
SUSTAINABLE INVESTING POLICY

INTRODUCTION

Pella’s goal is to construct a portfolio with sustainable outcomes in both an absolute sense and relative to its Benchmark. To do this Pella initially focuses on delivering a portfolio that doesn’t have activities that come at a cost to current or future generations. Following that Pella aims to invest whenever financial considerations allow into companies that have a positive impact on current and future generations. Finally, Pella recognizes its Investment Stewardship responsibilities, which includes engagement, voting, advocacy, and transparency.

APPLICATION OF POLICY

1. Delivering Sustainability

Pella defines sustainability as ‘*activities that can continue over the long term because they do not come at a material cost to current or future generations*’. To satisfy this definition, Pella focuses on two objectives, the first relates to **companies’ activities** and the second relates to **companies’ behaviour** and they are summarised in Table 1. Pella believes delivering on these objectives results in a sustainable fund.

The first objective is to ‘*avoid harmful corporate activity*’ and Pella avoids corporate activities that come at a material cost to current or future generations. This is primarily delivered via Pella’s Negative Screen strategy and is supplemented with Pella’s Sustainability-Themed strategy.

The second objective is to ‘*avoid harmful corporate behaviour*’. This identifies companies that are not involved in harmful corporate activities but nonetheless behave in a manner that comes at a cost to future generations. To satisfy this objective Pella utilises two sustainability strategies: ESG Integration and Norms-Based.

Table 1 - Pella’s Sustainability Objectives

Objective	Measurement	Strategy	Targets
1. Avoid harmful corporate activity	<ul style="list-style-type: none"> Revenue from activities Carbon intensity 	<ul style="list-style-type: none"> Negative Screen Sustainability Theme 	<ul style="list-style-type: none"> No exposure to harmful activities Portfolio carbon intensity at least 30% below the Benchmark

			<ul style="list-style-type: none"> Pella Funds Management to be a carbon neutral company by 2023
2. Avoid harmful corporate behaviour	<ul style="list-style-type: none"> ESG rating ⁽¹⁾ Norms-based compliance 	<ul style="list-style-type: none"> ESG integration Norms-Based Screen 	<ul style="list-style-type: none"> No CCC-rated ⁽¹⁾ investments Portfolio ESG rating equal to or greater than the Benchmark ESG rating ⁽¹⁾ No exposure to controversial behaviour that is a breach of Norm-Based Screen

Source - Pella Funds Management
(1) MSCI ESG rating

2. Delivering 'Beyond Sustainability'

While Sustainability primarily utilises avoidance strategies, 'Beyond Sustainability' utilise improvement strategies. Having delivered a sustainable fund, Pella strives to deliver *Beyond Sustainability* by seeking to invest in companies that offer a meaningfully positive impact on current or future generations, or by Pella being an active participant in change. To deliver on this strategy Pella applies three objectives, which are summarised in Table 2 and Pella believes that delivering on them results in *Beyond Sustainability*.

The first objective is to 'reward positive corporate activity' and Pella seeks to maximise exposure to corporate activities that fall within Pella's Positive Impact Themes, which are linked to the UN Sustainable Development Goals ('SDGs') and satisfy Pella's financial requirements. The second objective is to 'reward positive corporate behaviour' and Pella focuses its portfolios on higher ESG-rated businesses via Pella's ESG Integration strategy. The third objective is for Pella to be an 'active participant of change', which is delivered via Pella's Engagement Policy.

Table 2 - Pella's Beyond Sustainability Objectives

Objective	Measurement	Strategy	Targets
1. Reward positive corporate activity	<ul style="list-style-type: none"> Revenue from activities 	<ul style="list-style-type: none"> <u>Positive Impact Themes</u> 	<ul style="list-style-type: none"> Invest in positive impact companies when they satisfy Pella's financial requirements
2. Reward positive corporate behaviour	<ul style="list-style-type: none"> ESG rating ⁽¹⁾ 	<ul style="list-style-type: none"> <u>ESG Integration</u> 	<ul style="list-style-type: none"> >30% of portfolio invested in companies with AAA, AA, A ratings ⁽¹⁾ >70% of portfolio invested in companies with AAA, AA, A, or BBB ratings ⁽¹⁾ Only Core companies with a ESG rating of AAA, AA, A, or BBB ⁽¹⁾ are candidates for maximum position weight.

3. Active participant in change	<ul style="list-style-type: none"> Portfolio positions with an ESG rating Shareholder vote participation 	<ul style="list-style-type: none"> <u>Engagement Policy</u> 	<ul style="list-style-type: none"> 100% of portfolio positions have either a MSCI ESG rating or are actively moving towards one. Participate in 100% of shareholder votes Influence at least one ESG improvement in an investment p.a.
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Source - Pella Funds Management
(1) MSCI ESG rating

3. Sustainability and Beyond Sustainability Strategies

Several strategies are required to deliver Pella’s Sustainability and Beyond Sustainability objectives. Table 3 summarises these strategies and targets. In addition to implementing the strategies individually, Pella combines some strategies to develop a Sustainability Score that helps navigate the sustainability shades of grey. The Score’s calculation is illustrated in Figure 1. Only companies with a Score of ≥0 are viable for inclusion in Pella’s portfolio.

Table 3 - Pella’s sustainability strategies’ key measurement and targets

Strategy	Key measures	Target
ESG Integration	<ul style="list-style-type: none"> Portfolio aggregate ESG rating and score % Of portfolio invested in companies with exemplary ESG rating 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> % Of portfolio invested in companies that are involved in activities that are included in the Negative Screen 	<ul style="list-style-type: none"> 0% of portfolio invested in companies involved in these activities ⁽³⁾
Norms-Based Screen	<ul style="list-style-type: none"> % Of portfolio invested in companies that breach Norms-Based practices. 	<ul style="list-style-type: none"> 0% of portfolio invested in companies that breach Norms-Based practices
Corporate Engagement	<ul style="list-style-type: none"> % 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 	<ul style="list-style-type: none"> Participate in 100% of votes Improve the ESG practices of least one investee company p.a.
Positive Impact	<ul style="list-style-type: none"> % Of portfolio invested in companies with meaningful exposure to one or more of Pella’s Positive Impact Themes 	<ul style="list-style-type: none"> Invest in these companies whenever they satisfy Pella’s financial criteria, including valuation
Sustainability Themed	<ul style="list-style-type: none"> Portfolio carbon intensity 	<ul style="list-style-type: none"> Carbon intensity of portfolio is at least 30% below the Benchmark

- Pella Funds Management to be a carbon neutral company by 2023

Source - Pella Funds Management

(1) MSCI ESG Rating

(2) Benchmark is MSCI ACWI

(3) Pella has some tolerance for companies that generate <15% of their revenue from an excluded activity and have commenced exiting that business altogether with a set timeline, as Pella regards these situations as a timing issue more than anything else

Figure 1 - Pella's Sustainability Score calculation



Source - Pella Funds Management

(1) Lower of MSCI ESG rating and Pella ESG rating

3.1. ESG Integration

Pella incorporates ESG considerations throughout its investment process. This is delivered using internal analysis, MSCI and Refinitiv ESG ratings, and assessing controversies. Table 4 is a non-exhaustive summary of common ESG issues Pella considers.

Table 4 - Common ESG issues

Pillar	Issues
Environment	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 Table 5.

Table 5 - 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 and Refinitiv 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 MSCI ESG rating of B or BB, which are within Pella's investment universe but must have a positive sustainable impact for inclusion, with this explained further in the [Positive Impact Themes](#) section. 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.

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 and Refinitiv 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. Accordingly, in addition to standard ESG metrics, this analysis emphasises controversies.

Documentation involves documenting key ESG issues for all companies Pella research for potential inclusion in the portfolio. This documentation includes identifying key ESG issues, reporting on Pella's position on these issues, identifying key controversies and explaining Pella's position on those 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 individual stock weight limits based on ESG considerations and Pella’s portfolio segmentation strategy.

Table 6 - 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 ⁽¹⁾	3%	3%	3%

Source - Pella Funds Management

(1) These companies are initially subjected to Refinitiv rating, which Pella will convert into an equivalent MSCI rating. If there is no MSCI or Refinitiv rating, Pella will calculate a proprietary ESG rating, but regardless of the rating, their maximum weight is limited to 3% until they obtain a MSCI ESG rating of AAA, AA, A, or BBB

Quality Assurance ensures that the aggregate portfolio weights sit within Pella’s ESG targets. Table 7 summarises the portfolio’s rating targets, with the key takeaway being that the portfolio targets a superior ESG rating to the Benchmark.

Table 7 - PGS portfolio ESG rating requirements

MSCI Rating	Pella’s requirement
AAA, AA, A	>30% of portfolio
AAA, AA, A, BBB	>70% of portfolio
Portfolio aggregate rating	Superior to the Benchmark

Source - Pella Funds Management

Continuous Improvement focuses on improving the portfolio, and the underlying investments’ ESG characteristics. It involves identifying the portfolio’s key ESG strengths and areas with the greatest potential for improvement. Continuous Improvement is divided into two parts:

- *Companies with B ratings* - identify the key areas of ESG weakness to engage with company to improve.
- *Companies with no MSCI ESG ratings* - engage with company and MSCI with the goal of getting the company rated.

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

3.2. Negative Screen

Negative Screens are applied at the start of the research process. Companies generating revenue from the activities listed in Table 8 are 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.

Table 8 - Negative screen revenue materiality

Activity	Revenue materiality	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% for cosmetic testing, crowd entertainment, intensive animal husbandry	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 ⁽¹⁾ 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 gCO ₂ /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 companies involved in the production of tobacco or with significant ownership 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) 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.

3.3. Norms-Based Policy

Norms-Based Policy involves identifying and 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 2 illustrates Pella's decision process for controversies and norms-based issues. The key steps in the process include

Identification - the process commences with Pella identify breach(s) using Pella's qualitative research and MSCI ESG research. Controversies are often self-explanatory, however, Pella can also refer its **Error! Reference source not found.** (Appendix), which outlines key international conventions, to identify behaviour that constitutes a controversy.

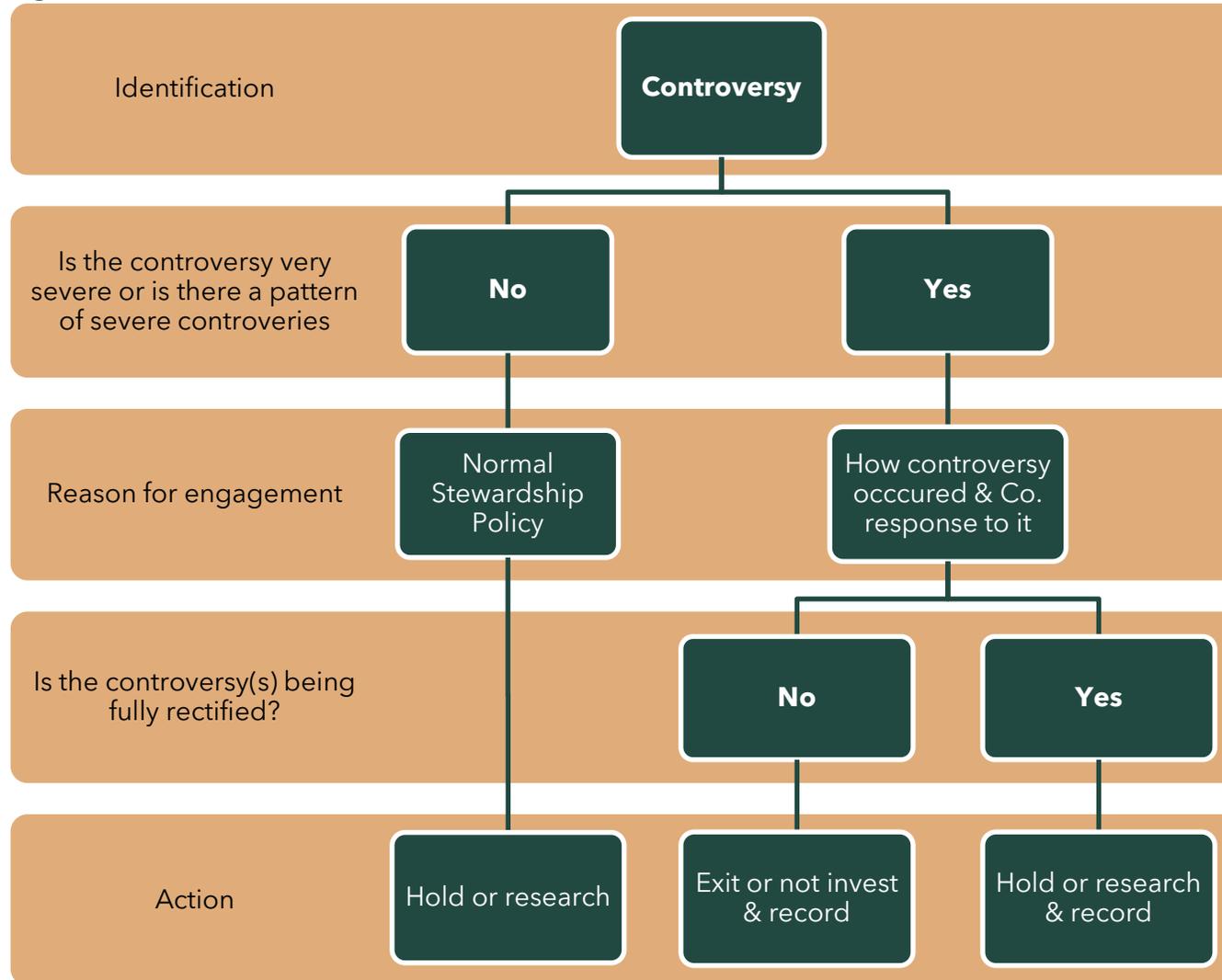
Severity of controversy or regularity of controversies - Pella assesses the severity and number of breaches. The number is calculated using MSCI ESG research and Pella believes that five controversies within the past 12-months is a threshold for further analysis. However, Pella takes into consideration 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 and counted by MSCI. Pella assesses severity in conjunction with MSCI definitions and the various conventions outlined in Pella's **Error! Reference source not found.** (Appendix). Pella consider 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 a handful of 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 2 - Decision tree for controversies and norms-based issues



Source - Pella Funds Management

3.4. 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 **Error! Reference source not found.** (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.

3.5. Sustainability-Themed

Pella targets portfolio CO₂ intensity to be at least 30% below the Benchmark¹ with CO₂ intensity measured using Scope 1 and Scope 2 carbon emissions relative to revenue as calculated by Refinitiv.

Pella Funds Management targets being a carbon neutral company by 2023.

4. Investment Stewardship Strategies

4.1. Investment Stewardship Policy

Introduction

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.*²

Pella applies four primary tools to fulfill its Investment Stewardship responsibilities, including:

1. Engagement
2. Voting
3. Advocacy

¹ MSCI ACWI

² [UNPRI, Introduction to responsible investing, an introduction to responsible investing stewardship](#)

4. Transparency

Pella incorporates Investment Stewardship considerations and behaviours into all the investments made by the funds it manages.

Engagement

Engagement can take several forms, all of which are intended to monitor and provide feedback to companies and helps inform our voting decisions. Pella expects to engage with 100% of its portfolio companies at least annually. Pella's standard engagement practices involve discussing key ESG issues with the companies to deepen Pella's understanding of the issues and how the company is managing them.

Pella deepens its engagement in certain circumstances.

- Portfolio companies with MSCI ESG rating of B
- Portfolio companies with no MSCI ESG rating
- Severe controversies
- MSCI ESG-rating downgrade
- Annual Key Initiative - Pella annually selects a key ESG-related initiative to actively improve across its investment portfolio.

Refer to Engagement Policy for additional information on this subject.

Proxy Voting

Pella prefers owning voting shares over non-voting shares and participates in all votes at its investments' Annual General Meetings and other shareholding meetings. Pella's voting position is informed by research provided by third party proxy voting advisors and Pella's internal research. In instances where Pella intends to vote contrary to the advice provided by the Board of Directors of our investments' Pella formally communicate to the company of its intention and thinking behind it prior to the meeting, to give the company an opportunity to amend their approach to the matter.

Refer to Proxy Voting Policy for additional information on this subject.

Advocacy

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. To fulfill this responsibility, Pella engages in other initiatives such as: Accreditations and Signatory, Public Commentary, Participation.

Refer to Advocacy Policy for further information on this subject.

Transparency

Pella regards transparency as a critical ingredient for Investment Stewardship and Responsible Investing more broadly. The company defines its Transparency Policy 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*'. To fulfill requirement Pella divides its communication strategy into the three Ps: (i) Policies; (ii) Portfolio; (iii) Practices. These data are made available in the following places

1. Pella website – access to Pella’s various policies, monthly fund reports, opinion pieces, and the annual Responsible Investment Report.
2. Monthly fund reports – provides key investment and ESG data for the fund.
3. Quarterly report – provides the same data as the monthly reports and adds the full portfolio, with a one quarter lag.
4. Annual Responsible Investment Report – provides in-depth data and discussion about Pella’s Responsible Investing activities, including: voting, reasoning behind key votes, Annual Key Initiative development, number of company interactions,

Refer to 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 for further information on this subject.

4.2. Engagement Policy

Introduction

Pella recognises its responsibility to engage with its investments to remain informed and contribute to the investees’ long-term performance. The Engagement can take several forms, all of which are intended to monitor and provide feedback to companies and helps inform our voting decisions.

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 involve 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 with companies 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-related initiative to actively improve across its investment portfolio. For example, in 2022, Pella actively sought to encourage its investments to become signatories to the UN Global Compact (UNGC). This initially involved

Pella becoming a signatory to the UNGC. Following that Pella tracks which of its investments are signatories and sends letters to the ones that are not yet. Pella selects the annual initiative in January of each year.

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

4.3. Proxy Voting Policy

Introduction

This Policy is based on fiduciary responsibilities to act in the best interest of clients as shareholders. It describes the approach taken by Pella Funds Management ('Pella') in relation to resolutions put forward by listed companies at Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs).

This policy applies to all relevant Pella employees involved in the proxy voting process. A copy of this Proxy Voting Policy and procedure will be provided to clients upon request.

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 vote 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 may exercise or not exercise the right to vote as it sees fit, having regard to any direction in the investment mandate and taking into consideration: any material conflicts of interests identified, 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. Composite resolutions are not regarded as optimal.

- 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.
- Voting recommendations are approved by the Portfolio Manager (PM). When unable to physically approve, the PM can transfer the right of approval to one of the Analysts.
- Upon approval, votes are processed by Pella on an electronic proxy voting system.
- Pella will maintain a record of all voting on behalf of clients and report these to the client where requested.

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 nearly always 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); or
- 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; or
- 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; or
- Takeover Protection - e.g. Poison Pills - generally involves issuing preferred stock purchase rights or warrants unilaterally declared as a dividend without shareholder participation or

approval. Poison pills can be used to insulate existing management against competitive bids.

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, then the employee should escalate the matter to the Portfolio Manager and COO. In such circumstances Pella may abstain from voting if that action is deemed to be in its client's best interest.

Socially Responsible Policy Issues

Pella may decide to vote on such issues on a case-by-case basis recognising that social responsibility issues may impact the value of the shareholders' investment.

Generally, Pella does not apply specific socially responsible investment or methodologies screens, unless specifically directed by the client.

Class Actions

Pella does not direct clients' participation in class actions. The Portfolio Manager will determine whether to return any documentation inadvertently received regarding clients' participation in class actions to the sender, or to forward such information to the appropriate clients.

4.4. Advocacy Policy

Introduction

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, all of which will be available in the Pella website, Pella’s LinkedIn profile, and some of which will be 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.

4.5. Transparency Policy

Introduction

Pella regards transparency as a critical ingredient for Investment Stewardship and Responsible Investing more broadly. The company defines its Transparency Policy 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’*.

Application of Policy

Pella divides its transparency policy into the three Ps: (i) Policies; (ii) Portfolio; (iii) Practices. These data are made available in the following places:

1. Pella website – access to Pella’s various policies, monthly fund reports, opinion pieces, and the annual Responsible Investment Report.
2. Monthly fund reports – provides key investment and ESG data for the fund.
3. Quarterly report – provides the same data as the monthly reports and adds the full portfolio, with a one quarter lag.
4. Annual Responsible Investment Report – provides in-depth data and discussion about Pella’s Responsible Investing activities, including: voting, reasoning behind key votes, Annual Key Initiative development, number of company interactions.

Policies

The policies provide guidance of Pella’s approach to key Responsible Investing considerations and should always be available to Pella’s stakeholders. Pella makes its RI policies publicly available and easily accessible on its website.

Portfolio

Portfolio data is made available in Pella’s funds’ monthly and quarterly reports. The monthly reports disclose the fund’s top ten holdings and key fund aggregate exposures including sector, market cap, geography, carbon intensity, and MSCI ESG rating. The quarterly report provides similar data to the monthly with the exception that the quarterly discloses the full portfolio holdings, with a quarterly lag. The quarterly report also includes additional ESG related data such as the number of severe controversies per company, whether the company is a signatory to the UNGC, and several other Responsible Investing data deemed most relevant by Pella.

Practices

Practices relate to Pella’s corporate engagement. Pella’s policy is to disclose its corporate engagement, including how Pella voted and, when Pella votes against Director recommendations, why it did so, and explanations of Pella’s response to severe controversies.