ESG Framework – Hyperion Asset Management

Mark Arnold, Chief Investment Officer, Hyperion Asset Management
Jason Orthman, Deputy Chief Investment Officer, Hyperion Asset Management

---

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 holdings. Eventually, companies that externalise costs, will be forced by external stakeholders to internalise them – either through regulation or changing expectations of society. As such, long-term sustainability is a core component of our philosophy.

We believe our portfolios contain very low ESG risk due to this 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/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 particular 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. This 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 UN Principles of Responsible Investing, if the company is judged to not be upholding a strong ESG culture, it is not included in the portfolio. Hyperion has been a signatory to the PRI since February 2009.

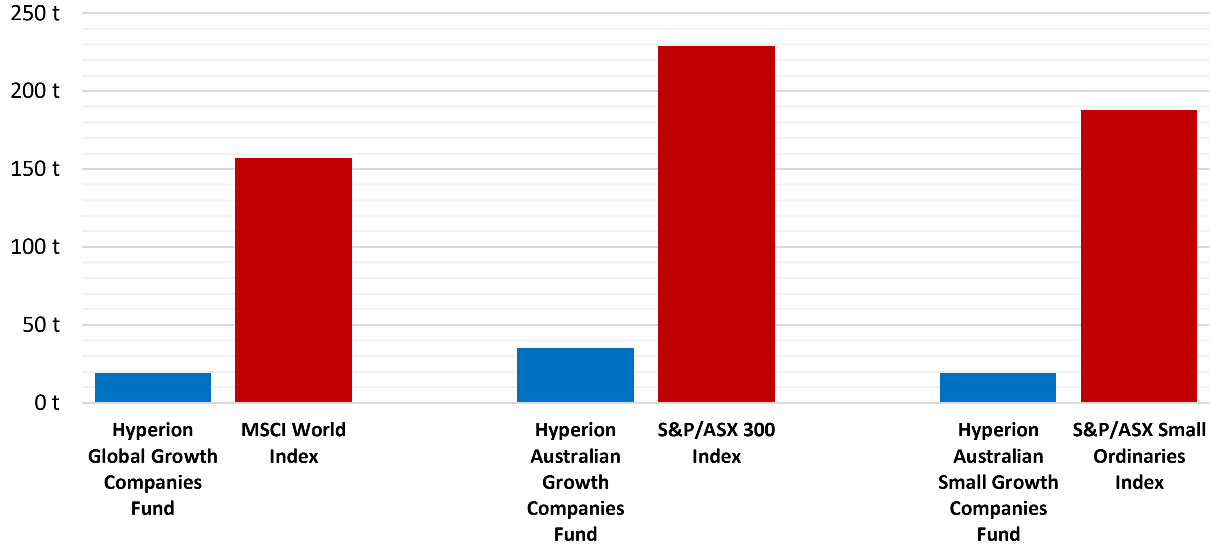
Hyperion is also an official supporter of the Task Force on Climate-related Financial Disclosure (TCFD) and has implemented these required reporting standards in our reporting. We also encourage Hyperion portfolio companies to implement TCFD recommendations. Hyperion has long had the goal of ensuring 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 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 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.

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 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 been effectively carbon negative since 2015 through the purchase of carbon credits. Furthermore, we have calculated our carbon footprint since inception in 1996 and plan to completely offset this as well.

Portfolio Carbon Intensity (Scope 1 & 2) Emmissions (Tonnes) per U.S. Dollar of Revenue



Source: Sustainalytics (FactSet), Hyperion Asset Management

Mark Arnold, Chief Investment Officer, Hyperion Asset Management
Jason Orthman, Deputy Chief Investment Officer, Hyperion Asset Management