A.1 Environmental, Social & Governance Policy

A.1.1 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.

A.1.2 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.

WaveStone strongly believes that responsibly managed companies are more likely to achieve a sustainable competitive advantage and provide strong long-term growth. Incorporating ESG factors into our investment process enables us to assess risks and opportunities that are not yet reflected in asset values. We integrate ESG factors in both our fundamental research and through active ownership.

As part of our 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 entitles 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.

ESG integration forms a natural part of WaveStone's investment process. The consideration of environmental, social and governance (ESG) issues is embedded in our corporate DNA principles.

- **ESG Research** - ESG factors are considered through qualitative fundamental analysis in the very first step of the investment process. We assess material ESG factors affecting a company and identify any improvement in ESG practices over the years. ESG information is obtained from a number of sources including in-house research (company accounts, media reports and engagement), as well as from sell-side broker research and Bloomberg.

- **Active Ownership** - Company engagement is an integral part of WaveStone's investment process. At WaveStone, we believe that successful engagement can, not only reduce risks to asset owners but also create value.

A.1.3 Engagement

WaveStone engages all companies in which it invests, and those in which it intends to invest, on material ESG issues and exercises its voting rights, giving consideration to the outcomes of such engagement activity. Through its active ownership practices WaveStone seeks to improve ESG performance by investee companies and encourage them to better manage their own ESG risks and opportunities.

Engagement is undertaken by the portfolio manager and analysts specialising in the relevant sector who are familiar with the company as well as the ESG issues most material to the business.

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

- Engage will 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 portfolios
- 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.

How we evaluate key Environmental, Social and Governance factors in our investment analysis is outlined in detail below.

A.1.4 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 company's 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 environmental 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.

A.1.5 Environmental considerations

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.

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.

Key Environmental factors considered in our analysis:

Climate Change

WaveStone subscribes to the scientific consensus that carbon dioxide in the atmosphere, predominantly as a result of human activity, has led to global warming. There has been a global move to reduce carbon emissions worldwide. The Paris Agreement, which outlines country-specific targets for reducing carbon emissions, was adopted in 2015 and has since been signed by 195 countries (as of July 2018). Countries must set out their plans for meeting their reduction targets by 2020, including Australia.

We expect well managed companies to be aware of the extent of their exposure to climate-related physical and transition risks. We encourage them to have plans in place to mitigate their exposure to these risks including their carbon emissions in the long term. We also assess a company's exposure to weather-related impacts of climate change as well as their preparedness for a transition to a low carbon economy.

Our review of climate risk exposure includes checking whether a company has sustainability policies in place including carbon mitigation strategies and whether they have a representative on the board who is responsible for the management of the company's climate -related risks including carbon reduction plans. As part of its engagement activity, WaveStone encourages investee companies to report their climate-related risks and opportunities in line with the Taskforce for Climate-Related Financial Disclosures (TCFDs).

Additionally, we monitor the carbon intensity of our portfolios against their benchmark.

WaveStone is also a member of the Climate Action 100+ initiative, an investor-led collaborative engagement group focused on engaging with systemically important greenhouse gas emitters and other companies across the global economy to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

Water supply and management

Global trends such as the growing global population, economic growth and increasing affluence are leading to increased demand for clean water both in industry and agriculture. We see both risks and opportunities in this area. Currently only 0.5% of the planet's water is available for use by mankind and global ecosystems and massive investment will be needed to upgrade and expand current water infrastructure to meet future demand and protect water quality. Equally industries heavily reliant on water could face significant risks due to conflict over water supply and consequently costs of water usage will rise. We assess and engage with companies on how they manage their water usage, interact with the local community and manage supply risks.

Waste disposal, pollution and contamination

The production of goods and services results in waste throughout the product life-cycle. With the global population set to increase to 9 billion by 2050 waste management is an important topic. We see both risks and opportunities in this area with companies affected by increased regulation of the use of landfill sites and the risks of both reputational damage, compensation or clean-up costs for companies who manage this badly, especially as it relates to hazardous waste. We see opportunities for companies creating innovative solutions to waste disposal to emerge as winners.

Renewable energy generation

As the world looks to move to a low carbon economy, we expect to see a gradual shift away from fossil fuels and into renewable energy. With increased investment and technological advances in renewable energy generation and storage we expect the cost of renewable energy to continue falling and to become cheaper than traditional fossil fuel energy within a few years. We see opportunities in this space in companies which are either directly involved in renewable energy generation and storage or those which are increasing their usage of renewables in their energy sources.

A.1.6 Social considerations

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 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.

Key Social factors considered in our analysis:

Occupational health and safety

Inadequate health and safety practices can lead to lost productivity due to workplace absences as a result of injury, as well as prosecution and fines.

We engage companies on their health and safety practices including training of staff and seek disclosure on health and safety incidents. 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. Additionally, in our engagement activity we strongly encouraging companies to implement gates that ensure zero harm in their REM policies.

Human rights and child labour

Companies with global operations or supply chains in countries with no human rights laws can face increased public scrutiny and brand erosion.

We assess companies to ensure that they are not exposed to any human rights abuses in their company operations or supply chains. We would engage any companies exposed to such issues to change their practices and put policies in place to protect their workers.

Supply chain management

Unethical or unsafe practices within a company's supply chain can leave a company exposed to reputational and operational risks. We expect well managed companies to have good oversight of and transparency within their supply chain. We encourage companies to have policies in place for effective assessment and monitoring of their supply chains. Additionally, we expect investee companies to be cognisant of the risks of modern slavery within their supply chains and to have strategies in place for mitigating such risks. We expect our investee companies to comply, where relevant, with the Australian Modern Slavery Act 2018.

Workplace relations and working conditions

Well-managed employee relations and good working conditions improve productivity within companies. We aim to ensure the companies we invest in, treat their employees in a fair and ethical manner. Companies that promote diversity, have low staff turnover and invest in ongoing staff training are looked at positively.

Other considerations

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.

A.1.7 Corporate Governance considerations

Corporate governance is central to any stock investment; it is typically a strong indicator of superior corporate DNA and hence forms a key part of WaveStone's investment process.

Key Corporate Governance factors considered in our analysis:

- Logical capital allocation (as described in our philosophy and process)
- Track record / shareholder focus (as described in Step1 of our investment process)
- Sound REM policies that align the interests of management & shareholders
- Board tenure
- Diversity at board and senior management level
- Articulated policies around sustainability
- Proper skilled assessment of board

A.1.8 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 form a core consideration irrespective of the nature of the company's operations, with considerations 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.

A.1.9 Memberships and initiatives

Principles of Responsible Investment (PRI)

WaveStone is a signatory to the UN-backed Principles of Responsible Investment (PRI) and publishes a report on an annual basis as part of its requirements. Wavestone's PRI Transparency Report and PRI Assessment Report can be viewed on Wavestone's website. https://www.wavestonecapital.com.au/how-we-invest/esg/

Climate Action 100+

WaveStone is a member of the Climate Action 100+ initiative, an investor-led collaborative engagement group focused on engaging with systemically important greenhouse gas emitters and other companies across the global economy to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

A1.9 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.