

# Inherent

2022 SUSTAINABILITY REPORT

[WWW.INHERENTGROUP.COM](http://WWW.INHERENTGROUP.COM)

## OUR MISSION

Drive increased investment in sustainability-linked strategies by demonstrating superior risk-adjusted returns in our funds.

Show businesses they can create revenue growth opportunities and lower their cost of capital by leading on material sustainability issues.

Inspire business owners and managers to incorporate sustainability into their decision making through our engagement.

## INHERENT

Existing in someone or something as a permanent and inseparable element, quality, or attribute.

## BEHIND THE NAME

Our name stems from the belief that a company's environmental, social, and governance performance are critical to whether the company will succeed or fail over time and that investors that focus on such factors – all else equal – will perform better than their peers who do not.

Over the last few years, even as investor interest has increased in companies' ESG practices and how investment firms integrate ESG, most of the world still views ESG as ancillary. Instead, we envision a world where ESG is considered fundamental.

## NOTE FROM OUR FOUNDER

At Inherent we believe that a focus on sustainability is imperative for businesses today. While there is much debate on the merits of ESG investing in its many forms, it is clear to us that businesses that lead on the material ESG issues in their sectors will outperform over the long-term. We approach ESG pragmatically; it is a tool not a filter in our investment process. We believe that by incorporating ESG into our investment process for core positions it will lead to better underwriting decisions by us. What do all these words mean? Firstly, we look for businesses that are aligned with the UN SDGs--not just because they are solving societal challenges, but also because by doing so they have multi-year growth tailwinds. Secondly, for our core holdings we seek to understand their ESG performance and incorporate this into our assessment of risk-reward. Good performance on environmental, human capital, and governance matters leads to lower risk in a company's go-forward cashflows. For example, if a company has significant carbon emissions, what will a high price on carbon do to the unit economics of its business? If a company lags on culture, decision-making structures, risk management--how much more likely are we to have poor capital allocation or rogue employee risks? Finally poor governance has been shown in multiple studies to lead to worse risk adjusted returns over time. We believe all of these are just common sense business analysis points.

What perhaps is more debatable is the role companies have in setting a sustainability agenda beyond their core operational footprint. Some issues, like climate change, will affect every business and indeed our way of life. In these cases, companies play an important role in influencing public policy to address the challenge. Like it or not, corporations as a political force are potent and must weigh in on certain pan-economic issues. Too often we see companies pay lip service to sustainability metrics but then work behind the scenes with industry trade organizations to thwart policy that would allow for systemic change. What we ask for is transparency in both the company's performance on the ESG issues it deems material and on its political lobbying--direct and indirect.

At Inherent, we strive to live our values and we hope that this report will give some insight as to what we are doing as a company to embrace sustainability. We thank you for your interest and welcome your input as we seek to improve.

- Tony Davis, Founder, CEO & CIO





One of our core values at Inherent is "Joy"—creating a positive, collaborative environment where people enjoy coming to work and pursuing our mission. Read the full list [here](#).



# SUSTAINABILITY ACHIEVEMENTS

## HALF WOMEN

50% of the firm and  
50% of the investment team  
are women.

## NET ZERO AUM

Founding signatory to the Net  
Zero Asset Managers Initiative\*  
and aim to achieve net zero across  
100% of AUM by 2040.

## 51 COMPANIES

Engaged with 51 portfolio  
companies to adopt Paris-  
aligned net zero targets and  
reporting programs for their  
CO<sub>2</sub>-equivalent emissions.

## \$13 MILLION

\$13 million granted and invested  
in PRIs by Inherent Foundation  
since 2015.

\*Net Zero Asset  
Managers initiative  
signatories are  
committed to  
reaching net zero  
greenhouse gas  
emissions by 2050  
or sooner in their  
investing and in  
their work with  
companies, in line  
with global efforts  
to limit warming  
to 1.5°C.

## OUR PHILOSOPHY

At Inherent Group, we integrate environmental, social, and governance (ESG) considerations into our investment process for core holdings.

For core holdings, we use ESG as a tool, where relevant, to enhance the sourcing of investment ideas, the underwriting of risk-reward, and the efficacy of our engagement with selected portfolio companies.

We believe that this approach helps us build a differentiated investment portfolio, deepens our fundamental investment analysis, and increases our understanding of a company's culture and incentive alignment.

## OUR COMMITMENT

Our investment philosophy for core holdings is aligned with the six UN PRI Principles. We:

- Incorporate ESG issues into investment analysis and decision-making processes.
- Are active owners and incorporate ESG issues into our ownership policies and practices.
- Seek appropriate disclosure on ESG issues by the entities in which we invest.
- Promote acceptance and implementation of the Principles within the investment industry.
- Work together to enhance our effectiveness in implementing the Principles.
- Report on our activities and progress towards implementing the Principles.

Source: UN PRI



# NET ZERO COMMITMENT

## FOUNDING MEMBER

Inherent was a founding member and original signatory of the Net Zero Asset Managers Initiative, which now comprises 236 firms representing \$57.5 trillion in AUM.

## 74% AUM COMMITMENT

74% of Inherent AUM is managed in-line with Net Zero versus 35% on average for Net Zero Asset Managers in aggregate.

## ENGAGEMENT

We sent letters to the senior management of all of our net long portfolio companies in 4Q21 of material size (> 50 bps of NAV). In the letters, we strongly encouraged each company to adopt Paris-aligned net zero targets and comprehensive reporting programs for their CO<sub>2</sub>-equivalent emissions.

For publicly traded companies, we discussed our intent to vote against director slates until the companies met such goals. We acknowledged progress to date for the portion of our portfolio that has already initiated decarbonization efforts and offered our assistance to all of our portfolio companies going forward.



The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries-- developed and developing--in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth - all while tackling climate change and working to preserve our oceans and forests.

## SDG ALIGNMENT

We map core position portfolio companies to the most material SDG (if any) and report on this monthly.

As a firm we tend to focus on these specific SDGs consistently:

SDG 3: Good Health & Well-Being

SDG 7: Affordable & Clean Energy

SDG 9: Industry, Infrastructure & Innovation

SDG 11: Sustainable Cities & Communities

Click [here](#) to learn more about each SDG.





# Inherent FOUNDATION

Through Inherent Foundation, we advance social enterprises that improve the environment, educational outcomes, and long-term decision-making among investors and corporate management.

We help non-profit organizations increase earned revenue.

We structure and participate in outcome-based financings that deliver social benefits in a more cost-effective manner.

100% of the foundation's assets are mission aligned.

SELECT  
INVESTMENTS



SELECT  
GRANTEES



## IMPACT THROUGH INVESTMENT IN OUTSIDE FUNDS

Through Inherent Foundation and proprietary capital, Inherent has made select investments in third-party managed funds in areas including carbon compliance markets, renewable power, education, and healthy food. These investments help us develop our firm's knowledge of these sectors and keep abreast of the latest innovations relevant to our public portfolio companies.



THE ECOSYSTEM  
INTEGRITY FUND



# ACTIVE MEMBERSHIPS FOR IMPACT

We work closely with organizations that advance long-term decision making among investors and corporate management and that make sustainability-related data more valuable and widely available.



Center for Sustainable Business



Certified



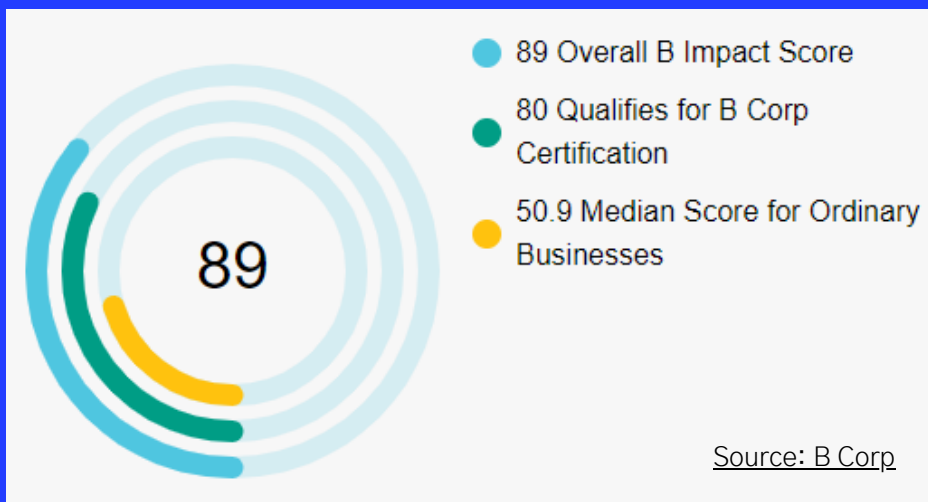


# INHERENT GROUP, LP IS A CERTIFIED B CORPORATION

B Lab provides companies with the programs and tools necessary to understand their environmental and societal impact, regardless of whether they are a certified B Corporation or not. B Lab's mission is to ensure all businesses are a force for good, irrespective of their size.

Based on the B Impact Assessment, Inherent earned an overall score of **89.0**. The median score for ordinary businesses who complete the assessment is currently **50.9**.

At Inherent, we believe pursuing this designation shows our partners, service providers, employees and the companies in which we invest that we too are committed to achieving high standards of performance, accountability and transparency.



# HOW WE INVEST

ESG analysis is integrated, as relevant, into the investment process for core holdings and conducted by the investment team in tandem with fundamental analysis. Selected ways in which we integrate ESG across the investment process for core positions include:



## SOURCING / IDEA GENERATION

- Seek compelling investment opportunities aligned with SDGs
- Identify investable dislocations & ESG engagement opportunities



## UNDERWRITING / DECISION- MAKING

- Identify financially material ESG risks & opportunities
- Proprietary ESG analysis and culture assessment



## ENGAGEMENT / POST- INVESTMENT

- ESG action plan focused on material sustainability issues
- Collaborate with management on action plan goals



## REPORTING / MONITORING

- Track progress & hold management accountable
- Report on progress to investors



# ESG UNDERWRITING FRAMEWORK

We score core portfolio holdings from zero to four across five areas:



We incorporate our own culture and governance observations in addition to third-party ESG scores, as relevant.

Additionally, where applicable, we reference SASB's material factors by vertical and our GICS-II material factor analysis.

We also account for material security-specific factors such as covenants when evaluating debt and board governance and voting provisions when evaluating equity positions.

## PROXY VOTING

Proxy voting is both a fiduciary responsibility and an opportunity for dialogue with companies. We do not use external proxy advisors to guide our voting decisions. We independently determine how to vote each ballot measure. And, when we disagree with management's recommendations, we frequently engage with the company to explain our position.

Inherent lends itself as a resource to select portfolio companies as they develop their internal sustainability plans.

At Inherent, we carefully evaluate matters related to sustainability and carbon emissions in our proxy voting. We intend to vote against the entire slate of proposed directors for companies that do not, by 30 days prior to their 2022 annual general meetings, begin reporting CO<sub>2</sub>-equivalent emissions and commit to adopting Paris-aligned targets. Furthermore, we intend to continue voting against director slates for companies that do not, by 30 days prior to their 2023 annual general meetings, publish their Paris-aligned targets and begin such annual reporting.





## UNIVAR SOLUTIONS, INC.

Univar is a specialty chemical manufacturer and distributor.

The products they distribute help maintain the essential infrastructure of society, including helping to provide clean drinking water, wastewater treatment, and health care facility sanitization, among other basic societal necessities.

Univar is driven to add value for the triple bottom line of people, planet, and profit, by focusing on becoming a world leader in sustainable chemical distribution.

Univar acts as a great case study of how ESG analysis of an otherwise “ordinary” business without obvious SDG alignment can illuminate non-consensus views in underwriting and can provide a lens for deeper, more differentiated interactions with management teams.

Univar sees more innovation ahead for its industry, one of the most hard-to-abate sectors within the push to decarbonize.

### INHERENT ENGAGEMENT

Inherent engaged with Univar to help advance their goals of being a leading sustainable specialty chemical manufacturer and distributor by encouraging the company to:

- **Clarify its Net Zero Targets.**
- **Add a Net Zero road map** articulating the interim actionable steps and KPIs need to push Univar forward and outlining the associated capital costs required to do so.
- **Lobby amongst peers and the chemical supply chain** to comply with Net Zero goals that align with Univar's vision of a sustainable future.

## ORION ENGINEERED CARBONS S.A.

For over 150 years, Orion has developed and produced carbon black, an amorphous carbon that is primarily used to strengthen rubber in tires but can also act as a pigment, UV stabilizer, and conductive or insulating agent in a variety of rubber, plastic, ink and coating applications.

Inherent has been actively engaged with Orion for some time, initially engaging with Orion on sustainability issues prior to Inherent's management of third-party capital.

In 2018, the company named a new CEO, Corning Painter, who oversaw sustainability at his former employer, Air Products and Chemicals, Inc. Painter has formed a cross-functional team focused on sustainability strategy and disclosure and asked Inherent to provide input into that process.

## INHERENT ENGAGEMENT

Alongside our engagement, Orion has made considerable advancements in its sustainability strategy:

- **Increased GHG intensity reduction target;** achieved energy recovery rate improvement target; in process of setting more ambitious goal.
- **Joined Blackcycle, a European tire recycling consortium** as exclusive recycled carbon black developer; have several other plant and biomass-based chemistries in development; strong safety performance.
- **Incorporated future carbon pricing into decisions** to develop sustainable carbon blacks and ready production for carbon-capture; have not yet explicitly integrated carbon pricing scenarios into capex budgeting.
- **Disclosed full US proxy info in 2020** and assigned 5% of executive short-term incentive to be based on safety and sustainability and 25% based on working capital.



## MR. COOPER GROUP INC.

Mr. Cooper is an independent mortgage origination and servicing business.

Given its service quality, Mr. Cooper maintains strong relationships with its customers and regulators and clearly leads its peers on customer satisfaction.

Throughout the COVID crisis, Mr. Cooper's strong relationship with regulators invoked confidence that the company would get a seat at the table to weigh in on mortgage payment forbearance decisions.

In a similar vein, the company is preferred by regulators and customers in both strategic M&A, troubled company M&A, and portfolio acquisitions of mortgage servicing rights.

## INHERENT ENGAGEMENT

Alongside our engagement, Mr. Cooper has made considerable ESG progress:

- **Improved regulatory compliance** by having it become a meaningful part of revamped compensation plan. All material legacy regulatory issues settled and closed as of December 2020.
- **Improved data privacy/cyber security.** Board oversight and resources/plan in place although not yet fully executed.
- **Improved diversity.** Added second female board member in 2020. Created role of Chief Diversity Officer in 2021 and hired 15-year DEI veteran.

# IMPORTANT NOTES

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