



# Environmental Social Governance (ESG) Policy

July 2018



## ESG Policy Overview

Northcape aims to be a responsible investor. We believe the consideration of the financial impact of ESG factors in investment decisions enhances a portfolio's long term performance and that ESG issues can pose a financial risk if not properly assessed and taken into account.

Our processes are designed to incorporate ESG issues into our investment analysis and decision-making processes and to seek appropriate disclosure on ESG issues by the entities in which we invest.

Northcape considers ESG issues in the normal course of its investment activities. In particular, the most appropriate stages of our investment process for consideration of ESG issues are:

- during the presentation and discussion of stocks for admission into our Approved Stock List;
- during the regular stock review meetings; and
- at all times when a company vote is called.

We may enter into dialogue on ESG issues with companies as part of the process for inclusion on our

Approved Stock List. Once a company is approved, direct engagement with companies on ESG issues typically occurs in the lead up to AGMs and EGMs. This is mainly because companies on our Approved Stock List of investments are already assessed for ESG matters and have passed a reasonableness test. We are prepared to engage with companies on ESG topics where we have a strong view. The analyst responsible for the stock will engage with the company on a matter.

ESG is considered as one of the many factors that influence the overall allocation of brokerage. Northcape does not specifically pay extra for, or allocate brokerage based solely on the provision of ESG research. We are more inclined to award brokerage to firms that offer insight, whether that relates to ESG matters or not, but we are prepared to award brokerage for value-adding specific pieces of ESG research.

This policy applies to all our portfolios, including discrete mandates and wholesale trusts. It is reviewed and updated where necessary, at least on an annual basis. Changes are presented to the Board for review and approval.

## Procedure for inclusion of ESG considerations into Approved Stock List process

ESG risks are one of many factors that are considered when deciding whether a company is of sufficient quality for inclusion on our Approved Stock List.

No predetermined set of rules determine how ESG assessments are applied to investment decisions, other than to ensure that Analysts and Portfolio Managers are properly informed and include ESG considerations as part of their investment evaluations and portfolio weighting decisions. Information is gathered through the normal course of company analysis, including internal and external input. Internal input is sourced principally from the analyst responsible for coverage of individual stocks although contentious issues are usually discussed with other team members.

External input is sourced from discussions with company management, regular stock broker reviews, media commentary and advice from proxy advisors.

The template below is included in every new approved stock presentation. The template is a framework which can be used to consider and comment upon ESG issues which may affect investment into a company. Additional criteria for assessment or rating may be applied by individual teams. Each Northcape Analyst must make a judgement on the impact of ESG issues when they arise. When assessing the ESG issues of a company, it is important to consider factors such as, the materiality of the issue, the context in which it arises, the size of the company, the length of time over which any shortcomings are ongoing, dialogue with the company and whether any change in company behaviour has occurred.

The companies on the Approved Stock List are continually reviewed and should any significant aspect of any company on the list be adversely affected due to deteriorating ESG standards we may remove them from the list and divest ourselves of any investment.

# Northcape ESG Template: Environmental, Social and Corporate Governance Checklist

Company:

Date:

Analyst Responsible:

## Overall ESG Summary / Considerations:

ESG Consideration	Analyst Comments

## Environmental:

ESG Consideration	Analyst Comments
Potential for liabilities arising from pollution events (e.g. oil spills etc)	
Exposure to current and potential emissions targets	
History of significant environmental fines / liabilities	

## Social:

ESG Consideration	Analyst Comments
History of poor corporate behaviour (bribery, corruption etc.)	
Employee retention / turnover	
Social licence to operate including Government and community relations	

## Governance:

ESG Consideration	Analyst Comments
Is the business being run to maximise shareholder returns?	
Influence of large shareholders	
Track record of major capital allocation decisions	
Incentives in executive compensation	
Quality of financial disclosure	
Composition and performance of the board	

## Proxy Voting Policy

Northcape has a policy of active involvement in all matters affecting the shareholders of companies forming part of its managed portfolios. Participation in company meetings by exercising their votes is a critical right of shareholders and an important tool that Northcape uses to influence the governance practices of the companies in which it invests on behalf of its clients.

This policy is designed to be in the best interest of Northcape's clients and to be consistent with the Financial Services Council's standard voting policy which state that Operators should vote on all company resolutions where they have the authority and responsibility to do so.

This policy applies to all resolutions considered at general meetings of all companies in which Northcape portfolios invest regardless of the materiality of a resolution, except where the shareholding does not have voting rights attached or where a client has specifically retained the voting rights on its holdings.

Where we are required to abstain from voting on a resolution (for example when we are participating in a capital raising), or where we believe it is more appropriate to neither support nor oppose a resolution (for example when meeting notices are late or unclear and the details cannot be clarified before the meeting deadline), we will record an abstain vote rather than taking no action on the resolution.

Northcape forms its own view on how to vote for each resolution, but recommendations from proxy advisor services are used as a benchmark. The analyst for each stock is required to consider and make recommendations on all company resolutions. Their recommendations, including any supporting explanation of the recommendation or variation from the proxy advisor's recommendations, are documented. These recommendations are also reviewed by the Managing Director.

We do have the ability to implement client specific voting policies, but this is only done on an exception basis following discussion with the client. Normally, votes are cast across all mandates and across all strategies. However, discrete mandate clients may override Northcape's votes directly with their custodian. Where

Northcape has a strong view on a topic, or where issues may be sensitive to any of Northcape's client, we will engage with our clients to explain our thoughts and concerns.

Where discrete mandate clients have a stock lending program with their custodian, any shares out on loan will not be able to be voted on by Northcape unless the custodian recalls the shares prior to the meeting record date. Northcape will follow its clients' specific instructions which will be to either:

- Instruct the custodian to recall all shares for every meeting so that votes can be lodged for all shares in the Northcape portfolio; or
- Not recall any shares on loan and therefore only lodge votes on unlent shares; or
- Instruct the custodian to recall all shares but only where Northcape has a strong view that voting is necessary to protect the interests of the portfolio.

Northcape will instruct custodians on a best-efforts basis. Northcape cannot guarantee that all shares will be recalled due to custodian imposed lead time requirements. In certain markets, particularly those in emerging countries, it may be advantageous to invest in a class of shares which does not carry voting rights or carries limited voting rights. This is typically a consequence of liquidity considerations, but there may be additional factors driving this. As part of our approval process the analyst who researches a company makes a recommendation as to which class of shares are most suitable for investment, considering issues such as ESG, liquidity and currency exposure.

When there are issues that involve a degree of controversy, Northcape will contact the company to seek more information and clarification. If we are not satisfied with the explanation, we express our opposition to the issue and indicate how we will be voting. Our voting recommendation will be guided by what is in the best interest of our clients. Depending on the nature of the issue, this may be followed up at the next meeting with the company.

Northcape will hold meetings with our external proxy voting advisors to discuss both operational and quality of service issues. We will also review other proxy voting advisors to benchmark their services.

## Proxy Voting Governance Guidelines

ESG issues are carefully considered when voting proxies. Our view is that issues need to be evaluated on a case by case basis as there are often many complexities and variables involved. The following guidelines are intended to assist in Northcape's assessment of governance practices of companies, particularly when exercising voting rights.

### 1. When assessing director election proposals, consider:

- Performance of the company under the incumbent board and its committees;
- A director's tenure and performance on other listed Boards, bearing in mind the added value that may arise from directorships of other companies;
- Attendance at Board and committee meetings;
- Engagement with shareholders on material governance issues;
- Capacity and workload (on a case by case basis);
- Board composition and oversight of independent non-executive directors; and
- Any actual or potential legal proceedings that a director is involved in.

### 2. When assessing the governance behaviour of the company, consider:

- The charter or code of governance and ethics which should be publicly disclosed;
- The clear definition of board and management responsibilities regarding governance issues;
- Disclosure of risk management policies;
- Disclosure of how potential conflicts of interest are mitigated;
- Independent oversight of, and adherence to regulatory requirements for related party transactions;
- Whether the group and individual performance of the Board is formally evaluated; and
- The timely release of, and equal access to, information that allows investors to make informed and accurate judgements about material issues that could impact their shareholding. This includes:
  - Anti-corruption and bribery;
  - Sustainability reporting;
  - Climate change program guidance; and
  - ESG risks and their management.

### 3. When assessing capital raisings, consider:

- The pre-emptive rights of existing shareholders such that all shareholders have an opportunity to maintain their interest or be compensated for the dilution of their interest;
- The board's oversight of the capital raising process;
- The context of the capital raising, particularly the need to raise capital quickly;
- The ability for existing shareholders to participate in the

capital raising; and

- The price paid by subscribers and the dilution caused by the capital raising.

### 4. When assessing takeovers, consider:

- The management of actual and potential conflicts of interest; and
- The composition of an independent takeover committee.

### 5. When assessing the Board composition, consider:

- Any gaps in the Board skill-sets and experience relevant to the company at its strategy;
- The size and workability of the board;
- The role of the chairperson and degree of separation from the CEO role;
- Succession planning and overlaps in director skills, experience and expertise;
- The mix of independent non-executive and executive directors;
- The independence of any substantial shareholders and the controls in place to ensure that all shareholder interests are properly considered; and
- Independence of committees.

### 6. When assessing remuneration, consider:

- The rationale for any material changes to fixed remuneration;
- Whether remuneration has been designed to reward sustainable long-term performance and creation of shareholder value. This includes disclosure of performance hurdles, appropriate performance periods, cash and equity mix and ability to claw-back variable pay;

### 7. When assessing board spill resolutions, consider:

- Company performance and the performance of the board and management;
- The materiality of underlying remuneration issues at the company;
- The potential for disruption and adverse impact on shareholder value; and
- Shareholder engagement and changes made by the board to address investor concerns.

### 8. When assessing shareholder resolutions, consider:

- Is the proposal in the best interests of the shareholders;
- Does the proposal result in the disclosure of information that is useful to shareholders and does not overly prejudice their commercial interests;
- Is the proposal linked to improved governance or transparency;
- The potential impacts on the company; and
- Company performance and the performance of the board and management.

## Proxy Voting Procedure

In order to give effect to this proxy voting policy, Northcape has a process whereby the Northcape Operations team creates a cover sheet which is attached to each notice of resolutions. Also attached is the proxy voting research and any available recommendations of our proxy voting advisory services.

Ownership Matters is our proxy voting advisor for our domestic portfolios. ISS RiskMetrics for International portfolios. Our proxy advisors provide proxy voting recommendations to Northcape for each resolution to be considered. These recommendations are based on the standards for good governance set out in their voting guidelines.

The appropriate analyst is then required to consider the resolutions and write their recommendations and commentary on the cover sheet. In many cases, these recommendations are to vote in favour of the resolution, however, where the analyst, in consultation with the rest of the team, believes that proposed resolutions are either not in the interest of the company's shareholders or include inappropriate, illegal or otherwise unacceptable behaviour, they instruct the custodians to vote against those resolutions. Where there are any contentious issues or any vote against the management recommendations or difference from the advisory service recommendations then the analyst must also provide an explanation of their recommendations. The Managing Director of Northcape must also approve the recommendations.

The Operations team is responsible for sending the recommendations and explanations to the clients that lodge their own votes or for lodging votes electronically via the Proxy Edge system for clients where Northcape has the voting rights. The Operations team is also responsible for instructing the custodians to recall any stock on loan to allow these shares to be voted on (except where a client has instructed that their stock lending program is not to be impacted by proxy voting).

Votes lodged with ProxyEdge are electronically forwarded to each custodian's proxy voting system. We are able to check that our votes have been sent to the custodian but rely on the custodians to lodge these votes at each meeting, noting that each client can instruct the custodian to override Northcape's instructions.

On our proxy voting register, we keep a record of all votes including details and analyst explanations of votes that were not consistent with the recommendations made by our proxy advisor. These exceptions are then reviewed on a quarterly basis by the Audit, Risk & Compliance Committee.

Upon request, Northcape will provide details of voting recommendations and any commentary to clients, as well as a quarterly proxy voting report. It should be noted that the Northcape voting report will reflect Northcape's voting instructions and for discrete mandate clients this may not reflect actual votes lodged with the company if the client has overridden Northcape's instructions with the custodian.

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