

FY2023 Stewardship Report



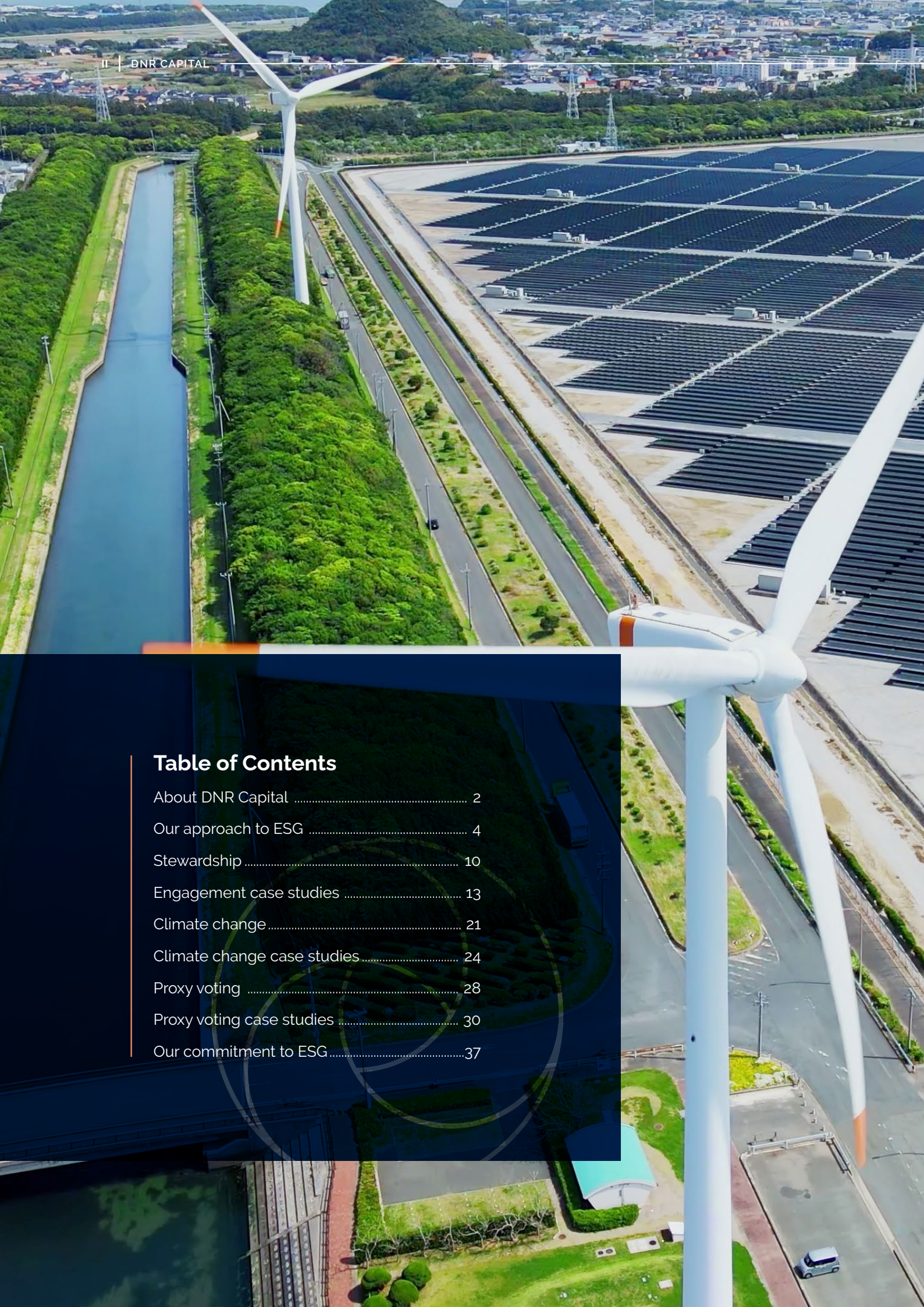



Table of Contents

About DNR Capital	2
Our approach to ESG	4
Stewardship	10
Engagement case studies	13
Climate change	21
Climate change case studies	24
Proxy voting	28
Proxy voting case studies	30
Our commitment to ESG	37



We are pleased to present our FY2023 Stewardship Report. This report builds on our foundation of ESG integration and engagement and highlights the continued investment in our ESG capability.



About DNR Capital

DNR Capital is a boutique Australian investment manager that delivers client-focused, long-term investment solutions. Our disciplined approach to executing our quality, high conviction, concentrated investment philosophy has delivered strong outperformance for our clients. However, our commitment to our clients goes beyond our investment performance.

We deliver quality client service through openness and transparency, regularly sharing insights behind our investment decisions, market views and portfolio strategy. In this Stewardship Report we present key highlights of our FY2023 stewardship program. We also share initiatives that demonstrate our commitment to, and continued investment in, our Environmental, Social and Governance (ESG) capabilities capabilities.

“Demonstrating our commitment to, and continued investment in, our ESG capabilities.”



Quality companies

Five factor quality web assessment



Attractive valuations

Exploit mispriced market opportunities



Concentrated portfolios

High conviction holdings



Early participant in Australian ESG

ESG is one of 5 factors used to assess quality companies



Style neutral





Quality bias

DNR Capital's investment strategies

“Clearly positioned basket of Australian equity portfolios.”

DNR Capital offers a differentiated suite of investment strategies. Each of our strategies builds upon our core investment philosophy of long-term, high conviction, concentrated portfolios of quality companies.

This report highlights DNR Capital's stewardship initiatives across all our Australian equities investment strategies.

	 High Conviction Portfolio Large cap	 Socially Responsible Portfolio Large-Mid cap bias	 Income Portfolio Large cap	 Emerging Companies Portfolio Small cap
Experience	Est. Oct 2002	Est. June 2006	Est. Dec 2007	Est. Dec 2017
Focus	Capital growth	Socially responsible	Growing, tax effective income	Capital growth from smaller companies
Structures	Fund, SMA, IMA	SMA, IMA	Fund, SMA, IMA	Fund
Results	3.39% p.a.¹ <i>Excess return since inception</i>	3.52% p.a.¹ <i>Excess return since inception</i>	2.52% p.a.¹ <i>Excess return since inception</i>	10.86% p.a. (net of fees)² <i>Excess return since inception</i>

Quality stocks at attractive prices (style neutral)
20+ years of outperformance³

As of 30 June 2023. Past performance is not an indication of future performance.

1 No allowance has been made for taxation and fees are not taken into account.
 2 Total return shown for the DNR Capital Australian Emerging Companies Portfolio has been calculated net of all fees.
 3 Since inception (October 2002) per annum return for the DNR Capital Australian High Conviction Portfolio.

“We have a long history of incorporating ESG factors into investment decision-making across all our investment strategies.”

Our approach to ESG

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. 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. Our long-term investment horizon enables us to take a long-term view on ESG factors.

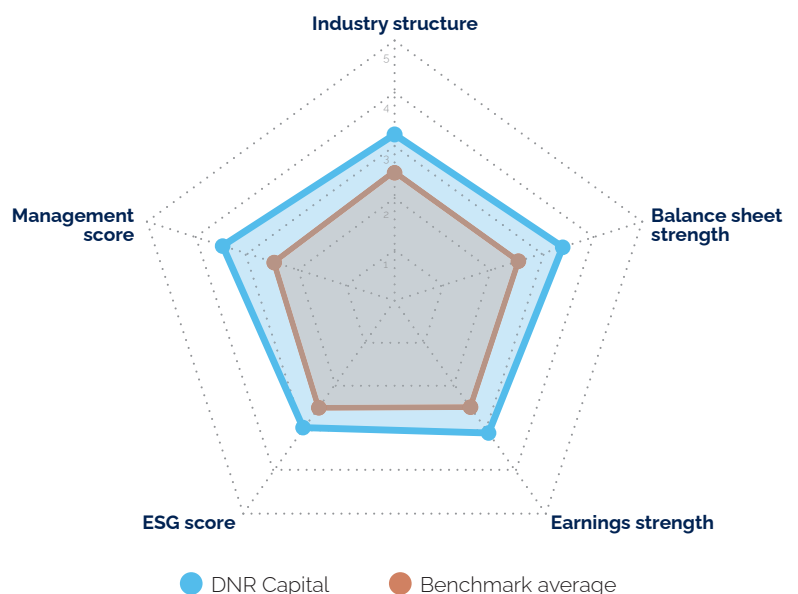
The integration of ESG into investment decision-making is supplemented by our stewardship initiatives, which include company engagement and proxy voting.

As a well-established Australian equity investment manager, we have regular engagement with the companies we hold in our portfolios. To better understand material ESG factors identified in the investment decision-making process, and to advocate for best practice, DNR Capital meets with the Chair and/or management teams of select portfolio companies on a dedicated ESG basis.

Proxy voting is another important component of our stewardship program. At DNR Capital, it is our policy to vote where we can on proxy resolutions. The guiding principle is that voting outcomes must be in the best interests of our clients.

DNR Capital's ESG capabilities are overseen by the Socially Responsible Investment Committee (SRIC). This committee was established in 2010 and oversees the implementation of our ESG policies and integration of ESG into investment decision-making.

DNR Capital has been a signatory to Principles for Responsible Investment (PRI) since 2009.



Investment solutions

Australian Equities Socially Responsible Portfolio (SRI)

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. Our long-term investment horizon enables us to take a long-term view on ESG factors.

The Australian Equities Socially Responsible Portfolio was launched in 2006, making it one of Australia's first socially responsible investment strategies. The Portfolio offers investors exposure to a concentrated portfolio of high quality, stocks that offer attractive valuation. The Portfolio's negative screen precludes it from holding stocks with exposure to:

- **Pornography** - core business of production, distribution and sale of pornography.
- **Gaming** - core business of owning or operating a gaming related business or manufacture and supply of gaming equipment and systems.
- **Armaments** - involved in the development and production of biological and chemical weapons, depleted uranium ammunition/armour, anti-personnel mines or cluster munitions/sub-munitions and their key components.
- **Tobacco** - involved in the production of tobacco, manufacture of nicotine alternatives and tobacco-based products.

In determining if the business operation in question is 'core' or 'non-core', DNR Capital considers such factors as the contribution to group revenue, inclusion in company strategy and intended allocation of

capital. Where the revenue contribution is greater than 10%, it is deemed 'core'. Where it is less than 10%, DNR Capital further considers inclusion in company strategy and intended allocation of capital to determine whether the business is 'core'.

This Portfolio delivers socially responsible investment through our quality investment philosophy. For a stock to be eligible for inclusion, it must meet our negative screening and quality criteria and offer attractive valuation. We define quality companies as those with earnings strength, superior industry position, sound balance sheet, strong management and low ESG risk. A company must also have an ESG score greater than index average to be eligible for inclusion in the SRI portfolio.

DNR Capital's Socially Responsible Portfolio has been certified by the Responsible Investment Association Australasia (RIAA) in accordance with the strict guidelines of its Responsible Investment Certification Program.



"DNR Capital has a long history in providing responsible investment solutions."

Resourcing our ESG capabilities

ESG is a firm-wide undertaking. Our CIO is responsible for the firm's ESG strategy, and we have a well-resourced, in-house investment team who conduct ESG analysis.

During the period we increased our ESG resourcing with the appointment of a second ESG investment analyst. Tom Covino supports our incumbent analyst, Natasha McKean, in the delivery of ESG research and stewardship initiatives. Both ESG investment analysts work with stock analysts and portfolio managers to identify and assess material ESG risks across all of our investment strategies. The investment in our ESG resourcing has been a key enabler for the continued improvement in our ESG capabilities.

"Testament to our commitment to ESG we appointed a second ESG investment analyst during the period."



Leverage DNR Capital's Australian equity investment team capability

Research

Jamie Nicol
Chief Investment Officer

Scott Bender
Portfolio Manager & Investment Analyst

Scott Kelly
Portfolio Manager & Investment Analyst

Sam Twidale
Portfolio Manager – Emerging Companies

Mark Sedawie
Portfolio Manager – Emerging Companies

Chris Tynan
Investment Analyst

Tim Bingham
Investment Analyst

Natasha McKean
ESG Investment Analyst

Tom Covino
ESG Investment Analyst

Quantitative analysis and execution

Lachlan Mayne
Associate Analyst

Ben Clayton
Dealer



Natasha McKean
ESG Investment Analyst



Investment Committee review & oversight

Justine Hickey
Non-Executive Director

Mark Hancock
Consultant

Jamie Nicol
Chief Investment Officer

Broader DNR Capital Australian equity team



Socially Responsible Investment Committee review & oversight

Justine Hickey
Non-Executive Director

Jamie Nicol
Chief Investment Officer

Broader DNR Capital Australian equity team

Natasha McKean
ESG Investment Analyst

Tom Covino
ESG Investment Analyst



FY23 ESG initiatives

During FY23 we delivered on numerous strategic ESG priorities. These initiatives are outlined below and are discussed in more detail throughout this report.

- DNR Capital board approved a stand-alone Climate Change Policy;
- DNR Capital board approved revisions to our ESG, Corporate Engagement and Proxy Voting Policies;
- Expanded third party ESG data subscription to include climate change portfolio analytics, additional ESG indicators and an ESG screening tool.
- Enhanced DNR Capital's proprietary ESG score methodology;
- Conducted aggregate climate portfolio scenario analysis;
- Increased ESG resourcing with the appointment of a second ESG investment analyst;
- Improved communication of ESG initiatives in client reporting; and
- Continued improvement in the depth and breadth of ESG stock integration and engagement.

These initiatives form a strong foundation from which we can continue to invest in our ESG capability in line with industry, regulatory and client expectations.

"FY23 has seen the delivery of numerous strategic ESG priorities."

Responsible investment policies

During the period the DNR Capital board approved revisions to our suite of ESG related policies including the ESG policy, Corporate Engagement policy and Proxy Voting policy. Included in this review process was the formalisation of DNR Capital's Climate Change policy, which was also approved by the board. The suite of policies were updated to improve alignment with PRI policy, governance and strategy guidelines, and include:



Enhanced ESG Governance



Inclusion of ESG Investment Guidelines



Commitment to Improve ESG Related Reporting

The policies were also updated to reflect DNR Capital's enhanced ESG score methodology and high level diversity and inclusion commentary. An excerpt of these policies can be found [here on our website](#).

"DNR Capital formalised our approach to climate change through the release of our Climate Change Policy."

ESG score methodology

DNR Capital has a proprietary ESG score, which is one of five components in our “quality web”, used to assess the quality of a company. During the year we made enhancements to the methodology used to calculate our ESG score.

We simplified the number of indicators from 15 to 9, being three indicators for each of the environmental, social and governance categories. Reducing the number of indicators ensures the ESG score focuses on material indicators rather than including a broader set of ESG indicators which may not be material to all companies in the index. The 9 indicators include:

 Environmental	 Social	 Governance
climate change	modern slavery	corporate governance
water	staff	management quality
eco-efficiency	society	business ethics

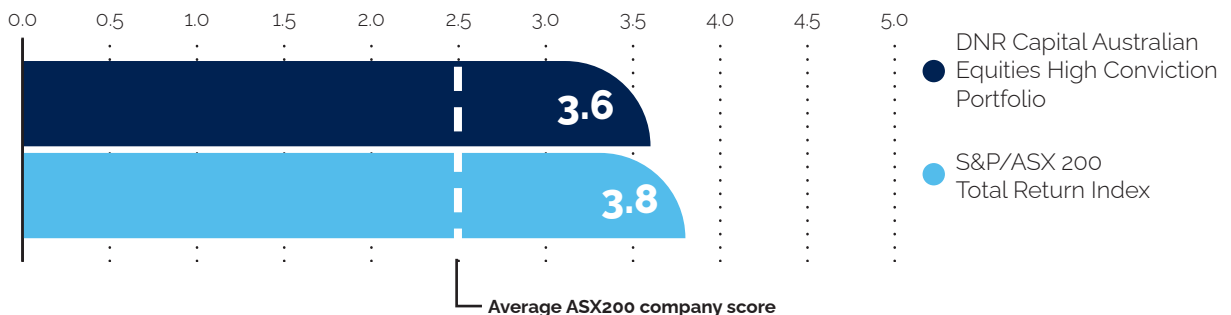
We use ISS data to assess each company's ESG performance capability for 8 of the 9 ESG indicators (excluding management quality). DNR Capital's own management score is used to assess the management quality indicator.

Consistent with our previous methodology, this process yields an aggregate company score of 0 to 5, with 5 being the highest score. Analysts must review and sense check the output, in absolute and relative terms, compared to their sector. Analysts may propose an amended company score, supported by appropriate due diligence material, for approval by the SRIC.

These enhancements to our methodology have been approved by the SRIC.

“We have enhanced the calculation methodology of our proprietary ESG score.”

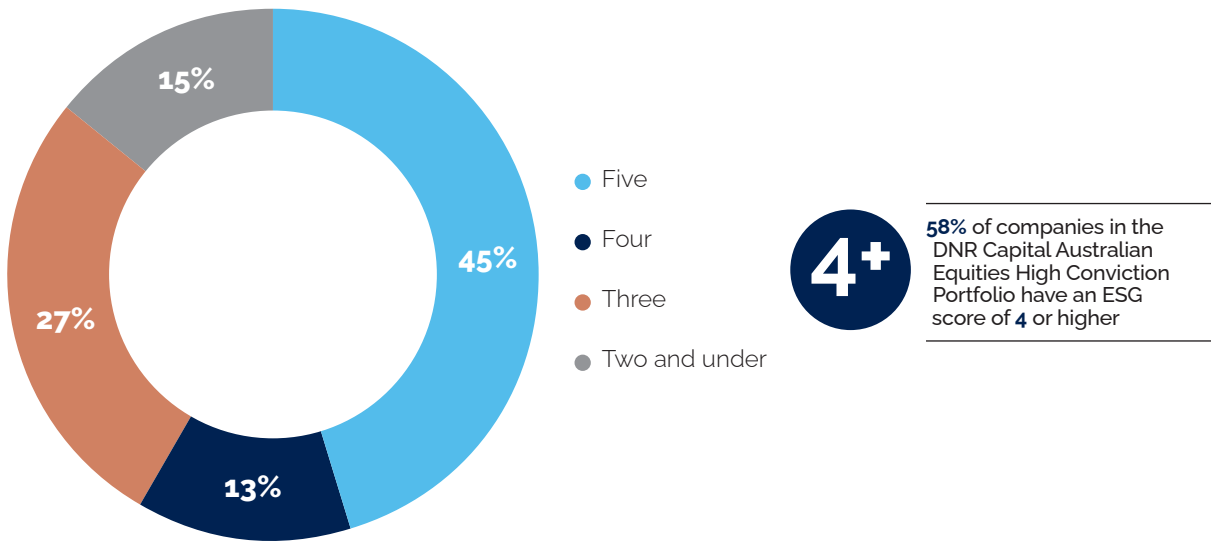
DNR Capital Australian Equities High Conviction Portfolio ESG score outcomes



As at 30 June 2023

Source: ISS data, DNR Capital

DNR Capital Australian Equities High Conviction Portfolio ESG score distribution



As at 30 June 2023

Source: ISS data, DNR Capital



Stewardship



“Corporate stewardship is the role of promoting the long-term viability of a company.”

What is stewardship?

DNR Capital is responsible for acting in the best interests of our clients, the underlying asset owners. As corporate stewards, we seek to promote the long-term viability of the companies we invest in, through company meetings and proxy voting.

Why is it important?

“ESG engagement and proxy voting can create shareholder value.”

As supported by research conducted by the PRI, ESG stewardship creates shareholder value in these important ways:

- Engagement between companies and investors not only enhances the understanding of ESG issues but the company more broadly, and is a further tool to assess the quality of a company, promoting improved investment decision making.
- ESG engagement raises awareness with senior management and board level, influencing changed company behaviour.
- Engagement on ESG factors can result in deeper relationships between investors and portfolio companies, emphasizing the importance of better ESG disclosure for shareholders, and
- Proxy voting is a tool for holding boards and management accountable for their performance, ensuring that companies are run for the benefit of shareholders.

Engagement strategy

“Company engagement is an important component of portfolio management, conducted by investment analysts for real time feedback into investment decision-making.”

The integration of ESG factors into investment decision-making is supplemented by our engagement program. DNR Capital prioritise our engagement program by systematic issues such as climate change, modern slavery

and corporate governance and in response to topical issues such a cyber security. Our FY2023 engagement program focussed on the following key issues:

- climate change, energy transition and net zero;
- modern slavery and employee engagement;
- biodiversity;
- circular economy;
- cyber security; and
- corporate and ESG governance.

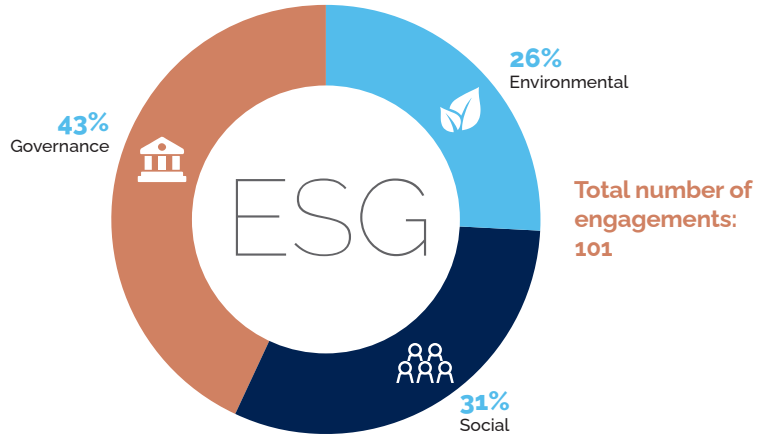
We engage with the Chair or executive management of companies with material exposure to these issues. Through these meetings we seek to understand and critically assess:

- the company’s governance and engagement;
- its risk management strategies and execution thereof; and
- advocate for best practice.

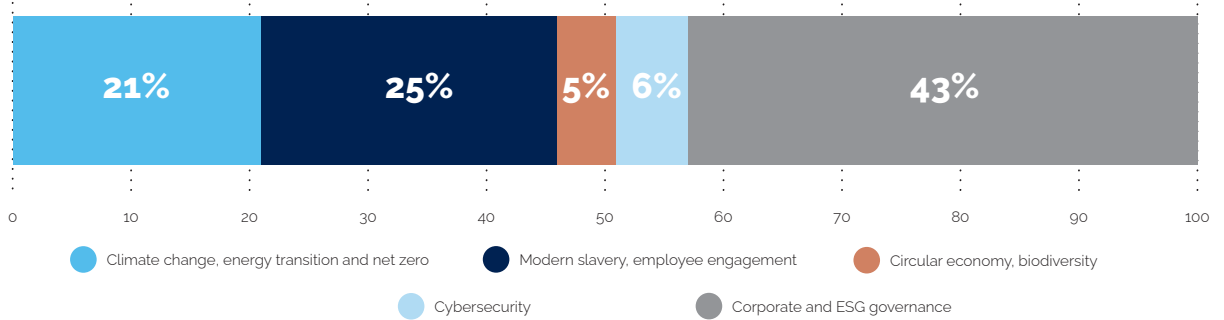
We monitor companies against delivery of stated undertakings and have an escalation strategy if we are unsatisfied with progress. DNR Capital’s stewardship initiatives are conducted by our investment analysts, in conjunction with portfolio managers and our ESG investment analysts. As such, the insight gained from each initiative is incorporated into the research and investment decision making process.

DNR Capital's FY23 engagement program across all investment strategies

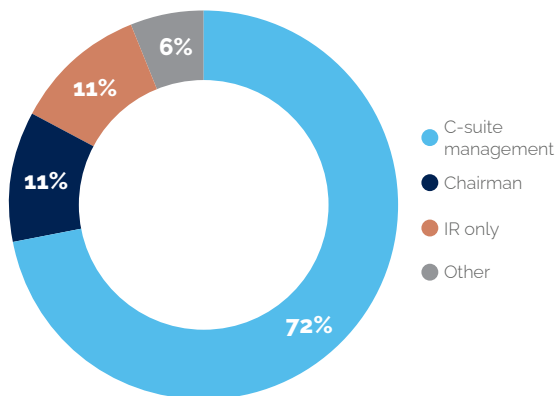
A well balanced program, diversified across key ESG issues.



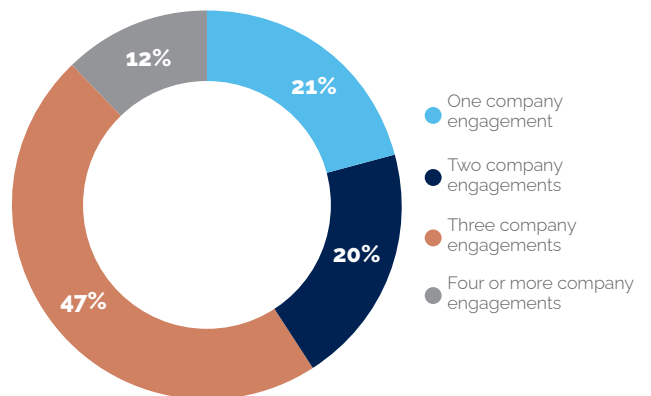
With a key focus on DNR Capital's pillar engagement issues



Over 80% of company engagements are conducted with company Chair or C-Suite management.



DNR Capital conducted multiple engagements for over 75% of the companies we met with.





Engagement case studies

Biodiversity

BHP Group (BHP)

Objectives

DNR Capital met with BHP's Head of ESG, to discuss its climate and biodiversity strategy. Here we discuss BHP's approach to biodiversity.

Comments

BHP owns, leases or manages 8 million hectares of land of which only two percent is disturbed by mining activities. BHP has set the ambitious goal of 'creating nature positive outcomes by having at least 30% of the land and water it stewards under conservation, restoration or regenerative practices by 2030'. This goal is aligned with global commitments to halt or reverse biodiversity loss. There are three strategic priority areas to deliver this goal, which include ascribing value to natural capital, improving nature-related disclosure and industry collaboration.

Valuing natural capital involves integrating natural capital into investment and operational decisions through the development of risk management and project evaluation frameworks.

Regarding biodiversity disclosure initiatives, BHP is a member of the Taskforce on Nature-related Financial Disclosure (TNFD) Forum. TNFD has the goal to 'support a shift in global financial flows away from nature-negative outcomes and towards nature-positive outcomes' through the development of a standardised reporting framework to manage and disclose nature-related risks. Testament to BHP's commitment to biodiversity and improving disclosure, BHP has conducted a case study on the application of natural capital accounting principles at its closed and rehabilitated Beenup Mineral Sands site in Western Australia. This project sought to measure the change in ecosystems through quantifying the amount, condition and value of its environmental assets. As a pilot project within the mining industry, BHP published the report publicly with the objective of enhancing industry collaboration.

Outcomes and monitoring

DNR Capital will continue to monitor and engage with BHP on its progress towards meeting TNFD disclosure requirements and achieving its 2030 goals.



BHP has set the ambitious goal of 'creating nature positive outcomes by having at least 30% of the land and water it stewards under conservation, restoration or regenerative practices by 2030'.



Stakeholder engagement
QUB Holdings (QUB)

Objectives

QUB has exposure to human capital management risk. Given this, Labor's proposed changes to the Fair Work Act and increased union activity within its peer group, DNR Capital met with QUB to discuss its approach to human capital management and employee engagement.

Comments

Despite being a competitive market, QUB reported low turnover at 13% and good retention, with more than 60% of its managers having been with QUB for over 5 years. This outcome is attributable to several factors. QUB has invested in employee engagement, it has a good company culture and is a desirable place to work. QUB has a large geographic footprint operating 163 sites, for its remote sites QUB employ locally, and engage with the local community supporting local schools and sporting clubs.

QUB has a diversified portfolio of Enterprise Agreements (EAs) which reduces the risk of industrial action. Sixty to seventy percent of employees are covered by EAs which have a maximum duration of 3 to 4 years. QUB does not have exposure to any one national group, and is currently negotiating ~25 EAs. QUB has a good track record of successful EA outcomes.

Labor's proposed "Same job, same pay" changes to the Fair Work Act do create some uncertainty, but are

unlikely to have a material impact on QUB's costs or earnings. Its Patrick Terminals are more exposed.

QUB has a strong focus on productivity across all its operations. It has selectively introduced automation into several operations with potential for further roll out should productivity fall below expectations.

Outcomes and monitoring

QUB has strong employee engagement and company culture, reducing human capital management risk. DNR Capital advocated for improved employee engagement disclosure in sustainability reporting going forward. DNR Capital will monitor QUB and engage as required.



QUB reported **low turnover at 13%** and good retention, with more than 60% of its managers having been with QUB for over 5 years. This outcome is attributable to several factors. QUB has invested in employee engagement, it has a good company culture and is a desirable place to work.

Corporate governance

Lendlease (LLC)

Objectives

DNR Capital has engaged with LLC's Chair on issues of corporate governance and company strategy that have contributed to LLC's sustained period of share price underperformance.

Comments

DNR Capital has engaged with LLC regarding the sustained period of share price underperformance, with a focus on corporate governance and company strategy. Regarding corporate governance, DNR Capital highlighted that the current level of equity ownership of the board and management does not reflect confidence in the strategic direction of the company. Further, DNR Capital raised issues of board structure, including size and complexity, board expenses and board accountability for LLC's share price underperformance. LLC's Chair has been responsive to our engagement and shared company initiatives that are aligned with improving corporate governance.

He also shared progress on its "Reset, Create and Thrive" company strategy which aims to ultimately deliver improved returns. Subsequent meetings with LLC's executive management have acknowledged the magnitude of the challenge and conveyed confidence in the timing and execution of company strategy and ultimately the delivery improved shareholder returns.

Outcomes and monitoring

DNR Capital will continue to monitor and engage with LLC on issues of corporate governance and company strategy, and the delivery of improved shareholder returns.



"DNR Capital has engaged with LLC regarding the sustained period of share price underperformance, with a focus on corporate governance and company strategy."

Corporate and ESG governance

SEEK (SEK)

Objectives

DNR Capital met with SEK's Chair ahead of its AGM in November 2022 to discuss progress of corporate and ESG governance initiatives..

Comments

Since the establishment of the Growth Fund during FY22, SEK has improved its corporate governance and sustainability capability, with the following key initiatives:

- Board composition and succession: SEK has appointed an executive search firm to recruit an additional NED to the board, with Asian and tech experience. SEK has also split the re-election rotation of its female NEDs and restructured the Nominations Committee. Further, the Chair is actively managing his succession, with only two more years of tenure.
- The board is focussed on management succession and employee engagement. There has been strong focus on talent development initiatives for the top 50 employees, and succession plans have been formalised for key roles. SEK recruited 990 employees in FY22 and are proactively managing employee engagement and culture, seeking to retain its entrepreneurial and agile culture which is harder in a larger organisation.
- SEK has appointed a consultant to conduct a review of its executive remuneration strategy,

including instruments and hurdles, with a view to presenting a revised strategy before the 2023 AGM.

- Cyber security and data protection is a material risk for the company, and is actively managed by the board. SEK invests heavily in cybersecurity across people, processes and technology.
- Following a modern slavery risk assessment, SEK has withdrawn from six countries where modern slavery risk was deemed too high. SEK is uniquely positioned to lead change against poor hiring practices and have made progress across this area. For example, SEK has built artificial intelligence (AI) search functions into its job advertisement review process which highlights job advertisements that require manual review.

Outcomes and monitoring

DNR Capital were impressed by SEK's delivery of governance and sustainability related initiatives over the last twelve months including the appointment of Jamaludin Ibrahim as a Non-Executive Director. DNR Capital will continue to engage with SEK on its sustainability agenda, and on the outcomes of its remuneration review.

"Since the establishment of the Growth Fund during FY22, and the transition of the founder out of the business, SEK has improved its corporate governance and sustainability capability."

Circular economy/employee engagement

Cleanaway Waste Management (CWY)

Objectives

CWY is a total waste management company which it is uniquely positioned to monetise growth in the circular economy and waste-to-energy markets. DNR Capital engaged with CWY's CEO and CFO to discuss its climate strategy and its circular economy and waste-to-energy projects.

Comments

CWY is well positioned to monetise growth in the circular economy through its network of waste collection and processing infrastructure assets. CWY is investing in its capability to measure the degrees of recycling circulatory and using this to inform meaningful conversations with customers. For example, it is more carbon efficient for a plastic bottle to be continually recycled than it is for the bottle to be used as road asphalt and a new bottle to be produced.

Increasing landfill levies support the economics of waste-to-energy projects and CWY is well placed to develop this infrastructure given its geographic footprint. CWY has two waste-to-energy projects, one in each Queensland and Victoria. These projects use the world's best technology, and have been designed to meet each of the Queensland and Victorian government's project requirements. However, approval of these projects is politically sensitive, and CWY has invested heavily in its relationships with the local stakeholders at its two proposed Victorian and Queensland sites.

Employee engagement is a key challenge for CWY given recent industrial action. CWY's focus on employment engagement initiatives has improved employee turnover and job vacancies, but they remain a challenge given the competitive employment market.

Despite CWY's opportunity pipeline, its sustainability disclosure is poor. DNR Capital will work with CWY ahead of its 2023 Sustainability Report to improve its sustainability related disclosure.

Outcomes and monitoring

DNR Capital will continue to monitor CWY for progress on its circular economy and waste-to-energy projects, along with improvement in its employee engagement performance. DNR Capital will work with the company to improve its sustainability disclosure ahead of the 2023 Sustainability Report.

Cyber security

Xero (XRO)

Objectives

XRO, as a cloud-based technology service provider, has significant cyber security risk. DNR Capital has engaged with the company, including with the Chair and Chief Information Security Officer on this important issue.

Comments

XRO has a strong culture of cyber risk management which is led by an engaged board and strong cyber related governance. XRO's cyber team is well resourced and regularly reports to the board and executive management. XRO benchmark its cyber security performance against a peer group of financial services companies as XRO maintain it sets a higher bar for comparison than its tech or Software as a Service (SaaS) peer group. XRO's cyber related spend is also benchmarked against this peer group. Cyber security performance is included in remuneration outcomes.

XRO's cyber security risk is multi-faceted with numerous partners including data centre providers, clients, app partners and banking and financial service partners, each introducing additional layers of complexity and risk. XRO has a list of top 20 partners that are considered most strategically important and has established processes on what to do in the event of a breach.

XRO understand the value of the data it stores on behalf of clients. Its approach is to store client data for as short a time as possible, in Australia this is seven years.

Employee and stakeholder training form the central tenant of XRO's risk management approach. XRO also conduct regular vulnerability testing and engage a third party service provider to generate real life commercial scenarios. It also uses this service provider for security at its data centres.

All new clients are subject to a third party risk assessment process and each client is assigned a security scorecard. New clients participate in XRO's cyber security training process.

XRO noted the marked increase in phishing and ransomware attacks recently. XRO has conducted post-mortem analysis on the recent attacks at Optus and Medibank and the XRO security team has spoken directly with the teams of these affected companies.

Outcomes and monitoring

DNR Capital will continue to monitor XRO's cybersecurity capabilities and engage with the company as required.

"XRO's cyber security risk is multi-faceted with numerous partners including data centre providers, clients, app partners and banking and financial service partners, each introducing additional layers of complexity and risk."

Cyber security**IPH (IPH)****Objectives**

Continuing the recent series of cyber security headlines, IPH reported a breach to a portion of its IT environment on 13 March 2023. DNR Capital has conducted a series of engagement meetings with the company to better understand the nature and management of the incident and to assess potential financial implications.

Comments

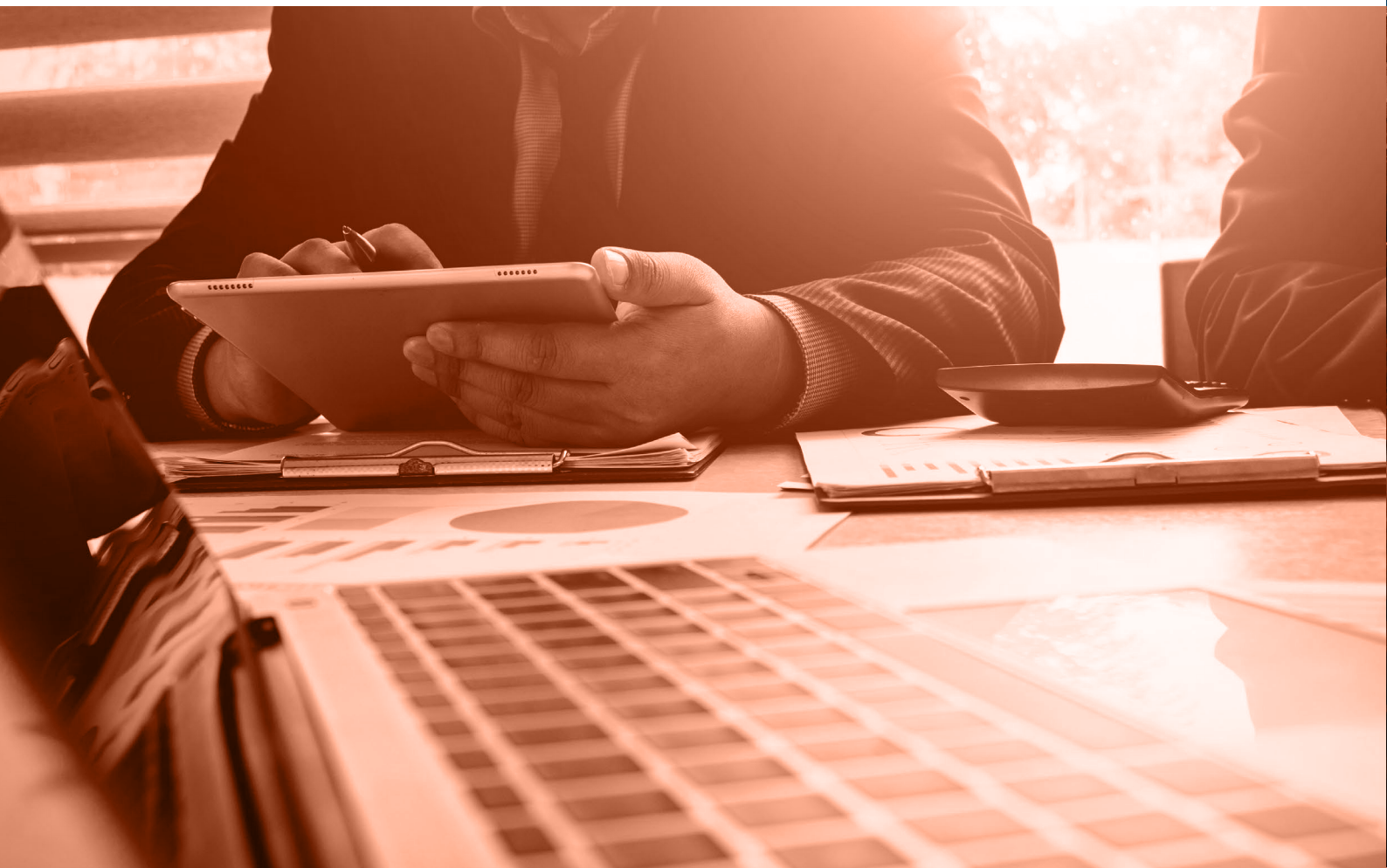
Following the breach to a portion of its IT environment on 13 March 2023, DNR Capital conducted two meetings with the company, including with the CEO and COO. DNR Capital conclude that the management team were successful in containing the breach and as a result anticipated little or no customer churn. DNR Capital do not forecast any material impact to earnings or valuation.

IPH worked quickly to contain the breach, securing its IT environment and engaging a third-party specialist to conduct a forensic investigation. The cyber security breach did not affect IPH's primary patents but rather was focussed on the document management system of its head office and two Australian member firms.

Whilst IPH was successful in containing the breach, the incident has highlighted the need to continue to invest in its cyber security capabilities. Management have confirmed its intention to appoint a Head of Cyber Security amongst other initiatives. Further, management acknowledged DNR Capital's recommendation to include cyber security KPIs in senior executive remuneration outcomes.

Outcomes and monitoring

DNR Capital will continue to monitor IPH for further updates relating to the breach and the development and delivery of its cyber related strategy.



Climate change

“DNR Capital formalised our approach to climate change through the release of our Climate Change Policy.”

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.

DNR Capital's primary climate change risk relates to investment risk. Climate change, where material, has the potential to impact investment risks and returns. During FY23 DNR Capital formalised our climate change investment approach into a climate change policy.

DNR Capital's Climate Change Policy has been written from an investment perspective and includes the following:

- Support for the global ambition to limit global warming through reduced carbon emissions;
- outlines DNR Capital climate change governance;
- outlines key climate change risks and opportunities within and beyond our investment horizon;
- summarises DNR Capital's multi-faceted approach to assessing and managing climate change risk and opportunity in the investment process; and
- outlines DNR Capital's climate change reporting undertaking.

DNR Capital has a multi-faceted approach to assessing climate change, as outlined below:

- Climate change is one of nine factors assessed in DNR Capital's ESG score. Our ESG score is one of five components of our proprietary 'quality web', which is used to assess the quality of companies.
- 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, climate change risks and opportunities are also factored into this assessment, our framework for this assessment is discussed in more detail below.
- Where material climate change risks are identified, DNR Capital will conduct a dedicated ESG engagement with the company.
- DNR Capital conduct a biannual ISS Climate Impact Assessment Report to assess aggregate climate risk at the portfolio level.
- DNR Capital maintain a database of company and portfolio level climate related indicators that are monitored and tracked over time.

The outcomes of these climate change assessments inform investment decision-making and portfolio construction.

DNR Capital conduct company analysis and valuation work to determine whether sufficient return upside exists. Where material climate change risk is identified, DNR Capital use the following framework to conduct a deep dive risk assessment:

- 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.

Consistent with DNR Capital's ESG investment philosophy, where we invest in a company with climate risks, the forecast return is sufficient to compensate for the risk.

Where material climate change risks or opportunities are identified DNR Capital will conduct a dedicated climate change engagement with the company. DNR Capital use the climate change framework discussed above as the basis for preparing detailed questions for these company engagement meetings. These meetings are a forum to better understand the company's approach to climate change risk, and to understand the steps a company is making to improve climate performance, including but not limited to:

- climate governance including: remuneration alignment with achievement of climate related outcomes, adequacy of climate experience at the board level, climate strategy and integration of climate in capital allocation decisions and capex budget;
- climate disclosure including: TCFD compliance, climate scenario analysis and granularity of climate scenario analysis at asset level, signpost analysis and view on current transition trajectory;
- net zero commitment including: science based targets, ambition of medium and long term targets, inclusion of Scope 1, 2 and 3 emissions, strategy, plan and resourcing to achieve targets, reliance on offsets to achieve targets; and
- physical climate including: risk assessment, asset resilience and capex budget.

DNR Capital's climate change engagement initiatives are conducted in line with our Corporate Engagement Policy. DNR Capital's climate change engagement initiatives are conducted by investment analysts, in conjunction with portfolio managers and the ESG investment analysts. As such, the insight gained from each initiative is incorporated into the research and investment decision making process.

Climate change performance at the portfolio level

Portfolio Weighted Average Carbon Intensity (WACI) by DNR Capital investment portfolio.

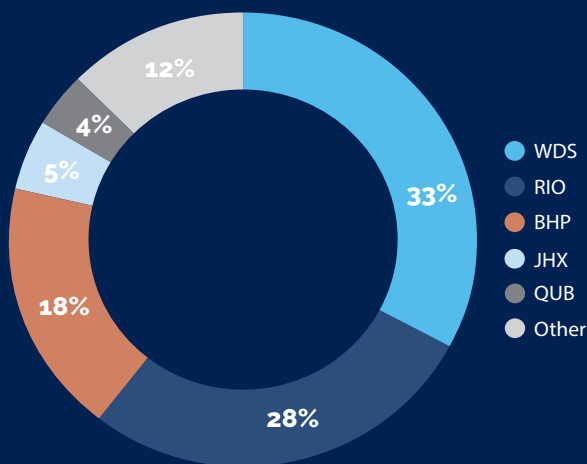
Portfolio	Total Emissions ¹ (Scope 1+2) tCO ₂ e - Portfolio	Total Emissions ¹ (Scope 1+2) tCO ₂ e - Index	Portfolio WACI	Index WACI
DNR Capital Australian Equities High Conviction Portfolio (Index: S&P/ASX 200 Total Return)	111,729	269,652	119.9	175.7
DNR Capital Australian Equities Income Portfolio (Index: S&P/ASX 200 Industrials Total Return)	2,396	5,489	60.5	67.5
DNR Capital Australian Equities Socially Responsible Portfolio (Index: S&P/ASX 200 Total Return)	13,377	32,902	106.7	175.7
DNR Capital Australian Emerging Companies Portfolio (Index: ASX/S&P Small Ordinaries Total Return)	11,156	22,045	38.0	358.4

As at 30 June 2023

Source: ISS and DNR Capital

1 ISS apply a proprietary emissions estimation model for non-reporting companies.

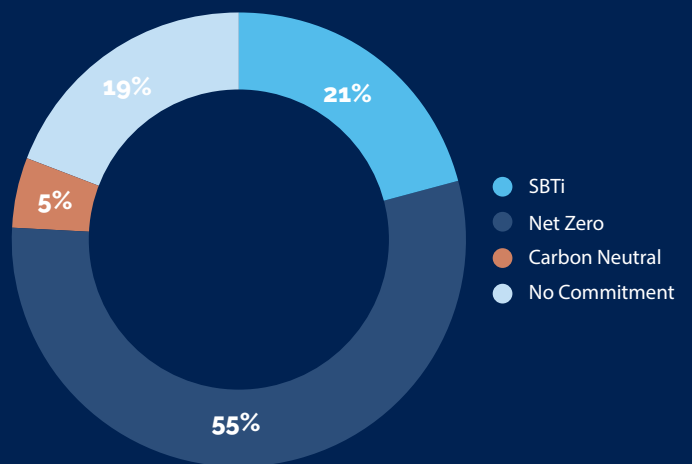
DNR Capital Australian Equities High Conviction Portfolio Top 5 contributors to portfolio emissions



As at 30 June 2023

Source: ISS and DNR Capital

DNR Capital Australian Equities High Conviction Portfolio emissions reduction targets



As at 30 June 2023

Source: Macquarie Research and DNR Capital

Climate change case studies

Climate change, energy transition and net zero

Worley (WOR)

Objectives

DNR Capital has conducted numerous engagement meetings with WOR, including with the Chair, Chair of People and Remuneration Committee and executive management. Key areas of focus include assessing the quality of WOR's sustainability pipeline and capability to deliver, its own climate strategy and the transparency of its sustainability disclosure.

Comments

Worley (WOR) provides engineering and construction services to the resources, energy and industrial sectors. WOR is well positioned to benefit from the energy transition, it has positioned itself as the industry leader in the design and construction of sustainability solutions including renewable energy, low-carbon hydrogen, distributed energy systems, biofuels, carbon capture and energy storage as well as other technologies. Further, WOR will benefit from the additional work required by traditional oil, gas and petrochemical producers to retrofit and remediate its assets, to comply with its commitments to reduce its carbon emissions through operational improvements.

WOR has strategically positioned itself as the partner of choice for the design and construction of sustainability and new energy projects. WOR has the technical capability and experience to deliver these projects at scale, and with this scale, deliver improved projects economics. Interim government assistance such as

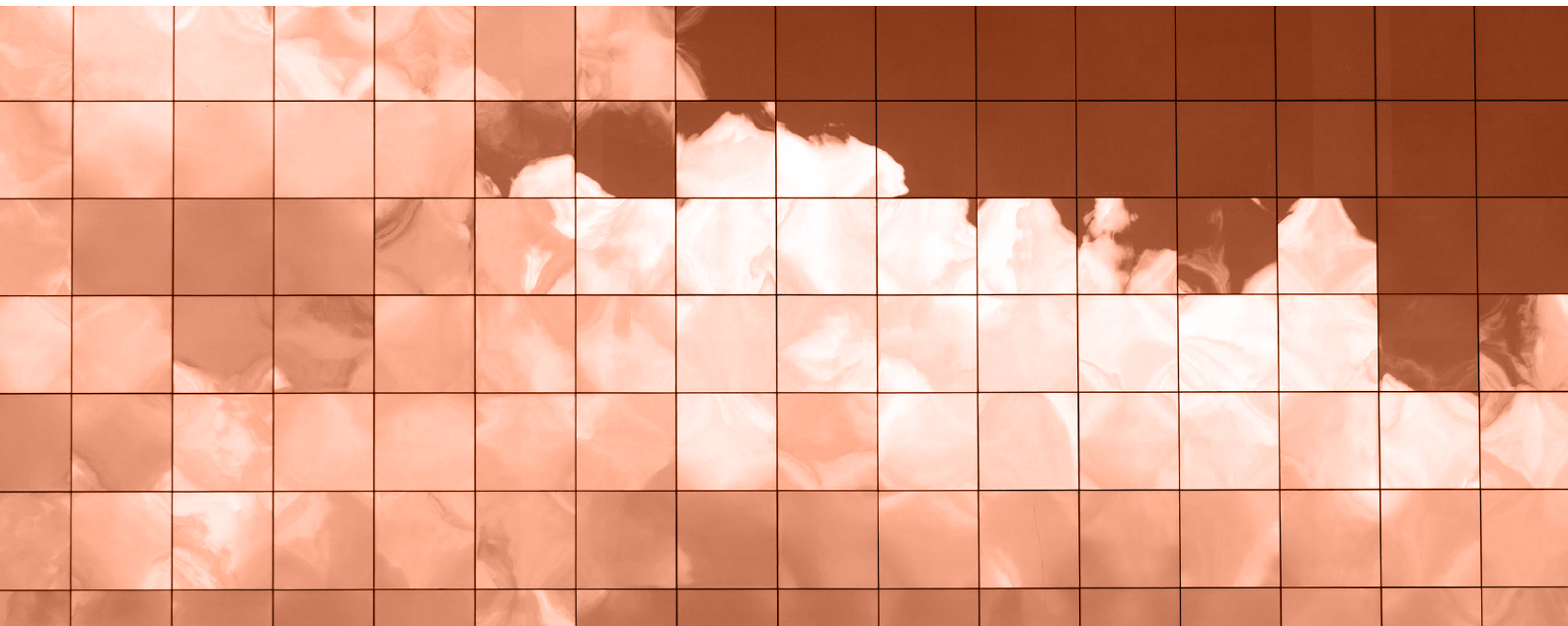
the US Inflation Reduction Act (IRA) will be the catalyst to facilitate initial investment. WOR brings additional expertise, such as the monetisation of waste removal, which further improves the economics of these large infrastructure projects. WOR, through investment in employee engagement, is an employer of choice and coupled with its internal recruitment capability, is well placed to bid on, and resource, new projects.

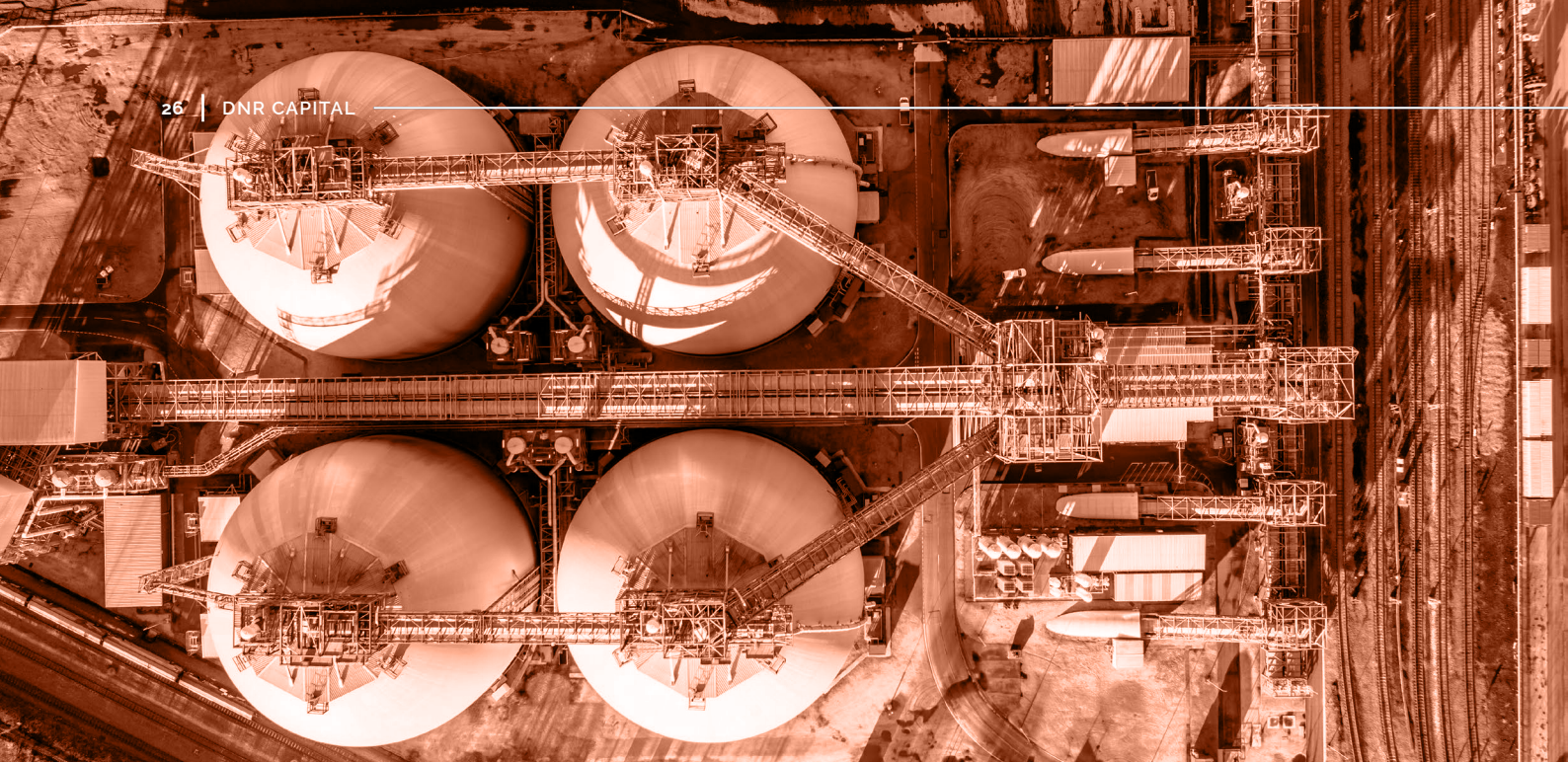
WOR has further strategically aligned itself to the energy transition with its own climate strategy. WOR has a Paris aligned, 2050 goal to be net zero (Scope 1, 2 and 3), with an interim target to be net zero (Scope 1 and 2) by 2030. WOR acknowledge the need to use carbon offsets to achieve this goal.

In FY22 WOR changed the disclosure of its sub-segment financial reporting making it more difficult to measure the contribution from gas and LNG going forward. Further, DNR Capital was concerned by the lack of transparency relating to the measurement of two sustainability related remuneration hurdles at the FY22 AGM. Following engagement with the company on these issues, DNR Capital voted against Item 4, the granting of deferred equity rights to the CEO, at the FY22 AGM. Please refer to proxy voting case studies for further detail.

Outcomes and monitoring

DNR Capital will continue to monitor WOR for delivery of its sustainability strategy, its climate strategy and the quality of sustainability related disclosure and engage with the company as required.





Climate change, energy transition and net zero

Beach Petroleum (BPT)

Objectives

DNR Capital engaged with BPT's Head of Sustainability to discuss its climate strategy and to challenge them on its carbon emissions reduction ambition.

Comments

BPT has invested in its sustainability capabilities, increasing resourcing in the sustainability team and improving sustainability related board reporting. In 2H22 BPT announced its revised climate strategy, with a climate ambition to reach net zero (Scope 1 & 2) by 2050 and an interim goal to reduce its carbon emissions intensity by 35% by 2030.

Carbon capture and storage (CCS) is a key component of its emissions reduction goals. BPT is a JV partner in Santos' (STO) Moomba CCS project. This project is currently under construction and targeting first carbon injection in 2024. BPT has a second CCS project in the Victorian Otway Basin which is currently in the feasibility stage. The project scope is ~200kt carbon emissions per annum, a capacity which is greater than BPT's current Otway Scope 1 and 2 emissions.

BPT has a pipeline of near term carbon projects including a second stage membrane separation unit at the Beharra Springs gas plant and electrification of the Lang Lang gas plant. Further fuel, flare, and vent projects across BPT's operated portfolio are also planned. BPT also has a pipeline of early-stage carbon projects including wind generation at Taranaki Beach New Zealand (NZ), hydrogen production at Otway gas plant, hydrogen storage in South Australian Otway and production of low emissions fuels in the Cooper Basin. BPT include a carbon price for the evaluation of carbon related projects.

BPT confirmed that its interim 2030 goal to reduce carbon emission intensity by 35% is aligned with the government's absolute safeguard mechanism reduction targets. DNR Capital challenged BPT on its decision to pursue an interim intensity reduction target rather than an absolute reduction target, being best practice.

BPT is developing a climate transition action plan which will support improved climate disclosure in its FY23 sustainability report. BPT has also undertaken to disclose the following initiatives in its FY23 sustainability report:

- Scope 2 carbon emissions for the NZ business;
- transition and physical climate change scenario risk analysis; and
- actual Scope 3 targets across its Australian and NZ businesses (to date BPT has reported inferred Scope 3 emissions).

Outcomes and monitoring

DNR Capital will continue to monitor BPT for progress on its emissions reduction related projects and improvements in its climate related disclosure.



In 2H22 BPT announced its revised climate strategy, with a climate ambition to reach net zero (Scope 1 & 2) by 2050 and an interim goal to reduce its carbon emissions intensity by 35% by 2030.

Climate change, energy transition and net zero

Santos (STO)

Objectives

Amidst headline claims of greenwashing and the Federal Court's decision to set aside NOPSEMA's approval of the Barossa Gas Project's Drilling Environment Plan, DNR Capital engaged with STO on sustainability and climate change.

Comments

STO has strong climate governance, with strong board and management engagement. STO has an executive Vice President ESG, who reports directly to the CEO, and all board members sit on the Environment, Health, Safety and Sustainability (EHSS) Committee.

STO has a Net Zero target (Scope 1 and 2) by 2040, with a 2030 interim target of 30% reduction in emissions and 40% reduction in emissions intensity. STO's climate strategy centres largely on the implementation of several carbon capture and storage (CCS) projects. STO's onshore assets make CCS technically and financially viable, compared with its offshore counterparts. Its flagship CCS project is its 66% share in Moomba CCS. This project is currently under construction and is targeting first carbon injection in 2024. When complete, Moomba will be one of the world's largest and lowest cost CCS projects, storing up to 1.7 million tonnes of carbon per annum, at a lifecycle cost of less than \$US24 per tonne carbon. STO has also entered into a research and collaboration agreement with the CSIRO to trial direct air capture (DAC) and post-combustion capture technologies at Moomba. In addition to Moomba CCS, STO has a portfolio of early stage CCS projects including Bayu-Udan which have the potential to offer an Indo Pacific carbon solution.

STO has 10 facilities under the government's safeguard mechanism, all of which are currently operating significantly below its baseline. STO will only require a small amount of offsets, given its CCS carbon reduction strategy.

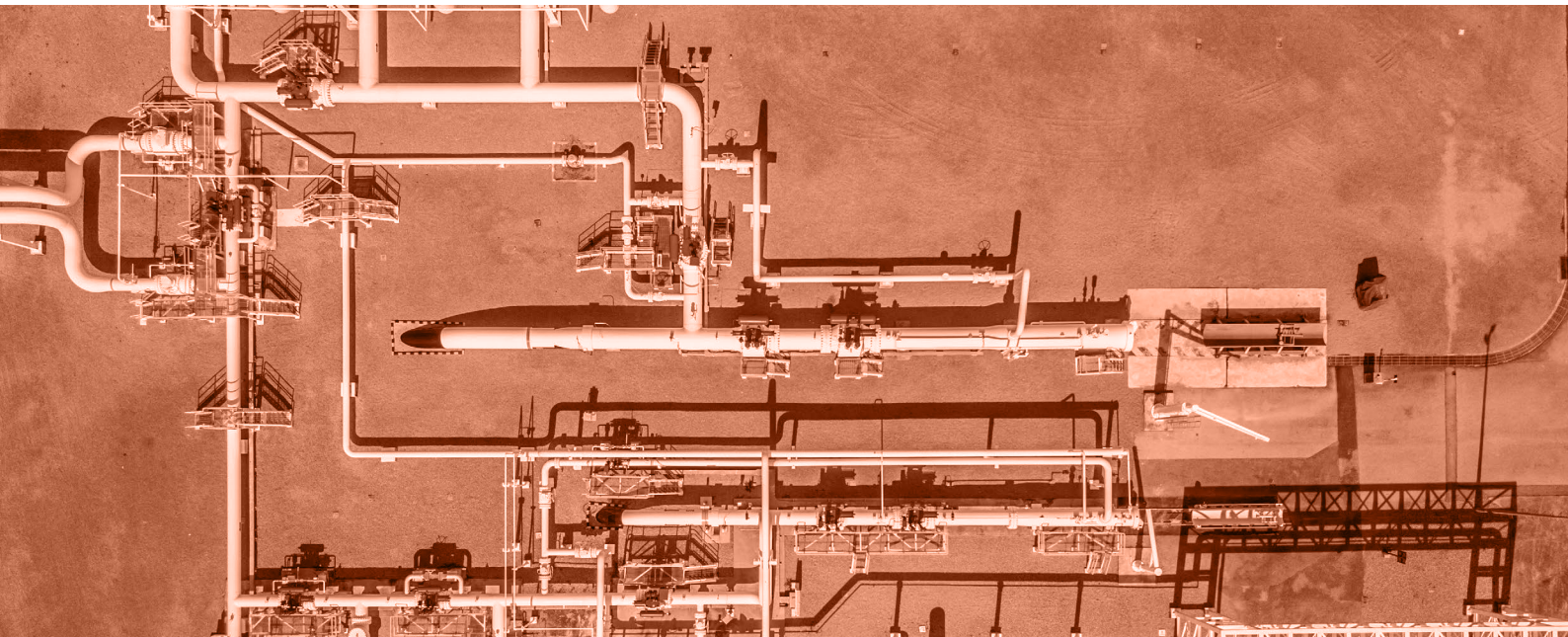
The Federal Court's decision to set aside NOPSEMA's approval of the Barossa Gas Project's Drilling Environment Plan sets a new precedent for the indigenous engagement requirements for extraction related project approvals. STO suspended drilling and conducted a series of engagement sessions in the Tiwi islands in early February 2023. This case predates STO's ownership of the asset and STO maintain it has a good relationship with the local stakeholders. STO is confident it will receive the required regulatory approvals.



STO has a Net Zero target (Scope 1 and 2) by 2040, with a 2030 interim target of 30% reduction in emissions and 40% reduction in emissions intensity.

Outcomes and monitoring

This sustainability focused engagement was complemented by several executive management level engagements, whilst STO was held in DNR Capital's portfolio. DNR Capital has subsequently sold its holding in the company.



Proxy voting philosophy

Proxy voting is the second component to DNR Capital's engagement strategy, along with company meetings. DNR Capital believe that proxy voting is an important tool for investors. Proxy voting enables investors to communicate their views to a company and input into key decisions, such as executive remuneration and board director appointments. Proxy voting may also be used as an escalation tool, where other company engagement initiatives have been unsuccessful, such as voting against executive remuneration or the re-election of a director. Proxy voting is also a tool to engender long term relationships with investee companies. Increasingly, board Chairs seek to engage with shareholders on issues including climate strategy and their "Say on Climate" vote, executive remuneration, board governance, and other strategic issues.

"Proxy voting is a powerful tool for investors."

The guiding principle when DNR Capital votes on a resolution is that our voting decision must be in the best interests of our clients. Our approach to proxy voting is outlined below:

- DNR Capital will vote on all resolutions where it is possible given custodial and proxy voting arrangements for the underlying clients that it invests for.
- Proxy voting is co-ordinated by DNR Capital's ESG investment analysts. However, proxy voting decisions are the responsibility of the underlying stock investment analyst, and proxy voting execution is the responsibility of the Portfolio Administration team.
- DNR Capital conduct an independent assessment of the proxy resolutions and form an independent view on voting recommendations. DNR Capital engage proxy adviser, Ownership Matters, to provide supplemental proxy research. DNR Capital may also contact the investee company for further information.
- Where the analyst's voting recommendation is counter to the investee company's or the proxy advisor's recommendation, the analyst will provide a written explanation justifying their voting recommendation.
- DNR Capital endeavour to notify investee companies where we vote against its recommendation.
- For Australian investments that are subject to the "Two Strikes" legislation, where an investee company incurs a first strike, DNR Capital will engage with the investee company's Chair to improve remuneration policy and practices to reduce the likelihood of a second strike.

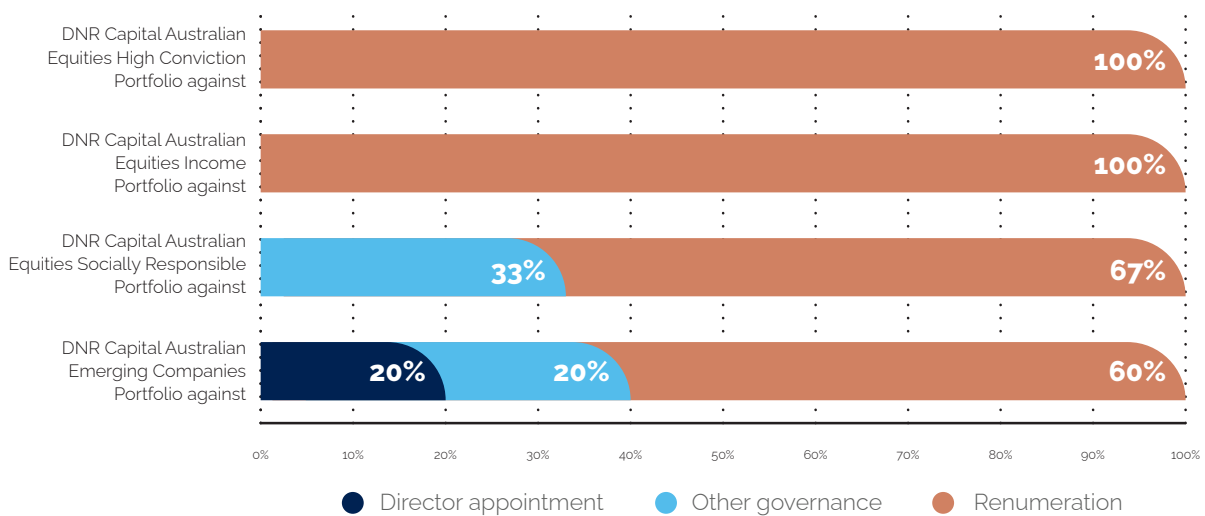
In the subsequent pages we present several proxy voting case studies where we voted against resolutions relating to remuneration, director re-election and corporate governance.

Proxy voting outcomes

	Number of company meetings	Number of resolutions	For	Against	Abstain
DNR Capital Australian Equities High Conviction Portfolio					
Number	25	169	167	2	0
%		100%	99%	1%	0%
DNR Capital Australian Equities Income Portfolio					
Number	19	125	122	3	0
%		100%	98%	2%	0%
DNR Capital Australian Equities Socially Responsible Portfolio					
Number	26	178	175	3	0
%		100%	98%	2%	0%
DNR Capital Australian Emerging Companies Portfolio					
Number	24	134	129	5	0
%		100%	96%	4%	0%

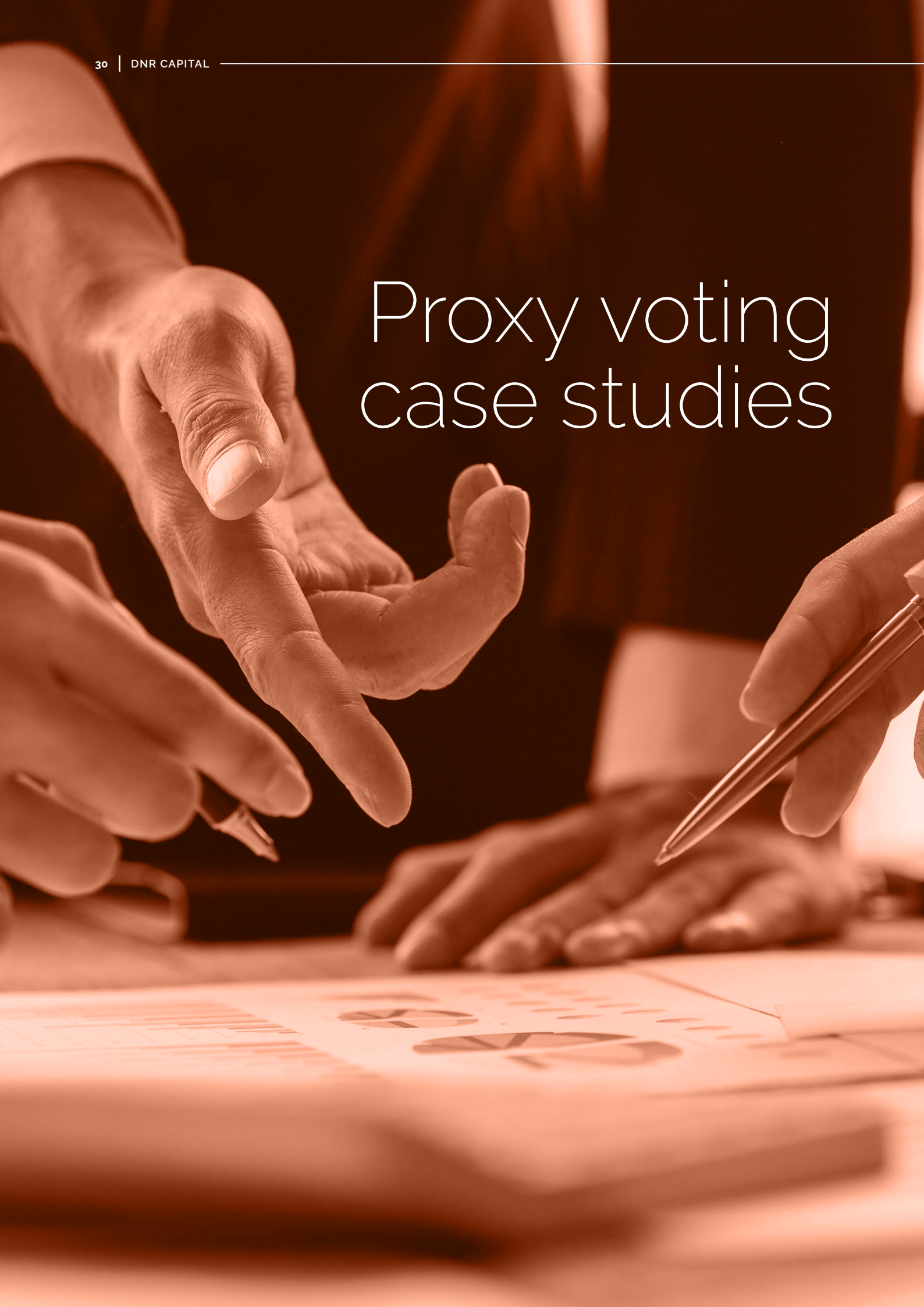
Source: DNR Capital

Proxy against votes by category and strategy



Source: DNR Capital

Proxy voting case studies



Remuneration

ANZ Group Holdings (ANZ)

Objectives

DNR Capital reviewed ANZ's proxy resolutions for its December 2022 AGM. DNR Capital was concerned about the quantum of proposed remuneration given ANZ's poor share price performance.

Comments

DNR Capital recommended to vote against ANZ's resolution 3, to approve the remuneration report. The proposed CEO cash pay was \$3,478,690, well above the median cash pay for the financial sector 1-100 of \$3,227,345. Further, ANZ has paid its CEO a short term incentive (STI) of, on average, 79% of target, since 2016. This does not appropriately reflect ANZ's sustained period of underperformance, returning -6.7% over the same period. The persistence of incentive outcomes at ANZ, especially given disappointing shareholder returns in recent years, is also concerning given the incentive structure ANZ adopted from FY22 which places much greater weight on the board's discretion in determining remuneration outcomes.

DNR Capital recommended to vote against resolution 4, to approve CEO restricted rights and performance rights. The peer group used to assess vesting of the relative total shareholder return (TSR) tranche, which is 75% of performance rights, continues to include Singapore bank DBS and UK bank Standard Chartered, despite ANZ's exit from the regions. Additionally, half the CEO's long term incentive (LTI) allocation comprises 'restricted rights'. These 'restricted rights' further increase ANZ's board discretion with vesting subject to the board's assessment of ANZ's prudential soundness, "material risk outcomes" and management of risk culture at a group and individual level.

Outcomes and monitoring

Despite DNR Capital's vote against resolution 3 and 4, these resolutions were carried at the AGM.



Remuneration Lendlease (LLC)

Objectives

DNR Capital reviewed LLC's proxy resolutions for its November 2022 AGM. DNR Capital considered LLC's extended period of share price underperformance when considering the resolutions.

- lack of alignment through equity ownership;
- lack of accountability for long term share price underperformance;
- lack of urgency in delivering company strategy;
- complexity of the business; and
- capital management.

Comments

DNR Capital recommended to vote against LLC's resolution 3, to approve the remuneration report. LLC has not sustainably outperformed the market or peer group for multiple decades. This is despite successfully executing globally recognised urban regeneration projects, securing over ~\$100bn in backlog and building ~\$45bn in FUM. Whilst the board reduced the CEO's outcome by one third to reflect the LLC shareholder experience, DNR Capital recommended to vote against the remuneration report given material concerns relating to:

Further supporting our against vote was the \$5m carry bonus proposed to be paid to departing executive Denis Hickey. DNR Capital felt that it was inconsistent of the company to make the COO role (Denis Hickey) redundant, and then argue that his contribution is so material that he warrants \$5m carry payment.

Outcomes and monitoring

Despite DNR Capital's vote against resolution 3, the resolution was carried at the AGM

Remuneration IGO

Objectives

DNR Capital reviewed IGO's proxy resolutions for its November 2022 AGM. Resolution 5 relates to remuneration provisions of former IGO CEO who passed away in October 2022, a month prior to the AGM.

Comments

DNR Capital recommended to vote against IGO's resolution 5, to approve the grant of performance rights and options to the former CEO. DNR Capital made this recommendation because it is not clear what benefit IGO shareholders derive by approving a forward looking LTI grant, with initial vesting in 2025, to the former CEO who passed away in October 2022.

the former Western Areas CEO Mr Dan Lougher. The proposed termination payment of \$786,917 is in addition to the \$6.9m in termination payments, takeover bonuses and LTI vesting on change of control that he has realised in connection with IGO's acquisition of Western Areas.

Outcomes and monitoring

Outcomes of the AGM revealed that resolution 5 was not carried, with 63% against vote, while resolution 6 was carried, with 77% vote in favour.

DNR Capital recommended to vote against IGO's resolution 6, to approve termination payments to

Governance

IMDEX (IMD)

Objectives

DNR Capital reviewed IMD's proxy resolutions for its March 2023 EGM. The EGM seeks shareholder approval for various resolutions in connection with the acquisition of Devico, including ratification of a \$75mn placement to partially fund the acquisition and approval for the issuance of conditional placement shares to certain management personnel and directors, predominately board chair Anthony Wooles. The favourable terms of the conditional placement to Anthony Wooles raises governance concerns.

Comments

DNR Capital recommended to vote against IMD's resolution 3, to approve the conditional placement to Chair Anthony Wooles. The proposed allocation of 1.4m shares for \$3m to the Chair accounts for ~1.4% of the total capital raising and will see his ownership interest in the company increase from ~0.05% to ~0.3%. This compares to his pro rata entitlement, based on his current shareholding, of closer to 63k shares. DNR Capital recommended voting against this resolution given the proposed number of shares to be issued under the conditional placement, at an 11% discount to the share price at the time of the placement was announced, is considerably in excess of his pro rata entitlement.

Outcomes and monitoring

Despite DNR Capital's vote against resolution 3, the resolution was carried at the EGM.



Remuneration and governance

Unibail-Rodamco-Westfield (URW)

Objectives

DNR Capital reviewed URW's proxy resolutions for its May 2023 AGM. **DNR Capital identified concerns about the structure of URW's board and executive remuneration.**

Comments

DNR Capital recommended to vote against resolutions 5 to 9 and 11 to 13.

Resolutions 5 to 9 seek approval for the remuneration of members of the management board including CEO, CIO, CFO, Chief Resources and Sustainability Officer and Chief Customer Officer. Management incentives at URW continue to have minimal relation to securityholder returns and exhibit a high degree of persistence. Over the past nine years the CEO has received more than 75% of maximum annual bonus every year other than FY20.

DNR Capital recommended to vote against resolutions 11 to 13.

Resolution 11 seeks shareholder approval of URW's remuneration report. Remuneration for the supervisory board is conditional on this resolution being approved, supervisory board members will not be paid until the remuneration report is approved.

Resolutions 12 and 13 seek shareholder approval for revisions to the remuneration policy effective from FY23. These revisions apply to the management board members or executive management team. The revised remuneration policy is largely unchanged, however the significant increase in LTI allocation (subject to EPS and ESG targets) compounds the structural problems with the existing policy.

Outcomes and monitoring

Despite DNR Capital's against votes, the resolutions were carried at the AGM.

Director re-election**ARB Corporation (ARB)****Objectives**

DNR Capital reviewed ARB's proxy resolutions for its October 2022 AGM. DNR Capital considered board independence in determining its recommendation to vote against resolution 3.

Comments

DNR Capital recommended to vote against ARB's resolution 3, to approve the re-election of NED Adrian Fitzpatrick. Prior to joining the ARB board, Mr Fitzpatrick was a partner of audit firm Pitcher Partners, where he was the signing audit partner of ARB's accounts from 1994-2006 and from 2009-2013. Given this

association, Mr Fitzpatrick is considered an affiliate and ARB's audit and risk committee is not considered to be compliant with ACSI guideline 20.3 (b).

Outcomes and monitoring

Despite DNR Capital's against vote, the resolution was carried at the AGM.



Corporate governance

Worley (WOR)

Objectives

DNR Capital was concerned by the lack of transparency relating to the measurement of two sustainability related remuneration hurdles at the FY22 AGM.

Comments

WOR restructured its remuneration package in FY20, offering deferred equity (DEP) sustainability linked incentives as part of its LTI. FY22 was the first year investors were able to see how these grants were awarded. The CEO achieved 100% of the incentive (valued at \$1.25m) based on satisfying 2 hurdles:

- 70% vesting on "14% growth in gross margin delivered in sustainability projects from FY20"; and
- 30% vesting by completing sustainable strategy development and embedding sustainable solutions processes with customers during the period.

DNR Capital was concerned by the lack of transparency relating to the measurement of these two hurdles, including the lack of retrospective disclosure of gross margins and currency assumptions used to verify the award.

Outcomes & monitoring

Upon further disclosure, and discussion with the company, DNR capital was still unsatisfied with the level of disclosure and advised the company that DNR Capital would be voting against Item 4, the granting of deferred equity rights to the CEO, at the FY22 AGM. Despite DNR Capital's against vote, the resolution was carried at the AGM. WOR has undertaken to review the disclosure for FY23.



Our commitment to ESG

We are proud to present our FY2023 Stewardship Report. This report highlights the delivery of numerous strategic ESG priorities, including:

- DNR Capital board approved stand-alone Climate Change Policy;
- DNR Capital board approved revisions to our ESG, Corporate Engagement and Proxy Voting Policies;
- Expanded third party ESG data subscription to include climate change portfolio analytics, additional ESG indicators and an ESG screening tool.
- Enhanced DNR Capital's proprietary ESG score methodology;
- Conducted aggregate climate portfolio scenario analysis;
- Increased ESG resourcing with the appointment of a second ESG investment analyst;
- Improved communication of ESG initiatives in client reporting; and
- Continued improvement in the depth and breadth of ESG stock integration and engagement.

These initiatives form a strong foundation from which we can continue to invest in our ESG capability in line with industry, regulatory and client expectations.

This document has been prepared by DNR Capital Pty Ltd, AFS Representative-294844 of DNR AFSL Pty Ltd ABN 39 118 946 400, AFSL 301658. It is general information only and is not intended to be a recommendation to invest in any product or financial service mentioned above. Whilst DNR Capital has used its best endeavours to ensure the information within this document is accurate it cannot be relied upon in any way and you must make your own enquiries concerning the accuracy of the information within. Past performance is no guarantee of future performance. The information in this document has been prepared for general purposes and does not take into account the investment objectives, financial situation or needs of any particular person nor does the information constitute investment advice. Before making any financial investment decisions you should obtain legal and taxation advice appropriate to your particular needs. Investment in a DNR Capital managed account can only be made on completion of all the required documentation.

© DNR Capital Pty Ltd.