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FOOTPRINTS AND FIRST STEPS

CONVERSATIONS WITH MIKE BERNERS-LEE

APRIL 2020

We're not satisfied with the existing analysis of the LTGG portfolio's carbon credentials. This might seem a strange thing to say given that the environmental metrics paint a strikingly positive picture of the portfolio.

For instance, $1 million invested in the LTGG portfolio equates to two tons of carbon dioxide emissions versus 133 tons if the same sum were invested in the MSCI ACWI index. By this metric, the LTGG portfolio is 66 times 'cleaner' than the index. The portfolio is also many multiples more carbon efficient (per $1 million of sales) relative to the index, and all LTGG holdings are less pollutive than their industry peers.

All of this sounds wonderful, especially when one considers that LTGG is neither an ESG nor an impact investing strategy.

And yet we take little comfort from this sort of environmental analysis. Why? Because despite being used throughout the financial industry, it is far from being a complete picture and subject to many questionable assumptions.

For a start, carbon footprint analysis refers only to emissions generated by activities under the companies' direct ownership and control (Scope 1) and by indirect emissions from companies' electricity use (Scope 2). It entirely omits the often far greater emissions generated throughout their value chains (Scope 3).

Moreover, the Scope 1 and 2 data is very often estimated and unverified. A portfolio's credentials may also be very different depending on its current size, the level of data availability, the constituent companies and the methodology used.

Enter Professor Mike Berners-Lee.

Based at Lancaster University's Environment Centre and author of several books on the observable facts of climate change[1], Mike is on a mission to tame the unruly Wild West of carbon assessment. His goal is nothing less than a "joined-up big picture of everything required for human adaptation to the Anthropocene [epoch]."

1. These include the bestsellers There Is No Planet B and How Bad Are Bananas?

This is the level of ambition and scrutiny we require for LTGG. Unsurprisingly, our first conversation with Mike late last year ranged from technology to consumerism to company engagement to the fundamental role of the corporation, to broader concepts of trust and truth. Whether it's Amazon or Alphabet, Illumina or Inditex, we know that all these companies stand to be affected in very different ways by climate change – for better and/or for worse. What might be the material environmental risks we should consider for different stocks over the coming decade?

In Mike's view, consumers will need to renegotiate their relationship with technology if we are to limit climate change to an increase of 1.5C. While many technologies are aimed at making our lives easier, 'hidden' frictions are building up.

For example, he estimates that every hour of Netflix's standard online streaming generates around 1–1.5 kilos of CO2. That, of course, adds up to a lot, considering there are over 167 million Netflix subscribers, with the average user spending a couple of hours a day on the service. Even more strikingly, Mike estimates that ultra-high definition video streaming could be as much as 10 times more carbon-intensive.

We have invited Mike to challenge our LTGG investment theses and spot what we might be missing. As a first step, he is reviewing the LTGG portfolio and will share his preliminary observations and questions with us in the coming months. He will also join our 'Navigating Noise' digital series that begins on 21 May to share his views.

This relationship is still nascent and experimental. But rather than simply accept the dismally inadequate carbon assessment status quo, we are hopeful that such links can provide us with far more comprehensive and meaningful insights into the risks and opportunities for the LTGG portfolio. Such knowledge will equip us for a world where the cost of carbon is better understood.

SCOPING AMAZON: MEASURING A GIANT'S IMPACT

Amazon's Scope 1 emissions arise from fossil fuels and refrigerants used in the company's direct operations. In 2018, this came to 4.98 million metric tons of carbon dioxide equivalent (CO_2e).

Amazon's Scope 2 emissions come from its electricity use, which in 2018 is reported as 4.71 million metric tons of CO_2e.

Amazon's Scope 3 emissions include operating expenses, business travel, Amazon-branded manufacturing, the use-phase of products, end-of-life product disposal, third-party transportation, packaging, upstream energy use, capital goods, and lifecycle emissions from customer trips to Amazon's physical stores. In 2018, the company reported these emissions as 34.71 million metric tons of CO_2e.

Source: https://sustainability.aboutamazon.com/carbon-footprint

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