

Firetrail

INVESTMENTS

**ENVIRONMENT, SOCIAL AND
GOVERNANCE POLICY**



Document Control

a. Version Control / Revision History

This document has been through the following revisions:

Version	Date of Approval	Remarks / Key changes / Reason for Update
1	November 2017	Initial Version
1.1	November 2018	Review
2	April 2021	Review

b. Authorisation

This document requires the following approvals:

Authorisation	Name
Initial Version	Board
Revision	Board

1. Introduction

Firetrail believe Environmental, Social and Governance (“ESG”) factors can affect the value of investments. Therefore, ESG issues are a key component of the Firetrail investment process. By integrating ESG criteria into our investment process, Firetrail will attempt to directly influence companies to improve performance to the benefit of our investors. Firetrail ESG engagement will contribute a more stable, sustainable, and inclusive global economy. Firetrail recognises its responsibilities to its clients, shareholders, and employees as well as to the community and the environment.

Firetrail seek to integrate ESG into all aspects of the business, including both investment and business operations, as part of our duty as a responsible member of the Australian investment management industry.

As part of our commitment to integrate ESG matters into our investment process, Firetrail is a signatory to the United Nations-backed Principles for Responsible Investment (“PRI”). The Principles for Responsible Investment are:

1. We will incorporate ESG issues into our investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues from entities in which we invest.
4. We will promote acceptance and implementation of the PRI within the investment industry.
5. We will work to enhance our effectiveness in implementing the PRI.
6. We will report on our activities and progress towards implementing the PRI.

2. Firetrail’s ESG Approach

There are three key components to Firetrail’s integration of ESG from an investment perspective:

- **Own it** - each analyst owns ESG under their industry coverage. Analysts are the experts.
- **Measure it** - ESG issues are investment issues. They must be measured.
- **Engage on it** - Firetrail actively engages to address key ESG concerns. We do not screen out companies with high ESG risk.

1.1 Own it

The best people to conduct research on ESG issues are sector analysts who are experts within their industries and can integrate ESG research as part of their investment research. We do not outsource this function to investment professionals that are not part of the decision-making process. Outsourcing reduces ownership and does not allow ESG to be fully integrated into the decision-making process.

1.2 Measure it

Firetrail believes ESG risk can and must be valued. We do not believe that screening out investments with ESG risk benefits end investors. Instead of exclusion, Firetrail captures ESG risks and opportunities in company valuation.

ESG issues are investment issues that form part of the investment research process to be integrated into the final decision-making process. Importantly, Firetrail approaches ESG from both a risk and opportunity perspective. In our experience, traditional ESG tools and methods are backwards looking and often quantitative in nature. Firetrail approaches ESG from a fundamental perspective, considering a business’s future sustainability, actions, risks, and opportunities. In addition, Firetrail will fundamentally exclude companies where we believe ESG risks are not appropriately reflected in either the earnings or valuation of the company.

Firetrail also conducts ESG specific research across stocks and sectors in the Australian market to better understand the key issues affecting different industries. Recent examples of ESG focused investment committees include deep research projects on Modern Slavery, Abandonment, Sustainability / Circular Economy, Gender Equality and Diversity, Data Privacy, Carbon Emissions (& Flight Shaming), Climate Change and the impact of Scope 3 Emissions, UN SDG's, ESG in Small Companies, ESG data and Datasets, and Proxy Advisors (& SEC).

1.3 Engage on it

Proactive company engagement forms a key part of the investment process. Firetrail engages company management to advocate for change when it is believed it is in the interest of shareholders. Firetrail do not generally engage the media or take an activist approach to advocate for change. We believe the best way to advocate for change is to engage with company management and the Board. A key part of this process is ensuring appropriate disclosure on key ESG issues from the companies in the portfolio.

When specific issues arise, or where our investment process identifies that a company is not meeting minimum acceptable standards, management consultation and debate is sought. Many issues can be resolved satisfactorily through representation prior to a formal meeting. These opportunities are welcomed to improve corporate governance and ESG practices with the ultimate objective of improving returns. In instances where we believe a company demonstrates wilful disregard for ESG principles, we may choose to avoid or divest.

Firetrail actively votes at company meetings (where the manager is empowered to do so on behalf of clients). The direction of votes is determined by an assessment of the interests of the portfolios under management entitled to vote. Firetrail will vote against board, abstain, or vote in favour depending on the merits of the proposal. To vote against a board proposal, the position is originated by the analyst and must be endorsed by a Portfolio Manager of Firetrail Investments. All voting action is recorded in a register which is shared with clients quarterly.

Firetrail also monitors and reports on our ESG specific company engagements quarterly. Firetrail conduct well over 200 ESG specific company meetings annually. A summary of the meeting and engagement is reported to our key clients quarterly and detailed meeting notes are available upon request for key ESG engagement issues.

Engagement details and examples

While every company situation is different, below are some examples of issues, and opportunities, we may probe when evaluating a company's ESG credentials.

Environmental issues

- Does the company take a pro-active approach to matters of environmental concern with respect to their product design, business practices, distribution, and procurement?
- Does the company provide clear disclosure on their environmental practices and examples of continuous improvement?
- Does the company incorporate "environmental impact" into their long-term business planning and articulate the way in which this is achieved?
- Does the company incorporate internal benchmarks to ensure their environmental practices are aligned with minimum industry standards, e.g., CO2 emissions, use of renewable energy sources, implementation of ISO 14001, etc.?

Social issues

- Is the company a respected employer that recognises the rights of workers, customers, and suppliers?
- Does the company take a pro-active approach to workplace relations, employee diversity, promote the health and welfare of employees and provide examples of continuous improvement in these endeavours?
- Is the company's main product or service harmful to human health and wellbeing e.g., tobacco? Or conversely is the company's main product or service beneficial to human health and wellbeing?

- Does the company engage in charitable and/or other community welfare activities?
- Is the company sensitive to cultural norms in the countries in which they operate?

Governance

- Does the company foster a culture of open disclosure and transparency in their business practices and financial reporting?
- Is the company's Board of Directors diverse, independent, and accountable?
- Does the company's Board of Directors have a demonstrated track record of representing the interests of minority shareholders?
- Are the company's compensation practices transparent and aligned with long-term shareholder value creation?

3. ESG Reporting

Firetrail recognises the responsibility of being a shareholder. This includes communicating client's long-term investment interests to the companies that we invest in, and exercising ownership rights on behalf of clients in order to improve investment performance. Firetrail consults with separately managed clients on voting issues in line with their desired level of involvement or act in strict accordance with their corporate governance views. Reporting requirements can be tailored to the needs of individual, separately managed clients. All votes undertaken on behalf of investors are reported on.

Modern Slavery is an example of an ESG focus area for Firetrail and our clients. In response to the growing need to engage on modern slavery risk in our portfolios, Firetrail has developed a specific set of questions for the management and boards of the companies we own regarding Modern Slavery to assess and identify risk areas and engage with companies to bring Modern Slavery into focus. We ask all portfolio companies to provide us with responses on their supply chain exposure to modern slavery through our proprietary questionnaire, as they are best placed to assess all potential areas of exposure. We understand that modern slavery remains prevalent globally, and that it is unlikely large global companies can be confident they have zero exposure to it. So, we focus on how companies assess their supply chain, and rectify any modern slavery issues they discover.

4. Firetrail Operating Business - ESG Credentials

Firetrail seeks to conduct its operations with the utmost respect for the environment, to be socially minded and adhere to a robust and transparent governance framework. We believe we can pursue the dual mandate of delivering excellence for our stakeholders as well as existing as an organisation that demonstrates the highest standard of corporate citizenship.

From a business operations perspective, Firetrail works at the Board level on ESG risks. The Firetrail Board has responsibility for governance and reporting of such risks, such as Modern Slavery, but they also leverage Pinnacle's access to resources to further improve management of risks.

From a Firetrail business perspective, the Management committee manage ESG risks and impacts on operations on a day-to-day basis. The management committee consists of Patrick Hodgens (Managing Director), Blake Henricks (Deputy Managing Director) and Kyle Macintyre (Head of Distribution).

To this end, we seek to undertake the following actions:

Environmental

- Firetrail is a carbon neutral business. We have offset our carbon emissions from inception to the end of FY20 and will continue to do so going forward. We have chosen to partner with Green Fleet for this process as they are concentrated on Australian projects. Our carbon neutral focus includes:

- Paying carbon credit for all business travel flights.
- Supporting all possible recycling initiatives, including office stationery, printer cartridges, waste products, etc.
- Minimising non-essential energy consumption particularly in out-of-hours work; and
- Purchasing “green” office stationery products, where possible.

Social

- Be respectful of culture, race and religion amongst our staff, clients, and suppliers.
- Support the ongoing training and education of employees; and
- Encourage wellness and physical activity among employees.

Governance

- Provide timely and transparent reporting of our business dealings and client outcomes.
- Adhere to a strict policy of putting client interests ahead of our own; and
- Implement a remuneration policy which rewards outstanding achievement and is tied to client outcomes and business development goals.

Firetrail is also an advocate for diversity on Boards and has been a supporter of the 30% Club since it launched in Australia in 2015. Firetrail actively engages on this and other issues with company management and Boards to advocate for change and increased diversity in corporate Australia.

We also support diversity within our own team. 1/3 of the staff are female. The team operates under a flat structure and we have women in Senior positions within the investment team including in Lead Analyst, Investment Specialist and Head of Dealing roles. Given the size of the team and the boutique nature of the firm which launched in 2018, we expect to improve the gender diversity of the team through time and have a hiring philosophy in place to assist with decision making for new hires and promote diversity throughout the hiring process.