

# Environmental, Social and Governance (ESG) Policy



## Introduction

This document is written to communicate how ESG is integrated into our investment process. Our prioritisation and awareness of investment risks and opportunities will continually be refined and evolve as a result of issues such as climate change, changes in technology, demographics, regulations and social expectations.

As fund managers we prioritise understanding the sustainability of companies and their enterprises. This is an essential part of any investment assessment. ESG issues are fundamentally associated with sustainability and can have a meaningful impact on financial performance. We have a longstanding commitment to integrate ESG evaluation and analysis within our investment process. We believe companies which conscientiously manage ESG exposures are better placed to ensure their enduring prosperity, and therefore meet our investment objectives.

We believe integrating ESG into an investment process is not only a risk assessment tool, it can also help identify investment opportunities. For example, analysis of ESG criteria can indicate whether companies are fortifying their competitive advantage through innovation or investment in efficient processes and technology. Similarly, a company's ethical practices can explain how it attracts loyal and enduring customers. Alternatively, a business might be able to attract and retain the best talent by fostering a constructive and inclusive workplace culture. On the downside poor ESG practices can suggest unsustainable processes and weak management oversight. Poor practices are costly to rectify and risk regulatory intervention.

NovaPort formally incorporates ESG analysis at the heart of its investment process. We undertake structured and detailed analysis to assess the valuation upside and risk profile for every company in which we invest. As a part of this process we evaluate the ESG issues faced by each company. This analysis feeds into the valuation and risk scores which we use to make investment decisions.

We will engage with companies to seek greater disclosure or raise ESG issues to understand whether they are being appropriately managed. We are a signatory to the UN Principles for Responsible Investment and we encourage adoption of these principles which are:

- 1 to incorporate ESG issues into investment analysis and decision making processes,
- 2 to be active owners and incorporate ESG issues into our ownership policies and practices,
- 3 to seek appropriate disclosure on ESG issues by the entities in which we invest,
- 4 to promote acceptance and implementation of the Principles within the investment industry,
- 5 to work together to enhance our effectiveness in implementing the Principles, and
- 6 to report on our activities and progress towards implementing the Principles.

## Process

Analysis of ESG issues is formally incorporated into our investment analysis and process. Analysis of ESG issues forms a fundamental part of our research framework. Among other factors, the outcomes ESG analysis drives our forecasts, valuations and risk assessment. This directly links to the valuation and risk scores which we use to make investment decisions.

ESG considerations are embedded in NovaPort's investment process and therefore NovaPort does not have a separate ESG function within the team. All portfolio managers and analysts are responsible for ESG research and integration into investment decisions.

Our approach is to assess the ESG issues for each investment individually and then compare it to its relevant industry peers. We use this analysis to assess the upside and downside scenarios for each investment. We do not automatically exclude companies based on ESG evaluation, however the risks associated with ESG issues can be sufficient to exclude an investment in a company.

We believe that any investment case must include a thorough analysis of opportunities and risks. Our fundamental investing framework separately address the Environmental Issues, Social issues and Governance issues specific to every investment we consider. We investigate how a company’s operational exposures, performance data, competitive position and regulatory environment relates to the three topics. We will assess the company’s board led aspirations and corporate goals in the context of culture, climate change and sustainability to the extent these are articulated to all stake holders.

We will engage with companies (or other relevant parties) to understand how these issues are being addressed or encourage further disclosure. This process is used to generate the earnings forecasts and valuation scenarios which drive our portfolio construction.

Portfolio Managers review and interrogate the assumptions and risk assessment underlying the analysis for each investment. Each investment case requires consideration of its specific risks. ESG factors that may be taken into consideration include, but are not limited to:

Environmental	Social	Governance
<ul style="list-style-type: none"> <li>• Climate change</li> <li>• Waste management</li> <li>• Resource efficiency</li> <li>• Emissions</li> </ul>	<ul style="list-style-type: none"> <li>• Safe workplaces</li> <li>• Fair workplaces</li> <li>• Supply chain oversight</li> <li>• Community relationships</li> <li>• Customer wellbeing</li> </ul>	<ul style="list-style-type: none"> <li>• Board structure</li> <li>• Culture</li> <li>• Remuneration</li> <li>• Transparency</li> <li>• Alignment</li> </ul>

## Materiality

Not all ESG factors will be relevant to all investments. NovaPort’s focus is incorporation of material ESG factors into the fundamental analysis of each company it considers investing in. For each investment NovaPort determines materiality by considering the major ESG exposures for its industry as well as those specific to the company itself. A material ESG risk or opportunity is one which can have a significant impact on the valuation of a company, if not well managed.

## Governance

NovaPort seeks to invest in companies wherein the interests of senior management and board are aligned with investors. We seek out and encourage companies to provide appropriately transparent and verifiable reporting and disclosures. We monitor companies to ensure the board and management uphold our expectation that they act with integrity.

Investors play an important role in understanding and promoting effective board and governance structures. Where an investment has been made, proxy voting is an important tool we use to ensure governance standards are sustained and improved as outlined in our proxy voting policy.

We believe governance risks are ideally mitigated by:

- 1 experienced and independent directors with clearly defined corporate objectives vis a vis ESG issues
- 2 separation of duties between Chairperson and CEO
- 3 disclosure management and minimisation of conflicts of interest,
- 4 effective audit and nomination committees
- 5 coherent remuneration policies that are aligned with outcomes
- 6 ethical and constructive and corporate culture fostering diverse talents

## Social

Our goal is to invest in companies which have sustainable and growing businesses. We believe sustainable growth is aligned with services and products which are;

- 1 valued by their customers,
- 2 fairly priced,
- 3 have relevance in the foreseeable future,
- 4 contribute to the wellbeing of all stakeholders.



On this basis we avoid investing in businesses which (intentionally or not) abuse, alienate or endanger their customers, employees and communities. This is an extensive and ongoing process. We perform fundamental, company specific research including, but not limited to, reviewing physical and virtual operations, product quality, customer and employee satisfaction, distribution, supply chains and workplace safety data. We also investigate and compare this to industry benchmarks and regulatory compliance.

Modern slavery and exploitation are persistent risks which need to be assessed, even in jurisdictions with robust regulatory oversight. The unfair and unethical exploitation of labour is unsustainable and poses a financial risk to a business due to regulatory intervention,

reputational damage or operational disruption. When we identify that a company is exposed to a higher risk industry we investigate or engage to understand whether it has appropriate policies in place addressing its operations and supply chain.

Social evolution drives persistent changes to the risks and opportunities faced by businesses. We believe ethical and innovative companies are best positioned to adapt and prosper sustainably. This favours companies that foster a constructive corporate culture which can attract and retain a diversity of talent. We look for transparency and evidence of strong engagement with a diverse mix of stakeholders as positive indicators of social sustainability.

## Environment

The environmental sustainability of a business impacts financial outcomes. Physical risks associated with climate change can pose a risk to investments across all industries. Scientific consensus that this change is driven by carbon dioxide emissions has resulted in policies to transition to a low carbon economy. Policies and regulations to secure this transition creates another sphere of risk and opportunity.

Opportunities arise out of companies that develop technologies or solutions to deal with the physical aspects of climate change as well as those companies that are better prepared and less exposed to the negative effects of a transition to a low carbon economy. We consider all investee companies through this lens in our fundamental analysis

As well as climate change, regulators, investors, suppliers, customers and communities are all stakeholders with incentives and power to reward or penalise an enterprise on the basis of its environmental impact. Planning for change and management of environmental sustainability is therefore a point of differentiation between businesses and impacts upon financial returns. When considering Environmental factors our framework considers issues including:

- impact of climate change
- resource efficiency, including water use and management
- sustainability of supply chain
- pollution and waste management
- impact on communities
- carbon exposure, regulatory changes, transition risks

## Engagement

NovaPort Capital regularly engages with all the companies which we have invested in. These engagements give us insight into a company's strategy and how it relates to its opportunities and challenges. Our priorities vary depending on the individual circumstances of each company, however they inherently include ESG issues. We will engage to improve our understanding, encourage greater disclosure and address governance. We use the insights from these engagements to inform our investment evaluation and portfolio decision making. Our engagements include interactions with senior management as well as board members and are targeted at the parties most responsible for the issues being addressed. Our engagements might also include collaboration with other parties.