2023

Task Force on Climate-related Financial Disclosures Aligned Entity Report

Close Brothers
Asset Management

Contents

1. CEO statement

The extreme weather events of 2023, both globally and in the UK, served as vivid reminders of the pressing challenges posed by climate change. These events underscore our collective responsibility to act decisively towards environmental sustainability.

At Close Brothers Asset Management, our stance on the global movement towards net zero is clear: we are on a path towards aligning our operations and investments with these goals. We are conscious of the journey ahead and are committed to making meaningful progress.

We are actively considering climate change across our business. We are progressively integrating climate-related considerations into our decision making processes. Across the business we have named individuals responsible for ensuring we make positive progress. Furthermore, in 2023, along with supporting the wider Close Brothers Group (CBG) sustainable strategy we agreed a sustainable strategy solely for Close Brothers Asset Management – marking our commitment to align our operations and investments to a more sustainable future.

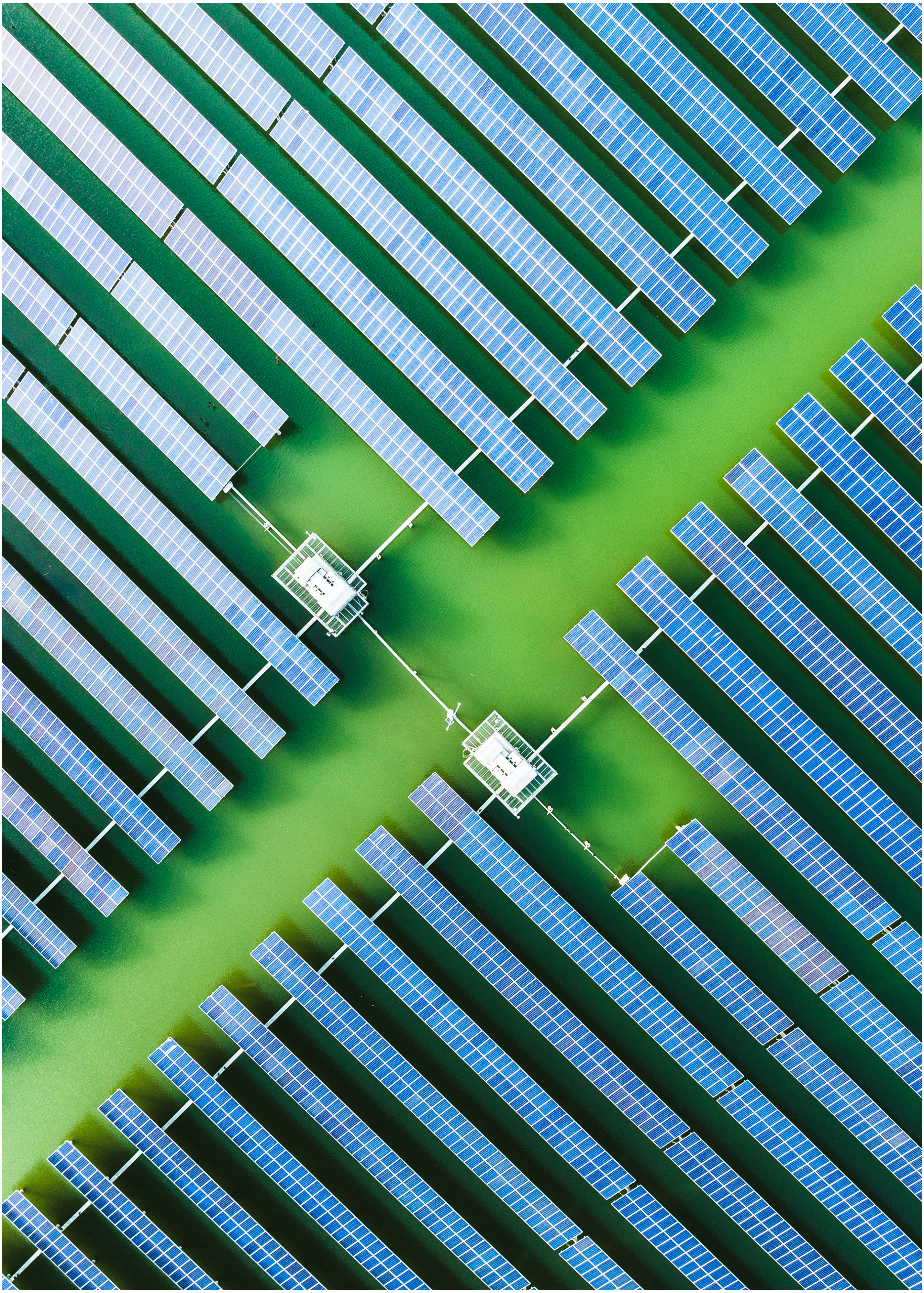
Risk management now more than ever includes the assessment of climate-related risks. We are refining our processes to better understand and mitigate these risks, acknowledging their long-term significance on our investment decisions. We also recognise the importance of a responsible investment approach, which we define as an approach to managing assets, which explicitly considers and integrates the impact of material ESG factors on the long-term financial risk and return of our investments.

We recognise that there is a potential impact on an investment's value from an issuer's interaction with its stakeholders; including employees, customers, suppliers and the environment in which it operates. We will also use these considerations to inform our active ownership and stewardship approach, including engaging and voting on our investments to protect our clients' capital against risks and enhance returns.

While this is an area of ongoing development for us, we are committed to exploring and leveraging these opportunities.

This report presents our position and efforts in sustainable asset management. We are steadfast in our pursuit of improvement and transparency as we navigate the complexities of climate change.

Eddy Reynolds
CEO
Close Brothers Asset Management



2. Introduction

Close Brothers Asset Management is a vertically integrated top-20 UK wealth manager, providing financial advice and investment management services to private clients in the UK.

2.1 Business overview

01

We serve 22,000 households across the UK.

02

We are responsible for £16.4bn assets under management, as at 31 July 2023.

03

We operate out of 15 locations across the UK with over 150 investment professionals and c.900 employees.

2.2 Our approach to responsible business

In addition to pursuing our own sustainable strategy, we are aligned with the environmental targets set by CBG. These include working towards meeting its commitments to the Net Zero Banking Alliance, spanning both its operational and financed activities, and including achieving net zero scope 1 and 2 emissions from our operations by 2030. Further information about CBG sustainability strategy and objectives can be found in the CBG sustainability report published with the annual results in September. In addition to supporting CBG's targets, we have established our own Sustainability Strategy. Our strategy is centered on three foundational principles: Raising Awareness, Holistic Decision Making, and Continual Sustainability Assessment.

2.2.1 Raising Awareness

Raising Awareness is the first step in our journey towards sustainable operations. By educating our colleagues and clients about the importance of sustainability, we lay the groundwork for informed decisions and actions that are aligned to a more sustainable future. This focus on knowledge and understanding is crucial in cultivating a culture that values and pursues sustainable practices, echoing the CBG's commitment to environmental stewardship.

2.2.2 Holistic Decision Making

The second pillar, Holistic Decision Making, reflects our adapting approach to considering sustainability across our business. We aim to deliver long-term client value through our investments. To support this, we consider the environmental impacts of our sustainable investment solutions. By doing so, we not only adhere to our own principles of responsible investment but also support CBG's broader goals of a sustainable, net zero future.

2.2.3 Continual Sustainability Assessment

Our commitment to sustainability is further demonstrated through our Continual Sustainability Assessment. This ongoing process involves setting clear, measurable sustainability goals and regularly reviewing our progress towards them. It ensures that our actions align with our high-level objectives, such as achieving net zero scope 1 and 2 emissions in operations by 2030

Our approach to responsible business is a dynamic and ongoing effort. It encompasses educating our stakeholders, making informed and conscientious decisions, and constantly assessing our progress towards significant environmental goals. We maintain a flexible approach which adapts to new challenges and opportunities in sustainability. These efforts are integral to our mission of delivering long-term value to our clients and making a meaningful impact on the journey towards a sustainable and

3. Governance

3.1 Sustainability at Close Brothers Asset Management over time

In 2015 formal measures were introduced to embed sustainability more strategically at Close Brothers Asset Management – most notably across our investments where currently we have the greatest environmental impact but also the greatest opportunity.

Responsible investment timeline

2015

- Ethical screening for Bespoke portfolios

2016

- Launched Ethical DMS Service
- First ESG section in equity research

2017

- First ESG section in fixed income research
- Updated Ethical DMS to SRI Service

2018

- Appointed Head of SRI Research
- Stewardship Policy
- Included third-party ESG data in ESG analysis
- ESG tab on funds core list

2019

- Began firm-wide active proxy voting
- Created ESG Investment Committee

2020

- Engaged external consultants on sustainable finance strategy
- Published Responsible Investment Policy
- Launched sustainable funds
- Became signatory to the Principles of Responsible Investment
- First Shareholder Engagement & Voting Report

2021

- Created Sustainability Committee
- Firm-wide sustainable finance strategy
- Climate training for all employees

2022

- Hired Responsible Investment Associate and Analyst
- Became signatories to UK Stewardship Code
- Signed public UK Human Rights Due Diligence letter
- Endorsed Advance initiative
- Introduced sustainable thematic research function
- Established Voting Principles
- Signed the Global Investor Statement on Workplace Mental Health

2023

- Launched Sustainable Select Fixed Income Fund, incorporating a CO2 emissions target aligned with net zero by 2050
- Introduced CBAM Voting Guidelines and Custom ISS Research
- Created Engagement Escalation Process
- Introduced new ESG Research and anti-greenwashing trainings
- Converted Strategic Alpha into Select Global Equity Fund, employing our sustainable investment methodology
- Updated Voting Panel Process & Procedures
- Launched CBAM's sustainability and responsible investment page
- Submitted our first PRI Transparency Report
- Initial Target Disclosure to NZAM

Source: Close Brothers Asset Management.

Our progress in sustainability has been supported with consistent and reliable governance frameworks. Our governance framework has been essential in directing our strategic and environmental objectives including commitment towards achieving our environmental goals, such as the progression to a net zero target and addressing wider climate-related challenges.

3.2 Role of committees at Close Brothers Asset Management in sustainability

Central to this governance structure is the role of our Executive Committee (ExCo). The ExCo is tasked with establishing and overseeing our strategic direction and climate commitments. Their mandate includes setting realistic yet progressive goals for sustainability, a task they approach with a keen understanding of the complexities and challenges inherent in integrating these objectives into our broader business strategy.

Responsibilities for environmental considerations extend throughout Close Brothers Asset Management, reaching various committees. These committees, encompassing areas from risk management to investment, incorporate sustainability into their decision-making processes. Whilst the degree of integration varies across different departments, the aim is consistent: to Raise Awareness, promote Holistic Decision Making and contribute to Continual Sustainable Assessment.

The Sustainability Committee, which has membership from all members of the Executive Committee, oversees the implementation and ongoing development of our Sustainability Strategy. It ensures our initiatives are in line with our commitments and adjusts our approach based on evolving best practices and insights. Governance and sustainability are not limited, but are present across multiple committees. The various committee responsibilities are outlined below:

Close Brothers Asset Management ExCo
Provides day-to-day management of and responsibility for all Close Brothers Asset Management business such as monitoring key financial metrics and the development, embedding and monitoring of Close Brothers Asset Management's culture and Business Principles. The ExCo are also responsible for agreeing and reviewing CBAM's sustainability strategy and commitments on a regular basis.

Risk and Compliance Committee (RCC)
Provides oversight, management and monitoring of risks that could affect our clients' capital and the business. The RCC ensures Close Brothers Asset Management adheres to its risk management policies and framework, and risk-related regulatory requirements.

Investment Review Committee (IRC)
Provides oversight and control of investment process, performance and risk in accordance with the company's agreed investment strategy. The IRC is the governing body of stewardship, from an investment perspective, and responsible investment as it addresses how our investment approach can best serve our clients' and wider stakeholder interests. The Chief Investment Officer, who is the member of the senior management team responsible for stewardship and responsible investment, chairs this.

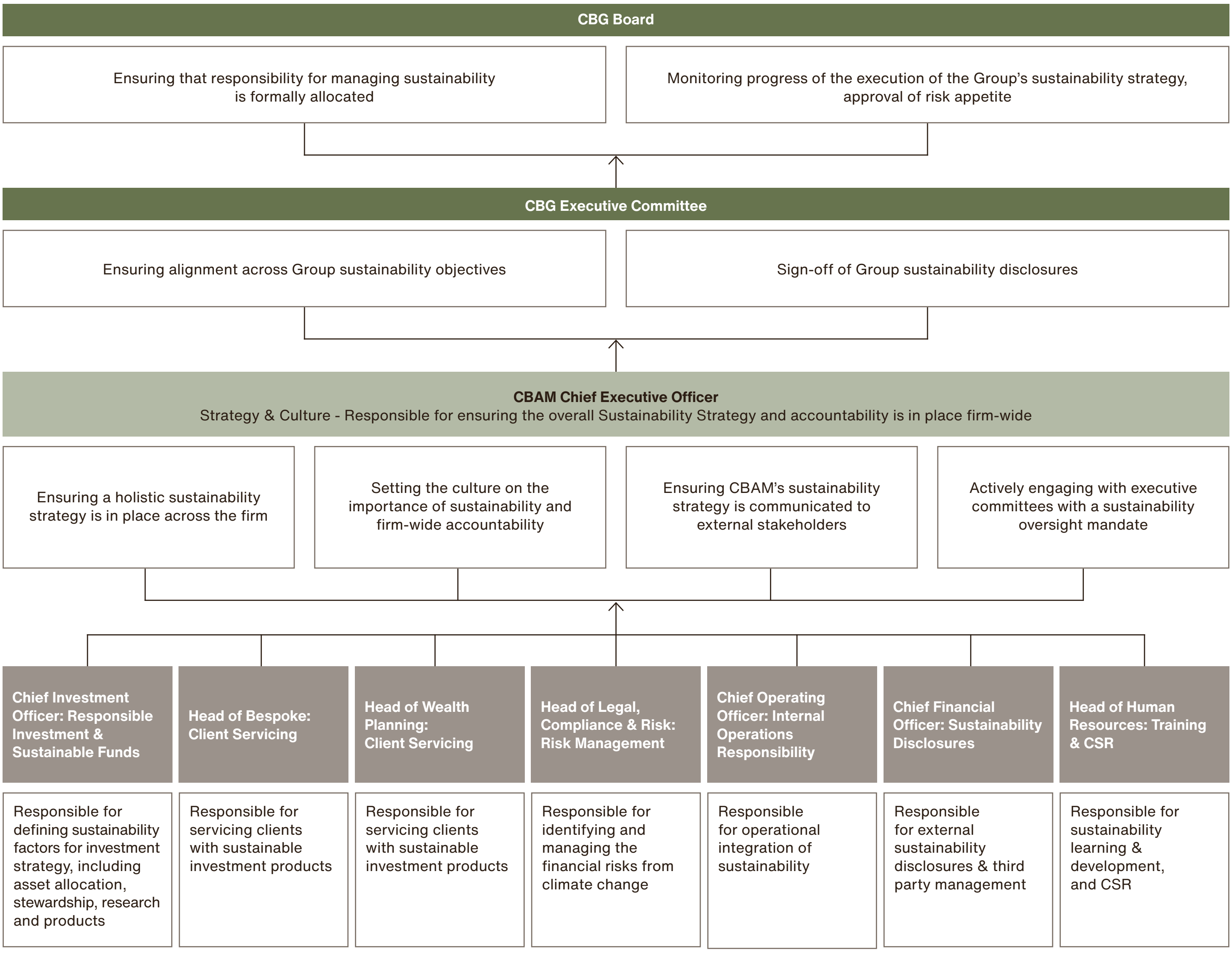
Sustainability Committee
Provides oversight and guidance of Close Brothers Asset Management's Sustainability Strategy, promoting continuous improvement of sustainability management and performance, defining the overall sustainability strategic direction, and ensuring compliance with legal and regulatory obligations. The Sustainability Committee is also key to delivering on our stewardship ambitions, monitoring the investment team's progress on the strategic development of environmental, social and governance (ESG) integration and engagement. The Sustainability Committee also monitors the progress of our ESG reporting and some collaborative engagement activities such as the Principles for Responsible Investment.

ESG Investment Committee
The ESG Investment Committee oversees the firm's Stewardship and Responsible Investment Policy and guides our responsible investment approach. It consists of the Responsible Investment Team, investment managers representing all products and services, and research analysts, and is chaired by the Head of Responsible Investment. The ESG Investment Committee is consulted on for our stewardship approach and activities, and the forum is used for gathering input from the wider business on our approach to responsible investment.

Sustainable Investment Oversight Committee (SIOC)
The SIOC oversees our sustainable investing methodologies for our sustainable funds and Socially Responsible Investment (SRI) Service. It aims to achieve a common approach to sustainable investing across our product methodologies, where applicable, and drive methodology development in line with our Sustainability Strategy. It is chaired by the Head of Responsible Investment. Members include representatives from the SRI Service, Segregated Portfolios Team, Sustainable Funds Team, Responsible Investment Team and Compliance.

Our governance model is further defined by stringent reporting and accountability measures. These mechanisms provide necessary transparency to our stakeholders and are essential in evaluating our advancement towards our environmental goals. We recognise the importance of transparency in building trust and credibility, particularly in the critical area of sustainability.

How senior management support our stewardship and sustainability functions



Source: Close Brothers Asset Management.

3.2 Remuneration

Effective remuneration structures play a role in driving sustainable business practices. Our approach to executive remuneration is designed to align with our long-term strategy, which includes commitments to sustainability.

The variable remuneration for our ExCo members is determined annually on a discretionary basis. This determination is closely tied to the achievement of personal objectives and the successful execution of the overall business strategy. Each year, ExCo members set their objectives in collaboration with the CEO. These objectives encompass individual, functional, and business-wide strategies, including sustainability goals.

By integrating sustainability objectives into our performance assessment of ExCo members, and thus their variable compensation, we reinforce the importance of sustainable practices within our leadership.

As we continue to evolve our governance practices, we are committed to a journey of continuous improvement and aligning long-term environmental goals with the immediate realities of business operations.

4. Strategy

4.1 Our Sustainability Strategy

We believe achieving our commercial and sustainable objectives come hand in hand. Climate change presents one of the most significant challenges and opportunities for the financial services industry today. We recognise the urgency of addressing this global issue and are committed to setting climate-based targets across our business strategy. Our alignment with the CBG's initiatives on climate action underscores our collective commitment to playing our part in the global solution, while also acknowledging the journey we must undertake to enhance our sustainability practices.

Through our Sustainability Strategy: Raising Awareness, Holistic Decision Making, and Continual Sustainability Assessment, we are progressing towards embedding ESG principles across all of our operations, reflecting a commitment to long-term development in sustainability.

Raising Awareness focuses on enhancing understanding among our teams and clients about the role of sustainability in today's business landscape. Through Holistic Decision Making, we consider the broader impact of our sustainable investment products on the environment and society. Continual Sustainability Assessment helps evaluate our strategy with a commitment to ongoing adaptation, ensuring we remain aligned with evolving sustainability goals and practices. Our approach is informed by a clear recognition of the role we play in a larger ecosystem, aspiring to make a positive impact over the long term.

In the financial year ending July 2023, we established a series of projects referred to as the Sustainable Finance Strategy. Included in the Sustainable Finance Strategy were themes such as: ESG risk management, ESG external initiatives, diversity and inclusion, and purpose and culture. Since 2022, the initiatives have matured and are becoming embedded into regular operations and processes.

Moving into 2023/2024, the strategy was consolidated, and our Sustainability Strategy is now an overarching three-pronged approach we operate today. With this broad approach we are confident that we will continue to make progress against our commitments as well as making positive impacts on our environment and society.

Here are examples of our strategy in action:

Raising Awareness	Holistic Decision Making	Continual Sustainability Assessment
▪ Sustainability and responsible investment training for all employees ▪ Anti-greenwashing training provided to key teams ▪ ESG research training for equity research ▪ Annual update by the Responsible Investment Team to the investment floor on responsible investment at Close Brothers Asset Management	▪ Sustainability Committee consulted on Net Zero Asset Managers and Taskforce on Climate related Financial Disclosures initiatives ▪ Responsible Investment Strategy to ensure a consistent approach to responsible investing across our proposition ▪ Risk management considers the climate related risk associated with our investments ▪ Flood risk warnings considered for our office locations	▪ MSCI data used to measure the underlying emissions of our Sustainable Funds' securities ▪ Sustainability objectives included for the Sustainable Select Fixed Income Fund and Select Global Equity Fund

4.2 Sustainability and our investments

We are aware of the challenges and opportunities presented by climate change in relation to the potential impacts on client portfolios. We understand that climate change poses a significant risk, potentially affecting the value and performance of investments. This risk is multifaceted, impacting various sectors and geographies differently and necessitating a nuanced approach to investment strategy and decision-making.

To help navigate these risks, we utilise MSCI data to monitor the climate implications of our investments. This data provides us with insights into the carbon footprint of our portfolios, the exposure of our investments to climate-related risks, and the alignment with global efforts to transition to a low-carbon economy.

Complementing the use of climate data and consideration of material ESG issues in our investment research, we can use stewardship to influence corporate behaviour, mitigate against potential investment risks, promote sustainability, and aid our voting practices.

To carry out our voting operations, use the third-party partner, ISS (Institutional Shareholder Services), for best practice corporate governance voting research and their proxy voting platform. Our Voting Panel of analysts and investment managers determine how we should vote in the best interests of clients. We worked with ISS to create a custom policy to reflect our Voting Principles which was introduced to our voting process for the FY23 voting season.

Additionally, marking a significant milestone at the end of the financial year ending July 2023, Close Brothers Asset Management became signatories to the Net Zero Asset Managers (NZAM) initiative. As signatories to NZAM, we commit to the aim of reaching net zero emissions across all assets under management (AUM) by 2050. This commitment helps promote a greater culture of sustainable investing with a portion of AUM being managed in a way conducive to meeting the NZAM goal and intentions for more AUM to be managed accordingly as we progress on our sustainability journey.

4.2.1 Implied Temperature Rise

The Implied Temperature Rise (ITR) metric provides an indication of how well public companies align with the Paris Agreement - the goal of limiting global temperature rise this century to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

The key to understanding ITR is the concept of a carbon budget, that is, how much the world can emit so that global warming doesn't exceed 2.0°C by 2100 and, by extension, how much a company can emit to take its fair share of global decarbonisation. To arrive at an ITR for a company, its emissions are compared against its assigned carbon budget, and the entire economy is then assumed to have the same carbon budget overshoot or undershoot. The deviations from the budget are then converted to °C.

By calculating the ITR for our equity and corporate bond holdings, we can assess whether our investments are aligned or unaligned to the Paris Agreement. This insight helps us to strategically align our investment decisions with our commitment to sustainability and responsible investing. It also enables us to identify and engage with companies that need to improve their carbon emissions trajectory and align themselves with a transition to a low-carbon economy.

91.6% of CBAM's equities and corporate bonds are covered by the ITR calculations.

67.8% of companies within the portfolio align with the goal of limiting temperature increase to below 2°C. 41.5% of companies within the portfolio align with the goal of limiting temperature increase to below 1.5°C. The strongly misaligned companies are predominately in the energy, materials and mining sectors, which are parts of the economy that tend to have more carbon intensive business models.

Scenario	Temperature	Portion of holdings (%)
1.5°C Aligned	<= 1.5°C	41.5%
2°C Aligned	> 1.5°C - 2 °C	26.3%
Misaligned	>2.0 - 3.2°C	19.6%
Strongly misaligned	>3.2°C	12.6%

Source: Close Brothers Asset Management as at 31 July 2023.

4.2.2 Total portfolio footprint

Scope 1 and 2 emissions refer to the direct and indirect greenhouse gas emissions associated with a company's operations. Specifically;

Scope 1 emissions are direct emissions from sources that are owned or controlled such as emissions from company-owned vehicles or on-site fuel combustion.

Scope 2 emissions are indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by our organisation.

Scope 3 emissions encompass the indirect emissions resulting from a company's value chain, with a significant focus on emissions associated with financing and investment. These financed emissions arising from investments can be broken down into the underlying investee's scope 1, 2 and 3 emissions.

The financed emissions represent the most substantial portion of our carbon footprint and are a critical area of focus for our Sustainability Strategy.

We are seeking to address our scope 3 financed emissions through our commitment to the Net Zero Asset Manager's initiative. Please see the metrics and targets section for more detail on our commitment.

Coverage for reported emissions data is presented in the metrics and targets section of this report. This can be found on page 23.

Metric	Emissions (tCO2e)
Operational scope 1 and 2 emissions	249
Operational scope 3 emissions	1,456
Investee scope 1 and 2 emissions	410,754
Investee scope 3 emissions	3,916,763

Source: Close Brothers Asset Management as at 31 July 2023.

4.2.3 Emissions intensity

Emission intensity is a metric that measures the amount of greenhouse gas emissions produced per unit of economic activity, such as revenue or production output. It provides insight into the efficiency of an organisation or portfolio in managing its carbon emissions relative to its size or economic output.

Tracking emission intensity allows us to assess the carbon efficiency of our investments. By analysing emission intensity, we can identify opportunities for improvement, set reduction targets, and benchmark our progress against industry standards. Lowering the emission intensity of our portfolio is a key objective, as it demonstrates our commitment to reducing the overall carbon footprint of our investments and supporting a sustainable future.

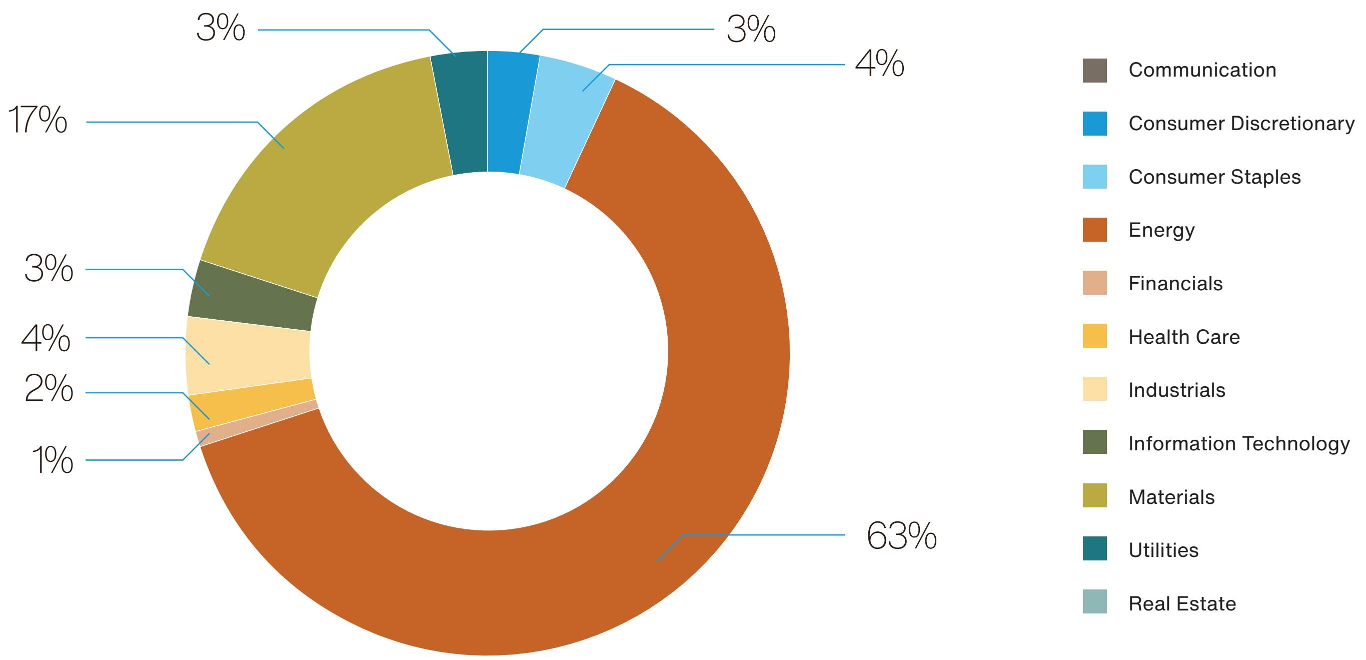
Across CBAM's equity holdings, the majority of scope 1, 2 and 3 financed emissions are in the Energy sector, followed by the Materials sector. This is illustrative of the carbon intensive nature of these sectors and indicates where we have most exposure to the risk of transitioning to a low carbon economy. The business models of the companies within this exposure will be stressed under such a transition, unless they are adapted.

Across CBAM's corporate bond holdings, the majority of scope 1, 2 and 3 financed emissions are also from the Energy sector. However, unlike equities, our corporate bond holdings create exposure to the carbon intensive Utilities sector, where 33% of scope 1 and 2 financed emissions are generated.

Metric	Emissions (tCO2e/£mil)*
Investments scope 1 and 2 emissions intensity	59
Investment scope 3 emissions intensity	563

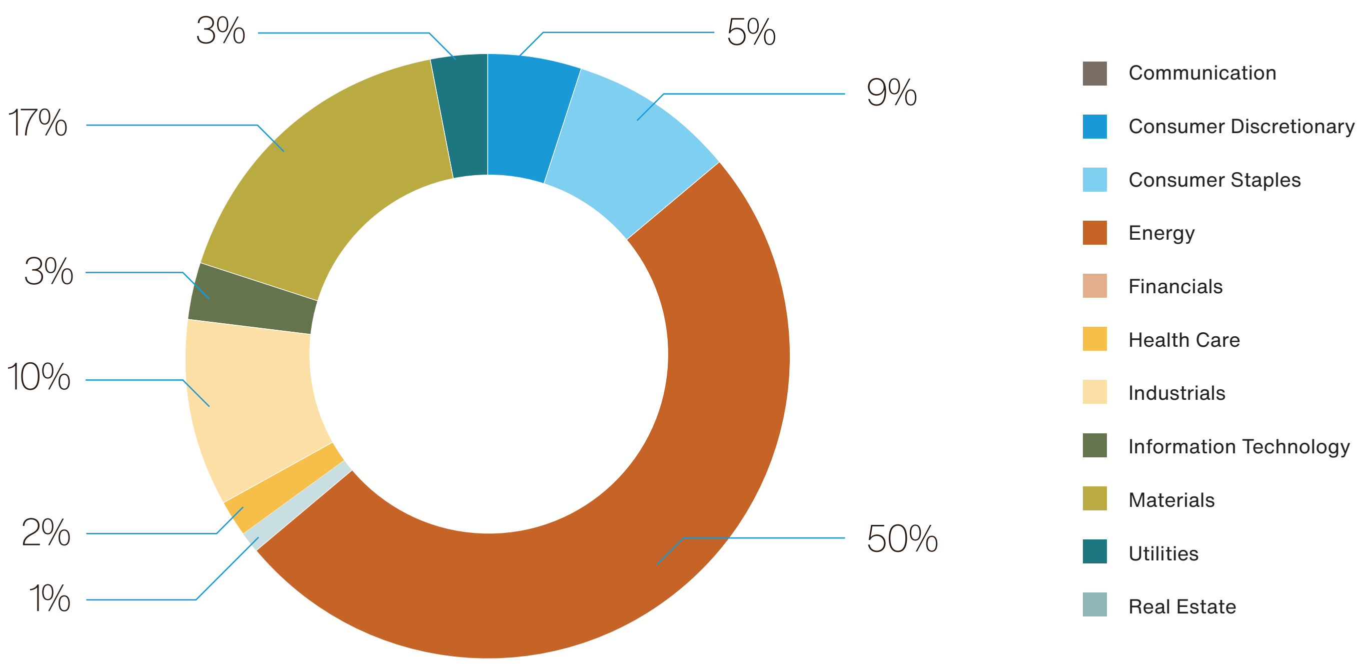
*tonnes of carbon dioxide equivalent / m represents the value of all greenhouse gasses emitted calculated into the equivalent weight of carbon dioxide per ever £m under management. Assets under management as at 31 July 2023, analysed using MSCI.

Equities – Scope 1 & 2 Financed Emissions Sector Breakdown



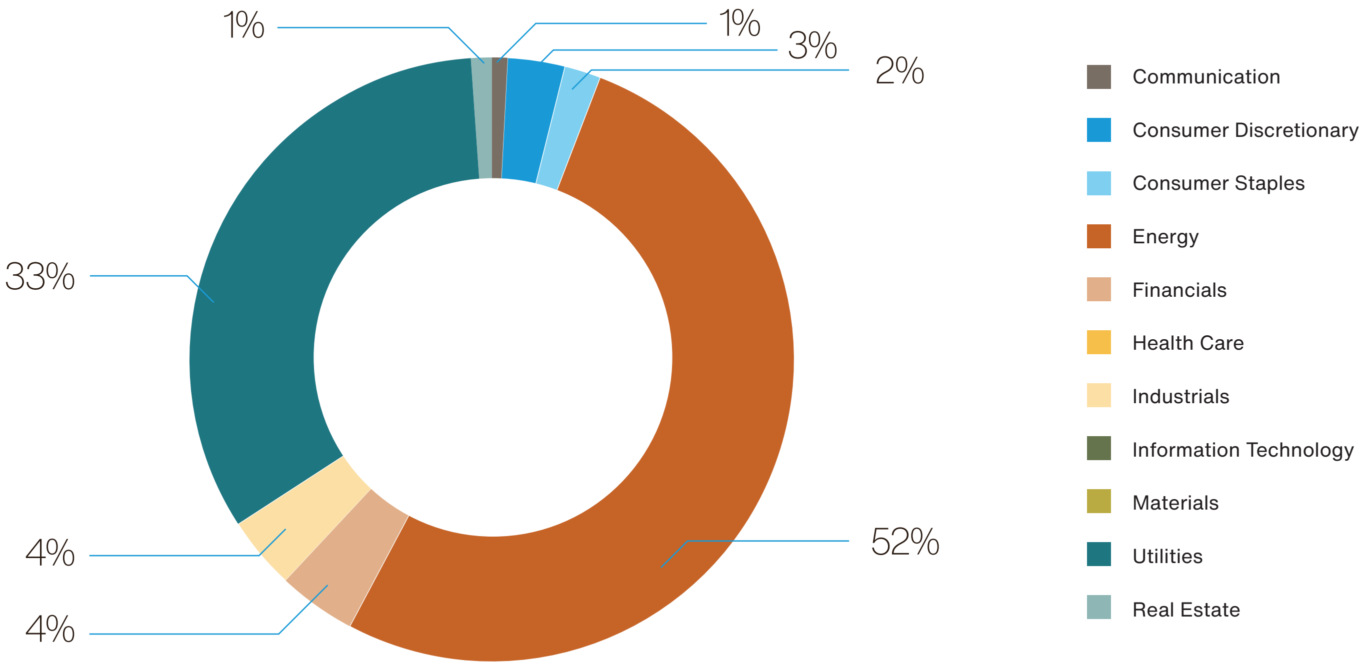
Source: Close Brothers Asset Management as at 31 July 2023.

Equities – Scope 3 Financed Emissions Sector Breakdown



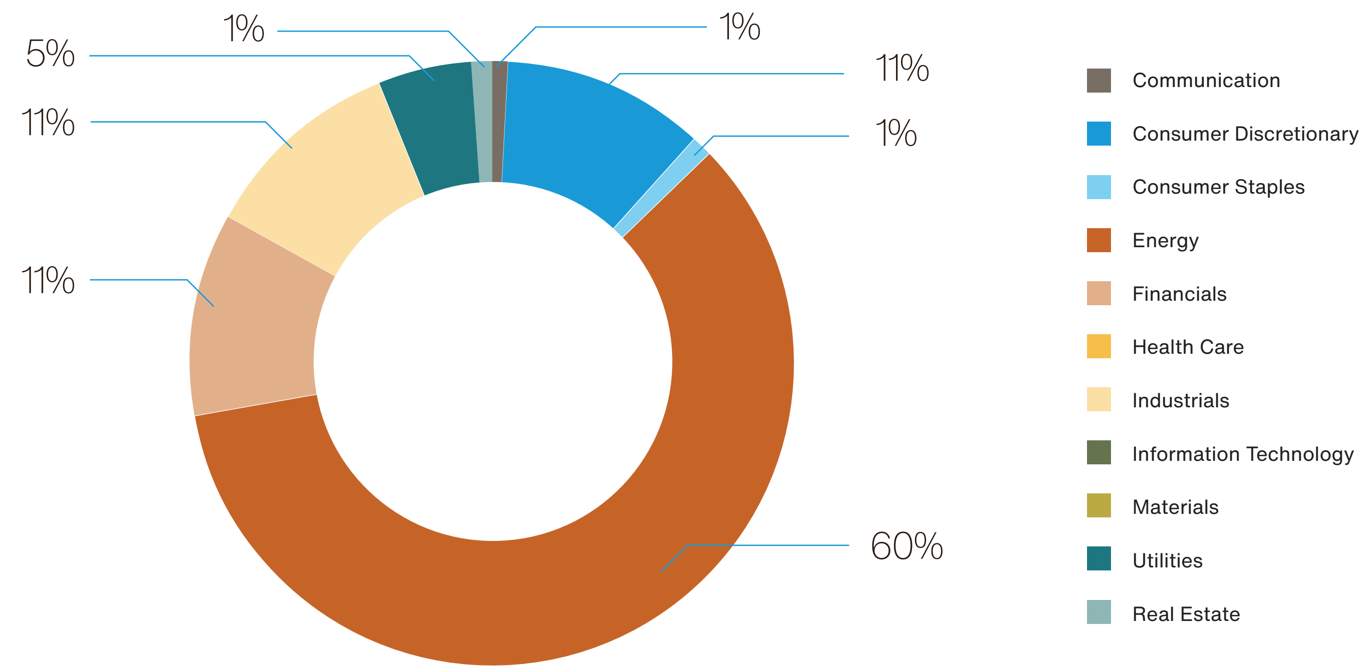
Source: Close Brothers Asset Management as at 31 July 2023.

Corporate Bonds – Scope 1 & 2 Financed Emissions Sector Breakdown



Source: Close Brothers Asset Management as at 31 July 2023.

Corporate Bonds – Scope 3 Financed Emissions Sector Breakdown



Source: Close Brothers Asset Management as at 31 July 2023.

Coverage for reported data is presented in the metrics and targets section of this report. This can be found on page 23.

4.2.4 Scenario analysis

We use MSCI's Climate Value at Risk (CVaR) methodology to explore how CBAM's equities and corporate bond holdings could be impacted under various climate-related scenarios. These scenarios have been developed by the Network for Greening the Financial System (NGFS) and are widely accepted as the standard for financial institutions to evaluate the potential financial impacts of climate change on their investments. These scenarios enable institutions to explore various future pathways and their implications on their products.

The analysis allows us to identify companies which are particularly exposed to transition or physical risks, and which are exposed to policy risks and likely to benefit from low-carbon technology opportunities. In turn, this can help inform our monitoring and engagement approach for those companies, especially those vulnerable to both or one of the types of climate risk.

1.5 Degrees Orderly Scenario: Global warming is limited to 1.5°C above pre-industrial levels by 2050 through timely and planned policy interventions. The transition to a low-carbon economy is achieved in an orderly fashion, minimising economic disruptions and allowing for a smooth adjustment across sectors.

1.5 Degrees Disorderly Scenario: Global warming is limited to 1.5°C above pre-industrial levels by 2050 but the transition is delayed and then rapidly accelerates, leading to a disorderly adjustment. This scenario reflects the risks associated with late and sudden implementation of climate policies, resulting in potential financial shocks and market volatility.

2.0 Degrees Orderly Scenario: Global warming is limited to 2.0°C above pre-industrial levels by 2050 through proactive and planned measures. The transition is managed in a way that promotes economic stability and gradual adaptation by various industries and financial markets.

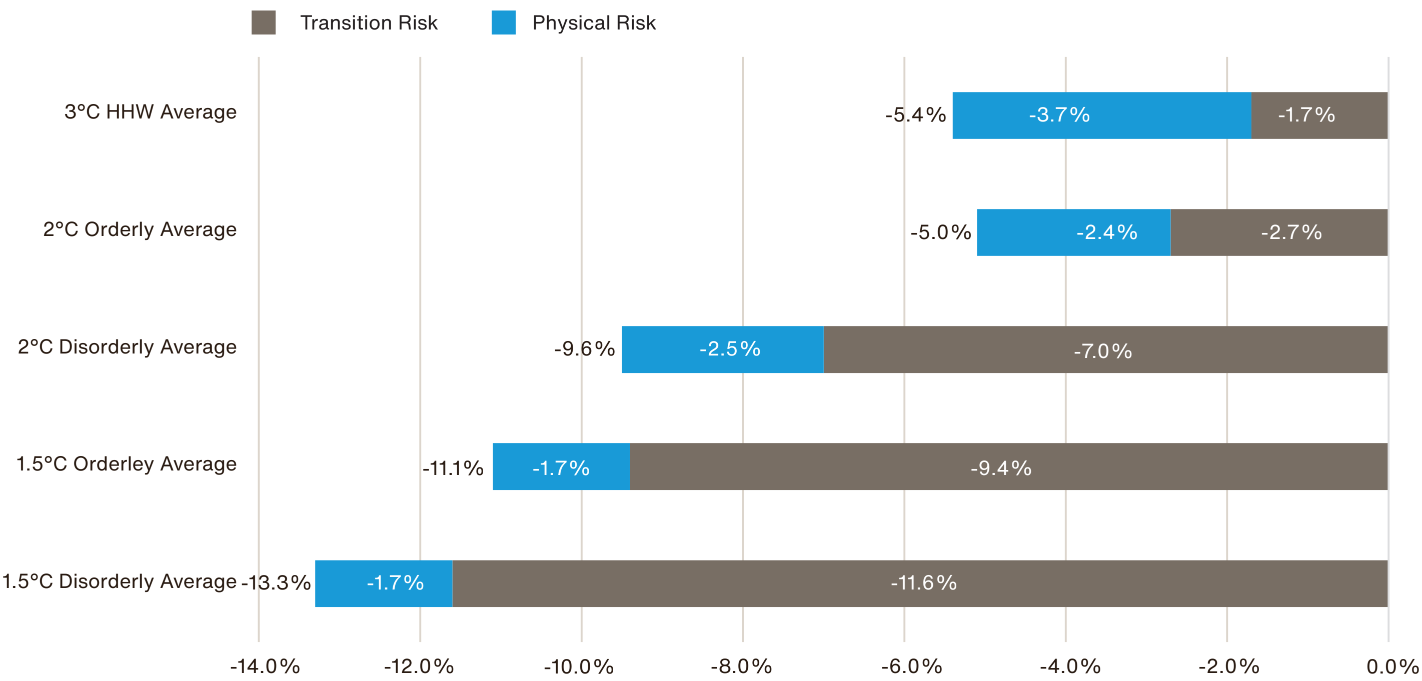
2.5 Degrees Disorderly Scenario: Global warming reaches 2.5°C above pre-industrial levels by 2050, with policies introduced in a delayed and hasty manner, causing abrupt economic and financial adjustments. It highlights the challenges and risks of postponing decisive climate action.

3 Degrees Hot House World Scenario: The lack of effective climate policies leads to global warming of 3°C above pre-industrial levels by 2050, significantly increasing the physical risks associated with climate change. It illustrates the severe economic and financial implications of failing to adequately address climate risks.

The CVaR for CBAM's equities and corporate bonds can be calculated based on an average or aggressive physical risk scenario. The average scenario is the most likely physical impact of climate change, whereas, the aggressive scenario has a 1 in 20 chance of occurring.
The results presented represent estimates of possible future scenarios, not precise forecasts. These climate models rely on multiple assumptions which are uncertain and therefore the projections could deviate significantly from reality.

Climate Value at Risk (CVaR) figures presented are aggregated and assume an average physical scenario. Under each scenario, the model indicates that CBAM's equities and corporate bonds may experience a loss in value. The graph indicates orderly scenarios are preferable to disorderly scenarios and transition risks is higher in scenarios where emissions are limited the most.

Aggregated Climate VAR (%)



Source: Close Brothers Asset Management as at 31 July 2023.

CVaR Calculation Coverage for CBAM's Equities and Corporate Bonds	
Policy Climate VaR (Transition Risk)	92%
Technology Opportunities Climate VaR (Transition Risk)	84%
Physical Climate VaR (Physical Risk)	89%

CVaR analysis shows how CBAM's equities and corporate bonds would be impacted under each of the NGFS scenarios projecting the value to 2100. The 1.5°C disorderly scenario is the most challenging for the portfolio and could result in a 13.3% loss of value. The 2.0°C orderly scenario is the least impactful scenario on the portfolio resulting in a potential 5.1% loss in value.

The CVaR associated with CBAM's equities and corporate bonds under each scenario, except Hot House World, is driven primarily by policy risk which is often a contributor to the broader term transition risk. Policy risk is the loss of value from the risk associated with any policy changes such as legal or regulatory action implemented to constrain actions that contribute negatively to climate change or policy which seeks to promote adaption to climate change.

The CVaR under a 1.5°C disorderly scenario is driven primarily by exposure to companies within the Energy, Consumer Staples and Materials sectors. The carbon intensive nature of the Energy and Materials sectors in particular means they are at risk from aggressive, delayed policy intended to decarbonise in order to maintain global warming to within 1.5°C.

Overall, within CBAM's equities and corporate bonds there is 8.4% exposure to companies with any tie to oil and gas. Under an aggressive policy scenario to reduce the use of fossil fuels across the economy, the business models of the companies within this exposure will be stressed, unless they are adapted, and a loss of revenue could cause a loss of value.

4.3 Operational (non-investment) emissions

We are actively setting and adhering to science-based targets within our operations. Our approach to improving sustainability involves identifying climate-related risks, assessing potential policy, legal, market, technology, and reputational transition risks, and pursuing opportunities specific to our business. Governance and accountability systems are in place to monitor and mitigate these risks, and we also evaluate physical climate risks to our owned and leased offices. Our operational strategy on climate change concentrates on reducing greenhouse gas (GHG) emissions and resource consumption.

Our total scope 1 and 2 GHG emissions remained largely unchanged between 2022 and 2023, whereas our scope 3 emissions increased. These increases may be attributed to growth of the business. In 2023, we hired 14 Bespoke Investment Managers, opened new office facilities in Cheltenham and Birmingham and moved premises in Glasgow and Edinburgh.

Metric	Key metrics 2023	Key metrics 2022	Absolute Difference	% Difference
Total scope 1 and 2 location based (tCO2e)	249	245	4	1.81%
Scope 3 business travel (tCO2e)	158	122	36	29.43%
Scope 3 capital goods (tCO2e)	1298	1106	193	17.41%

Source: Close Brothers Asset Management as at 31 July 2023.

5. Risk management

5.1 ESG risks

Climate change, as well as other environmental and social factors, can pose financial and non-financial risks to our business. We seek to manage to any potential impacts through our emerging risk framework, with appropriate oversight and responsibility assumed by both senior management and ExCo.

CBG is in the process of developing an appropriate firm-wide climate risk framework due to the potential for climate change to impact various principal risks (operational risk, market risk).

Current and emerging ESG risks are considered as part of the six monthly risk register and risk and controls self-assessment (RCSA) cycle.

Risk	Nature and potential impact of risk	Controls
Product governance over the bespoke business processes (Bespoke)	Risk category: Reputational and regulatory Breach of bespoke portfolio restriction (eg an ethical restriction) or purchase of ineligible assets within portfolio or tax wrapper. Inability to respond in an optimal manner to changing market conditions, including environmental and social factors, such that Market share or profitability is adversely affected. This could result in loss of clients, which could have a significant revenue impact.	Pre and post trade controls are embedded to avoid the asset becoming non-compliant or at risk of breaching client restrictions.
Investment risk challenge	Risk category: Reputational and regulatory Not managing climate transition risk within our existing sustainable portfolio range. The risk of failure to fulfil its regulatory or legal requirements and comply with the introduction of new or updated regulations and laws.	The consideration of climate related and ESG risks is embedded across the two lines of defence to help ensure that clear and effective accountability for these unique risk is established. - Controls are embedded between 1st and 2nd line to monitor negative screening for business involvement and company/sovereign conduct - To support the transition to net zero, our sustainable portfolios have investment objective to maintain a carbon intensity below the referenced benchmark, targeting a level 50% below this benchmark by 2030, and net zero emissions by 2050. To manage the progress of our net zero journey, we measure the carbon intensity (tonnes of Scope 1 and 2 CO_2e per US$m of revenue) of the sustainable portfolios and monitor progress towards its target - We continue to ensure we have the right resource in place and work to have data available to help our assessment of the risk and opportunities - We review our investment risk policy at least annually. This alongside our engagement program, which includes a focus on climate and delivery of net zero plans, supports our response to the changing landscape and increased regulation

Risk	Nature and potential impact of risk	Controls
Loss of building utilities or environmental disruption	Risk category: Physical risk Loss of utilities impacting on ability to carry on normal office business activities. Environmental factors influencing ability to gain site access.	Preventative maintenance and Business Continuity Plans (BCP): BCP in place for each site. Preventative maintenance schedule in place for significant assets. Some sites benefit from backup generators, and IT equipment use UPS to maintain power during outage - systems under regular maintenance regime. All staff have access to laptops and are able to work from home. Disaster Recovery Plan in place for CBAM IT systems. This is reviewed regularly and tested at least annually.
Quality, health, safety and environment	Risk category: Physical risk Failure to comply with health, safety and environmental regulations including H&SA, DSE, fire, first aid, accident reporting, electricity, water management, CDM, equality/disability etc.	Auditing and training: Fire risk assessments, water risk assessments and general health and safety assessments are conducted at each office, appropriate actions taken where identified. Training for fire wardens and first aiders are conducted at each site. Reporting of incidents, accidents or near misses is in place at each site. Regular fire drills are conducted at each site, raising awareness of evacuation procedures and identifies any shortfalls to be remedied.
Computer/device software	Risk category: Hardware risk Insufficient equipment and inventory supply and management for staff and IT, software/hardware is unsupported/end of life, supply chain issues.	Monitored on-site stock levels for IT and end user equipment to expedite new starter requests and replace faulty devices.

5.2 Risk life cycle

Risks are managed in line with the CBG risk life cycle. The first step is risk identification. Determining the risks to which the business is exposed is managed through both a top down and bottom up approach. The CBG Board determines the risk strategy and risk appetite for the CBG. The CBG Risk Appetite Statement is composed of the top-level key risks that the CBG faces, and in turn drives the monitoring of risks within the business. The risk strategy is determined by the CBG RCC and disseminated through the business and local RCCs. Using knowledge and experience of day-to-day operations, business units identify the risks they face on an ongoing basis. Risk identification is the responsibility of all staff and may develop from a variety of different sources, including industry and business knowledge and experience, incident root cause analysis, risk reviews, transaction analysis, new business approval and emerging risk analysis. The group records all business risks and controls within a defined risk taxonomy.

Risk identification also includes identifying risk events. A risk event or incident is a specific occurrence which has a negative impact on the business and is due either to the materialisation of a risk or the failure of a control. The group records and reports all risk events, near miss and boundary events in line with the requirements set out in the CBG Operational Risk Policy and CBG Risk Event Management Standard.

The second step is the risk assessment. Within the CBG, operational risks and controls are subject to regular assessment in order to understand the current risk exposure of the group and ensure risks are sufficiently managed to prevent losses or other negative detriment.

The risk assessment process allows the group to integrate and coordinate its risk identification and management efforts. It also assists in improving the understanding and operational control of all risks the group is exposed to and identifying control gaps which could threaten the achievement of group and business objectives. Business units are responsible for ensuring all operational risks and controls are identified and assessed in line with the CBG Risk Assessment and Response Standards. Periodic reassessment of all operational risks is required through the semi-annual RCSA process. Risk owners must also ensure changes to the risk profile identified outside of an RCSA cycle are assessed, documented and escalated as required.

Risk mitigation is the third step. Mitigation represents a systematic reduction in the extent of exposure to a risk and/or the likelihood of its occurrence and is achieved through the implementation and operation of controls.

Each control has an owner who must periodically affirm as to the continued design and operational effectiveness of the control. Controls may be considered preventative or detective. Within the CBG, risk reduction may be achieved through the following methods:

- Corporate culture;
- Policies, standards and procedures;
- The corporate governance framework;
- Risk, compliance and legal frameworks;
- Business and personal authority approval levels;
- Management of risk events (eg operational, external or market);
- Business process controls and control owner affirmation; and
- Process design effectiveness.

Where controls are not yet operational or are assessed as inadequate, or when risks materialise, action plans are required. Action plans must be agreed with all relevant parties, documented and tracked to completion. They may be considered proactive or reactive.

The fourth step is risk review. There are two types of review; standard reviews and event reviews. Standard reviews are completed in the following scenarios:

- in accordance with an annual risk profiling process and plan;
- at the request of the business; or
- as a follow-up review.

Standard reviews include a review of the effectiveness of the design and operation of the risk registers and associated controls. They may consist of varying levels of scope and can be thematic or 'deep dive' in nature.

Event reviews are undertaken following a material event that requires assurance activity to be performed after an assessment by the Risk Officer and local management. The review will ensure that both corrective and preventative remedial action taken by the first line is adequate, effective and has been completed. Review results are reported to the relevant RCCs and escalated as required. The annual risk profiling process is completed by the Assurance Team and determine s the risk plan for the following financial year. It is based on both quantitative and qualitative factors.

The final step of the risk life cycle is risk reporting. To manage risk effectively, risk reports based on risk data should:

- be accurate, and provide analytics to present a clear and complete articulation of the risk;
- be presented in timely manner to appropriate decision makers to allow for an appropriate response;
- be reconciled and validated with documented and well-managed procedures in place for collation;
- cover all material risk areas within the organisation and be proportionate to the size of business operation and risk profile;
- be easy to understand but also comprehensive enough to facilitate informed decision making; and
- have an appropriate level of balance between risk data, analysis and interpretation with relevant qualitative explanations.

Business unit heads are responsible for ensuring the upward reporting of key risks on a monthly basis through the RCC hierarchy, and where necessary, executive committees eg CBG RCC. Material risks must be discussed and evaluated, and where applicable, areas of concern escalated through the RCC structure. Upward reporting may be achieved through risk status, RAG (Red/Amber/Green) and Key Risk Indicator reporting.

6. Metrics and targets

6.1 Targets

In 2022, we became a signatory to the NZAM initiative during the reporting period, which commits us to reaching net-zero carbon emissions by 2050 across all Assets under Management (AuM). We have also aligned operational net zero targets with the CBG, as the CBG is a signatory to the Net Zero Banking Alliance and committed to becoming operationally net zero through scope 1 and 2 emissions by 2030.

In 2023, we made our inaugural climate target disclosure to the NZAM initiative. The disclosure was based on the Net Zero Investment Framework. 18% of Close Brothers Asset Management's AuM has initially been committed to our climate targets. The targets disclosed were:

Portfolio Coverage Target
100% of AuM in material sectors will be considered net zero, aligned, or aligning by 2050.

Portfolio Decarbonisation Reference
Target Weighted average carbon intensity 50% below relevant benchmarks for each portfolio by 2030 from 2019 baseline.

Engagement Threshold Target
By 2025, 70% of financed emissions (scopes 1 and 2) are either aligned to a net zero pathway or subject to direct or collective engagement and stewardship actions.

As we made our NZAM target disclosures after the data point for this report of 31 July 2023, we will report on our progress against these targets in the next publication.

6.2 Metrics

Metric	Fund*	Coverage (%)*
Scope 1 & 2 GHG Financed Emissions (tCO2e)	410,754	100
Scope 3 GHG Financed Emissions (tCO2e)	3,916,763	99
Total GHG Footprint (tCO2e/£mil invested)	622	-
WACI Scope 1 & 2 (tCO2e/£mil sales)	112	95
WACI Scope 3 (tCO2e/£mil sales)	1,553	94

*Coverage and emission numbers are rounded.

Source: Close Brothers Asset Management as at 31 July 2023.

7. Conclusion

We are committed to addressing the challenges posed by climate change through a focused and strategic approach to sustainability. By integrating climate-related considerations into our operations and investments, we aim to effectively manage risks and capitalise on opportunities.

Our governance structures, including the ExCo, ensure robust oversight and support for our targets of achieving net zero emissions for scope 1 and 2 by 2030 and aligning with the NZAM initiative to reach net zero across all assets under management by 2050.

We are striving to understand and mitigate the impacts of climate change on our business through risk management and scenario analysis. Our commitment to transparency and continuous improvement ensures we stay aligned with evolving sustainability practices.

We will continue to engage with stakeholders, adapt our strategies, and support the global transition to a low-carbon economy. We remain dedicated to delivering long-term value while contributing to a sustainable future for all.

8. Glossary

8.1 Glossary

Climate scenarios	A description of possible future climate change pathways. Climate scenarios are used to assess the potential impact of climate change on businesses and other organisations.
Disorderly	Refers to a chaotic and poorly managed transition to a lower-carbon economy, characterised by significant economic disruption and financial market instability.
Enterprise Value Including Cash (EVIC)	The total value of a company including its cash, all equity ownership and debt.
Financed emissions	The emissions attributed to financing activities; for Close Brothers Asset Management financed emissions is the proportion of investee emissions for which Close Brothers Asset Management are responsible based on the number of shares or bonds held in the company or issuer.
Greenhouse Gas (GHG) Emissions	Greenhouse gases are gases in the atmosphere that trap heat from the sun, causing the Earth's temperature to rise. The most common greenhouse gases are carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6), and nitrogen trifluoride (NF_3). These will all usually be converted into their carbon dioxide equivalent (CO_2e) to allow comparison between the different gases.
Implied Temperature Rise (ITR)	The amount of global warming that is implied by an organisation's total carbon emissions. Implied temperature rise is calculated by plotting an organisation's total carbon emissions and trajectory against a carbon budget (typically a global carbon budget broken down into sector-region allocations). The global carbon budget is the amount of carbon emissions that can be emitted without exceeding a certain temperature target.
Net zero	Net zero refers to a state in which emissions of GHG going into the atmosphere are matched by removal of GHG emissions out of the atmosphere, over a specified period. The 'net' in net zero is important because it will be difficult to reduce all emissions to zero on the required timescale. As well as deep and widespread cuts in emissions, there will likely be a need to scale up GHG removals.
Weighted Average Carbon Intensity (WACI)	WACI measures a portfolio's exposure to carbon intensive companies. Calculating a portfolio's WACI is achieved by calculating the carbon intensity (scope 1 and 2 emissions / $M Sales) for each portfolio company and calculating the weighted average by portfolio weight.

Network for Greening the Financial System (NGFS)	An international network of central banks and financial supervisors that are working to promote sustainable finance. The NGFS have developed a set of climate scenarios tailored to financial sector companies.
Orderly	Refers to a smooth and well-managed transition to a lower-carbon economy, minimising economic disruption and ensuring stable financial markets.
Physical risk	The financial risks resulting from climate change-related physical events, such as extreme weather events and long-term shifts in climate patterns.
Scenario analysis	The process of analysing the potential impact of different climate scenarios. Scenario analysis is used to help organisations make decisions about how to manage climate-related risks and opportunities.
Science based	Refers to targets or strategies that are aligned with the latest climate science to meet the goals of the Paris Agreement, aiming to limit global warming to well below 2°C above pre-industrial levels.
Scope 1 emissions	Direct GHG emissions that occur from sources that are owned or controlled by an organisation. This may include emissions from fuel combustion for heating, power generation and transportation.
Scope 2 emissions	Indirect GHG emissions that occur from the generation of purchased electricity, steam, heat, and cooling.
Scope 3 emissions	All other indirect GHG emissions that occur in the value chain of an organisation. This can include emissions from transportation of goods and services, and use of sold products and services.
Task Force on Climate-related Financial Disclosures (TCFD)	The TCFD is an international body that was set up by the Financial Stability Board to develop recommendations for companies to disclose climate-related financial information.
Total GHG footprint	The GHG footprint of a financial portfolio is a measure of the total carbon dioxide equivalent emissions associated with the assets held in the portfolio. It is calculated by dividing the total emissions of the assets in the portfolio by the value of the portfolio.
Transient Climate Response to Cumulative Emissions (TCRC)	The transient climate response to cumulative emissions of carbon dioxide is the ratio of the globally averaged surface temperature change per unit carbon dioxide emitted.

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Data limitations
We are aware that emissions data often includes estimations or proxy data, thereby data coverage of our portfolio's exposures or risks is subject to a margin of error. We are committed to persistently enhancing the precision of our data utilisation. However, it is crucial to highlight that the outcomes derived should be regarded as indicative rather than definitive.

Our approach to ESG and climate related data and information:

Our investment processes are supplemented by qualitative and quantitative ESG related information, including data related to climate. We are reliant on the accuracy of the climate data provided to us by external providers. Therefore, we are mindful of this when using the output and calibrate accordingly. For applicable strategies, our investment team supplement climate related data and metrics with a range of qualitative information.

Scope 3 emissions
Our scope 3 emissions presently do not account for financed emissions associated with the assets under the stewardship of Close Brothers Asset Management. It is our strategic objective to methodically extend our disclosures to encompass all critical emissions categories. Yet, our immediate emphasis is on fortifying our data framework to afford our clients with reliable and indicative emissions insights.

Assets covered
Our reporting covers public listed equities and corporate bonds. This is credited to the superior quality and reliability of data associated with these asset.

Scope 1, 2 and 3
In our TCFD Aligned Entity Report, we disclose scope 1, 2, and 3 emissions, confident in the appropriateness and reliability of the data for these purposes. However, it is important to note that within our fund prospectuses, we report only scope 1 and 2 emissions.

The omission of scope 3 emissions from these prospectuses is deliberate, as we do not consider the available scope 3 data robust enough to inform our sustainable investment methodology. This distinction reflects our commitment to accuracy and transparency in our sustainability reporting.

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