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Our Commitment to a Net Zero Emissions Portfolio





Authors

Julianna Brunini, Research Analyst

Timothy P. Dunn, CFA, Founder, Managing Member, and Chief Investment Officer

Contributors

Daniel Sanborn, CFA, Portfolio Manager, Director of Research, and Partner

Katie Bovard, Manager of Investor Relations

About Terra Alpha

Terra Alpha Investments is a public equity manager founded in 2014 by highly experienced investors who share the conviction that our rapidly evolving world requires a change in investment thinking. Our rigorous and proprietary Environmental Productivity (EP) analysis values our planet's natural resources and sits at the center of our successful investment process. Our innovative process of quantitative and qualitative analysis helps us identify leading companies with the optimal combination of enduring business models and superior EP. We believe this process is the primary driver of our ability to deliver superior long-term investment returns for our investors.

www.terraalphainvestments.com



Preface: What Net Zero Means to Terra Alpha

A simple premise underlies Terra Alpha's approach to investing: our economy must operate within Earth's physical boundaries in order to sustain opportunity and prosperity for generations to come.

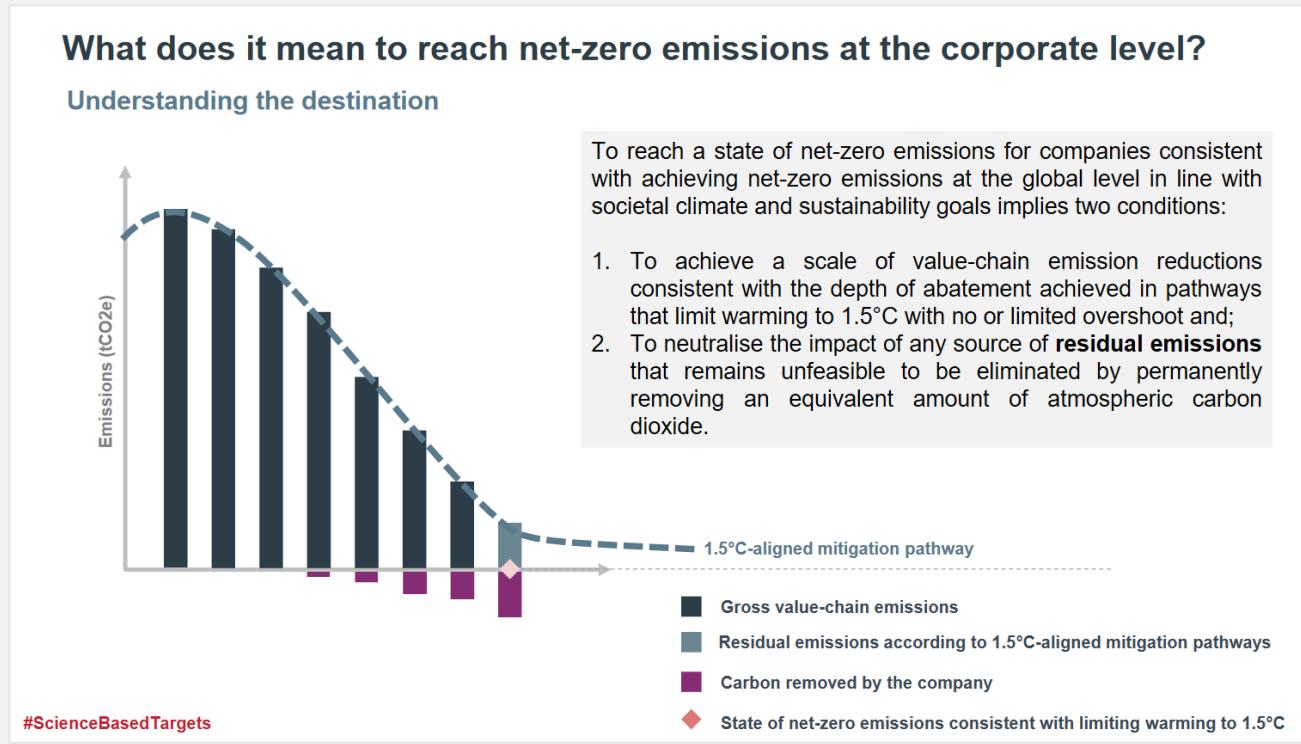
It follows that society must decouple economic activity from greenhouse gas emissions sooner or later, because sooner or later we will have no other option than to address climate change.

Terra Alpha supports rapid decarbonization to a net zero economy as soon as possible.

What do we mean by "net zero"? Per the Intergovernmental Panel on Climate Change, net zero refers to the state of balanced anthropogenic greenhouse gas emissions and removals (see: [IPCC Special Report on Global Warming of 1.5°C](#)). Although there are many possible ways to achieve this, we at Terra Alpha advocate for pathways that:

- Reduce greenhouse gas emissions as far as possible, as rapidly as possible,
- Prioritize immediate emissions reductions over postponed action, and
- Minimize reliance on carbon removal technologies and carbon offsets.

We highlight the Science Based Targets initiative's summary below to emphasize what the most desirable "net zero" pathways look like to us:



Source: [Foundations for science-based net-zero target setting in the corporate sector](#). The Science Based Targets initiative (Sept. 2020).

Net Zero as an Asset Manager

As a long-only public equities manager, we believe the following are the most impactful means by which we can contribute to climate change mitigation:

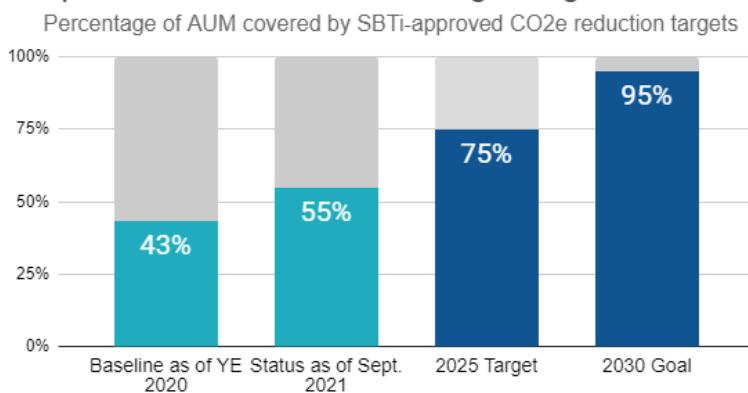
1. Investment Decisions and Portfolio Construction

Emissions we enable through our investing activities (“financed emissions”) drive our climate footprint and impact. Our investment process endeavors not only to generate outsized, long-term returns for our investors, but also to help shift capital to forward-thinking, enabling, and pioneering companies working to reduce their emissions and, in many cases, scale climate solutions.

Our commitments as signatories of [the Net Zero Asset Managers initiative](#)¹ are to:

- **Manage 100% of our AUM in line with net zero emissions by 2050 or sooner**
(We emphasize reducing rather than offsetting emissions, sooner rather than later)
- **Achieve 75% Science Based Targets portfolio coverage by 2025**
(Measured as the percentage of value invested in companies with emissions reductions targets formally approved by the [Science Based Targets initiative](#), SBTi)

Terra Alpha's 2025 Portfolio Coverage Target and 2030 Goal



2. Engagement with Portfolio Companies

We have advocated for disclosure of climate-related information since our founding, and we are energizing our engagement strategy to focus on corporate action plans and results in 2022.

Read more about our:

→ **Target methodology:**

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→ **Engagement and thought leadership:**

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→ **History as a firm:**

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3. Thought Leadership and Transparent Reporting

We aim to be collaborative partners to like-minded investors and public advocates for a more sustainable economic system.

¹. The six Network Partners that coordinate the Net Zero Asset Managers initiative are: Asia Investor Group on Climate Change, CDP, Ceres, The Institutional Investors Group on Climate Change, Investor Group on Climate Change, PRI

Why the Science Based Targets Portfolio Coverage Methodology?

Of methodologies available to Net Zero Asset Managers, the Portfolio Coverage option from the Science Based Targets initiative's (SBTi) [Guidance for Financial Institutions \(2021\)](#) is the best fit for Terra Alpha, because it is:

- **A natural fit for public equities portfolios.**

If all of our portfolio companies have Paris-aligned emissions reduction targets, then so does our portfolio. This is the simple logic underpinning the SBTi-Portfolio Coverage methodology, which requires asset managers to engage with their portfolio companies to set verified Science Based Targets, for 100% coverage by 2040 at the latest.

Note: our baseline portfolio coverage was 43% of AUM at year-end 2020 and 55% in September 2021.

- **Built upon the best available standard for corporate climate targets.**

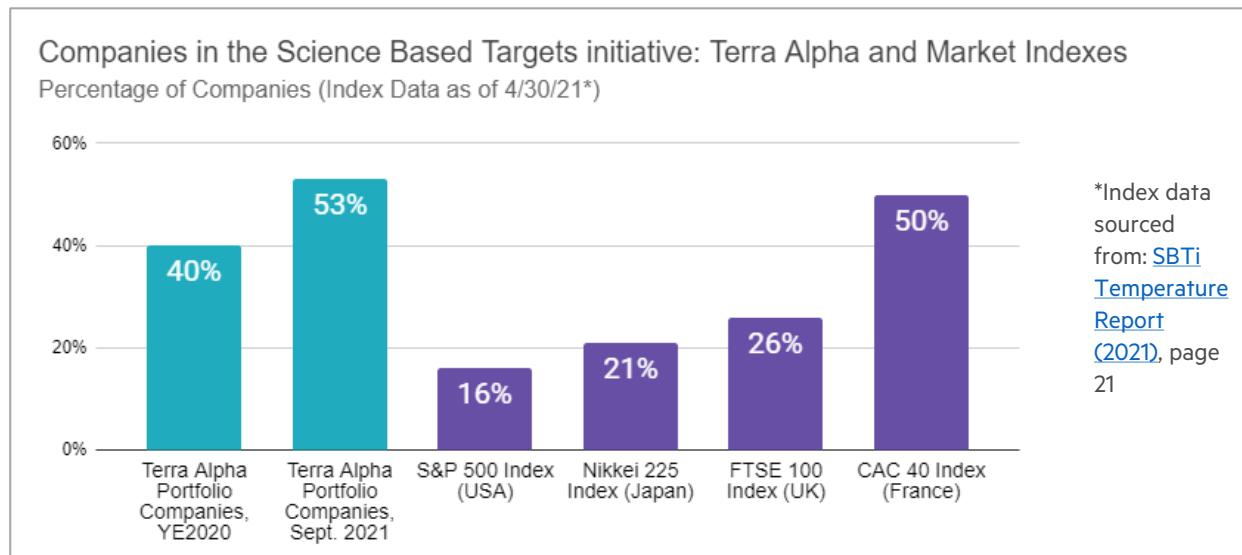
The validity of a commitments-based methodology depends on the validity of the underlying companies' climate commitments. We believe formal SBTi verification is the best available confirmation that a company's emissions reduction target is sufficiently *ambitious*, *Scope 3-inclusive* (when appropriate), *timely*, and *1.5°C-aligned*.

- **A natural fit for our existing investment process.**

We have been tracking our portfolio companies' SBTi status since 2018, because of the merits we see in their standards and verification process.

- **Approaching critical mass of participating companies.**

Over 1,500 companies have already set or committed to setting SBTs via the SBTi. As of year-end 2020, 40% of companies in our portfolio (43% of AUM) had SBTi-verified targets, which compares to major market indexes as follows:



How to Achieve Real Results?

Actual progress towards decarbonizing the global economy remains trivial. Every company needs to do more, faster—including Terra Alpha and its portfolio companies.

While we could hypothetically achieve our portfolio coverage targets tomorrow simply by reallocating dollars from companies without verified Science Based Targets to those with verified Science Based Targets, this would violate our investment process and miss the point. Instead, we are focused on the following priorities to achieve actual emissions reductions:

Corporate Engagement

- **Updated Priorities** - Initially, Terra Alpha's engagement strategy with portfolio companies focused on disclosure of climate-related information, particularly Scope 1 and 2 emissions. Now that corporate climate reporting has come a long way, we have shifted our focus to:
 - Scope 3 inclusion,
 - Verification of emissions reduction targets by the SBTi, and
 - Corporate climate action plans—including, for example, OpEx/CapEx requirements and management incentives to achieve real emissions reductions.
- **New Leadership** - Amy Dine rejoined Terra Alpha in August 2021 as Director of Corporate Engagement to update our engagement strategy, including proxy voting policies.
- **Analyst-Driven Direct Engagement** - Our research analysts remain responsible for engaging directly with the portfolio companies under their sector coverage.
- **Collaboration** - We will be more proactive in collaboration efforts (e.g. group letters/statements we support).

Thought Leadership

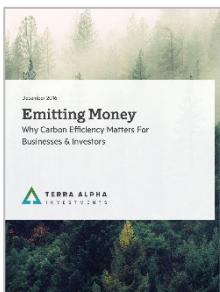
- Expand the reach of [our insights](#) with investors, portfolio companies, and policy-makers (e.g. white papers, Environmental Productivity Insights)
- Deepen our engagement with industry initiatives (e.g. Ceres Paris-Aligned Working Group, NZAM)
- Increase participation in public comment opportunities (e.g. SBTi Net Zero standard development, SEC's requests for public comment)

Results Reporting

- Quarterly: continue to report portfolio-level carbon, water, and waste intensity to investors
- Annually: continue to report company-level Scope 1 and 2 emissions for our portfolio constituents to investors; cumulative emissions avoided vs. benchmark; and to report to PRI, incorporating TCFD recommendations
- Develop a Scope 3 emissions tracking and reporting protocol

Grounded in Our Original Vision: A Brief History of Terra Alpha and Our Focus on Decarbonization

Our ultimate vision and mission remain the same today as upon establishment of the firm in 2014: (i) To drive systemic change in our economy, so that it is more aligned with our natural systems, and (ii) to demonstrate that Environmental Productivity enhances long-term returns as expressed in real investment results, driving wider adoption of Environmental Productivity across the economic system.



2014

- The IPCC publishes its Fifth Assessment Report
- Terra Alpha Investments LLC founded to integrate Environmental Productivity into fundamental analysis

2015

- The Paris Agreement is negotiated
- The Science Based Targets initiative is established by WRI, WWF, CDP and the UN Global Compact
- Terra Alpha launches Terra Alpha Fund using a carbon intensity inclusionary screen

2016

- Terra Alpha publishes *Emitting Money: Why Carbon Efficiency Matters for Businesses and Investors*

2017

- Terra Alpha publishes *Environmental Productivity: Enhancing Business & Investor Decision-Making*

2018

- The IPCC publishes its Special Report on Global Warming of 1.5°C
- Terra Alpha explicitly incorporates Science Based Targets into its company-level assessment process

2019

- Charlie Bolden (former astronaut and NASA administrator) and Kathy Sullivan (former astronaut and NOAA administrator) join Terra Alpha's advisory board

2020

- The Science Based Targets initiative exceeds 1,000 committed and participating companies
- Terra Alpha publishes *Investing Beyond Fossil Fuels* and our first *Impact Report*

2021

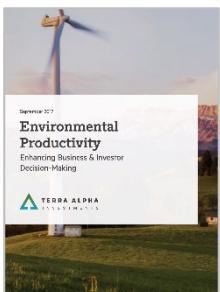
- The IPCC publishes the Physical Science Basis to its Sixth Assessment Report
- Terra Alpha joins the Net Zero Asset Managers initiative and commits to 2025 interim portfolio targets
- Carter Ingram (ecologist and sustainability practitioner) joins the Terra Alpha advisory board

2025

- *Interim target date for Terra Alpha to achieve 75% Science Based Targets portfolio coverage for its assets under management*

2030

- *Target year for global emissions to be ~50% lower than in 2010, on an absolute basis, to achieve the Paris Agreement*



Appendix

Reproduced below are Terra Alpha's disclosures to the Net Zero Asset Managers initiative, to date:

1. Statement on fossil fuel investing
2. Targets disclosure template

1. Statement on Fossil Fuel Investing

Terra Alpha Investments supports a rapid transition to a low-carbon economy. Our firm is a signatory of the Net Zero Asset Managers initiative, through which we have committed to manage 100% of our assets under management in line with a 1.5°C temperature rise limit, based on a Science Based Targets initiative methodology. We have further committed to set firm-wide science-based targets for greenhouse gas emissions aligned with 1.5°C trajectories.

Terra Alpha has never invested in a company whose principal business is extracting, processing, or refining coal, tar sands, oil, or natural gas, because we believe such businesses will face considerable challenges in the transition to a low-carbon economy. We will not invest in companies that are expanding thermal coal production. We have and will consider investing in companies with legacy fossil fuel-dependent businesses, if they have a credible, time-bound plan to decarbonize their operations and products in line with 1.5°C pathways. Our investment strategies actively seek to identify companies across the broader economy that are working to significantly reduce their dependence on fossil fuels and/or enabling the low-carbon transition, amongst other factors.

2. Net Zero Asset Managers Targets Disclosure Template

Information indicated in bold text is required. Information indicated in plain text is to be provided as relevant/necessary.

Name of Asset Manager	Terra Alpha Investments LLC
Total AUM (USD)	\$120 million (as of September 30, 2021)
Proportion of AUM to be managed in line with net zero initially (expressed as a % of total AUM, and provide USD total currently implied)	100% of AUM (\$120 million)
If less than 100%, briefly explain why this proportion is the maximum achievable and the actions to be taken to increase the proportion over time	N/A
Target Year (e.g. 2030)	2025 (Dec. 31st)
Baseline Year (e.g. 2019)	2020 (Dec. 31st)

Net Zero Asset Managers Targets Disclosure Template (continued)

Quantified Target(s) to be achieved by target year (this may include more than one target type if relevant to the methodology used, or if using a combination)	Public equities manager Terra Alpha Investments LLC commits to achieve Science Based Targets in its equities portfolios by 2025 from a 2020 base year. Terra Alpha's portfolio targets cover 100% of its total investment activities by AUM. Terra Alpha Investments commits that 75% of its equities portfolios by invested value will have set Science Based Targets by 2025.
Baseline Year Performance for the target metric(s) (if possible/relevant) (e.g. xxtCO2/\$ invested)	43% of invested value with set Science Based Targets as of 2020 (Dec. 31st)
Methodology used to set target(s)	SBTi for Financial Institutions – Portfolio Coverage methodology
Confirm and describe coverage of Scope 1,2 and extent of Scope 3 coverage of financed emissions.	This target covers 100% of Terra Alpha's Scope 3 financed emissions. We are in the process of developing targets for Terra Alpha's Scope 1&2 emissions as part of our firm-wide commitment to the Science Based Targets initiative Business Ambition for 1.5C.
Underlying science-based net zero scenario(s)/pathway(s) from which target(s) is derived	SBTi for Financial Institutions – Portfolio Coverage methodology
Brief description of how the asset manager considers the target to be consistent with delivering a fair share of the 50% global reduction in CO2 emissions by 2030 identified as a requirement in the IPCC special report on global warming of 1.5°C.	As an active manager that invests only in public equities, the vast majority of our GHG emissions footprint comes from “financed emissions” via our common or preferred stock investments. The most impactful way to reduce our footprint is thus to engage with portfolio companies on their own emissions reduction initiatives--and we consider the Science Based Targets Initiative (SBTi) one of the best available verification options for our portfolio companies’ emissions reduction targets. We have therefore chosen to follow the Science Based Targets initiative’s (SBTi) Portfolio Coverage methodology, whereby <i>“financial institutions commit to engaging with their borrowers and/or investees to set their own science-based targets, which shall be validated by the SBTi, such that the financial institution is on a linear path to achieve 100 percent SBT coverage by 2040.”</i> ¹ We are committed to 75% SBT portfolio coverage by 2025, a pace that should put us on-track towards 100% SBT coverage well before SBTi’s 2040 deadline.
If not using one of the recommended methodologies, please explain rationale and how it sufficiently rigorous and consistent with the target setting commitment	N/A

1. See “Financial Sector Science Based Targets Guidance” (April 2021), page 82. <https://sciencebasedtargets.org/resources/files/Financial-Sector-Science-Based-Targets-Guidance-Pilot-Version.pdf>

Net Zero Asset Managers Targets Disclosure Template (continued)

Information on target for operational emissions, if set	N/A
Confirm whether the organization adopted a science-based policy on coal and other fossil fuel investment (Yes/No)	Yes
If yes, provide a link to information on this policy (or a very brief summary, and indicate the scope of AUM to which the policy applies. If no, please include any information available on plans to develop such a policy.	<p>Our policy applies to 100% of AUM and can be found on page 8 of "Our Commitment to a Net Zero Emissions Portfolio" (September 2021): https://terraalphainvestments.com/wp-content/uploads/2021/09/NZAM-Targets-Overview_Fall-2021.pdf</p>
Link to further information in relation to targets or net zero strategy (must be in public domain)	<p>Our Commitment to a Net Zero Emissions Portfolio (September 2021): https://terraalphainvestments.com/wp-content/uploads/2021/09/NZAM-Targets-Overview_Fall-2021.pdf</p> <p>Terra Alpha Investments LLC Commits to Science Based Targets (September 2021): https://terraalphainvestments.com/terra-alpha-investments-llc-commits-to-science-based-targets/</p>