

Merlin Fidelis Asset Management Limited
(the “Company”)

ESG Policy

Date: 30 May 2023

Version: 3.0

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1. Why Responsible Investment Matters

Responsible Investment is core to Merlin Fidelis Asset Management for three compelling reasons.

Reputation

Our reputation as an asset manager, and any potential reputational risk to our clients as asset owners, is our highest priority. As beneficiaries of corporate profitability, investors and asset owners might be perceived as endorsing the corporate activity of investee companies. We therefore seek exposure to well-run, ethical and sustainable companies to invest in. We care far more about ESG than would a passive index fund.

Investment Advantage

ESG issues are typically enduring, changing only incrementally, and at the heart of a company's organizational culture and reputation. We believe that incorporating ESG into the investment decision advantages the long-term active investor who has the patience and foresight to benefit from its evaluation.

The Emerging Markets Opportunity

The Emerging Markets lag the more developed markets in terms of ESG awareness, compliance and disclosure. We view this as both an investment opportunity and a business opportunity. There is greater potential for improvement, which in time will be reflected in the quality of companies and their cost of capital. Furthermore, we expect our ESG approach, efforts and engagement to benefit our clients such that we become their trusted partner to invest on their behalf in these markets.

2. The ESG Framework

The ESG acronym covers the Environmental, Social and Governance issues of companies in which client funds may be invested, and also of our own behaviour and efforts as an asset manager. We use it as a framework for identifying where sustainability and profitability clash, or reinforce each other, with profound investment implications.

At all times we endeavour to generate superior and durable investment performance for our clients. This is made easier by investing, at compelling prices, in durable companies: those that are well-governed, addressing the interests of multiple stakeholders, and themselves investing to protect and build their future. 'ESG leaders' take responsibility for their conduct, they measure their impact, and they plan and adapt to circumstances.

There are also investment opportunities to be found where specific ESG issues emerge. A product, a company, a competitor or an entire industry might face an existential threat, for example, which could prove intractable or alternatively it could be cursory where improvement is pronounced. Prevailing market prices will often reflect the prevailing concerns, hence our focus on the degree to which these concerns may change.

The ESG framework also encompasses the activities that we perform when representing our clients as long-term owners. We defend our clients' interests through proxy voting and by engaging with company management to be answerable for outcomes. We also record and track our ESG efforts, and we provide disclosure of such.

3. ESG in the Investment Process

ESG Payoffs

We incorporate ESG factors in the same way that we incorporate other considerations into the investment decision: we understand not just the key drivers of a company's prospects, but also the possible operating conditions, plausible extremes and sensitivities. Should a company be particularly

sensitive to one or more ESG factors – for example, pollutive operations [E] or a poor safety record [S] or misaligned management incentives [G] – then we conduct a separate payoff calculation that considers plausible ESG improvement or deterioration. This is factored into our weighted-probability payoff that underpins the investment decision.

ESG payoff calculations are highly specific to a company's strategy, assets and operations. Nevertheless, we follow broad guidelines to incorporate ESG factors into investment decisions.

- Environmental factors can often be overlooked when a business is running smoothly, and recognised only when operations are threatened or disrupted. With our ESG payoff approach, however, we identify all significant 'tail risks' that can affect valuation. These include the availability and cost of a company's critical inputs, such as a carbon price or water scarcity or biodiversity losses that might threaten ongoing operations. Opportunities are considered too, such as a company's options for efficiencies, recycling, rehabilitation or product branding. We consider climate-related risks, as outlined in the separate section below.
- Social factors can range from broad societal issues – such as child labour or gender equality – to industry-specific concerns like worker safety or community engagement. Additionally, their relevance can be susceptible to shifting perceptions as certain issues become topical, for example as breaches of consumer privacy are discovered. We expect investee companies to respect and uphold the International Bill of Human Rights, even if operating within jurisdictions where others do not. The concept of a 'social licence' can be useful when determining significance; we ask what can threaten or improve this licence – as perceived by regulators, consumers, investors and stakeholders – and impact the ESG payoffs.
- Governance factors apply to all investments given the 'agency' of a company's board and management in representing the interests of shareholders. There are a multitude of established 'best practices' that we encourage companies to adopt, such as board structure (a majority of independent, non-executive directors and the non-executive role of the chair, for example) and reporting. Remuneration and incentives should strengthen corporate talent and capability, and be closely aligned with long-term shareholder outcomes. Shareholder engagement, consultation and approval should be sought on material corporate developments. For all potential investments we closely track the corporate history – the treatment of shareholders, the record of investment and operational success, the use of capital markets, etc. – seeking behavioural insights that impact the ESG payoffs.

Note that while there are several well-regarded external providers of ESG metrics and ratings, we view the application of metrics and ratings with caution. A specific metric or ESG 'score' has little meaning when it is detached from valuation: Is it significant? Is it changing? Is it within the company's control? Does it represent corporate conduct? Is it enmeshed within a critical supply chain? Can technology be utilized?... There are so many ways to interpret the data. There is simply no short-cut or substitute for bottom-up evaluation, which we conduct to form and calculate the payoffs in the investment decision.

Negative Screening

All companies and industries within the Emerging Markets and its benchmark index are considered for investment. We do not immediately screen out companies based solely upon their industry or geography, or some other readily accessible metric. Nevertheless, while we are reluctant to restrict the range of investment opportunities for our clients, we are alert to any potential reputational damage that might accrue to investors and owners. Companies might be engaging in illegal activity, or activity that while strictly legal casts a poor light on those involved – potentially including even the arms-length investors who might be said to benefit. Should we suspect significant corporate misconduct, or activity that carries significant potential reputational risk, we will exclude the company from further consideration.

We recognise that there are complexities and unintended consequences of negative screening, so our approach is to apply it sparingly. For example, coal-fired electricity generation contributes to climate-warming, but it can also relieve poverty and its many related ESG problems. There are also supply-chain issues, such as the coal-fired electricity used to produce the low-cost polysilicon from China that supplies >80% of the world's solar panels. There are also shifting perceptions of what is deemed

acceptable or sustainable, for example the regulations that are tightening around consumer privacy and data usage.

Climate-Related Risks

Climate-related risks as defined under SFC rules¹ include physical risks from extreme weather events and progressive, longer-term shifts in the climate patterns and transition risks associated with the transition to a low-carbon economy. Further, climate-related risks may have implications for other financial risks such as credit, market and liquidity risks.

Our organization is most impacted by climate-related risks (short-, medium- and long-term) within the investment function, whereby clients' investment returns are sensitive to the climate-related risks faced by investee companies. Our priority is to ensure that climate-related risks are fully incorporated into investment decision making, in order to maintain the durability and resilience of client outcomes. Other climate-related risks faced by the organization, while less significant, are handled by the Risk Committee via contingency measures as detailed in the business continuity plan.

We combine qualitative and quantitative approaches when assessing climate-related risks. We identify companies and sectors most sensitive to climate-related risks. For example, industries most adversely affected by extreme weather events include insurance and agriculture, and those with exposed physical assets such as manufacturing, real estate and infrastructure. Industries most affected by the transition to a low-carbon economy include utilities, oil & gas, energy, construction materials and transportation.

We also identify, for specific companies, the supply of critical inputs that may be threatened by climate-related risks. For example, water scarcity can threaten the operations of mines, utilities, manufacturing and agricultural businesses. Similarly, stricter environmental regulatory requirements and operating standards may increase the costs or threaten the viability of mines and heavy industry, or impact the reputation of specific products and customer demand for them.

We calculate the carbon footprints of industries and specific companies to assess the impact of carbon pricing. Where material, in-depth scenario analysis is conducted to assess a company's ability to mitigate and/or pass on carbon costs. Emissions data is also aggregated at the portfolio level to indicate the overall exposure to changes in carbon prices, using measures such as the greenhouse gas emissions (scope 1 and 2) per unit of revenue, enterprise value and portfolio investment.

We disclose to investors the governance and management of climate-related risks and the basis of monitoring and assessing these climate-related risks. The ultimate responsibility lies with our CIO for ensuring that the relevant and material climate-related risks are taken into account in the investment management process. Similarly, the responsibility lies with our Risk Committee that the material climate-related risks are taken into account in the risk management process. The Board is responsible for monitoring the incorporation of climate-related risks in both the investment process and the risk management process, and for monitoring the progress of addressing climate-related issues.

4. ESG and Our Stewardship

Proxy Voting

We fully utilize all available shareholders' rights in defending our clients' interests. Proxy voting can directly influence corporate decision-making, providing a check on boards and management. We participate on all resolutions put to shareholders, except in the rare cases where it is impossible to do so. Our voting decisions are always made in view of the long-term benefit of shareholders, on a case-by-case basis; our aim is to skew the ESG payoffs in shareholders' favour, minimizing the risks and accentuating the opportunities. We typically encourage comprehensive reporting, where practical, of environmental metrics and social issues concerning the communities in which companies operate. We also pay great attention to the election of directors and the structure of boards – encouraging the adoption of 'best practices' such as their independence – and to the alignment of board and executive

¹ Refer to the SFC Circular of 20 August 2021, with suggested approaches and types of risks outlined in Appendix 2 (B 2.1 and B 2.3).

remuneration with long-term shareholder outcomes. We record all proxy voting actions, which can be made available to clients upon request.

Engagement

It is our fiduciary responsibility to act in the best interests of our clients, which on occasion requires deeper engagement with the board and management of a company in an attempt to persuade and achieve a preferred outcome. We focus our efforts on the ESG factors identified in our assessment of ESG payoffs, highlighting to management the benefits to company valuation that can be expected from specific improvements. Through respectful and considered engagement we can sometimes escalate priorities and effect improvements to sustainable, long-term profitability, specific ESG concerns and investment returns. Rarely will we exit a position based entirely on frustrated stewardship efforts: the investment decision typically assumes no success regarding our attempts to improve ESG payoffs.

Our investment process typically involves engagement with a company's management to fully understand the company's prospects. This allows us to also seek detail about specific ESG issues, to express our views and expectations, and to encourage best practices and disclosure. We aim to enter an ongoing dialogue with companies, so that over time we are trusted as long-term investors supportive of the company's success. For this reason, we prefer to act with discretion rather than publicly rebuke or censure corporate activity. However, on occasion it may be necessary to enter public forums, to collaborate with other market participants or to engage with policy makers or other key stakeholders if our clients' interests are at stake. We consider the broad set of tools available to us, which in addition to proxy voting include shareholder resolutions, director nominations and even litigation. Our stewardship efforts are recorded, tracked and discussed amongst the investment team with the aim of informing future investment and stewardship decisions.

5. Our ESG Capability

Expertise and Systems

The incorporation of ESG has been core to our investment process for decades. The nature of our investment style and approach, being both long-term and based upon fundamentals, requires a detailed understanding of companies' prospects, including non-financial factors. We have developed processes and systems to understand and track all relevant ESG factors and any progress made over many years. We have collected data, engaged personally with hundreds of companies, and persuaded, cajoled and advocated for sustainable investing. Furthermore, we believe that our clients' investment returns directly benefit from in-depth analysis and evaluation of ESG factors and their explicit input to the investment decision.

Training & Incentives

All investment staff are required to continually strengthen their ESG expertise. This takes place through 'on-the-job' exposure to live ESG investment issues, and also via external training and specialist materials on ESG topics and trends. Staff incentives are not tied to specific ESG outcomes but rather to overall performance for clients, of which ESG is a significant contributing factor.

We do not assign ESG-specific roles to our staff because it is essential that ESG expertise sits across the entire investment team. Given that every team member is expected to participate in the research and the investment decision, and ultimately in the portfolio construction process, the need is for broad acceptance and knowledge of ESG issues. We caution clients about investment teams that foster individual expertise because of the 'silo' and bottleneck effects and the segregated decision-making that inevitably results.

6. Our ESG Commitments

Principles for Responsible Investment

Merlin Fidelis Asset Management in March 2021 became a signatory to the Principles for Responsible Investment ["PRI"], sponsored by the United Nations. It is a public commitment to adhere to six operational principles, as outlined in [Appendix 2](#).

Record-keeping, Reporting and Disclosure

Because our ESG efforts are intrinsic to the investment decision we consider much of the output as proprietary, and potentially detrimental to our clients' interests if made freely available. However, as part of our PRI commitments we report annually, detailing our activities and progress. Where it serves our clients' interests, we will collaborate on ESG issues with other market participants. Further detail can be made available to clients upon request.

Appendix 1: ESG Policy – Version/Change Control Log

DATE	REASON FOR REVIEW	COMMENTS/CHANGES
30 November 2021	Adoption of Policy	Version 1.0
31 October 2022	Addition of Climate-related risk	Version 2.0
30 May 2023	Additions to sections 3 & 4	Version 3.0

Appendix 2: Principles for Responsible Investment – Signatories’ Commitment

“As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognize that applying these Principles may better align investors with the broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the principles.
- Principle 6: We will each report on our activities and progress towards implementing the principles.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.”