

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

Investments 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 both its regulatory obligations under its Australian Financial Services Licence (AFSL) and broader stakeholder considerations.

In implementing this ESG Policy, consideration is given to 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 given to the principle that the Board and management team will always ensure the company conducts its financial services business in an efficient, honest and fair manner having regard to 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 ESG (Corporate), Climate Change, 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 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 and responsible managers
- DNR Capital's investment team and members of the Socially Responsible Investment Committee (SRIC)
- 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

What is ESG?

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

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 risk-adjusted 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. Once a company is assessed to meet DNR Capital's quality criteria, detailed company analysis and valuation work is conducted to determine whether sufficient risk-adjusted return upside exists. Consistent with DNR Capital's ESG integration and engagement investment strategy, material ESG risks and opportunities are also factored into this assessment. We consider a material impact being an expected impact of 10% or more of our assessed value of the stock. 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, and the SRIC monitor that these analyses are conducted in line with this Policy. DNR Capital currently engage Institutional Shareholder Services (ISS) to provide third party ESG data and research which are used as one of many sources of inputs into the ESG investment process.

ESG score

DNR Capital have developed an ESG scoring system to assess ESG risk at a company level for the High Conviction, Income and Socially Responsible investment strategies. DNR Capital's ESG scoring system considers the relevant company's ESG performance against 9 ESG factors or indicators, grouped under the 'Environmental', 'Social' and 'Governance' categories as set out below.

Environmental:

- Climate change.
- Water
- Eco-efficiency

Social:

- Modern slavery
- Staff
- Society

Governance:

- Corporate governance
- Management quality
- Business ethics

This ESG scoring system results in a 'DNR Capital ESG score' which uses the following inputs and methodology:

- Each ESG indicator above is equally weighted.
- Independent provider, Institutional Shareholder Services (or ISS) provides data that is used to assess the company's ESG performance capability for 8 of the 9 ESG indicators (excluding management quality). DNR Capital may change this provider at any time and as it sees fit.
- DNR Capital's management score for the management quality indicator.
- This process yields an aggregate company score of 0 to 5, with 5 being the highest score.
- The DNR Capital investment team reviews and sense checks all the outputs, in absolute and relative terms, compared to the company's sector data. They may propose an amended company score, supported by appropriate due diligence material, for approval by DNR Capital's SRIC.
- For the DNR Capital Australian Equities Socially Responsible portfolio only – a company must have an ESG score greater than the index average to be eligible for inclusion in the portfolio. The index average is the average ESG score for the portfolio's benchmark, being the S&P/ASX200 Total Return Index. DNR Capital determines the index average by scoring each company in the index using the ESG ratings assessment detailed above and calculating the average.

DNR Capital acknowledge that the data provided by ISS has inherent limitations and is based on ISS proprietary research and publicly disclosed representations from underlying companies. As a result, the data provided may not be a complete representation of a company's ESG indicators. In addition, calculation methodologies may be subject to change.

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 risk-adjusted return upside exists. Consistent with DNR Capital's ESG integration and engagement investment strategy, ESG risks and opportunities are also factored into this assessment.

The outcomes of the ESG ratings assessment and valuation assessment are reviewed to ensure that perspectives are current, as they inform investment decision-making and portfolio construction.

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

Environmental guidelines:

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

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 review of:
 - Employee engagement;
 - Diversity & inclusion;

- Health & safety;
- Local stakeholder relationships; and
- Modern slavery
- Where material social risk is identified, company engagement may be conducted.

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 review of:
 - Board quality;
 - Board composition;
 - Remuneration policy;
 - Management quality;
 - Corporate disclosure.
- Where material governance risk is identified, company engagement may be conducted.

Climate change

DNR Capital supports the long-term goal of the Paris Agreement 1 to limit global warming through reduced carbon emissions. Climate change has been identified by the Board as a material risk and it 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.

Risk register number	Risk description
1.5 Climate Change Risk	At a corporate level, failing to appropriately respond to, or prepare for, an increase in the impacts of climate change.

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 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.
- 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, company engagement may be conducted.

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

Modern slavery

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

Risk register number	Risk description
1.6 Modern Slavery	Failure to have in place processes to identify and review risks of modern slavery practices in operations and supply chains

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 corporate 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; and
- engaging with those service providers to ascertain how they identify and manage modern slavery risks. DNR Capital prepare an annual supply chain review which summarises the outcomes of this process.

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 review of:
 - Modern slavery governance (remuneration alignment, Board experience, engagement);
 - Modern slavery strategy and its implementation;
 - Modern slavery risk management ; and
 - Modern slavery disclosure.
- Conduct biannual ISS Modern Slavery Scorecard Report for each investment strategy
- Monitor and track portfolio modern slavery risk and disclosure for each investment strategy over time
- Maintain database of portfolio modern slavery indicators that is monitored and tracked over time
- Where material modern slavery risk is identified, company engagement may be conducted.

Diversity and inclusion

Diversity and inclusion describes a company's representation of different race, ethnicity, gender and sexual orientation groups. DNR Capital consider diversity and inclusion in assessing a company's culture and employee engagement more broadly. Specifically:

- 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 its 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 an 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.

Negative screening

DNR Capital's Australian Equities Socially Responsible Strategy actively manages and adopts a negative screening strategy, combined with an ESG ratings assessment, ESG integration and company engagement, to deliver responsible investment in the selection, retention and realisation of investments. The portfolio's negative screen precludes the portfolio from owning stocks that derive any revenue from:

- **Tobacco or nicotine alternative products** – production or manufacture of tobacco, tobacco based products or nicotine alternative products.
- **Controversial weapons** – production or manufacture of controversial weapons including biological or chemical weapons, depleted uranium ammunition/armour, anti-personnel mines, cluster munitions/sub-munitions or nuclear weapons and their key components.

The portfolio's negative screen also precludes the portfolio from owning stocks where the company's core business is:

- **Pornography** – production, distribution or sale of pornography.
- **Gambling** – ownership or operation of a gambling related business or manufacture and supply of gambling equipment and systems.
- **Armaments** – production or service of military equipment or civilian firearms.

In determining if the business operation of a company in question is 'core' or 'non-core', DNR Capital considers the relevant business operation's contribution to group gross revenue, inclusion in company strategy and intended allocation of capital. Where the gross revenue contribution of the relevant business operation is 10% or greater it is deemed "core", and 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". Where the company intends to allocate 10% or more of its capital towards the relevant business operation, the business is deemed "core".

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. Risk culture measures are reflected in executive remuneration.

Socially Responsible Investment Committee

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

Investment 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. Risk culture measures 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 meeting the undertaking made to its 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 Head of Risk & Compliance 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 part of an operational due diligence review.

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 and Procedure.

Where instances of non-compliance with the Policy have been identified the Head of Risk & 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 & 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.

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

11 Training on the Policy

As the investment team are 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 Senior ESG Investment Analyst 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 Human Resources to review whether relevant staff have completed the training.

Ongoing training

The Senior ESG Investment Analyst will also provide refresher training on the Policy 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 of 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
- ESG (Corporate) 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.