

## **Ethical Partners Funds Management Human Rights and Social Factors in Investments Policy**

### **(1) Purpose of and objectives of this policy**

- a) This policy reflects Ethical Partners (EPFM) fundamental agreement with the United Nations Declaration of Human Rights (UNDHR), and its assertions, contained within Article One and Article Two, that:
  - a. *“All human beings are born free and equal in dignity and rights”*
  - b. And that *“Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status”*.
  
- b) It further reflects our agreement with the UN Guiding Principles on Business and Human Rights, particularly foundational principles 11:
  - a. That *business enterprises should respect human rights, avoid infringing on the human rights of others and address adverse human rights impacts with which they are involved*.
  - b. Foundational Principle 11 also states that the corporate responsibility to protect human rights “exists over and above compliance with national laws and regulations protecting human rights” and involves “taking adequate measures for their prevention, mitigation and, where appropriate, remediation”.
  
- c) It also acknowledges the growing understanding of the concept of the “social licence to operate” for business, and the requirement for companies to address this need.
  - a. It affirms our understanding of the concept of social licence to mean, at its simplest, the ongoing acceptance of a company’s business

- practices and operations, which requires trust that companies will do the right thing for its employees, stakeholders, and the general public.
- b. It also affirms our belief that businesses should take a more active role in leading positive change and work to eliminate harm and maximise benefits – not just for shareholders or customers, but for everyone.
  - c. It additionally acknowledges the growing demand for business to be actively engaging with and listening to their stakeholders, including and especially the marginalised voices.
- d) This policy also reflects the integral commitment to, and awareness at EPFM, of our responsibility for the stewardship of our funds under management, and the Human rights and social impacts of our investments. It also confirms EPFM's fundamental belief that business and the investment community have a vital role in helping to address our global human rights challenges.
- e) EPFM also firmly believe that those companies who are conscious of ESG will perform better over the long term, and will be more adaptable, responsibly managed and resilient companies who will be able to both survive and thrive in a changing world.
- f) Expanding on this, this policy confirms our belief that human rights and social factors provide both risk and opportunity within investments, and that these risks are only accelerating over time. Therefore EPFM regard the management of human rights and social risks and opportunities as central to long term investment returns, value for shareholders, and our fiduciary duty to clients.
- g) We further recognize that EPFM ourselves have an impact on human rights through both our investments and also our own operations and confirm our

commitment to continually seek to understand, mitigate, and address these risks.

## (2) About Ethical Partners Funds Management (EPFM)

- a) EPFM is a boutique Australian Fund Manager that is fully owned by its staff and founders.
- b) EPFM has a dual focus on performance and investing ethically. Our approach directly manages risk and identifies opportunity for our clients, provides the ability to invest in line with our clients' values, and actively advocates for change.
- c) EPFM is a bottom up, long only stock picker that invests in Australian Equities. We pursue investment in companies that pass both our investment process screens, examining financial strength, cash flow metrics, shareholder structure and management and our proprietary Ethical Partners Operational Risk Assessment (EPORA) which assesses ESG and Responsible Investing considerations.

## (3) Consideration of Human Rights factors in our investment process

- a) Our in-house proprietary investment process, the EPORA (Ethical Partners Operational Risk Assessment), considers human rights as a core pillar of our screening process, as below.

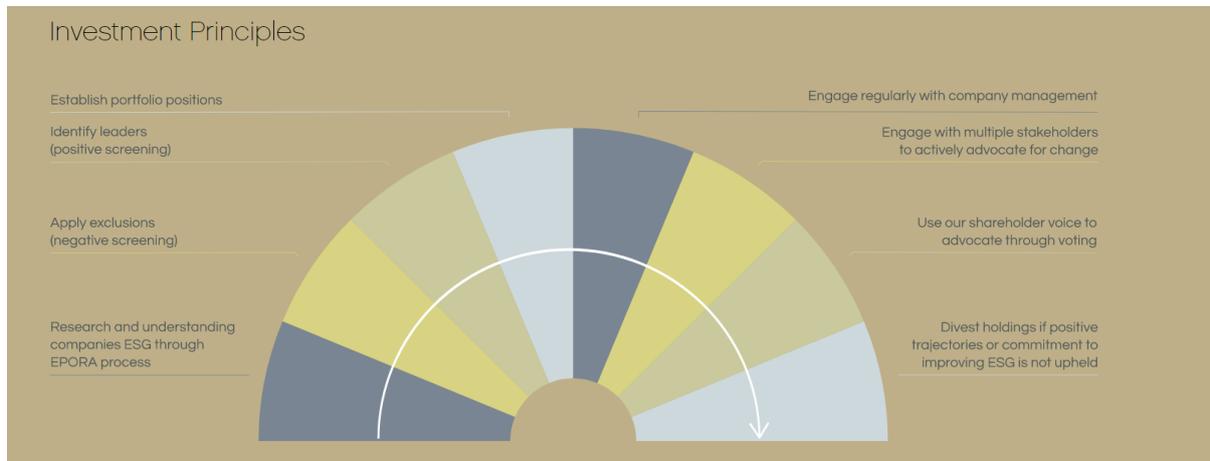


b) An assessment of Human Rights and Social Risks: Covering multiple human rights risks including Human Rights policies and practices, grievance mechanisms/whistle-blower policies, Modern Slavery reporting, major controversies, Children’s Rights, living wage, a company’s response to Human Rights during the COVID pandemic, human capital and workforce management, and other human rights issues as pertinent to the company. Examples (non-exhaustive) of pertinent issues are provided below, and these issues are constantly updated and refined by company developments, new human rights themes and developments, controversies and improved transparency and disclosures



c) Human Rights and Social risk is also addressed through a negative screen for our pooled investment vehicle, which removes several activities that may infringe on Human Rights, including Gambling, Alcohol, Predatory lending and weapons from the investable universe. Mandate clients are able to tailor these negative screens to align with their values. However, all investments will be screened for human rights and social risks and opportunity.

- d) The EPORA screen also considers human rights and social risk, by considering the risk of increased human rights abuses in countries with poor transparency, governance and oversight and a high level of corruption. This is considered through the use of the Transparency International Corruptions Perception Index, of which EPFM's EPORA screen will exclude the bottom third of this index from the investable universe. EPFM also utilise the Global Slavery Index to assess human rights and social risks in a company's country of operation.
  
- e) The investment process also applies a positive screen for opportunities presented by human rights and social factors. EPFM aim to invest in leaders who are addressing and mitigating human rights and social risk, as identified by EPORA, as we believe these companies present both real potential for outperformance, resilience from risk to future business performance, and will benefit from increased consumer demand, new market opportunities, shareholder and social support, employee satisfaction and loyalty, improved supply chain understanding and practices, and reputational benefits. We also believe that by supporting these leaders EPFM can assist by providing supportive capital to business seeking innovative solutions to our global social challenges.
  
- f) EPFM's investment process then involves the consideration of these human rights and social risks and opportunities in our stock valuations and portfolio construction on a case by case, by using a range of factors and techniques, as material and pertinent to the individual business.
  
- g) A summary of EPFM's Investment Process can be seen in the graphic below.



h) EPFM has also committed to use the Sustainable Development goals (SDGs) as a lens in which to examine investments and their impact in creating a better world as well as a framework for EPFM to guide investments and report against the contributions to the goals. EPFM therefore considers the relation of the human rights and social footprint and practices of our portfolio companies towards the attainment of the SDGs. We believe all the 17 SDG's are affected by, or can affect human rights and social factors, and are we therefore consider the human rights and social issues in each SDG in our analysis and engagements.

## SUSTAINABLE DEVELOPMENT GOALS



- i) EPFM is also cognisant that human rights/social and environmental risk factors are often interrelated. As such, EPFM see that a healthy environment is in itself a human right, and additionally, that environmental impacts will also impact human rights in many settings. EPFM therefore consider human rights and social factors within a holistic and interrelated manner within our EPORA assessment process, our engagements and our advocacy. For more information on how EPFM addresses environmental risk, please see our Environmental Factors in Investment Policy, and our Climate Change in Investment Policy.
- j) EPFM is also cognisant that we must continually develop increasingly sophisticated strategies, as understanding and transparency increase, to make the portfolio more resilient to these risks, and therefore, we undertake extensive research, in-house training and analysis to continually refine our analysis and integration of human rights and social factors into our investments.

#### (4) Engagement with companies on Human Rights Factors

- a) Engagement constitutes another crucial pillar of EPFM's investment process and management of human rights and social risk.
- b) Through our engagements, EPFM aim to encourage companies to undertake human rights and social risk management, adaption and mitigation activities, provide resourcing, capital and board attention to environmental concerns, and to look for opportunities in new products, new technologies, new partnerships, new business models, and to embrace both a position of leadership on human rights risk management, and collaborations with other companies and investors to address our global human rights and social challenges.
- c) Engagement is undertaken by each analyst, supported by our Sustainability team, the Investment Director and the CEO, and includes engagement with sustainability teams, risk management, investor relations, CEOs, and Boards.

- d) We expect to see companies responding positively to this engagement and being willing to discuss the relevant issues, address them, and to meaningfully continue their trajectories towards addressing human rights. We expect to see real progress, and a continued buy-in and commitment. We also commit to continuously advocate publically for corporates to better address their human rights and social impacts.
- e) We continually review our engagement plans on new information, refine them, and deepen our engagement as better understanding, disclosures, regulations, issues and information comes to light.

#### (5) Shareholder Voting

- a) EPFM believe that voting at a company's annual general meeting is an important way in which EPFM can exercise its shareholder rights to influence and encourage our portfolio companies to better address their human rights and social risks and opportunities, and advocate for positive corporate change and impact.
- b) We also believe that Shareholder Voting is an important engagement tool, as these resolutions help drive our engagement discussions with companies on human rights and social issues.
- c) The Investment Director and the CEO, in conjunction with the Sustainability and Investment Team will consider each resolution and will vote on such considering the best interests of its clients. The Investment Director will consider the ethical screening process and corporate governance considerations in determining its voting intentions. EPFM will also consider generating resolutions on certain issues when it determines it is appropriate to do so.
- d) Ethical Partners also commits to being transparent and publically disclosing our voting record on our website and on request.

## (6) Advocacy and Collaboration

- a) EPFM chooses an active advocacy role in encouraging better corporate behaviour in regards to a company's impact on human rights and social factors. We undertake regular and extensive advocacy with the aim to influence the broader market and promote a shift towards a sustainable financial system. This can include a variety of activities including engagement with and submissions to government, publishing research and industry wide campaigns.
- b) We see our engagement role to also include engaging with other investors to collaborate to create change, and as such are signatory to around 30 different signatory and collaborative initiatives, in which we actively participate.
- c) We also believe there is also a very important role for the investor voice in wider civil society and global issues. EPFM recognizes that through collaboration with other investors we can exert a greater influence and manage resources more effectively.
- d) We engage regularly with multiple NGO's, in order to support and share their advocacy, and with media where appropriate to help raise awareness of these issues.
- e) We also commit to be transparent about our advocacy activities, and report on these activities regularly on our website and in our client and public ESG reports.

## (7) Accountability

- a) As per our Responsible Investment Policy, the board and all internal roles have oversight and implementation responsibility for the integration of human rights factors within our approach to responsible investment.
- b) Our CEO and Investment Director have direct involvement in all ESG decisions and considerations. However, EPFM strongly believe that it is critical that ESG knowledge also sits with each Investment Analyst, in order

for it to be integrated into every investment decision, and to strengthen our ability to engage on sustainability issues with every company interaction.

- c) This is facilitated by our Head of Sustainability and our Sustainability Analyst, who partner with and support the investment team in their sustainability assessments, integrations and valuations, on a continuous basis, in order to support the integration of ESG at every step of the investment process.

#### (8) Transparency and Disclosure

- a) EPFM believe that if we are asking corporates to be accountable and transparent, we ourselves must hold ourselves to the same standards. As such, Ethical Partners regularly reports against our engagements, our EPORA analysis of the ASX 200, our voting record, our EPFM voluntary Modern Slavery Reporting, and other reporting on the integration of human rights and social factors into our investments or our advocacy in this space as required.

Date of last review: April, 2021

Responsibility: Head of Sustainability

Approved by: CEO and Investment Director