SOLARIS
investment management

Sustainable Investment 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.

This document details the approach we take to exercise effective, sustainable investment strategies on behalf of our clients. 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 the Australian Council of Superannuation Investor (ACSI) Stewardship Code for Asset Owners. It is reviewed 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 considers the sustainability outcomes of 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 and Stewardship

The incorporation 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.

3. 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 premiums/discounts 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.

3.1 Environmental

Analysts review environmental issues associated with their companies and decide whether a premium or discount will be applied to the company valuation. Some examples of factors that may be considered in this process are:

- Climate Change
- Carbon emissions, intensity
- Net zero emissions commitments and progress
- Water Supply
- Energy Use
- Pollution
- Biodiversity

3.2 Social

An evaluation of the social impact of a company's activities also forms part of the analysts' overall ESG assessment. The conclusions of the assessment can result in either a discount or a premium being applied to a company's valuation. Examples of factors that may be considered in this process are:

- Human Rights
- Supply chains
- Health & Safety
- Indigenous Rights

3.3 Governance

An evaluation of a company's governance structure is also an integral part of the ESG assessment performed by Solaris analysts. The results of the assessment can see stocks either having a premium or discount being applied to the company valuation. Examples of factors that may be considered in this process are:

- Board Independence
- Remuneration
- Bribery and corruption
- Shareholders' rights

4. 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

The conclusions drawn by analysts from their qualitative assessment feeds into the appropriate rating applied to each company's valuation. For the most commonly used valuation technique: DCF, this involves adjusting the *beta* to incorporate positive or negative factors discovered in the qualitative assessment. Accordingly, conclusions drawn from the assessment of a company's ESG activities may affect that company's rating and its valuation.

The primary portfolio construction technique that Solaris use is based on expected return. Simply put, if a company has a high expected return that company will, prima facie, be included in the portfolio and equally, a low expected return (or negative excess return) will 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.

5. 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 an ESG Analyst who provides the analysts with additional information and research capacity where required.

6. The Role of the ESG Analyst within the Investment Process

Currently, the Solaris ESG Analyst's 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.
  - Fortnightly 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 Analyst ensures that the Solaris analysts are fully informed of ESG issues that may affect the valuation of their stocks. 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. ESG issues form part of this in-depth analysis for each stock. 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. The analysts are similarly empowered to utilise the ESG data provided by the ESG Analyst in a pragmatic and considered approach suitable for their sectors.
- 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.
- Enable Solaris to participate in relevant Industry collaborations.

7. Recording ESG information and research

ESG Alerts encompass company, sector and market impacts that may be identified. The Solaris ESG database forms the basis of Solaris' quarterly ESG reporting to our clients. This database records all relevant research and news items. This information is sourced from a number of areas including:

- Broker Research
- Regulatory Bodies
- Industry Bodies
- Clients
- PRI, CDP, ESG RA, RIAA
- NGOs
- ESG Research Providers – Solaris currently utilises CAER data
- Media
- Company Reports
- Proxy Voting Advice via Ownership Matters Pty Ltd

The ESG Analyst maintains all ESG specific data in an Excel based database. Each ESG alert that is communicated to a Solaris analyst is recorded. The data recorded includes:

- The issue being addressed.
- The ESG Analyst's assessment of the issue's likely impact on valuation.
- Whether contact was made with the company regarding the issue – who was contacted and when, including the level of engagement.
- Any comments made by the analyst or the company.

- The ultimate valuation impact in the analyst's company model.

8. Proxy Voting

8.1 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.

8.2 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 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.

8.3 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

8.4 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):

- Excessive 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.

8.5 Reporting on our Voting and Engagement Activities

Solaris provides a 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.

In addition, Solaris provides our clients with a more detailed Proxy Voting Report on a quarterly basis plus a quarterly ESG Report that details the number and type of engagements our analysts have undertaken.

8.6 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 they are doing so in the best interests of the Solaris clients.

The Proxy Voting Analyst logs onto ISS Proxy Australia daily to check if there are any company meetings scheduled for the companies in which Solaris has invested client funds. Where meetings are scheduled, the Proxy Voting Analyst downloads the explanatory notes.

The explanatory notes are then distributed to the relevant Solaris Analyst for review. 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 Solaris Analyst advises the Proxy Voting Analyst how the resolution is to be voted. The Proxy Voting Analyst votes directly via the ISS Proxy Exchange (RiskMetrics) website.

Solaris maintains a record of all voting on behalf of clients. At least annually (usually quarterly), Solaris publishes a summary of the proxy voting record for the previous year on its website. The reporting is in the form required by the Financial Services Council Standard No.13.00.

9. 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.

Through assessing these interactions and their outcomes, Solaris' analysts form opinions on a company's ability to perform, 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 – see Appendix 1).

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 based on positive expected returns. In some instances where issues or concern are raised with a company, and the issues fail to be resolved to Solaris' satisfaction, the stock may be divested (if so warranted by the analyst valuation within Expected Returns).

9.1 Why Engage?

Solaris believes it is important to exercise its rights as an active owner through ongoing engagement with the companies in which we invest. Solaris believes that the best way to learn about a company's operations and therefore enable a robust assessment of their long term prospects is to meet with management and members of the Board, visit operating sites and talk to the "people on the ground" to gain insight into a company's modus operandi.

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.

Engagement is a useful tool of change. Solaris analysts may be able to add value to a company through sector overviews gained through the course of their analysis, or through sharing their knowledge of the listed equity market.

9.2 How do 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 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.
- 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.

9.3 Engagement on Environmental, Social & Governance (ESG) Issues

Solaris views ESG issues as part of the many factors that modern companies must consider in their operations. ESG factors are gaining some prominence in the psyche of corporate Australia with the impact (or perceived impact) on company valuations. Solaris attempts to identify material issues and integrate that materiality into the valuation of the company through the Expected Returns framework.

Solaris views ESG issues as part of their mainstream assessment of companies and, as such, does not attempt to approach ESG issues in isolation. Solaris utilises a holistic approach when in discussions with companies and always attempts to place ESG issues in the context of the overall valuation of the company.

10. Tracking our Engagement

10.1 Proxy Voting

A record of all proxy votes cast is maintained by the Proxy Voting Analyst and this information is available to clients where required. The information is also published on Solaris' website. In addition, Solaris tracks every resolution voted on and records our response and reasoning where the vote concerns a contentious issue. The voting results of the meeting are also recorded.

10.2 Company Meetings

Solaris maintains a database of all company meetings attended by our Analysts. This database details who participated in the meeting, the date, time, location and type of meeting, e.g. one-on-one meeting, conference, site visit, etc. Each Analyst maintains their own notes regarding these meetings. When an ESG issue is raised in a meeting, the information is stored in the ESG database. It also details the issue raised, the company's comments and whether this information affected the Analyst's valuation of the company.

10.3 Collaborative Engagements

Where Solaris participates in a collaborative engagement, the ESG Analyst is responsible for updating the Analysts of the progress of the issues and recording that progress.

10.4 Escalation of Engagement Activities

Solaris may take a number of escalation steps which will depend upon the issue raised and the quality (or lack of) the response received from the company. Solaris may:

- Make an adjustment to the valuation of the company, which could affect the position of the company in the portfolio.
- Discuss our concerns with our clients who are the ultimate beneficial owners of the stock.
- Express concerns to other company representatives.
- Cast proxy votes against relevant resolutions at Annual General Meetings.

11. 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, Taskforce on Climate Related Disclosure (please refer to Solaris' TCFD Report https://solariswealth.com.au/wp-content/uploads/TCFD-Report.pdf)), 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.
- Developing 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 report on the actions we have taken and the progress we have made in addressing climate risk.

12. Appendix 1: Expected Returns Framework

The main portfolio construction technique that Solaris uses is based on expected return. Simply put, if a company has a high excess return that company will, prima facie, be included in the portfolio, and equally a low excess return (or negative excess return) will see a company excluded from Solaris portfolios.

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.

The Solaris Investment Process (as illustrated above) consists of the following steps:

- 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

The conclusions drawn by analysts from their qualitative assessment feeds into the appropriate rating applied to each company's valuation. For the most commonly used valuation technique: DCF, this involves adjusting the *beta* to incorporate positive or negative factors discovered in the qualitative assessment. Accordingly, conclusions drawn from the assessment of a company's ESG activities may affect that company's rating and its valuation. The main portfolio construction technique that Solaris use is based on expected return. Simply put, if a company has a high expected return that company will, prima facie, be included in the portfolio and equally a low expected return (or negative excess return) will 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.