Arisaig Partners

PRI Climate Risks Series – Session 4: Net Zero Initiatives and Implementation

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For professional investors only
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Arisaig overview

Asia Consumer experts with multi-decadal investment horizon

**Over 27 years** investing in consumer businesses across Asia

**16 investment professionals** across Singapore, Mumbai and London

**Buy and hold** approach with average investment tenure c.8 yrs

**Highly concentrated portfolio** of c. 25 – 30 stocks

**ESG is just good due diligence**, part of doing investment ‘properly’

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Leading up to Net Zero commitment

Arisaig Partners founded. Strong focus on corporate governance and portfolios that ‘allow you to sleep at night’

- First engagement letter sent to company management
- Integration of proprietary corporate governance checklist into investment process
- Integration of environmental and social factors into investment due diligence
- Became PRI signatory
- Published first ESG report
- Started measuring and disclosing WACI of our portfolios
- First portfolio-wide physical risk and transition risk assessments
- Joined IIGCC and CDP
- Published first Climate Policy
- Became founding member of NZAM
- Published first net zero targets

Source: Arisaig Partners

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Net zero implementation: context

As of 31 Dec 2020, we had …

100% invested in emerging markets
0% invested in ‘high impact’ sectors such as fossil fuels, cement, steel, aviation
c. 7% of AUM had a validated Science Based Target Initiative targets
< 20% of AUM reporting scope 1 and 2 emissions
c. 30% of AUM with no GHG emissions data coverage at all (reported or estimated)

Note: Above statistics relate to Arisaig Asia strategy
Source: Arisaig Partners analysis, third party data provider
Challenges and solutions: choosing a target setting methodology

• Needed to be flexible
• Able to capture incremental improvements
• Focus on engagement

Sources: iigcc.org, parisalignedassetowners.org, carbonaccountingfinancials.com
Challenges and solutions: setting portfolio decarbonisation targets

- Lack of relevant sector decarbonisation pathways
- Lack of credible pathways specific to our markets at the time
- Global pathways do not account for differentiated EM context

From the International Energy Agency’s Net Zero Roadmap (published May 2021):

Global net CO2 emissions in the Net Zero Emissions

Source: IEA Net Zero by 2050: A Global Roadmap, May 2021
Challenges and solutions: poor data availability and quality

- Limited data availability
- Difficulty to judge quality of third-party data estimates
- Nascency of climate policy in emerging markets

Near-term targets for end 2023:
1. All portfolio companies to reach Transition Pathway Initiative Level 2
2. Engage 100% of portfolio companies not meeting the target annually

% of portfolio companies at each TPI Level 0 to 4

Chart relates to Arisaig Asia strategy holdings. Data as of 31 December of each year
Sources: Company’s published disclosures, Arisaig analysis

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Challenges and solutions: poor data availability and quality

Comparison of published data vs. data from third party data provider suggests relying solely on third party data would result in significant underestimation of emissions

Sources: Annual and ESG reports of portfolio companies, third party data provider, ishares.com, msci.com, Arisaig Partners analysis

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Concluding thoughts: being a member of NZAM

Alignment  Accountability  Collaboration  Support  Signalling

But not a decision to be taken lightly
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Appendix: Arisaig’s net zero targets

Arisaig Partners Net Zero Commitment targets (selected)

<table>
<thead>
<tr>
<th>Year</th>
<th>Portfolio decarbonisation targets</th>
<th>Portfolio coverage targets</th>
<th>Engagement threshold targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>100% of portfolio companies to reach at least TPI Level 2</td>
<td>100% of portfolio companies to reach at least TPI Level 2</td>
<td>Engage with all holdings at TPI Level 0/1 annually</td>
</tr>
<tr>
<td>2025</td>
<td>At least 20% of AUM of all portfolios aligned or aligning to net zero</td>
<td>Reduce financed emissions (Scope 1 and 2) by 9% relative to 2019 baseline</td>
<td>Engage with top emitters of portfolio representing at least 20% of AUM</td>
</tr>
<tr>
<td>2030</td>
<td>At least 38% of AUM of all portfolios aligned or aligning to net zero</td>
<td>Reduce financed emissions (Scope 1 and 2) by 34% relative to 2019 baseline</td>
<td></td>
</tr>
</tbody>
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Note 1: Portfolio decarbonisation targets will be amended in 2024 to reflect the updated pathway for net emissions in the emerging and developing economies in the 2023 update to the IEA’s Net Zero Roadmap and to reflect significant improvement in data quality which triggers re-baselining.

Source: Arisaig Partners

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