earth capital

Environmental Finance
Sustainable Investment Awards
2021 Winner
ESG assessment tool of the year

2021 ANNUAL SUSTAINABILITY REVIEW

Introductory Letter

Dear Reader,

This report is Earth Capital's third annual sustainability review since the launch of the Nobel Sustainability Fund® (NSF). The sustainable finance and impact investment landscape has been dynamic over the year, dominated by the Covid-19 pandemic. This review is intended to reflect on the year and highlight how we approach sustainable development and how we integrate sustainable thinking across our entire business. This is critically important as the world economies recover from the disruption of the last year, although the pace of that recovery varies across the globe. Like climate change, its impact and legacy will be felt disproportionately.

Sustainability drives our investment themes; it is integrated into our investment decision making and is used to performance manage the businesses we invest in. Our multi-award-winning Earth Dividend™ process provides us with a holistic understanding of the sustainability performance of those investee businesses and clearly demonstrates that the NSF makes a net positive contribution to Sustainable Development and creates long-term value. We reflect in this review on how the assessment has developed over the past year and compare the 2018 benchmark scores to the 2020 performance. The review also highlights how we are looking at these issues from an individual company as well as a portfolio perspective to drive value. We remain proud of the work we do to ensure that our Earth Dividend™ process is implemented systematically and externally assured.

We also highlight how we are implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the related work we have done to assess the climate-related performance across the portfolio. This is currently being developed further as we consider how best to align our investment portfolio to a Net Zero carbon commitment. We also look at how we are implementing the IFC's Operating Principles for Impact Management to enhance further our impact measurement and reporting.

The challenges facing our globally interconnected society and economy have been brought into sharp focus over the past year. Our fragile globally interconnected supply chains have been exposed, the widening inequality in our societies has worsened and the increasing dangers of environmental damage have become more apparent. As we consider these issues in the run up to COP26 in Glasgow this year, the overwhelming need for radical collective societal action in the face of a global emergency is self-evident. This thinking can help us to drive the transition to a low carbon, sustainable and just economy.

We hope you enjoy the review and would welcome any feedback.

Richard Burrett
Chief Sustainability Officer
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Executive Summary

Earth Capital Holdings

Global AUM: $1.7bn

Earth Capital is a sustainable private equity group, investing globally in the development and deployment of clean sustainable technology with offices in the UK, Europe, North and South America, Asia and Africa. Our team are experts in their local markets both in private equity as well as sustainable finance.

Investment themes:

Earth Capital manages the Nobel Sustainability Fund® a global, multi-phase, private equity growth fund to finance, incubate and accelerate the development of clean, sustainable technologies.

The impact of each investment is measured using our proprietary impact management tool, Earth Dividend™, which spans the UN Sustainable Development Goals.

In addition to measuring impact, Earth Capital aims to improve financial returns through implementing the Earth Dividend™ process.

Preface

Annual Sustainable Review

This report is Earth Capital's third annual sustainability review since the launch of the Nobel Sustainability Fund® (NSF). Earth Capital is a global private equity investment manager totally focused on Sustainable Development within the climate change nexus of energy, food and water security. We invest capital globally in the commercialisation and deployment of proven, sustainable technologies. Earth Capital has fully integrated ESG factors, both positive and negative, into its investment process. **The intention of this review is to report the work we have done to measure the sustainable impact of the NSF and specifically on the Earth Dividend™ process over the year. Through the Earth Dividend™, we measure and assess each investment's level of impact and contribution to Sustainable Development and then aggregate this for the fund as a whole.** This review contains the overall Earth Dividend™ score for the fund and three individual case studies and shows the improvement against the 2018 benchmark.

Background

The sustainable finance and investment landscape continues to develop dynamically with leading companies increasingly looking at how they integrate issues such as climate change or biodiversity loss into their investment approach and how they then understand, measure and report the impact of that. We are also seeing leading firms begin to establish bold Net Zero decarbonisation targets. **Earth Capital's Earth Dividend™ process takes a holistic view along the value chain of each investment's level of impact and contribution to Sustainable Development and long-term value.** We continue to deepen our understanding of climate risk and opportunity across our investment portfolio to enable us to respond to the Task Force on Climate-related Financial Disclosures (TCFD) and are in the process of determining our own Net Zero strategy for each investment and the Fund as a whole.

The review again includes highlights of the dialogue we have with our Sustainability Council to ensure that our thinking on these issues remains leading edge. We also reflect on the engagement work we have undertaken over the year to promote deeper integration of sustainability issues within the financial system including our work with Aviva Investors on the International Platform on Climate Finance (IPCF). Private enterprise and investment are vital to driving the transition to a global, low carbon economy and this important work has already delivered sustainable finance recommendations for the G7 and G20 to consider. The climate crisis has the potential to fundamentally change our way of life and, in the process, render assets worthless. That's why investors increasingly want to be part of a solution that directly addresses these twin threats - it makes sound business sense and is the right thing to do.

The Earth Capital view

What might the big issues be in 2022?

At the time of writing, we are still operating in a world dominated by Covid-19. It is still paralysing sectors of the economy even as we begin to take tentative steps back to "normality". The financial markets bounced back to record highs despite the continuing lockdown impacts in certain sectors. The strong growth of digital economy businesses is arguably masking the financial downturn in negatively impacted sectors.

None of us can predict the future, but when the new normality appears, we continue to argue that one possible outcome is that the crisis could cause an unprecedented shift in capital – potentially for the better. The growing clamour for "Build Back Better" does appear to be shaping government responses. The "magic money tree" was found to address the societal impact of the pandemic so why not the recovery too?

2021 is a critical year for climate action. The UK will host the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow in November 2021. The summit will bring parties together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change. We are already seeing initial releases of improved national level pledges be it from the UK, the EU, a newly invigorated US commitment or China. The UN has warned however that the existing climate pledges for 2030 put the world far off the ambitious 1.5°C goal.

2022 is likely to see further corporate and institutional investor implementation of climate strategies as TCFD reporting becomes mandatory and Net Zero commitments gain further ground. Technologies designed to reduce carbon alongside nature-based solutions investment such as natural carbon sinks will be essential in achieving Net Zero.

The Taskforce on Nature-related Financial Disclosures (TNFD) will gain momentum and build awareness and capacity to enable the financial sector to address the market and systemic failures contributing to the destruction of nature. This must go beyond pure disclosure to stimulate real investment at scale.

Conclusion

We have wasted precious time deliberating our options, questioning the cost of action, and becoming fixated on regulation and disclosure. Now, during the 'Year of Climate Action', governments, investors and corporates need to take immediate steps to repair and rebuild our perspective of how to address climate change. Instead of viewing products and solutions in isolation, we need to look at how we can inclusively address climate change mitigation and adaptation. We have several tools within our climate change toolbox to create economies, cities and communities that are fit-for-the-future. We just need to take the first step, whilst making sure we do not leave any damaging footprints behind.

Earth Capital's approach to sustainability

Sustainable Development is meeting: "the needs of the present without compromising the ability of future generations to meet their own needs"

Brundtland Report 1987

As former Vice President Al Gore has stated, "We are in the early stages of a global Sustainability revolution that has the magnitude of the industrial revolution and the speed of the digital revolution."

Former Governor of the Bank of England and Finance Advisor for the UK presidency of COP26, Mark Carney stated: "Changes in climate policies, new technologies and growing physical risks will prompt reassessments of the values of virtually every financial asset. Firms that align their business models to the transition to a Net Zero world will be rewarded handsomely. Those that fail to adapt will cease to exist. The longer meaningful adjustment is delayed, the greater the disruption will be."

At Earth Capital, we believe the rules of the game have fundamentally changed:

- Today, companies have a duty to improve the socio-environment context in which we live and to produce a profit.
- By selecting Sustainable Development (SD) as Earth Capital's investment theme, we protect and enhance value, address societal and environmental challenges and aim to deliver superior financial returns to our investors.
- We are making a difference by fully integrating a performance-focused investment philosophy with Environment, Social and Governance (ESG) metrics into the investment process in all parts of the investment cycle.
- We believe that it is vital to measure the level of impact annually that each investment makes to Sustainable Development, whether positive or negative.
- We measure this impact through the Earth Dividend™.
- Sustainability leadership is critical as business as usual is no longer a viable option.

How we integrate sustainability into our investment process

Investment themes	Our approach is centred on a recognition that issues around energy, food and water will become increasingly critical and material in a world of growing population and demand, facing the challenges of climate change and resource scarcity. This informs our investment approach and our choice of investment themes.
Integration	We integrate ESG considerations into our due diligence and ongoing performance review process and then subject our investments to the Earth Dividend™ process which identifies potential areas of risk in the business's value chain that can be better managed or areas where we can innovate further the business model to create additional future value.
Influence	We look to take significant management stakes in the companies in which we invest to enable us to exert influence on Investee Company management to enhance performance on material sustainability issues and create future value at exit.
Outreach	We look to use our influence as an investor to improve the investing landscape. We are committed to contributing and sharing sustainable investment best practice. We work to mobilise capital for the sustainable, low carbon future by amplifying the investor's voice and collaborating with business, policymakers and investors.

What do we mean by sustainable investment?

Sustainable investment for Earth Capital is not only what we invest in but also how we invest.

The Earth Dividend™ system provides an annual measure of an investment's Sustainable Development impact. It comprises a scorecard, based upon net Environmental, Social and Governance impacts and benefits. The Earth Dividend™ is established for each company as part of the due diligence process and reported annually. Our Sustainability team works with every company to identify improvements in each area where they add value and make commercial sense. This results in a plan which targets annual improvements in the investment's contribution to sustainable development that enhance the underlying commercial performance of the asset and help to maximise value on exit.

Natural Resources	Ecosystem Services	Pollution	Social and Economic Contribution	Society and Governance
■ Water use and efficiency ■ Energy inputs and efficiency ■ Efficient use of raw materials ■ Sourcing of materials from sustainable practices ■ Land resource value	■ Biodiversity and natural habitat ■ Water system ■ Climate system & greenhouse gas emissions ■ Soil systems	■ Atmospheric emissions ■ Effluent discharge ■ Waste disposal ■ Supply chain polluting impact ■ Product end of life impact	■ Employee welfare and human rights ■ Local economic contribution ■ Supply chain employment standards ■ Contribution to Sustainable Development Goals	■ Corporate governance ■ Bribery & corruption ■ Responsible marketing and market behaviour ■ Indigenous peoples and cultural heritage
Commercial Value drivers				
■ Efficient use of energy and resources in own operations ■ Reducing cost / Increasing productivity ■ Sustainable and resilient supply chains ■ Increasing land values	■ Efficient use of natural capital in own operations ■ Low carbon performance in own operations and supply chain ■ Maintaining resilience and sustainable business models	■ Effective management of the company's polluting impact across its value chain ■ Mitigation of litigation and remediation cost risk	■ Increased employee engagement and staff retention ■ Social licence to operate ■ Creation of prosperous value chains ■ Creation of shared value	■ Reputational and brand management ■ Effective company management ■ Risk identification and mitigation ■ Litigation management and protection

Sustainability Council

The Sustainability Council gives Earth Capital leading thinking on international best practice in Sustainability.

- The climate emergency debate has drawn ESG integration closer. One topic that provoked debate was the developing EU taxonomy and its potential impact. ESG benchmarks and EU regulators require greater rigour on sustainability claims and labelling. The evidence for meeting the criteria will need to be documented. As a systematic approach to limit greenwashing then the EU taxonomy is likely to improve disclosure. Whether it will promote greater flow of capital towards positive impact investment is more debatable.

- The Council noted that the capital markets have really woken up to the sustainable finance agenda. Many products and machinery in the banking sector are being put to work to chase new sustainability linked finance opportunities and the agenda is far more widely understood. Momentum and integration is now at a far higher level than previously despite the impact of Covid-19 on economic activity.

- Covid-19 dominated discussion, particularly what it means for the sustainable development agenda. The longer-term consequences of the pandemic are still unclear. The specific health impacts will be better understood going forward, but the economic and psychological shocks are significant. Some commentators have argued that the social purpose of business may be strengthened. The pace of change around climate response in the corporate world certainly quickened. At the height of the crisis, Shell, BP and Total announced Net Zero strategies, the Japanese withdrew from coal, and Allianz withdrew from insuring anything associated with coal. This trend continued with the likes of Google and Microsoft, as well as governments making decarbonisation commitments. A great acceleration has been seen in this space over the past twelve months. Businesses associated with a 'green' label are consequently going up in value.

- The picture is less positive elsewhere. The poorer developing nations will come out of this pandemic badly, especially around vaccination, and investment in those countries may become difficult. The disparity with other countries will become marked and a tricky political context may emerge.

Sustainability Council

"When I set out nearly fifty years ago as an environmentalist my goal was to make the world go round differently in order to stop damaging the environment. As a product of the sixties, I had little time for the worlds of business or government, so I joined Friends of the Earth. After some time and with a lot of not always welcome advice I discovered that money really did make the world go round. From this I concluded that if I wanted to make the world go round differently, I needed to figure out how to make the money go round differently. I discovered that people who really knew what made the money go round were only too willing to educate an environmentalist about the real world.

Now the urgency and magnitude of the impacts of climate change on business are driving a re-writing of the rules by which capital is allocated led by central bankers. This is no longer an issue of responsible corporate behaviour but has become a strategic risk issue for business. Climate change is a risk multiplier. It impacts on the whole of the rest of the sustainable development agenda.

This makes integrating sustainability risks into the core business risk assessment crucial for financial success and investor confidence. With the guidance of its Sustainability Council, Earth Capital has developed a tool that allows company management and investors to track performance systematically across a range of sustainability indicators. This allows businesses to create a progressively better alignment between their economic purpose and their social purpose."

Tom Burke
Chair and Founding Director, E3G
Chair, Earth Capital Sustainability Council

Sustainable Investment Governance

Earth Dividend™ assessments are approved by the Investment Committee prior to investment and annually thereafter. The CSO sits on the Investment Committee and has a right of veto for every investment.

The annual Earth Dividend™ process is completed by the investee company management/investment teams and is internally audited by the Chief Sustainability Officer.

External Assurance in accordance with ISAE 3000 is carried out on the statements we make about the Earth Dividend™ process on our website and in our key investor information.

The Sustainability Council's input brings leading external stakeholder perspectives to Earth Capital's approach on Sustainable Development and its annual review of the Sustainable Development impact of the Fund's investments.

Earth Dividend™: Our Proprietary Impact Measurement Tool

The following pages set out highlights of the Earth Dividend™ process within the Nobel Sustainability Fund®. The Earth Dividend™ system provides an annual measure of an investment's Sustainable Development impact. The scorecard uses 30 tests over 5 dimensions of Environmental, Social and Governance impact to understand the contribution of an investment asset or investee company to sustainable development.

Each test is rated +1 (positive), 0 (neutral) or –1 (negative). The individual scores are added, and the aggregate score reflected on the axis for the relevant dimension of impact. As a result, the potential aggregate score ranges from +30 to –30.

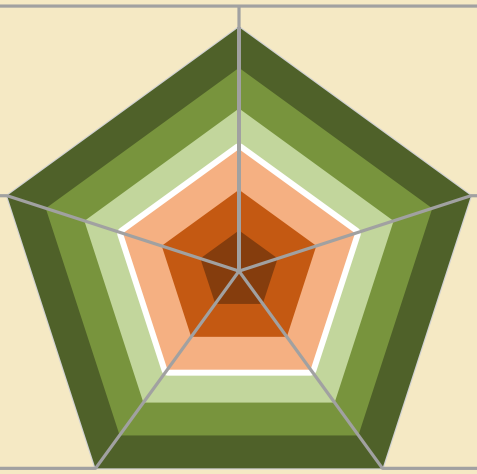
Earth Capital will only invest in businesses which will have an aggregate net positive impact i.e. +1 or greater, and through our process the ability to improve on that score whilst adding business value. **All investments display net positive impact scores.**

Summary of the current ESG indicators used

Natural Resource Consumption
Water use and efficiency; energy inputs and efficiency; efficient use of raw materials; sourcing of materials from sustainable practices; land resource value

Society & Governance
Corporate Governance; bribery & corruption; responsible marketing & market behaviour, indigenous peoples & cultural heritage

Ecosystem Services
Biodiversity and natural habitat; water system; climate system & greenhouse gas emissions; soil systems



Social & Economic Contributions
Employee welfare & human rights; local economic contribution; supply chain employment standards; contribution to Sustainable Development Goals (SDGs)

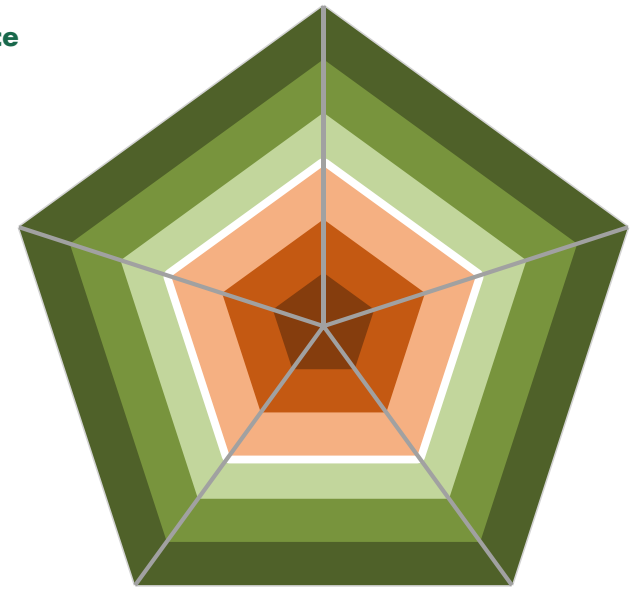
Pollution Control
Atmospheric emissions; effluent discharge; waste disposal; supply chain polluting impact; end of life impact

- Extremely positive contribution to SD
- Highly positive contribution to SD
- Contributes to SD
- Neutral
- Negative contribution to SD
- Highly negative contribution to SD
- Extremely negative contribution to SD

- The Earth Dividend™ spans the UN Sustainable Development Goals (SDGs).
- Whilst the development of the Earth Dividend™ predates the launch of the SDGs, it has a natural fit with the latter in impact terms. The figure shown maps the five dimensions of the Earth Dividend™ scorecard to their potential impact on the individual SDGs. Some SDGs potentially span more than one Earth Dividend™ dimension.

Natural Resource Consumption

Society & Governance



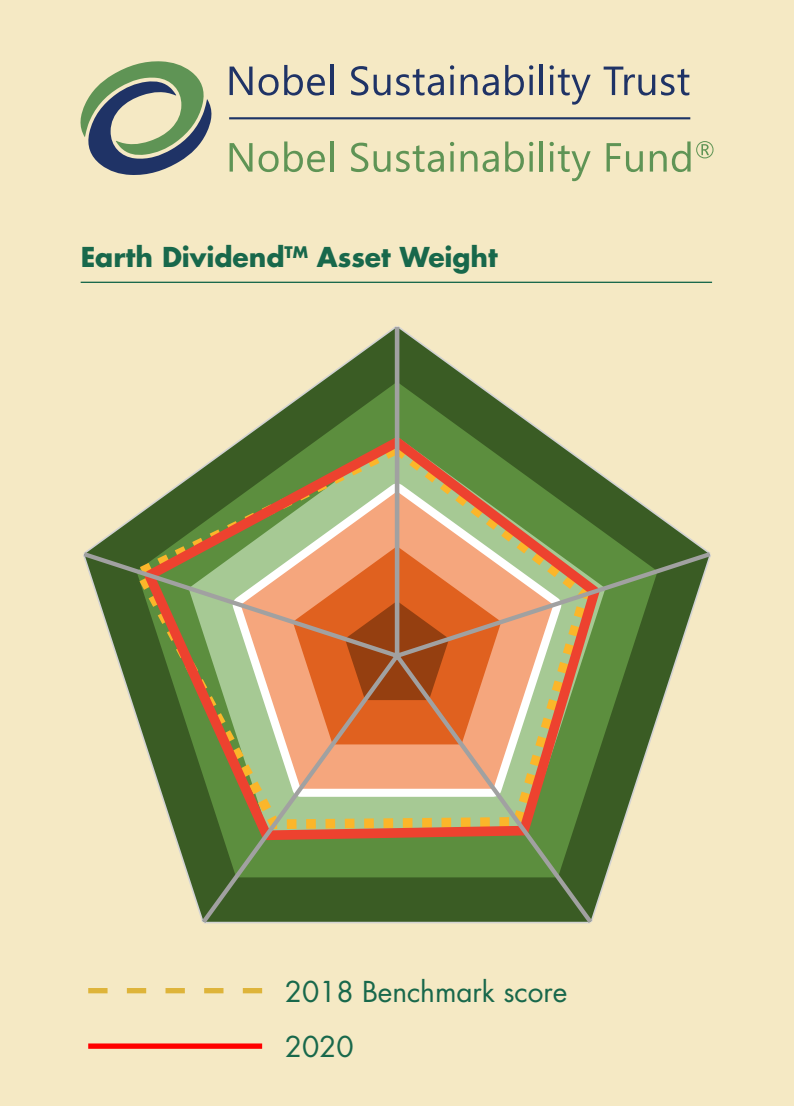
Ecosystem Services

Social & Economic Contribution

Pollution Control

Earth Dividend™ 2020 Nobel Sustainability Fund® Score

The overall results for the 2020 Earth Dividend™ Process at the NSF portfolio level are visible in the spider diagram opposite. They continue to demonstrate that **NSF makes a net positive contribution to Sustainable Development.** Whilst the results are often very specific to the company involved it was possible from deeper analysis to see some common issues across the portfolio enabling us to identify actions to remedy those issues.



The asset-weighted portfolio-level view plots the 2020 score against the 2018 benchmark score. There is an improvement in four of the five dimensions of the Earth Dividend™. Over the five dimensions in aggregate, **there is a net improvement from an overall score of 9.72 in 2018 to 10.87 in 2020** which is encouraging.

Dealing with the Society and Governance score first, a slight deterioration was noted in last year's report and was explained by a more robust assessment of two investments which led to a downgrading in 2019 of two indicator scores from 2018. This latter issue had been highlighted in the internal audit process last year. There was also a further deterioration in 2020 due to a Health and Safety incident at one of the UK waste-to-energy projects. The internal enquiry led to a technical correction in the operating procedure to ensure the incident will not be repeated. It is encouraging to see the improvements in the other four dimensions. Many of these relate to improvement plans highlighted over the two-year period. We have noted improvements in how companies measure and report their engagement with local communities and contribution to local economic development. Some investee companies have started to explicitly assess and calculate their local economic value distributed. This provides the required evidence for a positive score and in our view, assists their social license to operate (SLO), contributing to the overall improvement in the Social and Economic Contribution dimension. Other examples of gains resulting from 12-month improvement plans include enhanced use of renewable raw materials in their supply chain in one case and improved energy efficiency in their own operations in another.

2021 Sustainability Review – Striving For Excellence

2020 Earth Dividend™ Assessment Cycle

The 2020 Earth Dividend™ (ED) assessment cycle commenced in the final quarter of 2020 and was completed early in 2021. The Earth Dividend™ process is subject to internal audit and external assurance. The ED process has now been moved onto an Ipreo database which provides a better audit trail. The internal audit was completed successfully with no material issues identified.

Grant Thornton External Assurance

Earth Capital's sustainability approach requires that we undertake an external assurance exercise of our Earth Dividend™ process to verify that we are following the process. In 2019, we first appointed Grant Thornton to undertake that work and this will be the third year they have undertaken this assurance exercise. They provided a Statement of Assurance in accordance with ISAE 3000 on the 2020 Earth Dividend™ process which is available here

Portfolio Holding

Sustainable Energy Development Ltd (SEDL)

Formed in 2017, SEDL is a specialist in the generation of biomass-fuelled energy.

–30 **Earth Dividend™ Score** +19 +30

Positive Impacts

Highlights include

- Good management of Natural Resources, Ecosystem Services and Pollution.
- Improvement of social and economic contribution.
- Good management and governance.

Negative impact

- No material areas of concern.

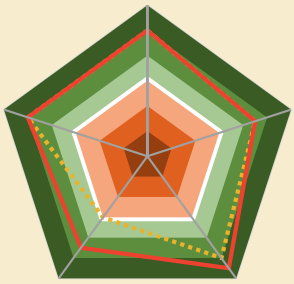
Progress on Benchmark Score

- Company has now started to measure its local economic value distributed which should improve its social licence to operate.

12-month improvement plan

- Includes work on a Sustainable Materials Efficiency plan.

SEDL Earth Dividend™



2018

2020

Provides clean energy to power over 3,500 homes in Staffordshire.

Supports local electricity network with over 15,000 MWh provided to the local grid annually.

Increased electrical output by re-engineering of plant design.

Produces over 10,000 tonnes of clean energy biomass.

Generates power locally, reducing losses across the transmission system.

Portfolio Holding

Black Dog Biogas

Black Dog Biogas owns & operates an anaerobic digestion plant, which uses biogas to produce electricity.

- Innovative example of the circular economy with local farm crops used as fuel.
- Clean electricity for over 1,200 local homes & a local wind turbine manufacturing plant.
- Locally generated & utilised electricity reduces losses in the transmission system.
- Produces a nutrient rich digestate used by local farmers as an eco-friendly fertiliser to grow more crops for food & fuel.
- MW Doubled power production capacity

–30 **Earth Dividend™ Score** +18 +30

Positive Impacts

- Strong management of natural resources usage and pollution impacts.
- Improving Ecosystem Services impacts and Social and Economic contribution.

Negative impact

- Deterioration in Society and Governance score due to a Health and Safety Incident at the plant.

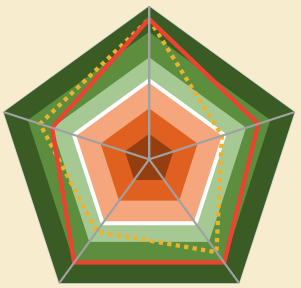
Progress on Benchmark Score

- Installation of a digestate separator has reduced water usage by 70%.
- Now measuring its local economic value distributed which should improve its social licence to operate.
- H&S incident in 2020 led to deterioration in Society and Governance score and technical improvements to prevent repetition.

12-month improvement plan

Continuing work on the potential for the plant to use food waste rather than silage as primary feedstock.

Black Dog Earth Dividend™



2018
2020

Portfolio Holding

propelair®

3 GOOD HEALTH AND WELL-BEING
6 CLEAN WATER AND SANITATION
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION

Propelair is a cleantech company that manufactures one of the world's lowest water-flush toilets.

- Uses up to 84% less water
- Reduces sewage/ water bills by up to 60%
- Uses up to 80% less energy
- Aerosolised germs reduced by up to 95%
- Refills in up to 30 seconds not 2-3 minutes

–30 **Earth Dividend™ Score** +14 +30

Positive Impacts

- Water usage reduction due to low flush technology.
- Energy saving on post-flush water management.
- Product design reduces risks of aerosol contamination.

Negative impact

- Ceramic manufacture high CO_2 intensity.
- Raw materials usage.
- End of life disposal.

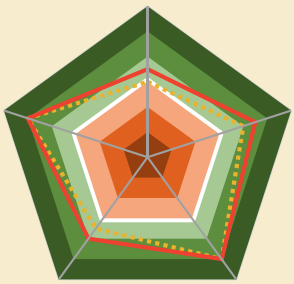
Progress on Benchmark Score

- Relocation of assembly plant has reduced own operations GHG footprint.
- New design initiatives are required to source recycled plastics (or non-plastic alternatives) and energy efficient ceramics (or alternatives).
- Health and Safety policy and procedure enhanced.

12-month improvement plan

- Plan to revise and improve the Bribery and Corruption policy in 2021 and get partners to sign up to this as the company contemplates entering additional markets.

Propelair Earth Dividend™



2018
2020

PRI Assessment – improvement year on year

PRI Assessment

As a signatory, we are required to report on responsible investment activities annually. The resulting PRI Assessment report aims to provide feedback to its signatories and support ongoing learning and development. The assessment scores are based on how a signatory has progressed year-on-year and relative to their peers.

The investment categories are evaluated using six performance categories, with A+ distinguishing the top-scoring signatories who have achieved a score of 95% or above.

Category	EC Score 2020	EC Score 2019	Industry Peer Median Score 2020
Investment (Strategy and Governance)	A+	A+	A
Indirect Holdings	A+	A+	A
Direct & Active Ownership (direct investments in private equity)	A+	A	A

This places Earth Capital firmly as a leader within the PRI membership.

At the time of writing, we have submitted our reporting for the 2021 assessment. This assessment will be based on the new PRI reporting protocols which were launched this year and intended to lead to greater differentiation within the assessment outcomes.

Earth Capital operates a culture of constant review and we have expanded our procedures on how we have integrated the six PRI principles into our business. In addition, we continue to publish the PRI Assessment Report on our website to explain how we apply the principles. We are currently in the 20% – 410 of the 2,097 – of the reporting signatories that do so.

Task Force on Climate-related Financial Disclosures (TCFD)

The Task Force on Climate-related Financial Disclosures (TCFD) continues to have far-reaching impact on reporting and disclosure at corporate and investor level. PRI has made TCFD reporting mandatory from 2020 and the current tone from the top is that financial sector regulators will make it mandatory in the near term. This has already been done in the UK. At EC we need to consider how we and our investee companies develop climate-related financial disclosures consistent with these recommendations. As last year, we have built on the climate-related knowledge gained via the Earth Dividend™ to satisfy the TCFD requirements. As a result of our membership of PRI and the Institutional Investors Group on Climate Change (IIGCC), we have based our approach on a framework devised jointly by them. Investment teams have completed the questionnaire on portfolio companies.

TCFD | TASK FORCE ON CLIMATE–RELATED FINANCIAL DISCLOSURES

TCFD QUESTIONNAIRE

Climate change impact awareness

What are the possible legal, financial and commercial impacts of climate change on your business (e.g. susceptibility to adverse weather conditions; changing supply chains and customer demands; availability of key resources such as water)?

Regulatory awareness

Which current and proposed laws and regulations relating to climate change are you aware of that might impact your business? How do you keep informed? Does, or should, the company have an officer or employee responsible for climate change or environmental measurement and reporting?

Carbon footprint

What is your business' direct and indirect carbon footprint? What objectives and targets have you set to support the company to reduce the level of carbon emissions it emits?

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

TCFD QUESTIONNAIRE (continued)

Market awareness

Are you aware of any action that your competitors are taking to mitigate or assess climate change impact? If so, how do your actions compare with the actions of your peers?

Cost/profitability forecasting

Have you evaluated the impact of rising climate change related costs on the business? Could increases in costs materially affect the profitability of the business? If so, what mitigation efforts have been considered?

Management of climate change related risks and opportunities

Having identified any climate change related risks, what steps are you taking to manage these? Have you established a climate risk mitigation policy and strategy? Do you consider opportunities created by and/or related to climate change? Which functions within your business are responsible for climate change or environmental measurement, management and reporting?

We felt it important to add an "Overall assessment" to the end of the questionnaire to require the investment teams to make a balanced assessment of the risks and opportunities climate change presents to the investments.

As previously noted, many of the companies we invest in actively seek to maximise opportunities relating to the transition to a low carbon economy. Some on low carbon energy generation, some on energy efficiency and others on low carbon product usage. In terms of climate change and regulatory awareness, the questionnaires reveal, as last year, a developing understanding of climate risk issues. Physical risks on own operations appear to be understood. Physical risk in supply chain exposure continues to be work in progress as is transition risk along the value chain. None of the portfolio companies measures its carbon footprint substantively at this stage although carbon reduction is a core component of most of the businesses. Propelair has indicated that it will look at measurement in 2021. Few of the companies have at this stage developed climate risk mitigation policies and strategies or governance procedures but that is to be expected in these relatively early-stage businesses or single asset operating projects. These findings have been shared with the Investment Committee and Sustainability Council for review.

The assessments do provide a benchmark on where the businesses are at present in terms of thinking about climate risk and opportunity. We will repeat the TCFD exercise on an annual basis and look to assist investee companies where we can add value. Given the growing pressure on enhanced disclosure, we need to grow our understanding of the risks and opportunities presented across the portfolio and be able to explain where we stand. It is to be expected that nature-related disclosure will follow. The Taskforce on Nature-related Financial Disclosures (TNFD) framework will be launched this year.

At this stage we can communicate how we govern the TCFD process within the business; the strategic focus on low carbon, sustainable transition and the first attempts to assess the risk holistically on an asset-by-asset basis. What is still work in progress is to validate more scientifically where these investments sit on the transition to a Net Zero economy.

Net Zero Asset Managers Initiative

Earth Capital is proud to have become a signatory of the Net Zero Asset Managers Initiative and by doing so, support the transition to a more equitable and resource efficient economy. This initiative is currently backed by a total of 128 global investors with over $43 trillion in assets. The initiative is accredited by the United Nations Framework Convention on Climate Change (UNFCCC) Race to Zero campaign. Among other steps, this will see the investors work with clients to reach Net Zero emissions alignment across their portfolios by 2050 or sooner and set interim 2030 emissions reduction targets.

We took this step as we believe it critical that investment capital demonstrates how it is aligned to international climate targets and the sectoral transitions required to achieve this.

Since 2020, we have been a member of the UNFCCC's Climate Neutral Now initiative and have been awarded with Carbon Neutral International Standard status on our organisational footprint. The reporting is carried out in line with the requirements of the Green House Gas (GHG) Protocol Corporate Standard and is compatible with international standards ISO 14064 and PAS 2060.

We are now working to build on the work undertaken in our TCFD assessment and set our own Net Zero targets at a portfolio level.

Operating Principles for Impact Management

Strategic Intent

1. Define strategic impact objective(s), consistent with the investment-strategy.
2. Manage strategic impact on a portfolio basis.

Origination & Structuring

3. Establish the Manager's contribution to the achievement of impact.
4. Assess the expected impact of each investment, based on a systematic approach.

Portfolio Management

6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

5. Assess, address, monitor, and manage potential negative impacts of each investment.

Impact at Exit

7. Conduct exits considering the effect on sustained impact.
8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

Independent Verification

9. Publicly disclose alignment with the Principles and provide regular independent verification of the alignment.

Source: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Impact-Investing

The Earth Dividend™ assessment approach gives us a clear understanding of the holistic footprint of our investments. Being an Impact Investor also requires a process of positive impact targeting and measurement.

We reviewed what constitutes good practice in this area and after consultation internally and with the Sustainability Council adopted the Operating Principles for Impact Management.

The Operating Principles for Impact Management were developed in consultation with a group of asset owners, managers and allocators, to support the development of the impact investing industry by establishing a common discipline around the management of investments for impact.

This goes beyond asset selection that aligns investment portfolios with impact goals (for example, the SDGs), to requiring a robust investment thesis of how the investment contributes to the achievement of impact. The nine principles set out in the box above are designed to cover the whole investment process.

In practical terms we have identified at least one or two positive impact areas for each investment which we have measured over the calendar year. We have also explicitly linked these to Sustainable Development Goals and identified who the intended beneficiaries of the impact are. In accordance with the requirements of the principles we have published our first annual disclosure statement setting out how we align with those requirements.

Annual Disclosure Statement of alignment with the Operating Principles for Impact Management is available here

Guernsey Green Fund

In early 2021 Earth Capital received Guernsey Green Fund (GGF) designation, the world's first regulated green fund product standard, for its Nobel Sustainability Fund®.

Launched in July 2018 by the Guernsey Financial Services Commission, the rules outline clear eligibility criteria of green investing that funds must comply with in order to be awarded Guernsey Green Fund status. The accreditation provides investors with the confidence that investments are being used for environmental purposes and are monitored against a recognised set of regulatory standards.

A Guernsey Green Fund (GGF) must be established with the objectives of:

Seeking a return for investors

Spreading risk

Mitigating environmental damage

"By investing in a Guernsey Green Fund, investors can be assured that that their investments have a positive environmental impact on the planet which are being monitored against internationally-recognised criteria."

Guernsey Green Finance
At the forefront of the development of green and sustainable finance

Diversity and Inclusion

As a global organisation, Earth Capital strongly believes in promoting diversity and creating an inclusive culture for all its employees, investors and investee companies. At time of publishing, 34% of our employees are female, nearly 30% of our investment team are women and women account for 30% of our sustainability council.

In 2021, Earth Capital became a founding signatory of HM Treasury's Investing in Women code. This is a commitment to support the advancement of female entrepreneurship in the UK and requires us to nominate a member of our senior leadership to ensure equality in our interactions with entrepreneurs and startups. We share our data with HM Treasury concerning our engagement with female-led business and entrepreneurs and adopt practices that support, empower and finance female entrepreneurs.

As a signatory of HM Treasury's Women in Finance Charter we aim to build a more balanced and fair industry. As part of this commitment we publish progress annually against these targets and have linked part of the executive bonus scheme to our internal gender diversity targets.

Our goal is to ensure the aims and commitments of the Diversity and Inclusion (D&I) initiatives that we are signed up to and involved with are reinforced by our values and embedded in our day-to-day working practices.

We recognise that we have room for improvement and our executive leadership are committed to improving the diversity of our workforce, the investment team and our senior leadership, as well as foster an inclusive and supportive working culture where everyone is treated with dignity and respect.

Partnerships and sharing best practice

Earth Capital is committed to contributing and sharing sustainable investment best practice. One of the ways we achieve this is through our active participation in sustainability related memberships, groups and bodies. EC has a close relationship with several sustainability related thought leadership bodies and institutions. A summary of these is provided here.

One initiative of recent note is our involvement in the Coalition for International Platform for Climate Finance (IPCF) led by Aviva Investors. This coalition commits to advocate for the creation of a platform and a series of key pathways to operationalise, facilitate and track global progress against the objectives of Article 2.1.c of the Paris Climate Agreement.

Article 2.1.c "...aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by...making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

The Coalition issued a white paper on Earth Day 2021 which sets out sustainable finance recommendations for the G7 and G20 to consider. Private enterprise and investment are vital to driving the transition to a global, low carbon economy. The climate crisis has the potential to fundamentally change our way of life and, in the process, render assets worthless. That's why investors increasingly want to be part of a solution that directly addresses these twin threats - it makes sound business sense and is the right thing to do. With the coalition for the International Platform for Climate Finance, the aim is to connect private investors with national governments to supercharge the contribution of finance in this critical year of COP26.

Appendix

Earth Capital - Sustainability
www.earthcapital.net/sustainability/

Earth Capital – Earth Dividend™
www.earthcapital.net/sustainability/earth-dividend/

Responsible Investor – Carbon Offsetting is one step to Net Zero
www.responsible-investor.com/articles/carbon-offsetting-one-step-to-a-net-zero-future

CityWire – Sustainability Chief calls for more transparency as companies eye net-zero emissions
citywire.co.uk/wealth-manager/news/sustainability-chief-calls-for-more-transparency-as-companies-eye-net-zero-emissions/a1487999

Fund Operator
www.fundoperator.com/archive/case-study-how-earth-capital-is-overcoming-the-main-challenges-of-sustainability-reporting/

Earth Capital YouTube channel
www.youtube.com/channel/UCKjcK0B2XCibqycAZ3uHzEg

Earth Capital LinkedIn page
www.linkedin.com/company/earthcapital/



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