

# Sustainability

**We are committed to building our business for the long term. To this end, we consider the sustainability of the investments we make and aim to operate our business in a sustainable manner.**

## Introduction

We look at sustainability through two lenses; first, we consider the relevant factors as we make investment decisions and monitor the performance of our investments, and second, we consider how we sustainably manage our own business. The following sections provide further information on our approach.

## Our investments

Acting responsibly is a key part of our investment philosophy. As an investment company, our purpose is to grow capital value and income over the long term, creating an increasing store of generational wealth for our shareholders. We believe that a responsible approach towards the businesses in which we invest is essential to our continued success and is closely aligned with the risk management considerations of a long-term investor.

We believe that responsible investment and business success go hand in hand. We are incorporating the consideration of Environmental, Social and Governance ('ESG') factors into all stages of our investment journey. We remain committed to constructive, long-term focused engagement with the companies and funds in which we invest and believe that careful stewardship is a key tool to address ESG risks and drive positive change. We expect to invest in businesses which will grow, provide employment and generate economic benefit in an environmentally and socially responsible way, both during and after our ownership. We aim to invest in companies and funds that take a responsible approach towards the environment and society, built on good governance practices.



Historically our stewardship activities have focused primarily on governance matters, most notably in our majority owned investee businesses which we seek to operate in line with industry good practice. However, we continue to build on this approach by incorporating ESG matters into our investment decision-making to ensure that a broader spectrum of issues that are important to us are formally evaluated alongside other key investment criteria. We expect our investment managers to consider these issues fully in proposing new additions to our portfolio holdings.

We know that ESG considerations are important to our shareholders and broader stakeholders. In the past year we introduced a Responsible Investment/Responsible Corporate Working Group, chaired by the CEO and involving senior representatives from each investment pool, the CFO, the Company Secretary and other key corporate managers. This group advises and assists in the continued development and implementation of Caledonia's approach to ESG matters, ensuring that there is an aligned approach across the business and that ESG matters are appropriately factored into decision-making processes. This group has also developed an increased understanding of climate-related matters and has supported the development of our reporting on this topic.

We continue to meet with our shareholders to discuss our approach to ESG matters and listen to any concerns they may have.

### **Quoted Equity**

We aim to invest in global businesses with recognised brands, intellectual property and strong market positions, that have a good track record of delivering returns. Our approach means that we do not generally invest in capital intensive businesses or any companies directly involved in the extraction and production of coal, oil or natural gas.

We make considered use of our voting rights and vote all our stock ahead of all shareholder meetings. As a consequence of our highly selective and quality orientated investment style, we expect to vote in line with management recommendations but are prepared to abstain or vote against resolutions where we consider they are not in the interests of our own shareholders.

### **Private Capital**

We invest in established businesses, across a range of sectors, that have robust operating margins, strong management teams and good growth opportunities. Where these businesses operate in regulated sectors, we monitor compliance and the maintenance of positive working relationships with the relevant regulatory authorities.

We introduce a high standard of corporate governance into these businesses, generally with an independent, experienced non-executive chair and formal audit and remuneration committees to support the board. Our Private Capital team take non-executive roles in these businesses and use their positions to maintain close relationships with the management teams.

Additionally, we hold frequent meetings with management which cover a wide range of subjects, including ESG matters, and regularly review performance.

### **Funds**

We invest into a broad range of private equity funds across a range of sectors in North America and Asia. We expect managers to consider all factors, including ESG matters, when seeking to maximise returns whilst taking account of the associated risks.

## Sustainability (continued)

### Our business

Caledonia has in place a set of policies intended to protect employees from unlawful discrimination, offer them a working environment where they have a right to be treated fairly, with consideration and respect, and support high standards of conduct and performance. These policies assist in ensuring that the company meets applicable health and safety standards and treats disabled employees in accordance with its statutory obligations and are communicated to employees by way of a staff handbook provided at the time of joining, with periodic updates thereafter.

In addition to a grievance procedure, which allows employees to raise concerns either formally or informally, there are formal whistleblowing arrangements in place, which enable members of staff to raise any issue of concern regarding possible impropriety in the conduct of the company's business, confidentially and independently of line management. Responsibility for whistleblowing procedures rests with the board, in line with the 2018 edition of the UK Corporate Governance Code.

A formal performance appraisal process, through which employees may be set objectives on an annual basis and their achievement against those objectives assessed at the end of the year, is intended to ensure that employees have a clear view of their performance and the ability to develop their potential within the company through

additional training where necessary. Together with team meetings and company-wide briefings, this provides staff with the opportunity to be closely involved in the success of the business.

### Equality, diversity and inclusion

We believe that a diverse workforce will create the optimum environment in which our business will thrive and grow. We are committed to creating an inclusive environment where our employees can develop and contribute fully, underpinned by modern parental leave policies and health and wellbeing support. In formulating and implementing our employment and recruitment policies, we ensure that they are at all times compliant with all relevant UK legislation. Recruitment, development and promotion are based solely on suitability for the role. We will not discriminate on the basis of gender, sexual orientation, age, race, nationality, disability or political or religious belief.

In accordance with Listing Rule 9.8.6 (9) of the FCA's Listing Rules, the table below sets out details of the diversity of the individuals serving on the board and executive management as at 31 March 2023. For the purposes of the tables below, executive management consists of members of our Investment Committee, being the most senior level of management. Data was obtained on a voluntary self-reported basis.

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	8	66.7%	4	6	85.7%
Women	4	33.3%	-	1	14.3%
Other categories	-	-	-	-	-
Not specified/prefer not to say	-	-	-	-	-

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	11	91.7%	4	7	100%
Mixed/Multiple Ethnic Groups	-	-	-	-	-
Asian/Asian British	1	8.3%	-	-	-
Black/African/Caribbean/Black British	-	-	-	-	-
Other ethnic group, including Arab	-	-	-	-	-
Other categories	-	-	-	-	-
Not specified/prefer not to say	-	-	-	-	-

For the year ended 31 March 2023, the board met the ethnicity diversity target set out in Listing Rule 9.8.6 (9) (a) but not the two gender diversity targets. These new targets were introduced last year and, given the gradual change in board membership, it will take time for the company to meet them. Caledonia is committed to increasing diversity and inclusion over time, mindful of the need for orderly succession planning and ensuring an appropriate mix of skills and experience is maintained on the board. These principles will continue to apply as new board appointments are made. Following Stuart Bridges' retirement as a director at the forthcoming annual general meeting, it is anticipated that women will comprise 36.4% of the board.

The table below provides the gender split at different levels within our business as at 31 March 2023, together with comparator data for the previous financial year.

	Male number (%)		Female number (%)	
	2023	2022	2023	2022
Board	8 (67%)	7 (64%)	4 (33%)	4 (36%)
Senior managers	12 (57%)	13 (68%)	9 (43%)	6 (32%)
All employees and board	36 (49%)	33 (50%)	38 (51%)	33 (50%)

Also set out below is the gender split across our investment and support staff, excluding non-executive directors.

	Investment staff numbers (%)		Support staff numbers (%)	
	2023	2022	2023	2022
Female	7 (32%)	5 (28%)	27 (63%)	24 (60%)
Male	15 (68%)	13 (72%)	16 (37%)	16 (40%)
Total	22	18	43	40

Caledonia operates a flatter management structure than is often found in many other companies and, for information, 56% of direct reports to members of our Investment Committee are female.

Caledonia has provided internship opportunities on an informal basis for many years. Since 2021 we have offered a formal internship programme with the support of an independent facilitator. Each year we have welcomed interns from the #10000BlackInterns initiative, which seeks to help transform the horizons and prospects of young black people in the UK, to join the business for three weeks to learn more about Caledonia, the investment management industry and build skills for their future careers. We have recently partnered with Girls Are Investors ('GAIN') to offer places on the programme to help encourage more young women to enter the investment management industry. These initiatives form part of our commitment to diversity and inclusion and help us to play our part in developing future talent for our sector.

## Charitable activity

The Caledonia Investments Charitable Foundation was initially established to provide grants to eligible applicants closely connected to our investee companies who faced financial hardship due to the Covid-19 pandemic. It supported many individuals, particularly those working for our consumer-facing businesses, which were more severely impacted by the pandemic and Government imposed trading restrictions. The Foundation is now the focus of Caledonia's charitable activity, providing support to a small number of causes each year and helping to foster employee involvement in the community. During the year we implemented a new volunteering policy to further encourage staff to support the Foundation, together with other charities and good causes, by providing up to two days additional leave each year. Further details can be found in the Section 172 statement on page 15.



## Climate change

Addressing the threats and consequences of climate change will require significant structural change in societies and economies. This will lead to value creation and destruction across companies, industry sectors and investment portfolios. Against this backdrop we recognise a need to support the journey to net zero. We are committed to supporting a sustainable future as we deliver investment performance for our shareholders over the longer term.

### The climate challenge and the transition to net zero

We recognise the challenges of climate change and the likely material risk this poses for the investments which we make, potentially from regulation, adjustments in consumer preferences or pressure to reduce carbon emissions and address broader environmental issues.

As a company committed to sustainability, we plan to continue to reduce our operational carbon footprint with relevant targets and plans. However, our biggest environmental impact is through the companies and funds we own – emissions from our investment portfolio are orders of magnitude greater than our operational emissions. For this reason, we focus on engaging with our investee companies and funds. Our role as an active owner provides the opportunity to drive challenge and change across multiple businesses and sectors in pursuit of superior risk-adjusted returns.

### Our investments

We have set an expectation that the businesses in which we invest should target net zero emissions (Scopes 1 and 2, market-based) by 2050. We recognise that the pace of planning and delivery of this commitment will vary across the businesses in our investment portfolio, and we anticipate that many businesses will achieve this target more swiftly. We will keep this commitment under review as we gain confidence in the ability of our underlying holdings to achieve the target more rapidly. We plan to implement suitable monitoring and reporting to enable us to track progress.

We intend to use our position as an investor to encourage progress on reaching net zero. Where we own listed securities, we will use our influence through engagement and voting to encourage companies to plan and demonstrate the actions they have taken to address climate risks and opportunities. For the private businesses where we own significant positions, we will seek to ensure that these companies understand and manage their own environmental impacts, and encourage them to invest in suitable technology to improve energy efficiency and make a successful transition to renewable energy and a low carbon future. We will encourage our fund managers to consider the risks and opportunities presented by climate change in their investment selection process and to promote initiatives to reduce emissions from the businesses within their funds.

### Climate change metrics and targets

We have outlined below the primary metrics used to determine the Scopes 1 and 2 GHG emissions generated by our Quoted Equity pool which form part of the overall emissions linked to our investment portfolio; prior year comparison is not provided due to data limitations. The MSCI World Index is used as a benchmark for Task Force on Climate-Related Matters ('TCFD') reporting purposes as this has a similar sector exposure to that of the Quoted Equity pool. In future years we plan to apply some of these metrics to our Private Capital and Funds pools and we are actively engaging with the underlying portfolio companies and fund managers to assess the quality and availability of their carbon emission data.

As illustrated in the table below, the Quoted Equity pool has a significantly lower total carbon footprint and WACI compared with the benchmark. This is primarily due to our careful selection process of proven, well-managed and sustainable businesses. The companies in the Quoted Equity pool tend to have a lower carbon intensity than the benchmark (even in most of the high carbon emitting sectors such as materials, energy and industrials).

Latest annual reported data (Quoted Equity pool only)	Scope	Portfolio (2023)	Benchmark (2023)	Variance	Units
Total carbon emissions	1 and 2	28,863	80,957	-64%	Tonnes CO <sub>2</sub> e
Carbon footprint	1 and 2	27	76	-64%	Tonnes CO <sub>2</sub> e / \$m invested
Weighted average carbon intensity ('WACI')	1 and 2	65	129	-50%	Tonnes CO <sub>2</sub> e / \$m sales

## Sustainability (continued)

In addition to the primary metrics, we also consider various other metrics, including green revenue exposure, plus policy and physical climate VaR, to manage our climate-related risks and opportunities and seek to ensure we are on track to achieve net zero emissions by 2050 for our Quoted Equity pool. The following table shows other key climate metrics used to monitor that the companies in our Quoted Equity pool are managing their climate risk exposure and have a decarbonisation plan.

Other metrics (Quoted Equity pool only)	Portfolio
Companies targeting net zero for Scopes 1 and 2 by 2050	93%
Companies with top quartile carbon management score	71%
Green revenue exposure	6%

Our key targets for monitoring progress are to minimise transition risk across the portfolio and for all investee businesses to develop plans, and successfully progress those plans, to achieve net zero (Scopes 1 and 2) emissions by 2050, or earlier where feasible.

### Our business

Our business operations have a modest carbon footprint compared to the impact of our investment portfolio, as all our employees operate from a single office located in central London. However, we are committed to minimising our direct impact on the environment and mitigating the risks posed by climate change. We have therefore set a target to achieve net zero Scopes 1 and 2 emissions (market-based) by 2030 through the elimination of gas used for heating and further energy efficiencies. We will also continue to ensure that all our electricity is procured from renewable sources. Our Scope 3 emissions principally arise from business-related international air travel. We will monitor these emissions and look for opportunities, where appropriate, to reduce our impact.

### *Climate change metrics and targets including greenhouse gas emissions*

Our total carbon emissions, both on a location-based and on a market-based method, have been steadily increasing over the last two years driven by growth in business travel, following the easing of international travel restrictions, post the Covid-19 pandemic. Whilst we anticipate this trend to continue, we would hope to maintain a reduction when compared with pre-pandemic levels.

During 2021 we switched to sourcing all our electricity from a renewable energy supplier which resulted in a significant reduction in our market-based Scope 2 carbon emissions. Almost all our waste is recycled, and all waste water is returned to the sewer. The resulting carbon emissions from water consumption and waste generation are captured within 'other' Scope 3 emissions in the table below and are deemed to be immaterial emission sources.

The data in the following tables has been prepared in accordance with the regulations within the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, which implement the Government's policy on Streamlined Energy and Carbon Reporting.

Electricity usage has increased since 2021 as more staff returned to the office following the lifting of Covid-19 related restrictions. In the year to 31 March 2023, the electricity usage surpassed pre-pandemic levels due to the use of immersion heaters caused by a faulty boiler. The boilers have since been replaced.

Our aim is to achieve net zero emissions for Scopes 1 and 2 (market-based) of our own operations by 2030 through the elimination of gas used for heating, further energy efficiency initiatives, particularly in areas such as lighting, cooling and IT equipment, and continuing to ensure that all electricity is procured from renewable sources.

Although this target timeframe does not apply to our Scope 3 emissions, we continue to monitor these emissions given their magnitude. We believe that our business benefits from staff returning to international travel to assess and monitor our overseas investments, principally in North America and Asia. Our aim is to manage travel in an informed manner, however we are reliant upon technological advancements to achieve net zero emissions from aviation. As we gain experience and knowledge around our GHG emissions we will continue to look to enhance our carbon emissions disclosures to include more of our Scope 3 indirect emissions.

Emissions data		Tonnes CO <sub>2</sub> e			
Scope	Source of GHG emissions – year to 31 March	2020	2021	2022	2023
<b>Scope 1</b> (direct emissions)	Combustion of fuel & facilities operation, including company car use	24	19	21	16
	Electricity purchased for own use (location-based)	57	47	45	52
<b>Scope 2</b> (indirect emissions)	Electricity purchased for own use (market-based)	57	47	-	-
<b>Scopes 1 and 2 - location-based</b>		81	66	66	68
<b>Scopes 1 and 2 - market-based</b>		81	66	21	16
<b>Scope 3</b> (indirect emissions)	Business travel	371	7	94	243
	Other	-	-	-	1
<b>Total – location-based</b>		452	73	160	312
<b>Total – market-based</b>		452	73	115	260
<b>KPI – location-based</b>	Total emissions per full time employee	7.5	1.2	2.6	4.9
<b>KPI – market-based</b>	Total emissions per full time employee	7.5	1.2	1.9	4.1
<b>FTE</b>		60	61	61	63

## Notes:

- The conversion factors used for 2023 have been updated to the latest UK Government GHG Factors for Company Reporting.
- Caledonia consumes water, with all its waste water currently being returned to the sewer. The resultant CO<sub>2</sub> emission from its use of water is <1 tonne.
- Caledonia has a mix of recycled and general waste; the related Scope 3 GHG emission data is included under Other in the table above.
- Location-based method reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data). The market-based method reflects emissions from 100% renewable sourced electricity that we have chosen to purchase from.
- 100% of our reported emissions are in the UK, involving business travel primarily departing or arriving in the UK. Accordingly, this table does not include a column indicating the yearly UK proportion of global emissions.
- The sources of GHG emissions shown in the table above are from the companies included in the consolidated financial statements. Under the SECR regime we are not required to report any emissions from companies that are not included in our consolidated financial statements.

Other metrics	Unit	2020	2021	2022	2023
Electricity usage	KWh(k)	224	199	214	270
Gas usage	KWh(k)	100	93	91	76
Water consumption	m <sup>3</sup>				798
General mixed waste	tonnes				0
Mixed recycling	tonnes				0
WEEE waste	tonnes				0
Confidential waste	tonnes				2
Waste generation	tonnes				2
Waste recycled	%				99%

Data not available but will be tracked going forward

## Sustainability (continued)

### Task Force on Climate-Related Financial Disclosures

We recognise the importance of communicating both financial and non-financial ESG performance clearly to our stakeholders. We have made significant progress in understanding the potential impact of climate change on our business during the year. This is reflected in our reporting, which is developing to meet the recommendations of the Task Force on Climate-Related Financial Disclosures ('TCFD').

We have produced a supplementary detailed TCFD report, a copy of which can be found at [www.caledonia.com](http://www.caledonia.com). We have prepared this separate report as we recognise that the level of detail needed to comply with TCFD may not be required by all stakeholders. The following table, which should be read in conjunction with our TCFD report, summarises our response to each of the TCFD

recommendations and explains how we incorporate climate-related risks and opportunities into each of the four TCFD pillars of governance, strategy, risk management and metrics and targets. As required by Listing Rule 9.8.6R (8), we consider these climate-related disclosures to be consistent with the TCFD recommendations and recommended disclosures, other than the completion of scenario analysis (strategy pillar disclosure (c)) and the development of metrics and targets for all of our investment assets (metrics and targets pillar disclosures (a), (b) and (c)). We have fully addressed the assets within our Quoted Equity pool. Due to the limitations in obtaining quality data, we anticipate incorporating disclosure on Private Capital pool assets within the next two years and on the Funds pool assets several years later.

---

### Governance

Disclose the organisation's governance around climate-related risks and opportunities. Read more on pages 4-8 of our TCFD report.

The board is collectively responsible for Caledonia's success. It sets the company's strategy, ensures that the necessary financial and human resources are in place to enable the company to meet its objectives and reviews management performance. We are embedding an assessment of climate-related risks and opportunities into our strategic approach. The board is ultimately accountable for the oversight of climate-related risks and opportunities that could impact the business.

Caledonia has a well-defined governance framework, appropriate for a relatively small business, based on delegated authority. The board has adopted a formal schedule that sets out those matters which it specifically reserves for its own decision and those which are delegated to board committees and executive management. The Chief Executive Officer ('CEO') is responsible for the development and implementation of the strategy for the business. The board receives briefings on sustainability matters, including climate-related issues, through a well-defined reporting framework.

Our Responsible Investment/Responsible Corporate ('RI/RC') Working Group, chaired by the CEO, advises and assists in the development and implementation of Caledonia's approach to sustainability matters, including those which are climate-related issues. The board is updated periodically on progress of the RI/RC Working Group and, from 2023, will receive sustainability updates from each of the three investment pools which will include climate-related matters and progress against climate targets.

The annual bonus award for our executive directors is determined by a combination of corporate financial performance and personal objectives. The board's Remuneration Committee reviews these measures and objectives, which now include RI/RC elements, annually.

---

---

## 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. Read more on pages 9-21 of our TCFD report.

As a long-term asset owner, we recognise our responsibility to support the transition to a lower carbon economy. This is why we have set an expectation that the businesses in which we invest should target net zero emissions by 2050 (Scopes 1 and 2, market-based). We are developing our capability to identify and assess actual and potential impacts of climate-related risks and opportunities on our investment portfolio. This will allow us to adapt our business model, strategy and financial planning where impacts are considered to be material.

Our business is impacted by a broad range of risks and opportunities. This reflects the diverse nature of our investment portfolio, although it should be noted that our analysis shows that high carbon-emitting industries (for example oil and gas) and certain geographic regions, where Caledonia has very low exposure, are more likely to experience an elevated level of transition risks. We have considered both physical and transition risks over three time horizons. We anticipate that the businesses and funds in which we invest will develop plans to address climate-related risks and opportunities which impact their specific businesses. We expect to use this information, as it becomes available, to enhance our understanding and risk assessment activity.

The availability of robust data and quality information is a prerequisite to effective analysis. We have been able to access the most recent data and information for the constituent businesses in the Quoted Equity pool using Morgan Stanley's ESG Manager as it offers the most comprehensive climate data suite available as at the date of writing this report. This data has been used to support a scenario analysis exercise which has provided valuable insights to confirm the resilience of the Capital and Income portfolios to both physical and transition risks, under various climate scenarios. We anticipate that similar information will be developed for the constituents of our Private Capital pool within the next two years and the Funds pool several years later, with a view to broadening our scenario analysis to cover a greater element of our overall investment portfolio.

Our business operations have a modest carbon footprint compared with the impact of our investment portfolio, as all our employees operate from a single location in central London. However, we are committed to minimising our direct impact on the environment and mitigating the risks posed by climate change. We have therefore set a target to achieve net zero Scopes 1 and 2 emissions (market-based) by 2030. We have already taken actions to reduce our energy usage and during 2021 we moved our electricity supply to 100% renewable sources.

---

## Risk management

Disclose how the organisation identifies, assesses, and manages climate-related risks. Read more on pages 22-26 of our TCFD report.

The corporate approach to risk management is covered on pages 42-45 of this report.

To meet the challenges presented by climate change, the global economy will need to transition to a net zero alternative, the repercussions of which will raise opportunities and risks for investments within our portfolio and for our business operations. Climate change risk management is being embedded into our existing processes.

The board sets strategy and has collective responsibility for the management, direction and performance of the business. Climate-related risks are being incorporated into our strategy and, in discharging their responsibilities, the board is ultimately accountable for the oversight of climate-related risks that could impact the business.

In recognition of the importance of climate-related risks to our business, 'ESG and climate change' has been identified as one of our principal risks. This means that actions to manage and mitigate this risk, together with key developments, are reviewed by the Audit and Risk Committee at least biannually with material changes elevated to the board for consideration. This level of review seeks to ensure full visibility at board level of any emerging climate-related risk issues.

Climate-related risks are assessed and managed in accordance with our corporate risk framework and process. Each area of the business is responsible for identifying, monitoring and reporting on relevant risks and controls, with appropriate oversight from the relevant corporate departments. We recognise that climate change is a pervasive risk across many of our principal risk categories. Across the business, senior managers are responsible for identifying these climate-related risks and assessing the impacts either to their area of the investment portfolio or to their functional specialism, depending on their role.

We analyse potential climate-related risks through the lens of both physical and transition risks over the short, medium and long term and using both internal and external analysis. Many of our key processes are being, or have been, adapted to incorporate climate-related risk assessments, including our approach to investment research and decision-making, active ownership and engagement with our investee companies and funds, and ongoing assessment and monitoring of our own business operations.

---

## Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. Read more on pages 27-34 of our TCFD report.

We have begun to use a number of metrics and targets to track progress to ensure that we respond appropriately to the climate-related risks and opportunities which may impact our investment portfolio and business operations.

Information on specific metrics and targets are provided on pages 53-55. In line with SECR requirements we have also listed our GHG data on the same pages.