Ethical Partners Funds Management: Climate Change Factors in Investment Policy

1. Purpose of and Objectives of this policy

    a. This policy confirms Ethical Partners belief that Climate Change represents one of the most serious challenges for the world today, both in terms of economic, political and human impacts.

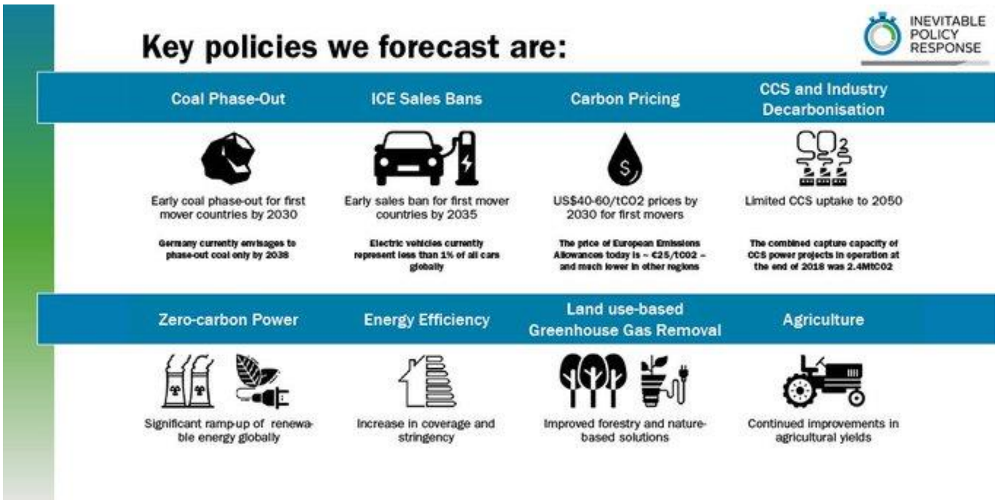
    b. It also signifies our understanding of the significant impact of climate change on the operations of the majority of companies and sectors in our investable universe.

    c. This policy also confirms Ethical Partners commitment to contributing, through our investments, towards achieving the goals of limiting temperature rises to two degrees above preindustrial levels or lower – in line with the commitments made through the Paris Accord.

    d. Ethical Partners further believes that this is a rapidly changing space, where policy commitments, technological advances, and the ever increasing awareness and demands from customer, investor and society to address climate change *present pertinent and material risks and opportunities* for our portfolio companies, dependent on the company's response to this challenge.

    e. It further commits that Ethical Partners, as prudent investors who aim to reduce risk and find opportunity in investment, strongly believe that understanding and mitigating the climate risk within our investments is a crucial part of our investment analysis, valuation and portfolio construction.

    f. It signifies our understanding of the concept of the Principles of Responsible Investment's Inevitable Policy Response, detailed in Figure 1 below, which is primarily aimed at demonstrating latent risk in investor portfolios related to probable policy and technology developments. It further signifies our comittment to consider these factors to the best of our ability in our investment decisions and valuations.



(https://www.unpri.org/climate-change/what-is-the-inevitable-policy-response/4787.article)

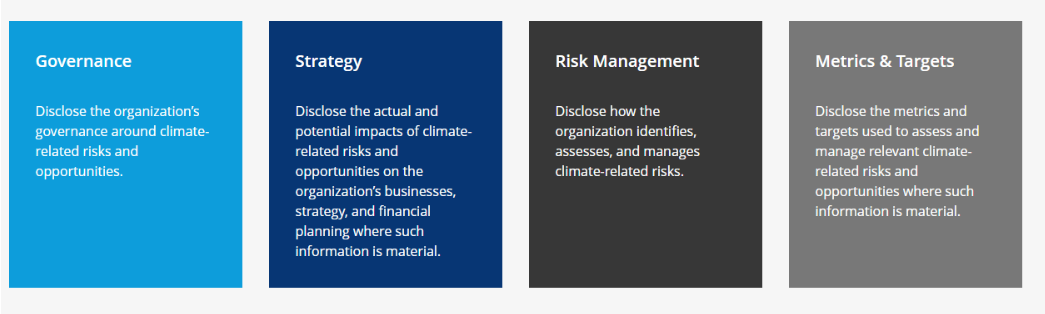
g. This policy also affirms EPFM's support of the Task Force on Climate Related Financial Disclosure (TCFD). EPFM firmly believes that financial markets need clear, comprehensive, high-quality information on the impacts of climate change, including the risks and opportunities presented by rising temperatures, climate-related policy, and emerging technologies in our changing world.

   This underscores our focus and commitment to encouraging companies to report against the key elements of the TCFD framework displayed at Figure 2 below:

   Being companies' Climate Change

   i) Governance
   ii) Strategy
   iii) Risk Management

iv) Metrics and Targets



https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf

h. This policy further affrims our understanding of Climate Related Risks, opportunities and financial impacts to be wideranging, including (but not limitied to) the multiple Transition Risks, acute and chronic Physical Risks and financial impacts on revenues, expenditrues, cash flow, balance sheets, assest and liabillites and capital and financing, as described in the TCFD's Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures charts at Figure 3 and 4 below.

Figure 3

Climate-Related Risks, Opportunities, and Financial Impact

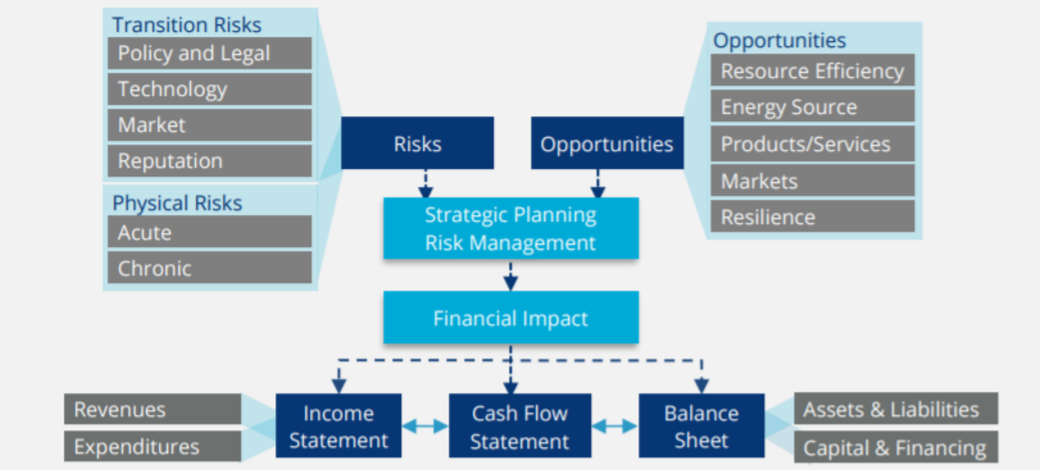


Figure 2

Major Categories of Financial Impact

Income Statement	Balance Sheet
Revenues. Transition and physical risks may affect demand for products and services. Organizations should consider the potential impact on revenues and identify potential opportunities for enhancing or developing new revenues. In particular, given the emergence and likely growth of carbon pricing as a mechanism to regulate emissions, it is important for affected industries to consider the potential impacts of such pricing on business revenues. **Expenditures.** An organization's response to climate-related risks and opportunities may depend, in part, on the organization's cost structure. Lower-cost suppliers may be more resilient to changes in cost resulting from climate-related issues and more flexible in their ability to address such issues. By providing an indication of their cost structure and flexibility to adapt, organizations can better inform investors about their investment potential. It is also helpful for investors to understand capital expenditure plans and the level of debt or equity needed to fund these plans. The resilience of such plans should be considered bearing in mind organizations' flexibility to shift capital and the willingness of capital markets to fund organizations exposed to significant levels of climate-related risks. Transparency of these plans may provide greater access to capital markets or improved financing terms.	**Assets and Liabilities.** Supply and demand changes from changes in policies, technology, and market dynamics related to climate change could affect the valuation of organizations' assets and liabilities. Use of long-lived assets and, where relevant, reserves may be particularly affected by climate-related issues. It is important for organizations to provide an indication of the potential climate-related impact on their assets and liabilities, particularly long-lived assets. This should focus on existing and committed future activities and decisions requiring new investment, restructuring, write-downs, or impairment. **Capital and Financing.** Climate-related risks and opportunities may change the profile of an organization's debt and equity structure, either by increasing debt levels to compensate for reduced operating cash flows or for new capital expenditures or R&D. It may also affect the ability to raise new debt or refinance existing debt, or reduce the tenor of borrowing available to the organization. There could also be changes to capital and reserves from operating losses, asset write-downs, or the need to raise new equity to meet investment.

https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf

2. About Ethical Partners Funds Management (EPFM)

   a. EPFM is a boutique Australian Fund Manager that is fully owned by its staff and founders.

   b. EPFM has a dual focus on performance and investing ethically. Our approach directly manages risk and identifies opportunity for our clients, provides the ability to invest in line with our clients' values, and actively advocates for change.

   c. EPFM is a bottom up, long only stock picker that invests in Australian Equities. We pursue investment in companies that pass both our investment process screens, examining financial strength, cash flow metrics, shareholder structure and management and our proprietary Ethical Partners Operational Risk Assessment (EPORA) which assesses ESG and Responsible Investing considerations.

3. How does Ethical Partners understand Climate Change risks and opportunities within our investment process?

   a. Ethical Partners screens for Climate Risk in our investments through our proprietary EPORA investment process. All companies must pass all areas of the investment process, which includes a thorough assessment of:

      i) Whether a company's product is harmful, at which point we apply a negative screen and remove the company from our investable universe. Exclusions for our pooled investment vehicle include alcohol, uranium, gambling, weapons, tobacco, fossil fuels, predatory lending, coal seam gas; Individual mandate clients are able to tailor their exclusions to their own values.
      ii) the company's place of operation (country risk) using the Transparency International Corruptions perceptions index;
      iii) their impact on the planet, assessing multiple pertinent, material and relevant issues and themes;
      iv) Their impact on people, assessing multiple pertinent, material and relevant issues and themes.

   b. It also includes a positive screen, whereby leaders identified by the EPORA process, or thematic investments that present opportunities are preferentially considered for investment where valuation is reasonable and fundamentals are sound.

c. Companies that in our opinion, do not address Climate Change issues adequately will fail our EPORA investment process and are removed from the investable universe. In this way, we continually refine our exposure to high risk assets.

d. All companies that do pass the EPORA investment screening process still undergo extensive analysis, culminating in the formulation of an engagement plan which details the material issues we must address with each company.

Importantly, whilst Ethical Partners apply negative screening for our pooled investment vehicle which excludes Fossil Fuels, we consider Climate Change in all investments.

e. EPFM's investment process then involves the consideration of these climate change risks and opportunities in our stock valuations and portfolio construction on a case by case, by using a range of factors and techniques, as material and pertinent to the individual business.

f. For more detail on our responsible investment process, please see our responsible investing policy, Environmental Factors in Investment Policy and our Human Rights and Social Factors in Investment Policy.

g. EPFM acknowledges that fossil fuels and power generation, as well as heavy emitters or emission intensive industries such as chemicals, steel industrial manufacturing, construction and transport carry particular risks with climate change. However, we are also cognisant that sectors such as agriculture, insurance, plastics, and banking carry climate risk, hence, as mentioned above, our EPORA process screens for climate risk in all stocks considered for investment.

h. EPFM also acknowledges that climate change constitutes significant opportunities for companies, and investment upsides. This could be on a company by company basis due to leadership in decarbonisation, innovation and business model pivots, or could be within particular sectors and themes that can benefit from a decarbonising world, including renewable energy, energy efficiency technologies, climate capture and storage, battery technology and agricultural innovations. EPFM's positive screening through our EPORA process, aims to capture these opportunities in our portfolio construction.

i. EPFM is also cognisant that climate change and other environmental and human rights/social risks are often interrelated. As such, EPFM see that a healthy environment is in itself a human right, and additionally, that Climate change will also impact human rights in many settings. EPFM therefore consider Climate Change within a holistic and interrelated manner within our EPORA assessment process, our engagements and our advocacy. For more information on how EPFM addresses these risks, please see our Environmental Factors in Investment Policy, and our Human rights and social factors in Investment Policy.

4. <u>Specific factors, issues and themes as pertinent to Climate Change that are assessed in the EPORA include:</u>

a. The risk of stranded assets: We consider stranded asset risks in fossil fuel industries but also in all other sectors/industries exposed to stranded asset risk through transition risk, physical risks and hazards, regulatory change, technological change, reputational and market risks, supply chain disruptions, changes in demand, economic factors and production/operation disruptions etc. These sectors could include, for example, insurance companies, plastics, agriculture stocks, airlines and transport providers, oil and gas support services, retail and fashion, construction, real estate, steel/aluminium manufacturers and banking sectors

b. Physical risks to the company – for example: damage to land, buildings, stock or infrastructure owing to physical effects of climate-related factors, such as heat waves, drought, sea levels, ocean acidification, storms or flooding.

c. Secondary physical risks – for example: knock-on effects of physical risks, such as falling crop yields, resource shortages, supply chain disruption, as well as migration, political instability or conflict.

d. Policy risk – for example: financial impairment arising from local, national or international policy responses to climate change, such as carbon pricing or levies, emission caps or subsidy withdrawal.

e. Liability risk – for example: financial liabilities, including insurance claims and legal damages, arising under the law of contract, tort or negligence because of other climate-related risks.

f. Transition risks – for example: financial losses arising from disorderly or volatile adjustments to the value of listed and unlisted securities, assets and liabilities in response to other climate-related risks.

g. Reputational risks- for example: risks affecting businesses engaging in, or connected with, activities that some stakeholders consider to be inconsistent with addressing climate change.

(g) <u>We also consider in our EPORA analysis of climate factors:</u>

a. The company's business model and location.

b. The company's strategies and progress on decarbonisation and risk mitigation.

c. The company's particular asset and liability mix and how exposed these are to the risks of climate change

d. The companies' policies, procedures, practices, investments, reporting, trajectory and commitment to Climate Change.

e. The companies' or sectors' relevant material Climate Change issues

f. possible exposure to controversies relating to climate change

g. Any inconsistencies, concerns and red flags as regarding how a company is addressing Climate Change.

(h) Climate Change and the SDG's

a. We also ask all companies to disclose how their operations are addressing the SDG's relevant to Climate Change

b. This clearly include (SDG 13 Climate Change), but additionally the other SDG's we believe also impact, or are impacted by, Climate Change, including:

i. SDG 15 (life on land)
ii. 14 (life below water)
iii. 12 (responsible consumption and production)
iv. 11 (sustainable cities and communities)
v. 10 (reduced inequalities)
vi. 9 (industry, innovation and infrastructure)
vii. 7 (affordable and clean energy)
viii. 8 (decent work and growth)
ix. 3 (good health and wellbeing)
x. 6 (clean water and sanitation)
xi. 2 (zero hunger)

xii. 1 (no poverty)

xiii. 16 (peace and justice and strong institutions)

xiv. 17 (partnerships for the goals).

<u>(i) We also ask all companies to provide detailed disclosures on their:</u>

a. carbon emissions – Scope 1, 2 and 3

b. Emission reduction targets – both interim and long-term

c. Net zero commitments

d. Decarbonisation plans

e. TCFD reporting and scenario analysis

f. Policies to deal with their material Climate Change risks and issues

g. involvement in lobby groups inconsistent with Climate Change policies

h. Climate change leadership structures

i. reporting channels and corporate responsibility for Climate Change issues

j. Understanding of Climate Change risk by the Board and Chairman and training of relevant management and directors

k. Strategies to embed their climate change policies into core business operations and plans.

l. Resourcing and capital allocation to climate change mitigation and adaption programs.

m. Inclusion of climate change metrics in KPI's and REM

n. Research, innovation and pilot programs to address climate change challenges

o. Collaborations with other companies, governments, NGO's or investors to address climate change

(k) <u>EPFM Engagement on Climate Change</u>

a) As per our Responsible Investing Policy, EPFM also believe that active ESG investment means that we engage meaningfully on ESG with each and every company, before we make an investment and throughout the time we hold the stock to leverage our shareholder voice to influence the source of change. EPFM seeks to influence the companies and assets in which it invests through direct company engagement with board, management, sustainability teams and other relevant departments, as well as through shareholder voting, and wider industry, sector and civil society engagements. The focus of the engagement process is building ongoing relationships that encourage progress on ESG and responsible business practices, ad hoc engagement on specific ESG matters or engagement based on ESG themes. Engagement is critically important to EPFM to help us further refine our investment decisions and provide important information for ESG analysis. This is because Ethical Partners believes that engagement helps us to understand a company's attitude to, attention to, resourcing of, understanding of and management of ESG risks and opportunities, which is then integrated into the investment analysis and valuations.Importantly, EPFM also believes that engagement provides us with a very privileged platform to advocate and call for corporate change at the management or board level where necessary. We believe that our genuine, deep and regular engagement is a vital tool to leverage our shareholder voice, something that we at EPFM regard as both a responsibility and a privilege to be able to use the capital we are entrusted with to call for superior governance, increased transparency, thoughtful and long term management decisions and where necessary corporate change and for companies to better address their impact on the planet and people. We believe this helps fulfil our fiduciary duty to our clients through more responsibly run companies ultimately delivering superior performance.The entire team engage with management teams of all our portfolio companies, as well as those in our wider investable universe.

b) As part of our EPORA investment screening and due diligence processes, we formulate an engagement plan for every portfolio holding, to guide and prompt company engagements on improving on or addressing gaps in how a company may be addressing Climate Change, and how they are addressing risk or finding opportunities in this space. This plan is then updated on an ongoing basis as engagements unfold, events happen or opportunities arise.

(l) <u>Shareholder voting on Climate Change resolutions</u>

a) As per our responsible investing policy, EPFM believes that voting on Climate Change related shareholder resolutions at a company's annual general meeting is an important way in which we can exercise our shareholder rights to influence and encourage better corporate business practices among companies. We also believe that Shareholder Voting is an important engagement tool, as these resolutions help drive our engagement discussions with companies on Climate Change issues. The Investment Director and the CEO, in conjunction with the Sustainability and Investment Team will consider each resolution and will vote on such considering the best interests of its clients. The Investment Director will consider the ethical screening process and corporate governance considerations in determining our voting intentions. EPFM will also consider generating resolutions on certain issues when it determines it is appropriate to do so. EPFM also commits to being transparent and publically disclosing our climate change voting record on our website and on request.

(m) Climate Approach in Our own operations

a. EPFM has set a goal of carbon neutrality across our own operations and is currently undergoing certification towards this goal. We already source 100 percent renewable power for our operations and are working to eliminate any remaining carbon footprint.

b. EPFM is currently working closely with mandate clients to achieve their net zero commitments and is actively working on how to better understand how to construct our portfolios to achieve these targets

c. EPFM has set a net-zero portfolio target by 2050 for the Ethical Partners Australian Share Fund.

(j) Responsibility for Climate Change consideration in our Investments

a. Every member of the EPFM team is responsible for understanding, assessing and advocating for the Climate Change issues of the stocks they cover.

b. In addition the Head of Sustainability, Investment Director and CEO are involved in screening and discussing the relevant Climate Change issues within the stock universe on a daily basis and working with the analyst to advocate on these issues with the companies.

c. The CEO and Investment Director are also the Board Directors for EPFM and as such take ultimate responsibility for EPFM's stewardship practices.

(k) Training**:**

a. We acknowledge that this is a rapidly changing and moving area, therefore we have a committed program of education, training for our entire team about Climate Change.

b. This includes ongoing in-house research and analysis of hundreds of sources, including Environmental groups, UN Environmental initiatives, climate activists, ESG research professionals and academics.

c. We also meet regularly with climate activists, academics, scientists, members of parliament, government agencies regarding climate change issues and advocacy.

(l) EPFM Climate Change Management due diligence and Transparency

a. We are members of the Principles of Responsible Investment and as such are undertaking the mandatory PRI reporting in line with the TCFD recommendations.

b. We have committed to undertaking our own EPFM TCFD analysis.

b. We conduct regular Climate Scenario testing on our portfolios

c. We also conduct regular analysis of the Carbon Footprint of our portfolios

d. We also provide transparency into how we are addressing climate change in our investments in stand-alone reporting, such as the Ethical Standards Report, and other regular client reporting.

(m) Collaborations

a. We are also signatory to multiple investor statements and collaborations on Climate Change. Details of our collaborations are publically available on our website.

b. We are active members of the Investor Group on Climate Change and active participants in several of their working groups.

(n) Advocacy

a. As per our Stewardship Policy, EPFM chooses an active advocacy role in encouraging better corporate behavior. We undertake advocacy with the aim of influencing the broader market and promote a shift towards a sustainable financial system. This can include a variety of activities including engagement with and submissions to government, publishing, commissioning and contributing to ESG research and industry wide campaigns. It also involves engaging with standards setters and policy makers, such as politicians, senior government officials, independent commissioners, legislators and media as appropriate. We see our engagement role to also include engaging with other investors to collaborate to create change, and as such are signatory to around 30 different signatory and collaborative initiatives, in which we actively participate.

We also believe there is also a very important role for the investor voice in wider civil society and global issues. EPFM recognizes that through collaboration with other investors we can exert a greater influence and manage resources more effectively and as such commits to be part of the conversation and wider discourse around ESG issues. We also commit to engage regularly with multiple NGO's, in order to support and share their advocacy.

b. Specific to Climate Change, Ethical Partners firmly believes that companies and Investors alike need policy certainty, clear and transparent climate adaption plans, and support from the government to reach the climate ambitions they are already forming. Companies and asset managers are rapidly adopting their own net zero targets and it is critical that they have budgets, technologies, sector and country wide collaboration and bipartisan support as they work towards our global environmental goals. Governments also need to address mitigation, adaptation and resilience as part of a comprehensive solution. As such, Ethical Partners commits to engaging with government, including meeting with ministers, writing to political representatives and making submissions to parliamentary enquires.

Date of last review: May 2021

Responsibility: Head of Sustainability

Approved by: CEO and Investment Director