

**Hearts and Minds  
Investments Limited**

**Responsible Investment:  
Environmental, Social &  
Corporate Governance  
Policy**

ACN 628 753 220





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# 1. Introduction

## 1.1. Purpose

Our goal is to be invested in companies that can deliver long-term and sustainable value creation for shareholders. Hearts & Minds Investments (“HM1” or “the Company”) takes its role as a good corporate citizen seriously. HM1 believes very strongly that it is important, both as an investor and as a company, to take ESG issues into consideration in the conduct of our business.

The purpose of this Policy is to support the Board’s Investment Strategy, and set out an overview of HM1’s approach to managing ESG issues. The principle objective of the Policy is to ensure that ESG risks and opportunities are adequately considered and managed as an integral part of HM1’s investment process.

## 1.2. Delegations, Responsibilities and Accountability

The Board is responsible for HM1’s investments. The Board has delegated responsibility for the management of ESG matters, including voting decisions and collaborations on ESG initiatives, to its Investment Committee (IC) and the IC has further delegated these responsibilities to HM1’s Chief Investment Officer (CIO).

## 1.3. Review

This Policy will be reviewed annually, and more frequently if deemed appropriate. Any changes to the Policy will be provided to the Board for its review and approval.

## 2. What is ESG?

2.1. ESG is an acronym for Environmental, Social and Governance. The Board believes that these are material investment issues and should be considered as part of the investment process. ESG covers a broad range of factors, examples of which are shown below:

Environmental issues	<ul style="list-style-type: none"> <li>• Climate change and its potential impact on investments, including:             <ul style="list-style-type: none"> <li>○ exposure to carbon pricing and regulation to reduce carbon emissions</li> <li>○ exposure to the physical impacts of climate change, such as potential sea-level rises, and increased frequency and intensity of severe weather events</li> <li>○ stranded asset risk</li> </ul> </li> <li>• The availability of water, and competition for the use of water</li> <li>• Pollution and disposal of waste products</li> <li>• The impact that a company and its operations have on the local environment</li> <li>• Future liability risk, arising from activities such as the disposal or spillage of toxic substances, or from contamination of areas or populations</li> </ul>
Social Issues	<ul style="list-style-type: none"> <li>• The effectiveness of a company in managing its standing in the community</li> <li>• A company's effectiveness in constructively managing labour relations with its workforce</li> <li>• The extent to which a company effectively manages and provides transparency on the safety of its workforce</li> <li>• Adherence to international conventions (such as those specified by the International Labour Organisation, the UN Declaration of Human Rights, and the OECD Guidelines for Multinationals)</li> <li>• Effective management of supply chains, particularly for companies with significant offshoring</li> <li>• Workforce diversity, including gender diversity at senior levels within companies and on governing boards</li> </ul>
Governance Issues	<ul style="list-style-type: none"> <li>• The structure and composition of the board of directors, including an adequate number of directors who are independent from management, and the fitness and propriety of directors</li> <li>• The structure and quantum of remuneration for directors and executives</li> <li>• The provision of adequate transparency about the company's operations, and a governance structure that demonstrates appropriate accountabilities</li> <li>• The attitude and actions taken by a company to ensure that its officers are not involved in bribery or corrupt practices</li> </ul>

### 3. Why is ESG Important?

3.1 HM1 believes that a company's approach to managing ESG risks, impacts and opportunities has a meaningful impact on its long-term viability and success. That is, assets and companies that act in a responsible way are likely to perform better over time.

3.2 Assets and companies that are unwilling or unable to take ESG issues into consideration may:

- put the asset/company's reputation at risk;
- cause loss of market opportunities;
- diminish asset/company value; and
- adversely affect other assets/companies in which HM1 has invested.

3.3 The Board believes that identifying and managing ESG factors helps in finding new opportunities, steering capital towards more attractive areas, and managing long-term investment risks. As a result, it is expected that returns will be higher, and downside risks lower, over the long term. These benefits arise from avoiding the poor performance and enterprise failures that can arise from lax governance, and weak environmental and social practices. Assessing ESG risks in the investment process is consistent with HM1's objective as a long-term investor.

### 4. Implementation of ESG

#### 4.1. ESG Integration in the Investment Process

In accordance with the investment objectives and strategy of the Company, HM1 primarily invests in Australian and global listed securities recommended by the selected Core Fund Managers and Conference Fund Managers (external Fund Managers).

HM1 is committed to integrating consideration of ESG issues into its investment strategy when selecting and allocating capital to the external Fund Managers and performing subsequent reviews.

#### 4.2. Fund Manager and Investment Selection

HM1 may consider the following factors of ESG maturity when reviewing, selecting and monitoring external Fund Managers:

- stage of ESG policy development;
- alignment with HM1.

All else being the same, HM1 prefers external Fund Managers that demonstrate sound ESG practices and monitor ESG risks that relate to the Company's investments.



In relation to investments recommended by external Fund Managers, HM1 will require external Fund Managers to:

- avoid investments that are contrary to HM1's current investment exclusions (refer Appendix B).

### **4.3. Active Ownership**

The Board believes that it has an obligation to seek to ensure that the companies it invests in are governed in an appropriate way that will enhance performance over the longer term, and thereby produce the best financial outcome for shareholders. For this reason, HM1 takes an active interest in the ESG practices of the companies in which it invests, and seeks to exert influence on their governance, policies, practices and management through share voting and advocacy.

#### **Voting Shares**

HM1 has a significant exposure to listed share investments. Exercising the voting rights attached to shares held in public companies is something we regard as being integral to active ownership. Share voting is an important tool for engaging with companies. Voting is an effective way for HM1 to publicly express its views on what a company is doing right, and what a company needs to improve.

The Board is ultimately responsible for voting decisions and has the right to override the recommendations put forward by its external Fund Managers.

### **4.4. Exclusions**

HM1's consideration of ESG issues is investment-driven and HM1 may invest in any entity where it is lawful to do so.

Although HM1's investment approach generally avoids exclusion, in certain circumstances after comprehensive assessment of the economic, reputation, legal and fiduciary requirements, shareholder and charity concerns, materiality, and risk and return issues associated with the investment, HM1 may decide to apply an exclusion. The IC would approve any such exclusion.

See Schedule B for current exclusions.

## 5. Collaborations

HM1 takes its responsibilities on ESG matters seriously and may consider supporting collaborations on ESG initiatives when this Policy is reviewed.

### Principles for Responsible Investment (PRI)

In constructing this Policy, the Board has considered (amongst other things) the PRI. The PRI is a set of six aspirational principles designed to encourage and assist investors to integrate ESG considerations into their investment processes. The PRI provides an important universal framework for signatories to work together, learn from each other and provide a collective voice on ESG issues. The PRI will continue to grow as a framework for investors to communicate their expectations on ESG issues to their investee companies.

Briefly, the principles are:

Integration	Incorporate ESG issues into investment analysis and decision making processes.
Ownership	Be active owners and incorporate ESG issues into the Company's ownership policies and practices.
Disclosure	Seek appropriate disclosures on ESG issues by the entities in which the Company invests.
Best Practice	Promote acceptance and implementation of the Principles within the investment industry.
Collaboration	Work together to enhance the Company's effectiveness in implementing these Principles.
Communication	Report on the Company's activities and progress towards implementing these Principles.

HM1 may consider joining the following initiatives to help deliver on its ESG objectives at a future review date.

- Responsible Investment Association of Australasia (RIAA): a regional industry association that promotes a more responsible approach to investing via education and professional development.
- ESG Research Australia: a collaboration of super funds, investment managers and asset consultants which aims to increase the amount and quality of stock broker research in Australia that includes the consideration of ESG issues.

## Schedule A: Roles and Responsibilities

Role	Responsibility
The <b>Board</b> will:	<ul style="list-style-type: none"> <li>• Review and approve the HM1's investment Strategy and the initial ESG Policy</li> <li>• Approve changes to this Policy</li> </ul>
The <b>Investment Committee</b> will:	<ul style="list-style-type: none"> <li>• Oversee the implementation of this Policy.</li> <li>• Recommend changes to this Policy to the Board.</li> <li>• Recommend investment exclusions to the Board.</li> </ul>
The <b>Chief Investment Officer</b> will:	<ul style="list-style-type: none"> <li>• Ensure HM1's ESG issues are considered in the selection of external Fund Managers.</li> <li>• Advise external Fund Managers of HM1's current investment exclusions.</li> <li>• Approve all proxy and direct voting decisions.</li> <li>• Recommend changes to this Policy to the Investment Committee.</li> <li>• Recommend investment exclusions to the Investment Committee.</li> <li>• Report breaches of this Policy to the Investment Committee.</li> </ul>

## Schedule B – Current Exclusions

HM1 has the following investment exclusions in place.

### **Tobacco exclusion**

The HM1 Board has approved the exclusion of tobacco stocks in the HM1 portfolio. The decision was communicated in the HM1 prospectus dated 28 September 2018. Tobacco stocks are defined by MSCI in its Global Industry Classification Standard (GICS®) framework or the equivalent framework in other jurisdictions.

### **Cluster munitions exclusion**

The HM1 Board has approved the exclusion of stocks involved in the manufacturer of cluster munitions. The decision was communicated in the HM1 prospectus dated 28 September 2018.

### **Additional exclusions**

The Board has determined that the HM1 will not make investments in companies that derive 10% or more of their revenues in the following areas of activity:

- **Controversial Weapons:** Companies involved in the manufacture and/or production of controversial weapons;
- **Gambling:** Companies involved in the manufacture and/or production of gambling machines and services and/or ownership of outlets housing these machines;
- **Old growth logging:** Companies involved in the logging of old growth forests.