Responsible Investment Policy

August 2023

TOUCHSTONE Asset Management

A Bennelong boutique

At Touchstone Asset Management, responsible investment is an important component of our investment process and part of our investment stewardship. This document outlines to investors and stakeholders our understanding of responsible investment, why it is a key consideration in our business, and how we implement it in our processes.

This policy will be reviewed regularly to ensure it continues to accurately reflect our objectives and processes.

Our understanding of responsible investment

Responsible investment is the consideration and integration of environmental, social and governance (ESG) factors in investment decision-making and active ownership of investments, in the belief that these factors can have an impact on company valuations and their financial performance. In Touchstone's case, this incorporates inclusion of socially responsible investment (SRI) screens and ESG considerations in our due diligence processes; appropriate attribution to material ESG factors; promoting ESG considerations and transparency; and monitoring ESG factors in existing investments.

Approach to human rights and modern slavery

We support maintaining human rights for all and the avoidance of modern slavery on a fundamental moral basis, including ensuring that companies in which we invest adhere to the legal requirements associated with supporting human rights and avoiding modern slavery.

We also support and endorse Bennelong Funds Management's Modern Slavery Statement.

Support for the Paris Agreement

We agree with the goal of carbon neutrality by 2050 as outlined in the Paris Agreement.

While we believe it is necessary to be good stewards of our clients' capital, ultimately changes will need to be made by our portfolio companies to achieve this goal. We expect all companies in the portfolio will make commitments to be net zero by 2050 or sooner; specifically, we request they set long-term targets for carbon emissions, with progress targets and checkpoints in the nearer term.

We expect some companies to perform better than others in decarbonising their own operations, along with their upstream and downstream value chains, and our engagement efforts will continue as appropriate.

We believe the transition to net zero and broader decarbonisation and climate change initiatives can be met without impacting the portfolio's stated risk and return objectives. Indeed, we see this effort as both a risk and a source of return for our portfolio positions. Companies with a clear pathway to improving their own climate performance are likely to outperform as they become more appealing for investors.

Objectives in incorporating the principles of responsible investment

We believe incorporating responsible investment in our decision-making process enhances investment outcomes for our investors as well as resulting in better societal outcomes.

Touchstone's approach to investing can be described as Quality at a Reasonable Price (QARP), based upon the careful consideration of both investment risk (quality) and expected return (price). This produces a portfolio that is style unaware and can include both value and growth stocks, depending on the risk/return trade-offs available across our universe of stocks at any given time.

While we do not manage a specific sustainability fund, the principles of responsible investment are a key element in delivering our investment objectives, given ESG considerations are an important component of the long-term success and sustainability of all companies. Considering the impact of ESG factors on the risk, return and sustainability of investments produces a more thorough due diligence process. It also helps to identify opportunities that may not be captured by conventional financial analysis.

In line with our long-term investment horizon, we expect companies with strong ESG profiles are likely to be better positioned for future challenges and to experience fewer instances of corruption and fraud. Improved ESG factors can also lead to stronger profitability through higher customer loyalty, lower regulatory costs and management distraction, increased employee morale and productivity, lower employee turnover, superior supplier relations, a lower cost of capital, and better aligned management with shareholders for long-term value creation.

Finally, we believe practicing more active ownership – by engaging directly with companies and discussing ESG issues – enables us to request our portfolio companies to improve their ESG risk management and disclosure, as well as develop more sustainable business practices. Proxy voting can also be employed to influence specific ESG issues and promote transparency.

ESG operational structure

We use data from our ESG data provider, Institutional Shareholder Services (ISS), along with data from other sources, in assessing the ESG qualities of existing and potential investments as well as a cross check to our own assessments. We also use ISS data and reports for ongoing monitoring of our investees' ESG performance and to assess our portfolio's ESG measures relative to the broader universe.

All Touchstone team members are accountable for the implementation of responsible investment principles across the company's processes. Each investment analyst is primarily responsible for ESG assessment of the companies they cover, while the portfolio managers monitor implementation to ensure appropriate standards are maintained and applied in a consistent manner.

Inclusion in investment process

We use a blend of 'art' and 'science' to create a diversified, index unaware portfolio comprised of our highest conviction ideas, while paying regard to overall ESG factors and other relevant considerations such as share price volatility and correlation, liquidity and identifiable risk factors.

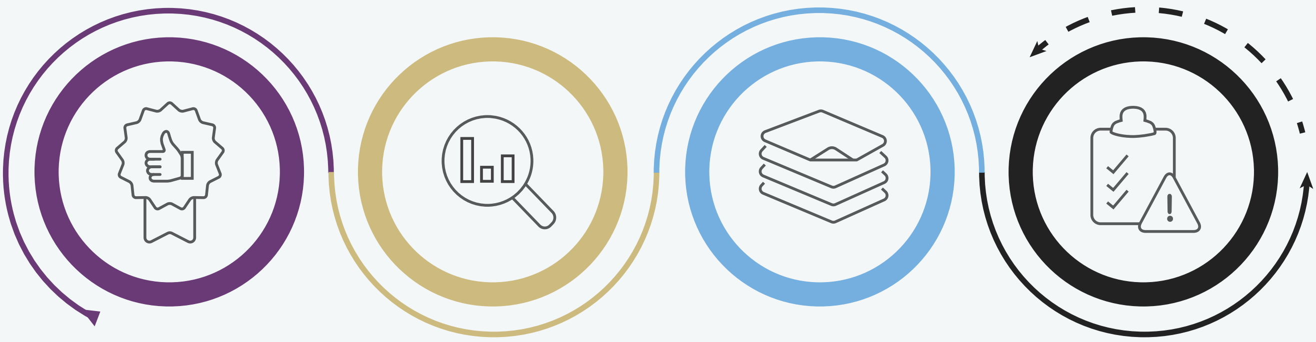
Our investment process incorporates the following stages.

STEP 01
Stock quality assessment

STEP 02
Forecasts and valuation

STEP 03
Portfolio construction

STEP 04
Portfolio risk management



STEP 01 – Stock quality assessment
- Universe quality pre-screening eliminates higher risk stocks
- Quality scoring for investable universe
- Dynamic stock quality ranking

STEP 02 – Forecasts and valuation
- Detailed financial modeling
- Apply range of valuations including DCF, PE, sum of parts, mid-cycle etc
- Stock total expected return ranking (1 and 3 year)

STEP 03 – Portfolio construction
- Quality-value (QARP) ranking guides stock selection
- Construction rules aid stock selection / position sizing while reducing unintended biases
- Investment directors have equal and final discretion

STEP 04 – Portfolio risk management
- Market return models cross check bottom-up return estimates
- Portfolio risk and analytics inc factor analysis
- Best ideas monitor
- QARP factor monitor

ESG considerations are included in this process at multiple levels. ISS provides external ESG data – which we use to analyse relationships between ESG factors and returns as well as build additional insights into potential risks – which is combined with our own inhouse research to consider the materiality of the ESG factor on both the asset value and significance for the overall portfolio. Essentially, we assess the following:

- Environmental – how sustainable are the practices a company uses to generate its products or services?
- Social – how does a company treat the people who create and consume its products or services?
- Governance – how well does the company align with and deliver for shareholders?

We start with our broad universe of stocks, consisting of around 300 companies, and apply a negative filter on the worst ESG performers. This filter predominantly uses the ISS Performance Score methodology and excludes the bottom tail of stocks below a statistical cut-off grade. Examples of stocks that have been excluded by this screen include a gold miner with poor environmental and social practices, an online retailer with poor governance practices, and a telco with poor governance practices. Performance Scores are updated on a continuous basis by ISS and refreshed into Touchstone's systems on a monthly basis.

Within our analysis, we assess stocks across a broad range of areas as outlined below.

Environmental

- Climate change
- Resource depletion
- Waste
- Pollution
- Deforestation
- Policy disclosure

Social

- Human rights
- Modern slavery
- Child labour
- Working conditions
- Employee relations

Governance

- Bribery and corruption
- Executive remuneration
- Board diversity and structure
- Political lobbying and donations
- Tax strategy

We also enhance the ISS Performance Score list with our own proprietary ESG research. An example of this is the exclusion of a coal miner on environmental grounds and the exclusion of a media company on poor governance practices. This screen usually excludes approximately 15-20% of the ASX300.

Our other fundamental processes exclude further names from the universe, where there are excessive risks such as liquidity, debt levels and earnings quality. This leads to our investible universe of companies, which are then ranked as part of the QARP process (Quality at a Reasonable Price). Here, each company is given a proprietary Quality Score where ESG is one of the components of this Quality Score, again utilising the ISS Performance Score methodology. The ESG rating of each stock is a materially higher-weighted component of the stock's overall Quality Score: a company with good ESG practices will have a higher Quality Score, while a company with poor ESG practices will have a lower Quality Score.

We then upload all quality and expected return factors into our proprietary QARP database. The QARP ranking process is a trade-off between quality and medium-term expected return, resulting in companies with strong expected returns and strong Quality Scores ranking at the top of the list. As such, a company with very strong expected returns and average ESG performance can outrank another company with better ESG performance and negative expected returns.

The QARP ranking then becomes an input into the construction of the portfolio and research prioritisation for the investment team. Companies with improving QARP rankings (which can include those with improving ESG performance) are viewed favourably. For example, a previously uninvestible diversified miner was added to the portfolio as it transitioned away from coal and towards future facing metals.

Carbon emissions measurement and forecasting

We capture and include data on carbon emissions in our fundamental models for stocks in our investible universe, calculating various footprint and intensity measures at the stock level. These data points are also uploaded into our QARP database, which allows measures to be calculated at the portfolio level.

We analyse the information provided and determine the most appropriate Scope and approach on a stock-by-stock basis. For example, a telco may have no Scope 1 emissions while being a major consumer of electricity, in which case Scope 2 would be the focus of our analysis. A smaller mining company with one asset may be able to reduce its own emissions while beholden to the energy source of the local electricity grid and unable to meaningfully influence its downstream customers' practices, in which case Scope 1 would be the focus of our analysis.

We forecast emissions based on commitments made by companies and any shorter-term projects undertaken to lower carbon emissions. While our portfolio turnover means such forecasts are indicative only, these forecasts allow us to consider trends in emissions profiles at both an individual company level and the portfolio level.

Corporate engagement and voting

Touchstone's investment analysts are directly responsible for ESG matters for companies under their sector coverage. Analysts maintain regular contact with management and boards of companies and routinely discuss ESG matters. We request portfolio companies address issues and we take an engagement approach to improving ESG metrics.

We recognise that improving ESG performance can take time and are willing to be patient where we can see progress being made. A company that reverses course towards poorer ESG practices is a candidate for removal from the portfolio. However, while a company may ultimately be sold for ESG reasons, we do not believe divestment is the most effective way of achieving desirable ESG outcomes.

With the objective of enhancing ESG considerations and transparency among corporates, we seek to influence the companies in which we invest through engagement and voting.

- Engagement in company interactions

  Via direct meetings, we request companies improve their management of material ESG issues, increase their level of disclosure and develop more sustainable business practices. We also maintain a company engagement register dedicated to ESG matters.

- Directing proxy votes

  We exercise our shareholder rights to influence and incentivise better corporate business practices among our investee companies. The voting process involves researching the issues, casting votes and communicating with the company, supported by our proxy voting consultant ISS.

Documentation and reporting of engagement

We regularly meet with company management teams and boards to discuss ESG matters, and document these engagement events with notes emailed to our clients and other interested third parties. As fundamental investors who place a large weight on meetings with our portfolio companies, we are in a position to both monitor and progress ESG issues and request that companies improve their practices. We also believe it is helpful to share such information with our clients for their own responsible investing activities.

We track our engagement activity over time and provide lists of meetings to clients and other parties on a regular and ad-hoc basis. We also communicate our proxy voting outcomes to clients following each meeting.

Monitoring and reporting of ESG performance

With assistance from ISS, we monitor our portfolio performance to:

- ensure individual companies maintain minimum ESG standards
- ensure the portfolio performs well on an ESG basis against its broader investible stock universe, and
- provide data to investors and external stakeholders.

For more information, visit **touchstoneam.com** or call 1800 895 388 (AU) or 0800 442 304 (NZ).