# Environmental, Social and Governance Policy (ESGP)
## Date: March 2021

**Applies to following entities, referred to as the "investment manager" (or "Coolabah") as appropriate:**

- Coolabah Capital Investments Pty Ltd (CCI) ACN 153327872
- Coolabah Capital Institutional Investments Pty Ltd (CCII) ACN 605806059
- Coolabah Capital Investments (Retail) (CCIR) ACN 153555867
- Coolabah Capital (UK) Ltd Company Number 12714422

**Applies to following funds and individually managed accounts (IMAs), referred to as "funds "or "portfolios":**

- Smarter Money Fund (SMF), ARSN 154 023408.
- Smarter Money Higher Income Fund (SMHI), ARSN 601 093485.
- Smarter Money Long-Short Credit Fund (LSCF), ARSN 617 838 543.
- CCI and CCII portfolios, funds and IMAs.

Enclosed below is Coolabah's Environmental, Social and Governance Policy (ESGP). This Policy is subject to review on an annual basis, or as otherwise required by law or regulations, or to reflect internal developments affecting Coolabah's business operations or internal organisation.

**1. Introduction**

The investment objectives of Coolabah's funds are to deliver valuation alpha and superior risk-adjusted returns over time with high liquidity and very low probabilities of loss. Coolabah seeks to identify very liquid, high-quality investments which are issued by companies that are "unquestionably strong" with negligible default risks, and to acquire these securities at prices that are assessed as being mispriced (ie, cheap) with an appropriate margin of safety.

As part of the assessment of both a company and its associated security's rich array of risk characteristics, Coolabah seeks to consider all issues that it is able to identify that may materially influence the investment outcomes for a company.

Appraising and understanding Environmental, Social and Governance ("ESG") factors is an inherent and core part of Coolabah's analytical process given that they have manifold ramifications for the performance of the Coolabah's target companies and associated securities, including the presence of mispricings, credit ratings, and the market's preparedness to buy and sell these investments.

Coolabah believes that nuanced ESG factors are often overlooked by the market and credit rating agencies when assessing the valuation and credit-worthiness of fixed-income securities.

ESG factors impact the future states of nature and probability distribution that a company faces, and Coolabah specifically considers these factors as part of its analysis of any business, its risks and expected performance. ESG factors are part of the suite of issues that impact business risk, credit-worthiness and asset pricing and are considered as part of Coolabah's deep qualitative and quantitative analysis of any potential target.

Coolabah is cognisant of a range of benchmarks for assessing ESG issues, including the UN-endorsed Principles for Responsible Investment. Coolabah acknowledges and maintains a watching brief on the development of such principles and their adoption by rating agencies and regulators.

Coolabah believes that ESG factors change constantly through time, which presents mispricing opportunities. This may involve allocating capital to companies with sub-optimal ESG scores, but which Coolabah assesses have a high probability of remedying these problems in the future, and/or in entities where the market and other stakeholders have materially mispriced ESG factors. Depending on the fund or mandate limits, Coolabah may seek to capitalize on these mispricings on a long or short basis (i.e. profiting from price rises or falls).

The types of ESG factors Coolabah takes into account as part of its quantitative and qualitative investment process include the following, which are well known public concerns and documented accordingly (see for example here).

**Environmental: weather related risks, dependency on prices of assets that may be impacted by environmental considerations, pollution and environmental disruption, environment sustainability, and associated reputational and brand risks. More specific and widely recognised public explanations are provided below.**

- **Climate:** The body of research providing evidence of global trends in climate change has led investors—pension funds, holders of insurance reserves—to begin to screen investments in terms of their impact on the perceived factors of climate change. Fossil fuel reliant industries are less attractive as a result. In the UK, investment policies were particularly affected by the conclusions of the Stern Review in 2006, a report commissioned by the British government to provide an economic analysis of the issues associated with climate change. Its conclusions pointed towards the necessity of including considerations of climate change and environmental issues in all financial calculations and that the benefits of early action on climate change would outweigh its costs.
- **Sustainability:** In every area of the debate from the depletion of resources to the future of industries dependent upon diminishing raw materials the question of the obsolescence of a company's product or service is becoming central to the value ascribed to that company.

**Social: political stability in countries of operation, human rights record of company and countries of operation, diversity, commitment to maintaining internal and customer privacy, including cyber-security, impact on local communities, health and safety, and associated reputational and brand risks. More specific and widely recognised public explanations are provided below.**

- **Social system:** There can be large risks introduced by the social system in the country in question with non-democratic states that subordinate civil liberties and human rights normally precipitating a wider range of investment risks than democratic models that place individual rights, property rights, and freedom of expression, association and religion at the heart of their modus operandi.
- **Diversity:** The level of diversity as well as inclusion in a company's recruitment and people management policies is becoming a key concern to investors. There is a growing perception that the broader the pool of talent open to an employer the greater the chance of finding the optimum person for the job. Innovation and agility

are seen as the great benefits of diversity, and there is an increasing awareness of what has come to be known as 'the power of difference'.

- **Human rights:** In 2006 the US Courts of Appeals ruled that there was a case to answer bringing the area of a company's social responsibilities squarely into the financial arena. This area of concern is widening to include such considerations as the impact on local communities, the health and welfare of employees and a more thorough examination of a company's supply chain.
- **Consumer protection:** Until fairly recently, caveat emptor ("buyer beware") was the governing principle of commerce and trading. In recent times however there has been an increased assumption that the consumer has a right to a degree of protection and the vast growth in damages litigation has meant that consumer protection is a central consideration for those seeking to limit a company's risk and those examining a company's credentials with an eye to investing. The collapse of the US subprime mortgage market initiated a growing movement against predatory lending has also become an important area of concern.

**Governance: board composition, risk management track-record, legal and compliance track-record, history of prosecutions, management remuneration, distribution of equity, and associated reputational and brand risks.**

- **Management structure:** The system of internal procedures and controls that makes up the management structure of a company impacts its valuation. Attention has been focused in recent years on the balance of power between the CEO and the Board of Directors and specifically the differences between the European model and the US model—in the US studies have found that 80% of companies have a CEO who is also the Chairman of the Board, in the UK and the European model it was found that 90% of the largest companies split the roles of CEO and Chairman.
- **Employee relations:** From diversity to the establishment of corporate behaviours and values, the role that improving employee relations plays in assessing the value of a company is proving increasingly central.
- **Executive compensation:** Alignment of interests between different executives and equity and debt stakeholders is particularly important, as is the presence of variable remuneration that rewards outperformance with appropriately long vesting programs. Equitable pay of other employees is a consideration in the governance of any organisation. This includes pay equity for employees of all genders.

**2. Investment Committee Reporting and Record Keeping**

Where ESG issues arise that are materially different from Coolabah's extant assessment, and have an ability to adversely impact performance, they are reported to the Investment Committee for their consideration and advice.

**3. Integration of ESG Issues into the Investment Process**

Coolabah's due diligence process involves performing qualitative and quantitative analysis of credits, within the manager's permissible investment universe under its existing investment guidelines or mandates. As an activist investment manager, monitoring the ESG status of an issuer, and thereby identifying alpha-generating opportunities from its ESG performance, forms part of the manager's due diligence and portfolio management process.

Internal evaluations include specific sections that summarise the Coolabah's ESG analysis to facilitate an investment recommendation for any target asset. This will include historical analysis on the performance of the issuer's ESG factors over time.

Further, the investment team is required to assign an overall ESG rating that takes into consideration the various environmental, social and governance aspects of the underlying target as part of its investment recommendation. The overall rating is summarised at the front of each report using the following rankings: Poor ESG; Sound ESG; Strong ESG.

In addition to holding credits that have "sound" and "strong" ESG ratings, Coolabah also has the flexibility to take positions (buy, sell or hold positions) on credits with a "poor" ESG rating in situations where it considers that the ESG status is changing and will become a source of long or short alpha (subject to the mandate's rules) where the ESG performance may improve or deteriorate leading to price gains or falls (and corresponding alpha).

As part of the ongoing surveillance of companies, ESG issues will also be explicitly included in the review. The focus of this analysis is whether and how ESG issues have transpired and, accordingly, whether the ESG ratings for the asset appropriately reflect underlying investment risks.

**4. Proxy Voting Policies and Procedures**

Where Coolabah has voting authority over securities held in client portfolios, the general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, including interests in the Funds, if any (collectively, "proxies"), in a manner that serves the best interests of Coolabah's clients, as determined by Coolabah in its discretion, and taking into account relevant factors, including, but not limited to:

- The impact on the value of the securities;
- The anticipated costs and benefits associated with the proposal;
- The effect on liquidity; and
- Customary industry and business practices.

With respect to ESG-specific matters, Coolabah will vote proxies on a case-by-case basis, but will generally vote for any proposals that will reduce discrimination, improve protections to minorities and disadvantaged classes, and increase conservation of resources and wildlife.

Coolabah will generally vote against any proposals that place arbitrary restrictions on the company's ability to invest, market, enter into contractual arrangements or conduct other activities. Coolabah will also generally vote against proposals to:

- Bar or restrict charitable contributions; or
- Limit corporate political activities.

The Chief Risk Officer is responsible for the actual voting of all proxies in a timely manner, and is responsible for monitoring the effectiveness of the Policies.

**5. Training and Continuous Development**

The investment team seeks to engage with internal and external experts to continually grow awareness of ESG issues and to ensure we conduct our business in a responsible manner. With this in mind, Coolabah actively welcomes an open dialogue with clients and stakeholders to support and strengthen our responsible investing initiatives.