ECP

Task Force on Climate-Related Financial Disclosures FY2022

Redefining
Active Investing
ecpam.com

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About

This report states our commitment to the TCFD recommendations and provides a blueprint for our own business over the coming years where we will seek to hold ourselves accountable for the measurement and process of these issues. ECP has always been focused on ensuring that both our business and our investments deliver better financial outcomes for our clients. As the word transitions to a net zero economy, we are committed to ensuring our portfolios are prepared for this paradigm shift.

To Our Stakeholders

Sustainable Business is Good Business

Any successful business owner makes decisions for the betterment of their long-term business. Having sustainable practices and a long-term mindset is vital for any operator in this modern, rapidly changing world. Over the past few years our industry, and society more broadly, has continued to evolve with higher expectations being made of businesses and growing commitments to maintaining their social licence to operate. Being a good corporate citizen is only part of it. Being a good corporate citizen that is compassionate, committed to its people, planet, and the community is mandatory.

As a fund manager we have a clear responsibility as to how we invest our clients' capital. While we must steer clear from making ethical judgements on behalf of others, making clear commitments that are known to all stakeholders is simply prudent investing. For any long-term investor, considering the externalities that may arise over the investment period is prudent investing - climate change is one of those key considerations. Within this, the theme of sustainability has long been part of our investment process, and since we see ourselves as business owners (and not share traders) we invest along similar principles where sustainability and competitiveness are central to any investment analysis.

Since becoming a signatory to the Principles of Responsible Investment (PRI), we have been on a long journey to continue to refine our process, true to style and label, while incorporating best practices with respect to ESG and responsible investment. As of January 2021, we became supporters of the Task Force on Climate-related Financial Disclosures (TCFD). This is one of a few initiatives we have planned as we continue to evolve our commitments to our clients and our community.

At ECP, we strongly believe that increasing the amount of reliable information on financial institutions' exposure to climate-related risks and opportunities will strengthen the stability of the financial system, contribute to greater understanding of climate risks, and facilitate financing the transition to a more stable and sustainable economy.

The following is our first TCFD report, relating from the period 1 July 2021 to 30 June 2022. Largely, this report states our commitment to the TCFD recommendations, and provides a blueprint for our own business over the coming years where we will seek to hold ourselves accountable for the commitments we have made.

Sincerely

Jason Pohl

TCFD Report

Introduction

Overview

ECP Asset Management (ECP) is a boutique investment fund manager that provides services to institutional and retail investors. As at 30 June 2022, ECP manages in excess of $2.0 billion in assets - which belong to our clients who rely on us to act in their best interests.

The Task Force on Climate-Related Financial Disclosures (TCFD) was created in 2015 by the Financial Stability Board (FSB) to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.

As a long-term investor and through our commitment to upholding responsible investment practices, it is prudent that we carefully consider any long-term risks to our investments. Increasingly, climate change and environmental risks pose serious threats to some business models, whether they be physical or transitional risks as we transition to a net zero economy.

> "By increasing the amount of reliable information on exposure to climate risks and opportunities, we will strengthen the stability of the financial system and facilitate financing the transition to a more stable and sustainable economy."

This report documents our responses to the TFCD recommendations as well as publicly noting our own internal commitments and developments. We expect that this document will continue to evolve over time as we improve our measurement and reporting capabilities and should be read in conjunction with our Climate Change Position Statement. We strive to ensure that we remain true to our core values - to sleep well before eating well.

Responsible Investment

We are a highly ethical team, committed to good investing. We're relentlessly transparent, honest about our capacity and vigilant in applying our process. We do this because there's simply no other way we can deliver on our promises. This report continues to build upon these promises to all our stakeholders.

ECP has been a signatory to the UN-Backed Principles for Responsible Investment (PRI) since 2013. As of January 2021, ECP is an official supporter of the Task Force on Climate-Related Financial Disclosures (TCFD). ECP believes that the increasing focus by investors on ESG-related issues and climate change has an impact on every company. In line with the TCFD, we believe that the transition and physical risks presented by climate change provide material risks for some businesses, while others may find it presents some compelling opportunities and financial benefits.

Introduction
Continued

ECP is committed to responsible investment, and we believe that ESG factors have an impact on long-term investment outcomes. The consideration of ESG factors is part of our decision-making process and is fully integrated through asset selection and portfolio management procedures.

ESG, and Sustainability more broadly, has always been central to our process and thinking. For any long-term investor identifying high-quality companies, sustainability is a foundational component of any analysis. ESG issues are highly relevant to a better understanding of the long-term potential of an investment and its predictability of returns through time. Incorporating sustainability into one's decision-making will ultimately lead to superior investment returns.

When we consider our commitment to the TFCD and to our own business stakeholders, we consider the impact to our environment in both our own internal practices and in relation to our underlying investments. Our investment horizon is 5+ years and understanding and evaluating the sustainability of a business's operations and future competitiveness is vital. For any assessment, a holistic understanding of the impact to all stakeholders is required, and not that of just shareholders.

When seeking to understand the impact to all stakeholders, the wider community and our natural environment become central to this assessment. Companies that act without any consideration for a broad range of stakeholders are met with severe consequences; however, in practice, it is rarely this simple. Issues of such magnitude need to be considered carefully and holistically.

Governance

Board & Management Oversight

Good and effective governance is central to ensuring that we meet our obligations to our clients, to deliver to all stakeholders, and to execute on our firm's strategy. At ECP, we take responsible investing seriously and to that end ensure we have a strong commitment from the board and our investment committee to deliver on ESG, sustainability and climate-related issues.

In 2021, ECP formalised our blueprint to deliver on our ESG and climate-related processes, both internally (our own operations) and externally (our engagement with investment companies). From a board perspective, where major ESG or climate related issues are prevalent, the board will address and consider appropriate responses or action which are presented to the Investment Committee for further discussion and action.

Governance
Continued

Furthermore, while ECP takes an approach whereby each investment analyst is tasked with reviewing, monitoring, and assessing ESG and climate related issues or opportunities with respect to their coverage, the board has tasked the Head ESG Officer to work alongside individuals when required.

As a fund manager, ECP has a fiduciary duty to our clients to ensure that we adequately consider and assess any company-related risks. Where ESG and climate-related issues are fundamental to our investment thesis, these issues are subject to intense scrutiny in our assessment of any investment opportunities. These assessments are done through our Sustainability Pillar within our research framework.

ESG issues, including climate-related issues (when relevant) are discussed monthly by the Investment Committee. These discussions are largely company related, with each team member being provided with the opportunity to raise issues or concerns for the committee to consider.

Strategy

Overview

The increasing focus on environmental issues is seeing remarkable change across sectors and industries. For the long-term investor, assessing transitional and physical risks and opportunities is pertinent - a holistic understanding of regulations, societal expectations, stakeholder analysis, and shifting consumer preferences are required to adequately assess an investment opportunity.

Sustainability is a foundational component of our investment process and our own firms' beliefs, and we approach climate-related risks and opportunities through the following:

- As a private business whose business operations play a role within our society, and which may have direct and indirect impacts on our environment and our climate; and
- As a fund manager whose commitment to our clients warrants considering ESG and climate-related risks and opportunities within our investment mandate.

At ECP, our investment horizon is a minimum of 5 years. As a long-term investor, understanding the physical risks associated with climate change, and moreover, the transitional risks from the decarbonisation of our economy, is required for certain investment decisions.

ECP uses our own quality screens which companies must meet before we begin our research process. Once companies pass through our own initial screens, we investigate and assess several qualitative factors through our pillar framework. Our process assesses all key risks to the investment, and when relevant, this includes a company's impact on the environment as well as the impact of the environment.

Strategy
Continued

While we use a few external resources, including ESG specific data, to inform our analysis, we do not rely upon these providers for ESG screens. We do, however, exclude several sectors from our universe due to environmental concerns, namely companies whose core business is in thermal coal, petroleum, old-forest logging, palm oil and pesticide industries. The following lists our current exclusion sectors, and these are reviewed annually:

Environmental	Social
Thermal Coal	Gambling
Petroleum	Adult Entertainment
Old-forest logging	Weapons
Palm Oil	Tobacco
Pesticides	

Importantly, where we exclude sectors, these have been identified as a high risk to the businesses looking to expand their economic footprint over the long-term - for us, these are highly unsustainable industries. Our process aims to remove unsustainable businesses, and the outcome of this means we generally avoid companies that are large carbon-emitters, have poor ESG standards, harm the environment, or have failed to manage or plan for ESG risks.

For us, considering all externalities that may impact a business through time is prudent investing. Considering how government regulation, stakeholder relations, and how consumer preferences evolve regarding sustainability and climate change is pertinent to our investment philosophy and performance.

Climate-Related Risks & Opportunities

As a Private Business

Ultimately, ECP is aiming to be carbon neutral by 2025. We have begun our journey toward meeting this in an earlier time period, while the first focus for us remains 1) our own carbon footprint and our own activities, and 2) engaging with any of our companies on the issue of climate change and the risks associated with their business operations.

As a Fund Manager

The consideration of ESG factors is part of our decision-making process, and ESG risks or themes in markets may present actual opportunities for us. Sustainable business is good business whereas unsustainable businesses don't meet our definition of quality and are not included within our portfolio.

Climate-Related Risks & Opportunities
Continued

When we assess potential investments, we adopt a qualitative research process which assesses each company through our proprietary Quality Franchise pillar framework. We assess 6 pillars to identify characteristics in companies that we deem are investment grade - Quality Franchises. For us, understanding the competitiveness and sustainability of a business is paramount, with sustainability, stewardship, and competitiveness being the core foundations of any company we deem to be investment grade.

> “Quality Franchises generally have low carbon footprints, are capital light, have strong ESG practices, and demonstrate dynamic capabilities ensure a sustainable competitive advantage.”

With respect to ESG and climate-related issues, this is specifically assessed within our sustainability pillar. Our pillar framework looks at sustainability holistically, which considers future macro-environmental impacts (PESTLE), business specific ESG factors (current and previous), and the sustainability of a firm's competitive advantage (Dynamic Capabilities).

While some investments may be deemed far too risky in terms of the physical risk of climate change, however, what is (generally) more common are the risks associated with the transition to carbon neutrality or where carbon-emitters may be required to pay for negative externalities. To date, we have not found our investments at major risk of these issues.

From a structural perspective, our ESG & Sustainability Policy outlines how ECP manages ESG-related issues, including climate change; and our Climate Change Position Statement acknowledges the impact of climate change and our ongoing commitments. A company’s ESG credentials and their approach surrounding climate change are relevant for long-term investors and are essential to ensuring a sustainable business model.

Moreover, our Responsible Investment Policy and Active Ownership & Stewardship Policy details how we approach our investment responsibilities, highlighting our commitments to our clients to ensure we invest our clients’ capital in a careful, committed, and sustainable way.

Our investment process steers us toward high-quality companies, and as such they generally will be best placed to protect our clients from risks associated with poor ESG practices and climate change. The sustainability of a firm's competitive position is interrelated and interdependent with their business model, their relationships with all stakeholders (including the environment), and the stewardship demonstrated by management and the board.

Impact to our Business

Risks

As a fund manager, the following information relating to our investments to provides some colour around the two key areas of risk associated with climate-change.

Physical Risks

Physical risks are those related to the physical impact of climate-change. These types of risks may be (acute) physical risks, including extreme weather events, chronic heat waves, sea-level rise, erosion, and biodiversity loss. Moreover, these risks may also include longer-term shifts in climate patterns (chronic risks), which could affect anything from organisations supply chain to their employees' safety.

In terms of our portfolio, we have identified that ~28% of our portfolio has experienced some form of impact from climate change, with ~64% believing climate change will impact them through physical risks at some point in the future. Below outlines a few examples of where climate-related risks may impact investments.

Rio Tinto Plc (ASX: RIO) assets, infrastructure, communities, and broader value chains are exposed to chronic and acute climate change risks, such as the impacts of extreme weather events. Their operating sites may be vulnerable to natural disasters or extreme weather events. Climate change may increase the frequency and severity of these events including rising sea levels, floods, droughts, bushfires, or extreme temperature impacts on operating environments.

While this presents a challenge for Rio, our view is that the highest quality miner that maintains leading governance practices will better manage physical climate risks that enhance the resilience of assets and communities. This has included incorporating changes to climate into the way they design, operate and close assets through increased understanding of exposure at each asset.

James Hardie Industries (ASX: JHX) have highlighted that severe weather, natural disasters and climate change could have an adverse effect on their business. Adverse climate changes that directly impact plants or other facilities could materially adversely affect manufacturing or other operations and, thereby, harm their overall financial position, liquidity, results of operations and cash flows.

While insurance includes coverage for certain "business interruption" losses (i.e., lost profits) and for certain "service interruption" losses, any losses more than the insurance policy's coverage limits or any losses not covered by the terms of the insurance policy could have a material adverse effect on their financial condition. James Hardie is underway with incorporating climate risks into their risk management framework, and plan to integrate climate-related scenario analysis into strategic and financial planning.

Impact to our Business
Continued

Transition Risks

Transition risks are those related to the transition to a lower-carbon economy which could entail policy, legal, technology developments, market changes, or reputation issues. Organisations are already seeing this impact with climate-related litigation and policy changes rising. Costs of operation, raw materials, and products are all vulnerable to shifts in policy, technology, and markets. And changes in consumer preferences and customer behaviour must also be considered.

In terms of our portfolio, ~68% of our portfolio companies have highlighted that their company would be impacted by transitionary risks associated with climate-change. These types of risks may be increasing in nature at a more rapid rate than physical risks and we expect will impact a greater number of our investments over time.

Commonwealth Bank (ASX: CBA) is exposed to both the physical and transition risks associated with climate change. In terms of their transitional risk exposure, CBA have noted they have $14 billion in exposure to regions where more than 5% of jobs are directly tied to the coal value chain. When indirect jobs supporting the industry are included, the proportion of jobs linked to the coal value chain in these regions is estimated to increase to more than 10–15%.

For CBA, the risks lie in the inability to repay loans due to an increased number of vulnerable customers and hardship cases. Further issues may include failure to comply with current and emerging climate risk regulations and the potential legal action or penalties arising from strategies, policies, actions, or decisions not being aligned to public disclosures or commitments. CBA is well underway in incorporating the consideration of climate risks into their lending.

Macquarie Group (ASX: MQG) have highlighted that their business will be impacted by both physical and transition risks associated with climate change. They have continued to expand their understanding of climate scenario analysis, evolving their approach to support future integration into existing stress testing activities.

Recently, Macquarie have analysed the physical and transition risks of parts of Macquarie's Australian business lending and residential real estate lending portfolios by generating climate risk vulnerability heat maps. Macquarie have incorporated climate related risks into environmental and social risk and credit analysis for carbon intensive sectors; and they have established approaches to transition risk analysis in the oil, gas, coal and power generation sectors of lending and equity portfolios.

Impact to our Business

Continued

Opportunities & Benefits

While we do not take a top-down approach when investing, we are relentless in ensuring we are aware of the climate-related opportunities and their potential impacts upon our investment companies. Our investments are the highest quality businesses we can find, and these companies demonstrate industry-leading practices.

To illustrate the types of opportunities and benefits we expect from a Quality Franchise through time, we have listed below a few areas we believe are relevant to the companies that meet our investment philosophy. Each climate-related opportunity has the potential to drive improvements in their financial and competitive position. We have provided some examples of our portfolio companies that have already begun pursuing these opportunities.

Resource Efficiency

By using more efficient modes of transport, or more efficient production and distribution processes, high quality companies will see reduced operating costs and efficiency gains while also potentially seeing greater production capacity. Moreover, having a clear focus on more efficient buildings, lower water usage or through recycling, companies will be able to extract increased value from their fixed assets.

Domino's Pizza Enterprises (ASX: DMP) has implemented several initiatives to reduce packaging in their supply chain, to rethink how they transport food to reduce freight mileage and carbon emissions (including through the introduction of electric vehicles such as e-bikes) and through improved in-store operational efficiencies that drive not only more efficient pizza production, but also that flow onto energy efficiencies.

Dominos choose equipment and appliances based on energy efficiency and look for other ways to improve the efficiency of operations. E-delivery has become the dominant way of delivering pizzas across our European markets. In Denmark they already have a 100% electric delivery fleet. In the Australian market, they currently operate around 1,600 e-bikes. Japan has significantly increased the number of e-bike deliveries, nationwide e-bike delivery is currently 28.4% whereas it was 14.56% in 2018. New Zealand operates 55 e-bikes and 67 UBCO's (e-scooters).

Costa Group (ASX: CGC) continually improves growing techniques to bring more water efficient products to market. It has advanced substrate growing techniques to increase water efficiency in its Blueberry production and is expanding the use of the technology to Trellised Avocado production increasing the yield per HA and reducing water usage. Through improving the efficiency of their resources, production capacity has improved, and further has seen their technological advancements permeate into other products driving similar successes.

Impact to our Business
Continued

For Costa, focusing on these resource efficiencies means that they become a more attractive supply partner, and moreover, through early adoption of certain technologies it further sustains their competitive advantage in market. This not only provides benefits from reducing operating costs but will increase brand value proposition and consumer attractiveness.

Energy Source
By utilising lower-emission sources of energy or using new technologies that exhibit lower carbon or decentralised characteristics, companies may see reduced operational costs, and lower exposures to fossil fuel price increases or carbon price fluctuations. Additionally, these companies may benefit from increased capital availability from investors or reputational benefits.

Costa Group has renewable energy sources and in particular solar energy as a key strategic focus, aimed at improving energy security and reduce emissions. Costa has invested in a 5,096-panel solar farm to power its Monarto mushroom facility avoiding 1,010t of scope 2 greenhouse gas emissions and increasing the company's energy security. Costa will continue to meet the challenges presented by climate change, with these measures improving energy security and reducing financial exposure to blackouts and mains power grid shutdowns during extreme weather events.

Rio Tinto has set their sights on delivering on a lower carbon future, with their mobile diesel being a key strategic decision. Mobile diesel is Rio's third largest GHG emission source (16% of emissions), and the company is looking to develop low-emission alternatives for mobile fuel use in haul, load, and rail. Diesel for trucks and electricity are the main sources of emissions in Rio's copper business and here also the company is advancing alternative fuels truck trials.

Between 2022 and 2024, Rio plan to conduct a range of modifications to owned shipping vessels, which are collectively expected to deliver more than 10% of carbon emission reduction. These include applying high-performance paints to reduce friction, modifications of the propellers, and installing swirl ducts enhancing energy efficiency.

James Hardie has made a clear strategic priority to minimize their GHG impact through improving emerging conservation and efficiency. The company is in the process of shifting to renewable energy sources through 1) removing coal from their facilities, transitioning to renewable energy sources, and delivering energy efficiency projects. This year James Hardie has seen a 17% reduction of Scope 1 and Scope 2 GHG intensity (MT CO2e/$) from 2019.

Impact to our Business
Continued

Product & Services

The development or expansion of low emission goods and services through innovation and shifts in business models or consumer preferences may provide opportunities for businesses to drive increased revenues through new income streams or greater consumer value. Here, companies may find themselves in a far superior competitive position that better reflects the shifting consumer preferences.

Netwealth (ASX: NWL) has highlighted the importance climate change and ESG considerations have had on the wealth industry. A 2018 survey by Legg Mason found 49% of investors choose a managed fund or company to invest in according to that managed fund or company's ESG considerations. Netwealth have noted that companies with an avid focus on climate change and other ESG factors are helping drive an investment shift. Climate change will continue to drive an investment shift with interest in these strategies providing opportunities for those that align with these changing consumer preferences.

Nitro (ASX: NTO) owns a core PDF productivity suite that is a key enabler of workflow digitisation. The shift to greener operations goes hand in hand with digitising workflows and reducing printing. Studies suggest 45% of printed paper is thrown away by the end of each day, while 30% is never picked up off the printer. The decision to deploy Nitro's software firm-wide was driven not only by the anticipated staff productivity benefits but bolstered the firm's commitment to be green and carbon efficient by 2030.

Markets

For some companies, climate-related opportunities may arise through having access to new markets, use of public sector incentives, or through greater reach in their ability to access new assets and locations. Having nimble, quality franchises that can leverage these opportunities can provide for material investment outperformance over the long-term.

Macquarie Group (ASX: MQG) is the largest infrastructure manager globally with $560b in AUM and now has one of the largest renewable principal investments books and green advisory businesses through its acquisition of Green Investment Bank. MQG is a key player in enabling the transition of global energy infrastructure to a de-carbonised world. With currently 10% of its AUM in renewables this will grow strongly as the projects it manages grow from development into operational phase enabling the manager to deploy far greater amounts of capital.

Carbon Revolution (ASX: CBR) is an earlier stage investment that is transitioning from start-up to the growth phase of its lifecycle. Carbon Revolution is the only company globally to successfully develop and manufactured single-piece carbon fibre automotive wheels to OEM quality standards. The wheels are typically 40-50% lighter than comparable aluminium wheels, reducing vehicle weight, fuel consumption and carbon emissions. With lighter weight wheels, the climate benefits are lower fuel requirements and are central to assisting the EV revolution.

Impact to our Business
Continued

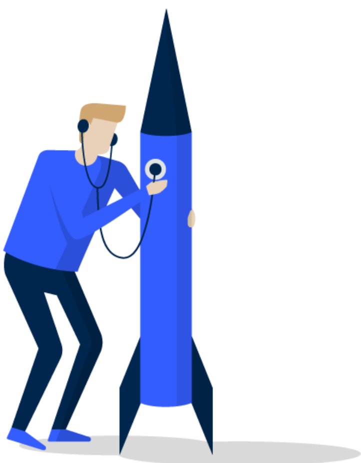
Resilience

At ECP, a key characteristic of our portfolio investments is their resiliency against externalities and economic cycles. By participating in renewable energy programs and through the adoption of energy efficient measures, companies may be able to increase their market valuation through demonstrating greater resilience, greater reliability in their supply chains and being able to operate through several conditions. Moreover, these companies may benefit from increased revenue through new products and services relating to ensuring greater reliance.

James Hardie's approach of distributing products locally provides for substantial efficiency and competitive advantage benefits. 63% of deliveries in FY21 were within 500 miles of manufacturing facilities which drive efficiencies - the strategic placement of plants optimizes the movement of product.

In addition to distributing locally, 83% of materials are sourced within 100 miles. This is a unique characteristic to their network of plants which reduces inbound and outbound shipping. Less shipping enables lower costs and a lower carbon footprint, compared to competing producers who may ship materials and products across the country to deliver products to market.

Additionally, their LEAN initiative prioritises conserving the use of natural resources, reducing consumption, reusing, and recycling where possible, which is focused on managing their environmental impact related to waste, energy, emissions, water, and effluent. By participating in these programs, James Hardie has proven to be more resilient through Covid, battling these pressures better than their competitors which has resulted in market share gains, improved pricing power, and material revenue growth.



Climate & Our Philosophy

Quality is Sustainable

Our Investment Philosophy is based on the belief 'the economics of a business drives long-term investment returns'. For any long-term investor, considering material externalities that may arise over the investment horizon is prudent investing - climate change is one consideration.

ECP's investment philosophy has not changed over time, despite the increasing focus on climate change. Our investment process has been formed through decades of learnings, applying the same principles that have stood the test of time. These learnings are applied within the contemporary operating environment, of which climate change and related environmental impacts must be considered.

Using our six-pillar framework, we identify several characteristics that must be present within any business that we would deem investment-grade, and part of this is to meet our strict requirements under our Sustainability Pillar. Here, our qualitative analysis is contextual in nature, and where climate-related risks present issues over the long-term these need to be understood by our investment team with the risks factored into our modelling.

Generally, our investment process seeks to identify any structural changes or paradigm shifts that may impact on our investment companies. Identifying the highest quality franchises within these environments allows us to extract superior investment returns through time.

Identifying Resiliency

ECP periodically discuss and assess climate-related risks and opportunities with respect to potential investment opportunities. For us, understanding these significant changes within our society means a holistic understanding of a business today, and into the future.

The result of applying our rigorous process means our portfolio companies are highly resilient against most economic cycles, they are less sensitive to changes in economic rates, they are less impacted by major market disruptions and can manage carbon pricing and other government intervention policies combating climate-change. Additionally, the transition toward a carbon neutral society and the ongoing pursuits toward more sustainable technologies will see several opportunities arise.

At ECP, we do not take a sector or thematic approach to investing, however, we do exclude companies where we do not believe they exhibit quality characteristics (unsustainable industries, highly leveraged balance sheets, low returns on invested capital, and lack of consistent sales growth to name a few).

Our investment portfolio holds only the highest quality investments, and within this they exhibit high ESG standards, and are at the forefront of driving more efficient and sustainable practices.

Climate & Our Philosophy
Continued

Risk Management

Identifying & Assessing Climate-Risks

When identifying and assessing climate-related risk, our sustainability pillar within our Quality Franchise framework focuses on areas of a business where there may be risk to the predictability of business operations through time. This assists our mitigation of default risk and uncertainty of business expansion.

For us, protecting our client's capital is paramount. Every investment is assessed with respect to the potential risks associated with ESG and climate change, and further, where there may in fact be an opportunity for the business over the long-term.

When assessing the long-term potential of an investment, we follow our proprietary Quality Franchise pillar framework, whereby sustainability and stewardship are central to this assessment. For us, understanding the sustainability of any investment requires a forward-looking approach which considers any externalities that may impact the predictability and competitiveness of business operations - within this, climate change is a key consideration.

Managing Climate-Risks

ECP's investment process comprises a few parts that make up our broader risk management process. From a stock selection perspective, we qualitatively assess of each potential investment company which informs our financial modelling of a company's earnings and cash flows. The output of our modelling feeds into our proprietary portfolio construction process.

At ECP, we allocate capital between investments based on their internal rate of return (IRR). Given we are long-term shareholders, the companies that have a higher IRR will receive a higher weighting in our portfolio - by doing this we are able minimize short-termism in our portfolio and ensure we are focused on the long-term fundamentals of an investment and weighting our portfolio toward the names that will deliver the highest returns through time.

The outcome of our portfolio construction approach is that both the qualitative and quantitative parts of our investment process can account for climate-related risks that have been identified by our investment analysts. Given climate-change issues are generally longer dated, having a deep understanding of these issues and how they impact the company, and their financials is required for our process to be effective.

Risk Management
Continued

Integrated Risk Management

The 'Pillars of a Quality Franchise' is an integrated framework developed in-house to better mitigate against business specific risks. Within this framework our process places a material emphasis on sustainability and stewardship of companies.

When assessing investments, it is important not to single out one stakeholder as more important than another — this is a fine balancing act for any investor. Understanding ESG-issues, whether historical or current, needs to be understood as interrelated and interdependent to the broader investment thesis.

Where companies are exposed to climate-change, or negatively impact the environment or our community, they will inevitably be exposed to increasing regulation, consumer backlash, generally higher costs to operate, and lower returns on investment capital. These are exactly the types of businesses that we avoid.

Importantly, our six-pillar framework requires a minimum of 90% of our Quality Franchise Score for any investment to be deemed investment grade (Quality Franchise) before being approved for inclusion in our portfolio. Given we place such a large emphasis on sustainability and stewardship, companies that fall short will (generally) not be included in our portfolio.

Outside of asset selection and portfolio construction, ECP have implemented our Active Ownership Policy (in line with our commitments to the PRI), where we regularly engage with portfolio companies through time. In these engagements, we not only seek to understand issues that may impact the business through time, but also express our concerns relating to ESG and climate-related issues that are relevant to their business.

Moreover, proxy voting is another method whereby we aim to manage these issues. In addition to our own in-house research, we engage Ownership Matters to inform our proxy voting. Where we are presented with a controversial resolution or we are unhappy with management, we will engage with the company prior to voting, but this remains an effective method to make our views known.

Metrics & Targets

Key Metrics

Our Business

Since ECP is in the initial stages of our assessment and reporting on climate change, we are continuing to expand our capabilities of reporting. This report focuses our investment portfolios, and over the coming years we expect to have a broader understanding of our own business and its environmental impact. For us, our next primary objective will be to achieve net neutral carbon emissions from our direct operations.

Carbon Emissions & Investing

This year we conducted an independent review through Foresight Analytics of our two equity portfolios for their underlying carbon footprint. As of 30 June 2022, ECP Growth Companies Fund and the ECP Emerging Growth Companies Fund both had weighted average carbon intensity levels significantly lower than the relevant benchmark.

Importantly, ECP does not manage portfolios to deliver carbon emission objectives. The information provided is to provide colour around the carbon exposure of our portfolios.

To provide some detail around the reported numbers, a portfolio's **total carbon emission** in tons of CO_2e. answers the main question "what is my portfolio's total carbon footprint at my current AUM level?". It measures the portfolio's tons of CO_2e taking scope 1-2 as well as scope 3 emissions into account for which an investor is responsible. It is apportioned to the investor based on an equity ownership perspective.

The **relative total carbon emission** (relative emission) measures its difference in total carbon footprint compared with that of a benchmark at the same level of investment in tons of CO_2. A portfolio's relative total carbon emission % expresses the difference in percentage terms.

The **weighted average carbon intensity** answers the main question "what is my portfolio's exposure to carbon intensive companies?". Since companies with higher carbon intensity are likely to face more exposure to carbon related market and regulatory risks, this metric can serve as a proxy for a portfolio's exposure to potential climate change-related risks relative to other portfolios, across asset classes or relative to a benchmark.

Since companies with higher carbon intensity are likely to face more exposure to the carbon-related market and regulatory risks, this metric can serve as a proxy for a portfolio's exposure to potential climate change-related risks relative to other portfolios, across asset classes or relative to a benchmark. Unlike the portfolio total carbon emission, carbon emissions are apportioned based on portfolio weights/exposure rather than the investor's ownership share of emissions or sales. The measure is, therefore, disconnected from ownership.

Metrics & Targets
Continued

Our Portfolios – Current Carbon Footprint

Within the Growth Companies Fund, our annualised carbon footprint per AUD$1million invested is ~41/tonnes per annum, while our Emerging Companies Fund is ~4/tonnes per annum. The below tables highlight our performance relative to the respective benchmarks:

	Total Carbon Emissions	Relative Emission	Weighted Average Carbon Intensity	Relative Carbon Risk
Growth Companies	41 tCO2e	-45 tCO2e	28.9 tCO2e	-135.7 tCO2e
ASX 300	86 tCO2e		164.7 tCO2e	

The Growth Companies portfolio's total carbon emissions are 41 tCO2e, which is 52.8% lower than the benchmark and the portfolio's weighted average carbon intensity is 28.9 tCO2e which is 82.4% lower than the benchmark. Top 3 contributors to portfolios total emissions are:

- RIO 36.9 tCO2e
- JHX 1.4 tCO2e
- CGC 1.1 tCO2e

	Total Carbon Emissions	Relative Emission	Weighted Average Carbon Intensity	Relative Carbon Risk
Emerging Growth	4 tCO2e	-158 tCO2e	11.6 tCO2e	-190.3 tCO2e
ASX Mid Cap 50	161 tCO2e		201.8 tCO2e	

The Emerging Growth Companies portfolio's total carbon emissions is 4 tCO2e, which is 97.7% lower than the benchmark and the portfolio's weighted average carbon intensity is 11.6 tCO2e which is 94.3% lower than the benchmark. Top 3 contributors to portfolios total emissions are:

- CGC 1.9 tCO2e
- DMP 1.0 tCO2e
- ARB 0.2 tCO2e

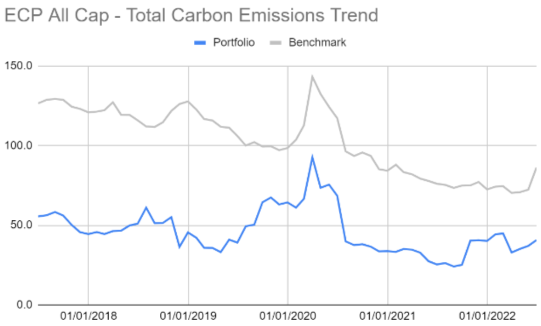
As our companies continue to exploit the market opportunities discussed above, further reviews of excluded sectors, and through continued engagement and active ownership, we expect our portfolio companies' emissions will continue to fall – further widening the game of our relative portfolio emissions to their respective benchmarks.

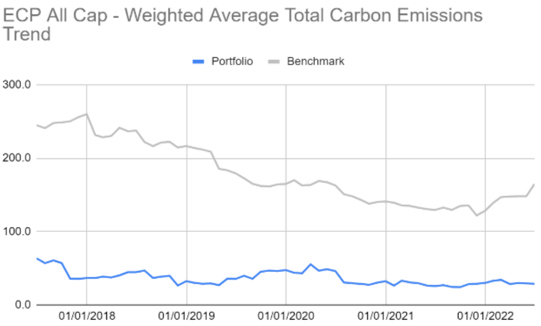
Metrics & Targets
Continued

Our Portfolios – Historical Carbon Footprint

The table below presents carbon footprint data over the past five years. Through time, our investment process has delivered consistently lower carbon emissions, on both a total carbon emission, and a weighted average carbon intensity basis.

Growth Companies	2018	2019	2020	2021	2022
Total Carbon Emissions* – ECP	50.0	39.1	68.5	25.4	40.7
Total Carbon Emissions* – Benchmark	115.7	106.0	117.1	76.0	86.2
Total Carbon Emissions – Relative	-64.7	-66.9	-48.6	-50.6	-45.5
Weighted Average Carbon Intensity** – ECP	44.7	35.5	46.0	25.7	28.9
Weighted Average Carbon Intensity** – Benchmark	237.5	179.2	162.7	129.4	164.6
Weighted Average Carbon Intensity** – Relative	-192.8	-143.7	-116.7	-103.7	-135.7





* Total Carbon Emission
A portfolio's total carbon emission in tons of CO2e. answers the main question, "What is my portfolio's total carbon footprint at my current AUM level?". It measures the portfolio's tons of CO2e, taking scope 1-2 and scope 3 emissions into account for which an investor is responsible. It is apportioned to the investor based on an equity ownership perspective.

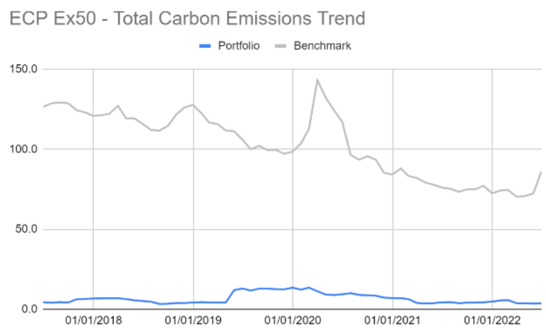
** Weighted average carbon intensity (Carbon risk)
Since companies with higher carbon intensity are likely to face more exposure to the carbon-related market and regulatory risks, this metric can serve as a proxy for a portfolio's exposure to potential climate change-related risks relative to other portfolios, across asset classes or relative to a benchmark. Unlike the portfolio total carbon emission, carbon emissions are apportioned based on portfolio weights/exposure rather than the investor's ownership share of emissions or sales. The measure is, therefore, disconnected from ownership.

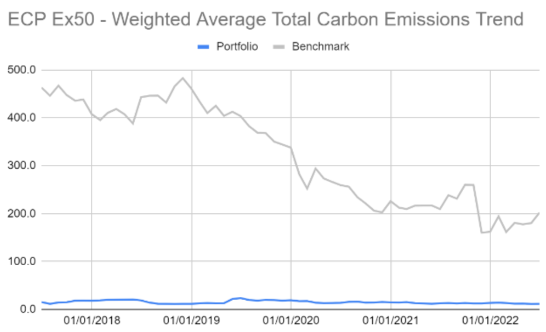
Metrics & Targets
Continued

Our Portfolios – Historical Carbon Footprint

The table below presents the ECP Emerging Growth Companies carbon footprint over the past five years. Through time, our investment process has delivered consistently lower carbon emissions, on both a total carbon emission, and a weighted average carbon intensity basis.

Emerging Companies	2018	2019	2020	2021	2022
Total Carbon Emissions* – ECP	5.1	13.0	9.3	4.3	3.8
Total Carbon Emissions* – Benchmark	131.6	113.5	91.9	66.1	161.4
Total Carbon Emissions – Relative	-126.5	-100.5	-82.6	-61.8	-157.6
Weighted Average Carbon Intensity** – ECP	18.8	23.5	13.8	12.7	11.6
Weighted Average Carbon Intensity** – Benchmark	443.1	403.5	259.5	209.5	201.8
Weighted Average Carbon Intensity** – Relative	-424.3	-380.0	-245.7	-196.8	-190.2





* Total Carbon Emission
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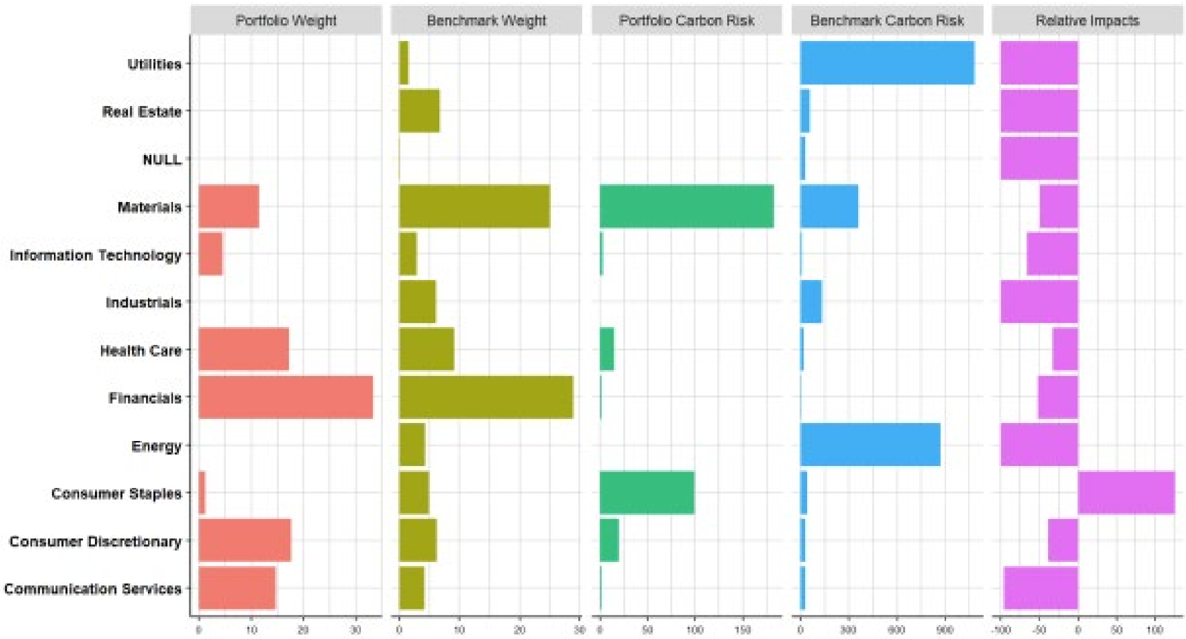
Metrics & Targets
Continued

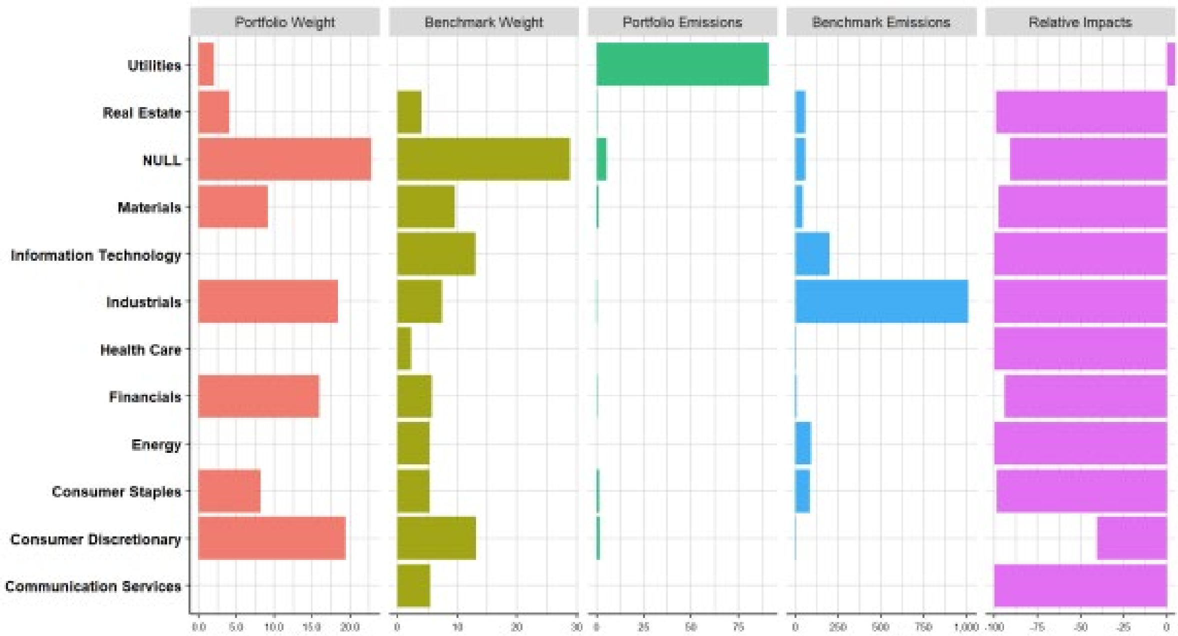
Our Portfolios – Relative Carbon Footprint (Sector)

Below highlights the attribution of Relative Total Carbon Emissions as at 30 June 2022.

Growth Companies



Emerging Growth Companies



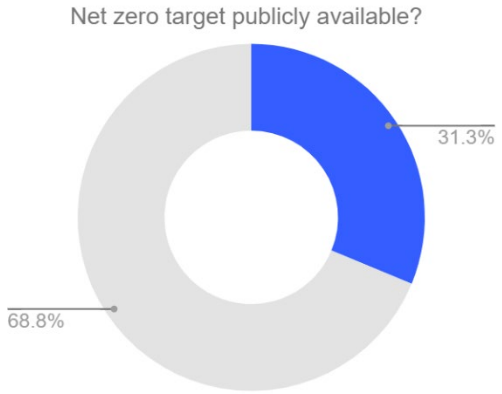
Metrics & Targets
Continued

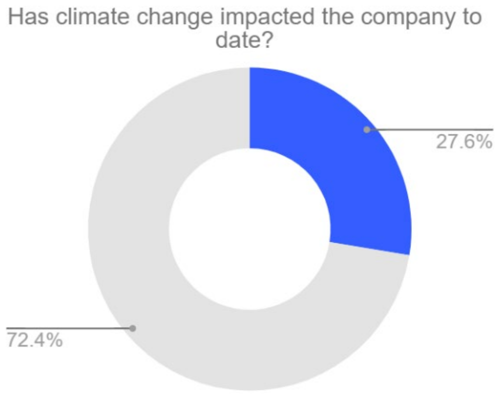
Our Portfolios

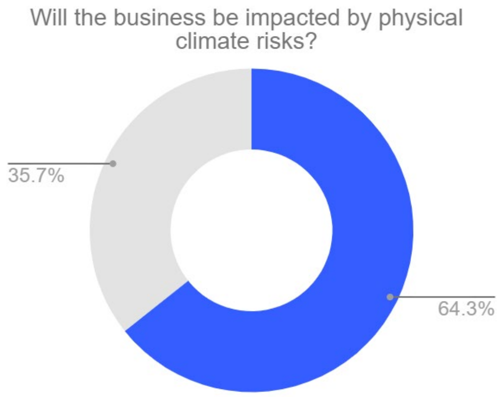
As part of our engagement with our investment companies, this year we conducted a survey of our investments. The below provides a portfolio overview of climate-related factors.

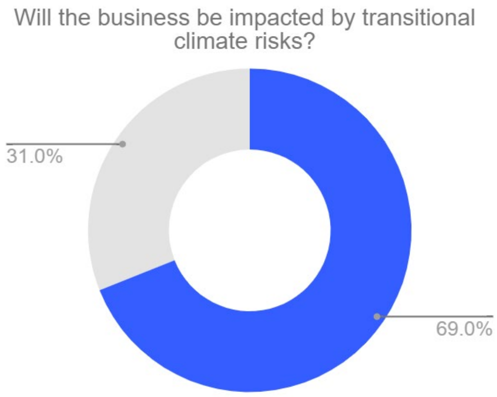
The survey was our first standardised, portfolio-wide engagement on environmental issues. This year's survey found that ~30% of our investments have publicly stated Net Zero targets. Interestingly over half of the portfolio believes their business will be impacted by climate risks, whether physical or transitional.

Only 20% of investments have found climate change to have impacted the company, with ~34% of companies expecting some form of climate change liability risks to impact their business through time. In the coming year, we expect our portfolio of companies to continue to publish net zero targets, with some companies already highlighting this process is underway.









NB. ARB Corporation, Altium Limited, Lifestyle Communities, Fisher & Paykel Healthcare and ResMed declined to participate in our survey.

Metrics & Targets
Continued

Targets & Goals

ECP acknowledges the risks associated with companies with a high carbon footprint. Generally, these companies are capital intensive, exposed to cyclical fluctuations, and are increasingly exposed to higher amounts of government regulatory action. For us, having clear targets and goals for our strategy in different capacities ensures we continue to deliver value for our stakeholders, in addition to superior long-term investment returns.

As part of our commitment to being a responsible fund management company, our board has set the goal of achieving significantly lower carbon emissions for our investment portfolios (per million dollars invested) than the respective benchmarks. To date, we have achieved this, and we continue to regularly reassess our goals in this respect to continue to minimize our portfolio's carbon footprint, while not sacrificing returns to our clients.

This year ECP continued to build upon our Climate Change Position Statement by publishing our Roadmap to Net Zero. Within our roadmap, we have taken the approach to focus on our emissions relative to the index in setting our goals and aspirations.

Since our mandate is to deliver investment returns above the respective performance benchmark, and many of the steps required to achieve net zero are still developing, we believe it would be inappropriate to set absolute carbon-reduction targets. For now, our focus is on engagement with our investments to be best practice and engaging with our clients where appropriate to assist them in achieving their climate-related ambitions and targets

Our Roadmap to Net Zero key milestones -

- 2025 - target carbon intensity 25% less than the bench across all portfolios.
- 2030 - target carbon intensity 50% less than the bench across all portfolios.
- 2040 - target carbon intensity 75% less than the bench across all portfolios.
- 2050 - achieve net zero across our firm operations and investment portfolios.

While we believe many of the initiatives to deliver net zero are still developing, we have begun setting key milestones for our portfolio companies which we believe will support the above.

- 2025 - 50% of our investment companies with publicly available net-zero targets.
- 2028 - 75% of our investment companies with publicly available net-zero targets.
- 2030 - 100% of our investment companies with publicly available net-zero targets.

In addition, ECP has begun its journey toward achieving carbon neutrality for our operations. We expect this to be completed by 2025 and we expect to begin to assess and engage our channel partners and key suppliers with respect to their own operations.

Metrics & Targets
Continued

Climate Action Plan

At ECP, we appreciate that no matter how big or small a company is, everyone is part of our community and as such we all have a responsibility to act or improve where we can. While our steps may be small in comparison to some, we have started our journey and expect each year to add incremental steps toward our common goal.

Below outlines the action ECP is taking over three years to improve our climate outcomes, drive cultural change and engage our people and customers, enhance our climate change governance and risk management framework, and report on our climate change performance.

		FY22	Beyond FY22	Actions
1	Reduce our footprint	✗	✓	• Understand the carbon footprint of our operations • Engage with staff on reducing our carbon footprint • Work towards achieving net zero carbon emissions for our business by 2025
2	Support our clients	✗	✓	• Understand our clients own climate-related objectives • Work with clients on how our products can work towards their climate-related objectives • Provide information on our engagement activities
3	Understand and manage the risks	✓	✓	• Assign oversight of climate change strategy to the Board • Integrate climate change risk into our own business strategy • Consider climate change within our research process
4	Be transparent	✓	✓	• Express support for the TCFD disclosures • Align disclosures with TCFD recommendations • Publicly communicate our plan, reporting, and carbon emission data

TCFD Progress

We outline the actions required to align with the TCFD and additional outcomes that are identified to bring to life the commitments within our focus areas outlines in our climate action plan.

Significant progress has been made toward aligning with the recommendations of the TCFD (see below). Each year we review our plans and achievement of these initiatives, with these continually updated as we continue to grow as a firm and grow our resources to support these pursuits.

Metrics & Targets
Continued

TCFD Progress

TCFD Focus Area	Action	Pre FY22	FY22	Post FY22
		Governance		
Board has oversight of climate-related risks and opportunities	Improve existing governance mechanisms by assigning the highest level of oversight for climate change to the Board through the Board Audit Committee	Complete		
Management's role in assessing and managing climate related risks and opportunities	Assign responsibility to the Executive to provide leadership on the climate change risks and opportunities and monitoring progress against targets	Complete		
	Oversee the development and implementation of the Climate Change Action Plan and report on progress achieved.		Ongoing	
		Strategy		
Describe climate related risks and opportunities	Update key stakeholders of the climate-related risks and opportunities of our investments.		Ongoing	
Impact of climate-related risks and opportunities	Understand the impacts of climate-related risks upon our portfolios.			Planned
	Describe the resilience of our portfolios against different climate-related scenarios.			Planned
Establish a corporate position on climate change	Determine organisational stance and commitment to climate change and develop a Board-approved Climate Change Position Statement.	Complete		
Portfolios that support resilience to climate-change	Understand client requirements of Net Zero. Explore opportunities to develop or enhance portfolios to			Planned

	support clients reducing their carbon intensity, increase resilience, and adapt to climate change.			
Communicate Position Statement and progress	Make the Climate Change Position Statement and progress available to stakeholders.	Ongoing		
Risk Management				
Processes for identifying, assessing, and managing climate-related risks	Communicate our research process and how climate change considerations are integrated in qualitative analysis.	Complete		
Processes for identifying, assessing, and managing climate-related risks.	Further explore ways to incorporate climate change within our equity portfolio constructions outside of stock modelling.			Planned
Metrics & Targets				
Climate-related metrics & targets	Review opportunities to improve the environmental impact of operations.			Planned
	Review existing and develop a key set of metrics and targets to measure and manage climate related risks and opportunities including the setting of emission reduction targets for our operations.			Planned
Measurement of the carbon intensity of portfolios	Review the carbon intensity of portfolios and communicate these to stakeholders.	Ongoing		
Disclosures reported in line with the TCFD disclosure framework	Become a signatory to the FSB TCFD.	Complete		
	Track and disclose climate-related metrics and performance in line with the TCFD framework standards.	Ongoing		
	Describe and disclose the processes for identifying, assessing, and managing climate-related risks and opportunities.	Ongoing		

Contact

Please visit www.ecpam.com for more details regarding our investment philosophy and our approach to ESG and Sustainability.
If you have any further questions, please contact investments@ecpam.com