ELLERSTON CAPITAL

Ellerston Responsible Investment Policy

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Ellerston Responsible Investment Policy

Ellerston Capital ("Ellerston") is a specialist investment manager providing a range of active, innovative equity and alternatives strategies. As a firm majority owned by its principals and employees, our objectives are fully aligned with those of our client's.

Being a dedicated investment manager, we aim to do one thing exceptionally well: grow and protect our clients' wealth through responsible investing. We are passionate about creating value for our clients by identifying outstanding investment opportunities and designing portfolios that use each of our investment teams' unique strengths and capabilities to perform over the long term.

Responsible Investment is key to this value creation.

1.1. What is Responsible Investment?

Recent decades have seen a growing trend for investors, asset managers and asset owners to consider various complementary non-financial factors in addition to traditional business and financial analysis, in making investment decisions. These qualitative factors look at investments in an Environmental, Social or Governance (ESG) context.

Ellerston believes that incorporating these ESG considerations into the investment process can lead to more informed and holistic investment decision-making and better investment outcomes for our clients.

Responsible Investment is a term that is now recognised globally to reflect this practice which has been otherwise described in a number of ways including *Ethical* or *Sustainable Investment*, *ESG*, *Sustainable and Responsible* or *Socially Responsible Investment* (SRI).

Ellerston is a signatory of the Principles of Responsible Investment (PRI), the global industry peak body for Responsible Investment, and a member of the Responsible Investment Association of Australasia (RIAA), our local industry peak body.

Ellerston's Responsible Investment Policy ("Policy"), as follows, details our approach to implementing Responsible Investing.

Approved by Ashok Jacob, Executive Chairman, 30 March 2020

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2. Ellerston Capital & Responsible Investment

2.1. Responsible Investment Principles

The United Nations-backed Principles for Responsible Investment (PRI) is a network of international investors working together to put Principles for Responsible Investment into practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices.

Being a signatory of the PRI entails an explicit commitment and the adoption of six principles which we believe will improve our ability to meet commitments to our investors, as well as better align our investment activities with the broader interests of society.

These six principles are as follows:

Principle 1 – We will incorporate ESG issues into investment analysis and decision-making processes

Principle 2 – We will be active owners and incorporate ESG issues into our ownership policies and practices

Principle 3 – We will seek appropriate disclosure on ESG issues by the entities in which we invest

Principle 4 – We will promote acceptance and implementation of the principles within the investment management industry

Principle 5 – We will work together to enhance our effectiveness in implementing the principles

Principle 6 – We will report on our activities and progress towards implementing the principles

2.2. Key Policy Components

This Policy affirms Ellerston's commitment to responsible investing and outlines our approach to practising responsible investing which comprises of four key components:

1. **Integration of ESG considerations in the investment process** – research, analysis & investment decision making
2. **Portfolio screening** – negative and positive as required by the client
3. **Stewardship** – engagement with companies in our investible universe and those included in our portfolios (and all relevant stakeholders), and undertaking proxy voting appropriately
4. **Transparency** – full disclosure

3. Implementing the Policy

3.1. Responsibility

As Chairman of the Responsible Investment Committee ("the Committee", formed at the direction of the Ellerston Capital Ltd Board of Directors), the Chief Investment Officer (CIO) is ultimately responsible for the overall implementation of this Policy.

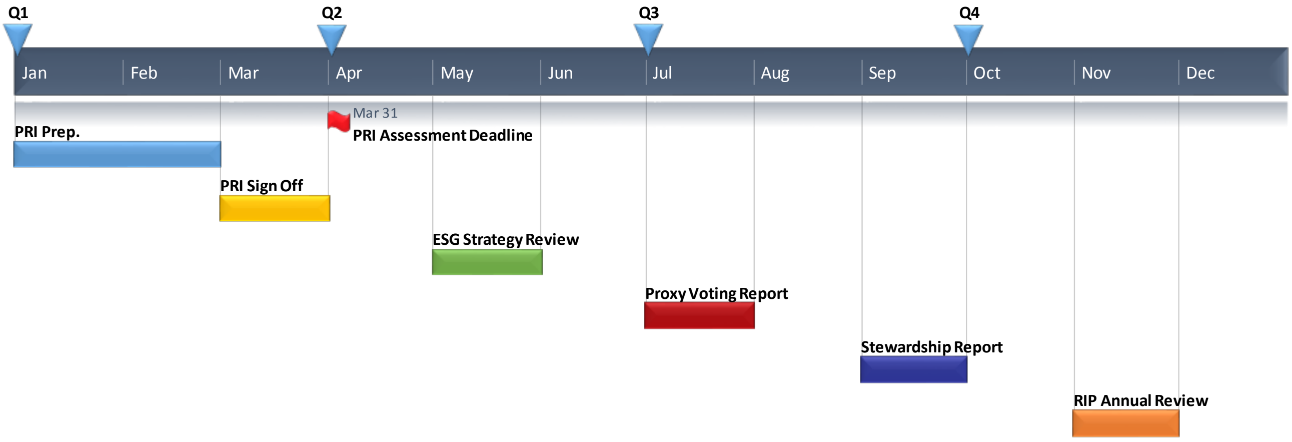
The Committee comprises of:

- Senior Management Representative & Committee Chairman – CIO
- Head of ESG
- Head of Legal and Compliance
- Head of Operations
- Representatives of respective Investment Teams

The Committee is responsible for:

- Setting the strategy and direction of, and overseeing the implementation of Ellerston's Responsible Investment approach as it pertains to our business and our investment strategies
- Discussing key responsible investment issues, and highlighting potential threats and opportunities impacting client portfolios

The Committee will meet at least quarterly, with an annual cycle of PRI submission, ESG strategy and policy reviews, and previewing the external reporting related to our transparency commitments, as follows:



This Responsible Investing Policy will be reviewed on a regular basis and amended to reflect developments in best practice and our commitments to PRI and other industry peak bodies (such as RIAA). The Head of ESG will be responsible for the annual review of this policy in the second quarter of each financial year.

3.2. All investment professionals are aware of the this Policy and responsible for adhering to its principles

New investment staff will be provided with Ellerston's Responsible Investing Policy. Any changes to this Policy will be advised promptly to all members of the investment team and our investors by publication on our website.

4. ESG Integration in the Investment Process

Ellerston is a high conviction active manager offering a range of equity-related investment strategies. Each of our investment teams has its own investment process for its particular strategy, which is determined by each Portfolio Manager. However, ESG is consistently integrated into each team's analytical processes, with the purpose being to identify and consider material risks and opportunities related to the ESG factors.

Our teams have adopted a common "ESG Matrix" framework for integrating ESG issues into their company analysis, alongside fundamental considerations. The key features of the ESG Matrix are as follows:

1. Focus on measurable and/ or objective data to ensure assessments are consistent and unbiased, emphasising:

   - Environment: absolute levels and trends in factors including but not limited to carbon emissions, water consumption and waste production.
   - Social: ethical behaviour, staff turnover levels, operational health and safety performance, diversity and community engagement.
   - Governance: Governance structures and processes, Board of Director ("Board") meeting attendance, Board skills and gender diversity, management remuneration structures (incentive alignment and hurdle levels), historic value creation / destruction of management and Board.

2. For each company, qualitatively assess and quantitatively rate each E, S and G aspect of the company in terms of:

   - Performance – rate as good, acceptable or poor, and
   - Materiality – rate as low, medium or high.

3. Add the scores for the individual E, S and G matrices into a single, overall company score. The worst scores are for companies with high materiality and poor performance. Conversely, the best scores are for companies with high materiality and good performance.

4. Include ESG aspects in ongoing company monitoring to detect improvements or deterioration of scores over time, and configure into our investment views accordingly.

Each investment team has the freedom to determine which external providers of ESG information are most impactful for them. Moreover, to ensure that the approach is aligned with how the Portfolio Manager thinks about risk and return, he or she is empowered to determine the manner and extent to which the information they capture using the ESG Matrix impacts their investment decisions and over what timeframe.

For our listed long only and market neutral equities teams, at a minimum, the output of the ESG matrix is considered alongside all other investment considerations as one component of the investment process for determining a company's eligibility for a portfolio. Some Portfolio Managers take a further step and choose to incorporate the impact of ESG by increasing the discount rate and therefore reducing valuation estimates based on poor ESG assessments, while others go yet further and use a poor ESG score as a "knock-out", which renders a company un-investable until the ESG profile improves. In some cases, our Portfolio Managers have added consideration of ESG themes from a "top-down" perspective to influence country and/or asset allocation.

4.1. External Inputs

Ellerston uses ESG data and ratings supplied by external service providers such as Sustainalytics and Vigeo Eiris.

We regularly keep abreast of industry ESG “thought leaders for publically available insights in ESG process and analysis.

An increasing number of research departments with investment banks and brokers are publishing on ESG issues generally and sometimes where relevant to the specific companies they cover. In a few instances the research product is formally integrating consideration of relevant ESG issues.

5. Portfolio Screening

Portfolio screening is a rigorous process which enables portfolio managers to explicitly exclude or include companies with specific business activities in the portfolios that we manage. Where our client mandates require, we use screening to determine the investment universe for that particular portfolio.

Negative screens determine companies that are to be excluded from a particular portfolio's investment universe. The Global Industry Classification Standard (GICS) (MSCI) allocates every listed company to a particular broad economic Sector and then three Industry Groupings. Particular business activities are excluded by identifying the relevant GICS sector and Industry Groupings, and removing these and their constituent companies from the investment universe. Materiality thresholds (e.g. % of revenues from a particular activity) are used to safeguard that companies who fall outside of a sector but that are exposed to the particular activity are also excluded.

Positive screens are used to determine the constituents of investment universes where exposure to particular business activities are explicitly required.

5.1. Portfolio Screening vs. Effective Engagement

Portfolio screening as a technique to avoid investing in certain business activities or to bring about the divestment of such companies from current portfolios was one of the earliest ESG investment strategies. Many of the first Responsible Investors were faith-based organisations whose values simply dictated that they would not have any exposure to a particular business activity. Hence they would simply have no exposure to such companies.

As Responsible Investors and therefore good stewards of our client's capital, we believe that effective engagement with companies is a more powerful tool to bring about positive changes to material ESG issues that companies may face. Simply selling and passing on the ownership risks placing the company in the hands of new owners that don't care about the negative ESG impacts of the company and therefore may be less likely to bring about positive change.

Our approach to responsible investment therefore places a greater emphasis on effective engagement, being a catalyst for positive change rather than simply "kicking the can up the road".

6. Stewardship

Ellerston recognises its fiduciary obligation to act in the best interests of all clients, and good and effective stewardship of our client's investments is an important aspect of achieving this obligation.

Our approach to stewardship is two-fold:

Firstly, regular engagement with the senior management of existing and prospective investments enables discussion of relevant matters, ensures good corporate governance practices, and may also seek to influence corporate decision making at a strategic level, where this is considered to be beneficial to clients;

Secondly, it is our duty on behalf of our clients to vote their proxy, or advise on the exercising of proxy votes, when the investments in their portfolios are entitled to do so. Ellerston's policy is to always vote in the best interests of the client's investments in the portfolios that we manage on their behalf.

This Policy sets out our approach to engagement and proxy voting in the context of corporate governance principles, the investment management process and client service responsibilities.

6.1. Engagement

Ellerston seeks to actively engage with our investee companies to deepen our understanding of management views and strategies with regards to both business and ESG-related issues. Importantly, this engagement gives us the opportunity to voice any concerns we may have about any material ESG risks that we observe.

When possible, our analysts typically speak with representatives of the companies we are considering for investment to ask a range of questions about their operations, the challenges they may face, and the key conditions required for their success. These do encompass targeted questions relating to specific ESG factors, such as supply chain management, employee relations, environmental risks and mitigation, as well as corporate governance. Dialogue with management continues in regular follow-up meetings and communications after we invest in the company.

We will raise our concerns with management if we believe that the company is pursuing a course of action that risks jeopardising the sustainability of the business and is thus detrimental to medium to long-term shareholder value. In these instances, we will propose other potential courses of action, or solutions to any material ESG risks we observe.

Engagement is also an opportunity to bring an informed shareholders perspective to management. It enables us to contribute our in-depth understanding of the company and its industry, and to provide support and constructive ideas to the current strategy.

We are realistic about the extent to which we can effect change through active ownership, and we may choose to exit a position in cases of material ESG risks, rather than persisting with attempts to engage with an unreceptive management team. Once again, our guiding principle is to act in the best interest of the investors whose money we manage.

6.2. Investment Holding Periods

Whilst our investment time horizon is long term, it is sometimes the case that the actual holding period is shorter than envisaged (if our expected valuation is reached quickly or our disciplined risk management dictates the sale of an investment). In these instances, it may not be possible to effectively engage with companies where material ESG risks have been identified.

6.3. Limitations of Direct Engagement & Membership of Shareholder Action Groups

Another way our "voice" can be heard is through membership of groups which bring together shareholders and organise effective collective engagement on particular issues. Ellerston is a signatory of Climate Action 100+, an organisation which coordinates engagement with the world's largest corporate CO_2 emitters. The purpose of this collective engagement is to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

As a signatory we are specifically contributing to the engagement with companies listed in Australia.

We may join other similar collective groups.

6.4. Voting

Annual General Meetings (AGM's) are the formal corporate governance mechanism through which shareholders are asked to express their opinion on various important matters such as the composition of the Board of Directors, remuneration policies for senior management, changes to shareholder capital, and appointment of auditors. Extraordinary General Meetings (EGM's) are used, or can be called to address matters such as large corporate transactions which may or may not be in shareholders' best interests, on an ad-hoc basis.

For the companies that we invest in, the right to vote at AGM's and EGM's is ultimately owned by our clients. We consider it part of our fiduciary duty to exercise these votes in the appropriate manner on their behalf. Our separate Proxy Voting Policy details the voting process accordingly.

6.5. General Engagement

We will regularly engage with other investors and relevant industry organisations (such as PRI, RIAA, ASA) to promote the industry wide integration of ESG issues and to further our knowledge and the development of our own investment process in this regard.

7. Transparency

Consistent with our commitment and responsibilities related to PRI and, where relevant, product certification bodies such as the Responsible Investment Association of Australasia (RIAA), this Policy document aims to provide full transparency on how we integrate ESG into our investment process. Generally, we strive to offer a higher level of disclosure than the legal and regulatory requirements, and to exceed the standards of our peers.

7.1. Portfolio Holdings

Our institutional clients receive full disclosure of their portfolios on a regular basis (the minimum being monthly).

Where our funds have retail investors, we publish our full list of holdings on our website every 6 months as per the product certification requirements of RIAA.

7.2. Performance Reporting

We provide our investors with a monthly performance report.

7.3. Regular Reporting

We provide our investors with monthly commentaries on performance, portfolio management activities and other relevant subjects.

7.4. Voting

Per the Ellerston Proxy Voting Policy, we publish our voting records on an annual basis.

7.5. Company Engagement

If appropriate, we may publicise our engagement with portfolio companies, however, it is often the case that engagement is more effective if kept private.

The Ellerston Stewardship Report, published annually, will provide examples of company engagement in practice.

8. Other Issues

8.1. Modern Slavery Risk Policy

Ellerston acknowledges that Modern Slavery (forced labour and related practices) occurs in every region of the world and likely touches upon the operations and/or supply chains of most sectors and businesses.

Exposure to Modern Slavery represents reputational and therefore financial risk to companies and consequently to their external stakeholders, including shareholders. As an investor in Australian and overseas companies, it is therefore incumbent upon us to assess and consider the potential risk of exposure to Modern Slavery via the companies in which we invest on behalf of our clients.

Beyond direct operational exposure, the complexity of supply chains, which are often global, makes it difficult for companies (and their shareholders) to identify instances of exposure to Modern Slavery. We will achieve this by identifying to the best of our ability, the high risk business models, sectors and geographies, and will ensure an appropriate focus in the thorough research and analysis that we undertake prior to investment in any company.

A 2019 report[1] commissioned from KPMG by the Australian Council of Superannuation Investors (ACSI), highlighted four key Modern Slavery risk factors: vulnerable populations (migrant workers, base-skilled workers); business models structured around high-risk work practices (outsourcing of labour needs); high-risk product and service categories (raw materials, services procurement, branded and unbranded goods not for resale); and, high-risk geographies. In an Australian context, high risk sectors are Financial Services, Property, Food Beverages and Agriculture, Mining and Healthcare. In a geographic context, Australia is considered high risk given the significance of imports from and supply chains that extend deep into Asia, with the Asia Pacific region acknowledged as having the largest exposure to Modern Slavery. Other high-risk sectors in an international context include Construction and Building, Electronics Manufacturing and Recycling, and Apparel.

Modern Slavery risks are also an important factor in the context of our future engagement with the management of prospective and current investee companies. Where companies are considered to be exposed to high risk business models, activities and/or geographies, our engagement also seeks to address the appropriate Modern Slavery risks.

Ellerston aspires to the highest standards of Responsible Investment, including full integration of ESG considerations within its investment process (of which Modern Slavery risks are a key Social consideration).

[1] *Modern Slavery Risks, Rights & Responsibilities – A Guide for Companies and Investors, February 2019*

8.2. Managing Conflicts of Interest

Ellerston maintains a Conflict of Interest Policy which provides the framework and rules which addresses this issue as follows:

1. Definition of conflicts of interest
2. Procedures for managing conflicts of interest
3. Mechanisms for controlling conflicts of interest
4. Monitoring and reporting

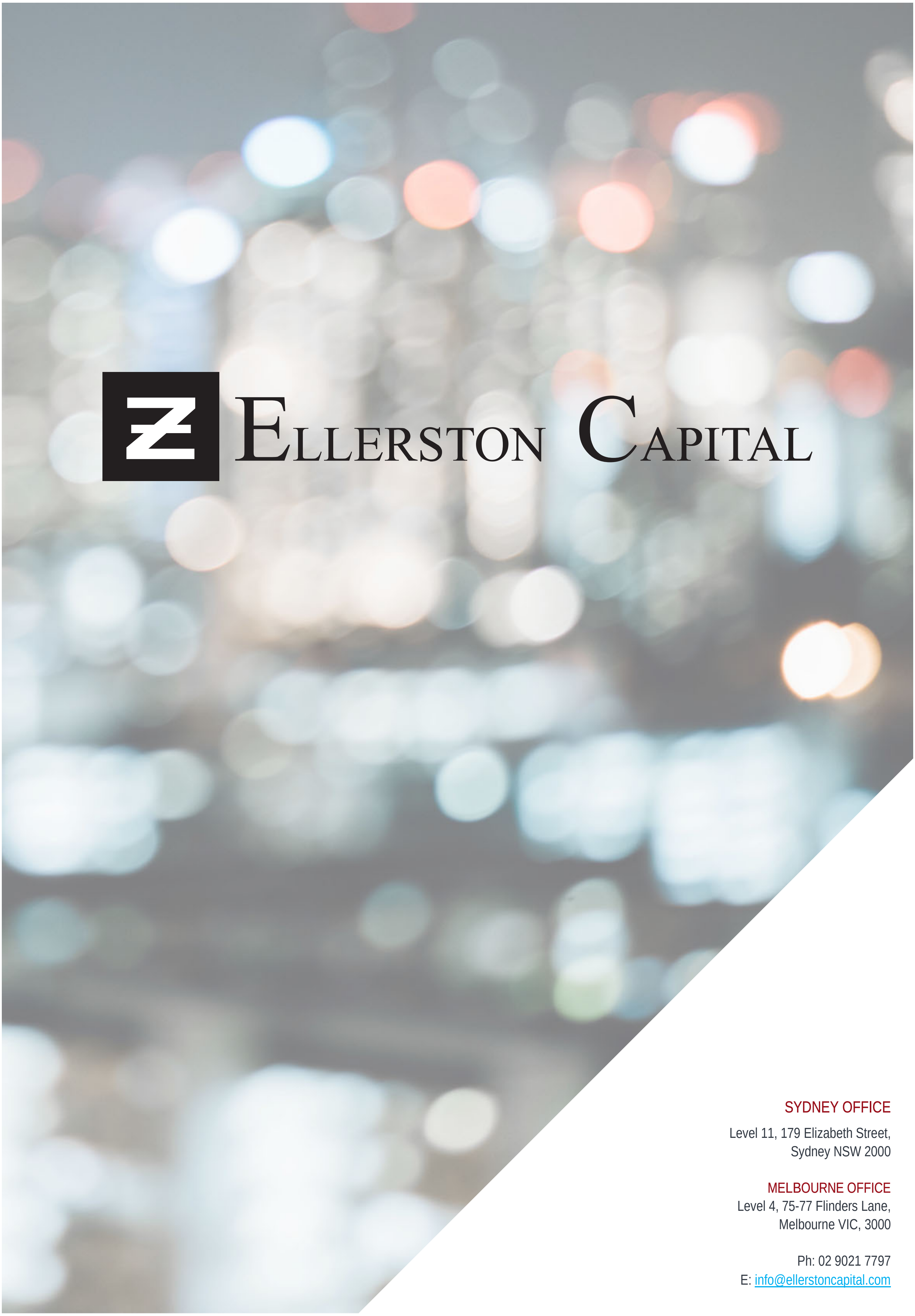
9. Glossary

ESG
Environmental, Social and Governance.

PRI
Principles for Responsible Investment.

RIAA
Responsible Investment Association of Australasia.

Short Selling or “Shorting”
A transaction utilised to generate a profit from the fall in price of a financial security such as shares, indices, commodities or other financial assets. Short selling is the sale of a security that is not owned by the seller or that the seller has borrowed. It may be prompted by the desire to hedge the downside risk of a long position in the same security or a related one.



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