



Terra Alpha Newsletter

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The second quarter of 2022 saw the continuation of the same global challenges as the first quarter, including Russia's war in Ukraine, lingering COVID cases, rising interest rates, and stubborn inflationary trends. Each of these issues worsened in the second quarter, leading the capital markets into further declines as fears of stagflation (the combination of a slowing economy and rising prices) grew.

Subsequently, pressure has built for government officials around the world to "do something" to support households struggling to access basics like food and gasoline, especially in a time when much of the COVID-related support programs have or are expiring. Add on the expected further increase in interest rates, which will likely cause higher monthly costs for consumer financing (e.g., mortgages, car loans), and it is hard for us not to anticipate a slowdown in consumer spending and an economic contraction. Of course, a contraction in the economy would inevitably ease some of the causes of the immediate inflationary trends.

Stepping back from the short-term inflation concerns, it can be argued that some portion of the large increases in prices over the past year have been driven by the need to redress the multi-decade trend of declining real wages for the average employee, most notably in the US, and the global underpricing of basic commodities costs including food and energy. The former contributed to the widening of the income gap between the upper- and lower-income brackets; the latter meant that the real cost of many commodities were not incorporated in prices, often leading to their overuse and/or over production (e.g., palm oil, beef or plastics).

Looking ahead, we expect to see continued fundamental changes in the structure of the global

economy. These are likely to include the partial unwinding of globalized supply chains, more localization of manufacturing and agriculture, and a greater focus on the circular economy. In turn these changes are likely to lead to a further repricing of many products and services, and lowered environmental impacts. We see this as part of the transition to more sustainable and resilient local and national economies. These are some of the long-tailed themes that inform our firm's approach to investing.

In this newsletter, we will share our thoughts on recent events, recap our annual advisory board meeting, showcase thought leadership we've recently produced, and provide updates on our team.

- Tim Dunn, Founder & Chief Investment Officer

Supreme Court Ruling on EPA Enforcement of GHG Emissions

The Supreme Court recently ruled that the Clean Air Act did not authorize the Environmental Protection Agency to enforce the Obama administration's Clean Power Plan, which would have capped national and state level carbon dioxide emissions; this was not a surprise. Nonetheless, it was disappointing and a clear setback for the current administration's ambitious climate goals. Having said that, the actual ruling is based on a plan that had not been in effect due to past court rulings and actions by the Trump administration, meaning the immediate impacts are minimal. We see no indication that corporations will alter their own GHG emission reduction goals.

Many observers are rightly concerned that the ruling might also have implications for future actions taken by the executive branch regarding climate change, including the SEC's proposed climate disclosure rules. A final decision regarding the implementation of those rules, which we support, is expected from the SEC in the next few months.

Advisory Board 2022 Meeting

The Terra Alpha Investments Advisory Board serves to provide unique insights on key issues related to our investment and impact work (e.g., environmental science, policy, corporate governance, capital markets, and leadership). We convene our full Advisory Board at least annually. In June, we held our first in-person meeting since the fall of 2019.

We had several sessions with the board covering a range of topics. Below are a few key observations from the sessions that we thought were worth sharing:

- The priorities of corporate boards and C-suites:

- Despite the additional challenges facing companies, our advisors indicated that conviction in the sustainability agenda remains a high priority for corporate boards and the C-suite
- Shareholder engagement remains important, with an emphasis on direct dialogue
- Perspectives on Terra Alpha’s impact work:
 - Stay focused on the key sustainability outcomes, including finding more ways to communicate progress on those outcomes
 - Long-term aspirational goals (net zero by 2050) can be counterproductive - interim goals need to be emphasized
 - The business case is the most effective argument
- The role of policy in advancing sustainable systems:
 - Lower confidence in meaningful progress on the policy front, meaning the role of companies and investors remains crucial

Terra Alpha Impact

CFA Institute's Diversity, Equity, and Inclusion Code



CFA Institute

Terra Alpha became a signatory of the [CFA Institute's Diversity, Equity, and Inclusion Code](#) for the Investment Profession. According to the CFA Institute, the Code “aims to

foster commitment from institutions to DEI action that will lead to greater inclusion of wider viewpoints from the best talent, which will lead to better investment outcomes, help create better working environments, and generate a cycle of positive change for future generations.” Terra Alpha is committed to adhering to the Code and continuing to formalize and integrate DEI across the firm.

CERES Valuing Water Initiative



Ceres

We committed to participate in the engagement phase of the CERES-led Valuing Water Initiative. Our participation as an investment manager, per CERES, will include engagement with “corporate water users and polluters to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems.”

[You can learn more about the Initiative here.](#)

Terra Alpha's Support of the SEC's Proposed Climate-Related Disclosure Rule

Terra Alpha submitted a [letter](#) in support of the SEC's proposed climate disclosure rule. In particular, we relayed how important it is to include Scope 3 emissions, that we advocate for using science-based targets and plans for emissions reductions (and offsets as a last resort to achieve those goals), that climate data should be in financial statements and filings, and that we support international alignment of disclosure.

Thought Leadership

EP Insight | Zara x LanzaTech: Recycled Carbon Polyester



Industria de Diseño Textil, S.A. (ITX:MC), also known as Inditex, is a Spanish multinational clothing company headquartered in Arteixo, Galicia, Spain. Inditex is the parent company of popular clothing brand Zara.

The transition to a sustainable economy requires nearly all of the products and services we use daily to rapidly innovate. A key lever in the transition will be eliminating as many GHG emissions as we can, as quickly as we can. However, some emissions sources remain difficult to eliminate, so new technologies are being developed to capture and utilize waste emissions in the interim.

US-based startup company LanzaTech and popular Spanish clothing brand Zara, for example, recently launched a collaboration to transform captured waste emissions into party dresses.

[Read the full EP Insight here.](#)

Engaging Alternatives Spotlight: Investing with Purpose

Tim joined Elana Margulies-Snyderman, Senior Manager of Publications at EisnerAmper, to share his outlook for sustainable investing including the greatest opportunities and challenges, thoughts on the SEC's rules to enhance ESG disclosures, how the firm is addressing DEI and

more.

[Listen to or watch the full podcast here.](#)

Middleburg Life Q&A with Tim Dunn

Founder and Chief Investment Officer Tim Dunn sat down with Will Thompson of Middleburg Life in April 2022 to discuss Terra Alpha, our approach to sustainable investment, and how the biggest impact that we can have globally may be through our investment portfolio.

[Read the full interview here.](#)

OETV ESG Interview Series with Tim Dunn

Tim sat down with Sasha Chasen at [OpenExchange TV](#) to discuss the state of play in sustainable investing and the use of ESG information and data to inform better investment decision making. They touched on some of the incredible changes to the investment landscape since the firm's launch in 2014, and the need for further improvement to the capital markets.

Events & Engagements

- *Terra Alpha was a co-sponsor of the Intentional Endowment Network's Climate Action Summit.* Julianna Brunini represented the firm on a panel on net zero.
- *Terra Alpha was a co-sponsor of the CFA Society of Washington DC's 4th Annual ESG Summit.* Tim Dunn was a panelist for the asset managers panel. Julianna Brunini led a roundtable conversation on net zero investing. Amy Dine represented the firm to introduce the session on regulations.
- Tim was a panelist on Sustainable Investing at a Brandeis International Business School Investment Trends seminar along with Priscilla Brown, CEO at Amalgamated Bank and Aniket Shah, Global Head of ESG and Sustainable Investing at Jeffries.
- Tim presented our commitment to a science based target for GHG emissions as a financial institution on a CDP call aimed at LATAM financial entities (attended by 61 banks, asset managers, and others) along with Bancolombia.

Team News

Team Spotlight: Terra Alpha Summer Interns



Shonciré Graham

Shonciré is from Colorado Springs, Colorado. She is a rising junior at Howard University studying Economics and International Affairs. At Howard, Shonciré is the Vice President of the College of Arts Sciences Student Council and competing debater for the Speech & Debate Team. She enjoys trying new cuisines, traveling, and walking her dog. This summer, Shonciré's research is focused on autonomous driving technology, specifically on LIDAR and camera vision. She will also find and present research on a company within that field.



Melina Ocampo

Melina is from Washington, DC. She graduated from Trinity Washington University in 2021 with a Bachelor's degree in Business Administration with a concentration in finance and accounting. Melina enjoys cooking new recipes for her family and friends and loves to explore new areas within her city and abroad. This summer, Melina's research is focused on circularity in the automotive industry, including both internal-combustion engine vehicles and electric vehicles. She will also find and present research on a company focused on automotive circularity.

Promotion of Nathaniel Schwartz to Senior Research Analyst

Nathaniel Schwartz was recently promoted to Senior Research Analyst. Nathaniel joined Terra Alpha in June of 2017 after interning for Terra Alpha and graduating from Auburn University with a BA in Finance. Nathaniel's research coverage includes the technology, communications, and automotive sectors. He is a member of the firm's Diversity, Equity, and Inclusion Committee and runs our internship program. He recently passed CFA Level II and plans to sit for CFA Level III next spring.



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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