

HIML Holdings Limited Climate Report FY23-24

Based on Task Force on Climate-related Financial
Disclosures (TCFD) recommendations

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Introduction

HIML Holdings Limited and all its subsidiary companies are committed to responsible investment and managing our environmental impact.

We have made public commitments to the Task Force on Climate-related Financial Disclosures (TCFD) and the Principles for Responsible Investment (PRI), which our subsidiary Herald Investment Management Limited joined as an Investment Manager signatory in January 2020.

We take pride in being a responsible investor and are pleased to publish this TCFD report, which further demonstrates our commitment to responding appropriately to the challenges of climate change. Understanding the risks and opportunities presented by climate change, will allow us to continue delivering good long-term performance for our clients, which is always our main aim.

As part of this, following the best practice guidelines of the TCFD and the PRI, we have calculated our full carbon footprint each year since 2022. This includes the carbon emissions associated with our clients' investee companies, allowing us to have a better understanding of the climate-related risks and opportunities associated with our clients' portfolios and demonstrating our commitment to responding appropriately to climate change. In 2023, we announced an emissions reduction strategy and started an engagement process with our higher climate risk investee companies – this process will continue into the future. Further information can be found in the Climate Reports of Herald Investment Trust Plc and Herald Worldwide Technology Fund.

About the TCFD

In 2017, the Financial Standards Board (FSB) released the first recommendations from the TCFD. This was created to guide companies in providing information on their climate-related risk management and to ensure that these disclosures were consistent and comparable. The aim is to support informed capital allocation.

The recommendations are intended to be integrated into a company's existing business processes and cover four areas: Governance, Strategy, Risk Management, and Metrics and Targets. Within each of these areas, there are recommended disclosures, providing guidance on the relevant information that should be included in the disclosure. The aim is to provide consistent and comparable disclosures, which can support informed capital allocation.

The PRI has introduced TCFD-aligned indicators into its reporting framework. Some are now mandatory for signatories, including our main subsidiary, Herald Investment Management Limited. There are seven core indicators, which are mandatory to report on, that are aligned with the TCFD. These are all within the Policy, Governance, and Strategy (PGS) module, which is outlined here, and include 11 (governance), 17 (TCFD reporting), 41 (climate-related risks and opportunities), 43 (climate scenario analysis), 44 (climate-related risk management process), 45 (climate risk metrics) and 46 (Scope 1, 2 and 3 emissions).

Figure 1: Structure of the TCFD



About Us

HIML Holdings is a holding company for various subsidiaries, which focuses on investment management, related advisory services and property ownership. The main subsidiaries are Herald Investment Management Limited (HIML), which manages two portfolio funds, and HIML Property Limited. HIML Holdings also owns assets consisting primarily of government bonds and an investment in Herald Worldwide Technology Fund.

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

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

Our Environmental, Social and Governance progress

2010: HIML began following the UK Stewardship Code.

2017: HIML Property installed EV charging points.

2020: HIML made company EV cars available.

2020: HIML became a signatory of the United Nations-sponsored PRI.

2021: HIML became a TCFD signatory.

2021: HIML Property signed up for a 100% renewable electricity contract from October.

2021: LED lighting, double glazing, and other energy-efficiency measures were installed.

2022: HIML Holdings started climate scenario analysis for climate-related risk assessment.

2023: HIML started the emissions engagement process for higher risk investee companies in the portfolios managed by Herald.

Progress in FY23-24

We have assessed the climate-related risks and opportunities for our group businesses and investments using the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. This provides a framework for integrating climate risk management into our business's existing governance, strategy, and risk management processes. It provides guidance on setting metrics and targets, which we are using to set our carbon reduction targets and strategy. By voluntarily following the TCFD guidelines, we can ensure a thorough understanding of the potential impacts of climate change on our operations and assets.

In FY23-24 we have completed the following actions:

1. Prepared the second year of Climate Reports for Herald Investment Trust Plc (HIT) and Herald Worldwide Technology Fund (HWTF), including year on year comparisons.
2. Implemented the emissions engagement process for higher risk investee companies in the portfolios managed by Herald. Where it was deemed that climate risks were material and insufficient disclosures were being made, improvements have been encouraged. Further information on the engagement activity undertaken can be found in the Climate Report for each fund.
3. Agreed to again try to enter new contracts for the supply of sustainable electricity and gas for Herald's main office building - current contracts expired in October 2024.
4. HIML employees that are offered the use of a company car are encouraged to choose an electric vehicle. Herald has 6 electric vehicle charging points. In the FY23-24, an additional employee switched from a hybrid to a fully electric vehicle.

Governance

Disclose the governance of climate-related risks and opportunities.

Climate Governance

We are a small company with twenty-one employees, four directors, and a simple governance structure. Our Board and senior investment managers have formal oversight of responsible investment, including climate-related risks. The Board and senior investment managers consider climate-related issues when guiding business strategy and major business decisions.

Board-level Oversight

The HIML Holdings Board meets quarterly and discusses risk at each meeting. Since the start of FY23-24, climate-related risks and opportunities are a standing agenda item for the final quarterly meeting. This allows updates to be provided based on the annual climate modelling and risk assessment, and for the latest climate-related risk register to be approved. The Stewardship Report, which includes commentary on HIML's approach to climate risks, is approved annually by the Board.

In February 2024, we engaged with our third-party ESG specialist consultants, Inspired ESG, to complete a Climate Risk Workshop. Two board members, all the Executive Directors and Investment Managers were present at the workshop. It covered climate change training, climate-related risks and opportunities. Our Managing Director, Katie Potts, is responsible for signing off the climate-related risk register.

For HIML and investee companies, the climate-related risks and opportunities are managed by the investors reviewing and discussing HIML's Stewardship Policy, Responsible Investing and ESG approach.

The independent boards of HIML's clients report and disclose climate-related risks and opportunities to the ultimate beneficiaries in the funds' annual reporting. Climate change is incorporated into the risk maps of HIML's clients.

The actual emissions of the investment portfolios are monitored and reported annually in a publicly available report.

Senior Management

Many of our staff have been involved in developing our responsible investment policies and are aware of the climate-risk assessment process. Whilst there is no formal link between environment, social and governance (ESG), or climate risk and remuneration, the employees that are involved with ESG initiatives have received variable remuneration, based on the quality of the work performed in relation to ESG. All staff receive training on responsible investment on a recurring basis.

Our management staff report to the HIML Board on the risks and opportunities of climate change and associated regulations. In FY23-24, this occurred once and included discussing the environmental impact of the company and how to mitigate it.

The risks and opportunities of climate change and the implications for our investors' funds are discussed with the Board of the fund management company and the independent boards of the beneficiaries' funds. Management and the Board know that additional climate change risk analysis and environmental impact reporting will be required over the coming years, and an incremental and measured approach is planned.

Strategy

Disclose the material actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Climate change risk

Implications of climate change for strategy

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

Investment Stewardship

Our Stewardship Approach and Policy outlines how HIML actively monitors and manages our investee companies, to protect our clients' investments. This is in line with our overall aims of providing good long-term performance, meeting client expectations and maintaining our good reputation. The Stewardship Approach and Policy is regularly reviewed with clients, typically as part of the annual stewardship reporting process.

Within HIML's managed portfolios, we believe that good ESG practices are consistent with delivering better financial performance. As part of our commitment to acting in the best long-term interests of our beneficiaries, HIML is a signatory of the PRI and aligns with the UK Stewardship Code. As long-term investors, an assessment of ESG risks and opportunities is an inherent part of our investment process. This provides a robust understanding of these issues and is a key part of assessing the outlook for future cash flow generation and the risks of an investment.

As long-term owners, we aim to act as responsible stewards of our clients' investments, by exercising our proxy voting rights and having an open dialogue with portfolio companies on a broad range of issues, including ESG-related issues. Gaining a robust understanding of these issues is a key part of assessing the outlook for future cash flow generation and the risks to an investment.

We focus on emerging technology because it can create wealth, added value jobs and sustainable benefits for the economy and society.

We believe that capitalism and technological innovation are the central requirements, to address the environmental challenges that we will experience over the forthcoming years. Our investee companies are assisting in improving sustainability, by offering more efficient technology and new solutions. Furthermore, most investments have a low carbon footprint, leading to low carbon emissions associated with our portfolios.

Climate Scenario Analysis

The understanding of climate change is increasing every year, but it is still not possible to accurately predict future impacts, particularly in the long term. This is due to the influence of government and business decisions on greenhouse gas emissions and the complexity of how climate systems interact. Therefore, climate scenarios are used to envisage potential futures and the associated risks.

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

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

<2°C ("Proactive" Scenario): A Paris Agreement-aligned best-case scenario, where concrete action is taken to keep global warming to a minimum. This introduces risks associated with transitioning to a low-carbon economy, but minimises the physical risks of a changing climate.

2-3°C ("Reactive" Scenario): Based on current data, this scenario is currently most likely. It envisages government action being taken in a less organised manner, which increases the risks to businesses as they have less time to prepare. There are increased physical risks under this scenario.

>3°C ("Inactive" Scenario): This is the worst-case scenario, which would result from delayed action to manage climate emissions, resulting in the greatest physical risks, particularly in the long term.

Each scenario was considered over three-time horizons (Short: 2024-2027, Medium: 2028-2037, Long: 2038-2052). The time horizons extend to 2052, to cover the period when the UK will be transitioning to a low-carbon economy.

Within each scenario, eight climate indicators were modelled for our London and New York offices and for Taiwan, which is where most semiconductors are manufactured, to start considering the potential impact on our technology and communications investments. These included factors such as precipitation, aridity and temperature.

Table 1 shows the rating levels and scores used to assess the identified risks. Risks rated 4 and above are deemed to have a possible moderate impact and are, therefore, present in this report. Further information on this is provided in the Risk Management section.

Table 1: Our Risk Rating Levels and Scores for Inherent Risk.

Impact of risk	Likelihood	Score (Impact x Likelihood)
1 - Minor	1 - Unlikely	1-2 - Minor
2 - Moderate	2 - Possible	3-5 - Moderate
3 - Serious	3 - Likely	6-9 - Serious

Risks and Opportunities

The TCFD framework divides climate-related risks into two broad categories, physical and transition risks. Also, it provides suggested risks within each of these sub-categories. We have considered each of these in relation to our operations and our investment in the technology and communications sector.

Physical risks are those associated with the changing climate and extreme weather events, split into acute (event-driven, for example, flooding) and chronic (due to longer-term shifts, for example, rising mean temperatures).

Transition risks, which, in the short term we perceive as much higher than the physical risks, are associated with the transition to a low-carbon economy. These are categorised as policy and legal, technology, market, or reputation.

A full climate scenario analysis was presented to the HIML Board and key internal stakeholders in December 2024. The first analysis was run for 2022 and presented in March 2023. A risk register was produced based on a detailed review of the key findings during a climate risk workshop.

The development, and recent aggressive investment in sophisticated and very powerful artificial intelligence models is having a profound societal and global economic impact. In the near term there is a very significant increase in the power consumed by AI data centres – this is an additional challenge to achieving net zero. The global technology sector is investing substantial financial and human capital to improve the power efficiency of these AI data centres. These efforts will in the short term only mitigate the increased power demands of ever larger and more complex AI models. In the longer term technological improvement is critical as the current rates of growth in energy consumption are unsustainable. Technology will be important not just in improving efficiency but also in generating and storing electricity. Recent significant investments have been announced by most of the AI data centre companies in nuclear power both traditional nuclear and next generation small modular reactor (SMR) technology.

Summary of the Results

The risks and opportunities of climate change to HIML Holdings Limited are considered under two areas: those affecting business operations and those impacting our assets.

As a small company with one owned building, one leased office space, and 22 staff, the potential impacts on our physical operations are limited. The main climate-related risks are associated with the introduction of new regulations that would affect our products and services. For example, when the UK Green Taxonomy is introduced, we may no longer be able to refer to ourselves as a responsible investor, depending on its definitions. We currently have internal resources and work with third-party ESG consultants to respond to changing regulations.

Regarding physical risks, our London property is not at risk of flooding. However, it will be impacted by rising temperatures, which will be higher in the south of England. In 2023, we completed a project to increase its energy efficiency, including using energy-efficient lighting. This is a mitigating action for risks around the potential for new regulations, requiring properties to be more energy efficient and reducing our carbon footprint. In October 2024, we entered into 3-year contracts for the supply of sustainable electricity and gas for Herald's primary office building in London.

Climate change risks interact with one of the Group's principal risks: the unsatisfactory performance of managed investment vehicles could result in clients' withdrawing their mandate. It is important that we consider how climate change may impact our investee companies, particularly as we invest over the medium to long term. ESG topics are integrated into our investment process and factored into our assessment of the future cash flow generation and risks of an investment.

The key risks identified for our investee companies were around policy, legal and market changes. We experience increased reporting obligations, as do our investee companies, with the associated compliance costs and adverse impacts on profitability and valuations. This will be mitigated if regulations are applied, creating a level playing field and allowing the costs to be passed on to customers, as all companies face similar pressures.

We consider our client investments as part of our annual PRI reporting. We believe that the risk to them is low, particularly due to the diverse nature of the portfolios. Much of the world's most advanced technology and intellectual property, tends to reside in the wealthiest and most advanced economies, which have strict environmental standards and are effective at mitigating such risks. Some holdings within the investment portfolios may be vulnerable to indirect physical climate change risks, including increased electricity prices associated with decommissioning power stations that use fossil fuels, which may impact the profitability of some data centres and manufacturing companies.

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

Transition risks

Policy & Legal

These risks are associated with potential policy and legal changes that may be introduced to manage the transition to a low-carbon economy. The UK Government has committed to a 68% reduction in emissions by 2030, relative to 1990 levels, based on Nationally Determined Contribution (NDC) under the Paris Agreement.

Table 2: Policy and Legal Risks with a Description of Impact, Scenario, and Horizon of Highest Impact and Inherent Risk Rating (refer to Table 1 for Risk Rating Levels).

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
Enhanced emissions reporting and other reporting obligations	HIML has reporting requirements as a PRI signatory. Further regulations may be introduced as the world aims to transition to a decarbonised economy. Additional regulations may be introduced, specifically in the financial sectors, such as the Green Taxonomy and EU Sustainable Finance Disclosure Regulation (SFDR). The costs and resources required to ensure that HIML complies with these additional reporting regulations will likely increase.	For Herald: Short - Medium Term (2024-2037) <2°C and 2-3°C	For Herald Likely, Moderate Rating: 6
	If we do not appropriately manage this risk, there is a possibility of litigation and non-compliance. Complying with new regulations is associated with increased operating expenditure for internal resources and third-party consultants. We currently monitor upcoming legislation changes to ensure compliance. We are calculating our full carbon footprint and reducing our carbon emissions. Therefore, we are prepared for any new reporting requirements regarding emissions.	For client investee companies: Short - Medium Term (2024-2037) <2°C and 2-3°C	For client investee companies: Likely, serious Rating: 9
Mandates on and regulation of existing products and services	The financial sector may be subject to an increase in regulations. For example, the incoming UK Green Taxonomy could impact the products and services that we can offer. Also, the introduction of SFDR-aligned or UK SDR-aligned definitions may lead to us losing responsible investor status. This may impact where the funds can be marketed. Complying with new regulations can lead to increased operating costs for the Company. The FCA is likely to mandate and possibly gold-plate the adoption of ISSB standards (the replacement for TCFD) at some point in 2025.	Short - Medium Term (2024-2037) 2°C and 2-3°C	Likely, Moderate Rating: 6

Transition risks

Markets

There will be changes in market signals in response to the transition to a low-carbon economy. This includes changing customer behaviour and increased uncertainty in market signals as supply and demand changes.

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

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
Changing customer behaviour	As we transition to a lower carbon economy, or as awareness of climate change and the need for a transition grows, customers may increasingly demand environmentally responsible or low-carbon products. They may not use companies which are unable to provide these products and services. HIML may be at risk of loss of revenue, reduced profitability and reduced growth, if it is unable to keep pace with changing customer preferences. However, our investments in the technology and communications sector often support new solutions and a more sustainable future.	Medium Term (2028-2037) 2-3°C	Possible, moderate Rating: 4
Uncertainty in market signals	The low-carbon transition will result in shifts in supply and demand for certain commodities, products, and services. Policy changes can lead to sudden changes in markets, such as energy prices. These will be relatively low impact for our operations, due to the nature of our services and the limited size of our offices. New climate-conscious markets could present HIML with strategic and financial opportunities. This may include changing demand for 'green' or ESG products. We can mitigate this by monitoring the market and responding proactively to changes.	Medium Term (2028-2037) 2-3°C	Possible, moderate Rating: 4
Increased cost of energy and raw materials	Energy costs may increase as energy demand grows in a warming climate, increasing energy prices. As an investment manager, energy use and associated emissions are a small portion of group emissions. Most energy use and emissions are indirect, from fund investments in technology assets. There is a risk to investee companies that operating costs will rise, which may impact investment returns.	Short - Medium Term (2024-2037) <2°C and 2-3°C	Likely, moderate Rating: 6

Transition risks

Reputation

As customers and investors increasingly factor climate action into their decisions on which companies to support, it is important that we can show a suitable response to the challenges of climate change. We must monitor this to ensure we can protect our reputation as a responsible investor.

Table 4: Reputation Risks with a Description of Impact, Scenario, and Horizon of Highest Impact and Inherent Risk Rating (refer to Table 1 for Risk Rating Levels).

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
Increased stakeholder concern or negative stakeholder feedback	<p>As the world transitions to a decarbonised economy, stakeholders are likely to have increased interest and concern for companies' sustainability credentials. Stakeholders want to see proactive climate action being taken. Failure to meet these expectations could harm external and internal reputation, leading to reduced access to capital and asset and company valuations.</p> <p>We are responding to this risk by disclosing our PRI responses and TCFD report to be transparent with stakeholders about our response to climate change.</p>	<p>Short - Medium Term (2024-2037)</p> <p><2°C and 2-3°C</p>	Possible, moderate Rating: 4
Shifts in consumer preferences	<p>As we transition to a lower carbon economy, or as awareness of climate change and the need for a transition grows, customers may increasingly demand that companies act accordingly and may not use businesses they deem not to be taking sufficient action. This goes beyond expecting sustainable products and services to consider the behaviour of the company and its operations.</p> <p>We are responding to this risk by disclosing our PRI responses and TCFD report to be transparent with stakeholders about our response to climate change.</p>	<p>Medium Term (2028-2037)</p> <p><2°C and 2-3°C</p>	Possible, moderate Rating: 4

Transition risks

Technology

Transitioning to a low-carbon world will require new, more efficient technology. This is associated with risks around unsuccessful investments in new technologies and the associated costs. There are opportunities for companies, which can provide these technological solutions.

Table 5: Technology Risks with a Description of Impact, Scenario and Horizon of Highest Impact and Inherent Risk Rating (refer to Table 1 for Risk Rating Levels).

Climate-related risk	Description	Time horizon and scenario of highest impact	Inherent risk rating
Unsuccessful investment in new technologies	For companies which rely heavily on technology, there is a risk that when they move to lower carbon options, this investment is unsuccessful in the long term. This risk is significantly more material in HIML's investments, due to the technology focus of HIML's funds. It could lead to reduced investment returns, due to investment in technology-related assets that are subject to lock-in.	Short - Medium Term (2024-2037) <2°C and 2-3°C	Possible, moderate Rating: 4

Physical risks

Acute

We expect limited impact from acute physical risks to our operations, as our offices are not in flood-risk areas, and we are prepared for heat waves. There is more risk to our investee companies, particularly their supply chains, and we will consider this in more detail in FY24/25 .

Chronic

Chronic climate risks pose a low risk to our operations but a higher risk to our investee companies. Whilst our offices are unlikely to be significantly impacted, the supply chains for our investee companies may be affected, with associated changes in asset values, product availability and pricing. Whilst we review the risks on an annual basis, no physical risks were deemed material in FY23-24 and therefore not outlined in this report.

Risk Management

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

Our Approach

In FY23-24, we engaged with an ESG consultancy, Inspired ESG, to conduct a forward-looking climate scenario analysis. They presented the findings to our key internal stakeholders in a climate risk workshop in February 2024. Following the climate analysis and workshops, we have created a detailed climate risk register for the first time. This climate risk register is integrated into HIML's overall risk register. The Managing Director, Katie Potts, signed off on this in March 2024. This outlines the risks associated with climate change, providing additional detail and understanding of the identified residual 'ESG/Climate Change' risk in our main risk register.

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

Furthermore, our climate risk register followed the same process for assessing impact, likelihood and inherent risk as our main risk register. It uses a three-point scale for impact (minor/moderate/serious) and likelihood (unlikely/possible/likely). Combining impact and likelihood provides an inherent risk rating of minor, moderate or serious (Table 1). This allows us to consider the areas where mitigating controls are required and assess whether these are sufficient to manage the risk level.

Mitigation

Our highest risks are those associated with policy and legislation changes impacting our client investee companies. For example, in the event of an increase in costs from new regulations that cannot be passed onto customers, as well as the possibility of increased emissions, other reporting obligations, and the potential for mandates on our existing products and services. We manage these risks by monitoring upcoming legislation changes, to ensure we are informed and compliant. Our investee companies do likewise.

We proactively calculate our carbon footprint. Also, we are reducing our emissions by setting targets and a reduction strategy and report on our response in this TCFD report, which we will publish annually. This ensures we are well-prepared for potential future reporting requirements and legislation around energy efficiency in operations. In addition, it prepares us for the potential increase in energy costs, which is another risk factor. By rerunning our climate scenario analysis and risk assessment each year, we can respond quickly to any changes in risk level.

Metrics & Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Overview

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

Carbon Emissions

We are aware of the environmental impact of our operations and are keen to reduce this impact. We have been improving the energy efficiency of our London office and encouraging the use of electric vehicles (EVs), by providing EV charging points for our staff. We are currently discussing the potential use of carbon credits to offset CO₂ emissions associated with flights.

The tables below present our Scope 1, 2 and 3 carbon emissions data for FY23-24 and FY22-23. Scope 1 emissions result from the direct combustion of gaseous and transportation fuels during the reporting year. Scope 2 refers to the emissions associated with purchased electricity used in our offices. Scope 3 emissions are the indirect emissions associated with the products and services we purchase to deliver our services.

We have chosen to assess the applicability of all 15 Scope 3 categories, as defined by the Greenhouse Gas Protocol. This ensures that we disclose the most comprehensive carbon footprint information. We have 10 applicable categories: 1 (purchased goods and services), 2 (capital goods), 3 (fuel-related emissions),

4 (upstream transportation and distribution), 5 (waste generated in operations), 6 (business travel), 7 (employee commuting), 8 (upstream leased assets), 12 (end-of-life treatment of sold products), and 15 (investments). Categories 9 (downstream transportation and distribution), 10 (processing of sold products), 11 (use of sold products), and 13 (downstream leased assets) are not applicable for HIML, as HIML does not manufacture and distribute any products. In addition, category 14 (franchises) is not applicable for HIML, as HIML does not own any franchises.

Table 6 shows an overview of our emissions by scope for the period April 2023 – March 2024, which allows for easy comparison with other companies. Table 7 provides a detailed breakdown of our emissions to provide a more granular insight into our footprint.

All applicable Scope 3 categories have been quantified. Scope 1 and 2 emissions have marginally increased in FY23-24 as compared to the previous year. The increase in Scope 3 emissions is due to the way emissions are calculated on the investments we hold in our funds and government bonds. Although we do not have control over Scope 3 emissions, we still prioritise good governance and care to ensure that the data we present is consistent year on year. We hope that the process we started this year to engage with our investees will produce more accurate results for Scope 3 going forward.

Table 6: Emissions Summary

Emissions Scope	FY23-24 GHG emissions (tCO ₂ e)	FY22-23 GHG emissions (tCO ₂ e)	% Change
Scope 1	28	26	108%
Scope 2 (location-based)	44	51	86%
Scope 2 (market-based)	78	64 ¹	122%
Scope 3	3,767	3,284	115%
Total GHG emissions (location-based)	3,840	3,361	114%

¹ Market-based emissions are reported in tCO₂ only and reflect the specific emissions associated with a supplier-specific fuel mix.

Our Emissions

The Carbon Balance Sheet contains HIML’s full FY23-24 greenhouse gas (GHG) emissions inventory. The Scope 3 inventory is divided into the 15 categories established by the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard and expressed with the following metrics:

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

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

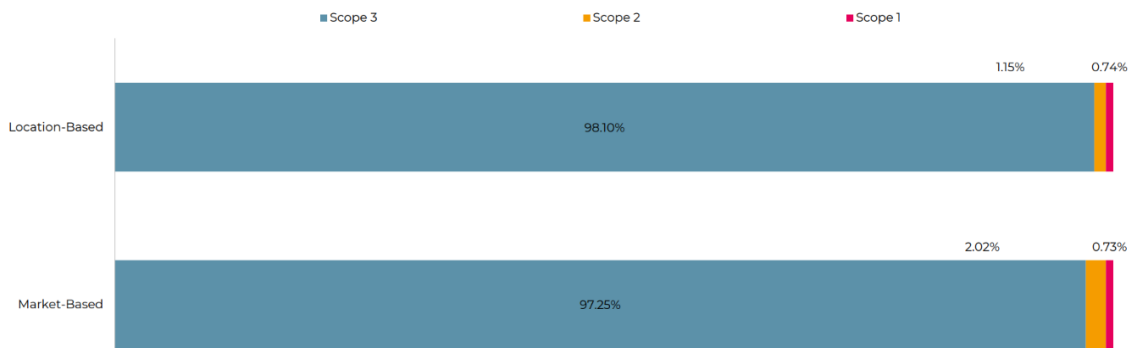
Scope 2 emissions were also calculated using the market-based reporting methodology. This method calculates emissions associated with fuel and electricity consumption by using the supplier or contract-specific emissions factor. For example, if purchased electricity is from a renewable source such as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

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

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

The total metric tons of CO₂ equivalent emissions per full-time equivalent (FTE) (location-based) have decreased from 250 tCO₂e to 217 tCO₂e. This decrease is primarily attributed to the change in investments, in particular United States government bonds, owned by HIML Holdings Limited .

Figure 2: FY24 Emissions breakdown by scope and Scope 2 reporting method



Carbon Balance Sheet

Table 7: Carbon Balance Sheet

Emissions Scope & Category	Greenhouse gas emissions inventory FY23-24		Comparison	Operational analysis FY23-24
	tCO ₂ e	%	Previous year FY22-23 (tCO ₂ e)	tCO ₂ e Operational emissions
Scope 1	28	1%	26	28
<i>Natural Gas</i>	28	1%	26	28
<i>Transportation (excluding grey fleet)</i>	N/A	-	N/A	N/A
<i>Other Fuels</i>	N/A	-	N/A	N/A
Scope 2 (location-based)	44	1%	51	44
Scope 2 (market-based)**	78	-	64	-
Scope 3	3,767	98%	3,284	619
1. Purchased Goods & Services	420	11%	356	420
2. Capital Goods	8	0%	11	8
3. Fuel-related Emissions	19	1%	22	19
4. Upstream Transportation and Distribution	0	0%	0	0
5. Waste Generated in Operations	5	0%	4	5
6. Business Travel	140	4%	100	140
7. Employee Commuting	17	0%	15	17
8. Upstream Leased Assets	10	0%	12**	10
9. Downstream Transportation and Distribution	N/A	-	N/A	
10. Processing of Sold Products	N/A	-	N/A	
11. Use of Sold Products	N/A	-	N/A	
12. End-of-life Treatment of Sold Products	<0.1	0%	<0.1	
13. Downstream Leased Assets	N/A	-	N/A	
14. Franchises	N/A	-	N/A	
15. Investments	3,149	82%	2,763**	
<i>Government Bonds</i>	2,805	89%*	2,414	
<i>Herald Worldwide Fund</i>	235	7%*	280	
<i>Remaining Investments</i>	109	4%*	69	
Total emissions (location-based)	3,840	100%	3,361	691
All tCO₂e (location-based) per FTE	154		160	28

*% of investment emissions, not total emissions.

**Scope 3 category 8 emissions have been restated for FY23 to account for more accurate energy benchmarks. The previous figure was 6 tCO₂e. Market-based emissions are reported in tCO₂ only and reflect the specific emissions associated with a supplier-specific fuel mix. Scope 3 category 15 emissions have been restated. Government bond calculations have been updated to accurately reflect country specific GDP PPP and reported emissions.

Methodology

HIML's emissions are reported on a consolidation, operational control approach, as defined by the GHG Protocol. All emissions have been calculated following the GHG Protocol's Corporate Accounting and Reporting Standard. All seven greenhouse gases defined by the Kyoto Protocol have been accounted for and reported on a CO₂ equivalent basis unless specifically stated.

The table below sets out the methodology, data sources and an overview of our emissions calculations.

Key Metrics Summary at a Whole-firm Level (As of 31 March 2024)

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

Managing Our Investments

Within HIML we use total carbon emissions and weighted average carbon intensity, to monitor the performance of our portfolio from an environmental impact and transition risk perspective. Due to the high proportion of small companies in the investment portfolios, reliable and accurate emissions data coverage is quite poor. However, we are hopeful that this will improve over time.

Our investment staff have annual appraisals, but we do not currently use specific key performance indicators (KPIs) to assess responsible investment performance. We do not believe that a tick box approach is appropriate, and our expectations of reporting standards vary according to investee company size and location. We prefer to rely on the judgement and experience of our staff, to appropriately manage their investments based on location, jurisdiction and the company's size.

Table 8: Methodology, Data Sources and Accuracy

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

Methodology

Climate Change Risks

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

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

Data collection methodology

We understand the difficulty of collecting, collating and comprehending CO2 data for investment portfolios. The priority was to collect the most recent reported data using Bloomberg's data acquisition tools and ensure it is an accurate representation of the portfolio's emissions. It was clear this is possible for Scope 1 and 2 data. However, it was slightly more difficult for Scope 3 due to differences in standards and their interpretation, which may make Scope 3 somewhat an unreliable metric. Nevertheless, to start the data collection process we initially looked for data reported in 2023 and then, if unavailable, we would select reported data from 2022 as a near proxy. Where neither year had reported data, we used Bloomberg estimated data to fill in the gaps for each company, which relies on an industry-implied model. This model has reliability scores based on Partnership for Carbon Accounting Financials (PCAF), which allows the origin of the data to be identified.

Where real data was available from Bloomberg, they were verified by looking at the company's most recent annual report or ESG report. Scope 2 data can be presented as either market-based or location-based and the reporting requirements of the hierarchy are not currently 100% clear. The collection method used in this case looked for reported market-based Scope 2 emissions, then chose location-based Scope 2 emissions if that was unavailable.

Last year's observations

We noticed two interesting trends from the data upon further analysis, which was that estimated data for Scope 1 & 2 emissions tended to overestimate the emissions compared to reported data, whilst Scope 3 estimates underestimated those when compared to reported data. We believe a reason for the first trend is the use of industry averages which does not classify companies into focussed enough sectors, meaning companies with different operational characteristics and, therefore, emission profiles are bundled together. We determined this by generating portfolios based on reported data firstly for the Bloomberg Industry Classification Standard (BICS) level 3 and then doing the same for the more granular BICS level 5. It showed standard deviations in BICS level 3 sectors to be extremely large and skews some of the averages of reported data. This was much smaller when looking at the same portfolio split into BICS level 5. As a comparison, we decided to generate our own portfolio estimates based instead on the median reported carbon intensity for our portfolio's positions. We generated these median carbon intensities by screening for companies in the corresponding sectors with a market cap of >£100m giving us a large data set of over 3000 companies. Median carbon intensities for BICS level 5 were used where available and, if not, we used BICS level 3. This allowed us to generate the median data seen in Table 9.

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

Key Metrics

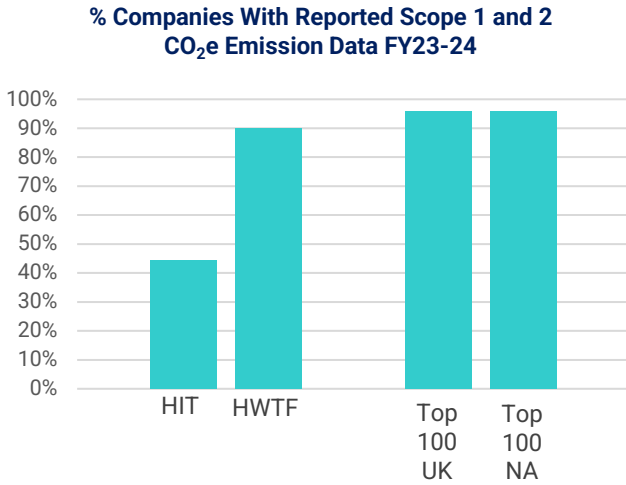
Table 9: Herald Investment Trust & Herald Worldwide Technology Fund Combined

Total carbon emissions from equity held by the portfolio	2023	2024	YoY % change	Top 100 UK Index	Top 100 US
<i>Total Scope 1 & 2 emissions (tCO₂e)</i>	23,642	20,703	-12.4%	N/A	N/A
<i>Total Scope 1, 2 & 3 emissions (tCO₂e)</i>	112,665	100,939	-10.4%	N/A	N/A
<i>Total Scope 3 emissions (tCO₂e)</i>	89,023	80,236	-9.9%	N/A	N/A
Carbon footprint of equity portfolio					
<i>Scope 1 & 2 emissions (tCO₂e) per £M invested</i>	20	16	-20.0%	124	22
<i>Scope 1, 2 & 3 emissions (tCO₂e) per £M invested</i>	95	79	-17.0%	1,622	178
Weighted average carbon intensity (WACI) of the portfolio					
<i>Scope 1 & 2 emissions (tCO₂e) per £M revenue</i>	35	33	-3.6%	120	67
<i>Scope 1, 2 & 3 emissions (tCO₂e) per £M revenue</i>	231	136	-41.0%	1,618	448
Total carbon emissions from government fixed income securities held					
<i>Total Scope 3 emissions (tCO₂e)</i>	14,432	16,708	15.8%	N/A	N/A
Emissions data availability and disclosure from holdings in the portfolio					
<i>% of AUM* with available reported scope 1&2 emissions from data provider/manual search</i>	52.9%	65.1%	-	98.8%	94.3%
<i>% of AUM* with estimated scope 1&2 emissions from data provider/manual search</i>	46.3%	33.9%	-	1.2%	5.7%
<i>% of AUM* without reported or estimated scope 1&2 figures from data provider</i>	0.9%	1.0%	-	0.0%	0.0%
<i>% of AUM* with reported scope 3 emissions from data provider/manual search</i>	45.1%	52.1%	-	98.9%	94.1%
<i>% of AUM* with estimated scope 3 emissions from data provider/manual search</i>	52.4%	46.4%	-	1.1%	0.5%
<i>% of AUM* without reported or estimated scope 3 figures from data provider</i>	2.5%	1.5%	-	0.0%	5.4%

*Equity, excluding cash, bonds and zero value private companies
Source: Bloomberg and company reports

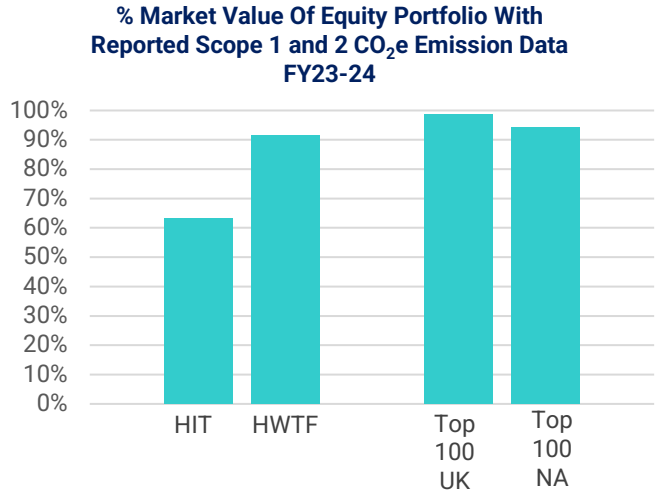
Key Metrics

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



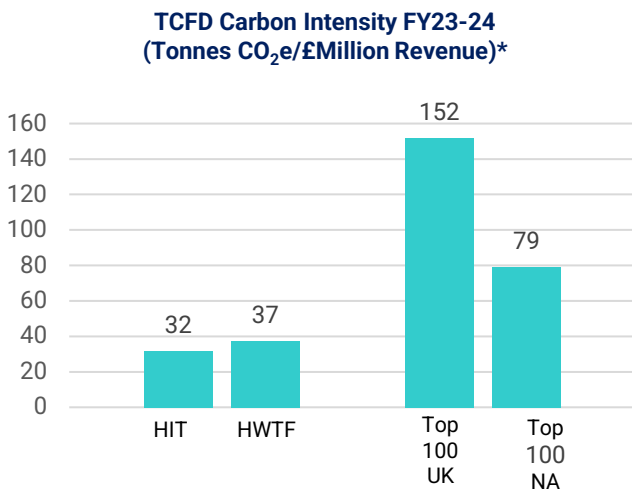
Source: Bloomberg & company reports

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



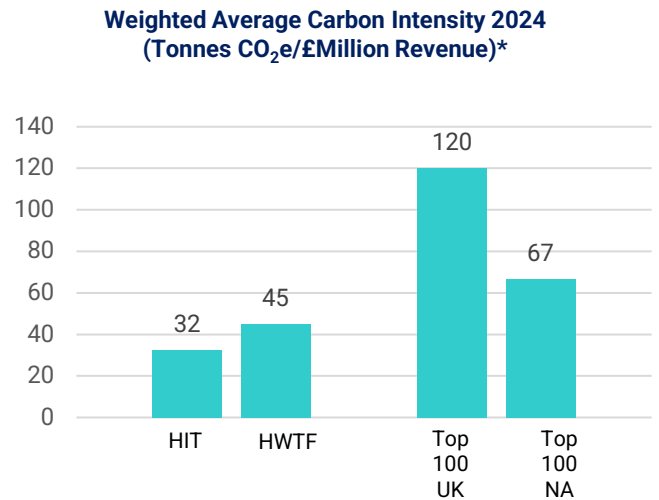
Source: Bloomberg & company reports

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



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

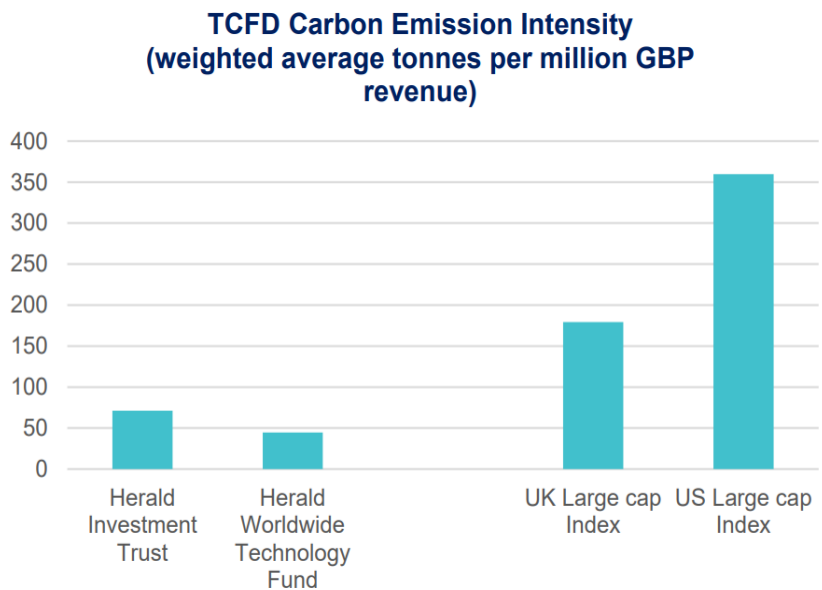
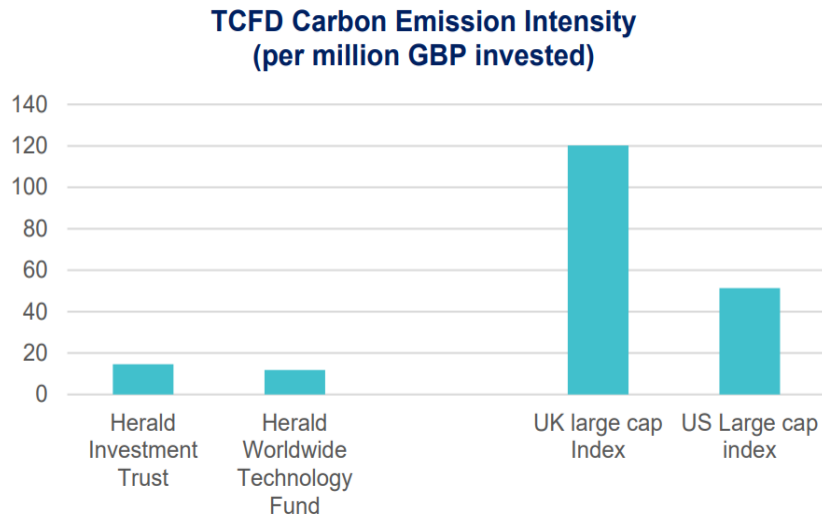
Figure 6: Chart with Weighted Average Carbon Intensity FY23-24



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

Key Metrics

Figure 7: Chart with Carbon Intensity per £Million Invested FY23-24 (Combined Data Table)



Compliance Statement

Compliance Statement

TCFD Entity Report – Herald Investment Management Limited

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

The disclosures in this report, including group disclosures relied upon and cross-referenced in this report, are consistent with six of the eleven TCFD Recommendations and Recommended Disclosures. Reasonable steps have been taken to ensure that disclosures, to the extent they are relevant and/or possible, also reflect sections C and D of the TCFD Annex entitled "Guidance for All Sectors" and "Asset Managers", respectively. We view climate-related disclosures as evolutionary and endeavour to continue to improve on our disclosures. This statement is made pursuant to FCA's ESG sourcebook (section 2.2.7) requiring a Company's TCFD entity report to include a compliance statement signed by a member of senior management of the firm.

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

Signature

A handwritten signature in black ink that reads "Katherine J Potts". The signature is written in a cursive, flowing style. Below the signature is a horizontal line.

Name: K J Potts

Role: Managing Director

