



# Responsible Investment Policy

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*Signatory of:*



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## Introduction

The purpose of this document is to articulate PM Capital’s policy and views on “Responsible Investment”. PM Capital regards Responsible Investment as “a common sense consideration” in terms of assessing existing and prospective investments.

It is apparent that there has been a major upwelling in lobby groups and organizations researching, collating and distributing information within the field, as well as an increasing public awareness of environmental, social and governance issues that may impact investment performance. This has led to investors being increasingly aware of the inherent link between a company’s sustainable practices and long-term profitability.

As such, PM Capital has sought to extract Responsible Investment components and document them in a practical and efficient manner. We do recognize that, to review a position as a Responsible Investment, ESG factors must be considered as part of an overall assessment of a company’s risk management framework to the extent that these may impact the value of the company over time. In our quest for a portfolio of good quality businesses, sustainability issues are inherently analysed.

This Responsible Investment Policy will be considered progressively and continually developed and enhanced over time.

**PM CAPITAL defines RI as follows. “Responsible Investment” is an investment process that considers the governance, social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis.**

## PM CAPITAL’S PHILOSOPHY ON RESPONSIBLE INVESTMENT

PM Capital is an active investment manager and an absolute return manager. These factors ensure that PM Capital’s investment positions have been rigorously reviewed and analysed for qualities that exhibit a Socially Responsible Investment.

### Long Term Investor

Investors with a short-term focus may often have interests in companies which exploit opportunities that may, in fact, be detrimental to the company’s shareholder value in the long term. PM Capital is committed to delivering long term investment performance.

Long term investors typically take much greater interest in ensuring that a company conducts its business operations in a sound and sustainable manner. PM Capital are true investors as opposed to traders, with an investment horizon of 3 to 5 years and beyond. As a long-term owner of the business this gives PM Capital the opportunity to engage meaningfully with the company on ESG issues.

### Absolute Returns and Active Manager

In contrast to passive or index investing, PM Capital’s active and concentrated portfolio necessitates vigorous insight and analysis of a company’s share price drivers and governance structures, as well as reviewing comparable metrics to other stocks within a portfolio or a mandates’ universe. PM CAPITAL is committed to active management of its investment positions.

## TOOLS FOR ENGAGING MEANINGFUL ACTION WITHIN ESG

### Screening

PM Capital has a policy of exclusion when we feel that a company or sector can not as a result of its primary business activities be considered to be a Responsible Investment.

The exclusion of a stock or sector has a negligible effect on the size of the investable universe. PM Capital is typically looking to hold 25-45 investment positions in its portfolios at any time. Some examples of sectors that are screened from our investable universe include tobacco manufacturers and weapons manufacturers.

While we exclude certain sectors, we acknowledge that this may in the short-term affect investment performance on a relative basis. However, in the long term, we believe that the investment performance of quality business franchises will ultimately prevail and deliver above average shareholder value. Many people believe a negative screening process forces an unacceptable trade-off between ethical criteria and investment returns. For PM Capital, research of sustainability factors within the context of an effective company risk management framework plays a key role in achieving our primary aim – that is, to maximize long-term returns for investors over a three to five year period.

### **Corporate Governance**

#### Proxy Voting

PM Capital has a policy of active engagement in which we use the fund's voting power in general meetings of company shareholders. PM Capital will generally oppose proposals such as:

- election of inappropriate directors, particularly where there is not a majority of independent directors, where board quality is considered an issue, or where there has been excessive turnover of board / senior executives;
- excessive remuneration arrangements, or a lack of alignment of executive incentive structures with that of shareholders and a company's operating performance;
- appointment of auditors who are not independent.

#### Corporate Engagement

PM Capital's investment team regularly meet with and engage operational management of companies that we invest in. We also engage Board members when deemed appropriate. We do not engage third parties to represent our views. The kinds of issues that might be raised with companies are:

- Assessed gaps or flaws in a company's risk management framework;
- Assessed weaknesses in Board composition;
- Excessive executive remuneration arrangements;
- Concerns about corporate governance practices;
- Concerns about environmental practices;
- Concerns about social issues;

As such, consideration is given to analysing a range of sustainable business practices as well as the financial impact of a company's environmental and societal risks over our investment horizon; in particular, climate change and occupational safety.

### **PM CAPITAL and THE UNPRI**

PM Capital acknowledges that the UNPRI is a voluntary, aspirational initiative that provides a framework for integrating ESG considerations into investment decision-making. PM Capital regards Responsible Investment as essential part of this process. We do recognize that ESG factors, among other factors, may impact shareholder value and as such have chosen to be a signatory to UNPRI.

### **APPENDIX A**

Appendix A provides a summary of (but is not limited to) ESG matters for due consideration by PM Capital investment team members as part of an overall assessment of a company's risk management framework for existing / prospective investments.

## Appendix A

The following factors should be given due consideration (but are not limited to) in the context of overall assessment of a company's risk management framework, including ESG matters.

Key issues identified during the research process should be referenced and, if significant, discounted in the company valuation or target entry/exit price.

Significant ESG issues should be incorporated in Key Issues & Questions and the Investment Summary documents for active monitoring and engagement with the company.

### Governance

1. Board Structure
  - Board independence (majority of directors)
  - executive management representation
  - major shareholder representation (including associates)
2. Operational Risk Management / Monitoring (among others)
  - audit committee representation
  - remuneration committee representation
  - other key operational committees (define in need)
3. Directors Remuneration
  - options issuance (not excessive, if at all)
  - alignment with shareholders' interests
4. Executive Remuneration
  - TSR/ROE – based incentives
  - alignment with shareholders interests
  - balance between Short Term Incentive and Long Term Incentive structures

### Environment

1. Sustainability Management Practices
  - explicit policy on sustainability practices / benchmarks
  - monitoring / reporting of key sustainability issues to shareholders
2. Carbon Emission Reduction Policy
  - explicit carbon emission reduction targets
  - monitoring / reporting of carbon emission reduction performance (versus targets)

### Social

1. Occupational Health & Safety Standards
  - explicit policy on management of key OH & S issues
  - monitoring / reporting of OH & S issues to shareholders, including safety performance
2. Child Labor Risk Management
  - explicit policy on "supply chain" risk management practices and management of child labour risk
  - monitoring and reporting on compliance with child labour standards to shareholders
3. Other
  - define in need

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