NORTHCAPE
CAPITAL

ESG & Investment Stewardship Report

2021

About this report

This is Northcape's second annual Environmental, Social and Governance (ESG) and Investment Stewardship report.

The report provides readers with an overview of Northcape's approach to integrating ESG into our investment activities, as well highlighting key ESG-related achievements throughout Calender Year 21.

We share a number of case studies across all of our investment strategies – Australian Equities, Global Equities and Emerging Markets – putting into context the importance we place on ESG.

The key ESG-related achievements we have focused on this year relate to understanding climate change risks and opportunities and developing a comprehensive framework for assessing modern slavery risk in our own operations and in the companies we invest in.

Northcape recognises that ESG related risks and opportunities are a rapidly evolving issue for our clients, and we acknowledge that continual improvement in our processes will be necessary. We look forward to working with our clients to ensure a best practice approach.

For any questions relating to this report, please contact Katie Orsini on katie.orsini@northcape.com.au.

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About Northcape

Northcape Capital is a specialist equity fund manager wholly owned by its staff. We focus on managing concentrated, high-quality equity portfolios for clients.

At our inception, four senior investment professionals came together to set up a differentiated funds management company, where our investors are considered at the centre of everything we do. With relatively quick success in raising funds under management in our Australian equity strategies, we expanded our product range to include Emerging Markets and Global Equity strategies.

We hired experienced investment teams to manage these strategies and now have a diverse team of 15 investment professionals, with an average investment experience of 21 years. From the beginning our aim was to set up up a best in class, specialist equity manager leveraging the very strong research capabilities we have here in Australia.

Since then, significant value-added returns have facilitated growth in funds under management to more than A$13.0 billion.

One of the keys to our success is our multiple portfolio manager structure, which encourages accountability, curiosity, constructive debate and diversity of thinking. This has been instrumental in attracting and retaining high calibre, experienced investment professionals across offices in Sydney and Melbourne.

Northcape has an experienced and dedicated team whose focus is solely on delivering strong performance over the long term for our clients. To facilitate this, we have invested in a large and experienced middle and back office team to allow for minimal non-investment distractions for our investment team.

One of the things we are most proud of at Northcape is the culture we have created. It is one of inclusion and equality, where individual contributions are valued and recognised. This collegiate culture is embedded in all aspects of our organisation through our flat organisational structure, broad equity ownership and multiple portfolio manager approach. This environment has allowed for minimal staff turnover. We believe that the integrity and stability of our team are fundamental to our success, and we are proud to be home to a vastly experienced, high-quality, long-serving and cognitively diverse group of professionals.

Northcape has integrated ESG into its investment processes since the inception of the firm. While our focus in this area has evolved over time, the principles around ESG integration are the same. We aim to avoid companies with onerous ESG risks, invest in companies with a sustainable competitive advantage and engage with companies to achieve better ESG outcomes. ESG is considered in all stages of our investment process.

2004
Established

100%
Privately Owned

27
Employees

21yrs
Average investment experience

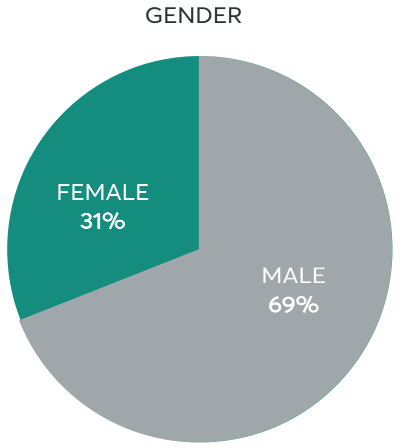
4
Strategies across Aust, Emerging Markets & Global Equities

A$13.5B
in assets under management

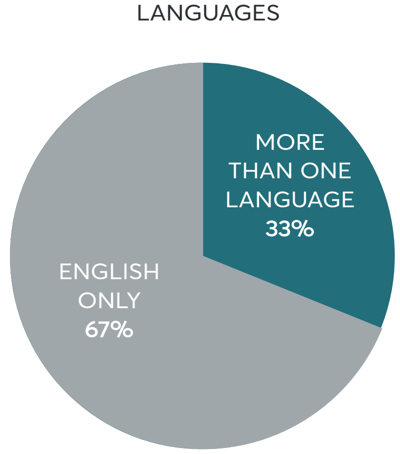
NORTHCAPE AT A GLANCE - A DIVERSE AND STABLE TEAM

Northcape's team come from a range of backgrounds, ages, and experience. We celebrate and encourage this and have seen improvement in all areas of diversity in recent years. Some diversity metrics and insights are shown in the charts below.

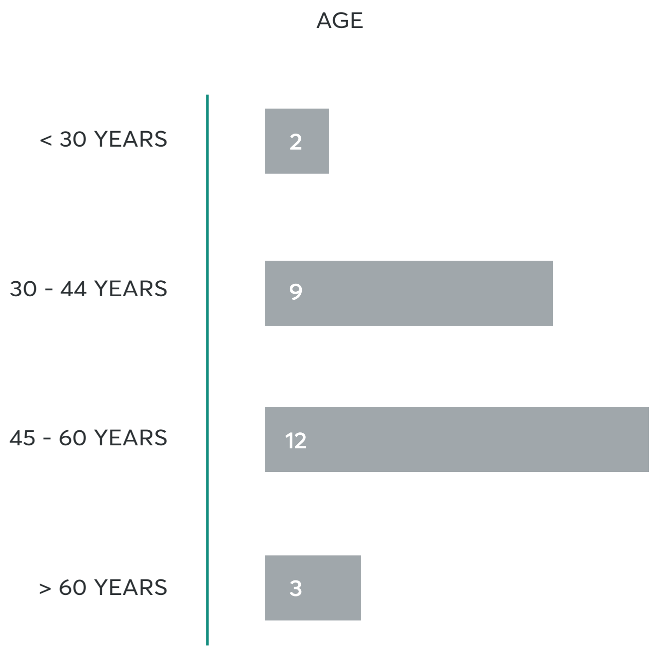
GENDER DIVERSITY OF ALL EMPLOYEES



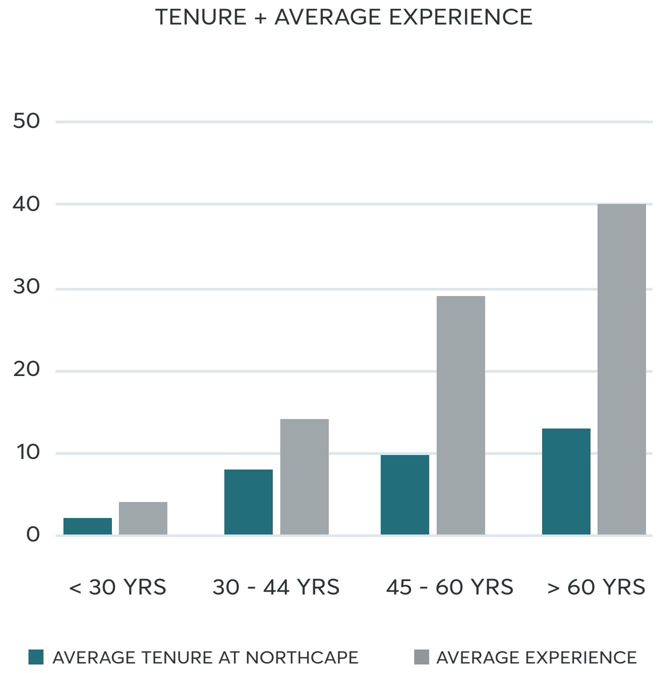
DIVERSITY OF NATIONALITES + BACKGROUNDS



DIVERSITY + RANGE OF AGES, BRIDGING THE GENERATIONAL GAP



VASTLY EXPERIENCED TEAM WITH MINIMAL STAFF TURNOVER



OUR COMMITMENT TO RESPONSIBLE INVESTMENT

Northcape firmly believe that ESG factors have the potential to impact the risk return profile of a company and are key elements of long-term value.

Consideration of ESG factors have been a critical component of our investment decision making since Northcape was established in 2004.

Northcape has a duty to act in the best interests of our clients. This duty is the driver for Northcape to be a **responsible capital allocator** to maximise the overall value to our clients. This involves:

- Considering **overall returns** across the portfolio in addition to the risk-return profile of individual investments, including minimising harm and maximising overall non-financial value.
- Complying with **client directed** responsible investment and risk objectives.
- Considering long-term systemic **sustainability risks and opportunities**, including those that relate to transition to a Sustainable Development Goals (SDG) aligned world.
- **Protecting our client's reputation** by avoiding negative sustainability outcomes associated with any company held in their portfolio.

We believe that companies with good ESG practices and processes can better meet society's long-term expectations by contributing to the sustainable development of the environment in which they operate.

Companies focused on these issues are more resilient and are more likely to improve long-term returns for all stakeholders.

Conversely, companies that are unwilling or unable to sufficiently support an internal culture that can appropriately consider ESG issues, are more likely to be susceptible to existential threats and will deliver diminished investment value over the longer term.

As owners and active stewards of our clients' capital we believe we can make a positive impact on those companies in which we invest, and we can create a better outcome for all stakeholders.

Northcape is a signatory to the United Nations Principles for Responsible Investment (UNPRI). In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities.

We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.

Our approach to ESG Integration

Consideration of ESG factors is integrated across all our domestic and international equity portfolios. ESG is a critical component considered when selecting high quality companies for our Approved List. We complete extensive due diligence on a company to ensure it passes our high ESG bar and as active managers take our role as stewards of long-term capital seriously.

INTRODUCTION

Our approach to ESG rests on a set of foundational core values. We integrate and rely on our collaborative and experienced team to work with companies to improve overall ESG outcomes for our portfolios. ESG analysis is a fundamental and integral part of our research. All of our portfolio managers and analysts are responsible for conducting rigorous bottom-up research, that is focused on understanding the sustainability of businesses.

We firmly believe that ESG factors have the potential to impact the risk-return profile of a company and are key elements of long-term value.

We believe that companies with good ESG practices and processes can better meet society's long-term expectations by contributing to the sustainable development of the environment in which they operate.

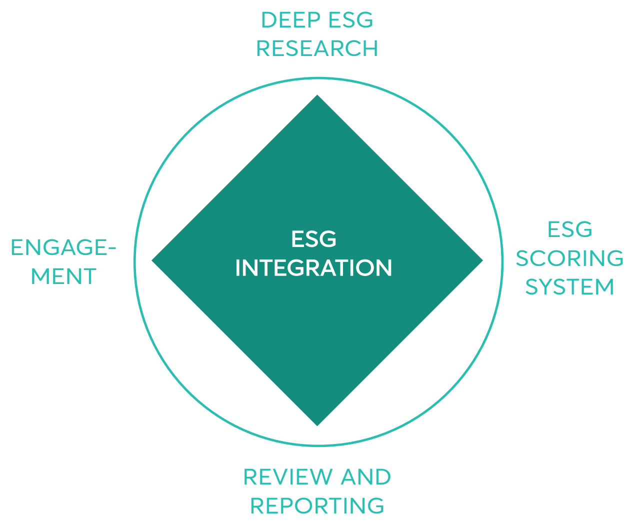
Our Responsible Investment Policy (available on our website) is applicable to all Northcape's funds and sets out our commitment and approach to ESG, stewardship, climate change and to anti-modern slavery.

INTEGRATION OF ESG INTO OUR INVESTMENT DECISIONS

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

Our approach to ESG integration is multifaceted and is an iterative and dynamic process.

ESG INTEGRATION:



1. DEEP ESG RESEARCH - ESG ASSESSMENT

An in-depth understanding of the ESG risks and opportunities of a company is a critical step in our bottom-up, fundamental analysis and is a key component of our assessment of the quality of a company.

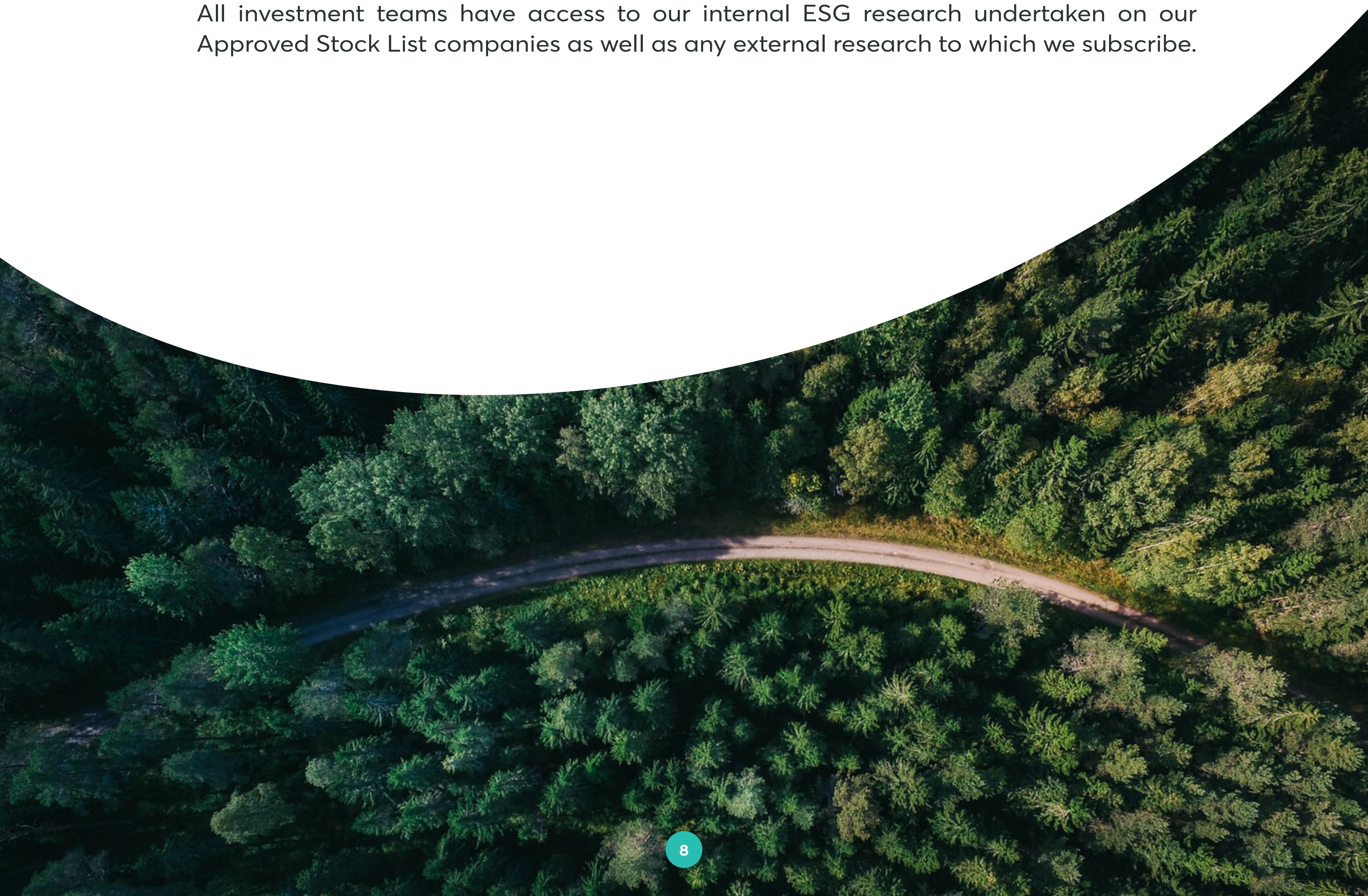
To achieve high conviction, we undertake a comprehensive ESG assessment of all prospective investments.

ESG information is gathered as part of deep, fundamental research undertaken by our analysts. We consider a comprehensive list of factors, and rather than a generic check-box approach we will do independent and rigorous research including in-depth meetings with management to understand the specific ESG factors relevant to the company.

Our assessment of ESG factors impacting a company is primarily driven from internal research. We will also source external input from expert networks, stockbroker reviews, media commentary, advice from proxy advisors and ESG research and rating providers such as Sustainalytics, MSCI and ISS.

The culmination of our comprehensive ESG research is an ESG score for each company. Only those companies that demonstrate robust ESG practices will be considered for our Approved List. Companies with potentially poor ESG do not warrant further investigation.

All investment teams have access to our internal ESG research undertaken on our Approved Stock List companies as well as any external research to which we subscribe.



2. ESG SCORING SYSTEM

We set a high ESG bar for the inclusion of companies on our Approved Stock List.

We carefully analyse a long list of ESG factors and assess the company's practice and performance across these crucial areas. Our investment teams use a ESG scoring system as a base which lists E, S and G factors that may apply to a company. This framework is used to consider ESG issues and opportunities which may affect investment into a company. A subset of the ESG issues considered is illustrated in the diagram below.

Our investment team will make a judgement of the materiality of ESG factors, considering context, durability and whether there has been any change in company behaviour. When considering materiality of ESG factors we assess both the financial impact as well as the companies impact on people and the environment (double materiality). This scoring system allows a peer group comparison of each company's ESG performance.

A high bar is set for each company, needing a minimum score of at least 6/10 and this must be unanimously agreed for any potential company to be included in our Approved Stock List. This effectively applies a positive screen so that only companies with strong ESG practices are included in our investment universe and this focuses our portfolios towards a stronger ESG position.

We will also apply negative screens for companies and markets subject to any domestic or international laws or sanctions, as well as negative screens to exclude investments in tobacco and controversial weapons. We also apply any other exclusions and benchmarks as directed by our clients.

ENVIRONMENT
(3 POINTS)

Environmental risks including any possible effects of:

- Appropriate environmental measurement systems
- Potential for liabilities from pollution, Toxic waste and/or Resources depletion
- Civil resistance and reputation risk
- Opportunities for environment targeted products
- Exposure to current and future emissions targets
- History of environmental fines

SOCIAL
(3 POINTS)

Social and workplace issues including:

- Child labour risks
- Workplace health and safety
- Community relations
- Human rights
- Government relations
- History of poor corporate behaviour
- Turnover / retention

GOVERNANCE
(4 POINTS)

Corporate Governance issues including:

- Board structure and accountability
- Accounting disclosure and practice
- Audit committee and auditors
- Executive compensation
- Probity
- Transparency, accountability, disclosure
- Is the business run for the shareholders
- Influence of large shareholders
- Track record of major capital allocation decisions
- Board composition and performance
- Red flags from third party advisors

3. REVIEW & REPORTING

We continually monitor for changes and stay abreast of key ESG issues to ensure the company continues to meet our standards in this area.

For each investment we create a tailored list of the most relevant ESG issues given the operations of the company and assess the adequacy of mitigation actions the company is taking against these risks. We will monitor progress in our regular research meetings, and hold separate meetings to specifically discuss ESG.

If a significant ESG issue arises, either when preparing to admit a company to the Approved Stock List or subsequently, we will review the issue and decide the appropriate course of action.

Where material adverse developments have occurred, we consider whether or not the company should remain on our Approved List of stocks. For more minor issues, or areas that require our ongoing monitoring, the review provides an input into our company communication program.

4. ENGAGEMENT

We will engage directly with a company on material ESG factors or where we have a strong view.

Our view is that engagement with a company is a more effective tool than divestment alone, which links back to our ongoing assessment process. We work with companies to improve their ESG where we consider them to be underperforming. We document company engagement in a separate ESG activity log and record outcomes.

Importantly, if after our engagement, the ESG score for a company is reassessed to be below our high bar, then the company is removed from our Approved List. If the stock is also held in our portfolios, we would exit the position in an orderly manner and communicate our decision with the company.

We believe the consideration of the impact of ESG factors in investment decisions enhances a portfolio's long-term performance and this is a key step in ensuring responsible capital allocation.

Stock Example – ESG Integration Process

Northcape has been managing Australian Equity portfolios for clients since 2005. ESG assessments have been fundamental to our Approved Stock List screening process since inception. In our view, management that adhere to sound ESG practices tend to perform well in all areas of the business.

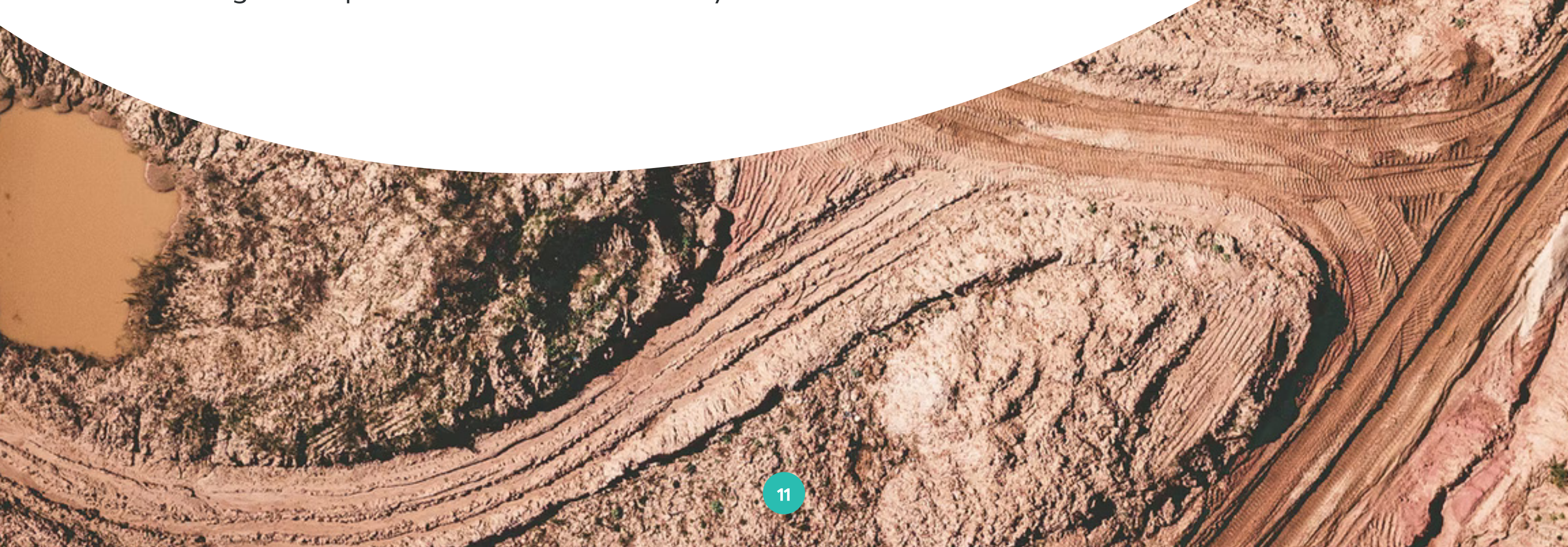
Our Approved List is dynamic and reflects our assessment of the highest quality companies in our investment universe. We continuously review the ESG assessment of a company to determine whether it still meets our quality criteria and if there are any ESG factors that will impede the company from delivering sustainable and growing returns over the medium term.

The escalation of climate change risk over time has increased our scrutiny of Approved List companies' susceptibility to related business risks. As part of our ongoing review, two companies have been removed from our Approved List over the last couple of years where we felt climate change risks would significantly impact their ability to generate sustainable returns over the long-term.

AGL Energy: We removed AGL from our Approved List, partly due to concerns around its ability to profitably navigate the energy transition. The future of wholesale electricity prices is highly uncertain given the ongoing shift to renewables and increasing government involvement in the sector. AGL has the largest Scope 1 carbon emissions of any company in Australia and its ability to sustain returns from its aging coal fired generation assets is doubtful, in our view.

Aurizon: We evaluated the sustainability of Aurizon with reference to the goals of the Paris Climate Accord. Our assessment was that the success of the company required increasing volumes of thermal coal exports over a 20+ year horizon, which we view as inconsistent with the goals of the Paris Accord. As a result, we removed the company from our Approved List.

Woodside: Investment in oil and gas producers is a complex area for ESG investors. There is a clear threat to established business models from the transition to net zero emissions by 2050, but on the other hand energy security during the transition is a critical issue, as illustrated by the energy crisis that began to unfold in Europe in late 2021. We continually review our exposure to the sector and recently decided to retain Woodside on our Approved List. We think Woodside's gas production and investments in hydrogen will contribute to the energy transition, while existing reserve life does not extend materially past 2050, in line with climate goals. The long term trajectory of oil and gas prices, along with decommissioning liabilities, are valuation risks that we take into account when constructing our portfolio.



Active ownership

As owners and active stewards of our clients' capital we believe we can make a positive impact on companies that we invest in, and create a better outcome for all stakeholders by maximising returns, minimising harm, and maximising overall non-financial value.

PROXY VOTING

Northcape has a policy of active involvement in all matters affecting the shareholders of companies that we invest in. Participation in company meetings by exercising votes is a critical right of shareholders and an important tool that Northcape uses to influence the governance practices of the companies. Our primary objective when exercising our vote is to maximise the value of our client's investments.

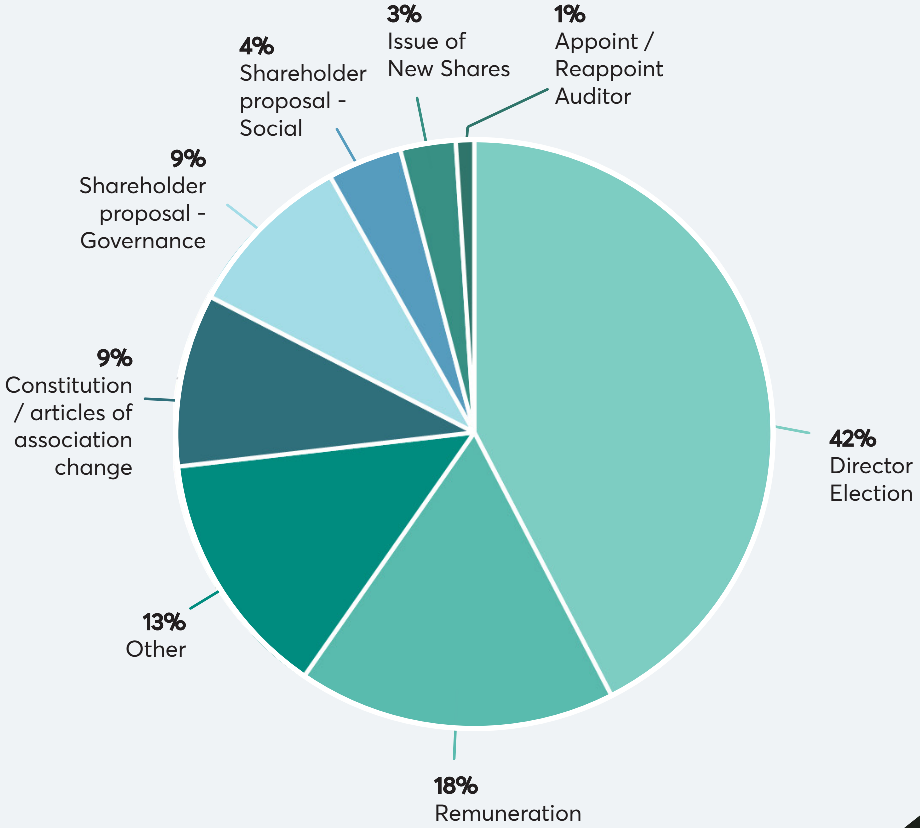
In 2021 we voted on all resolutions across all our equity strategies where we have voting rights. A summary of how ownership rights have been executed over 2021 is provided in the table below.

NORTHCAPE VOTING SUMMARY CALENDAR YEAR 2021	TOTAL
Shareholder meetings at which our clients' shares were voted	116
Number of Resolutions voted	1018
% of resolutions voted with board recommendations	90.4%
% of resolutions voted against board recommendations	9.5%
% of abstentions	0.1%

When there are issues that involve a degree of controversy, Northcape will contact the company to seek more information and/or clarification. Where we vote against the recommendation of the board, we aim to engage with the company before, and where applicable, after the vote to explain our reasoning.

Even if the vote is ultimately approved and behaviours remain unchanged, we believe that continual engagement with the company on these issues will bring increased focus and scrutiny on company practices and lead to a better outcome for all stakeholders.

In 2021, Director re-elections received the most 'Against' votes. However, the most contentious issues usually relate to executive remuneration. As a general theme, our major point of contention involves the setting of inadequate performance hurdles for executive remuneration schemes or a lack of disclosure surrounding performance hurdles. We are also continuing to engage with investee companies to build ESG KPIs into executive compensation. The below chart provides a breakdown of the topics for votes 'Against' management recommendations.



Stock Example – Electronic Arts Proxy Voting

Northcape's Global Equities portfolio holds a position in Electronic Arts (EA), a large global video game publisher. EA offers unique exposure to several sports gaming franchises having signed exclusive licenses in the 1990's. The complexity & associated game IP developed since creates high barriers to entry in an industry where a small number of companies take a high and growing amount of market share.

The company was added to our Approved List in 2019. However despite our positive view on the core business, our ESG assessment raised some concerns in the following areas:

- The social impact of gaming including the in-game monetisation practices of loot boxes
- Lack of climate impact disclosure
- Alignment of executive officer compensation

Northcape has engaged directly with company management on these issues, to seek clarification and to express our expectations. We have monitored outcomes and have seen progress.

Specifically, we had concerns on executive officer compensation. We engaged with management but still voted against the granting of special compensation awards at the 2020 AGM. In line with our action the proposal failed.

In the lead up to the most recent AGM, we had a one-on-one call with IR to discuss ESG, with executive compensation again a specific focus. The company was surprised by the shareholder response at the 2020 AGM as concerns hadn't been raised by their consultants. They were however sympathetic to the views expressed and committed to conduct an in-house review of this practice. EA explained the balancing act between appropriate compensation and the risk of losing talent. We have observed a move in the right direction for Financial Year 2021 with changes made to KPI's and a cap to annual bonuses. Further enhancements could be made in our view (e.g. the CEO's "enhanced" equity awards granted in Financial Year 2021 on a one-time basis were outsized at $30 million).

We expressed our dissatisfaction and voted against the compensation proposal again at the 2021 AGM but did vote FOR the re-election of the directors on the compensation committee recognising the partial progress. The company pledged to focus on further improvements in the coming year and we will continue to engage and monitor outcomes on this issue.

COMPANY ENGAGEMENT

We believe that engagement is a more powerful tool than divestment alone. We enter into the engagement process with the desire to influence the company to enact change and to achieve a specific outcome for the benefit of our clients. We will hold companies to account and will seek confirmation of progress.

We continuously engage with companies on our Approved List, and with those that we are considering for investment, as part of our research process. We believe this is the most effective way to gain a detailed understanding of the ESG risks and opportunities for that company.

Northcape engages with companies on all matters it believes will have a material impact on the long term sustainable value, and on ESG matters where we have a strong view. We record all ESG activities separately in an engagement log where we monitor progress and outcomes.

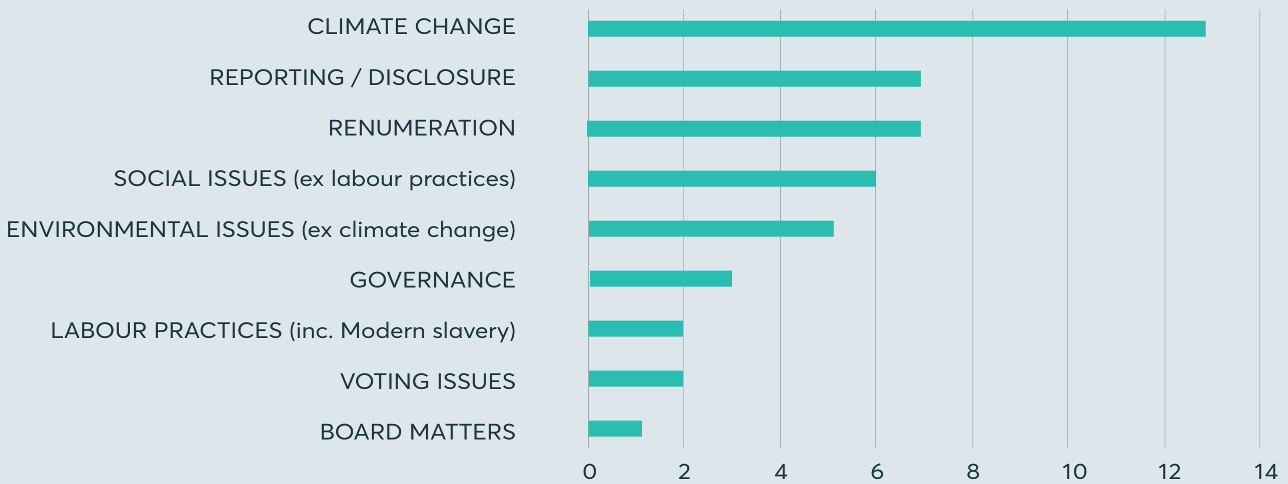
We aim to be proactive in our company engagements. To facilitate this, for each investment we create a tailored list of the most relevant specific ESG issues given the operations of the company and assess the adequacy of mitigation actions the company is taking against these risks. This provides input into our company communication program and enables us to track and monitor outcomes against the set of risks.

In 2021 we conducted **46 company engagements** across our domestic and international equity funds with a specific focus on ESG. This was separate to other investment meetings with the companies. The chart below provides a summary of the main ESG themes discussed as part of our engagement activity.

Pleasingly, as our climate change and modern slavery policies have evolved, we have increased our efforts in taking an active stewardship role on these matters. Climate change represents a significant issue for the global economy and as such has been a key topic for engagement over the last year. In this area, we are engaging companies to be more transparent with their GHG emissions, encouraging them to start reporting climate statistics and to set achievable climate targets.

The table on page 16 provides a full list of engagements by company over the course of 2021, including the specific topics discussed.

NUMBER OF ENGAGEMENTS BY CATEGORY



ANNUAL ESG ENGAGEMENT SUMMARY – CALENDAR YEAR 2021

Company	Country	Climate Change	Environmental Matters (Exc Climate Change)	Labour Practices	Social Issues (Exc Labour)	Renumeration	Corporate Governance (Exc Rem)*
Advanced Info Service Plc.	Thailand	●	●		●		
AIA	Hong Kong	●					●
Ambev	Brazil	●					
Bangkok Dusit Medical Services PCL	Thailand	●					
Beach Energy	Australia	●	●				
Bumrungrad	Thailand	●					
DKSH Holding AG	Switzerland	●				●	
Endeavour Group	Australia			●	●		
Electronic Arts	USA	●			●	●	
Fresnillo PLC	UK		●		●		
Hartalega Holdings Bhg.	Malaysia			●		●	
HDFC Life	India	●					
HDFC Ltd	India	●			●		
Hindustan Unilever / Unilever PLC	India/UK	●					
Insurance Australia Group	Australia					●	●
IDP Education	Australia						●
Informa PLC	UK					●	
James Hardie Industries	Australia		●				
Keppel DC REIT	Singapore	●					
Mando Corp	Sth Korea	●					
Nuix	Australia						●
PT Bank Cental Asia	Indonesia		●				
PT Indocement	Indonesia	●			●		
Samsung SDI	Sth Korea	●					
Steadfast Group	Australia					●	●
Seek	Australia						●
Sydney Airport	Australia						●
Transurban Group	Australia					●	
Tata Consultancy Services	India	●					
Techtronic Industries	Hong Kong	●					
Top Glove	Malaysia			●			●
Unicharm	Japan		●				
Woolworths	Australia			●			

* includes Board Matters, Voting Issues, Capital Management and Reporting & Disclosure that are not Climate change related.

Stock example – Samsung SDI Engagement

Samsung SDI is a world leader in producing Lithium-ion batteries for power tools and it has a fast expanding presence in Li-ion batteries for Electronic Vehicles (EVs) and grid storage. The stock idea came out of the **Northcape Clean Energy Review** undertaken in 2020/21.

Samsung SDI initially did not pass our ESG test, primarily due to a low score for its Environmental practices. The following points were made in our report at the time:

- The company has excellent systems in measuring its environmental impact. However, progress regarding environmental targets is not being met, and it is unclear what the strategy is to bridge the divide across a wide range of KPIs (GHGs, hazardous chemicals, waste, and recycling).
- Lithium-Ion batteries save fossil fuel, however at this stage there is a lot of energy required to make these batteries. As the world pivots to renewable, Samsung SDI battery production and recharging will become cleaner. Other factors like extended battery life and recycling are important to improving the environmental dividend from lithium-ion batteries.
- The company is currently hostage to South Korea's energy policy. South Korea's pathway to compliance with the Paris Agreement remains unclear – it is falling behind by some margin. This makes Samsung SDI vulnerable to a C-BAT (carbon border application tax) from batteries produced in South Korea and exported to Europe – its main market.

To improve our understanding of the ESG risks and opportunities for Samsung SDI, our investment team engaged extensively with the company and industry experts, as well as reviewed the company's 2020 CSR report. Our engagement focused on GHG emissions, Co2 payback EV v Internal Combustion Engine (ICE).

Since our engagement with the company, we have seen the following enhancements.

- New CO2 targets for 2021, 2025, 2030 and 2050 have been set, which seem achievable based on renewable energy penetration reaching 60% of production in 2030 and 100% by 2050.
- The movement of production to renewable energy zones will reduce embedded CO2 emissions in SDIs EV batteries, and this coupled with recycling and increased renewable energy in recharging will substantially improve CO2 payback on EV vehicles and reduce batteries going to landfills.
- SDI's estimated annual saving in CO2 could reach 1.3mt pa versus ICE cars by 2030. By 2050 CO2 volume saving could reach 10mt pa, based on zero tailpipe emissions, and net zero CO2 on production.
- Offshoring of production to US and Europe over next decade reduces CBAT risks on production (currently based in Korea and China). As such the Samsung SDI can been seen as a potential "positive contributor" to achieving goals set by the Paris Agreement.

Following our reassessment of the above factors, Samsung SDI passed our ESG test, and the stock was added to our Approved List, given very high earnings growth and strong environmental contribution through carbon reduction of EV vehicles.

Key Sustainability Themes in 2021

CLIMATE CHANGE

Climate change is one of the most globally significant, complex, and topical ESG issues considered in our investment process, and as such this issue is separately addressed in our Responsible Investment Policy.

Incorporating climate-related risks and opportunities that may apply to our investments is a key part of our fiduciary duty to maximise the long-term overall value to our clients. To enable greater transparency and clarity around risks to the financial markets and individual companies, we support and encourage disclosure in line with the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD).

Northcape does not set specific climate related targets but does monitor changes in each company's climate related metrics and progress they are making to their own climate related targets. Any positive or negative change is reflected in the company's ongoing ESG rating.

Companies that cannot perform under the scenario where global warming is kept below 2°C, or fail to contribute to the transition are unlikely to be considered as suitable long-term investments for our portfolios. Specifically relating to climate, there will be some situations where the risk to a company's existing operations or outlook is so great that it will destroy the investment case entirely. Where such risks are evident, we will avoid the stock / sector.

Given the increased focus on Climate Change in the investment community, we have made the following enhancements over 2021.

Northcape acknowledges that climate change is a rapidly evolving global risk which presents challenges to the valuation of stocks.

Northcape also recognises that limiting the increase in global temperatures to 1.5 to 2 degrees Celsius above pre-industrial levels requires significant changes in government policies and coordinated action from all parties, including investors, private business, and government.

There has been a global move to reduce carbon emissions worldwide and as an investment manager with a fiduciary duty to protect investors capital, Northcape is supportive of this.

Clean Energy Review

Over the course of the last few years, Northcape completed a number of extensive Clean Energy Reviews. The resultant 3-part Clean Energy report aims to serve as reference document for all Northcape's investment strategies, with respect to the impact of Climate Change on our investment decision making. **Part 1** of the report sets the macro climate change investment scene. **Part 2** looks for potential clean energy investment opportunities. **Part 3** looks at how GHG emissions are trending globally and by country, summarising findings from the 2021 IPCC report. It also updates a wide range of developed and emerging country progress in relation to their individual climate change commitments.

Company Engagement Activity

As part of our engagement activity in 2021, and following our Clean Energy review, we took an active approach to encourage companies to start disclosing GHG emissions and introduce GHG targets. A third of our company engagements over the year focused on this topic, including encouraging companies to improve their carbon emissions reporting and to report their climate-related risks and opportunities in line with the TCFD recommendations and guidelines.

Stock Example
Climate Change Engagement Activity - HDFC Life & Beach Energy

HDFC Life

HDFC Life is India's leading private life insurer as evidenced by its #1 market share, highest margins, fastest growth, and leading persistency. It is 47.8% owned by HDFC Ltd and was the first private insurer to receive registration from the Insurance Regulatory and Development Authority of India (IRDAI) in 2000. HDFC Life's overall ESG is strong except for environmental where disclosure is still limited.

We had a dedicated ESG conference call with HDFC Life and subsequently followed up via email on the company's plans to disclose GHG emissions, which are yet to be included in the CSR report. We learned that the company has done internal work to measure carbon emissions and is in the process of finalising work with external agencies helping to build a standardised scope based GHG disclosure system, and roadmap to reduce emissions. HDFC Life has also taken measures to improve energy efficiency throughout their branch networks, including, using energy efficient appliances, lighting, and UPS devices, and implementing switch rooms in 384 branches to reduce aircon usage (leading to 14% reduction in energy bills), while pushing digitalisation. The company has also created four square kilometres of city forest in population dense Mumbai and Maharashtra by planting 41,695 trees to help lower urban temperatures, improve the environment, and create carbon sinks.

We encouraged the company to proceed with its plans and will continue to monitor their progress as part of our ongoing engagement with the company.

Beach Energy

Pressure has been mounting on international oil companies to reduce their planned production growth in line with a transition to net zero carbon emissions by 2050. This issue is relevant for the Australian producers, who all have significant growth plans.

Beach Energy (BPT) is an Australian oil & gas producer with a range of growth options. Most of its production is gas that supplies the domestic east coast gas market, but it also produces oil and has plans to export LNG. We view gas as an important transition fuel and a complement to renewables, as well as being critical to energy security over the next decade. However production of oil and gas will need to decline as we approach 2050, so new capital investment by producers needs to be treated with caution.

We met with management to discuss the company's growth plans. Our view is that rapid growth ambitions should be moderated in order to align with the long term energy transition and to better balance capital investment with shareholder returns in the near term. The company considered feedback from shareholders when formulating its subsequent strategy update, which featured scaled-back growth plans. We will continue to engage with the company to advocate for increased shareholder returns as free cash flow increases.

In 2022, we expect to produce our own climate change report in line with the TCFD recommendations and guidelines.

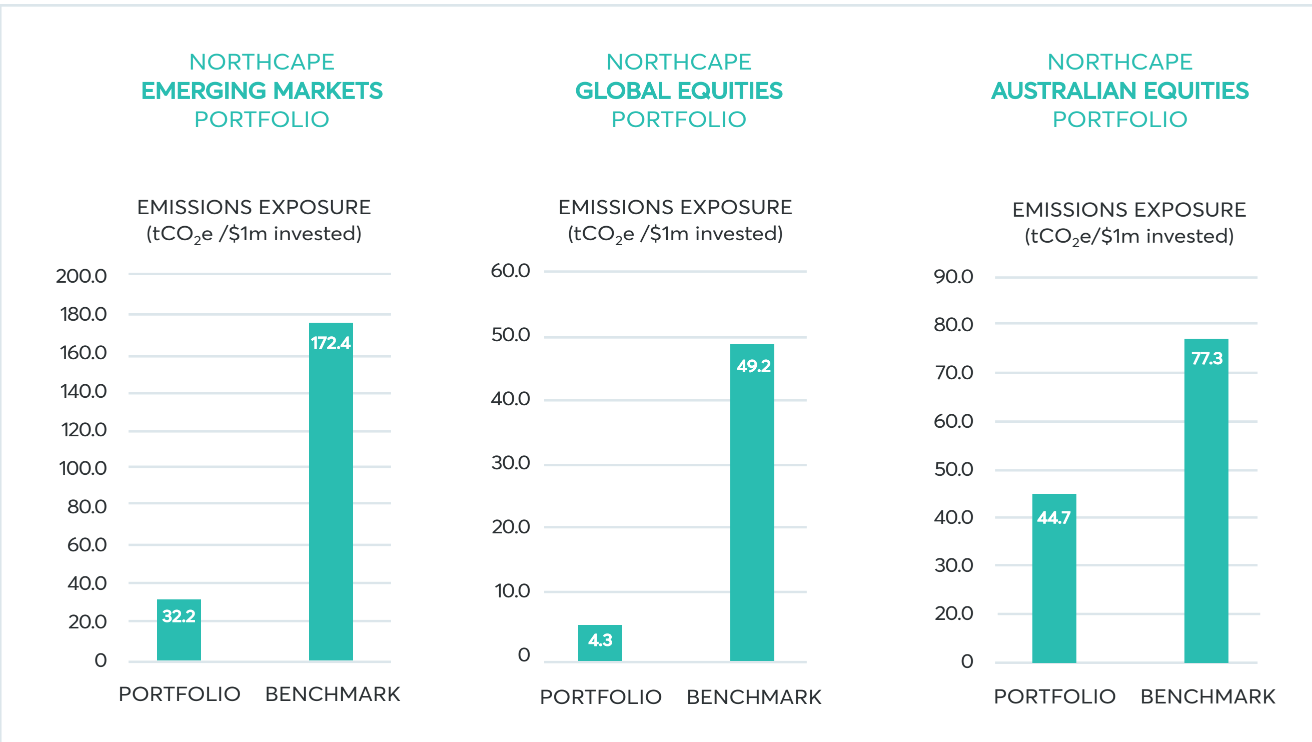
TCFD Reporting

Northcape is supportive of climate impact disclosure in line with the recommendations of the TCFD's. We expect to produce our own climate change report in line with the TCFD guidelines in 2022.

Portfolio carbon-related metrics

We began to monitor the carbon intensity of our portfolios against their benchmark in 2021. We are now calculating portfolio carbon metrics, such as portfolio carbon exposure, carbon intensity and basic scenario analysis, utilising third party data. The main purpose of measuring portfolio emissions is to identify large contributors to our overall emissions intensity and prioritise engagement.

Overall, our portfolio carbon emission exposure is less than that of the benchmark for each of our equity strategies. Our domestic equity carbon emission exposure is higher than our international portfolios, largely due to the higher concentration in this equity market to materials and energy sectors. The top 2 contributors to our domestic equity carbon emissions footprint are Qantas and BHP. However, we hold no exposure to the top index emitters including no position in AGL, South 32, Origin Energy, Woodside and Santos.



Source: Institutional Shareholder Services (ISS)

MODERN SLAVERY

Northcape is committed to preventing slavery and human trafficking in our business activities and to ensure that our external service providers and the companies we invest in are free from slavery and human trafficking.

Within our own business operations we believe that the risk of modern slavery is low but we recognise the need to regularly monitor and assess the risks within our supply chain.

Vendors or service providers with complex and wide-ranging supply chains, or with operations in high-risk countries or industries have the highest modern slavery risk, as defined by Transparency International or the Global Slavery Index. The process that we have implemented to monitor and assess our service providers involves:

Reviewing the business model, sector, industry, and geographic location of service providers to understand the potential risks.

Obtaining publicly available information and sending specific modern slavery questionnaires to services providers and then assessing their modern slavery risk management practices. When deemed necessary, Northcape may use reputable agencies to verify the practices of these parties.

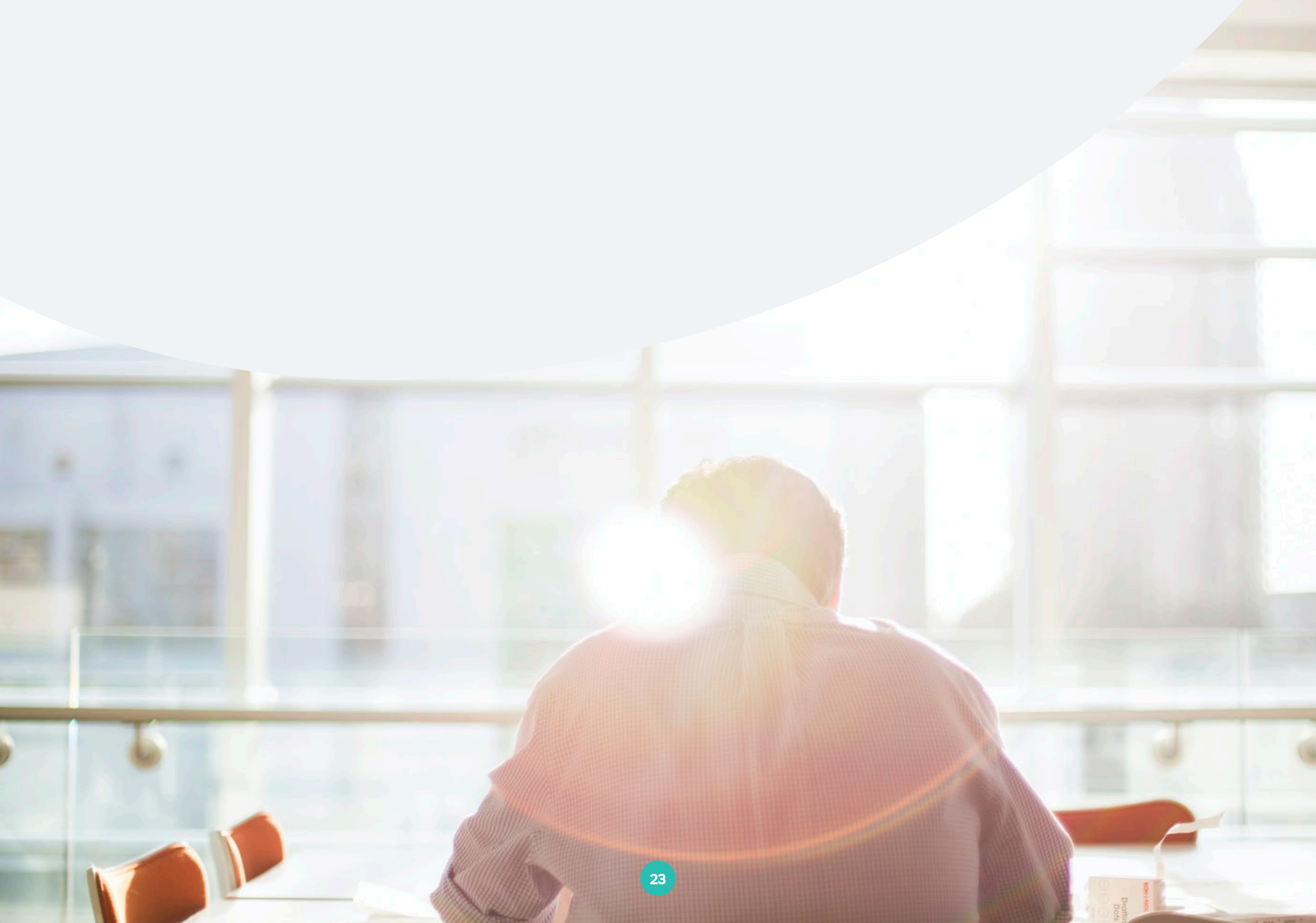
Determining Northcape's action necessary to address any residual risk. Our response focuses on action and does not just have a zero-tolerance. A risk-based approach is used, where the risk relates to people, not risk to Northcape or the service provider. Our response to modern slavery risk will vary with the size of the service provider and our leverage with them and their supply-chains. We also consider the unintended consequences of any planned action.

If a service provider's operations or investments are indirectly linked to modern slavery risk, then we will:

- Raise awareness of modern slavery with the service provider
- Communicate our expectations to the service providers
- Use our leverage to work with the service provider to prevent or mitigate harm
- Consider including a modern slavery clause in our services contract

For the companies we invest in, we consider the risks of modern slavery on a company by company basis. Modern slavery risk forms a part of our responsible investment approach and is included in the ESG assessment of a company.

Where we identify any potential modern slavery risk, we will carry out additional due diligence to ensure these companies have the appropriate policies in place to manage these risks and treat their employees fairly. Northcape will engage with a company to express our expectation of the company's practices or public disclosures, but we will reserve the right to sell out of any companies which are found to pose any medium to high modern slavery risks.



Stock Example – Woolworths Modern Slavery risk assessment

Modern Slavery is a key ESG risk we continually monitor across the companies we invest in or look to invest in. We actively monitor the sectors, industries or geographies our portfolio companies operate in, paying particular attention to high-risk companies which include those that have complex supply chains, employ low-wage and unskilled labour, or operate in countries with weak political, socio-economic or legal frameworks.

Our scale, and the generally long-term holding periods of our portfolio companies, allows us to gain access to key internal departments, such as their human rights teams. One area of focus for us is the retail sector, where we recently engaged with Woolworths' Human Rights team to better understand their ESG framework and their approach to managing Modern Slavery risks within their business. As Australia's largest retailer, Woolworths' scale and reach of operations both locally and internationally potentially leaves the company exposed to dealing with manufacturers and suppliers who may employ questionable practices in this space. Following our analysis of Woolworths' very detailed Modern Slavery reports, the meeting left us comfortable with the overall framework they have put in place to assess risk in this area, as well as the rigour of the Group's responsible sourcing policies (in place since 2018), the collaborative efforts they have built with suppliers and other industry players to improve operations and conditions, and the general leadership position Woolworths seeks to develop in this area.

We also recently engaged with an independent international human rights specialist with insight into the Malaysian glove manufacturers' labour practices. Through this discussion we became more aware of industry-wide issues such as recruitment fees (a key human rights issue for Malaysian workers) and the risk of further sanctions being placed on the Malaysian glovemakers which stops them from exporting any products to the US altogether. This would have negative implications for Ansell who currently outsource around 70-80% of its Exam and Single Use gloves to such producers. While Ansell is not currently a portfolio holding for us, we would feel relatively more comfortable establishing a position if it were not exposed to these types of risks.

Our approach to ESG shows our preference to engage, understand and advocate for continuous improvement, rather than simply to divest. We recognise the largest risk of modern slavery occurs in company supply chains, rather than within the companies themselves.

This is due to the high quality nature of the businesses we tend to favour, as well as the majority of our Australian Equities portfolio being invested in locally domiciled companies, which are relatively lower risk than those based offshore.

SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The Sustainable Development Goals (SDGs) or Global Goals are a collection of **17 interlinked global goals** designed to be a "blueprint to achieve a better and more sustainable future for all".

Northcape has included the identification of SDGs as a standard element of its analysis of companies.

Northcape incorporates SDGs within our ESG scoring system review of all companies for consideration to be included in our Approved Stock List.

We look for companies that are making a substantive positive or negative contribution to the SDGs. This helps us understand the outcomes of our investments and this influences the assessment of the ESG score of the company.

It is expected that further development of the SDG framework within Northcape will occur in the future, in conjunction with our clients' goals and objectives.

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