HYPERION ASSET MANAGEMENT
a different horizon…

Environmental Social and Governance (ESG) Guidelines

INTRODUCTION

Hyperion Asset Management Limited (Hyperion) believes in sustainable capitalism. We recognise our duty to behave responsibly and sustainably in our business activities.

Hyperion's mission is to protect and grow our clients' capital sustainably over the long term. Our values and beliefs include making decisions using a long-term framework and placing the interests of the collective before the individual.

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.

Sustainability has been core to Hyperion's investment philosophy and process since it was established in 1996. Hyperion has a long-term investment horizon of 10 years or greater and we have always invested as business owners, not short-term share traders. This is evidenced by the fact that historically our average stock holding period for our portfolios is approximately 10 years. We only invest our clients' capital in those businesses that we believe are extremely high-quality with strong and sustainable value propositions to all stakeholders. The stakeholders include the wider community and an assessment of the company's future likely long-term impact on the overall natural environment, including its carbon footprint. Sustainability assists in reducing the risks of any permanent loss of capital across our portfolios. Eventually, companies that externalise costs, will be forced by stakeholders to internalise them – either through regulation or changing expectations of society. As such, long-term sustainability is a core component of our investment and business philosophy.

Hyperion has been a signatory to the United Nations sponsored Principles for Responsible Investment ("PRI") since February 2009. Institutional investors are increasingly requesting investment managers to incorporate ESG issues into their investment framework. Evidence of an investment manager's commitment to ESG principles is to become a signatory to the PRI. The principles provide a framework by which all investors can incorporate ESG issues into investment analysis and ownership practices.

The first part of this document focuses on Hyperion as a business and the principles that guide us. The second part of this document 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
GUIDING PRINCIPLES

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

At a firm level, our goal is to follow best practice guidelines that are relevant to our business and to put our principles into action. Hyperion is aware of its CO_2 (carbon) footprint and has developed strategies to negate our impact on the environment. Hyperion is taking steps to remove its firmwide carbon footprint and going beyond that by purchasing more credits than required to take further carbon from the environment. Hyperion has estimated its carbon footprint including business related emissions for activities at both work and home, work related travel and travel between home and work. Hyperion has been carbon negative since 2015 through the purchase of carbon credits. We plan to buy sufficient carbon credits to more than eliminate the businesses' entire historical carbon footprint since inception in 1996. We aim to achieve this total historical elimination of Hyperion's carbon footprint by December 2022.

Our goal is to be a carbon negative business and Hyperion will continue to seek ways to further reduce its carbon emissions where possible.

We purchase carbon credits via an account with southpole.com.

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

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; and
- 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 encouraging staff only to print if it is absolutely necessary;
- By using 'double-sided' printing; and
- By increasing the proportion of documentation sent via email and using digital documents.

Hyperion is committed to further reducing its CO_2 footprint and air pollution levels by:

- Encouraging the use of teleconference and video conference technologies in preference to staff travelling for business related meetings; and
- Supporting staff who choose to work from home rather than travelling to a centralised office.

2. SOCIAL

STAFF RELATIONS

We provide our employees with a flexible, supportive, healthy, and safe working environment. Policies and practices are adopted which encourage an appropriate work/life balance and 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.

Wellbeing of staff
Staff members who wish to incorporate physical exercise into their working day are encouraged to do so. Hyperion pays for gym membership for all employees.

Sharing close relationships with our team members
Hyperion is a small business with a small team of professionals. Our culture is collegiate, and we are passionate about what we do.

Adopting policies and practices which encourage an appropriate work/life balance
Staff are all entitled to take their birthday as an additional day of paid leave.

For every twelve-month period worked, team members are strongly encouraged to take a minimum of 3 weeks leave.

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

Furthermore, broadband connections are paid for by the company to facilitate staff working from home where required. Working from home is supported.

Staff need written permission from the Managing Director to work more than 60 hours per week.

Providing a stimulating work environment where employees can grow and expand their skillset
Staff are encouraged to continue their learning by attendance at professional development conferences etc.

COMMUNITY INVOLVEMENT

We support the community, 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.

Team members are encouraged to volunteer a working day to a charity or social enterprise.

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 believes that good corporate governance and effective management are vital to the successful implementation of our corporate objectives.

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. The company may pay the employee a short-term bonus which is determined by the employee’s base salary and the employees' performance against a set of predetermined KPI’s; and
- Long-term remuneration through ownership of equity in Hyperion which is acquired at a price set by a pre-set formula.

Board Independence and Succession Planning

Board representation is broadly based on the level of equity ownership. Pinnacle Investment Management Limited (Pinnacle) is entitled to appoint board members based on its large minority equity ownership in Hyperion. There is a comprehensive shareholders agreement that details the legal framework, agreed rights and structures for the individual shareholders including the executives and Pinnacle, management, and the board.

Compliance

Hyperion, as an AFS Licence (AFSL) holder is required to ensure that it has policies and procedures in place to meet its licence conditions.

To ensure that Hyperion staff are aware of their responsibilities in meeting compliance requirements, all staff are required to complete training on key Hyperion policies each year.

We have a Risk & Compliance Team who monitor compliance and has an independent reporting line to the Hyperion Board.

In addition, each year, an AFSL audit and internal controls audit are conducted by an external auditor.

Risk Management

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

PART 2
HYPERION’S APPROACH TO ESG

ESG and sustainability-based analysis is core to our investment decision making process.

1. OVERVIEW OF OUR APPROACH TO ESG AS AN INVESTMENT MANAGER

We only invest our clients’ capital in those businesses that we believe are extremely high-quality with strong and sustainable value propositions to all stakeholders. The stakeholders include the wider community and an assessment of the company’s future likely long-term impact on the overall natural environment, including its carbon footprint. Sustainability assists in reducing the risks of any permanent loss of capital across our portfolios.

We believe our portfolios contain very low ESG risk due to our long-term focus and the substantial qualitative and quantitative research completed on all our holdings. Short-term share traders do not care about the long-term fundamentals and sustainability of the businesses they trade as their sole focus is on short-term share price performance (alpha generation) during their brief holding period. These alpha traders do not need to worry about the long-term sustainability of the business because they are merely short-term "renters" of the stock.

We actively avoid companies with:

1) Low long-term predictability,
2) Operations that pollute the natural environment in a material and unsustainable manner,
3) Large carbon footprints,
4) Low quality and/or opaque disclosure practices,
5) Significant operations in countries with high corruption levels where the business is likely to have to be a party to that corruption in order to be economically viable in those regions,
6) Questionable governance, and/or
7) Poor organisational cultures.

Our long-term investment framework is based on fundamental research as business analysts with a focus on the sustainability of the company's value propositions.

Our detailed long-term based fundamental research is highly structured, and all the key qualitative information and insights are captured in our proprietary research document. This detailed document, called a 'Research Template', is regularly updated for each portfolio company. The document addresses ESG and sustainability factors including isolation of potential long-term risks, composition and quality of the board, and company specific ESG policies and initiatives. This analysis extends to a company's broader stakeholder group, including its supply chain. This ultimately feeds into a company's 'Business Quality Score' (BQS) which is the key output of the research template, and a key factor in the portfolio stock selection and construction process.

As required by the PRI, if the company is judged to not be upholding a strong ESG culture, it is not included in the portfolio.

Hyperion is also an official supporter of the Task Force on Climate-related Financial Disclosure (TCFD) and has implemented these required reporting standards in our reporting. We also encourage Hyperion portfolio companies to implement TCFD recommendations. Hyperion has long had the goal of ensuring our portfolios have a significantly lower weighted average carbon emission score than their respective benchmarks. Since we started tracking this data in 2010, we have succeeded in this regard, with Hyperion's portfolios' carbon emission scores being consistently and significantly lower than their respective benchmarks. Typically, our portfolios are less than a tenth of their respective benchmark's carbon intensity.

Hyperion has three analysts tasked with ESG oversight; however, all members of the investment team are required to consider ESG-specific elements as part of the qualitative step in our investment process. We leverage ESG research from our broker panel and subscribe to Sustainalytics for carbon and sanctions data. We use Ownership Matters, ISS, and CGI Glass Lewis for proxy voting services and general ESG advice. We believe our role as proxy voters for our clients is important and it is a task we do not take lightly. We take time reviewing third-party research, completing our own research, and talking with company management when a vote is required, and we express our thoughts and/or concerns.

Hyperion expects the rate of growth in the global economy to decline over the coming decade and beyond due to several structural headwinds. One of the most challenging of these is the constraints on our natural resources and the environmental impact of using fossil fuels as our main source of energy. Structural disruption due to renewable energy is likely to be far-reaching, initially impacting resource, utility, transport, and infrastructure sectors. Further, the finite nature of our natural resources makes unbridled consumerism unsustainable. We have structured our portfolio to reflect this and enable our investors to prosper from this disruption through a group of companies that are implementing strong ESG values and/or actively moving the world to a cleaner future.

Our 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 ten-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.

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 ten-year internal rate of return (IRR). Consequently, stocks with a higher ten-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.

2. FACTORS CONSIDERED IN OUR ESG ASSESSMENT

a. Environmental

We believe activities that are detrimental to the environment are not sustainable in the longer term and this will lead to increased costs or lower returns or capital.

We only invest our clients' capital in those businesses that we believe are extremely high-quality with strong and sustainable value propositions to all stakeholders. The stakeholders include the wider community and an assessment of the company's future likely long-term impact on the overall natural environment, including its carbon footprint.

We actively avoid companies with:
1) Operations that pollute the natural environment in a material and unsustainable manner, and/or
2) Large carbon footprints.

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
- Scrutiny of activities that are high impact and 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.

We actively engage with our portfolio companies to encourage them to implement the TCFD recommendations. This includes better climate-related disclosures, encouraging the calculation and disclosure of their carbon footprint, a company plan to reduce their carbon footprint, and identify climate-related risks and opportunities.

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 longer term economic 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 is applied to their business quality score and valuation which results in a lower stock weight in the portfolio.

We actively avoid companies with:
1) Significant operations in countries with high corruption levels where the business is likely to have to be a party to that corruption in order to be economically viable in those regions, and/or
2) Poor organisational cultures,
3) Do not comply with the Australian Autonomous and UNSC Sanctions lists, and/or
4) That have Modern Slavery practises in their business or supply chain.

Factors that are considered in this process are:

- Overall social impact of activities of the company;
- Where activities do have a detrimental social effect, to assess how strong the regulation of the company's activities are;
- Whether the company adhere to all the regulatory requirements that apply to them; and
- Whether the company has 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 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 is applied to their valuation.

Factors that are considered in this processare:

- Integrity of management's actions;
- Whether management and key board members have significant "skin in the game";
- Equity based remuneration and long-term incentive structures for management;
- Founder led management and board attitude and culture;
- 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;
- Effective functioning of the board;
- Some degree of diversity across management and board;
- Board structure that provides protection and alignment of interests with outside shareholders;
- Board composition and structures that encourage long-term, evidence-based thinking and decision making;
- Scrutiny of remuneration;
- We subscribe to Ownership Matters, ISS research and CGI Glass Lewis which provides Hyperion with reporting on governance feedback and recommendations on voting; and
- Hyperion votes on all governance matters on behalf of clients and reports its voting history.

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.

Mark Arnold (CIO) and Jason Orthman (Deputy CIO)