



Climate-related Financial Disclosures Report 2022

VERITAS
INVESTMENT PARTNERS

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The Aim and Scope of this Report

This report aims to give our clients and other stakeholders a better understanding of how we consider climate-related risks and opportunities in our investment decisions, as well as our own resilience to climate risks. Sharing our journey so far on climate-related issues is a key part of our endeavour to go above and beyond.

The four pillars of the Task Force for 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 business, 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.

This report is in line with the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD), with particular regard to the Supplemental Guidance for the Financial Sector.

As stewards of our clients' capital, we believe in using our position to engage with and influence the companies in which we invest, encouraging them to monitor and disclose their emissions and develop robust strategies to move towards a more sustainable world. We also believe in leading by example and although our own carbon footprint is small, we have made significant efforts to reduce the climate impact we have.

Veritas Investment Partners - at a glance

WHO WE ARE

£5.8bn

in assets under
management (as at 31
December 2022)

EST.
1993

first retail fund
launched in 2018

100%

Independent and
employee-owned

60

employees, including a
22-person investment
team

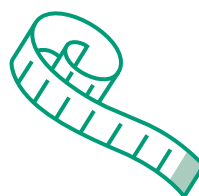
WE OFFER CLIENTS



An investment
approach aligned with
our clients' objectives
to grow the value of
their capital ahead of
inflation



Personal service – a
partnership approach
delivered directly with
our investment team

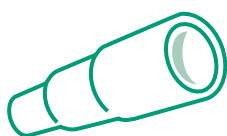


Tailored client service
and reporting

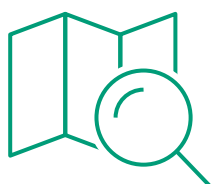


ESG-specific
information and
analysis

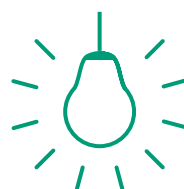
OUR INVESTMENTS



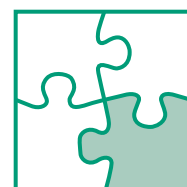
Long-term horizon
(over five years) to
align with the needs of
our clients



A transparent and
simple approach,
investing primarily in
global equities, to
provide a clear and
understandable
solution for clients



Conviction-led, global
best ideas investing



ESG fully integrated
in all investment
decisions

Introduction

from our Chief Executive Officer



On behalf of the Board and all of us at Veritas Investment Partners, I am delighted to present our first TCFD report. In it we share our thinking and work so far on this important issue. Along with this report, we have

introduced our first targets to cut our portfolio carbon footprint by 50% by 2030 from 2019 levels and to reach net zero by 2050. We are committed to consistent disclosure of our portfolios' climate considerations and to partnering with our clients and investee companies as we continue to learn and move forwards together towards a cleaner and more sustainable world.

We focus on a single objective – to protect and grow the value of our clients' capital ahead of inflation over the long term. The business is independently owned by our employees. With all members of the investment team being shareholders, this helps us to align business interests with our clients' objectives and the companies in whom we invest.

Our investment time horizon is long-term. As such, we believe that environmental, social and governance (ESG) issues can be risks and opportunities that may affect financial performance over that time frame. Analysis of these issues is therefore integrated into our overall investment analysis. As well as discussing strategic and financial issues with senior management of all our investee companies, we also engage on material ESG issues. Tackling climate change and adapting to the climate transition are included in these engagements.

We are publishing this report in advance of the regulatory timeframe for smaller asset managers, recognising that while we may have gaps today, we play an important role in the rewiring of the economy towards a lower carbon future. We look forward to deepening our expertise and sharing our progress and commitments going forwards.

Caroline Stokell

Climate change and our role

Science shows that climate change is a very real and human induced threat to our planet and way of life as we know it. We have already seen a rise in temperature of 1.1°C from the pre-industrial period and this is contributing to widespread disruption in every region of the world such as flooding, droughts, wildfires and extreme heat. These challenges threaten GDP growth, which is further impeded by a growing population and rising energy needs. The need for an orderly energy transition is becoming increasingly well-understood. However, the current trajectory shows that there is much work to be done to limit warming to 1.5°C. According to the International Energy Agency (IEA), global energy-related CO₂e emissions grew by 0.9% or 321 Mt¹ in 2022, reaching a new high of over 36.8 Gt². The slightly more positive news is that this growth was at least below world GDP growth of 3.2% meaning that we are improving carbon intensity again after the hiatus in improvement in 2021, although the improvement was still at a lower rate than the previous decade's annual average. Reductions in emissions on the scale and timeframe required remains a significant challenge and one that we believe all participants in the global economy (including ourselves as investment managers) need to advocate for, in order to enact real and sustainable change.

We invest in the listed equities of 25-40 high-quality businesses that are sustainably run. As stewards of our clients' capital and as long-term investors, we believe we have a duty to engage with our investee companies on material financial issues that may impact their holdings on our targeted holding timeframe of over 5 years. Climate change represents both opportunities and risks to companies. Companies that are well placed for this long-term structural shift are likely to see more demand for their goods and services. Conversely, companies that are not properly planning ahead may see costs rise as we have more regulation and carbon pricing schemes for example and this becomes a financial risk. We aim to engage and influence the companies we invest in to ensure they are most likely to be well placed for a low carbon future.

Since the Paris Agreement in 2015, we have been deepening our expertise in ESG and sustainability with particular regard to climate. We have been signatories to the UN PRI and investor signatories to the CDP since 2018. Since 2020, we have actively encouraged our investee companies to monitor and report their greenhouse gas (GHG) emissions and other material environmental data. We have been providing clients with ESG metrics including carbon intensity data on their individual portfolios since 2021. In 2022, this naturally progressed to joining the Net Zero Asset Managers initiative (NZAM), the relevant part of the Glasgow Financial Alliance for Net Zero. We also want to hear what is most important to our clients and reflect this in our engagement work. Climate change was one of the main topics of our survey and client roundtables in 2022. Just as we encourage our portfolio holdings to do, we also believe that it is important for us to disclose and monitor our own emissions and we have had our own emissions audited by Climate Impact Partners (previously Natural Capital Partners) since 2018.



¹ Megatonnes

² Gigatonnes

Our progress over the last 5 years

2022

Joined NZAM and IIGCC

First client roundtables on engagement issues including climate

2021

Provided clients with ESG metrics and carbon intensity data on their individual portfolios

2020

Encouraged all companies to broaden disclosure and align with disclosure frameworks

Took part in CDP's Non Disclosure Campaign for the first time

2019

Encouraged all investee companies to disclose carbon data

2018

Became PRI and CDP investor signatory

Started monitoring our own emissions

Governance

Our governance structure allows efficient and effective monitoring of investments, client outcomes, operations and compliance. As a small business that is 100% employee owned, the culture of the company is of paramount importance to us. We have a culture of openness and inclusivity, and we believe that having a diverse team is essential to the success of our business.

We believe in doing the right thing and doing things right. All staff review and sign our Code of Conduct document on an annual basis. This is spear-headed by our Chief Executive Officer and draws together the main points from all our conduct and compliance policies to promote high standards of conduct throughout the business.

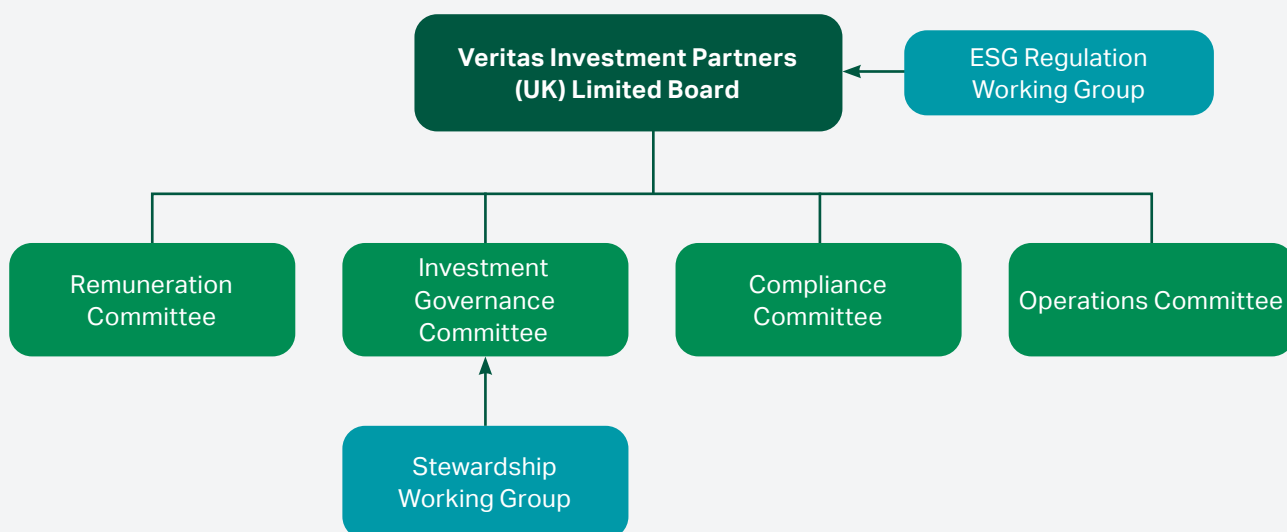
Governance structure of climate-related risks and opportunities

The Board is made up of four directors, led by Mark Rayward, the Executive Chair, and consists of the Chief Executive Officer, Chief Investment Officer and Chief Operations and Technology Officer. The Compliance Officer/MLRO is an attendee. The

Board oversees the entire business, including strategy, resourcing and risk management. This includes the management of climate-related risks and opportunities. The Board delegates specific responsibilities to Board Committees and Working Groups (see chart below). Our governance structure will continue to adapt in accordance with the needs of the business.

Our overall investment process is overseen by the Investment Governance Committee, which is chaired by our Chief Investment Officer, Ross Ciesla. Sustainability is embedded into our research both into individual companies and our overarching structural growth trends that help us to choose where to focus our research (please see further details in the 'Strategy' section).

Structure chart of the relevant Committees and Working Groups of the Board



Forum	People	Description	2022 actions on climate
VIP (UK) Ltd Board	Chair: Mark Rayward (Exec Chair) Membership: 4 plus one permanent attendee (Compliance Officer/MLRO) Meetings: 4	Oversees strategy, resourcing, financial reporting, risk management and internal controls.	Standing item on Board agenda to cover ESG regulation and requirements and stewardship matters.
ESG Regulation Working Group	Chair: Sam Cotterell (Investment Partner) Membership: 4 Board members, Compliance Officer/MLRO Meetings: 2	Oversees the resourcing, policies and processes to manage sustainability related regulatory requirements. Oversees responses to proposed regulation. Monitors our own operational carbon footprint and our financed emissions.	Extra resourcing for ESG data (particularly climate-related). Reviewed and proposed being signatory to NZAM initiative.
Investment Governance Committee	Chair: Ross Ciesla (Chief Investment Officer) Membership: Senior investors, Compliance Officer/MLRO Meetings: 2	Oversees investment process including portfolio performance and outcomes (financial and ESG related), research, dealing and stewardship.	Analysed TCFD requirements with respect to portfolio positioning and progress so far. Reviewed formal policy for fixed income escalation for ESG risk reasons (including climate).
Stewardship Working Group	Chair: Philippa Bliss (Investment Analyst) Membership: Senior investors, CIO, CEO Meetings: 3	Oversees implementation of our stewardship strategy, policy and practices. Reviews policies and discusses best practices including those concerning climate change and disclosures around emissions.	Identified engagement priorities, which includes Net Zero as well as natural capital. Updated voting policies.
Compliance Committee	Chair: Alison Fawcett (Compliance Officer/MLRO) Membership: Exec Chair, Compliance managers, Chief Operations and Technology Officer and Operations leads Meetings: 4	Oversees compliance, risk, regulatory reporting and the regulatory timeline including ESG issues such as climate.	Oversight from a regulatory implementation perspective.
Operations Committee	Chair: Archana Mohan (Chief Operations and Technology Officer) Membership: Compliance Officer/MLRO, Exec Chair, Investment Partner, Operations leads Meetings: 4	Ensures we have the right systems, business processes and controls to mitigate exposure to operational risks. Reviews data providers and processes for client related ESG information.	Monitoring information from data providers and working with them on issues found.

Remuneration and Incentives

Our incentive policy focuses on aligning our long-term interests with those of our clients. A majority of the firm's employees, including all the investment team and senior staff are equity holders in the business. This facilitates an appropriate level of long-term incentive. All short-term incentives are discretionary and based on investment results

including stewardship work, teamwork, client service and compliance. We have neither sales targets nor targets for growth in assets under management for any staff member.

As part of our annual review process, all staff, including senior managers, discuss teamwork and their contribution to social and environmental issues to ensure responsible and ethical success for the business and for our clients.

Strategy

Veritas Investment Partners is an independent, discretionary investment management business. We have always focused on one single objective – to protect and grow the value of our clients' capital ahead of inflation over the long term. Incorporating climate change considerations is a fundamental part of our analysis, as we consider the risks to each business as well as opportunities that the energy transition and the move to a low carbon future can present.

As an active investment manager, we recognise that we have a fundamental role to play in the journey to a low carbon future and net zero. We believe that our highest impact will be to engage with and influence our investee companies. We also believe it is important to ensure our own business is aligned to net zero as quickly as possible. Therefore we commit to reporting on our progress for both our portfolios under management and our own operational performance.

We are signatories to or members of various organisations to help deliver our climate strategy.



Signatory of:





Climate Change and Investment Strategy

To achieve our goal of inflation plus returns for our clients, we invest in businesses with strong and predictable characteristics that are built to last. Full integration of ESG factors is essential to this focused, long-term approach. We have a responsibility to consider any factor that might impact the durability or value of our clients' investments. The opportunities and risks related to ESG are considerations in each investment we make as well as our decision to remain shareholders. We invest in companies who are both aware of and managing these risks and opportunities. Our rigorous, bottom-up investment process has always focused on companies with sustainable business models, durable cash flow generation and strong fundamental characteristics.

As detailed earlier in this report, climate change presents a significant risk to our economic health as well as physical health of both the human population and the biodiversity on earth, on which we all depend. As with all challenges, necessity is the mother of invention, and we are seeing significant investment into 'green' technologies from both governments and companies. A potential game changer was the announcement of the Inflation Reduction Act from the Biden Administration that includes \$370bn of government support. Other US bills such as the Bipartisan Infrastructure Law, Infrastructure Investment and Jobs Act and the CHIPS and Science Act are also strongly supportive of the energy transition. We are also seeing other countries, including the EU and the UK and importantly countries such as India and China, continuing their drive to increase policy and investment into these areas.

Companies that are well-placed to benefit from this transition and the focus on reducing energy usage, particularly fossil fuel usage, are therefore likely to grow regardless of the short-term macroeconomic backdrop. These opportunities are captured in our structural growth drivers that we use to help us find companies that are likely to benefit from a structural shift, providing a durable tailwind to growth for a decade or more. Central to the thinking behind **All Change: Wire and Rewire** is the belief that meeting the demands of an increasing global population will have to be done with the sustainability of our planet's resources in mind. Many of our portfolio companies either enable electrification and digitisation or help others monitor and reduce their negative environmental impact.

Company example



Infineon is a German semiconductor company and a leading supplier of power semiconductors for the automotive, industrial and chip card markets. Infineon is a key enabler of the structural shifts underway to change how we produce and consume energy, the cars we drive and the connectivity of everyday objects. They are the leading supplier of power semiconductors for electric vehicles, benefiting from the growth of multiple brands in this space. They are also used in half of current wind and solar capacity and two thirds of grid infrastructure, meaning they are a critical player in the transition to a low carbon world.

Regulation is another structural growth driver with respect to climate considerations. Approximately 23% of global GHG emissions in 2022 were covered by a carbon pricing policy (carbon tax or emissions trading system) according to the IEA. More regulators globally (including potentially the SEC³) are following the UK and Europe in making corporate disclosure mandatory for carbon emissions. In February 2023, the EU Emissions Trading Scheme carbon price hit €100 for the first time. This is the largest carbon market by traded value. Under the EU's Fit for 55 commitments, the EU agreed in December 2022 that this would be extended to other sectors and they would introduce a carbon border adjustment mechanism (CBAM) to price imported goods based on their embedded emissions. Companies that are not actively monitoring and reducing their emissions are therefore facing a real financial consequence.

While many of our portfolio holdings are not large emitters themselves, it is still important that they are actively looking to reduce emissions. However, the larger real economic impact is likely to occur when they help clients and suppliers reduce emissions in turn. **Many of our portfolio companies are actively helping their clients and/or their suppliers to understand the regulations and their exposures better. We believe that this 'ripple effect' will lead to significant positive momentum for sustainable change.**

Company example

ThermoFisher SCIENTIFIC

Thermo Fisher has a commitment to enable customers to make the world healthier, cleaner and safer. As well as selling to healthcare-related organisations, they also have products that monitor pollution, air quality and test batteries for example.

In December 2022, the company announced updated climate targets which included:

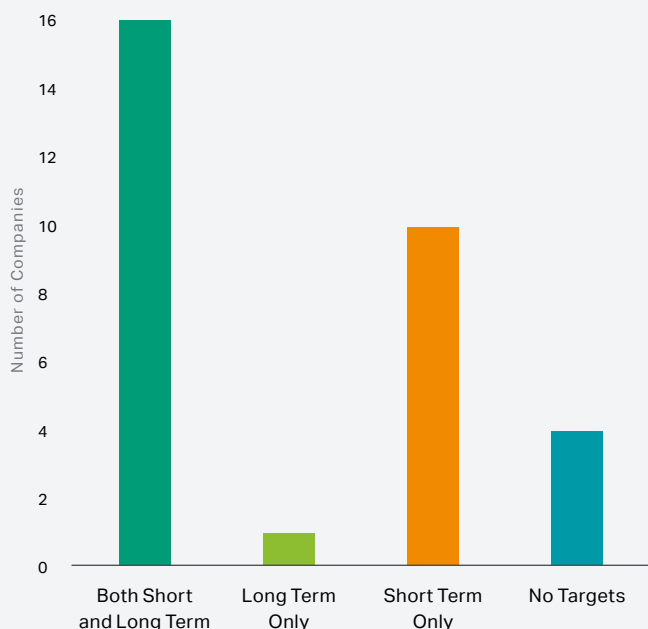
- Scope 1 & 2: 50% reduction by 2030 (previously 30%)
- Scope 3: 90% of suppliers by spend to set science-based targets by 2027
- Net Zero by 2050

In an engagement call with the company, it was clear that as well as committing to more disclosure of their own operational footprint and energy use, Thermo Fisher is working with its suppliers to understand which already have a sustainability strategy and which will need their support to implement one.

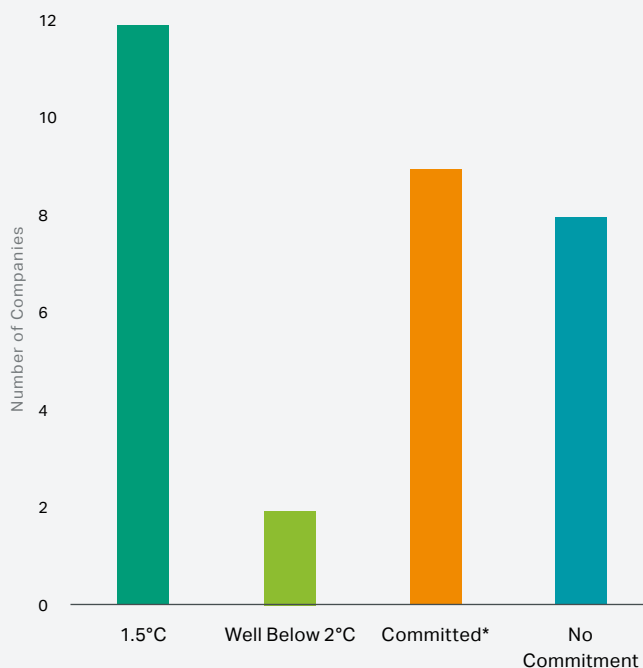
We assess all our companies' emissions and also consider whether they are particularly vulnerable to physical risks from climate change, such as flooding or water stress. Many of our investee companies are US-based and as such, have not yet been required to report their emissions or produce targets to reduce their emissions. However, given our focus on investing in quality businesses that are managed for the long term, the majority of our companies are already monitoring and reporting their emissions. Where companies are not yet providing environmental data, we are actively encouraging them to do so in our engagement work. We are pleased to note that the majority of our companies have both a shorter-term emissions reduction target as well as a net zero target. Many of these are science-based. We monitor our companies'

performance against these targets and in some cases have encouraged them to make their targets more ambitious. We are delighted to note that some portfolio companies have been able to increase the ambition of their targets during our holding period. An example of this is **DSM** who have consistently upgraded their Scope 1 and 2 emissions targets since first setting them in 2016. In 2022 they announced a 59% reduction in emissions target by 2030, aiming to source 100% of their electricity worldwide from renewable sources by then.

Emission reduction targets of the core equities held (December 2022)



Science Based Target initiative commitments of the core equities held (December 2022)



* Committed – companies have committed to set approved science based targets by SBTi within 2 years

Engagement and Voting

Engaging and voting at company meetings promotes best practice. Specific company stewardship activities are led by the primary analyst for each company, supported by members of the Stewardship Working Group and other members of the investment team. Our focused approach enables each primary analyst to gain an in-depth understanding of companies and to build a relationship with the Board, management and sustainability teams. In 2022, we held 145 meetings with company teams, voted on over 600 proposals and sent 25 letters with specific engagement suggestions. Many of these engagements included climate, as well as broader environmental issues, social issues and governance.

In reality, working in partnership with companies means being a critical friend at times and holding management to account, but also providing support and guidance when needed and celebrating progress. Our commitment to partnering with our companies means we always respond if they ask for our input. It was therefore encouraging to hear from the **Fiserv** team that our engagements had been helpful in shaping their work to date (see example) and while we celebrate the progress made so far, we know there is more work to be done.

Engagement example



Since we became shareholders in Fiserv in 2019, we have been encouraging the company to improve its disclosure of environmental (and social) metrics and a meeting with the Head of Sustainability this year highlighted just how much progress the company has made. It has completed a materiality assessment for ESG risks, aligned its sustainability reporting with international standards including GRI⁴ and SASB⁵ and submitted environmental data to the CDP's disclosure project for the first time. This is not the end of the road for our engagement, however. The company acknowledges further progress needs to be made: for example, management intends to set environmental targets this year.

We believe shareholder voting is an important way of communicating with companies and helps in our efforts to build long-term partnerships. As we aim to invest only in well-run companies which have strong management teams and governance structures, we typically expect to vote with board recommendations. But as in previous years, there have been cases this year when we felt it necessary to vote against certain management proposals and for some shareholder proposals. One such case in 2022 was **Alphabet** where we voted in favour of Shareholder Proposals that requested reports on issues such as Climate Lobbying, Physical Risks of Climate Change and a Report on Metrics and Efforts to Reduce Water Related Risk.

⁴ Global Reporting Initiative, <https://www.globalreporting.org/>

⁵ Sustainability Accounting Standards Board, <https://www.sasb.org/>

Advocacy & Collaboration

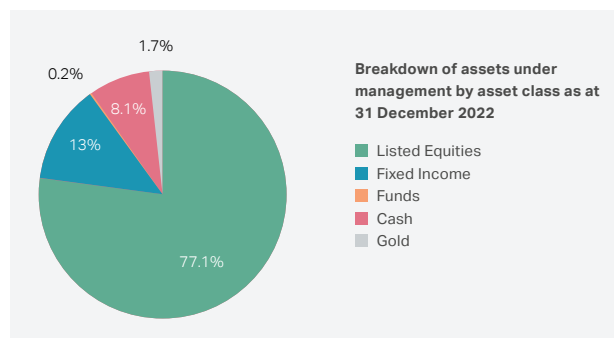
We believe in fostering strong relationships with our investee companies and therefore often prefer to have one-to-one dialogue with them. However, we also recognise that, where appropriate, joining with others is likely to have a more significant impact and we believe this is particularly true when engaging on regulation and with governments. For the second year running, we have signed the Global Investor Statement to Governments on Climate Change delivered to global leaders to encourage clear policy frameworks that encourage capital flows into urgent climate action. Similarly, we have responded to FCA discussion and consultation papers, either directly or contributed to peer organisation responses.

As mentioned above, for those few companies that do not already monitor and report their carbon emissions, we actively encourage them to do so in our engagements. We also believe that companies contributing to carefully selected datasets can help build knowledge and share information to move towards a more sustainable economy. For this reason, we also took part in the CDP's Non-Disclosure campaign by co-signing letters to the small number of our holdings that do not respond to the CDP's disclosure requests. We were pleased to note that one of our investee companies, **Kuehne & Nagel**, has since disclosed data to the CDP. We will continue to work with the remaining three companies in our equity portfolios who do not make submissions.

Asset class considerations

We invest in public global equity markets, high-quality sovereign and listed corporate debt, cash and potentially gold investments. We do not invest in private markets (equity or debt) and we do not invest in infrastructure or other alternatives. Third-party funds are also not part of our core offering although we do utilise funds for specialist investment exposure, such as a cash fund or gold price exposure.

All equity holdings are subject to the rigorous analysis detailed previously in this report.



Fixed income makes up for 13% of our assets under management. Of this, 51% are corporate bond holdings, 25% are sovereign (predominantly UK and US) and 22% are supranational debt with 2% in fixed income funds. Approximately 20% of our fixed income holdings are covered by our equity analysts where companies are either already invested in or monitored. Any engagements with these companies cover both our equity and bond holdings. For the remaining corporate bond holdings, alongside our own sector knowledge, we use data from a variety of providers to ensure that we understand the material environmental (and social and governance) risk factors. These providers include Moodys ESG (formerly VE), Sustainalytics and the CDP database.

We intend to use recommendations from PCAF⁶ and the IIGCC⁷ among others to increase our asset class coverage for our climate strategy as these develop.

⁶ Partnership for Carbon Accounting Financials

⁷ Institutional Investor Group for Climate Change

Climate change and our own business strategy

We believe that although our own impact is small, we still need to move towards a net zero goal as quickly as possible. We have been monitoring our own emissions and working to reduce them since 2018. We use 100% renewable electricity in our offices. We also use local, independent and fair-trade suppliers wherever possible which results in a lower carbon footprint. We are focused on further reducing our remaining emissions, which are largely Scope 3 and in areas such as business travel and employee commuting. Having reduced what we can, we offset our remaining emissions (using high-quality third-party verified offsets), and have been certified as a CarbonNeutral® company since 2018. Since 2020 we have double-offset our remaining emissions, meaning we pay to avoid or remove twice as much CO₂ as our own residual carbon footprint.



Risk Management

The Board has overall responsibility for risk management, the supporting system of internal controls and for reviewing their effectiveness. We operate an approach of continuous identification and review of business risks. This includes monitoring of key risks, identification of emerging risks and consideration of risk mitigations after taking into account risk appetite. The Board uses this information to consider the impact of how these risks may affect the achievement of our business objectives. Three primary sub-committees report up to the Board, including the Investment Governance Committee which has responsibility for climate-related risks in investment portfolios.

Investment risks

Risk management is central to everything we do. We manage investment risks in this context by the way in which we invest for clients, including our focused approach to the securities that we include in our universe.

Protect and Grow

Our focus is on protecting and growing the capital of our clients over a long-term view over and above inflation. We aim to invest in a focused number of businesses for a 5 year or longer time period. This means that we invest in high-quality businesses that are sustainably run and where we see strong company characteristics. We must therefore consider all factors that may impact the asset values of our clients' portfolios such as balance sheets, management strength, competitive positioning, pricing power, growth prospects as well as sustainability issues. Environmental issues can provide both risks and opportunities to companies and we believe these all need to be factored into analysis alongside traditional financial and strategic analysis.

Our focus on companies that can persistently grow, generate free cash flow and demonstrate strong returns on investment naturally precludes us from investing in carbon-intensive sectors such as oil and gas companies, heavy industrials or mining companies. Many of these companies are heavily dependent on a commodity price and / or are more cyclical and therefore do not comply with our investment philosophy. There are, therefore, fewer companies in our portfolios that have large emissions in their own operations than equity indices for example. This does not mean that we

are complacent, as we believe all companies have a duty to reduce emissions in their own operations and actively participate in the decarbonisation of the real economy through encouraging and enabling their supply chain and customers to do the same. The Scope 1 and 2 carbon intensity of our core strategies is therefore considerably lower (85-90%) than the MSCI AC World Index (as measured by Morningstar) which is a combination of sector exposure and investing in better performing companies than their industry peers within other sectors.

Focused securities universe

The 22 people in our investment team are focused on a small number of companies (approx. 40-50). This means that the primary analysts (supported by the rest of the investment team) have the ability to get to know each of the companies they follow extremely well. Our view is that risk is better managed by having conviction ideas and knowing a small number of companies in detail rather than holding higher numbers of less conviction ideas purely for the sake of diversification. This also applies to our companies' climate strategies.

We use broker research, industry experts and various datasets to analyse and understand our investee companies. Our favoured source of information is undoubtedly from the companies themselves and we aim to speak with all our portfolio companies directly about any material factors that may affect their asset value. The ability to get to know senior management (and increasingly the leaders in sustainability at various companies), means that we can understand their history, progress on their net zero journey and can tailor our approach accordingly. Given that

we invest globally, this allows us to understand each company in the context of their regulatory environment, as well as knowing when companies are 'doing the right thing' without imposing requirements when they are not required. We do, however, strongly encourage all our companies to track and reduce their emissions preferably against a science-based target.

Our research analysis focuses not only on what a company does but also how it does it. We believe that the best long-term investments will be in companies that have a clear emphasis on environmental sustainability and the rights of all stakeholders alongside strong financial characteristics. Regulatory changes, as well as consumer perception, are driving companies to be more aware and perform better in both climate and other environmental areas such as biodiversity. Investors are also increasingly putting climate higher up the agenda with company management, with the demand for change strengthened by regulatory changes. We spend time assessing the quality of the management team, the Board and the culture of the company to ensure that each company we invest in is prioritising the material risk factors that matter to them. We therefore expect to continue to invest in companies that are the leaders in these areas.

Building our expertise in climate

Climate research, along with other sustainability topics, is developing quickly and we seek to constantly improve our research and develop our thinking. We seek out ideas and best practice from industry groups and experts. We are investor signatories of the UN PRI, CDP, Net Zero Asset Managers initiative, IIGCC and are proud to be signatories to the UK Stewardship Code for the second year running in 2022.

During 2022, the investment team had a training session with sustainability specialists to improve our capabilities to assess company net-zero targets. This is a key engagement area for us. The session highlighted the challenge of sector, country and company specific issues and the need to engage with our investee companies for the long term. We gained useful insights to inform our engagements with companies including SBTi targets, challenges of measuring and monitoring Scope 3 emissions, offsetting and insetting as well as some red flags to watch out for in company net-zero targets.

We have also attended various individual or group sessions on topics relevant to climate and the energy transition. These have been with a mixture of our brokers, industry associations such as the Investment Association or PIMFA (Personal Investment Management and Financial Advice

Association) and global leaders in responsible investment and sustainability frameworks such as the PRI, SBTi and CDP.

Example

Changing regulatory landscape in the US

Given the pace of change in regulation around the world, this is an area where we often seek external guidance and training to ensure we stay up-to-date with the latest developments. To that end, we had a session with a Washington-based sustainable and environmental policy expert during the last year.

Many of our investee companies are based in the US so developments in this market are particularly important to us. As a result of the session, the team is more aware of the process and timeline of the various SEC rules on climate and broader ESG disclosures. We also understand more about the politicisation of ESG in the US and the real-world impact this may have. We also discussed the significance of the Inflation Reduction Act (IRA) and its importance in supporting new technologies and manufacturing capabilities for the energy transition.

Example

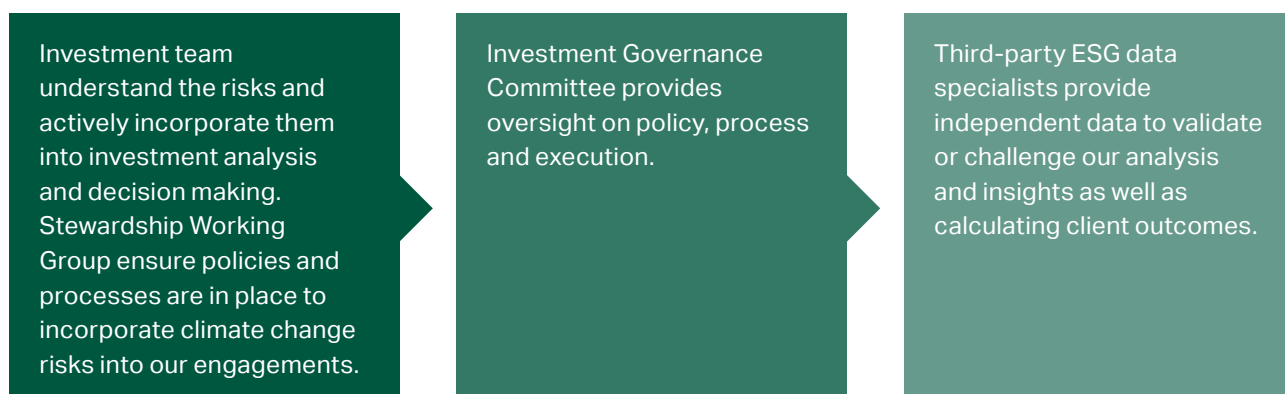
PRI In Person Conference in Barcelona

Two members of the investment team attended this conference in December 2022. As signatories to the PRI, we wanted to use this opportunity to hear more about current best practice in ESG integration and stewardship, and the sessions included climate reporting and net zero targets. It was particularly interesting to hear a more global view of these issues from investors and asset owners in different regions, given that we invest in companies on a global basis.

Internal communications

Sharing information across the team is an important element of our collaborative approach to investment. Information from meetings is shared in our daily morning meetings or in more detail in our weekly team meetings or specific sessions on a topic. Meeting notes are available to all team members on FactSet, allowing investment managers access to relevant information in one place. We also have an internal database which collates information on companies held in our portfolios with various data points relevant to climate change as well as other ESG related information. Information includes data from third-party ESG research providers such as Morningstar/Sustainalytics and Bloomberg as well as from the CDP, SBTi and information directly from the companies themselves.

Risk framework (Climate Change and Investments)



Our own activities

While our own emissions are very small (<1%) in comparison to our financed emissions from our portfolio holdings, we still believe that we need to reduce our own emissions just as we require our portfolio holdings to do so. We are a UK-based business, and the UK has a Net Zero target for 2050 with a target of 78% reduction in emissions by 2035 from 1990 levels.

All employees have had training sessions to inform them of the importance of climate change and our role as a business in tackling the issue and building a more sustainable future. Each year, our Office Manager presents to the various teams on our own carbon footprint, highlighting our progress and areas where we can improve. We also talk about changes we can all make encouraging suggestions from the broader team. We have run sessions to ensure the whole team are aware of best practices for recycling in order to reduce our Scope 3 waste emissions.

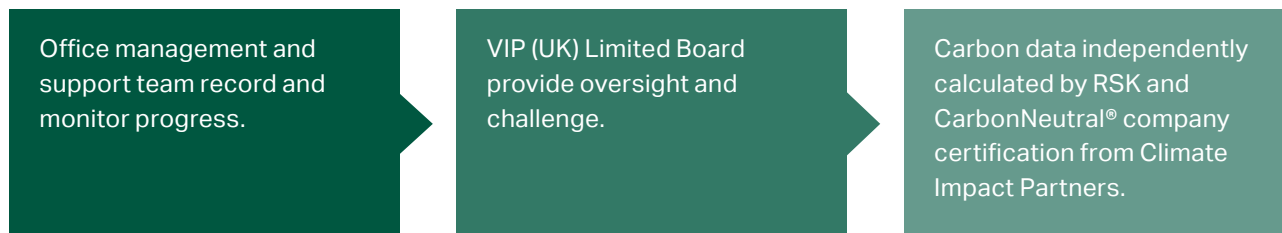
We have been monitoring our emissions from our business practices since 2018. This includes our Scope 3 (non-financed) emissions such as business travel, staff commuting, homeworking, printing, waste and water. We also monitor our suppliers to ensure that they also have strong commitments to environmental targets. We have significantly reduced printing and continue to focus on waste reduction. We are also very focused on improving

the quality of our data to make sure we are capturing as much primary data as possible to measure more accurately. Business travel has increased in 2022 from the pandemic-induced reductions of 2020 and 2021. While we do believe that travel is necessary in terms of visiting our clients and investee companies and having in-person meetings, we are increasingly conscious of when this is required and when a video call would be just as worthwhile. Our carbon data including Scope 1, 2 and 3 emissions (except for financed emissions) is independently calculated by RSK.

While we aim to reduce carbon emission as much as possible, we double offset any remaining emissions. Employees are involved in choosing high-quality carbon offset projects which are verified and monitored by Verra and the Gold Standard. As a result, we achieved CarbonNeutral® company certification from Climate Impact Partners, in line with the CarbonNeutral protocol, the leading global framework for carbon neutrality.

We also assess our own risks from physical risks from climate change such as extreme weather events and flooding. While we believe the risk is low, we ensure we have the right systems and business processes and controls in place to mitigate any exposure to physical risks.

Risk framework (Our own business)



Metrics and Targets

Our investment related emissions

Methodology

In line with the TCFD recommendations for Scope 3 Category 15 emissions (i.e. the emissions from the assets in portfolios we manage), we are reporting the following emissions: Financed emissions (Scope 1 + Scope 2 and Scope 3 separately), carbon footprint (also called 'financed emissions intensity'), and weighted average carbon intensity ('WACI').

The calculations for each of these that we have used is as follows:

$$\text{Total carbon emissions} = \sum_i^n \left(\frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)$$

$$\text{Carbon footprint} = \frac{\sum_i^n \left(\frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)}{\text{current portfolio value (\$M)}}$$

$$\text{Weighted average carbon intensity} = \sum_i^n \left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i} \right)$$



There are positives and negatives for each of these measures which is why we intend to report against all three.

	Description	Positives	Negatives
Total Carbon emissions	Absolute GHG emissions associated with assets under management	<ul style="list-style-type: none"> • Assigns absolute amount of emissions consistent with the GHG Protocol and PCAF • Can track changes in emissions within portfolios • Allows for attribution of emissions within investments 	<ul style="list-style-type: none"> • Comparisons between portfolios or providers are difficult due to portfolio size importance • Change in amount of assets managed may mask underlying changes in the emissions • Changes in underlying companies enterprise values can be misinterpreted
Carbon footprint (or financed emissions intensity)	Emissions are allocated based on % of company owned and normalised for value of total assets	<ul style="list-style-type: none"> • Allows for comparison across different portfolios • Focuses investors on the higher emitting companies rather than on largest holdings • Directly attributes emissions per \$m invested. 	<ul style="list-style-type: none"> • Changes in underlying companies market values can be misinterpreted • Sensitive to changes in portfolio value
Weighted Average Carbon Intensity (WACI)	Emissions are allocated based on portfolio % weights	<ul style="list-style-type: none"> • Allows for comparison across different portfolios, including different asset classes • Enables comparison across companies in portfolios of different sizes • More easily understood by asset owners • Does not penalise companies for growth 	<ul style="list-style-type: none"> • Skews to companies held with highest weightings which may not be reflective of emissions profile overall • Tends to favour higher price point companies • Can only be used for listed equities and corporate bonds

Our focus at this stage of our development is on our portfolio holdings' Scope 1 and 2 emissions. This is due to the complexities of assessing Scope 3 emissions meaning that many of our portfolio companies are beginning to track these emissions now rather than having reliable data over the last few years. Many of our portfolio companies are also based in jurisdictions where reporting is not yet a regulatory requirement, particularly for Scope 3. We do, however, include our Scope 3 emissions (on a best-efforts basis) in this report for completeness. Some of the Scope 3 emissions included are based on estimates by third-party data providers. We are following PCAF methodology for listed equities and corporate bonds.

While we are tracking emissions from all portfolios managed, we are currently focusing on our Funds and portfolios in our composite strategies for our portfolio level targets, where there are fewer third-party funds and restricted historical holdings. The AUM of portfolios included therefore accounts for **83%** of our total AUM. Within these portfolios, we are focusing on our equities and corporate fixed income where the methodology is more developed. Cash and gold are currently considered to have zero carbon emissions by PCAF and we have not included these asset classes in our calculations as this would reduce the carbon intensity metrics shown. Sovereign and supranational debt target setting methodology is still under development. This means that overall we are considering **69%** of our total AUM in our target setting at this time.

Where our targets are focused, as a proportion of our total AUM

		Discretionary		
		Composite + Funds 83%	Constrained 17%	<1%
Asset Type	Corporate Equities	Our Targets (69%)		Non Discretionary
	Corporate Bonds			
	Sovereign Bonds			
	Supranationals Bonds			
	Investment Funds			
	Cash Equivalents			
	Cash			
	Gold			

Arrows denote intention to increase our scope of AUM

Numbers will not necessarily add to 100% due to rounding

While we are tracking and disclosing total emissions, we are concentrating on targeting a reduction in emissions intensity given the significant growth in assets under management over the past few years. As the following table shows we have reduced the carbon footprint from 14.7tCO₂e/\$m to 9.4tCO₂e/\$m from 2019 to 2022.

We are also showing the reduction in Weighted Average Carbon Intensity (WACI) which is a measure we have been reporting to our clients for their individual portfolios since 2021. This shows a reduction in intensity from 49.1tCO₂e/\$m to 19.8tCO₂e/\$m.

In-Scope Emissions 2019-2022

Intensity metrics

Intensity*	2019	2020	2021	2022	Reduction from 2019
Carbon footprint [tCO ₂ e/\$m invested]	14.7	8.3	6.0	9.4	36%
Weighted Average Carbon Intensity [tCO ₂ e/\$m revenue]	49.1	30.0	23.6	19.8	60%

Absolute emissions

Carbon Emissions* [tCO ₂ e]	2019	2020	2021	2022
Corporate Stocks and Bonds [S1+S2]	40,726	32,123	32,805	45,090
Corporate Stocks and Bonds [S3]	282,419	435,827	553,743	806,607

Included AUM [£m]	2019	2020	2021	2022
Corporate Stocks and Bonds	2,085	2,832	4,045	3,989

* Emissions data per company is from Bloomberg and calculations are as per above equations.

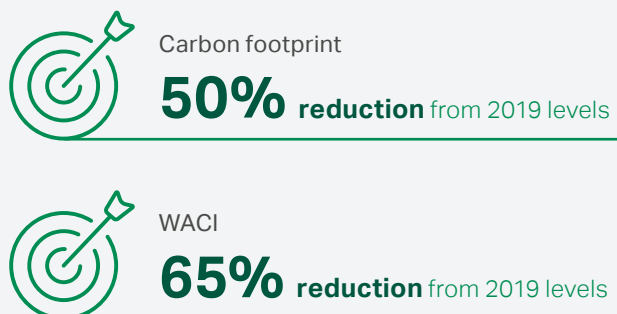
Overall, we are very pleased with our emissions reductions to date, which are driven by investing in high-quality companies exposed to structural growth drivers rather than divestment for carbon emissions reasons. The numbers in the tables above highlight both the positives and negatives of each of these metrics, particularly evident in 2022. This is apparent from the divergence in progression between the carbon footprint metric (which went up from 2021 to 2022) and the weighted average carbon intensity (WACI) (which continued to go down). Despite both bond and equity markets giving negative performance in 2022 and our portfolio performance also being negative during the year,

many of our companies continued to grow their revenues. Given that carbon footprint includes enterprise value in its calculation, whereas WACI is related to each company's revenue, this contributed to the difference. Additionally, an investment in DSM, led to an increase in carbon footprint. DSM is on the right path to reducing emissions, however its small market capitalisation alongside its core business as a manufacturer means we took on a greater share of its emissions relative to larger companies with similar weightings in our portfolios.

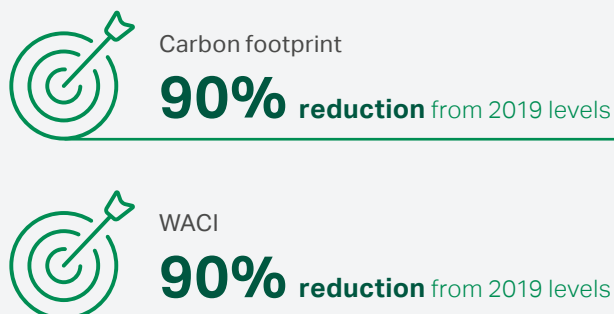
Targets for our portfolio emissions

We have set both 2030 and 2050 emission reduction targets focused on emissions intensity (Scope 1 and 2). Given the progress to date, we expect further progress to be at a slower pace and also non-linear.

2030



2050



We will update our targets in 2025 and aim to increase our Scope of AUM covered through both additional portfolios coming into scope and also potentially more asset classes depending on industry progress. We intend to report Scope 3 but we expect these numbers to increase in the short term given the development in companies' ability to more effectively measure their Scope 3 emissions including further categories of emissions which may not be included to date.

We will also continue our development in climate reporting and aim to be able to consider other metrics such as implied temperature scores for both our in-scope AUM and individual portfolios.

Further notes on data used

- While consistency of data sources is desired, our Morningstar subscription does not offer us historical greenhouse gas emissions, hence our usage of Bloomberg GHG data.
- The Bloomberg waterfall fields prioritize market-based Scope 2 emissions over location-based Scope 2 emissions. We agree with this logic and flow of prioritisation as we believe using market-based Scope 2 emissions incentives our investee companies into starting the switch to renewable energy and getting rewarded when such shift is performed.
- Many companies report sustainability data from the previous year several months after the end of the year. Where a company has reported their 2022 sustainability data (including emissions data), we have used this data. If they have not yet reported carbon data, we use Bloomberg estimated data. This may mean that the carbon emissions for 2022 will need to be restated in next year's TCFD report. Although not ideal, this is in line with PCAF and NZAM guidance.

Total AUM Emissions 2019-2022

This includes all portfolios where we have a discretionary mandate. As per diagram previously (page 21), currently only equities and corporate bonds are being included at this time. Although not included in our targets at this time, for transparency we are including these datapoints.

Intensity metrics

Intensity	2019	2020	2021	2022	Reduction from 2019
Carbon footprint [tCO ₂ e/\$m invested]	27.7	17.8	12.4	14.6	47%
Weighted Average Carbon Intensity [tCO ₂ e/\$m revenue]	90.0	61.3	46.3	54.3	40%

Absolute emissions

Financed Emissions [tCO ₂ e]	2019	2020	2021	2022
Corporate Stocks and Bonds [S1+S2]	54,338	46,049	44,048	56,120
Corporate Stocks and Bonds [S3]	373,183	538,667	671,422	961,034

Included AUM [£m]	2019	2020	2021	2022
Corporate Stocks and Bonds	2,602	3,532	4,830	4,627

Our own company emissions

Scope 1 and 2 and non-financed Scope 3 emissions

	2019	2020	2021	2022
Scope 1 [tCO ₂ e]	15.5	23.2	5.5	2.4
Scope 2 (MB*) [tCO ₂ e]	0	0	0	0
Scope 3 [tCO ₂ e]	121.6	50.2	46.8	63.5
Scope 3 per FTE**	2.51	0.99	0.87	1.19

* market based emissions methodology used

** Scope 3 non-financed emissions per full time employee (FTE)

Given the impact from COVID-19 and some expected improvements in reporting from the office building management team, we expect the Scope 1 and 2 emissions to slightly increase in the next few years. The major reduction seen has been from closing one office (in Zurich).

2030



Scope 1 and 2 absolute emissions

85% reduction from 2019 levels



Scope 3 emissions per full time employee

50% reduction from 2019 levels

2050



Scope 1 and 2 absolute emissions

90% reduction from 2019 levels



Scope 3 emissions per full time employee

90% reduction from 2019 levels

We would highlight that during the pandemic, our business travel (which was a significant portion of our own Scope 3 emissions) was severely curtailed. As we go back to visiting clients and our investee companies in person, we therefore expect our Scope 3 emissions to increase in 2023 and 2024 before beginning to reduce again.

Glossary

- **Active ownership:** The management of investments based on active decision-making rather than replicating an index.
- **Assets under management (AUM):** Aggregate value of client assets managed from which we earn operating revenue.
- **Carbon footprint:** Emissions are allocated based on % of company owned and normalised for value of total assets. Also called financed emissions intensity.
- **Carbon Offset:** The practice of balancing out internal emissions by supporting emission reduction projects which reduce the equivalent amount of CO₂.
- **CO₂e / Carbon dioxide equivalent:** Includes all greenhouse gas emissions (not just carbon dioxide) in a standardised unit to allow comparisons.
- **Carbon offsets:** Third party carbon negative activities that can be funded to compensate for carbon emissions.
- **CDP:** Formerly the Carbon Disclosure Project, runs a global disclosure systems to manage environmental impacts which now includes emissions, forests and water.
- **Climate Impact Partners:** Specialist in carbon market solutions for climate action. Issues our CarbonNeutral® certification and helps us offset our emissions through high-quality carbon-financed projects.
- **EVIC:** Enterprise value including cash.
- **Financed emissions:** Absolute GHG emissions associated with assets under management.
- **Financed emissions intensity:** Emissions are allocated based on % of company owned and normalised for value of total assets. Also called carbon footprint.
- **FTE:** Full time employee equivalent.
- **GHG Protocol:** GHG Protocol establishes comprehensive global standardised frameworks to measure and manage greenhouse gas (GHG) emissions from private and public sector operations, value chains and mitigation actions
- **Greenhouse gases (GHGs):** A gas that absorbs and emits radiation in the atmosphere contributing to the greenhouse effect. There are seven gases included: carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆) and nitrogen trifluoride (NF₃).
- **IEA:** International Energy Agency.
- **IIGCC:** Institutional Investor Group on Climate Change, the European industry body for investor collaboration on climate change.
- **Net Zero Asset Managers initiative (NZAM):** The relevant part of the Glasgow Financial Alliance for Net Zero.
- **PCAF:** Partnership for Carbon Accounting Financials, an industry led body that develops and implements a harmonised approach to assess and disclose greenhouse gas emissions associated with financial investments.
- **RSK:** Environmental consultancy, partner of Climate Impact Partners, who analyse our data to calculate and verify our carbon emissions.
- **SBTi:** The Science Based Targets initiative is a partnership between the CDP, United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature. They enable organisations to set ambitious science-based emissions reduction targets.
- **Scope 1:** Emissions are direct emissions from owned or controlled sources.
- **Scope 2:** Emissions are indirect emissions from the generation of purchased energy.
- **Scope 3:** Emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. There are 15 sub-categories within Scope 3 emissions of which Financed Emissions (Investments) are one. Other categories include purchased goods and services, transportation and distribution, business travel and use of sold products for example.
- **WACI:** Weighted average carbon intensity which is a measure that can be used to compare portfolio emissions and where company emissions are allocated based on portfolio % weights.

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