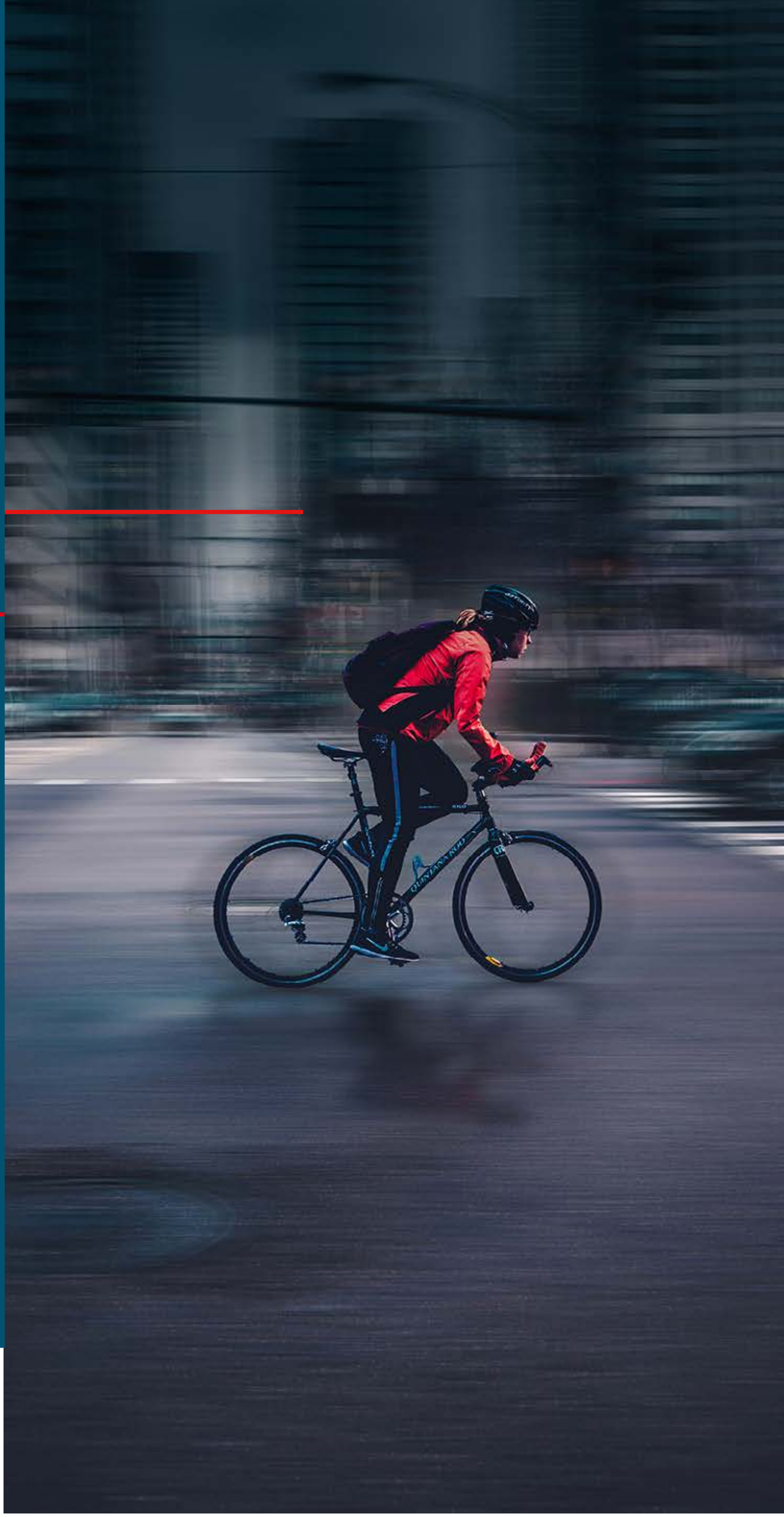
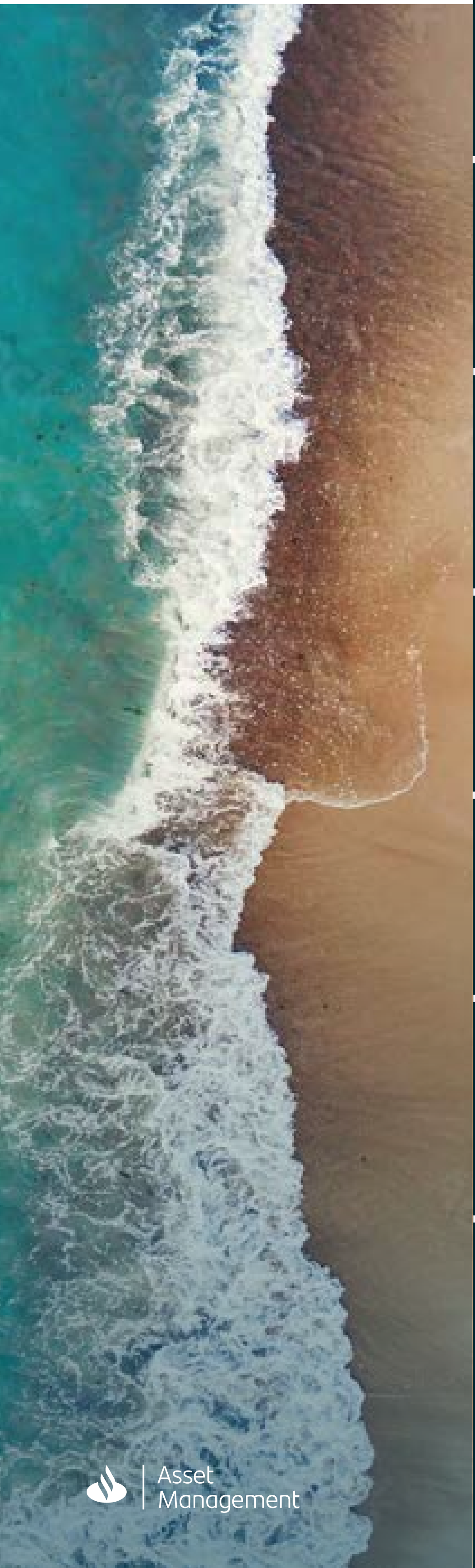
Task Force on Climate-Related Financial Disclosures (TCFD) Entity-Level Report for 2023

Santander Asset Management UK Limited



Where evolution meets tradition

Contents



01

Compliance statement

The disclosures contained within this Task Force on Climate-Related Financial Disclosures ("TCFD") entity-level report for Santander Asset Management UK Limited ("SAM UK" or the "firm") (including any third party / Group disclosures cross-referenced in it), are designed to comply with the requirements for the disclosure of climate-related financial information set out in Chapter 2 of the Financial Conduct Authority's ("FCA") Environmental, Social and Governance (ESG) Sourcebook.

Date: 28 June 2024

Cassandra Waller

Interim Chief Executive Officer

02 Introduction

SAM UK is an asset manager who provides investment management solutions to end retail clients via intermediaries. This is both through managing investments directly and on a delegated basis via other investment managers (approximately 60% of SAM UK's total assets under management ("AUM") are delegated to other investment managers). SAM UK also provides investment management solutions to institutional clients. Potential adverse impacts on the environment and society affect the ability to deliver long-term value to these and other stakeholders. Therefore, both the Santander Group (the "Group") and Santander Asset Management ("SAM") (the Group's asset management business, that includes SAM UK and is part of the Group's Wealth Management and Insurance Division) have a framework of action for the management of environmental, social and governance ("ESG") risks, which includes climate-related risks.

This is the first year SAM UK has published its TCFD entity-level report. This report sets out SAM UK's disclosures in line with the recommendation of the TCFD. Reasonable steps have been taken (where relevant and/or possible), to reflect sections C and D of the TCFD Annex, entitled "Guidance for All Sectors" and "Asset Managers", respectively. SAM UK recognises (in line with other industry participants) that climate-related disclosures and reporting are evolving and will look to develop its disclosures and reporting accordingly.

Summary TCFD Disclosure

Our disclosure comprises four pillars as set out below. Each of these four pillars are themselves supported by SAM UK's approach to protecting clients with strong client, risk and regulatory ownership throughout the firm. This includes SAM UK's commitment to the FCA's Consumer Duty Principle.

1) Governance: covering	
a. Oversight of climate-related risks and opportunities	Page 5-9
b. Assessing and managing climate-related risks and opportunities	Page 5-9
2) Strategy: covering	
a. The climate-related risks and opportunities the organisation has identified over the short, medium, and long term	Pages 10-11

b. The impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Pages 10-12
c. The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Pages 13-14
3) Risk Management: covering	
a. The organisation's processes for identifying and assessing climate-related risks	Pages 15-16
b. The organisation's processes for managing climate-related risks	Pages 15-16
c. Processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Pages 15-16
4) Metrics and Targets: covering	
a. The metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Pages 18
b. Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Pages 19-20
c. The targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Pages 21

When reading this TCFD entity-level report please note:

The Group, SAM And SAM UK's Ambition

The Group is aiming to achieve net zero in carbon emissions by 2050. To support this, SAM is seeking to achieve net zero greenhouse gas emissions with its assets under management by 2050 and has set a 2030 interim target to halve net emissions for 50% of its AUM in scope. SAM UK is committed to continuing to support and understand how the climate strategy and objectives of the Group and SAM apply to it.

Building on this net zero ambition, the Group has a four-pronged approach to climate strategy to support the transition by:

1. Aligning portfolios with the Paris Agreement (a legally binding international treaty on climate change adopted at the UN Climate Change Conference (COP21) that entered into force on 4th November 2016).
2. Supporting clients in the transition.
3. Reducing its environmental impact.
4. Embedding climate-related risk in risk management activities.

In March 2021, SAM joined the global Net Zero Asset Managers initiative as part of its commitment to fight climate change. SAM is also a member of the International Investors Group on Climate Change (IIGCC) Net Zero Engagement Initiative, which complements engagement actions on climate transition from Climate Action 100+.

More information can be found in the Group's annually updated Climate Finance Report, the current version of which can be found at **Climate Finance Report 2023 (santander.com)**.

SAM UK recognises that climate change is one of the biggest challenges facing society and the response from the asset management industry is constantly evolving. This will influence how SAM UK responds to climate-related risks and opportunities as SAM UK continues to improve the way it manages and reports on them.

As at 29 December 2023 (the date at which metrics are presented):

- SAM UK did not manage any funds with specific ESG or climate targets and does not apply quantitative scenario analysis metrics in the investment or risk decision making processes. Post this date, in June 2024, SAM UK launched a fund range which includes ESG risk integration as part of its overall risk management strategy.
- SAM UK managed a segregated mandate with a ESG target and also some segregated mandates which include ESG risk integration as part of its overall risk management strategy.

SAM's Sustainable and Responsible Investment Team

SAM has a team dedicated to sustainable and responsible investment (the "SRI Team") who implement SAM's proprietary strategy in relation to SRI in line with rules in the jurisdictions that business is conducted in, including those that apply to SAM UK (where relevant to a client mandate).

SAM UK is subject to the FCA's rules and guidance for asset managers to make disclosures consistent with the recommendations of the TCFD. SAM UK works with SAM's SRI Team to take climate-related risks and opportunities into account, where relevant, in managing or administering investments on behalf of its clients.

03 Governance

SAM UK has continued to develop its governance framework as its approach to managing climate-related risks and opportunities evolves.

SAM UK's Board of Directors (the "Board") remain responsible for the firm's long-term success with the day-to-day management of the firm being the responsibility of the CEO.

The Board has two committees reporting to it to assist it with its work. The committees pertain to remuneration (The "Remuneration Committee") and fund related matters (The "ACD Committee"). To assist the CEO, an executive committee is in place which considers product, investment, operational and other risk matters, receiving reports from forums (and their working groups) responsible for these areas. Climate-related risks and opportunities are relevant for different SAM UK governance groups to consider.

Policies

A range of Group, SAM and SAM UK policies are in place which are kept under review to seek to:

- Protect employees and provide a safe working environment.
- Achieve compliance with applicable laws and regulatory requirements.
- Adhere to professional and ethical standards in dealing with clients, and end customers, suppliers and colleagues.
- Allow business to continue to operate in a socially responsible and compliant manner whilst looking to manage environmental sustainability.

Policy framework

The Group establishes ESG policies, procedures and guidelines on ESG that adapt to local regulation and apply to all units. These policies systematically review the scope of policies for adopting ESG standards according to international best practice and are available at: **https://www.santander.com/en/our-approach/policies**. Within this policy framework, the following should be highlighted for their relevance in the definition and methodological development of ESG risk integration:

- Santander Group's Responsible Banking and Sustainability Policy: Where the Group is committed to considering both the environmental impact, as well as its banking and financial activity. It is also committed to complying with best practices and regulatory requirements in the treatment of its stakeholders. This policy identifies the Board's Responsible Banking, Sustainability and Culture Committee together with the Responsible Banking Forum as the governing bodies responsible for the correct implementation of this policy.
- Santander Group's Environmental, Social & Climate Change Risk Management Policy: This establishes the criteria of the Santander Group in relation to the identification, evaluation, monitoring and management of environmental and social risks that may occur, among others, derived from investment in the oil and gas sectors, electricity generation and transport, mining, metallurgy and soft commodities. The responsibility for interpreting this policy falls on the ESG risk function and the owner is the Board of Directors of Banco Santander. Derived from this policy, SAM has globally implemented ESG investment restrictions, which prevent all SAM portfolios (including SAM UK) from having exposure to certain related investments.

SAM also has ESG policies and procedures that serve as the basis for the definition and methodological implementation of its SRI strategy available on the web: **https://www.santanderassetmanagement.com/sustainability#** and in the corresponding internal procedures described below:

- SAM's Socially Responsible Investment Policy: Defines the application of SRI in SAM, and defines the criteria considered in the integration of ESG variables in the process of analysis and investment decision-making. It also incorporates relevant aspects within the SRI and as part of its fiduciary duty, such as the exercise of the right to vote and engagement, which, in turn, are developed in detail in the corresponding policies defined in this regard.
- SAM's Engagement Policy: Describes the principles followed by SAM in relation to ESG dialogue activities, either individually or through collaborative engagement initiatives, with the companies in which it invests, or in which it has an interest in investing. This policy includes details on the organisational structure and follow-up of engagement detailing the responsibilities of the SRI team along with the forums that monitor these activities.
- SAM's Voting Policy: This describes the principles followed by SAM regarding the execution of the voting rights of listed companies in which investment vehicles hold open positions. These principles meet high-level standards regarding the exercise of voting rights linked to managed assets. This policy describes the responsibilities and governing bodies in the voting process, with the SRI team being the main coordinator of the voting process. SAM UK applies the principles included in this policy for those mandates whose voting rights are delegated to one of SAM.

- SAM's Sustainability Risk Integration Procedure: The means by which SAM establishes the criteria and procedures to be followed for the identification, evaluation, tracking and management of ESG risks in the investment analysis and decision-making process and as part of its fiduciary duty. For instance, in the case of SAM UK, the procedure defines the approval process of external funds available for investment, including for SAM UK. Specifically, where SAM UK seeks to invest in a new external fund, the SRI Team and the SAM UK portfolio managers work together to assess whether the funds are suitable for investment from a TCFD and broader ESG perspective.

Note that the development of relevant corresponding SAM UK specific policies and procedures are under review as we assess and plan our product offering for the future.

It is important to note that, where SAM UK appoints third party investment managers ("TPIMs") to manage a fund's portfolio (in all or part) on a delegated basis, the TPIMs have discretion to act in line with their own internal policies with regards to stewardship, engagement and voting. As part of SAM UK's initial and ongoing due diligence, it will review TPIMs' arrangements against its own internal policy, to assess alignment. When choosing TPIMs, due diligence performed includes consideration of a prospective TPIM's ESG credentials and voting policies.

Separately, where appropriate, local approaches are also in place. For example, SAM UK's Stewardship Code and Shareholder Rights Directive (SRD) II disclosure document notes that, whilst SAM UK does not commit to the Stewardship Code, where it manages a mandate with any relevant sustainability and ESG criteria it will do so as directed by the appointing client.

Global Governance of Socially Responsible Investment

SAM has a robust Socially Responsible Investment ("SRI") governance framework, emphasising accountability at every level, and allowing executive, senior, and managerial leadership to effectively incorporate climate considerations into our strategic planning, decision-making, and operational procedures.

SRI governance at SAM is made up principally of five bodies:

ESG Forum in the Wealth Management & Insurance Division: The forum is chaired by the global head of Wealth Management & Insurance and comprises, among others, the CEO and CIO of SAM, the global head of SRI, the SRI team, and representatives from Private Banking and Insurance. It is responsible for approving and overseeing compliance with the SRI strategy at the division level. Depending on the topics to be discussed, representatives from other areas may participate.

SRI Strategy and Oversight forum: Members of this forum include SAM's CEOs and CIOs (LatAm and Europe), representatives from SAM's Product, Legal, and Global Risk and Compliance areas, and the ISR team; it is chaired by SAM's global CIO. Its mission is to supervise and coordinate SAM's SRI strategy and its compliance with the SRI Policy, and to monitor and oversee all activities related to the implementation of SRI at SAM. Depending on the topics to be discussed, representatives from other areas may participate.

Voting and engagement forums: These forums are made up of representatives from different areas of SAM involved in voting and engagement activities (SAM CIO, SRI, Risk and Compliance, Legal and Investments). They are responsible for overseeing compliance with SAM's voting and engagement policies, and for monitoring and overseeing all activities related to these policies.

Investment and sustainability forums: An investment and sustainability forum oversees compliance with ESG requirements by SRI products. The forum also identifies and discusses controversies with a view to reaching consensus on a plan of action, ranging from monitoring via public information sources and data suppliers through to engagement actions.

SRI team at SAM: A global team of SRI experts entrusted with developing and implementing our ESG methodology, implementing engagement and voting actions, and developing SRI policies, among others. It is made up of professionals with extensive experience in SRI and is multidisciplinary.

There is also a local network of ESG experts for each of the geographies in which SAM operates. There are other more specific working groups and forums, and reporting lines on SRI matters to the governing bodies (senior management) of SAM and the Group's Wealth Management & Insurance division at the global level, which are responsible for approving and overseeing compliance with the SRI strategy.

UK Governance

SAM UK recognises that it has the opportunity to benefit from the experience of SAM and its established governance outlined above. SAM UK will continue to seek to emulate SAM’s approach in a manner proportionate to the products and services that SAM UK offers. In addition, SAM UK will seek to inform SAM’s approach and policy in terms of UK specific considerations (client and regulatory) by expanding relationships with the SRI team and further participation in relevant SAM committees and forums.

Work has and is being carried out by SAM UK to embed and evolve the consideration of climate-related risks and opportunities by relevant committees and forums. This work involves:

- Reviewing and updating of terms of reference of relevant SAM UK committees and forums.
- Reviewing and updating committee, forum and individual roles and responsibilities.
- Training for staff and the Board on climate-related risks and opportunities.

- Reviewing and updating reporting to relevant governance forums, which may include:
    - Climate-related MI relevant to investment portfolios (such as reporting exceptions e.g. high exposures).
    - Assurance related to SAM and SAM UK ESG policies.
    - ESG (including climate) risk and related commitments (and progress made to achieve them).

This governance structure will help SAM UK to integrate, oversee and escalate climate-related risk and opportunities (and other ESG risks and opportunities) into decisions taken on behalf of and for its clients.

04 Strategy

Introduction to SAM UK Strategy

In this section, SAM UK describes how it considers climate related risks and opportunities as part of its business strategy.

As a UK based asset manager, SAM UK's focus is to serve its clients and manage its funds and solutions in line with their investment objectives and mandates. SAM UK recognises that climate plays an important role in delivering financial outcomes and optimising the investment returns defined in the fund prospectus or investment mandate for SAM UK funds with and without specific ESG or climate targets. As noted previously, as at 29 December 2023 (the date at which metrics are presented), whilst SAM UK did not manage any funds with specific ESG or climate targets, it managed a segregated mandate with ESG targets.

As SAM UK continues to embed and evolve the consideration of climate-related risks and opportunities, its intention is to work closely with both existing and new clients to support their climate transition efforts, capturing their requirements and aligning its practices, policies and products to fit their evolving needs. In the meantime, SAM UK will continue to support the delivery of SAM's global objectives and understand how the climate strategy and objectives of the Group and SAM apply to it.

Climate Related Risks and Opportunities

SAM UK considers climate related risks and opportunities from both an entity level and investment management perspective. SAM UK will seek to continually evolve and refine the way each risk and opportunity is considered.

As stewards of its clients' and end customers' capital, SAM UK needs to assess the potential impact of environmental and climate-related risks and opportunities on their investments.

These physical and transition risks could extend beyond the reach of its existing risk framework and across a range of time horizons. For that reason, SAM UK intends to pay particular attention to physical risks arising from severe or long-lasting climate change and transition risks prompted by changes in legislation, technology or market trends.

SAM UK recognises that it has the opportunity to benefit from the experience of SAM, who has established policies and processes in place to address how these risks impact the economy, clients and its business and will continue to seek to emulate their approach over time.

In the meantime, the table below considers SAM UK's current risk framework which maps how climate factors could impact those risks, as well as highlight SAM UK's intended response and the timeframe over which SAM UK is considering that impact.

Existing Risk	Additional Climate Factors	Potential impact of climate factors	What SAM UK intends to do	Time Horizon*
Market risk	Transition	Exposure of holdings to transitional risks includes: Higher volatility in market factors under stress scenarios. Changes in market perception leading to wider credit spreads for business in impacted sectors. Unsuccessful investment in new technologies.	Investment management related actions: Look to establish climate factors to incorporate in stress test scenarios. Seek to review and report stress results in line with good market practice.	Long term
Operational Risk	Physical and transition	With regard to physical risks: Acute risks derived from severe weather events, as well as chronic climate risks such as change in the precipitation patterns can cause damage to assets, including UK office buildings and data centres. It can also affect business continuity, including processes and staff. With regard to transition risks, losses from litigation, for example, if an asset manager is perceived to have misrepresented sustainability-related practices.	Entity level related actions: Enhancements to risk event, risk appetite, issue management and capital adequacy processes as well as through operational resilience activities.	Short, medium and long term
Reputational Risk	Transition	Investors and other stakeholders who perceive asset managers are not doing enough to meet industry wide carbon targets or public commitments can pose a reputational risk. Misrepresenting or misleading investors or other stakeholders, via the declarations, actions, communications, policies or sustainability characteristics of products or behaviours. Exposure to litigation.	Investment management and entity level related actions: Continue to ensure that all customer facing documentation is clear on SAM UK's position and approach to carbon targets and other climate related matters. Further assess our approach to climate related matters, in line with Group policy.	Short, medium and long term

Existing Risk	Additional Climate Factors	Potential impact of climate factors	What SAM UK intends to do	Time Horizon*
Strategic Risk	Transition	Failure to meet public targets and commitments.	Investment management and entity level related actions: Work with global colleagues, to support group climate change commitments.	Short, medium and long term
Policy & Legal Risk	Transition	Increased pricing of Greenhouse Gas emissions. Enhanced emissions-reporting obligations. Mandates on and regulation of existing products and services.	Investment management and entity level related actions: Continue to support and understand how the climate strategy and objectives of the Group and SAM apply to SAM UK both at entity and product levels.	Short and medium term

*Time horizon defined as short-term: up to 1 year, Medium-term: 1 to 5 years, Long-term: ≥ 5 years.

SAM UK recognises that the 3 top climate-related opportunities identified by SAM will resonate with its clients. The table below shares these opportunities, SAM UK's intentions, and the time horizon over which these opportunities are being considered.

Opportunities to capture	Financial Impact	What we intend to do	Time Horizon*
The shift in preferences for new lower carbon focussed products and services	There are significant revenue opportunities derived from new and increased demand for lower carbon products and services as well as those that feature improved sustainability credentials.	Investment management related actions: Capture the evolving needs and objectives of customers with low carbon products. Further assess our approach to climate related matters, in line with Group policy.	Medium and long term
Revision in regulation to support climate change	Changes in regulation that positively impact the outlook for assets or holdings SAM UK invests in.	Investment management and entity level related actions: Contribute to SAM and industry initiatives to support positive climate change.	Short, medium and long term
Improved efficiency of buildings, transport and technology, greater use of lower –emission energy sources	Greater efficiency and the adoption of new technologies can reduce operational costs and enhance the working environment for staff. Reduced energy cost volatility, improved profitability via government subsidies and policy incentives to support transition path.	Entity level related actions: Identify improvement opportunities through refurbishment plans and consolidation of premises where efficiencies lie. Assess the impact of business travel policies and flexible working practices, reducing net environmental impact though greater use of virtual connections.	Short, medium and long term

*Time horizon defined as short-term: up to 1 year, Medium-term: 1 to 5 years, Long-term: ≥ 5 years.

Supporting the Group Ambition

As introduced earlier in this report, SAM UK, as part of SAM (an asset manager of c. €220bn of assets), will seek to play an active role to support the overall Group strategy.

This will be delivered over time through the alignment of policy and further adoption of global tools, which will facilitate SAM UK's delivery of portfolio and risk management to support its contribution to Group and SAM climate strategy and objectives. Working in partnership with the SRI Team, SAM UK expects to evolve its approach and product offering to meet clients' investment needs, embedding climate related risks and opportunities into risk management process whilst supporting clients in their transition.

Looking forward, as SAM UK local ESG and climate risk policies develop, its leadership team will seek to evolve its arrangements to capture implications for its clients, products and services, operations and people.

Climate Scenario Analysis

Climate scenario analysis is a crucial tool that enables the evaluation of different pathways for the economy's transformation. This includes exploring scenarios where no transition occurs, as well as scenarios where transition occurs at different rates and intensities. In this regard, we have constructed our climate analysis following the criteria established in the scenarios provided by the Network for Greening the Financial System (NGFS). Each scenario envisions potential future outcomes by considering hypothetical assumptions related to socioeconomic developments and geophysical conditions defined as follows:

- **Orderly transition**: Net Zero by 2050: Limiting global temperature rise to around 1.5°C by 2100, an orderly transition requires early and progressively stricter climate policies. This scenario aligns with the Paris Agreement and requires immediate action to reduce emissions. As policy interventions are implemented early and gradually, physical risk is assumed to be minimal.
- **Disorderly – Delayed Transition:** This scenario, while limiting global warming to 1.8°C by 2100, carries higher physical risks due to delayed climate action until 2030. The delayed response requires aggressive policy measures to achieve this target. In contrast, a disorderly transition scenario paints a far more difficult picture, making it significantly harder to meet the Paris Agreement goals.
- **Hot House World – Current Policies:** Under this scenario, global mean surface temperatures are projected to rise by around 3.3°C by 2100. This assumes that while some regions implement climate policies, global efforts remain inadequate. It simulates a situation where only existing policies are implemented, fails to meet the Paris Agreement's climate targets, resulting in significant physical risks over the coming decades.

SAM UK have explored forward-looking metrics for first time as part of this TCFD entity-level report. SAM UK have utilised the BlackRock Aladdin Climate module to begin developing an approach to understanding its funds' and segregated client mandates' exposure to climate risks and opportunities.

Based on the outcomes of these scenarios, we have estimated the Climate Adjusted Value ("CAV"), which estimates the potential adjusted value of the assets in the fund, should each climate scenario play out. For example, a negative estimate for a fund might indicate that there is potential devaluation in the adjusted value of the fund under a specific scenario. The constituent parts of CAV, namely transition risk factors, Transitional Climate Adjusted Value ("TCAV") and physical risk factors, Physical Climate Adjusted Value ("PCAV") have been reported in the Section 6 of this report.

While climate scenario analysis is still in its early stages, its outputs represent the best available models for evaluating long-term impacts. However, caution is advised when interpreting the model outputs due to their inherent uncertainty and distant time frames. These outputs are projections, not forecasts, and rely on assumptions with uncertain elements. Consequently, actual future conditions may deviate significantly from these projections.

In addition, SAM UK have estimated the Implied Temperature Alignment ("ITA") metric to assess the global warming potential of the investments that our funds and client mandates hold. This metric evaluates the climate performance of each portfolio's issuer by comparing its historical and projected emissions intensity to the Network for Greening the Financial System ("NGFS") scenario benchmarks. In this case, the reported metric is estimated under the NGFS Nationally Determined Contributions ("NDCs") climate scenario, where it is assumed that slow technology changes with small regional policy updates to those currently implemented based on NDCs, will result in high physical risks and a global temperature rise by approximately 2.5°C by 2100. The model also considers whether a company has made any decarbonisation commitments captured by Science Based Targets Initiative ("SBTI"), Carbon Disclosure Project ("CDP") or via public company disclosures.

More details of these metrics are contained in the Metrics and Targets section this report.

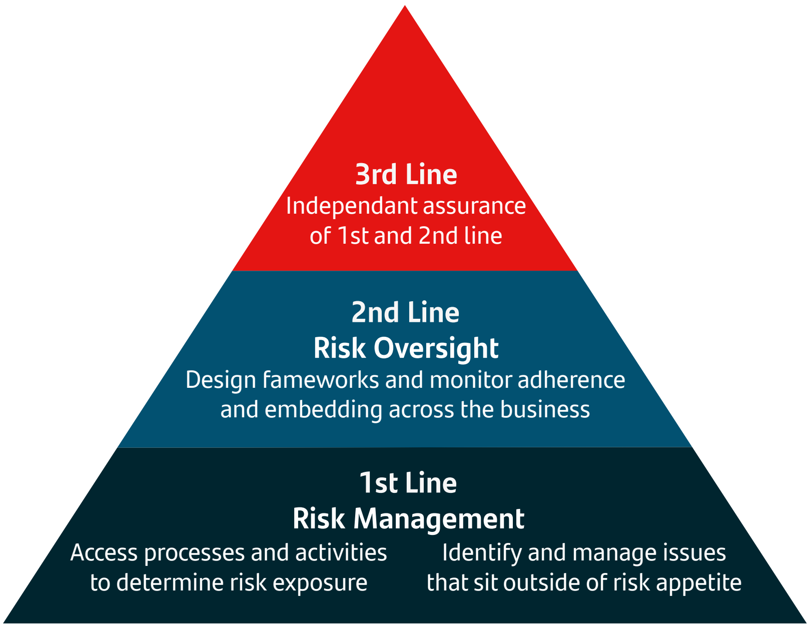
SAM UK have made the decision, in line with regulatory guidance and best practice, to publish the above metrics in this year's report. These metrics are complex in terms of the underlying methodology and have a less than 100% coverage of underlying portfolios due to the absence of available data points from third parties. For further details regarding the assumptions and limitations of these calculations, please refer to Section 6 (Metrics and Targets). As the comparative landscape develops, client portfolio and mandate metrics will become more meaningful than those created at a specific point in time and considered in isolation.

The intention is to work closely with SAM, as well as clients, to integrate climate related risks and opportunities into the investment process over time. These forward-looking metrics are a key part of this process, and SAM UK will be looking to utilise, and improve these values to inform their approach and strategy in the future.

05 Risk Management

Effective climate and environmental risk management is key if SAM UK is to deliver its strategy and meet commitments, particularly the Group's aim to achieve net-zero carbon emissions by 2050. By embedding climate aspects into enterprise risk management practices, clear steps can be taken towards implementing the sustainability strategy to contribute to the transition to a low-carbon economy.

SAM UK's risk management framework sets out how, using a three lines of defence model, it identifies, assesses, manages, monitors, and reports on the risks to which its business, clients and wider society are, or could be, exposed to including climate and other sustainability related risks. Key responsibilities are assigned as set out in the diagram below.



In order to identify and manage material enterprise-wide risks, SAM UK runs risk identification and assessment exercises that cover the full range of financial and non-financial risks. It has made progress to embed both climate and environmental aspects into its risk management cycle and SAM UK will seek to continue to further capture these exposures through its ongoing assessments of risk exposure and control effectiveness with planned enhancements to its risk event, risk appetite, issue management and capital adequacy processes as well as through operational resilience activities.

SAM UK currently deems climate change a transversal risk that spans all categories, rather than a standalone consideration, with impacts already being felt. As a result, all assessment activity will consider these factors, with both the physical effects of acute events and chronic changes in the environment, as well as the consequences of the transition to a more sustainable economy (e.g. new legislation, new technology or changes in behaviour), being in scope.

A set of ESG 'reference risks' have been established by the Group and adopted by SAM UK. These risks represent examples of issues that could impact SAM UK's strategic plans and consideration is given to the materiality of these from a financial, regulatory and reputational perspective.

In addition to those specific risks, over various time horizons existing risks could be made worse by climate change and environmental factors. Therefore, consideration is also given to the impact these factors may have on existing processes and local risks identified through SAM UK's established practices.

Climate considerations form a part of the business continuity and operational resilience planning activities in SAM UK. Assessments are made of the risk and threats that may arise because of a variety of climate related hazards. This activity is supported by the in-house Ark@ tool and supports SAM UK in identifying, managing, and assessing climate and environmental risks and subsequently targeting business impact assessments and incident response plans to areas that may be most affected by these.

Further enhancements to the frameworks and processes employed by SAM UK to manage risk are planned, that will seek to further bolster the steps already taken. These enhancements include, but are not limited to; changes to the recording of risk events where alignment to Group approaches will allow the ability to tag ESG-related events; full review of risk taxonomies to clearly capture and highlight climate and environmental factors; consideration of whether, and how, climate factors could be incorporated into firm risk appetite; updates to third-party risk management oversight and certification; and development of the oversight capabilities and responsibilities to confirm adequate embedding of ESG policies, processes and methodologies within the business, including investment processes.

As noted in section 4, Climate-Related Risks and Opportunities, SAM UK considers these both from an entity level and investment management perspective. SAM UK recognises that it has the opportunity to benefit from the experience of SAM, who has established policies and processes in place to address how these risks impact the economy, clients and its business.

06

Metrics and Targets

SAM UK will continue to develop data capabilities to meet regulatory obligations and client demand. In the tables below, an overview of the metrics used with regards to TCFD disclosure are set out. These metrics are an aggregate for all funds and segregated mandates managed by SAM UK, which are in scope of TCFD reporting. For product specific data, please refer to the relevant product report in the Santander Fund Centre.

For the emissions metrics (Financed Emissions, Weighted Average Carbon Intensity, Carbon Footprint and Carbon Intensive Sector Exposure), the data has been sourced from Clarity AI. Clarity AI obtains the data from company reports and questionnaires such as the Carbon Disclosure Project ('CDP'). This data reflects the values reported by companies through their non-financial annual reports, or the responses they provided to reference questionnaires, such as CDP. When emissions have not been reported, Clarity AI has used a proprietary emission estimation model. For sovereign emissions, Clarity AI has used a proprietary emission estimation model that sources data from public sources such as the United Nations Framework Convention on Climate Change ('UNFCCC') and the Organisation of Economic Co-operation and Development ('OECD'). For the climate metrics (Implied Temperate Alignment and Climate Adjusted Value), the data has been sourced from Aladdin Climate. Aladdin Climate is BlackRock's proprietary technology platform, built to quantify climate risks and opportunities in financial terms – the underlying emissions data sourced is provided by Clarity AI.

Due to the evolving nature of carbon metrics and methodologies, there may be some occurrences where aggregated data coverage does not generate numbers that provide meaningful reporting. With a view to provide transparency regarding the climate related impacts of investments, SAM UK have adopted a principle to report on all metrics, irrespective of the percentage of portfolio assets that are covered by each of the metrics. However, to ensure the information provided is fair, clear, and not potentially misleading, for metrics where the coverage is below 50%, additional narrative to contextualise limitations to this data will be provided. Over time, it is anticipated that the percentage of assets where carbon related information is available will increase, as methodologies and reporting disclosures continue to evolve and improve.

For the climate metrics, Aladdin Climate uses risk proxies for SAM UK's fund of funds. These are funds which invest their assets into other funds, as opposed to investing directly in the same underlying investments. Whilst the risk proxy used is the closest match to the underlying investments, there might be small deviations between climate metric figures and the figures associated with a client's investments. This data may differ from the information that respective managers produce as part of their own TCFD disclosures given variation in data providers and methodologies. The usage of climate data within investment processes and stewardship activities may also vary among the external managers appointed by SAM UK.

The Weighted Average Carbon Intensity ('WACI') is split by corporates (companies) and sovereigns (governments). As per the unit column under this metric, the unit by which WACI is assessed for corporates and sovereigns differs. As such, providing a single, combined metric for WACI could lead to a distorted perception as to the WACI reported by SAM UK. Whilst there is not yet consensus on which intensity metrics to use when determining emissions intensity for sovereign assets, to aid transparency, 11.70% of AuM is in sovereign assets, and 88.30% in non-sovereign assets. For emissions metrics (other than Financed Emissions), sovereign-assets are precluded and assets covered in the metrics are corporate debt and equities, either directly or via funds that invest in underlying corporate debt and equities investee companies.

Emissions Metrics

All metrics presented are as at 29 December 2023.

With regard the emissions metrics below, please note the designation between scope 1, scope 2 and scope 3 as outlined below:

Scope 1 Emissions:

- Corporates: Scope 1 Emissions are emissions that arise from sources that a company owns or controls directly. For example, this could be emissions that arise from company vehicles.
- Sovereigns: Domestic GHG emissions from sources located within the country territory This aligns with the United Nations Framework Convention on Climate Change ("UNFCCC") definition of domestic territorial emissions, including emissions from exported goods and services.

Scope 2 Emissions:

- Corporates: Scope 2 Emissions are emissions that a company causes indirectly and come from where the energy it purchases and uses is produced. For example, this could be emissions produced as a result of electricity usage from the company's office(s).

- Sovereigns: Scope 2 emissions occurring as a consequence of the domestic use of grid-supplied electricity, heat, steam and/or cooling which is imported from another territory.

Scope 3 Emissions:

- Corporates: Scope 3 emissions are not produced by the company itself and are not the result of activities from assets owned or controlled by them, but by those that it's indirectly responsible for up and down its value chain. Scope 3 GHG emissions poses methodological challenges, such as establishing clear boundaries in a company's value chain. In practice, this can cause an overlap in reporting boundaries due to an organisation's involvement at multiple points in the life cycle of products and can result in double counting. For example, this could be emissions that arise as a result of the company buying products from its suppliers.
- Sovereigns: Scope 3 Emissions attributable to nonenergy imports as a result of activities taking place within the country territory.

Metric	Usage and Description		
Financed Emissions	Financed Emissions represents the total greenhouse gas (GHG) emissions associated with the fund. The larger the number, the more the fund is contributing to the effects of climate change as at the calculation date. This metric is consistent with the GHG Protocol and widely used frameworks (see glossary for further detail), and therefore provides a consistent approach between firms and companies. Financed emissions is categorised into 3 distinct scopes – for further information regarding these scopes and how financed emissions is calculated, please refer to the glossary. The in-scope assets here are corporate fixed income (bonds issues by companies) and equities, as well as third-party funds that invest in corporate fixed income and equities (i.e. where exposure to these asset classes is obtained indirectly). Exposure to sovereign related assets is not included in the figures below.		
	YE 2023	**Unit**	**Coverage**
Scope 1 and 2	309,101.60	tCO_2	74%
Scope 3	2,887,189.60	tCO_2	73%
Weighted Average Carbon Intensity	Weighted Average Carbon Intensity ('WACI') represents the total GHG emissions of SAM UK's underlying funds (measured in tons of CO2e) divided by a normalisation factor. For corporate constituents, this normalisation factor is €m company revenue. For sovereign constituents, this normalisation factor is €m of country Gross Domestic Product (GDP). The larger the number, the more carbon-intensive the investments of the firm are as at the calculation date. When compared to Financed Emissions, WACI allows for comparability between firms, as dividing the carbon intensity of the investments by the revenues of the underlying companies, or GDP of the underlying sovereign nations, allows for a like-for-like comparison. However, this metric tends to favour companies with higher pricing levels relative to their peers and can also be sensitive to outliers. Furthermore, accurately calculating scope 3 emissions also poses methodological challenges (please refer to glossary for further details). We have also taken a view to provide WACI as a combination of its scope 1, 2 and 3 constituents (for both corporates and sovereigns). This should be taken in context if a comparison is made against other entities where scopes 1 and 2, and scope 3 are reported separately. As captured in the data table below, WACI arising from corporate and sovereign constituents has been separated; as the normalisation factor for each is different, we feel that providing a single combined metric would likely give an unclear, unfair or potentially misleading view as to the WACI figure of the entity.		

Metric	Usage and Description		
	YE 2023	**Unit**	**Coverage**
Scope 1, 2 and 3 - Corporates	826.25	tCO_2/£m revenue	73%
Scope 1, 2 and 3 - Sovereigns	14.64	tCO_2/£m country GDP	89%
Carbon Footprint	Carbon Footprint represents the GHG emissions of the fund (measured in tons of CO2e), divided by the fund's AUM (measured in £m). As such, Carbon Footprint is very similar to WACI, however the method to standardize measurements between underlying funds is fund size, as opposed to the revenues of the underlying companies that the funds invest in. This metric does not consider differences in the size of companies (for example it does not consider the carbon efficiency of companies). Changes in underlying companies' market capitalisation can also be misinterpreted. The in-scope assets here are corporate fixed income (bonds issues by companies) and equities, as well as third-party funds that invest in corporate fixed income and equities (i.e. where exposure to these asset classes is obtained indirectly). Sovereign exposure is excluded.		
	YE 2023	**Unit**	**Coverage**
Scope 1 and 2	44.53	tCO_2/£m	74%
Scope 3	412.38	tCO_2/£m	73%
Carbon Intensive Sector Exposure	Carbon Intensive Sector exposure refers to the extent to which SAM UK is exposed to sectors that are highly carbon-intensive (those which contribute the most towards climate change), such as fossil fuel extraction, refining, and power generation. The larger the number (expressed as % of the total fund), the more exposed the firm is to carbon intensive sectors as at the calculation date. At SAM UK, we define Carbon Intensive Sectors as per the Transition Pathway Initiative ('TPI') definition, further dividing these into sub-sectors as defined by the Industry Classification Benchmark ('ICB') methodology. For the full list of sectors SAM UK define as carbon-intensive, please refer to the glossary.		
	YE 2023	**Unit**	**Coverage**
	21.98	%	100%*

*This figure is assessed across the eligible assets that fall under the carbon intensive sector definition. The eligible assets for assessing Carbon Intensive Sectors Exposure are corporate fixed income and shares.

Climate Metrics

Metric	Usage and descriptions		
Implied Temperature Alignment	Implied temperature alignment is a forward-looking metric, that estimates the temperature rise that would occur as a result of the GHG emissions associated with the fund's underlying investments. The larger the value, the worse the climate impact. This metric is calculated to the year 2030, which enables us to track our contribution towards the Group's Net Zero 2050 target more effectively, allowing for better monitoring of our medium-term alignment to this commitment. Implied temperature alignment is a rapidly evolving metric and indicating the implied temperature rise associated with a fund's investments is a very complex process. As an example, the issuer calculation model only applies reduction targets to the specified target year due to a high uncertainty in longer term decarbonization pathways. In addition, when not enough data is present at the issuer level to calculate this metric, it is proxied to the company's sub-industry level.		
	YE 2023	**Unit**	**Coverage**
	2.25	ºC	80%

Metric	Usage and descriptions		
Climate Adjusted Value	Climate adjusted value estimates the potential decrease in the value of the assets of the fund as a result of climate change, when compared to an equivalent portfolio unaffected by climate change. Climate adjusted Value is assessed under three distinct scenarios as defined by the Network for Greening the Financial System ('NGFS' – see glossary). The data provided on Climate Adjusted Value is split into both physical and transition risks. For further detail regarding how to interpret the physical and transition metrics, please refer to the glossary. A negative number hear denotes that under the specific scenario, there will be a devaluation in the value of the fund's assets.		
	YE 2023	Unit	Coverage
PCAV (Orderly)	-1.55	%	90%
PCAV (Disorderly)	-1.66	%	90%
PCAV (Hot House World)	-1.75	%	90%
TCAV (Orderly)	-3.09	%	90%
TCAV (Disorderly)	-4.10	%	90%
TCAV (Hot House World)	0.00	%	90%

Targets

The climate related targets are set at a SAM level. SAM UK will look to review the existing targets to ensure they continue to be fit for purpose and are meeting the Global organisation's climate related priorities.

Since SAM joined the NZAM initiative, SAM has worked tirelessly to fulfil its net zero commitment by 2050. However, SAM still has a long way to go and a lot to do to make the 1.5- degree scenario a reality. While information to enhance portfolio carbon footprint analysis may lack significantly, SAM will continue to work closely with companies and governments in SAM's core markets and remain open to sovereign net-zero commitments.

SAM UK is continuing to support the Group and SAM and understand how the above climate targets apply to it.

07 Glossary

Metric	Usage and Description
Financed Emissions	Financed Emissions represents the total greenhouse gas (GHG) emissions attributed to the fund arising from investee companies. This attribution factor is determined by dividing each investment's monetary value by each investee company's enterprise value, including cash. This factor is then multiplied by the company's total GHG emissions to produce the final financed emissions result. These metrics are consistent with the GHG protocol and the Global GHG Accounting & Reporting Standard developed by the Partnership for Carbon Accounting Financials ('PCAF') framework, and therefore provide a consistent approach between firms and companies. This metric is also helpful to track changes in GHG emissions performance of investee companies. Financed emissions are categorised into 3 distinct categories, knows as "scopes" (see below).
Sovereign Financed Emissions	Sovereign Financed Emissions represents the total GHG emissions attributable to the fund arising from sovereign borrowers. As for Financed Emissions for investee companies, these metrics are consistent with the GHG protocol and the Global GHG Accounting & Reporting Standard developed by the PCAF framework.
Total Carbon Footprint	Carbon Footprint is a measure of the fund's Financed Emissions relative to the amount invested, expressed in tons of CO2e per £m invested. To calculate this metric, the portfolio's allocation to each individual holding is multiplied by the ratio of the investee company's normalised emissions to its enterprise value, including cash. Carbon Footprint is assessed across scope 1, 2 and 3 emissions from the underlying companies in the fund. This metric allows for attribution analysis, decomposing the fund into its highest and lowest carbon generating constituents. However, this metric does not consider differences in the size of companies (e.g., does not consider the carbon efficiency of companies). Changes in underlying companies' market capitalisation can also be misinterpreted.
Carbon Intensive Sector Exposure	Carbon Intensive Sector exposure refers to the extent to which the fund is exposed to sectors that are highly carbon-intensive, such as fossil fuel extraction, refining, and power generation. The TCFD acknowledges that some industries are more likely to be financially impacted by climate change due to their exposure to transition and physical risks associated with these industries' operations and products. Carbon Intensive Sector Exposure is calculated by dividing the value of the fund in carbon intensive sectors by the total value of the fund. SAM UK defines Carbon Intensive Sectors as per the Transition Pathway Initiative ('TPI') definition, further dividing these into sub-sectors as per the Industry Classification Benchmark ('ICB') methodology. SAM UK views the following sectors as being carbon intensive: Airlines; Automotives; Shipping; Coal Mining; Electricity Utilities; Oil & Gas; Aluminium; Paper; Cement; Steel; Chemicals; Food Producers; Oil & Gas Distribution; Diversified Mining; Other Industrials; Banks; Food.

Weighted Average Carbon Intensity ('WACI') – Corporate Constituents	Weighted Average Carbon Intensity ('WACI') for corporate constituents measures the fund's GHG emissions divided by company revenue and is expressed in tons of CO2e per €1m company revenue. The WACI is calculated by multiplying the weight of each company in the portfolio by its carbon-to-revenue intensity, and then summing the results. The larger the number, the more carbon intensive the investments are as at the assessment date. Company revenue here is assessed in €, as the .calculation methodology aligns with EU SFDR regulations. WACI for corporate issues is assessed across scope 1, 2 and 3 emissions. As compared to Financed Emissions, assessing the WACI for corporate constituents allows for comparability between firms within a sector (normalizing the carbon intensive sector exposure by revenue allows for a like-for-like comparison). However, this metric tends to favour companies with higher pricing levels relative to their peers and can also be sensitive to outliers. In addition, accurately calculating scope 3 emissions also poses methodological challenges as defined under "Scope 3 Financed Emissions" above. SAM UK has taken a view to provide WACI as a combination of its scope 1, 2 and 3 constituents. This should be taken in context if a comparison is made against other entities where scopes 1 and 2, and scope 3 are reported separately.
Weighted Average Carbon Intensity ('WACI') – Sovereign Constituents	Weighted Average Carbon Intensity ('WACI') for sovereign constituents measures the fund's GHG emissions arising from its exposure to debt issued by sovereign nations, divided by the sovereign nations' Gross Domestic Product (GDP). As such, the figure is expressed in tons of CO2 per €1m GDP. The larger the number, the more carbon intensive the sovereign related investments are as at the assessment date. Sovereign GDP here is assessed in €, as the calculation methodology aligns with EU SFDR regulations. As per WACI for corporate constituents, WACI for sovereign constituents is assessed across scope 1, 2 and 3 emissions, where each of these scopes is defined as per the PCAF methodology. **Scope 1** - Domestic GHG emissions from sources located within the country territory. This aligns with the United Nations Framework Convention on Climate Change (UNFCCC) definition of domestic territorial emissions, including emissions from exported goods and services. **Scope 2** - GHG emissions occurring as a consequence of the domestic use of grid-supplied electricity, heat, steam and/or cooling which is imported from another territory. **Scope 3** - Emissions attributable to nonenergy imports as a result of activities taking place within the country territory. Consistent with WACI for Corporate Constituents, assessing the Sovereign WACI allows for comparability between nations (normalising the carbon intensive sector exposure by country GDP allows for a like-for-like comparison). As per WACI for corporate constituents, SAM UK has taken a view to provide Sovereign WACI as a combination of its scope 1, 2 and 3 constituents. This should be taken in context if a comparison is made against other entities where scopes 1 and 2, and scope 3 are reported separately.
Paris Agreement	The Paris Agreement is an international agreement on climate change that was adopted by 196 countries in December 2015. The agreement sets a goal to limit global warming to well below 2°C above pre-industrial levels and pursue efforts to limit it to 1.5°C. Countries are required to submit their own nationally determined contributions ('NDCs') to reduce greenhouse gas emissions and adapt to the impacts of climate change. The Paris Agreement also establishes a framework for monitoring and reporting progress, as well as providing financial support to developing countries to help them meet their climate goals.
NGFS	The Network for Greening the Financial System (NGFS) is a global network of central banks, supervisors, and financial regulators that aims to promote the development of environmentally sustainable financial systems. The NGFS was established in 2017 and currently has over 70 member organisations. The network's goals include: promoting the integration of climate and environmental risks into financial decision-making, developing green finance instruments and standards, and fostering international cooperation on sustainable finance. The NGFS also provides a platform for sharing knowledge, best practices.

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