

Climate Change Policy

Investment Team

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Document Control Sheet

Document Summary

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Climate Change Policy

1 Commitment to the Policy

The Directors and management team of DNR Capital recognise that companies with good environmental, social and governance (ESG) practices can enhance risk-adjusted shareholder returns. DNR Capital have adopted an ESG integration and engagement strategy which is outlined in our ESG Policy. This Climate Change Policy supplements our ESG policy and describes our specific approach to climate change.

This Climate Change Policy (the Policy) has been approved by the Board and adopted by the investment team and forms part of the framework upon which the company will meet its regulatory obligations, under its Australian Financial Services Licence (AFSL), and undertakings to clients.

In implementing this Climate Change Policy, consideration is made 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, regard is had 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 and should be read in conjunction with the company's Investment ESG, Corporate ESG, Engagement, Corporate Engagement and Proxy Voting Policies.

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 climate change risks within investment decision-making.

4 Who should know and understand the Policy.

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

- Directors
- DNR Capital's investment team and members of the Socially Responsible Investment Committee (SRIC)
- Members of the Audit Risk and Compliance Committee
- 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 outsourced functions. 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 on the intranet of the company. This Policy is also made available on the company's website.

5 Obligations under this Policy

5.1 What is climate change?

DNR Capital supports the long-term goal of the Paris Agreement¹ 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, along with other ESG factors, has the potential to impact investment risks and returns. DNR Capital has adopted an ESG integration and engagement strategy to enhance risk-adjusted performance.

DNR Capital considers both transitional and physical climate risks in our climate risk assessment and investment decision making:

- **Transition risks** are those that arise from the regulatory, geopolitical, market and technology changes required to transition to a low carbon economy. Company transition risks include, but are not limited to, net zero commitments, energy procurement practices, potential carbon taxes, changes in consumer preferences and new climate related disclosure requirements.
- **Physical risks** are those that arise from the physical effects of climate change. Physical climate risks can be characterised as either acute or chronic risks. Acute physical risks are event driven risks such as increased severity of extreme weather events, for example, cyclones. Chronic physical risks refer to longer term changes in climate patterns such as sustained higher temperatures that may cause sea level rises or increase the severity of droughts. Chronic physical risks may not be felt every day, but tend to compound over time.

DNR Capital considers the key climate change risks and opportunities over our investment horizon to include:

- increased climate policies and regulation such as tougher emissions and energy efficiency standards and the impost of carbon pricing;
- increased climate related financial disclosure requirements;
- inefficient capital allocation towards energy transition;
- slower deployment of renewable energy (delays in approvals, shortages in future facing commodities etc) supporting medium term demand for fossil fuels;
- emergence of "green premiums";
- decreasing capital and operating costs of climate transition enabling technology, including renewable energy, electric vehicles, battery storage etc;
- changing patterns of consumer demand, investment, production, demand and growth; and
- near term physical impacts of acute weather events such as physical damage to assets and infrastructure, operating and supply chain interruptions, destruction of inventory and other such financial impacts.

Beyond our investment horizon, there is a large spectrum of climate related outcomes, ranging from, in the best-case scenario, an orderly transition to a low carbon economy, to, in the worst-case scenario, social, political and economic disorder from the failure to mitigate climate change risks and incurring the full impost of physical climate change.

¹ UN Climate Change Conference (COP21) in Paris, agreement reached 12 December 2015.

5.2 Approach to climate change

DNR Capital recognises that climate change risks and opportunities have the potential to impact investment risks and returns. Material climate change risks are risks that may have an expected impact of 10% or more of the assessed value of the stock. DNR Capital use the following guidelines to identify and assess climate risk and opportunity at the company and aggregate portfolio level:

- 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, material 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 is monitored and tracked over time.

The outcomes of these climate change assessments informs investment decision-making and portfolio construction. Each of these investment processes is discussed in more detail below.

DNR Capital conduct detailed 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 including review of:

- climate governance;
- climate strategy and its implementation;
- climate risk management;
- 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 expected to be 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: Task Force on Climate Related Financial Disclosure (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.

DNR Capital also conduct a biannual ISS Climate Impact Assessment Report to assess aggregate climate risk at the portfolio level. These reports include:

- portfolio emission exposure analysis (carbon footprint and carbon intensity contributors and attribution);
- climate scenario analysis (portfolio compliance with emission budgets and by sector);
- net zero analysis (assessment of quality and alignment of commitments);
- fossil fuel involvement and physical climate risk assessment; and
- the report also provides an assessment of portfolio climate risk using ISS' proprietary "Carbon Risk Rating" (portfolio distribution of scores, top/bottom 5 rated holdings and sector attribution).

The ISS Carbon Impact Report conducts climate change scenario analysis at the portfolio level using the IEA Sustainable Development Scenario (SDS). The SDS is a Paris Accord-aligned scenario and is well aligned with the group of 1.5°C scenarios used in the IPCC SR 1.5 report.

DNR Capital maintain a database of company and portfolio level climate related indicators that is monitored and tracked over time, this includes but is not limited to:

- Net zero commitment;
- Carbon footprint data; and
- ISS Climate Impact Report portfolio and index data.

6 Reporting

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

7 Roles and Responsibilities

7.1 The Board and executive management

The Board and executive level management have formal oversight over and accountability for responsible investment, including climate change, at DNR Capital. Responsible investment initiatives, including climate change, are reflected in executive remuneration.

7.2 Socially Responsible Investment (SRI) Committee

DNR Capital's SRI Committee was established in 2010 and oversees the implementation of our Climate Change Policy and integration of climate change into investment decision-making.

7.3 Investment team

DNR Capital's climate change integration and engagement initiatives are conducted by the investment team. As such, the insight gained from the process is incorporated into the research and investment decision-making process. Responsible investment outcomes, including climate change, 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 conditions
- Organisational standards
- Internal policies and procedures
- Business risk – the risks that failing to consider climate 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 meeting undertakings made to 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 and climate concerns, and by documenting its approach to corporate engagement, DNR Capital intends to mitigate our reputational risk.

9 Monitoring compliance with the Policy

The Head of Risk and Compliance is responsible for monitoring compliance with this Policy.

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 Head of Risk and Compliance 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 Head of Risk and 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 at least each two years 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 Head of Risk and Compliance shall also ensure that any related policies or procedures are reviewed by relevant officers, employees and/or agents. The Head of Risk and Compliance will maintain a schedule of reviews to be undertaken as part of the review of this Policy.

The Head of Risk and Compliance shall report the findings to the Board once the review has been finalised.

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 Head of Risk and Compliance 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 Head of Risk and Compliance to review whether relevant staff have completed the training.

Ongoing training

The Head of Risk and Compliance 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 Policy Owner, in conjunction with the Head 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 Policy Owner and the Head Risk and 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:

- Investment ESG Policy
- Corporate Engagement Policy
- Proxy Voting Policy
- Corporate ESG Policy
- Share Trading Policy
- Conflict of Interest Policy and Procedure
- Investment team policies and procedures
- Risk Management Policy and Procedure.

14 Further information

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