



## ESG Policy

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ABN 16 168 141 204  
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## 1 : Purpose and Scope

Swell Asset Management (Swell) has a duty to conduct its business in a manner that is responsible, sustainable and managed in line with international and Australian law and regulations. As an institutional investor, it is obliged to consider environmental, social and governance principles when appraising companies for inclusion in its Portfolio. Swell's ESG policy is necessarily flexible as global methodologies for assessing ESG elements continue to evolve. The introduction and development of indices and measurement tools will enable the policy to be refined and improved over time.

A separate policy outlines Swell's commitments to responsible investment and active ownership.

Swell considers ESG issues from two perspectives:

- Business operations (Responsible business)
- Investment management (Responsible investing)

## 2 : Responsible business

Swell's ESG goals ensure daily operations have minimal impact on the environment, contribute to the local community and national economy and comply with its obligations as a good corporate citizen and authorised representative of Hughes Funds Management, holder of an Australian Financial Service License.

### 2.1 Responsibility

The Chief Executive is primarily responsible for this policy although all employees contribute to its application.

### 2.2 Principles

Swell's business systems and processes have been developed to comply with its ESG aspirations.

#### **Environmental:**

- Swell monitors energy use and utilises renewable energy and carbon offsets whenever available
- Recycled office supplies are preferred
- Documents are printed only when necessary using the double sided function to reduce paper use
- Office waste is optimally recycled
- Remote work options available to all employees reduce travel and emissions
- Teleconferencing facilities have been installed to reduce business travel requirements
- Carbon offsets are purchased whenever available

#### **Social:**

- Clients' best interests are paramount
- Recruitment policies foster diversity and are completely merit based
- Remuneration policies encourage ethical and co-operative behaviour
- Flexible working arrangement enable employees to balance work and family life
- Employees are encouraged to take on voluntary work and may do so during working hours

#### **Governance:**

- Swell has a comprehensive compliance policy framework to meet the highest corporate governance standards
- All employees participate in compliance management processes
- Annual employee performance assessments incorporate governance and ethical standards
- Independent oversight is provided by non-executive directors and responsible managers



### 2.3 Monitor and review

The board reviews the ESG policy annually and recommends changes to improve or enhance the policy.

## 3 : Responsible Investing

Swell's investment process focuses on capital preservation and long-term investor returns, determining each company's capacity to create enduring value to deliver the Portfolio's targeted returns. In addition to analysing its past and predicted financial performance, the process addresses risks and opportunities including those arising from its environmental and social practices, as well as evaluating the governance principles by which it is managed.

Many businesses assessed to be above average on ESG factors tend to have sustainable business models with a competitive edge resulting in better returns. Thus, responsible investment aligns the process with Swell's long-term investment philosophy as well as the best interests of investors.

Swell's investment policy recognises the relationship between companies and the societies and environments in which they operate, and between companies and their shareholders. ESG related risks and opportunities are considered equally with financial information, providing a broader assessment of a company than financial analysis alone. The process considers companies' strategies in relation to long term sustainability and social goals including sourcing of raw materials and resources, environmental impact, employee welfare and customer outcomes.

Pre-investment due diligence is crucial to ensuring Swell's goal of responsible investment is achieved. It is unlikely companies which fail to provide appropriate disclosure would be included in the Portfolio.

Investment team members continually fine-tune ESG measurement and assessment, drawing on resources from company reporting, regulatory disclosures and non-governmental organisations such as the UNPRI and ICGN. As indices and market providers improve ESG assessments and "scores", these are incorporated into the investment process. Specific ESG training is also undertaken as it becomes available.

### 3.1 UNPRI

Swell is a signatory to the United Nations Principles for Responsible Investing (UNPRI) and follows its six principles:

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

### 3.2 Responsibility

Each member of the investment team is responsible for monitoring ESG issues. It is not concentrated in one person, and each analyst is empowered to recommend refinements to the investment process to adhere to and improve the policy. While an individual analyst's opinions may be subjective the impact is reduced by use of an objective screening process which ensures the strategy is applied systematically and consistently.

### 3.3 Principles

In addition to the six principles identified by the UNPRI, Swell considers a number of issues when assessing and analysing companies' ESG policies and practices. Major items are listed below, although others will arise in specific industries or sectors.



### Environmental

- Carbon footprint of business operations and production
- Strategies, policies, plans or targets for dealing with environmental impacts and sustainability
- Commitment to international targets such as the United Nations Sustainable Development Goals
- Offsetting strategies to counter the company's environmental impact
- Source and sustainability of raw materials

### Social

- Labour relations, employment conditions and remuneration policies
- Commitment to combatting modern slavery in their businesses and supply chains
- Workforce diversity
- Customer relations
- Engagement with local community
- Effectiveness of corporate philanthropy

### Governance

- Management experience and oversight
- Board structure, independence, expertise and relationship with management
- Management alignment with shareholders
- Clarity and transparency of reporting
- Compliance with international laws, regulations and standards

## 3.4 Expected standards

Swell expects the companies in which it invests, and their management, to maintain the highest standards of ESG commitment. The transparency of company reporting on ESG issues is also a major consideration in the assessment. While Swell supports standardised disclosure of business operations and activities in relation to accepted global standards such as those listed below, non-standard reporting may not preclude a company from the Portfolio, provided the information is transparently and objectively available in another format.

- The GRI standards issued by the global sustainability standards board
- The recommendations of the taskforce on climate related financial disclosures
- UN framework convention on climate change Paris agreement
- The principles of the UN global compact
- UN sustainable development goals
- UN guiding principles on business and human rights
- International labour organisation's fundamental conventions
- Global legislation on modern slavery
- UN convention on the rights of the child
- UN convention against corruption

Moreover, Swell requires the companies and their management to exhibit the following characteristics:

- Remain accessible to, and engage with investors and stakeholders
- Continuously disclose material issues which may impact revenue or shareholder value
- Maintain governance structures that provide appropriate levels of oversight in the areas of audit, risk management and potential conflicts of interest
- Employ compensation and other policies that align the interests of management with those of shareholders and other stakeholders
- Integrate environmental, public health, safety, and social issues into operations and planning



- Remain committed to compliance with applicable national, state and local labour laws in the countries in which they operate
- Treat employees fairly including supporting the payment of competitive wages and benefits, providing a safe and healthy workplace and respecting the rights of employees to engage in collective bargaining

### 3.5 Excluded market segments

Swell excludes some market segments from the Portfolio due to intrinsic risks within them. These negative screens are completed at the level of the investment universe, excluding specific sectors from the list of companies considered for inclusion in the Portfolio from the first screening. The negative screen includes companies engaged in:

- Production and distribution of tobacco products
- Production and distribution of pornography
- Production and distribution of gambling products

### 3.6 Investment Management and Ownership

As beneficial owners of the companies in the Portfolio, Swell's investors are part owners of these companies. The Proxy Voting Policy, which should be read in conjunction with this policy, requires analysts to examine and assess each resolution on which Swell's investors can vote at a company's meeting so they can be fully informed on the resolution.

If Swell elects to recommend a vote against management, the decision may be communicated to the management of the company together with an explanation for the decision with a view to persuading management, wherever possible, to withdraw or redraft the resolution. Instructions to abstain from votes are avoided unless there is insufficient evidence or information to justify a conclusive yes or no vote.

Swell at times may be invested in a company which chooses not to adhere to its values, for example as a result of a new development in the company's operations. In the event this occurs Swell will actively engage the company and continue this course of action until the company provides a satisfactory response.

Further information is provided in Swell's Responsible Investing Policy incorporating active ownership principles.

### 3.7 Monitor and Review

This policy is reviewed annually by both the investment team and the board.