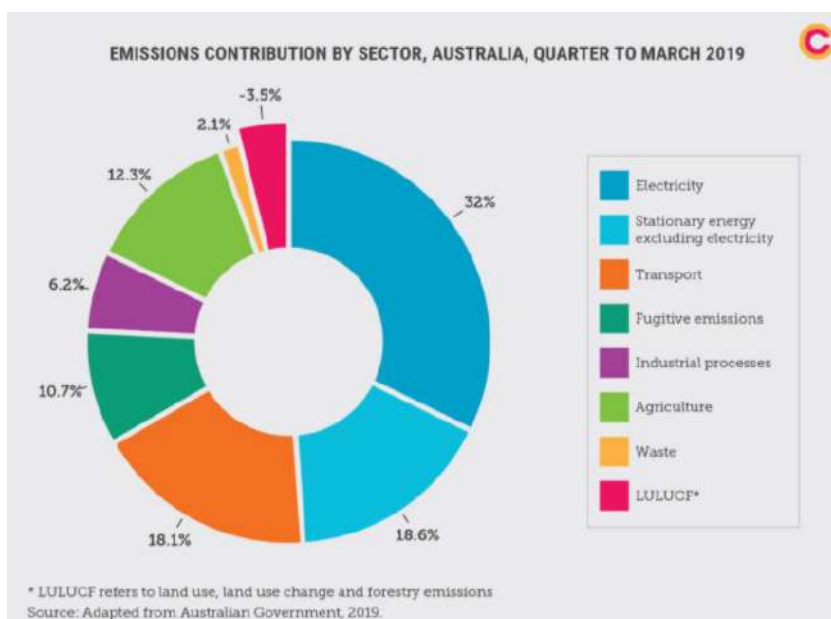


NET ZERO - INSPIRE AUSTRALIAN EQUITIES INVESTMENT – OFFSETTING OUR CARBON EMISSIONS

THE CHALLENGES

Carbon emissions leading to climate change

Holding global warming to the Paris Agreement target of 1.5 °C will require global net anthropogenic CO₂ emissions to decline by 50% by 2030 and reach net zero by 2050. Everyone needs to play their part – national governments (per their updated Nationally Determined Commitments for the November 2021 Glasgow Climate negotiations), as well as State and Local governments, companies, households and individuals. Clearly it is easier for companies in certain sectors to decarbonize than others. Heavy industry and agriculture are challenging sectors to decarbonize.



Australia has challenges as a major exporter of coal and gas with a highly carbonized energy sector (~80% coal & gas), but has great renewable energy resources (wind, solar and wave) and hydro resources in Tasmania. The transport sector is a large contributor to total emissions given high levels of car ownership with approximately 1 million cars sold each year, of which only 0.7% are electric vehicles and the high rates of interstate transportation for people and goods. The land and agriculture sector contributed 12.3% of Australia’s total emissions in 2019. However, Australia’s large landmass and coastal regions are a great asset if carbon can be effectively sequestered through soil carbon farming and reforestation or through seagrasses, mangroves, and salt marshes which sequester carbon over 20 times more effectively than trees and other land-based vegetation.

The Race to Net Zero

Becoming Net Zero by 2050 implies organisations are Paris target aligned. In effect, countries and organisations need to decarbonize rapidly and halve their emissions by 2030, and then drive to Net Zero by 2050.

Countries, companies, cities and communities are now starting to see the risks and the opportunities that decarbonising represents and many are joining the race to become Net Zero by 2060 (China), 2050 (most countries & organisations), and then more aggressively some have targeted 2040 (ACT target is 2045). Tasmania has already achieved Net Zero, and did so in 2013, 2015, 2016, 2017, 2018 and 2019. There is a campaign around the Race to Net Zero which has already mobilized a range of net zero initiatives representing 708 cities, 23 regions, 2162 businesses, 127 of the biggest investors, and 571 Higher Education Institutions.

What is Net Zero for companies?

According to the Conversation, the gold standard for reaching net-zero emissions is where a company reports all emissions it is responsible for creating and reduces them as much as possible. Then, if it still has emissions it cannot reduce, it invests in projects that either prevent emissions elsewhere or pull carbon out of the air to reach a “net-zero” balance. The activities that produce the offsets include projects like forestry and ocean management, waste management, agricultural practices, fuel switching and renewable energy generation.

There are four key elements to credible net zero aligned offsetting, according to the Oxford Principles for Net Zero Aligned Carbon Offsetting:

1. Prioritise reducing emissions first, ensure the integrity of any offsets used and disclose how offsets are used.
2. Shift offsetting towards carbon removal, where offsets directly remove carbon from the atmosphere.
3. Shift offsetting towards long-lived storage, which removes carbon permanently.
4. Support the development of a market for net zero aligned offsets.

INSPIRE AUSTRALIAN EQUITIES IS NET ZERO - OFFSETTING OUR OFFICE AND PORTFOLIO CARBON EMISSIONS

IAE Portfolio CO2 Reduction Strategy

IAE recognises its responsibility to reduce the carbon emissions of its portfolio companies and to align this with the Paris target of 1.5 degrees C or lower. IAE committed to offset its operating carbon emissions and its share of its portfolio company carbon emissions as at 30 June 2020 and to do this annually going forward. Given the CO2e emissions saved by the renewable energy companies in the portfolio, the IAE Fund is a Carbon Negative fund. As the manager bears the cost of offsetting, IAE is incentivised to encourage its portfolio companies to reduce their emissions



Portfolio Carbon Analysis

The analysis was undertaken by Inspire’s Chief Impact Officer using third-party data where available, as well as input from portfolio companies IAE wrote to all its portfolio companies requesting information on their carbon emissions, targets, and climate change strategies. Many of the companies are small caps which have not reported their carbon emissions to date which means that estimates have been used in the analysis. Carbon emissions are relatively low given the nature of their activities which means the issue has not been high on their agenda.

In total, the IAE portfolio companies’ carbon emissions are relatively low compared to the S&P All Ordinaries Accumulation Index, as they are low carbon emitters, with only a few exceptions such as Cleanaway in the waste management sector. IAE invests in renewable energy companies given their positive impact on the environment, including Mercury (ASX:MCY) (renewables generation in NZ – producing over 6.3 giga-tonnes of renewable Hydro & geothermal energy) and Genex (ASX: GNX – Solar & Pumped Hydro in Kidston/Queensland).

PURCHASING CARBON OFFSETS FROM THE COLODAN PROJECT

The Carbon Market

Today the market for buying offsets is fragmented and underdeveloped globally but Australia has a well recognised scheme regulated by the Clean Energy Regulator that produces Australian Carbon Credit Units (ACCUs). These currently trade at ~ \$18.50 per tonne of CO₂-e.

Colodan - Regeneration of permanent even aged Brigalow forest

IAE has purchased carbon offsets for its portfolio from Green Collar who are Australian carbon sequestration project developers and managers. The carbon offsets purchased are for carbon reductions from the Colodan Project which is a landscape regeneration (sequestration) project in the Great Barrier Reef catchment area.

Colodan is a Native Forest Regeneration Project created under the Catchment Conservation Alliance - Great Barrier Reef Initiative with the objectives to:

- re-establish native forest using regeneration activities;
- enhance biodiversity and carbon stocks;
- improve water quality in Great Barrier Reef catchments;
- maintain & improve sustainable agriculture outputs.

Location

Colodan is a 4662-ha property located west of Monto in the North Burnett region of Queensland. Colodan lies within the Brigalow Belt bioregion, a highly contested landscape due to its ecological value and suitability for agriculture. Vegetation in the Brigalow Belt has experienced extensive clearing and modification events resulting in the extinction and increased vulnerability of many plant and animal species. Only about 2% of the Brigalow Belt bioregion is protected in conservation reserves and many areas of remaining habitat are severely degraded.



Colodan is situated in the northern catchment of the Burnett river. The property's waterways flow out to the Upper Burnett sub-catchment which eventually enters the Great Barrier Reef lagoon. Declining water quality is one of the most significant threats to the Great Barrier Reef where nutrient, pesticide and sediment run-off from land-based agricultural activities is the major contributing factor.

Biodiversity

The Colodan property encompasses regional ecosystems which provide important habitat for an array of native wildlife. Many species of mammal whose habitats are under pressure are found on Colodan, including: Brush-tailed Rock-Wallaby, Northern Brown Bandicoot, White Footed Bandicoot, Rufous Bettong, Marsupial Mouse, Koala, Native Water-rat (Rakali) – Echidna, Squirrel Glider - Sugar Glider and Greater Glider.



Colodan also supports significant water systems and flora that are essential for maintaining water quality and ecosystem health. The lower half of the Montour creek runs through the middle of the property and links to existing wildlife corridors with high biodiversity. The Nogo river runs through the eastern side, so there are no dams nor intensive agriculture upstream, and the waterway is pristine at this point. The property encompasses the 'Clay Holes' wetland and a native water reed, cumbungie, which provide essential habitat for water birds. Wetlands also act as a filter system slowing water currents and suspending nutrients, sediments and other pollutants before they flow out and enter the Reef system.

It is home to soil and micro-climate specific species of plant including two dryland rainforest species: Native Olive Tree and Pink Ribbonwood (see below left). *Zornia pallida* (see below middle), a soil specific, rare, native legume was identified on the property by the Queensland Herbarium. *Zornia pallida* is listed as near threatened and is poorly known with few records of existence. Weeping bottlebrush (see below right) is present throughout Colodan's waterways and is a vital species for erosion control due its ability to withstand large floods. The bottlebrush's flowering events provide a valuable food source for nectar feeding bird species and its dense foliage provides crucial nesting habitat.



Sustainable agriculture

The landholders at Colodan have also received funding to implement environmental restoration projects on Colodan. In 2009 they established two wildlife corridors with support from Envirofund. In 2016 the Burnett Mary Regional Group funded the rehabilitation of a degraded area to improve ecosystem services and prevent agricultural run-off. There is no coal seam gas or active mining on Colodan.

The project

Colodan will regenerate nearly 3,000 hectares of natural woodlands including endangered Brigalow forest in Queensland's North Burnett region. Through adjustments in on-farm land management, the project achieves a number of key conservation benefits including:

- Protection and regeneration of endangered Brigalow Belt ecosystems;
- Restoring and regenerating critical riparian zones & river systems;
- Maintaining and promoting better ground cover and improving soils to reduce erosion and run-off into Reef catchments;
- Protecting native wildlife and promoting critical biodiversity; and
- Promotion of regenerative agriculture and natural resource preservation.

CONCLUSION

The purpose of this Insights is to explain how we are playing our part as a funds manager and impact investor in achieving the Paris Agreement target of 1.5 °C. by:

- Analysing our portfolio companies' carbon emissions and calculating our share of those emissions
- Purchasing carbon offsets from a reputable source and for a great project
- Engaging with our portfolio companies to encourage them to reduce their absolute emissions
- Investing in renewable energy companies

The result is that we are pleased to managing a fund that provides a carbon reduction outcome for our investors

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