Northcape Capital's environmental, social and governance (ESG) test and scoring system

ESG Ratings

Northcape's approach to investing takes into account ESG considerations.

For consideration for the Approved List for each fund, companies must attain a minimum internal ESG rating of 6 points out 10. The avoidance of egregious ESG risks is a central objective of the assessment process, with the aim of fewer capital loss events and/or adverse sustainability outcomes.

Each company is rated out of a maximum of 10 points, split between the ESG pillars of Environmental (3 points), Social (3 points), and Governance (4 points). Analysts make assessments of the materiality of a specific risk to the business and rate the company on those perceived to be material. Deductions are made from the maximum possible score for each identified material risk factor.

In summary, the main objectives of the ESG rating process are:

- To identify and assess material ESG risks and opportunities faced by investee companies.
- To enhance and protect returns through judgements about the impact of ESG factors on the sustainability of returns and company suitability for investment portfolios.
- To inform investment stewardship activities to manage ESG risks and opportunities.

ESG Issues Considered

ENVIRONMENT

Environmental factors (3 points) that may be considered by analysts, where relevant, include:

- Transition risk and decarbonisation.
- Physical risks of climate change.
- Waste, pollution, packaging, and water use.
- Risks related to the use of natural resources
- Energy transition opportunities.

SOCIAL

Social factors (3 points) that may be considered, where relevant, include:

- Human rights and supply chain risks.
- Labour rights and practices.
- First nations rights.
- Human capital development.
- Employee health and safety.
- Customer protection and safety.
- Product quality and stewardship.
- Social opportunities.

GOVERNANCE

Governance factors (4 points) that may be considered, where relevant, include:

- Board independence and probity.
- Audit and disclosure quality.
- Executive and board remuneration.
- Shareholder rights, including voting rights and capital management alignment.
- Board composition and diversity.
- Influence of large shareholders.
- Regulatory issues and other controversies.

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Limitations of ESG integration

Northcape recognises ESG integration involves a series of judgements about the likely impact of ESG factors on company returns over the long-term investment horizon. However, the financial materiality of ESG factors can vary over time and are among many drivers of investment value. It is therefore not certain ESG integration will meet the objectives of capital enhancement and protection over the investment period.

Nonetheless, the rating process provides investment teams a valuable opportunity to consider long-term risks and opportunities that may fall outside traditional financial analysis to inform the stock selection process, better understand the sustainability outcomes from investment activities, and prioritise stewardship efforts.

In summary, consideration of ESG factors does not imply:

- That there are restrictions on the investment universe, other than the exclusions outlined in Warakirri's proprietary ethical screen outlined previously.
- That ESG factors are given more or less consideration than other types of factors.
- That all ESG factors are given equal consideration.
- That the resulting portfolio will have any characteristics .

For more information, please contact us on 1300 927 254 or visit warakirri.com.au