

# TRILLIUM'S APPROACH TO INVESTING IN ENERGY AND POWER

Trillium uses forward-looking analysis to seek the Energy and Utilities companies that are best positioned to lead the ongoing energy transition and succeed in a low-carbon economy.



Trillium's aim is to advance humankind towards a global sustainable economy, a just society, and a better world through leveraging our clients' capital. A key component to realizing this goal is managing our investments in the Energy & Utilities sectors in a way that mitigates climate change and accelerates a just energy transition.

It is clear the world's climate is changing at a rapid pace, as human activities pump more greenhouse gas emissions (GHGs) into the atmosphere every year. The global surface temperature has experienced record warming over the past decade, reaching 1.1°C above 1850-1900 temperatures.<sup>1</sup> This alarming trend has led to unprecedented sea level rise, climate extremes and severe weather events globally. The associated damages have impacted millions of people through food and water insecurity, human displacement, death, or economic challenges, with impacts disproportionately felt by countries responsible for lower per capita emissions. The global community acknowledges that such impacts stem from global warming, and that we must act to mitigate an increase in future climate-related losses and damages.

Climate action has taken place at the intergovernmental level, including through the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP). Past COP summits have established methane reduction goals, a fund to address losses and damages, as well as initiatives on coal use, deforestation, and adaptation finance. Climate action has also been implemented at the state-level, with several countries achieving sustained reduction of GHG emissions. Initiatives include the

Inflation Reduction Act and Bipartisan Infrastructure Law in the US, European Green Deal in the EU, and widespread adoption of renewable energy worldwide. These movements support the global ambition to limit climate change to 1.5°C. At the same time, the costs of clean, renewable energy have fallen dramatically.

No genuine effort to slow or combat climate change can ignore the Energy and Utilities sectors. According to the UN Environment Programme,<sup>2</sup> the energy supply sector contributed thirty-seven percent of all CO<sub>2</sub> emissions in 2020 – the highest of any individual sector. The Intergovernmental Panel on Climate Change (IPCC) warns that future estimated CO<sub>2</sub> emissions from existing fossil fuel infrastructure already exceed remaining carbon budgets for pathways limiting warming to 1.5°C.<sup>3</sup> Demands on energy will only increase as economies mature, underscoring the importance of sustainability in this sector.

The Task Force on Climate-Related Financial Disclosures defines transitions risks to include "policy changes, reputational impacts, and shifts in market preferences, norms and technology," while it defines transition opportunities to include those "driven by resource efficiency and the development of new technologies, products and services, which could capture new markets and sources of funding."<sup>4</sup> Investing in companies that do not proactively manage these climate-related risks and opportunities exposes portfolios to unnecessary, material risks. As long-term oriented, sustainability-focused investors, Trillium seeks to invest in companies that seize transition opportunities to move towards a net zero greenhouse gas emission economy, while avoiding those companies not likely to successfully minimize their climate risks.

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<sup>1</sup>[https://report.ipcc.ch/ar6syr/pdf/IPCC\\_AR6\\_SYR\\_LongerReport.pdf](https://report.ipcc.ch/ar6syr/pdf/IPCC_AR6_SYR_LongerReport.pdf)  
<sup>2</sup><https://wedocs.unep.org/bitstream/handle/20.500.11822/40874/EGR2022.pdf?sequence=1&isAllowed=y>  
<sup>3</sup>[https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC\\_AR6\\_WGIII\\_TechnicalSummary.pdf](https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_TechnicalSummary.pdf)  
<sup>4</sup><https://www.tcfhub.org/wp-content/uploads/2019/07/CISL-Climate-Wise-Transition-Risk-Framework-Report.pdf>



This approach means that Trillium will use forward-looking analysis to find the Energy and Utilities companies that are best positioned to lead the ongoing energy transition and succeed in a low-carbon economy. To identify such companies, our analytical framework assesses current business models and revenues, future capital expenditure plans, revenue projections, commitments, and available opportunities to grow through transition. In this way, our portfolios will direct capital to companies that provide products and services suited to a low-carbon world, from energy efficiency, to renewable energy equipment and energy distribution.

**We look to invest in companies with a business model designed to succeed in a low-carbon economy.**



We look to invest in companies with a business model designed to succeed in a low-carbon economy. At the same time, we avoid investing in companies with the greatest transition risks, namely fossil fuel companies without a transition plan we find credible. We apply this framework to companies in the Energy and Utilities sectors (excluding Utilities companies without power generation), as well as any company deriving 50% or more of revenue from sales to Energy or Utilities companies (excluding Utilities

companies without power generation). At a minimum, to be considered for investment, these companies must derive at least 10% current revenue from renewable energy or enabling technology, and have no commitments to invest in new fossil fuel exploration, production, storage, transport (excluding distribution), trading, or refining capacity, or new fossil fuel-based power generation without emissions capture.

Further characteristics of a credible transition plan could include:

- A higher projected or historical revenue growth rate from renewable energy or enabling technology, as compared to fossil fuel-based revenue;
- Capex plan showing spending on renewable energy or enabling technology;
- Regulatory permit approval for new renewable energy or related projects; or
- Approved Science Based Targets for greenhouse gas emission reduction, or time-bound commitment to set Science Based Targets.

Our approach is guided by science and relies on emerging frameworks and tools, as the energy evolution rapidly progresses. This approach supports our commitment to align our portfolios with a net zero economy, as members of the Net Zero Asset Managers Initiative. For more information on our commitment or details on the climate-metric performance of our investment strategies, please see Trillium's website.

## About Trillium Asset Management

Trillium Asset Management offers investment strategies and services that advance humankind towards a global sustainable economy, a just society, and a better world. For nearly 40 years, the firm has been at the forefront of ESG thought leadership and draws from decades of experience focused exclusively on responsible investing. Trillium uses a holistic, fully integrated fundamental investment process to uncover compelling long-term investment opportunities. Devoted to aligning stakeholders' values and objectives, Trillium combines impactful investment solutions with active ownership. The firm delivers equity, fixed income, and alternative investments to institutions, intermediaries, high net worth individuals, and other charitable and non-profit organizations with the goal to provide positive impact, long-term value, and 'social dividends.'

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