



## ORCA GLOBAL DISRUPTION FUND

# Environmental, Social & Governance (ESG) & Advocacy Policy

## OBJECTIVE & RATIONALE

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

As an Investment Manager, we have a duty to act in the best interests of the investor cohort. We also recognise 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, we believe 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) we are committed to the UNPRI guiding principles for responsible investment. These principles have guided the formulation of our 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

## ESG FRAMEWORK

### INVESTMENT EXCLUSIONS

We will not invest in any business that derives a material<sup>1</sup> portion of their revenues from one or more of the following industries/activities.

<b>Tobacco</b>	Companies engaged predominantly in the growing of tobacco or production of tobacco products. This includes nicotine alternatives such as e-cigarettes and delivery products.
<b>Fossil fuels</b>	Companies engaged in the extraction and production of coal, oil and natural gas or in electricity generation from coal-fired power stations.
<b>Controversial Weapons</b>	Companies engaged predominantly in the production of controversial weapons. For the avoidance of doubt, this includes: <ul style="list-style-type: none"><li>– Anti-personnel mines: Those banned by the Ottawa Convention (1999);</li><li>– Biological and chemical weapons: Weapons outlawed by the Biological and Toxin Weapons Convention (1972) and the Chemical Weapons Convention (1993)</li><li>– Cluster Munitions: As defined by the Convention on Cluster Munitions (Oslo Convention) (2008) which prohibits the use, production, stockpiling and transfer of cluster munitions.</li><li>– Nuclear weapons: As defined by the Treaty on the Prohibition of Nuclear Weapons (2017) which includes a comprehensive set of prohibitions on participating in any nuclear weapon activities.</li></ul>

We view 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.

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

<sup>1</sup> Orca defines material as >20% of consolidated revenue over a 12-month period derived from such activities. To assess exclusions, Orca utilises a range of sources including company reports and 3rd party specialist business involvement data (such as that provided by MSCI ESG and Sustainalytics).

## ESG INTEGRATION

The Orca GDF utilises a two-tiered system by which ESG considerations influence stock selection and portfolio construction:

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 GDF investment framework which is used to determine a company's business quality and inform position sizing

### PROPRIETARY ESG RATING MODEL

We have developed and implemented a proprietary process for scoring businesses on ESG risks and opportunities. Prior to investment, each prospective investment will have 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 3 pillars of the ESG framework – Environmental, Social and Governance – and in aggregate (typically an average of each pillar).

### ORCA PROPRIETARY RATING SYSTEM

Ocra Score	Ocre rating	
10	AAA	<b>LEADER</b> Proactive in managing ESG risks and opportunities
9	AAA	
8	AA	<b>INVESTABLE - SOME AREAS OF CONCERN</b> Mild to moderate controversies, varied quality/ambition in ESG policy
7	A	
6	A	
5	BBB	<b>NON-INVESTABLE</b> Mixed track record with some exposure to significant controversies ↓ High exposure and failure to manage ESG risks
4	BB	
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. We 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, we consider both the impact on stakeholders of a company's operations and the impact of the goods and/or services provided by the business. Examples of factors considered are illustrated below.

### ORCA EXAMPLE SCORING CRITERIA

Environmental pillar	Social pillar	Governance pillar
<ul style="list-style-type: none"> <li>– What is the company's current carbon footprint, and the emissions profile of its products/services?</li> <li>– Does the company have a stated pathway and operational framework to reach carbon neutral?</li> <li>– 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?</li> <li>– Does the company monopolise a scarce, valuable resource?</li> </ul>	<ul style="list-style-type: none"> <li>– Does the company promote (and have evidence of) gender and ethnic representation at both workforce and management levels?</li> <li>– Does the company pay fair wages, treat workers fairly, and avoid modern slavery in their supply chain?</li> <li>– Does the company use their market power to exploit vulnerable consumers or unfairly impact competition?</li> <li>– Has the company been subject to legal issues, fines, corruption or anti-competitive behaviour?</li> </ul>	<ul style="list-style-type: none"> <li>– Is executive compensation appropriate and provide significant alignment to stakeholders?</li> <li>– Does the company communicate fairly, and openly with investors, the media, and government?</li> <li>– Does the board act in shareholder interests, or are there other interests or related parties influencing the company?</li> <li>– Does the company have a fair share class system for voting?</li> </ul>

We make a commitment to review the ESG performance of each security on an annual basis, or more frequently as may be appropriate. Where we choose to divest due to ESG principles (such as in a situation where a securities performance deteriorates materially according to our assessment), we may complete that divestment within a timeframe considered reasonable in all circumstances.

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

Third-party ratings providers	Company meetings and disclosures	Independent sources
<ul style="list-style-type: none"> <li>– MSCI ESG</li> <li>– Sustainalytics</li> </ul>	<ul style="list-style-type: none"> <li>– Sustainability reports</li> <li>– Management meetings</li> </ul>	<ul style="list-style-type: none"> <li>– NGOs</li> <li>– Industry specialists</li> </ul>

## STOCK SELECTION AND PORTFOLIO CONSTRUCTION

Orca GDF assesses all potential investments against key criteria in undertaking bottom up, proprietary stock level research. Following identification of companies that are driving, enabling or benefit from the disruption thematic, each security is scored against a standardised stock research framework which covers aspects such as:

- Growth opportunity;
- Competitive advantage;
- Financial strength;
- Key risks;
- ESG performance; and
- Valuation

Per the above, ESG considerations (as determined via the proprietary rating process) form a fundamental part of a company's qualitative assessment (approximately 15%). This overall score assists in the determination of the risk/return attractiveness of a security – helping inform both stock selection and portfolio position sizing.

Where practicable, we seek to target investment in companies we believe exhibit positive behaviour (as determined via our proprietary ESG rating model). We recognise that Orca GDF's focus on companies that leverage disruptive innovation often provides exposure to goods or services that generate positive change for the environment and society.

## COMPANY ENGAGEMENT AND ACTIVE OWNERSHIP

As stewards of investor capital, we recognise the need to be active owners and engage with portfolio companies on issues pertinent to stakeholders. We utilise two main avenues to complete this:

- 1. Proxy voting:** We make a commitment to vote on all resolutions put forward by portfolio companies. All issues are considered on an individual basis. While we may engage third party proxy advisory groups to help inform decision making on certain matters, the Orca GDF is not bound by recommendations from external groups.
- 2. Engagement:** We engage with companies on a range of financially material issues pertinent to stakeholder management including a number of those highlighted as part of our ESG company assessment.

While we make a commitment to engage with companies on financially material ESG issues and disclosure, we also recognise that as a smaller investment firm there are practical limitations related to management availability, influence, and the ability to drive meaningful change. In this manner, we seek to balance our duties and focus in order of priority on issues we deem most pertinent to financial performance and corporate value.

## ONGOING TRANSPARENCY AND REPORTING

As a signatory of UN PRI, we make a commitment to report on the progress of incorporation of ESG principles into investment management practices. We will also report and make publicly available to investors several ESG related metrics including the outcome of proxy voting practices, aggregate portfolio performance and other a ESG related matters via targeted periodic investor communications and other ad-hoc documentation published on our website.

## INDUSTRY COLLABORATION AND INSIGHTS

We, along with our parent entity, are active participants 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.

Showcasing this advocacy, through our parent entity, we are both a signatory to the UNPRI and member of the Responsible Investment Association of Australia (RIAA).

Signatory of:

