BNY | INVESTMENTS
NEWTON

2024
TCFD REPORT

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CONTENTS

INTRODUCTION

John Porter,

Chief Investment Officer (CIO)

As I introduce this Taskforce for Climate-related Financial Disclosures (TCFD) report, I am delighted to highlight the progress we have made in addressing climate-related risks within our business and for our clients. Despite slow global progress on emissions, with 2024 setting another record for greenhouse gases released into the atmosphere,[1] we have enhanced our climate solutions and internal governance to consider climate-related risks.

Climate change poses a fiduciary concern for us as an investment manager. The impact of climate-related risks could challenge the resilience of many business models. However, institutions face challenges in making commitments to address climate change in their portfolios. We believe that investors setting emission-reduction targets which do not consider real-world progress is not the most effective approach to balancing short- and long-term financial and societal risks.

We believe that the challenge is for both government and private-sector actors to invest and innovate in order to make our economies less carbon-intensive, while still creating sufficient economic growth in both the developed and developing world. As active stewards of our clients' investments, we assess the exposures and progress companies we invest in are making to understand whether climate-related risks are material to them. We engage with prioritised companies to encourage them to improve their processes and carefully manage their supply chains to allay some of the business risks associated with climate change where they are material.

Our approach to climate-related risk management is ongoing, and we are committed to measuring, analysing and integrating these considerations into our investment decisions. We will continue to evolve our thinking and explore investment opportunities through our multidimensional research capabilities.

The disclosures in this report are consistent with the TCFD recommendations and recommended disclosures. Reasonable steps have been taken to ensure that disclosures also reflect sections C and D of the TCFD 'Annex' titled 'Guidance for All Sectors' and 'Asset Managers', respectively. We view climate-related disclosures as evolutionary and endeavour to continue to improve on our disclosures. This statement is made pursuant to FCA's Environmental, Social and Governance sourcebook (section 2.2.7) requiring a firm's TCFD entity report to include a compliance statement, signed by a member of senior management of the firm.

[1] IEA, Global Energy Review 2025: https://www.iea.org/reports/global-energy-review-2025/co2-emissions

REPORT STRUCTURE

As an active investment manager, we are exposed to climate-related risk in two distinct but connected spheres. One is as a business within a wider, multinational group, with physical locations, staff and operations. The other sphere is as a business that creates investment strategies and acts as an investor on behalf of our clients with their own approaches and policies towards climate, investing in global companies, government debt and markets, all of which are exposed to climate-related risks in different ways.

We have separated the descriptions we provide in this TCFD report between these two spheres to highlight the different actions we take in each to identify and manage climate-related risks.

This report, therefore, covers the TCFD sections of governance, strategy, risk management, and metrics and targets, twice. First, we discuss climate-related risk as it relates to our **business operations** and strategy, and second, as it relates to our investment strategies and the **assets** we manage on our clients' behalf.

These two areas of climate-related risk are connected. How well we invest our clients' money as it is exposed to climate-related risks may affect our commercial success as an investment business; the progress on addressing greenhouse-gas (GHG) emissions in our business, our client assets and the world at large will influence the nature and size of physical climate-related risks on our business. However, the distinct actions we take, particularly considering the different qualities and quantities of emissions in each sphere, make this separation helpful to explain our approach.

Interweaving the detail in this report are two key commitments:

- Regarding our **business and operations** (section 1, page 5 onwards), Newton is part of the BNY group which is committed to achieve carbon neutrality in its operations annually through 2025 for Scope 1, Scope 2 (including data centres) and Scope 3 Category 6 business travel GHG emissions by reducing energy consumption, investing in energy efficiency, procuring renewable energy certificates (RECs), and purchasing carbon offsets to compensate for any remaining emissions that cannot be eliminated.[2]
- In terms of our **fiduciary obligations** (section 2, page 18 onwards), Newton has made a commitment that the financed emissions from our clients' active equity and corporate bond assets will have credible plans to transition to net zero by 2040.

We hope this TCFD report, our seventh, helps articulate the work we are doing to help mitigate the climate-related risks we face as a participant in the global socio-economic system and to deliver outcomes for clients as set out in our agreements with them.

[2] BNY Mellon's Environmental Sustainability Policy Statement: https://www.bnymellon.com/content/dam/bnymellon/documents/pdf/csr/environment-sustainability-policy-statement.pdf

BUSINESS AND OPERATIONS

SECTION 1

GOVERNANCE

The Newton Investment Management Group provides investment management and advisory services through Newton Investment Management Limited ('NIM'), registered in the UK, and Newton Investment Management North America Limited LLC ('NIMNA'), registered in the US.[1] For the purpose of this report, references to Newton include NIM and NIMNA, as they share a common governance structure.

Newton is a subsidiary of The Bank of New York Mellon Corporation ('BNY'). BNY has made a number of enterprise-wide commitments related to sustainability, including:

- **To reduce global consolidated Scope 1 and Scope 2 (location-based) GHG emissions by 50% by 2030, relative to a 2018 baseline and consistent with a 1.5°C pathway.**
- **To achieve carbon neutrality in its operations annually through 2025 for Scope 1, Scope 2 (including data centres) and Scope 3 Category 6 business travel GHG emissions by reducing energy consumption, investing in energy efficiency, procuring renewable energy certificates (RECs), and purchasing carbon offsets to compensate for any remaining emissions that cannot be eliminated.**

Newton is subject to this enterprise-level strategy and strongly supports BNY's climate initiatives.

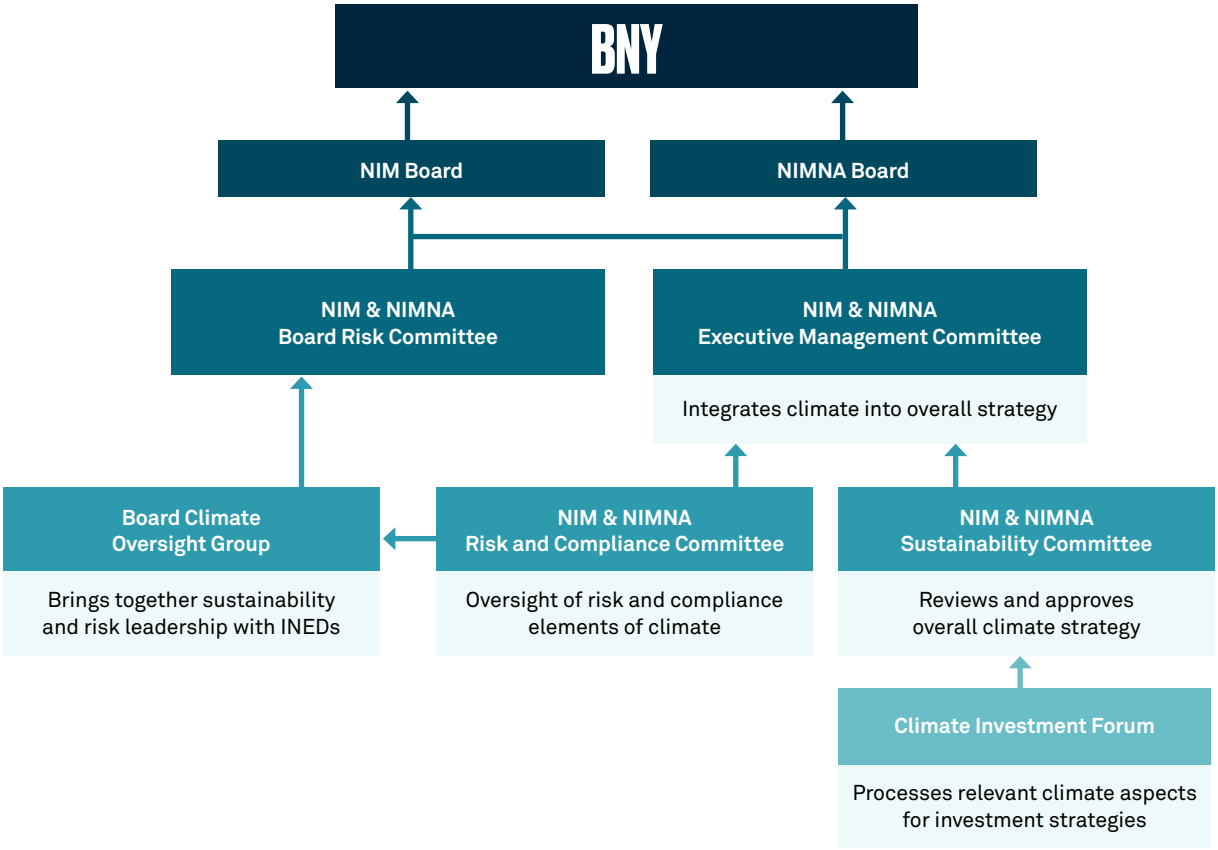
More information can be found on BNY's enterprise sustainability web pages: https://www.bnymellon.com/us/en/about-us/esg-and-responsible-investment/enterprise-esg/enterprise-esg-strategy.html.

Newton's joint UK and US boards of directors (the 'Board') are responsible for ongoing oversight of governance and risk management at Newton. During 2024, the business continued work on a strategic project focused on climate change. The project, which was created in 2023, has six workstreams: policy and governance, investments, products, stewardship, reporting and messaging, and footprint. This is expected to be a multi-year project with the aim of coordinating and clarifying Newton's approach to managing climate-related risks and opportunities.

Exhibit 1 outlines the governance forums with direct responsibility for managing climate-related risks and opportunities. Note that this chart outlines oversight both for Newton's business and operations.

[1] In March 2023, Newton Investment Management Japan Ltd joined the Newton Investment Management Group, providing discretionary management and investment advisory services in Tokyo.

Exhibit 1: Climate governance bodies at Newton



Board oversight

The Board has delegated the day-to-day responsibility for considering climate-related risks and opportunities as part of Newton's business strategy to the Board Risk Committee (BRC). Members of the BRC include all of the independent non-executive directors of Newton and executive directors.

The Board has ultimate oversight of all elements of Newton's strategy and execution including related to climate-related risks and opportunities.

The principal climate-related issues affecting Newton as an operating business are those related to:

- The effects of physical climate-related risks on business continuity.
- The commercial risks and opportunities of offering net-zero-aligned products in markets where this is likely to gain market share.
- The potentially competing interpretations of 'house-level' net-zero commitments in the different parts of the world where our products are distributed.

The Board Climate Oversight Group (BCOG) reports into the BRC and provides a dedicated forum for independent non-executives and executives to discuss ongoing climate issues and the progress of our climate change project. This provides the independent non-executive directors time to review, understand and challenge the developments to address climate-related risks and opportunities within Newton ahead of them being asked to make formal decisions at Board and Board committee meetings.

The key primary committees involved in managing climate-related risks are:

- The Newton Executive Management Committee (NEMC)
- The Newton Sustainability Committee (NSC)
- The Newton Risk and Compliance Committee (NRCC)

One function of the NEMC is to develop Newton's strategy for the agreement of the Board and to execute the strategy once agreed. The primary committees, therefore, are the key to ensuring climate-related risks and opportunities are appropriately considered in Newton's strategy, with the Board, BRC and BCOG providing oversight and challenge.

Other committees reporting into the NEMC which may be involved in forming decisions on climate-related risks and opportunities include the Investment Oversight Committee (IOC) and the Product and Commercial Committee (PCC). The NSC has also organised an investment forum, the Climate Investment Forum (CIIF), to assist it in developing climate methodologies and reporting.

The governance tasks assigned to each Board and committee are outlined in exhibit 2 below.

Exhibit 2: Key tasks for oversight and management of climate-related risks and opportunities

Type	Newton Board	BRC	Executive committees	Review frequency
GOVERNANCE				
TCFD and other regulatory reporting	Ratify	Approve	NSC – recommendations on approach to NEMC NEMC – review NSC recommendation for final submission and sign-off by the BRC NRCC – provides oversight of the regulatory reporting process and associated compliance risks	Annual (published end June)
Climate-related policies and statements (materials) Stewardship and sustainability policy Proxy voting policy Net zero/climate statements	Ratify – material changes		NSC – review all climate policies and statements at least annually. Make recommendations on materials changes to NEMC Investment Oversight Committee – recommendation to NEMC (where relevant) Product & Commercial Committee – recommendation to NEMC (where relevant) NEMC – Approve	Annual
Action plans to control function reviews (internal audit, monitoring, regulatory)	For info	Approve	NEMC – recommendation to BRC NRCC – oversight of executive response and independent report to the BRC	Ad hoc
Training	For info	For info	NEMC – approve budgets	Ad hoc
Memberships to industry bodies/initiatives	For info	For info	NSC – recommendation to NEMC NEMC – approve budgets/approach	Ad hoc
Governance framework & terms of reference (material changes)	Approve			Annual (Feb)
STRATEGY				
Integration of climate into Newton strategy (see below) (product, footprint, NZAMi commitments)[2]	Approve		NSC – recommendation to NEMC (where relevant) Investment Oversight Committee – recommendation to NEMC (where relevant) Product & Commercial Committee – recommendation to NEMC (where relevant) NEMC – review primary committee(s) recommendation. Make recommendation to Board	Annual (Exec and then Board Strategy session)
Climate strategy			NSC – workstream updates Board Climate Oversight Group – review workstream updates prior to BRC ESG-focused sessions CIIF – to develop the investment approach and reporting of climate change products commitments	Ongoing
RISK MANAGEMENT				
Climate risk register	Ratify	Approve	Newton Risk and Compliance Committee – discuss with a recommendation to the BRC	Semi-annual (Apr & Oct)
Climate risk appetite	Ratify	Approve	Newton Risk and Compliance Committee – discuss with a recommendation to the BRC	Annual (Apr)
METRICS AND TARGETS				
Financed emissions (scope 3)	Within MI for info	Discussion (x2 a year)	NSC – review and approve CIIF – develop approach and metrics	Annual data with a lag (Apr & Oct)
Footprint (scope 1, 2 & 3) (business travel)	Within MI for info	Discussion (x1 a year)	NSC – review and approve CIIF – develop approach and metrics	Annual update
Other KPIs / updates	Within MI for info	Discussion (x2 a year)	NSC – review and approve CIIF – develop approach and metrics	Semi-annual
Metrics reported to industry body with commitments (e.g. NZAMi)	Within MI for info	Discussion (x1 a year)	NSC – review and approve CIIF – develop approach and metrics	Annual data with a lag

All Board members have extensive experience within financial services and investment management. We believe they are well equipped to evaluate the risks and opportunities presented by climate change, which we consider a cross-functional risk potentially affecting all aspects of Newton's business. We carry out ongoing development and training for both the Board and executives on climate change and Newton's approach through the Board Climate Oversight Group and other committees.

[2] We are aware of the announcement by the Net Zero Asset Manager's initiative (NZAM) on 13 January 2025 and we are not in a position to comment until their review reaches its conclusion. Newton's mission is to support our clients in meeting their investment objectives and achieving their desired outcomes. Our investment processes, policies and the investment approaches that we apply in specific circumstances will continue to be anchored in delivering against the objectives set by our clients regardless of the outcome of NZAM's review.

Management oversight

The Board is supported by the following committees and working groups:

Newton Executive Management Committee

The purpose of the NEMC is to ensure the effective operational and strategic management of Newton. Membership includes the CIO and Chief Risk Officer (CRO), and the committee provides formal approval of Newton's annual sustainability and stewardship report.

Reporting to the NEMC are Newton's primary committees, some of which play varying roles in relation to Newton's sustainability efforts, as described below.

Newton Sustainability Committee

The Newton Sustainability Committee (NSC), attended by some members of the NEMC and Board, meets on a quarterly basis and oversees all aspects relating to sustainability at Newton, including:

- Newton's sustainable investment framework
- Updates from the sustainable investment forums
- Progress on commercial strategy in relation to climate change and other climate-related issues
- Direct impacts and engagement with communities
- Stewardship and engagement with financial markets (advocacy) regarding sustainability

The NSC was formed in 2022, replacing the previous governance arrangement for Newton prior to NIMNA joining the Newton group.

Climate Investment Forum

The Climate Investment Forum (CIIF) provides a source of expertise on climate investment and provides advice to the NSC as required. It was formed and started meeting at the beginning of 2024.

Newton Risk and Compliance Committee

The Newton Risk and Compliance Committee (NRCC) oversees the operational and regulatory risk positioning of Newton and monitors the functioning of the Newton Risk and Compliance Management Framework, to ensure the BRC is cognisant of all material risks. In January 2024, the NRCC concluded a review of the risk register to ensure climate-related risks were recognised and prioritised appropriately.

The NRCC is supported by the Newton Conflicts of Interest Committee and the Emerging Risks Working Group. These committees deal with various stewardship and responsible investment aspects on an ad-hoc basis, including any relevant internal audit findings and actions as well as climate-related risk updates from internal groups.

STRATEGY

Our strategy touches on many elements of our current and planned business positioning, operations and execution capabilities. Above all of this is the service we offer our clients: the returns they receive after trusting their assets with us, the continuity of our business model, and the range of products and services we offer. We describe our strategy in relation to delivering client returns in the face of climate-related risk in *Section 2: Fiduciary obligations.*

In this section, we describe our strategy in relation to the continuity of our business and the growth of our revenue through the products and services we offer.

We typically identify three time horizons for the emerging risks to our business:

- **Short term:** Less than two years
- **Medium term:** between two and five years
- **Long term:** Greater than five years

The key risks we incorporate into our strategic thinking are outlined in the following table

Exhibit 3: High-level summary of the Newton risk register

Our principal risk headings and high-level climate-related risks in each category are:

Principal risk	Climate-related sub risks	Physical or transition risk	Short-term impact (<2 years)	Medium-term impact (2-5 years)	Long-term impact (>5 years)
Strategic	The risk to growth owing to competitors creating more attractive climate products.	Transition as our client base moves to align to net zero.	L	M	H
	The risk to margins by higher costs of managing climate products.	Transition as our client base moves to align to net zero.	M	L	L
	Adverse client reactions to poor product design or changes to existing products.	Transition as our business implements requirements for new products.	L	L	L
	Reputational damage from failing to meet our climate commitments.	Transition as our business implements requirements for new products.	L	L	M
Fiduciary	**Discussed in *Section 2: Fiduciary obligations.***	**N/A**			
Operational	Business interruption to Newton owing to climate-related risk events affecting Newton or its third-party suppliers.	Physical as our locations, staff and supply chain are affected by climate events.	L	L	M
	Risk of errors in reporting owing to additional complexity and new items of climate reporting.	Transition as our business implements requirements for new products.	M	L	L
	Risk of ambiguous contractual requirements with clients over climate.	Transition as our business implements requirements for new products.	L	L	L
Governance	Appropriate oversight of climate-related risks by the Board.	N/A – governing climate-related risks	L	L	L
Risk framework	Appropriateness of our risk framework for managing climate-related risks.	N/A – governing climate-related risks	L	L	L

Note: H = High M = Moderate L = Low

The following features of this high-level risk analysis should be noted:

- As a global investment manager, we consider one of the highest risks to Newton comes from the complexity involved in setting out a global climate change strategy and framework to navigate the evolving regulatory regimes and increasingly divergent political views in the jurisdictions in which we operate. This may require us to adapt how we deliver on our longer-term commitments to climate change and net zero.
- We also consider a high risk to Newton relating to climate change to be the risk of our competitors launching and promoting climate change products in a way that would take market share from Newton. This risk rises as the time horizon increases.
- Some risks are understood by us to decline over time. These relate to the transition risks of lower margins and higher error rates as new products and regulations affect us. Over time, our strategy is to invest in greater automation, reducing the risk of errors and improving margins in line with our market.
- Some risks increase over time, including the climate product risks above. Other examples include reputational damage from failing to meet our climate commitments and the risk of business interruption, the only physical risk noted in this high-level analysis.

Each risk on our top risk register is owned by a member of the NEMC. We consider whether risks should be mitigated, transferred or accepted. In general, the intention of our strategy is to mitigate the strategic and operational risks in relation to climate change.

our ways of working will have to change as society decarbonises, unless zero-emissions long-haul transport is developed.

The continuity of our business

Strategic decision-making

As a subsidiary of BNY, we are dependent on our parent for setting the majority of our operational climate strategy. Newton is one influence among many group companies for these decisions.

BNY rents office locations to Newton, procuring its electricity supply, fuels and heating, cooking and refrigeration systems. BNY provides our shared data infrastructure in the form of data centres. These two services represent all of Newton's (unabated) Scope 1 and 2 emissions. In addition, within BNY's strategic decision-making is the offsetting policies of our emissions.

Business travel is purchased through third-party providers appointed by BNY but is commissioned by Newton staff against approved budgets and is therefore considered to be within the strategic control of Newton. The BNY carbon neutrality commitment extends to offsetting business travel for group staff.

Further strategic topics relating to our estate and for which Newton is dependent on BNY decision-making include how our shared benefits package might affect how our staff commute, the sourcing of food served at our canteens, and the recycling and refuse systems available in our offices.

Transition/emissions strategy

BNY has maintained carbon neutrality since 2015 by purchasing a mixture of Renewable Energy Certificates to cover Scope 2 (electricity) emissions and carbon offsets to cover Scope 1 (direct) and Scope 3 (business travel) emissions. More information on our emissions and offsetting programme is provided in *Section 1: Business and operations – Metrics and targets.*

In addition to carbon neutrality, BNY further committed to reducing Scope 1 and Scope 2 GHG emissions by 50% by 2030, relative to a 2018 baseline and consistent with a 1.5°C pathway.

BNY also has an employee-led network of 'Environmental Sustainability Ambassadors'. Environmental Sustainability Ambassadors act as local advocates and change agents; employees speak up to amplify the topic of sustainability within the company and discuss ways to embed sustainability throughout their daily lives. They also coordinate volunteer opportunities with local environmental nonprofits through events such as tree plantings, public trail maintenance, litter cleanups and park conservancy.

Client prospecting and service often require the physical presence of our staff, despite the increase in the use of virtual meeting technology. We do not believe we could survive as a business without meeting our clients face to face, particularly in relation to new or sensitive relationships. We are a participant in the financial services community and may have little influence in changing its culture, and therefore in reducing our Scope 3 business travel emissions.
Where Newton can have influence is in:

- The use of local client relationship teams to meet clients, reducing the reliance on long-haul international flights.
- Ensuring international flights are made more efficient by meeting multiple clients when in a region.
- Seeking to reduce short-haul flights where time-efficient alternatives exist.

We recognise that our ways of working will have to change as society decarbonises, unless zero-emissions long-haul transport is developed, or air-source carbon capture and storage systems become viable at scale.

Physical strategy

As described above, BNY is the strategic decision-maker managing our physical risks due to the location and local climate of our offices and datacentres. BNY has conducted risk and scenario-based resiliency assessments of its global real estate footprint and continuously evaluates potential emerging climate impacts to update internal resiliency plans and policies as needed. BNY incorporates climate risk management strategies into its operational controls and works to mitigate these risks and challenges by taking steps that aim to maintain business continuity. As a recipient of this assurance, Newton has not raised any concerns.

Newton has a limited role in making decisions affecting our physical risk, but we maintain independent business continuity processes applicable to a number of business interruption events, including those triggered by climate-related risk.

The growth of our revenue through the products and services we offer

ESG integrated analysis, as part of Newton's multidimensional research process, may include the assessment of climate-related risk, where appropriate, and will affect the buying and selling behaviour and engagement activity where climate-related risks are deemed to be financially material in the periods we expect to hold interests in that company.

We also offer two types of strategy which incorporate objectives alongside financial performance:

- Strategies with sustainable characteristics which have explicit dual mandates of achieving both financial returns and real-world sustainability outcomes. These strategies apply a Climate Qualification Test to explicitly manage climate transition risks in these portfolios, described in the *Fiduciary obligations – Risk management* section of this report.
- Net-zero portfolio solutions have a mandate to achieve a financial return but also to meet the explicit net-zero commitments of our clients in this category as they operate as external constraints, potentially limiting the investable universe eligible to meet the financial objectives of clients. Currently, we manage one client portfolio using this solution.

As noted, we have a dedicated section in this report which covers the fiduciary obligations we have in terms of the contents of these products. In this section, we describe our strategy in relation to our product offering.

Net-zero portfolio solutions

We have developed a proprietary scoring methodology to assess the robustness of investee company transition plans – the Newton Net-Zero score or NNZ score. It combines measures of the strength of the company's net-zero target; its past performance in meeting its targets; and the company's green products and governance. This allows us to categorise companies based on those most aligned, those moderately aligned and those least aligned with the aspiration of the Paris Agreement to stay within a safe limit of 1.5 to 2°C of warming by the end of the century. This methodology can be applied to any listed company and its debt, though achieving a high score requires companies to make comprehensive climate disclosures and set strong net-zero targets. This approach adds an additional dimension to the investment discussion, enabling the constraint of investment universes to companies with robust plans to transition to net zero regardless of their current carbon intensity.

During 2023, in response to a client request, we redesigned an existing portfolio to constrain the investible universe using the NNZ score. During 2024, we pitched this solution for a number of other opportunities, demonstrating how this solution allows clients to manage their own commitments to managing climate-related risk. As an asset manager, we seek to innovate where possible to create products and solutions that cater to our clients' and prospects' requirements. We are led by client and prospect demand, and we intend to widen access to this methodology where it can help our clients and prospects manage their commitments.

We believe there are opportunities for Newton to deploy the NNZ score in new products and strategies to help clients in translating their net zero-targets and ambitions into investment screens. As an asset manager offering clients the choice of aligning their portfolios to net zero, we believe the best approach is a screen on the investment universe, acting as a constraint on portfolios, which potentially adds risk when viewed against mainstream benchmarks. While, in principle, alignment to net zero reduces climate-related risks, investing in companies with better transition plans can add volatility to the extent that the investible universe is reduced, and may reduce returns to the extent that the wider societal transition occurs more slowly than the companies invested in have prepared for.

In early 2024, we conducted a survey to understand the interest in climate-related products among our clients and how their expectations of these products align with our approach. There was a range of levels of commitment, knowledge and expectations of climate products. However, 92% of respondents stated that a net-zero aligned investment strategy would be an eligible approach to include in their assets. During 2024 we engaged with clients, particularly those with net-zero commitments, to explain how the NNZ score can help assess the net-zero alignment of their portfolios and the nature of the constraints they may wish to include in their mandates with us. We look forward to continuing this engagement with clients in 2025.

Resilience of our strategy and scenarios

In this section last year we outlined how our business, as a low emitter of greenhouse gases, was unlikely to be disrupted by the low-carbon transition and the resilience of our business continuity arrangements including whether the source of the event was a physical climate risk. We also outlined how 'traditional' transition scenarios are not useful in outlining the transition risk to our business stemming from changing customer preferences.

We spent 2024 developing our thinking on scenarios with three objectives in mind:

- The approach must inform actual decisions (be "decision-useful") and therefore needs a closer time-horizon than 2050.
- The approach must remove spurious accuracy. Given the uncertainty in any projection methodology, this means telling a better story of climate-related risk and transition rather than creating predictions (be "narrative-based").
- Nevertheless, the approach must enable some form of quantitative analysis so our investment and risk process can best incorporate the learnings at an aggregate level (be "quantifiable").

With the decision-useful and narrative-based framing in mind, we have gone back to basics. The guidance from the TCFD is to "Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario." We wish to use the same scenarios for discussing both the resilience of Newton as an operating business (this section) and the portfolios (next section), so the time-horizons have been chosen to enable these two different issues to be discussed with the same scenario.
The time-horizons we have therefore chosen are:

- **Short-term (for positioning of portfolios):** 2 years or less
- **Medium-term (for positioning of the business):** 10 years or less
- **Long-term (for general description of the scenario):** 25 years or less

Note that these timeframes are different and longer than those used in our risk register which is more focussed on immediate issues in the business environment.

With the quantifiable framing in mind, we have chosen scenarios to explore the potential drivers of achieving 2°C of warming separately: these are policy-led, consumer-led, technology-led and nature-led. In addition, we assess a scenario of unmitigated heating of the atmosphere. Having each driver separated into its own scenario means each focuses on different elements of risk and different metrics will determine the exposure of assets to that risk. We hope to extend this methodology into a meaningful quantification approach in future.

We do not believe that quantitative measures linked to the scenarios have use beyond the shortest time horizon where they might be used to understand the impacts on the portfolios we manage. We have not completed the work to develop quantitative measures and will not present these results in this report. These are activities we hope to complete, focussing first on the most likely scenarios, during 2025.

Scenarios used

Exhibit 4: Scenario descriptions and implications for Newton

Scenario	Long-term scenario description	Implications for Newton in the medium term (10 years or less)
Uncontrolled warming scenario	Global business carries on releasing GHGs as usual leading to slow mitigation and increasingly high adaptation problems. Tipping points are exceeded and the food system starts to break down. Significant migrations out of the most affected regions occur.	The extent to which these impacts land within the planning horizons of the business is critical. Disruption and damage from physical climate change risks are unlikely to affect Newton as a business during the ten-year period considered, though our markets may have started to be diminished from the macro-economic effects of physical climate risks. As physical risks and adaptation are likely to be increasingly relevant to the global economy, being better at assessing these risks and identifying investment opportunities compared to our competitors could be an increasing source of outperformance for our products and clients. We can gain market share by investing in physical risk assessments and developing insights in adaptation opportunities. Newton is developing its understanding of physical risks and assessing whether estimates can be purchased or developed internally and integrated into our investment process.
2°C scenario – policy-led	Governments impose significant restrictions on GHG emissions through additional taxation; outright banning of certain activities; and providing positive economic incentives to use new technologies.	This is a scenario in which a large proportion of transition risk can be seen as coming from the state, i.e. by imposing additional costs on laggards in high-emitting sectors and subsidies providing additional revenue streams and volume for low-carbon technologies. As such, a reasonable level of detail of the effect of this scenario could be concluded by reviewing policy positioning of governments. This could lead to models of the effect on individual sectors and activities more likely to be penalised or benefit than others. While these policies may be fiscally neutral, the effort required to achieve 2°C of warming solely through policy means the size of the economy would be likely to reduce in the short and medium term as energy becomes less available and the real economy is increasingly dedicated to scaling up low-carbon alternatives. As a broad listed equity and multi-asset investment manager, Newton could therefore see reductions in the market value of its holdings, reducing revenue. Newton is considering taking steps to reduce the relative impact of this scenario against benchmarks and competitors which do not include policy-led transition risk and opportunity assessments, improving our relative performance. This research could also lead to new products more likely to benefit from the opportunities presented.
2°C scenario – consumer-led	Markets for products and services shift towards low- or no-carbon alternatives; consumption falls; and emerging markets do not reach the same level of GDP per capita as the developed world.	This is a scenario in which transition risk comes from consumers by reducing overall consumption and directing consumption away from high-carbon activities towards low-carbon activities. Again, reasonable granularity of the effect of this could be researched and modelled with individual sectors and activities more likely to be penalised or benefit than others. As with the policy-driven scenario, this is also one where overall economic activity would be expected to decline as waste reduces and extraction and refinery of materials, high-carbon energy and nutrition, and elongated supply chains could all be shunned by consumers. The amount of voluntary reduction of consumption required to meet a 2°C warming target would be significant, potentially triggering a global depression as large parts of the economy become disfavoured. As a broad listed equity and multi-asset investment manager, Newton could therefore see reductions in the market value of its holdings, reducing revenue. Newton is considering taking steps to reduce the relative impact of this scenario against benchmarks and competitors which do not include consumer-led transition risk and opportunity assessments, improving our relative performance. This research could also lead to new products more likely to benefit from the opportunities presented
2°C scenario – technology-led	Carbon-Capture and Storage (CCS) or Direct Air Capture (DAC) become technologically and economically viable; hard-to-abate sectors find technological solutions; fusion becomes viable; geo-engineering becomes technologically and socially acceptable.	This is a scenario in which transition risk comes from technology rapidly replacing inefficient legacy approaches and favouring the start-up over the incumbent; but it is also one where technology mitigates GHG emissions, meaning business as usual can continue for longer than under the other 2°C scenarios. Overall economic activity might be expected to rise in this scenario, but the degree to which private or public markets benefit will depend on a number of factors; not least of these is the degree to which technology accelerates the transition or reduces the pressure to transition and the degree to which technological opportunities are financed in private markets. This could be the most worrying of the 2°C scenarios for an asset manager in listed markets such as Newton, to the extent that privately-held companies start to dominate economies. The trend of capitalising businesses market is a significant one to watch in this scenario. Much of the focus for listed markets investors could be on transport, hard-to-abate sectors and CCS where the current emitters are listed. This scenario would also keep the status quo of investment models outside of high-emitting sectors, as energy availability would be expected to remain at current levels or increase. This leads to a business-as-usual approach in non-energy goods and services. These sectors would need less focus on achieving the transition themselves as their energy and transportation needs become greened by the technology adoption of their providers.
2°C scenario – nature-led	Scientists have under-estimated the carbon budget; the Earth system response is stronger than anticipated.	This is a scenario in which the pressure to transition to a low-carbon economy is reduced significantly by the reaction of the Earth system itself. While the most hopeful for the current shape of the economy and of Newton as a business, it is also highly unlikely. The extent to which Newton can add analyses and products which react to a shift to the growing natural capital suggested by this scenario should be considered.

This framework enables multiple scenarios to be added in future as required. We considered adding an Emerging Markets-led scenario in this iteration, highlighting the allocation of much of the future carbon budget to developing countries and their abilities in reducing their reliance on it. Unfortunately, this narrative relies on the developed world not over-using its proportion of the 2°C carbon budget, which has low likelihood at present.

We present more detail on our observations on these scenarios in the fiduciary obligations section of this report. We believe this categorisation of the different effects drivers of climate mitigation may have on Newton as an operating business will be helpful in shaping the work we do to build resilience from the transition.

RISK MANAGEMENT

From a business perspective, our risk team looks to identify and manage risks relevant to our wider business. The Emerging Risk Working Group (ERWG) meets quarterly and aims to identify and evaluate emerging strategic and external risks which have the potential to present challenges to the success of Newton's business model. Risks are classified according to severity (high, moderate or low) and are organised by the time horizon in which they are expected to have an impact (currently emerging, within 2 years, 2-5 years, and 5 years and beyond).

This component of the risk framework has been capturing climate-related risks which have been associated with policy and regulatory developments and which are relevant to our strategy, business and operations as a global group. The ERWG reports to the Newton Board Risk Committee on a quarterly basis, where all emerging risks are presented for consideration.

In considering the risks to place on our risk register, we incorporate a number of different sources of the possible extent of climate-related risk to our business, including some aspects of the group level approach to climate-related risk management, the TCFD recommendations, and inputs from Newton. In early 2024, the climate-related elements of the risk register were presented to both the Newton Risk and Compliance Committee (NRCC) and the Board Climate Oversight Group (BCOG) and are summarised in the strategy section. We were comforted by the fact that the majority of climate-related risks are captured in our process.

The primary residual risks to Newton's business and operations stemming from climate change are strategic risks related to:

- Our success in retaining and winning client assets where climate-related risk management is a motivation in selection.
- The impacts to our business of transitioning our product range with an increasing proportion of products and AUM managing climate-related risks.

As a carbon-neutral business, we believe we have mitigated the main transition risks relating to emissions reductions.
We believe the physical risk element to Newton is more limited.

METRICS AND TARGETS

In keeping with our risk assessment, the primary measures we have for assessing our exposure to climate-related risks are:

- Our emissions as a business, broken down into Scope 1 and 2, and Scope 3 for business travel.
- The AUM and proportion of our AUM invested in net-zero-aligned products and mandates.

Business emissions

We do not have an internal carbon price. Our parent company, BNY, has undertaken climate-related risk assessments, for example in jurisdictions where BNY operates real estate and where there are emerging regulations concerning carbon taxes or disclosure requirements related to potential financial and reputational risk. For further information, please see BNY's 2024 CDP response.[3]

In 2023, we altered our attribution methodology to move from a headcount basis to an office footprint basis.

Exhibit 5: Summary of Newton's emissions

All units in metric tonnes of carbon dioxide equivalent (mtCO2e)	2023	2024	Notes
Newton Scope 1 (covering NIM and NIMNA)	16.2	12.8	1
Newton Scope 2 (location-based) (covering NIM and NIMNA)	1,102.5	901.2	2, 7
Newton Scope 2 (market-based) (covering NIM, NIMNA)	0	0.3	3
Renewable Energy Certificates, Guarantees of Origin and other renewable electricity instruments applied to Scope 2 emissions from purchased electricity	-1,102.5	-900.9	4, 7
Scope 3 (Category 6 Business Travel)	654.4	1,263.0	5
GHG Emission Offsets	-670.6	-1,276.1	6
Newton Net Emissions (Scope 1 + Scope 2 market-based + Scope 3) - GHG Emission Offsets	0	0	

Note: Data relates to NIM and NIMNA only.

The major changes in our emissions are due to:

- Reductions in Scope 2 (location-based) emissions include factors such as consolidation of office footprint and improved data availability.
- A change in the attribution of business travel for journeys paid by NIM and NIMNA booked through a third-party corporate travel platform. This has resulted in a significant increase of travel emissions attributed to Newton which would have been attributed centrally within BNY last year. This change has not affected our carbon neutrality.

[3] Available at www.cdp.net.

Newton net emissions:
Scope 1
+
Scope 2 (market-based)
+
Scope 3 (business travel)
-
GHG emission offsets
=

METRIC TONNES OF CARBON EQUIVALENT

ZERO

Exhibit 6: Newton's emissions methodology notes

Reference	Note
1	Newton's Scope 1 emissions include emissions from the tracked use of fuel oil, refrigerants and natural gas. The BNY Operational Sustainability team calculates the entire Scope 1 emissions for these and allocates in proportion the quantity matching the floorspace rented by Newton in a location. Allocated emissions from data centres are also included on a revenue-based approach.
2	Location-based Scope 2 electricity emissions are tracked or estimated for BNY's real estate footprint. Newton's location-based Scope 2 emissions are calculated based on electricity used in facilities occupied by Newton and proportioned based on the floor space rented by Newton in a given facility. Allocated emissions from data centres are also included on a revenue-based allocation.
3	Market-based Scope 2 emissions are included within location-based emissions but are net of renewable energy products purchased.
4	BNY procures renewable electricity through Renewable Energy Certificates (RECs) in markets as close to the point of use as feasible, including I-RECs internationally, Guarantees of Origin in Europe, and Renewable Energy Guarantees of Origin (REGOs) in the UK. RECs are widely accepted, market-based legal instruments that convey the environmental attributes of renewable energy generation and use.
5	This includes emissions from hotel stays, car, rail and air travel associated with business booked through a third-party corporate travel platform. Business travel not booked through the third-party travel platform providing BNY travel data is excluded from the final calculation.
6	BNY has maintained carbon neutrality for its global direct Scope 1, indirect Scope 2 and Scope 3 business travel emissions since 2015. BNY's three-part approach for achieving carbon neutrality includes: (1) reducing energy use and related GHG emissions through energy-efficiency investments; (2) procuring RECs in markets as close to the point of use as feasible; and (3) purchasing carbon offsets to compensate for any remaining emissions in the footprint. Renewable energy provides 100% of electricity for all global locations, including data centres. To compensate for operational emissions that cannot be eliminated through energy efficiency and renewable electricity, BNY purchases carbon offsets.
7	Newton provides a correction to the Scope 2 (location-based) emissions stated in the 2023 report. This restatement has resulted in a decrease of 624.7 $mtCO_2e$ emitted in 2023 and is required following a revision in the calculation attributing emissions from shared buildings to Newton entities in scope of this report. The corresponding 'Renewable Energy Certificates, Guarantees of Origin and other renewable electricity instruments' has been corrected by the same amount.
BNY engages with an independent, third-party organisation to verify its Scope 1, Scope 2 and Scope 3 Category 6 (business travel) emissions and renewable energy purchases at a limited assurance level. While the above represents our best efforts in attributing the data, it should be highlighted that methodologies may change or we may find that there are different ways of capturing and presenting the data in the future	

Net-zero-aligned portfolio solutions

As described in the strategy section, in 2023 Newton worked with an existing client to redesign its investment approach to use the Newton Net-Zero (NNZ) methodology as a screen on the investment universe. Defining net-zero-aligned assets as being those which apply an explicit screen using our NNZ methodology, exhibit 6 shows our client AUM invested in net-zero-aligned mandates as at 31 December 2024.[4]

Exhibit 7: Net-zero-aligned AUM as a proportion of NIM and NIMNA AUM

	Value as at 31 December 2023	Value as at 31 December 2024
Net-zero-aligned AUM	£284m	£325m
Total AUM	£83.11bn	£80.45bn
Net-zero-aligned proportion of AUM	0.34%	0.40%

We have not linked the compensation of any individual to increasing our net-zero-aligned AUM. Compensation is determined by a number of factors as part of Newton's remuneration process, including the overall performance of individuals and of Newton, to ensure we are managing risk and are not rewarding employees for undue risk taking, but also to provide feedback on some key cultural indicators that have an actual or potential impact on Newton's culture and risk management practices.

[4] Total assets under management (AUM) shown is that managed by NIM and NIMNA.

FIDUCIARY OBLIGATIONS

SECTION 2

GOVERNANCE

Executive governance

A number of primary governance committees are responsible for ensuring that decisions taken are consistent with policies and best practice:

The Investment Oversight Committee oversees (amongst other)

- Overseeing the management and strategic planning of all aspects of Newton's investment philosophy, process, people, performance, and investment risk.
- Receiving and reviewing requests to be able to invest in new asset classes, substantial new investment strategies/ approaches or new markets.
- Overseeing specific risk controls, including material sustainability metrics, compliance, and audit issues.
- Ensuring that investment strategies and portfolios are aligned with both the expectations of regulators and clients and for ensuring that risks are appropriate at the portfolio level given the risk and return objectives of the clients.

The Product and Commercial Committee oversees (amongst other)

- Our commercial opportunity set including understanding client requirements and how we may help to meet them. Approving and prioritising product development and management-related initiatives that include new strategy and product launches and product changes.
- Discussing and reviewing upcoming regulatory updates, including relevant sustainable regulation in the markets in which we, or our distribution partners, distribute.
- In line with the FCA Consumer Duty regulation, monitoring all matters in relation to potential Consumer Duty issues or potential conflicts of interest that may arise concerning Newton's product and services and agrees the appropriate controls to be deployed.

The Risk and Compliance Committee oversees (amongst other)

- Evaluating and recommending to the Board the appropriate risk profile and risk appetite (including climate-related risk) of Newton on a periodic basis, ensuring both are aligned with Newton's strategy, as set by the Board, taking into account the current and prospective macroeconomic and financial environment.
- Newton's ability to identify and manage new and emerging risk types (including climate-related risk).
- The response to, and, where appropriate, advising the Board of Newton's current risk exposures and emerging risks, including (but not limited to) those arising as a result of the investment positioning of client portfolios and/or investment performance.

The Sustainability Committee oversees (amongst other)

- All aspects relating to sustainability, including Newton's investments, direct impacts and engagement with communities and financial markets (advocacy) regarding sustainability issues (including internal and external initiatives relating to sustainability both from an investment perspective and more generally, including Newton's efforts in relation to belonging and inclusion.
- Reviewing all climate policies and statements at least annually, with material changes escalated to the NEMC.
- Acting as a point of escalation for any controversial holdings and engagement challenges.
- Reviewing Newton's investment universe from a sustainability risk perspective, including climate and net-zero efforts and our progress towards meeting our climate commitment.
- Ensuring alignment of commercial activities as they relate to sustainability and seeking to ensure the best outcomes for Newton's stakeholders and that products are managed in line with client expectations, taking account of requirements set out in regulatory documents (e.g. prospectuses), client contracts and/or marketing documentation.

These committees ultimately report into the Board to ensure there is a single governing body that is responsible for and that coordinates activity at Newton. The Board delegates executive authority to the NEMC. In addition, the NRCC reports and escalates material risks to the BRC to ensure that an independent view of risk can be presented to the Board as appropriate. In order to assist in this process, we deliver specific climate risk-related and sustainability-related training to the Board and NEMC.

House-level commitments oversight

Newton published its climate commitments in 2022. The commitments themselves are described in *Section 2: Fiduciary obligations – Strategy.*

Progress on these commitments is reported through the Sustainability Committee to the Board Climate Oversight Group and Board Risk Committee, as described in *Section 1: Business and operations.*

Climate-related portfolio risk oversight

Newton takes investment decisions on the basis of our assessment of the risks and opportunities affecting a security, which may take climate risk considerations into account where they are deemed material to that investment. As discussed, in 2023, we made our net-zero-aligned investment strategies available to clients which explicitly screen securities on the basis of our assessment of the company's net-zero transition plan. We also apply a climate qualification test as part of our sustainable investment framework, which is used in some strategies and which prevents investment in companies whose business models are threatened by an accelerated decarbonisation transition. In both cases, our clients make explicit allocations to strategies with these approaches, and these strategies currently represent a small proportion of our overall assets.

Our key governance responsibility in the investment process is therefore to ensure climate-related risks are appropriately taken into account alongside other risks in the assessment of investments, carried out by our investment analysts and portfolio managers for the assets we manage on behalf of our clients. It is also our responsibility that reporting on these matters is proportionate both to the activity carried out and to the disclosure regimes that are relevant to the client and distribution channel.

Our remuneration policy does not explicitly include climate-change-related performance metrics. Where individuals are responsible for managing portfolios with climate-related objectives, client satisfaction with performance against their objectives is included in the wider remuneration decisions.

Investment, research and responsible investment teams

Global themes, such as climate change, which are likely to affect the underlying securities in the investment portfolios that we manage for our clients, are considered by our responsible investment team and global research analysts, who are economic, thematic and industry sector experts. Our responsible investment team supports the work of our governance committees and will periodically attend meetings to ensure that material sustainability factors and risks affecting the investments we make on our clients' behalf are discussed and scrutinised.

Our multidimensional research capability is overseen by our Investment Oversight Committee (IOC) and Sustainability Committee (SC), which have input into strategic investment decision-making at board level. The IOC and SC also receive regular reporting from our investment risk team, which is responsible for considering the risk profiles of the portfolios that we manage for our clients and acts as a point of escalation for any controversial holdings and engagement challenges.

The investment risk team is independent from our investment managers, reporting to our CRO. The CRO is a member of the Board Risk Committee and can highlight concerns where it is believed that portfolios are not appropriately positioned from a risk perspective (for example, against relevant benchmarks or on an absolute basis) or where it is believed that the investment process is not being applied appropriately.

The responsible investment team also supports the investment process by delivering sustainability-focused training on a periodic basis to our employees.

STRATEGY

Our approach to net zero

The key aspects of our approach to net zero are:

Real-world decarbonisation:

If our clients are seeking to support a net-zero future through their investments and contribute to real-world decarbonisation, we do not believe it is effective to focus on reducing portfolio emissions by, for example, allocating away from asset-heavy to asset-light industries. In our view, this does not reduce the real-world emissions at the heart of the problem of tackling climate change, but simply reduces the institution's ownership of those emissions. It can also bring about an unhelpful picture around the climate-related risk that the portfolio is ultimately facing. Our approach is to research high-emitting companies or fossil-fuel-dependent industries in our portfolios and, where clients have set explicit climate-related targets, seek to invest in those doing the most to decarbonise, rather than divesting entirely from these sectors. In our broader range, we seek to engage with high-emitting companies in our portfolios. The approach is based on financial materiality and will focus on how they are preparing to face certain climate scenarios. Where we consider there to be a financially material risk to the long-term prospects of the business or significant opportunity to enhance shareholder value through climate transition opportunities, we will engage with the company over the actions they can take concerning their emissions.

We do not apply blanket exclusions to fossil fuels in our portfolios for Newton as a whole.

As an investment manager, Newton must balance the achievement of returns for clients, taking into account the risks and opportunities occurring within performance horizons, with the views it holds on risks and opportunities sitting outside those time horizons, including those related to climate change.

Engagement and advocacy:

Where companies are materially exposed to the climate transition, a critical part of the role of active managers is to discuss with them climate-related risks and the benefits of disclosing emissions and decarbonising. When acting collectively on a specific issue of concern with an issuer, we always exercise caution in order to avoid situations of being unintentionally in receipt of material non-public information or breaching concert party or competition rules, or other relevant legislation.

Investment in solution providers:

Newton recognises that new technology is required to support the transition to a low-carbon economy. Supporting the development and adoption of this technology represents a key opportunity in the energy transition and a critical function for investors. We research and invest in solution providers as part of our sustainable investment framework and as part of our wider multidimensional research as candidates for investment.

Newton's net zero commitment

Our net-zero commitment relates to the financed emissions (Scope 1 and 2) of our actively managed equity and corporate bond portfolios, around 67% of our overall assets. The commitment is that 50% of these financed emissions should come from companies with emissions-reduction plans which are science-based by 2030 and 100% by 2040.

We define whether our financed emissions have science-based targets using the Science Based Targets initiative (SBTi) 'committed' and 'approved' status.

We are conscious that fiduciaries may have concerns that achieving our net-zero commitment may impose constraints on our stock selection processes, potentially harming their returns. We do not translate our net-zero target into stock selection or portfolio construction as a part of our integrated investment process. Where client portfolios have additional net-zero objectives, the SBTi status is one of a number of considerations factored into our NNZ score. As shown in the metrics section, we have seen the proportion of our financed emissions with credible transition plans rise for in-scope assets and this could be seen as the responsibility of the market. In 2024, we clarified our two key approaches for achieving this target:

Engagement

Our process is to consider the following steps a company can progress through:

- Not disclosing emissions data to CDP (formerly the Carbon Disclosure Project)
- Disclosing emissions data to CDP but not setting reduction targets
- Disclosing emissions data and reduction targets to CDP but not seeking SBTi approval.
- SBTi 'committed' or 'approved'.

Net-zero-aligned portfolio solutions

While our definition of 'net-zero aligned' relies more heavily on our internal score, the Newton Net-Zero (NNZ) score,[1] the SBTi status is a significant part of the scoring, making it very difficult for us to rate a company as being net-zero aligned without SBTi 'committed' or 'approved' status. As such, the approach of seeking to increase our assets under management invested in net-zero-aligned portfolio solutions by offering and promoting this choice will also help to achieve our commitment of increasing the proportion of financed emissions which have credible transition plans.

We expect the universe of SBTi 'committed' and 'approved' companies to increase over time, partly, we believe, as a result of engagement with companies. We will continue to act in the best economic interests of our clients and will not constrain portfolio managers to increase holdings in SBTi 'committed' and 'approved' companies to meet our commitments.

We identify companies which do not utilise CDP or SBTi, and make our analysts and portfolio managers aware of this. Where material, our analysts will raise this during company dialogue. We focus our resource on what we consider to be the most meaningful engagements. For heavy-emitting companies and where this is material, we look to set engagement objectives where we do not consider a company's transition plan to be sufficiently credible or disclosures informative enough.

[1] The Newton Net-Zero score is an internal tool assessing the robustness of company transition plans and their likelihood of achieving them. It is intended to be used to screen companies out of the investible universe for net zero aligned strategies.

The global shift to a more energy-efficient future presents a range of investment opportunities across the value chain in many sectors, and we explore these through our multidimensional research.

Investment strategy

As an investment manager, our investment performance is our primary measure of success. For the time horizons that performance is generally measured against – normally around three years – climate-related risks for individual securities may not be material drivers of market prices relative to other risks or drivers of the performance of portfolios. This is particularly the case when considering the relative risks for securities compared to a benchmark or within a sector of similar companies. The most material climate change risks may be systemic in nature. It is therefore difficult for investment managers to balance protecting client portfolios from these systemic risks with the commercial risk of underperforming strategic benchmarks over the time horizons that our clients hold us to account. Underperformance would undermine our business model.

We do not describe aligning portfolios to net zero as being a source of outperformance within typical time horizons, but have conviction that over longer time horizons, it could influence economic outcomes. Our investment process for the majority of our strategies is financially focused, treating climate change as one source of risk and opportunity among many others.

We continue to invest time and resources in climate data and application of the data to better understand climate-related risks and opportunities in order to improve our understanding of climate change, the transition to a low-carbon economy, and how they may affect individual securities. The global shift to a more energy-efficient future presents a range of investment opportunities across the value chain in many sectors, and we explore these through our multidimensional research. It will also place unprecedented pressures on regions and sectors. Therefore, our approach is centred around understanding these shifts and integrating the analysis into our investment processes to help us make better investment decisions for our clients.

Net-zero-aligned portfolio solutions

As noted earlier in this report, we treat net-zero alignment as an explicit portfolio constraint for net zero-aligned portfolios. This means that only investments deemed to be net-zero aligned would be eligible for these portfolios and the investment strategy would therefore be consistent with the client's objectives for the asset class, rather than relating to climate strategy.

To define the reduced universe, we engage with our clients on the NNZ score and how it should be applied to their portfolios. In most cases, clients would use the NNZ score as a 'soft' screen, whereby investments cannot be made without the score reaching a threshold; but if a company's score deteriorated below that threshold, we would enter into a period of engagement with the company to understand whether the deterioration in score is meaningful in terms of company strategy and alignment with net zero.

Our approach to scenario analysis

In last year's TCFD report, we presented the results from a Climate Value at Risk analysis of our portfolios and highlighted the inadequacy of this methodology. Most notably, the results showed that a 3°C warming scenario presented the least financial risk to our portfolios.

Furthermore, whether or not this risk assessment is correct, it is not helpful in informing our investors on the risks and opportunities climate change presents over the time horizons important to our clients. As discussed in *Section 1* of this report, we spent 2024 developing our thinking on scenarios with three objectives in mind:

- The approach must inform actual decisions (be 'decision-useful') and therefore needs a closer time horizon than 2050.
- The approach must remove spurious accuracy. Given the uncertainty in any projection methodology, this means telling a better story of climate-related risk and transition rather than creating predictions (be 'narrative-based').
- Nevertheless, the approach must enable some form of quantitative analysis so our investment and risk process can best incorporate the learnings at an aggregate level (be 'quantifiable').

With the decision-useful and narrative-based framing in mind, we have gone back to basics. The guidance from the TCFD is to "describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario". We wish to use the same scenarios for discussing both the resilience of Newton as an operating business (previous section) and the portfolios (this section), so the time horizons have been chosen to enable these two different issues to be discussed with the same scenario. The time horizons we have therefore chosen are:

- Short-term (for positioning of portfolios): 2 years or less
- Medium-term (for positioning of the business): 10 years or less
- Long-term (for general description of the scenario): 25 years or less

Note that these timeframes are different and longer than those used in our risk register which is more focused on immediate issues in the business environment.

With the quantifiable framing in mind, we have chosen scenarios to explore the potential drivers of achieving 2°C of warming separately: these are policy-led, consumer-led, technology-led and nature-led. In addition, we assess a scenario of unmitigated heating of the atmosphere. Having each driver separated into its own scenario means each one focuses on different elements of risk and different metrics will determine the exposure of assets to that risk. We hope to extend this methodology into a meaningful quantification approach in future.

We do not believe that quantitative measures linked to the scenarios have use beyond the shortest time horizon where they might be used to understand the impacts on the portfolios we manage. We have not completed the work to develop quantitative measures and will not present these results in this report. These are activities we hope to complete, focusing first on the most likely scenarios, during 2025.

With the quantifiable framing in mind, we have chosen scenarios to explore the potential drivers of achieving 2°C of warming separately: these are policy-led, consumer-led, technology-led and nature-led.

Scenarios used

Exhibit 8: Scenario descriptions and implications for portfolios

Scenario	Long-term scenario description	Implications for portfolios in the short term (2 years or less)
Uncontrolled warming scenario	Global business continues releasing GHGs as usual leading to slow mitigation and increasingly high adaptation problems. Tipping points are exceeded and the food system starts to break down. Significant migrations out of the most affected regions occur.	While the long-term damage from this scenario is very significant, in the shorter-term investment horizon often asked for by our clients, the effects are less material and in particular the cascades of risk which may arise from disruption of supply chains and regional instability are unlikely to materialise. We have seen an increasing number of extreme weather events which can be attributed to climate change. From flash flooding to firestorms, there is no doubt that these events do present material risks to individual regions. However, these have the feeling of individual acute events, causing significant damage and increasingly loss of life, but without presenting the chronic systemic risk we believe this scenario entails outside of the investment horizon. These are effectively an extreme weather lottery of potentially existential damage to individuals and business. The key issues within the investment horizon are around losses in the insurance sector and therefore the future of insurance of assets in regions with heightened exposure to the extreme weather lottery. Further work is required to understand the exposures our portfolios have to insurers and whether different insurers are more or less protected from losses due either to their geographic exposure or underwriting approaches.
2°C scenario – policy-led	Governments impose significant restrictions on GHG emissions through additional taxation; outright banning of certain activities; and providing positive economic incentives to use new technologies.	This is a scenario in which a large proportion of transition risk can be seen as coming from the state i.e. by imposing additional costs on laggards in high-emitting sectors and providing additional revenue streams and volume for low-carbon technologies. As such, a reasonable level of detail of the effect of this scenario could be concluded by reviewing policy positioning of governments and this could lead to models being produced which demonstrate the potential effect on individual sectors and activities more likely to be penalised or benefit than others. Further work is required to explore the mechanisms policymakers might follow to rapidly decarbonise their societies while balancing the need for the state to maintain stability and minimise the damage on the economy. However, as government action is definitionally more macroeconomic in nature, in many cases current data will allow us to explore the exposure of companies to these themes systematically. We do not believe that a strict read-across from the energy intensity and related emissions of a company to a policy-driven transition risk is logical, given the sectors with high emissions can often be responsible for providing society with the basic staples of life including heating, food, housing and health care. These goods sit high in spending hierarchies while lower-energy-intensity goods often sit further down, suggesting the mechanisms governments might reasonably use will be to rapidly transition electricity grids to renewables and electrify all possible energy use, rather than imposing energy rationing. This is a function of product substitution (by embedded carbon) rather than changing preferences.
2°C scenario – consumer-led	Markets for products and services shift towards low- or no-carbon alternatives; consumption falls; and emerging markets do not reach the same level of GDP per capita as the developed world.	This is a scenario in which transition risk comes from consumers by reducing overall consumption and directing consumption away from high-carbon activities towards low-carbon activities. Again, reasonable granularity of the effect of this could be researched and modelled with individual sectors and activities more likely to be penalised or benefit than others. In this scenario, consumers make substitution choices, such as switching from animal-based protein to plant-based; moving from personal transport based on internal combustion engines to public electric transport, cycling and walking; spending less money on flights and heating; and extending the product-lifecycle of high-energy-intensive products. Further work is required to explore whether current data allows these themes to be explored systematically and translated into risk measures for our portfolios.
2°C scenario – technology-led	Carbon capture and storage (CCS) or direct air capture (DAC) becomes technologically and economically viable; hard-to-abate sectors find technological solutions; fusion becomes viable; and geoengineering becomes technologically and socially acceptable.	This is a scenario in which transition risk comes from technology rapidly replacing inefficient legacy approaches and favouring the start-up over the incumbent; but it is also one where technology mitigates GHG emissions, meaning business as usual can continue for longer than under the other 2°C scenarios. This scenario may present the most significant risks to a portfolio of listed high-emitting assets as the technologies they use underlying their market values are outcompeted. These companies will either need to raise significant capital to switch technologies or risk being outcompeted by start-ups raising capital away from public markets and becoming stranded assets. Better understanding of the nascent technologies, their state of development and capital costs of replacing existing technologies are required to understand the realism and proximity of the threats of asset stranding. Likewise, asset stranding is likely to be the result of event-driven market news, so understanding the sentiment of the market will be a part of understanding the extent to which assets risk becoming stranded.
2°C scenario – nature-led	Scientists have underestimated the carbon budget; the Earth system response is stronger than anticipated.	This is a scenario in which the pressure to transition to a low-carbon economy is reduced significantly by the reaction of the Earth system itself. While the most hopeful scenario for the current shape of the economy and Newton as a business, it is also highly unlikely. The extent to which Newton can add analysis and products which react to a shift to the growing natural capital suggested by this scenario should be considered.

This framework enables multiple scenarios to be added in future as required. We considered adding an emerging markets-led scenario in this iteration, highlighting the allocation of much of the future carbon budget to developing countries and their abilities in reducing their reliance on it. Unfortunately, this narrative relies on the developed world not over-using its proportion of the 2°C carbon budget, which has low likelihood at present.

We believe this categorisation of the different effects drivers of climate mitigation may have on Newton as an investment manager will be helpful in shaping the work we do to build resilience from the transition in our clients' investment portfolios.

Observations

The benefits of separating the scenarios

Each scenario provides an insight into the different risks and opportunities arising from climate change, which is instructive for our thinking. The uncontrolled warming scenario can be used to explore the impacts of physical risk, and the nature-led transition scenario highlights the impossibility of thinking that the climate could stabilise at a temperature without human action to reduce emissions. Perhaps most importantly, the three human-driven transition scenarios each enable different angles of the transition to be discussed. The policy-led scenario focuses on a top-down product-substitution-driven transition, the consumer-led scenario focuses on consumer preferences changing, and the technology-led scenario focuses on stranded assets. Separating out each of these elements of the economic risk to portfolios leads to a richer conversation about which industries, production processes and companies might be more or less exposed to climate-related risks and opportunities.

Likelihood assessment

We have not formally assessed the likelihood of any of the scenarios. However, the uncontrolled warming scenario is likely to form the majority of the probability space. This is to say that we would currently assess the likelihood of managing climate change to 2°C of warming or less as being less than 50% – potentially significantly less. Conversely, we have not associated a temperature rise with this scenario. However, given that the International Panel on Climate Change (IPCC) assessed the median rise in temperatures from current policies to be in the range of 2.9°C to 3.2°C, and rises of 2.2°C to 2.9°C based on 2030 pledges,[2] if 50% of the probability was associated with the uncontrolled warming scenario, a fair range of temperature rises to consider might be between 2.4°C – 4.4°C, and taking the central of this range, 3.4°C by 2100.

While we have not considered the 1.5°C scenario to be probable enough for this analysis, the actions required are consistent with other scenarios and have informed our thinking. The International Energy Association (IEA) has described the actions that need to be taken by 2030 to 'keep 1.5 alive'. These include global renewable power capacity tripling, the annual rate of energy efficiency improvements doubling, sales of electric vehicles and heat pumps rising sharply, and energy sector methane emissions falling by 75%.[3] All of these elements will be covered as we develop more analytical capacity on these scenarios.

We believe the nature-led scenario is highly unlikely. We included this scenario to enable us to explore the climate science, but the 'carbon budget' is more likely to be overestimated than underestimated and the rapid decline of biodiversity and biomass outside the human system suggests nature is unlikely to come to the rescue without human intervention. The most plausible non-human systems that could reduce warming are rapid decreases in solar radiation or a volcanic event darkening the Earth, but neither is to be hoped for in terms of wider consequences, particularly on reducing the productivity of food systems.

None of the 2°C warming scenarios look plausible individually. We cannot rely on one of governments, consumers or technology to mitigate climate change; instead, concerted action across all three of these drivers, including some potentially remote technologies being available soon, are required to prevent warming exceeding 2°C.

Disorderly transition most likely

The scenarios themselves are presented as linear progressions, whereas in reality a smooth transition is highly unlikely. This may take the form of swings over time between each of the drivers we have identified dominating, different divers dominating in different regions, as well as periods where fast progress on reducing emissions gives way to pauses or increases in emissions. The messiness in the transition is often framed as a part of a disorderly transition, but for asset managers, the ability to predict these shifts between drivers on a regional basis and the changes of momentum of progress will be key to delivering returns and protecting capital.

More serious consideration of geo-engineering

The technology scenario contains a variety of different technologies which may be at different points of experimental and commercial development. A key technology to highlight is geoengineering which seems to offer a low-cost opportunity to protect the Earth system and biosphere from the irreversible consequences of overshooting tipping points, at the price of potentially reducing the economic arguments against mitigating climate change. Geoengineering is currently under-researched, but it seems inevitable that this will change as GHG emissions continue.

[2] IPCC 6th Assessment report, Working Group III.
[3] IEA Net Zero Roadmap.

RISK MANAGEMENT

Role of our commitments

We acknowledge that climate change presents meaningful risks to a number of investments we make on behalf of clients.

Our requirement, as described in *Section 1: Business and operations*, is for clients wishing for their portfolios to be aligned to net zero to set explicit net-zero-alignment targets in their mandates with us. In the absence of this, Newton still has a role to play in in engaging our portfolio companies to understand and support their approach to aligning with the climate transition. If this happens on a system-wide basis, we believe that mitigating climate change should lead to lower adaptation costs for our clients and society as a whole. A disorderly transition has the potential to result in higher costs and more uncertainty.

Our net zero commitment seeks to focus on the importance of the direction of travel and of real-world outcomes. More explicitly, it focuses on ensuring that the companies contributing to Scope 1 and 2 emissions in our investment portfolios have science-based targets to achieve net zero over an appropriate time horizon. We are conscious fiduciaries may have concerns that achieving our net zero targets may impose constraints on our stock selection processes, potentially harming their returns. We do not translate our SBTi target into stock selection or portfolio construction as a part of our investment process. We will continue to act in the best economic interests of our clients and will not constrain portfolio managers to increase holdings in SBTi 'committed' and 'approved' companies to meet our net zero targets.

As a result, monitoring the global availability of companies with science-based targets is a critical task in understanding whether the size of the investment universe required to achieve our commitment imperils our fiduciary obligations. As we will describe in *Section 2: Fiduciary obligations – Metrics and targets*, we do not believe that this is currently the case.

Investment process

Our multidimensional research capability allows for various types of research, including thematic, investigative and responsible investment research, to inform the investment process. We believe this approach lends itself well to considering areas such as climate, where the potential impacts in the time horizons over which we invest must be integrated with other sources of risk and opportunity for our investment candidates and ultimate holdings. We seek to understand all material risks (including climate, where relevant) and factor these into the investment research and ultimate recommendation, where appropriate, before we invest.

The responsible investment team assists the fundamental research by helping to identify where climate-related risks may be material, particularly in hard-to-abate sectors and sectors with a high degree of exposure to climate transition risks through their products, for instance fossil-fuel extraction and refining.

During 2024 the IOC conducted a review of our top 50 investment strategies and their exposure to climate-related metrics including their emissions, emissions intensity, transition preparedness and holdings of companies with material revenue from climate solutions relative to their benchmarks or proxies for their investment style (eg income generation). The IOC concluded that Newton portfolios were managing climate-related exposures well, having in general lower exposure to negative climate metrics and higher to positive metrics compared to their benchmarks or proxies for investment style. However, it was noted that the exposures do not map directly onto financial risks and work will be undertaken building on the scenarios to better map investment characteristics onto climate-related financial risks.

We do not consider the underlying company risks of our index investments where the investment process is dynamic and multi-asset in nature. Here, the investment process is more systematic and risk management is carried out at the market, not security, level.

Strategies with sustainability characteristics that follow our sustainable investment process and net-zero-aligned portfolio solutions

We operate additional universe screens to ensure that these portfolios manage their exposure to climate transition risks. Different screens are applied to each class of strategy:

1 Our sustainable investment framework applies a climate qualification test which seeks to model the excess emissions of a candidate company over and above pathways leading to less than 2°C of warming, and then applies a carbon price shock to identify businesses which would not be deemed sustainable in that scenario. If a company fails this test, it receives a precautionary flag within our sustainable investment framework.[4]

2 Our net-zero-aligned portfolio solution uses the NNZ score to exclude new investment in companies that are not assessed to have reached a threshold level of robustness in their transition plans to achieve net zero. If the NNZ score of a company we invest in falls to below that threshold, further engagement is undertaken to understand whether this is an artefact of the scoring and data or whether there is a true indication of the company having weakened its approach to transitioning.

The differences in approaches reflect different intents. The carbon qualification test is a negative test for a candidate company which we are researching on a wider basis for a positive characteristic of sustainability which links to the objective of the strategy. The NNZ threshold test is intended to be the description of the screen applied to a net-zero-aligned portfolio. Both tests improve the resilience of portfolios in a scenario in which the net-zero transition is proceeding faster than market expectations. We acknowledge that they may reduce returns in a scenario in which the transition occurs slower than market expectations.

[4] The responsible investment (RI) team maintains a list of companies that are tagged under the 'precautionary pool'. Portfolio managers are alerted to this pool in the sustainable investment documentation portal (the Newton 'RI App'). The portfolio managers are encouraged to work with the RI adviser assigned to the portfolio, to ensure that the managers are comfortable that the investment is not in conflict with the objectives of their strategy.

We set clear, outcome-focused objectives which can be evaluated over a suitable time horizon and can be linked back to a relevant investment thesis.

Stewardship and engagement

Stewardship, including voting and engagement, provides critical tools for us to help manage and assess climate-related risks and opportunities for the assets we manage.

Please see our latest sustainability and stewardship report at https://www.newtonim.com/uk-institutional/special-document/responsible-investment-and-stewardship-annual-report/ for our work and progress.

We have established focus areas for our engagements that reflect issues that are financially material at the level of the global system which may crystallise into issuer-specific risks or opportunities over the medium or long term. Climate change risk management has been one of these themes for several years. In 2024, we engaged with companies 23 times on this topic.

We follow an outcomes-based approach to engagement. This approach focuses on constructive board and management discussions around financially material aspects where we believe this can result in improved financial outcomes for our clients. We set clear, outcome-focused objectives which can be evaluated over a suitable time horizon and can be linked back to a relevant investment thesis. We do not seek to micromanage or direct company strategies but seek to understand the general preparedness of companies to manage physical and transition risks in a suitable time horizon.

We continue to engage with the highest emitters within our invested universe to understand their net-zero plans and push for credible transition plans. This year we have continued to research credible transition plans in different sectors. Climate stewardship has evolved in recent years. We currently observe less focus on shareholder proposals and transition plan votes, which have shown limited effectiveness. However, we continue to consider that climate is a financially material topic on which both investors and companies are willing to engage, demonstrated through our engagement dialogues.

https://www.newtonim.com/uk-institutional/special-document/responsible-investment-and-stewardship-annual-report/

METRICS AND TARGETS

Tracking our net zero commitments

Newton is committed to reducing emissions in line with the aspiration of the Paris Agreement to stay within a safe limit of 1.5 to 2°C of warming by the end of the century. This is caveated with the expectation that governments and policymakers will also provide a supportive backdrop. Investors cannot deliver on net zero if they are not operating in an environment that is aligned with this goal and that is creating the economic incentives to achieve it.

We recognise that limiting warming to 1.5°C is highly unlikely. In support of achieving net zero, our commitment is through our investee companies having credible transition plans in place. As an investment manager we will be on a path to net zero when our financed emissions are on a path to net zero. At present, we believe that the best route in considering the credibility of company transition plans is through companies making a commitment to the Science Based Targets initiative (SBTi). As mentioned previously, Newton has set an interim target of 50% of our financed emissions, meaning the Scope 1 and 2 emissions of investee companies weighted by our holdings, having SBTi 'committed' or 'approved' transition plans by 2030, and 100% by 2040.

The comments above relate to active equities and corporate bonds.

Exhibit 9: Progress on our net zero interim target for NIM and NIMNA assets.

	31 December 2021 (Baseline)	31 December 2022	31 December 2023	31 December 2024
% Newton-financed emissions with SBTi transition plans	27%	28%	34%	35%
Annual increase	N/A	1%	3%	1%
Annual increase required by 31 December 2030	2.56%	2.75%	2.29%	2.50%

Note: Data relates to NIM and NIMNA only. SBTi 'committed' and 'approved' status

These metrics are reported to the Sustainability Committee and Board Risk Committee. Exhibit 9 shows movement in the percentage of financed emissions with SBTi transition plans as our selection of companies and size of holdings in them vary independently of the SBTi status. Nevertheless, the trend is consistent overall. Over the last three years the proportion of the financed emissions coming from SBTi 'committed' or 'approved' companies has increased at the rate required to meet our interim 2030 target, though this did slow again in 2024.

Central to our ability to meet our net-zero commitment is the market use of SBTi. As a result, we monitor the total number of companies committed and approved by the SBTi to ensure our commitments are feasible. The SBTi Monitoring Report 2023 (the most recent available at time of writing) highlighted that this figure continued to increase significantly in 2023, with those approved growing from 2,080 in 2022 to 4,205 in 2023; and 2,125 companies setting science-based targets for the first time. This suggests the initiative is still gaining traction. We continue to monitor the SBTi's progress and support its valuable work.

In relation to our interim target, we have identified that 49% of Newton's current financed emissions are concentrated in ten companies. Only two of these companies, representing 9% of our financed emissions, have SBTi 'committed' status. Sector guidance from the SBTi is not available for all these companies, so they could not all apply for SBTi approval. However, our engagement with the companies which can apply, with the objective that they should seek to do so, is a key action we are undertaking this year to increase the proportion of SBTi-committed and approved financed emissions in our overall portfolio.

We will continue to report progress against the target in this report.

In addition, we have analysed our equity holdings using the NNZ score described previously. The NNZ score complements the SBTi not only by verifying the scientific alignment of the targets, but also by assessing whether a company is delivering against the goals. This provides a more rounded and robust assessment of the companies' plans. The score is not currently used in our investment process except in our net-zero-aligned mandate but is insightful in understanding the degree of net-zero alignment in our equity exposures.

Exhibit 10: NNZ scoring of Newton's active equity holdings by proportion of financed emissions and proportion of AUM aligned with the aspiration of the Paris Agreement to stay within a safe limit of 1.5 to 2°C of warming by the end of the century

	% of financed emissions	% of AUM
Most aligned	6.8%	14.1%
Moderately aligned	64.8%	51.3%
Least aligned	28.5%	34.7%

Note: Data relates to NIM and NIMNA only. Source: Newton calculations.

Newton has not set targets for these metrics.

Active equity and corporate bond emissions

The following tables describe the current emissions of our equity and corporate bond portfolios split by our two management entities.

Exhibit 11: NIM and NIMNA's equity and corporate bond absolute Scope 1 and 2 emissions (tCO_2e)

Company	2024	2023	2022	Year-on-year change
NIM	1,185,428	1,321,664	1,477,529	-10.3%
NIMNA	2,340,865	2,120,787	2,617,190	10.4%
Newton Combined	**3,526,293**	**3,442,451**	**4,094,719**	**2.4%**

Exhibit 12: NIM and NIMNA's equity and corporate bond relative carbon footprint (tCO_2e/$m invested)

Company	2024	2023	2022	Year-on-year change
NIM	39.42	39.23	42.89	0.5%
NIMNA	59.09	60.30	72.95	-2.0%
Newton Combined	**50.60**	**49.99**	**58.23**	**1.2%**

Exhibit 13: NIM and NIMNA's equity and corporate bond weighted average carbon intensity (WACI) (tCO_2e/$1m revenue)

Company	2024	2023	2022	Year-on-year change
NIM	78.58	83.02	114.66	-5.3%
NIMNA	120.70	119.02	188.27	1.4%
Newton Combined	**102.52**	**101.41**	**152.21**	**1.1%**

71.5% of the companies we hold now directly reporting their emissions

Overall, there has been a small upward trend in the emissions, carbon footprint and weighted average carbon intensity (WACI) of our portfolios with a more mixed picture looking at the differences between our management entities. The upward trend for NIM and NIMNA taken together is largely due to the value of assets in strategies run in our North American management entity (NIMNA) growing as a proportion of our assets. The coverage of emissions data has also worsened slightly this year, with 71.5% of the companies we hold now directly reporting their emissions, down from 73.2% last year, again reflecting a bias towards small-cap companies less likely to disclose emissions in NIMNA. We have not been able to attribute the emissions increases to understand how this has occurred in more detail.

Certain sectors are responsible for more of our financed emissions, with 83.8% coming from the top ten industries shown in the table below. Of these, the top five sectors make up the majority (60.1%, up from 57.3% last year) of financed emissions. There are significant changes to the ordering of sectors in this table compared to last year reflecting the dynamism of our active management process.

Exhibit 14: Newton's largest financed emissions by sector

Industry	Financed emissions, Scope 1 and 2 (tCO_2e)	% of total
Mining & Integrated Production	654,073	18.5%
Oil & Gas Refining & Marketing	543,222	15.4%
Construction Materials	335,359	9.5%
Packaging	312,154	8.9%
Integrated Oil & Gas	276,304	7.8%
Multi-Utilities	251,965	7.1%
Electric Utilities	250,924	7.1%
Oil & Gas Exploration & Production	146,445	4.2%
Chemicals	122,909	3.5%
Airlines	63,283	1.8%
Total (for Top 10 Industries)	**2,956,638**	**83.8%**

Note: Data relates to NIM and NIMNA only.

87.9% Total sovereign emissions of the top ten countries from our NIM portfolios.

Exhibit 15: NIM and NIMNA's equity and corporate bond absolute Scope 3 emissions

Company	2024	2023	2022	Year change
NIM	20,936,256	20,711,536	19,830,286	7.39%
NIMNA	24,725,944	26,493,894	27,437,900	1.43%
Newton Combined	45,662,201	47,205,430	47,268,186	4.16%

In 2023, we decided to include Scope 3 data in this report for the first time. We are continuing with that approach and note a more significant increase in Scope 3 emissions in our UK management entity (NIM) this year. With increasing coverage of Scope 3 emissions and more consistent methodologies starting to be applied, we have increasing confidence in trends in this data. However, we have significant concerns relating to comparing Scope 3 data directly with Scope 1 and 2 data, given the risks of double counting. Significant development in Scope 3 reporting is still required. Scope 3 emissions have increased for assets managed by NIM and reduced for those managed by NIMNA.

Exhibit 16: Newton's largest Scope 3 emissions by sector

Industry	Scope 3 emissions (tCO2e)	% of total
Electrical Equipment	8,347,172	18.3%
Industrial Machinery & Equipment	6,564,544	14.4%
Oil & Gas Refining & Marketing	5,494,786	12.0%
Oil & Gas Exploration & Production	4,657,580	10.2%
Integrated Oil & Gas	3,033,559	6.6%
Electronic Components	2,141,036	4.7%
Mining & Integrated Production	1,837,543	4.0%
Automobile	1,470,703	3.2%
Insurance	1,159,099	2.5%
Commercial Banks & Capital Markets	1,020,472	2.2%
Total (for Top 10 Industries)	35,726,494	78.2%

Note: Data relates to NIM and NIMNA only.

Again, certain sectors are responsible for more of our Scope 3 emissions with 78.2% (up from 74.4%) coming from the top ten industries shown in the table above. This is a lesser concentration by industry than in our financed emissions table, but the dominance in emissions of ten sectors out of 74 is important to note in terms of the focus of a real-world decarbonisation approach. Again, the sectors in the top ten industries have changed significantly, reflecting the dynamism of our investment processes.

Climate data and analysis for ESG integration and sustainable investing are sourced through sustainability and climate change data providers, such as CDP, Sustainalytics, ISS Climate Ethix, the Transition Pathway Initiative and Bloomberg, and may be supplemented by corporate/issuer disclosures and insights gained by speaking directly to company management.

Sovereign bond emissions

NIM's sovereign Scope 1 emissions for 2024 were 988,442 tCO_2e compared to 1,519,708 tCO_2e in 2023. We do not include sovereign Scope 2 or 3 emissions in our reporting. It should be noted that a comparison of emissions calculated for sovereigns and for equities and corporate bonds is not meaningful, as they have very different calculation methodologies.

The top ten countries responsible for NIM's sovereign Scope 1 emissions are detailed in exhibit 17.

Exhibit 17: Top ten emitting countries for NIM holdings in 2024

Country	Sovereign Scope 1 emissions per country
Government of the United States of America	403,486
Government of United Kingdom	147,251
Government of Brazil	58,192
Government of New Zealand	54,106
Government of Australia	50,510
Government of Japan	44,698
Government of Indonesia	41,220
Government of South Africa	29,056
Government of Malaysia	22,193
Government of Peru	18,547

These countries account for 87.9% of the total sovereign emissions from our NIM portfolios. Again, the Countries in this list have changed significantly over the year reflecting the dynamism of our investment processes.

Methodology notes

Financed emissions

We treat the Scope 1 and 2 emissions from our share of capital of our investee companies as our financed emissions. This definition excludes Scope 3 emissions, sovereign emissions or emissions associated with other asset classes such as money markets and derivatives.

To calculate the financed emissions, we take our holdings as a 31 December 2024 and then apply the following methodology.

For a corporate equity or bonds:

$$\frac{\text{Value of security held}}{\text{Enterprise value of corporate entity}} \times \text{Scope 1 and 2 emissions of the corporate entity}$$

We highlight that we apply the latest emissions data to our holdings as at 31 December 2024. This latest data is from 2023, reflecting the time lag between emissions being released, reported at the corporate level and then quality assured ready for disclosure at the asset-manager level. For this reason, we highlight that the financed emissions footprint is better considered an estimate, rather than an objectively correct data point.

Net zero targets

We treat SBTi 'committed' and 'approved' statuses as meeting our target. The Newton financed emissions (as calculated in the methodology above) in companies with these SBTi statuses as a proportion of the total, is the proportion used.

Scope 3 emissions

While the reporting guidelines for investment emissions in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard emissions are mostly clear, accurately capturing Scope 3 emissions is complex. This complexity is caused by a number of factors including the lack of globally available Scope 1 and 2 emissions disclosures, the inherent double counting involved in capturing Scope 3 emissions, and a lack of definitive guidance on sovereign bond emissions. While the above represents our best efforts in capturing the data, it is worth highlighting that methodologies may change or we realise that there are different ways of capturing and presenting the data in the future.

Sovereign emissions

Sovereign emissions are calculated by calculating the ratio of the market value of debt held in a country to the gross domestic product (GDP) of the country.

Scope 1 sovereign emissions relate to the direct emissions of greenhouse gases in the country,

Scope 2 relate to the emissions used in generating imported electricity, and

Scope 3 relate to the emissions used in generating imported goods.

The full methodology can be found here: https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

GLOSSARY

Carbon intensity:

Carbon intensity measures the carbon efficiency of a portfolio per unit of output. It is expressed as volume of carbon emissions per million dollars of revenue (carbon efficiency of a portfolio), expressed in tonnes of carbon dioxide equivalent (tCO_2e) / $M revenue.

Climate scenarios:

Climate scenarios are plausible representations of the Earth's future climate, based on its current observed state and different greenhouse-gas emission scenarios.

Geoengineering:

(also known as climate engineering or climate intervention) is the deliberate large-scale interventions in the Earth's climate system intended to counteract human-caused climate change. These techniques are at a variety of stages of development but do not have wide-scale agreement on their appropriateness.

Greenhouse gases (GHGs):

Greenhouse gases are a group of atmospheric gases that trap heat and contribute to the greenhouse effect, which keeps the Earth's surface warmer than it would be otherwise. Major greenhouse gases include carbon dioxide, methane, nitrous oxide and various synthetic chemicals like fluorinated gases.

Physical risk:

This risk captures the risk/opportunities to companies and resulting portfolios as a result of increased extreme weather events (acute) and changes to overall weather patterns (chronic) compared to a pre-industrial baseline and due a warming climate.

Science-Based Targets initiative (SBTi):

The external validation service used by Newton to assess the credibility of company transition plans. You can find out more about the SBTi on their website here: https://sciencebasedtargets.org/about-us

TCFD (Taskforce on Climate-related Financial Disclosures):

Created by the Financial Stability Board to explore and propose recommendations to facilitate effective climate-related disclosures by companies and other organisations, with the goal of permitting investors to make more informed decisions and providing a better platform for companies to incorporate climate-related risks and opportunities into their own risk management and strategic planning operations.

TCFD recommendations:

A list of 11 recommendations proposed by the TCFD, comprising suggestions for climate-related disclosures that should be made by companies and other organisations. These can be split broadly between governance, strategy, risk management, and metrics and targets. Further detail can be found at: fsbtcfd.org/recommendations.

Transition risk:

This risk captures the risk/opportunities to companies and resulting portfolios as a result of the economic transition to net-zero carbon emissions.

Important information

Material in this publication is for general information only. The opinions expressed in this document are those of Newton and do not necessarily reflect the views of BNY or BNY Investments and Wealth Management, and should not be construed as investment advice or recommendations for any purchase or sale of any specific security or commodity. Certain information contained herein is based on outside sources believed to be reliable, but its accuracy is not guaranteed. Any reference to a specific security, country or sector should not be construed as a recommendation to buy or sell investments in those securities, countries or sectors. Please note that portfolio holdings and positioning are subject to change without notice.

Newton manages a variety of investment strategies. How ESG analysis is integrated into Newton's strategies depends on the asset classes and/or the particular strategy involved. ESG can be one of many inputs into the fundamental analysis. Newton will make investment decisions that are not based solely on ESG analysis. Other attributes of an investment may outweigh ESG analysis when making investment decisions.

The use of engagement themes may vary depending on the asset class. Engagement themes have been identified to reflect the issues we believe to be most material to companies' risks and opportunity sets in the long term. However, other topics may be considered and have greater weighting when engaging with companies. Newton will make investment decisions that are not based on engagement themes and may conclude that other attributes of an investment outweigh Newton's engagement strategy.

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