PENGANA EMERGING COMPANIES FUND

RESPONSIBLE INVESTMENT AND ENVIRONMENTAL, SOCIAL, AND GOVERNANCE POLICY

The Pengana Emerging Companies Fund ("ECF", "Fund") has been co-managed since inception in 2004 by Steve Black and Ed Prendergast. We have joint responsibility for all aspects of the management of the Fund including research, portfolio management, assessment of Environmental, Social, and Governance ("ESG") risks and opportunities, and trading.

Over the years, it has become increasingly clear to us that companies with a strong focus on environmental, social, and governance practices prove to be the best long-term investments, and as two of the largest investors in the Fund, our ethical preferences have always guided our investment decisions. In 2021, our informal ethical and ESG framework was formalised into the ECF Responsible Investing and ESG policy. This policy is not intended to be static and will be updated from time-to-time. It should be read in conjunction with Pengana Capital Group's ESG Policy.

Pengana Capital Group is a signatory to the UN Principals for Responsible Investment ("PRI"), and a member of the Responsible Investment Association of Australia ("RIAA").

VALUES

Since the inception of the Fund in 2004 our principles have guided our process. Historical examples of our thinking include:

- Avoiding investments in mining companies and limiting exposure to companies which provide services to this sector. We believe coal to be the most problematic commodity given its contribution to harmful emissions, and have avoided service companies with an over exposure this sector. We also limited the total exposure in the portfolio to mining services stocks and we have not invested in fossil fuel energy generation.
- We strongly believe companies which provide debt finance to disadvantaged citizens at unreasonably high interest rates are problematic and have avoided this sector. This predatory lending often creates entrenched disadvantage.
- Excluding gaming companies that prey on problem gaming e.g. poker machines.

While the small cap sector in Australia does not contain companies involved in some of the sectors that are typically excluded on ethical grounds, such as weapons manufacturing or nuclear power generation, we nevertheless apply a consistent process across our universe as described in the section below.

EXCLUSIONS

We seek to avoid investing in businesses that we believe are involved in activities that are unnecessarily harmful to people, animals or the planet. We not invest in producers of tobacco, manufacturers of nicotine alternatives and tobacco-based products, or companies involved in the development and production of controversial or nuclear weapons. To do so, we aim to avoid investments in companies that derive material operating revenues from direct business involvement in the activities listed in the table below.

Excluded activities	Threshold
Adult content	5% of revenue from the production of adult content 15% aggregate revenue from the production, distribution and retail of adult content
Non-regulatory animal testing for cosmetics	5% or more of revenue from production of non-regulatory animal-tested cosmetics. 15% aggregate revenue from production, distribution and retail of non-regulatory animal-tested cosmetics
Cryptocurrency	No direct investment in crypto currencies No direct investment in crypto currency exchanges
Fossil fuel generation (coal, coal seam gas, oil)	Primary source of income is exploration and production of fossil fuels
Problem gambling	5% of revenue from casino related revenue 15% of revenue from poker machine related revenue Companies skewed to “leisure gaming” for example lotto tickets fall within our accepted level of social impact
Predatory lending	5% of revenue from predatory lending activities
Human rights abuses and exploitation	Companies involved in serious or systematic human rights related controversies
Mining	Primary source of income is mining or exploration
Mining Services	Maximum 20% exposure to companies that derive more than 50% of revenue from providing products or services to mining companies Nil exposure to companies that derive more than 20% of revenue from providing products or services to coal miners
Nuclear	5% of total electricity distributed from nuclear power in a given year 5% of power generating capacity attributed to nuclear sources in a given fiscal year
Tobacco	Nil revenue from growers, producers or licensors of tobacco products, nicotine alternatives and tobacco-based products
Weapons	Nil revenue from the manufacture, development and/or production of controversial weapons (being biological and chemical weapons, depleted uranium ammunition/armour, anti-personnel mines or cluster munitions/submunitions and their key components). Nil revenue from the development, production and maintenance of nuclear weapons 5% of aggregate revenue from the production, distribution and retail of firearms and ammunitions

POSITIVE SCREENS

We favour companies which contribute to positive social and environmental outcomes and where prudent, seek to allocate capital to such investments. In all cases, we seek investment where the returns are predictable and valuations allow for capital appreciation. Favourable sectors of current focus include:

Environmental	Social
Sustainable energy	Education
Circular economy and waste management businesses	Healthcare and wellbeing
Sustainable infrastructure	Affordable housing
	Aged and child care

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Governance policies, environmental footprints, and corporate social responsibility all have the potential to impact a company's valuation and long-term financial performance. ESG considerations are therefore aligned with long-term investment goals.

The Fund aims to invest in companies which we consider to be responsible corporate citizens. These companies act in the interests of their shareholders by obeying relevant local laws, maximising relationships with stakeholders, and complying with prevailing community expectations about corporate responsibilities. These standards and expectations will continue to evolve through time and our process will accordingly evolve along with them.

Our meetings with company management provide an opportunity to discuss material non-financial risks and opportunities. Non-financial factors are assessed and weighted in a proprietary quality scoring matrix which seeks to formalise our assessment of key criteria.

Consideration of ESG issues raised by prospective and existing investments are investigated within the investment research process and incorporated into the quality scoring matrix. We do not use third party ESG scores, and while the materiality of certain ESG factors are sector/industry specific, the following section outlines our thinking on some universal key non-financial issues we consider in our process.

Environmental analysis

Environmental analysis incorporates an assessment of both the impacts of business operations and the impacts of the use of the product or service.

We prefer to invest in non-degenerative industries and in companies which focus on minimising the environmental impact of their operations, and through the lifecycle of their products. We look unfavourably at companies in heavy polluting industries that do not demonstrate mitigation strategies and targets.

More generally, the discounted cash flow valuation methodology used by the Fund will naturally favour companies with low capital needs. Such industries tend to have low carbon footprints given the lack of assets such as factories and other carbon intensive infrastructure required to generate operating cash flow. As such, the carbon footprint of the fund tends to be consistently lower than both the S&P/ASX Small Ordinaries Index and the S&P/ASX Small industrials Index.

Social analysis

Social analysis requires an understanding of the social impacts on:

- An entity's own workforce. This incorporates:
  - Working conditions
  - Remuneration and safety of workers
  - Employee engagement, diversity and inclusion
- End-users/consumers. In this regard we consider:
  - The quality of the products and services
  - The health, safety, and financial impacts on the users of the products
  - selling practices
- Affected communities
  - The health, safety, and financial impacts on the communities in which the products are used or the companies operate
  - Any societal or community upliftment

We endeavour to understand the corporate culture of the businesses we invest in as this provides a basis for understanding the approach to many of these issues.

We look to identify companies that seek to ensure that their supply chains are free from exploitation by providing safe, fairly remunerated conditions for workers. Safety is also critical in the assessment of the culture of the company, especially in industries such as mining services, construction etc hence we closely monitor safety outcomes for such companies.

Companies are assessed for potential exposure to modern slavery risk and the Fund produces an annual Modern Slavery Statement.

Governance analysis

We believe that assessing the abilities, quality, and integrity of company management is essential for successful small cap investments.

Governance is assessed on a case by case bases and includes an assessment of:

- An independent and appropriately qualified board, where possible including people of diverse genders and backgrounds. We believe such diversity creates a broad source and balance of idea generation and oversight.
- Adequate protection of minority rights and interests.
- Appropriate remuneration and executive compensation policies.
- Business ethics including evidence of anti-competitive behaviour, unethical conduct, fraud, or conflicts of interest
- Supply chain management including the resilience of the material supply chain, the environmental impact, any human rights issues, labour practices, and ethics and corruption within the supply chain

The small cap sector is typically the home of entrepreneurial companies with founders retaining large shareholdings. It is therefore critical that such parties exercise their control without harming the interests of minority shareholders. This does not mean we exclude companies with large founder shareholdings (in fact it is more often a positive as it shows strong alignment of interests), however we strongly discount those companies where such shareholders are seen to place their interests above any other shareholders.

ENGAGEMENT AND VOTING

We do not outsource our voting intentions to third party advisors. We use our direct contact with management teams to form and express a view on the company's capabilities and strategies.

We don't seek to invest in a flawed company in the hope of forcing change at board level to achieve an outcome or invest in a company with poor ESG principles in the hope of advocating for change. We will consider a company's corporate governance practices in the context of what is in the best interests of our clients and have appropriate regard to the company's circumstances.

We generally vote our shares as we believe our voice is important in avoiding poor governance or financial outcomes.

MONITORING

The portfolio is monitored on an ongoing basis for contraventions of the ethical screen, major controversies and ESG related issues, utilising a third party monitoring service. ESG related information for the small cap end of the index tends to be less consistently covered by third party service providers, so we use this information in conjunction with our own analysis to determine whether an issue amounts to a sufficiently material breach to warrant exiting the position. Where it is decided to divest, the asset is disposed of as soon as practicable, as determined on a case-by-case basis, whilst endeavouring to realise the best price it reasonably can, taking into account liquidity and other market forces. On occasion we may choose to engage with an investee company rather than divest as a better way to effect change.

Pengana Capital Group's ESG Committee meets monthly and agenda items include monitoring of the portfolio for negative screen compliance and, to the extent they are covered by a third party monitoring service, the Committee monitors the ESG risk of investee companies, considers new and ongoing controversies, reviews voting records, and monitors the sustainability and carbon risk of the portfolio against peers and appropriate benchmarks.

REVIEW AND ASSESSMENT

This Policy will be reviewed and updated from time to time to ensure that it remains relevant, current and compliant with all applicable laws, and corporate and community expectations.

DATE

Last review July 2023