



# Responsible Investment Policy

## Who we are:

Spheria Asset Management Pty Ltd ('Spheria') is an active equity funds manager that uses fundamental research to pick stocks and build its portfolios. Its focus is on listed companies which are outside the top 50 ASX index by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation, as well as international equities. Spheria was established in April 2016; it is majority owned (60%) by associated entities of its investment team, with the remainder (40%) held by Pinnacle Investment Management Limited ('Pinnacle'). Pinnacle supports Spheria through the provision of distribution and infrastructure services.

Spheria's Responsible Investment Policy outlines our investment beliefs and our approach to ESG in our investment process through research, corporate engagement, voting, and broader governance. This area of work is constantly evolving and the two-year review cycle for this policy reflects the need for regular updates. This policy should be read in conjunction with our proxy voting policy, annual ESG reports, articles, and other disclosures available on our website (<https://spheria.com.au>).

## Why we work on ESG:

Spheria believes that integrating Environmental, Social and Governance (ESG) research and engagement into our work helps to focus on companies' long-term risks and opportunities, allows a deeper understanding of their strategies, leadership teams and cultures, and ultimately leads to superior risk-adjusted returns. We believe that our ESG research and corporate engagement helps align our work to our clients' investment goals and helps address regulatory concerns with regards to long-term investment risks such as climate change.

## How we achieve our investment goals

Spheria's mission is to achieve strong investment returns for our clients with an emphasis on risk management. The investment team strives to do this by finding businesses that generate solid and predictable free cash flow due to a definable competitive advantage, and ultimately purchasing the underlying securities at a discount to the determined intrinsic value. Risk is assessed based on balance sheet strength relative to sustainable cash flow, with a preference for lowly geared businesses. Our ESG work is fully integrated with our investment process and covers the entirety of our funds under management.

Spheria recognises that many institutional asset owners invest with the aim to improve system-wide corporate practices and disclosure. We strive to support this goal through engaging with investee companies and promoting best practice. Investee companies' improvement of practices and disclosure are desirable sustainability outcomes for Spheria as they lower the investment risk of our portfolios. We pursue those goals through engagement and systematically record what we learn in our meetings and what feedback we provide in a central database maintained by our ESG analyst. Recording the key elements of our

engagements allows us to track progress in the areas that we judge material and that matter to our investment decisions.

## Our approach to ESG

ESG is integrated in the investment process at the stages of due diligence research, valuation, portfolio construction and review. Spheria has adopted an ESG scoring system that highlights six areas of enquiry split into 27 indicators. These areas cover:

- 1) Climate change
- 2) Resource use/recycling
- 3) Supply chain transparency
- 4) Labour practices and modern slavery
- 5) Governance
- 6) Cyber security

Portfolio candidates are evaluated against these indicators and the aggregate score affects the valuation of each stock. An aggregate score is also calculated for the entire portfolio, giving the investment team the ability to assess the ESG profile of the portfolio as well as the key contributors to that portfolio score.

Each individual investment analyst is responsible for the ESG scoring of his or her stocks. The analysts gather information through publicly available information (investor materials), information from regulators and industry associations, conversations with management as well as third party tools (eg. Emmi) as basis for our research. A dedicated ESG resource provides support for that scoring, aggregates results and draws on external resources, when needed. They also facilitate Spheria's engagement work. The investment team receives regular ESG training and Spheria's co-Chief investment officers oversee ESG research and integration.

### **Corporate engagement**

As an investment manager, our biggest opportunity to be impactful on ESG issues is through our engagement with investee companies. Corporate engagement complements our ESG work both as a way of reaching a more holistic understanding of an investee company and as a way of influencing corporate behaviour. Additionally, our ESG research helps us uncover which themes are the most relevant to focus on and where we can be most impactful in our engagement work.

Before each engagement, we research the target company's track record and disclosure in detail and determine which areas are material to earnings sustainability and stock performance that we wish to discuss with the leadership team. When appropriate, we provide examples of best practice and elaborate on investors' perspectives and discuss expected regulatory evolution in areas that are relevant to that company. If we uncover information that changes our view, we update our ESG score, which in turn affects our stock's valuation.

Whilst every company is different, key ESG themes we focus on in our engagements include the following:

#### Environmental goals

- Climate change
- Circular economy

#### Social Goals

- General (eg. social licence to operate, OH&S track record, employee health and wellbeing)
- Modern slavery and supply chain transparency

#### Governance Goals

- Board composition and remuneration structures
- Company culture
- Transparent and meaningful disclosure
- Cybersecurity maturity/readiness

Spheria identified early on that disclosure levels on ESG themes amongst the companies in its portfolios correlated inversely to their market capitalisation. Since it is hardly possible to discuss and analyse what is not disclosed, Spheria decided to consistently consider disclosure quality in its ESG research, scoring and corporate engagement. To reduce the risk that we might be rewarding greenwashing, our disclosure scoring is capped at neutral. This reflects our belief that corporate disclosure should be granular and adequate on all issues material to financial performance and earnings sustainability.

### **Cooperative engagement**

We belong to the cooperative engagement groups Climate Action 100+ (CA100+) and Investors Against Slavery and Trafficking Asia Pacific (IAST APAC), engaging with investee companies together with other asset managers and asset owners on the issues of climate change and modern slavery. We value the added effectiveness that engaging jointly with client asset owners brings. We are available to do so with interested clients on issues relevant to their portfolios and have done so in the past.

We are also members of the Pinnacle Investments ESG Supplier Engagement Group.

### **How we vote:**

Voting is an integral part of our ESG efforts. We vote on shareholders' resolutions for all our stocks. We take advice from Governance consultants but make our own assessment and final decision on how to vote, and we strive to exercise our voting rights in ways that minimise the risks and maximise the return on our investments. We are open to collaborative shareholder actions when they align with our investment goals and those of the ultimate asset owners.

For more information on how we vote, please refer to our Proxy Voting Policy available here: <https://spheria.com.au/wp-content/uploads/Spheria-Proxy-Voting-Policy.pdf>.

## Measuring and reporting

It is often impossible to determine what changes happen as a direct result of corporate engagement and what occurs independently from it, and even the measurement of engagement outcomes is often challenging. Spheria concentrates on engagement actions with measurable outcomes. We keep an engagement database where we outline the key information gathered and feedback provided, and we also track indicators that signal the maturity of corporate governance, culture, supply chain management, climate change adaptation and circular economy thinking.

We disclose our ESG efforts in both research and corporate engagement to interested clients in our quarterly reports and ad hoc reviews. We publish a yearly ESG report that outlines our approach, research, and engagement for the year. From time to time, we publish thematic articles on ESG insights and/or issues relevant to our portfolios.

## Our operations

We track and disclose our operations' carbon footprint in our annual ESG report and together with Pinnacle, engage with our own suppliers on the issues of climate change and modern slavery. This engagement allows us to better understand our scope 3 carbon footprint and supply chain risk exposure.

## Our industry group participation and policy disclosure:

Spheria has been a United Nations Principles for Responsible Investment (PRI) signatory since 2019.

This responsible investment policy was approved by our Board in April 2024 and is published on our website: <https://spheria.com.au>. It is due for review on a 2-year cycle.

## Document Control

### a. Version Control / Revision History

This document has been through the following revisions:

<b>Version</b>	<b>Date of Approval</b>	<b>Remarks / Key changes / Reason for Update</b>
1	March 2021	Initial Version
2	April 2022	Regular Review
3	April 2024	Regular Review

### b. Authorisation

This document requires the following approvals:

<b>Authorisation</b>	<b>Name</b>
Initial Version	Board
Revisions	Managing Directors