

## **Ethical Partners Funds Management (EPFM) Impact Management and Measurement Policy**

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

- a) This policy confirms EPFM's belief that measuring and managing the impact our investments and our operations have on society and our world is critical to fulfilling our roles as Responsible Investors.
- b) The purpose of the policy is to commit to a continuous improvement in understanding our impact, in order to continually improve our impact footprint and demonstrate progress toward global goals.
- c) This policy also reflects our commitment to proactively report our impact to key stakeholders.
- d) It further reflects our integral commitment to and awareness of our responsibility for the stewardship of our funds under management. EPFM firmly believe that business and the investment community have a vital role in helping to address complex ESG challenges.
- e) EPFM also strongly 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, thus creating better outcomes for our clients and investors as well as the world.

### (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) Impact: Definitions

- a) The Impact Management Project (IMP) defines impact as, “a change in an outcome caused by an organisation. An impact can be positive or negative, intended or unintended.”
- b) As defined by the Global Impact Investing Network (GIIN), “impact measurement and management includes identifying and considering the positive and negative effects one’s business actions have on people and the planet, and then figuring out ways to mitigate the negative and maximize the positive in alignment with one’s goals.”

### (4) Impact Management and Measurement within EPFM’s investments:

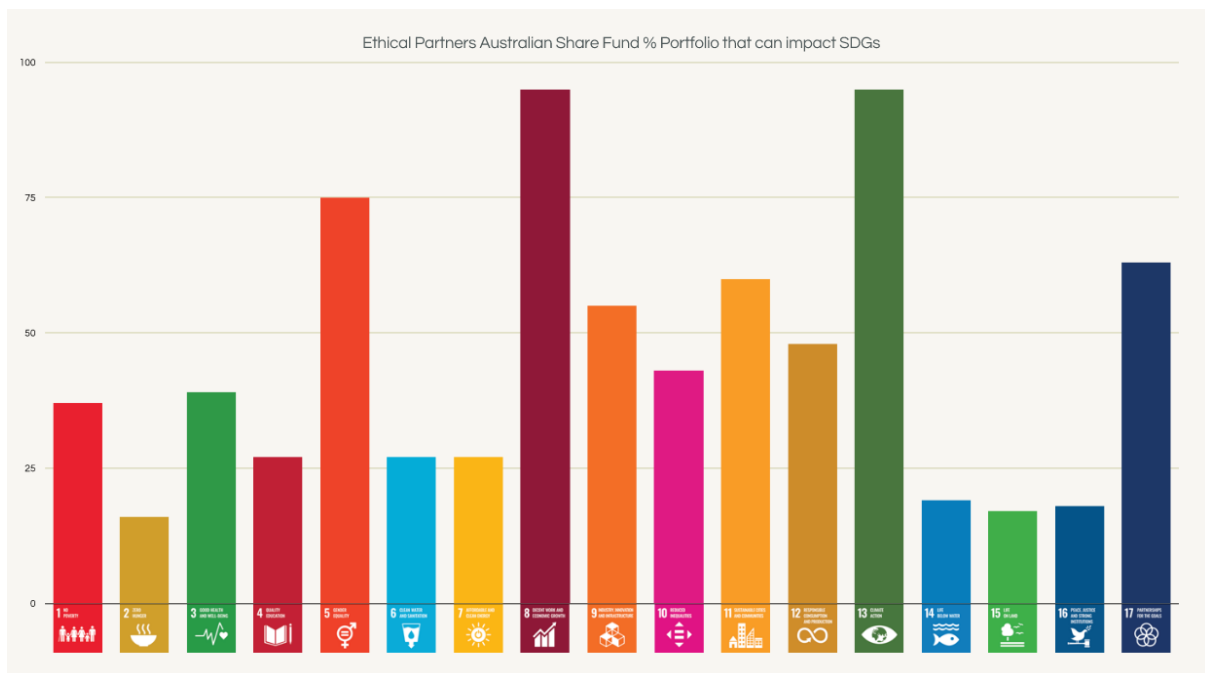
EPFM currently utilize several core frameworks and models to measure impact, including the Sustainable Development Goals, The Impact Management Project and the IFC’s Operating Principles for Impact Management. Each of these Frameworks and their application through EPFM’s frameworks are discussed in Section 5, 6 and 7 below.

### (5) The Sustainable Development Goals (SDGs):

- a) EPFM believe that the SDG Framework provides a common ground for investors and corporates alike to consider their impact, and a platform to call for a united effort to achieve a shared set of targets and indicators.
- b) EPFM use the SDGs in several ways:
  - ii. The SDG framework is considered in a systematic and thorough manner within our proprietary Ethical Partners Operational Risk Assessment (EPORA) investment screen, which is applied to every company considered for investment. Please see our Responsible Investment Policy for more detail on EPORA.
  - i. The SDG is used in this analysis to help inform our ESG assessment of the company’s operations, and as a consistent and clear way to assess a company’s impact on people and the world. This impact is considered in terms of positive, negative, actual and potential impact of every company in the portfolio, or that is considered for investment.

- ii. EPFM also believes the SDG framework is an important engagement tool, providing a common language for us to talk with our portfolio companies about their responsibilities to address the goals, and the positive and negative impact they can in the 17 SDG areas.
- iii. EPFM also uses the SDG's as a way to identify opportunities for further positive impact on a portfolio level, and thus assist in how we consider our thematic investments, alongside our traditional EPOA and financial analysis.
- iv. Importantly in terms of impact measurement, the SDG's are also used to track the impact of EPFM's portfolio investments in terms of their contributions to the goals.
- v. Figure 5 shows the annual mapping of EPFM's impact on SDGs. This mapping includes both the current positive impact of a company on the SDG but also where EPFM have identified a potential positive impact that the company can, and should, be having on this SDG and we have therefore engaged with the company in a deep and consistent manner, and are seeing progress towards better addressing this goal in the future.

**Figure 5: Sustainable Development Goals (SDGs)**



- vi. Please see Appendix 1 to this policy for some examples of some current EPFM impact goals and outcome measurement as related to the SDG's.

**(6) The Impact Management Project (IMP)**

- a) The IMP is a forum for building consensus on how to measure and manage impact.
- b) The IMP classifies impact across 5 dimensions, as per Figure 6.1 below.

**Figure 6.1 Classifications and Dimensions of Impact**

Dimension	Assessment to look for...				
<b>What</b>	Unknown	Important negative outcomes	Important negative outcome(s)	Important positive outcome(s)	Important positive outcome(s)
<b>Who</b>	Unknown	Various	Underserved	Various	Underserved
<b>How Much</b>	Depth	Unknown	Various	High degree of positive change	High degree of positive change <b>and/or</b>
	Scale	Unknown	Various	Various	Various
	Duration	Unknown	Various	Various	Various
<b>Contribution</b>	Unknown	Various	Likely the same or better	Likely the same or better	Likely better
<b>Risk</b>	Unknown	Various	Various	Various	Various
	↓	↓	↓	↓	↓
<b>Classification of impact</b>	May cause harm	Does cause harm	Act to avoid harm	Benefit stakeholders	Contribute to solutions

Source: Impact Management Project



- c) At EPFM, we consider the impact of every investment we make in terms of whether it:
  - a. may cause harm
  - b. does cause harm
  - c. is acting to avoid harm
  - d. aims to benefit stakeholders
  - e. contributes to solutions.

d) We also consider the companies impact in terms of the IMP's 5 dimensions of impact as per Figure 6.1, being:

- a. What
- b. Who
- c. How much
- d. Contribution
- e. Risk

We use these dimensions to help inform our understanding, analysis of and engagement of the manner of the impact for each company.

e) These factors are considered within our EPORA process, which screens for these 5 categories of impact within the spheres of:

- a. Product
- b. place of operation
- c. impact on people
- d. impact on planet
- e. Governance.

Please see Responsible Investment Policy for a detailed description of our EPORA investment process.

f) Companies that:

- a. Cause harm will be removed from the investable universe by negative screening, as per our responsible investing policy.

Whilst companies that are:

- b. Actively working to benefit stakeholders and contribute to solutions will be identified by our positive screen and will be more favorably considered for investment dependent on financial factors and valuations, as per our responsible investing policy.

g) These classifications of impact are also fundamental to our engagement process. As part of the annual EPORA process, EPFM construct in-depth engagement plans for all companies in the ASX200. These engagement plans are enacted through a through and continuous engagement process with company boards, directors, management and business unit heads, through which we actively advocate for companies to:

- a. address any aspects of their operations that may cause harm
- b. to actively seek to avoid harm,
- c. to seek solutions to our global challenges
- d. to continually aim to benefit all stakeholders.

- h) Subsequent to this and the process set out by the IMP, we set annual impact goals/outcomes. Throughout engagements with companies we discuss these impact outcomes and advocate with the companies about how they are, and can better contribute to these impact goals and outcomes.
- i) We have also mapped EPFM's approach using the IMP matrix below in Figure 6.2:

**Figure 6.2: Mapping our investments by the IMP impact matrix**

		Impact of underlying assets / enterprises			
		A Act to avoid harm		C Contribute to solutions	
			B Benefit stakeholders		
Investor's contribution	<b>Signal that impact matters</b> + Engage actively + Grow new/undersupplied capital markets + Provide flexibility on risk-adjusted return	1	E.g. Ethical bond fund	E.g. Positively-screened / best-in-class ESG fund	E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to underserved people or renewable energy projects
	<b>Signal that impact matters</b> + Engage actively + Grow new/undersupplied capital markets + Provide flexibility on risk-adjusted return	2	E.g. Shareholder activist fund	E.g. Positively-screened / best-in-class ESG fund using deep shareholder engagement to improve performance	E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people
	<b>Signal that impact matters</b> + Engage actively + Grow new/undersupplied capital markets + Provide flexibility on risk-adjusted return	3	E.g. Anchor investment in a negatively-screened real estate fund in a frontier market	E.g. Positively-screened infrastructure fund in a frontier market	E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation
	<b>Signal that impact matters</b> + Engage actively + Grow new/undersupplied capital markets + Provide flexibility on risk-adjusted return	4	<i>Investment archetype not widely observed</i>	E.g. Positively-screened private equity fund making anchor investments in frontier markets	E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people
	<b>Signal that impact matters</b> + Engage actively + Grow new/undersupplied capital markets + Provide flexibility on risk-adjusted return	5	<i>Investment archetype not widely observed</i>	<i>Investment archetype not widely observed</i>	E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people
	<b>Signal that impact matters</b> + Engage actively + Grow new/undersupplied capital markets + Provide flexibility on risk-adjusted return	6	<i>Investment archetype not widely observed</i>	<i>Investment archetype not widely observed</i>	E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people

EPFM

- j) In terms of Investors contribution, we invest in line with criteria at box 2:

Signal that impact matters and engages actively

k) Investor contribution: Signal that impact matters:

Ethical Partners is very cognisant of the impact and footprint of our portfolio on the world and aims to invest in a way that can positively impact the global community. Through our deep engagement process with companies we actively advocate for all our portfolio companies to address their impact on People and Planet in terms of a company's actual, but also potential impact on the SDG's.

The relationships that we build with portfolio companies also helps us to encourage and influence the impact that they can have. Our expertise, gained from in-house research, helps to provide valuable insight and assistance to companies to improve on their impact.

l) Engage Actively:

Engagement is critically important to Ethical Partners. We believe that our genuine, deep and regular engagement is a vital tool to leverage our shareholder voice to call for corporate change, something that we regard as both a responsibility and a privilege as investors.

As mentioned previously, as part of our EPORA investment screening and due diligence processes, we formulate an engagement plan for every portfolio holding, to guide and prompt company engagements on improving on or addressing gaps in how a company may be addressing Human Rights, Governance and Environment, or how they could better impact the world, address risk or find opportunities.

Our annual Engagement Report contains details, descriptions and transparency on our hundreds of meetings with companies, boards, directors, chairs and management every year. Please see our Engagement Report and our Stewardship Policy for more details on our engagement approach.

m) In terms of the impact of underlying assets/enterprises, we invest in line with the criteria in boxes A and B.

Acts to avoid harm and Benefits stakeholders



n) Acts to Avoid Harm:

Ethical Partners has an integral commitment to investing in a responsible, ethical and sustainable manner and this includes ensuring that we act to avoid harm. In order to be considered for investment, all companies must pass our proprietary Ethical Partners Operational Risk Assessment (EPORA), which thoroughly assesses numerous ESG and responsible investing considerations, including:

- A. Whether a company's product is harmful, at which point we apply a negative screen and remove the company from our investable universe. Exclusions include alcohol, uranium, gambling, weapons, tobacco, fossil fuels, predatory lending, coal seam gas;
- B. The company's place of operation (country risk) using the Transparency International Corruptions perceptions index;
- C. Their impact on the planet, assessing multiple pertinent, material and relevant issues and themes;
- D. Their impact on people, assessing multiple pertinent, material and relevant issues and themes.

Ethical Partners will also divest from a portfolio stock when we see increased risks or lack of true progress.

o) Benefit Stakeholders:

As contained within our Responsible Investment Policy, Ethical Partners firmly believes that businesses that take seriously how they treat people and the environment will ultimately do better than those companies that don't. We furthermore believe that the benefits of businesses behaving with more thoughtfulness and care for people and the environment will be enjoyed by society, their people, their environment, as well as their shareholders. Ethical Partners also sees that ESG factors are fundamental to assessing both a company's business risks and opportunities, which benefits shareholders, but furthermore, we fundamentally recognize that the long term prosperity of the economy and the wellbeing of the public depends on a healthy environment, social cohesion and good corporate governance practices.

p) Ethical Partners also aims to invest in line with box C

Contributes to solutions

Whenever opportunities within our investable universe (the ASX listed equities) and our valuation and financial screens present, however, as we *don't specifically and only invest in companies* that address solutions



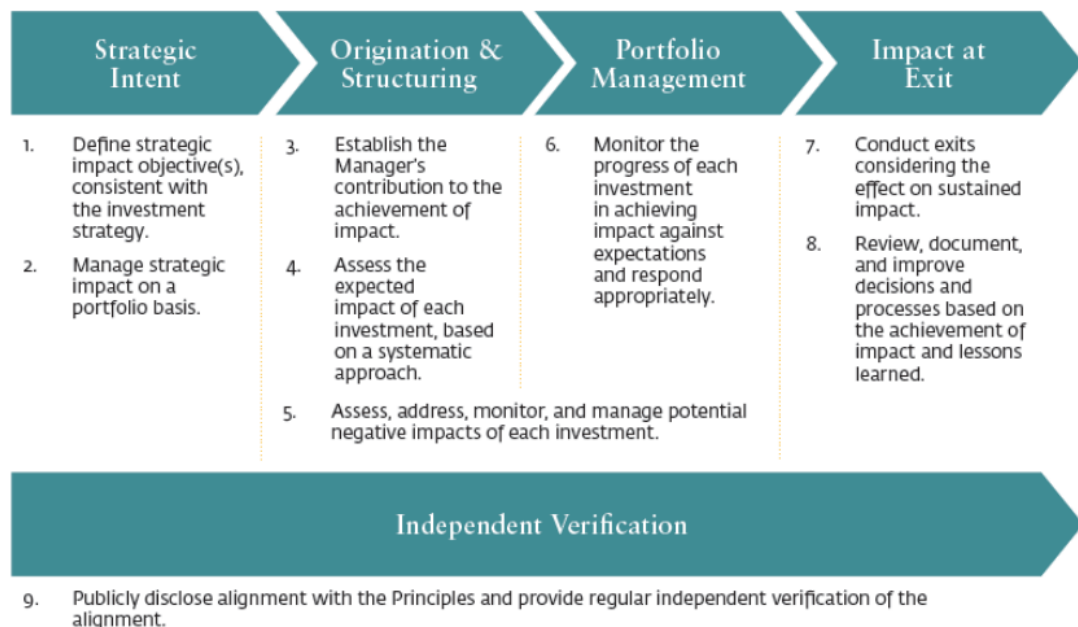
regardless of valuation, we have not claimed this criteria at C in our matrix answer. We do however, view favourably and actively seek investment in, companies that address these issues when we can.

Additionally, we believe that we also address C – Contributes to solutions through our deep engagement process with companies in which we advocate for all our portfolio companies to address their impact on People and Planet, in particular through our use of the SDG lens, in terms of a company’s actual, but also potential impact on the SDG’s. We actively advocate for our portfolio companies to address areas where they can contribute to solutions.

(7) The International Finance Corporation’s (IFC) Operating Principles for Impact Management:

- a) These principles provides a framework for which the impact management systems can be assessed as seen below in Figure 7.

Figure 7: IFC’s operating principles for impact management below



- b) EPFM invests in line with the IFC Operating Principles as detailed below:

- i) A strategic intent: EPFM defines impact objectives within our engagement plans, which we formulate for every company in the

ASX200 at the end of the EPORA process (please see our responsible investment policy for more detail on EPORA and our stewardship policy for more detail on our engagement approach). We also manage strategic impact on a portfolio basis through portfolio construction as informed by our positive screening approach and our thematic investments where financial and valuation factors allow.

- ii) **Origination and Structuring:** EPFM addresses this criteria through our clear policy commitment to how we aim to contribute to the creation of impact in our portfolio, and in companies, through our EPORA analysis, portfolio construction and engagement. We also assess, address, monitor and manage the potential negative impacts of each investment, through our continuous analysis, close engagement, and divestment policies when required.
- iii) **Portfolio Management:** We address this criteria as above, through our continuous assessment and engagement with companies.
- iv) **Impact at Exit:** EPFM addresses this criteria through our continuous review of our EPORA process, as to how we can better understand, document, review and improve our management and measurement of impact in our portfolio.
- v) **Independent Verification:** EPFM publically discloses our alignment of the IFC principles through this policy, and through regular reporting to clients and public reports. We are also currently investigating external verification mechanisms.

#### (8) Continuous Improvement and learning:

- a) EPFM is also cognizant that impact reporting is a learning process, and that we are still early on in our impact management and measurement journey. EPFM therefore aims to be honest about our contribution to change and continuously strive to improve our process of impact measurement process and how we communicate this to our key stakeholders.
- b) We also acknowledge that we as responsible investors must be an active part of the ongoing conversation and refinement of how we measure impact, and we therefore commit to collaborating and learning with other investors as understanding about impact management and measurement increases.

Date of last review: April, 2021

Responsibility: Head of Sustainability

Approved by: CEO and Investment Director

Appendix 1: Current EPFM impact goals and outcome measurement as related to the SDG's.

<b>Outcome</b>	<b>Description</b>	<b>KPIs and metrics</b>	<b>SDGs</b>
Gender diversity	Promoting 40:40 gender diversity targets for portfolio companies.	40% women in executive leadership roles by 2030.  An interim target in order to reach 2030 target.	5
Racial and disability diversity and inclusion	Monitoring and disclosure of all diversity and inclusion metrics.	Disclosure of racial, cultural and disability diversity in the workforce.  Practices and policies that acknowledge and aim to improve inclusion.  Reconciliation Action Plan implemented.	10
Modern slavery	A completed Modern Slavery Statement.	A completed statement in line with Modern Slavery Act guidelines.	8
Human rights in supply chain	Disclosure and understanding of modern slavery risks in a company's supply chain.	Disclosure of human rights risks in their supply chain.  A policy or demonstrate practice to mitigate these risks.	8
Decarbonisation target	Plans and progress to achieve carbon neutrality.	Disclosure of Scope 1, 2 and 3 carbon emissions.	13

		<p>Specific target for net zero/carbon neutrality.</p> <p>Interim targets and plans on how the net zero target will be achieved.</p>	
Sustainable farming and agriculture	Transition plan for agriculture portfolio companies.	<p>Materiality assessment of agricultural risks.</p> <p>Understanding of new sustainable farming practices.</p> <p>Plans to reduce risk and impact on the environment to test new practices.</p>	2
Circular economy plans	Progress on reducing waste via circular economy mechanisms.	<p>Understanding the impact of material waste production in the company.</p> <p>Plans on how to reduce waste and utilise the circular economy to improve environmental impact.</p>	6
Biodiversity	Progress on reducing impact on biodiversity.	<p>Understanding the impact of material biodiversity risks in the company.</p> <p>Plans on how to reduce biodiversity impacts.</p>	15
Children's rights	Business impact on child rights.	<p>Understanding that child rights in business goes beyond purely child labour by undertaking assessment of risks across the business.</p> <p>Plans to reduce these impacts if material.</p>	8
Fair taxation	Ethical tax practices of all portfolio companies.	Clear and full transparent data available including:	8

		payment of fair share of tax; disclosure of contracts; renouncing the use of tax havens etc.	
Sustainability reporting and disclosure	Annual sustainability reporting	Annual reporting on sustainability.  Disclosure on key sustainability risks and opportunities for the business.	All
Water	Progress on reducing water usage	Understanding the impact of material water usage in the company.  Plans on how to reduce water usage and their impact on clean water supplies.	6