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SCHRODERS GREENCOAT LLP

Entity-level TCFD Report

June 2024



Schroders
greencoat

Contents

- 1. Introduction statement.....3
 - Compliance Statement3
- 2. Governance4
- 3. Strategy 6
 - 3.1 Climate related risks and opportunities.....7
 - 3.2 Climate scenario analysis 12
- 4. Risk Management..... 13
- 5. Metrics and Targets 13

1. Introduction statement

This report is published by Schroder Greencoat LLP (“Schroders Greencoat”) in line with the Financial Conduct Authority’s requirement for climate related disclosures by 30th June 2024. We make these disclosures to demonstrate our part in Schroders PLC’s commitment to climate action as part of the Schroders Capital business.

Schroders Greencoat is a specialist investment manager of renewable energy and energy transition infrastructure assets, investing in wind farms, solar farms and other energy transition assets, operating in the United Kingdom, Europe and the United States. Energy Transition assets largely encompass other renewable energy or low carbon energy technologies but may also include energy related assets with clear strategies to decarbonise in line with Net Zero commitments.

Schroders Greencoat provides investment management services to a range of investors through private funds and segregated mandates and to two listed vehicles, Greencoat UK Wind PLC (“UKW”; listed on the London Stock Exchange) and Greencoat Renewables PLC (“GRP”; an Irish investment company listed on the AIM market of the London Stock Exchange and the Euronext Growth Market of the Irish Euronext Dublin Stock Exchange). As at 31st December 2023, Schroders Greencoat had approximately £10 billion of funds under management. This includes funds for which Schroders Greencoat serves as the managers only.

Schroders Greencoat is indirectly 75% owned by Schroders PLC (collectively with its affiliates, “the Group” or “Schroders”), with the balance being held by the senior Schroders Greencoat management team. Schroders Greencoat is the infrastructure pillar of Schroders Capital, the Group’s private assets business that also includes private equity, real estate and private debt and credit alternatives. Schroders Capital has \$94 billion of assets under management in direct, primary, secondary, and co-investment capabilities, managed by more than 725 employees working out of 25 cities globally¹. During 2023, the Manager was increasingly integrated into the Group’s policies and processes both from an operational and investment perspective.

As the Schroders Greencoat approach towards climate risks and opportunities is generally aligned with the broader Schroders Group approach, where relevant this report relies on and cross-refers to the group level disclosure in the TCFD report published by Schroders plc (which is the ultimate parent company of Schroders Greencoat) (“Group Climate Report”), available [here](#).

This report also summarises any material differences between the group level approach to climate risks and opportunities described in the Group Climate Report and the approach taken by Schroders Greencoat. See the [Schroders Greencoat ESG Report 2023](#) for further information and case studies in relation to climate change.

Compliance Statement

This report has been approved by Schroders Greencoat’s Management Committee, who confirms that the disclosures in this report comply with the requirements set out in Chapter 2.2 of the FCA Handbook. Any information provided by third parties is believed to be reliable but has not necessarily been independently verified by Schroders Greencoat or the Group.

Stephen Lilley, Schroders Greencoat



Electronically signed by: Stephen
Lilley
Date: Jun 21, 2024 09:15 GMT+1

¹ Source: Schroders Capital, 2024. Data as at 31 December 2023.

2. Governance

Schroders has a comprehensive governance framework for climate risks and opportunities as set out in the Governance section of the Group Climate Report (p.57). Schroders Greencoat is captured via the following aspects of the Schroders Governance structure.

Table 1: Schroders Climate Governance Forums relevant to Schroders Greencoat

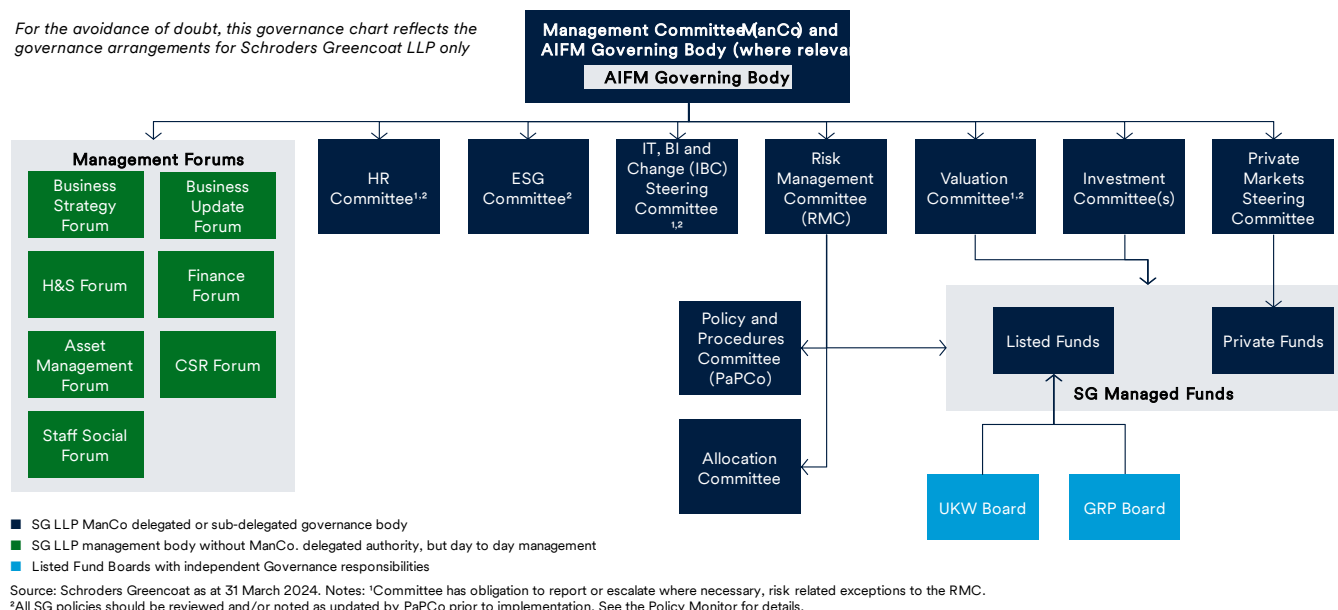
Forum	Relevance to Schroders Greencoat
Group Management Committee (GMC)	The Head of Private Assets is a member of the GMC and also sits on the Schroders Greencoat board of directors (the “Schroders Greencoat Board”). He provides input on wider Private Assets and Schroders Group level climate related risks and opportunities, strategic and product opportunities, commitments, and activity.
Sustainability Executive Committee (ExCo)	Schroders Capital is represented on the ExCo by the Schroders Capital Head of Sustainability & Impact. This means that Schroders Greencoat’s products and climate related requirements are reflected indirectly at this forum via a Schroders Capital representative.
Private Assets Sustainability and Impact Steering Committee (PA S&I Steer Co)	The PA S&I SteerCo is supported by a Private Assets S&I Working Group which Schroders Greencoat representatives attend regularly. This is the principal forum through which Schroders Greencoat can share sustainability – including climate related strategic priorities, objectives and challenges to ensure collaboration and a cohesive approach to climate change between Schroders Capital entities, to the extent possible and relevant.
Climate Change Task Force (CCTF)	The Schroders Capital Climate Change Expert sits on the CCTF thereby ensuring two way communication and information sharing between Schroders Capital entities, including Schroders Greencoat, and the CCTF. This enables Schroders Capital entities to have a voice represented at this forum, which drives climate workstreams from an investment perspective across Schroders.
Climate Change Working Group (CCWG)	The Schroders Capital Climate Change Expert sits on the CCWG thereby ensuring two way communication and information sharing between Schroders Capital entities, including Schroders Greencoat, and the CCWG. This enables Schroders Capital entities to have a voice represented at this forum, which discusses and recommends the approach and actions needed to deliver Group wide commitments on climate change.

Schroders Greencoat LLP, as an independently regulated entity, has its own governance framework (Figure 1).

Figure 1: Schroders Greencoat LLP Governance Framework

Framework

For the avoidance of doubt, this governance chart reflects the governance arrangements for Schroders Greencoat LLP only



The key elements that relate to Schroders Greencoat’s governance of climate related risks and opportunities are:

- **Schroders Greencoat’s Management Committee (ManCo)** – ManCo is responsible for managing the business and developing the firm’s strategy, key business decisions and organisation oversight. As an investor in renewable energy and energy transition assets, climate related risks and opportunities are relevant to all strategic decisions and therefore implicitly or explicitly considered as part of decision making
- **Schroders Greencoat’s ESG Committee (ESG Committee)** – the ESG Committee is delegated responsibility for ESG – including climate related - policies, processes and implementation by ManCo. The ESG Committee is chaired by a member of the senior management team and attended by the Head of Sustainability and our Sustainability Analyst. Members include a representative from the Management Committee and other Heads of Business Units meaning that the business remains well informed and involved with ESG and climate related discussions that may impact their activities. This committee is responsible for:
 - i. overseeing implementation of and reviewing any ESG related policies to ensure they remain relevant to evolving conditions including climate related requirements
 - ii. developing and evolving ESG integration practices for material ESG factors – of which climate change is perhaps the most material – within the different businesses and assets
 - iii. leveraging existing resources and research capabilities on ESG related topics for the benefit of all investment management teams; and
 - iv. promoting education and awareness of ESG trends and developments
- **Schroders Greencoat’s Risk Management Committee (RMC)** – the Risk Management Committee (‘RMC’) ensures the function of effective risk management throughout the Firm for all funds under management. It implements effective risk management of policies and procedures to identify, measure and monitor relevant risks – including climate risks – on an ongoing basis. Climate related risks are included in Schroders Greencoat’s risk matrix
- **Investment Teams** – responsibility for implementation of ESG matters, including climate related risk and opportunity identification and Greenhouse Gas (GHG) emissions reporting and reduction, is permeated throughout the investment and asset management teams, via each Business Unit Head and overseen by internal governance bodies such as Investment Committees and the Private Markets Steering Committee

- **Sustainability Team** – the Sustainability Team is responsible for sharing their knowledge and expertise with the business, particularly via the ESG Committee, and for the development and implementation of ESG related policies, processes and projects, including climate related. The Sustainability Team members participate in the Schroders Capital S&I Working Group which enables a two way information flow on climate related matters, as well as other S&I matters, between Schroders Capital and Schroders Greencoat.

In 2023, the ESG Committee updated its [ESG Policy](#) to clearly incorporate the requirement for best practice in climate related risk management, reporting and transparency and to update its Exclusion List relating to fossil fuels. The Committee monitored climate related regulatory updates, particularly in relation to the Task Force on Climate Related Financial Disclosures (TCFD) and supported the evolution of GHG emissions measurement and reporting.

3. Strategy

The Schroders Greencoat strategy for the consideration of climate risks and opportunities is generally consistent with the Group level strategy, as set out in the Strategy section of the Group Climate Report (p11). From an investment perspective, Schroders Greencoat is a key pillar of the Group’s climate strategy as Schroders seeks to expand its client offering of renewable energy and energy transition assets. From an operational perspective, Schroders Greencoat is included in the Group’s objectives to improve office building energy management, ISO certification and carbon offsetting of employee travel². Additional detail on Schroders Greencoat’s approach is provided below, given the nature of investment in renewable infrastructure assets.

The Management Committee believes that the decarbonisation of the global economy – central to current policies for global climate change mitigation – presents a significant investment opportunity for Schroders Greencoat, and that the scale of its growth will be linked to the overall success of the renewable energy sector, the role of renewable energy and energy transition assets, and Schroders Greencoat’s ability to engage with key stakeholders.

The Management Committee remains committed to its strategy of investing in operating renewable energy and energy transition assets to benefit from this opportunity and to support the transition to a lower carbon energy system and to mitigate climate change. Acquiring operational renewable assets from third party utilities allows for the recycling of capital into further renewable energy infrastructure. Growing renewable electricity production also enables the decarbonisation of all other sectors of the economy.

Schroders Greencoat invests in the following technologies on behalf of clients which are considered to contribute to the decarbonisation of the global energy system and consequently the global economy:

- Wind power generation
- Solar power generation
- Bioenergy generation, through combustion of sustainably procured feedstock sources, and
- Renewable heat generation and consumption

A key part of the Schroders Greencoat strategy is to investigate and consider investment opportunities for its clients in other low carbon and energy transition technologies. In 2023, as part of this strategy, it invested in for the first time:

- A district heating portfolio with a clear decarbonisation road map in place to transition from gas based heat generation to the predominant use of heat pumps supported by geothermal heating and thermal storage solutions. As district heating is a hard-to-abate sector, this investment will help to retrofit existing industry with low carbon infrastructure
- A partnership with Carlton Power on behalf of our investors to construct and operate green hydrogen production assets across the UK. The aim is to build a portfolio of 500MW by 2030, substantially contributing to the UK’s leadership position in hydrogen production, as well as to its energy security and net zero ambitions

²Greencoat employee travel emissions are estimated based on total Greencoat employee numbers applying Schroders average employee travel emissions per year.

As part of its commitment to climate action, Schroders Greencoat is a signatory to the Net Zero Asset Managers Initiative and has set a target to reduce its own carbon emissions intensity by 2030 (see Metrics and Targets section). As noted in the Metrics and Targets section below, a priority for Schroders Greencoat looking forward as it evolves its climate strategy is to publish its climate action report that will aim to set out its strategy, targets and progress towards Net Zero. The Manager has not yet published a Transition Plan but would expect the climate action report to incorporate considerations recommended under a Transition Plan.

Schroders Greencoat is also acutely aware of the need for a Just Transition and recognises potential risks linked to renewable energy supply chains. By prioritising the most material known social risks to its business, Schroders Greencoat has therefore been part of the working group developing the Solar Stewardship Initiative, an industry initiative to establish traceability and responsible sourcing in the solar supply chain.

Schroders Greencoat also has an Exclusion List, set out in its ESG Policy, that aligns with and goes beyond the [Schroders Exclusions Policy](#). Schroders Greencoat applies exclusions criteria with the effect of avoiding investment in activities it believes to be incompatible with its investment strategy, taking a zero tolerance approach. Climate related criteria include:

- **Coal** – exploration, extraction, production, transportation, power generation, distribution and/or storage,
- **Oil (including oil sands)** – exploration, extraction, production, transportation, power generation, distribution and/or storage,
- **Gas (excluding green gases such as biomethane, biopropane and hydrogen)** – exploration, extraction and production, and
- **Bioenergy or biofuel from unsustainable sources** – extraction, production, power generation.

3.1 Climate related risks and opportunities

Schroders Greencoat recognises that there are short, medium and long term climate risks that could affect its future financial performance linked to climate related transition risks, such as policy changes, and physical risks.

Climate related risks and opportunities are assessed as part of pre-investment due diligence based on available data and information. This includes an assessment of relevant climate and renewable energy related policies and regulation, power prices and physical risks such as flood risk and extreme weather events. The Manager then seeks to manage these risks to mitigate any potential impacts as part of pre-investment actions or ongoing asset management. Please note that Schroders Greencoat does not apply the use of tools referenced in the Group report such as CONTEXT and MSCI Carbon Emissions analyses as these are relevant only to publicly listed investments.

The most material climate related risks and opportunities identified by Schroders Greencoat are set out below, including mitigation actions to manage risks where appropriate.

Table 2: Principal climate opportunities

Climate opportunity category	Climate issues	Opportunities	Considerations
Transition – policy	Regulation and policy supporting renewable energy generation	The increasingly ambitious corporate and government net zero targets is expected to result in supportive policy incentives for the renewable energy sector and for energy transition assets. It is also expected to lead to greater use of lower emission energy sources and a shift towards decentralised energy production, increasing the demand for operational renewable energy and energy transition assets, as well as more localised solutions.	At Schrodgers Greencoat we believe the decarbonisation of the global economy will continue to present a significant investment opportunity for us in the short and medium term (0–15 years) and that the scale of our growth and the financial returns it generates for clients will in part be related to the success of the sector and the engagement of its stakeholders.
Transition – market opportunity	Increased demand for renewable energy generation	Increasingly ambitious corporate and government net zero targets could lead to a material increase in the procurement of renewable energy and in the demand for lower carbon solutions by businesses and consumers. Moreover, companies are increasingly required to demonstrate their commitment to reducing their carbon footprints, which may increase the demand for corporate Power Purchase Agreements (‘PPAs’) or equivalent contractual price guarantees. This would provide greater stability of and visibility over future cash flows, reducing the risk associated with investment activities and project returns.	At Schrodgers Greencoat we believe that decarbonisation of the global economy will continue to present a significant investment opportunity for us in the short and medium term (0–15 years) and that the scale of our growth and the financial returns it generates for clients will in part be related to the success of the sector and the engagement of its stakeholders. An increase in demand for renewable and low carbon energy could also support higher prices being paid for renewable energy generation and low carbon solutions.
Transition – policy	Increased investor interest in renewable energy and energy transition funds	Institutional investors are increasingly expected by regulators and clients to disclose their strategies for mitigating climate change. This includes the setting of net zero targets and investing in assets that contribute to climate change mitigation, such as renewable energy assets. Greater investor interest in renewable energy and energy transition funds could enable higher capital raises to support the long term growth and investment activities of Schrodgers Greencoat.	At Schrodgers Greencoat we believe that providing investors with investment vehicles that support their net zero ambitions is an opportunity for us in the short to medium term (0–15 years). Schrodgers Greencoat continues to evolve its engagement with clients and its disclosures to explain the positive role that renewable energy generation and energy transition assets play in decarbonising the economy better.

Table 3: Principal climate risks

Climate risk category	Climate issues	Risks	Considerations
Transition – market	Increased renewable generation capacity reduces power prices	It is possible that the deployment of new renewable energy generation capacity, required to meet future government net zero targets, could reduce the power prices captured by our investment portfolio, resulting in reduced revenues.	<p>A key factor that could impact assets managed by Schroders Greencoat in the transition to a lower carbon economy is the variability of power prices, both in the short (<5 years) and medium term (5–15 years).</p> <p>The risk is mitigated to some extent in the short term through the existence of contracted cash flows in many investments. In the medium to long term (15–30 years), however, the risk is greater, with the potential impact of lower long term power prices resulting in a decrease in the value of clients’ investments.</p>
Transition – policy	Retrospective changes to policies providing financial support to renewable energy	<p>There is a risk that governments retrospectively change their financial support for the renewable energy sector and energy transition assets or their classification of eligible activities.</p> <p>Retrospective changes to such financial support, such as contract for difference (‘CFD’), renewable obligation certificates (‘ROCs’) and feed-in tariffs (‘FITs’) could have a material adverse effect on asset values and revenues for any affected assets.</p>	<p>We consider the likelihood of retrospective policy changes to be low in the short term (<5 years) but the potential impact to be relatively high, having already witnessed the revision by governments in their support for the wind and solar sectors as markets have matured.</p> <p>To manage this risk, Schroders Greencoat keeps itself abreast of developments in international support for renewable energy and energy transition assets and assesses the impact of any changes and, where possible, responds to changes when and if they happen. Schroders Greencoat is also actively engaged in consultation with both industry and government, particularly in the UK and Ireland where it has strong existing relationships with industry bodies and policymakers. Schroders Greencoat’s growth strategy is implemented and all new jurisdictions are risk assessed during the acquisition process; this includes assessment against government policy and regulatory and political factors.</p>
Transition – policy	Retrospective changes to carbon accounting standards	Under current EU and UK carbon accounting rules, bioenergy is defined as a renewable energy and can report Scope 1 emissions as zero. If industry and accounting perspectives were to change on this, bringing bioenergy stack carbon emissions into scope of reporting, this could significantly reduce the demand for	<p>We consider the likelihood of retrospective changes to carbon accounting to be low over the short to medium term (0–15 years) because of the extent of the regulatory adoption of this approach. The impact would be significant should the risk materialise.</p> <p>To manage this risk, Schroders Greencoat stays abreast of developments in international support for and definitions of</p>

Climate risk category	Climate issues	Risks	Considerations
		bioenergy as a source of power, impacting asset values, cash flows and investor interest. It could also lead to significant carbon costs or capex to introduce carbon capture and storage mechanisms. Finally, reported emissions could jump materially, jeopardising net zero emissions targets and thereby posing reputational risk to Schroders Greencoat.	renewable energy related to biomass and other biofuels. Schroders Greencoat has also initiated an assessment on the feasibility of introducing carbon capture and storage on one of its waste wood biomass sites to better understand potential commercial and operational implications. This work includes evaluating technical solutions, offtake opportunities – both for storage or utilisation of the CO ₂ – engaging with policymakers, local stakeholders, including local authorities, and local industries with aligned strategies.
Transition – policy	Stricter decarbonisation policy and regulation	It is possible that government policy and regulation require more rapid decarbonisation of all parts of the economy, including for assets contributing to the energy transition. This could result in a significant increase in costs to adopt or deploy new lower carbon practices and processes such as carbon capture, or an increase in costs associated with switching of supply chains to lower carbon alternatives.	We understand the need to decarbonise all parts of the economy. We consider the impact of the risk to be low in the short term (<5 years) but to have a greater likelihood and impact over the medium term (5–15 years). While Schroders Greencoat’s carbon footprint is relatively low compared to the carbon avoided through the renewable electricity generation and energy transition assets it manages, the company has made a net zero commitment. It is investigating opportunities to reduce its Scope 1 and 2 emissions and to influence the market to reduce Scope 3 emissions, including tracking the technical maturity and associated costs of new or alternative technologies.
Transition – reputation	Increased reputational risks associated with climate-related disclosures and reporting obligations	There is an increase in reputational risk should incorrect or unclear statements be made in climate related disclosures that could result in investor dissatisfaction, fines linked to greenwashing or broader reputational damage to Schroders Greencoat.	We consider the potential likelihood of this risk to be low in the short and medium term. To manage it, Schroders Greencoat employs specialist consultants to measure and report on carbon emissions. Schroders Greencoat also uses internal processes to monitor emerging climate related disclosure regulations and all disclosures that are made are reviewed by the relevant teams including the Compliance and Sustainability team.
Physical – acute	Increase in extreme weather events	Globally we have witnessed an increase in recent years of extreme weather events including flooding, heatwaves, long periods of freezing temperatures, and storms including high wind speeds. Extreme weather events have the potential to disrupt operations, affecting cash flows and resulting in lower electricity volumes	We monitor climate related physical risks. In the medium and long term (15–30+ years), more extreme weather patterns due to climate change have the capacity to damage infrastructure in general, including above ground grid, energy generation or energy transition infrastructure. However, in the short term (0–5 years) it is considered unlikely that significant damage will be caused to the majority of our generating equipment as

Climate risk category	Climate issues	Risks	Considerations
		and revenue than expected, and to damage assets, resulting in increased operating costs or insurance premiums.	<p>a result of extreme weather events. Certain US assets are located in areas prone to hurricanes and tornadoes but have insurance in place to cover most financial damage.</p> <p>To mitigate for extreme weather events, such risks are considered during the acquisition process for all new investments as part of due diligence, including a technical assessment of the asset. Appropriate, reasonable mitigation protections are put into place, as required.</p> <p>We also procure property damage and business interruption insurance, should operations be disrupted or assets damaged. Finally, there are warranties and performance guarantees in place to cover failed equipment in the short term.</p>
Physical – chronic	Changing weather patterns	Climate change has the potential to change weather patterns materially in the coming decades.	<p>We consider the potential impacts in the medium to long term (5–30 years) of changing weather patterns on our activities to be uncertain.</p> <p>Schroders Greencoat has carried out pilots for climate risk modelling that showed that climate risks were an immaterial portfolio risk in the near term. Schroders Greencoat continues to investigate physical climate modelling tools and solutions to better understand the potential climate scenarios that might unfold and their implications for its investment assets.</p>

3.2 Climate scenario analysis

Schroders Greencoat understands how effective climate scenario analysis can help investors understand potential climate related impacts, opportunities and risks to their portfolios and the resilience of their portfolios under different climate scenarios. Schroders Greencoat also recognises that clients and regulators increasingly expect or require climate scenario analysis to be carried out.

Over the past few years, Schroders Greencoat has trialled several climate scenario analysis models and tools but has not yet found a comprehensive solution for transition and physical risk analysis that is considered appropriate for its real asset investment base. We believe that the solutions which are currently available in the market do not correctly reflect the specific risks and profile of our assets and, therefore, using this data could potentially be misleading to investors.

In our product level reporting this year, we do not report on Implied Temperature Rise (ITR) and Climate Value at Risk (Climate VAR) metrics, named in the FCA requirements, due to challenges associated with the availability of appropriate tools and methodologies for these metrics for private assets. We believe that the solutions which are currently available in the market do not correctly reflect the specific risks and profile of our assets and, therefore, using this data could potentially be misleading to investors. We provide qualitative assessments against the Network for Greening the Financial Systems (NGFS) climate scenarios at product level based on the three FCA prescribed scenarios: Orderly Scenario, Disorderly Scenario and a Hot House World. For product level reporting obligations, the Manager has used the following scenarios to provide prescribed climate disclosures:

- Orderly scenario - the NGFS Net Zero 2050 scenario,
- Disorderly scenario - the NGFS Delayed Transition scenario, and
- Hot House World scenario - the NGFS Current Policies scenario.

The Manager exported high level economic data taken from these scenarios to qualitatively assess how such scenarios impact the Company and assets invested in by the Company. This data is taken from the publicly available NGFS Phase IV climate scenario models (NGFS IIASA Scenario Explora). Where country specific data is not available, data associated with the most applicable region has been applied instead. The Manager has also drawn on the [NGFS Climate Scenarios Technical Documentation](#) and [Scenarios Presentation](#).

The Manager is investigating solutions for the determination of quantitative climate scenario analysis metrics and therefore a quantitative assessment of investment products against prescribed scenarios in the future and will, to the extent possible, seek to report against these in the next reporting period.

Please note that this approach differs to that of the Group which uses MSCI's Climate VAR modelling and Implied Temperature Rating for the purpose of climate scenario analysis as private renewable energy infrastructure investments were not an in-scope asset class in 2023.

Our approach to date regarding climate scenario analysis is set out below.

Transition risks

We have considered the potential impact of a high transition risk scenario on our investments. The scenario was developed by a market leading consultant and sets out how electricity prices and the market may develop in line with meeting the legislated target of net zero emissions by 2050, including current and future policies regarding carbon neutrality, technological developments and global commodity price forecasts.

In this high transition risk scenario, where global temperature increases are limited to 1.5–2.0°C (most typically associated with net zero), it is assumed that governments are successful in implementing net zero plans, albeit energy systems decarbonise later than targeted. In this scenario, the long term power price is lower than the base case we use to calculate the net asset value (NAV) of our investment portfolios, generally indicate a slight negative impact on NAV reflecting the wider deployment of low marginal cost renewable generation capacity, partially offset by the expected deployment of electrolyzers as part of a growing hydrogen economy, the increased electrification of transport and heat, and the build out of data centres.

The lower long term power price is considered by our fund boards or steering committees in relation to the strategies they are responsible for. That said, we recognise that the precise effect on power price of any measures is highly uncertain and highly dependent on the future electricity market design.

Physical risks

Schroders Greencoat has assessed sample portfolios against several climate risk modelling solutions. The outcomes of this exercise were reviewed but not considered a credible basis from which to assess forward looking climate risks.

Generally, however, we continue to believe that a scenario where global temperature increases are significantly higher than 2°C (a high physical risk scenario) would not lead to significant physical risks to our assets in the near term, given that they are designed to operate under extreme weather conditions. Our solar assets and US wind assets are an exception to this, given the lower resilience to flooding and extreme winds for solar assets and the exposure to hurricanes and cyclones for US wind assets. Both asset types have mitigation plans in place, which include incorporating weather resilient design and technology, as far as possible, and insurance to cover damage, outages and remediation.

In the medium to long term, we recognise that there is a risk that weather systems may change due to higher temperature change scenarios, but do not believe it is possible at this time to determine whether this would impact the company, either positively or negatively. We will continue to investigate options for physical climate risk models and tools to support further assessment of the potential risks associated with the investments we manage.

4. Risk Management

The Schroders Greencoat approach to identifying, monitoring and managing climate risks is consistent with the group level risk framework described in the Risk Management section of the Group Climate Report (p.47). However, at an entity level the following risk management controls, policies and procedures are in place which supplement the Group level controls.

Schroders Greencoat has established risk management processes for all the investments it manages, including for climate related risks.

The Risk Management Committee (RMC), which includes Management Committee members and is responsible for risk management across the business, is ultimately responsible for assessing any climate related risks and ensuring that such risks are managed or mitigated in line with Schroders Greencoat's risk appetite. The RMC meets on a quarterly basis to discuss, among other matters, the risk framework, including processes for identifying, assessing and managing risks across the portfolio.

Schroders Greencoat's risk matrix includes climate physical and transition risks and allocates a level of impact and likelihood at investment product level. This matrix is used to determine reported risks, the strategy applied by the investment team and/or Management Committee, and any mitigation activities required in relation to the risks identified.

From an investment perspective, investment teams are responsible for the identification and ongoing management of climate related risks associated with the investments and funds they manage.

The ESG Committee, with support from the Sustainability Team and the Compliance Team, is responsible for monitoring evolving climate related risks and opportunities, such as changes to climate regulations and policies that affect its business, and for sharing relevant information with the Management Committee and investment teams.

5. Metrics and Targets

Metrics

Schroders Greencoat use the same metrics to assess climate related risks and opportunities at an entity level as the approach outlined within the Group Climate Report 2023 for Schroders Greencoat (p.70). These metrics, which apply the GHG Protocol methodology and an equity share approach, are applied across all the products managed by Schroders Greencoat and have been applied since 2022.

Table 4: Greenhouse Gas Emissions - GHG Protocol

Metric	2022	2023	
Absolute emissions	Scope 1	84,871	91,858
	Scope 2	5,326	10,996
	Scope 3	419,780	993,610
	Total scope 1, 2 and 3	581,976	1,096,459
	Out-of-scope ³	916,538	1,170,073
Emissions intensity ⁴	Scopes 1 and 2 (tCO ₂ e/£m invested)	10	11
	Scope 3 (tCO ₂ e/£m invested)	48	102
	Scopes 1 and 2 (tCO ₂ e/MWh)	0.008	0.008
	Scope 3 (tCO ₂ e/MWh)	0.04	0.08
Renewable energy generated (GWh) ⁵	11,584	12,279	
Carbon avoided (tCO ₂) ⁶	4.5m	5.7m	
Homes powered (million) ⁷	3.2	3.6	

Emissions data is reported as annual figures as at year end (31 December 2023) based on Schroders Greencoat assets under management (AUM) of £9.7 billion in 2023 (31 December) and £8.8bn in 2022 (31 December).

For the first time, Schroders Greencoat reported its entity level GHG emissions in line with the Partnership for Carbon Accounting Financials ('PCAF') standard (the Global GHG accounting and reporting standard for the financial industry) to reflect best practice in the industry for entity level reporting and enables us to clearly distinguish between operational emissions (for example, office emissions) and financed emissions, which make up most of our reportable carbon footprint. This is also aligned to Schroders' emissions reporting.

PCAF guidance requires financial institutions to apply a control approach to define the operational boundaries applied for the purposes of emissions reporting. Following external consultant guidance, Schroders Greencoat has applied a financial control approach meaning that emissions data is only reported for assets in which Schroders Greencoat investment products, on behalf of our clients, have financial control. This means that assets in which Schroders Greencoat funds have a minority stake are excluded from financed emissions carbon footprint. Once assets are considered in scope based on financial control, Schroders Greencoat funds' investment allocation is applied to the asset emissions to produce entity level financed emissions footprint.

All GHG emissions were calculated using the most up-to-date government approved conversion factors and, where possible, using primary data. Where primary data was not available, we used secondary data and estimations based on the best available credited sources and an independent consultant. Emissions were calculated on a carbon dioxide equivalent basis for the global warming potentials of non-carbon GHGs.

PCAF carbon emissions reported are significantly below those reported under the GHG Protocol methodology as a result of the control approach explained above. For this reason, Schroders Greencoat continues to believe

³ Out of scope emissions are the direct biogenic CO₂ emissions associated with the combustion of biomass and biofuels and relate only to our bioenergy assets. Per GHG Protocol guidance, emissions for direct CO₂ emissions from biologically sequestered carbon (e.g. CO₂ from burning biomass or biofuel) are not included in Scope 1 emissions but reported separately.

⁴ All emissions intensity metrics are reported on an unweighted basis reflecting total Greencoat investment emissions over total AUM and/or total renewable energy generation (MWh). AUM as referenced on this page.

⁵ MWh generated reflects the total renewable energy generated (electrical and thermal) by the portfolio under management in the 12 months to 31 December.

⁶ Carbon avoided calculation assumes that renewable energy generation replaced the marginal generator in the relevant country/technological application and applies the carbon intensity associated with the marginal generation asset (tCO₂/MWh). The methodology for calculating carbon avoided for European assets has been updated in 2023 due to greater data availability and is based on the marginal generation displaced in each jurisdiction. This approach is the preferred option under Partnership for Carbon Accounting Financials ('PCAF') guidance ('operating margin') for measuring carbon avoided and replaces the methodology used in 2021 and 2022 that applied average grid intensity per region. From 2023, all data is reported using the marginal generation approach.

⁷ Homes powered reflects the annual average household consumption for each country (MWh).

that a GHG Protocol approach is a more accurate reflection of the entity’s carbon footprint and therefore for full transparency has published both this year.

Table 5: Greenhouse gas emissions – PCAF

Scope	Emission driver	2023
Scope 1	Stationary combustion (natural gas) (tCO _{2e})	8.0
Scope 2	Electricity (location based) (tCO _{2e})	30.2
Scope 3 (category 15)	Financed emissions Scope 1 and 2 (tCO _{2e})	77,093
	Financed emissions Scope 3 (tCO _{2e})	726,382
Financed avoided emissions (tCO ₂) ⁸		2,863,385
Financed out-of-scope emissions (tCO _{2e}) ⁹		1,097,092
Data coverage (% AUM)		99.9 ¹⁰

Targets

Schroders Greencoat’s key target relating to climate change mitigation is to continue to increase the renewable energy generation associated with its clients’ investments as this is where it believes it can have the most material positive impact. The entity, therefore, continues to be committed to its investment strategy of investing in energy transition and renewable energy assets.

Schroders Greencoat became a signatory to the Net Zero Asset Manager initiative in 2019 and set a target in 2021 to reduce Scope 1 and 2 emissions per MWh of renewable energy generated by 50% by 2030 for its investments (using 2022 as a baseline). Schroders Greencoat applied this physical intensity metric because it is considered the most relevant to its activities as investors in renewable energy and energy transition assets whereby the entity remains committed to expanding renewable energy generation whilst also making its clients’ investments as carbon efficient as possible.

The main objective for 2023 was to collect a second year of comparable data, enabling a deeper understanding of year-on-year performance trends with which to start to build out an emissions reduction plan. Scope 1 and 2 emissions per MWh of renewable electricity generated increased slightly year on year (8%)¹¹. This increase was due to the growth of the portfolios with new assets acquired by funds throughout 2023 and improvements in data quality capturing more emissions sources.

In 2023, Schroders Greencoat took measures to reduce its market based Scope 2 emissions (GHG emissions associated with electricity consumption) by switching to fully renewable tariffs for many assets across the business including wind and solar assets. As at year end, 67% of Schroders Greencoat managed assets were on renewable energy tariffs. Schroders Greencoat also completed Phase 1 of a Carbon Capture and Storage feasibility assessment on one of its waste wood biomass plants.

Looking forward, a key priority for Schroders Greencoat as it evolves its climate strategy is to publish a climate action report that will aim to set out its strategy, targets and progress towards Net Zero. We intend to investigate what Scope 1 and 2 emissions intensity reduction pathways look like for investment teams. The

⁸ Carbon avoided calculation assumes that renewable energy generation replaced the marginal generator in the relevant country/technological application and applies the carbon intensity associated with the marginal generation asset (tCO₂/MWh). The methodology for calculating carbon avoided for European assets has been updated in 2023 due to greater data availability and is based on the marginal generation displaced in each jurisdiction. This approach is the preferred option under Partnership for Carbon Accounting Financials (‘PCAF’) guidance (‘operating margin’) for measuring carbon avoided and replaces the methodology used in 2021 and 2022 that applied average grid intensity per region. From 2023, all data is reported using the marginal generation approach.

⁹ Out of scope emissions are the direct biogenic CO₂ emissions associated with the combustion of biomass and biofuels and relate only to our bioenergy assets. Per GHG Protocol guidance, emissions for direct CO₂ emissions from biologically sequestered carbon (e.g. CO₂ from burning biomass or biofuel) are not included in Scope 1 emissions but reported separately.

¹⁰ Assets not covered by the carbon footprinting (<0.01% of AUM) included a development asset with no emissions and an asset acquired on 31 Dec 2023 which was not included in the carbon footprinting exercise.

¹¹ The scope 1 and 2 emissions (tCO₂)/MWh metric is based on the GHG Protocol approach to enable year on year comparison. See Table 2.

Manager has not yet published a Transition Plan but would expect the climate action report to incorporate such considerations.

Methodology

See Metrics and Targets section above.

Data Gaps, Estimates and Assumptions

See Metrics and Targets section above.

Where possible, emissions calculations applied primary data from specific activities (e.g. electricity consumption quoting megawatt-hour consumed). Where primary data was not available secondary data was used (i.e. data that is not from specific activities and is estimated based on industry averages/benchmarks).

Carbon emissions data only covers operational assets currently and does not account directly for emissions associated with construction assets. Scope 3 Capital Goods emissions do however represent all upstream (cradle-to-gate) emissions from the production of any assets acquired during the year in accordance with the GHG Protocol.

GHG emissions data for 2023 covers all investments managed by Schroders Greencoat except for assets acquired in December 2023, which were not included in the carbon footprinting exercise for 2023, and development assets for which GHG emissions are not available. Assets not covered by GHG emissions data were less than 0.01% of AUM as at 31 December 2023.

Notes on data limitations

Scope 3 emissions from Capital Goods, based on the GHG Protocol methodology of accounting for total embodied carbon during the year of acquisition means that the entity's Scope 3 reported emissions are likely to fluctuate significantly between years depending on the number and size of new assets acquired during the reporting year. The fluctuation in upstream Scope 3 emissions year-on-year resulting from this accounting approach, coupled with the upstream embodied carbon from industries that are yet to decarbonise is a challenge for the entity regarding its ability to develop a roadmap for Scope 3 decarbonisation. It also creates challenges regarding the setting of Scope 3 decarbonisation targets within our industry.

Reported carbon emissions were calculated by a third party expert applying a best efforts approach for the material known sources of asset emissions using on available data and assumptions.

Delegation

Carbon emissions calculations, and recommendation on the reporting approach, were carried out by a third party expert, ITP Energised, on behalf of the entity. Schroders Greencoat also relies on the provision accurate data by key service providers responsible for managing its clients' assets on behalf of Schroders Greencoat.

Materiality

The approach to materiality is set out on page 9 of the Group Climate Report 2023.

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