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Octopus Investments Limited

Taskforce on Climate-Related Financial (TCFD) Disclosures Report

For the year ended 30 April 2024

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Statement of Compliance

The Board is pleased to confirm that it supports the TCFD's aims and objectives and have included climate-related financial disclosures in line with the four key pillars and eleven recommendations. In addition, to mitigate the financial impact of sustainability risks, we apply Sustainability Accounting Standards Board ("SASB") guidance on materiality, assessing whether, and to what extent, sustainability issues (including climate risks) could impact performance. The Board confirms that the disclosures in the report, including any third party or group disclosures cross-referenced in it, comply with the requirements under this chapter.

Benjamin Davis

Octopus Investments (OI) is on a mission to invest in the ideas, industries and people that will change the world. We apply our expertise and invest our clients' money to build a brighter world for future generations. Octopus has a strong commitment to Responsible Investment. Our venture capital, sustainable infrastructure and real estate teams are broadly investing across three themes: building a sustainable planet, revitalising healthcare and empowering people.

Climate change is one of the most critical challenges facing civilisation as we know it today. Companies have a vital role to play in addressing climate change and Octopus believes that measuring, managing, and communicating sustainability performance is an essential part of the company's responsibility and performance.

The potential impacts of climate change are wide-ranging and changing in scale and magnitude. Extreme weather events can disrupt operations and supply chains, among numerous other physical risks. Consumer awareness is increasing, which consequently influences consumer preferences. Investors and consumers are increasingly looking for products and services with a low-climate impact, or those supporting a low-carbon economy. We are building the infrastructure to support a lower carbon future – and as the pace of transition increases – so, too, does the demand for our investment products and services.

Our approach to climate change management continues to evolve and we are committed to improving our disclosures in accordance with the TCFD framework. Moreover, we believe our approach to Responsible Investment will positively impact investment returns.

Task Force on Climate-related Financial Disclosures (TCFD) is split between:

- **TCFD recommendations** – which focus on assessing the financial impact of climate change on business models to help organisations build resilience to climate change into their strategy. The TCFD recommendations comprise a set of 11 recommendations for climate-related disclosures that should be made by companies. These can broadly be split between: Governance, Strategy, Risk Management, and Metrics and Targets.
- We have focused our disclosures within these four broad categories based off our internal Responsible Investment (RI) Committee meetings and other relevant governance bodies discussions surrounding the most material risks and opportunities for Octopus. Our RI Committee meetings have provided the framework for RI tools to assess the potential impacts and opportunities and we are continually evaluating and working to improve our tools, assessments and databases. As this is our inaugural report, we appreciate that there will be some areas in need of further analysis, which we intend to progress and improve upon.
    - Further information can be found at: https://www.fsb-tcfd.org/recommendations/

- **TCFD disclosures** – which help businesses demonstrate the extent to which the recommendations have been implemented and provide useful information to investors.

Octopus integrates both recommendations and disclosures within Octopus' processes – examining materially relevant risks and opportunities, through use of internal Responsible Investment (RI) tools – further described in in the *Risk Management* section.

Governance: Disclose the organisation's governance around climate-related risks and opportunities

a) Describe the board's oversight of climate related risks and opportunities.

Octopus' Board of Directors (Board) has ultimate oversight of the approach to considering, evaluating and integrating climate-related risks and opportunities throughout the organisation. The Board is responsible for setting the firm's Responsible Investment (RI) policy which covers all asset classes across the business and incorporates TCFD guidance. The Board is also responsible for approving the Octopus Net Zero Plan, which is currently being refined and adapted according to updated guidance from the Science Based Targets initiative (SBTi). Further information on SBTi can be found below, within the *Climate Strategy*.

The Board delegates responsibility for responsible investment to the Responsible Investment (RI) Committee, which provides oversight of responsible investment. The RI Committee meet quarterly, report to the board annually, and consists of the following key members:

- Chief Executive Officer
- Chief Investment Officer
- Head of Product
- Head of Impact & Sustainability; and
- Chief of Staff

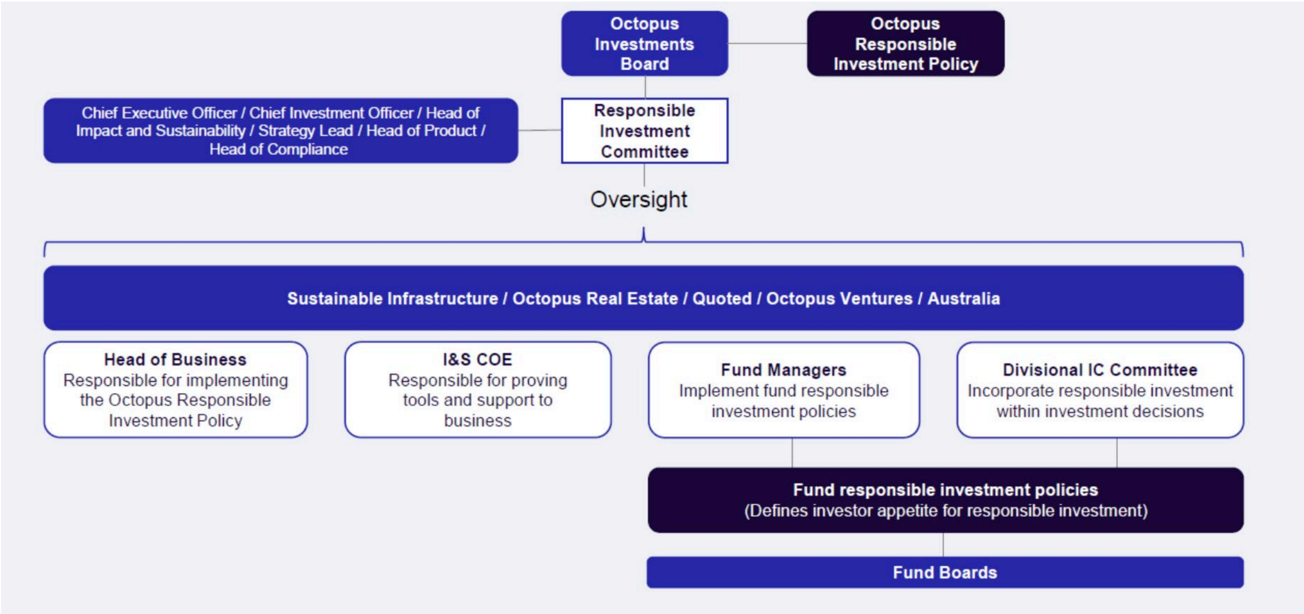
The heads of each fund management area are then subsequently responsible for ensuring that climate-related risks are integrated within decision making and for ensuring that each fund has its own fund level RI policy – which has been approved by the board or shareholder representative. The Head of Impact and Sustainability is responsible for ensuring that disclosures are accurate and fulfil reporting requirements.

On a quarterly basis, responsible investment risks are raised and reviewed by the Octopus Audit and Risk Committee. The Audit and Risk Committee provide the Board with oversight of sustainability risks across the fund management group. Where risks have been identified, the Audit and Risk Committee will set appropriate targets to reduce exposure through engagement, and where necessary, divestment (as soon as reasonably possible).

b) *Describe management's role in assessing and managing climate-related risks and opportunities.*

At an investment level, transition and physical risks and opportunities are considered throughout the investment committee process, from initial due diligence right through to ongoing portfolio management. The Board have reviewed and approved a Responsible Investment Policy which has been implemented across the Fund Management Group and is considered by our ventures, real estate, quoted, and sustainable infrastructure teams. The day-to-day management and assessment of climate-related risks and opportunities is therefore undertaken by divisional management teams and reported to the RI committee, via the Audit and Risk Committee, quarterly, or where necessary at an earlier date.

The above processes ensure the Board's oversight and management of climate-related risks and opportunities include functions established to provide good governance over the Group's divisions. This enables the Board and subsidiary companies to all be aligned on our approach to climate-related risks and opportunities. Below is an organisational chart, detailing the relationships and structure:



Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

a) ***Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.***

Octopus is most exposed to the impact of climate-related risks and opportunities through its investment portfolios, and the impact this could have on investment performance.

For the most part, Octopus benefits from many of the climate-related issues associated with a transition to a lower-carbon economy and a 1.5-degree climate pathway. We are building the infrastructure to support a lower-carbon future – and as the pace of transition increases – so, too, does the demand for our investment products and services. Delivery on these ambitions requires a significant increase in the pace of capital deployment into renewable energy and sustainable infrastructure.

Octopus notes that there is an increased physical risk of more extreme weather delaying the introduction and operation of renewable assets and sustainable infrastructure. Whilst this could impact Octopus revenue potential, this would discourage competition and the business would be well-placed to take advantage of any opportunity that arose.

An overview of material climate related risks and opportunities are set out below:

Risks:

TCFD category	Climate related trend	Potential financial impact	2027	2035	2050	Strategic response and resilience
Policy and legal	Increased pricing of GHG emissions	Enhanced operating costs could impact investment performance	1.5° low 4° low	1.5° med 4° low	1.5° med 4° low	Decarbonise portfolio in line with SBTi
Technology	Costs of transitioning to lower emissions technology	Capital investment in technology developments could impact investment performance	1.5° low 4° low	1.5° med 4° low	1.5° med 4° low	Incentivise borrowers to take steps to invest to improve energy efficiency
Physical risks	Increased severity of extreme weather events such as storms and floods	- Increased capital costs through damage to facilities - Increased insurance premiums on asserts in high-risk locations Could impact investment performance	1.5° low 4° low	1.5° low 4° med	1.5° low 4° high	Carry out site analysis to reduce exposure to acute risks and work with portfolio companies to understand impact of acute risks on manufacturing and supply chain
Physical risks	Extreme variability in weather patterns, rising temperatures, and rising sea levels	Increased capital costs and operating costs could impact investment performance	1.5° low 4°low	1.5° low 4° med	1.5° low 4° high	Carry out site analysis to reduce exposure to acute risks and work with portfolio companies to understand impact of chronic changes on operating costs

Opportunities:

TCFD category	Climate related trend	Potential financial impact	2027	2035	2050	Strategic response and resilience
Resource efficiency	Move to more efficient buildings	Increased value of fixed assets (highly rated energy – efficient buildings) could increase investment returns	1.5° med 4° low	1.5° high 4° med	1.5° high 4° med	Continue to deploy into green homes, and support transition to lower carbon future through sustainable infrastructure
Products and services	Development or expansion of low emissions goods and services	Increased revenue through demand for lower emissions goods and services	1.5° med 4° low	1.5° high 4° med	1.5° high 4° med	Continue to invest in tech enabled start-ups with lower emissions goods and services
Products and services	Shift in consumer preferences	Better competitive position to reflect shifting consumer preferences could increase investment returns	1.5° med 4° low	1.5° high 4° med	1.5° high 4° med	Continue to raise and deploy into investments that address climate change
Markets	Access to new markets	Increased revenues through access to new and emerging markets	1.5° med 4°low	1.5° high 4° med	1.5° high 4° med	Keep at the forefront of climate tech and support new and emerging markets

Additionally, we are taking steps to ensure that the investments we make remain resilient to the physical risks associated with a 4-degree pathway. We have not yet conducted comprehensive quantitative financial scenario analysis across all our investments. We intend to do so, however, the nature of our investments as an alternatives manager means that we need to improve the quality of our data before we can conduct accurate analysis. We have been working to address inconsistent / unavailable data by providing our portfolio companies with access to a free carbon accounting platform and building out our internal responsible investment database through proprietary internal tools.

b) ***Describe the impact of climate related risks and opportunities on the organisation's business, strategy and financial planning.***

The above-noted climate related risks and opportunities have influenced our business planning process and form a key part of our decision to enter new markets; and play a role in determining how we deploy capital across our existing investment mandates. Each investment team is responsible for ensuring that climate-related risks are integrated within the investment and portfolio management process utilising our in-house proprietary RI tools, which have been built incorporating the SASB Materiality Matrix framework – further detailed in the *Risk Management* section below. The following details the varied asset classes, alongside consideration for material climate-related risks:

- ***Real Estate*** – Our lending business provides short-term loans which means that they are less exposed to physical risks which may be more material in the long-term, and within a 4-degree pathway. Our lending teams work with developers to mitigate many of the transition risks associated with a 1.5-degree pathway. For example, *Octopus Zero Bills* is an initiative that we have designed to help developers transition to a lower carbon economy – by guaranteeing zero energy bills for five years, for new homes incorporating the right combination of solar panels, home battery and heat pump, thereby providing homeowners with the opportunity to benefit from economic savings in the short-term, whilst providing long-term green energy opportunities.

  Our development business focuses on UK assets that are built to achieve best-in-class energy efficiency ratings, providing Octopus with product opportunities in the market transition. These development funds benefit from many of the short-term transition risks associated with the transition to a lower carbon economy in a 1.5-degree pathway but are exposed to some of the longer term physical risks in a 4-degree pathway, such as damage from floods or storms.

- ***Sustainable Infrastructure*** – Our Sustainable Infrastructure team is investing in four 'target sectors' of infrastructure that are critical to tackling climate change, promoting sustainability, resource security and driving regional economic growth in the UK – providing Octopus with product and service opportunities.

  These target sectors include Future Mobility, Digital Infrastructure, Energy Transition and the Circular Economy. The fund benefits from many of the opportunities associated with the transition to a lower carbon economy. For example, the phasing out of Combustion Engines presents increased demand for electric vehicle (EV) charging infrastructure. Octopus may be exposed to potential changes in policy and legislation, which will have an influence on the timings and geographies for expansion.

  Sustainable infrastructure remains exposed to physical climate risks, such as flooding, fires and storms, in a 4-degree pathway over the long-term, and these are assessed within the investment process as part of due diligence, and within ongoing portfolio management decisions.

- ***Venture Capital*** – Our ventures team are backing tech-enabled businesses – many of which – improve energy efficiency (resource efficiency-driven products and services) and are less exposed to physical risks, such as extreme weather (i.e. storms, flooding and fires) over the short-term, when compared with industry incumbents. While the portfolio continues to be assessed against climate-related risks, the team have not identified risks that pose a material risk to investment performance over the short-, medium-, or long-term.

- ***Quoted Companies*** – Our quoted companies' team assess the key risks a portfolio company faces, including transitional and physical risks associated with climate change, as well as whether these companies have taken appropriate steps to mitigate these potential risks. During the life of the investment, the team regularly reviews the performance of the company against several metrics to decide whether those companies are delivering on plans or targets.

Octopus is on a mission to invest in the people, ideas and industries that will change the world. We mainly invest across three broad themes: building a sustainable planet, revitalising healthcare and empowering people. The investments we make support the transition to a more sustainable and equitable future.

Our Net Zero goal is aligned with the aspiration of the Paris Agreement to stay within a safe limit of warming 1.5 degrees by the end of the century. Our goals are set out with the expectation that policymakers and governments will also be aligned and supportive of this. Further information on our Net Zero strategy can be found on our website, which is due to be updated by August 2024.

c) *Describe the resilience of the organisation's strategy taking into consideration different future climate scenarios. Including a 2ºC or lower scenario.*

Octopus is presently working to quantifiably assess climate-related metrics through scenario analysis. To date, the lack of data availability and reliability has been a significant challenge, particularly across many of our asset classes, including our Venture Capital (early-stage companies) and many privately held assets. Due to the data challenges, we have embarked upon the following qualitative disclosures, rather than quantitative disclosures, as we felt that the methodological challenges and data gaps would provide an incomplete and inaccurate picture.

Octopus benefits from a quicker transition to a lower-carbon economy, such as in a 1.5ºC climate pathway (i.e. limiting global temperature increase to well below 2ºC), whilst taking the steps to ensure that we remain resilient to the risks associated with scenarios such as a 4ºC pathway.

Under a 1.5ºC scenario, the world will experience a significant shift away from traditional fossil fuels towards renewable energy sources as countries and businesses alike implement strong decarbonisation plans to reach net zero. Delivery on these ambitions requires a significant increase in the pace of capital deployment into renewable energy and sustainable infrastructure – all of which leads to a growth in our fund management group – as a specialist alternatives manager.

Under a 4ºC scenario, it is assumed that the transition to a lower-carbon economy has been slower and the incentives to construct and operate renewables have not been forthcoming. There is also the increased physical risk of more extreme weather delaying the introduction and operation of renewable assets and sustainable infrastructure. Whilst this could impact Octopus revenue potential, this would discourage competition and the business would be well-placed to take advantage of any opportunity that arose. Octopus is further resilient as the unpredictability of weather is mitigated through diversification of investments across different asset classes.

When comparing the two scenarios, Octopus is set to benefit more from a 1.5ºC scenario than a 4ºC scenario pathway due to increased revenue and AuM growth. The Board believes the business strategy is resilient and flexible to either scenario enabling Octopus to continue to provide returns whilst contributing to the transition to a lower-carbon economy.

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

*a) **Describe the organisations process for identifying and assessing climate related risks.***

Climate-related risks are identified, assessed, and managed within the investment process, through the internal proprietary tools further described below. This relevant risk data is consolidated at a firm level to maintain an understanding of all climate risks which could impact fund, and subsequently company, performance.

The Impact and Sustainability team have developed internal tools which support responsible investment. These tools are utilised in the context of climate-related risks and opportunities for unlisted companies and across our real asset investments:

Octopus takes responsibility for understanding and assessing each of its investments against a consistent framework which includes climate-related risks. To understand whether a subsidiary considers its wider stakeholders, management teams send out an Engagement Tool as part of ongoing due diligence. This assessment considers five stakeholder groups - people, environment, customers, community, and governance aiding management teams to identify and assess climate-related risks.

- The **Responsible Investment (RI) Tool** is completed by the investment manager and assesses a portfolio company's exposure to climate related risks and opportunities as part of the due diligence process. The RI Tool has been built using the SASB (Sustainability Accounting Standards Board) materiality map which outlines key sustainability issues which should be considered as most material across different sectors. The Tool also incorporates the SASB climate overlay which highlights which sustainability issues are climate risks. The Impact and Sustainability team has assessed whether these risks are financially material in a 1.5-degree climate pathway or a 4-degree climate pathway.
- The **Engagement Tool** is completed by the portfolio company. This survey captures relevant information and data which helps the team to understand to what extent they consider their wider stakeholders. Where companies require additional support, Octopus provides access to licensed tools that allow them. For example, we licensed a carbon platform to help portfolio companies measure their emissions quickly and easily – thereby allowing portfolio companies to also begin to build out their own emissions databases.

  When we launched the Engagement Tool, there was initial pushback from portfolio companies due to resource challenges, so we created a reduced survey for companies with under thirty employees and once they cross this threshold, they must complete a more comprehensive, full-length engagement survey.

  We also identified that a large portion of portfolio companies did not have emissions data, so we have licensed a carbon accounting platform called Minimum which simplifies the carbon emissions disclosures – in a simple, user-friendly and cost-efficient manner (as we cover the cost for our portfolio companies).

*b) **Describe the organisation's process for managing climate-related risks.***

At a fund-level, as with all sustainability issues, climate-related risks that have been identified during the due diligence process will be discussed by the relevant Investment Committee (IC). Where risks are considered material to investment performance, these issues will be incorporated within the risk register and assessed on an ongoing basis. At a firm level, material climate risks will be reviewed by the Audit and Risk Committee, and steps will be taken to mitigate exposure where it is deemed that further measures should be taken.

c) ***Describe how processes for identifying, assessing and managing climate related risks are integrated into the organisations overall risk management.***

The data from these tools form a material part of the company's core risk management process. From the IC process itself, and the risk register associated with new investments, through to the company's central risk management process.

This ensures that climate risks are identified, assessed, and managed as soon as possible in the investment process. Should any material risks be identified by the above processes, Octopus would implement an appropriate strategy to address the risks. Strategies include diversification of the fund management group in terms of assets and geography, appropriate levels of insurance, and seeking different opportunities in sustainability.

Metrics & Targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

a) *Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.*

Greenhouse Gas (GHG) Emissions have been identified as a climate-related risk that can have a material impact on the financial performance of all funds, products, and the wider business. As a result, Octopus has taken steps to measure and report on Scope 1, 2 and 3 business travel and purchased goods and services (PG&S) emissions, as well as those associated with investment portfolios using guidance from the GHG protocol. We have not yet quantified internal carbon prices, but this is something that we are working towards and will incorporate into future disclosures, when reasonably possible.

b) *Disclose scope 1, scope 2 and if appropriate scope 3 greenhouse gas (GHG) emissions and the related risks*

Emissions (Location Based)	FY23 (tCO2e)	FY22 (tCO2e)	% change
Scope 1	133	108	23%
Scope 2	122	110	11%
Scope 3	2,732	1420	92%
Total	2987	1638	82%

Aggregated Metrics	FY23	FY22	% change
Total emissions data (tCO2e)	2,987	1,638	82%
Energy Consumption (mWh)	Elec = 538 MWh	490	10%
Emission intensity (tCO2e/Total Energy Consumption)	5.55	3.34	66%

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Employee Intensity Metric	FY23	FY22	% change
FTE	683	654	1.044%
Emission intensity (tCO_2e/FTE)	4.37	2.50	175%

Quality of data provided

The Group appointed Minimum, who are carbon accounting experts, to independently calculate its Greenhouse Gas ("GHG") emissions in accordance with the UK Government's 'Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting Guidance'.

The GHG emissions have been assessed following the ISO-14064:2018 standard and have used the 2022 emission conversion factors published by the Department for Business, Energy & Industrial Strategy (BEIS).

The emissions were categorised into location-based Scope 1, 2 and 3 emissions, in alignment with the World Resources Institute's 'Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard' guidelines with the below definitions:

- *Scope 1: All direct GHG emissions by the Group from sources under their control (e.g. burning fuel)*
- *Scope 2: Indirect GHG emissions from where the energy the Group purchases and uses is produced (e.g. when generating electricity used in the buildings)*
- *Scope 3[1]: All indirect emissions not covered by scope 2 that occur up and down the value chain (e.g. from business travel, employee commuting, use of sold products, distribution).*

Minimum used a survey-based approach to collect data, allowing subsidiary companies to submit total values for different activities or detailed consumption figures. Wherever possible, primary data was collected, be it kWhs of electricity consumed, m^3 of natural gas burnt and kilometres travelled by different modes for scope 3 emissions.

As noted previously, Octopus is presently working to quantifiably assess climate-related metrics through scenario analysis. To date, the lack of data availability and reliability has been a significant challenge, particularly across many of our asset classes, including our Venture Capital (early-stage companies) and many privately held assets. Due to the data challenges, we have embarked upon qualitative disclosures, rather than quantitative disclosures, as we felt that the methodological challenges and data gaps would provide an incomplete and inaccurate picture.

Currently, we believe that approximately £2 billion of our £13 billion AUM (15%) is officially aligned with Net Zero targets, thereby, consistent with a 2-degree Celsius, or lower scenario. We are currently updating our group-wide Net Zero strategy – discussed further below – which will provide targets and a clear roadmap, to be validated by the Science Based Targets initiative.

c) ***Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.***

This year, Octopus will submit and validate their science-based targets to the Science Based Targets initiative (SBTi). They will propose two headline targets across Scope 1, 2 and 3 (Category 15) emissions.

1. Octopus commits to setting a 90% emissions reduction by 2030 for Scope 1 and 2 emissions;
2. Octopus commits to reaching Net Zero by 2040 or sooner.

We will set near-term targets for our financed emissions across each asset class, using methodology from the SBTi for Financial Institutions.

As noted earlier, our Net Zero goal is aligned with the aspiration of the Paris Agreement to stay within a safe limit of warming 1.5 degrees by the end of the century. Our goals are set out with the expectation that policymakers and governments will also be aligned and supportive of this. Further information on our Net Zero strategy can be found on our website, which is due to be updated by August 2024.

Moreover, we believe that the best route to achieving our Net Zero plan is alongside our investee companies. As noted earlier, we believe that a commitment to the Science Based Targets initiative (SBTi) will help provide a roadmap to achieving our operational and financed emission goals. We are presently working out the strategic plan to bring our portfolio companies across asset classes along on the journey.