Daintree Capital ESG Policy

Adopted: September 2019
Updated: April 2021

Background

Daintree Capital constructs absolute return portfolios from a global opportunity set of fixed income instruments. Bond 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 business is a pivotal stakeholder 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.

Sustain Returns	Manage Risks	Invest for Good
Integrating ESG principles supports portfolio outcomes	ESG integration will identify and manage key risks	Identify opportunities to positively impact the future

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

Investing for Impact

We aspire to support positive change by the consideration of "green", "social" and "impact" bonds. These are securities issued with the express purpose of facilitating climate-focused, socially responsible or impact investments. 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 determined to exclude some sectors. These exclusions reflect our commitment to support international conventions, and to ensure compliance with Australian and/or New Zealand law. All exclusions will be coded into trade management software to ensure pre-trade compliance can be undertaken.

Current exclusions are categorised as follows:

<u>Full Exclusions</u>

1) Weapons – cluster munitions, anti-personnel mines, nuclear explosive devices
2) Tobacco
3) Cannabis
4) Whaling

<u>Qualified Exclusions (with a 5% revenue threshold)</u>

5) Vice Activities (Alcohol, Gambling, Adult Industry)
6) Fossil fuel exploration and production
7) Coal-fired power generation
8) Uranium

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. Conversely, we will regularly review exclusions and reserve the right to remove exclusions where there is a compelling case to do so.

In addition to sector and thematic exclusions, we can also exclude individual issuers. While the Portfolio Manager retains ultimate discretion, exclusion may be considered in situations where risks are expected to outweigh the expected returns, or where we believe the expected returns do not compensate for the perceived risk.

Where Daintree invests in assets where it does not have full control of the underlying portfolio composition (such as an ETF), 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 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. We will implement the “Daintree Score”, a data-based rating system to reflect this, **with 60% of the Daintree score to be attributable to the MSCI Governance Pillar Score, with 20% each going to the MSCI Environmental and MSCI Social Pillar Scores.** Historical time series of these key rating factors will be used to identify trends and monitor changes.

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 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 (SDG) intentionally overlap with the UN Global Compact, 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, with a 5% revenue threshold.

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 earn more than 5% of 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 earn more than 5% of their 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 earn more than 5% of their 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 earn more than 5% of their 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.

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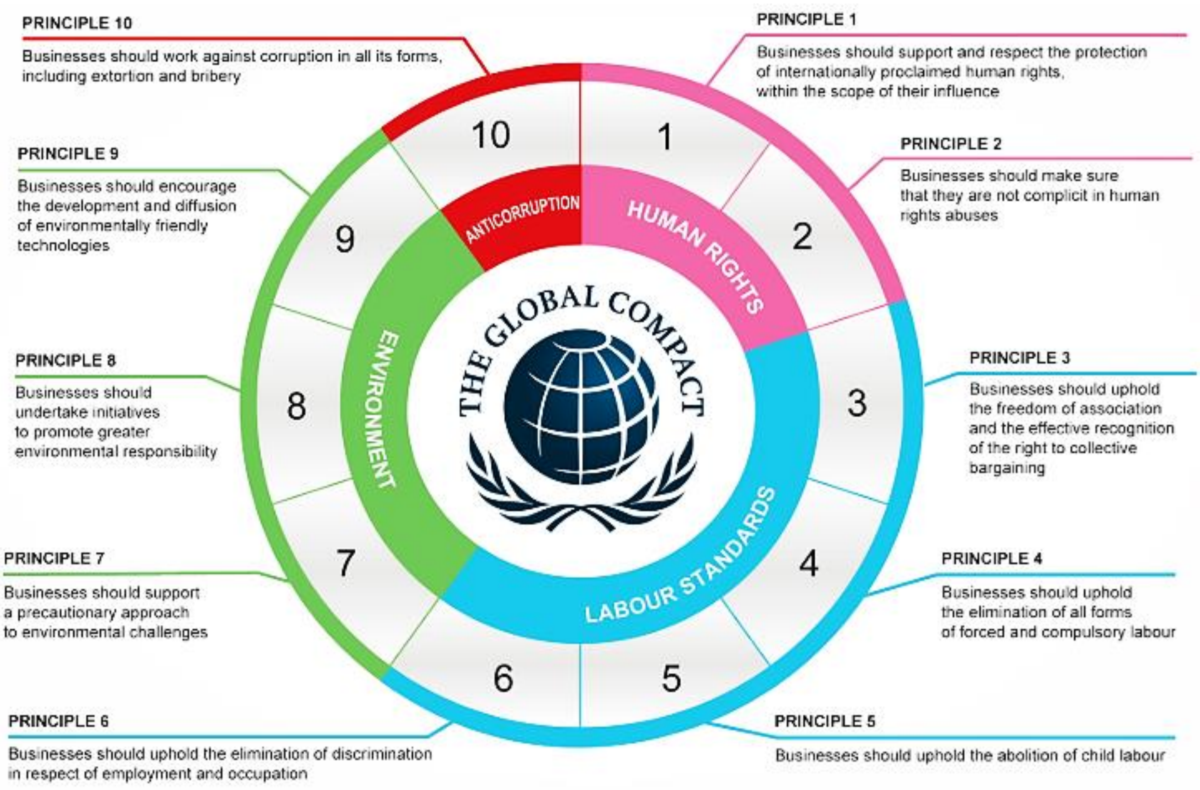
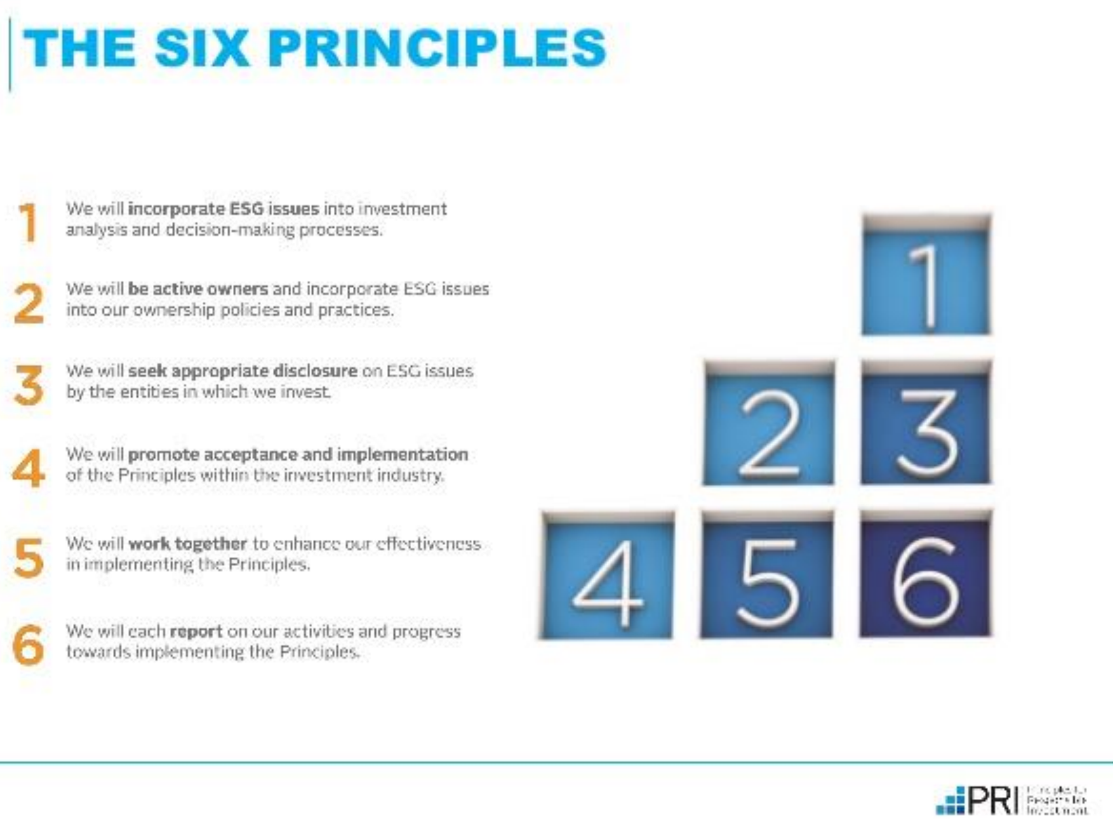
APPENDIX 1 – SASB MATERIALITY MAP

		Consumer Goods	Extractive Industries	Financials	Food and Beverage	Health Care	Infrastructure	Renewable Resources	Resource Transformation	Services	Technology and Communications	Transportation
Environment	GHG Emissions											
	Air Quality											
	Energy Management											
	Water & Wastewater Management											
	Waste & Hazardous Materials Management											
	Ecological Impacts											
Social Capital	Human Rights & Community Relations											
	Customer Privacy											
	Data Security											
	Access & Affordability											
	Product Quality & Safety											
	Customer Welfare											
	Selling Practices & Product Labeling											
Human Capital	Labor Practices											
	Employee Health & Safety											
	Employee Engagement, Diversity & Inclusion											
Business Model & Innovation	Product Design & Lifecycle Management											
	Business Model Resilience											
	Supply Chain Management											
	Materials Sourcing & Efficiency											
	Physical Impacts of Climate Change											
Leadership & Governance	Business Ethics											
	Competitive Behavior											
	Management of the Legal & Regulatory Environment											
	Critical Incident Risk Management											
	Systemic Risk Management											

APPENDIX 2 – UN GLOBAL COMPACT



APPENDIX 3 – UN PRI PRINCIPLES



APPENDIX 4 – UN SUSTAINABLE DEVELOPMENT GOALS