

Daintree Capital ESG Policy

Adopted: September 2019

Updated: September 2023

Background

Daintree Capital (**Daintree**) constructs absolute return portfolios from a global opportunity set of fixed income instruments. Issuers come from a diverse group of industries with unique Environmental, Social and Governance (**ESG**) considerations at company, industry and national levels.

Purpose

This policy aims to enhance the Daintree portfolio construction process by outlining a framework by which current and potential investments can be assessed from an ESG standpoint.

Core Principles

We believe that businesses are pivotal stakeholders in society, and that the pursuit of profitable growth, a strong awareness of social and environmental issues, and best-practice governance standards are not mutually exclusive.

Daintree Capital's three core principles are summarised below.



MAINTAIN RETURNS

An integrated ESG process supports our ability to achieve our investment objectives. Identifying companies with strong ESG characteristics¹ which may preserve, and possibly even improve, returns over time.



MANAGE RISKS

A thorough ESG assessment will allow us to identify risks that may not otherwise be identified with more traditional analysis. We can then appropriately manage or exclude these risks² to preserve or improve returns over time.



INVEST FOR GOOD

Through investment in "green" bonds, we can directly support environmental, social and community projects. We will consider these projects³ in parallel with, and subject to, our other core principles.

1: Using a quantitative process and rating system drawing on data from MSCI.

2: Measures may include issuer engagement, reducing or limiting portfolio exposure or complete divestiture.

3: Assessment of financial and non-financial factors to ensure suitability for portfolio inclusion.

UN Principles for Responsible Investment

We are committed to being an active member of the UN Principles for Responsible Investing (**UN PRI**) initiative, working toward the ideals embodied in the six principles at the core of the UN PRI. We have also adopted the UN Global Compact initiative as high-level guideposts for assessment, particularly regarding the environmental and social issues relevant to most businesses.

Invest for Good

We aspire to support positive change by the consideration of green, social, sustainability and sustainability-linked bonds. These are securities designed to support or achieve specific environmental, social or sustainability goals. To be eligible for inclusion in the portfolio under this designation, the bond must have an independent third-party assessment of its green credentials. To reflect these positive characteristics, the bond's Daintree Score (defined below) will be increased by one point. All other credit, valuation and relative value filters are applied as for any other bond.

Exclusions

While we generally assess each opportunity on its merits (via a range of factors, including ESG), we have made a determination to exclude some sectors. These exclusions reflect Daintree's values and our commitment to support international conventions. All exclusions will be coded into trade management software to ensure pre-trade compliance can be undertaken.

As at the date of this Policy, 0% revenue thresholds apply to the following excluded sectors:

- 1) Weapons – cluster munitions, anti-personnel mines, nuclear explosive devices;
- 2) Tobacco production and tobacco-related products;
- 3) Cannabis production and cannabis-related products;
- 4) Whaling;
- 5) Vice Activities (Alcohol production, Gambling, Production and/or distribution of adult material);
- 6) Fossil fuel exploration and/or production;
- 7) Coal-fired power generation; and
- 8) Uranium production and enrichment.

We reserve the right to add further negative screens where: the perceived risks or costs greatly exceed the net benefits; a company or sector becomes the subject of international, regional, or national condemnation; or there are changes in relevant laws.

Exclusions will be reviewed regularly, and we reserve the right to adjust or remove exclusion criteria where there is a compelling case to do so.

In addition to sector and thematic exclusions, we may also apply relative exclusions. This may be considered in situations where an issuer: materially lags its peers across multiple ESG criteria; identified risks cannot be reasonably mitigated by the ESG policy; or where we believe the expected returns do not compensate for the perceived heightened ESG risk.

Indirect Assets

Where Daintree invests in assets where it does not have full control over the underlying portfolio composition (such as an exchange traded fund), there may, from time to time, be holdings that contravene the above guidelines. While all due care will be taken to avoid or minimise inadvertent exposures, we will impose a restriction of no more than 2% of aggregate portfolio exposure. If this exposure limit is breached, we will reduce exposure to the offending asset as soon as practically possible to restore the exposure threshold below 2%.

Portfolio Construction

All new issuers being considered for inclusion will be subject to a detailed checklist, designed to identify any initial ESG issues or areas for further investigation. The factors considered will include (but are not limited to):

- the assessment of corporate structure;
- alignment of business strategy with stated sustainability goals; and
- involvement in significant controversies such as a major legal liability or a data privacy or cyber-security incident.

Portfolio Monitoring

We recognise the importance of Governance factors, where research shows that in fixed income and credit, the influence of good governance has the greatest positive impact on returns over time.

Daintree has devised a numerical rating scoring system (the Daintree Score) which assesses each individual ESG component. Both 'environment' and 'social' components will equally contribute to 40% of the weighted Daintree Score (20% is attributed to each component). However, a stronger bias will be placed on 'governance' related components, which attributes 60% to the weighted Daintree Score, to reflect the importance that Daintree places on corporate governance matters.

The Daintree Score will be considered in conjunction with other factors as part of the investment strategy and is a standardised measure drawing on publicly available company data compiled by third-party providers to allow comparison between various issuers, and to monitor trends over time. Changes in the Daintree score over time might prompt additional work to understand the drivers of this change.

Using MSCI's extensive database of ratings factors, we will benchmark portfolios to global best practice. For example, we may look at the carbon emission intensity of a company per unit of revenue, allowing an appreciation of the carbon intensity of the portfolio, as well as identifying leaders and laggards across sectors.

Credit analysts are responsible for identifying ESG issues and assessing the potential impact on ESG ratings and ultimately company performance. Where a material ESG risk or issue is identified, a briefing will be prepared by the analyst for consideration by the Credit Committee, and an open discussion will be required to determine its ongoing suitability in portfolios.

Engagement Strategy

As fixed income investors, our relationship with companies differs from that of equity investors. However, we believe that effective engagement is still possible. Working in concert with our partners within the Perennial Partners group, we will leverage their ability to access company management.

The primary goals are twofold:

- First, engage as a path to learn more about the companies under coverage that cannot be gleaned from traditional analysis.
- Also, by asking questions on these issues, it encourages companies to improve reporting frameworks and address internally how their responses could be improved for broader market consumption, aiding greater transparency.

More specifically, we will use guidance from the Sustainable Accounting Standards Board (**SASB**) to advocate for more detailed reporting and transparency on the most material issues for each company based on the primary sector in which they operate. Further detail is contained in Appendix 1. Several of the UN Sustainable Development Goals (**SDGs**) intentionally overlap with the UN Global Compact initiative, which we have committed to uphold. The opportunity for incorporating the SDGs into our process is to help hone our materiality assessments, which will in turn improve our engagement effectiveness. To that end, when we engage, we will endeavour to construct questions that consider the following SDGs, which we believe will have relevance to most companies in some way:

- SDG 6 (Clean Water and Sanitation)
- SDG 8 (Decent Work and Economic Growth)
- SDG 12 (Responsible Consumption and Production)
- SDG 13 (Climate Action)
- SDG 14 (Life Below Water)
- SDG 15 (Life on Land)
- SDG 16 (Peace, Justice and Strong Institutions)

Positions on Key Issues

ENVIRONMENTAL ISSUES

Climate Change – Human action is contributing to climate change, and therefore we have a collective responsibility to address the challenges it creates. Furthermore, we see climate change as a material investment risk. We believe that businesses should seek to understand, and be transparent, about how their activities may be contributing to climate change. Governments have a role to play by devising and implementing appropriate policy to incentivise action and provide certainty to all stakeholders. We are committed to engaging with companies to advocate for better reporting and practical action on this issue.

Fossil Fuels – We acknowledge that fossil fuels, by their very nature, are highly carbon intensive. However, the International Renewable Energy Agency estimates that less than 40% of electricity will be created from renewable sources by 2050. We support a globally agreed and implemented transition toward a lower emissions future, which includes the reduction of fossil fuel use for electricity generation and transportation. We will exclude companies exploring for or extracting fossil fuels, or those that burn coal for power generation.

Water Management and Security – Water is arguably the most important resource on our planet. Water scarcity is a growing challenge globally, and therefore we recognise water management and security as a relevant issue for most companies. We highlight the pollution of water resources by mining companies and water stress in the agricultural supply chain as key thematic issues but note that all companies can take steps to contribute to the protection and preservation of this most vital resource.

Uranium – While we acknowledge the potential of nuclear power generation to support a lower carbon future, and the medical applications of nuclear medicine, we also note the many safety concerns related to nuclear power, which include the specialised disposal and storage of spent fuel, and the environmental impacts that may arise from a damaged or failed reactor. For this reason, we will exclude companies that derive any revenue from the extraction of uranium or nuclear power generation.

VICE ACTIVITIES

Gambling – Consenting adults in most countries are freely entitled to participate in gambling activities. However, when consumed in an unhealthy manner, gambling can cause significant hardship to individuals, families and communities. We will exclude companies that derive any revenue from gambling.

Alcohol – The consumption of alcohol, while legal for adults in almost all countries, has been linked with significant health and social issues. We will exclude companies that derive any revenue from alcohol production.

Adult Industry – While legal for consenting adults, production and distribution of this material has been linked with multiple health, safety and social issues. We will exclude companies that derive any revenue from the production of adult material.

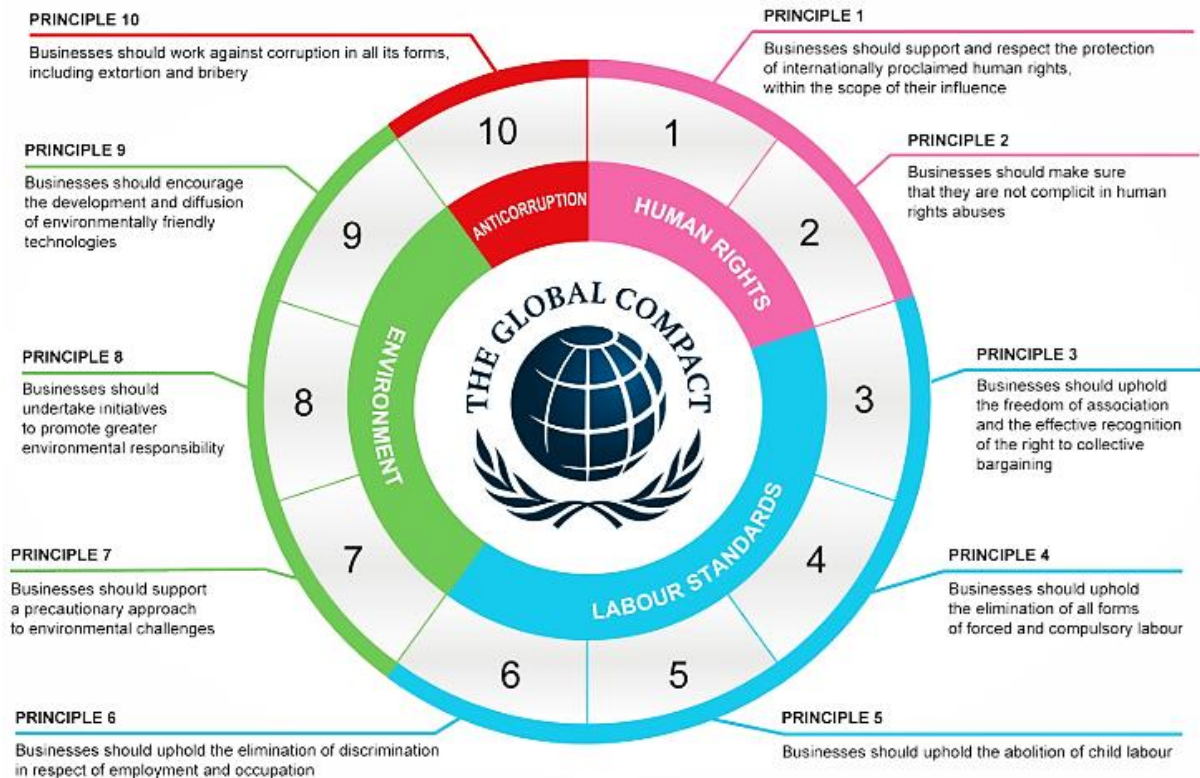
Tobacco – We exclude any company involved in the production of tobacco products as we can find no rational reason to support this industry.

SOCIAL ISSUES

Social Media – There are no clear-cut, industry-recognised standards to define inappropriate content. Regulators and shareholders are beginning to question what this might look like and the impacts it can have on communities. Given that billions of people are now engaged in the social media universe, and that several social media companies are publicly listed and/or issue bonds, we see a role for investors to help define the relevant issues and engage in the debate.

Modern Slavery – We support fair and safe working conditions throughout global supply chains. We will assess a company's performance, policies and standards in relation to workplace safety, freedom of association, forced labour, child labour, discrimination, harassment and other similar practices – and engage where appropriate to advocate for reform.

APPENDIX 2 – UN GLOBAL COMPACT



APPENDIX 3 – UN PRI PRINCIPLES

THE SIX PRINCIPLES

- 1** We will **incorporate ESG** issues into investment analysis and decision-making processes.
- 2** We will **be active owners** and incorporate ESG issues into our ownership policies and practices.
- 3** We will **seek appropriate disclosure** on ESG issues by the entities in which we invest.
- 4** We will **promote acceptance and implementation** of the Principles within the investment industry.
- 5** We will **work together** to enhance our effectiveness in implementing the Principles.
- 6** We will each **report** on our activities and progress towards implementing the Principles.



APPENDIX 4 – UN SUSTAINABLE DEVELOPMENT GOALS

