SPHERIA
ASSET MANAGEMENT

ESG REPORT 2023

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Contents

1. **ESG** Market Developments

Last year's ESG developments occurred against a tense geopolitical background amidst global conflict in Israel and Ukraine, and disruptions in key global trade bottlenecks such as the Gulf of Aden and South China Sea – keeping investors' focus on energy security and supply chains. A more benign inflationary outlook led to the stabilisation of interest rates.

A series of natural disasters occurring in short succession in various parts of the world increased the sense of urgency in addressing climate change, along with the expectation that the economic and financial sectors will address the problem effectively and in a timely manner. The mismatch between short term governance structures and long-term challenges like climate change and biodiversity loss is also a challenge. CEOs last for an average of five years in the role; thus today's leaders are committing to 2050 carbon net-zero targets whose achievement they will not oversee.

Widespread frustration has bubbled up in the form of regulatory actions against some asset managers who have been accused of misrepresenting their ESG activities, and legal actions against asset owners and corporations by NGOs eager to spur change through broad interpretations of the law.

This more litigious environment has led – in some cases – to "greenhushing": reduced disclosure and reduced ambition when setting ESG targets by both corporations and asset owners.

Domestically, the Australian Government tightened its Safeguard Mechanism legislation covering large carbon emitters and started consultation on enshrining the ISSB standards for disclosure on climate change in Australian law which is set to be introduced in 2024. A similar New Zealand law is already in place with first mandated corporate disclosures expected this year. The switch from voluntary to compulsory disclosure will hopefully standardise and improve the granularity of information available to investors. APRA's "Your Future, Your Super" performance test was extended to some ESG products. The proposal for a First Nations Voice to Parliament was defeated in a national referendum.

Regulators are giving conflicting signals to asset owners: APRA punishing underperformance and ASIC punishing greenwashing. Having experienced or witnessed the performance risks that ESG strategies based on exclusion can lead to, asset owners are likely to focus on strategies with acceptable tracking error, but that can deliver some ESG results to their members. They need engagement strategies with demonstrable effectiveness: clear targets, trackable metrics...and results.

Regulatory reviews in Australia and other jurisdictions, together with supply chain challenges are keeping investors' interest in modern slavery high. Turning modern slavery statements into meaningful disclosure and concrete action remains the focus of regulators, investors, and Human Rights NGOs.

Natural capital: the increasingly scarce natural resources that economic activity depends on is emerging as a powerful investment theme. As the range of natural resources that are priced/

taxed widens, companies need to include in their business models and price what was previously considered abundant and freely available resources, and transform their thinking based on a linear economy into a circular one. Disclosure requirements, accounting standards and regulation all support such shift. The growing focus on Nature will further increase asset owners' interest in investment strategies that include system level goals.

Disclosure (increasingly mandated) on scope 3 carbon emissions, modern slavery, and soon Nature are all based on supply chain transparency, which is emerging as the cornerstone of meaningful ESG stakeholder communication.

The double sin of having portrayed exclusion strategies as effective in achieving change and inexpensive in terms of performance has been exposed by a market where excluding hydrocarbons cost dearly and where cashed up energy companies could self-fund investment (and distribute generous dividends) without worrying about being shunned by capital providers. Investors and the broader public concerned with responsible investing via exclusions will likely pause to reflect on its effectiveness.

A key focus for the sector now is engendering realistic expectations on the quantum and timing of what can be achieved with ESG engagement. In combination with the ever evolving legal and regulatory landscape, the scope, and limitations of pursuing ambitious ESG goals should also be articulated.

2. Spheria ESG focus in 2023

We have continued our ESG research, scoring and engagement focusing on areas material to our portfolio's performance. We have contributed to cooperative engagement efforts, and we have designed and executed an engagement together with a client asset owner.

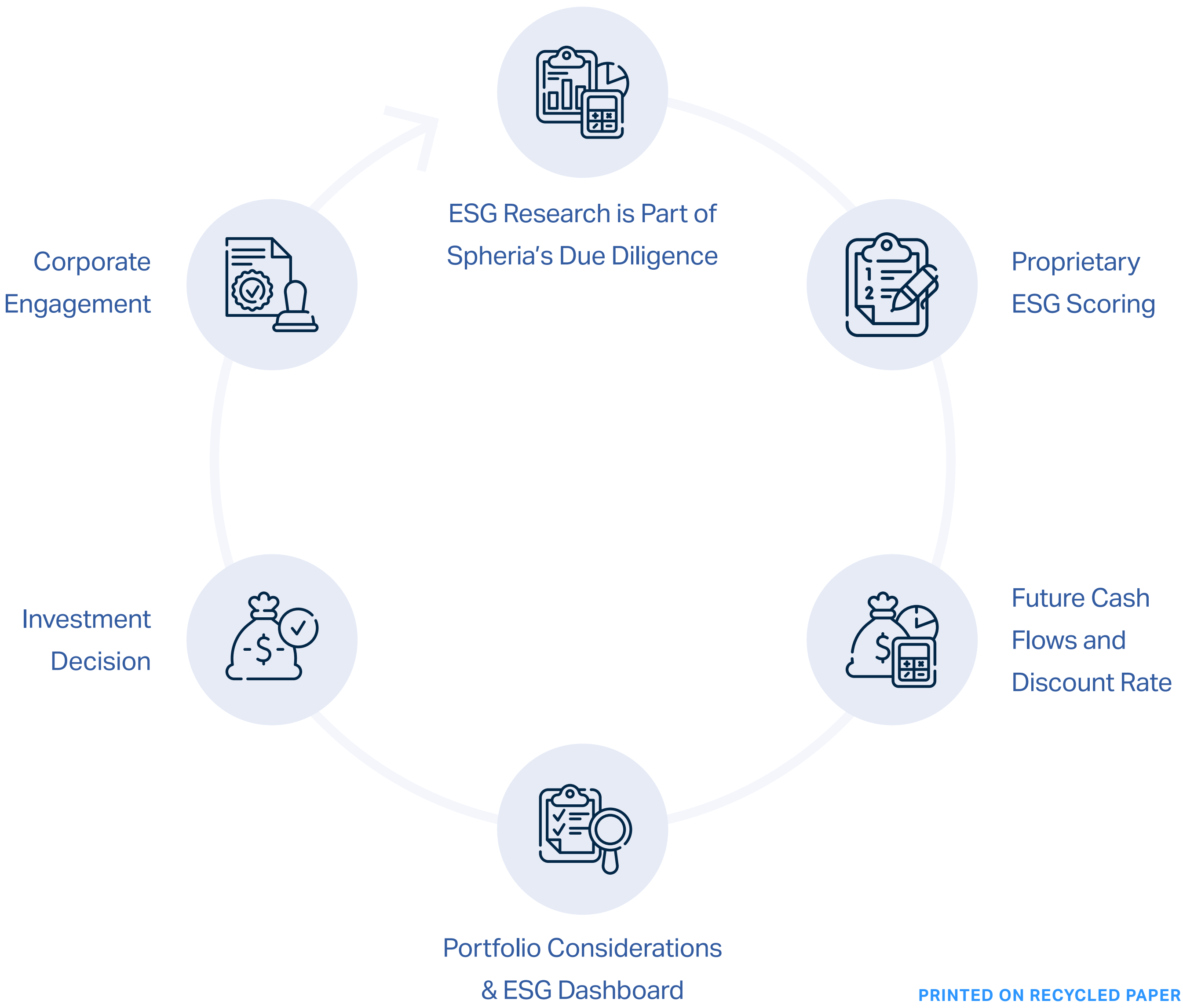
We have better structured our engagement activities by closing the loop between engagement and ESG scoring, and we have selected a handful of indicators that – once enough data points are collected – will help track progress and communicate engagement outcomes to external stakeholders.

We have researched mine remediation costs and published an article on that subject.

3. **ESG** at Spheria

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 for our portfolios. 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. Our close relationship with management teams thanks to long holding periods, coupled with an array of substantial holdings, enhances our corporate engagement with investee companies. Our ESG process has been embedded within our broader investment process since day one and is continually evolving.

ESG is integrated in Spheria's investment process at the stages of due diligence research, valuation, portfolio construction and review.

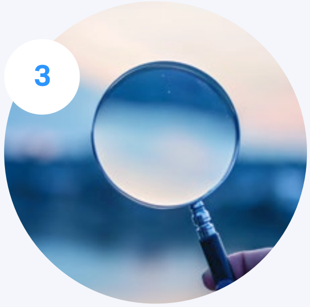


Spheria has adopted an **ESG scoring system** that highlights six areas of enquiry split into 31 indicators.

The six areas include:

Climate change

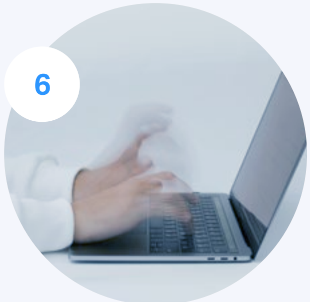
Resource use/recycling



Supply chain transparency

Labour practices and modern slavery

Governance



Cyber security

Portfolio candidates are evaluated against these indicators and the aggregate score affects the risk premium used to value each stock. An aggregate score is also calculated for the entire portfolio, giving the investment team the ability to assess how the introduction of a particular stock would affect the ESG profile of the portfolio as a whole. Each individual investment analyst is responsible for the ESG scoring of his or her stocks. A dedicated ESG resource provides support for that scoring, aggregates results and draws on external resources, when needed. This process also informs Spheria's engagement work.

Corporate engagement complements our ESG work both as a way of reaching a more holistic understanding of an investment candidate and as a way of influencing corporate behaviour. Through corporate engagement, we strive to challenge management to achieve best practice and drive positive ESG outcomes, as well as superior performance. Investing responsibly is particularly important in the small and microcap sectors that we focus on, in which many companies do not face the same level of scrutiny as their large cap peers.

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.

4. **Future** Considerations

Australian legislation mandating climate disclosure is expected to be introduced in 2024, essentially codifying in law the existing TCFD framework. As the companies in our investment universe comply with the new requirements, we'll accordingly adjust how we score and engage with them. Going forward our work will generally be guided by the growing importance of natural capital and the circular economy as investment themes, as well as supply chain transparency as the cornerstone for scope 3 carbon footprint, modern slavery, and human rights.

5. **Spheria 2023** ESG Highlights

Engagements

In 2023, Spheria completed 19 corporate engagement meetings with investee companies, focusing on climate change (risk exposure, TCFD disclosure, and net zero pathways), modern slavery (instances, remediation practices, demonstrable supply chain knowledge, disclosure quality), OH&S and Governance (particularly leadership teams' diversity). In order to inform our investment decisions, we sought to learn about material ESG risks and opportunities our portfolio companies are exposed to, provided feedback, and shared best practice examples, whenever appropriate.

We actively participated in cooperative engagement initiatives with Climate Action 100+ and IAST (Investors Against Slavery and Trafficking) and the Pinnacle ESG Working Group. With IAST APAC, we have contributed to work regarding metrics and targets as well as preparing public submissions. With Pinnacle we have started cooperatively engaging with our own suppliers on modern slavery and climate change. This year we have also taken an active role educating and cooperating with asset owners on ESG process enhancements and corporate engagement.

We have started systematically tracking engagement learnings and feedback and have refined our engagement work by selecting a short list of indicators to focus on, track, and require disclosure on, if not available. We continue to focus on our portfolios' top carbon emitters and their paths to net zero requesting more granular information on CAPEX, OPEX, and R&D, and disclosure in line with TCFD guidelines, which would prepare them to comply with proposed legislation. We continue to believe that divesting hard to abate sectors is not an effective strategy to either maximize risk adjusted return or address climate change.

Our team

We have continued running a yearly ESG workshop to update the investment team on recent developments. A member of the team also obtained the CFA Certificate in ESG Investing to develop knowledge and keep up to date with frameworks and bodies related to

ESG factors, portfolio integration and the role of stewardship in a fast-moving market.

In development and mentoring, we welcomed two interns over the course of the year, including a Pinnacle Women in Finance Scholarship recipient. We take pride in ensuring students undertake real world work experience and receive mentoring opportunities to assist them in unlocking their full potential, whilst preparing themselves for their future careers.

Focus Areas

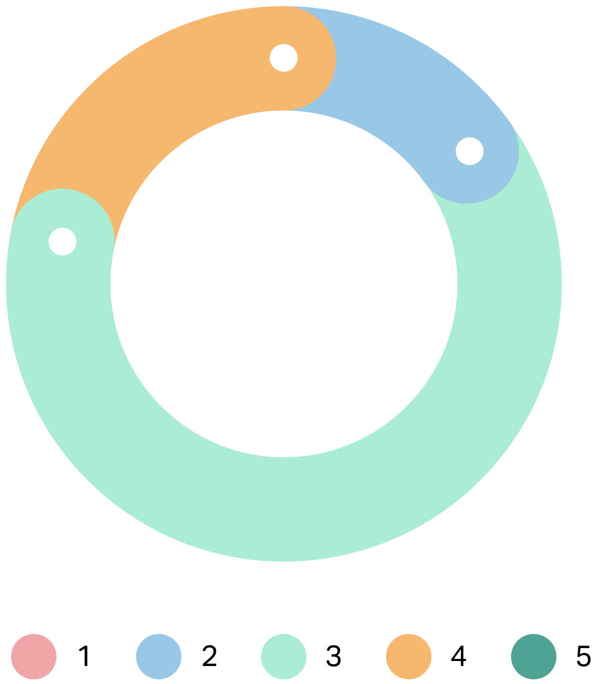
In light of the evolving expectations and scrutiny on companies' environmental impact and social licence to operate, we published an article outlining the causes behind mine rehabilitation cost increases, a permeating issue that can result in often underestimated but substantial off-balance sheet liabilities and earnings risk.

We also undertook analysis of our ESG score distribution across our portfolios using our proprietary scoring system. The majority of our companies ended with a neutral ESG score, which reflects our investment style that favours quality companies and limits investing in companies exposed to notable ESG and financial risks. Overall, we found that the average ESG score improved as market capitalisation increased.

We look to improve our coverage of engagement as a result of this exercise across the companies analysed, particularly focusing on outlier and sectors such as consumer discretionary and materials that scored worse than average.

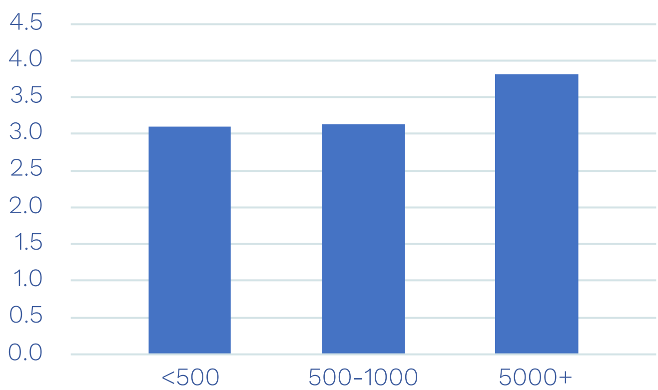
As a signatory to the PRI (the UN's Principles for Responsible Investment), we completed our 2023 submission. We were awarded 5 stars

Distribution of ESG scores across our portfolios



* Scores 1-5 are on a rising scale with 1 being poor and 5 representing excellence.

Average score by market cap



* average across scored domestic and global funds

(98/100) in the “Direct-Listed equity-Active fundamental” category, with a 4 star rating for “Confidence building measures” (80/100), and 3 stars (59/100) for “Policy Governance and Strategy”. Our Policy, Governance and Strategy score was at the PRI median and is a focus area for 2024 when we plan to review our policies and process to better align with a rapidly changing ESG landscape, evolving regulation, and clients’ expectations.

Focus Areas into 2024

Our focus areas going into 2024 include honing in on our focus engagement areas and building upon our reporting and policy transparency. We have initiated an internal review of our ESG processes and questionnaire in order to adapt to the changing ESG market dynamics and better reflect what we believe will be the most important factors going forward.

We are closely monitoring how TCFD guidelines, already endorsed by the ISSB Board, will percolate into Australian law currently being considered by the Government and the impact that that will have on corporate disclosure.

6. **Engagement** Examples

Domestic

Alcoa Corporation

Last year we engaged with Alcoa Corporation to develop a deeper understanding of their environmental and asset retirement liabilities. Recent upward revisions to mine remediation provisions were due to broad-based cost pressures as well as ever-increasing stakeholder expectations around how environmentally sensitive issues are managed. We provided feedback that in the context of their social licence to operate, Alcoa's relationship with traditional owners could be better prioritised.

Bega Cheese Ltd

Spheria appreciates Bega's long-term thinking and cooperative approach with farmers and industry groups which should drive more efficient spend of R&D, and improve milk reliability thanks to trust, long-term relationships and past experiences. Spheria's feedback was that Bega's sustainability reporting would benefit from the integration with annual reporting with more explicit links to financial implications of their sustainability endeavors.

A2 Milk Company Ltd

We discussed their approach to methane abatement opportunities, emission footprint and targets. Spheria believes that A2 Milk's interim emission targets are dependent on technologies yet to be proven and – as such – retain high levels of uncertainty. Strategies around carbon insetting, and nature co-benefits, are being developed but are still in their infancy. Spheria asked for more quantitative financial details and disclosure.

Insignia Financial

Spheria engaged with Insignia Financial to express concerns with performance and under-deliverance of cost savings, including the high cost of new cyber security systems. Spheria learnt that Insignia is vigilant about hacking, and that a large part of new cyber security system costs are associated with segmenting and duplicating the systems. APRA has put pressure on the group, and the Board has been pushing executives on the cost-out program.

Global

Accelleron Industries

In our Global Portfolio, we engaged with Accelleron Industries to better understand the carbon emissions landscape in the maritime industry and the company's employee engagement statistics. Accelleron expects carbon legislation to continue to facilitate the sale of turbochargers and injectors to the shipping sector. Whilst Spheria believe Accelleron is well placed in terms of opportunities in an evolving environmental regulatory space, we pushed for more quantitative financial details on CAPEX, OPEX and ROI measures.

Accelleron

Looking forward:

For 2024, we will continue to use our analysis of our portfolio ESG scores to drive and direct our corporate engagements for next year and focus on the topics that scored the poorest and are most concerning.

7. Voting

Proxy Voting Summary

Spheria Australian Micro-Cap Fund

	Management Proposals		Shareholder Proposals		All Proposals	
	Total	Percent	Total	Percent	Total	Percent
Votable Proposals	178		1		179	
Proposals Voted	178	100.00%	1	100.00%	179	100.00%
FOR Votes	151	84.83%	1	100.00%	152	84.92%
AGAINST Votes	27	15.17%	0	0.00%	27	15.08%
ABSTAIN Votes	0	0.00%	0	0.00%	0	0.00%
WITHHOLD Votes	0	0.00%	0	0.00%	0	0.00%
Votes WITH Management	154	86.52%	0	0.00%	154	86.03%
Votes AGAINST Management	24	13.48%	1	100.00%	25	13.97%

Spheria Australian Smaller Companies Fund

	Management Proposals		Shareholder Proposals		All Proposals	
	Total	Percent	Total	Percent	Total	Percent
Votable Proposals	221		1		222	
Proposals Voted	221	100.00%	1	100.00%	222	100.00%
FOR Votes	186	84.16%	1	100.00%	187	84.23%
AGAINST Votes	35	15.84%	0	0.00%	35	15.77%
ABSTAIN Votes	0	0.00%	0	0.00%	0	0.00%
WITHHOLD Votes	0	0.00%	0	0.00%	0	0.00%
Votes WITH Management	191	86.43%	1	100.00%	192	86.49%
Votes AGAINST Management	30	13.57%	0	0.00%	30	13.51%

Spheria Opportunities Fund

	Management Proposals		Shareholder Proposals		All Proposals	
	Total	Percent	Total	Percent	Total	Percent
Votable Proposals	173		2		175	
Proposals Voted	173	100.00%	2	100.00%	175	100.00%
FOR Votes	153	88.44%	2	100.00%	155	88.57%
AGAINST Votes	20	11.56%	0	0.00%	20	11.43%
ABSTAIN Votes	0	0.00%	0	0.00%	0	0.00%
WITHHOLD Votes	0	0.00%	0	0.00%	0	0.00%
Votes WITH Management	156	90.17%	0	0.00%	156	89.14%
Votes AGAINST Management	17	9.83%	2	100.00%	19	10.86%

Spheria Global Opportunities Fund

	Management Proposals		Shareholder Proposals		All Proposals	
	Total	Percent	Total	Percent	Total	Percent
Votable Proposals	356		1		357	
Proposals Voted	356	100.00%	1	100.00%	357	100.00%
FOR Votes	324	91.01%	0	0.00%	324	90.76%
AGAINST Votes	29	8.15%	1	100.00%	30	8.40%
ABSTAIN Votes	3	0.84%	0	0.00%	3	0.84%
WITHHOLD Votes	0	0.00%	0	0.00%	0	0.00%
Votes WITH Management	325	91.29%	1	100.00%	326	91.32%
Votes AGAINST Management	31	8.71%	0	0.00%	31	8.68%

Spheria exercises all its voting rights. Proxy voting consultant ISS advises us but the final decision on AGM resolutions rests with us (unless we receive specific instructions from our clients on how to vote their shares). We vote in ways that are consistent with our over-arching goal of maximising risk-adjusted returns and welcome conversations with our investee companies' leadership teams on AGM resolutions and the reasons behind the way we vote.

8. **Spheria** ESG Alliances

PRI Signatory

Spheria has been a signatory of the United Nations Principles for Responsible Investment (PRI) since 2019. The principles promote the inclusion of ESG issues into investment analysis and decision-making processes and is used by Spheria as a blueprint in their ESG investment processes.

TCFD Supporter

In November 2020, Spheria became an official supporter of the Task Force on Climate-Related Financial Disclosures (TCFD). The TCFD was disbanded late in 2023 after its recommendations were endorsed by the ISSB and included in their accounting standards. We will adjust our work according to incoming Australian legislation that will mandate TCFD-like disclosures to Australian companies.

CA 100+

In September 2021, Spheria joined Climate Action 100+ and their working group in Adbri (now acquired).

Investors Against Slavery and Trafficking Asia Pacific

The Investors Against Slavery and Trafficking Asia Pacific (IAST APAC) initiative is an investor-led, multistakeholder project. It was established in 2020 to engage with companies in the Asia Pacific region to promote effective action in finding, fixing and preventing modern slavery in operations and supply chains.

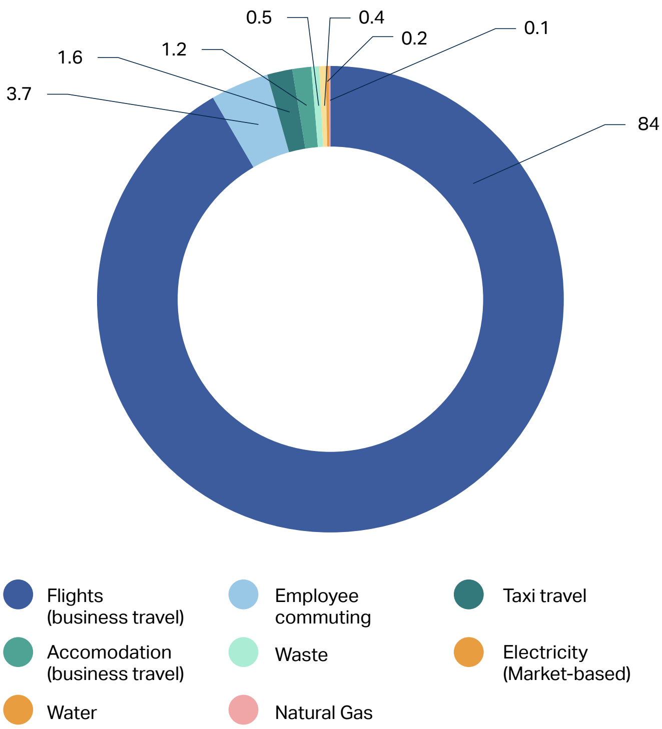
9. **Emissions**

The majority of our market-based carbon emissions are from business travel over the course of the year. This included domestic trips and two international trips (to Europe and America). Other factors impacting our carbon emissions included our move to a new office building in August 2023.

Spheria Carbon Emissions

	FY23 (tonnes CO2e)
Scope 1	-
Scope 2 (market-based)	3.5
Scope 3 (market-based)	91.7
Total GHG Emissions	95.2

Scope 3 breakdown



10. **Portfolio** Emissions

Emissions associated with investments managed by Spheria on behalf of clients (who are the asset owners)*

	Scope 1 (tonnes CO2e)	Scope 2 (tonnes CO2e)	Scope 3 (tonnes CO2e)	Portfolio coverage (Emmi)
Spheria Australian Microcap Fund	4,043	3,209	203,876	91%
Spheria Australian Smaller Companies Fund	50,935	15,836	614,761	100%
Spheria Opportunities Fund	29,697	9,743	460,783	97%
Spheria Global Opportunities Fund	283	125	6,145	100%

* Financed emissions data is based on portfolio holdings as at 31 December 2023, and is sourced from Emmi Solutions Pty Ltd.