

Virunga Africa

TCFD Climate disclosure

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INTRODUCTION

Admaius Capital Partners (or “the Firm”) believes climate change will have wide ranging impact on all companies, economies and societies. The Firm is therefore actively seeking to better understand climate change both from the perspective of:

- The Firm’s and its portfolio companies’ impact and contribution to climate change
- The potential positive and negative impacts of climate change on the Firm, and its portfolio companies

The Firm recognizes the TCFD recommendations as best practice in understanding, assessing and reporting against these areas. We therefore present the Firm’s first initial draft disclosures below, noting the Firm is at an early stage of its investment cycle with 2 investments closed as at 31/12/22. Admaius will continue to refine and expand this analysis, including making appropriate public disclosures on relevant progress over time.

GOVERNANCE

- a) Board oversight
- b) Management’s role

Climate change is considered within environmental factors, not separately. As a result all governance related to ESG and impact automatically include climate change. The Firm’s ESMS provides detailed information relating to Firm level governance and stewardship on ESG / impact and therefore climate.

STRATEGY

- a) Risks and opportunities
- b) Impact on the Firm
- c) Resilience of the strategy

According to the latest Intergovernmental Panel on Climate Change (“IPCC”) 6th assessment report Africa is expected to be disproportionately affected by climate change. The report predicts that between 1.5 and 2°C of warming, Africa can expect reduced food production, reduced economic growth, increased inequality, greater poverty, biodiversity loss, increased human morbidity and mortality with high confidence levels.

Conversely, the transition needed to ensure global warming does not exceed 2°C presents significant opportunities for African economies, including green job creation, greater energy efficiency, reduced energy costs, waste reduction, climate solution and product innovation and the potential for stronger social inclusion.

Given the Firm's strategic impact objectives, achieving a "just climate transition" is particularly important for successful execution of the impact strategy. The Firm is therefore particularly interested in deepening its understanding of the intersection between the required climate transition and SDGs 5 (gender equality) and 8 (decent work and economic growth).

Our approach to better understanding climate risk and opportunity begun with an analysis of commonly referenced frameworks on climate, alighting on the TCFD as a preferred and highly relevant framework. We cross referenced a key list of risks and opportunities at three levels:

- Admaius as a Firm
- Our investee companies
- Our thematic sectors of focus and impact objectives

For each factor we have looked to qualitatively define the relationship and potential impact of each risk and opportunity, before looking to identify potentially mitigating or amplifying actions that can be taken as a response. To take this assessment further, and beyond the Firm's typical investment horizon we have applied a multiplier using 2 climate scenarios defined as follows:

Scenario 1:

A scenario where warming reaches a maximum of 2 degrees, by 2030 (a medium time horizon) before slowing down.

This relatively low emissions scenario involves ambitious coordinated global action. In this scenario we anticipate a world where we and our portfolio companies are most impacted by transition risks and opportunities, particularly regulation, rather than physical risks.

Scenario 2:

A 4 degree world by 2050 (a long time horizon). This high emissions scenario is where coordinated global action has failed. We anticipate this being a world where we and our portfolio companies are most impacted by physical risks, with regulation and policy changes having to a large extent failed to achieve a sufficient reduction in emissions.

Both scenarios are informed by publicly available research and the range of scenarios provided by the Network for Greening the Financial System ("NGFS") and the Intergovernmental Panel on Climate Change ("IPCC").

The main goal of this exercise has been to begin the journey of identifying and putting in place processes to monitor and respond to emerging climate related risks and opportunities. The next step of refining this will be to integrate these findings into action plans, including business strategy and core risk registers.

Below is a summary of the key conclusions of this analysis (the full analysis is available upon request to LP and/or other interested stakeholders)

Summary comments:

- Climate change is already having wide ranging impacts across Africa, with systematic underfunding of research and low levels of climate literacy / awareness acting as a constraint to action. Corporate boards and management in the region are likely to be underprepared for climate change, particularly for higher temperature pathways. There is thus significant opportunity for constructive leadership and stewardship to support companies in developing climate resilience, to incorporate climate risks and opportunities into corporate governance and strategy.
- Physical risks, vary considerably by thematic sector. Sectors which are asset light with dynamic, mobile workforces face lower direct physical risks (e.g. Fintech) whereas sectors with complex supply chain dependencies (including agricultural inputs), manufacturing processes or fixed asset ownership face higher physical risks, especially in a 4 degree scenario (e.g. FMCG)
- For all three entities reviewed, transition opportunities outweigh transition risks. This indicates there may be early mover advantages for African companies in developing climate resilience and aligning to TCFD best practice ahead of regional peers. There is already significant progress being made by leading asset managers and companies, especially in the EU to learn from and leverage.
- Despite the likely costs in reducing and managing transition risks (e.g., emissions measurement, switching to renewables), there are also potential rewards for innovation and greater transparency (e.g. through winning market share, reduced costs from adopting a circular business model).
- Due to the complex interactions of climate change on individual sectors and regions, to be useful and relevant, we believe analysis must be carried out at the individual company level, and supplemented by macro sector or regional analysis. This is the approach we have taken, beginning with micro level analysis of each entity, and supplementing this with macro insight from the latest IPCC chapter 9 Africa report. which we view as the latest and most conclusive science, supporting climate adaptation and resilience.

	Physical risks (mainly relevant under a 4 degree scenario)	Transition risks (mainly relevant under a 2 degree scenario)	Transition opportunities (mainly relevant under a 2 degree scenario)
Admaius Capital Partners	No significant physical risks identified	Transition risk exposure comes mainly from the portfolio, with risks varying materially by thematic sector	Transition opportunities to be found in funding and supporting climate resilient businesses and helping them incorporate climate into their core business strategy
Fintech company	Some minor physical risk exposure identified	No significant transition risks identified although some short-term cost implications of meeting environmental best practice (e.g., measuring and reporting emissions, switching to greener cloud)	Opportunities to learn from innovation taking place at leading European Fintechs and innovative financing mechanisms being developed to support climate resilience
FMCG company	Potential physical risk exposures through fixed assets / production / manufacturing as well as production and upstream supply chain vulnerabilities. Physical risks may double for a 4 degree vs. 2-degree scenario.	Potential transition risks as the company grows and may look to enter foreign markets, thus meeting higher ESG as well as climate standards and regulations (e.g. the EU)	Opportunity to be a regional leader in a developing a more circular business model

Given the early stage of its lifecycle, the Firm has not yet carried out an assessment of the resilience of its strategy.

RISK MANAGEMENT

- a) Risk identification and management processes
- b) Risk management processes
- c) Integration into Risk management processes

Aside from the assessment carried out as part of this TCFD analysis (section 2), climate change is integrated into the Firm's investment processes in the following ways:

Screening: Fossil fuels and any companies where climate risks are assessed as material are excluded from the investable opportunity set.

Pre-investment due diligence: As part of the pre-investment ESG and impact assessment, environmental data including energy use and emissions data feeds into the development of an overall understanding of the climate resiliency of a particular company. This includes physical risks based on main country / regions of operation, as well as supply / value chain considerations.

Post-investment stewardship: To the extent the Firm has ownership and /or control, it will engage with portfolio companies to implement environmental best practice as relevant to their region, sector and company specific circumstances. This includes engaging with companies to seek to achieve the following outcomes:

- Developing their own environmental and climate strategy
- Beginning the annual process of emissions measurements and implementation of emissions reductions to the extent practical
- Depending on geographic region of operation(s), switching to renewable energy / electricity where possible (e.g. purchasing renewable energy certificates, power purchase agreements, or encouraging self-generation etc.).
- To further reduce relevant and material scope 3 emissions, including engaging with customers, suppliers and other relevant third parties to do so.
- Supporting companies in understanding and reporting on their climate related risks and opportunities, in line with the TCFD.

METRICS AND TARGETS

- a) Climate related metrics
- b) Emissions
- c) Climate related targets

At the Firm level we have begun the process of measuring our carbon footprint. We have used Normative a leading provider of carbon accounting solutions, specializing in helping businesses calculate, report, and reduce their emissions. Specifically, we have used their free Business Carbon Calculator for SMEs via their Climate Hub. We consider this to be sufficient for calculating an initial emissions estimate that excludes the portfolio for now. Please note these calculations have not been third party validated but we are exploring doing so for future reporting periods.

Our footprint estimate for reporting year 2022 (1 Jan 2022 – 31 Dec 2022) is as follows:

TOTAL footprint: 224 tonnes CO₂e broken down as:

- Scope 1 emissions: 0 tonnes CO₂e
- Scope 2 emissions: 29.5 tonnes CO₂e (all electricity based)
- Scope 3 emissions (covering all Admaius offices/employees): 194 tonnes CO₂e, broken down as:
 - Business travel (flights and hotels): 137 metric tonnes CO₂e.
 - Purchased goods and services: 57 metric tonnes CO₂e.

Please note our scope 1 & 2 emissions are in respect of our Tunis office ONLY (this is the largest fixed office we currently operate).

We are committed to continuing to practicing active ownership and climate stewardship to implement environmental best practice both at our Firm and across the portfolio. As such we will engage with our companies to implement energy efficiency / carbon reduction measures and environmental best practice across our business to the extent feasible and practical (as outlined in the environmental section of our ESMS / dedicated ESG policy). We also are committed to further developing our understanding and reporting on climate related risks and opportunities, in line with the TCFD recommendations.

CONTACT DETAILS

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