

# PENGANA HIGH CONVICTION EQUITY FUND RESPONSIBLE & ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”) INVESTMENT POLICY

## INTRODUCTION AND PURPOSE

Pengana Capital Ltd ACN 103 800 568 (“PCL” or “Responsible Entity”) is a responsible entity and is a fully owned subsidiaries of Pengana Capital Group Limited (“PCG” or “Pengana”), an ASX-listed investment management company. This Policy outlines the approach to responsible investment for the Pengana High Conviction Equities Fund (“PHC”) and summarises the environmental, social and governance (“ESG”) factors that are considered when engaging with investee companies, including the principles and guidelines under which rights to vote are exercised by PCL for PHC’s investee companies.

## SCOPE

This Policy outlines the approach to responsible investment for the Pengana High Conviction Equities Fund and is subject to local laws and regulations in applicable foreign jurisdictions.

Local laws and regulations may be stricter than the practices set out in this Policy and may impose additional limitations or requirements on a local business unit. Where local requirements are more stringent than those set out in this Policy, the local legislation will prevail.

## RESPONSIBLE INVESTMENT PROCESS

The Responsible Entity has adopted a Responsible Investment and Environmental, Social and Governance (“ESG”) policy, implemented by the Investment Team with oversight by Pengana Capital Group Limited (“Pengana”).

The Responsible Entity is committed to responsible investing and seeks to avoid investing in businesses that are, in its opinion, currently involved in activities that are unnecessarily harmful to people, animals or the environment.

Utilising a monitoring service provided by Sustainalytics, the Responsible Entity monitors the portfolio for negative screen compliance, portfolio ESG risk, consideration of new and ongoing controversies, review of voting records and engagement and monitoring the sustainability and carbon risk of the portfolios against peers and appropriate benchmarks.

## NEGATIVE SCREENS

The Responsible Entity seeks to avoid investing in businesses that are, in its opinion, currently involved in activities that are unnecessarily harmful to people, animals or the environment.

The Responsible Entity utilises a negative screening process which seeks to avoid investment in companies that derive significant operating revenues from direct and material business involvement in these sectors.

Before a company is added to a portfolio, the extent of an investee company’s business involvement in screened activities is assessed by reference to a report sourced from Sustainalytics, an independent provider of ESG and corporate governance research and ratings. The report forms the basis for our assessment of business involvement and recent controversies related to the company in question. The Pengana Capital Group (“PCG”) Risk Officer has final veto power on whether a stock meets the screening criteria for inclusion in the portfolio.

Screened activities	Pengana High Conviction Equities Fund
Adult content	5% or more revenue from the production of adult content 15% or more aggregate revenue from the production, distribution and retail of adult content
Alcohol	5% or more revenue from the production of alcohol 15% or more aggregate revenue from the production, distribution and retail of alcohol
Animal cruelty (production of cosmetics tested on animals)	5% of revenue from production 15% aggregate revenue from production, distribution and retail of cosmetics that have been tested on animals.
Fossil fuels (coal, coal seam gas, oil)	Companies with the global industry classification standard (GICS) 101020 "Oil, Gas and Consumable Fuels"
Gambling	5% or more revenue from ownership or operation of gambling-related business activities 15% or more aggregate revenue from gambling-related business activities
Genetically modified organisms	5% or more revenue from the development or growth of Genetic Engineering - agriculture
Human rights abuses and exploitation	Serious or systematic controversies relating to human rights violations
Nuclear	5% of total electricity distributed from nuclear power in a given year 5% of power generating capacity attributed to nuclear sources in a given fiscal year.
Old growth forest logging	5% of revenue from production, 15% aggregate revenue from production, distribution and retail.
Securities from issuers on UN sanctions list	
Tobacco	Tobacco growers, producers or licensors of tobacco products, nicotine alternatives and tobacco-based products 15% or more aggregate revenue from tobacco products, nicotine alternatives and tobacco-based products
Weapons	Manufacturers of Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons) 5% or more revenue from the production, of firearms, ammunitions, nuclear warheads (including development and maintenance), military weapon systems and/or their integral, tailor-made components 15% or more aggregate revenue from the production, distribution and retail of firearms and ammunitions.

## ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)

Governance policies, environmental footprint and corporate social responsibility all have the potential to impact a company's valuation and long-term financial performance. ESG risk management aligns with long-term investment goals.

Implementation and incorporation of ESG analysis into our investment process is reflected differently across companies, sectors and regions, and is an evolving process.

Assessing a company's corporate governance practices is an important aspect of the investment process. We recognize that there is no one single indicator with global application that identifies when companies are failing to adopt best corporate governance practices, that different markets may adopt different practices and structures of corporate governance, and that best practice may change and evolve over time. Therefore, our approach to corporate governance may change according to a company's local laws, regulations, and established guidelines. In addition, we may refer to the Organisation for Economic Co-operation and Development ("OECD") Principles of Corporate Governance, as they represent widely accepted standards for corporate governance in many countries.

We believe that companies will generally be judged to be environmentally and socially responsible corporate citizens if they act in the interests of their shareholders, obey relevant local laws, and seek to comply with prevailing community expectations about corporate responsibilities. Standards and community expectations have evolved over time and we believe that this will continue.

ESG considerations are not only sector and company specific but can also encompass global thematic issues such as climate change or country specific issues such as political risks.

There is not a commonly adopted rating or benchmark used to measure a company's ESG standing. Guided by the standards developed by the Sustainability Accounting Standards Board (SASB) and using Sustainalytics as our primary data source, we have developed a filter that identifies the subset of relevant sustainability factors most likely to have financially material impacts for a sector/industry. This supplements meetings with management, company reporting and other desktop research and also forms the basis for on-going engagement with investee companies.

Investment decisions are based on both financial and non-financial considerations, including the results from the ESG risk review. Significant ESG issues that affect a company's value drivers such as sales or profit margins may impact our assessment of intrinsic value or may lead us not to invest or to divest from a holding. The potential financial impacts of ESG risks/opportunities are considered when determining a company's valuation and may impact the weighting of the investment in the overall portfolio.

Consideration of ESG issues raised by prospective and existing investments are investigated within the investment research process and discussed at Investment Team meetings as required. The ESG assessment forms a part of the research conducted on each stock and is incorporated into the analysts' company research notes. The potential financial impacts of ESG risks/opportunities are considered when determining a company's valuation and may impact the weighting of the investment in the overall portfolio.

An ESG Risk Report is compiled for each new investment. Each fund manager is responsible for incorporating all factors believed to have a financial impact into the investment process. As such, each fund manager is responsible for the integration of ESG considerations onto their company analysis. Fund managers document the basis for their investment recommendation in a Research Paper, which includes a consideration of ESG issues that are likely to have a financial impact.

## MONITORING

Utilising a monitoring service provided by Sustainalytics, the Responsible Entity monitors the portfolio for negative screen compliance, portfolio ESG risk, consideration of new and ongoing controversies, review of voting records and engagement and monitoring the sustainability and carbon risk of the portfolios against peers and appropriate benchmarks.

The portfolio is monitored on an ongoing basis for contraventions of the ethical screen, major controversies and ESG related issues, utilising a monitoring service provided by Sustainalytics. Using this analysis in conjunction with Pengana's own analysis, the Investment Team and Pengana's Risk Team use their judgement to determine whether the issue amounts to a sufficiently material breach to warrant exiting the position.

Where it is decided to divest, the asset is disposed of as soon as practicable, as determined on a case-by-case basis, whilst endeavouring to realise the best price it reasonably can, taking into account liquidity and other market forces. On occasion we may choose to engage with an investee company rather than divest as a better way to effect change.

An oversight committee meets at least quarterly and agenda items include monitoring of the portfolio for negative screen compliance, monitoring investee companies with higher ESG risk relative to the average portfolio holding, discussion of material ESG issues for a company or sector, consideration of new and ongoing controversies, review of voting records, consideration of engagement opportunities and monitoring the sustainability and carbon risk of the portfolios against peers and appropriate benchmarks.

## ENGAGEMENT AND ADVOCACY

### PRINCIPLES

Corporate governance of and engagement with investee companies is an important aspect of the investment decision-making process. We recognise that we have the potential to influence investee company practices by virtue of significant holdings in those investee companies, which are held on behalf of our clients. We take a thoughtful and deliberate approach to asset stewardship. The engagement framework has been designed to enhance investment decision-making and optimise our ability to affect outcomes.

### IDENTIFICATION

Engagement is initiated if it is identified, through an assessment of an investee company's ESG policies or practices, that a company does not meet standards established by government, regulators, industry, peers or society at large, or that its conduct threatens its reputation and value. Events that may impact long-term value or material sector specific concerns are also considered. In some cases, engagement occurs to request additional information to inform our governance assessment, including exposure to and management of environmental or social issues.

Effective monitoring of company performance is an essential element of our investment approach. As active investors, our investment team engages in regular dialogue with investee companies to ensure they understand all aspects of their business.

Assessment of potential issues may encompass company materials, broker or proxy advisory research, financial data providers and other publicly available information. Pengana also retains the services of an internal ESG oversight committee that is independent of the investment team.

## OBJECTIVES

Engagement objectives include management of sustainability and governance issues that have a material impact on long-term financial performance or that contribute to the achievement of societal targets such as those defined by the United Nations' Social Development Goals (SDGs). Objectives are company specific and are revised by the ESG oversight committee on a regular basis.

## EXECUTION

ESG specific engagements are prioritised based on the materiality of ESG factors identified in the investment analysis and decision-making process and through on-going monitoring of investee companies. More specifically, priority and materiality include an assessment of potential losses and of the likelihood that engagement will effect change.

On-going engagement includes company meetings, written communications, voting, and watch lists. Engagement may also be reactive (in response to a specific event) or opportunistic (attendance at conferences, roadshows or field trips).

AGM-driven engagement begins with pre-AGM communications where appropriate, to gain clarity on proposed resolutions, and then voting accordingly. More detail on our voting processes is found below.

As part of our engagement with investee companies, we:

- Meet regularly with the board/senior management and question them on their strategic priorities and any areas of particular interest or concern;
- Keep up to date with each company's financial and non-financial performance, the main drivers of each, and risk factors (both internal and external as well as financial and non-financial, including ESG factors) which are, or may in the future, impact these;
- Encourage the leadership of each investee company and its corporate governance structures to adhere to best practices (accounting for the jurisdiction in which they operate); and
- Exercise voting rights in a manner which supports our investor's best interests.

Engagement activities are recorded, including the objective of the specific engagement, and progress and outcomes of these activities are monitored over time. An ESG oversight committee reviews and provides a point of escalation for engagement activities. Escalation may include targeting personnel higher in the corporate hierarchy, collaborating with other investors or voting against resolutions at the AGM.

Engagement with companies will always be conducted in accordance with the Corporations Act and in particular the insider trading provisions.

All the conversations with companies are confidential but, where appropriate, the investment team may include details of the engagement activities on Pengana's website, or through quarterly reports and marketing presentations.

## CORPORATE GOVERNANCE AND VOTING PRINCIPLES

Our overarching belief is that good corporate governance is directly linked to investment value and that it is achieved by applying recognised principles, such as the ASX Corporate Governance Principles and Recommendations. While accepted standards of corporate governance differ between markets, we believe that there are sufficient common threads globally to identify an overarching set of principles. Our view is that exercising voting rights may have the power to influence the corporate governance and policies of investee companies, and are active in our voting on shareholder issues and participating in collective engagement activities.

We have developed a set of guiding principles to help guide us in performing our duties in relation to voting.

## BOARDS

We believe that:

- Boards should be comprised of a majority of independent directors;
- Chairs should generally be an independent director, or where the Chair is not an independent director he/she should not also be the CEO;
- The majority of non-executive directors should not be affiliated to management or dominated by representatives of a major shareholder(s);
- Directors should ensure that other commitments (including other directorships) do not interfere with the proper execution of their duties as a director;

- Nominations committees should be comprised of a majority of independent directors; and
- Boards should be comprised of individuals who have complimentary and relevant skills and experience that are appropriate to the activities of the company.

We may withhold support from director elections in the following instances:

*Information*

- Insufficient information on the Board or where biographical details on proposed directors are not provided;

*Independence*

- The nominee is not considered to be independent; the number of independent directors on the Board is less than the number recommended by the local best practice standard, or independent directors constitute less than one-third of the board;
- The nominee is a non-independent director on an audit, remuneration or nomination committee which does not have the required number of independent directors;

*Commitment to the board*

- The number of directorships held by the nominee is excessive and/or the director has not devoted sufficient time to the company during the relevant year;
- Concerns about a director(s) execution of their responsibilities;
- To signal concerns about the company's governance or performance;

*Board structure*

- The position of Chairman and Chief Executive are held by one person and the risk is not mitigated by a Senior Independent Director and a majority independent Board;
- Where a Board has not established audit, remuneration or nomination committees;
- Composition of the Board does not reflect necessary diversity;

*Election*

- Directors do not stand for election by shareholders on a regular basis;
- The election of several directors is bundled into one resolution.

## AUDIT AND REPORTING

We believe that:

- The Board should provide an integrated annual report that puts historical performance into context, and portrays the risks, opportunities and prospects for the company in the future, helping investors understand a company's strategic objectives and its progress towards meeting them;
- Audit committees should be comprised wholly of independent directors, or if this is not possible a majority;
- Audit committee chairs should be independent directors who do not chair the company board; and
- Company auditor's relationship with the company should be restricted to their audit engagement and closely related activities, and in any case should not extend to any activities which could be perceived to impair their independence.

We may withhold support from approval of Reports & Accounts and audit-related resolutions in the following instances:

*Disclosure*

- Non provision of the audited accounts in a timely manner;
- Concerns about the integrity of the information reported;
- Non-reporting of material ESG performance, particularly in high risk sectors and or where sectorial peers are able to report;

*Audit Integrity*

- Where an executive director is a member of the Audit Committee;
- Non-audit fees are significantly higher than audit fees and no reasonable explanation is provided;
- The Audit firm has been in place for a number of years and no retendering of audit services has been conducted by the Company or there has been no audit partner rotation for a significant number of years.

## REMUNERATION

We believe that:

- Remuneration committees should consist of a majority of independent directors;
- Annual Reports should provide full and comprehensive information on the company's remuneration policy and practices and cover all the elements of remuneration, including salary, annual bonus, benefits, share-based compensation, pensions and details of executive service contracts including notice periods and compensation payable on termination. This information should be provided on an individual basis;
- Any Director remuneration outside standard director fees (e.g. for consulting) should be fully disclosed;
- Remuneration for senior management should seek to align the interests of management with the long-term interests of shareholders. Performance related remuneration should be subject to defined and relevant performance criteria which should be disclosed to shareholders; and
- Executive compensation which is excessive in absolute terms or materially out of line with peers should be closely examined and justified on value add or relative performance basis.

We may withhold support from remuneration proposals in the following instances:

### *Disclosure*

- Poor disclosure of remuneration policy and practices;
- Incomplete disclosure of performance metrics underpinning performance-related remuneration;

### *Variable remuneration*

- Performance targets which are not relevant or challenging;
- Executive options granted at a discount i.e. priced below prevailing market price;
- Performance conditions do not include relevant environmental and social metrics for relevant sectors;
- The performance period for a long-term scheme is shorter than three years;
- Repricing of 'underwater' stock options;
- The company engages in option award backdating;
- Excessive dilution of shareholder equity through the issuance of shares for share incentive schemes;
- Rewards granted are not justified by the Company's performance

### *Termination payments*

- Compensation payable on termination is excessive or not in line with market practice;
- Contains gratuitous retirement payments or unearned retirement sweeteners not provided to employees generally;
- Allows triggering of change in control payouts without loss of job or substantial diminution of duties;
- Enhanced compensation on change of control of the company;

### *Specific remuneration issues*

- Remuneration is based on inappropriate peer comparisons;
- Pay for senior executives is out of line with pay conditions for the general workforce.

## SHAREHOLDER RIGHTS

Boards and management should act in the interests of all shareholders:

- Corporate structures should ensure shareholders have voting power which is equal to their equity interest in the company, and should not include "poison pill" or other anti-takeover provisions which seek to deter appropriate takeover offers; and
- Companies should ensure that their corporate disclosures provide the amount, quality and clarity of information required to make informed judgements on the performance of the company - including on its corporate governance practices.

We may withhold support from approval resolutions that impact on shareholder rights in the following instances:

### *Voting rights*

- measures that dilute the voting rights of any shareholder by giving certain shareholders voting rights in excess of their economic interests;
- proposals that cap shareholders' voting rights once ownership of a certain percentage of shares is reached;

- multi-class capitalisation structures created to provide a particular class of shareholders with disproportionate voting rights;
- supermajority voting requirements intended to limit the ability of shareholders to effect change by effectively providing a veto to a large minority or a group of minority shareholders;
- unduly restrictive shareholder disclosure policies which have the potential to deprive shareholders of their voting rights;

#### *Anti-takeover provisions*

- poison pills which deter takeovers by granting the Board the ability to issue additional dilutive shares in the event of a bid;
- transactions which transfer the legal title of a key asset to a friendly foundation and have the effect of frustrating a takeover bid;
- proposed repurchase of the company's shares during a bid period at a price that is significantly higher than the fair market value of the shares;
- blank-cheque preferred shares which may be used as a takeover defence or may be placed in friendly hands to help block a potential takeover bid;

#### *Pre-emption rights*

- proposed issuance of new shares with or without pre-emptive rights that are either in excess of the market norms or are not justified

#### *Mergers & acquisitions*

- Where our fund managers believe that the transaction is not in the long-term interests of shareholders.

### ENVIRONMENTAL AND SOCIAL ISSUES

- Companies should disclose their approach to management of material environmental and social risks;
- Board should have clear responsibility of the management of material environmental and social risks;
- Companies should articulate and disclose the values that underpin the desired culture within the entity;
- Where relevant to the sector, companies should report their approach to human and labour rights, including health and safety and approach to management of modern slavery issues in their supply chain;
- Where relevant to the sector, companies should report in line with the disclosure programmes of the Carbon Disclosure Project and other initiatives to improve information to the market;
- Charitable and political contributions and membership of trade associations should be disclosed and be in line with the long-term interests of the company and its shareholders.

We may withhold support from relevant resolutions including approval of Reports & Accounts, director elections and remuneration proposals in the following instances:

#### *Disclosure*

- Non-disclosure of quantitative and qualitative information (and where appropriate targets) on key environmental and social issues of relevance to the company, particularly in high risk sectors and or where sectorial peers are able to report;
- Failure to participate in the Carbon Disclosure Project disclosure programmes for companies in high risk sectors;

#### *Performance*

- A material failure in the management of environmental and social risks with resulting negative impacts on the company and stakeholders including employees, customers and communities ‘
- Material breach of one or more Principles of the UN Global Compact;
- Support for lobbying positions contrary to the long-term interests of the company and its investors;
- Companies in high risk sectors with no Environmental or Social performance metrics in performance related pay.

While we will actively promote these practices through the way in which we vote and our company engagement, we acknowledge that there are instances where one or more of these practices may not be possible during particular stages of a company's development or in certain circumstances e.g. for tightly-held companies. We will always consider a company's corporate governance practices in the context of what is in the best interests of our clients, and have appropriate regard to the company's circumstances.

## VOTING EXECUTION AND OVERSIGHT

An ESG oversight committee meets at least quarterly and agenda items include a review of voting records and a consideration of engagement opportunities.

The investment team is responsible for overseeing the implementation of the policy and the relevant analyst reviews proxy resolutions and makes voting recommendations. Pengana's Operations team co-ordinate the execution of the voting process.

Our voting records are updated quarterly and available on Pengana's website.

## SECURITIES LENDING

Pengana does not participate in stock lending for any securities held in PHC.

## COMPANY DIALOGUE AND ESCALATION

The investment team holds regular discussions with the investee companies on a range of topics including the company's strategy, operational performance, and executive/Board performance.

Our general policy is to be supportive of companies in which we invest. However, where we have concerns that have not been or cannot be adequately addressed by a company's management, we will bring the issue to the attention of Company.

If we are unable to resolve the issue through engagement, we will consider using our ownership rights to vote against relevant resolutions or, submit resolutions at shareholders' meetings or requisition an extraordinary general meeting. We may also act in conjunction with other shareholders

## REVIEW AND ASSESSMENT

This Policy is reviewed and updated from time to time to ensure that it remains relevant, current and compliant with all applicable laws, and guidance notes.

**DATED: 30 NOVEMBER 2021**