Fund Managers and Asset Management

Taskforce for Climate-related Financial Disclosures Entity Report

Introduction

A statement from our Head of Platform Investments
Emma Wall

I am thrilled to present the TCFD entity report for Hargreaves Lansdown Fund Managers and Hargreaves Lansdown Asset Management.

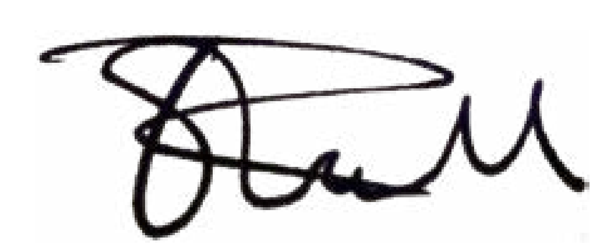
At Hargreaves Lansdown, our mission is to make it easier for people to save and invest for a better future. Our responsible business strategy focuses on four pillars: responsible employer, responsible business, responsible fund manager, and responsible savings and investment provider. This report highlights our efforts in the latter two areas, focusing on how we help clients invest in alignment with their values.

Escalating incidents across the globe —such as extreme weather and shifting ecosystems—underscore the need for financial institutions to integrate climate considerations into their decision-making. Climate factors are now crucial to investment portfolios, as they can significantly impact financial performance and long-term value. Addressing both physical and transition risks is essential for ensuring investment sustainability and profitability.

Over the past three years, we've built a dedicated ESG analysis team and refined our investment processes to identify environmental, social, and governance risks and opportunities. We also communicate these insights to clients through specialised research, empowering them to make informed decisions.

Last year, we committed to aligning our assets under management with the goals of the Paris Agreement, aiming to limit global warming to 2°C above pre-industrial levels and achieve net-zero emissions by 2050. We are targeting a 50% reduction in the weighted average carbon intensity of our investments by 2030, through exclusions, engagement, and divestment where necessary.

Looking ahead, we will integrate ESG data into our platform tools, enabling clients to better understand the risks and opportunities within their portfolios. This will allow them to focus on factors that matter most, such as carbon emissions, deforestation, and water usage. These commitments are central to our mission at Hargreaves Lansdown: delivering the best choices and service for our clients.



Compliance statement

I can confirm under the FCA rule, ESG 2.2.7 that the disclosures in this report, including any third party or group disclosures cross-referenced in it, comply with the requirements stated in the FCA's ESG sourcebook.

We understand clients need clear disclosures from firms so they can choose the right investment products. At HL, we strive to improve transparency on how we manage climate-related risks and opportunities on your behalf as investors.

TCFD explained

The Taskforce on Climate-related Financial Disclosures (TCFD) is a climate-related disclosure framework which aims to increase transparency on climate-related risks and opportunities to enable clients and consumers to make considered choices.

The principles-based framework is mandated in the UK for listed companies, asset managers and FCA-regulated pension providers.

The recommendations are structured around four thematic areas that represent core elements of how organisations operate: governance, strategy, risk management, and metrics and targets.

The UK government has committed to reaching net zero emissions by 2050.

The transition to a net zero economy will require high-quality information on how climate-related risks and opportunities are being managed along the investment chain– from companies in the real economy, to institutional investors and consumers.

Better information will help clients and consumers make better informed decisions about their investments. This should, in turn, help to enhance competition in the interests of consumers, protect consumers from buying unsuitable products, and drive investment towards greener projects and activities.

How to interpret TCFD data for investment decisions

When reviewing TCFD reports, focus on understanding how companies and asset managers are addressing climate-related risks and opportunities. Look for clear strategies for managing these risks, such as setting emissions reduction targets and integrating climate considerations into business decisions. Where appropriate, pay attention to metrics and targets that measure progress towards decarbonisation goals.

By analysing this information, investors can identify companies and funds that are well-positioned to thrive in a low-carbon economy, ultimately making more informed investment choices aligned with their values and long-term financial goals.

Contents

This report covers the period from 1st January 2024 to 31st December 2024 and includes reports for both Hargreaves Lansdown Fund Managers and Hargreaves Lansdown Asset Management. Any differences in approach will be clearly highlighted and explained.

Please see our supporting reports:

- Group TCFD Report
- TCFD Product Reports
- Investment Climate Transition Plan
- Stewardship and Engagement Report

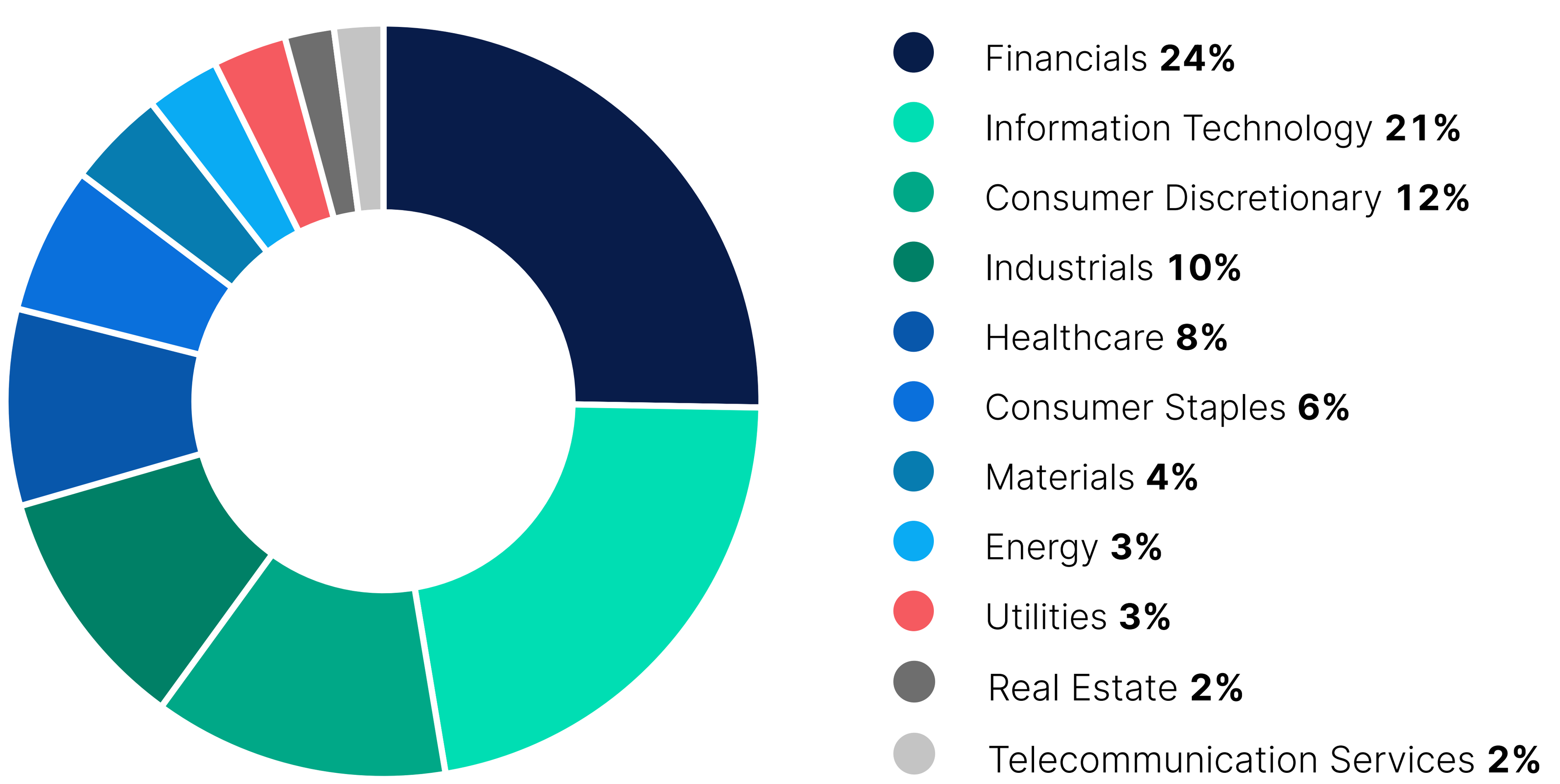
Entities at a glance

Hargreaves Lansdown Fund Managers at a glance

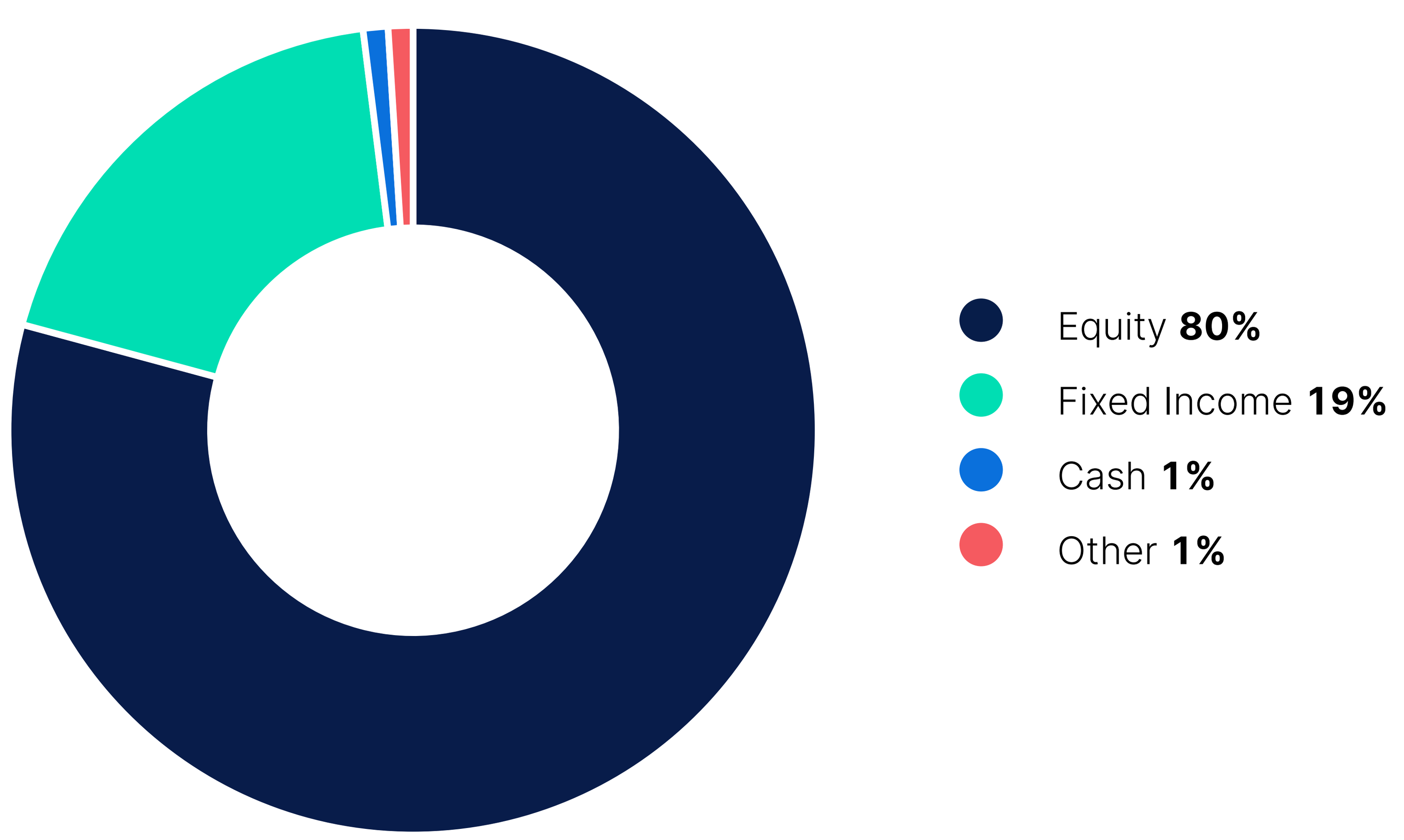
Through our Hargreaves Lansdown Fund Managers (HLFM) fund range we manage over £11bn of assets, providing investment solutions for clients across a broad range of sectors and investment needs.

This includes a range of Portfolio Funds offering instant diversification, Portfolio Building Blocks which provide greater diversification across different global sectors and our range of Select Equity Funds, which are concentrated portfolios with a high level of transparency and insight.

Sector exposure

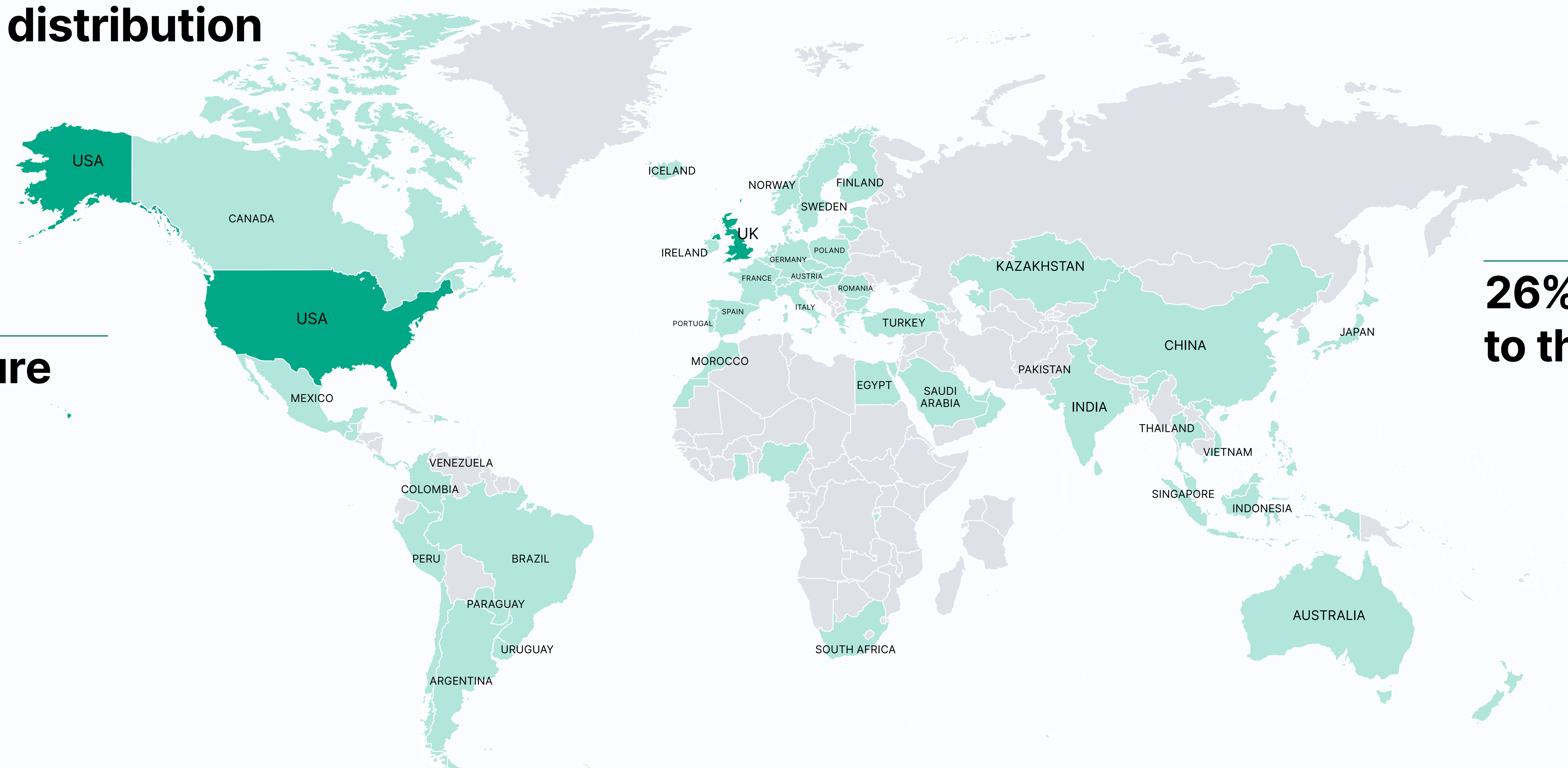


Asset class distribution



Geographic distribution

39% exposure to the US



26% exposure to the UK

High exposure

Mid exposure

No exposure

Market Value 2024 £m	
HL Multi-Manager Special Situations Trust	£1,819
HL UK Income Fund	£1,733
HL Growth Fund	£1,567
HL Multi-Manager Balanced Managed Trust	£1,183
HL Select Global Growth Shares	£684
HL Global Bond	£672
HL Multi-Manager High Income	£431
HL Multi-Index Moderately Adventurous	£336
HL Select UK Growth Shares	£291
HL Adventurous Managed Fund	£302
HL Moderately Adventurous Fund	£287
HL Income	£236

Market Value 2024 £m	
HL Balanced Managed Fund	£219
HL US Fund	£223
HL Cautious Managed Fund	£183
HL Multi-Manager European A Acc	£159
HL Multi-Manager UK Growth A Acc	£158
HL Emerging Markets A Acc	£148
HL Select UK Income Shares	£130
HL Global Equity Income Fund	£95
HL Global Corporate Bond Fund	£85
HL Multi-Index Adventurous	£79
HL Multi-Index Cautious	£77
HL Multi-Index Balanced	£44

Hargreaves Lansdown Asset Management at a glance

Hargreaves Lansdown Asset Management Limited (HLAM) is in the business of providing investment solutions to retail clients.

With £145 billion assets under administration, our investment platform allows our clients to invest in a broad range of funds, investment trusts, ETFs and shares through general investment accounts and tax-efficient wrappers, such as ISAs and SIPPs.

Investment solutions

As part of its platform service, HLAM provides investment solutions to meet different client needs. These include readymade investments, investment research and shortlists, and portfolio analysis tools. These services are designed to make it easy for clients to save and invest for their future.

Financial planning and advice

We provide investment solutions for Hargreaves Lansdown Advisory Services (HLAS), including model portfolios and a managed portfolio service. HLAS provide a range of services around these solutions from one off to ongoing advice and financial planning.

Workplace

HLAM provides services to employers including a Group Self-Invested Personal Pension, a Workplace ISA and General Investment Account, an employee flexible benefits platform and retirement services. Workplace clients can remain invested in the HLFM-managed default fund, or choose from HLAM curated investment selections or the wider platform.

Governance

Our board's oversight of climate-related risks and opportunities

Hargreaves Lansdown plc Board is entrusted with the overarching group-wide strategy, which encompasses ESG, climate change, and sustainability.

To ensure comprehensive governance, certain responsibilities are delegated to specialised committees and groups, including the ESG Taskforce. This function collaboratively oversees the execution of our ESG strategy and supports the integration of ESG risk management and opportunities.

HLFM

The HLFM Board, responsible for implementing the group-wide strategy, is pivotal in steering our climate agenda. Its responsibilities extend to overseeing and endorsing the HLFM net zero strategy and transition plan.

HLAM

As a subsidiary of Hargreaves Lansdown plc HLAM carefully monitors climate-related risks and opportunities to understand how they impact our business strategy.

Audit and Risk Committee

Our Risk Committee reviews and advises the Board on changes to the Groups risk appetite, risk profile and future risk strategy. Climate-change factors are incorporated into our current risk management framework. Our Audit committee monitor the integrity of the Groups financial report including any potential impact that climate-change could have.

Corporate Affairs Director

Is responsible for climate change at Group level including identifying, assessing and managing climate-related risks.

A portion of Executive Directors' bonuses and Performance Share Plan awards are tied to achieving ESG and climate-related objectives, including Scope 3 financed emission targets. Fund managers are also incentivised to uphold ESG principles within their respective funds, ensuring consistent integration and adherence to our ESG Investment Policy.

Our management's role in assessing and managing climate-related risks and opportunities

Our Corporate Affairs Director holds delegated responsibility from the Board to manage and assess our ESG-related risks and opportunities.

The ESG Taskforce reports into the Executive Committee and is responsible for the day-to-day execution and monitoring of our ESG strategy at the entity level. This involves ensuring key deliverables are on track, fostering business-wide commitment to our climate goals, and addressing key actions as the regulatory and climate risk landscape evolves.

Our Chief Investment Officer is responsible for leading our investment climate strategy and is assisted in doing so by our dedicated ESG Analysis team.

The ESG Analysis deliver KPI reporting to management on a monthly basis to ensure compliance with our ESG Investment Policy and our Stewardship and Engagement Policy, as well as providing an analysis of our progress towards our decarbonisation target.

All members of the ESG Analysis team are required to hold the CFA Certificate in ESG Investing and the CFA UK Certificate in Climate and Investing qualifications.

The ESG Analysis team supports the Investment Analysis & Research team, which is responsible for all HLAM Investment Solutions (such as the Wealth Shortlist, Foundation Portfolios and Workplace default and Pathways funds). Their role is to ensure that the team's investment processes align with industry best practice on ESG and climate.

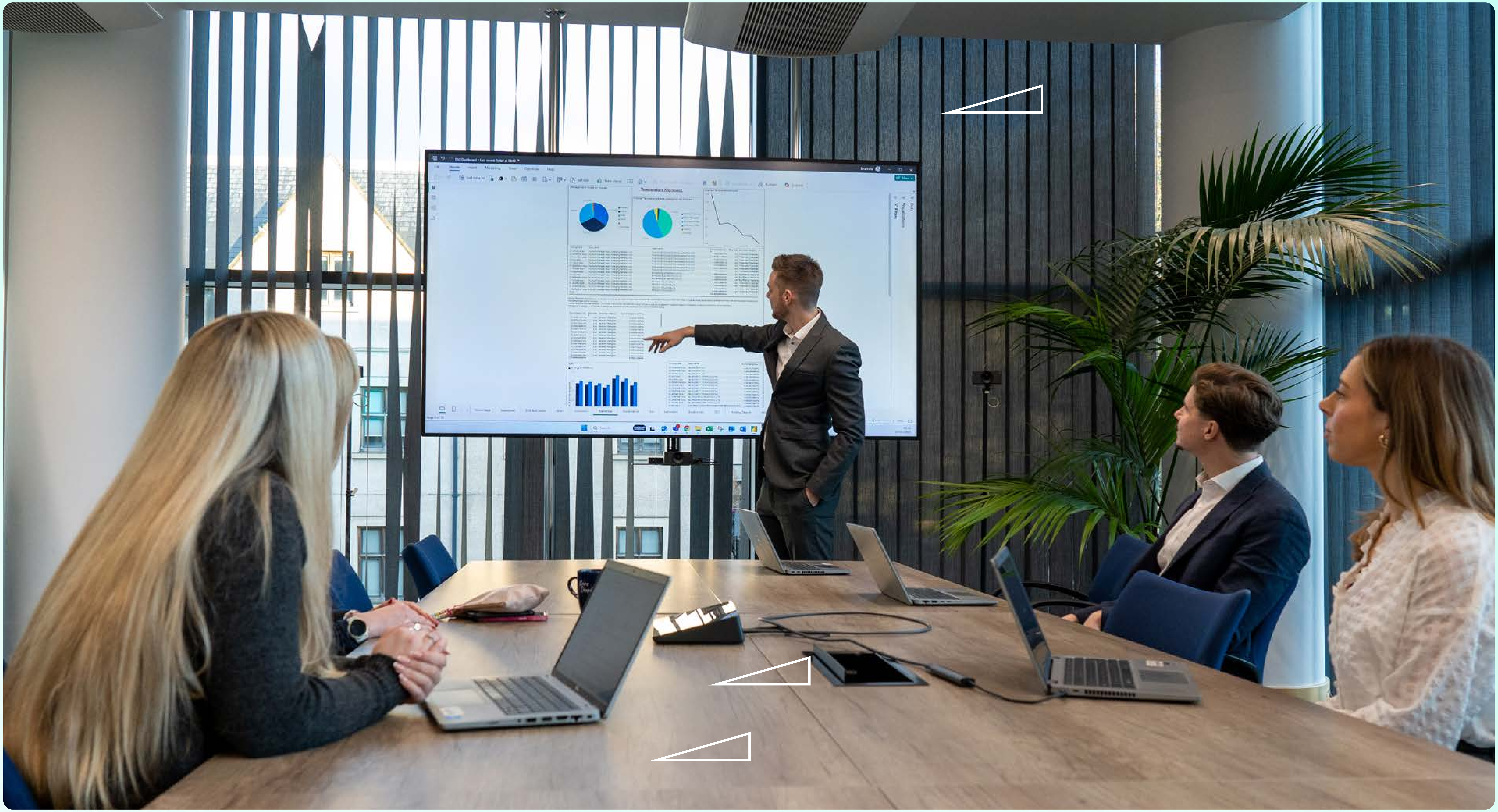
HLAM

The Distribution Investment Oversight Committee (DIOC) derives its authority from the HLAM Board and the Boards of other delegating subsidiaries. Its purpose is to oversee and challenge investment decision making for products and solutions distributed by HLAM and Hargreaves Lansdown Advisory Services. It therefore oversees HLAM adherence to our ESG Investment Policy and our Stewardship and Engagement Policy, as well as monitoring ESG-related risks.

The Independent Governance Committee (IGC) is responsible for assessing HL's policies on ESG (including climate change), nonfinancial matters, stewardship and other financial considerations in relation to our Workplace offerings. The ESG Analysis team meets with the IGC at least once per year (or more frequently as required) to discuss progress made over the period. The IGC's annual reports can be found here.

HLFM

The Executive Investment Committee (EIC), deriving its authority from the HLFM Board, assumes a critical role in ensuring adherence to our ESG-related policies and monitoring associated risks. Led by Chief Investment Officer Toby Vaughan, who sits on the HLFM Board and chairs the EIC, this committee is tasked with providing executive challenge and oversight of HLFM's performance and risk outcomes across the funds it manages.



Strategy

Our business-wide strategy is underpinned by reducing our impact on the environment and becoming lean and efficient with a focus on providing great outcomes for our clients.

Climate-related risks and opportunities identified across short, medium, and long terms, their impact on our business, strategy and financial planning, and the resilience of our strategy under different climate scenarios.

We have performed an assessment of climate-related risks in alignment with our Enterprise Risk Management Framework (ERMF) system including transition and physical risks over short, medium and long-term time horizons under three contrasting climate scenarios, for HLAM and HLFM. These scenarios are hypothetical scenarios to assist our understanding of how climate change impacts our business and our portfolios. Performing this assessment tests that our strategy can respond to climate-related risks and that we can take advantage of climate-related opportunities. We remain resilient to current climate-related risks and opportunities. We look to continue to improve our approach and the integration of climate-related risks into our broader risk management processes, aligning with industry standards.

Please refer to our Group Annual Report to find out more about our ERMF.

Orderly
A scenario where global warming is limited to well below 2°C, aiming for 1.5°C by the end of the century. Early, coordinated action is taken, with immediate, effective climate policies and rapid technological innovation. Transition risks are present but relatively moderate as businesses and economies have time to adapt. However, carbon intensive sectors may face elevated transition risks. Physical climate risks are significantly lower compared to delayed action scenarios.

Disorderly
A scenario where global emissions do not decrease until 2030, delaying meaningful climate action. To limit global warming to below 2°C, governments and markets are forced to introduce sudden, stringent policies and regulations from 2030. The abrupt and reactive policy shifts lead to higher transition risks and also result in higher physical risks than the 'Orderly' scenario. However, the scenario avoids the most severe long-term physical impacts.

Hot house world
A scenario based on current policies, with emissions continuing to rise until 2080, leading to around 3°C of warming. This results in severe physical risks, including irreversible impacts such as higher sea levels. It reflects a path with limited action on climate change, creating significant long-term risks to the economy and financial system.

Please note that this likelihood scale assesses the probability of the climate-related risk impacting the entity after considering the implementation of risk mitigation measures. It reflects the residual risk remaining once such measures have been applied. All risks highlighted below are considered material risks.

Key

- **Unlikely**
  < 10% probability
- **Possible**
  30%-70% probability
- **Likely**
  > 70% probability

Transition Risks

Reputation

Description
The risk that our stakeholders perceive us as being unresponsive or insensitive to climate-related risks and are unhappy with our progress of aligning our investments and products with the transition to a low-carbon economy.

Potential impact
Loss of client trust and reduced demand for products and services leading to clients directing capital to other platforms and poor investor outcomes.

Mitigation
To build resilience against reputational risks, we prioritise transparency and accountability in all our communications. We closely monitor greenwashing concerns and ensure that all claims made in our reporting are fully substantiated and clear. This approach helps us maintain credibility and trust with clients, investors, and the public, ensuring that we are well-positioned to effectively manage the transition to a low-carbon economy while mitigating potential reputational risks.

For an overview of our approach to climate-related risk management, please refer to page 22.

Residual likelihood of risk impacting HLFM & HLAM

Scenario	0-5 years	5-10 years	10+ years
Orderly	Possible	Possible	Unlikely
Disorderly	Unlikely	Possible	Possible
Hot House World	Unlikely	Unlikely	Possible

Our entities

HLFM

We ensure clients' needs are met by measuring and monitoring our funds emissions. We are targeting the 50% reduction in the weighted average carbon intensity of our assets under management by 2030, relative to a 2019 baseline. We are transparent about our progress, disclosing annually via our Climate Transition Plan and Stewardship and Engagement Report.

HLAM

As a pensions, investment and savings provider for retail clients we have a duty to ensure ready-made and managed portfolios are transparent and meet our clients' needs. Our solutions invest into funds that are aligned with our ESG Investment Policies.

Market

Description

The risk that climate change or the transition to a lower-carbon economy negatively impacts the global economy and therefore the value of assets on our platform and in our range of managed investments. As an investment provider business, there is also a risk of failure to offer low carbon tools and solutions.

Potential impact

Assets with exposure to climate-related risks may be subject to a decrease in value, impacting returns and related revenue streams. Reduced new business from clients who want to invest responsibly.

Residual likelihood of risk impacting HLFM & HLAM

Scenario	0-5 years	5-10 years	10+ years
Orderly	Likely	Possible	Unlikely
Disorderly	Possible	Likely	Likely
Hot House World	Possible	Possible	Likely

HLFM

Climate Value-at-Risk

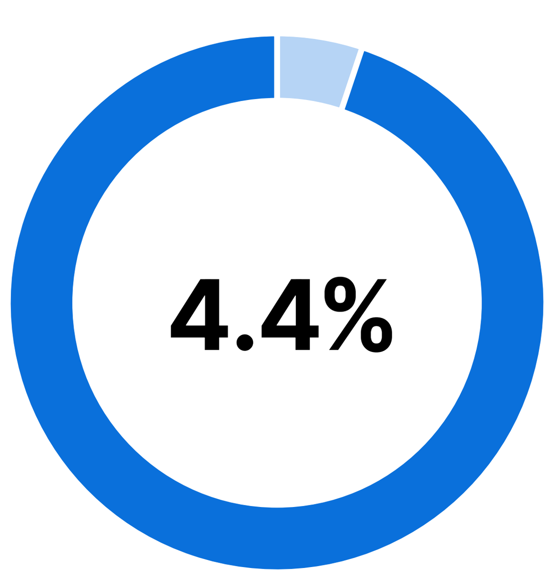
Climate VaR is used to estimate the potential financial losses that a company or portfolio of assets could incur due to climate-change. This data point indicates the expected value degradation of a company based on its expected misalignment to a net-zero pathway, expressed as a percentage. We have aggregated this company-level data point to the portfolio level:

The potential absolute loss in value HL's portfolio may experience from the transition to a low carbon economy, from market and policy risks, is 4.6%.

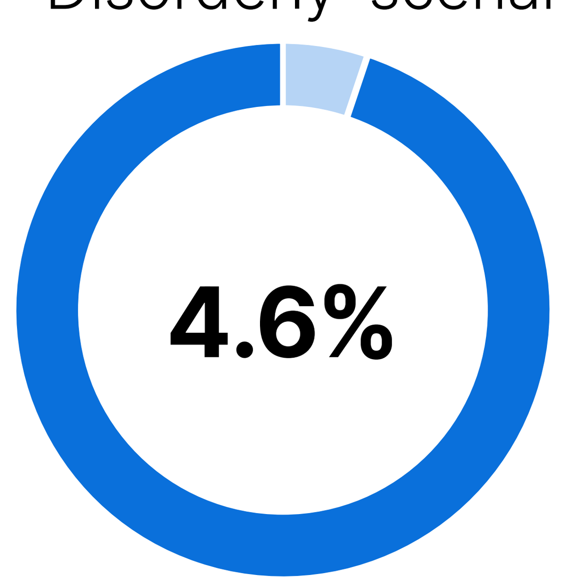
HL portfolio coverage is 82% and includes listed equities and corporate bonds only. We take a weighted average approach for the portfolio and reweight to 100% to provide a representative data point for our AUM.

HLFM

'Orderly' scenario

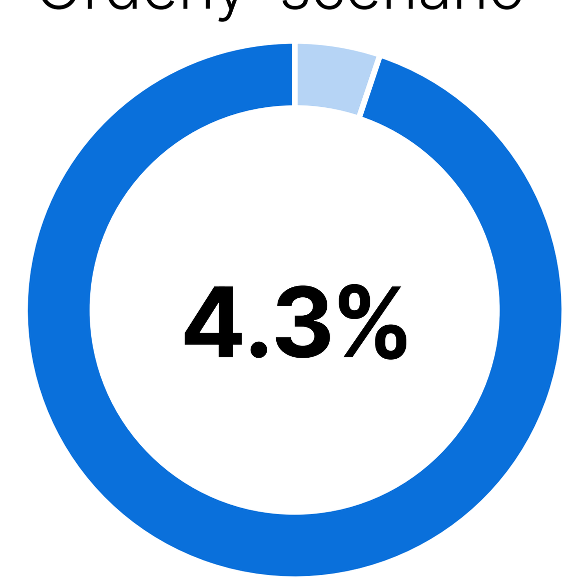


'Disorderly' scenario

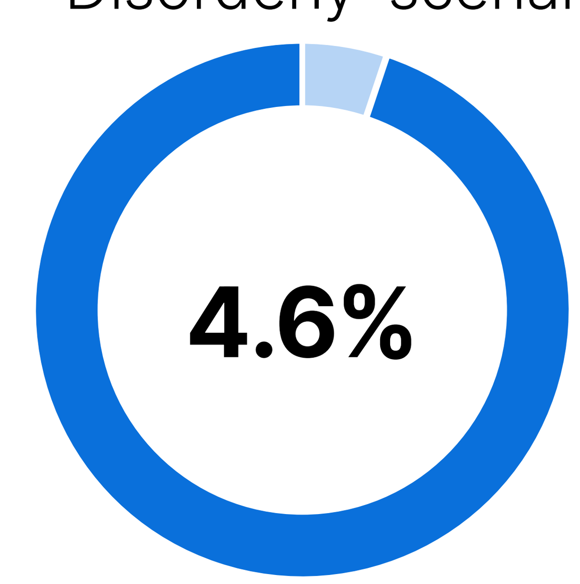


MSCI World

'Orderly' scenario

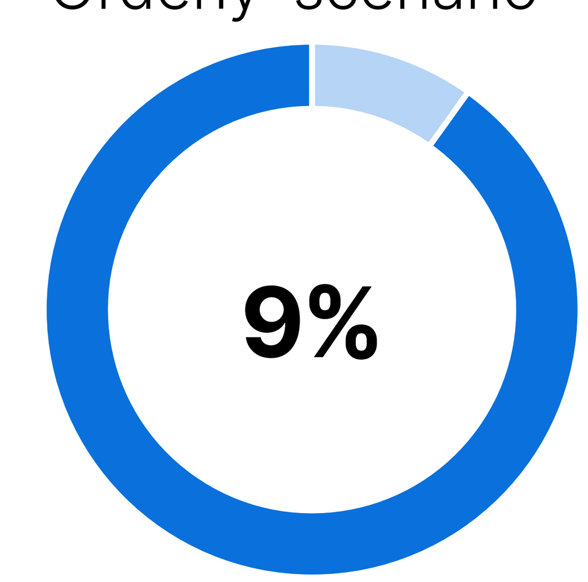


'Disorderly' scenario

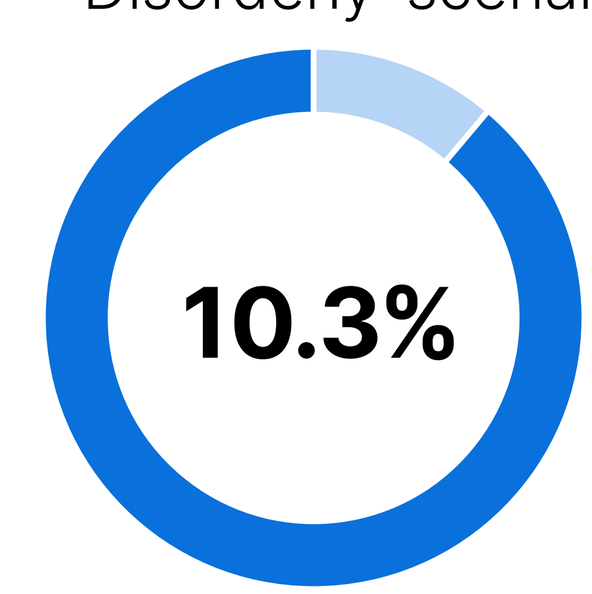


FTSE All Share

'Orderly' scenario



'Disorderly' scenario

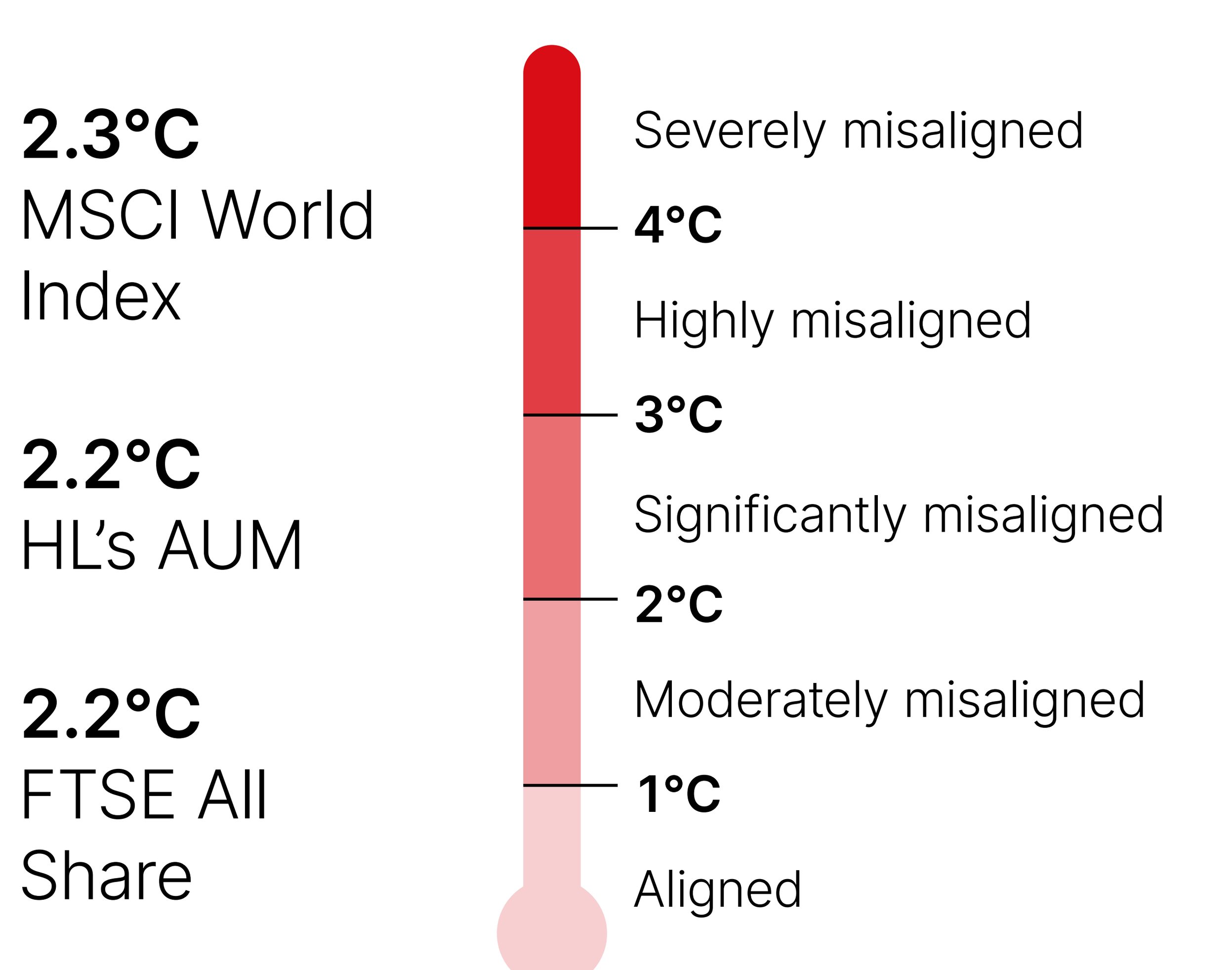


Implied Temperature Rise

The Implied Temperature Rise signifies the temperature to which the world would warm (above pre-industrial levels) should all companies' expected emissions differ from their net-zero budgeted emissions to the same degree as this portfolio.

This data point should be considered in context of the global objective of minimising global warming to well below 2°C, ideally 1.5°C, by 2050.

Morningstar Sustainalytics' methodology suggests the implied temperature rating of HLFM **is 2.2°C**, making our portfolio 'significantly misaligned' with the emission reductions necessary for a 1.5-degree scenario.



This means that if all companies had the same investment alignment and transition preparedness as the investee companies in our portfolio, it is estimated that the world would warm by 2.2°C above preindustrial levels.

Mitigation

Our broad range of investments allows our clients to hold diversified portfolios and react to changing market trends. For our managed portfolios and funds, we have an ESG-integrated investment process to minimise ESG and climate-related risks. As part of our wider risk management framework, we stress test our market exposure to ensure we are confident that our business model is resilient against this risk.

HLAM

We educate our clients on the risks associated with stranded assets, particularly in the oil and gas sectors, and the importance of diversification within the portfolio to help shield against abrupt market changes.

To understand evolving market preferences, we survey clients every two years to ensure that our investment solutions remain aligned with their needs for climate-related products and services. By actively managing these risks and educating stakeholders, we aim to enhance resilience against market disruptions and ensure our clients' long-term financial well-being.

To read our results, please see our Stewardship and Engagement Report.

Our entities

HLFM & HLAM

Both entity business models are impacted by decreasing client retention and market value, as it does the wider Group. Our entities offer a diverse range of products to help mitigate these risks. From a market lens exposure is created through some of their revenue being linked with the value of assets held. This is because a portion of revenue is derived from ongoing product charges, which are levied as a percentage of assets and funds under management. Our approach draws upon a diversified, global pool of investment opportunities which aims to reduce concentration risk, meaning our clients are less likely to suffer a significant financial loss via sudden market changes. We assess climate-related risks (including physical risk) in our funds. This can be found on page 18.

Policy and Legal

Description
The introduction of new or more stringent climate-related regulations, increasing our disclosure obligations. Legal risks may arise if net zero or ESG commitments are perceived as misleading.

Potential impact
Increase in the cost of compliance to meet the regulations and the potential impact on product restrictions including risk of regulatory fines if we fail to comply with these requirements.

Strategic litigation is becoming a key risk across the financial services sector. Typically, this has focused on providing funding to high carbon activities. Approximately 8% of HLFM's AUM is exposed to the fossil fuel industry, which is lower than the MSCI World Index (9%) and FTSE All Share Index (18%).

While such litigation may not always result in financial penalties, it could lead to reputational damage and wider systemic change.

Residual likelihood of risk impacting HLFM & HLAM

Scenario	0-5 years	5-10 years	10+ years
Orderly	Likely	Likely	Unlikely
Disorderly	Possible	Likely	Unlikely
Hot House World	Unlikely	Unlikely	Unlikely

Mitigation
We have seen growing demand on regulatory policies for companies worldwide. Increasing our resilience supports fast paced regulatory changes and through our regulatory compliance teams we horizon scan for policy and legal risks associated with climate change, using our governance framework to ensure the business can monitor, direct and ensure all regulations are followed. Both entities are subject to additional environmental and sustainability-related disclosure requirements through SDR and work has been undertaken to ensure the Group does not breach these requirements.

Our entities
HLFM

Our funds are analysed by our ESG Analysis team to ensure the funds comply with regulations from a climate perspective.

HLAM

We are exposed to regulatory risks through expectations set out by the FCA. New disclosure requirements relating to our platform products could increase the costs of our operating activities. Our regulatory change process operates horizon scanning to ensure all areas of the business identify new and upcoming changes allowing for planning in advance.

Technology

Description

An increased need to integrate climate analytics could lead to significant investments in data, modelling, and technology infrastructure. Retail investors are increasingly demanding real-time ESG data, carbon footprint tracking, and climate-themed product filters.

Potential impact

Given the high importance of enabling clients to self-serve, failing to meet these demands could result in reduced platform attractiveness, leading to a loss of market share or decreased investor confidence. Lack of investment in ESG data could also restrict the ability to identify and assess climate-related risks in our investment process.

Mitigation

We have integrated climate data into our fund analysis process and will ensure alignment with evolving regulatory requirements. Recognising the importance of incorporating this data on the platform side, we will continue to enhance our capabilities over time. Our Procurement and Vendor Management team works proactively to negotiate favourable terms and control rising data costs.

Residual likelihood of risk impacting HLFM & HLAM

Scenario	0-5 years	5-10 years	10+ years
Orderly	Likely	Likely	Unlikely
Disorderly	Possible	Likely	Unlikely
Hot House World	Unlikely	Unlikely	Unlikely

Our entities

HLFM

Our Quantitative Analysis team manage our proprietary ESG Dashboard which aggregates third party climate data with our portfolio data to enable the identification and analysis of climate and broadly ESG-related risks across our product range.

HLAM

As a manufacturer and distributor, each product undergoes a regular review process, led by Product Governance, to assess its value in comparison to competitors. This approach ensures we maintain competitiveness while effectively managing costs in an increasingly dynamic market.

Physical Risks

In this section, we have identified the physical climate-related risks associated with our investment portfolio. Please refer to our Group TCFD report for the impact of physical risks on HL as a company.

Description

Acute climate-related physical risks include asset and infrastructure damage, operational disruption, and supply chain breakdown. Chronic climate-related physical risks include rising temperatures, water scarcity, sea level rise and ocean acidification.

Potential impact

We leverage our third-party data provider Morningstar Sustainalytics to assess the Physical Climate Risk Metrics of our portfolio. This data uncovers the possible harms due to physical manifestations of a changing global climate, referred to as hazards. Risks are measured by combining details around physical assets and climate change hazard projections to see how physical climate changes will affect those assets.

Asset Damage Risk estimates the vulnerability of direct infrastructure damage. This is the likelihood of climate hazard occurrence combined with the vulnerability of the asset and its components, such as its structure, systems, and equipment.

Productive Capacity Loss estimates direct losses due to non-damage-related disruptions, such as productivity drops from component failures and worker heat stress.

We have used the Representative Concentration Pathway (RCP) scenarios for this assessment, which are a set of greenhouse gas concentration trajectories used by climate models to project future climate change. RCP 2.6, referred to as "Orderly Scenario", models a world transitioning to a future warming of well below 2˚C by the end of the century; and RCP 8.5, referred to as "Hot House World Scenario", models the future under a worst-case scenario resulting in global warming which overshoots 3˚C by 2100, modelling a range of 3.2°C to 5.4°C.

The Physical Climate Hazards Data assessment currently only considers physical climate risks, and it excludes the financial and real estate sectors. We recognise the limitations of our assessment and aim to expand its scope over time. We will develop our approach to physical risks in line with the Taskforce on Nature-related Financial Disclosures (TNFD) framework.

Residual likelihood of risk impacting HLFM & HLAM

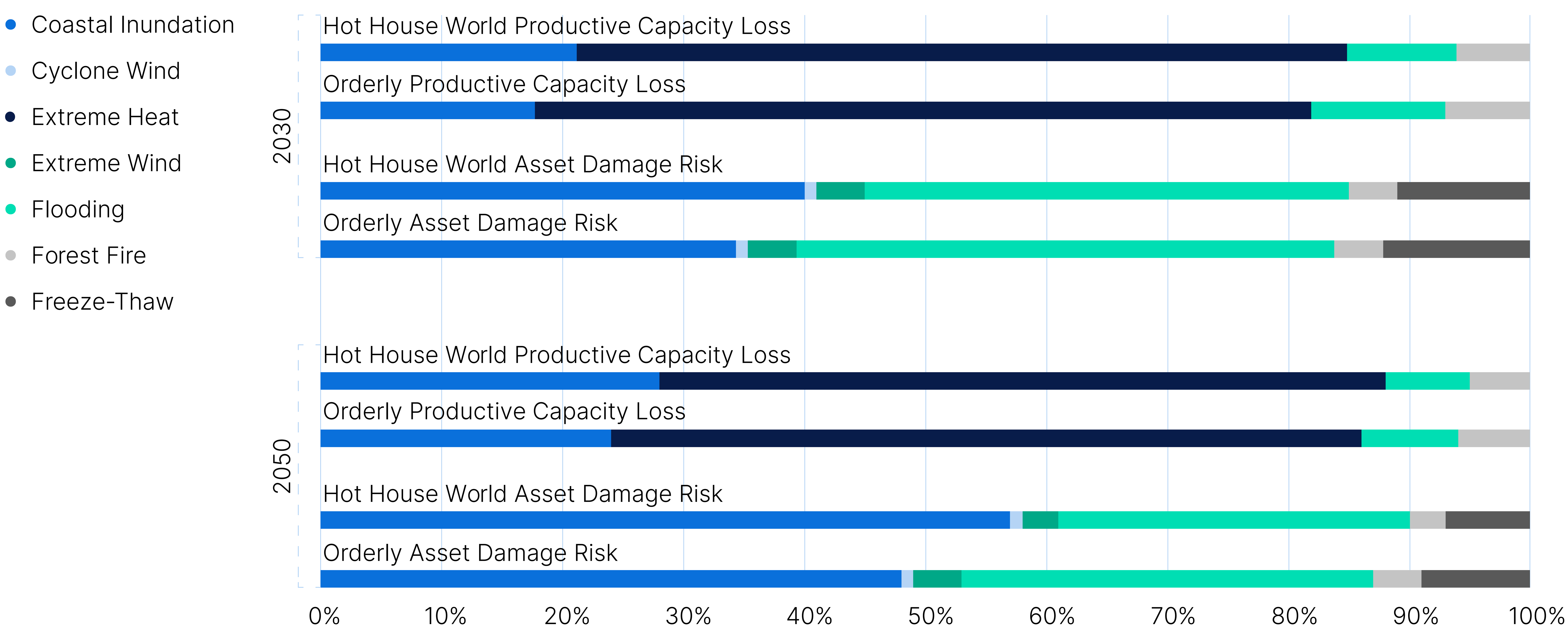
Scenario	0-5 years	5-10 years	10+ years
Orderly	Possible	Possible	Possible
Disorderly	Possible	Possible	Likely
Hot House World	Possible	Likely	Likely

HLFM

The below graphs assess the Productive Capacity Loss and Asset Damage Risk of HL's investment portfolio across an 'Orderly' and 'Hot House World' Scenario in the medium term, 2030, and long term, 2050. They show the projected contribution of different physical hazards to the overall risk of asset damage or non-damage-related disruptions, indicating what percentage of the total risk each hazard could represent.

This assessment shows that, in the context of climate-related risks, the assets HL Fund Managers invests in are most likely to be damaged by flooding and rising sea levels. Additionally, extreme heat poses the greatest risk to the portfolio's productive capacity, potentially disrupting operations due to heat stress and related damage.

Hazard Contribution to Direct Risk Metrics



The Loss Ratio measures the financial risk from physical climate impacts on the portfolio of companies HL Fund Managers invests in. It's calculated by comparing the expected damage from climate hazards to the total financial value of the portfolio up to 2050. This ratio, expressed as a percentage, helps assess how much of the portfolio's projected revenue may need to be set aside to address climate-related damages.

HL's lower loss ratio indicates that the portfolio is more financially resilient to physical climate risks.

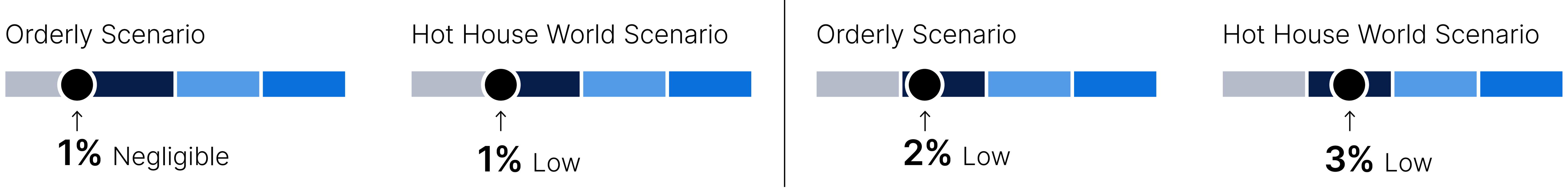
Data relating to climate metrics is evolving. As calculations evolve, we aim to be transparent in showing where any changes have impacted our reporting and methodology.

Mitigation

Our ESG Analysis team identifies companies within our Select fund range that are most exposed to climate-related risks and conducts in-depth analysis to assess their preparedness for the transition, including their management of physical risks. The insights gained from this process inform our engagement efforts. For our HL Portfolio Funds and HL Portfolio Building Blocks range, we integrate key climate data into the investment process to identify managers with high-risk portfolios. The outcomes of this analysis are incorporated into our broader investment strategy.

Total Loss Ratio of HL's Investment Portfolio in 2024

Total Loss Ratio of HL's Investment Portfolio in 2023



Scale

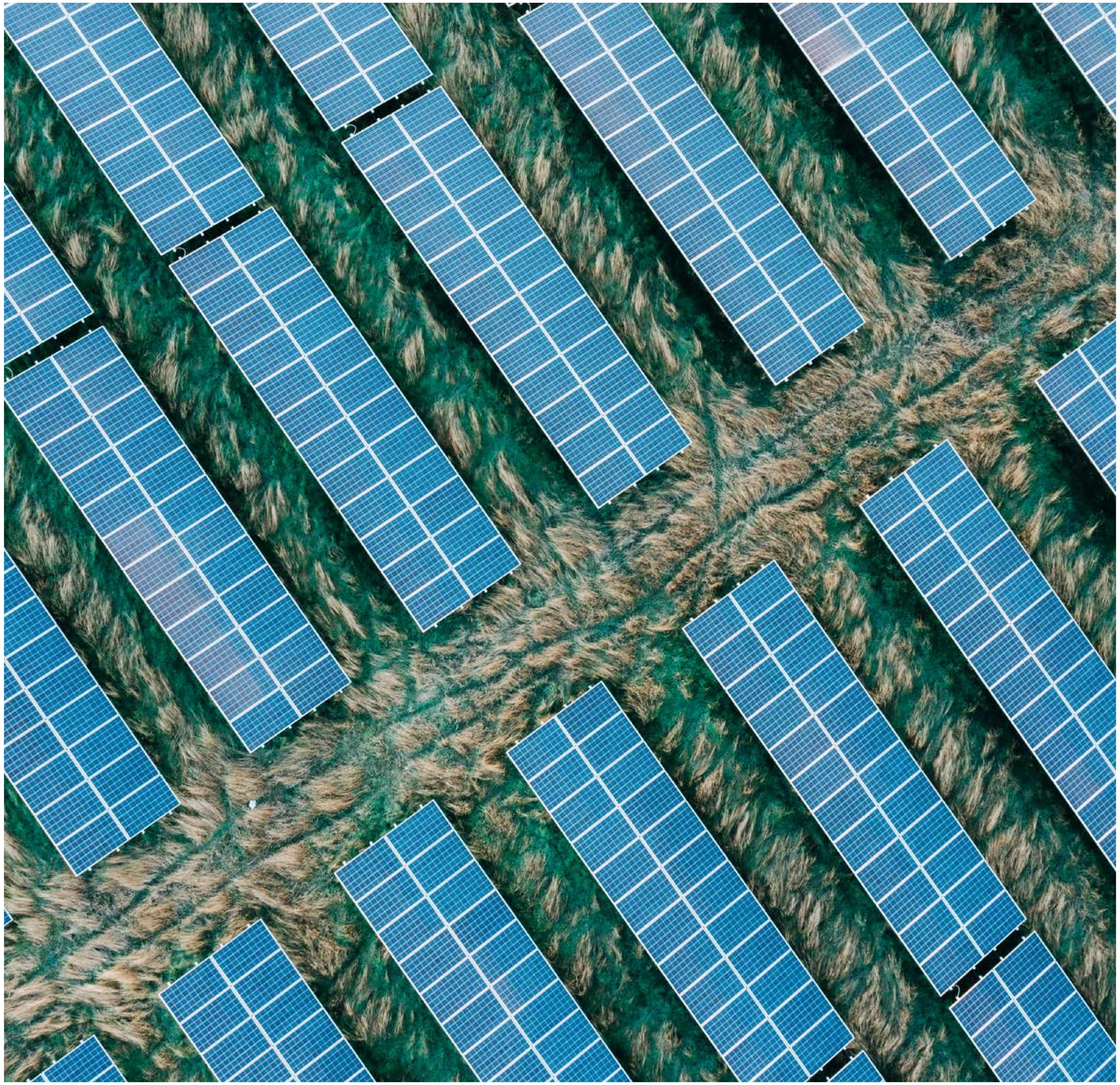
Negligible	Low	Medium	High	Severe	Severe – Negative Cash Flow
0 <= 1%	>1%<=5%	>5%<=25%	>25%=<75%%	>75%	>100%

Data labels may vary due to rounding.

Opportunities

Companies with strong climate credentials stand to benefit from enhanced brand reputation, client loyalty, and alignment with evolving regulatory expectations. While we do not run dedicated climate-aligned strategies, we recognise that shifting market dynamics, increasing investor scrutiny, and regulatory developments may drive greater integration of climate-related considerations across investment strategies.

Embracing resource efficiency measures not only reduces costs but also mitigates environmental impact, supporting long-term resilience. Furthermore, businesses that develop innovative products and services addressing climate-related challenges may gain a competitive edge, particularly as investor and consumer preferences continue to evolve. Organisations that demonstrate adaptability and resilience in navigating climate-related disruptions could be better positioned for sustained success in increasingly transition-focused economy.



Risk management

Our processes for identifying and assessing climate-related risks.

HL recognises climate change as a material ESG factor and a systemic risk to our economy. We continually refine our methods for identifying and assessing climate-related risks to ensure we are aligned with best practice.

Product

Client demand is a key factor in our product development. We actively engage with clients through surveys to gauge their perspectives on ESG-related topics, including climate-related concerns. ESG factors are being incorporated into solutions and tools currently under development, including enabling clients to use climate-related data to make informed investment decisions.

As well as understanding what clients are asking for and what they're looking to avoid, we consider ESG flows in market and on platform. This allows us to assess whether intentions are matched with actions, and then what subsequent behaviour is exhibited.

ESG related regulation is also factored into our product development, such as the implementation of the Sustainability Disclosure Requirements (SDR).

HLFM

HLFM is moving towards investing in segregated mandates, rather than third-party funds, to have greater control of manufactured solutions. ESG criteria is included in the Investment Management Agreement for segregated mandates as well as forming a key section of our due diligence assessment of firms and funds.

HLAM

Among our Workplace membership we have explored demand for different responsible approaches. Our Workplace default has been designed with a decarbonisation pathway at its core, as net zero is a priority for many of our Workplace employer clients and members.

Process

When reviewing the third-party managers we use in our solutions, ESG is one of our ten due diligence categories. We assess firms on whether they have set a net zero target, whether this covers all scopes of emissions, and what proportion of their assets are covered by targets. We also ask our investment managers whether they conduct any climate scenario planning or stress testing on their funds under management.

Our proprietary Fund House Dashboard plays a central role in our approach, integrating climate considerations directly into our scoring methodology. In addition to assessing groups' ambition on net zero and stewardship capabilities, it also evaluates the reporting and disclosure of climate risk. The Dashboard score is directly reflected within our investment checklist, which managers and analysts are required to complete annually for each fund held in our solutions.

As part of the checklist, managers and analysts are also required to assess our proprietary fund-level climate score. This score integrates four key metrics—carbon intensity, Implied Temperature Rise, Climate VaR, and fossil fuel exposure—to evaluate the degree of climate risk the fund may pose to investors. If the score falls below our threshold, further analysis is needed to determine whether the fund manager is aware of the elevated climate risks and the measures being taken to mitigate them. Our managers also consider regional variations in climate risk, making it essential to ensure that the fund's climate risk profile aligns with what investors can reasonably expect based on its geographical focus.

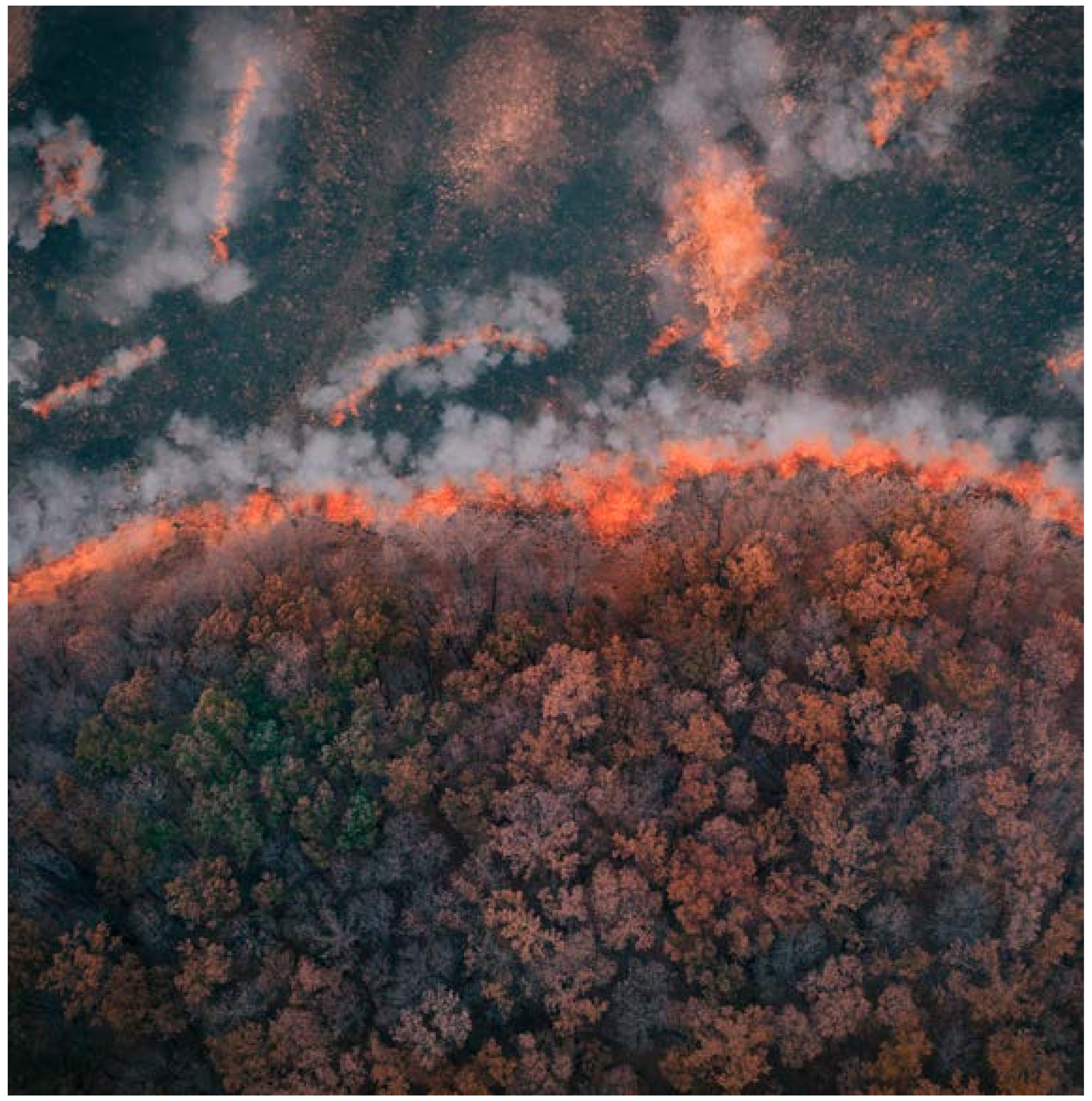
We rely on Morningstar Sustainalytics as a trusted third-party data provider for carbon data. This data feeds directly into our proprietary ESG dashboard, a robust tool that aggregates company-level data to the portfolio level. Through this dashboard, we effectively discern key climate-related risks, examining not only carbon emissions but also metrics such as exposure to physical climate risks, alignment with climate transition pathways, and alignment to climate-related opportunities. This comprehensive analysis enables us to pinpoint the highest emitting stocks, sectors, and geographies within each of our funds, providing insight into our products' alignment with net zero goals. Additionally, climate is factored into financial planning through our allocation to third party ESG data providers to manage climate-related risks effectively across our investment solutions

We also assess the highest emitting companies in our portfolio against industry recognised frameworks such as the Investors Group on Climate Change (IIGCC) Net Zero Investment Framework criteria and the Climate Action 100+ Benchmark. These frameworks outline essential criteria for asset alignment and climate solutions assessment, including emissions disclosure quality, transition plans, capital expenditure commitments, and implied temperature scores.

Our HL Portfolio Funds and HL Portfolio Building Blocks funds invest in segregated mandates and third-party funds managed by various external managers. Our investment team engages with these managers throughout the year to assess performance, receiving regular updates on their engagement approach and outcomes achieved. Additionally, we issue an annual dedicated ESG due diligence questionnaire to our appointed managers, seeking insights into their approach to managing climate risk, their climate-focused engagement efforts and decarbonisation strategies.

Deforestation

We have identified deforestation as a key climate-related risk. The clearance of forested land through burning releases vast amounts of greenhouse gases into the atmosphere, and the process of deforestation reduces the ability of an area to store carbon. We



commit to understanding the scope and impact of deforestation within our funds in our Stewardship and Engagement Policy. We are committed to improving our understanding of our exposure by working with our data provider. We are engaging through the Investor Policy Dialogue on Deforestation Initiative (IPDD) to improve regulation on deforestation. This in turn will increase transparency, reporting and data for investors globally to make more informed investment decisions.

Our processes for managing climate-related risks.

HLFM

Two of the main ways to manage climate risk in a portfolio are engagement (working with companies to help them improve) and exclusion (avoiding shares in companies where significant improvement is required).

We believe the most effective method to achieve real world change is engagement. When you are an investor in a company, you can attend shareholder meetings and vote on management's proposals, or if you can't attend you can cast a proxy vote. This gives you a chance to have a say on how sustainable practices are handled in future, which is even more important for companies that have a large footprint on the environment around them.

In contrast, if you avoid a company's shares, someone else buys them. They may not care about the company's impacts as much as you do. They might be happy to see the company run in the same way, without any care for climate issues. In extreme cases, companies ignored by investors could see large international investors and private equity firms buy the firm and take it private. It would then face even less restrictions and transparency requirements.

Exclude HLFM

That said, we do apply a small number of exclusions where companies are engaged in activities that contribute significantly and disproportionately to climate harm. For instance, we exclude companies that generate 20% or more of their revenues from thermal coal power generation and unless our exemption criteria, as defined in our ESG Investment Policy, is met. We also exclude companies which generate 20% or more of their revenues from oil sands extraction. These exclusions are applied across the HL Select Funds and the segregated mandates held within the HL Portfolio Funds and HL Portfolio Building Blocks.

Minimum standards HLFM & HLAM

To be considered for our solutions, all fund groups must publicly pledge to reach net zero by 2050 or earlier (covering at least Scope 1 and 2 emissions) and to be working towards creating a robust transition plan to support this pledge.

In addition, any funds that are being considered for investment, or are a current holding, are evaluated on whether the group reports on the Task Force on Climate-Related Financial Disclosures (TCFD), or a similar climate-related disclosure framework relevant to the domicile of the group.

ESG is a key consideration in the design of our Workplace Default Investment Arrangement. Within our manufactured Workplace solutions, ESG tilting may be used to further enhance their ESG credentials. For more information, please see our ESG Investment Policy.

Engagement HLFM & HLAM

Engagement is a meaningful lever for success. We have identified a focus list of some of the most carbon intense companies in our portfolio.

We are engaging with these firms directly, through our appointed managers, and through collaborative engagement schemes, such as Climate Action 100+. We also engage with all appointed fund managers to ensure they are sufficiently integrating ESG.

To read more about our climate engagement and net zero strategy, please refer to our Climate Transition Plan and our Stewardship and Engagement Report.

Education and choice HLAM

As well as writing climate-related articles for clients, which can be found on our Responsible Investment hub, we include a dedicated ESG section in all fund and share update articles. HL's fortnightly Switch Your Money On podcast regularly includes a segment of ESG analysis for listeners too.

We offer a dedicated ESG Hub for Workplace clients to understand the key climate considerations of their retirement savings.

Our Wealth Shortlist offers a number of responsible funds across a range of sectors, to assist clients in building a well-balanced and diversified portfolio.

We are also working to strengthen the ESG data available to clients on our website. This will ultimately ensure they are both aware of the climate-related risks of their investments, and how to mitigate them, as well as take advantage of ESG investment opportunities.

How we integrate climate-related risks into our overall risk management.

The Group adopts a robust risk management structure based on the 'Three Lines of Defence' model to ensure clear accountability for all risk management activities across the organisation. For further details, please refer to the Group's TCFD report.

The ESG Analysis team sit in the first line as the ultimate owners of the risks and are responsible for risk management.

Our ESG Analysis team conducts a monthly assessment of climate-related metrics within our assets under management. This assessment encompasses various factors, including our weighted average carbon intensity, exposure to highest emitting stocks, and our exposure to fossil fuels and climate solutions. This routine evaluation provides our analysts with a comprehensive understanding of climate-related risks and opportunities embedded within our portfolio.

On a quarterly basis, the ESG Analysis team provides management information to the Chief Investment Officer and the Executive Investment Committee for HLFM reporting, and the Distribution Investment Oversight Committee for HLAM reporting. This information offers insights into the operational effectiveness of our ESG-related Policies and presents performance data illustrating how our funds align with key ESG and climate-related metrics. Any significant or unforeseen changes are investigated by the ESG Analysis team, and a detailed rationale is provided in the report.

Climate-related Key Performance Indicators are presented to the plc Board annually, providing a comprehensive overview of our organisation's progress and performance in managing climate-related risks and opportunities. We commit to formally reviewing our emission reduction targets on an annual basis, supplemented by an independent review conducted every two years.

Alongside dedicated ESG investment capabilities, first line operates a Conduct Framework, which ESG aspects form part of, and is owned and managed through the Client Outcomes Function. As detailed above, our business wide Conduct and Risk frameworks consider climate-related risks alongside other ESG factors. Aligning with the expectations of the Consumer Duty, the Conduct Framework's design ensures that Conduct Risks, defined as 'the risk of corporate governance, ethics, culture and conduct failures causing harm to clients, markets, business, and the environment', are robustly managed.

The second line of defence is the Risk and Compliance teams. As well as setting company policy on compliance and risk matters, the second line is there to offer advice, guidance, and challenge to the first line, the Executive Committee, and the Board.

Metrics and targets

The metrics we use to assess climate-related risks and opportunities in line with our strategy and risk management process.

Metric	Definition	Calculation methodology
Total carbon emissions	The absolute greenhouse gas (GHG) emissions associated with the portfolio. Scope 1 and Scope 2, and Scope 3 if specified, GHG emissions are allocated to investors based on an enterprise value approach. This is the total emissions associated with the fund.	$\sum \left(\frac{\text{current value of investment}}{\text{investee company's enterprise value}} \times \text{investee company's emissions*} \right)$ The enterprise value calculation values a company based on both the equity and debt value of a company including any cash.
Carbon footprint	The total carbon emissions for the portfolio normalised by the market value of the portfolio. This is the emissions associated with $1 million of investment.	$\frac{\sum \left(\frac{\text{current value of investment}}{\text{investee company's enterprise value}} \times \text{investee company's emissions*} \right)}{\text{current portfolio value (\$M)}}$

Metric	Definition	Calculation methodology
Weighted average carbon intensity	The portfolio's exposure to carbon-intensive companies, relative to revenue. Scope 1 and Scope 2, and Scope 3 if specified, GHG emissions are allocated based on portfolio weights (the current value of the investment relative to the current portfolio value). This is the economic carbon efficiency of the fund.	$\sum \left(\frac{\text{current value of investment}}{\text{current portfolio value}} \times \frac{\text{investee company's emissions*}}{\text{investee company's revenue}} \right)$
Implied temperature rise	This rating signifies the temperature to which the world would warm (above pre-industrial levels) should all companies' expected emissions differ from their net-zero budgeted emissions to the same degree as this portfolio. This is a forward-looking measure assessing future emission trajectories and climate alignment. A fund may have higher emissions but a lower implied temperature score if they have a robust plan to decarbonise.	$\left(\text{(Σ(weight X GHG emissions gap \%)) X global emissions budget X transient climate response to cumulative carbon emissions factor)} \right) + 1.5°\text{c}$ This rating is calculated by our appointed third-party data provider, Morningstar Sustainalytics. The rating is built on top of two core components, exposure and management. The exposure component assesses the potential inherent misalignment of each issuer's future emissions with their issuer specific budget. The management component evaluates the issuers potential to reduce their exposure, by scoring the equality of their policies and programmes, strategy, governance and financial position. This provides a rating at the stock level; we aggregate these scores to the portfolio level following Morningstar Sustainalytics' methodology.

*Emissions reported are based on Scope 1 and 2 GHG emissions unless specified to include Scope 3. Scope 3 data quality may be less reliable, as it includes 15 indirect emissions categories. If a company does not disclose any Scope 3 data, our data provider will estimate the emissions. However, if a company only partially discloses its material Scope 3 emissions, the data provider may not supplement this disclosure, potentially leading to an incomplete view of the company's absolute emissions.

Metric	Definition	Calculation methodology
Climate Value-at-Risk	This is the potential absolute loss in value the portfolio may experience based on its expected misalignment to a net zero pathway.	**Policy risk**: The risk that regulatory action will increase costs to an organisation through carbon pricing mechanisms. + **Market risk**: The risk that market behaviour evolves such that there is less demand for a fossil fuel-based products. = **VaR**: The potential absolute loss in value the comany may experience from a transition to a low carbon economy. This metric is calculated by our appointed third-party data provider, Morningstar Sustainalytics. Value at Risk (VaR) is measured based on the policy costs of expected emissions and the impact of reduced market demand, where applicable (market VaR is currently only assessed for the oil & gas sector). It is a cumulative value based on a discounted cash flow model for the years from now until 2050, expressed as a percentage. This provides a VaR at the stock level; we aggregate these scores to the portfolio level following Morningstar Sustainalytics' methodology.

Metric	Definition	Calculation methodology
Total Loss Ratio	The Loss Ratio serves to assess a company's financial capacity to manage the costs associated with physical direct and indirect climate risks.	The Loss Ratio is calculated as the ratio of expected cumulative damage against the company's global financial position up to 2050. This data point is calculated by our appointed third-party data provider, Morningstar Sustainalytics. We apply a weighted average to the holdings data to aggregate the output to the portfolio level.
Asset Damage Risk	The degree to which an asset is susceptible to direct damage from physical hazards, such as wildfires, floods, extreme winds, etc.	It is measured as the ratio of expected loss to the asset's replacement cost, and is calculated by our appointed third-party data provider, Morningstar Sustainalytics. We apply a weighted average to the holdings data to aggregate the output to the portfolio level.
Productive Capacity Loss	The percentage of annual productivity disruption due to component failure, damage, repairs, and non-physical damage related loss (e.g., disruptive heat stress) of own operations.	The total disruption/outage for each issuer is based on the individual asset failure probability for each of their assets. This failure probability includes both the average annual probabilities of event occurrence as well as the vulnerability of the asset and its components. It is calculated by our appointed third-party data provider, Morningstar Sustainalytics. We apply a weighted average to the holdings data to aggregate the output to the portfolio level.
Fossil fuel exposure	The exposure of the assets to thermal coal extraction and generation, oil & gas generation and production, and oil sands.	An aggregation of the companies that have a greater than 0% revenue exposure to thermal coal extraction and generation, oil & gas generation and production, and oil sands.

The Scope 1, Scope 2, and Scope 3 greenhouse gas emissions, and the related risks.

The holding data is correct as of 31/12/2023 or 31/12/2024. 31/12/2024 has been used where no date has been specified. The holdings data for third-party funds in this report reflects the most accurate information available up to 31/12/2024.

The data considers our equity and corporate bond investments and is reweighted where appropriate to account for data gaps and out of scope asset classes. Cash held in the product is omitted from the calculations.

When assessing the proportion of reported Scope 3 data, please note Morningstar Sustainalytics may categorise the firm as reported once they disclose one of the fifteen Scope 3 categories.

For HL's operational emissions, please refer to our Group TCFD report, located in our Annual Report and Accounts. Please note, the emissions figure provided here differs from the number provided in HL plc's Annual Report and Accounts due to variance in reporting periods. The plc Annual Report and Accounts reports against financial years, whilst our TCFD report discloses against calendar years.

HLFM

	Weighted average carbon intensity (tCO2e/$m revenue)		**Total emissions** (tCO2e)		**Carbon footprint** (tCO2e/$m invested)		**Data coverage**
	2024	**2023**	**2024**	**2023**	**2024**	**2023**	
Scope 1 and 2 emissions	91	93	561,262	512,230	38	44	89%
Scope 1, 2 and 3 emissions	841	772	6,449,897	5,201,082	458	445	88%

HLAM

The emissions associated with HL's assets under administration can be found in the relevant product reports.

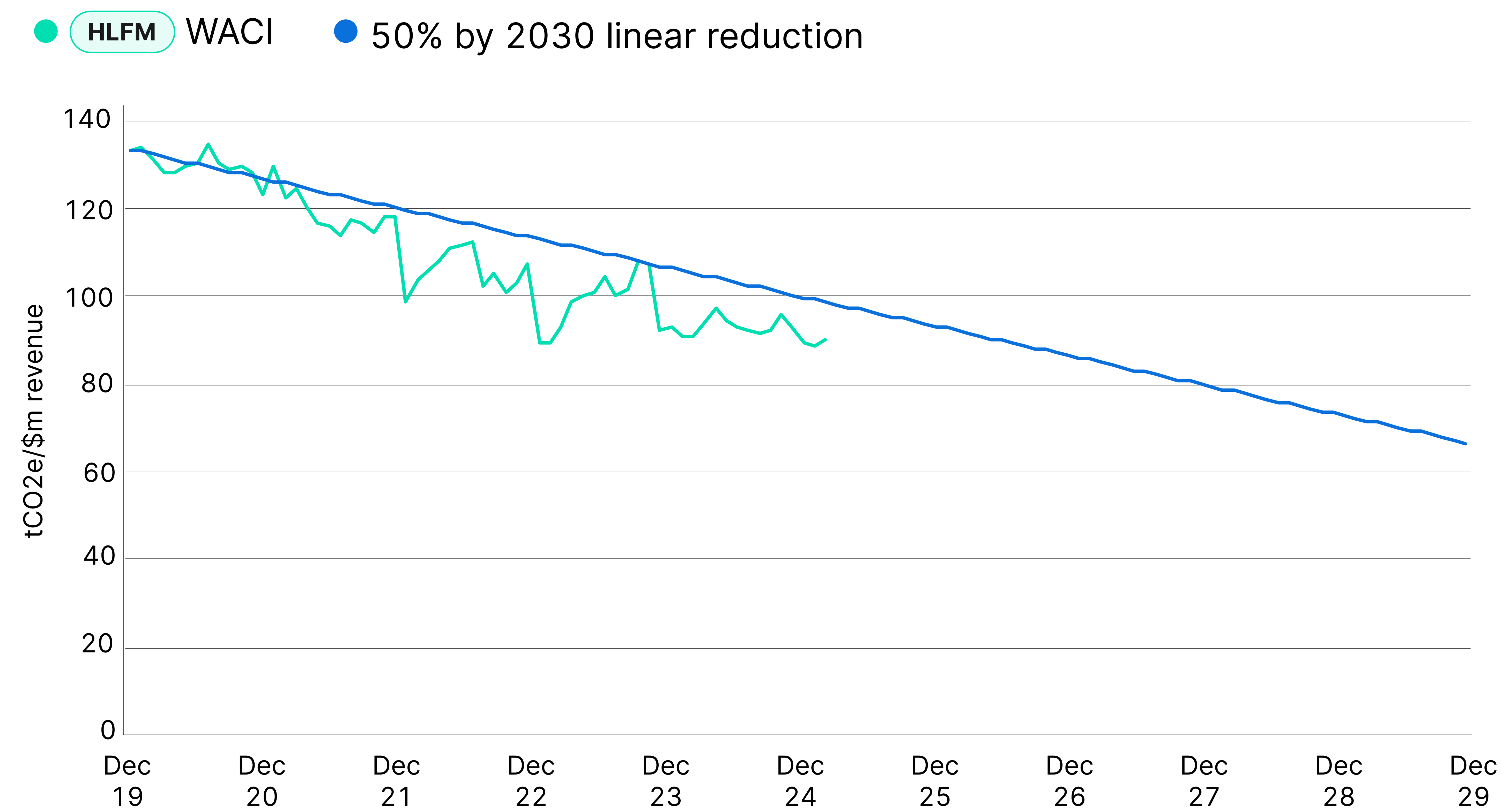
The targets we use to manage climate-related risks and opportunities and track performance against targets.

The Intergovernmental Panel on Climate Change states we need to reduce global greenhouse gas emissions by at least 43% by 2030, compared to 2019 levels, to limit global warming to 1.5C. The scale of the challenge is monumental, and the urgency of action is unprecedented.

With this in mind, HL is working to decarbonise our investment portfolios in alignment with its business strategy and funds' investment objectives. This is guided by the UK's target to decarbonise the economy to net zero by 2050 in a way that is consistent with achieving net zero greenhouse gas emissions by 2050 at the latest, and limiting global warming to well below 2C, preferably 1.5C.

To reach this goal, we are committing to target a 50% reduction in the weighted average carbon intensity (WACI) of our assets under management* by 2030, relative to a 2019 baseline.

50% reduction by 2030



The WACI (measured in tCO2e relative to revenue) of our portfolio has reduced by approximately 33% since baseline, 2019. We officially review the target every year and commit to an independent review every two years. This due diligence ensures our target remains ambitious and in line with ever evolving climate science and industry best practice.

*The Scope 1 and 2 emissions of our listed equity and corporate bond investments are in scope, accounting for approximately 90% of AUM. To find out more about our net zero target, strategy and dependencies, please see our Climate Transition Plan.

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