PELLA

RESPONSIBLE INVESTING

Responsible Investing Manual

VERSION CONTROL

Version	Date	Description
1.0	29 Sep-21	Inaugural Responsible Investment Manual (RIM)
1.1	27 Feb-22	Added Pella's growth-to-FCF yield framework to the RIM
1.2	28 Sep-22	Added Pella's approach to managing portfolio liquidity to the RIM
2.0	18 Mar-24	Complete review of the RIM. Added more colour to the growth-to-valuation section, risk management section, and stewardship explanation. Minor changes to the way the investment process is described, without changing the underlying process.

Scope

The process described in the Responsible Investment Manual (RIM) is applicable to Pella Funds Management Pty Limited (ABN 36 650 028 103); Pella Management Pty Limited; Pella Funds Pty Limited (ABN 65 650 744 791); Pella Global Pty Limited (ABN 61 650 744 773); which are collectively referred to as "Pella" or "Pella Group" or "the Company".

The RIM currently applies to all funds managed by Pella. As of the date of the preparation of the most recent version of this document Pella managed two funds listed in Figure 1.

Figure 1 – Funds managed by Pella

Fund	ISIN(s)	Fund identifier
Pella Global Generations Fund	Class A - AU60PIM4167 Class B - AU60PIM56781 Class C - AU60PIM96944	ARSN - 653 919 478
Pella Global Securities Sustainability Fund	EUR I A - LU2468411959 EUR I D - LU2468412098 EUR R D - LU2564817075	LEI - 529900BUZ2O0X9PO3118

Authorisation

This document requires the following approvals:

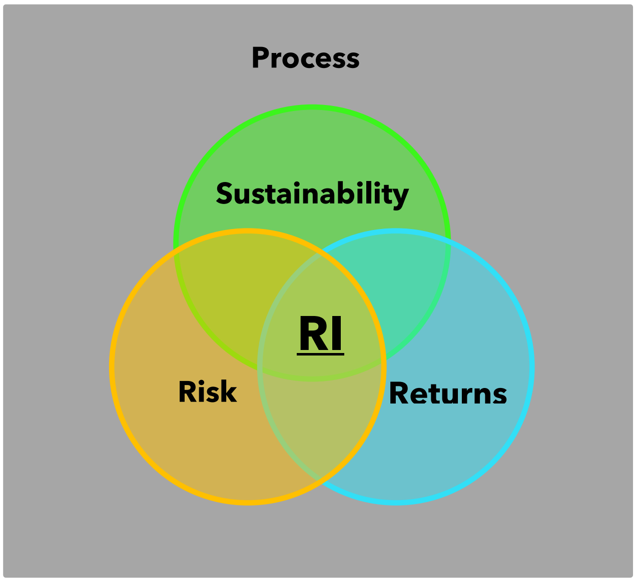
Authorisation	Board
Revisions	Managing Director

Contents

INTRODUCTION

This manual explains Pella Funds Management's ('Pella') approach to Responsible Investing ('RI'). Pella identifies RI as having four components: (i) Investment Process; (ii) Returns; (iii) Risk; (iv) Sustainability. All four components must be present to deliver RI outcomes. This manual is divided into four chapters, each one corresponding to the four components of RI.

Figure 2 – Pella's Responsible Investing Model



Source – Pella Funds Management

Chapter One – Process explains the four stages of Pella's Investment Process. Idea Generation, involves filtering Pella's investment universe, identifying potential investment candidates within that universe and preliminary research of candidates to determine which to pursue. This stage is followed with Due Diligence, in which the best candidates are deeply researched and considered for investment. The third stage, Exposure, is primarily concerned with portfolio construction and the final stage, Audit, involves stock and portfolio monitoring and adjustment.

Chapter Two – Returns explores Pella's approach to generating investment returns with the aim of beating the Benchmark over the medium-to-long term. To deliver this goal Pella strives to construct a portfolio that is cheaper, growing faster, and has superior Sustainability to the Benchmark. At the stock level Pella equally emphasises growth and valuation and has target valuation metrics given sustainable growth rates and vice-versa. At the portfolio level, Pella seeks several uncorrelated exposures to enable multiple opportunities for return generation.

In Chapter Three - Risk Management Pella defines risk as '*permanent capital loss and volatility of returns*'. Pella aims to have less severe drawdowns and lower volatility of returns than the Benchmark. To deliver this Pella applies a risk management quadrant consisting of Stock Selection, Portfolio Construction, Overlays, and Operational. Stock Selection includes risk metrics like leverage, liquidity, sustainability, valuation/growth, macro-outlook, binary bets, and turnarounds. Portfolio Construction involves managing exposure limits and encouraging diversification. Overlays includes efforts to limiting losses and analysing the greatest sources of risk. Operational focuses on ensuring Pella operates in a manner that is aligned with its stakeholders and actively considers risk.

Chapter Four – Sustainability explains Pella's process to construct a portfolio with sustainable outcomes in both an absolute sense and relative to its Benchmark. To do this Pella starts by constructing a portfolio that is composed of *'activities that can continue over the long term because they do not come at a material cost to current or future generations'*. Pella employs several strategies in its investment process including Negative Screen, Norms-Based , Positive Impact Themes, Investment Stewardship. In addition Pella is cognisant of the importance of its behaviour and this section also talks to Pella's Transparency Policy and Corporate Behaviour.

Chapter One – Process

Figure 3 – Pella's Responsible Investing Model

Source – Pella Funds Management

Pella's divides its investment process into four stages; Idea Generation, Due Diligence, Exposure, Audit ('IDEA'), which are comprised of 12 inputs (Figure 6). Pella applies its growth-to-valuation framework throughout the process, to evaluate the appropriate buy and exit prices of its investment candidates and investment holdings.

Growth-to-Valuation Framework

Pella's primary valuation model is our proprietary growth-to-valuation framework. This framework seeks to deliver a target rate of return by relating a company's growth to its valuation. Growth is primarily, but not exclusively, predicated on top line growth and how that top line growth is expected to translate into free cash flow (FCF) growth. Valuation is primarily predicated on a company's FCF yield (measured relative to enterprise value).

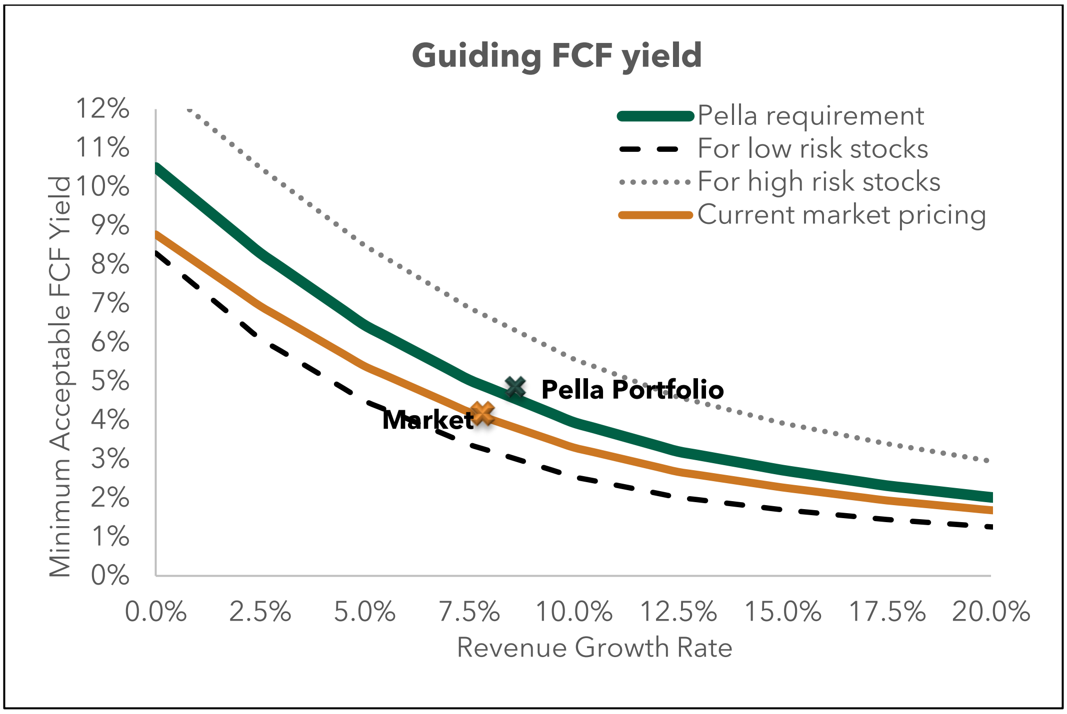
Our objective is to create a portfolio with a growth-to-valuation relationship that satisfies our target return requirements. It should also, ideally, offer a superior growth-to-valuation relationship to the Benchmark.

All other things being equal, we are willing to pay more for higher growth companies than for lower growth companies. The framework also makes explicit allowance for quality and risk, with critical quality and risk factors including:

- Reliability and sustainability of the company's growth.
- Extent to which growth translates into higher value for shareholders.
- Cleanliness/meaningfulness of the selected measure of valuation.
- Other measures of company/industry risk.

For a given growth rate, the higher quality/lower risk companies require a lower FCF yield than lower quality/higher risk companies. Figure 4 illustrates the output of the framework.

Figure 4 – Valuation framework key outputs



Source – Pella Funds Management

Key inputs

Input #1: Sustainable growth rate

Pella uses revenue growth as the starting point, and then converts that to FCF growth. For initial high-level screening purposes, our framework makes use of standardised operating leverage and cash conversion factors. As we drill down, these factors are replaced with explicit company-specific forecasts.

Pella's model is based on longer term growth rates. Our approach is to actively forecast the expected next three-year growth rate and then determine the longer-term sustainability of that growth. The sustainability of the growth rate is a function of quality and risk.

We analyse several factors to inform our longer-term outlook. Micro factors include the company's competitive positioning, reliance on price increases vs volume growth, management quality, and its opportunities for reinvestment in the business. Macro factors include industry structure and competitive dynamics, regulatory risks, risks of disruption, and the most relevant economic/cyclical drivers for the company.

Input #2: Sustainable FCF yield

We focus on the company's FCF yield to enterprise value as we believe FCF typically provides a more reliable measure of value than metrics taken from the P&L or the balance sheet.

In calculating FCF, it is important to look beyond the headlines and to assess the company's sustainable cash flow generating capacity (excluding any one-off or short-term factors). Factors included in our analysis include; the average level of capital investment required over the medium-to-longer term, and potential distortions from practices such as the excessive use of leasing/factoring and share-based compensation.

Input #3: Risk category

The framework makes explicit allowance for risk, by placing each stock into a specific risk "zone" and applying risk premia to each zone. The appropriate zone is determined by considering business/industry risks, sensitivity to macro conditions and the liquidity of the stock.

Key outputs

Our valuation framework provides a minimum acceptable FCF yield for each stock we analyse based on (1) its sustainable growth rate and (2) its risk profile. While each stock should satisfy the framework at entry into the portfolio, we allow some flexibility at the stock level to move out of the framework (e.g. due to price appreciation) once it is in the portfolio, provided the whole portfolio satisfies the framework.

To ensure the Fund is consistently complying with the valuation-to-growth framework we monitor the relationships on a "live" basis for every stock that is already in the portfolio (as well as for the portfolio as a whole).

- For stocks already included in the portfolio, a favourable movement in the gap between our minimum acceptable FCF yield and the stock's actual FCF yield can be a signal to increase its weighting, while an unfavourable movement can be a trigger to decrease its weighting or exit the position entirely.
- For the portfolio, we make sure that its weighted-average FCF yield never falls below the minimum acceptable level dictated by its blended growth rate and risk profile. Figure 5 illustrates how we would calculated the weighted average growth-to-valuation metrics using three investments.

Figure 5 – Sample of daily portfolio valuation-to-growth monitoring

	Company A	Company B	Company C	Core – W.Av
Target return – p.a.	8.0%	8.0%	8.0%	8.4%
Risk category	Below average	Below average	Below average	Below average
Growth rate p.a. (next 3 years)	11%	15%	8%	10%
Growth rate p.a. (next 10 years)	9%	12%	7%	8%
Target FCF yield	2.4%	1.7%	3.2%	3.2%
Actual FCF yield	3.1%	1.6%	5.1%	3.9%
Upside/Downside	27%	-4%	60%	23%

Source – Pella Funds Management

Model is anchored by the target return

The model derives our target rate of return by adding an appropriate equity risk premium (ERP) to a risk-free rate (RFR). The RFR is calculated with reference to global 10-year bond rates and each country/region's MSCI ACWI weight. The ERP is based on the prevailing market ERP (currently running at roughly 350bp) plus a Pella-specific "excess return" factor of +100-200bp (currently set at 150bp, giving us a total investment return hurdle rate of ~9%).

Pella's valuation framework has been specifically designed to operate across sectors. Firstly, regardless of sector, Pella believes the ultimate financial value of a company is the amount of FCF it generates, rather any industry-specific earnings measure. Secondly, the application of risk zones captures company-specific factors and industry-related factors (e.g. pricing power, regulatory risks, disruption risks, sensitivity to extraneous factors, etc). Finally, focusing on FCF yield on enterprise value standardises valuation across industries that use structurally different levels of gearing.

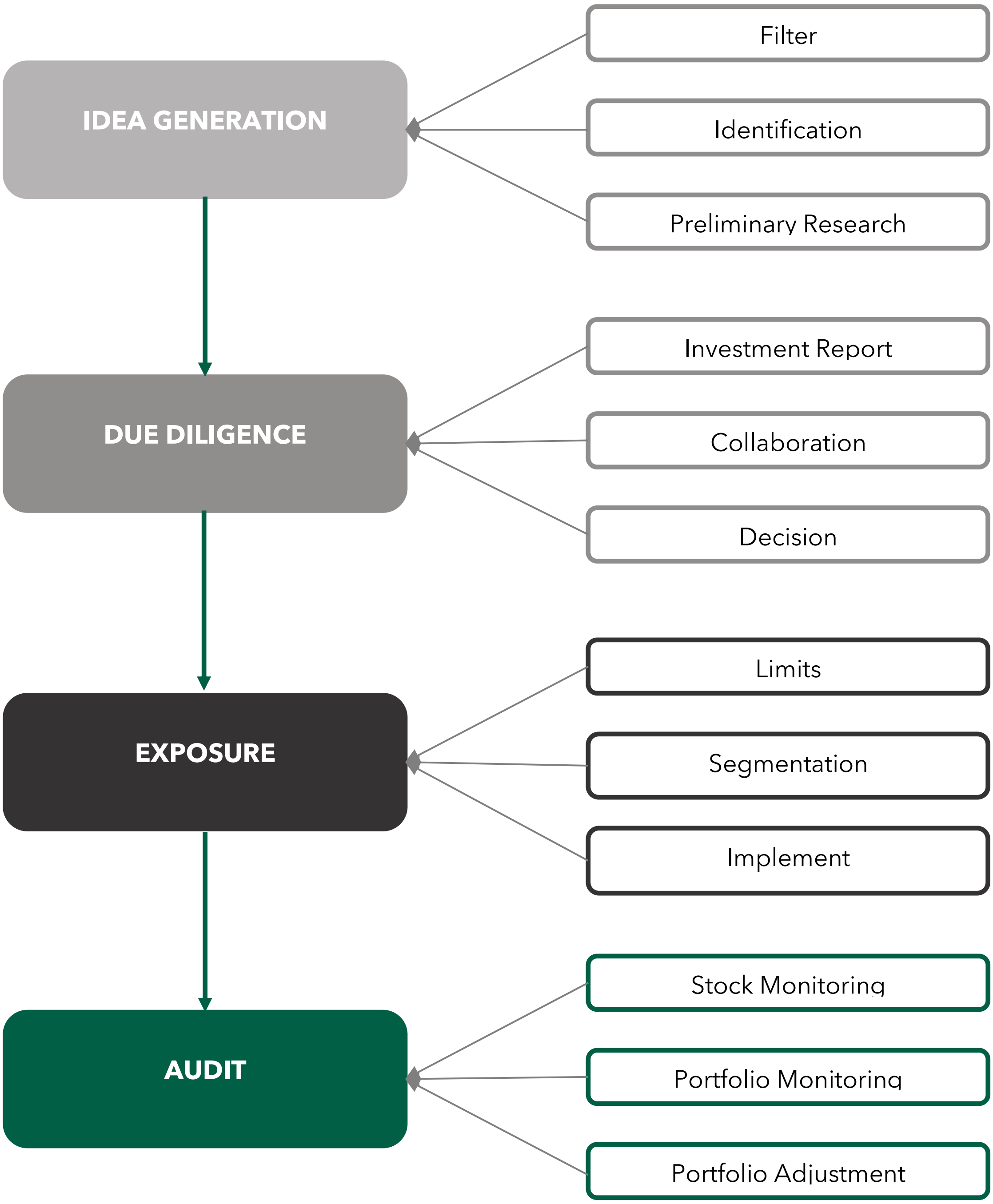
There are three challenges with the growth-to-valuation framework.

- Certain financials – some financial stocks (e.g. banks and insurers) require additional work to convert their earnings/cash flow into suitable FCF figures. This is possible through additional work and understanding of the business models.
- Highly capital-intensive industries - certain industries (e.g. utilities and property) often consistently and deliberately reinvest more than 100% of their operating cash flow into growth initiatives, resulting in no reported FCF. To manage this, we seek to identify underlying sustainable capex, excluding growth capex. This process is feasible but requires more assumptions than FCF-positive companies.
- Cyclicals - The issues that arise with cyclicals are not unique to Pella's valuation framework and nor are the solutions. We focus on identifying a cyclical stock's through-cycle growth rate and how this compares with to its through-cycle FCF yield. This provides an insight into where the stock is trading relative to its long-term fundamental value.

Where necessary, we also make use of the more tailored methodologies that have been developed for the sector in question (e.g. in the case of banks/insurers we consider a multi-stage Price/Book vs ROE methodology to be particularly useful). However, our goal is to assess the attractiveness of each stock's return dynamics versus all the other investment opportunities available to us, which is where the ability to convert things into our standardised language and framework comes into play.

Investment Process Overview

Figure 6 – Pella's 'IDEA' Investment Process



Source – Pella Funds Management

Idea Generation

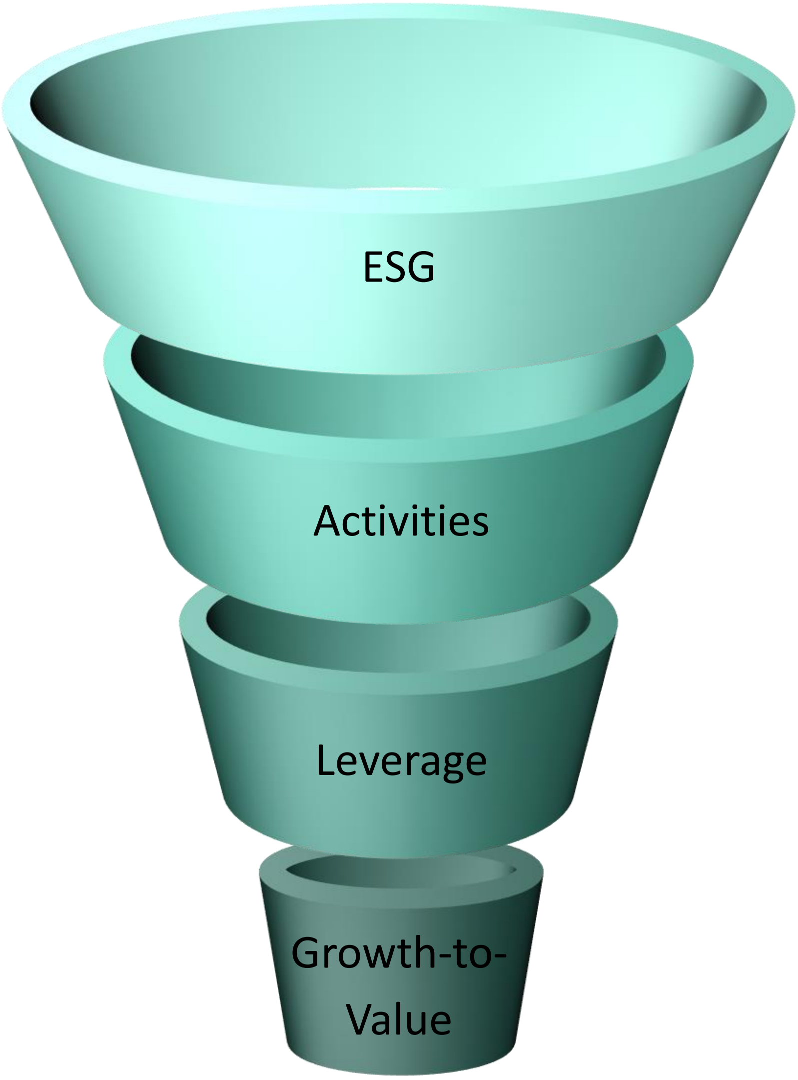
Idea Generation involves sourcing ideas and developing them to the point where a decision can be made whether to progress the idea to deeper analysis. The three inputs in the Incubation phase are: (i) Filter; (ii) Identification; (iii) Preliminary Research.

Filter

Idea Generation starts with dimensioning Pella's investable universe by screening-out companies that don't have the characteristics Pella seeks. There are 56,100 active listed equities in the world, of which roughly 7,030 have a market cap >US$1.5Bn. Post application of Pella's

ESG, banned activities, leverage, growth-to-valuation requirements, approximately 1,700 companies remain.

Figure 7 – Pella Global Sustainable Fund Investment Funnel



ESG requirements screen out approx. 1,500 companies, leaving approx. 5,500 candidates

Banned activities requirements screen out approx. 800 companies, leaving approx. 4,700 candidates

Leverage requirements screen out approx. 300 companies, leaving approx. 4,400 candidates

Growth-to-Value requirements screen out approx. 2,700 companies, leaving approx. 1,700 candidates

Source – Pella Funds Management

Identification

Post filtering the investment universe, Pella seeks to identify candidates from that investment universe for further research. These ideas are sourced from three primary avenues: (i) Quantitative screens; (ii) Analysts; (iii) CIO.

Quantitative screens – Pella conducts quantitative screens, primarily using ProPella, Pella's internal proprietary database. ProPella aggregates data from several sources including third-party quantitative financial databases, Pella's interactions with companies, and ESG research providers. There are over 8,300 companies in ProPella, generating over 150 metrics which are sorted, integrated, and analysed to help identify investment candidates.

Analysts - Analysts are encouraged to identify investment ideas. These ideas often follow company interactions, external research, and other observations.

CIO - CIO will identify certain trends or areas of improvement in the portfolio and nominate certain sectors or companies to be investigated.

Preliminary Research

Preliminary Research involves elementary research of a candidate company to determine if the candidate warrants progression into the Due Diligence stage. There are three parts to this input.

1. **Ownership** - once a candidate for further research is identified, an Analyst takes ownership of the research process and prepares an 'Initial (research) Report' on the candidate.
2. **Initial Report** – the role of this report is to identify whether an investment candidate warrants further research. The report identifies key drivers and risks associated with the candidate companies along with a rudimentary valuation and is used to confirm the candidate offers the characteristics that initially made it attractive. It is discussed with the Investment Team to assess its suitability for additional research. The CIO/PM considers the individual quality of the investment idea, whether the candidate would enhance the overall metrics for the portfolio, and how the candidate would affect the portfolio's risk metrics.
3. **Conclusion** - if the CIO/PM and Analyst agree that further research is warranted on the candidate company, it proceeds to Due Diligence.

Due Diligence

Due Diligence involves in-depth analysis of investment candidates, over three stages: (i) Investment Report; (ii) Collaboration; (iii) Decision.

Investment Report

The Analyst responsible for the candidate company prepares a detailed investment report on it. While the Analyst prepares most of the report independently, they regularly collaborate with the CIO/PM to ensure the analysis covers all the areas of interest to the CIO/PM. Some of the more frequent areas of analysis include:

Management quality – considerations include management track-record, whether management is investing for the long-term or harvesting the short-term, and management's attitude towards stakeholders.

ESG-related issues – determine if Pella's assessment of the company's ESG credentials align with the ESG rating agency's and whether there are any additional ESG-related issues requiring further analysis. Pella's ESG process is further explained in Chapter Four – Sustainability.

Industry analysis – understand the market structure and how the company fits into it.

FCF yield scrutiny – analyse the financial statements to determine the company's FCF yield. This involves understanding the underlying FCF generation and the candidate's capital structure.

Growth drivers – determine the candidate's key growth drivers and its sustainable growth rate.

Micro and macro risks – expand on the candidate's key micro and macro risks.

Finally, the investment report should identify the key metrics Pella will observe to determine if the company is fulfilling Pella's investment expectations.

Collaboration

The Investment Report is distributed to the Investment Team to collaborate on the candidate. The Investment Team conducts an open forum discussion with the aim of bringing to light any remaining material issues and assess the investment case. Further analytic work follows these meetings, and this can be an iterative process until all key issues are identified and considered.

Decision

The CIO/PM makes the ultimate decision to invest or not. If the decision is to not invest, the reasons are documented in ProPella. If the decision is to invest, the candidate progresses to the Exposure phase of the investment process.

Exposure

This stage involves developing exposure to an investment candidate via the portfolio construction process. The Exposure stage has three inputs: (i) Limits; (ii) Segmentation Strategy; (iii) Implementation.

Limits

Pella has predefined country, region, sector, and ESG rating exposure limits to ensure the portfolio fulfills its ESG requirements and is not over-exposed to one area. The maximum exposure to any one sector is 25% of the Fund. The maximum exposure to any one country is 10% above the Benchmark weight. The maximum exposure to any one region is 25% above the Benchmark weight. Figure 8 summarises the maximum country and regional portfolio exposure using Benchmark weights.

Figure 8 – Indicative country & regional limits (1)

	Index Weight	Pella max weight
United States	62%	72%
Canada	3%	13%
Other	3%	13%
North America	**67%**	**92%**
Germany	2%	12%
France	3%	13%
United Kingdom	4%	14%
Netherlands	1%	11%
Other	6%	16%
Europe	**15%**	**40%**
China	2%	12%
Japan	6%	16%
India	2%	12%
Other	4%	14%
Asia	**14%**	**39%**
Brazil	1%	11%
Other	0%	10%
Latam	**1%**	**26%**

Source – Pella Funds Management
(1) As of 29 Feb-24

Figure 9 illustrates Pella's ESG rating limits. It demonstrates that at least 30% of the portfolio must be invested in companies with an MSCI ESG rating of A or higher, at least 70% of the portfolio must be invested in companies rated BBB or higher, and the portfolio can have zero exposure to companies with a CCC ESG rating. Further, the portfolio should have an aggregate

ESG score that is superior to the Benchmark[1]. The Portfolio Construction section in Chapter Three - Risk Management provides additional discussion of the portfolio limits.

Figure 9 - Portfolio ESG rating limits

MSCI Rating	Pella's requirement
AAA, AA, A	>30% of portfolio
AAA, AA, A, BBB	>70% of portfolio
CCC	0% of portfolio
Portfolio aggregate ESG score	Superior to the Benchmark

Source – Pella Funds Management

Segmentation Strategy

Every company in the Fund is classified as either Core, Cyclical, or Innovation with the classification, along with ESG rating, having a direct impact on the position size. Figure 10 illustrates the segmentation strategy limits. Depending on the ESG rating, the maximum weight of a Core position is 5% (at cost) whereas for Cyclical and Innovation it is 3% (at cost). The minimum weight for all positions is 1%, to avoid developing a long tail of low conviction ideas.

Figure 10 - Summarized Segment Limits

Segment	Core	Cyclical	Innovation
Company Characteristics	Stable and growing	Operates in a cyclical industry, which is poised for upturn	Company specific situation
% of fund NAV	60-80%	0-30%	0-20%
Max weight (1)			
AAA, AA, A, BBB (2)	5%	3%	3%
BB, B (2)	3%	3%	3%
CCC (2)	0%	0%	0%
No Rating (2)	3%	3%	3%
Min weight	1%	1%	1%
Risk type	Long term structural	Short-term cyclical	Stock specific
Risk level	Lowest	Medium	Highest
Max position size (2)	5%	3%	3%
Stop loss	No	✓	✓

Source – Pella Funds Management
(1) At cost
(2) MSCI ESG rating

Implementation

The CIO/PM is charged with determining portfolio weights within the guidelines explained in Limits and Segmentation Strategy segments above. The entry of a company into the portfolio might trigger adjustments to existing holdings to ensure the risks on a portfolio level remain

[1] Fund ESG score is calculated by Pella using position weights and MSCI ESG score; Benchmark ESG score is calculated by Pella using benchmark position weights and MSCI ESG scores. Pella's portfolio score and benchmark score are grossed up to 100% to account for the Fund's cash holdings and benchmark constituents that do not have a MSCI ESG rating.

balanced. The ultimate results of the Exposure phase depend on correctly balancing the risk/return characteristics of the portfolio.

Audit

Audit involves three inputs: (i) Stock Monitoring; (ii) Portfolio Monitoring; (iii) Portfolio Adjustment.

Stock Monitoring

Analysts continually monitor the company's progress relative to Pella's investment case and the company's price relative to Pella's target valuation. Based on these inputs, the Analyst updates the investment case and provides the team with regular updates.

Portfolio Monitoring

The portfolio is constantly monitored to ensure it is aligned with Pella's growth-to-valuation requirements, has superior Sustainability credentials to the market, and complies with Pella's various limits and liquidity requirements.

Portfolio Adjustment

The CIO/PM will adjust the portfolio based on several factors including the outcomes from Stock Monitoring and Portfolio Monitoring. In addition, the CIO/PM might adjust the portfolio in response to meaningful or anticipated changes in the market environment. These decisions are often made from a risk perspective and any actions taken would be with the aim of lowering the risk of permanent loss of capital to Pella's investors. For example, the adjustment might involve reducing exposure to at-risk sectors/geographies or increasing exposure to areas that are counter to the perceived risk.

Chapter Two – Returns

Figure 11 – Pella's Responsible Investing Model

Source – Pella Funds Management

This chapter explains Pella's approach to generating investment returns with the aim of beating the Benchmark over the medium-to-long term. Pella believes that this will be delivered by constructing a portfolio that is aligned with Pella's growth-to-valuation framework, is ideally both cheaper and growing faster than the Benchmark, and has superior Sustainability credentials to the Benchmark. Pella approaches these goals from two angles: (i) Stock Level; (ii) Portfolio Level.

Stock Level

Pella places equal emphasis on a stock's growth and valuation. Pella believes that to achieve consistent long-term outperformance, growth must not be compromised for price, nor price for growth. The 'Growth-to-Valuation Framework' section (above) explains Pella's methodology for combining a company's expected growth with its current valuation.

Sustainability of Growth

Pella exclusively invests in companies that are expected to sustainably grow. The Investment Team delve deeply into each company's long-term growth drivers to develop an informed view of its long-term growth outlook. During this analysis, the micro factors considered include competitive position and management quality and the macro factors include industry dynamics and the most relevant economic/cyclical factors for the company.

Pella's ideal investment candidates have a sustainably strong competitive position, proven management, consistent historical growth rates, concentrated industry structure and operate in a favourable long-term secular environment. Some themes Pella has identified as target rich environments for these stocks include:

1. Cleaner energy
2. Conservation and resource efficiency
3. Emerging market consumption
4. Health and longevity
5. Industrial resurgence
6. Technological disruption and connectivity

Valuation

Pella's valuation methodology focuses on free cash flow ('FCF') yield, which is calculated as a company's sustainable FCF divided by its enterprise value (market cap plus net debt). To calculate the sustainable FCF Pella focuses on the cash flow statement, rather than using a proxy of FCF, taken from the Statement of Operations (P&L).

To evaluate the attractiveness of a company's valuation, Pella compares a company's sustainable FCF yield to Pella's target FCF yield. The target FCF yield is calculated using several factors, including: (i) risk-free rate; (ii) prevailing equity risk premium (ERP); (iii) company's sustainable growth rate; and (iv) company's risk profile.

The framework makes explicit allowance for each company's risk profile. This "raises the bar" for higher-risk companies by ensuring that they can only qualify for inclusion in the portfolio if their return characteristics are sufficiently attractive. The approach supports the other important part of Pella's over-arching goal: to have less severe drawdowns than the market during major market declines and to have lower volatility of returns than the Benchmark.

The framework's explicit allowance for risk also enables Pella to target a lower FCF yield for companies with extremely attractive characteristics such as highly predictable cash flow growth or exceptionally low sensitivity to the economic/macro environment.

Refer to Growth-to-Valuation Framework for further discussion about Pella's valuation framework.

Portfolio Level

Pella's Portfolio Level targets are to construct a portfolio that is ideally both cheaper than the market and growing faster than the Benchmark, and has superior Sustainability characteristics to the Benchmark. By meeting these targets Pella believes it will achieve its core return aims of delivering superior returns and with lower volatility and superior Sustainability than the Benchmark.

Pella's portfolio targets 30-50 stocks with several uncorrelated return profiles. Pella believes this provides the right balance of concentration to avoid mimicking the Benchmark and diversification to reduce risk.

All positions are characterised as either Core, Cyclical, or Innovation, according to their risk and return profile. Core is companies with highly dependable return profiles. Cyclical is businesses operating in cyclical industries, which offer the potential to generate meaningfully positive returns due to a cyclical upturn. Innovation is fast growing, and often disruptive, businesses where Pella expect superior returns in the short to medium term.

Figure 12 summarises key requirements for the segments. It demonstrates that Core makes up most of the portfolio, with Cyclical and Innovation providing potential for differentiated returns to Core. Having most of the Fund in Core allows Pella to supplement the growth delivered by these stable businesses with companies exposed to shorter and more powerful economic cycles (Cyclical) and companies with innovative and disruptive growth paths (Innovation). This mix allows the Fund to benefit from a wide range of market conditions.

Figure 12 - summarized Segment Requirements

	Core	Cyclical	Innovation
Weight	60-80%	0-30%	0-20%
Sustainable growth	5-15%	n/a (1)	n/a

Medium-term growth	5-15%	>15%	>15%
Target FCF yield	Above market	>Core	>Core
Return profile	Stable	Cyclical	Variable

Source – Pella Funds Management
(1) Sustainable growth for Cyclical can't be calculated with dependable accuracy owing to the cyclicality

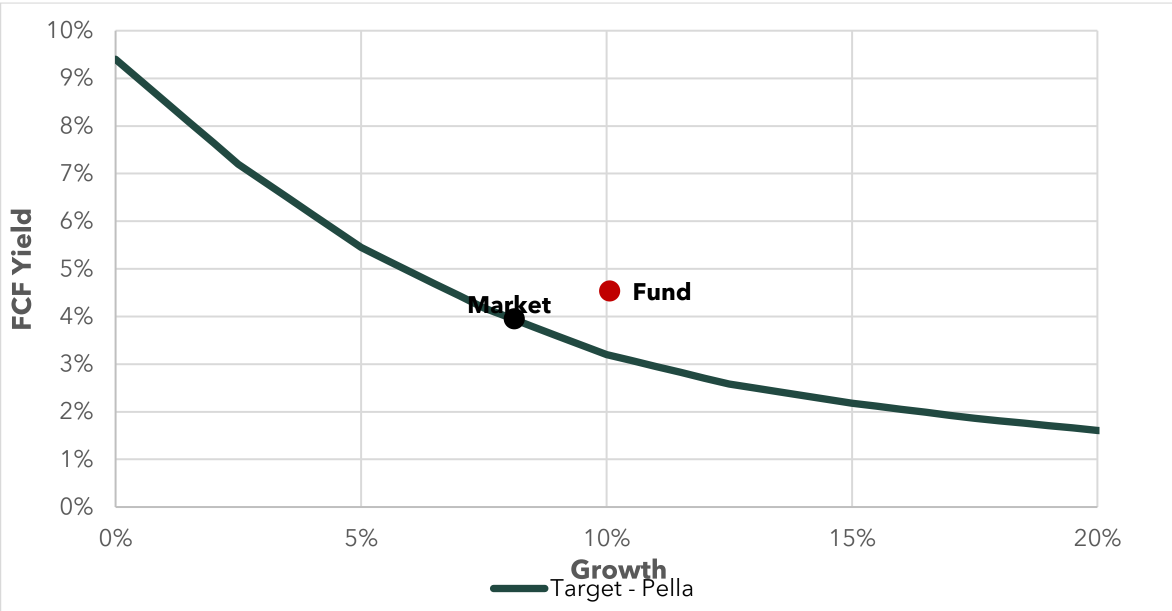
Pella regularly, and at least monthly, compares the portfolio's FCF yield and expected growth relative to the Benchmark. Figure 13 and Figure 14 illustrate the outcomes of the growth-to-valuation analysis Pella performs. While Pella seeks superior valuation and growth to the Benchmark, it is permissible if one of those metrics temporarily trails the Benchmark, provided the combination is superior to the Benchmark. For example, it is possible for Pella's portfolio to have a lower FCF yield than the Benchmark, if the portfolio has a materially superior growth outlook, such that the portfolio satisfies Pella's target return requirements.

Figure 13 – Portfolio FCF yield and growth

	FCF yield (1)	Growth (2)
Pella portfolio		
Core	4.5%	9.3%
Cyclical	4.4%	10.2%
Innovation	4.9%	17.4%
Total	4.5%	10.1%
Benchmark (1)	4.0%	8.1%

(1) To remove potential distortions, Pella removes extreme positive and negative valuation and growth rate tails from the benchmark calculations

Figure 14 – Pella and Benchmark growth-to-valuation relationships



Chapter Three - Risk Management

Figure 15 – Pella's Responsible Investing Model

Source – Pella Funds Management

Pella defines risk as permanent capital loss and volatility of returns and aims to have less severe drawdowns and lower volatility of returns than the Benchmark. To deliver this Pella's risk management framework consists of four quadrants (Figure 16). The risk controls described within each quadrant are hard rules.

Figure 16 – Pella Risk Framework Quadrants

Stock Selection	Portfolio Construction
• Sustainability - ESG, exclusions • Max gearing - net debt/EBITDA <4 • Required growth/valuation • Liquidity requirements - >US$2bn mkt cap, daily liquidity) • Quality • Track record • Transparency • Avoid macro headwinds, turnaround situations, binary bets	• Diversification – at revenue level • Segmentation strategy – consistency • Exposure limits - (Geographic (+/-25%), Sector (25%), Stock (5% for Core, 3% rest) • Sustainability requirements • Liquidity requirements - regularly check for days to 60%, 75% and 90% liquidation at capacity) • ESG limits - 70% in companies with ratings greater than BBB, target superior ESG rating to Benchmark

Overlays	Operational
• Stop losses (25% stop loss) • Attribution analysis • Stress tests • Zero leverage in the Fund • Derivatives only used to hedge FX risk	• Pre-dealing and post dealing checks • Reconciliations • Separation of duties • Training • Ethical Charter • Policies

Source – Pella Funds Management

Stock Selection

To define its investment universe, Pella applies the following risk metrics:

1. **Leverage –** Pella avoids companies with excess leverage, with the current maximum leverage of 4x net debt to EBITDA.
2. **Liquidity –** Pella's stock level liquidity criteria are:
   a. Target market cap floor is US$1.5Bn.
   b. Maximum percent of company owned is 5% of the outstanding shares.
3. **Sustainability –** Pella has several sustainability requirements that exclude companies that Pella believes face (potentially existential) risks from their behaviour or output. This is explained in Chapter Four – Sustainability and means Pella excludes companies that have weak ESG practices or are involved in activities that are unsustainable or are involved in material controversies.
4. **Growth-to-Valuation –** Pella targets companies that are both growing and reasonably valued. A higher return requirement is applied to higher risk companies. This process is explained in greater depth in Growth-to-Valuation Framework section.
5. **Macro –** Pella avoids companies that face severe secular headwinds.
6. **Binary bets –** Pella avoids companies whose investment case is a binary bet. For example, biotech companies with one drug in development that will make or break the company.
7. **Turnarounds –** Pella avoids turnaround situations because Pella has observed that these are either rarely successful or do not proceed according to the anticipated time frame.

Pella has position limits for stocks based on their risk characteristics and stop losses for the riskier stocks. Figure 17 illustrates the position limits and demonstrates that the lowest risk stocks (Core with an ESG rating of BBB or higher) have maximum weight of 5% and no stop loss, while the riskier stocks (Cyclical/Innovation) have a maximum weight of 3% and stop losses.

Figure 17 - Max weight (at cost)

MSCI ESG Rating	Core	Cyclical	Innovation
AAA, AA, A, BBB	5%	3%	3%
BB, B	3%	3%	3%
C	0%	0%	0%
No rating	3%	3%	3%
Stop loss (1)	No	Yes	Yes

Source – Pella Funds Management

(1) Explained in the Overlays section in the Risk Management chapter below

Portfolio Construction

The portfolio targets 30-50 stocks with uncorrelated returns to manage portfolio risk. This means there should never be one theme or market environment that will dominate the Fund's risk. This helps stabilise returns and contributes to limiting losses during severe market downturns.

As part of the strategy to distribute the Fund's exposures and avoid overcrowding Pella has exposure limits, outlined below:

1. **Sector limit -** maximum exposure to any one sector is 25% of the Fund. There is no minimum floor, and the Fund can have zero exposure to a sector.
2. **Country limit** (Figure 8) **-** maximum exposure to any one country for the Fund is 10% above the Benchmark weight and there is no minimum exposure. For example, if the US is 62% of the Benchmark, the Fund's maximum exposure to the US is 72% and the Fund could also have 0% invested in the US.
3. **Regional limit** (Figure 8) **-** maximum exposure to any region is 25% above the Benchmark weight and there is no minimum exposure. For example, if Europe is 15% of the Benchmark, the Fund's maximum exposure to Europe is 40% and the Fund could also have 0% invested in Europe.
4. **ESG limits** (Figure 9) **–** minimum 30% of the Fund invested in stocks with a MSCI ESG-rating of A or above and minimum 70% of the Fund invested in stocks with a MSCI ESG-rating of BBB or above.
5. **Excluded activities** (Figure 27) – Pella excludes several activities from its investment universe, including tobacco, casinos, animal cruelty, fossil fuel mining, deforestation, among other activities.
6. **Cash limit –** maximum cash held in the Fund is 20% to ensure the Fund positioning doesn't reflect bets on market direction, while not forcing Pella to rush to invest when the Investment Team is in the process of identifying suitable candidates.
7. **Fund liquidity –** it must be possible to liquidate at least 67% of the portfolio within five trading days, at 20% of the daily trading volume, and assuming the Fund is at its theoretical capacity. Pella's methodology for delivering this as follows:
    a. Calculate theoretical daily trading volume – calculated by multiplying the trailing twelve-month daily trading volume (using average of the median and mean daily volume) for each position by its most recent closing price.
    b. Calculate position size assuming fund at capacity – multiply each position's weight in the portfolio by the Fund's capacity limit.
    c. Calculate the percent of each position that can be sold – calculating the percent of each position that can be liquidated using several different assumptions of days trading and percent of the stock's daily trading volumes.
    d. Sensitivity analysis - calculate the percent of the portfolio that be liquidated using the aggregate of the position calculations under several trading day (5-days, 10-days, 20-days) assumptions and percent of daily trading volume (10%, 15%, 20%, 25%) assumptions.
    e. Corrective action – if the Fund does not comply with Pella's liquidity requirements, take immediate corrective action to bring the portfolio into compliance. This would involve reducing exposure to less liquid positions.
8. **Active management -** the portfolio will be adjusted in response to the changes in the market environment that meaningfully impact Pella's risk assessment. Actionable examples

include reducing exposures to the most at-risk regions or sectors or increasing exposure to positions that benefit from the perceived risk.

Limits are also applied using Pella's segmentation strategy (Core, Cyclical, Innovation), which serves as a portfolio risk budget. Companies classified as Core have the lowest risk profiles and are afforded the highest fund allocation. Cyclical and Innovation offer higher return expectations but also have higher risks and are limited to a maximum combined 40% of the portfolio. Additional detail is available in the above Segmentation Strategy discussion.

Overlays

Overlays provide risk management tools beyond stock selection and portfolio construction, including:

- **Stop losses** - stop losses are applied to the Cyclical and Innovation segments and are triggered if the stock declines by 25% from its trailing high since Pella initiated a position in that stock. This is in recognition that Cyclical and Innovation stocks can be riskier than Core positions and helps ensure that these riskier positions do not create a material drag on performance if the investment evolves in unexpectedly negative ways.
- **Attribution analysis –** Pella conducts an attribution analysis monthly to understand the source of the portfolio's returns. This analysis is helpful to understand the sources of the portfolio's return deviations and risks.
- **Stress tests –** using Bloomberg Port, Pella conducts monthly analysis of the portfolio's likely return under several extreme scenarios, including: (i) 2009 equity markets rebound; (ii) 2015 Greece financial crisis; (iii) 2011 Libya oil shock; (iv) 2008 Russian financial crisis; (v) 2010 oil price drop; (vi) 2011 Japan earthquake; (vii) 2011 US debt ceiling crisis and debt rating downgrade; (viii) equity markets up/decline 10%; (ix) Euro appreciates/depreciates 10% relative to the USD; (x) 2008 Lehman default. The stress test is used for our internal understanding of the sources of portfolio risks, rather than necessitating any immediate action.
- **Zero leverage in the Fund –** the Fund has zero leverage and only uses derivatives to hedge FX risks.
- **Derivatives –** the Fund hedges FX risks when the AUD exchange rate is at extremes.
    - Foreign exchange forwards and futures are the only instruments used to hedge FX exposure.
    - Pella targets protecting investors from losses due to an appreciating AUD.
    - Pella believes that major currencies tend to trade within consistent ranges, implying Pella should initiate/increase hedges when the AUD is low by historical standards, and most exposed to potential FX losses from an appreciating AUD.
    - Pella never speculates on currency and has rules for the foreign exchange hedging process as illustrated in Figure 18**Error! Reference source not found.**.

Figure 18 – Pella's FX hedging process

Process	Example using AUD/USD
Pella commences hedging when the AUD is 15% below the neutral FX rate, which Pella calculates using the five-year trailing moving average	• The five-year moving average is approximately 0.7013 ('neutral rate') • Pella will commence hedging when the rate declines to 0.5961 ('hedge rate')

The initial hedge is 50% of the exposure	• If 50% of the portfolio was invested in USD-denominated stocks, the initial hedge would be for 50% of that position, or 25% of the entire portfolio
Pella has the discretion to increase hedges if the AUD continues to decline	• If the AUD continues to decline below the hedge rate Pella has discretion over any increase in the hedge beyond the 50% of the position already hedged
Pella will reduce the hedge when the AUD appreciates to between 0-15% of the neutral rate so that a maximum 50% of the position is hedged when the AUD reaches the neutral rate	• Pella will reduce the hedge when the AUD appreciates to between the hedge rate and the neutral rate so that a maximum 50% of the position will be hedged if the AUD reaches the neutral rate
All hedges are removed when the AUD reaches 10% above the neutral rate	All hedges will be removed when the AUD reaches 15% above the neutral rate ('unhedged rate')

Source – Pella Funds Management

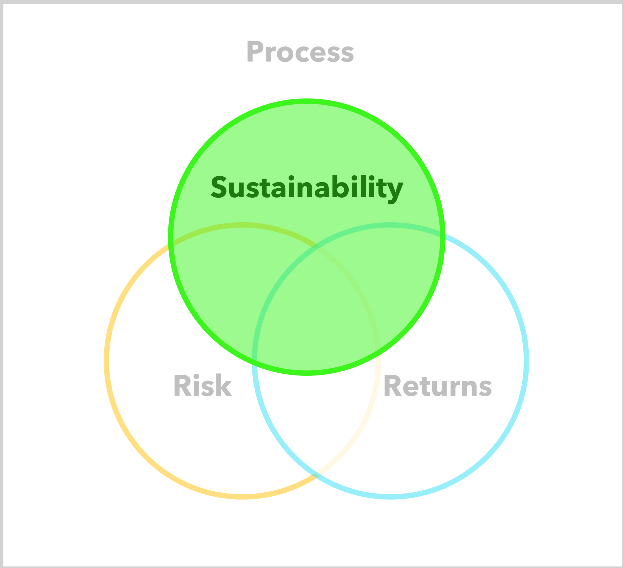
Operational

Pella's operational risk controls are designed to reduce operational risks and conflicts of interest. These controls include:

- **Employee stock trading rules –** Pella's employees are not allowed to purchase shares listed on exchanges outside of Australia, and all the employees' discretionary international share exposure must be in Pella's fund(s). This helps reduce conflicts of interest and ensures the alignment of interest between Pella's employees and clients.
- **Pre-dealing and post dealing checks –** Pella's order management system has prespecified rules that help ensure trades comply with Pella's risk limits. In addition, all trades placed by Pella's trader are reconciled by another team member to ensure the trades were implemented correctly. Finally, all trades are audited post dealing to ensure they comply with the orders.
- **Reconciliations –** Pella's investment positions, cash position, and investment income is reconciled daily by a qualified middle office provider.
- **Separation of duties –** there is a separation of duties between the person making the investment decisions and the person implementing the trades.
- **Training –** Pella provides its employees with regular training across all areas of compliance.
- **Code of Ethics –** Pella employees are required to sign and adhere to Pella's Code of Ethics.
- **Policies –** Pella maintains a comprehensive Policy Handbook that is a living document. All employees are required to read and understand the policies and sign an annual attestation that they understand the policies.

Chapter Four – Sustainability

Figure 19 – Pella's Responsible Investing Model



Source – Pella Funds Management

Pella's Intention

Pella defines sustainability as *'activities that can continue over the long term because they come at a material cost to current or future generations'*. Pella's goal is to behave and construct a portfolio with sustainable outcomes in both an absolute sense and relative to its Benchmark.

To deliver a portfolio with superior sustainability, Pella applies several Sustainable/RI strategies, as defined by the leading RI accreditation bodies, and summarised in Figure 20. These strategies are incorporated throughout Pella's investment process at the stock level and the portfolio level. Every Analyst is responsible for incorporating sustainability considerations during their research process and the PM/CIO is responsible for ensuring the portfolio satisfies its ESG requirements.

Figure 20 – Comparison of Sustainability/Responsible Investment Strategies

Eurosif	GSIA/RIAA equivalent	PRI-Equivalent	EFAMA-equivalent
ESG integration	ESG integration	Integration of ESG issues	
Exclusion of holdings from investment universe	Negative/exclusionary screening	Negative/exclusionary screening	Negative screening or exclusion
Norms-based screening	Norms-based screening	Norms-based screening	Norms based approach (type of screening)
Engagement & voting on sustainability matters	Corporate engagement & shareholder action	Active ownership & engagement. Three types: engagement, voting, shareholder resolutions	Engagement (voting)
Best-in-class investment selection	Positive/best-in-class screening	Positive/best-in-class screening	Best-in-class policy (type of screening)

Sustainability themed investment	Sustainability themed investment	Sustainability themed investment	Thematic investment (type of screening)
Impact Investing	Impact/Community investing		

Source – [Eurosif, European SRI Study 2018, page 12]

Figure 21 – Summary of Pella's Sustainability Strategies

Strategy	Key measures	Targets
ESG Integration	• Portfolio aggregate ESG rating and score • % Of portfolio invested in companies with exemplary ESG rating	• Portfolio ESG rating (1) superior to the Benchmark (2) ESG rating • >30% of portfolio invested in companies with ESG rating (1) of AAA, AA, or A • >70% of portfolio invested in companies with ESG rating (1) of AAA, AA, A, or BBB
Negative Screen	• % Of portfolio invested in companies that are involved in activities that are included in the Negative Screen	• 0% of portfolio invested in companies involved in these activities (3)
Norms-Based Screen	• % Of portfolio invested in companies that breach Norms-Based practices.	• 0% of portfolio invested in companies that breach Norms-Based practices
Corporate Engagement	• % Of portfolio's shareholder votes that Pella participates in • Number of instances Pella is a catalyst to either improved ESG practices by investee companies or an unrated company obtaining an ESG rating	• Participate in 100% of votes • Improve the ESG practices of least one investee company p.a.
Positive Impact	• % Of portfolio invested in companies with meaningful exposure to one or more of Pella's Positive Impact Themes	• Invest in these companies whenever they satisfy Pella's financial criteria, including valuation
Sustainability Themed	• Portfolio carbon intensity	• Carbon intensity of portfolio is at least 30% below the Benchmark

Source – Pella Funds Management

ESG Integration

Pella incorporates ESG considerations throughout its investment process. This is delivered using internal analysis, MSCI ESG ratings and assessing controversies. Figure 22 is a non-exhaustive summary of common ESG issues Pella considers.

Figure 22 - Common ESG Issues Pella Considers

Pillar	Issues
Environment	• Climate change – uranium & nuclear power, fossil fuels, carbon footprint • Sustainability – renewable energy, deforestation • Biodiversity and water – management of water resources, GMO • Pollution & waste – waste reduction, recycling, water treatment, packaging materials

Social	• Human capital – workplace health & safety, labour standards • Product liability – product safety, privacy & data security, chemical safety • Human rights – liberty, affordable housing, equality • Community standards – animal cruelty, alcohol, junk food, weapons
Governance	• Management structure – director independence, remuneration, board entrenchment • Governance – compliance, board accountability • Ethics – transparency, corruption, tax strategy

Source – Pella Funds Management

Pella integrates ESG considerations at the stock level and the portfolio level, with the process for each level summarised in Figure 23.

Figure 23 - ESG Integration process summary

Stock Level	Portfolio Level
Pre-Research Exclusion – screen out companies rated by MSCI as CCC & identify companies MSCI rates B or BB, which require positive impact for inclusion.	Portfolio weights – max individual stock weight is partly a function of MSCI ESG rating
Fundamental Research – identify key ESG issues through internal analysis, supplemented with MSCI ESG analysis	Quality Assurance – ensure aggregate portfolio weights fit into rating guidelines
Documentation – ESG templates in research reports & ProPella database.	Continuous Improvement – identify the portfolio's areas of strength & areas with most potential for improvement
	ESG Benchmarking – measure portfolio ESG rating & ensure it is superior to the Benchmark

Source – Pella Funds Management

Stock Level

The stock level integration is divided into three parts: (i) Pre-Research Exclusion; (ii) Fundamental Research; (iii) Documentation.

Pre-Research Exclusion starts with screening out all companies with a MSCI ESG rating of CCC, which fall outside Pella's investment universe. It also involves identifying all companies with a MSIC ESG rating of B or BB, which are within Pella's investment universe but must have a positive sustainable impact for inclusion, subject to those companies having material revenue from positive impact activities. To be included in portfolio consideration, companies with a B rating must generate at least 50% of their revenue from a positive impact activity and companies with a BB rating must generate at least 20% of their revenue from positive impact themes. These requirements are summarised in Figure 24. Companies with no rating may be included subject to passing Pella's internal ESG analysis and Pella engaging with the company to obtain a MSCI ESG rating.

Figure 24 - Pella's Sustainability Score calculation

Pella Sustainability Score = ESG Score [1] + Positive Impact Score

ESG Rating	Score
AAA	3
AA	2
A	1
BBB	0
BB	-1
B	-2
C	-3

% Positive impact revenue	Score
>50%	2
20%-50%	1
<20%	0

Source – Pella Funds Management
(1) Lower of MSCI ESG rating and Pella ESG rating

Fundamental Research applies to companies that fall in Pella's investment universe. Pella analyses the ESG of all companies considered for portfolio inclusion. This involves bottom-up fundamental research, which is supplemented with MSCI ESG research and ISS voting research. One of the primary objectives of this research is to identify companies that Pella assesses to have breached the UN Global Compact and should be excluded from Pella's investment universe, regardless of the companies' MSCI ESG rating.

Documentation involves documenting key ESG issues for all companies Pella researches for potential portfolio inclusion. Documentation includes identifying key ESG issues and controversies and Pella's position on those issues and controversies.

Portfolio Level

The Portfolio Level integration is divided into four parts: (i) Portfolio Weight; (ii) Quality Assurance; (iii) Continuous Improvement; (iv) ESG Benchmarking.

Portfolio Weight is concerned with determining the appropriate weights for investment ideas and is involved with at least four primary factors, one of which is ESG. Pella has ESG position requirements at the individual stock level (Figure 25) and portfolio level (Figure 26).

Figure 25 - Max weight at cost

MSCI ESG Rating	Core	Cyclical	Innovation
AAA, AA, A, BBB	5%	3%	3%
BB, B	3%	3%	3%
C	0%	0%	0%
No MSCI ESG rating)	3%	3%	3%

Source – Pella Funds Management

Figure 26 - Portfolio ESG rating requirements

MSCI Rating	Pella's requirement
AAA, AA, A	>30% of portfolio
AAA, AA, A, BBB	>70% of portfolio

Source – Pella Funds Management

Quality Assurance involves daily monitoring of the portfolio to ensure that it complies with Pella's ESG targets.

Continuous Improvement involves identifying the portfolio's key ESG strengths and areas with the greatest potential for improvement. This often involves Pella engaging with its portfolio holdings to help them improve their ESG credentials (discussed in the Investment Stewardship section of this report).

ESG Benchmarking involves ensuring the portfolio's aggregate ESG rating is superior to the Benchmark's MSCI-ESG rating.

Negative Screen

Companies generating revenue from the activities listed in Figure 27are excluded from Pella's investment universe. Pella identifies these companies using its own fundamental analysis, supplemented with research from external research providers.

Pella's investment process starts with an analysis of key revenue drivers so that Pella doesn't waste time researching companies that fall into the exclusion list. The exclusion list is also activated if a company in Pella's investment universe moves into one of the excluded activities, which would trigger an automatic sell if the company was in the portfolio.

Figure 27 - Negative screen revenue materiality

Activity	Revenue	Rationale
Alcoholic beverages manufacturing	0%	Alcoholic beverages can be consumed in moderation but provide minimal health or societal benefits while being the cause of several severe negative outcomes. Pella excludes companies that generate revenue from manufacturing alcoholic beverages.
Animal cruelty	0% (1)	There is no need to test cosmetics on animals or to use animals for live crowd entertainment. Pella does not oppose humanely farming for human consumption (food or by-products) however, those animals should be treated with dignity and have a good quality of life.
Correctional facilities	0%	Pella believes that profiting from the incarceration of people is a breach of human rights. Further, there is evidence that the profit motive can encourage an increase in the number and term of incarcerations.
Deforestation	0%	An old-growth forest has attained great age without significant disturbance and exhibits unique ecological features. Pella believes that cutting down these forests cause unnecessary damage as specialised tree plantations can be used for wood and existing farmland can be used more productively. Pella excludes companies with direct exposure to destroying old-growth forests, including paper and pulp companies that use old-growth wood, transporters of such wood, and manufacturers that use old growth palm trees.
Fossil fuel generation	0% - thermal coal (2) 15% - gas	Fossil fuels are leading sources of greenhouse gas emissions and other environmental damage, including ecological damage from oil spills. The developed world is rapidly approaching a point where it is technically and economically possible to replace fossil fuels with sustainable alternatives for most of our energy and manufacturing needs. To encourage this transition Pella excludes companies that generate revenue from thermal coal power generation and companies that generate more than 15% of their revenue from gas-fired generation. The 15% threshold reflects the use of standby gas generation for peak load scenarios, which often cannot be provided by renewable energy. This threshold will decline as batteries become a viable alternative to gas for peak load electricity generation. Pella also excludes electricity generators that exceed gCO2/kWh carbon intensity threshold recommended in the Paris Agreement or do not disclose their emissions.
Fossil fuel mining/exploration	0%	Pella opposes growth in fossil fuel usage and mining extraction of these commodities and excludes companies with any direct exposure to fossil fuel exploration.

Gambling	0%	Gambling provides no societal benefits and comes as a material cost to portions of society. Pella regards it as an activity that causes unnecessary harm and excludes enterprises that generate any revenue from direct exposure to slot machines, casino operations (online and/or physical), lotteries, sports/other betting.
GMO seeds manufacturing	0%	Pella has two primary concerns with GMO seeds: (i) excessive corporate dominance as farmers become locked into the seed manufacturers; (ii) potential negative environmental impact from GMO seeds usurping traditional seeds in the ecosystem.
Norms-Based	0%	Norms-based screen involves identifying and excluding companies that do not meet minimum standards of business practices based on international norms and conventions, primarily based on the UN Global Compact (UNGC).
Porn	0%	Pornography provides no societal benefits and comes at a material cost to portions of society. Pella regards it as an activity that causes unnecessary harm and excludes enterprises that generate any of revenue from pornography related activities.
Tobacco	0%	Tobacco products provide minimal if any health or societal benefits while being the cause of several severe negative health outcomes. Pella excludes all companies involved in the production of tobacco and companies with significant ownership (due to holding directly, more than 10% of shares) in such companies
Uranium mining	0%	Uranium has a half-life of 4.5 billion years and is the cause of significant environmental damage if not properly contained during that time. Furthermore, uranium is the key input for atomic weapons. Pella has zero tolerance for weapons, and it is increasingly economically and technically possible to replace uranium with sustainable energy.
Weapons	0%	There is no productive use for any weapon designed to kill, maim, or otherwise severely injury people. Pella excludes companies that generate any revenue from selling or distributing such weapons or weapon delivery systems. This exclusion is all encompassing and includes weapons and delivery systems that that comply with weapon treaties including: Treaty on the Non-Proliferation of Nuclear Weapons (1968), Biological Weapons Convention (1975), Ottawa Treaty (1997), Chemical Weapons Convention (1997), and Convention on Cluster Munitions (2008).

Source – Pella Funds Management

(1) *for cosmetic testing, crowd entertainment, intensive animal husbandry*

(2) *Pella supports businesses transitioning away from thermal coal and will allow electricity generators that generate <5% of their revenue from thermal coal generation but are transitioning away from thermal coal and will fully exit thermal coal powered generation within three years from Pella's initial investment in the company.*

Norms-Based Screening

Norms-Based Screening involves excluding companies that do not meet minimum standards of business practices based on international norms and conventions. These practices are identified through controversies.

Pella applies these controversy screens to identify norms-based breaches at the start of its fundamental research during the ESG Integration process and monitors compliance throughout an investment's holding period. Pella primarily focuses on compliance with the UN Global Compact (UNGC). Figure 28 illustrates Pella's decision process for controversies and norms-based issues. The key steps in the process include:

Identification – the process commences with Pella identifying breach(es) using Pella's qualitative research and MSCI ESG research. Controversies are often self-explanatory, however, Pella can also refer to its Controversies & Norms Based Analysis (Appendix), which outlines key international conventions, to identify behaviour that constitutes a controversy.

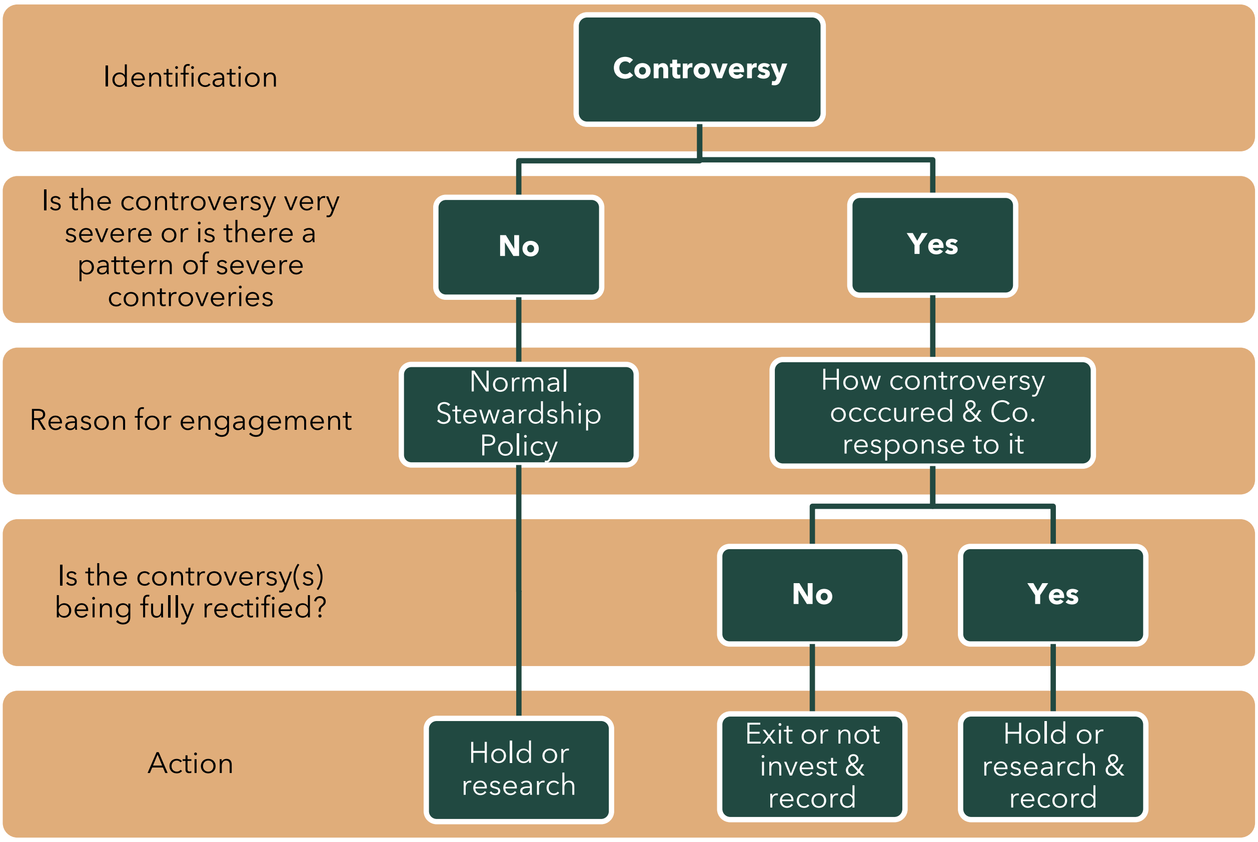
Severity of controversy or regularity of controversies – Pella assesses the severity and number of breaches. Pella believes that five controversies within the past 12-months is a threshold for further analysis. However, Pella takes into consideration that larger companies are likely to have a greater number of breaches than smaller ones owing to the breadth of their operations and the fact that their controversies are more likely to be reported in the press. Pella assesses severity in conjunction with the conventions outlined in Pella's Controversies & Norms Based Analysis (Appendix). Pella considers the most severe breaches as: forced labour/slavery; child labour; genocide or ethnocide.

Engagement - Pella engages with the company to fully understand the nature of the controversy, how it occurred and the company's intended resolution. If Pella is satisfied that the company is taking appropriate action to resolve it and stop similar controversies from reoccurring, Pella considers the controversy resolved and no further action is required. If Pella believe the company is not taking sufficient steps to resolve the controversy, Pella will suggest an alternative, more appropriate resolution. This typically takes the form of management meetings and writing letters to the Board.

Rectification – Pella assesses whether the controversy/pattern of controversies is being rectified by the company. This is assessed by considering what the company says and what it is doing. Pella expects companies to introduce rectification initiatives expediently and for there to be evidence of the rectification process within six months. The requirement to observe rectification action can take some time, meaning the process may be positioned on this step while the company takes the action and Pella assesses it.

Action – if the company is not rectifying the action Pella will exit or not invest in the company. If the controversy is being fully rectified Pella may continue holding the company in its portfolio or continue researching the candidate.

Figure 28 – Decision tree for controversies and norms-based issues



Source – Pella Funds Management

Positive Impact Themes

Pella identified six themes that generate positive outcomes for current or future generations, at no cost to current or future generations, and have several companies that are likely to satisfy Pella's financial requirements. These themes are listed below and relate to several SDG targets, as illustrated in Figure 52 (Appendix). The themes are dynamic and could expand as new opportunities arise.

1. **Cleaner Energy** - replace fossil fuel derived energy with energy from renewable sources such as wind or solar energy. This theme also includes batteries where the batteries can be charged with renewable energy.
2. **Conservation & Resource Efficiency** - assist in the conservation of the natural environment by using fewer natural resources, thereby reducing pollution, and encouraging resource efficiency.
3. **Improved Health** - goods and services that have positive health outcomes, including medicines, medical and health-related equipment, and health-related services.
4. **Safety** - technologies and services that improve societal safety, including technologies that reduce pollution, increase vehicle safety, or improve water quality.
5. **Inclusiveness** - services, products or conduct that create equal opportunities for all women, men, and children.
6. **Economic participation** - activities that serve lower demographics or encourage economic growth in emerging markets.

Pella's measures the proportion of its investments' revenue exposure to the positive impact themes within the following bands. 0%; 0-20%; 20-50%; 50-75%; 75-100%. It is possible for company to have exposure to multiple positive impact themes. For example a company could generate 0-20% of its revenue from the Safety theme and 20-50% of its revenue from the Cleaner Energy theme.

Using the positions' revenue band exposure to each theme, Pella calculates the portfolio revenue band exposure to each theme. Using Figure 29 as an example, 62% of the Fund would be invested in companies that don't offer any exposure to the positive impact themes, 7% of the portfolio has 1-20% of their revenue earned from the positive impact themes, and 31% of the portfolio earns more than 20% of their revenue from one of the positive impact themes. Within the positive impact themes, the Fund has most of its exposure to Improved Health with 27% of the portfolio generating more than 20% of their revenue from that theme.

Figure 29 – Example of Portfolio Exposure to Positive Impact Themes

	0%	1-20%	20-50%	50-75%	75-100%	>20%
Cleaner energy	98%	0%	2%	0%	0%	2%
Conservation	95%	0%	2%	3%	0%	5%
Economic Participation	93%	7%	0%	0%	0%	0%
Improved Health	69%	5%	0%	0%	27%	27%
Inclusiveness	100%	0%	0%	0%	0%	0%
Safety	100%	0%	0%	0%	0%	0%
Total	62%	7%	2%	3%	27%	31%

Source – Pella Funds Management

Sustainability-Themed

Pella targets portfolio CO_2 intensity to be at least 30% below the Benchmark[2] with CO_2 intensity measured using Scope 1 and Scope 2 carbon emissions relative to revenue and enterprise value as calculated by MSCI.

Investment Stewardship

Pella refers to the UNPRI definition of Investment Stewardship:

Stewardship is investors using their influence over current or potential investees/issuers, policy makers, service providers and other stakeholders – often collaboratively – to maximise overall long-term value. This includes the value of the common economic, social and environmental assets on which returns and clients' and beneficiaries' interests depend.[3]

Pella incorporates Investment Stewardship considerations and behaviours into all the investments made by the Funds it manages, and applies the following tools to fulfill its Investment Stewardship responsibilities:

1. Engagement
2. Voting
3. Advocacy

Engagement Policy

Pella recognises its responsibility to engage with its investments to remain informed and contribute to the investees' long-term performance.

[2] MSCI ACWI
[3] UNPRI, Introduction to responsible investing, an introduction to responsible investing stewardship

Application of Policy

Engagement can take several forms, all of which are intended to monitor and provide feedback to companies and helps inform our voting decisions. Pella's engagement practices include:

1. regular and consistent meetings with executives from companies Pella invests in;
2. writing letters to companies.

Pella expects to engage with 100% of its portfolio companies at least annually. Pella's standard engagement practices include discussing key ESG issues with the companies to deepen Pella's understanding of the issues and how the company is managing them.

In addition to the above, Pella deepens its engagement in certain circumstances.

- **Portfolio companies with MSCI ESG rating of B** – engage with these companies to explain to them where their areas of ESG weakness are and to encourage the company to take remedial action.
- **Portfolio companies with no MSCI ESG rating** – engage with the companies and, when possible, ESG rating companies, to encourage them to be rated.
- **Severe controversies** – engage to understand the nature of the controversy, how the company intends to resolve it, and to proactively encourage remedial action.
- **MSCI ESG-rating downgrade** – apply same strategy as with 'Severe controversies'.
- **Annual Key Initiative –** Pella annually selects a key ESG-relate initiative to actively improve across its investment portfolio.

Policy Limits

Pella's Engagement Policy does not apply in the following circumstances:

1. ESG rating downgraded to CCC – triggers an automatic sell
2. Breach of norms-based screen and company does not fully rectify the breach – triggers an automatic sell
3. Involved in a controversy, which Pella does not regard as serious – no further engagement required
4. Company breaches Pella's negative screen – triggers an automatic sell
5. Company hits Pella's stop loss limits – triggers an automatic sell down of the position size

Proxy Voting Policy

This policy is based on Pella's fiduciary responsibilities to act in the best interest of clients as shareholders. The policy informs Pella's approach to resolutions put forward by listed companies at Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs).

Policy Statement

The purpose of this Voting Policy is to ensure Pella acts in the best interest of clients as shareholders and to help minimize the potential for Pella's investments to cause 'significant harm'.

Pella's policy is to participate in 100% its funds' investments votes. If Pella receives a direction from a client in relation to the appointment of a proxy and the way the proxy should be voted, Pella will use its best endeavours to implement the direction. In the absence of any direction, Pella will vote as it sees fit, having regard to any direction in the investment mandate and taking into consideration; any conflicts of interests, strategy, performance, risk, capital structure and corporate governances (including cultures and remuneration) of investee companies.

Process Overview and Procedures

- Proposed resolutions with explanatory notes are prepared and forwarded by the Pella's proxy voting service or middle office service provider.
- A member of Pella's Investment Team will review each material resolution on a case-by-case basis. In arriving at a recommendation three main principles are adhered to:
  - any resolution should treat shareholders equally;
  - any material conflicts of interest are addressed appropriately; and
  - resolutions should be individual and clearly stated.
- To assist in decision making, Pella may subscribe to a proxy voting service which provides independent analysis and voting recommendations on key governance issues. Pella considers these recommendations when arriving at a decision.
- Pella may raise issues with company management prior to voting to resolve issues.
- Pella will maintain a record of all voting on behalf of clients and report these to the clients.

Routine Proposals

Routine proposals are those which do not affect the structure, by laws, or operations of the corporation to the detriment of shareholders. Given the routine nature of these proposals, proxies will normally be voted with management. Traditionally, routine proposals include:

- Approval of independent auditors;
- Name changes;
- Election of directors (subject to competency, independence, and limited number of board positions);
- Coupling executive compensation with financial performance.

Non-Routine Proposals

Issues in this category are more likely to have a greater impact on shareholder value. Pella' main concern is to protect the value of its clients' investments. These resolutions are subject to scrutiny on case-by-case basis. These types of resolutions may include:

- Mergers and acquisitions;
- Restructuring;
- Employee share purchase plans

Corporate Governance Proposals

Pella will generally vote against any management proposals that have the effect of restricting the full potential of its clients' investments. These would include but not limited to:

- Excessive senior executive and non-executive management remuneration;
- Golden handshakes;
- Special interest representation on the board;
- Share and Option schemes that do not reflect:
  - the responsibilities of the executive;
  - comparability to market practice;
  - appropriate performance hurdle benchmarks;
  - appropriate disclosure;
- Unequal voting rights;
- Takeover Protection – generally involves issuing preferred stock purchase rights or warrants unilaterally declared as a dividend without shareholder participation or approval.

Avoiding Significant Harm

Pella's policy is to vote in accordance with the concept of '*avoiding significant harm*'. Pella defines significant harm as '*activities that come at a material cost to current or future generations*'. This means Pella will vote against any activities that could be a breach of the UN Global Compact, the OECD Guidelines for Multinational Enterprises or any other internationally accepted behavioural norms. If the said activity is not explicitly voted on, Pella will prioritise the consideration of the matter in its decision on how to vote on executive remuneration and director re(election). Finally, Pella will seek to engage with the company on the matter, outside of the formal voting process.

Engagement with Companies

In addition to voting, Pella may enter dialogue with a company to voice concerns in relation to actions or directions a company is taking in relation to performance, corporate governance and other matters affecting shareholders' interests.

Conflicts of Interest

If a Pella employee detects a material conflict of interest in connection with voting on the resolutions, the employee should escalate the matter to the Managing Director. In such circumstances Pella may abstain from voting if that action is deemed to be in its client's best interest.

Environmental and Socially Responsible Policy Issues

Pella votes on such issues on a case-by-case basis. Generally, Pella elects to vote in a manner that it believes improves a company's environmental and/or social footprint.

Advocacy Policy

Pella understands that investment decisions alone are insufficient to increase global sustainability and that investment managers have a responsibility to advocate for that cause through other methods.

Application of Policy

To fulfill its Advocacy responsibilities, Pella engages in other initiatives such as:

- **Accreditations and signatory** – Responsible Investment Association of Australia (RIAA), UN Principles of Responsible Investing (UN PRI), UN Global Compact (UNGC).
- **Public commentary** – Pella prepares public commentary on key ESG issues, which are available in the Pella website, Pella's LinkedIn profile, and often in the public media.
- **Participation** – Pella seeks to be an active participant in local organizations that promote corporate sustainability. Pella also encourages every member of its team to participate in an ESG-related initiative and everyone has been provided with one paid workday per quarter to participate in that initiative.

Transparency Policy

Pella defines transparency as '*providing all the requisite information for all stakeholders to be able to make timely and fully informed decisions about Pella and its funds' financial and responsible investing decisions and outcomes*'. Pella regards transparency as a critical ingredient to fulfill its Responsible Investing objectives and provides a wide range of publicly available disclosures across several platforms, which are listed in Figure 30.

Figure 30 – Source of Information and Materials Available

Source	Material Available
Website	• All reports listed in this table • Pella's policies • Pella's Code of Ethics • Pella's Responsible Investing Charter • Pella investment approach and sustainability approach • UNPRI Transparency Report • UNPRI Summary Scorecard • Insight pieces
Third-party data providers	• Pella provides its full portfolio and key fund metrics to several third-party data providers including Morningstar, Lipper, Bloomberg, Factset, Responsible Investment Association Australasia, and The Ethos.
ESG fund ratings and climate exposure	• MSCI makes its fund data available for MSIC to provide an ESG fund rating and climate exposure report. • That report is publicly via MSCI's website
Monthly Fund Factsheet	• Fund performance details • Key fund metrics and attributes
Monthly Sustainability Report	• Key fund sustainability metrics – ESG rating distribution, carbon intensity, E/S/G and total scores, key fund ESG metrics, fund positive impact exposure.
Quarterly Report	• Fund performance details • Key fund metrics and attributes • Fully voting track record • Full portfolio – with a one-month lag • Responsible Investing discussion
Annual Responsible Investing Report	• Provides clear, precise, and useful insight into our Responsible Investing activities and performance, with a focus on sustainability outcomes, • Full scorecard of the Fund's performance relative to its Sustainability strategy over the preceding financial year. • Sustainability narrative • Discussion of Pella's corporate sustainability performance

Source – Pella Funds Management

Corporate Behaviour

Pella believes that it is important to behave in a manner that we expect from our investments. To deliver that behaviour Pella has policies that are aligned with that behaviour, which is certified by several important bodies.

Pella's sustainability policies include,

- Corporate Sustainability/ESG – covers corporate behaviour, and requires all its employees, contractors, and service providers to equally incorporate sustainability considerations into all their decisions and actions.
- Modern Slavery – based on the goal of Pella's Board, senior management, employees, and shareholders to support the elimination of modern slavery
- Code of Conduct – requires Pella to demonstrate loyalty to its clients.

In addition to the policies Pella maintains a Code of Ethics and Responsible Investing Charter, which all employees are required to agree to. Further, social, and environmental factors are included in each employee's position description and ESG factors are included in the employee's discretionary bonus calculation.

Pella is also carbon neutral and a signatory to the UN Global Compact, Pledge 1%, Responsible Investment Association Australasia, and is in the final stages of becoming a certified B Corporation. In-line with Pella's Pledge 1% participation, the company's employees volunteer at a charity one day per quarter.

We believe the above factors, combined with our continuous improvement policy, gives us the social license to offer Responsible Investment products to the community.

Appendix

Definitions of Sustainable/Responsible Investment

Figure 31 - Description of types of Responsible Investing

Strategy	Definition
ESG Integration	• Explicitly include ESG risks and opportunities into analysis and investment decisions based on a systematic process and appropriate research sources (RIAA) • Systematic and explicit consideration of ESG factors into financial analysis (GSIA) • Apply ESG risks and opportunities to financial analysis and investment decisions (Evergreen)
Negative screening	• Exclusions based on activities considered not investable due to misaligned values or downside risk (RIAA) (Evergreen) • Exclusion of certain sectors, companies or practices based on specific ESG criteria (GSIA)
Norms-based screening	• Exclude companies that do not meet minimum standards of business practices based on international norms and conventions (RIAA) (Evergreen) • Screening of investments based on compliance with international norms and standards such as those issues by the OECD, ILO, UN, UNICEF. May exclude investments not in compliance or underweighting these investments (GSIA)
Corporate engagement	• Executing shareholder rights and fulfilling fiduciary duties to signal desired corporate behaviours guided by ESG considerations (RIAA) • Use shareholder rights and fiduciary duties to guide a company using ESG guidelines. (Evergreen) • Employ shareholder power to influence corporate behaviour through direct corporate engagement (communicate with senior management), filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines. (GSIA)
Positive/best in class screen	• Intentionally tilting a portion of a portfolio towards solutions or companies or industries assessed to have better ESG performance relative to benchmarks or peers (RIAA) • Realign portfolio to specifically target better ESG profiles either at the company level of industries (Evergreen) • Invest in companies selected from a defined universe for positive ESG performance relative to industry peers (GSIA)
Sustainability-themed	• Specifically targeting investment themes e.g. sustainable agriculture, green property, low carbon, SDG-alignment (RIAA) (Evergreen) • Investment in themes that address specific sustainability issues such as climate change, food, water, renewable energy, clean energy. (GSIA)
Impact	• Invest to achieve positive social and environmental impacts – requires measuring and reporting against these. (RIAA)

Sources – RIAA, GSIA, Evergreen

Controversies & Norms Based Analysis

The purpose of this section is to provide background knowledge to help guide our approach to managing controversies and norms-based screening. Controversies are essentially a sub-unit of norms-based screening, meaning in this paper Pella uses the term norms-based screening as the collective word. Managing norms-based issues is critical because these issues are not black and white and cannot be automated, meaning it is the area that allows active managers to provide the greatest value-add.

Figure 32 provides an overview of several protocols/guidelines/policies/principals ("Policies") that impact Norms-Based screening. It excludes SDGs, which are the domain of positive behaviour rather than norms-based breaches. It also doesn't include the Convention on Cluster Munitions, Ottawa Convention on Landmines, Treaty on the Non-Proliferation of Nuclear Weapons because Pella avoids all weapons meaning we already have processes in place to deal with situations where those Policies are relevant – we exit the position. Pella also does not focus overtly on the UNPRI as it is a policy document for our behaviour, rather than providing principles for norms-based issues.

The Policies are not alike. Some of them focus on national States rather than businesses and investment. Several of them provide the input to be used elsewhere, for example the OECD Guidelines for Multinational Enterprises (OECD Guidelines) and UN Global Compact (UNGC) do not provide a list of human rights and rather point to the International Bill of Human Rights and ILO Fundamental Conventions as the competent source of human rights. The Policies that are most relevant for institutional investors' norms-based issues are the UNGC and the OECD Guidelines.

Figure 32 - List of Relevant Policies

Protocol	Depository	Focus
Global Compact (UNGC)	United Nations	Business
Guidelines for Multinational Enterprises	OECD	States
International Bill of Human Rights	United Nations	States
ILOs Fundamental Conventions	United Nations (1)	Business/States
Conventions on the Rights of the Child (UNCRC)	United Nations	States
Convention Against Corruption (UNCAC)	United Nations	States
Guiding Principles on Business and Human Rights (UNGPs)	United Nations	Businesses
Framework Convention on Climate Change (UNFCCC)	United Nations	States
Principles for Responsible Investing (UNPRI)	United Nations	Business
Sustainable Development Goals (SDGs)	United Nations	Business/States
Convention on Cluster Munitions	United Nations	States
Ottawa Convention on Landmines	United Nations	States
Treaty on the Non-Proliferation of Nuclear Weapons	United Nations	States

Source – Pella Funds Management

Pella considers the OECD Guidelines as the most comprehensive Policy. Figure 33 demonstrates that the OECD Guidelines includes the same material as the UNGC plus some additional requirements. Pella also considers the OECD guidance provides more practical advice, such as explicit recognition that a business must comply with local rules. However, the

UNGC is the most widely followed and accepted behavioural template. For that reason, Pella will primarily comply with the UNGC but will also strive to comply with the OECD Guidelines.

Figure 33 - UNGC Vs OECD Guidelines

UNGC	OECD Guidelines	Supporting material
Human Rights	Human Rights	• The International Bill of Human Rights • ILO Fundamental Conventions • UN Guiding Principles on Business and Human Rights • UN Convention on the Rights of the Child
Labour	Employment and industrial relations	• ILO Fundamental Conventions • UN Convention on the Rights of the Child
Environment	Environment	• UN Framework Convention on Climate Change/Paris Agreement
Anti-Corruption	Combating bribery, bribe solicitation and extortion	• UN Framework Convention on Climate Change
	Consumer Interests	
	Science and Technology	
	Competition	
	Taxation	

Source – UNGC and OECD Guidelines

The Policies

UN Global Compact

The UNGC is a non-binding pact to encourage businesses to adopt sustainable and socially responsible policies, and to report on their implementation. It has two objectives:

1. Mainstream ten principles for sustainable and socially responsible business practices.
2. Catalyse actions in support of broader UN goals, such as Sustainable Development Goals (SDGs).

The Ten Principles

The UNGC's 10 principles cover four areas (Figure 34) with each area deriving their principles from other UN documents, namely: UN Declaration of Human Rights; ILO's Declaration on Fundamental Principles and Rights at Work; RIO Declaration on Environment and Development; UN Convention Against Corruption.

Figure 34 - UN Global Compact Ten Principles

Area	Principles
Human Rights	• Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and • Principle 2: make sure that they are not complicit in human rights abuses.

Labour	•	Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; • Principle 4: the elimination of all forms of forced and compulsory labour; • Principle 5: the effective abolition of child labour; and • Principle 6: the elimination of discrimination in respect of employment and occupation.
Environment	•	Principle 7: Businesses should support a precautionary approach to environmental challenges; • Principle 8: undertake initiatives to promote greater environmental responsibility; and • Principle 9: encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	•	Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source – UN Global Compact, https://www.unglobalcompact.org/what-is-gc/mission/principles

Figure 35 provides an overview of each principle.

Figure 35 - Overview of the ten principles

Principles	Discussion
Support and protect human rights	• Requires: (i) human rights policy commitment; (ii) due diligence to avoid infringing human rights; (iii) take actions to address adverse human rights impacts with which they are involved; (iv) take voluntary action to make positive contribution towards the protection and fulfillment of human rights, e.g. via philanthropy • Due diligence includes: o Assessing human rights impacts o Integrating human rights policies throughout a company o Take action o Track performance o Communicate performance
Do not be complicit in human rights abuses.	• Complicity is generally made up of two elements o Act or omission that helps another carry out a human rights abuse o Knowledge that its act or omission could provide such help • Contexts of complicity o Direct complicity – the company provides goods or services that it knows will be used to carry out the abuse o Beneficial complicity – company benefits from human rights abuses even if it did not positively assist or cause them

	◦ Silent complicity – company is silent or inactive in the face of systematic or continuous human rights abuse
Uphold freedom of association & rights to collective bargaining	• Self-explanatory
Elimination of forced and compulsory labour	• Forced labour is generally characterized by ◦ Lack of consent to work ◦ Menace of penalty • Providing wages or other compensation does not necessarily indicate that the labour is not forced or compulsory
Abolition of child labour	• Self-explanatory
Elimination of discrimination at work	• Self-explanatory
Support a precautionary approach to the environment	• This principle focuses on prevention rather than remediation • Risk should be considered relative to the environment, health, and safety.
Promote greater environmental responsibility	• This principle encourages businesses to take steps minimise their negative environmental impacts.
Encourage development and diffusion of environmentally friendly technologies	• Encourage the use of environmentally sound technologies that: ◦ Protect the environment ◦ Are less polluting ◦ Use resources in a more sustainable manner ◦ Recycle more of their wastes and products ◦ Handle residual wastes in a more acceptable manner
Work against corruption in all its forms	• Participants must do more than just avoid bribery, extortion and other forms of corruption, but also proactively develop policies and programmes to address corruption internally and within their supply chains. • Corruption doesn't only have to be financial

Source – UN Global Compact, https://www.unglobalcompact.org/what-is-gc/mission/principles

Situations of Conflicting Legal Requirements

Figure 36 and Figure 37 outline the UNGC's guidance [4] on how businesses could respond when local laws conflict with internationally recognised human. I consider this guidance of minimal practical use because it targets situations corporations might encounter but rarely get reported

[4] UNGC, Meeting the Responsibility to Respect in Situations of Conflicting Legal Requirements, 13 June 2011

to investors and requires the company to have some leverage over the government, which is not the case in most regions we invest in, particularly China.

Figure 36 - Identify and clarify the scope of a potential conflict

Step	Heading	Discussion
1	Define & embed the commitment to meet the responsibility to respect human rights into the business enterprise's legal and ethical policies	• Businesses should have a human rights policy or statement of commitment, which is only included in a corporate code of conduct
2	Undertake human rights due diligence	• Identify, prevent, mitigate and account for how the enterprise will respond to situations where national laws may conflict with internationally recognized human rights. • Business should have a protocol for how to address human rights conflicts
3	Clarify the scope of a potential conflict	• Essentially means understand the local law and how it conflicts with internationally recognized human rights

Source - UNGC, Meeting the Responsibility to Respect in Situations of Conflicting Legal Requirements, 13 June 2011

Figure 37 - Steps to take when a conflict exists

Step	Heading	Discussion
1	Lobby national government	
2	Employ contractual remedies	Get items written in contracts that require compliance with international human rights standards or steps a local supplier must take to comply with the standards MNEs can require local business partners to comply with the international human rights requirements
3	Enlist the support of influential third-party organizations or individuals	Work with other enterprises or through trade associations to express concern about local laws that infringe upon internationally recognized human rights
4	Enlist the support of officials in the corporation's home country	Transnational businesses may be able to lobby officials in their home country to pressure the host country for change
5	Use parallel means to honour the principles of internationally recognized human rights	Try to respect the human rights norms to the greatest extent possible while also complying with the local law. Example of parallel means – allowing employees to create employee councils in countries that outlay unions.

6	Exhaust local judicial and procedural remedies	Exhaust local judicial remedies to challenge the local laws that conflict with internationally recognized human rights Even if you can't change the law, it sends a message to the government. For example, several large global ISPs implement strict policies when handling information from authorities using recommendations of the Global Network Initiative
7	Implement mechanisms to ensure transparency	For example, Google's Government Requests tool
8	Push the boundaries of legal compliance: corporate civil disobedience	For example, some companies allow women to remove their head scarves at work or create most female divisions to circumvent the ban on women and men co-mingling

Source - UNGC, Meeting the Responsibility to Respect in Situations of Conflicting Legal Requirements, 13 June 2011

OECD Guidelines for Multinational Enterprises ("OECD Guidelines")

The OECD Guidelines are non-binding principles for business conduct. It is virtually identical to the UNGC, with the OECD Guidelines being marginally more comprehensive as it includes additional Principals (Consumer Interest, Science and Technology, Competition, Taxation). Pella believes that complying with the OECD Guidelines implies compliance with the UNGC.

Figure 38 - OECD Guidelines for MNEs

	Discussion
Human rights	• Essentially identical to the UNGC's Principles 1 and 2.
Employment and industrial relations	• Essentially identical to UNGC's Principles 3, 4, 5, 6
Environment (really dealing with environment, health, safety)	• Essentially identical to UNGC's Principles 7, 8, 9 • Makes direct reference to a business's supply chain.
Combating bribery, bribe solicitation and extortion	• Essentially identical to UNGC Principle 10.
Consumer Interests	• Act in accordance with fair business, marketing and advertising practices and take all reasonable steps to ensure the quality and reliability of the goods and services. • Ensure the goods and services meet all agreed or legally required standards for consumer health and safety, including pertaining to health warnings and safety information • Provide accurate, verifiable and clear information that is sufficient to enable consumers to make informed decisions, including information on price, content, safe use, environmental attributes, maintenance storage and disposal

	• Provide consumers with fair and effective non-judicial dispute resolution and redress mechanisms.
	• Do not make deceptive, misleading, fraudulent or unfair representations or omissions
	• Support effort to promote consumer education in areas that relate to business activities with the aim of improving consumers ability to
	  o Make informed decisions involving complex goods, services and markets
	  o Better understand the economic, environmental and social impact of their decisions
	  o Support sustainable consumption
	• Respect consumer privacy and take reasonable measures to ensure the security of personal data that they collect, store, process of disseminate
	• Take into consideration the needs of vulnerable and disadvantaged consumers

Science & Technology	• Endeavour to ensure activities are compatible with the science and tech policies and plans for the country and contribute to the development of local and national innovative capacity • Adopt where practical practices that permit the transfer and rapid diffusion of technologies and know-how • When appropriate, perform science and technology development work in host countries and employ host country personnel • When granting licenses for the use of intellectual property rights, do so on reasonable terms and conditions and in a way that contributes to the long-term sustainable development prospects of the host country • Where relevant, develop ties with local universities, public research institutions
Competition	• Carry out activities in a manner consistent with all applicable competition laws and regulations • Refrain from entering into anti-competitive agreements among competitors e.g. fix prices, collusive tenders, establish output restrictions, divide markets
Taxation	• Make timely payment of tax liabilities – complying with the letter and spirit of the law

Source – OECD Guidelines for Multinational Enterprises, 2011

The OECD Guidelines also recognises that there are instances when local laws conflict with international accepted human rights. Under the OECD Guidelines "obeying domestic laws is the first obligation of enterprise…..In countries where domestic laws and regulations conflict with the principles and standards of the OECD Guidelines enterprises should seeks wats to honour such principles and standards to the fullest extent which does not place them in violation of domestic law"[5].

The OECD Guidelines require all OECD member and adhering governments to establish a functioning National Contact Point (NCP) to further the observance of the Guidelines. Ostensibly, the NCPs should provide a good source to identify and track businesses' compliance with the Guidelines. However, my tests of the NCP database point to it rarely being used and the MSCI controversies and ESG compliance database appears to be far more comprehensive.

Responsible Business Conduct for Institutional Investors

The OECD Guidelines defines ESG/CRS as Responsible Business Conduct ("RBC") and provides useful guidance for institutional investors. The Guidelines require institutional investors to conduct RBC due diligence as part of the investment process and to apply leverage to their investments to improve their RBC.

The due diligence requirements are largely self-explanatory, and the only points Pella will include are that we should identify actual and potential impacts within our portfolio and account for how adverse impacts are addressed by tracking and communicating our performance.

The application of leverage involves engagement, directing capital towards responsible companies, involvement in industry initiatives that target RBC risks and collective action on specific issues. We have already committed to the former two requirements. Some avenues for collaboration are PRI Collaboration Platform, UNEP Finance Directive, investor networks on climate change, Corporate Sustainability Reporting Coalition.

The Guidelines recognise that it might not be practical to implement all the OECD Guideline recommendations at once and a risk-based approach is suitable. This approach involves prioritising the most sever risks and systematically over time expand application of the Guidelines.

The significance or severity of an adverse impact is a function of a breach can be measured using three inputs: scale, scope, and irremediable character. Scale speaks to the gravity of the adverse impact. Scope points to the reach of the impact, for example the number of individuals that are or will be affected or the extent of the environmental damage. Irremediable character involves limits on the ability to restore the individuals or environment affected to a situation equivalent to their situation before the adverse impact.

Under OECD Guidelines, divestment should in most cases be a last resort or reserved only for the most severe adverse impacts and after consideration of two key inputs: (i) Leverage; (ii) How crucial the business relationship is. Given our investment process, most of our business relationships are not crucial and we lack real leverage over most of our investments. which implies we should generally exit investments when severe abuses occur.

If we decide to continue to invest in a company that is causing or contributing to adverse impacts, we should report the situation internally, monitor the investment, for example, through a knowledge database, and revisit the decision where circumstances change or as part of the long-term strategy to systematically respond to all recommendations of the OECD Guidelines.

[5] OECD Guidelines for Multinational Enterprises, 2011, pg. 17

Figure 39 - Deciding when to end a business relationship or exit an investment

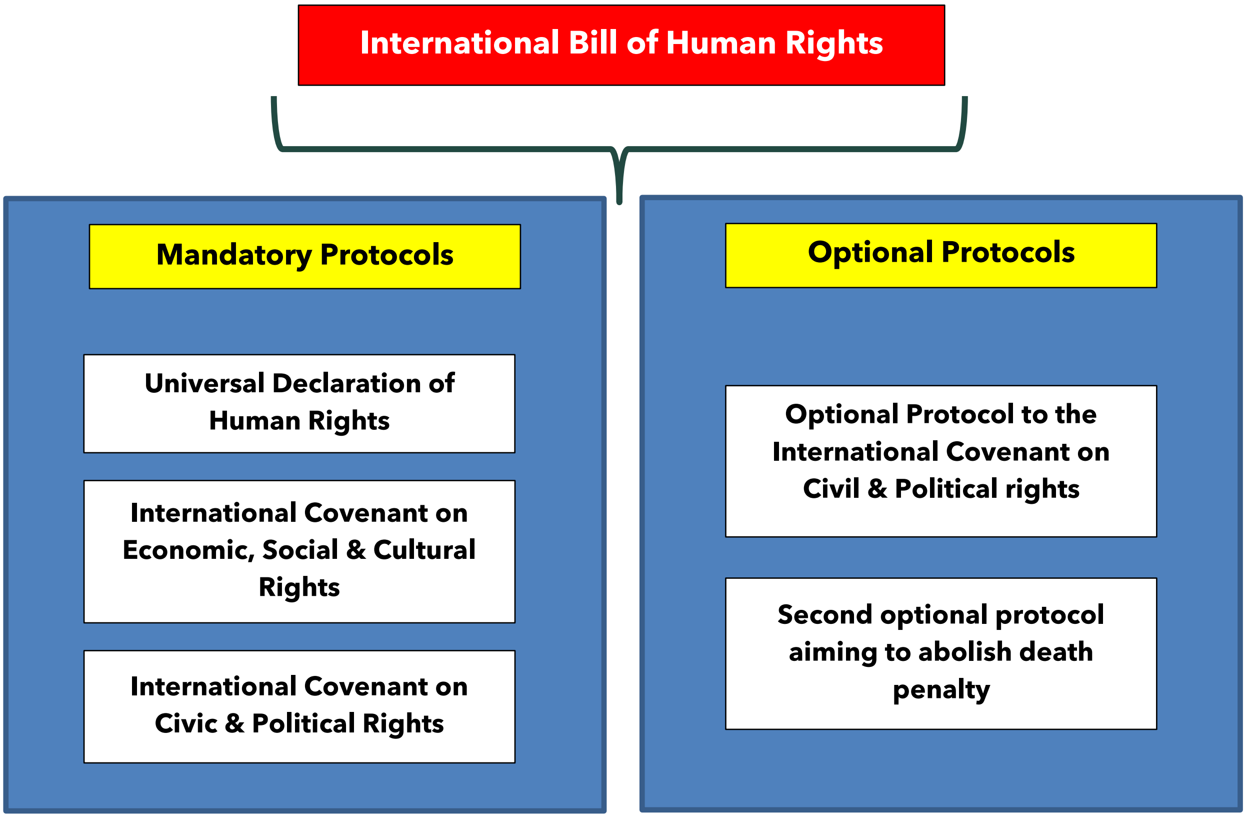
	Have leverage	Lack leverage
Crucial	Step 1 • Mitigate the risk that abuse continues/recurs • If unsuccessful go to step 2	Step 2 • Seek to increase leverage • If unsuccessful, seek to mitigate the risk that abuse continues/recurs • If unsuccessful consider ending the relationship or demonstrate efforts made to mitigate abuse, recognising possible consequences of remaining
Not crucial	Step 3 • Mitigate the risk that abuse continues/recurs • If unsuccessful, take steps to end the relationship	Step 4 • Assess reasonable options for increasing leverage to mitigate the risk that the business continues/recurs • If impossible or unsuccessful, take steps to end the relationship

Source – OECD Guidelines

The International Bill of Human Rights

The International Bill of Human Rights is composed of three mandatory protocols and two optional protocols. These rights form the basis of the human rights components for the human rights section included in: UN Global Compact; Guiding Principles on Business and Human Rights; Guidelines for Multinational Enterprises. The rights also have cross over with many of the ILO's Fundamental Conventions, for example freedom from slavery, the right to association, and the right to equal pay for equal work. Therefore, complying with the other norms necessarily requires complying with the International Bill of Human Rights.

Figure 40 - Components of the International Bill of Human Rights



Source – Pella Funds Management

The human rights are listed by article, with each article pointing to a human right. The Declaration has 30 articles/human rights (Figure 41) and the mandatory Covenants have a combined 27 articles/human rights (Figure 42), together pointing to a total of 57 mandatory human rights.

Figure 41 - UN Declaration of human rights

Articles	Notes
1	• Right to liberty and equality and due to humans being rational and moral, we are entitled to certain rights and freedoms which other creatures do not enjoy
2	• Sets out basic principles of equality and non-discrimination regarding the enjoyment of human rights and fundamental freedoms
3	• Sets out the first cornerstone to the Declaration The right to life, liberty, and security – introduces articles 4-21
4-21	• Freedom from slavery and servitude • Freedom from torture and cruel, inhuman or degrading treatment or punishment • Right to recognition as a person before the law • Right to an effective judicial remedy • Freedom from arbitrary arrest, detention or exile • Right to a fair trial and public hearing from an independent and impartial tribunal • Right to be presumed innocent until proven guilty

	• Freedom from arbitrary interference with privacy, family, home or correspondence • Freedom of movement and residence • The right of asylum • Right to a nationality • Right to marry and to found a family • Right to own property • Freedom of thought, conscience and religion • Freedom of opinion and expression • Right to peaceful assembly and association • Right to take part in the government of one's country and to equal access to public service in one's country
22	• Second cornerstone of the Declaration – the rights to which everyone is entitled as a member of society – covered in articles 23 to 27
23-27	• Right to social security • Right to work • Right to equal pay for equal work • Right to rest and leisure • Right to a standard of living adequate for health and well-being • Right to education • Right to participate in the cultural life of the community
28-30	• Sets out that everyone should be able to fully realize their human rights and stress the duties and responsibilities everyone owes to his community

Source – United Nations

Figure 42 - International Covenants of Human Rights

Covenant	Article	Rights
Both	1	• The right to self-determination of political status and freely pursue their economic, social and cultural development
Economic, Social and Cultural Rights	6-15	• Rights to work • Enjoyment of just and favourable conditions of work • To form and join trade unions • To social security • To the widest possible protection and assistance for the family, especially mothers and children • Adequate standard of living • Enjoyment of the highest attainable standard of physical and mental health • To education • To take part in cultural life
Civil and Political Rights	6	• The right to life
	7	• No one is to be subjected to torture or cruel treatment

	8	• No one is to be held in slavery or servitude or forced to do compulsory labour
	9-10	• No one is subjected to arbitrary arrest or detention • People deprived of liberty to be treated with humanity
	11	• No one to imprisoned merely on the ground of inability to fulfil a contractual obligation
	12	• Freedom of movement and to choose a residence
	13	• Limitations placed on the expulsion of aliens lawfully in the territory of a State
	14-16	• Equality of all people before the courts and tribunals • Prohibit retroactive criminal legislation • Right to be recognised as a person before the law
	17	• Prohibition of arbitrary interference with an individual's privacy, family, home or correspondence • Prohibit unlawful attacks on honour and reputation
	18	• Freedom of thought, conscience and religion
	19	• Freedom of opinion and expression
	20	• Prohibit any advocacy of national, racial or religious hatred that constitutes incitement to discrimination, hostility or violence
	21-22	• The right to peaceful assembly • Right to freedom of association
	23	• Right to marry and found a family • Equality during marriage to dissolution
	24	• Protect the rights of children
	25	• Equal right to vote and have equal access to public service
	26	• All people are equal before the law and entitled to equal protection of the law
	27	• Protection of the rights of minorities

Source – United Nations

ILO Fundamental Conventions

The International Labour Organization (ILO) is a UN agency whose mandate is to advance social and economic justice through setting international labour standards. The ILO Fundamental Conventions deals with working conditions and through this focus it has several crossovers with the International Bill of Human Rights and the UN Convention on the Rights of the Child. For example, the Bill of Human Rights and the Fundamental Conventions both point to workers' rights to freedom of association and forbid forced labour/slavery. Similarly, the Fundamental Conventions and UNCRC point to the children's right to be protected from work that is dangerous or that might harm their health or education.

The ILO Fundamental Conventions is composed of eight fundamental conventions (Figure 43) and four priority conventions (Figure 44) with each convention composed of several articles. Given our approach to investing the most common controversy we are likely to face in our portfolio relate to workers' free of association and collective bargaining as several US companies have chequered records on those issues (e.g. Amazon, Walmart, Tesla, Dish TV).

Figure 43 - ILO Fundamental Conventions

Convention	Notes
Freedom of association and protection of the right to organise	• Workers and employers have the right to establish and join organisations of their choosing without prior authorisation. • Worker and employer organisations have the right to draw up their constitutions & elect their representatives and to formulate their programs. • Workers and employer organisations should not be liable to be dissolved or suspected by administrative authority. • Works and employer organisations have the right to join federations.
Right to organise and collective bargaining	• Workers shall have adequate protection against acts of anti-union discrimination in respect of their employment. • Cannot hire people on the condition that they shall not join a union or shall relinquish trade union membership. • Cannot Dismiss or otherwise prejudice a worker by reason of union membership.
Forced labour	• Definition of forced or compulsory labour = all work which is extracted under the menace of any penalty and for which the person has not offered himself voluntarily. • There are some exemptions to the definition of compulsory labour e.g., work which forms part of the normal civic obligations.
Abolition of forced labour	• Undertake to supress and not to make use of any form of forced of compulsory labour: o As a means of political coercion or education or as a punishment for holding or expressed political or ideological views o As a method of using labour for economic development o As a means of labour discipline o As a punishment for having participated in strikes o As a means of racial, social, national or religious discrimination.
Minimum age convention	• Pursue a national policy designed to ensure the effective abolition of child labour and to have a minimum age for admission to employment. • Minimum ages specified in this convention o Completion of compulsory schooling, and in any case, not less than 15-years. However, in an economy where the education facilities are insufficiently developed may, after consultation with employers and workers, initially specify a minimum age of 14 years.

	○ Min age for any employment which is likely to jeopardise the health, safety or morals of young person = 18 years, or 16 years following sufficient consultation with organisations of employers and workers. ○ Persons aged 13-15 can do light work is not likely to be harmful to their health, doesn't prejudice school attendance.
Worst forms of child labour	• Definition of child = persons less than 18 years old. • Worst forms of child labour ○ All forms of slavery or similar practices, including trafficking of children, debt bondage, serfdom, forced or compulsory labour including as part of armed forces ○ Use of child for prostitution or porn ○ Use of a child for illicit activities, particularly production and trafficking of drugs ○ Work likely to harm the health, safety or morals of children
Equal remuneration	• Equal remuneration for men and women workers for work of equal value.
Discrimination	• Promote and practice equality of opportunity and treatment in respect of employment and occupation with a view to eliminating any discrimination. • Definition of discrimination – any distinction, exclusion or preference made based on race, colour, sex, religion, political opinion, national extraction, or social origin. • Employment and occupation include access to vocational training, access to employment and conditions of employment.

Source – ILO, Conventions and Recommendations

Figure 44 - Four governance (priority) conventions

Convention	Discussion
Labour inspection	• Should maintain a system of labour inspection in industrial workplaces to secure the enforcement of legal provisions relating to ○ Conditions of work ○ Protection of work while engaged in their work – e, g., hours, wages, safety, health and welfare, employment of children, ○ Bring notice to the competent authority of defects or abuses not specifically covered by existing legal provisions
Employment policy	• Members shall declare and pursue an active policy designed to promote full, productive and freely chosen employment • The policy should aim at ensuring

	o There is work for all who are available for and seeking work o Work is as productive as possible o Freedom of choice of employment
Labour inspection (agriculture)	
Tripartite consultation / International Labour Standards	

Source – ILO, Conventions and Recommendations

UN Convention on the Rights of the Child (UNCRC)

The UNCRC sets out 42 articles that articulate children's rights. Most of these articles target States or individuals rather than private enterprise. Figure 45 outlines the articles that Pella believe are most directly relevant for businesses, although businesses can certainly be implicated in the other articles. The best way Pella can simplify the UNCRC is that whenever children are impacted by a business's products, practices or supply chain we should refer to the UNCRC and in all cases, abuses of the UNCRC are self-explanatory.

Figure 45 - Selected Examples of Articles

Article	Discussion
9	Children should not be separated from their parents unless it is for their own good
14	Children have the right to think and believe what they want and to practice their religion, so long as they are not stopping other people from enjoying their rights
16	Children have the right to privacy
17	Children have the right to reliable information from the media. Mass media should provide information that children can understand and should not promote materials that could harm children
27	Children have the right to a standard of living that is good enough to meet their physical and mental needs. The government should help families who cannot afford to provide this

Source – UNICEF, Simplified version of the UN Convention on the Rights of the Chile

United Nations Convention Against Corruption (UNCAC)

The UNCAC is identified in the UNGC as the key underlying legal instrument for this principle 10, Anti-Corruption. This Principle does not define corruption but rather defines specific acts of corruption, Figure 46.

Figure 46 - Specific Acts of Corruption

Acts of corruption	Discussion (1)
Bribery	Offering, giving, receiving, or soliciting of any item of value (not solely money) to influence the actions of an official, or other person, in charge of a public or legal duty
Embezzlement	The fraudulent appropriation to his own use or benefit of property or money in trusted to him by another, by a clerk, agent, trustee, public officer, or other person acting in a fiduciary character.

Laundering	the act of transferring illegally obtained money through legitimate people or accounts so that its original source cannot be traced
Concealment	The improper suppression or disguising of a fact, circumstance, or qualification which rests within the knowledge of one only of the parties to a contract, but which ought in fairness and good faith to be communicated to the other, whereby the party so concealing draws the other into an engagement which lie would not make but for his ignorance of the fact concealed. A neglect to communicate that which a party knows, and ought to communicate, is called a "concealment.
Obstruction of justice	interfering with the orderly administration of law and justice, as by giving false information to or withholding evidence from a police officer or prosecutor, or by harming or intimidating a witness or juror.

Source - UNCAC

(1) Black's Law Dictionary

The UNCAC is principally directed at States with requirements with references to private enterprises focused on the requirement of the State to establish laws that prohibit corruption. The key message of is that businesses should not engage in corrupt activities, as well as take measures to prevent corruption assist law enforcement agents uncover and resolve corruption.

Figure 47 - UNCAC Chapter Summary

Chapter	Discussion
General provisions	• Essentially definitions and the scope of the Principle
Preventative measures	• States should adopt coordinated policies that prevent corruption that include measures for both the public and private sectors, including o Transparent procurement and sound financial management o Merit-based civil service o Effective access to public information, auditing and other standards for private companies o Independent judiciary o Active involvement of civil society in efforts to prevent and combat corruption o Measures to prevent money laundering
Criminalization and law enforcement	• States must criminalise • bribery – giving of undue advantage to a public official and the acceptance of an undue advantage by a national public official • embezzlement of public funds • obstruction of justice • concealment, conversion or transfer of criminal proceeds • states are encouraged but not required to criminalise • trading in influence, • abuse of function

	• illicit enrichment, bribery and embezzlement within the private sector • money laundering • concealment of illicit assets • should protect whistleblowers and witnesses in corruption cases
International Co-operation	• States are obliged to assist each other in cross-border criminal matters
Asset recovery	• A fundamental principle of the convention is the right to recovery of stolen public assets • Many believe this is the main selling point of the Convention
Technical assistance and information exchange	• Technical assistance refers generally to support aimed at helping countries comply with the UNCAC's provisions. • Includes provisions on training, materials and human resources, research, and information sharing

Source – United Nations, Convention Against Corruption

UN Guiding Principles on Business and Human Rights (UNGPs)

The UNGOs is an instrument consisting of 31 principles that guide States and businesses how businesses should implement the UN's human rights framework. The underlying human rights applied in the UNGP is, at a minimum, the International Bill of Human Rights, and the ILO Fundamental Conventions.

The key take aways of the UNGPs for Pella are:

1. The UNGP specifically points to complicity in human rights abuses with businesses potentially being perceived as being "complicit" in the acts of another party where, for example, they are seen to benefit from an abuse committed by that party.
2. Where the domestic context renders it impossible to meet this responsibility fully, businesses are expected to respect the principles of internationally recognized human rights to the greatest extent possible in the circumstances and to be able to demonstrate their efforts in this regard.
3. Requirement for our investments to have a human rights policy - UNGP specifically references the requirements that businesses have a human rights policy commitment and due diligence process.

Figure 48 - Foundational Principles for Businesses

Principle	Commentary
Businesses should respect human rights. This means that they should avoid infringing on the human rights of others & should address adverse human rights impacts with which they are involved	• Take adequate measures for the prevention, mitigation, and remediation of human rights impacts • Do not take actions to undermine States' abilities to meet their own human rights obligations.
Responsibility to respect human rights refers to internationally recognized human rights,	

understood, at a min, as those expressed in the International Bill of Human Rights and the principles set out in the ILO's Declaration on Fundamental (8) Principles and Rights at Work	
Responsibility to respect human rights requires that businesses • Avoid causing or contributing to adverse human rights impacts through their own activities and address such impacts when they occur. • Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products, or services by their business relationships, even if they have not contributed to those impacts	• Activities includes actions and omissions • Business relationships include relationships with business partners, supply chain, other non-State or State entity directly linked to the business operations, products, or services
Applies to all enterprises regardless of their size, sector, operational context, ownership, and structure	• The means through which a business meets its responsibilities to respect human rights will be proportional to its size • Severity of impacts will be judged by their scale, scope, and irremediable character
To meet their human rights businesses should have in place • A policy commitment to meet their responsibility to respect human rights • Human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights • Processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute.	

Source - United Nations, Guiding Principles on Business and Human Rights, 2011

Figure 49 - Operational Principles for Businesses

Principle	Commentary
(1) Should express their commitment to meet their responsibility to respect human rights through a statement of policy that a. Is approved at the most senior level of the business b. Is informed by relevant internal and external expertise	

c. Stipulate the enterprise's human rights expectations of personnel, business partners and other parties directly linked to its operations d. Is publicly available and communicated internally and externally e. Reflected in operational policies and procedures	
(2) Should carry out human rights due diligence, including assessing actual and potential human rights impacts, integrating and acting upon such findings, track responses and communicating how impacts are addresses	• Potential impacts should be addressed through prevention and mitigation • Actual impacts should be a subject for remediation • Businesses may be perceived as being "complicit" in the acts of another party where, for example, they are seen to benefit from an abuse committed by that party
(3) Businesses should identify and assess any actual or potential adverse human rights impacts with which they may be involved through their own activities or because of business relationships	• Should involve using internal and/or external human rights expertise • Involve meaningful consultation with potentially affected groups and other relevant stakeholders
(4) Should integrate the findings from their impact assessments across relevant functionals and processes and take appropriate action	• Businesses should cease to be involved in human rights abuses and should use their leverage over others to stop the abuses • There are situations in which the business lacks the leverage to prevent or mitigate adverse impacts and is unable to increase its leverage. Here the business should consider ending the relationship. • Where the relationship is "crucial", the severity of the abuse should be considered
(5) Businesses should track the effectiveness of their response to adverse human rights impacts	
(6) Should communicate externally how they address their human rights impacts	

Source - United Nations, Guiding Principles on Business and Human Rights, 2011

Figure 50 - Issues of Context

Principle	Commentary

In all contexts a business should • Comply with all applicable laws and respect internationally recognized human rights • Seek ways to honour the principles of internationally recognized human rights when faced with conflicting requirements • Treat the risk of causing or contributing to gross human rights abuses as a legal compliance issue	• All businesses have the same responsibility to respect human rights wherever they operate • Where the domestic context renders it impossible to meet this responsibility fully, businesses are expected to respect the principles of internationally recognized human rights to the greatest extent possible in the circumstances and to be able to demonstrate their efforts in this regard
• Should first seek to prevent and mitigate the most severe adverse human rights impact or where delayed response would make them irremediable	

Source - United Nations, Guiding Principles on Business and Human Rights, 2011

UN Framework Convention on Climate Change (UNFCCC)

The UNFCCC/Paris Agreement are Stated-focused Policies, and it is not immediately clear to me exactly how they apply to businesses. Pella's current thinking is that it is most applicable to highly GHG intensive businesses, using Scope 1 and Scope 2 emissions. The main GHGs contributing to global warming CO2, methane, black soot, and HFCs. Given CO2 accounts for 2/3 of global warming and is the most widely reported emission, Pella think we should primarily focus on that gas.

Overview of UNFCCC/Paris Agreement

The UNFCCC is the major global environment Policy, which in which the Paris Agreement was negotiated under, which is why the UNFCCC and Paris Agreement are often synonymous with each other.

The UNFCCC is composed of 194 parties which are all States who meet annually with the meetings are called '*Conferences of the Parties*' (COP). The meeting in Paris was the 21st, which is why the Paris Agreement is also called COP21. The imminent meeting in Glasgow is the 26th COP (Paris Agreement was in 2015 and due to Covid the Glasgow meeting was moved to 2021).

UNFCCC was agreed to by virtually country in the 1990s when the members agreed to stabilize GHG concentrations "at a level that would prevent dangerous anthropogenic (human induced) interference with the climate system". The meeting in Paris is described as special "because, for the first time, a binding agreement brings all nations into a common cause to undertake ambitious efforts to combat climate change and adapt to its effects"[6]. However, the truth is it is not at all binding, and Pella think its main relevance is that it defines how countries will implement their UNFCCC commitments after 2020.

The key outcomes of the Paris Agreement are as follows:

(1) Limit global warming below 2°C, and preferably to 1.5°C, compared to pre-industrial levels

[6] UNFCCC, The Paris Agreement

- There are (at least) two challenges with this goal –
    - The Paris Agreement does not specify the baseline, industrial level. The IPCC Special Report on Global Warming uses the reference period of 1850-1900 to represent pre-industrial temperature
    - No definition of how to measure warming – should be over a day, a year, over land or water? Again, the IPCC provides some guidance defining warming as the increase in the 30-year global average combined air temperature over land and water temperature at the ocean surface. The 30-year period accounts for the effect of natural variability, for example in 2015 and 2016 were both affected by strong El Niño event, which amplified the underlying human-caused warming.
- In 2015 (year of the Paris Agreement) global warming reached 0.87°C relative to pre-industrial period and the global temperature is currently rising by 0.2°C per decade, implying approximately 0.6°C per thirty-year period[7]. Based on these figures, the world would reach 1.5°C somewhere between 2040 and 2050.

(2) Net-zero global emissions in the second half of the 21st Century

(3) Transparency frameworks designed for company reporting

Signatories set out their own pledges for how they intend to address climate change. Unique to each country, these pledges are known as Nationally Determined Contributions (NDCs). NDCs are submitted every five years to the UNFCCC, which implies 2020, 2025, 2030.

In COP26 (occurring in Nov-21, in Glasgow), countries are required to also establish Long-Term Low GHG Emission Development Strategies (LT-LEDS), which are intended to help countries refine their NDCs considering new science.

The current consensus of scientific research is that the current NDCs are insufficient to limit global warming to 1.5°C above pre-industrial levels[8]. This implies that a business's compliance with a host country NDC does not automatically imply compliance with the Paris Agreement.

Along with the NDC's, the Paris Agreement established the Enhanced Transparency Framework (ETF), which is used to assess whether countries are meeting their goals and whether the collective efforts are on track to meet the overarching goals. Under ETF, starting in 2024, countries will report on actions taken and progress in climate change mitigation. The information gathered through the ETF will feed into the Global Stocktake, which will assess the collective progress towards the long-term climate goals

Business compliance with the UNFCCC/Paris Agreement

Pella focuses on the major source of GHG, namely CO2, and the largest emitters of CO2, which are listed in Figure 51. Using these data Pella focuses on the Paris Agreement's goal of carbon neutrality by the second half of the 21st Century and with this goal, we apply the IEA's requirements for its Net Zero Emissions ("NZE") by 2050 scenario.

Figure 51 summarises the key CO2 intensity figures for the most polluting sectors as of 2020, which we can use as a proxy for current carbon intensities. The IEA should provide updated

[7] IPCC, Frequently Asked Questions, page 7
[8] IPCC, Frequently Asked Questions, page 9

figures annually which we can use to measure compliance with the goals of the UNFCCC/Paris Agreement.

Figure 51 - Selected indicators in the IEA's Net Zero Emissions by 2050 Scenario

	CO2 contrib[(1)]	2020	2030	2040	2050
Electricity generation – g CO_2 / kWh	40%	459	138	-1	-5
Industry – g CO_2 / MJ	25%	56	41	21	3
Buildings – g CO_2 / MJ	8%	23	18	8	1
Passenger cars – g CO_2 / km	8%	200	106	34	4
Heavy trucks – g CO_2 / km	5%	898	589	273	54

Source – IEA, World Energy Outlook - 2021, pg. 38
Contribution to global CO2 emissions (Mt CO2) in 2020; IEA, Annex A, World_CO2 table,

Positive Impact Themes

Figure 52 - Pella's positive impact themes and SDG targets that relate to these themes

Themes	Related SDG Targets
Cleaner Energy	• SDG 7.2 – increase share of renewable energy. • SDG 7.3 – double global rate of improvement in energy efficiency.
Conservation	• SDG 3.9 – reduce number of deaths from hazardous chemicals and air, water and soil pollution. • SDG 6.4 – increase water efficiency. • SDG 7.3 – double global rate of improvement in energy efficiency. • SDG 8.4 – improve global resource efficiency in consumption and production. • SDG 15.2 – ensure the conservation, restoration and sustainable use of ecosystems. • SDG 15.b – encourage conservation of forests. • SDG 11.6 – reduce adverse environmental impact of cities including air quality and waste management.
Improved Health	• SDG 3.3 – end communicable diseases. • SDG 3.4- reduce premature mortality from non-communicable diseases and promote mental health & well-being. • SDG 3.8 – achieve universal health coverage.
Safety	• SDG 3.6 – halve number of deaths and injuries from road traffic. • SDG 3.9 – reduce number of deaths from hazardous chemicals and air, water and soil pollution. • SDG 6.1 – universal and equitable access to safe and affordable drinking water. • SDG 13.1 -strengthen resilience and adaptive capacity to climate-related hazards and natural disasters.
Inclusiveness	• SDG 4.3 – equal access for women and men to education. • SDG 4.4 – increase the number of youth and adults with relevant skills. • SDG 5.5 – women's full and effective participation and equal opportunities for leadership.

	• SDG 8.5 – full and productive employment and decent work for all women and men, including young people and persons with disabilities. • SDG 8.6 – reduce the proportion of youth not in employment, education or training.
Economic Participation	• SDG 2.4 – sustainable food production systems and resilient agricultural practices. • SDG 2.c – ensure proper functioning of food commodity markets and their derivatives. • SDG 6.1 – universal and equitable access to safe and affordable drinking water. • SDG 7.1 – universal access to affordable, reliable and modern energy services. • SDG 7.b – expand infrastructure in developing countries • SDG 8.1 – sustain per capital economic growth, particularly in the least developed countries • SDG 8.10 – encourage and expand access to banking, insurance and financial services for all. • SDG 9c – increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries. • SDG 17.3 – mobilize additional financial resources for developing countries.

Source – Pella Funds Management and United Nations