



Responsible Investment Policy

2024

1. Introduction

At Stanford Brown, we are committed to responsible investment and integrating environmental, social and governance (ESG) factors into our discretionary investment process and investment advisory services. We believe that responsible investing not only has the potential to reduce risk and enhance returns over the long term, but also enables our clients to align their investments with their values.

2. Scope

This policy applies to all investments offered by Stanford Brown where we have discretion over investment selection for client portfolios, such as in our managed accounts and model portfolios. For client accounts where we do not have full discretion over investment selection and provide investment advice, we will apply this policy on a best-efforts basis taking into account any applicable client investment policies and directions. We also acknowledge that full application of this Responsible Investment Policy across all advised client portfolios faces practical limitations. Certain circumstances may prevent or limit our ability to apply this policy including:

- Client-directed investment inclusions or restrictions
- Legacy holdings transferred into Stanford Brown
- Asset classes with limited ESG fund options
- Technical constraints related to trading or operations

We will apply this policy to the fullest extent possible given applicable client guidelines and our operational capabilities. Where full application is not viable, we will document underlying constraints and disclose deviations from policy as appropriate.

3. Definitions

Responsible investment is a broad-based approach to investing which factors in people, society and the environment, along with financial performance, when making and managing investments. As with many areas of investing, there are a wide range of terms used to describe responsible investing including ESG, sustainable investing, impact investing, ethical investment and values-based investing. In this policy we use the term responsible investing to cover the whole spectrum of different investment considerations at the highest level.

We define ESG and/or sustainable investing to describe the process of integrating ESG factors (see Appendix 1 for a list of common ESG factors) and sustainability as part of the investment and risk management process while ethical or values-based investing generally refers to the process of excluding certain companies and sectors from the investment universe based on personal ethics or values. Impact investing generally refers to investments that are designed to have a measurable positive impact on the environment or community, in addition to, or instead of, financial returns.

4. Our Responsible Investing Beliefs

Risk adjusted returns. We believe that companies and economies with sustainable business models and economic policies should provide more attractive risk adjusted returns over the long term. ESG risks can have a material impact on portfolios and need to be managed alongside more traditional sources of investment risk. For example, companies with poor governance, weak social policies or practices that damage society and the environment are likely to have more price risk, have a higher cost of capital and trade on lower valuations than companies with strong or improving ESG credentials.

Integration. We believe that the best way to include sustainability in an investment portfolio is to integrate research into ESG factors into the investment decision making and risk management processes. Consideration of ESG factors should not be an afterthought but should be part of the normal investment due diligence that investors undertake on companies and issuers that they invest in. We recognise that the degree of integration of ESG factors into investment decision making processes varies across fund managers with better resourced and larger fund managers able to deploy more resources into ESG research, integration and engagement compared with smaller firms, so the degree of integration needs to be appropriate for the strategy and size of firm.

Greenwashing. In recent years, securities regulators have attempted to crack down on “greenwashing” a practice whereby investment products may use certain responsible investing terms such as ‘ESG’, ‘sustainable’ or ‘ethical’ in their name or marketing materials but where the underlying investments or investment processes may not truly reflect the marketing hype. We are aware of greenwashing and seek to ensure that investment products labelled or marketed as being responsible are true to label. We also believe that ongoing regulatory scrutiny is positive and that over time products that claim to be responsible should be held to a higher standard so that greenwashing becomes less prevalent in the investment industry.

Exclusions. Although clients may not want to invest in particular sectors or companies due to their own values or ethical considerations, and we are willing to try to accommodate client wishes where practical, we generally do not believe in excluding a wide range of sectors and companies. The reason is that eliminating entire sectors can significantly restrict the investment universe, have a material impact on portfolio risk and return, with periods of potential significant underperformance. We also believe exclusions reduce opportunities for investor engagement and bringing about positive change.

We recognise and support most actively managed funds excluding companies involved in causing human harm through the production of tobacco and controversial weapons (including cluster munitions, chemical, nuclear and biological weapons and land mines). It should be noted, however, that the list of companies involved in tobacco and controversial weapons is not uniform across fund managers and ESG data providers and different fund managers may use different definitions or share or revenue thresholds (e.g. 0%, 5% or 10% of revenue).

Many adjacent companies such as those providing tobacco packaging or tobacco sales can be deemed tobacco companies even if the tobacco related sales are small. Industrial companies and aircraft manufacturers that make dual use civilian and military components that can also be deemed to be manufacturing controversial weapons if some of their components can be used in missiles such as navigation systems and rocket engines. We will therefore not be prescriptive about which companies are involved in the production of tobacco and controversial weapons and leave this to the discretion of the individual fund manager.

We do not support the automatic exclusion of companies involved in the production and use of fossil fuels (including thermal coal) in mainstream client portfolios given the energy and utilities (including power generation) sectors can represent a sizeable part of mainstream market indices and excluding these sectors can create meaningful performance divergences as seen in recent years.

Engagement. We believe that investors can improve sustainability practices, influence fund managers and companies to reduce ESG risks and ultimately drive better investment returns through proactive engagement with the companies and sovereign issuers that they invest in. This can be through both informal discussions with Boards and management as well as through formal proxy voting practices at shareholder and other investor meetings. Companies with weak but improving ESG practices can sometimes represent a good investment opportunity so we don't believe that investors should only invest in companies with the highest ESG scores and avoid those with low scores where there is an opportunity for improvement and engagement. The types of issues that we seek to engage on (through our fund managers) include:

- Improving disclosure on ESG policies, practices and metrics
- Improvements in corporate ESG policies and performance to meet industry best practice
- Link executive compensation to sustainability metrics in addition to financial metrics
- Promote Board diversity and independence

Good not perfect. We believe that it is more challenging to implement responsible investment policies in certain asset classes and strategies and we will still use certain investment products even if they do not necessarily align with the standards we may impose on other actively managed funds.

For example, broad index funds which track indices such as the S&P/ASX 200, MSCI World Equity Index and Bloomberg Global Aggregate Bond Index seek to invest in any share or bond that meets certain size and/or credit rating thresholds. These broad indices do not have tobacco or controversial weapons exclusions, or index weightings based on ESG metrics even if the fund managers of these index products may have ESG policies and integrate ESG factors into other products. Another example is hedge funds employing high frequency trading strategies which may also not be able to easily integrate ESG factors or engage with the companies that they either invest in or short sell.

Despite the implementation challenges in some strategies and asset classes, we still seek to adopt responsible investing practices where possible and will still include certain strategies such as index funds and hedge funds where ESG implementation is more challenging, provided this makes sense from an overall portfolio risk and return perspective.

Impact Investing. From time to time, we may seek out and support thematic and impact investment opportunities that have the potential to generate positive, measurable environmental and social returns alongside financial returns. This includes investments in areas such as renewable energy, sustainable agriculture, affordable housing, and other areas such as education and healthcare. In general, we believe that impact investments should be financial first (that is aimed firstly at generating attractive returns with the measured ESG outcomes as secondary considerations) rather than impact first or essentially philanthropic investments where ESG outcomes are the primary goal with returns, if any, secondary. Impact investments will be offered only to those clients that express an interest in these types of investments and will generally not be included in discretionary portfolios.

Transparency and Accountability. We believe in being transparent about our responsible investment practices and decision-making processes.

5. Guiding Principles

Stanford Brown's responsible investment approach is guided by the following core principles:

Active fund selection

Stanford Brown seeks to integrate ESG factors into the investment and risk management process by using actively managed funds where the underlying fund manager integrates ESG into their investment and risk management process. In general, we do this by seeking to use fund managers that have an ESG manager rating from our investment consultants, JANA with a preference for those fund managers that have strong ESG ratings relative to peers. Where a manager does not have an ESG rating from JANA, we may look at ESG ratings from other research firms.

As part of our review of fund managers before they are added to our Approved Product List, in addition to ESG integration and ESG ratings, we will also look at other fund and manager ESG accreditations. For example, is the fund or an identical fund designated as Article 8 or Article 9 under Europe's Sustainable Finance Disclosure Regulation (SFDR)? We will also look at whether the manager is a member of the Responsible Investment Association of Australia and/or a signatory to the UN Principles of Responsible Investment which requires incorporation of ESG issues into investment analysis and decision-making.

As discussed above, broad index funds, hedge funds and certain other alternative investments may not be able to integrate ESG factors and for clients where full ESG integration is extremely important, we can exclude these asset classes or strategies or substitute broad index funds for ESG integrated index funds.

For all funds in our discretionary managed accounts and for certain other funds that may be used as building blocks for portfolios with a higher level of responsible investment scrutiny (such as those portfolios that may be designed to have a more extensive list of exclusions) we will also obtain and understand the fund manager's responsible investment policy, proxy voting and engagement practices. We will also look at the fund's sustainability metrics on our research and data analytics platforms. We currently use Morningstar/Sustainalytics which measures the fund's sustainability rating and ESG risk, its carbon metrics and product involvement based on the underlying direct holdings of the fund rather than the fund manager's stated policies.

We engage regularly with fund managers in our approved universe on their approach to ESG integration. Key areas of focus include:

- Quality of ESG policies and oversight
- Integration of ESG factors into investment decisions
- Approach to active ownership and proxy voting
- Transparency on ESG portfolio metrics and impacts
- Management of ESG risks and controversies

We will also seek to provide managers with feedback on their strengths and areas for improvement from an ESG perspective. Where concerns exist that are not adequately addressed through engagement, we may choose to reallocate client capital to other fund managers.

Manager monitoring

As part of our ongoing monitoring of funds in our discretionary managed accounts and certain other funds that may be used as building blocks for portfolios with a higher level of responsible investment scrutiny, we will review any changes to ESG ratings from our investment consultants, ESG disclosures from the fund manager, any changes to the manager's responsible investment policy as well as changes that we detect in our research or data analytics platforms (e.g. Morningstar/Sustainalytics metrics which are based on portfolio holdings).

Portfolio reporting

We currently analyse the ESG performance of discretionary portfolios using our research or data analytics platforms (e.g. Morningstar/Sustainalytics) and can report these to clients on request.

6. Governance and Oversight

Ultimate accountability for our responsible investment program rests with the Stanford Brown Board of Directors.

Investment Committee

Strategic oversight and implementation of this policy is delegated to our Investment Committee. The Committee meets quarterly and comprises internal and external members.

The Committee is responsible for:

- Setting the firm's overall responsible investment strategy
- Approving ESG research, integration and proxy voting guidelines
- Maintaining Approved and Restricted Investment lists
- Overseeing ESG fund due diligence and selection
- Evaluating and responding to emerging ESG issues
- Monitoring portfolio ESG quality and exposures

Policy Review

This Responsible Investment Policy will be reviewed annually by the Investment Committee. Any material changes to the policy require approval by Stanford Brown's Board of Directors. Key duties of the Investment team include:

- Conducting ESG research on funds, ETFs and managers
- Managing relationships with ESG data and service providers
- Developing ESG scorecards for funds and ETFs
- Researching ESG risks and opportunities
- Monitoring ESG developments, trends and best practices
- Monitoring fund manager proxy voting and engagement activities
- Contributing to ESG training for advisors
- Supporting client reporting on responsible investment

7. ESG Capability Building

We are committed to continuously developing our ESG investing knowledge, resources and capabilities through ongoing:

- Training and education for the investment team and advisors
- Knowledge sharing of best practices across the firm
- Engagement with industry groups and ESG experts
- Strategic partnerships with ESG data and service providers
- Recruiting talent with specialised ESG expertise and experience

This Responsible Investment Policy reflects Stanford Brown's commitment to responsible investing across our wealth management services. We are dedicated to continuous improvement in our ESG practices and encourage feedback and dialogue from clients and stakeholders.

The implementation and oversight of Stanford Brown's Responsible Investment Policy are governed by the following structures and processes:

- **Training and Capacity Building:** We provide ongoing training and development opportunities to our investment professionals to enhance their knowledge and expertise in responsible investment practices.
- **Policy Review:** This Responsible Investment Policy is reviewed and updated regularly to ensure it remains relevant and aligned with industry best practices and evolving stakeholder expectations.

8. Collaboration and Industry Participation

Stanford Brown actively collaborates with other investors, industry groups, and stakeholders to promote responsible investment practices and drive positive change. Our collaboration and industry participation efforts include collaboration with other wealth managers and asset owners, investment consultants, academic institutions, research organisations, and think tanks to advance the understanding and integration of ESG factors in investment decision-making processes.

9. Conclusion

This Responsible Investment Policy reflects Stanford Brown's commitment to investing in a responsible and sustainable manner that generates long-term value for our clients while also having a positive impact on society and the environment. We recognise that responsible investment is an ever-evolving practice, and we are dedicated to continuously improving our approach and staying at the forefront of industry best practices.

By integrating ESG factors into our investment processes, actively engaging with underlying fund managers and portfolio companies, excluding any sectors and activities that conflict with our clients' values, and supporting impact investing initiatives, we aim to be a leader in responsible investment and contribute to a more sustainable and equitable future.

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Appendix 1

Common ESG Factors

Environmental Factors

Environmental factors consider a company's impact on the natural environment and its management of environmental risks and opportunities. These factors include:

- Climate Change: A company's greenhouse gas emissions, energy efficiency, use of renewable energy, and efforts to mitigate and adapt to climate change impacts.
- Resource Management: A company's management of natural resources such as water, energy, and raw materials, including resource conservation, waste management, and circular economy practices.
- Environmental Compliance: A company's compliance with environmental regulations, track record of environmental incidents, and management of environmental liabilities.
- Biodiversity and Land Use: A company's impact on biodiversity, deforestation, and land use, as well as its efforts to protect and restore ecosystems.

Social Factors

Social factors relate to a company's treatment of people, including employees, customers, and communities, as well as its impact on society. These factors include:

- Human Rights: A company's respect for human rights across its operations and supply chain, including issues such as child labor, forced labor, discrimination, and freedom of association.
- Labor Standards: A company's policies and practices related to fair wages, working conditions, health and safety, diversity and inclusion, and employee engagement.
- Product Responsibility: A company's efforts to ensure product safety, responsible marketing practices, and protection of customer privacy and data.
- Community Relations: A company's impact on local communities, including its engagement with stakeholders, community development initiatives, and management of social risks and opportunities.

Governance Factors

Governance factors relate to a company's leadership, policies, and practices that ensure accountability, transparency, and ethical behavior. These factors include:

- Board Structure and Oversight: The independence, diversity, and effectiveness of a company's board of directors in overseeing management and addressing ESG risks and opportunities.
- Executive Compensation: The alignment of executive compensation with long-term value creation and ESG performance.
- Shareholder Rights: A company's policies and practices related to shareholder rights, voting procedures, and equal treatment of shareholders.
- Business Ethics: A company's code of conduct, anti-corruption policies, whistleblower protections, and management of ethical risks such as bribery, fraud, and conflicts of interest.
- Transparency and Disclosure: A company's disclosure of material ESG information, including policies, performance data, and management of ESG risks and opportunities.