Bell
ASSET MANAGEMENT

ESG Investment Policy

Environmental, Social and Governance (ESG) Policy Incorporating United Nations Principles for Responsible Investing (UN PRI)

Approved by the Governance Committee

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ESG Investment Policy

Background

This policy sets out the policy of Bell Asset Management Limited (BAM) in respect of Responsible Investing. It incorporates by reference the existing BAM Proxy Voting Policy and any specific proxy voting guidelines which are adopted under that policy.

It relates to all funds and portfolios where Bell Asset Management Limited acts as investment manager.

BAM's approach incorporates a number of characteristics:

UNPRI

BAM is a signatory to the United Nations Principles for Responsible Investment and complies with its obligations as a signatory. An description of how we comply is described below.

Fiduciary Obligation

BAM's fiduciary obligations to investors are of paramount importance, and include strict compliance with government regulation, constituent documents and client facing agreements. Application of this policy and of the UN Principles for Responsible Investing must be in a way which is consistent with these overarching obligations.

Client Primacy and Client Instructions

Where BAM has been appointed under an investment management agreement or similar mandate, Client instructions in respect of ESG and/or proxy voting matters are regarded as direct instructions from the beneficial owner of the underlying assets and are actioned on that basis. These client instructions will be integrated into both the portfolio construction and order management processes and overseen by Compliance.

Targets

It is our policy to exceed the ESG score at portfolio level with reference to the relevant benchmark on every fund or account we manage. This is reported to and monitored by the Governance Committee no less than annually.

Investment Process

Any PRI or ESG principles must be effectively embedded in the existing investment management process. The BAM investment process is highly structured and repeatable. It has a number of specific phases, with assessment of these characteristics incorporated within the fundamental research phase. This is defined in detail elsewhere in this policy under the heading of Investment Policy and Process.

We utilise ESG integration in the management of all funds and accounts. This requires:

- ESG consideration in all fundamental stock analysis
- ESG measurement in all stock recommendations
- Portfolio level ESG targets to be considered in portfolio construction
- Use of specialist external ESG research in all stock recommendations
- Feedback from proxy voting engagement and research to stock analysts
- Integration of screening at account level into the order management system.
- Integration of screening at account level into the portfolio construction process

We do not select otherwise unacceptable investments on the basis of ethical or moral grounds.

We use screening where specific exclusions have been agreed or applied at account level.

These are to be integrated into the Mandate Compliance process and integrated with the Order Management System. This process is overseen by Compliance and reviewed no less than annually.

Training

ESG and UNPRI relevant training is mandatory for all Portfolio Managers and Analysts. The annual training target is set in consultation with Compliance who then monitors timely completion.

Acceptable training includes but is not limited to

- CFA courses/subjects relating to ESG
- UNPRI Academy
- Kaplan online training
- Webinars by service providers such as MSCI, Sustainalytics, CGI Glass Lewis

- On site face to face training

Engagement

BAM is an active signatory member of the UNPRI Community and participates in engagement via UNPRI forums and functions.

In addition, BAM will always participate in at least one UNPRI Sponsored Collaborative Engagement Program. The program in which we participate will be prioritized and selected according to standard criteria by the Governance Committee.

It is the policy of BAM to engage with underlying companies using the proxy voting process. Other more direct engagement may be entered into (e.g. in one-on-one meetings with investee company representatives) and may be reported to the Governance Committee by the ESG Investment Officer.

It is our approach that BAM will engage with investee companies and researchers directly in order to seek and obtain sufficient ESG disclosure to meet's BAM's investment process requirements.

Using outsourced service providers we engage with investee company companies on proxy voting matters, particularly those where we disagree with management recommendations.

Feedback and research from engagement and proxy voting is provided to investment management staff and taken into account in decision making.

Responsibility and Accountability

The overall ESG Governance framework incorporates the Governance Committee as the entity which oversees compliance with the individual responsibilities of nominated staff. The Governance Committee is a Board subcommittee and its minutes are provided to the Board.

An ESG Investment Officer must be appointed. The ESG Investment Officer must be a permanent member of the Governance Committee and report on ESG matters as a permanent agenda item of that Committee.

The Chief Investment Officer is responsible for ESG research, implementation and monitoring.

In addition, Portfolio Managers are accountable for the compliance with ESG restrictions and the achievement of portfolio ESG targets.

Compliance is responsible for the screening and mandate compliance processes and for meeting mandatory training requirements.

Compliance is responsible for the operation of Proxy Voting and the publication of proxy voting records.

Monitoring and Reporting

The Investment Management function is required to:

- Take ESG or PRI components into account in the management assessment phase of the fundamental research phase of the investment process
- Using MSCI data, periodically monitor the relative MSCI ESG scores of the portfolio versus the relevant index
- Periodically confirm to Compliance that the ESG performance target has been met on all accounts.
- Periodically monitor the Portfolio Composition by ESG Ratings (AAA (best) > CCC (worst)
- Periodically report to the Governance Committee and the ESG Officer in respect of the Overall Portfolio Score vs Index (in this case MSCI World) and the Portfolio Composition by ESG Ratings

BAM purchases MSCI ESG research, providing access to all ESG research and scoring of individual companies, enabling quantitative analysis of portfolios against the relevant portfolio benchmark to show relative portfolio ESG scoring.

BAM also purchases ESG specific Proxy Voting research and integrates this with the investment process.

UN PRI Principles – Policy Compliance Assessment

The United Nations Principles for Responsible Investing (UNPRI) requires signatories to commit to six key obligations.

BAM is a signatory to the UN PRI and is cognisant of the requirements and our policy for confirming with the six components of the UNPRI approach is as follows:

Principle 1 – We will incorporate ESG issues into the investment analysis and decision making process.

ESG data is provided to all investment staff at security and portfolio level using research from internal and external sources.

ESG is taken into account in a specific step in the formal investment process and ESG performance is a formal investment target or objective.

Senior management periodically confirm the availability of the data and its application in the investment process to the Governance Committee.

Senior investment management staff periodically report the relative ESG scores of the each portfolio versus the relevant index in order to monitor the achievement of our target or outperforming the relevant index at portfolio level in every account.

Institutional clients are encouraged to apply account level ESG screens, which are integrated into the portfolio construction and order management processes.

Mandatory training in ESG is applied to investment professionals.

Principle 2 – We will be active owners and incorporate ESG issues into our ownership policies and practices.

It is BAM policy to vote holdings unless voting results in the holding becoming illiquid. The formal proxy voting policy has been adopted and is made available to clients and prospective clients.

Annual reports relating to proxy voting are available to clients upon request and are published on our website.

Detailed proxy voting guidelines which relate specifically to ESG and governance have been adopted and are applied.

We collaborate with asset owners who direct us to vote positions in accordance with their instructions.

Using outsourced service providers we engage with investee companies on all ESG Voting matters, in particular those where we disagree with management recommendations.

We monitor and internally report on the proportion of votes cast and the proportion of votes which are in favour of or against management recommendations.

Principle 3 – We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Our proxy voting guidelines support shareholder initiatives and resolutions promoting ESG disclosure.

BAM staff meet with representatives of investee companies and, where relevant, discuss ESG issues directly. It is our policy to actively and directly engage with investee companies to seek the level of ESG disclosure necessary for us apply our investment process effectively.

Principle 4 – We will promote acceptance and implementation of the Principles within the investment industry.

BAM is a signatory to the United Nations Principles for Responsible Investment, and a member of Responsible Investment Association Australasia (RIAA).

BAM participates in at least one UNPRI Sponsored Collaborative Engagement Project at all times.

BAM participates in industry level voting for recognition awards on ESG research in order to promote this practice in the broking industry.

Principle 5 – we will work together to enhance our effectiveness in implementing the Principles.

BAM is a signatory to the United Nations Principles for Responsible Investment, and a member of RIAA.

BAM participates in UNPRI and RIAA forums in order to engage with other signatories. One of the purposes of RIAA is to provide a forum for PRI signatories to work collaboratively in order to assist compliance with this principle.

Principle 6 – We will each report on our activities and progress towards implementing the principles.

BAM Policy – BAM meets all reporting obligations under UNPRI.

In addition our engagement statement is published on our website, as is our Proxy Voting history.

Our UNPRI/ESG policy is available go institutional investors as is our Proxy Voting Policy. This policy contains specific requirements for reporting ongoing compliance and exceptions to the BAM Governance Committee.

This policy contains specific requirements for reporting relative MSCI ESG scores relating to portfolios and their relevant indicies to the BAM Governance Committee.

Investment Policy and Process

Our global equities strategy investment approach is best described by the following characteristics:

- Active approach
- Fundamental / Bottom-up
- Quality at a Reasonable Price (QARP) bias
- Long term / Low turnover
- High level of risk awareness
- Portfolio characteristics: Very high quality without paying a premium for the portfolio.

Our global equity strategy has been specifically designed to outperform consistently through all market conditions. Over time we have managed to achieve this goal by maintaining a balance of the aforementioned characteristics at all times.

The normal time horizon for investments is three to five years.

Every stock in a portfolio managed by BAM must go through the consistent BAM Investment management Process. This is characterized by five phases

Phase 1	Establish Universe
Phase 2	Idea Generation
Phase 3	Quality Test
Phase 4	Valuation
Phase 5	Portfolio Construction

The mandatory consideration of ESG or PRI characteristics is required as part of phase three during the Quality Test phase.

The application of screening is required in phase five

The application of ESG targets is required in phase five

Phase 1: Establish Universe

We screen for companies which meet the following criteria:

a) MSCI developed market risk country,

b) Market Capitalization in excess of A$1 billion, and

c) Return on Equity in excess of 15% for three consecutive years – 2 years historic and the current year forecast.

This typically reduces our universe to approximately 900 companies at any one point in time. It should be noted that we do invest in non-index constituents. To provide some perspective, when we run this filter across the MSCI World (ex-Australia) constituents – approximately 25% pass our initial filter. The universe is managed on a real-time basis with Bloomberg as the primary screening tool.

It is important to note that the turnover in the universe is quite limited. Given the relative stability of our universe, we are able to build greater ongoing familiarity with a stable group of companies over a long period of time.

The underlying purpose of this stage in the process is to have an unbiased way to:

a) Eliminate volatile / poor quality companies from consideration.

b) Focus our research efforts on the highest quality companies.

We believe that alpha generation is as much about avoiding poor quality companies as it is about investing in strong ones. This stage of the process helps us do both.

Phase 2: Idea Generation

At this stage we aim to refine our starting universe into a more workable short-list of companies which have 'best-fit' quality characteristics.

We use a combination of techniques to generate and prioritise ideas:

a) We use the 'Quality score' which is a proprietary multi-factor scoring model. The model takes into account various financial measures under three broad criteria – Profitability, Financial Strength and Growth. The vast majority of the measures are historic in nature and hence are designed to give us a very accurate view on companies relative to each other at a single point in time. Companies are awarded a score from 1 – 20. This provides extremely valuable investment perspective on how a company compares to others.

b) Secondly, we also use screening techniques to identify companies which meet specific criteria. There are several different models we use which are all designed to identify companies with optimal quality characteristics. The Quality score and screening techniques are managed through Bloomberg.

c) Additionally, the investment team travels extensively to undertake research on existing companies in the portfolio and new ideas. Meetings with a new company that passes our screening criteria as per Step 1 above can help us to decide whether further research is warranted and also helps in prioritising our work on new ideas. It is during these meetings that we seek additional ESG data where we believe the disclosure or explanation is inadequate for our needs.

Phase 3: Quality Test

The quality test is where we make a judgement call on whether a company is considered to be high quality or not.

We consider five broad factors in our assessment:

1. Management
2. Franchise Strength
3. Profitability
4. Financial Strength
5. Business Drivers

As a general rule, if we believe a company fails badly on any one of these attributes, the company will fail the quality test. We will only consider companies which pass this test for inclusion in the portfolio.

At any one point in time there are approximately 250 companies that we would consider investable. We use an internal research portal called 'Shareholder' as the primary source of all research notes we generate. These notes are available to all members of the investment team which gives everybody insight into all research projects in progress. It is also an invaluable tool in building a library of views on companies over an extended period of time. Over time, the investment team has built up a library of over 9,000 proprietary research notes/thesis on more than 1,450 companies.

Only companies who are assessed as having high "quality" under these drivers are available for investment.

The assessment of "management quality" must incorporate an assessment of governance as a central element of the assessment. We observe that a strong governance culture and a lack of events characterised as poor governance examples has a high correlation to management quality.

In addition each company's reported ESG/ PRI scoring must be considered in the assessment of every company. It is the responsibility of the ESG Officer to confirm that ESG research is available to analysts and portfolio managers, and to confirm this periodically to the Governance Committee. As at the date of this policy document, this is supplied to all relevant investment staff through their Bloomberg subscriptions and through the MSCI ESG research subscription and through the provision of CGI Glass Lewis/Sustainalytics proxy voting research.

It is the responsibility of the Chief Executive Officer to ensure that the ESG/PRI scoring is taken into account in this assessment, and to confirm this periodically to the Governance Committee. For the avoidance of doubt we note that while disclosed ESG data must be taken into account there are no specific ESG metrics which must be considered or met.

Phase 4: Valuation

Once a company is deemed to be high quality, only then will we consider valuation.

We look to invest in companies that are potentially undervalued at a single point in time, while also seeking to invest in companies with the best possible long term return expectations. Our investment time horizon is 3+ years, but we value companies based on an appropriate earnings multiple applied to our earnings estimate on a rolling basis, 1 to 2 years ahead.

Our return expectations are a function of a) expected valuation change and b) earnings growth. The earnings multiple we assign to a company is essentially a function of the company quality – i.e. we are prepared to pay a higher multiple for a very high quality company. The below slide outlines the valuation process in more detail:

Phase 5: Portfolio Construction

We manage our portfolios in a diversified manner with a view to optimizing our risk-adjusted returns. The descriptions below are guidelines and are to illustrate the approach – for the avoidance of doubt it is not a policy breach to move outside these limits. Specific "hard" limits are set in client Investment Management Agreements, Fund documents and disclosure documents.

- We typically hold around 90 to 110 stocks in the portfolio at any one point in time.
- Our annual turnover has been 33% p.a., approximately half of which has been in the form of adding / trimming existing positions.
- Our maximum active weight is +2%
- Our position sizes are all relatively similar and the bulk of our positions would have active weights from 70-130 bps, although there will be a handful of positions outside of the range from time to time.
- Our active position sizes are essentially a function of our perceived balance of quality and value at a stock level – i.e. the bigger active positions will be those which we believe have very good quality attributes and the stock is undervalued.
- We have no regional or sector limitations. The reason being that we do not want to find ourselves in a position where we feel forced to own a position in a country or geography when we don't feel compelled to do so from a bottom-up, fundamental perspective.
- Our maximum cash position is 5%

Screening is applied to portfolios during the portfolio construction phase, at three stages:

a) In Portfolio Manager Construction, Portfolio Managers may only add stocks to the portfolio which are not subject to screens.

b) In order management, the OMS is set up with integrated screens to prevent the purchase of stocks which are subject to screening, or to flag for independent review and approval stocks which may be subject to screening after further ESG analysis.

c) Compliance conducts passive. Post trade testing to ensure compliance with screening.

Processes relating to mandate compliance and compliance with screening requirements are maintained in the Mandate Compliance Matrix which is reviewed annually and managed by Compliance.

The consideration and monitoring of the ESG targets is also the responsibility of Portfolio Managers at this stage.

Risk Management

- We have a multi-layered approach to Risk Management.
  - Stock level
  - Portfolio level – we use tools such as UBS PAS and Bloomberg PORT
- We believe the most important type of risk is absolute risk, i.e. the risk of losing money.
- We are happy to deviate from the benchmark in the interests of reducing absolute risk.