FAIRLIGHT

Responsible Investment Policy

Global Small and Mid Cap Fund

United Nations Principles for Responsible Investment

Fairlight is a signatory to the United Nations Principles for Responsible Investment ("the Principles"). The Principles state:

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

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

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

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

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles."

Through implementation of the Principles, Fairlight will seek to analyse and engage companies on their significant governance, environmental and social issues that have the potential to impact on company perception and performance. This provides a more complete understanding of a range of issues affecting a company which should lead to increased returns and lower risk for a portfolio.

By incorporating ESG criteria into investment decision-making and ownership practices, Fairlight will seek to influence companies to improve performance in these areas. This, in turn, contributes to efforts to promote good corporate citizenship and to build a more stable, sustainable and inclusive global economy.

Approach to investing and incorporation of ESG into our investment process

Fairlight is an investment manager which seeks to generate superior risk adjusted returns for our investors over the medium to long term.

The nature of commercial activities that most listed companies undertake involves the use of resources (including human resources) to create value and opportunities for stakeholders. Companies should undertake their activities in compliance with the law, in an efficient manner and seek to avoid harm to stakeholders, the environment and society in general.

Fairlight is of the belief that the way a company manages ESG issues is often a good indicator of overall risk levels and general management quality — which are both strong determinants of companies' long-term success. Companies with better ESG performance can increase shareholder value by better managing risks related to emerging ESG issues. Moreover, ESG issues can have a strong impact on reputation and brands, an increasingly important part of company value.

The Fairlight portfolio managers are responsible for overall coordination and implementation of the Responsible Investment policy. ESG issues are considered at each stage of the investment process, including in stock research reports and the portfolio management process.

Fairlight uses industry exclusion screens to account for the more obvious sources of ESG risk found in tobacco, armaments, gambling, mining and old growth logging industries. A maximum of 10% aggregate revenue exposure to these restricted industries is permitted before companies are excluded from ownership by the Fairlight fund(s).

All researched companies are scored across a range of ESG metrics (Table 1) which generates a cost of capital charge that is an input into company valuation. Companies with relatively poor ESG practices incur a larger discount rate than those that are best practice.

Environmental	Social	Governance
Greenhouse gas emissions	Labour and working conditions	Self-enrichment of senior management
Water/wastewater efficiency	Frequency and magnitude of retrenchments	Related party transactions
Consumption of natural resources	Community health, safety and security	History of financial restatements and SEC investigations
Biodiversity impact (inc. pesticides/agrochemicals)	Modern Slavery and supply chain (reporting and risk)	Over-reliance on and credibility of non-GAAP/IFRS numbers
Transparency and clarity of environmental reporting	Indigenous people and cultural heritage	Minority shareholder rights

Table 1: ESG metrics scored to generate cost of capital charge.

Engagement

As an investor, we seek to engage on ESG and other issues with companies in which we invest as well as companies within our investment universe that we do not hold from time to time.

Fairlight typically meets with companies several times a year, both in meetings post each reporting period and at other times during the year. At these meetings we seek to engage with the company on relevant issues, including issues relating to ESG.

We will also engage with companies on ESG issues when a specific ESG issue arises in relation to a company or where a broader ESG issue impacts upon a company. We may also participate in industry or investor collaborative engagement projects from time to time.

When a company-specific ESG issue arises we will typically seek to engage with Company management on the issue. If the issue remains unresolved, we will consider divesting our holding in the Company.

In engaging with companies we recognise that the information that may be able to be disclosed to us may be limited due to implications under insider information legislation and we will remain conscious of our obligations in relation to such legislation during the course of any engagement.

Climate change

We acknowledge that climate change is potentially a significant risk to the planet and the global economy. Accordingly, it is likely that significant parts of the international community will seek to move towards a lower-carbon economy over time for the benefit and sustainability of the planet, society and the economy. This transition will have impacts on our investments and we will seek to understand and engage with companies on the impacts of both climate change and a move towards a lower-carbon economy on their businesses.

Modern slavery

Modern slavery describes situations where offenders use coercion, threats or deception to exploit victims and undermine their freedom. The Fairlight investment team engages with investee companies on supply chain and modern slavery risk, and assess modern slavery statements in line with the Commonwealth Modern Slavery Act 2018. Modern slavery risk also forms part of our ESG score for each company.

Voting

Voting rights are a valuable asset which should be managed with the same care and diligence as any other asset. Ultimately, shareholders' ability to influence management depends on shareholders' willingness to exercise those rights.

Fairlight should vote on all company resolutions considered at general meetings where it has the voting authority and responsibility to do so, where the resolution has material consequences for ESG outcomes and reporting.

Fairlight may abstain from voting on proposals with ESG materiality in the following circumstances:

- Where it is unable to support the resolution but where it believes that it would be against investors' interests to oppose publicly; and
- Where Fairlight has already made a decision to dispose of the securities.

All votes must be made in the best interest of the unit holders and clients.

How carbon intensive is the Fairlight portfolio?

The most prominent ESG consideration in equity markets today is the corporate contribution to greenhouse gas (GHG) emissions. In the same manner that insurance companies consider climate risks when underwriting insurance, equity investors increasingly need to consider the regulatory and reputational risk of corporate GHG emissions when allocating capital.

Climate-related investment risks can largely be segmented into two categories:

- Climate change risk – whereby extreme weather events (green swans) or gradual climate change impairs company assets and earnings ability.
- Transition to low carbon economy risk – regulatory or reputational risk as high emitters are forced to pay for the value of their emissions in line with other forms of environmental pollution.

Quantifying the carbon emissions of a portfolio gives insight into the exposure to the second of these risks. The GHG Protocol is the most widely used framework for measuring and reporting on GHG emissions. The GHG Protocol classifies emissions into three categories:

Scope 1:
All direct GHG emissions from sources owned or controlled by the company

Scope 2:
Indirect GHG emissions from consumption of purchased electricity, heat or steam.

Scope 3:
Other indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company including both upstream (supply chain) and downstream (end users of the company's products) emissions.

Data quality and availability for Scope 1 and 2 emissions is superior than Scope 3 given the significantly higher complexity of determining the emission intensities of value chains external to companies. Whilst it is conceptually preferable to include Scope 3 emissions in an analysis, at present it is difficult to do so comprehensively. The exposure to carbon risk for an investment portfolio can be expressed in a couple of ways:

Financed carbon emissions

The financed carbon emissions approach measures the absolute tonnes of CO2 equivalent for which a portfolio is responsible. GHG emissions are apportioned to a portfolio based on the percentage of total company equity the portfolio owns. To facilitate comparison between portfolios of different sizes, portfolios are normalised to a comparable metric of tonnes of CO2 equivalent per $1m invested.

The utilities, materials and energy sectors account for more than three quarters of the GHG emissions of the global index. Fairlight typically avoids these high emission industries because we find that companies with the quality characteristics that we desire are typically in short supply in these sectors. Whilst this sector allocation is the primary reason why Fairlight's portfolio finances 90% fewer GHG emissions than the global index does for every dollar invested (Figure 1), it should be noted that our holdings also have lower emissions than the averages of their respective industries.

Carbon intensity

The concept of carbon intensity scales a company's GHG emissions by company revenue so that small and large companies are comparable against a single metric: tonnes of CO2 equivalent per $1m of revenue. Carbon intensity is an efficiency measure that assesses how much carbon it costs to generate a unit of revenue. Figure 2 compares the carbon intensity of the Fairlight portfolio holdings with the global index. Pleasingly every single portfolio holding scores more favourably than that of the index. Somewhat surprisingly Fairlight's portfolio has a more attractive carbon intensity profile than the vast majority of specialist low-carbon funds (a finding that explains why a common criticism of these funds is that they are often a triumph of marketing over substance).

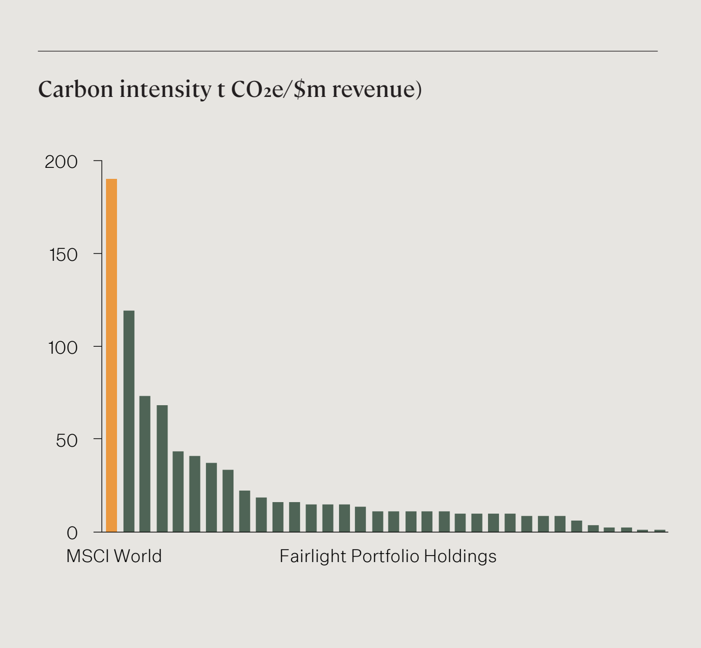

Figure 1

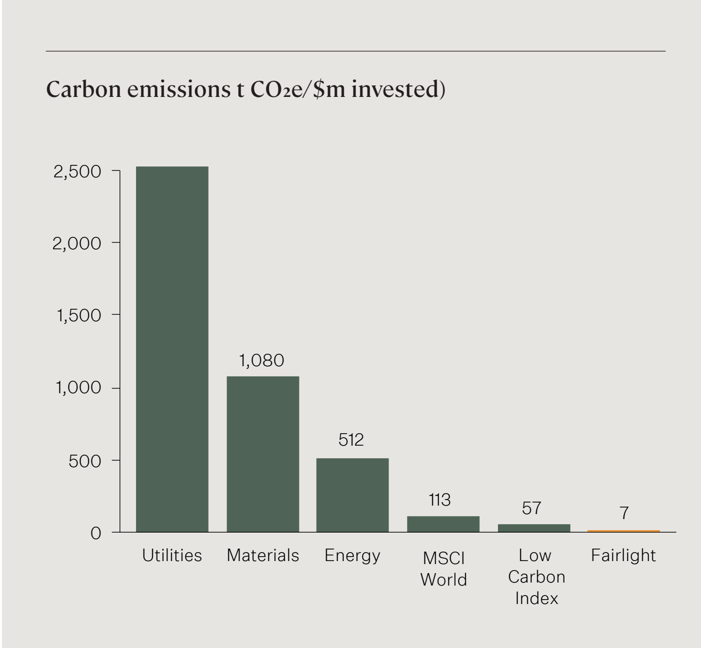

Figure 2

We are investor-centric. The client is at the center of every decision made.

Board of Directors

Policy has been approved by:
Fairlight Asset Management Board of Directors

Nicholas Cregan

Will Dowd

Anthony Patterson

Bill Anastasopoulos

Contact us

Phone: +61 2 8231 6486

Email: hello@fairlightam.com.au

fairlightam.com.au

FAIRLIGHT

fairlightam.com.au