



June 7, 2021

Re: Public Statement: Public Input Welcomed on Climate Change Disclosures, Acting Chair Allison Herren Lee, March 15, 2021.

Dear Chair Gensler,

We, at Terra Alpha Investments LLC, appreciate the opportunity to respond to the Securities and Exchange Commission's (SEC's) request for public input on climate-related financial disclosure, issued by Acting Chair Allison Herren Lee on March 15, 2021. We strongly support the SEC's increased interest in climate and environmental, social, and governance (ESG) disclosures, because we consider material, decision-useful climate-related and ESG information a critical input into well-informed investment decisions and long-term value creation for our investors. In short, we strongly believe the investment industry would greatly benefit from more widespread, consistent, and reliable disclosure of this information.

Terra Alpha is an employee- and investor-owned investment management firm founded in 2014. The firm operates actively-managed, global public equity strategies and invests on behalf of individuals, endowments, and foundations using an integrated ESG approach. Our investment process is centered around understanding and analyzing a company's: (1) Environmental Productivity and (2) Enduring Business Model. We seek to invest in companies that we believe can manage risks, seize opportunities, and deliver long-term returns by profitably leading the transition to a truly sustainable economy.

As long-term investors, our analysis of each current and prospective portfolio holding includes an evaluation of:

- The company's ability to deliver attractive growth and positive returns in an ever-changing world
- The company's risks and opportunities in relation to its use of and impact on global natural resources (e.g., clean air, freshwater, healthy forest, oceans, and topsoil)

Therefore, we require material, decision-useful ESG information as critical inputs into our decision-making process. Currently, we rely largely on voluntary disclosures. We believe that a properly functioning capital markets system requires more complete and comparable disclosure of every company's assessment of its own climate-related risks, strategies to mitigate those risks, and the disclosure of such findings.

Specifically, below are our firm's recommendations, which align with our own direct requests to all companies regarding climate change risks and opportunities:

- **GHG emissions disclosure:** Full and comprehensive GHG emissions disclosure is needed in order to understand a company's total footprint, which provides insight into potential risks and opportunities a company may be facing. It is critical to take a full value chain approach (i.e., include Scope 3 emissions) when measuring and disclosing GHG emissions, as the supply chain and product chain impacts are at times larger than a company's operational impacts. These impacts can become risks to the company and to investors.
- **Assurance and auditing processes disclosure:** Third-party assurance (and eventually auditing) is a useful process to help ensure an outcome of greater data reliability. For example, assurance processes can make certain that companies have processes in place to comply with greenhouse gas accounting standards, like the Greenhouse Gas Protocol.
- **Climate-related risks and opportunities assessment and disclosure:** Management's commentary around the climate-related risks and opportunities a company is facing is critical information in gauging the true resilience of a company. It is necessary for companies to take a full and holistic value chain approach in their assessments in order to help identify risks around key inputs, including natural resources like water, raw materials, and forests. Companies should also provide commentary around resource allocation decisions made in response to material risks (e.g., capital expenditures, lobbying activities, corporate actions, etc.). Moreover, companies should play a role in identifying material industry-specific issues and pushing for standard disclosure at the industry level.
- **Management and governance alignment disclosure:** Disclosures around management and governance oversight of and compensation linked to climate and sustainability goals are important in assessing a company's commitment to both assessing and addressing material risks and opportunities. It is helpful to understand who in the firm is ultimately responsible for these issues and how the incentivization process is aligned.



We have also elected to sign on to the following response letters, as they provide insightful rationale for and useful recommendations around the types of disclosures that investors need to make informed investment decisions:

- **Intentional Endowments Network and CERES** (particularly highlighting the following points)
 - “We believe that disclosure of the material and systemic risks of climate change will help companies and investors to understand, price, and manage climate risks and opportunities.”
 - “Companies and investors need comprehensive, **decision-useful** data from all enterprises facing material climate change risks.”
 - As described in the response letter, we also support: the use of TCFD’s recommendations approach around governance, strategy, risk management, and metrics and targets; the adoption of industry-specific metrics; governance and strategy disclosure; emissions disclosure; inclusion of financial filings; and regular updating of information.
- **Principles for Responsible Investment**
 - “We support standardized, mandatory disclosure of material climate and environmental, social and governance (ESG) information, helping us to fulfill our fiduciary obligation to **fully consider material information** and make informed investment decisions for **long-term value creation**.”

We also took great interest in the response letter provided by the Sustainability Accounting Standards Board (SASB) and would reiterate the following points:

- “...broad and rapidly growing investor demand for consistent, comparable, reliable disclosure of financially material sustainability information demonstrates that investors consider this information to be **decision-useful** in making investment and voting decisions.”
- “Due to the industry-specific nature of climate risk, climate-related disclosures must include information on the actionable, industry-specific ‘levers’ that a company is using to directly manage its contributions to mitigating Scope 1, 2, and 3 emissions.”
- “Similar to the forces that compelled the SEC to propose modernization of ‘market infrastructure’ in the trading of equities, the increasing use of ESG-related information by investors requires regulatory action to ensure sustainability data infrastructure that supports the production of consistent, comparable, reliable disclosure by companies for use by investors.”
- “The SEC could consider requiring a reporting company to provide structured narrative on its governance, strategy, and risk management practices, along with quantitative metrics, for all financially material sustainability topics.”
- “...the SEC should consider how any SEC requirements for sustainability disclosure can, at a minimum, provide a basis for mutual recognition with an international solution.”
- “SASB’s work is premised on the idea that when markets have access to financially material, decision-useful sustainability information, investors can effectively evaluate performance, markets can efficiently price risk, and companies can more efficiently focus their resources on managing and disclosing key drivers of enterprise value.”

In conclusion, Terra Alpha supports the SEC’s efforts to ensure markets have access to reliable, material, decision-useful climate-related and ESG information. A properly functioning capital markets system requires more complete and comparable disclosure of every company’s assessment of its own climate-related risks, opportunities, and corresponding strategies. Without this information, it is difficult to properly assess company risks and opportunities, make informed investment decisions, and generate long-term value for investors. Thank you again for the opportunity to provide input on this important topic.

Sincerely,

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