Position on climate change

Ethical Leaders Funds

April 2019
We recognise that climate change is one of the biggest challenges facing the world today.

Our Ethical Leaders funds have committed to a way of investing to help address these challenges.

We do this in a few ways:
- We invest in the solutions to climate change and exclude the world’s largest contributors to global warming.
- Very importantly, we use our seat at the table to call for change and hold companies to account.

Details on each leg of our position is set out in this paper.
We invest in the solutions
By investing in the Ethical Leaders funds, your money is supporting companies and assets that are developing solutions to climate change.
One of the most important ways we do this is by investing in green bonds. These are essentially green loans, issued by companies for green projects all over the world. Projects that the Ethical Leaders have funded include solar energy farms, energy efficient technology, energy storage solutions, renewable forms of transport, cycleways, recycling research and development, forestry plantations.
In Australia, one of the green bonds the Ethical Leaders bought in 2018 is going towards a water recycling plant in New South Wales that is expected to save 18 billion litres of drinking water a year.
Another way we finance renewables is by investing in cleantech private equity. This way we provide early stage capital for companies developing next generation of clean energy.
We exclude the contributors

We recognise that many Australians would prefer not to invest in or profit from the world’s biggest contributors to climate change.

The Ethical Leaders funds excludes all companies that make a material amount of money from the most carbon intensive fossil fuels, being thermal coal, oil sands, brown-coal coal-fired power, and the conversion of coal to liquid fuels/feedstock. We define ‘material’ as 10% or more of the company’s sales coming from these fossil fuels.

These fossil fuels have been excluded from the Ethical Leaders funds for a few important reasons, all of which relate back to the emissions intensity of the fossil fuel or extraction process:

1. **Thermal coal mining**
   Of the three types of fossil fuels for which there is no alternative – coal, oil and natural gas – thermal coal is the most emissions intensive.

2. **Oil sands**
   The most emissions intensive way to extract oil from the ground.

3. **Conversion of coal to liquid**
   This is the most emissions intensive form of processing oil.

4. **Brown-coal coal-fired power**
   This is the most emissions intensive use of fossil fuels in the world.

5. **Oil sands pipelines**
   This is the infrastructure that facilitates the most emissions intensive of the fossil fuels.
This approach to divestment and future exclusion reflects a few important considerations:

- Right now, as the world moves towards a low carbon economy, there are some fossil fuels that do not yet have a natural alternative. An example is the type of coal used to make steel (metallurgical coal).
- Developing economies like China and India, who have not benefited like we have from the full spectrum of fossil fuels, will need some fossil fuels as they develop, bringing millions out of poverty.
- If we invest in some companies still profiting from natural resources, we can use our seat at the table to drive change.
- The companies that Ethical Leaders funds ultimately own are the companies that are managing environmental and social issues well. This is because the investment managers we appoint consider environmental, social and governance factors alongside financial metrics when they make investment decisions.
Many other companies are excluded from investment too

Fossil fuels are just one of the many parts of the economy the Ethical Leaders do not invest in.

We do not invest in any companies that manufacture or produce tobacco, nuclear weapons, cluster munitions, land mines, defence contractors or other biological or chemical weapons manufacturers.

We do not invest in any companies that make more than 10% of sales from alcohol, gambling and/or pornography.

We avoid companies that negatively impact our world

- Tobacco
- Nuclear power (including uranium)
- Armaments
- Gambling
- Alcohol
- Pornography
- Fossil Fuels (Thermal Coal mining & Brown Coal Power Generation)
We engage for a better future

The Ethical Leaders are committed to using our seat at the table to make the world a better place. We do this by meeting with the executives and boards of the companies that we own, on your behalf, and asking them to do things differently. We appoint investment managers who do the same. Depending on the issue, they might ask a company to pay their workers more, to ensure their supply chains are ethical, or to map and disclose their path to a lower carbon economy.

On climate change, the Ethical Leaders funds are asking companies to commit to the following:

1. A clear path to a lower carbon economy, as quickly and sensibly as possible.
2. Clear commitments and disclosures from companies on their path to lower emissions.

We are active members of investor coalitions calling for change, for example, Climate Action 100+. This is a new five-year global initiative designed to bring the world’s largest investors to the table with the world’s largest greenhouse gas emitters. To date, 225 investors responsible for more than US$26.3 trillion of assets under management have committed to the initiative.

A key pillar of our engagement work is asking companies to comply with the UN’s Taskforce on Climate-related Financial Disclosures (TCFD). The TCFD’s framework requires the disclosure of climate change scenario analysis, including how companies will operate in a 2-degree world.
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