



**Daintree**

CAPITAL

A Perennial Partner

# DAINTREE CAPITAL ESG AND SUSTAINABILITY REPORT 2022



Daintree Capital acknowledges the Traditional Owners of the Country in which we work, the Gadigal people of the Eora nation, and recognise their continuing connection to land, waters and culture. We pay our respects to their Elders past, present and emerging.

# Daintree Capital ESG and Sustainability Report 2022

## Introduction

Daintree Capital invests in fixed income and credit using a benchmark unaware capital preservation focus seeking to protect capital and maximise risk adjusted returns through the cycle with a strong income generation focus.

We work collaboratively with the other members of the Perennial Partners group to share ideas and implement practical initiatives for the benefit of clients and the community, and to progress our own journey to improve standards of corporate responsibility and sustainability.

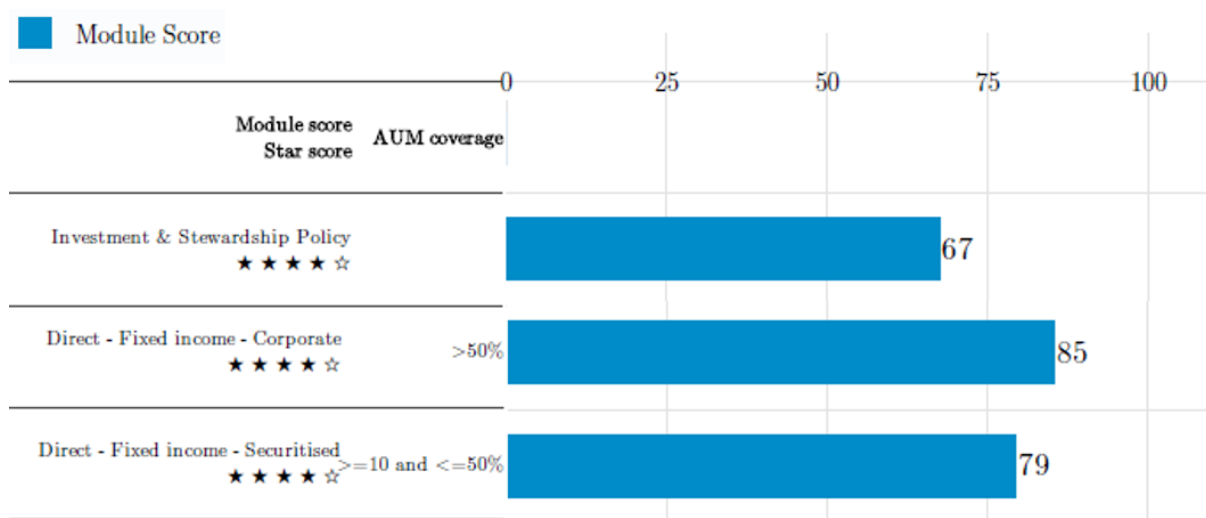
## UN PRI Signatory

Daintree became a signatory of the UN Principles for Responsible Investment in 2019. The six principles provide a framework to guide signatories in the development and implementation of their responsible investment strategies.

Daintree’s 2021 results are summarised below. A new reporting format makes comparison to prior years difficult, but the detailed results highlight our strengths and areas for improvement.

Highlights from the Investment and Stewardship Policy module include a thoroughness of investment policy integration and staff alignment, while noting that further work in the areas of stewardship policy development and implementation would see Daintree progress closer to best practice. Additionally, the feedback noted that the level of disclosure and transparency of ESG initiatives could be improved, for which this report forms part of our response.

Figure 1: Summary of 2021 UN PRI Results



Source: UN PRI

## ESG Process



### **SUSTAIN RETURNS**

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An integrated ESG process supports our ability to achieve our investment objectives. Identifying companies with strong ESG characteristics will sustain, and possibly even improve, returns over time.



### **MANAGE RISKS**

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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 risks to sustain or improve returns over time.



### **INVEST FOR GOOD**

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Through the consideration of “green” bonds, we have the opportunity to directly support environmental, social and community projects. We will consider these projects in parallel with, and subject to, our other core principles.

In implementing our responsible investment strategy, we are guided by three core principles.

**Sustain Returns:** As investment managers, our primary goal is the achievement of superior returns for our clients over time. Daintree’s ESG policy contributes to this goal in two ways: a) identifying and supporting companies that display strong fundamental and ESG (particularly governance) characteristics, and b) avoiding companies with weak financial prospects and/or poorly defined strategy. This latter category will likely see their cost of capital increase over time, ultimately becoming weaker investment propositions.

**Manage Risks:** By implementing several exclusionary screens our process seeks to avoid investment in sectors or industries that do not align with our ethical, financial, environmental or community standards. Furthermore, the policy allows for discretionary exclusions where material issues are identified that are not captured by exclusionary screens.

**Invest for Good:** Fixed income investors have access to securities specifically designed to allocate capital toward social or environmental opportunities, towards thematic outcomes (such as the United Nations Sustainable Development Goals), or to incentivise an issuer to achieve or exceed a defined goal. Daintree’s process acknowledges the positive role these securities play in contributing to ESG and sustainability outcomes and seeks to support them where possible.

## Responsible Investment Working Group

Daintree is a founding member of the Perennial Partners Responsible Investments Working Group, with representatives from all parts of the business. The Group seeks to share ideas and progress corporate social responsibility initiatives for the benefit of clients, employees, and other stakeholders.

Current or recent achievements include:

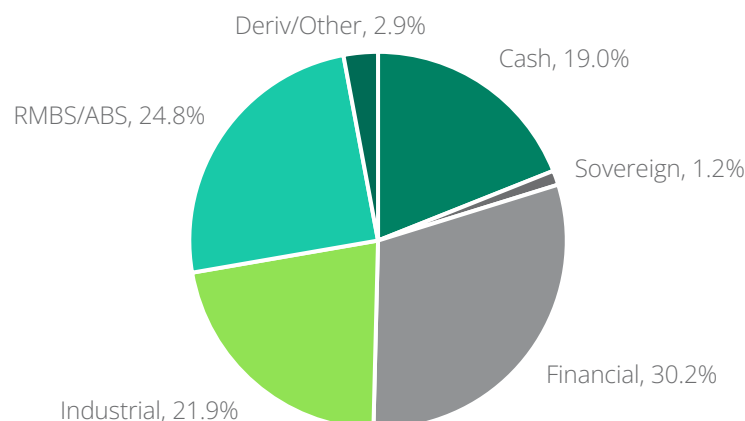
- Carbon neutrality - sourcing electricity from 100% renewable sources, carbon offsets for staff flights, mitigation of firmwide Scope 1-3 emissions with high quality offsets.
- Participation in office tenancy recycling programs.
- Mandatory ESG training for all staff members each year.
- Tree planting initiative as a tangible support to biodiversity.
- Implementation of a Reconciliation Action Plan.

## Portfolio Characteristics

Daintree is an active manager that constructs diverse fixed income and credit portfolios. This can include structured securities such as residential mortgage-backed securities (RMBS), derivatives used for hedging, and private companies not listed on a stock exchange.

Figure 2 shows an aggregated portfolio across all publicly available funds and investment mandates. It indicates that just over 50% of the underlying assets are available to be rated by our independent data provider. The RMBS/ABS category overwhelmingly represents funding for Australian residential mortgages but does not receive a formal ESG score or rating. Despite this, Daintree considers several factors as part of its ESG approach for this sector, including that with a highly regulated system and consumer credit protections in place, we believe the risk of predatory lending practices in this market is very low.

Figure 2: Aggregated portfolio weights, 30 June 2022



Source: Daintree Capital

## The Daintree Score

Daintree assesses each company's Environmental, Social and Governance credentials and monitors the evolution of these scores over time. While we believe all factors are important, we place particular emphasis on governance factors as research shows it to be a stronger predictor of issuer and bond performance over time. To reflect this in our portfolios, the Daintree Score was created, a weighted score of the G, S and E components which upweights governance on a 60/20/20 basis.

Figure 3: Daintree Score



Source: Daintree, MSCI. Rating is a portfolio weighted average with a range of 0 (poor) to 10 (excellent)

## Carbon Dioxide Emissions Reporting

Daintree compiles issuer level emissions data for Scope 1 and 2 emissions. The sectors that contribute most to these totals are the Materials, Electricity Distribution and Steel manufacturing sectors. On average, these sectors emit 6-8 times more carbon dioxide per unit of revenue compared to other sectors represented in Daintree portfolios, but only represent approximately four percent of Daintree assets under management.

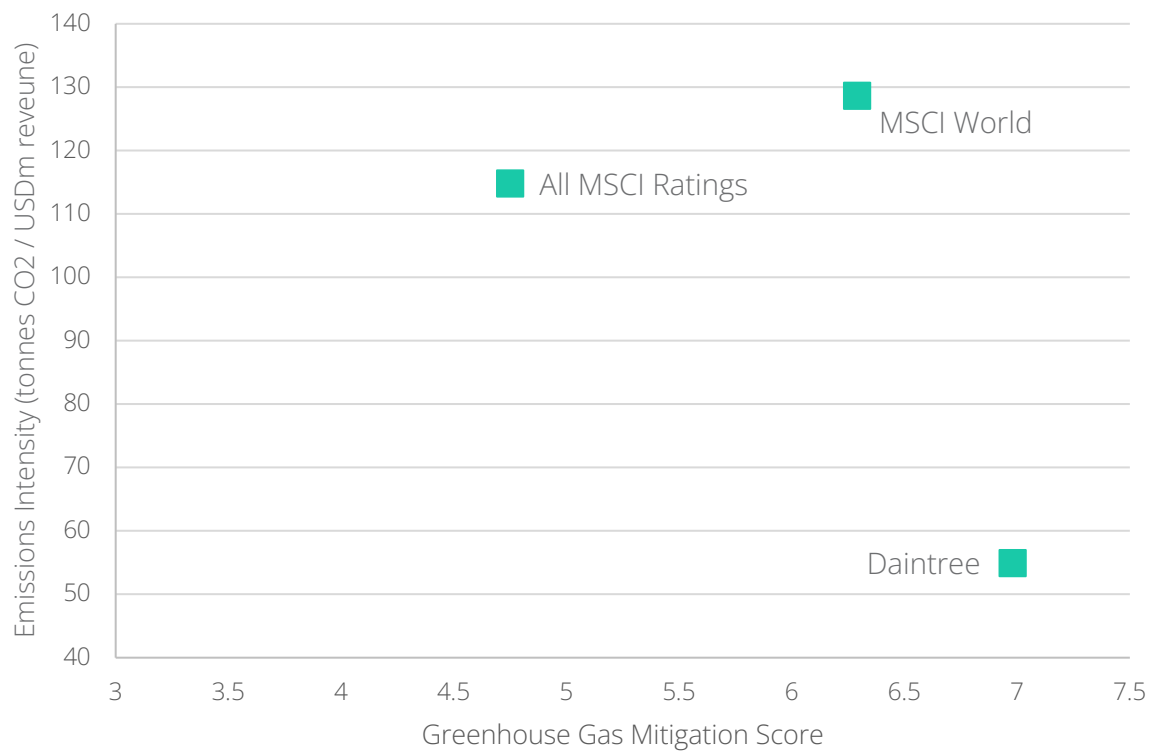
Table 1: Portfolio Emissions Summary

Fund	Scope 1 (tonnes)	Scope 2 (tonnes)	Scope 1+2 Intensity (t/USDm rev)	Portfolio Coverage (% of Strat AUM)	Comments
Aggregated	1,270,563	1,018,611	54.9	55%	Assets not measured: Cash/Sov 20.2%; RMBS/ABS: 24.8%.

Source: MSCI, Daintree

Daintree portfolios compare favourably when benchmarked to the broad MSCI World index and against an even broader sample that includes all MSCI-rated companies, a cohort spanning more than 7,000 constituents. This outperformance can be explained by the exclusion of emissions-intensive sectors and a relative overweight to Financials compared to the MSCI World index.

Figure 4: Emissions Benchmarking



Source: MSCI

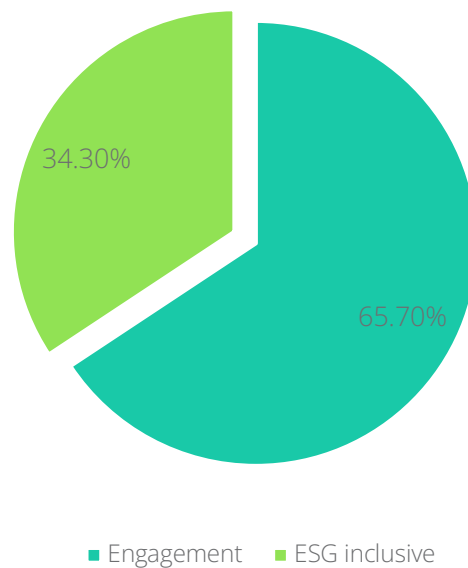
## Stewardship and Engagement

We utilise engagement as one of the tools to preserve and enhance the value of the assets we own on behalf of our clients, effectively bringing our stewardship responsibilities to life. We use engagement to gain better insights into portfolio companies, and where applicable we will, or may also, advocate for improvement or change for the benefit of our clients and other stakeholders.

As our engagement process matures, we are finding more opportunities to integrate specific ESG topics into our interactions. These include proactive initiatives such as enquiring into the employee relations practices of large employers. This work led to several positive outcomes, including:

- A better understanding of how each company implements their employee relations policy,
- An opportunity to compare, contrast, and identify best practice, and
- The chance to convey our findings to other companies, emphasising what we saw to be best practice and encouraging others to work toward continuous improvement.

Figure 5: Engagement Activity Summary



Source: Daintree

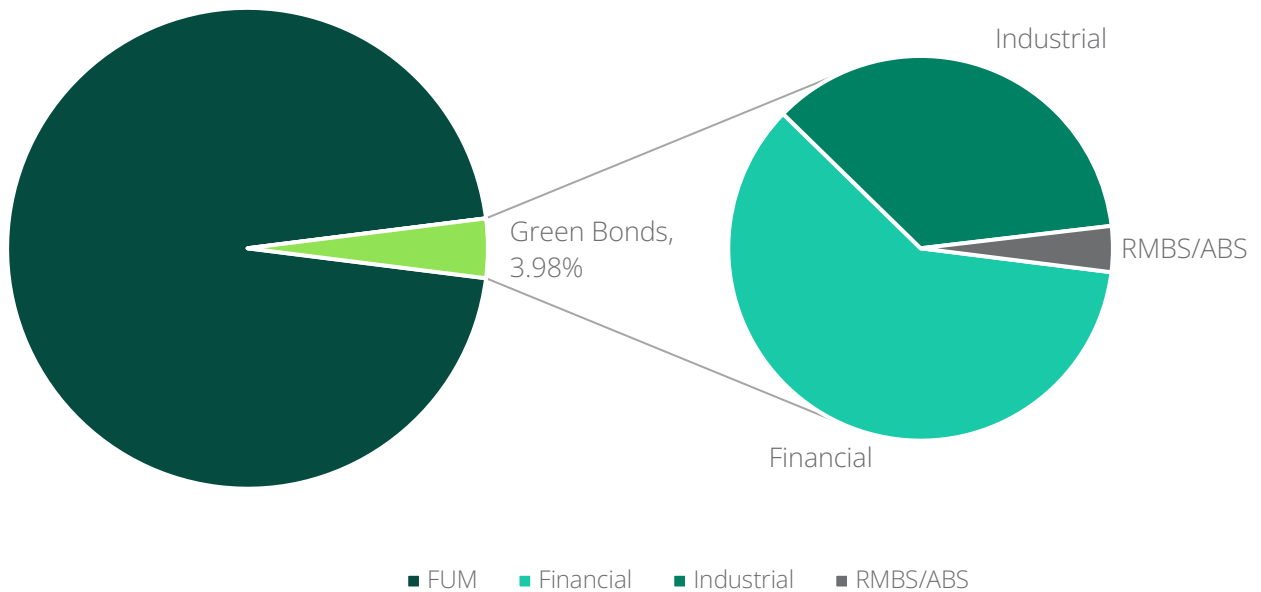
## Purpose-Driven Investing

Fixed income investors can support tangible environmental, social and sustainability outcomes through participation in instruments collectively known as “green” bonds. These bonds can be further classified into sustainability and sustainability-linked categories. While the structures can vary, the intention is identical.

Current investments include a bond that directs proceeds toward projects that address the United Nations Sustainable Development Goals, and two sustainability-linked bonds that incentivise the issuer to achieve specified goals by imposing financial penalties should they be unsuccessful.

While still a relatively modest allocation compared to total assets under management, we aspire to increase exposure to green bonds over time. In doing so, our ESG policy requires a balanced approach that acknowledges the benefits of these securities while simultaneously ensuring that they deliver appropriate financial returns for the risks incurred.

Figure 6: Green Bond Summary



Source: Daintree



## Corporate Social Responsibility

Daintree is committed to leading by example by creating a corporate culture that embodies the values we espouse as investment managers. This extends to supporting and encouraging employees to undertake community engagement such as volunteer youth mentoring.

We participate in a firmwide initiative to measure and offset Scope 1-3 emissions with high-quality, verifiable offsets. This includes offsetting of emissions where possible for all domestic and international business travel.

As UN PRI signatories we are committed to the highest standards of ESG integration into our investment process. We recognise that by partnering with the UN PRI we can magnify our voice on issues of importance. One such effort was a global movement to protect the Amazon wilderness from excessive and destructive farming practices that reduce biodiversity, impinge on the territory of native tribes, and increase wildfire risks.

Closer to home, Daintree established a simple scheme that plants one tree for each new client to the firm, which many other Perennial Partners boutiques have adopted. Being planted in bushfire-affected regions, this initiative plays a small part in supporting environmental resilience and recovery.



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