



# Sustainable Investment Policy

21 July 2021





## 1. Scope

This document applies to Washington H. Soul Pattinson and Company Limited (Soul Patts) and outlines its policy in relation to sustainable investing. Although this document includes expectations regarding how we engage with investee companies on Environmental, Social and Governance (ESG) issues, it does not impose or mandate ESG-specific requirements on the investee companies. Responsibility for these activities and associated policies and procedures lies with the respective entities and their Boards.

This document is approved by the Board and reviewed annually or more frequently if required.

## 2. Background

Soul Patts is an investment company which takes a long-term approach to investing in a diverse portfolio of companies across a range of industries, including natural resources, building materials, telecommunications, retail, pharmaceuticals, financial services and real estate. It is a public company listed on the Australian Stock Exchange (SOL:ASX).

## 3. Objective

Soul Patts has a proud history of focusing on our investors and delivering strong net returns over the long-term and thinking, behaving, and investing responsibly underpins this approach. The objective of this Sustainable Investment Policy is to achieve enhanced investment outcomes over the long term through appropriate consideration of ESG factors and active engagement with our investees. In doing so, this Policy provides assurance to existing and potential investors that our investment approach is informed by proactive consideration of ESG factors and their impacts on our investment portfolio.

## 4. Guiding frameworks

This Sustainable Investment Policy has been informed by the UN Principles for Responsible Investment (PRI), the Financial Stability Board's Taskforce on Climate-related Financial Disclosures Recommendations (TCFD Recommendations) and the UN Guiding Principles on Business and Human Rights. While Soul Patts is not currently a signatory or formally aligned to these frameworks, they have been selected for the following reasons:

**PRI:** the PRI comprises six aspirational principles designed to encourage and assist investors with integrating ESG considerations into the investment processes. In summary, these principles include:

- **Integration:** incorporate ESG issues into investment analysis and decision-making processes;
- **Ownership:** be active owners and incorporate ESG issues into our ongoing engagement policies and practices;
- **Disclosure:** seek appropriate disclosure on ESG issues by the investee companies that we invest in;
- **Best practice:** promote acceptance and implication of the principles within the investment industry;
- **Collaboration:** work together with investee companies to enhance Soul Patts' effectiveness in implementing these principles;
- **Communication:** report on Soul Patts' activities and progress towards implementing these principles.

**TCFD Recommendations:** the TCFD was developed to increase the level of information available to assess the financial implications associated with climate-related issues. It has quickly become the most widely referenced framework globally for the identification and management of climate-related risks and opportunities across diverse sectors. This framework has been referenced by various regulatory bodies and stock exchanges, including ASIC, APRA and the ASX. Although the TCFD relates specifically to climate-related financial disclosures, the structure of the recommendations provides a valuable guidance framework for better practice in wider ESG governance, strategy, risk management, and disclosure.



**UN Guiding Principles on Business and Human Rights:** the Guiding Principles on Business and Human Rights is the recognised framework for companies to respect human rights in their own business operations and through their broader business relationships, including investments and supply chain.

## 5. Our investment philosophy

### Our values

Our values are central to our culture and to the long-term investment success of the company. These values have existed since before Soul Pattinson was a listed company in 1903. At the core of our approach are three values:

- **We are custodians of shareholder wealth:** we aim to deliver superior returns to our shareholders in a cost-efficient manner. We also aim to influence and encourage our investees, where possible, to be cost effective in what they do.
- **We are long term and disciplined investors:** we believe that shareholders' wealth is enhanced by investing with a long-term outlook, which requires making disciplined investment decisions which will deliver strong returns over the long-term. This may require investment decisions which are contrarian and/or countercyclical in nature.
- **We value our reputation:** trust and reputation are at the heart of our brand. Our reputation as an ethical, trusted and respected company underpins our long-term success. We seek to be an investor of choice to create sustainable investments which make a positive contribution to their stakeholders.

### Investment principles

Our single overarching purpose is to hold a diversified portfolio of assets, which generate a growing income stream for distribution to shareholders in the form of fully franked dividends, and to provide capital growth for shareholders. This purpose is defined by five core principles we believe are fundamental to achieving long-term sustainable returns.

- **Make sensible decisions:** We bring an in-depth understanding of the sector in which capital is being deployed. This understanding includes environment, social and governance factors, demand and supply dynamics, the competitive environment and regulation. Opportunities are evaluated based on facts and information. As an active owner, we focus on the downside risks to any investment, but also look at avenues for mitigating these risks.
- **Think outside the box:** Our unconstrained mandate means that we can invest in anything and often look for value in sectors and/or asset classes which are not on the radar of other investors.
- **Have the courage to act:** We execute Soul Pattinson's strategy with conviction and believe we have the ability to make the right investments at the right time, therefore we do not always conform to the market's views.
- **Think long-term and have patience for the right opportunity:** Soul Pattinson can afford to take a long-term view as the company does not need to deploy capital within a specified timeframe.
- **Be different:** Soul Pattinson's reputation as an investor of choice and flexible source of capital differentiates us from other investors. We look for opportunities where these characteristics add value in any transaction.

### ESG investment approach

Soul Pattinson's ESG investment approach is guided by three core beliefs:

- Attention to ESG performance can improve the quality and consistency of long-term value creation
- As an active investor, we are well positioned to provide counsel and independent challenge to our investees in relation to their approaches for managing ESG risks, and taking advantage of ESG opportunities, therefore enhancing returns
- Our actions and decisions can affect practices in the entities in which we invest. We have both a duty and an interest in managing this influence to maximise long term value for our investee companies and our investors.



## 6. Defining ESG factors

ESG is the term used by capital markets and investors to refer to a range of environmental, social and governance performance indicators. ESG risks are defined as the risks arising from the failure to recognise or address material existing or emerging ESG factors that adversely affect an investment portfolio's performance and ability to meet its long-term objectives of maximising return for a given level of risk.

Given the evolving nature of ESG factors, and the varying sectoral-specific considerations, we recognise the importance of having a robust approach in place to identify relevant ESG factors to both our current and potential investments. We inform the identification of ESG factors with the following:

- Deep industry research and expertise
- Direct engagement with investee companies
- Corporate risk register
- Industry standards and benchmarks such as the UN Principles of Responsible Investment, Taskforce on Climate-Related Financial Disclosures' Recommendations, World Economic Forum's annual Global Risks Report
- Existing and emerging global and sectoral trends
- Regulatory and legislative changes
- Investor and other stakeholder feedback
- Media and peer activities

We review our understanding of relevant of ESG factors for our current investment portfolio on an annual basis at a minimum. ESG factors relevant for potential investments are identified and considered on a case-by-case basis prior to investment.

Refer to Appendix A for a summary of typical ESG factors relevant to Soul Patts' current investment portfolio.

## 7. Why is the consideration of ESG factors important?

We believe the consideration of ESG factors:

- Assists Soul Patts to identify new investment opportunities, steer capital to more attractive areas and manage our long-term investment risks
- Is consistent with our fiduciary duties and responsibilities to our investors
- Is necessary to deliver on our objective of providing investors strong net returns over the long-term

The benefits from actively assessing and managing ESG risks help Soul Patts avoid the poor performance and company failures that can arise from poor governance and, weak environmental and social practices. Put simply, companies that act in a responsible way are likely to perform better over time.

We also recognise that it is important for our investee companies to manage ESG risks, impacts and opportunities as they have a meaningful impact on the investee's long-term viability and success.

## 8. ESG governance and oversight

ESG is a fundamental component of the sustainability and effectiveness of our investments. The Board is responsible for making investment decisions and considers ESG issues in relation to new and existing investments on an ongoing basis.

The management team are tasked with reporting to the Board on issues affecting the sustainability of its investments and it is a requirement of every new investment proposal to specifically address ESG risks and opportunities.



## 9. ESG integration

As an investor with a diversified portfolio across various industry sectors, our investments are potentially exposed to a range of risks and opportunities and to high level trends impacting on relevant geographical regions. Soul Pattinson integrates the consideration of ESG factors in our investment decision making and management processes, with the belief that these factors can have an impact on financial performance.

Each investment decision is assessed based on its merits, taking into account the ESG factors outlined in this Policy.

Soul Pattinson does not typically exclude companies or sectors based on any particular activity or ESG exposure. Instead, we prefer to engage with the companies in our portfolio and to use our ownership position to influence positive change. While Soul Pattinson's level of influence on particular investee companies differs based on the size of our holding, our approach to considering ESG issues across our investment strategy and engagement is consistent.

### Investment process

Qualitative and quantitative ESG factors are considered as part of the investment process in the following ways:

- To inform the identification of potential new investment themes
- To inform the due diligence process, including risk assessment, for potential investments
- To inform Soul Pattinson's annual review of its long term investment portfolio and strategic positioning, including sector and investee company-specific outlooks. The output from this is then used to the annual review of the corporate risk register.

This is completed via discussions and analysis, and inclusion in appropriate investment, strategy and risk management papers for Board approval.

### Active ownership

We are active owners and undertake engagement with our investee companies to drive positive and sustainable portfolio outcomes. Voting rights are exercised with the primary objective of upholding the interests of our investors by protecting and enhancing the value of our individual investments.

For major investments, our engagement generally involves the appointment of a representative of Soul Pattinson to the board of the investee. Our representative works with fellow board directors and senior management of the investee companies with the goal of achieving positive change in areas such as business practice, risk management, governance, sustainability and disclosure to improve long-term shareholder value.

Soul Pattinson communicates, and encourages its investees to adopt, the values which have served Soul Pattinson over a long period of time. These values include: serving shareholders; establishing governance practices which add to shareholder value; and the importance of maintaining a good corporate reputation through fair dealings, compliance with laws and ethical behaviour.

### Reporting

Soul Pattinson is committed to ongoing transparency and disclosure. We report on our performance against this Sustainable Investment Policy at least annually in the Company's Annual Report. Our approach to disclosure is focused on demonstrating how we have put into practice our investment philosophy across our portfolio in the given reporting period.



## 10. Commitment to continuous improvement

We recognise that our stakeholders, and broader society's, expectations regarding the identification and management of ESG factors across the lifecycle of our investment decisions continue to increase. In line with this, we are committed to continuously develop our approach and processes to manage ESG factors.

| Version | Approved              | Date         |
|---------|-----------------------|--------------|
| 1       | Approved by the Board | 21 July 2021 |



## Appendix A

### Typical ESG factors relevant to Soul Patts' current investment portfolio

| Aspect             | Factor                                             | Definition                                                                                                                                                                                                                                            |
|--------------------|----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Environment</b> | <b>Water management</b>                            | The availability or over supply of water, and competition for the use of water.                                                                                                                                                                       |
|                    | <b>Waste management</b>                            | Potential future liability risks, arising from activities such as the disposal or spillage of toxic substances, or from contamination of areas or populations.                                                                                        |
|                    | <b>Rehabilitation</b>                              | The process of returning the land in a given area to some degree of its former state, after some process (industry, natural disasters), informed by the respective legislative requirements and stakeholder expectations.                             |
|                    | <b>Circular economy</b>                            | An alternative system in which resources are re-used and recycled to extract value and reduce waste.                                                                                                                                                  |
|                    | <b>Climate change</b>                              | Relates to climate-related risks and opportunities including consideration of changing market demand, policy and regulation and changing physical climate futures and their impact over the short, medium and long term.                              |
| <b>Social</b>      | <b>Social Licence to Operate</b>                   | The effectiveness of a company in maintaining its 'licence to operate' – in other words, how well it manages its relationship with key stakeholders.                                                                                                  |
|                    | <b>Occupational health and safety</b>              | Effective management of workplace health and safety risks in line with relevant legislation and guidance.                                                                                                                                             |
|                    | <b>Labour relations</b>                            | A company's effectiveness in constructively managing labour relations with its workforce. Respect for the rights of workers to be represented by trade unions and/or employee representative bodies.                                                  |
|                    | <b>Talent attraction, engagement and retention</b> | A company's commitment to attract, engage and retain top talent.                                                                                                                                                                                      |
|                    | <b>Diversity and inclusion</b>                     | Respect and promotion of a diverse and inclusive workforce, avoid discrimination in the workplace.                                                                                                                                                    |
|                    | <b>Human rights</b>                                | Respect for the protection of internationally proclaimed human rights and avoid being complicit in human rights abuses and/or all forms of compulsory (forced) or child labour. This includes compliance with the Australian Modern Slavery Act 2018. |
|                    | <b>Sustainable supply chain</b>                    | The management of environmental, social and economic impacts, and the encouragement of good governance practices, through the procurement of goods and services.                                                                                      |



|                       |                                  |                                                                                                                                                                                                                 |
|-----------------------|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Social<br>(continued) | <b>Community engagement</b>      | Effective communication, interaction and dialogue with the local communities in geographical proximity to the given operation. This includes the prioritisation of local procurement and employment strategies. |
|                       | <b>Product safety</b>            | The importance of producing products that are safe and meet consumer guarantees under the respective consumer laws.                                                                                             |
|                       | <b>Vulnerable customers</b>      | Ensuring the accessibility of essential products and services for all people, including those with disabilities.                                                                                                |
| Governance            | <b>Board composition</b>         | 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.                             |
|                       | <b>Audit committee structure</b> | The composition and mandate of the Audit Committee.                                                                                                                                                             |
|                       | <b>Executive remuneration</b>    | Implement remuneration structures aligned to the delivery of company strategy, long-term performance and shareholder value creation.                                                                            |
|                       | <b>Bribery and corruption</b>    | The actions taken by a company to ensure that its directors, management and employees are not involved in bribery or corrupt practices.                                                                         |
|                       | <b>Cyber and data security</b>   | Respecting an individual's right to privacy by complying with all applicable privacy laws and only using or disclosing personal data information in ways that individuals would reasonably respect.             |
|                       | <b>Culture</b>                   | Set of values, beliefs and actions explicit or implicit within a group of people.                                                                                                                               |