

Sustainable Finance Disclosure Regulation

ValueInvest Global Equity Mandates | 10 March 2021



1. Introduction

Macquarie Investment Management Europe S.A. (**MIME SA**) is part of Macquarie Investment Management (**MIM**), a division of Macquarie Asset Management (**MAM**). As a MiFID Investment Firm providing portfolio management and investment advice services, MIME SA is subject to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, and each technical implementing measure issued by the Commission thereunder (the **Disclosure Regulation**). Pursuant to the Disclosure Regulation, MIME SA is obliged to make certain sustainability related disclosures to its clients outlining how it integrates sustainability risks into its investment decisions and the extent to which the financial products it manages promote environmental or social characteristics or have sustainable investment as their objective, pursuant to Articles 8 or 9 of the Disclosure Regulation. This disclosure applies to those clients for whom MIME SA provides portfolio management services to with respect to a portfolio of assets (**Portfolio**) which is managed in accordance with the ValueInvest Global Equity or ValueInvest Japan Equity strategies.

2. Our approach to Sustainability

Environmental, Social, and Governance (**ESG**) factors are recognised as providing additional insight into investment risk beyond traditional analysis and so any sustainability risks that are identified as material will be considered.

To supplement its fundamental analysis, MIME SA has access to specialised external ESG research, governance, and proxy analysis, as well as internal ESG resources, including sustainability risk profiles and adverse sustainability impact metrics. Where it determines ESG factors to be relevant, it considers them.

MIME SA is governed by an Environmental, Social and Governance policy, which is reviewed annually. The policy provides a framework for incorporating the consideration of ESG factors and sustainability risks and opportunities into its investment decision making process.

3. Sustainability Risks

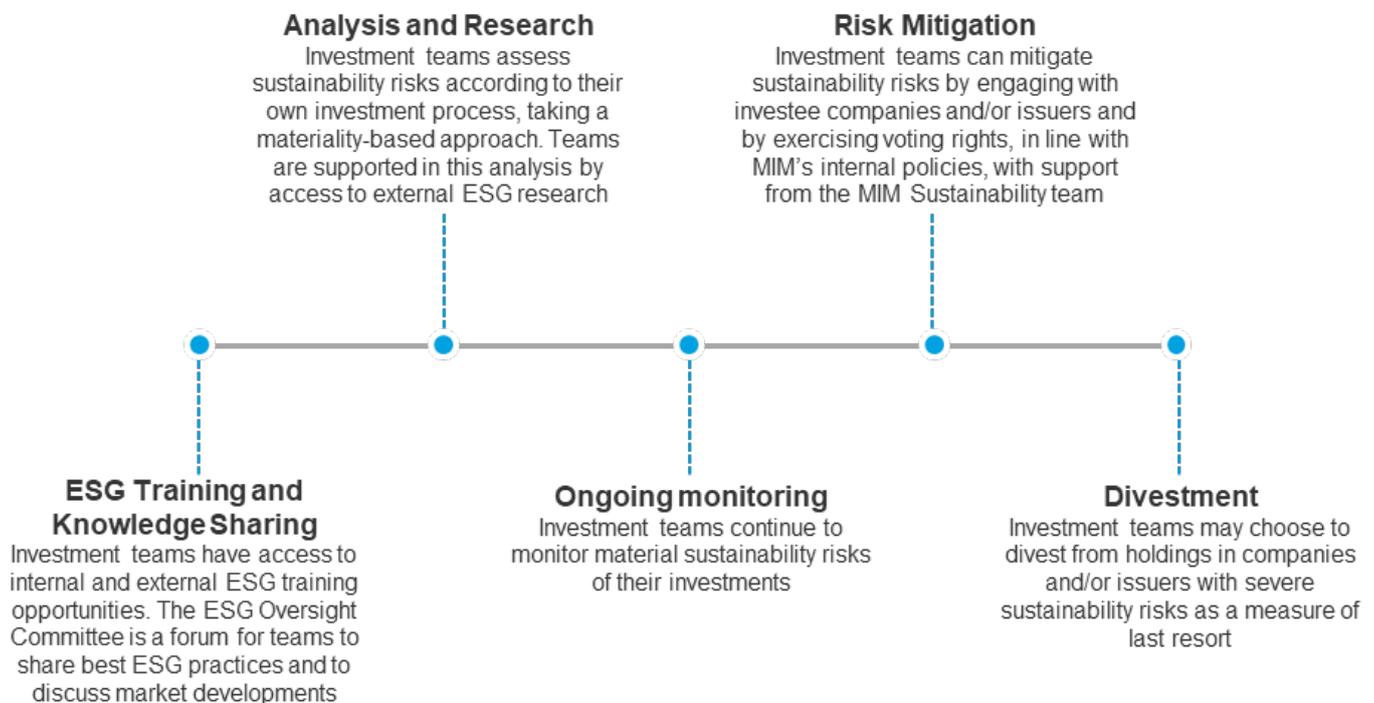
Under the Disclosure Regulation, sustainability risks are environmental, social or governance events or conditions that, if they were to occur, could cause an actual or a potential material negative impact on the value of the investment (**Sustainability Risks**).

Various Sustainability Risks have the potential to impact the returns of the investment mandate. Where relevant, MIME SA takes such risks into account in its investment decision making process and portfolio monitoring in order to mitigate any potential impact to the Portfolio in accordance with the ESG Policy.

For example, a portfolio's investments may be exposed to certain Sustainability Risks, either directly or indirectly, including (i) environmental risks, including both physical risks and transition risks, such as extreme weather events, global warming, rising sea levels, changes in environmental regulation, a shift to low carbon technologies or changing consumer preferences, (ii) social risks, for example human rights breaches or labour rights breaches, and (iii) governance risks, including poor governance practices, illegal or poor tax practices or bribery and corruption and, as a consequence of each (i), (ii) and (iii), reputational risks. The examples provided are not

intended to be an exhaustive list of all possible risks and are provided as an indication of the types of Sustainability Risks that may arise. Such risks may impact the performance of the Portfolio's investments.

Sustainability Risks are integrated into the investment decisions of MIME SA and will be taken into account throughout the investment process in accordance with MIM's ESG framework as illustrated below:



The investment team is supported in its application of the ESG framework by MIME SA's dedicated sustainability specialist (**ESG Manager**), who is part of the ValueInvest Global Equity investment team, and a broader MIM Sustainability team.

Inherent to the investment team's identification and assessment of securities is an in-depth analysis of economic, competitive, and other factors that may influence future revenues and earnings of the issuer of the securities. Sustainability Risks that have been identified as relevant are included as part of this analysis.

4. Sustainability Characteristics of the Portfolio

4.1 Environmental or social characteristics promoted by the Portfolio

MIME SA invests on behalf of the Portfolio with the intention of promoting the environmental and social characteristics outlined by the ten principles of the UN Global Compact (**UNGC**), as set out below.

Human Rights

- Businesses should support and respect the protection of internationally proclaimed human rights; and
- make sure that they are not complicit in human rights abuses.

Labour

- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- the elimination of all forms of forced and compulsory labour;
- the effective abolition of child labour; and
- the elimination of discrimination in respect of employment and occupation

Environment

- Businesses should support a precautionary approach to environmental challenges;

- undertake initiatives to promote greater environmental responsibility; an
- encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

- Businesses should work against corruption in all its forms, including extortion and bribery.

MIME SA does not target Sustainable Investments, within the meaning of the Disclosure Regulation and the Portfolio does not have Sustainable Investment as its objective¹. Of the Portfolio's investments which are not Sustainable Investments, MIME SA expects that the majority will be investments which contribute to the attainment of the environmental and social characteristics promoted by the Portfolio (**E/S Investments**). The proportion of the Portfolio's investments which are neither Sustainable Investments nor E/S Investments (**Other Investments**) will not contribute to an environmental or social objective nor the attainment of the environmental and social characteristics promoted by the Portfolio; however, MIME SA will, where appropriate, apply the same policies and procedures to all of the Portfolio's investments with respect to ensuring minimum environmental and social safeguards and assessing governance practices. The Other Investments may include investments in liquid assets (cash) held for the purposes of servicing the day-to-day requirements of the Portfolio or investments for which there is insufficient data for them to be considered a Sustainable Investment or E/S Investment.

4.2 Investment strategy

MIME SA's investment strategy to attain the environmental and social characteristics it promotes is: (i) first, to apply exclusion screens of certain activities, sectors and practices that are incompatible with sustainability principles; and (ii) second, to apply further ESG positive screening criteria using fundamental analysis.

MIME SA will first identify companies that do not meet the Portfolio's criteria and will use all reasonable efforts to ensure that the Portfolio does not invest in the following types of company: (a) tobacco companies (being any company whose primary business is the manufacture of tobacco products); (b) companies involved in the production of anti-personal mines, cluster munitions, nuclear weapons, chemical weapons and biological weapons (being any company where publicly available information clearly demonstrates that such company is actively and knowingly involved in the production of such weapons); (c) companies who, themselves or through entities they control, derive more than 5% of revenue from extracting coal, natural gas, crude oil, uranium, and/or refines coal, natural gas, crude oil or uranium for fuel; (d) energy companies who, themselves or through entities they control, generate power (more than 5%) from fossil fuels such as natural gas, fossil oil and/or uranium; and (e) companies who themselves or through entities they control derive 5% or more of their revenue from the production or sale of conventional weapons (including small arms and light weapons as well as bombs, shells, rockets, missiles, warships, military aircraft and tanks) (each a **Product Based Exclusion**). Companies will be continuously reviewed against the foregoing exclusion categories and MIME SA will seek to divest from any company that is found to fall within any such category.

Following the exclusion screen, MIME SA will apply further ESG analysis, including consideration of adherence to the UNGC principles and various other ESG factors, into the overall evaluation of all remaining companies in the investment universe using the sustainability indicators, as detailed below. In addition to the exclusions described above, MIME SA will seek to identify companies and/or issuers that do not meet the Portfolio's criteria and will use all reasonable efforts to ensure that the Portfolio does not invest in companies involved in: serious violation of human rights, severe environmental damage, gross corruption, serious violation of individuals' rights in situations of war or conflict, as well as other particularly serious violations of fundamental ethical norms (each a **Conduct Based Exclusion**). Furthermore, MIME SA has a policy for assessing the governance practices of potential and actual investee companies, including whether they have sound management and staff remuneration structures, employee relations and tax compliance practices.

¹ Under the Disclosure Regulation, Sustainable Investments are defined as an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance

While MIME SA makes use of third-party research, the ESG analysis of companies otherwise meeting the Portfolio's criteria is performed in-house and the environmental and social characteristics promoted by any potential investment is analysed by MIME SA, who also continuously monitors the portfolio companies to ensure ongoing compliance with the Portfolio's environmental and social criteria.

4.3 Sustainability Indicators

MIME SA will use the sustainability indicators set out below to measure the attainment of the environmental and social characteristics promoted by the Portfolio. Additional sustainability indicators may be used as appropriate depending on the activities or sector of any given investment.

Social indicators

- Human rights policy, or equivalent, in place;
- No conduct detected which would indicate a violation of the Human Rights principles of the UNGC or the United Nations Guiding Principles on Business and Human Rights;
- Freedom of association policy, or equivalent, in place;
- No conduct detected which would indicate a violation of the International Labour Organization's fundamental set of labour standards
- Company actively works to eliminate forced labour and child labour,
 - Depending on the industry, this could include supply-chain audit, training, etc. As part of the company analysis and ongoing monitoring performed by MIME SA, how the investee company actively works to eliminate forced and child labour is determined on a case-by-case basis / as part of the qualitative research performed by MIME SA;
- Bribery and anti-corruption, or equivalent, policy in place;
- No conduct detected that is considered serious corruption or bribery.

Environmental indicators

- Company sets targets to reduce greenhouse gas emissions;
- Company has initiatives in place that show environmental responsibility,
 - Depending on the industry, this could include water consumption reduction initiatives and targets, toxic emission and waste reduction initiatives and targets, etc. As part of the company analysis and ongoing monitoring performed by MIME SA, how the investee company shows environmental responsibility is determined on a case-by-case basis as part of the qualitative research performed by MIME SA.

5. Methodologies used to assess, measure and monitor the environmental and social characteristics promoted by the Portfolio

MIME SA uses various methodologies to assess, measure and monitor the environmental and social characteristics promoted by the Portfolio, as set out below.

5.1 Pre-Investment

5.1.1 Exclusion screens

As mentioned above MIME SA applies Product Based Exclusions and Conduct Based Exclusion screens to the Portfolio.

The exclusion criteria enable MIME SA to:

- a) prohibit investments in excluded products and
- b) monitor the ongoing business activity of companies already invested in (for further details, please see section below entitled *Monitoring process*)

In the management of the Portfolio, MIME SA makes use of several sources and methodologies in order to implement its exclusion screens, as follows:

- The investment team makes use of a proprietary portfolio management and monitoring system (**VISystem**) which enables MIME SA to exclude companies based on their Global Industry Classification Standard (**GICS**) Sector, industry, and sub-industry, e.g. tobacco. Compliance with the exclusion list is part of the pre-trade compliance.
- As part of the pre-investment research of every potential investee company, MIME SA utilises business involvement research from Sustainalytics. The research includes details on how a company is involved in one or more areas as well as the degree of involvement, generally using revenue as a proxy. Relevant corporate actions are also tracked in order to capture changes in involvement that might arise through mergers and acquisitions or spin-offs.
- For Conduct Based Exclusions, MIME SA utilises Sustainalytics and MSCI ESG Research to determine which companies should be excluded.

5.1.2 Research and analysis

MIME SA uses the Sustainability Indicators to assess a potential investee company's adherence to the principles of the UNGC. Data for the Sustainability Indicators is obtained from a variety of sources, including the following (note this is not an exhaustive list):

- Primary – company website, company disclosures, reports and policies
- Secondary – media, publicly available information, third party research, opinions and databases, NGOs, the United Nations and ESG data providers such as Sustainalytics, MSCI and Alphasense

The level of company disclosures will vary by factors such as geography, sector, and company size and qualitative assessments may vary by individual providers. Because of these limitations, the investment team believes that a thorough due diligence process is a necessary component of any assessment of a company's practices.

5.1.3 Engagement

If appropriate, the investment team may engage with management teams prior to making an investment in a potential investee company, which may, among other things, provide additional insights into management quality. At the pre-investment stage, engagement is typically performed via direct conversations or meetings with senior management or the investor relations team of investee companies focusing on areas where there is a lack of information available from other sources. During these meetings, the investment team may discuss relevant ESG issues with the management team and incorporate their findings into the overall assessment of the company.

5.1.4 Portfolio construction

As part of the investment process, MIME SA considers ESG factors that could have a significant impact on portfolio returns and the environmental and social characteristics promoted by the Portfolio, including the principles set out by the UNGC. Each company's analysed ESG profile influences whether the stock will be included in the Portfolio as well as the size of the allocation.

5.2 Post-Investment

5.2.1 Ongoing monitoring

To assist with assessing adherence to the UNGC principles on an ongoing basis, MIME SA monitors the ESG policies, practices and conduct of the companies invested in.

Utilising third-party data and in-house research, every investment is analysed from an ESG-perspective, including business involvement screening, ESG policies and practices and an assessment of any conduct or practice relating to the principles of the UNGC. MIME SA makes use of third-party ESG data mainly from MSCI ESG and Sustainalytics. MIME SA may also utilise data from Glass Lewis (Proxy Voting Research), Morningstar (Sustainability indicators), and AlphaSense (Market Intelligence Research Platform).

Monitoring process

On a weekly basis, MIME SA receives alerts from third-party ESG data providers via e-mail and is notified of any changes in the ESG ratings/assessments, any controversies/incidents or breaches of global norms, including respect for human rights, labour compliance, and UNGC adherence.

If there is any doubt as to whether a company adheres to the UNGC, or if any practices indicate a violation of a Conduct Based Exclusion, the case is discussed in the investment team and an escalation plan is drafted e.g. engagement, proxy voting or divestment, see further details with respect to these potential actions below.

ESG Data	Source	Delivery method
ESG research & rating	MSCI ESG Sustainalytics	Online platform, Excel, PDF reports
Controversy / incidents	MSCI ESG Sustainalytics	E-mail alert Analysis part of ESG research and/or controversy assessment

On a quarterly basis, MIME SA, in conjunction with the MIM Sustainability team, also reviews the governance practices of investee companies, including whether they have sound management and staff remuneration structures, employee relations and tax compliance practices, in line with the requirements under the Disclosure Regulation. This is achieved by pulling reports on governance data from MSCI which are then reviewed and assessed by the investment team and the MIM Sustainability team, with any remediation or escalation actions agreed.

MIME SA also reviews each investee company ESG profile on an annual basis and may decide to take further action as outlined below.

5.2.2 Engagement

If any company practices indicate non-adherence to the UNGC, or if any practices indicate a serious violation of human rights, severe environmental damage, gross corruption, a serious violation of individuals' rights in situations of war or conflict, as well as any other particularly serious violation of fundamental ethical norms, the investment team may choose to engage with the company in question.

In general, MIME SA seeks to motivate companies to implement positive changes and improve company practices over time. This includes engaging with companies in the following ways:

- **Thematic engagements**
 - focusing on ESG issues constituting the most material impact to our holdings
- **Event-driven engagements**
 - driven by an ESG-related incident or controversy
- **Collaborative engagements**
 - collaborating with other investors on aligned goals
- **Proxy voting engagements**
 - engaging with and notifying boards and/or management of proxy voting motivations, votes against management, and policies

Engagement subjects are identified by monitoring the companies invested in and identifying practices that need improvement, controversies or issues that need to be addressed, or by wanting to work with companies to improve certain ESG standards that are relevant to their industry/sector.

The engagements are hence proactive, ensuring that ESG issues addressed in a preventative manner as well as reactive, addressing issues that may have already occurred.

Engagements are carried out as a collaboration between the investment team, contributing in depth knowledge of the company and sector/industry it operates in, and the ESG Manager, contributing knowledge on the topic of engagement. The ESG Manager coordinates the company dialogue and reports on engagement objectives and results. Whether the engagement objectives are met, and any further cause of action is initiated, is a joint decision between the investment team and the ESG Manager.

MIME SA records company dialogue according to the goals set out for the engagement. Engagement objectives and goals are documented prior to initiating an activity and any progress is stored and shared with the entire investment staff.

All engagement activities are carried out in accordance with the MIM Global Engagement Policy.

5.2.3 Voting

We exercise our clients' rights through proxy voting and have adopted a Proxy Voting Policy. We utilise Glass Lewis as Proxy Voting Service and research provider and seek to proxy vote at all general meetings. As a responsible investor, we take account of long-term value creation, sustainable business practices, board accountability, and transparent corporate communication and look for board practices and decision-making practices that are in the best interest of the company and that demonstrate alignment with shareholder interest.

5.2.4 Divestment

As a measure of last resort, MIME SA will divest from a company in circumstances where the investment no longer complies with the Product or Conduct Based Exclusions or engagement efforts have not been effective. In such circumstances where MIME SA decides to divest, it will take reasonable steps to mitigate any impact on the value of the Portfolio.

Contact

For any queries, please contact MAMVIESG@macquarie.com.