HIML Holdings Limited

Task Force on Climate-Related Financial Disclosures Report

FY2023

Contents

Overview

Introduction

HIML Holdings Limited and all its subsidiary companies are committed to responsible investment and managing our environmental impact.

We have made public commitments to the Task Force on Climate-related Financial Disclosures (TCFD) and the Principles for Responsible Investment (PRI), which our subsidiary Herald Investment Management Limited (HIML) joined as an Investment Manager signatory in January 2020.

About the TCFD

In 2017, the Financial Standards Board (FSB) released the first recommendations from the TCFD. This was created to guide companies in providing information on their climate-related risk management and to ensure that these disclosures were consistent and comparable. The aim is that this will support informed capital allocation.

The recommendations are intended to be integrated into a company's existing business processes and cover four areas: governance; strategy; risk management; and metrics and targets. Within each of these areas, there are recommended disclosures providing guidance on the relevant information which should be included. The aim is to provide consistent and comparable disclosures, which can support informed capital allocation.

The PRI has introduced TCFD-aligned indicators into its reporting framework. Some are now mandatory for signatories, including our main subsidiary, Herald Investment Management Limited. There are six core indicators, which are mandatory to report, which are aligned with the TCFD. These are all within the Policy, Governance and Strategy (PGS) module, which is outlined here, and include: 17 (TCFD reporting), 41 (climate-related risks and opportunities), 43 (climate scenario analysis), 44 (climate-related risk management process), 45 (climate risk metrics) and 46 (Scope 1, 2 and 3 emissions).

As this is our first year following the TCFD guidelines, we are using the year one approach set out in the PRI's Asset Owners' Guide to TCFD. This recommends using the first year to become familiar with the recommendations, adopt industry best practice, establish board-level oversight and internal climate-risk management processes.

Figure 1: Structure of the TCFD.

Our Progress in 2022

As part of Herald Investment Management Limited's membership of the PRI, this financial year, we have been assessing the climate-related risks and opportunities to our group businesses and investments using the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. This provides a framework for integrating climate risk management into our business's existing governance, strategy and risk management processes. It also provides guidance on setting metrics and targets, which we are using to set our carbon reduction targets and strategy. By voluntarily following the TCFD guidelines, we can ensure a thorough understanding of the potential impacts of climate change on our operations and assets.

In 2022 we have:

- Conducted scenario analysis to improve our understanding of the risks associated with our operations and assets.
- Calculated our Scope 1, 2 and partial Scope 3 emissions.

In future, we will conduct more detailed modelling and risk assessment on our own assets and assess financial modelling for the impact of our key risks.

About Us

HIML Holdings Limited is a holding company for subsidiary entities. The main activities of the Group subsidiaries are investment management, related advisory services and property ownership. The overall aim of the company is to provide good long-term performance for our clients.

Herald Investment Management Limited is our main subsidiary, and it focuses on managing investments, primarily within the technology, media, and telecom (TMT) sector mainly in smaller companies for its clients. We are aware that some of these businesses may be facing physical and transition climate change risks and have experienced some asset damage due to climate, for example, due to flooding in Thailand. We are committed to responsible investment and this includes understanding the potential risks to our managed portfolios. The greatest impact so far has been the increased energy costs which may increase further as the world transitions to a low-carbon economy.

This financial year we have followed the recommendations of the TCFD to understand our climate-related risks and opportunities. As the principal activity of our Group subsidiaries is investment management, focusing on investing and owning for the long term is particularly relevant as climate-related risks will increase over time. This financial year, our assessment has focused on HIML Holdings' operations and assets along with a broad overview of HIML's portfolios under management.

Our ESG Journey

2010: HIML began following the UK stewardship Code.

2017: HIML Property installed EV charging points.

2020: HIML made company EV cars available.

2020: HIML became a signatory of the United Nations-sponsored PRI.

2021: HIML became a TCFD signatory.

2021: HIML Property signed up to a 100% renewable electricity contract from October.

2021: LED lighting, double glazing and other energy-efficiency measures were installed.

2022: HIML Holdings started climate scenario analysis for climate-related risk assessment.

2023: HIML Holdings produced its first TCFD report and Carbon Balance Sheet.

Executive Statement

We take pride in being a responsible investor and are pleased to be publishing this TCFD report which further demonstrates our commitment to responding appropriately to the challenges of climate change. Understanding the risks and opportunities presented by climate change will allow us to continue delivering good long-term performance for our clients, which is always our main aim.

In 2022, we started calculating our carbon footprint and look forward to announcing our emissions reduction strategy in 2023.

Governance

Disclose the organisation’s governance around climate-related risks and opportunities.

Climate governance

We are a small company, with twenty-two employees, four directors, and a simple governance structure. Our Board and senior investment managers have formal oversight of responsible investment, including climate-related risks.

Board-level Oversight

The Board meets quarterly and discusses risk at each meeting. From FY23/24, climate-related risks and opportunities will be a standing agenda item for the Q4 meetings. This will allow updates to be provided based on the annual climate modelling, risk assessment and for the latest climate-related risk register to be approved. The Stewardship Report, which includes commentary on HIML's approach to climate risks, is approved annually by the Board.

In January 2023, we held a climate risk workshop at which all executive directors and investment managers were present to discuss climate-related risks and opportunities. Our Managing Director, Katie Potts, is responsible for signing off the climate-related risk register.

For Herald Investment Management Limited and investee companies, the climate-related risks and opportunities are managed by the investors reviewing and discussing HIML's Stewardship Policy, Responsible Investing and ESG approach. The independent boards of HIML's clients report and disclose climate-related risks and opportunities to the ultimate beneficiaries in the funds' annual reporting. Climate change is incorporated into the risk maps of HIML's clients. The actual emissions of the investment portfolios are monitored and reported annually in a publicly available Stewardship Report.

Senior Management

Many of our staff have been involved in developing our responsible investment policies and are aware of the climate-risk assessment process that we have conducted for FY22/23. Whilst there is currently no formal link between environment, social and governance (ESG), or climate risk and remuneration, the employees that are involved with ESG initiatives have received variable remuneration based on the quality of the work performed in relation to ESG. They receive training on responsible investment on a recurring basis.

Our management staff report on the risks and opportunities of climate change and associated regulations to the Board. This may, for example, include discussing the environmental impact of the company and how to mitigate it. The risks and opportunities of climate change and the implications for our investors' funds are discussed with both the Board of the fund management company and the independent boards of the beneficiaries' funds. Management and the Board are aware that additional climate change risk analysis and environmental impact reporting will be required over the coming years, and an incremental and measured approach is planned.

Investment Stewardship

Within HIML's managed portfolios, we believe that good ESG practices are consistent with delivering better financial performance. As part of our commitment to acting in the best long-term interests of our beneficiaries, Herald Investment Management Limited is a signatory of the PRI, and aligns with the UK Stewardship Code.

As long-term investors, an assessment of ESG risks and opportunities is an inherent part of our investment process. This provides a robust understanding of these issues and is a key part of assessing the outlook for future cash flow generation and risks of an investment.

As long-term owners, we aim to act as responsible stewards of our clients' investments by exercising our proxy voting rights and having an open dialogue with portfolio companies on a broad range of issues, including ESG-related issues.

Strategy

Disclose the material actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.

Our Approach

HIML Holdings is a holding company for various subsidiaries which focus on investment management, related advisory services and property ownership. The main subsidiaries are Herald Investment Management Limited (HIML), which manages two portfolio funds, and HIML Property Limited. HIML Holding's has owned assets consisting primarily of government bonds.

HIML's strategy is to invest for the long term. Therefore, we identify and own companies that can sustainably generate excess returns on capital annually. An assessment of ESG risks and opportunities is incorporated into our investment process, as these can impact future performance. We are introducing climate risk assessments into our processes. This financial year we have focussed on our operations and a broad overview of the climate change risks to the technology, media, and telecom (TMT) sectors.

Our Stewardship Approach

Our Stewardship Approach and Policy outlines how Herald Investment Management Limited actively monitors and manages our investee companies to protect our clients' investments. This is in line with our overall aims of providing good long-term performance, meeting client expectations and maintaining our good reputation.

We focus on emerging technology because it can create wealth, added value jobs and sustainable benefits for the economy and society. We believe that capitalism and technological innovation are the central requirements to address the environmental challenges that we face. Our investee companies are assisting in improving sustainability by offering more efficient technology and new solutions. Furthermore, most investments have a low carbon footprint, leading to low carbon emissions associated with our portfolios.

Climate Scenario Analysis

The understanding of climate change is increasing every year, but it is still not possible to accurately predict future impacts, particularly in the long term. This is due to the influence of government and business decisions on carbon emissions and the complexity of how climate systems interact. Therefore, climate scenarios are used to envisage potential futures and the associated risks. The scenarios we used considered the extent of warming by 2100 compared to pre-Industrial levels.

<2°C: A Paris Agreement-aligned best-case scenario, where concrete action is taken to keep warming to a minimum. This introduces risks associated with transitioning to a low-carbon economy but minimises the physical risks of a changing climate.

2-3°C: Based on current data, this scenario is currently most likely. It envisages government action being taken in a less organised manner, which increases the risks to businesses as they have less time to prepare. There are increased physical risks under this scenario.

>3°C: This is the worst-case scenario, which would result from delayed action to manage climate emissions, resulting in the greatest physical risks, particularly in the long term.

Each scenario was considered over three time horizons (short: 2022-2027, medium: 2027-2037, long: 2037-2052). The time horizons extend to 2052 to cover the period when the UK will be transitioning to a low-carbon economy.

Within each scenario, eight climate indicators were modelled for our London and New York offices and for Taiwan, which is where most semiconductors are manufactured, in order to start considering the potential impact on our TMT investments. These included precipitation, aridity and temperature.

Table 1 shows the rating levels and scores used to asses the identified risks. Further information on this is provided in the Risk Management section.

Table 1: Our risk rating levels and scores for inherent risk.

Impact of risk	Likelihood	Score (Impact x Likelihood)
1 - Minor	1 - Unlikely	1-2 - Minor
2 - Moderate	2 - Possible	3-5 - Moderate
3 - Serious	3 - Likely	6-9 - Serious

Our Results

The TCFD framework divides climate-related risks and opportunities into two broad categories, physical and transition. It also provides suggested risks within each of these sub-categories. We have considered each of these in relation to our operations and our investment in the TMT sector.

Physical risks are those associated with the changing climate and extreme weather events, split into acute (event-driven, for example, flooding) and chronic (due to longer-term shifts, for example, rising mean temperatures).

Transition risks which, in the short term we perceive as much higher than the physical risks, are associated with the transition to a low-carbon economy. These are categorised as policy and legal, technology, market, or reputation.

The climate scenario analysis results were presented to our directors and key internal stakeholders in a climate risk assessment workshop in January 2023. The workshop included a detailed review and discussion of the key climate risks, findings and their impacts on HIML Holdings Limited. Based on these discussions, a climate risk register was prepared following our standard risk register format.

Summary of the Results

The risks and opportunities of climate change to HIML Holdings Limited are considered under two areas: those affecting business operations and those impacting our assets.

As a small company with one owned building, one leased office space, and 22 staff, the potential impacts on our physical operations are limited. The main risks are associated with the introduction of new regulations that would affect our products and services. For example, when the UK Green Taxonomy is introduced, we may no longer be able to refer to ourselves as a responsible investor, depending on its definitions. We currently have internal resources and work with third-party ESG consultants, to respond to changing regulations.

Regarding physical risks, our London property is not at risk of flooding. However, it will be impacted by rising temperatures, which will be higher in the south of England. We have recently completed a project to increase its energy efficiency, including using energy-efficient lighting. This is a mitigating action for risks around the potential for new regulations, requiring properties to be more energy efficient and the possible introduction of carbon pricing by reducing our carbon footprint.

Climate change risks interact with the Group's principal risk: that unsatisfactory performance of managed investment vehicles could result in clients' withdrawing their mandate. It is important that we consider how climate change may impact our investee companies, particularly as we invest over the medium to long-term. ESG topics are already integrated into our investment process and factored into our assessment of the future cash flow generation and risks of an investment.

The key risks identified for our investee companies were around policy, legal and market changes. We already experience increased reporting obligations, as do our investee companies, with the associated compliance costs and adverse impacts on profitability and valuations. This will be mitigated if regulations are broadly applied, creating a level playing field and allowing the costs to be passed on to customers, as all companies face similar pressures.

We consider our client investments as part of our annual PRI reporting. We believe that the risk to them is low, particularly due to the diverse nature of the portfolios. Much of the world's most advanced technology and intellectual property tends to reside in the wealthiest and most advanced economies, which have strict environmental standards and are effective at mitigating such risks. Some holdings within the investment portfolios may be vulnerable to indirect physical climate change risks, including increased electricity prices associated with the removal of power stations that use fossil fuels, which may impact the profitability of some data centre and manufacturing companies.

Opportunities

The TCFD framework emphasises the need to also consider opportunities from climate change. We believe that our investee companies within the TMT sector can play a key role in assisting the transition to a low-carbon future and that good ESG practices are consistent with delivering better financial performance. We will continue to invest in this sector and support our companies in improving their ESG performance.

Transition risks

Policy & Legal

These risks are associated with potential policy and legal changes that may be introduced to manage the transition to the low-carbon economy. The UK Government has committed to a 68% reduction in emissions by 2030, relative to 1990 levels, based on Nationally Determined Contribution (NDC) under the Paris Agreement.

Table 2: : Policy and legal risks with a description of impact, scenario and horizon of highest impact and inherent risk rating.

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
Enhanced emissions reporting and other reporting obligations	Herald Investment Management Limited has reporting requirements as a PRI signatory. Further regulations may be introduced as the world aims to transition to a decarbonised economy. Additional regulations may be introduced, specifically in the financial sectors, such as the Green Taxonomy and EU Sustainable Finance Disclosure Regulation (SFDR). The costs and resources required to ensure that HIML complies with these additional reporting regulations will likely increase. If we do not appropriately manage this risk, there is a possibility of litigation and non-compliance. Complying with new regulations is associated with increased operating expenditure for internal resources and third-party consultants. We currently monitor upcoming legislation changes to ensure compliance. We are calculating our full carbon footprint and reducing our carbon emissions. Therefore, we are prepared for any new reporting requirements regarding emissions. In future, we may use an internal carbon price to estimate costs and/or factor carbon emissions into decisions.	For Herald: Short - Medium Term (2022-2037) <2 °C and 2-3 °C For client investee companies: Short - Medium Term (2022-2037) <2 °C and 2-3 °C	For Herald: Likely, minor Rating: 2 For client investee companies: Likely, serious Rating: 6
Mandates on and regulation of existing products and services	The financial sector may be subject to an increase in regulations. For example, the incoming UK Green Taxonomy could impact the products and services that we can offer. Also, the introduction of SFDR-aligned definitions may lead to us losing responsible investor status. This may impact where the funds can be marketed.	Short - Medium Term (2022-2037) 2 °C and 2-3 °C	Likely, serious Rating: 6

Table 2: : Policy and legal risks with a description of impact, scenario and horizon of highest impact and inherent risk rating.

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
Increase in Carbon/ GHG pricing	If carbon emissions do not decrease at a satisfactory rate, in line with the UK's carbon reduction targets, a carbon tax could be implemented. This would result in increased operating costs to cover payment of a carbon tax for Scope 1 and 2 emissions.	Medium Term (2027-2037) 2-3 °C	Possible, minor Rating: 1
Exposure to Litigation	If we do not comply with new policies and regulations, we may be exposed to fines and lawsuits, particularly for regulatory non-compliance. Any litigation may have an adverse impact on brand reputation. This is associated with increased operating costs to manage compliance and the potential for reduced revenue due to reputational damage.	Medium Term (2027-2037) 2-3 °C	Unlikely, moderate Rating: 2

Transition risks

Technology

Transitioning to a low-carbon world will require new, more efficient technology. This is associated with risks around unsuccessful investments in new technologies and the associated costs. There are also opportunities for companies which can provide these technological solutions.

Table 3: Policy and legal risks with a description of impact, scenario and horizon of highest impact and inherent risk rating. See Table 1 for risk rating levels and key.

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
Substitution of existing products and services with lower emissions options	As the UK transitions to a low-carbon economy, companies may need to substitute their existing products and services with lower emission and more energy-efficient versions. As we are primarily a service provider and not a goods supplier, this risk is less material to the business than other sectors. This is both a risk and an opportunity for our TMT investee companies. There is a risk of existing products becoming redundant. Also, there is an opportunity to provide new products to aid customers in their transition.	Medium Term (2027-2037) <2 °C and 2-3 °C	Unlikely, minor Rating: 1
Costs to transition to lower emissions technology	Companies will need to make their operations more efficient and use lower emissions technology. Our technology use is minor, and this will have a greater impact on companies with large carbon footprints. There is a potential impact on our investments, as they need to use more efficient manufacturing processes. Also, there are potential growth opportunities to offer more efficient solutions to clients. This transition could impact our investment returns and may be associated with increased internal costs for investment research.	Short - Medium Term (2022-2037) <2 °C and 2-3 °C	Possible, minor Rating: 2
Unsuccessful investment in new technologies	For companies which rely heavily on technology, there is a risk that when they move to lower carbon options, this investment is unsuccessful in the long term. This risk is significantly more material in HIML's investments due to the technology focus of HIML's funds. It could lead to reduced investment returns due to investment in technology-related assets that are subject to lock-in.	Short - Medium Term (2022-2037) <2 °C and 2-3 °C	Possible, moderate Rating: 4

Transition risks

Markets

There will be changes in market signals in response to the transition to a low-carbon economy. This includes changing customer behaviour and increased uncertainty in market signals as supply and demand changes.

Table 4: Market risks with a description of impact, scenario and horizon of highest impact and inherent risk rating. See Table 1 for risk rating levels and key.

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
Changing customer behaviour	As we transition to a lower carbon economy, or as awareness of climate change and the need for a transition grows, customers may increasingly demand environmentally responsible or low-carbon products. They may not use companies which are unable to provide these products and services. HIML may be at risk of loss of revenue, reduced profitability and reduced growth if it is unable to keep pace with changing consumer preferences. However, our investments in the TMT sector often support new solutions and a more sustainable future.	Medium Term (2027-2037) 2-3 °C	Possible, moderate Rating: 4
Uncertainty in market signals	The low-carbon transition will result in shifts in supply and demand for certain commodities, products, and services. Policy changes can lead to sudden changes in markets, such as energy prices. These will be relatively low impact for our operations, due to the nature of our services and the limited size of our offices. New climate-conscious markets could present HIML with strategic and financial opportunities. This may include changing demand for 'green' or ESG products. We can mitigate this by monitoring the market and responding proactively to changes.	Medium Term (2027-2037) 2-3 °C	Possible, moderate Rating: 4
Increased cost of energy and raw materials	Energy costs may increase as energy demand grows in a warming climate, increasing energy prices. As an investment manager, energy use and associated emissions are a small portion of group emissions. Most energy use and emissions are indirect, from fund investments in technology assets. There is a risk to investee companies that operating costs will rise, which may impact investment returns.	Short - Medium Term (2022-2037) <2 °C and 2-3 °C	Likely, moderate Rating: 6

Transition risks

Reputation

As customers and investors increasingly factor climate action into their decisions on which companies to support, it is important that we can show a suitable response to the challenges of climate change. We must monitor this to ensure we can protect our reputation as a responsible investor.

Table 5: Reputation risks with a description of impact, scenario and horizon of highest impact and inherent risk rating. See Table 1 for risk rating levels and key.

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
Stigmatisation of sector	If our sector were stigmatised, this could lead to reduced revenue from decreased demand. This is unlikely, as investment management is a crucial service to financial systems. We are a responsible investor and comply with industry ESG regulations. We are working towards best practice, as demonstrated by HIML's PRI membership.	Medium - Long Term (2027-2052) <2 °C and 2-3 °C	Unlikely, moderate Rating: 2
Increased stakeholder concern or negative stakeholder feedback	As the world transitions to a decarbonised economy, stakeholders are likely to have increased interest and concern for companies' sustainability credentials. Stakeholders want to see proactive climate action being taken. Failure to meet these expectations could harm external and internal reputation, leading to reduced access to capital and asset and company valuations. We are responding to this risk by disclosing our PRI responses and TCFD report to be transparent with stakeholders about our response to climate change.	Short - Medium Term (2022-2037) <2 °C and 2-3 °C	Possible, moderate Rating: 4
Shifts in consumer preferences	As we transition to a lower carbon economy, or as awareness of climate change and the need for a transition grows, customers may increasingly demand that companies act accordingly and may not use businesses they deem not to be taking sufficient action. This goes beyond expecting sustainable products and services to consider the behaviour of the company and its operations. We are responding to this risk by disclosing our PRI responses and TCFD report to be transparent with stakeholders about our response to climate change.	Medium Term (2027-2037) <2 °C and 2-3 °C	Possible, moderate Rating: 4

Physical risks

Acute

We expect limited impact from acute physical risks to our operations, as our offices are not in flood-risk areas, and we are prepared for heatwaves. There is more risk to our investee companies, particularly their supply chains, and we will consider this in more detail in the future.

Table 6: Acute physical risks with a description of impact, scenario and horizon of highest impact and inherent risk rating. See Table 1 for risk rating levels and key.

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
Heatwaves/ Extreme heat	Extreme heat and heatwaves can impact infrastructure and staff well-being. The increased energy demand for cooling can put pressure on the grid and lead to disruption. These are all classified as low risk due to the location and size of our offices.	Short - Long Term (2022-2052) 2-3 °C and >3 °C	Likely, minor Rating: 3
Flooding	Flooding is the main cause of infrastructure damage in the UK. Climate change can exacerbate the impacts of flooding, increasing in frequency, scale and intensity. This is classified as low risk due to the location and size of our offices. Flooding can be a significant risk for investee companies and their properties. For example, flooding in Thailand could impact supply chains, product availability and prices.	Medium - Long Term (2027-2052) 2-3 °C and >3 °C	Likely, minor Rating: 3
Storms/Typhoons	Southeast Asia and the Eastern Atlantic regions are prone to hurricanes and typhoons, which can impact supply chains. This is material for the technology sector, as many components are manufactured in these regions. Primary examples include semiconductor and chip production in Taiwan, a typhoon-prone area. Increased storms or typhoons due to climate change could impact investment returns, as company assets could be devalued, or product availability and pricing could be impacted.	Medium - Long Term (2027-2052) 2-3 °C and >3 °C	Likely, minor Rating: 3

Physical risks

Chronic

Chronic climate changes pose a low risk to our operations but a higher risk to our investee companies. Whilst our offices are unlikely to be significantly impacted, the supply chains for our investee companies may be affected, with associated changes in asset values, product availability and pricing.

Table 7: Chronic physical risks with a description of impact, scenario and horizon of highest impact and inherent risk rating. See Table 1 for risk rating levels and key.

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
Water Stress/Changing Precipitation Patterns	Water stress can lead to water use restrictions and increase flooding risk due to the reduced absorbability of the ground. Water stress is projected to have the worst impacts in the Southern and Eastern areas of the country. However, our operations are not water-intensive, so the possible impact is low. Water stress may be a significant risk for certain manufacturing processes, such as semiconductor manufacturing, which are water intensive. This may impact the assets in which HIML's funds are invested, with additional expenses associated with maintaining invested assets in affected regions.	Medium - Long Term (2027-2052) 2-3 °C and >3 °C	Possible, minor Rating: 2
Sea Level Rise	None of our offices are located adjacent to the coast. Therefore, the risk of impact is low. There could be risks to our investee companies and their supply chains, which will be considered in future modelling.	Long Term (2027-2052) 2-3 °C and >3 °C	Possible, minor Rating: 2
Rising Mean Temperatures	An increase in mean temperatures in the UK could increase energy demand and impact staff well-being. However, we consider the potential impact on our offices to be low.	Medium - Long Term (2027-2052) 2-3 °C and >3 °C	Likely, minor Rating: 3

Risk Management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

Risk Management

Our Process

In FY22/23, we engaged a third-party ESG consultant to conduct climate scenario analysis. They presented the findings to key internal stakeholders in a climate risk workshop in January 2023. Based on this, we have created a detailed climate risk register for the first time based on the outcomes of the climate scenario analysis and the climate risk workshop. The Managing Director, Katie Potts, signed off on this in February 2023. This breaks down the risks associated with climate change, providing additional detail to and understanding of the identified residual 'ESG / Climate Change' risk in our main register.

This register followed the same process for assessing impact, likelihood and inherent risk as our main risk register. It uses a three-point scale for impact (minor/moderate/serious) and likelihood (unlikely/possible/likely). Combining impact and likelihood provides an inherent risk rating of minor, moderate or serious. This allows us to consider the areas where mitigating controls are required and assess whether these are sufficient to manage the risk level.

Mitigation

Our highest risks are those associated with policy and legislation changes impacting our client investee companies, if costs cannot be passed onto customers, as well as the possibility of increased emissions, other reporting obligations, and the potential for mandates on our existing products and services. We manage these risks by monitoring upcoming legislation changes to ensure we are informed and compliant. Our investee companies do likewise.

We are proactively calculating our carbon footprint. Also, we are reducing our emissions by setting targets and strategy and reporting on our response in this TCFD report. This ensures we are well-prepared for potential future reporting requirements and legislation around energy efficiency in operations. In addition, it prepares us for the potential increase in energy costs, which is another risk factor. By rerunning our climate scenario analysis and risk assessment each year, we can respond quickly to any changes in risk level.

Metrics & Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Overview

This financial year, we have engaged external consultants to calculate our carbon balance sheet for HIML Holdings Limited, including Scope 1, 2 and partial Scope 3 emissions, for the first time. Based on this, we are in the process of developing our near-term Scope 1 and 2 targets.

Carbon Emissions

We are aware of the environmental impact of our operations and are keen to reduce the impact. We have been improving the energy efficiency of our London office and encouraging the use of electric vehicles (EVs) by providing EV charging points for our staff. We are currently discussing the potential use of carbon credits to offset CO_2 emissions associated with flights.

The tables below present our Scope 1, 2 and partial Scope 3 carbon emissions data for 2022. Scope 1 emissions result from the direct combustion of gaseous and transportation fuels during the reporting year. Scope 2 refers to the emissions associated with purchased electricity used in our offices. Scope 3 emissions are the indirect emissions associated with the products and services we purchase to deliver our services.

We have chosen to assess the applicability of all 15 Scope 3 categories, as defined by the Greenhouse Gas Protocol. This ensures that we disclose the most comprehensive carbon footprint information. We have 10 applicable categories: 1 (purchased goods and services), 2 (capital goods), 3 (fuel-related emissions), 4 (upstream transportation and distribution), 5 (waste generated in operations), 6 (business travel), 7 (employee commuting), 8 (upstream leased assets), 12 (end-of-life treatment of sold products), and 15 (investments).

We have only calculated our partial Scope 3 footprint for 2022. We are in the process of quantifying our investments (category 15) emissions which only covers HIML Holding's assets and not the managed portfolios, using the GHG protocol and Partnership for Carbon Accounting Financials (PCAF) guidance.

It is important to calculate Scope 3 emissions, as they often account for a significant proportion of a company's total emissions footprint. HIML Holdings Limited's current Scope 3 emissions (excluding category 15) account for 90.7% of our footprint.

Table 8 shows an overview of our emissions by scope for 2022, which allows for easy comparison with other companies. Table 9 provides a detailed breakdown of our emissions to provide a more granular insight into our footprint. As this is our first year of reporting, we are unable to provide year-on-year comparisons but we will be publishing this in future.

Table 8: Our 2022 carbon emissions data by scope and carbon intensity metrics.

Metric	2022 (tCO_2e)
Scope 1	7
Scope 2	47.8
Scope 3	533.2
Total	**588**
FTE	22
Carbon intensity metric (tCO_2e/FTE)	27

Carbon Balance Sheet

Table 9: A detailed breakdown of our 2022 carbon emissions data.

Emissions Scopes & Categories	Location-based tCO_2e 2022	%
Scope 1	**7**	**1.2%**
Natural Gas	7	1.2%
Transportation (excluding grey fleet)	0	0.0%
Other Fuels	0	0.0%
Scope 2 (Location-based)	**47.8**	**8%**
Scope 2 (Market-based)	**50.4**	**8.6%**
Scope 3	**533.2**	**91%**
1. Purchased Goods & Services	453.57	77.14%
Resold products		
Goods & Services	453.57	
2. Capital Goods	19.52	3.32%
3. Fuel-related Emissions	20.24	3.44%
4. Upstream Transportation and Distribution	0.09	0.015%
5. Waste Generated in Operations	3.80	0.65%
6. Business Travel	11.06	1.88%
7. Employee Commuting	14.14	2.41%
8. Upstream Leased Assets	10.81	1.88%
9. Downstream Transportation and Distribution	N/A	N/A
10. Processing of Sold Products	N/A	N/A
11. Use of Sold Products	N/A	N/A
12. End-of-life Treatment of Sold Products	0.02	0.0031%
13. Downstream Leased Assets	N/A	N/A
14. Franchises	N/A	N/A
15. Investments*	-	-
Total All Scopes (Location-based)	**588.0**	**100%**
Total All Scopes (Market-based)	**590.6**	**100%**

Please note: HIML Holdings Limited provides relevant data to third parties who use this to calculate our emissions. No formal assurance was provided.

* We are in the process of quantifying our investments emissions which only covers HIML Holding's assets and not the managed portfolios

Scope 3 emissions

All applicable Scope 3 categories (excluding category 15) have been quantified utilising available data and, where necessary, estimations. The guidance in the GHG Protocol has been followed throughout and a summary of the data sources and methodologies used for each category are set out in the methodology section.

As this is the first year, our partial Scope 3 emissions have been calculated for HIML Holding's and readily available data was used throughout. Going forward, we will be looking to improve our data collection processes and have received guidance on areas for improvement.

Managing our investments

Within Herald Investment Management Limited, we use total carbon emissions and weighted average carbon intensity to monitor the performance of our portfolio from an environmental impact and transition risk perspective. Due to the high proportion of small companies in the investment portfolios, reliable and accurate emissions data coverage is quite poor but we are hopeful that this will improve over time.

Our investment staff have annual appraisals, but we do not currently use specific key performance indicators (KPIs) to assess responsible investment performance. We do not believe that a tick box approach is appropriate, and our expectations of reporting standards vary according to investee company size and location. We prefer to rely on the judgement and experience of our staff, to appropriately manage their investments based on location, jurisdiction and the company's size.

Methodology

Unless stated otherwise, all conversion factors are sourced from UK Government (BEIS) GHG Conversion Factors for Company Reporting, v1.0 2021, and include Scope 3 Well to Tank and T&D losses. The Greenhouse Gas Protocol Value Chain methodology is followed in all cases. Well to Tank refers to the emissions associated with extracting raw materials (e.g. oil and gas), processing them into fuels and transporting them to the point of use e.g. the fuel tank or the power station. Transmission & Distribution (T&D) losses represent the electricity consumed and lost in the network between the power generators and the consumers.

Four categories were calculated using the spend-based approach: Category 1 (Purchased Goods and Services), Category 2 (Capital Goods), Category 4 (Upstream Transportation and Distribution), and Category 6 (Business Travel). The spend-based method estimates the emissions for an activity by collecting data on the economic value/cost of the activity and multiplying it by relevant secondary (e.g. industry average) emission factors (e.g. average emissions per monetary value of goods).

Two categories were calculated using the activity-based approach: Category 3 (Fuel-related Emissions) and Category 7 (Employee Commuting). The activity-based method estimates emissions for an activity by collecting data on the mass (e.g. kg), or other relevant units of activity and multiply by the relevant secondary (e.g. industry average) emission factors

Three categories were calculated using the average-data based approach: Category 5 (Waste Generated in Operations), Category 8 (Upstream Leased Assets), and Category 12 (End-of-life Treatment of Sold Products). The average data method is used to estimate emissions using average national statistics.