

# Task Force on Climate-related Financial Disclosures ("TCFD") Report 2023



**Brooks Macdonald Group plc**

TCFD Report for the year ended  
30 June 2023

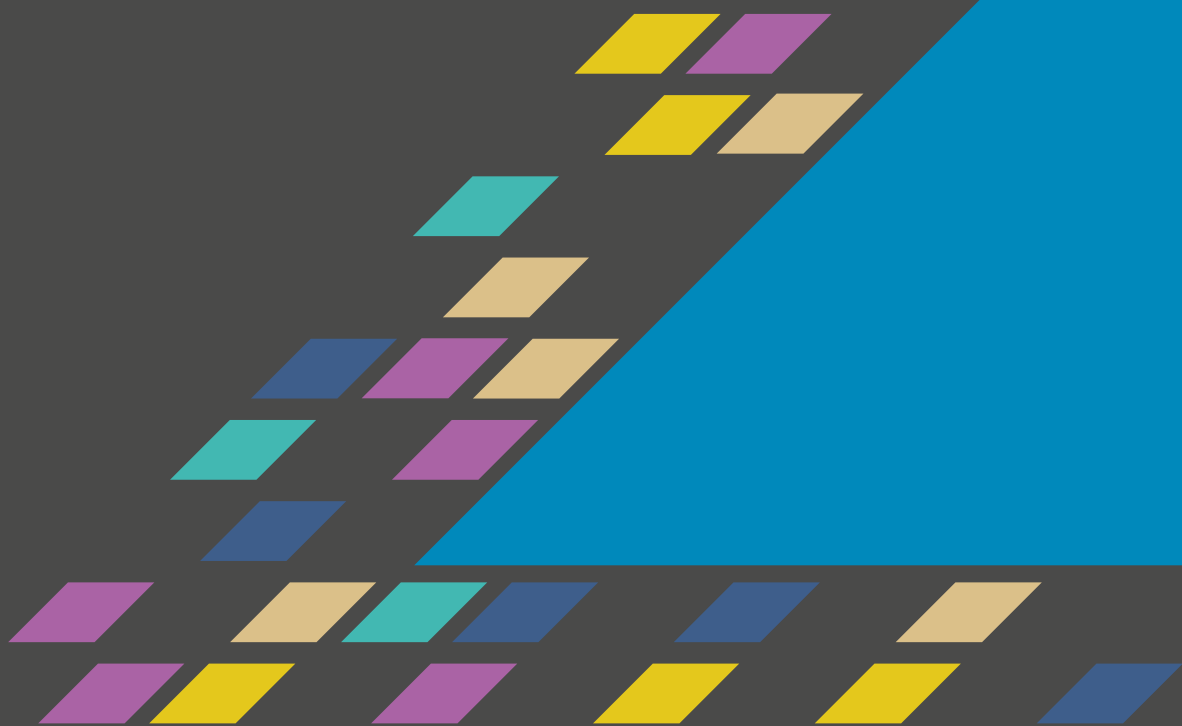


**BROOKS MACDONALD**

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“ We recognise that climate change is a significant financial risk that we have a responsibility to address. ”



**Andrew Shepherd**  
CEO

## CEO Introduction

The scientific evidence on climate change is clear, indicating that if emissions from human activities are not effectively managed, there will be irreversible impacts on society at large. Global cooperation is essential to meet the challenges posed by climate change, and the financial services sector has an important role to play in doing so.

At Brooks Macdonald, we recognise that climate change is a significant financial risk that we have a responsibility to address. As responsible stewards of capital, we believe that integrating climate considerations into our operations and investment processes is not only necessary for long-term value creation, but also essential for safeguarding the interests of the broader communities in which we operate. To demonstrate our commitment to these values, we have published this report in line with the requirements of the Financial Conduct Authority's Environmental, Social and Governance rules.

I would like to express my gratitude to our clients and stakeholders for their support and trust in us. We believe that by working together, we can continue to widen our knowledge and expertise in this domain.

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### Andrew Shepherd

Chief Executive Officer

## Our TCFD Report

To demonstrate how we are addressing climate change, the present report has been produced in line with the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations.

In this disclosure we set out our approach to climate-related governance, including how climate risks and opportunities are escalated for consideration in our decision-making processes. We look at the impact of climate-related risks and opportunities on our business strategy and outline our risk management approach, including how we identify, assess and manage climate-related risks. Lastly we discuss how we track and measure the sustainability of our investment activities and operations.

As we move forward, we remain dedicated to continual improvement. We expect to continue making enhancements to our approach as we build our expertise and incorporate advancements in climate science, disclosure standards, and best practice.

## About Brooks Macdonald

Brooks Macdonald is a Wealth Manager with a heritage built on enduring client relationships, we strive to provide our clients with innovative investment solutions tailored to their specific needs. We offer a range of investment management services to private high-net-worth individuals, pension funds, institutions,

and trusts. The Group also provides financial planning as well as offshore investment management and acts as fund manager to a regulated OEIC providing a range of risk-managed multi-asset funds and a specialised absolute return fund.

We have an industry-leading investment process, which powers the services and products we provide to our clients. This process creates a robust framework for our investment professionals to work together, sharing ideas and challenging each other's views. Our Centralised Investment Process is built on a model where decision-making responsibility and authority is shared equally by colleagues. This approach produces the best possible outcomes by encouraging the best thinking from everyone involved.

The Group has 15 offices across the UK and Crown Dependencies including London, Birmingham, Cheltenham, East Anglia, Exeter, Leeds, Manchester, Nuneaton, Southampton, Tunbridge Wells, Scotland, Wales, Jersey, Guernsey, and the Isle of Man.

We have multiple stakeholders – clients always come first, and if we look after our clients, our employees, and our intermediaries, then our shareholders will get the returns they seek. For all of them, the reason Brooks Macdonald is here is to help them realise their ambitions and secure their futures.

Our team of experienced professionals are dedicated to delivering superior results and building long-term partnerships inspired by our guiding principles: we do the right thing, we are connected, we care, and we make a difference. At Brooks Macdonald, we are committed to staying at the forefront of the industry, leveraging our expertise to navigate market complexities and achieve our clients' financial objectives.

## Summary of disclosures

This report is our inaugural response to the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). Consistent with the recommendations, it sets out how Brooks Macdonald incorporates climate-related risks and opportunities into our governance, strategy, risk management, and metrics and targets. This report supplements our 2023 Annual Report and Accounts.

Our Corporate Group includes two entities engaging in portfolio management activities, Brooks Macdonald Asset Management Limited ("BMAM"), a company regulated by the Financial Conduct Authority ("FCA"), as well as Brooks Macdonald International Limited ("BMI"), a company regulated by regulators in the Channel Islands and Isle of Man.

Although BMAM alone is required to publish an entity TCFD report under applicable regulations (as per ESG 2.2 of the FCA Handbook), the environmental approach and governance is decided at a Group level as per a centralised climate strategy.

Recognising this, and to provide greater transparency and insight into the climate approach of the Brooks Macdonald Group, we are including information for all Brooks Macdonald entities in this single report. Where there is information specific to one of our entities, we have highlighted this (for example, in the reporting of our metrics).

## Pillars of the recommended climate-related financial disclosures



### Governance

The organisation's governance around climate-related risks and opportunities.

### Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

### Risk management

The processes used by the organisation to identify, assess and manage climate-related risks.

### Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

In each section, we outline our evolving approach to the integration of climate-related risks and opportunities into our investment and operational processes. We have made progress in understanding and assessing our exposure to climate-related risks and opportunities, and in developing our climate strategy, and we expect to continue making enhancements to our approach as we build our expertise and incorporate advancements in climate science, disclosure standards and best practice. The information presented in this report will be enhanced in the future as the quality and completeness of our data and methodologies continue to improve.

# Governance

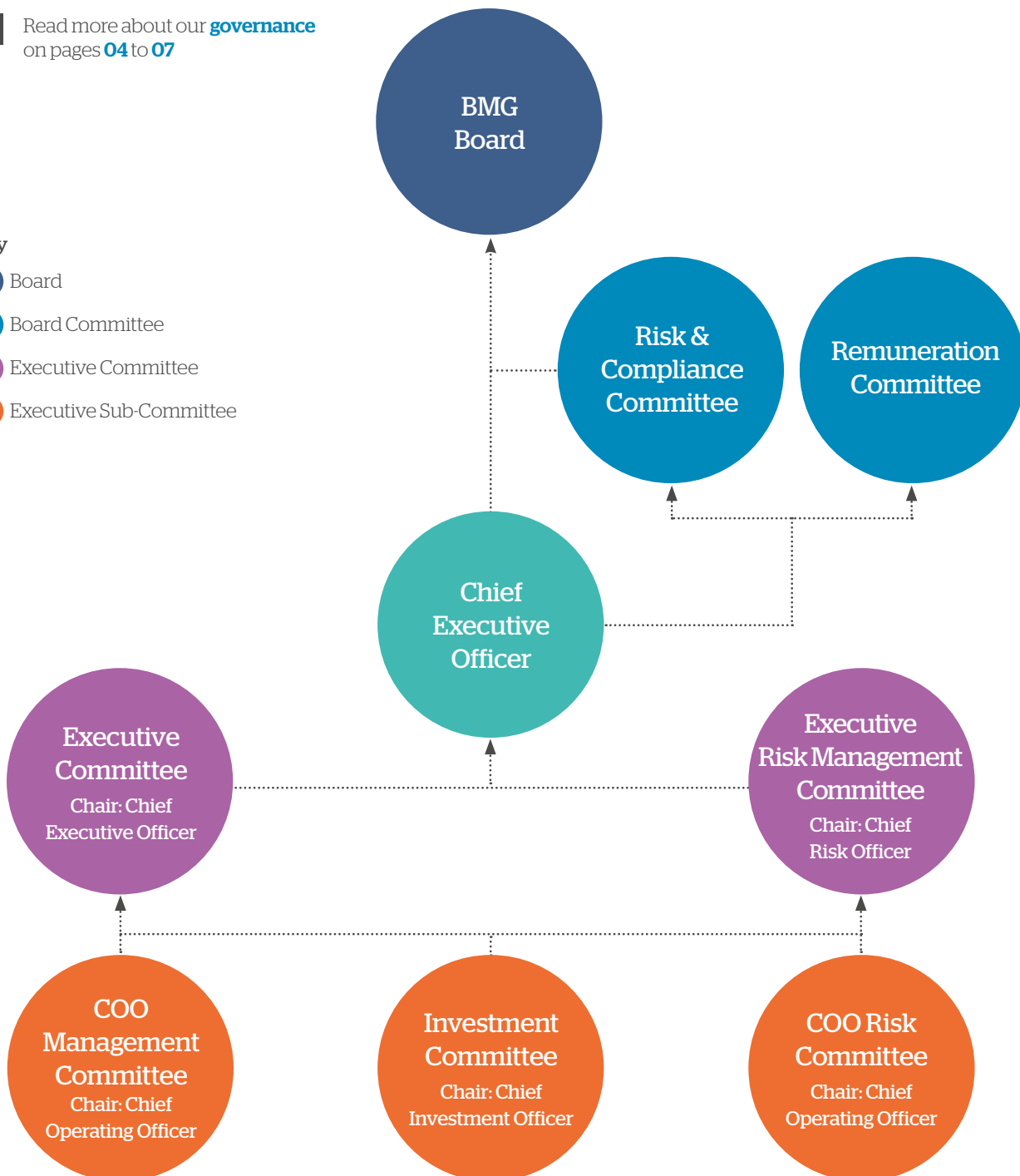
## Governance structure for climate-related matters

We recognise the importance of governance in establishing transparency, accountability, and good conduct. Effective governance enables us to better manage risks and make business decisions accordingly, leading to improved investor confidence. The section below outlines how our governance structure helps us address climate-related risks and opportunities.

➔ Read more about our [governance](#) on pages **04** to **07**

### Key

- Board
- Board Committee
- Executive Committee
- Executive Sub-Committee



## The Board's oversight of climate-related risks and opportunities

Board Committee	Climate-related responsibilities	Progress made	Future areas for consideration
<b>BMG Board</b>	The Board has ultimate responsibility and accountability for the oversight and management of Brooks Macdonald Group. Additionally, it maintains full control over strategic, financial, operational and compliance matters through its corporate governance framework. This framework provides for regular reporting and other updates to the Board, through which it is able to oversee progress against the Group's targets. As such, the Board is responsible for identifying and responding to all forms of climate-related risks and opportunities that may impact upon the firm's business, strategy and financial planning.	<ul style="list-style-type: none"> <li>› Reviewed and approved the first TCFD Report.</li> <li>› Reviewed and approved the commitment to making the Group's operations carbon neutral by 2030.</li> <li>› Reviewed and approved the annual Corporate Social Responsibility Report.</li> </ul>	<ul style="list-style-type: none"> <li>› Enhanced training to the Board on climate risks and opportunities.</li> <li>› Greater integration of climate-related metrics to be reported at the Board level.</li> <li>› Further work to iterate upon the firm's TCFD Entity Report.</li> <li>› Oversee development of TCFD Product Reports.</li> </ul>
<b>Risk and Compliance Committee</b>	The Risk and Compliance Committee reviews quarterly reports on key risks impacting the business.	<ul style="list-style-type: none"> <li>› Recognised climate change as a top-down risk.</li> <li>› Reviewed BM's climate change risk appetite statement and the incorporation of climate risk into the Risk Management Framework.</li> </ul>	<ul style="list-style-type: none"> <li>› Review results of climate scenario analysis to strengthen oversight of the impact from climate risk on our business, financial performance and operations.</li> </ul>
<b>Remuneration Committee</b>	Incorporating climate-related goals into the long-term incentive plans ("LTIP") of the Group's Executive Directors.	<ul style="list-style-type: none"> <li>› The LTIP opportunity for the Group's Executive Directors now contains a basket of ESG measures, which account for 10% of overall LTIP opportunity. A category of assessment against the Group's Carbon Net Zero Plan is included in this basket.</li> </ul>	<ul style="list-style-type: none"> <li>› Consider whether further climate-related objectives should be added to incentive plans.</li> </ul>

# Governance continued

## Management's role in assessing and managing climate-related risks and opportunities

The Board has delegated overall responsibility for the delivery of the Group's strategy to the Group Chief Executive Officer ("CEO"). The CEO and Executive Committee is responsible for the day-to-day management of Brooks Macdonald and has ultimate responsibility for the integration of climate risks and opportunities across the business, and for bringing climate-related matters to the Board. The Committee delegates responsibility to a range of management committees that operate across the Group and are accountable for managing the areas of the business that may affect, or be affected by, climate change.

The Chief Risk Officer ("CRO") is the Senior Management Function responsible for ensuring that climate-related risks and opportunities are identified, monitored, and managed through our risk management framework and in line with our risk appetite.

The Chief Investment Officer ("CIO") is responsible for day-to-day oversight of the effective integration of climate risk into the investment research and decision-making process.

The Chief Operating Officer ("COO") is responsible for advancing how the Group serves their advisers and clients and leads the Group's investment in technology, systems and processes, including the management of outsourced partnerships, with a view to implementing initiatives that help the Group meet its climate-related targets.

Management Committee	Roles and responsibilities	Progress made	Future areas for consideration
<b>Executive Committee ("ExCo")</b>	<p>The ExCo provides support for the oversight and management of the strategic and operational authorities delegated to the CEO by the Group Board.</p> <p>Accountable senior manager: Chief Executive Officer.</p>	<ul style="list-style-type: none"> <li>› The Group's ExCo has taken on responsibility for overseeing the integration of sustainability factors including climate risk into the Group's investment management process.</li> <li>› A new Environmental Policy Statement was approved by our ExCo, outlining our commitment to doing more to reduce our operational environmental impact.</li> </ul>	<ul style="list-style-type: none"> <li>› Overall responsibility for ensuring products and services meet consumer and regulatory demand related to sustainability. For example, the new Sustainability Disclosure Requirements ("SDR").</li> </ul>
<b>Executive Risk Management Committee ("ERMC")</b>	<p>The ERMC has responsibility for ensuring the effective management of risk throughout the Group, in line with the risk appetite and risk management framework approved by the Board.</p> <p>Accountable senior manager: Chief Risk Officer.</p>	<ul style="list-style-type: none"> <li>› Integrated climate risk into the Risk Management Framework and determined the risk appetite.</li> </ul>	<ul style="list-style-type: none"> <li>› Embed and progressively enhance the framework for reporting key climate metrics to the Board.</li> <li>› Review and approve climate-related risks and opportunities identified for the firm.</li> <li>› Review and approve climate-related stress test scenarios via the ICARA process.</li> </ul>

Management Committee	Roles and responsibilities	Progress made	Future areas for consideration
<b>Investment Committee (“IC”)</b>	<p>The IC establishes and oversees the execution of the firm’s responsible investment policy, which includes climate-related considerations and is updated on an annual basis.</p> <p>The Asset Selection Committee (“ASC”) is a sub-committee of the IC, that is Chaired by the Head of Research and responsible for monitoring the implementation and effectiveness of the ESG integration processes outlined in the Responsible Investment Policy. The ASC reviews and approves all investments. Material findings from due diligence, including ESG-related findings, are reviewed prior to investment approval.</p> <p>Accountable senior manager: Chief Investment Officer.</p>	<ul style="list-style-type: none"> <li>› Oversight of emerging climate-related risks and opportunities relating to the firm’s investments.</li> <li>› Oversaw a program of work to embed further climate metrics into investment research and decision making.</li> <li>› Reviewed and approved the methodology chosen for quantitative climate scenario analysis.</li> </ul>	<ul style="list-style-type: none"> <li>› Monitor the evolution of climate-related metrics and climate scenario analysis methodologies, considering how these can be embedded into investment research, selection and reporting, to enhance the assessment and management of climate-related risks and opportunities.</li> <li>› Continue to review possible net zero approaches and consider implementation of net zero strategy and targets.</li> <li>› Enhance the ESG research framework for esoteric alternative assets.</li> </ul>
<b>COO Management Committee and COO Risk Committee</b>	<p>Responsible for oversight of ESG and climate-related risks and opportunities in the Group’s operational activities.</p> <p>The Committee also maintains oversight of reported incidents relating to climate and environment.</p> <p>Accountable senior manager: Chief Operating Officer.</p>	<ul style="list-style-type: none"> <li>› The COO Management Committee oversees and reviews the operational-related content of the TCFD Report prior to publication.</li> <li>› The COO Risk Committee, as part of its oversight of the Group’s Operational Resilience measures, consider the impact of climate-related events on our operations.</li> </ul>	<ul style="list-style-type: none"> <li>› Will act on raised and reported climate-related risks and opportunities to ensure the Group meets its targets.</li> <li>› Oversight of the Group’s adherence to its operational net zero target.</li> </ul>



# Governance continued

The management committees and accountable senior managers are supported by several teams involved in assessing, managing and reporting on our climate risk. Operationally, our investment research teams, finance, risk, compliance, alongside our workplace and facilities team, all contribute to supporting our approach.

- › Our Central Research team supports the work of the Investment Committee, ensuring that ESG MI (including climate-related factors) can be adequately reported to the Investment Committee.
- › With oversight and peer review from our Asset Selection Committee, sector research teams generate ideas that drive a buy list of assets (spanning third-party funds as well as direct equities and bonds). All our investment managers and research analysts have the opportunity to involve themselves in sector research and form the core of the sector research teams. It is the day-to-day responsibility of sector teams to implement the principles of our Responsible Investment Policy, incorporating ESG factors, including climate-related risks and opportunities, into investment research, and selection.
- › Our cross-departmental TCFD working group, overseen by the CIO and comprised of individuals from Central Research, Compliance and Workplace & Facilities, identifies climate-related risks and opportunities facing the firm. The working group meets regularly to discuss the recommendations of TCFD and identify areas for further improvement. The Group considers the requirements of TCFD and assesses the data provider landscape to ensure Brooks Macdonald has the data required to identify and manage climate-related risks and opportunities.

## **Employee engagement and training**

When assessing climate risks and opportunities as part of our investment process, we recognise the limitations of relying exclusively on third-party data, as it can be incomplete, biased or lagging. We strongly believe in the value of qualitative verification, assessment and input from our investment research professionals. To empower our people to incorporate climate considerations into investment decision making, we have rolled out training to all investment managers and research analysts on ESG investing and will support those in relevant investment roles in their completion of ESG-related qualifications, such as the CFA Certificate in ESG Investing and the CFA Certificate in Climate and Investing. Training and development will continue to be an area of focus.

For our own operational footprint, we have a Sustainable Interest Group that meets regularly to discuss ways of improving the office environment and connecting with the local community. We aim to develop our employees' awareness of environmental issues, both at work and at home, through training and information sharing. A core aim of our Environmental Policy Statement is for everyone who works at Brooks Macdonald to think about how they can perform their role in the most sustainable way.

# Strategy

## Climate-related risks and opportunities

The greatest impact to Brooks Macdonald from climate risks is to our investment portfolios. We believe that climate-related risks and opportunities are financially material, and relevant to our management of portfolios and client outcomes. We have assessed our exposure to a range of climate-related risks and opportunities, guided by the recommendations of the TCFD, and continue to monitor these exposures and take action where appropriate.

The identified risks have been categorised according to TCFD typology, falling into two groups:

- › **Physical risks** are those arising from the physical effects of climate change on livelihoods, activities and assets. These include **chronic** or **acute** risks.

- › **Transition risks** involves various types of risks caused by the potential failure of keeping pace with the world's transition to a lower-carbon economy. These are **policy and legal, market, technology** or **reputational**.

Our assessment includes a breakdown of these risks, looking at the potential implications for Brooks Macdonald, the estimated likelihood of them taking effect, over which time horizons and the estimated significance for our business.

We have also categorised climate-related opportunities according to TCFD typology, including **resource efficiency, products and services, markets, energy source** and **resilience**.

## Table of risks

Risk	Potential implication for BM	Time horizon	Estimated likelihood	Estimated impact
<b>Transitional risks</b>				
<b>Policy and legal</b> The risk from changes to current or emerging climate-related regulation that impacts Brooks Macdonald's, or our portfolio companies', operations or products.	Should portfolio companies fail to fully respond to climate regulations this could lead to increased costs (e.g. high carbon offset costs) and decreased security valuations. Some industries are likely to be more negatively affected than others i.e., Oil and Gas, where there is the risk of stranded assets.	Short, medium and long term	High	Medium
	Increased climate-related regulatory and reporting requirements may lead to increased operational costs for BM.	Short, medium and long term	High	Low
<b>Market</b> The risk of climate change impacting product demand through changing client behaviour.	Assets with exposure to climate-related market risks may suffer poor performance during a transition to a lower carbon economy, affecting BM portfolio returns and client outcomes.	Short and medium term	High	Medium
<b>Technology</b> The risk that arises from the requirement to keep pace with technological advancements to effectively manage climate risks and opportunities.	As technology develops, asset-intensive firms such as those in automotive, manufacturing and utilities sectors may have large capital expenditures to upgrade equipment to align with efficiency requirements or to retain consumers increasingly interested in lower-carbon options. This could lead to increased costs, decreased revenues and decreased security valuations.	Short and medium term	High	High

## Table of risks

Risk	Potential implication for BM	Time horizon	Estimated likelihood	Estimated impact
<b>Reputational</b> The risk from the perception of not having responded appropriately to climate challenges.	Portfolio companies whose response to the climate challenge is perceived as inadequate could suffer decreased revenues and security valuations. This in turn could negatively impact BM's AUM and revenue.	Short and medium term	Medium	Medium
	The risk that BM clients perceive our response to climate-related challenges as inadequate, leading to a loss in market share.	Short and medium term	Low	High
<b>Physical risks</b>				
<b>Acute</b> Events arising from increasing frequency and severity of extreme weather events.	Portfolio companies may face increased capital costs due to damage to infrastructure, increased insurance premiums, supply chain disruptions and impacted access to resources such as clean water.	Medium and long term	Medium	Medium
<b>Chronic</b> Overall shifts in climatic behaviour resulting in long-term changes in temperature and precipitation patterns.	Long-term shifts in climatic patterns may have wide ranging impacts on the global economy and geopolitical tensions, leading to increased operational costs and potential disruption to commercial activity.	Long term	Medium	High

Time horizon key: Short term = 0-10 years, Medium term = 10-20 years, Long term = 20+ years

## Table of opportunities

Opportunity	Potential implication for BM	Time horizon	Estimated likelihood	Estimated impact
<b>Products and services</b> The opportunity to capitalise on shifting consumer preferences by innovating, developing, and offering low emission products and services.	Increased reputation, market share and revenues from capitalising on shifting consumer demand for sustainable investment offerings.	Short, medium and long term	Medium	Medium
<b>Resource efficiency</b> Investing in companies that support energy, water, and waste efficiency.	Increased reputation, market share and revenues from capitalising on shifting consumer demand for sustainable investment offerings.	Short, medium and long term	Medium	Medium
<b>Markets</b> Identifying opportunities in new markets or types of assets to be better positioned for a transition to a low carbon economy.	Increased reputation and revenue from newly identified low carbon investment opportunities.	Short, medium and long term	Medium	High
<b>Energy source</b> Investing in companies supporting low-carbon energy sources.	Increased reputation, market share and revenues from capitalising on shifting consumer demand for sustainable investment offerings.	Short, medium and long term	High	Medium
<b>Resilience</b> Being positioned to manage the impacts of climate change.	If BM applies measures to mitigate against the negative impacts of a transition towards a low carbon economy, it will benefit from greater protection against potential negative economic effects.	Medium and long term	Medium	Medium

Time horizon key: Short term = 0-10 years, Medium term = 10-20 years, Long term = 20+ years

## The impact of climate-related risks and opportunities on our business and strategy

Climate-related risks and opportunities influence the Group's strategy, across its direct operations and its investments. Brooks Macdonald's corporate responsibility strategy aims to ensure that social, environmental and ethical considerations are central to the way that we run our business, including our approach to climate change and the environment. These considerations are also reflected in our responsible investment policies and practices.

Climate risks will be considered as part of the stress tests used to support the Internal Capital Adequacy and Risk Assessment ("ICARA") process. Key assumptions in these stresses are reviewed and challenged by senior management.

Although we have committed to carbon neutrality for our operations by 2030, we are aware that the majority of our climate-related risks emanate from the investments we manage on behalf of our clients. An overview of our approach to direct operations and investments is provided in the following section:

### 1. The impact of climate-related risks on our operations

The main type of climate risks that have the potential to severely impair the Group's day-to-day operations are physical risks. We consider that the Group's operations are not materially exposed to acute physical risks due to the low risk of extreme weather events in any of our office locations and our staff being able to work flexibly from a variety of locations. In relation to chronic physical risks such as rising sea levels, we consider that the Group would be able to respond to these in good time due to their gradual onset so as to avoid any significant disruption to our operations.

In terms of measures taken to improve the sustainability of our operations, we have committed to carbon neutrality by 2030. We have commissioned a third-party consultant to do a review of our energy efficiency in the second half of 2023, which will support us in developing a plan to achieve this.

Further details will be included in our 2024 TCFD Report.

We are also looking at our procurement strategy to ensure that our suppliers' targets and emissions align with those of Brooks Macdonald. More detail on our environmental practices and ambitions relating to our operations can be found in the 2022 Brooks Macdonald Corporate Responsibility Report.

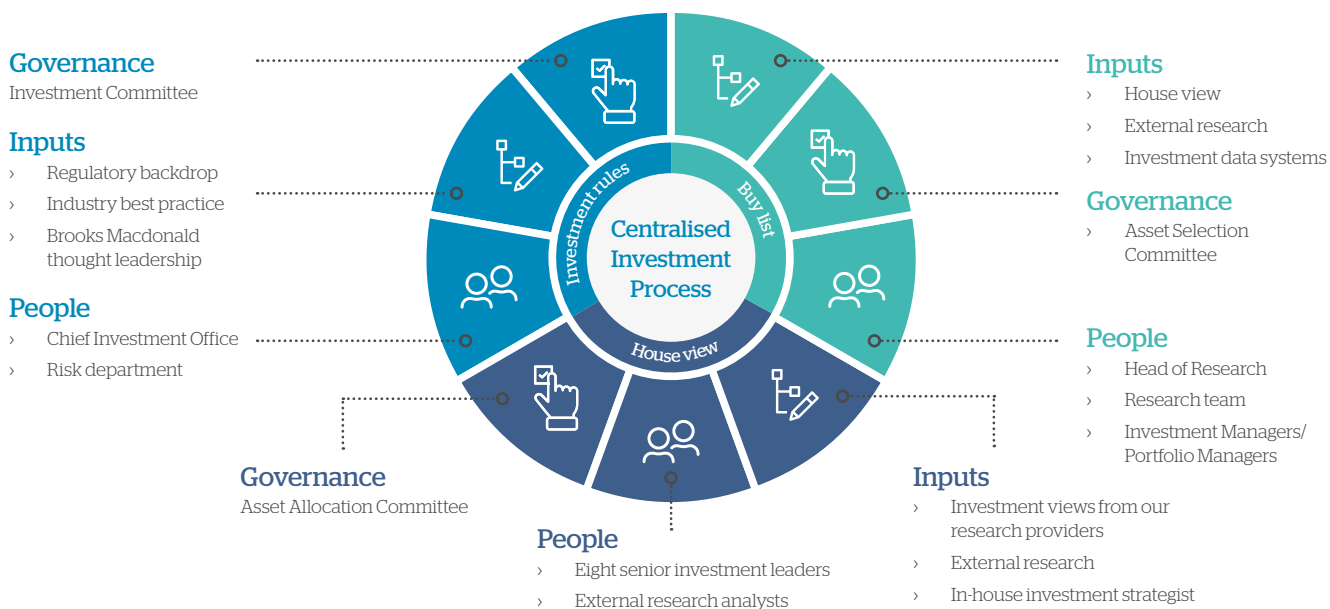
### 2. The impact of climate-related risks on our investments

We recognise that, as an asset manager and as is typical for our sector, our exposure to climate-related risks and opportunities comes primarily through our investment portfolios. The most significant climate-related risk to our Company is the potential negative impact on the performance of our portfolios, which may affect our organisation and stakeholders in the short, medium, and long term.

We are increasingly embedding climate-related considerations into our Centralised Investment Process, a process which ensures that the principles of our investment philosophy are reflected in all client portfolios. We acknowledge that we are at the start of a continuous journey to advance our climate strategy and disclosures.

Our Centralised Investment Process ("CIP") powers the bespoke and managed portfolio services we provide to our clients, and combines strategic and tactical approaches to asset allocation (a 'top-down' approach) with individual security selection (a 'bottom-up' approach). Within our process for researching, selecting and monitoring securities, we manage our climate-related risk through ESG integration, Engagement and Voting. These are central tenets of our Responsible Investment Policy, which is overseen and reviewed by the Investment Committee on an annual basis. More information on this can be found on page 16 of the Annual Report.

More information can also be found in the Risk management section on pages 42 to 47 of the Annual Report.



## 2.1 Impact of opportunities on our investments

### Core BPS and MPS

Across our core services, the opportunities of the transition to a decarbonised economy are factored into our asset allocation guidance. Since 2020, a 'sustainability' thematic has been embedded into the asset allocation guidance, within the global equities component of our core portfolio services. This provides a focused allocation within core BPS and MPS portfolios to collective funds, which invest in companies that are enabling the transition to a more sustainable economy. We expect our 'sustainability' theme to enhance asset allocation diversification, as well as benefitting from expected continued wider-industry investment inflows into such companies in the future. Products that incorporate ESG and specifically climate-related research into their investment process are not exclusive to our global equities allocation, options are assessed and included across the buy list.

Within our Alternatives buy list, we have a number of renewable energy infrastructure Investment Trusts. These are included due to their attractive long-term inflation-linked cash flows, and the structural growth drivers behind expanding renewables capacity as part of the energy transition and as countries seek to strengthen energy security.

### Responsible Investment Service BPS and MPS

We also manage a Responsible Investment Service ("RIS"), which is integrated into the Centralised Investment Process ("CIP"), and has the dual objective of achieving long-term risk-adjusted investment returns and actively reflecting responsible investment values. We see our RIS offering as a key growth area due to the increasing client demand for portfolios that are aligned with their sustainability values, including those related to tackling climate change and achieving net zero.

The RIS Advance strategy invests in funds that provide investment exposure to two types of company. These are:

- › **'Responsible businesses'**, which are ESG leaders from an operational standpoint, with best-in-class approaches to managing and mitigating the negative impacts of their business. This includes impacts on the climate.
- › **'Solution providers'**, which provide the products and services helping society tackle key sustainability challenges. These are framed in the context of eight core sustainability themes, which are Cleaner Energy, Resource Efficiency, Sustainable Transport, Waste and Water, Financial Inclusion, Safety, Education and Healthcare. Many of these investment themes align with, and capture the opportunities of, the transition to net zero.

## Our advanced strategy invests in funds that provide investment exposure to:

### 1. Solution providers

Businesses that have a tangible positive environmental or social benefit, through their products and services. Solution providers align with one or more of the eight sustainability themes shown below.



#### Cleaner Energy

##### Sub themes

Cleaner energy generation  
Cleaner energy storage  
Cleaner energy distribution



#### Water and Waste Management

##### Sub themes

Efficient water use  
Water treatment and provisions  
The circular economy



#### Health and Wellbeing

##### Sub themes

Healthcare provision  
Diagnostics and research  
Social infrastructure  
Healthier lifestyle  
Nutrition



#### Education

##### Sub themes

Education services  
Education content



#### Resource Efficiency

##### Sub themes

Efficient products and services  
Efficient manufacturing  
Efficient buildings  
Sustainable food production



#### Sustainable Transport

##### Sub themes

Alternatives to road transport  
Less polluting road transport



#### Safety

##### Sub themes

Making people safer  
Making products safer



#### Financial Inclusion

##### Sub themes

Access to finance  
Pensions and savings

In order to ensure that investments align with this values-based criteria, RIS builds upon our CIP's established due diligence and monitoring capabilities, incorporating additional steps into the research process to ensure that the dual objective of the service is met and upheld. RIS includes funds that focus on the climate and energy transitions, and which are explicitly designed to capture the decarbonisation growth opportunity. We use third-party data, product questionnaires, and qualitative reviews to mitigate the risks of greenwashing.

We are committed to developing our RIS offering in line with the evolving demands and opportunities of the transition to a more sustainable economy, as well as the changing regulatory landscape for sustainable investment. This may involve enhancing our sustainability frameworks and disclosures. In January 2023, we provided feedback via our industry bodies on the Financial Conduct Authority ("FCA") sustainable disclosure requirements ("SDR") consultation, which is aimed at wealth, fund and asset managers and is designed to increase retail investor access to information on the sustainability-related features of investment products, and combat greenwashing. We are monitoring the outcome of this consultation, due in Q4 of 2023, and will then be in a position to assess the regulation's implications for our RIS offering, particularly in terms of its objectives, investment framework, and disclosures. At the time of publication, we are awaiting the final outcome of the SDR regulation.

### 3. Our plan for transitioning to a low-carbon economy giving regard to the UK Government's net zero target

#### What is net zero?

According to the Intergovernmental Panel on Climate Change's ("IPCC") Special Report on Global Warming, global warming has to be limited to an increase of 1.5°C to guarantee the liveability of planet Earth for most of the global population.

As a result, policymakers and stakeholders have agreed to "pursue efforts" to limit global temperature rises to 1.5°C, through the 2015 Paris Agreement. Limiting warming to 1.5°C involves reaching net zero greenhouse gas emissions around 2050. It requires reducing current emissions by 90-95% by 2050, while removing the rest with carbon dioxide removal techniques ("CDR").

The UK Government's legally binding target for the UK to reach net zero greenhouse gas emissions by 2050 requires every industry to take action to decarbonise, and we recognise that the asset management industry has a pivotal role to play. We support the current government's commitment to make the UK the world's first net zero aligned financial centre.

#### 3.1 Our path to net zero for our own operations

Our target is to decarbonise our operations to reach net zero by 2030. The goal of our Environmental Policy Statement is to promote environmental sustainability throughout our business globally, including our operations, our sourcing practices, and our products. The Policy Statement outlines our commitment to pursue a process of continuous improvement in our operational environmental performance and operate in a responsible way with the aim of reducing, where practicable, our negative environmental and climate change impacts.

We are working with an external provider to set out short-term and long-term greenhouse gas ("GHG") emission reduction targets by year-end 2023, providing a pathway to achieving our operational net zero target.

We have implemented initiatives that have reduced our operational energy emissions by 28% and our greenhouse gas ("GHG") emissions by 67% compared to emissions in our financial year ending 2019. We have measured our progress against data from 2019, as this is the most recent pre-pandemic year during which all our office locations were fully operational. Our progress is a result of our improved purchasing choices as well as working with suppliers and building providers to take an approach aligned to our climate-related goals.

Despite increasing the number of office locations in which we operate over the last year, our 2023 data shows that the Group's overall energy consumption has remained within a 1% margin and our total GHG emissions have decreased by 7% compared to emission data from 2022. Our Cardiff office has successfully transitioned to Biogas, a carbon-neutral fuel source that does not contribute to GHG emissions.

Our procurement strategy has matured and we have introduced a framework for onboarding new suppliers or when renewing agreements with existing partners, applying our enhanced standards to ensure we are on track to achieving our 2030 target. When making choices about the businesses we partner with, we see alignment as a key indicator. As a Group, we endeavour to work with suppliers who operate in an ethical, sustainable, inclusive and accessible way, and we want our partners to align with our guiding principles, values and behaviours.

As we continue to develop and implement our procurement strategy, we have initially focused on, and are collaborating with, our key suppliers to ensure they align with our core social, ethical and environmental values. We intend to extend our approach on responsible procurement to all our suppliers as we progress through this financial year and beyond.

### 3.2 Our path to net zero across our investments

We are currently assessing how best we can align our investment strategies and products with real-world emissions reductions across the economy. In 2022 we conducted a net zero information-scoping exercise with 24 asset managers that run third-party funds on our clients' behalf, as part of a wider ongoing research project to assess the methodologies available for asset managers (for the full published findings, please refer to the September 2022 edition of the Responsible Investment Service Biannual Report). Our research so far suggests that asset managers are adopting a number of different net zero methodologies and committing varying proportions of their assets under management ("AuM"), whether due to the lack of formalised guidance around certain asset classes or due to concerns around fiduciary duty. Many are setting net zero targets in order to better manage the physical and transition risks associated with climate change and holding carbon-intensive assets.

The three main industry-recognised net zero methodologies in the market are:

- › Paris Aligned Investment Initiative ("PAII") Net Zero Investment Framework ("NZIF")
- › Science Based Targets initiative for Financial Institutions ("SBTi")
- › Net Zero Asset Owner Alliance Target Setting Protocol ("TSP")

Broadly speaking, there are four types of targets that these various frameworks recommend users to set:

- › **Emissions reduction targets**  
These involve the reduction of emissions financed by the investment portfolio. The first step to setting this type of target is to measure the emissions that are being financed by the portfolio.
- › **Portfolio alignment targets**  
An investor assesses the percentage of their portfolio companies that are aligned to net zero and aims to increase that percentage over time.
- › **Engagement targets**  
The frameworks recommend setting targets to engage with companies that are responsible for a large proportion of the portfolio's financed emissions.
- › **Climate solutions targets**  
These are targets to increase investments in companies engaged in green activities, climate solutions, or climate-positive projects.

Asset managers may choose to use these target types in combination, or on their own.

We recognise that emissions data is backward looking by nature, and that setting emissions reduction targets in isolation could prompt a concentration of investment, and risk, in historically lower-emitting sectors and industries. This will not drive real-world decarbonisation and will miss genuine efforts made by companies towards reaching net zero targets. Furthermore, many companies involved in the manufacture of emissions-saving technologies may have a significant carbon footprint of their own - but this data point does not capture the emissions savings created through their products. Automatic divestment from funds with exposure to carbon-intensive companies, is unlikely to bring about emissions reduction outcomes in the real economy. Given that the majority of our investments are in third-party funds, rather than direct holdings, any engagement or alignment target that we adopt as part of a net zero commitment would primarily involve funds, and their managers, rather than companies directly.

To help us set, and establish a baseline for our own net zero targets and approach, we are gathering data regarding the emissions profile and net zero alignment of our investments. This involves measuring the carbon footprint and assessing the temperature alignment, fossil fuel exposure and net zero maturity (according to the NZIF net zero alignment maturity scale) of the companies and funds through which we are invested, and aggregating these metrics to portfolio, model, BMAM and BM Group level. Please see page 29 of the Metrics and targets section of this report where these metrics are presented at BMAM and BM Group level.

We are also currently developing our approach to assessing asset manager net zero commitments, targets and progress, at a firm level, by incorporating further net-zero-related questions into our due diligence questionnaires for all managers (which are completed during the asset selection and monitoring part of our investment process).

Due to climate-related data only very recently becoming available to wealth managers that invest through third-party funds, alongside the general challenges that net zero investing presents to the asset management industry, we are early on in our journey of defining our net zero strategy. We believe the work we have started this year will serve as a springboard for the future development and evolution of our asset allocation, portfolio construction, and engagement processes.



## Our view on norms-based exclusion of fossil fuels

Though it seeks exposure to the cleaner energy theme, our Responsible Investment Service Advance strategy is not formally a fossil fuel free strategy, as we believe that automatic divestment is not conducive to furthering the energy transition and tackling the climate challenge. Though minimal, the current fossil fuel exposure we have primarily relates to natural gas generation and distribution through utility-based names. Our view is that natural gas has a role to play in the net zero transition given that it provides an uninterrupted, lower-carbon base load into energy grids, serving as a 'bridge' fuel, whilst solutions to the intermittency of renewables and powering our heating systems are developed and become commercially viable. As renewables scale and electricity power storage technology improves, the lower carbon status of natural gas will be less appealing and our view on its place within the energy mix will evolve.

For utilities that derive a sizeable proportion of revenues from renewables but still have legacy fossil assets, we evaluate the materiality of the fossil assets and the pace of change. If we are comfortable that the current energy balance is significantly orientated towards renewable sources, we consider the business to fall on the side of positive environmental impact. Ørsted, the Danish energy company, is one such company that we view in this way. Over the last 15 years Ørsted has successfully repositioned itself, divesting from fossil fuel assets and pivoting to renewables. As of 2021, the company did still derive approximately 10% of revenues from fossil fuels, however, as a world leader in expanding renewable capacity development, we consider Ørsted a critical player in meeting Paris Agreement targets and, therefore, that its positive impact strongly outweighs the negative. We believe fund manager engagement with energy players such as Ørsted, rather than automatic divestment, is key to driving further improvement in the sector and driving real-world emissions reductions.

## Climate scenario analysis

The TCFD recommends using climate scenario analysis as a tool to inform the identification, assessment and management of climate risks. Climate scenario analysis enables investors to assess the exposure of financial markets, companies and portfolios to climate-related risks, in different scenarios, and determine the potential financial impacts. As a wealth manager whose investments are diversified across countries, asset classes, industries and companies, our performance is closely linked to the health of the global economy.

The value of scenario analysis lies in its ability to show how investments might perform under different circumstances and scenarios (i.e. their relative performance), rather than in its ability to predict exact financial impacts (such as valuation changes). It facilitates understanding of portfolio risk exposures and can help inform investment strategy, decision making and engagement activities.

Across our holdings at the BM Group level, we have conducted an initial scenario analysis exercise, that is mindful of the FCA's recommendation to adopt a quantitative approach where possible.

In this section, we present the key findings of this exercise.

## Methodology selected

We have assessed the exposure of our investment holdings to physical and transition risks under multiple climate scenarios, using a third-party data solution from Clarity AI in partnership with Ortec Finance and Cambridge Econometrics.

- › **Physical risks** refer to the impact to economies and portfolios from the direct consequences of climate change on the environment, infrastructure, and ecosystems. Rising sea levels, extreme weather events, heatwaves, and prolonged droughts are just a few examples of physical risks that can lead to impacts such as property damage, supply chain disruptions, business interruptions, increased operational costs or economic slowdowns. Due to the systemic nature of climate change, these risks affect all industries and geographies, but with different impacts.
- › **Transition risks** arise from the shift towards a low-carbon economy and the policies, regulations, and technological advancements aimed at mitigating climate change. These risks encompass regulatory changes and shifts in consumer preferences that can impact the value and profitability of certain industries and assets. However, they also present opportunities for investors who can identify and capitalise on the transition to a low-carbon economy.

Clarity AI's scenario analysis tool combines climate and economic data to different pathway scenarios to estimate how physical and transition risks and opportunities impact the total return of securities and portfolios<sup>1</sup>. These impacts on total return are provided as a difference to a baseline, which takes no account of future climate change and transition risk, and are expressed in terms of cumulative percentage change of a security's total return.

These impacts are provided as a total, and are also disaggregated into:

- › **Acute physical risks:** impacts of extreme weather events.
- › **Chronic physical risks:** impacts of gradual climate change.
- › **Transition risks:** impacts of responses to mitigate climate change.
- › **Sentiment shock:** represents the abrupt repricing of assets due to a late awareness of climate risks.

The impacts on total return are calculated across three different science-based climate scenarios, which cover a wide array of pathways our society can take, and across four time horizons: 5, 10, 20 and 40 years from 2022<sup>2</sup>.

The three climate scenarios adopted are:

- › **1.5°C by 2100 - An orderly net zero transition**
  - In this very low emissions' IPCC scenario (SSP1-RCPI.9), political and social organisations act quickly and predictably to achieve net zero GHG emissions by 2050. There is an early and smooth transition, with market pricing in dynamics that occur smoothed in the first four years. An ambitious policy regime is pursued to encourage greater decarbonisation of the electricity sector and to reduce emissions across all sectors of the economy.
- › **1.5°C by 2100 - A disorderly net zero transition**
  - In this very low emissions' IPCC scenario (SSP1-RCPI.9)<sup>3</sup>, global warming is also kept at 1.5°C by 2100, however, there are sudden divestments in 2025 to align portfolios to the Paris Agreement goals, which have disruptive effects on financial markets.
- › **4.3°C by 2100 - A failed transition**
  - In this high emissions' IPCC scenario (SSP3-RCP70)<sup>4</sup>, the world fails to meet the Paris Agreement goals and global warming reaches 4.3 above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events.
  - This scenario foresees little development of cost-effective low-carbon alternatives. Coal continues to be one of the primary global energy sources through to the end of the century, leading to high CO<sub>2</sub> emissions and warming.

<sup>1</sup> At the security level, the way in which scenario analysis applied to each security depends on their asset class and characteristics. For equities, the results of the climate and financial models are applied proportionally to the issuer's revenues in each of the industries and countries it is operating in. For corporate fixed income, they are applied depending on the issuer's country of origin. At the portfolio level, total impacts on return are calculated through a weighted sum of its constituents' security-level impacts across all security types, proportionally to their investment value in the part-portfolio covered by Physical and Transition impacts. If the Security-level impact is not available for any given security, the security is left out of the portfolio-level calculation.

<sup>2</sup> We consider 5 years - short term, 10 years - medium term, 20 years and 40 years - long term.

<sup>3</sup> SSP stands for 'Shared Economic Pathways'. There are five SSPs, which are five different baseline worlds that might occur in the absence of any concerted international effort to address climate change, driven by changes in underlying factors such as population, technological and economic growth. RCP stands for 'Represented Concentration Pathway'. RCPs describe different levels of greenhouse gases and other radiative forcings that might occur in the future. The number mentioned after RCP in each of the pathways is indicative of the radiative forcing resulting from the scenario in the year 2100. SSP 1 is characterised by a world of sustainability-focused growth and equality, where there is a strong focus on environmental protection and climate action, which leads to a transition to a low-carbon economy. There is also a focus on international cooperation and global governance, which helps to ensure that climate change is addressed effectively. RCPI.9 is the scenario wherein global warming is limited to an increase of 1.5°C.

<sup>4</sup> SSP 3 is characterised by a world of 'regional rivalry'. This means that there is a high degree of competition between countries and regions, which leads to slower economic growth and increased inequality. There is also a focus on national security and self-reliance, which can lead to conflict. The SSP3-RCP70 scenario is a business-as-usual, high-emissions trajectory that models high challenges to mitigation and adaptation to climate change.

## The three climate scenarios and key assumptions

Orderly net zero	Disorderly net zero	Failed transition
1.5°C IPCC scenario SSP1-1.9	1.5°C SSP1-1.9	4.3°C SSP3-7
<ul style="list-style-type: none"> <li>› <b>Net zero achieved in 2050</b></li> <li>› Some physical impacts</li> <li>› Climate policies: carbon price, coal phase-out, emission trading schemes, renewable energy subsidies</li> <li>› BECCS: carbon capture and storage combined with energy generation</li> </ul>	<ul style="list-style-type: none"> <li>› <b>Sudden divestments</b> in 2025 to align portfolios to the Paris Agreement goals</li> <li>› <b>Sudden repricing</b> followed by stranded assets and a sentiment shock</li> </ul>	<ul style="list-style-type: none"> <li>› <b>Business as usual</b></li> <li>› No green recovery packages or additional climate policies are implemented</li> <li>› <b>Extreme events:</b> droughts, water shortages, floods</li> <li>› <b>Reduced</b> labour and crop <b>productivity</b></li> <li>› Supply chains are <b>disrupted</b></li> <li>› Markets became aware when the Western world is hit</li> </ul>



**Transition risks**

**Physical risks**

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## Scope of the exercise and limitations

Climate scenario analysis, and particularly quantitative analysis, is still in its early stages of development in the financial industry, particularly within wealth management. The currently available climate scenarios, tools and data still face a number of limitations. The underlying models assume companies do not adapt over time (but continue to use their current business models) and that our investments remain static. We also note that scenarios are not predictions and are not equally likely to occur. Therefore, climate scenario analysis is not a predictive tool but rather can be used as an

input to risk management. Furthermore, there is no clear consensus on how asset managers should translate the results of the analysis into concrete action. We are committed to monitoring how our industry progresses and developing our approach accordingly.

Due to data availability constraints, scenario analysis is only applied to equity and corporate fixed income, and roughly 56% of our underlying investments have been covered in the analysis<sup>6</sup>. As data availability improves, we will seek to include more asset classes into our quantitative scenario analysis.

<sup>5</sup> Transition risks and opportunities are modelled based on Cambridge Econometrics' E3ME model. Acute physical risks are modelled by Ortec Finance's Extreme Weather Model and Chronic physical risks are modelled by Ortec Finance's Gradual Physical Risks model. Financial modelisation is powered by Ortec Finance.

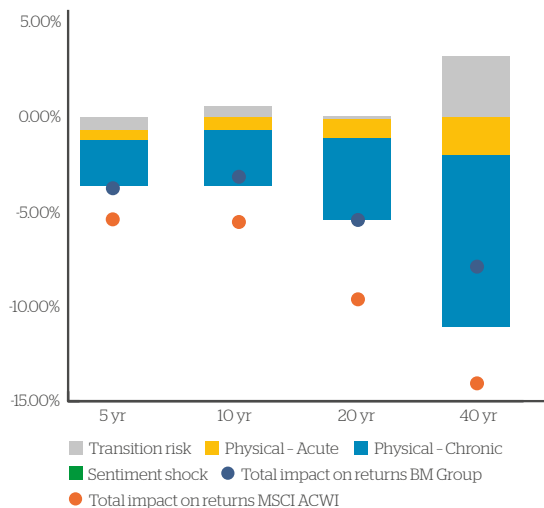
<sup>6</sup> As of June 2023, Clarity AI's scenario analysis solution covers 42k equities, 2.6 million corporate fixed income instruments and more than 100k funds. 56% of our total BM Group aggregate portfolio has been included in scenario analysis.

## Scenario analysis findings

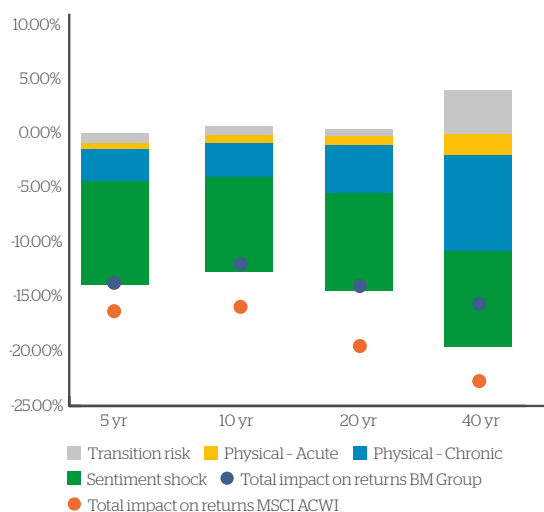
### Total impact on returns at BM Group level

The following charts display how different climate scenarios could affect the value of our clients' investments. We display total impact on returns for the BM Group aggregate portfolio<sup>7</sup>, disaggregated into acute physical risk, chronic physical risk, transition risk and sentiment shock, alongside total impact on returns for the wider MSCI All Country World Index ("ACWI")<sup>8</sup> as a comparison point.

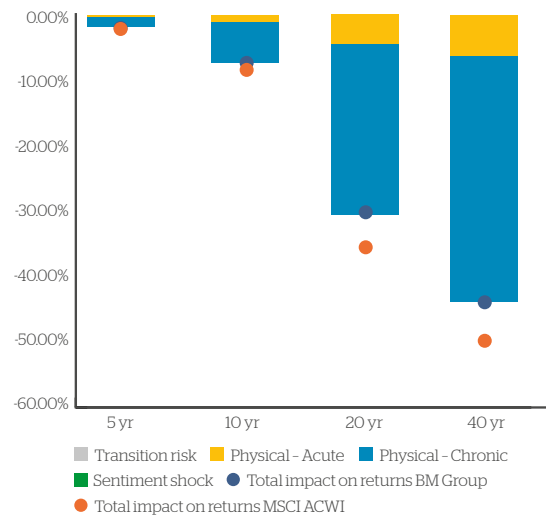
### Total impact on returns under an orderly transition scenario



### Total impact on returns in a disorderly transition scenario



### Total impact on returns in a failed transition scenario



The data suggests that all transition pathways present downside risk to our current investment holdings, highlighting the ongoing need for our investment process to be resilient to potential future climate risks. While, in the short term, there are more significant potential downside risks arising from the 1.5 degree aligned scenarios (and particularly the disorderly transition scenario), these are more than offset in the long term by outsized negative impacts on returns from severe climate change that is the result of a failed transition.

In the short term, an orderly transition scenario is likely to create transition risks for some companies that are unable to keep up with societal decarbonisation efforts. In the medium to long term, however, an orderly transition is the best scenario for financial returns. Physical risks are present but not as severe as in a failed transition scenario, where temperature rises fuel unprecedented shifts in weather patterns and natural disasters. In an orderly scenario, exposure to companies that support the transition to a low-carbon economy through their operations, products and services, may help investors capture the upside of the transition. In the failed transition scenario, companies that are best equipped to adapt to rising physical risks from climate change are likely to perform better. More sustainability-themed investments may not perform as well given the lack of government support for the net zero transition.

Our BM Group aggregate portfolio has less exposure to climate risks than the broader market, represented by the MSCI ACWI.

<sup>7</sup> All holdings' data used in this analysis has been compiled as at 30/06/2023. The data includes the following items, covering c. £16.22 billion of Group-wide AUM. (a) Onshore & Offshore BPS (excluding execution-only/advisory-only accounts, including RIS/Decumulation/Court of Protection, where applicable); (b) Onshore & Offshore MPS Custody accounts (including RIS); (c) AIM Service; (d) Multi-Asset Funds (including MAF, Levitas, Brunsdon, DCF, CAM, Offshore funds); and (e) MPS Platform Holdings (including BMIS, RIS, and the core strategies). All holdings held on platforms have been estimated via apportioning the AUM in each model as at 30/06/23 as per the weight of each asset in each model. Offshore MPS Platform holdings (c. £101 million) have been excluded this time around due to data availability issues.

<sup>8</sup> The MSCI All Country World Index is a portfolio of global equities, which represents our investable universe.

# Strategy continued

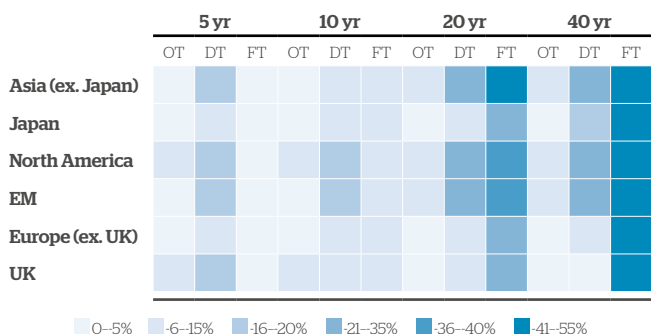
## Regional and sectoral analysis

As multi-asset investors, we are aware that there are disparities between regions and sectors in terms of their exposure and vulnerability to climate-related risks, and therefore, consider this as part of the climate scenario analysis exercise.

Applying Clarity AI's scenario analysis tool to MSCI regional indices, provides a further lens through which to consider our Group-level scenario analysis findings as described previously. The heatmap below demonstrates how, in the short term, a disorderly transition is likely to affect returns across all regions to a greater extent. Over the longer term, returns are most negatively affected in a failed transition scenario.

Our analysis suggests that, in the long term, chronic physical risks will be the biggest detractor from total returns, these risks being particularly severe in Asia ex. Japan and emerging markets ("EM") where the projected impacts of extreme weather are most severe. When considering transition risks in the orderly and disorderly scenarios, companies in Asia ex. Japan, North America and EM appear to be the most exposed, with Europe ex. UK, UK and Japan the least exposed.

## Heatmap displaying climate scenario impacts on regional returns<sup>9</sup>



We have also considered how different sectors may be affected under different climate scenarios, by examining how sectors contribute to our BM Group-level weighted average carbon intensity scores, which are defined and presented in more detail in the Metrics and targets section of this report.

Unsurprisingly, the contribution to weighted average carbon intensity is dominated by Energy, Industrials Materials and Utilities despite their lower absolute weight within the aggregate Group-level portfolio. The larger contributing sector's intra-sectors are Integrated Oil & Gas, Passenger Airlines, Chemicals, Construction Materials, Mining and Electricity Generation Utilities. The consumer discretionary contribution is also relatively high, and this is primarily driven by housebuilding.

These sectors and intra-sectors are likely to be most exposed to transition risks in the orderly and disorderly transition scenarios, as they have to navigate policy changes such as carbon taxes. However, certain companies will be more resilient than others. For example, a firm that is heavily dependent on fossil fuels, but which has a robust, science-based plan to decarbonise will be less vulnerable to climate policies than one that is not prepared for the transition. In a scenario where a carbon tax is introduced, Oil & Gas companies that have already pivoted to a business model with a greater portion of renewables in their energy mix are poised to do well from this change in the regulatory landscape compared to counterparts who have remained fossil-fuel-focused.

Qualitative analysis suggests that physical risks are likely to be more evenly distributed across sectors, however, there may be a skew towards capital-intensive sectors and industries with large physical asset footprints, including energy and utilities.

Rather than the output of scenario analysis restricting our investment universe at this point in time, our findings so far highlight the importance of diversification across a range of sectors, geographies and asset classes, to help mitigate the concentration of climate risk. Our findings reinforce our commitment to ensure that the third-party fund managers we invest with integrate climate-related risks and opportunities into investment decision making, considering how these may apply differently to companies across different sectors and regions, and to encourage fund managers to engage with investee companies on their climate change strategy.

To date, we have only started to conduct scenario analysis at the BM Group level. We will consider embedding scenario analysis into our fund and product-level ESG dashboards, dashboards which inform investment decision making and oversight. These are described in the Risk management section of this report.

<sup>9</sup> Total impact on returns shown in this heatmap are rounded up to the nearest decimal place. Darker shades denote greater negative impacts on total return.

# Risk management

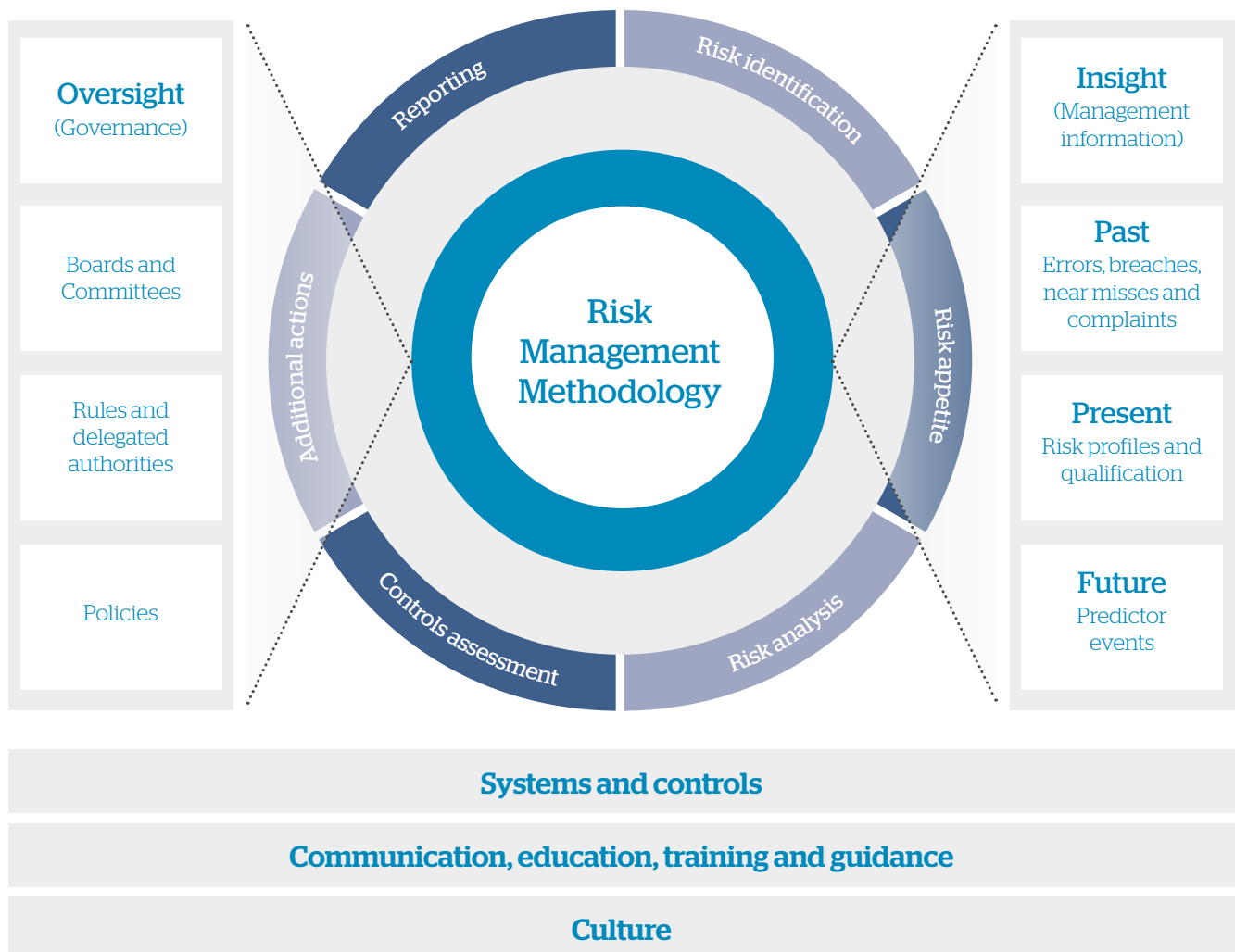
Progress has been made in embedding climate risk within our existing risk management framework, with further enhancements planned over the next 12 months. In line with peer market practice and regulatory expectations, we currently consider climate risk under two categories, physical risk, and transition risks. We assess the climate risks faced by our business on a six-monthly basis by using our 'top down' and 'bottom up' risk map ("TDRM" & "BURM") assessment process. The TDRMs and the BURMs provide an overall view of the risk profile of the Group. The TDRMs are forward-looking, and the impact and probability of the key risks are assessed in terms of where management expects them to be in 6 to 12 months' time. The BURMs process,

allows various teams to identify and assess their key risks and the effectiveness of mitigating controls. The results of this are used to inform our internal risks, which are presented to our management, Executive Committees, and Board.

Climate-related risks are cross-cutting, with the potential to impact all our key risks given the importance of the climate transition and its wide-ranging impact. Over time, and with the development of appropriate data, we expect such analysis to be both qualitative and quantitative in its assessment.

Our approach to Group Risk Management is covered in the Risk management section of the Annual Report on pages 42 to 47.

## The Group Risk Management Framework ("RMF")



# Risk management continued

## The Group Risk Management Framework (“RMF”)

A summary of our risk management framework is provided below as we look to embed climate risk within the process.

Our risk management process starts with oversight through appropriate governance; an efficient board and committee structure, with individual and collective roles and delegated authorities; and a set of core policies to provide guidance to staff.

Effective risk management relies on insight through robust and timely management information. We manage our risks by learning lessons from past events, such as, errors, breaches, near misses and complaints, by conducting point-in-time risk assessments and attempting to predict what the future risk landscape might look like through our suite of key indicators.

The risk management methodology within the Group’s risk management framework consists of the following six interlinked steps:

- › **Risk identification.** This takes place through regular business monitoring and periodic reviews, including risk mapping exercises and the risks arising from change or new products and services.
- › **Risk appetite.** Once we have identified risks, we set an appetite for each material risk. This defines the amount of risk that the Board is prepared to accept in order to deliver its business objectives. Risk appetite reflects culture, strategic goals and the existing operating and control environment.
- › **Risk analysis.** Having set the risk appetite, we can assess the impact and probability of each material risk against the agreed risk appetite. This can include the quantification of capital risk as part of the Internal Capital Adequacy and Risk Assessment (“ICARA”).
- › **Controls assessment.** We also assess the effectiveness of controls in reducing the probability of a risk occurring or, should it materialise, in mitigating its impact.
- › **Additional actions.** Where differences exist between our risk appetite and the current residual risk profile, we take action to either accept, avoid or transfer part or all of those risks that are outside our risk appetite, or to reconsider the risk appetite.
- › **Reporting.** Ongoing reporting of risks to senior management provides insight to inform risk-based decision making and allocation of resources to achieve business objectives.

## Risk culture

The Board, our Executive, and the senior management team ensures that risk management is prioritised within the business by investing in risk management tools, programme development, and technology. Risk management is consistently communicated to our staff to heighten their understanding of the risks the Group faces, and to encourage appropriate behaviours and collaboration on managing risk across the firm. Processes are in place which encourage staff to report risk events with a defined path for escalation where necessary. Risk incidents are seen as learning opportunities; we encourage an open discussion to pinpoint vulnerabilities as a means to implement changes that strengthen risk management.

### Managing climate-related risks within our operational activities

As part of our established Operational Resilience Program, we consider the impact of climate-related events on the operation of our business, accounting for severe, but plausible scenarios, including events such as heat-related fires and floods. We have defined plausible scenarios that impact one or more of our locations, transport, people, third-party service providers, utilities or systems and testing is undertaken that considers impacts to all of these and our ability to continue to deliver our important business services to our clients.

### Managing climate-related risks within our investment activities

Our strategy for managing climate-related risks within our investment activity centres around:

1. Embedding climate-related risks into our wider ESG integration approach
2. Engagement activities
3. Voting activities

Further information about our approach can be found in the Responsible Investment Policy, available on our website [www.brooksmacdonald.com/about-us/stewardship](http://www.brooksmacdonald.com/about-us/stewardship).

### 1. Embedding climate-related risks into our wider ESG integration approach

The integration of environmental, social and governance (“ESG”) considerations into our investment process is a core principle of our Responsible Investment (“RI”) policy. Common ESG integration principles and disciplines are applied, to the greatest degree possible, across all investment research, selection and risk monitoring processes. As global multi-asset investors, our approach to assessing ESG factors is tailored to each asset class and the vehicle used to invest in each asset class. We are developing capabilities to monitor, manage and report the climate impacts and dependencies of our investments, and manage the risks they may pose to investment outcomes and our ambitions as a responsible investor. This will remain a key priority of our responsible business agenda.

Our bespoke and managed portfolio services invest primarily in collective funds that are managed by third parties, or products that track an index, where we do not have direct control over the investments chosen or day-to-day management of the climate-related risks associated with these investments. Bespoke portfolios are also able to invest in direct equities and bonds, should it be appropriate for a client's circumstances.

### **Buy list construction: Investment research, due diligence and selection**

#### **Third-party collective funds**

Sector research teams assess whether third-party fund managers have a robust, thorough, and repeatable process for assessing and managing climate risks, with a range of qualitative and quantitative inputs used to inform this assessment. These inputs are tailored to each asset class. Research for the Responsible Investment Service, which has the dual objective of financial return and alignment with responsible investment values, leverages off the same core approach with meaningful enhancements made to reflect that responsible investment characteristics are a formal part of strategy objectives rather than primarily an input into risk assessment.

#### **Equity and bonds**

Meetings with fund managers, alongside our structured ESG questionnaires, provide us with an understanding of the firm and fund-level-wide approach to ESG, including how climate-related risks and opportunities are managed and the strength of the approach. If responses suggest little consideration of climate-related issues, or disparities between firm and strategy-level approaches, this is an area for further investigation and engagement. Should we conclude that meaningful steps are not being taken to monitor and manage exposure to climate risks, this will be considered a material risk to the investment case.

In 2023, we have expanded our ESG questionnaire's focus on climate-related risks and opportunities. This has taken into account:

- › Relevant legislation and regulation, including the Task Force on Climate-related Financial Disclosures ("TCFD").
- › Market-led initiatives seeking to develop best practice, such as the Net Zero Asset Manager's initiative and the Science Based Targets initiative.
- › Policies and exclusions pertaining to key climate risk areas such as thermal coal and other fossil fuel exposure.

Qualitative research on a fund's exposure to, and management of, climate-related risks is supplemented with ESG and climate-related metrics, which are incorporated into our proprietary fund ESG traffic light dashboard. This tool helps sector research teams identify potentially high-risk holdings and any potential discrepancies between a fund's stated investment process and investment outcomes.

If metrics are below a defined threshold, then an amber light is triggered and there is a formal requirement to assess what is driving the data point, including reviewing Sustainalytics company-level data, and engagement with the fund manager. For Responsible Investment Service funds, the thresholds below which an amber light is triggered, will be more stringent. Given that ESG data is not infallible, is retrospective, largely based on levels of corporate disclosure, and cannot engage with nuance, it is used to inform discussions and qualitative research. Our traffic light dashboard is used to aid qualitative assessment rather than set thresholds that block an assets suitability.

In 2023, we incorporated additional climate-related metrics into the ESG traffic light dashboard, including GHG emissions, weighted average carbon intensity ("WACI"), temperature alignment, exposure to fossil fuels and alignment with net zero (determined according to the Institutional Investors Group on Climate Change's Net Zero Investment Framework alignment maturity scale). These metrics can be used to estimate the impact that a fund has on the climate (through its underlying portfolio companies) and the portfolio's exposure to climate-related risk, particularly transition risk. Embedding physical risk exposure into holding and fund-level analysis is currently more difficult; as data availability improves we will consider how to embed this into our dashboards. Further definitions, methodologies and reporting on the metrics outlined, are provided in the Metrics and targets section of the report.

#### **Property**

We recognise that investing in sustainable properties and implementing sustainable practices can help Real Estate Investment Trusts ("REITs") minimise climate-related risks. The Property Sector Research Team uses a proprietary ESG traffic light dashboard that draws on environmental data, which is increasingly being incorporated within REIT disclosures using standardised reporting frameworks such as the EPRA Sustainability Best Practices Recommendations ("SBPR"). Examples of the information that is captured include Energy Performance Certificate ("EPC"), GRESB and BREAM ratings carbon emissions, energy/water consumption, and the percentage of energy procured from renewable sources. The data is considered alongside the REITs annual/sustainability report, with insights and observations informing fund manager engagements and investment recommendations. REIT reporting on their exposure to physical climate risks, such as extreme weather events, and net zero alignment is slowly improving, and where possible we will look to embed this into our ESG dashboards over time. The ESG approach meets the objectives of RIS MPS and BPS portfolios, as well their core counterparts.



# Risk management continued

## Infrastructure

Investment companies that finance infrastructure can have a clear positive social and environmental impact. In particular, the renewable energy infrastructure investment trusts we have exposure to play an important role in accelerating the global energy transition and are set to benefit from the opportunities of a shift to a low-carbon economy. These own and operate assets, such as wind farms and solar power plants, and sell the energy generated. However, unlike for the property sector, there are no consistent ESG-focused data disclosure frameworks for infrastructure assets, due to the variety of asset types. Therefore, our analysis focuses on reporting produced by the company. The quality, depth and breadth of this reporting is improving rapidly, and it can provide meaningful insight into the material climate impacts of the assets, and the risks they are exposed to. This information helps inform fund manager engagements and investment recommendations.

## Direct investments

### Equities

When investing in direct equities, we take a bottom-up approach to considering ESG factors, including climate-related issues. We undertake our own qualitative research and assessment of material climate-related risks and opportunities, tailoring our approach depending on sector. This is coupled with a quantitative data overlay in the form of our ESG traffic light dashboard. This dashboard is aligned with our collective fund research approach and incorporates the same climate-related metrics and thresholds for triggering further investigation and engagement with companies.

### Direct corporate bonds

We have an established partnership with an external research firm that provides our direct corporate bond research team with extensive due diligence information on issuers. This includes data on ESG factors, including climate-related metrics. ESG dashboards that include climate-related metrics are also embedded into the research process.

### Direct government bonds

For direct government bonds, we consider the country risk scores, which incorporate an assessment of how well a country is managing key environmental, social and governance factors. If the research analyst wishes to propose the sovereign for buy list inclusion, they must address any issues with the country risk assessment and outline why they believe it is still suitable for inclusion. For RIS portfolios, we supplement this with our in-house sustainability framework for government debt that incorporates a best-in-class approach across the ESG pillars.

We are monitoring the development of the Assessing Sovereign Climate-related Opportunities and Risks ("ASCOR") Project, a practical tool that aims to provide a common lens for understanding sovereign exposure to climate risk and to understand how governments plan to transition to a low carbon economy. The framework is scheduled to be published in Q4 2023 and regularly updated over time, and we will monitor how it can be embedded into our investment process.

## Risk monitoring and management

Once on our investment buy list, third-party funds and direct equities are subject to periodic reviews, and this includes a reassessment of climate-related risks and exposures.

We are developing ESG traffic light dashboards for our investment products. Our analysis will seek to highlight where our funds, models and portfolios are underperforming on ESG and climate-related metrics compared to their benchmarks, and this will be provided to the Investment Committee and Executive Risk Management Committee for review and oversight. On their own, climate-related metrics can be difficult to interpret, however, comparing to common benchmarks provides useful context and tracking how they evolve over time will help us in monitoring our exposure to risk.

We are continually developing our second line oversight of the Responsible Investment Service, to ensure it meets its stated objectives on an ongoing basis. We have established a formal quarterly committee to ensure RIS models adhere to its investment mandate, ESG and Risk metrics.

## 2. Engagement

### Collective funds

We expect our third-party fund managers to establish and apply their own voting and engagement policies, both at a firm-wide and fund level. As part of our due diligence process, we assess compliance with the UK Stewardship Code (where applicable), including their records regarding engagement, voting and the transparency of their stewardship activities. Should we identify that a third-party fund manager's stewardship practices and disclosures are not meeting our standards, or are at odds with any firm-wide commitments relating to climate change and/or net zero, we would either engage with them to try and improve their approach or divest from the fund. If we considered that a third-party fund's approach does not align with firm-wide commitments and policies, or was not conducive to appropriate climate-risk management, this would be an area for further investigation and engagement with the fund manager.



## Case study of engagement with a third-party fund manager

During the RIS sector team's consideration of a third-party fund, the fund's ESG traffic light dashboard highlighted that one holding, Northern Powergrid, was exposed to 'severe' ESG risks, according to Sustainalytics. This triggered an amber rating.

Northern Powergrid manages the regional electricity distribution network in Northern England. The RIS research team engaged with the fund manager team to understand their justification and outlook for the company.

The response made clear that, though Northern Powergrid's company's climate risks and impacts are relatively high, they were being well managed. Key points highlighted by the fund manager were that emissions and oil leakages were reducing, the company has set a net zero goal and has committed to a science-based target. The fund manager had recently met with the team at Northern Powergrid to discuss ESG matters, with a particular focus on their efforts to reduce emissions and was impressed by the company's progress.

Should our fund-level ESG dashboards identify exposure to carbon-intensive holdings and/or holdings which are failing to align with net zero, we would engage with the fund manager to identify how they are managing these risks and how effectively they are engaging with underlying companies on our behalf. It is our view that engagement can be more effective at driving real-world decarbonisation, than automatic divestment or exclusion, if accompanied by clear escalation policies and reporting.

For direct stocks, Investment Trusts ("ITs") and REITs, our ESG dashboards are also used to identify areas of climate-related risk and areas for engagement in the selection process. We seek to undertake engagements to encourage improvement and progress, where we feel this will add value. Our ability to engage with companies can be limited, as the proportion of shares we hold in companies is generally lower than that of larger asset managers, and we are more likely to engage where we own a bigger percentage of the share capital, such as the companies held in our AIM portfolio service.

As discussed earlier in this report, we have embarked on an exercise to measure and track the net zero alignment of the funds and direct equities on our buy list, across both our core and RIS services, and based on the criteria set in the Paris Aligned Net Zero Investment Framework. This can help to inform our development of a proactive engagement program with fund managers, conducted periodically and in line with net zero targets we formalise for our investments.

### 3. Voting

We recognise that, in the context of climate change, proxy voting is a tool that investors can use to help actively manage and mitigate exposure to climate-related risks in their portfolio companies. With regard to our third-party fund managers, we expect them to exercise the right to vote at shareholder meetings on our clients' behalf. In our approach for direct equities, we employ a third proxy-voting service that recommends voting against the chair of a company's responsible committee if it concludes that a high greenhouse gas-emitting entity (as identified by Climate Action 100+) is failing to take the steps required to understand and mitigate risks resulting from climate change. Our default stance will be to vote in line with this recommended approach.

# Risk management continued

## Our approach to ESG and climate-related data

Data provider	Purpose/use
<b>Morningstar</b>	Morningstar provides us with underlying fund data for fund research and analysis, that is used by sector research teams.
<b>Sustainalytics</b>	A number of ESG data points (ESG risks, carbon risks, controversies, and product involvement) are taken from Sustainalytics as inputs to our ESG traffic light dashboards for third-party collective funds as well as direct equities and bonds. These dashboards are used in investment research and monitoring. Sustainalytics provide qualitative explanations for their ratings, which enable our investment managers and analysts to gain a comprehensive understanding of what is driving ratings and apply a qualitative overlay to this raw data. This enables us to prioritise, and have more informed, engagements with asset managers.
<b>Clarity AI</b>	Climate-related metrics from Clarity AI are used as inputs to our ESG traffic light dashboards for third-party collective funds as well as direct equities and bonds. This informs our investment research and risk monitoring. Clarity AI is also our source of data for quantifying the impacts that physical and transition risks and opportunities have on the real economy and financial markets, and to estimate how these impact the total return of securities and portfolios (our quantitative scenario analysis exercise).
<b>ISS Proxy Exchange</b>	ISS Proxy Exchange is used for our voting activity. ISS provides recommendations based on our agreed policy. We then make our own decision based on this information.
<b>Ambra Research</b>	Ambra Research provide our direct corporate bond research team with due diligence information on issuers. This includes data on ESG factors, including climate-related metrics.

# Metrics and targets

In this section, we describe and report on metrics used to measure the impact that Brooks Macdonald Group has on the environment and to assess our exposure to climate-related risks and opportunities.

## Investment metrics and methodologies

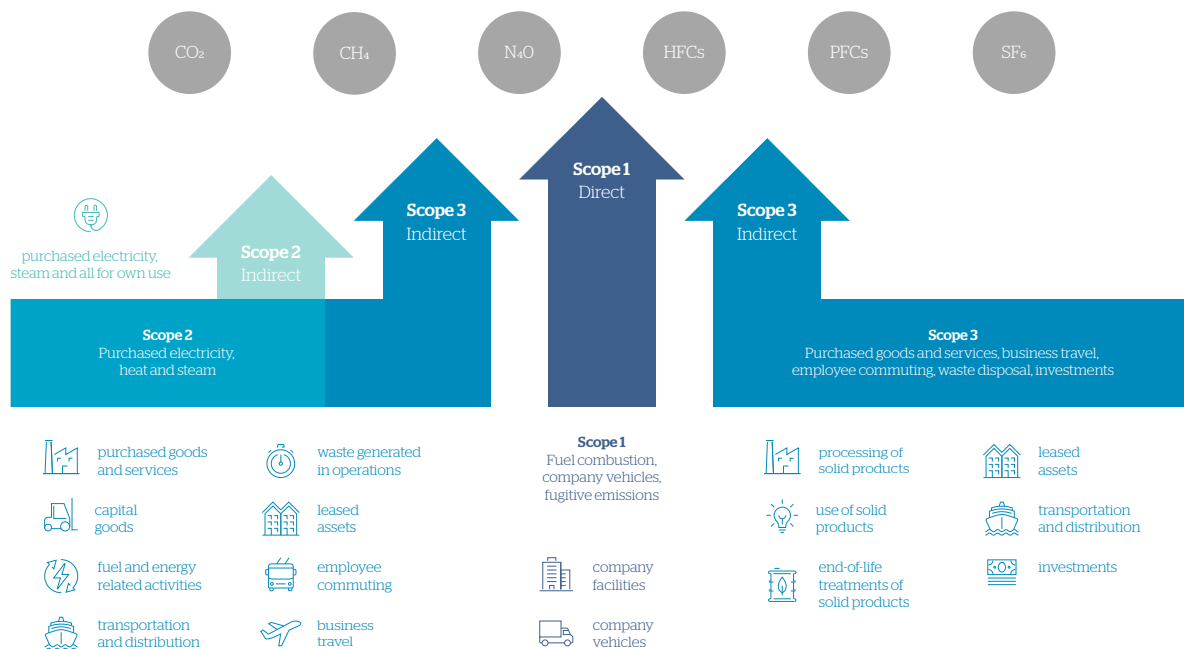
In accordance with the recommendations made by the TCFD, and in alignment with the PCAF standard<sup>10</sup>, we use the following core metrics to report on our financed Scope 3 category 15 GHG emissions, at a BM Group<sup>11</sup> and BMAM entity level<sup>12</sup>.

- › Weighted Average Carbon Intensity ("WACI")
- › Financed emissions
- › Financed emissions per \$M invested

We use the third-party data company Clarity AI to calculate these metrics and disclose them for Scopes 1 and 2, and Scope 3 separately. Only equities and corporate bonds are currently included in calculations and, where covered, contribute to BM Group and BMAM entity-level metrics<sup>13</sup>.

- › **Scope 1** emissions are direct greenhouse gas ("GHG") emissions generated from sources that are controlled or owned by an organisation.
- › **Scope 2** emissions are indirect GHG emissions primarily from electricity consumed by a company, but also includes the generation of purchased steam, heat, or cooling.
- › **Scope 3** emissions are all other indirect GHG emissions that occur in the value chain, both upstream and downstream, but are not directly controlled or owned by the organisation. Scope 3 emissions include all sources not within an organisations Scope 1 and 2 boundaries. Scope 3 emissions can include emissions from business travel, waste disposal and use of sold products.

## Overview of Scope 1, 2 and 3 emissions



<sup>10</sup> PCAF stands for Partnership for Carbon Accounting Financials (<https://carbonaccountingfinancials.com/standard>).

<sup>11</sup> All holdings' data used in this analysis has been compiled as at 30/06/2023. The data includes the following items, covering c. £16.22 billion of group-wide AUM. (a) Onshore & Offshore BPS (excluding execution-only/advisory-only accounts, including RIS/Decumulation/Court of Protection, where applicable); (b) Onshore & Offshore MPS Custody accounts (including RIS); (c) AIM Service; (d) Multi-Asset Funds (including MAF, Levitas, Brunson, DCF, CAM, Offshore funds); and (e) MPS Platform Holdings (including BMIS, RIS; and the core strategies). All holdings held on platforms have been estimated via apportioning the AUM in each model as at 30/06/2023 as per the weight of each asset in each model. Offshore MPS Platform holdings (c. £101m) have been excluded this time around due to data availability issues.

<sup>12</sup> All holdings' data used in this analysis has been compiled as at 30/06/2023. The data includes the following items, covering c. £14.25 billion of BM ex-Entity AUM. (a) Onshore BPS (excluding execution-only/advisory-only accounts, including RIS/Decumulation/Court of Protection, where applicable); (b) Onshore MPS Custody accounts (including RIS); (c) AIM Service; (d) Multi-Asset Funds (including MAF, Levitas, Brunson, DCF, CAM); and (e) MPS Platform Holdings (including BMIS, RIS, and the core strategies). All holdings held on platforms have been estimated via apportioning the AUM in each model as at 30/06/23 as per the weight of each asset in each model.

<sup>13</sup> Clarity AI has wide coverage and a robust AI-based methodology for estimating values where data is not reported by companies. Scope 3 emissions data availability is typically low and unreliable, with some companies making unrealistically low disclosures. Clarity AI applies a reliability algorithm to only provide reported Scope 3 data that passes quality criteria. If these quality thresholds cannot be met, Clarity AI's own estimates are used. Estimates are only used if they pass Clarity AI's reliability algorithm.

# Metrics and targets continued

## Weighted Average Carbon Intensity

Measures a portfolio's exposure to carbon intensive companies. This is determined by taking the carbon intensity of each company and weighting based on its holding size within the portfolio. As carbon intensive companies are more likely to be exposed to potential carbon policies, this metric can be a useful indicator of exposure to potential transition risks.

Methodology:

$$\sum_n^i \left( \frac{\text{current value of investment}_i}{\text{current portfolio value}} \right) \times \left( \frac{\text{issuer's GHG emissions}_i}{\text{issuer's revenue}_i} \right)$$

Limitations:

- › Sensitive to outliers
- › Revenue tends to 'favour' organisations with higher prices relative to their peers
- › Can only be used with listed equity and corporate bonds

## Financed emissions

Financed emissions are the total GHG emissions of a portfolio's investments.

Methodology:

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

Limitations:

- › Result changes can be due to changes to enterprise value from a year to another, which can lead to misinterpretations
- › Does not allow for comparability across portfolios due to its link to portfolio size

## Financed emissions per \$M invested

Measures a portfolio's GHG emissions normalised by its market value.

Methodology:

$$\frac{\sum_n^i \left( \frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's GHG emissions}_i \right)}{\text{current portfolio value (M USD)}}$$

Limitations:

- › Sensitive to changes in portfolio value
- › Does not consider the carbon efficiency of organisations

We have also engaged Clarity AI to help us measure and monitor additional climate-related metrics. These are:

- › Fossil-fuel exposure
- › Temperature alignment
- › Net zero alignment

Only equities and corporate bonds are considered in calculations.

## Fossil Fuel Exposure

This metric provides the proportion of the portfolio's value that is exposed to companies that derive revenues from fossil fuels such as coal, oil and natural gas. It includes the following fossil fuels: hard coal and lignite, liquid fossil fuels and gaseous fossil fuels. Companies that derive revenue from exploration, mining or extraction, refining or distribution activities are included. The exposure metric is calculated as the ratio of the sum of all outstanding amounts invested in companies exposed to fossil fuels over the portfolio's total value.

## Temperature Alignment

This metric allows us to understand whether the emissions associated with a portfolio are aligned with the goal of the Paris Agreement. It delivers a portfolio temperature alignment based on the temperature rise induced by the portfolio's constituent companies. The methodology takes into consideration:

- › Companies' temperature alignment as reported by the Science Based Targets initiative ("SBTi") and based on SBTi approval of companies' emissions reduction targets.
- › The global warming potential of companies based on their near-term reduction targets. This is on the basis of the targets approved by the SBTi and those reported to CDP.

Methodology:

$$\sum_n^i \left( \frac{\left( \frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's GHG emissions}_i \right)}{\left( \frac{\sum_n^i \text{current value of investment}_i}{\sum_n^i \text{issuer's EVIC}_i} \times \text{issuer's GHG emissions}_i \right)} \times \text{issuer's Temperature Rise value}_i \right)$$

## Net Zero Alignment

Security and portfolio alignment to net zero is assessed according to the criteria of the Net Zero Investment Framework ("NZIF"), using the Clarity AI Net Zero Alignment Solution. Each organisation is assessed on its:

1. Ambition - the existence of a long-term Net Zero Commitment by 2050
2. Targets - the temperature alignment of near-term targets
3. Emissions performance - the progress of achieved reductions compared to targets
4. Disclosure - reporting of Scopes 1,2 and 3 emissions
5. Decarbonisation strategy - the existence of a low-carbon transition plan

This results in a company being assigned one of five Alignment Maturity Levels: Achieving net zero, Aligned, Aligning, Committed to Aligning and Not Aligned. The Alignment Maturity Level metric is provided at portfolio level as a proportion of portfolio value per each level. This is determined as in the table shown, in line with the recommendations of NZIF.

## The Net Zero Alignment Maturity Levels and their corresponding criteria

Alignment maturity level	Criteria	Value expected for each alignment maturity level
<b>Achieving net zero</b>		Not assigned to any company*
<b>Aligned**</b>	Ambition	High impact companies: net zero commitment by 2050 or before Other companies: no requirement at this level
	Targets	Scope 1 and 2 short or medium-term target aligned with a 1.5°C pathway Scope 3 short or medium-term target aligned with 1.5-2°C (when Scope 3 option is toggled on and only for companies in sectors with material Scope 3)
	Emissions performance	Achieved emissions reductions on-track with target
	Disclosure	Company reports all material emissions
	Decarbonisation strategy	High impact companies: decarbonisation strategy is defined Other companies: no requirement at this level
	<b>Aligning**</b>	Targets
Disclosure		Company reports all material emissions
Decarbonisation strategy		High impact companies: decarbonisation strategy is defined Other companies: no requirement at this level
<b>Committed to Aligning</b>	Ambition	Company has a net zero commitment by 2050 or before
<b>Not Aligned</b>		Any other combination not complying with the above levels

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<sup>14</sup> \*Clarity AI has decided to take a conservative stance regarding the Achieving net zero level by not assigning it to any company. The below reasons supported the decision:

\*Net zero, as defined by the IPCC, is a global, humanity-wide objective to which companies, governments, and individuals need to contribute to maintain global warming at 1.5°C. It cannot be scientifically considered as a company-level objective.

› Net zero requires reducing GHG emissions by 90-95% without employing offsets. Clarity AI found no evidence of companies in their universe having already reduced their emissions by this level.

› Net zero also relies on neutralizing remaining unabatable emissions with emissions removals, such as Carbon Dioxide Removals ("CDR"). Emissions removals are currently excluded from the NZIF and from the Clarity AI product given the lack of measurement methodologies, accounting standards and reliable data.

\*\* For the "Aligned" and "Aligning" levels, Criteria 1 - Ambition and Criteria 5 - Decarbonisation Strategy are assessed only for high impact companies, which are companies complying with at least one of the three following criteria:

› Company is on the Climate Action 100+ focus list.

› Company belongs to high impact sectors consistent with Transition Pathway initiative Sectors.

› Company is a Bank or a Real Estate company.

# Metrics and targets continued

## 2022-2023 BM Group and BMAM Entity-level metrics

For the carbon footprinting metrics we disclose both for BM Group and BMAM. For the additional climate-related metrics, our disclosures are for BM Group only.

Alongside each metric, we include a coverage value. This represents the percentage of the total portfolio value that is captured in the metric. We expect that as company reporting improves, and that as more asset classes can be included, this may increase our emissions metrics over future reporting cycles.

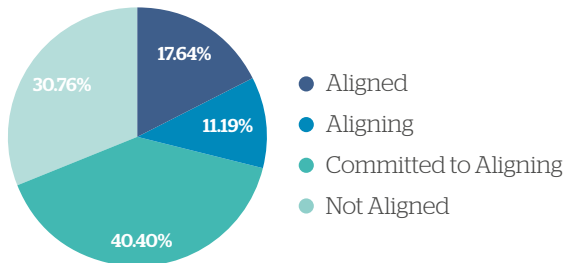
### Carbon footprinting metrics

	BMAM value	BMAM coverage	BM Group value	BM Group coverage
Financed emissions Scope 1 & 2 (tons CO <sub>2</sub> e)	678,979.90	71.08%	760,359.18	71.13%
Financed emissions Scope 3 (tons CO <sub>2</sub> e)	4,644,517.36	70.63%	5,214,304.52	70.68%
Financed emissions per \$M invested Scope 1 & 2 (tons CO <sub>2</sub> e/USD M invested)	52.53	71.08%	51.61	71.13%
Financed emissions per \$M invested Scope 3 (tons CO <sub>2</sub> e/USD M invested)	361.62	70.63%	356.22	70.68%
WACI Scope 1 & 2 (tons CO <sub>2</sub> e/USD M revenue)	112.12	71.63%	108.91	71.78%
WACI Scope 3 (tons CO <sub>2</sub> e/USD M revenue)	732.20	70.7%	719.68	70.74%

### Additional climate metrics

	BM Group value	BM Group coverage
Temperature alignment Scope 1 & 2	2.23°C	56.78%
Temperature alignment Scope 3	2.34°C	57.04%
Fossil fuel exposure	8.24%	91.32%

BM Group portfolio split by net zero alignment maturity level<sup>15</sup>



Tracking the development of these metrics year on year will help us to understand our exposures to climate-related risks and opportunities, and to develop our approach to net zero target-setting. We are mindful that, as the amount of assets in Brooks Macdonald's portfolios grow, and the quality of emissions reporting improves, it is likely that the financed emissions for BM Group and BMAM will increase also. In this case, it will be important to observe the rate at which emissions grow and consider how this might influence our investment decision making.

As outlined in the Risk management section of this report, we are incorporating these climate-related metrics into the ESG traffic light dashboards used in the investment research selection and review process, and developing equivalent ESG dashboards for models and portfolios. These can highlight where products are positioned compared to benchmarks and peer groups, enabling us to track the evolution of metrics over time.

### Operational metrics

In line with the recommendations of the TCFD and with reporting carried out in previous years, we also track and report, with the help of a third-party provider, the Scope 1, 2 and 3 emissions produced through Brooks Macdonald Group's operational activities. Outlined in the below emission data and referenced above in our operational strategy, our energy consumption in comparison with the previous financial year has decreased whilst our GHG emissions have reduced by c.7%. Our electricity consumption from renewable sources of power continues to represent a high proportion of our total electricity use.

Source of energy and emissions	Energy consumption (MWh)		GHG emissions (tCO <sub>2</sub> e)	
	2023	2022	2023	2022
<b>Measured Scope 1 emissions*</b>				
Combustion of natural gas	89.6	90.5	16.3	16.6
Combustion of biogas	22.1	-	-	-
<b>Scope 1 total</b>	<b>111.7</b>	90.5	<b>16.3</b>	16.6
<b>Measured Scope 2 emissions*</b>				
Generation of purchased electricity	508.5	556.0	98.3	118.1
<i>of which from renewable supplies</i>	484.6	534.3	-	-
<b>Scope 2 total</b>	<b>508.5</b>	556.0	<b>98.3</b>	118.1
<b>Measured Scope 3 emissions**</b>				
Combustion of fuel in staff vehicles (category 6)	261.8	239.2	65.5	58.8
<b>Scope 3 total</b>	<b>261.8</b>	239.2	<b>65.5</b>	58.8
<b>Gross total</b>	<b>882.0</b>	885.7	<b>180.1</b>	193.5
<b>Carbon offset projects</b>			<b>(7.0)</b>	(5.9)
<b>Renewable supplies</b>			<b>(93.7)</b>	(113.4)
<b>Net total</b>			<b>79.4</b>	74.2
Intensity per 1,000 m <sup>2</sup> gross floor area	200.2	185.4	18.0	15.5
Intensity per £m turnover	7.2	7.3	0.7	0.6

<sup>15</sup> 62.28% of total BM Group portfolio value covered.

\*The Scope 1 and 2 data shown above is measured through invoices provided by our energy suppliers with minor estimations made due to the availability of data from a small number of these suppliers.

\*\* Our Scope 3 data currently depicts the emissions produced as a result of fuel consumption in employee vehicles and as part of our strategy and improving procurement process, we are considering additional measures in order to capture and monitor data relating to further Scope 3 emissions in categories 3, 5 and 6. As discussed in the Strategy section of this report, these metrics will aid our efforts in developing a plan to achieve net zero in our operations by 2030.



# Glossary

ASCOR	Assessing Sovereign Climate-Related Opportunities and Risks Project
Asset	An investable security
Asset class	A collective term for a group of investable securities with similar characteristics
AUM	Assets Under Management. The aggregate value of assets managed on behalf of clients.
BMG	Brooks Macdonald Group
Board	Brooks Macdonald Group's Board of Directors
BPS	Bespoke Portfolio Service
Carbon Dioxide Removals ("CDR")	The process of capturing and storing carbon dioxide from the atmosphere to mitigate climate change
CFA	Chartered Financial Analyst
CIP	Central Investment Process
Climate change	Long-term alteration in global or regional climate patterns
CO <sub>2</sub> e	Stands for CO <sub>2</sub> equivalent, which is the number of metric tons of CO <sub>2</sub> emissions with the same global warming potential as one metric ton of another greenhouse gas
CSR	Corporate Social Responsibility
EEIO	Environmentally-Extended Input-Output Analysis Method
Engagement	Engagement involves dialogue and collaboration between investors or stakeholders and companies to encourage them to adopt more sustainable and responsible practices
EPC	Energy Performance Certificate
EPRA	The European Real Estate Association
ESG	Environmental, Social, and Governance
EVIC	Enterprise Value Including Cash
FCA	Financial Conduct Authority
GHG	Greenhouse Gas
GRESB	Global Real Estate Sustainability Benchmark
BREAM	Building Research Establishment Environmental Assessment Method
ICARA	The Internal Capital Adequacy and Risk Assessment process
IPCC	Intergovernmental Panel on Climate Change
LCA	Life Cycle Assessment
LTIP	Long-term incentive plans
MPS	Model Portfolio Service
MSCI	Morgan Stanley Capital International index series, which covers a broad range of global investable securities and is used over the world for diverse investment purposes
MSLE	Mean Squared Log Error
MI	Management Information. ESG MI is a set of data and metrics that organisation can use to track their exposure to ESG risks and track ESG performance
Net zero economy	An economy with no net greenhouse gas emissions
Net zero transition	The process of moving towards a net zero economy
NZIF	Net Zero Investment Framework
OECD	Organisation for Economic Co-operation and Development

Paris Agreement	International climate agreement to combat climate change
PCAF	The Partnership for Carbon Accounting Financials is an industry greenhouse gas accounting standard used by the Science Based Targets initiative, which provides asset class methods and data resources for the quantification of financed greenhouse gas emissions from loans and investments
Physical risk	The risks associated with long-term changes in the climate and with more extreme weather events, which may impact future business activities
Radiative Forcing	Radiative forcing is a measure of the combined effect of greenhouse gases, aerosols, and other factors that can influence climate to trap additional heat
REITs	Real Estate Investment Trusts
RIS	Responsible Investment Service
RCP	Representative Concentration Pathway, which is a framework for describing different possible future radiative forcing levels
sBPR	Sustainability Best Practice Recommendations
SBTi	The Science-Based Targets initiative, which defines and promotes best practice in science-based target setting. The SBTi independently assesses and approves companies' targets in line with its criteria
Scope 1 emissions	Direct emissions from company-owned sources
Scope 2 emissions	Indirect emissions from purchased electricity or energy
Scope 3 emissions	Other indirect emissions in a company's value chain
SMAPE	Symmetric Mean Absolute Percentage Error
SR1.5	Special Report on Global Warming of 1.5°C
SSP	Shared Socioeconomic Pathway, which is a framework for describing different possible future pathways of socioeconomic development
Stranded Assets	Assets that lose value or turn into liabilities before the end of their expected economic life
Sustainability Disclosure Requirements ("SDR")	Mandatory disclosure requirements related to sustainability in financial reporting
TCFD	Task Force on Climate-related Financial Disclosures
TCFD Product Reports	Product specific reports that align with the TCFD recommendations
TR	Temperature Rise
Transition risk	The risks stemming from changes in the economy that will be required to limit global temperature increases
UN PRI	United Nations Principles for Responsible Investment
WACI	Weighted Average Carbon Intensity, which measures a portfolio's exposure to carbon-intensive companies



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