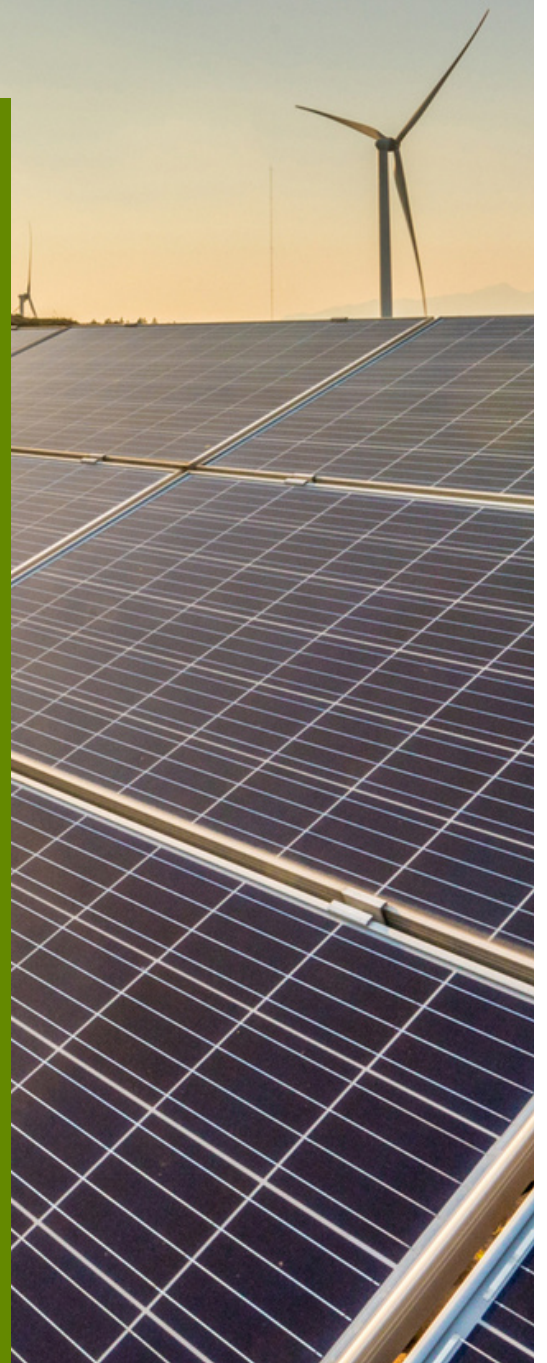


ICAPs CASE STUDY

Ethical Partners





Ethical Partners

FUNDS MANAGEMENT

Ethical Partners Funds Management (Ethical Partners) is a boutique Australian Fund Manager with US\$1.2 billion AUM that is fully owned by its staff and founders.

Ethical Partners is cognizant of the need for responsible investors to incorporate the genuine and deep analysis of climate related risks and opportunities into their portfolio construction and capital allocation. For Ethical Partners, this includes understanding the impact of its investment activities and actively aligning its portfolios towards achieving the goals of the Paris Agreement.

Ethical Partners is a signatory to the Net Zero Asset Managers initiative and used the 2021 Investor Climate Action Plans (ICAPs) Expectations Ladder to assess and communicate its approach to managing climate change risk and opportunity. Ethical Partners detailed its activities in the four ICAPs focus areas in its Task Force on Climate-Related Financial Disclosures Report (November 2022). This case study provides an overview of activities in each of those areas.



ICAPs Focus Areas

1

Investment

In 2021, Ethical Partners Australian Share Fund set formal public targets of a 50% emissions reduction for Scope 1 and 2 emissions by 2030 (from a June 2021 baseline) and a Net Zero 2050 target. As part of the Net Zero Asset Managers initiative, Ethical Partners published portfolio targets corresponding to net zero aligned portfolio coverage, engagement thresholds and allocation to climate solutions in 2022.

Individual asset owner mandates are managed in line with their respective climate targets, including a Net Zero 2030 target. The Ethical Partners Australian Share Fund screens out investment in fossil fuels, defined as any company with >1% of their net profit after tax (or an equivalent disclosed measure) generated in this industry.

Ethical Partners reports regularly on its progress towards these targets. Ethical Partners developed the proprietary Ethical Partners Carbon Alignment Process (EPCAP) in 2021 (detailed on page 16) to track the decarbonization progress of both its individual portfolio companies, and its portfolio as a whole. More broadly, the proprietary Ethical Partners Risk and Opportunity Assessment (EPORA) considers a range of factors to inform company valuation, investment recommendations and portfolio weighting decisions on a company-by-company basis.

Ethical Partners uses scenario and stress testing to assess the impacts of physical and transition risks of the portfolio and to inform its current and future portfolio construction in real time. Scenarios include considering 1.5°C, 2°C and 3°C global temperature rises, and orderly vs disorderly transition.



2

Corporate Engagement

Engagement is a key pillar of Ethical Partners Climate Action Plan, as well as its core investment process and approach to achieving its own portfolio targets. Ethical Partners engages with 100% of its portfolio companies on climate related risks and opportunities, and their progress on credible, 1.5°C aligned decarbonization pathways, in line with just transition principles.

Engagement is a key component of Ethical Partners' risk mitigation strategy, as outlined in its [TCFD Report](#).

Ethical Partners' proprietary in-house EPORA process results in the formation of a detailed engagement plan for each portfolio company, focusing on their material climate related risks and opportunities. This information enables Ethical Partners to undertake extensive direct company engagement with all portfolio company boards, management, and relevant operational staff.

Ethical Partners also actively participates in collective and collaborative engagement activities, including [Climate Action 100+](#), supports climate resolutions that call on companies to address material and systemic risks and opportunities, and has a clear escalation plan for companies that do not respond appropriately to engagement.

3

Policy Advocacy

Ethical Partners firmly believes in the responsibility of investors to advocate for the optimal policy, regulatory and legislative settings to enable both companies and investors to be able to accelerate their alignment with the goals of the Paris Agreement. This involves [joint efforts and direct engagement](#).

Ethical Partners has been a signatory to the [2021 and 2022 Global Investor Statements to Government on the Climate Crisis](#) and engages in wider collective advocacy on climate change legislation, regulation and policy in Australia and internationally. Domestically, through its membership of the IGCC Policy and Advocacy Working Group, Ethical Partners has engaged with senior officials from Prime Minister and Cabinet and Treasury regarding policy uncertainty, investment risk and the standardization and regulation of climate risk reporting. Internationally, Ethical Partners contributed to joint feedback on the proposed ISSB reporting the PRI Global Policy Reference Group.

Ethical Partners' direct policy engagement include submissions to various Australian regulators on climate-related financial disclosures, [appearing](#) before a Parliamentary Committee to give evidence on prudential regulation of investment in Australia's export industries and a [submission](#) to the US Securities and Exchange Commission (SEC) in support of the US SEC 27-1-22 Enhancement and Standardization and Climate-Related Disclosures for Investors.

4

Investor Disclosure

The [2022 TCFD report](#) publishes Ethical Partners' targets, emissions profiles, climate risk assessment and opportunities and other information corresponding to the TCFD recommended disclosures – governance, strategy, risk management, and metrics and targets. The report also includes details of Ethical Partners' policy advocacy.

Ethical Partners also discloses relevant information about its targets and progress toward net zero via the [centralized signatory disclosure portal](#) of the Net Zero Asset Managers initiative.

The fund conducts yearly [Engagement and Stewardship](#) reports which detail the engagements undertaken on a broad range of material and pertinent risks and opportunities related to climate change, disaggregated by entity and issues discussed. In addition, policies and voting records are published on the Ethical Partners [website](#).

5

Governance

As a boutique fund, the Investment Director and CEO also sit on the board, facilitating the integration of climate related risks and opportunities into investment decision-making, engagements and advocacy on a close and daily basis.

The consideration of climate-related risks and opportunities, as well as progress towards Ethical Partner's interim and long-term net zero targets is a key responsibility of all portfolio managers and the Investment Director. Similarly, all analysts are expected to integrate climate-related risk and opportunity into the analysis of the stocks under their coverage.

The Head of Sustainability and ESG Portfolio Analyst are responsible for the continual monitoring of the progress towards the decarbonization targets, collaborating with the investment team on the integration of the inhouse climate risk analysis, climate-related team education, reporting and disclosures, conducting company engagements in conjunction with the investment team and coordinating Ethical Partners advocacy activities.





THE
**INVESTOR
AGENDA**
ACCELERATING ACTION FOR A
NET-ZERO EMISSIONS ECONOMY



Investor
Group on
Climate
Change



Principles for
Responsible
Investment

