



**MONTANARO**



## Project: Net Zero Carbon

Update for 2023  
Montanaro Asset Management

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# Executive Summary

In a world grappling with the looming spectre of climate change Montanaro Asset Management (“MAM”) has chosen to chart a path that combines financial stewardship with environmental responsibility. We present our fourth annual update on the progress of "Project: Net Zero Carbon" as we continue on our multifaceted journey towards decarbonisation.

In this comprehensive update, we not only report on our portfolios' decarbonisation progress but also share our Taskforce on Climate-related Financial Disclosures (TCFD)<sup>1</sup> report and provide insights into our operational emissions reduction plan.

Our new commitment to become **carbon negative** and **remove our historical emissions** across our operations by 2030, a full two decades ahead of the Paris Agreement targets, underscores our dedication to ambitious climate action by **going beyond net zero**.

We have partnered with Klimate, a Danish Carbon Removal Platform, to select verified carbon removal projects and technologies to offset historical emissions. We emphasise carbon reduction through our investment process, engaging with investee companies, and participating in initiatives like the Glasgow Finance Alliance for Net Zero (GFANZ).

Over the past year, we've witnessed a significant increase in the number of companies committing to **net zero and science based targets**. We are dedicated to encouraging our investee companies to commit to the Science Based Targets initiative (SBTi) and have targets approved. **As of December 2023, 93 companies on our Approved List<sup>2</sup> had made SBTi commitments and set targets, representing 41% of AUM.**

However, we are keen that these ambitious commitments should be acted upon. The MSCI Net Zero Tracker report reveals that nearly half of the listed companies included in their research have set a decarbonisation target<sup>3</sup>. **Despite this increase in carbon reduction pledges, companies continue to emit greenhouse gases at levels close to pre-pandemic highs.**

The global carbon budget for limiting temperature rise to 1.5°C is expected to be depleted by October 2026 if current emission rates continue.



## Months left to limit warming to 1.5°C

Time remaining until listed companies deplete the emissions budget for limiting global temperature rise this century to 1.5°C above preindustrial levels



## Months left to keep warming well below 2°C

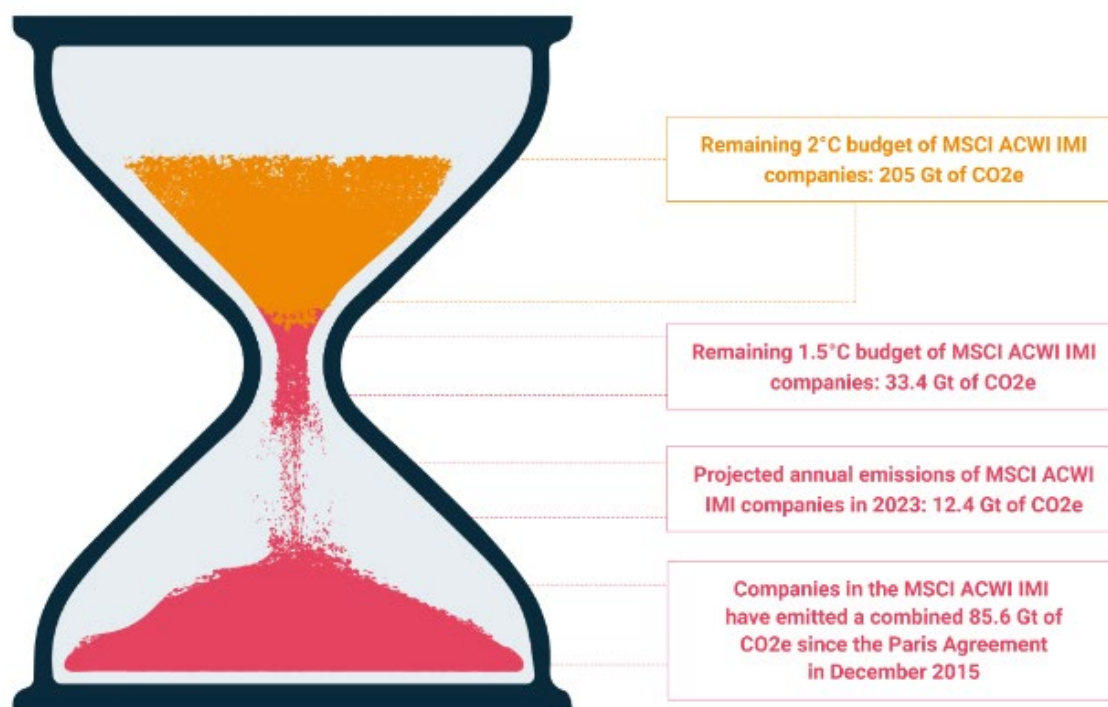
Time remaining until listed companies deplete the emissions budget for keeping global temperature rise this century well below 2°C above preindustrial levels

<sup>1</sup> <https://www.fsb-tcdf.org/>

<sup>2</sup> MAM's Approved List comprises of stocks that have been approved for inclusion in our investment portfolios.

<sup>3</sup> [https://www.msci.com/documents/1296102/41874802/NetZero-Tracker-NOV-cbr-en\\_11\\_30.pdf/40894b8c-cbc3-4f02-88a2-76781190492b?t=1701468707326](https://www.msci.com/documents/1296102/41874802/NetZero-Tracker-NOV-cbr-en_11_30.pdf/40894b8c-cbc3-4f02-88a2-76781190492b?t=1701468707326)

This indicates that while corporate climate targets are increasing in number and ambition, absolute emissions have not significantly declined. There remains a gap between commitments and action, with companies on a path to warm the planet by 2.5°C above preindustrial levels this century.



## In the face of this trend, we are pleased to see ongoing reductions in the absolute carbon emissions associated with our portfolios.

Since our base year, we have achieved a **54% reduction in absolute carbon emissions** across our in-scope portfolios<sup>4</sup> (measured in metric tonnes of CO<sub>2</sub>e for Scopes 1 and 2). This represents a remarkable accomplishment, as our average annual decrease in portfolio emissions each year since 2019 has been 16%, **surpassing our annual 7% emissions reduction target**. Moreover, our reliance on estimates for carbon figures has declined, thanks to improved data availability for our holdings, enhancing the accuracy of our emissions calculations.

We are pleased that **alongside the stated commitments to reduce emissions, our absolute portfolio emissions reductions since 2019 hold the promise of real-world change**. We believe our engagement campaign is helping to usher in the carbon free economy that our world urgently requires. Decoupling environmental destruction from prosperity is essential to **“break the tragedy of the horizon”**<sup>5</sup>.

<sup>4</sup> Our in-scope portfolios comprise MAM’s open ended funds.

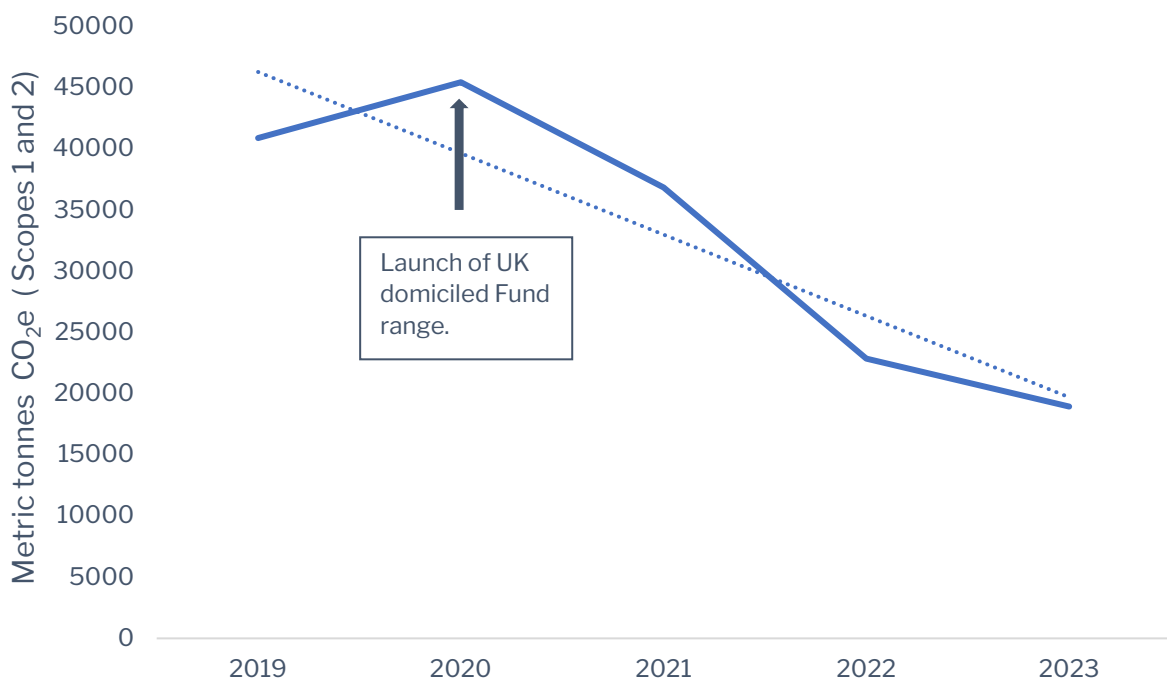
<sup>5</sup> <https://www.bankofengland.co.uk/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability>

# Progress

## Keeping on Track

Since making our commitment to reach net zero, MAM Scope 3 emissions associated with our open ended funds have decreased. In order to keep on track with our targets, we need to reduce our financed emissions by 7% each year. **On average we have decreased our emissions by 16% each year.**

We have noticed a significant increase in the data available for our holdings. This has improved the accuracy of our calculations and has reduced our reliance on estimates. This increase in data availability not only impacts the current reporting year but allows us to re-calculate the financed emissions for previous years with greater accuracy.



**Since 2019, our financed emissions for in-scope portfolios has decreased by 54%.**

We have calculated our financed emissions footprint using Scope 1 and 2 emissions data for each company sourced from MSCI – and where necessary from our companies directly - for the relevant financial years. To determine the financed emissions, we utilised the ownership percentage of outstanding shares held by the investment funds for each individual stock. We calculated the attribution factor as a ratio of the outstanding investment amount to the total equity and debt of the asset. We then multiplied this percentage by the corresponding carbon emissions expressed in metric tonnes for each company. In cases where the data was unavailable, we extrapolated to estimate emissions for 100% of the portfolios under consideration.

$$\sum_n^i \left( \frac{\text{current value of investment}_t}{\text{issuer's EVIC}_t} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_t \right)$$

By summing these emissions across all the stocks within a given portfolio, **we arrive at the total figure for portfolio financed emissions.** This calculation provides insight into the environmental impact associated with the companies in which the investment funds have holdings and how this has changed over the years.

### What is responsible for the reduction?

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

We attempted to calculate the attribution to the financed emissions change between 2020 and 2023:

Company effect (A)	-31%
Allocation effect (B)	-23%
<b>Total effect (A+B)</b>	<b>-54%</b>

The “Company effect” measures the change in emissions of the companies within the portfolios between 2020 and 2023, **assuming that the portfolio’s composition remained unchanged.** A decline of 31% across the company effect suggests that the companies included in the 2020 portfolios have collectively reduced their emissions by 31% by 2023. **This indicates that the companies themselves have made significant strides in reducing their carbon footprint.**

The “Allocation effect” is the difference between the Total effect and the Company effect. It considers the changes made to the portfolio, such as buys, sales and market movements. The decline of 23% implies that changes in investment choices (like divesting from high-emission companies and investing in more sustainable ones) **contributed to a 23% reduction in financed emissions.**

The Total effect is the aggregate impact of both the Company and Allocation effects. It signifies a substantial overall reduction in financed emissions, indicating that our investment strategy not only relied on adjustments to the portfolio but also companies to reduce their emissions.

### Credible Climate Action

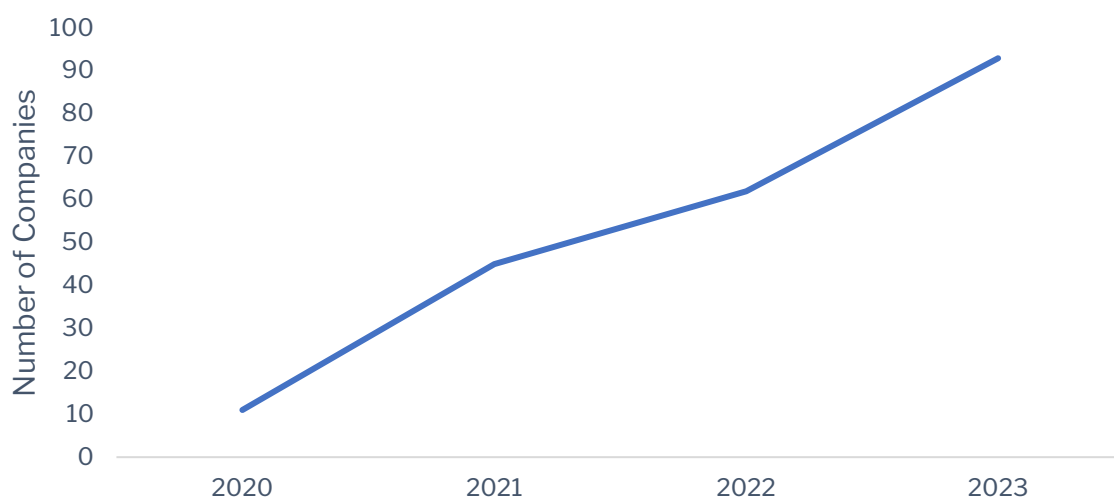
Setting science-based targets for GHG reduction is crucial for companies in addressing climate change effectively. **These targets ensure that a company's emissions reduction goals are in line with the latest climate science** and international agreements, such as the Paris Agreement. By aligning their efforts with the science, companies can contribute to the global goal of limiting global warming to well below 2°C above pre-industrial levels, with an aim to limit it to 1.5 °C.

We believe that science based targets play a vital role in mitigating risks associated with climate change. Companies face financial, regulatory, and reputational risks due to the environmental impact of their operations. **By setting science-based targets, they can proactively reduce these risks and avoid potentially costly consequences.**

In addition to avoiding the risks associated with inaction on climate change, embracing science-based targets can also drive innovation and efficiency within an organisation. Pursuing such targets often requires the development of new processes, products, and technologies. This can lead to increased operational efficiency and cost savings. For instance, investments in renewable energy and energy-efficient technologies can reduce energy costs and improve overall performance.

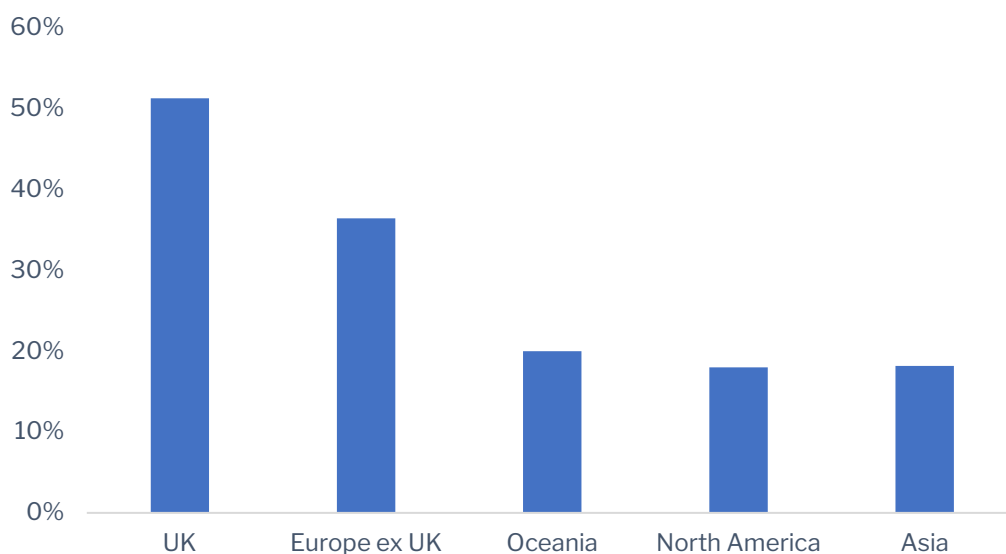
**Ultimately, companies setting science-based targets contribute to global climate goals and demonstrate a commitment to a sustainable future. In an era where climate change is one of the most pressing challenges, setting science-based targets is a responsible and essential step in addressing this global issue effectively.**

We encourage our investee companies to commit to and eventually have their targets approved by the **SBTi**.



**Since 2020, the number of companies on our approved list with SBTi commitments and targets has increased to 93. This represents 41% of our AUM.**

The uptake of the SBTi commitment by companies varies by region. We have broken down the companies on our approved list with SBTi commitments by region.



The chart above shows that over 50% of our UK companies have made SBTi commitments or have had their targets approved. This falls to 36% of European companies, 20% of our holdings in Oceania (this equates to one out of five) and 18% of our North American and Asian companies.

The number of companies in the UK with science based targets is relatively high. This is reflective of the strong engagement with climate goals we have seen amongst the UK's corporate sector.

We speculate that the reason for strong uptake of SBTi amongst European countries, including the UK, is due to more stringent environmental regulations. The European Union's policies on climate change, such as the European Green Deal, encourage companies to set ambitious emission reduction targets. This influences the different reputational risks and opportunities that companies

may face. Hence companies in regions where climate change is a significant public concern may adopt science based targets to enhance their reputation and brand value to appeal to their customer base and to stay competitive.

**It is important to consider that these are general trends and there are exceptions within each region. Additionally, the reasons for the adoption of science based targets can be complex, often involving a combination of regulatory, economic, social, and environmental factors.**



# The Montanaro Better World Fund

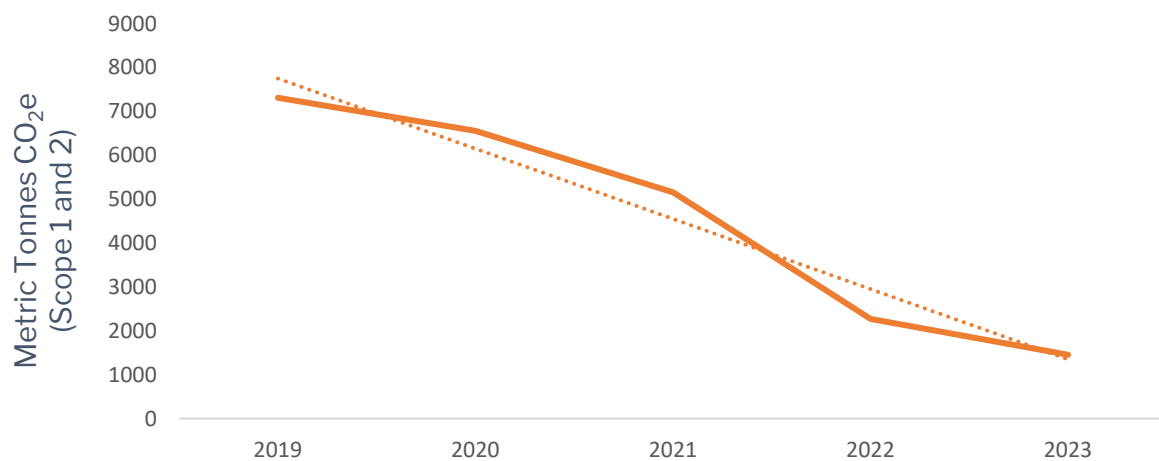
## Temperature Trajectory

According to MSCI's research, BWF is invested in line with the Paris agreement's goal of limiting the global mean temperature rise to below 2°C.



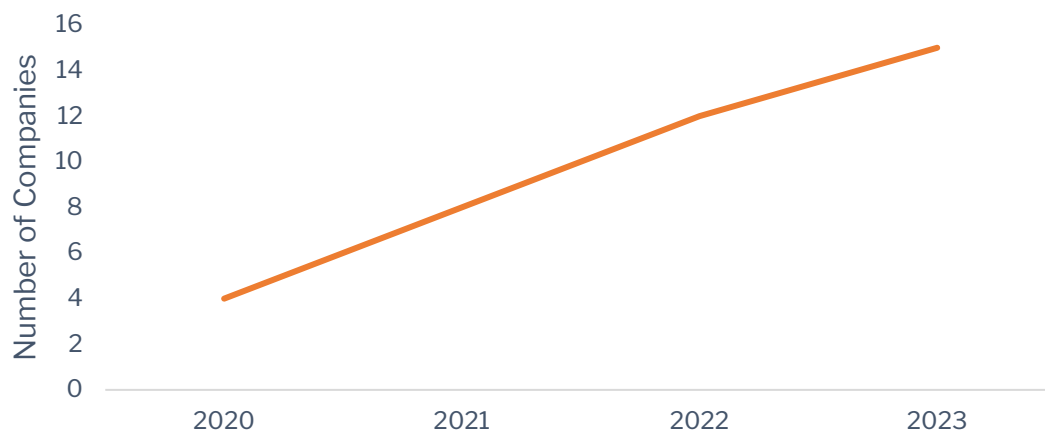
## Absolute Emissions Reduction

There has been an **80% decrease** in absolute Scope 1 and 2 emissions between the baseline year of 2019 and 2023. As at December 2023, the fund's financed emissions were 1455 metric tonnes CO<sub>2</sub>e (Scope 1 and 2).



## SBTi

The number of portfolio companies that have committed to set targets and have had them approved by the SBTi has increased every year since 2019. **There are now 16 portfolio companies signed up to SBTi** representing 33% of the fund's AUM.



# Engagements

## **Shareholder engagement spurs companies to reduce carbon emissions.**

Our discussions promote accountability and transparency within corporations and we see this as a crucial risk management tool. Carbon emissions and climate change represent substantial financial risks for businesses. By engaging, companies and their stakeholders can gain a better understanding of these risks and be encouraged to formulate strategies for effectively managing and mitigating them. We understand the importance of our position as shareholders and will continue to use it to improve outcomes for people and planet.

Below we explore instances where we have actively engaged with investee companies, challenging them to address carbon emissions. We have conducted calls, site visits and participated in collaborative engagements.

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### **Company: Advanced Drainage Systems (US)**

The leading manufacturer of innovative water management solutions in the stormwater and on-site septic wastewater industries, providing drainage solutions for use in the construction and agriculture marketplace.

**Date:** 23<sup>rd</sup> May 2023

**Participants from the company:** Scott Barbour (President & CEO) and Scott Cottrill (CFO)

**Participants from MAM:** Mark Rogers and Gaspar Arino

**Objective:** The site visit to Advanced Drainage Systems in Ohio aimed to gain a comprehensive understanding of the company's approach to reducing GHG emissions. This visit was a follow-up to a call in 2022 to discuss carbon emissions and assess the approach to mitigating climate change.

#### **Discussion:**

- The company is a leading manufacturer of water management solutions that combat persistent and challenging water-related issues. Their products are essential for managing stormwater runoff, promoting rainwater harvesting, and reducing flooding. These efforts contribute to mitigating the physical effects of climate change, aligning with climate resilience strategies.
- The company is committed to setting Science Based Targets. We have been told that they are aiming **to reduce GHG emissions by 42% by 2032**. These targets align with the goal of limiting global temperature increases to 1.5°C.
- The company faces challenges in reducing GHG emissions due to a decentralised manufacturing footprint composed of numerous energy-intensive extrusion facilities. Local manufacturing is essential for efficiency and client needs. Additionally, the company operates its fleet of vehicles, which currently cannot be electrified, necessitating diesel reliance.

- The company has initiated efforts to gather and publish data on Scope 3 emissions, which will be included in the Science Based Targets under development. This involves assessing supply chain contributors, such as petrochemical companies and recycling facilities, although challenges arise with smaller recycling firms that do not readily provide data.
- Plans for formalising a net-zero target are under consideration and are expected to be addressed once SBTi approval is achieved. The CEO's dedication to carbon reduction is evident through board-level oversight via a Sustainability Committee, reinforcing a culture of sustainability within the company.

**Outcome:**

Despite having a high carbon intensity compared to other portfolio holdings, Advanced Drainage Systems is actively engaged in decarbonisation initiatives and we are pleased with their commitment to Science Based Targets, **aligning with the goal of a 1.5°C** maximum temperature increase. The approval of these targets is anticipated and it is expected that this commitment will pave the way for **establishing net zero targets**. We feel that the climate action plan is a positive step towards addressing GHG emissions and contributing to climate resilience and sustainability.

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**Company: American Water Works Company (US)**

American Water is the largest and most geographically diverse US publicly traded water and wastewater utility company. The company employs more than 7,100 people who provide regulated and market-based drinking water, wastewater and other related services to more than 14 million people in 46 states.

**Date:** 22<sup>nd</sup> May 2023

**Participants from the company:** Jack Quinn and Kelley Uyeda (Investor Relations)

**Participants from MAM:** Mark Rogers and Gaspar Arino

**Objective:** In a recent site visit to American Water as part of Project: Net Zero, the focus was on understanding their emissions reduction strategy. In previous years, discussions were held regarding their carbon emissions, but this visit aimed to delve deeper into their progress. The company had already set a short-term goal to reduce absolute Scope 1 and 2 GHG emissions by over 40% by 2025, based on a 2007 baseline. The objective of this engagement was to gain insights into their new medium and long-term goals for Scope 1 and 2 emissions, learn about their alignment with the Paris Agreement, and understand their approach to Scope 3 emissions.

**Discussion:**

- During the site visit, it was revealed that American Water has expanded its emissions reduction strategy. **They have set a new medium-term goal to reduce absolute Scope 1 and 2 emissions by 50% by 2035, based on a 2020 baseline.** Furthermore, the company has a long-term vision to achieve net zero Scope 1 and 2 emissions by 2050. This demonstrates their commitment to significant emissions reductions over time.
- However, it was noted that the company has not yet incorporated Scope 3 emissions into their reduction strategy. Although they have started reporting on these indirect emissions, they are absent from the formal strategy. The engagement discussion highlighted the importance of **addressing Scope 3 emissions** to comprehensively manage their carbon footprint.

- The net zero goal aspires to align with the Paris Agreement, but it has not yet been verified by the SBTi. The reason behind this lack of verification is American Water's need to fully understand and address their Scope 3 emissions, which are crucial for verification.

**Outcome:**

The site visit to American Water revealed significant progress and an increased commitment to emissions reduction. The company has set new, ambitious medium and long-term goals for Scope 1 and 2 emissions, aligning with global efforts to combat climate change.

However, the absence of Scope 3 emissions in their reduction strategy was **highlighted as a gap**. Addressing Scope 3 emissions is considered the next essential step for the company to undergo verification from the SBTi. The engagement concluded with the understanding that continued support and monitoring will be necessary to track American Water's progress and ensure that Scope 3 emissions are integrated into their strategy, ultimately leading to SBTi verification.

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**Company: Balchem (US)**

Balchem Corporation develops, manufactures, and markets specialty performance ingredients for the health and nutrition of people and animals.

**Date:** 2<sup>nd</sup> March 2023

**Participants from the company:** Job Van Gunsteren (VP Specialty Products & Italia Board member), Giorgio Bissio (Italy Supply Chain Director), Cristiano Taverna (Marano Ticino Site Director)

**Participants from MAM:** Manroop Bal and Yannis Gidopoulos

**Objective:** When undertaking a carbon intensity comparison exercise at the end of 2022, Balchem's carbon intensity was calculated as 109.1 tonnes of CO<sub>2</sub> 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. Following a call with the company, we arranged a site visit to see the sustainability measures first hand.

**Discussion:**

- The CEO 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 CO<sub>2</sub> per million sales in USD**.
- The company has made a commitment to reduce global Scope 1 and 2 GHG emissions by 25% for 2030.
- We also discussed the approach to climate action and water sustainability at the Marano Ticino plant – the site is investing in a EUR 1.1m closed cooling water circuit which is estimated to reduce the site's water intake by 80% and is expected to be complete in 2024. This will be in line with Balchem's broader 2030 sustainability water reduction goal.

**Outcome:**

Balchem are working towards a number of 2030 sustainability goals (including an emissions reduction target of 25% from 2020). Unfortunately a GHG reduction in line with the latest climate science is still not featured as part of the strategy. This is an **ongoing engagement priority** for MAM.

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**Company: BioGaia (Sweden)**

BioGaia is a healthcare company that develops, markets and sells probiotic products with documented health benefits.

**Date:** 15<sup>th</sup> May 2023

**Participants from the company:** Peter Persson (Head of Manufacturing)

**Participants from MAM:** Kate Hewitt and Nere Asumendi

**Objective:** The objective of the visit to BioGaia's operations in Sweden was to investigate the company's approach to addressing climate change through sustainability initiatives. The specific focus was on understanding how these initiatives affect the daily operations of the business.

**Discussion:**

- BioGaia's carbon reduction targets, **verified by SBTi**, commit to a 46% reduction in Scope 1 and 2 GHG emissions by 2030 compared to a 2019 baseline.
- However, Peter noted that these targets had not led to significant changes in his manufacturing approach. He continues to focus on maximising operational efficiencies and increasing production volumes without substantial changes in machinery or processes.
- One of the challenging aspects of the sustainability plan has been BioGaia's strategy of phasing out palm oil by 2025 to **lower Scope 3 emissions**. The company has substituted palm oil with sunflower oil sourced from Europe and Ukraine, although the latter has presented challenges due to regional conflict. The reformulation has necessitated changes to machinery due to differences in the viscosity of the oils.

**Outcome:**

The discussion with BioGaia indicates that the company has set ambitious carbon reduction targets, verified by SBTi. These targets have yet to significantly impact manufacturing operations, as Peter Persson continues to **prioritise efficiency and increased production volumes**. The phasing out of palm oil and transition to sunflower oil has presented some challenges and required machinery adjustments.

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**Company: Chemometec (Denmark)**

Chemometec is engaged in the development, manufacture and sale of analytical instruments used for quantitative analysis of cells.

**Date:** 19<sup>th</sup> June 2023

**Participants from the company:** Niels Høy Nielsen (CFO)

**Participants from MAM:** Kate Hewitt

**Objective:** We aimed to discuss the Chemometec sustainability roadmap and the importance of engaging with the Carbon Disclosure Project (CDP), a third-party framework for environmental reporting. This engagement followed our participation in the CDP non-disclosure campaign, encouraging investee companies like Chemometec to respond to CDP questionnaires.

## Discussion:

- Niels joined Chemometec in November 2022 and noted significant advancements in their sustainability strategy since his arrival. As a relatively small company with 170 employees, they must carefully consider resource allocation before embarking on numerous ESG initiatives. Recognising resource constraints, the company is prioritising sustainability efforts.
- Chemometec conducted a materiality analysis with the help of a consultant. This analysis led to several key insights, including:
  - They are not considered significant GHG emitters, rating themselves as "low" impact.
  - Emissions measurement is a top priority, and they anticipate low carbon intensity due to sourcing green energy.
  - Addressing plastic waste, particularly in the form of consumable cassettes, is a major ESG challenge. Customers often dispose of these themselves.
  - Chemometec is working on developing instruments that eliminate the need for these plastic consumables.
  - Other priorities include staff surveys to aid retention, implementing a whistleblower policy to enhance governance, and cybersecurity.
- Niels inquired about the reason for our CDP request, and we explained that:
  - The CDP offers a comprehensive environmental database for tracking GHG emissions reduction and other key environmental factors like water use and deforestation.
  - CDP questionnaires provide standardised global reporting, allowing for easy comparisons.
  - CDP aligns with the Task Force on Climate-related Financial Disclosures (TCFD) framework, which is becoming a regulatory requirement.
  - We also explained that other third party frameworks, such as SBTi, are crucial for aligning reduction targets with current climate science.

## Outcome:

Chemometec's sustainability strategy has seen substantial progress since Niels's appointment as CFO. They recognise the challenges posed by resource constraints and have prioritised their ESG initiatives accordingly. While completing the CDP questionnaire before the July deadline was unlikely due to their recent sustainability journey, Niels expressed a keen interest in understanding SBTi and CDP for future reporting cycles. This reflects their commitment to advancing their sustainability efforts.

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## Company: **Chr Hansen (Denmark)**

Chr Hansen is a global supplier of bioscience based natural ingredients to the food, health and animal feed industries.

**Date:** 16<sup>th</sup> May 2023

**Participants from the company:** Torsten Steenholt (Executive Vice President of Global Operations), Anders Mohr Christensen (Vice President, Group Strategy & Investor Relations) and Disa Tuominen (Investor Relations Manager)

**Participants from MAM:** Kate Hewitt and Nere Asumendi

**Objective:** During the site visit to Chr Hansen in 2023, we found out more about the Think Climate Naturally program and progress towards achieving Science-Based Targets. The purpose of the meeting was to understand their sustainability efforts, the impact of an impending merger, and various challenges and initiatives related to carbon reduction, circular economy, sustainability in decision-making, capital allocation and innovation.

**Discussion:**

- Chr Hansen has set near-term targets for aligning with the 1.5°C climate goal by 2030. They have committed to reducing absolute Scope 1 and 2 GHG emissions by 42% by 2030 from a 2020 base year and absolute scope 3 GHG emissions by 20% within the same timeframe.
- Torsten emphasised the importance of employee engagement in sustainability. He noted that new employees, particularly those under 30, value purpose and sustainability when selecting their workplace. The company actively promotes its sustainability efforts through posters and displays across the site.
- Concerns were raised about how the pending merger might affect sustainability commitments. Torsten explained that both companies have demonstrated their commitment to sustainability and ESG has featured prominently in the investor literature related to the acquisition. It is expected that the targets for the new company will be even more ambitious. Challenges include rebasing climate data and consolidating emissions data from both companies.
- While air freight has been significantly reduced, some deep-frozen items are challenging to transport by sea due to temperature maintenance requirements. This poses a barrier to shifting away from air freight.
- Chr Hansen is actively working to integrate circular economy principles into their operations. They plan to convert bio-waste from probiotic production into biogas to be used as fuel. They aim to reuse 100% of biowaste in this way by 2024.
- Torsten discussed the role of sustainability in decision-making. Rune Joergensen, Head of Sustainability and ESG, is involved in all capital allocation decisions to ensure sustainability is integrated. The company is willing to accept a longer payback period for green investments, reflecting their lower risk profile.

**Outcome:**

Chr Hansen is committed to a clear sustainability strategy that focuses on reducing environmental impact, sustainable agriculture, and human health. Their ambitious sustainability targets, such as significant greenhouse gas reduction by 2030, reflect their dedication to these goals. Sustainability is integral to the company's culture and it is recognised as being of increasing importance.

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**Company: [Mani \(Japan\)](#)**

Mani is a medical devices company based in Japan, known for its surgical knives, staples, needles (particularly specialist vascular, ENT, and ophthalmological needles) and dental applications.

**Date:** 21<sup>st</sup> June 2023

**Participants from the company:** Pamela Dempsey (Corporate Planning)

**Participants from MAM:** Kate Hewitt



**Objective:** The objective of the initiative was to encourage companies to submit corporate environmental data by participating in the Non-Disclosure Campaign and leading engagement efforts with certain investee companies. Mani was one of our target companies

**Discussion:**

- The engagement underscores the critical importance of environmental disclosure as the global transition toward a net zero economy accelerates, and various governments start implementing mandatory environmental disclosure regulations.
- We highlighted that companies play a vital role in mitigating carbon emissions and ensuring a sustainable future. The financial and capital markets are increasingly interested in evaluating the risks and impacts associated with climate change on investments. Proactive steps to address these issues rely on accurate and comprehensive data from companies.

**Outcome:**

In response to our request, Mani submitted both the climate questionnaire and the water security questionnaire to the CDP. This demonstrates their willingness to participate in standardised environmental reporting and highlights their commitment to transparency in addressing climate change and water security concerns. By participating, the company has contributed to comprehensive corporate environmental data that can be used for benchmarking, tracking progress, and aligning with global environmental disclosure standards, including those set by the TCFD.

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**Company: [Rightmove \(UK\)](#)**

Rightmove is a UK company which operates as a property portal.

**Date:** 28<sup>th</sup> June 2023

**Participants from the company:** Carolyn Pollard (Company Secretary)

**Participants from MAM:** Kate Hewitt

**Objective:** The objective of the engagement with Rightmove was to encourage the company to participate in the CDP campaign by completing their questionnaires. The engagement aimed to promote environmental transparency and encourage the company to actively report on their environmental performance.

**Discussion:**

- Rightmove explained that they currently complete questionnaires from several ESG ratings providers, including MSCI, Sustainalytics, ISS, and S&P Global. They mentioned that due to the substantial time and resource requirements associated with responding to various ESG ratings providers, they have chosen to limit the number of platforms they engage with.
- In addition to resource constraints, Rightmove also noted that CDP introduced a fee in order to complete the questionnaire, which was a contributing factor in their decision not to participate. Furthermore, Rightmove expressed frustration with their 'D' status rating from CDP in their previous engagement, believing it did not accurately reflect their environmental performance.
- The engagement with Rightmove involved forwarding their feedback about their 'D' rating to CDP for consideration. This feedback is essential in helping improve the accuracy and fairness of CDP's ratings.



**Outcome:**

Rightmove decided not to participate in the CDP campaign, primarily due to the time and resource constraints associated with multiple ESG ratings platforms and the cost of CDP's questionnaire. The company expressed frustration with their 'D' rating from a previous CDP submission, believing it did not accurately represent their environmental performance. While Rightmove opted not to engage with CDP for the time being, they indicated their willingness to continue working as part of the CDP campaign in the future.

The engagement highlights the challenges and considerations faced by companies when participating in multiple ESG ratings and disclosure platforms, including resource constraints and the associated costs. It also emphasises the importance of providing constructive feedback to ESG ratings providers to improve their rating methodologies and fairness in assessments.

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**Company: Sdiptech (Sweden)**

Sdiptech offers specialist technology for the infrastructure sector. The vision of the business is a future built on more sustainable, efficient and safe societies. To achieve this, it is essential to expand and improve the infrastructure within cities. Sdiptech wish to take an active role in this change by acquiring and developing leading niche companies that offer solutions to critical needs of the infrastructure sector.

**Date:** 17<sup>th</sup> April 2023

**Participants from the company:** My Lundberg (Investor Relations) and Fredrik Navjord (Head of Resources Efficiency)

**Participants from MAM:** Kate Hewitt and Stefan Fischerfeier

**Objective:** The objective of the engagement with Sdiptech was to provide feedback on their responsible investment policy, particularly the criteria that influence acquisitions. The engagement sought to understand how Sdiptech assessed ESG factors. It also aimed to encourage Sdiptech to respond to the CDP questionnaire as part of our leadership role in the collaborative engagement campaign.

**Discussion:**

- Sdiptech is hoping to improve the assessment of UN Sustainable Development Goal (UN SDG) alignment for acquisitions.
- The policy excludes certain industries to maximise positive impact by limiting exposure to industries that detract from sustainable development, such as acquisition targets that may have poor environmental credentials.
- Sdiptech had introduced a Sustainability Council and forward-looking targets, showcasing their commitment to sustainability. The company has also improved its approach to third-party verification through the use of the TCFD reporting framework.
- We emphasised that SBTi is considered best practice and that the use of CDP reporting will help to improve the standardisation of climate reporting.

**Outcome:**

Following our engagement the company responded to the CDP climate questionnaire. The company's response to the CDP questionnaire further underlines their responsiveness to investor concerns and engagement initiatives. The feedback provided to Sdiptech emphasises the importance of aligning with best practices in sustainability, particularly through SBTi.

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## **Company: Terna Rete Elettrica Nazionale Societa Per Azioni (Italy)**

Terna Rete is an Italian utility company. It is an independent grid operator for the transmission of electricity. It deals with the management of electrical systems through the operation of the grid, efficiency of infrastructures and their maintenance through engineering and management of plants and grid developments.

**Date:** 1<sup>st</sup> August 2023

**Participants from the company:** Cristiano Bertoldi (Investor Relations)

**Participants from MAM:** Mark Rogers, Ed Heaven and Harriet Topham

**Objective:** Our aim was to understand their sustainability initiatives and the role they play in facilitating a transition to a net-zero economy. The engagement aimed to gain insights into their strategies for reducing GHG emissions and to clarify their commitment to renewable energy sources.

### **Discussion:**

- Terna, as the regulated electricity grid operator in Italy, plays a crucial role in the country's transition to a more sustainable energy system. Italy imports a significant portion of its energy needs, with the majority being thermal gas. Despite this, Terna stated that Italy's electricity generation from renewables is now over 35%, positioning Italy as a leading European country in renewable energy adoption.
- The company's investment case revolves around a substantial CAPEX program over the next five years. This program aims to prepare the Italian grid for a net zero economy by 2050. Initiatives include building transmission cables to connect solar and wind energy generation sites on islands.
- Terna has upgraded its science based targets from a 2°C to a more ambitious 1.5°C scenario, aligning with a more stringent global climate goal. They classify 99% of their CAPEX as sustainable based on the EU Taxonomy.
- During the discussion, it became apparent that Terna faces challenges in defining clear targets for the percentage of electricity generated by renewables. While they transport energy through their distribution network, they do not have control over increasing the renewable energy supply. Italy's 90% energy import dependency from other countries further complicates this matter.
- Regarding their emissions, Terna mentioned that transmission losses accounted for a substantial part of their Scope 1 and 2 emissions, with leakage of sulphur hexafluoride (SF6) being a key concern due to its high potency as a greenhouse gas.

### **Outcome:**

The outcome of the engagement with Terna highlights their significant role in Italy's transition to a more sustainable energy system. The company is heavily invested in a CAPEX program that supports their commitment to the net zero economy by 2050.

Terna's emphasis on sustainability and alignment with more ambitious science based targets (a 1.5°C scenario) reflects their intention to contribute to a greener energy landscape. However, challenges remain, particularly in defining targets for renewable energy generation, given Italy's heavy reliance on energy imports.

Their efforts to address transmission losses, Scope 1, 2, and 3 emissions, and leakage of SF6 demonstrate their commitment to reducing environmental impacts. The engagement emphasises the importance of understanding the unique challenges faced by grid operators in the transition to a more sustainable energy system.

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**Company: Tristel (UK)**

Tristel is a manufacturer of infection prevention products. The Company's technology is a chlorine dioxide formulation used by hospitals for the high-level disinfection of medical devices and surfaces.

**Date:** 3<sup>rd</sup> August 2023

**Participants from the company:** Paul Swinney (CEO) and Liz Dixon (CFO)

**Participants from MAM:** Kate Hewitt, Hal Miller and Harriet Topham

**Objective:** We had been approached by the company to offer insights into the development of a new sustainability strategy, including their newly announced and ambitious 2030 net zero goal.

**Discussion:**

- Tristel has made a significant transition towards a comprehensive ESG approach, with their strategy encompassing a notable 2030 net zero goal. They engaged with various stakeholders to select material priority topics, including carbon emissions, diversity, equity, and inclusion, fair work practices, health and safety, wellbeing, and waste management.
- Tristel had been using Carbon Footprint to calculate their carbon emissions since 2019. Although there had been consistent emissions reduction since 2019, the exact reasons for this decline were not entirely clear. They acknowledged the ambitious nature of the net zero goal and discussed the potential use of offsets if necessary. Tristel had not employed a third-party framework to set targets. We suggested that the company seeks SBTi verification.
- The company also set a goal of achieving fully recyclable packaging and aligning it with a Scope 3 net zero goal for 2045. Challenges in reducing plastic reliance for clinical wipes were discussed, primarily due to regulatory requirements. The management highlighted the increasing pressure on suppliers to develop eco-friendly alternatives and indicated a broader cultural shift. The environmental impact of both plastic and biodegradable wipes was mentioned, with biodegradable wipes having a lower impact.
- Tristel intended to publish new Key Performance Indicators (KPIs) to measure their progress in achieving ESG priorities and planned ongoing disclosure.

**Outcome:**

Tristel's progress in committing to sustainability is notable, the net zero goal demonstrates their commitment to sustainability. The company's intention to publish ESG KPIs and pursue external accreditations will enhance transparency and disclosure.

The management team's willingness to learn and seek insights, especially regarding the potential use of third-party frameworks like SBTi, highlighted their dedication to sustainability. Future discussions are planned on topics like ESG KPI disclosure and SBTi commitment, with an expressed interest in utilising our expertise as a sounding board for future inquiries related to their ESG strategy.

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## Company: Yaskawa Electric Corporation (Japan)

Yaskawa is a Japanese firm specialising in electrical equipment. It operates across three main sectors: Motion Control, Robots and System Engineering. Yaskawa helps to improve manufacturing efficiencies and deliver resource savings for their customers with a diverse product portfolio for a range of sectors.

**Date:** 1<sup>st</sup> November 2023

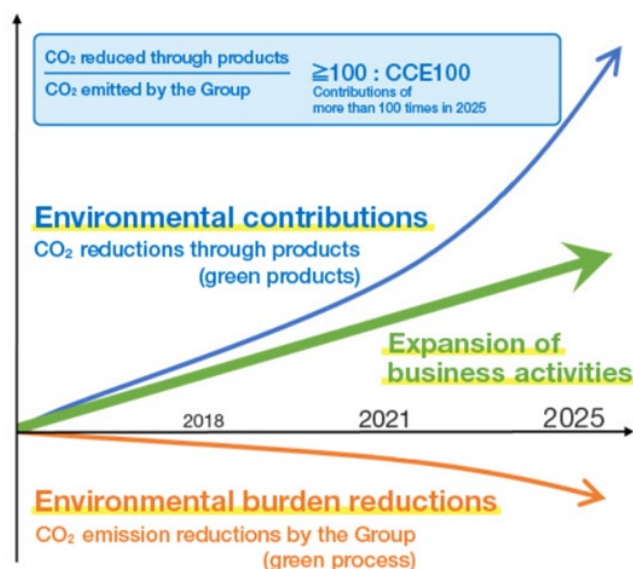
**Participants from the company:** Katsushige Nishimura (Sustainability Manager), Daisuke Nakahara (Sustainability Team), Ayano Motonaga (Sustainability Team), Kazuyuki Sawaguchi (Sustainability Team), and Honoka Murayama (Investor Relations)

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

**Objective:** When reviewing the Better World Fund portfolio to evaluate the progress towards our net zero goal, Yaskawa was flagged as having high absolute carbon emissions relative to other holdings. Using MSCI ESG data as part of our analysis, we identified Yaskawa as having a "worsening" carbon emissions intensity trend over the past three years. We wanted to arrange a call with the company to evaluate their climate action plan and review progress towards their carbon reduction goals.

### Discussion:

- Yaskawa has seen a decrease in carbon intensity since 2018, contrary to MSCI data. However, opportunities to correct this have been few and engagement with MSCI has been limited due to the extensive number of datapoints that need to be reviewed for the research agency, which led to an oversight in carbon intensity figures.
- The company have an SBTi approved target in line with a 1.5°C scenario to reduce GHG emissions by 51% by 2030 from 2018. To help achieve this Yaskawa adopted CO<sub>2</sub>-free electricity, enhanced energy efficiency and introduced an internal carbon price of 5,000 yen per tonne.
- The Group has made a commitment to reduce the amount of CO<sub>2</sub> emissions associated with their products by at least 100 times the amount of CO<sub>2</sub> emissions emitted by the Group in 2025. This is measured using the Contribution to Cool Earth Index (CCE100). Technological advancements in products have significantly contributed to the overachievement of CO<sub>2</sub> reduction targets, impacting the CCE100 index.



- Category 11 of Scope 3, electricity used by customers, is the most significant contributor to Yaskawa's indirect carbon footprint. Challenges in reducing Scope 3 emissions include customer engagement due to the large number of customers. Supplier engagement is ongoing to reduce emissions from metal refining, which is a small but crucial part of Scope 3 emissions.
- Yaskawa's carbon-neutral goal by 2050 has been put in place to align with Japan's net zero targets, focusing on reducing Scope 1 emissions and potentially using CO<sub>2</sub> credits. The strategy has been certified by a third party called [SGS Japan](#).
- The company is strategically navigating global green regulations. The energy-saving product portfolio is thought to be supported by potential green regulations.
- Yaskawa is a member of an industry group promoting a green transition, seeking collaboration to meet carbon reduction targets and is focused on improving the CDP climate change score to A-.

**Outcome:**

During the engagement, Yaskawa clarified that contrary to MSCI data, they have successfully decreased carbon intensity since 2018. The company is actively working towards a 51% reduction in GHG emissions by 2030, with significant progress made through adopting CO<sub>2</sub>-free electricity and other energy-saving measures. Yaskawa faces challenges in managing Scope 3 emissions, mainly due to customer electricity use, but is engaging with suppliers to address emissions in the supply chain. Commitment to a carbon-neutral goal by 2050 is in line with Japanese national objectives, and Yaskawa is targeting an improved CDP score, reflecting its continuous effort in environmental sustainability.

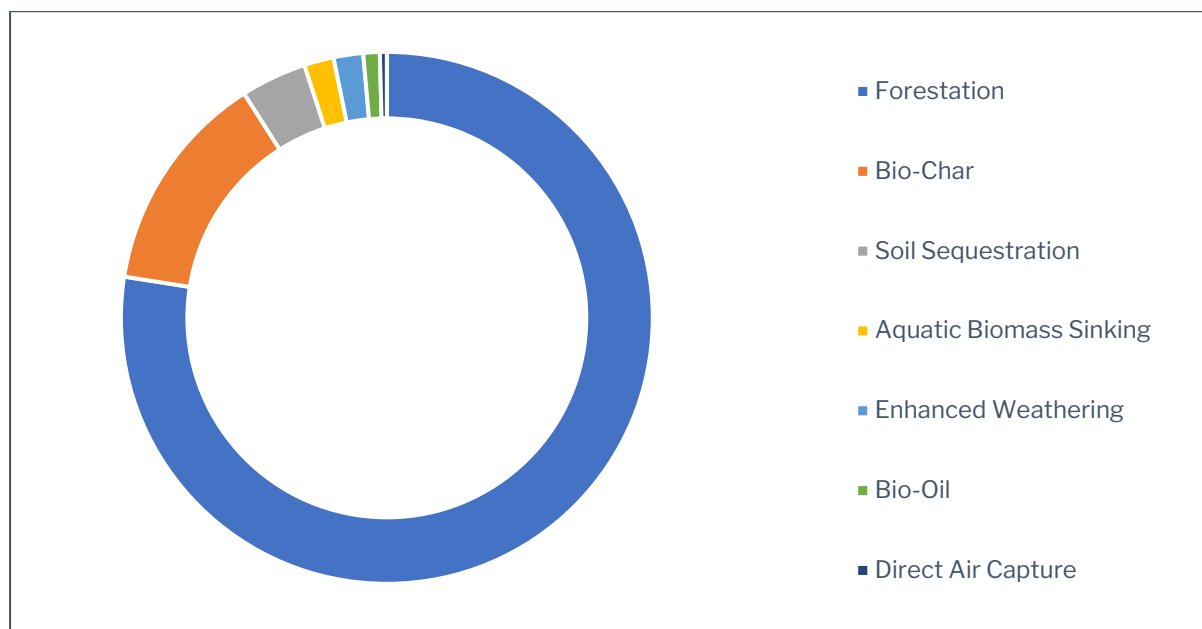
# Project 2030

Whilst our financed emissions account for the bulk of our overall carbon footprint, we also want to ensure that those emissions over which we have direct control are being reduced as rapidly as possible. **As a consequence, we have announced that we are making our corporate climate change target more ambitious than ever.**

Previously, MAM was targeting Net Zero Carbon across its operations by 2030. In March 2023, we added to this target by stating a goal to remove our historical emissions from the atmosphere, also by 2030.

We will aim to reduce our operational carbon emissions by at least 50% from a 2019 baseline on an absolute basis. In addition, we have partnered with Danish carbon removal platform Klimate, to help us select verifiable carbon removal solutions.

**Below you can see a breakdown of our carbon removal portfolio**, as compiled by Klimate:



# Twin Crises: biodiversity loss & climate change

The intricate relationship **between biodiversity loss and climate change** is akin to a tightly woven tapestry, where each thread depends on the other to create the whole picture. These two challenges are **deeply interconnected**, each influencing and amplifying the other's effects.

On one hand, climate change significantly affects biodiversity. As our planet's temperature rises, ecosystems undergo transformation. This can be a challenge for many species, particularly those with specific habitat and climate requirements. Some may struggle to adapt or migrate fast enough, leading to species loss.

Conversely, the destruction of nature exacerbates climate change. Healthy ecosystems, particularly forests, act as **powerful carbon sinks**, absorbing and storing carbon dioxide from the atmosphere. However, as biodiversity diminishes, these ecosystems lose their capacity to sequester carbon effectively, contributing to the rising levels of greenhouse gases in the atmosphere.

Furthermore, there are feedback loops at play. A warmer climate can trigger events like wildfires and deforestation, leading to even more biodiversity loss and carbon release. **This creates a chain reaction where climate change and biodiversity loss amplify each other.** On the other hand, some ecosystems can mitigate climate change through natural processes. For example, wetlands reduce flooding and sequester carbon, but the effectiveness of these services is enhanced by biodiversity within these ecosystems.

Both climate change and biodiversity loss share common drivers, such as habitat destruction, pollution and over-exploitation of natural resources. Addressing these shared drivers is fundamental to tackling both challenges effectively. Conservation and restoration efforts can provide co-benefits for both climate and biodiversity. For instance, **thoughtfully devised reforestation projects** can not only capture carbon but also support diverse ecosystems.

These two global challenges are inextricably linked. To address them effectively, we must recognise the holistic nature of these issues and seek solutions that benefit both our planet's climate and its biodiversity. To this end, the **Taskforce on Nature-related Financial Disclosures (TNFD) Recommendations highlight climate change as a key driver of nature change**<sup>6</sup>. This is to encourage companies to report on how GHG emissions change the state of nature and change the availability of ecosystem services.

We firmly believe that the TNFD framework holds significant potential to enhance transparency, accountability, and sustainability by fostering a **deeper understanding and management of nature-related risks and opportunities**. Currently, we are beginning the process of evaluating the impacts and dependencies of our investee companies using the framework's outlined methodology. This process relies on data provided by these companies, although it is important to acknowledge that biodiversity data is presently underreported. Consequently, there might be a slight delay before we can fully align with the framework.

**In the interim, we have been granted membership of the TNFD Forum, a consultative body comprising institutional supporters who share the TNFD's vision and mission. This membership enables us to actively engage in research activities that support the Taskforce and its working groups, further contributing to the framework's mission.**

You can read more about our approach to biodiversity [here](#).

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<sup>6</sup> [https://tnfd.global/wp-content/uploads/2023/08/Recommendations\\_of\\_the\\_Taskforce\\_on\\_Nature-related\\_Financial\\_Disclosures\\_September\\_2023.pdf?v=1695118661](https://tnfd.global/wp-content/uploads/2023/08/Recommendations_of_the_Taskforce_on_Nature-related_Financial_Disclosures_September_2023.pdf?v=1695118661)



# Thought Leadership

During the year we hosted a landmark event titled "**The Future of Fusion Energy**". This event aligns with our dedication to thought leadership and progressive investment strategies in sustainable energy solutions. Fusion energy was in the spotlight, a groundbreaking technology with the potential to **revolutionise our energy systems**.

Nuclear fusion is the process that powers the sun and the stars. It involves combining, or fusing, hydrogen atoms under extremely high temperatures and pressure. When these light atoms fuse together, they form a slightly heavier atom (helium) and release a lot of energy in the process. This energy can be captured and potentially used for power. Fusion is different from nuclear fission, which is used in nuclear power plants, where heavy atoms like uranium are split apart to release energy. **Fusion is seen as a promising energy source because it can potentially produce a lot of energy without the long-lived radioactive waste associated with fission.** Other benefits include:

- Low carbon and low land usage
- The fusion process is readily and safely controllable
- It is reliable and not subject to seasonal variation like wind and solar power
- The necessary fuel is potentially abundant in the seas and the Earth's crust
- Fusion provides the most power-dense process available on Earth making it extremely energy efficient

The event began with an insightful presentation by Professor Sir Ian Chapman, CEO of the UK Atomic Energy Authority, a globally recognised plasma physicist and a frontrunner in fusion energy research. His talk delved into his pioneering work in developing fusion as a viable energy source. Sir Ian's extensive background, including his roles in international fusion committees and his numerous awards, underscored the depth of his expertise. He shared his **vision for fusion energy and its role in the transition to a green economy**, highlighting its potential as a clean, sustainable, and abundant source of power.

Professor David Gann CBE, a distinguished figure in innovation strategy and technology management, chaired the event. He brought a unique perspective, combining his experience in academia, business leadership, and innovation. As the discussion unfolded, Professor Gann facilitated an engaging conversation, intertwining the technological aspects of fusion energy with its economic and innovation implications.

The event underscored the importance of **innovation in transitioning away from fossil fuels**. Ian's insights into fusion energy's potential offered a glimpse into a future where energy needs are met sustainably and reliably.

The speakers addressed the **technological, economic, and infrastructural challenges in making fusion energy commercially viable**. They also discussed the immense opportunities it presents for investors and industries.

An open discussion allowed attendees to engage directly with the speakers, fostering an environment of collaborative knowledge sharing. This segment was particularly enriching, with interesting questions leading to a comprehensive understanding of the subject.

By hosting leaders like Professor Sir Ian Chapman and Professor David Gann CBE, we hope to demonstrate our commitment to understanding and promoting investment in transformative energy solutions. The event not only provided valuable insights into fusion energy but also served to show that we take our role as a forward-thinking player in addressing climate change seriously.

The recording of the presentation by Professor Sir Ian Chapman is available [here](#).



# Conclusion

As the time to tackle climate change becomes shorter, our commitment to a sustainable and low-carbon future remains resolute. In our tireless pursuit of environmental responsibility and financial stewardship, **we have made significant strides along the path of decarbonisation.** Our engagements with investee companies are a testament to our dedication to fostering change and driving progress.

Through collaborative efforts, we have demonstrated that shareholder engagement serves as a catalyst for companies to actively reduce their carbon emissions. **We understand that accurate and comprehensive data are essential in the transition to a net zero economy.** Proactive steps to address these issues rely on accurate and comprehensive data from companies. By engaging in initiatives like the CDP, we have contributed to the **standardisation of climate reporting,** making it more accessible for investors and allowing for global benchmarking.

Our engagements have also showcased that companies across diverse sectors are increasingly realising the value of setting ambitious, science based targets to reduce GHG emissions. We celebrate their efforts to **align with the Paris Agreement** and even surpass these targets, pushing the boundaries of innovation and commitment. These investments in a sustainable future reflect a growing cultural shift towards environmental responsibility and resilience.

However, our journey is far from complete. As we reflect on the progress made, we recognise that we are still very much in the midst of a fight against climate change. The urgency and magnitude of this challenge demand our continuous commitment and vigilance. **We remain dedicated to encouraging our investee companies to set science based targets, develop actionable strategies, and ensure their commitments align with the latest climate science.**

The road ahead is challenging, with obstacles and complexities that require our unwavering resolve. The absence of Scope 3 emissions in some corporate reduction strategies, the challenges of transitioning to renewable energy sources in fossil fuel dependent countries, and the intricacies of finding eco-friendly alternatives in heavily regulated industries are but a few examples. However, **these challenges reinforce our conviction that we must work collectively,** seizing every opportunity to refine our approach and drive change.

As we move forward, we will remain alert and adaptable, embracing the lessons of the past to craft a more sustainable future. **Our engagements have proven that we hold a unique position as shareholders, one that wields significant influence.** We will continue to use this position as a force for positive change, working tirelessly to ensure that our investee companies uphold their environmental responsibilities, and in doing so, continue to improve outcomes for both people and the planet.

Our mission remains resolute: to drive a future defined by sustainability, resilience, and a commitment to reducing carbon emissions. We have made significant strides, but our net zero journey is ongoing and we stand ready to embrace the challenges that lie ahead. **With determination, collaboration, and innovation, we will continue charting a course towards a greener and more hopeful tomorrow.**

# TCFD Report

## Introduction

Our role as an asset manager can be understood with reference to our Purpose; our Vision; our Principles; our Values.

These are explained below:

- **Purpose** – Our purpose is to deliver strong and sustainable investment returns to our investors by investing responsibly in quoted Smaller Companies.
- **Vision** – As a private, independent company with no outside shareholders, we spend all our time trying to create value for our clients rather than gathering assets. We do not want to become too big. We passionately believe in remaining a small, specialist boutique to retain our culture and ability to generate attractive returns. Upon reaching capacity we will close the business to new investors and continue to work only with our existing partners. Montanaro will never be sold.
- **Principles** – We believe in common sense investing. We are “Quality Growth” investors seeking to identify the best management teams and the large companies of the future. We keep turnover and transaction costs low and follow our companies closely over many years and invest for the long term. We would rather pay more for a higher quality, more predictable company that can be valued with greater certainty. We work closely with our companies to encourage sustainable business practices, which we believe plays an integral part in the creation of long-term shareholder value. ESG considerations have always formed an integral part of our investment process. Montanaro was one of the first UK asset managers to become a B Corporation in June 2019.
- **Values** – Our values are based on integrity, humility and a team spirit between employees and clients.

**We have applied this approach to our action plan for climate change. We understand that our role as responsible investors must encompass a credible approach to the climate crisis and so have used the latest climate science and best practice recommendations to ensure that our strategy is ambitious and leverages our role as a stakeholder to improve environmental outcomes.**

## Governance

The governance structures concerning our climate strategy involve a number of key committees:

- The Board
- The Sustainability Committee
- The Net Zero Steering Committee

The Board will discuss climate-related issues at least annually. These discussions will involve how to curb operational emissions as well as those financed via our investment portfolios.

Our net zero commitments are set by our “Net Zero Steering Group” which is chaired by our Head of Sustainable Investment. The group reports formerly into MAM’s Sustainability Committee. The CEO sits on both the Net Zero Steering Group and the Sustainability Committee and reports to the Board on decisions and progress concerning climate-related risks and opportunities.

The Board will review what has been discussed at the Net Zero Steering Group and at the Sustainability Committee concerning climate change. Any performance metrics for climate targets or required expenditure are approved by the Board. This includes targets for our investment portfolios as well as our operational emissions.

The Board sets Key Performance Indicators (KPIs) for energy saving and carbon reduction for MAM’s operations which are used to monitor progress towards our carbon negative and historical emissions targets. This includes selecting carbon removal partners like Klimate and determining an internal carbon price. Progress influences elements of variable pay for all employees, including management.

In addition, MAM’s investment team is incentivised to reduce financed emissions through its remuneration scheme. This considers the quality of ESG checklists which includes assessment of environmental criteria. Engagement with investee companies is also assessed as well as the alignment of investment funds with our portfolio emission reduction targets.

**The oversight and incentive structures that have been implemented at MAM ensure that there is Board level oversight of the climate action plan and management are involved in the planning and execution of this plan.**

## Strategy

In 2019, we committed to achieving Net Zero Carbon across our operations by 2030, some 20 years ahead of the 2050 targets set in the Paris Agreement. We made this commitment alongside fellow B Corporations as part of the UN Climate Change Conference (COP 25) in Madrid. We were founding members of the B Corporation Finance & Investment Working Group. The Group brings together B Corporations from across the financial sector to share and work on best practice ideas, including how finance companies should respond to climate change, achieve Net Zero Carbon and manage ESG risks within their businesses and across the wider market.

**We have since strengthened our ambition. In the spring of 2023 we announced that we would become carbon negative across our operational emissions and offset all historical emissions since the founding of the business by 2030.**

We have partnered with Klimate (the Danish Carbon Removal Platform), to provide access to high-quality, innovative, and verifiable carbon removal solutions, aligned with science. In this way, we will adopt a “portfolio-type” approach, where we will select a number of carbon removal projects and technologies. We are looking for exposure to innovative projects such as direct air capture; deep storage bio-oil; ocean kelp; and restorative tree-planting. All will be independently verified to ensure their integrity. The net sum of this project is that **we have 1,381 tonnes of historical emissions to take into consideration**. We seek to remove these emissions from the atmosphere while taking into account future emissions in our path to become carbon negative by 2030.

You can read more about our methodology for this project [here](#).

Since making our first carbon reduction commitment in 2019, we have been working with an environmental consultant, Green Element, to measure our carbon footprint and identify carbon reduction opportunities. We use this data to ensure that we are able to reduce our operational carbon emissions, measured in absolute terms, by at least 50% by 2030, in combination with the new carbon removal plan. The carbon removal strategy will be necessary where there are unavoidable emissions. While we strive to manage our usage and sourcing decisions, we recognise the constraints inherent within necessary business travel, especially air travel. By selecting high quality, verified offsets this helps in mitigating our overall environmental impact while we work to reduce our emissions to as close to zero as possible.

Our financed emissions are where we have the biggest impact. Our investment process manages environmental risks through the integration of climate data into our assessment of the quality of a business. We implement a specific climate related risk management process across all of our portfolios. This encompasses a qualitative and quantitative assessment that is applicable to assessing our portfolios’ exposure to climate-related risks and opportunities across both short and long time horizons.

We identify climate opportunities through our impact strategy. The Montanaro Better World Fund invests globally in Small & Midcap companies whose products or services make a positive impact by helping to solve some of the world’s greatest challenges. We have identified business opportunities in solving these problems and have selected important themes for investment. Two of these themes relate to climate change in particular: Environmental Protection and Green Economy.

Our engagement with investee companies is a key part of our strategy for achieving our net zero portfolio goals. We will identify high emitting companies on a case-by-case basis and conduct meetings with management teams to address these issues. We also participate in collaborative programmes and initiatives. We are involved with groups that advocate for responsible stakeholder capitalism. These include the B Corp Finance & Investment working group (discussed above) and the Glasgow Finance Alliance for Net Zero (GFANZ). GFANZ comprises a series of

workstreams, each with a specific remit designed to improve the pace of the transition to a net zero economy. These workstreams are made up of financial firms and asset owners from across the globe who come together roughly once a month to discuss their specific agendas and goals. Each workstream has a Lead and the Leads form the Principles Group. The Principles Group report into the Co-Chairs, Mark Carney and Michael Bloomberg. Through the chairs, GFANZ reports periodically to the G20's Financial Stability Board. **This connects us to the very top of net zero policy making globally.**

We joined GFANZ in 2021 and we were invited onto one of the workstreams, the "Real Economy Transition Workstream", which aims to set the standards expected by the financial markets for how corporates report on their net zero transition plans.

We have since been asked to become a member of two other workstreams:

- 1) Mainstream Transition Finance Workstream (a continuation of our previous workstream)
- 2) The Public Policy Workstream

**Our presence helps to ensure that we:**

- have a good understanding of how the sustainability / net zero market is developing
- understand the challenges involved in transition planning: data issues; diverging frameworks; regulatory changes
- interact with some of our asset owner clients
- have access to policy makers and governments

Our role in this group is to contribute ideas and add to the debate. **Our work has been included in GFANZ reports.**

We have reviewed the resilience of the organisation's strategy and have found that the dangers posed by unmitigated climate change will have a devastating impact on society at large, including MAM. **We have sought to structure our portfolios to be well-positioned for a low carbon transition, aligning ourselves with a 1.5°C. This has informed our target setting.**

# Risk Management

One of the ways in which we seek to manage climate risk is to exclude fossil fuel companies. MAM does not invest directly in fossil fuel companies across any of its investment portfolios (100% of AUM). In addition, we also undertake ESG analysis for 100% of our assets. We use ESG risk to inform our understanding of a company's inherent "Quality". This in turn is used to determine an Analyst's recommendation on a company. Portfolio level analysis allows for comparisons to be made and areas of weakness to be identified. When we identify an outlier by comparing ESG checklist scores for the portfolio this will initiate action from the analyst. Aggregated ESG data is included on our monthly factsheets.

Our Environmental Policy helps us to assess which companies are managing their environmental footprints well and those with material environmental risks or weaknesses. Via an internally designed Environmental Checklist, we assess and score companies out of 10 on their environmental profile. **Our approach helps to drive more accurate risk analysis**, helping us to invest in those businesses capable and willing to manage their environmental footprint in a changing world.

We engage with companies to better understand their approach to environmental issues; improve areas of weakness; and encourage improved levels of data disclosure and reporting. We also monitor Scope emissions coverage. Our portfolio targets cover Scope 1 and 2 emissions and we aim to include Scope 3 once data is sufficiently available. Data disclosure continues to be an issue in our Small & Midcap markets. We engage with companies from across our approved list to encourage better disclosure and monitor progress through updates to our environmental checklist scores at least annually.

The Sustainability Committee monitors the ESG scores of companies on our Approved List at quarterly meetings to understand how Analysts are scoring companies. Our ESG Checklists also help us to set ESG priorities and engage with investee businesses. We engage with companies from across our Approved List to encourage better disclosure and monitor progress through updates to our environmental checklist scores at least annually. We advocate for ambitious target setting and promote the adoption of Net Zero Carbon targets.

We encourage companies within our portfolios to commit to the SBTi. To our mind this is the best practice approach to transition planning as it utilises the latest climate science and targets are independently verified before being approved by the initiative. Engagement on this topic forms part of our strategy and allows us to monitor the performance and planning of investee companies. We use our engagement log to monitor ongoing engagements and outcomes. We report on our progress towards climate reduction targets on an annual basis via our Project: Net Zero Carbon reports. We will also participate in collaborative engagements where we see a material benefit to the achievement of engagement aims and additional support to our commitment to the promotion of sustainable investment practice. Over the past year we have been a part of collaborations organised by ShareAction, CDP and the Net Zero Asset Managers initiative.

## **Overall, our strategy combines:**

- the identification of environmental risk using our ESG checklists prior to investment
- ongoing monitoring of environmental performance using company reporting and third party ESG data
- engagement to advocate for climate action

# Metrics and Targets

## Operational Metrics

The MAM operational emissions are measured on an annual basis by Green Element. They measure the total greenhouse gas emissions using the greenhouse gas protocol corporate standard (location-based). Our most recent emissions data (1st January to 31st December 2022) is as follows:

Scope	Total Reported Greenhouse Gas Emissions
Scope 1	3.917 tCO <sub>2</sub> e
Scope 2	16.599 tCO <sub>2</sub> e
Scope 3	101.780 tCO <sub>2</sub> e
All Scopes	122.297 tCO <sub>2</sub> e

The biggest contributor to our operational emissions footprint is business travel.

## Investment Process

The climate metrics that feature in our ESG checklist and help us to evaluate the validity of the carbon plans are as follows:

- The presence of any carbon reduction initiatives
- The presence of a net zero emissions target
- Announcement of a SBTi commitment
- The approval of a carbon reduction target by the SBTi
- Targeted change (as a percentage vs. the baseline year)
- Carbon Intensity Scope 1 & 2
- Scope 1 & 2 absolute emissions
- Carbon intensity trend
- Reported Scope 3 emissions
- The percentage of revenues derived from products with a carbon-intensive supply chain
- The use of energy from renewable sources

These data points are updated regularly using company reports and Information from MSCI and Bloomberg. These catalyse engagement with investee companies should we feel insufficient progress is being made. We monitor the number of investee companies that commit to, and have targets approved by, the SBTi. Those that don't are contacted and encouraged to do so.

### **Our financed emissions have decreased since 2019.**

Montanaro's commitment to "**Project: Net Zero Carbon**" demonstrates our dedication to addressing the urgent challenge of climate change. Our annual reports showcase a continued evolution and progress in achieving Net Zero Asset Management (NZAM) targets. By actively using carbon data to identify carbon-intensive portfolio holdings, we are taking concrete steps to reduce emissions in our investments. In doing so we have been able to see impressive results. We have seen a dramatic reduction in financed emissions associated with our portfolios, between 2019 and 2023, we have seen a **54% reduction in absolute carbon emissions** across our in-scope portfolios (measured in metric tonnes of CO<sub>2</sub>e for Scopes 1 and 2).

These reductions signify tangible progress toward creating a carbon-free economy and align with global sustainability goals.

**The number of approved list companies with Science Based Targets has increased.** In 2023, 89 companies on our approved list had committed to or had targets approved by the SBTi, representing 41% of AUM.

## Targets

As previously stated, we aim to achieve negative carbon emissions by 2030 for our operations.

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

- 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.
- 50% of the designated AUM will have implemented a Science Based Target by 2030 and 100% of in-scope AUM will be covered by 2040.

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.



# Glossary

We know that the language used when discussing climate action can often seem opaque. Different terms are often used interchangeably and can lead to confusion about what is actually meant. To help, we have defined certain words and phrases that we use in our Net Zero Carbon Report.

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

**Carbon Removals** - Carbon removals specifically extract CO<sub>2</sub> from the atmosphere and store it, actively decreasing atmospheric greenhouse gases. In contrast, carbon offsets compensate for emissions by funding equivalent CO<sub>2</sub> savings elsewhere, through energy efficiency, renewable energy, or other emission-reducing projects. The key difference is that removals directly reduce atmospheric CO<sub>2</sub> levels, while offsets prevent potential future emissions or remove them through various projects, which may not always result in a direct decrease in current atmospheric CO<sub>2</sub>.

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

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

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

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

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

**Scope 3** - All other indirect emissions across an organisation’s value chain, for example, purchased goods and services, business travel and end-of-life treatment of sold products. The variety of elements that can be included in the definition of Scope 3 emissions often means this is the hardest Scope to accurately collect data on. There are 15 categories of Scope 3 emissions that are identified by the GHG Protocol.

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