

Reigniting growth

Task Force on Climate-related Financial
Disclosures (“TCFD”) Report 2024

TCFD report

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“

Our commitment to transparency and sustainable practices has never been more crucial.”

Andrew Shepherd
CEO

CEO introduction

As we navigate an era marked by significant environmental challenges, our commitment to transparency and sustainable practices has never been more crucial. The Task Force on Climate-related Financial Disclosures (“TCFD”) provides us with an invaluable framework to assess and communicate our climate risk and opportunities, ensuring we remain accountable to our colleagues, investors and the broader community.

At Brooks Macdonald, we understand the weight of our responsibilities. As responsible stewards of capital, we believe that integrating climate risks and opportunities into how we invest and operate is key to creating long-term sustainable value for our stakeholders and is firmly aligned with our purpose of realising financial ambitions and securing financial futures.

To advance our ESG agenda, we have established the ESG Advisory Committee (“ESGAC”), comprising of senior business representatives from across the Group. Historically, ESG values have been integrated into our centralised investment processes and across all areas of the business. However, until the establishment of the ESGAC, these efforts had not been consolidated. We are taking the opportunity to refine the strategic framework for our implementation of ESG across the firm, including all corporate functions, led by the ESGAC.

This report highlights all the actions we have taken to integrate climate considerations into our business strategy, governance and risk management processes.

As an industry, our approach to understanding and addressing the implications of climate change is one of continuous evolution, learning and improvement. The Group is dedicated to collaborating with industry peers, learning from and with them, as we develop our response to this complex issue. We are expanding our climate expertise, data and analysis capabilities, and anticipate our approach will be shaped by developments in climate science, disclosure standards, data quality and industry standards.

Thank you for your ongoing support and trust in our strategy. Together, we can navigate these challenges and emerge stronger, more resilient and more sustainable.

Andrew Shepherd
CEO

About Brooks Macdonald

Brooks Macdonald Group 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 regulated OEICs providing a range of risk-managed multi-asset funds and a specialised absolute return fund.

We have an industry-leading Centralised Investment Process (“CIP”), 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 CIP is built on model-based solutions where decision-making responsibility and authority is shared by colleagues. This approach produces the best possible outcomes by encouraging the best thinking from everyone involved.

The Group has 14 offices across the UK and Crown Dependencies including London, Birmingham, East Anglia, Exeter, Leeds, Manchester, Nuneaton, Southampton, Tunbridge Wells, Edinburgh, Cardiff, 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 the Group exists is to help them realise their financial ambitions and secure their financial 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. 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

Under Financial Conduct Authority (“FCA”) legislation, the Group is required to publish Task Force on Climate-related Financial Disclosures (“TCFD”) reports in relation to the firm (the “TCFD entity report”) and the products it provides (“TCFD product reports”) on an annual basis.

This is our second TCFD entity report, which covers the period 1 July 2023 to 30 June 2024. Consistent with the recommendations of TCFD, it outlines how the Group incorporates climate-related risks and opportunities into our governance, strategy, risk management, and metrics and targets. The report supplements our 2024 Annual Report and Accounts covering the same period.

Our corporate group includes two entities engaging in portfolio management activities, Brooks Macdonald Asset Management Limited (“BMAM”), a company regulated by the FCA, as well as Brooks Macdonald Asset Management (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. In the metrics and targets section of the report, where there is information specific to one of our entities, we have highlighted this.

As at 30th June 2024, BMAM assets under management (AUM) stood at £15.8 billion and BM Group AUM at £18 billion.

In June 2024, the first iteration of our funds’ TCFD product reports were also published. The reports provide transparency in relation to the carbon footprint, temperature alignment and climate value-at-risk for each of our fund ranges. These reports have been produced by Evelyn Partners who act as our authorised corporate director and can be found on their [website](#).

The disclosures in this report fulfil the regulatory requirements as per chapter 2.2 of the FCA ESG Sourcebook.

Richard Lerner
Co-Chief Investment Officer

TCFD report

Pillars of the recommended climate-related financial disclosures



Governance

The organisation's governance around climate-rated 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

Progress key: ↑ Improvement → Same

Summary of disclosures

TCFD recommendation	Summary of key disclosures	Key progress in the reporting year	Pages
Governance			
a. Describe the Board's oversight of climate-related risks and opportunities.	The Board, along with the supplementary Audit and Risk Committees, bear ultimate responsibility for the oversight and management of the business. 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. The committees have reviewed the TCFD report and received updates on climate-related matters.	↑ <ul style="list-style-type: none"> Reviewed and approved the Environmental, Social and Governance ("ESG") risk appetite category and associated key risk indicators ("KRIs"), including new climate-related KRIs. 	08
b. Describe management's role in assessing and managing climate-related risks and opportunities.	The CEO and Executive Committee are responsible for the day-to-day management of the Group and have ultimate responsibility for the integration of climate risks and opportunities across the business, and for bringing climate-related matters to the Board. The Executive 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.	↑ <ul style="list-style-type: none"> Established the ESG Advisory Committee ("ESGAC") and received increased reporting of climate-related metrics. 	09-10
Strategy			
a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	A climate-related risk and opportunity identification exercise has been undertaken to understand the potential impacts within each time horizon. In future, these will be developed and reviewed by the Executive Risk Management Committee ("ERMC") and the Risk and Compliance Committee ("RCC").	→ <ul style="list-style-type: none"> Redefined the climate-related risks and opportunities facing our investments and operations, using the TCFD risk and opportunity categories. 	11-15
b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	Climate-related risks and opportunities are incorporated into the Group's operational and investment activities, considered within our Group's financial planning processes and forecasts, and the ESG Advisory Committee is responsible for developing a Group-wide ESG and climate strategy. Climate risks will be considered as part of the Group's ICARA process in future.	↑ <ul style="list-style-type: none"> Established the ESGAC to drive the Group-wide ESG and climate strategy. 	15-16
c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	We have undertaken an annual quantitative assessment of the exposure of our investment holdings to physical and transition risks under multiple climate scenarios. This is based on actual holdings. Future work will consider how to embed scenario analysis into the Group's CIP.	→ <ul style="list-style-type: none"> Undertook an annual quantitative scenario analysis exercise. 	17-20

TCFD report

Progress key:  Improvement → Same

TCFD recommendation	Summary of key disclosures	Key progress in the reporting year	Pages
Risk management			
<p>a. Describe the organisation’s processes for identifying and assessing climate-related risks.</p> <p>b. Describe the organisation’s processes for managing climate-related risks.</p>	<p>Climate risk is embedded in the Group’s risk management framework, incorporated under the ESG risk appetite category.</p> <p>The Group’s Operational Resilience Program identifies plausible scenarios and considers the physical risks of climate change on the business’ operations, informing our management response.</p> <p>Risks facing our investments are assessed and managed through ESG integration in investment selection and monitoring, engagement and collaboration activities as well as voting processes.</p> <p>We offer a Responsible Investment Service (“RIS”), to meet client demand. The implications of ESG and climate regulation for the RIS are assessed and considered.</p> <p>Third-party research tools assist research teams in assessing climate-related factors in investment due diligence. Employee engagement and training is an area of ongoing focus.</p>	<p>↑</p> <ul style="list-style-type: none"> Reviewed the risk appetite framework, the risk appetite categories and their associated KRIs. This included approval of new climate-related KRIs. Operational Resilience Program resulted in enhancements to how we manage third-party risk. Developed the ESG integration inputs used in due diligence (both qualitative and quantitative). Expanded access to climate-related data points in the research process, and signposted climate-specific training to investment professionals. 	22-25
<p>c. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation’s overall risk management.</p>	<p>Climate risk is embedded in our risk management framework, incorporated under the ESG risk appetite category.</p> <p>Sector research teams have primary responsibility for identifying, assessing and managing climate-related risks, supported by the Central Research team. Implementation is overseen by the Asset Selection Committee, which feeds into the broader governance structure of the Group.</p> <p>Second line oversight of the RIS is overseen by the Investment Risk function.</p>	<p>↑</p> <ul style="list-style-type: none"> Progressed in reporting climate-related metrics for our investments, to the Investment Committee and Risk and Compliance Committee. Responsible Investment Lead now sits on the Asset Selection Committee. 	21 and 25

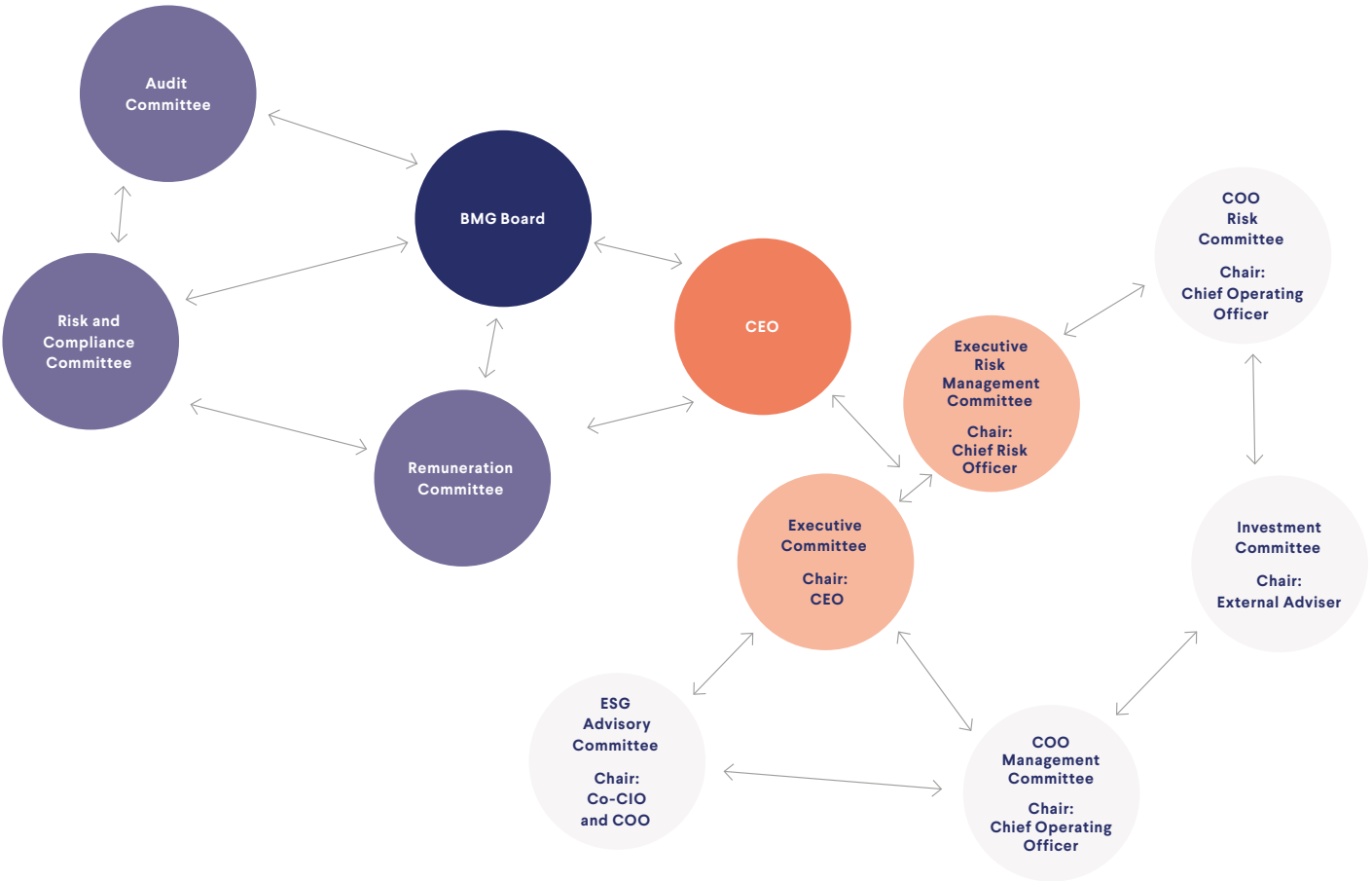
Progress key: ↑ Improvement → Same

TCFD recommendation	Summary of key disclosures	Key progress in the reporting year	Pages
Metrics and targets			
a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	We incorporate climate-related metrics into the investment research, selection and review process. The ERMC receive climate-related KRIs to monitor the management of investment and operational climate-related risks.	↑ <ul style="list-style-type: none"> In the reporting year, the RCC has reviewed and approved additional climate-related KRIs. 	28
b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (“GHG”) emissions, and the related risks.	Investment-related carbon footprinting metrics are calculated by third-party data company, Clarity AI. We track and report, with the help of a third-party provider, the Scope 1, 2 and a category of Scope 3 emissions associated with Brooks Macdonald Group’s operational activities.	→ <ul style="list-style-type: none"> We disclose investment-related GHG emissions for Scopes 1 and 2. With regards to Scope 3 data, there are industry-wide concerns regarding data availability, quality and the risks of double-counting of emissions when aggregating emissions at a portfolio level; therefore, we have chosen not to report these in line with current industry-wide practice. We continue to track and report on the emissions produced through Brooks Macdonald Group’s operational activities. 	26-28
c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Our operational target is to be net zero by 2030. We have not made a net zero commitment for our investments at the present time.	→ <ul style="list-style-type: none"> We continue to assess target-setting options, engaging with wealth management peers and the asset managers with whom we invest to inform our approach and ensure that any commitment is considerate of our fiduciary duty responsibilities and is meaningfully impactful in terms of real-world emissions. 	28

Governance

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.

Governance structure for climate-related matters



■ Board
 ■ Board Committee
 ■ CEO
 ■ Executive Committee
 ■ Executive Sub-Committee

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

Board Committee	Climate-related responsibilities	Activities	Future areas for consideration
BMG Board	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"> Reviewed and approved the entity-level TCFD report. Reviewed and approved the ESG risk appetite category and associated KRIs, which includes climate-related KRIs. Received an update on the Group's operational sustainability initiatives and progress. Received an update on industry-wide investment-related climate risks and opportunities, delivered by an external asset manager. 	Oversee development of the Group's ESG strategy.
Audit Committee	The Audit Committee oversees the principles, policies and practices adopted in the preparation of the financial statements of the Group, and assesses whether annual financial statements comply with statutory requirements including TCFD disclosures.	<ul style="list-style-type: none"> Reviewed the TCFD report. Received an update on ESG regulatory and reporting developments. Oversaw an audit into the design and operating effectiveness of the Group's processes and controls with respect to TCFD. 	Oversee development of the TCFD reporting approach.
Risk and Compliance Committee	The Risk and Compliance Committee reviews quarterly reports on key risks impacting the business.	<ul style="list-style-type: none"> Monitored the performance of climate-related KRIs. 	<ul style="list-style-type: none"> Review the Group's material climate-related risks and opportunities. Review any climate-related material harm scenarios that may arise as part of the Group's Internal Capital Adequacy and Risk Assessment.
Remuneration Committee	Incorporating climate-related goals into the long-term incentive plans ("LTIP") of the Group's Executive Directors.	<ul style="list-style-type: none"> Reviewed the LTIP opportunity for the Group's Executive Directors that 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. This has remained consistent since the last reporting year. 	Continue to monitor market practice developments regarding the nature and weighting of climate-related measures.

Governance

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's CEO. The CEO and Executive Committee are responsible for the day-to-day management of the Group and have ultimate responsibility for the integration of climate risks and opportunities

across the business, and for bringing climate-related matters to the Board. The Executive 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 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 Officers ("CIOs") are 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 its advisers and clients, and leads the Group's investment in technology, systems and processes. This includes the management of outsourced partnerships as well as workplace and facilities. The COO is responsible for the implementation of initiatives to ensure the Group meet its operational net zero targets.

Management Committee	Climate-related responsibilities	Activities	Future areas for consideration
Executive Committee ("ExCo")	The ExCo provides support for the oversight and management of the strategic and operational authorities delegated to the CEO by the Group Board. Chair: CEO.	<ul style="list-style-type: none"> Approved the establishment of the ESG Advisory Committee. Reviewed and approved the entity-level TCFD report. 	Review and approve the strategic ESG framework, as proposed by the ESGAC.
Executive Risk Management Committee ("ERMC")	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. Chair: CRO.	<ul style="list-style-type: none"> Monitored the performance of climate-related KRIs. 	<ul style="list-style-type: none"> Review the Group's material climate-related risks and opportunities. Review any climate-related material harm scenarios that may arise as part of the Group's ICARA.
Investment Committee ("IC")	The IC oversees the execution of the firm's responsible investment policy, which includes climate-related considerations and is updated on an annual basis. Chair: External Adviser. The Asset Selection Committee ("ASC") is a sub-committee of the IC, which is chaired by the CIOs and responsible for monitoring the implementation and effectiveness of 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.	<ul style="list-style-type: none"> Reviewed and approved the Responsible Investment Policy and TCFD report. Approved the establishment of a Responsible Investment Working Group. Received and reviewed climate metrics on a quarterly basis for the Group's products and services. Approved enhanced ESG research framework for assets, including esoteric alternative assets. Responsible Investment Lead joined the ASC. 	<ul style="list-style-type: none"> Oversee, monitor and evolve how climate-related metrics and climate scenario analysis are assessed and embedded into the investment process. Oversee development of potential net zero strategy spanning investments.

Management Committee	Climate-related responsibilities	Activities	Future areas for consideration
Management Committee and COO Risk Committee (“ManCo”)	<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>Chair: COO.</p>	<ul style="list-style-type: none"> Reviewed the TCFD report. The COO Risk Committee, as part of its oversight of the Group’s Operational Resilience measures, considered the impact of climate-related events on our operations. 	<p>Act on raised and reported climate-related risks and opportunities.</p> <p>Continued oversight of the Group’s adherence to its operational net zero target.</p>
ESG Advisory Committee (“ESGAC”)	<p>Newly established in 2024 and comprised of senior business representatives to drive forward the ESG/responsible business agenda for the Group, spanning operations, investments, and people and community. Members include representatives from Central Research, Risk, HR, Marketing, Operations, and Workplace and Facilities. The group meets no fewer than four times a year.</p> <p>Chair: Co-CIO and COO.</p>	<ul style="list-style-type: none"> Committee Terms of Reference established. Discussed existing ESG-related initiatives across the firm, including the approach to climate change and net zero at an investment and operational level. Reviewed and provided input to the entity-level TCFD report. 	<p>Develop a strategic ESG framework, aligned with the Group’s Purpose (Realising ambitions, securing futures), to be reviewed and approved by the Executive Committee and the Board.</p>

The management committees and accountable senior managers are supported by several teams and business functions in carrying out their climate-related responsibilities.

With oversight and peer review from the ASC, sector research teams generate ideas that drive a buy list of assets. All investment and portfolio managers, along with the 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 the Responsible Investment Policy, incorporating ESG factors, including climate-related risks and opportunities, into investment research and selection.

- The Central Research team supports the work of the IC, ensuring that ESG MI (including climate-related metrics) can be adequately reported to the IC. This function also supports sector teams in accessing the ESG data required to inform research and due diligence.
- We have established a new Responsible Investment (“RI”) Working Group, comprised of the co-CIOs, Responsible Lead, and representatives from central research, investment management and the investment specialist team. This has been formalised as a forum for discussing the development of the approach to responsible investment, informed by climate-related risks and opportunities, regulatory developments and evolving guidance from the UN PRI. This is to include consideration of data and internal training requirements, including the evolution of the process for selecting third party services. It will provide periodic updates to the IC and ESGAC.
- Regarding the direct environmental impact of our business, we have a dedicated role focused on operational sustainability that reports through to the Chief Operating Officer and the COO Management and Risk Committee.
- The production of the TCFD report brings together stakeholders from across the business, spanning the central research team, workplace and facilities, risk and compliance. Those involved in the production of the TCFD report also sit on the ESGAC.

Strategy

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

Climate-related risks and opportunities

The Group has assessed its exposure to a range of climate-related risks and opportunities, categorising these risks according to TCFD typology.

The TCFD divides risks into two key categories:

- **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** involve 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.

The TCFD also considers that efforts to mitigate and adapt to climate change can produce opportunities and identifies these areas of opportunity as: resource efficiency, products and services, markets, energy source and resilience.

We consider the potential implications for all these risks and opportunity categories, with the exception of energy source (our rationale is provided on page 15). For these risks and opportunities, we distinguish between potential impacts on our investments and our direct business operations. Within investments, we consider the impact on portfolio companies, the value of client assets, investment propositions, operations and research.

We outline the estimated likelihood of them taking effect, time horizons over which they could take effect, and the estimated significance. The time horizons have been selected to reflect that the effects of climate change will be spread over the long term, and to align with the time frames adopted in our scenario analysis exercise, powered by Clarity AI's Climate Impact on Returns solution (see pages 17-20).

Our view is that the Group is most vulnerable to climate risks through its investments. Operationally, we consider that the Group is most directly exposed to transition risk, with regulatory developments a more material issue for the firm than the physical risks of climate change. In future, the following risks and opportunities will be reviewed by the ERM.

Risk category	Risk and potential implication for the Group	Estimated time horizon	Estimated likelihood	Estimated impact	Mitigation
Transition risk					
Policy and legal The risk from changes to current or emerging climate-related regulation that impacts the Group, operations or products.	Investments: Portfolio company failure to fully respond to climate regulations, which could lead to increased costs (e.g. high carbon offset costs) and decreased asset valuations. Some industries are likely to be more negatively affected than others e.g. oil and gas, where there is the risk of stranded assets.	Short Medium Long	High	Medium	We embed consideration of climate risks and opportunities into our investment research process (see pages 22-24).
	Investments and operations: Increased climate-related regulatory and reporting requirements may lead to increased operational costs for the Group.	Short Medium	High	Low	Policy and regulatory developments are tracked as part of regular horizon scanning by the Risk and Compliance department. Consideration of the implications of regulation regarding ESG and sustainable investing is the result of collaboration between Risk and Compliance, Product Governance and the Responsible Investment Lead (see page 25).

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

Risk category	Risk and potential implication for the Group	Estimated time horizon	Estimated likelihood	Estimated impact	Mitigation
Market The risk of climate change impacting product demand through changing client behaviour and affecting costs of raw materials.	Investments: Assets with exposure to climate-related market risks may suffer poor performance during a transition to a lower carbon economy, affecting our portfolio returns and client outcomes.	Short Medium Long	High	Medium	We embed consideration of climate risks and opportunities into our investment research process (see pages 22-24).
	Investments: Climate change, net zero and associated regulatory developments drive client appetite for investment propositions that we do not provide, leading to lower revenue and poor client outcomes.	Short Medium	Medium	Medium	We provide a RIS offering to meet client demand. We fed back to the FCA's consultation on bringing portfolio managers into scope of the Sustainability Disclosures Regime and are reviewing the implication for the RIS (see page 25).
Technology The risk that arises from the requirement to keep pace with technological advancements to effectively manage climate risks and opportunities.	Investments: 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 asset valuations.	Short Medium Long	High	High	We embed consideration of climate risks and opportunities into our investment research process (see pages 22-24).
	Investments: As new technology and data is required to evolve and implement our responsible investment practices, this may lead to increased resource and expertise constraints and costs, as well as operational challenges.	Short Medium	High	High	We have invested in third-party research tools to assist sector research teams in assessing climate-related factors in investment due diligence (see page 24). Employee engagement and training is an area of ongoing focus (see page 24).

Strategy

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

Risk category	Risk and potential implication for the Group	Estimated time horizon	Estimated likelihood	Estimated impact	Mitigation
Reputational The risk from the perception of not having responded appropriately to climate challenges.	Investments: Portfolio companies whose response to the climate challenge is perceived as inadequate could suffer decreased revenues and asset valuations. This, in turn, could negatively impact the Group's AUM and revenue.	Short Medium	Medium	Medium	We embed consideration of climate risks and opportunities into our investment research process (see pages 22-24).
	Investments: Clients feel misled by our responsible investment propositions, leading to lower confidence and reduced revenue.	Short Medium	Low	High	Governance and oversight mechanisms are in place to ensure we are appropriately marketing our responsible investment offering (see page 25).
	Investments and operations: The risk that clients perceive our response to climate-related challenges as inadequate, leading to a loss in market share.	Short Medium	Low	High	The sustainability landscape is constantly evolving – what is considered a differentiator today could become a standard expectation tomorrow. It is, therefore, imperative to look ahead and continuously challenge our approach. Therefore, we have established the ESGAC comprising of senior business representatives from across the Group (see page 10).
Physical risks					
Acute Events arising from increasing frequency and severity of extreme weather events.	Investments: 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.	Short Medium	Medium	Medium	We embed consideration of climate risks and opportunities into our investment research process (see pages 22-24). As data becomes available, we will embed more specific physical risk metrics into our research process.
	Operations: Buildings and supply chains are impacted by extreme weather and extreme heat caused by climate change. This could result in water shortages, limit employee travel, office inaccessibility and power outages that affect service delivery.	Medium Long	Low	Medium	Our Operational Resilience Program is the key tool through which we identify and assess the risks of climate change to our physical operations (more information is provided on page 21). Our Operational Resilience plans mean staff can work from remote locations or home in the event our premises are unavailable, and our technology solutions have Defined DR (Disaster Recovery) contingencies.
Chronic Overall shifts in climatic behaviour resulting in long-term changes in temperature and precipitation patterns.	Investments: 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	Medium	High	We embed consideration of climate risks and opportunities into our investment research process (see pages 22-24). As data becomes available, we will embed specific physical risk metrics into our research process.

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

Table of opportunities

Opportunity	Potential implication for the Group	Time horizon	Estimated likelihood	Estimated Impact	Mitigation
<p>Products and services</p> <p>The opportunity to capitalise on shifting consumer preferences by innovating, developing and offering low emission products and services.</p>	<p>Investments: Increased reputation, market share and revenues from capitalising on shifting consumer demand for sustainable investment offerings.</p>	<p>Short Medium</p>	Medium	Medium	<p>We are committed to developing our RIS in line with industry and regulatory developments, and in line with client demand. We fed back to the FCA's consultation on bringing portfolio managers into scope of the Sustainability Disclosures Regime and are reviewing the implication for our RIS offering (see pages 15-16).</p> <p>We are also considering our approach to setting net zero targets for our investments (see page 16).</p>
<p>Resource efficiency</p> <p>The opportunity to improve efficiency and reduce operating costs.</p>	<p>Operations: Opportunity to reduce operating costs by ensuring offices are more energy efficient and reducing waste emissions.</p>	<p>Short Medium</p>	Medium	Medium	<p>Shared facilities implement robust recycling and waste management programmes, leading to more efficient waste reduction practices. Our target remains to be net zero across all our operations by 2030 (see page 15).</p>
<p>Markets</p> <p>Identifying opportunities in new markets or types of assets to be better positioned for a transition to a low carbon economy.</p>	<p>Investments: Opportunity to diversify activities and access new markets, increasing reputation and revenue from newly identified low carbon investment opportunities.</p>	<p>Short Medium</p>	Medium	High	<p>The opportunities of the transition to a decarbonised economy are factored into our asset allocation process, an example is through an allocation to a 'decarbonisation theme' (see page 15).</p>
<p>Resilience</p> <p>Being positioned to manage the impacts of climate change.</p>	<p>Operations: If the Group applies measures to mitigate against the negative impacts of a transition towards a low carbon economy, and implements climate-related adaptation measures, this could lead to increased organisational resilience.</p>	<p>Short Medium</p>	Medium	Medium	<p>As part of our 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 (see page 21).</p>

Strategy

The TCFD identifies the opportunity for companies to reduce their operating costs by purchasing electricity from renewable sources; however, this is of minimal relevance to the Group. As we are in serviced and tenanted buildings for all office locations, the energy provider is arranged by the provider for services locations and the landlord/managing agents for the leased tenanted locations. This means that there is little opportunity to influence the selection process for energy providers.

The impact of climate-related risks and opportunities on our business, strategy and financial planning

The ESGAC is dedicated to driving the Group's ESG priorities and climate-related strategy, spanning our direct business operations and our investments. The ESGAC is reviewing existing initiatives to develop a preliminary strategic framework and provide recommendations for the business moving forward. The three areas of focus within the strategic framework are responsible investing, corporate and operational, and people and charity.

Responsible investing

Corporate and operational

People and charity

Climate-related risks and opportunities are factored into the preparation of the Group's Annual Report and Accounts, with finance processes and forecasts taking climate-related costs into consideration. Climate risks will be considered as part of the Group's ICARA process in future.

The impact of climate-related risks and opportunities on our operations

For our operations, one of the key ways that we assess and manage the physical risks of climate change is through our Operational Resilience Program (more information is provided on page 21). Our response to climate-related transition risks and opportunities takes the form of our target to be net zero across all our operations by 2030. By the end of 2025, we will set out a clear plan for how we will achieve this, which will include our short-term and long-term greenhouse gas ("GHG") emission reduction goals.

In comparison with the previous financial period, our overall energy consumption has decreased by 14% and our total GHG emissions have decreased by 16% for electricity and 35% for gas. This year, our energy consumption has dropped for electricity and gas due to a change in our workplace strategy. Following a review of our property portfolio, in the reporting period, we reduced our offices to 14 across the UK, expanding our serviced office strategy. We believe that by leveraging the inherent efficiencies and sustainability-focused operations of serviced offices, we can significantly reduce our environmental footprint whilst maintaining operational flexibility and resilience. This has been beneficial from a carbon footprint perspective as we have been able to minimise the environmental impact associated with maintaining underutilised areas.

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.

The impact of climate-related risks and opportunities on our investments

Our investment propositions

Core BPS and MPS

Within our process for researching, selecting and monitoring investments, we manage our climate-related risk through ESG integration, engagement and voting. We invest in third-party ESG data and technology, place emphasis on climate-related training, and evolve our RIS in line with market, policy and reputational considerations. This is, outlined in the Risk management section on page 21.

Across our core services, the opportunities of the transition to a decarbonised economy are factored into our asset allocation. In 2020, a 'sustainability' thematic was added within the global equities component of our core portfolio services. This provides a focused allocation within core BPS and MPS portfolios to collective funds that invest in companies that are enabling the transition to a more sustainable economy. In the reporting period, this was renamed to 'decarbonisation', to more accurately reflect the opportunity set. We consider decarbonisation to be a long-term structural theme that is backed by

increasing regulatory, government, consumer and business support. The decarbonisation of the economy is spurring new generations of low emissions, climate-resilient goods, services, technologies, business models and infrastructure.

Within our alternatives buy list, we have renewable energy infrastructure investments. 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 RIS, which is integrated into the CIP and has the dual objective of achieving long-term strong risk-adjusted investment returns and actively reflecting responsible investment values. Though currently a small proportion of the Group's overall AUM (sub 5%), we see our RIS offering as a key growth area due to client demand for portfolios that are aligned with their sustainability values, including those related to tackling climate change and achieving net zero.

Our RIS Advance 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 over.

2. Responsible businesses


Businesses taking ownership of their environmental and social footprint, and proactively increasing the positive impacts and minimising any negative impacts through evolving business policies and practices.

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. The RIS includes funds that focus on the climate and energy transitions, and which seek to capture the decarbonisation growth opportunity.

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. In April 2024, the FCA proposed bringing portfolio managers into scope of the Sustainability Disclosure Requirements ("SDR"), and the evolution of this consultation into policy is likely to result in development of RIS frameworks, labelling and disclosures. We responded to the consultation through the Investment Association ("IA"), the Personal Investment Management & Financial Advice Association ("PIMFA"), actively engaging with peers on the potential implications of the legislative proposal in terms of data, resource and training requirements. At the time of writing, the final FCA rules are expected later in 2024 and we will actively monitor their implications and continue to engage with the FCA and the wider industry to make sure the rules are both feasible to implement and bring the intended benefits to IFAs and retail clients.

Our approach to net zero in our investments

We are mindful that our operational emissions are negligible compared to the emissions associated with our investments. Across the industry, asset managers are increasingly committing to align their assets under management with the goal of net zero

 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 provision The circular economy	 Health and wellbeing Sub-themes: Healthcare provision Diagnostics and research Social infrastructure Healthier lifestyles 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

emissions by 2050, considering that this helps to protect investors from the risks of climate change and meets growing client demand. In our last TCFD report, we outlined the different types of net zero targets that are being set, based on our own research, and some of the challenges surrounding these.

We have made the decision not to set a formal net zero commitment for our investments or publish decarbonisation targets of our own. We continue to assess target-setting options, engaging with wealth management peers and the asset managers with whom we invest to inform our approach and ensure that any commitment is considerate of our fiduciary duty responsibilities.

We are particularly cautious around centring a net zero commitment around absolute emissions and carbon intensity targets. We continue to consider that 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 or maximise risk-adjusted returns for clients.

There are also challenges associated with the accuracy of carbon emission data, with measurement and reporting of this by companies still requiring improvement, and gaps in fund-level climate data currently available to wealth managers that invest through third-party funds. Our ongoing conversations with wealth management peers have so far suggested that portfolio alignment

and engagement approaches may be most suitable. Since we invest primarily in third-party funds, rather than direct companies, alignment targets that we adopt as part of a net zero commitment would primarily involve funds and their managers, rather than companies directly.

In the reporting year, we have made progress in assessing third-party funds on their net zero alignment through structured questionnaires consisting of firm-level and strategy-level questions. We have rated funds according to the Net Zero Investment Framework, which we have adapted to the fund context. This has given us an understanding of where funds are on the journey. However, more work needs to be undertaken to determine how this can be used to inform target setting. This work will be driven forward by our Responsible Investment Working Group.

Strategy

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 considers multiple different warming scenarios, assessing the impacts of warming expected under those scenarios on the financial performance of assets in sectors and geographies.

Different scenarios are associated with different plausible temperature trajectories until 2100, each with a different set of risks. A scenario in which warming is limited to 1.5°C will require rapid and far-reaching emissions transitions across all sectors of the global economy. Such a scenario thus poses heightened transition risks and opportunities, whilst it minimises physical risks. On the other hand, a scenario where warming reaches 4°C or more by 2100 may have limited impact on the viability of emissions-intensive business models in the short term but will lead to severe physical risks and risks of ecological and economic collapse.

The value of scenario analysis lies in its ability to show how investments might perform under different circumstances and scenarios, rather than in its ability to predict exact financial impacts. The exercise facilitates understanding of portfolio risk exposures and can help inform investment strategy, decision making and engagement activities, but should not be used as a predictive tool.

In this section, we assess the exposure of our investment holdings to physical and transition risks under multiple climate scenarios, using a third-party data solution from Clarity AI, which is powered by Ortec Finance and Cambridge Econometrics. The solution combines climate and economic data to different pathways to estimate how physical and transition risks and opportunities impact the total return on securities and portfolios. The solution captures a wide array of direct and indirect impacts of climate change. Whilst we are currently using the bespoke Ortec Finance climate scenarios (outlined in the upcoming Methodology section), we are aware of, and will monitor, alternatives such as the Network for Greening the Financial System (“NGFS”) and Intergovernmental Panel on Climate Change (“IPCC”) scenarios.

The outputs of this scenario analysis are not yet integrated into our macroeconomic asset allocation process as we recognise that the methodologies and outputs of scenario analysis models are rapidly evolving and are likely to change as market use of these models grows. Therefore, the outcomes are likely to evolve. We would like to see more stabilisation and standardisation in methodologies before we consider it appropriate to embed the findings of scenario analysis into our CIP. We discuss some of the limitations of scenario analysis methodologies on page 20.

Despite these concerns, we have still deemed it appropriate to share the outputs of a quantitative scenario analysis exercise, in line with the recommendations of the TCFD to adopt quantitative analysis where possible. We believe that, for our clients and stakeholders, applying a quantitative lens to our holdings using currently available data is valuable in illustrating the topic from an educational perspective, enhancing transparency, and facilitating informed discussions about potential future risks and opportunities. We will continue to monitor the evolution of climate scenarios and the scenario analysis offerings from third-party providers, engaging with them to understand the evolution of their models. We may change our approach and selected provider in the future.

Clarity AI scenario analysis methodology

The scenario analysis was conducted using the Clarity AI Climate Impact on Returns solution, which is powered by Ortec Finance, and produces return forecasts at portfolio level. For this purpose, the return forecasts for individual securities are aggregated at the portfolio level.

The analysis of security level impacts rests on the following climate change scenarios, which are deemed to represent plausible futures:

- **Net Zero:** A radical yet orderly transition scenario resulting in an average global temperature increase of 1.5°C by 2100. It is characterised by an early and smooth transition, with financial markets gradually but swiftly pricing-in anticipated physical and transition impacts (this corresponds to the very low emissions IPCC scenario SSP1–RCP1.9);
- **Net Zero Financial Crisis:** A radical but disorderly transition scenario, with sudden divestments from high carbon assets in 2025 to keep the average temperature increase to 1.5°C by 2100. This scenario is characterised by disruptive effects on financial markets (this corresponds to the very low emissions IPCC scenario SSP1–RCP1.9);
- **High Warming:** Under this scenario, the average temperature increase reaches 4.3°C by 2100. This failure to meet Paris Agreement goals results in severe acute and chronic physical impacts over time (this corresponds to the high emissions IPCC scenario SSP3–RCP7.0).

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.

¹ 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 GHGs 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.

Top-down models are applied to estimate the impacts of each scenario on broad economic indicators (GDP, GVA and inflation) and ultimately to estimate security-level returns from the following types of climate-related risks:

1. Acute physical risks are estimated from the frequency projections of extreme weather events, past financial losses and countries' resilience to these events.
2. Chronic physical risks' main drivers are temperature-induced agricultural, industrial and labour productivity declines as well as agricultural yields decline on food prices.
3. Transition impacts (positive or negative) are assessed based on three types of policies: carbon tax/ETS, energy efficiency improvements, and subsidies to low-carbon energy, which are factored in energy demand and technology mixes at sector level.

For the financial modelling at security-level, physical and transition shocks on broad economic indicators are first translated into impacts on returns per asset class, country and industry. These impacts include direct effects on the performance of each industry in each country as well as the repricing performed by financial markets. A Sentiment Shock is also added for the Net Zero Financial Crisis scenario. From this, impacts on returns are estimated at security-level based on the issuers' characteristics including the sectors and geographies they operate in.

The security-level financial impacts are aggregated at portfolio level using a portfolio-weighted approach. The climate impacts on returns are provided as a cumulative percentage change of portfolios' total returns. This is provided as a difference to a climate-uninformed baseline. Climate impacts are estimated for each of the three scenarios across four time horizons: 5, 10, 20 and 40 years from 2022).

$$\sum \left(\frac{\text{current value of investment}_{i,t}}{\text{current portfolio value}} \times \text{Security level impact}_{i,t,sch} \right)$$

Scenario analysis findings and implications

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 portfolio², 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")³ as a comparison point. Our holdings were captured at a single point in time (30 June 2024).

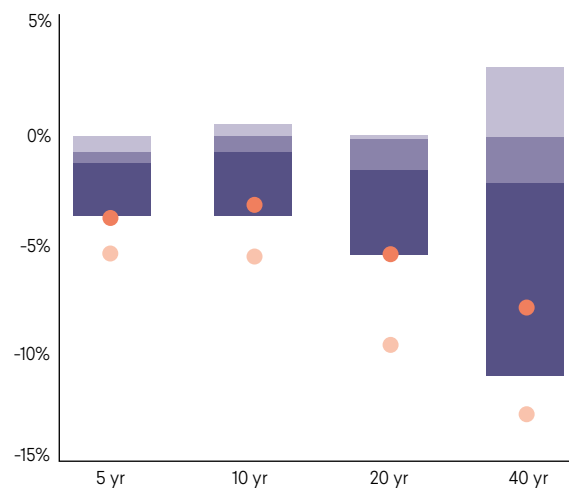
This output suggests that global alignment to a net zero pathway is the most effective approach to minimising the erosion of value under all selected scenarios and time horizons, except for the very short term (0–5-year scenario). In the 5-year time horizon, it is the High Warming scenario that is the least

detrimental scenario for returns – over this time period, an orderly transition scenario would be likely to create transition risks for some companies that are unable to keep up with societal decarbonisation efforts. A disorderly transition scenario (the Net Zero Financial Crisis scenario) would be particularly detrimental.

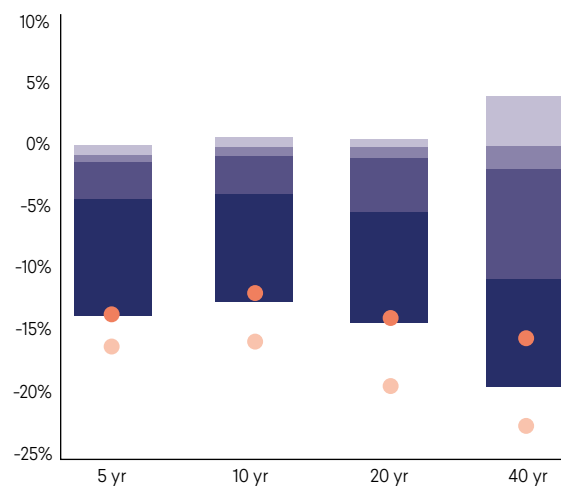
² All holdings' data used in this analysis has been compiled as at 30/06/2024. The data includes the following items, covering group-wide assets under management ("AUM"). (a) Onshore & Offshore BPS (excluding execution-only/advisory-only accounts, including RIS/Decumulation/Court of Protection, where 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, the core strategies, and offshore platform holdings). The majority of holdings held on external platforms have been estimated via apportioning the AUM in each model as at 30/06/2024 as per the drifted weight of each asset in each model. To estimate the Offshore MPS Platform holdings (c.£121 million), we have used static model weights (rather than drifted), given drifted weights weren't available. The impact on our overall numbers will have been immaterial off the back of this. Please refer to the Appendix for more detail on the estimation process.

³ The MSCI All Country World Index is a portfolio of global equities, which represents our investable universe.

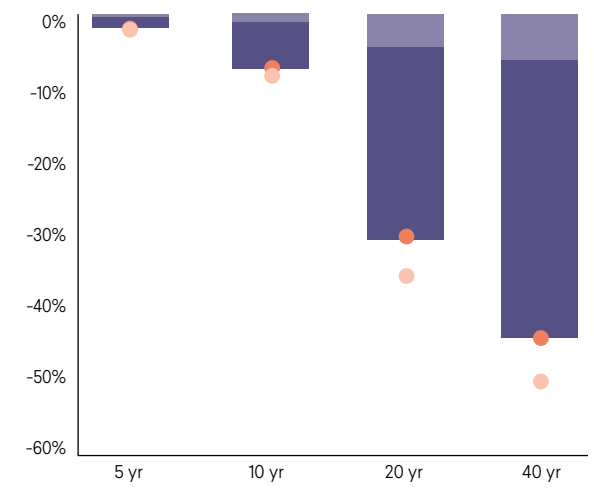
Climate impact on returns: Net Zero



Climate impact on returns: Net Zero Financial Crisis



Climate impact on returns: High Warming



Legend: Transition risk (light purple), Physical - Acute (medium purple), Physical - Chronic (dark purple), Sentiment shock (darkest purple), Total impact on returns BM Group (red dot), Total impact on returns MSCI ACWI (orange dot)

Strategy

Over the longer time horizons, however, the most ambitious Net Zero scenario aligned with 1.5°C consistently has the least erosive effects on returns. Over the 20-year and 40-year time horizons, the High Warming scenario causes the most significant erosion of portfolio value, driven by the physical risks of climate change, where temperature rises lead to unprecedented shifts in weather patterns and natural disasters. As long-term investors, looking beyond the very short term, the analysis emphasises our conviction and understanding that an orderly net zero transition aligned with 1.5°C is a crucial goal.

The analysis indicates that a Net Zero Financial Crisis would be consistently more detrimental than an orderly Net Zero scenario. This would result from a sentiment shock caused by sudden asset repricing due to late awareness of climate risks. Under the Clarity AI model, these climate risks are abruptly factored in during 2025, triggered by new Nationally Determined Contributions (“NDCs”). At this point, the model assumes that investors committed to net-zero targets by 2050 evaluate their decarbonisation trajectory, making sudden portfolio adjustments as a result. Divestment from carbon-intensive assets (‘stranded assets’) leads to an abrupt revaluation and knock-on financial effects. It is worth noting that the sentiment shock could occur later than 2025 and that as the political net-zero agenda evolves, the model may adjust its assumptions regarding the timing of such shocks.

The scenario analysis output emphasises the crucial importance of adapting portfolios to different scenarios as they unfold, which we believe we are well-positioned to do as active investment managers.

Regional analysis

Applying Clarity AI’s scenario analysis tool to MSCI regional indices offers an additional perspective. This heatmap demonstrates

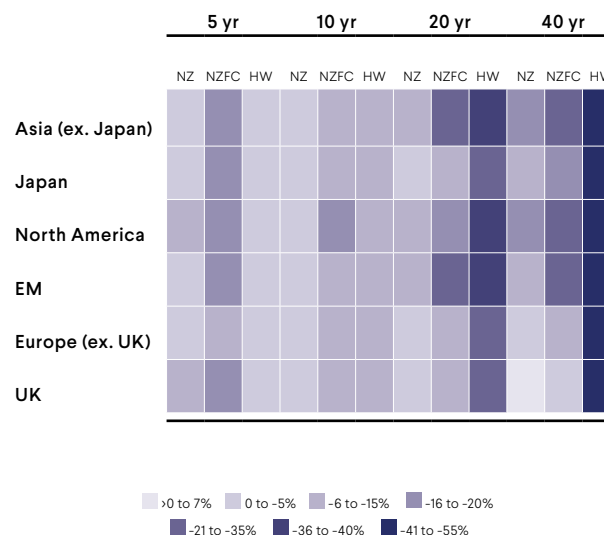
how, across all regions, over the longer time horizons (20 and 40 years), a High Warming scenario is the most harmful for returns and a Net Zero scenario the least detrimental.

The output suggests that the UK is the only region where a net zero transition may have a positive impact on returns, implying that the UK is best positioned to manage the transition risks associated with an orderly net zero trajectory. Whilst pinpointing the exact reasons for this is challenging, a contributing factor could be that the UK is one of the least energy-intensive developed countries due to the low industrial share of its output. Transition risk associated with the Net Zero scenario is projected to have the most negative impacts for North America, Asia (ex. Japan) and Emerging Markets, respectively. This could be linked to the economic dependence on the fossil fuel industry in these regions.

Over the 20 and 40-year periods, in a High Warming scenario, the exercise suggests that there is not huge regional variance in the negative impact of physical risks on returns. However, these are most significant in Asia (ex. Japan) and Emerging Markets. This could be due to these countries being located in regions prone to extreme weather events and climate extremes, and their significant economic dependence on climate-sensitive sectors. Agriculture, fishing and tourism are major contributors to the economies of many Emerging Markets and Asia (ex. Japan) countries, making them highly sensitive to climate variations and extreme weather events. Additionally, these countries may have limited capacity to invest in climate adaptation and resilience measures.

In the short term (5 and 10-year time horizons), the Net Zero Financial Crisis scenario is projected to be the most detrimental to returns across all regions.

Heatmap displaying climate scenario impacts on regional returns⁴



⁴ Darker shades denote greater negative impacts on total return.

NZ = Net Zero

NZFC = Net Zero Financial Crisis

HW = High Warming

Sectoral analysis

Analysis using the Clarity AI solution suggests that the physical risks of climate change are quite evenly distributed across sectors, across all time horizons. The sectors most negatively affected by the transition risks associated with the Net Zero scenario, across all time scenarios, are the energy and materials. Whilst the utilities sector is carbon-intensive, the analysis suggests it may be well positioned to navigate the transition to net zero compared to other carbon intensive sectors. This could be because it receives more regulatory support and incentives, benefit from advancements in renewable energy technologies, and have stable demand. Additionally, utilities are diversifying their energy portfolios and facing increasing pressure from the public and investors to adopt sustainable practices. In contrast, the energy and materials sectors rely more heavily on fossil fuels and have more complex supply chains, making their transition to net zero more challenging and costly.

Limitations of scenario analysis

Climate scenario analysis, and particularly quantitative analysis, is still in its early stages of development in the financial industry, and 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. There are also some areas that are not fully embedded into the scenario analysis models used, such as land-use emissions, the impacts of migration and social conflict and biodiversity loss.

Coverage is also a limitation; scenario analysis is only applied to equity, corporate fixed income and collectives and this year 62.32% coverage of our AUM has been included in the analysis. We expect methodologies and coverage figures to improve over time, and for future assessments to be increasingly accurate at reflecting the benefits of a 1.5°C aligned scenario. As previously mentioned, we are committed to continue monitoring new scenario analysis methodologies as they emerge.

Implications of scenario analysis for our investment process

At present, the output of scenario analysis does not restrict our investment universe and is not embedded into our centralised investment process. However, it reinforces our conviction that fund managers with which we invest should incorporate climate-related risks into their investment processes, and our commitment to assessing this in our due diligence. As data availability improves and fund-level value at risk and physical risk metrics become available, we will look to embed them into our fund due diligence.

The analysis also solidifies our understanding and view that an orderly transition in which global temperature rises are kept within the 1.5°C is key to preserving value. Whilst mindful that government policies and company decisions will have a vital role to play, we appreciate the contribution that financial services firms such as ourselves have to make. We continue to consider our approach to net zero target setting.

Risk management

The Group's risk management framework

Climate risk is embedded in our risk management framework and is incorporated under the ESG risk appetite category.

The Group's risk management framework consists of the following components:

- **Risk culture.** We promote a risk culture that encourages ownership of and management of risk. Risk management is the responsibility of everyone.
- **Risk governance.** The Board is ultimately responsible for the Group's risk management framework but has delegated certain responsibilities to the RCC, a sub-committee of the Board. The Group operates a 'three lines of defence' approach to managing risks across the Group.
- **Risk appetite.** The objective of the Group's risk appetite framework is to ensure that the Board and senior management are properly engaged in agreeing and monitoring the Group's appetite for risk and setting acceptable boundaries for business activities and behaviours. The risk appetite categories are reviewed by the ERM, RCC and approved by the Board on an annual basis. KRIs are mapped to the risk appetite categories, with KRI tolerances aligned to risk appetite. The KRIs and tolerances are subject to an annual approval process by the ERM, RCC and Board.
- **Risk reporting.** Risk reporting is presented to ERM and RCC. This includes details of underlying KRIs mapped to the risk appetite categories, breaches, risk events and emerging risks.
- **Risk identification.** The Group adopts a top-down and a bottom-up approach to the identification of risks. The ERM and the RCC have identified the principal risks that could impact the ability of the

Group to meet its strategic objectives. In addition, the Group maintains a bottom-up operational Group risk register, which are mapped to the Group's risk appetite categories.

- **Risk assessment and management.** All of the risks included in the Group risk register are scored according to probability and impact and assessed on an inherent basis (before the impact of controls) and on a residual basis (after the impact of controls). Where risks are classed as outside the Group's risk appetite, actions must be taken to bring the risk back within appetite.
- **Risk and Control Self-Assessment ("RCSA").** The Group's bottom-up assessment of risk is managed through the RCSA process, which supports a comprehensive understanding of risks and controls in place at the operational and business process level. The RCSA process enables the risk and control owners to identify any omissions in the risk environment and to close any control gaps or weaknesses as necessary.
- **Policy governance framework.** The policy governance framework provides minimum standards for managing the key risks that the Group faces. Each Group policy has an Executive Committee level owner who is ultimately accountable for the design, implementation and maintenance of the policy.
- **ICARA.** The Group conducts an ICARA process to ensure that it has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all potential material harm that may result from the ongoing operation of its business. The Group holds financial resources (capital and liquidity) in excess of our minimum regulatory requirements.
- Our approach to risk management is also detailed in the risk management section of the Annual Report on pages 39 to 42.

In the reporting year, the RCC has reviewed and approved additional climate-related KRIs, which monitor the management of investment and operational climate-related risks.

Identifying, assessing and managing the climate-related risks related to our operations

As part of the Group's established Operational Resilience Program, consideration is given to the impact of physical climate-related events on the operation of the 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.

At the present time, this assessment has suggested 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 third-party supplier locations. However, such events could have a material impact on our ability to deliver our services. The operational resilience testing has led to enhancements in the way we manage third-party risk, with this now including enhanced risk monitoring through a project to replace our current third-party risk management platform. In addition, we leverage joint third-party operational resilience testing for key outsourcers. It is also worth noting that our operational resilience plans mean staff can work from remote locations or home in the event our premises are unavailable, and our technology solutions have DR contingencies.

The Group's main approach to managing the transition risks of climate change for its operations is the net zero by 2030 strategy (explained on page 15) and the establishment of the ESGAC to drive the sustainability agenda of the firm forwards.

Identifying, assessing and managing the climate-related risks related to our investments

Our identification, assessment and management of the climate-related risks facing our investments, spanning the risk categories highlighted on pages 11-13, centres around:

1. ESG integration in investment selection and monitoring
2. Engagement and collaboration
3. Voting activities

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 can invest in direct equities and bonds, should it be appropriate for a client's circumstances.

1. ESG integration in investment selection and monitoring

The integration of ESG considerations into our investment process is a core principle of our RI policy and reflects our commitment as signatories to the UN PRI. 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.

Sector research teams assess third-party fund managers on their approach to assessing and managing climate risks, with a range of qualitative and quantitative inputs used to inform this assessment. These inputs are tailored depending on asset class.

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

Externally managed equities and bonds

Our qualitative assessment considers the ESG integration and stewardship capabilities and infrastructure of each third-party fund manager and its fund house. Within both firm-level and fund-level assessments, the approach to identifying, managing and reporting on climate-related risks and opportunities is considered. The analysis is informed by a questionnaire format and fund manager meetings. We have developed our guidelines for interpreting climate-related responses, and the conditions under which further investigation and engagement may be required. 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 the reporting period, we have been working with a key due diligence platform to enhance

the climate-related questions we ask of fund managers. We will embed responses to these questions into our due diligence as they become available over the coming reporting year.

Qualitative research on a fund's exposure to, and management of, climate-related risks is supplemented and supported with assessment of climate-related metrics, which are incorporated into our proprietary fund ESG traffic light dashboard and taken from third-party research. The ESG traffic light dashboard is a tool that helps sector research teams identify potentially higher-risk holdings and discrepancies between a fund's stated investment process and investment exposures. 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 ESG company-level data, and, where necessary, engagement with the fund manager. Given that ESG data is not infallible, is retrospective and largely based on levels of corporate disclosure, it is used to inform discussions and qualitative research rather than set thresholds that block an assets suitability. As climate metrics and methodologies expand and evolve, we are continually reviewing the providers we work with to help ensure the most up-to-date coverage. Obtaining both issuer and portfolio level data for all climate metrics is challenging from an availability and technological perspective. In the reporting year, we have expanded our qualitative third-party research to support our assessment of climate-related metrics. We remain focused on enhancing our data access and capabilities, monitoring and working with third-party data providers to inform this.

Research for the RIS, 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.

Direct 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 similar climate-related metrics for triggering further investigation and potential engagement with companies.

Real estate and infrastructure investment trusts

We have adapted our research and due diligence frameworks to fit the REIT and infrastructure context. In the reporting year, we have enhanced these frameworks, strengthening the climate-related assessment sections. The process continues to draw on environmental data, obtained from REIT and infrastructure disclosures using company reporting and, where possible, direct questionnaire responses. Examples of the information that is captured include Energy Performance Certificate ("EPC"), GRESB and BREEAM rating carbon emissions, energy/water consumption, and the percentage of energy procured from renewable sources. This information is used to inform fund manager engagements and investment recommendations.

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 that incorporate an assessment of how well a country is managing key ESG 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 and includes consideration of government net zero policies.

We are conscious of the growing availability of tools and datasets to inform government bond ESG and climate analysis. We continue to monitor how these can be meaningfully embedded into our investment process.

Risk management

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, where appropriate, engagement with the fund manager.

Should our fund-level ESG dashboards identify exposure to carbon-intensive holdings and/or holdings that 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.

Direct investments

For direct stocks, investment trusts and REITs, we undertake engagements to encourage improvement and progress where we feel this will add value. Our scope to engage effectively with companies can be limited as the proportion of shares we hold in companies is generally lower than that of larger asset managers who have a greater focus on direct investments. 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.

Net zero engagement

As previously stated in this report, we have undertaken an exercise to measure the net zero alignment of the funds and direct equities on our buy list, 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 potential net zero targets we formalise for our investments. This will also include consideration of participation in collaborative engagement initiatives.

Collaboration with peers, regulators and trade bodies

In the reporting year, we have taken part in forums with other wealth managers to discuss best practice in managing climate risks and opportunities, making net zero commitments and engaging with fund managers on climate-related matters to promote awareness and management of climate risks and opportunities. As previously mentioned, we have also consulted with the FCA, via trade bodies, to help shape regulation on sustainability 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. Regarding 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-party proxy-voting service that recommends voting against the chair of a company's responsible committee if it concludes that a high GHG-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 is to vote in line with this recommended approach. Moving forwards, we are looking to develop more formal voting guidelines on how we will approach certain proposals and report on these in the future.

Our approach to ESG and climate-related data

The ESG integration, engagement and voting processes outlined above are facilitated by use of ESG and climate-related technology and data. Investment in third-party data, as well as our focus on employee training, is key to managing the Group's climate-related technology risk (refer to table of risks on page 12). Moving forwards, the Responsible Investment Working Group will be responsible for assessing the data provider landscape to ensure Brooks Macdonald has the data required to identify and manage climate-related risks and opportunities, and for considering future training requirements.

Data provider	Use case
Morningstar	<p>Morningstar provides us with underlying fund data for fund research and analysis that is used by sector research teams.</p> <p>In the reporting year, we expanded access to Morningstar through their Report Tool function enabling direct access to climate data for front office staff.</p>
Sustainalytics	<p>A number of ESG data points 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.</p> <p>In the reporting year, we have expanded the range of climate-related data we are able to access in Sustainalytics and our focus is on embedding these into our research processes in line with fund-level datapoints becoming available.</p>
Clarity AI	<p>Clarity AI is 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).</p>
ISS Proxy Exchange	<p>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.</p>
Ambra Research	<p>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.</p>

There are limitations of relying exclusively on third-party data. We believe in the value of qualitative verification, assessment and input from our investment research professionals. To empower our people to assess and manage ESG and climate considerations in investment decision making, we have rolled out a mandatory ESG training module to all staff. We will continue to support those in certain investment roles in their completion of ESG and climate-related qualifications, such as the CFA Certificate in ESG Investing and the CFA Certificate in Climate and Investing. We have signposted climate-specific training to investment professionals, which is currently available at the discretion of individuals for their continuing professional development, and we will consider more formal requirements moving forwards.

During the reporting period, representatives from the CIO function, including the central research team, met with third-party asset managers through dedicated sustainability and climate sessions to gain insights into how the broader industry is integrating climate considerations into their investment activities. We recognise that, as wealth managers primarily investing through third-party collectives, we can learn from these asset managers, especially as we continue to develop and refine our approach to climate scenario analysis, net zero and the implications for asset allocation.

Risk management

Our RIS

To ensure that we are meeting client demand for sustainable investments (addressing a form of market risk), we offer a RIS. As well as considering demand, we are committed to evolving the service in line with emerging policy developments (managing a form of policy and legal risk).

Consideration and management of the implications of ESG and climate-related regulation on our RIS, is the result of collaboration between risk and compliance, product governance and the Responsible Investment Lead. As mentioned previously, in the reporting year, we have consulted with the FCA, via trade bodies, in response to the Consultation Paper CP24/8: Extending the SDR Regime to Portfolio Management and are considering the impact on the service.

Second line oversight of the RIS, overseen by the Investment Risk function, is established to ensure the proposition meets its stated objectives on an ongoing basis (addressing a form of reputational risk). This involves a formal quarterly oversight committee to ensure RIS models adhere to its investment mandate, ESG and risk metrics.

Integration into the organisation's overall risk management

Sector research teams have primary responsibility for identifying, assessing and managing the climate-related risks facing investments, supported by the Central Research team. Implementation is overseen by the ASC, which feeds into the broader governance structure of the Group (see Governance section, page 07). In the reporting year, the Responsible Investment Lead has formally joined the ASC to strengthen this oversight.

In the reporting period, we have progressed in reporting climate-related metrics for our funds, models and portfolios, compared to their benchmarks, to the Investment Committee and Risk and Compliance Committee, for review and oversight. Climate-related metrics can be difficult to interpret when looked at in isolation; however, comparing common benchmarks, categories and/or peer groups can provide useful context. Tracking how these metrics evolve over time can help us in monitoring our exposure to risk.

Second line oversight of the RIS is conducted by the Investment Risk function, as outlined previously.

Case study of engagement with a third-party fund manager

During the monitoring of a third-party fund on the RIS Advance buy list, third-party data feeding into our ESG traffic light dashboard highlighted that one holding, China Longyuan, derived c.10% of revenues from thermal coal power generation. According to the fund manager's ESG policy, companies generating over 5% of their revenues from thermal coal are ineligible for inclusion. Consequently, the analyst sought further clarification from the fund manager to ensure that the fund's philosophy, process and underlying exposures were aligned, and to understand how this exposure fit within a climate-aware approach.

The fund manager response emphasised that the holding does not have direct exposure to coal (e.g. exploration, mining, extraction, transportation, distribution or refining of thermal coal) but rather indirect exposure through a small part of its power generation being coal based. The response also outlined that within the Asia-Pacific region, there are some companies still transitioning from the incumbent coal fuel towards renewable energy. Whilst the fund's focus is on investing in electric utility companies that generate electricity from renewable sources, it recognises that some electric utility companies, especially in emerging regions, are still transitioning away from fossil fuel-based electricity generation and may have legacy exposures.

China Longyuan develops and operates wind farms and solar farms to provide renewable energy to optimise China's energy mix. The focus of the business is to develop renewable energy (85% of power it generates is from renewable sources); however, the company still owns some legacy coal-fired generation capacity. The company considers itself as a dedicated renewable energy development and operation platform, and sees the legacy coal asset as a top priority for divestment.

We believe that complete divestment from any fossil fuel exposure does not effectively support the net zero transition. Instead, engaging with fossil fuel companies is more impactful. Given the regional context provided by the fund house, along with the fund manager's demonstrated track record of engaging with the company to encourage the phase out its legacy coal assets, we maintained our conviction in the fund as aligned with our RIS Advance framework and objectives.

Metrics and targets

Disclosure of GHG emissions

Investment metrics and methodologies

In accordance with the recommendations made by the TCFD, and in alignment with the PCAF standard⁵, we use the following core metrics to report on our financed Scope 3 category 15 GHG emissions, at a BM Group and BMAM entity level.

- Weighted Average Carbon Intensity ("WACI")
- Financed emissions
- Financed emissions per US\$m invested

These metrics are calculated by Clarity AI and disclosed for Scopes 1 and 2. With regards to Scope 3 data, there are industry-wide concerns regarding data availability, quality and the risks of double-counting of emissions when aggregating emissions at a portfolio level. In our first TCFD report, we reported our financed emissions Scope 3 whilst outlining that data availability is typically low and unreliable, with some companies making unrealistically low disclosures. This year, in alignment with current common industry practice, we have opted to exclude Scope 3 emissions due to the challenges associated with data availability and reliability.

Only equities, corporate bonds and collectives are currently included in calculations and, where covered, contribute to BM Group⁶ and BMAM entity-level⁷ metrics.

- **Scope 1** emissions are direct 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 organisation's Scope 1 and 2 boundaries. Scope 3 emissions can include emissions from business travel, waste disposal and use of sold products.

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/total carbon emissions

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

Methodology:

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

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 US\$m invested

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

Methodology:

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

Limitations:

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

Equities, corporate bonds and collectives are included in calculations.

Unlike in our initial TCFD report, this year, we have chosen not to include additional climate metrics in our disclosure. The decision stems from challenges we have encountered during the reporting period in receiving net zero alignment and temperature alignment metrics for the purpose of fund research. As we are able to better embed additional climate metrics into our research processes, we will report them at an entity level also.

⁵ PCAF stands for, Partnership for Carbon Accounting Financials, (<https://carbonaccountingfinancials.com/standard>).

⁶ All holdings' data used in this analysis has been compiled as at 30/06/2024. The data includes the following items, covering 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, the core strategies, and offshore platform holdings). The majority of holdings held on external platforms have been estimated via apportioning the AUM in each model as at 30/06/2024 as per the drifted weight of each asset in each model. To estimate the Offshore MPS Platform holdings (c.£121 million), we have used static model weights (rather than drifted), given drifted weights weren't available. The impact on our overall numbers will have been immaterial off the back of this. Please refer to the Appendix for more detail on the estimation process.

⁷ All holdings' data used in this analysis has been compiled as at 30/06/2024. The data includes the following items, covering group-wide AUM excluding the International business. (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). The majority of holdings held on external platforms have been estimated via apportioning the AUM in each model as at 30/06/2024 as per the drifted weight of each asset in each model. Please refer to the Appendix for more detail on the estimation process.

Metrics and targets

BMAM

	BMAM 2023	BMAM 2024	BMAM coverage 2023	BMAM coverage 2024	% reported data	% estimated data	% not available
Financed emissions Scope 1 & 2 (tons CO ₂ e)	678,979.90	606,164.81	71.08%	69.79%	86.50%	12.38%	1.12%
Financed emissions per US\$m invested Scope 1 & 2 (tons CO ₂ e/US\$m invested)	52.53	44.21	71.08%	69.79%	86.50%	12.38%	1.12%
WACI Scope 1 & 2 (tons CO ₂ e/US\$m revenue)	112.12	241.44	71.63%	70.35%	87.01%	12.66%	0.33%

Data as at 30 June 2024. Data taken from Clarity AI on 22 July 2024.

2023–2024 BM Group and BMAM entity-level investment metrics

For the carbon footprinting metrics, we disclose these both for BM Group⁸ and BMAM⁹. Alongside each metric, we include coverage values. This represents the percentage of the total portfolio value that is captured in the metric. We also include data quality metrics, which describe the respective shares of self-reported and estimated emissions data on which the carbon footprint metrics are based, as well as the share excluded from the calculations.

- **Reported:** This value describes the share invested in companies for which a self-reported emissions value was applied, and the relevant financial metric (turnover, EVIC) was available.
- **Estimated:** This value describes the share invested in companies for which an estimated emissions value was applied, and the relevant financial metric (turnover, EVIC) was available.

- **Unavailable:** This value describes the share invested in companies for which no estimated emissions value could be determined and/or the relevant financial metrics (turnover, EVIC) was not available.

⁸ All holdings' data used in this analysis has been compiled as at 30/06/2024. The data includes the following items, covering 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, the core strategies, and offshore platform holdings). The majority of holdings held on external platforms have been estimated via apportioning the AUM in each model as at 30/06/2024 as per the drifted weight of each asset in each model. To estimate the Offshore MPS Platform holdings (c. £121 million), we have used static model weights (rather than drifted), given drifted weights weren't available. The impact on our overall numbers will have been immaterial off the back of this. Please refer to the Appendix for more detail on the estimation process.

⁹ All holdings' data used in this analysis has been compiled as at 30/06/2024. The data includes the following items, covering group-wide AUM excluding the International business. (a) Onshore BPS (excluding execution-only/advisory-only accounts, including RIS/Decumulation/Court of Protection, where applicable); (b) Onshore MPS Custody accounts.

BM Group

	BM Group 2023	BM Group 2024	BM Group coverage 2023	BM Group coverage 2024	% reported data	% estimated data	% not available
Financed emissions Scope 1 & 2 (tons CO ₂ e)	760,359.18	694,329.46	71.13%	70.38%	86.51%	12.31%	1.18%
Financed emissions per US\$m invested Scope 1 & 2 (tons CO ₂ e/US\$m invested)	51.61	44.17	71.13%	70.38%	86.51%	12.31%	1.18%
WACI Scope 1 & 2 (tons CO ₂ e/US\$m revenue)	108.91	224.09	71.78%	70.99%	87.03%	12.64%	0.33%

Data as at 30 June 2024. Data taken from Clarity AI on 22 July 2024.

As company reporting and data coverage improves and methodologies are enhanced, we expect to see year-on-year changes in our carbon metrics covering investments. Differences in reported carbon data between June 2023 and June 2024 are unlikely to have been significantly influenced by changes to asset allocation or asset selection, given that we did not make substantial changes over the reporting year. As the availability of entity level attribution and contribution data improves, we will seek to provide further narrative in future reports.

Operational carbon-footprinting 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 following emission data and referenced above in our operational strategy, our overall energy consumption has decreased by 14% in comparison with

the previous financial year whilst our GHG emissions have reduced by c.16% for electricity and 35% for gas.

This year, our energy consumption has dropped for electricity and gas due to a change of portfolio compared to last year. We have moved our Jersey and Tunbridge Wells offices to a service office, and our Edinburgh site went to being a fully electric supply as well.

Source of energy and emissions	Energy consumption (MWh)		GHG emissions (tCO ₂ e)	
	2024	2023	2024	2023
Combustion of natural gas	57.70	89.55	10.56	16.35
Combustion of biogas	20.34	22.09	0.004	0.005
Scope 1 total	78.04	111.64	10.56	16.36
Generation of purchased electricity	401.11	508.50	83.06	98.33
Of which is from renewable sources	391.67	484.59	–	–
Scope 2 total (market based)	401.11	508.50	83.06	98.33
Combustion of fuel in staff vehicles	280.65	261.82	68.03	65.48
Hotel stays	–	–	8.67	11.77
Business travel by third-party services (Rail)	–	–	1.54	1.10
Business travel by third-party services (Air)	–	–	15.58	22.58
Scope 3 total	280.65	261.82	93.82	100.93
Grand total	759.80	881.96	187.44	215.62
Renewable supplies			(81.10)	93.71
Carbon offset projects			–	6.95
Net total			106.34	114.96
Intensity per 1,000m ² gross floor area	162.73	200.17	22.77	26.09
Intensity per £m turnover	5.92	7.22	0.83	0.94

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.

Methodology

Conversion factors

All conversion factors and fuel properties used in this disclosure have been taken from the 2023 “UK Government Greenhouse Gas Conversion Factors for Company Reporting” published by the Department for Energy Security & Net Zero (DESNZ) and the Department for Environment, Food & Rural Affairs (DEFRA). All greenhouse gas emissions have been expressed in terms of their carbon dioxide equivalence.

Metrics used to assess climate-related risks and opportunities in line with the Group’s strategy and risk management process

Investment-related climate metrics outlined in this section are embedded into the ESG traffic light dashboards used in the investment research selection and review process; these are supplemented with data regarding fossil fuel involvement.

As outlined previously, in the reporting year, the RCC has reviewed and approved additional climate-related KRIs, which monitor the management of investment and operational climate-related risks. The operational Scope 1, 2 and 3 emissions are tracked and monitored as part of our net zero by 2030 strategy.

Targets used to manage climate-related risks and opportunities and performance against targets

As outlined in the Strategy section of this report, we have made the decision not to set a net zero commitment for our investments or to publish decarbonisation targets of our own. We continue to assess target-setting options, engaging with wealth management peers and the asset managers with whom we invest to inform our approach and ensure that any commitment is considerate of our fiduciary duty responsibilities and is meaningfully impactful in terms of real-world emissions.

For our operations, our target remains to be net zero across all our operations by 2030. By the end of 2025, we will set out a clear plan for how we will achieve this, which will include our short-term and long-term greenhouse gas (GHG) emission reduction goals.

Appendices

Appendix 1. Data methodology and approach

All holdings' data used in this analysis has been compiled as at 30/06/2024. Estimations have been required assets held outside of our custody (i.e., on differing platforms). We are currently susceptible to the varying degrees of digital infrastructure available within the underlying platforms we are associated with. Fewer than half of the platforms we are linked to currently have the logistical capabilities to provide exact line-by-line holdings breakdowns as at a specific date. We receive our total AUM held on each platform, within each strategy, on a monthly basis. We then aggregate the amount held within each strategy across all platform providers, and subsequently reapportion the funds as per the weights in our models. In contrast to the 2023 submission, following auditor feedback, we have proceeded to use drifted model weights to reapportion the funds held within onshore platform MPS solutions (c.£4.4 billion). Given that drifted model weights were not available for the offshore platform MPS solutions, we have continued to use static model weights for that portion of the AUM (c.£121 million). This will have had very minimal impact on our overall numbers. Ultimately, we deem the estimation process to be more decision-useful than not, given that the amount of AUM we have within platform providers is extensive and growing. By excluding such a significant portion of our AUM, the TCFD outputs would be distorted and not fully reflective of where we are as an entire business entity.

Our disclosure of metrics in this report is based on information from Clarity AI. Clarity AI disclaims any and all warranties whether express or implied, regarding this document, its content and the data and information provided by Clarity AI to the extent allowed by law, including but not limited to: warranties of absence of error, non-infringement of third-party rights (including intellectual property rights), accuracy, completeness, reliability, and possibility of profits or any form of results expected by the recipient or any third party. This document is provided exclusively for information purposes and under no circumstances may be interpreted as the provision of legal, financial, compliance, commercial or strategic advice. Clarity AI is not engaged in providing such advice and is not responsible for the results, analyses and decisions derived from this document by its recipient(s).

Appendix 2. Glossary

Asset	An investable security
Asset class	A collective term for a group of investable securities with similar characteristics
AUM	Assets Under Management, which is 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
CFA	Chartered Financial Analyst
CIP	Central Investment Process
Climate change	Long-term alteration in global or regional climate patterns
CO ₂ e	Stands for CO ₂ equivalent, which is the number of metric tons of CO ₂ emissions with the same global warming potential as one metric ton of another greenhouse gas
CSR	Corporate Social Responsibility
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
BREEAM	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 organisations 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
NGFS	Network for Greening the Financial System
NZIF	Net Zero Investment Framework
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 that 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	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
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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