Environmental, Social and Governance Policy

June 2021

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.

Commitment and approach

We believe that the integration of environmental, social and corporate governance considerations into our investment management processes and ownership practices is essential, as these factors can have a significant impact on financial performance. Sustainability is imperative for all companies, and we as fund managers have an active role to play in ensuring that the companies in which we invest are taking responsibility for ESG issues, and that we need to actively monitor the compliance of investee companies to ensure they live up to best practice in this area. This reflects our obligation to our clients to both maximise returns and manage risk. By improving our understanding of individual companies' management of ESG issues, we aim to achieve our objective of generating above average, long term sustainable returns.

We believe the formal incorporation of ESG factors into our overall investment analysis is essential, and actively seek to reflect this when evaluating a company's worth. As part of our commitment to incorporate ESG matters into our investment process, Alphinity is a signatory to the United Nations-backed Principles for Responsible Investment (PRI).

The Principles for Responsible Investment are:

- 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

We will engage with all companies in which we have invested, and those in which we might consider investing. Such engagement will cover all aspects of the company relevant to its prospects, which naturally includes ESG matters. We will seek to be pro-active in raising ESG matters with companies to ensure that proper consideration is taking place by them. The outcome of our engagement will be taken into account when performing financial modelling and valuation work on a company, and when making decisions regarding the ownership of that company in our portfolios. We will seek to engage with Directors to the greatest extent practical, as they are in place to represent shareholders. We will also seek to engage with high-level company executives, as they are most directly responsible for day to day activities regarding operational matters.

We will also engage with parties outside companies to the extent necessary to properly evaluate ESG risks and opportunities, and arrive at outcomes beneficial to our investors. These might include politicians, policy-makers, non-government organisations and peers in the investment community, through collaborative efforts as countenanced by the Principles for Responsible Investment noted above.

Investment Process

The means of integrating ESG issues into our investment process will vary depending on the company being assessed. It may range from outright avoidance of a company with poor ESG performance to a premium being accorded to a purely financial valuation for a company with very positive ESG performance.

Environmental

We acknowledge that sustainable business practices will be a key determinate of long term profitability, and that companies which are able to understand and actively manage sustainability considerations are ultimately likely to achieve a competitive advantage. Environmental issues may not only be a potential investment constraint but may in some cases be an opportunity, for companies which benefit from the push towards sustainability.

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

- Carbon intensity and consequent potential 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 and the ultimate impact on valuation.

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

Social

As with environmental issues, social issues affecting individual companies will be assessed on a case-by-case basis and form part of the fundamental research process undertaken on all prospective investments. We define Social factors 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, including Modern Slavery 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 through time.

Our analysis in this area will encompass such issues as companies' safety record, management of community relations and labour relations. Reputational issues can affect any company at any time.

Employee, community and government relations are important considerations and are particularly relevant when assessing companies with operations in developing countries. We aim to ensure the companies in which we invest 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 its management's commitment to safety in the workplace, including considering lost time injury frequency rates and stated safety policies. In general we aim to ensure that the companies in which we invest are implementing best practice safety systems, and look for evidence of improving safety metrics or continued excellence in this regard.

Governance

Governance issues are a key consideration irrespective of the nature of a company's operations, with considerations such as the quality and independence of the Board and remuneration practices a factor in the investment decision. We will not accept management that does not behave honestly and with integrity, and which do not keep the market appropriately informed of the company's operations.

Policy on voting

We take our ownership responsibilities seriously as we believe the right to vote as proxy for our investors is a valuable asset. We intend, wherever possible and practical, to vote on every resolution put to shareholders. Our primary objective when voting will be maximising the value of our unit holders' investments. We will comply with any client's instruction to vote in a particular manner; however any such instruction will not bind the votes we exercise on behalf of any other clients. Where we vote against the recommendation of the board, we will engage with the company to explain why in the expectation that the issue will be addressed prior to the next meeting.

Guiding principles on proxy voting decision

The following are our guiding principles on proxy voting for the types of proposals that are frequently presented. It is acknowledged however, that there may be circumstances when our vote on specific issues may deviate from these principles.

Board structure

We believe that good corporate governance is reflected in a company when the following is reflected in the board structure of a company:

- The Board should be made up of a majority independent Directors, subject to the skills and experience that the individual brings to the Board, with an adequate level of diversity between directors;
- The roles of Company Chairperson and Chief Executive Officer should be separate individuals; and
- Directors should also be independent of management, and free of any business or other relationship that could materially interfere with management's decision.

Existence of nomination and audit committees

The Board should establish committees such as nomination and audit committees to maintain independence and accountability in the respective areas.

A majority of the members on these committees should be independent members.

The audit committee should consist the following:

- Non-executive Directors;
- Chairperson who is independent and not chairperson of the Board; and
- At least three members.

Re-election

When deciding on the re-election of the Directors we will consider the following:

- Number of other positions they hold, in the context of whether they are able to dedicate sufficient time to performing the duties required of a committee member; and
- Their existing attendance record at board and committee meetings.

We will vote against nominees who serve on the remuneration committee if they approve excessive remuneration arrangements or propose equity based compensation plans that unduly dilute the ownership interest of shareholders.

Remuneration committee

The Board should also establish a remuneration committee to overview executive remuneration payments. This will ensure that executives' remuneration is independently reviewed and approved by the committee. Executive remuneration should be in line with acceptable practice.

The following should be in place:

- Membership of the remuneration committee should be made publicly available and that committee should be comprised of a majority of independent Directors;
- Full disclosure of the CEO's remuneration, including share options, fringe benefits and retirement benefits; and
- Chairperson of the remuneration committee should provide reasons to shareholders for the level of executive remuneration.

Equity-based compensation plans

We believe that appropriate equity based compensation plans should be:

- Approved by shareholders;
- Linked to appropriate performance targets;
- Based on face value not "fair value"
- Opposed to plans that substantially dilute investors ownership interest in the company; and
- Opposed to providing participants with excessive awards.

Corporate structure and shareholder rights

We believe that shareholders should have voting power equal to their equity interest in the company. For instance:

- We will support motions that shareholder votes are by poll; and
- We will vote against proposals for a separate class of securities with disparate voting rights.

Reporting of votes

Mandate clients will be informed of voting activity through regular reports as specified in the contractual terms of their respective mandates, or as requested.

3.8 Summary

Our evaluation of ESG issues is undertaken primarily at the individual company level by industry and country where relevant. As alluded to above, ESG issues are discussed with directors, management and other relevant parties. Subsequent to management interaction, ESG issues and potential mitigants are considered by the team as part of the raft of issues that may impact upon a company's ability to provide long term sustainable investment performance and where possible incorporated into company valuations. In short, our investment research effort is not solely confined to the prospective financial performance of the company, and we will not knowingly invest in companies that we believe are causing unconscionable damage to the environment, workplace or end consumers.

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