

# Climate Policy

## Document Control

### a. Version Control / Revision History

This document has been through the following revisions:

Version	Date of Approval	Remarks / Key changes / Reason for Update
1	August 2023	Initial version

### b. Authorisation

This document requires the following approvals:

Authorisation	Name
Initial Version	Plato Board
Revisions	Plato Managing Director

## Background

Climate change is one of the most pressing global challenges of our time, threatening the lives and livelihoods of billions of people. According to the Intergovernmental Panel on Climate Change (IPCC), limiting global warming to 1.5°C compared to pre-industrial levels is considered the threshold before triggering irreversible climate impacts on society and ecosystems. Staying below this threshold requires global greenhouse gas emissions to be reduced by 43% by 2030, reaching Net Zero by 2050.<sup>1</sup>

Addressing climate change requires international cooperation, with the Paris Agreement adopted by 196 parties at COP 21 in Paris, and entered into force on November 4<sup>th</sup>, 2016. The Paris Agreement is a legally binding international treaty on climate change with the goal of limiting global warming to 2°C, preferably to 1.5°C, compared to pre-industrial levels. Since then, several countries have introduced climate targets. Australia has committed to reduce greenhouse gas emissions to 43% below 2005 levels by 2030, and Net Zero by 2050.

Ongoing efforts to mitigate and adapt to climate change present potential risks and opportunities for investors, as companies decarbonise their operations in response to stakeholder pressure. Investors play an important role in the transition to a low-carbon and climate-resilient economy, and managing the climate risks of their investments is paramount.

## Our Position

At Plato, we believe that climate change is a material systematic risk. We recognise that climate change presents new and material challenges. We see climate change as an important issue for all our employees, clients and investors. Responsible investment is consistent with our long-term return objectives and our fiduciary duty to act in the best interests of clients. A long-term perspective on risk, that accounts for climate change, is likely to lead to enhanced risk management and potential alpha generation for clients.

Plato has a net zero commitment in our business operations. We are currently carbon neutral in our business operations through the purchase of Greenfleet carbon offsets, which offset estimated scope 1, scope 2, and purchased scope 3 emissions. Greenfleet plants native biodiverse forests in Australia and New Zealand to restore critical ecosystems and capture carbon emissions. Plato purchased our own carbon offsets from Greenfleet to offset any remaining emissions not covered by Pinnacle Investment Management (“Pinnacle” who owns 43% of Plato). Furthermore, Pinnacle has a Climate Active Carbon Neutral certification, and Plato resides in Pinnacle offices. Plato seeks to achieve Climate Active Carbon Neutral certification by 2030. Certification is awarded to Australian businesses who meet rigorous requirements to achieve net zero emissions, including measuring, reducing, and offsetting emissions through innovation, sustainable operations, and industry leadership.

Plato is an asset manager, not an asset owner. We manage assets on behalf of asset owners based on agreed objectives and instructions. Plato’s robust portfolio construction processes facilitate the inclusion of carbon objectives, where clients agree to minimising carbon exposure. Plato has fund offerings with explicit carbon objectives, and mandates with client directed carbon objectives. For clients who want to lower the carbon exposures of their portfolios, Plato can decarbonise their portfolio relative to standard benchmark portfolios. We offer this to clients as a value-added service and the inclusion of carbon constraints is client-directed. We encourage carbon objectives with the launch of new funds, as this is consistent with our position on climate change and the Paris Agreement.

<sup>1</sup> <https://www.ipcc.ch/2022/04/04/ipcc-ar6-wgiii-pressrelease/>

Climate change represents significant risk to many companies we invest in. The first step in managing risk is to measure risk, and Plato has been measuring the carbon intensity and footprints of its portfolios since 2014, and more recently has included carbon risks into its innovative red flags factor (for more details refer below).

Ultimately, for the world to reach net zero, all companies will have to decarbonise the way they operate. As an investor in the debt and equity of companies in Australia and across the globe, we encourage all companies to decarbonise their businesses, and actively engage with some of the largest emitters to understand and encourage that process (refer to 'Stewardship' below).

## Our Investment Approach

### 1. Low Carbon Portfolios and Research

Plato is committed to promoting responsible investment and has continued to do substantial research into climate change. We believe this is an important thematic in investment circles, and one of the most, if not the most, material issues in responsible investment.

Plato has a proven track record in managing domestic low carbon portfolios since 2015. In 2021, Plato launched two new carbon focused strategies in global equities, with strong client demand for climate strategies and our belief of the importance of climate change. Plato now manages several domestic and global fund mandates with carbon constraints embedded in the optimisation model. The inclusion of these carbon constraints is client-directed, and Plato has the capability to facilitate client's carbon objectives with bespoke climate solutions.

### 2. Monitoring and Reporting Carbon Exposures

Plato has been a signatory to the Montreal Pledge since 2014, which is a global initiative supported by the Principles for Responsible Investment (PRI) and the United Nations Environment Programme Finance Initiative (UNEP FI). Overseen by the PRI, investors commit to measure, disclose and reduce their portfolio carbon footprints. Plato have contracted with service providers to provide carbon data to enable us to measure and monitor the carbon exposures of our portfolios. Plato aggregate carbon exposures relative to the benchmark are regularly published online on the company website.

We monitor carbon footprint and carbon intensity for all of our portfolios. Furthermore, we monitor carbon risk metrics for all our portfolios, which include Value-at-Risk (VaR) and third-party data providers' carbon risk ratings.

### 3. Exclusions

Plato has assessed several activities which are likely to be detrimental to the transition towards the low carbon economy and meeting the Paris Agreement goals. Thermal coal accounts for 40% of global carbon emissions<sup>2</sup> and is the single largest source of global temperature increases.<sup>3</sup> Tar sands is one of the most carbon intensive forms of energy and is 20% more carbon intensive than conventional crude oil.<sup>4</sup> We believe that thermal coal and tar sands have an adverse impact on climate change and have high exposure to stranded assets. Therefore, Plato applies a negative screen which excludes stocks involved in thermal coal and tar sands in Plato's Global Low Carbon Fund. Further exclusions across other funds are client-directed, and Plato can exclude stocks or sectors based on the climate preferences of clients.

<sup>2</sup> <https://www.nature.com/articles/s41558-020-0866-1>

<sup>3</sup> <https://www.iea.org/reports/global-energy-co2-status-report-2019/emissions>

<sup>4</sup> <https://www.nrcm.org/programs/climate/global-warming-air-pollution/tar-sands-oil/>

## 4. ESG Integration

Several climate change metrics are incorporated in our proprietary red flags model, including both current and forward-looking carbon exposures.

### *Equities*

Our red flags model, which incorporates climate change metrics, is an integral component of the alpha model across all live equity strategies. This means that the potential impact of climate change on returns is incorporated into our stock return forecasts and portfolio weightings. Furthermore, climate risks are monitored through Plato's proprietary risk framework which includes daily stress tests of carbon and commodity prices. Portfolio exposures are controlled where appropriate.

### *Fixed Income*

In our fixed income portfolios, Plato may invest in green bonds, which are bonds that are used to finance new and existing projects that offer climate change and/or environmental benefits. Furthermore, our red flags model, which incorporates climate change metrics, is used to screen out issuers with more than 6 red flags.

## 5. Stewardship

Plato adopts proxy voting and engagement to promote responsible stewardship and communicate client interests. The aim of these practices is to maximise long-term value creation and minimise risk for clients, by improving company ESG and climate practices.

Plato actively votes proxies based on its fiduciary responsibilities to act in the interests of clients. Through proxy voting, Plato can influence the business practices of investee companies to align with ESG considerations. Plato generally votes all proxies for its funds and for client mandates, although some clients may choose to exercise their own proxies. Plato utilises the services of proxy voting firms (Ownership Matters and ISS) to assist with making voting decisions, but ultimately the proxy decisions are determined by Plato. Where appropriate, we will support shareholder resolutions on climate change. For more details on Plato's proxy voting please refer to Plato's Voting Policy.

In addition to proxy voting Plato actively engages with companies in several ways, either directly or through external service providers. Plato engages with companies:

- 1) Directly with company senior management and/or Board Members on significant issues of interest.
- 2) Indirectly with companies through our governance advisors (Ownership Matters and ISS).
- 3) Via membership of collaborative groups of investors such as Climate Action 100+ (refer below) to discuss specific areas of interest.

Engagement with companies is largely, but not exclusively, focussed on ESG issues. For example, climate change, emissions targets, and energy efficiency. Plato aims to engage with companies to encourage them to integrate climate risks and opportunities into their long-term business models. The number of red flags a company has in our proprietary red flags model is a useful tool to identify company engagement targets.

Plato became a member of Climate Action 100+ in 2017, the largest global investor engagement initiative on climate change. Climate Action 100+ ensures the world's largest corporate greenhouse gas emitters take necessary action on climate change. The 166 focus companies are key to driving the global net zero emissions transition, accounting for 80% of global industrial emissions and \$10.3 trillion in market capitalisation. As a signatory, Plato commits to work with other members to engage with leading emitters through working groups. The work of the initiative is coordinated by regional investor networks: the Asia Investor Group on Climate Change (AIGCC), Ceres, Investor Group on Climate Change (IGCC), Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI).

## Implementation of Policy

Plato's Managing Director and Senior Portfolio Managers have the responsibility to ensure that investments meet a particular carbon objective or exclusion through a quantitative process. The Managing Director has oversight and overall responsibility of ensuring such objectives are adhered to, such as meeting a portfolio carbon reduction target.

Plato's ESG Committee meets quarterly to provide oversight on all ESG related matters within the business, including climate related matters. The ESG Committee consists of Plato's Managing Director and several Senior Portfolio Managers. The ESG Committee reports directly to the Board, which includes monitoring carbon metrics of all Plato portfolios with carbon constraints, recent voting and engagement, and any ESG investment process updates.

The Plato Board reviews this Climate Policy.