



Terra Alpha Newsletter

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The quarter, which began with a sense of optimism as COVID cases declined and the global economy continued its rebound, ended with the triple shocks of rebounding COVID cases, continued supply chain disruption and inflation spikes, and the devastating Russian invasion of Ukraine. These developments will each have significant cyclical and secular global implications. The very visible brutality of the Russian military, the loss of Ukrainian lives, the devastation of so many cities, and the migration of so many families to safer lands are all hard to watch and much harder to truly comprehend. Globally, so many are already feeling the social and economic impacts of rising food and energy prices. Heightened geo-political risks and Central Bank-led interest rate hikes will inevitably lower economic growth, which contributed to the decline in asset values across the capital markets during the quarter.

As investors with decades of experience, we have lived and invested through other very trying times - though each offers new lessons and unique challenges. The lingering impacts of the events in the first quarter will not be fully known for some time. In the meantime, we must maintain our focus on our work investing to provide better financial returns, a better environment, and a better world. In this newsletter, we talk about the why and how of our sustainable investment philosophy and process, outline our thoughts on the SEC's proposed climate-related disclosure rules, and cover a number of our actions to deliver impact.

What Sustainable Investing Means at Terra Alpha

In the last two years there has been an explosion of interest in the use of Environmental, Social, and Governance (ESG) information and data amongst asset owners, advisors, and asset managers. We are often asked how investors should distinguish between all the new investment firms and products dubbed 'ESG', not to mention the sea of other jargon and acronyms. While we can't speak to the approach that other asset managers are taking, what we can do is explain our firm's approach to sustainable investing. To do that, we need to start with the "why".

When we launched Terra Alpha Investments in 2014, we had a very clear reason why. We felt that there was a need in the market for a better way to invest in public equities in a world that was experiencing rapid, fundamental, long-term change. We saw the need for a research process that took a more holistic, long-term look at companies before investing. We understood the real-world impact of global environmental challenges (e.g. climate change driven by emissions, stressed global freshwater systems, ongoing loss of healthy soils and forests, and the impacts of our out-of-date linear economic system) which are being driven by our economy's excess use and impact on natural resources. We believed that it was the failure of investors and business leaders to properly account for their use and impact on essential natural resources as a core part of the problem. We contended that those businesses and investors that did properly consider, and better manage, these direct and indirect costs into decision-making could reduce their own risks and improve financial, environmental, and societal outcomes. Lastly, we felt that asset owners and their asset managers must take an active role in engaging with the companies in which they invest to accelerate corporate efforts to reduce their negative impacts on our environment.

Our firm's investment philosophy aligns investor capital with a sustainable future by investing in companies that we believe are profitably leading the transition to a truly sustainable economy. We define a truly sustainable economy as one that serves the needs of society, while operating within our planet's natural resources regenerative limits. Our process begins with an inclusionary screen that identifies best-in-class performance in the most critical environmental efficiency metrics. We then map those leading companies against key thematic trends to determine which are most aligned with what Terra Alpha envisions as the sustainable economy of the future. This allows us to focus our fundamental research on a subset of companies that might be leaders in the transition to a sustainable economy. Our Environmental Productivity and Enduring Business Model investment research frameworks help us to build a more complete understanding of a company's ability to thrive over the long-term. We actively engage with each company in which we invest and communicate our thought leadership work broadly to accelerate the transition to a sustainable economy that supports all people.

For more information regarding our investment philosophy and process, accredited investors and/or their financial representatives are encouraged to reach out to our business development team at invest@terraalphainvestments.com.

SEC Mandatory Climate Disclosure Rules

Disclosure of emissions data by companies has been top of our engagement agenda at Terra

Alpha from the beginning. March 2022 saw a significant leap toward this goal.

The Securities and Exchange Commission (SEC) proposed new regulations regarding climate disclosure in its “The Enhancement and Standardization of Climate-Related Disclosures for Investors,” released on March 21, 2022. This comes as mandatory climate disclosure has been ramping up internationally (notably in the UK, EU, Hong Kong), including the release of international sustainability standards proposed by the International Sustainability Standards Board (ISSB) shortly thereafter, as well.

The proposed SEC rules would require and standardize what and where public companies present the data. Importantly, this information is to be included in a company’s official reporting documents.

Much of the SEC’s proposed Rule relies on the expectations of the Taskforce for Climate-related Financial Disclosure (TCFD) framework regarding climate risk assessments. The ruling expects qualitative disclosures on transition plans, scenario analysis, and the use of internal carbon pricing. The ruling also expects descriptions of how the Board and management oversee climate-related risks.

The SEC will receive commentary until May 20th, and efforts are geared up to refute the validity and necessity of the proposed disclosure. Terra Alpha will be sending comments, as we have relayed our views in written commentary and participated in meetings with SEC Commissioners in the past. Timing wise, if the SEC put these into effect in December of this year, the largest companies would start reporting this information in 2024, and the smallest by 2026.

This document is a significant step in moving the corporate sector toward greater responsibility for climate impacts, catapults the United States into the active field of mandatory disclosure globally, and asks for some of the most significant change in required disclosure the US has incorporated.

2021 Impact Report

In March, we released our second annual impact report. In this 2021 year-end impact report we review the most significant actions we have taken and successes we have had, which demonstrate our commitment to raise our standards.

Over the course of the last year we:

- Reviewed and reaffirmed that our highest priority sustainable outcomes remain:
 - The reduction in global GHG emissions
 - The reduction in the global use and impact of freshwater
 - The global reduction in the creation of waste
 - The improvement of corporate disclosure of material environmental performance data and information



- *At the same time, we acknowledged that we needed to more formally integrate diversity, equity, and inclusion into all aspects of our firm, including our funds.*
- Committed to a net zero GHG emissions portfolio and a science-based target for GHG emissions as a financial institution.
- Increased our collaboration with NGOs and peer investment firms on our highest priority issues, including the effort to build science-based targets for global water management.
- Developed and have begun to implement a firm-wide Diversity, Equity, and Inclusion program.
- Elevated our corporate engagement work with the addition of Amy Dine as our new Director of Corporate Engagement and undertook numerous successful actions with portfolio companies.
- Actively engaged on the policy front as a firm and in collaboration with networks.

We thank each and every one of our investors, NGO partners, peer investment firms, and other supporters for your shared commitment to the mission of building a sustainable economy.

[Read our full report here.](#)

Our Commitment to The Partnership for Carbon Accounting Financials

Terra Alpha believes investors should have transparency into the GHG, water, and waste impacts of their investments—information we provide our investors on a quarterly and annual basis.

We also believe the entire financial sector will benefit from standardized measurement and disclosure practices. Terra Alpha is therefore pleased to join The Partnership for Carbon Accounting Financials (PCAF), an industry-led effort to enable harmonized assessments and disclosures of financed GHG emissions. PCAF is a collaboration between more than 240 financial institutions from six continents and is rapidly expanding in North America, Latin America, Europe, Africa and Asia-Pacific.

Learn more about PCAF [here](#).

Terra Alpha Becomes the First US Asset Manager with Verified SBTs

Since our founding in 2014, Terra Alpha Investments has placed climate change at the core of all of our work (our portfolio, corporate engagement, and thought leadership). We have advocated for companies to set science-based targets since 2018. We were amongst the first signatories of the Net Zero Asset Managers initiative. In early March, we were proud to announce that we were the first US financial institution (and one of only 15 financial institutions globally) with approved near-term targets for GHG emissions, consistent with levels required to meet the goals of the Paris Agreement.

Following our [Commitment to a Net Zero Emissions Portfolio](#), in September 2021, Terra Alpha Investments announced an additional [commitment to the Science Based Targets initiative](#) (SBTi) to submit our portfolio emissions targets (scope 3) alongside newly-developed operational emissions (scopes 1 and 2) targets for approval from the [SBTi](#).

By receiving approval from SBTi, we received verification of the following targets:

- Operational emissions (scopes 1 and 2): Terra Alpha Investments has committed to reduce absolute scope 1 and 2 GHG emissions by 46% by 2030 from a 2019 base year.
- Portfolio emissions (scope 3): Terra Alpha Investments has committed to 75% of listed equity portfolios by invested value setting SBTi-validated targets by 2025, and 95% of listed equity portfolios by invested value setting SBTi-validated targets by 2030.

The window to limit the worst impacts of climate change is closing ([Source: IPCC Report](#)). While we are pleased to receive the approval of our targets from the SBTi, we know that the journey of transitioning to a truly sustainable economy is just beginning.

Terra Alpha Voices – Callie Broaddus and David Yeh

Terra Alpha Voices highlights thought leaders who inform our investment process, our impact work, and our understanding of current global affairs. This series, created in partnership with author and photographer [KK Ottesen](#), seeks to shed light on the subjects' diverse perspectives rather than their illustrious careers.

Our favorite excerpt from recent Voices interviews include:



"You can look at the outcomes of COP[26] however you decide to look at them. But it's going to be what we do about these commitments that tells us whether COP was successful or not."

- [Callie Broaddus](#)



"To solve the climate crisis we need global partnership combined with leadership. It has to be like the Allies with D-Day, you know, man to the moon – squared, cubed, every year – to make it happen."

- [David Yeh](#)

Terra Alpha Updates

- Terra Alpha is currently hiring to fill a Research Analyst position. If you or someone you know is interested, please see our job posting, [available here](#).
- Research Analyst Nathaniel Schwartz passed the CFA Level II exam.



Signatory of:



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 investing 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 unique combination of quantitative and qualitative analysis helps us identify companies with the optimal combination of enduring business models and superior EP; which we believe is the primary driver of our ability to deliver superior long-term investment returns for our investors.

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