

# Hyperion ESG Policy

Hyperion Asset Management (Hyperion) recognises its duty to behave responsibly in our business activities and towards those whom its actions affect.

As an investment manager, we believe that a high standard of business conduct, as well as a responsible approach to social, environmental and ethical issues makes good business sense and enhances shareholder value. Conversely, poor management of these issues may pose a risk to the reputation and value of a business.

***The first part of this ESG Policy focuses on Hyperion as a business and the principles that guide us. The second part of this ESG Policy deals with our approach to ESG issues as an investment manager. Our goal is to follow any best practice guidelines that may be relevant to our business and to put our principles into action.***

We have developed these Guiding Principles to express how we view our responsibilities and how they apply in a practical way to the day to day running of our business. They are reviewed frequently to ensure they remain relevant.

## Part 1 Hyperion Guiding Principles

**1.Environment: *To minimise any negative impact on the environment arising from our business activities we have adopted the following practices:***

Our goal is to be a carbon neutral business and offset our emissions.

We use renewable energy and switch off lights and electrical appliances when not in use.

- Our office uses Green Power accredited renewable energy; and
- We use energy-efficient lighting and systems throughout our office.

We use environmentally friendly cleaning products.

We support recycling by:

- Recycling our cardboard, paper and using recycled paper products;
- Purchasing green office stationery products where possible;
- We recycle our used printer cartridges through Planet Ark;
- Ensuring that the glass, cans and plastic which we use are recycled and reused wherever possible.

We are committed to reducing the amount of paper we use.

- By printing '2 pages per page, double-sided' for our internal print requirements; and
- By increasing the amount of documentation sent via email.

## **2. Social**

### **STAFF RELATIONS**

We share a close relationship with our employees by providing a flexible, supportive, healthy and safe working environment. Policies and practices are adopted which encourage an appropriate work/life balance and promote our results drive values of client focus, teamwork and being open and fair. Hyperion provides a stimulating work environment where employees can grow and expand their skill set.

#### ***Hyperion has a Wellbeing Policy for all staff***

Staff members who wish to incorporate physical exercise into their working day are encouraged to do so. In terms of the Wellbeing Policy, Hyperion pays for gym membership for all employees. Furthermore, broadband connections are paid for by the company to facilitate staff working from home where required.

#### ***Sharing close relationships with our team members***

Hyperion is a small business with a team of twelve professionals. All team members share a close bond, having worked together previously. Our culture is collegiate and we are passionate about what we do.

#### ***Providing a flexible, supportive, healthy and safe working environment***

Hyperion offers a pleasant working environment. The decor is aesthetically pleasing and provides a sense of spaciousness throughout. Staff is afforded wider than average work stations, modern technology and privacy. Fresh fruit and purified water are provided daily.

A counselling service is available to staff regarding work or personal issues, through Assure Programs.

***Adopting policies and practices which encourage an appropriate work/life balance***

Staff are all entitled to take their birthday as an additional days holiday.

For every twelve month period worked, team members are strongly encouraged to take a minimum of 3 weeks leave to ensure they have an opportunity to refresh.

For every public holiday worked, staff are given a day off in lieu.

It is acknowledged that the majority of team members have young families and this is taken into account when planning team events etc.

***Providing a stimulating work environment where employees can grow and expand their skill set***

Staff are encouraged to continue their learning by attendance at professional development conferences etc.

**COMMUNITY INVOLVEMENT**

We believe in investing in charitable causes and social enterprises which are closely aligned to our business activities. We support the community as a whole, but especially those communities in which our offices are based and encourage our employees in their charitable and community involvement. Hyperion supports the Principles of Fair Trade and does not contribute to any practice where there may be potential abuses of human rights or exploitation of any kind.

***Ensuring Community Involvement by investing our time in charitable causes and social enterprises closely aligned to our business activities***

Team members are encouraged to volunteer a working day to a charity or social enterprise. Executive shareholders have a KPI which comprises 2 per cent of their short term incentive which is achieved by their appointment to the governing body of a charitable organisation.

***Supporting and encouraging our employees in their charitable and community involvement***

We are pleased to support those staff members who perform their own charitable works wherever possible. This includes approving leave where required to pursue charitable work.

### **3. Governance**

We conduct our business ethically, maintaining good corporate governance, compliance & risk management and promoting responsible business practices. Hyperion has an understanding that good corporate governance and effective management are vital to the successful implementation of our corporate objectives and that a prerequisite is total alignment of interest.

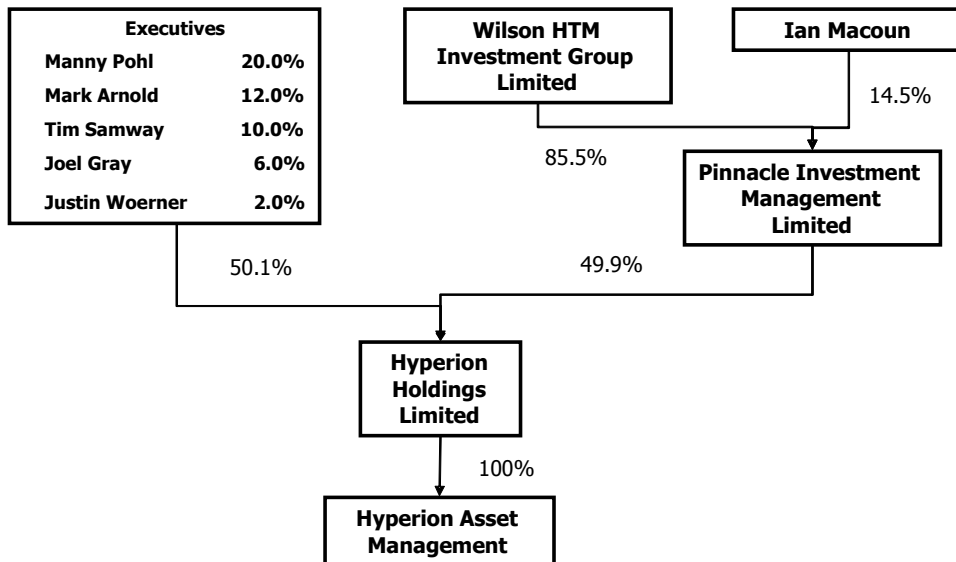
#### **EMPLOYEE REMUNERATION**

An employee's total remuneration has three components:

- Base salary which is determined by the going rate in the market;
- Short-term remuneration. If the Company, in any financial year, meets the Profit Rate (after providing for the cost of all proposed bonuses in relation to the year), the Company will pay the Employee a short-term bonus which is determined by the employees base salary and the employees performance against a set of predetermined KPI's; and
- Long-term remuneration is by the ownership of equity in Hyperion which is acquired at market prices from exiting shareholders. Employees who do not have equity in Hyperion but do have more than five years of service with Hyperion are rewarded with the long-term benefits of shadow equity. Shadow equity entitles the recipient to receive a bonus equivalent to the total grossed up dividend on five thousand shares.

## BOARD STRUCTURE

The chart below provides detail on our ownership structure.



### Hyperion Board of Directors

Deborah Beale (Chairman), Manny Pohl (Managing Director), Murray d'Almeida, and Ian Macoun.

### Board Independence and Succession Planning

The Board is required to have at least two independent directors and a maximum of four. At all times the Chairman is to be elected from the Independent directors. Pinnacle is entitled to elect one director to the Board while the executives are also only permitted to elect one executive to the Board. The major shareholder groups are Pinnacle Investment Management (50% shareholding) and the executives (50%).

### Compliance

Hyperion has an AFS Licence. No. 238380.

WHTM Capital Management Limited holds an AFS Licence as a Responsible Entity and acts as Responsible Entity for the Hyperion Funds.

Hyperion has a Legal and Compliance team with an independent reporting line to the Hyperion Board.

We operate under a comprehensive suite of procedures and policies, including:

- Broker Selection and Allocations Policy
- Corporate Governance Policy

- Outsourcing Policy
- Risk Management Plan
- Training Policy
- Code of Conduct
- Staff Wellbeing Policy
- Employee Trading Policy
- Risk Management Statement (Derivatives)
- Internal Controls Document
- Complaints Handling Policy
- Disaster Recovery Plan
- Disaster Resilience Strategy
- Privacy Policy/Statement
- AML Program
- Compliance Policy
- Conflicts of Interest Policy
- Licensee & Authorised Representative Policy
- Soft Dollar Remuneration Policy
- Voting Policy
- Compliance Incident Reporting Guidelines
- Substantial Interest Policy

For unit trusts and large mandates, positions and trades are independently monitored and reconciled daily and compliance breaches are reported the following day. Portfolios are subject to pre-trade vetting, and intra-day checks are run in periods of high activity or volatility.

How Compliance Breaches are dealt with:

<b>CIR (Compliance Incident Report) Risk Rating</b>	<b>Manager Legal Compliance and Risk</b>	<b>Hyperion Managing Director</b>	<b>Hyperion Board</b>	<b>Regulatory Authority</b>
<b>Low</b>	CIR by close of working day following discovery. Quarterly Report to Hyperion Board	N/A	N/A	N/A
<b>Medium</b>	CIR by close of working day following discovery. Quarterly Report to Hyperion Board	CIR by close of working day following discovery	N/A	N/A
<b>High</b>	CIR by close of working day following discovery. Report to Hyperion Managing Director by close of working day following discovery including recommendation to Hyperion Board re: requirement to report incident to ASIC. Quarterly Report to Hyperion Board	CIR by close of working day following discovery. Recommendation to Hyperion Board by close of 2 <sup>nd</sup> working day following discovery re: reporting to ASIC	Instruct Manager Legal Compliance & Risk to report/not report incident to ASIC.	By Manager Legal Compliance and Risk on instruction from the Hyperion Board

**External Audit/Compliance Reviews**

Unit prices are reviewed daily by Legal and Compliance and back office staff in line with tolerance limits. Sample testing of unit pricing is undertaken as part of the scheme's compliance plan and financial statement audits, currently undertaken by PWC.

Valuations of scheme assets are reviewed annually by PWC as part of the financial statement audit.

Allocations of trades are undertaken in accordance with the Hyperion Allocation Policy.

**Risk Management**

We have a Risk Management Statement /Business Continuity Plan designed to maintain resiliency and ongoing performance of the business.

## Part 2

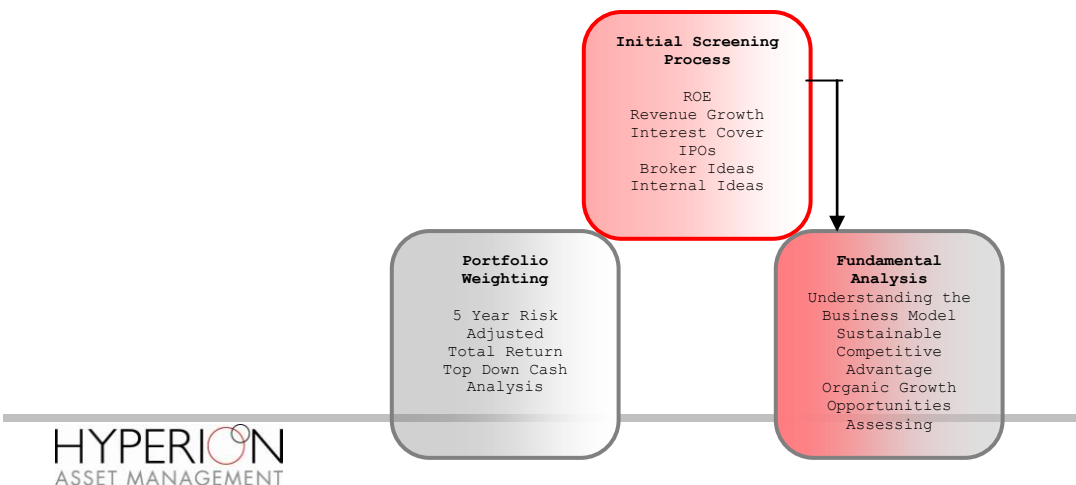
### Hyperion Investment Management's Approach to ESG

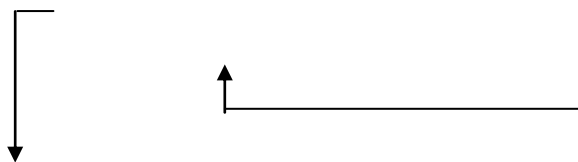
Hyperion was a pioneer in Socially Responsible Investment (SRI) investing having had an SRI product on offer since 2003. However, critical mass was not obtained and the product was subsequently removed from offer. Nevertheless, as an equities manager we still incorporate ESG analysis into our investment decision making process. We operate under the broad principle that companies implementing sustainable practices may represent opportunities for out-performance and correspondingly those companies that don't adhere to sustainable practices could result in underperformance.

#### 1. Evaluation of ESG Issues

Rather than rely on investment houses and their research departments, which are motivated by generating trades, we conduct our own proprietary research. Our focus is on identifying quality predictable companies with significant growth potential. As a result, we concentrate on a smaller number of companies with a quality business model and stable management

Our three step process encapsulates our philosophy by carefully screening out all but the highest quality companies and constructing benchmark insensitive portfolios from the remaining 'universe', weighted according to risk adjusted five year total returns. The evaluation of ESG issues is undertaken by the analysts as part of the fundamental analysis and quality determination. The link between analysis and portfolio construction is an important feature of the Hyperion investment process.





### **High Conviction Portfolio of Companies**

This process is the basis for all our Australian equities investment decisions and we employ specialist managers with similar philosophies for managing the overseas equities portion of our international holdings

## **2. Where does ESG Evaluation Fit into the Hyperion Process?**

ESG evaluation is one of the qualitative assessments that analysts use to arrive at the sustainable competitive advantage of companies.

Hyperion's portfolio managers visit the company, assess the operating environment / competitors / customers / suppliers and complete / review the investment research report for each company that is included in the portfolio.

The team has created a proprietary research report template that is completed after discovery research and face-to-face meetings with company management, competitors, suppliers, etc have been undertaken. A comprehensive financial model is also prepared using a standardised template. This research report is completed as a computer model and it is linked directly to the financial model for the company and hence through to valuation and portfolio construction.

The research that is carried out as part of completing each company's investment research is performed solely by members of Hyperion's investment team. The research process is highly structured in terms of the investment attributes that are required for a company to be included in the portfolio.

The primary sources of information used in the investment decision-making process are as follows:

- Morningstar database;

- Annual reports;
- Company presentations, conference calls;
- Site/management visits;
- Competitor/supplier/customer visits;
- Industry publications and seminars;
- Financial press reports; and
- Stockbroking research reports (in particular, industry research).

The foundation of our investment process is comprehensive research on a select group of stocks. We strive to build an extensive knowledge-base on this group of stocks and we continue to supplement this level of knowledge through time. The conclusions drawn by analysts from their qualitative assessment feeds into the business quality score applied to each company's valuation. Accordingly, conclusions drawn from the assessment of a company's ESG activities will affect that company's overall score and its weighting in the portfolio.

The main portfolio construction technique that Hyperion uses is based on expected return. The key principle in the construction of our model portfolio is the direct linkage between a stock's portfolio weighting and its forecast risk adjusted five-year IRR. As a consequence, stock's with a higher five-year IRR have a higher portfolio weighting, and vice versa. This weighting is adjusted for various risk factors which include business quality. It follows, therefore, that a poor ESG evaluation will result in the sustainable competitive advantage failing the threshold test and hence reducing the company's chances of being included in portfolios.

### **3. What Factors are Considered in the ESG Assessment?**

#### **a. Environmental**

We believe activities that are detrimental to the environment will not be conducive to a company's out-performance. An evaluation of the environmental impact of a company's activities is undertaken as part of the sustainable competitive advantage assessment. Analysts are asked to make an assessment of this impact and, if the impact is detrimental, then clearly no sustainable competitive advantage applies.

Factors that are considered in this process are:

- Overall impact the company's activities are having from an environmental perspective;
- Compliance with environmental requirements of regulatory bodies;
- Where impacts are considered to have a high impact, what remediation is being carried out to minimise future impact; and
- Close scrutiny of activities that are high impact and also in countries which do not have strong regulations around environmental impact.

There will be certain circumstances where the environmental impacts of a company's activities are so great that the company is considered non-investment grade. In these situations the company will be excluded from consideration for Hyperion portfolios regardless of other circumstances such as valuation.

## **b. Social**

Our view is that company activities that do not respect human rights and have a detrimental impact on the society they are involved in will not be conducive to that company's out-performance.

An evaluation of the social impact of a company's activities forms part of the analysts' overall sustainable competitive advantage assessment. The conclusions of the assessment can result in stocks either being excluded for consideration for Hyperion portfolios or, in less extreme circumstances, a discount being applied to their valuation.

Factors that are considered in this process are:

- Overall social impact of activities of the company;
- Where activities do have a detrimental social effect, how strong is the regulation of the company's activities;
- Does the company adhere to all the regulatory requirements that apply to them; and
- Has the company been subject to many complaints from stakeholders (whether they are employees, shareholders or other parties interacting with them).

The activities that will result in companies being excluded for consideration occur where the social impact of the activities of the company is so great that the companies are considered non-investment grade regardless of other factors.

Activities that are included in this situation include:

- Mistreatment of employees, particularly in emerging markets or jurisdictions where regulations surrounding such activities are poor or non-existent;
- Mistreatment of other stakeholders (such as suppliers or purchasers), particularly in emerging markets or jurisdictions where regulations surrounding such activities are poor or non-existent; and
- Engaging in any illegal activities.

### **c. Governance**

Our view is simply that poor governance will result in companies being unattractive investments. Good governance and effective management are vital to the successful implementation of a company's objectives.

The governance assessment forms part of the analysts' overall sustainable competitive advantage assessment. The results of the assessment can see stocks either being excluded for consideration for Hyperion portfolios or, in less extreme circumstances, a discount being applied to their valuation.

Factors that are considered in this process are:

- Integrity of management's actions;
- Adherence to standard business principles of transparency, honesty and fair dealing;
- Scrutiny of related party transactions to ensure they are kept to a minimum and accompanied by full disclosure; and
- Effective functioning of an independent board.

The decision to exclude companies from consideration in Hyperion portfolios on governance grounds will depend entirely on the severity of the company's poor governance procedures. A company will be excluded where the poor governance is so great that Hyperion considers the company non-investment grade - that is the uncertainty created from

these governance issues is so great that Hyperion would not include them in portfolios.

Again, less severe breaches of good governance practices will result in a lower business quality score. As with the other parts of the sustainable competitive advantage assessment this will be undertaken as part of the qualitative assessment of each company.