# COUTTS ASSET MANAGEMENT

## BASIS OF REPORTING: CARBON INTENSITY

Coutts

**Metric and unit of reporting**
Weighted average reduction in carbon intensity per fund/portfolio vs baseline (%)

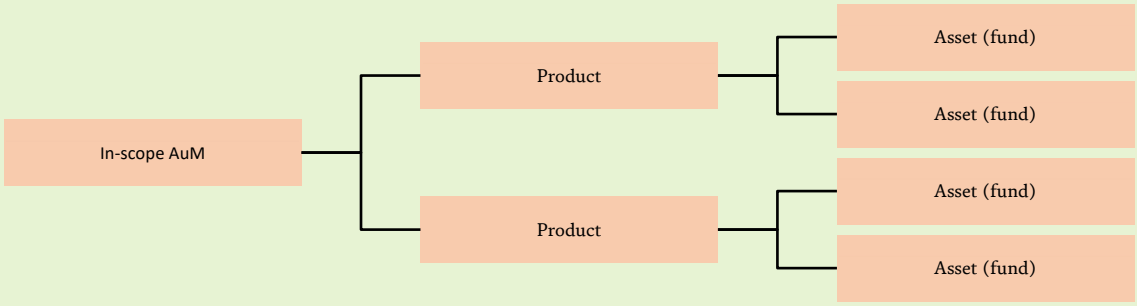
**Reporting period**
The 2022 report includes the weighted average reduction in carbon intensity (CI) of in-scope funds and discretionary portfolios ("in-scope AuM") (as at year end 2022, compared to a baseline of year end 2019 carbon intensity, weighted using year end 2022 AuM).

**Reporting boundary**
The reporting boundary is defined as all third-party equity funds held within our in-scope AuM, which makes up 52.5% of overall AuM as at year end 2022. In-scope AuM covers all discretionarily managed strategies, except bespoke (customised) discretionary and advisory portfolios.

Asset Management does not consider the use of offsets in calculating the CI for its in-scope AuM.

**Method**
A combination of different methodologies are used to calculate the weighted average reduction in carbon intensity, aggregating the percentage reduction on a fund/portfolio ("product") level based on the AuM in each product as at year end 2022.

The approach follows the TCFD recommendations by allocating emissions based on portfolio weights but deviates from the TCFD WACI method as weighting is performed at a product-level rather than at an overall Coutts AuM level. This method only considers AuM as at year end 2022 to determine the overall reduction. As a result, the movement in AuM between year end 2022 and the year end 2019 baseline has not been considered.




The "fund carbon intensity" for each underlying asset is sourced from an external data provider. This is the weighted average of the scope 1 + 2 carbon intensity of all companies held in the fund based on their weight in the fund. The CI for each in-scope product is calculated as the weighted average of the fund carbon intensity of each in-scope asset based on the share of each in-scope asset in the product. Each product-level CI is then compared against its baseline CI to calculate the percentage reduction in CI as at year end 2022. The weighted average reduction in CI across in-scope AuM is calculated by averaging the product-level percentage reduction in CI, weighted based on the weight of each product in the overall in-scope AuM as at year end 2022.

**Dependencies, limitations and use of proxies**
The methodology recognises the following dependencies and limitations.

- **External data provider:** Reliance placed on third-party data provider for availability and accuracy of carbon intensity data.
- **Deviation from TCFD WACI methodology:** The reduction in CI is calculated and weighted on a product-level rather than an overall AuM-level and as such the reported results might not be comparable to CI data published by peers.

- **Use of proxies:** Where no emissions data is available for passive assets, proxy emissions data for the underlying benchmark is used (if available). For the Coutts funds managed by BlackRock, carbon emissions data supplied by BlackRock can be relied upon where there are significant discrepancies with the data supplied by our external data provider. No proxies are used for third-party active funds.
- **Data availability:** Where the external data provider has not supplied emissions data, and no proxy has been identified, the asset and subsequent weight is removed from the calculations. Weights are subsequently normalised, this is equivalent to assuming that these assets have the same carbon intensity as the assets for which there is coverage.
- **Product-level weightings:** The overall reduction is calculated by aggregating product-level reductions using AuM as at year end 2022 only. As a result, the movement in AuM between year end 2022 and the year end 2019 baseline has not been considered.
- **Sourcing AuM data:** AuM data is sourced from both internal reporting systems (for discretionary portfolios) and our fund custodian (for funds) and compiled by Asset Management and is reflective of our AuM as at 31 December 2022.
- **Data provider data refresh timelines:** Fund carbon intensity is sourced from an external data provider, Morningstar, at the end of each reporting period. Morningstar refreshes its fund carbon intensity data on a quarterly basis to reflect asset-level changes in the allocations to underlying holdings. There is a lag of at least four weeks between the end of the quarter and Morningstar publishing its refreshed data. For the baseline (2019), the refreshed fund carbon intensity for Q4 2019 has been used. For all other reporting periods fund carbon intensity is sourced as it is available at the end of the reporting period. In practice, this means that when sourcing fund carbon intensity data as at 31 December 2022, our external data provider will show the most recently available datapoint as at 30 September 2022.

**Data**

Morningstar relies on carbon intensity data for companies from Sustainalytics, which contains scope 1, 2 (and 3) emissions, as defined by the greenhouse gas Protocol Corporate Standard. Sustainalytics defines carbon intensity as the volume of emissions in metric tons of $CO_2e$ per financial unit (million USD). Morningstar calculates fund carbon intensity using Scope 1 and 2 carbon intensity for corporate issuers.

The Scope 1 and 2 emissions data is collected once a year from the most recently available public corporate sources. Where companies do not disclose emissions data, the external data provider may use proprietary estimation methodologies to calculate $CO_2e$ data.

**Internal reporting and controls**

Calculations are performed and reviewed by subject matter experts as part of each annual run. Reconciliation of AuM data between different sources takes place after each run.

Outputs are reported annually to the Asset Management Investment Committee.

**More information**

Please also see our cautionary note about climate-related data, metrics and information.