

Chelverton Asset Management Climate Report 2024

This report sets out our approach to managing climate-related risks and opportunities, following the framework set out by the Task Force on Climate-Related Financial Disclosures (TCFD), as in line with the FCA ESG Sourcebook. The report provides insight into our climate strategy across four key pillars during the 2024 calendar year:

1. Governance
2. Strategy
3. Risk Management
4. Metrics and Targets

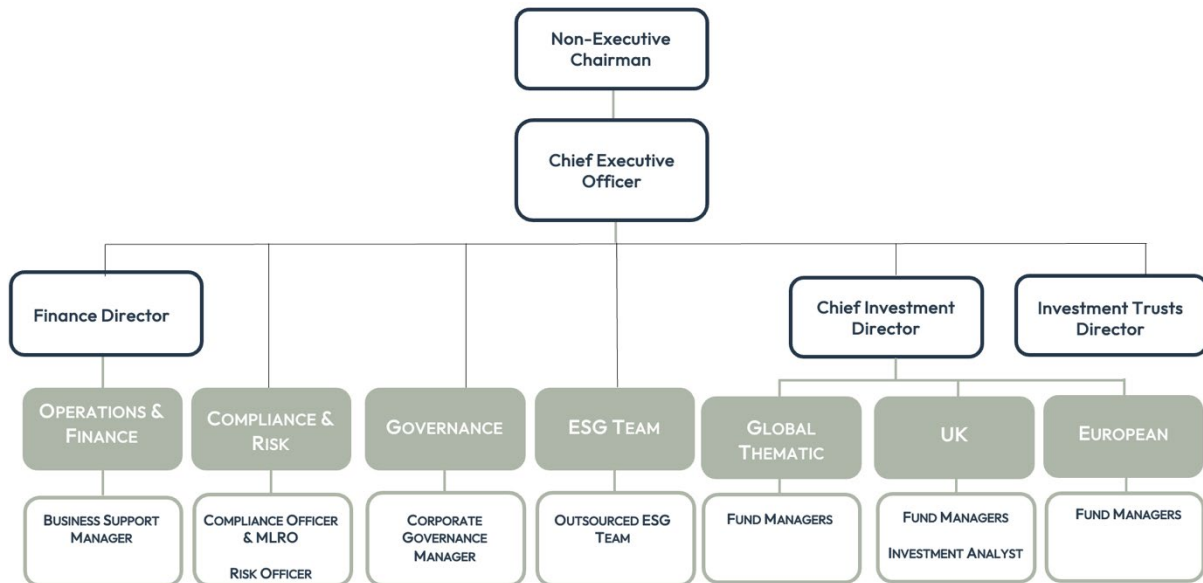
About Chelverton Asset Management

Founded in 1998, Chelverton Asset Management (CAM) is a boutique asset management firm investing in listed equities. CAM managers employ a bottom-up approach to stock selection, overseeing both open-ended and closed-ended funds. They specialise in UK all-cap, European mid-cap and Global Technology stocks.

We are committed to delivering our clients' long-term investment objectives through responsible investing. Taking this long-term perspective, we also consider emerging trends that present both opportunities and challenges, including climate change, biodiversity loss, and the transition towards more sustainable business practices.

Whilst we are not required by regulation to make climate-related disclosures, we are committed to understanding how material climate risks may impact our long-term investment objectives and the businesses in which we invest. This report demonstrates our recognition of the value of sustainability disclosures, and our commitment to driving meaningful change in the space.

Governance



CAM board's oversight of climate-related risks and opportunities

CAM operates a flat management structure designed to enhance oversight, encourage the exchange of ideas, and maintain a clear chain of accountability up to Board level. As part of this flat structure, two Board members, the Chief Investment Officer and the Investment Trusts Director, also serve on the investment teams. These members are in attendance at quarterly ESG meetings, ensuring Board awareness of climate-related issues.

CAM management's role in assessing and managing climate-related risks and opportunities

The Investment Team is responsible for implementing the ESG strategy in investment decisions and risk management processes. The team is supported by the Compliance Team, Corporate Governance Manager and CAM's external ESG partner.

In 2024, CAM enhanced its ESG management capabilities through a partnership with Canbury Insights, an outsourced ESG specialist team providing expert climate and ESG analysis. The teams work closely together, resulting in an open flow of information between management and the Board regarding climate-related issues.

Strategy

CAM's climate-related risks and opportunities identified over the short-term, medium-term, and long-term

We use the following time horizons when considering climate-related risks and opportunities:

- Short-term: Up to 5 years
- Medium-term: Between 5 to 15 years
- Long-term: Greater than 15 years

We recognise that climate change presents material financial risks to portfolio companies and, by extension, to our clients' long-term returns. However, the climate transition may also result in significant opportunities. The below sections explore the risks and opportunities identified for CAM's portfolio, and how these may evolve in different climate-scenarios.

CAM integrates these insights into its investment analysis and engagement strategy, prioritising dialogue with companies identified as higher risk, to understand their transition preparedness, physical risk mitigation, and long-term resilience planning.

Short-term

In the short term, the material risks relate to potential regulatory changes. Disclosure frameworks and reporting standards are driving higher expectations for transparency around climate exposures, financed emissions, and transition alignment, and overall pressures businesses to show credible net-zero pathways. Whilst physical risks do not present as high risks compared to transition risks, there are still potential short term manifestations such as localised flooding, heatwaves, and extreme weather affecting supply chains and assets. However, opportunities have been identified regarding portfolio companies that invest in operational efficiency, regulatory preparedness, and resilience planning.

Medium-term

Over the medium term, CAM's portfolio will likely be impacted by the implications of further policy changes, technological advancement, and changing consumer preferences.

Depending on emissions trajectories, physical risks such as water scarcity, heat stress, and extreme weather events are projected to become more persistent, creating both operational and valuation challenges. Assets with high energy dependency or exposure to climate-vulnerable geographies may face heightened insurance and maintenance costs. This time horizon may also see significant differentiation between climate-related leaders and laggards. For example, the scaling of low-carbon technologies, energy system transformation, and circular resource models may result in enhanced productivity and reduce long-term exposure to carbon costs.

Long-term

The long-term picture is strongly dependent on the decarbonisation pathway achieved. As policy frameworks converge toward net-zero targets, regulatory tightening may accelerate the reallocation of capital away from high-emission activities. However, physical risks such as sea-level rise, land degradation, and resource depletion may result in growing economic and social costs. The potential manifestations of different climate trajectories for CAM's portfolio are explored in further detail in the scenario analysis section below.

Impact of climate-related risks and opportunities on CAM's businesses, strategy, and financial planning

We consider climate and broader ESG factors across our investment processes alongside traditional financial metrics. This integration helps to improve risk management and identify opportunities, enhance the quality of our engagements and fulfil our fiduciary duty.

CAM have invested in ESG data provision, in order to capture the ESG profiles of the small and mid-cap companies that make up the majority of our investment universe. For example, during 2024, onboarded Integrum ESG as our data provider. We also use an engagement tracking platform to improve the transparency and effectiveness of our stewardship activities. By using these tools, we make sure that material climate considerations are supported by quality data and that our engagement efforts are closely monitored and measured.

We have refined our organisational approach to ESG by moving from an in-house ESG team to a partnership with sustainability specialist, Canbury Insights. Each investment professional has responsibility for analysing relevant ESG and climate risks in their portfolios, supported by Canbury's analysis.

This partnership provides our firm with access to expertise across themes such as climate change, nature and biodiversity, and social issues, thereby strengthening our oversight of material risks.

CAM is a signatory to the UK Stewardship Code and the UN-supported Principles for Responsible Investment (PRI). We report regularly on our practices in line with these frameworks, driving transparency for investors and holding us accountable for progress.

A fundamental part of CAM's strategy is active engagement with investee companies. We tailor our engagement approach to each company, often with a particular focus on smaller firms that we believe can benefit most from constructive shareholder input. Where we identify that companies may benefit from improved reporting and climate-related disclosure, or could implement more robust action in relation to climate-related risks, we may engage to encourage improvement. This engagement can include questioning management about their processes and planning, encouraging improved climate disclosures and development of more sustainable business strategies. By engaging in this way, we seek to mitigate climate-related risks within our portfolio and drive positive changes that could enhance long-term financial performance.

Resilience of CAM's strategy, considering climate-related scenarios

Climate scenario analysis is a process for assessing the potential implications of a range of plausible futures on our investment portfolio. CAM has conducted climate scenario analysis using Canbury's transmission channel scenario analysis approach. The scenario analysis approach we applied helped identify which sectors may be most exposed to climate-related physical and transition risks, and how these risks may evolve over different time horizons.

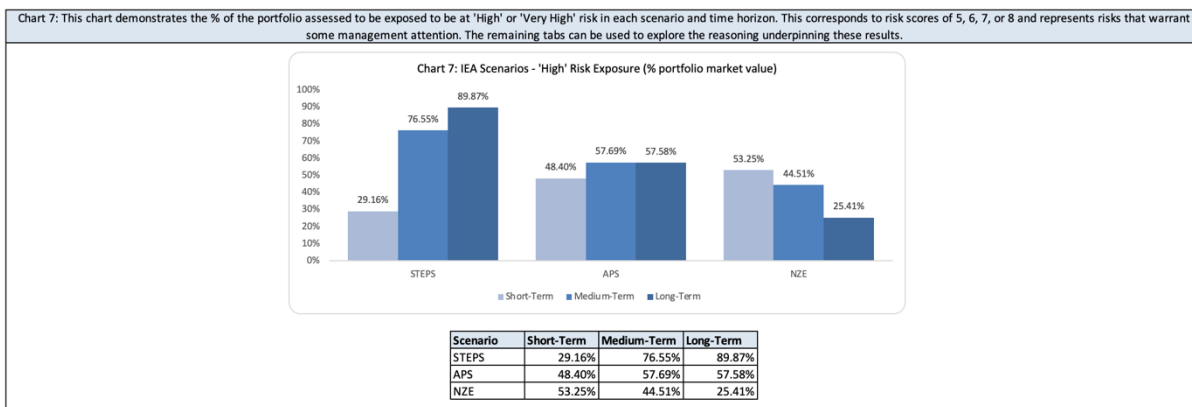
Transition risks refer to the impact that may arise from the shift to a low-carbon economy, such as changes in policy, regulation, technology, or market dynamics. **Physical risks** relate to the effects of climate change itself, including acute events such as extreme weather, and chronic changes such as rising temperature or sea-level rise, which can disrupt operations, supply chains, and asset values.

Our scenario analysis uses the International Energy Agency's (IEA) Global Energy and Climate Model and aligns with the TCFD's 'orderly transition', 'disorderly transition', and 'hothouse world' scenarios.

- **The Net Zero Emissions (NZE) by 2050 Scenario** represents an ‘orderly transition’ where early and coordinated policy action limits physical risks, and outlines the pathway to keeping global warming to 1.5°C above pre-industrial levels
- **The Announced Pledges Scenario (APS)** reflects a ‘disorderly transition’ where the implementation of all announced climate ambitions occurs later than required, leading to more abrupt policy measures that increases short-term transition risks. The scenario still limits longer-term physical impacts
- **The Stated Policies Scenario (STEPS)** represents a ‘hothouse world’ pathway where limited policy action to address climate change drives escalating physical risks over the long term and heightens the potential for supply chain and wider economic disruption.

Our scenario analysis assesses how risk profiles across different sectors may change over time by looking at five ‘transmission channels’ over the short term (0 - 5 years), medium term (5 - 15 years), and long-term (15+ years.). The transmission channels consider both sectoral value chains and macroeconomic factors, and are ‘Own Operations’, ‘Supply Chain’, ‘Customer Base’, ‘Market Dynamics’ and ‘Access to Capital.’ The methodology then looks at how individual risks might be affected in each scenario, using data from the IEA modelling.

High risk exposure under IEA scenarios



The analysis shows that the nature and timing of climate risks and opportunities to the portfolio varies by scenario. In the short term, the accelerated transition required under the NZE pathway has the greatest potential risk to our holdings due to rapid policy changes and subsequent market shifts. Conversely, over the medium and long term, the STEPS scenario results in the highest overall risk, as delayed climate action leads to greater physical and broader economic impacts.

The APS scenario has a moderate risk profile throughout, reflecting some transition progress but falling short of emission reductions needed to meet global climate goals. Per IPCC modelling, short-term physical risks remain consistent across all scenarios due to ‘committed warming’ from historical emissions, meaning certain physical climate impacts are already locked in regardless of immediate policy changes. These findings shows that whilst each pathway presents different challenges, understanding these variations enables CAM to prepare effective responses for each case.

The overall shape of these findings is consistent with similar analyses across the asset management sector. As the underlying scenarios from bodies like the IEA model global and sector-level impacts, the general pattern of risk exposure, with transition risks being more pronounced in the short term under ‘orderly’ scenarios and physical risks dominating the long-term in ‘hothouse’ scenarios, is often comparable across organisations. The key differentiator is the magnitude of these impacts, which is driven by the specific composition and geographical allocation of an investment portfolio. For CAM’s holdings, which have significant concentration in the UK and Europe, jurisdictions with more advanced climate policy and regulatory frameworks, they are likely to exhibit greater sensitivity to transition risks compared to a peer with a more globally diversified or US-centric asset base.

Financial Services and Insurance has been identified as a higher-risk sector within CAM’s portfolios, due to its risk profile and CAM’s portfolio weightage mapped to this sector (17.33%). Risks to this sector include increased weather-related events driving higher insurance claim payouts and default rates on loans for damaged or devalued assets in banks’ portfolios. Under the NZE scenario, the sector also faces short-term transition challenges, with heightened regulatory scrutiny, increased compliance costs and firms being exposed to greater legal and litigation risks.

Given CAM’s concentration in the UK and European, portfolio companies are often exposed to greater climate and sustainability regulatory pressure than some other jurisdictions. Firms that anticipate and adapt to these evolving requirements are likely to be better positioned for long-term success. CAM will continue to engage with companies to assess their preparedness for the low-carbon transition and to encourage the development of clear, credible transition plans in line with our engagement target.

Risk Management

CAM's processes for identifying and assessing climate-related risks

We integrate climate risk identification and management throughout the investment process, from initial assessment to ongoing monitoring and active stewardship. Our risk monitoring and reporting process follows a five-stage framework:

- **Identify:** The identification of risk comes both pre and post investment, and is managed either by deeming an investment to be un-investible, or via the engagement process
- **Measure:** Assuming the stock has been deemed investible, any material ESG risks will be measured using data insights from Integrum ESG in combination with CAM's proprietary investment process
- **Respond:** Any changes to the risk profile of the stock and how it impacts the portfolio will be monitored via the process stated above. In the first instance, any change to the portfolio composition will be investigated
- **Control:** Any material change will be controlled via the company's engagement process. If the investment risk is deemed too high, CAM may divest depending on prevailing market conditions
- **Monitor:** If the investment is retained, the risk will be monitored via the CAM's engagement plan and Integrum ESG data as appropriate

CAM's processes for managing climate-related risks

Our portfolio managers evaluate qualitative factors alongside traditional financial metrics during investment due diligence and ongoing monitoring. This analysis provides an understanding of a company's business model and how effectively it manages material issues, improving our ability to identify and mitigate climate risk exposures within our portfolios.

CAM's active ownership approach helps to further manage climate-related risks. As a boutique asset manager, with a focus on investing in smaller companies, creating good relationships is central to our risk management strategy. We see the stewardship of the assets we manage as both a key activity and a source of long-term value creation. Our engagement with companies helps us understand investment dynamics, monitor risks, and, where appropriate, drive positive change within targeted companies for the benefit of our clients.

Our boutique, active approach means we aim to engage with every small and medium-sized company we are invested in. We offer support to our smallest and most immature companies regarding their adoption of relevant standards or reporting frameworks, where we consider this may be helpful as a value creating exercise. However, we still engage and encourage larger-sized companies to drive positive change. We aim to engage with all portfolio companies who have not yet created a Net Zero target, do not yet have a target accredited by SBTi, or have not adopted an emissions reduction strategy.

Our engagement activities cover a wide range of issues, including but not limited to:

- **Corporate governance:** We emphasise strong corporate governance as a cornerstone of company success and effective management of material risks.
- **Remuneration:** We support compensation structures that align with long-term value creation and incorporate relevant ESG metrics.
- **ESG integration:** We assess and discuss material environmental and social factors that may impact company valuation and performance.
- **Transparency:** We actively work to address information gaps, particularly in ESG reporting.
- **Systemic risk management:** We encourage all companies to address key systemic issues such as climate change, human rights, and responsible AI development.

Engagement examples

The following examples provide an overview of our engagement activity in practice.

Bodycote

Issue: Bodycote is a UK-based global supplier of heat treatments, metal joining, and hot isostatic pressing and coating services for the automotive, aerospace and defence, energy, and general industrial markets. Heat treatments and processing improve the properties of metals and alloys, extending component life. Given the energy-intensive nature of its industrial processes, Bodycote faces significant ESG risks, particularly concerning carbon emissions, toxic discharge, and waste management. Whilst the company has demonstrated strong ESG awareness and commitment, including Science Based Targets initiative (SBTi) validation for its Net Zero target and transparent water efficiency reporting, CAM identified a gap in the disclosure of waste intensity metrics. Despite the existence of a policy and control standard, there was no public reporting of these metrics.

Objective: Our engagement sought to encourage Bodycote to enhance its ESG transparency by including waste intensity metrics in its public reporting. By advocating for improved disclosure, we aimed to support investors' ability to assess environmental performance and encourage best practices in waste management, aligning with our broader Engagement Plan objectives.

Activity: CAM's ESG Team met with Bodycote's Chief Sustainability Officer and Head of Strategy to discuss our observations and concerns. During the discussion, we highlighted the value of disclosing waste intensity metrics, emphasising how it would align with industry best practices, enhance investor confidence, and further strengthen the company's ESG credibility.

Outcome: Our engagement focused on the advantages of enhancing transparency in waste reporting. CAM will continue to monitor Bodycote's progress in this area and maintain an open dialogue to encourage the inclusion of waste intensity metrics in future ESG reporting.

Amorepacific Corporation

Issue: Amorepacific Corporation, a South Korean beauty and cosmetics company, is a holding in the Chelverton Select Consumer Staples Fund. A key concern identified by the fund managers was the company's approach to sustainability reporting. Amorepacific limited its sustainability reporting to the Group level rather than providing separate reports for its two independently listed entities. This lack of granular sustainability disclosure negatively impacted the external ESG ratings, and reducing transparency for investors and stakeholders.

Objective: Our objective was to encourage Amorepacific to improve its sustainability reporting by ensuring that both the Group and the Corporation provided distinct reports. This would enhance transparency, align with best practices, and potentially improve ESG ratings.

Activity: Since the beginning of the year, the fund managers actively engaged with Amorepacific's management team, holding discussions on the implications of limiting sustainability reporting to the Group level. They highlighted the potential negative impact on ESG ratings and investor perception, reinforcing the importance of transparency in sustainability disclosures.

Outcome: We were pleased to note Amorepacific's commitment to producing sustainability reports for both the Group and the Corporation, addressing the transparency concerns raised by CAM.

In addition, the company pledged to introduce a series of product brand sustainability reports, further improving disclosure at a more granular level. During the engagement period, Amorepacific's Group-level Net Zero target received validation from the Science Based Targets initiative (SBTi), marking a further milestone aligned with CAM's Engagement Plan objectives.

CAM's processes for identifying, assessing, and managing climate-related risks in the organisation's overall risk management

CAM's risk management framework treats climate-related risks as part of the broader risk framework and integrates them into the firm's existing governance and investment processes rather than treating them as a separate stream. By integrating climate-related risk assessment into pre-investment screening, ongoing portfolio monitoring, engagement activities, and governance oversight, we ensure that climate risks are managed alongside other financial risks, and that insights from risk assessments feed directly into investment decisions and stewardship activities.

Metrics and Targets

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

We use a set of metrics to assess climate-related risks and opportunities, and these are integrated in our investment strategy and risk management framework.

We monitor key climate-related indicators across our portfolios on a quarterly basis. These metrics include carbon intensity measurements, water usage efficiency, waste management performance, and other relevant ESG indicators that provide insight into both current performance and future climate resilience.

Whilst we do not solely rely on third-party ESG ratings, we use these climate-related metrics to assess our holdings' exposures to climate risks and opportunities, benchmark performance against sector peers, and identify companies where targeted engagement could drive improvements. Where material climate-related concerns are flagged, we engage directly to ensure management attention is appropriately focused on addressing these.

Our methodology combines quantitative climate metrics pulled from regular portfolio analysis with qualitative assessments gathered through direct company engagement.

To further strengthen our understanding of each company, our outsourced ESG partners produce ESG reports for all holdings on a quarterly basis. These reports summarise key ESG metrics drawn from the most relevant source documents and provide a clear overview of each company’s governance structure, environmental performance, ESG targets, peer comparison, nature and risk assessment, forward outlook, and engagement objectives.

This approach enables us to monitor both climate-related risks and emerging opportunities whilst maintaining alignment with our broader investment strategy and risk management processes.

CAM’s Scope 1 and, Scope 2 greenhouse gas (GHG) emissions, and their related risks

As part of our commitment to transparency, we have undertaken a carbon accounting exercise for the period 1st January to 31st December 2024. Our calculations are based on emission factors provided by the UK Department for Energy Security and Net Zero (available [here](#)) and reflect our workforce in 2024.

We have calculated our carbon footprint across Scope 1, 2, and 3 emissions for our operations. Our analysis has identified electricity consumption, business travel, employee commuting, and home working as our main emission sources. Given the nature of our business model, our Scope 1 emissions remain minimal, however, re-assessment of appropriate Scope 1, 2, and 3 factors will be undertaken in the future to address the areas of emissions.

2024 Activity Data

Scope 1		0 kg CO2e
No scope 1 emissions		

Scope 2		8,046.05 kg CO2e
Electricity	Office Electricity (kWh)	Emission Factor (kg CO2e)
		Total (kg CO2e)

Electricity usage	38,860.40	0.20705	8,046.05
Total emissions from electricity			8,046.05

Scope 3			25,824.82 kg CO2e
Business travel	Distance (km)	Emission Factor (kg CO2e)	Total (kg CO2e)
Business travel (long haul by plane)	57,622.00	0.26128	15,055.48
Business travel (short haul by plane)	5,720.00	0.18592	1,063.46
Business travel (by train)	24,360.00	0.03546	863.81
Total emissions from business travel			16,982.74

Employee commute	Distance (km)	Emission Factor (kg CO2e)	Total (kg CO2e)
Distance (return) by tube	454.40	0.02780	12.63
Distance (return) by train	143,046.00	0.03546	5,072.41
Total emissions from business commute			5,085.04

Home working	Value (hours)	Emission Factor (kg CO2e)	Total (kg CO2e)
Home working	11,256.00	0.33378	3,757.03
Total emissions from homeworking			3,757.03

Portfolio Emission Statistics - Financed Emissions

Metric	Scope	2024
Financed Emissions (tCO2e)	Scope 1 + 2	54,865.66
Carbon Footprint (tCO2e/£M invested)	Scope 1 + 2	51.70
Weighted Average Carbon Intensity (tCO2e/£M revenue)	Scope 1 + 2	70.96

Metric	What does it mean?	How do we measure it?
Financed Emissions (tCO ₂ e)	The absolute emissions associated with our share of portfolio companies' emissions. This shows the total climate impact of our investments and helps us understand our overall exposure to carbon risk.	$\Sigma \text{ Attribution factor} \times \text{company emissions}$ $\text{Attribution factor} = \frac{\text{outstanding amount}}{\text{Enterprise Value Including Cash}}$
Carbon Footprint (tCO₂e per £1m Invested)	The emissions footprint resulting from investing £1m in our fund. This gives us the opportunity to compare our financed emissions with other funds and benchmark indices, allowing clients to see the relative impact of their investments.	$\frac{\Sigma \left(\text{issuer's Scope 1\&2 GHG emissions} \times \frac{\text{current value of investment}}{\text{current portfolio value}} \right)}{\text{current portfolio value (EM)}}$
Weighted Average Carbon Intensity (tCO₂e/£M revenue)	The emissions intensity of our portfolio calculated relative to company revenues. This helps us assess the fund's exposure to emissions-intensive companies.	$\Sigma \left(\frac{\text{issuer's Scope 1\&2 GHG emissions}}{\text{issuer's EM revenue}} \times \frac{\text{current value of investment}}{\text{current portfolio value}} \right)$

Targets

As a boutique asset manager, with a focus on investing in smaller companies, building strong relationships is central to our risk management strategy and a key driver of long-term value. We believe active stewardship, through direct engagement, is the most effective way for us to understand investment dynamics, monitor climate-related risks, and where appropriate, drive positive change. Our active ownership model is particularly suited to supporting the small and medium-sized companies within our portfolio as they develop their climate strategies.

While we often support to smaller companies to adopt relevant standards, we aim to engage consistently across our entire portfolio to encourage progress. We therefore consider a robust engagement target to be a more effective tool for decarbonisation in the real economy than a portfolio-level emissions target.

Our primary climate target is focused on engagement and the adoption of credible net-zero goals by our portfolio companies.

By 2030, 100% of our portfolio companies that we have identified as lacking a credible climate strategy will be subject to direct engagement, with the goal of having them commit to and publish a net-zero emissions target. Our preference is for these targets to be validated by the Science Based Targets initiative (SBTi).

Our engagement is structured to encourage companies to develop and implement robust climate transition plans. We track all portfolio companies on their progress and prioritise engagement with those that have not yet set targets or where we deem progress unsatisfactory.

Our engagement objectives are hierarchical, prioritising the following outcomes:

1. For companies with established targets: We seek evidence of a clear transition plan and demonstrated progress toward their goals.
2. For companies without an SBTi-validated target: We engage with them to commit to a science-based net-zero target and submit it for SBTi validation.
3. For companies without any public target: We focus on understanding the barriers to commitment, encouraging climate-related disclosure, and providing guidance to help them set their first net-zero target.

Monitoring and reporting progress

Beginning next year, CAM will report annually on our progress against our engagement target. This will form part of our annual Stewardship and TCFD reports and will include:

- The percentage of portfolio companies (by weight) with a net-zero target.
- The percentage of portfolio companies (by weight) whose targets are SBTi-validated.
- A summary of our engagement outcomes and milestones.

Appendix A

TCFD Recommendations	Page
Governance: Disclose the organisation’s governance around climate-related risks and opportunities	
Describe management’s role in assessing and managing climate-related risks and opportunities.	2
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning where such information is material.	
Describe the climate-related risks and opportunities the organisation has identified over the short-, medium- and long-term.	2 - 4
Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning.	4 - 5
Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	5
Describe how risks and opportunities are factored into relevant products or investment strategies and describe related transition impact.	6 - 7
Risk management: Disclose how the organisation identifies, assesses and manages climate-related risks	
Describe the organisation’s processes for identifying and assessing climate-related risk.	8
Describe the organisation’s processes for managing climate-related risks.	8 - 9
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation’s overall risk management.	11
Describe how material climate-related risks are identified, assessed and managed for each product or investment strategy.	9
Describe engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks in order to improve data availability and asset managers’ ability to assess climate-related risks.	9
Metrics and targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	11
Describe metrics used to assess climate-related risks and opportunities in each product or investment strategy.	11
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risk.	12
Asset managers should disclose GHG emissions for their AUM and WACI for each product or investment strategy, where data and methodologies allow. Asset managers should consider providing other carbon foot printing metrics they believe are useful for decision-making.	12 - 14
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	14-15