

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 ESG factors may be a determinant of company quality and may impact a company's risk and return outlook. DNR Capital has adopted an ESG integration and stewardship strategy to identify, assess and monitor ESG risks and opportunities which is outlined in our ESG Policy. This Climate Change Policy (the Policy) supplements our ESG policy and outlines our specific approach to climate change risk.

This Policy has been approved by the Socially Responsible Investment Committee (SRIC) 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.

While DNR Capital integrates climate-related considerations into its investment process, this does not imply that portfolios exclude high-emitting companies, are aligned with any specific climate pathway or will achieve environments or sustainability outcomes unless explicitly stated.

Where there is any doubt as to the requirements contained in this Policy, regard is had 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), ESG (Investments) and Stewardship 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 identifying, assessing and monitoring climate change risks in its investment process.

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 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.

Policy coverage

This policy does not apply to the Emerging Companies Strategy, please refer separately to the Emerging Companies ESG and Stewardship Policy and Procedure.

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.

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 recognises that climate change, along with other ESG factors, can be a determinant of company quality and may impact a company's risk and return outlook. DNR Capital has adopted an ESG integration and stewardship strategy to identify, assess and monitor climate risks and opportunities. Where DNR Capital may invest in a company with identified climate risk, the forecast return is expected to compensate for the risk. This approach reflects a risk-return framework and should not be interpreted as prioritising emissions reduction or climate outcomes over financial performance.

Climate-related risks considered include:

- **Transition risks** arising from 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, carbon pricing, changes in consumer preferences, capital investment, obsolescence of existing assets, reputational risk, litigation risk and mandatory climate reporting requirements.
- **Physical risks** arising 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, wildfires or heatwaves. 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;

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

- 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.

5.2 Approach to climate change

DNR Capital recognises that climate change risks and opportunities can be a determinant of company quality and may impact a company's risk and return outlook. In assessing climate-related factors, DNR Capital applies internal judgement informed by external frameworks, using the following guidelines to identify, assess and monitor climate risk and opportunities 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 stewardship investment strategy, climate change risks and opportunities are also factored into this assessment.
- Where identified climate risks or opportunities are deemed to impact our view on a company's risk and return outlook, we will conduct corporate engagement with the company.
- DNR Capital conduct a biannual ISS Climate Impact Assessment Report to assess aggregate climate risk at the portfolio level.
- Climate related controversies are monitored using ISS' norms-based research.
- DNR Capital maintain a database of company and portfolio level climate related indicators that is monitored over time.

The outcomes of these climate change assessments inform 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 an identified climate risk or opportunity is deemed to impact our view on a company's risk and return outlook, we will conduct detailed assessment, which may include a review of:

- climate governance and strategy;
- climate risk identification and management;
- quality of net zero strategy and progress against thereof, reliance on offsets;
- climate scenario analysis,
- physical climate risk assessment; and
- climate disclosure.

Where an identified climate risk or opportunity is deemed to impact our view on a company's risk and return outlook, DNR Capital may 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 corporate 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: 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;
- climate disclosure: Australian Sustainability Reporting Standards (ASRS) compliance, quality and granularity of climate scenario analysis;
- net zero commitment: 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: risk assessment, asset resilience and capex budget.

DNR Capital's climate change engagement initiatives are conducted in line with our Stewardship Policy. DNR Capital's climate change engagement 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. Engagement activities are intended to inform investment decisions and cannot guarantee that engagement will result in measurable climate-related improvements.

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);
- net zero analysis (assessment of quality and alignment of commitments);
- fossil fuel involvement;
- 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 Climate Impact Assessment Report conducts climate change scenario analysis at the portfolio level using the IEA suite of scenarios, at least one of which is aligned with the Paris Accord.

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

- Net zero commitment;
- Portfolio carbon footprint for each investment strategy;
- ISS Climate Impact Assessment Report portfolio and index data.

DNR Capital acknowledge that ESG data, ratings and research provided by third parties involve assumptions, estimations and differing methodologies, and should not be interpreted as precise or complete representations of a company's ESG performance.

6 Reporting

DNR Capital will report to clients on climate related investment and engagement initiatives through an annual Stewardship Report, client reporting, marketing presentations and bespoke client requests. All climate-related disclosures and reports must be reviewed in accordance with DNR Capital's compliance framework prior to release.

6.1 Green washing safeguards

DNR Capital seeks to ensure that climate related statements in its reports:

- Accurately reflect the investment process and outcomes
- Do not overstate the level of climate integration or impact
- Are consistent across policies, disclosures and marketing materials.

This Policy is also available publicly on the DNR Capital website.

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.

7.2 Socially Responsible Investment Committee

DNR Capital's SRIC was established in 2010 and oversees the implementation of our Climate Change Policy. SRIC is a subcommittee of the Board delegated Investment Committee (IC).

7.3 Investment team

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

8 Risks of non-compliance to the company

- **Regulatory risk** – the risk that the company, its officers, employees or agents will be subject to criminal, civil or administrative penalties or sanctions. This may include licensing actions, enforceable undertakings, investigative action, or total loss of licence for non-compliance with:
 - Financial services laws and regulations
 - The AFSL 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 because 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. DNR Capital intends to mitigate our reputational risk through the implementation of robust climate risk management processes.

Risk register number	Risk description
5.7 Greenwashing risk	Failure to have in place processes to identify false, misleading or unsubstantiated claims about the positive environmental impact of a financial product or service

Controls to mitigate greenwashing risk include:

- Internal review and approval of ESG-related disclosures
- Maintenance of supporting evidence for climate related disclosures
- Periodic review and alignment between policy, portfolio holdings and external communications.

9 Monitoring compliance with the Policy

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

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 because 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

Training on the policy is incorporated into the induction for new investment team members, amendments to the policy are communicated to the investment team through the SRIC approval process and regular team meetings.

To facilitate transparency, this policy is also made available on the company's intranet.

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 & 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:

- ESG Policy (Investments)
- Stewardship Policy
- Emerging Companies ESG and Stewardship Policy and Procedure
- ESG Policy (Corporate)
- 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.