

NAOS Asset Management Limited

ACN 107 624 126

AFSL 273529

Responsible Investment Policy

Issued: August 2018

Last Updated/Reviewed: April 2021

Introduction

This policy outlines NAOS Asset Management's (NAOS's) approach and commitment to Responsible Investment and describes the framework for including Environmental Social Governance (ESG) factors into the investment process.

NAOS incorporates ESG considerations into the investment process of all of the investment strategies for which it acts as investment manager. This involves regular discussion and engagement with companies over material ESG issues, which in turn, results in decisions regarding stock weightings in portfolios and voting on company matters.

The NAOS Board of Directors and Chief Investment Officer support the adoption of a responsible investment strategy, and are committed to ensuring that this becomes an integral part of the NAOS investment process. The Chief Investment Officer will both oversee and play an active role in leading the implementation of the Responsible Investment policy.

Responsible Investment Philosophy

As an investment manager, NAOS recognises and accepts its duty to act responsibly and in the best interests of all investors/shareholders. We believe that a high standard of business conduct and a responsible approach to social, environmental and governance factors is associated with a sustainable business model over the longer term that benefits not only investors but also the broader economy.

We recognise the material impacts that ESG factors can have on investment returns and risk, and also the wider implications for achieving positive, social impact. We believe that unintended externalities cause markets to not always achieve the best outcomes for all stakeholders in the company. As a consequence, governments and investors have a role to play in going beyond pure financial goals to include Environmental, Social and Governance goals that can address this.

NAOS adopts a disciplined, fundamental approach to investing, based on a detailed assessment of the underlying longer-term value of a business, identifying opportunities to realise capital growth and income returns over the medium and long term. By incorporating ESG factors into our investment process, we aim to develop our process to systematically consider the factors that drive the **non-financial** and more intangible aspects of the companies we invest in. We see this as contributing further to our understanding of longer term sustainability of the business, return opportunities and potential risks.

Our focus on the smaller companies in the Australian market, allows us to develop a deeper understanding of the material ESG factors affecting these businesses, and also to foster a wider acceptance of the need to report and manage ESG related drivers. We see ESG factors as not only having impacts on profitability and earnings performance, but also contributing significantly to reputation and social license to operate. We believe that by engaging on ESG issues with our investee companies, we can influence **better management** of these issues delivering benefits not only to investors but to society as a whole.

Responsible Investment framework

The NAOS approach to incorporating ESG into our investment practices is guided by the **UN Principles for Responsible Investment**. The Principles are as follows:

1. We will incorporate ESG issues into investment analysis and decision-making processes,
2. We will be active owners and incorporate ESG issues into our ownership policies and practices,
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest,
4. We will promote acceptance and implementation of the Principles within the investment industry,
5. We will work together to enhance our effectiveness in implementing the Principles,
6. We will report on our activities and progress towards implementing the Principles.

Based on the above, we have a clear commitment to incorporating ESG issues into our investment process and ownership practices. We also aim to promote disclosure on these issues by the entities in which we invest, and foster greater collaboration and development of awareness on responsible investment.

In addition and on a larger scale, the United Nations established a globally accepted set of 17 overarching goals, known as the Sustainable Development Goals (SDGs) which set expectations and track progress on global issues. We believe that the SDGs serve as a good framework for how our investments contribute to a sustainable future.

NAOS acknowledges that a broad range of ESG issues are material to the investment return and risk associated with the companies we invest in. We see environmental issues, particularly climate change, as continuing to involve regulatory and policy attention, contributing to major changes across the economy and in certain cases impacting financial performance. Social factors are also significant for company performance, as they involve achieving outcomes for both internal and external stakeholders in the company. In our opinion, corporate governance is responsible for the initiatives in place to ensure effective strategic management of a company, and hence is closely related to management quality.

The types of ESG factors we consider are represented by the following, although from time to time we will consider factors outside this group.

Environmental – Climate change, Greenhouse gas emissions, Environmental opportunities, Waste, Pollution, Water, Biodiversity, Deforestation, Disclosure and reporting on violations

Social – Human Capital Policy, Workplace health and safety, Training, Employee Engagement, Human Rights, Labour standards, Supply Chain, Community relations, and Social license

Governance – Board independence, Board Diversity, Board Quality, CEO and Executive Remuneration, Incentive Structures, Shareholder Concentration, Shareholder Voting Rights, Codes of Conduct, Anti-Bribery and Corruption Policy.

ESG Implementation and Portfolio Decisions

The NAOS investment process is focussed on the smaller companies listed on the Australian stock exchange. NAOS will be sourcing information and data primarily from publicly available company reports (annual reports, ESG reports and press releases), and also directly approaching the companies to collect information and gain an understanding of ESG issues considered material. This means NAOS will be relying mainly on proprietary research, and over time will collect ESG information that is not widely available. We see the insights and ideas gained from this proprietary approach as contributing to our best of breed, high conviction value-driven approach.

Our approach to including ESG includes a two-stage process, where we will firstly screen to exclude sectors and companies that we consider contribute significantly to environmental and social harm. The second stage involves considering ESG factors that are relevant for assessment of the sustainability and quality of the business.

Negative Screening Policy

NAOS is committed to providing shareholders with longer-term value in an ethical and sustainable way. Currently we negatively screen and exclude business activities and products or services with direct and material involvement in:

- Tobacco production
- Gambling, which includes all casinos and gaming companies;
- Nuclear energy power generation and systems manufacturing, also uranium mining ;
- Manufacture of military and controversial weapons;
- Coal & Iron Ore mining and operations, including thermal coal and brown coal (or lignite); and
- Crude oil and natural gas exploration and production including oil sands.

Evaluating ESG issues and Positive Screening Process

In the next stage of the investment process, NAOS evaluates ESG information on the stocks being considered for the portfolio to determine whether this alters the financial valuation based assessment of the company. The steps involved are:

1. Consider a broad range of relevant ESG factors with longer term economic impacts for stocks being invested in;
2. Determine which ESG factors are likely to be material for particular industry sectors for stocks of interest;

3. Gather and store company specific ESG data from publicly available information, questionnaires and meetings with the company;
4. Assess how well the company is managing ESG risks;
5. Evaluate the impact on the company's longer term financial position of material ESG factors to form ESG assessment of stock; and
6. Combine ESG assessment with financial valuation to arrive at final stock targets.

Active ownership and engagement

NAOS seeks to influence the companies in which it invests through engagement and voting.

Engagement

NAOS is committed to including discussion of ESG issues at regular meetings with company management and to raise the need for improved reporting and disclosure on these issues by the companies. In engaging with a company, we aim to raise awareness and recognition of the materiality of ESG issues for longer term sustainability of the business. A key objective of our engagement with the company is to encourage better management of ESG risks and opportunities, which will support longer term financial performance and deliver value to investors. Questionnaires are employed to ascertain a company's approach and operational standing on ESG factors. We employ a flexible approach and engagement priorities will depend on a variety of factors, which may include the ability to influence, the nature of the issue, geographical location of assets, size of holdings and the weight in the portfolio.

Voting

Voting at a company's Annual General Meeting is where NAOS can influence and encourage better corporate practices.

NAOS will include consideration of corporate governance issues and other relevant environmental or social matters in voting decisions on companies being invested in. As voting activities will relate to companies already held in the portfolio, this will generally involve either voting in favour or abstaining from voting on a matter, and occasionally voting against a proposal. Records are maintained about voting decisions and other engagement with the company on ESG and other matters. While transparency is important, we do not disclose voting intentions in advance.

For further information, please see our Proxy Voting Policy.

Advocacy

NAOS supports advocacy with the aim to influence the broader market and promote a shift towards a sustainable financial system. NAOS has a preference to undertake advocacy through collaboration with other stakeholders.

Collaboration

NAOS recognises that through collaboration with others, that it can exert a greater influence and manage resources more effectively. NAOS collaborates with a range of stakeholders and market participants to increase the collective influence and success of responsible investment. This may include participation with various initiatives, networks and groups of other like-minded companies.

Escalation Strategies

In certain circumstances, where material issues are identified, as a first step, engagement with a company will occur, to raise the issue and determine actions to be taken. If not appropriately addressed, further remedies can be pursued and can include but are not limited to collaboratively engaging with other investors, submitting a shareholder resolution and voting against Board re-election or resolutions. An exit strategy or divestment from a holding may also be considered, if appropriate.

Conflicts of Interest

Any actual, potential or perceived conflicts of interest should when identified, be escalated to management or with regard to ESG investments to the Chief Investment Officer. NAOS strongly advocates transparency in all its dealings.

For further information, please see our Conflicts of Interest Policy.

Disclosure

NAOS seeks to take a leadership role on transparency and disclosure by reporting about the responsible investment activities of the strategies for which it acts as investment manager to stakeholders through its website and by other general communications (e.g. annual reports).

NAOS will participate annually in the PRI Reporting Framework and the PRI Assessment Report results will be used as the key performance indicator to measure the outcomes of NAOS' responsible investment activities going forward.

Reporting, Monitoring and Reviewing the ESG policy

We continually look for ways to improve engagement with the companies we invest in on the ESG issues of interest. Our policy and framework will be reviewed annually and changes will be made in line with our growth and experience in integrating responsible investment practices into our business.