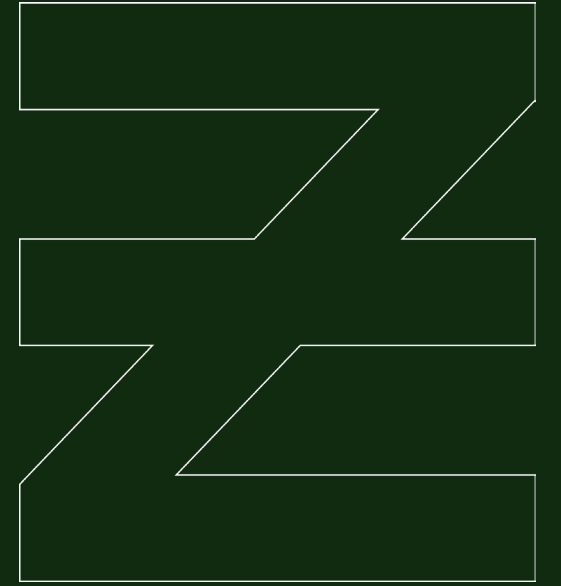


Ellerston Capital

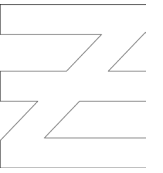


# Ellerston Asia Growth Fund (Hedge Fund)

Our Approach to ESG

# Investment Process: ESG Overview

## A structured, engaged and measured approach



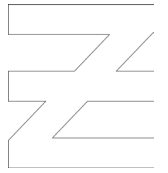
- We believe that Environmental, Social, Governance (ESG) in Asia is generally not as bad as perceived, and ESG in Developed Markets, including Australia, is generally not as good as perceived. The gap is smaller than investors think.
- The Ellerston Asia Growth Fund (Hedge Fund) (**Ellerston Asia**) is a new economy centric portfolio. The ESG issues we face are therefore different than those facing a typical domestic or emerging market (EM) portfolio.
- Ellerston Asia has developed a proprietary, structured and measurable approach to ESG which is embedded in the investment process and has been since inception. Our multi-step approach to ESG is shown below.
- We have a DIY approach to ESG given our time on the ground and Asian language capabilities. We use third party ESG providers for initial screens and ESG risk measurement across portfolios and markets.\*



\* We use Bloomberg for initial ESG screens, Sustainalytics for ESG measurement and iSS for voting recommendations. All other steps are proprietary to Ellerston Asia and Ellerston Capital.

# Investment Process: ESG Screening

## Negative sector screens



- Ellerston Asia has negative screens in place for the sectors listed below.
- A 0% revenue threshold is used for significant harm sectors and a 5% revenue threshold is used for the other negatively screened sectors.

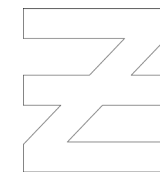
Sector	Revenue Threshold
Tobacco Production <sup>1</sup>	0%
Armaments & Weapons <sup>2</sup>	0%
Tobacco Distribution	5%
Coal	5%
Gambling	5%
Palm Oil Production	5%
Nuclear Energy	5%
Pornography	5%

*1. Tobacco exclusions refer to the production of tobacco, manufacture of Nicotine alternatives and tobacco-based products.*

*2. Weapons exclusions refer to the development and production of controversial weapons, including, nuclear weapons.*

# Investment Process: ESG Screening

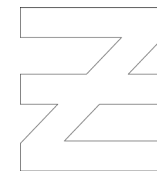
## Proprietary Stock screens



ESG score	Environment	Social	Governance	Overall score
+1	<p>Must meet all two of the following criteria:</p> <ol style="list-style-type: none"> <li>1. Formal environmental policy</li> <li>2. Improved environmental related disclosure</li> </ol>	<p>Must meet all five of the following criteria:</p> <ol style="list-style-type: none"> <li>1. Annual CSR report</li> <li>2. Social participation (community spending as % of PBT &gt; 0)</li> <li>3. Whistle blower or conflict resolution policy</li> <li>4. Modern slavery policy</li> <li>5. Does not operate in a sin sector</li> </ol>	<p>Must meet all four criteria:</p> <ol style="list-style-type: none"> <li>1. Board diversity: at least 10% women representation on the Board</li> <li>2. Board independence: Chairman and CEO roles separated</li> <li>3. Board independence: at least 1/3 of Board independent</li> <li>4. No legal proceedings brought against a Board member</li> </ol>	<p><b>Must score a 1 in each of the three ESG categories</b></p> <p><b>Top 5% of MXASJ</b></p>
0	<p>Must meet at least one of three of the following criteria:</p> <ol style="list-style-type: none"> <li>1. Formal environmental policy</li> <li>2. Improved environmental related disclosure</li> </ol>	<p>Must meet at least one of the four following criteria:</p> <ol style="list-style-type: none"> <li>1. Annual CSR report</li> <li>2. Social participation (community spending as % of PBT &gt; 0)</li> <li>3. Whistle blower or conflict resolution policy</li> <li>4. Modern slavery policy</li> </ol>	<p>Must meet at least one of four criteria:</p> <ol style="list-style-type: none"> <li>1. Board diversity: at least one woman on the Board</li> <li>2. Board independence: Chairman and CEO roles separated</li> <li>3. Board independence: at least 1/3 of Board independent</li> <li>4. No legal proceedings brought against a Board member</li> </ol>	<p><b>Score a 0 or 1 in each the three ESG categories</b></p> <p><b>85% of the MXASJ</b></p>
-1	<p>Must meet all of three of the following criteria:</p> <ol style="list-style-type: none"> <li>1. No environmental policy</li> <li>2. No improvement in environmental related disclosure</li> </ol>	<p>Must meet all four of the following criteria:</p> <ol style="list-style-type: none"> <li>1. No annual CSR report</li> <li>2. No social participation (community spending as % of PBT = 0)</li> <li>3. No whistle blower or conflict resolution policy</li> <li>4. No modern slavery policy</li> </ol>	<p>Must meet all three criteria:</p> <ol style="list-style-type: none"> <li>1. Board diversity: no women on the Board</li> <li>2. Board independence: Chairman and CEO roles not separated</li> <li>3. Board independence: no independent Board majority</li> </ol> <p>Or</p> <p>Legal proceedings brought against a Board member</p>	<p><b>Total score -1 or less or operates in a negative screen sector</b></p> <p><b>Bottom 10% of MXASJ</b></p>

# Investment Process: ESG Scoring

## ESG matrix as part of deep dive analysis



<b>Ellerston Asia</b>	
<b>Environmental, Social &amp; Governance Matrix</b>	
Company Name	ICICI
Company Ticker	ICICIB IN Equity

**Total Score: 0      ESG Score in Scorecard: 0**

<b>E</b>	<b>Performance</b>			
	Good	Acceptable	Poor	
<b>Materiality</b>	High			
	Medium			
	Low		0	

<b>S</b>	<b>Performance</b>			
	Good	Acceptable	Poor	
<b>Materiality</b>	High			
	Medium		0	
	Low			

<b>G</b>	<b>Performance</b>			
	Good	Acceptable	Poor	
<b>Materiality</b>	High			
	Medium		0	
	Low			

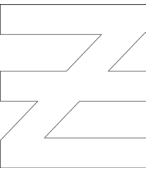
<b>Materiality</b>	<b>Performance</b>
Materiality is low given nature of the business.	Performance is acceptable. ICICI has a CSR policy but mostly focused on Social. On Environment, ICICI has a waste reduction policy, an energy efficiency policy and an water policy. Emissions intensity disclosure could be improved. Best practice for banks is to also disclose lending to high emmissions industries.

<b>Materiality</b>	<b>Performance</b>
Materiality is medium given ICICI is a large employer in a low income country where financial inclusion is an issue. Given the bank's access to sensitive financial information, privacy is also an important social issue.	Performance is acceptable. ICICI has a Business Responsibility Report in addition to its CSR Policy. Principles of the BSR meet the criteria of acceptable standards under Modern Slavery and Human Rights legislation. The established the ICICI Foundation for Inclusive Growth in 2008. The primary initiatives are Education, Health Care, Skills Development, Sustainable Livelihoods and Financial Inclusion. ICICI complies with the BOP and priority sector financing schemes set by the government. CSR division is run by former head of HR at ICICI.

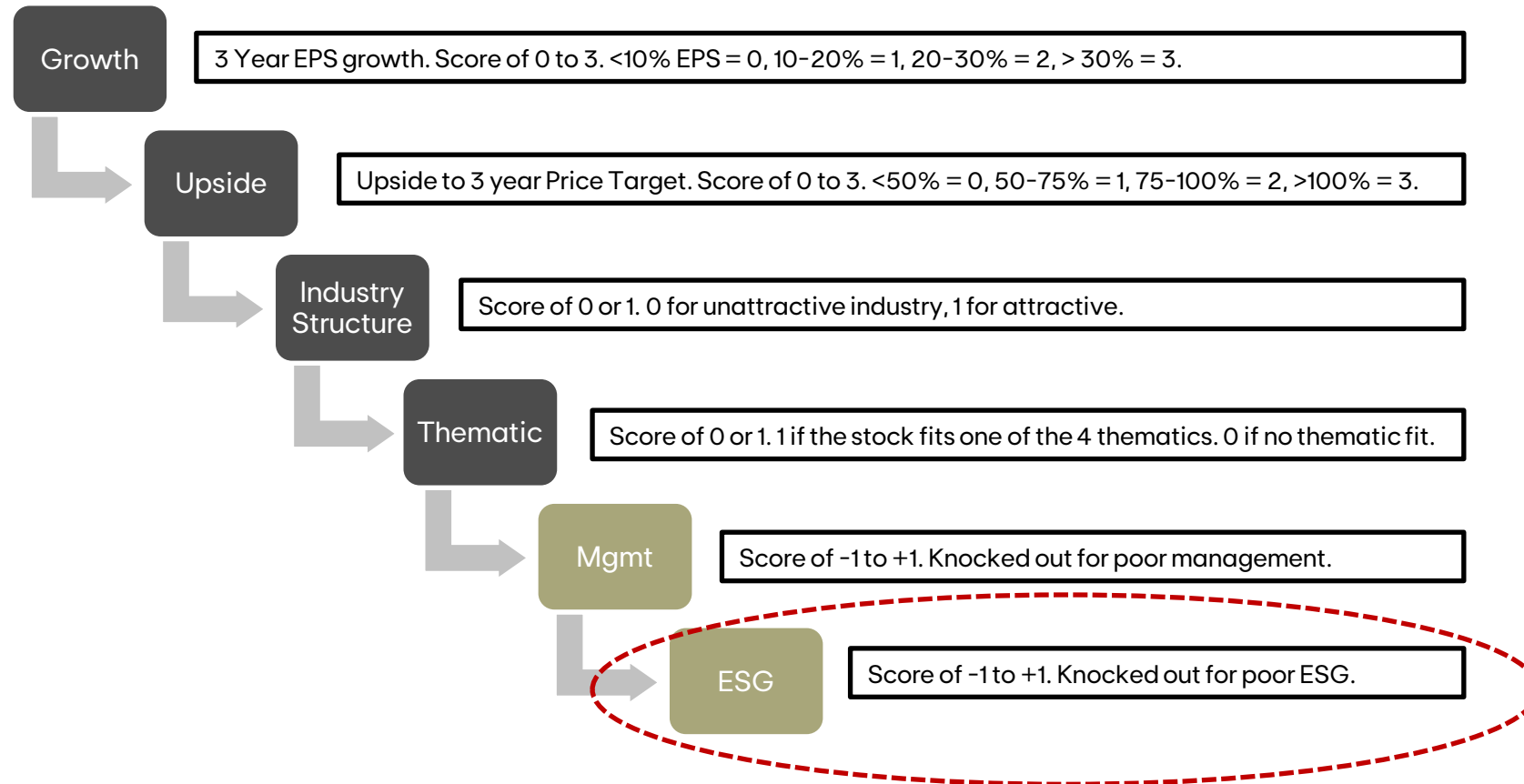
<b>Materiality</b>	<b>Performance</b>
Materiality is medium as a base premise.	Performance is acceptable but there is room for significant improvement. 25% of directors are female and 66% are independent. LIC is largest owner but at only 8% so minority rights are protected. Need to rebuild trust in governance after ex-CEO Chandra Kochar issues. Chairman Girish Chandra Chaturvedi also Board member of IF&LS, which is a negative. RBI activism is improving governance at Indian banks as a sector.

# Investment Process: ESG Integration

## ESG score is integrated into investment process

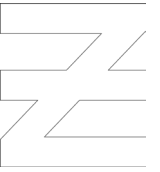


- Our Conviction Scorecard is a series of quantitative filters, qualitative assessments and knock outs. Stocks must have a score of 5 or greater to be considered for the portfolio.
- Stocks with a score of -1 on ESG are "knocked out" of the process and are not eligible portfolio inclusion even if they have a score of 5 or greater on the other metrics.

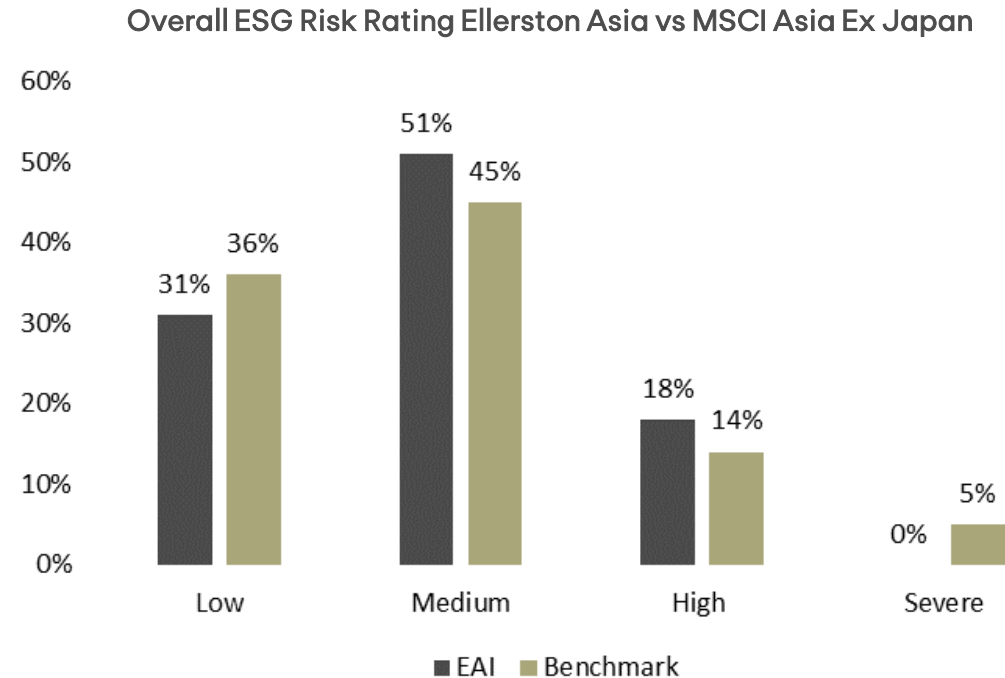


# ESG Measurement

## Portfolio ESG risk vs benchmark



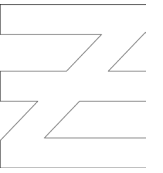
- ESG Measurement using Sustainalytics data shows that our ESG process is effective in reducing ESG risks.
- The prevalence of Severe ESG Risk in Ellerston Asia is zero versus the benchmark at 5%.
- There are no companies in the Ellerston Asia portfolio with a Sustainalytics Category 5 ESG risk event.



Source: Ellerston Asia. Portfolio as of January 31, 2023. 29 out of 34 (85%) stocks in the portfolio are rated by Sustainalytics. 1,131 stocks out of 1,338 stocks in the benchmark (96%) are rated by Sustainalytics. The unrated stocks are primarily A shares.

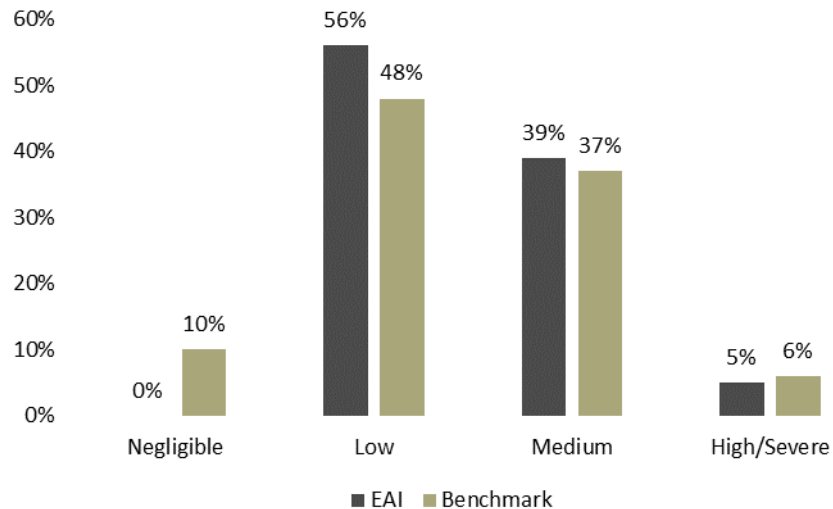
# ESG Measurement

## Portfolio ESG risk vs benchmark

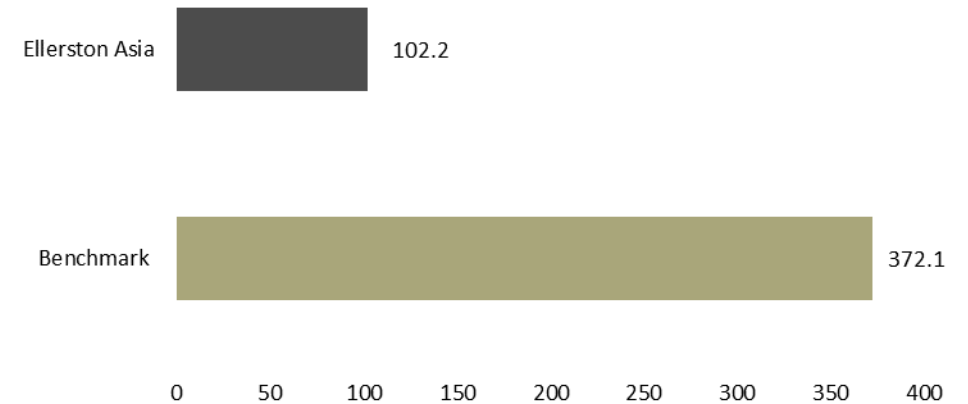


- Measurement using Sustainalytics data shows that our ESG process is effective in reducing carbon risk in the portfolio.
- The prevalence of High/Severe Carbon Risk in Ellerston Asia is lower than in the benchmark.
- The carbon intensity of the portfolio is significantly lower than the benchmark.
- The portfolio has 82% less exposure to Fossil Fuels than the benchmark, 0% stranded assets and 13% stronger management of carbon risk than the benchmark.

Overall Carbon Risk Rating Ellerston Asia vs MSCI Asia Ex Japan



Carbon Intensity (tCO<sub>2</sub>e/Mil USD) Ellerston Asia vs MSCI Asia Ex Japan

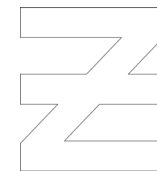


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# Investment Process: ESG Engagement

## Voting and Annual ESG Review



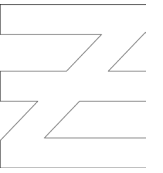
- Ellerston Asia has had over 1,500 company/expert contact points since inception providing opportunity for engagement on ESG issues.
- From inception to 30 June 2022, Ellerston Asia voted over **1,000 resolutions**. In 2022, we voted in 235 resolutions including 3 votes Against.
- Lack of disclosure is a significant issue for ESG analysis in Asia and encouraging companies to improve the quality, quantity and frequency of ESG disclosure underpins all our ESG engagement efforts.
- Every year we refresh our ESG engagement priorities for the coming year.

### Recent ESG Issues and Engagement Priorities Identified

Governance	Social	Environmental
Boards lacking in independence Boards lacking in diversity Founders still majority shareholders Chairman/CEO roles not separate Weighted Voting Rights ADR voting rights and structure (VIE)	Modern slavery in the tech supply chain Data and privacy for big data, cloud computing and internet companies Ethical considerations and gender bias in AI Online gaming addition Discriminatory marketing and labelling by consumer companies Mis-selling of financial products	Reliance Industries spin off of Energy and Petrochemicals business Use of renewables to power cloud computing Carbon footprint of vertically integrated e-commerce and logistics companies Paper and packaging waste for consumer companies

# Our Own Credentials

## Walking the talk



- Ellerston Asia has been certified as a Responsible Investment by RIAA.
- Ellerston Capital has been recognised as a leading responsible investor by RIAA.
- Ellerston Capital is a signatory to the Principles of Responsible Investment.
- The Asia team is represented on the Ellerston Capital ESG Committee.
- Our team is highly diverse.



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