Responsible Investment Policy

Executive Summary

There is a growing appreciation internationally of the environmental, social and governance (ESG) impacts of business activities. This policy outlines Loftus Peak's approach to ESG in both investment philosophy and process, as well as the operation of the business.

Investment

Loftus Peak is a fund manager; it invests client monies in disruptive companies that are expected to outperform global equity markets over the medium- to long-term. The allocation of capital is a powerful force for change; we at Loftus Peak understand that our investment decisions, when taken together with others, can drive positive ESG outcomes. It is important we consider and integrate ESG factors into our investment approach as they have the potential to impact the long-term sustainability of companies in our investment universe. Our investment strategy, both in philosophy and methodology, is well positioned to deliver strong ESG outcomes for our investors.

Business

Core to Loftus Peak's business philosophy is the concept of sustainability. We seek to ensure our environmental impact is minimised or remedied, that we uphold our social contract with stakeholders and act as a good corporate citizen to build and maintain trust. We view these principles as an ethical and financial imperative for the success of Loftus Peak.

We believe that the incorporation of ESG into our investment and business processes delivers stronger ESG outcomes and is in the best interests of Loftus Peak's stakeholders.

Introduction

Purpose of the policy

Responsible Investment is a *strategy and practice that incorporates environmental, social and governance (ESG) factors in investment decisions and active ownership*[1]. This policy outlines how Loftus Peak integrates ESG considerations into our investment process and our business operations. This policy will continue to be developed through time and reviewed at least annually.

Background

Loftus Peak believes a good business is a sustainable business; one that is well-governed, avoids harm to people and the environment and recognises its responsibilities to stakeholders. A company that does not acknowledge and incorporate the true cost of its operations, will likely encounter existential risk when community expectations, laws and regulations inevitably catch up. We have seen this in industries such as tobacco and gambling, as well as increasingly fossil fuels. Sustainability is a core element of our investment approach as well as the operation of our business.

Loftus Peak invests in disruptive business models; those that create new solutions for businesses and consumers that make the old products and services obsolete, rather than those that make conventional products and services better. We look to where the world is heading and position our clients to benefit from that change, selecting investments based on a disciplined valuation process. There are two distinct questions facing responsible investors looking for suitable companies to invest in; ***what*** type of business a company is involved in and ***how*** a company operates its business. Some business models are inherently harmful such as fossil fuels, tobacco and gambling; no amount of operational improvement will reduce the harm. Loftus Peak avoids these companies by applying negative screens. For other companies, Loftus Peak incorporates material ESG factors into the process to identify and quantify the true opportunities, costs and risks they face. We engage with investee companies, with a view to improving their sustainability.

We believe that pursuing a strategy that leverages negative screens, ESG integration and active ownership enables us to achieve better outcomes for our clients. There is a growing body of research supporting this idea, showing that responsible investment leads to improved financial performance, particularly over longer time horizons. Our commitment to ESG management and integration was formalised in 2021 when we became a signatory to the United Nations Principles of Responsible Investment.

We care about what you think and welcome your insights and feedback about our Responsible Investment Policy. You can contact one of the Loftus Peak team at enquiry@loftuspeak.com.au, or call on +612 9163 3333 with any comments or questions.

[1] United Nations Principles for Responsible Investment at https://www.unpri.org/an-introduction-to-responsible-investment/what-is-responsible-investment/4780.article

Investment

Loftus Peak's ESG beliefs are:

Allocation of capital is a powerful force for change

As a fund manager, the most powerful tool at our disposal is the allocation of capital. The provision of capital can determine the success or failure of companies and industries. The decision to invest in a company has implications for its future funding ability and sustainability in the long-term. We consider an investment in a company a "vote" for it and the business model it operates, and so we must be deliberate with the capital we allocate.

Long-term investment must be sustainable to produce long-term value

The sustainability of a business model is grounded in economic factors such as supply and demand, competition dynamics and more. Companies may also generate negative externalities; costs that are not borne by the company or business model in question, but instead by society or the environment. As societal and investor expectations shift, regulatory change or reputational damage can mean that companies will come to bear the true cost of their activities in the longer term. As long-term investors, we must consider all factors, including ESG factors, that might impact the long-term sustainability of a business model.

Disruptive companies are well positioned to deliver strong ESG outcomes

Loftus Peak invests in disruptive companies. At the core of disruption is the powerful idea that better tools facilitate more efficient business models. We invest in a portfolio of companies, at carefully determined valuations, that are either facilitating or directly involved in those more efficient business models. We have observed that these companies tend to have a lesser call on the world's scarce physical resources and are typically more profitable, meaning they are better positioned to reinvest in superior ESG outcomes. In practice, this results in a portfolio with a substantially lower carbon intensity than the benchmark. Information on this is included in our regular reporting.

We value companies over the long-term using a discounted cash flow (DCF) valuation methodology. We believe this methodology enables the deliberate and explicit incorporation of ESG factors more effectively than other methodologies such as single period valuation metrics.

How our beliefs are expressed in the investment process

Our ESG beliefs are ingrained in Loftus Peak's culture with processes and resourcing in place to underpin and reinforce them. We apply these beliefs to the process of investment management with negative screens, ESG integration and company engagement.

> **"We think about the world that our children and grandchildren will inherit and screen out companies and industries that we believe cause harm." Rick Steele, CEO**

Negative screens reflect our belief that the allocation of capital is a powerful force for change and that some companies should not be purchased for a portfolio where their business activities are deemed inherently unethical, or harmful to society and/or the environment. These exclusions align with our objective to avoid investing in companies that are unsustainable in the long-run.

We apply negative screens to the following industries and business models:

- Adult Entertainment
- Alcohol – manufacture, supply and retail sales
- Animal cruelty – fur and specialty leather, non-pharmaceutical animal testing
- Fossil fuels – oil, gas and thermal coal extraction and generation
- Gambling – equipment manufacture, supply, services and outlets
- Nuclear power
- Predatory lending
- Tobacco – manufacture, supply and retail sales
- Weapons – manufacture and supply

Loftus Peak will not invest in any companies with primary business models in, or which generate more than 5% of revenues from these activities. Such companies are screened out of our investment universe. We review these screens for suitability regularly and will communicate changes to our investors.

Why is there a revenue threshold?

The world is more connected than it has ever been, from individuals to businesses and their supply chains. This connectivity, supported by an increasingly digital world, has facilitated the creation of businesses with scale that operate across many industries. Loftus Peak recognises it can be an impossible task for a company to entirely remove revenues sourced from some of these activities and that we must therefore consider the materiality of these revenues. For example, while we do not necessarily support everything that happens online, we invest in the companies providing the components and the infrastructure required for the efficient operation of the cloud. It would be counterproductive to the objective of the negative screen and detrimental to our clients if we screened out good, disruptive companies based on a fraction of their revenues.

The Fund's negative screen is powered by data from Sustainalytics and existing holdings are periodically monitored for any changes in sources of revenue in relation to the aforementioned thresholds.

ESG integration reflects all three of our beliefs and involves incorporating qualitative and quantitative ESG considerations in our investment process. ESG factors are important for company valuation because they have the potential to impact a company's revenue opportunities, costs and risks.

Qualitative considerations

Loftus Peak positions clients to benefit from the direction the world is heading. We form this view by considering a broad range of factors through an extensive body of research. ESG factors are considered, and incorporated where necessary, to provide the clearest picture of the secular trends the world will experience in the years to come.

To illustrate, it is only through the consideration of the catastrophic implications of climate change, largely brought on by humanity's burning of fossil fuels, that one can understand the imperative of more sustainable energy solutions. *Energy as a technology, not a fuel* is one of Loftus Peak's key investment thematics; energy need not be extracted and burned in the form of fossil fuels but rather a significant resource (in the form of solar, wind, geothermal, hydroelectric etc) which may be harnessed by way of technology.

<u>Quantitative considerations</u>

Loftus Peak utilises a DCF valuation methodology to inform our understanding of the fair value of a company. Our framework for DCF valuation offers a systematic, consistent, unbiased and comparable method of valuing firms against each other and through time. The main inputs are revenue growth, margins and discount rate, and the riskiness associated with future cash flows, all of which are likely to be impacted by ESG factors.

> **"Prospective investments are penalised for poor ESG prospects by applying higher discount rates to future cash flows, making them less likely to be included in the portfolio or at lower weights than otherwise." Anshu Sharma, Portfolio Manager**

For example, the shift away from fossil fuels has long-term revenue and cost implications for electric vehicle manufacturers that should be incorporated into a valuation. For the broader market, these implications are often underappreciated because they are too far in the future to quantify or are viewed as cyclical rather than secular trends. Loftus Peak's process incorporates these material factors, which might result in the company having higher forecasted revenue growth, therefore a higher fair value and potential upside, and typically a greater weighting in the portfolio.

We also recognise that some companies that pass our negative screens might operate in a less ESG-friendly manner than others. Such a company faces greater business sustainability risks and our process penalises it with a relatively higher discount rate. This results in a lower fair value and potential upside and typically a smaller weighting in the portfolio.

Loftus Peak assigns a company one of five 'risk ranks' that aligns with the riskiness of the company; each risk rank is defined by a specific discount rate, where higher discount rates are applied to companies we judge to be riskier. The risk rank that a company falls into is informed by its weighted average cost of capital <u>plus</u> additional risk factors that we believe influence a company's risk profile. ESG is one of these additional risk factors. Ranking risk in this way ensures internal consistency by enabling comparison across the risk ranks, between the various portfolio holdings and through time.

To determine the additional ESG risk a company faces, we combine our own independent analysis with information from external ESG data providers such as Sustainalytics. We overlay our own analysis because industry ESG risk ratings alone are largely dependent on the information a company discloses. This often results in higher ESG risk ratings for relatively smaller companies which don't yet have appropriate disclosures in place. This does not necessarily indicate more ESG risk but is instead reflective of a company's maturity. Furthermore, there is a tendency for ESG risk ratings to be backward looking and to overweight past controversies which are not necessarily good indicators of a company's ESG risk going forward.

Our objective is to create a process that recognises and systematically accounts for key factors that might impact a company's revenue opportunities, costs or risks. Integrating ESG factors, both qualitatively and quantitatively, enables us to make more informed investment decisions for the benefit of our clients.

Company Engagement*,* where deemed necessary*,* involves at a minimum, voting on shareholder resolutions to encourage action on the key ESG issues facing companies. The duties of a responsible investment manager are ongoing. Loftus Peak has established arrangements to vote on all resolutions of companies held by the Loftus Peak Global Disruption Fund effective from 1 December 2021.

We engage with companies to address the ESG risks we have identified, including by voting on shareholder resolutions and if necessary, directly communicating with the company to apply additional pressure. While in some cases our ownership of portfolio companies might comprise only a very small part of the whole, engagement is an important responsibility; each vote in favour of better ESG outcomes will add to all those that have already been cast.

We continue to monitor investee companies for ESG performance and how this may impact its revenue opportunities, costs or risks. At the portfolio level, we also regularly monitor overall ESG risk exposure (and its momentum), carbon intensity and higher-level ESG developments that could impact our view of the world or the direction of business. This part of the process is supported by Sustainalytics as well as internal processes.

Resourcing supports our ESG ambitions. We have partnered with Sustainalytics, a leading ESG data provider, which produces ESG risk ratings, carbon intensity reporting and timely data on controversies concerning company holdings, all of which help inform our processes. We also have access to a wide range of high-level and company specific ESG data from other sources. All team members carry ownership of Loftus Peak's ESG responsibilities, supported by engagement of an independent ESG Expert.

Business

Loftus Peak seeks to act as a good corporate citizen. This is vital to uphold the social contract between our shareholders, management, team, investors and community. Considering ESG factors, ensures we can more accurately reflect changing community expectations and understand our impact on the planet. These beliefs start with the founders and are reinforced by the firm's ethos and team's day-to-day behavior.

Environment

As investors in disruption, we look through the lens of change to envision the world of the future. We have designed our business to ensure longevity and minimal environmental impact. We believe businesses that act in a responsible and ethical way will benefit, while those who are environmentally reckless will pay the price. Loftus Peak takes responsibility for the impact our business has on the environment, and where possible seeks to minimise and offset that impact. We minimise our environmental impact by limiting use of resources such as paper, e-waste and energy.

Climate Change Statement

We acknowledge that anthropogenic climate change is the principal environmental risk facing humanity. It is critical that we take steps to mitigate the carbon intensity of our business. We support the carbon emission action proposed in the 2015 Paris Agreement and the urgency required to meet the targets as quickly as possible to minimise the impacts of climate change.

Social

Loftus Peak operates to minimise harm to society by respecting community expectations and recognising that societal standards will change through time.

Scott Galloway, a professor at the NYU Stern School of Business, once remarked that "greatness is achieved in the agency of others". We wholeheartedly agree. We provide an inclusive and positive work environment for staff, with a culture that encourages and facilitates personal and professional growth.

The firm's positive culture is fostered by management and ensures a respectful, dynamic and collaborative workplace which increases staff satisfaction and aids the investment process. Loftus Peak hires staff from highly diverse backgrounds with a wide range of skill sets, which drives the vibrancy of the firm and provides fresh insight into our business performance and investment process.

Loftus Peak supports team members by managing with a flat communication structure and culture of inclusion, fostering a collaborative and open environment among employees, encouraging and financially supporting employees' professional training and development, providing the appropriate tools for, and encouraging workplace flexibility so personal commitments can be fulfilled and remunerating employees at or above market rates with bonuses paid reflective of performance.

We also encourage team members to engage with charity enterprises and accommodate those responsibilities as necessary. For example, we support CIO Alex Pollak's directorship on the NIDA Foundation Trust and Investment Committee and CEO Rick Steele's role as Chair of CitizenBlue, a community organisation which aims to reduce the amount of waste which ends up in Sydney's waterways by utilising the NSW 'Return and Earn' program.

Modern Slavery Statement

Loftus Peak supports the principles of the Modern Slavery Act 2018. While Loftus Peak falls below the threshold for the Act to apply, we recognise that the global companies in which we invest carry modern slavery risks associated with their operations and supply chains. We subscribe to third party resources that examine the companies in our investment universe for evidence of modern slavery. We do not invest in companies that fail to report the steps they are taking to combat modern slavery or where those steps are not adequate.

Governance

Strong governance ensures we operate with purpose, honesty and integrity for the benefit of our shareholders, management, team, investors and community. Maintaining strong corporate governance is a dynamic process requiring input and commitment from all members of the team. Transparency within a flat communication structure fosters a culture of collaboration between business lines to fulfill our corporate governance responsibilities and objectives.

Loftus Peak's Board and Board Committees, including the Compliance Committee and the Investment Risk Committee, govern the business from an operational and investment perspective. The Board and Board Committees meet quarterly, while the business-focused Advisory Board meets three times annually. Central to the compliance framework is the Code of Conduct Policy which is designed to protect stakeholders including shareholders, management, staff, and investors. It requires that the needs of investors are put first, colleagues be treated fairly, openly, and honestly and service providers be selected based on quality, service and cost. The Compliance Committee is chaired by an external compliance professional and governs Loftus Peak's compliance framework, including adherence with our AFSL obligations.

16 November 2021