



# Responsible Investment Policy

## Incorporating active ownership principles

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Swell Asset Management Pty Limited  
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This document has been prepared and approved by Swell Asset Management Pty Limited ABN 16 168 141 204 CAR No. 465285 an authorised representative of Hughes Funds Management Pty Limited ABN 42 167 950 236 AFSL 460572.

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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 a signatory to the UN Principles on Responsible Investment, it is obliged to consider responsible investment principles when appraising companies for inclusion in its Portfolio.

Swell's responsible investment policy is necessarily flexible as global assessment methodologies of 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.

This policy should be considered in conjunction with the ESG and the proxy voting policies.

## 2 : Fiduciary duty

The UNPRI notes fiduciary duties (or equivalent obligations) exist to ensure those who manage other people's money act in the interests of beneficiaries, rather than serving their own interests. Similar obligations are central to Swell's agreement as corporate authorised representative (465285) of Hughes Funds Management Pty Limited and the terms of its Australian Financial Services License (460572). Swell understands fiduciary duty to encompass the following concepts:

- Act with due care, skill and diligence
- Act honestly and in good faith in the interests of investors
- Avoid conflicts of interests, and always place the interests of investors first
- Promote high standards of ESG management in the companies in which we invest
- Formulate investment decisions consistent with responsible investing principles
- Encourage investors to understand our investment philosophy, the portfolio strategy and the risk profile of our investments
- Support the stability and resilience of the financial system

The inclusion of ESG and responsible investing objectives within the definition of fiduciary duty reflects the long term horizon of the Swell Global Portfolio.

## 3 : Responsibility

Each member of the investment team is responsible for following responsible investment policies. 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 policy is applied systematically and consistently.

## 4 : The principles

The six United Nations Principles for Responsible Investment (UNPRI) are:

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



## 5 : Investment analysis and decision making

Swell's investment process focuses on capital preservation and long-term investor returns from globally listed equities, 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 the company's 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 efficiency, employee welfare and customer outcomes.

Pre-investment due diligence is crucial to ensuring Swell's goal of responsible investment is achieved. The Portfolio is unlikely to include companies which fail to provide appropriate disclosure.

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.

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

## 6 : Asset class guidelines

To best assess ESG risks when investing in listed equities, consistent assessment of ESG factors is integral to the investment process and overall business model. Members of the investment team review and monitor potentially material ESG factors to understand their likely impact on investment returns. The methodologies used include:

### 6.1 When reviewing the company's overall policies:

- Governance policies, remuneration reports and other relevant documents
- ESG policies and reports, sustainability reports, public disclosures and other relevant documents

### 6.2 When assessing the company's earnings:

- Key ESG considerations impacting the industry for example its resource dependency, or the environmental or social impacts of its operations
- Main revenue drivers and how they align with sustainable ESG factors
- Future prospects and risks to revenue drivers including ESG risks and opportunities
- Main drivers of business costs and how they align with sustainable ESG factors
- Potential ESG-related headwinds to business costs and company remedies/strategies



### 6.3 When reviewing balance sheet items:

- ESG impact on the primary balance sheet components – assets, liabilities, cash flows

Once we assess that a company meets our quality criteria, we conduct detailed valuation work to determine whether it exceeds the return hurdle. If the ESG valuation impact is material, it is either explicitly factored into the company's earnings forecasts or balance sheet items or implicitly incorporated into its terminal value, discount rate or perpetuity growth rate.

## 7 : Active ownership

The proxy voting policy provides information on Swell's voting practices. Swell's active ownership principles are triggered when a Portfolio holding represents 1% or more of a company's total outstanding shares. As a significant shareholder, Swell will engage with investee companies with the aim of preserving or enhancing value on behalf of its investors, and will collaborate with other investors to improve ESG engagement outcomes.

Company engagement is conducted constructively in the best interests of investors. It is evidence based and directed towards clear positive outcomes.

### 7.1 Issues considered

Swell will engage with investor companies when the investment team consider the company is failing to conform to the highest standards of governance, reporting or business activities. This includes companies' supply chains and their customer relations. The ESG principles and expected standards are outlined in Swell's ESG Policy.

### 7.2 Engagement escalation

Initial engagement with a company will be conducted by private communication to the company secretary. In the event no response is received, Swell will:

- Communicate with corporate representatives or non-executive directors, directly, in writing or in a shareholders' meeting
- Submit a shareholder resolution addressing the issue
- Submit appropriate nominees for election to the board who will address and resolve the issue
- Fully or partially divest the stock

Swell will engage with other investors collectively using any of these techniques if it will facilitate resolution of the issue.

### 7.3 Engagement resolution

All company engagements, including the methodology and outcome, are recorded in the ownership register. The board reviews the register quarterly.

## 8 : Disclosure of ESG initiatives

Companies in which Swell invests are required to report on ESG factors annually. 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

## 9 : Promotion and enhancement of the principles

Swell includes ESG factors in all requests for proposals. Additionally, prospective and current service providers are assessed on their compliance with ESG principles. Swell's membership of the UNPRI is noted on our website and product documentation. Members of the investment team participate in events and training provided by the UNPRI to continually improve their understanding of responsible investment principles.

We work with industry groups to enhance our effectiveness and acceptance of the Principles and support appropriate collaborative initiatives.

## 10 : Reporting and review

The investment team reviews this policy quarterly to incorporate current best practice in responsible investment. The board approves any major changes.

Our responsible investment, ESG and proxy voting policies are available on our website. An annual report is prepared for the board on the progress made by Portfolio companies on ESG initiatives as well as the ESG considerations which impacted investment decisions during the year.