

ST. JAMES'S PLACE WEALTH MANAGEMENT

# SHANGHAI CARBON EMISSIONS REPORT

Helping clients achieve financial wellbeing  
in a world worth living in

Q4 2020





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We want to help all our clients  
achieve financial wellbeing in a  
world worth living in

Robert Gardner  
Investment Director



# OUR COMMITMENT

The view that investments are measured by value alone is changing. In a world awake to the challenges of climate change, energy consumption and pollution, contemporary investing is about achieving financial wellbeing in a world worth living in.

Understanding climate change risk within your portfolio is increasingly important as world policy continues to evolve. Our commitment to support you, and future generations, means helping you be conscious of the impact your investment has on climate change, as well as how carbon risk could affect your investment value.

As part of our distinctive approach to investment management, we carefully assess external fund managers' attitudes to responsible investing. We review how they address environmental, social, and corporate governance in their decision-making, and how their investment strategy helps reduce climate risk.

We believe what gets measured, gets managed. Reporting the carbon footprint of our St. James's Place (SJP) Portfolios allows us to identify opportunities for change. And this is just the beginning. We'll continue aligning our SJP Portfolios with targets based on scientific developments, with the ambition of delivering you greater insight into your investments.



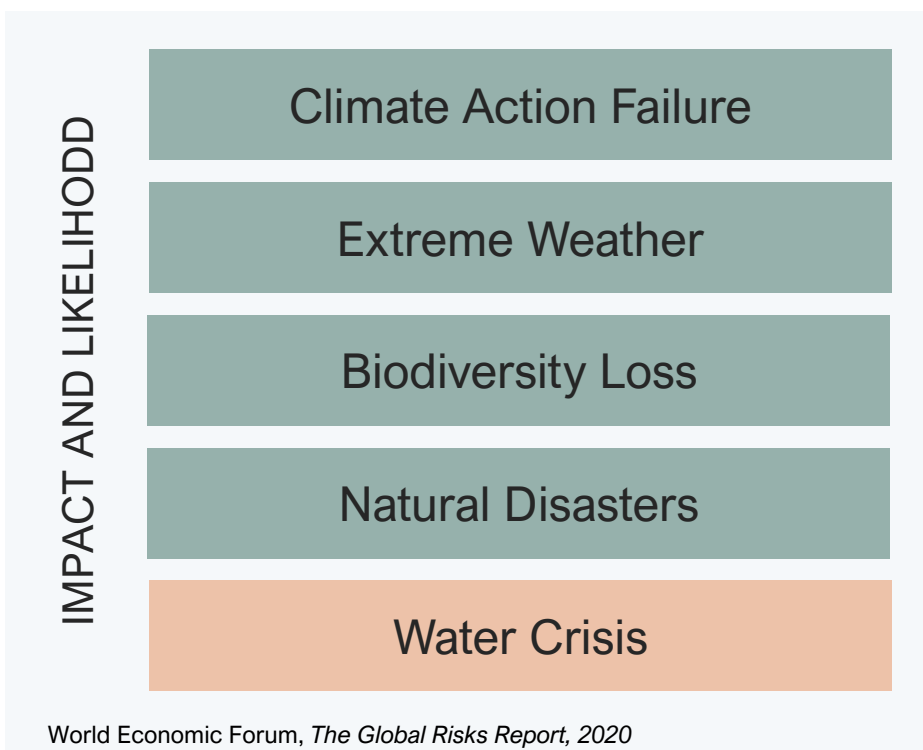
Robert Gardner, Investment Director



# THREATS TO OUR GLOBAL ECONOMY

The World Economic Forum conducts research every year identifying the greatest risks to the global economy, by likelihood and impact. This list includes events such as cyber attacks, political conflicts and global pandemics.

The top five greatest risks to global economies the World Economic Forum identified in 2020 are listed below:



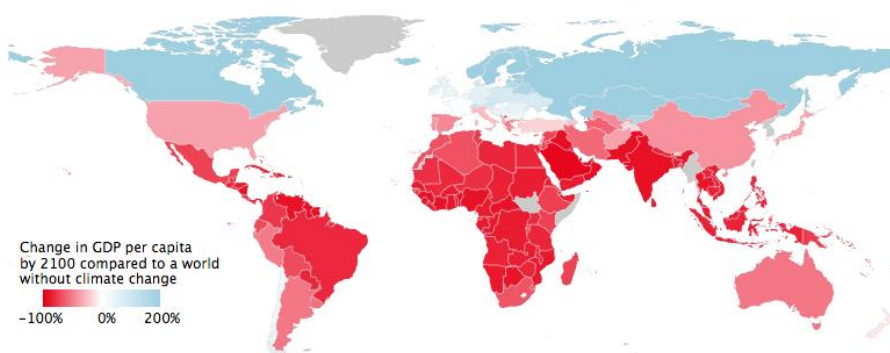
Category of risk according to the World Economic Forum:

 Environmental Risk       Societal Risk

# THE TRANSITION TO A LOW-CARBON ECONOMY

The transition to a low-carbon economy will create economic winners and losers. Many major governments have set legally binding targets to reach net zero emissions by 2050\*. This will create huge structural change to our economies and society as we know it, including regulation and disruptive technological solutions. There will be consequent opportunities for companies who are actively seeking solutions to these changes and aligning their business models for this transition.

Expected impact on GDP in the year 2100 as a result of climate change Burke et al, University of California, Berkley, 2015



“...a climate-friendly economy would generate \$26 trillion and create 65 million jobs by 2030.”

UN Global Commission, 2018

\*Net zero emissions refers to achieving carbon neutrality by balancing CO<sub>2</sub> emissions with CO<sub>2</sub> removal, or elimination of all CO<sub>2</sub> emissions.

1 <https://www.worldbank.org/en/news/feature/2011/12/13/world-bank-supports-thailands-post-floods-recovery-effort>

2 <https://www.cbo.gov/system/files/2019-04/55019-ExpectedCostsFromWindStorm.pdf>

3 [https://brill.com/view/journals/tjis/2/1/article-p118\\_118.xml?language=en](https://brill.com/view/journals/tjis/2/1/article-p118_118.xml?language=en)

The number of catastrophes caused  
by natural hazards increased from  
249 in 1980, to 820 in 2019.

Christine Lagarde  
President of the European Central Bank



# THE EFFECT OF CO<sub>2</sub> ON OUR PLANET

Carbon dioxide (CO<sub>2</sub>) is a 'heat-trapping' gas released as a result of natural processes such as respiration and volcanic eruptions. However, CO<sub>2</sub> is also released through human activities including deforestation and burning of fossil fuels. What effect could this have?



CO<sub>2</sub> emitted into the atmosphere



Temperature increases



Ice caps melt, releasing greenhouse gases, increasing global temperature further



Melting ice caps cause rising sea levels, and increased ocean acidity

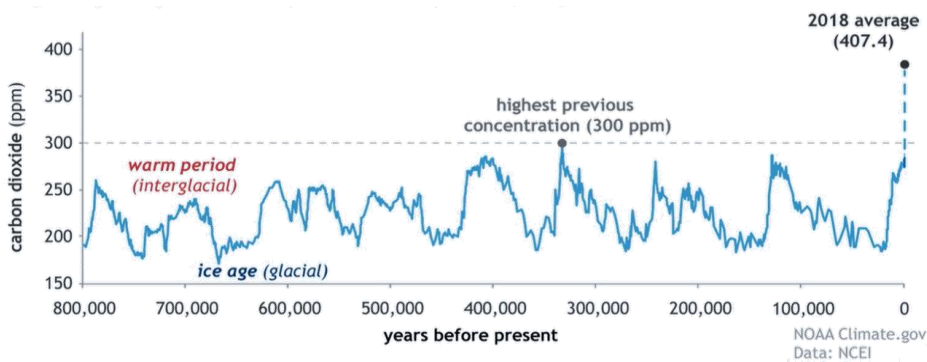


Leads to increased severity and frequency of flooding, droughts and tropical cyclones



# METHODS OF MEASURING CO<sub>2</sub>

CO<sub>2</sub> levels are measured in parts per million (ppm). The magnitude of this figure can help indicate the 'health of the planet'. In 2018, the global average atmospheric carbon dioxide was 407.4 ppm. This is the first time in 800,000 years that concentrations of CO<sub>2</sub> passed 400 ppm and prompted environmental scientists to warn that we're now in the danger zone of climate change.



Passing the 400 ppm threshold should motivate us to reduce the CO<sub>2</sub> growth rate. And change can happen when we work together. The COVID-19 pandemic showed how governments, businesses, and individuals are united when faced with a shared threat. We've shown we can change, and we have the power to reduce the CO<sub>2</sub> growth rate by considering the companies in which we invest our money.

“Climate change is no longer a far-off problem; it is happening here, it is happening now.”

Barack Obama

Former President of the United States

# OUR COMMITMENT TO MANAGING OUR CARBON EMISSIONS

At St. James's Place, we are committed to reducing our environmental impact through our business activities and funds under management.

## Our progress

In 2019, we became formal supporters of the Taskforce for Climate-related Financial Disclosures (TCFD). In addition, we set short- and long-term targets to reduce our environmental impact, with the intention to align with science-based targets. Our environmental targets can be found in our [Annual Report](#).

On our journey to meet these targets, we recognise the emergency of climate change and, therefore, have offset our 2019 emissions through carbon offsetting, an initiative we will repeat each year.

**How we're carbon offsetting?**

Working with our sustainability partners, Eco Act, we have selected a range of carbon offsetting projects which meet the Verified Carbon Standard (VCS) or the Gold Standard accreditation. The projects deliver environmental, economic and social benefits to the communities in which they're based. The projects include:

- Preserving biodiversity in Northwest Brazil** – preventing deforestation and the subsequent destruction of natural habits.
- Solar power generation in India** – shifting towards a low carbon economy by generating electricity from a renewable resource.
- Helping communities in Kenya** – providing affordable, clean and efficient cookstoves to reduce harmful emissions.

ST. JAMES'S PLACE  
WEALTH MANAGEMENT

As a result of the coronavirus pandemic, our entire workforce moved swiftly to remote working, which saw a significant reduction in our business travel – a key factor to our [scope 3](#) emissions. COVID-19 has allowed us to think differently about how we operate, and further embed technology into our day-to-day activities, all of which create environmental efficiencies.

To find out more about our approach to environmental sustainability, visit [our website](#).

# READING THE PORTFOLIO REPORTS

The following pages in this report provide a useful insight into the carbon footprint of our portfolios. This is an important step with regards to the responsible investment commitment and analysis at St. James's Place, providing full disclosure and transparency on a key sustainability metric across our entire proposition.

As a company, St. James's Place are considerate of our own carbon footprint. We source all of our electricity for UK premises from renewable sources, and have firm five-year targets in place to reduce our employee travel miles.

When reading these reports, the conclusions should not be overstated. The carbon footprint of a portfolio is a useful measure to track over time and discuss with our fund managers. Carbon footprints can be used to assess the climate related risks of a portfolio, however, this is only one measure that needs to be examined as one aspect of the transition to a low carbon, and more sustainable, way of life.

It is imperative that we are open with all our stakeholders and recognise that we are at an early stage in our journey towards greater disclosure. We will continue to work with our fund managers to ensure we promote and influence the consideration of climate risks within their investment process. St. James's Place does not mandate a specific intensity target for our portfolios or funds, instead we actively monitor this metric. The team will engage with managers if there has been a substantial increase in carbon intensity and this will typically involve a stock specific case study on a firm which has particularly high emissions. This forms part of a much wider monitoring and engagement programme on our managers' approach to environmental, social and governance risks in their respective portfolios.

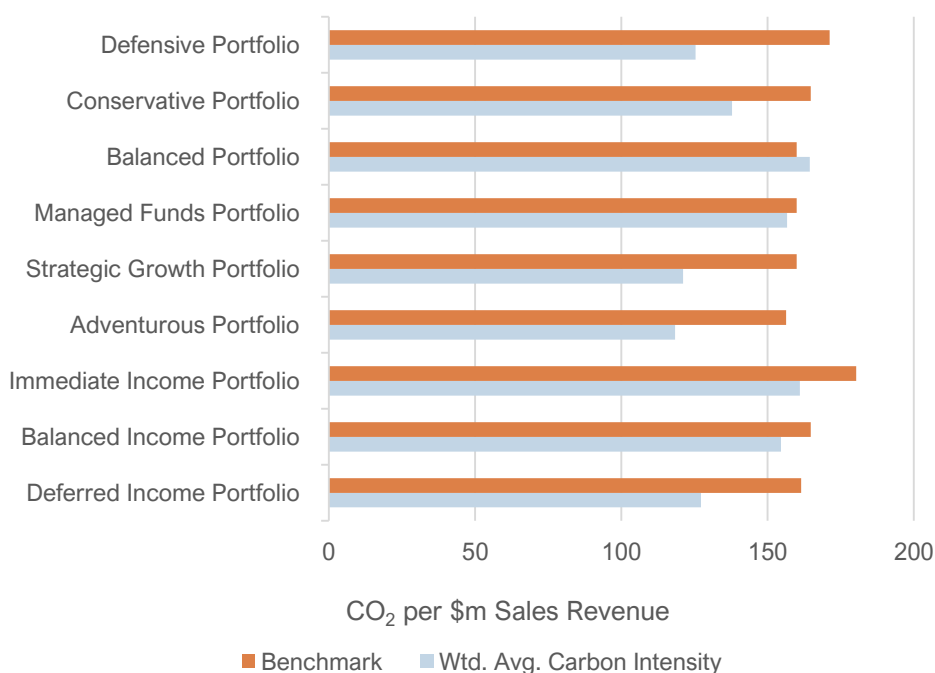
If you have any questions relating to these portfolio reports and your own investment portfolio please contact your St. James's Place Partner. CO<sub>2</sub> emissions for St. James's Place funds will be available in the Value Assessment Statement.



# INTRODUCTION TO CARBON FOOTPRINTS

The reporting and analysis of our portfolios' climate related, as well as broader sustainability related, impacts will only improve over time, as we increase our infrastructure and the quality of company data improves.

All companies have a carbon footprint as a result of their business operations and energy consumption. The carbon footprint of the SJP portfolios is collated by data provider MSCI. This allows us to monitor and review the carbon footprint of all our underlying holdings.



The following pages look at each of our portfolios' carbon intensity versus a comparable benchmark. Analysis has also been undertaken on what sectors within the portfolio are significantly contributing to the overall intensity. In-depth methodology can be found [here](#).

St. James's Place Growth Portfolios  
**Carbon Footprints**



# DEFENSIVE PORTFOLIO

[Methodology available here](#)

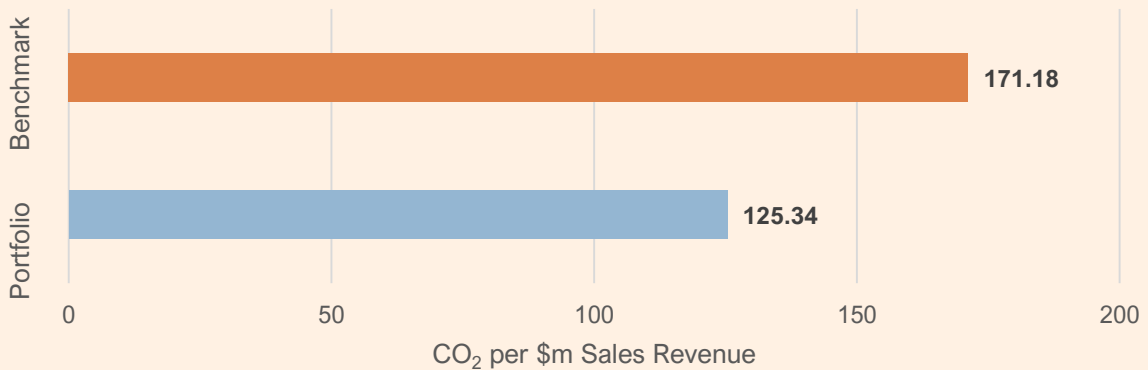
Carbon intensity compared to its benchmark weighted by asset class

**-27%**

Data coverage of the portfolio. Click [here](#) for more information

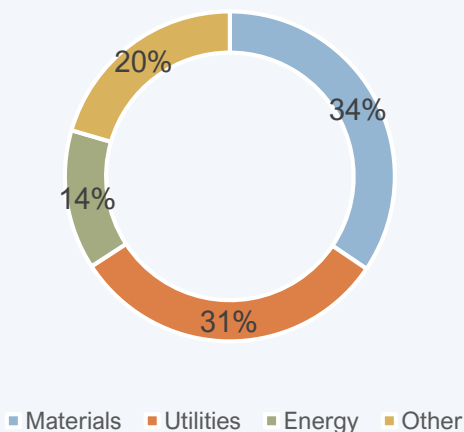
**39%**

## PORTFOLIO VS BENCHMARK



Data true as of 31/12/2020

## Sector Carbon Intensities



Lower carbon intensity than its asset class weighted benchmark.

Reasonable data coverage given the asset classes. Limited data for Gilts and Alternative Assets.

The sectors with the highest carbon intensity are Materials, Utilities & Energy.



# CONSERVATIVE PORTFOLIO

[Methodology available here](#)

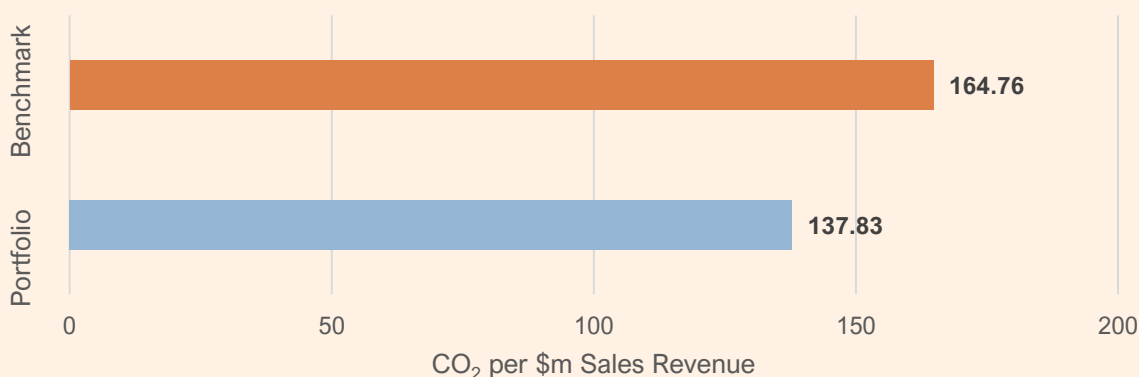
Carbon intensity compared to its benchmark weighted by asset class

**-16%**

Data coverage of the portfolio. Click [here](#) for more information

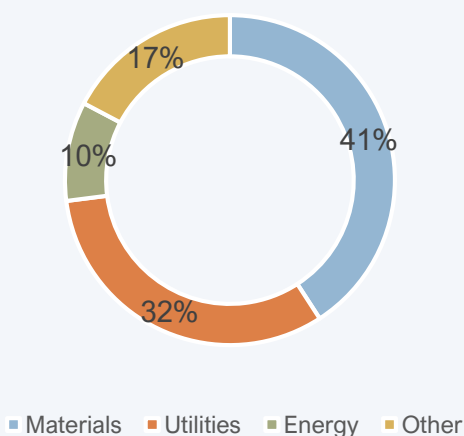
**54%**

## PORTFOLIO VS BENCHMARK



Data true as of 31/12/2020

## Sector Carbon Intensities



Lower carbon intensity than its asset class weighted benchmark.

Reasonable data coverage given the asset classes. Limited data for Gilts and Alternative Assets.

The sectors with the highest carbon intensity are Materials, Utilities & Energy.



# BALANCED PORTFOLIO

[Methodology available here](#)

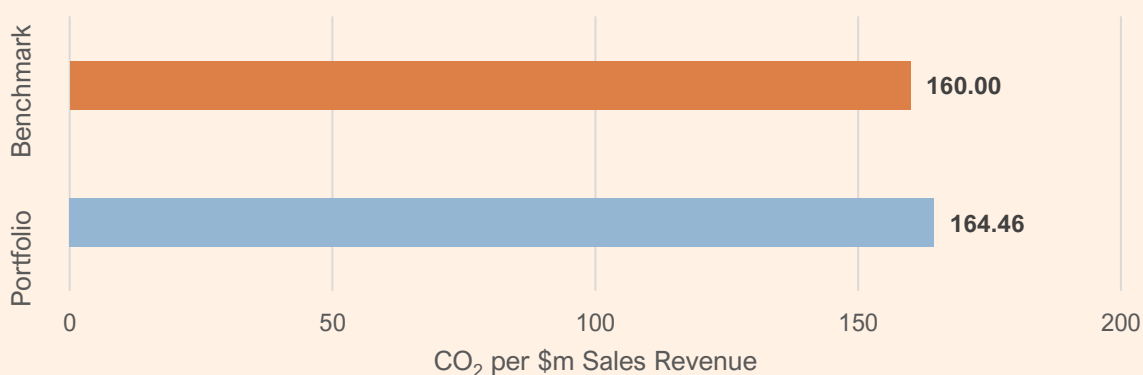
Carbon intensity compared to its benchmark weighted by asset class

**+3%**

Data coverage of the portfolio. Click [here](#) for more information

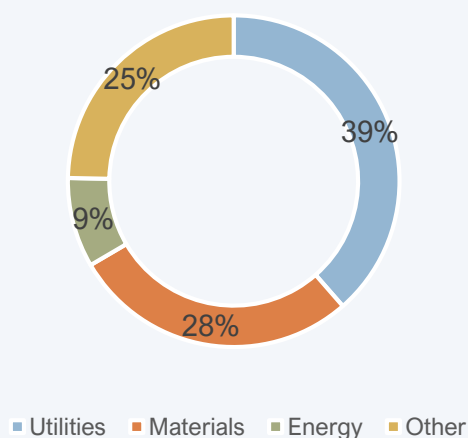
**54%**

## PORTFOLIO VS BENCHMARK



Data true as of 31/12/2020

## Sector Carbon Intensities



Higher carbon intensity than its asset class weighted benchmark.

Reasonable data coverage given the asset classes. Limited data for Alternative Assets.

The sectors with the highest carbon intensity are Utilities, Materials & Energy.





# MANAGED FUNDS PORTFOLIO

[Methodology available here](#)

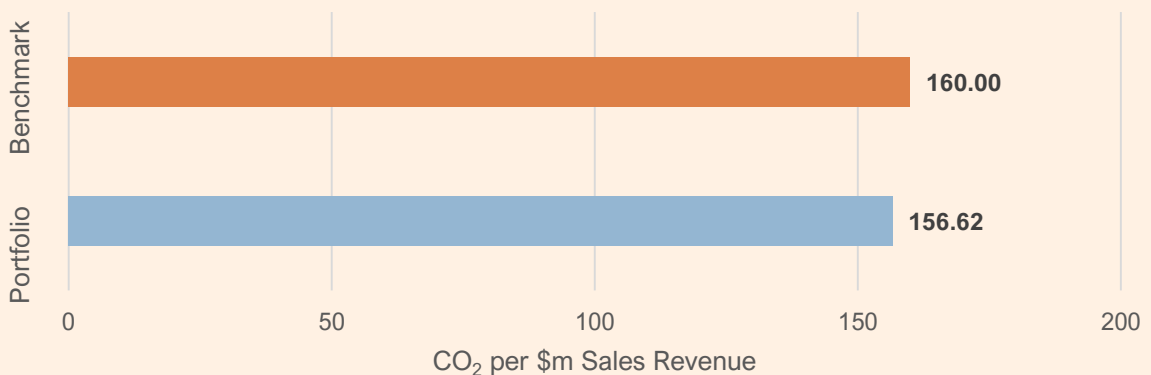
Carbon intensity compared to its benchmark weighted by asset class

**-2%**

Data coverage of the portfolio. Click [here](#) for more information

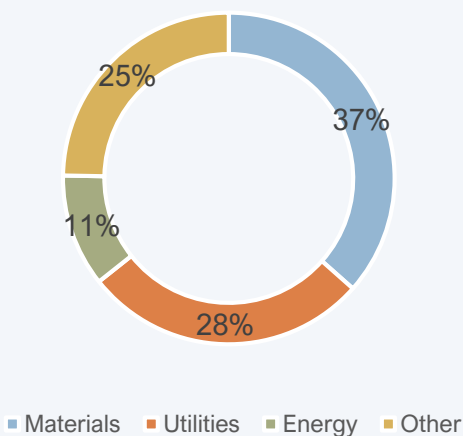
**63%**

## PORTFOLIO VS BENCHMARK



Data true as of 31/12/2020

## Sector Carbon Intensities



Lower carbon intensity than its asset class weighted benchmark.

Reasonable data coverage given the asset classes. Limited data for Alternative Assets.

The sectors with the highest carbon intensity are Materials, Utilities & Energy.



# STRATEGIC GROWTH PORTFOLIO

[Methodology available here](#)

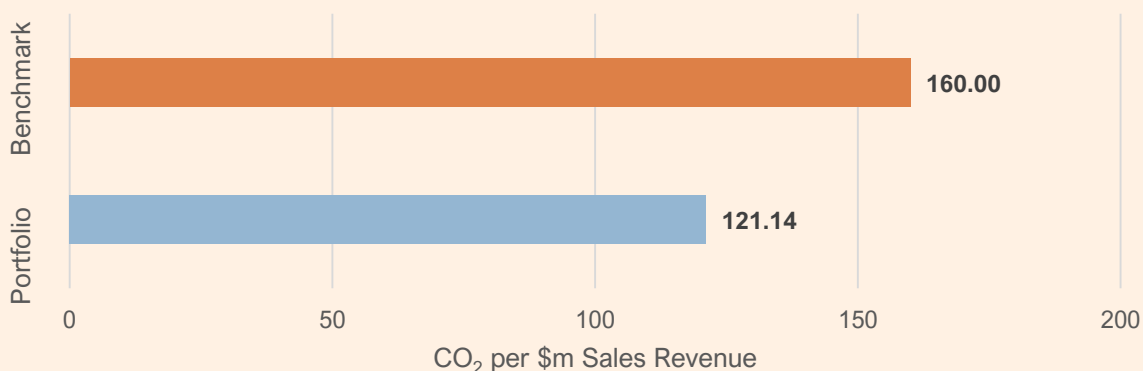
Carbon intensity compared to its benchmark weighted by asset class

**-24%**

Data coverage of the portfolio. Click [here](#) for more information

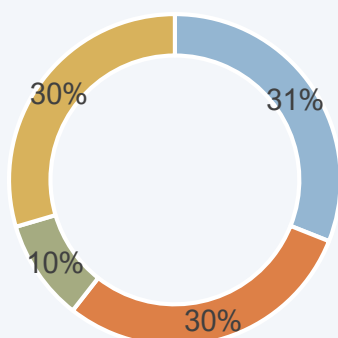
**70%**

## PORTFOLIO VS BENCHMARK



Data true as of 31/12/2020

## Sector Carbon Intensities



■ Utilities ■ Materials ■ Industrials ■ Other

Lower carbon intensity than its asset class weighted benchmark.

Good data coverage.

The sectors with the highest carbon intensity are Utilities, Materials & Industrials.



# ADVENTUROUS PORTFOLIO

[Methodology available here](#)

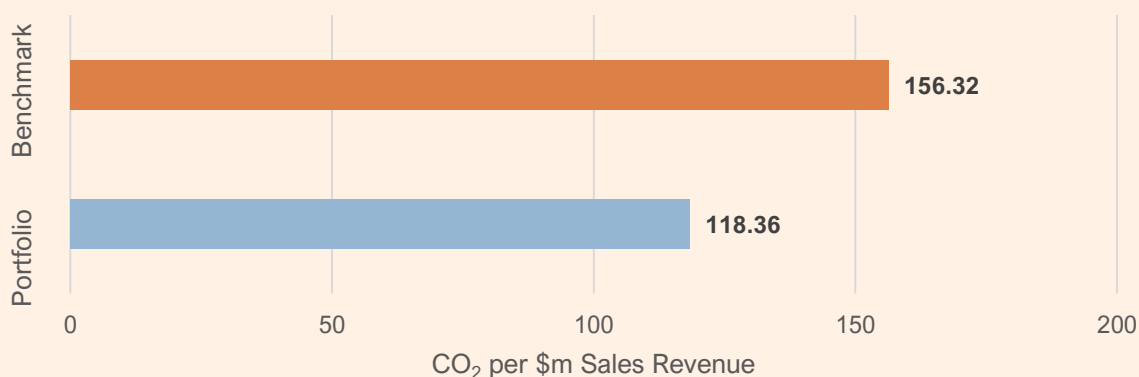
Carbon intensity compared to its benchmark weighted by asset class

**-24%**

Data coverage of the portfolio. Click [here](#) for more information

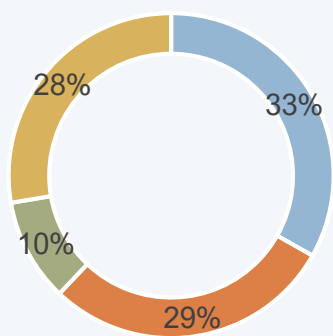
**75%**

## PORTFOLIO VS BENCHMARK



Data true as of 31/12/2020

## Sector Carbon Intensities



■ Materials ■ Utilities ■ Information Technology ■ Other

Lower carbon intensity than its asset class weighted benchmark.

Good data coverage. Primary asset classes in this portfolio are equities.

The sectors with the highest carbon intensity are Materials, Utilities & Information Technology.



St. James's Place Income Portfolios

# Carbon Footprints



# IMMEDIATE INCOME PORTFOLIO

[Methodology available here](#)

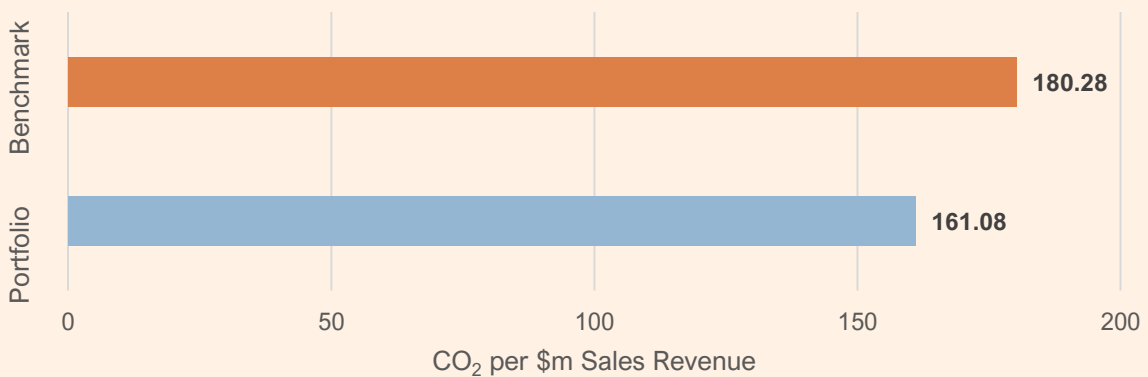
Carbon intensity compared to its benchmark weighted by asset class

**-11%**

Data coverage of the portfolio. Click [here](#) for more information

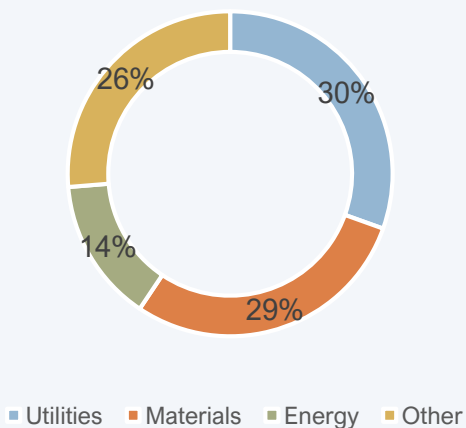
**63%**

## PORTFOLIO VS BENCHMARK



Data true as of 31/12/2020

## Sector Carbon Intensities



Lower carbon intensity than its asset class weighted benchmark.

Reasonable data coverage given the asset classes. Limited data for Gilts.

The sectors with the highest carbon intensity are Utilities, Materials & Energy.



# BALANCED INCOME PORTFOLIO

[Methodology available here](#)

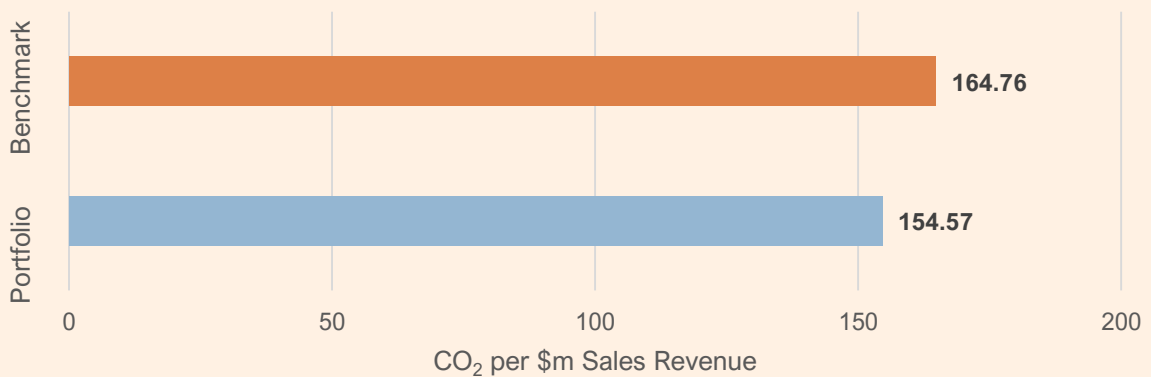
Carbon intensity compared to its benchmark weighted by asset class

**-6%**

Data coverage of the portfolio. Click [here](#) for more information

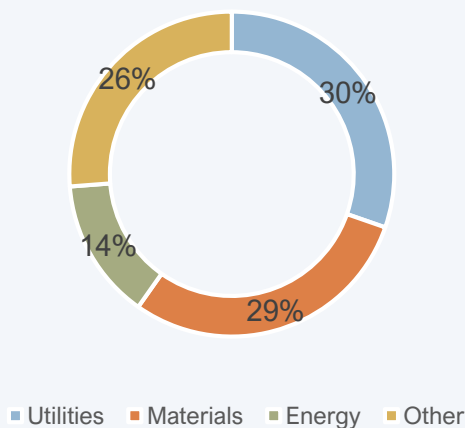
**79%**

## PORTFOLIO VS BENCHMARK



Data true as of 31/12/2020

## Sector Carbon Intensities



Lower carbon intensity than its asset class weighted benchmark.

Good data coverage. Primary asset classes in this portfolio are equities.

The sectors with the highest carbon intensity are Utilities, Materials & Industrials.



# DEFERRED INCOME PORTFOLIO

[Methodology available here](#)

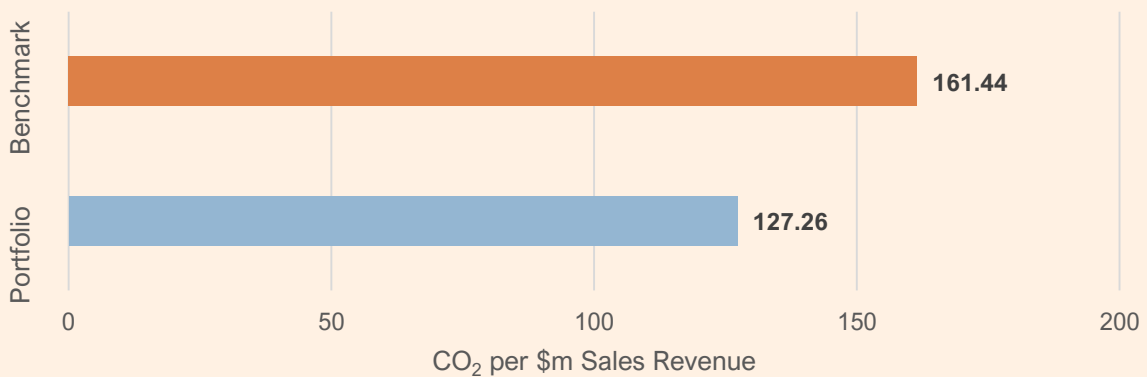
Carbon intensity compared to its benchmark weighted by asset class

**-21%**

Data coverage of the portfolio. Click [here](#) for more information

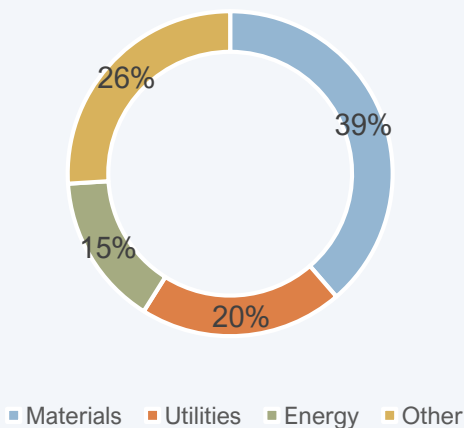
**86%**

## PORTFOLIO VS BENCHMARK



Data true as of 31/12/2020

## Sector Carbon Intensities



Lower carbon intensity than its asset class weighted benchmark.

Good data coverage.

The sectors with the highest carbon intensity are Materials, Utilities & Energy.



# ONGOING WORK

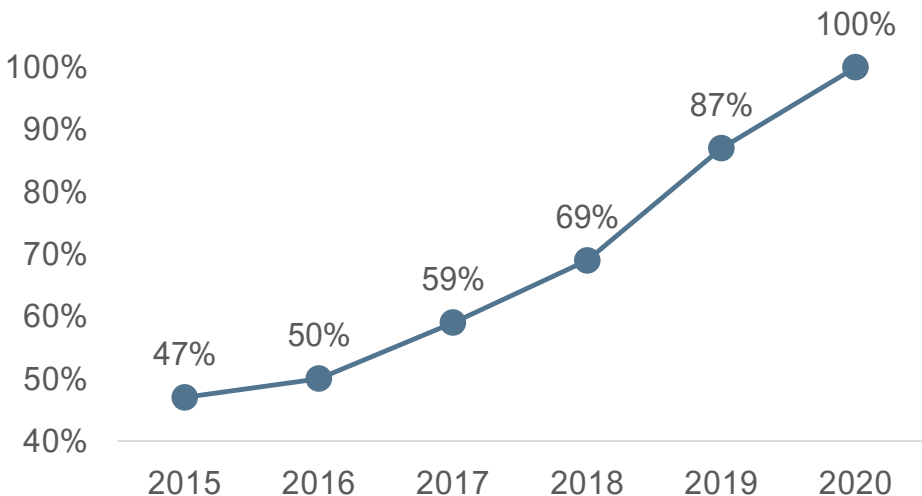
Carbon footprint reporting is a valuable first measure of how a client's investment portfolios are impacting the planet; however, it is far from a perfect measure. Responsible investing is an ever-growing field with many factors which need to be considered. Companies which currently have relatively high carbon footprints may have explicit targets in place to reduce their emissions over the next several years. We are seeing continual improvement across the industry with respect to responsible investing. Although many of our fund managers already have below-benchmark emissions, we actively support our fund managers who are committed to reducing their emissions over time

Responsible investing at St. James's Place continues to grow. In 2020, we reached our goal to have all our fund managers signed up to the Principles for Responsible Investment (PRI) – the global leaders in promoting standards of responsible investment.

*Signatory of:*



FUND MANAGERS SIGNED UP TO THE PRI





# FREQUENTLY ASKED QUESTIONS

## How is the weighted carbon intensity calculated?

### Step 1:

- Companies report their absolute carbon emissions in million tonnes of carbon emissions using scope 1 and 2.
- Another key metric for the calculation is the sales revenue of a company.
- This information is collated by an independent data provider, MSCI.

### Step 2:

- The company's total carbon emissions are divided by their sales revenue as per the example below:

Company Name	Carbon Emissions (millions of tonnes)	Sales Revenue (\$m)	Carbon Intensity (Emissions/Sales)
ABC Corp	8000	60	133

- For every \$1 million of revenue the company makes, it produces 133 tonnes of CO<sub>2</sub>.
- This can be used as an indication of the carbon efficiency.
- Although efficiency at a company level is best measured using industry-specific measures of output (for example: for the airline industry, a relevant measure would be the output of CO<sub>2</sub> per miles flown), sales are used in the portfolio context as the best available measure of output when comparing across industries.

### Step 3:

- The St. James's Place monitoring systems allow us to access through MSCI the carbon emissions data for all the companies our funds own.
- The weighted average carbon intensity is calculated for each portfolio by multiplying the weight of each company within the overall portfolio by its carbon intensity metric. This is then combined to give an overall metric for the portfolio. For example:

Fund	Portfolio Weight	Company Name	Company Fund Weight	Carbon Intensity	Portfolio Weighted Carbon Intensity
Fund A	50%	Firm A	20%	120	12*
		Firm B	80%	100	40
Fund B	50%	Firm C	50%	60	15
		Firm D	50%	200	50

\*Firm A calculation:  $120 \times 20\% \times 50\% = 12$ . Combined Portfolio Calculation:  $12 + 40 + 15 + 50 = 117$

- Therefore, for the portfolio it is stating that for every million dollars of sales revenue it creates, it produces 117 tonnes of CO<sub>2</sub>.



# FREQUENTLY ASKED QUESTIONS

## **What is data coverage?**

Data coverage refers to the proportion of companies in the portfolio that have reported their carbon emissions or have a reliable proxy and are therefore included within the portfolio carbon intensity calculation.

## **Asset Class Impact**

Data coverage of the SJP Portfolios is significantly impacted by the varied asset class mix, with fixed income and alternative strategies having lesser data coverage. You will observe that there is generally a higher data coverage for portfolios with more equity exposure as the data is more available and easier to report for this asset class. There have been significant improvements in the past few years on the data availability with regards to fixed income, with a much greater percentage of high yield and investment grade issuers having data coverage.

Asset classes such as liquid alternatives, property and Gilts still have minimal data coverage, hence our lower risk portfolios will consequently have a lower measurable carbon footprint.

## **Regional and Market Cap impact**

Availability of data varies significantly by region. You tend to find better data coverage in more economically developed countries, in particular the EU & UK. For many listed companies it is becoming a regulatory requirement to report and publish carbon emissions in these jurisdictions. Data is often less available in emerging market economies, where reporting standards and regulation is less developed. Data availability can also vary by company size, with larger listed companies having more regular reporting practices and requirements than smaller companies.

# FREQUENTLY ASKED QUESTIONS

## **When will we see improvements in the data coverage?**

St. James's Place receive carbon emissions data via MSCI. We are encouraged by the work being undertaken by MSCI to improve the data coverage. MSCI are working with regulators and companies to improve reporting standards across the globe. We are in continuous dialogue with MSCI to understand the latest developments regarding data coverage and company reporting. Furthermore, incoming regulation and initiatives, such as the Carbon Disclosure Project and Taskforce on Climate-related Financial Disclosures (TCFD), will only improve the frequency and quality of reporting for companies around the world.

MSCI have a longstanding history in the collection and assurance of carbon emissions data. This has been further enhanced by their acquisition of carbon emission specialists Carbon Delta. We rely on the accuracy of underlying data and the transparency of companies with regards to their reporting of carbon emissions.

## **Why is the carbon intensity of the portfolio dominated by certain sectors?**

The sector carbon intensity chart is a useful aid to understand the attribution of emissions within a certain portfolio. Most emissions in many of the portfolios are a result of the companies held within the utilities, materials and energy sector. As you would expect, this is because companies within these sectors are more carbon intensive in their scope 1 and scope 2 emissions (explained overleaf) than sectors such as financials. These sectors can play an important role in a clients' diversified portfolio and it is therefore often important some exposure is still retained. We do encourage our fund managers to engage with their underlying companies within these sectors. It is particularly important these firms are climate aware and exploring ways in which their business operations can be evolved in order to support a low-carbon economy.

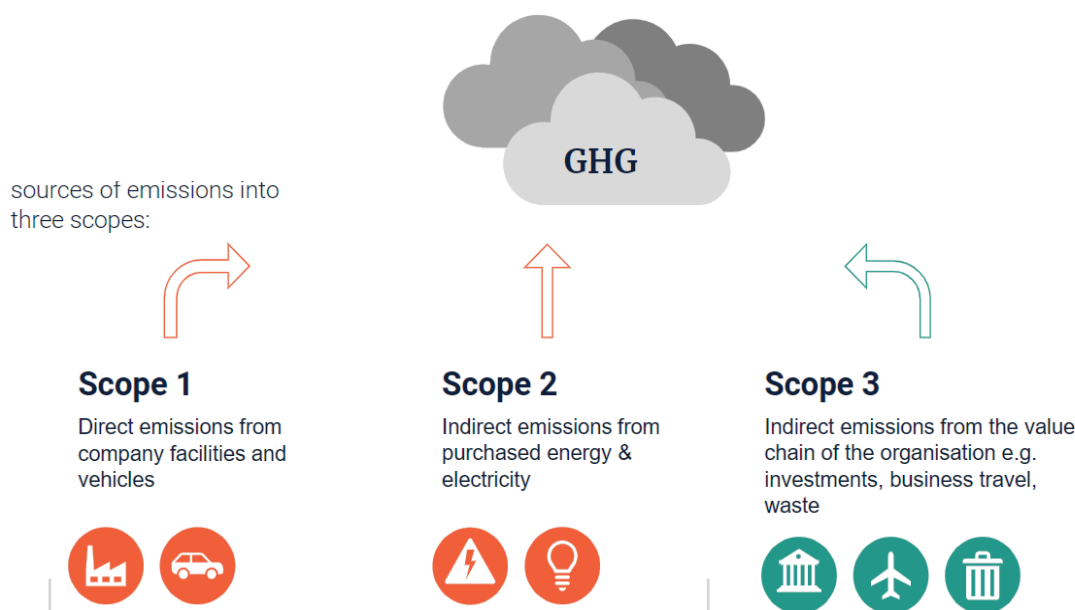
# FREQUENTLY ASKED QUESTIONS

## What is the asset-class-weighted benchmark?

We have determined that the asset class weighted benchmark is the most suitable and appropriate way to compare our SJP Portfolios' carbon intensity with a market index. There is currently no industry standard method to benchmark carbon intensity of a multi-asset portfolio. Each portfolio benchmark varies depending on its exposure to fixed income and equities. For example, our low-risk portfolios will have a significantly higher weighting to fixed income, whereas our higher-risk portfolios have more exposure to equity. The equity component of the benchmark is the MSCI All Country World Index and the fixed income benchmark is the Bank of America Merrill Lynch Global Broad Market Index.

## What are the Scope 1 and 2 emissions of a company?

Scope 1 and 2 are categories for measuring emissions; they are universally accepted by companies as a means of determining their respective carbon footprints.



The disclosure of Scope 1 & 2 emissions is a mandatory requirement for all PLCs in the UK.

Source: HM Government

GHG: Greenhouse gasses



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*Although St. James's Place information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages*



The 'St. James's Place Partnership' and the titles 'Partner' and 'Partner Practice' are marketing terms used to describe St. James's Place representatives. Members of the St. James's Place Partnership in Shanghai represent St. James's Place (Shanghai) Limited which is part of the St. James's Place Wealth Management Group and is a Wholly Foreign Owned Enterprise (WFOE). WFOE registration No. 91310000566573326L. Please note that due to local legislation we are unable to offer our financial planning services to nationals of the People's Republic of China. St. James's Place Wealth Management Group Ltd Registered Office: St. James's Place House, 1 Tetbury Road, Cirencester, Gloucestershire, GL7 1FP, United Kingdom. Registered in England Number 02627518.