

# IML Responsible Investment Policy 2021

IML's approach to Responsible Investment and ESG

## *Introduction*

Investors Mutual Limited (IML) recognises the importance of responsible investment, the impact that it can have on our client portfolios, and the broader power to shape society at large. We believe that we have a fiduciary duty to act in our clients' best interests, and that integrating environmental, social and governance (ESG) considerations into our investment decisions, as well as engaging with investee companies to positively influence corporate behaviour, are key components of exercising this duty.

As we implement IML's investment process and conduct our research operations, we regularly see the impact that ESG factors are having on companies and markets. For example, companies that are involved with high carbon emission sectors, such as thermal coal production, may face restrictions in their access to insurance or debt markets; the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry highlighted poor governance practices and drove significant change in the financial sector; and stocks exposed to ESG risks are often valued at a discount to their peers. To maximise investment performance, it is therefore critical that these factors be integrated into our investment analysis and decision-making.

As a fundamental investor with a long-term orientation IML has the requisite knowledge, experience, and relationships with companies to allow effective influence through corporate engagement and informed proxy voting. Where appropriate, we seek to improve both investment performance for clients, and ESG outcomes, by encouraging companies to improve their ESG risk management and to develop more sustainable business practices. We believe that companies that implement such practices will outperform those which do not.

IML has practiced responsible investment since our inception in 1998. However, our commitment was formalised in 2008 when we became a signatory to the **United Nations Principles of Responsible Investment (UNPRI)**, the world's leading proponent of responsible investment. The principles that we have committed to are:

- **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.

In addition to the principles of the UNPRI, where possible IML will use its influence to encourage corporate developments and behaviours that are aligned to the **UN Sustainable Development Goals**, which IML is supportive of. IML is supportive of the **Task Force on Climate- Related Financial Disclosures (TCFD)** (which includes tracking a company's scope GHG emissions and the weighted average carbon intensity of our

portfolios) and the **Paris Agreement**. We believe the reduction of Greenhouse Gas (GHG) emissions, operating in a sustainable manner and by extension the ability to discern which companies are actively reducing their carbon footprint, is a meaningful consideration when assessing the investment outlook for a company. As a bottom-up fundamental investor, the sustainability of a company's business model is highly pertinent.

The following sections of this policy outline in greater detail the process by which ESG considerations are integrated into our investment decisions and engagement activities.

## ***ESG integration***

IML has always integrated ESG considerations into our investment analysis. We view this as a critical aspect of responsible stock selection. ESG is included within our quality scoring system, and discussion of key ESG issues is included in our investment research reports. Portfolio Managers subsequently determine portfolio positions considering this view on quality and valuation.

### ***IML ESG Checklist***

Each analyst is required to complete an IML ESG Checklist for any stock under consideration for investment. The content of this ESG Checklist is informed by the **Sustainability Accounting Standards Board (SASB)** Engagement Guide and aims to ensure that all key ESG issues are identified for each company. Given the evolving nature of ESG risks, the content of the ESG Checklist likewise evolves over time as new issues emerge. The ESG Checklist will also highlight issues that require further research or engagement with the company.

The ESG Checklist ensures consideration of issues that may be relevant to companies such as:

#### ***Environmental factors***

- contribution to climate change through greenhouse gas emissions and energy consumption
- resource depletion
- production of waste, including plastics
- pollution
- stranded asset risk

#### ***Social factors***

- risk of modern-day slavery in the supply chain
- human rights
- maintenance of social licence to operate
- occupational health and safety record
- social impacts and community relations

#### ***Governance factors***

- independence of the Board and Chairperson
- board and management alignment with shareholder interests
- board composition and skills, and the conduct of directors
- remuneration
- relationships between key personnel and stakeholders
- accounting/ reporting and transparency of corporate decisions

Completing the IML ESG Checklist, informs the analyst ESG scores which are part of our overall quality scoring framework.

## ESG within the IML quality scoring framework

IML assigns quality scores to all companies in our investment grade universe. The overall quality rating is a score out of 20 that reflects the strength of the company's franchise, quality of management, exposure to ESG factors and financial strength. When selecting stocks for IML's portfolios, portfolio managers seek to include stocks with the most attractive combination of quality and valuation.

ESG represents 25% of the overall quality score, with separate E, S and G component scores. The ESG section score is the minimum of the E, S and G component scores, rather than the average, recognising that poor performance in one ESG area presents risks that cannot be offset by good performance in another.

FRANCHISE	MANAGEMENT	ESG	FINANCIAL STRENGTH
Competition & Bargaining Power	Operational Execution	Environmental	Balance Sheet
Capital Intensity	Capital Deployment	Social	Transparency
Exogenous	Alignment	Governance	Earnings predictability
Total Score out of 5	Total Score out of 5	Total Score out of 5 (Lowest score applies, rather than the average)	Total Score out of 5

## Traffic light alert system

Stocks that score 3 or above for the ESG section of the quality score are designated 'Green'; stocks that score 2 are 'Amber'; and those that score 1 are 'Red'. We show these traffic light colours on portfolio level reports. The aim of this designation is to alert portfolio managers and analysts to the stocks that require additional attention and vigilance from an ESG perspective.

Stocks designated Red face additional hurdles before being included in portfolios. Red stocks require a written 'ESG Considerations' note which will discuss the relevant ESG risks, and analyst models are required to demonstrate how ESG risks have been specifically factored into earnings forecasts and/or valuations. Additionally, a company scored both Red and Amber will likely lead to engagement with the company on the respective issues we have identified and the pathway for improvement.

## External vs Internal ESG research

IML may utilise external ESG research services to supplement, but not determine, IML's views on key ESG issues. While external research can be a useful source of relevant information, our own fundamental in-depth research, deep knowledge of companies, and experience with many key executives and board members in the Australian market still forms the basis of the ESG ratings that we give to each stock.

## Exclusions

Currently IML exclude Tobacco and Pornography companies from the Investment Grade Universe (IGU).

## Corporate engagement, stewardship and proxy voting

IML undertakes significant corporate engagement and stewardship with a view to serving our clients' best interests. We view this as a critical aspect of responsible investing and stock ownership. Regular meetings with

company management and board members are key aspects of our investment process. We use these meetings to deepen our understanding of a company's operations, financial position, management team, ESG practices and policies, and to provide feedback where we believe that a company can improve.

### ***Engagement Process***

The IML Investment Team maintains regular contact with our investee companies, and other companies in our investment grade universe. We generally meet with companies of interest at least quarterly following half-year and full-year results announcements, investor presentations and other occasions. These meetings are held with senior management, the board or other company representatives.

When we have major concerns with a company's behaviour, we initially escalate the issue directly through further contact with management or the board. If we are unsatisfied with the response to our concerns, we will then write directly to the board of directors. We have also written submissions to regulators in support of our investees. Additionally, we have collaborated with other major shareholders to achieve change.

### ***Proxy Voting***

IML believes that proxy voting is a key aspect of share ownership, as it provides the valuable opportunity for shareholders collectively to determine company policy. IML seeks to encourage sustainable business practices and positive ESG outcomes by voting proxies accordingly.

We vote on all resolutions with the aim of maximising returns for our clients through improved business and ESG outcomes. We also believe that voting against the re-election of directors who have overseen poor ESG outcomes provides a strong incentive for companies to improve their behaviour and is a key mechanism enabling shareholders to hold board members to account.

### ***External Proxy Voting Research***

We subscribe to external proxy voting research provided by Institutional Shareholder Services (ISS), and use its reports as an input into our voting decision-making process. However, we ultimately vote on the basis of our own knowledge and opinions that have formed through all aspects of our investment process.

### ***Reporting on Engagement Activities***

We report to clients on the outcome of our engagement and proxy voting activities on request.

### ***Further information***

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