PORTFOLIO CARBON FOOT PRINTING
FREQUENTLY ASKED QUESTIONS

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Q. What are the Investment Risks from Climate Change?

A. AMP Capital has been assessing the climate risks of its investments for over a decade. During this time AMP Capital has been engaging with companies and taking an active part in policy discussions. Climate change risk can manifest itself in many ways, including through:

> Physical impacts of climate change on investments

> Potential impacts on the demand and price of commodities, in particular fossil-fuels, as the world decarbonises

> Potential regulatory or government policy changes to drive a decrease in greenhouse gas emissions

Q. What is Carbon Footprinting?

A. Understanding the greenhouse gas emission profile of a company is an important step in assessing the last of the risks listed above. Carbon footprinting is a way to measure the exposure of a portfolio of companies to greenhouse gas emissions. Examining the carbon footprint across a portfolio is the first step towards understanding investment risk and provoking a discussion of the investment impact of emissions.

A carbon footprint is the total quantity of greenhouse gas produced both directly and indirectly to support a company's activities. To minimise the potential for double counting emissions, AMP Capital consider Scope 1, i.e. direct emissions and Scope 2, i.e. as a result of electricity used in their analysis. As there are many different greenhouse gases, each of which has a different impact on the environment (greenhouse potential), the measure most commonly used is tonnes of carbon dioxide that would have an equivalent greenhouse effect to the emissions actually made (carbon dioxide equivalent or CO_2e).

Q. What does the AMP Capital Carbon Footprint mean?

A. AMP Capital measures the kilograms of CO_2e per thousand dollars of money invested in the fund, for example, if a fund's carbon footprint is 100 kgs CO_2e/$,000 FUM, then for every thousand dollars invested in the fund the companies invested in the fund emit 100 kgs of CO_2e/yr, for the latest year we have data for.

We also calculate the emissions of the Investment Index against which the fund's financial performance is typically assessed against, e.g. ASX200 Index for Australian Equity Funds. Comparing the two numbers gives an indication of the whether the fund is less, or more, exposed to greenhouse gas emissions.

Q. How does AMP Capital Measure the Carbon Footprint of its Funds?

A. In looking at the carbon footprinting of equity funds, AMP Capital has decided to use a measurement of kilograms of CO_2e produced per year per thousand dollars invested into a fund. Others use metrics such as tonnes CO_2e per million dollars of revenue per year or tonnes CO_2e per million dollars profit produced per year by companies invested in but AMP Capital feels that when investing into a share fund the investment is into equity in companies so measuring the amount of CO_2e required to produce an amount of equity is the most appropriate measure.

Q. What are the Limitations of Carbon Footprinting?

A. In reporting emissions, many companies only report the emissions from operations they control. However in many industries, especially the mining, oil and gas industries where ownership and operation of assets are often different, the economic interest of a company depends on the level of ownership, or equity in an operation, irrespective of whether they control the operation. As companies tend to report only operational emissions it is only with a deep understanding of the business of a firm that equity-based emissions can be estimated.

There is also a risk of "double counting emissions". When measuring the carbon footprint of funds, AMP Capital has used both Scope 1 and 2 emissions. However, in a fund containing both electricity generators and the consumers of that electricity generator some of the generators' scope 1 emissions will also be counted as the scope 2 emissions of the consumers. At present it is not possible to avoid some degree of double counting although as data sources for emissions improve and methodologies for calculating carbon footprints become more robust double counting of emissions may become less of an issue.

Q. Do all Companies Report their Carbon Emissions?

A. No. While many firms are transparent about the CO_2e emitted in their operations or in the operation of the assets in which they hold equity, others are not. Where a firm does not release data regarding their emissions AMP Capital will seek to estimate their emissions. Where possible we try to estimate the emissions based on the level of greenhouse gas intensive activity, e.g. amount of coal burnt at a power station. If this is not possible, we estimate the emissions based on the emissions of peer group companies, scaling for the respective size (enterprise value) of the company in question. We recognise that this introduces a degree of uncertainty to the measurement of the carbon footprint of a fund and AMP Capital tries to assess the level of the uncertainty this may bring. It is one of the reasons why AMP Capital would like to see all listed companies report their greenhouse gas emissions.

Q. Can a Portfolio have a Zero Footprint?

A. Energy is a necessary input for almost all companies and much energy production still results in greenhouse gas emissions. For example a renewable energy company may have an office that uses electricity produced using fossil fuels or have petrol-powered cars on the road and so be responsible for greenhouse gas emissions. While the company produces renewable electricity its carbon footprint may not be zero. Similarly companies such as banks and insurance companies, while not being large emitters of greenhouse gases, will still have some emissions.

As a result a fund that invests solely in very low emitting sectors or even just in renewable energy companies is likely to have a positive carbon footprint.

Q. What About other Carbon Risks or Other Asset Classes?

A. AMP Capital assesses other carbon risks at a company level. The best approach to assess these risks in a way which allows meaningful aggregation at a portfolio or fund level is still being developed.

AMP Capital assesses the climate change risk of its investments in fixed interest, direct property or direct infrastructure, at a company or investment entity level.

Q. Want to Find out More About how AMP Capital Assesses Carbon Risk?

A. AMP Capital has written paper which describes how it considers climate risk, which provides more information on our approach to carbon foot printing and assessing potential "stranded asset" risk. It is available at: www.ampcapital.com.au/AMPCapitalAU/media/contents/Articles/ESG%20and%20Responsible%20Investment/201602-insight-paper-esg-climate-change.pdf

CONTACT DETAILS

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