

Coolabah Carbon Leaders Methodology Paper

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This document details the methodology developed by Coolabah Capital Investments Pty Ltd (**CCI**) to identify **Carbon Leaders** – issuers whose non-labelled bonds are eligible for allocation in the Coolabah Global Carbon Leaders fund. Carbon Leaders are issuers CCI determines to have certain positive characteristics with respect to their current greenhouse gas (**GHG**) emissions profile, both now and into the future.

The Carbon Leaders methodology will be reviewed by CCI's Investment Committee at least every two (2) years, or more frequently if appropriate, to ensure that eligible Carbon Leaders issuers continue to meet the environmental objective of the Fund.

Any material change to the methodology that affects the Fund's Product Disclosure Statement will be communicated to investors as if it were a change to the investment strategy, and in accordance with the Corporations Act. For non-material changes, a notice and the amended methodology document will be published at www.coolabahcapital.com.

To inform the Carbon Leaders assessment, CCI uses proprietary data collection as well as third-party ESG data vendors, including but not limited to Bloomberg, MSCI, Sustainalytics, and S&P. CCI updates proprietary data and third-party ESG data used for the assessment of Carbon Leaders at least on an annual basis.

Hurdle requirement 1: CCI's firm-level ESG exclusions

Eligible Carbon Leader corporate issuers must pass CCI's firm-level ESG exclusion policy for long, direct investments in corporate issuers. This includes revenue threshold exclusions on non-democratic states, fossil fuel extraction, tobacco, nuclear weapons, gambling, and the adult industry. For further details on CCI's ESG exclusions, please refer to our [ESG and Stewardship Policy](#).

Hurdle requirement 2: High-emitting sectors negative screen

Eligible Carbon Leader issuer's ultimate parent must not primarily operate in the high-emitting sectors detailed in **Appendix 1**.

To determine sectors, CCI uses the Global Industry Classification Standard (**GICS**). To ensure issuers with positive environmental benefits are not excluded (for example, 'Independent Power and Renewable Electricity Producers' are within the GICS Utilities sector), CCI utilises GICS sub-industries (i.e., 8-digit codes) for maximum granularity of sector exclusions.

Where GICS sub-industry classification is unknown, CCI utilises the issuer's financial reports and/or other disclosures to determine the issuer's predominant sector of operations.

Hurdle requirement 3: Top 25th percentile GHG revenue intensity thresholds

Eligible Carbon Leader corporate issuer's ultimate parent must have disclosed gross Scope 1 and 2 GHG emissions revenue intensity that is equal to or lower than the 25th percentile of the

constituents of the Bloomberg Global Aggregate Corporate Index¹. CCI measures corporate GHG emissions revenue intensity as gross tonnes of carbon dioxide equivalent per million United States Dollars revenue. To pass this hurdle requirement, corporate issuers' ultimate parent must also have disclosed gross Scope 1 and 2 GHG within the last three calendar years.

Eligible Carbon Leader sovereign, semi-sovereign, agency, or supranational issuers must have Scope 1 and 2 GHG emissions Gross Domestic Product (**GDP**) or Gross State Product (**GSP**) intensity that is equal to or lower than the top 25th percentile of investment-grade sovereigns (defined as an S&P credit rating of "BBB-" or higher). Where semi-sovereign issuers do not report individualised GSP and/or Scope 1 and 2 GHG, their GHG intensity is assumed to be that of their parent sovereign. For agency issuers, CCI defers to the parent sovereign or semi-sovereign GHG GDP or GSP intensity. For supranational or multinational development bank issuers, CCI uses the sum of GHG and GDP of member sovereigns, weighted by shareholding or voting power, to calculate GHG intensity.

Hurdle requirement 4: Net-zero status before 2050

Eligible Carbon Leader corporate issuer's ultimate parent must have stated net zero by 2050 emissions targets, if not already achieving net zero, covering at least Scope 1 and Scope 2 GHG.

Eligible Carbon Leader sovereign or semi-sovereign issuers must similarly have a net zero by 2050 target. For agency issuers, CCI defers to the net zero target status of the parent sovereign or semi-sovereign. This criteria does not apply to supranational or multinational development bank issuers, as they are comprised of multiple sovereign members.

Additional hurdle requirements for banking issuers

Two additional hurdle requirements apply to eligible Carbon Leader corporate issuers in the banking sector:

1. **Hurdle requirement 5a:** Banking issuer's ultimate parent must disclose, within the last three calendar years, Scope 3 GHG from lending and/or investments (defined as Scope 3 GHG Protocol Scope 3 Standard, Category 15 - Investments).
2. **Hurdle requirement 5b:** Banking issuer's ultimate parent must not have more than 1% of loan exposure to fossil fuel industries. Refer to **Appendix 2** for CCI's methodology to inform this hurdle requirement.

Appendix 1: Excluded GICS sub-industries (hurdle requirement 2 - high-emitting sectors negative screen)

The below table details the excluded high-emitting GICS sectors informing the Carbon Leader Hurdle Requirement 2 - High-emitting Sectors Negative Screen.

GICS Sector (2-digit code)	Excluded GICS Sub-Industry (8-digit code)
Energy (code 10)	<ul style="list-style-type: none"> • Oil and Gas Drilling (code 10101010) • Oil and Gas Equipment and Services (code 10101020) • Integrated Oil and Gas (code 10102010)

¹ Note that in determining the 25th percentile GHG revenue intensity of the constituents of the Bloomberg Global Aggregate Corporate Index, CCI utilises entity-reported Scope 1 and 2 GHG. Where entities have not reported Scope 1 and 2 GHG, CCI uses [Bloomberg's Greenhouse Gas Emissions Estimates](#).



	<ul style="list-style-type: none"> • Oil and Gas Exploration and Production (code 10102020) • Oil and Gas Refining and Marketing (code 10102030) • Oil and Gas Storage and Transportation (code 10102040) • Coal and Consumable Fuels (code 10102050)
Materials (code 15)	<ul style="list-style-type: none"> • Commodity Chemicals (code 15101010) • Diversified Chemicals (code 15101020) • Fertilizers & Agricultural Chemicals (code 15101030) • Industrial Gases (code 15101040) • Specialty Chemicals (code 15101050) • Construction Materials (code 15102010) • Metal, Glass & Plastic Containers (code 15103010) • Paper & Plastic Packaging Products & Materials (code 15103020) • Aluminium (code 15104010) • Diversified Metals & Mining (code 15104020) • Copper (code 15104025) • Gold (code 15104030) • Precious Metals & Minerals (code 15104040) • Silver (code 15104045) • Steel (code 15104050) • Forest Products (code 15105010) • Paper Products (code 15105020)
Industrials (code 20)	<ul style="list-style-type: none"> • Aerospace and Defence (code 20101010) • Building Products (code 20102010) • Construction & Engineering (code 20103010) • Construction Machinery and Heavy Transportation (code 20106010) • Passenger Airlines (code 20302010) • Rail Transportation (code 20304010) • Passenger Ground Transportation (code 20304040) • Airport Services (code 20305010) • Marine Ports & Services (code 20305030) • Automotive Parts & Equipment (code 25101010) • Tires & Rubber (code 25101020) • Automobile Manufacturers (code 25102010) • Motorcycle Manufacturers (code 25102020)
Consumer Discretionary (code 25)	<ul style="list-style-type: none"> • Casinos & Gaming (code 25301010) • Hotels, Resorts & Cruise Lines (code 25301020) • Leisure Facilities (code 25301030) • Restaurants (code 25301040)
Consumer Staples (code 30)	<ul style="list-style-type: none"> • Food Retail (code 30101030) • Brewers (code 30201010) • Distillers and Vintners (code 30201020) • Soft Drinks and Non-alcoholic Beverages (code 30201030)
Utilities (code 55)	<ul style="list-style-type: none"> • Electric Utilities (code 55101010) • Gas Utilities (code 55102010) • Multi-Utilities (code 55103010) • Water Utilities (code 55104010)



Real Estate (code 60)	<ul style="list-style-type: none">• Diversified REITs (code 60101010)• Industrial REITs (code 60102510)• Hotel & Resort REITs (code 60103010)• Office REITs (code 60104010)• Health Care REITs (code 60105010)• Residential REITs (code 60101060)• Multi-Family Residential REITs (code 60106010)• Single-Family Residential REITs (code 60106020)• Retail REITs (code 60107010)• Other Specialized REITs (code 60108010)• Self-Storage REITs (code 60108020)• Telecom Tower REITs (code 60108030)• Timber REITs (code 60108040)• Data Centre REITs (code 60108050)• Diversified Real Estate Activities (code 60201010)• Real Estate Operating Companies (code 60201020)• Real Estate Development (code 60201030)• Real Estate Services (code 60201040)
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Appendix 2: Fossil fuel lending methodology (additional hurdle requirements for banking issuers – hurdle requirement 5b)

In the absence of banking issuers disclosing their lending activity to the fossil fuel sectors in a standardised manner, CCI uses the methodology below to inform Hurdle Requirement 5b (eligible Carbon Leader banking issuers must not lend more than 1% of loan exposure to fossil fuel sectors). Please note that this methodology requires significant subjective judgement to be applied by CCI. CCI's methodology is as follows:

1. **Define fossil fuel lending:** Fossil fuel lending is loans to borrowers primarily operating in upstream, midstream, downstream, and integrated coal, oil, and gas.
2. **Collect fossil fuel lending data from bank issuer disclosures:** To determine fossil fuel lending, CCI utilises issuer disclosures, including ESG reports, sustainability reports, climate reports, integrated annual financial reports, and/or regulatory reporting. CCI's approach is generally to quantify banking issuers' lending to borrowers *primarily* operating in fossil fuels. As such, lending to borrowers with a minority of operations or revenues related to fossil fuels may not qualify. Banking issuers that do not disclose fossil fuel lending data are ineligible to be a Carbon Leader.
3. **Divide fossil fuel lending by an equivalent denominator:** CCI notes that banking issuers do not often report lending exposures as standardised units—some report lending exposures as exposure at default, while others report as gross or net loans, or drawn or total credit exposure. To ensure fossil fuel lending percentage is standardised across banking issuers, CCI divides a banking issuer's fossil fuel lending exposure by the total lending of the equivalent unit. For example, if a bank reports fossil fuel lending as net loans, we calculate fossil fuel lending percentage using total net loans as the denominator.