



**SOLARIS**  
investment management

# ESG Integration Policy

Solaris Investment Management Limited

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## 1. Overview

Solaris Investment Management Limited ('Solaris', 'our' 'we', 'us') is a mainstream Australian equities manager. This position allows Solaris to engage in active and ongoing dialogue with the companies we invest in regarding issues that are significant to the companies' operations. It also allows Solaris to encourage the companies in which we are invested to meet the highest standards of governance and ethical and professional practices.

Responsible investment (in the form of ESG integration) has been an integral part of Solaris' investment process for many years. We have developed this policy to express how we view our responsibilities and how they apply in a practical way to the day to day running of our portfolios. This policy has been developed in line with guidance contained in FSC Standards 13 (Proxy Voting Policy), and 23 (Principles of Internal Governance and Asset Stewardship), and FSC Guidance Note No.40 (Responding to the Modern Slavery Reporting Requirements) and No.44 (Climate Risk Disclosure in Investment Management) and the Australian Council of Superannuation Investor (ACSI) Stewardship Code for Asset Owners. It is reviewed and approved by the Solaris Board annually to ensure it remains relevant.

Solaris believes that the consideration of ESG factors can help to protect and enhance our clients' investments over the longer term. As stewards of our clients' capital, Solaris exercises ownership rights and responsibilities including monitoring company performance, engaging with companies and voting proxies. As part of our stewardship activities, the consideration of ESG factors has a prominent role. The ESG field is a broad and ever-evolving space that continues to challenge the companies in which we invest and our assessment of those companies. Solaris aims to ensure that we are at the forefront of material ESG factor assessment to ensure long-term capital enhancement and protection of our clients' portfolios. Solaris analyses the companies we invest in and their ability to transition through changing market conditions and societal norms.

Solaris is a professional and well governed investment manager with a suite of policies coupled with in-house training and external compliance monitoring to ensure the policies are complied with. The culture of Solaris is of paramount importance, and stewardship, internal governance, compliance and investment management expertise all have important roles in the enduring nature of Solaris' culture.

## 2. ESG Integration

The integration of ESG issues into our investment decision-making process is an integral part of our business. We believe that companies cognisant of environmental, social and governance issues may represent opportunities for outperformance, and correspondingly, those companies that do not effectively manage these areas of their businesses could experience underperformance. The assessment of ESG factors aids Solaris in the performance of its stewardship role.

### 2.1 Analyst Based Evaluation of ESG Issues

The evaluation of ESG issues is undertaken by the analyst responsible for the company. Analyst empowerment is an important feature of the Solaris investment process. A dedicated analyst covers every company in the S&P/ASX200 and the decision to include or exclude that company in Solaris' investment portfolios is predominantly the decision of that analyst. ESG evaluation forms part of the analysts' overall assessment of that company. It is important to emphasise that this is not a new aspect of the analyst role. All current analysts have, in the past, had to make ESG evaluations. Solaris also employs two ESG Analysts who provide the analysts with additional information and research capacity where required.

### 2.2 Where does ESG Evaluation fit into the Solaris Process

ESG factors are considered at two stages within the Solaris Investment process:

- The **initial risk screening stage** where Liquidity, Financial, Geo-political, **ESG** and Litigation risks are assessed. Stocks that fail to pass any of these risk screens are considered non-investment grade and are not included in the Solaris universe.
- **Qualitative assessment stage** – The criteria examined by our analysts include:
  - Management
  - Business Model
  - **ESG factors**
  - Balance Sheet
  - Cash Flow profile
  - Trend in Return on Equity



### 2.3 Valuation Impacts of ESG Factors

The conclusions drawn by analysts from their qualitative assessment feeds into the appropriate rating applied to each company's valuation in a variety of ways including:

- Forecast earnings and cashflow implications;
- For multiple based valuations adjusting the multiple (eg Price/Earnings, Enterprise Value Multiple);
- For Discounted Cashflow method valuations, adjustments to the beta applied; and
- A discount to a valuation excluding the ESG issue.

The primary portfolio construction technique that Solaris uses is based on expected return. Simply put, if a company has a high expected return that company may be included in the portfolio and equally, a low expected return (or negative excess return) may see a company not held in the Solaris portfolios. It follows, therefore, that a poor ESG evaluation may result in the company's valuation being marked down and reducing the company's chances of being included in a Solaris portfolio. Conversely, a positive ESG evaluation may result in the company's valuation being upgraded and increase its chances of being included in the portfolio.

Each analyst is required to reach an annual performance target from their allocated sectors. They prioritise their own stock analysis and their effectiveness is reflected in their subsequent performance outcome which drives their remuneration and retention outcomes. While Analysts have access to a standard company model and Discounted Cash Flow valuation package, they are empowered to use whichever analysis and valuation methodologies they find most effective. This effectiveness is gauged by the performance outcomes generated. ESG issues form part of the analysts' in-depth analysis for each stock. The analysts are encouraged to utilise ESG data provided by the ESG Analyst in a pragmatic and considered approach suitable for their companies.

## 2.4 ESG Analysts' Role in the Investment Process

The Solaris ESG Analysts' role is to ensure that relevant ESG issues are brought to the Analysts' attention through:

- Immediate ESG Alerts where the issue is assessed as having a high probability of valuation impact.
- Regular ESG Round-up of issues where there is a lower probability of valuation impact.
- Ongoing dialogue regarding company, sector and market specific issues.
- At the **Initial Screening Stage**: The ESG Analyst advises on ESG issues that may cause the stock to be excluded from Solaris' investable universe. A negative ESG screen may exclude a company from investment consideration by Solaris when the company is:
  - Found to be undertaking unlawful activities.
  - Operating in contravention of Australian ratified international conventions or treaties.
  - Operating in a manner that Solaris considers is unsustainable or does not align with expectations of appropriate corporate behaviour.
  - Of such poor quality that the risks of investment are too high to include the stock in portfolios.
- In the **Qualitative Evaluation Stage**: The ESG Analysts ensure that the Solaris analysts are fully informed of ESG issues that may affect the valuation of their stocks. ESG issues form part of the analysts' in-depth analysis for each stock. The analysts are encouraged to utilise the ESG data provided by the ESG Analysts in a pragmatic and considered approach suitable for their companies.

The ESG Analysts also:

- Participate in company meetings where specialised ESG knowledge is utilised.
- Follow-up with the Analysts to:
  - Quantify the level of impact the ESG issue has had on the valuation of the company.
  - Determine the engagement level with the company.

- Record issues, valuation impacts, and engagement levels related to the ESG issues raised.
- Monitor sector themes and provide input regarding potential impacts of ESG issues.
- Represent Solaris in relevant Industry collaborations.
- Provide quarterly and ad hoc reporting to Solaris clients.

## 2.5 What Factors are considered in the ESG Assessment

Solaris aims to integrate material ESG factors into the valuation of each company included in, or considered for inclusion in, the portfolios we manage. Each company is assessed on a case by case basis with adjustments for factors identified applied through the analyst's valuation process. ESG factors continue to emerge and evolve and Solaris strives to ensure that material factors are recognised and assessed on a timely basis.

Analysts review environmental, social and governance issues that they believe are material to their companies and determine whether an adjustment will be applied to the company valuation (as described in Section 2.3). Examples of factors that may be considered in this process are (this list is not exhaustive) include carbon emissions, transition planning, health and safety, board independence, remuneration, and supply chain management.

## 2.6 Proprietary ESG Database

Solaris maintains a proprietary database with over 15 years history of companies' ESG Alerts. These Alerts capture positive or negative events related to ESG factors within Solaris' investment universe. ESG Alerts play an important role in Solaris' integration process. An ESG Alert may indicate that Analyst action is required, such as a company meeting, a valuation adjustment, a portfolio adjustment, or another related action. Alerts can also serve as early signals of events or trends that may not affect valuation immediately but should be monitored for potential future impact.

Information for ESG Alerts is gathered from a wide range of sources, including media, company reports, NGOs, broker research, regulatory and industry bodies, ESG research providers and proxy voting advisers.

The ESG Analysts maintain the database. Each Alert communicated to a Solaris analyst is recorded. The data recorded includes:

- The issue being addressed
- The ESG Analysts' assessment of the issues likely impact on valuation
- Any comments provided by the Analyst or the company
- Whether contact was made with the company, including who was contacted, when, and the level of engagement
- Follow-up actions, decisions made, the rationale, and any escalation if required.

Typically, only a small number of ESG Alerts lead to valuation impacts.

## 3. Proxy Voting

### 3.1 Why Vote?

Solaris' Voting approach is based on fiduciary responsibilities to act in the best interests of clients as shareholders. Solaris's primary objective when voting is to support good governance and encourage practices that protect long-term value.

### 3.2 Description

Solaris' Voting approach is based on fiduciary responsibilities to act in the best interests of clients as shareholders. It is the policy of Solaris to vote on all resolutions. If Solaris receives a direction from a client concerning the appointment of a proxy and the way the proxy should vote, Solaris will use its best endeavours to implement the direction. In the absence of any direction, Solaris will exercise the right to vote as it sees fit, having regard to any direction contained in the Investment Management Agreement with the client. When requested by Solaris' clients, Solaris provides detailed rationales regarding voting decisions.

### 3.3 Routine Proposals

Routine proposals are those which do not affect the structure, by-laws, or operations of the corporation to the detriment of shareholders. Given the routine nature of these proposals, they are scrutinised, but routine proxies are mostly voted with management.

Traditionally, routine proposals include:

- Approval of independent auditors
- Name changes
- Election of directors (subject to competency, independence and limited number of board positions)
- Coupling appropriate executive compensation with financial performance.

### 3.4 Non-Routine Proposals

Issues in this category are more likely to have a greater impact on shareholder value. Solaris' main concern is to protect the value of our clients' investments. With this in mind, these resolutions are subject to scrutiny on a case-by-case basis. These types of resolutions may include:

- Mergers and acquisitions
- Restructuring
- Employee share purchase plans
- Shareholder Resolutions

### 3.5 Corporate Governance Proposals

Solaris will generally vote against any management proposals that have the effect of restricting the full potential of our clients' investments. These would include (list is not exhaustive):

- Inappropriate senior executive and non-executive management remuneration
- Golden handshakes
- Special interest representation on the Board
- Share and Option schemes that do not reflect:
  - the responsibilities of the executive
  - comparability to market practice
  - appropriate performance hurdle benchmarks

- appropriate disclosure
- Unequal voting rights
- Takeover Protection – e.g. Poison Pills – generally involves issuing preferred stock purchase rights or warrants unilaterally declared as a dividend without shareholder participation or approval. Poison pills can be used to insulate existing management against competitive bids.

### 3.6 Proxy Voting Process Overview and Procedures

To assist in decision making, Solaris subscribes to Ownership Matters Pty Ltd ('Ownership Matters'). Ownership Matters provides independent analysis and voting recommendations on key governance issues. Solaris considers these recommendations when arriving at a decision. Solaris may depart from Ownership Matter's recommendations where Solaris believes that doing so is in the best interests of the Solaris clients.

The Solaris Analyst will review each resolution on a case-by-case basis in arriving at a voting recommendation. In arriving at a recommendation, two main principles are adhered to:

- Any resolution should treat shareholders fairly.
- Resolutions should be individual and clearly stated. Composite resolutions are not regarded as optimal.

Where possible, contentious issues are resolved outside the meeting by prior discussions between the Solaris Analyst and the company involved.

The ESG Analysts review all voting decisions to ensure consistency across the Solaris team and may discuss certain resolutions or provide additional information to the Solaris Analysts to assist in the voting decision.

### 3.7 Record keeping

Solaris maintains comprehensive historical records of all voting activities, including:

- All resolutions voted on and proxy votes cast
- Solaris' rationales for votes (where a contentious issue is identified)
- Proxy Advisor and Company voting recommendations
- Communication with the companies regarding votes
- Meeting Results

This record-keeping supports informed investment and proxy voting decisions by enabling Analysts to reference past issues, company responses, escalation actions and any subsequent changes in behaviour or practices. It also helps identify broader trends in voting outcomes.

## 4. Engagement

As a mainstream Australian equities manager, Solaris engages in active and ongoing dialogue with the companies in which we invest regarding issues that are significant to the companies' operations.

### 4.1 Why Engage?

Solaris believes it is important to exercise its rights as an active owner through ongoing engagement with the companies we invest in. The objective of active

engagement is to ensure that material ESG factors are properly understood, assessed, and reflected in investment decisions to support long-term value for clients. Engagement also aims to encourage companies to strengthen their ESG policies and practices, helping to protect or enhance their economic value. In some cases, Solaris Analysts may also add value by sharing their knowledge and insights related to the specific issue being discussed.

## 4.2 Engagement Approach

Solaris views ESG issues as part of the many factors that modern companies must consider in their operations. Solaris believes that the best way to learn about a company's operations is to meet with management and members of the Board, visit operating sites and talk to the people on the ground.

This process of engagement with companies is repeated constantly by all analysts on a daily basis and forms a normal part of Solaris' company valuation process. Solaris Analysts have over 500 meetings per annum with listed Australian companies.

Through assessing these interactions and their outcomes, Solaris' Analysts form opinions on a company's ability to perform and to meet and adapt to the various challenges that the company may encounter. These opinions are fed into stock valuation models to assist in the overall valuation of each company within the Solaris universe (through the Solaris Expected Returns Framework Section 2.2).

Solaris does not include stocks in clients' portfolios purely on the basis of engagement or to provide an avenue for shareholder activism. Stocks are included in the portfolio based on positive expected returns.

## 4.3 Framework for Engagement

- Decide on the issue that will be engaged on – eg Climate Change, Transition, Indigenous issues, Safety.
- Define what we will discuss with the company and who from Solaris will be involved (typically the ESG analysts and the relevant equity analyst).
- Define (as far as possible) what we are trying to achieve in the engagement. This target may be aspirational at inception as Solaris seeks to discover more detail around the topic and understand what is realistic, pragmatic and achievable for the company involved.
- Escalate the issue as required (Section 4.6)

The Framework combines data from Solaris'

- ESG Database
- Proxy Voting Database, and
- Meetings Database

## 4.4 How we engage?

Solaris' engagement activities take a number of forms:

- Engagement via the exercise of our clients' voting rights in accordance with this Policy.
- Meetings with Board Members, Management and staff on significant issues. Solaris may enter into a dialogue with a company to voice concerns

relating to actions or the direction a company is taking in relation to performance, corporate governance or other matters affecting shareholders' interests. Solaris' Analysts may engage with companies on a plethora of issues depending upon which sector the company operates in.

- Visits to important assets and engagement with multiple stakeholder groups (these may be external to the company).
- Membership of collaborative groups of investors on topics of interest.

Collaborative engagements are considered a key part of Solaris' engagement toolkit. Solaris attempts to prioritise our participation with respect to:

- the size of positions held in companies,
- the relevance of the collaboration to the ongoing sustainability of the company, and
- the geographic location of the companies involved.

#### 4.5 Record keeping

Solaris maintains a database of all company meetings attended by our Analysts. This database records who participated, along with the date, time, location and type of meeting, such as one-on-one discussions, conferences or site visits. Analysts keep their own notes on each meeting. When an ESG issue is raised, the relevant information is also captured in the ESG database, including the issue discussed, the company's comments and whether it influenced the Analyst's valuation of the company. Where an ESG issue has affected a valuation, this is reported in the ESG Quarterly Report.

Where Solaris participates in a collaborative engagement, the ESG Analysts are responsible for updating the Analysts of the progress of the issues and recording that progress. If the collaboration results in a valuation change, this is reported in the ESG Quarterly Report.

#### 4.6 Escalation

In some instances where issues or concerns are raised with a company, and the issues fail to be resolved to Solaris' satisfaction, we have a number of escalation alternatives available:

- Increased communication directly to the CFO, CEO, Board Members, Chairperson of the company via phone calls, emails, formal letters;
- Discuss our concerns with our clients who are the ultimate beneficial owners of the stock.
- Make an adjustment to the valuation of the company, which could affect the position of the company in the portfolio.
- Cast votes against Board members to indicate our views;
- Vote against the relevant resolutions where applicable;
- Potential divestment of the stock (if so warranted by the analyst valuation within Expected Returns).

## 5. ESG Reporting

### 5.1 Quarterly ESG Report

Solaris provides clients with a detailed quarterly ESG Report, which includes:

- ESG-related valuation adjustments made during the quarter
- The number, type and progress of engagements and investor site visits undertaken by ESG Analysts
- Detailed proxy voting information
- Carbon data and related analysis
- Examples of how ESG factors are incorporated at different stages of the investment process
- Any enhancements to our systems and processes, where relevant

## 5.2 Proxy Voting Report

Solaris provides a public quarterly summary of our proxy voting activities on the Solaris website plus a complete list of all voting activities (by resolution) on an annual basis.

## 5.3 Carbon Data

Solaris publishes quarterly carbon data on its website showing the carbon intensity and carbon emissions of the Solaris Core Fund, including Scope 1, Scope 2 and Scope 3 figures, alongside equivalent data for the S&P/ASX200 and a funds-under-management-scaled version of the index.

## 5.4 Updates on Investor Tour Outcomes

ESG Analysts attend investor tours and site visits where relevant to develop a deeper understanding of specific ESG issues or topics. The outcomes of these tours are published regularly on the Solaris website and on our LinkedIn page.

# 6. Climate Change

As a mainstream Australian equities investor, Solaris is cognisant of the many risks and opportunities that exist within our investment universe. One of the factors to be considered by the Solaris Analysts is climate change. Solaris recognises that climate change presents challenges to the valuation of stocks and that there is considerable conjecture surrounding the timing and depth of impact that will ultimately be borne by the companies in which we invest. Solaris also recognises that change is ever present in an evolving investment landscape and we seek to apply our rigorous analysis to the impacts of climate change in the same way we approach other uncertainties in the market.

Solaris understands that limiting the increase in global temperatures to 1.5 to 2 degrees Celsius above pre-industrial levels requires significant changes in government policies and capital redirection to enable society to adapt to the physical impacts of climate change.

The opportunities and risks presented by global warming are significant.

As a signatory and supporter of a number of Climate Change related initiatives (Paris Agreement, Paris Pledge for Action, Joint Statement on Australia's 2035 NDC target) Solaris is:

- Cognisant of the risks and opportunities posed by climate change.
- An active participant in climate related initiatives which aim to encourage policy makers, industry associations and corporations to consider and implement measures that encourage capital deployment at scale to finance the transition to a low carbon economy and encourage investment in climate change adaptation.

- Continuing to develop our capacity to assess the risks and opportunities presented by climate change and climate policy to our investment portfolios, and integrate, where appropriate, this information into our investment decisions.
- Working with the companies in which we invest to ensure that they are minimising and disclosing the risks and maximising the opportunities presented by climate change and climate policy.
- Continuing to voluntarily report on the actions we have taken and the progress we have made in addressing climate risk.

## 7. Memberships, Collaborations and Statements

UN backed Principles for Responsible Investment Signatory – joined May 2009  
Climate Action 100+ Signatory – November 2017  
Investor Statement Regarding the Government of Western Australia’s Proposed Aboriginal Cultural Heritage Bill 2020 – August 2021

RIAA Member – joined July 2010  
Member RIAA Corporate Engagement Working Group – December 2013  
Member RIAA Human Rights Working Group – December 2017  
Member FSC/RIAA Modern Slavery Working Group: Investments – February 2020  
Member RIAA Nature Working Group – July 2021  
Member RIAA 1st Nations Working Group – August 2021

### Other

Signatory to the Paris Pledge for Action - November 2015  
Global Investor Statement on Climate Change Signatory – 2011, 2014, 2017, 2018, 2019, 2021, 2022, 2024, 2025

### Statements

TCFD Supporter – July 2019  
Member of TNFD Forum