

Your Guide to Climate-related Disclosure Reports

The purpose of this guide is to help you better understand the information in our Climate-related Disclosure Reports.

A Simple Guide to Climate Metrics

Our report uses globally accepted carbon metrics to show the potential impact of the fund on climate change. This data covers three investment categories where relevant: Equities and Corporate Bonds and Sovereigns (excluding Sub-sovereigns and Supranationals).

The reports provide greenhouse gas (GHG) emissions numbers in tonnes of carbon dioxide equivalent (tCO₂e), certain data in percentages and asset holdings in £ sterling.

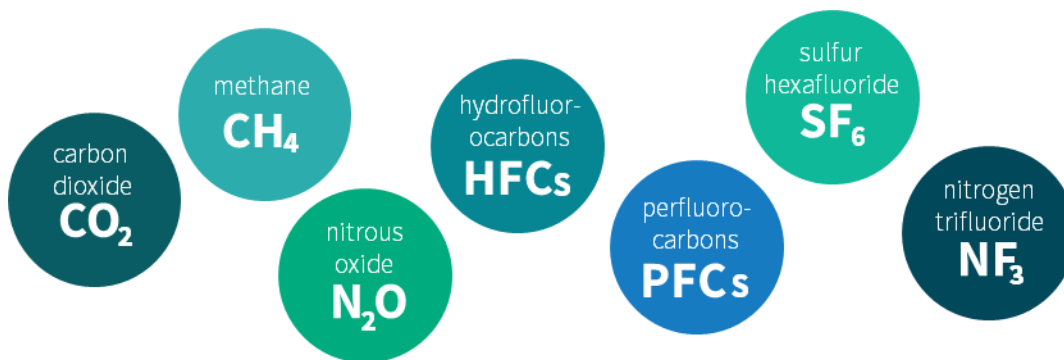
This year, we're publishing numbers for Scope 1 & 2 and in addition Scope 3 GHG Emissions.

Total Greenhouse Gas (GHG) Emissions

Carbon dioxide (CO₂) is the biggest driver of climate change. Yet methane (CH₄) and other greenhouse gases also have a significant impact.

The Kyoto Protocol identified seven greenhouse gases which trap heat in the atmosphere and contribute to global warming.

These are:



Greenhouse gases each have different warming effects. We use the metric measure tCO₂e as a simple number that represents all greenhouse gases. This means converting amounts of the other six gases to the equivalent amount of carbon dioxide with the same global warming potential.

The reports show the level of Financed Emissions. This represents the amount of a company, property or country's absolute GHG emissions attributed to an investment, based on their holding. GHG emissions are an absolute measure. This means the size of a company or investment fund can affect the final number. For example, a fund with £1 billion of assets may have higher emissions than one with £1 million of assets. However, emission levels depend on factors like company activities, the energy efficiency of buildings and the size and type of a country's economic activities.

That's why our Climate-related Disclosure Reports have data about the value of assets under management, information about industry and sector exposure as well as intensity metrics which normalises for the fund size.

What are Scope 1, 2 & 3 GHG Emissions?

There are different categories of greenhouse gas (GHG) emissions that a company may be responsible for.

Scope 1: direct emissions from sources that are owned or controlled by the company, for example its own factories, vehicles, or the energy it produces.

Scope 2: indirect emissions from the energy a company has bought, like electricity, steam, heating and cooling systems.

Scope 3: all other indirect emissions that occur in a company's business activities. This might be from the goods and services it buys, employee travel, waste disposal, customers using a company's products or its investments.

In simple terms, Scope 1 are the emissions that the company produces directly, Scope 2 comes from the energy the company purchases and Scope 3 is caused by the company's activities, but not directly produced by the company.

For companies, understanding the source of their Scope 3 GHG emissions can help them to advance their decarbonisation and sustainability journey. Scope 3 GHG emissions will be outside their own operations and depending on sector likely be significantly larger than their direct and purchased energy GHG emissions (Scope 1 & 2).

The availability of reported Scope 3 investee data is improving over time, however, reported information is not always complete and is typically subject to significant levels of estimation uncertainty. Even when companies report Scope 3 emissions they rarely provide comprehensive reporting across all Scope 3 categories and typically select a few relevant categories where they have the ability to measure the emissions.

Scope 1, 2 & 3 GHG emissions by sector breakdown

We believe that a graphical visualization of scope 1, 2, & 3 emissions data is more helpful than a fund total. By sector, it shows the ratio of Scope 1 & 2 GHG emission versus Scope 3 GHG emissions, and therefore where the challenge is in reducing all GHG emissions.

GHG Emissions for Countries

Countries (sovereigns) can account for their emissions either based on a production or consumption basis.

Production emissions: cover emissions generated when a country manufactures goods and services, including domestic consumption and exports.

Consumption emissions: cover the emissions related to domestic consumption and imports.

Currently we use production emissions, as the data is more robust and comprehensive.

Factors that can drive change in the greenhouse gas emissions of an investment fund

In addition to the real-world reduction in Greenhouse Gas (GHG) emissions by countries and companies, there are additional factors that can influence the GHG emissions metrics that are published for your investment fund.

We are starting to provide a trend of climate data for your investment fund, which gives a limited view of the direction of travel of your investments in terms of decarbonisation. The reports only have up to two years of data, so any directional change should be considered with caution. As more data becomes available with each subsequent reporting year, any trends should become more evident.

Alongside the climate metrics, there are two pieces of qualifying information on the data we have used:

- PCAF Data Quality Score (rounded to 1 decimal place)
- Data Coverage

These are helpful because they provide context to the underlying data used to calculate the climate metrics in your climate report. The higher the PCAF score (1-5) the greater degree of estimation is involved in estimating the metrics based on the available underlying data. As estimates are replaced with reported data, the PCAF score will lower. Companies are being obliged to adopt universal reporting standards, principally those set by the Task Force on Climate Related Financial Disclosure (TCFD), this means that there is more and more reported data available for use in the report which can lead to more confidence in the numbers. Where the PCAF score is high, we expect a higher level of year-on-year variation in the data which means that more caution needs to be applied when looking at the data and data trends.

We provide a data coverage % of the share of your fund we have been able to calculate for each climate metric.

Carbon Intensity Metrics

Carbon Footprint

This measures the financed emissions per million pounds sterling invested. In simple terms, it measures the 'carbon efficiency' relative to the amount that has been invested.

For companies, this can also be expressed as total GHG emissions per million pounds sterling of enterprise value, including cash (EVIC). This means what's attributed to the investor (or fund) is the amount invested relative to EVIC multiplied by the company's emissions. Divide this by the amount invested and you'll get the intensity metric. A lower number means a smaller carbon footprint.

Sovereign Carbon Intensity

Sovereign Carbon Intensity can be used to compare the carbon efficiency of different economies. At an asset level this is calculated as greenhouse gas emissions (tCO₂e) divided by purchasing power parity (PPP) adjusted gross domestic (GDP) in £ millions. At a portfolio level it is calculated by using a weighted average of sovereign production emission intensity, equivalent to the attributed sovereign production emissions per £m invested (attributed tCO₂e/£m invested amount).

High sovereign carbon intensity indicates that a country is emitting a high level of GHG per unit of economic output. These countries will likely have high carbon-intensity production activities and place greater reliance on fossil fuels for their energy. High sovereign carbon intensity is also linked to low GDP, such as in developing countries. This should be considered when interpreting intensity figures.

Low sovereign carbon intensity indicates that a country is emitting a low level of GHG per unit of economic output. Lower intensity may be due to climate change policies, such as carbon prices and regulations to decarbonise energy grids. These countries may also rely on low-carbon energy, such as Norway's hydropower or Iceland's geothermal energy.

Weighted Average Carbon Intensity by Revenue

Weighted Average Carbon Intensity (WACI) by Revenue is another measure of the carbon intensity of businesses.

This metric is calculated by dividing the carbon emissions of portfolio companies by their revenues, relative to their weight in the portfolio.

Many companies, including benchmark providers, use WACI to compare portfolios of Equities and Corporate Bonds.

The metric captures the different carbon characteristics of companies and the sectors they operate in. This matters because some sectors, especially utilities, energy and materials, are significantly more carbon-intensive than others, like healthcare and information technology.

Note that revenue is standardised and provided in millions of US dollars. However, our fund values are reported in pound sterling.

About the numbers

Assets Under Management Coverage

GHG emissions data is not always available, and methodologies don't yet exist for all asset classes (e.g. cash). That's why our financed emissions calculations cover the percentage of assets held by your investment fund.

If you have investments in categories without GHG emissions data, or an agreed methodology for calculating financed emissions, this will be reflected in your Assets Under Management (AUM) coverage.

We expect AUM and data coverage to increase year-on-year as new methodologies are agreed and the supporting data becomes more reliable.

Understanding Zeroes and Dashes

Sometimes a zero in the pound sterling column is worth more. This is because we show pounds as millions to 2 decimal places, so £100,000 would show as 0.10; £10,000 as 0.01 and £1,000 as 0.00.

A dash '-' in the table columns means we had no information to report on. This may be because our data providers weren't able to provide the information, the investment fund has no investment in an asset class, or it holds assets in less than 3 Global Industry Classification Standard (GICS) Sectors.

Glossary

Asset Allocation

The process of dividing an investment fund among different asset classes (such as stocks, bonds and cash) based on an investor's goals, risk tolerance and timescale.

Asset allocation is a key strategy for managing risk and optimising investment returns.

Corporate Bonds

A bond is a debt obligation, like an IOU. Investors who buy corporate bonds are lending money to the company issuing the bond.

In return, the company makes a legal commitment to pay interest on the amount invested and, in most cases, to return the amount invested when the bond comes due or matures.

Enterprise Value Including Cash (EVIC)

Enterprise Value Including Cash (EVIC) is the total value of a company, including its cash and cash equivalents, but excluding its debt.

It's a measure of a company's total value, including its ability to generate cash. To calculate it, add the market capitalisation of a company, the market capitalisation of preferred shares and the book values of total debt and minorities' interests, without deducting cash or cash equivalents.

Equities

Equities is another name for shares issued by companies. Buying a share is like buying a tiny piece of a company.

If the value of the company goes up, so does your share. If it goes down, so does your share.

Global Industry Classification Standard (GICS) *

A system for categorising companies into sectors and subsectors based on their primary business activities.

The GICS is used by financial analysts and investors to compare companies within the same industry sector.

* Global Industry Classification Standard (GICS®), GICS® and GICS® Direct are service or trademarks of MSCI and S&P Global Market Intelligence.

Gross Domestic Product (GDP)

Gross domestic product is the total value of all goods and services produced in a country during a specified period of time, usually one year. It's used to estimate the size of an economy and its growth rate.

For example, if a country produces 100 cars and each car is sold for \$10,000, then the GDP of that country would be \$1,000,000.

Kyoto Protocol

The Kyoto Protocol was an international treaty, signed in 1997, that aimed to reduce carbon dioxide (CO₂) emissions and other greenhouse gases (GHG's).

Partnership for Carbon Accounting Financials (PCAF)

PCAF is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the GHG emissions associated with their loans and investments.

Purchasing Power Parity (PPP)

Purchasing power parity (PPP) is a way to compare the value of goods and services between countries. It's based on the idea that the same goods should cost the same in different countries.

PPP is calculated by comparing the prices of a basket of local and international goods and services in different countries. The prices are then converted into a common currency to make the comparison.

For example, if a basket of goods costs \$100 in the US and the same basket of goods costs €80 in Europe then the exchange rate between the US dollar and the euro should be \$1.25 per euro.

Real Estate

In the context of our climate reports, Real Estate refers to property.

Properties are physical assets.

They're different from financial assets like equities or corporate bonds, which are pieces of paper that represent ownership in a company or a loan to a company.

Revenue

Revenue is the money generated from normal business operations. It's calculated by multiplying the average sales price by the number of units sold.

It's the top line (or gross income) figure from which costs are subtracted to determine net income.

Sector

A sector is an area of the economy in which businesses share the same or related business activity, product, or service.

Some examples of sectors are:

- **Energy.** This includes companies who are primarily involved in the exploration and production of oil, gas and coal.
- **Utilities.** This includes companies who provide electricity, gas and water. It also includes companies who produce or distribute renewable energy from wind turbines or solar installations.

Sovereign

In the context of our climate reports, Sovereign refers to Government Bonds.

These are like Corporate Bonds, except the debt securities are issued by a government to borrow money from investors.

When an investor buys a government bond, they're essentially lending money to the government in exchange for regular interest payments and the eventual repayment of the principal amount.

Sub-sovereign

Whilst Sovereigns relate to debt securities issued by a government (see above). Sub-sovereigns relate to debt securities issued by a government, but below federal or national level i.e. state, regional and local government.

Supranational

Organisations, or institutions, that operate across multiple countries and are typically created by multiple sovereign states to promote economic, financial, or other shared interests.

Examples of supranational organisations include; the United Nations (UN), the World Trade Organization (WTO) and the European Union (EU).

The Financial Conduct Authority

The Financial Conduct Authority (FCA) is the conduct regulator for 59,000 financial services firms and financial markets in the UK. It's also the prudential regulator for over 18,000 of those firms.

Its role includes protecting consumers, keeping the industry stable and promoting healthy competition between financial service providers.

The Paris Agreement

The Paris Agreement is a legally binding treaty adopted by 196 countries at the United Nations Framework Convention on Climate Change (UNFCCC) conference. It took place in Paris in 2015 and is also known as COP 21.

The main goal of the Agreement is to cut greenhouse gas emissions, in order to limit global temperature increases to below 2 °C above pre-industrial levels and preferably to stay below 1.5 °C by 2100.

Important information

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