



OLDMUTUAL

# CLIMATE CHANGE POLICY

May 2022



ALTERNATIVE INVESTMENTS



# 1. INTRODUCTION

Old Mutual Alternative Investments (OMAI) is one of the largest alternative investment managers in Africa. Central to OMAI's investment objectives and processes is our commitment to responsible investment and fulfilling our fiduciary duty as the custodian of client funds. In this regard, we consider the incorporation of environmental, social and governance (ESG) factors into our investment and ownership decision processes to support the pursuit of sustainable, superior risk-adjusted returns for

our clients in a way that also creates positive futures.

2019 saw the Intergovernmental Panel on Climate Change (IPCC) publish the Special Report on Global Warming of 1.5°C<sup>1</sup>. The report is based on around 6,000 peer-reviewed publications, most of these published in the last few years. The report confirms that climate change is already affecting people, ecosystems and livelihoods. According to the IPCC, limiting warming to 1.5°C is possible, but would require unprecedented transitions in all aspects of society. Overall, the report shows there are clear benefits to keeping warming to 1.5°C, rather than the previously thought safe limit of 2°C. Climate change is the greatest risk facing humanity and is therefore a major focus for OMAI from a policy and strategic perspective. OMAI understands that climate change aspects need to be integrated into investment strategy and decisions.

Africa currently contributes about 9% to total global greenhouse gas emissions<sup>2</sup>. With this context, OMAI equally recognises the need for certain developing countries to have a stable, growing economy for equitable develop. OMAI seeks to undertake sustainable development, balancing the challenges of investing in energy systems and economic activities that create economic opportunities, improve energy access and living standards, whilst driving investments that do not compromise the goal of limiting warming to 1.5°C.

# 2. PURPOSE

This Climate Change Policy outlines OMAI's commitment to the incorporation of climate change considerations into its day to day business activities as an operating entity, as well

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<sup>1</sup> [https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15\\_Full\\_Report\\_High\\_Res.pdf](https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Full_Report_High_Res.pdf)

<sup>2</sup> World Resources Institute. <https://www.climatewatchdata.org/> Based on 2018 data.



as investment and decision-making processes across the funds and investments under management.

### 3. SCOPE & APPLICABILITY

This Climate Change Policy covers all OMAI's activities, including all investments made under each of the business units<sup>3</sup>. The Climate Change Policy covers the full spectrum of climate change issues that are considered to materially influence the long-term success of OMAI and its investments.

### 4. COMMITMENTS

As part of this Climate Change Policy, OMAI endeavours to undertake the following:

- Understand our own material operational carbon footprint and seek ways of reducing this footprint in line with the ambition of a world outcome of no more than a 1.5°C temperature increase by 2050.
- Only undertake business and investment decisions that are aligned with the Paris Agreement and further to this, drive the ambition of a world outcome of no more than a 1.5°C temperature increase by 2050.
- Implement the Task Force on Climate-related Financial Disclosures (TCFD).
- Measure the carbon footprint and carbon intensity of the investment portfolio.
- Take actions to reduce carbon footprint and carbon intensity of the investment portfolio.

### 5. POSITION ON FOSSIL FUELS

OMAI recognises the risk of undertaking investments that potentially exceed the carbon budgets of countries today or in the future by enabling a carbon intensity pathway that is not aligned to a 1.5°C world outcome. OMAI seeks to contribute to the move away from fossil fuels through driving a pragmatic transition of the energy mix in the jurisdictions in which OMAI invests.

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<sup>3</sup> On a forward-looking basis from the date of policy approval.



## FOSSIL FUEL EXCLUSIONS

To achieve this transition, OMAI will no longer invest through direct investments (equity or debt) or co-investments into the following:

### Coal

- Coal-fired power plants, including dual-power plants (coal alongside another fuel source).
- Refurbishment, retrofitting and rehabilitation of existing coal power facilities, including dual-power plants.<sup>4</sup>
- Coal prospection, exploration, mining, processing and trading.
- Dedicated commodity transport (rail/port) infrastructure where more than 25% of the revenues are derived from the transport of all coal types.<sup>5</sup>
- Transmission lines used to directly connect coal-fired power plants to the grid or an off-taker.<sup>6</sup>

### Oil<sup>7</sup>

- Upstream oil exploration and extraction.
- Midstream oil, including processing, storage and pipelines.
- Downstream oil, including refineries and fuel stations<sup>8</sup>.

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<sup>4</sup> Retrofitting of thermal plants to combined cycle natural gas plants, in accordance with this policy's conditions, is permissible.

<sup>5</sup> Investments where part of the strategy is to change the use from the transport of coal to transport other commodities in accordance with this policy's conditions, is permissible, notwithstanding that the initial proportion of coal transport may exceed the above limit.

<sup>6</sup> Investment into general grid transmission and distribution is permissible.

<sup>7</sup> Includes all oils used as a fuel source.

<sup>8</sup> LPG filling stations and forecourt sales kiosks permissible in accordance with this policy's conditions.



- Heavy fuel oil (HFO) or diesel-only, dual-fuel HFO or diesel/gas and HFO hybrid power plants.<sup>9</sup>
- Refurbishment, retrofitting and rehabilitation of existing HFO or diesel-only, dual-fuel HFO or diesel/gas and HFO power plants.<sup>10</sup>
- Diesel-only mini grids.
- Dedicated commodity transport (rail/port) infrastructure where more than 25% of the revenues are derived from the transport of all oil types.<sup>11</sup>
- Transmission lines used to directly connect oil based power plants to the grid or an off-taker.<sup>12</sup>

## Gas

- Upstream gas (including exploration and extraction).

### Exclusions also apply to:

- Financing an allowed activity where 50% or more of operations serves an excluded fossil fuel activity (such as a solar plant for a coal terminal, a wastewater plant for an oil refinery), unless there is a credible path whereby over a reasonable time period less than 50% of the operations serves excluded fossil fuel activities, aligned with OMA's climate action commitments.
- Financing companies or projects that exclusively provide services (including advisory), equipment, or other outputs to excluded fossil fuel activities.
- Financing companies or projects that exclusively produce goods for and/or provide goods to excluded fossil fuel activities.

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<sup>9</sup> Diesel/renewable hybrid power is permissible in accordance with this policy's conditions.

<sup>10</sup> Retrofitting of thermal plants to combined cycle natural gas plants, in accordance with this policy's conditions, is permissible.

<sup>11</sup> Investments where part of the strategy is to change the use from the transport of oils to transport other commodities in accordance with this policy's conditions, is permissible, notwithstanding that the initial proportion of oils transport may exceed the above limit.

<sup>12</sup> Investment into general grid transmission and distribution is permissible.



## FOSSIL FUEL CONDITIONAL INVESTMENT

### Gas

- Midstream/downstream gas (including gas import/export infrastructure and processing facilities, gas transport, storage and distribution infrastructure) where the primary purpose is power generation or industrial use, or liquid petroleum gas (LPG) and associated facilities for sourcing, transport, storage, bottling and distribution.
- LPG for industrial usage, power, cooking and heating, including associated facilities for sourcing, transport, storage, bottling and distribution.
- Diesel/renewable hybrid mini grids and standalone diesel generators
- Diesel/renewable hybrid mini grids where:
  - a renewable-only grid has been proven as not offering sufficient reliability or cost feasibility in the context of the proposed application;
  - the cleanest commercially feasible fossil fuel options have been used;
  - the renewable power generation is expected to comprise the majority of the power generated (>50%); and
  - the risk of ramping up the use of the non-renewable generation to respond to increased demand is being managed.
- Stand-alone diesel generators, where demonstrated that the option of a renewable generator is technically or commercially not feasible.

**... on condition** that the investment is:

- aligned to the Paris Agreement;
- is within the country's carbon budget;
- is aligned to a 1.5°C world outcome by 2050;
- is substituting other higher carbon intense fuel sources;
- that the country faces challenges in terms of access to energy, access reliability or grid stabilisation (e.g. management of demand, intermittent generation, ancillary services, or the peak);
- that there is no economically and technically viable renewable energy alternative to ensure flexible nonintermittent power;
- that the lowest emission gas generation technology available is to be chosen, considering sector needs and efficiency rates; and



- an OMAI managed fund will have a maximum of 20% of the fund invested in permissible fossil fuel investments, where such limit may be increased for permissible gas infrastructure based on specific investor mandate requirements.

## FINANCIAL INSTITUTIONS

The above exclusions will apply to new investments into other financial institutions where we can reasonably ringfence and have line of sight on what our funds are used for. We will have a whole portfolio exclusion for coal as outlined above.

In cases where we cannot specify where funds will ultimately be deployed, or how profits will be reinvested, we will seek credible evidence that the recipients of the investments are working towards aligning future activities and portfolios with the Paris Agreement and a 1.5°C world outcome by 2050.

Bradley Kalil

**Chief Executive Officer**

Date 6 June 2022

Acknowledgements:

Parts of this policy have been based off discussions and policy work by the CDC Group and FMO.

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