Climate-related financial disclosures report

Our approach to climate-related financial disclosures

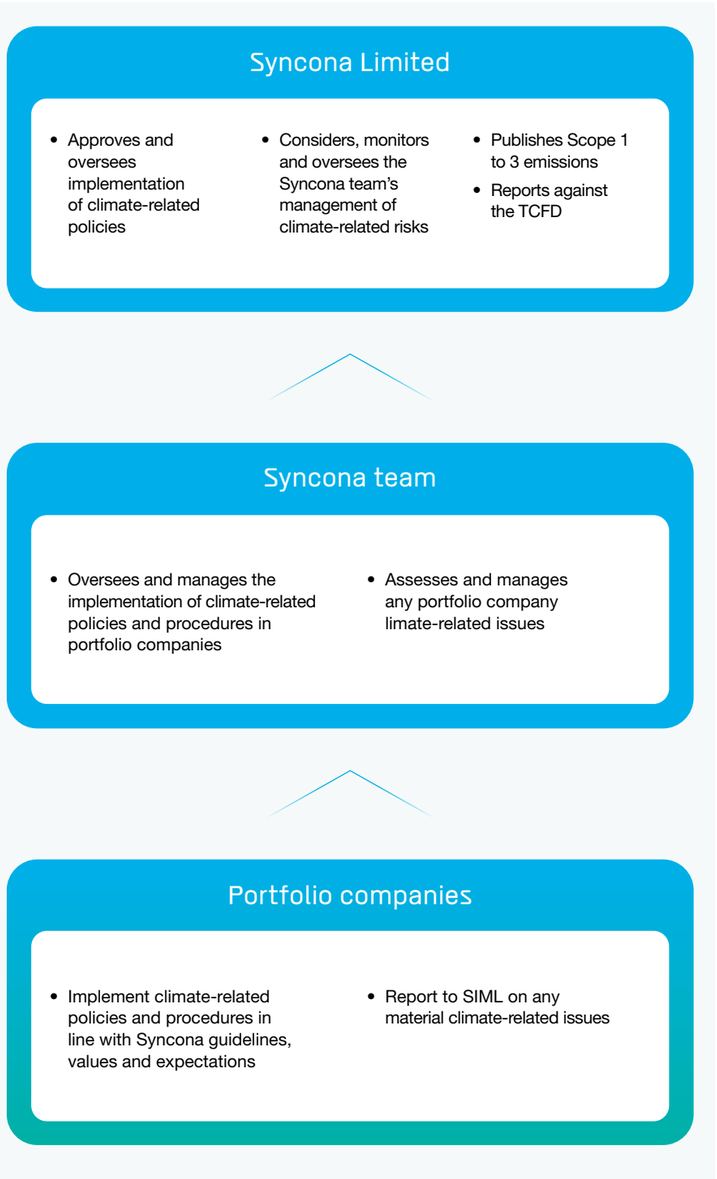
We understand that climate change represents a systemic risk to our societies and economies. We agree with the signatories to the 2015 Paris Agreement that our collective approach needs to limit climate change to within a 1.5 degree Celsius global temperature increase by the end of the 21st century. There is scientific consensus among the world's leading climate scientists that limiting human-caused global warming requires reaching net zero CO_2 emissions by 2050 at the latest.

We create and build companies to deliver transformational treatments to patients in areas of high unmet need. As such, we indirectly bear the potential transition and physical risks to which the portfolio companies and other investments are exposed. In addition, we also benefit the most from any potential opportunities which are associated with the transition to a low-carbon economy that the portfolio companies are able to take advantage of.

In 2020 Syncona undertook a comprehensive materiality review to understand the sustainability issues most material to the business, including climate risk and disclosure (see page 51). In 2022, the Syncona team performed a scenario analysis to assess the physical and transition risks that Syncona might be exposed to. The results of these analyses have led us to believe that our business, and the portfolio companies in which we invest, are not materially exposed to climate change and that neither the risks nor opportunities (individually or collectively) materially impact our strategy or viability, or financial results, either in the short or longer term.

We are, however, committed to making an impact where possible and using our influence to ensure that our portfolio companies are addressing the challenges of climate change – we have chosen to address the climate-related issues in our business within our wider sustainability framework.

Although the Company is not required to provide a Task Force on Climate-related Financial Disclosures (TCFD) disclosure as the legislation does not currently apply to it, we are voluntarily providing climate-related financial disclosures consistent with all of the recommendations and recommended disclosures of the TCFD, including the Additional Guidance, to illustrate our commitment to climate-related issues given their increasing importance to our stakeholders.



Progress this year

- Post-period end we became a signatory to the Net Zero Asset Managers (NZAM) initiative. Committing to NZAM supports our ultimate ambition to become net zero across all of our assets by 2050, and we plan to set out targets in line with NZAM's requirements in the next 12 months. As part of this, we have been reviewing our current portfolio's emissions – see the emissions reporting for FY2022/3 on pages 60 and 61 – and will be working with portfolio companies on strategies to align them with a net zero pathway.
- We have provided fuller carbon reporting for FY2022/3 by including more emission categories, covering our own operational emissions and purchased goods and services, following our alignment with a full Scope 1 to 3 methodology and environmental reporting for our portfolio companies; see pages 60 and 61 for further information.
- We have increased the number of portfolio companies who directly provide us with environmental data.
- Active engagement with new portfolio companies on sustainability matters. For our new portfolio companies, Kesmalea Therapeutics, Mosaic Therapeutics and Beacon Therapeutics, we are actively engaging with them on sustainability matters, including putting in place policies in line with our expectations and principles.

2050

Our ultimate ambition is to become net zero across all of our assets by 2050

Plans for FY2023/4

- We are an existing signatory to the Principles for Responsible Investment and will be reporting against those principles for the first time this coming year, which includes reporting around sustainability issues.
- We will continue to progress our aspiration to be net zero throughout our full value chain (including our portfolio companies) by 2050, including through our work as a signatory to NZAM.
- We will set clear interim targets for 2030 for the proportion of our assets under management which are to be managed in line with net zero and publish these within 12 months of our becoming a signatory to NZAM.

Governance

Our sustainability governance framework

SUSTAINABILITY REVIEW P48

Governance of climate-related issues is addressed within our wider framework for governance of sustainability issues.

SYNCONA LIMITED BOARD

- Approves Sustainability Policy and Responsible Investment Policy
- Oversees implementation of the Sustainability Policy, including oversight of any targets set
- Considers risks facing the Company from sustainability issues as part of its role in the risk management process
- Oversees monitoring of risks arising from sustainability issues as part of wider process of monitoring of risk management and internal controls

SYNCONA LIMITED AUDIT COMMITTEE

- Reviews scope and effectiveness of internal controls and risk management systems
- Reviews and assesses risks and associated frameworks to manage and mitigate such risks

Reports to on a biannual basis

Reports to on an annual basis

SYNCONA TEAM

LEADERSHIP TEAM

- Overall responsibility for implementation of Sustainability Policy
- Manages integration of Syncona approach to sustainability across portfolio

INVESTMENT COMMITTEE

- Implements the Responsible Investment Policy
- Assesses and manages sustainability risks in the portfolio

SUSTAINABILITY COMMITTEE

- Advises on Sustainability Policy
- Oversees the integration of the Sustainability Policy into the ongoing roles and activities of the investment team and broader business
- Identifies areas where business can improve its approach

The table above sets out our sustainability governance structure, which includes climate-related issues. Given our judgement that climate-related risks do not represent a material risk to our business, they are addressed as part of our wider consideration of sustainability issues and not separately.

The table describes the main areas where the Board considers sustainability issues. Syncona is an investment company and, as further described in the Corporate governance report on pages 76 to 79, the Board is not directly involved in management of the investment portfolio, which is delegated to the Syncona team.

Within the Syncona team, the Sustainability Committee acts as a cross-functional group to coordinate the implementation of our sustainability policies, horizon-scan for sustainability developments or changes in risks, and support and advise the business on sustainability issues, including climate-related issues. See our Sustainability Report for further information on the Committee.

A key focus for the Sustainability Committee this year has been to increase the number of our portfolio companies where we are able to directly gather environmental data, as well as carrying out extensive preparatory work in advance of us signing up to NZAM. The Committee has also led a desktop review of our climate-related risks and opportunities under a number of scenarios (see overleaf).

The Sustainability Committee is also responsible for coordinating reporting through the Leadership Team and onwards to the Board. Regular reporting covers our progress against the commitments in our policy and targets and KPIs, including climate-related targets (when set). The Board also receives reports on the results of the desktop climate scenario analysis that was carried out and the risks to the business.

Strategy

Our business is focused on a single investment strategy in a single industry of pre-revenue generating life science investments which are predominantly concentrated in the UK, Western Europe and the US. See pages 18 to 21 for further information on our strategy and investment process.

As reported last year, in FY2021/2 we undertook a climate scenario analysis with support from Avieco (now Accenture), an external consulting firm, to consider the potential impact that certain physical and transitional climate-related risks and opportunities could have on our business and portfolio companies, in a range of different climate scenarios and on a short, medium and long-term time horizon. This work drew on support across the business and from our portfolio companies.

This year, the Sustainability Committee conducted a desktop review of the FY2021/2 climate scenario analysis, including a horizon-scanning exercise for any new potential risks and opportunities, building on the work done last year with Accenture. The Sustainability Committee reviewed the specific climate scenarios and time horizons that were selected for FY2021/2. It was concluded that the scenarios are still internally consistent, logical and based on explicit assumptions and constraints that present plausible future development paths. Indeed, no new or further risks or opportunities were identified this year and the Sustainability Committee concluded that the climate scenario analysis remained representative of the risks and opportunities faced by our business.

Climate scenarios

To analyse potential impact we selected three climate scenarios from the Network for Greening the Financial Systems: 'Net Zero 2050' (which assumes orderly progress towards net zero in 2050 and is aligned with the 2015 Paris Agreement scenario of 1.5 degrees Celsius), 'Divergent Net Zero' (which also assumes that net zero is reached by 2050, but with a much less orderly path to it and therefore higher transition costs), and 'Current Policies' (which assumes a 3 degrees Celsius or greater increase in global temperatures from baseline). We believe that these scenarios reflect a core range of potential outcomes that allow us to analyse impacts on our business.

Time horizons

For the purpose of this exercise, and acknowledging that climate-related issues tend to manifest themselves over the medium to long term, we have characterised our short, medium and long-term time horizons as 0-5 years, 5-15 years and 15-30 years respectively. We believe these are reflective of the lifecycle of the portfolio companies that we invest in; company creation and drug development can take between 10-15 years and a granted patent for a therapy could last for around 20 years.

Risk evaluation

Through the risk identification process, we identified four potential risks and one potential opportunity for evaluation by the business. As an investment business, materiality is principally driven by the impact on the value of our portfolio companies, and our ability and the cost of accessing capital to deliver our strategy. Given the dynamic nature of our portfolio (see below) and the data available, our assessment was qualitative rather than driven by specific financial thresholds.

We assessed the potential impact on our business and likelihood of such risk or opportunity occurring for each time horizon and climate scenario in order to determine a numerical score of potential materiality on our business. Physical risks were assessed taking account of physical locations of facilities and desktop analysis of supply chains (principally of our portfolio companies), combined with publicly available data on vulnerability of different locations/logistics routes, and the value of our investment in each portfolio company. We also sought to consider the likely evolution of the businesses of our companies, though that is challenging both because our companies typically change significantly as they proceed through clinical development, and also because our portfolio is itself dynamic and subject to change. We assessed the transition risks by analysing internal data and publicly available data to look at the impact of sustainability factors on cost of capital.

We only operate in a single sector and so sectoral analysis was not relevant to us. Geographic variations were taken into account in respect of physical risks as described above, but given the dynamic nature of our portfolio our overall assessment was carried out on a global basis.

It remains our view that neither the risks nor opportunities (individually or collectively) materially impact our strategy or viability, or financial results, either in the short or longer term. Accordingly, we do not consider there should be any impact to our financial results. However, we intend to keep the risks and opportunities under review. For that reason, climate-related issues are not a material input in our planning, but we take account of the identified mitigation actions where relevant.

Description of risk or opportunity	Impact on our business and our response	Scenario where this has highest impact	Time horizon
Extreme weather events (physical): climate change could disrupt portfolio company manufacturing and other facilities, as a result of storms, flooding etc.	Low impact given the relatively small footprint of our portfolio companies, which are typically in clinical development. However, we can recommend mitigation through site choice and physical mitigation steps.	Current Policies	Medium term: 5–15 years
Logistics and supply chain disruption (physical): climate change could cause chronic and acute upstream and downstream disruption to portfolio companies using supply chains and transport links as a result of rising sea levels, hurricanes and other weather events, particularly as they move towards larger clinical trials and manufacturing products.	Low impact currently though may increase in the future as companies develop. Mitigation actions could include recommending that climate-related risks are integrated into supply chain management and resilience assessments.	Current Policies	Medium term: 5–15 years
Impact of not achieving net zero (transitional): there could be increased costs or negative business impacts (such as increased stewardship from investors or voting action) associated with achieving net zero in a short timeframe for both Syncona and its portfolio companies.	Low impact given we are working towards a net zero strategy and due to the nature of our business and our portfolio companies.	Divergent Net Zero	Short term: 0–5 years
Increased cost of capital (transitional): Syncona may face increased costs of capital or be constrained in raising capital in the public market if investors perceive us as high risk from a climate perspective.	Low impact due to our low emissions and our wider sustainability focus. Mitigation could include providing further sustainability data reporting, aligned with emerging global standards on sustainability issues, to seek to maintain investor confidence in our approach to these issues.	Divergent Net Zero	Medium term: 5–15 years
Opportunity to address new health issues (products and services): for example, climate change may result in an increase in melanoma and respiratory issues.	Low impact and not a current focus for our business. We typically seek to build stand-alone biotech companies that have the ability to take products to market, and believe it is less likely there will be relevant opportunities on this business model. However, we will keep this on our radar.	Current Policies	Medium term: 5–15 years

Risk management

Identification of climate-related risks	Assessment of climate-related risks	Management of climate-related risks
• Detailed identification exercise as part of climate scenario analysis in FY2021/2. • Ongoing horizon scanning of sustainability issues by Sustainability Committee.	• Scenario analysis by Sustainability Committee.	• Within the Syncona team, managed by Investment Committee and Leadership Team as part of wider management of sustainability issues. • Feeds into wider risk management process overseen by Audit Committee and Board.

As described above, during the year the Sustainability Committee carried out a desktop review of the climate scenario analysis that was supported by Avieco in FY2021/2, including a horizon-scanning exercise to determine whether there were any new potential risks or opportunities that were relevant to our business. We concluded that none of these risks (individually or collectively) materially impact our strategy or viability, or financial results, either in the short or longer term, and accordingly climate-related risks have not been included as a principal risk of the business.

Accordingly, we address risk management of climate-related risks alongside other sustainability issues and as part of our wider risk management process. Within the Syncona team, the Sustainability Committee takes a lead on horizon-scanning for sustainability developments or changes in risks, including climate-related issues. This then acts as an input into the wider risk management process, both within the Syncona team and at Board and Audit Committee, as set out in the risk management section of this Annual Report on pages 66 to 68.

As we have done this year, we expect that the Sustainability Committee will continue to keep the scenario analysis under review with external support where this is helpful. We will continue to monitor climate-related risks and should any of these become a material or principal risk, we will embed these within our existing risk management processes.

The Investment Committee is responsible for considering sustainability issues in Syncona investment transactions. Once an investment is made the investment team is responsible for encouraging the portfolio company to meet our sustainability requirements, reporting to the team's quarterly review meeting where the entire investment team carries out an in-depth review of all portfolio companies. Further details of how we engage with our portfolio companies are set out in the responsible investor and partner section of our Sustainability Report, on pages 17 to 28.

The Leadership Team is responsible for considering sustainability issues within Syncona's own business and operations.

Metrics and targets

As mentioned above, as we believe that climate-related risks do not represent a material risk to our business, we have taken a proportionate approach in our reporting. We therefore use the metrics and targets described within this section to assess and manage risks and opportunities that may become material to the business.

Metrics applicable to Syncona and our portfolio companies

- Our principal metric is our carbon footprint. We have included full carbon footprint reporting, incorporating both Syncona operations and our portfolio, on pages 60 and 61 of this Annual Report, and page 38 of the Sustainability Report. The environmental pages of our Annual Report also include our full SECR reporting, which provides details of our emissions at an operational level.
- The number of portfolio companies who directly provide us with environmental data.
- Our progress in delivering our sustainability policies, including those relating to climate, and these form an element of annual performance reviews for individual Syncona team members which impacts on the discretionary bonus for the Syncona team.

We have considered other cross-industry climate-related metrics and targets as detailed in the TCFD Additional Guidance, including reporting on weighted average carbon intensity. We do not believe that such metrics and targets are appropriate or meaningful for our business at this stage given our single investment strategy focused on pre-revenue single industry businesses, however we continue to keep these under review.

Targets applicable to Syncona and our portfolio companies and our transition plans

To date we have not set any specific climate-related targets, as we evaluate how best to address these issues. As stated above, it is our ambition to be net zero throughout our full value chain (including our portfolio companies) by 2050.

The majority of our climate impact is within our investment portfolio and as part of becoming a signatory to NZAM, over the next year we will set clear interim targets for 2030 for the proportion of our assets under management which are to be managed in line with net zero.

As we do not have any specific climate-related targets, we do not currently have a formal transition plan. However, we have begun work internally to consider what steps this might include:

- Syncona operations are already relatively low intensity, and in particular we have already adopted 100% renewable electricity supply to our primary office through green energy tariffs.
- We are encouraging our existing companies to implement strategies to reduce their carbon emissions where possible, particularly in relation to electricity supply.

For our portfolio companies, while we are long-term investors, the nature of our investments means that the period from today to either 2030 or 2050 is likely to see significant change in our investment portfolio, as companies succeed or fail, and enter or leave the portfolio. We continue to remain focused on developing a meaningful transition plan that accommodates that change in a proportionate way, and we are considering what processes are most appropriate.