

**RESPONSIBLE INVESTMENT**

# Balanced Strategy - £ Climate Report

## Purpose

This report presents an overview of relevant climate risk metrics specific to this strategy. It is intended to measure how the strategy compares to its benchmark in climate metrics, including exposure to heavier emitting industries (e.g., oil and gas, mining, industrials) and risk of climate-linked impacts on the strategy's holdings. The metrics presented are aligned to and consistent with the Task Force for Climate-related Financial Disclosures (TCFD) requirements. Our aim is to present these data in sufficient context for you to understand what each means for your portfolio. The report covers the twelve months to 31/12/2024.

This report uses a number of climate metrics which may be unfamiliar. We have provided definitions for these in the glossary section below.

## Investment objective

The primary objective of the Quilter Cheviot Balanced Strategy is to grow the capital value of the portfolio as well as generating some degree of income.

## Strategy

The Quilter Cheviot Balanced Strategy is a diversified portfolio comprising predominantly domestic and international equities as well as some fixed interest. Equities will provide the opportunity for capital to grow over time as well as some dividend income. Fixed interest will provide stability of capital and a regular level of income. We may also include an allocation to other types of investment such as commercial property, absolute return or hedge funds, structured products, private equity and commodities (sometimes collectively referred to as 'alternatives'). We will blend the growth, income and risk characteristics of these investments in your portfolio to aid diversification. Exposure to specialist areas will be achieved via collective funds.

**Benchmark:** QC Sterling PC Balanced

Selected holdings are researched by our dedicated team of Research Analysts and Investment Managers. Your Investment Manager has the flexibility, within a controlled framework, to tailor your portfolio with regard to asset allocation and security selection, in order to accommodate your investment requirements.

## Qualitative summary

The strategy's climate metrics indicate it is performing largely in line with the benchmark, with similar results in metrics measuring both past performance (e.g. financed emissions, carbon footprint) as well as forward-looking climate metrics such as Implied Temperature Rise (ITR) and Climate Value at Risk (CVaR). The strategy's financed emissions and Weighted Average Carbon Intensity (WACI) are slightly lower than the benchmark, but both strategy and benchmark have similar ITR and CVaR figures. These metrics suggest similar exposure to unaligned holdings.

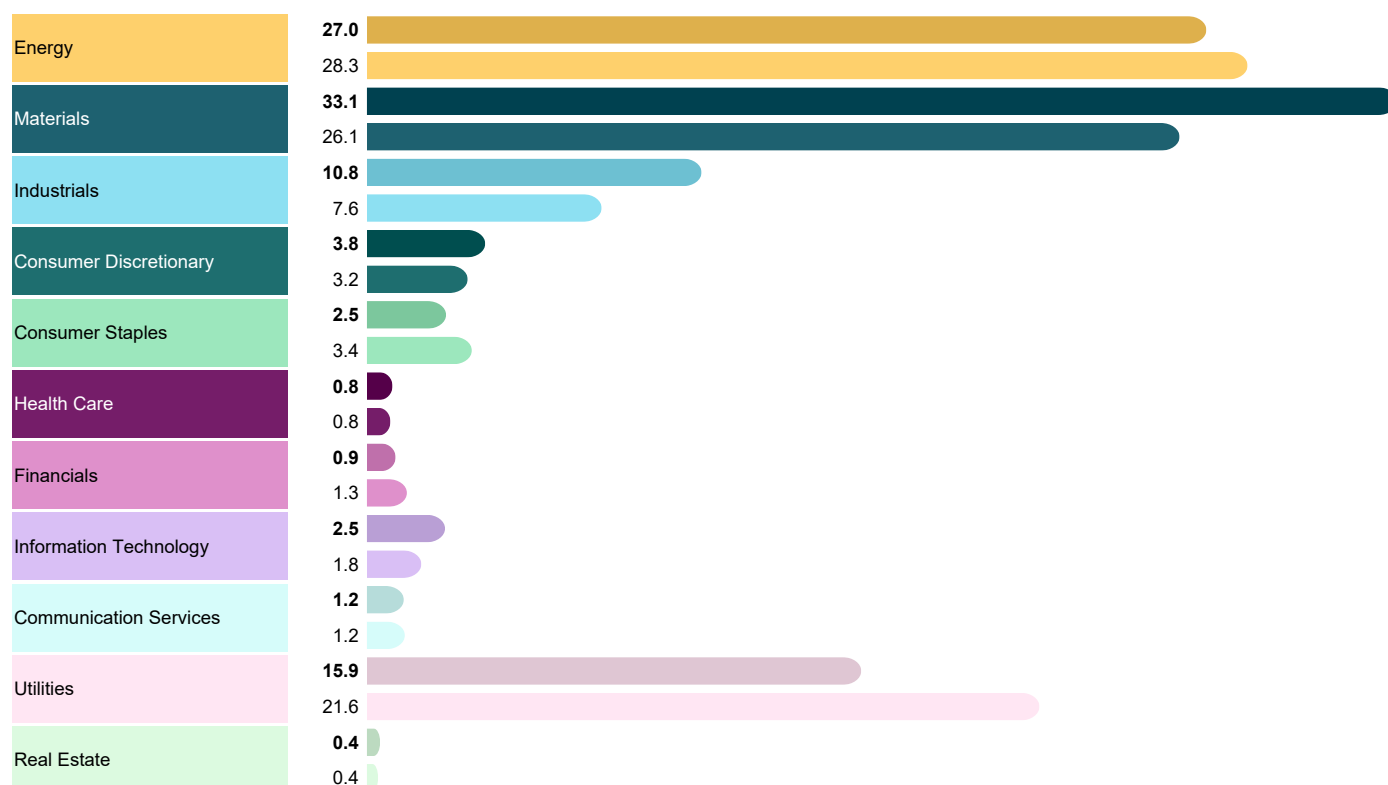
## Climate metrics

These metrics reflect the investments held within the strategy and its benchmark as at 31/12/2024. The climate data are sourced from MSCI ESG as at 31/01/2025. Holdings may be held directly or through third-party funds.

Climate Metrics							
	2024			2023		Year on Year Change	
	Strategy	Benchmark	% Diff.	Strategy	Benchmark	Strategy	Benchmark
<b>Financed emissions (tCO<sub>2</sub>e)</b>							
Scope 1 & 2 (Data coverage)	18,736 (86.6%)	15,965 (84.0%)	17.4%	21,125 (80.6%)	18,937 (76.4%)	-11.3%	-15.7%
Scope 3	142,475 (86.6%)	152,241 (84.0%)	-6.4%	169,119 (80.9%)	181,487 (77.1%)	-15.8%	-16.1%
Total carbon emissions	161,211	168,206	-4.2%	190,244	200,424	-15.3%	-16.1%
<b>Carbon footprint (tCO<sub>2</sub>e/\$m invested)</b>	56.6 (86.6%)	49.4 (84.0%)	14.6%	62.3 (80.6%)	58.6 (76.4%)	-9.1%	-15.7%
<b>Weighted Average Carbon Intensity (tCO<sub>2</sub>e/\$m revenue)</b>							
Equities and corporate bonds (Scope 1 & 2)	76.6 (84.7%)	84.9 (82.8%)	-9.8%	65.5 (80.2%)	85.5 (79.2%)	16.9%	-0.7%
Equities and corporate bonds (Scope 1, 2 & 3)	945.9 (84.7%)	1,045.0 (82.8%)	-9.5%	936.4 (80.4%)	903.3 (79.6%)	1.0%	15.7%
Government bonds (Scope 1 & 2)	152.5 (99.9%)	144.0 (100.0%)	5.9%	156.5 (99.9%)	144.0 (100.0%)	-2.6%	-0.0%
Government bonds (Scope 1, 2 & 3)	247.1 (99.9%)	240.0 (100.0%)	2.9%	250.7 (99.9%)	240.0 (100.0%)	-1.4%	-0.0%
<b>Implied Temperature Rise (°C)</b>	2.4 (83.9%)	2.3 (82.6%)	4.3%	2.4 (77.7%)	2.3 (75.5%)	0.0%	0.0%

The following asset classes are included in these metrics: equities, corporate bonds, sovereign bonds, and funds. The data used to inform these values was sourced from MSCI. We understand that due to MSCI's data refresh cycle, some of the emissions data (specifically Scope 1 and 2) may be from previous financial years. We use both reported and estimated data in our Scope 1 and 2 calculations. For Scope 3 emissions we follow Quilter Cheviot's climate data hierarchy regarding the use of reported and estimated emissions data. For further information please refer to the criteria report. No re-weighting of portfolio holdings is undertaken in our calculations, to avoid diluting and misrepresenting the relative significance of each holding to our climate metrics. Note, our 2023 climate metrics did include some re-weighting of holdings and therefore we have restated these to ensure consistency. Data coverage refers to the percentage of the strategy and benchmark that MSCI ESG has provided metrics for. There are holdings within our universe for which we are unable to provide climate data. 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. The financed emissions metrics reflect the total AuM which are managed in line with this strategy. The difference in ITR is calculated to one decimal place.

### Industry group contribution to financed emissions for equities and corporate bonds (Scope 1 & 2 emissions)



**Top bar:** the industry group contribution to the strategy's emissions. **Bottom bar:** the industry group contribution to the benchmark's emissions. Source: Quilter Cheviot holdings data as at 31/12/2024. MSCI ESG, data current as at 31/01/2025. Holdings may be held directly or through third-party funds. Holdings rebased to 100.

## CVaR

Client Value at Risk (CVaR) tries to estimate the potential financial loss or gain from the strategy as a result of climate change. It measures the potential impact of **climate policy** (new regulations at national and international level impacting carbon-related activities); **technology opportunities** (increased demand for energy-efficient, lower-carbon products and services that disrupt existing markets); and **physical risks** (such as temperature increase, sea level rise, and associated business interruption and damage across operations and supply chains).

This strategy is evaluated for CVaR under three climate scenarios:

- **1.5°C Orderly:** this scenario assumes climate policies are introduced early and become gradually more stringent, limiting global temperature increase to 1.5°C by 2100.  
Within this scenario transition policies are the key driver as it assumes that stringent economic transition policies such as carbon pricing are introduced early, and that significant investment in transition technologies is undertaken by both governments and companies.
- **2.0°C Orderly:** this scenario limits global temperature increase to 2.0°C by 2100.  
As with the 1.5°C Orderly scenario, this scenario anticipates the global economy will transition relatively early through the gradual introduction of increasingly stringent climate policies, however at a slower pace.
- **3.0°C Nationally Determined Contributions (NDC) 'Hot House World':** this scenario assumes some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming, which increase to 3.0°C by 2100.  
Physical climate risks will be the primary driver of financial impacts in this scenario. The primary economic risks in this scenario are business disruption and property damage, due to increasingly frequent and severe climate events as well as chronic climatic changes. These will result in a number of financial risks to investors and lenders, and particularly insurance providers.

Climate Value at Risk (CVaR)				
Scenario	Policy	Physical	Technology opportunity	Aggregated total
Data coverage	<b>Strategy 81.1%</b> Benchmark 77.0%	<b>Strategy 79.8%</b> Benchmark 76.8%	<b>Strategy 74.6%</b> Benchmark 71.3%	
1.5°C Orderly	<b>-9.0%</b> -8.4%	<b>-1.4%</b> -1.4%	<b>1.2%</b> 1.2%	<b>-9.2%</b> -8.6%
2.0°C Orderly	<b>-1.9%</b> -1.9%	<b>-2.0%</b> -2.0%	<b>0.3%</b> 0.3%	<b>-3.6%</b> -3.6%
3.0°C 'Hot House World'	<b>-1.7%</b> -1.7%	<b>-2.7%</b> -2.6%	<b>0.2%</b> 0.2%	<b>-4.1%</b> -4.1%

Source: Quilter Cheviot holdings data as at 31/12/2024  
MSCI ESG, data current as at 31/01/2025  
Holdings may be held directly or through third-party funds  
**Strategy data** Benchmark data

## The impact on the strategy

### 1.5°C Orderly

The strategy's holdings in the energy and utilities industry groups may be impacted by changing demand as the transition policies are likely to favour renewable energy infrastructure. For mining companies within the materials industry group, there could be significant market opportunities given an increase in demand related to transition-critical technologies.

### 2.0°C Orderly

The strategy's holdings in the energy and utilities industry groups may be impacted by changing demand as the transition policies are likely to favour renewable energy infrastructure. For mining companies within the materials industry group, there could be significant market opportunities given an increase in demand related to transition critical technologies. Within this scenario these industries are likely to face greater physical climate impacts.

### 3.0°C Hot House World

The physical climate impacts anticipated in this scenario are likely to impact energy companies less than other scenarios, as fossil fuel would be the primary energy source globally rather than declining. Beyond this, all companies with significant infrastructure will be vulnerable to extreme weather, particularly across global supply chains.

## Appendix

### Emissions explained

Carbon emissions are categorised using labels developed by the Greenhouse Gas Protocol to differentiate ownership of emissions. These categories are Scope 1, Scope 2, and Scope 3.

**Scope 1** includes all direct emissions resulting from a company's facilities. This would include activities such as emissions from a company's fleet of vehicles used to carry out day-to-day operations of the business (e.g., emissions from a florist's own delivery truck).

**Scope 2** comprises indirect emissions from a company's electricity usage. Any electricity, heating, or steam power purchased by the company would fall in this category.

**Scope 3** includes all other indirect emissions associated with a company's operations, often summarised as 'supply chain emissions'. It includes upstream emissions - from purchased inputs and services - and downstream emissions - from activities linked to the sale, distribution, and disposal of a company's outputs. Scope 3 emissions are 'shared' emissions: Company A's Scope 3 emissions are Company B's Scope 1 emissions, where Company A has purchased a product or service which forms part of their output. Scope 3 emissions are often the most significant portion of a company's overall emissions footprint.

### What's in a tonne?

Understanding what one tonne of carbon dioxide equivalent (tCO<sub>2</sub>e) looks like can be challenging, so we have a few examples below.



**195,000 smartphone charges**

Assumes one hour charge,  
20 watt charger



**5 round-trip drives from London to Paris**

Assumes average petrol car,  
576 mile journey



**2,000 home-baked cakes**

Assumes gas oven,  
one hour baking time

Source: Quilter Cheviot, using UK Government GHG Conversion Factors for Company Reporting, v1.1, BEIS; 15/01/2024

### Emissions example

The emissions exposure for a company is calculated as below:

For example, for company A, the strategy's holdings are valued at \$1 million, and the company's Enterprise Value Including Cash (EVIC) is \$10 billion. The company's total direct emissions for the previous year are 250,000 tCO<sub>2</sub>e. Therefore, the emissions the strategy is responsible for equals  $(\$1 \text{ million} / \$10 \text{ billion}) * 250,000 \text{ tCO}_2\text{e} = 25 \text{ tCO}_2\text{e}$ .

This figure will vary based on the size (\$ value) of the holding company and the proportional size of a strategy's holding in that company. Portfolios with holdings in smaller companies with significant emissions footprints will have correspondingly greater quantities of emissions linked to them. For example, in the case of Company B, whose EVIC is \$1 billion and emissions are 250,000 tCO<sub>2</sub>e, the same value investment (\$1 million) results in a much greater proportion of the company's emissions (250 tCO<sub>2</sub>e) than the investment in Company A.

## Carbon footprint

The carbon footprint of the strategy consists of the direct emissions (Scope 1 and 2) of the strategy's holdings apportioned to their size. The position weight compares the value of the investment against the company's value (Enterprise Value Including Cash, or EVIC).

$$\text{Carbon footprint (tCO}_2\text{e)} = \frac{\text{aggregated position value}}{\text{Enterprise Value Including Cash (EVIC)}} \times \frac{\text{company direct emissions (tCO}_2\text{e)}}{\text{Portfolio value (\$m)}}$$

## WACI

Another measurement of emissions allocation is the Weighted Average Carbon Intensity (WACI), which is based on emissions against company revenue. This figure provides an easily comparable measure of the emissions intensity of a strategy, expressed in emissions per \$million revenue, regardless of the size or composition of a strategy. It is calculated as below:

$$\text{WACI (tCO}_2\text{e}/\$m \text{ revenue)} = \frac{\text{value of investment (\$)}}{\text{total portfolio value (\$)}} \times \frac{\text{company direct emissions (tCO}_2\text{e)}}{\text{company revenue (\$m)}}$$

## ITR

The Implied Temperature Rise (ITR) is a measure of how aligned the strategy is with the global warming threshold set by the Paris Agreement (well below 2°C, ideally 1.5°C). It is a measure of how much warming (°C) would result from the entire economy functioning according to the practices of the strategies' holdings by 2100.

## CVaR scenarios

These scenarios were created by the Network for Greening the Financial System (NGFS), an industry group of central banks and supervisors which develops climate-related risk management resources for the finance sector. It worked in collaboration with a global academic consortium to develop a range of future scenarios that can be used to appropriately assess climate risks to economic and financial systems. Each scenario makes different assumptions about how climate policy, physical climate events and the development of climate-related technology will impact the economy and therefore the value of our holdings. CVaR is presented as the percentage change in the strategy's holdings' value, for each individual category (policy, technology, physical impacts) and in sum (aggregate).

## Glossary

**CO<sub>2</sub>e:** CO<sub>2</sub> equivalent; The emission of different greenhouse gases (GHG) warms the earth at different intensities. For example, releasing one tonne of methane into the atmosphere has a greater warming potential than releasing one tonne of CO<sub>2</sub>. This metric is used to express the impact of each different GHG in terms of the amount of CO<sub>2</sub> that would create the same degree of warming so that the impacts of different GHGs can be compared.

**Climate Value at Risk (CVaR):** an estimate of the financial impact on a portfolio of climate-related risks under various climate change scenarios.

**Data coverage:** the proportion of the portfolio's holdings within the asset type for which data is available. This is aggregated for metrics where multiple asset classes are included. This will include reported and estimated emissions.

**Emissions exposure:** the summed proportion of companies' emissions the strategy is responsible for, through its investments (see Emissions example).

**EVIC (Enterprise Value Including Cash):** a measure of total company value (market capitalization of the company, preferred equity, minority interest, total debt, cash and cash equivalents).

**Paris Agreement:** the Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at COP21 in Paris, on 12 December 2015. Its goal is to limit global warming to well below 2°C, preferably 1.5°C, compared to pre-industrial levels.

**SBT:** Science-Based Targets; decarbonisation targets set by companies to reduce their carbon emissions over time to align with a lower-carbon economy.

**SBTi:** The Science Based Targets Initiative. The SBTi is a partnership between CDP (formerly known as the Carbon Disclosure Project), the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature (WWF). The SBTi drives ambitious climate action in the private sector by enabling companies to set science-based emissions reduction targets.

**Weighted Average Carbon Intensity (WACI):** a strategy's exposure to carbon-intensive companies, expressed in tonnes CO<sub>2</sub>e/\$m revenue. This metric is recommended by the TCFD. Certain asset classes are excluded from the WACI calculation. Most significantly, these include assetbacked securities, cash, foreign currencies and derivatives.



**This pertains to climate-related reporting obligations as per the FCA's TCFD-aligned reporting requirements and does not constitute a financial promotion.**

## **Data Disclaimer**

Certain information contained herein (the "Information") is sourced from/copyright of MSCI Inc., MSCI ESG Research LLC, or their affiliates ("MSCI"), or information providers (together the "MSCI Parties") and may have been used to calculate scores, signals, or other indicators. The Information is for internal use only and may not be reproduced or disseminated in whole or part without prior written permission. The Information may not be used for, nor does it constitute, an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product, trading strategy, or index, nor should it be taken as an indication or guarantee of any future performance. Some funds may be based on or linked to MSCI indexes, and MSCI may be compensated based on the fund's assets under management or other measures. MSCI has established an information barrier between index research and certain Information. None of the Information in and of itself can be used to determine which securities to buy or sell or when to buy or sell them. The Information is provided "as is" and the user assumes the entire risk of any use it may make or permit to be made of the Information. No MSCI Party warrants or guarantees the originality, accuracy and/or completeness of the Information and each expressly disclaims all express or implied warranties. No MSCI Party shall have any liability for any errors or omissions in connection with any Information herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

The "iBOXX" is a product of S&P Dow Jones Indices LLC or its affiliates ("SPDJ"), and has been licensed for use by Quilter Cheviot Limited. S&P®, S&P 500®, iBoxx®, iTraxx®, and CDX®, are registered trademarks of S&P Global, Inc. or its affiliates ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). This report or products referenced herein are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the iBOXX.

### **Quilter Cheviot**

Senator House  
85 Queen Victoria Street  
London EC4V 4AB  
+44 (0)20 7150 4000

**To find out more please contact your investment manager  
or email: [marketing@quiltercheviot.com](mailto:marketing@quiltercheviot.com)**



**Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. You may not recover what you invest.**

Quilter Cheviot and Quilter Cheviot Investment Management are trading names of Quilter Cheviot Limited, Quilter Cheviot International Limited and Quilter Cheviot Europe Limited.

Quilter Cheviot Limited is registered in England with number 01923571, registered office at Senator House, 85 Queen Victoria Street, London, EC4V 4AB. Quilter Cheviot Limited is a member of the London Stock Exchange, authorised and regulated by the UK Financial Conduct Authority and as an approved Financial Services Provider by the Financial Sector Conduct Authority in South Africa. Quilter Cheviot Limited has established a branch in the Dubai International Financial Centre (DIFC) with number 2084 which is regulated by the Dubai Financial Services Authority. Promotions of financial information made by Quilter Cheviot DIFC are carried out on behalf of its group entities. Accordingly, in some respects the regulatory system that applies will be different from that of the United Kingdom. Quilter Cheviot International Limited is registered in Jersey with number 128676, registered office at 3rd Floor, Windward House, La Route de la Liberation, St Helier, JE1 1QJ, Jersey and is regulated by the Jersey Financial Services Commission and as an approved Financial Services Provider by the Financial Sector Conduct Authority in South Africa. Quilter Cheviot Europe Limited is regulated by the Central Bank of Ireland, and is registered in Ireland with number 643307, registered office at Hambleden House, 19-26 Lower Pembroke Street, Dublin D02 WV96.

