



Environmental, Social & Governance Policy

Introduction

This policy sets out the principles and guidelines that we will apply to ensure that environmental, social and governance (ESG) risks and opportunities are adequately considered as part of our investment processes.

The consideration of ESG issues is embedded in the corporate DNA principles. Whilst specific filters are not utilised, WaveStone is conscious of ESG issues and how they can impact on the economics/returns of a business.

Commitment and approach

At WaveStone Capital we realise the importance of sustainability for all companies, and that we as fund managers, have an active role to play in ensuring that companies are taking responsibility for Environmental, Social and Governance Policy (ESG) issues and are actively monitoring their compliance with best practice in this area. This reflects our obligation to clients to both maximise medium term returns and manage risk. By improving our understanding of individual company's management of ESG issues we hope to achieve our aim of generating above average, long term sustainable returns.

We believe that the formal incorporation of ESG factors into overall investment analysis has become essential and have actively sought to prepare ourselves for this shift in the way company activities are evaluated. As part of this commitment to incorporating ESG more fully WaveStone Capital is a signatory to the Principles for Responsible Investment (PRI).

The PRI is the overarching framework of our ESG philosophy and as such, we commit to the following:

- We will incorporate ESG issues into our investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues from entities in which we invest.
- We will promote acceptance and implementation of the PRI within the investment industry.
- We will work to enhance our effectiveness in implementing the PRI.
- We will report on our activities and progress towards implementing the PRI.

Engagement

WaveStone Capital recognises our responsibility to engage the board and management teams of investee companies and assets where improvement in ESG factors may contribute to business and investment performance outcomes. WaveStone follows the PRI principles on corporate governance and proxy voting.

Engagement activities are generally carried out by WaveStone's principals. WaveStone's active ownership and engagement goals include:

- Engage with all companies in which we have invested, and those in which we might consider investing, such engagements will cover all aspects of the company relevant to its prospects including ESG matters.
- Seek to engage with Directors to the greatest extent practical and high-level company executives as well as parties outside companies to the extent necessary to properly evaluate ESG risks and opportunities.
- Consider outcomes of engagements when making decisions regarding the ownership of that company in WaveStone's portfolio.
- Lodging proxy votes at meetings where we have the authority and where it is practicable to do so with all the issues of corporate governance given due consideration.

- In line with our own policies and guidelines, seek improvement in ESG performance by investees, pro-actively engaging them on their own approaches to managing material ESG risks and opportunities.
- Maintain records of company engagement.
- Actively contribute to industry debates and contribute thought leadership on relevant ESG topics.

Investment Process

At present, the degree of consideration given to ESG issues varies depending on the nature of the company under consideration. Our investment process remains consistent for every company we consider for investment and ESG factors are considered throughout the investment process.

The WaveStone investment process consists of four steps:



ESG considerations are embedded in the first step of the investment process - the qualitative filter. This step seeks to identify businesses that exhibit a Sustainable Competitive Advantage (SCA). Drilling a little deeper, SCA is determined through the interaction of Superior Corporate DNA and Industry dynamics.

All potential investments are assessed in relation to the following 7 markers of Superior Corporate DNA and 8 Industry factors. WaveStone believes that a company with the strongest corporate DNA that operates in the most favourable industry and economic conditions should have the most robust Sustainable Competitive Advantage (SCA).

Superior Corporate DNA

Superior Corporate DNA refers to the 'genetic markers' of corporate success, which either individually or collectively indicate the attributes that distinguish industry leading performance. These traits have been identified and classified based upon the accumulated experience and observations of the investment team and are equally applicable across industry sectors. The seven markers of superior corporate DNA are:

- **Research & Development and innovation** - commitment and execution of R&D effort to internally generate new and innovative products, maintaining above average margins and earnings duration.
- **Low costs** - underpin superior operating margins and can be driven by structural advantage or focused management and execution.
- **Track record/shareholder focus** - a solid history of success by the corporate, its executive (and board) is tangible evidence of good "genes" and provides confidence to support expectations of ongoing success. Further, a review of company practice regarding such matters as dividend policy, capital management and executive remuneration will provide evidence as to the level of the companies focus upon the priorities of its shareholder constituents. This marker is central to good corporate governance.
- **Articulated & logical expansion** - most stock market investments offer some allure of potential future growth. However, some expansion strategies are clearly distinguished by an existing base of success, product



expertise and geographic understanding. Furthermore, a clear understanding of finite management depth and financial resources is critically important to delivering upon an expansion plan.

- **Project development experience and success in execution** - the ability to design, develop, manage and commission major new projects or expansions within financial constraints and timing deadlines is a rare attribute. Major projects can often be a distraction to underlying operational performance.
- **Strength in systems, process and community** - strong and rigorous systems often provide the foundation for success and replication/growth of an enterprise and importantly the point of differentiation in the successful delivery of fairly homogenous goods and services. In some cases, a company is able to build over time a powerful self-reinforcing, network or intangible community around its provision of goods and services. This marker also pertains to the company's environment and social obligations.
- **Rehabilitation** - many companies achieve growth via the acquisition of new businesses, however only a few are able to distinguish themselves and create value through turning around or fixing the underlying operating performance of the business. Corporate rehabilitation can be achieved through radical restructuring, management changes and refined reporting and management systems.

In each of the above markers, effective capital allocation is an overarching principle in our assessment of that factor.

Regarding the internal markers of excellence, two markers explicitly incorporate ESG matters

- Track record and shareholder focus - clearly incorporates corporate governance matters such as capital management, dividend policy, executive remuneration
- Systems, process and community - incorporates matters such as employee safety an engagement, community standing and policies on ethical sourcing, waste management and environmental issues

Corporate governance is central to any stock investment; it is typically a strong indicator of superior corporate DNA.

Environmental

We acknowledge that sustainable business practices will be a key determinate of long term profitability, with companies that are able to understand and actively manage sustainability considerations likely to achieve a competitive advantage. We see environmental issues as not only a potential investment constraint but also an opportunity, with many companies set to benefit from the push towards sustainability.

In general, our analysis of environmental factors will centre upon the following issues:

- Carbon intensity and consequent exposure to carbon pricing
- Water supply and management
- Impact on local environment and risk management
- Climate change
- Waste disposal, pollution and contamination
- Renewable energy generation

Environmental issues are considered on a case by case basis. The materiality of potential environmental issues will dictate the degree of analysis conducted.

An assessment will be made of each company's exposure to particular environmental factors and their relative preparedness for such eventualities. Our evaluation of this response will form part of our investment decision making process.



Social

Similarly, to environmental issues, social issues affecting individual companies are assessed on a case by- case basis and form part of the fundamental research process undertaken on all prospective investments. Social factors can be defined as those relating to human health and welfare and include the following factors:

- Occupational health and safety
- Workplace relations and working conditions
- Human rights and child labour
- Community engagement
- Workplace diversity
- Corporate culture and conduct
- Supply chain management

Social factors are relevant to all companies but their relative importance will vary across companies and also through time.

All companies are subject to a thorough review as reputational issues can affect all companies at any time.

Social issues such as employee, community and government relations are also important considerations and are particularly relevant when assessing companies with operations in developing countries. We aim to ensure the companies we invest in, treat their employees in a fair and ethical manner and are cognisant of the effect their operations have on the communities they interact with.

We also place emphasis upon a company's safety record and management's commitment to safety in the workplace, including analysis of lost time injury frequency rates (LTIFR rates) and stated safety policies. In general we aim to ensure companies are implementing best practice safety systems and look for evidence of improving safety metrics or continued excellence in this regard.

Proxy Voting

We currently maintain a written Proxy Voting policy which is reviewed on an ongoing basis, and more formally, by WaveStone's Board at least annually. The policy details WaveStone's approach to proxy voting in relation to such issues as Board Independence, Committee Memberships and Director Remuneration. In accordance with this policy, we provide regular reporting on our voting activities.

Governance issues from a core consideration irrespective of the nature of the company's operations, with consideration such as the quality and independence of the company's Board and remuneration practices a key part of the investment decision. We will not entertain management that do not behave honestly and with integrity and who do not keep the market fully informed of their company's operations.

Summary

Our evaluation of ESG issues is undertaken at the stock selection level. As outlined above, ESG issues are discussed with management and other relevant parties. Post management interaction, ESG issues and potential mitigants are discussed between the team in an open forum as part of the raft of issues that may impact upon a company's ability to provide long term sustainable investment performance. In short, our investment focus is not simply confined to the financial performance of the company and we will not knowingly invest in companies that we believe are causing irreparable damage to the environment, workplace or end consumers.