

# TCFD Product Report

IFSL CAF ESG Cautious Fund

June 2024

## IFSL CAF ESG Cautious Fund

# Taskforce for Climate-Related Financial Disclosures (TCFD) Product Report

As at 31 December 2023

## 01. Purpose of this report

Climate change is a huge challenge, impacting us all. We recognise we have an urgent need to accelerate the transition towards net zero emissions to deliver the climate goals of the Paris Agreement, which is a pledge by world leaders to tackle global warming.

At Investment Fund Services (IFS) we appreciate that there is a growing demand for more climate risk-related information about how we are managing both our business operations and our investment exposure. We are firm believers in transparent disclosures and are working on improving this through our communications.

This report is designed to provide investors with prescribed metrics and information to give a better understanding of the climate-related risks and opportunities associated with IFSL CAF ESG Cautious Fund and its underlying holdings. While the investments in this Fund are managed by abrdn Investment Management Limited on behalf of the Charities Aid Foundation, IFS is the Authorised Corporate Director (ACD) of the Fund and is responsible for ensuring that the Fund is managed in line with regulations, among other duties. Under the rules of the Financial Conduct Authority (FCA), IFS is required to publish information annually on the Fund's greenhouse gas emissions disclosures.

This report is published in line with the requirements of the FCA and TCFD. The Taskforce on Climate-related Financial Disclosures (TCFD) was created by the Financial Stability Board in 2015 to improve and increase reporting of climate-related financial information. More recently, the FCA created a regulatory framework for UK asset managers (and other regulated financial services companies) to report in line with the TCFD framework.

For a greater understanding of the governance, strategy and risk management that IFS has in place to manage the risks and opportunities related to climate change, this product report should be read alongside IFS's own TCFD report (referred to as an entity TCFD report) which can be found via the following link: [www.ifslfunds.com/tcfid-reporting](http://www.ifslfunds.com/tcfid-reporting).

There may be some instances where we have not been able to disclose a particular metric recommended by the TCFD. This is highlighted where relevant. Where a few funds are unable to meet the disclosure requirements recommended by the TCFD, this is explained in IFS's entity TCFD report.

## 02. Key fund information (as at 31 December 2023)

|                                  |   |
|----------------------------------|---|
| <b>Name</b>                      | <b>IFSL CAF ESG Cautious Fund</b>   |
| <b>ISIN</b>                      | GB00BPSLVQ29  |
| <b>Fund size £</b>               | £28,018,630   |
| <b>Fund size \$</b>              | \$35,718,003  |
| <b>Benchmark or sector</b>       | UK CPI  |
| <b>Investment Manager</b>        | abrdn Investment Management Limited   |
| <b>Fund launch date</b>          | 16/05/2022  |
| <b>Base currency</b>             | Pound sterling  |
| <b>Fund objective and policy</b> | <p>The aim of the Fund is to increase the value of an investment over a minimum of 5 years through a combination of capital growth - which is profit on investments held, and income received by the Fund - which is money paid out of investments, such as dividends from shares and interest from bonds.</p> <p>The Fund is actively managed which means the Investment Manager decides which investments to buy or sell and when. The Fund will have exposure to ESG focused investments through a broad range of asset classes and investments across different industries and geographical regions, however not all asset classes may be held at all times. This will include: Between 20% and 50% in bonds, between 10% and 40% in shares of companies and between 10% and 40% in investment trusts providing exposure to alternative assets such as property and infrastructure.</p> <p>The fund does not invest in companies that have more than 5% of their revenue coming from the following activities:</p> <ul style="list-style-type: none"> <li>• Tobacco</li> <li>• Gambling services</li> <li>• Armaments (military weapons and equipment)</li> <li>• Civilian firearms</li> <li>• Coal and coal power generation</li> <li>• Unconventional oil or gas extraction (for example, tar sands and shale)</li> </ul> <p>The fund does not invest in companies that have more than 3% of their revenue coming from pornography.</p> <p>The fund does not invest in companies that have revenue derived from predatory lending, cluster munitions and landmines.</p> |

Source: IFS and Morningstar, data as at 31 December 2023

## 03. Climate-related fund information

### Fund climate-related commitments

The Fund has not made any climate-related commitments.

### Strategy for managing climate-related risks and opportunities

The Fund's strategy is to invest in high quality companies that the investment team believe have a favourable ESG impact, which includes the consideration of climate-related risks and opportunities. The fund employs negative screening to avoid or limit exposure to businesses operating in certain industries, which include high emission areas such as coal and unconventional oil and gas extraction. An assessment of underlying holdings' climate-related risks and opportunities is part of the fund's investment process.

The Fund will seek validation of its ESG credentials using an independent ESG ratings agency to assess the portfolio's overall ESG score. The investment team currently uses MSCI for this assessment and a "high" ESG score should be considered as AA or AAA.

### Management of climate-related risks and opportunities

The Fund actively seeks to manage any climate-related risks and opportunities that may be associated with its underlying holdings. The team scores each of its investee companies, based on a combination of proprietary research and the holding's MSCI score, which includes climate-related risks and opportunities.

### Governance of climate-related risks and opportunities

The first phase of the Fund's investment process will screen out any investments that LGT believes are not acceptable to most charitable investors, for example firms that manufacture cluster munitions or landmines or derive more than 5% of revenue from tobacco. This revenue screening is provided by MSCI, an independent ESG rating agency, and the portfolio is assessed quarterly. Any companies reporting above the revenue limits will be investigated and sold if the number is confirmed as accurate and any remedial action from the company will not bring the number back below the limit within one month. These will not be held longer than one month following identification.

The second phase of the Fund's investment process includes an assessment of climate-related risks and opportunities when selecting underlying securities. The governance of the fund's climate-related risks and opportunities is overseen by LGT's Group Sustainability Management Team. This function also assists LGT's investment teams with voting and engagement.

The Fund seeks to be an 'ESG Leader' as assessed by MSCI, an independent ESG rating agency. ESG Leader will be defined by MSCI's methodology which provides seven ratings from AAA-CCC. AAA and AA qualify as an 'ESG Leader' and the fund targets this rating.

The IFS Fund Risk Team is responsible for monitoring the overall portfolio's MSCI ESG rating, which is checked daily via MSCI.

## 04. Fund climate metrics

This section of the report focuses on the carbon, and other greenhouse gas, emissions associated with the underlying companies in which the fund ultimately invests.

These carbon metrics are designed to provide a starting point for understanding the Fund's exposure to greenhouse gas emissions and may help you understand the impact of your investment on the environment.

### Different emission Scopes

| Term used                              | Definition   |
|--|--|
| Scope 1 greenhouse gas (GHG) emissions | Scope 1 emissions are <i>direct</i> emissions from owned or controlled sources, such as fuel combustion in a furnace or vehicle.   |
| Scope 2 greenhouse gas (GHG) emissions | Scope 2 emissions are <i>indirect</i> emissions from the generation of purchased energy, such as the use of electricity in buildings.  |
| Scope 3 greenhouse gas (GHG) emissions | Scope 3 emissions are not produced by the company itself. They are all other <i>indirect</i> emissions (not included in Scope 2) that occur in the value chain of the reporting company – in other words, emissions which are produced as a consequence of the company's activity but come from sources not owned by the company. For example, IFS's own Scope 3 emissions include those emissions generated by the companies within its investment funds. |

Scope 1, Scope 2 and Scope 3 emissions are measured in tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e). The higher the number, the greater the impact.

For an explanation on tCO<sub>2</sub>e, please see the TCFD Frequently Asked Questions (FAQ) document on our website [www.ifsfunds.com/tcf-d-reporting](http://www.ifsfunds.com/tcf-d-reporting).

We publish our carbon metrics in line with the recommendations of the Greenhouse Gas Protocol – the world's most widely used greenhouse gas accounting standard. This involves combining Scope 1 and 2 emissions and splitting out Scope 3 emissions, which are more complex to measure. Moreover, perhaps because of this complexity, not all companies report their Scope 3 emissions, therefore the data tends to be more inconsistent and less reliable.

### Weighted Average Carbon Intensity (WACI)

A fund's WACI is a measurement of its aggregate exposure to the carbon intensity of each of its holdings. WACI is calculated by multiplying the carbon intensity of each company (holding) by the size of each holding within the fund. WACI is measured in tonnes of carbon dioxide equivalent per million US dollar (USD) of revenue (tCO<sub>2</sub>e/\$m revenue).

The higher the WACI number, the more the fund is likely to be exposed to highly carbon-intensive industries.

| <b>Metric: WACI</b>     | <b>Value (tCO<sub>2</sub>e/\$m sales)</b> | <b>How many of the Fund's underlying holdings are included?</b> | <b>Data coverage - percentage of the Fund's value covered in this metric</b> |
|-------------------------|---|---|--|
| Fund WACI – Scope 1 & 2 | 94.13                                     | 94 out of 122   | 51.85%   |
| Fund WACI Scope 3       | 1724.47                                   | 88 out of 122   | 51.35%   |

Note that not all the Fund's underlying holdings contribute to these metrics, and we believe that a data coverage of less than 70% is too low to be relied upon, as is the case here. The low coverage may be as a result of climate or financial data not being reported for the underlying organisations and/or asset types.

### Total carbon emissions

Total carbon emissions, also referred to as fund 'financed emissions', takes the percentage of each company owned by the fund, multiplied by that company's carbon emissions. This is then summed across all companies in the fund. A fund's total carbon emissions are measured by tonnes of CO<sub>2</sub>e (tCO<sub>2</sub>e). The higher the emissions of the fund, the greater the extent of the fund's underlying holdings' contribution to GHG emissions. It is important to note that this metric is heavily influenced by the size of the investment in a company, therefore larger funds tend to have higher total emissions. As a result, this metric is not comparable across funds.

| <b>Metric: Total emissions</b>   | <b>Value (tCO<sub>2</sub>e)</b> | <b>How many of the Fund's underlying holdings are included?</b> | <b>Data coverage - percentage of the Fund's value covered in this metric</b> |
|----------------------------------|---------------------------------|---|--|
| Fund total Scope 1 & 2 emissions | 634.68                          | 92 out of 123   | 51.40%   |
| Fund total Scope 3 emissions     | 3315.07                         | 88 out of 123   | 51.35%   |

Note that not all the Fund's underlying holdings contribute to these metrics, and we believe that a data coverage of less than 70% is too low to be relied upon, as is the case here. The low coverage may be as a result of climate or financial data not being reported for the underlying organisations and/or asset types.

### Portfolio carbon intensity/footprint

Portfolio carbon intensity (sometimes referred to as footprint) adjusts the fund's total carbon emissions in accordance with the size of the fund itself. This metric can indicate which funds are more carbon intensive, as it allows different-sized funds to be compared to each other. The higher the intensity number, the greater the extent of the fund's underlying holdings' contribution to GHG emissions. Portfolio carbon intensity is measured in tonnes of carbon dioxide equivalent per million USD invested (tCO<sub>2</sub>e/\$m invested). This is similar to the WACI formula, however here, GHG emissions are examined in terms of the fund's investment amount, rather than the underlying companies' revenue.

| Metric: Carbon intensity          | Value (tCO <sub>2</sub> e/\$m invested) | How many of the Fund's underlying holdings are included? | Data coverage - percentage of the Fund's value covered in this metric |
|-----------------------------------|---|--|---|
| Fund Scope 1 & 2 carbon intensity | 35.14                                   | 92 out of 123  | 51.40%  |
| Fund Scope 3 carbon intensity     | 183.76                                  | 88 out of 123  | 51.35%  |

Please note that the WACI figures provided do not include sovereign bond exposures.

Data for the climate-related information in these tables is provided by Clarity AI. Cash is included in the coverage calculation. For further information on these metrics and their interpretation, along with limitations, please refer to the TCFD Glossary and FAQ documents on our website [www.ifsfunds.com/tcfid-reporting](http://www.ifsfunds.com/tcfid-reporting).

Note that not all the Fund's underlying holdings contribute to these metrics, and we believe that a data coverage of less than 70% is too low to be relied upon, as is the case here. The low coverage may be as a result of climate or financial data not being reported for the underlying organisations and/or asset types.

### Fund's exposure to carbon-intensive sectors

| Metric                   | Value | How many of the Fund's underlying holdings are included? | Data coverage - percentage of the Fund's value covered in this metric |
|--------------------------|-------|--|---|
| Exposure to fossil fuels | 9.10% | 80 out of 123  | 90.09%  |

Data for the climate-related information in this table is provided by Clarity AI. Please note that Clarity AI excludes cash on the data coverage calculation.

- Excluding cash, 9.10% of the value of the Fund, for which we have data, is exposed to companies directly involved in the production and delivery of fossil fuels.
- The Fund is not deemed to have high exposure to carbon intensive sectors.
- IFS defines having 'high exposure to carbon-intensive sectors' as those funds having greater than 33% of assets under management (AUM) exposed to fossil fuels.
- It should be noted that not all the Fund's holdings produce data relating to their fossil fuels emissions' exposures, therefore the actual figure may be higher than 9.10%.

## Climate scenario analysis

Climate change poses significant investment risks. Evaluating risks is important for investors seeking to make informed decisions. Climate scenario analysis can provide an assessment of possible future risks, and also investment opportunities through technological advancement, and their impact on the fund.

Climate scenarios are hypothetical constructs around how a fund may be financially impacted by climate change risk. Under FCA rules, we are required to disclose, as far as reasonably practicable, climate scenario analysis for our funds. The available data relating to this Fund, however is less than 50%, as measured by the percentage of its value covered by Clarity AI's climate scenario analysis. We believe this is insufficient data for meaningful analysis and that the results may potentially be misleading for investors. Emissions' data availability is an ongoing challenge and we will continue to work with Clarity AI in developing our approach to assessing potential climate-related impacts to our funds.

The Fund may be financially impacted by the following categories of climate change risks:

1. **Physical risks** – these are the impacts arising *directly* from climate change, such as damage and disruption from extreme weather events. Physical risks from climate change affect all industries across all geographies but with different impacts.

- Acute physical risks refer to *events* such as drought, floods, wildfires and extreme heat waves, for example.
- Chronic physical risks refer to *longer-term shifts* in weather patterns, such as sustained higher temperatures or changing precipitation patterns.

2. **Transition risks** – these are risks associated with the costs of *transitioning* to a lower-carbon economy. These are taking the form of government policy changes and regulation (such as TCFD) and technological advancements aimed at mitigating climate change. As with physical risks, all industries may be affected but particular sectors such as energy and utilities might be impacted more as they are more sensitive to policies around emission control.

Shifting consumer preferences to 'greener alternatives' may impact the value and profitability of certain industries and assets. However, they also present *opportunities* for investors who can identify and capitalise on the transition to a low-carbon economy.

3. **Sentiment shock** – this is the risk associated with a potential *abrupt market repricing* of assets due to a delayed and sudden awareness of the potentially devastating impacts of climate change. The risk is incorporated into the '*Net zero, but with a financial crisis*' scenario.

These risk and impacts are calculated across the three following possible scenarios around achieving a net zero economy by 2050.

### Achieving a net zero economy:

- What changes and costs, such as government policies and strict regulations around lowering emissions, are required to transition in an orderly manner to net zero emissions globally by 2050?
- What are the financial risks, and any opportunities, occurring from this transition?
- This scenario assumes an average global temperature increase of 1.5°C by 2100.
- This scenario considers acute and chronic physical risks, and transition risk but not the risk of sentiment shock, described above.

### Net zero, but with a financial crisis:



- What could be the impact if the transition to net zero is more disorderly, prompting a sudden need to align economies and companies?
- This scenario also assumes an average global temperature increase of 1.5°C by 2100 but achieved in a different manner (through an initial delay in government policy, followed by aggressive action to compensate, which results in a financial shock).

**High warming:**

- What could be the impact if we failed to curb emissions and average temperatures increase further?
- This scenario assumes that no new climate policies are implemented after the Covid-19 crisis, and infers an average global temperature increase of 4.3°C by 2100. This scenario may also be referred to as a ‘hothouse world.’
- This scenario considers acute and chronic physical risks and assumes that no new government policies around climate control are implemented within transition risk. The risk of sentiment shock, as described above, is not a contributing factor here.

Climate impacts for the Fund are estimated for each of these three scenarios – *Net zero*, *Net zero but with a financial crisis* and *High warming* – over three different time horizons: 5, 10 and 20 years from the end of 2022.

The examples below show how the Fund’s returns may be impacted from climate change risk, using the scenarios described above. This is based on available data for the Fund’s current holdings (as at end of December 2023) and projected out over short-, medium- and long-term periods. The more negative the number, the higher the potential negative impact on the value of the Fund's underlying holdings.

**Potential climate impact on returns over the short term**

| Scenario                    | Net zero      | Net zero financial crisis | High warming  |
|-----------------------------|---------------|---------------------------|---------------|
| Total impact on returns (%) | <b>-2.72%</b> | <b>-12.39%</b>            | <b>-1.70%</b> |
| Transition risk             | 0.32%         | 0.57%                     | -             |
| Physical – acute            | -0.55%        | -0.62%                    | -0.25%        |
| Physical – chronic          | -2.49%        | -2.79%                    | -1.45%        |
| Sentiment shock             | -             | -9.55%                    | -             |

**Potential climate impact on returns over the medium term**

| Scenario                    | Net zero     | Net zero financial crisis | High warming  |
|-----------------------------|--------------|---------------------------|---------------|
| Total impact on returns (%) | <b>0.59%</b> | <b>-8.23%</b>             | <b>-7.00%</b> |
| Transition risk             | 4.10%        | 4.35%                     | -             |
| Physical – acute            | -0.68%       | -0.73%                    | -1.01%        |
| Physical – chronic          | -2.83%       | -3.10%                    | -6.00%        |
| Sentiment shock             | -            | -8.75%                    | -             |

**Potential climate impact on returns over the long term**

| Scenario                    | Net zero     | Net zero financial crisis | High warming   |
|-----------------------------|--------------|---------------------------|----------------|
| Total impact on returns (%) | <b>0.69%</b> | <b>-7.90%</b>             | <b>-29.45%</b> |
| Transition risk             | 5.98%        | 6.54%                     | -              |
| Physical – acute            | -1.04%       | -1.05%                    | -4.27%         |
| Physical – chronic          | -4.26%       | -4.37%                    | -25.17%        |
| Sentiment shock             | -            | -9.01%                    | -              |

| Coverage  | % Data coverage |
|---|-----------------|
| Data coverage – percentage of the Fund's value covered in this metric | 43.19%          |

Data for the climate-related information in these tables is provided by Clarity AI

Data for the climate-related information in these tables is provided by Clarity AI, using the 5-year, 10-year and 20-year scenarios calculated at the end of 2022, that correspond to IFS's short-, medium- and long-term scenarios when examining climate impact from an investment perspective. For further information on these metrics and their interpretation, along with limitations, please refer to the TCFD Glossary and FAQ documents on our website [www.ifslfunds.com/tcf-d-reporting](http://www.ifslfunds.com/tcf-d-reporting).

Although we have indicated numbers for the relevant metrics above, we believe these values may not be plausible as they are based upon data covering less than 50% of the Fund's value.

## Implied Temperature Rise

Implied temperature rise (ITR) estimates how companies are aligned to a Net Zero world where average temperature rise is contained through curbing emissions. The Paris Agreement, a pledge put together by 194 of the world's nations in 2015, is working to limit average global temperature rise to no more than 1.5°C by 2100 compared to pre-industrial levels.

The ITR considers companies' publicly available near-term reduction plans and makes a forward-looking projection to indicate the *temperature alignment* of that business.

| Fund Temperature Alignment           | Value | How many of the Fund's underlying holdings are included? |
|--------------------------------------|-------|--|
| Fund temperature rating Scopes 1 & 2 | 1.7°C | 75 out of 123  |
| Fund temperature rating Scopes 3     | 2.6°C | 76 out of 123  |

Data for ITR is provided by Clarity AI. For further information on this metrics and interpretation, along with limitations, please refer to the TCFD Glossary and FAQ documents on our website [www.ifslfunds.com/tcfd-reporting](http://www.ifslfunds.com/tcfd-reporting).

With regards to Scope 1 & Scope 2 emissions, the Fund's implied temperature rise is 1.7°C, therefore it is currently categorised as aligned with regards to the Paris Agreement.

With regards to Scope 3 emissions, the Fund's implied temperature rise is 2.6°C, therefore it is currently categorised as misaligned with regards to the Paris Agreement.

Note that not all the Fund's underlying holdings are included in these metrics.

### Temperature Alignment categories:

- 1.5°C aligned - ITR of  $\leq 1.5^\circ\text{C}$
- 2°C aligned - ITR of  $\geq 1.5^\circ\text{C} - 2^\circ\text{C}$
- Misaligned - ITR of  $>2^\circ\text{C} - 3.2^\circ\text{C}$
- Strongly misaligned - ITR  $> 3.2^\circ\text{C}$

### Data gaps and assumptions

With regards to emissions data, IFS has recently started working with Clarity AI – a specialist climate data provider – currently covering various emissions data of around 52,000 companies across 192 countries. Following a review across several providers, we chose to partner with Clarity AI as their emissions data coverage is amongst the widest available, and in the case that certain emissions data is missing for a company, in some instances, Clarity AI is able to use its proprietary machine learning algorithms to estimate specific data.

However, it must be noted that not all companies, by any means, are currently reporting their emissions. This will vary across different jurisdictions, depending on local regulatory requirements, and also size of company – there can often be limited climate data disclosure among smaller companies. Additionally, significant data gaps exist within certain asset classes, such as government bonds and currencies. Clarity AI is working on various methodologies to increase its emissions data coverage and calculations within the more 'challenging' asset classes. In addition, we expect to see steady improvement in equity and corporate bond data

coverage as increasing regulation should lead to more companies being required to disclose their emissions.

As a result of evolving, but inconsistent, regulatory requirements and the evolution of carbon reporting methodologies and ensuing metrics, our investment funds have varying degrees of data coverage in terms of certain carbon metrics. IFS believes that data coverage of less than 50%, as measured by the percentage of the fund's value covered in a specific metric, may potentially produce meaningless or misleading carbon metrics. In addition, we believe that data coverage under 70% of a fund's investments should not be relied upon and have highlighted this where relevant.

With the exception of the climate scenario analysis, we have determined a sufficient level of data coverage for the Fund's investments is available in order to provide the key metrics described earlier in this report.

### **Looking ahead**

As the ACD of your investment Fund, IFS has overall responsibility of ensuring that the Fund is managed in-line with its strategy and regulations however, we do not directly manage the underlying investments and therefore, are not involved in investment decisions. Currently, IFS does not monitor the emissions of its funds – this is something we are considering implementing.

*Some of the climate metrics shown in the report are based on historical emissions data, which may not be a reliable indicator of future emissions, and these should not be the sole basis on which you base your investment decisions. The forward-looking climate metrics are formulated by models based on a number of assumptions and therefore the resulting impact of climate change on your investments predicted by the model may not actually occur in the future. The source of the data used in the report includes Clarity AI. While every care has been taken in populating this output, it must be appreciated that neither IFS nor the sources used guarantee the accuracy, adequacy or completeness of this information or make any warranties regarding results from its usage.*

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