WealthSelect Sustainable Active 5 TCFD Report 2023

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This report provides you with information on the impact of the portfolio on climate change and the exposure of the portfolio to climate-related risks consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

For the purpose of comparison we show the same metrics for the MSCI All Country World Index (MSCI ACWI) as we do for the portfolio. The MSCI ACWI is a market index that includes a wide range of global companies, so is an appropriate comparator.

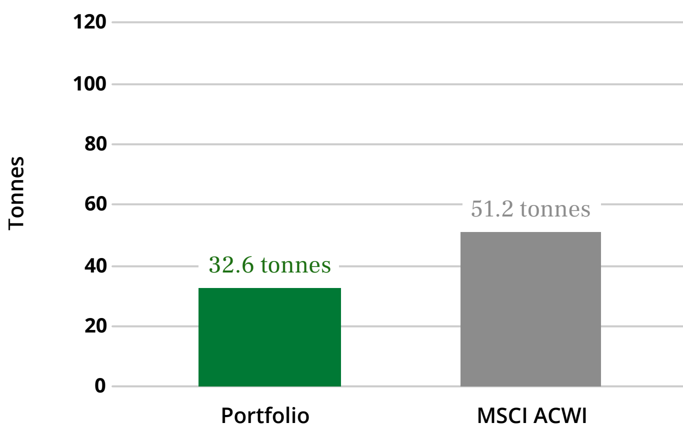
The climate data used in this report is only available for companies, so we can only look at equities (company shares) and corporate bonds (issued by companies). Also, the portion of the portfolio and the MSCI ACWI that we have data for varies from one metric to another, so we show a 'data coverage' percentage under each metric.

The information in this report is based on the available data and then scaled for the rest of the portfolio. If the portfolio has a lower level of data coverage (below 50%) then the validity of the information can become stretched.

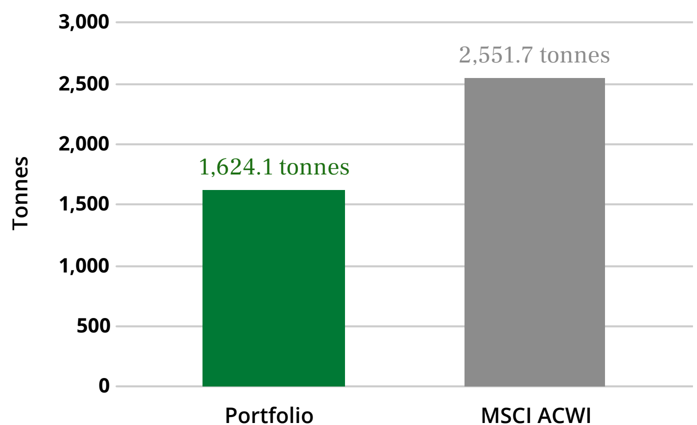
Scope 1 and 2 carbon emissions

The amount of scope 1 and scope 2 emissions that the portfolio is responsible for, measured in tonnes of carbon dioxide equivalent (tCO2e) emissions. 'Carbon dioxide equivalent' is a methodology to convert the emissions of other greenhouse gases, such as methane,into the equivalent carbon dioxide emissions to allow for easier comparisons.

Scope 1 and 2 emissions per $1 million invested



Scope 1 and 2 emissions of the entire portfolio



The portfolio has scope 1 and 2 emissions 36% lower than the MSCI ACWI.

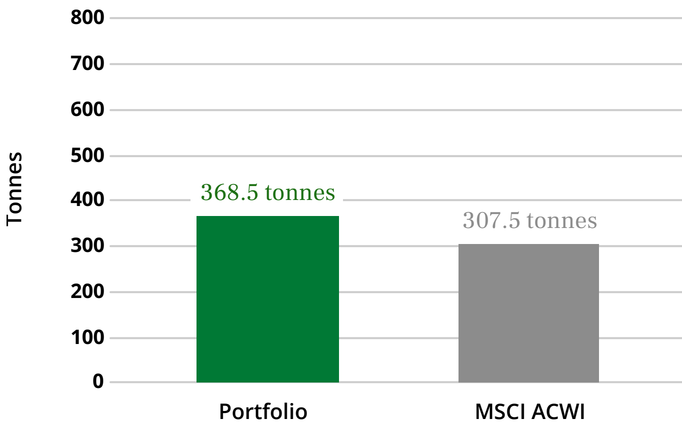
Portfolio data coverage: 63.1%

MSCI ACWI data coverage: 99.8%

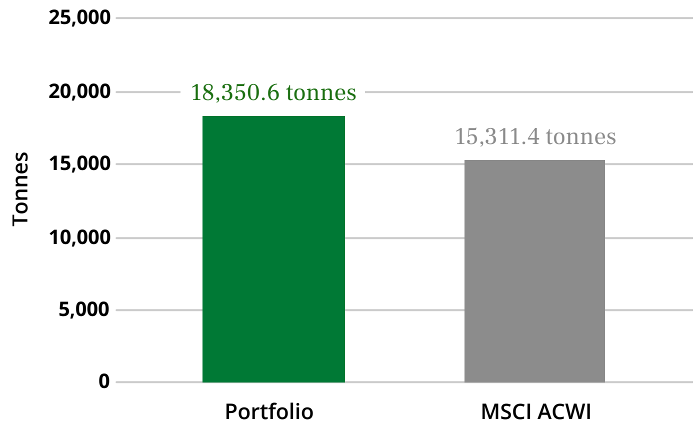
Scope 3 carbon emissions

The amount of scope 3 emissions that the portfolio is responsible for, measured in tonnes of carbon dioxide equivalent (tCO2e) emissions.

Scope 3 emissions per $1 million invested



Scope 3 emissions of the entire portfolio

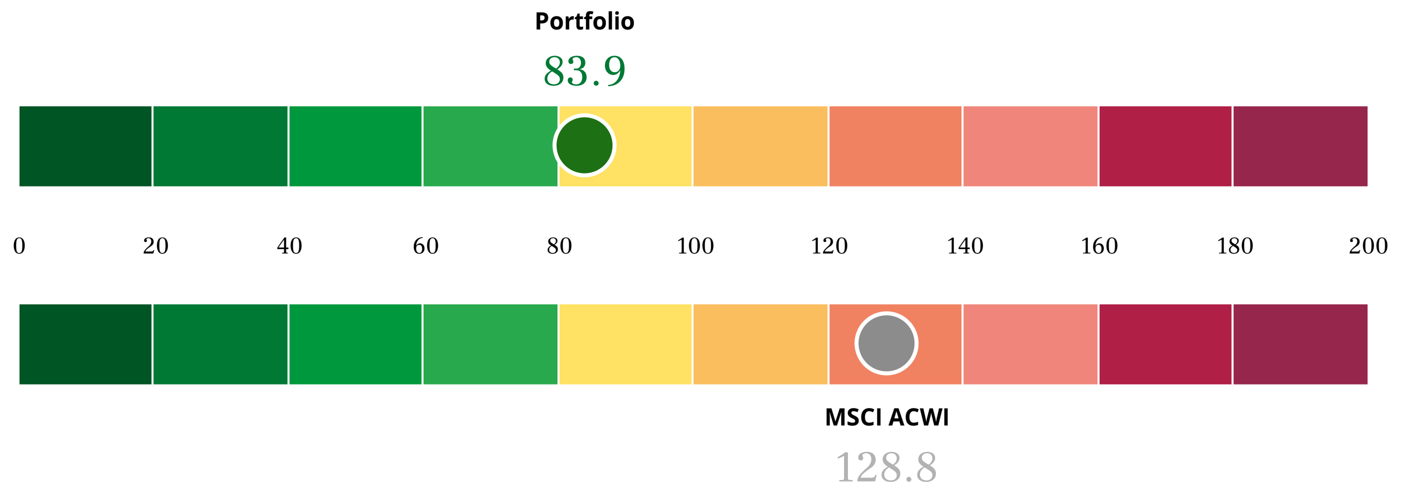


Portfolio data coverage: 49.2%

MSCI ACWI data coverage: 79.2%

Weighted average carbon intensity (WACI)

The carbon intensity (tonnes of carbon dioxide equivalent emissions produced for every $1m of revenue) of each company multiplied by their weight in the portfolio, i.e. on a weighted basis, the average company in the portfolio is responsible for 83.9 tonnes of carbon emissions for each $1m it receives in revenue.



Portfolio data coverage: 63.4%

MSCI ACWI data coverage: 99.6%

Climate value at risk

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

The portfolio is assessed under four different scenarios:

1. Orderly transition - assumes climate policies are introduced early and become gradually more stringent limiting the global temperature increase to 1.5°C by 2100

2. Disorderly transition - assumes higher transition risks due to policies being delayed or divergent across countries and sectors but still limits the increase to 1.5°C

3. Orderly transition - assumes climate policies limits the global temperature increase to 2.0°C

4. 'Hot house world' - assumes some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming and the global temperature increases to 3.0°C

For example, based on an orderly transition limiting the global temperature increase to 1.5°C, the portfolio is expected to change in value by -4.2%, compared to a change of -13.0% to the MSCI ACWI.

	Orderly transition (1.5°C)		Disorderly transition (1.5°C)		Orderly transition (2.0°C)		'Hot house world' (3.0°C)	
	Portfolio	MSCI ACWI	Portfolio	MSCI ACWI	Portfolio	MSCI ACWI	Portfolio	MSCI ACWI
Climate policy	-9.6%	-12.0%	-10.8%	-13.9%	-1.9%	-3.0%	-2.0%	-2.9%
Technology opportunities	7.4%	2.2%	8.8%	3.0%	2.0%	0.5%	1.5%	0.4%
Physical risks	-2.0%	-3.2%	-2.0%	-3.2%	-2.7%	-4.5%	-3.3%	-5.5%
Total	-4.2%	-13.0%	-4.0%	-14.1%	-2.6%	-7.0%	-3.8%	-8.0%

Portfolio data coverage: 62.6%

MSCI ACWI data coverage: 97.1%

Commentary

The WealthSelect Sustainable Active 5 Portfolio sits in the middle of the risk spectrum and therefore holds a wide spread of assets with no significant concentration in one area. The climate value at risk is typically lower for fixed income than equities and this is reflected in the overall climate value at risk of the portfolio. The comments below are in relation to the carbon footprint, weighted average carbon intensity (WACI), and climate value at risk of the portion of the portfolio that can be measured. Where the portfolio coverage is less than 100%, this means there is a portion of the portfolio that cannot be measured.

The portfolio has an objective to manage the overall carbon footprint of the portfolio in relation to the reference index, therefore the carbon footprint and related metrics are considered in the investment decision making process. The portfolio is also seeking to support solutions to environmental and social challenges that help to achieve the objectives of the UN Sustainable Development goals, while minimising exposure to unsustainable activities. In this context, there are activities that the portfolio seeks to avoid that have a negative impact on the climate including thermal coal extraction and oil and gas extraction. However, please note the calculation methodology used to calculate the carbon footprint of the portfolio as part of the portfolio objective and within the investment process is different to the calculation methodology used in this report.

The portfolio has a carbon footprint which is significantly lower than the MSCI ACWI, on a scope 1 and scope 2 basis. While the portfolio has a higher allocation to parts of the market with a higher footprint carbon than the MSCI ACWI, namely the UK and Europe by region, and utilities by sector, our underlying managers, in aggregate, are investing in companies that have a significantly lower carbon footprint than their respective region or sector.

The WACI is significantly lower than the MSCI ACWI, on a scope 1 and scope 2 basis, supported by a higher allocation to Europe, which has a lower WACI than the MSCI ACWI and a lower allocation to emerging markets and the energy sector that both have a higher WACI than the MSCI ACWI. While the portfolio has exposure to areas of the market that have a higher WACI than the MSCI ACWI, namely utilities, materials and industrials, the underlying funds, in aggregate, are investing in companies that have a materially lower WACI than their respective sector.

The carbon footprint and WACI characteristics of the portfolio reflect a key part of the objective to focus on environmental outcomes. For example, the portfolio's exposure to the utilities sector is to those companies which are leaders in the transition to a low-carbon energy system and the deployment of renewable energy.

Based on the different transition scenarios, the portfolio has significantly lower potential climate value at risk, compared to the MSCI in all four scenarios. The greatest potential for loss is under a 1.5°C orderly scenario, driven by climate policy and physical risk, with the potential for value creation from technology opportunities providing a notable offset. The lowest potential for loss is under a 2°C orderly transition, driven by physical risk while the potential for value creation from technology opportunities offset the potential loss from climate policy risk.

Across all scenarios, the allocation to the US and UK by region, and materials, utilities and consumer discretionary by sector, are key contributors to the climate value at risk. However, the allocation to industrials, in three out of the four scenarios, provides the portfolio the potential for value creation driven by technology opportunities.

Stuart Clark, Portfolio Manager

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