Chester Asset Management Pty Ltd

Environmental Social and Governance Guidelines

Contents

1. Introduction

Chester Asset Management Pty Ltd (**Chester**) believes that its fiduciary duty to its clients includes taking environmental, social and governance risks (**ESG**) into consideration in its investment decisions.

Chester also recognises its responsibility to invest client funds prudently for wealth creation of its clients. Our ambition is to protect and then grow generational wealth.

Over the short to medium term corporate governance has important impact on the economic value of firms. Over the long term, economic value can only increase if environmental and social values are embedded into sustainable business practices.

The guidelines in this document outlines Chester's approach to integrating ESG factors into our investment process.

Chester aims to enhance our capital allocation framework with a specific understanding of sustainable investing. Sustainable investment includes:

- ESG integration into our investment philosophy and decision making
- Responsible business conduct

The above approaches strengthen the way we invest, including how we construct portfolios and manage risks.

2. ESG factors

Chester's investment process includes gathering data from a range of sources both internal and external to the businesses being considered. These often start with direct company engagement, but often includes company annual reports, financial statements, corporate governance statements and ESG reports of companies which are generally attainable on company websites. External sources include industry publications, 3rd party employee engagement datasets and discussions with industry participants.

Recognising Chester's willingness to invest across the spectrum of ASX listed companies (both in terms of size and industry sectors) ESG factors that may be considered include (this list is not exhaustive):

Environmental factors:

- Greenhouse emissions and pollution
- Management of climate change
- Recycling and waste management
- Preservation of heritage and wilderness areas
- Supporting sustainable economic development

Social factors:

- Community relationships and engagement
- Occupation health & safety
- Inclusive workforce and business practices
- Indigenous peoples; land rights
- Modern slavery and workforce conditions

- Employee engagement
- Human right abuse

Governance factors

- Ownership and alignment
- Board experience and composition
- Ethical and responsible decision making
- Timely and balanced disclosure of material matters affecting the company
- Conflicts of interest
- Management retention and incentive schemes
- Insider transactions

3. Integration of ESG with our investment decision making process

- Chester employs a blend of qualitative and quantitative overlay to ESG factors, ranking each stock on ESG factors which is embedded on how we assess the management team and culture of the business
- Aligning the interests of the management team to shareholder outcomes such as:
    - Beneficial ownership and remunerations structure with a detailed review of short-term verses long-term incentives
    - Staff turnover and longevity
    - Board composition
- A detailed review of (which will change by the industry sector in which the company operates)
    - License to operate in the relevant industry and focussing on the idiosyncratic issues of that company
    - Any reputational damage associated with modern slavery, climate change, health and safety, community engagement
    - Chester assesses the strength of a company's ESG credentials on a case-by-case basis and relative to peers. Portfolios are not specifically managed along sustainable lines and there is no automatic exclusion rule; every situation is assessed on its merits. The process does not utilise positive or negative ESG screening, but through the Chester scorecard (example highlighted below) the team tries to be across all the relevant factors that need to be considered when assessing an investment from an ESG standpoint.
    - Idea generation may be influenced by thematic ESG considerations, e.g. decarbonisation and the shift to electric vehicles.
    - While Chester does not avoid any specific sector, we categorically seek to avoid bad actors or management teams with poor reputations and murky ownership structures (CWN, ISX, NIC) that don't appropriately support or protect shareholder rights. This doesn't limit the investible universe, as these negatives screens are based on governance practices and ownership, not industry sectors.

Chester's consideration of material ESG topics for an individual company is highlighted below. Industry considerations can materially change the level of ESG focus (i.e Mining vs Healthcare vs Financial Services vs Retailing)

Material Topics	Company	Suppliers	Clients	Societial Impact
Environment				
Emissions and pollutions				
Management and proactive response to climate change				
Recycling and waste management				
Supporting sustainable economic development				
Preservation of heritage and wildeness areas				
Social Factors				
Community Engagement				
Occupational health and safety track record				
Inclusive workforce and business practices				
Indigenous peoples, land rights and opportunity				
Labour standards, compensation and working conditions				
Employee engagement				
Child labour				
Human rights abuse or issues				
Governance Factors				
Ownership and alignment				
Board experince and composition				
Ethical and responsible decision making				
Timely and balanced disclosure of material matters				
Conflicts of interests and related party transactions				
Management tenure and remuneration reports				
Values and culture				

- ESG analysis is not conducted by segregated ESG analysts but performed by the investment team members (including portfolio managers), who examine ESG issues for the companies they cover. Chester considers whether ESG issues that arise will actually materially change the fundamental bottom up analysis of the security in question (i.e rising energy costs, labour, compliance costs or shares on issue) and try to explicitly forecast these factors into the cash flow profile and valuation of the company.
- Chester also incorporates explicit adjustments to the country equity risk premia used as inputs into the valuation models via an adjustment to the weighted average cost of capital (WACC) used in assessing each company. Analysts also notably monitor news flow to ensure the ESG assessments of portfolio holdings remains current.

4. Practical considerations

Chester's ESG goals

Chester:

- aims to be aware and monitor key ESG issues for its investments
- does not construct its portfolios with purely on ESG grounds, however ESG considerations may lead to removal of a company from its investment universe
- provides its opinion through participating in voting (see below) and proactive company engagement (Management and Board of Directors where appropriate)
- Note Chester does engage with a level of feedback through voting and direct communication to senior executives, however, we are not activists. Chester considers that often the most appropriate course of action when disagreeing with a management team's culture or strategic direction is simply to exit the investment and allocate capital elsewhere.

ESG evaluation

- ESG factors are assessed in the 'risk assessment' stage of Chester's investment process
- As noted in 3 above the assessment of the ESG factors is both qualitative in the assessment of ESG risk, and quantitative in our attempts at monitoring the relevant ESG areas.
- Although the Primary assessment of a company's ESG credentials is conducted during the initial assessment phase of a potential investment, data including external publications and management and industry communication is conducted on an ongoing basis to identify and respond to changes or additions to ESG risks in real time.
- Media scrutiny can also be a catalyst for change (i.e Rio Tinto or Crown Casino). These changes can tend to lead to far more sustainable business practices going forward, as opposed to the poor governance that led to the media scrutiny in the first place.
- From time to time Chester will also meet with Management and the board of portfolio and watchlist holdings and discuss ESG factors and potential responses to identified risks.

Chester has a firm view of governance, as in our opinion, good governance will lead to a strong corporate culture, which ultimately leads to sustainable business practices. Strong corporate culture will focus on improving the business with which they operate – whether that be improving OH&S, modern day slavery or supply chain concerns, achieving carbon neutrality or gender diversity. These issues start and are addressed by firms with a strong corporate culture.

Voting

Chester participates in voting at AGM's and EGM's and our voting activities are recorded. All company resolutions are also reviewed.

5. Responsibilities

The Head of Investments is responsible for keeping these guidelines up to date.