

TCFD Product Report

IFSL Marlborough Special
Situations Fund

June 2024

IFSL Marlborough Special Situations Fund

Taskforce for Climate-Related Financial Disclosures (TCFD) Product Report

As at 31 December 2023

01. Purpose of this report

Climate change is a huge challenge, impacting us all. We recognise we have an urgent need to accelerate the transition towards net zero emissions to deliver the climate goals of the Paris Agreement, which is a pledge by world leaders to tackle global warming.

At Investment Fund Services (IFS) we appreciate that there is a growing demand for more climate risk-related information about how we are managing both our business operations and our investment exposure. We are firm believers in transparent disclosures and are working on improving this through our communications.

This report is designed to provide investors with prescribed metrics and information to give a better understanding of the climate-related risks and opportunities associated with IFSL Marlborough Special Situations Fund and its underlying holdings. While the investments in this Fund are managed by Marlborough Investment Management Limited, IFS is the Authorised Corporate Director (ACD) of the Fund and is responsible for ensuring that the Fund is managed in line with regulations, among other duties. Under the rules of the Financial Conduct Authority (FCA), IFS is required to publish information annually on the Fund's greenhouse gas emissions disclosures.

This report is published in line with the requirements of the FCA and TCFD. The Taskforce on Climate-related Financial Disclosures (TCFD) was created by the Financial Stability Board in 2015 to improve and increase reporting of climate-related financial information. More recently, the FCA created a regulatory framework for UK asset managers (and other regulated financial services companies) to report in line with the TCFD framework.

For a greater understanding of the governance, strategy and risk management that IFS has in place to manage the risks and opportunities related to climate change, this product report should be read alongside IFS's own TCFD report (referred to as an entity TCFD report) which can be found via the following link: www.ifslfunds.com/tcfid-reporting.

There may be some instances where we have not been able to disclose a particular metric recommended by the TCFD. This is highlighted where relevant. Where a few funds are unable to meet the disclosure requirements recommended by the TCFD, this is explained in IFS's entity TCFD report.

02. Key fund information (as at 31 December 2023)

Name	IFSL Marlborough Special Situations Fund
ISIN	GB00B659XQ05
Fund size £	£739,366,679
Fund size \$	\$942,540,767
Benchmark or sector	IA* UK All Companies Sector
Investment Manager	Marlborough Investment Management Limited
Fund launch date	12/07/1995
Base currency	Pound sterling
Fund objective and policy	<p>The aim of the Fund is to provide capital growth, that is, to increase the value of investor's investment, however, there is no certainty this will be achieved.</p> <p>At least 80% of the Fund will be invested in the shares of companies listed in the UK, incorporated or domiciled in the UK or with significant business operations in the UK.</p>

*The Investment Association (IA) is the trade body representing the UK investment management industry. It divides funds into groups known as 'sectors' to enable investors to make like-for-like comparisons.

Source: IFS and Morningstar, data as at 31 December 2023

03. Climate-related fund information

Fund climate-related commitments

The Fund has not made any climate-related commitments.

Strategy for managing climate-related risks and opportunities

The Fund's strategy is focused on uncovering growth opportunities predominantly among UK smaller companies. When selecting potential investments, the investment team consider companies' environmental, social and governance (ESG) practices and their effect, which includes climate-related risks and opportunities.

IFS, the Fund's ACD, has not yet implemented a strategy for managing climate-related risks and opportunities across its investment funds, but it has, however, developed a climate strategy across its operations.

Management of climate-related risks and opportunities

The team aims to identify any material climate-related risks through qualitative assessments which cover several ESG topics. The analysis includes ESG fact finds which incorporate the gathering of climate-related risks deemed to be affecting the company and how management are addressing relevant risks. Where the Fund's investee companies are covered by external third-party data vendors Sustainalytics and Bloomberg, the team will also utilise available data to verify their proprietary research. However, given the smaller companies bias, much of the portfolio is not covered by third party ESG data providers.

Governance of climate-related risks and opportunities

The Fund's investment process includes an assessment of climate-related risks and opportunities when selecting underlying securities. While the investment team discusses ESG risks it believes are material with company management, and record and monitor their findings, climate and other ESG-related risks are not formally monitored by the IFS Fund Risk Team as the Fund does not have a climate-related objective.

04. Fund climate metrics

This section of the report focuses on the carbon, and other greenhouse gas, emissions associated with the underlying companies in which the fund ultimately invests.

These carbon metrics are designed to provide a starting point for understanding the Fund's exposure to greenhouse gas emissions and may help you understand the impact of your investment on the environment.

Different emission Scopes

Term used	Definition
Scope 1 greenhouse gas (GHG) emissions	Scope 1 emissions are <i>direct</i> emissions from owned or controlled sources, such as fuel combustion in a furnace or vehicle.
Scope 2 greenhouse gas (GHG) emissions	Scope 2 emissions are <i>indirect</i> emissions from the generation of purchased energy, such as the use of electricity in buildings.
Scope 3 greenhouse gas (GHG) emissions	Scope 3 emissions are not produced by the company itself. They are all other <i>indirect</i> emissions (not included in Scope 2) that occur in the value chain of the reporting company – in other words, emissions which are produced as a consequence of the company's activity but come from sources not owned by the company. For example, IFS's own Scope 3 emissions include those emissions generated by the companies within its investment funds.

Scope 1, Scope 2 and Scope 3 emissions are measured in tonnes of carbon dioxide equivalent (tCO₂e). The higher the number, the greater the impact.

For an explanation on tCO₂e, please see the TCFD Frequently Asked Questions (FAQ) document on our website www.ifsfunds.com/tcf-d-reporting.

We publish our carbon metrics in line with the recommendations of the Greenhouse Gas Protocol – the world's most widely used greenhouse gas accounting standard. This involves combining Scope 1 and 2 emissions and splitting out Scope 3 emissions, which are more complex to measure. Moreover, perhaps because of this complexity, not all companies report their Scope 3 emissions, therefore the data tends to be more inconsistent and less reliable.

Weighted Average Carbon Intensity (WACI)

A fund's WACI is a measurement of its aggregate exposure to the carbon intensity of each of its holdings. WACI is calculated by multiplying the carbon intensity of each company (holding) by the size of each holding within the fund. WACI is measured in tonnes of carbon dioxide equivalent per million US dollar (USD) of revenue (tCO₂e/\$m revenue).

The higher the WACI number, the more the fund is likely to be exposed to highly carbon-intensive industries.

Metric: WACI	Value (tCO₂e/\$m sales)	How many of the Fund's underlying holdings are included?	Data coverage - percentage of the Fund's value covered in this metric
Fund WACI – Scope 1 & 2	53.28	141 out of 155	92.01%
Fund WACI Scope 3	416.07	140 out of 155	91.85%

Total carbon emissions

Total carbon emissions, also referred to as fund 'financed emissions', takes the percentage of each company owned by the fund, multiplied by that company's carbon emissions. This is then summed across all companies in the fund. A fund's total carbon emissions are measured by tonnes of CO₂e (tCO₂e). The higher the emissions of the fund, the greater the extent of the fund's underlying holdings' contribution to GHG emissions. It is important to note that this metric is heavily influenced by the size of the investment in a company, therefore larger funds tend to have higher total emissions. As a result, this metric is not comparable across funds.

Metric: Total emissions	Value (tCO₂e)	How many of the Fund's underlying holdings are included?	Data coverage - percentage of the Fund's value covered in this metric
Fund total Scope 1 & 2 emissions	36098.84	141 out of 155	92.01%
Fund total Scope 3 emissions	349768.95	140 out of 155	91.85%

Portfolio carbon intensity/footprint

Portfolio carbon intensity (sometimes referred to as footprint) adjusts the fund's total carbon emissions in accordance with the size of the fund itself. This metric can indicate which funds are more carbon intensive, as it allows different-sized funds to be compared to each other. The higher the intensity number, the greater the extent of the fund's underlying holdings' contribution to GHG emissions. Portfolio carbon intensity is measured in tonnes of carbon dioxide equivalent per million USD invested (tCO₂e/\$m invested). This is similar to the WACI formula, however here, GHG emissions are examined in terms of the fund's investment amount, rather than the underlying companies' revenue.

Metric: Carbon intensity	Value (tCO ₂ e/\$m invested)	How many of the Fund's underlying holdings are included?	Data coverage - percentage of the Fund's value covered in this metric
Fund Scope 1 & 2 carbon intensity	42.44	141 out of 155	92.01%
Fund Scope 3 carbon intensity	411.85	140 out of 155	91.85%

Please note that the WACI figures provided do not include sovereign bond exposures.

Data for the climate-related information in these tables is provided by Clarity AI. Cash is included in the coverage calculation. For further information on these metrics and their interpretation, along with limitations, please refer to the TCFD Glossary and FAQ documents on our website www.ifslfunds.com/tcfid-reporting

Fund's exposure to carbon-intensive sectors

Metric	Value	How many of the Fund's underlying holdings are included?	Data coverage - percentage of the Fund's value covered in this metric
Exposure to fossil fuels	2.05%	132 out of 155	93.62%

Data for the climate-related information in this table is provided by Clarity AI. Please note that Clarity AI excludes cash on the data coverage calculation.

- Excluding cash, 2.05% of the value of the Fund, for which we have data, is exposed to companies directly involved in the production and delivery of fossil fuels.
- The Fund is not deemed to have high exposure to carbon intensive sectors.
- IFS defines having 'high exposure to carbon-intensive sectors' as those funds having greater than 33% of assets under management (AUM) exposed to fossil fuels.
- It should be noted that not all the Fund's holdings produce data relating to their fossil fuels emissions' exposures, therefore the actual figure may be higher than 2.05%.

Climate scenario analysis

Climate change poses significant investment risks. Evaluating risks is important for investors seeking to make informed decisions. Climate scenario analysis can provide an assessment of possible future risks, and also investment opportunities through technological advancement, and their impact on the fund.

The climate scenarios in this report are hypothetical constructs around how the Fund may be financially impacted by the following categories of climate change risks:

1. **Physical risks** – these are the impacts arising *directly* from climate change, such as damage and disruption from extreme weather events. Physical risks from climate change affect all industries across all geographies but with different impacts.

- Acute physical risks refer to *events* such as drought, floods, wildfires and extreme heat waves, for example.
- Chronic physical risks refer to *longer-term shifts* in weather patterns, such as sustained higher temperatures or changing precipitation patterns.

2. **Transition risks** – these are risks associated with the costs of *transitioning* to a lower-carbon economy. These are taking the form of government policy changes and regulation (such as TCFD) and technological advancements aimed at mitigating climate change. As with physical risks, all industries may be affected but particular sectors such as energy and utilities might be impacted more as they are more sensitive to policies around emission control.

Shifting consumer preferences to ‘greener alternatives’ may impact the value and profitability of certain industries and assets. However, they also present *opportunities* for investors who can identify and capitalise on the transition to a low-carbon economy.

3. **Sentiment shock** – this is the risk associated with a potential *abrupt market repricing* of assets due to a delayed and sudden awareness of the potentially devastating impacts of climate change. The risk is incorporated into the ‘*Net zero, but with a financial crisis*’ scenario.

These risk and impacts are calculated across the three following possible scenarios around achieving a net zero economy by 2050.

Achieving a net zero economy:

- What changes and costs, such as government policies and strict regulations around lowering emissions, are required to transition in an orderly manner to net zero emissions globally by 2050?
- What are the financial risks, and any opportunities, occurring from this transition?
- This scenario assumes an average global temperature increase of 1.5°C by 2100.
- This scenario considers acute and chronic physical risks, and transition risk but not the risk of sentiment shock, described above.

Net zero, but with a financial crisis:

- What could be the impact if the transition to net zero is more disorderly, prompting a sudden need to align economies and companies?
- This scenario also assumes an average global temperature increase of 1.5°C by 2100 but achieved in a different manner (through an initial delay in government policy, followed by aggressive action to compensate, which results in a financial shock).

High warming:

- What could be the impact if we failed to curb emissions and average temperatures increase further?
- This scenario assumes that no new climate policies are implemented after the Covid-19 crisis, and infers an average global temperature increase of 4.3°C by 2100. This scenario may also be referred to as a ‘hothouse world.’
- This scenario considers acute and chronic physical risks and assumes that no new government policies around climate control are implemented within transition risk. The risk of sentiment shock, as described above, is not a contributing factor here.

Climate impacts for the Fund are estimated for each of these three scenarios – *Net zero*, *Net zero but with a financial crisis* and *High warming* – over three different time horizons: 5, 10 and 20 years from the end of 2022.

The examples below show how the Fund’s returns may be impacted from climate change risk, using the scenarios described above. This is based on current holdings (as at end of December 2023) and projected out over short-, medium- and long-term periods. The more negative the number, the higher the potential negative impact on the value of the Fund’s underlying holdings.

Potential climate impact on returns over the short term

Scenario	Net zero	Net zero financial crisis	High warming
Total impact on returns (%)	-2.70%	-13.52%	-1.91%
Transition risk	0.91%	1.05%	-
Physical – acute	-0.66%	-0.75%	-0.26%
Physical – chronic	-2.95%	-3.34%	-1.64%
Sentiment shock	-	-10.47%	-

Potential climate impact on returns over the medium term

Scenario	Net zero	Net zero financial crisis	High warming
Total impact on returns (%)	-2.26%	-12.13%	-8.22%
Transition risk	1.82%	1.91%	-
Physical – acute	-0.79%	-0.86%	-1.13%
Physical – chronic	-3.29%	-3.65%	-7.09%
Sentiment shock	-	-9.53%	-

Potential climate impact on returns over the long term

Scenario	Net zero	Net zero financial crisis	High warming
Total impact on returns (%)	-6.58%	-16.23%	-32.25%
Transition risk	-0.69%	-0.29%	-
Physical – acute	-1.15%	-1.18%	-4.45%
Physical – chronic	-4.74%	-4.93%	-27.80%
Sentiment shock	-	-9.83%	-

Coverage	% Data coverage
Data coverage – percentage of the Fund's value covered in this metric	88.69%

Data for the climate-related information in these tables is provided by Clarity AI

Data for the climate-related information in these tables is provided by Clarity AI, using the 5-year, 10-year and 20-year scenarios calculated at the end of 2022, that correspond to IFS's short-, medium- and long-term scenarios when examining climate impact from an investment perspective. For further information on these metrics and their interpretation, along with limitations, please refer to the TCFD Glossary and FAQ documents on our website www.ifslfunds.com/tcfid-reporting.

Unsurprisingly over the long-term, an orderly transition to achieve net zero by 2050 has the least negative impact on returns, arising from the risks associated around climate change. Within the *Net zero, but with a financial crisis* scenario, a financial crisis has dented overall potential returns, particularly over the short-term, highlighted here through the sentiment shock factor.

Meanwhile, the *High warming* scenario – in other words, assuming no new government policies around climate change are implemented – suggests significant adverse effects on the Fund's returns over the long term. The potential impact is most pronounced from failure to curb chronic physical consequences from climate change (such as rising sea levels, extreme heat, drought or flooding, for example). The projected, less-negative physical impacts on returns over the short term simply come from a delayed market pricing reaction to these effects within the *High warming* scenario. The *Net zero* scenario considers an early and progressive recognition of these risks, which is detrimental to returns at an earlier stage.

Note that not all the Fund's underlying holdings contribute to these scenarios.

Implied Temperature Rise

Implied temperature rise (ITR) estimates how companies are aligned to a Net Zero world where average temperature rise is contained through curbing emissions. The Paris Agreement, a pledge put together by 194 of the world's nations in 2015, is working to limit average global temperature rise to no more than 1.5°C by 2100 compared to pre-industrial levels.

The ITR considers companies' publicly available near-term reduction plans and makes a forward-looking projection to indicate the *temperature alignment* of that business.

Fund Temperature Alignment	Value	How many of the Fund's underlying holdings are included?
Fund temperature rating Scopes 1 & 2	2.4°C	71 out of 155
Fund temperature rating Scopes 3	2.2°C	71 out of 155

Data for ITR is provided by Clarity AI. For further information on this metrics and interpretation, along with limitations, please refer to the TCFD Glossary and FAQ documents on our website www.ifslfunds.com/tcfd-reporting.

With regards to Scope 1 & Scope 2 emissions, the Fund's implied temperature rise is 2.4°C, therefore it is currently categorised as misaligned with regards to the Paris Agreement.

With regards to Scope 3 emissions, the Fund's implied temperature rise is 2.2°C, therefore it is currently categorised as misaligned with regards to the Paris Agreement.

Note that not all the Fund's underlying holdings are included in these metrics.

Temperature Alignment categories:

- 1.5°C aligned - ITR of $\leq 1.5^\circ\text{C}$
- 2°C aligned - ITR of $\geq 1.5^\circ\text{C} - 2^\circ\text{C}$
- Misaligned - ITR of $>2^\circ\text{C} - 3.2^\circ\text{C}$
- Strongly misaligned - ITR $> 3.2^\circ\text{C}$

Data gaps and assumptions

With regards to emissions data, IFS has recently started working with Clarity AI – a specialist climate data provider – currently covering various emissions data of around 52,000 companies across 192 countries. Following a review across several providers, we chose to partner with Clarity AI as their emissions data coverage is amongst the widest available, and in the case that certain emissions data is missing for a company, in some instances, Clarity AI is able to use its proprietary machine learning algorithms to estimate specific data.

However, it must be noted that not all companies, by any means, are currently reporting their emissions. This will vary across different jurisdictions, depending on local regulatory requirements, and also size of company – there can often be limited climate data disclosure among smaller companies. Additionally, significant data gaps exist within certain asset classes, such as government bonds and currencies. Clarity AI is working on various methodologies to increase its emissions data coverage and calculations within the more 'challenging' asset classes. In addition, we expect to see steady improvement in equity and corporate bond data

coverage as increasing regulation should lead to more companies being required to disclose their emissions.

As a result of evolving, but inconsistent, regulatory requirements and the evolution of carbon reporting methodologies and ensuing metrics, our investment funds have varying degrees of data coverage in terms of certain carbon metrics. IFS believes that data coverage of less than 50%, as measured by the percentage of the fund's value covered in a specific metric, may potentially produce meaningless or misleading carbon metrics. In addition, we believe that data coverage under 70% of a fund's investments should not be relied upon and have highlighted this where relevant.

We have determined a sufficient level of data coverage for the Fund's investments is available in order to provide the key metrics described earlier in this report.

Looking ahead

As the ACD of your investment Fund, IFS has overall responsibility of ensuring that the Fund is managed in-line with its strategy and regulations however, we do not directly manage the underlying investments and therefore, are not involved in investment decisions. Currently, IFS does not monitor the emissions of its funds – this is something we are considering implementing.

Some of the climate metrics shown in the report are based on historical emissions data, which may not be a reliable indicator of future emissions, and these should not be the sole basis on which you base your investment decisions. The forward-looking climate metrics are formulated by models based on a number of assumptions and therefore the resulting impact of climate change on your investments predicted by the model may not actually occur in the future. The source of the data used in the report includes Clarity AI. While every care has been taken in populating this output, it must be appreciated that neither IFS nor the sources used guarantee the accuracy, adequacy or completeness of this information or make any warranties regarding results from its usage.

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