

ESG Investing
Principles



AORIS

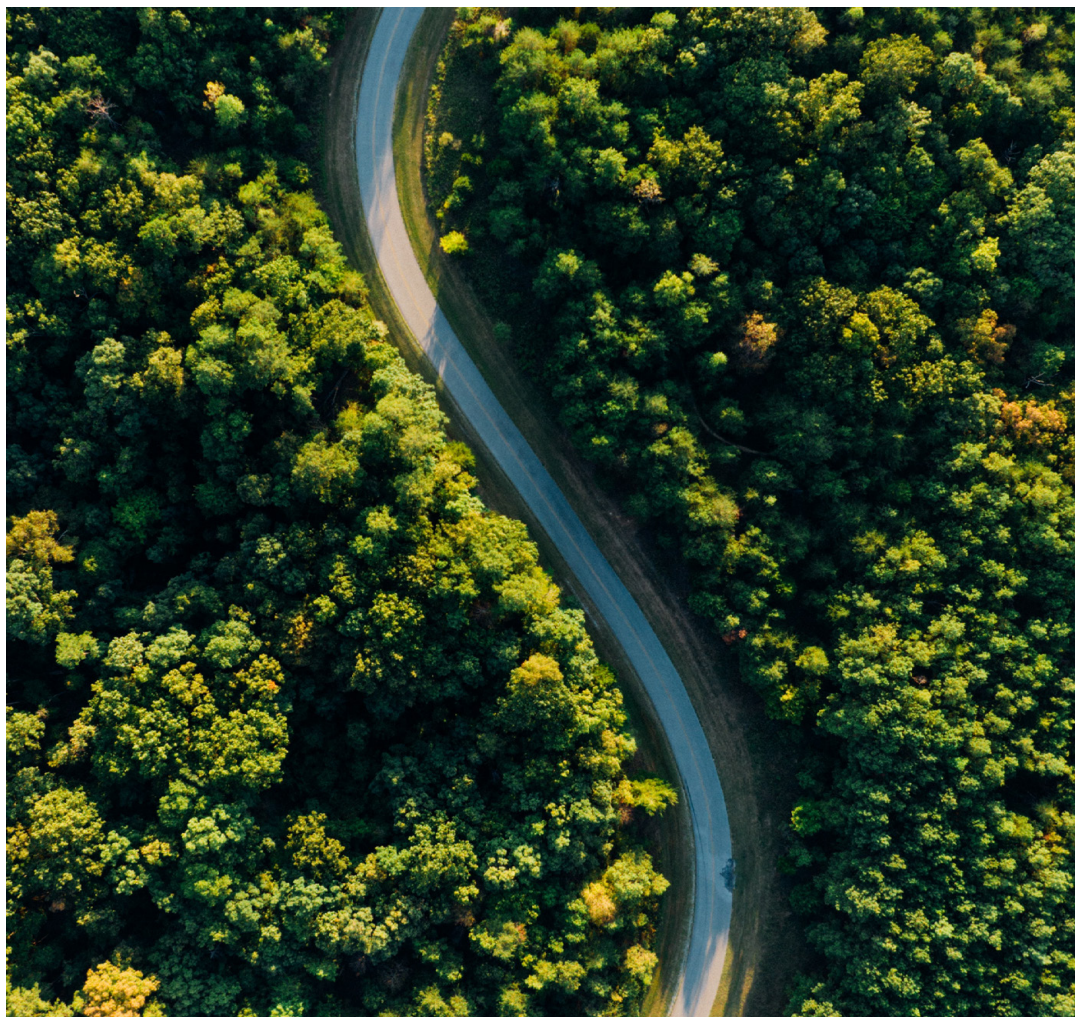
Contents

1. The purpose of this document	03
2. Why is ESG important to us?	04
3. How we apply our ESG principles	05
4. How we apply our negative screens	06
5. Negative screens based on activity	07
6. Negative screens based on behaviour	09
7. Positive screens based on behaviour	10
8. Positive screens – Good behaviour = Good business	11
9. Positive screens – Is this business itself sustainable?	12

The purpose of this document

Section

1



Investing with ESG principles means different things to different people.

In this document we clearly explain our ESG principles, to enable you to see if our approach aligns with yours.

Oftentimes, an investment manager's laudable principles lack any specificity when it comes to what they mean in practice.

In the following pages we explain in detail how we incorporate our ESG principles into our investment process.

Why is ESG important to us?

Our investment objective is to achieve a return of 8–12% p.a. after fees, over a 5 to 7-year market cycle.



We screen out companies in structurally declining industries, such as fossil fuels and tobacco, and those whose negative impact on society puts them at risk of adverse regulatory changes, such as gambling and social media.

We expect the bulk of this return will be derived from the increase in value over time of the businesses we own.



Businesses that act to high standards in terms of their impact on society and the environment, their treatment of customers and employees, and corporate governance, are more likely to increase in value over time than those that do not.

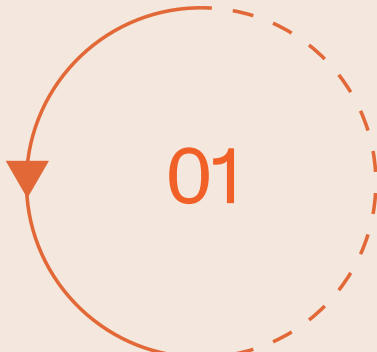
We look to own businesses where we believe the risk of a disappointing outcome is low.



The risk of a disappointing investment outcome is lower in businesses that conduct themselves to high standards and operate in industries that do not have adverse environmental and societal impacts.

How we apply our ESG principles

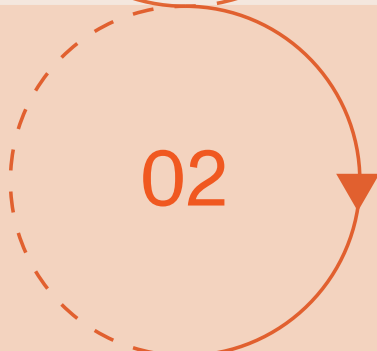
Objective



Negative screens based on activity

We exclude industries such as tobacco, armaments, mining and gambling.

02

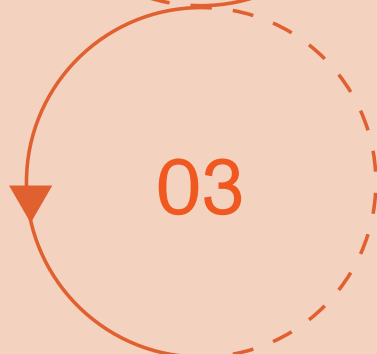


Negative screens based on behaviour

We exclude companies based on their behaviour, such as poor labour and environmental practices.

Subjective

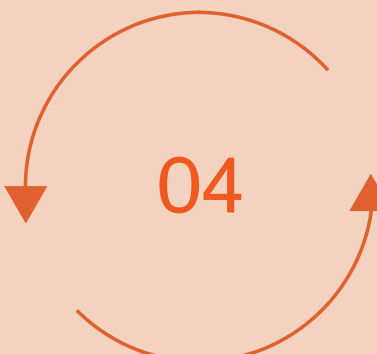
03



Positive screens based on behaviour

We seek companies who exhibit ethical and sustainable behaviour.

04



Annual ESG review

For all portfolio stocks and portfolio candidates.

How we apply our negative screens

When specifying businesses to exclude based on the nature of their activity, we first distinguish between direct exposure and indirect exposure.

We then consider whether we should apply a zero tolerance to the activity or a materiality threshold, based on the percentage of a company's revenue the activity accounts for.

ESG screens based on behaviour are subjective and vary across investment managers. Rather than delegate to a separate ESG team our analysts are responsible for assessing company behaviour. We seek to own those whose conduct distinguishes them from their peers in a positive way.

Direct exposure

involves manufacturing, producing or selling the excluded activity.

Indirect Exposure

involves supplying services or inputs to the relevant industry.

Negative screens based on activity

Negative activity	Reason for negative screen	Direct exposure	Our approach	Indirect exposure	Our approach
Armaments & military	The use of munitions directly contributes to violence, death and bodily harm.	Companies that manufacture or sell weapons.	✓ Zero tolerance 20% materiality threshold No threshold	Companies that supply services or non-weapon equipment to the defence industry.	Zero tolerance 20% materiality threshold ✓ No threshold
Gambling	Gambling has social, health and financial costs for problem gamblers, their family and friends.	Companies that manufacture gambling equipment or operate casinos or lotteries.	✓ Zero tolerance 20% materiality threshold No threshold	Companies that supply services or non-gaming equipment to the gambling industry.	Zero tolerance ✓ 20% materiality threshold No threshold
Mining	Mining negatively impacts the environment in a range of ways including water pollution and soil erosion.	Companies engaged in the extraction of natural resources.	✓ Zero tolerance 20% materiality threshold No threshold	Companies that supply services or equipment to mining companies,	Zero tolerance 20% materiality threshold ✓ No threshold
Old growth logging	The logging of native forests affects local communities, wildlife, regional ecosystems and climate change.	Companies that undertake logging or deforestation.	✓ Zero tolerance 20% materiality threshold No threshold	Companies that supply services or equipment to aid logging, or produce products made as a result, of logging, e.g. paper, palm oil.	Zero tolerance ✓ 20% materiality threshold No threshold
Tobacco	Smoking harms nearly every organ of the human body.	Companies engaged in the manufacture of tobacco products.	✓ Zero tolerance 20% materiality threshold No threshold	Companies that sell tobacco products (e.g. supermarkets), or that supply services/materials such as tobacco packaging.	Zero tolerance ✓ 20% materiality threshold No threshold

Negative screens based on activity

Negative activity	Reason for negative screen	Direct Exposure	Our approach	Indirect exposure	Our approach
Banking & insurance	Aggressive and misleading selling practices throughout the industry.	Companies engaged banking or insurance underwriting.	✓ Zero tolerance 20% materiality threshold No threshold	Companies that supply products or services to the banking or insurance industries.	Zero tolerance 20% materiality threshold ✓ No threshold
Pharma & biotech	Aggressive and misleading selling and pricing practices throughout the industry.	Companies that develop and sell pharmaceuticals.	✓ Zero tolerance 20% materiality threshold No threshold	Companies that supply products or services to the life science industries.	Zero tolerance 20% materiality threshold ✓ No threshold
Utilities	The consumption of fossil fuels contributes to environmental degradation and climate change.	Utilities that generate electricity through the consumption of fossil fuels.	✓ Zero tolerance 20% materiality threshold No threshold	Companies that purchase electricity produced with fossil fuels or supply products or services to the utility industry.	Zero tolerance 20% materiality threshold ✓ No threshold

Negative screens based on behaviour

Negative activity	Reason for negative screen	Factors assessed in our negative screen	Companies this may apply to
Animal cruelty	Animal testing may be harmful to animals.	Whether animal testing is legally required and, if so, whether it is conducted humanely and according to strict regulations.	Pharmaceutical and beauty product companies.
Corruption & poor governance	Anti-competitive practice and management self-enrichment comes at the expense of other stakeholders.	The total value of compensation for executives and the variables used in performance compensation. We also look for evidence of anti-competitive practices or regulatory penalties.	All companies
Environmental degradation	Air and water pollution have negative consequences for our and animals' health and climate change.	We consider carbon intensity and the general efficiency with which natural resources are used in the production and distribution process. We also look for evidence of pollution via treatment of waste materials.	Chemical manufacture, heavy industry, transportation, process industries and the manufacture of consumer packaged goods.
Poor labour practices	We consider a safe working environment, equal opportunities and a living wage to be a basic right.	We consider if third-party factories are subject to independent audits of working conditions and, if so, the opinion of those audits. We also look at workplace accident rates. We look for employee reviews for evidence of discrimination.	Companies that used outsourced manufacturing, including those in the electronics and apparel industries.
Tax minimisation	We believe in fair play. In order to benefit from public services, companies should pay their fair share of tax.	We consider the domicile of the parent company and key subsidiaries and look for unusual tax structures. We also look at the effective cash tax rate.	Pharmaceutical, IT software companies and social media companies.

Positive screens based on behaviour

01

The totality of a company's ESG impact, particularly its environmental or social impact, is not captured solely in its own 'footprint'.

02

A company's positive impact may come from resource usage efficiencies that it enables for its customers, or safety improvements it creates for its users.

03

Further, a company's impact is not fully captured in its scorecard for a given year. Also important is the direction of change, positive or negative.



Positive screens

Good behaviour = Good business

Section

8

Efficient use of resources	→	Higher profit margins
Ethical and fair treatment of customers	→	High customer retention rates
Ethical and fair treatment of employees	→	High employee retention and satisfaction rates
Legal and regulatory compliance	→	Lower risk of fines and reputational damage
Transparent and balanced communication	→	Less hubris and potential for negative surprises
Safe workplaces	→	Low accident rates, more productive employees

Positive screens

Is the business itself sustainable?

01

A business cannot make a positive impact on the environment, its customers, its employees or to our investment returns if it doesn't survive.

02

The business itself must be sustainable.

03

For us to consider a business sustainable it must be profitable, growing, conservatively financed and conservatively managed.

Voting Policy

Our right to vote is a privilege as well as our fiduciary responsibility. We use our votes in a manner that we believe is our clients' best long-term economic interests. We will vote FOR or AGAINST on all proposals and will abstain on none.

When making voting decisions, we follow the guidelines set out in our Voting Policy, which can be accessed [here](#) and is also available on our website.

Our voting record is disclosed publicly each year on our website and in our annual [Responsible Investing and Active Ownership Report](#).

Use of proxy adviser

We use the services of Institutional Shareholder Services (ISS), who provide research and opinions on proxy voting resolutions. We make independent decisions when voting, so our votes may or may not follow ISS's recommendations.

Engagement policy

We engage with all of the companies in which we are invested on ESG topics at least once per year. We focus on the issues that we consider material and where we see the greatest opportunity or need for improvement. We keep a record of our engagement activity, which we make publicly available.

The way a company responds to our advocacy provides insights into how it is run, management's values and priorities, and risks to the business. It also permits us, along with our voting, to have a small influence on decisions the company makes.

Get in touch

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AORIS

Morningstar Sustainability Rating



Signatory of:



Acknowledgement of Country

Aoris acknowledges the Traditional Owners of Country throughout Australia and recognises their continuing connection to land, waters and culture. We pay our respects to their Elders past and present.

Important Information This report has been prepared by Aoris Investment Management Pty Ltd ABN 11 621 586 552, AFSL No 507281 (Aoris), the investment manager of Aoris International Fund (Fund).