INDEPENDENT FRANCHISE PARTNERS™

2024 TCFD Entity Report

Registered in England & Wales Partnership No. OC344319
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Risk Disclosure

Franchise portfolios are available for professional clients only.

Past performance is not an indicator of future results. The value of investments and the income from them can go down as well as up, and an investor may not get back the amount invested.

Franchise portfolios are concentrated in a limited number of securities and may be concentrated in only a few countries or industries. A concentrated portfolio may be subject to a greater degree of volatility and risk than one following a more diversified approach. The composition and volatility of the indices shown in this document differ materially from the securities comprising the Franchise portfolios. You cannot invest directly in an index.

Investments denominated in currencies other than the client's base currency carry the risk of exchange rate movements. These movements may have a separate effect, unfavourable or favourable, on gains and losses in the portfolio.

Franchise portfolios are designed for investors who understand and accept these risks.

Independent Franchise Partners, LLP at a glance at December 2024

Specialist investment partnership	Serve sophisticated institutional clients globally	Long-only, active, developed-market equities	Low turnover, buy-and-hold strategy
1 strategy, 3 flavours: Global Franchise, Global Franchise II and US Franchise	Typically 20-40 positions	$20.7bn assets under management	32 employees, including 9-person investment team

Our TCFD Entity Report

This is Franchise Partners' 2024 Task Force on Climate-related Financial Disclosures (TCFD) Entity Report. We have prepared this report in relation to the 2024 calendar year and in accordance with the UK Financial Conduct Authority's (FCA) TCFD entity reporting standard.

Our investments are the greatest source of climate risk to our business. As an investment management firm with 32 employees,[1] our operational environmental risks and impacts are very small. Therefore, this report focuses solely on our investment activities.

Our approach to managing climate risks, like all environmental, social and governance (ESG) risks, is returns led. This means that we focus on financially material climate considerations to gain a broader understanding of a company's quality and its appropriate valuation.

Our investment strategy faces a variety of climate risks. The materiality of these risks varies considerably by company.

We manage portfolio companies' climate risks through proprietary, in-depth research and active stewardship. Our investment team is responsible for these activities. We think this enables more effective incorporation and identification of climate risks, and ensures our stewardship work is fully aligned with our investment views.

In this report we describe the strategy's exposure to climate risks and our approach to managing them in more detail. We hope you find it informative. As ever, we welcome any feedback.

Compliance statement

The disclosures in this report are consistent with the requirements in Chapter 2 of the FCA's Environmental, Social and Governance sourcebook.

Karim Ladha, CFA
Partner and investor with oversight of ESG
24 June 2025

[1] *Reflects permanent staff as at 31 December 2024.*

Governance

Recommended disclosures:
a) Describe the board's oversight of climate-related risks and opportunities
b) Describe management's role in assessing and managing climate-related risks and opportunities

The Firm is an is an active, global equity manager established in June 2009 as an owner-managed partnership. Four of the five partners are members of the investment team. The fifth partner is our Chief Operating Officer, who is responsible for the non-investment activities of the Firm.

The partners are responsible for the management of all risks faced by the Firm, including climate risk. The partners meet formally at least four times a year, and typically meet informally every week. The partners review the Firm's ESG integration, stewardship and voting policies annually at a formal quarterly meeting, and review other ESG and climate-related topics as they arise. The partners have reviewed and approved this 2024 TCFD Entity Report.

One of the partners – who is also a member of the investment team – has direct oversight of our ESG work. This includes the integration of ESG considerations within the investment portfolio, as well as regulatory and client considerations. The Firm's ESG analyst reports directly to this partner.

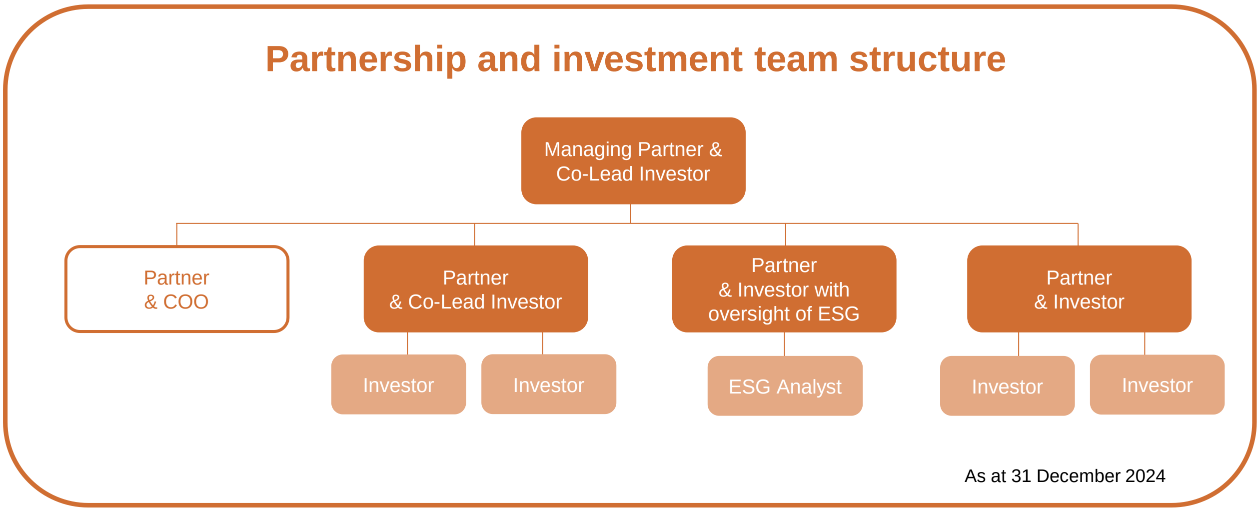
Our investment portfolio is the greatest source of climate risk to our business. As an investment management firm with 32 employees, our operational environmental risks and impacts are very small. Therefore, our climate risk management efforts are primarily focused on the investment portfolio.

The investment team has responsibility for the day-to-day implementation of our ESG and stewardship activities, including those related to climate risk. The Firm does not delegate our ESG incorporation and stewardship activities to a third party. Our ESG and stewardship decision making is conducted entirely within our investment team.[2]

In practice, this means that the lead investor for each stock is responsible for identifying, assessing and incorporating material ESG risks and opportunities into their assessment of franchise quality, valuation and ultimately the investment decision. The investment team is also responsible for any stewardship work related to climate change. The Firm's ESG analyst is a member of the investment team and provides specialist support and expertise at each stage of the process.

We have deliberately allocated responsibilities for assessing ESG risks to our investment team as we believe it enables us to better identify and assess financially material ESG risks such as climate change. We think this is the most appropriate structure for our returns-led approach to ESG risks.

[2] 2.2.1 part 3 of the FCA's ESG sourcebook is therefore not relevant.



Risk management

Recommended disclosures:
a) Describe the organisation's processes for identifying and assessing climate-related risks
b) Describe the organisation's processes for managing climate risks
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

We focus on a single investment discipline – Franchise investing – and offer three portfolios: Global Franchise (global equities), Global Franchise II (global equities excluding tobacco) and US Franchise (US equities). We apply the same approach to identifying, assessing and managing climate risks to all three Franchise portfolios.

How we identify and assess climate risks

We identify and assess climate risks through proprietary research. There are multiple ways in which climate risks may feature in our research process.

In cases where climate risk is one of the most important drivers of a company's valuation or the strength of its franchise, the lead investor for the stock incorporates an assessment of this into their investment research note.

Company investment notes also include an ESG section compiled by the lead investor and ESG analyst.[3] This process acts as a touchpoint for the lead investor and ESG analyst to ensure the investment note captures any financially material ESG considerations, such as climate risk.

In addition, where climate risks are particularly material or complex for a company, the ESG analyst may work with the investor to produce a research report focused entirely on this topic. This allows us to examine climate risk in greater depth, and bring a wider range of perspectives and sources into consideration.

[3] *As at 31 December 2024 an ESG section had been compiled for all portfolio companies.*

We have developed a climate risk framework that breaks down climate risk into its individual components. The framework provides structure to our assessment of a company's climate risk management and helps to inform our voting and engagement work. We provide an overview of the framework below.

Governance	Companies should demonstrate expertise and accountability for climate issues at board and executive team level. Climate issues should be integrated into the company's strategy and organizational structures in an effective manner.
Disclosure	Companies should disclose material information related to climate change following the recommendations of the Task Force on Climate-related Financial Disclosures. Companies should participate in the Carbon Disclosure Project (CDP) as an effective means to provide this information to the investment community.
Targets	Companies should set time-bound emissions reduction goals which manage material regulatory and reputational risks. These goals should encompass a meaningful proportion of Scope 3 emissions.
Products & services	A company's strategy should take into account how climate change might impact its products and services as a result of regulation or a change in consumer behaviour.
Physical risk management	Companies should assess the resilience of their operations and supply chains in the face of physical risks and take effective mitigating action.

We use a wide variety of qualitative and quantitative sources in our identification and assessment of climate risk. We share some of these in the table below.

Primary sources	Company annual reports and sustainability filings, and direct engagement with companies. We find that CDP reports are the most valuable forms of corporate climate disclosure.
Industry consultants	We harness the expertise of industry specialists through consultants and our own networks. This includes individuals from industry, academia and independent research groups. In our experience, these research sources are particularly helpful in our assessment of transition risks, such as regulatory change or product substitution.
External research	We make use of written research from a broad variety of sources, including non-governmental organisations, academia, industry groups and investment brokerage firms.
Data	We source emissions data and other climate-risk metrics from MSCI ESG Research. We use data from the Science Based Targets initiative (SBTi) to assess companies' emissions reduction targets. Data from the CDP helps us assess the quality of companies' disclosure and general risk management. Finally, we also use data from academia and industry specialists to assess company-specific climate risks.

How we manage climate risks

Valuation and stewardship are our primary tools to manage climate risks in the portfolios. We do not use an exclusionary approach, with the exception of tobacco in our Global Franchise II portfolio.

When companies face material climate risks, the investment team considers the impact of the risk on the company's long-term competitive position, and looks for an appropriate valuation to help to compensate for the risk. This is how we manage any other risk faced by our investee companies.

We use engagement and voting to improve our understanding of the climate risks that companies face, and to encourage companies to better manage their financially material risks. To date, we have focused the majority of our climate-related stewardship work on improving disclosure and encouraging portfolio companies to set emissions reduction targets. Please see the Metrics and targets section on page 11 for a more detailed description of our stewardship work.

Our strategy

Recommended disclosure:
a) Described the climate-related risks and opportunities the organisation has identified over the short, medium and long term

We think climate change represents an array of risks and opportunities for our clients' portfolios. These risks and opportunities vary substantially depending on the company.

Below we describe the portfolios' exposures to climate change using the categories recommended by the TCFD framework. We consider these potential risks over the short (0-5 years), medium (5-10 years) and long term (over 10 years).

Climate-related risks

Policy and legal: *Potential for increased costs as a result of greenhouse gas taxes, enhanced reporting obligations, and expansion of regulation.*

The Franchise discipline has structurally low exposure to high emitting sectors. This should reduce the Franchise portfolios' exposure to policy and legal risks relative to the broader market index.

In the short term, the direct financial costs of climate-related regulation for Franchise companies is immaterial. For example, the most carbon-intensive company in our portfolios, a leading global food and beverage company, paid carbon taxes on just 10% of its scope 1 emissions in 2023, and no carbon taxes on its scope 2 emissions.[4]

In the medium- to long-term, carbon pricing and product regulation may extend to a much broader number of sectors. The potential scope and timing of such regulation is uncertain.

Our experience suggests that many of the qualities of a typical Franchise portfolio company – such as long-term brand stewardship, robust governance, and an innovative culture – may also provide resilience against future climate-related regulatory risk. For example, Franchise portfolios have a higher proportion of companies with science-based emission reduction targets than the broader market.

All portfolio companies face costs related to increased reporting obligations, both mandated and voluntary. We expect the costs of meeting these obligations to be immaterial. However, if the companies

[4] *Company 2024 CDP report.*

in the portfolios fail to meet reporting expectations, this may damage their reputation in the investment community. This may be a material risk.

Technology and market: *Loss of revenues due to substitution of existing products and services with lower emissions options due to changes in consumer preferences or regulation.*

This is one of the most material climate-related long-term risks for the portfolios. If companies fail to adapt their products and services to consumer demand or technological developments, they will lose revenue. Changing consumer preferences and technological developments also present opportunities, and we discuss potential climate-related opportunities on page 9.

At present, the materiality of this risk is low for the majority of our portfolio companies as sustainable products and services represent only a small proportion of their overall revenues. In many cases, sustainable products are more expensive to produce and are priced at a premium. Further, there is little regulation in place to encourage customers and consumers to move to more sustainable options.

High levels of investment in R&D and product development is a key marker of a healthy franchise. This is something we pay close attention to in our ongoing monitoring of companies. We would expect high investment levels to help minimise the risk of product substitution or technology disruption.

Technology and market risk is most material for the portfolio companies that are directly exposed to fossil fuels. We rarely find attractive franchises in the oil & gas industry, but the portfolios do hold a small number of companies that sell services to chemical or energy companies. We think the fossil fuel-linked portion of these businesses should benefit from decarbonisation trends in the short to medium term. In the long term the energy transition is a greater headwind, but we are encouraged by the businesses' moves into new products and services linked to clean energy.

Reputation: *How the stigmatisation of a company or sector may impact consumer/ customer preferences, the ability to attract top talent, and the ability to attract investment.*

Our Franchise investment criteria mean that we avoid the high-emitting sectors that are currently under the most scrutiny for their contribution to climate change. In recent years this scrutiny has started to extend to a broader range of sectors. Therefore, the reputational impact of companies failing to reduce their emissions is an increasingly material consideration for all companies in the portfolios.

In particular, we are mindful that a company's approach to climate risk may affect its reputation in the investment industry. We note that some investors are increasingly factoring climate risks into their stock selection process and stewardship activities driven by regulation and the concerns of underlying beneficiaries. We recognise there are likely to be regional differences in the magnitude of this risk.

Acute and chronic physical risks: *Impact of an increased severity of extreme weather events, greater variability in weather patterns, increasing mean temperatures, and rising sea levels.*

Overall, the geographic diversification of our portfolio companies and the asset-light nature of a typical Franchise company help to mitigate the impact of physical climate risks on our clients' portfolios.

The most relevant physical risk for the portfolios is the changing growing conditions for agricultural raw materials. The portfolios hold tobacco companies and food manufacturers which rely on crops such as cocoa, coffee and tobacco leaf. Over the long term, changes in growing conditions may lead to an increase in the cost of these raw materials, greater price volatility, and a reduction in quality.

On balance, we do not think the impact of these changes will be significant. The cost of raw materials represents a small proportion of overall costs for the food manufacturing and tobacco companies in the portfolios, and these companies have a track record of investing to build resilience. Further, Franchise companies generally have strong pricing power which enables them to increase prices to maintain margins.

The portfolios also have investments in insurance brokers. As we describe in the opportunities section below, we expect that the likely continued increase in the frequency and severity of natural disasters should create additional demand for insurance brokers to help companies manage the impact on their operations.

Climate-related opportunities

The provision of lower carbon or adaptation-related products and services: This is the most material climate-related opportunity for the portfolios. Currently, these products and services typically represent a small proportion of companies' revenues.

Access to new markets: This presents an opportunity for a handful of stocks in the portfolios. Currently, the revenues associated with these new markets are a small proportion of companies' overall revenues.

Resource efficiency, resilience, and the use of lower-emission sources of energy in their own operations: This presents only a minor benefit to our portfolio companies. The Franchise portfolios generally invest in asset light, low-emitting businesses, so the risks from physical climate change or a rising cost of carbon are not significant. The costs of natural resources such as agricultural inputs or energy generally represent only a very small portion of companies' cost of goods sold, therefore the impact of greater efficiency on margins is not material.

Reputational benefits: We think there are small reputational benefits among employees, investors and customers for companies that adopt responsible environmental practices.

Examples of long-term climate opportunities in the portfolios

Derivatives exchange, data and technology company	The company's energy derivatives business dominates trading volumes in Europe's primary natural gas contract. The importance of this contract to global energy trading is growing, primarily driven by Europe's energy transition and energy security efforts. We think these are structural tailwinds. The company also has a strong first-mover advantage and high market share in the trading of carbon derivatives in Europe. The company is well positioned to be a market leader in any other mandatory schemes that are adopted worldwide.
Global agriculture company	Its seed and crop protection products help farmers to maximise yield and increase resilience against climate pressures. The company's products are therefore vital to help feed a growing global population amid more challenging growing conditions. Its crop protection business has the opportunity to help meet the increasing demand for biologicals and lower toxicity products.

Insurance broker	The company helps corporate and insurance customers to quantify and insure physical risks using specialist modelling tools and expertise. While the frequency and severity of natural disasters has increased over the last few decades, only a minority of the total economic losses from these events are currently covered by insurance. We think there is an opportunity for insurance brokers to help customers insure against economic losses from physical risks such as extreme heat, severe storms and earthquakes.

Reflects the views of Independent Franchise Partners, LLP at the date of publication. These examples have been provided for informational purposes only and should not be seen as a recommendation to purchase or sell the securities mentioned.

Recommended disclosure:
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

We primarily focus our climate risk management efforts on our investment portfolios as they are the greatest source of climate risk to the Firm. We describe how we manage climate risks in the portfolios in the Risk management section on page 5.

We do not have a transition plan for the portfolios. Our primary goal is to deliver attractive, risk-adjusted investment returns for our clients. The integration of climate-related considerations into our investment process and our stewardship work is designed to support this goal.

Recommended disclosure:
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

We describe our expectations of the portfolios' resilience against climate risks in part a) of this Strategy section on page 7.

Our approach to climate scenario analysis is stock specific and high level.

We use scenario analysis to evaluate the potential impact of climate-related risks on the demand for companies' products and services, also known as technology and market risks in the TCFD's risk framework. We only conduct this analysis on companies where we think this may be a material risk. For example, this has included companies that sell services to chemical or energy companies, as well as insurers and agricultural companies whose products and services are exposed to physical changes in the climate.

In these cases, we undertake a qualitative analysis of various high-level energy transition scenarios. This involves evaluating how different scenarios may impact the competitive position and intangible asset of the company, and making a judgement on which scenario is more likely. These considerations feed into our judgement of the quality and durability of the company, and our assessment of its appropriate valuation.

We do not use quantitative scenario analysis in our investment process. Therefore, we are not disclosing quantitative scenario analysis metrics in this report. A quantitative approach to scenario analysis requires a large number of assumptions about complex, uncertain events far into the future. We are wary of processes that require multiple assumptions about a distant future as they are liable to produce misleading or unreliable results.

Metrics and targets

Recommended disclosure:
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.[5]

Company-specific financial data: Changes in demand for products and services are the most material climate risks our portfolios face. Therefore, company-specific metrics that help us evaluate this risk are the most important climate-related metrics in our investment process. These include financial data such as revenues, growth rates and market share related to fossil-fuel linked products and lower-carbon products.

Data related to climate physical risks: Where climate change physical risk is a material factor, we also consider data specific to that risk or opportunity. For example, in the insurance industry we consider historic and forward-looking data related to natural catastrophes and economic losses.

Science-based targets and CDP disclosure: These two metrics inform our stewardship efforts with portfolio companies. We describe this work in more detail on page 13.

We think the proportion of companies with a science-based emissions reduction target can provide an approximate indication of the portfolios' preparedness for more stringent climate policies. Importantly, we recognise this metric is limited; it only reflects a company's emissions management within its operations and supply chain, and does not reflect the risks to a company's products and services. We assess these risks through our own company-specific research.

Emissions data: Emissions data does not play a large role in our investment process. As we describe in the Strategy section, our portfolio companies typically have low carbon intensity, and we think their exposure to emissions-related risks is also low.

Temperature alignment metrics: We do not use an implied temperature rise metric to measure the extent to which our portfolios are aligned with a well-below 2°C scenario. We think the large number of assumptions required to calculate this metric make the output misleading.

Instead, we think the proportion of companies with a science-based emissions reduction target is a simpler data point to assess companies' preparedness for changing climate regulation.

Recommended disclosure:
b) Disclose scope 1, scope 2, and, if appropriate, scope 3 greenhouse gas emissions and the related risks

Overleaf we provide emissions data required by the FCA. The data are in relation to the Firm's total assets under management (AUM). We provide additional information on definitions and methodologies in the Appendix.

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[5] *We do not use an internal carbon price and climate change-related metrics are not considered when determining the investment team's remuneration.*

Metric	Franchise Portfolios 2023	2024	% change
Absolute scope 1+2 carbon emissions tonnes CO_2e	63,422	107,675	70%
Absolute scope 3 carbon emissions (upstream only) tonnes CO_2e	965,591	1,587,934	64%
Total absolute carbon emissions (scope 1, 2 + 3 upstream) tonnes CO_2e	1,029,013	1,695,609	65%
Total carbon footprint (scope 1, 2 + 3 upstream) tonnes CO_2e / USD million invested	67	84	26%
Weighted average carbon intensity (scope 1, 2 + 3 upstream) tonnes CO_2e / USD million sales	208	223	7%

Data as at 31 December 2024. Reflects the Franchise investment portfolios and excludes the Firm's operational emissions.
Source: Independent Franchise Partners, LLP, MSCI ESG Research.

The Franchise portfolios' total absolute carbon emissions increased by 65%. A significant driver of this increase was the 30% growth in the Firm's assets under management between 2023 and 2024.

Changes in portfolio positioning that increased the exposure to more carbon intensive companies were the other main driver of the increase in absolute emissions. These changes included the sale of companies that predominantly sell non-physical products – for example, cloud software or online travel booking services – and therefore generate relatively low emissions relative to their revenues. Conversely, we initiated positions in a number of companies in the communication services, consumer staples and industrials sectors which generate comparatively higher emissions relative to their revenues.

The two intensity measures – carbon footprint and weighted average carbon intensity – increased by smaller amounts, 26% and 7% respectively. These increases were primarily driven by the changes in portfolio composition described above.

Risks associated with emissions

The data indicate that Franchise portfolio companies typically generate very few emissions from their own operations (scope 1 and 2). The majority of their emissions are generated by their supply chain (scope 3 upstream).

Scope 1 and 2 emissions are low because the Franchise investment approach favours capital-light businesses. Companies with the largest emissions from their own operations tend to be capital intense, such as oil & gas producers, utilities and metals & mining companies. Franchise companies' low scope 1 and 2 emissions reduce risks that stem from direct climate regulation such as carbon taxes.

Scope 3 upstream emissions are more significant because of the energy-intensive supply chains that are common to many consumer staples, pharmaceutical and technology companies. Companies with carbon-intensive supply chains are likely to experience cost inflation if their suppliers become subject to more stringent environmental regulation. However, Franchise companies typically have strong pricing power, which means they should be able to pass on at least a portion of this cost inflation to customers and mitigate the margin pressures better than the average company in the broader market.

Emissions-intensive supply chains may also create reputational risk among customers and consumers. However, we think Franchise companies are generally well placed to mitigate this risk due to the high proportion of holdings that have committed to or implemented an emissions reduction target. We provide data to support this in Recommended disclosure c) below.

Recommended disclosure:
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

We think emissions reduction targets and climate-risk disclosure are the basic components of a climate risk management strategy for all companies. We have been engaging with portfolio companies that are laggards in this area for the past few years. As part of this engagement work, we became a signatory to the Net Zero Asset Manager's initiative (NZAMI) and set two portfolio engagement targets in 2022.[6]

1. 100% of the Firm's AUM to have a science-based emissions reduction target by 2030.
2. 100% of the Firm's AUM to disclose to the CDP by 2025.

We will not seek to achieve these targets through divestment or exclusion, nor will we construct the portfolios to maximise performance against them. Further, we will always approach these engagements through a materiality lens and take a pragmatic approach to emissions reduction targets.

In January 2025 NZAMI announced a temporary pause in order to evaluate the initiative's aims and membership terms. We continue to engage with companies on climate-related topics, focused on managing long-term, financially material risks.

Going forwards, we do not intend to extend the CDP target beyond 2025. The primary reason for this is that new mandatory climate-risk reporting initiatives have emerged in the U.K., Japan, the E.U. and California. These initiatives introduce a minimum level of climate risk reporting, which was the original aim of our CDP target. As a result, we no longer believe a CDP target is necessary.

Our portfolios' progress against the targets

SBTi emissions reduction targets		2023	2024
SBTi target approved	% AUM	47%	65%*
	Number of companies	16	21*
Committed to set SBTi target	% AUM	20%	2%
	Number of companies	5	2
No SBTi target, no commitment	% AUM	33%	33%
	Number of companies	10	10

CDP disclosure targets		2023	2024
Disclosure to CDP	% AUM	92%	93%
	Number of companies	28	30
No CDP disclosure	% AUM	8%	7%
	Number of companies	3	3

** The number of companies with an approved target includes a company that has not set an SBTi target. This is because its emissions reduction target is approved by the Exponential Roadmap Initiative, which NZAMI recognises as an approved target. Data as at 31 December 2024. Source: Independent Franchise Partners, LLP, SBTi, CDP, Bloomberg.*

[6] *Our targets have a baseline of 31 December 2021 and exclude cash.*

SBTi emissions reduction targets

The changes in the status of the SBTi emissions reduction targets were due to both company-led changes and changes in portfolio composition. The company-led changes included the approval of three portfolio companies' targets,[7] one company committing to a target, and one company that had previously committed to a target withdrawing its commitment.

CDP disclosure targets

The changes in CDP disclosure were driven by changes in portfolio composition rather than company-led changes.

[7] *This includes one company that has not set an SBTi target but has an emissions reduction target that is approved by the Exponential Roadmap Initiative, which NZAMI recognises as an approved target.*

Appendix

Carbon emissions classifications: The Greenhouse Gas Protocol established a global standardised framework to measure and categorise carbon emissions. There are three categories, or scopes.

- **Scope 1:** Direct emissions from owned or controlled sources.
- **Scope 2:** Indirect emissions from the generation of purchased energy.
- **Scope 3:** Indirect emissions that occur from sources the company does not own or control. Scope 3 emissions can be further categorised into upstream and downstream.
    - **Upstream:** Emissions generated by a company's suppliers in the provision of materials or services.
    - **Downstream**: Emissions generated by the transport, use and disposal of a company's finished goods and services.

Total absolute carbon emissions: Represents the total greenhouse gas emissions from a portfolio. To calculate total emissions, scope 1, 2 and upstream scope 3 emissions are allocated to a portfolio using an equity ownership approach. Using this approach, if an investor owns 5% of a company's market capitalisation, the investor also owns 5% of the company's emissions.

$$\sum_i^n \left(\frac{current\ value\ of\ investment_i}{issuer's\ market\ capitalization_i} * issuer's\ Scope\ 1, Scope\ 2\ and\ Scope\ 3\ Upstream\ GHG\ emissions_i\right)$$

Total carbon footprint: Represents the greenhouse gas emissions of a portfolio based on a $1 million investment. It takes the total absolute carbon emissions of a portfolio and normalises this figure by the market value of the portfolio.

$$\frac{\sum_i^n \left(\frac{current\ value\ of\ investment_i}{issuer's\ market\ capitalization_i} * issuer's\ Scope\ 1, Scope\ 2\ and\ Scope\ 3\ Upstream\ GHG\ emissions_i\right)}{current\ portfolio\ value\ (\$mn)}$$

Weighted average carbon intensity (WACI): Reflects a portfolio's exposure to carbon intensive companies. It allocates emissions to a portfolio based on portfolio weights, rather than the equity ownership approach used to calculate total absolute carbon emissions and total carbon footprint.

$$\sum_i^n \left(\frac{current\ value\ of\ investment_i}{current\ portfolio\ value} * \frac{issuer's\ Scope\ 1, Scope\ 2\ and\ Scope\ 3\ Upstream\ GHG\ emissions}{issuer's\ \$mn\ revenue_i}\right)$$

Limitiations of emissions data: We source greenhouse gas emissions data included in this report from MSCI ESG Research. There are multiple challenges with this data. The most significant challenge is that MSCI ESG Research, like most data providers, uses a combination of reported and estimated emissions data due to a lack of consistent company disclosure.

SBTi emissions reduction targets:

- **SBTi target approved:** Reflects whether a company has had their emissions reduction target approved by the Science Based Targets initiative.
- **Committed to set SBTi target:** Reflects whether a company has committed to develop a target within the next two years.

The SBTi provides an independent standard for emissions reduction goals and offers verification of companies' targets. However, we recognise that these standards are still in the early stages of development, and we are mindful that an SBTi-aligned target may not be appropriate for all companies.

CDP disclosure targets:

- **Disclosure to CDP:** Reflects companies that have provided a report to the CDP.
- **No CDP disclosure:** Reflects companies that have not provided a report to the CDP.

We think disclosure to the CDP is a helpful proxy for whether a company has established the most basic climate-risk management processes.

Important information

For professional investors only and not to be used with the general public.

The document has been prepared as information for professional investors and it is not a recommendation to buy or sell any particular security or to adopt any investment strategy. The material has not been based on a consideration of any individual client circumstances and is not investment advice.

The comments reflect the views of Independent Franchise Partners, LLP at the date of publication and are subject to change without notice to the recipients of this document.

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