NORTHCAPE
CAPITAL

# ESG and Investment Stewardship Report

2024

# Contents



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Cover photo: Richard Maynier, Peiting Liang, Kevin Soo

**2004**
Established

**A$14.0B**
Total assets under management

PRI Assessment rating 4 stars

**100%**
Owned by staff

**4 Strategies**
Australian, Emerging Markets and Global Equities

*Signatory of:*
PRI Principles for Responsible Investment

**32**
Employees

**80**
ESG issues engaged with portfolio companies

Responsible Investment Leader 2024
A proud RIAA member

RIAA Responsible Investment Leader

**22YRS**
Average investment experience

**1,217**
Proxy meeting resolutions voted

# Foreword

I'm delighted to present Northcape's ESG and Investment Stewardship Report for 2024. We've made significant progress in responsible investment, supporting clients in meeting their financial and sustainability objectives.

In 2024, we refined our approach to considering ESG factors, investment stewardship, peer collaboration, and reporting. The board was honoured that Northcape was named a 'Responsible Investment Leader' by The Responsible Investment Association of Australasia (RIAA), placing us in the top 20% of 274 global and local asset managers reviewed.

## Culture of improvement

In 2024, we've maintained a culture of continuous improvement and expanded responsible investment resources. David Whittaker, Head of Responsible Investment, was joined by Kokila Uma in the new role of Responsible Investment Analyst.

We strongly believe voting and engagement can influence investment governance outcomes at companies. In 2024, our teams engaged 48 companies from 16 countries on 80 material ESG issues, with company action seen at 29 companies, and engagement objectives achieved at 11 companies.

Our teams reviewed and voted on 1,217 proposals at 120 statutory company meetings, disagreeing with the board on nearly 9% of proposals.

The stewardship examples we share in this report exemplify our approach. We also address themes and trends in proxy voting aimed at enhancing governance and risk management at companies.

## Maintaining ambition

Our priorities for this year include submitting our Transparency Report to Principles for Responsible Investment (PRI) initiative, further integrating data and technology into our process, developing our stewardship program, peer collaboration, and ensuring we deliver the impact and transparency our clients and stakeholders require.

## Enhancements to Northcape governance

In our own business, Northcape emphasises robust governance and sustainability. In 2024, the board was pleased to welcome Robert Credaro as our second independent director. Robert enhances capability and independence of both the board and the Audit, Risk and Compliance Committee, which I now chair. The board and risk committee now have three outside directors, and an outside chair. To manage emerging technology opportunities and risks, the committee recently led an Artificial Intelligence (AI) audit and policy development.

Northcape's operational carbon footprint was lower in 2024, with ongoing efforts to minimise our environmental impact. We continue to build an inclusive culture and sustainable business that offers our talented people inspiring careers and delivers for clients.

Thank you for your support and interest in Northcape. We look forward to keeping you up to date on our journey.

**Christine Cameron**
Independent Director,
Independent Chair of Audit,
Risk and Compliance Committee

# Responsible investment progress and priorities

Continuous improvement in all aspects of our business remains a central tenet of Northcape's culture. In 2024, we further progressed our responsible investment program to ensure we continue to meet our clients' financial and sustainability goals. We also advanced our corporate responsibility initiatives to maintain a robust, independent, client–centric, and sustainable business.

| | 2024 Progress | 2025 Priorities |
|---|---|---|
| **Governance and resourcing** | ✔ Appointed Responsible Investment Analyst to support program development and implementation.<br>✔ Updated Responsible Investment Policy and sub–policies.<br>✔ Held Responsible Investment Forums to support internal collaboration and knowledge sharing on key aspects of responsible investment. | — Participation in PRI Progression Pathways[1] program to assess and inform Northcape's responsible investment strategy.<br>— Develop responsible investment team capability and increase ESG training opportunities for all staff.<br>— Review of Responsible Investment Policy and commitments to ensure ongoing alignment with peer practice. |
| **ESG integration and stewardship** | ✔ Engaged 48 companies on 80 ESG issues and voted 1,217 meeting resolutions.<br>✔ Developed inhouse ESG data model that assesses performance of portfolio and peer companies on more than 100 ESG factors, with a focus on governance, climate, human rights, and human capital.<br>✔ Refined corporate engagement milestones approach and tracking tool to support impact and reporting. | — Evolve and embed inhouse ESG data model in research and stewardship processes, with a priority on governance, climate change, and human rights.<br>— Further develop engagement process, prioritisation, tracking and reporting.<br>— Implement engagement and voting dashboards to support internal collaboration and client reporting. |
| **Reporting and disclosure** | ✔ Enhanced client reporting and capability to meet diverse and growing needs.<br>✔ Expanded portfolio climate risk reporting to provide deeper insights on company and portfolio resilience to scenarios. | — Broaden and streamline client reporting.<br>— Examine opportunities to contribute to ESG research. |
| **Collaboration and peer review** | ✔ Increased participation in peer collaboration events to support knowledge building and sharing.<br>✔ Named 'Responsible Investment Leader' in 2024 RIAA 'Benchmark Report', placing Northcape in the top 20% of managers assessed. | — Lodge PRI Transparency Report.<br>— Participate in RIAA Benchmark Report.<br>— Work with our clients in support of aligned objectives.<br>— Deepen involvement in RIAA Human Rights and Nature Working Groups. |
| **Operational sustainability** | ✔ Continued to increase workforce diversity.<br>✔ Reviewed key human resources and diversity–related policies.<br>✔ Reduced operational greenhouse gas emissions. | — Reduce operational greenhouse gas emissions.<br>— Build on our strong culture, which values diversity of perspectives.<br>— Prepare for increased sustainability reporting. |

1 Following a signatory consultation in early 2023, PRI introduced Progression Pathways to better target and incentivise signatory progression on their responsible investment journey. These will get underway in calendar year 2025.

# Our approach to responsible investment

Four pillars of our
## Responsible Investment Framework

- **ESG integration**
  The incorporation of material ESG factors into the assessment, selection, and management of investments.
- **Stewardship**
  The responsible exercise of ownership rights, including engagement and voting, to assess and manage material ESG risks and opportunities.
- **Collaboration**
  Working with peers and clients through initiatives such as PRI and RIAA, to share knowledge, insights, and leading practice, as well as to amplify our voice and impact
- **Reporting & disclosure**
  Communicating to our clients on the activities and outcomes of our Responsible Investment work to meet their expectations and the needs of their stakeholders.

Responsible Investment Belief 1:

> "Consideration of financially material ESG factors enhances long-term portfolio performance through the risk-return profile of companies, industries, economies, and societies."

# Northcape's value-added process

Northcape Capital is an international boutique equities fund manager fully owned by its staff. We specialise in managing concentrated high-quality portfolios to meet the long-term financial and sustainability objectives of our clients. We are proud of a culture of inclusion and equality, where individual contributions are valued and recognised.

The foundation of our long–term outperformance is investing in high quality companies with a meaningful competitive advantage. Critical thinking in our research supports an informed assessment of competitive advantage and facilitates portfolios of carefully selected businesses, with low portfolio turnover. This delivers resilient and sustainable performance for clients.

Protecting capital in down markets is a feature of superior long–term returns. We have a practical approach to risk that seeks to avoid business models that are structurally challenged, those with hazardous capital structures, or those that have other material threats to the long–term sustainability of returns. These threats may include Environmental, Social and Governance (ESG) factors.

Our fundamental research is focused on identifying businesses with certain investment attributes. We recognise that ESG factors have the potential to affect, to varying degrees over time, many of these attributes:

- Strong management
- Above average growth prospects
- High return on capital
- Meaningful competitive advantage
- Robust capital structures
- Sustainable business models
- Acceptable market liquidity.

### Assets under management of A$14.0 billion

| Strategy | Description | Inception | Number of stocks |
|---|---|---|---|
| Australia Equities Core | Concentrated portfolio of high quality Australian companies. | 2005 | 30–40 |
| Australian Equities Concentrated | Targeted version of the Core fund for an even higher level of active management. | 2005 | 15–30 |
| Emerging Market Equities | Concentrated portfolio of high quality businesses in emerging markets. | 2008 | 15–40 |
| Global Equities | Concentrated portfolio of high quality businesses in developed markets. | 2019 | 20–40 |

"It's great to join the board of Northcape, a highly respected firm that's delivered consistent long-term investment performance for clients. Northcape's process, which emphasises sustainable returns and responsible investment, aligns with the values and expectations of its clients."

**Robert Credaro**
Independent Director

# ESG training and research

## Responsible investment resourcing

The Head of Responsible Investment and the Responsible Investment Analyst lead responsible investment strategy development and client reporting. They report to the Managing Director and guide the Responsible Investment Policy, overseen by the board. The investment teams integrate ESG factors into decision–making and lead corporate engagement and proxy voting. Monthly Responsible Investment Forums promote internal education and collaboration on relevant themes and practices, often featuring external experts. The Responsible Investment team also provides specialist support to investment analysts in their ESG integration and stewardship activities, and assists with client reporting.

## ESG training and knowledge building

Northcape's Responsible Investment Forums allow investment teams to share knowledge and insights, focus on specific ESG issues, collaborate on strategy, and support implementation of the program.

- **January 2024:** **Human Rights** – Human rights risk assessment and management
- **February 2024:** **Generative AI** – Guest speaker, Models, chips, DCs, energy, storage, ESG risks
- **March 2024:** **Stewardship** – Impactful investment stewardship
- **May 2024:** **Stewardship** – Thematic engagement to address priority risks
- **June 2024:** **Climate Risk** – Guest speaker, Inevitable Policy Response Transition Scenarios
- **July 2024:** **Greenwashing** – Guest speaker, Regulatory developments and Northcape process
- **September 2024:** **ESG Data** – Third–party ESG data to support research and stewardship
- **October 2024:** **Transition Risks and Opportunities** – Guest speaker, energy industry expert
- **November 2024:** **Responsible Investment Outcomes & Outlook** – Internal review and planning

Jumana Nahhas, Fleur Wright, Wendy Herringer, Theo Maas

# ESG integration

## Consideration of ESG factors

The consideration by investment analysts of ESG factors is via three main mechanisms:

1. **ESG research and analysis** – to identify and assess financially material risks and opportunities and sustainability of returns.
2. **ESG ratings** – to apply a framework for judgements of investment attractiveness in the context of the investment model and client objectives.
3. **Monitoring and review** – of company progress in managing material ESG risks and opportunities.

Our research includes a review of company disclosure, practice frameworks, and third–party data and research, including, as appropriate, broker research, external ESG ratings, and proxy voting advice. Investment teams make assessments of the financial materiality of ESG factors, considering context, durability of potential impacts, and behavioural responses of companies to these factors. The research process is most often supported by corporate engagement.

Responsible Investment Belief 2:

“Companies with good ESG practices can contribute to clients’ long-term financial and sustainability objectives, while those with poor practices will likely deliver reduced long-term value, with increased systemic risk.”

# Case study:

## Governance considerations in Australian equities

At Northcape, strong corporate governance is essential for a company to be investable. This approach might mean missing out on rapid share price gains of trending stocks, but it has led to consistent above market returns for our funds. We expect boards to demand high governance standards, especially when founders hold significant stakes.

Controversies have affected the share price of ASX–listed Mineral Resources and WiseTech Global. Structural governance concerns keep these companies off our Approved List, at least for the moment. The experience of these companies highlights the need for good governance to support sustainable long–term returns and reinforces our caution toward companies lacking strong independent oversight. For founder–led firms, or firms with dominant CEOs, robust board governance includes:

- Independent directors who can challenge management.
- Consistent risk management during growth phases.
- Transparency in related–party transactions.
- Succession planning to ensure business resilience.

### The attractions of founder–led businesses

We can see the attractions of founder–led investments because "skin in the game" is a strong motivator and entrepreneurship can generate attractive growth. We encourage boards to align financial interests with shareholders through share ownership and remuneration mechanisms.

However, as a business grows post–IPO, founders may clash with minority shareholders if they maintain a high risk, high reward mindset. Minority shareholders expect the board to independently scrutinise decisions, considering both risks and opportunities, using their expertise and authority.

But corporate governance standards alone cannot fully protect shareholders' interests. Boards must ensure true independence and challenge management effectively. Oversight should be fair, transparent, and represent all shareholders. Boards that permit misaligned behaviours or yield to powerful executives weaken their ability to serve shareholders' long–term interests.

### Case studies that illustrate our process

**WiseTech Global** faced significant turmoil following allegations of misconduct against its founder. The resignation of four independent directors impacted independent oversight and raised questions on accountability. These events significantly impacted the share price. We reviewed the company and while we found the business model attractive, it did not make our Approved List due to concerns that minority shareholders would not be appropriately represented without a restructuring of the board.

By way of comparison, the merger of Chemist Warehouse and **Sigma Healthcare** has created a significant player in the Australian pharmaceutical and retail sectors. We see the business profile as attractive, but given significant founder stakes and related–party transactions, we were keen to more deeply understand the role of independent directors before further investment consideration. Following extensive engagement with management and the board, we gained sufficient confidence in independent oversight to add the company to our Approved List.

In 2024, Northcape again reviewed global gaming company **Aristocrat Leisure**. We found the regulated side of the gaming business to be attractive but were concerned about the company's governance of long term risks in the unregulated digital business. Following the review, Aristocrat was not added to the Approved List.

Where governance concerns arise for companies already on our Approved List, Northcape engages to assess the risk and seek improvement, which could lead to removal from the Approved List.

In 2023 and 2024, **Qantas Airways** was engaged on governance issues following events that affected stakeholder trust. The airline had a CEO who had held the position for 15 years. An independent review identified a lack of effective board oversight. With new leadership, a new and experienced board chair, and the appointment of well–qualified independent directors, there was potential for improved governance within an acceptable timeframe. Therefore, Qantas remained on the Approved List.

# ESG ratings

Northcape's 17 investment analysts, many of whom are also portfolio managers, undertake their own ESG research and rating process for companies in the investible universe, or Approved List. For consideration for the Approved List, companies must attain a minimum internal ESG rating of 6 points out of 10. The minimisation of avoidable ESG risks is a central objective of the assessment process, with the aim of fewer capital loss events and/or adverse sustainability outcomes.

Each company is rated out of 10 points, split between the ESG pillars of Environmental (3 points), Social (3 points), and Governance (4 points). Analysts make assessments of the materiality of a specific risk (or opportunity) to the business and rate the company on those perceived to be material. Deductions are made from the maximum possible score for each identified material risk factor.

Insights and results are shared with the investment team, providing opportunities to test and challenge analysis and conclusions. ESG ratings are monitored by analysts for new information or company disclosure. If the ESG rating falls below the minimum threshold, the company is removed from the Approved List, and if held in the portfolio, it is divested.

In summary, the main objectives of the ESG research and rating process are:

1. **To identify and assess** material ESG risks and opportunities faced by investee companies.
2. **To enhance and protect returns** through judgements about the impact of ESG factors on the sustainability of returns and company suitability for investment portfolios.
3. **To inform** investment stewardship activities to manage ESG risks and opportunities.

> "Responsible investment is a fundamental aspect of our risk assessment, where we evaluate a company's capabilities and commitment to managing the risks and opportunities it faces."

**Wendy Herringer**
Portfolio Manager, Analyst, Global Equities

# ESG factors

## ESG factors that may be considered in the investment process

There are many ESG factors, both risks and opportunities, that could be relevant to our analysis of a company. Northcape acknowledges that the financial materiality of any particular factor is highly dynamic and should be considered in the context of the investment horizon.

We incorporate material ESG factors into the investment process with the objective of maximising long–term returns to clients.

This includes:

- Considering how ESG factors impact the risk–adjusted returns of individual investments and overall returns across client portfolios.
- Seeking to address risks to portfolio performance caused by investee company contribution to systematic sustainability issues.
- Complying with client directed responsible investment and risk objectives, and protecting client reputation, by reducing or avoiding negative sustainability outcomes associated with their portfolio.

# Limitations of ESG integration

Northcape recognises ESG integration involves a series of judgements about the likely impact of ESG factors on company returns over a long–term investment horizon. However, the financial materiality of ESG factors is among many drivers of investment value and can vary considerably over time. It is therefore not certain the process of ESG integration will meet the objectives of capital enhancement and protection over the investment period.

Nonetheless, the rating process provides our experienced investment teams a valuable opportunity to consider long–term risks and opportunities that may fall outside traditional financial analysis to inform the stock selection process, better understand the sustainability outcomes from our investment activities, and prioritise stewardship efforts.

The consideration of ESG factors does not imply:

- That there are restrictions on the investment universe, other than those specified by our exclusions (below).
- That ESG factors are given more or less consideration than other types of factors.
- That all ESG factors are given equal consideration.
- That the resulting portfolio will have any characteristics.[1]

In addition to the Approved List process, Northcape applies negative screens to every portfolio and investment strategy to exclude:

- Companies and markets subject to domestic or international prohibitions or sanctions.[2]
- Manufacturers of tobacco[3] and controversial weapons.[4]

## Exceptions

While utilised transparently and in clients' best interests, certain portfolio management instruments are outside of the ESG integration and investment stewardship process and may carry economic exposure to investments otherwise excluded. These exceptions are:

- With client agreement, the Australian equities strategy utilises ASX200 index futures (SPI) contracts for risk management and transaction efficiency. The use of SPI contracts is subject to agreed limits and monitored for compliance in Northcape's trading system.[5]
- To manage short–term cash flows and asset transitions, a client may authorise the temporary investment in an Exchange Traded Index Fund (ETF). Other clients will not have this exposure.

> "We think it's important to avoid a checklist approach to ESG and focus on identifying issues that really matter to shareholders."

**Richard Maynier**
Portfolio Manager, Analyst, Australian Equities

1. Definitions for Responsible Investment Approaches, CFA Institute, PRI, GSIA, November 2023.
2. Data provided by LSEG that references UN Security Council (UNSC) Consolidated List, Australian Dep. of Foreign Affairs and Trade (DFAT), US Dep. of Treasury Office of Foreign Assets Control (OFAC), UK Office of Financial Sanctions Implementation (OFSI), EU Consolidated List, lists maintained by other G7 members.
3. Manufacturers of cigarettes and other tobacco products, defined by GICS sub–industry code 302030, and additional companies under client direction.
4. Manufacturers with verified involvement (red flag) in nuclear, biological, chemical, anti–personnel, incendiary, cluster, depleted uranium, or white phosphorous weapons and munitions, based on ISS Controversial Weapons Research, plus additional companies under client direction.
5. In the year to 28 December 2024, these contracts represented an average daily weight of approximately 0.6% assets under management of the Concentrated Portfolio and 0.4% of the Core Portfolio.

Case study:

# Integrating macro ESG in emerging markets

The Northcape emerging markets team has a proprietary sovereign risk assessment model that incorporates a range of economic and ESG considerations in determining a risk rating for each country in the index.

The team integrates this rating into company valuation models. This has the effect of moving the portfolio away from higher risk countries towards lower risk countries. While capital and economic factors have significant influence in the framework, political rights are an important consideration.

## Relationship with corporate governance

The investment team has identified a relationship between national and company governance standards. The team believes that good sovereign governance is important for understanding how well companies can consider and act on specific ESG risks.

Well–functioning democracy, recognition of human rights, freedom of the press, freedom of assembly, and independent judiciary set the guard rails for better corporate behaviour.

## Top–down augments bottom–up

By favouring companies in lower sovereign risk domiciles, the framework considers the systemic factors that contribute to company risks. In this way, the framework augments bottom–up risk assessment and management for a range of issues such as human rights, climate, labour rights, workplace safety, discrimination, and corruption/bribery. There have been occasions where analyst company research on some of these issues results in a change in the top–down view of sovereign political risk.

## Outcomes from the 2024 review

At the team's 2024 sovereign risk review, Brazil was downgraded from 'middle ground' to 'least preferred'. South Korea (while it remains in 'most preferred' category) saw its Northcape adjusted cost of capital increase. China was believed vulnerable to Trump's policy agenda. Mexico was unchanged, and the cost of capital assumption for India was lowered, while remaining 'most preferred'.

Political and governance concerns have contributed to low portfolio weightings for Chinese companies in recent years. The team continues to observe China closely, but the structural political and economic challenges appear to justify a risk premium. Russia had a poor political risk score before it invaded Ukraine, leading to the portfolio having no direct Russian exposure at that time.

There were six major emerging market elections in 2024 (Taiwan, Egypt, Indonesia, India, South Africa, Mexico) held against a backdrop of intense geopolitical confrontation, deepening social inequality, and heightened political polarisation. Policymakers and analysts are closely monitoring how the Trump administration's policies will influence the economic trajectories of these countries.

## Investment field trips support the process

The team incorporated insights from research trips to India, Brazil, the Philippines, Turkey, Indonesia, Mexico, Poland, Korea, and China into the sovereign risk review. Brazil was downgraded significantly to 'least preferred' due deteriorating national finances, and South Korea was downgraded slightly due to increased political risk.

Turkey, China, Thailand, and South Africa (and others) remained in the 'least preferred' category, while India, Korea, Taiwan, Indonesia, and Poland remained in the 'most preferred' category. The average discount rate applied to valuations for most preferred countries was 11.7%, while for least preferred it was 23.5%.

The inputs to the sovereign risk rating include:

- **Political risk** – Top–down view of political rights, judicial independence, corruption, fiscal responsibility, policy acumen and political stability.
- **Corporate governance risk** – Corporate governance practices, with reference to company analysis undertaken directly by the investment team.
- **Climate change risk** – Exposure to climate–related risks and opportunities, including policy response.
- **Economic and capital markets stability** – Economic management and stability through a sovereign credit lens.
- **Growth and demographics** – Short and long–term economic and demographic drivers.

Patrick Russel, Tom Pidgeon, Ross Cameron, Wendy Hammond

> "Responsible investment is not only central to our process—it's how we fulfil our duty to clients, protect their capital, and ensure we can manage their funds sustainably over the long term."

**Aimee Jordan**
Senior Analyst,
Emerging Market
Equities

# Investment stewardship

**Investment stewardship, or active ownership, is one of four pillars of our Responsible Investment Framework.**

As an equity owner, the available stewardship mechanisms for influencing improved corporate behaviour for better governance outcomes include:

- **Corporate engagement** – through meetings, calls, site visits, and emails with investee company boards and management.
- **Proxy voting** – at statutory meetings of shareholders.
- **Collaboration and knowledge sharing** – to amplify our voice and build knowledge with our clients, our advisors, and through responsible investment peer group initiatives.
- **Litigation/class actions** – where a company has a material regulatory breach.

Responsible Investment Belief 3:

“Through ownership rights, we can make a positive impact on companies and industries in which we invest, to benefit clients. Engagement is preferable to divestment for mitigating risks, including systemic risks.”

# Corporate engagement

Northcape integrates ESG discussions into regular investment meetings and conducts separate ESG engagements with companies on specific issues. As long–term investors with broad risk exposure, we prefer to engage with companies to improve ESG performance rather than divest holdings. Often, our portfolio remains exposed to the systemic risks.

## Objectives and milestones approach

To monitor company progress on material ESG risks and opportunities, like many investors, Northcape utilises an objective and milestone approach: Milestone 1 – Issue raised with the company; 2 – Company acknowledges the materiality of the issue; 3 – Company develops a plan to address the issue; 4 – Company implements the plan.

Milestones are initiated with an engagement but may be observed without a subsequent engagement interaction taking place. For example, a milestone may be recorded at the time a company releases improved disclosure.

In 2024, Northcape engaged 48 companies from 16 countries on 80 ESG issues. We observed progress on 45 issues at 29 companies, and the engagement objective was met on 14 issues at 11 companies.

Northcape does not claim to be solely responsible for the progress encouraged and observed at investee companies. We endeavour to be part of the conversation on material risks and opportunities, in most cases along with many other investors.[1]

## Improving governance a priority

Northcape's investment strategy focuses on well–managed companies capable of delivering sustainable returns, with governance being a priority. In 2024, governance–related topics accounted for approximately 56% of engagement issues raised or progressed, followed by environmental (26%) and social (18%).

Within governance, we prioritised remuneration, risk and capital management, followed by board independence and effectiveness.

## Progress in environmental and social

Our primary environmental focus was on managing the energy transition, with physical risks of climate change, pollution, and natural capital also featuring. In the social domain, human and labour rights in operations and the supply chain, and customer protection were the most frequently discussed topics.

## Considering sustainability outcomes

The UN Sustainable Development Goals (SDGs) provide a framework to assess the sustainability outcomes of our investments and stewardship. Our main engagement objectives align with SDG 16 (governance), SDG 13 (transition planning), SDG 17 (partnerships), and SDG 10 (reduced inequality). Mapping sustainability links can be challenging, but using the SDG framework helps us understand the long–term perspective of our stewardship efforts.

**UN Sustainable Development Goals (SDGs)**


1. Please see the Responsible Investment Policy for detail including the limitations and exceptions of our program.

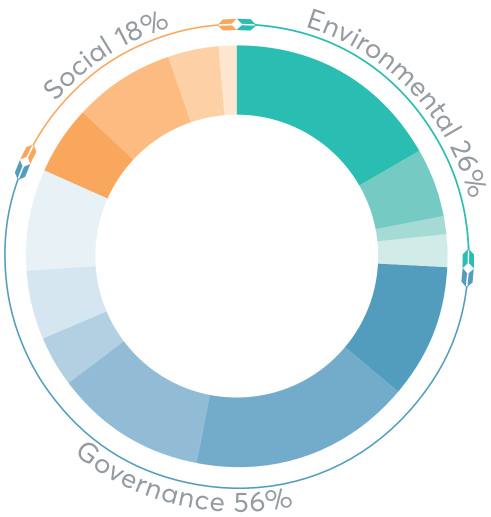
# Corporate engagement

### Primary engagement issue by ESG category

Environment
- Energy transition and emissions
- Natural capital and biodiversity
- Pollution and waste
- Physical risks of climate change

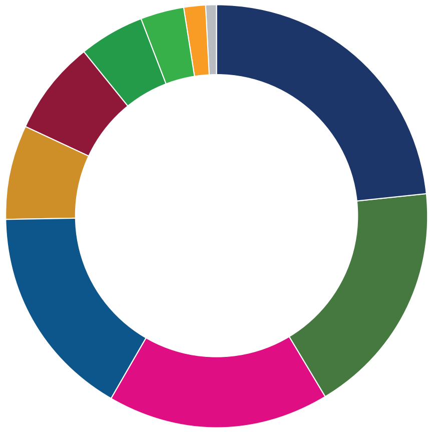
Governance
- Risk and capital management
- Board effectiveness and leadership
- Remuneration and incentives
- Shareholder rights
- Reporting and audit
- Business ethics and regulatory

Social
- Customer protection and product risks
- Human and labour rights/supply chain
- Workforce health and safety
- Community relations




### SDG mapping of engagement issues

- 17: Partnerships to Achieve the Goals
- 13: Climate Action
- 10: Reduced Inequality
- 16: Peace and Justice Strong Institutions
- 12: Responsible Consumption and Production
- 8: Decent Work and Economic Growth
- 3: Good Health and Well–being
- 15: Life on Land
- 11: Sustainable Cities and Communities
- 2: Zero Hunger



# Corporate engagement

### Annual ESG engagement summary – calendar year 2024

| Company | Country | Issues raised and progressed | | | | | |
|---|---|---|---|---|---|---|---|
| | | Climate Change | Environmental[1] | Human and Labour Rights | Social[2] | Remuneration | Governance[3] |
| AIA | Hong Kong | | | | | | 1 |
| API Group | USA | | | | | | 2 |
| Aristocrat Leisure | Australia | | | | 1 | | 1 |
| Assa Abbloy | Sweden | | | | | 1 | 1 |
| ASX | Australia | | | | | | 1 |
| Auckland Airport | New Zealand | 1 | | | | | |
| Becton Dickinson | USA | 1 | | | | | |
| BHP Group | Australia | 2 | | | 1 | | |
| BlueScope Steel | Australia | | | | 1 | | |
| Bumrungrad | Thailand | | 1 | | | | |
| Capitec Bank | South Africa | | | | | | 1 |
| Clean Harbors | USA | 1 | 1 | | | | |
| Coles Group | Australia | 1 | 1 | | | | |
| Colgate Palmolive | USA | | | | | | 1 |
| Coway | South Korea | | | | | | 1 |
| CSL | Australia | | | 1 | | | |
| Dino Polska | Poland | | | | | 1 | |
| DKSH | Thailand | | | | 1 | | 2 |
| Electronic Arts | USA | | | 1 | 1 | | |
| Endeavour Group | Australia | | | 1 | 1 | | 1 |
| Givaudan | Thailand | | | | | | 1 |
| HDFC Bank | India | 1 | | | | | |
| HDFC Life | India | 1 | | | | | |
| Hong Kong | Hong Kong | | | | | 1 | 2 |
| idp Education | Australia | | | | | 1 | |
| Insurance Australia | Australia | | | 1 | | 2 | 1 |
| Itaú UniBanco | Brazil | | | | | | 2 |
| James Hardie Industries | Ireland | 1 | 1 | 1 | | 1 | 1 |
| Kimberly–Clark de Mexico | Mexico | | | | | | 2 |
| Lottery Corportaion | Australia | | | | | 1 | 1 |
| Macquarie Group | Australia | 1 | | | | | |
| Medibank Private | Australia | | | | | | 1 |
| National Australia Bank | Australia | 1 | 1 | | | | |
| Naver | South Korea | | | | | | 1 |
| PT Indocement | Indonesia | 1 | | | | | |
| PT Indostat | Indonesia | | | | | 1 | |
| Qantas Airways | Australia | 2 | | | | 1 | 1 |
| Samsung Electronics | South Korea | | | | | | 1 |
| Samsung SDI | South Korea | | | | | | 1 |
| South32 | Australia | | | | 1 | 1 | |
| Steadfast | Australia | | | | 1 | | 2 |
| Transurban | Australia | | | | | | 1 |
| TSMC | Taiwan | | | | | | 1 |
| Ventia Services | Australia | | | | | | 1 |
| Wesfarmers | Australia | 2 | | 1 | | | |
| Woodside Energy | Australia | 1 | | | | | |
| Xero | New Zealand | | | | | 1 | |
| Zoetis | USA | | | | | | 1 |

1. Excludes climate change, includes natural capital and pollution.
2. Excludes human and labour rights, includes human capital, health & safety, product risks.
3. Excludes remuneration, includes board matters, voting issues, capital management and reporting & disclosure.

# Proxy voting and corporate governance

At Northcape, we prioritise good governance as a key factor in identifying quality companies that are likely to achieve sustainable growth and returns for our clients. Once a company is added to our Approved List, we monitor its governance through disclosure, engagement, and the shareholder meeting voting cycle.

Participating in company meetings and voting is a fundamental right of shareholders and a vital stewardship tool to promote better corporate governance practices in the best interests of our clients. To maximise the impact of voting at shareholder meetings and foster constructive long–term relationships with companies, voting should align with the Northcape Responsible Investment Policy, be consistently applied, and be communicated with clear rationale.

## Corporate governance trends

Corporate governance standards continue to improve globally. Board and committee independence remains a central focus of investors, and founder led companies, and dual class voting structures are attracting increasing scrutiny. In the US in 2024, there were 31 majority supported shareholder proposals (out of 43) to eliminate supermajority vote requirements and 22 proposals for an independent chair that exceeded 30% support.

In Australia, board independence is among the highest in the world. In 2024, ASX300 average board independence was stable at 71%, and independent chairs were in place at 74% of companies. Only 9% had an executive chair.

Investors continued to scrutinise executive pay and use the vote to encourage improvements. In Australia, remuneration report 'strikes' (more than 25% votes against) remained elevated. There were 40 strikes in 2024, similar to 2023 but double the 10–year average. Northcape voted against just under 15% of remuneration proposals in Australian equities, largely for a misalignment between pay outcomes and shareholder value.

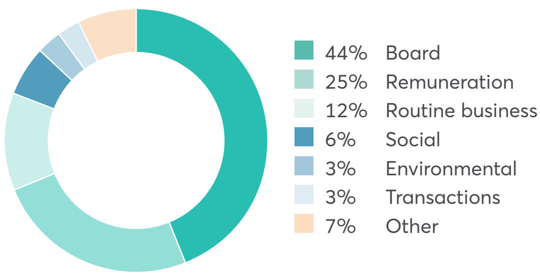
Outside of Australia, we voted against pay items at company meetings in the US, Poland, USA, Brazil, Switzerland, and India.

Northcape continued to use its vote to promote improved board independence and support minority shareholder rights. This included voting against directors of **Indraprastha Gas** (India), **Estee Lauder** (USA), **Maruti Suzuki** (India), **Steadfast Group** (Australia), and **FEMSA** (Mexico) on board independence grounds. We voted against directors at **Alphabet** (USA) and **Novo Nordisk** (Denmark) to express concerns with dual class voting structures.

### Northcape voting summary – calendar year 2024

| | Total | Australia | International |
|---|---|---|---|
| Shareholder meetings at which our clients' shares were voted | 120 | 34 | 86 |
| Number of meeting resolutions voted | 1217 | 241 | 976 |
| % of resolutions voted 'against' | 10.5% | 11.2% | 10.3% |
| % of resolutions voted against board recommendations | 8.6% | 6.2% | 9.2% |
| % of resolutions voted with board recommendations | 91.4% | 93.8% | 90.8% |
| % of abstentions | 0.2% | 0.0% | 0.2% |
| % of votes contrary to proxy advice | 1.7% | 2.9% | 1.4% |

### Votes against management



# Proxy voting and corporate governance

## Governance case studies

| | | |
|---|---|---|
| **Company** | **Steadfast** | **Samsung Electronics** |
| **Country** | **Australia** | **Korea** |
| Sector | Insurance | Consumer electronics |
| **Material topic** | **Governance: Ethics & Regulatory** | **Governance: Risk & Capital** |
| SDG classification | 16: Strong institutions | 16: Strong institutions |
| Context | Steadfast is an Australian insurance broker network and underwriting agency that provides general insurance brokerage services and has recently been accused in the media of anti–competitive behaviour. | Samsung Electronics, a South Korean multinational, specialises in major appliances, consumer electronics, and electronic components. South Korea's "Value–Up" program, launched in February 2024, aims to boost value by aligning interests of controlling and minority shareholders. |
| Actions | We discussed governance, risk management, and competitive practices. We sought improved disclosure on minimising regulatory risk in the strata business. | We are seeking progress on improving capital efficiency, including sale of surplus assets, to lift returns in line with the national "Value Up" program. |
| Change objective | Greater disclosure on the structure of the business and the approach to managing regulatory and litigation risks. | Improved capital management. |
| Company outcome | The company acknowledged the need for more disclosure to support its position that the operating structure is not anti–competitive but was unclear on specific action. | The company received our feedback. |

| | | |
|---|---|---|
| **Company** | **CSL** | **DKSH** |
| **Country** | **Australia** | **Thailand** |
| Sector | Pharmaceuticals | Consulting services |
| **Material topic** | **Governance: Shareholder rights** | **Governance: Shareholder rights** |
| SDG classification | 16: Strong institutions | 16: Strong institutions |
| Context | To reflect poor performance of a major acquisition, the board cut long term incentives by 20% for the CEO, CFO, and former CEO. However, about one–third of performance rights will vest despite only modest return improvement. | DKSH engages in the provision of market expansion and handles large volumes of data for retailers and manufacturers through complex value chains. |
| Actions | We voted against the remuneration report given a misalignment of outcomes with shareholder value. | We engaged management to understand the company's data security approach and suggest enhanced disclosure.<br>We shared UN PRI guidance on cyber risk and recommended quantitative data alongside qualitative statements. |
| Change objective | Improve acquisition due diligence and outcomes. Raise the hurdle for bonuses. | Improve practice and disclosure on data security. |
| Company outcome | The company received its first remuneration strike with 26% of votes against. We also voted against the executive performance share grants. | The company acknowledged the importance of the issues for its business and investors. It is considering our suggestions for enhancing disclosure. |

# Proxy voting and corporate governance

## Social and environmental voting

Northcape values diversity as it generally leads to improved decision making, builds business resilience, supports stakeholders, and strengthens economies. We will continue to use our stewardship program, including voting, to encourage companies to continue their efforts to attract the best talent and build resilient businesses.

In 2024, board gender diversity reached 34% in the S&P500 and 37% in the ASX300. Female representation on Latin American boards, at around half the level of the US and Australia markets, continues to improve, with regulations likely to drive further progress.

In climate–related voting, we supported **BHP**'s (Australia) climate disclosure as sufficiently complete but opposed **Woodside Energy**'s (Australia), as emissions targets seemed misaligned with capital plans.

We believe advisory shareholder proposals are a valuable mechanism for minority shareholders to provide the board feedback on long–term issues. In this context, we supported environmental shareholder proposals at **Woolworths** (Australia) and **Nike** (USA), and human rights shareholder proposals at **Alphabet**, **Nike**, and **Microsoft** (all USA).

Our full proxy voting record can be found on our website.

## Governance case study

| | |
|---|---|
| **Company** | **Indraprastha Gas** |
| **Country** | **India** |
| Sector | Gas distribution |
| **Material topic** | **Governance: Shareholder Rights** |
| SDG classification | 16: Strong institutions |
| Context | To ensure that minority shareholder interests are appropriately represented and to minimise conflicts of interest, Northcape prefers that boards are majority independent. Board independence at Indraprastha Gas declined from 50% to 38% in 2024. |
| Actions | Northcape voted against four resolutions to appoint three directors. We opposed two non–independent directors to advocate for a majority independent board and a third director due to concerns about their political affiliation compromising their independence. |
| Change objective | Ensure board effectiveness. Increase board independence. |
| Company outcome | The directors received an against vote of between 5.4% and 10.6%. The company has subsequently appointed two additional independent directors, returning the board to majority independence. |

> Strong governance is the foundation of good corporate behaviour. We often find that companies with poor governance also lag in environmental and social factors.

**Ross Cameron**
Portfolio Manager, Analyst, Emerging Market Equities

# Proxy voting and corporate governance

## Governance case studies

| | | |
|---|---|---|
| **Company** | **Qantas Airways** | **ANZ Banking Group** |
| **Country** | **Australia** | **Australia** |
| Sector | Passenger Airlines | Banking |
| **Material topic** | **Governance: Remuneration** | **Governance: Remuneration** |
| SDG classification | 16: Strong Institutions | 16: Strong institutions |
| Context | In 2023 and 2024, Qantas faced threats to its social licence and brand due to concerns over labour practices, competitive behaviour, operating performance, and customer satisfaction. | Bonuses are generous given margin pressures, weak customer performance, and low returns. The 10% reduction to long–term incentives was, in our view, insufficient. |
| Actions | We met the new chair of the remuneration committee, reviewed our previous engagement, and explained our vote against the remuneration report due to misalignment with stakeholder experiences. We stressed that remuneration changes should align with the company's goals rather than industry averages, and shared concerns about using "reputation" measures in long–term incentives. | We voted against the remuneration report. We also voted against the CEO's restricted rights and performance rights. |
| Change objective | Enhance alignment between remuneration outcomes and the experiences of stakeholders. | Align remuneration outcomes with shareholder value. |
| Company outcome | In April 2024, Qantas developed a plan to better align remuneration with stakeholder interests. In August 2024, the company announced a reduction in CEO and KMP remuneration outcomes due to governance issues. | The company received a first remuneration strike with 38% of votes against. |

"Northcape believes good governance applies to our own firm just as much as the companies we invest in."

**Steve Gliddon**
Chairman

# Stewardship of climate-related risks and opportunities

Northcape recognises that climate change and the human response to it pose significant risks and opportunities for business models, economies, and financial markets. These factors can affect investment returns for our clients. Key climate–related considerations in our portfolios are (1) the transition to low carbon energy and (2) the physical impacts of climate change.

We evaluate and oversee climate–related factors following the TCFD[1] framework and through our responsible investment framework. Engagement and voting encourage companies to establish climate risk governance, develop a credible transition plan, and disclose metrics and targets. For more information on our approach to climate–related risks, please see our Responsible Investment Policy.

## Climate remains a priority risk

Climate–related risks and opportunities remained a priority in 2024 for ESG integration, stewardship, and collaboration. These activities focused on transition risks, with increased attention paid to the physical risks of climate change. To manage portfolio climate–related risks, our approach is to:

- Integrate climate risk considerations into stock selection to identify companies and industries that are likely to perform well in a range of climate scenarios.
- Encourage investees through stewardship to have strong corporate governance, strategy, and targets for decarbonisation, and make progress.
- Collaborate with peers through initiatives such as PRI and RIAA, to share knowledge and build capacity to manage complex risks and opportunities.
- Report on these processes and outcomes to clients.

## ESG data model to support climate analysis

To support our research and analysis, in 2024, Northcape developed an ESG data model, based on ISS raw data, that provides insights across our Approved Lists and their relevant benchmarks. For climate–related risks, the model assesses company alignment with TCFD Recommendations, including governance, disclosure, targets, and planning. The model augments analyst research with a framework to compare companies across sectors and portfolios. Version two of the model is under development, with climate metrics and carbon risk ratings incorporated into the company dashboard.

> “We integrate climate-related risks into investment decisions and engage with portfolio companies to encourage improved management of these risks.”

**Peiting Liang**
Senior Analyst,
Australian Equities

1. Task Force on Climate–related Disclosure

# Stewardship of climate-related risks and opportunities

## Portfolio carbon metrics

We estimate portfolio carbon metrics, such as portfolio carbon exposure, carbon intensity and scenario analysis, utilising analysis from Institutional Shareholder Services (ISS). This allows Northcape to understand alignment with a low carbon world and prioritise resources for managing risks and opportunities.

As at December 2024, all strategies maintained carbon intensity (measured by tonnes of $CO_2$ per A$ million revenue) well below respective benchmarks.

In the emerging markets portfolio, Weighted Average Carbon Intensity (WACI) was 67% below the benchmark, in global developed markets 69% below, and in the two Australian equities strategies, between 46% and 52% below the benchmark.

Emissions are concentrated in a small number of companies in each portfolio. In global developed market equities, the top 5 high–emitting holdings represented 67% of portfolio emissions exposure. In emerging markets, they represented 82% of emissions, while in Australian equities, 94%.

A few higher–emission companies can therefore heavily influence portfolio emission metrics. Short–term movements in portfolio metrics often reflect Northcape's investment decisions, not the actual emissions reductions needed for alignment with the objectives of the Paris Agreement. Such reductions will only become evident over time. Northcape evaluates the emissions pathways of high–emitting companies on our Approved List to guide investments and stewardship.

## Transition risk analysis

The ISS Carbon Risk Rating (CRR) assesses on a scale out of 100 (excellent performance) a company's (1) exposure to climate change risks and opportunities, and (2) performance in managing opportunities and risks. At the portfolio level, the CRR of Northcape strategies increased in each of the last three years, and all have outperformed respective benchmarks.

The analysis suggests that as at 28 December 2024, no emerging markets holdings (of the 91% covered) were classified by ISS as climate 'Laggards', with 48% of the portfolio invested in 'Outperformers' or 'Leaders'. There was no direct exposure to fossil fuel electricity generation, and no exposure to fossil fuel extraction. The portfolio's overall CRR was 52 out of 100.

In the Australian equities Core portfolio, only 3% of holdings were considered 'Laggards', with 65% considered by ISS to be 'Outperformer' or 'Leader'. The portfolio rating was 53. The rating increased to 56% in the Concentrated portfolio, which had less exposure to lower scoring companies.

In the global developed market equities portfolio, company transition risk exposure is lower, and management of the exposure is more advanced. There were no 'Laggards' and 83% of assets were invested in 'Outperformers' or 'Leaders', driving a portfolio CRR of 69%.

## Physical risk exposure

As well as transition risks, the ISS climate risk research provides high level analysis of physical risk exposure at the issuer and portfolio level under several climate scenarios. Acknowledging the limitations in physical risk data, the insights are helpful for assessing and managing risks.

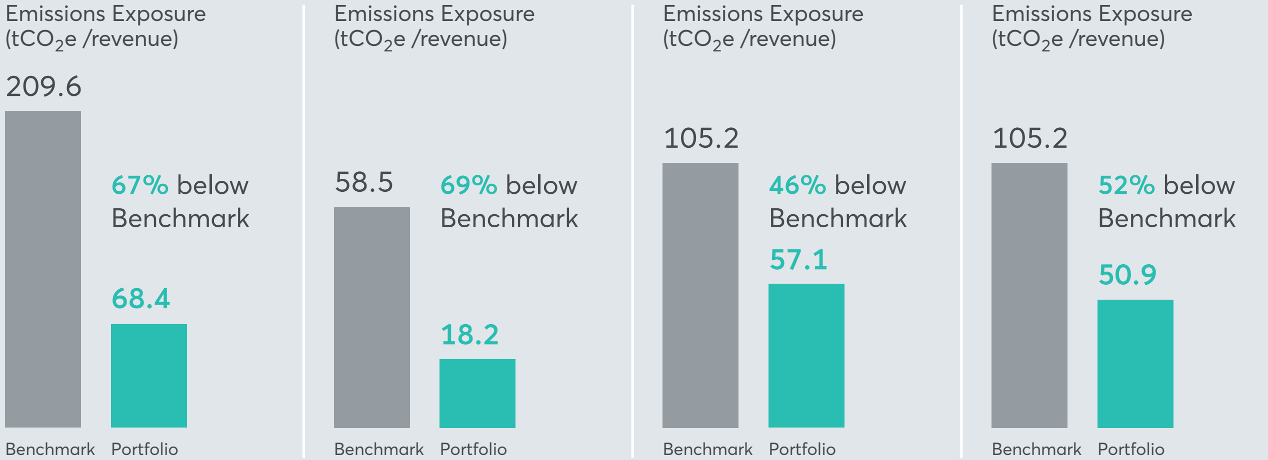
On 28 December 2024, ISS assessed management of physical risk to be moderate or robust at 61% of issuers in the Global Equities portfolio, 60% of the Emerging Markets portfolio, but only 39% of issuers in the Australian portfolios, reflecting slower progress in Australian companies addressing the risk.

**Source:** ISS climate analysis for holdings on 28 December 2024. ISS Carbon Risk Rating Methodology.

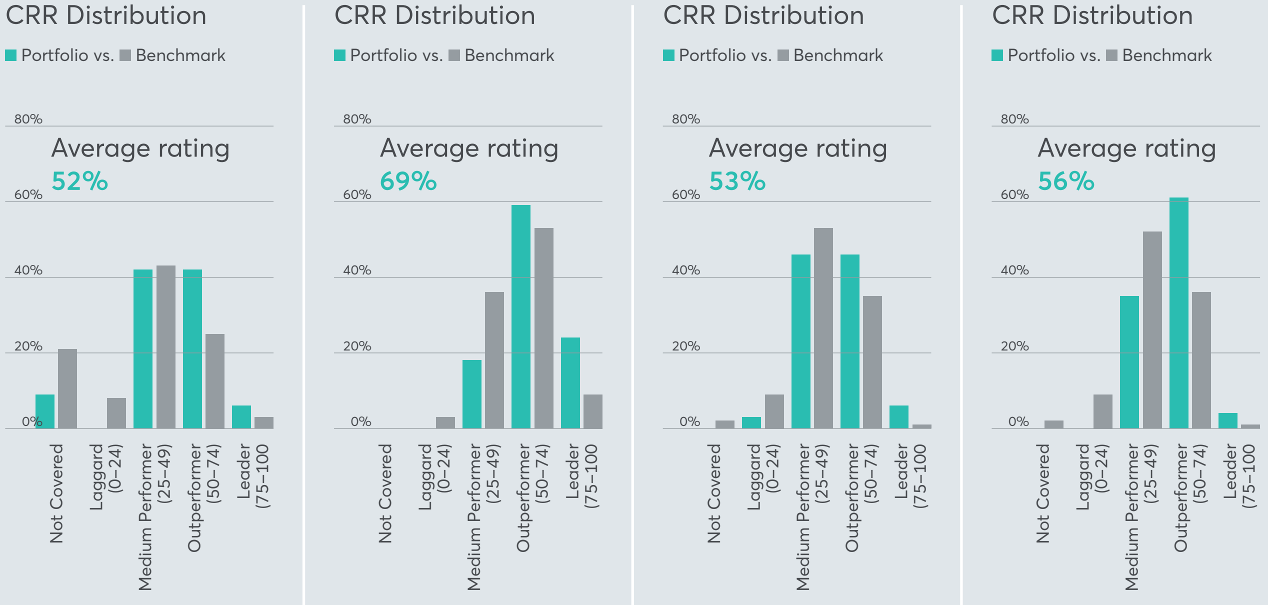
# Portfolio carbon metrics

| Northcape Emerging Markets Portfolio | Northcape Global Equities Portfolio | Northcape Australian Equities Core | Northcape Australian Equities Concentrated |
|---|---|---|---|

## Weighted–average carbon intensity (WACI)




## ISS Carbon Risk Rating (CRR)




**Source:** ISS climate analysis for holdings on 28 December 2024. The Australian equities team utilises equity index (ASX200) futures contracts with client agreement for risk management, transactional efficiency, and asset transitions. Listed equity derivatives are not presently covered by the Global Greenhouse Gas Accounting & Reporting Standard for financed emissions and are excluded from the ISS analysis. The ASX200 index futures represented an average daily weight of approximately 0.6% of the Concentrated portfolio and 0.4% of the Core portfolio. If the derivatives implied emissions were included, the higher emissions intensity of the index would increase portfolio emissions intensity (WACI $tCO_2e$/$ revenue) by approximately 1%. ISS Carbon Risk Rating Methodology.

# Stewardship of climate-related risks and opportunities

## Positive contributors to transition and adaptation

While our lower than benchmark emissions data is encouraging, we don't believe it tells the whole story as many of the companies on our Approved List also make meaningful contributions to sustainable development and economy–wide reduction in emissions.

| Company | Sector | Country | Category | Description |
|---|---|---|---|---|
| Advanced Drainage Systems | Industrials | United States | Circular economy | Recycled plastic pipe to replace high carbon alternatives in North America and address infrastructure and adaptation needs. |
| Clean Harbors | Industrials | United States | Circular economy | Collection, disposal, and recycling of environmentally hazardous waste materials; converting used oil into lubricants; and emergency response services to mitigate chemical contamination. |
| Enphase Energy | Information technology | United States | Clean energy technology | Residential and commercial solar inverters, battery storage and EV chargers worldwide. |
| Intertek | Industrials | United Kingdom | Clean energy assurance | ESG and sustainability assurance, testing, inspection, and certification firm. |
| Macquarie Group | Financials | Australia | Clean energy finance | Clean energy infrastructure including wind, solar, hydrogen, waste to energy, carbon capture and battery storage technologies. |
| Samsung SDI | Information technology | Republic of Korea | Clean energy technology | Lithium–ion batteries for EVs, power tools, and stationery storage systems for utilities. |
| Voltronic | Information technology | Taiwan | Clean energy technology | Inverter technologies are a vital component within solar energy installations. |
| Worley | Industrials | Australia | Clean energy infrastructure | Engineering services in renewables, recycling, energy efficiency and critical minerals. |

Note: While 'Approved' and therefore in the Northcape investible universe (of around 200 companies), these companies may or may not be held in portfolios at any point in time, depending on the investment requirements of each strategy.

## Climate action case studies

| **Company** | **HDFC Bank** | **Auckland Airport** | **BHP Group** |
|---|---|---|---|
| **Country** | **India** | **Australia** | **Australia** |
| Sector | Financials | Infrastructure | Diversified mining |
| **Material topic** | **Environment: Energy Transition** | **Environment: Energy transition** | **Environmental: Energy transition** |
| SDG reference | 13: Climate Action | 13: Climate action | 13: Climate action |
| Context | HDFC Bank focuses its 2024 ESG framework on term loans' ESG attributes, including environmental commitments. Borrowers update emission targets quarterly, and HDFC assesses outcomes annually to influence loan renewals. | Auckland International Airport Limited (AIA) is a major airport in New Zealand, providing airport facilities and aeronautical services. Operations were disrupted by a major weather event in 2023, which forced greater focus on physical risk analysis and planning. | BHP Group is a leading global producer of minerals and metals that support economic growth and the energy transition. The company offered its Climate Action Plan for an advisory shareholder vote. It provided an opportunity to assess progress on implementing its transition plan. |
| Actions | We urged the bank to advance decarbonisation and disclose scope 3 lending portfolio emission metrics and targets. | The company has made good progress on physical risk. We requested the company progress transition risk analysis and planning, particularly in its scope 3 aircraft emissions. | We engaged the board and management to better understand the approach to decarbonisation and managing human rights risks and to encourage further progress. |
| Change objective | Disclosure of emissions metrics and targets. | Improve disclosure on transition planning. | Progress practice and disclosure on transition planning, particularly on scope 3 emissions. |
| Company outcome | The bank received investor feedback on scope 3 disclosure but finds including these emissions in reports challenging for now. | Company acknowledged the issue and said that this was underway. | BHP acknowledged the issue's importance and provided enhanced disclosure in its 2024 climate transition plan. We were satisfied with the information given the technology constraints in low carbon steelmaking. We voted in favour of the climate plan. |

# Stewardship of human and labour rights

Responsible Investment Belief 4:

> We recognise our role as a provider of capital in contributing to SDGs and that the transition to an SDG-aligned world presents risks and opportunities for investors.

Human rights risks are considered by analysts as part of the initial review and rating process in the stock approval process, which focuses on material ESG factors. Human rights issues considered may include modern slavery, labour rights, first nations' rights, privacy, gender equality, discrimination, and access to education and healthcare.

The initial review may examine company commitments, policies and practices that support the management of human rights risks. Where identified as a material risk, human rights are part of the monitoring process for Approved List companies.

The Northcape ESG data model allows analysts to monitor an expanded list of human rights indicators on a large number of companies that supports the identification of risk in the portfolio and assists with the prioritisation of stewardship.

In emerging markets, the sovereign risk framework further contributes to the management of human rights risks in the portfolio, by considering the systemic factors that contribute to human rights abuses. The team's assessment of sovereign risk has direct implications for company valuations.

Where company human rights issues or risks are identified, Northcape will likely engage to ensure any impacted people are protected and remediated, and to encourage improved practice and disclosure. While we have a stewardship escalation framework for managing issues, our philosophy is that divestment should be a last resort. It is also important for investors to consider the potential for further unintended adverse impacts on people from the immediate withdrawal of capital.

The Northcape Responsible Investment team participates in both the RIAA Human Rights and First Nations' Rights Working Groups, that convene quarterly to collaborate on human rights risk management. Insights are shared with the investment teams through collaboration and through evolving the Northcape approach.

## Engagement to support improvement

In a 2024 engagement with **Endeavour Group**, Northcape met the objective, with the publishing of a stand–alone human rights policy that clarified commitments in all aspects of its business. The company faces human rights and other social risks in its value chain, including exposure to immigrant labour in the beverages supply chain, and customer risks through involvement in the hotels and gaming industries.

Northcape engaged in separate meetings with the board chair and sustainability officer of **James Hardie Industries** and requested the inclusion of the international operations in the company's modern slavery reporting. To date the report had only covered Australia and New Zealand, but the bulk of revenue and profit comes from the US business. The company committed to including all operations.

## Human and labour rights case studies

| **Company** | **Endeavour Group** | **James Hardie Industries** | **Aristocrat Leisure** |
|---|---|---|---|
| **Country** | **Australia** | **Ireland** | **Australia** |
| Sector | Retail & Hospitality | Building materials | Gaming |
| **Material topic** | **Social: Customer and products** | **Environmental: Energy transition Social: Human rights** | **Social: Customer & Products Governance: Ethics & Regulatory** |
| SDG classification | 12: Responsible Consumption and Production | 8: Decent work and economic growth<br>13: Climate action | 12: Responsible Consumption and Production<br>16: Strong institutions |
| Context | The company believes it is resilient to gambling reforms due to low levels of problem gambling, backed up with data from a loyalty scheme. | James Hardie is a leading manufacturer of building products in the US, Europe, Australia and New Zealand. The company has made progress on sustainability in recent years. | We engaged with the company to understand the issues surrounding its responsible gambling platform. |
| Actions | We engaged the Head of Investor Relations and sought an acceptable risk profile in the company's gaming business. | We engaged the board and management to better understand the approach to decarbonisation and human rights risks to encourage further progress. | The company should provide disclosure of demographic and geographic details of the player cohort and revenue concentration statistics to give investors visibility of risks from increased regulation. |
| Change objective | Robust management of responsible gaming risks. | Disclosure on transition planning and human rights. | Improve transparency of key business unit. Improve disclosure and practice – customer protection. |
| Company outcome | Company substantially enhanced its disclosure of approaches in responsible gaming in the sustainability report, reflecting its progress on the issue. | The company acknowledged the importance of the two issues for its business and to investors. It expects to improve its disclosure on the transition plan and its management of supply chain human rights risks in 2025. | Given concerns for risks in the unregulated part of the online gaming business, the company was not included in the Approved List at this juncture. |

# Collaboration

Northcape views collaboration with clients, advisers, and peer networks as offering the potential to enhance the effectiveness and impact of its responsible investment program.

These initiatives provide frameworks for assessing and managing ESG factors, valuable opportunities for knowledge building and sharing with peers through conferences, workshops and seminars, and collaborative opportunities that amplify our stewardship voice and impact. While Northcape benefits from research and events across a wide range of peer initiatives, advocacy groups, NGOs, and industry groups, our primary collaborative initiatives are:

- UN Principles for Responsible Investment (PRI) – Signatory
- Responsible Investment Association of Australasia (RIAA) – Member
- Task Force on Climate–related Disclosure (TCFD) – Supporter

# Collaboration

Northcape regards the PRI Assessment and RIAA Benchmark processes as essential tools for evaluating and enhancing our responsible investment practices. Conducting these assessments and collaborating with peers on key issues and best practices throughout the year allows us to identify opportunities for further development of our program, ensuring it remains aligned with our objectives and meets client expectations.

## UN PRI

The 2023 PRI Assessment Report measured significant progress on Northcape's responsible investment journey since our first report two years earlier, rating us four stars (out of five) in all three reporting pillars. For signatories that had lodged in 2023, reporting was voluntary in 2024. Northcape will lodge a full PRI Transparency Report in 2025.

## Northcape recognised by RIAA as a 'Responsible Investment Leader'

Northcape was named a 'Responsible Investment Leader' by RIAA in its 2024 'Benchmark Report' of Australasian asset managers, representing the top 20% of 274 managers reviewed on ESG integration, stewardship, and disclosure.

**Northcape 2024 participation in responsible investment events and collaborations**

| Organiser | Event | Type |
|---|---|---|
| 100 Women in Finance | Diversity, Equity & Inclusion Seminar | Workshop |
| Australian Sustainable Finance Institute | Annual Conference | Conference |
| Australian Sustainable Finance Institute | Sustainable Finance Taxonomy Forum | Workshop |
| Australian Sustainable Finance Institute | Annual Sustainability Summit | Conference |
| Investor Group on Climate Change | Annual Climate Summit | Conference |
| Macquarie Equities | ESG Summit 2024 | Workshop |
| Principles for Responsible Investment | Investor Agility Forum | Workshop |
| Principles for Responsible Investment | Climate Risk Series (3 sessions) | Webinar |
| Principles for Responsible Investment | Policies and Stewardship Seminar | Workshop |
| Responsible Investment Association Australasia | Annual Conference | Conference |
| Responsible Investment Association Australasia | Greenwashing Briefing | Workshop |
| Responsible Investment Association Australasia | Human Rights Working Group | Workshop |
| Responsible Investment Association Australasia | First Nations Rights Working Group | Workshop |
| Responsible Investment Association Australasia | Nature Working Group | Workshop |
| UBS Equities | Deforestation Roundtable | Workshop |
| UBS Equities | Modern Slavery Roundtable | Workshop |

# Northcape's corporate social responsibility

We believe Northcape's multi-portfolio manager model is key to our success. The approach encourages accountability, curiosity, constructive debate, and diversity of thinking. The model is instrumental in attracting and retaining high calibre, experienced investment professionals, and this is reflected in team stability, and smooth renewal and succession.

# Our people

Northcape values diversity as it fosters collaboration, innovation, and a variety of perspectives, helping to deliver long–term client returns. Our commitment to an inclusive workplace ensures that we provide an environment where employees can succeed and thrive. By encouraging diverse ideas and approaches, we can address complex challenges and seize opportunities that drive sustainable growth. Our diverse team brings a wealth of knowledge and experience, which is vital for delivering exceptional results for our clients.

Northcape sees investment team stability and deep knowledge of our portfolios as one of the drivers of fund outperformance over many years.

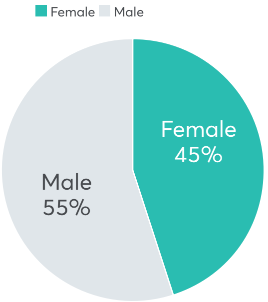
Today's average staff tenure at Northcape is 8.5 years, while 14 staff members (out of 32) have more than 10 years' service.

The recruitment of analysts who can potentially become portfolio managers over time helps maintain a strong team and diverse tenure to ensure continuity in portfolio management. This renewal process has contributed to consistent performance since 2004.

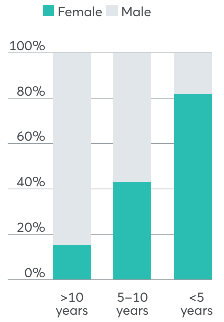
Northcape finds setting diversity targets impractical for our organisation. Recruiting to enhance diversity is challenging, but our approach has gradually increased diversity over time. We believe that fostering an inclusive environment naturally attracts a varied talent pool.

The representation of women in our organisation has increased over time, reflecting our efforts to improve diversity and industry trends. More than three quarters of our employees that joined in the last five years, are women.

Gender diversity of all employees




Gender by tenure at Northcape




### The key elements of our successful approach to diversity include:

1. **Commitment to diversity** – Northcape promotes an inclusive and diverse workplace.
2. **Safe working environment** – Northcape ensures a respectful, discrimination–free workplace.
3. **Non–discriminatory recruitment** – Northcape's hiring practices are non–discriminatory, attracting diverse candidates.
4. **Conditions and pay** – Northcape offers flexible work arrangements and ensures pay equity.
5. **Code of Conduct** – Employees must follow policies supporting diversity, equity and inclusion.

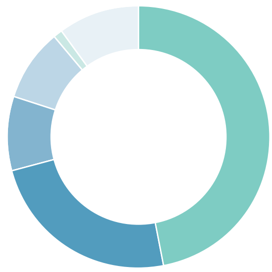
Maite Carvell, Melannie Mauricio

# Operational emissions and decarbonisation

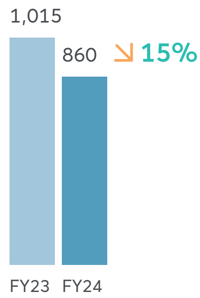
Northcape is dedicated to minimising its environmental impact as part of its business strategy. We acknowledge our role in contributing to the SDGs and recognise that transitioning to a low–carbon world poses both risks and opportunities for us as an investor and business.

With the aim of understanding our operational sustainability outcomes and making informed decisions about carbon emissions, Northcape again engaged Pangolin Associates to estimate the organisation's operational green–house–gas emissions. The report quantified emissions sources for the year to June 2024, and identified ways to reduce climate impact. It excluded financed scope 3 emissions, which are discussed on pages 25–26.

Scope 1–3 Emissions FY24 ($tCO_2$–e) 860 tonnes*




Scope 1–3 Emissions ($tCO_2$–e)




## Northcape's carbon footprint

In the year to June 2024, Northcape's total operational emissions (scopes 1 to 3) declined 15% to 860 tonnes of $CO_2$–equivalent. The decline was driven by lower business travel activity, a reduction in professional services, due to better measurement, and the absence of office renovation activity that increased emissions in the prior year. Overall emissions declined from 38 tonnes to 31 tonnes per weighted average full time equivalent employee and 0.065 tonnes per million dollars of assets under management.

Scope 3 indirect emissions associated with purchases of key business inputs, continued to account for 98% of the operational carbon footprint. These emissions are beyond the direct control of Northcape and reductions are heavily dependent on the decarbonisation initiatives of vendor businesses. Business travel, information and data services, and professional services, represented 80% of total emissions:

- Business travel, mostly long–haul international for investment research trips, accounted for just under half of total emissions, with flights representing almost all of this.
- Information and data services represented 24% of emissions, including portfolio management systems, investment administration, and telecommunications.
- Professional services accounted for 9%, including accounting, legal, insurance, consulting, and education.
- Electricity accounted for 9%: one–third consumed directly in our two offices and two–thirds from building shared services.

## Emissions reduction pathways

Northcape continues to review its strategy to identify ways to reduce emissions. This considers our business plans, viable reduction measures, sector and economy–wide decarbonisation pathways, and opportunities for carbon offsets.

There are challenges in achieving meaningful short–term reductions without curtailment of the air travel that forms an important part of our investment process. However, we will continue our efforts to reduce emissions.

* Source: Pangolin Associates aligned with GHG Protocol, Climate Active, ISO 14064–1. Excludes scope 3 portfolio financed emissions.

Visiting investee companies on the ground supports due diligence of operations and assets, our understanding of the economic and cultural context, and relationships with management. In our view, virtual meetings cannot yet replace the unique insights from these physical trips.

It's likely Northcape's operational emissions decline in the medium to long term will be supported by:

- Gradual decarbonisation in the airline sector through increased operational efficiency and the use of sustainable fuels.
- Decarbonisation of our information and professional services providers.
- Decarbonisation over time of the electricity grid and other inputs to our business.

There is reason for a degree of optimism on the transition of air travel. The International Civil Aviation Organization (ICAO) has a net zero 2050 'aspirational goal', driven by fuel efficient aircraft, sustainable fuels, and operational efficiency. And some airlines are targeting up to a 25% reduction in emissions by 2030[1].

As an investor in Australia's largest airline, Qantas Airways, we engage with the company on its decarbonisation strategy and offer our support for progressing the work.

In summary, actions currently underway on emissions reduction:

1. **Employees** – Employee engagement to encourage participation in emissions reduction.
2. **Renewables** – Switch to renewable sources for direct purchased electricity.
3. **Vendors** – Improve emissions data quality and encourage renewable uptake at vendors.
4. **Strategy** – Complete emissions strategy aligned with business plans.
5. **Mitigation** – Examine offsets to contribute to sustainability outcomes and internalise a carbon price.
6. **Communicate** – Our approach to clients and other stakeholders, including TCFD reporting on page 38.

## Operational human rights and modern slavery

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

We believe the risk of modern slavery within our direct business operations is low, but we recognise the need to assess and monitor risks within our supply chain and remedy any adverse human rights impacts.

The Northcape Anti–Modern Slavery Statement, which outlines our approach to managing human rights risks in our operations and supply chain, can be found in the Responsible Investment Policy on our website.

> “At Northcape, we believe that by working together, we can enhance our positive impact on society while protecting and growing client assets over the long term.”

**Michael Ryan**
Managing Director

1. Qantas Group Climate Action Plan

# Northcape investment and operations teams

## Australian Equities


**Rob Inglis**
Director, Portfolio Manager, Analyst


**Peiting Liang**
Senior Analyst


**Richard Maynier**
Portfolio Manager, Analyst


**Craig McCourtie**
Director, Portfolio Manager, Analyst


**Paul Parsons**
Portfolio Manager, Analyst


**Kevin Soo**
Senior Analyst

## Emerging Market Equities


**Marvan Aijaz**
Research Assistant


**Ross Cameron**
Portfolio Manager, Analyst


**Oliver Johansson**
Research Analyst


**Aimee Jordan**
Senior Analyst


**Tom Pidgeon**
Portfolio Manager, Analyst


**Cameron Robson**
Portfolio Manager, Analyst


**Patrick Russel**
Director, Portfolio Manager, Analyst

## Global Equities


**Wendy Herringer**
Portfolio Manager, Analyst


**Theo Maas**
Portfolio Manager, Analyst


**Jumana Nahhas**
Portfolio Manager, Analyst


**Fleur Wright**
Portfolio Manager, Analyst

## Equities Dealer


**Richard Brasher**

## Operations


**Maite Carvell**
Head of Risk and Governance


**Sean Cunningham**
Chief Operating Officer


**Lee Hao**
Investment Operations


**Louisa Kong**
Senior Operations Analyst


**Julie Korowe**
Investment Operations


**Brett Lawrence**
Investment Operations


**Melannie Mauricio**
Head of Compliance


**Collette Ryan**
Administration Manager


**Savi Wijeyaratne**
Head of IT and Cyber Security

Appendix 1:

# Northcape TCFD reporting

For the Northcape Climate Policy please see the Responsible Investment Policy.

| Governance | **Disclose the organisation's governance around climate–related risks and opportunities.** |
|---|---|
| a) Describe the board's oversight of climate–related risks and opportunities. | Climate–related opportunity and risk governance is part of the Responsible Investment Policy, which is a Northcape board–owned policy. |
| b) Describe management's role in assessing and managing climate–related risks and opportunities. | The implementation of the Policy, including climate–related risk and opportunity management, is undertaken by the Managing Director and staff, with support from the Head of Responsible Investment. |

| Strategy | **Disclose the actual and potential impacts of climate–related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.** |
|---|---|
| a) Describe the climate–related risks and opportunities the organisation has identified over the short, medium, and long term. | Northcape operations and the investment portfolios it manages on behalf of clients, face risks and opportunities related to the energy transition and the physical impacts of climate–change, across a range of time horizons. |
| b) Describe the impact of climate–related risks and opportunities on the organisation's businesses, strategy, and financial planning. | Northcape seeks to understand the impact of climate–related risks and opportunities on its business strategy and the ability to deliver the financial returns and sustainability outcomes on which our clients depend. |
| c) Describe the resilience of the organisation's strategy, taking into consideration different climate–related scenarios, including a 2°C or lower scenario. | More than 99% of Northcape's emissions are estimated to be scope 3 financed emissions. Estimated portfolio emissions intensity is generally significantly below relevant equities benchmarks, which supports portfolio resilience. Northcape employs in–house research and third–party data to understand risks in portfolios and company progress, which includes potential impact on investment portfolios of transition and temperature scenarios, including a +2°C and +1.5°C scenario. |

| Risk management | Disclose how the organisation identifies, assesses, and manages climate–related risks. |
| --- | --- |
| a) Describe the organisation's processes for identifying and assessing climate–related risks. | The process of identifying climate–related risks and opportunities within the operations and investment portfolios is supported by in–house research and third–party climate risk analysis, including scenario analysis, as described above. |
| b) Describe the organisation's processes for managing climate–related risks. | Management of climate–related risks is primarily through the stewardship activities engagement and voting, which encourages investee companies to develop and implement robust transition plans. Northcape assesses its operational emissions annually for opportunities to reduce its carbon footprint. |
| c) Describe how processes for identifying, assessing, and managing climate–related risks are integrated into the organisation's overall risk management. | Our investment model seeks long–term sustainable cash flows and therefore is less likely to invest in businesses that are materially challenged by the energy transition. For companies that face material climate–related risks, Northcape prefers engagement over divestment, but exposure reduction or divestment may be used for high levels of risk or governance failings. |

| Metrics and targets | Disclose the metrics and targets used to assess and manage relevant climate–related risks and opportunities where such information is material. |
| --- | --- |
| a) Disclose the metrics used by the organization to assess climate–related risks and opportunities in line with its strategy and risk management process. | Northcape assesses both absolute carbon dioxide emissions and weighted average carbon intensity (WACI), as measured by tonnes of carbon dioxide emitted per million Australian dollars of revenue. Northcape has undertaken an operational emissions study of scopes 1 to 3 (excluding scope 3 financed emissions, analysed separately). |
| b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. | Portfolio emissions data and climate–risk assessment is disclosed on pages 25–26 of this report.<br><br>Total annual scope 3 portfolio emissions estimated for holdings at 31 December 2024 were 594,640 tonnes $CO_2$e. Scopes 1–3 operational emissions (excluding portfolio emissions) in the year to June 2024 were 860 tonnes $CO_2$e.<br><br>More detail on operational emissions is on page 35 of this report. |
| c) Describe the targets used by the organization to manage climate–related risks and opportunities and performance against targets. | Northcape reviews transition and physical risk metrics of portfolio companies, and progress toward their targets. We engage and vote to encourage companies to align with TCFD. With investor action, appropriate policy settings, and consumer activation, there is a higher likelihood the companies in which we invest can transition to net zero. Given concentration of emissions in a small number of holdings, short–term outcomes are likely to reflect changes in portfolio weights, rather than company action. Northcape is developing operational emissions reduction targets. |

www.northcape.com.au