

Engagement Policy

Introduction

WaveStone Capital recognises 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 management of ESG issues, we hope to achieve our aim of generating above average, long term sustainable returns.

We strongly believe that responsibly managed companies are more likely to achieve a sustainable competitive advantage and provide strong long-term growth. We engage with all companies in which we invest, and those in which we intend to invest, on material ESG issues and exercise voting rights, giving consideration to the outcomes of such engagement activity. Through active ownership practices we seek to improve ESG performance by investee companies and encourage them to better manage their own ESG risks and opportunities. We also see engagement and active ownership as a core element of fulfilling our stewardship obligations

Purpose

The purpose of the Engagement Policy is to set out WaveStone's approach and general framework to engagement activities investee companies and key stakeholders.

This Policy will outline:

- WaveStone's commitment to engagement
- Effective Stewardship
- Key issues on which WaveStone engages with investee companies
- How WaveStone engages with investee companies
- WaveStone's approach to collaborative engagement
- WaveStone's policy on voting
- Conflicts of Interest
- Reporting

Commitment to Engagement

As part of our commitment to active ownership, 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.

Our commitment to the PRI Principle is to seek to be active owners, is demonstrated through our engagement activities across our portfolio of investee companies. 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.
- 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.

Effective Stewardship

WaveStone believe that there is a strong link between a well governed organisation and a company achieving a sustainable competitive advantage. We recognise that Investment Managers play a key role in fulfilling stewardship obligations to ensure responsible management and robust corporate governance practices through engagement activities.

Shareholder Stewardship is an assessment of whether a company's Senior Management and Board have, or are likely to act, in the best interests of shareholders. This includes an analysis of historical decision making, management and board effectiveness, remuneration structures, corporate governance, culture and financial controls.

Challenger Financial Group Limited, WaveStone's minority equity partner, is a member of the Financial Services Council which introduced its Internal Governance and Asset Stewardship code in January 2018. The code is a disclosure based standard requiring members to articulate and promote their approach to internal governance and asset stewardship. Whilst WaveStone is not required to adopt this code, we recognise the requirements of the code as being well aligned with our own values.

Specifically, the code advocates that disclosure by asset managers of their approach to

1. monitoring of company performance on financial and non-financial matters;
2. engagement with company management and the board (as appropriate) and escalation of issues in instances where initial engagements have not been adequately responded to;
3. approach to considering Environmental, Social and Governance factors (risks and opportunities) and whether these considerations influence investment decision-making and company engagement; proxy voting;
4. collaborative engagement with other investors including involvement with industry groups and associations;

5. principles used for policy advocacy including participation with industry groups and associations; and
6. the approach to client engagement, education and communication regarding asset stewardship.

Key issues on which WaveStone engages with investee companies

WaveStone acknowledges that sustainable business practices, effective social structures and good corporate governance will be a key determinant of long-term profitability, with companies that are able to understand and actively manage sustainability considerations likely to achieve a competitive advantage.

There are key ESG factors on which we engage investee companies, many of which are outlined below. However, our engagement on ESG issues is not limited to the topics below. We engage our investee companies on a wide range of topics that promote ESG within companies with the likely outcome of achieving a sustainable competitive advantage.

Environmental

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.

As part of our engagement process, we engage with companies on their climate risk exposure. 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.

We also encourage investee companies to report their climate-related risks and opportunities in line with the Taskforce for Climate-Related Financial Disclosures (TCFDs).

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. 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.

Social

Modern Slavery, human rights and child labour

WaveStone recognises that modern slavery, as well as being a serious ethical concern, can also pose a financial risk to businesses both from both a reputational perspective and from a disruption to their supply chains. WaveStone recognises that, although less common, there are still instances of modern slavery within Australia, particularly in high risk industries such as textiles, financial services (through their supply chains), mining, construction, property, food and beverages, agriculture, and healthcare.

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.

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

Workplace 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 encourage companies to implement gates that ensure zero harm in their REM policies.

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.

Governance

Corporate governance, in particular, 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 on which we engage investee companies are as follows:

Effective & logical capital allocation

A review of company practice regarding such matters as dividend policy & capital management 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.

Track record / shareholder focus

A solid history of success by the corporate, its executives (and Board) is tangible evidence of good "genes" and provides confidence to support expectations of ongoing success. Track record is a specific factor included in our Sustainable Competitive Advantage (SCA) score process and is part of our upfront quality screen.

Sound remuneration policies that align the interests of management & shareholders

A companies' executive remuneration policy is one of the main instruments to guide, evaluate and reward the behaviour and achievements of management. Accordingly, it is in the interest of a company, its shareholders and other stakeholders to have an appropriate remuneration policy

for the executive leadership team. It is important that the remuneration policy is transparent and structured in a way that aligns the interest of management and shareholders towards long term value creation (e.g. incentives to be paid in shares which have a performance and vesting period over a 3 to 5 year time frame). The inclusion of non-financial targets (environmental, social and governance) is strongly encouraged.

Proper skill assessment of the Board, tenure & succession planning (Board and Senior Management)

Boards have an important role in assessing management's performance and ensure they are looking after the best interests of all shareholders. In order to fulfil this role, the majority of the Board should be independent, have sufficient knowledge of the industry and relevant supervisory skills.

Further, the success of a company will be determined by the quality and success of its people, particularly the executive leadership team. It is important that Boards develop short, medium and long term succession plans for senior management and keep these updated to ensure that companies are managed to achieve long term success. Orderly succession of Board members is also a key factor we focus on.

Diversity at Board and senior management level

Companies and Boards should be able to demonstrate that they are diverse organisations across gender, ethnicity and thought. As well as monitoring board diversity, the Board should be monitoring the internal pipeline of talent and wider workforce on these metrics.

Articulated policies around sustainability

An articulated policy around sustainability is important to understand how a company aims to achieve its financial and non-financial objectives and is usually a sign of strong corporate governance. We want companies to be transparent with their sustainability strategy via their annual report and sustainability report.

How WaveStone engages with investee companies

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. Our individual engagements are based on the 30 – 35 stocks we do hold within the portfolio, plus an extra 30-35 stocks we don't own but do engage with as part of our idea generation process.

WaveStone undertake engagement through various forums:

- Meetings with company management/Board: Staff are encouraged to ask at least 1 ESG-related question with company management/Board. The responses are documented and filed within the "corporate actions" folder for that company so that the history of engagement is available to all staff and the progress can be actively monitored.
- Collaborative engagement

There are instances where we seek to escalate issues related to ESG matters to the senior management and Board. We engage specifically but also collectively with like-minded investors to achieve outcomes that, in our view, will result in better outcome for our investors. In the event that our engagements are unsuccessful, this may lead to an adverse proxy voting instruction at the next shareholding meeting.

Collaborative Engagement

WaveStone recognises the importance of collaborative engagement in complementing our own engagement and ESG objectives. WaveStone acts collectively in its engagements with other like-minded investors when appropriate.

The majority of our engagements are individual engagements. However, we do believe there are instances where collaborative engagements can be very effective. We look for collaborative engagements that are well organised and focus on specific issues. By doing so, we can combine our individual and collaborative effort to achieve the best possible outcome.

WaveStone does not outsource its engagement responsibilities to third parties.

Key collaborative engagements in which we have participated are listed below:

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.

We also actively participate in other memberships and initiatives that strengthen our approach to collaborative engagement.

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/>

Future IM/Pact

WaveStone is a founding partner of Future IM/Pact. Future IM/pact is an industry initiative aimed at attracting more diverse talent into the investment teams of Australia's leading super funds and fund managers. <http://www.future-impact.com.au/>

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.

Conflicts of Interest

In accordance with regulatory requirements, WaveStone maintains a conflict of interest policy to ensure that any actual, potential and/or perceived conflict of interest that may arise both between itself and its clients, a staff member and a client and between clients are identified, prevented or managed and disclosed in the best interests of clients.

All WaveStone staff are required to complete annual conflicts of interest training to ensure they have the appropriate understanding to identify and report conflicts of interest which can then be prevented or managed pursuant to its conflicts of interest framework.

Reporting

WaveStone publishes its engagement activity on a quarterly basis. The quarterly activity statement is published on our website.

WaveStone regularly discloses its proxy voting activities via the Fidante Proxy voting dashboard (<https://vds.issgovernance.com/vds/#/NjY1Ng==/>).

WaveStone also issues engagement activity to clients when requested.

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