recycle everyday plastic waste in their product mix and are the largest plastic recycling company in North America.

However, when evaluating the carbon intensity of our Better World Fund portfolio companies, we noticed that ADS was amongst the highest. As a result, we arranged a call to discuss the ADS approach to GHG reduction and any changes to this approach over recent years. Allison said that the company had first started collecting and publishing emissions data in 2020. This has been the basis of their target setting for the next ten years. The company is pursuing Science Based Targets to reduce GHG emissions by 42% to 2032. This goal is aligned with a global 1.5°C maximum temperature increase. ADS committed to set Science Based Targets in April 2022 and are currently in the process of seeking SBTi approval. It is anticipated that the proposed targets will be approved by summer 2023 in time for the publication of the next sustainability report.

We discussed some of the challenges that the company face. The first being the manufacturing footprint which is decentralised and made up on many extrusion facilities that require a lot of energy. This is because local manufacturing is necessary to maintain efficiency and meet client needs. In addition, the company operates its own fleet of vehicles. With this comes another challenge as it is currently not possible to electrify these trucks and so they are likely to remain reliant on diesel. However, the company are pursuing efficiencies and in 2022 ADS experienced a 3.3% increase in fuel efficiency year-over-year. Nevertheless, Allison said it is likely that the company will have to use offsets to address these emissions. She said that this approach is seen as a means to an end and not a good long term approach but provide a stop gap whilst viable green technology is still in development.

The final challenge we discussed was the establishment of Power Purchase Agreements (PPAs), this is how ADS intends to reduce scope 2 emissions. The company are still in the process of reviewing contracts to evaluate how to proceed. The sourcing of renewable energy is captured within the newly established ten year goals but there is a small risk that the costs associated may be prohibitively high, in which case the achievement of the Science Based Targets would be put in jeopardy.

The company has started to gather and publish data on its scope 3 emissions and the Science Based Targets under development will include these indirect emissions. This means that supply

chain participants such as petrochemical companies and recycling facilities are captured within this disclosure. Allison said that the petrochemicals firms often have their own reduction goals and so it is easier to gather data from these third parties to build a picture of their contribution to the ADS footprint. On the other hand, the smaller recycling firms often do not collect this data and so it is more challenging to evaluate the scope 3 emissions associated with these procurements. The Science Based Targets under development will include scope 3 emissions.

We then asked about plans to formalise a net zero target. Allison said that this had been discussed internally and would be the next topic on the agenda following the achievement of SBTi approval.

Allison said that the CEO is very dedicated to the pursuit and achievement of the carbon reduction targets. This means that there is board level oversight of these targets via a sustainability committee. This leadership is important to the achievement of such goals and offers an important “tone from the top” which shapes a business culture of sustainability.

MSCI notes that the company is among industry leaders on decarbonisation initiatives and we are pleased with the recent commitment made to the SBTi. We look forward to those targets being approved and hope that this will lead to net zero targets being established.

Company: Ameresco

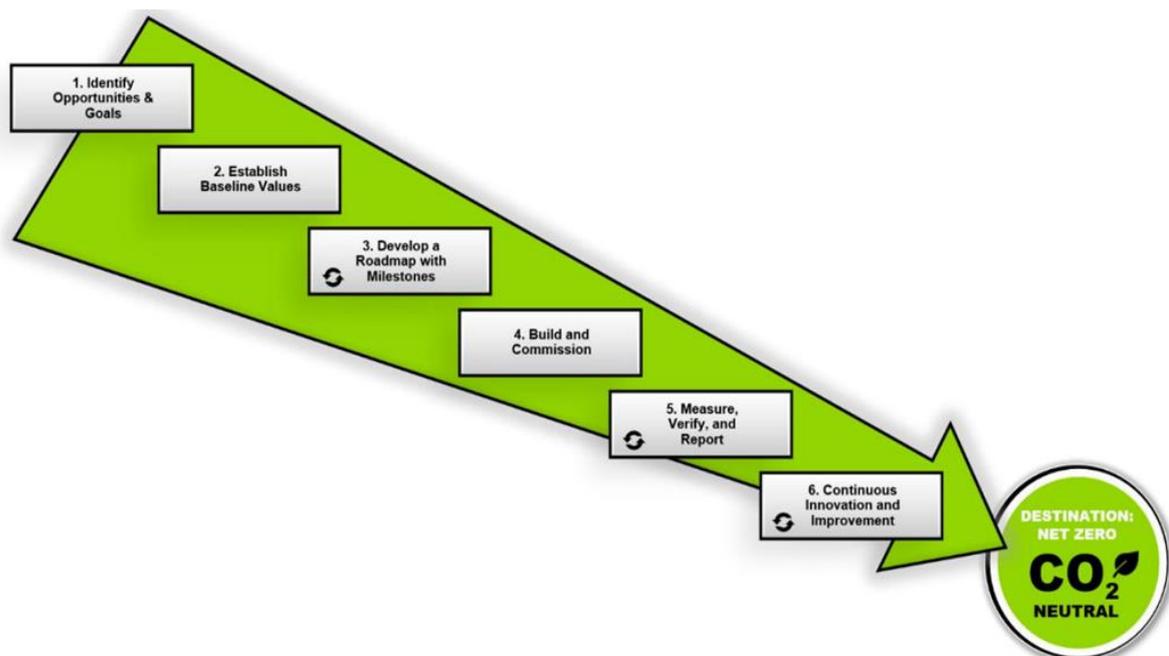
Date: 17th May 2022

Participants from the company: George Sakellaris (CEO), Doran Hole (CFO), Leila Dillon (SVP, Marketing Communications) and Debbie Angelico (Director of ESG Reporting and Controls)

Participants from MAM: Kate Hewitt and Manroop Bal

Ameresco is a leading cleantech integrator and renewable energy asset developer, owner and operator. Their portfolio includes energy efficiency, infrastructure upgrades, asset sustainability and renewable energy solutions delivered to clients throughout North America and the United Kingdom. We spoke to the company about their net zero plans during a site visit in the second quarter of 2022.

In November 2021, Ameresco published a white paper for their clients on how to go about setting and achieving their net zero goals. This included a six step plan on how they recommend reaching “destination net zero”. These steps can be seen in the figure below. Ameresco have also implemented this plan for their own internal emissions, their most recent sustainability report detailed their progress towards step 3 of this plan “develop a roadmap with milestones”.



Debbie Angelico (who has recently stepped into the newly created position of Director of ESG Reporting and Controls) was able to talk us through the progress made by Ameresco in developing their own roadmap. This will be published in their next full year report due in 2023 and covering the whole of 2022. In addition to this report, Ameresco published a supplementary appendix to the 2021 report. Debbie explained that the company had conducted a materiality assessment that has just been completed. They used a third party to help with ESG reporting and have made use of Sustainability Accounting Standards Board (SASB) standards. This will be used as the basis for future reports and will direct focus for other topics that have not been covered in past ESG reporting. For their carbon reporting in particular, Ameresco have developed an “Asset Planner” tool. This has been used for their clients to develop plans for

cutting emissions and now the company are using it internally to develop their own milestones. One of their stated aims is to set SBTi approved emissions reduction target, they have said they want to do this by 2025. The progress towards this aim has been aided with the appointment of Debbie as a coordinator of the relevant data, Doran Hole (CFO) said that they have a “good handle on things” and they are on track with developing Paris Aligned targets.

Additionally, Doran spoke about the ambition for achieving net zero by 2040. I asked how this timeframe had been decided upon and he explained that this initial goal had been seen as a stake in the ground as they had wanted to demonstrate a commitment to net zero without being too aggressive whilst the final roadmap was still in development and the SBTi targets hadn't yet been approved. However, Doran was optimistic about this target and hinted that any revisions would be for a shorter timeframe.

Ameresco are making good progress. They have added to their internal resource with the addition of a specialist to advance their emissions reductions. The company are also well placed to use tools that are on offer to their clients to develop their approach to operational greenhouse gases. The next step will be to formalise Paris aligned targets with SBTi.

Company: American Water

Date: 1st September 2022

Participants from the company: Aaron Musgrave (Investor Relations)

Participants from MAM: Kate Hewitt and Mark Rogers

American Water is the largest and most geographically diverse U.S. publicly traded water and wastewater utility company. The company employs more than 7,100 dedicated professionals who provide regulated and market-based drinking water, wastewater, and other related services to more than 14 million people in 46 states. Their work increasing the resiliency of water infrastructure in the US aligns the company with United Nations Sustainable Development Goal 6 (Clean Water and Sanitation) and our own Environmental Protection investment theme. However, we noticed that American Water was one of the most carbon intense businesses within our Better World Fund.

American Water have had a carbon reduction goal in one form or another since 2009. The company are currently working towards their second goal (with a deadline of 2025). They noted that best practice in terms of environmental reporting, monitoring and performance is rapidly evolving. They are conscious of this, and new goals are currently being developed to reflect the changes that have occurred since their last round of target setting.

MSCI also note some criticism of the American Water decarbonisation plan: “Water companies face decarbonisation pressure mainly on Scope 2 emissions (from energy use). American Water's plan to cut Scope 1 and 2 GHG emissions by more than 40% by 2025 from a 2007 baseline does not appear to be ambitious because as of 2020, it had already cut emissions by 36%. It also lags peers that procure nearly all of their electricity from zero-carbon sources (Northumbrian Water, United Utilities) and aim to become net zero in operational emissions by 2030 or earlier (Northumbrian Water, South West Water, Severn Trent).” We put this to the company to hear their response, we were told that new and more stretching targets are currently being discussed ahead of the 2025 deadline that is already in place. It is anticipated that they will be published as part of their next round of sustainability reporting.

We wanted to evaluate the scale of American Water’s ambition. We asked about the pursuit of net zero and Paris aligned targets. Aaron said that they are considering setting a net zero goal but are likely to have an interim reduction target as well. They also added that a net zero target would likely be “aspirational”. However, the company did share their understanding of the importance of publicly stating lofty ambitions with regard to climate action in order to evidence their commitment. The company also told us that they are hopeful that a greening of the US grid will lead to even lower carbon emissions in the future and aid in the reduction of scope 2 emissions.

The new targets will also include scope 3 emissions in their reporting and committing to the SBTi is on the agenda. We shared our views on this framework and hopefully they will consider this when deciding to pursue this verification for their new targets.

The main challenge for American Water is scope 2 emissions. The company are reliant on the energy mix within the US grid in order to lower these emissions but have limited control over increasing the renewable capacity. They are updating their targets ahead of schedule in order

to increase ambition and are currently working on improving their disclosure (including scope 3 emissions in their reporting). We were pleased to hear that SBTi is on the agenda and hopefully they will consider our views on this when deciding to pursue this verification for their new targets. However, the reluctance to formalise any net zero ambitions, at least in the short term, is slightly disappointing.

Company: Amplifon

Date: 27th October 2022

Participants from the company: Francesco Romeo (Global Sustainability Manager)

Participants from MAM: Kate Hewitt and Andrea Shen

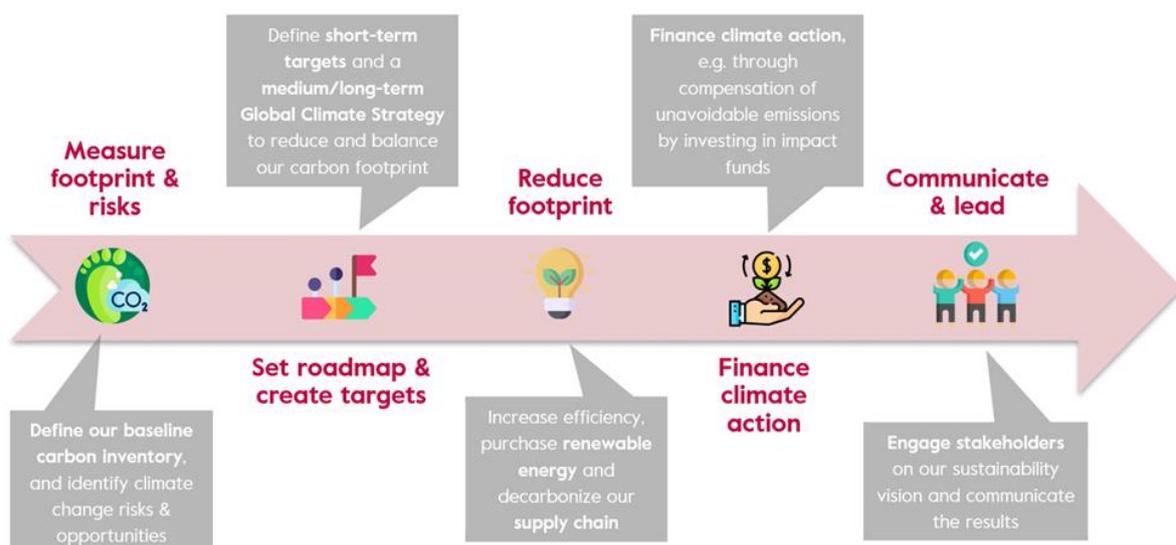
Amplifon provides personalised solutions and customer care to hearing-impaired people. It offers a wide range of services from diagnosing hearing difficulties, to fitting, servicing and maintaining hearing aids. Whilst Amplifon was not one of the companies that we identified as having a high carbon intensity, the company are in the process of preparing their new sustainability targets and are consulting stakeholders. As such, we were asked to participate in a sustainability risk assessment workshop and discussed their plans for GHG reduction.

As part of this workshop, we were asked to assess the materiality of energy efficiency and climate action to the Amplifon ESG and business strategy. We replied to say that this a highly material topic. The systemic risk of climate change poses a serious and increasing threat to humanity. Without limiting global warming to 1.5 degrees from pre-industrial levels, a global tipping point will be reached that will change the planet irreversibly. As a consequence, the setting of science based targets and the resulting necessary action to lower emissions to net zero is essential for all businesses.

Amplifon have some climate targets in place. By 2023 the company hope to source 70% of certified renewable electricity will be reached for offices and direct shops. Beyond this there hope is that scope 1, 2 and 3 emissions data will be available as part of their sustainability reporting in March 2023. Francesco shared that they also envisage new targets to be set in the next report. We relayed that we encourage targets to be science based and aligned with a 1.5 degree scenario.

They also discussed the tying of climate KPIs with the remuneration of management. This is under development and will influence executive variable pay going forward. This is part of the companies program to strengthen governance on sustainability.

Amplifon have set out a climate strategy (shown below):



Amplifon seem to be at the beginning of their journey regarding GHG emission but they have been transparent about what they hope to achieve and have involved stakeholders to gather views on how this strategy should develop. We hope to be part of similar conversations and workshops in the future to help provide feedback as the roadmap progresses.

Company: Balchem

Date: 17th October 2022

Participants from the company: Ted Harris (CEO), Martin Bengtsson (CFO)

Participants from MAM: Kate Hewitt and Manroop Bal

Balchem Corporation develops, manufactures, and markets specialty performance ingredients for the health and nutrition of people and animals. Their products contribute to healthier societies by delivering science-based solutions to the nutrition, health, and food markets. The provision of these products serves to innovate agriculture and to improve the efficiency of global food supply chains and help minimise environmental impacts.

When undertaking our carbon intensity comparison exercise, Balchem's carbon intensity was calculated as 109.1 tonnes of CO₂ per million sales in USD for scope 1 and 2 emissions. Given this is a comparatively high number, we wanted to verify and discuss this intensity measure with the company.

Ted told us that this carbon intensity figure was correct for the 2020 calendar year. However, he also noted that the Balchem carbon intensity for the 2021 calendar year had decreased to 98 tonnes of CO₂ per million sales in USD. This has been included in the 2021 Sustainability Report and indicates that the MSCI database has yet to be updated to reflect these latest (and improved) figures.

The company has also made a commitment to reduce global scope 1 and 2 GHG emissions by 25% for 2030. The most carbon intensive elements of the business are represented by the products they manufacture involving steam generation and the drying of liquids. Balchem have initiated projects to reduce energy lost in the steam and condensate systems. They have improved the condensate returned from the manufacturing processes, bringing more hot water back to the boilers. The direct result of these projects was a reduction in fuel requirements for steam generation.

Ted mentioned that Balchem recognise that carbon reduction is a journey and a commitment which they hope to have engrained into the organisation. The "tone from the top" has sent an important message and Ted feels that employees have embraced this commitment and are hard at work exploring further operational improvements, which include further efficiencies in the steam generation and drying methods we use, potential product design changes to facilitate the reduction of energy required whilst increasing reliance on, and investments in, renewable energy sources.

The reduction in carbon intensity seen between 2020 and 2021 at Balchem is promising. We are pleased that management are incorporating energy efficiency into the business strategy and have set forward looking targets. However, the company have yet to set a net zero commitment. We hope that this will be the next step as they develop their sustainability plan.

Company: Chr Hansen

Date: 26th October 2022

Participants from the company: Rune Joergensen (Head of Sustainability and ESG)

Participants from MAM: Kate Hewitt and Nere Asumendi

Chr Hansen is a Denmark-based company that develops natural ingredient solutions for the food, nutritional, pharmaceutical and agricultural industries. They have a newly implemented “think climate naturally” programme that is taking effect throughout the business. This has led to a reduction in carbon intensity. Renewable energy has been a big contributing factor to this, and sourcing of clean energy has increased between 2021 and 2022. However, the growth of the business has had an impact on overall energy use, and this is a challenge for renewable energy consumption. This means that whilst carbon intensity has decreased, absolute emissions have increased.

The company have historically used power purchase agreements (PPA) as their main source of renewable energy. One of the benefits of this choice is the support to increase the capacity of renewable energy to the grid. Chr Hansen seek to fund renewable production in conjunction with other renewable energy consumers but there have been regulatory barriers. International Accounting Standards have meant that shared ownership of a renewable asset must be calculated monthly for inclusion in financial statements, and this is a significant challenge. Chr Hansen are looking to collaborate with other businesses to find ways of adhering to these standards whilst still meeting their renewable energy needs.

We were happy to see that Chr Hansen have GHG reduction targets that are verified by SBTi in line with a 1.5 degree scenario. They decided on a 42% reduction in scope 1 and 2 emissions over the 10 year period to 2030 from 2020. Rune said that the SBTi criteria had shaped target setting. They selected this initiative in 2020 as they felt it was important to be part of a global target setting agenda connected to the Paris Agreement. The company had been monitoring their emissions for some time prior to this and as a consequence had good insights into scope 1 and 2. This allowed them to select the 42% reduction target.

In addition to their scope 1 and 2 targets, Chr Hansen aim to reduce absolute scope 3 GHG emissions by 20% within the same timeframe. Rune said that the company are still learning on scope 3 and gaining the appropriate granularity of measurement to accurately reflect their positioning and therefore progress in this area is still a challenge. Within the scope 3 calculations the company have been able to include raw materials, transportation (as the company do not own their fleet), business travel and commuting as part of their scope 3 calculations. They have also been able to capture some downstream data. Raw materials are a significant challenge to collect data on, but a more robust monitoring system has been put in place through a dedicated supplier engagement professional. Regarding transport, they have been able to utilise the logistics department and so they can monitor this well and are more confident of the figures there, but data variability is a problem for the overall scope 3 target.

We also had a discussion around setting ambitions to achieve net zero. Rune explained that the definition of net zero from SBTi had not been published when the company set their target last year. Chr Hansen prioritised the speed of that development rather than waiting for the

publication of the framework. The company are following what peers are doing and are ambitious about moving in the right direction. Rune said that they are aware that they have gaps and are identifying areas for improvement prior to establishing a net zero target.

The company asked our opinion on Net Zero. We shared our portfolio net zero targets and encouraged the formal publishing of a net zero ambition as part of the decarbonisation pathway. We then proceeded to talk about the potential for carbon offsets to feature as part of this pathway. Rune said that whilst the company had looked into such strategies, they want to focus on reductions rather than offsets. Chr Hansen are also keen to keep projects within the value chain, so it is not externalised. The majority of offsetting projects outsource climate solutions, and this does not appeal to the company. They see themselves as a sustainability enabler within the food space and consequently would prefer to look for carbon savings for customers and including this within their product offering.

Chr Hansen have been able to reduce their carbon intensity and have their targets verified by the SBTi over the last year. We are pleased with this progress but note that their targets refer to absolute emissions, which have increased. We're hopeful that the implementation of the "think climate naturally" programme will lead to overall emissions reductions in line with their 1.5 degree aligned target and will continue to encourage the setting of a net zero goal to complement their existing efforts.

Company: Cranswick

Date: 5th October 2022

Participants from the company: Mark Bottomley (CFO)

Participants from MAM: Kate Hewitt and Manroop Bal

Cranswick manufactures and supplies food products, particularly pork and poultry products. The environmental footprint of animal agriculture is high and as a consequence we wanted to contact the company to discuss their management of GHG emissions and the challenges they face in this area.

Cranswick have developed a sustainability strategy that they have called “Second Nature”. The company have a net zero target in place for 2040 and as part of this Cranswick has committed to reduce absolute scope 1 and 2 GHG emissions by 50% to 2030 from a 2020 base year. Cranswick has also committed to reduce scope 3 GHG emissions by 50% per tonne sold within the same timeframe (this target includes purchased goods and services and upstream leased assets). Mark said that the company are determined to advance scope 3 and are establishing targets around raw material sourcing to address this. For example, their ambition to use only certified deforestation free soya by 2025 is estimated to reduce associated scope 3 GHG emissions by 15 to 20%.

Alongside their science based targets, Cranswick want all their farms to be carbon neutral⁴ by 2030. We were interested to hear more about the achievement of carbon neutrality and how the third party accreditation scheme PAS 2060 was selected. We were told that PAS 2060 is the internationally recognised standard for the demonstration of carbon neutrality. The large supermarkets, other food and drink companies and beyond sector companies use the standard to demonstrate their carbon neutrality across the world. This is preferable to an internal standard due to the recognition of this approach throughout the supply chain. This standard was first used by Cranswick at its Milton Keynes site to demonstrate site level plans and carbon neutrality, and then later rolled out to all manufacturing sites to demonstrate each site had a plan in place to reduce carbon over the longer term and offsets to compensate in the short term.

The offsetting projects have been verified by two external organisations, Verra and Gold Standard. We were keen to know how these third parties were selected. We were told that they were chosen as they are registries that have a high threshold for offset projects that are credible and verifiable in their claims and additional benefits. Gold Standard in particular is linked directly to the United Nations Sustainable Development Goals. By working with the registry verified projects, Cranswick have confidence that the projects have gone through a robust and thorough validation process that can identify the direct carbon benefits and indirect additionalities. Projects are wide ranging and can be linked to other sustainability aims associated with food production, such as supporting communities in food poverty, providing clean cooking equipment.

⁴ Carbon neutrality allows for 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. Whereas net zero includes scope 3 emissions and emissions must be reduced in line with the latest climate science with offsets used as a last resort.

We then asked about the use of the Oxford Principles⁵ for selecting offsets. Cranswick ensure the projects are compatible first with PAS 2060 standard as a priority (Verra and Gold Standard projects meet this requirement). Cranswick then consider the varying approaches of project methodologies such as: avoidance (rainforest protection), reduction (wind energy replacing coal), removal (tree planting, storage), mitigation (cookstoves reducing emissions from household cooking). The company try to ensure a wide variety of projects are available so employees at each location can select the projects that work for them and their strategies.

There is a large challenge associated with decarbonising our food system and animal agriculture in particular. This is why the company has a comparatively high carbon intensity figure. Cranswick are making great strides in terms of setting science based targets and aiming for net zero by 2040. In the interim they have opted to achieve carbon neutrality and are thoughtfully selecting the projects needed to maintain the external verification of this achievement. Mark was also able to discuss how the targets they have set on carbon are linked to other environmental aims, such as biodiversity protection and the circular economy. For example, the company are researching how to extract CO₂ from energy production for use in meat production. We are pleased with the joined up thinking shown by management concerning their sustainability strategy.

⁵ The Oxford Offsetting Principles are intended to be used to help organisations when designing and delivering credible plans for achieving net zero.

Company: Tristel

Date: 15th November 2022

Participants from the company: Liz Dixon (CFO) and Joaska Mischke (Principal Consultant at Simply Sustainable)

Participants from MAM: Kate Hewitt, Hal Miller and Ed Heaven

Tristel is a manufacturer of infection prevention products. The Company's products are used by hospitals for the disinfection of medical devices and surfaces. During the year we identified that Tristel had a high carbon intensity according to the MSCI database and contacted the company for more information. We were told by Liz that the company had not provided this data to MSCI and as a consequence it was likely that the figures included in the database were estimates. This meant that there were likely to be inaccuracies. Liz said that they intend to follow up with MSCI to explore how this was calculated. However, she acknowledged a need to develop environmental disclosures and indicated that this is a priority for the company. They have recently embarked on a significant project to examine carbon emissions and develop a strategy.

Tristel are working with a Company called Simply Sustainable on their new sustainability strategy. The objective is to work out a route to net zero and establish the appropriate content and tone for their ESG reporting. Simply Sustainable carried out a stakeholder consultation process that we were only too happy to participate in.

We were able to reflect our views on the importance of the disclosure of current climate data and the setting of forward looking targets with credible plans to reduce those emissions in line with the latest climate science. In addition, we recommended relaying this data to important research institutions (like MSCI) as well as the use of the SBTi framework to develop their targets.

Tristel is still early on in their journey to net zero, however it is clear that the company are endeavouring to tackle their footprint and improve transparency on GHG data. We hope that our suggestions will be included in the sustainability strategy and this will result in improvements in the positive impact of the company on people and planet.

Company: Trex

Date: 21st November 2022

Participants from the company: Dennis Schemm (CFO) and Leslie Adkins (Head of Sustainability)

Participants from MAM: Kate Hewitt and Gaspar Arino

Trex is a manufacturer of composite decking. Their wood-alternative outdoor products and accessories are made from recycled wood and plastic. All the wood that goes into Trex decking has been recycled. In many cases, the wood comes directly from post-industrial manufacturing of products, like furniture factories, and helps reduce waste from those operations. In addition, production of composite decking typically requires much less energy than harvesting, transporting, and processing natural wood products. In addition to the recycling of wood, Trex re-directs plastic bags away from landfill sites and customers do not have to apply chemical treatments to maintain their decking or railing, which also has environmental benefits. As a result of this business model, Trex is one of the largest recycling companies in North America and has strong sustainability credentials. However, the company is only starting its journey to address carbon emissions. They are in the process of collecting data, identifying how to reduce emissions, and putting a strategy together.

We approached the company to discuss recent sustainability developments, this request was catalysed by our review of the carbon intensity of companies within our portfolios. This exercise highlighted Trex as having one of the highest carbon intensities within our Better World Fund according to MSCI. The company was not aware of MSCI data and argued they reduced GHG emissions intensity by 33% in 2021 compared to 2020. They said that the main focus had been on reducing energy consumption (and therefore scope 2 emissions) whilst growing the company.

Leslie said that the company are currently undertaking an audit of emissions and the results will be published in their next sustainability report. Scope 3 emissions data should be made available in 2023. We then discussed how this data will be used to set forward-looking targets. Leslie said the company anticipate that targets will be set in 2025 and net zero is under consideration as well as the use of the SBTi framework.

Beyond GHG targets, the company are hoping to expand their recycling footprint by creating a closed loop system. This means that waste materials are not only repurposed once, but Trex will reclaim decking products at the end of their useful life and incorporate them back into the manufacturing process in a circular system. This will improve their climate impact by further reducing waste and energy use associated with their operations.

Trex are, by their own admission, behind the curve when it comes to carbon reporting. Growth has been the priority and ESG goals have taken a backseat as a consequence. However, this does appear to be changing. We hope that future reporting will be more transparent and we hope that the current timeline for target setting will be accelerated. In the meantime, we are pleased with the reduction in intensity seen between 2020 and 2021 and want this trend to continue.

Conclusion

Encouraging progress

There has been a reduction in absolute portfolio emissions between 2019 and 2021. We hope that this pattern will follow through to 2022 and beyond. **The reductions seen so far appear well above our target of 7% each year.**

We are pleased with the continued increase in the number of companies committing to the Science Based Targets initiative. We hope that the commitments will materialise into real world emissions reductions and await the data to plot our trajectory.

Data barriers

We have found that MSCI climate research is a useful tool for monitoring data and comparing climate achievements of our companies. However, we have unearthed cases where the data is either out of date and/or estimated. This is a common problem with many ESG datasets. We have contacted companies during the year that queried the data provided by MSCI. For example, we noticed discrepancies between the reported carbon intensity of Brembo and the MSCI data. The information from MSCI indicated that Brembo's 2021 carbon intensity was 202. However, the information from Brembo indicates that the 2021 scope 1 & 2 emissions was 342,000 tonnes. The 2021 Brembo sales were €2,777,556 billion over the same time period (using 1.13 exchange rate this is equivalent to \$3,139 million) consequently:

$$342,000 / 3139 = 108.96$$

This is much lower than the MSCI figure and, as a result, we encouraged the company to follow up with MSCI to ensure this was corrected. In the same spirit we have also spoken to Thule, Tristel and Balchem where further discrepancies were noted and addressed.

In contacting companies to correct data and encouraging them to feed this back to MSCI, we are helping to improve the dataset for other users.

We are wary of relying too closely on one source. We have found it useful to verify and update our records with the latest information from the company. We have also encouraged companies to contact MSCI (along with other research providers) to correct errors where they have been uncovered. This highlights an ongoing and widespread problem regarding the quality of corporate climate information and the barrier this creates to appropriate monitoring and action by investors.

Collaboration

The positivity, ambition and willingness to cooperate that we witnessed as part of our CEO-to-CEO networking event is cause for optimism.

It is the responsibility of business leaders to create credible climate strategies. Tapping into an existing and widening knowledge base is a useful way to set and achieve necessary environmental goals.