

TCFD Frequently Asked Questions

Why are we reporting these numbers?

Climate change is one of the single biggest risks impacting societies and economies. Most scientists agree that greenhouse gas (GHG) emissions are having a direct influence on rising temperatures, which is one of the key consequences of climate change.

As part of the response to climate change, the UK Financial Conduct Authority (FCA) requires Investment Fund Services (IFS), as a regulated provider of financial services, to publish certain information about your fund's exposure to GHG emissions via its underlying investments.

The aim of this document is to disclose information about the collective impact this fund may have on the climate, through those underlying investments, and also how climate change may influence the future returns from your investment.

The FCA requires us to publish a set of common calculations relating to the emissions produced by the underlying companies in which the fund currently invests. These metrics are designed to help investors compare funds from a climate-related risk perspective.

Why is the focus on carbon when referring to greenhouse gas emissions?

Out of the seven greenhouse gases, carbon dioxide is considered to be the main contributor to climate change given the abundance of carbon molecules.

What do these numbers mean?

Carbon compounds are prevalent everywhere, resulting in everything – people, objects, activities and countries, for example – being associated with greenhouse gas emissions.

Your fund invests in a collection of companies and, in some cases, other organizations. Each will have carbon emissions associated with their products and services and how they are produced. In their simplest form, these carbon numbers relate to the amount of greenhouse gas emissions the fund's underlying companies have reported over 2023. To make the numbers relatable to the fund, emission numbers are divided by a common denominator such as the size of the investment.

There are several metrics in this report, is one better than the others?

There are a range of different metrics that can be used to examine climate-related risks from different perspectives. We can look at the *total* greenhouse gas emissions that your fund is exposed to, but it is also useful to assess emissions from an *intensity* perspective in order to facilitate comparisons of one fund against another. A hypothetical example of comparing emissions *intensity* may consist of a large company operating in a typically low-emissions sector but having a similar volume of emissions as a smaller company in the highly carbon-intensive fossil fuels business, for example.

Another metric is weighted average carbon intensity (WACI). This aims to give an indication of a fund's exposure to carbon-intensive companies by dividing emissions by company revenue; the higher the resultant number, the more exposed the fund to carbon-intensive companies.

What does the e in CO₂e unit mean?

Given the prevalence of carbon, carbon dioxide is considered as the main contributor to climate change. For ease of comparison, the other greenhouse gases are converted to CO₂ *equivalent* (CO₂e) measuring the equivalent amount of CO₂ that would have the same warming effect.

What is the Paris Agreement?

The Paris Agreement is a list of climate-related commitments made by nearly 200 countries at the UN's Climate Change Conference (also known as COP) in Paris, in 2015. It is a legally binding treaty containing the pledge to cut greenhouse gas emissions in the pursuit of keeping average global temperatures "well below" 2°C (preferably 1.5°C) above those recorded in the pre-industrial era.

How can I relate to these carbon numbers?

Our normal daily activities emit varying amounts of CO₂ as carbon compounds are found in everything, from food to materials. All living things are made up of carbon-containing compounds – for example, the human body is around 20% carbon.

Tons, or an equivalent unit of mass, such as kilograms, of CO₂e is the standard measurement of greenhouse gas emissions. To put this into perspective, it is estimated that travelling a mile in an average petrol car has a carbon footprint equivalent to around 530g of CO₂. It's not just about driving the car that distance but also accounting for the emissions associated with the manufacturing of the vehicle.

Estimating company emissions is complex! Measuring energy usage is relatively straightforward but gathering information on indirect (Scope 3) emissions that the company is exposed to through its supply chain is challenging. Emissions are classed as different 'Scopes' to categorise the various sources of emissions a company creates in its operations and in its wider influence through its customers and supply chain.

Scope 1 emissions cover the GHG emissions that a company makes directly – for example, whilst running its boilers or vehicles; *Scope 2 emissions* are those it causes indirectly - such as the energy it buys for heating or cooling buildings; *Scope 3 emissions* include those that the organisation is indirectly responsible for up and down its supply and value chains. These are very difficult to calculate. Even the larger firms reporting last year refer in their reports to their disclosure data, including Scope 3 emissions, often being estimated and inconsistent.

What is climate scenario analysis and why do it?

Climate scenario analysis is designed to quantitatively assess the potential impact that climate change may have on a fund or an investment. These future estimates are derived from assumptions made about the cost, and investment opportunities, involved with *transitioning* to a lower carbon economy, as well as the cost and business disruptions predicted from the *physical* effects of climate change. These assumptions are projected over hypothetical scenarios to explore how the pace of government policies and bouts of extreme weather and global temperature rises may impact fund returns (based on current holdings) over specific time periods.

Climate scenario analysis is a relatively new area of finance and is based on estimates and current understandings around how climate change may unfold and how policymakers may react. Given the inherent uncertainties associated with both of these areas, combined with the long-term nature of climate change, it should be recognised that actual future conditions may differ significantly from these projections. Nevertheless, the understanding of climate science and ensuing data modelling is continuing to evolve and should help further the understanding of climate-related risks and opportunities.

Why is 2100 referenced as a horizon when making assumptions about temperature rises in the climate scenario analysis?

2100 was the horizon arrived at by the Paris Agreement when looking at global temperature trajectories.

How should I compare funds and their numbers?

For the WACI, total emissions and portfolio carbon intensity metrics, the higher the number, the more exposed your fund is to GHG emissions. We are working on making these numbers more relatable by introducing a benchmark.