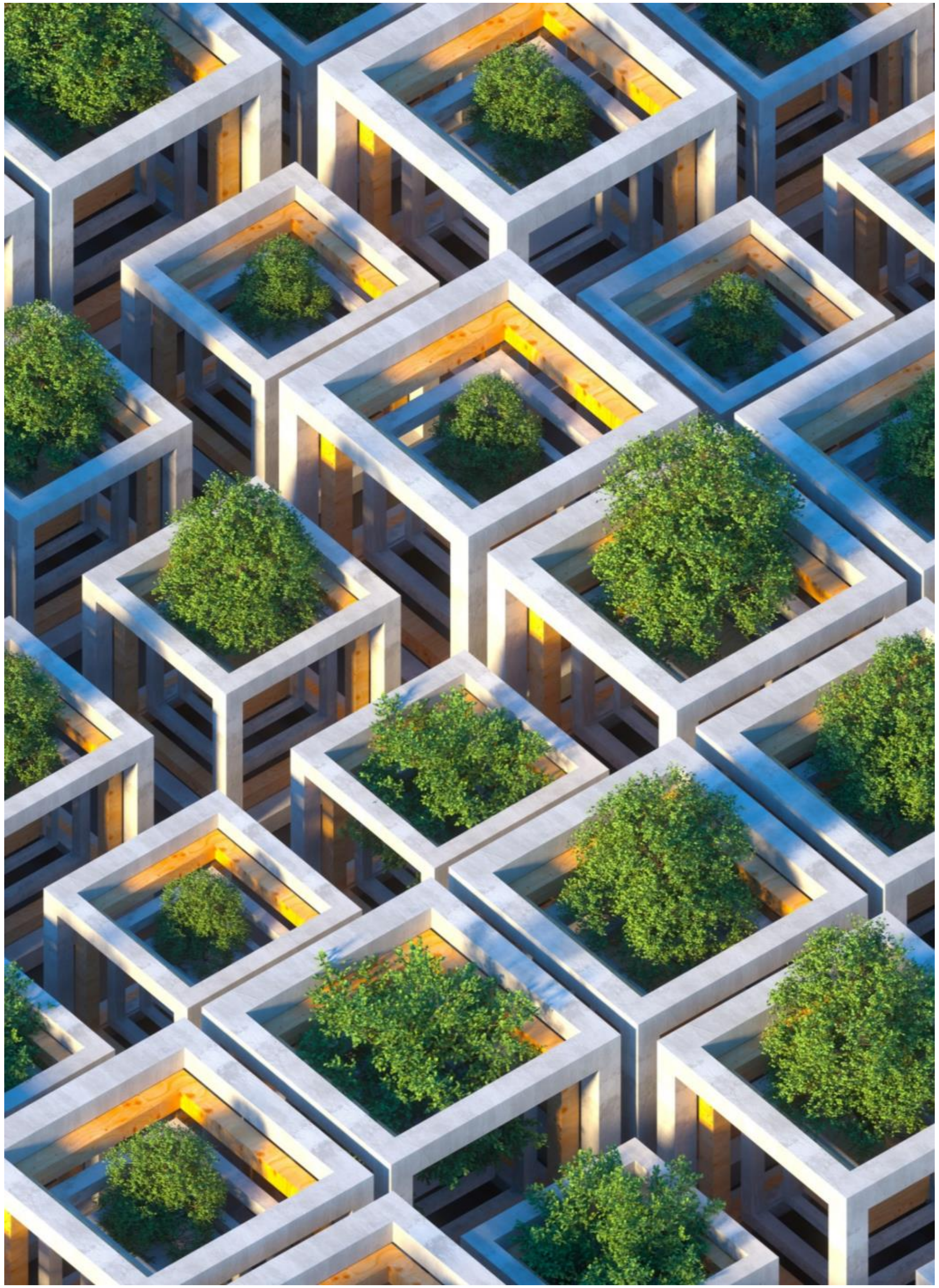
Close Diversified Income Portfolio Fund

Task Force on Climate-related Financial Disclosures (TCFD) Aligned Product Report

2023



Close Diversified Income Portfolio Fund

A sub-fund of Close Discretionary Funds unit trust (ISIN: GB00B5N0YZ48).
This Fund is managed by Close Asset Management (UK) Limited.

This *TCFD* Aligned Product Report is in alignment with UK regulatory standards and reflects Close Brothers Asset Management's strategy as detailed in the TCFD Aligned Entity Report.

This report provides detailed information regarding the emissions produced by the companies or issuers within the Fund. For a thorough understanding, it is recommended that this report be read in conjunction with our TCFD Aligned Entity Report.

This Fund's approach to governance, strategy and risk management does not materially deviate from our overarching approach. For ease of understanding, a glossary is included at the end of this report defining all terms which are in *italics*.

All data shown is as at 31 July 2023.

Fund summary

The objective of this fund is to provide a regular income stream together with some capital growth over the medium term (i.e. more than five years).

The Fund will hold, directly and indirectly, at least 80% of its portfolio in a mixture of equities and fixed interest securities. The Fund is actively managed, with the manager employing a strategic asset allocation model (developed in collaboration with an external provider) that is matched to a specific risk and volatility band.

Accordingly, the allocation to particular asset classes may vary over time at the investment manager's discretion as is consistent with a conservative risk and volatility level and in response to changing market conditions.

Data provider

We use MSCI as the sole provider for all emissions and climate data in this report, aiding uniformity in our emissions calculations.

We rely on MSCI for the accuracy of emissions data for our public investments. Not all assets have emissions data available and the percentage of assets where we have data is shown in the table on page 3.

When reported emissions data is unavailable for some assets, MSCI applies a specific estimation method.

If no reported or estimated emissions data is available from MSCI, we do not employ an alternative internal estimation method.

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Data coverage

Metric	Coverage % (ex-cash)*	Asset classes covered
Financed emissions	95	Equities and corporate bonds
Weighted Average Carbon Intensity (WACI)	71	Equities and corporate bonds
Implied Temperature Rise (ITR)	63	Equities, corporate bonds and funds
Policy climate VaR	64	Equities and corporate bonds
Tech opps climate VaR	63	Equities and corporate bonds
Physical climate VaR	56	Equities and corporate bonds

*Cash = ~1% of the total portfolio net asset value and is excluded from the calculation of asset coverage.

Climate metrics against portfolio comparator

Table one presents the Fund's emission metrics against a comparator portfolio comprised of 30% MSCI All Countries World Index and 70% Bank of America Global Corporate Bond Index.

Table one

Metric	Fund	Comparator	Relative
Scope 1 & 2 GHG Financed Emissions (tCO2e)	11,080	n/a	**-**
Scope 3 GHG Financed Emissions (tCO2e)	155,441	n/a	**-**
Total GHG Footprint (tCO2e/£mil invested)	321	680	**-53%**
WACI Scope 1 & 2 (tCO2e/£mil sales)	35.7	276	**-87%**
WACI Scope 1 & 2 (tCO2e/£mil sales)	1,046.7	1,091	**-4%**

tCO2e = tonnes of carbon dioxide equivalent.
WACI = Weighted Average Carbon Intensity.
GHG = Greenhouse Gas Emissions.

The Fund has a 53% smaller *total GHG footprint* than the comparator portfolio. The Fund is also less exposed to carbon intensive companies than the comparator on a *scope 1, 2 and 3* basis, reflected by the respective WACI metrics for these scopes being 87% (scope 1 and 2) and 4% (scope 3) lower.

Scenario analysis

Our approach to *scenario analysis* involves assessing the exposure of our equity and corporate bonds holdings using MSCI's Climate Value at Risk (CVaR) methodology.

Furthermore, this analysis is based on a snapshot of holdings as of 31 July 2023 and does not consider action to mitigate risk, such as engagement or asset reallocation.

The portfolio's aggregated CVaR is a weighted aggregation of each security's CVaR.

The analysis allows us to identify companies which are particularly exposed to transition or *physical risks,* and which are exposed to policy risks and likely to benefit from low-carbon technology opportunities.

The scenarios have been developed by the *Network for Greening the Financial System (NGFS)* and are widely accepted as appropriate in the financial services industry.

1.5°C Orderly	Limits global warming to 1.5 degrees by 2050. An orderly scenario assumes policies are introduced early and gradually.
1.5°C Disorderly	Limits global warming to 1.5 degrees by 2050. A disorderly scenario assumes policies are delayed resulting in higher risk.
2.0°C Orderly	Limits global warming to 2.0 degrees by 2050. An orderly scenario assumes policies are introduced early and gradually.
2.0°C Disorderly	Limits global warming to 2.0 degrees by 2050. A disorderly scenario assumes policies are delayed resulting in higher risk.
3.0°C Hot House World	Current policies are preserved. Emissions grow until 2080 leading to 3°C+ of warming and severe physical risks.

The Fund's overall CVaR can be calculated based on an average or aggressive *physical risk* scenario. The average scenario is the most likely physical impact of climate change, whereas the aggressive scenario has a 1 in 20 chance of occurring.

The results presented represent estimates of possible future scenarios, not precise forecasts. These climate models rely on multiple assumptions which are uncertain and therefore the projections could deviate significantly from reality.

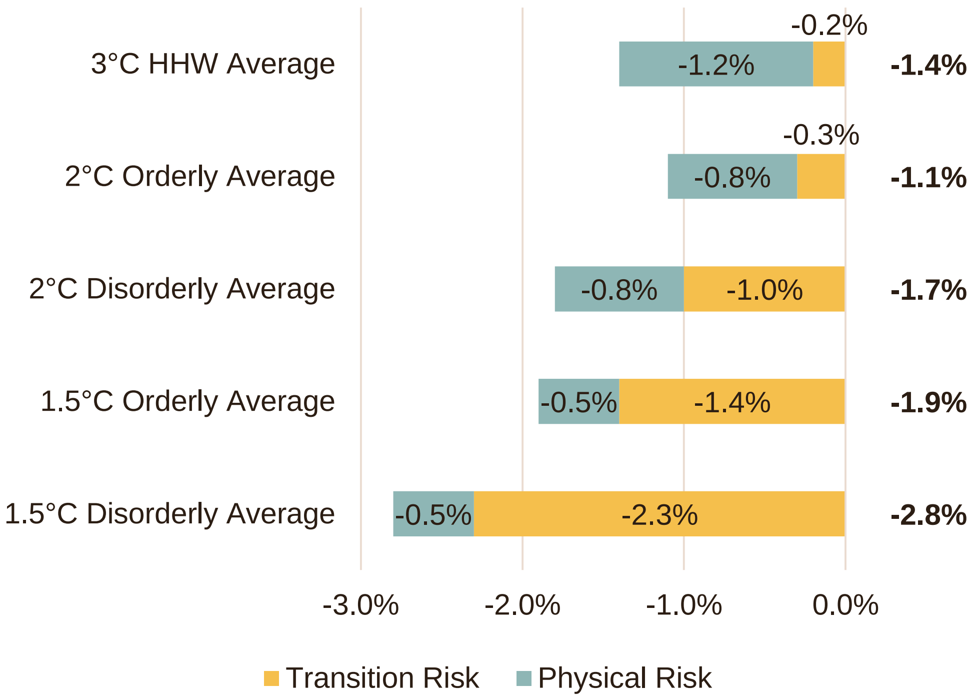
Climate Value at Risk (CVaR)

CVaR figures presented are aggregated and assume an average physical scenario.

Under each scenario, the model indicates that the Fund may experience a loss in value.

The graph indicates *orderly* scenarios are preferable to *disorderly* scenarios and transition risks is higher in scenarios where emissions are limited the most.

Aggregated Climate VAR (%)



CVaR analysis shows how the investments in the portfolios would be impacted under each of the NGFS scenarios. projecting the value to 2100.

The 1.5°C *disorderly* scenario is the most challenging for the portfolio and could result in a 2.8% loss of value. The 2.0°C *orderly* scenario is the least impactful scenario on the portfolio resulting in a potential 1.1% loss in value.

Under a 1.5°C warming scenario, whether achieved in an orderly or disorderly manner, the portfolio value is most at risk from policy to constrain carbon emissions.

However, if global warming reaches 2°C or higher and a climate transition is orderly, physical risks of climate change (including extreme wind, extreme heat, coastal flooding and extreme participation) become the dominant drivers of potential loss of portfolio value.

At these temperatures, securities in numerous sectors are affected (e.g. life sciences, insurance, capital goods and retail).

The Fund's CVaR under a 1.5°C *disorderly* scenario is driven primarily by exposure to companies within the Materials & Mining, Capital Goods and Professional Services. The business models of companies in these sectors means they are particularly at risk from aggressive, delayed policy intended to decarbonise in order to maintain global warming to within 1.5°C. On a more granular basis, overall the Fund has 2.7% exposure to companies with any tie to oil and gas. Under an aggressive policy scenario to reduce the use of fossil fuels across the economy, the business models of the companies within this exposure will be stressed, unless they are adapted, and a loss of revenue could cause a loss of value.

Implied Temperature Rise

The *Implied Temperature Rise (ITR)* metric provides an indication of how well public companies align with the Paris Agreement – the goal of limiting global temperature rise this century to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

The key to understanding *ITR* is the concept of a carbon budget, that is, how much the world can emit so that global warming doesn't exceed 2°C by 2100 and, by extension, how much a company can emit to take its fair share of global decarbonisation.

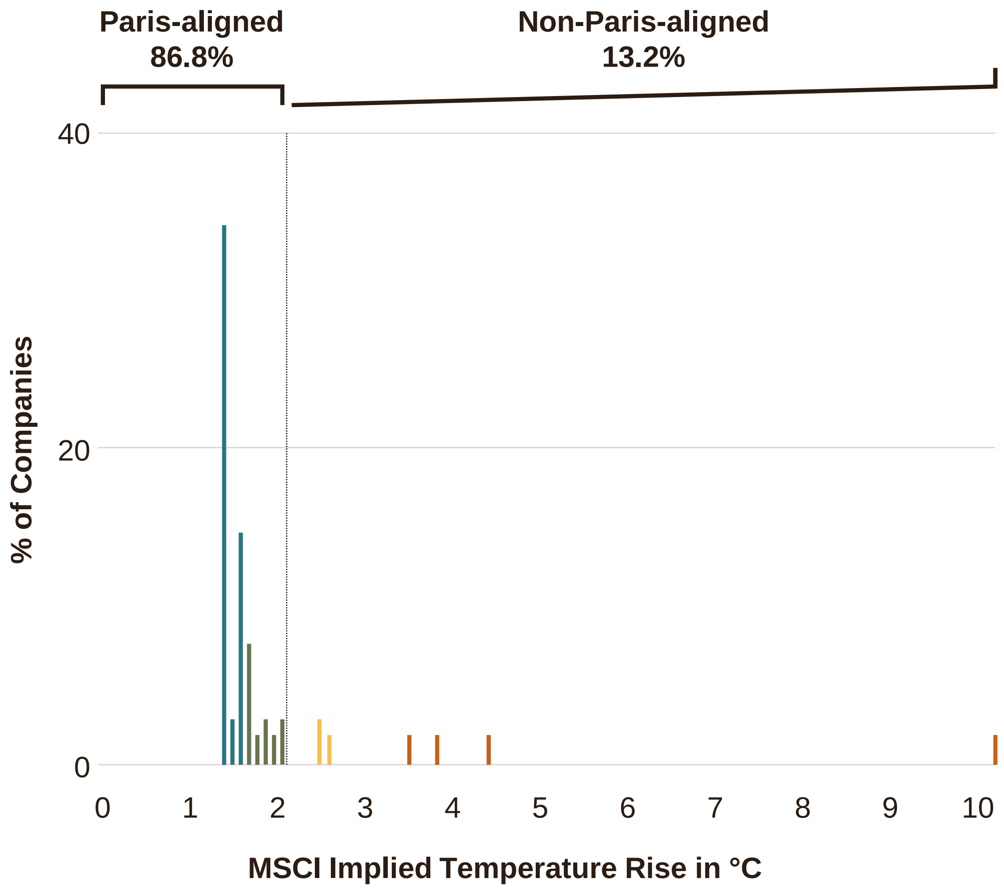
To arrive at an *ITR* for a company, its emissions are compared against its assigned carbon budget, and the entire economy is then assumed to have the same carbon budget overshoot or undershoot.

The deviations from the budget are then converted to °C.

The portfolio-level *ITR* uses an aggregated budget approach: it compares the sum of 'owned' projected *GHG* emissions against the sum of 'owned' carbon budgets for the underlying portfolio holdings.

The portfolio's total estimated carbon budget over or under shoot is then converted to a degree of temperature rise (°C) using *science based Transient Climate Response to Cumulative Emissions (TCRE).*

The metric used to define ownership is *Enterprise Value including Cash (EVIC)* in order to enable the analysis of equity and corporate bond portfolios.



The issuers in the portfolio are distributed according to their *ITR* showing the number who are aligned with the Paris Agreement, including the more ambitious 1.5°C temperature goal.

Implied Temperature Rise

ITR categories	Companies
1.5°C Aligned	66.0%
2.0°C Aligned	20.8%
Misaligned	5.7%
Strongly misaligned	7.5%

Portfolio	ITR
Diversified Income	1.5°C

86.8% of companies within the portfolio align with the goal of limiting temperature increase to below 2°C.

66.0% of companies within the portfolio align with the goal of limiting temperature increase to below 1.5°C.

The portfolio implied temperature is overall in line with a 1.5°C global warming scenario.

The portfolio has four companies aligned to 3°C world and these are across mining, financial services and energy sectors.

Glossary

Climate scenarios	A description of possible future climate change pathways. Climate scenarios are used to assess the potential impact of climate change on businesses and other organisations.
Disorderly	Refers to a chaotic and poorly managed transition to a lower-carbon economy, characterised by significant economic disruption and financial market instability.
Enterprise Value Including Cash (EVIC)	The total value of a company including its cash, all equity ownership and debt.
Financed emissions	The emissions attributed to financing activities; for Close Brothers Asset Management financed emissions is the proportion of investee emissions for which Close Brothers Asset Management are responsible based on the number of shares or bonds held in the company or issuer.
Greenhouse Gas (GHG) Emissions	Greenhouse gases are gases in the atmosphere that trap heat from the sun, causing the Earth's temperature to rise. The most common greenhouse gases are carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF6), and nitrogen trifluoride (NF3). These will all usually be converted into their carbon dioxide equivalent (CO2e) to allow comparison between the different gases.
Implied Temperature Rise (ITR)	The amount of global warming that is implied by an organisation's total carbon emissions. Implied temperature rise is calculated by plotting an organisation's total carbon emissions and trajectory against a carbon budget (typically a global carbon budget broken down into sector-region allocations). The global carbon budget is the amount of carbon emissions that can be emitted without exceeding a certain temperature target.
Net zero	Net zero refers to a state in which emissions of GHG going into the atmosphere are matched by removal of GHG emissions out of the atmosphere, over a specified period. The 'net' in net zero is important because it will be difficult to reduce all emissions to zero on the required timescale. As well as deep and widespread cuts in emissions, there will likely be a need to scale up GHG removals.
Weighted Average Carbon Intensity (WACI)	WACI measures a portfolio's exposure to carbon intensive companies. Calculating a portfolio's WACI is achieved by calculating the carbon intensity (scope 1 and 2 emissions / $M Sales) for each portfolio company and calculating the weighted average by portfolio weight.

Glossary

Network for Greening the Financial System (NGFS)	An international network of central banks and financial supervisors that are working to promote sustainable finance. The NGFS have developed a set of climate scenarios tailored to financial sector companies.
Orderly	Refers to a smooth and well-managed transition to a lower-carbon economy, minimising economic disruption and ensuring stable financial markets.
Physical risk	The financial risks resulting from climate change-related physical events, such as extreme weather events and long-term shifts in climate patterns.
Scenario analysis	The process of analysing the potential impact of different climate scenarios. Scenario analysis is used to help organisations make decisions about how to manage climate-related risks and opportunities.
Science based	Refers to targets or strategies that are aligned with the latest climate science to meet the goals of the Paris Agreement, aiming to limit global warming to well below 2°C above pre-industrial levels.
Scope 1 emissions	Direct GHG emissions that occur from sources that are owned or controlled by an organisation. This may include emissions from fuel combustion for heating, power generation and transportation.
Scope 2 emissions	Indirect GHG emissions that occur from the generation of purchased electricity, steam, heat, and cooling.
Scope 3 emissions	All other indirect GHG emissions that occur in the value chain of an organisation. This can include emissions from transportation of goods and services, and use of sold products and services.
Task Force on Climate-related Financial Disclosures (TCFD)	The TCFD is an international body that was set up by the Financial Stability Board to develop recommendations for companies to disclose climate-related financial information.
Total GHG footprint	The GHG footprint of a financial portfolio is a measure of the total carbon dioxide equivalent emissions associated with the assets held in the portfolio. It is calculated by dividing the total emissions of the assets in the portfolio by the value of the portfolio.
Transient Climate Response to Cumulative Emissions (TCRC)	The transient climate response to cumulative emissions of carbon dioxide is the ratio of the globally averaged surface temperature change per unit carbon dioxide emitted.

Disclaimers

This report includes certain data and analyses provided by MSCI Inc. (MSCI).

The information provided by MSCI is intended solely for informational purposes and does not constitute investment advice.

MSCI data and reports are sourced from publicly available information and proprietary content.

The use of MSCI data is subject to the terms and conditions as stipulated by MSCI.

Any dissemination or reliance on this information by third parties is strictly prohibited.

Data limitations
We are aware that emissions data often includes estimations or proxy data, thereby data coverage of our portfolio's exposures or risks is subject to a margin of error. We are committed to persistently enhancing the precision of our data utilisation. However, it is crucial to highlight that the outcomes derived should be regarded as indicative rather than definitive.

Scope 3 emissions
Our scope 3 emissions, presently do not account for financed emissions associated with the assets under the stewardship of Close Brothers Asset Management. It is our strategic objective to methodically extend our disclosures to encompass all critical emissions categories. Yet, our immediate emphasis is on fortifying our data framework to afford our clients with reliable and indicative emissions insights.

Assets covered
Our reporting covers public listed equities and corporate bonds. This is credited to the superior quality and reliability of data associated with these asset.

Scope 1, 2 and 3
In our TCFD Aligned Entity Report, we disclose scope 1, 2, and 3 emissions, confident in the appropriateness and reliability of the data for these purposes. However, it is important to note that within our fund prospectuses, we report only scope 1 and 2 emissions. The omission of scope 3 emissions from these prospectuses is deliberate, as we do not consider the available scope 3 data robust enough to inform our sustainable investment methodology. This distinction reflects our commitment to accuracy and transparency in our sustainability reporting.

Source of all data is Close Brothers Asset Management as at 31 July 2023 unless otherwise specified.

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