CF & ET Portfolio Analysis

Content (1/4)

1st page

1. Carbon Footprint (Scope 1 & 2) [CF]
   - Total financed emissions
     - Emissions attributable to fund investments
     - Proportionate to fund holding in the issuer
     - Denominator: Market cap (equity) or Total assets (Equity + Debt)
   - Financed emissions per M£ invested
     - Total financed emissions, per £million invested
   - Weighted average carbon footprint
     - Average absolute carbon footprint of portfolio issuers
     - Sum of portfolio issuers’ emissions, adjusted to portfolio weighting
   - Weighted average carbon intensity
     - The Carbon Footprint intensity (CO2 emission per M£ of revenue) of the average emitter within the Fund

2. Energy Transition Score [ET]
   - Energy Transition Score out of a theoretical maximum of 100
     - Calculated from specific, sector-customised ESG datapoints within the areas of Environment and Community Involvement.
CF & ET Portfolio Analysis

Content (2/4)

1st page

3. Performance Attribution
   - Comparison of CF & ET score of the Portfolio and the Benchmark
   - Sector allocation effect
     - Measures the impact of the choices of overweighting/underweighting a sector in the portfolio with respect to the Benchmark
   - Issuer selection effect
     - Measures the impact of choices made in the selection of companies in the portfolio with respect to the Benchmark
   - Performance attribution
     - Sum of the two preceding effects
     - A negative figure for CF is a result of a lower CF for the Fund vs Benchmark (lower = better)
     - A negative figure for ETS is a result of a lower ETS score for the Fund vs Benchmark (higher = better)
     N.B. A Benchmark must be selected for this section to be included.

4. Investment distribution
   - Distribution of the percentage of investments in Issuers based on Energy Transition scores and Carbon Footprint grades

N.B. A Benchmark must be selected for this section to be included.
CF & ET Portfolio Analysis

Content (3/4)

2nd page

5. Geographic and Sector Distribution
   - Breakdown of the percentage of investments of the Fund and Benchmark for each different level of ET score and CF grade.

3rd page

6. Issuers’ Watch List
   - Display of the 10 largest holdings + 10 Issuers with which engagement could be a good option (grey hashed corner top left)

7. Qualitative Comments
   - Issuers selected: Those with intense/high CF and a weak/limited ET score
8. Positive impacts factors

- **Green Bonds**
  - Percentage of the portfolio investments in green bonds & green bonds complete with a 2nd party opinion (Fixed Income only)

- **Green Goods & Services**
  - Percentage of investments within the portfolio in Issuers offering green solutions
  - Revenue threshold set to 20%

9. Negative impact factors

- **Fossil Fuels Exposure**
  - Percentage of investments within the portfolio in Issuers whose turnover is, in part, derived from fossil fuels activities
  - Revenues threshold set to 20%

- **Coal exposure**
  - Percentage of investments within the portfolio in Issuers whose turnover is, in part, derived from coal mining activities or power generation from coal burning activities
  - Revenues threshold set to 20%
## Appendix

### Carbon Indicator Definitions 1 of 5

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Definition</th>
<th>Advantages</th>
<th>Considerations</th>
<th>Use case</th>
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| Total Financed Emissions (Total Carbon Emissions) | Represents the total emissions of the portfolio by attributing the carbon emissions of the Issuer to each investor based on their ownership. $\sum(M\text{€ invested}/\text{market cap}) \times CF = t\ CO_2eq$ | - Understand what is the portfolio’s total carbon footprint  
- Provide the closest measure to reality to represent the responsibility and contribution to climate change; allowing to report the impact on climate  
- Enables the setting of absolute reduction targets and facilitates, over time, the portfolio’s contribution to reach national/international policy goals in the reduction of GHG emissions  
- Enables the understanding of sector and stock allocation effects on the total carbon footprint  
- Useful for communication, transparency and mitigation strategies | - Does not allow benchmarking and comparison with other portfolios since this indicator is sensitive to portfolio size  
- By itself, does not inform the reasons of a carbon footprint evolution over time  
- Sensitive to variability of market cap/enterprise value | Impact Yes  | Risks No  | Contribution Partially | Comparison? No  |

*Eg, An investor owns:  
- 10% of company A that emits 100t CO2e  
- 5% of company B that emits 200t CO2e  
The total carbon footprint would be 0.1*100 + 0.05*200 = 20t CO2e*
### Appendix

#### Carbon Indicator Definitions 2 of 5

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| **Finance emissions per M£ invested** | Represents the normalised emissions of a portfolio per million GBP invested. In other words, it shows the carbon footprint of each million of money invested.  
\[ \Sigma (\text{M£ invested/market cap}) \times \text{CF/Total portfolio investment} = \text{t CO2eq/M£} \]  

*Eg, Following the sample above, an investor has invested a total of 100 M in companies A and B:*  
10% of company A that emits 100t CO2e/year  
5% of company B that emits 200t CO2e/year  

*Its total financed emissions per M£ invested would be (0.1*100 + 0.05*200) / 100 = 0.2t CO2 / M£* | - Allows for comparison with other portfolios/benchmark regardless of size  
- Displays the carbon intensity of your money  
- Enables the setting of relative reduction targets  
- Sensitive to variability of market cap/enterprise value | Yes | No | Partially | Yes |
### Appendix

**Carbon Indicator Definitions 3 of 5**

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<td>Weighted average carbon footprint</td>
<td>This measure represents the absolute emissions of the average company financed by the investor. This metric is calculated using companies' emissions and weighting them by their weight in the portfolio. [ \sum \text{weight in portfolio} \times \text{CF} = \text{t CO2e} ] Eg, <em>a portfolio composed of:</em> - 15% in company A, emitting 15 000 000t CO2e / year - 85% in company B, emitting 5 000 000 CO2e / year [(0,15 \times 15 \ 000 \ 000)+(0,85 \times 5 \ 000 \ 000) = 6 \ 500 \ 000 ] This shows that the investor finance on average companies emitting 6 500 000t CO2e / year</td>
<td>- Applicable to diversified portfolios across asset classes, including fixed income - Facilitates the measurement, from year to year, if the investor is exposed on average in companies more or less carbonised - Makes possible comparisons with other portfolios/benchmark</td>
<td>- Does not measure impact on climate or investor responsibility - Does not allow the measurement, over time, the portfolio’s contribution to international policies relating to reducing global temperatures (Eg, two degrees scenario)</td>
<td>No</td>
<td>Partially</td>
<td>No</td>
<td>Yes</td>
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## Carbon Indicator Definitions 4 of 5

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<td>Carbon intensity per sales</td>
<td>This metric expresses the carbon efficiency of a given portfolio by measuring the volume of emissions per GBP of sales generated by the constituents of the portfolio over a year. Carbon efficiency is best measured using sector-specific production metrics (MWh of power generated, liters of beverage, tons of steel, etc). However, this does not allow to compare between sectors, hence in a portfolio context, the best measure of output is sales. [ \frac{\sum (\text{M£ invested/market cap}) \times \text{CF}}{\sum (\text{M£ invested/market cap}) \times \text{Revenue}} = \text{t CO2eq/M£ revenue} ] <strong>Eg, for a portfolio containing:</strong> - 10% of company A that emits 100t CO2, sales 50M - 5% of company B that emits 200t CO2, sales 60M [ \frac{(0.1 \times 100)+(0.05 \times 200)}{(0.1 \times 50)+(0.05 \times 60)} = 2.5 \text{t CO2/M£} ]</td>
<td>- Overall operating efficiency indicator at portfolio level - Measures the portfolio carbon efficiency by £ of sales of the portfolio constituents - Allows for comparison between years - Allows for comparison with other portfolios/benchmark</td>
<td>- Minimises the carbon footprint of issuers introducing pricing power bias - Masks developments in the carbon footprint of the Issuer and the portfolio due to sensitivity to inflation of goods and services - It may lead to artificially reducing the carbon footprint of companies and portfolios between years and vice versa - Alone, does not allow for the understanding of the reasons behind evolution in the carbon footprint - Does not allow the measurement, over time, the portfolio’s contribution to international policies relating to reducing global temperatures (Eg, two degrees scenario)</td>
<td>No</td>
<td>Partially</td>
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| Weighted average carbon intensity | This metric provides information on the portfolio's exposure to carbon intensive companies. It can be used as proxy for the exposure to carbon related market and regulatory risks. $\sum_{i} \text{weight in portfolio} \times (\frac{\text{CF}}{\text{revenue}}) = \frac{t\ CO2e}{\text{M£ revenue}}$ | - Applicable to diversified portfolios across asset classes, including fixed income.  
- Measures a portfolio’s exposure to carbon intensive companies which can serve as proxy for portfolio’s exposure to carbon risks  
- It makes possible comparison with other portfolios/benchmarks  | - Does not provide information about impact on climate / investor responsibility  
- Does not allow the measurement, over time, the portfolio’s contribution to international policies relating to reducing global temperatures (Eg, two degrees scenario)   | Yes |

Eg, portfolio composed by:  
- 15% in company A, emitting 100t CO2e, sales 50M  
- 85% in company B, emitting 200t CO2e, sales 60M  

$(0.15 \times (100/50)) + (0.85 \times (200/60)) = 3.1t\ CO2e\ /\ M£$