HIML Holdings Limited

Task Force on Climate-Related Financial Disclosures Report

Financial Year 2022/23

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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 joined as an Investment Manager signatory in January 2020.

We take pride in being a responsible investor and are pleased to publish 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 announced an emissions reduction strategy in 2023. In 2024, we will start an engagement process with our higher-risk investee companies.

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 to 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 that should be included in the disclosure.

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 seven core indicators, which are mandatory to report on, that are aligned with the TCFD. These are all within the Policy, Governance, and Strategy (PGS) module, which is outlined here, and include 11 (governance), 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).

Figure 1: Structure of the TCFD.

About Us

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 Holdings also owns assets consisting primarily of government bonds and an investment in Herald Worldwide Technology Fund.

HIML's strategy is to invest for the long term. Therefore, we identify and own companies that can sustainably generate excess returns on capital. An assessment of ESG risks and opportunities is incorporated into our investment process, as these can impact future performance. We have introduced climate risk assessments into our processes.

Herald Investment Management Limited (HIML) is our main subsidiary, and it focuses on managing investments, primarily within the technology, media, and telecom (TMT) sector for its clients. All of these businesses are facing some level of physical and transition climate change risks and some have experienced asset damage due to climate (e.g., due to flooding in Thailand).

Progress in 2022/23

We have assessed the climate-related risks and opportunities for 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 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 FY22/23 we have completed the following actions.

1. Voluntarily prepared Climate Reports for Herald Investment Trust PLC (HIT) and Herald Worldwide Fund Limited (HWF), the two funds that HIML had management contracts for in this financial reporting period.

2. Prepared an engagement process for the portfolio companies. The process starts by identifying those in higher-risk sectors and then reviews the Scope 1, 2 and 3 disclosures made by the portfolio company and any emissions targets they may have disclosed.

The Fund Manager responsible for any investments in the higher risk sectors with poor disclosures or no emissions targets, will engage with the company to understand the reasons for that lack of disclosure and, if appropriate, will encourage the company to improve their disclosures and establish realistic targets. This engagement process will commence in 2024.

Our Environmental, Social and Governance progress

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 for 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.

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. The Board and senior investment managers consider climate-related issues when guiding business strategy and major business decisions.

Board-level Oversight

The HIML Holdings Board meets quarterly and discusses risk at each meeting. From FY23/24, climate-related risks and opportunities are a standing agenda item for the final quarterly meeting. This will allow updates to be provided based on the annual climate modelling and 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 engaged with our third-party ESG specialist consultants, Inspired ESG, to complete a Climate Risk Workshop. Two board members, all the Executive Directors and Investment Managers were present at the workshop. It covered climate change training, climate-related risks and opportunities. Our Managing Director, Katie Potts, is responsible for signing off the climate-related risk register.

For HIML 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 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. Whilst there is 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. All staff receive training on responsible investment on a recurring basis.

Our management staff report to the Board on the risks and opportunities of climate change and associated regulations. In FY22/23, this occurred once and included 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 the Board of the fund management company and the independent boards of the beneficiaries' funds. Management and the Board know 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.

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

Implications of Climate Change for Strategy

HIML does not seek specific climate outcomes as part of its investment objective. However, HIML believes that the need to create a more sustainable world represents a considerable opportunity for companies contributing to the transition to a low-carbon economy, and a significant downside risk for those who are not. Given the long-term investment time horizon of at least five years, we need to consider the risks from climate change, how market forces and regulation could influence the potential returns for shareholders.

Investment Stewardship

Our Stewardship Approach and Policy outlines how HIML 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.

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, HIML 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 the 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. Gaining a robust understanding of these issues is a key part of assessing the outlook for future cash flow generation and the risks to an investment.

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 will experience over the forthcoming years. 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.

Our Approach

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 greenhouse gas emissions and the complexity of how climate systems interact. Therefore, climate scenarios are used to envisage potential futures and the associated risks.

The scenarios are a helpful tool, to assess the future associated with global warming. In each scenario, we tried to predict how the action taken today by governments and businesses, will either slow down or accelerate global warming. To build the different climate scenarios, we used several climate models and internationally established frameworks. These included the International Energy Agency's World Energy Models (WEM), the Shared Socioeconomic Pathways (SSPs): Climate Natural Catastrophe Damage Model, the Co-ordinated Regional Climate Downscaling Experiment (CORDEX) forecasts, Central Banks and Supervisors Network for Greening the Financial System (NGFS) and Integrated Assessment Models (IAM). While these models offer detailed insights into potential futures under different emission scenarios, their accuracy is not guaranteed. Discrepancies between model predictions and real-world observations are common, when evaluating elements like downwelling pressure, wind, clouds, temperature, precipitation, ocean currents, sea ice, permafrost, and more. Additionally, potential exaggerations or underestimations of climate variables may occur.

We used three scenarios that considered the extent of warming by 2100, compared to pre-industrial levels. These scenarios are described as follows:

<2°C ("Proactive" Scenario): A Paris Agreement-aligned best-case scenario, where concrete action is taken to keep global 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 ("Reactive" Scenario): 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 ("Inactive" Scenario): 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: 2024-2027, 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, to start considering the potential impact on our TMT investments. These included factors such as precipitation, aridity and temperature.

Table 1 shows the rating levels and scores used to assess the identified risks. Risks rated 4 and above are deemed to have a possible moderate impact, and are therefore present in this report. 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	Likeli-hood	Score (Impact x Likeli-hood)
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 into two broad categories, physical and transition risks. Also, it 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.

A full climate scenario analysis was run for FY23 and presented to our directors and key internal stakeholders in January 2023. A risk register was produced based on a detailed review of the key findings during a climate risk workshop. For FY24, analysis was extended to our portfolio, focusing this year on hardware due to the proportion invested in these companies. A workshop was held in February, and a risk register was signed off in March.

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 twenty-two 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 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 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 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 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 removing power stations that use fossil fuels, which may impact the profitability of some data centres and manufacturing companies.

The climate-related metrics that are used to measure and manage our climate-related risks can be found in the Metrics and Targets section of this report.

Transition risks

Policy & Legal

These risks are associated with potential policy and legal changes that may be introduced to manage the transition to a 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 (refer to Table 1 for Risk Rating Levels).

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
Enhanced emissions reporting and other reporting obligations	HIML 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.	For Herald: Short - Medium Term (2024-2037) <2 °C and 2-3 °C For client investee companies: Short - Medium Term (2024-2037) <2°C and 2-3°C	For Herald: Likely, Moderate Rating: 6 For client investee companies: Likely, Serious Rating: 9
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. Complying with new regulations can lead to increased operating costs for the Company.	Short - Medium Term (2024-2037) 2 °C and 2-3 °C	Likely, Moderate Rating: 6

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 opportunities for companies, which can provide these technological solutions.

Table 3: Technology Risks with a Description of Impact, Scenario and Horizon of Highest Impact and Inherent Risk Rating (refer to Table 1 for Risk Rating Levels).

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
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 (2024-2037) <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 (refer to Table 1 for Risk Rating Levels).

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
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 heat waves. There is more risk to our investee companies, particularly their supply chains, and we will consider this in more detail in FY24/25.

Chronic

Chronic climate risks 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. Whilst we review the risks on an annual basis, no physical risks were deemed material in FY22/23 and therefore not outlined in this report.

Risk Management

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

Risk Management

Our Process

In FY22/23, we engaged with an ESG consultancy, Inspired ESG, to conduct a forward-looking climate scenario analysis. They presented the findings to our key internal stakeholders in a climate risk workshop in January 2023. Following the climate analysis and workshops, we have created a detailed climate risk register for the first time. This climate risk register is integrated into HIML's overall risk register. The Managing Director, Katie Potts, signed off on this in February 2023. This outlines the risks associated with climate change, providing additional detail and understanding of the identified residual 'ESG/Climate Change' risk in our main risk register.

Climate change has been incorporated into our normal business risk register as a principal risk and has been since 2022. We recognise climate change as a major threat. By proactively treating climate change as a priority, we can develop strategies to lessen its impact and ensure our long-term viability. Through a comprehensive climate scenario analysis conducted by an external ESG expert, we were able to pinpoint key climate risks. These risks were then thoroughly evaluated internally, considering their potential impact on our business operations and likelihood of occurrence. This ensures appropriate monitoring of the climate risks we identified as material to our business. If the inherent risk rating of the identified risk is determined as 'serious', it is deemed material to the business.

Furthermore, our climate risk 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 (Table 1).

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. For example, in the event of an increase in costs from new regulations that 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 proactively calculate our carbon footprint. Also, we are reducing our emissions by setting targets and a reduction strategy and report on our response in this TCFD report, which we will publish annually. 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

We have engaged external ESG consultants, Inspired ESG, to calculate our carbon balance sheet for HIML Holdings Limited, including Scope 1, 2 and 3 emissions. Based on this, we are in the process of developing our near-term absolute Scope 1 and 2 targets.

Carbon Emissions

We are aware of the environmental impact of our operations and are keen to reduce this 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 CO2 emissions associated with flights.

The tables below present our Scope 1, 2 and 3 carbon emissions data for FY22/23, including the baseline FY21/22 GHG emissions. 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). Categories 9 (downstream transportation and distribution), 10 (processing of sold products), 11 (use of sold products), and 13 (downstream leased assets) are not applicable for HIML, as HIML does not manufacture and distribute any products. In addition, category 14 (franchises) is not applicable for HIML, as HIML does not own any franchises.

Table 6 shows an overview of our emissions by scope for the period April 2022- March 2023, which allows for easy comparison with other companies. Table 1 provides a detailed breakdown of our emissions to provide a more granular insight into our footprint.

All applicable Scope 3 categories have been quantified.

Table 6: Emissions Summary.

Metric	Current year FY22/23 GHG emissions(tCO_2e)
Scope 1	26
Scope 2 (location-based)	51
Scope 2 (market-based)	64
Scope 3	5,177
Total GHG emissions (location-based)	**5,254**

Market-based emissions are reported in tCO2 only and reflect the specific emissions associated with a supplier-specific fuel mix.

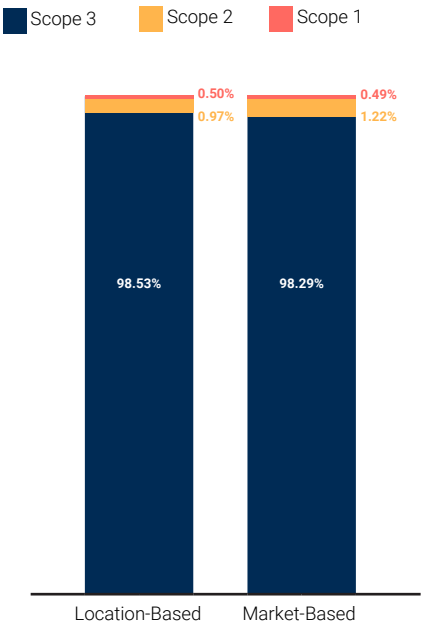
Scope 1 and 2 emissions data has increased in 2022/23 as the comparative year was a year effected by Covid and lockdowns and therefore emissions were abnormally low. The increase in Scope 3 emissions is due to the way emissions are calculated on the investments we hold in our funds and government bonds. Although we do not have control over Scope 3 emissions, we still prioritise good governance and care to ensure that the data we present is consistent year on year. We hope that the process we started this year to engage with our investees will produce more accurate results for Scope 3 going forward.

Scope 1,2 and 3 Emissions

The Carbon Balance Sheet contains HIML's full FY22/23 greenhouse gas (GHG) emissions inventory. The Scope 3 inventory is divided into the 15 categories established by the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard and expressed with the following metrics:

tCO2e (location-based): Absolute GHG emissions from HIML's operations and value chain for the current reporting year. All GHG emissions have been converted to a CO2 equivalent basis using the respective Global Warming Potential (GWP) factor. Scope 1 and 2 emissions were calculated using the location-based reporting methodology. This method calculates emissions associated with fuel and electricity consumption by using UK average emissions intensities. The Department for Energy Security and Net Zero (DESNZ) provides UK emissions factors for fuel and grid electricity annually, which are used in location-based reporting. Scope 3 results were calculated using the approaches and data described in the methodology section.

Figure 2: HIML's full FY22/23 greenhouse gas (GHG) emissions inventory.



tCO2e (market-based): Absolute emissions from HIML's operations and value chain for the current reporting year.

Scope 2 emissions were also calculated using the market-based reporting methodology. This method calculates emissions associated with fuel and electricity consumption by using the supplier or contract-specific emissions factor. For example, if purchased electricity is from a renewable source such as wind or solar, then the emissions factor is listed as zero kgCO2/kwh. Contract and supplier factors are reported on a kgCO2 per kwh basis and so do not include CH4 and N2O emissions.

The percentage that each emissions source makes up of the company's total Scope 1, 2 and 3 emissions is presented for both the location-based and market-based emissions footprint (Figure 2).

All Scopes tCO2e per FTE: An intensity metric that demonstrates the tCO2e per FTE. This is presented on a location-based and operational approach. Emissions reduction targets are generally required to be achieved on an absolute basis. However, tracking emissions on an intensity approach can be useful for short term KPIs and to demonstrate efficiencies.

Carbon Balance Sheet

Table 7: A detailed breakdown of our carbon emissions data.

	Greenhouse gas emissions inventory FY22/23		Comparison	Operational analysis FY22/23
Emissions Scope & Scope 3 Category	**tCO2e**	**%**	**Previous year FY21/22 (tCO2e)**	**tCO2e Operational emissions**
Scope 1	**26.02**	**0.5%**	**6.95**	**26.02**
Natural Gas	26	1%	7	26
Transportation (excluding grey fleet)	n/a	-	n/a	n/a
Other Fuels	n/a	-	n/a	n/a
Scope 2 (location-based)	**50.97**	**1.0%**	**47.75**	**50.97**
Scope 2 (market-based)**	**64.24**	**-**	**50.41**	**64.24**
Scope 3	**5,176.68**	**98.5%**	**2,063.08**	**513.99**
1. Purchased Goods & Services	356	6.8%	454	356
2. Capital Goods	11	0.2%	20	11
3. Fuel-related Emissions	22	0.4%	20	22
4. Upstream Transportation and Distribution	0.1	0.0%	0.1	0.1
5. Waste Generated in Operations	4	0.1%	4	4
6. Business Travel	100	1.9%	11	100
7. Employee Commuting	15	0.3%	14	15
8. Upstream Leased Assets	6	0.1%	11	6
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	0.1	0.0%	0.1	
13. Downstream Leased Assets	n/a	-	n/a	
14. Franchises	n/a	-	n/a	
15. Investments	4,663	88.7%	1,530	
Government Bonds	4,314	93%*		
Herald Worldwide Fund	280	6%*		
Remaining Investments	69	1%*		
Total emissions (location-based)	**5,253.67**	**100%**	**2,117.78**	**590.98**
All tCO2e (location-based) per FTE	**250**		**106**	**28**

*% of investment emissions, not total emissions.

**Market-based emissions are reported in tCO2 only and reflect the specific emissions associated with a supplier-specific fuel mix.

The total metric tons of CO2 equivalent emissions per full-time equivalent (FTE) (location based) have more than doubled, rising from 106 tCO2e to 250 tCO2e. This increase is primarily attributed to the change in investments, in particular United States governments bonds, owned by HIML.

Methodology

HIML's emissions are reported on a consolidation, operational control approach, as defined by the GHG Protocol. All emissions have been calculated following the GHG Protocol's Corporate Accounting and Reporting Standard. All seven greenhouse gases defined by the Kyoto Protocol have been accounted for and reported on a CO_2 equivalent basis unless specifically stated. This table sets out the methodology, data sources and an overview of our emissions calculations.

Key Metrics Summary at a Whole-firm Level (As of 31 March 2023)

The two portfolios managed by HIML are managed individually in accordance with the mandates of the funds. Both funds produce their own TCFD-aligned reporting and metrics. The overall approach taken to managing these risks and engaging with companies are covered in the individual fund reports and Herald's Approach to ESG report, all of which are available on our website (www.heralduk.com) under Responsible Investing.

Managing Our Investments

Within HIML 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. However, 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.

Climate Change Risks

The financial risks from climate change are typically classified as physical or transitional risks. Physical risks are those arising from specific weather events (such as wildfires) and transitional risks are those arising from the changes to regulations, such as the move to net-zero carbon. The portfolio is well diversified to mitigate against physical risks. Changes in climate regulation, governing both the Company and investee companies, will create some uncertainty. Several investments address the challenges arising from climate change and may benefit from the opportunities associated with climate change. However, if climate change has a significant adverse impact on the wider economy, the Company could be negatively affected.

In comparison to the broader economy, the portfolio has a low carbon impact. The board of the Company encourages the investment manager to consider ESG factors when selecting and retaining investments.

Table 8: Methodology, Data Sources and Accuracy

Emissions Category	Methodology	Data quality rating
Scope 1 and 2	Activity-based approach from direct operations. This includes consumption and emissions related to direct combustion of natural gas, fuels utilised for transportation operations, such as company vehicle fleets.	Our Scope 1 and 2 emissions are of good quality and are calculated based on the GHG Protocol, using our Electricity and gas invoices as well as our fuel consumption data in mileage.
Scope 3	Scope 3 encompasses all other emissions that are not produced by the company and are not the result of activities from assets owned or controlled by HIML, but by the companies we invest in.	Our Scope 3 emissions were the hardest to collect and compare, given the inconsistency in the methodology used by our investees. HIML is working with Inspired ESG, to further develop and improve our data collection to better reflect Scope 3 emissions year on year.

Methodology and Data Reliability Issues

There are significant challenges in collecting, collating and comprehending CO2 data for the portfolios managed by HIML.

We used Bloomberg's data acquisition tools to collect the most recent reported data for our portfolios and ensured that this data is a reasonable representation of the portfolio's emissions. It was clear that this was possible for Scope 1 and Scope 2 data. However, this approach was more difficult for Scope 3 emissions, due to differences in standards and their interpretation by companies. HIML believes that this makes Scope 3 a particularly unreliable metric. Where no company-specific data is available, we used Bloomberg estimated data to fill in the missing data for each company. This Bloomberg estimate data relies on an industry-implied model that we believe takes the average reported data for each sector. This model has reliability scores based on the Partnership for Carbon Accounting Financials (PCAF), which allows the origin of the data to be identified. Where real data was available from Bloomberg, it was verified by reviewing the company's most recent annual report or ESG report.

We have spent significant time evaluating the Bloomberg estimated data and this data is inconsistent and variable. We noticed two interesting trends from examining the data, which was that data for Scope 1 and 2 emissions tended to overestimate the emissions compared to reported data, whilst Scope 3 estimates underestimated those when compared to reported data. HIML believes a reason for the first trend is the use of industry averages, which does not classify companies into sufficiently granular and homogeneous sectors, meaning companies with different operational characteristics and emissions profiles will be bundled together. The challenges that HIML and Bloomberg face in finding estimated emissions data or proxies is that in the model granular sector definitions (Bloomberg Industry Classification System (BICS) level 5), there may not be any companies globally reporting CO2 data. This requires proxy companies to be found in a less granular sector definition (BICS level 1-4), and the challenge then is that the disparity of business models and carbon intensity can vary enormously, and the mean measure of central tendency can be heavily impacted by this outlying data resulting in large standard deviations.

For comparative purposes only, we include the emissions metrics for the largest 100 companies on a weighted index basis in the UK and US.

Emissions Metrics

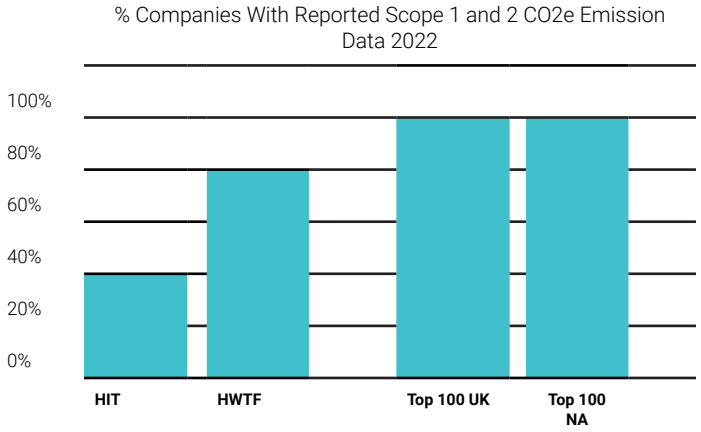
Table 9: Herald Investment Trust & Herald Worldwide Technology Fund Combined

Total carbon emissions from listed companies held by the portfolio	**Portfolio Using Reported or Bloomberg Estimates**	**Top 100 UK**	**Top 100 US**
Total Scope 1&2 emissions (tCO2e)	23,602	N/A	N/A
Total Scope 1,2 & Scope 3 emissions (tCO2e)	112,568	N/A	N/A
Total Scope 3 emissions (tCO2e)	88,966	N/A	N/A
Carbon footprint of portfolio			
Scope 1 & 2 emissions (tCO2e) per £M invested	20	122	19
Scope 1, 2 & 3 emissions (tCO2e) per £M invested	95	1,726	228
Weighted average carbon intensity (WACI) of the portfolio			
Scope 1 & 2 emissions (tCO2e) per £M revenue	35	106	53
Scope 1, 2 & 3 emissions (tCO2e) per £M revenue	231	1,572	472
Emissions data availability and disclosure from holdings in the portfolio			
% of AUM* with available reported scope 1&2 emissions from data provider	52.9%	99.5%	94.7%
% of AUM* with estimated scope 1&2 emissions from data provider	46.3%	-	5.3%
% of AUM* without reported or estimated scope 1&2 figures from data provider	0.9%	0.5%	0%
% of AUM* with reported scope 3 emissions from data provider	45.1%	95.9%	92.0%
% of AUM* with estimated scope 3 emissions from data provider	52.4%	-	2.9%
% of AUM* without reported or estimated scope 3 figures from data provider	2.5%	4.1%	5.1%
Additional Environmental Related Metrics	**Portfolio by AUM**		**Portfolio By Number**
%* Claim Net Zero Target	26%		15%
%* Has SBTI NZ Target	12%		6%
%* Claim Science Based Targets	12%		9%
%* Emission Reduction Policy	39%		26%
%* Climate Change Policy	36%		26%
%* Energy Efficiency Policy	43%		31%
%* Water Efficiency Policy	20%		15%

*Listed equity, excluding cash, bonds and private companies

Source: Bloomberg and company reports

Figure 3: Chart with Percentage of Companies with Reported Scope Emissions.



*Using last reported actual data for scope 1 and 2 CO2 emissions compared against top 100 listed companies in the United Kingdom and North America.
Source: Bloomberg

Figure 4: Chart With Percentage of Market Value of Equity Portfolio with Reported Scope Emissions.

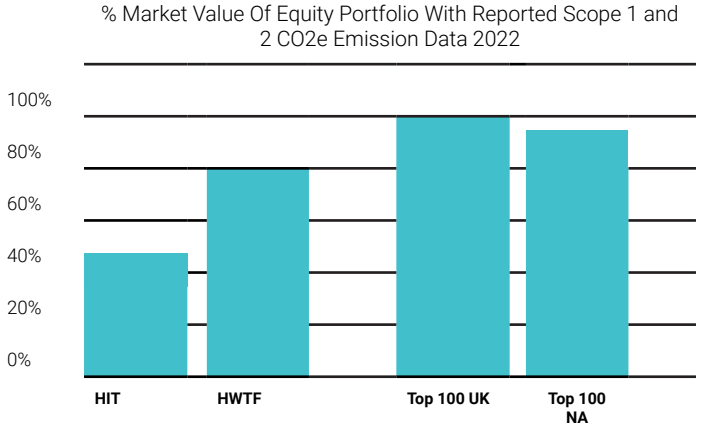
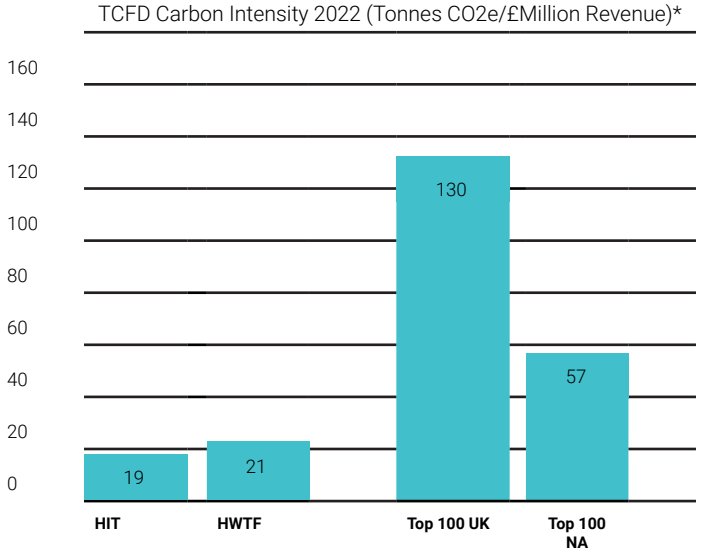
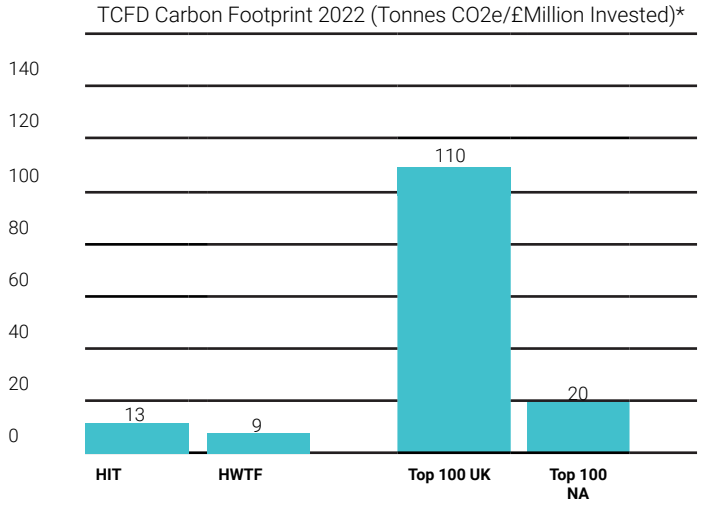


Figure 5: Chart with Carbon Intensity per £Million Revenue.



*Using last reported actual data for scope 1 and 2 CO2 emissions compared against top 100 listed companies in the United Kingdom and North America.
Source: Bloomberg

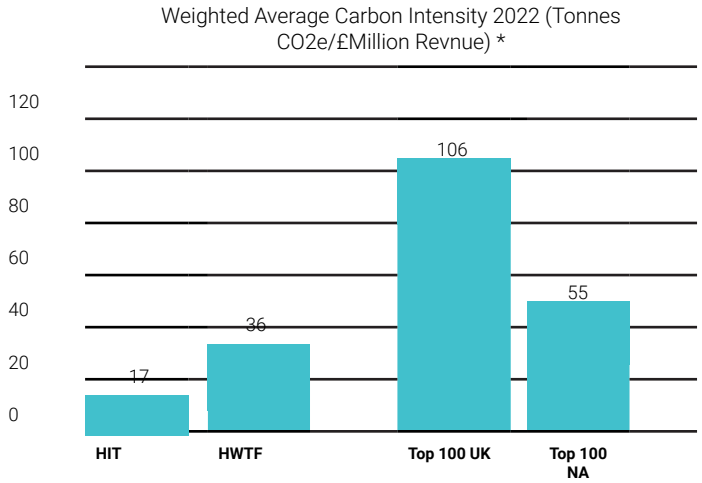
Figure 6: Chart with Carbon Intensity per £Million Invested. Combined Data Table.



*Using last reported actual data for scope 1 and 2 CO2 emissions compared against top 100 listed companies in the United Kingdom and North America.

Source: Bloomberg

Figure 7: Chart with Weighted Average Carbon Intensity 2022.



*Using last reported actual data for scope 1 and 2 CO2 emissions compared against top 100 listed companies in the United Kingdom and North America.

Source: Bloomberg

Compliance Statement

TCFD Entity Report – Herald Investment Management Limited

Herald Investment Management Limited provides an asset management service to its clients. We present climate-related disclosures consistent with TCFD Recommendations and Recommended Disclosures at the group level. The Financial Conduct Authority's (FCA) ESG sourcebook (section 2.3.2) requires a UK Alternative Investment Fund Manager (AIFM) that manages an unauthorized Alternative Investment Fund (AIF) listed on a recognised investment exchange, including investment trusts, to include an adequately contextualized and prominent cross-reference and hyperlink to this report, in its TCFD entity report. To meet its regulatory obligations, Herald Investment Management Limited has prepared and published a TCFD product report for Herald Investment Trust plc, covering the same reporting period as the TCFD entity report.

The disclosures in this report, including group disclosures relied upon and cross-referenced in this report, are consistent with six of the eleven TCFD Recommendations and Recommended Disclosures. Reasonable steps have been taken to ensure that disclosures, to the extent they are relevant and/or possible, also reflect sections C and D of the TCFD Annex entitled "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 ESG sourcebook (section 2.2.7) requiring a Company's TCFD entity report to include a compliance statement signed by a member of senior management of the firm.

A third party has calculated our emissions, but no formal assurance has been provided.

Signature

Name: K J Potts

Role: Chairman and Managing Director

HIML Holdings Limited

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