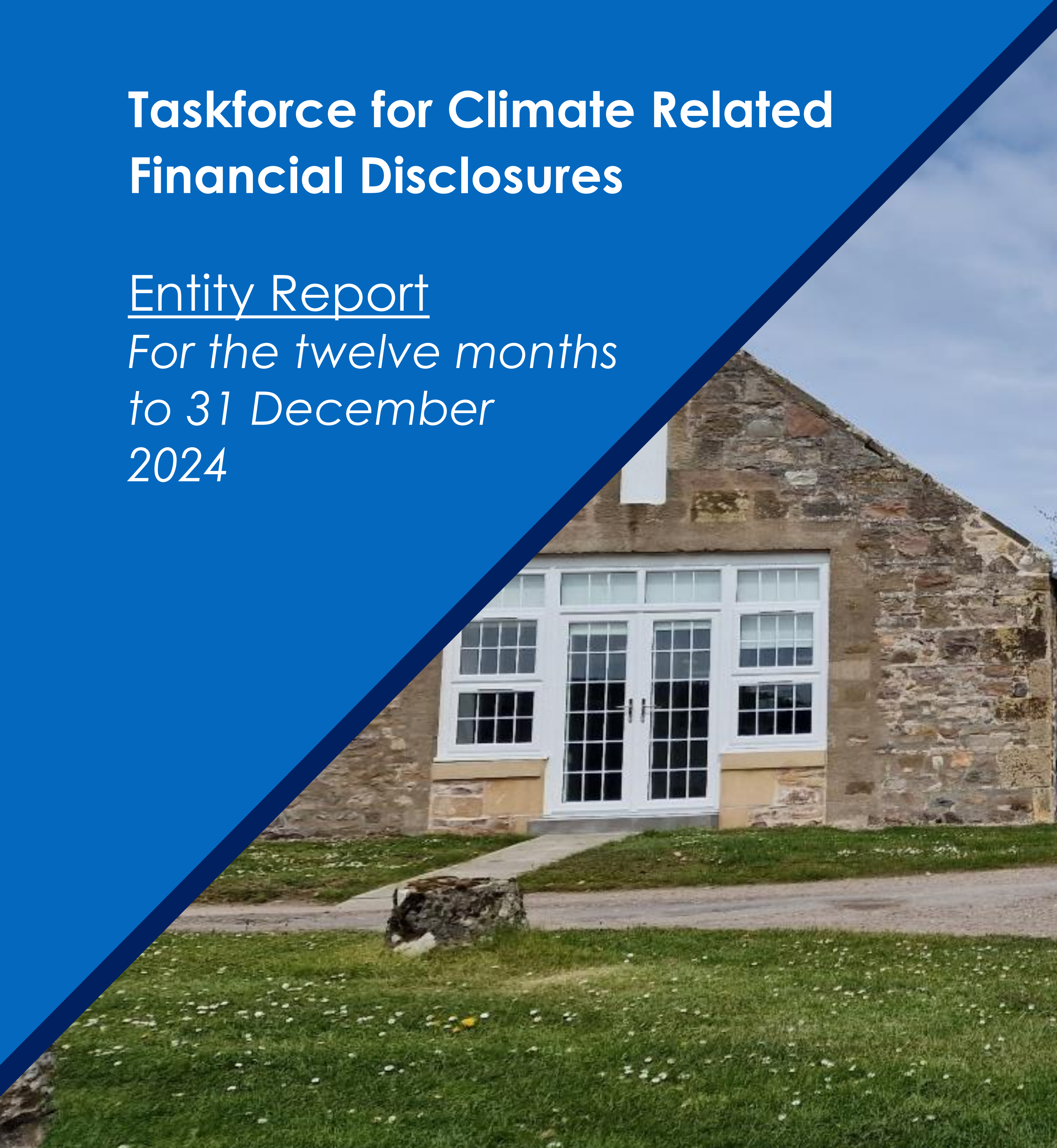
Valu-Trac Investment Management Limited

# Taskforce for Climate Related Financial Disclosures

## Entity Report

*For the twelve months to 31 December 2024*



## Purpose of this Report

This report is the second annual Task Force on Climate-related Financial Disclosures ("TCFD") report prepared by Valu-Trac Investment Management Limited ("VIML").

Climate change is a matter of significant risk to the global, UK and local financial system due to the physical and transitional uncertainties caused by it. To address this risk, VIML's management believes it is very important to disclose our assessment of climate risk as openly and honestly as possible.

This document fulfils the regulatory requirement under chapters 2.1 and 2.2 of the FCA's Environmental, Social and Governance ('ESG') sourcebook.

Chapters 2.1 and 2.2 detail the requirement for firms to prepare and publish a 'TCFD entity report' containing climate-related disclosures consistent with the Task Force on Climate-Related Financial Disclosures ('TCFD') Recommendations and Recommended Disclosures.

This T report also sets out how the firm considers climate-related matters when managing assets on behalf of clients, encompassing disclosure of Governance, Strategy and Risk Management arrangements, as well as relevant climate related Metrics and Targets.

This report contains entity-level disclosures; whilst some of the disclosures contained in this report may be relevant for product-level reporting, this should not be considered a product-level report.

## VT Structure & Business Activities

VIML is regulated by the Financial Conduct Authority ("FCA") as a UK CPMI firm with MiFID top up permissions. It has been operating for 36 years and primarily provides the following key investment services: independent Authorised Fund Manager ("AFM"), investment management, fund administration and transfer agency services.

As at 30 April 2025 the company manages 136 collective investment schemes, including NURS funds, QIS Fund, UCITs Funds and a separately segregated managed account, with approximately £17.3bn Assets under Management (AuM).

VIML outsources all portfolio management to third party investment managers which are responsible for managing the assets and liabilities within a fund portfolio in accordance with each scheme's prospectus, which is the document constituting each scheme and describes to all stakeholders a scheme's objective, investment policies and permitted strategies in addition to applicable regulations.

All UK registered investment schemes must publish a TCFD product report. As the strategies and ESG metrics and targets of these schemes are at the discretion of the investment manager and not aligned with the strategy and purpose of VIML, the results of those TCFD product reports have not been incorporated into this entity report.

In addition, VIML is not responsible for setting any ESG requirements for individual funds. Such considerations are for the boards and management of each fund individually. When a board does select ESG related targets for a portfolio, VIML will monitor the actual performance of the fund against the set targets in its role as independent authorised fund manager.

As an authorised fund manager and a company offering and operating in financial services, management's current view of VIML is of being a low carbon emission organisation. VIML's services are in the management of unitised collective investment schemes, which are themselves intangible: units are intangible property having monetary value, rather than physical property (such as housing, machinery, vehicles).

As such, VIML is mostly an indirect consumer of carbon. Usage is principally from energy required to support daily business operations and travel by executives.

## Basis of Preparation

VIML is not a member of a group in the UK and, therefore, this TCFD Entity report has been prepared on a solo basis.

This report covers the period from 1st January to 31st December 2024, in accordance with the requirements of chapter 2.1 of the ESG sourcebook, issued by the FCA. The TCFD entity report is updated annually from and made publicly available on VIML's website (Valu-Trac Investment Management Limited). It must be publicly disclosed by 30th June each year.

It is anticipated that VIML's approach to emerging ESG matters, including TCFD entity reporting, will continue to evolve, particularly as climate-related data and quantification methodologies develop further. Presently, VIML remains in the transitional period of gathering reliable and accurate data for the purposes of establishing all ESG related reporting, metrics and targets.

There is also an important distinction between this TCFD entity report and the TCFD product reports, the latter of which are reports for each investment scheme under the management of VIML meeting the requirements of ESG 2.3. The product level reports for these schemes are available separately. They do not form part of this entity report.

## Changes Since 2023 TCFD Report

The key changes relating to climate change and risks since 31 December 2023 are:

- Sub-let of office space in Aberdeen.
- Increased staff headcount (December 2023 – 95, December 2024 – 120), resulting in increased energy usage and emissions.
- Creation of Climate Working Group, formed by VIML staff to identify and manage VIML's responses to climate risks, opportunities, reporting requirements and objectives.

Where required, these changes are noted in the below report. There have been no other material changes to the format of this report.

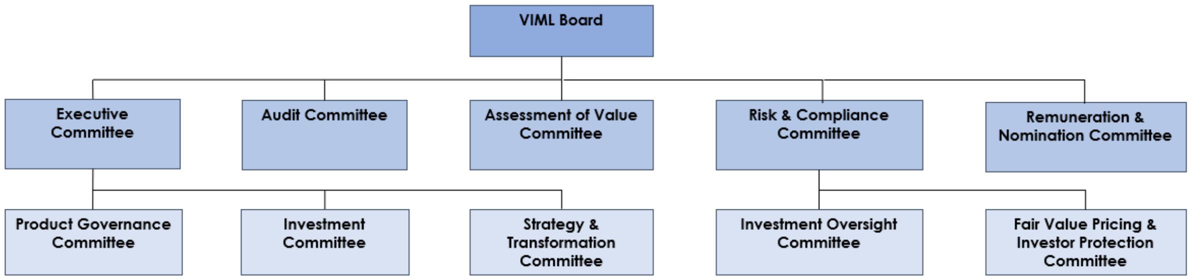
## Compliance Statement

In respect of the VIML TCFD entity report, this compliance statement is underpinned by VIML's internal control and governance procedures. This provides assurance that the disclosures contained in this report comply with the ESG sourcebook TCFD entity reporting requirements. This compliance statement should be read in conjunction with section 1.3, which details the basis on which this report has been prepared and includes an expectation that the matters disclosed in this entity report will continue to evolve in line with market practice and the ongoing development of quantification methodologies.

*Signature of named Individual.*

## Governance

The governance structure of VIML is shown below:




The governing body is the Board of Directors (the Board), which is currently composed of three executive directors and four non-executive directors.

The Board is accountable for the supervision of the management of the business and the affairs of VIML, including the setting of the firm's strategy, financial objectives and risk appetite and provides direction to management generally through the Chief Executive Officer.

The Board is ultimately responsible for the oversight of risk management within VIML and has appointed the Risk & Compliance Committee to provide dedicated oversight and assurance in this area.

The Board has established ten sub-committees, including the Board Risk & Compliance Committee, Audit Committee, Remuneration & Nomination Committee and Value Assessment Committee which are each chaired by an independent non-executive director.

The primary sub-committee responsible for the oversight of the risk management framework, including the review of VIML's risk appetite, is the Board Risk & Compliance Committee.

The Executive Committee ("ExCo") is responsible for the day-to-day management of the business, developing and executing VIML strategy and objectives as agreed with the Board, ensuring that VIML remains within risk appetite as agreed with the Board and ensuring that VIML culture and values are cascaded into the organisation's behaviours, actions and outcomes.

The Climate Working Group ("CWG") was formed in 2024 with the purpose of identifying and managing all climate risks, opportunities, reporting requirements and objectives. The CWG reports to the Board Risk and Compliance Committee.

### Governance of Climate Risks and Opportunities

The VIML Board ("the Board") has responsibility for the approval of the overall long-term strategy, objectives and risk appetite along with oversight of the leadership of the business, including reviewing performance. Business sustainability, including climate change and its impacts to VIML, is a key matter of focus for the Board.

For that reason, the Board approved the creation of a staff led CWG. The CWG is a diverse body, composed of Valu-Trac staff across all grades, experiences and departments, who have been given the responsibility of leading the company's climate agenda, identifying risks and opportunities, informing the business and arranging training, having oversight responsibilities for all climate related reporting (including TCFD and SDR requirements) and understanding the latest developments resulting from governmental, legal and societal shifts as the global, national and local communities respond to climate change.

The CWG remains in the early stages of assessing the risks and opportunities caused by climate change. Before the CWG was established, risk assessment took place across a number of functional teams within VIML, mostly Risk and Compliance, Finance and Business Operations. The CWG affords VIML a dedicated team to establish and monitor KRIs, new risks and opportunities and all regulatory and legal requirements faced by the firm in relation to climate change.

The CWG is answerable to the Board Risk and Compliance Committee firstly, then to the Board. Regular interaction with both supervisory bodies will allow the CWG's effectiveness to be monitored,

As an independent AFM, VIML also has oversight responsibilities of third-party investment managers. Where a scheme's prospectus discloses ESG related targets, VIML's investment oversight team will review the investment manager's effectiveness and performance against stated ESG targets.

## Climate Strategy

VIML's current view of climate risks and opportunities follows three pillars of assessment:

1 – The impact of climate risks to business operations.

2 – ESG targets of investment schemes under VIML's management.

3 – Scenario analysis

**Strategy in relation to the impact of climate risks to business operations and strategy**

The offices of VIML are in a managed estate in the Moray region of Scotland. Staff have dedicated desk space and are also enabled to work remotely from home. Staff are all provided with equipment and facilities required to fulfil their role. Staff personally arrange any travel to the office. There is no public transport of sufficient proximity for staff to travel to and from the office. There is, therefore, a carbon footprint to VIML's business operations, which is disclosed in more detail in the Metrics and Targets section below.

In considering the above, VIML's daily business operations are mostly exposed to the risk of cost increases to staff and process operations that may result from efforts to address climate change. At this stage, management has determined there is insufficient information available to reasonably forecast the actual impact. Indicatively, these costs together represent ~ 5% of the VIML cost base and, even in the most severe scenario, the likelihood is any cost increases will moderately impact the company's financial performance. A material impact to financial performance is unlikely. Further analysis will be undertaken by the CWG on this area for the 2025 report.

The principal strategic climate related risks to VIML have been identified as:

- Changing demands for investment schemes – investment schemes managed by VIML are beneficially owned by members of the public, financial institutions and a wide range of other stakeholders, whose views of climate change and the causes of it may impact their demand for investment products in the long-term. This gives rise to product risk but also potentially opportunity, as the market for investment schemes may evolve to meet the requirements of changing customer demands.

- Business continuity risk, should an event occur denying staff or suppliers the ability to work from either the office or an alternative location due to, including but not limited to, a lack of feasible transport or the loss of energy supply to staff work locations.
- Increased costs to the business arising from increases to insurance premiums should climate events result in increased natural disaster payouts by insurance companies, increased energy costs as the UK continues to transition to green energy sources, which could decrease the supply of electricity to the national grid and increase costs if demand is unchanged or increases as the demand for renewably generated electrical energy (such as windfarms, solar and tidal power) lowers the demand for fossil fuel generated electricity.
- Increased levies on travel costs, should the Scottish and UK governments further increase fuel and passenger surcharges as a mechanism to reduce emissions from plane and car travel.

It is management's view that it is reasonable to anticipate an overall increase to costs and correlated reduction in profits, although of a limited scale.

**Strategy in relation to ESG targets of investment schemes under VIML's management**

As an independent authorised fund manager, VIML's business purpose is the management of UK collective investment schemes. Collective investment schemes are pooled investment vehicles, with investors receiving scheme units in exchange for amounts invested. These units can then be redeemed at the investor's discretion.

Investment schemes appoint an investment manager to manage the portfolio of investments held by the scheme. VIML has appointed third-party investment managers for 98% of assets under management. VIML is the investment manager to the remaining %.

The investment manager must decide whether a scheme should have ESG targets. Investment manager performance reviews are regularly performed by VIML and will include oversight of and challenge to third-party investment managers of ESG targets, performance and the risk of greenwashing, which is the risk of falsely claiming an investment scheme is environmentally friendly or sustainable.

TCFD product reports are prepared by VIML for each investment scheme and are available on the Valu-Trac website.

**Scenario Analysis**

VIML, through the CWG, will use scenario analysis to inform assessments of the resilience of the organisation and its strategy to disruptions and/or VIML's ability to adapt to changes or uncertainties that might affect its performance. In the case of climate change, scenario analysis will allow VIML to develop insight into how the physical and transition risks and opportunities arising from climate change might impact its business over time.

A firmwide climate-related scenario analysis exercise is presently being conducted by the CWG to understand the potential implications of climate-related transition and physical risk under a variety of emission scenarios to VIML's business strategy over the short-, medium-, and long-term.

This scenario analysis will be based on three scenarios developed by the Network for Greening the Financial System ('NGFS'). These scenarios are:

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

As the CWG is in the early stages of preparing a reliable, relevant and assessed scenario analysis, there are no results or conclusions to disclose in this report. VIML management expects to provide in-depth scenario analysis in the 2025 TCFD report.

## Risk Management

Climate change represents a strategic risk to Valu-Trac's business, as both the physical and transitional impacts of climate change could negatively affect the business. These impacts could arise from changing investor demand in relation to the funds managed by the business, physical effects of climate change affecting how our staff, suppliers and customers work and changes to laws and regulations caused by governmental actions taken to address climate change.

The CWG is responsible for incorporating climate change into the VIML risk management framework. This framework is used to manage and monitor the exposure of the business to all known or unexpected events.

The CWG is constituted by a diverse range of executives to identify, quantify and understand climate risks and provide insight and regular reporting to the Risk Committee and the Board.

The firm's risk management function operates using clearly documented policies and procedures. These are as follows:

1) Enterprise Risk Management (ERM) Framework
2) Risk Appetite Statement (RAS)
3) Control Self-assessment (CSA) Process

VIML has established a Risk & Compliance function which acts as the 2nd line of assurance and oversight over the business operations. The firm's risk management approach is developed and facilitated by the Risk team led by the Head of Risk & Compliance ("HRC"). The HRC has a dual reporting line to the CEO and Chair of the Governing Body and reports to the Board (of which they are also a Director) and Risk & Compliance Committee outlining independent assessment of the firms' risk exposures against the Board's stated risk appetite.

The purpose of the Risk & Compliance Committee is to oversee and advise the governing body on the firm's overall current and anticipated risk profile including its position with respect to the Board's stated risk appetite and strategy and to assist the Firm's governing body in overseeing the implementation of that strategy by senior management. Members of the Risk & Compliance Committee have the appropriate knowledge, skills and expertise to fully understand, manage and monitor the risk strategy and risk appetite of the Firm.

### Statement of risk appetite and risk register

**Statement of risk appetite**

As an investment management sector participant, risk-taking is an inherent characteristic of the Firm's business activities and certain risk features are present in every transaction undertaken. As such, the Firm's approach to risk taking and how it considers and assesses risk relative to reward directly impacts its success. Therefore, the Firm has established limits on the level and nature of the risks that it is willing and able to be exposed to, whilst achieving its strategic objectives and business plans.

A key risk the firm faces is causing harm to its investors (consumers). Additionally, strategic risk may arise from the failure to remain relevant and competitive, and some indirect credit and market risk may arise from exposure to foreign exchange or interest rates. The governing body also recognises that reputational risk could arise from shortcomings in the performance of its duties as AFM to the funds.

VIML is committed to ensuring all business activities are conducted with a clear understanding of the risks, to maintaining a robust risk management framework, ensuring transparent disclosure, treating its customers fairly, and meeting the expectations of major stakeholders, including commercial partners, fund counterparts, employees and regulators and the interest of its shareholders.

**Risk Register**

This ICARA is designed to capture the material risks to which the Firm is exposed in its ICARA Risk Register. This Risk Register sets out the individual risks together with the controls to mitigate the impact or likelihood of the risk occurring, and the residual risk assuming the proper implementation of the controls and any capital or liquid assets required to mitigate any residual risks.

The residual risk is assigned a "risk rating" which aids identification of any material residual risks which need to be considered further in the ICARA. The Risk Register is reviewed at least annually or where there is a material change in the Firm's business model and is considered to be a 'live' document.

**Consideration of Valu-Trac Risk Exposure & Impacts**

As part of the formulation and maintenance of the ICARA Risk Register, the risk assessment explores the actual and potential risk scenarios using the below structure as its base. Each perspective is considered to ensure the firm is not only considering the direct risk of financial or other types of loss to the firm but also where an outcome may affect investors or the market. The definitions for each of these "harm categories" is outlined below:

## Material Risks

VIML material risks are maintained in a risk register, reviewed and updated by 1st and 2nd line of Defence on a ongoing basis and more formally via the Board Risk and Compliance Committee. The Risk Committee receives extracts of Risk Register's via the standard reporting to the Committee within the CRCO's Risk Report. The risk register has been considered further when assessing the material harms that VIML can pose to itself, the market and the clients as part of the assessment below. In addition to the individual entries in the risk register, KRIs are maintained, monitored and overseen as an integral part of the firm's governance, with actions directed by the Committee where required.

## Metrics & Targets

The assessment of climate related risks and opportunities remains under consideration by the VIML board, management and the CWG. ESG relating to financial service firms has already exhibited considerable change since becoming a key consideration for corporations worldwide. For this reason, VIML has elected to observe developments before committing to choosing appropriate and achievable targets.

VIML is in the process of understanding its scope 1, scope 2 and scope 3 emissions, as in TCFD recommendations issued in June 2017.

**Scope 1 emissions** are the direct emissions from resources owned and controlled by VIML.

**Scope 2 emissions** are indirect emissions from the use of purchased energy.

**Scope 3 emissions** are all other indirect emissions that result from upstream activities (being emissions generated by suppliers in providing their services to VIML) and downstream activities (being emissions generated by VIML's products and services after their delivery to customers).

**Scope 1 emissions:**

VML's scope 1 emissions result from the use of resources such as the boilers in the office premises, photocopying and printing. Management estimates 2-3 tonnes of CO2 emissions (tCO2e) in 2024.

**Scope 2 emissions:**

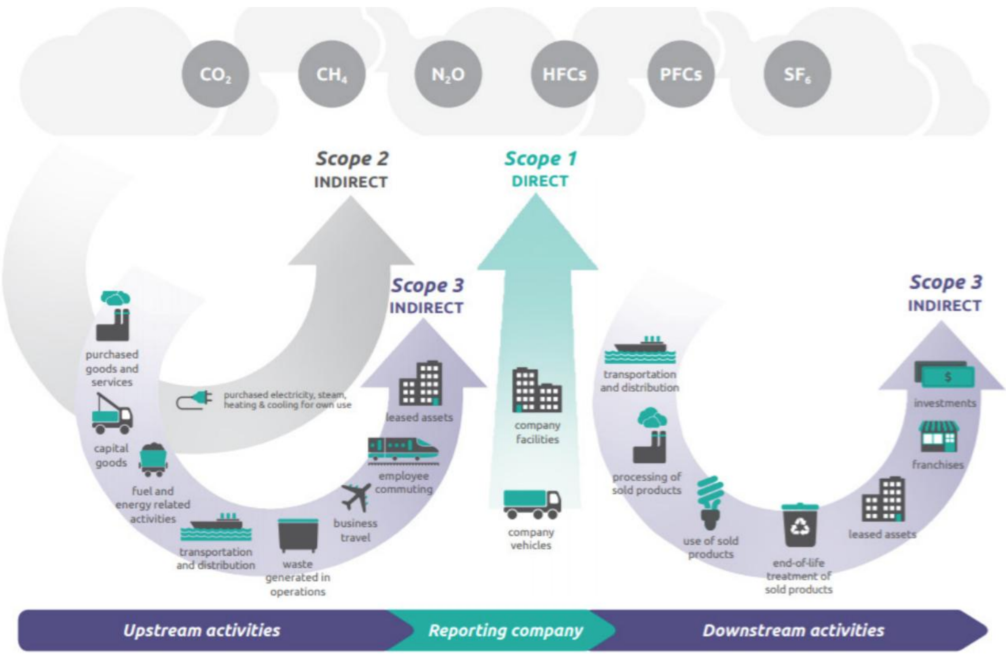
The VIML head office is in the Orton Estate, a managed estate located in the Moray region of Scotland. Most staff are located here. The supply of purchased energy to all buildings within the estate is through estate managed infrastructure.

Additionally, VIML rents office space on a co-shared serviced facility in Aberdeen. Rental payments cover energy usage on that site.

In 2024, VIML is estimated to have used 117,738 kWH of energy, equivalent to 27.4 tCO2e (2023: 110,959 kWh/25.9 tCO2e). 70% is supplied to the VIML office by Scottish Power, which now generates all of its electricity from renewable sources, being onshore and offshore windfarms.

The remaining 30% of energy is supplied from a biomass plant owned and operated by the Orton Estate. VIML management is confident that the carbon footprint is as low as possible, given current technology and available sources.

Scope 3 metrics are currently being assessed by the CWG and, if applicable, metrics and targets in relation to these measures will be disclosed in the 2025 report.



CO2
CH4
N2O
HFCs
PFCs
SF6
Scope 2
INDIRECT
Scope 1
DIRECT
Scope 3
INDIRECT
Scope 3
INDIRECT
purchased goods and services
capital goods
fuel and energy related activities
transportation and distribution
waste generated in operations
business travel
employee commuting
leased assets
purchased electricity, steam, heating & cooling for own use
company facilities
company vehicles
transportation and distribution
processing of sold products
use of sold products
end-of-life treatment of sold products
leased assets
franchises
investments
Upstream activities
Reporting company
Downstream activities