



## **OC Funds Management Pty Ltd**

# Environmental Social and Governance Guidelines

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## Introduction

OC acknowledge the responsibility placed on us as managers of our client's capital. We believe that a company's responsible approach to ESG issues reflects an attitude to long term earnings sustainability which is in the interests of our investors. OC are aware that ESG issues can impact the performance and value of investments in varying degrees and are ethically worthy of our consideration. Fundamental to the OC's approach to Responsible Investment is our belief that companies with best practice ESG policies tend to be better risk managers who typically outperform operationally over the long-run. This is why, ESG considerations have been integrated by our analysts throughout the investment process and explicitly included in our standard company risk assessments and analysis. As with other risks, ESG risks require constant reassessment and monitoring due to ongoing changes in regulations and the evolution of scientific knowledge and society values.

## Defining ESG scope in the investment process

OC endeavour to consider all material Environmental, Social and Governance issues for prospective investments. OC do not construct our products with explicit exclusion of investments on purely ESG grounds. ESG considerations may, however, lead to us removing a company from our investment universe or reducing the position size within our portfolio. We take a forward-looking view of ESG assessments, acknowledging that the market is evolving, and that companies' positions may change over time.

## Environmental domain

Environmental issues are typically long lived. The environmental impact of the companies we invest in can extend long after our investment period. A failure to recognise the environmental impact of companies aside from the ecological impacts can lead to the risk of adverse regulation, class action lawsuits and impacts from brand damage, which can come in any timeframe.

OC is committed to monitoring and managing climate risk within our portfolio and regularly engage with our portfolio holdings on their carbon footprint and their strategies to mitigate climate change.

We generally screen out single commodity and single mine resources stocks from our portfolio and are therefore typically heavily underweight commodity stocks which tend to be amongst the most harmful to the environment in terms of carbon emissions and environmental degradation.

The following is a non-exhaustive list of factors which may be considered by way of illustration:

Greenhouse gas emissions and other pollution
Management of climate change risks
Management of water and energy
Native and old growth forest logging
Depletion of non-renewable resources
Process which produce nuclear or hazardous waste
Preservation of heritage and wilderness areas
Recycling and waste management
Potential downstream pollution from product use

## Social domain

While social issues are often the subject to an element of subjectivity, it is the role of the analyst to identify risk of companies engaging in anti-social behaviours. We assess factors such as employee safety standards and company labour policies (including modern slavery considerations) and consider other workplace issues that may pose a material threat to a company's sustainable earnings growth. Practices in the grey areas of what is legally allowed but which may be counter to our ethical beliefs can have an impact on a company's sustainable earnings and are therefore considered in our risk assessment and valuation.

Through our regular interaction with employees, independent contractors, suppliers, regulators and former employees, we are able to develop a broad understanding of the culture of a business. This helps to inform us on a company's attitudes to broader social issues and social risk factors.

The following is a non-exhaustive list of factors which may be considered by way of illustration:

Community relations
Equal opportunities
Social impact on end users (e.g. Tobacco, Gaming, Gambling)
Indigenous peoples' land rights
Unethical labour practices (child labour, slave labour or conditions that could be considered modern slavery)
Labour standards / conditions
Occupational health and safety
Potential human rights abuses
Weapons manufacture and supply
Cruel and harmful animal testing or treatment

## Governance domain

Strong corporate governance is considered by OC to be imperative to the creation of sustainable shareholder value. We therefore consider that a company that has implemented strong governance structures and policies that align with shareholder values will perform better over the long-term. This includes a management team with awareness and policies that demonstrate strong governance practices and an independent board who recognise the importance of their role in guiding management on its responsibility to stakeholders. This is particularly important in the small cap universe where founders or large management shareholders may exercise high levels of influence over a company. It is imperative to make sure the appropriate governance frameworks are in place to ensure the interests of minority shareholders are adequately protected.

As part of our operational risk assessment undertaken prior to investing in a company, we evaluate the governance framework of a firm and their alignment to minority shareholders, taking into consideration the composition, experience and diversity of the board. We also assess remuneration structures and incentive plans to ensure that key management are aligned with the best interests of minority shareholders.

Whilst we are not activist investors, we regularly engage with the company Chair and other non-executive directors, including remuneration committee members, as part of our governance assessment. Whilst our approach is typically consultative, we do vote all eligible shareholder resolutions and will exercise our right to vote against shareholder resolutions not in the best interests of our unit holders.

The following is a non-exhaustive list of factors which may be considered by way of illustration:

The independence and skill of the board of directors
Ethical and responsible decision-making
Management of share option schemes
Recognition of the legitimate interests of stakeholders
Restraint and prudence around executive remuneration
Sound systems of internal control for risk oversight
Structures in place to safeguard the integrity of the company's financial reporting
Structures to safeguard against bribery and gratuitous payments
Conflicts of interest
Timely and balanced disclosure of all material matters concerning the company
Conservatism or aggressiveness of accounting policies

## Engagement

Where we believe our engagement would be useful and productive, we will engage management on ESG issues, either jointly or individually. Where we have issues with the governance of a company, we will engage with the Chair or other directors as might be relevant (e.g. Remuneration Committee head).

OC primarily relies on our own analysis to inform our ESG views, we also engage Ownership Matters to help inform our views on ESG matters and regularly engage with them on perceived ESG issues or to attain an independent view. Ownership Matters is an independent Australian advisory firm offering research and recommendations on corporate governance, proxy voting, and ESG issues, with a focus on promoting best governance practices to enhance long-term shareholder value. We also engage ISS on voting recommendations, as well as Ownership Matters, although we are not beholden to follow their view where our own opinions differ.

## Responsibilities

It is the responsibility of the Head of Investment Process to ensure this policy is kept up to date. Required changes are to be made to the investment process in a timely manner in conjunction with the Head of Investments.

## Our goal

Our aim is to:

- be aware of and monitor the key ESG issues for investments in the portfolio;
- be aware of and monitor the key ESG issues for investments suitable for future inclusion in the portfolio;
- voice our opinion to management and through our voting (consistent with our voting policy), in any instance where we see a company requiring change in relation to an ESG issue; and
- encourage the disclosure by companies of ESG and sustainability issues.

## Practical application

At a practical level, we aim to:

- consider relevant, material and quantifiable ESG factors in decision making;
- assess ESG risks at a company level as part of our Operational Risk Assessment (ORA);
- encourage brokers and external research providers to consider ESG factors where appropriate;
- encourage our investee companies to take ESG issues seriously and amend their practises where necessary; and
- consider ESG risks at stock and portfolio level as part of our Risk Management Committee meetings.

ESG considerations are a subset of risks to a company's earnings, viability, and future investment performance. Such risks should be included in Operational Risk Assessments prepared by the analyst. The following table provides the area for inclusion in the ORA for a selection of ESG risk factors. These factors will also be considered when making assumptions in financial models and valuations.

### Environmental

Greenhouse gas emissions and other pollution	ORA item 2
Management of climate change risks	ORA item 2
Management of water and energy	ORA items 2,4
Native and old growth forest logging	ORA item 2
Process which produce nuclear or hazardous waste	ORA items 2, 4
Depletion of non-renewable resources	ORA item 2
Preservation of heritage and wilderness areas	ORA item 2
Recycling and waste management	ORA item 2
Potential downstream pollution from product use	ORA item 2

### Social

Community relations	ORA items 2, 3
Equal opportunities, diversity & inclusion	ORA item 1
Social impact on end users (e.g. Tobacco, Gaming equipment)	ORA items 2, 4
Indigenous peoples' land rights	ORA items 1, 2
Unethical labour practices (child labour, slave labour or conditions which could be considered modern slavery)	ORA items 1, 2
Labour standards / conditions	ORA item 2
Occupational health and safety	ORA item 3
Weapons manufacture and supply	ORA item 2
Cruel and harmful animal testing or treatment	ORA item 2

### Corporate Governance

Ethical and responsible decision-making	ORA item 1
Management of share option schemes	ORA items 1, 5
Recognition of the legitimate interests of stakeholders	ORA item 1
Restraint and prudence around executive remuneration	ORA item 1
Sound systems of internal control for risk oversight	ORA items 5, 6
Structures in place to safeguard the integrity of the company's financial reporting	ORA item 6
Structures to safeguard against bribery and gratuitous payments	ORA items 1, 5
Conflicts of interest	ORA items 1, 5

Timely and balanced disclosure of all material matters concerning the company	ORA item 6
Conservatism or aggressiveness of accounting policies	ORA item 6
The independence and skill of the board of directors	ORA Item 5

## Modern Slavery

Please refer to OC's Modern Slavery Statement for more details

### Prevalence of Published Modern Slavery Statements. Holdings vs Benchmarks<sup>1</sup>

Our review of companies owned without Modern Slavery statements indicates that these are all low risk companies, providing services within Australia and other low risk countries without purchase of inventories from third parties.

	Modern Slavery Statement			Supply Chain Modern Slavery Assessment		
	Yes	No	Coverage	Yes	No	Coverage
<b>OC Mid-Cap</b>	96.3%	3.7%	95%	96.3%	3.7%	95%
[Mandate]	96.5%	3.5%	95%	96.5%	3.5%	95%
[Mandate]	96.5%	3.5%	95%	96.5%	3.5%	95%
[Mandate]	96.4%	3.6%	95%	96.4%	3.6%	95%
XMD	95.6%	4.4%	99%	94.4%	5.6%	99%
<b>OC Premium</b>	97.4%	2.6%	83%	83.2%	3.4%	95%
[Mirror]	98.0%	2.0%	83%	83.8%	2.9%	95%
[Mandate]	97.5%	2.5%	83%	83.4%	3.3%	95%
<b>OC Dynamic</b>	96.1%	3.9%	77%	76.3%	4.3%	95%
XSO	91.7%	8.3%	88%	82.3%	9.7%	95%
<b>OC Micro-Cap</b>	67.3%	32.7%	33%	23.0%	11.2%	95%
[Mandate]	66.9%	33.1%	32%	22.2%	10.9%	95%
XEC	70.1%	29.9%	41%	28.6%	14.5%	95%

<sup>1</sup> Bloomberg, OC, compiled 6/2/24. Excludes companies not covered by Bloomberg