7IM:
Task-Force on Climate-Related Financial Disclosures Report

June 2024

Succeeding together

Important notice

Capital at risk

Past performance is not a guide to future performance. The value of investments may go up as well as down.

Any reference to specific instruments within this document does not constitute an investment recommendation.

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Foreword from our CEO

Welcome to 7IM's inaugural Task Force on Climate-Related Financial Disclosures (TCFD) report.

With 2023 being the warmest year since global records began in 1850, the need to address climate change has become greater than ever before. Climate change is arguably amongst the greatest risks investors (and society) faces, and we recognise that financial services sector has a pivotal role to play in addressing the associated risks and opportunities.

We understand that the transition to a sustainable, low-carbon economy is not just a regulatory requirement but a strategic imperative. And as conscious stewards of our client's assets, we must endeavour to steer capital towards sustainable initiatives and ensuring that our clients are well-informed about the potential impacts of climate-related factors on their investments.

Our commitment to this transition is embodied in our comprehensive approach to climate-related financial disclosures, as outlined in this report. This report represents a significant step in our commitment to transparency and accountability. It provides a comprehensive overview of our approach to managing climate-related risks and opportunities, integrating climate considerations into our governance, strategy, risk management, and metrics and targets.

Governance

Strong governance is the foundation of our climate strategy. Our board of directors and senior management are actively involved in overseeing climate-related issues. We've established clear roles and responsibilities, ensuring that climate risks are considered at the highest levels of decision-making. This top-down approach ensures that our climate strategy is aligned with our overall business objectives and that we are well-positioned to navigate the complexities of the evolving regulatory landscape.

Strategy

Sustainability has long been a strategic priority at 7IM both in the way we invest money and the way we run our business. When it comes to our investments, we've integrated climate considerations into our investment processes by committing to a 30% reduction in the carbon intensity of our Strategic Asset Allocations (which form the foundations of all our portfolios) by 2026. This ensures that our portfolios are resilient in the face of climate-related risks. We're committed to identifying and investing in opportunities that contribute to the transition to a low-carbon economy, recognizing that sustainable investments can drive long-term value for our clients.

Risk Management

Effective risk management is central to managing climate-related risks. We've developed robust methodologies to assess and manage climate-related risks across our investment portfolios. This includes scenario analysis and stress testing to understand the potential impacts of various climate scenarios on our assets. By proactively managing these risks, we aim to protect our clients' investments and enhance the resilience of our portfolios.

Metrics and Targets

To measure our progress of our climate strategy, we've established clear metrics and targets. These include tracking the carbon intensity of our portfolios, setting targets for reducing our carbon footprint, and regularly reporting on our performance. Transparency in our metrics and targets not only holds us accountable but also provides our clients with the information they need to make informed decisions about their investments.

In conclusion, we believe that this TCFD report reflects our unwavering commitment to sustainability. We believe that by integrating climate considerations into our governance, strategy, risk management, and metrics, we can deliver long-term value to our clients while contributing to the global effort to combat climate change.

As always, thank you for your continued trust, support, and partnership as we navigate this journey towards a more sustainable future together.

Dean M. Proctor, Chief Executive Officer, 7IM

An overview of our TCFD report

What is a TCFD report?

The Task Force on Climate-related Financial Disclosure (TCFD) - is an annual report that sets out our exposure to and management of climate-related risks and opportunities we face as a business. The report aims to give our clients, shareholders, and other stakeholders a better understanding of our climate-related activities carried out over the 2023 calendar year. This report has been structured in the following sections via two lenses: **our operations** and **our investments**:

Section 01: Governance

This section sets out our governance around climate-related risks and opportunities. This includes describing the board's oversight and management's role in assessing and managing climate-related risks and opportunities. The section lays out the governance framework and describes the purpose and responsibilities of relevant committees and accountable executives.

- **7IM governance structure**
- **7IM Risk Appetite Framework**
- **7IM ESG Investment Committee**

Section 02: Strategy

This section identifies the short, medium, long-term climate-related risks and opportunities relevant to our business operations and the investments we manage. The section also assesses the impact on our business, strategy, and financial planning. In addition, this section includes a climate-related scenario analysis performed on our investments to demonstrate resilience of our investment strategy.

- **7IM's sustainability strategy**
- **7IM's corporate approach to climate change**
- **How 7IM approaches investment management**
- **Climate scenarios**
- Impact of climate-related risks and opportunities on 7IM's **investment management** and **as a business**

Section 03: Risk Management

This section reports on our process for identifying, assessing, and managing climate-related risks as well as how the processes feed into our investment risk management and overall risk management. This is shown through our sustainability framework, which incorporates climate-related risks.

- **7IM's Risk Management Framework (RMF)**
- **7IM's Sustainability Framework**
- **How we manage climate risks within investment management**

Section 04: Metrics and Targets

This section discloses a set of climate-related metrics, in line with TCFD recommendations that we use to assess operational and investment greenhouse gas (GHG) emissions, emissions intensity and portfolio alignment.

- **Applying climate metrics to our investments**
- **Portfolio alignment**
- **Our SAA decarbonisation target within investment management**
- **7IM LLP's operational footprint**

Section 01: Governance

7IM governance structure

In this section we outline our governance structure and how we manage climate risk and opportunities through this.

Our governance structure

We operate with a comprehensive and agile corporate governance framework. Committees are run with clear areas of focus and terms of reference. All Executive Level Committees are chaired by accountable executives from the Executive Committee (ExCo) and enable executives to discharge their executive and/ or senior management function obligations to manage the group accordingly. These committees monitor and provide oversight of key risks (identified via the semi-annual top down risk map process) and escalate any risk or concerns to the Executive Risk Management Committee (ERMC), People Committee, and Executive Committee as per their Terms of Reference.

The Executive Level Committees report to the board sub-committees (Remuneration Committee and Audit, Risk & Compliance Committee) on a quarterly basis. All executive committees are attended by at least one member of the second-line who provides support and challenge.

An overview of our governance structure can be found in the next page.

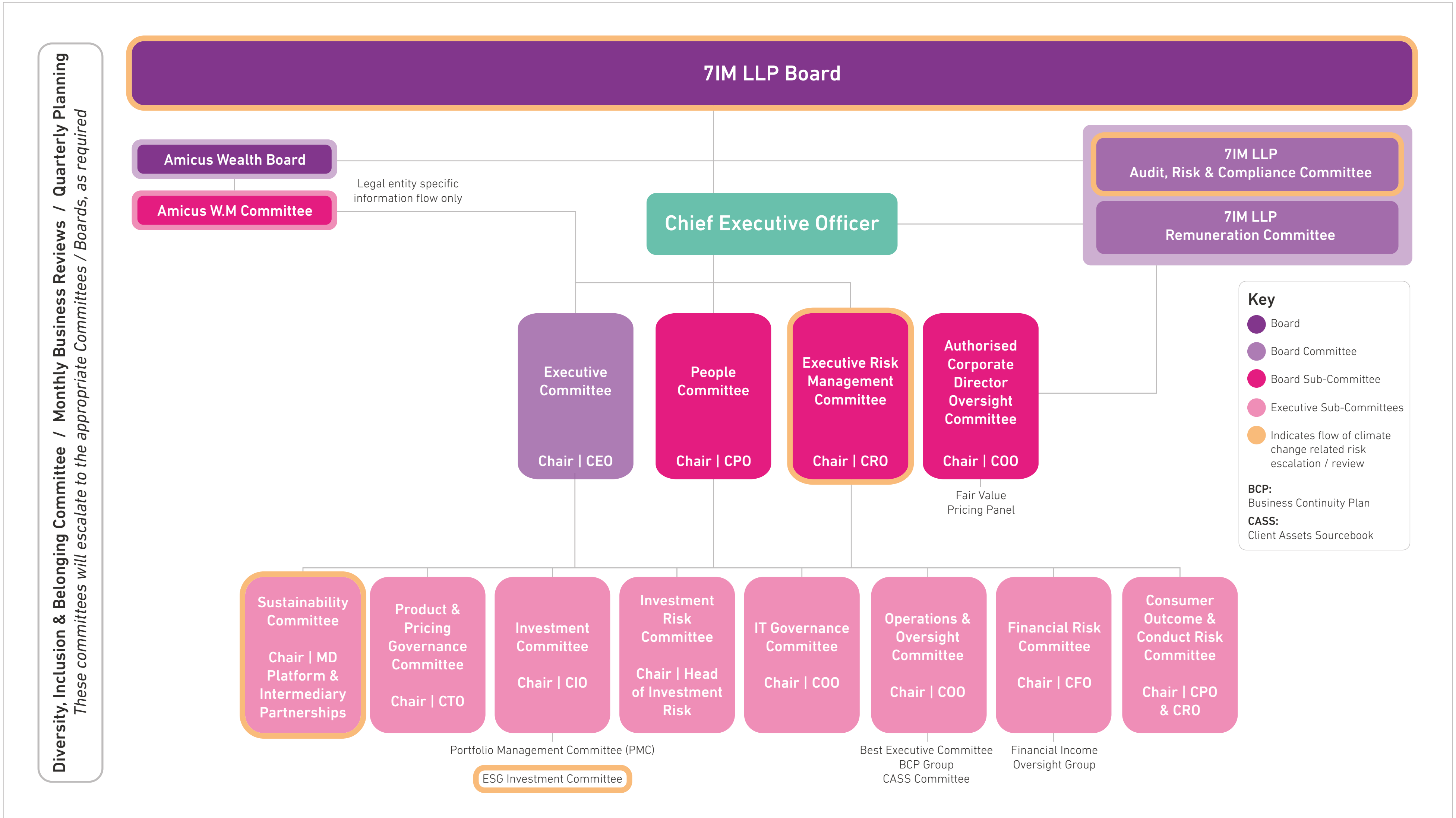
How climate risk is managed through the governance structure

Our governance structure allows climate-related topics, issues, and risks to flow between committees. The ESG Investment Committee, which reports to the Investment Committee, provides centralised ownership for how climate-related ESG factors are incorporated or considered in 7IM's investment process.

The Sustainability Committee oversees the implementation of our Sustainability Framework and tracks progress made against climate-related actions (tied to 'Environmental' and 'Governance' areas of the framework). The ERMC discuss climate-related risks, escalating to Audit Risk and Compliance Committee (ARCC) where required. The ARCC inform and update the Board of all relevant climate-related risks as well as areas of development.

> Strong governance is the foundation of our climate strategy."
>
> **Dean M. Proctor, CEO at 7IM**

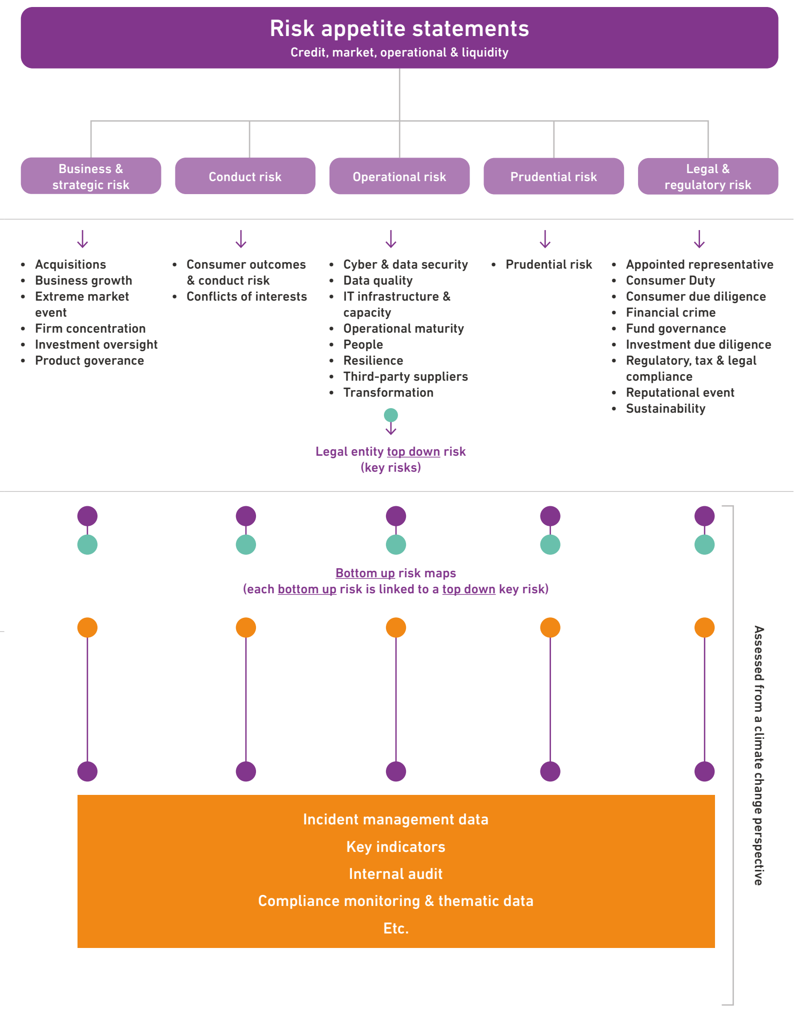
7IM LLP governance structure



Risk Appetite Framework: Governance, appetite and reporting

Tier	Accountability	Context
01	**Board / ARCC**	• The board are informed of sustainability and climate-related risks through its corporate governance structure, which is used to guide 7IM's strategy, as well as its climate-related risk appetite. • The board monitors and oversees progress against goals and targets for addressing climate-related issues via board sub-committees such as the Audit, Risk & Compliance Committee utilising components such as key indicators, risk assessments and deep dives.
02	**Executive Committee**	• Climate-related issues are monitored through our governance structure, ensuring that information flows effectively between committees and that the board remain well sighted of issues. • Members of the executive committee inform 7IM's top down risk map (TDRM), which is used to assess the businesses key risks. One of these key risks is 'Sustainability' which factors in climate-related risks and has most recently (January 2024) been assessed as a 'High' and 'Current', giving it an 'Amber' severity rating. An 'Amber' rating indicates that the risk sits outside of appetite but has future mitigating action plans that reduce the risk sufficiently and in a timely manner.
03	**Risk Committees** (Discharge SMF Responsibilities)	• Climate-related responsibilities have been assigned to accountable executives and are monitored and assessed via 7IM's Executive Risk Management Committee (ERMC), Investment Committee, ESG Investment Committee, Investment Risk Committee, and Sustainability Committee.
04	**Risk & Compliance Function** (Independent Second Line Challenge)	• We assess climate risk as a component of 'Sustainability' key risk, which is managed through 7IM's Risk Management Framework (RMF). An overview of the RMF can be viewed within the **Risk Management** section of the pack. • The RMF establishes processes to ensure there is an appropriate governance structure to identify and manage climate-related risks, providing a level of risk assurance. • The RMF produces a view of the climate risk profile, at an appropriate level of materiality, to inform the decision-making process and risk-taking ('Risk Management Methodology'). • The RMF provides Management Information on material climate risks which lie outside of risk appetite and those which are volatile and therefore require close management and monitoring. • Areas within bottom up risks, incident management data, key indicators, internal audit, and compliance monitoring and thematic data are assessed from a climate change exposure perspective.

Risk Appetite Framework



ESG Investment Committee

The ESG Investment Committee is based in the Investment Management team and has five members.

It includes representatives from every stage of the investment process at 7IM:

- Strategic Asset Allocation
- Tactical Asset Allocation
- Portfolio Management
- Investment Risk.

A member of the Investment Committee also sits on the ESG Investment Committee.

Investment stewardship and ESG at 7IM are managed by the ESG Investment Committee, set up in 2020. It reports to the Sustainability Committee and to the Investment Committee, which is the senior decision-making body for all 7IM's investments and is ultimately responsible for investment performance.

Our ESG Investment Committee

Chair: Jack Turner
Head of ESG Portfolio Management, Responsible Investing

Jack has been a member of the 7IM Investment Management team since 2016 and has been instrumental in driving forward ESG integration across the investment process. He is lead portfolio manager on the Responsible Choice Model Portfolios and the Sustainable Balance Fund.

Tiziano Hu
Quantitative Investment Strategist

Tiziano joined 7IM in 2020 after completing an MSc in Financial Technology. Tiziano has been instrumental in incorporating ESG data into 7IM's analytics platform, Jasmin, and helped to develop our ESG calculator.

Uwe Ketelsen
Head of Portfolio Management, Investment Committee member

Uwe joined 7IM as Head of Portfolio Management in 2021. He has 24 years of investment experience and was most recently Head of Fund Research at Coutts, where he helped to shape their approach to ESG integration in investment portfolios.

Loic Yegba
Investment Risk Developer

Loic joined 7IM in April 2022. He works in the Investment Risk team and is responsible for incorporating ESG analysis into the risk oversight process.

Wenqian Zeng
Junior ESG Investment Analyst, Responsible Investing

Wenqian joined 7IM in February 2023 and has completed an MSc in Climate Change, Management and Finance. She is responsible for ESG investment research, ESG integration, and stewardship.

The Sustainability Committee

Our attitude to sustainability is influenced by our varied company structure. We underwent ownership and senior leadership changes over the course of 2023, which were finalised in early 2024. Ontario Teachers' Pension Plan Board ("Ontario Teachers" or "OTPP") announced in September 2023 that it would acquire a majority stake in 7IM, from Caledonia Investments plc ("Caledonia"). This acquisition was completed on 18 January 2024.

The strong cultural alignment between the two entities under our updated ownership structure has reinforced our dedication to responsible business practices and facilitates positive outcomes for clients. A key focus for us is to strengthen the functions of committees to ensure the full integration of ESG considerations across the business and investments. Revisions to sustainability governance within 7IM were developed in late 2023 and approved and implemented in early 2024. To be transparent, the below highlights the updated structure of our revised Sustainability Committee (previously, "Culture and Sustainability Committee"), as of March 2024. The Sustainability Committee was set up in 2020 and reports to the 7IM ExCo. The objective of the committee remains the same. The committee is held accountable for pulling together and embedding our commitments within our culture and related groups and activity and includes people from across the whole business.

The committee comprises of the committee chair and representatives from the following:

- Investment Management;
- People and Culture;
- Charity Committee;
- Risk and Compliance;
- Operations;
- Finance;
- Private Client;
- Intermediary;
- Partners Wealth Management;
- and Platform.

Our Sustainability Committee:


Chair: Russel Lancaster
Managing Director, Platform & Intermediary Partnerships, ExCo Member


Agustin Fernande
Managing Director, Corporate & Strategy Development, ExCo member


Chris Phillips
Chief Transformation Officer, ExCo member


Duncan Walker
Chief Financial Officer, ExCo member


Gabby Beare
Financial Controller


George Montgomery
Risk & Compliance Manager


Glen Steven
Head of Office Services and Facillities


Jack Turner
Head of ESG Portfolio Management


James Ashcroft
Corporate & Strategy Development Director


James Lowe
Head of Intermediary Intelligence and Analytics


Jana Sivananthan
Chief Risk Officer, ExCo member


Kate Hughes
Chief People Officer, ExCo member


Katia O'Toole
Senior Legal Counsel


Kieran Cardozo-Smith
Head of Experience Design


Liz Paradine
Chief Operations Officer, ExCo member


Martyn Surguy
Chief Investment Officer, ExCo member


Rose Hargreaves
Head of Engagement & Social Responsibility


Sara Sehgal
Excecutive Assistant


Wenqian Zeng
Junior ESG Investment Analyst

Section 02: Strategy

Our sustainability strategy

In this section, we explain how we identify, manage and respond to climate-related risks and opportunities as a business and as an investment manager. We'll also go on to explain how this shapes our evolving sustainability strategy and how we integrate climate change considerations into our strategic planning.

Our governance structure

In both the way we invest money and the way we run our business; we know the importance of sustainability. Our aim is to remain proactive, and not reactive, as the sustainability and climate landscape continues to evolve. To do this, our governance structure and Risk Management Framework inform and oversee our strategy, which is guided by four key business sustainability pillars; Cleaner Investments, Sustainable Choices, An Inclusive Team, and Giving Back.

The four pillars are underpinned by Sustainability Focus Factors, which are linked to our **Sustainability Framework**, and span over Environmental (E), Social (S), and Governance (G) Sustainability Areas which are further detailed on the Sustainability Framework section this report. Relevant action plans within these Sustainability Focus Factors support us in embedding a culture that considers the four pillars throughout its operations.

Sustainability Focus Factors, as well as action plans, are tied to the highlighted pillars; Cleaner Investments and Sustainable Choices.

Under Cleaner Investments, we have committed to a 30% reduction in the carbon intensity of our Strategic Asset Allocations (SAAs) by 2026.

Under Sustainable Choices, we committed to reducing our Scope 1, 2 & 3 CO_2 emissions and pledged our business would become carbon-neutral.

The progress of both are detailed later in the report.

Through 2023 we continued to work towards a sustainable and more inclusive future as a business.

Sustainability has long been a strategic priority at 7IM both in the way we invest money and the way we run our business"

Dean M. Proctor,
CEO at 7IM

Governance

Cleaner Investments	**Sustainable Choices**	**An Inclusive Team**	**Giving Back**

The Sustainability Pillars are underpinned by our Sustainability Focus Factors within the Sustainability Framework

Risk Management

Operations

Our operational approach to climate-related risks

Our carbon neutral commitment

Back in 2021, as part of our Sustainable Choices pillar, we committed to reducing our Scope 1, 2 & 3 CO_2 emissions and pledged that our business would become carbon-neutral. Since then, we have partnered with World Land Trust (WLT) to offset our carbon footprint every year, by supporting the organisation's Carbon Balanced project in Guatemala.

We will soon offset 2023's unavoidable emissions through the same programme. When selecting a carbon offset partner, we prioritised credibility. After comparing six options and extensive due diligence, we opted for the WLT's Carbon Balanced Program. The WLT was selected for their pedigree as well as their wide range of offsetting schemes and willingness to form a close partnership with us. The WLT works with hundreds of landowners, including local communities, to register and obtain land titles to protect threatened coastal forest for the benefit of the region's biodiversity, and we're proud to continue our partnership with the WLT.

Our environmental footprint

During 2023, we exited an office in Edinburgh and moved from two offices to a new single office in London as part of our property consolidation plans.

Three out of five of our office leases were ending or a break exercise was an option. As part of the embrace of hybrid working, we closed two offices in London (7IM and PWM's London offices) in favour of a new single office space which reduced our overall building real estate footprint in London from 31,464 sq ft to 24,989 sq ft. We carried out the same exercise in Edinburgh, bringing two offices down to one. This business decision reduced our overall real estate holdings by 10,502 sq ft. This will have a positive impact on utilities and energy consumption, reducing our need for as much fossil fuels and also reduce the amount of waste produced.

We reviewed the big impact areas of utilities consumption and greenhouse gas emissions. In line with the EU energy efficiency directive, we will again report on the Energy Savings Opportunity Scheme (ESOS) auditing 2023.

Finally, we're in the process of improving sustainability in our procurement processes and project delivery channels. Over time, we'll review our downstream business impacts (Scope 3 emissions) and try to lower emissions further. Key changes this year have been the conversion of lighting in the Edinburgh office from fluorescent to LED across the office, working with cleaning companies that put environmental impact at the forefront of their choices when using chemicals and consumables, and stationery providers that use only electric vehicles for their London fleet.

During this process, there was a period of overlap with multiple leases, causing higher emissions in 2023. The resulting consolidation of office space in a more energy-efficient building during 2023 is expected to lead to a decrease in carbon intensity in future.

Our operational approach to climate-related risks
Continued

Tackling Scope 3 emissions

We continue to promote our revised travel policy, launched in 2021, encouraging staff to take more sustainable methods of transport. In line with the sustainability commitment made by the business in 2021, rail travel now represents 54% of the total distance travelled throughout 2023. The number of journeys by air increased to 11% in 2023 from less than 1% in 2022. This was due to the continuation of unwinding COVID hybrid working and increased business activities.

Going green

More specifically we have put in these steps to improve the footprint of our operation.

All electricity used in our new London office comes from 100% renewable sources:

a. This includes all our IT equipment and our local network servers.

All electricity used by our data centre partners comes from 100% renewable sources:

a. This includes the servers used to host and power our platform

b. They are also committed to reducing their carbon emissions by 50% against all scopes by 2030 and aim to achieve at least a 90% emissions reduction in line with the worldwide net zero commitment by 2050 under the SBTI Net-Zero Standard. Any remainder will be offset by supporting carbon removals.

We have reduced the power consumption of our own IT equipment (and any power used comes from 100% renewable sources anyway). This includes:

a. Reducing the number of IT communications rooms from four to two

b. Replacing the equipment in those communications rooms with newer, more efficient equipment

c. More hybrid working means no staff workstations left on continuously (we have removed 250 workstations and 650 monitors).

We offset any remaining carbon emissions created by our business (this offsetting is included in our business accounts).

a. This includes emissions from business travel (car, train and, where absolutely necessary, plane)

b. We support the World Land Trust - specifically the World Land Trust's local partner FUNDAECO, which protects critically threatened tropical forests through its REDD+ Project for Caribbean Guatemala: The Conservation Coast.

Our approach to investment management and climate-related risks

Covid-19 was a reminder that companies cannot ignore the broader context within which they operate.

Investing and behaving responsibly is becoming a precondition for doing investment business in society, and responsible regulations and guidance will help to shape the 21st century investment world. The biggest existential challenge for all of us is the environment. The world is facing dangerous long-term environmental problems, and investors have a role in helping humanity to deal with them. Fortunately for investors, responsible investing makes business sense. There is evidence that incorporating climate change risks and opportunities information in the investment process can improve the quality of decision-making and risk management. We view climate change-related issues as an important factor in evaluating the expected risk and return from investments, particularly equity investments.

Since 2020, we've been on a journey to put culture, sustainability, responsibility and stewardship at our core. These issues guide our business, shape our investment process, are reflected in our risk management and help to create long-term value for our clients and beneficiaries. We've been a member of the UN Principles for Responsible Investment since 2019, using its principles to guide how we view and manage our investment process and products, and how we deal with ESG, sustainability and stewardship inside the firm.

We believe climate-related risks are best handled within Investment Teams, rather than having a separate ESG or Stewardship Team to focus on these issues, and should be incorporated into our regular tasks, plans and responsibilities as Investment Managers. Our investment process can be viewed as having four stages:

1. Strategic Asset Allocation
2. Tactical Asset Allocation
3. Portfolio Management (including security selection)
4. Risk Management

One person in each of these areas is designated the ESG champion and works to ensure that ESG issues, including climate change, are addressed comprehensively in the investment process. They report back to the 7IM ESG Investment Committee, where progress and performance are discussed and monitored. Next, we highlight how our investment process considers various climate risks and opportunities.

Our decarbonisation commitment

At 7IM, the Strategic Asset Allocation (SAA) serves as the long-term investment anchor for all our portfolios. It consists of a long-term mix of asset classes, determined through our research to align with investors' needs over their lifetimes. Our goal is to ensure that the risk profile of each portfolio harmonises with the investor type. Since our inception, we have constructed SAAs for our clients' investments, consistently achieving positive outcomes.

Each year, we refine the SAA by incorporating the latest academic insights and updating data inputs. Beyond the traditional focus on volatility and correlation, our approach extends to analysing the fundamental drivers specific to each asset class. By understanding these underlying investment factors, we enhance our ability to construct robust portfolios that deliver long-term diversification.

Climate change is the key threat to human society and, therefore, to all the world's investors in the long run. The Paris Agreement of 2015 was designed to govern the world's greenhouse gas emissions from 2020 on, with a view to lowering future warming to well below 2°C, and preferably to below 1.5°C. To achieve the Paris goals, humanity will have to slash its emissions, requiring many trillions of dollars of investments in clean energy, power grids, electric cars and buses, the electrification of industry, more efficient buildings, and so on. Investors must play their part in the transition to a low-carbon economy. Climate change will create risks and opportunities for investors. Many of the physical risks are obvious, like extreme weather, rising ocean levels and political disruption. Measures to deal with climate change will raise carbon prices and may lead to the gradual demise of emission-intensive firms and activities.

The UK has set a net zero emissions target by 2050, and businesses are encouraged to support the transition to a low-carbon economy. We support the decarbonisation drive as part of our stewardship commitment and our drive to reduce transition risk for our clients' portfolios. Through 2020, we began a research programme aimed at decarbonising our SAAs and reducing the emissions-intensity of all portfolios. In 2020, 7IM's Executive Committee approved the programme by which the carbon emissions of the Strategic Asset Allocations of all portfolios will be reduced by 30% at the SAA level between 2021 and 2026. We are pleased to say that progress has been made towards this target since 2021 and details of the progress are explained later in the report under the **Risk Management** and **Metrics and Targets** sections.

Our approach to investment management and climate-related risks

Continued

Capturing climate opportunities through our Tactical Asset Allocation (TAA)

One of our core beliefs is that markets are not always efficient and that tactical tilts can add value. Financial markets regularly go through phases of fear and greed. At these times, tactical opportunities of various kinds can arise — opportunities for us to both enhance portfolio returns or avoid potential risks. There are also structural changes in the world that aren't captured by our SAA process, which can be explored tactically. Some energy companies, for example, will be left with near-worthless stranded assets if the world takes the Paris Agreement's carbon emissions goals seriously. Dirty industries, companies and markets are likely to be poor investments in the long run.

We believe that our TAA can be a powerful tool to position our portfolios so they are placed to navigate a world impacted by climate change. We review ESG metrics when we consider tactical changes across portfolios. We also implement TAA changes that have explicit ESG characteristics, such as our Climate Transition Leaders position and Metals and Mining position which have been implemented across all our core portfolios. This is explained further under **Risk Management**.

ESG and climate risk integration within portfolio management

We are largely a fund of funds business and most of our assets are managed by third-party managers in equities, bonds and alternative investments. When meeting fund managers, we cover a wide range of due diligence issues. As ESG becomes more mainstream, many managers have adopted sustainability investment commitments, policies and practises. Simultaneously, greenwashing concerns have risen, and it's becoming harder for investors to filter through the never-ending marketing materials to assess an asset manager's commitment (or lack of) to integrate ESG. As a manager-of-managers, we rely on the third-party managers we invest in to exercise their rights and act as sound stewards of our clients' capital.

Our fund due diligence and monitoring process allows us to identify and assess a wide range of Environmental, Social and Governance issues within the manager and funds we invest in. We aim to understand how deeply the manager believes in ESG risks and opportunities, to what extent they integrate ESG across the firm and to what extent they implement their ESG Policy. We aim to understand whether their corporate sustainability commitments and policies are consistent with what they do. We aim to engage with our fund managers to improve on any ESG risks identified in this process. When it comes to manager selection, we view ESG assessment as a risk management tool, as it helps to reduce our exposure to transition risks. We believe that managers who take ESG and climate integration seriously will be better prepared for regulatory expectations, less vulnerable to reputational damage, and make improved investment decision-making. This means less risks for our clients.

This process also enables us to examine climate risk when we assess funds and managers, this is explained in more detail within the **Risk Management** section.

Climate risk management within our investments

Our Risk Management Team is a cornerstone of our investment process and ESG metrics are monitored quarterly in the risk oversight of funds. Climate-related risks are captured in the investment risk management process through several ESG metrics or scores which integrate easily with our risk system, MSCI BarraOne.

One of these is a "Weighted Average Key Indicator" Score (WAKI) ranging from 0-10 based on a company's exposure to key Environmental, Social and Governance themes. This allows us to assess companies and funds on a range of ESG issues relative to its peers.

Another metric is Carbon Emission Intensity (tCO_2e/$m sales), a metric widely used to assess a company or portfolios' carbon exposure. We understand the importance of forward-looking metrics to identify risks and opportunities in the transition to a low carbon society. In 2023, the ESG Metrics Working Group worked on how to best integrate Climate Value at Risk (CVaR) and Implied Temperature Rise (ITR). We were able to apply the forward-looking metrics to all 7IM portfolios as well as embed them within the portfolio and investment risk monitoring process. We explain in more detail how we manage climate risk in **Risk Management** section.

Addressing impacts of climate change through stewardship

The Financial Reporting Council (FRC) defines stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." We have been a signatory of the UK Stewardship Code 2020 since 2021, which sets out high standards for investment managers based on 12 principles. We believe good stewardship practice is a basic obligation when we perform our fiduciary duties for our clients.

Our stewardship philosophy has an ownership mindset. A crucial element of this is active engagement with the third-party fund managers that manage the products in which we invest and other major industry stakeholders, such as data provides and regulators. We engage with managers when we believe their investment standards have fallen below current industry best practice and will escalate when engagement has not worked successfully. Please see our engagement policy for more information.

Our engagement themes promote consistency in how we interact with our investment managers and the companies we invest in, one of which is climate change. As multi-asset multi-manager investors, we engage with fund managers and relevant direct equity holdings across different asset classes and different geographies on how they are addressing climate-related risks and opportunities. We demonstrate this via our Passive Managers Net Zero and Stewardship Engagement Project later in this report under the **Risk Management** section.

There are occasions when shareholders might collaborate with other investors to increase their influence on specific company decisions, to ensure that outcomes benefit their clients. We take part in collaborative engagements when we think we can enhance the value or lower the risks of client assets and expect our third-party managers to engage collaboratively on our behalf when appropriate. For example, our participation within the Investor Policy Dialogue on Deforestation (IPDD) Initiative, detailed under the **Risk Management** section.

We also vote, where relevant, to reflect our views on climate risks. We are responsible for the effective stewardship of all companies in which we invest. We have a duty to vote on our shareholdings to preserve and grow client capital, encourage good business behaviour and support sound corporate governance. We exercise our rights and responsibilities on all assets held in our funds. As a rule, we expect to vote with management unless dissatisfied by a company's adherence to these governance codes, or there is a specific ESG-related or other issue that we support, such as inadequate disclosures around climate risk management.

We detail our active approach, how we target climate risks and opportunities, and provide examples under our **Risk Management** section.

Climate scenario analysis

How we view climate scenario analysis

As long-term investors, we want our clients' portfolios to be around for the next generation and beyond. That means we need to consider the impacts of climate change on our investment portfolios through the lens of Transition Risks and Physical Risks and assess how resilient our investment strategies are in the transition to a low-carbon economy. Climate Scenario Analysis aims to provide a forward-looking assessment of a company and/or portfolio's financial sensitivity to climate-related risks and opportunities.

At 7IM, the Investment Risk Function monitors climate scenario sensitivity alongside other climate metrics, such as carbon emissions intensity, and they are reported on a quarterly basis to the Investment Risk Committee. This process is explained in more detail under **Risk Management**.

Overview of Climate Value at Risk (CVaR) and climate scenarios

We have used MSCI's CVaR data, which is modelled using three components under different temperature pathways: policy risks, technology opportunities, and physical risks and opportunities. MSCI's CVaR forecasts the present value of future costs and benefits of listed companies under different climate scenarios. The present value of the sum of these future cash flows are divided by the current company valuation to produce a negative or positive percentage figure. MSCI's scenarios are based around the Network for Greening the Financial System (NGFS)'s public scenarios generated using the REMIND models.

Transition risks and opportunities

Transition Risks are business-related risks associated with adapting to or mitigating the effects of transitioning to a low-carbon economy. This comes in the form of changes in government policies and legal frameworks to meet climate commitments (policy risk) as well as the technological improvements that could enhance business models (technology opportunities). For example, policy risks can come from costs from implementing carbon-pricing mechanisms to reduce GHG emissions and shifting energy use toward lower emission sources. Meanwhile, new technology will emerge and displace old systems, disrupting some parts of the existing economic system, and winners and losers will emerge from this "creative destruction" process.

Physical risks

Physical Risks from climate change can be caused by extreme weather events, impact on water availability and rising sea levels. These cause damage to assets in vulnerable regions and create business interruptions. Physical Risks are separated into two types: Acute and Chronic. Acute Physical Risks refer to those that are driven by events such as increased severity and frequency of extreme weather, such as cyclones, hurricanes, or floods. These can have a huge impact on company supply chains or the purchasing power of local populations. Chronic Physical Risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves. MSCI's model uses 10 physical hazards to estimate economic impacts. We have chosen to use MSCI's 'Aggressive' physical scenario as it explores the "worst case scenario" by looking at the severe downside risk within the distribution tail.

Overview of Climate Value at Risk (CVaR) and climate scenarios (continued)

NGFS, a group of over 100 central banks and supervisors committed to sharing best practices, have developed climate scenarios that explore the impacts of climate change and climate policy with the aim of providing a common reference framework. We have selected four scenarios, in line with TCFD recommendations, from the NGFS climate scenarios provided by MSCI:

1.5°C Orderly (Net Zero 2050) scenario

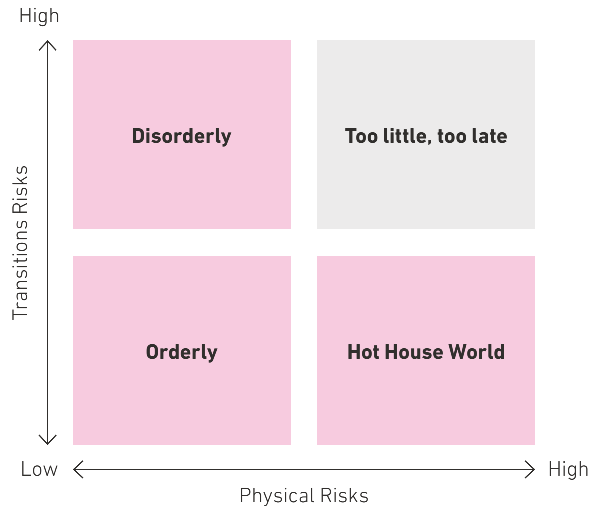
2°C Disorderly (Delayed Transition) scenario

2°C Orderly (Below 2°C) scenario

3°C Hot House World Nationally Determined Contributions (NDCs) scenario

NGFS'[1] Orderly scenario assume climate policies are introduced early and become gradually more stringent, with relatively subdued physical and transition risks. Disorderly scenario explores higher transition risk due to policies being delayed or divergent across countries and sectors and carbon prices are typically higher for a given temperature outcome. Hot House World scenario assumes that some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming. This is when critical temperature thresholds are exceeded, leading to severe physical risks and irreversible impacts like sea-level rise. These scenarios are based on an assessment to the end of the century.

We recognise the limitations of climate scenario analysis. The main one being the outputs are not intended to be predictions, given the multitude of assumptions and data limitations. These scenario pathways allow us to understand the various financial outcomes, where there is high exposure to climate risks, and challenge our long-term thinking. We see CVaR as one part of our investment process, complemented by our ESG integration and stewardship approach.



Investments

[1] Definitions from NGFS, https://www.ngfs.net/ngfs-scenarios-portal/

Climate scenario analysis
Continued

Results and findings

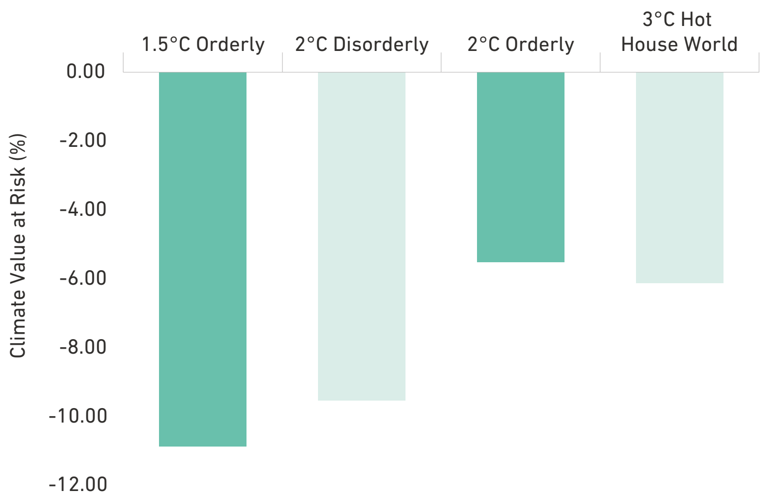
We apply scenario analysis to our discretionary funds and portfolios that we manage, which totals approximately £6.2bn at the end of 2023.

Aggregated CVaR for total portfolio

Examining our investment's aggregate exposure to climate risks and opportunities (as of 31 December 2023), our holdings are most at risk in the 1.5°C Orderly scenario, which could lead to a potential impact of -10.9% of our current portfolio market value. This is likely due to the stringent and ambitious climate policies and innovation needed to reach net zero by 2050. The costs associated with this rapid decarbonisation will be dependent on companies' ability to adapt.

If we compare orderly and disorderly transition within the 2°C scenario, it is no surprise that portfolios are more exposed in the Disorderly scenario, leading to a greater loss in value. In a disorderly world, policy makers delay climate action, creating higher carbon prices and more stranded assets. This gives companies less time to adapt and will likely increase direct and indirect costs as a result.

The data coverage for the above analysis is 71%.



Climate VaR (%)	-10.87	-9.53	-5.52	-6.14

Source: 7IM/MSCI Barra One

Listed equity exposure to climate risk

Equity holdings represent 57% of our discretionary AUM.We have applied scenario analysis to our equity AUM, split by regions. Across regions, the value at risk follows a similar pattern to our previous analysis, whereby, in a net zero by 2050 world, companies are most at risk. The differences between regions are also noticeable, with UK and Emerging Markets equities having the most exposure to climate risk across scenarios. Within the UK equities market, the vulnerability to climate risks stems from the high exposure to carbon-intensive sectors such as Consumer Defensive (via Food and Beverage), Financial Services (via carbon-intensive financing), and Energy (via Oil and Gas). Emerging markets tend to have higher transition risks due to higher reliance on commodity extraction and manufacturing across the economy. Their locations make them more susceptible to physical risks due to higher frequency and intensity of natural disasters coupled with relatively weaker infrastructure.

The data coverage for the equity analysis is approximately 99%.

Asset class coverage

The following asset classes are excluded from our calculations: cash/money market funds, holdings in the Alternatives Basket, government bonds, and derivatives (excluding index futures). These asset classes either do not have sufficient industry guidance or we have insufficient look-through data to calculate a conservative estimate. In the case of government bonds, we have the ability to estimate climate risk, but we're unable to aggregate this with the rest of the portfolio. Where we hold index futures, we override with the underlying index as a proxy for climate risk. We normalise the portfolio figure to 100% when coverage is below 100% for underlying securities.

Aggregation methodology used

As a fund-of-funds house, the aggregated CVaRs of the portfolios represent the weighted average of each fund's CVaR in a portfolio for a particular scenario. The portfolio CVaR is then normalised to 100%.

Exposure of regional listed equities to climate risk (%)

	1.5°C Orderly	2°C Disorderly	2°C Orderly	3°C Hot House World
European Equity	-12.40	-10.32	-5.53	-5.46
US Equity	-6.65	-6.07	-3.41	-4.19
UK Equities	-18.71	-15.36	-7.36	-7.68
Japan Equity	-9.87	-9.53	-6.99	-8.22
Emerging Markets Equity	-14.86	-14.23	-10.88	-11.66

Impact of climate-related risks

Risk: Policy & legal

Risk type:

Transition

Risk description:

Changes in the regulatory landscape, including enhanced reporting, governance and risk management expectations as well as litigation risks and carbon pricing.

1. Impact on 7IM's investment management

Relative significance:

High

Potential financial impact:

- Reduced investment returns due to poor investment performance and/or increased investment volatility, stemming from underlying fund managers and companies invested indirectly.

Management response:

- 7IM's fund selection due diligence process considers a wide range of ESG risks, including climate policy risks.
- 7IM's engagement policy and process fosters dialogues to assess how our external managers approach climate-related policies.
- 7IM's involvement in industry advocacy, such as FCA's Consultation Paper on 'Sustainability Disclosure Requirements' (SDR) and Investor Policy Dialogue on Deforestation (IPDD).
- 7IM's monitors policy and legal risks via the integration of Climate Value-at-Risk within the investment risk monitoring process.

2. Impact on 7IM as a business

Relative significance:

High

Potential financial impact:

- Lower AUM.
- Slow adaptation to changes in the regulatory landscape, leading to increased outflows.
- Decreased revenue.
- Increased expenditure due to changes in the regulatory landscape (e.g. resourcing and training to address newly introduced climate policies).
- Regulatory fines and sanctions.

Management response:

- The Group's Governance Structure and Risk Management Framework informs and oversee 7IM's Sustainability Strategy, which incorporates climate-related policy and legal risk.
- Continuous horizon scanning as an Agenda item at each Executive Risk Management Committee (ERMC), presented by the Head of Compliance Advisory, ensures that senior management and ExCo remain well informed of regulatory developments relating to climate.
- Focus on the initial delivery of the FCA SDR. Delivery is being tracked through the Group's various committees.
- Our Compliance Advisory Team have conducted a review of all 7IM products, labels, and marketing material – completing a gap analysis in line with the new SDR requirements. 7IM Content and Compliance Team have reviewed all marketing material to ensure compliance with anti-greenwashing requirements, effective 31 May 2024.
- A working group focused on the implementation of TCFD was created in Q4 2023 and have been working together to begin to finalise the Group's first TCFD report.
- A Sustainability Framework will continue to be embedded across the Group and will continue to be matured as further sustainability and climate-related regulation emerges.
- The Group's Sustainability Framework consists of 25 Sustainability Factors, several of these factors will feed into TCFD-aligned reporting.
- 7IM's ESG Investment Committee, Sustainability Committee, and Executive Risk Management Committee discuss climate-related risks, including those in relation to Policy and Legal, any actions arising are governed by the Sustainability Committee and escalated where required.

We consider several transitional and physical risks and climate-related opportunities in our operations, strategy and financial planning. We explain these via how we see these risks and opportunities, their relative significance and time frame, and what 7IM is doing in response.

Timeframe: Short Term 0-5 Years | Medium Term >5-10 Years | Long Term 10+ Years

Impact of climate-related risks
Continued

Risk: Technology

Risk type:

Transition

Risk description:

Keeping track of emerging technologies and the substitution of existing products and services with lower emission options.

1. Impact on 7IM's investment management

Relative significance:

Medium

Potential financial impact:

- Reduced profits and valuations and increased operating costs in indirectly held companies due to inaction to move towards cleaner alternatives, impacting investment performance and volatility.

Management response:

- 7IM's Strategic Asset Allocation (SAA) decarbonisation target actively implements low-emission options across portfolios.
- 7IM's fund selection due diligence process assesses how the external manager integrate technology into ESG research process.
- 7IM's Tactical Asset Allocation (TAA) Climate Transition Leaders position implemented across all portfolios invests in clean technology opportunities.
- 7IM's monitors technology opportunities via the integration of Climate Value-at-Risk within the investment risk monitoring process.

2. Impact on 7IM as a business

Relative significance:

Medium

Potential financial impact:

- Costs incurred through the transition to newer/ lower emission technologies.

Management response:

- The Group's Third Party Supplier Framework ensures that all Tier 1 (and in some cases, Tier 2) Third Party Suppliers are screened for sustainability prior to being onboarded. The Due Diligence form that Third Party Suppliers are asked to complete includes questions relating to their impact on the climate, under its Sustainability section.
- 7IM's ESG Investment Committee, Sustainability Committee, and Executive Risk Management Committee discuss climate-related risks, including those in relation to technology, any actions arising are governed by the Sustainability Committee and escalated where required.

Impact of climate-related risks
Continued

Risk: Market

Risk type:

Transition

Risk description:

Changes in consumer demand as a result of climate change, including but not limited to shifting to low carbon products and cleaner energy supplies.

1. Impact on 7IM's investment management

Relative significance:

High

Potential financial impact:

- Increased operating costs due to stranded assets in indirectly held companies from the inability to adapt to demand shifts, impacting investment performance.
- Managers are unable to launch relevant product to accommodate consumer demand, increasing investment research and development costs.

Management response:

- 7IM's SAA decarbonisation target helps minimise exposure to carbon-intensive industries.
- 7IM's sustainable product range allows for sustainable investment demands.
- 7IM's TAA Climate Transition Leaders position implemented across all portfolios invests in clean technology opportunities.

2. Impact on 7IM as a business

Relative significance:

High

Potential financial impact:

- Lower AUM.
- Decreased Revenue.
- Costs incurred through the transition to energy-efficient/ lower emission activities and technologies.

Management response:

- Through the Group's Top Down Risk Map (shown in the Section 3: Risk Management section), Sustainability, Reputational Risk, Investment Performance, and Business Growth are all tracked as some of the Group's Key Risks. Changes in consumer demand as a result of climate change will have an impact on each of these key risks, as well as others. These Key Risks will continue to be monitored and discussed with ExCo and senior management, with climate forming part of these conversations (held at least bi-annually).
- 7IM's ESG Investment Committee, Sustainability Committee, and Executive Risk Management Committee discuss climate-related risks, including those in relation to market, any actions arising are governed by the Sustainability Committee and escalated where required.

Impact of climate-related risks
Continued

Risk: Reputation

Risk type:

Transition

Risk description:

Increased likelihood of changes in customer or community perception of 7IM's response to climate change, including greenwashing risks.

1. Impact on 7IM's investment management

Relative significance:

High

Potential financial impact:

- Increased litigation fees due to greenwashing by either indirectly held companies or underlying managers, negatively impacting investment performance.
- Increases costs and decreased valuation due to inaction or delayed action towards emissions reduction within indirectly held companies or underlying managers.

Management response:

- 7IM's fund due diligence process assesses the extent to which external managers' actions align with their sustainability commitments and claims, this also includes the Passive Managers Net Zero and Stewardship Engagement Project.

2. Impact on 7IM as a business

Relative significance:

Medium

Potential financial impact:

- Lower AUM.
- Decreased revenue.
- Increased outflows.

Management response:

- 7IM content and compliance team have reviewed all marketing material to ensure compliance with Anti Greenwashing requirements, effective 31st May 2024.
- The compliance advisory team will continue to educate staff on SDR to mitigate the risk of the Group being involved in greenwashing activities.
- 7IM's ESG Investment Committee, Sustainability Committee, and Executive Risk Management Committee discuss climate-related risks, including those in relation to Reputation, any actions arising are governed by the Sustainability Committee and escalated where required.

Impact of climate-related risks
Continued

Risk: Acute & chronic

Risk type:

Physical

Risk description:

Costs associated with direct or indirect asset and operations damage from extreme weather events. Severe weather events also disrupt supply chains, affecting business operations.

1. Impact on 7IM's investment management

Relative significance:

Low

Potential financial impact:

- Increased costs from business disruption or asset depreciation associated with severe weather events within indirectly held companies.

Management response:

- 7IM's monitors physical risks via the integration of Climate Value-at-Risk within the investment risk monitoring process.
- 7IM's manager selection process considers a manager's ESG research capabilities, including the extent to which a manager analyses climate risks e.g., physical risks.

2. Impact on 7IM as a business

Relative significance:

Low

Potential financial impact:

- (Acute) Costs incurred through repairs as a result of extreme weather events.
- (Chronic) Increase in average temperature leading to increased operational costs linked to climate adaptation.
- (Acute & chronic) Costs incurred through rising insurance costs.

Management response:

- Business continuity arrangements consider scenarios which would prevent easy access to office environments. This has been tested through Covid-19 and continues to be tested through hybrid working arrangements.
- Loss of physical assets through extreme weather events are covered by insurance.
- Third-party supplier framework is in place and considers the business continuity responses for key providers.
- 7IM's ESG Investment Committee, Sustainability Committee, and Executive Risk Management Committee discuss climate-related risks, including those in relation to acute and chronic physical risk where relevant, any actions arising are governed by the Sustainability Committee and escalated where required.

Impact of climate-related risks

Continued

Opportunity: Resource efficiency

Risk type:

Transition

Risk description:

Managing carbon footprint through energy efficient systems, recycling, reduced waste usage and consumption, and sustainable travel.

1. Impact on 7IM's investment management

Relative significance:

High

Potential financial impact:

- Reduce operating costs, increase production capacity and benefit to workforce management and planning within indirectly held companies, impacting company valuations and profits.

Management response:

- 7IM invests in companies via external managers with improving energy efficiency and those that improve energy efficiency.

2. Impact on 7IM as a business

Relative significance:

Low

Potential financial impact:

- Reduced operating costs, increase production capacity and benefits to workforce management.

Management response:

- 7IM's Sustainability Committee assign actions across the business that relate to resource efficiency, through Sustainability Factor Action Plans.
- The Sustainability Committee liaise with Ontario Teachers' Pension Plan (majority stakeholders of 7IM) and their sustainability team to assess opportunities in relation to resource efficiency.
- 7IM's Sustainability Framework includes 'Environmental Opportunities', 'Pollution & Waste', 'Sustainable Supply Chain' and 'Transition to Low Carbon Economy' as Sustainability Factors which are monitored and governed by the Sustainability Committee.
- 7IM's Sustainability Committee discuss climate-related opportunities, including those related to resource efficiency, any actions arising are governed by the Sustainability Committee and escalated where required.

Impact of climate-related risks
Continued

Opportunity: Energy source

Risk type:

Transition

Risk description:

Managing carbon footprint through use of lower-emission sources of energy and low-emission technology, such as renewable energy.

1. Impact on 7IM's investment management

Relative significance:

High

Potential financial impact:

- Reduced exposure to greenhouse gas (GHG) emissions and therefore less sensitivity to changes in the cost of carbon.
- Returns on investment in low-emission technology.
- Reputational benefits resulting in increased demand for goods/services.

Management response:

- 7IM invests in infrastructure investment trusts that support the energy transition.
- 7IM's TAA Climate Transition Leaders position implemented across all portfolios invests in clean technology opportunities.
- 7IM's TAA Metals and Mining position aims to capture opportunities within low carbon transition as demand for metals increases.

2. Impact on 7IM as a business

Relative significance:

Low

Potential financial impact:

- Reduced operating costs, increase production capacity and benefits to workforce management.

Management response:

- 7IM's Sustainability Committee assign actions across the business that relate to energy-efficient systems, recycling, reduced waste usage and consumption, and sustainable travel, through Sustainability Factor Action Plans.
- 7IM's Sustainability Framework includes 'Environmental Opportunities', 'Ecological Footprint', 'Pollution & Waste', and 'Transition to Low Carbon Economy' as Sustainability Factors which are monitored and governed by the Sustainability Committee.
- 7IM's Sustainability Committee discuss climate-related opportunities, including those related to energy source, any actions arising are governed by the Sustainability Committee and escalated where required.

Impact of climate-related risks
Continued

Opportunity: Products & services

Risk type:

Transition

Risk description:

Development and/or expansion of low emission goods and services.

1. Impact on 7IM's investment management

Relative significance:

High

Potential financial impact:

- Increased revenue through demand for lower emissions products and services.
- Better competitive position to reflect shifting consumer preferences, resulting in increased revenues.

Management response:

- 7IM's responsible offerings allow for sustainable investment demands, this includes a mix of long-standing and newly launched products.
- 7IM's SAA decarbonisation and TAA climate opportunities are implemented across all portfolios.

2. Impact on 7IM as a business

Relative significance:

High

Potential financial impact:

- Increased revenue through demand for lower emissions products and services.
- Better competitive position to reflect shifting consumer preferences, resulting in increased revenues and AUM.

Management response:

- The 7IM's Sustainability Committee assign actions across the business that relate to its products and services, through Sustainability Factor Action Plans.
- 7IM's Sustainability Framework has three sustainability lenses, Product & Services, Staff, and Corporate. Through the Product & Services lens, Sustainability Factors can be assessed and governed by the Sustainability Committee. This helps to inform understanding, development, and expansion of low emission goods and services.
- 7IM's Sustainability Committee discuss climate-related opportunities, including those related to products and services, any actions arising are governed by the Sustainability Committee and escalated where required.

Impact of climate-related risks
Continued

Opportunity: Markets

Risk type:

Transition

Risk description:

Participation in the wider industry to foster and encourage climate transition through stakeholder engagement.

1. Impact on 7IM's investment management

Relative significance:

Medium

Potential financial impact:

- Increased market presence and improved reputation, attracting consumers, resulting in increased revenues.

Management response:

- 7IM actively participates in industry initiatives and regulators, for example, IPDD.
- 7IM actively engages on climate transition, for example, Passive Managers Net Zero and Stewardship Engagement Project.

2. Impact on 7IM as a business

Relative significance:

Medium

Potential financial impact:

- Increased revenue
- Increased AUM

Management response:

- 7IM's Sustainability Committee seek opportunities to encourage climate transition through stakeholder engagement.
- 7IM's Sustainability Framework includes 'Environmental Opportunities' and 'Stakeholder Opposition' as Sustainability Factors which are monitored and governed by the Sustainability Committee.
- 7IM's Sustainability Committee discuss climate-related opportunities, including those related to markets, any actions arising are governed by the Sustainability Committee and escalated where required.

Impact of climate-related risks
Continued

Opportunity: Resilience

Risk type:

Transition

Risk description:

Adoption of energy-efficiency measures.

1. Impact on 7IM's investment management

Relative significance:

Medium

Potential financial impact:

- Increased market valuation through resilience planning.
- Increased reliability of supply chain and ability to operate under various conditions, increasing revenues.

Management response:

- 7IM monitors how resilient investments are to climate risks via the integration of Climate Value-at-Risk within the investment risk monitoring process.
- 7IM's SAA decarbonisation project, TAA climate leaders position, and TAA metals and mining position help portfolio resilience.

2. Impact on 7IM as a business

Relative significance:

Low

Potential financial impact:

- Longer term cost savings.
- Enhanced reputation leading to higher revenue and AUM.

Management response:

- 7IM's Sustainability Committee assign actions across the business that relate to energy efficiency, through Sustainability Factor Action Plans.
- 7IM's Sustainability Framework includes 'Environmental Opportunities', 'Sustainable Supply Chain' and 'Transition to Low Carbon Economy' as Sustainability Factors which are monitored and governed by the Sustainability Committee.
- 7IM's Sustainability Committee discuss climate-related opportunities, including those related to resilience, any actions arising are governed by the Sustainability Committee and escalated where required.

Section 03: Risk Management

Our Risk Management Framework

In this section, we explain how our Risk Management Framework (RMF) underpins our approach to assessing and managing climate risk and how our Sustainability Framework feeds into this.

Effective risk management is central to managing climate-related risks ."

Dean M. Proctor,
CEO at 7IM

Applying the RMF to climate risk

We assess climate risk as a part of our 'Sustainability' Key Risk, which is managed through 7IM's Risk Management Framework.

The objectives of the Risk Management Framework are to:

- Align the business strategy and risk appetite
- Pursue business objectives through transparent identification and management of acceptable risk
- Identify and manage transversal/cross-firm risks
- Prioritise and select optimal business opportunities i.e., with a good risk/reward balance
- Inform and enhance risk response decisions and escalations as required
- Learn from, reduce, and manage operational losses
- Promote a culture based upon integrity, ethical values and competence; and
- Create an overall 'risk conscious' firm.

Appropriate structures, organisation and processes have been established which collectively create a Risk Management Framework, underpinned by policies, procedures and reporting that will continually evolve with our needs, and as the climate regulatory landscape develops. The Risk Management Policy defines the high-level risk appetite and the minimum standards for risk management. The Board recognises that in order to achieve certain 'outputs' or 'objectives' (e.g., growth in company value) we take a number of 'inputs' or 'resources' (e.g., capital, people and fixed assets) which are exposed to certain risks, including climate risk. The amount of risk that we are prepared to accept or tolerate in order to achieve its objectives is our 'risk appetite'.

The Risk Management Framework supports this by establishing processes to:

- Ensure there is an appropriate governance structure to identify and manage risks and this provides a level of risk assurance ('Oversight');
- Produce a comprehensive and accurate view of the risk profile, at an appropriate level of materiality, to inform the decision-making process and risk-taking ('Risk Management Methodology'); and
- Provide Management Information on material risks which lie outside of risk appetite and those which are volatile and therefore require close management and monitoring ('Insight').

Our Sustainability Framework: Overview

Sustainability Framework

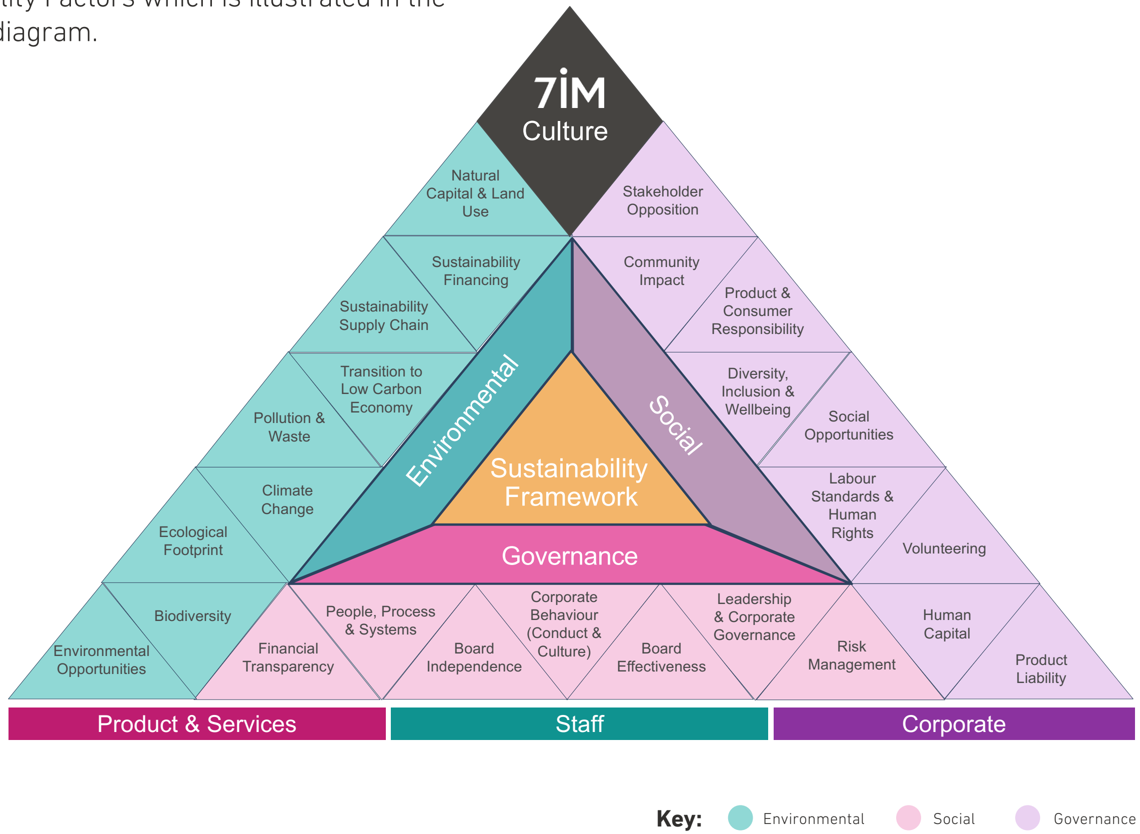
Overview

A Sustainability Framework was developed and introduced across the business through 2023, to ensure there is a consistent and focused approach across People, Corporate and Investment-related Sustainability initiatives. The Sustainability Committee are responsible for the oversight and implementation of the Sustainability Framework and will continue to embed the framework throughout 2024. The purpose of the framework is to cater for the evolving regulatory landscape. Underpinned by the Risk Management Framework, the Sustainability Framework will support in providing a consistent approach to the delivery of the Task Force on Climate-Related Financial Disclosures (TCFD), Sustainability Disclosure Requirements (SDR), and Corporate Social Responsibility (CSR) requirements, as the FCA (amongst other regulators) continues to define the future sustainability and climate regulatory landscape.

Sustainability Framework

Relationship with Climate

Climate change, as a component of sustainability, is mainly considered within the framework's 'Environmental' and 'Governance' Sustainability Factors which is illustrated in the following diagram.



Our Sustainability Framework: Overview
Continued

Framework overview

Underpinned by the Risk Management Framework, the Sustainability Framework will support in providing a consistent approach to the delivery of the TCFD, SDR, CSR requirements, as the FCA (amongst other regulators) continues to define the future sustainability regulatory landscape.

The Framework consists of the following components:

- Sustainability Areas | This refers to the three key areas of Environmental, Social and Governance (ESG).
- Sustainability Factors | This refers to the 25 key factors within the three key Sustainability Areas.
- Sustainability Lens | This refers to the three Sustainability Lenses through which each Area or Factor can be assessed.

Implementation

The framework is being implemented via the Sustainability Working Group, whom has representatives from across the Group. The implementation plan focuses on four key areas:

1. Governance
2. Strategy
3. Risk Management
4. Regulation

How we manage climate risks within investment management

We include climate risks and opportunity considerations at every stage of our investment process. As mentioned earlier, our investment process can be viewed as having four stages: Strategic Asset Allocation, Tactical Asset Allocation, Portfolio Management (including security selection) and Risk Management, supported by stewardship activities.

Strategic Asset Allocation

At 7IM, we believe it's increasingly likely that policy risks will hamper the most carbon intensive companies and we believe that the SAA is the best way to shield portfolios from this risk.

We aim to control some of the climate transition risks by underweighting emitters via shifting towards low carbon indices at the SAA level. This is our SAA decarbonisation target, mentioned earlier in the report. In 2020, 7IM's Executive Committee agreed to a programme by which the carbon emissions of the SAA of all portfolios will be steered down over time. We aim to reduce emissions by 30% at the SAA level by mid-2026. We have focused on Scope 1 and 2 emissions, measured by MSCI's Weighted Average Carbon Intensity (WACI) metric. While Scope 3 emissions are broader, covering all indirect emissions in a company's value chain, measuring them is still in its infancy and questions remain regarding disclosure, incomplete reporting and data quality. Over the last few years, a range of low-cost ESG-type liquid index products have been developed. We have been able to decarbonise our investments with minimal potential impact to performance, helping to reduce the future risks to investors.

Throughout each stage of the decarbonisation process since 2020, we have conducted extensive research on a universe of products available. We completed Phase 1 in July 2021 with our US equity exposures, resulting in 40% reduction in US equity carbon emissions. Phase 2 of our SAA reduction project, with a focus on making our credit investments cleaner, was implemented in July 2022. In November 2022, we switched over £200m of assets in traditional corporate bonds to bonds that are 70% less carbon intensive, while retaining a similar return profile. In 2023, Phase 3 of decarbonisation focused on Japanese equity exposures. Following extensive research on carbon reductions and index methodology, as well as considering tracking error and cost, the new products implemented were over 40% less carbon-intensive. We disclose the carbon reduction progress under **Metrics and Targets** section later in the report.

Although most of our progress to date has been driven by changes we have made to the portfolios, the dynamics of the broader market can have a large impact. The substantial increase in energy stocks in 2022 led to increases in the index level carbon intensity of many of the main indices. 2023 saw some of those dynamics reverse, which helped us get nearer to our target.

Our progress so far has led us to investigate our plans once the target is achieved. The first option is to set more ambitious targets, such as increasing our target to 50%. However, our research suggests that there is a far greater impact on tracking error as the target is increased past 30%. This decision must be taken carefully, as the target becomes more aggressive, it will start to infringe on the return and diversification objectives of the SAA.

A second objective is to lean more heavily on engaging with our investments and helping and encouraging them to adopt net zero targets. We already assess active managers on their stewardship capabilities during the fund selection process and assess passive managers during the annual passive manager net zero review project. However, approximately 50% of our asset managers are currently not part of the Net Zero Asset Managers initiative (NZAMI), and the majority of those who are signatories of NZAMI have minimal implementation on their underlying funds. By engaging with our managers, we could aim to indirectly influence the underlying companies to set climate commitments.

We will look into these options in more detail in 2024.

How we manage climate risks within investment management

Continued

Tactical Asset Allocation

The TAA Climate Transition Leaders position, introduced in 2021, invests in companies developing products and solutions that help the long run fight against climate change and aims to minimise medium-term transition risks.

While generating 'clean' power is essential, there are so many more opportunities for companies to deliver products and profits. We want exposure to the clean, low-impact leaders across the business spectrum, which will profit from changing the world.

In early 2023, we also introduced an investment in the metals and mining sector as part of our TAA, to capture investment opportunities from electrification.

A crucial development of the last ten years is that the marginal cost of renewable energy has been plunging and in many countries is now cheaper than the marginal cost of fossil fuel energy. Likewise, developments in battery technology means that the electrification of the world's cars and trucks is proceeding apace, and will also lower emissions drastically in due course, probably within a few years.

Huge investments in climate-related activities will be needed if the world is to meet the Paris targets. The Intergovernmental Panel on Climate Change (IPCC) estimates that at least $1.6 tr p.a. of investments are required until 2050, if we are to meet the Paris targets.

Even if official policies fail, clean energy and electrification could transform economies faster than previously thought. RethinkX is a think tank that focuses on technology and society and has studied clean energy trends in detail. They believe that clean energy prices will plunge further between 2020 and 2030: by 43% for wind, 72% solar and 80% for batteries. The energy transition they describe could be driven largely by technology and would lead to gigantic demands for transition metals.

No matter how you look at it, large-scale clean energy and decarbonisation will require huge amounts of metal. According to the World Bank, copper and nickel are required for various low-carbon technologies, while cobalt and lithium are needed mainly for batteries.

Climate change is the biggest risk currently facing humanity, and the main solution is to move energy generation from fossil fuels into clean energy. However, to do this the production of various metals that are used in the production of Wind, Solar and Battery technology must increase substantially. This we believe supports an investment into the metals and mining sector.

Portfolio management (including security selection)

When we select third-party funds or direct investments, we integrate ESG considerations into the decision-making process, this includes understanding how fund managers manage climate risks and opportunities. This is achieved by our fund diligence process via Door and 7IM's ESG convictions assessment.

We are constantly reviewing our due diligence process for fund selection and monitoring, which has been incrementally improved since 2020. From starting out with just an ESG questionnaire, which usually turned into a large marketing material collection exercise, to now a more efficient and digitised process examining all aspects of a fund manager's ESG approach and commitments, our monitoring methods have grown in sophistication and become much more effective.

The evolution of fund due diligence on Door

We enhanced our due diligence process for fund selection in 2021 by signing up to Door, a digital platform where asset managers exchange due diligence information with manager research teams through a standardised question set distilled from the most commonly sought-after topics, with the option to add bespoke questions when needed.

In 2022, we campaigned across the third-party fund houses that we are invested in, to encourage them to migrate towards the platform. This campaign was successful, with some large fund houses signing up to Door, having initially been rather reluctant. In 2023, we worked closely with Door to digitise our ESG questionnaire. This has allowed a uniformed and efficient way of reporting and tracking the changes in ESG information provided over time. We have formalised three fund due diligence questionnaires on Door to send to different types of funds we invest in. Our core questionnaire is applicable to all actively managed funds and includes essential ESG questions, for example, what firm level climate change related measures has been adopted. Our ESG-specific questionnaire dives deeper into ESG and is applicable to all actively managed funds used within ESG-oriented portfolios. We include more strategy specific climate questions such as how the materiality of ESG risks, including climate impacts are assessed and managed within the strategy and overall risk management. Our Add-on questionnaire allows supplementary information applicable to actively managed funds above an investment threshold.

Jasmin – our proprietary portfolio analytics platform

Jasmin is our proprietary Risk & Performance Analytics Platform, designed to monitor and analyse tactical positions in our funds and model portfolios against the strategic asset allocation. This platform makes it easy to see how new trades might interact with existing active positions in terms of correlations, risk, historical performance, and their contribution to ESG features like "Weighted Average Key Indicator" Scores (WAKIs) and carbon emissions. By incorporating third party ESG data into our position analysis, Jasmin allows us to determine the overall portfolio ESG score and carbon emissions for each active position in the Tactical Asset Allocation. This comprehensive assessment of their direct impact compared to our benchmark, the Strategic Asset Allocation

How we manage climate risks within investment management

Continued

Strengthening ESG integration & monitoring in fund due diligence

In 2023, we've further refined our procedure. Previously, we would distribute our ESG questionnaire to asset managers, aiming to distinguish between 'leaders' and 'laggards' in ESG practices within the industry. However, after several years of conducting this process, we discovered that the majority of responses were marketing-heavy. Therefore, at the end of 2023, we moved away from the annual ESG questionnaire system to a more efficient and systematic framework of ESG integration in fund selection.

The ESG Convictions Framework is structured in two parts. First, managers are assessed on ESG pre-investment to see if they meet our minimum ESG standards, then the ESG Investment Analyst researches on six key areas (firm philosophy and commitments, accountability and oversight, ESG team, ESG integration and research, engagement, and voting) to establish ESG convictions from 'High' to 'Low'. This research is consistently recorded in the Fund Due Diligence Note. Second, the ESG Analyst conducts a post-investment ESG review based on the responses to the ESG-specific questions on the Door Due Diligence Questionnaires, as outlined previously. The aim is to ensure that the responses align with pre-investment ESG due diligence. The Analyst will flag potential opportunities for engagement if any area is flagged as having room for improvement. We believe this method maintains consistency in evaluating managers' ESG practices and capacities.

In the described ESG Convictions Framework, we evaluate the degree to which fund managers incorporate climate risks and opportunities. This evaluation involves examining their climate-related commitments, the action plans implemented to fulfil these commitments, the integration of climate considerations throughout the investment process, and their stewardship efforts regarding climate-related issues.

To help achieve real world impact, we will indirectly influence underlying companies on ESG, such as climate target setting and disclosures, through putting pressure on our managers.

Investment risk management

Our risk management process uses a 'bottom-up' approach, calculating risk metrics for each holding that build up into an overall score for a fund or model. We have followed the same approach with ESG and climate risk, calculating a WAKI, carbon emissions and CVaR for each holding and aggregating them to a fund/model score.

We have built the monitoring of ESG and climate risk into our portfolio monitoring process. ESG scores and issues will be considered pre trade for new securities at the Portfolio Management Committee as part of the investment process, as described earlier. Portfolio level ESG scores and climate metrics (WAKI and carbon emission intensity) will then be reviewed at least quarterly by the Investment Risk Team and Investment Risk Committee. As of January 2024, we have integrated CVaR into the investment risk process outlined.

The ESG scores act as an input into the investment management process, and flags have been agreed which will prompt further investigation and analysis to make sure we are comfortable holding on that risk. The investment risk team is currently working on adding flags and guidelines with the newly integrated CVaR metric.

If a flag is raised in the quarterly reviews, the Investment Risk Team will investigate the portfolio and analyse the security(ies) that are causing the flag. This will be flagged and discussed with the Investment Management Team to establish the best course of action. This may also generate engagement opportunities with the third-party manager where we voice our concern on climate-related risks. In cases where we are uncomfortable with the risk, the issue would be presented to the Portfolio Management Committee and/or Investment Committee for further discussion and decision.

We have also added an ESG stress test, which is based on shocking the oil price and letting market factor correlations play through portfolios. This was chosen due to the global shift towards renewables to help tackle climate change, and potential impact this could have on non-renewables and portfolio values in the coming decade.

Being a responsible active owner

Our core investment services provide multi-asset class portfolios, usually via collective investment vehicles. Externally managed products total around 98% of our assets under management, and our manager monitoring system is designed to inform us whether external managers are working to safeguard and maximise the value of their assets, with sound stewardship and taking ESG issues into account in their investment processes.

In most cases, we engage with fund managers directly, where we have concerns about their investment strategy, performance, governance, remuneration or approach to risks, including those that may arise from social and environmental matters. We regularly question them about their holdings, to ensure that they are implementing full stewardship in their portfolios.

We focus our equity engagements on active funds that we have material holdings in, and those that have scored a 'Low' ESG conviction score. We engage mostly with active managers since they have discretion over concentrated portfolios and often work closely with their companies. We will engage where we've identified material issues that represent specific risks or following a controversy that we consider material. We engage with credit managers based on the size of our holdings and where we identify material ESG risks in portfolios where we can influence change.

Our Investment Management Team continues to focus on climate change as a key systemic risk that can affect our portfolios in the long run. Climate change remained one of our main engagement themes in 2023 as we pursued engagement on climate-related targets and stewardship efforts, exemplified by our Passive Managers Net Zero and Stewardship Engagement Project.

It's difficult to overestimate how important biodiversity is to how businesses operate, and how people go about their daily lives. Climate change and biodiversity are intricately linked. Climate change affects natural habitat loss, ecosystem services, species extinction and more. Therefore, another focal theme was Biodiversity in 2023. Following extensive investment research, detailed in our 2023 Stewardship Code report, we concluded that, presently, there are limited investable products for us. We joined the Investor Policy Dialogue on Deforestation (IPDD) Initiative as a working group member.

How we manage climate risks within investment management
Continued

Case study: Passive managers net zero & stewardship engagement project

As a fund-of-funds house, we rely on our asset managers to be responsible stewards of our client's capital. Passive investments are projected to grow as a proportion of our asset base. We consider voting and engagement the key 'levers' at a passive fund manager's disposal to achieve positive investor outcomes, given that divestment is not an option.

Our ESG survey results in 2022 found that many of the larger asset managers are signing up for initiatives targeting climate change, such as the Net Zero Asset Managers initiative (NZAMI), but few of them can clearly specify how they'll achieve this. Following Vanguard's withdrawal from NZAMI and co-founder of Rights CoLab and Vanguard critic Paul Rissman's letter, which condemned Vanguard for violating its fiduciary duty to mitigate the financial risks of climate change, we wanted to understand how the major passive managers we invest in are approaching their net zero commitments and assess their stewardship capabilities. Until 2022, the sentiment around ESG appeared invincible as we saw more and more asset managers join NZAMI and make sustainability related commitments and policies. However, the Russia/Ukraine conflict and the growing politicisation of ESG in the US has led to a subtle and gradual withdrawal of stance and commitments from the major asset managers.

In 2023, we have, therefore, commenced a deep-dive review of passive providers' stewardship approaches and resources, as well as the honesty and feasibility of their climate commitments.

The engagements addressed questions related to corporate targets and action plans, stewardship resources, and engagement and voting processes. The outcome of this qualitative assessment and engagement is to identify leaders and laggards in the passive space and conduct an annual review to track progress. We classified the managers ranging from 'High' to 'Low' conviction. The passive managers involved are Vanguard, Amundi, LGIM, HSBC, DWS (Xtrackers), and BlackRock (iShares). These managers are responsible for approximately USD21tn AUM altogether.

Overall, we found the approach to net zero and ESG integration varied relatively significantly across the managers we interviewed. We summarise insights in six core sections:

1. **Firm:** Several methods are used to establish net zero targets, such as reducing carbon intensity through carbon footprint or weighted average carbon intensity (WACI), aligning portfolios with temperature goals, or adopting client or investee company-based approaches. This increases comparison and progress monitoring difficulties for the industry. Anti-ESG sentiment in the US remains a major hinderance for managers with a large US presence, and these players tend to emphasise the importance of corporate governance rather than tackling environmental and social issues of their holdings head-on.
2. **Accountability & oversight:** Overall, there is notable strength at the C-Suite and management levels among the managers, with most having some form of sustainability oversight committee and a senior leader responsible for ESG research and stewardship efforts. The differences tend to lie in the level of board oversight. Leading firms in this field have board oversight of sustainability strategy, with some even having a dedicated sustainability committee within the board.
3. **ESG team:** Over the past five years, the industry has significantly increased its investment in ESG resources, primarily focusing on two main areas: ESG research and stewardship. Firms awarded with 'High' conviction status typically maintain a centralised team comprising full-time ESG experts. These teams are well-organised, with clearly defined roles and specialised individuals.
4. **ESG integration & research**: ESG research, data, and tools are advanced across the majority of the passive houses. The majority have developed their proprietary ESG rating frameworks, each to varying degrees of granularity and transparency. ESG integration, however, is less advanced given the limited role managers can play in passive strategies unless it is a dedicated ESG-marketed product. Many managers try to integrate by having the proprietary tool available to all the investment desks, allowing them to use the data at their discretion.
5. **Engagement:** Engagement processes across the managers are quite robust, most have structures and resources in place, allowing identification and monitoring of engagements. Variations of engagement priority lists are a common way for these managers to identify companies and address issues. The effectiveness of engagements are less developed. Leaders in this space will set quantitative and qualitative key performance indicators (KPIs) and regularly follow up with investees, with all engagement data stored in a centralised system and are prepared to escalate matters when necessary.
6. **Voting:** Voting serves as a crucial measure to determine if a manager's actions align with their stated intentions. Managers typically employ voting either as a means of escalation following unsuccessful engagement or, interestingly, as a precursor to initiating engagements. There is a significant disparity among managers regarding their support for ESG shareholder resolutions and their inclination to propose such resolutions. It is unsurprising that US managers tend to be more cautious and offer less support for these resolutions compared to their European counterparts.

This engagement has been mainly focused on gaining an understanding of the approaches and the differences. We will review this on an annual basis and aim to push to progress where appropriate.

How we manage climate risks within investment management

Continued

Case study: Investor Policy Dialogue On Deforestation (IPDD) initiative

In 2023, we looked to collaborative initiatives that we can actively participate in to make nature a stewardship priority. We joined the Investor Policy Dialogue on Deforestation (IPDD) Initiative as a working group member in July 2023. IPDD, formed in 2020 with over 70 global investors responsible for approximately USD10tn of AUM collectively, seeks to engage with public agencies and industry associations in selected countries on the issue of deforestation with the aim to promote sustainable land use and forest management. The objective is to ensure the long-term financial sustainability of investments in the selected countries. As a member of the initiative, we join fortnightly IPDD meetings with other investor participants to discuss issues and policies around deforestation, as well as being involved in engagements with public authorities and sovereigns.

We initially joined IPDD's Brazil Working Group as Brazil has the largest primary rainforest with extensive carbon absorbing biomes, yet it has also often been the country with the most primary forest loss. Over the course of the year, the Working Group's engagement includes various discussions with ministries and non-governmental organisations (NGOs), letters to key senators, educational sessions, and an event hosted at the New York Climate Action Week.

As we grew more acquainted with the initiative, we realised that we could be more impactful by joining IPDD's Consumer Countries Working Group, the newest workstream, focused on engagements in the EU, US, UK and China as we are a UK-based investment firm with sizable investments in consumer countries. We joined the Group at the tail end of 2023. The Group prioritises engagements with related authorities and associations on various deforestation- and disclosure-related regulations on the demand side.

Looking ahead, we will continue our active participation within IPDD, with a focus on the Consumer Countries Working Group.

7IM's ESG data usage and monitoring

Since our work in embedding the monitoring of carbon risk and ESG risk in our portfolio monitoring process and the Investment Risk Committee started in 2020, we have made significant progress. This is supported by sound and reliable data. Our Investment Team uses third-party data providers to gain ESG and climate-related quantitative and qualitative insights to support investment decisions and monitoring. As such, we rely on the accuracy of the data provided to us.

Morgan Stanley Capital International (MSCI)

We use MSCI's ESG and climate-related data, in particular, MSCI's ESG analysis, ESG ratings and WAKI, carbon emissions, and forward-looking metrics such as CVaR and ITR.

We have close working relationships with many of the largest data providers in the market and are often approached for feedback on new products or industry developments. We also seek opportunities to engage on an ad-hoc basis and where we think we can add value. For instance, in 2023, MSCI approached us to discuss our use of derivatives and how we measure ESG or climate risk in portfolios that use derivatives.

We also conduct annual ESG data provider market research to review our current and other data providers. This allows us to assess whether there are better alternatives in terms of data and metrics coverage, system integration capabilities, and cost efficiencies.

Morningstar Sustainalytics

We use Morningstar for fund research and data, but also as an additional ESG data source. In particular, Morningstar provides a wide range of activities and conduct-based ESG screening. We use the screens for our quarterly controversial weapons exclusion policy monitoring, applicable to all our active funds, as well as the relevant controversial activities screening for our sustainable portfolios.

Broadridge and ISS

We seek to vote on all shares in companies held actively and passively where voting rights are held. In 2023, we used Broadridge and ISS Proxy Voting services which defaults to automatically vote in line with management on all company proposals and are reviewed if the holding is significant.

Section 04: Metrics and Targets

Our investments' climate metrics

This section will highlight our investments' total carbon emissions, carbon emissions intensity and carbon footprint. These metrics are in accordance with the recommendations made by the TCFD and Partnership for Carbon Accounting Financials (PCAF). We source all our climate data from MSCI BarraOne.

Carbon footprint

It considers the total carbon emissions of a portfolio normalised by the market value invested, expressed at tCO_2e/$M invested. The formula for the metric is given below:

$$\frac{\sum_{n}^{i}\left(\frac{\text{current value of investment}}{\text{issuer's market capitalisation}} \text{ X issuer's Scope 1 and Scope 2 GHG emissions}\right)}{\text{current portfolio value (\$M)}}$$

This method allows the comparison of various portfolios regardless of AUM and also enables carbon attribution analysis, but it does have drawbacks. For example:

- The metric is sensitive to changes in portfolio value.
- The metric doesn't take into account differences in the size of companies.

Weighted Average Carbon Intensity (WACI)

The WACI is expressed as tCO_2e/$M company revenues and can be used to understand a portfolio's exposure to carbon-intensive companies. The formula for the metric is given below:

$$\sum_{n}^{i}\left(\frac{\text{current value of investment}}{\text{current portfolio value}} \text{ X } \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}}{\text{issuer's \$M revenue}}\right)$$

This metric is used to measure the carbon intensity of our listed equity and corporate bonds. However, we also recognise the limitations of this metric:

- Unfortunately, there is less industry consensus on how to measure derivatives and sovereign bonds and how measures for those assets can be collated into a portfolio level figure. We await further guidance in this area before publishing figures for these asset classes externally.
- WACI covers Scope 1 and 2 emissions, therefore, it does not capture Scope 3 emissions.

Absolute carbon emissions

This is the total carbon emissions emitted by the portfolio's investments, expressed in tons CO_2e. The formula for the metric is given below:

$$\sum_{n}^{i}\left(\frac{\text{current value of investment}}{\text{issuer's market capitalisation}} \text{ X issuer's Scope 1 and Scope 2 GHG emissions}\right)$$

Investors are assigned Scope 1 and Scope 2 greenhouse gas emissions using an equity ownership method. There are some limitations to absolute emissions:

- This metric does not allow for portfolio comparability or benchmarking as the data is not normalised (portfolio size directly impacts the metric).
- Fluctuations in the market capitalisation of underlying companies can lead to misinterpretations.

Source: Formulas are from TCFD guidelines:
https://www.tcfdhub.org/Downloads/pdfs/E09%20-%20Carbon%20footprinting%20-%20 metrics.pdf

To measure our progress of our climate strategy, we have established clear metrics and targets."

Dean M. Proctor,
CEO at 7IM

Our investments' climate metrics
Continued

Coverage

This section is a high-level summary explaining the treatment of the asset classes not covered by our data providers. Where possible we have used the recommendations from the Partnership for Carbon Accounting Financials (PCAF) however, where we think it is prudent, we have introduced overrides based on our internal research.

Morningstar Sustainalytics

The following asset classes are not included in our calculations:

- Cash/money market funds
- Holdings in the Alternatives Basket
- Government bonds
- Derivatives (excluding index futures)

These asset classes either do not have sufficient industry guidance or we have insufficient look through data to calculate a conservative estimate. In the case of government bonds, we can estimate climate risk, but we are unable to aggregate with the rest of the portfolio.

Much of our cash is held in fixed net asset value money market funds. These money market funds typically consist of very short-dated securities where climate risk is negligible.

Aggregation method

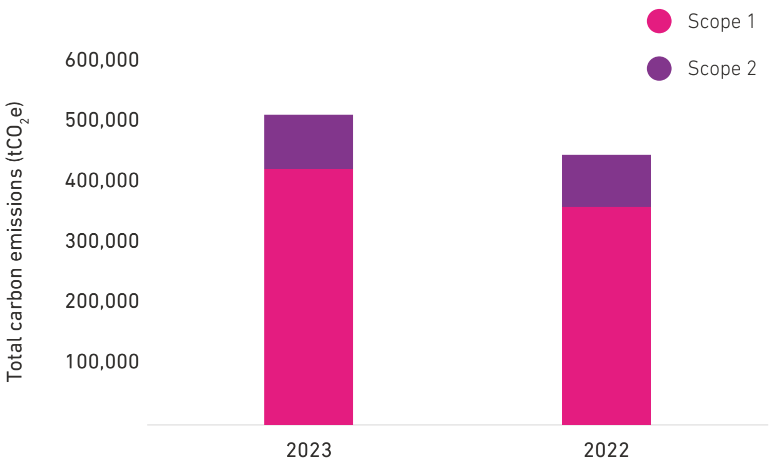
When we do not have 100% coverage of the underlying securities within a 7IM portfolio, we will normalise the portfolio figure to 100%. All metrics are aggregated at an underlying holdings level to achieve portfolio results.

Asset class	Override used	Comments
Index Futures	Underlying Index	We use Index Futures extensively in our 7IM funds. Despite no industry consensus on their climate modelling currently, we believe it is necessary to place an override to correctly estimate the climate risk associated with them. Therefore, where possible, we use the underlying index as proxy for the climate risk of the index future and estimate using the full economic exposure of the contract.
Funds (without score)	SAA Asset Class Index Values	In instances where we don't have mutual fund look-throughs, we can proxy the fund's climate risk using the relevant SAA index value.

Climate metrics results

Total carbon emissions

Below, we highlight our fund's carbon emissions, expressed as tCO_2e, across time. We show the year-end 2022 and 2023 results, with coverage of approximately 64% and 65%, respectively. We see an increase in absolute emissions in 2023, this is due to the Metals and Mining position onboarded in early 2023 as part of our tactical allocation to capture opportunities in the rising demand for metals in the energy transition.

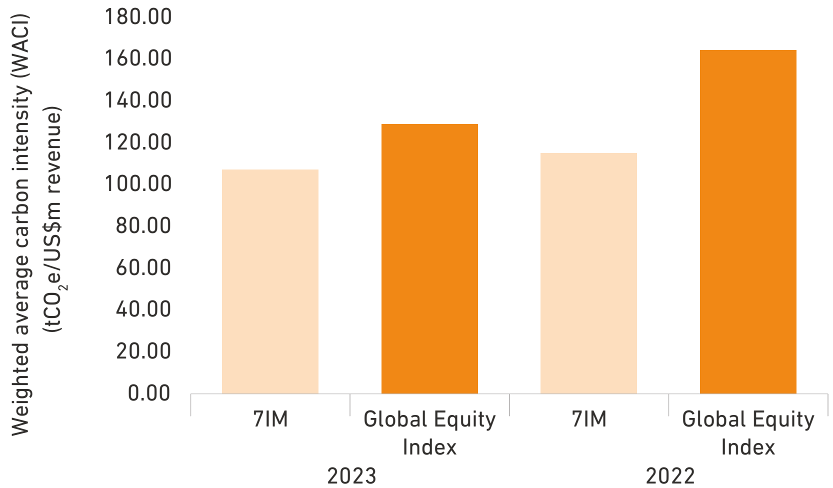


Source: 7IM/MSCI Barra One

Total carbon emissions (tCO_2e)	2023	2022
Scope 1	420,297	358,320
Scope 2	89,933	85,696

Weighted Average Carbon Intensity (WACI)

We use WACI (Scope 1 and 2) to monitor our portfolio's carbon emissions via the Investment Risk Team (detailed earlier in the report), as it is one of the main metrics recommended by TCFD. We provide our fund's total WACI below, expressed as tCO_2e/US$m revenues. For comparison purposes, using WACI, our investments are less carbon-intensive than the global equity index. The coverage for 2022 and 2023 results are 71%.



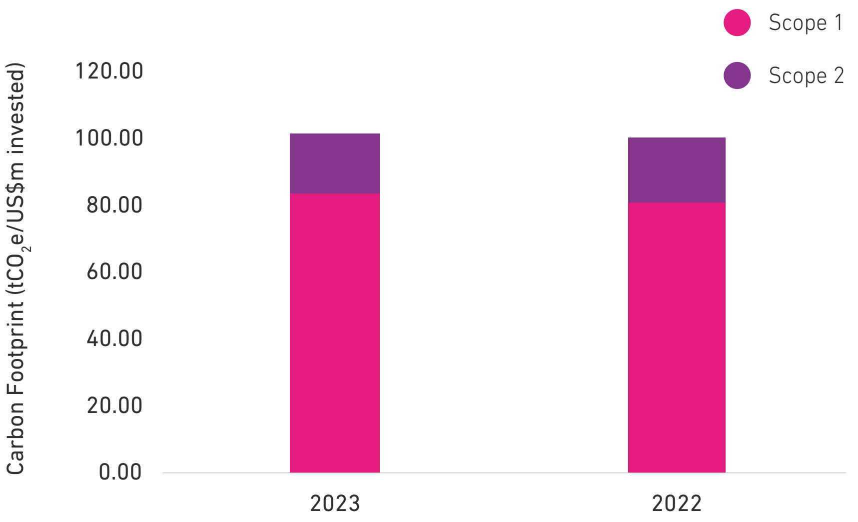
Source: 7IM/MSCI Barra One

WACI (tCO_2e/US$m revenue)	2023		2022	
	7IM	**Global Equity Index**	**7IM**	**Global Equity Index**
WACI	107.28	128.81	114.95	164.26

Climate metrics results
Continued

Carbon footprint

Below is our investments' carbon footprint, expressed as tCO_2e/US$m invested. The coverage for 2022 and 2023 results are 64% and 65%, respectively.



Source: 7IM/MSCI Barra One

Carbon footprint (tCO_2e/US$m invested)	2023	2022
Scope 1	88.34	112.79
Scope 2	17.88	19.39

How does the carbon intensity of our investments differ across asset classes?

Overall, we can see that emerging markets equity has the highest carbon intensity within equities and global credit bonds within fixed income.

The asset classes below are approximately 71% of our discretionary AUM. The coverage for all asset classes shown below are above 97%.

WACI (tCO_2e/US$m revenue)		2023	2022
Equity	European Equity	88.34	112.79
	Global Equity Themes	130.59	116.28
	US Equity	108.23	138.59
	UK Equity	107.59	119.71
	Japan Equity	66.07	85.31
	Emerging Markets Equity	250.67	267.33
Fixed Income	Global Credit Bonds	101.09	115.10
	Global High Yield Bonds	27.46	19.71
	UK Corporate Bonds	61.10	68.44
Alternative	Real Estate (Global REITs)	80.89	109.35

The numbers need to be understood in the context of evolving assumptions and a significant dependence on estimations. While we've adhered to PCAF principles, we acknowledge that the data might substantially shift with enhanced reporting and better estimation techniques.

Climate metrics results
Continued

Scope 3 emissions data

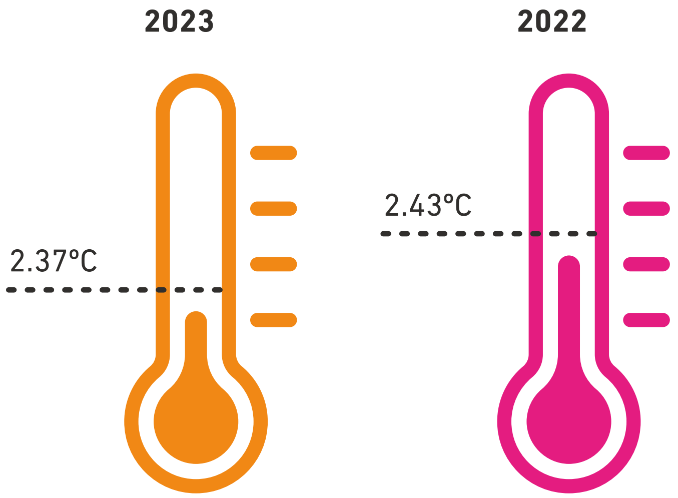
While Scope 3 emissions are broader, covering all indirect emissions in a company's value chain, measuring them is still in its infancy and questions remain regarding disclosure, incomplete reporting and data quality. We will look to work on integrating Scope 3 emissions into our investment process as data providers increase coverage.

Portfolio alignment

Implied temperature rise

We use MSCI's Implied Temperature Rise (ITR) metric, which is a forward-looking metric expressed in degrees Celsius, that estimates the temperature alignment of companies and/or portfolios with global temperature goals (e.g. 2°C aligned or 1.5°C aligned). The metric shows the warming potential of a financial asset based on its current GHG emissions and projected future decarbonisation trajectory.

ITR can be a useful capital reallocation tool as it shows securities and portfolios' alignment to a 2°C or 1.5°C aligned world. This can help investors to set decarbonisation targets and allow opportunities for engagement, whether it is with underlying holdings or wider industry.



Source: 7IM/MSCI

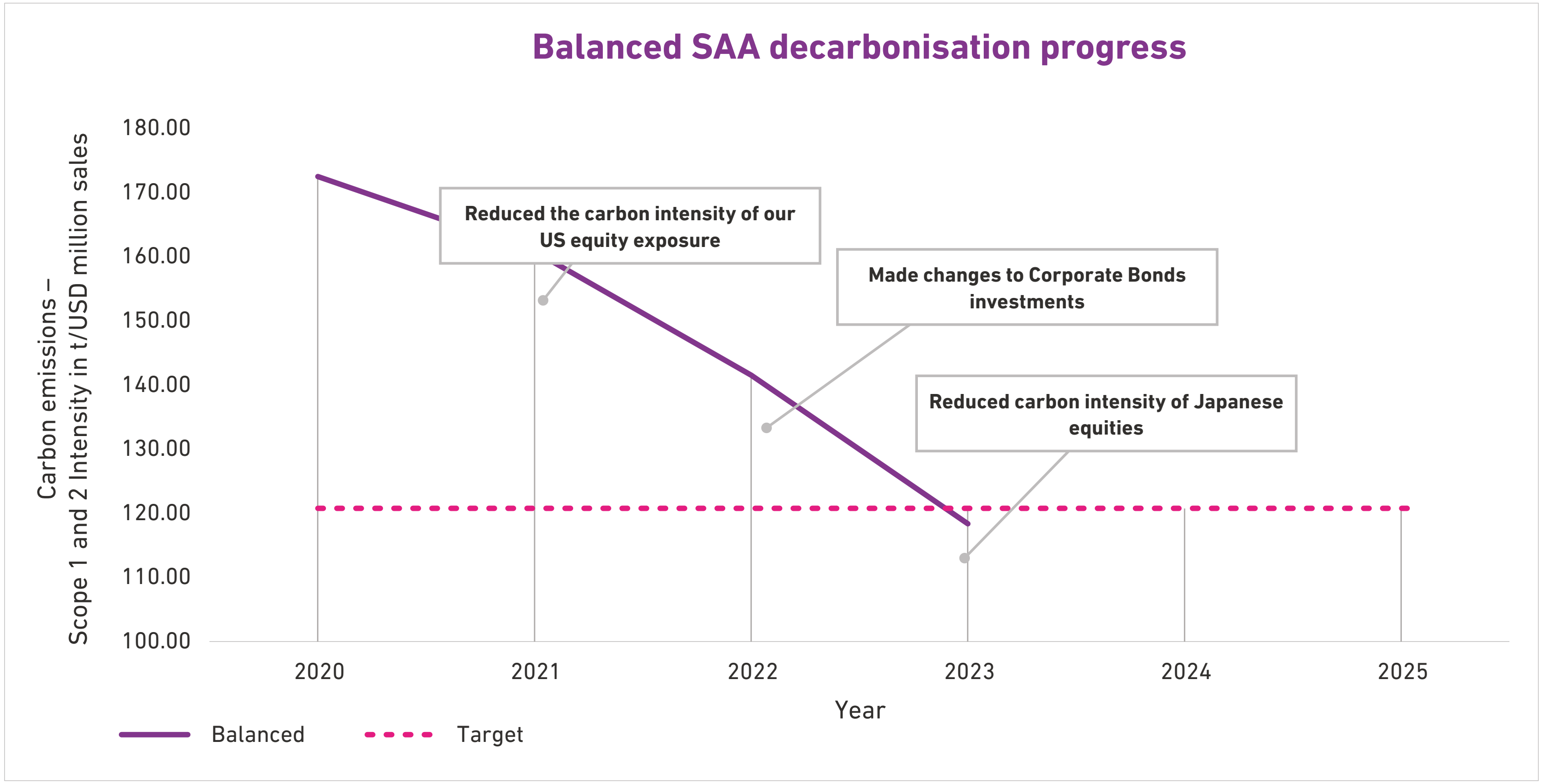
7IM's investments

We are mindful of the assumptions and uncertainties within the methodology, and that the figures are not a forecast of future global warming. MSCI uses the carbon budgets calculated by the Intergovernmental Panel on Climate Change (IPCC) to project implied temperature rise results, which could change as climate science evolves.

The ITR coverage for 2022 and 2023 is approximately 64% of our discretionary AUM.

Our SAA decarbonisation target within investment management

In 2020, we began a research programme aimed at decarbonising our SAAs and reducing the emissions-intensity of all portfolios. Our Executive Committee agreed to a programme by which the carbon emissions of the Strategic Asset Allocations of all portfolios will be reduced by 30% at the SAA level between 2021 and 2026. This was detailed earlier in the report under **Risk Management**. Below, we show the progress of this target as at the end of 2023.



Source: 7IM/MSCI Barra One

We look to decarbonise our SAA across all risk profiles. As at the end of 2023, we have achieved our 30% reduction target in three of the risk profiles.

The asset classes in scope of our decarbonisation target are our listed equity, corporate bonds, global high yield, and real estate investment trusts (REITs) exposures. Given the lack of data from our chosen data provider, we have not included global government bonds, gilts, inflation-linked bonds, holdings in our Alternatives Basket, and cash/money market funds.

It is important to recognise that, while we aim to decarbonise our SAAs through actively shifting investments into lower carbon products, changes in our data provider's methodology and changes in issuers' reported emissions can significantly impact our calculations and carbon intensity reduction results, whether positively or negatively. In addition, our annual SAA refresh to achieve the optimally diversified strategic mix of assets can also affect the decarbonisation results. Consequently, the results need to be understood in light of evolving assumptions and a dependence on estimates.

Our operational footprint

Our operations fall within scope for the Streamlined Energy and Carbon Reporting Regulations (SECR) and we're therefore required to report energy and emissions resulting from the combustion of gas and from fuel for transport. SECR also requires a relevant Emissions Intensity Ratio to be calculated and details given of any Energy Efficient Actions carried out through the reporting year.

During 2023, we exited an office in Edinburgh and moved from two offices to a new single office in London as part of the property consolidation process. During this process, there was a period of overlap with multiple leases causing higher emissions in 2023. The resulting consolidation of office space in a more energy efficient building during 2023 is expected to lead to a decrease in carbon intensity in future.

In line with the sustainability commitment made by the business in 2021, rail travel now represents more than 54% of the total 2023 travel (against 44% in the prior year).

Through the World Land Trust's Carbon Balanced programme, we offset our unavoidable emissions by purchasing verified carbon units to offset the equivalents tonnes of carbon dioxide consumed annually, leaving it at net zero emissions. Our contribution made via the carbon balance fund is invested in the long-term protection & restoration of threatened tropical forests in Caribbean Guatemala.

Data methodology

The energy and emission figures included in this report have been collected and calculated according to the Greenhouse Gas Reporting Protocol - Corporate Standard and the UK Governments' GHG Conversions Factors. Where data was not available, we extrapolated missing data points with either budgets or estimations, taking an applicable average across a suitable sample, or utilising usage associated to the previous month (if available).

When calculating our proportion to the whole building's consumption, this has been calculated using a percentage based on floor size tenancy proportion, made available by building management.

Seven Investment Management LLP – GHG Emissions (tCO_2e)	2023 tCO_2e	2022 tCO_2e
Scope 1		
Purchased natural gas combustion	**95**	**63**
Scope 2		
Purchased electricity/heating/cooling/data centres	**129**	**74**
Scope 3		
Indirect emissions - road travel where the LLP is responsible for purchasing fuel	**26**	**21**
Total gross reportable emissions (tCO_2e)	**250**	**158**
Total energy consumption based on the above	**1,236,243**	**800,351**
Total Full Time Employees (FTE)	**372**	**366**
Reportable Intensity Ratio (total tCO_2e per FTE)	**0.67**	**0.43**
Other voluntarily reported Scope 3 indirect emissions		
Indirect emissions – other travel (air, rail, bus, taxi)	**102**	**46**
Indirect emissions – water supply & treatment	**0**	**0**
Indirect emissions – refuse & waste	**0**	**0**
Total gross emissions (tCO_2e)	**353**	**204**
Overall Intensity Ratio (total tCO_2e per FTE)	**0.95**	**0.56**

Our operational footprint
Continued

Energy efficiency actions

In 2024 we'll continue to support a sustainability minded culture to reduce the carbon emissions across all the business activity. In order to achieve this objective, the carbon consumption data will be collated quarterly and communicated to the wider business to ultimately become part of a set of ambitious targets allocated per team.

We recognise our responsibility to help protect the environment and aim to promote high standards of environment and social practice as outlined below:

Environmental impact

We don't engage in activities that are generally regarded as having a high environmental impact. Any direct environmental impact stems primarily from the gas and electricity used to heat, cool and power our offices, business travel and waste disposal of IT equipment and paper. We are committed to monitoring and reviewing its environmental performance in these areas through our Culture and Sustainability Committee.

Carbon footprint

Our greenhouse gas emissions mainly result from office-based business activities and business travel between London and Edinburgh. Consequently, this is where effort is focussed to reduce its impact. We aim to reduce the carbon footprint of our activities by improving efficiency of our offices and by opting for video-conferencing for distance meetings where possible and a preference for rail over air travel where possible.

Energy

Electricity is consumed for day-to-day business operations, lighting and air conditioning as well as for powering IT devices and technical infrastructure. Various initiatives have been put in place to reduce the environmental impact including selecting IT equipment with better energy efficiency ratings and transitioning to lighting that uses motion detectors, as well as a program to roll out LED lighting (replacing fluorescent lighting) in our Edinburgh office, which was successfully completed in Summer 2023.

Glossary of terms

Active ownership

Investors using their voting rights alongside engagement to effect change and improve the long-term management and value of a company.

Authorised Corporate Director (ACD) Committee

The entity in an investment management firm that holds legal responsibility for funds in the UK. It protects investors by providing independent governance and stewardship.

Carbon footprint

The amount of carbon dioxide released into the atmosphere due to the activities of a household, company or country.

Clean energy

Energy produced by non-polluting sources such as solar, wind and hydro.

Climate change

The long-term change in the expected patterns of average weather of a region or the Earth, linked to global warming.

Corporate governance

The system of rules, practices and processes by which a company is directed and controlled. Boards of directors are responsible for the governance of companies. The shareholders' role includes appointing directors and auditors and making sure an appropriate governance structure is in place.

Corporate Social Responsibility (CSR)

The term under which companies report on their social, environmental and ethical performance, having recognised their responsibility to the community and environment in which they operate.

Energy Savings Opportunity Scheme (ESOS)

A mandatory energy assessment scheme introduced by the UK government in 2014 to make sure large enterprises in the UK are energy efficient.

Engagement

The practice of shareholders entering into dialogue with management of companies to change or influence corporate behaviour and decision-making.

ESG

The consideration of environmental, social and governance factors alongside financial ones in the investment decision-making process. E, S, and G are the three key factors in assessing whether an investment is sustainable in the long run.

ESG integration

The incorporation of ESG factors and analysis into investment decisions.

Fiduciary duty

Fiduciary duties exist to ensure that those who manage other people's money act in beneficiaries' interests rather than their own.

Financial Conduct Authority (FCA)

The conduct regulator for financial services firms and financial markets in the UK. It aims to make financial markets honest, competitive and fair.

Glossary of terms
Continued

Financial Reporting Council (FRC)

The independent regulator that regulates auditors, accountants and actuaries in the UK, and draws up the UK's Corporate Governance and Stewardship Codes. The FRC seeks to promote transparency and integrity in business.

Impact investing

An investment philosophy that favours companies working to provide significant societal or environmental benefits, in addition to generating a financial return.

Low-carbon economy

An economy based on low-carbon power sources with minimal greenhouse gas emissions into the environment.

Negative screening

An investment approach that excludes some companies or sectors from the investment universe based on criteria relating to their policies, actions, products or services.

Paris Agreement

The Paris Agreement sits within the United Nations Framework Convention on Climate Change. It sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C compared to preindustrial times and was signed in 2016.

Principles for Responsible Investment (PRI)

The United Nations-supported Principles for Responsible Investment initiative was launched in 2006 and is the world's leading advocate for responsible investment. Signatories commit to supporting six principles for incorporating ESG issues into investment practice.

Proxy voting

Proxy voting allows shareholders to exercise their right to vote without needing to attend annual general meetings (AGMs). This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

Responsible investment (RI)

Responsible investment involves incorporating environmental, social and governance ('ESG') considerations into investment decision-making while practising active ownership. RI is expected to help deliver sustainable, long-term returns for investors.

Scope 1, 2 and 3 emissions

Carbon emissions are a key metric to how an entity contributes to climate change. The Task Force on Climate-related Financial Disclosures (TCFD) recommends that organisations disclose their Scope 1 and 2 greenhouse gas emissions, and if possible, Scope 3 emissions too.

Scope 1 emissions comprise all greenhouse gas emissions generated directly at the company site. This includes, for example, emissions from on-site heating boilers or chemical processes.

Scope 2 covers all indirect greenhouse gas emissions linked to energy generation by energy suppliers, particularly electricity.

Scope 3 covers all other greenhouse gas emissions produced through the operations, products and services of a business.

Glossary of terms
Continued

Stranded assets

Typically refers to fossil fuel reserves that may become 'un-burnable' due to climate, regulatory, technological or market changes.

Strategic Asset Allocation (SAA)

A strategy by which investors set target allocations for a broad range of asset classes in a portfolio and rebalance portfolios periodically back to the targets.

Streamlined Energy and Carbon Reporting (SECR)

A regulation from 2018 requiring large and medium-sized business in the UK to report on their carbon emissions and reduce the amount of energy they use.

Sustainability Accounting Standards Board (SASB)

An independent non-profit organisation that aims to develop and disseminate accounting standards that help firms disclose material financial information on sustainability issues to investors.

Sustainable development

The concept of meeting present needs without compromising the needs of future generations.

Sustainable Development Goals (SDGs)

A collection of 17 interlinked global goals set by the United Nations in 2015 for the year 2030, covering poverty and hunger, health and well-being, education, gender equality, water and sanitation, energy, work and infrastructure.

Sustainable Finance Disclosure Regulation (SFDR)

A set of European Union rules that aim to make the sustainability profile of funds more comparable and better understood by end-investors. Article 6 funds have no sustainability focus, Article 8 funds incorporate ESG features, and Article 9 funds have sustainable investing as their objective.

Tactical Asset Allocation (TAA)

An investment strategy that involves making shorter-term or tactical adjustments to a portfolio to maximise returns or hedge against risks.

Task Force on Climate-related Financial Disclosures (TCFD)

A group established by the Financial Stability Board of the G20 nations, to focus on reporting on climate-related risks. It first reported in 2017.

Taskforce on Nature-related Financial Disclosures (TNFD)

A large group of investors, scientists and governments that's developing a framework for organisations to report and act on nature-related risks. Its first report appeared in 2022.

UK Stewardship Code

A code first published by the Financial Reporting Council in 2010. The Code underwent a substantial revision in January 2020.

Weighted Average Carbon Intensity (WACI)

A measure of a portfolio's exposure to carbon-intensive companies, and hence to potential climate change-related risks. It is defined as the weighted average of [Scope 1 + 2 Emissions / $1M Sales] for each company in the portfolio.

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