EdenTree SRI Expert Briefing – May 2016

Carbon Footprinting

Introduction

Following the positive Paris agreement reached at COP21 in December 2015, it is clear that all countries and economic sectors have to contribute to the global goal of managing climate change in order to contain temperature increases within 2 degrees of pre-industrial temperatures. In this SRI briefing we discuss the reasons behind our decision to commission our first carbon footprint for the Amity UK Fund, as well as the outcome.

Q. Why should investors be concerned about carbon emissions?

A. Carbon emissions are directly linked to climate change, which already affects our environment, society and economy. As shareholders, we part-own the companies we invest in. From this perspective, we also own the emissions generated by those companies and have a role to play in encouraging businesses to manage their emissions and implement a robust climate change strategy. In a carbon constrained world, businesses that are managing their impacts have a competitive advantage and are better insulated against increasing regulatory requirements. Investors have already affirmed their commitment to a safer climate when in December 2015 over 120 investors globally signed the Paris Pledge for Action during COP21.

Q. How does EdenTree manage climate change risks?

A. When looking for investments, the Amity positive pillar of environmental management is key to addressing a business' ability to reduce its impact on the environment and to limit its contribution to greenhouse gas emissions. We look for companies that show a good understanding of their environmental impact and have a strategy in place to manage it. In 2015, EdenTree became a member of the Institutional Investor Group on Climate Change (IIGCC), which brings together 120 European members with total assets under management of €13 trillion. IIGCC aims to engage with public policy makers on behalf of investors in order to facilitate the transition to a low carbon economy. Arising out of our membership of IIGCC we decided to commission South Pole Group, a Swiss based climate action solution provider, to assess the carbon footprint of our Amity UK Fund. This first carbon footprint gives us an insight into the fund's emissions and the associated risks.

Q. What is a carbon footprint?

A. A carbon footprint measures the carbon emissions of an investment portfolio. Total tons of CO_2 are calculated for all individual holdings and proportionally allocated to the shareholders. For our footprint, we have looked at the financed emissions and to what extent the individual companies within the portfolio contribute to the Fund's carbon impact. The total footprint is then articulated as the total tonnes of CO_2 financed by the assets under management of the fund. Another way to look at the results is CO_2 emissions per £ invested which is helpful for comparison purposes and equates exactly with the size of the investments.

Q. How are emissions calculated?

A. Emissions can be accounted for in different ways and are usually split between direct and indirect emissions. Direct emissions are called Scope 1 emissions and reflect the company's own emissions that arise from a company's facilities and vehicles. Scope 2 and Scope 3 emissions are indirect; however the company still has responsibility for them to some extent. Scope 2 emissions relate to the electricity and heat purchased by the company, while Scope 3 includes emissions produced downstream and upstream, and covers supply chain, employee commuting and end product use. For our first footprint we have decided to focus solely on Scope 1 and 2. Measurement of Scope 3 is still at an early stage and relies more on assumptions; there is also a risk of double counting certain emissions which impairs the accuracy of the analysis.

Q. Where does the information come from?

A. The footprint is based on publicly available information disclosed by the companies in their annual sustainability reporting or in their submission to the Carbon Disclosure Project (CDP)**.** Our independent provider South Pole validates the trustworthiness of the available data and makes assumptions for the minority of companies where data is not available. Disclosure of carbon emissions has significantly improved over the last few years and international reporting standards have emerged. The Amity UK Fund footprint was based on 78% available data with 22% being subject to assumptions[1].

Q. What are the benefits of a carbon footprint?

A. The carbon footprint supports our overall climate strategy which is to offer clients a range of responsible investment products that are also potentially low carbon. It helps us too with risk management, enabling us to analyse and understand the main contributors to low and high carbon intensity within the Fund. We will then engage with the outliers. Questions about climate change, carbon emissions and fossil fuel divestment are among the most frequent topics clients ask us about. The footprint thus presents a useful tool in reporting to clients on a material risk based on an independently verified process.

Q. So what does the carbon footprint for the Amity UK Fund look like?

A. We intuitively expected our Amity UK Fund to be less carbon intense than its benchmark, the FTSE All Share Index, and South Pole's analysis has proven just that. The analysis provides a useful breakdown per sector which will help us assess the risks and instruct future engagement. Overall, the Fund has an annual carbon impact of 13,146 tonnes of CO_2e, or 58% less carbon intense than an equivalent investment in the benchmark.

Q. How do different sectors contribute to the carbon footprint?

A. The Amity UK Fund is underweight in the energy sector, as this is screened out, while the benchmark is strongly biased towards those heavy emitting sectors. This contributes significantly to the positive results of the Fund. Careful stock selection also means that despite investments in industrials and materials, which are energy intensive, our stock allocation to those sectors also contributes to the lower carbon footprint of the Fund.

Climate Transparent Investment

Certified by south pole group

Q. What is next on EdenTree's climate change agenda?

A. The outcome of the first footprint is very encouraging. Despite an overall portfolio that is relatively carbon light, a small number of holdings are responsible for half of the fund's emissions. We have started a constructive dialogue with those companies, encouraging them to make further progress on energy efficiency, the use of alternative production methods and switch to more climate friendly energy sources. We will actively monitor their progress. Meanwhile, through our partnership with IIGCC, we participate in public policy lobbying where appropriate, in order to contribute to the transition to a low carbon economy. Next, we will also consider analysing the carbon emissions of our other Amity equity Funds. If you have any questions about the carbon footprint or would like more details of the emission analysis, we will be happy to discuss this further with you.

[1] The footprint of the FTSE All Share Index is based on 75% available data.

The EdenTree SRI Team

We have a specialist in-house Socially Responsible Investment (SRI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of **Amity Funds**. Headed up by Neville White, Head of SRI Policy & Research, and supported by Fund Manager Ketan Patel and Responsible Investment Analyst Esmé van Herwijnen, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. For investors, it's an added layer of assurance that client money is being invested in companies that are operating in a responsible and sustainable way. Our ethical and responsible investment process is overseen by an independent Amity Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.

EdenTree - Ethical Investment Specialist

Since launching the **Amity UK Fund** in 1988, EdenTree has taken a leadership role in managing ethical investments through our research, engagement and strong fund performance. Consequently, we were delighted to receive the Moneyfacts Award for Best Ethical Investment Provider 2015, the seventh consecutive year of winning this award. We were particularly pleased to win as it is voted for by the Adviser community. In 2013, the **Amity UK Fund** was rated 'Highly Commended' in the Investment Week Climate Change and Ethical Investment Awards. We were also awarded Money Observer Best Ethical-SRI Bond Fund for the **Amity Sterling Bond Fund**; the **Amity UK Fund** won Best Equity Fund in the 2014 Money Observer Ethical/SRI category, and we were nominated for an award in the category of Best Thought Leadership Paper on Sustainable Investing, in the Investment Week Sustainable Investment Awards 2014. Today we offer six SRI funds under our Amity brand, four retail funds and two for charity investors, covering the major markets and investment classes.

Further information

For further information on EdenTree's SRI range of Amity Funds please contact your EdenTree Business Development Manager, visit www.edentreeim.com or call our IFA support team on 0800 011 3821.