Firm Climate Report

2024

Introduction

This Climate Report for Capula Investment Management LLP (the "Firm" or "Investment Manager") is consistent with the Recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), and with the climate-related disclosure requirements of Chapter 2 of the FCA's ESG Sourcebook.

This report sets out the TCFD-aligned entity-level disclosures of the Firm (the "Report"), in relation to climate-related matters, for the reporting period 1 January 2024 to 31 December 2024 (the "Reporting Period").

The Report relates to the relevant assets that the Firm manages as investment manager in respect of portfolio management services, and as fund manager in respect of Alternative Investment Funds. In this Report, the Firm's managed products and services are together referred to as the "Portfolios".

This Report has been prepared on a reasonable-efforts basis. It should be noted that climate reporting in the asset management industry, particularly by hedge funds, is still in its infancy, and there are significant data and methodological challenges associated with climate reporting. We have included TCFD-aligned disclosures where it is fair, clear and not misleading for us to do so. We have also explained limitations on our ability to disclose, and the steps being taken to address those limitations.

Governance

The Executive Board's oversight of climate-related risks and opportunities

The Investment Manager is a limited liability partnership, which is managed day-to-day by the Executive Board. The Executive Board is ultimately responsible for governance and oversight of the activities of the Firm, including its fund management and portfolio management activities; this includes the establishment of an effective and resilient governance and risk environment.

The Firm maintains written Terms of Reference, which specify the matters for which the Executive Board is directly responsible. The Terms of Reference does not specifically include responsibility for climate-related risks and opportunities, there are no established sub-committees of the Executive Board in respect of climate-related matters, and the Firm has not formalised procedures by which the Executive Board or its sub-committees are informed about climate-related issues. The application of climate-related risks and opportunities to the Firm's investment strategies, is described in the 'Strategy' section of this Report.

The Executive Board receives an annual update on any climate-related issues that may be of relevance, specifically the metrics related to this TCFD disclosure. On an ad-hoc basis, climate-related topics can be discussed more frequently, if relevant.

The Executive Board does not specifically consider climate-related issues when:

- Reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans
- Setting the Firm's performance objectives
- Monitoring implementation and performance
- Overseeing major capital expenditures, acquisitions, and divestitures

Hence, the Executive Board does not specifically monitor and oversee progress against specific goals and targets relating to climate-related issues.

Management's role in assessing and managing climate-related risks and opportunities

The Firm has not specifically assigned climate-related responsibilities to any management-level positions or committees, which sit below the Executive Board in the Firm's governance structure. As such, the Firm has not formalised procedures by which management-level positions are informed about climate-related issues, the Firm's management is not expressly required to monitor climate-related issues, and the Firm does not have in place organisational structures for the assignment of climate-related responsibilities.

Strategy

Climate-related risks and opportunities of the Firm's investment strategies

The Firm is a global investment manager managing absolute return, enhanced fixed income, macro and crisis alpha strategies. As such, the firm invests in a wide variety of asset classes, but principally in fixed income products, on behalf of its clients. The Investment Manager invests a small portion of its overall assets in publicly listed equity securities, principally in accordance with volatility, equity RV, event driven, and other equity derivative trading strategies. Such positions are generally not held to benefit from the long-term economic success or failure of the underlying investee company.

The Investment Manager recognises that the world faces growing climate-related risks. However, given the nature of the investment strategies managed by the Investment Manager, and the investments and asset classes in which the Investment Manager trades, climate-related risks will not be universally relevant across the Investment Manager's Portfolios. The Firm does not manage any Portfolios which promote climate-related characteristics through the investment strategy applied to the management of the Portfolio, nor do any of the Portfolios have investment objectives which relate to climate matters.

The Investment Manager considers that climate-related risks are unlikely to be relevant for the vast majority of its investment strategies, including its relative value, macro and crisis alpha strategies. This is because, for such strategies, the Investment Manager considers that climate-related factors are unlikely to be a material risk to the value of positions taken. Consequently, the Investment Manager does not integrate climate-related risks and opportunities into its investment decision-making process for the Portfolios. As such, the investment manager has not performed an assessment of the likely impacts of climate related risks on the returns of the Portfolios.

The Firm delegates certain investment management responsibilities for the Portfolios to affiliates or third parties, which act as sub-investment manager for the Portfolios. In the relevant sub-investment management agreements, the Firm contractually requires the delegate to comply with the investment mandate for the Portfolio, however, there are no climate-related elements to the mandates. Hence, in deciding to delegate investment management responsibilities to a third party or affiliate, the Firm has not taken into account any specific climate-related matters, and the reasons for selecting the delegate are not influenced by the TCFD recommendations.

Further to the above, the Firm does not consider how products and investment strategies might be affected by the transition to a low carbon economy.

Given the nature of the investment strategies managed by the Investment Manager, and the investments and asset classes in which the Investment Manager trades, no climate related risks or opportunities are relevant to the management of the Portfolios. Therefore, the Firm has not assessed the climate-related risks and opportunities to which the Portfolios are exposed, over the short, medium, and long-term, nor assessed those that could have a material financial impact.

Resilience of the Firm's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

The Firm has determined that scenario analysis is a process for identifying and assessing the potential implications of a range of plausible future states under conditions of uncertainty. Scenarios are hypothetical constructs, and not designed to deliver precise outcomes or forecasts. Instead, scenarios provide a way for organisations to consider how the future might look if certain trends continue or certain conditions are met.

In the case of climate change, for example, scenarios allow an investment manager to explore and develop an understanding of how various combinations of climate-related risks, both transition and physical risks, may affect its investment strategies, and financial performance over time.

The Firm does not currently use climate scenario analysis as a routine part of its investment or risk management process. This is because the Firm does not consider that its Portfolios are so exposed to climate risk as to merit regular scenario analysis. The Firm keeps this decision under periodic review. If, in the future, the Firm starts to use scenario analysis, then this will be reflected in future TCFD reports.

Transition plans

The Firm is incorporated in, and operates in, the UK. The Firm notes that the UK Government committed in June 2019 to a 100% reduction of greenhouse gas emissions by 2050 compared with 1990 levels. This is referred to as the net zero target. The Government stated that net zero means "*any emissions would be balanced by schemes to offset an equivalent amount of greenhouse gases from the atmosphere, such as planting trees or using technology like carbon capture and storage*".

While the Firm is generally supportive of the UK Government's net zero target, the Firm has not integrated an express commitment to the net zero target in its management of any Portfolios. This is because the Firm would require the express agreement of its clients to integrate the UK Government's net zero target into the management of Portfolios, and at the date of this Report there is no instruction in respect of the net zero target for any Portfolio.

Risk Management

Process for identifying and assessing climate-related risks

The Firm has implemented processes to identify and assess applicable risks, but our risk management processes do not specifically address climate risks (or sustainability risks more broadly) as a separate category of risk.

Identification of investment risks

The Investment Manager's process to **identify** investment risks stems from the top down with the Board of Partners setting the overall risk appetite for the Firm. The Firm has an independent, formalised and robust risk management function which provides independent review and challenge to the investment team. Led by the chief risk officer (CRO), the risk team is responsible for the independent oversight of all financial and non-financial risks. The team's thorough understanding of markets, instruments, investment strategies, liquidity and other key factors enables it to operate an effective risk framework, monitoring exposures versus the Firm's risk appetite. Although the Firm does not have a dedicated process specifically to identify climate-related risks, the Firm's risk management process is designed to identify all material risks that may arise, including any material climate risks that could arise, where relevant.

The Firm's resources and tools for identification of investment risks includes the Firm's own internal analysis and assessment, alongside third-party data sources. These resources and tools are not specifically focused on climate or sustainability issues, but may in their ordinary use identify climate risks where relevant.

The Firm does not specifically consider existing and emerging regulatory requirements related to climate change (e.g., limits on emissions) applicable to the investments held in the Portfolios as a source of investment risk.

The Firm does not specifically engage with investee companies in respect of disclosure by those companies of data relating to sustainability or climate risks.

Assessment of investment risks

The Firm **assesses** the size and scope of investment risks through the daily monitoring of the key risk parameters of the funds. This is not specifically focused on climate risks but could from time-to-time include a climate risk if identified as potentially material.

The Firm determines the relative significance of investment risks in relation to other risks by designing and calibrating risk metrics that are comparable on a like-for-like basis. This process is not specifically tailored to climate risks.

Firm's processes for managing climate-related risks

The Firm's general processes for managing investment risk are not specifically targeted at climate risk (or sustainability risk more generally). However, if the general risk management processes were to identify that a climate-related risk is relevant for a particular Portfolio, then the procedures summarised below would apply to that identified climate risk, as they would for all other categories of risk. Subsequently the Firm does not apply any absolute risk limits or risk appetite thresholds which relate exclusively to climate risk as a separate category of risk. The Firm does not have specific processes in place for prioritising climate-related risks or making materiality determinations in respect of such risks.

How processes for identifying, assessing, and managing climate-related risks are integrated into the Firm's overall risk management

As a FCA-regulated investment manager, the Firm is subject to the FCA Rules in respect of investment risk management processes. Consistent with these requirements, the Firm has:

- Established and implemented risk management policies and procedures. These identify the risks which relate to the Firm's activities, processes and systems, and set the level of risk tolerated by the Firm;
- Adopted arrangements, processes and mechanisms to manage the risks to which the Firm is exposed, in light of that risk tolerance;
- Implemented monitoring processes, in respect of risk exposure and risk tolerance; and
- Established a permanent Risk Management function, which is responsible for the implementation of the policies and procedures noted above, and for reporting to senior management on risk matters.

As noted in the sections above, the Firm does not maintain separate processes which relate specifically to climate risk. However, the general investment risk processes summarised above may integrate consideration of climate risks, alongside any other material category of general investment risk, where such climate risks are material to a particular investment.

Metrics and Targets

Metrics used by the Firm to assess climate-related risks and opportunities in line with its strategy and risk management process

As mentioned earlier in the Report, the Firm does not consider climate risks and opportunities to be relevant to the management of the Portfolios, and hence has not identified specific metrics (including carbon prices or carbon opportunity metrics) used to measure and manage such risks, whether on a general basis or in respect of specific products or strategies. The Firm does not use climate metrics for investment decision-making or monitoring.

The Firm has not integrated climate metrics into its remuneration policy.

The Firm's assets under management and investment strategies are not aligned with a well below 2°C scenario, and it has not adopted metrics to achieve such alignment.

Targets used by the Firm to manage climate-related risks and opportunities and performance against targets

The Firm understands a climate-related target to be a commitment which may be imposed by an investment manager on a managed Portfolio, relating to particular climate metrics, in order to manage risks and opportunities.

The Firm has not integrated any express climate-related targets in its management of any Portfolios. This is because the Firm would require the express agreement of its clients to impose such targets into the management of Portfolios, and at the date of this Report there is no instruction in respect of the net zero target for any Portfolio.

Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

This data is provided on an aggregated basis, across all of the Portfolios managed by the Firm. The data points below relate to the emissions of the investments held by the Portfolios (and not, for the avoidance of doubt, to the Firm itself).

Data Point	Definition / Methodology	Data Point (Reference Date: 31 Dec 2024)	Data Coverage	Historical Data	Further Notes
Scope 1 GHG emissions	Direct GHG Emissions Direct GHG emissions occur from sources that are owned or controlled by the investee company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc. emissions from chemical production in owned or controlled process equipment. The Firm calculates this in accordance with the GHG Protocol methodology.	Corporates: 111,335 Units: Tonnes of C02e	Corporates: 74.0% *Of which:* Estimated: 6.5% Reported: 67.5%	2023: Corporates: 13,338	The following notes apply to all of the disclosures. Related risks: Emissions are a prime driver of rising global temperatures and, as such, are a key focal point of policy, regulatory, market, and technology responses to limit climate change. As a result, organisations with significant emissions are likely to be impacted more significantly by transition risk than other organisations. In addition, current or future constraints on emissions, either directly by emission restrictions or indirectly through carbon budgets, may impact organisations financially. Coverage is defined as the percentage (by market value) of in-scope positions for which the Firm has obtained emissions data. In-scope positions include all equities, corporate bonds and derivatives (futures, options and total return swaps) where the net issuer exposure is long. Net short issuer exposures, index products, commodities, interest rate products and cash are not in scope given there is no relevant prescribed PCAF calculation methodology.

CAPULA

Data Point	Definition / Methodology	Data Point (Reference Date: 31 Dec 2024)	Data Coverage	Historical Data	Further Notes
					Corporate emissions data is provided by Morningstar/Sustainalytics[1]. Emissions ownership has been calculated in accordance with the guidance from PCAF. For corporates, ownership is defined as the investment value divided by EVIC (enterprise value including cash). Given there is no PCAF prescribed calculation methodology for derivatives exposure, SBAI methodology has been used.
Scope 2 GHG emissions	Electricity indirect GHG emissions Scope 2 accounts for GHG emissions from the generation of purchased electricity consumed by the investee company. Purchased electricity is defined as electricity that is purchased or otherwise brought into the organisational boundary of the company. Scope 2 emissions physically occur at the facility where electricity is generated. The Firm calculates this in accordance with the GHG Protocol methodology.	Corporates: 12,094 Units: Tonnes of C02e	Corporates: 74.0% *Of which:* Estimated: 6.5% Reported: 67.5%	2023: Corporates: 5,677	
Scope 3 GHG emissions	Other indirect GHG emissions Scope 3 is a reporting category that allows for the treatment of all other indirect emissions. Scope 3 emissions are a consequence of the activities of the investee company, but occur from sources not owned	Corporates: 708,535 Units: Tonnes of C02e	Corporates: 74.0% *Of which:* Estimated: 16.4% Reported: 57.7%	2023: Corporates: 128,239	

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Data Point	Definition / Methodology	Data Point (Reference Date: 31 Dec 2024)	Data Coverage	Historical Data	Further Notes
	or controlled by the company. Some examples of scope 3 activities are extraction and production of purchased materials; transportation of purchased fuels; and use of sold products and services. The Firm calculates this in accordance with the GHG Protocol methodology.				
Weighted average carbon intensity	Portfolio's exposure to carbon-intensive companies, expressed in tons CO2e / \$M revenue. The formula can be expressed as: $\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{current portfolio value}} * \frac{\textit{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\textit{issuer's \$M revenue}_i}\right)$	Corporates: 499.1 Sovereigns: 220.2 Units: Tonnes of C02e per \$m of revenue	Corporates: 75.7% Sovereigns: 100.0%	2023: Corporates: 72.2 Sovereigns: 179.2	Scope 1 and 2 emissions are included in this measure. Sovereigns' revenue is defined as GDP (PPP-adjusted). Emissions data for sovereigns is sourced from the latest publicly available OECD data (2021). GDP data is sourced from the World Bank. Both are defined as "Reported" rather than "Estimated". Scope 1 emissions for sovereigns is defined as total territorial emissions ex Land Use, Land-Use Change, and Forestry. Scope 2 emissions for sovereigns is defined as emissions from imported electricity, gas, steam & air conditioning and is based on the latest publicly available data from the OECD (2018).

Data Gaps and Methodological Challenges

The Investment Manager uses third party public and commercial providers for both corporate and sovereigns' emissions data. Whilst the Firm has endeavoured to cover as much of the in-scope Portfolio as possible, due to the global nature of the Firm's trading strategies it is inevitable that data will not be available for all names. The use of proxies or internal estimates for missing names is not considered feasible given the idiosyncratic nature of individual names. However, the Investment Manager will endeavour to close such data gaps for future Reports.

Additionally, emissions data is lagged, sometimes by a number of years, so metrics may not be representative of actual current emissions. The Firm also notes that both reported and estimated emissions data are likely to have material embedded uncertainty.

The Firm has not been able to disclose GHG emissions data relating to its sovereign debt holdings due to methodological and data challenges. Attributing national emissions financed by sovereign bond issuance is extremely challenging due to data limitations. Given the wide range and complexity of national economies it is not feasible to construct a generalised model of emissions that would result in a meaningful metric. The Firm will continue to liaise with industry groups in order to ensure best practices are followed, and that metrics presented are meaningful and not misleading.

Compliance Statement

The disclosures in this Report comply with the requirements under Chapter 2 of the Financial Conduct Authority's Environmental, Social and Governance Sourcebook.

Salil Dhawan
Chief Operating Officer and Deputy CEO