

# Environmental, Social and Governance (ESG) Policy (Investments)

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Investment Team

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# Document Control Sheet

## Document Summary

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# ESG Policy

## 1 Commitment to the Policy

The Directors and Management Team of DNR Capital (collectively referred to as DNR Capital) are committed to effectively managing Environment, Social and Governance (ESG) issues such that risks and opportunities are identified and properly assessed.

This ESG Policy (the Policy) has been adopted by the Investment Team and presents the framework upon which the company will meet its regulatory obligations under its Australian Financial Services Licence (AFSL).

In implementing this ESG Policy, you should be mindful of any actual or potential conflicts of interest that may arise, so that they can be disclosed, managed, controlled or mitigated in accordance with DNR Capital's Conflict of Interest Policy and Procedure.

Where there is any doubt as to the requirements contained in this Policy, you should have regard to the principle that DNR Capital will always ensure the company conducts its financial services business in an efficient, honest and fair manner in line with the regulatory objectives of ensuring market integrity and consumer protection.

## 2 Policy owner

The owner of this Policy is the Chief Investment Officer (policy owner).

## 3 Purpose of this Policy

This Policy relates to DNR Capital in its capacity as an AFS licensee.

The purpose of this Policy is to support the company's investment governance framework and set out a high-level overview of DNR Capital's policy and approach to managing ESG issues in its investment decisions.

## 4 Who should know and understand the Policy

The following people should be aware of the contents of this Policy:

- Directors
- All staff employed by DNR Capital who are directly or indirectly involved in providing financial services under the AFSL
- All authorised representatives
- Anyone providing services to DNR Capital that the policy owner determines should comply with the Policy (e.g. service providers, agents, contractors and temporary staff)
- Our clients and investors
- Anyone else that the policy owner determines should comply with the Policy.

Where functions of DNR Capital are outsourced (e.g. to service providers, agents, contractors and temporary staff), DNR Capital remains responsible and accountable for those actions. DNR Capital may include specific requirements in the outsourcing or other agreements to ensure compliance with this Policy and other regulatory obligations.

To ensure all officers, employees and agents are aware of the contents of this Policy; it will be made available electronically on the intranet of the company. An extract of this Policy is also made available electronically on the company's website.

## 5 Obligations under this Policy

### What is ESG?

ESG is an acronym for Environmental, Social and Governance. DNR Capital recognises that ESG factors are financially material and that companies with good ESG practices can enhance shareholder returns.

DNR Capital has adopted an ESG integration and engagement investment strategy. This strategy is complementary to our investment philosophy, and paired with our research capability, enhances investment decision-making.

DNR Capital has been a signatory of the PRI, the global ESG investment industry governing body, since 2009. DNR Capital is also a member of the Responsible Investment Association Australasia (RIAA) and the Socially Responsible Portfolio is certified according to the strict criteria of its certification program.

### Why is ESG important?

DNR Capital recognise that ESG factors have the potential to impact investment risks and returns. Quality companies with strong ESG capabilities are more likely to make better business decisions across the company, which drive long-term returns.

Furthermore, DNR Capital believes that including ESG issues in its investment process is consistent with its objectives as an active investment manager.

### ESG assessment framework

DNR Capital has adopted an ESG integration and engagement strategy to enhance risk-adjusted performance. Our ESG score is one of five components of our proprietary 'quality web', which is used to assess the quality of companies. ESG risks, where material, are also factored into our view on company valuation. The outcomes of these assessments inform investment decision-making and portfolio construction.

DNR Capital have a long-term investment horizon and take a long term view on ESG factors. We have a well-resourced, in-house investment team who conduct ESG analysis, the output is collated and interpreted by the ESG investment analyst and is overseen by the SRI Committee.

### ESG Score

DNR Capital have developed an ESG scoring system to assess ESG risk at a company level. We assess a company's industry ESG risk and its relative performance on a five-point scale for each of the ESG factors listed below, which is aggregated to an overall company ESG score. Analysts base this assessment on company research, company meetings, broker research and access to independent ESG research provider, ISS.

#### Environmental:

- Climate change.
- Water
- Eco-efficiency

#### Social:

- Modern slavery
- Staff
- Society

#### Governance:

- Corporate governance
- Management quality
- Business ethics

## ESG integration and investment decision making

Once a company is assessed to meet DNR Capital's quality criteria, detailed company analysis and valuation work is conducted to determine whether sufficient return upside exists. Consistent with DNR Capital's ESG integration and engagement investment strategy, ESG risks and opportunities are also factored into this assessment. Where the ESG valuation impact is material, it is either explicitly factored into a company's earnings forecasts or balance sheet items, or implicitly through the determination of the company's terminal value, discount rate or perpetuity growth rate.

The outcomes of the ESG ratings assessment and valuation assessment informs investment decision-making and portfolio construction.

The following environmental, social and governance guidelines are considered in this process:

### Environmental guidelines:

- Maintain database of environmental related indicators that is monitored and tracked over time
- Monitor and track incidents through Norm-Based Research
- Consider environmental performance, where material, including the following:
  - Environmental governance and strategy;
  - Environmental commitments and targets;
  - Environmental track record;
  - Water, air and waste management plan;
  - Resource efficiency; and
  - Biodiversity
- Where material environmental risk is identified, we conduct company engagement.

### Social guidelines:

- Maintain database of social related indicators that is monitored and tracked over time
- Monitor and track incidents through Norm-Based Research
- Consider social performance, where material, including the following:
  - Employee engagement;
  - Diversity & inclusion;
  - Health & safety;
  - Local stakeholder relationships; and
  - Modern slavery
- Where material social risk is identified, we conduct company engagement.

### Governance guidelines:

- Maintain database of governance related indicators that is monitored and tracked over time
- Monitor and track incidents through Norm-Based Research
- Consider social performance, where material, including the following:
  - Board quality;
  - Board composition;
  - Remuneration policy;
  - Management quality;
  - Corporate disclosure.
- Where material governance risk is identified, we conduct company engagement.

## Climate Change

DNR Capital supports the global ambition to limit global warming through reduced carbon emissions. Climate change has been identified by the Board as a material risk and is included in DNR Capital's enterprise Risk Register. Please refer to DNR Capital's Climate Change Policy for detail on how climate change is incorporated into our investment decision-making.

DNR Capital use the following guidelines to identify and assess climate risk and opportunity at the company and aggregate portfolio level:

- Maintain database of company climate related indicators that is monitored and tracked over time
- Monitor and track incidents through Norm-Based Research
- Maintain database of company net zero commitments
- Where material climate risk is identified, we conduct a deep dive risk assessment, including:
  - climate governance;
  - climate strategy;
  - climate risk management and strategy implementation;
  - net zero strategy, integrity and reliance on offsets;
  - climate scenario analysis,
  - physical climate risk assessment; and
  - climate disclosure.
- Conduct biannual ISS Climate Impact Assessment Report for each investment strategy
- Monitor and track portfolio carbon footprint for each investment strategy over time
- Maintain database of portfolio climate related indicators that is monitored and tracked over time
- Where material climate risk is identified, we conduct company engagement.

### Modern Slavery

Modern slavery has been identified by the Board as a material risk and is included in DNR Capital's enterprise-wide Risk Register.

For these purposes, 'Modern Slavery' means conduct which would constitute an offence under the Modern Slavery Act 2018, and this includes trafficking of persons, illegal forms of child labour, slavery, forced labour, deceptive recruiting, debt bondage or offences involving non- citizens working in Australia without the correct visa.

DNR Capital consider modern slavery risk at the firm level, and at the underlying investment level. Whilst DNR Capital is not a reporting entity under the Modern Slavery Act 2018, and does not therefore propose to issue a Modern Slavery Statement, it is committed to:

- ensuring that it has processes in place to review its risks on modern slavery practices in operations and supply chains;
- maintaining a list of its material external service providers which also identifies the countries in which the service or product is procured;
- engaging with those service providers to ascertain how they identify and handle modern slavery risks; and
- as part of its commitment to corporate engagement, making due enquiry of its investee companies.

At the investment level, DNR Capital use the following modern slavery guidelines to identify and assess modern slavery risks:

- Maintain database of modern slavery related indicators that is monitored and tracked over time
- Monitor and track incidents through Norm-Based Research
- Where material modern slavery risk is identified, we conduct a deep dive risk assessment, including:
  - Modern slavery governance (remuneration alignment, Board experience, engagement);
  - Modern slavery strategy;
  - Modern slavery risk management and strategy implementation (resourcing, ;
  - Modern slavery disclosure.
- Where material modern slavery risk is identified, we conduct company engagement.

The integration of ESG factors into investment decision-making is supplemented by a stewardship program, including company engagement and proxy voting.

## Diversity and inclusion

Diversity and inclusion describes a company's representation of different race, ethnicity, gender and sexual orientation groups. DNR Capital is developing its approach to diversity and inclusion, with the following initiatives:

- Diversity and inclusion indicators are included in DNR Capital's ESG database and are tracked and monitored over time; and
- Board composition, including diversity, are considerations in DNR Capital's proxy voting recommendations.

## Corporate Stewardship

The integration of ESG factors into investment decision-making is supplemented by a corporate stewardship program, including company engagement and proxy voting.

Where material ESG risks and opportunities are identified in the investment decision-making process, DNR Capital engages with the company to understand their ESG governance and risk management strategies and to advocate for best practice. DNR Capital's stewardship initiatives are conducted by investment analysts, in conjunction with portfolio managers and the ESG investment analyst. As such, the insight gained from each initiative is incorporated into the research and investment decision making process.

Further details are outlined in DNR Capital's Corporate Engagement Policy.

## 6 Reporting

DNR Capital will report to clients on ESG related investment and engagement initiatives through annual Stewardship Report, client reporting, marketing presentations and bespoke client requests.

## 7 Roles and Responsibilities

### The Board

The Board and executive level management have formal oversight over and accountability for responsible investment at DNR Capital. Responsible investment outcomes will be reflected in executive remuneration.

### Socially Responsible Investment (SRI) Committee

DNR Capital's SRI Committee was established in 2010 and oversees the implementation of our ESG policies and integration of ESG into investment decision-making.

### Investments team

DNR Capital's ESG integration and engagement initiatives are conducted by the investments team. As such, the insight gained from the process is incorporated into the research and investment decision-making process. Responsible investment outcomes are reflected in remuneration.

## 8 Risks of non-compliance to the company

- Regulatory risk – the risk that the company, its officers, employees or agents will be subject to criminal, civil or administrative penalties or sanctions. This may include licensing actions, enforceable undertakings, investigative action, or total loss of licence for non-compliance with:
- Financial services laws and regulations
  - The AFSL
  - The ASIC Instrument 2016-968

- Organisational standards
- Internal policies and procedures
- Business risk – the risk that failing to consider ESG related matters may result in poor business outcomes for the company, with a key risk being loss of the AFSL and a direction to cease operations. Compliance with this Policy will enable the Board and delegated staff to appropriately manage this risk by implementing appropriate investment governance procedures).
- Reputational risk – the associated damage to the company's reputation as a result of public reporting of non-compliance with our obligations or by being perceived as non-compliant within the market or not caring for our clients and investors. This may also have a detrimental effect on the profitability of the company due to loss of confidence by clients and investors. By approving and implementing a robust approach to ESG concerns, DNR Capital intends to mitigate our reputational risk.

## 9 Monitoring compliance with the Policy

The Risk & Compliance Manager is responsible for monitoring compliance with this Policy on an annual basis or as required. DNR Capital's ESG capability is reviewed annually by a third party as required by the Australian Institute of Superannuation Trustees (AIST).

Any instances of non-compliance by officers, employees and/or agents of DNR Capital will be reported to the Management Team. Instances on non-compliance will also be treated as a potential or actual breach and dealt with according to the Breach Management Policy.

Where instances of non-compliance with the Policy have been identified the Risk & Compliance Manager in conjunction with the relevant business unit manager is responsible for determining and/or recommending appropriate remedial action.

Intentional or reckless non-compliance with this Policy is not tolerated by the Board. Depending on the nature and extent of non-compliance, remedial action could include:

- Additional training
- Additional monitoring or supervision
- Formal reprimand
- Notification to relevant regulatory body or industry association
- Termination of employment (in particularly serious cases)

In determining what remedial action will be appropriate, the Manager Risk & Compliance in conjunction with the relevant business unit manager may have regard to the following matters:

- the number or frequency of similar previous instances of non-compliance by the officer, employee and/or agent (including or service providers)
- whether the non-compliance was intentional or reckless
- the impact the non-compliance has on the ability of DNR Capital to continue to provide the financial services covered by its AFSL
- the actual or potential loss arising to DNR Capital or a client of DNR Capital as a result of the non-compliance
- actions outlined in the Code of Conduct & Ethics for DNR Capital
- any other relevant facts associated with the non-compliance, and
- any other relevant issues raised.

## 10 Review of the Policy

The Chief Investment Officer shall review the contents of this Policy annually to ensure it remains current and relevant to the operations of DNR Capital.

As part of the review, the Management Team in conjunction with the Risk & Compliance Manager shall also ensure that any related policies or procedures are reviewed by relevant officers, employees and/or



agents. The Risk & Compliance Manager will maintain a schedule of reviews to be undertaken as part of the review of this Policy.

## 11 Training on the Policy

As DNR Capital is committed to ensuring the continued compliance with this Policy, a program of regular training sessions will be provided to staff both when they commence and on an ongoing basis.

### Induction Training

The Risk and Compliance Manager will provide training on this Policy as part of the induction training for all new officers and investment team employees. Completion will be recorded in the Training Register and it is the responsibility of the Risk and Compliance Manager to review whether relevant staff have completed the training.

### Ongoing Training

The Risk and Compliance Manager will also provide refresher training on the Policy and procedure at least annually (or as required, where a material change is made to the Policy).

## 12 Applying discretion to the Policy

Notwithstanding any requirement contained in this Policy, the Manager Risk & Compliance can apply reasonable discretion in considering how to apply the requirements of the Policy.

When applying discretion in relation to a particular matter, the Manager Risk & Compliance shall have regard to the level of risk posed by that matter and the regulatory objectives of ensuring market integrity and consumer protection.

Whenever discretion has been exercised in relation to the Policy, it should be recorded and reported to the Management Team.

## 13 Related policies

The following policies contain provisions which are directly or indirectly related to the contents of this Policy:

- Corporate Engagement Policy
- Proxy Voting Policy
- Climate Change Policy
- Conflict of Interest Policy and Procedure
- Investment team policies and procedures
- Risk Management Policy and Procedure
- Approach to Class Action Participation.

## 14 Further information

If you need further information regarding this Policy and how it is implemented please contact the policy owner.