



Responsible Investment Policy

Owner	CIO
Approval	Managing Director
Relates to	Flagship Investments Limited Pty Ltd
Date Last Updated	30-06-2021
Primary Rules/Rationale	To detail the firm's investment philosophy and process when managing client portfolios.

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Policy

Introduction

Overview

Flagship Investments Limited Pty Ltd (FSI) believes that environmental, social, and corporate governance (ESG) factors can have a material impact on long-term investment outcomes.

Considering ESG factors is part of the investment decision-making process and is fully integrated throughout the investment process. Below specifically documents our beliefs in relation to climate, modern slavery, and corporate governance.

We exercise our voting right either internally or via our external managers.

We communicate FSI's approach to Responsible Investment on the FSI website.

Company exclusions are considered on a case-by-case basis. FSI supports the United Nations-backed Principles for Responsible Investment Initiative (PRI).

Objective

In our view accounting for ESG risks and opportunities can lead to more informed investment decisions. A company that is deemed investment-grade, a 'Quality Franchise', inherently requires a full assessment of these factors to ensure a sustainable business model that can generate predictable earnings growth over time.

To consider ESG factors in our investment decisions and through our active asset management to maximise long term outcomes to our Shareholders.

Application

This policy applies to FSI's Investment Manager.

FSI's Responsible Investment Policy will be consistent with other FSI investment, strategic or operational policies and processes, including the Manager's Investment Policy.

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Responsible Investment

Commitment to PRI

FSI supports the United Nations-backed Principles for Responsible Investment Initiative (PRI).

The principles for responsible investment provide guidance on how to integrate the consideration of ESG factors into investment decision-making and ownership practices.

We are committed to applying the principles in our investment processes, specifically:

1. We will consider ESG factors to promote better analyses and more informed investment decisions.
2. We will identify and seek to manage ESG considerations through our active asset management processes.
3. We will exercise our voting rights and undertake engagement on ESG issues.
4. We will assess and oversight the ESG integration through our monthly investment meetings.
5. We will report FSI's Responsible Investment activities to the FSI Board and clients annually.

Fiduciary Duties

The integration of ESG issues into our decision making is an increasingly standard part of the regulatory and legal requirements for listed companies, along with the consideration of sustainability-related preferences of shareholders.

Fiduciary duties (or equivalent obligations) exist to ensure that we act in the interests of beneficiaries, rather than serving our own interests. We will strive to act honestly and in good faith in the interests of our Shareholders and to understand and incorporate ESG and sustainability assessments into our decision making.

FSI is committed to ensuring we act with due care, skill, and diligence, investing as an 'ordinary prudent person' would. This includes:

- Incorporating financially material ESG factors into their investment decision making, consistent with the timeframe of the obligation.
- Being an active owner, encouraging high standards of ESG performance in the companies or other entities in which they are invested.
- Supporting the stability and resilience of the financial system.

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Governance

Good and effective governance is central to ensuring that we meet our obligations to our Shareholders, and to execute on our firm's strategy. At FSI, we take responsible investing seriously and to that end ensure we have a strong commitment from the board and our investment manager to deliver on ESG and sustainability issues.

As a listed investment company, FSI has a fiduciary duty to our Shareholders to ensure that we adequately consider and assess any company-related risks. Since ESG is fundamental to our investment thesis, these issues are subject to intense scrutiny in our assessment of any investment opportunities.

We will strive to ensure that we are not in a position where conflicts of interest related to responsible investment may arise. We will continue to ensure our responsible investment practices are upheld to ensure we deliver on our promises to our shareholders.

Application

Responsibility

The responsibility for the development, implementation and monitoring of this policy sits with the Manager.

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ESG & Sustainability

We know that Sustainable Business is Good Business. High-Quality Franchises have strong, sustainable foundations which provide for superior long-term investment returns. For us, ESG, and sustainability more broadly, has always been central to our process and thinking. For any long-term investor identifying high-quality companies, sustainability is a foundational component of any investment analysis.

ESG issues are highly relevant to a better understanding of the long-term potential of an investment and its predictability of returns over time. Incorporating sustainability into one's decision-making will ultimately lead to superior investment returns.

Environmental Beliefs & Guidelines

FSI firmly believes that **businesses whose operations are damaging or detrimental to the environment are not sustainable businesses**. Companies who have such practices will likely experience lower returns on invested capital, have the potential for stakeholder backlash and reputational damage resulting in the loss of their social licence to operate.

As a custodian of our Shareholder's capital, ensuring we invest in businesses that operate with sustainable business practices that take steps to ensure the respect and consideration of our environment are requisite. As such, FSI aims to ensure our portfolio has a low carbon footprint, and that we seek to exclude companies or sectors that we believe will pollute or destroy our natural environment in an unsustainable way.

Social Beliefs & Guidelines

FSI believes that **businesses that do not uphold accepted universal human rights and do not consider all their stakeholders are unsustainable businesses**. For any company, ensuring all stakeholders are appreciated and respected are central to a firm being able to achieve above-average economic performance through time.

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We actively avoid companies whose business operations fail to meet basic human rights and labour standards within their value chain, ensuring there is no child or slave labour, and have positive workplace health and safety practices. Human capital management and employee relations, including diversity, are important considerations for long-term investment.

Governance Beliefs & Guidelines

FSI believes that businesses that demonstrate inadequate corporate governance will likely deliver poor investment outcomes. Ensuring that the business from the top-down is set up to ensure fair, respectful, and honest operations will permeate through the whole organisation. For any company, having strong corporate governance is a prerequisite to deliver on strategic plans and business outcomes.

Since management and governance are closely related to all parts of a business, ensuring companies have a trustworthy and capable management with sound governance is required. Taking a holistic approach means to understand management in terms of business strategy, encompassing both the implications of business strategy for environmental and social issues and how the strategy is to be implemented.

Approach to Sustainability

When assessing the long-term potential of an investment, sustainability is a core foundational pillar. Understanding investment sustainability requires a forward-looking approach that considers externalities that may impact the predictability and competitiveness of business operations.

When assessing investments, it is important not to single out one stakeholder as more important than another — this is a fine balancing act for any investor. Understanding ESG-issues, whether historical or current, needs to be understood as interrelated and interdependent to the broader investment thesis.

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Sustainability assessment focuses on areas of a business where there may be a risk to the predictability of business operations over time. This assists the mitigation of default risk and uncertainty of business expansion. Three core business characteristics must be evident:

- The business operates in an industry that has a low risk of macro-environmental (PESTLE) factors that will affect the future predictability of company earnings.
- The business has had minimal ESG risks to date, and management has demonstrated a capacity to mitigate future ESG issues.
- The business has displayed dynamic capabilities that purposefully create, extend, or modify its resource base that sustains its competitive advantage over the long term.

Active Ownership & Stewardship

As a listed investment company upholding responsible investment practices, it is prudent that we carefully consider any long-term risks to our investments. Increasingly, climate change and environmental risks pose serious threats to some business models, whether they be physical or transitional risks as we transition to a net-zero economy.

We are committed to following the PRI and ensure that ESG issues are integrated throughout the process. Being an active owner means we engage with our companies on ESG-related matters, ensuring that there are adequate disclosures on any of these issues.

Importantly, as an active owner, we execute the voting rights attached to shares FSI holds in our companies and is something we regard as being an integral element of active ownership. Share voting is an important tool for engaging with companies. We see voting as an effective way for FSI to publicly express our views on what a company is doing right, and what a company needs to improve.

Policy

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Exclusions

At times specific investments are excluded in a manner that is consistent with FSI's commitment to Responsible Investing. FSI's decision to exclude securities from our portfolio is subject to the following criteria:

- International conventions/treaties to which Australia is a signatory
- Australian, National or State law
- Significant policy positions of the Australian or State Government
- Legal status of the product or activity

While we use a few external resources, including ESG specific data, to inform our analysis, we do not rely upon these providers for ESG screens. We do, however, exclude several companies, sectors, or countries from our universe due to ESG-related concerns. For us, identifying businesses with predictable business operations is vital for us to drive long-term investment performance.

Importantly, these exclusions are due to the high risk to businesses looking to expand their economic footprint over the long term - for us, these are highly unsustainable industries. When we begin research on any company, our process ensures that we remove companies from our universe that are large carbon emitters, have poor ESG standards, harm the environment, or have failed to manage or plan for potential risks.

The purpose of our ESG-related exclusions is to avoid the destruction or degradation of system performance, whether organisational, social, or environmental. The exclusions are based on three principles:

- To avoid risks that may present significant harm to our society and our environment.
- To avoid risks that may limit the industry growth outlook of our investment companies; and
- To avoid ESG-related risks that may impact the predictability investment performance.

The scope for excluding companies (and their subsidiaries and investments) is based on their direct involvement in the production, manufacture, service, and delivery of their products within the following sectors or areas of concern. The following does not extend to companies included in parts of the supply chain to provide these products or services.

Policy

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Our investment philosophy guides everything we do, and the following exclusions are deemed to impact the predictability of operations due to their unsustainable nature. At FSI, we update our exclusions list annually, and we currently exclude the following:

Environmental

Thermal coal	Thermal/steam coal mining or coal-based energy production.
Petroleum	Petroleum, crude oil production, oil sands or Arctic drilling.
Logging	Old forest, or rainforest logging.
Palm oil	Palm oil plantations, or palm oil products.
Pesticides	Chemical compounds used to kill, repel, or control certain forms of plant or animal life.

Social

Gambling	Any form of gambling, games of chance for money, or betting.
Adult entertainment	Pornography, erotica, or other printed/visual material containing the explicit description or display to stimulate sexual excitement.
Tobacco	Tobacco, nicotine alternatives, and tobacco-based products.
Weapons	Controversial weapons, firearms, civilian or military weapons and equipment, armament, chemical, or biological weapons.

Governance

Systemic poor governance	3 recent successive AGM strikes, corruption, bribery, or other corporate misconduct.
Human rights violations	Any human rights violations, sanctions, breaches to UN conventions, or any other failure to uphold basic human rights.
Low peace countries	Primary business operations within low peace countries, whether measured by negative or positive peace.

Appendices