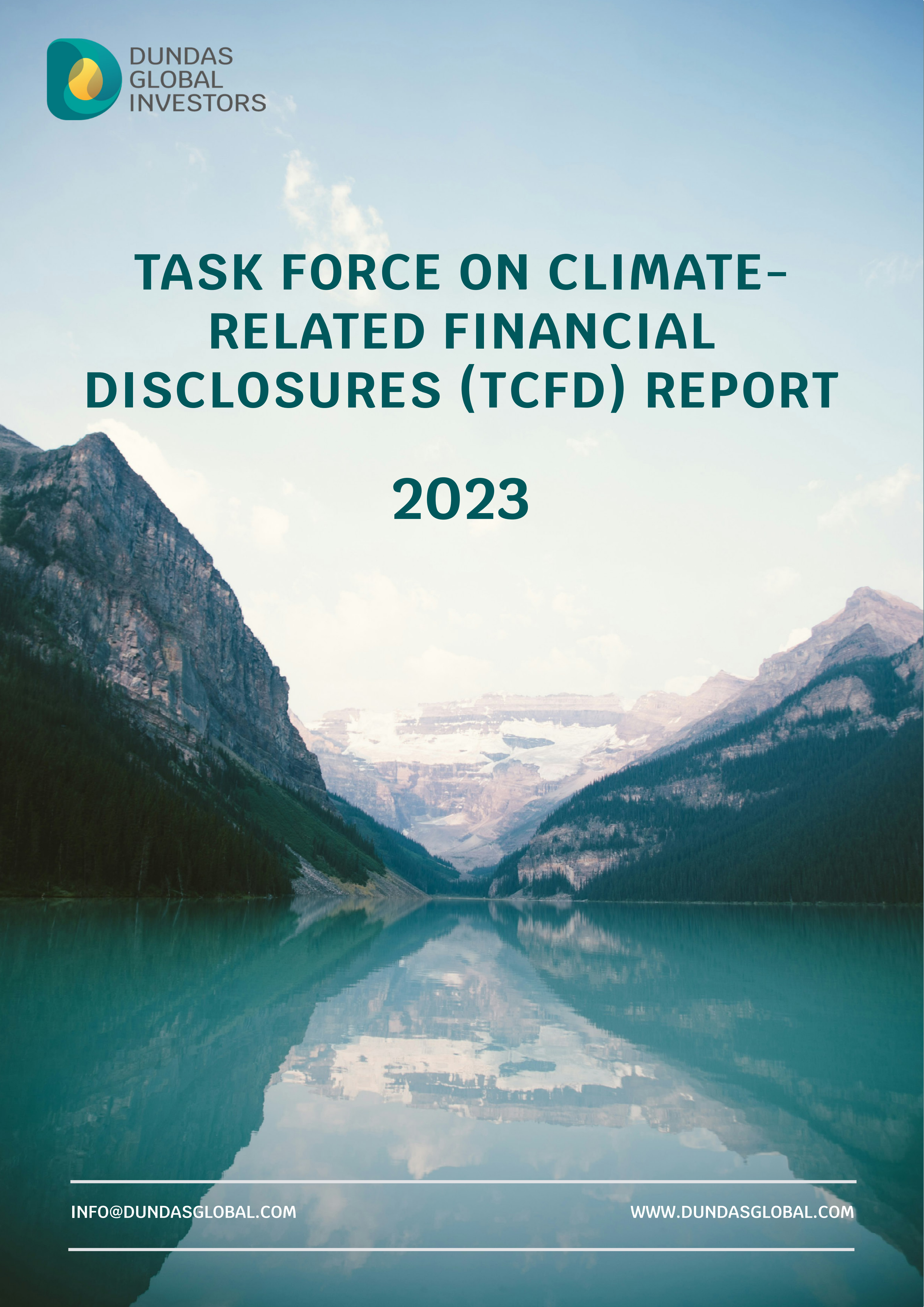


DUNDAS GLOBAL INVESTORS

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) REPORT

2023

INFO@DUNDASGLOBAL.COM

WWW.DUNDASGLOBAL.COM

TABLE OF CONTENTS

INTRODUCTION

Why we are issuing a TCFD report when the TCFD has shut down

This is our first – and last – TCFD report.

The Task Force on Climate-related Financial Disclosures (TCFD) was set up in 2015 to develop accounting and reporting standards that companies would disclose:

- Governance around climate-related risks and opportunities
- The impact of climate-related risks and opportunities on business strategy
- The assessment and management of climate-related risk
- The metrics and targets used to assess and manage climate-related risks change in behaviours globally

In 2017, the TCFD issued comprehensive climate-related accounting standards which many companies adopted in whole or part but, as they were voluntary, uptake has been patchy and inconsistent.

Recognising the limitations of a voluntary model, in 2023 the Task Force transferred responsibility for its standards to the IFRS Foundation.

International Financial Reporting Standards (IFRS) accounting standards provide common, consistent global financial reporting in over 130 jurisdictions which require companies to apply them, providing investors with the tools necessary for informed decision making.

Building on the TCFD and other work, the first IFRS Sustainability reporting standards were issued in June 2023 to come into force from 1 January 2024 onwards. Already many countries have adopted the new standards into their local accounting systems. As more follow suit, global corporate reporting on climate-related risks will be transformed.

Our future reports on climate-related risks and opportunities will follow the new IFRS Sustainability Standards.

What gets measured gets managed

The aphorism what gets measured gets managed applies to climate-related reporting. Companies and their managements will be judged on their actions, not their ambitions. Virtue-signalling on climate will not cut it. Proper, measurable plans audited and reported under IFRS Sustainability Standards will.

It is early days but already we see climate ambition leading to competitive advantage.

Companies getting to grips with their Scope 1 and 2 reporting are producing more detailed, thorough and credible climate-related reports they issue to investors but also to potential customers. We have seen companies state that they will favour suppliers with the best Scope 1 & 2 status (including SBTI validated plans), both because they recognise its importance and because it helps their own Scope 3 assessments.

The US SEC had adopted accounting standards covering Scope 1 & 2, subject to final approval. The new administration may not proceed with these proposals. Our discussions with US companies suggest that the largest and leading businesses that operate globally will report in a manner consistent with the SEC's proposals and IFRS standards. They grasp that their investors, customers, and wider audiences expect them to keep up with best global practice.

THE BASELINE

1. This TCFD report reflects the reported climate-related data from the companies in our portfolios as of 31 December 2023.

2. Companies lacking credible Net Zero by 2050 commitments will become uncompetitive and unsustainable. They cannot form part of our portfolios.

3. We expect that by 2030 all the companies held in our funds shall have validated carbon reduction pledges.

4. Current company pledges representing >80% of our assets under management imply a 19% carbon footprint reduction in Scope 1 & 2 by 2030. We will update that target annually.

OUR APPROACH

Research

We rely upon audited reports and account which from 2025 onwards increasingly will include reports prepared under the new IFRS Sustainability standards. Climate-related data will be available just as information on inventory, capital expenditure and senior management compensation is today.

Company and portfolio emissions target pathways are aggregated from company pledges.

Engagement

We will engage with portfolio companies primarily on three topics:

1. Their climate-related risk and opportunity reports issued annually under the new IFRS standards

2. The credibility and validity of their plans. Reviewed and validated by whom? Using what criteria? Inconsistency with peers?

3. The competitive advantage gained / lost from their climate-related pledges

Reporting

Annual reports to clients on the progress of portfolios' carbon footprint and carbon intensity, run rate reduction and impact of portfolio turnover.

GOVERNANCE

GOVERNANCE

ABOUT DUNDAS

We are an independent partnership whose partners and staff invest alongside our clients.

We invest in around 120 companies in total across all our portfolios, which are split into Global, International (ex-USA) and Smaller Companies.

GOVERNANCE STRUCTURE

Partnership Board
(all partners)

- Overall accountability

Investment Committee
Investment team, Head of Stewardship, Stewardship Analyst, Head of Clients

Responsibility for;
- Net zero strategy
- Company analysis
- Company engagement
- Metrics & targets

Management Board
Managing partners & other partners as required

- Approval of strategy
- Resourcing
- Responsibility for company operations target setting & execution

Compliance & Audit Committee
Independent Chair, Head of compliance, Head of stewardship, Head of Finance, Head of Clients

- Oversight of reporting
- Approval of policies
- Responsible for external assurance

Stewardship Working Committee
Head of Stewardship, Stewardship Analyst, Head of Clients

- Strategy & policy drafting
- Data analysis
- Reporting

Operations Working Committee
Office Manager, Stewardship Analyst, Head of Finance

- Strategy & planning
- Reporting
- Execution of carbon savings

BOARD OVERSIGHT – ACCOUNTABILITY

The **Partners Board** has ultimate accountability for the oversight of climate-related issues. The Board meets quarterly and is kept informed through reporting from the three sub-committees: the Investment Committee, the Management Board and the Compliance and Audit Committee each of which meets weekly or monthly.

The Partners Board comprises of eight partners and is chaired by the Senior Partner. It considers climate-related issues when reviewing and guiding strategy, which it does formally through the approval of the annual budget and business plan. Discussions take place on progress against goals and targets for addressing climate-related issues.
It has overall accountability for ensuring that the products and services the firm offers meet sustainability regulations and reporting requirements.

The **Management Board** has day to day responsibility for managing the firm. It comprises four partners and calls on other partners as required. This board is primarily responsible for implementing the company business plan.

MANAGEMENT'S ROLE – RESPONSIBILITY

The **Investment Committee** comprises those directly responsible for company research, decision implementation and client communications. They oversee all aspects of investment research, portfolio management and risk assessment, performance analysis and stewardship activities both in general and specifically for climate-related issues.

They embed climate-related factors into the stock research notes, conduct company engagement, approve proxy voting policies, manage key portfolio metrics and the alignment to the agreed pathway stated in this document.

The **Compliance and Audit Committee** is chaired by an external non-executive. It oversees compliance across the three regulatory frameworks in which the firm operates (UK, USA, and Australia/New Zealand). It supervises all external audit and assurance undertaken on the firm and its portfolios, best execution within client portfolios and the firm's overall risk framework. With respect to climate-related issues this committee oversees all reporting, both internal and external assurance and validation of policies and procedures. It reviews key risks impacting the business including the impact of ESG investing and climate change.

Head of Stewardship – During 2023 the firm appointed one of its partners, David Keir, to lead the firm's Stewardship: policy making, reporting and compliance. This includes all climate related issues related to the firm's portfolios and investments. In making this appointment the firm has assigned climate-related responsibilities to a senior management-level position within the firm. David is a member of the investment team with responsibility for Global Equity portfolios.

As a member of the Partners Board and two of the three sub committees, David can report directly to both the Chair of the Investment Committee (Dundas Senior Partner) and to the Chair of the Compliance and Audit Committee (non-executive) and plays a key role in keeping other members of the management team informed about climate-related issues.

The Stewardship Committee is a subcommittee of the investment committee. It meets weekly and comprises: the Head of Stewardship, Stewardship Analyst (Natasha Hayward) and the Client Partner (Neil Sutherland), and others as required.

This group drafts the firm's Net Zero strategy and climate-related policies for approval and is responsible for drafting all stewardship reports and submissions, including this document.

With respect to the monitoring of climate-related issues for the organisation, this Group acts as the main clearing house for data and metrics for both internal management information and client portfolios reporting. These documents are prepared for the Investment Committee and Management Boards before the final communication to clients and others is approved by the Compliance and Audit Committee.

The **Operations Working Group** comprises of our Stewardship Analyst, our Office Manager (Janette Deans) and Head of Finance (Natalie Moyes). They assess and manage climate related issues with a focus on achieving Net Zero for our business operations by 2050. The Management Board will approve any recommendations made by the Operations Working Group.

This Group is responsible for the firm's emission strategy and for monitoring the emissions from the firm's operations. This group calculate Scope 1,2 and Scope 3 emissions for our business operations.

The table below shows the responsibilities of each committee in assessing and managing climate-related issues.

Committee	Data Analysis	Policy & Strategy	Report drafting	Decision Making	Implement	Approval
Stewardship	X	X	X		X	
Investment				X	X	X
Compliance & Audit						X
Management					X	X
Partnership						X

STRATEGY

STRATEGY

IDENTIFYING CLIMATE-RELATED RISKS AND OPPORTUNITIES

This section of the report explores the impacts of climate-related risks and opportunities on our firm's business, strategy, and financial planning, as well as how our portfolios may be affected by the transition to a low-carbon economy

We define climate-related risks as potential impacts on future financial returns as a result of climate change. These risks are categorised into transition risk—stemming from policy changes or technological advancements—and physical risk, which arises from changing weather patterns and increased extreme events. Their likelihood and intensity vary depending on the pace of the transition to a low-carbon economy.

We see climate related opportunities as a source of potential competitive advantage. We believe that those that navigate this transition effectively and also address Scope 3 emissions are likely to see stronger long-term growth and higher valuations.

We support the objective of limiting global temperature rises to well below 2°C, and ideally 1.5°C, set out by the Paris Climate Summit in 2015. As a firm based in Edinburgh, we acknowledge the UK's Climate Change Act, a legal commitment for the UK Government to achieve Net Zero greenhouse gas emissions by 2050 and Scotland's specific legislation, which targets Net Zero by 2045. We understand the requirement for actions to meet these targets and to manage the risks associated with climate change.

As long-term investors in global equities, our strategy serves individuals, wealth managers, and asset owners addressing long-term pension and savings liabilities. We define our horizons as:

- **Short term:** 2030, is based on the year that most companies have made short term reduction pledges. This is also consistent with our minimum expected investment horizon.
- **Medium term:** 2040, is the mid-point.
- **Long term:** 2050, as agreed by the Paris Agreement.

Using these time horizons, the following table sets out a summary of the specific climate-related risks and opportunities currently identified and monitored for each aspect of our activities – investment activities, interactions with clients and the firm's own operations.

Using these time horizons, the following table sets out a summary of the specific climate-related risks and opportunities currently identified and monitored for each aspect of our activities – investment activities, interactions with clients and the firm's own operations.

Risks

Risks	Identified Risks	Potential Outcome	Short term	Medium term	Long term
Investment Activities	Competitive disadvantage of investing in non-climate aligned companies	Poor client returns. Reputational risk.	Mid	High	High
	Physical impact of climate change	Poor client returns. Reputational risk.	Mid	High	High
	Transition risks of climate change	Poor client returns. Reputational risk.	Mid	Mid	High
Client	Not committing to Net Zero	Loss of clients	High	High	High
	Greenwashing/ greenhushing	Reputational risk. Regulatory intervention.	High	High	High
	Client priorities differ in terms of climate-related targets	Loss of business.	High	Mid	Mid
Firm operations	Cost of inaction	Financial impact & reputation	Mid	High	High

Opportunities

Opportunities	Identified opportunities	Potential Outcome	Short term	Medium term	Long term
Investment Activities	Competitive advantage of investing in climate aligned companies	Positive impact on client returns. Reputational benefit.	Mid	High	High
	Avoided stranded assets	Reduce volatility. Positive impact on client returns.	Mid	High	High
Client	Increased demand for net zero aligned mandates	Greater firm revenues. More income for reinvestment in firm.	Mid	High	High
Firm operations	Attracting and retaining skilled and experienced staff	Growing reputation for climate-related investing makes firm more attractive.	Low	Mid	High

INVESTING ACTIVITIES

Investment strategy

The Impact of climate-related risks and opportunities on the investment strategy

Investing in around 120 stocks, our portfolios are built from the bottom up by our investment analysts. Our dividend growth strategy aims to invest in companies that have the ability to grow dividends at high rates over the long-term. This makes these assets vulnerable to climate-related challenges that could affect their ability to produce sustainable, high rates of dividend growth.

We balance our time between identifying new investments and monitoring current holdings, with a considered approach to the climate risks and opportunities they face.

We actively screen out companies whose principal activity is thermal coal mining or for use in power generation because we deem their climate risks are too high to give us confidence in their long-term dividend growth prospects.

Through discussions with clients and alongside our belief that they hold low prospects for sustainable dividend growth, we have identified the need for a few universal screening exclusions within our portfolios, one of which is climate-related; Companies whose principal activity is thermal coal mining or use in power generation.

We target businesses in the MSCI global universe with strong, growing cash flows that support future growth through reinvestment (e.g., capital expenditure, R&D, and M&A) and deliver rising dividends.

The table below compares our portfolios with the MSCI ACWI global benchmark, on these key metrics (capital access, energy price volatility, R&D funding, and exposure to unmanaged climate risks).

Metric	Portfolio	Benchmark	Likely impact on transition to low carbon economy
Return on capital	12.5%	6.6%	Easier access to finance – equity & debt to fund Capital Expenditures. Higher dividend growth potential.
Gross Margin	48%	32%	Less damage from energy and input price volatility. More scope for R&D reinvestment.
Operating Margin	18%	13%	Higher and more defensible operating profit margins. Good indicator of competitive advantage and flexible cost base.
Net/debt to equity	88%	73%	Similar levels of indebtedness but higher cash flows to service debt. More resilient to volatility in monetary policy through transition.
P/E	23X	17X	Higher PE implies longer duration asset so greater potential impact if transition risks not managed appropriately.

Source: Bloomberg & MSCI As of Dec 2023

From this analysis, our global portfolios are better placed to face these challenges than the benchmark. However, the impact of our investments on sustainable outcomes, including climate-related goals, depends on the policies and execution by the companies we invest in.

How we identify climate risks and opportunities within our Investment Activities

The shift to audited, validated climate targets and reductions will lead to winners and losers. Those who manage climate risk effectively may gain a competitive advantage, while companies without credible targets may see share prices fall, and assets ‘stranded’.

In addition, an increase in global disruption caused by severe weather events and stricter regulations creates additional risks and potential financial burdens for companies, increasing the levels of due diligence required in our research process.

We utilise publicly available information to conduct our in-house investment research, employing FactSet, Bloomberg, and our own internal proprietary financial analysis system. To support our assessments of companies’ resilience to long-term, industry-specific climate risks and opportunities, we take input on company and portfolio-level ESG analysis from MSCI ESG Research & Ratings. In our experience, companies with strong governance also perform strongly under ESG analysis and scoring.

We use the MSCI ESG Ratings report to help us assess the impact of climate change on our companies with regards to physical risks (the risks resulting from climatic events, such as wildfires, storms, and floods) and transition risks (the risks presented by policy action taken to transition the economy off fossil fuels). We also use company data from Annual Report and Accounts, Sustainability reports and MSCI carbon metric data to assess the impact our companies have on climate change via scope 1 & 2 emissions. We will include an assessment of scope 3 post adoption of IFRS S1 and S1 accounting standards.

We evaluate our companies’ Net Zero plans by analysing their strategies, target years, and whether these targets are certified by the Science Based Targets Initiative (SBTi) or the Carbon Disclosure Project (CDP). We track progress against these goals annually and engage with companies to explore both the risks and opportunities posed by climate change. This includes understanding their efforts to mitigate risks and identifying potential benefits that may emerge as the economy shifts toward lower carbon emissions.

To effectively assess and monitor the climate impact of our portfolio companies, as well as the physical and transition risks associated with climate change over time, we report on the following portfolio-level metrics:

- **Carbon Footprint:** A normalised measure of a portfolio's contribution to climate change (tCO_2e/\$M Invested)
- **Carbon Intensity:** The ratio of portfolio carbon emissions normalised by sales (tCO_2e/\$M Sales)
- **Weighted Average Carbon Intensity:** The sum of each company's Carbon Intensity, weighted by their share in the portfolio

Stewardship

The Impact of climate-related risks and opportunities on the investment strategy

We see a risk in companies that are unprepared for the Net Zero transition, and we aim to address this through our ownership and engagement activities.

We actively monitor climate-related progress from portfolio companies and exercise our ownership rights to vote and engage with Boards on behalf of our clients. We work with Institutional Shareholder Services Inc (ISS) to vote all proxies where authority is delegated to us as investment managers.

We vote in line with ISS's Climate Policy recommendations guidelines as follows:

- ► Voting against directors due to failure to manage environmental, social and governance (ESG) risks, including climate change.
- ► For large Greenhouse Gas (GHG) emitters, vote against where the company is not taking minimum steps needed to be aligned with a net zero by 2050. ISS' minimum steps are like IFRS sustainability standards and include:
  - Detailed disclosure of climate related risks,
  - A declared target of net zero by 2050 or sooner that includes scope 1, 2, and relevant scope 3 emissions,
  - A set medium term target
  - Whether the company has a decarbonisation strategy.

Aside from voting, active engagement with companies takes the form of in-person meetings, group video calls with investors, writing to Board members and making our stance clear on climate-related governance priorities through the investor relations teams at these firms.

We believe that there is a value from pushing for change as a long-term investor with active engagement. Divestment would be a final step if we believed that no progress was being made after repeated attempts to engage.

OUR CLIENTS

Our clients are diverse in type, geography, size, and their approaches to Net Zero commitments, and we operate within a complex framework of global regulations. This broad perspective, enhanced by regular engagement, enables us to provide a well-rounded, informed view of global risks and opportunities for our clients.

We see the greatest risks to ourselves and our clients as the failure to act appropriately or to report accurately (including greenwashing or hushing). These issues are heavily scrutinised by industry media and regulators, prompting the investment industry to respond with thoughtful and deliberate action.

FIRM OPERATIONS

How we identify climate risks and opportunities within our business operations

We consider physical risks to be the main type of climate risks that have the potential to impact our day-to-day operations. We consider this risk low given the location of our office and the ability of colleagues to work from home.

We will disclose our own greenhouse gas emissions annually and are committed to Net Zero for our own operations by 2050.

We worked with the University of Strathclyde to provide a baseline report to track our operational Greenhouse gas emissions across Scope 1, 2 and 3. This is disclosed in the final section of this report and will be updated annually going forward, with a target of reducing our operational greenhouse gas emissions each year.

We expect that our target for our business operations will need to involve the use of offsets, but for now we are focusing on ways to reduce our direct emissions.

THE IMPACT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

1 Observe & Monitor

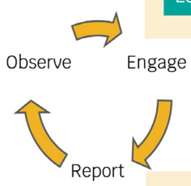
Stock level (assessed in every stock analysis)

Research notes contain;
- Carbon Emission
- Carbon Intensity
- Pledge
- Progress

Portfolio level (assessed quarterly at Investment committee)

- Bloomberg / Excel sheet to show the following;
- Carbon emissions history
- Carbon intensity history
- Pledge 'pathway'
- Dates* – 2019 forward, 2023 forward, now

Dates represent 2019 – the global baseline year, 2023 – the portfolio baseline year and today



2 Engagement

Engage on the following topics;
- Companies with no target
- No validated plan
- Missed/ behind pledges
- Adjusting pledges

Leading to potential divestment after extensive engagement

3 Reporting

Client reports will include;
- Emissions & intensity
- Progress
- Engagement detail
- Pledges missed

OUR PATHWAY TO NET ZERO

The Impact of climate-related risks and opportunities on the organisation's business strategy and financial planning

We encourage our investee companies to achieve Net Zero by 2050 (currently for scope 1&2 emissions). We believe that those that navigate this transition effectively and address Scope 3 emissions are likely to see stronger long-term growth and higher valuations.

We expect companies to provide essential climate disclosures in line with new sustainability accounting standards —covering Scope 1, 2, and 3 emissions—and to develop a Net Zero strategy by the end of 2030.

Retrospectively, we can see an approximate 50% reduction in the Scope 1+2 GHG emissions per global portfolio between January 2019 – December 2023, sourced from Bloomberg Data.

We anticipate further reductions in our companies' emissions over the next 5-6 years. This is based on pledges that most of our investee companies have already committed to. We also expect that improvements in the quality of data being reported will add to the emission reductions.

Our **short term (by 2030)** goals are as follows:

- **19% further reduction in absolute scope 1&2** tCO_2e (Tons of CO2 equivalent greenhouse gas) emissions per global portfolio based on company level pledges from 2023 levels.

- **We expect that all investee companies** will have validated carbon reduction pledges to 2050 or earlier

(total carbon pledge per stock multiplied by current carbon emissions multiplied by held quantity).

Our **long term (by 2050)** goal is as follows:

- To **achieve Net Zero for our portfolios.** This target includes: 100% of assets under management (AUM) across all portfolios.

Our pathway has three main elements:

- Continue to increase the number of companies in client portfolios which have set net-zero by 2050 as a goal along with appropriate intermediate targets.

- Exercise our Stewardship practices which will likely see boards improve their climate-related practices and policy execution.

- Divestment would be a last resort.

Aside from the stock specific monitoring programme in place, we have also set up a carbon emissions pathway tracker with data from Bloomberg, audited company reports and MSCI which allows portfolio metrics to be analysed, with engagement /remedial action taken if required.

BUSINESS AND FINANCIAL PLANNING

The Impact of climate-related risks and opportunities, on business, and financial planning

The Management board in conjunction with our Finance Manager set firm wide budgets and business plans annually and monitor progress against them on a quarterly basis. The Compliance and Audit Committee have responsibility for reviewing the firm's risk register including those that are climate related.

The budgets are updated to reflect expected climate impact including climate related costs associated with our investment capabilities and business operations. The firm's revenues derive from fees charged in relation to assets under management, these are at risk through climate-related factors through the twin mechanisms of global equity returns and how well the firm succeeds in retaining/adding clients.

Regulatory change and rising client expectations are likely to result in an increase in the firm's cost base, however, the firm remains well capitalised and profitable.

CONSIDERING DIFFERENT CLIMATE RELATED SCENARIOS

Scenario Analysis

Scenario analysis helps identify and assess the potential impacts of different future climate-related outcomes. These scenarios are hypothetical, not precise forecasts. The goal is to highlight key factors that could shape the future and guide strategic decisions.

To test the resilience of the firm's investment and business strategies, we undertook climate scenario analysis based on client portfolios as at end December 2023. The scenario analysis was carried out using a model provided by MSCI. Three scenarios were considered which differ by how quickly and decisively the world responds (or fails to respond) to climate change. The table below summarises these scenarios:

Orderly Transition 1.5°C **Best case**	Disorderly Transition 1.5°C **Business as usual**	Procrastination 2°C **Worse case**
Climate policies introduced early e.g. carbon pricing, green subsidies	Climate policies delayed so stronger when they come	Climate policies delayed and poor execution
Policies aligned across countries	Policies divergent across countries	Policies divergent across countries & sector
Policies more stringent over time	Delays result in sharp increase in carbon pricing	Increased commodity and capital market volatility
Transition disruption underway soon.	Transition period shorter but sharper	Transition delayed but disruption high in longer term
Both physical and transition risks relatively subdued	Transition risk heightened	Transition risks escalate and physical risks heightened
Zero emissions by 2055	Zero emissions by 2055	Zero emissions by 2060
MCSI 1.5°C REMIND scenario	MCSI 1.5°C REMIND disorderly	MSCI REMIND 2°C disorderly

In addition to scenario analysis, we have also analysed the effects of climate value at risk, carbon footprint, implied temperature alignment and our resilience to carbon pricing to give different pictures of the effect on and of our portfolios.

Climate Value at Risk

Utilising the modelling framework provided by MSCI, we have assessed the impact of the different paths over the coming years in line with the three scenarios described above. This analysis is provided against the benchmarks: global equity index of MSCI ACWI (for global portfolios) and EAFE plus Canada (for international portfolios).

The aggregate climate value at risk is broken down into three components: transition/policy, physical and technology opportunities (covered below).

Not surprisingly the disorderly scenarios show a higher transition/policy risk than the orderly scenario but in both cases the portfolio shows substantially better resilience than the broad market benchmark.

MSCI Value at Risk scenario table summary for our Global portfolios.

Selected Scenario : 2°C NGFS Orderly

	2°C NGFS Orderly			1.5° REMIND NGFS Orderly			1.5° REMIND NGFS Disorderly		
	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active
Policy Climate Var (Scope 1,2,3)	-0.4%	-3.3%	2.9%	-1.9%	-10.0%	8.2%	-3.2%	-13.8%	10.6%
Technology Opportunities Climate VaR	0.0%	0.3%	-0.3%	0.2%	1.1%	-0.9%	0.3%	1.9%	-1.7%
Physical Climate VaR Aggressive	-1.3%	-4.4%	3.1%	-1.0%	-3.5%	2.5%	-1.0%	-3.5%	2.5%
Aggregated Climate VaR	**-1.7%**	**-7.4%**	**5.7%**	**-2.7%**	**-12.4%**	**9.7%**	**-3.9%**	**-15.3%**	**11.4%**

MSCI Value at Risk scenario summary for our International portfolios.

Climate Value at Risk

Selected Scenario : 2°C NGFS Orderly

	2°C NGFS Orderly			1.5° REMIND NGFS Orderly			1.5° REMIND NGFS Disorderly		
	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active
Policy Climate Var (Scope 1,2,3)	-0.5%	-4.8%	4.2%	-2.1%	-15.2%	13.1%	-3.4%	-19.7%	16.3%
Technology Opportunities Climate VaR	0.1%	0.8%	-0.7%	0.3%	2.5%	-2.2%	0.6%	4.5%	-3.9%
Physical Climate VaR Aggressive	-1.7%	-6.6%	4.9%	-1.3%	-5.2%	3.9%	-1.3%	-5.2%	3.9%
Aggregated Climate VaR	**-2.1%**	**-10.6%**	**8.5%**	**-3.1%**	**-18.0%**	**14.9%**	**-4.2%**	**-20.5%**	**16.3%**

Physical risks

Physical climate risks are similar across all three scenarios and in each case less than the benchmark. Coastal flooding and extreme heat constitute most of the aggregated portfolio physical risks.

Technology Opportunities Value at Risk

Our portfolios exhibit less resilience in this area. Figures trail those of the benchmark under each scenario.

As the portfolio's time series expands and data from investee companies improves, we will assess any green or technological opportunities driven by the need to decarbonise, while ensuring that the overall resilience demonstrated by this analysis remains intact.

The model shows that climate value at risk for our portfolios is significantly lower than the benchmark across all three scenarios, with the disorderly scenario showing much higher risk for the benchmark.

Technology Opportunities Value at Risk (cont.)

In summary the climate value at risk analysis undertaken using the MSCI methodology gives comfort that our portfolios are resilient taking into consideration different climate-related scenarios including a 2°C or lower scenario.

Carbon Footprint

In our global and international strategies covered in this report, 97% of investee companies have reported actual data (rather than estimates) to calculate their carbon footprint.

In terms of financed carbon emissions per dollar invested, the global strategy is 80% lower than the ACWI benchmark for Scope 1 and 2 emissions, while the international strategy is 75% lower than the EAFE + Canada benchmark for the same. (See the Metrics section for more details.)

The difference between our portfolios and the Benchmark can be explained by the table below, showing financed carbon emissions by sector. (Our portfolios exclude Energy and Utilities.)

Financed Carbon Emission (S1+S2) by Sector

	Portfolio	Benchmark	Active
Materials	246.0	490.9	-49.9%
Consumer Discretionary	23.8	16.6	43.5%
Consumer Staples	11.7	30.4	-61.6%
Industrials	5.7	52.0	-89.0%
Information Technology	5.3	10.6	-49.9%
Health Care	5.8	4.9	17.9%
Communication Services	2.3	6.3	-64.3%
Financials	1.0	6.9	-85.4%
Total	**9.7**	**69.8**	**-86.0%**

Source: MSCI and Dundas at end December 2023.

Implied Temperature Analysis

In the light of the conclusions above it is helpful to look at the MSCI implied temperature rise metric. This is used to assess alignment with portfolio level decarbonisation targets. It translates company level emissions and climate targets in degrees Celsius.

The resulting analysis shows the **global portfolios have an ITR of 1.9°C against the benchmark at 2.4°C** while the **international portfolios have an ITR 2.0°C against 2.3°C.**

This implied temperature rise metric provides an indication of how well portfolio (and benchmark) companies align with global temperature goals. Expressed in degrees Celsius it is a forward-looking metric that shows how a company aligns with the ambitions of the Paris Agreement. This is to keep a global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

Specifically, 75% of companies in the global portfolio and 80% in the international portfolio align with the goal of limiting temperature increase to below 2°C. 42% and 34% respectively align with the goal of limiting temperature increase to below 1.5°C.

In summary, this additional analysis is consistent with the climate value at risk in concluding that the portfolio is already reasonably aligned to the Paris Agreement goals while suggesting that there is further progress to be made in coming years.

Portfolio Resilience to Carbon Pricing

In seeking to test the resilience of the portfolio from different perspectives, we have evaluated the impact of carbon pricing on input costs and how that would feed through to profitability and cash flows.

The analysis in the table below suggests that our portfolios are well placed to accommodate carbon pricing should it be introduced more broadly.

The table shows the impact of carbon pricing on net margins. It uses the EU's carbon pricing on 31 March 2023 (source: Statista), one of the most stable and the most punitive, according to the World Bank's State and Trends of Carbon Pricing 2023 report.

	Dundas Global strategy	**MSCI ACWI**
Net income margin Q2 2023	**13.8%**	**9.3%**
Portfolio carbon intensity (tCO2/US $m revenue)	40.55t	163.16t
EU Emission Trading System Price (USD) at 31 March 2023 per t CO2	$96	$96
Carbon cost of EU ETS pricing applied	$3,893 = 0.39% of $1m revenues	$15,663 =1.56% of $1m revenues
Adjusted net income margin Q2 2023 post EU ETS price application	**13.4%**	**7.7%**
Impact of carbon pricing on net margins	40 bp reduction	160 bp reduction
Adjusted net income margin using Sweden's carbon pricing of $126 / t CO2 Sweden has the world's highest carbon pricing	**13.3%**	**7.2%**

Net income margins for our strategies are 13.8% before carbon pricing, 13.4% with the EU system, and 13.3% with the more stringent Swedish system. In comparison, the benchmark index shows margins dropping from 9.3% to 7.7% or 7.2%.

We will continue to monitor both policy developments in carbon pricing and the portfolios sensitivity to these changes.

The findings align with previous analyses and highlight the portfolio's strong climate-related resilience.

BUSINESS AND FINANCIAL RESILIENCE

As outlined above we consider three planning scenarios to access the impact of the different risks (and opportunities) identified and how they may interact with each other. These scenarios can be summarised as follows: orderly business as usual growth; disorderly volatility in markets leading to low or no revenue growth but rising costs of doing business; and higher growth requiring greater reinvestment should the opportunities outlined above come to pass.

These planning scenarios correspond closely to the three climate-related scenarios described in the Investment Strategy section above.

Regulatory change and rising client expectations are resulting in a gradual increase in the firm's cost base.

The most challenging scenario would be a disorderly carbon transition with volatile markets and potential clients refraining from making decisions to change managers. Having modelled this scenario, the firm remains well capitalised with satisfactory profitability.

The firm will continue to assess how it can improve the communication of the resilient investment strategy described above to potential clients which would result in increasing assets under management. This would serve to further enhance the resilience of its business and financial strategy.

RISK MANAGEMENT

RISK MANAGEMENT

The prior section described how climate-related risks were identified and assessed, we now turn to the management of those risks.

We will look primarily at risk management as it relates to the portfolio investment activities on behalf of clients but also risk management with respect to the firm's finances and business strategy.

INVESTMENT ACTIVITIES

Research

- We place reliance on audited accounts and validated targets
- We embed carbon data in every stock note – both candidates and existing holdings
- We analyse both the company level and portfolio level
- We build portfolio emissions target pathway based on aggregated company pledges

Each of the 120 companies in client portfolios undergoes an annual review. Our investment analysts use publicly available company data, including financial reports, climate metrics, targets, and investor presentations, along with tools like FactSet, Bloomberg, and MSCI.

The goal is to assess climate-related risks and opportunities in relation to the company's finances, strategy, and competitive landscape. Research findings inform decisions on long-term dividend growth, security, and our broader strategy, while also considering relevant regulatory requirements based on the company's sector and markets.

Industry Research

We constantly seeks new companies to enhance future dividend prospects, increase diversification, or replace sold holdings. The investment team focuses on particular industrial sectors or end markets and typically cover 6-8 industries per year. These broader industry research pieces allow the team to identify emerging regulatory trends and potential gaps in the portfolio. We revisit sectors periodically to stay informed on the evolving risk landscape.

Dividend Growth Monitoring

Our strategy is predicated on the understanding that over long periods equity returns correspond closely to the rate of dividend growth.

It is through the lens of dividend growth that we determine the relative significance of risk (including climate-related risks).

Risk Management Assessment

Research outputs from company and industry analysis, along with dividend growth monitoring, lead to a Red, Amber, Green (RAG) classification for each holding where all risks, including climate-related, are assessed.

Red: Companies where we consider the sustainable dividend growth rate is likely to be impaired and /or the valuation risk is excessive and may include risks such as lack of Net Zero targets, a validated pathway or insufficient disclosures. Would require a review within 3 months. We will engage with the companies on these climate related issues.

Amber: Companies where we consider the sustainable dividend growth rate to be under pressure and/or the valuation poses excessive risk and may include risks such as lack of Net Zero commitment or insufficient disclosures.
Requires a review within 6 months. We will engage with the companies on these climate related issues.

Green: Companies that exhibit sustainable dividend growth at attractive valuations and typically includes companies that have validated Net Zero plans.

The table below summarises how climate-related factors affect company finances, helping us assess their impact on future cash flows and dividend growth. This is our main process for managing climate-related risks over time.

Financial metric	Potential climate impact T- transition, P – physical risk	Risk to our business	Management mitigation
Revenue growth	Change in customer preferences (T) Supply chain on-shoring (T/P) Lower economic growth due to macro shocks (T/P)	Lower growth profile than past. Increased competition from fewer players. Revenue mix more inflation less volume.	Ongoing search for new faster growing companies. Cross reference issues in one company with others.
Gross Profit	Increased cost of goods due to higher input costs – energy, commodities (T/P) Supply chain disruption & transport (P) Carbon pricing impact (T)	Gross profit margin under pressure. Higher costs from redundancy in supply chain. Carbon taxes increase costs.	Monitor gross margin trends. Examine supply chains more closely. Look at value chain to assess margin resilience. Model resilience to carbon price change.
Operating profit/cash flows	Disruption costs of climate events (P) Increased insurance costs (P) Longer term improved efficiency (T) Higher depreciation charges (T/P) Costs of meeting regulations and disclosure needs (T)	Operating profit under pressure. Cash flows reduced. Boards constrained on dividend growth.	Monitor cash flow trends. Model higher costs of doing business. Focus on competitive advantage and ability to pass on cost increases.

Reinvestment: capex, R&D and acquisition	Need for higher and different capital expenditures (T/P) Stronger firms more likely to acquire weaker as competition increases (T) Increase R&D for market opportunities (T)	Overall higher levels of reinvestment restrict dividend growth in short – medium term. Acquisition of weaker firms may increase financing risks. R&D successes offset some risks.	Anticipate higher reinvestment needs of firms through short to medium transition. More pressure to retain profits rather than distribute via dividends.
Dividends	Board perception of risk may lead to higher retention rates (T)	Past dividend growth rates may overestimate transition period prospects (T/P).	Closely monitor pay-out ratio, funding needs and Board guidance.
Balance sheet	Some assets may not be appropriate in lower carbon economy (T/P) Higher borrowings under pressure due to lower cash flows to service debt (T/P)	Likelihood of asset write downs. Higher cost of borrowing for many firms and rating downgrades.	Analysis of physical asset base of firms Preference for stronger balance sheets.
Goodwill/impairments	Likelihood of overpayment for past acquisitions (T/P). Change in asset base leads to impairments (T/P)	Goodwill and tangible assets impairments more likely.	Analysis of composition of goodwill and intangible assets.

The management of portfolio holdings using the framework described above for climate-related risks results in two outputs:

- Our assessment of future dividend growth covering the medium-term horizon of up to 10 years which corresponds to the average holding period of investee companies.
- A Red Amber Green overall risk assessment described in the previous section.

Expected Returns: Companies within the portfolio can be compared and any potential new candidates assessed based on this expected return methodology:

- Our estimated future dividend growth
- Current dividend yield
- Valuation change

ENGAGEMENT ACTIVITY WITH OUR INVESTEE COMPANIES

Engagement

- We will engage primarily on three topics: (1) the plan, (2) validation, and (3) delivery of the plan.
- We will engage first, rather than divest.

AT THE PORTFOLIO LEVEL

- Long term total returns that beat inflation and the market through companies that consistently grow their dividends is our perennial philosophy.
- We have taken a practical approach by setting targets that are driven by the companies we invest in, rather than relying entirely on a top-down approach. We balance low emitters and carbon improvers.
- Our approach 'stands on the shoulders of giants', leveraging the standardisation of accounting emissions and validated targets.
- We believe that we can deliver an understandable and measurable approach, that ultimately can deliver for client needs.
- Reducing carbon will not be a linear journey.
- Companies who manage their carbon will likely benefit from competitive advantage This is why scope 3 will be pivotal. Companies will buy from companies who do not adversely affect their overall emissions.

The table below describes seven distinct elements to our pathway. It discusses the various management processes for assessing materiality.

Pathway topic	Short term 2030	Medium term 2040	Long term 2050	Management actions
Portfolio – bottom-up aggregation of investee companies	Quarterly data analysis on overall portfolio pathway, targets and Net Zero commitment.	Investigate departures from company stated goals. Monitor portfolio trajectory against targets	Reduced tolerance for portfolio to depart from stated emissions targets	**Mitigate** Continue search for new investment ideas. Monitor progress against portfolio pathway
Industry/sector abatement or exclusion	Continue to manage risk through minimal or no exposure to highest climate-risk industries. Seek alternative routes to portfolio diversification.	Likely move to hard exclusions of most at risk industries and sectors. Monitor country physical risks at they develop.	Hard exclusion of growing number of at-risk industries and countries.	**Control** Monitor portfolio existential risks as they have collateral consequences.
Engagement – active investor activities	Tighten proxy voting requirements for climate-related issues. Higher frequency of engagement with companies straying from targets.	Increase in collaboration efforts for those companies lagging stated pathway.	Establish clearer dividend commitments through carbon transition.	Mitigate May require more resource. Seek to influence Board decisions.

Pathway topic	Short term 2030	Medium term 2040	Long term 2050	Management actions
Stranded assets	Identify investee companies which may have stranded assets. Monitor M&A activity and policy across investee companies	Increasing prevalence of asset write downs or transfers. Greater focus on balance sheet strength	Funding costs and access to capital becomes limited for companies with low climate resilience.	*Accept* Unlikely within portfolio companies but threat from outside
Emissions trade offs	Allow some higher emissions investee companies. Case made on basis of future transition e.g. hydrogen.	Reduced tolerance for higher emitters as need to meet portfolio pathway.	Limited or no tolerance for higher emitters.	*Control* Reducing scope for higher emitters
Divestment	Board U turn on emissions targets. Increasing regulatory risks. Acquisitions leading to higher climate-related risks.	Failure to meet emissions reduction timetable. Inadequate investment in future growth.	Business strategy impaired in transition economy. Cash flows not supportive of dividend growth.	*Control* Divestment only likely after extensive engagement.
Risk mitigation vs opportunity	New research seeking climate related opportunities.	Manage trade-off between risk reduction while investing in climate opportunities	Portfolio balance shifts to low carbon economy opportunities.	*Mitigate* Manage research time allocation between climate risks and opportunities

The prioritisation of climate-related risks is done at the individual company level through the research outputs described above of anticipated long term dividend growth and the Red Amber Green risk status.

At the portfolio level there is a bottom-up aggregation of company specific anticipated dividend growth, and the percentage of stocks tagged as Red Amber and Green.

Our current priorities are seeking to increase the proportion of companies with Net Zero objectives and clear milestones towards achieving those goals.

These are likely to remain the priorities in the short-term while in the medium-term engagement, emissions trade-offs and potential divestment are likely to become greater management priorities.

As an example, the table below show areas of concern as ‘the rubber hits the road’.

Area	Growth prospects	Carbon Plan risk	Validation?	Dundas investing thoughts
Fossil fuel company	Low	High risk	Mixed	Unlikely due to growth
Mining	Medium	High risk	Mixed	Unlikely due to growth
Banks	Low	Medium risk	Mixed	Unlikely due to growth
Utilities	Low	High risk	Mixed	Unlikely due to growth
Insurance underwriters/ brokers	High	Low risk	Limited	Despite low emitters, need to build validated targets
AI manufacturers	High	High risk	Yes, but behind pledges	Despite falling behind pledges, working hard to deliver data centre energy plans

Materiality determinations are made at the portfolio level by looking at the contribution to overall carbon footprint and carbon intensity from the highest 10 emitters. It is these companies which will have by far the largest impact in meeting the overall portfolio pathway objectives in the short to medium term. This is partly because the fossil fuel exposure of the portfolio is already substantially below that of the benchmark index (source: MSCI, Dundas).

The following tables show the Fossil Fuel exposure of our portfolios compared with the Benchmark.

Global portfolios

Fossil Fuel Exposure

	Portfolio	Benchmark	Active
Potential emissions from fossil fuel reserves (tCO2e / USD M invested)	0	1,312.3	-100.0%
Fossil Fuel Based Revenue Exposure	0.0%	3.6%	-3.6%
Thermal coal exposure (Any tie)	0.0%	3.8%	-3.8%
Oil & Gas exposure (Any tie)	2.2%	11.5%	-9.3%
Exposure to Power Generation			
Thermal Coal (apportioned fuel mix, % of generation)	0.0%	25.6%	-25.6%
Green and Fossil Fuel Based Revenue Coverage	100.0%	99.9%	0.1%

International portfolios

Fossil Fuel Exposure

	Portfolio	Benchmark	Active
Potential emissions from fossil fuel reserves (tCO2e / USD M invested)	0	1,864.9	-100.0%
Fossil Fuel Based Revenue Exposure	0.0%	4.3%	-4.3%
Thermal coal exposure (Any tie)	0.0%	5.5%	-5.5%
Oil & Gas exposure (Any tie)	0.0%	15.9%	-15.9%
Exposure to Power Generation			
Thermal Coal (apportioned fuel mix, % of generation)	0.0%	13.4%	-13.4%
Green and Fossil Fuel Based Revenue Coverage	100.0%	100.0%	0.0%

Source: MSCI and Dundas at end December 2023

BUSINESS STRATEGY AND FINANCES

Metrics for the firm's own operations show that one of the largest areas of carbon emissions directly under control relates to business travel. To manage climate-related risks the firm has adopted a travel policy within the UK which favours the use of trains rather than air travel. For travel overseas the firm has adopted more virtual meetings and video conference to reduce the frequency of long-haul trips to Australian and the USA which account for around 70% of firm wide assets under management.

We have long been advocates of desk-based research rather than face to face meetings with investee companies. The recent greater use of video conferencing and ongoing regulatory change towards common disclosures to all investors has further enhanced our stance on desk research which has helped to keep research-based travel to a minimum while still allowing clients the choice to have face to face meetings.

INTEGRATED RISK FRAMEWORK: OWNERSHIP OF RISKS

The firm operate a top-down and bottom-up approach to risk management, where current and emerging risks are identified and assessed as part of our strategy and budget process. In March and September, the partners formally review and assess the risks for their business areas and update as necessary.

These results are reviewed and discussed in detail at the Compliance and Audit Committee on a quarterly basis through the year. Furthermore, once a year in February as part of our budgetary & planning process, we have a dedicated deep dive risk session at the Compliance & Audit Committee where the Committee analyses current and emerging risks in more detail and their links to our overall strategy.

The principal risks associated with the Firm's strategy are divided into four categories:

- Those specific to ourselves and our strategy
- Industry-related risks
- General business risks for any international company
- Client harm risks

The specific climate-related risks identified at the firm level risk management programme are described in the table below alongside the category of risk and the committee owning that risk along with mitigants and management.

Risk register	Description	Impact	Mitigation	Owner/Type of risk
Poor investor returns relative to expectations	Portfolio returns lag similar competitors and/or behind dividend growth	AUM growth curtailed, client losses and fewer new business opportunities	Maintain investment disciplines and manage expectations. Excellent client communications	*Investment Committee* Firm Strategy Risk
Failure to meet Net Zero Goals	Portfolio holdings do not make planned progress towards Net Zero	Decision to stay or go for those businesses and communication ramifications	Monitor the progress of companies by industry and cross reference likely difficulties	*Investment Committee* Firm Strategy Risk
Greenwashing or similar allegations	Tightening regulations in fund marketing of ESG and climate-related issues.	Limits on how we can position the sustainable features of portfolios.	Seek to work within new framework to reassure existing and potential clients	*Investment Committee* Industry Related Risks
Climate Change	Failure to anticipate and respond to transition to low carbon economy	Greater volatility of equity markets, rising costs and curtail client travel	Keep portfolios on agreed pathway, communicate risks to clients and reduce operational carbon footprint	*Partnership* General Business Risk
Investment style out of fashion	Growth and/or smaller companies not in vogue for extended period	Sustained period of under performance against comparator benchmark	Clear communication of strategy risks and investment time horizons.	*Partnership* Client Harm Risks
Fall short of Stewardship/ESG goals	Inadequate evidence and/ or standards of governance of ESG.	Loss or reputation, regulatory oversight, and client losses.	Build stewardship compliance metrics and resourcing.	*Investment Committee* Client Harm Risks

METRICS AND TARGETS

METRICS & TARGETS

METRICS USED BY US

To assess climate-related risks and opportunities

As of yearend 2023, the Global strategy had $1.879b and the International strategy had $240m invested, totalling $2.119b—97% of the firm's $2.194b assets under management. The Heriot Smaller companies fund and model portfolios for wealth advisors, are not included in this report.

Key Metrics

All emission metrics are calculated in line with the GHG Protocol methodology.

The table below describes the four key output metrics:

Type	Output Metric	Measurement
Absolute Emissions Metric	Measures the total carbon emissions for which an investor is responsible by their equity ownership. Sum of all emissions in the portfolio based on the investor's ownership share. Measures the carbon footprint of a portfolio. Total Financed Carbon Emissions	The volume of scope 1 and scope 2 emissions from our portfolio investments. Measured in tons of CO2e
Emissions intensity by $$$ invested	Measures the carbon emissions for which an investor is responsible per USD million invested. Emissions apportioned based on equity ownership (% of market capitalisation). Financed Carbon Emissions	Volume of scope 1 &2 emissions per unit of capital invested in our portfolios. Measured in tons CO2e per $m invested.

Emissions intensity by sales Metric **Carbon efficiency of a portfolio.**	The ratio of portfolio carbon emissions normalised by the investor's claims on sales. Ratio of carbon emissions for which as investor is responsible to the sales for which an investor has a claim by their equity ownership. Expresses carbon efficiency of the portfolio and allows investors to measure how much carbon emissions per dollar of sales are generated by portfolio companies. Financed Carbon Intensity	Volume of scope 1 & 2 emissions per GBP million in sales revenues
Portfolio exposure to carbon-intensive industries.	The portfolio weighted average of companies' Carbon Intensity (emissions/sales) Weighted Average Carbon Intensity.	Volume of scope 1 and 2 emissions per GBP million in sales revenues.

Aside from the carbon output metrics outlined above, we also consider a further six input metrics focused on: data quality, investee company commitment to Net Zero emissions, portfolio value at risk under different scenarios, alignment of portfolio companies with global temperature goals, trend analysis of exposure to carbon intensive industries, and emissions concentration within the portfolios.

These six metrics in the table below complement the 4-output metrics above by being more forward-looking in their focus and more representative of the climate-related metrics considered in investment decisions and monitoring the pathway to Net Zero described in the Strategy section above.

Type	Input Metric	Measurement
Information coverage	Data quality – measure of the level of actual data available from investee companies.	Percentage of investee companies for which actual data has been used to calculate carbon footprint.
Portfolio alignment metric	Companies with Greenhouse Gas emission reduction targets.	Measured as the percentage of portfolio at year end with specific reduction targets.
Climate value at risk – scenario output.	Portfolio value at risk against ACWI benchmark under different transition scenarios.	Potential portfolio value impact vs benchmark value impact.

Alignment of investee companies with global temperature goals	Implied Temperature Rise of portfolio against that of ACWI benchmark.	Degrees Celsius.
Trend analysis	Trend for portfolio of weighted average carbon intensity.	Weighted average portfolio carbon intensity for past 5 years.
Emissions concentration within portfolio	Percentage of absolute emissions from top 10 emitters.	% of total emissions.

METRICS AND OUR PATHWAY TO NET ZERO

As described in the Strategy section, the pathway we are working to has these main elements:

- Continue to increase the number of companies in client portfolios which have set Net Zer by 2050 as a goal along with appropriate intermediate targets.
- Exercise our Stewardship practices which will likely see boards improve their climate-related practices and policy execution.
- Divestment would be a last resort.

The table below takes each of the seven identified pathway topics and maps each to the relevant output and input metrics. The associated management actions are also shown for each topic.

Pathway topic	Output Metric	Input Metric	Management actions
Portfolio – bottom-up aggregation of investee companies	Financed Carbon Intensity	Information coverage (data quality). Portfolio alignment to Net Zero. Implied temperature rise.	*Mitigate* Continue search for new investment ideas. Monitor progress against portfolio pathway.
Industry/sector abatement or exclusion	Weighted Average Carbon Intensity.	Climate Value at Risk. Trend analysis of weighted average carbon intensity.	*Control* Monitor portfolio existential risks as they have collateral consequences
Engagement – active investor activities	Total Financed Carbon Emissions	Information coverage (data quality). Portfolio alignment to Net Zero.	*Mitigate* May require more resource. Seek to influence Board decisions.
Stranded assets	Weighted Average Carbon Intensity	Climate Value at Risk Emissions concentration Alignment to Net Zero	*Accept* Unlikely within portfolio companies but threat from outside.
Emissions trade offs	Financed Carbon Intensity	Emissions concentration. Trend analysis of weighted average carbon intensity.	*Control* Reducing scope for higher emitters
Divestment	Total Financed Carbon Emissions.	Alignment to net zero. Implied temperature rise. Emissions concentration.	*Control* Divestment only likely after extensive engagement.
Risk mitigation vs opportunity		Implied temperature rise. Portfolio value at risk.	*Mitigate* Manage research time allocation between climate risks and opportunities

We have considered the value of including metrics on Scope 3 emissions and decided not to include this data in our first TCFD report. We have questions around the consistency with which the methodology for identifying and reporting Scope 3 emissions is applied in different jurisdictions and have decided to await the general acceptance of new accounting standards in the next year or two before committing to report Scope 3 emissions on a consistent basis.

We also considered including metrics on climate-related risks associated with water, energy, land use and waste management but have decided not to include these metrics in this first TCFD report.

Within investee companies' climate-related metrics are starting to be incorporated into remuneration policies and in our engagements with Boards we will be encouraging them to do so.

The output climate-related metrics outlined above are used internally and in client reporting for nearly two years. The input metrics have been assembled over the past year as more information has become available from investee companies and data providers such as MSCI.

Scope 1 and Scope 2 Disclosures

Tables of Metrics for Global and International

Output metrics

Type – output *Figs in italics are for comparator benchmark*	**Global ($1.84bn)** *(MSCI All Country World Index)*	**International ($238m)** *(MSCI EAFE plus Canada index)*
Absolute Emissions Metric **Total Financed Carbon Emissions** **Tons of CO2e (Scope 1 and 2)**	**19,504 tons CO2**	**4,022 CO2**
Emissions intensity by $$$ invested. **Financed Carbon Emissions** **Tons of CO2e per $m invested**	**10.6 tons CO2/USD million invested.** 54.5 tons CO2/USD million invested.	**16.9 tons CO2/USD million invested.** 69.3 tons CO2/USD million sales.

Emissions intensity by sales Metric Carbon efficiency of a portfolio. **Financed Carbon Intensity** **Emissions per $ million in sales**	45.1 tons CO2/USD million sales 143.4 tons CO2/USD million sales	81.7 tons CO2/USD million sales 140.6 tons CO2/USD million sales
Portfolio exposure to carbon-intensive industries. Weighted Average Carbon Intensity Emissions per $ million in sales	**36.6 tons CO2/USD million sales.** 128.5 tons CO2/USD million sales.	**55.3 tons CO2/USD million sales.** 113.1 tons CO2/USD million sales.

As at end December 2023.

Absolute emissions: the total tons of CO2e emissions from Scope 1 and Scope 2 totalled 23,526 tons based on the total assets under management of $2,078 million (as at end December 2023) and the financed carbon emissions calculated by MSCI for the two strategies of Global and International dividend growth.

Emissions intensity by $ invested: for both our strategies, emissions intensity was substantially lower than that for the relevant comparator benchmarks. It is noteworthy that the EAFE plus Canada benchmark (a subset of the ACWI benchmark) has considerably higher emissions intensity, this is partly why our strategies are different.

Emissions intensity by $ sales: for each $ million of sales our strategies generated substantially less carbon emissions than the respective benchmarks.

Weighted Average Carbon Intensity by $ sales: this metric emphasises the portfolio exposure to carbon intensive industries. Its highlights the low sector weightings in our strategies to these sectors such as Energy and Utilities.

Input metrics

Type – Input	Global (MSCI All country world index)	International (MSCI EAFE + Canada index)
Information coverage. Percentage of investee companies for which reported (not estimated) data has been used to calculate carbon footprint.	**96.7%** 80.4%	97.2% 95.5%
Portfolio alignment metric. Measured as the percentage of portfolio at year end with specific GHG emission reduction targets	**89.2%** 86.2%	**88.2%** 94.4%
Climate value at risk – scenario output. Potential portfolio value impact vs benchmark value impact.	**-1.7%** -7.4%	**-2.1%** -10.6%
Alignment of investee companies with global temperature goals. Degrees Celsius	**1.9 degrees Celsius** 2.4 degrees Celcius	**2.0 degrees Celsius** 2.3 degrees Celsius
Trend analysis. Weighted average portfolio carbon intensity for past 5 years of current holdings.	**-23.2%**	**-26.9%**
Emissions concentration within portfolio. Percentage of absolute emissions from top 10 emitters	**78.5%**	**93.1%**

As at end December 2023.

Information coverage: Our companies tend to be good at reporting data on Scope 1 and Scope 2 emissions meaning data providers do not need to estimate.

Portfolio Alignment: 88/89% of our holdings have specific greenhouse gas emissions reduction targets.

Climate value at risk: the result of MSCI climate scenario modelling shows our portfolios to have substantially lower value at risk metrics than the comparator benchmarks. This is largely due to lower exposure to carbon intensive industries. The figures given are for the 2°C orderly scenario.

Alignment with global temperature goals: Our investee companies have policies which align broadly align with the Paris Agreement to keep global temperature rise this century to well below 2°C.

Trend analysis: using the weighted average portfolio carbon intensity metric, a portfolio comprising of the current holdings would have seen carbon intensity fall by 23% and 27% respectively over the past 5 years.

Emissions concentration: Based on our holdings numbers as at yearend 2023, this metric shows the concentration of portfolio emissions from the top 10 emitters within the Global (61 holdings) and International (36 holdings). This shows that a relatively small number of holdings account for most of the carbon-related emissions risk.

OUR TARGETS

Our **short term (by 2030)** goals are as follows:

- 19%* further reduction in absolute scope 1&2 tCO2e (Tons of CO2 equivalent greenhouse gas) emissions per portfolio based on company level pledges from 2023 levels.

- We expect all investee companies will have validated carbon reduction pledges to 2050 or earlier.

**This is based on total carbon pledge per stock multiplied by current carbon emissions multiplied by held quantity.*

*Run rate emission reduction per stock	X	Number of years to 2030	X	Current carbon emissions	X	Portfolio weight	=	**Pledged reduction in carbon by portfolio**

Methodology 2	Number of stocks	% of Portfolio market cap	Pledged scope 1&2 carbon run rate reduction by 2030 based on total carbon pledge by stock * current carbon emissions
Scope 1&2 or 1,2&3	59	95%	19%
No target	2	5%	-

Our **long-term goal (by 2050)** is as follows.

- to achieve Net Zero for our portfolios. This target includes: 100% of assets under management (AUM) across all portfolios.

We will disclose our own operational greenhouse gas emissions annually and are committed to Net Zero by 2050 for our business operations.

APPENDICES

Sustainability Disclosure

- **Sustainability label.** The Financial Conduct Authority (FCA) has issued new standards governing the use of sustainability vocabulary in the promotion and description of fund and asset management services. Funds may adopt one of four FCA labels describing their approach, or they may opt not to have a label. For reasons discussed below, we have decided for the present to operate without a label for its UK domiciled funds. We make investment decisions in large part based upon audited annual reports which in recent years have expanded to address wider sustainability matters. Disclosure on CO_2 emissions and sustainability has improved but remains incomplete, inconsistent, and heavily reliant on estimation. In response new IFRS Sustainability accounting standards were issued in 2023 (now out for adoption across the world outside the USA, where GAAP standards are moving in the same direction) effective 1 January 2024. We welcome the new standards. They are thorough, stringent and, when fully adopted, will raise and level the playing field for corporate sustainability reporting. We are already engaged with the companies in which it invests about the new standards. Once satisfied that that reporting permits consistent sustainability evaluation, we will adopt one of the FCA's Sustainability categories.

- **Sustainability Objective:** to invest in companies with long-term growth potential that are simultaneously becoming more environmentally and socially sustainable. Progress will be measured largely via reporting under the new IFRS Sustainability standards. We believe that companies which shoulder these responsibilities and communicate effectively will gain competitive advantage which is why we advocate for sustainable practices by those we invest in.

- **Investment Policy and Strategy:** We invest in global equities for dividend and capital growth with an investment horizon of five years or more. Where dividend growth leads, share prices follow. Sustained dividend growth is produced by well managed companies that respect all their stakeholders' interests. The case for responsible investment in sustainable businesses is readily made by its opposite. A portfolio of irresponsible companies with unsustainable businesses will not meet clients' long-term investment needs. The actions of the companies we invest in (i.e. the enterprise contribution) are the main driver of sustainability metrics.

- **Stocks we decline to own on principle** because their principal activity is one of the following:

  - ► Manufacture, production or distribution of tobacco products.
  - ► Manufacture of cluster bombs or similar anti-personnel weapons.
  - ► Corporate structures that deny investors title to the underlying operating business assets, such as Variable Interest Entities.
  - ► State-owned or controlled companies where minority shareholders' interests are not respected.
  - ► Thermal coal mining or its use in power generation.

- **Relevant Metrics:** We monitor the progress of the businesses it invests in on behalf of clients against metrics such as: carbon footprint, carbon intensity, weighted average carbon intensity (all for Scope 1 and 2 emission), MSCI ESG ratings, board independence, workforce pay & conditions, employee turnover, productivity. We rely upon MSCI and Bloomberg reports whose accuracy will improve as IFRS Sustainability standards are applied.

- **Resources and Governance:** The firm's Investment Committee is responsible for all aspects of its investment activities, including sustainable investment policy. Within the investment committee, a partner has lead responsibility for Sustainability, supported by other team members.

- **Voting / associations:** Our investor contribution includes voting all proxies aided by a proxy advisor. Our PRI report is available on our website. The firm's Stewardship Report sets out how it upholds the UK Stewardship Code and the EU's Shareholder Rights Directive II.

- **Lexicon:** The FCA's labels tighten up how the word 'sustainable' can be used in fund marketing. Whilst agreeing that greenwashing needed to be confronted, we may use 'sustained' in reports and communications in its plain English sense of 'something continuing into the future'.

- **Accessing other relevant information:** the sustainability disclosures section of our website discloses all relevant information.