

MUNRO PARTNERS

Environmental Social and Governance Policy

Dated: May 2020



ENVIRONMENTAL SOCIAL AND GOVERNANCE POLICY

Purpose

This Environmental, Social and Governance (“ESG”) Policy is to define Munro Partners’ (“Munro”) approach to integrating the consideration of environmental, social and governance risks into its investment process.

Munro Partners is a signatory to the United Nations-supported Principle for Responsible Investment (PRI), the world’s leading proponent of responsible investment.

Munro recognises and is committed to consider ESG in the course of its investment process and in the monitoring of portfolio investments. Where our investment process identifies that minimum standards are not being met by a company, we may look to engage with the company to improve ESG levels, avoid investment or simply divest.

Munro incorporates a company specific ESG risk rating with a numerical score is calculated and categorised as either negligible, low, medium, high or severe. This ESG risk rating is then incorporated into the Investment team’s assessment and calculation of the control qualitative test, alongside sustainability and customer perception, to determine whether the company’s ESG rating will materially reduce the company’s quality score. ESG issues are formally discussed as part of company research.

We have chosen the approach and our order of priority for the following reasons:

1. Our investment process is a fundamental, bottom up process. Stock selection is based on key qualitative and quantitative measures;
2. Munro’s portfolios are concentrated portfolios (max 60 stock portfolios);
3. Munro is index and sector unaware, unlike passive / index managers, our flexible mandates mean we do not have to hold positions simply because they are in an index, or because we have to hold a certain portfolio weight across sectors;
4. We observe exclusions (negative screens) provided by firms that we provide investment management services, which ensures that they have delegated their choice of approach; and
5. While we recognise the importance of engagement as a stakeholder, we understand that our ability to directly influence behaviour is proportionate to our size and the portion of each companies’ equity that we hold. We undertake hundreds of meetings annually with companies and use these as an opportunity to express any issues or concerns on ESG issues. We view our decision to buy or sell a company as the most effective signal to the market and management.



Environmental Issues (E)

Munro considers the business risks facing a company relating to their operations on the quality and functioning of the natural environment and natural systems. These include: biodiversity loss; greenhouse gas (GHG) emissions, climate change, renewable energy, energy efficiency, air, water or resource depletion or pollution, waste management, stratospheric ozone depletion, changes in land use, ocean acidification and changes to the nitrogen and phosphorus cycles.

Munro believes environmental issues, in particular climate change, are matters that should be considered carefully for both companies and investors. Munro incorporates a company specific Environmental risk rating with a numerical score is calculated and categorised as either negligible, low, medium, high or severe. This Environmental risk rating is then incorporated into the Investment team's assessment and calculation of the control qualitative test, alongside sustainability and customer perception, to determine whether the company's Environmental rating will materially reduce the company's quality score.

Please refer to Appendix 1 for examples of Environmental considerations into Munro's investment approach.

Social Issues (S)

Munro considers the business risks facing a company relating to their operations relating to the rights, well-being and interests of people and communities. These include: human rights, labour standards in the supply chain, child, slave and bonded labour, workplace health and safety, freedom of association and freedom of expression, human capital management and employee relations; diversity; relations with local communities, activities in conflict zones, health and access to medicine, HIV/AIDS, consumer protection; and controversial weapons.

Munro believes that companies that engage in social practices that are contradictory to law or likely to be detrimental to human rights and health are matters that should be considered carefully for both companies and investors. Munro incorporates a company specific Social risk rating with a numerical score is calculated and categorised as either negligible, low, medium, high or severe. This Social risk rating is then incorporated into the Investment team's assessment and calculation of

the control qualitative test, alongside sustainability and customer perception, to determine whether the company's Social rating will materially reduce the company's quality score.

Please refer to Appendix 1 for examples of Social Issue considerations into Munro's investment approach.

Governance Issues (E)

Munro considers the business risks facing a company relating to their operations relating to the governance of companies and other investee entities. In the listed equity context these include: board structure, size, diversity, skills and independence, executive pay, shareholder rights, stakeholder interaction, disclosure of information, business ethics, bribery and corruption, internal controls and risk management, and, in general, issues dealing with the relationship between a company's management, its board, its shareholders and its other stakeholders. This category may also include matters of business strategy, encompassing both the implications of business strategy for environmental and social issues, and how the strategy is to be implemented.

Munro believes that companies' good corporate governance encourages transparency, reputation and long-term financial performance and are matters that should be considered carefully for both companies and investors. Munro considers the role of corporate governance: board and management quality and integrity; board structure; ownership and shareholder structure; remuneration; financial and climate reporting; and stakeholder governance (specifically ESG considerations).

Munro incorporates a company specific Corporate Governance risk rating with a numerical score is calculated and categorised as either negligible, low, medium, high or severe. This Corporate Governance risk rating is then incorporated into the Investment team's assessment and calculation of the control qualitative test, alongside sustainability and customer perception, to determine whether the company's Corporate Governance rating will materially reduce the company's quality score.

Please refer to Appendix 1 for examples of Corporate Governance considerations into Munro's investment approach.



Appendix 1: Considerations of ESG Integration into Munro Partners' Investment Approach

ENVIRONMENTAL	SOCIAL	GOVERNANCE
<p>E Carbon – Own Operations refers to a company's management of risks related to its own operational energy use and GHG emissions (scope 1 and 2). It also includes parts of Scope 3 emissions.</p>	<p>S Human Rights focuses on how companies manage and respect fundamental human rights within their own operations.</p>	<p>G Corporate Governance represents foundational structures for the management of ESG risks.</p>
<p>E Emissions, Effluents and Waste Emissions focuses on the management of emissions and releases from a company's own operations to air, water and land, excluding GHG emissions.</p>	<p>S Human Capital focuses on the management of risks related to scarcity of skilled labour as well as labour relations, such as non-discrimination, working hours and minimum wages.</p>	<p>G Business Ethics focuses on the management of ethical considerations applicable to most or all sectors, such as taxation and accounting, anticompetitive practices and intellectual property issues.</p>
<p>E Resource Use focuses on how efficiently and effectively a company uses its raw material inputs (excluding energy and petroleum-based products) in production and how it manages related risks.</p>	<p>S Community Relations focuses on how companies engage with local communities (including indigenous peoples) through both positive initiatives and mitigation of negative impacts.</p>	<p>G ESG Integration – Financials includes all ESG integration activities by financial institutions that are either driven by financial downside risk considerations or by business opportunities.</p>
<p>E Resource Use - Supply Chain focuses on companies' management water scarcity and raw material inputs risks (excluding energy and petroleum based products) within its supply chain.</p>	<p>S Human Rights - Supply Chain focus on a company's management of fundamental human rights issues occurring in its supply chain.</p>	<p>G Bribery and Corruption focuses on the management of risks related to illicit payments, such as kickbacks or bribes to government officials or business partners, and the receipt of those payments.</p>
<p>ES E&S Impact of Product and Services refers to the management of the inherent characteristics of input materials, and the impacts during use, disposal and recycling (excluding Carbon).</p>	<p>S Occupational Health & Safety focuses on the management of workplace hazards affecting a company's own employees and on-site contractors. Where relevant, it may also include HIV/AIDS programmes.</p>	<p>G Data Privacy and Security focuses on data governance practices, including how companies collect, use, manage and protect data.</p>
	<p>ES E&S Impact of Product and Services refers to the management of the inherent characteristics of input materials, and the impacts during use, disposal and recycling (excluding Carbon).</p>	<p>G Product Governance focuses on how companies manage responsibilities to their clients. Emphasis is put on quality management systems, marketing practices, fair billing and post-sales responsibility.</p>
		<p>G Resilience focuses on the financial stability and the management of related risks in the financial services industry.</p>



Munro's Investment Process and Principles of Responsible Investment

While Munro Partners seeks to combine financial return with moral or ethical considerations, responsible investment can and should be pursued even by the investor whose sole purpose is financial return. We argue that to ignore ESG factors is to ignore risks and opportunities that have a material effect on the returns delivered to clients and beneficiaries.

The United Nations-supported Principle for Responsible Investment (PRI) support the Munro Partners' belief that Investors fulfilling their fiduciary (or equivalent) duty need to give appropriate consideration to these factors and that the PRI provide a framework for making access to ESG information more widely available and for incorporating these factors into the decision-making process.

Munro takes a broader approach to ESG than simply a means to enhanced financial performance, rather incorporating the following ESG Policy into its investment process and business operations.

Munro recognises and commits to consider material ESG in the course of its investment process and in the monitoring of portfolio investments to the extent reasonably practical under the circumstances. Where our investment process identifies that minimum standards are not being met by a company, we may look to engage with the company to improve ESG levels, avoid investment or simply divest.

Contacting Us

You can contact us by mail, telephone, email or via our website:

Munro Partners
Level 19
80 Collins Street
Melbourne VIC 3000
+ 61 3 9290 0900
contact@munropartners.com.au
www.munropartners.com.au

Munro's Internal ESG

Munro Partners believes that it cannot endorse appropriate environmental, social and governance issues to its portfolio companies without first incorporating standards internally.

Munro sees many of the ESG practices as simply common sense and therefore have incorporated into our business operations. For example:

- Environment: recycling initiatives, green office environment and aiming for a carbon neutral business;
- Social: ownership within Munro being a reflection of all the partners and thus encouraging respect, ongoing training, family and personal flexibility and general wellness; and
- Governance: Munro's business philosophy stems from building investor relationships based on partnership, shared philosophy, transparency and accountability.

Related Policies

- Our Philosophy and Approach:
Munro Partners' Responsible Investment Policy
- Our Views on ESG:
Munro Partners' ESG Policy
- How we engage:
Munro Partners' Proxy Voting Policy

These policies can be found on our website at: www.munropartners.com.au/legals

