QUILTER CHEVIOT

Emissions methodology and reporting criteria

Quilter Cheviot TCFD reporting 2024

SPECIALISTS IN INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited, 13 March 2025.

Reporting frameworks

We report in accordance with:

- The Greenhouse Gas Protocol
- Taskforce on Climate-related Financial Disclosures
- Climate metrics are reported in line with Partnership for Carbon Accounting Financials (PCAF) methodology.

Data sources

MSCI is used to source issuer-level climate data used to produce climate metrics (financed emissions, Weighted Average Carbon Intensity (WACI), carbon footprint). MSCI sources reported Scope 1, 2 and 3 emissions from public reporting and provides estimated emissions figures where companies do not report.

Emissions and issuer-level financial data, including Enterprise Value Including Cash (EVIC) and revenue, are sourced from MSCI. The latest available financial and climate data within MSCI ESG are used.

For the 2024 financed emissions reporting, we use (best available) holdings data as at 31 December 2024 and climate data from MSCI retrieved on 31 January 2025.

Emissions are typically reported with a one calendar year lag and the majority of reported emissions used in our calculations will be from the 2022 reporting period.

The data sourced from MSCI are subject to a number of assumptions and limitations, outlined below.

- The Scope 2 emissions sourced from MSCI contain a combination of location-based and market-based emissions. MSCI's data hierarchy prioritises the Scope 2 approach (location or market-based) historically disclosed by each company, for consistency.
- Data are continuously updated throughout the year. For MSCI All Country World Index (ACWI) listed companies, updates occur within four months of publication; for non-MSCI ACWI-listed companies, updates occur within 12 months. Some data may date back to 2021.
- MSCI sources emissions and revenue data from company reports and third-party providers like CDP. Revenue data may include unaudited reports and vary by business activity. Emissions are allocated to parent companies based on the reporting company's GHG accounting approach.
- Where issuers' financial years do not align with calendar years, data from issuers with financial years ending before 31 May are assigned the previous calendar year (e.g. for a company disclosing end March 2023, these data would be labelled 2022).
- EVIC is defined by MSCI as the sum of market capitalisation at fiscal year-end date, preferred stock, minority interest, total debt, cash, and cash equivalents.
- Where estimated emissions values have been used, these have been calculated according to MSCI's methodology. Estimated data have been included in this analysis, in the Scope 1 & 2 data. This includes instances where companies altered their approach for reported Scope 2 emissions (e.g. from location-based to market-based).
- There are holdings within our universe for which we are unable to provide climate data from MSCI. This is usually where there is no International Securities Identification Number (ISIN) as the holding is not listed. This will include cash, financial instruments, unlisted companies and physical property and infrastructure.

Further assumptions we have made which apply to some of our input data include:

- Where the value of the investment requires currency conversion, we use Bank of England foreign exchange rates.
- When allocating values, we use EVIC to represent investments. If EVIC is not available, we use market capitalisation.

Calculation methodology

Formulae and further specific assumptions for each climate metric are outlined below.

Financed emissions

$$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{issuer's EVIC}_i} \times \textit{issuer's Scope 1 \& Scope 2 GHG emissions}_i\right)$$

$$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{issuer's EVIC}_i} \times \textit{issuer's Scope 3 GHG emissions}_i\right)$$

Notes

No re-weighting of portfolio holdings is undertaken in our calculations, to avoid diluting and misrepresenting the relative significance of each holding.

Carbon footprint

$$\frac{\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{issuer's EVIC}_i} \times \textit{issuer's Scope 1 \& Scope 2 GHG emissions}_i\right)}{\textit{current portfolio value (\$M)}}$$

Notes

We have not included Scope 3 emissions in our carbon footprint calculation to facilitate comparison with other firms' climate metrics. The carbon footprint metric aims to be 'size neutral', i.e. an intensity figure, in contrast to financed emissions, which as an absolute figure will be influenced by the size of the reporting firm. Adding Scope 3 emissions to this metric would remove the comparability it is designed to provide.

The carbon footprint is an absolute figure based solely on the assets with data coverage.

Weighted Average Carbon Intensity (WACI)

Equities / funds / corporate bonds

$$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{current portfolio value}} \times \frac{\textit{issuer's Scope 1 \& 2 GHG emissions}_i}{\textit{issuer's \$M revenue}_i}\right)$$

$$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{current portfolio value}} \times \frac{\textit{issuer's Scope 1, 2 \& 3 GHG emissions}_i}{\textit{issuer's \$M revenue}_i}\right)$$

Sovereign assets

$$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{current portfolio value}} \times \frac{\textit{sovereign issuer's Scope 1 \& 2 GHG emissions}_i}{\textit{sovereign issuer's \$M GDP}_i}\right)$$

$$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{current portfolio value}} \times \frac{\textit{sovereign issuer's Scope 1, 2 \& 3 GHG emissions}_i}{\textit{sovereign issuer's \$M GDP}_i}\right)$$

Assumptions

Where no revenue data is available for a holding, this is excluded from the portfolio's WACI. No re-weighting of portfolio holdings is undertaken in our calculations, to avoid diluting and misrepresenting the relative significance of each holding.

Estimated emissions data

MSCI uses three proprietary models to estimate Scope 1 and 2 emissions:

1. **Production Model**: Used for emissions from power generation by electrical utilities, based on fuel mix data.
2. **Company-Specific Model**: Uses previously reported emissions data to calculate average carbon emissions intensity (tCO_2e per million USD revenue). This model is not used if the company has undergone significant changes, such as mergers or acquisitions.
3. **Industry Segment Model**: Estimates emissions based on industry peers' emissions intensities. These intensities are multiplied by the company's revenue from each activity to get the total emissions.

MSCI uses a range of data sources to estimate Scope 3 emissions, including purchase data, energy consumption, material flows, and waste volumes. These data sets are used to generate emissions factors, which are then applied to company-specific activities and sector averages to calculate the supply chain emissions for each of the categories within Scope 3.

Use of estimations in our calculations

We include both reported and estimated data within our Scope 1 & 2 data because of the importance of these inputs in climate-related metrics; without operational emissions (Scope 1 & 2) figures, we cannot produce financed emissions metrics. Although reported emissions is increasingly becoming the industry norm across most companies, there remain some sectors and geographies where these data are not consistently available. Where this is the case, we have taken the prudent approach in reporting an estimated value rather than zero (which implies no emissions impact).

Although emissions calculation methodologies and disclosure rates are improving for Scope 3 emissions, the intricacies of calculating supply chain emissions mean that estimations remain an important part of our outputs if we are to disclose complete and consistent financed emissions.

Quilter Cheviot has implemented a data hierarchy for the use of estimated Scope 3 emissions within its proprietary calculation engine which follows the precautionary principle. The hierarchy logic compares reported emissions with estimated emissions and ultimately prefers reported emissions where these are considered realistic and defers to estimated emissions where these are greater than 10% larger. MSCI estimations are produced by models informed by vast inputs (i.e. emissions data of many companies) which enables sector-relative comparisons. We consider this to be a conservative approach that ensures under reported Scope 3 emissions are not used for our financed emissions calculations.

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