

PENGANA INTERNATIONAL EQUITIES STRATEGY - RESPONSIBLE & ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”) INVESTMENT POLICY

INTRODUCTION AND PURPOSE

Pengana Investment Management Limited ACN 063 081 612 (“PIML”) and Pengana Capital Ltd ACN 103 800 568 (“PCL”) are responsible entity companies and are fully owned subsidiaries of Pengana Capital Group Limited (“PCG” or “Pengana”), an ASX-listed investment management company.

The Pengana International Strategy encompasses four retail registered managed investment schemes and an ASX listed Investment Company:

- Pengana International Fund (“PIF”)
- Pengana International Fund – Ethical (“PIE”)
- Pengana International Fund - Ethical Opportunity (“PIEO”)
- Pengana High Conviction Equities Fund (“PHC”)
- Pengana International Equities Limited (“PIA”, ASX: PIA)

PCL is the responsible entity for PIF, PIE, PIEO and PHC, while PIML is the Investment Manager of PIA.

This Policy outlines the approach to responsible investment for the Pengana International Strategy and should be read in conjunction with the Pengana International Strategy Engagement and Voting Policy.

SCOPE

This Policy applies to the products managed under the Pengana International Strategy (“the Portfolios”) 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.

Aims

- Consistently make money for our investors
- Protect capital and minimise volatility
- Invest ethically and responsibly
- Genuinely represent the interests of our investors

Beliefs

- Shareholders have duties and privileges as owners of companies
- Asset managers are the custodians of their investor's wealth
- Asset managers have a duty of transparency and accountability to their investors
- Companies should be supported if they evolve for the better
- Well-run companies can have a positive effect on society and the environment

Principles: we will

- Be true to the stated aims of the strategy
- Avoid investing in companies that harm people, animals or the environment
- Actively engage with our investors and the companies we invest in
- Support and abide by the Principles for Responsible Investment (PRI)

RESPONSIBLE INVESTMENT PROCESS

The Portfolios managed under the Pengana International Strategy have adopted a responsible investment and Environmental, Social and Governance (“ESG”) policy, implemented by the Investment Team with oversight by Pengana Capital Group Limited (“Pengana”).

Pengana’s International Equities Team is committed to responsible investing and seeks to avoid investing in businesses that are, in their opinion, currently involved in activities that are unnecessarily harmful to people, animals or the environment.

Stock selection is based on six criteria, three of which are quantitative (cash generative, growing businesses at a reasonable valuation) while the other three are qualitative criteria (businesses with good management, that are unlikely to blow-up and that are experiencing positive tail winds) that is assessed through our Environmental, Social and Governance (“ESG”) framework. This criterion typically results in investments in companies with low ESG risk and in sectors that are experiencing positive tailwinds due to the shift to a sustainable economy.

The Pengana International Equities Team utilises a negative screening process which seeks to avoid investment in companies that derive 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.

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.

Portfolios are 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 comprised of members of the Investment Team and Risk Team 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.

NEGATIVE SCREENS

The Pengana International Equities Investment Team 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 Pengana International Equities Investment Team 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.

Screened activities	Pengana International Ethical Fund	Pengana International Fund - Ethical Opportunity	Pengana International Equities Limited (ASX: PIA)	Pengana International Fund	Pengana High Conviction Equities Fund
Adult content ¹	Screened	Screened	Screened	Screened	Screened
Alcohol ¹	Screened	Screened	Screened	-	Screened
Animal cruelty (production of cosmetics tested on animals) ¹	Screened	Screened	Screened	Screened	Screened
Fossil fuels (coal, coal seam gas, oil) ²	Screened	Screened	Screened	-	-
Gambling ³	Screened	Screened	Screened	Screened	Screened
Genetically modified organisms ⁴	Screened	Screened	Screened	-	-
Human rights abuses and exploitation	Screened	Screened	Screened	Screened	Screened
Mining ⁵	Screened	Screened	Screened	-	-
Nuclear ⁶	Screened	Screened	Screened	Screened	Screened
Old growth forest logging ¹	Screened	Screened	Screened	-	-
Securities from issuers on UN sanctions list	Screened	Screened	Screened	Screened	Screened
Tobacco ¹	Screened	Screened	Screened	Screened	Screened
Weapons ⁷	Screened	Screened	Screened	Screened	Screened

¹ Threshold: 5% of revenue from production, 15% aggregate revenue from production, distribution and retail

² Global industry classification standard (GICS) 101020 "Oil, Gas and Consumable Fuels"

³ Threshold: 5% of revenue from gambling operations, 15% aggregate revenue from gambling related activities

⁴ Threshold: 5% of revenue from development of GMOs used in agricultural and food industries

⁵ Global industry classification standard (GICS) 151040 "Metals and Mining"

⁶ Threshold: 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

⁷ Threshold: 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, 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.

ESG INTEGRATION

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.

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.

ACTIVE OWNERSHIP

We actively engage with investee companies to gain understanding of both financial and ESG issues.

ESG issues covered are company specific but range from supply chain management to product quality and safety to ecological impacts of operations. We will raise issues that we believe have the potential to erode shareholder value, however due to our size we will consider joining shareholder action groups.

We consider voting at company meetings such as Annual General Meetings a key part of our fiduciary duty to maximise long term shareholder value.

Please refer to the Pengana International Strategy's Engagement and Voting Policy for more detail.

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: 17 DECEMBER 2020