PLATYPUS
ASSET MANAGEMENT

Environmental, Social and Governance Investment Policy

Overview

Environment, Social, and Governance (ESG) issues are important to Platypus Asset Management (Platypus) for two reasons:

1. Integrating ESG in investment decisions can lead to better investment outcomes. This is because ESG issues can materially impact earnings and valuations in companies and across sectors.
2. As active owners and stewards of our clients' capital, we are committed to advocating for more sustainable practices from the companies we invest in. We strive to create positive change by encouraging companies to do better on environmental and social issues.

What do we mean by ESG Investing?

ESG investing is a holistic approach to active investing where social, environmental and corporate governance issues are considered alongside financial issues when making investment decisions. It considers a broad range of risks and value drivers as part of the investment decision-making process, many of which are intangible.

Some of the ESG issues we consider as part of our investment process include the following:

- energy consumption and greenhouse gas emissions
- supply-chain risk management and modern slavery
- gender diversity at all levels of the organisation
- recycling and waste management
- employee satisfaction and productivity
- regulatory risk
- political risks, bribery and corruption
- public sentiment and general support for the business
- independent board leadership
- executive pay.

In short, ESG issues encapsulate the relationships between a company, its employees, the environment and society.

As active owners, we also earnestly work to improve the performance of companies on environmental and social issues in areas where we can make a difference. We refer to this work as engagement.

Our Approach: ESG integration in our investment process

This policy on ESG integration applies to each of our funds.

ESG is integrated in each of our funds, whether those be quantitative or qualitative funds, because we believe good ESG practices leads to better financial returns for our investors[1].

[1] See Brooke, P., Docherty, P., Psaros, J., Seamer, M. The time-varying relationship between internal governance characteristics and equity returns, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2514244

Our ESG team sits within our investment team, contributing to company analysis, conducting proprietary ESG analysis and ESG ratings, advising on voting at AGMs, and setting ambitious engagement agendas every year with our quantitative and qualitative investment teams.

Platypus has a three-stage approach when it comes to ESG integration. The first stage of the process is quantitative, the second stage of the process is qualitative, and the third stage of the process involves active ownership, driving change and holding the companies we invest in to account. Each is discussed in turn.

1. ESG Scores and our Factor Model – ranking companies on ESG issues

Platypus has leveraged its in-house equities database since 2006 to investigate ESG factors as alpha signals in Australian equities. We tested 45 ESG data points (ESG factors) against our returns and price database and used canonical quantitative techniques to help measure the efficacy of each.

The result is a basket of ESG factors that generate alpha when combined with a proprietary ESG ranking system. The factors are in categories that include diversity, effective governance and sustainability.

These ESG factors are used by each of our funds in different ways. For example, in our Socially Aware Fund and Systematic Growth Fund, the ESG ranking tool is an integral part of the investment process. In our Australian Equities Fund, material changes in a company's ESG score is used to alert us to potential ESG risks and opportunities in our investment universe.

2. Qualitative Analysis – fundamental analysis with ESG integration

In constructing a concentrated Australian equities portfolio, our analysts carry out in-depth stock and industry research on all issues relevant to earnings and share prices. The analysis of ESG issues is a crucial part of this investment research.

The ESG issues researched by our investment team includes energy consumption and greenhouse gas emissions, supply-chain risk management and modern slavery, gender diversity, recycling and waste management, employee satisfaction and productivity, regulatory and political risks, bribery and corruption, independent board leadership and executive pay, among many others.

The key is to understand the impact of every ESG issue – positive or negative – on a company or sector's performance. For every ESG issue, our analysts ask the question, "So What?" in the context of their forecasts and models.

The materiality of the ESG issue drives our next steps. We might not invest in the first instance, or we might actively engage with company management to facilitate change where a position is already held. We will exit a position if an issue is not satisfactorily resolved and we are concerned about the potential impact on returns over our investment horizon.

We prefer to drive change through engagement, rather than simply not owning a company, and we welcome opportunities to join forces with others in the investment industry who are committed to improving company performance on ESG issues.

3. Engaging for change

As active owners, we work to improve the performance of companies on environmental and social issues in areas where we can make a difference. We do this for two reasons:

1. Engaging with companies on ESG issues can lead to better investment outcomes.
2. We have an opportunity to use our access and influence to encourage companies to do better on environmental and social issues. As stewards of our clients' capital, we believe we have an obligation to use this opportunity and make a difference where we can.

The way in which we go about engagement is set out below.

Identifying engagement issues

As a quantitative and qualitative investment house, we regularly identify ESG issues in Australian companies. They are highlighted by our ESG factor model and ESG scores, our company data requests via our proprietary ESG investment surveys, and by our qualitative investment team when analysing companies on the full range of financial and non-financial metrics.

We have two key engagement streams:

1. Focused company-specific opportunities to improve ESG practices.
2. An ambitious annual engagement agenda, tackling significant industry-wide ESG issues to drive change.

We will also support regulatory, legal or policy change when appropriate.

The company-specific stream involves the investment team, often with input or direct involvement of the ESG team, asking companies to do things differently. This engagement work might aim to improve a company's executive pay practises, its treatment of customers or employees, its environmental practices, its carbon emissions targets, or its approach to waste management.

The industry-wide engagement stream typically involves cross-company issues like climate change and modern slavery. This is discussed further below.

Targeting impact with engagement

Our annual engagement agenda typically targets industry-wide issues that need to be changed for the better. Real impact often involves industry-wide change. For example, meaningfully reducing the huge volumes of landfill in Australia involves a multi-pronged approach tackling our waste and recycling systems, as well as a lowering of waste in the first place. It involves thoroughly researching the issue, understanding the economic drivers of the issue, identifying the incentives that need to change, and working out how best to work with others or on our own to drive that change.

We are then able to map out an engagement plan with a set of metrics that we can measure progress against.

We are committed to publishing our progress against those metrics every year.

Our engagement agenda

We publish a review of our engagement activities at the end of our calendar year, including progress on our current engagement agenda. It is available on our website: www.platypus.com.au

Our position on climate change

We believe that considering environmental, social and governance issues in investment decisions can lead to better investment outcomes. This is because ESG issues can materially impact earnings and valuations in companies and across sectors.

One important ESG issue is climate change.

The Intergovernmental Panel on Climate Change (IPCC) has warned that significant transition is necessary to limit severe climate-related risks to food production, infrastructure, water supply, human security and economic growth. Without action in line with the goals of the Paris Agreement, average global temperature rises of around 4 degrees Celsius can be expected to result in incredible economic losses globally over the next 80 years[2].

Investors are exposed to two broad categories of risks, both of which we consider when making investment decisions: the physical impact of climate change and the financial impact from transitioning to a lower carbon economy.

Physical impacts include costs or business impacts flowing from more extreme weather patterns or natural catastrophes, while financial impacts associated with the transition can be more indirect and include costs flowing from regulatory change, changing consumer demand, or the changing energy mix. For example, changing policies, technologies and consumer preferences may accelerate zero-emissions technology and penalise carbon intensive activities, seeing emissions-intensive businesses or assets lose value.

Climate change: stewardship and engagement

As active owners and stewards of our clients' capital, we have an opportunity to advocate for more sustainable practices from the companies we invest in. We do this by discussing our concerns with companies and asking for details on how they are measuring and managing climate risks across their business – both physical and financial.

The objective is twofold: to improve the resilience of the businesses in which we invest, and see improved disclosure on climate risks and management, enabling the market to better identify the risks and opportunities associated with climate change.

We are after the following, from higher risk companies:

1. Action on governance and clear accountability at the board level for climate change policy.
2. Quantitative emissions targets and emissions intensity targets relative to the Paris Agreement.
3. Science based emissions targets, being targets founded on the latest climate science.
4. Disclosure on climate scenario analysis.
5. Reporting under the Carbon Disclosure Project.

[2] See https://www.ipcc.ch/sr15/ IPCC Special Report "Global Warming of 1.5C"

6. Disclosure on lobbying activities, which we expect to be consistent with the Paris Agreement.

On climate action more broadly, we publicly state our support for the Paris Agreement - which calls for global emissions reduction with the aim of keeping global warming below two degrees Celsius and net zero emissions by 2050 – and the reporting framework proposed by the Taskforce on Climate-related Financial Disclosures (TCFD).

We are also a signatory to Climate Action 100+, a coalition of global investors seeking science-based emissions reductions from the world's largest emitters.

Our position on modern slavery

Right now, as many as 40 million people are thought to be subject to modern slavery, which includes forced labour, debt bondage, human trafficking and child labour. The illegality of these practices means that these people are often hidden from sight, and the victims' vulnerability means they rarely have a voice. According to the Global Slavery Index 2018, over 70% of those trapped in modern slavery are women and children.

Australia is not immune from modern slavery. In fact, it's likely to be present in the vast majority of supply chains, as little as one step removed. This is because Australian businesses often operate in and source from Asia, where 75% of victims are thought to be working.

Australian companies that are prepared to investigate their supply chains deeply and thoroughly enough are likely to find instances of modern slavery. Thanks to Australia's new Modern Slavery Act (2018), all Australian-domiciled companies earning revenue of over $100 million a year are required to start mapping the human risks in their supply chains and publicly report on their efforts.

In 2020, we joined forces with other Australian investors on modern slavery and signed a statement on the issue. That statement, which can be obtained from the IAST website[3], calls on all companies to pursue real action on modern slavery, human trafficking and labour exploitation.

The statement reflects our view that modern slavery goes beyond ethics. Business models that rely on underpaid workers, weak regulation or illegal activities are unsustainable and give rise to significant compliance and brand risk. We take supply chain risks very seriously.

Policy support

Regulatory, legal and policy settings can be crucial drivers of a company's commitment to sustainability. Laws and policies covering areas such as industrial relations, the minimum wage, sales and marketing practices, pollution and discrimination effectively set the bar when it comes to company commitments. In this context, regulations and policy settings can be an effective tool to drive change.

Australia's Modern Slavery Act, for example, has already raised the bar on understanding where modern slavery risks lie in large Australian companies' supply chains. Acknowledging the power of

[3] 2011-IAST-APAC-Statement-of-Investor-Expectations-on-Modern-Slavery-Risk.pdf

regulatory and policy settings, and in line with principle 5 of the UNPRI, Platypus commits to engaging with governments and policy makers to promote ESG issues, where appropriate.

Reporting and disclosure

We record details of every engagement we have with companies, industry organisations, and policy makers. We publish a summary of our engagement activities on an annual basis on our website.

The following documents are also on our website:

- Proxy Voting Policy
- Engagement Report

Our public commitment to ESG and responsible investing

As a signatory to the UNPRI, Platypus formally commits to:

- incorporate ESG issues into the investment analysis and decision making processes;
- be an active owner and incorporate ESG issues into our ownership practices;
- seek appropriate disclosure on ESG issues by the entities in which we invest;
- promote acceptance and implementation of the principles within the investment industry;
- work with the PRI Secretariat and other signatories to enhance their effectiveness in implementing the ESG principles; and
- report on our activities and progress towards implementing the principles.