



Limited adoption of 'Science Based Targets' prevents unified, credible and achievable goal-setting

Just as sales and profitability targets are useful aids to measure the progress of our investee companies toward their financial ambitions, so too are climate targets when assessing the progress being made toward the aims of the Paris Agreement. Increasing use of so called 'science based targets', as developed by the Science Based targets Initiative (SBTi), has helped standardise the approach and added an extra level of protection against companies making wildly ambitious and unrealistic claims.

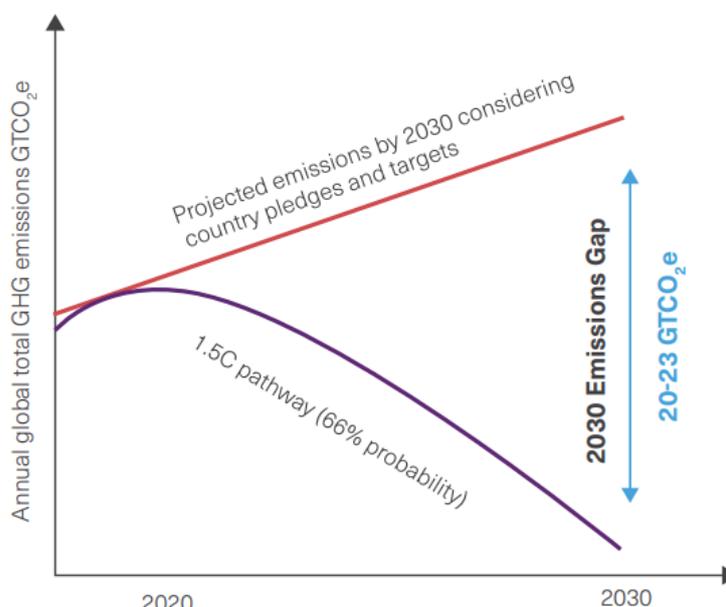
Unfortunately, participation in this scheme is far from compulsory and the current numbers reporting through the SBTi are woefully low. According to the initiative's website there are currently 2,940 companies working with the organization, but only 1,356 have committed to targets, and of those only 1,032 have net zero commitments. To put this in perspective, there are currently 43,200 stock listed companies globally (Source Statista 23/08/21) with the total number of private companies several multiples higher than this.

This does not mean that the remainder are standing still. Indeed, there is substantial progress being made from companies large and small and, despite the lack of official sanctioning, initiatives, targets and goals are common place.

In order to gain an up-to-date assessment of this situation we have contacted all our investee companies with regard to their stance on climate ambitions. While both annual and sustainable reports will contain this information, we have found that these documents are rapidly becoming out-dated as a result of the increasing

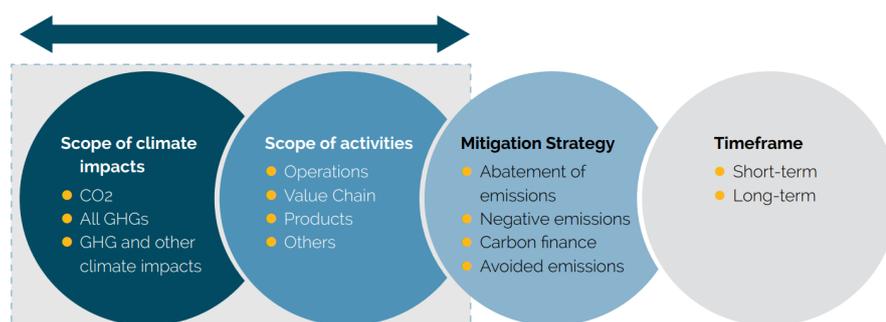
focus on this issue. We therefore asked for up to date details of any emissions reduction initiatives undertaken by our investee companies as well as any targets set to reflect their aspirations. Energy reduction initiatives were also asked for which, while often over-lapping the work being conducted in emissions reduction, does gauge overall energy usage regardless of the energy type and recognises the fact that all energy sources utilise valuable resources. We have also requested energy targets details from investee companies.

In terms of emission reduction initiatives, the results were somewhat encouraging with not a single company claiming not to be taking some form of action, or planned future action, on this issue. But the quality, detail and scope of the initiatives varied dramatically from simplistic measures such as switching from halogen lighting to LED, right through to detailed plans based on the Science Based Target Initiative. This range was also reflected in the level of target setting among the respondents, with only 65% of those undertaking initiatives having any form of target in place, science based or not.



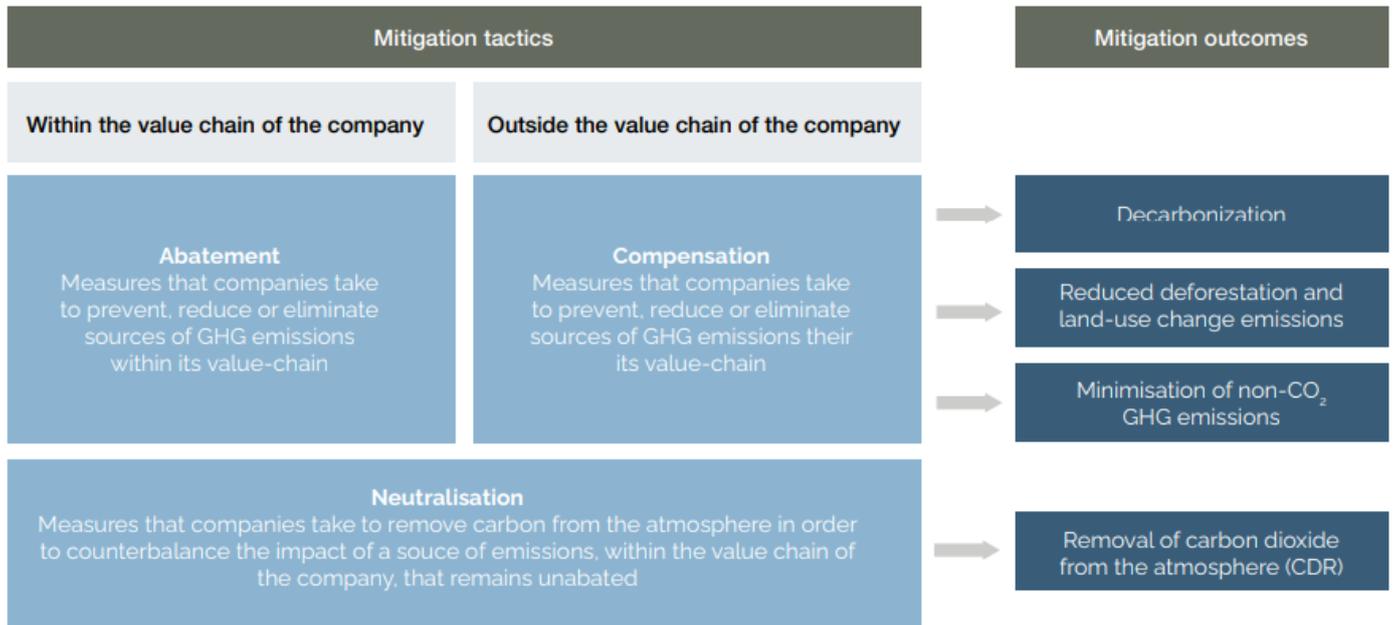
1. The 2030 Emissions Gap

Image: Foundations for Target Setting¹



2. Key Dimensions in Corporate Net-Zero Targets

Image: Foundations for Target Setting¹



3. Taxonomy of Climate Mitigation Tactics and Outcomes

Image: Foundations for Target Setting¹

There was considerably less focus on reducing overall energy usage with only 65% of companies having measures in place and 31% setting any form of target. While disappointing, the numbers are skewed by the integration of energy usage with emissions reduction as well any subsequent targets, but the results still suggest there is more focus on cleaner energy as opposed to less energy.

As reflected in the global statistics only 8% of companies had science-based targets in place despite 16% having net zero ambitions.

While it is encouraging that so many companies are recognising the importance of climate in their strategy, it is abundantly clear that much more progress needs to be made. The numbers highlight 3 areas of focus for our future engagements with management. First, it is clear that more focus needs to be placed on climate strategy. What are the specific actions that companies are going to take to reduce their carbon footprint and what level of detailed disclosure can we expect? Secondly, targets need to be set in order that investors and other stakeholders can monitor the progress being made.

Finally, these targets need to be backed by a credible process such as the SBTi to avoid flimsy statements of little help to anyone beyond company self-promotion.

There is no doubt in the months and years to come progress will be made on this matter but it is the rate of change which will be the most compelling factor to watch.

¹ Foundations for Science-Based Net-Zero Target Setting In The Corporate Sector - Science Based Targets - September 2020 (sciencebasedtargets.org)

Active Management - Engagement Focus

Company contact this month was almost entirely focussed on the above mentioned project as we collated the data from across our range of investments. There will be considerable follow up in the following months to build on this work and assess the responses in order to determine where our next area of focus will be.

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