



## SUSTAINABILITY, IMPACT AND ESG

### How does AxleTree approach these?

These terms are quite often used interchangeably which can lead to a misunderstanding of investment priorities and monitoring.

The AxleTree NIF focuses on sustainability which is the broadest classification here. We utilise the **United Nations' 17 Sustainable Development Goals** to provide a framework for this, and we are particularly interested in understanding the trade-offs between objectives. In our assessments we reference the **UNDP's SDG Impact Standards for Private Equity Funds**.

Because we are focused on the application of technology to these, we are naturally focused on those SDGs and related KPI's concentrated around waste, water and energy. This is not to say we disregard other aspects; but these are not the areas of intended direct impact.

### Is the AxleTree NIF an Impact Fund? How is this measured?

Most investment funds describing themselves as "Impact" have a focus on a specific SDG or a subset of that (e.g. climate change adaptation strategies in Micronesia), and a very specifically defined Theory of Change i.e. how their investment will help achieve the goal.

The AxleTree NIF is a broad-based fund and does not set specific targets for the fund overall e.g. Greenhouse Gas Abatement per \$ invested. **We will set specific impact targets for individual investments (rather than the portfolio)**, across all material SDGs and relevant KPIs, and seek a measurable, **material NET positive impact** on sustainability, hence we will attempt to monetise impacts where feasible, in seeking a common measure to assess the trade-offs. These expected sustainability outcomes are combined with the base case financial profile that is expected to deliver them, to form the basis for our investment case **Balanced Scorecard**. As well as trade-offs we will also be conscious of double counting i.e. where we invest in two parts of a supply chain with overlapping scope of impact measurement.

In addition, many Impact funds invest in areas which are still evolving such as nature-based investment or nature tech which are among other things highly dependent on Government Policy, which is only in its early stages of development (e.g. Biodiversity Credits) or non-existent. Nor are these necessarily as technology focused as AxleTree's target investments. Early investors in these sectors may do very well, or they may not. We will however be watching developments closely and it is anticipated that these areas may in the future come under consideration by AxleTree as they mature.

### Does the AxleTree NIF sacrifice Return for Impact?

No. There is also an element of philanthropy involved in many impact investment opportunities, while the AxleTree NIF expects to make normal commercial returns as well as material impact. For many objectives, government policy may be a more appropriate mechanism for achieving the SDGs, as may be investment (but not necessarily primarily in technology), which while we strongly support it, is outside the mandate of the fund.

## How does the AxleTree NIF approach reporting? Do reporting requirements influence investment decisions?

AxleTree is determined that its commitment to ESG does not become simply a box ticking exercise to drive “ESG Scores”, which is a concern in many jurisdictions, but that it is meaningful and value enhancing. As a result, we will meet the continually evolving reporting requirements of our investors and of the jurisdictions in which we and our investees operate, but this is not the primary driver of our investment decisions, which are **risk-appropriate returns** and **material contribution to Sustainability**. The nature of our business means that we will be primarily focused on environmental impacts and trade-offs. The Energy Transition, in particular, will mean that we must closely monitor short and long-term social impacts as well, and we will always seek to use our position as investors to improve social outcomes for stakeholders in our investments. Good governance is a non-negotiable requirement.

**We take the position that to be a truly viable long-term investment, the investment must by definition be sustainable.** This view does not preclude us from taking transitional opportunities, so long as we recognise these as such, and that they contribute to an economically, socially and environmentally sustainable transition, even if not part of the long-term solution (e.g. net zero liquid fuels).

In exiting investments, we will also give consideration as to whether the sale may result in the dilution or loss of the sustainability benefits expected to be recognised over the original investment analysis horizon.

AxleTree expects to become a signatory to the [Principles for Responsible Investment](#) (PRI) as soon as it is practical, as well as continuing its active engagement (moving to membership) with the [Australian Sustainable Finance Institute](#) (ASFI).