ORCA
FUNDS MANAGEMENT

Environmental, Social & Governance (ESG) Advocacy Policy

Objective & rationale

The objective of this Policy is to set out the framework within which Orca Funds Management (**Orca**) incorporates environmental, social and corporate governance (**ESG**) principles into investment decision-making and ownership practices.

As an Investment Manager, Orca has a duty to act in the best interests of the investor cohort. Orca recognises that ESG issues can – and do have – a significant impact on the long-term viability and success of an organisation, and in turn its corporate profitability, valuation and security price. Accordingly, Orca believes that active consideration of ESG principles is required to meet our obligations to investors.

As signatories (through its parent entity) to the United Nations Principles for Responsible Investment (**UNPRI**) Orca is committed to the UNPRI guiding principles for responsible investment. These principles have guided the formulation of Orca's policy and processes and include:

- incorporating ESG issues into investment analysis and decision-making
- company stewardship and active ownership
- investment community engagement
- disclosure and transparency
- continuous monitoring and improvement.

Orca ESG framework

Investment exclusions

Orca will not invest in any business that derives a material[1] portion of their revenues from one or more of the following industries/activities.

Tobacco

Companies engaged predominantly in the growing of tobacco or production of tobacco products.

Armaments

Companies engaged predominantly in the production of controversial weapons.

Fossil fuels

Companies engaged in the extraction and production of coal, oil and natural gas or in electricity generation from coal-fired power stations.

Orca views the above activities as un-investible from both a longer-term economic perspective and an ethical standpoint. Not only are businesses engaged in these activities contributing to significant social or environmental harm, but they also present material investment risks, be they the risk of taxation, litigation or an unsustainable demand trajectory.

Orca recognises the systemic risk of climate change and the role that investors play within financial markets to promote societal outcomes. For fossil fuels producers, Orca sees substantial risk from decarbonisation trends that could materially hamper market demand for carbon intensive products. Where suitable, the Orca team will also take a positive inclusion stance targeting exposure to renewable/clean energy themes – although no minimum requirements for such exposures is stipulated.

Orca recognises there are other activities (not captured in the above list) that cause substantial social or environmental harm. Orca's proprietary ESG rating model (as detailed further in this policy) is expected to exclude such companies from the Orca investment universe.

1. Orca defines material as >20% of consolidated revenue derived from such activities.

ESG integration

Orca utilises quantitative mechanisms by which ESG considerations influence stock selection via a two-tiered system:

1. Each holding is scored according to Orca's proprietary ESG rating model. All securities must meet a minimum 'investment grade' ESG rating (BBB or above).
2. The ESG rating of a security is a primary input into the Orca risk/reward framework utilised in portfolio construction.

Orca's proprietary ESG rating model

Orca have developed and implemented a proprietary process for scoring businesses on ESG risks and opportunities. Prior to investment, each prospective investment will have a full ESG analysis completed by the team, with an overall ESG score assigned. This score is based on the team's opinion of the company's performance against each of the three pillars of the ESG framework – Environmental, Social and Governance – and in aggregate (typically an average of each pillar).

Orca proprietary rating system

	Orca score	Orca rating	
Investment Grade	10	AAA	**Leader** **Proactive** in managing ESG risks and **opportunities**
	9	AAA	
	8	AA	
	7	A+	**Investable – some areas of concern** Mild to moderate controversies, varied quality/ambition in ESG policy
	6	A	
	5	BBB	
Non-Investable	4	BB	**Non-investable** Mixed track record with some exposure to significant controversies ↓ High exposure and failure to manage ESG risks
	3	B	
	2	CCC	
	1	CC	
	0	C	

The above table illustrates how an ESG score assigned to an individual company translates into an investment rating. Orca will not invest in any company that is rated a BB or lower (sub-investment grade) for any of the three E, S or G pillars – as it is deemed non-investable.

In assigning these ratings, Orca considers deeply the societal and environmental impact of the goods/services sold by business. Examples of factors considered are illustrated below.

Orca example scoring criteria

Environmental pillar

- What is the company's current carbon footprint, and the emissions profile of its products/services?
- Does the company have a stated pathway and operational framework to reach carbon neutral?
- Does the company manage resources such as water, waste and energy in its operations or promote a circular economy through its goods and/or services?
- Does the company monopolise a scarce, valuable resource?

Social pillar

- Does the company promote (and have evidence of) gender and ethnic representation at both workforce and management levels?
- Does the company pay fair wages, treat workers fairly, and avoid modern slavery in their supply chain?
- Does the company use their market power to exploit vulnerable consumers or unfairly impact competition?
- Has the company been subject to legal issues, fines, corruption or anti-competitive behaviour?

Governance pillar

- Is executive compensation appropriate and provide significant alignment to stakeholders?
- Does the company communicate fairly, and openly with investors, the media, and government?
- Does the board act in shareholder interests, or are there other interests or related parties influencing the company?
- Does the company have a fair share class system for voting?

ORCA FUNDS MANAGEMENT

To assist in the ESG measurement process the Orca team sources information from a variety of different sources. This includes:

Third-party ratings providers

- MSCI ESG
- Sustainalytics

Company meetings and disclosures

- Sustainability reports
- Management meetings

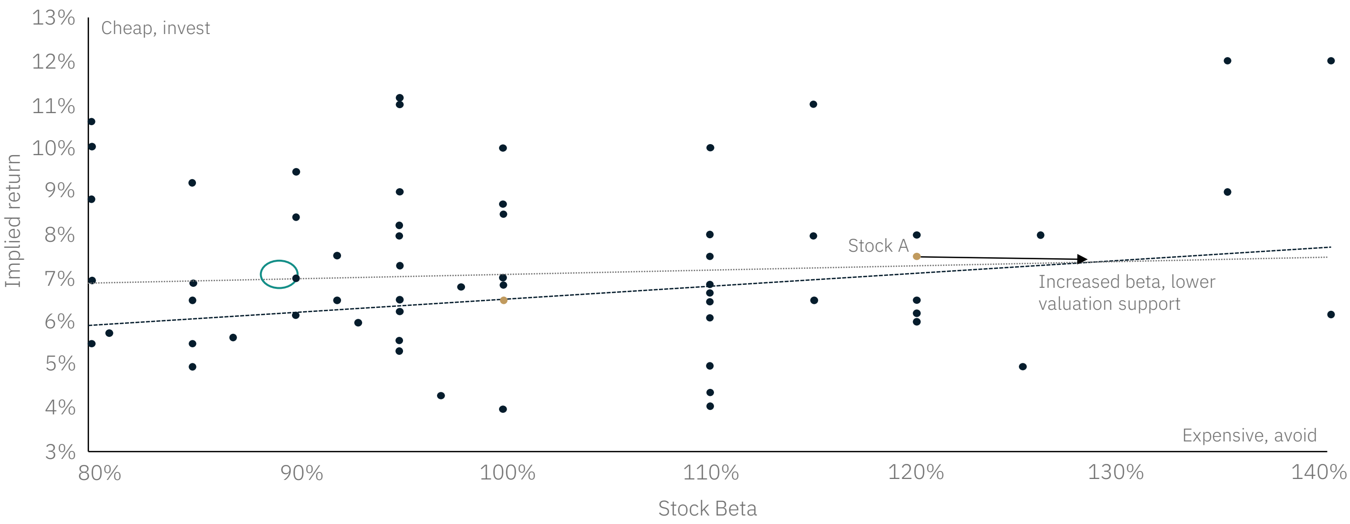
Independent sources

- NGOs
- Industry specialists

Stock selection and portfolio construction

Orca operates a highly disciplined risk/reward framework for making investment decisions. The primary method for stock valuation that Orca employs is to solve for the implied cost of capital – the discount rate that would equate a stock's current market price to expected future financial results.

Orca risk reward framework, investment universe



The implied return is tracked against a securities risk ('beta') which is determined based on a stock's historical trading patterns versus market and its perceived current and future risks. ESG considerations (as determined via the rating process) form a fundamental part of this risk assessment.

Dependant on the ESG rating achieved an analyst will adjust the stocks beta to reflect any additional ESG risk (for example if a company scores a BBB ESG rating). Where a stocks beta is increased (decreased), this will lower (increase) the risk/return attractiveness of the security.

Further, in a scenario where two companies represent similar investment appeal, the Orca team will practice positive inclusion in prioritising the company that has been assigned a higher ESG rating.

Company engagement and active ownership

As stewards of investor capital, Orca recognises the need to be active owners and engage meaningfully with portfolio companies on issues pertinent to stakeholders. Orca utilises three main avenues for activism including:

1. **Proxy votes**: Orca makes a commitment to vote on all resolutions put forward by portfolio companies. All issues are considered on an individual basis. While Orca may engage third-party proxy advisory groups to help inform decision making on certain matters, Orca is not bound by recommendations from external groups.
2. **Direct engagement**: Orca engages with companies on a range of issues pertinent to stakeholder management including those highlighted as part of Orca's ESG company assessment. Orca makes a commitment to undertake direct engagement with 100 per cent of businesses where areas of ESG concern are identified.
3. **Publications**: Orca is committed to publishing thematic reports and publications on a broad range of ESG topics to educate the wider investment community and report on its portfolio performance.

Ongoing transparency and reporting

As a signatory of UN PRI, Orca makes a commitment to report publicly on progress of incorporation of ESG principles into investment management practices. Orca will report and make publicly available to investors several ESG-related metrics, including the outcome of proxy voting practices, aggregate portfolio performance and other ad-hoc ESG related matters pertinent to each of the individual strategies. This information will be conveyed via communications pieces distributed to investors and published on the Orca website.

Industry collaboration and insights

Orca, along with its parent entity, are an active participant in the funds management industry and advocate for the broader benefits improved ESG practices can bring. These include:

- higher standards of business conduct
- increased market efficiency
- sustainable management of scarce resources such as natural capital, and
- improved outcomes for external stakeholders, including employees, customers, suppliers and the broader community.

This Policy is reviewed annually or more frequently as required to ensure that it remains current.

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