BLACKMORE CAPITAL

EQUITY INVESTORS

ESG Policy

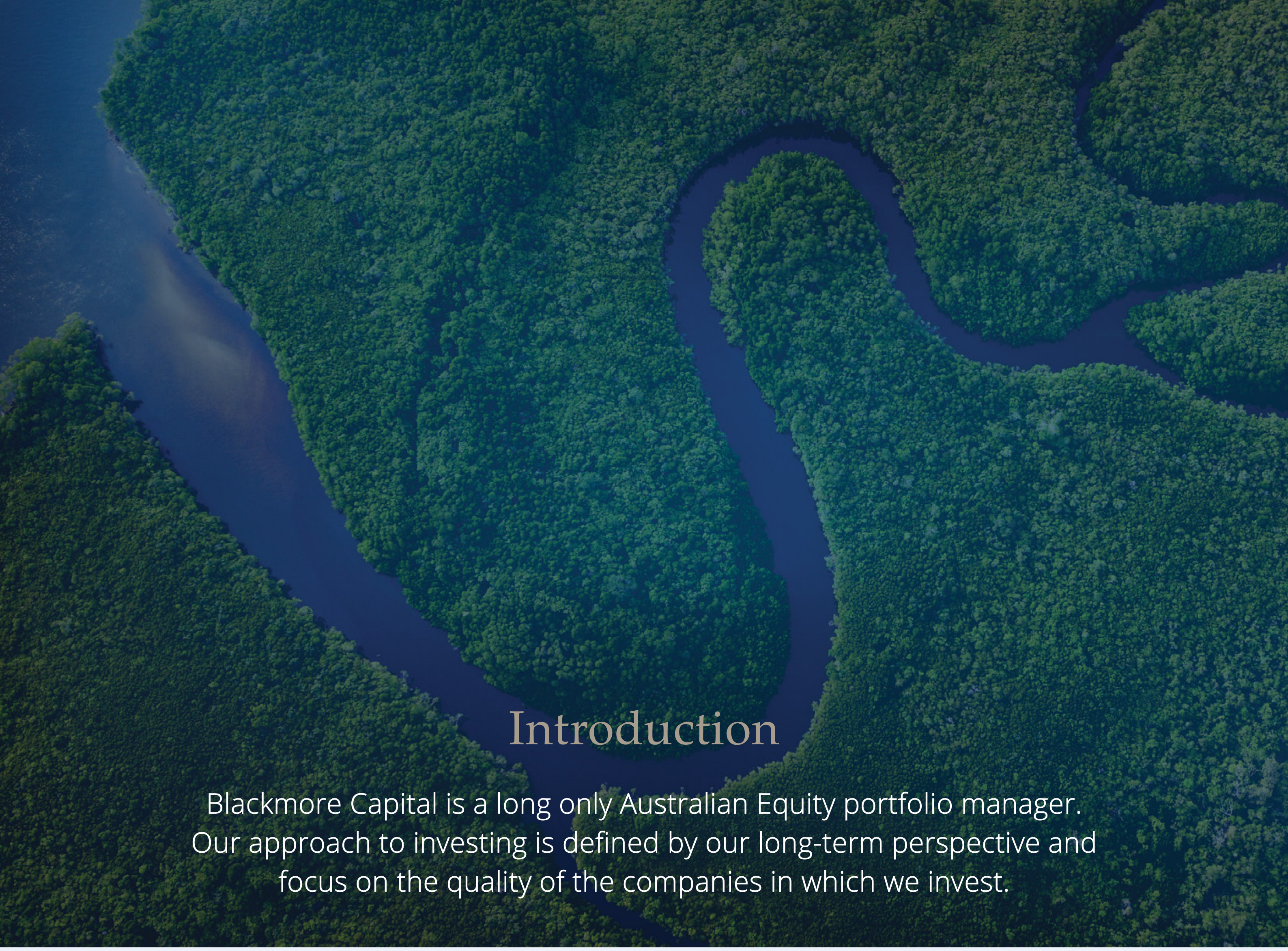
June 2020

The following draft generally follows the UNPRI's guidance on writing an ESG Policy[1], with adjustments to ensure it is relevant and authentic for Blackmore Capital (BMC).

Responsible Investment Association Australasia

Principles for Responsible Investment

[1] *https://www.unpri.org/download?ac=5205*



Introduction

Blackmore Capital is a long only Australian Equity portfolio manager. Our approach to investing is defined by our long-term perspective and focus on the quality of the companies in which we invest.

We believe that making sound investment decisions requires attention on the things that matter to company performance and the elimination of short-term speculation and noise.

In our view, a high-quality business should display consistency of earnings, exhibit an ability to maintain returns, possess a strong balance sheet, have substantial potential market opportunity, adopt sound corporate governance and be available for purchase below our estimated intrinsic value.

We identify these businesses through a process that combines long periods of solitary research with an intensive company visitation program.

This comprehensive, patient and "bottom-up" approach to research and decision-making is fundamental to our strategy. It also informs the way we consider Environmental, Social and Governance (ESG).

In recent times, awareness and interest in ESG has increased significantly. This is an important trend that reflects the evolving expectations of customers, communities and investors.

We see this as a positive development that encourages better and more responsible corporate performance and drives a greater awareness of the importance of social and environmental impacts of business within the investment community.

In our view, providing information publicly about our approach to ESG is essential to inform the clients, platforms and institutional investors we work with.

Consistent with strong ESG practice, we also believe that being transparent about our decisions on issues that impact the environment and communities within which our investee companies operate, is important and should be encouraged.

In light of these beliefs, we have written this policy to provide a comprehensive overview of Blackmore Capital's approach to ESG. The policy includes:

- An overview of our ESG philosophy; and
- A description of how we apply that philosophy to investment decisions in a way that enhances the value of our portfolios and encourages better performance of the companies we invest in

ESG Philosophy: Our Perspective

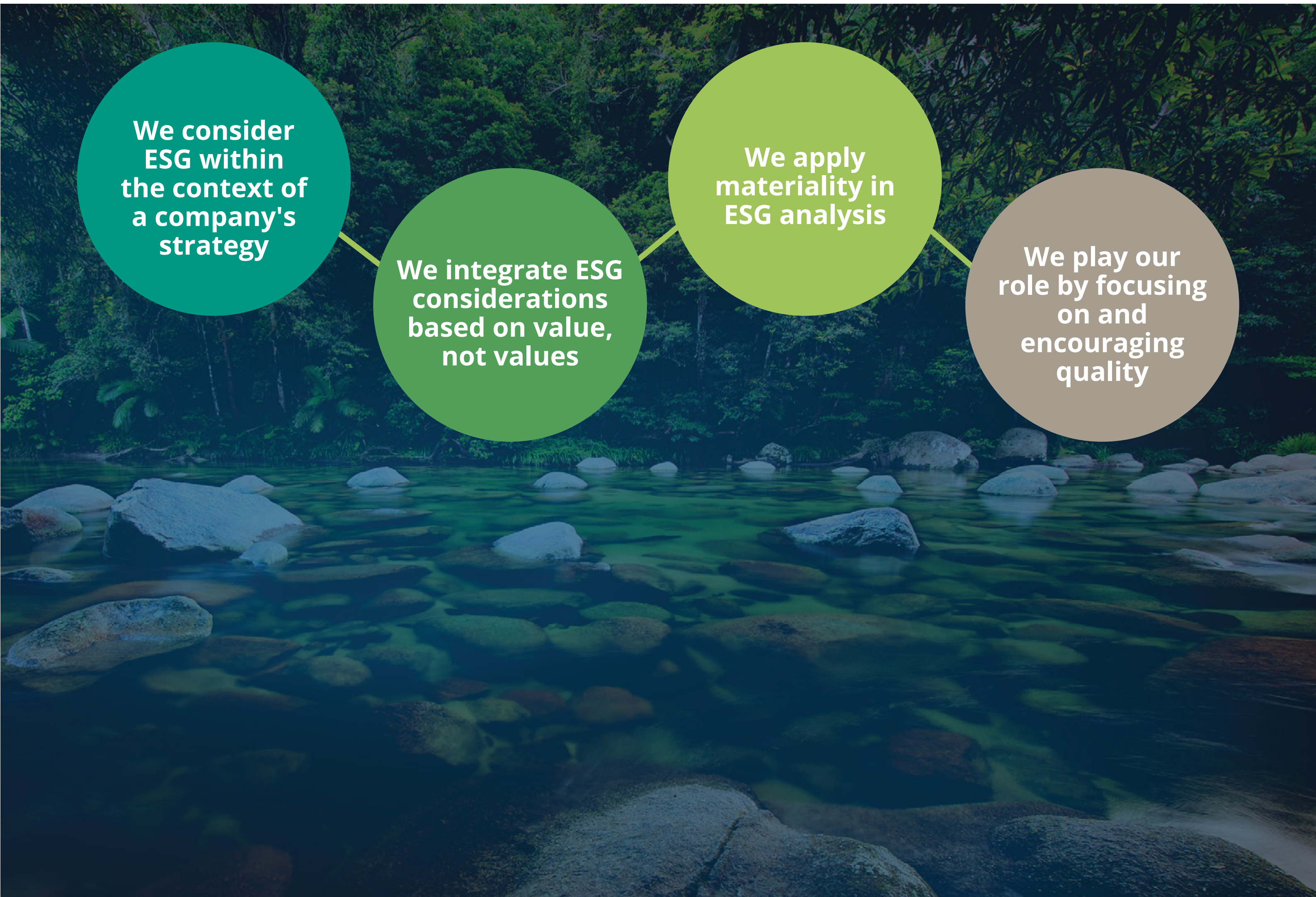
Through over 20 years of investment experience,
we have gained some important insights about ESG.

1 First – and most significantly – we recognise that when understood and applied correctly, analysis of ESG performance can be a valuable indicator of the **quality** of a business. This is particularly true when considering the performance of a business over the long term. This is why ESG considerations have featured prominently in the 8 Guiding Principles that we apply to manage each of our portfolios.

2 Second, we believe that within the investment community, the current understanding and application of ESG analysis varies tremendously in terms of its quality, insight and value. Much of the analysis, commentary and public opinion about ESG contributes to the noise that we seek to avoid.

In our view, our ability to navigate these two considerations – the potential for unique and valuable insight with the prevalence of irrelevant data and opinions – provides us a considerable advantage over other investment managers in the way we understand and apply ESG to our investment decisions.

Our perspective on ESG is described according the following principles.



We consider ESG within the context of a company's strategy

We believe that companies with better ESG performance generally represent better quality investments.

Specifically, we recognise that strong performance on ESG metrics that are relevant to a company's core commercial strategy and operations can:

- Facilitate top-line growth
- Minimize regulatory & legal intervention
- Increase employee productivity
- Increase stakeholder engagement
- Optimize investment and capital expenditure (including the potential to reduce costs)[2]

However, we also recognise that aggregated indicators of ESG performance are not sufficient to inform meaningful analysis on any one of these elements. The range of issues covered within the ESG landscape is too broad to make informed assessments with a singular number or metric.

Despite the growing recognition and popularity of ESG, there is little evidence that companies with high aggregate ESG scores out-perform the market.[3]

Through our experience in making investment decisions based on targeted research and constant industry engagement, this does not come as a surprise. Conflating data on such a broad range of indicators that are often unrelated (and sometimes in conflict) does not provide meaningful insight on a company's performance or underlying value.

Instead, we believe that ESG analysis provides the greatest value when it is applied in a targeted way to the most significant and material strategic priorities of a business. Research by Aaron Yoon of Northwestern University, Mozaffar Khan of Causeway Capital, and Professor, George Serafeim of Harvard Business School demonstrated the value of this approach, showing that companies can outperform the market if they focus their efforts on the issues most material to their core business.[4]

Our experience reflects this view. Unlocking the value of this approach requires an informed and discerning analysis of a company's ESG performance that is deeply connected to a broader analysis of strategy, operations and competitive market position.

We integrate ESG considerations based on value, not values

ESG analysis can be applied in different ways and to different ends.

Some investment managers and investment products apply ESG considerations to determine the inclusion or exclusion of companies or industries on moral or ethical grounds or based on the expectations of communities or clients. The determination of what sits within or outside these portfolios is driven – at least partly – by the values of the investment manager and the client they represent.

These ESG formulas or **screens** often focus on fixed set of issues and or causes, providing assurances to clients on the selection profile of the portfolio. For many, this is a valuable service that provides clarity on decision-making parameters.

At Blackmore Capital, we take a different approach. Consistent with our investment philosophy on quality, we don't believe a screen is the most effective way to make an informed investment decision that most accurately reflects a company's value or worthiness as an investment.

Instead, we use ESG to **inform** our assessment of quality. We believe ESG is most useful when applied as a determinant of value, rather than a framework for beliefs (our own or those of our clients). Our primary focus is on value, not values.

In practice, our focus on quality often leads us to similar company and industry exclusions in many screened products, but our analysis differs in several critical respects:

- first, as mentioned, it starts with the pursuit of quality (or value), rather than values; and
- second, it provides a much more nuanced analysis that captures an accurate and dynamic view of the markets we study, rather than a prescriptive and predetermined playbook of decisions.

This means that for some investments, we may weigh the **direction of travel** of a company, greater than a snapshot of current performance. For example, a company holding, but transitioning away from energy intensive assets may still be a good investment (and future ESG proposition). This analysis is not binary or point-in-time.

Finally, we recognise that some companies are increasingly engaging in advocacy around a range of social, environmental or political issues. Given the proximity of these issues to the ESG landscape, public company positions on issues sometimes become enmeshed in ESG performance analysis. As investment managers, we do not see our role to make decisions based on advocacy and are unlikely to factor this activity into our decision-making.

What's more, we don't consider our personal moral or political positions on these issues relevant to our analysis. Consistent with the position outlined above, we endeavour to conduct an objective analysis that places quality at the centre.

[2] This framing of value has been excerpted from Koller, Nuttal, Henisz, Five Ways that ESG Creates Value, McKinsey Quarterly, November 2019 https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value

We apply materiality in ESG analysis

The concept of materiality is critically important to any ESG analysis.

At Blackmore Capital, we apply the concept of materiality to ESG in the same way we do for all other investment decisions: **to determine the relative importance of particular data on the value of the companies we invest in**. For us, this means our assessment of what ESG factors are material is linked directly to our evaluation of quality and company value.

We recognise, however, that this application differs from the way companies assess ESG materiality internally (particularly for the purposes of reporting). Most commonly, the companies which we invest in apply the guidance from the Global Reporting Initiative (GRI) to identify the social and environmental issues that are most material.

Providing a more expansive view on materiality for reporting purposes, the GRI framework proposes consideration of issues relevant to "the organisation's significant economic, environmental and social impacts; or substantively impact the assessment of stakeholders".[5] For companies, this is a valuable exercise to ensure that there is sufficient consideration of and management of ESG issues that are relevant to their operations **and** important to stakeholders.

For us, this difference in focus is significant. While we believe that the perception of stakeholders is relevant to a thorough ESG analysis, we also recognise that reported ESG data from companies is most often curated for a different purpose (i.e., reporting) than investment analysis. As such, we ensure to adjust our use of these data accordingly.

We play our role by focusing on and encouraging quality

In our view, investors have an important role to play in improving company performance.

One positive development associated with ESG has been the increased understanding of how companies impact society and the environment, both positively and negatively. Driven by a range of forces, ESG has elevated expectations of responsible practice for all companies.

Beyond the baseline, some companies are beginning to recognise that incorporating social and environmental considerations into strategic decision-making can enhance their competitive strategies. To that end, companies are becoming increasingly sophisticated in the way they respond to ESG issues and investors need to understand the implications of this trend.

However, in our view, these shifts are only beginning to penetrate the investment community. As an industry, we have a long way to go.

We anticipate that – like the companies we invest in – investors will need to increase awareness of ESG considerations in their analysis and the sophistication of their ESG strategies to keep up.

This is not just a commercial imperative. It strikes at the heart of our role as investors in encouraging responsible corporate practice, and in seizing the opportunity that innovative companies in this space will present.

In a recent article on the limitations and opportunities of ESG for investors, Michael Porter, Mark Kramer and George Serafeim observed:

"We believe that the most fundamental purpose of investors is to allocate capital to those businesses that can use it well in meeting society's most important needs at a profit. Without the effective investment of capital in the real economy, society cannot prosper." [6]

We share this view. We also believe that focusing on quality in our investment analysis is the best way to identify the companies that will deliver this prosperity and ultimately, to enable us to realise this purpose.

Beyond capital allocation, we also take an active approach to company ownership through engagement and voting (described in the following section). Our philosophy on ESG performance in this domain is entirely consistent with the rest of our investment analysis: we engage and vote in ways that we believe will enhance the quality of the companies we invest in.

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[3] According to Insitutional Investor, between 2010 and 2019 of ESG equity funds with a track record of at least 10 years and $100 million in assets was 11.98 percent, according to data from eVestment and Morningstar. The Standard & Poor's 500 index returned 13.56 percent annualized during the period. Link: https://www.institutionalinvestor.com/article/b1lm2j93w09cv9/ESG-Has-Failed-to-Outperform-for-Years-Is-this-a-Fix
[4] Khan, Mozaffar and Serafeim, George and Yoon, Aaron, Corporate Sustainability: First Evidence on Materiality (November 9, 2016). The Accounting Review, Vol. 91, No. 6, pp. 1697-1724.. Available at SSRN: https://ssrn.com/abstract=2575912 or http://dx.doi.org/10.2139/ssrn.2575912
[5] GRI G4 Sustainability Reporting Guidelines, Reporting Principles and Standard Disclosures, 2013, p17
[6] Michel Porter, Mark Kramer and George Serafeim, Where ESG Fails, Institutional Investor, October 2019 https://www.institutionalinvestor.com/article/b1hm5ghqtxj9s7/Where-ESG-Fails

ESG Investment Approach

How we Integrate ESG into our analysis. As noted, we apply ESG analysis to deepen our understanding about the quality of a business.

1
Determine Materiality
Evaluate which ESG issues are most material to the companies we are analysing

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2
Assess Performance
Evaluate performance linked to those material issues (including a thorough analysis of risks and opportunities)

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3
Integrate Findings
Incorporate the ESG considerations into our assessment of quality

To do this, we first need to identify which ESG issues are most material to company performance. This assessment is informed by a range of inputs, including guidance from the Sustainability Accountants Standards Board, media and industry analysis.

Next, we seek to establish an informed view of company performance in each of the material issues identified. This includes:

- Applying our bottom-up approach to company research through external sources including sustainability platforms, company disclosures and industry analysis
- Conducting qualitative analysis of the company through extended engagement with company leadership

In each of these steps, we seek to move beyond generic or aggregated ESG performance scores and make sense of the data, relative to the aspects of performance that matter most.

Finally, we integrate critical ESG performance insights into our broader investment analysis. This process ensures all material ESG considerations are factored into our assessment of quality, including an appropriate weighting of various risks and strategic opportunities for the company.

Our Approach to Engagement and Voting

As an investor, we believe we have a role in contributing to good ESG performance through active ownership, including proxy voting and direct engagement with companies.

We also believe that we have an obligation to ensure that the companies we invest in are managed well and in a way that delivers strong financial performance over the long term. This is a feature of our own responsibility and our commitment to the clients we represent. An aspect of our pursuit of quality, this obligation drives us to take an active interest in ESG performance of our investee companies.

Engagement

As a feature of our preference for intensive company visitation, we engage with companies often and on a range of issues. Our relationships with senior leadership figures and management teams within the Australian corporate landscape gives us a unique ability to encourage better performance on a range of practices, including ESG.

Consistent with our approach, we engage with companies on ESG topics when we believe that company performance on a material ESG issue is negatively impacting the company's value. We take this responsibility very seriously and seek to encourage better performance wherever possible.

Voting

Similar to our approach to engagement, we consider voting to be an extremely important aspect of company ownership.

As with all of our activity on ESG, our voting will be applied on a case-by-case basis and informed by robust research and analysis of available evidence the implications of each vote.

Where applicable, we will use ASX Corporate Governance Principles and Recommendations guidelines however we will not take a prescriptive approach where there are countervailing circumstances based on evidence, such as the conduct of majority shareholders that are proven stewards of minority shareholder capital.

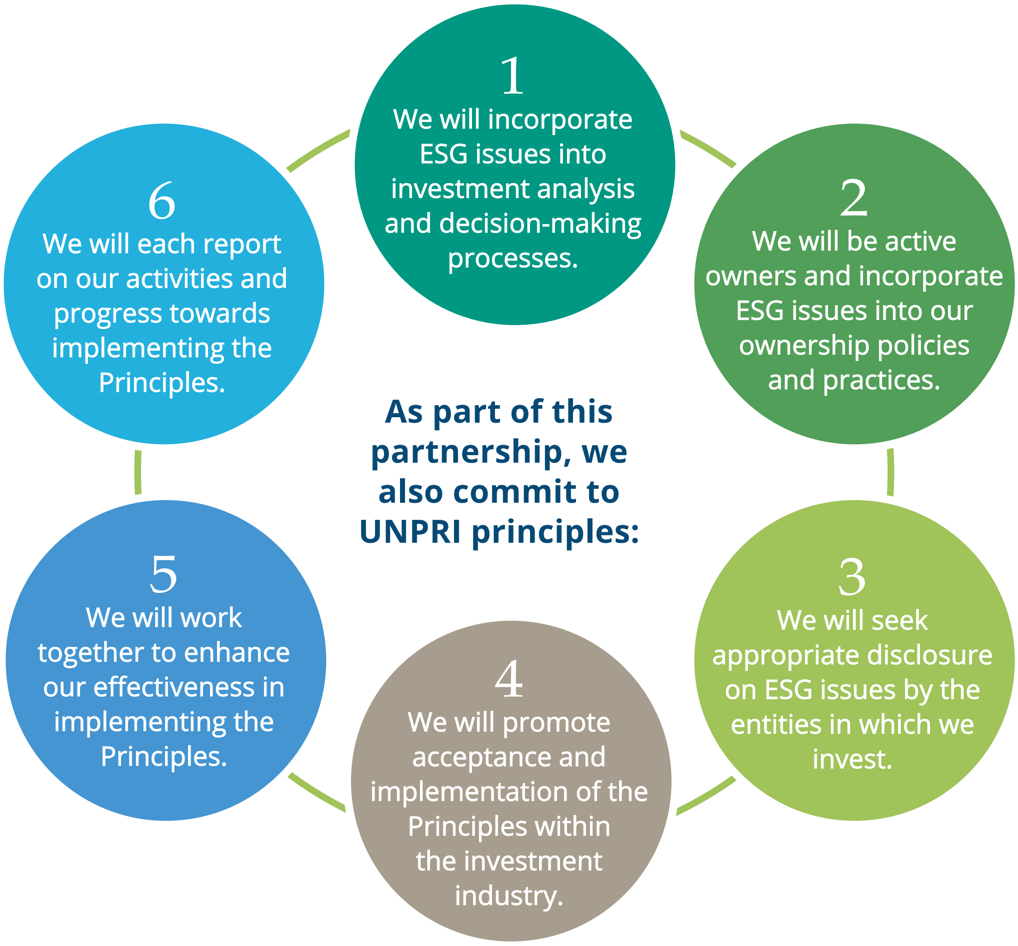
We also consider shareholder resolutions on a case-by-case basis and are guided by our perspective on what will enhance the quality of the companies we invest in. As outlined in this policy, that decision-making incorporates a robust consideration of ESG performance.

We will participate in shareholder class actions only in very limited circumstances. This includes where we as an investor have suffered considerable financial loss as a result of a credible allegation of a breach of law, and where we determine that the class action is a cost-effective way to recoup any losses suffered.

For reasons outlined in this policy, we do not engage in advocacy on a prescribed set of issues of causes.

Involvement with National and International ESG Networks

We are signatories to the United Nations Principles of Responsible Investing and submit a complete annual report on our own ESG performance and approach.



We are also a member of the Responsible Investment Association Australasia (RIAA), "champions responsible investing and a sustainable financial system in Australia and New Zealand." We support RIAA's work to ensure capital is aligned with achieving a healthy society, environment and economy.

Definitions

Key terms and acronyms used in the policy

ESG investing (Mercer): *'The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.'*

Glossary

- Responsible Investment Association Australasia (RIAA)
- United Nations-backed Principles for Responsible Investment (PRI).

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