Task Force on Climate-related Financial Disclosures (TCFD)

December 2023 Report

TCFD Report

OVERVIEW

ELM Responsible Investments Pty Ltd (**ELMRI**) is in the process to becoming a signatory to the United Nations supported Principles for Responsible Investment (**PRI**). This TCFD report (**Report**) relates to the period from 1 January 2023 to 31 December 2023 and it provides our response to the TCFD recommendations. We will aim to increase our disclosure each year as we update this Report. Our transparency reflects the commitment we have towards climate-related disclosure. Where appropriate, ELMRI also encourages portfolio companies to implement the TCFD recommendations.

ELMRI is an impactful and responsible investment manager, with sustainability core to our business and investment philosophy. Furthermore, as a long-term investor, we believe it is important to evaluate the sustainability of our portfolio companies and how they impact all stakeholders, including the environment, broader society, employees, and customers. The impact of our portfolio companies on these stakeholders affects the long-term valuation of companies, which in turn influences long-term shareholder returns. We also assess companies' future carbon footprint as part of our analysis of our portfolio companies' impact on the natural environment.

ELMRI also considers the impact of our own business operations on the natural environment.

GOVERNANCE

Material climate-related, and environmental, social and governance (**ESG**) concerns or opportunities are discussed and addressed by ELMRI regularly. As part of ELMRI's investment process, we consider company-specific climate-related issues or opportunities and incorporate them into the valuation of our companies. As such ESG issues and opportunities are raised by analysts and portfolio managers, and incorporated into their responsibilities of analysing the risk and return profiles of our holdings and prospective investments.

ESG integration does not necessarily help us identify the most impactful companies, but we believe that it is an important step in helping us determine the long-term value of a company as ESG and climate-related risk may affect the long-term risk and return profile of company.

STRATEGY

ELMRI's ESG Policy outlines how we manage our responsibilities relating to ESG and climate-related issues.

We recognize the importance of ESG and climate change strategies for sustainable growth. Our long-term investment philosophy makes identifying and investing in sustainable business practices, especially environmental aspects important. We think that the analysis of business practices can be split into current and future practices. A company may have poor current business practices, but if we believe there is an intention, plan and potential for improvement, we may still make an investment. These opportunities are rare, but do exist.

By focusing on sustainable business practices, we also seek to safeguard our clients from risks linked to inadequate ESG and climate change management. Consequently, sustainability, climate change, and ESG principles are ingrained in our philosophy, and we are confident that our portfolios exhibit low ESG and climate risks.

For specific climate change risks we've identified, please refer to Table 1 on the following page.

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TABLE 1: CLIMATE CHANGE RISKS

Type	Explanation	Potential Financial Impact
Physical Risks	Acute risks from specific weather events like floods, hurricanes, or droughts, and chronic risks from longer-term shifts in climate patterns.	Direct financial impacts, such as property damage or operational disruptions, and indirect impacts, such as supply chain disruptions or changes in agricultural productivity.
Transition Risks	Risks due to the process of adjusting to a low-carbon economy. They include policy and legal risks (like carbon pricing or emissions-limiting regulations), technology risks (such as shifts towards renew-able energy affecting tradi-tional energy sectors), market risks (changes in consumer preferences or market dynam-ics), and reputational risks (stakeholder perceptions of an organisation's response to climate change).	Financial impacts can include asset devaluation, increased costs, and changes in market demand.

STRATEGY CONT.

ELMRI's portfolios use a fundamental 'bottom-up' methodology with a structured investment research process. A key output of the process is a risk and return metric as well as qualitative comments that incorporate the ESG factors. We also follow a sustainability process based on the Impact Management Projects' 5 Dimensions of Impact. A key output of this process is a sustainability score, which helps us rank companies along a spectrum, with companies causing harm on one end and companies contributing to solutions on the other end. This process enables us to identify the most impactful companies.

Our sustainability process is effectively a positive screen, and we also incorporate a negative screen to ensure that we exclude unequivocally harmful companies. The following exclusions apply to all ELMRI portfolios and are the subject of regular review:

- Controversial weapons and nuclear weapons companies;
- Tobacco, tobacco-based products and nicotine alternatives companies;
- Fossil fuel extraction companies; and
- Gaming and gambling companies

If ELMRI identifies that an investment does not meet its exclusion criteria, we will review the investment, and without a justifiable reason for maintaining the investment, we will divest the position as required as soon as practicable given the circumstances.

At ELMRI, ESG considerations are incorporated at the company level through in-depth fundamental research overseen by investment team members. Our long-term investment strategy is grounded in extensive fundamental research, emphasising the enduring viability of a company's value proposition. Both qualitative characteristics and quantitative metrics related to ESG are essential for a comprehensive understanding of a company.

While we have standardised processes for ESG integration, the scope and methodology of our research can vary depending on the specific factors of each company or the industry in which it operates. It falls to the investment team member conducting the company research to exercise prudent judgment in assessing and evaluating ESG risks. We consider ESG research from our brokers and third-party data providers to augment our analysis, enhancing our ability to make informed decisions.

CLIMATE-RELATED OPPORTUNITIES

ELMRI periodically identifies climate-related opportunities, including specific companies poised to benefit from the shift towards sustainable energy and transportation. Our portfolio companies tend to be investing in innovation and, therefore, enjoy structural growth opportunities with less sensitivity to macro-economic conditions than many publicly traded businesses. We believe these companies are better equipped to navigate a world affected by low growth and climate disruptions and be less impacted by potential future government policies.

For instance, the automotive industry is undergoing disruption as internal combustion engine vehicles are phased out, influenced by government regulations and consumer preferences for electric vehicles. Similarly, the energy sector is experiencing structural changes with reduced reliance on fossil fuels and an increased implementation of renewable energy. We are actively invested in leading electric vehicle manufacturers (automobiles and aircraft) and suppliers and renewable energy developers, technologies, and suppliers.

RISK MANAGEMENT

ELMRI manages climate-related risks through its investment analysis and portfolio construction process, as described in the Strategy section.

We believe that environmentally harmful activities are unsustainable in the long term, leading to increased costs, lower future revenues and reduced returns on capital. Some industries may have such significant environmental impacts that their future liabilities exceed net assets, making those companies non-investable.

We believe that poor governance and activities harmful to society or the environment will make such companies unattractive investments, as these factors negatively impact the company's sustainable competitive advantage.

ENGAGEMENT

ELMRI engages with our portfolio companies to address ESG and climate-related issues. We encourage these companies to improve their climate reporting and reduce their carbon footprint as needed. This strategy has effectively increased climate-related reporting and led to formulating carbon reduction strategies among our portfolio companies.

We acknowledge our crucial role in advocating for our clients' interests in proxy voting. We analyse both third-party research and our comprehensive studies. When required, we communicate directly with company management to express our views and address any concerns.

FIRM ACTIVITIES

ELMRI found that most of our emissions stemmed from staff travel and building operations. To address this, we have transitioned our premises with sustainability as a core consideration. Our new office, which is both B Corp certified and boasts a 6.6 Green Star rating, reflects our commitment to meeting rigorous social and environmental performance standards and reducing our own environmental impact. In tandem with this move, we encourage our staff to prioritise video conferencing to reduce travel-related emissions, promoting travel only when necessary. Furthering our sustainable practices, we collaborate with partners and suppliers who share our environmental and social ethos. A notable example is our partnership with Bank Australia for our cash deposit facilities, ensuring our cash on balance contributes to sustainable and ethical initiatives. This comprehensive strategy not only aligns our operational activities with our environmental principles but also signifies a crucial step forward in our pursuit of enhanced sustainability and a smaller carbon footprint.

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RESPONSIBLE
INVESTMENTS

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