BROOKS MACDONALD

Task Force on Climate-related Financial Disclosures Report 2025

CEO Statement

Contents

Welcome to our 2025 Task Force on Climate-related Financial Disclosures ("TCFD") report.

According to findings by the World Meteorological Organisation, the past 10 years (2015-2024) have been the 10 warmest on record, with significant implications for the global economy, planetary boundaries and society[1]. As the impacts of climate change become increasingly severe and pervasive across the world, the financial services sector must continue to pursue sustainable practices and support the goals of the Paris Agreement. At Brooks Macdonald, we remain committed to integrating climate considerations into our investment decisions and operations, and to reporting transparently in line with the TCFD.

We recognise our responsibility as stewards of our clients' capital to integrate climate risks and opportunities into our investment decisions and operations. In order to create long-term sustainable value for our stakeholders and secure the financial futures of our clients, we assess both transition and physical risks posed by climate change in our investment process. We are also making progress towards our operational net-zero goal as part of our responsibility to reduce our own climate impact. This year, our ESG Advisory Committee has maintained oversight of the ever-changing climate landscape, and we are engaging with our fund managers on climate change as a thematic priority.

I am pleased to present this year's TCFD report and highlight how we are integrating climate considerations into our business strategy, risk management processes and governance function. We fully support the need for clear and transparent reporting and aligning our business with the latest disclosure standards and climate science to remain accountable to our stakeholders.

Andrea Montague
CEO

[1] https://wmo.int/news/media-centre/wmo-confirms-2024-warmest-year-record-about-155degc-above-pre-industrial-level

About Brooks Macdonald

Proudly serving clients since 1991, Brooks Macdonald is a UK-focused wealth manager with strong distribution via internal and external independent financial planners and advisers. We provide a comprehensive range of innovative investment solutions tailored to clients' specific needs, helping them achieve their financial objectives. We offer a range of investment management services to private high-net-worth individuals, pension funds, institutions and trusts. The Group also provides financial planning and acts as fund manager to regulated open-ended investment companies providing a range of risk-managed multi-asset funds.

We have an industry-leading Centralised Investment Process ("CIP"), which powers the services and products we provide to our clients. This process creates a robust framework for our investment professionals to work together, sharing ideas and challenging each other's views. Our CIP is built on model-based solutions where decision-making responsibility and authority is shared by colleagues. This approach provides market-leading performance as well as consistency of outcomes reflecting stronger alignment and collaboration for investment managers, whilst continuing to allow for the tailoring of specific individual client needs.

We have a client-centric business model, with our purpose of 'Realising ambitions and securing futures' guiding our culture and strategy. We want to make a positive difference through the services we provide, the way we provide them and the way we run the Group.

Our team of experienced professionals are dedicated to delivering superior results and building long-term partnerships inspired by our guiding principles: we do the right thing, we are connected, we care and we make a difference. We are committed to staying at the forefront of the industry, leveraging our expertise to navigate market complexities and achieve our clients' financial objectives.

Compliance Statement

This report covers the period 1 July 2024 to 30 June 2025. Consistent with the recommendations of TCFD, it outlines how the Group incorporates climate-related risks and opportunities into our governance, strategy, risk management, and metrics and targets. The report supplements our 2025 Annual Report and Accounts covering the same period.

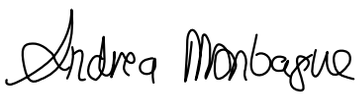
Our corporate Group includes two entities engaging in portfolio management activities, Brooks Macdonald Asset Management Limited ("BMAM"), and LIFT-Invest Limited ("Lift-Invest"), which are regulated by the Financial Conduct Authority ("FCA"). BMAM alone is required to publish an entity TCFD report under applicable regulations (as per Chapter 2.2 of the FCA Environmental, Social and Governance ("ESG") sourcebook), as LIFT-Invest is covered by the exemption in ESG 1A.1.2R. However, recognising that the approach to climate-related risks and opportunities is consistent across the Group, and to provide greater transparency and insight into the climate approach of the Brooks Macdonald Group, we are including information for both entities in this report.

Our disclosures are consistent with the recommendations of the TCFD and the FCA listing rule UKLR 6.6.6R(8). Due consideration has also been given to aligning disclosures with those recommended by the TCFD's 'Guidance for All Sectors' and 'Asset Managers'.

TCFD Product Reports are also provided. The reports provide transparency in relation to the carbon footprint, temperature alignment and climate value-at-risk for each of our fund ranges. These reports have been produced by Tutman, who act as our funds' Authorised Corporate Director ("ACD") and can be found on their website.

This statement is made in line with the FCA's ESG sourcebook (section 2.2.7) requirement for a firm's TCFD entity report to include a compliance statement, signed by a member of the senior management of the firm.

Andrea Montague
CEO

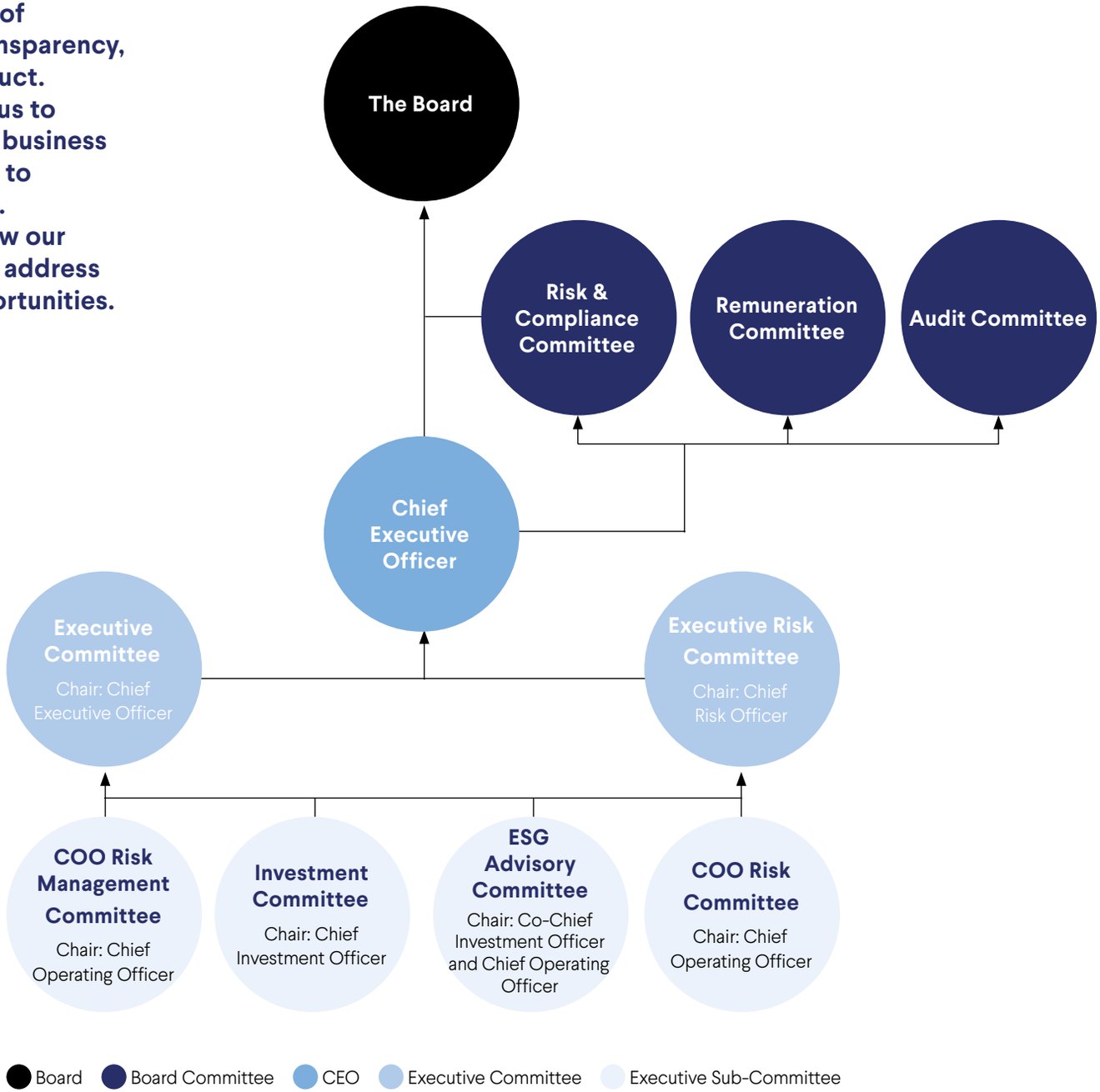


Recommended TCFD Disclosures

TCFD Pillar and Recommendations	Section and Page number
Governance Disclose the organisation's governance around climate-related risks and opportunities	
a. Describe the Board's oversight of climate-related risks and opportunities.	Governance Page 05
b. Describe management's role in assessing and managing climate-related risks and opportunities.	Governance page 06
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	
a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	Strategy Page 10
b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	Strategy Page 13
c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Strategy Page 14
Risk Management Disclose the processes used by the organisation to identify, assess and manage climate-related risks.	
a. Describe the organisation's processes for identifying and assessing climate-related risks.	Risk Management Page 18
b. Describe the organisation's processes for managing climate-related risks.	Risk Management Page 18
c. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	Risk Management Page 18
Metrics and Targets The metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.	
a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk-management process.	Metrics and Targets Page 29
b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ("GHG") emissions, and the related risks.	Metrics and Targets Page 26
c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Metrics and Targets Page 29

Governance

We recognise the importance of governance in establishing transparency, accountability and good conduct. Effective governance enables us to better manage risks and make business decisions accordingly, leading to improved investor confidence. The section below outlines how our governance structure helps us address climate-related risks and opportunities.



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

Climate-related responsibilities	Activities in the reporting period
The Board	
The Board has ultimate responsibility and accountability for the oversight and management of Brooks Macdonald Group. It maintains full control over strategic, financial, operational and compliance matters through its corporate governance framework. This corporate governance framework provides regular reporting and other updates to the Board, through which it is able to oversee progress against the Group's targets.	• Reviewed and approved the Group's TCFD Report. • Received an update on the ESG Advisory Committee ("ESGAC") sustainability pillars, priorities and progress, as well an update on the Responsible Investment Service ("RIS") and the FCA's Sustainability Disclosures Regime ("SDR"). • Established a programme of annual updates from the ESGAC. • Approved the annual Operational Resilience Self-Assessment.
Audit Committee	
The Audit Committee oversees the principles, policies, and practices adopted in the preparation of the financial statements of the Group and assesses whether annual financial statements comply with statutory requirements including TCFD disclosures. The Committee is responsible for internal and external audit.	• Reviewed and approved the Group's TCFD Report. • Reviewed and discussed the findings of the internal audit report on the organisation's TCFD disclosures.
Risk and Compliance Committee ("RCC")	
The RCC reviews quarterly reports on key risks impacting the business, including climate-related risks.	• Reviewed the Group's identification of material climate risks. • Monitored the performance of climate-related key risk indicators ("KRIs").
Remuneration Committee ("RemCo")	
Incorporating climate-related goals into the long-term incentive plans ("LTIP") of the Group's Executive Directors.	• Reviewed the LTIP opportunity for the Group's Executive Directors which currently contains a basket of ESG measures, that account for 15% of overall LTIP opportunity. A category of assessment against the Group's Carbon Net Zero Plan is included in this basket.

Governance continued

Management's oversight of climate-related risks and opportunities

The Board has delegated overall responsibility for the delivery of the Group's strategy to the Group Chief Executive Officer ("CEO"). The CEO and Executive Committee ("ExCo") are responsible for the day-to-day management of the Group and have ultimate responsibility for the integration of climate risks and opportunities across the business, and for bringing climate-related matters to the Board. The ExCo delegates responsibility to a range of management committees that operate across the Group and are accountable for managing the areas of the business that may affect, or be affected by, climate change.

The Chief Risk Officer ("CRO") is responsible for ensuring that climate-related risks and opportunities are identified, monitored and managed through our risk management framework and in line with our risk appetite.

The co-Chief Investment Officers ("co-CIOs") are responsible for day-to-day oversight of the effective integration of climate risk into the investment research and decision-making process.

The Chief Operating Officer ("COO") is responsible for advancing how the Group serves its advisers and clients and leads the Group's investment in technology, systems and processes. This includes the management of outsourced partnerships as well as workplace and facilities. The COO is responsible for the implementation of initiatives to ensure the Group meets its operational net-zero target.

Accountable senior manager	Climate-related responsibilities	Climate-related activities
Executive Committee		
CEO	The ExCo provides support for the oversight and management of the strategic and operational authorities delegated to the CEO by the Group Board. This includes addressing climate change risk and opportunities and escalating relevant updates to the Board	• Reviewed and approved the Group's TCFD Report. • Received an update from the ESG Advisory Committee on the Group's sustainability pillars, strategic priorities, and progress, along with developments related to the RIS proposition and the SDR. • An update was provided by the Responsible Investment Team on climate-related stewardship activity.
Executive Risk Management Committee ("ERMC")		
CRO	The ERMC has responsibility for ensuring the effective management of risk throughout the Group, in line with the risk appetite and risk management framework approved by the Board.	• Monitored the performance of climate-related KRIs. • Reviewed the Group's material climate-related risks. • Established the Operational Resilience Committee, to oversee the firm's ability to operate during, and recover from, climate-related events. • As part of its oversight of the Group's Operational Resilience measures, considered the impact of climate-related events on the Group's operations.
Investment Committee ("IC")		
Co-CIOs	The IC oversees the execution of the firm's responsible investment policy and research processes, which include climate-related guidelines.	• Reviewed and approved enhancements to the Group's external Responsible Investment Policy and internal research guidelines, which incorporate the consideration of climate-related factors in the Centralised Investment Process. • Approved a new Voting Policy Statement outlining the Group's approach to exercising voting rights on directly held assets. • Received updates from the Responsible Investment Lead on the FCA's Sustainability Disclosure Regime. • Received updates from the Responsible Investment Lead on climate-related stewardship activities. • Monitored climate-related metrics on a quarterly basis across the Group's products and services.

COO Risk Management Committee ("COO RMC")		
COO	Responsible for oversight of ESG and climate-related risks and opportunities in the Group's operational activities. Responsible for operational business emissions.	• Reviewed and approved the Group's Energy Savings Opportunity Scheme ("ESOS") action plan, submitted to the Environmental Agency ("EA"). This action plan outlines our commitment to improving our energy-saving measures.
ESG Advisory Committee		
COO and Co-CIO	Comprised of senior business representatives to drive forward the ESG/responsible business agenda for the Group, spanning operations, investments and people and community. Members include representatives from Central Research, Risk and Compliance, HR, Marketing, Operations, Workplace and Facilities. The group meets on a quarterly basis.	• Discussed existing ESG-related initiatives across the firm, including the approach to climate change and net zero at an investment and operational level. • Refined a strategic ESG framework structured around three core pillars: People and communities, Corporate and operational, and Responsible investment. Each pillar is underpinned by defined focus areas to guide implementation. Environmental considerations are embedded within the Corporate and operational and Responsible investment pillars. • Provided an update on the strategic framework and progress to the ExCo and Board.

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

Co-CIOs and the IC

The Asset Selection Committee ("ASC") is a sub-committee of the IC, which is Chaired by the co-CIOs and responsible for monitoring the implementation and effectiveness of the Responsible Investment ("RI") Policy. The ASC reviews and approves all investments. Material findings from due diligence, including ESG-related findings, are reviewed prior to asset approval.

Sector research teams are responsible for generating investment ideas that inform the multi-geography, multi-asset-class central buy list. Investment managers, portfolio managers and central research analysts, have the opportunity to join a sector research team.

During the reporting period, Brooks Macdonald strengthened its RI capability with the appointment of an RI Analyst, joining the RI Lead to form a dedicated team. The team's focus is on advancing the firm's responsible investment strategy and developing the firm's dedicated RIS proposition, which has sustainability-related objectives. As part of this, they are responsible for developing and maintaining ESG and sustainability-related due diligence and monitoring frameworks, and for assessing how third-party fund managers approach responsible investment at a firm level. These roles sit within the Central Research team, which forms part of the CIO function.

The RI working group, which is attended by one of the co-CIOs, the RI team and representatives from Central Research, Compliance, Portfolio Management and the Investment Specialist team, serves as a forum for discussion and collaboration on the development of RI processes. The Group focuses on identifying knowledge and data needs, shaping internal training priorities and supporting the ongoing evolution of the firm's integration of ESG into the asset due diligence process and stewardship activities.

Central Research provides ESG data to sector teams and supports the teams in completing due diligence on assets (including the ongoing monitoring of assets). Additionally, they provide ongoing support to the IC by ensuring that ESG-related data, including climate metrics, is reported to the IC.

A dedicated sector research team is responsible for populating the buy list for our RIS proposition. Members of the RI team are embedded within this research group, applying an ESG and sustainability lens to the fund selection and monitoring process to ensure alignment with sustainability-related objectives. The RIS proposition sector research team supports Bespoke Portfolio Service ("BPS") managers across the business in screening and responding to client requests related to ethical and sustainability preferences, and in publishing thought leadership content for advisers and clients. Where appropriate, team members also participate in client meetings to explain the objectives and methodology behind the RIS strategies.

In 2024, a dedicated working group was established to evaluate the potential implications of the FCA's consultation on extending the SDR to portfolio management services, for the RIS offering. In the reporting year, the SDR working group (comprising representatives from the RI team, Product Governance, and Compliance) worked in collaboration with a regulatory consultant to develop a set of recommendations. These were presented to ExCo and the Board in March 2025. Following the FCA's decision to indefinitely postpone the implementation of SDR rules for portfolio managers, the Group has paused formal activities but continues to monitor developments in the UK's evolving disclosure landscape.

Governance continued

COO and the COO Risk Management Committee

To support progress toward our net-zero operational target and manage the direct environmental impact of our business, we have a dedicated sustainability role within the Workplace and Facilities team. This role focuses specifically on operational sustainability and reports to the COO.

CRO and the Executive Risk Management Committee

The Operational Resilience Committee ("ORC") was established in the reporting year to consider the impact of all severe but plausible events, including climate-related events, on our third parties' ability to deliver effective operations during a disruption. The ORC oversees testing and our ability to operate during, and recover from, such climate-related events. The ORC reports to the ERMC, and details of testing is recorded in our annual Operational Resilience Self-Assessment, which is presented to and approved by the Board.

Training, knowledge and capability building

During the reporting period, Brooks Macdonald embedded its commitment to sustainability and responsible investing into all new role profiles. Research analysts conducting due diligence are encouraged to complete the Chartered Financial Analyst ("CFA") Sustainable Investing Certificate (formerly called the CFA Certificate in ESG Investing) and are signposted to relevant ESG training opportunities, with a particular focus on climate risk, on an annual basis. All staff complete a mandatory annual ESG training module, which includes an anti-greenwashing focus. In the reporting year, we have initiated a review of alternative training providers to ensure the continued relevance and quality of this core learning component.

Our Compliance Advisory function has processes in place to review and approve any relevant marketing material to ensure adherence to the FCA's SDR, with particular focus on the anti-greenwashing requirements. There is training in place for any new members of the team, and approved documents are subject to selected review by our Compliance Monitoring team. Our commitment to transparency and integrity with regard to our responsible investment offering is paramount to maintaining stakeholder trust and regulatory adherence.

Strategy

As a leading UK wealth management company, Brooks Macdonald recognises that climate-related risks and opportunities can have implications for our business and investment strategies.

Our climate-related risk assessment builds upon Brooks Macdonald's well-established risk framework.

Assessment of climate-related risks and opportunities at a Group level

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

TCFD divides risks into two key categories:

- Physical risks are those arising from the physical effects of climate change on livelihoods, activities and assets. These include chronic or acute risks.
- Transition risks involve various types of risks caused by the potential failure to keep pace with the world's transition to a lower-carbon economy. These include policy and legal, market, technology or reputational risks.

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

We consider the potential implications for all TCFD risks and opportunity categories. For these risks and opportunities, we distinguish between potential impacts on our investments (considering the impact on portfolio companies and the value of client assets), our investment propositions (considering their delivery, suitability for and perception by clients) and our direct business operations.

We outline the estimated time horizons over which they could take effect. These have been revised to reflect evolving trends and to better align with the investment horizons of our business.

Our view is that the Group is most vulnerable to climate risks through its investments and investment propositions, facing the highest impacts from identified climate risks across these areas. Operationally, we consider that the Group is more directly exposed to transition-related risks than the physical risks of climate change.

The risks and opportunities have been put together through collaboration between the CIO team, Operational Resilience, Risk and Compliance and Workplace Facilities, and have been reviewed by the ERMC during the reporting period.

Description of climate risks and opportunities

Terminology	Risk description
Climate risk type	
Physical risk	• Risks arising from the physical effects of climate change on livelihoods, activities and assets. These include chronic or acute risks.
Transition risk	• Risks caused by the potential failure of keeping pace with the world's transition to a lower-carbon economy. These include policy and legal, market, technology or reputational risks.
Physical risk type	
Acute risks	• Risks that are event driven, including increased severity of extreme weather events, such as cyclones, hurricanes, heat or cold waves, or floods.
Chronic risks	• Risks driven by longer-term shifts in climate patterns, such as rising temperatures, which can lead to issues like sea level rise or persistent heat waves and change in precipitation patterns.
Transition risk type	
Policy and legal	• Risk associated with policies or regulation designed to limit activities that exacerbate climate change. This includes heightened risk of legal actions due to the inadequate mitigation of climate-change impacts or failure to properly disclose significant financial risks.
Technology	• Risk associated with the failure to keep up with the technological advancements required to effectively manage climate risks and opportunities and support the transition to a lower-carbon economy.
Market	• Risk associated with change in market dynamics driven by the transition to a low-carbon economy, including the impact on client behaviour/ preference and the costs of raw materials.
Reputational	• Risk associated with changing stakeholder perception and expectations related to climate change.
Climate-related opportunities	
Resource efficiency	• The opportunity to improve efficiency and reduce operating costs.
Products and services	• The opportunity to capitalise on shifting consumer preferences by innovating, developing and offering low-emission products and services.
Markets	• Identifying opportunities in new markets or types of assets to be better positioned for a transition to a low-carbon economy.
Resilience	• Being positioned to manage the impacts of climate change as a result of climate adaptation measures.
Energy source	• Opportunities associated with transitioning to no- or low-emission sources of energy.

Strategy continued

Table of Risks

Potential impacts for the Group	Estimated time horizon	Mitigation
Transition risks		
Policy and legal		
Investments: Portfolio company failure to fully respond to climate regulations, which could lead to increased costs (e.g. high-carbon offset costs) and decreased asset valuations, impacting the performance of client portfolios. Some industries are likely to be more negatively affected than others.	Short **Medium** **Long**	We embed consideration of climate risks and opportunities into our investment research and due diligence process, as well as our stewardship activities (read more on pages 18-25).
Investment propositions and operations: Increased climate-related regulatory and reporting requirements may lead to increased operational costs for the Group and risk of non-compliance.	Short **Medium**	Policy and regulatory developments are tracked as part of regular horizon scanning by the Risk and Compliance department. Consideration of the implications of regulation regarding ESG and sustainable investing is the result of collaboration between Risk and Compliance, Product Governance and the Responsible Investment Lead. We attend industry trade forums that address evolving sustainability-related regulatory developments. This is of particular relevance to our RIS proposition (read more on pages 18-25).
Market		
Investments: Assets with exposure to climate-related market risks may suffer poor performance during a transition to a lower-carbon economy, affecting our portfolio returns and client outcomes.	Short **Medium** **Long**	We invest in diversified, multi-asset portfolios. We embed consideration of climate risks and opportunities into our investment research and due diligence process, as well as our stewardship activities (read more on pages 18-25).
Investment propositions: Climate change, net zero and associated regulatory developments drive client appetite for investment propositions that we do not provide, leading to lower revenue and poor client outcomes.	Short **Medium**	We provide a RIS offering, to meet client demand. We continue to monitor developments related to the SDR, and in the reporting period, our SDR working group considered the regulation's implications for the RIS proposition. As part of this, we engaged with advisers on their SDR-related requirements and preferences (read more on page 13).
Technology		
Investments: As technology develops, asset-intensive firms such as those in automotive, manufacturing and utilities sectors may have large capital expenditures to upgrade equipment to align with efficiency requirements or to retain consumers increasingly interested in lower-carbon options. This could lead to increased costs, decreased revenues and decreased asset valuations.	Short **Medium** **Long**	We embed consideration of climate risks and opportunities into our investment research and due diligence process, as well as our stewardship activities (read more on pages 18-25).
Investment propositions and operations: As new technology and data is required to evolve and implement our investment practices, this may lead to increased resource and expertise constraints and costs, as well as operational challenges. Reliance on third-party data may increase our risk of exposure to incorrect or missing data, leading to challenges in assessing climate-related risks and opportunities.	Short **Medium**	We have invested in third-party research and data to assist the assessment of climate-related factors in investment due diligence. We continue to partner with our third-party data provider, to develop our understanding of the usefulness of climate data, methodology inputs and limitations, and to help shape the future roadmap of climate data (read more on page 15). Employee engagement and training is also an area of ongoing focus (read more on page 8).

Potential impacts for the Group	Estimated time horizon	Mitigation
Reputational		
Investments: Portfolio companies, whose response to the climate challenge is perceived as inadequate, could suffer decreased revenues and asset valuations. This, in turn, could negatively impact on the Group's funds under management ("FUM") and revenue.	Short **Medium** **Long**	We embed consideration of climate risks and opportunities into our investment research and due diligence process, as well as our stewardship activities (read more on pages 18-25).
Investment propositions: Clients feel misled by our responsible investment propositions, leading to lower confidence and demand for our products and services, resulting in reduced revenues.	Short **Medium**	Our Compliance Advisory function has established processes in place to review and approve any relevant marketing material to ensure adherence to the FCA's ESG rules, with a particular focus on the anti-greenwashing requirements. There is training in place for any new members of the team, and approved documents are subject to selected review by our Compliance Monitoring team (read more on page 8).
Investment propositions and operations: The risk that clients perceive our response to climate-related challenges as inadequate, leading to a loss in market share.	Short **Medium**	Our ESGAC, comprising of senior business representatives from across the Group, develop and guide the firm's climate strategy (read more on page 7).
Physical Risks		
Acute		
Investments: Portfolio companies may face increased capital costs due to damage to infrastructure, increased insurance premiums, supply chain disruptions and impacted access to resources such as clean water.	Short **Medium** **Long**	We embed consideration of climate risks and opportunities into our investment research and due diligence process, as well as our stewardship activities (read more on pages 18-25).
Operations: Buildings and supply chains are impacted by extreme weather and extreme heat caused by climate change. This could result in water shortages, limit employee travel, office inaccessibility and power outages, which would affect service delivery.	**Medium** **Long**	Our Operational Resilience Program is the key tool through which we identify and assess the risks of climate change to our physical operations. Our Operational Resilience Plans mean staff can work from remote locations or home in the event our premises are unavailable, and our technology solutions have disaster recovery contingencies (read more on page 18).
Chronic		
Investments: Long-term shifts in climatic patterns may have wide-ranging impacts on the global economy and geopolitical tensions, leading to increased operational costs and potential disruption to commercial activity.	**Long**	We embed the consideration of climate risks and opportunities into our investment research and due diligence process, as well as our stewardship activities (read more on pages 18-25).

Time horizon key: **Short** term = 0–5 years, **Medium** term = 5–15 years, **Long** term = 15+ years

Table of opportunities

Potential implication for the Group	Estimated time horizon	Our approach
Products and services		
Investment propositions: Increased reputation, market share and revenues from capitalising on shifting consumer demand for sustainable investment offerings.	Short **Medium**	We are committed to developing our RIS proposition in line with industry and regulatory developments, and in line with client demand. This includes monitoring the implication of the FCA's SDR (read more on page 13).
Resource efficiency		
Operations: Opportunity to reduce operating costs by ensuring offices are more energy efficient and by reducing waste emissions.	Short **Medium**	Shared facilities implement robust recycling and waste-management programmes, leading to more efficient waste-reduction practices. Our target remains to be net zero across all our operations by 2030 (read more on page 13).
Markets		
Investments: Opportunity for underlying investments to diversify activities and access new markets, increasing reputation and revenue from newly identified low-carbon investment opportunities.	Short **Medium**	The opportunities of the transition to a decarbonised economy are factored into our asset-allocation process (read more on page 17). Our RIS proposition has exposure to companies that are providing solutions to the climate crisis, through their products and services, and operational practices (read more on page 17).
Investment propositions: Opportunity to develop and expand propositions to meet current and future client needs.	Short **Medium**	We are committed to developing our RIS proposition in line with industry and regulatory developments, and in line with client demand. This includes monitoring the implication of the FCA's SDR (read more on page 14).
Resilience		
Operations: If the Group applies measures to mitigate against the negative impacts of a transition towards a low-carbon economy, and implements climate-related adaptation measures, this could lead to increased organisational resilience.	Short **Medium**	As part of our Operational Resilience Programme we consider the impact of climate-related events on the operation of our business, accounting for severe, but plausible scenarios, including events such as heat-related fires and floods (read more on page 18).
Energy source		
Operations: Opportunity to reduce the Group's operating costs by purchasing electricity from renewable sources.	Short **Medium**	In a limited number of offices, we have the autonomy to select our own office service providers. Where this is the case, we make a conscious effort to choose providers that offer the most environmentally sustainable energy solution (read more on page 26).

Time horizon key: **Short** term = 0–5 years, **Medium** term = 5–15 years, **Long** term = 15+ years

Climate-related risks and opportunities and their impact on our business, strategy and financial planning

Brooks Macdonald is dedicated to enhancing its understanding of the risks and opportunities posed by climate change. We acknowledge that, if not appropriately managed, they may affect investment performance and lead to broader reputational risks. These risks are primarily managed through our Centralised Investment Process ("CIP"), which is described in greater detail in the Risk Management section of this report. We are also committed to becoming a net-zero carbon business operationally by 2030.

With regards to financial planning, climate-related risks and opportunities are factored into the preparation of the Group's Annual Report and Accounts, with finance processes and forecasts taking climate-related costs into consideration. Climate risks will be considered as part of the Group's Internal Capital Adequacy and Risk Assessment ("ICARA") process in future.

As discussed in the Governance section of this report, the ESGAC is dedicated to driving the Group's ESG priorities, including those related to climate, across both our direct business operations and our investment propositions. Further detail on the ESGAC's focus is provided in the Metrics and Targets section of the report.

Impact on our operational strategy

We are committed to understanding and reducing the environmental impact of our operations. We have set an ambition to achieve net zero across all operations by 2030 and continue to improve our environmental performance by minimising emissions and promoting sustainable practices.

Our facilities management strategy focuses on resource efficiency, carbon reduction and eco-friendly initiatives. Nine of our 16 UK offices (the Glasgow office opened on 1 July 2025) are serviced, offering flexibility and sustainability benefits, such as:

- resource efficiency through shared amenities;
- lower-carbon footprint through right-sized spaces;
- robust waste management and recycling;
- sustainable infrastructure with energy-efficient systems;
- adaptability that reduces the need for new construction.

We prioritise sustainable procurement, selecting materials with long life cycles, reclaimed content and carbon-neutral credentials, as well as partnering with suppliers who uphold ethical business standards and who are committed to reducing their carbon emissions. Our waste- management practices include minimal packaging, furniture reuse and donations to local charities, supporting circular economy principles.

In the reporting period, we submitted our first mandatory ESOS action plan to the EA, outlining our commitment to improving our energy-saving measures. At the time of writing, two of the five actions outlined in this plan have been completed, through the sale of our international business and its associated offices, as well as the closure of our office in Bury St Edmunds. Our action plan is publicly available on the EA's website.

For metrics relating to our energy consumption and carbon footprint, and for developments since the last reporting period, please see the Metrics and Targets section of this report.

Impact on our investment propositions and investments (products and services)

As part of our CIP, we integrate ESG (including climate) factors into the research and monitoring of assets, and stewardship activities. Investment research teams have access to qualitative and quantitative climate data and consider these inputs as part of due diligence. More information is provided in the Risk Management section of this report.

We maintain exposure to renewable energy infrastructure within our alternatives buy list. These investments are underpinned by long-term, inflation-linked cash flows and supported by structural growth drivers, including the expansion of renewable capacity and the increasing focus on energy security.

For clients who seek to align their values with their investment strategy, we offer a dedicated RIS proposition, which is integrated into the CIP and has the dual objective of achieving strong long-term risk-adjusted investment returns and actively reflecting responsible investment values. Although this is currently a small proportion of the Group's overall FUM (under five percent), we see our RIS offering as a growth area for the business.

The RIS offering builds upon our CIP's established due diligence and monitoring capabilities, incorporating additional steps into the research process to ensure that the dual objective of the service is met and upheld. The RIS Advance proposition includes funds that seek exposure to companies furthering the climate and energy transitions, and which seek to capture the decarbonisation growth opportunity, although this is not the central objective of the service and of all underlying third-party funds. When selecting assets for our RIS portfolios, we carry out in-depth research to understand each fund's investment process, the key drivers behind it and how these influence investment decisions. Among a broad range of considerations, our key focus is on ensuring that the fund's aims, processes and underlying exposures are aligned with our objectives, rather than relying on fund names or labels alone.

We are committed to developing our RIS offering in line with the evolving demands and opportunities of the transition to a more sustainable economy, as well as the changing regulatory landscape for sustainable investment. In the reporting period, the SDR working group met regularly to develop a recommendation to the ExCo and the Board on changes required to our RIS offering under the proposed FCA rules, supported by an external regulatory consultant. As part of this work, we engaged with the largest (by FUM) independent financial advisers that support our RIS Advance proposition, to gather their SDR-related views and feedback. Our RI Lead also participated in an SDR-focused feedback session facilitated by a specialist compliance firm. The session brought together a range of industry professionals, including fund managers, discretionary fund managers, business development managers and senior fund marketing executives. The findings were communicated to the FCA.

The FCA announced on 30 April 2025 that it would be pausing its plans to extend the SDR and investment labels regime to portfolio management. Whilst we will, therefore, not be pursuing labels for our RIS proposition at this stage, the work undertaken has helped us to make enhancements to the process of due diligence for RIS fund selection.

During the reporting year, we published two dedicated reports for RIS clients, covering a range of sustainability topics designed to enhance clients' understanding of the service and deepen their knowledge of key ESG themes. These pieces explored subjects such as the potential impact of Donald Trump's policy stance on the decarbonisation opportunity set, regulatory developments such as SDR and investment opportunities related to sustainable aviation. We also provided case studies showcasing specific company exposures within the portfolios, along with a detailed breakdown of portfolio alignment to sustainability themes, based on a look-through analysis of the underlying holdings within the Platform MPS portfolios.

Our in-house funds are subject to FCA regulatory requirements and their product-level TCFD reports are available from the funds' ACD, Tutman. Copies of these public product-level TCFD reports are available on the ACD's website **here**.

Climate scenario analysis

Overview of climate scenarios

The TCFD recommends using climate scenario analysis as a tool to inform the identification, assessment and management of climate risks. Climate scenario analysis considers multiple different global warming pathways, assessing how projected changes in warming, policy and technology under each scenario may affect the financial performance of assets across different sectors and geographies. The exercise aims to provide a forward-looking assessment on a company or portfolio's financial sensitivity to climate-related risks and opportunities.

This year, we have selected Morningstar Sustainalytics as our source for climate-related data and metrics, including inputs for scenario analysis. Morningstar Sustainalytics uses climate scenarios provided by the International Policy Response ("IPR") and International Energy Agency ("IEA"), which the data provider groups into four broad classifications: Orderly, Disorderly, Hot House World and Too Little, Too Late. Scenarios are projections of what could happen in the future, based on plausible and consistent descriptions of possible climate futures. The specific scenarios used and their underlying assumptions are detailed later in this section.

Scenario classification	Scenario description
Orderly	• The scenarios assume that climate policies are introduced early and gradually become more stringent. Transition risks are more subdued due to immediate interventions, such as strong policies, carbon pricing, technology integration and uptake, and customer preferences and demand.
Disorderly	• These are scenarios with higher transition risk due to policies and technology being delayed, or divergent across regions and sectors, such as advanced economies implementing stronger policies sooner, and hard-to-abate sectors not transitioning until post 2050.
Hot House World	• These are scenarios that assume some climate policies are implemented in some regions, but global efforts are insufficient to halt significant warming, and critical temperature thresholds are exceeded. Morningstar Sustainalytics currently considers the Business As Usual Scenario, a Hot House World scenario, and, for the purpose of this document, will be referred to as Hot House World.
Too Little, Too Late	• These scenarios reflect delays and divergences in climate policy ambition that bring about increased transition risks in some region, as well as high physical risks around the world.

Source: Morningstar Sustainalytics

A scenario in which warming is limited to 1.5°C will require rapid and far-reaching emissions reductions across all sectors of the global economy. Such a scenario, thus, poses heightened transition risks and opportunities, whilst it minimises physical risks. However, a scenario where warming reaches 4°C or more by 2100 may have limited impact on the viability of emissions-intensive business models in the short term, but will lead to severe physical risks and risks of ecological and economic breakdown.

How we approach climate scenario analysis

There is industry consensus that the value of scenario analysis lies in its ability to show how investments might perform under different circumstances and scenarios, rather than in its ability to predict exact financial impacts. The exercise facilitates understanding of portfolio risk exposures and can support the evaluation of potential risks and opportunities but should not be used as a predictive tool.

We have taken a quantitative approach to scenario analysis, in line with TCFD recommendations and our understanding of best practice. The outputs of this scenario analysis are not yet integrated into our top-down asset allocation process or investment decision-making, as we recognise that the methodologies and outputs of quantitative scenario analysis models currently have limitations and are likely to change as market adoption grows.

Despite the limitations associated with climate-scenario models, we have still deemed it appropriate to share the outputs. We believe they can be valuable in illustrating the topic from an educational perspective, enhancing transparency and facilitating informed discussions about potential future risks and opportunities – both internally and externally with advisers and clients. All results and analysis presented in this report should be interpreted with caution and are not intended to represent definitive conclusions.

Morningstar Sustainalytics has developed a model that enables us to estimate how the value of our Group-level discretionary portfolio could be affected by moving to a low-carbon economy; the Low Carbon Transition Value-at-Risk ("LCT-VaR") model. This tool only covers transition risks and does not include the impact from physical risks. LCT-VaR includes a range of low-carbon transition scenarios selected by Morningstar Sustainalytics and driven by a set of assumptions across climate policy, technological change, market and demand changes as well as broader socioeconomic trends. Separately, Morningstar Sustainalytics provides data on our portfolio's exposure to physical risks, expressed as a financial loss ratio rather than a value-at-risk metric. Whilst we provide some information on Morningstar Sustainalytics' methodology in this section, further details are provided in Appendix C. We continue to constructively engage with Morningstar Sustainalytics on the roadmap of their climate-related data offering, their methodologies and our requirements.

Morningstar Sustainalytics' analysis of transition risks

Morningstar creates a financial-based signal that estimates the potential loss value that a company may experience in different climate scenarios. This model includes two key components:

1. A *policy-risk* model, applied to all companies based on their exposure to scenario carbon pricing.
2. A *market-risk* model, applied to the oil and gas sector, considering the impact of market-demand changes on revenue generation.

The results are converted into an overall financial impact using a discounted cash flow model, which takes the cumulative value at risk and applies a present-day value to it. The metric is expressed as a percentage of the company's enterprise value (this is the value of all its shares and debt, including cash).

Morningstar Sustainalytics currently models the potential impact of three Paris-aligned scenarios through to 2050. These three scenarios are:

- **Inevitable Policy Response ("IPR") – Required Policy Scenario ("RPS")**
  An orderly path to net zero, which limits global warming to 1.5°C with strong ambition and moderate-to-fast transition across all sectors, with regional variation. The main drivers of the IPR RPS are performance standards and subsidies implemented as soon as possible. The scenario assumes integration of agricultural carbon pricing into the GHG prices, consumer preference for lower environmental-impact proteins and the integration of technology to replace animal protein. There is a focus on nature-based solutions to provide a solution for capturing carbon. Renewables and technology integration are immediate and are ramped up significantly with demand and behaviour-based interventions supporting technology-based reductions. The scenario also assumes that 100% clean energy is possible with immediate interventions.
- **International Energy Agency ("IEA") – Net-Zero Emissions ("NZE") Scenario**
  A normative scenario that shows a pathway for the global energy sector to achieve net-zero CO_2 emissions by 2050, with advanced economies reaching net-zero emissions in advance of others. This scenario also meets key energy-related United Nations Sustainable Development Goals, in particular universal energy access by 2030 and major improvements in air quality. It is consistent with limiting the global temperature rise to 1.5°C (with at least a 50% probability), in line with emissions reductions assessed in the Intergovernmental Panel on Climate Change's Sixth Assessment Report. There is an assumption that there will be a rapid deployment of clean-energy technologies and energy efficiency at the core of the transition.
- **IPR – Forecast Policy Scenario ("FPS")**
  A disorderly path to net zero, which limits global warming to 1.8°C. Unlike the IPR RPS, the FPS's key assumption is that governments will introduce and enforce more stringent climate policies later than in the orderly scenario (mid-2020s), driven by the Paris Agreement's ratchet mechanism. The FPS considers the economic impacts of these policies, including disruptions in high-carbon sectors and opportunities in low-carbon industries. Natural gas continues as a transition fuel by replacing coal, demand for natural gas plateaus in the 2030s and declines at the beginning of the 2040s and oil demand peaks between 2026 and 2028, primarily driven by early electric vehicle uptake. However, demand for aviation, shipping and petrochemicals remains significant through to 2050 with lower GDP growth due to too-late and too-expensive policies.

The analysis we have conducted has been limited to a 2050-time horizon and to scenarios in which the objectives of the Paris Agreement are met. Through our engagements with Morningstar Sustainalytics, we are optimistic that, in the near future, our Group-level scenario analysis will be able to integrate LCT-VaR outputs for a mid-term horizon and for a Hot House World scenario. We believe it is important to consider and model such outcomes alongside other plausible climate pathways.

Similarly, we recognise the importance of assessing and quantifying the opportunities associated with different possible future scenarios, which is not provided as an output in Morningstar Sustainalytics's LCT-VaR model. Nonetheless, we are able to make qualitative judgements related to opportunities under different scenarios.

As of 30 June 2025, FUM under our discretion totalled £16.2 billion[2], representing the Group's discretionary portfolio[3]. Morningstar Sustainalytics's analysis currently only covers public equities and corporate bonds and is dependent on the quality and availability of underlying data. As a result, the overall LCT-VaR metrics outlined below cover 54% of the Group's discretionary portfolio (£8.7 billion)[4]. We expect to progressively expand reporting and for coverage of the portfolio to broaden, as the relevant data and methodologies become available across asset classes and as a result of better corporate disclosures.

Strategy continued

The analysis shows that, for every £100 (GBP) invested, the value of the portfolio could reduce by £6.63 (6.63%) in an IEA Net Zero Emissions scenario (orderly), £4.43 (4.43%) in an IPR RPS scenario (orderly) and £5.67 (5.67%) in an IPR FPS scenario (disorderly).

In aggregate, our portfolio appears most exposed under the IEA NZE Scenario, which represents the most stringent and immediate orderly transition pathway. This heightened exposure is likely driven by the uniform and simultaneous application of ambitious climate policies across all regions and sectors. Under such conditions, companies face limited time to adapt, resulting in the rapid repricing of carbon-intensive assets, increased compliance costs, and a higher risk of asset stranding, particularly in sectors with limited transition readiness.

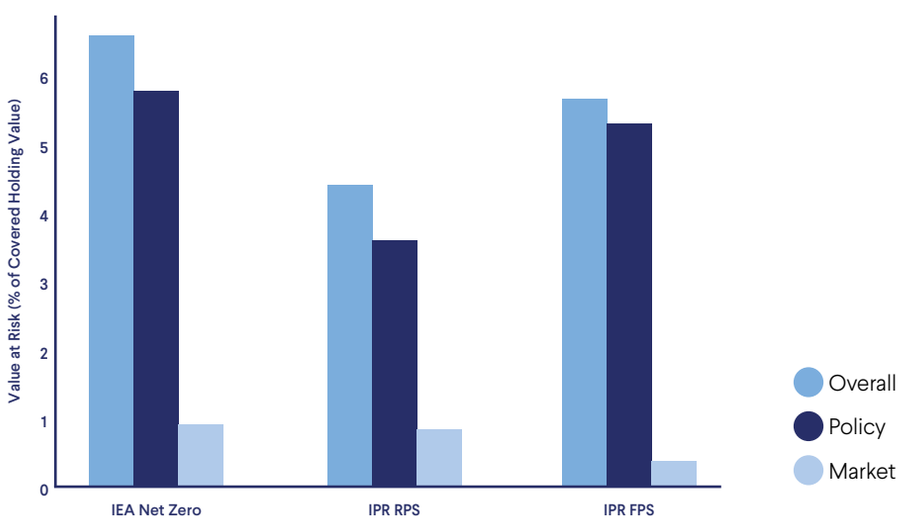
By contrast, the IPR RPS, whilst also aligned with a 1.5°C pathway and classified as an orderly transition, results in the lowest portfolio risk. This could be largely due to its broader and more diversified approach to mitigation, which includes land-use change and nature-based solutions. These additional levers help distribute the transition burden more evenly across sectors and regions. Furthermore, the IPR RPS reflects a more nuanced and politically realistic policy rollout, allowing for some regional differentiation and sectoral flexibility. This could soften the immediate financial impact on exposed sectors and provide companies with a more manageable adaptation timeline.

When comparing the IPR orderly and disorderly scenarios (the IPR RPS and IPR FPS, respectively), we see that portfolios are more exposed under the disorderly scenario. In a disorderly world, delayed climate action leads to higher carbon prices and more stranded assets. Companies have less time to adapt, resulting in rising direct and indirect costs. Overall, the analysis suggests that an orderly scenario is comparatively preferable for our investments and supports our understanding that portfolio companies need to be managing their transition risks by developing credible decarbonisation strategies, aligning with emerging regulatory frameworks, and investing in adaptive capabilities that mitigate both direct and indirect costs associated with the low-carbon transition.

Policy risk emerges as the most significant driver of transition risk across all scenarios, with its impact especially pronounced in a disorderly transition. Market risk is assessed across a narrower set of sectors, specifically those where demand-side impacts from the low-carbon transition can be robustly quantified. As such, the relatively lower market risk observed should be interpreted with caution, as it may reflect limited sectoral coverage rather than genuinely lower exposure.

Low Carbon Transition Value at Risk – Results and Findings

Portfolio exposure to transition risk by scenario and risk type



Morningstar Sustainalytics' analysis of physical risks

Morningstar Sustainalytics does not provide a physical VaR metric, opting for a more conservative approach compared to some other data providers. In their view, building a robust and scalable physical risk model is not currently feasible due to the lack of available adaptation data.

Morningstar Sustainalytics provides conservative estimates of issuers' relative exposure and vulnerability to the physical impacts of climate change. These estimates consider several factors: the degree of exposure, the relative vulnerability to direct damage to infrastructure, disruption in productivity due to failure of their operations and assets, the vulnerability to damage of critical infrastructure surrounding an asset, and the average risk of damage to the built environment in the region where the company's asset is located. Morningstar Sustainalytics also provides exposure signals that indicate a company's or portfolio's financial vulnerability to climate risks. Financial exposure to physical climate risk is defined as a Total Loss Ratio and is calculated as the ratio of the cumulative expected damage loss due to this risk to the company's cumulative global operating cash flow to 2050. Both direct and indirect losses are combined to form this overall Total Loss Ratio signal.

The climate scenarios covered by physical risk analysis differ from those used to model LCT-VaR.

These scenarios are taken from the Coupled Model Intercomparison Project 5 ("CMIP5") and are as follows:

- Representative Concentration Pathway: **RCP 2.6**, which models a world transitioning to a future warming of ~2°C by the end of the century.
- Representative Concentration Pathway: **RCP 8.5** which models the future under a worst-case scenario resulting in global warming ranging from 3.2°C to 5.4°C by 2100.

Companies in the financial and real estate sectors are excluded from calculations, due to the challenges in defining a standardised financial metric that accurately reflects their degree of liquidity to cover liabilities and challenges in modelling joint-ownership structures.

The financial exposure disclosures presented below are based on our Group-level discretionary portfolio and should be viewed as approximations of physical risk in a financial context. They are not intended to be used as strict predictions of future damage and do not incorporate adaptation or mitigation. 35% of the overall discretionary portfolio is covered by the analysis.[5]

Climate scenario	Discounted total loss ratio (%)
RCP2.6	1.05%
RCP8.5	1.32%

Under the RCP 2.6 scenario, which assumes strong global action to limit warming to around 2°C, the total loss ratio is 1.05%. This implies that for every $10 billion of the portfolio's projected operating cash flow by 2050, it could suffer $105 million in cumulative losses due to physical climate risks.

In contrast, under the RCP 8.5 scenario, a high-emissions pathway leading to 3.2–5.4°C of warming, the Total Loss Ratio increases to 1.32%. This equates to expected losses of around $132 million for the same $10 billion in cash flow reflecting the significantly greater financial vulnerability associated with more extreme climate outcomes.

As expected, physical risks are projected to have the largest negative financial impact under the Hothouse World scenario. This outcome is reflective of the more frequent and intense extreme weather events such as floods, droughts, wildfires and heatwaves under this scenario.

The risks are likely to be particularly acute for assets located in vulnerable geographies or sectors with high physical exposure, such as infrastructure, agriculture and real estate. In such a scenario, the financial implications for certain holdings could be material, particularly where companies lack robust adaptation strategies or operate in regions with limited climate resilience. This reinforces the importance of integrating physical risk considerations into our investment research and engagement efforts, even as we continue to refine our understanding of these risks and the tools used to measure them.

Climate opportunities

In addition to risks, the transition to a low-carbon economy presents investment opportunities. In an orderly transition scenario, companies that actively contribute to decarbonisation through their operations, products and services may offer upside potential for investors. In a Hot House World scenario, firms that are best positioned to withstand increasing physical climate risks or providing climate adaptation solutions may outperform.

Implications of scenario analysis for our centralised investment process

Whilst scenario analysis does not directly constrain our investment universe or influence top-down asset allocation, it strengthens our conviction that fund managers should actively integrate climate-related risks into their investment processes. This perspective is embedded in our due diligence framework, through which we evaluate how managers are addressing these risks through both qualitative and quantitative lenses. Our approach varies by asset class and fund type, differentiating between active and passive strategies, and considers climate integration at the asset management firm and fund level.

Sector team analysts consider a range of quantitative climate transition-related metrics in their assessment of funds, including LCT-VaR metrics, GHG Management Scores and Implied Temperature Rise ("ITR"). Definitions are provided in the Risk Management section of this report. We have enhanced our access to fund-level physical Total Loss Ratio signals and their integration into research dashboards. During the selection and monitoring stages, third-party fund managers are also required to describe how the risks of climate change are factored into their investment process, resulting in a qualitative assessment from the sector research team. More details on the quantitative and qualitative inputs and assessment can be found in the Risk Management section of the report.

We recognise that there is one-size-fits-all approach for investors when it comes to addressing climate change. Potential impacts on markets, regions and investments are inherently complex, varied and uncertain. As such, our approach is not prescriptive, and we are committed to continuously evolving the lens through which we assess fund-manager processes.

Beyond our standard due diligence, in the reporting period, we have engaged more deeply with asset managers overseeing the largest allocations of our assets under management, on their approach to climate risks and opportunities, including transition and physical risks. These targeted engagements have yielded valuable insights that we can now feed back into our broader due diligence questionnaire framework. We are steadily building a clearer picture of emerging best practices and are committed to sharing these insights with our managers. This is an area of growing focus for us, and one where we are making iterative progress.

Further detail on our stewardship efforts and progress over the reporting period is provided in the Risk Management section.

From a governance and oversight perspective, the IC and ERMC receive climate metrics related to physical and transition risks, applied to the Group's products and services, on a quarterly basis at minimum. Further detail is available in the Risk Management section.

2 Please note this differs from the Group's year-end reported FUM (£16.6 billion) due to the exclusion of execution-only accounts.

3 All holdings data used in this analysis has been compiled as at 30 June 2025. The data includes the following items, covering group-wide FUM, excluding execution-only accounts: (a) Onshore BPS (excluding execution-only/advisory-only accounts, including RIS/Decumulation/Court of Protection, where applicable); (b) Onshore MPS Custody accounts (including RIS); (c) AIM Service; (d) Multi-Asset Funds (including MAF, Levitas, Brunsdon, CAM); (e) MPS Platform Holdings (including BMIS, RIS and the core strategies); and (f) LIFT FUM. All holdings held on external platforms (i.e. within MPS Platform and LIFT) have been estimated via apportioning the FUM in each model as at 30 June 2025 as per the drifted weight of each asset in each model. Please refer to Appendix B for more detail on the estimation process.

4 65% of the Group's discretionary portfolio was eligible for LCT-VaR analysis (representing £10.5 billion). Within this 83% of the eligible portfolio was ultimately covered by data (reported and estimated) and included in the analysis, equating to 54% of the overall discretionary portfolio.

5 65% of the Group's discretionary portfolio was eligible for analysis, and within this 54% of the eligible portfolio was covered by data (reported and estimated) and included in the analysis, equating to 35% of the overall discretionary portfolio.

Risk Management

The Group's risk management framework

Climate risk is embedded in our risk management framework and is incorporated under the ESG risk appetite category, which includes Environmental (physical and transition) risks.

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

- **Risk culture.** We promote a risk culture that encourages the ownership of and management of risk. Risk management is the responsibility of everyone.
- **Risk governance.** The Board is ultimately responsible for the Group's risk management framework but has delegated certain responsibilities to the RCC, a sub-committee of the Board. The Group operates a 'three lines of defence' approach to managing risks across the Group.
- **Risk appetite.** The objective of the Group's risk appetite framework is to ensure that the Board and senior management are properly engaged in agreeing and monitoring the Group's appetite for risk and setting acceptable boundaries for business activities and behaviours. The risk appetite categories are reviewed by the ERMC, RCC and approved by the Board on an annual basis. KRIs are mapped to the risk appetite categories, with KRI tolerances aligned to risk appetite. The KRIs and tolerances are subject to an annual approval process by the ERMC, the RCC and the Board.
- **Risk reporting.** Risk reporting is presented to the ERMC and the RCC. This includes details of underlying KRIs mapped to the risk appetite categories, breaches, risk events and emerging risks.
- **Risk identification.** The Group adopts a top-down and a bottom-up approach to the identification of risks. The ERMC and the RCC have identified the principal risks that could impact the ability of the Group to meet its strategic objectives. In addition, the Group maintains a bottom-up operational Group risk register, which is mapped to the Group's risk appetite categories.
- **Risk assessment and management.** All of the risks included in the Group risk register are scored according to probability and impact and assessed on an inherent basis (before the impact of controls) and on a residual basis (after the impact of controls). Where risks are classed as outside the Group's risk appetite, actions must be taken to bring the risk back within appetite.
- **Risk and Control Self-Assessment ("RCSA").** The Group's bottom-up assessment of risk is managed through the RCSA process, which supports a comprehensive understanding of risks and controls in place at the operational and business process level. The RCSA process enables the risk and control owners to identify any omissions in the risk environment and to close any control gaps or weaknesses as necessary.
- **Policy governance framework.** The policy governance framework provides minimum standards for managing the key risks that the Group faces. Each Group policy has an Executive Committee-level owner who is ultimately accountable for the design, implementation and maintenance of the policy.
- **Internal Capital Adequacy and Risk Assessment ("ICARA").** The Group conducts an ICARA process to ensure that it has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all potential material harm that may result from the ongoing operation of its business. The Group holds financial resources (capital and liquidity) in excess of our minimum regulatory requirements.

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

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

With regard to physical risks, as part of the Group's established Operational Resilience Programme, consideration is given to the impact of climate-related events on the operation of the business. Severe but plausible scenarios include events caused by periods of prolonged heat or persistent wet weather. When defining plausible scenarios, we consider the impact to one or more of our locations, transport, people, third-party service providers, utilities or systems. Using these scenarios, testing is undertaken to stress the impacts these have on our business and our ability to continue to deliver our important business services to our clients.

At the present time, this assessment has suggested that the Group's operations are not materially exposed to acute physical risks due to the low risk of extreme weather events in any of our office locations and third-party supplier locations. However, such events could have a material impact on our ability to deliver our services. The operational resilience testing has led to enhancements in the way we manage third-party risk, with this now including enhanced risk monitoring through a project to replace our current third-party risk management platform. In addition, we leverage joint third-party operational resilience testing for key outsourcers. It is also worth noting that our operational resilience plans mean staff can work from remote locations or home in the event our premises are unavailable, and our technology solutions have disaster recovery contingencies.

The Group manages the transition risks of climate change for its operations and investment propositions through its net zero by 2030 strategy, provision of the RIS proposition for clients with sustainability-related objectives, the Risk and Compliance department's regular horizon scanning and anti-greenwashing-related activities conducted by the Compliance Advisory function. The ESGAC is in place to drive the sustainability agenda of the firm forward, and we view this committee as a key lever for the firm to manage its transition-related risk.

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

Our bespoke and managed portfolio services invest primarily in collective funds that are managed by third parties, or products that track an index, where we do not have direct control over the investments chosen or day-to-day management of the climate-related risks associated with these investments. Bespoke portfolios can invest in direct equities and bonds, should it be appropriate for a client's circumstances. Our Risk Managed Fund range invests across collectives, direct equities and bonds.

Around 90% of the Group's discretionary FUM is in a combination of: (a) Open-End Funds; (b) Closed-End Funds; and (c) Exchange-Traded Funds ("ETFs"). An approximate breakdown of our exposure to different investment types can be found below:

Morningstar investment type	Weight
Stock	2.5%
Exchange-Traded Fund	6.4%
Closed-End Fund	1.9%
Bond	8.6%
Open-End Fund	79.3%
Unclassified	1.3%

Brooks Macdonald assesses, identifies and manages these risks by:

- integrating climate-related risks into the selection and monitoring process for buy list assets covered by our research process (ESG integration);
- using stewardship, including engagement and proxy voting, to encourage effective oversight and management of climate-related risks;
- collaborating with industry peers to strengthen our approach to ESG integration, engagement and proxy voting.

Fund manager selection and monitoring

The third-party funds we invest in can identify and manage ESG and climate-related risks through their capital allocation decisions (in the case of active funds) and their stewardship activities. We believe it is essential to consider the asset manager's strategy-specific approach to these two key areas, as well as firm-level indicators. ESG factors are evaluated alongside a range of other factors when determining the overall suitability of a collective fund, rather than being treated as a standalone or overriding investment objective.

Our consideration of ESG and climate-related factors does not imply:

- that there are restrictions on the investment universe;
- that ESG factors are given more or less consideration than other types of factors;
- that all ESG factors are given equal consideration; or
- that the resulting portfolio will have any particular characteristics.

Our approach differs for active and passive funds.

Active funds

Fund-level analysis includes consideration of how ESG and climate risks are integrated into the fund's investment process, as well as its engagement and voting practices. We also evaluate the resources supporting this integration, spanning people and data capabilities.

Our proprietary responsible investment questionnaire is a key input to this assessment, supplemented by responses submitted via third-party due diligence platforms, where available, and the fund's public disclosures. Where our analysis identifies that a fund is not taking meaningful steps to monitor and manage climate-related risks, or where such efforts appear under-resourced, we consider this a risk to the investment case. As our understanding of ESG and climate-related risks continues to deepen, and as we gather insights through this assessment process, we are committed to the ongoing refinement of our approach.

We enhance our analysis of fund philosophy, process and resources with a look-through into the underlying holdings of each fund. Our ESG Dashboard, powered by Morningstar Sustainalytics data, supports investment teams in identifying potentially higher-risk holdings and highlighting areas of potential misalignment between a fund's stated investment approach and actual exposures. If a fund's climate-related metrics or ratings fall below a defined threshold, an internal amber rating is triggered, prompting a review of the underlying drivers. This review leverages Morningstar Sustainalytics data and, where necessary, includes direct engagement with the fund manager. The fund manager may be actively managing associated risks in a variety of ways, for example by incorporating them into the investment thesis or valuation or engaging directly with the issuer. In some cases, the fund manager may disagree with the risk signals identified by our data provider and offer a clear rationale for why they do not consider the issue to be material.

Case Study

Engagement with a fund manager regarding a holding rated as 'severely misaligned' by Morningstar Sustainalytics

Cadent Finance plc is a UK-based public limited company that provides financial services in support of the Cadent gas distribution network, which operates across several regions in the UK. Its current transition strategy relies heavily on a shift to hydrogen, a solution for which large-scale economic and technical viability is still unproven. Like other UK gas distribution network operators, Cadent faces significant stranded asset risk as demand for gas declines in line with the UK's net zero targets. We identified exposure to the company in one of our bond fund holdings (a strategy that does have sustainability objectives) and reached out to the manager for further commentary.

The manager acknowledged that Cadent's pathway to net zero remains uncertain but provided a long-term view of the issue, showing how their view of the associated risk has evolved over time. In 2019, after engaging with the sector, they concluded that credit markets were not adequately pricing in the risks associated with gas. As a result, they exited the sector. However, the manager now believes that recent research indicates that stranded asset risks have become more visible, prompting regulatory attention. Ofgem is now considering how to incorporate these risks into future policy, including the possibility of "accelerated depreciation", allowing investors to recover their capital more quickly, thereby reducing the number of stranded assets by 2050. Credit markets are beginning to reflect these risks more accurately. With both regulators and markets better understanding and pricing them, the asset manager has now selectively re-entered the sector.

Risk Management continued

Key fund-level climate-related metrics included in the ESG dashboard

Metric	Definition
GHG Emissions Management Score	For individual companies, the GHG emissions management score indicates the strength of the company's management systems in regard to managing its exposure to the low-carbon transition. At the portfolio level, it is derived as the asset-weighted average of the covered holdings' company-level management scores within the portfolio.
Implied Temperature Rise ("ITR")	Specifies the degree of warming that the world would reach if the expected GHG emissions of all companies differed from their net-zero budgeted GHG emissions to the same degree as the measured portfolio. The output includes a detailed assessment of management preparedness covering over 87 discrete indicators and metrics.
Low-carbon Transition Overall Value at Risk per £m	The Portfolio Low-Carbon Transition Overall Value at Risk, for a cumulative to 2050-time horizon, per million pounds sterling invested. We consider outputs under the IEA NZE scenario, which reflects the most ambitious pathway aligned with limiting global warming to 1.5°C, assuming immediate and coordinated global policy action, rapid decarbonisation and significant shifts in energy systems and industrial processes. By using this scenario, we are able to consider a fund's potential vulnerabilities, which may not be apparent under more gradual or delayed transition assumptions. We acknowledge that the IPR RPS may offer a more politically and economically plausible trajectory, reflecting current policy trends and market dynamics. A disorderly transition remains a likely possibility. However, we also recognise that we are not yet in a position to assign probabilities to these scenarios. As such, our use of the IEA NZE scenario reflects a conservative and precautionary approach to understanding potential transition risk exposure.

The dashboard highlights the fund's involvement in fossil fuels, as well as its weighted average carbon intensity, both of which are accessible to the covering analyst to review. Other metrics relating to broader ESG risks are also provided. We believe that forward-looking indicators, which offer insights into a company's preparedness for the low-carbon transition, are especially important to consider in portfolios without explicit sustainability mandates. Some of the businesses best positioned to benefit from the transition may currently operate in carbon-intensive sectors, highlighting the need for nuanced, forward-looking analysis.

During the reporting period, we enhanced our access to physical climate risk data, specifically fund-level expected total loss metrics. This has deepened our understanding of how physical climate risks may affect portfolios and has enabled us to begin identifying potential thresholds that could reasonably trigger further engagement with fund managers. At present, our analysis of how asset managers are considering physical risks is primarily qualitative, based on questionnaire responses. However, this is an area we expect to evolve.

Fund research for the RIS proposition, which has a dual objective of delivering financial returns and aligning with sustainability-related values, builds on our core research framework, with meaningful enhancements. These enhancements reflect the fact that responsible investment characteristics are embedded as formal strategic objectives, rather than being considered primarily as part of risk assessment. As a result, the thresholds for triggering an internal amber rating in RIS funds are more stringent than those applied to core portfolios, ensuring a higher level of scrutiny in line with the service's sustainability-related objectives.

Case Study

Engagement with a European small-cap equity fund

During our annual monitoring process, a European small-cap fund triggered an amber flag in the ESG dashboard, based on its LCTR-VaR.

In response, the fund manager explained that they do not currently use our designated climate data provider (Morningstar Sustainalytics), but they do monitor the fund's climate risk relative to its benchmark. They noted that, in this context and according to their own analysis, the fund has performed favourably. The manager also highlighted the inherent challenges of interpreting Scope 3 emissions in small-cap fund, where disclosure from corporates is often limited or inconsistent. Lack of available disclosures may have contributed to the elevated VaR score reported by our external provider.

The manager demonstrated a proactive approach to climate stewardship. They shared examples of engagement with portfolio companies on climate-related issues, including specific stock-level cases and relevant engagement themes. This provided reassurance that, despite the flagged metric, climate risk is being actively considered and addressed within the investment process.

Passive funds

Since stock selection is not part of an index tracking fund's process, ESG due diligence for passive funds is conducted at the asset manager (i.e. firm) level only (which is covered in the following section).

Firm-level assessments

We consider that an asset manager's overall approach to responsible investment and climate strategy can influence how effectively ESG and climate considerations are integrated into fund-level decision-making.

The RI team conducts firm-level analysis and review of asset managers, considering factors, including the following:

- Commitment to responsible investment and the strength of related policies
- Governance and oversight structures for ESG and climate-related matters
- Scale and expertise of firm-wide ESG and climate resources
- Climate strategy and risk management practices
- Coverage and transparency of net-zero commitments
- Climate engagement and voting principles, transparency, and consistency

Engagement with third-party fund managers

During the reporting year, we launched a centrally coordinated climate engagement programme with third-party fund managers, led by the RI team. Alongside our core questionnaire, which already includes several climate-related questions, we asked the top 20 equity and bond asset management firms, with whom we have the largest FUM allocations, to provide deeper insights into their climate stewardship practices. This included case studies of engagement and voting activity, details of their net-zero commitments and, where relevant to active funds, how these are reflected in the portfolios we hold. We also sought information on the availability of climate-related metrics to investment teams and progress in considering physical climate risks within their investment processes.

The RI team wrote to asset managers and, in some cases, scheduled follow-up meetings, to better understand their approach and the rationale behind it. These engagements served a dual purpose: first, to scope and clarify information, and second, to share our perspective on best practice. We look forward to developing and refining our approach over time.

Engagements focused on key topic areas including net-zero commitments, climate strategy and climate stewardship. Insights from these interactions inform our ongoing evaluation and monitoring of the manager's approach to climate-related risks and opportunities, and our ongoing engagement priorities.

As part of this work, we identified companies flagged as severely misaligned with the low-carbon transition by Morningstar Sustainalytics or the Transition Pathway Initiative ("TPI"). Where our portfolios were exposed to these companies, via funds managed by the asset managers prioritised for central, top-down engagement, this prompted further targeted engagement. We asked whether they agreed with the assessments and, if so, what actions they had taken to address these concerns through engagement, voting, or other stewardship activities. This targeted engagement covered 10 fund managers across 16 investment strategies. The insights gathered are helpful in informing our evaluation and scoring of each manager. Looking ahead, we plan to broaden the scope of our engagement to include a wider group of asset managers and funds.

Case Study

Engagement with a Japanese equity fund, held in RIS portfolios

Morningstar Sustainalytics assigned an average rating to a Japanese equity fund held in our RIS portfolios for its management of GHG emissions. This prompted a deeper review of the portfolio to identify potential drivers of the rating and to engage with the fund manager for further insight.

One potential driver identified was Metawater, a company focused on addressing Japan's pressing challenge of ageing water infrastructure. Morningstar Sustainalytics had rated Metawater's preparedness for the low-carbon transition as weak. In response, the fund manager highlighted the company's critical role in supporting sustainable water systems and its contributions to environmental sustainability through advanced water treatment technologies and eco-conscious product development.

As part of their stewardship efforts, the investment team had conducted a site visit to a Metawater-operated treatment facility, where they observed the implementation of energy-efficient and emissions-reducing technologies. The manager also noted that they had encouraged the company to improve transparency around its climate initiatives and to consider linking impact metrics – such as emissions reductions – to executive remuneration.

The manager's view was that the low rating from Sustainalytics was most likely reflective of limited disclosure rather than a lack of meaningful action from the company. This engagement underscored the importance of looking beyond third-party data and reinforced the value of direct dialogue in building a more accurate and nuanced understanding of a company's climate strategy.

It is important to note that asset managers are navigating an increasingly complex and politically sensitive regulatory environment, which can constrain their ability to act as consistent and ambitious stewards and provide transparent public reporting. We expect continued divergence in how investment managers address climate-related issues. Our engagement approach is context sensitive, designed to accommodate regional and organisational differences rather than apply a rigid, standardised framework. We also believe that maintaining a constructive, solutions-oriented tone is key to fostering meaningful dialogue and driving long-term progress. Finally, we recognise that best practices and practical expectations will differ significantly between passive and active asset managers and strategies.

Focus areas of our engagement with third-party asset managers

Net-zero commitments

While we do not require asset managers to have a formal, firm-wide net-zero commitment that explicitly includes the funds we are invested in, we recognise the growing importance of such commitments.

The reporting year saw notable shifts in net-zero developments across the investment industry, due to the suspension of the Net-Zero Asset Managers ("NZAM") initiative. Prior to this, the initiative played a central role in encouraging asset managers to set credible net-zero targets and in fostering meaningful engagement between investors and companies. In January 2025, following the withdrawal of several large US-based managers, NZAM paused its activities and entered a formal review phase. A revised framework is expected to be launched later in 2025 and was not available at the time of writing.

We acknowledge that large passive managers, particularly in the US, face unique challenges in setting firm-wide net-zero targets. These include the need to accommodate a wide range of client mandates and navigate a politically complex environment. In such cases, while formal net-zero commitments may be less feasible, we believe it is important for these managers to demonstrate transparency and leadership through their stewardship and engagement practices. This is particularly relevant where our exposure is through passive funds, where the ability to influence outcomes relies heavily on the strength and consistency of stewardship activity.

Below is a breakdown of key topics of discussion. All engagement topics covered in this report are intended to be illustrative rather than exhaustive and have been split into two categories: information scoping and engagement to drive best practice.

Information scoping

- **Exploring absence of firm-level net-zero commitments**

  For managers without a formal net-zero commitment, we explored the underlying reasons — such as structural challenges, regulatory constraints or internal barriers to adoption.

- **Understanding NZAM exits**

  Where managers had exited NZAM prior to its pause, we engaged to understand the rationale behind their decision and how it affects day-to-day investment practices.

- **Clarifying impact of the NZAM review**

  In cases where we considered the impact of the NZAM review on a fund manager's net-zero strategy to be unclear, we requested clarification.

- **Assessing fund-level inclusion in firm-wide commitments**

  We also sought to clarify how the funds in which we are invested are treated within each manager's firm-wide net-zero commitment.

Case Study

Engagement on net-zero investing with one of our US managers

We engaged with a US-based active asset manager that has not made a formal net-zero commitment at the firm level. Our aim was to better understand the rationale behind this position. Currently, the manager has no structured plans to adopt a formalised commitment; however, they explained that they track the progress of companies through an internal proprietary monitoring tool. They were able to report that a significant majority of portfolio holdings had, either a decarbonisation or net-zero target, with a quarter of these validated by the Science Based Targets initiative.

In our meeting, the manager highlighted a preference for internal progress over public commitments, citing the complexity and uncertainty of the climate transition. They expressed a view that formalised commitments should follow demonstrated action, rather than precede it. They also provided evidence of engagements they are conducting with their top emitters in the portfolio. The manager's internal processes and issuer-level engagement suggest a pragmatic approach to climate risk management. This underscores the importance of looking beyond headline commitments to assess the substance of climate strategies. We will continue to monitor the manager's progress and encourage greater transparency and ambition over time, particularly as the revised NZAM framework becomes available.

Engagement to drive best practice

- **Promoting alignment with industry initiatives**

  We shared the *UK Wealth Managers on Climate: A Unified Call for Net Zero Action* letter with relevant managers, encouraging alignment with its principles. The open letter is a call for enhanced climate commitments from asset managers.

- **Highlighting leading disclosure practices**

  Where relevant, we highlighted examples of best practice in disclosure — particularly around the proportion of assets covered by net-zero targets, the materiality and rationale for excluded assets, and the timeline for bringing additional assets into scope.

Climate stewardship

Stewardship (engagement and voting) is a key tool asset managers use to address climate risks on our behalf. Our questionnaires request detailed information on each firm's approach to climate stewardship. We also identified companies flagged as severely misaligned with the low-carbon transition by Morningstar Sustainalytics or the TPI, and asked fund managers to provide more detail around the rationale for their inclusion and any related stewardship activity.

Information scoping

- **Low support for shareholder resolutions**

  We paid particular attention to managers who voted on fewer than 50% of shareholder resolutions, seeking to understand the circumstances under which they chose not to vote. Many cited concerns about resolutions being overly prescriptive or vague. However, interpretations of these terms varied significantly, prompting several constructive discussions to better understand their decision-making frameworks. We continue to refine our own perspective on this complex issue.

- **Voting alignment with stated policies**

  Where relevant, we assessed voting alignment with Climate Action 100+ ("CA100+") flagged resolutions, which highlight key shareholder proposals and votes during proxy season. This analysis supported discussions on the consistency between a fund manager's stated climate commitments, voting policy and actual voting behaviour.

Engagement to drive best practice

- **Promoting sector-focused engagement**

  We expressed our support for the Asset Owner Statement on Climate Stewardship[6], placing particular emphasis on the principle that engagement should prioritise sectors critical to the low-carbon transition. We also highlighted the importance of going beyond headline commitments and target setting, focusing more broadly on the credibility, robustness and implementation of transition plans.

- **Encouraging transparency in voting decisions**

  Where relevant, we encouraged asset managers to provide greater transparency around their voting decisions, particularly the rationale for supporting or opposing shareholder resolutions on environmental grounds.

During the reporting period, we have begun exploring the potential of pass-through voting, a mechanism that allows investors in pooled funds to direct how votes are cast on their behalf, offering the influence of a segregated mandate whilst retaining the cost efficiency of pooled structures. This capability is gaining traction among asset managers, particularly for passive strategies, and represents a meaningful shift in stewardship practices. We are assessing this option with several of our passive fund providers, especially those in the US, where political dynamics have, at times, limited their direct stewardship activity. Our work so far has included engagement with peer wealth managers, a specialist pass-through voting service provider, and the asset managers themselves, focusing on the scope, ambition and timelines for enabling our participation. We see this as potential opportunity.

6 A joint declaration by a coalition of global asset owners, representing over $1.5 trillion in assets, outlining unified expectations for asset managers on climate-related stewardship.

Our view on the value of asset manager participation in collaborative initiatives

We recognise the important role that collaborative stewardship initiatives play in driving systemic change, particularly on climate issues, but we assess participation on a case-by-case basis.

Political and regulatory context significantly influences asset managers' involvement in these initiatives. This is especially true in jurisdictions like the US, where increased scrutiny from lawmakers has raised concerns about potential antitrust risks. CA100+ remains the most prominent climate-focused collaborative initiative, but we observed several withdrawals during the reporting period, particularly among US-based managers, due to these pressures.

Whilst we do not require participation in CA100+, where we believe it would be appropriate, we seek to understand the rationale for non-involvement and how they may otherwise be collaborating with peers to maximise their influence.

For example, in 2025, we engaged with a UK-based asset manager who is not a CA100+ signatory. They explained that they had selected an alternative collaborative initiative instead, the Net Zero Engagement Initiative, because it offered a more flexible framework for engagement and was better aligned with their portfolio composition. This example reinforces our view that, while collaboration is essential to effective stewardship, there is no one-size-fits-all approach. We are committed to monitoring developments and adapting our views accordingly.

Our understanding of best practice:

Some asset managers ensure there is quarterly portfolio oversight of risks, with central oversight/central RI teams discussing climate scenario outcomes with investment teams, including performance relative to benchmarks. In some cases, fund managers need to attest to the fact they have reviewed scenario analysis outcomes/data.

Whilst we recognise that measurement of physical risks and understanding their financial materiality is particularly challenging, we have been encouraged to see that several asset managers are actively building internal expertise on physical climate risks and engaging with companies in high-risk sectors to encourage improved risk management. Some are also collaborating with industry groups and data providers to improve the availability and quality of data and methodologies in this area and partnering with academic institutions to collaborate on new tools.

Risk Management continued

Climate strategy and risk management

We engaged with asset managers on their approach to considering climate-related risks within investment processes.

Information scoping

- **Rationale for not reporting against TCFD**

  Explanation of the decision not to align with TCFD recommendations to date, including any relevant context or constraints.

- **Rationale for not conducting quantitative scenario analysis, including barriers and future plans:**

  Overview of the challenges faced in implementing quantitative scenario analysis (e.g. data limitations, resource constraints), and plans for future adoption.

- **Consideration of physical risk metrics in the investment process:**

  Progress made to integrate physical climate-related risk into investment analysis and decision-making, including the challenges involved and initiatives underway to strengthen this integration (such as partnerships and investment in third-party data).

Our approach to engaging collaboratively alongside other wealth managers

We are members of the UK Wealth Managers on Climate Group. Since its formation in 2023, the group has met quarterly to explore how wealth managers can collectively encourage asset managers to raise their climate ambitions and improve climate-related practices. Representing, approximately, £165 billion in assets under management, the group issued an open letter in November 2024 outlining three key climate expectations for asset managers.

We remain engaged in the Wealth Managers on Climate Group's ongoing work, which, this year, has focused on developing a standardised set of climate-related questions for wealth managers to use in their due diligence and stewardship efforts. This initiative aims to reduce the reporting burden on asset managers whilst promoting a more consistent and effective message from the wealth management industry.

As previously mentioned in the Strategy section of the report, we have also fed back to the FCA on SDR, via a specialist compliance firm, to help inform regulation on sustainability investments.

Case Study

Shell Corporation: Supporting an Environmental Shareholder Resolution

At Shell's 2025 Annual General Meeting ("AGM") we decided to support Resolution 22, a shareholder proposal seeking disclosure on how Shell's demand forecast for Liquified Natural Gas ("LNG"), LNG production and sales targets and new capital expenditure in natural gas assets are consistent with its climate commitments, especially its target to reach net-zero emissions by 2050.

The proposal stemmed from investor concerns surrounding the company's LNG growth strategy and assumptions made when forecasting future demand. Shell's LNG outlook is significantly higher than several climate policy scenarios, including the IEA Stated Policies Scenario, the Announced Pledges Scenario ("APS") and the Net-Zero Emissions by 2050 scenario. The IEA has further revised its LNG demand forecasts as global energy markets reposition, reducing the 2040 demand forecast by 28% (under the APS). Shell has the largest amount of uncontracted LNG than any other oil and gas company, totalling over 1 billion tonnes between 2024 and 2050.

These dislocations are concerning given they expose the company to major value erosion if LNG prices weaken. They also potentially undermine the scope of its climate commitments.

Despite Shell committing to provide enhanced disclosures on the role of LNG in its strategy before the 2026 AGM, and explicitly outlining how its LNG strategy aligns with its net-zero target, we remained concerned that commitments to enhanced disclosure were vague and did not sufficiently commit to substantiating (including criteria, data sources, methodologies and assumptions) the company's bullish demand forecast.

Consequently, we voted against the company's management and in support of the resolution to show our support for additional disclosure that we believe is necessary for investors to adequately assess the material risks associated with Shell's LNG strategy and to assuage shareholder concerns regarding the integrity of Shell's Paris-aligned climate commitments.

Integrating ESG (including climate considerations) in the selection and monitoring of direct holdings

Direct equities

Our direct equity analysts employ a bottom-up approach to considering ESG factors, including climate-related issues. The teams take their own qualitative research and assessment of material climate-related risks and opportunities, tailoring the approach depending on sector. This is coupled with a quantitative data overlay in the form of the centrally provided ESG dashboard. This dashboard is aligned with our collective fund research approach and incorporates similar climate-related metrics for triggering further investigation and potential engagement with companies.

Direct government bonds

For direct government bonds, we consider country risk scores which incorporate an assessment of how well a country is managing key environmental, social and governance factors. If the research analyst wishes to propose the sovereign for buy list inclusion, they must document any issues with the country risk assessment and outline why they believe it is still suitable for inclusion. For RIS portfolios, we supplement this with our in-house sustainability framework for government debt that incorporates a best-in-class approach across the ESG pillars and includes consideration of government net-zero policies.

Property and Infrastructure investments

We have also adapted our research and due diligence frameworks to fit the Real Estate Investment Trust ("REIT") and infrastructure context. The process continues to draw on environmental data, obtained from REIT and infrastructure disclosures using company reporting and, where possible, direct questionnaire responses, which we have further refined in the reporting year. Examples of the information that is captured include Energy Performance Certificate ("EPC"), Global Real Estate Sustainability Benchmark ("GRESB") and Building Research Establishment Environmental Assessment Method ("BREEAM") rating carbon emissions, energy/water consumption, and the percentage of energy procured from renewable sources. This information is used to inform fund manager engagements and investment recommendations.

Engagement with direct holdings

We vote on all direct equity buy-list assets and have developed ESG voting guidelines in the reporting year. For direct equities, investment trusts and REITs, we engage with companies where we believe our input can support meaningful progress and add value. However, our ability to engage effectively is sometimes constrained by the relatively small shareholdings we hold, particularly compared to larger asset managers with a stronger emphasis on direct investments. We are more likely to engage where our ownership stake is more substantial, for example, in companies within our AIM portfolio service or in property REITs. To date, our direct engagements have primarily focused on governance matters.

Over the past year, we have not engaged with AIM-listed companies specifically on climate-related issues, as no such issues have arisen. However, we did provide feedback to a UK REIT on best practices for integrating ESG KPIs into remuneration structures. This included aligning incentives with specific sustainability objectives such as GRESB scores, EPC ratings and the installation of solar PV systems. The company responded that ESG targets are not included in the 2025 LTIP but will be incorporated into the FY26 annual bonus, representing a minority portion of the overall bonus opportunity. We will continue to monitor developments in this area.

How processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

Sector research teams have primary responsibility for identifying, assessing and managing the climate-related risks facing investments, supported by the Central Research team. Implementation is overseen by the ASC, which feeds into the broader corporate governance structure of the Group, outlined in the Governance section of this report. The RI Lead sits on the ASC to strengthen this oversight.

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

Second-line oversight of the RIS proposition is conducted by the Investment Risk function, to ensure adherence to stated objectives on an ongoing basis. This involves a quarterly oversight committee to ensure RIS models adhere to the investment mandate, ESG and risk metrics.

Metrics and Targets

Scope 1, 2 and relevant 3 emissions, excluding financed emissions

In line with the recommendations of the TCFD, we track and report, with the help of a third-party provider, LG Energy Group, the Scope 1, 2 and relevant 3 emissions produced through Brooks Macdonald Group's operational activities. The table below does not include financed emissions, which are presented separately in a subsequent section of this report. Comparative data from the previous year is provided for reference.

- **Scope 1** emissions are direct GHG emissions generated from sources that are controlled or owned by an organisation.
- **Scope 2** emissions are indirect GHG emissions primarily from electricity consumed by a company, but they also include the generation of purchased steam, heat or cooling.
- **Scope 3** emissions are all other indirect GHG emissions that occur in the value chain, both upstream and downstream, but are not directly controlled or owned by the organisation

We have chosen to include relevant Scope 3 emissions to ensure greater transparency and to reflect the true environmental impact of our operations. Given that business travel (Scope 3, Category 6) represents the largest contributor to our carbon footprint, its inclusion is essential for a complete and honest assessment of our sustainability performance. We have not disclosed emissions for Scope 3 categories 1-5 and 7-15 of the GHG Protocol, due to data availability.

Scope 1, 2 and 3 emissions[7]

	Energy Consumption (MWh)		GHG Emissions (tCO_2e)	
Source of Energy and Emissions	**2025**	**2024**	**2025**	**2024**
Combustion of natural gas	**23.4**	57.7	**4.3**	10.6
Combustion of biogas	**20.6**	20.3	**–**	–
Total Scope 1	**44.0**	78.0	**4.3**	10.6
Generation of purchased electricity	**482.1**	401.1	**99.8**	83.1
Of which from renewable sources	**446.6**	391.7	**92.5**	81.1
Total Scope 2 (market based)	**482.1**	401.1	**7.4**	1.9
Combustion of fuel in staff vehicles	**236.3**	280.7	**57.0**	68.0
Hotel accommodation	**–**	–	**7.1**	8.7
Business travel (rail)	**–**	–	**3.5**	1.5
Business travel (air)	**–**	–	**19.9**	15.6
Total Scope 3	**236.3**	280.6	**87.5**	93.8
Total Scope 1, 2 and 3	**762.4**	759.8	**99.2**	106.3
Intensity per 1000 m^2 gross floor area	**135.4**	162.7	**17.6**	22.8

[7] Due to time constraints and the availability of the data, all reported electricity and gas consumption figures include estimated values. For landlord-managed sites, energy usage was estimated for the full reporting period using Chartered Institution of Building Services Engineers TM46 benchmarks — a set of standardised energy performance metrics commonly used to assess typical energy consumption across various building types. In contrast, for company-owned sites, estimates primarily cover the months of May and June 2025. Estimations account for, approximately, 146,285 kWh of electricity (representing 30% of total electricity consumption) and 15,116 kWh of gas (representing 34% of total gas consumption). The remaining 70% of electricity and 66% of gas consumption are based on actual meter readings. We expect data completeness to improve in future reporting cycles.

To calculate GHG emissions, we applied location-based conversion factors ($kgCO_2e/kWh$) aligned with the UK's average grid supply. Emissions associated with renewable energy supplies have been excluded to reflect net market-based emissions.

All conversion factors and fuel properties used in this disclosure have been sourced from the 2024 "UK Government Greenhouse Gas Conversion Factors for Company Reporting" published by the Department for Energy Security & Net Zero and the Department for Environment, Food and Rural Affairs. All GHG emissions have been expressed in terms of their carbon dioxide equivalence.

In the reporting period, 88.3% of our total annual GHG emissions were attributable to business travel. This includes emissions from staff vehicle use for business purposes, hotel stays, rail travel and air travel. Compared to 2024, our total (market-based) GHG emissions have decreased by 7% to 99.2 tCO_2e, driven by lower staff mileage and lower gas usage.

Our overall energy consumption has marginally increased over the year, due to the larger office footprint. However, despite the number of office locations increasing from 14 to 15 in the 2025 financial year (we also opened a new Glasgow office on 1 July 2025), compared to the previous year our energy-related emissions increased by only one percent and our energy consumption and GHG emissions intensity ratios decreased by 17% and 23%, respectively. This reflects the sustainable choices we have made in our offices and demonstrates our ongoing commitment to reducing our environmental impact. Currently, 10 of our sites use fully renewable electricity. Going forward, we will continue to look at ways to expand this across other locations.

Financed emissions of FUM

The financed emissions of our discretionary funds and portfolios under management have been calculated by our third-party data vendor, Morningstar Sustainalytics, following the methodology as defined in the GHG Protocol. As previously described, the majority of our FUM is invested in collective investments.

In accordance with the recommendations made by the TCFD, and in alignment with the Partnership for Carbon Accounting Financials Standard, we report on a number of climate metrics for our assets under management. The metrics reported in this section cover discretionary assets managed by BMAM and LIFT-Invest, following the acquisition of LIFT-Invest in the reporting period.

Prior-year metrics provided in this section (for the 2024 and 2023 reporting periods) cover BMAM only, as LIFT-Invest was not part of the Group at that time.

The climate-related metrics and discussion outlined apply to 65% of FUM (i.e. 65% of the portfolio was eligible for analysis). Assets that were not in scope of the analysis were non-corporate holdings including government bonds, cash and equivalents, derivatives and commodities. These assets are excluded from the analysis due to limitations in data availability and the absence of established applicable methodologies. Alongside reported metrics, we provide coverage figures; these indicate the proportion of in-scope assets for which data was available to calculate each metric (percentage of eligible portfolio covered), and the proportion of the overall portfolio covered (percentage of total portfolio covered). The variation in coverage between metrics reflects differences in data requirements, with some inputs potentially unavailable at the time of reporting. Data coverage should be considered alongside the value of all metrics.

This reporting year, carbon emissions data was sourced from Morningstar Sustainalytics, replacing the previous year's provider, Clarity AI. As data coverage, estimation methodologies and calculation approaches vary between providers, the emissions figures reported by Morningstar Sustainalytics are not directly comparable with those previously reported. Differences may arise from variations in the inclusion of investment instruments, data estimation techniques, timing of data collection and issuer-level data availability. These methodological differences may account for some of the changes observed between reporting periods. We have chosen not to restate historical metrics using the current provider's data, as doing so would require applying updated emissions estimates to past portfolio holdings, which could result in misleading conclusions.

Emissions metrics

We report both absolute and intensity-based emissions metrics. Emissions data reflects past performance, not future plans or adaptability.

- Financed emissions (otherwise known as Total carbon emissions or Absolute emissions)
- Weighted Average Carbon Intensity ("WACI")
- Carbon footprint (also known as Financed emissions per $M invested)

These carbon metrics are disclosed for Scopes 1 and 2. For the time being, we have selected not to disclose Scope 3 emissions data, given the widespread industry-wide concerns regarding data availability, quality and the risks of double-counting of emissions when aggregating emissions at a portfolio level. We recognise the importance of evaluating and assessing data quality and availability to address this.

Additional metrics

We have also selected to disclose additional metrics in our TCFD reporting, which align with those considered within the centralised investment process, as previously described in the Strategy and Risk Management sections of this report.

- Portfolio Implied Temperature Rise ("ITR")
- Portfolio GHG Emissions Management Score

In the below table, we define these metrics in more detail and outline how these are used as well as their limitations. Full methodologies are provided in Appendix C.

Climate metric definitions

Metric	Methodology summary	Usage	Limitations
Financed emissions	The value refers to the carbon emissions attributable to the portfolio. It is calculated by working out what percentage of each company or issuer the portfolio owns – i.e. a 'fair share' percentage. The portfolio is, therefore, responsible for that portion of the company's carbon emissions. All holdings are then added together to give the portfolio's absolute emissions in tonnes. This only includes the long portion of the holdings for which the data is available.	Tracked as part of the Group's annual TCFD disclosures, where it functions as a proxy measure for assessing exposure to transition risk.	Does not allow for comparability across portfolios due to its link to portfolio size. Result changes can be due to changes to enterprise value from a year to another, which can lead to misinterpretations. Not all companies provide emissions data. Company-level data may be reported or estimated by the data provider.
Carbon footprint	A measure of a portfolio's emissions intensity divided by the value of the portfolio. It is measured in tonnes of CO_2e (tCO_2e) per million dollars (USD) invested in the portfolio.	Allows for easier comparison portfolios, funds or benchmarks on a like-for-like basis. Tracked as part of the Group's annual TCFD disclosures, where it functions as a proxy measure for assessing exposure to transition risk. Carbon footprint metrics for the Group's products and services are reported to the IC on a quarterly basis.	Sensitive to changes in portfolio value. Does not consider the carbon efficiency of organisations.

Metrics and Targets continued

Metric	Methodology summary	Usage	Limitations
WACI	A measurement that shows a portfolio's carbon efficiency (or revenue intensity) for each million dollars (USD) of revenue. WACI measures carbon intensity per million dollars (USD) of issuer revenues, weighted by the percentage of overall fund value.	Tracked as part of the Group's annual TCFD disclosures, where it functions as a proxy measure for assessing exposure to transition risk. WACI metrics for the Group's products and services are reported to the IC and included in ESG dashboards consulted by sector research teams in investment research and monitoring.	Sensitive to outliers. Revenue tends to 'favour' organisations with higher prices relative to their peers. Can only be used with listed equity and corporate bonds.
Portfolio ITR – all scopes (1,2,3 covered)	ITR is a model from our data provider that gives an indication of the degree the world would warm to if the expected GHG emissions of all companies differed from their net-zero-budgeted GHG emissions to the same degree as the portfolio. The ITR is adjusted for the company's future performance and an extensive analysis of its management actions.	Gives an indication of how well aligned investments are relative to the world's temperature in the future. Tracked as part of the Group's annual TCFD disclosures, where it functions as a proxy measure for assessing exposure to transition risk. ITR for our products and services are reported to the IC and included in ESG dashboards consulted by sector research teams in investment research and monitoring.	Challenges around data quality and complex modelling involved. The metric uses assumptions to project emissions through 2050, which introduces uncertainty. For example, the modelling assumes a baseline emission projected based on historical emission intensity and assumes the company maintains their current market share under a business-as-usual scenario. Incomplete or inconsistent company disclosures can reduce accuracy.
Portfolio GhG emissions management score – all scopes (1,2,3 covered)	Reflects the portfolio's management quality for a given GHG emissions scope and is calculated as the asset-weighted average of the covered holdings' company-level management scores for a given GHG emissions scope within the portfolio. This is then assigned a categorical description with possible values ranging from very weak to very strong.	Tracked as part of the Group's annual TCFD disclosures, where it functions as a proxy measure for assessing exposure to transition risk. GhG emissions management scores for our products and services are reported to the IC and included in ESG dashboards consulted by sector research teams in investment research and monitoring.	Challenges around data quality and complex modelling involved. The metric uses assumptions to project emissions through 2050, which introduces uncertainty. For example, the modelling assumes a baseline emission projected based on historical emission intensity and assumes the company maintains their current market share under a business-as-usual scenario.

Climate metrics for the Group's discretionary portfolio[8]

Metric	2025	% portfolio eligible	% eligible portfolio covered	% total portfolio covered	2024	% portfolio eligible	% eligible portfolio covered	% total portfolio covered	2023	% portfolio eligible	% eligible portfolio covered	% total portfolio covered
Financed emissions Scope 1 & 2 (tons CO_2e)	**552,556.38**	**65.12%**	**87.54%**	**57.00%**	606,164.81	69.79%	98.88%	69.01%	678,979.90	71.08%	80.55%	57.25%
Financed emissions per $M invested Scope 1 & 2 (tons CO_2e/USD M invested)	**39.86**	**65.12%**	**87.54%**	**57.00%**	44.21	69.79%	98.88%	69.01%	52.53	71.08%	80.55%	57.25%
WACI Scope 1 & 2 (tons CO_2e/USD M revenue)	**88.16**	**65.12%**	**91.58%**	**59.64%**	241.44	70.35%	99.67%	70.12%	112.12	71.63%	80.55%	57.70%
ITR – all scopes (°C)	**2.3**	**65.12%**	**85.52%**	**55.69%**	–	–	–	–	–	–	–	–
GhG Emissions Management Score Category – all scopes	**Strong**	**65.12%**	**85.52%**	**55.69%**	–	–	–	–	–	–	–	–

8 Based on holdings data as at 30 June 2025. Data taken from Morningstar Sustainalytics in July 2025. All holdings data used in this analysis has been compiled as at 30 June 2025. The data includes the following items, covering group-wide FUM and excluding execution-only accounts. (a) Onshore BPS (excluding execution-only/ advisory-only accounts, including RIS/Decumulation/Court of Protection, where applicable); (b) Onshore MPS Custody accounts (including RIS); (c) AIM Service; (d) Multi-Asset Funds (including MAF, Levitas, Brunsdon, CAM); (e) MPS Platform Holdings (including BMIS, RIS and the core strategies); and (f) LIFT FUM. All holdings held on external platforms (i.e. within MPS Platform and LIFT) have been estimated via apportioning the FUM in each model as at 30 June 2025 as per the drifted weight of each asset in each model. Please refer to Appendix B for more detail on the estimation process.

The changes observed between June 2024 and June 2025 are unlikely to be driven by changes in asset allocation or security selection, as the portfolio composition remained largely stable over the reporting period. A contributing factor to the differences observed could be the lower data coverage compared to the previous year, and difference in methodological approaches used by the data providers. This year's data features lower coverage than in previous years, potentially due to Morningstar's more conservative approach to estimating company data compared to our former provider. This may have contributed to the lower emissions figures reported.

Reductions in absolute emissions may reflect a further combination of factors, including lower emissions from underlying companies, new positions taken by third-party funds, or shifts in third-party portfolio weighting. For WACI, decreases may also be influenced by rising company revenues. As access to attribution and contribution data improves, we aim to provide more detailed narrative and insights in future reporting cycles.

The aggregated portfolio ITR metric offers insight into the alignment of our holdings with the goals of the Paris Agreement. Our current aggregated ITR stands at 2.3°C. A sector-level breakdown of ITR, provided to us by our data provider, suggests that our investments in energy and industrials are the most misaligned with the net-zero transition, while holdings in technology and financial services are the most aligned. This is consistent with our expectations regarding sectoral exposure to transition risks.

A strong GHG emissions management score may indicate effective management of transition risks within the portfolio. Our internal analysis of sector-level GHG emissions management scores show that, although energy and industrials are the most misaligned from an ITR perspective, they do not exhibit the weakest GHG emissions management scores relative to other sectors. This may suggest that while these sectors are inherently exposed to transition risks, our holdings within them are seeking to manage those risks. Nevertheless, we stress the importance of applying caution when seeking to derive findings from these metrics and emphasise that there has not been an explicit focus or objective to improve the metrics outlined in this report.

As company disclosures, data coverage and methodologies continue to evolve, we expect year-on-year variation in our investment-related carbon metrics. Alongside the ongoing development of the integration of climate metrics into our CIP, governance and oversight, we will continue to engage with data providers and third-party fund managers to enhance the quality and consistency of emissions reporting. This will support the continued improvement of both the quantity and quality of emissions data available to us.

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

As outlined previously, in the reporting year, the RCC has reviewed climate-related KRIs, which monitor the management of investment and operational climate-related risks. Investment-related climate metrics outlined previously in this section are embedded into the ESG dashboards used in the investment research selection and review process and are reported to the Investment Committee for the Group's products and services. We remain committed to iteratively evolving our internal and external reporting of such metrics, and the benchmarks against which they are compared and evaluated.

The operational Scope 1, 2 and relevant 3 emissions disclosed in this section are tracked and monitored as part of our net zero by 2030 strategy.

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

From an operational perspective, we are dedicated to continuous improvement in our environmental performance, striving to reduce our negative environmental and climate change impacts. As outlined in previous sections of this report, Brooks Macdonald has a formal target in place to reach net zero across all our operations by 2030. In support of this headline commitment, we have set internal objectives relating to non-mandatory data reporting, the reduction of business travel and waste, and responsible procurement. Performance against these objectives is overseen by the ESGAC. We have also submitted our first mandatory ESOS action plan to the EA, outlining our commitment to improving our energy saving measures. At the time of writing, two of the five actions outlined in this plan have been completed, through the sale of our international business and its associated offices, as well as the closure of our office in Bury St Edmunds. Our action plan is publicly available on the EA's website.

Whilst we have not set quantitative targets relating to our investments, we are committed to the development of ESG integration and stewardship in line with industry standards (including integration of climate risks and opportunities into investment analysis, engagement and voting) and the development of our RIS proposition. Our RI Working Group's priorities are aligned with these focus areas and progress is overseen by the ESGAC and the IC.

We are mindful that our operational emissions are negligible compared to the emissions associated with our investments. We continue to assess net-zero target-setting options to cover our financed emissions, engaging with wealth management peers and the asset managers with whom we invest to inform our approach and ensure that any commitment is considerate of our fiduciary duty responsibilities.

We continue to consider that emissions reduction targets in isolation could prompt a concentration of investment, and risk, in historically lower-emitting sectors and industries. This will not drive real-world decarbonisation and will miss genuine efforts made by companies towards reaching net-zero targets. Furthermore, many companies involved in the manufacture of emissions-saving technologies may have a significant carbon footprint of their own, but this data point does not capture the emissions savings created through their products. Automatic divestment from funds with exposure to carbon-intensive companies is unlikely to bring about emissions reduction outcomes in the real economy or maximise risk-adjusted returns for clients. Instead, we believe that engagement with high emitters is preferable than divestment, at supporting real-world outcomes and managing investment risks. This informs our commitment to iteratively enhancing our due diligence of how asset managers approach engaging and voting on climate-related issues and on developing our own stewardship approach with asset managers and direct equities.

For the second consecutive year, we have rated a prioritised set of active equity and bond funds, held with the top 20 asset managers by FUM, using a maturity scale adapted from the IIGCC's Net Zero Investment Framework ("NZIF") to fit the fund context. This approach continues to support our understanding of fund-level progress towards net zero. There are challenges associated with translating the NZIF maturity scale to the fund context, rather than an assessment of companies, so we interpret the results with caution. We will consider methodological updates to the rating process in future, as well as relevant associated disclosures and target setting.

Appendix A – Glossary

Asset	An investable security
Asset class	A collective term for a group of investable securities with similar characteristics
Board	Brooks Macdonald Group's Board of Directors
BPS	Bespoke Portfolio Service
CFA	Chartered Financial Analyst
CIP	Central Investment Process
Climate change	Long-term alteration in global or regional climate patterns
Climate Action 100+	A global investor-led initiative launched in 2017 to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change
CMIP5	Coupled Model Intercomparison Project 5. A global climate modelling initiative coordinated by the World Climate Research Programme. It provides a standardised set of climate model simulations from leading research institutions worldwide.
CO_2e	Stands for CO_2 equivalent, which is the number of metric tons of CO_2 emissions with the same global warming potential as one metric ton of another greenhouse gas
Divestment	The process of selling off assets, investments, or business interests for financial, ethical, or strategic reasons
EA	Environmental Agency
Engagement	Engagement involves dialogue and collaboration between investors or stakeholders and companies to encourage them to adopt more sustainable and responsible practices
EPC	Energy Performance Certificate
EPRA	The European Real Estate Association
ESG	Environmental, Social and Governance
ESG Integration	The incorporation of ESG factors into an investment process, based on the beliefs that ESG factors can affect the risk and return of investments and that ESG factors may not be fully reflected in asset prices.
ESOS	Energy Savings Opportunity Scheme. UK compliance framework for energy audits.
ETF	Exchange-Traded Fund
EVIC	Enterprise Value Including Cash. This is calculated by summing the market capitalisation, the total preferred stock/units/ securities, the non-controlling/minority interests in equity, and the total debt.
Exclusions	Prohibiting certain investments based on ESG criteria
FCA	Financial Conduct Authority
Fiduciary duty	A legal obligation to act in the best interests of another person or entity, prioritising their needs above one's own
FUM	Funds Under Management
GHG	Greenhouse Gas
Greenwashing	Where an organisation exaggerates or misrepresents its environmental efforts to appear more sustainable than it actually is.
GRESB	Global Real Estate Sustainability Benchmark
BREEAM	Building Research Establishment Environmental Assessment Method
ICARA	The Internal Capital Adequacy and Risk Assessment process
IEA Steps	International Energy Agency Stated Policies Scenario. The Stated Policies Scenario ("STEPS") provides a conservative benchmark for future energy developments. It incorporates existing policies and measures, as well as those under active development, but does not assume full implementation of all announced goals.
IPCC	Intergovernmental Panel on Climate Change
ITR	Implied Temperature Rise
IPR	Inevitable Policy Response. A forecasting initiative that models the likely acceleration of climate-related policy and market responses as governments act to limit global warming.
KPI	Key Performance Indicator
KRI	Key Risk Indicator
LCA	Life Cycle Assessment
LCTR	Low-Carbon Transition Rating

LCTR-VaR	Low-Carbon Transition – Value at Risk. Models the potential loss in portfolio value as a result of moving to a low-carbon economy, over each year to 2050. The potential loss is expressed as a percentage of the portfolio if there are no transition efforts or policies.
LNG	Liquefied Natural Gas
LTIP	Long-term Incentive Plans
Morningstar Investment Type	A classification used by Morningstar to group investments based on their structure and underlying asset characteristics
MPS	Model Portfolio Service
MSCI	Morgan Stanley Capital International index series, which covers a broad range of global investable securities and is used over the world for diverse investment purposes
MI	Management Information – ESG MI is a set of data and metrics that organisations can use to track their exposure to ESG risks and track ESG performance.
Net-zero economy	An economy with no net greenhouse gas emissions
Net-zero transition	The process of moving towards a net-zero economy
NZAM	Net-Zero Asset Managers initiative
NZIF	Net-Zero Investment Framework
Paris Agreement	International climate agreement to combat climate change
Pass-through voting	Allows investors to have a say in how asset managers vote on the underlying listed equities in a fund (in proportion to the asset owners' share of the holdings).
PCAF	The Partnership for Carbon Accounting Financials is an industry greenhouse gas accounting standard used by the Science Based Targets initiative, which provides asset class methods and data resources for the quantification of financed greenhouse gas emissions from loans and investments.
Physical risk	The risks associated with long-term changes in the climate and with more extreme weather events that may impact future business activities
Planetary boundary	A scientifically defined environmental limit within which humanity can operate safely to maintain Earth's stability and resilience. Crossing these boundaries increases the risk of large-scale, potentially irreversible, environmental damage. There are nine recognised planetary boundaries, including climate change, biodiversity loss and freshwater use.
REITs	Real Estate Investment Trusts
RIS	Responsible Investment Service
RCP	Representative Concentration Pathway, which is a framework for describing different possible future radiative forcing levels
sBPR	Sustainability Best Practice Recommendations
SBTi	The Science-Based Targets initiative, which defines and promotes best practice in science-based target setting – the SBTi independently assesses and approves companies' targets in line with its criteria.
Scope 1 emissions	Direct emissions from company-owned sources
Scope 2 emissions	Indirect emissions from purchased electricity or energy
Scope 3 emissions	Other indirect emissions in a company's value chain
SECR	Streamlined Energy and Carbon Reporting; UK framework for disclosing energy use and emissions
Stewardship	An overarching term encompassing the approach that investors take as active and involved owners of the companies and other entities in which they invest through voting and engagement.
Stranded Assets	Assets that lose value or turn into liabilities before the end of their expected economic life
Sustainability Disclosure Requirements ("SDR")	Mandatory disclosure requirements related to sustainability in financial reporting
TCFD	Task Force on Climate-related Financial Disclosures
TCFD Product Reports	Product specific reports that align with the TCFD recommendations
TPI	Transition Pathway Initiative. An investor-led initiative that assesses companies' preparedness for the transition to a low-carbon economy. TPI provides independent, data-driven analysis of how companies are managing climate change risks and opportunities.
Transition risk	The risks stemming from changes in the economy that will be required to limit global temperature increases
UN PRI	United Nations Principles for Responsible Investment
WACI	Weighted Average Carbon Intensity, which measures a portfolio's exposure to carbon-intensive companies

Appendix B – Data Disclaimer

All holdings data used in this analysis has been compiled as at 30 June 2025. Estimations have been required for assets held outside of our custody (i.e. on differing platforms). The operation capabilities of the underlying platforms we are associated with varies quite widely. For context, less than half of the platforms we are linked to currently have the logistical capabilities to provide exact line-by-line holdings breakdowns as at a specific date. We receive our total FUM held on each platform, within each strategy, on a monthly basis. We then aggregate the amount held within each strategy across all platform providers and subsequently re-apportion the funds as per the weights in our models. We use drifted model weights to reapportion the funds held within both our: (a) platform MPS solutions (c. £5.2bn); and (b) LIFT MPS solutions (c. £800m). Ultimately, we deem the estimation process to be more decision-useful than not, given that the amount of FUM we have within platform providers is extensive and growing. By excluding such a significant portion of our FUM, the TCFD outputs would be distorted and not fully reflective of where we are as an entire business.

A significant portion of the assets covered within this report are third-party collective investments. Our data provider, Morningstar Sustainalytics, performs a look through to the underlying holdings, to generate climate-related data. The quality and completeness of the data provided in this TCFD report may, therefore, be impacted by delays or errors in third-party fund managers disclosing their underlying holdings to Morningstar Sustainalytics.

The quality of data relied upon to produce climate-related information is not of comparable quality to that of financial reporting. Our understanding of climate change effects, data, metrics and methodologies and its impact continue to evolve. Data provider methodologies are subject to ongoing modifications, beyond our control. This may lead to large scale revisions of reported data and targets and make them incomparable to previous reports on a like-for-like basis. Where a judgement has been exercised in this report, the estimates or assumptions used may, subsequently, turn out to be incorrect.

Appendix C – Morningstar Sustainalytics Methodology

Portfolio Carbon Metrics

Morningstar Sustainalytics provides a comprehensive coverage of greenhouse gas emissions data through the collection of reported company data and proprietary estimated data, which forms the basis of all portfolio carbon footprint and intensity metrics. The carbon metrics provided are calculated according to the GHG Protocol, a global framework to measure and manage GHG emissions.

1. Portfolio 'Look Through'

Morningstar will first attempt to 'look through' any funds that are held by the portfolio to find underlying, indirectly held holdings. The "look though" function goes up to 10 portfolios 'deep' – that is, when a portfolio holds a fund and, in turn, that fund hold other funds, the 'look through' process will assess 10 'levels' of portfolios. The exception to this rule is for funds that are synthetically replicated; for the purpose of the carbon emissions calculations, they will be treated as being equivalent to a portfolio holding derivatives. The derivative holding will not be 'looked through' and for the purposes of the calculations are treated as 'other holdings', that are neither corporate nor sovereign.

2. Portfolio weights

The calculations start with a net long portfolio, also referred to as an adjusted portfolio. Securities that have both long and short positions are 'netted out', meaning the short position weight is subtracted from the long position weight. Any remaining short positions and any currency offsets are removed. The portfolio weight is then recalculated on the netted-out long positions only.

The rescaled weight of a holding in the adjusted portfolio is derived as the holding's original portfolio weight, divided by sum of the original portfolio weights of the netted-out long, non-cash offset holdings.

3. Eligible and ineligible holdings

Morningstar Sustainalytics identify the portion of the adjusted portfolio's holdings that can potentially contribute the required data to derive a given portfolio metric. These are known as eligible holdings. In the context of the portfolio carbon footprint and intensity metrics, eligible holding type means corporate entities (such as equities and corporate bonds) and non-eligible holdings refer to any non-corporate securities, such as cash, commodities, and sovereign and subsovereign bonds. They then identify which holdings have coverage of the required company-level data; these are referred to as covered holdings. Holdings that do not have the underlying data required are excluded from the calculations, even if they are considered eligible.

Formulas

Metric	Formula
Portfolio Carbon Footprint	The amount in tonnes of total greenhouse gas emissions attributable to the portfolio, per million dollars (USD) invested. The total emissions a portfolio is responsible for is calculated by working out for each unique holding the percentage of that company that the portfolio owns, then summing the share of total emissions each holding is responsible for. The absolute emissions (in tonnes) the portfolio is responsible for is then divided by the total dollar amount (in USD millions) invested in those companies).

$$Portfolio\ Carbon\ Footprint = \frac{\sum_{i-1}^{EC}\left(\frac{holding\ size_i\ (USD)}{issuer's\ EVIC_i\ (USD)} * issuer's\ total\ emissions_i\right)}{\sum_{i-1}^{EC} holding\ size_i\ (USD)}$$

where:

Portfolio Carbon Footprint = The amount in tonnes per million USD invested of the relevant emission(s) for which the portfolio is known to be responsible.

holding size$_i$ (USD) = The amount in millions of US dollars the portfolio has invested in the relevant underlying covered company. The sum of all holding sizes will be the covered portion of the portfolio.

issuer's EVIC$_i$ (USD) = The entire value of the company (enterprise value including cash) in millions of US dollars. This is calculated by summing the market capitalisation, the total preferred stock/units/securities, the non-controlling/ minority interests in equity and the total debt.

issuer's total emissions$_i$ = The amount, in tonnes, of the relevant emission(s) for which the relevant company is responsible.

i = 1, EC = All eligible, covered holdings. These are securities in the adjusted (net long) portfolio that are of the relevant holding type (eligible, E) and for which the relevant underlying data is known (covered, C).

Appendix C – Morningstar Sustainalytics Methodology continued

Metric	Formula
Portfolio Carbon Intensity	Portfolio Carbon Intensity is the asset-weighted average for the portfolio of the underlying holdings carbon intensity and represents the carbon efficiency of its investments expressed as tCO_2e/$M (tonnes of CO_2e/Revenue in millions of USD). A lower value indicates lower intensity and greater carbon efficiency. Efficiency here refers to the greenhouse gas emissions of a company relative to its revenue; in other words, how much greenhouse gas emissions a company is expending in order to generate $1 million revenue. $Portfolio\ Carbon\ Intensity = \sum_{i=1}^{EC} W_i^{RC} * Carbon\ Intensity_i$ **where:** **Portfolio Carbon Intensity** = The asset-weighted average of a company's tonnes of CO_2e per millions of USD revenue of the relevant emissions for all covered companies held in the portfolio. W_i^{RC} = The rescaled weight of the covered holding, which for each covered holding is derived as the original portfolio weight divided by the weight of the covered portfolio. The covered portfolio is the subset of eligible holdings that have relevant input data available. **Carbon Intensity$_i$** = Carbon intensity of covered holding. **i = 1, EC** = All long, covered holdings. These are securities in the adjusted (net long) portfolio that are of the relevant holding type (eligible, E) and where the relevant underlying data is known (covered, C).

Portfolio Low-Carbon Transition Metrics

Portfolio Implied Temperature Rise

The implied temperature rise calculation measures to what degree the world is expected to warm if the GHG emissions of all companies differed from their net-zero-budgeted GHG emissions to the same extent as the emissions of the company or portfolio being evaluated. It allows investors to easily understand the GHG emissions overshoot, or undershoot, a company is projected to have in the context of limiting global warming to an increase of 1.5 degrees Celsius compared to pre-industrial levels.

For a portfolio, it is a measure of how much the forward-looking GHG emissions attributable to the portfolio (by way of investing in companies) may overshoot or undershoot the corresponding GHG emissions budget attributable to that portfolio. Morningstar Sustainalytics aggregate the underlying GHG emissions projections from underlying companies, then aggregate the portfolio GHG emissions budget from underlying companies. This involves calculating a GHG emissions gap and GHG gap percentage between the GHG emissions projections and the GHG emissions budget being evaluated.

The final implied temperature rise is calculated using the GHG emissions gap percentage within the formula outlined below:

Implied Temperature Rise (°C) =

1.5°C + GHG Emissions Gap Percentage

* Global Emissions Budget * TCRE Factor

where:

Implied Temperature Rise (°C) = A measure of surface temperature rise based on the given GHG emissions of a given company or portfolio.

GHG Emissions Gap Percentage = The relative percentage difference between the GHG emissions being evaluated (either Expected or Baseline) and the corresponding net-zero-aligned GHG emissions budget to 2050.

Global Emissions Budget = The cumulative amount of GHG emissions, in gigatons, that can be emitted to limit warming to 1.5 degrees.

TCRE Factor = The Transient Climate Response to Cumulative Carbon Emissions is an IPCC-derived factor that determines the amount of radiative forcing (warming) as degree Celsius (C) per megaton (Mt) of GHG emissions.

The output – the Portfolio Implied Temperature Rise Score All Scopes – is based on projections to 2050 that take into account the strength of the portfolio companies' management of transition risks.

Portfolio GHG Management Score Category All Scopes

GHG emissions management is reflected at the portfolio level by aggregating the underlying company scores using a weighted average approach, as well as offering a classification of the score value for all emissions scopes. For individual companies, the management score indicates the strength of the company's management systems in regard to managing its exposure to the low-carbon transition and is used to determine company-level, expected GHG emissions projections.

The Portfolio GHG Emissions Management Score reflects the portfolio's management quality for a given GHG emissions scope and is calculated as the asset-weighted average of the covered holdings' company-level management scores for a given GHG emissions scope within the portfolio. It is calculated for Scope 1, Scope 2, Scope 3 Upstream and Scope 3 Downstream GHG emissions, as well as for all scopes.

The Portfolio Greenhouse Gas Emissions Management Score Category All Scopes assigns a categorical description to the Portfolio GHG Emissions Management Score for all emissions scopes. Assignment is determined by the same management quality score thresholds as individual companies. The possible values range from Very Weak to Very Strong and include Weak, Average and Strong.

$$Portfolio\ GHG\ Management\ Score = \sum_{i=1}^{EC} W_i^{RC} * GHG\ Management\ Score_i$$

where:

Portfolio GHG Management Score = The asset-weighted average of a company's GHG Management Score for all covered companies held in the portfolio.

$\mathbf{W_i^{RC}}$ = The rescaled weight of the covered holding, which, for each covered holding, is calculated as the original portfolio weight divided by the weight of the covered portfolio. The covered portfolio is the subset of eligible holdings that have relevant input data available.

GHG Management Score$_i$ = GHG Management Score of covered holding.

i = 1,EC = All long, covered holdings. These are securities in the adjusted (net long) portfolio that are of the relevant holding type (eligible, E) and where the relevant underlying data is known (covered, C).

Portfolio Low Carbon Transition – Value at Risk (LCT-VaR)

As of Q1 2025, LCTR covers around 10,000 issuers. The model is made up of two types of transition risk – policy risk and market risk.

Policy risk

The policy risk model uses cap-and-trade schemes to calculate carbon prices. A cap-and-trade scheme covers emissions generated by companies in specific sectors. The schemes allow companies to buy and sell emissions certificates. The overall amount is limited and set so that they decrease every year. This can, and has, led to a rising long-term carbon price in the EU. The largest cap-and-trade scheme is the EU Emissions Trading System (EU ETS). Where carbon pricing data is available in a region, it's used as a baseline to calculate future trends and increases. But if a region does not currently have a carbon price, a price from the relevant scenario is used as the baseline. This also forecasts a rising carbon emissions price. Some countries and regions have been quicker to adopt climate policies, and this has pushed up carbon prices. Where the 'real world' price is higher than the scenario price, the real-world value is used. It gives us a more accurate view of policy risk.

Market risk

Market risk measures the potential absolute loss in value a company might experience in a transition to a low-carbon economy. It's based on the assumption that there'll be changes to market behaviour. In particular, there'll be less demand for fossil fuel-based products. Market risk is calculated for companies in oil and gas production only.

To reach the result, the revenue risk that comes from expected changes in demand in the relevant transition scenario is compared to a baseline, the IEA STEPS business-as-usual scenario.

To calculate an issuer's LCT-VaR:

- Expected emissions are projected. These are based on current emissions and split by each global region the issuer is exposed to, as well as each emission Scopes 1, 2 and 3. An assessment is made about how well these emissions are being managed. Strong management suggests that expected emissions will be lower than the baseline emissions, while weak management indicates that expected emissions will be higher than baseline emissions.
- Policy risk is calculated, by forecasting policy costs associated with the expected emissions projection for Scope 1, 2 and 3 Upstream GHG emissions. Carbon prices are applied to the regional emissions.
- The market risk for oil and gas production companies is calculated. The market risk model forecasts market risk associated with revenue impacts linked to demand changes under a 1.5°C scenario compared to business as usual.
- A total of policy and market risk is reached for each year to 2050. A 'discount cashflow model' takes the cumulative value at risk and applies a present-day value to it. The final metric is expressed as a percentage of the company's enterprise value (the value of all its shares and debt, including cash).

Appendix C – Morningstar Sustainalytics Methodology continued

To calculate a portfolio's LCT-VaR:

- The Portfolio Low Carbon Transition Value at Risk is calculated as the portion the portfolio owns (using holding size and EVIC), multiplied by the company's LCT-VaR and summed for all covered companies in the portfolio.

$$Portfolio\ LCT\ VaR_c = \sum_{i=1}^{EC} \frac{holding\ size_i\ (USD)}{issuer's\ EVIC_i\ (USD)} * issuer's\ LCT\ VaR_c$$

where:

Portfolio LCT VaR$_c$ = The Low Carbon Transition Value at Risk expressed in relevant currency (c) that is attributable to the portfolio

issuer's LCT VaR$_c$ = The company-level Low Carbon Transition Value at Risk for a given Transition Risk Type (Overall, Market, or Policy) in the relevant currency, (c)

holding size$_i$(USD) = The amount in millions of US dollars the portfolio has invested in the relevant underlying covered company. The sum of all holding sizes will be the covered portion of the portfolio.

issuer's EVIC$_i$ (USD) = The entire value of the company (enterprise value including cash) in millions of US dollars. This is calculated by summing the market capitalisation, the total preferred stock/units/securities, the non-controlling/minority interests in equity, and the total debt.

i = 1, EC = All long, covered holdings. These are securities in the adjusted (net long) portfolio that are of the relevant holding type (eligible, E) and where the relevant underlying data is known (covered, C).

- This total is divided by the total holding value of all assets in the portfolio. The result is expressed as a percentage of the portfolio value at risk to 2050.

$$Portfolio\ LCT\ VaR\ \%\ of\ Covered\ Holdings = \frac{Portfolio\ LCT\ VaR_c}{\sum_{ci}^{ec} holding\ size_{ci}}$$

where:

Portfolio LCT VaR % of Covered Holdings = The applicable Low Carbon Transition Value at Risk divided by the total holding value of all covered holdings

Portfolio LCT VaR$_c$ = The Low Carbon Transition Value at Risk expressed in relevant currency (c) that is attributable to the portfolio.

holding size$_{ci}$ = The amount, in relevant currency (c), held in the company by the portfolio.

i= 1,EC = All long, covered holdings. These are securities in the adjusted (net long) portfolio that are of the relevant holding type (eligible, E) and where the relevant underlying data is known (covered, C).

Physical Climate Risk Metrics

Morningstar Sustainalytics' Physical Climate Risk Metrics product is based on a physical climate change impact assessment model. It assesses a company's exposure to acute and chronic climate hazards and the associated financial losses. There are three key data sets of the Physical Climate Risk Metrics product:

1. Probability data on the potential for damage to a company's physical assets
2. Probability data on the potential for disruption to a company's operations
3. Financial data that provides information on the value of the company's physical assets and its ongoing revenues, which are combined with the above probabilities to assess financial exposure

Climate hazards result in both Direct Risk and Indirect Risk to a company. Direct risk is due to climate hazards that cause direct damage and loss to its physical assets, whereby:

- Direct damage is estimated by the metrics Asset Damage Risk and High-Risk Assets; and
- Direct losses, which estimate non-damage-related losses, is estimated by the Productive Capacity Loss metric.

Indirect risk is due to climate hazards that do not directly impact a company's physical assets or employees but can affect a company's financial performance through lost productivity. The indirect risks are captured by the Local Critical Infrastructure Risk and Regional Risk metrics.

The direct and indirect risks and the associated likelihood of climate hazards are the main data inputs when converting these risks into financial terms. These are assessed at the country and global level for each company.

Financial data on the company's valuation of its physical assets are then used to convert the direct damage risk into an asset-value-based financial loss signal. The company's revenue data are used to convert the direct productivity-loss-based metric into a revenue-based financial loss signal. The two financial signals combined give the expected losses caused by direct risks. Similarly, the company's revenue data are used to convert the indirect risk metrics into a combined revenue-based financial signal.

The direct and indirect expected financial losses are converted into loss ratios to determine whether the company's level of cash flow can cover its liabilities from physical climate impacts. This gives a conservative estimate of the physical climate risks companies can experience under the two climate change scenarios of RCP 2.6 and 8.5 up to 2050. Exposures are unique to each company due to geographic location and time horizon. The physical hazard exposure is translated into a financial signal to approximate the financial exposure faced by companies over the next decades up to 2050.

Defining financial exposure to climate hazards as a loss ratio, it is calculated as the ratio of the cumulative expected damage loss due to these hazards to the company's cumulative global operating cash flow up to 2050. Both the expected damage loss and operating cash flow are expressed in US dollars. This gauges whether a company can cover future expected losses based on their financial position today.

The physical climate risk metrics of Asset Damage Risk and Productive Capacity Loss combined inform the estimation of the Direct Loss Ratio, which gives the direct financial exposure. Indirect Loss Ratio is estimated by the Local Critical Infrastructure Risk. The direct and indirect exposures are calculated as separate signals to align with the TCFD recommendations. Both combined give a single overall financial exposure signal of Total Loss Ratio. In the methodology both discounted and non-discounted cumulative damages and loss ratios are calculated. Discounting allows for comparison of values across future time periods in terms of present-day values.

The following is the calculation for the Direct Loss Ratio Discounted:

Direct Loss Ratio Discounted$_i$ =

$$\frac{\text{Expected Asset Damage Loss Amount Cumulative Discounted} + \text{Expected Revenue Loss Amount Cumulative Discounted}}{\sum_{y=2022}^{2050} \frac{OCF_{iy}}{(1+d)^y}}$$

where:

$$\text{Expected Asset Damage Loss Amount Cumulative Discounted}_i = \sum_{c\text{-}1;y=2022}^{n;2050} \frac{ADR_{cy} \times PPE_{cy}}{(1+d)^y}$$

and:

$$\text{Expected Revenue Loss Amount Cumulative Discounted}_i = \sum_{c\text{-}1;y=2022}^{n;2050} \frac{PCL_{cy} \times Revenuecy_{cy}}{(1+d)^y}$$

The following is the calculation for the Direct Loss Ratio Discounted:

$$\text{Indirect Loss Ratio Discounted}_i = \frac{\text{Expected Indirect Loss Amount Cumulative Discounted}_i}{\sum_{y=2022}^{2050} \frac{OCF_{iy}}{(1+d)^y}}$$

and:

$$= \sum_{c\text{-}1;y=2022}^{n;2050} \frac{\text{Expected Indirect Loss Amount Cumulative Discounted}_i}{\text{Impact of Indirect Risk on Productivity}_{cy} \times Revenue_{cy}} \frac{}{(1+d)^y}$$

The total loss ratio is the sum of the direct and indirect loss rations for each company, so that for Total Loss Ratio Discounted, the calculation is as follows:

Total Loss Ratio Discounted$_i$

= Direct Loss Ratio Discounted$_i$

+ Indirect Loss Ratio Discounted$_i$

21 Lombard Street
London
EC3V 9AH

brooksmacdonald.com