Net-zero carbon (NZC) report

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Managing carbon-related risks and opportunities

WHEB's governance and strategy are fully engaged in helping the company address both the direct and indirect risks and opportunities that climate change, and wider sustainability issues present for our business (see Section 1).

Most directly, responding to the threat – and increasingly the reality – of climate change is a central feature of WHEB's investment strategy. Five of our investment themes are focused on companies that sell products or services enabling other parts of the economy to reduce GHG emissions and/or adapt to climate change. This includes companies that manufacture renewable energy equipment, components for battery electric vehicles, heat pumps and other technologies that improve energy efficiency and reduce resource use.

Together these investments are associated with a substantial positive impact in terms of reducing GHG emissions and helping the economy adapt to inevitable climate change. For example, in 2023, over 421 million tonnes of carbon emissions were avoided as a result of products and services sold by WHEB Portfolio companies. This is more than Spain's annual GHG emissions. WHEB strategies only 'own' a portion of this total in line with our proportionate shareholding in these businesses. A smaller proportion still is associated with each of WHEB's underlying investors. For example, a £1 million investment in the FP WHEB Sustainability Fund was associated with 211 tonnes of avoided carbon and 322MWhs of renewable energy.

The positive carbon impact associated with owning £1million in WHEB's investment strategy in 2023

Nonetheless, while WHEB's investments are in companies that help reduce GHG emissions, all of our investments generate their own emissions in their day-to-day operations. We work with the management of our investee companies to encourage them to set demanding targets to reduce these emissions as far as possible and as quickly as possible.

Many of WHEB's portfolio companies have announced a commitment to achieving net-zero carbon (NZC) emissions. Over 90% of portfolio companies with such targets have already had these approved – or are committed to having them approved – by the Science Based Targets initiative (SBTi).

Furthermore, the thematic structure of our strategy means that since the inception of the current investment strategy in 2012, we have been entirely absent from parts of the economy such as fossil fuel exploration and production that are most at risk from a transition to a zero-carbon economy.

Cleaner Energy

Generating

432 MWh

of renewable energy.

Equivalent to the annual electricity use of 38 European households.

Resource Efficiency

Avoiding

273 tonnes

of CO_2e emissions.

Equivalent to the electricity use of 136 average European European homes for one year and saving £10,025 in avoided carbon costs.[1]

[1] Op. cit. 28.

Portfolio GHG emission metrics

WHEB's approach to mitigating the emissions generated by portfolio companies is to encourage investee company management to set demanding NZC targets and then to assess these targets and monitor the absolute CO_2e reductions across the portfolio on an annual basis. The data over the past few years across Scopes 1 to 3 for the whole strategy is reported in the figure below.

Figure 1: GHG emissions for WHEB's investment strategy 2021–2023

Indicator	2021	2022	2023	Explanation
Scope 1 + 2 carbon total footprint (tCO_2e) Financed emissions	38,038	40,680	31,130	The sale of higher emitting companies Daikin and DSM helped reduce emissions along with lower overall AuM.
Carbon footprint (tCO_2e/£1m invested)	24	30	25	The sale of higher-emitting companies combined with lower emissions from big emitter Smurfit Kappa.
Carbon intensity (tCO_2e/£1m sales)	95	78	94	Over half the emissions come from Linde and L'Air Liquide somewhat offset by reductions from First Solar and others.
Weighted average carbon intensity (tCO_2e/£1m sales)	87	86	86	As above with year-on-year increases at Lonza and TE Connectivity, offset by Daifuku, Croda and Smurfit Kappa.
Scope 3 carbon emissions (tCO_2e/£1m sales)	991	1,833	2,359	Inclusion of L'Air Liquide and higher emissions from Trane Technologies, Spirax Sarco and Xylem offset reductions from sale of Daikin Industries.

Figure 2: Top five GHG emitting companies within the FP WHEB Sustainability Fund (financed emissions)

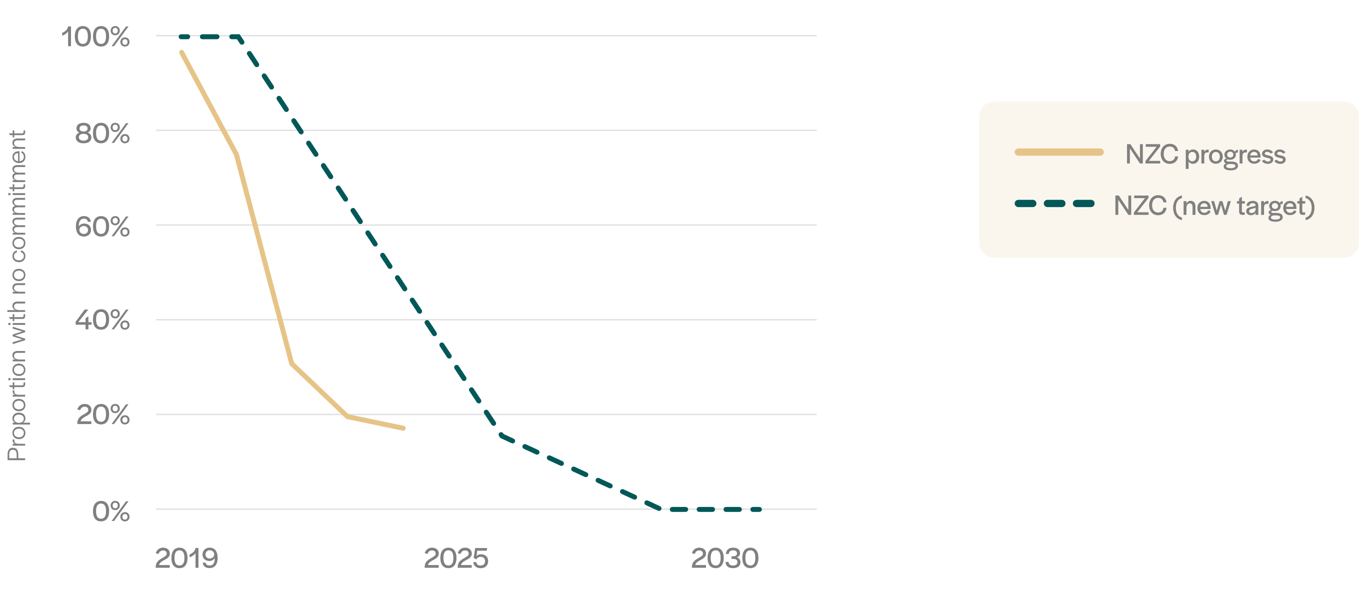
COMPANY	% OF SCOPE 1+2 FINANCED EMISSIONS	NZC TARGET DATE	SBTi VALIDATED
Linde	36%	Net zero by 2050	Yes
Smurfit Kappa	29%	Net zero by 2050	Yes
J.B. Hunt Transport Services	7%	No target set	N/A
Advanced Drainage Systems	4%	Net zero by 2050	No[2]
Infineon Technologies	3%	Net zero by 2030	No[3]

Portfolio Scope 1 and 2 emission targets and reductions

The Scope 1 and 2 emissions associated with WHEB's investments (known as financed emissions) can change in two ways. First, investing in and divesting from companies will change the total tonnes of CO_2e associated with our strategy. For example, in 2021 we sold China Everbright Environment Group, which dramatically reduced our financed emissions. The second way is through actual real-world changes in annual emissions from portfolio companies. Our reporting is intended to reveal each of these dynamics. We also disclose information on the extent to which portfolio companies have set and published NZC targets and/or absolute emission reduction targets.

In 2023 we saw continued, though slowing, progress from portfolio companies making net-zero carbon commitments (see Figure 3). By the end of 2023, 82% of the emissions associated with WHEB's strategy (financed emissions) were covered by net-zero carbon commitments. Our target is 85% by 2025 and 100% by 2028.

Figure 3: WHEB strategy NZC targets



2. Advanced Drainage Systems has committed to having its 1.5°C aligned target approved by the SBTi.
3. Infineon has committed to having a near term target approved by the SBTi.

In terms of emission reductions, 2023 saw a reduction in financed emissions of 6% compared with 2022. The strategy has now reduced financed emissions by 79% compared with 2019. This is well ahead of the 18% reduction that we had originally targeted for 2023. The vast majority of this reduction is due to the sale in 2021 of China Everbright Environment Group. The sale of Daikin Industries and DSM in 2023 helped to reduce financed emissions in 2023.

Less positively, we did see another annual increase in the emissions from companies that have remained in the strategy over the period. In 2023 these ongoing emissions were +3.6%. This is at least a smaller increase than the +4.4% increase that we saw in 2022. It is also much better than the +8.3% increase in emissions from the MSCI World. In large part the growth in the emissions from companies in WHEB's strategy is coming from fast-growing businesses that are ramping production of low and zero carbon technologies. Vestas Wind Systems for example saw its emissions grow +16% in 2023, and SolarEdge's emissions were +30%. Nonetheless, all portfolio companies do need to reduce their emissions, and the annual increase is far behind the −7.6% annual reduction in GHG emissions that the United Nations says is necessary to maintain global temperatures at no more than 1.5°C above the pre-industrial average and the −5.5% annual reduction that we are targeting.

Figure 4: WHEB strategy emission targets and reductions

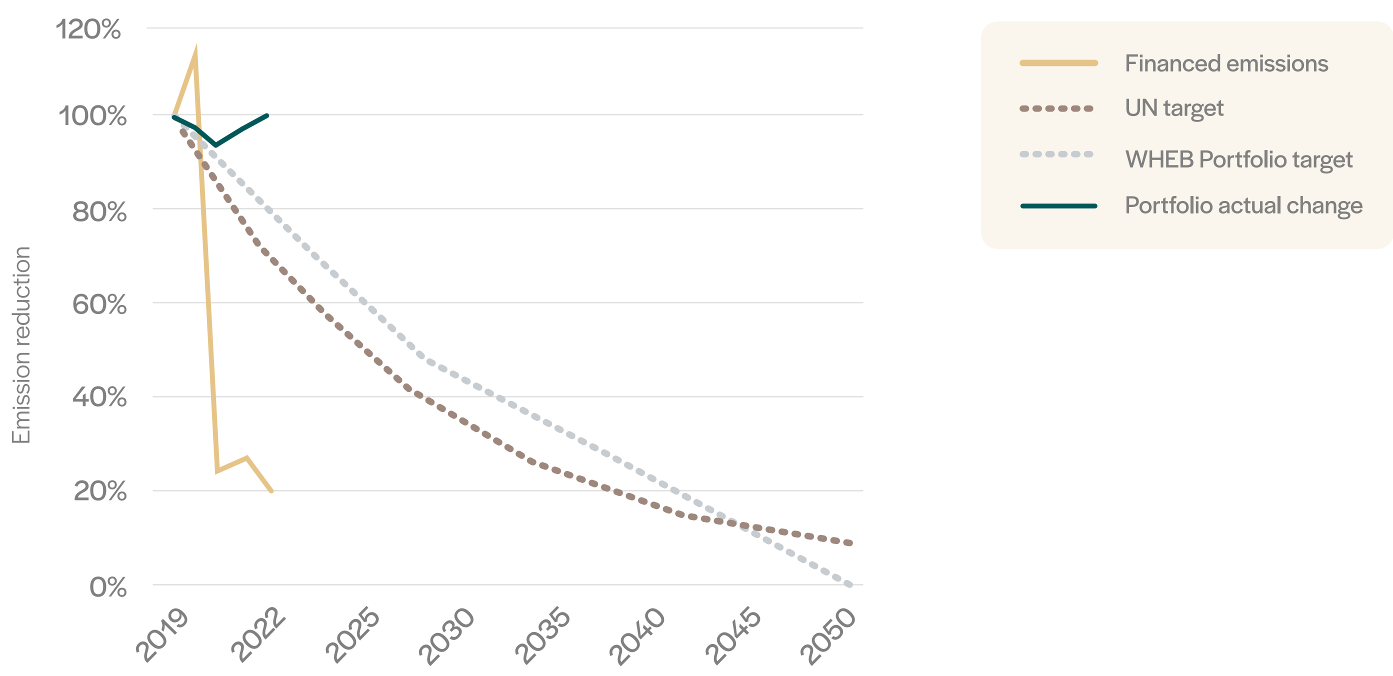


Figure 5: WHEB’s GHG reduction targets

TARGET	TARGET YEAR	PROGRESS
85% of financed Scope 1+2 emissions covered by a NZC target of 2050 or sooner	2025	On track
100% of financed Scope 1+2 emissions covered by a NZC target of 2050 or sooner	2028	On track
15% reduction in absolute portfolio emissions (compared to a 2019 baseline)	2025	Ahead of target
7.6% portfolio company level absolute reductions year-on-year	2030	Well behind target
50% reduction in portfolio carbon emissions (compared to a 2019 baseline)	2030	Ahead of target
100% reduction in portfolio carbon emissions (compared to a 2019 baseline)	2050	Ahead of target

Memberships and affiliations

WHEB works with several investor coalitions to collaboratively engage companies, policymakers and standard setters to accelerate progress on decarbonisation. For example, WHEB was a founder member of the Net Zero Asset Managers initiative and has been a long-term supporter of the Institutional Investors Group on Climate Change.

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