



# Investor Climate Action Plan (ICAP)

2023



# Investor Climate Action Plan for Terra Alpha

At Terra Alpha, our overarching, firm-wide investment strategy is to allocate capital to companies that are profitably leading the transition to a more sustainable economy. In order to fulfill this, Terra Alpha has deliberately included climate considerations in our investment management since our inception in 2014, and we incorporate it throughout our operations.

The intention of Terra Alpha's Investor Climate Action Plan (ICAP) is to publish a standalone document that directly lays out these climate-related investment strategy actions. In short, our climate action is seen in our philosophy and operations – it is seen in our emissions targets, in our investment process, and in our engagement and advocacy, including in the stewardship of our company proxy voting. We invest and engage with a lens to accelerate the transition to a world that is actively pursuing and enacting low or no-carbon options, mitigating climate change, and preserving natural resources through more efficient and sustainable business operations.

This report explains how we implement our climate action plan via:

- + Climate Targets
- + Climate Disclosure
- + Investing with Climate Considerations
- + Engagement on Climate
- + Governance with Climate Considerations

Climate action goals are not new to our firm. Since our founding in 2014, we have prioritized the health of our planet in all of our work. Our working premise is:

Terra Alpha Investments was founded on the premise that our economic system can, and must, transition to one that is truly sustainable – one that provides for the real needs of society while operating within our planet's regenerative natural resource limits.

# Climate Targets at Terra Alpha

## What are Terra Alpha's climate targets?

Our climate action plan includes science-based targets in both the emissions we finance via our investing activities (about 99% of our total greenhouse gas [GHG] footprint), as well as the emissions from our firm's operations (about 1% of our total greenhouse gas footprint).

## Portfolio Targets

Terra Alpha was one of the earliest adopters and signatories of the Net Zero Asset Managers Initiative (NZAM). As part of our net-zero commitment, we set two ambitious targets for our investing activities based on the [Science Based Targets initiative's](#) (SBTi) portfolio coverage methodology for financial institutions. By this methodology, we use our influence as an investor to encourage our portfolio companies to set (and follow through on) their own science-based emissions reduction targets. Our targets are:

- + To achieve 75% science-based targets portfolio coverage by **2025**, and
- + To achieve 95% science-based targets portfolio coverage by **2030**.

These targets have been validated by the SBTi and apply to 100% of our AUM invested in portfolio companies.

Portfolio Targets (YE)	2018	2019	2020	2021	Commentary
Percent of invested AUM in companies with SBTi-validated emissions reduction targets (all investment strategies)	N/A	N/A	43%	61%	<i>On track to achieve our targets (75% by 2025, 95% by 2030)</i>

To read more about our portfolio targets, please see [Our Commitment to a Net Zero Emissions Portfolio](#).

## Operational Targets

Addressing the ~1% of our greenhouse gas footprint from our operational emissions is also part of our climate action plan. Since we are an investment manager, the top two drivers of our firm's operational emissions are electricity consumption and business travel. We have identified electricity consumption (Scope 2 emissions) as our top priority for reduction, and in accordance with the SBTi's guidance, set a goal of reducing our absolute emissions by 46% by 2030 versus 2019. We are also in the process of developing a strategy to address our business travel (Scope 3).

# Climate Disclosure at Terra Alpha

## *How and where does Terra Alpha disclose climate information about its portfolio and operations?*

Tracking and disclosing climate-related information occurs regularly. For example, some of the documents through which we have disclosed climate-related information include:

- + Terra Alpha's [Impact Report](#), released annually
- + Our 2022 CDP Climate Change Survey, in alignment with recommendations from the Task-Force on Climate-related Financial Disclosures (TCFD), available via the [CDP platform](#), and
- + Regular newsletter updates, archived on our [website](#)

Below is a snapshot of key data points that we have disclosed in the past:

GHG Emissions (YE)	2018	2019	2020	2021	Commentary
Percent of invested AUM in companies with SBTi-validated emissions reduction targets (all investment strategies)	N/A	N/A	43%	61%	On track to achieve our targets (75% by 2025, 95% by 2030)
CO2e emissions from a \$1 million investment in Terra Alpha's diversified strategy (tonnes)	18.5	21.4	18.3	14.5	Change driven by changes in portfolio composition and changes in portfolio companies' emissions; two-year data lag on average
Absolute portfolio emissions (tCO2e)	N/A	N/A	N/A	1,535	Please see our 2022 CDP Climate Change Survey for methodology notes
Portfolio carbon footprint (tCO2e / million invested)	N/A	N/A	N/A	11.7	
Weighted average carbon intensity (tCO2e / million revenue)	N/A	N/A	N/A	47.9	
Average emissions intensity of holdings (tCO2e / million revenue)	N/A	N/A	N/A	38.9	

## **Future Developments**

A key project in 2022 has been aligning our portfolio emissions reporting methodology with that of the [Partnership for Carbon Accounting Financials](#) (PCAF). We intend to enhance future portfolio emissions reporting with the inclusion of a data quality score, as recommended by PCAF.

# Investing at Terra Alpha

## *How are climate considerations integrated into Terra Alpha's investment philosophy?*

Core to our action plan to address climate change is our conscious inclusion of climate-related factors in our investment decision-making process. Our investment process endeavors not only to generate superior risk-adjusted, long-term returns for our investors, but also to help shift capital to companies that are working to reduce their emissions and, in many cases, scale climate change solutions (e.g., companies working to produce real economy sustainable outcomes). We consider each company's climate related opportunities, risks, and management plans (amongst other factors) before investing. We believe these are important considerations for all companies over the course of our long-term investment horizon. We also believe that companies that take early action amid a global energy transition have opportunities to build competitive advantages.

## *How are climate considerations integrated into the research and investment process?*

Terra Alpha has integrated climate-related considerations directly into our investment research and portfolio construction.

We operate our actively managed global public equities strategy using a hybrid quantitative/qualitative investment process, including fundamental company research based on two internally-developed frameworks: our Environmental Productivity framework, which evaluates the efficiency with which companies use and impact natural resources (e.g., clean air, water, soils, forests, and raw materials), and our Enduring Business Model framework, which evaluates a company's ability to deliver long-term (5+ years) growth in our rapidly changing world. The research process includes evaluating a company's alignment to mid-term and long-term thematic trends, such as decarbonization, electrification of everything, evolving food & agriculture systems, technological innovations, impacts of climate change, demographics, and urbanization.

 <b>Electrification of Everything</b>	 <b>Urbanization</b>	 <b>Demographics</b>	 <b>Human Health Developments</b>	 <b>Societal Benefits</b>
 <b>Decarbonization</b>	 <b>Impacts of Climate Change</b>	 <b>Transition of Food Systems</b>	 <b>Move to Circular Economy</b>	 <b>Technological Innovation</b>

*Examples of long-term thematic trends that Terra Alpha considers*

Our company-specific analysis of climate-related risks and opportunities during investment due diligence (and during ongoing monitoring of portfolio companies) helps inform whether we invest in (or continue to hold) an equity security. For example: we consider the company's carbon intensity, enabling qualities of its products/services, emissions reduction targets and whether they are SBTi-approved, progress towards targets, and whether the company has conducted its own TCFD-aligned scenario analysis and the robustness of its conclusions/response, amongst other factors.

***In what types of companies does Terra Alpha invest?***

Terra Alpha has not 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 whose main business results in expanded thermal coal production. While we can and do consider companies that operate in traditionally higher-emitting sectors, they must have a credible 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. See our piece [Investing Beyond Fossil Fuels](#) to read more.

***Could Terra Alpha share anything about its use of climate change scenario analysis and the assumptions, and actions taken as a result?***

We assess climate-related risks and opportunities at the global, economic sector, and company-specific levels. We assume that the global economy can and will transition towards a low-carbon economy that is on the 1.5°C degree trajectory. We recognize that some sectors will be more directly impacted by a changing climate than others, and we seek to invest in companies that we believe can profitably thrive in the transition to a more sustainable economy.

Our focal question as we consider climate scenario analyses is whether to invest in (or continue to hold) an equity security, given our understanding of its climate-related risks and opportunities, amongst other considerations. We view a company's superior Environmental Productivity as necessary, but insufficient, grounds for investment. To complement this perspective, our Enduring Business Model (EBM) research assessment measures a company's ability to deliver long-term (5+ year time horizon) positive returns and provide relevant, desirable products and services throughout the transition to a more sustainable global economy.

Our understanding of climate-related risks and opportunities at the industry/sector level helps us prioritize and deprioritize areas of investment research. For example: we consider large parts of the oil & gas sector to have high levels of stranded assets. We also see meaningful levels of transition risks in the major automobile and truck OEMs, real estate, banking, and insurance sectors. On the other hand, we see many sectors growing rapidly due to most climate scenarios, including electric vehicles, renewable power, water efficiency, building efficiency and HVAC companies, aquaculture, certain technology companies, and certain healthcare providers.

# Corporate Engagement Strategy at Terra Alpha

## *How are climate-related considerations integrated into Terra Alpha's Engagement Strategy?*

We have taken a three-pillar approach to engagement, as an intentional piece of our active investment management:

- + We **engage** through direct one-on-one and collaborative communication with companies.
- + We **advocate** by publicly sharing our views and support initiatives on policy issues.
- + We actively **vote** our proxy votes and will consider filing shareholder resolutions.

Climate change is a focus area for Terra Alpha in all of the above (direct engagement, advocacy, and voting). By design, we are shareholders in companies that we see as leaders within their sectors in terms of carbon emissions efficiency – yet every company can and must reduce their GHG emissions. As a fundamental tenet from our inception, Terra Alpha has included emissions tracking, disclosure, and reduction as key focus areas of our corporate engagement.

### ***Climate-related Expectations of Portfolio Companies:***

We expect all of our portfolio companies to measure and disclose Scope 1 and 2 emissions, as well as Scope 3 emissions as soon as possible; to set science-based emissions targets; to develop an operational plan no later than YE 2023 to achieve at least -90% emissions reductions and net zero emissions by 2050 or sooner; and to transparently report their progress and obstacles.

We believe these expectations are universally relevant to all sectors/companies, since all sectors/companies need to address their climate-related risks and opportunities over the long term. However, not all of our portfolio companies have met all of these expectations, and we recognize that some companies will take longer than others to comply (due to, for example, the complexities of Scope 3 emissions measurement).

### ***What does Terra Alpha's climate-related engagement look like with portfolio companies?***

Our engagement strategy relies heavily on raising climate-related issues directly with our portfolio companies.

Terra Alpha engages with companies on a range of climate issues, from carbon emissions to water risk assessments, and from areas that are topical portfolio-wide to those that are company-specific, we have encouraged not only emissions reduction targets, but have asked our portfolio companies to commit to science-based targets and plans, and initiated a portfolio-wide campaign to establish science-based targets in 2021. Our NZAM status illustrates our commitment, as well.

## An Excerpt from our 2021 Impact Report Regarding Our Science-Based Targets Campaign

### Science Based Targets – Campaign Example

In late 2021, we undertook a portfolio-wide campaign to encourage companies to set science-based targets, articulate plans to reduce emissions, and specifically, to use the Science Based Targets initiative framework to validate their emissions reduction plan. Initiating this campaign this year tied into our firm's 2021 commitment to the Net Zero Asset Manager initiative, discussed on page 6 of this report.



This campaign began with a letter to each portfolio holdings' CEO, outlining our case for the importance of science-based targets and plans. Our portfolio tends to hold leaders in climate considerations, so it is important to note that many of our holdings had already committed to the SBTi.

The results indicate an effective campaign. We have had substantive responses from 45% of the portfolio. We received signed letters or personal emails from 6% of the CEOs. As noted in an earlier section of this report NZAM and SBTs, we began the year with 43% of the portfolio committed to SBTi and ended with 61% of our portfolio committed to science-based targets and the initiative. One third of the portfolio companies offered to have follow up conversations. We have begun these follow-up engagements and will make our way through the portfolio in the first half of 2022.

### How has Terra Alpha advocated and engaged with policymakers?

Advocating to policymakers and sharing our views through thought leadership have been mechanisms in taking an active role to raise awareness about the climate and the corporate sector's seminal role. We have actively pursued opportunities to forward climate-related disclosure via regulatory changes, and have been early supporters of global and national efforts such as the TCFD and the Sustainability Accounting Standards Board (SASB) frameworks. We partner with other groups to amplify shared messages, and we have tended to rely on the power of the collective group for our policy advocacy, with some direct one-on-one interactions. We have joined group investor statements to governments to implement legislation that encourages renewable energy usage. As a best practice, we track association memberships and fees, and are members of organizations whose positions on climate change are consistent with our own.

**We have also participated ourselves directly in meetings with government officials at the SEC regarding climate disclosure rules, and issues related to shareholder proposal filing access.** We have voiced our support for the proposed SEC Climate Disclosure ruling, including disclosure of Scopes 1, 2, and 3 GHG emissions and of more information around transition plans and emissions reduction targets. We have supported the sustainable investing group USSIF, which fully embraces the Paris Agreement tenets and has represented these when lobbying for climate change mitigation propositions.

**Collaborations / memberships:**



*Signatory of:*



***How does Terra Alpha consider climate change in proxy voting stewardship?***

We **vote proxies** conscientiously to promote climate-aware corporate behavior, when relevant issues arise on ballots. Terra Alpha’s voting policy guides us to encourage voting that promotes climate data disclosure and to assess climate risks and considerations. We have co-filed climate-related resolutions at companies where they did not respond to our efforts to engage.

Below is our Proxy Voting Policy that instructs our climate-related voting:

***Proxy Voting Policy - how we vote:***

***ENVIRONMENT:***

***Climate:***

We will generally vote in favor of resolutions that request disclosure of material environmental data and information, greater efficiency of natural resources use, and/or efforts and progress towards reducing emissions and the impact on natural resources. We will generally vote for implementing science-based targets verified by the Science Based Targets initiative and for articulating plans to reach them.

We will generally support resolutions asking for reports confirming that companies have evaluated risks from climate change.

***Water:***

We will generally vote in favor of proposals that request companies disclose water auditing or risk assessments, that companies report water use and risks, and/or that companies disclose programs to mitigate risks from water use or lack of access. We are proponents for conservation / greater efficiency of use of water and will generally support resolutions that request plans to achieve greater efficiency.

We will generally vote in favor of resolutions that request disclosure of science-based targets (and plans to achieve them) around water usage, as this area evolves.

We actively vote our shares and have done so since our inception. In 2021, we filed our first shareholder resolution and will continue to use this lever as a mechanism to escalate our engagement with companies and as a part of our climate action plan.

*An Excerpt from our 2021 Impact Report on Co-Filing of a Shareholder Resolution*

***Co-Filing of a Shareholder Resolution***

We took our inaugural step into the realm of shareholder resolution filing this year. We were a co-filer, along with As You Sow and Proxy Impact, to a shareholder resolution calling for the target company to set a Science-Based Target for its GHG emissions in the upcoming 2022 proxy season. We escalated our engagement with this company because our prior efforts to engage directly had been met with silence. The resolution as filed was approved by the Securities and Exchange Commission to appear on the company annual shareholder meeting's ballot. As a result of the filing, the company met with us, As You Sow, and Proxy Impact, and subsequently committed to: measure and report their Scope 3 emissions by year-end 2022, commit to Paris-aligned emissions targets and plans to achieve net zero, gave a commitment that offsets will be used as a very last resort, and committed to share these in their sustainability report published in the summer of 2022. Therefore, the resolution was withdrawn. This was a successful foray into filing shareholder resolutions, and we are encouraged by the target company's commitments for progress.

# Climate Governance at Terra Alpha

## *How are climate considerations addressed by Terra Alpha's governance structure and leadership?*

We were founded on the belief that there is a link between our investment portfolios' returns and how effectively we manage climate-related risks and opportunities. The importance of considering climate change and incorporating natural resource use efficiency is embedded in our firm and leadership outlook, the policies that guide our work, and is evident in our processes and actions.

As a consequence of our structure and intentional approach, "climate governance" is infused throughout Terra Alpha. Therefore, we do not specifically add "climate incentives" to executive remuneration. Reviewing climate risks and opportunities is ingrained in our investment process and engagement. Because we include these factors in our analysis, our senior management regularly sees and discusses the climate-related performance, risks, and opportunities across the portfolio. We have an Advisory Board that brings academic and policy expertise to ask questions and provides insight on climate change-related risks and opportunities. We regularly meet with this Board to exchange perspectives.

Good "climate governance" is supported through deliberate processes: critically, our Chief Investment Officer and Director of Research are directly involved in the design and implementation of our investment process which integrates climate-related risks and opportunities in a number of ways (e.g., carbon intensity screening of equity securities versus their industry peers; stranded asset checks; and analyst-led research into company-specific considerations using our internally-developed Environmental Productivity framework). The CIO and Portfolio Manager make final decisions on portfolio construction, again considering climate-related risks and opportunities, amongst other factors. We view a company's superior Environmental Productivity as necessary, but insufficient, grounds for investment. To complement this perspective, our Enduring Business Model (EBM) research assessment measures a company's ability to deliver long-term (5+ year time horizon) growth and provide relevant, desirable products and services throughout the transition to a more sustainable global economy.

## Conclusion

How we at Terra Alpha integrate our planet's changing climate into our firm is explained here in our Investor Climate Action Plan (ICAP). Our fundamental belief in the importance of climate-related considerations for successful investing is deeply ingrained throughout our firm's strategies and processes and our leadership's perspective. As we have laid out, Terra Alpha was set up with the explicit expectation to incorporate natural resource use efficiency and climate considerations embedded into our investment process and in our engagement and policy advocacy. Our climate-related considerations are a part of our active investment management, and we transparently disclose portfolio climate related data publicly to our investors. We have set science-based targets for both our financed and operational GHG emissions. Investing with climate considerations – a climate action plan – is the core tenet of our investment strategy.