





ESG Annual Review - FY2023

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United Nations Principles for Responsible Investment

-  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.



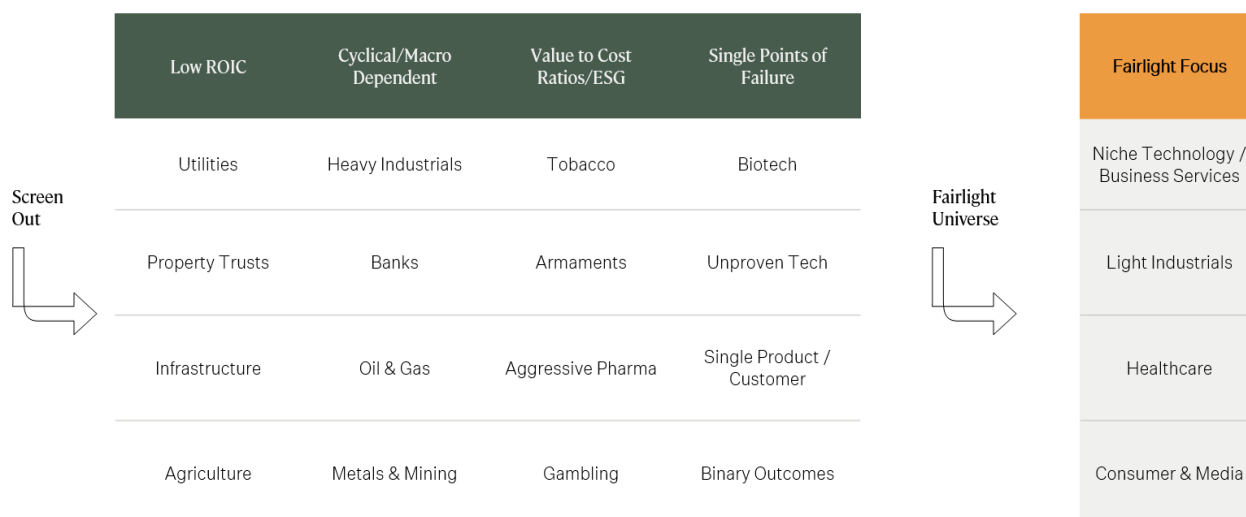
This document represents an Environmental, Social and Governance (ESG) review of the Fairlight Global Small & Mid Cap Fund (the **Fund**) in FY2023. All quantitative assessments are based on portfolio and benchmark (MSCI World Small and Mid Cap Index) compositions as at 30 September 2023.

1. Responsible Investing at Fairlight

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 a company's long-term success. Companies can increase shareholder value by better managing risks related to emerging ESG issues. Moreover, ESG issues can have a strong impact on reputation, culture and brands, an increasingly important part of company value and in cases of ESG market leadership, a potential source of competitive advantage.

ESG issues are considered at each stage of the investment process, including initial screening, stock research reports and the portfolio management process. Figure 1 depicts Fairlight's industry exclusion screens, used to account for the more obvious sources of ESG risk found in sectors including but not limited to tobacco, armaments, gambling, and mining (**Restricted Industries**). A maximum of 10% aggregate gross revenue exposure to these Restricted Industries is permitted before companies are excluded from ownership by the Fund.

Figure 1. Fairlight's industry exclusion screening



During the individual stock research phase of the investment process, all companies are scored across a range of ESG metrics which generates a cost of capital charge that is an input into company valuation. Fairlight has developed and implemented a proprietary scoring framework which each company will be assessed against to determine the company's individual ESG score.

The proprietary scoring framework is based upon factors categorised across 3 pillars including Environmental (E), Social (S), and Governance (G). Within each pillar, we've identified 5 factors, and assign a score of 1 for market leader, 0 for irrelevant/neutrality, and -1 for perceived ESG risks. These individual factor scores are then averaged to determine the overall ESG score, ranging from -1 to 1. A score below 0 would indicate material ESG risk, prompting the application of a higher discount rate, while a score approaching 1, would indicate the company is an ESG leader, prompting a valuation premium.

Fairlight is a signatory to the United Nations Principles for Responsible Investment. 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.

For further detail on Fairlight's approach to ESG, please refer to Fairlight's Responsible Investing Guide (available at <https://www.fairlightam.com.au/responsible-investing>) which is designed to be read in conjunction with this annual review.

2. Data Sources

In quantifying ESG within the investment process, Fairlight uses a combination of internally derived factors and third-party metrics. Internal factors are formulated by the investment team as part of the stock research process and are regularly reviewed and updated. These factors, via a cost of capital charge, are important inputs into Fairlight's valuation models and are used for portfolio management and position sizing. Examples of internal factors that we believe are important to assess ESG risk of a company, include but are not limited to greenhouse gas emissions, labour and working conditions, and related party transactions.

External metrics are sourced from third-party provider Sustainalytics Australia Pty Limited (ABN 37 607 393 028) (**Sustainalytics**) (FY2023). There are two predominant reasons to use external data in the preparation of this annual review:

1. Whilst Fairlight has a robust internal ESG database that covers all the companies that meet our definition of quality (approximately 200 companies), we do not have internally derived metrics for the other roughly 5000 companies in our benchmark that don't meet our criteria. The Sustainalytics database provides coverage of 99% of our benchmark which facilitates comparison between the Fairlight portfolio and its benchmark.
2. Third-party party data is independent of any biases that the Fairlight team may have towards portfolio companies.

3. Portfolio ESG Risk

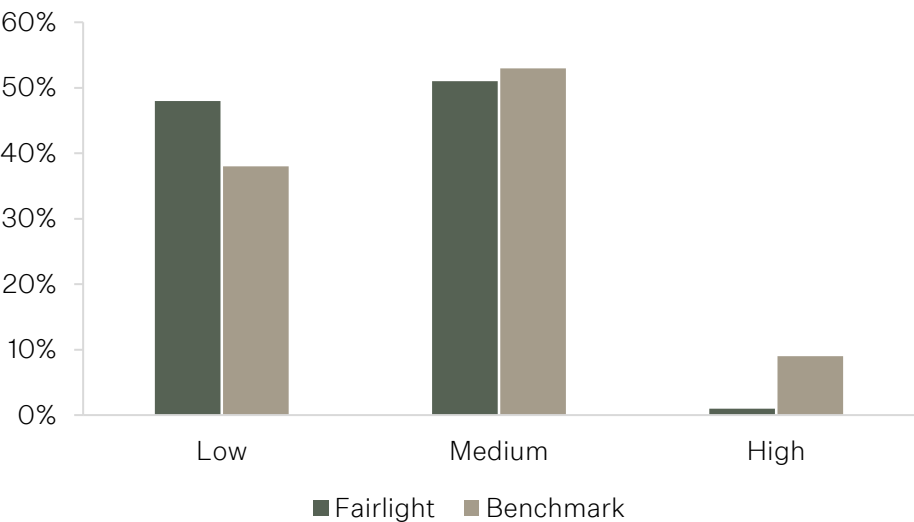
Under the Sustainalytics framework, portfolio ESG risk is calculated in a three-step process:

1. The **exposure** to various ESG risk factors is assessed
2. The extent to which companies successfully **manage** ESG issues is assessed
3. The residual "unmanaged" risk then reflects the final ESG **risk rating**.

3.1 Exposure

The Fairlight portfolio is assessed to have a low (score: 34.7) exposure to ESG risks compared to its benchmark which has a medium (score: 38.3) exposure to ESG risks. Figure 2 shows that Fairlight's relatively favourable exposure predominantly comes from a lack of ownership of companies that have high exposure to ESG risk factors.

Figure 2. Distribution of exposures to ESG risk factors

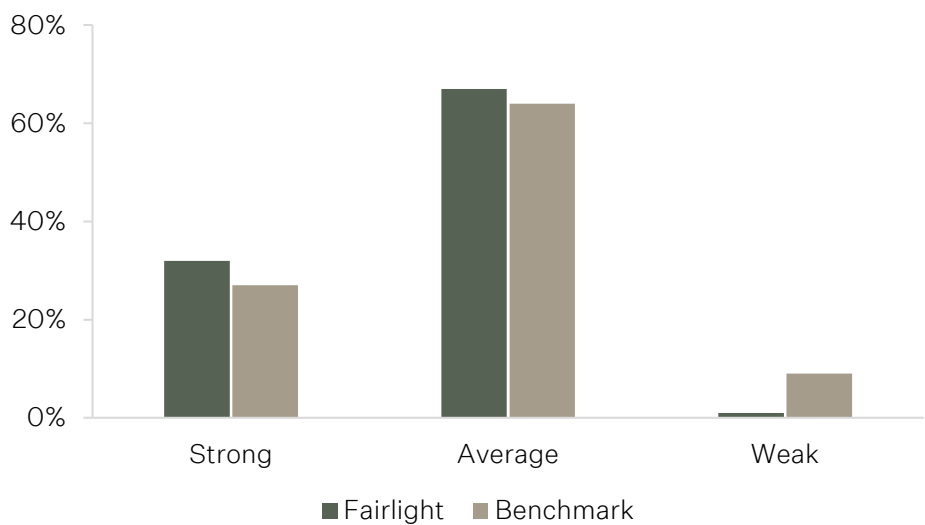


Source: Sustainalytics

3.2 Management

The Fairlight portfolio is assessed to have an average (score: 46.7) level of management of its exposure to ESG issues. The benchmark is similarly assessed to have an average (score: 43.1) management score. Figure 3 compares the distribution of the management scores of the Fairlight portfolio with those of its benchmark.

Figure 3. Distribution of management of ESG risk scores



Source: Sustainalytics

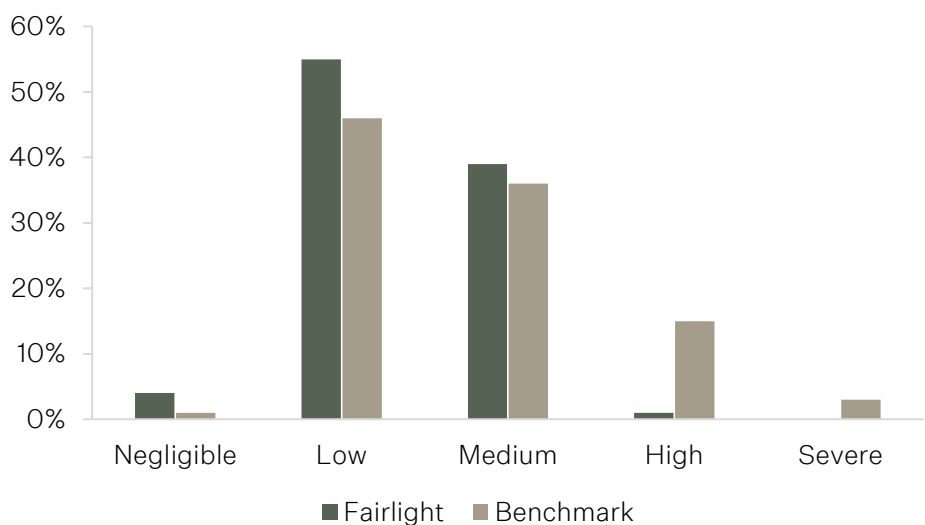
3.3 Risk Rating

The final Sustainalytics ESG risk rating measures the unmanaged ESG risk of the Fairlight portfolio which is assessed to be low (score: 19.6). This rating is 14% lower than the unmanaged ESG risk of the benchmark which is assessed to be medium (score: 22.8).

In assembling a portfolio, Fairlight looks to avoid owning companies that exhibit high or severe ESG risk. In Figure 4, Sustainalytics classifies the Fairlight portfolio as having 1% exposure (via our small holding of European industrial conglomerate Lifco) to high-risk categories versus the 9% exposure of our benchmark.

Whilst we usually find alignment between Sustainalytics and our own internal metrics, in this instance Fairlight disagrees with the Sustainalytics assessment of Lifco. It is our opinion that Lifco has been unfairly penalised by the peer group that Sustainalytics has created for Lifco - more than half of peers are Asian industrial manufacturers which on average have relatively soft track records on resource use, environmental emissions, and corporate governance. We believe a better peer group would consist of European manufacturers which are some of the lowest ESG risk companies in the broader industrial sector.

Figure 4. Distribution of final ESG risk scores



Source: Sustainalytics

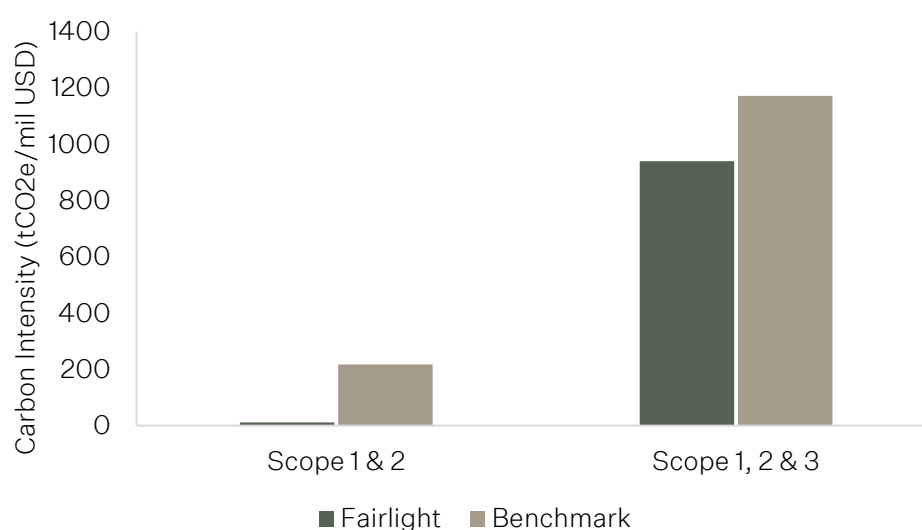
4. Carbon Intensity

The most prominent ESG consideration in equity markets today, is 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.

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. Using data from Sustainalytics, we can compare GHG emissions of each individual company in our portfolio and view the entire portfolio against the benchmark. Figure 5 compares the carbon intensity of Fairlight portfolio holdings with our benchmark. Scope 1 and 2 emissions capture all direct emissions from sources owned or controlled by the company plus all indirect emissions from consumption of purchased electricity, heat, or steam. Scope 3 captures other indirect emissions 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.

The Fairlight portfolio has a favourable carbon intensity profile with 95% lower carbon intensity than the benchmark for both Scope 1 and 2. When incorporating Scope 3 emissions, the portfolio has 20% lower carbon intensity than the benchmark. The difference between the two figures is largely a result of the Scope 3 emissions associated with Lennox International which is a US manufacturer of air conditioning systems.

Figure 5. Carbon intensity of Fairlight and benchmark portfolios



Source: Sustainalytics

Fairlight's favourable carbon intensity profile is a function of both sector and stock allocation (Figure 6). In all sectors that Fairlight invests, the Fund's companies on average have lower carbon intensity than the benchmark average. This can be seen in the stock selection effect, which is consistently negative, implying lower than industry average carbon intensity. For Scope 1 and 2 emissions, approximately three quarters of Fairlight's lower emissions come from sector allocation, with the residual one quarter of benefit coming from stock selection within sectors.

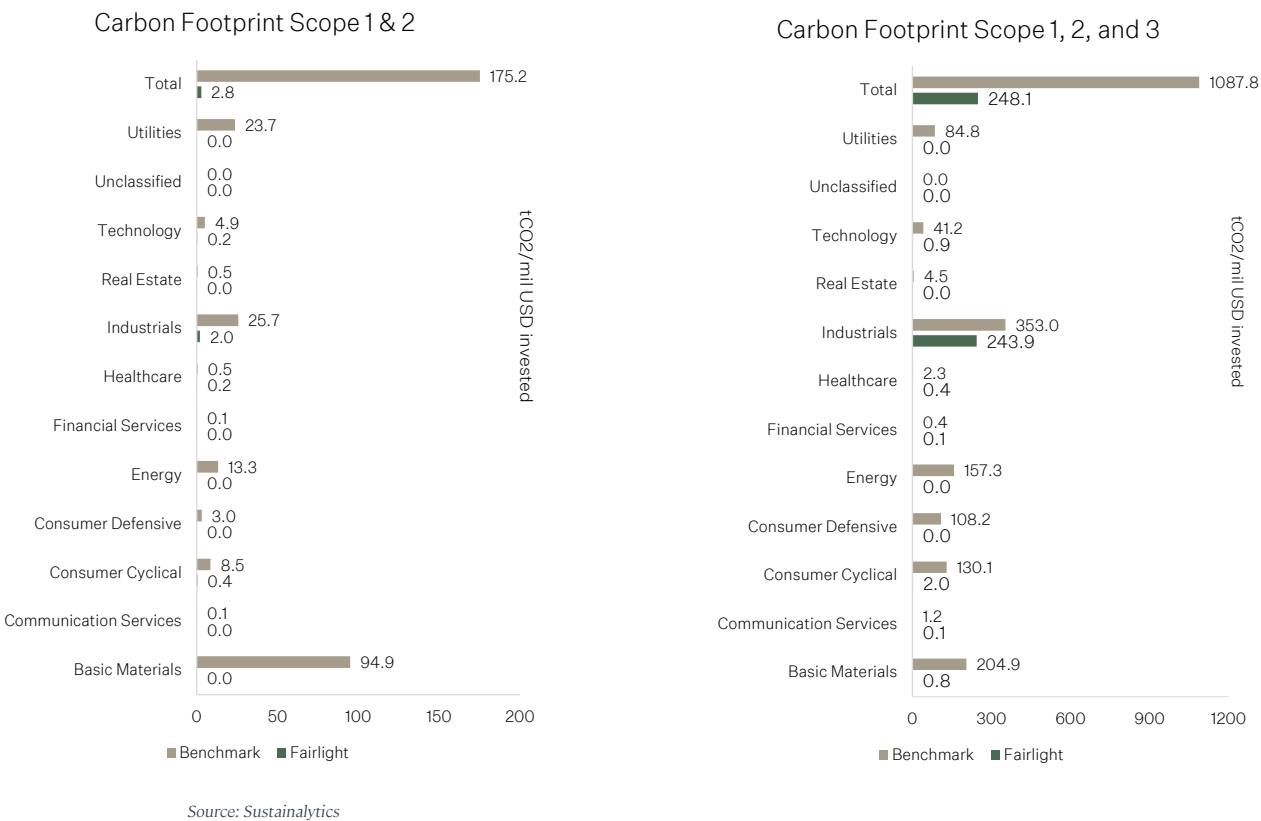
Figure 6. Attribution of Scope 1 & 2 emissions vs benchmark

	Sector Allocation Effect	Stock Selection Effect	Total Effect
Basic Materials	-18.18	-13.48	-31.66
Communication Services	-9.08	-0.78	-9.86
Consumer Cyclical	5.79	-6.37	-0.58
Consumer Defensive	5.16	0	5.16
Energy	-14.72	0	-14.72
Financial Services	19.96	-0.40	19.56
Healthcare	8.00	-0.24	7.76
Industrials	-23.80	-29.47	-53.27
Real Estate	4.22	-3.07	1.15
Technology	-32.01	-13.50	-45.51
Unclassified	0.04	0	0.04
Utilities	-86.25	0	-86.25
Total	-140.87	-67.31	-208.17

Source: Sustainalytics

On the other side of carbon intensity, we also measure carbon footprint per sector. Shown in Figure 7, Fairlight’s portfolio produced a lower carbon footprint (tCO2/mil USD invested) compared to the benchmark by 94.90% (Scope 1 and 2) and 77.19% (Scope 1, 2, and 3).

Figure 7. Carbon Footprint Scope 1, 2 and 3 of portfolio against the benchmark



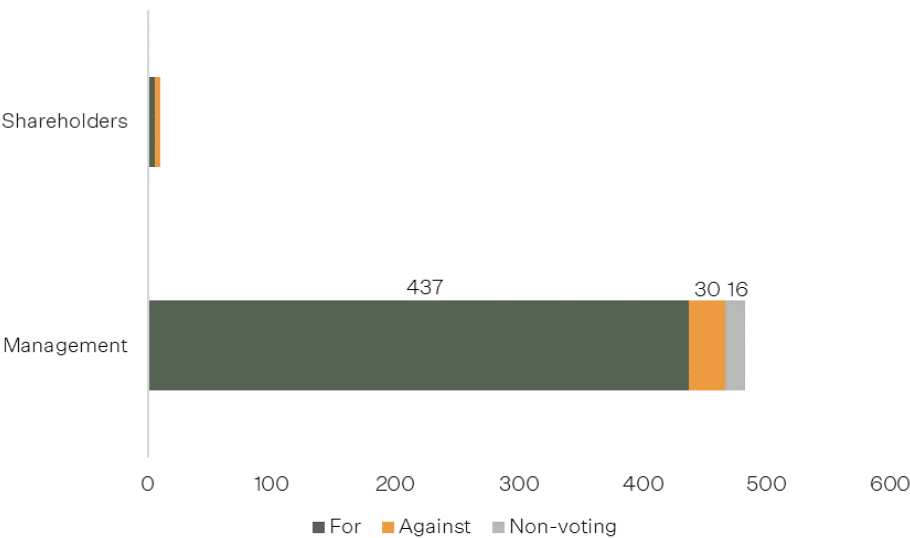
5. Voting record

Voting rights are a valuable asset which should be managed with the same care and diligence as any other asset. Ultimately, the ability of shareholders to influence management depends on willingness to exercise those rights. Fairlight’s policy is to vote on all company resolutions considered at general meetings where it has the voting authority and responsibility to do so.

In FY2023, Fairlight voted on 491 resolutions across 35 different meetings. Fairlight’s proxy votes statistics can be seen below (Figure 8).

Out of 491 resolutions, 483 resolutions were management and 10 were shareholders. We voted 437 “For” and 30 “Against” for management proposals (16 were non-voting) and 6 “For” and 4 “Against” for shareholders proposals. Non-voting proposals are typically routine agenda item intended for shareholders’ reference rather than necessitating active voting participation.

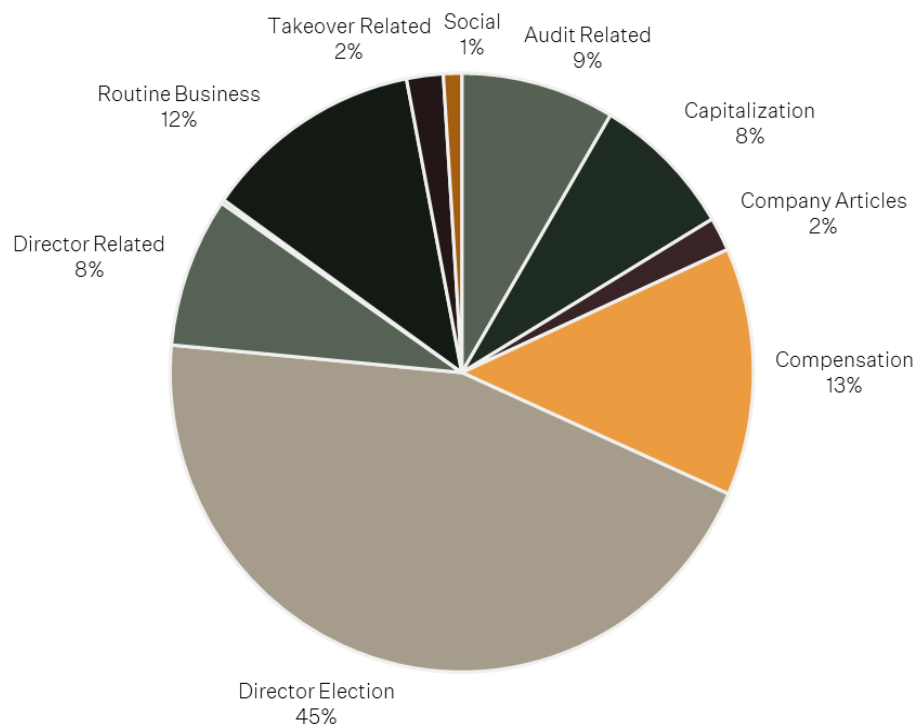
Figure 8. Proxy Votes Record for FY2023



Source: ISS and Fairlight

Figure 9. Resolutions Category FY2023

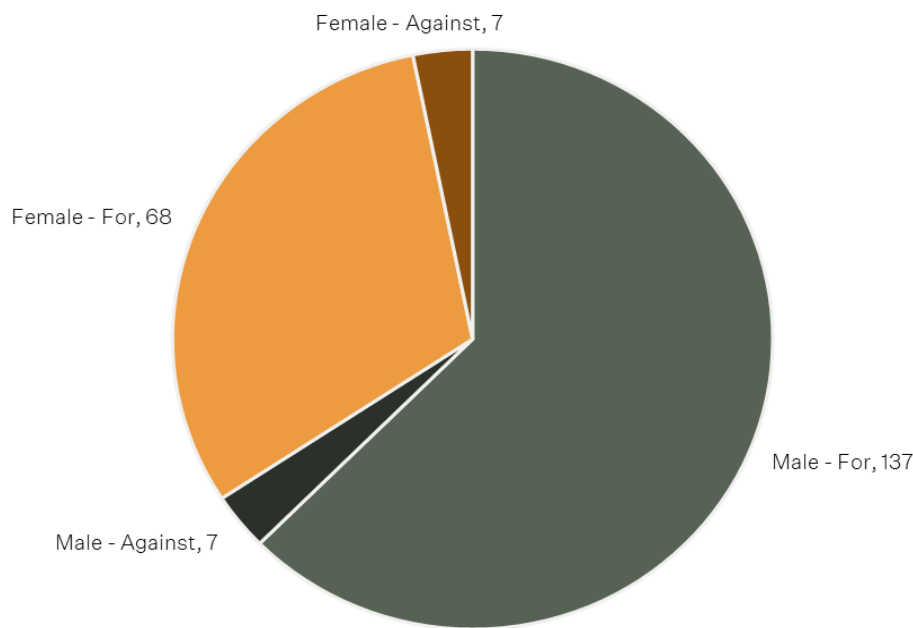
The most significant categories of resolutions were governance and compensation at 45% and 13% respectively.



Source: ISS and Fairlight

Figure 10. Elections of Directors FY2023

Of 219 elections of directors, 144 resolutions were male and 75 were female.



Source: ISS and Fairlight

Figure 11. Proxy Voting Statistics

ESG Pillars	Description	For	Against	Non-voting	Total
G	Audit Related	41	1		42
G	Capitalization	37	2		39
G	Company Articles	9			9
G	Compensation	55	11		66
G	Director Election	205	14		219
G	Director Related	36	4		40
G	Non-Routine Business			1	1
G	Routine Business	45		15	60
G	Takeover Related	10			10
S	Social	4	1		5
	Total	442	33	16	491

Source: ISS and Fairlight

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