



MUMIRO

ESG policy

Updated: May 2022



ESG Policy

INTRODUCTION

Munro is a global investment manager with a core focus on growth equities.

Our investment philosophy has three overriding principles:

- earnings growth inevitably drives stock prices;
- sustained earnings growth is worth more than cyclical earnings growth; and
- the market often misprices this growth and its sustainability.

We believe that managing environmental, social and governance (ESG) issues contribute to achieving superior, sustainable long-term investment returns on behalf of our clients.

Munro are signatories to the UN-backed Principles for Responsible Investment (PRI) and have committed to its six principles¹.

The Chief Investment Officer (CIO) has oversight for the management of ESG in our Funds and is supported by a dedicated Responsible Investment Manager as well as the all members of the investment team. Our operations team contributes to the execution of this policy.

In this policy, we outline our two pillar approach: ESG integration and stewardship. We then outline our commitments around transparency and review.

This policy covers our investment activities. However, we recognise that our business should adopt the same standards that we expect of the companies in which we invest. We describe our business strategy on our website.

This policy applies to all Funds managed by Munro.

ESG INTEGRATION

For Munro, ESG integration refers to how ESG issues impact our financial analysis, stock selection and portfolio construction.

The four elements of this approach are below.

1. ESG Score

Every portfolio holding undergoes a proprietary ESG analysis which results in an ESG score. The ESG score is one of six qualitative factors that determine what Munro considers the appropriate earnings multiple and therefore the valuation for the company.

In other words, Munro is willing to pay more for companies who that perform better on ESG matters. And ESG affects our company valuation for every company.

The ESG score is determined as follows:

Environmental and Social (E&S) score (two-thirds weight):

- Identification and weighting of the most material E&S issues based on the Sustainability Accounting Standards Board (SASB) framework, supplemented by external research and company disclosures. (This is a systematic way to address the problem of E&S issues being different across companies and sectors.)
- Analysis focused on disclosure, alignment with strategy, oversight, performance outcomes, and targets.

Governance score (one-third weight):

Analysis of three issues:

- Board – including diversity, independence, workload, and performance.
- Remuneration – including equity alignment, challenging performance hurdles, ESG hurdles, dilution and pay quantum.
- Entrenchment – including the use of anti-takeover mechanisms and multiple share classes.

The ESG analysis is done collaboratively by the stock champion for each company and the Responsible Investment Manager. This ensures that ESG is not operationally 'siloed' outside the rest of the investment process and that stock champions remain responsible for oversight and integration of ESG for their stocks.

Our Climate Policy, under the 'Assessing Climate Change Risk' heading, outlines the application of this framework to climate change issues.

2. Integration into financial performance forecasts

ESG issues are often difficult to integrate directly into forecasts of future financial performance. Therefore, in our view, integration using the ESG score as described above is the best way to consider these issues systemically.

Where possible, Munro integrates ESG issues into its forecasts of financial performance. For example, if a company's products make a more positive environmental contribution versus competitors, we may model faster revenue growth. Conversely, if a company has a poor safety record, we may model higher operating costs due to disruptions, fines, regulatory scrutiny, poor employee engagement and morale.

3. Areas of Interest aligned to ESG outcomes

Several of Munro's Areas of Interest (or investment themes) contribute positively to ESG outcomes. Notably, climate change has been a longstanding investment theme. Companies that are enablers of climate change solutions have been among the top Area of Interest exposures for our long/short and long only strategies, and recently via the dedicated Climate Change Leaders strategy which invests exclusively in this theme.

We monitor developments in ESG and sustainability themes and where appropriate, propose them for inclusion in our Funds.

4. Exclusions

We use strict negative screens or exclusions sparingly.

In our view, investors can usually have a much more significant impact if they remain invested and use stewardship to bring about change.

Nonetheless, consistent with our corporate values, we have decided that we should not knowingly invest in companies that undertake the following activities:

All Funds:

- Tobacco manufacturing
- Companies whose activities contravene UN conventions on landmines and cluster munitions
- Companies and jurisdictions subject to sanctions.
- Companies which we consider very poor performers on ESG.

Munro Climate Change Leaders Strategy:

- oil sands
- thermal coal mining (greater than 10% revenue threshold)

Consistent with the objective to invest in companies offering climate change solutions, the Strategy will also not invest in:

- oil and gas exploration and production; or
 - fossil-fuels based generation
- unless at least 50% of revenues or earnings are from climate change solutions or there is an expectation that this will be the case within five years.

These exclusions are applied in recognition of the contentious nature of the activity and that engagement is unlikely to be successful. The exclusions apply only to long positions in individual companies.

We are reliant on third party data providers to implement these exclusions. While we will actively oversee the implementation, issues like data accessibility, errors from third parties and changes to company activities may result in inadvertent exposure. If we become aware of such a case, we will sell our holding within a reasonable timeframe.

STEWARDSHIP

For Munro, stewardship refers to how we use our ownership rights to influence companies towards improved ESG performance.

1. Voting

Munro considers that voting rights are an important power and should be managed with the same care as any other asset managed on behalf of its investors, and in the Funds' best interest.

Therefore, we will always exercise our voting rights, except in rare circumstances where the costs associated outweigh the benefits.

A. Voting Process

When we exercise our voting rights, we consider the company's ESG score (as outlined above), external ESG research, specialist proxy advice and insights from company engagement.

The Responsible Investment Manager undertakes the initial analysis and proposes voting recommendations, after which the stock champion reviews the recommendations before finalising the voting decision. The operations team assists in executing the voting decisions.

Voting decisions do not automatically follow either company or advisor recommendations without a review by the investment team.

B. Voting Principles

When exercising our voting rights, our general expectation is that companies:

- have a skilled, capable and diverse board;
- have a majority independent board;
- use remuneration to align management to shareholders and strategy;
- treat shareholders equally in proportion to economic interest;
- avoid mechanisms which unreasonably transfer value from shareholders to management or others;
- engage with shareholders and seek approval for major decisions;
- avoid mechanisms which protect management from takeovers and
- provide adequate disclosure on material issues, including ESG.

These principles are not prescriptive, and votes are exercised on a case-by-case basis in the best interests of our investors.

Given the breadth of issues, we do not have specific principles regarding shareholder resolutions and follow the same process and inputs detailed above under Voting Process. For example, if there is a shareholder proposal on employee health and safety, we will consider our rating on this topic (done as part of the ESG score) when deciding how to vote.

Our [Climate Policy](#) outlines further our approach to voting on climate change issues.

2. Engagement

Munro regularly engages directly with companies on ESG issues, tracks engagement activity and maintains internal targets for engagements.

Engagement issues and questions are set following the ESG score process outlined above, focused on those issues where the company can improve performance and disclosure.

The company's response to our questions and subsequent actions may then drive an improvement in their ESG score, which ultimately increases our valuation of the company.

Engagement also has a positive impact on the company, since it can prompt changes to practices that reduce ESG risk and increase company value. This can also have a positive environmental or social impact.

Where we have material ESG concerns, we will either divest or engage with the company depending on the individual circumstances. We may also vote against resolutions at company meetings. Where we pursue engagement, but it is unsuccessful, our default position would then be to divest.

3. Advocacy

Munro recognises that investor engagement with policymakers is an important tool, especially for systemic risks like climate change.

Munro believes that advocacy is best done collaboratively because of the greater opportunity for impact and resource requirements. We pursue advocacy collaboratively through being a member or signatory to the Principles for Responsible Investment (PRI), the Investor Group on Climate Change (IGCC) and the Canadian Responsible Investment Association (RIA). Through our membership, we advocate on both specific ESG issues and on promoting and developing responsible investment practices.



TRANSPARENCY

Munro is committed to reporting annually on our responsible investment activities, including reporting against the Task Force on Climate-related Disclosures (TCFD) from 2022. We also report to PRI as part of our commitments as a signatory.

We regularly brief our investors and others on ESG and respond to all queries.

REVIEW

We recognise that our approach to ESG, best practice and investor expectations will continue to evolve. As such, we commit to reviewing and updating this policy annually.

CONTACTING US

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

Munro Partners
Level 12
80 Collins Street (South Tower)
Melbourne VIC 3000
+ 613 9290 0900
contact@munropartners.com.au
www.munropartners.com.au

[†]The six Principles of Responsible Investment (PRI) are:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

