Cbus FY-2020 Financed emissions methodology

1.0 Coverage of asset classes

The Cbus methodology for financed emissions for FY20 covered the equities, infrastructure and property asset classes. These three asset classes represented ~70% of the total Cbus funds under management (FUM). The decision to focus on these asset classes initially was based on the following criteria:

- **Access to data at an asset or company level**
- **Existing methodology that enables investors to attribute asset or company-level emissions to portfolio holdings**
- **Materiality of the asset class as a % of funds under management (FUM)**

Cbus will endeavour to expand the coverage to include additional asset classes over time, and as data and methodologies become available.

Given the delay is reporting of carbon data, Cbus has reported emissions data for the FY20 portfolio in the Cbus FY21 Annual Integrated Report and Responsible Investment supplement. The carbon data used in this analysis was a mix of 2019 and 2020 data, utilising the most current data available in each instance. Once 2020 carbon data is available across all asset classes being measured, the Cbus footprint for FY20 will be updated.

Efforts were made to identify asset level data across the three asset classes being measured. However, where this wasn't possible the emissions data included estimations, made both by our listed data provider, Urgentem, and within the Cbus methodology. Cbus will continue to refine its estimation methodology as publicly available data continues to improve.

2.0 Listed Equities

Scope covered

Scope 1, 2 and 3

Cbus calculated the scope 1, 2 and 3 financed emissions for the equity portfolio. It should be noted that scope 1 and 2 financed emissions sit within the Cbus emissions reduction targets.

The methodology described in this section was used to determine financed emissions for the Cbus equity portfolio and for listed infrastructure and property assets that sit within the Infrastructure and Property portfolios.

Equity portfolio coverage

99.9% (with cash positions excluded[1])

Attribution of emissions

To calculate Cbus' financed emissions, a share of each investee company's absolute emissions is attributed to the relative share of Cbus investment in that company. Cbus was informed by both The Partnership for Carbon Accounting Financials (PCAF)[2] and The Task Force on Climate-related Financial Disclosures (TCFD)[3] methodology when determining how to attribute emissions to our equity holdings. The attribution factor used by Cbus was the ratio of our investment value to the value of the company, where the value of the company was the enterprise value including cash (EVIC). EVIC data was provided by MSCI.[4]

$$\textit{Attribution factor} = \frac{\textit{Current value of investment}}{\textit{Enterprise Value including Cash}}$$

[1] A methodology for attributing carbon emissions to cash investments has not been established. As such, Cbus excludes cash positions when determining portfolio coverage or FUM for a given portfolio.
[2] carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf
[3] assets.bbhub.io/company/sites/60/2021/05/2021-TCFD-Metrics_Targets_Guidance.pdf
[4] A small subset of EVIC data was compared to data from financial databases (enterprise value) and company balance sheets (cash and equivalents) to confirm comfort with data quality.

2.0 Listed Equities *(continued)*

Data

Company level emissions data for Cbus equity holdings was provided by Urgentem. The data included a mix of reported and estimated data. Company sustainability reports and CDP[5] disclosures were used to verify (and update) data as needed.

Company emissions covered the total annual emissions for each company and the investment value was calculated at June 30 2020. The most recent carbon dataset available from Urgentem when producing this analysis was the 2019 dataset. Company sustainability reports were used to update the emissions of Cbus' top 40 emitters to 2020 data where available (28 of the top 40 emitters had published sustainability reports with 2020 emissions data at the time of preparation), otherwise 2019 carbon data was used. The equities analysis for FY20 will be updated once a full 2020 carbon dataset becomes available.

Equation to calculate financed emissions

The equation below shows how the financed emissions were determined for the Cbus equity portfolio.

$$\sum\left(\left(\frac{\text{Current value of investment}}{\text{Investee company EVIC}}\right) \times \text{Investee company emissions}\right)$$

Equation to calculate weighted average carbon intensity

While not related to financed emissions, Cbus also calculated the weighted average carbon intensity for the equity portfolio using the formula below. This calculation was run for the FY19, FY20 and FY21 equities portfolios using 2019 carbon intensity data (scope 1 and 2 emissions/ $M revenue). Given WACI is a benchmark-relative measure, it was determined that the lag in carbon data shouldn't prevent the FY21 analysis. As 2020 and 2021 carbon data becomes available this analysis will be updated.

$$\sum\left(\left(\frac{\text{Current value of investment}}{\text{Current portfolio value}} \times \frac{\text{Issuer's Scope 1 \& Scope 2 GHG emissions}}{\text{Issuer's \$M revenue}}\right)\right)$$

Limitations

The potential side effect of using EVIC to attribute emissions is that an increase in the denominator (either the issuer's equity or debt position) can result in a reduction in emissions. Cbus also tracked the absolute emissions of the companies we invested in and the ratio of investment value to EVIC to help identify where changes in EVIC were contributing to changes in financed emissions.

Data availability is also a limitation to this analysis. Where carbon data is not reported by a company or is not deemed to be robust in nature (e.g., data is incomplete, lacks third party assurance), Urgentem use their extensive dataset to estimate a company's emissions based on the company's SASB industry group. In the FY20 Cbus portfolio, 38% of companies fell into this category. Cbus would hope that the proportion of investee companies reporting compete, robust data increases over time.

[5] cdp.net/en/

3.0 Infrastructure

Scope covered

Scope 1 and 2

Infrastructure portfolio coverage

97.5% (with cash positions excluded[1])

Attribution of emissions

Cbus was informed by the PCAF methodology when determining how to attribute emissions to our infrastructure holdings. The attribution factor used by Cbus was the ratio of our investment value to the value of the asset, where the value of the asset was the total equity plus debt.

$$\text{Attribution factor} = \frac{\text{Current value of investment}}{\text{Total equity + debt}}$$

Data

Asset level emissions for the Cbus infrastructure portfolio were obtained from a number of sources; external fund managers, asset sustainability reports and GRESB reports[6]. Where possible, multiple data sources were used to corroborate emissions data.

One external manager provided data at a sector level, rather than an asset level. In this case, emissions were attributed to the individual assets within each sector based on their equity share within the sector.

Data reported by some of the individual assets held by this manager was used to supplement this analysis. In time we would hope to have access to complete individual asset level data.

Asset emissions covered the total annual emissions for each asset and the investment value was calculated at June 30 2020. Some managers reported emissions data on a calendar year basis, and others reported on a financial year. Where the manager reported on a calendar year, the CY2019 was used for the Cbus FY20 analysis. One asset only had 2017 carbon data available. This data was used but will be updated when the asset reports more recent data.

Equation to calculate financed emissions

The equation below shows how the financed emissions were determined for the Cbus infrastructure portfolio.

$$\sum\left(\left(\frac{\text{Current value of investment}}{\text{Total equity + debt}}\right) \times \text{Infrastructure asset emissions}\right)$$

Limitations

The potential side effect of using equity plus debt to attribute emissions is that an increase in the denominator (either the asset's equity or debt position) can result in a reduction in emissions. Cbus also tracked the absolute emissions of the assets we invested in and the ratio of investment value to equity plus debt to help identify where changes in equity or debt were contributing to changes in financed emissions.

Data availability is also a limitation to this analysis, resulting in estimations and out-dated carbon data being used. Ideally, our access to current, asset-level emissions data will increase over time.

[6] gresb.com/

4.0 Property

Scope covered

Scope 1 and 2

Property portfolio coverage

100%

Data

Property level emissions data was provided by Cbus' external fund managers. Managers either provided total scope 1 and 2 emissions for each property or the scope 1 and 2 emissions that fell under their operational control for each property. Operational control relates to the share of the property where the fund manager has the authority to introduce and implement operating policies[7].

Property emissions covered the annual emissions for each property and the investment value was calculated at June 30 2020.

Equation to calculate financed emissions

One fund manager provided the total scope 1 and 2 emissions for each property along with the Cbus ownership of each property, this data was used to determine the emissions attributable to Cbus.

All other external fund managers provided Cbus with their financed emissions (the emissions that fell under their operational control). The Cbus ownership of each fund was then used to attribute a portion of the financed emissions of each manager to the Cbus portfolio.

Equation to calculate carbon intensity

External fund managers provided Cbus with emissions data and the associated net lettable area (m^2) for their portfolios. Cbus was able to then generate a carbon intensity for the Cbus property portfolio as a whole (tCO_2e/m^2) using the formula below.

$$\frac{\Sigma \text{ Carbon emissions}}{\Sigma \text{ net lettable area } (m^2)}$$

Limitation

Cbus is relying on manager calculations to determine the emissions attributable to the Cbus property investments. Ideally, in time, we would hope to have access to the complete building emissions.

5.0 Portfolio level calculations

Equation to calculate financed emissions per $M invested

Cbus has used a carbon intensity metric to track progress towards emissions reduction targets. This ensures the ability to track progress over time regardless of FUM growth, mergers etc.

$$\frac{\Sigma \text{ financed emissions}}{\text{FUM in \$M (AUD)}}$$

The carbon intensity metric of financed emissions per $M invested was calculated as below, where the financed emissions across the equities, infrastructure and property portfolios were summed and divided by the FUM in millions across those three asset classes.

[7] cleanenergyregulator.gov.au/NGER/Reporting-cycle/Assess-your-obligations/Facilities-and-operational-control