

Ausbil Investment Management

May 2019

Environment, Social and Governance (ESG) Policy

Our purpose is the integration of ESG for better-informed investment decisions, with active engagement and proprietary ESG research

ESG—philosophy, principles and policy guide

- Policy: ESG in our investment process
- Policy: Our active ESG engagement approach
- Policy: Our ESG governance principles and proxy voting guide

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Ausbil ESG: Philosophy, principles and policy framework

1. Executive summary

- ESG integration means two things to Ausbil:
 - active ownership and engagement on ESG issues, and
 - better-informed investment decisions, which can lead to better investment outcomes.
- Ausbil actively integrates ESG in investment decision making, in selecting and rejecting investments, in ongoing active engagement and in actively voting at company meetings.
- Ausbil has an in-house ESG Research Team that produces proprietary ESG research on Australian-listed companies, focusing on the link between ESG issues and Ausbil's investment philosophy that earnings revisions and earnings sustainability drives share prices.
- Ausbil's in-house ESG Research Team also develops and supports the ESG methodology applied across our global investment funds.
- ESG-related engagement is predominantly undertaken directly with companies. Ausbil does not seek to publicly broadcast its positions, or be perceived as an 'activist' investment manager, unless this is warranted to achieve a better outcome for shareholders.
- Ausbil promotes interactive, transparent dealings with clients on ESG engagement activities, including in relation to our voting activities.
- Ausbil is a signatory to the Principles of Responsible Investment (PRI) and actively participates in a range of other industry bodies.

2. ESG integration for better-informed investment decisions

At Ausbil Investment Management (Ausbil), our purpose is the integration of ESG (environmental, social and governance) factors for better-informed investment decisions, by taking an active engagement and ownership approach, and seeking to increase the investible universe of highly-rated ESG companies.

We believe that the integration of ESG research, with active engagement, can help identify mispriced securities in an active investment approach, more holistically assess a company's earnings sustainability, drive long-term value and reduce the risk of value destruction. For these reasons, Ausbil has integrated ESG in the investment process for all our investment funds and institutional mandates.



Source: Ausbil

Ausbil has a duty to act in the best interests of our beneficiaries. In this fiduciary role, we believe that ESG issues are not only central to our fiduciary duty, but can profoundly affect the underlying performance of our investment portfolios.

As such, we operate under the following principles:

- capital flows have the power to drive change,
- proprietary ESG research can deliver unique insights,
- ESG integration can lead to better informed investment decisions,
- active ownership and engagement on ESG issues can reduce the risk of value destruction,
- working with companies is the most productive form of engagement, and
- collaborative engagement can reduce systematic ESG risk.

We are a signatory to the United Nations-backed Principles for Responsible Investment (PRI). Within the Investment Team, we have a dedicated ESG Research Team generating original proprietary ESG research, spearheading Ausbil's engagement of companies on ESG issues and actively managing Ausbil's share voting rights and obligations from an ESG perspective.

Ausbil also participates in global ESG developments and collaborations through a number of initiatives, including membership of the:

- *PRI Australian Network Advisory Committee*
- *Responsible Investment Association Australasia (RIAA)*,
- *Investor Group on Climate Change Australia and New Zealand, (IGCC)* and participation in Climate Action 100+, and the
- *Investor Alliance for Human Rights*.

ESG is fundamentally embedded in Ausbil's investment philosophy

We believe share prices are driven by earnings, and earnings revisions. We also believe markets are efficient, but not perfect. As active investors, these market inefficiencies offer the opportunity for outperformance.

Ausbil believes ESG works to strengthen our investment decision process, through better-informed investment decisions, including:

- pre-emptive identification of earnings risks from a broader ESG perspective,
- greater insight when forming a view on earnings versus consensus forecasts,
- deeper and broader assessment of management quality and effectiveness,
- identification of fundamental risks and opportunities in a company's business model that may have been overlooked or misunderstood by the market, and
- expansion of the investment universe of highly-rated ESG companies as they improve their ESG performance, transparency and reporting.

Our ESG Research Team is fundamentally embedded in our investment team

While all Investment Team members are responsible for ESG integration, Ausbil has a dedicated in-house ESG Research Team responsible for the overall application of ESG disciplines within the investment process for Australian listed equities (including proprietary ESG research), the application of ESG research for globally listed equities, and all voting matters (including selective engagement) related to Ausbil's local and global holdings.

Additionally, this dedicated team is the contact point for governance and engagement issues, and responsible for the coordination and dissemination of proprietary in-house ESG research, and ESG research sourced from third-party providers.

For the broader investment team, formal ESG discussion is conducted within every daily, weekly and monthly Ausbil investment meeting, as an embedded part of our investment consideration of countries, sectors and stocks.

3 Policy: ESG integration in our investment process

Ausbil's policy on ESG begins with the implementation of ESG in the investment decision making for all our funds.

Our ESG team sits within our investment team, contributes to analysis of companies, undertakes proprietary research on Australian listed companies, provides ESG advice and guidance on global security holdings, and advises on the ESG impact in company models and valuations.

We have integrated ESG into the investment process for all the funds we manage in Australia and globally, as we believe good ESG practices improve the sustainability of earnings, and materially reduce the risks to those earnings.

We believe ESG improves the risk profile of returns

Ausbil believes the inclusion of ESG in the investment process, supported by well-founded ESG research, can improve our ability to identify mispriced stocks, assess a company's earnings sustainability and, ultimately, lead to better-informed investment decisions. Ausbil believes that ESG factors can impact the performance of investment portfolios, and add value in excess return (alpha), over both the short and long term.

Ausbil believes companies that do not successfully address ESG issues may be subject to higher unassessed risk and, potentially, lower valuation. By contrast, companies that proactively and successfully manage their key ESG issues are likely to achieve higher valuations as they demonstrate improved sustainability in earnings, and positive growth in their businesses.

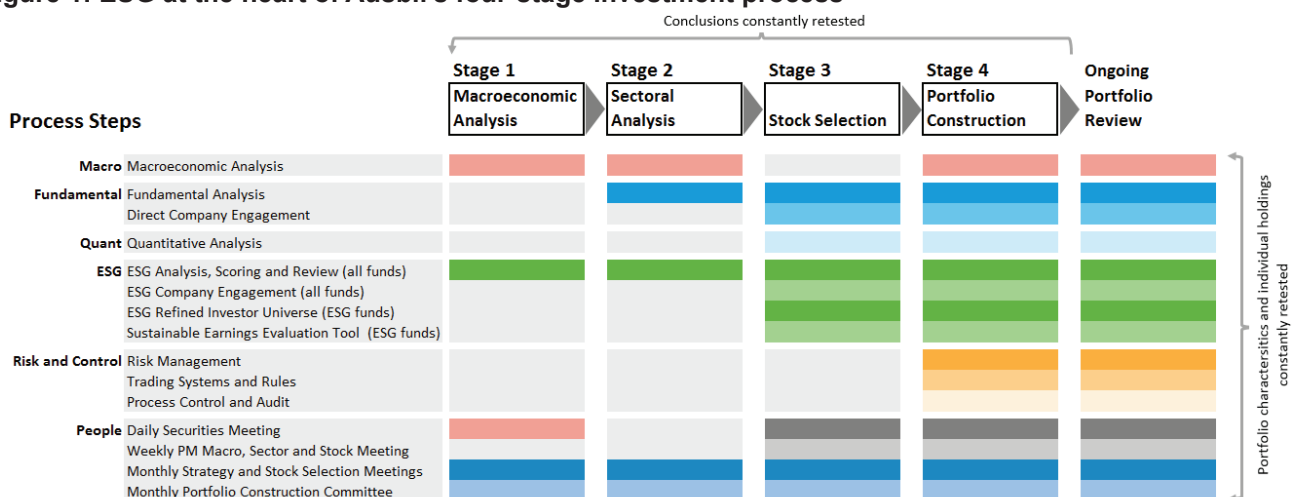
Increasingly, a significant portion of a company's value comes from intangible drivers. The analysis of these factors provides additional insight into both management quality and the earnings profile of a company, and may provide alpha generating opportunities where these factors are not yet fully appreciated by the broader market.

Taking an active approach to allocating capital towards companies with better ESG practices, and away from companies whose practices are poor or deteriorating, provides a powerful incentive for positive ESG behaviours in companies.

Backing this in actively exercising our voting rights, and engaging and monitoring ESG behaviour, helps fulfil our fiduciary duties to investors, and helps companies improve their environmental, social and governance practices, impact and record.

Ausbil employs a four-stage investment process. The fundamental place ESG holds in this process is illustrated in Figure 1.

Figure 1: ESG at the heart of Ausbil's four-stage investment process



Source: Ausbil

Ausbil's four-stage investment process incorporates ESG to various levels of depth, culminating in the deepest ESG application at stage 3, security selection. The four key investment stages are described as follows.

Macroeconomic Analysis

Stage 1 focuses on macro and market analysis. This involves assessment of the market conditions impacting the global and Australian equities markets to determine the macro framework and set portfolio strategy. We take ESG considerations into account at the macro level, and at the country level for ESG characteristics and regulation, and global regulatory developments.

Sectoral Analysis

Stage 2 involves sectoral and regional analysis, regional being included for our global funds. This stage includes focus on the early identification of sectors subject to earnings revisions—upward and downward—over the coming 12 months. ESG figures in sectoral ESG considerations which help inform how security selection is undertaken at stage 3.

Security Selection

Stage 3 involves security selection. At this stage, we identify the securities we believe will achieve the greatest 12-month outperformance within the investment universe.

Given our belief that earnings and earnings revisions lead security prices, the primary objective is to investigate and assess all facets impacting on each company's earnings profile. At this stage, we undertake deep fundamental research, including stock-specific ESG research and scoring (proprietary in-house ESG research for Australian equities), sustainable earnings analysis, analysis of management quality, company visitation, and deep company valuation. Ausbil values companies relative to the investible universe using a proprietary quant-based ranking and valuation model, FERRET (Forecast Earnings Relative Ranking Evaluation Tool).

For certain products, such as our Ausbil Active Sustainable Equity Fund and ESG Focus strategy, our ESG process includes refining the investible universe by applying a negative screen based on ESG criteria. Thereafter, a proprietary tool – the Sustainable Earnings Evaluation Tool (SEET) – guides our stock selection.

Portfolio Construction

Stage 4, portfolio construction, is where the output from the three previous stages is used to construct our portfolios, including the key ESG considerations in our decision process.

This four-stage investment process then forms a perpetual analytical and evaluation framework for the securities which we hold in our portfolios, as assumptions and holdings are continually tested, and retested. All holdings must compete for their place within our portfolios, including on their ESG performance, which is reviewed and assessed on an ongoing basis.

In constructing portfolios, Ausbil includes ESG considerations in allocating trades to brokers. Ausbil engages a panel of institutional stockbrokers for the execution of trades. Trading large lines of securities can be complicated, strategically challenging, and may take time. Broking execution is a specialised expertise, the aim being to achieve maximum execution of orders at best prices. Ausbil's ESG Team is actively involved in the process of establishing selection criteria for institutional brokers.

Customised ESG portfolios for institutions

Ausbil is able to design specific requirements (such as stock exclusions) for institutional IMA (Investment Management Agreement) clients. Under an IMA approach at Ausbil, clients can add specific ESG exclusions, themes and focuses to their ESG mandate.

In addition to an annual ESG engagement report for public consumption, reporting to clients is customised to specific ESG reporting requirements, as contained within each IMA. Ausbil currently provides clients with a voting and engagement activity report upon request, or as agreed to within the terms of the IMA. Ausbil also produce an annual voting summary which is provided to clients, and is available publicly on our website www.ausbil.com.au.

4 Policy: Our active ESG engagement approach

Ausbil prefers to directly engage with companies in achieving progress on ESG issues. However, Ausbil also participates in a number of collective and industry engagement initiatives where appropriate. Ausbil reports on engagement activities annually through an ESG engagement report, the latest of which is always available on our website www.ausbil.com.au.

How we engage companies on ESG

Ausbil's view is that engagements on ESG issues can contribute to better-informed investment decisions, preserve invested capital, and may also expand the investible universe.

Ausbil views engagement with companies as part of the initial due diligence process, as well as ongoing monitoring of a company's performance where items of concern are raised during company meetings.

The ultimate aim for our engagement strategy is to increase the investible universe of highly-rated ESG companies through increasing ESG integration.

Identification and prioritisation of ESG-related engagements

ESG engagement opportunities are typically identified through Ausbil's proprietary ESG research and / or research by Ausbil's Investment Team.

For Australian equities, Ausbil issues an internal ESG engagement plan on an annual basis, which outlines rationale, planned activities, engagement and objectives, including milestones and measures for success.

Ausbil prefers to directly engage with companies. Ausbil's active engagement program is prioritised on the basis of materiality, Ausbil's expertise and engagement history, relevance to portfolio holdings, analysis of an upcoming company meeting or corporate action, and client interest. In addition to company-specific engagement, Ausbil occasionally participates in collaborative engagements with other investors, and engages with policy makers, as appropriate.

Engaging with leaders and decision makers

Ausbil has extensive corporate access and regularly engages on ESG issues with key decision makers such as executive management, the Board, and other company representatives. This enables Ausbil to raise ESG issues directly at the decision-making level.

At Ausbil, we believe in the power of shared knowledge, so we take a team-based approach to engaging in ESG. Our engagement activities at the company level are typically carried out jointly by a portfolio manager, the relevant stock analyst and a member of Ausbil's ESG Research Team. This brings a holistic view to each company, and underscores the importance of our ESG engagement when it is combined with our fundamental financial analysis of companies. Many views on the issues help us refine our position and approach in our ESG engagement.

Types of engagement

Ausbil engages directly with companies in different ways, including, but not limited to:

- meetings with chairpersons, boards, chief executives, business leaders, and IR and ESG specialists,
- investee company presentations to Ausbil's investment team,
- attendance and participation in investee company-sponsored site visits, attendance and participation in institutional presentations delivered by the investee company,
- voting (or attendance) at company meetings, and
- through written communication with the CEO or board of directors of an investee company, as required.

Ausbil's engagement activities typically comprise:

- focused company engagements: Typically sourced from Ausbil's proprietary ESG research, with specific engagement objectives,

- ongoing engagements: Regular contact with companies and the encouragement of best practice,
- exercise of voting rights: Voting according to Ausbil's Corporate Governance Policy and voting guidelines. Ausbil may also seek to influence company policy through discussion with management,
- industry engagement: Typically comprises engagement through industry initiatives and / or engagement with a wide range of companies in a particular industry, for instance on issues of a systemic nature, and
- engagement with regulators: Engagement with policy makers, either directly or on a collaborative basis.

Monitoring of engagement outcomes and escalation strategies

Companies' responses to engagement are monitored and directly captured by Ausbil's proprietary ESG research in an extensive engagement database. This carries the history of engagements, issues, contacts and outcomes / follow-up activities that ensures Ausbil maintains a watching brief on all critical issues, and the companies with which we have engaged.

Some engagements have natural timelines / milestone objectives, while others have broader objectives. Escalation strategies depend on the type of ESG issue and its materiality. Ausbil may take one of many actions, such as continued engagement, reduced holding or divestment, collaborative investor action, exercise of our voting rights, or any combination of these approaches.

Topic areas in which we engage

Ausbil engages on a wide range of ESG factors, including various industry-specific or company-specific ESG factors, with the aim of promoting industry best practice. These are not limited to, but may fall into, one or many of the following categories:

Environmental

- Environmental risk management systems, standards and certification.
- Environmental footprint reporting.
- Climate change scenario analysis.
- Process safety.
- Waste management and recycling.

Social

- Supply chain risk management and responsible sourcing.
- Human rights.
- Workplace management and human capital development, diversity and engagement.
- Occupational health and safety systems, standards, certification and reporting.

Corporate Governance

- Executive remuneration and alignment with shareholders.
- Equal treatment of shareholders.
- Transparency and integrity of financial statements.
- Board diversity and structure.
- Sustainability reporting and transparency on ESG risk management.

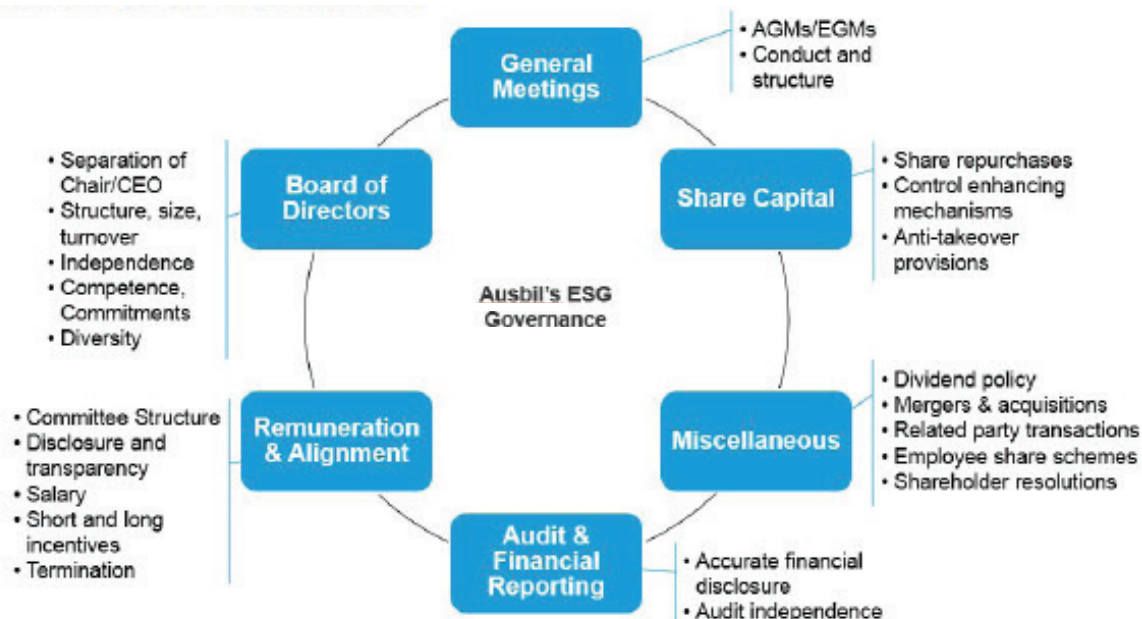
ESG engagement reporting

ESG engagements are reported internally, to the investment team, on a regular basis and quarterly to clients, as applicable. Ausbil also issues an annual engagement report which is publicly available, outlining key engagement activities during the year, including a rationale for engagement, engagement activities undertaken and their outcomes. Read our most recent annual report, accessible on our website at www.ausbil.com.au.

5 Policy: Our corporate governance principles and proxy voting guide

Ausbil has long operated under a formal Corporate Governance Policy which guides our voting analysis and decisions. Figure 2 summarises our governance and voting policy under specific focus areas.

Figure 2: Ausbil's Corporate Governance Framework



Overview: Corporate governance policy

Ausbil sees voting as an important part of our fiduciary duty. In the absence of any other guidance, or in any instance whereby voting authority has been delegated by the client in writing, we will direct votes guided by our Corporate Governance Policy, in a manner consistent with the investment interests, objectives, and particular preferences, if stated or known, of our clients.

If we believe that a resolution may have a damaging effect on the interests of shareholders, including on ESG issues, we will vote against the item put forward by the Board.

Prior to recommending a vote, Ausbil seeks to obtain all the information required to justify our final decision, including company engagement. A lack of response will often lead—depending on the significance of the impact of the voting item—to a recommendation to vote against some or all resolutions.

In voting decisions, where relevant, we examine and consider the recommendations of independent third-party proxy advisors but, nevertheless, retain full independence when exercising our votes.

Ausbil records all voting behaviour. The choice of voting platform is client driven.

Ausbil's corporate governance policy

Ausbil plays an active role, informed by our ESG research, in the corporate governance of all the companies in which we invest.

In our investment management role, acting on behalf of clients and their ultimate beneficiaries, Ausbil aims to work efficiently and equitably in exercising the voting rights that we control in the interests of all stakeholders. This Corporate Governance Policy (Policy) is viewed as one of the key mechanisms with which we communicate with investee companies on ESG matters, in addition to our ongoing active company engagement program.

Ausbil's *Corporate Governance Policy* frame of reference includes, but is not limited to, the *Principles of Responsible Investment* (PRI) of which we are a signatory, the *Investment and Financial Services Association Limited* (IFSA), the *Australian Council of Super Investors* (ACSI) Governance Guidelines, the *CFA Institute Standards of Practice*, and the *ASX Corporate Governance Principles and Recommendations*. These may change over time.

Ausbil's Corporate Governance Committee may alter this Policy and its implementation where necessary, or deemed appropriate, as markets change and ESG evolves.

Guiding policy principles

Ausbil's corporate governance approach is founded in the following core principles.

Ensuring the basic rights of shareholders, including the right to:

- trade shares,
- participate and vote in general meetings,
- elect members of the Board,
- share equitably in the distributable profits of the company,
- elect the auditors,
- vote on proposals to amend the company's constitution, increase share capital or change the capital structure of the company, and
- vote on extraordinary transactions that affect the mission, business model and capital structure of the company.

Ensuring the equal treatment of shareholders of the same class, including:

- voting rights, and
- the processes and procedures for general meetings of shareholders, including companies not making it difficult or expensive to cast votes.

Maintaining standards of accountability for the Board

Board members should act on a fully-informed basis and in the interests of all shareholders. The accountability and structure of the Board of Directors influences the way in which a company is directed and controlled, and necessarily requires a sufficient proportion of appointed independent Directors to the Board to maintain genuine accountability.

Ensuring transparency and integrity in financial statements

Accurate and transparent financial information is fundamental to the operation of efficient capital markets. Disclosure of information regarding a company's financial situation and performance, ownership and governance should be timely, accurate, transparent, compliant with local and global accounting and reporting standards, audited, and compliant with the listing and legislative rules in its relevant jurisdictions. An annual audit should be performed by an independent auditor for the benefit of all shareholders.

Corporate governance committees and responsibilities

Ausbil's Investments–Corporate Governance Reporting Committee (Committee) has oversight and monitoring of this policy amongst other governance policies, and any voting and corporate actions policy and action taken on holdings controlled by Ausbil. This includes taking advice from the Investments–Corporate Governance Reporting Sub-Committee (ESG Sub-Committee).

The Committee meets at least annually, comprises the Executive Committee and the Head of ESG Research (Chair), with a quorum of three.

The Sub-Committee which meets regularly as required, with a quorum of three, comprises the Head of ESG Research (Chair) and Director Co-head Equities, and at least one of: ESG Analyst, Equities Analyst or Portfolio Analyst.

Responsibilities of the corporate governance committees

Policy

The Committee is responsible for policy-making and policy monitoring, and may take advice from the Investments - Corporate Governance Reporting Sub-Committee (Sub-Committee) with respect to each of these areas.

The ESG Sub-Committee is responsible for implementation of the specific guidelines referred to in this policy document.

Policy Compliance

In absence of any guidance, or in any instance whereby voting authority has been delegated by the client in writing, Ausbil will direct votes in a manner consistent with the investment objectives of each Ausbil Fund, Investment Trust or IMA, as disclosed in the respective Product Disclosure Statement, or Investment Management Agreement, in the case of discrete mandates.

Review Mechanism

The Committee reviews the policy process on at least an annual basis or as required. Reports from the Sub-Committee meetings are documented and kept on file. This report would typically include a review of new or controversial proxy issues. Any unusual proposals, such as opposition of directors, corporate restructuring related to hostile takeovers, or any proposals that appear not to be in the best interest of shareholders can be reviewed on a case-by-case basis according to requirements by the companies involved. Records contain information pertaining to voting activity, including exceptions and contentious issues.

Proxy Voting Procedures Summary

All proxy voting is performed in accordance with the relevant client/custodian arrangements. Voting is applied consistently across all holdings, subject to specific client instructions, or, where the Sub-Committee deems it appropriate, given an individual situation.

All Corporate Actions are currently notified via the various custodian proxy platforms.

The key steps in the proxy voting procedure are as follows:

- **Step 1 – Notification:** Ausbil reviews on-line proxy voting platforms each Monday at 9.00am to determine whether any new issues have arisen that require vote execution. New issues requiring action are initially collated by Ausbil's ESG Research Team and analysed by Ausbil's ESG Research Team, and subsequently distributed to various analysts for appraisal and initial recommendation.
- **Step 2 – Recommendation:** A recommendation and decision on each resolution up for a vote is reached through joint analysis by at least two members of the Sub-Committee. For controversial / contentious votes, such as votes against management's recommendation, all three members are involved in reaching a final decision. Ausbil's Guiding Decision Framework (as illustrated in Figure 2) guides the Sub-Committee's decision, which may also take into account non-binding voting recommendations by third-party service providers, when applicable. Votes will be cast on the basis of Ausbil's internal analysis, unless notified otherwise by a client.
- **Step 3 – Implementation:** The designated Sub-Committee representative or a delegate from Middle Office executes final votes via the appropriate on-line proxy voting platform or via other means agreed with the relevant custodian.
- **Step 4 – Record keeping and Reporting:** All votes, including voting rationale on contentious votes, are kept on record by the Sub-Committee. Annually, proxy votes cast on behalf of the Ausbil Trusts, Funds and IMAs are collated and displayed on Ausbil's website. In addition, contentious votes (such as against management or against the recommendations by a 3rd party service provider) are reported to clients in accordance with the respective mandate agreements.
- **Step 5 – Monitoring and Review:** On a regular basis, the designated Sub-Committee representative briefs the Investment Committee (IC), with respect to voting activity and any client or corporate specific matters that have arisen.
- **Annually – Policy Review:** On at least an annual basis, the Corporate Governance Committee reviews this policy and procedure.

Reports and Documentation

Records of all corporate governance matters, and any actions, are fully documented. The audit trail exists in both paper and electronic formats. The proxy voting platforms used by Ausbil on behalf of its clients also offer full, periodic summary templates for report generation.

Corporate governance reporting policy

Ausbil maintains the following policy for reporting to clients on corporate governance.

Client mandates (IMAs): Clients are encouraged to actively participate in corporate governance issues where they wish to express their opinion however, in the absence of any guidance or in any instance whereby voting authority has been delegated by the client in writing, Ausbil will direct votes in a manner consistent with the investment objectives detailed in the investment management agreement. With respect to the periodic reporting of corporate governance activity to clients, Ausbil will comply with specific instructions provided by the client.

Ausbil unit trusts / funds: Where Ausbil manages money in a unit trust (Unit Trust or Fund), it is implicit through the role of responsible entity that Ausbil has authority to act in accordance with this policy. Ausbil will report, on an annual basis, any matters related to corporate governance with respect to each Unit Trust or Fund.

More information

For more information on ESG, and how we implement ESG at Ausbil, feel free to contact our ESG Research Team.



Måns Carlsson-Sweeny
Head of ESG Research
on 02 9259 0262



Nicholas Varcoe
ESG Analyst
on 02 9259 0276

About Ausbil Investment Management

Ausbil Investment Management (Ausbil) is a leading Australian based investment manager. Established in April 1997, Ausbil's core business is the management of Australian and global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil manage over \$11.6* billion in active Australian and global equity investments. Ausbil is owned by its employees and New York Life Investments (NYLIM), a wholly-owned subsidiary of New York Life Insurance Company. NYLIM has more than US\$561* billion in assets under management. NYLIM has a number of boutique affiliates including MacKay Shields, Candriam Investors Group, Private Advisors and GoldPoint Partners.

This Policy will be reviewed at least annually and updated where necessary

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