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Fund: The ARA Investment Fund
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Investment Manager: ARA Consultants Limited
ABN 78 102 304 692
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Introduction

This Policy is an annexure to the ARA Consultants Limited (ARA) Investment Policy Statement (IPS) and outlines ARA's commitment to responsible investment. This commitment also includes membership of the Responsible Investment Association Australasia (RIAA).

Application

This Policy applies to the Board, all Officers of the Fund and its appointed agents operating under the delegated authority of the Board.

Responsibility

The Board delegates the application of this Responsible Investment (RI) Policy to the Investment Committee including oversight of the monitoring and review functions and management of the Investment Consultant.

The Board expects the Committee to collect and consolidate ESG and impact reporting on all applicable investments on a quarterly basis for review by the Board.

ARA's Responsible Investment Principles

We recognise that our primary responsibility is to maximise investment returns for our Clients for an expected level of risk. We believe that a responsible and sustainable approach to our investment process that takes into account ESG factors will assist in the delivery of appropriate risk adjusted returns and ensure the long-term success of our Fund.

The ARAIF does not invest in assets directly on its own account. As a fund-of-funds, we favour core, low-cost fixed interest and equity funds managed by a selection of specialist fund managers with specific mandates to deliver the Fund's objectives. To this end, in the future we will only engage fund managers with one or more of the following accreditations and evidenced processes and will progressively transition away from incumbent managers who do not meet this criteria:

1. Those with RI certification;
2. Those who are signatories to the UN's Principles of Responsible Investing (PRI); and/or
3. Those with an explicit and documented process for applying ESG incorporation strategies within the traditional financial analysis.

We assess and manage oversight of each fund manager and discrete portfolio assets on an individual basis whilst always keeping the principles of RI aligned to our principles of risk and return. As the list of ESG issues is not exhaustive and generally interlinked, it is often difficult to categorise an issue as only environmental, social, or governance.

Thus, it makes sense to apply the principles of responsible investing and the application of an ESG overlay with an appropriate level of flexibility to accommodate suitable investment styles and approaches. An investment strategy and associated processes that captures an all-encompassing and far-reaching list of ESG issues is aspirational; ARA will seek confirmation that fund managers will endeavour to meet the highest standards of responsible investing where appropriate to their circumstances and over time. This includes determination of the extent to which an undesirable activity, product or service is material to the conduct of an investee company in which an investment is made.

Given the huge choice of RI approaches, we do not restrict the type of incorporation of strategies when selecting fund managers. We do, however, expect managers to show how they fit into one of the following three broad categories of RI strategies and can be used in combination:

1. Screening;
2. Integration; and
3. Impact.

1. Screening:

Screening can be both positive and negative. Assets are to be included or excluded based on criteria around ethical values and global standards on human rights, labour practices, the environment, anti-corruption and corporate governance.

ARA seeks out those managers who undertake **positive screening** of investments in sectors, companies or projects for ESG or sustainability performance. Positive screening involves identifying those companies engaged in positive environmental and social pursuits and which apply the highest level of governance to their operations. Where appropriate, ARA assigns funds to managers who invest in companies engaged in the following:

- Sustainable practices;
- Renewable energy;
- Social and community infrastructure;
- Sustainable land management and agriculture; and
- Social impact investments when returns are deemed to be commercial and "at market".

Negative screening systematically excludes industry sectors, companies, practices and even countries based on specific ESG or moral criteria. ARA understands that this process is often values-based and/or ethical and expects fund managers to be clear on why/why not certain assets are included/excluded and detail any caps on holdings. ARA has nominated a number of industries that have a high negative social impact and avoids holding investments with a material exposure to the following:

- Human rights abuses;
- Child labour and other labour rights violations;
- Native forest logging; and destructive impact on habitat;
- Manufacture and direct sales of weapons and munitions;
- Pornography; and
- Animal testing and animal welfare.

An asset deriving more than 5% of its total revenue from these industries constitutes material exposure. Breach of this 5% threshold will trigger a review of the asset in question and the fund in which it is held. Pending discussion with the Fund Manager and the consequent outcome, ARA may request divestment of the asset within six months. If the asset is not divested and the position still breaches the threshold then the fund in question will be removed from the portfolio in a timely manner which is not detrimental to investor interests.

As mentioned, these are not exhaustive lists; nor are they absolute. Each investment will be assessed on its own merit in the context of each fund manager's mandate and ARA's own screens. ARA expects fund managers to closely monitor the companies in which they invest to assess the company's individual circumstances, performance and long-term potential against the original criteria for investment.

The Screening process can also tilt portfolios in terms of composition. ARA may seek out tilts, which might include the following:

1. **Best in class:** companies outperforming across ESG measures relative to industry peers. Fund managers rate companies against a set of ESG criteria to determine a relative ESG score;
2. **ESG momentum**: companies improving ESG measures more quickly than peers; and
3. **Thematic investing**: companies solving specific ESG challenges such climate change, gender diversity, water scarcity, etc. This may include investments based on companies positioned to take advantage of opportunities in the future too.

Companies will also be screened for an active approach towards stewardship through voting and engagement. ARA encourages fund managers to leverage their stake in assets to persuade companies to move towards best practice or initiate change on important issues at board level.

2. ESG Integration:

ARA understands that ESG integration is more complex than screening. Screening can be viewed as a simple binary choice; "yes or no"; "in or out". ESG integration combines traditional financial analysis with an assessment of how each company is positioned to deal with both short and long term ESG risks and opportunities.

We believe that management teams who actively address and minimise ESG issues as well as target ESG opportunities are likely to be more competitive relative to their peers over the longer term. ESG integration in research and analysis is very different for each company and the industry in which it operates, so investees may be rated on a sliding scale across a series of ESG parameters to determine an order of preference, rather than creating a simple binary choice (screening).

ARA expects a fund manager employing this methodology to document a clear, long term picture of a company's future prospects including how the investee will outperform their peers (with lower ESG scores) operating in the same industry.

3. Impact

Impact investments seek to generate a financial return as well as a measurable positive social and/or environmental outcome. With the ambition of delivering long term value creation, ARA believes it to be the most forward-looking segment of responsible investing because it finances specific projects to promote a better society in a sustainable environment.

For ARA, the traditional mechanism for impact investment has been in the alternatives asset classes, like private equity. As a fund of funds, ARAIF will not invest directly in such assets, but rather, will invest in a fund managed by an impact specialist. This enables ARA to participate in a range of projects across a variety of impact areas within a single investment. Projects within the investment might include, but are not limited to, things like sustainable trade financing, clean energy access, low income housing, clean water, access to education, promotion of diversity, equitable and transparent business practices and the like.

The ARAIF will only make an investment in an impact fund where the risk/return parameters meet criteria set by the investment strategy including consideration of both financial returns and real world impact. Any such investment must clearly articulate specific and measurable target outcomes for both financial and societal returns.

Manager Selection and Due Diligence

As mentioned, ARA engages professional fund managers to fulfil the ARAIF's investment strategy and seeks to only engage managers with one or more of the following:

1. RI certification;
2. Signatories to the UN's Principles of Responsible Investing (PRI); and/or
3. Evidence of an explicit and documented process for applying ESG incorporation strategies within traditional financial analysis.

Once this first criterion has been met, managers will go through the usual ARA due diligence process as described in the ARA Investment Operations Manual. This due diligence process includes RI specific criteria that is also monitored and reported separately on an annual basis.

We understand that RI methods are not mutually exclusive and are often used in combinations. Thus, we will seek to understand each fund manager's method of RI analysis and decision-making and look for the following documentation during our due diligence process:

- RI Policy;
- ESG integration methods that appropriately reflect the fund manager's mandate including portfolio construction and portfolio management strategies;
- Confirmation that ARA screens can and will be accommodated;
- Processes or guidelines outlining how material ESG factors are identified and assessed within the investment process;
- ESG resources and research capabilities available to the investment team including training;
- Evidence of ongoing analysis of the impact of material ESG factors upon individual investments and portfolios including future cash flows, valuations, price, growth and risk;
- Policy for divestment;
- Frequency and procedures for reviewing the fund managers' own ESG objectives;
- Active ownership and stewardship including voting and company engagement; and
- ESG related metrics, how they are measured and how often reported.

In regard to cash, ARA does not apply a positive screen or look for ESG integration, but rather, focusses on the security and return on cash. This means that only Tier 1 Deposits with Big Four Australian banks, namely ANZ, Westpac, CBA and NAB, are considered.

Similarly, Bank Hybrid securities are only held if the underlying issuers are the Big Banks (to provide sufficient security) and if they also pass the negative screening process. ASX listed A-REIT investments must also pass this negative screening process.

Monitoring and Reporting

Good ESG management is a sign of a disciplined organisation and we expect our fund managers to monitor their portfolios to ensure compliance with their mandated ESG overlay. This includes a comprehensive view of their investments to assess the full range of risks and opportunities across the life of the managers' respective portfolios including candidates for divestment.

ARA expects to receive quarterly reporting from each fund manager on its respective ESG metrics. The ARA Investment Committee will collate results in conjunction with the Asset Consultant and report to the Board on each fund's performance in regard to stated objectives, past period activities and outcomes; both financial and ESG related.

If an asset falls below our responsible investing standards, we expect the relevant Fund Manager to sell the investment in the asset within six months. If the asset is not divested then the fund in question will be removed from the portfolio.

Review

The Board and Investment Committee will review this Policy in conjunction with the ARA IPS to ensure that it remains effective including the legal or regulatory environment as it relates to ESG issues.