ESG Policy

Plato
INVESTMENT MANAGEMENT

Document Control

a. Version Control / Revision History

This document has been through the following revisions:

Version	Date of Approval	Remarks / Key changes / Reason for Update
1	March 2009	Initial version
1	March 2010	Annual review
2	March 2011	Annual review
3	May 2012	Annual review
3.1	April 2013	Annual review
3.2	July 2013	Update
4	October 2014	Review
5	February 2015	Review
6	February 2016	Annual review
7	February 2017	Annual review
8	March 2018	Annual review
8.1	May 2019	Annual review
8.2	September 2019	Update

b. Authorisation

This document requires the following approvals:

Authorisation	Name
Initial Version	Plato Board
Revisions	Plato Managing Director

Introduction

Plato Investment Management Limited (Plato) recognises its duty to behave responsibly in its business activities and towards those whom its actions affect. Plato's views on ESG are consistent with and support the Ten Principles of the United Nations Global Compact.

As an investment manager, we believe that a high standard of business conduct, as well as a responsible approach to environmental, social and governance (ESG) issues makes good business sense and enhances shareholder value. Conversely, poor management of these issues may pose a risk to the reputation and value of a business.

The first part of this ESG Policy deals with our approach to ESG issues as an investment manager. The second part of this ESG Policy focuses on Plato as a business and the principles that guide us.

We have developed these Guiding Principles to express how we view our responsibilities and how they apply in a practical way to the day to day running of our business. They will be reviewed from time to time to ensure they remain relevant.

Part 1

Plato Investment Management's Approach to ESG

Plato follows a disciplined systematic investment process based on statistical analysis of investment fundamentals, using a number of metrics to compare companies broadly categorised as value, business momentum and quality factors, but also believes that ESG issues can influence share prices over time.

1. Evaluate ESG Evidence

Plato's investment approach is to theoretically hypothesise factors which are likely to differentiate future share price behaviour and then to test whether these relationships actually exist using historical factors and share price performance. Whilst Plato would like to believe that companies adopting sustainable practices should outperform companies that don't adhere to sustainable practices, as a facts based systematic manager we seek statistical evidence that this is the case.

Plato does not employ dedicated ESG analysts, rather it utilises the resources of a number of dedicated ESG service providers who specialise in analysing companies within Australia and globally, subscribing to a number of data bases and service providers.

Plato has evaluated numerous sources of ESG data and scientifically investigated the integration of ESG scores into our investment process. The results of our initial study are contained in a white paper ("Implementing ESG tilts in an Equity Portfolio") which was recognised as one of the leading studies of its kind in the Australian equity market.

We believe we can successfully integrate ESG scores into our investment process as a risk control. The statistical evidence is reasonably strong, and we have incorporated ESG factors into one of the risk models that we use to evaluate the risk of our portfolios. We believe that ESG data is evolving through time, and issues such as data depth and breadth continue to improve, providing fruitful areas for research over time. Incorporating (poor) ESG factors as risk factors means that we will likely avoid or downweight stocks with high ESG risk scores.

Following significant research in 2018, we have found a proprietary red flag indicator, incorporating over 40 ESG red flag warning signs (almost 70 if one includes forensic accounting red flags) out of a total of 100 red flags, significantly improves performance by both avoiding or underweighting stocks with 6 or more red flags, but also by boosting expected returns of stocks with no red flags. Our research shows that firms with 6 or more "red flags" significantly underperform other firms, whilst stocks with no red flags outperform the average stock. The long short spread between stocks with no red flags, versus 6 or more red flags in more than 25% in a global context and over 30% for Australian stocks. Our red flags research suggests that ESG factors are not only risk factors, but are alpha factors. Red flags was implemented formally in Q1 2019.

2. Proxy voting

Plato actively votes proxies based on its fiduciary responsibilities to act in the interests of clients. Plato generally votes all proxies for its funds and for client mandates, although some clients may choose to exercise their own proxies. Plato aims to vote on all resolutions. Plato utilises the services of two proxy voting firms (Ownership Matters and ISS) to assist with making voting decisions, but ultimately the proxy decisions are determined by Plato. For more details on Plato's proxy voting please refer to Plato's Voting Policy.

3. Engagement

In addition to proxy voting Plato actively engages with companies in a number of ways. Plato engages with companies:

1) directly with companies senior management and/or Board Members on significant issues of interest;
2) indirectly with companies through our governance advisors (Ownership Matters and ISS) who each actively engage with more than 200 Australian companies per year at the Board or senior management level; and
3) via membership of collaborative groups of investors such as Climate Action 100+ (refer below) to discuss specific areas of interest.

Engagement with companies is largely, but not exclusively focussed on ESG issues, such as governance (e.g., remuneration, board structure and independence and shareholder rights), environmental issues (e.g., climate change, water supply, energy efficiency) and social issues (e.g., human rights, modern slavery, health and safety and indigenous rights).

As many engagements are involved with confidential issues, Plato does not believe it is in the best interests of all involved to publicly report on detailed engagement activity.

4. UNPRI Member

Plato signed the United Nations-supported Principles for Responsible Investment (UNPRI) in 2011 after completing significant work in investigating the integration of ESG scores into investment processes in Australia. We continue to source new and updated ESG data in order to develop better understanding of the impact of ESG and sustainability issues upon risks and returns in our investment strategies. We have also signed up to receive governance issue notifications via the UNPRI clearing house.

5. Climate Action 100+

Plato became a member of the Climate Action 100+ investor group in December 2017. Climate action 100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The companies include 100 'systematically important emitters', accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition. As a signatory, Plato commits to work with other members to engage with leading Australian emitters.

6. Encourage ESG Research via ESG Research Australia

Plato is a founding member of ESG Research Australia (ESG RA), which aims to encourage the development and provision of ESG research on listed companies by brokers within Australia.

Plato uses broker earnings forecasts in its process, and as an active member of ESG RA, encourages brokers to consider ESG factors when valuing companies and forecasting future earnings. Plato includes an explicit ESG category within its broker panel assessment criteria and scores brokers on how well they have engaged on ESG issues, including the provision of ESG related research and consideration of ESG issues in the analysis of a company. This provides an incentive for the analysts to imbed ESG assessment into their earnings forecasts and risk assessment of each company under coverage.

Due in part to the success of the ESG RA aims, and increased interest in the topic, we find that the underlying earnings forecasts largely already include some consideration of ESG risks and exposures, either explicitly or implicitly in the forward estimates of earnings or valuation.

7.Carbon Monitoring and Disclosure

Climate change is a significant issue facing the world. The Carbon Disclosure Project (CDP) and the Montreal Carbon Pledge (launched on September 25th, 2014 at the UNPRI Summit in Montreal, supported by the PRI and the United Nations Environment Programme Finance Initiative (UNEP-FI)) provide evidence of the growing global movement to measure and ultimately reduce the carbon intensity of investment portfolios. Plato is a signatory to the Montreal Carbon Pledge, and to this effect has contracted with service providers to provide data to enable Plato to measure and monitor the carbon intensity of its portfolios. Plato currently subscribes to two carbon databases for Australian stocks. For clients who want to lower the carbon intensity of their investment portfolios, Plato can provide lower carbon intensity portfolios than standard market benchmark portfolios. Our research shows that one can considerably (up to 20%) reduce the carbon intensity of active Australian equity portfolios without significantly impacting other broad portfolio characteristics. Plato has also recently become a signatory to the Climate Action 100+ initiative.

8.Work with clients to build ESG solutions

Plato is well placed to build ESG solutions for clients and has demonstrated this through research into building ESG tilted and CO2 light portfolios. We understand that some clients have strong positive or negative views around the investment merits of certain types of stocks, eg, gambling, tobacco, fossil fuel producers, and we believe we have the appropriate tools and experience to build well-diversified portfolios which can satisfy these client requirements. We have worked with a number of clients and potential clients to build portfolio solutions that satisfy clients moral and ethical views on particular stocks and industries. Our portfolio construction framework is robust enough to satisfy multiple objectives and constraints. For instance we are able to and actually do build portfolios that negatively screen out or exclude certain stocks or industries, positively tilt toward good ESG characteristics, or negatively tilt away from (but not necessarily exclude) poor ESG characteristics or carbon exposures.

Part 2

Plato Guiding Principles

1. Environment

- Minimising any negative impact on the environment arising from our business activities.

2. Social

Employee Relations

- Providing a flexible, supportive, healthy and safe working environment;
- Adopting policies and practices which encourage an appropriate work/life balance;
- Providing a stimulating work environment where our employees can grow and expand their skill set.

Community Involvement

- Investing in charitable causes through Workplace Giving and in conjunction with the Pinnacle Foundation
- Supporting and encouraging our employees in their charitable and community involvement; and
- Support the Principles of Fair Trade and not contribute to any practice where there may be potential abuses of human rights or exploitation of any kind.

3. Governance

- Conducting our business ethically, maintaining good corporate governance, compliance & risk management;
- Promoting responsible business practices; and
- Understanding that good corporate governance and effective management are vital to the successful implementation of our corporate objectives.