

# Responsible Investment Policy

Dated: April 2023

We consider responsible investment to be an important component of Kardinia Capital's investment process and part of our investment stewardship. This document outlines to investors and stakeholders our understanding of responsible investment, why we believe it is an important consideration in our business, and how we implement it in our operations.

Responsible Investment Policies are organic documents which need to be reviewed regularly. This policy will be reviewed annually to measure its success and to determine whether it continues to accurately reflect our investment process and beliefs.

## Our understanding of responsible investment

Responsible investment is the consideration and integration of Environmental, Social and Governance (ESG) factors in investment decision-making and active ownership of investments, in the belief that these factors can have an impact on valuations and financial performance. This incorporates inclusion of screens and ESG considerations in due diligence processes; appropriate attribution to material ESG factors; promoting ESG considerations and transparency; and monitoring ESG factors in existing investments.

It also extends to influencing the shift towards a more sustainable financial system and enhanced benefits for the environment and society. The achievement of Sustainable Development Goals (SDGs) would reduce the volatility in financial markets brought about by climate change, social and economic inequality and unequal access to resources such as energy, water and food.

The growing importance of responsible investment has seen it shift from a peripheral consideration to a recognition that the need for action lies with every business and individual. This has led Kardinia to increase our focus on ESG, formalising our approach to ensure transparency for investors and accountability for our investment actions.

## Objectives in incorporating responsible investment and stewardship

We believe incorporating responsible investment in our decision-making process enhances investment outcomes for our investors as well as resulting in better societal outcomes. Considering the impact of ESG factors on the risk, return and longevity of investments provides a more thorough due diligence process and better risk-adjusted returns.

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In line with our long-term investment horizon, we expect companies with strong ESG profiles are likely to be better positioned for future challenges and to experience fewer instances of corruption and fraud.

Improved ESG factors can lead to stronger profitability through higher customer loyalty, lower regulatory costs and management distraction, increased employee morale and productivity, lower employee turnover, superior supplier relations, lower cost of capital, and better aligned management with shareholders for long-term value creation.

We believe practicing more active ownership – by engaging directly with companies and discussing ESG issues – can encourage our investees to improve their ESG risk management and disclosure, as well as develop more sustainable business practices.

Proxy voting can also be employed to influence specific ESG issues and promote transparency.

### UNPRI signatory

Kardinia is a signatory to the United Nations Principles for Responsible Investment (UNPRI). As a signatory, we are committed to the six core principles for responsible investment.

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 with other organisations to enhance our effectiveness in implementing the Principles.
6. We will report on our activities and progress towards implementing the Principles.

We believe adoption of these principles across the investment community is important in establishing standards for the incorporation of ESG considerations in the allocation of capital and the sustainability of investor returns over the long term; and to support transparency by companies and investors.

*Signatory of:*



### Approach to Sustainable Development Goals (SDGs)

SDGs were developed by the United Nations and are made up of 17 goals aimed at ending poverty; protecting the planet; and improving the lives and prospects of everyone, everywhere. The SDGs were set in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030. They are included in a UN Resolution called the 2030 Agenda for Sustainable Development.

We are supportive of the SDGs and believe that to be realised, they require significant investment solutions from both public and private sectors.

## Approach to human rights and modern slavery

We support maintaining human rights for all and the avoidance of modern slavery on a fundamental moral basis, including ensuring that companies in which we invest adhere to the legal requirements associated with supporting human rights and avoiding modern slavery.

With support from our ESG data provider, Institutional Shareholder Services (ISS), we undertake due diligence to ensure that companies in which we invest support internationally recognised human rights and identify possible risk settings where modern slavery may occur in their businesses or supply chains.

We also support and endorse Bennelong Funds Management's [Modern Slavery Statement](#).

## Support for targets outlined in the Paris Agreement

We agree with the science supporting the detrimental impact of atmospheric carbon on the environment and the resulting global climate change, and support the goal of carbon neutrality by 2050 as outlined in the Paris Agreement.

## ESG governance structure

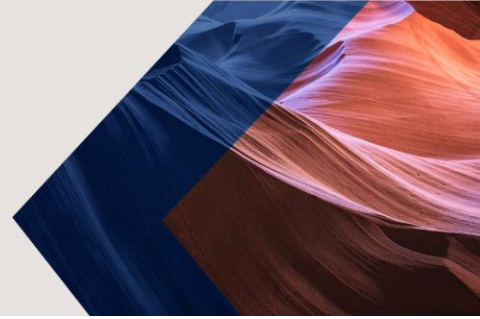
The Head of ESG at Kardinia is a role separate from that of the CEO/Portfolio Manager. All team members are accountable for the implementation of responsible investment principles across the company's processes, while the Head of ESG monitors implementation to ensure appropriate standards are maintained.

ISS also supports the internally developed ESG framework. We use data provided by ISS, along with data from other sources, in assessing the ESG qualities of existing and potential investment companies as well as a cross check to our own assessments. We also use ISS data and reports for ongoing monitoring of our investees' ESG performance.

## Incorporation of ESG considerations into our processes

As part of our commitment to an increased focus on responsible investment, we have developed an ESG framework across our operations to reflect our philosophy and objectives regarding responsible investment, and support compliance commitments made as a signatory to the UNPRI. This framework covers:

1. Kardinia's investment process
2. Interactions with companies in which we invest
3. Monitoring and reporting of our ESG performance

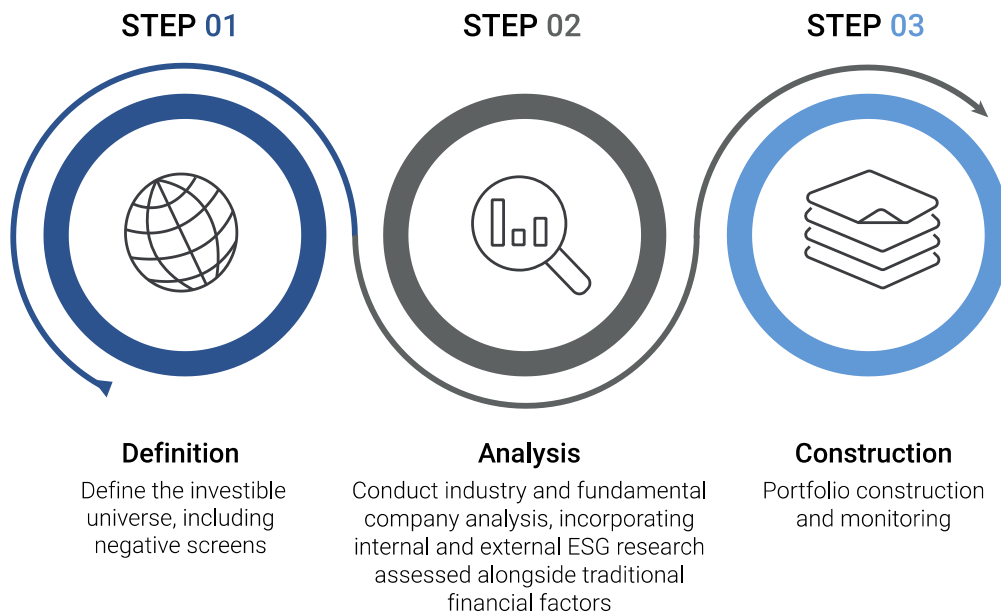


## Our investment process

Integrating ESG considerations into investment decision-making can help manage and mitigate risks and identify opportunities that may not be captured by conventional financial analysis. The objective is to identify issues before they affect share prices.

Our ESG analysis is conducted inhouse, with ISS providing an external data feed. This analysis is undertaken with commensurate consideration of the materiality of the ESG factor on both the asset value and significance for the overall portfolio.

This approach is outlined below.



The initial screening process limits exposure to particular products/services or business activities, and filters out stocks that don't meet minimum ESG standards.



## Absolute exclusions are applied to:

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Tobacco



Pornography



Controversial weapons

## Materiality threshold (based on business activity/operation) exclusions are applied to:

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Alcohol (maximum 5% of portfolio)



Gambling (maximum 10% of portfolio)



Thermal coal (maximum 5% of portfolio)

Material ESG factors will be identified and assessed together with traditional financial factors, to form integrated investment decisions.

Sources of ESG information include, but are not limited to:

- Regulatory filings
- Financial reports
- Corporate sustainability/responsibility reports
- Company calls, meetings and presentations
- Third party financial investment research
- Customer and supplier interviews ('channel checks')
- ESG data providers
- Industry trade organisations

Using this information, we will attempt to:

1. Identify investment catalysts and how a company is positioned for emerging trends such as technological innovation, regulation and consumer preferences
2. Determine the quality of a company and its earnings resilience
  - Environmental – how efficiently does a company generate its products or services?
  - Social – how does a company treat the people who create and consume its products or services?
  - Governance – how well does the company align with and deliver for shareholders?
3. Assess the ability of a company to execute strategy, which is critical in accessing capital and delivering future earnings



Within the ESG analysis, we will assess stocks across a broad range of areas as outlined below, utilising independent ISS research to complement and cross-check our internal analysis.

Examples of ESG issues taken into consideration



## Environmental

Climate change  
Resource depletion  
Waste  
Pollution  
Deforestation  
Policy disclosure



## Social

Human rights  
Modern slavery  
Child labour  
Working conditions  
Employee relations



## Governance

Bribery and corruption  
Executive remuneration  
Board diversity and structure  
Political lobbying and donations  
Tax strategy

## Corporate engagement and voting

With the objective of enhancing ESG considerations and transparency among corporates, and as part of our commitment as a UNPRI signatory, we will seek to influence the companies in which we invest through engagement and voting.

- **Engagement in company interactions**

Via direct meetings, we will encourage companies to improve their management of material ESG issues, increase their level of disclosure and develop more sustainable business practices.

- **Directing proxy votes**

We will exercise our shareholder rights to influence and encourage better corporate business practices among our investee companies. The voting process involves researching the issues and casting votes supported by our proxy voting consultant ISS.

## Monitoring and reporting of ESG performance

With assistance from ISS, we will monitor our portfolio performance to:

- ensure individual companies maintain minimum ESG standards
- ensure the portfolio performs well on an ESG basis against its broader investible stock universe; and
- provide data to investors and external stakeholders.

Kardinia will participate annually in the PRI Reporting Framework and publicly disclose its PRI Assessment Report.