



DIVERSIFIED ETHICAL PORTFOLIO

ESG METRICS & PRODUCT INVOLVEMENT CRITERIA

SEPTEMBER 2021

ESG INTEGRATION

We at Value Investment Partners are dedicated to integrating environmental, social, and governance considerations into as many of our portfolio offerings as possible. They are applied to the portfolios in two distinct ways, either as a consideration in the overall investment process or as an investment mandate for our ethical themed investment products. Although the influence of the considered ESG risks vary across portfolios and asset classes, the fundamental risks assessed are consistent across our product offerings.

ENVIRONMENTAL



SOCIAL



GOVERNANCE



The categories of ESG considerations have differing qualifications depending on portfolio and asset class and are reviewed on a quarterly basis and/or a needs basis if the committee deems it necessary in the event of changing industry or regulatory expectations. Aside from our monitoring of direct equities, underlying managers are expected to adhere to their ESG policies, which we review on an annual basis to ensure that the manager continues to conduct themselves within our expectations.

These reviews are after the fact that we have previously established that the managers ESG and responsible investing policy aligns with our beliefs on the subject. For ethical themed investments we review quarterly to ensure that the underlying managers continue to be affiliated with responsible investing associations and have their products certified by relevant organisations.



DEEP DIVE INTO OUR BELIEF OF "ETHICAL"

At Value investment Partners we understand that the term 'ethical' means different things to different people which is why it is important for our investors to understand what our ethical compass is that guides us to make decisions on potential investments.

At its core we distil ethics to a simple dichotomy to whether an action or activity is right or wrong. We understand the complexities with declaring something is right and wrong but we believe it is observable in our Australian community that people understand in principle what society accepts as something morally right or morally wrong. These unconscious beliefs throughout the Australian community form social expectations of right and wrong based on principles of reciprocity, kindness, mutual respect, and fairness. Going beyond legal obligations of a firm which has been defined through a governing framework as right and wrong we believe that behaving ethically is to take the next step in assessing one's activities as to whether you are doing more harm than good through your operating activities.

To give some colour to this we have provided below some examples to get an understanding on how we would implement this understanding of morally wrong:

- A company that is producing tobacco products is not doing anything legally wrong but by taking advantage of a person's addiction and supplying a product that is extremely harmful to one's health is not the right thing to do and is morally wrong.
- A company that produces chemical weapons or nuclear weapons within the confines of the law is not legally wrong but by creating weapons of mass indiscriminate destruction that have the power to destroy cities is not objectively right and is morally wrong.
- Conscious of the health impact and destruction of the world's climate via the unconstrained mining and burning of thermal coal, companies that conduct these activities are not doing anything legally wrong if they operate within the confines of the law but are grossly contributing to the degradation of our environment. We believe that it is morally wrong to do something knowing full well of the outsized negative impact that your business activities are having on the environment.



DEEP DIVE INTO OUR BELIEF OF "ETHICAL"

To give some more understanding to this we have provided below some examples as to get understanding on how we would implement this understanding of morally right:

- Companies that have gone beyond policy expectations in Australia and implemented aggressive strategies of net zero and energy intensity reductions are doing more than expected by the law because of the benefit it has to the community and environment. These activities are morally right.
- Companies that are investing heavily in the technologies, services, and infrastructure required for a successful transition to the green economy are going out of their way to improve our chances of tackling one of the worlds greatest existential threats. This is morally right.
- Companies that go beyond basic fair work expectations and attempt to achieve greater workforce diversity, ensure no human rights abuses in their supply chain, and engage with the community through outreach and charity programs are going above expectations set by legal framework to do the right thing.

These are but a few examples of how we apply our understanding of morally right and wrong. To ensure we do not stray from our stated beliefs there are criteria that define our framework for approaching investment. The more quantifiable criteria are included in this report and the more qualitative principles-based components are contained within our Responsible Investment Policy. Over the years these criteria can adapt to reflect emergent changes in expectations whether by regulatory changes or evolution in social dialogue and community movements. There is key focus on transparency at Value Investment Partners and prioritisation of client communication, any potential adjustments will be made known well in advance to our investors and will always be consistent with our core principles outlined in our Responsible Investment Policy.

ESG CONSIDERATION



ESG Risk Score

OUR DEFINITION

The ESG Risk Score defined by our third-party provider and calculated using their intellectual property is a measure of the economic value of the business at risk from environmental, social, and governance factors.

OUR CRITERIA

Score from 0 – 100 (with 100 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **27**.



Overall Exposure
Score

The overall exposure is a combination of identified manageable and unmanageable risks by our third-party providers to provide a top line of total potential non-financial risk exposure of the business.

Score from 0 – 100 (with 100 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **60**.



Overall
Management Score

Management score is an assessment by our third-party providers using their proprietary system on how well management has been at minimising the impact of ESG to risks to the business and the work being done to reduce future impacts.

Score from 0 – 100 (with 0 being the poorest management) calculated by our third-party provider using their proprietary ratings system. For our portfolio the lowest tolerated management score in the quantitative screen is **25**.



Overall
Unmanageable Risk
Score

Unmanageable risk score is an assessment by our third-party providers using their proprietary system as to the level of ESG risks identified that are out of the control of management and the potential impact that could have on the business's operations.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **6**.



ESG RISK METRICS CONSIDERED

ESG CONSIDERATION

OUR DEFINITION

OUR CRITERIA



Bribery &
Corruption

This metric focuses on the management of risks associated with alleged and identified illicit payments by the company.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **3**.



Business Ethics

This metric is concerned with the management of ethics throughout the company by analysing aspects such as professional ethics, anti-competitive practices, medical ethics and activities of financial services companies.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **5**.



Carbon Emissions -
Own Operations

This metric considers the company's management of risks relating to its own operational use of energy but excludes any consideration to the energy consumption of supporting businesses along its supply chain.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **5**.



Carbon Emissions -
Products & Services

This metric considers the company's management of risks relating to the energy use of the company's products or services while being used but excludes any consideration to financial services industry.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **5**.



Community
Relations

This metric focuses on how a business conducts itself within the broader community through how it engages with community groups, community development, or minimising the potential impacts of its operating activities on the local community.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **4**.



ESG RISK METRICS CONSIDERED

ESG CONSIDERATION



Corporate
Governance

OUR DEFINITION

Corporate governance as an overarching theme of good governance practices contains consideration such as board composition, remuneration programs, and shareholder rights.

OUR CRITERIA

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **5**.



Data Privacy &
Security

This metric concerns itself with company data governance practices informing how the company engages with customer data and acts to retain the privacy of its customers within its disclosed practices.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **6**.



E&S Impact of
Products & Services

This metric considers the management of risks associated with the environmental and social impact of a company's products and services. This considers the life cycle of the product or service when assessing the management of this ESG risk.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **4**.



Emissions,
Effluents, & Waste

This metric considers the management of emissions and releases from the company's operations into the environment.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **4**.



Human Capital

This metric focuses on a company's management of its human capital via its recruitment and training programs and ongoing facilitating of positive work environments.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **5**.

ESG RISK METRICS CONSIDERED

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OUR DEFINITION

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Land Use &
Biodiversity

This metric focuses on the management by companies on their impact on the physical environment around them within the scope of their operating activities.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **3**.



Supply Chain Land
Use & Biodiversity

This metric focuses on the management by companies on their impact on the physical environment around them within the scope of their suppliers' activities.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **5**.



Product
Governance

This metric concerns itself with the management of a company's responsibilities to its clients after selling them a product or service. Ensuring that the customers receive what they are entitled to and not unfairly treated.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **6**.



Resource Use

This metric assessing how efficiently a company uses its raw material inputs and how it manages the associated ESG risks but excludes energy related risks.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **5**.



Supply Chain
Resource Use

This metric assessing how efficiently a company's suppliers use their raw material inputs and how it manages the associated ESG risks but excludes energy related risks.

Score from 0 – 10 (with 10 being the highest risk) calculated by our third-party provider using their proprietary ratings system. For our portfolio the highest tolerated risk in the quantitative screen is **3**.

ESG RISK METRICS CONSIDERED

PRODUCT INVOLVEMENT

DEFINITION AND EXCLUSION CRITERIA



Animal Testing

Companies are not to have any involvement measured by revenue contribution in the use of animal testing in the development of pharmaceuticals, no ownership of an entity that conducts animal testing for development of pharmaceuticals, no use of animals in the process of developing non-pharmaceutical products, and no ownership of an entity that conducts animal testing for development of non-pharmaceutical products.



Controversial Weapons

Companies are not to have any involvement measured by revenue contribution in the development of tailor made and essential weapons or weapons components that can be used for mass destruction such as nuclear or chemical weapons and have no ownership of an entity that conducts business in the development of tailor made and essential weapons or weapons components that can be used for mass destruction.

Companies are not to have any involvement measured by revenue contribution in the development of non-tailor made and non-essential weapons or weapons components that can be used for mass destruction such as nuclear or chemical weapons and have no ownership of an entity that conducts business in the development of non-tailor made and non-essential weapons or weapons components that can be used for mass destruction.



All Oil & Gas Exploration

Companies are not to have any involvement measured by revenue contribution in the exploration, production, refinement, transportation or storage of oil and gas and have no ownership of an entity that conducts business in the exploration, production, refinement, transportation or storage of oil and gas.

Companies are not to have any involvement measured by revenue contribution in the support of businesses that operate in the exploration, production, refinement, transportation or storage of oil and gas and have no ownership of an entity that support businesses that operate in the exploration, production, refinement, transportation or storage of oil and gas.

Companies are not to have any involvement measured by revenue contribution in the generation of electricity with the fuels of oil and gas measured by either revenue contribution or generation capacity and have no ownership of an entity that generates electricity with the fuels of oil and gas measured by either revenue contribution or generation capacity.

PRODUCT INVOLVEMENT EXCLUSIONS



PRODUCT INVOLVEMENT

DEFINITION AND EXCLUSION CRITERIA



Military Contracting

Companies are not to have any involvement measured by revenue contribution military contracting for the provision of weapons and have no ownership of an entity that conducts business in military contracting for the provision of weapons.

Companies are not to have any more than 25% of revenue generated from military contracting for the provision of weapon related and non-weapon related products and have no ownership of an entity that conducts business in military contracting for the provision of weapon related and non-weapon related products.



Tobacco Products

Companies are not to have any involvement measured by revenue contribution in the production of tobacco products, no ownership of an entity that conducts business in the production of tobacco products, no involvement measured by revenue contribution in the production of tobacco related products, no ownership of an entity that conducts business in the production of tobacco related products and can only have up to 5% of revenue attributed to the retail sale of tobacco products.



Pesticides

Companies are not to have any involvement measured by revenue contribution in the manufacture and production of pesticides, to have no ownership of an entity that engages in the manufacture and production of pesticides and can only have up to 10% of revenue generated from the retail sale of pesticide products.



Thermal Coal

Companies are not to have any involvement measured by revenue contribution in the extraction of thermal coal, no ownership of an entity that conducts business in the extraction of thermal coal, no involvement measured by revenue contribution in the generation of electricity using thermal coal as the fuel source and no ownership of an entity that conducts business in the generation of electricity using thermal coal as the fuel source.



Overfishing

Companies are not to have any involvement measured by revenue contribution in recognised overfishing activities and no ownership of an entity that conducts business in in recognised overfishing activities.

PRODUCT INVOLVEMENT EXCLUSIONS





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