ECP

Task Force on Climate-Related Financial Disclosures FY2023

Redefining
Active Investing
ecpam.com

L4 The Pavilion
388 George Street
Sydney NSW 2000

T: +61 2 8651 6800
F: +61 2 8651 6899

ABN: 26 158 827 582
CAR: 44198
AFSL: 421704

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, have evolved with higher expectations 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 who is compassionate and committed to its people, planet, and community is mandatory.

As fund managers, we have a clear responsibility for how we invest our clients' capital. While we must avoid making ethical judgements on behalf of others, making clear commitments known to all stakeholders is central to our core values of transparency. 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. The theme of sustainability has long been part of our investment process. Since we see ourselves as business owners (and not share traders), we invest using 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 refining our process, true to style and label, while incorporating best practices concerning Sustainability and Responsible Investment. Since January 2021, ECP has been a supporter 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 a greater understanding of climate risks, and facilitate financing the transition to a more stable and sustainable economy.

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 of 30 June 2023, ECP manages in excess of $2.3 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 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 and publicly notes our internal commitments and developments. We expect this document to evolve as we improve our measurement and reporting capabilities. It should be read in conjunction with our Climate Change Position Statement. We strive to 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 officially supports the Task Force on Climate-Related Financial Disclosures (TCFD). ECP believes investors' increasing focus on ESG-related issues and climate change impacts 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 impact long-term investment outcomes. ESG factors are part of our decision-making process and are fully integrated into asset selection and portfolio management procedures.

ESG and sustainability have 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 our business stakeholders, we consider the impact on 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 on all stakeholders is required, and not that of just shareholders.

When seeking to understand the impact on all stakeholders, the wider community and our natural environment become central to this assessment. Companies that act without 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 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 internally (our 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 actions, 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 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 allowed 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 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 on 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 people or environment, or have failed to manage or plan for ESG risks.

For us, considering all externalities that may impact a business over time is prudent investing. Considering how government regulation, stakeholder relations, and 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 that assesses each company through our proprietary Quality Franchise pillar framework. We assess 6 pillars to identify characteristics in companies deemed 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.”

ESG and climate-related issues are 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 regarding the physical risk of climate change, 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 approach to climate change are relevant for long-term investors and essential to ensuring a sustainable business model.

Moreover, our Responsible Investment Policy and Active Ownership & Stewardship Policy detail 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 its business model, its 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 relates to our investments to provide 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 include longer-term shifts in climate patterns (chronic risks), affecting anything from the organisations' supply chain to their employees' safety.

Acute physical risks, such as decreased production capabilities, may reduce revenue streams. Additionally, the financial impacts of these risks are compounded by increased insurance premiums and the necessity for capital investments to replace damaged assets. Disruptions to staff commutes during severe weather events further exacerbate operational challenges, potentially leading to productivity and service delivery losses.

Chronic physical risks pose significant financial threats, particularly through increased electricity costs, which may inflate operational expenses over time. Frequent asset replacements due to ongoing damage and the financial repercussions of asset write-offs and impairments may escalate capital costs. These chronic issues underscore the urgent need for strategic investment in resilient infrastructure and adaptive operational practices to mitigate long-term financial risks associated with climate change.

Key Holdings

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, and extreme temperature impacts on operating environments.

As RIO is the largest emitter within our Growth Companies Fund, they are a primary concern regarding our climate-related objectives. RIO has noted that their Scope 1 and 2 emissions targets are to reduce emissions by 15% by 2025 and 50% by 2030, relative to 2018 levels. These targets are ambitious and aligned with 1.5°C, the stretch goal of the Paris Agreement. They are particularly ambitious as ~ 80% of their emissions come from processing activities, which are typically hard to abate.

While this presents a challenge for Rio, we believe 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 climate changes into how they design, operate, and close assets through an increased understanding of exposure to each asset.

Impact to our Business
Continued

James Hardie Industries (ASX: JHX) has 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.

Notably, this year, James Hardie has provided a dedicated Chief Sustainability Officer (CSO) to the Executive Leadership Team (ELT), directly reporting to the CEO. As part of their framework, James Hardie has committed to reduce absolute Scope 1+2 greenhouse gas (GHG) emissions by 42% by 2030 and to end zero manufacturing waste to landfills by 2035. As part of this, they plan to reduce the climate impact of fibre cement products by 50% by 2030.

Transition Risks

Transition risks relate to the transition to a lower-carbon economy, which could entail policy, legal, and 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 vulnerable to shifts in policy, technology, and markets. Changes in consumer preferences and customer behaviour must also be considered.

The potential financial impacts stemming from transition risks include the potential for reduced demand for products or services, which directly threatens to decrease revenue streams. Furthermore, as financial markets adjust to the new climate realities, capital availability could be reduced. This contraction could hinder the ability to finance expansions and innovations or even maintain operations at current levels.

Additionally, increased public relations and marketing expenditures may arise to mitigate potential reputational damage associated with perceived inadequacies in environmental commitments or responses. These heightened expenses are essential for maintaining a brand's position and customer trust in a competitive market increasingly focused on sustainability.

Key Holdings

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 has 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 has 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

Commonwealth Bank (ASX: CBA) is exposed to both climate change's physical and transition risks. 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 aligned to public disclosures or commitments. CBA is well underway in incorporating the consideration of climate risks into their lending.

In 2023, CBA engaged with 100 of their most carbon-intensive customers from their Institutional Bank, comprising 65 repeat and 35 new customers. The assessment highlighted a shift, with fewer customers from mining, oil, gas, and shipping and more from high-emission sectors such as transport, storage, and manufacturing. Additionally, CBA noted that increasing customers have committed to achieving net zero emissions by 2050 and have established interim targets to limit global warming to 1.5°C. Additionally, many customers now have board-endorsed transition plans and report progress according to the TCFD guidelines.

Domino’s Pizza Enterprises (ASX: DMP) faces significant transition risks as regulatory landscapes and consumer preferences shift towards more sustainable and environmentally friendly practices. Regulatory changes pose a potential challenge, with governments worldwide imposing stricter emissions standards, which may require Domino's to invest in greener delivery fleet options like electric vehicles. Additionally, a growing segment of consumers now demands higher standards of environmental responsibility, which necessitates adapting its operations to incorporate sustainable sourcing and reduce waste, particularly in packaging.

In 2023, Dominos set ambitious targets to mitigate its environmental impact, including a commitment to reduce the emissions of its European Supply Chain Centre fleet by 20% by 2025 and ensure that all stores' electricity supply is carbon neutral by 2030. Additionally, Domino’s have implemented initiatives to decrease packaging, innovate logistics to reduce freight mileage and carbon emissions, and introduce electric vehicles, such as e-bikes. Furthermore, they have phased out single-use plastics in several markets, aligning with local regulations to enhance sustainability.

Impact to our Business
Continued

Opportunities & Benefits

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

To illustrate the opportunities and benefits we expect from a Quality Franchise over time, we have listed below a few areas we believe are relevant to the companies that meet our investment philosophy. Each climate-related opportunity can potentially 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 potentially seeing greater production capacity. Moreover, companies can extract increased value from their fixed assets by clearly focusing on more efficient buildings and lower water usage or recycling.

PWR Holdings Limited (ASX: PWH) engaged PricewaterhouseCoopers this year to assist management in identifying the critical ESG issues and opportunities impacting the group. Aluminum, PWR's primary raw material used in its products, is almost exclusively employed to produce our high-performance cooling solutions. Its production is both energy-intensive and generates significant greenhouse gases (GHG). In response, PWR focuses on managing energy in manufacturing, enhancing energy efficiency and intensity, optimizing the energy mix, and reducing grid reliance. During FY2023, PWR recycled 336 tonnes of aluminum.

PWR exhibits incredibly high margins to date, and part of its success lies in its resource efficiency. As many challenges unfold and the company continues to battle externalities, automation plays a critical role in PWR's value-adding strategy, particularly in a labour-constrained market. In 2023, the company purchased an automatic stacking machine that assembles cores from a component level to a ‘ready to braze state’ in approximately 5 minutes, a task that traditionally took 35 to 40 minutes. This efficiency gain boosts output and reduces the need for full-time equivalent staff, as the operator can simultaneously manage the plating and stacking processes.

Additionally, PWR now operates three manufacturing hubs capable of servicing global customers. The three manufacturing sites facilitate product manufacturing closer to our customers, reducing the distance products travel via air, sea or road to customers. Moreover, standardized equipment and specifications across all locations enable effective global capacity planning. This strategic approach helps PWR better serve its sustainability and efficiency initiatives by streamlining the global operating footprint through careful capacity planning.

Impact to our Business

Continued

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.

Domino's chooses equipment and appliances based on energy efficiency and looks for other ways to improve the efficiency of operations. E-delivery has become the dominant way of delivering pizzas across our European markets. Denmark already has 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%, up from 14.56% in 2018. New Zealand operates 55 e-bikes and 67 UBCO's (e-scooters).

Energy Source

By utilising lower-emission energy sources 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.

Rio Tinto has set its sights on delivering a lower carbon future, with its 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 fuel truck trials. Between 2022 and 2024, Rio plans 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, modifying the propellers, and installing swirl ducts, enhancing energy efficiency.

James Hardie has made a clear strategic priority to minimize its GHG impact by improving emerging conservation and efficiency. The company is 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 26% reduction in Scope 1 and Scope 2 GHG intensity (MT CO_2e/$) from 2019. Notably, the company has raised its ambitions, targeting a 42% absolute reduction in Scope 1+2 GHG emissions by 2030, compared to the CY21 baseline, and is working towards net zero by 2050.

Impact to our Business
Continued

Product & Services

Developing or expanding 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.

WiseTech Global (ASX: WTC) has a stated mission to reduce its environmental footprint and find ways to help customers reduce theirs. WiseTech's innovative CargoWise platform streamlines supply chain operations globally, significantly reducing the need for physical documentation and enhancing the efficiency of freight and cargo management. By automating and optimizing logistics, WiseTech Global minimizes carbon footprints associated with transport and logistics and empowers its clients to meet increasingly stringent emissions regulations. This strategic alignment with sustainability initiatives favours WiseTech in a market where businesses and consumers prioritise eco-friendly solutions.

Netwealth (ASX: NWL) has highlighted the importance of climate change and ESG considerations in the wealth industry. A 2018 survey by Legg Mason found that 49% of investors choose a managed fund or company to invest in according to that managed fund or company’s ESG considerations. Netwealth has 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 who align with these changing consumer preferences.

Markets

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

Macquarie Group (ASX: MQG) is the largest global infrastructure manager, with $560b in AUM, exemplifying how businesses can leverage climate-related opportunities for substantial market gains. As an early adopter of green investment strategies, Macquarie has capitalized on new markets through its substantial investments in renewable energy projects worldwide. It now has one of the largest renewable principal investment books and green advisory businesses through its acquisition of Green Investment Bank.

Macquarie is a key player in enabling the transition of global energy infrastructure to a de-carbonised world, with Macquarie's Green Investment Group being pivotal in fostering its global presence in the green energy sector, allowing the bank to access new assets and locations while leading the shift towards sustainable finance. Currently, 10% of Macquarie's AUM is in renewables, with expectations of strong growth as the projects it manages transition from development to operational phases, allowing for the deployment of significantly greater capital amounts.

Impact to our Business
Continued

PWR harness its specialized knowledge and capabilities to provide cutting-edge cooling technologies across various industries, focusing on emerging technologies to create substantial opportunities. Efforts are particularly concentrated on developing lower-emission cooling solutions in response to climate challenges. Thermally efficient heat exchangers, pivotal in their product line, facilitate crucial chemical reactions necessary for innovative applications like carbon capture, where CO2 is trapped on specially coated surfaces of heat exchangers for storage or reuse. Additionally, these exchangers are integral in producing green fuels by working alongside catalysts as a cleaner alternative to fossil fuels.

Moreover, PWR is exploring opportunities within sustainable mobility platforms, responding to the increasing demand for less carbon-intensive transportation options. This strategic direction enhances PWR's product offerings and strengthens its market position by aligning with global efforts to combat climate change and transition to a low-carbon economy. The company collaborates with Universal Hydrogen (UH), a leader in advancing carbon-free aviation. UH is revolutionizing the aviation industry by building a hydrogen fuel network to achieve clean aviation within this decade. It will use modular hydrogen capsules transported over existing freight networks to facilitate zero-emission flights globally without new infrastructure. PWR is developing high-performance cooling solutions for a 1-megawatt hydrogen-fueled powertrain, aiming for high thermal efficiency for managing heat in flight tests.

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 adopting energy-efficient measures, companies may increase their market valuation by demonstrating greater resilience and reliability in their supply chains and operating through several conditions. Moreover, these companies may benefit from increased revenue through new products and services that ensure greater reliance.

James Hardie's approach of distributing products locally provides substantial efficiency and competitive advantage benefits. 63% of deliveries in FY21 were within 500 miles of manufacturing facilities, which drives efficiencies - the strategic placement of plants optimizes product movement. In addition to distributing locally, 83% of materials are sourced within 100 miles. This is a unique characteristic of their network of plants, which reduces inbound and outbound shipping. Less shipping enables lower costs and a lower carbon footprint than 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-19, battling these pressures better than their competitors, resulting 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 that '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 - climate change is one consideration.

Despite the increasing focus on climate change, ECP's investment philosophy has not changed. Our investment process has been formed through decades of learning, applying the same principles that have stood the test of time. These learnings are applied within the contemporary operating environment, in 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 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. Where climate-related risks present issues over the long term, these need to be understood by our investment team, along with the risks factored into our modelling.

Generally, our investment process seeks to identify structural changes or paradigm shifts that may impact 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 assesses 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 in mitigating 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 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 that considers any externalities that may impact the predictability and competitiveness of business operations. Climate change is a key consideration.

Managing Climate-Risks

ECP's investment process comprises a few parts of our broader risk management process. We qualitatively assess each potential investment company from a stock selection perspective, 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 that we are long-term shareholders, the companies that have a higher IRR will receive a higher weighting in our portfolio. By doing this, we can minimize short-termism in our portfolio, ensure we are focused on the long-term fundamentals of investment, and weigh our portfolio toward the investments that will deliver the highest returns over 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 identified by our investment analysts. Given that climate-change issues are generally longer dated having a deep understanding of these issues and how they impact the company and its 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. ESG issues, whether historical or current, need 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, higher operating costs, 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 our 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 has implemented our Active Ownership Policy (in line with our commitments to the PRI), where we regularly engage with portfolio companies over time. In these engagements, we seek to understand issues that may impact the business through time and express our concerns relating to ESG and climate-related issues that are relevant to their business.

Moreover, proxy voting is another method to manage these issues. In addition to our 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 before 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 reporting capabilities. This report focuses on 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 reviewed our two equity portfolios independently for their underlying carbon footprint through Foresight Analytics. As of 30 June 2023, the ECP Growth Companies Fund and the ECP Emerging Growth Companies Fund 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 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.

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 CO2. 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 ~51/tonnes per annum, while our Emerging Companies Fund is ~2/tonnes per annum. The tables below highlight our performance relative to the respective benchmarks:

	Total Carbon Emissions	Relative Emission	Weighted Average Carbon Intensity	Relative Carbon Risk
Growth Companies	51 tCO_2e	-29 tCO_2e	36.6 tCO_2e	-73.4 tCO_2e
ASX 300	80 tCO_2e		110.0 tCO_2e	

The Growth Companies portfolio's total carbon emissions are 51 tCO_2e, 36.1% lower than the benchmark, and the portfolio's weighted average carbon intensity is 36.6 tCO_2e, 66.7% lower than the benchmark. Top 3 contributors to portfolios total emissions are:

- RIO 48 tCO_2e (94%)
- JHX 1.7 tCO_2e (3%)
- DMP 0.8 tCO_2e (1%)

	Total Carbon Emissions	Relative Emission	Weighted Average Carbon Intensity	Relative Carbon Risk
Emerging Growth	2 tCO_2e	-53 tCO_2e	7.9 tCO_2e	-59.0 tCO_2e
ASX Mid Cap 50	55 tCO_2e		67.0 tCO_2e	

The Emerging Growth Companies portfolio's total carbon emissions are 2 tCO_2e, 96.3% lower than the benchmark, and the portfolio's weighted average carbon intensity is 7.9 tCO_2e, 88.2% lower than the benchmark. Top 3 contributors to portfolios total emissions are:

- DMP 1.2 tCO_2e (59%)
- ARB 0.3 tCO_2e (14%)
- PWH 0.2 tCO_2e (9%)

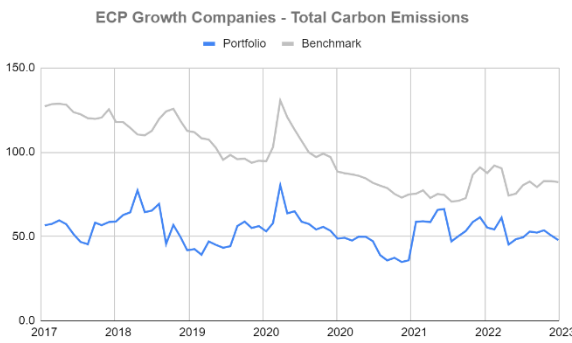
As our companies continue to exploit the market opportunities discussed above, further reviews of excluded sectors, and through continued engagement and active ownership, we expect our portfolio companies' emissions will continue to fall - further widening the game of our relative portfolio emissions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

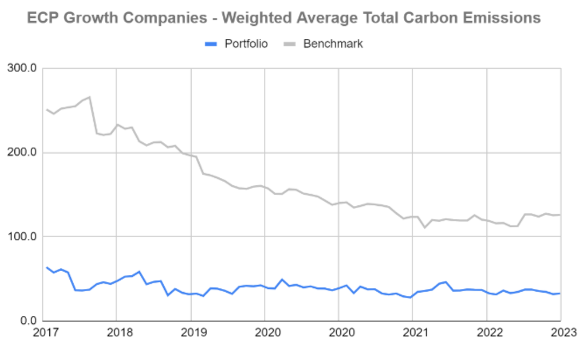
Metrics & Targets
Continued

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	2019	2020	2021	2022	2023
Total Carbon Emissions* - ECP	39.1	68.5	25.4	40.7	51.0
Total Carbon Emissions* - Benchmark	106.0	117.1	76.0	86.2	80.0
Total Carbon Emissions - Relative	-66.9	-48.6	-50.6	-45.5	-29.0
Weighted Average Carbon Intensity** - ECP	35.5	46.0	25.7	28.9	36.6
Weighted Average Carbon Intensity** - Benchmark	179.2	162.7	129.4	164.6	110.0
Weighted Average Carbon Intensity** - Relative	-143.7	-116.7	-103.7	-135.7	-73.4





* 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.

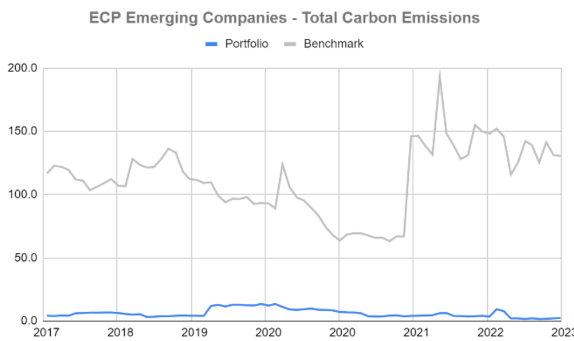
** Weighted average carbon intensity (Carbon risk)
Since companies with higher carbon intensity are likely to face more exposure to the carbon-related market and regulatory risks, this metric can serve as a proxy for a portfolio's exposure to potential climate change-related risks relative to other portfolios, 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.

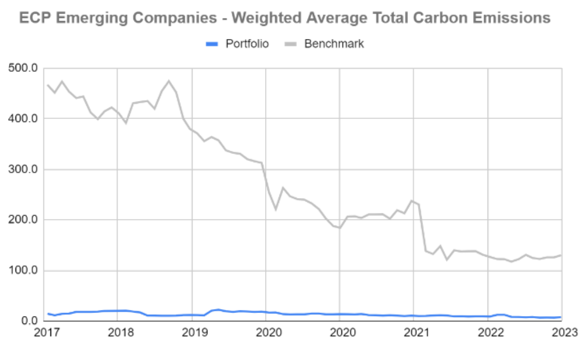
Metrics & Targets
Continued

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	2019	2020	2021	2022	2023
Total Carbon Emissions* - ECP	13.0	9.3	4.3	3.8	2.0
Total Carbon Emissions* - Benchmark	113.5	91.9	66.1	161.4	55.0
Total Carbon Emissions - Relative	-100.5	-82.6	-61.8	-157.6	-53.0
Weighted Average Carbon Intensity** - ECP	23.5	13.8	12.7	11.6	7.9
Weighted Average Carbon Intensity** - Benchmark	403.5	259.5	209.5	201.8	67.0
Weighted Average Carbon Intensity** - Relative	-380.0	-245.7	-196.8	-190.2	-59.0





* 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.

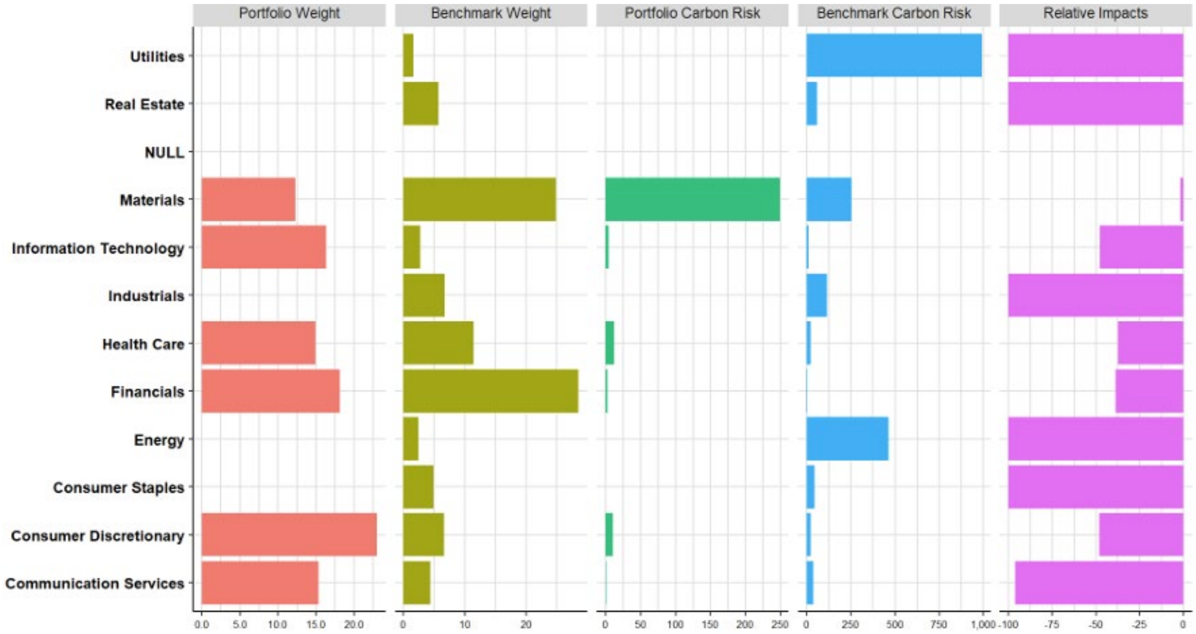
** Weighted average carbon intensity (Carbon risk)
Since companies with higher carbon intensity are likely to face more exposure to the carbon-related market and regulatory risks, this metric can serve as a proxy for a portfolio's exposure to potential climate change-related risks relative to other portfolios, 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

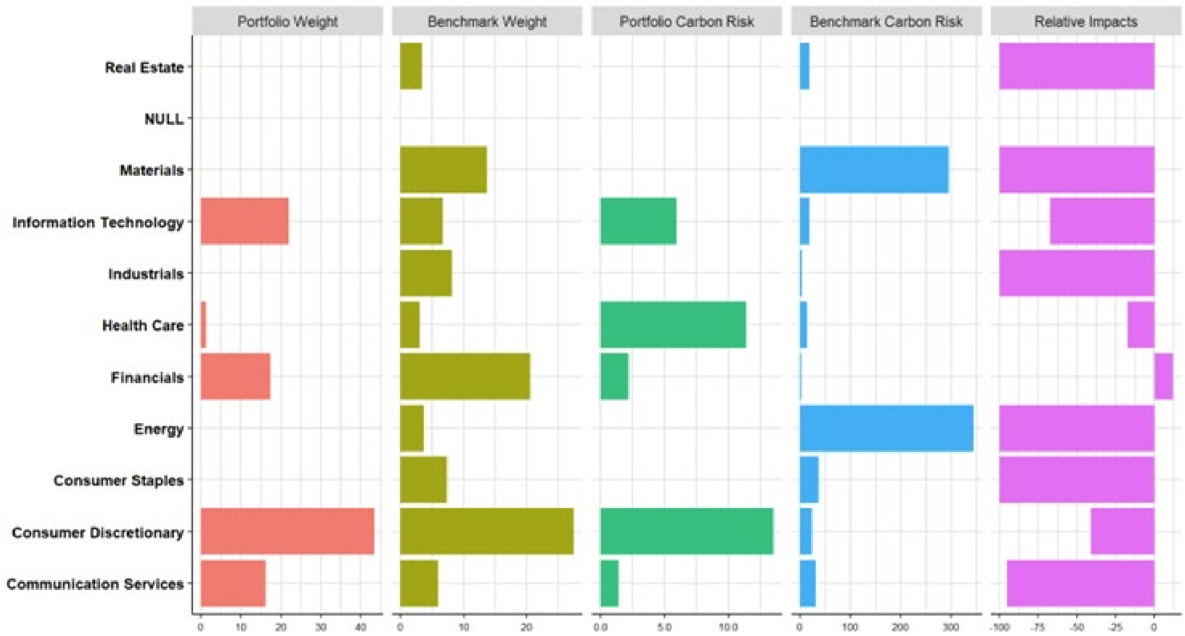
Our Portfolios – Relative Carbon Footprint (Sector)

Below is the Relative Total Carbon Emissions attribution as of 30 June 2023.

Growth Companies



Emerging Growth Companies

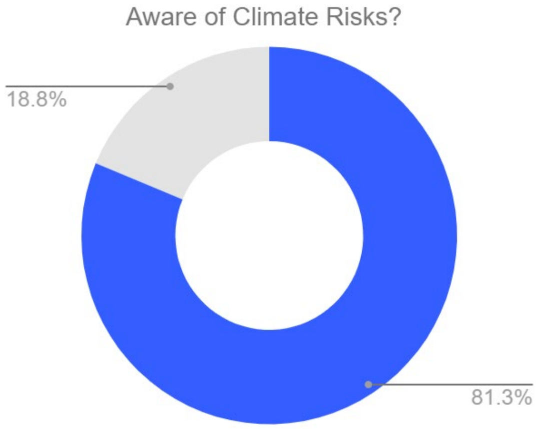


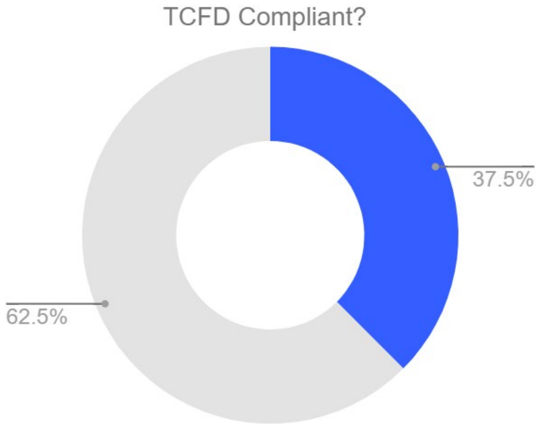
Metrics & Targets
Continued

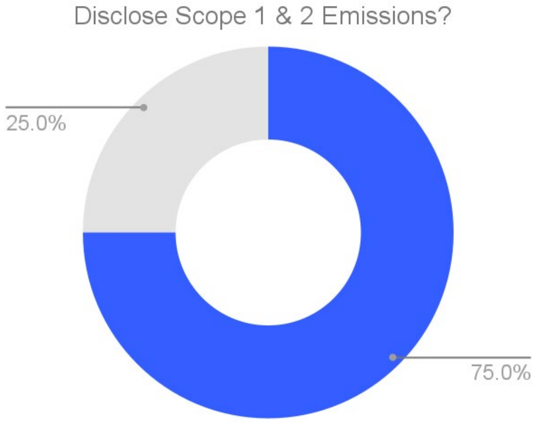
Our Portfolios

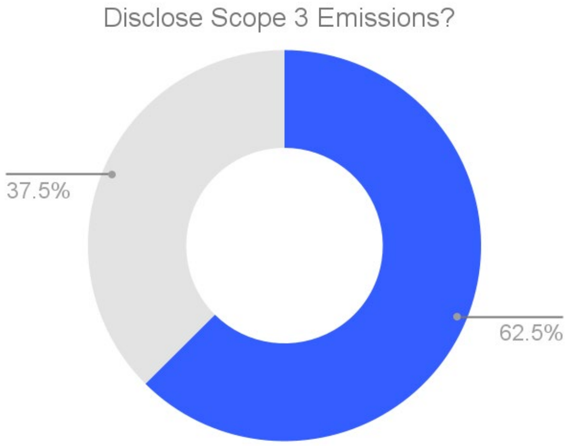
In FY23, over 90% of our portfolio companies embraced responsible sourcing policies or supplier codes of conduct, with more than 80% conducting or engaging in climate risk assessments. Despite ongoing labour market changes and significant organisational transformations, nearly all companies reported minimal social issues, reflecting their strong commitment to ethical practices and environmental responsibility.

Regarding emissions reporting, 75% of our portfolio companies disclose their scope 1 and 2 emissions, while over 60% report on scope 3 emissions. Currently, nearly 40% of our portfolio complies with TCFD requirements, a figure we anticipate will increase as these companies transition from smaller entities to larger organisations in the coming years.









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 to minimise our portfolio's carbon footprint while not sacrificing returns to our clients.

ECP continued to build upon our Climate Change Position Statement by publishing our Roadmap to Net Zero. Within our roadmap, we have focused on our emissions relative to the index in setting our goals and aspirations. These will be reviewed over time.

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 practices and engaging with our clients where appropriate to assist them in achieving their climate-related ambitions and targets. Our

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 initiatives to deliver net zero are still developing, we have begun setting key milestones for our portfolio companies that 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 had expected this to be completed by 2025. However, we believe this will be finalised by CY2023 – ahead of schedule. We expect to begin to assess and engage our channel partners and key suppliers with respect to their 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 compared to some, we have started our journey and expect each year to add incremental steps toward our common goal.

Below is the outline of the action ECP has taken 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.

		FY23	Beyond FY23	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 outlined 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 achievements for these initiatives, and these are continually updated as we continue to grow as a firm and grow our resources to support these pursuits.

Metrics & Targets
Continued

Our Operations & Carbon Emissions

In pursuit of our Climate Active Certification, ECP has commissioned Pangolin Associated Pty Ltd to conduct a comprehensive assessment of the greenhouse gas (GHG) emissions accountable to ECP. For CY2022, the estimated carbon emissions for ECP were 93.1 tonnes of carbon dioxide equivalents (tCO2-e). A comparison of the individual sector contributions to GHG emissions revealed that Electricity was the largest contributor, at 31.0 tCO2-e (33.3% of total GHG Protocol emissions).

Operational Boundary	Examples of Inclusions	tCO2-e
Scope 1	Direct emissions such as those resulting from fuel use or refrigerant leakage.	0.0
Scope 2	Purchased Electricity.	28.6
Scope 3	All other indirect upstream and downstream emissions resulting from activities along the value chain. Common examples include emissions associated with the extraction, production and distribution of fuels, the transmission and distribution of electricity, base building services, business flights and other travel, staff commute to and from work, telecommunications, ICT equipment, freight, advertising and other professional services, and data services.	64.5
Scope 1, 2, & 3 (Full Scope)		93.1
Scope 1 & 2 (S1&2)		28.6
Energy (TJ)		0.2

Metrics & Targets
Continued

TCFD Progress

TCFD Focus Area	Action	Pre FY23	FY23	Post FY23
			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 monitor 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 on the climate-related risks and opportunities of our investments.	Ongoing		
Impact of climate-related risks and opportunities	Understand the impacts of climate-related risks on 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 support clients			Planned

	in reducing their carbon intensity, increasing resilience, and adapting 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 into 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 stock modelling.		Complete	
Metrics & Targets				
Climate-related metrics & targets	Review opportunities to improve the environmental impact of operations.		In Process	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