



# ESG and Investment Stewardship Report

2023

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# 2004

Established

# 100%

Owned by staff

# 30

Employees

# 23YRS

Average investment experience

# A\$12.25B

Total assets under management across

# 4

 Strategies

Australian, Emerging Markets and Global Equities

# 72

ESG issues engaged with portfolio companies

# 1,224

Proxy meeting resolutions voted



Increased average PRI Assessment rating from 3 stars to 4 stars

Signatory of:



Named Responsible Investor by RIAA

## Foreword

It's my pleasure to present Northcape's ESG and Stewardship Report for 2023. I was delighted to join the Northcape board in June as an independent director. Clients have been the focus of my work throughout my asset management career. So, it's exciting to join a team that clearly shares this passion.

It's also clear that since Northcape's 2004 beginning, responsible investment has been an important part of how the firm delivers for clients. In 2023, the board approved an update to the [Responsible Investment Policy](#), which should be read in conjunction with this report. The policy underpins our commitment to responsible investment and provides detail on our beliefs, objectives, and approach.

Northcape reiterated its commitment in 2023 with the appointment of a Head of Responsible Investment, David Whittaker. The new role provides the opportunity to further contribute to the return, sustainability, and transparency objectives of our clients, by providing dedicated resources to lead, evolve, and communicate the program.

Northcape has made good progress on responsible investment in recent years, reflected in an increased [UN PRI Assessment Scorecard](#) and recognition by Responsible Investment Association of Australasia (RIAA) as a 'Responsible Investor'. These two important peer group initiatives help us build capability, and share knowledge, while amplifying the impact of our efforts. This report demonstrates the breadth and depth of work undertaken across the Northcape organisation.



The corporate engagement case studies in this report illustrate our stewardship approach in the priority areas of climate, human rights, and governance. We also cover themes and trends evident in our [proxy voting](#) to influence corporate behaviour.

We are moving forward on our priorities, which include: increased collaboration, utilisation of portfolio ESG metrics to inform stewardship priorities, deeper consideration of sustainability themes, a new voting platform to aid efficiency and disclosure, and ongoing team education and training.

We are also deeply interested in our own corporate sustainability. In 2023, a greenhouse gas study of Northcape operations allowed us to better understand our impact on the environment and take steps to reduce it. In our workplace, Northcape culture places a high value on accountability, curiosity, constructive debate, and diversity of thinking. To ensure we have access to the best talent in our business, we continue to make progress on workforce diversity, discussed in this report.

Northcape will remain focused on the core objectives of delivering long-term sustainable returns for clients and having a sustainable business that provides inspiring careers for our people.

I thank you for your support and interest in Northcape and look forward to keeping you informed of our progress.

**Christine Cameron**  
Independent Director

# Responsible investment progress and priorities

Northcape made solid progress across responsible investment in 2023, including in resourcing, policy, ESG integration, stewardship, reporting, and collaboration. Looking ahead, we have set priorities to continue our journey in responsible investment with the objective of meeting client financial and sustainability objectives. We will also progress Northcape’s corporate responsibility initiatives to ensure we remain a strong, independent and sustainable business.

	2023 Progress	2024 Priorities
<b>Governance and resourcing</b>	<ul style="list-style-type: none"> <li>✓ Appointed Head of Responsible Investment to lead program development and implementation.</li> <li>✓ Updated Responsible Investment Policy and sub-policies.</li> <li>✓ Launched monthly Responsible Investment Forums to support internal collaboration and knowledge sharing.</li> </ul>	<ul style="list-style-type: none"> <li>— Participation in PRI Progression Pathways<sup>1</sup> program to assess and inform Northcape’s responsible investment strategy, as well as ensure appropriate internal skills and capabilities.</li> </ul>
<b>ESG integration and stewardship</b>	<ul style="list-style-type: none"> <li>✓ Engaged more than 40 companies on 72 ESG issues and voted 1,224 meeting resolutions.</li> <li>✓ Progressed integration of third-party ESG research and data into reporting process.</li> <li>✓ Progressed the ‘Expert Series’ to inform and educate investment teams on good practice on carbon capture, biodiversity, physical risk, and first nations rights.</li> <li>✓ Refined engagement tool to track and report activities and outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>— Increase responsible investment resource and review of third-party ESG data to support research.</li> <li>— Progress consideration of sustainability themes, systemic issues, and outcomes, with a priority on climate change and human rights.</li> <li>— Commission new voting data and reporting system to enable more regular, granular, and efficient voting disclosure.</li> </ul>
<b>Reporting, and disclosure</b>	<ul style="list-style-type: none"> <li>✓ Enhanced public ‘ESG and Stewardship Report’ for clients, investee companies, and other stakeholders.</li> <li>✓ Initiated disclosure of voting decisions in a public annual Proxy Voting Report.</li> <li>✓ Disclosed portfolio emissions and scenario analysis to communicate portfolio resilience.</li> </ul>	<ul style="list-style-type: none"> <li>— Review and evolve approach to responsible investment reporting and disclosure to ensure it continues to meet client and stakeholder evolving needs.</li> </ul>
<b>Collaboration and peer review</b>	<ul style="list-style-type: none"> <li>✓ Second PRI Assessment Report lodged with average pillar rating 4 out of 5 stars.</li> <li>✓ Northcape joined RIAA to enhance knowledge sharing and collective action.</li> <li>✓ Named ‘Responsible Investor’ in the RIAA ‘Benchmark Report’.</li> </ul>	<ul style="list-style-type: none"> <li>— Increase responsible investment resource and membership of RIAA to enhance collaboration, including thematic corporate engagement and policy advocacy.</li> </ul>
<b>Operational sustainability</b>	<ul style="list-style-type: none"> <li>✓ Undertook assessment of emissions footprint and examination of opportunity to be carbon neutral.</li> </ul>	<ul style="list-style-type: none"> <li>— Complete emissions reduction strategy review to establish a decarbonisation pathway. Published TCFD report (see page 34).</li> </ul>

1 Following a signatory consultation in early 2023, PRI introduced Progression Pathways to better target and incentivise signatory progression on their responsible investment journey.



# Our approach to responsible investment

## Four pillar's of our Responsible Investment Framework

- **ESG integration**  
The incorporation of material ESG factors into the assessment, selection, and management of investments.
- **Stewardship**  
The responsible exercise of ownership rights, including engagement and voting, to assess and manage material ESG risks and opportunities.
- **Collaboration**  
Working with peers and clients through initiatives such as PRI and RIAA, to share knowledge, insights, and leading practice, as well as to amplify our voice and impact
- **Reporting & disclosure**  
Communicating to our clients on the activities and outcomes of our Responsible Investment work to meet their expectations and the needs of their stakeholders.

## Responsible Investment Belief 1:



Consideration of financially material ESG factors enhances long-term portfolio performance through the risk-return profile of companies, industries, economies, and societies.





## Northcape's value-added process

Northcape Capital is an international boutique equities fund manager fully owned by its staff. We specialise in managing concentrated high-quality portfolios to meet the long-term financial and sustainability objectives of our clients. We are proud of a culture of inclusion and equality, where individual contributions are valued and recognised.

The foundation of our long-term outperformance is investing in high quality companies with a meaningful competitive advantage. Critical thinking in our research supports an informed assessment of competitive advantage and facilitates portfolios of carefully selected businesses, with low portfolio turnover, that deliver resilient and sustainable performance for clients.

Protecting capital in down markets is a feature of superior long-term returns. We have a practical approach to risk that seeks to avoid business models that are structurally challenged, those with hazardous capital structures, or those that have other material threats to the long-term sustainability of returns. These threats may include Environmental, Social and Governance (ESG) factors.

Our fundamental research is focused on identifying businesses with certain investment attributes. We recognise that ESG factors have the potential to affect, to varying degrees over time, many of these attributes:

- Strong management
- Above average growth prospects
- High return on capital
- Meaningful competitive advantage
- Robust capital structures
- Sustainable business models
- Acceptable market liquidity.

### Northcape has total assets under management of A\$12.25 billion across four strategies

Strategy	Description	Inception	Number of stocks
Australia Equities Core	Concentrated portfolio of high quality Australian companies.	2005	30-40
Australian Equities Concentrated	Targeted version of the Core fund for an even higher level of active management.	2005	15-30
Emerging Market Equities	Concentrated portfolio of high quality businesses in emerging markets.	2008	15-40
Global Equities	Concentrated portfolio of high quality businesses in global developed markets.	2019	20-40



“

Being a responsible investor means taking a wholistic view to evaluating how companies are managing their impact on the environmental, the social implications of conducting business and whether the governance framework is sufficiently robust to manage all risks. I've always believed that as investors, we have a duty to invest client capital to deliver both financial and sustainable returns.

”

**Wendy Herringer**  
Portfolio Manager,  
Analyst, Global Equities





# Northcape investment and operations teams

## Australian Equities



**Rob Inglis**  
Director,  
Portfolio Manager,  
Analyst



**Peiting Liang**  
Senior Analyst



**Richard Maynier**  
Portfolio Manager,  
Analyst



**Craig McCourtie**  
Director,  
Portfolio Manager,  
Analyst



**Paul Parsons**  
Portfolio Manager,  
Analyst



**Kevin Soo**  
Senior Analyst

## Emerging Markets Equities



**Douglas Ayton**  
Portfolio Manager,  
Analyst



**Ross Cameron**  
Portfolio Manager,  
Analyst



**Oliver Johansson**  
Research Analyst



**Aimee Jordan**  
Senior Analyst



**Tom Pidgeon**  
Portfolio Manager,  
Analyst



**Cameron Robson**  
Portfolio Manager,  
Analyst



**Patrick Russel**  
Director,  
Portfolio Manager,  
Analyst

## Global Equities



**Wendy Herring**  
Portfolio Manager,  
Analyst



**Calvin Lim**  
Portfolio Manager,  
Analyst



**Theo Maas**  
Portfolio Manager,  
Analyst



**Fleur Wright**  
Portfolio Manager,  
Analyst

## Equities Dealer



**Richard Brasher**

## Operations



**Maite Carvell**  
Head of Risk and  
Governance



**Sean Cunningham**  
Chief Operating  
Officer



**Julie Korowe**  
Investment  
Operations



**Brett Lawrence**  
Investment  
Operations



**Melannie Mauricio**  
Head of  
Compliance



**Collette Ryan**  
Administration  
Manager



**Savi Wijeyaratne**  
Head of IT and  
Cyber Security



# ESG integration

## Consideration of ESG factors

The consideration by investment analysts of ESG factors is via three main mechanisms:

1. **ESG research and analysis** – to identify and assess financially material risks and opportunities and sustainability of returns.
2. **ESG ratings** – to apply a framework for judgements of investment attractiveness in the context of the investment model and client objectives.
3. **Monitoring and review** – of company progress in managing material ESG risks and opportunities.

Our research includes a review of company disclosure, disclosure frameworks, and third-party data and research, including, as appropriate, broker research, external ESG ratings, and proxy voting advice. Investment teams make assessments of the financial materiality of ESG factors, considering context, durability of potential impacts, and behavioural responses of companies to these factors. The research process is most often supported by corporate engagement.

Responsible Investment  
Belief 2:



Companies with good ESG practices can contribute to clients' long-term financial and sustainability objectives, while those with poor practices will likely deliver reduced long-term value, with increased systemic risk.



## ESG ratings

Northcape's 17 investment analysts, many of whom are also portfolio managers, undertake their own ESG research and rating process for companies in the investible universe, or Approved List. For consideration for the Approved List, companies must attain a minimum internal ESG rating of 6 points out of 10. The minimisation of avoidable 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 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 (or opportunity) 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.

Insights and results are shared with the investment team, providing opportunities to test and challenge analysis and conclusions. ESG ratings are monitored by analysts for new information or company disclosure. If the ESG rating falls below the minimum threshold, the company is removed from the Approved List, and if held in the portfolio, it is divested.

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

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

“

Responsible capital allocation in emerging markets is achieved through hand picking well-capitalised, tightly managed, high-quality companies with sound ESG practices at attractive prices.

”



**Cameron Robson**  
Portfolio Manager, Analyst  
Emerging Market Equities

# ESG factors

## ESG factors that may be considered in the investment process

There are many ESG factors that could be relevant to our analysis for any company. Our research endeavours to focus on the most material of these factors to inform investment and stewardship decisions.



## Limitations of ESG integration

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

Nonetheless, the rating process provides our experienced 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 our investment activities, and prioritise stewardship efforts.

The consideration of ESG factors does not imply:

- That there are restrictions on the investment universe, other than those specified by our exclusions (below).
- 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.<sup>2</sup>

## Exclusions from our portfolios

In addition to the Approved List process, Northcape applies negative screens to every portfolio and investment strategy to exclude:

- Companies and markets subject to domestic or international prohibitions or sanctions.<sup>3</sup>
- Exclusions of tobacco and controversial weapons manufacturers.<sup>4</sup>



To me responsible investing means considering a wider array of attributes beyond just financial statements. It means, for example, assessing whether products are beneficial to society, whether workers are treated with dignity and respect and whether shareholder rights are prioritised. We understand the importance of aligning with companies that create sustainable long-term value.



**Peiting Liang**  
Senior Analyst,  
Australian Equities

<sup>2</sup> Definitions for Responsible Investment Approaches, CFA Institute, PRI, GSIA, November 2023.

<sup>3</sup> Data provided by Refinitiv that references UN Security Council (UNSC) Consolidated List, Australian Dep. of Foreign Affairs and Trade (DFAT), US Dep. of Treasury Office of Foreign Assets Control (OFAC), UK Office of Financial Sanctions Implementation (OFSI), EU Consolidated List, lists maintained by other G7 members.

<sup>4</sup> Tobacco defined by GICS sub-industry code 302030. Controversial weapons defined by MSCI Global ex-Controversial Weapons Index and additional companies under client direction.



## Case study:

### Integrating sovereign risk in emerging markets

The Northcape emerging markets team has a proprietary sovereign risk assessment model that incorporates a range of economic and ESG considerations in determining a risk rating for each country in the index. The team integrates this rating into company valuation models.

Integrating the sovereign risk rating in valuations has the effect of moving the portfolio away from higher risk countries towards lower risk countries. The inputs to the sovereign risk rating include:

- **Political risk** – Top-down view of political rights, judicial independence, corruption, fiscal responsibility policy acumen and political stability.
- **Corporate governance risk** – Corporate governance practices, with reference to company analysis undertaken directly by the investment team.
- **Climate change risk** – Exposure to climate-related risks and opportunities, including policy response.
- **Economic and capital markets stability** – Economic management and stability through a sovereign credit lens.
- **Growth and demographics** – Short and long-term economic and demographic drivers.



We look closely at the political risks when assessing opportunities in emerging markets.



**Patrick Russel**  
Director,  
Portfolio Manager,  
Analyst, Emerging  
Market Equities

#### The integration of ESG factors

ESG factors are considered in the political risk score, corporate governance risk score, and climate change risk score.

Well-functioning democracy, recognition of human rights, freedom of the press, freedom of assembly, and independent judiciary set the guard rails for better corporate behaviour. There are occasions where analyst company research on some of these issues results in a change in the top-down view of sovereign political risk.

#### Identifying 'preferred' investment markets

Including the economic factors with political, governance and climate, the sovereign risk model currently rates Korea, Taiwan, Malaysia, Poland, and Indonesia as 'most preferred'. China, Saudi Arabia, Turkey, Hungary, Egypt, Thailand, South Africa, and Colombia are currently perceived as higher risk.

Sovereign risk ratings are reviewed regularly, but material risk events, such as a change of government, can also trigger a review. The team downgraded Thailand in 2023 on the back of constitutional changes and election outcomes that threatened the full return of democracy. In contrast, following a Poland trip and sovereign risk review, the European country was upgraded on the expectation that the change in government offers economic benefits from an improving relationship with the European Union.

#### Illustrating portfolio outcomes

Political and governance concerns have contributed to low portfolio weightings for Chinese companies in recent years. The team continues to observe China closely, but the structural political and economic challenges appear to justify a risk premium. Russia had a poor political risk score before it invaded Ukraine, leading to the portfolio having no direct Russian exposure. In this case, the sovereign risk rating met a core objective of avoiding a significant capital loss event and supporting long-term outperformance.



# Investment stewardship

Investment stewardship, or active ownership, is one of four pillars of our Responsible Investment Framework.

As an equity owner, the available stewardship mechanisms for influencing improved corporate behaviour for better governance outcomes include:

- **Corporate engagement** – through meetings, calls, site visits, and emails with investee company boards and management.
- **Proxy voting** – at statutory meetings of shareholders.
- **Collaboration and knowledge sharing** – to amplify our voice and build knowledge with our clients, our advisors, and through responsible investment peer group initiatives.
- **Litigation/class actions** – where a company has a material regulatory breach.

Responsible Investment  
Belief 3:



Through ownership rights, we can make a positive impact on companies and industries in which we invest, to benefit clients. Engagement is preferable to divestment for mitigating risks, including systemic risks.



# Corporate engagement

As well as incorporating ESG factor discussions into routine investment meetings, Northcape conducts stand-alone ESG engagements with companies on specific issues. As long-term investors and with broad economic and systemic risk exposure in our portfolios, we prefer to engage with companies to influence ESG performance, rather than simply divest the holding to reduce exposure to a risk. In many cases, our portfolio will remain exposed.

## Governance is the starting point for engagement

Given Northcape's model of investing in well-managed companies that can deliver sustainable returns, governance remains a strong focus in our process. Governance-related topics represented approximately 54% of engagements in 2023, environmental 27% and social 19%. Within governance, remuneration and risk & capital management were the leading areas in which we sought improved corporate behaviour, followed by reporting and board effectiveness. Managing the energy transition was the lead environmental topic, followed by pollution and natural capital. In the social category, human and labour rights were most commonly discussed.

In engagements and interactions with investee companies, our investment analysts raised 74 ESG issues. In many cases, we sought improved disclosure or offered our encouragement for further progress on company initiatives, such as remuneration, human rights risk management, or climate strategy.

## Considering sustainability outcomes

The UN Sustainable Development Goals (SDGs) provide a framework for considering the potential sustainability outcomes of our investment and stewardship activities. When mapping the primary engagement objective to their relevance to the SDGs, the leading categories were **16 Peace, Justice and Strong Institutions** (governance), **13 Climate Action** (transition planning) and **8 Decent Work and Economic Growth** (human and labour rights).

While we categorised most governance engagements under **SDG 16**, many could be considered to have a strong link to **17 Partnerships for the Goals**, **11 Sustainable Cities and Communities**, or **9 Industry, Innovation and Infrastructure**. Despite these mapping challenges, we find it helpful to also consider our stewardship efforts through the SDG lens.

## UN Sustainable Development Goals (SDGs)



# Corporate engagement

## Primary engagement issue by ESG category

### Environment

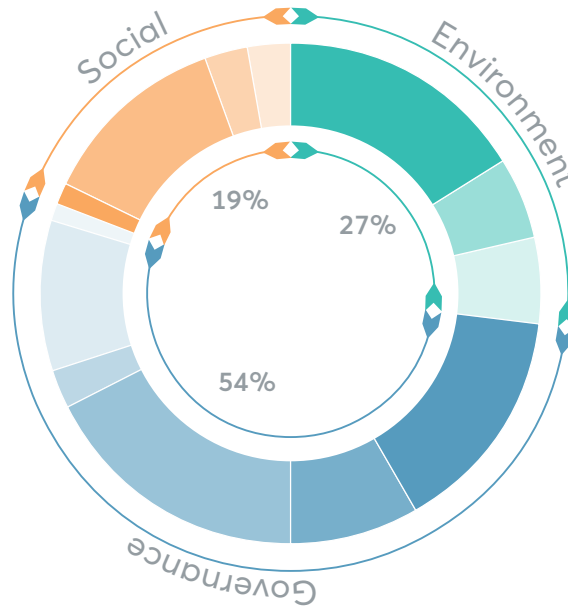
- Energy transition and emissions
- Natural capital and biodiversity
- Pollution and waste

### Social

- Customer protection and product risks
- Human and labour rights /supply chain
- Workforce health and safety
- Human capital and diversity

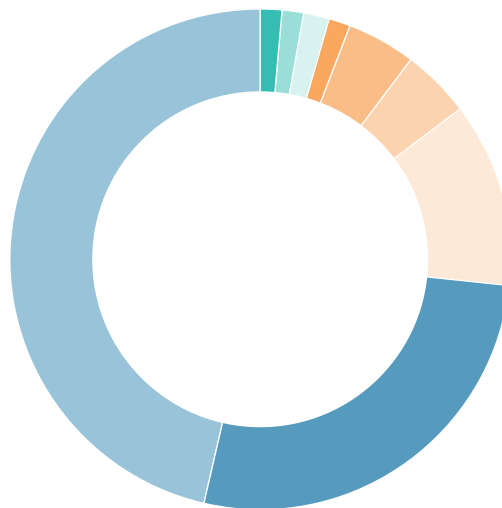
### Governance

- Risk and capital management
- Board effectiveness and leadership
- Remuneration and incentives
- Shareholder rights
- Reporting and audit
- Business ethics and regulatory



## SDG mapping of engagement issues

- 15: Life on Land
- 14: Life Below Water
- 5: Gender Equality
- 3: Good Health and Well-being
- 10: Reduced Inequality
- 6: Clean Water and Sanitation
- 8: Decent Work and Economic Growth
- 13: Climate Action
- 16: Peace, Justice and Strong Institutions



# Corporate engagement

## Annual ESG engagement summary – calendar year 2023

Company	Country	Issues raised					
		Climate Change	Environmental <sup>1</sup>	Human and Labour Rights	Social <sup>2</sup>	Remuneration	Governance <sup>3</sup>
Advanced Info Service	Thailand	1					
Ansell	Australia			1			
ANZ Banking	Australia						2
ASX	Australia					1	1
BHP	Australia				1		
BlueScope	Australia		1	1			
Breville	Australia						1
Cleanaway Waste	Australia						1
CME	USA	1					
Commonwealth Bank	Australia					1	
Dino Polska	Poland					1	
DKSH	Switzerland		1				2
Dollar General	USA				1		
Dollarama	Canada	1					
Endeavour	Australia				1		1
Ferrari	Italy	1					
Haitian	Hong Kong	1					
Hindustan Unilever	India						1
Indocement	Indonesia	1	3				2
Insurance Australia	Australia					2	1
James Hardie	Australia						1
JB Hi-Fi	Australia			2	1		
KPIT	India						1
Malaysia Airports	Malaysia	1		1			
Medibank Private	Australia						1
MercadoLibre	Brazil			1		1	3
Powszechny Zaklad U.	Poland						1
Public Bank	Malaysia					1	
Qantas	Australia					2	1
Raia Drogasil	Brazil		1				
Seek	Australia						1
South32	Australia	1			1	1	
Steadfast	Australia					1	2
Techtronic	Hong Kong		1				
Transurban	Australia						1
Unilever	UK			1			1
WEG	Brazil			1			
Wesfarmers	Australia	1		1			
Woodside	Australia	1	1			1	
WuXi AppTec	China	2					1
Xero	Australia					1	1

1. Excludes climate change, includes natural capital and pollution.

2. Excludes human and labour rights, includes human capital, health & safety, product risks.

3. Excludes Remuneration. Includes Board Matters, Voting Issues, Capital Management and Reporting & Disclosure.



## Proxy voting and corporate governance

At Northcape, good governance is central to our process for identifying quality companies that are likely to deliver the sustainable growth and returns on which our clients depend. Once a company makes it onto our Approved List, governance is monitored through the disclosure, engagement, and shareholder meeting voting cycle.

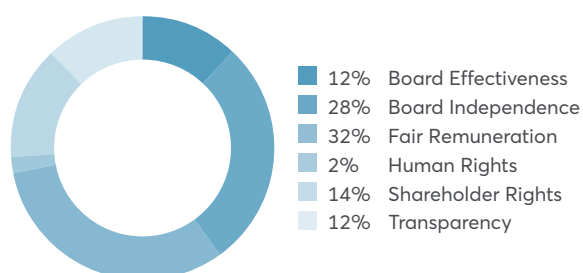
Participation in company meetings and voting is a critical right of shareholders and an important stewardship tool to influence improved corporate governance practices in our clients' best interests. To maximise the effectiveness of voting at shareholder meetings while building constructive long-term relationships with companies, voting should be aligned with the Northcape [Responsible Investment Policy](#), consistently applied, and communicated with clear rationale.

In 2023, we continued to challenge boards on fair remuneration, representing one-third of our votes against management recommendations. In Australia, there was a strong lift in remuneration 'strikes' in the ASX300 to a record 40 strikes in the year, compared to a five-year average of 25 strikes, with an increase in the use of upward board discretion a concern for Australian investors. Along with a staggering 83% of shareholders, we voted against the remuneration report at Qantas based on a misalignment of compensation outcomes with customer, employee, and stakeholder experience.

### Northcape voting summary – calendar year 2023

	Total	Australia	International
Shareholder meetings at which our clients' shares were voted	123	34	89
Number of meeting resolutions voted	1,224	222	1,002
% of resolutions voted 'against'	7.3%	8.1%	7.1%
% of resolutions voted against board recommendations	4.1%	3.2%	4.3%
% of resolutions voted with board recommendations	95.9%	96.8%	95.7%
% of abstentions	0.2%	0.0%	0.2%
% of votes contrary to proxy advice	2.5%	4.1%	2.2%

### Votes Against Management



# Proxy voting and corporate governance



In the US, support for compensation proposals continued a long-term gradual decline and the number of shareholder proposals related to compensation increased. In emerging markets, we pressed companies through voting to ensure remuneration was fair and equitable and didn't carry the potential to significantly dilute shareholder returns.

Our director voting encouraged improvements to board independence and effectiveness. In Australia, we voted against two candidates for the Telstra board due to a mismatch of skills relative to company strategy. In the US, we voted against directors to enhance independence at Estee Lauder and Assay Abloy. In emerging markets, we voted against directors to improve independence or effectiveness at Maruti Suzuki (India), KPIT (India), Grupo Aeroportuario del Pacifico (Mexico).

We used our vote to promote shareholder rights at companies in the US, the UK, China, and Mexico. We also noted a decline in both the number and support for shareholder proposals in 2023, perhaps reflecting concerns on the effectiveness of the mechanism to influence corporate behaviour change and improving company responsiveness to investor engagement.

Our full [proxy voting record](#) can be found on our website.

## Governance case study

<b>Company</b>	<b>Qantas Airways</b>
<b>Country</b>	<b>Australia</b>
Sector	Passenger Airlines
<b>Material topic</b>	<b>Governance: Remuneration</b>
SDG classification	16: Strong institutions
Context	Qantas faced a series of threats to its social license and brand in 2023, including concerns over labour practices, competitive behaviour, operating performance, and customer satisfaction issues.
Actions	In a series of engagements with management and board, we sought to understand the legal and branding risks facing the company. We voted against the remuneration report due to misalignment of remuneration with stakeholder outcomes.
Change objective	Fair remuneration aligned with the experience of shareholders, customers, and affected workers.
Company outcome	The CEO, two independent directors, and the board chair brought forward their retirement from the company. Remuneration was partly deferred, and part subject to provisions pending the outcome of stakeholder engagement.



A key focus in Australian Equities has always been corporate governance at portfolio companies. We believe we can positively impact governance through engagement and voting.



**Craig McCourtie**  
Director, Portfolio Manager, Analyst, Australian Equities



## Governance case studies

Company	Marsh & McLennan	Telstra Group	America Movil
Country	USA	Australia	Mexico
Sector	Financials	Communications services	Communications services
Material topic	<b>Governance: Remuneration</b>	<b>Governance: Board effectiveness</b>	<b>Governance: Shareholder rights</b>
SDG classification	16: Strong institutions	16: Strong institutions	16: Strong institutions
Context	The company's performance has been strong, but executives have been well-remunerated, and we need to ensure that outcomes are reasonable.	Northcape believes it's important for boards to have industry specific experience. The Telstra board has lacked Australian telecommunications experience.	Family-controlled telecommunications leader that recently removed a dual class capital structure. The board composition is less than ideal with the family still dominant. Board independence and effectiveness remains a focus.
Actions	We used our vote to press for improved remuneration practice after the board amended the outgoing CEO's awards to increase remuneration by US\$7 million.	We met with the chair-elect and shared our views on the value of industry specific expertise on boards and sought to understand how the candidates and board renewal might address the gap.	We continue to use our vote in emerging markets to promote improved governance practices and outcomes.
Change objective	Fair remuneration practices that provide sufficient challenge to executives.	Improve board effectiveness and skills mix to support the strategy.	Ensure board effectiveness and capacity of independent directors to represent minority shareholders.
Company outcome	One third of votes were cast against the compensation package at the annual meeting.	The chair-elect noted our feedback. We voted against the election of the two nominees on the grounds of a gap in the board's skills matrix.	We voted against the election of a director due to over boarding and against a bylaw amendment due to a lack of supporting information on the proposal.

“

The Northcape investment approach places significant weight on the influence of governance on long-term stock outcomes.

”



**Steve Gliddon**  
Chairman

# Stewardship of climate-related risks and opportunities

Northcape acknowledges climate change, and the human response to it, presents significant risks and opportunities to business models, economies, and financial markets. It has the potential to materially impact investment returns on which our clients depend. The key climate-related risks and opportunities faced in our portfolios include (1) the energy transition to a low carbon world, and (2) the physical impacts of climate change.

We assess and manage climate-related factors guided by TCFD<sup>5</sup> framework and through our responsible investment framework. Engagement and voting encourage companies to have climate risk governance, an ambitious but credible transition plan, and disclosure of metrics and targets. For more information on our approach to climate-related risks, please see our [Responsible Investment Policy](#).

Climate risk research helps Northcape understand the concentration of transition and physical risks and inform decisions that support the investment process and the prioritisation of stewardship activities. Through these mechanisms, Northcape seeks to assess and manage climate-related risks in our portfolios and provide transparency on these exposures and efforts to our clients.

## Portfolio carbon metrics

We estimate portfolio carbon metrics, such as portfolio carbon exposure, carbon intensity and scenario analysis, utilising analysis from Institutional Shareholder Services (ISS). This allows Northcape to understand alignment with a low carbon world and prioritise resources for managing risks and opportunities.

As at December 2023, all strategies continued to have carbon intensity (measured by tonnes of CO<sub>2</sub> per A\$ million invested) well below respective benchmarks. In emerging markets, Weighted Average Carbon Intensity (WACI) was 64% below the benchmark, in global developed markets 80% below, and in Australian equities between 37% and 47% below the benchmark.

Emissions are concentrated in a small number of companies in each portfolio. In global developed market equities, the top 5 high-emitting holdings represented 67% of portfolio emissions exposure. In emerging markets, they represented 82% of emissions, while in Australian equities, 94%.

## Transition risk analysis

The ISS Carbon Risk Rating (CRR) assesses on a scale out of 100 (excellent performance) a company's (1) exposure to climate change risks, and (2) performance in managing opportunities and risks. At the portfolio level, the CRR of Northcape strategies has increased in each of the last three years, and all have outperformed respective benchmarks.

The analysis suggests that as at 31 December 2023, only 6% of emerging markets holdings were classified by ISS as climate 'Laggards', with 62% of the portfolio invested in 'Outperformers' or 'Leaders'. The portfolio's overall CRR is 55 out of 100, which suggests the average holding is an 'Outperformer'.

In Australian equities, only 8% of holdings were considered 'Laggards', with 54% seen as 'Outperformer' or 'Leader', with a portfolio rating of 56 out of 100. In the global developed market equities portfolio, there are no 'Laggards' and 89% is invested in 'Outperformers' or 'Leaders', driving a portfolio rating of 64.

## Physical risk exposure

As well as transition risks, the ISS climate risk research provides high level analysis of physical risk exposure at the issuer and portfolio level under several climate scenarios. Acknowledging the limitations in physical risk data, the insights are valuable for assessing and managing risks.

The analysis considers exposure to physical risks and company response. The results suggest unmanaged physical risks are higher in emerging markets and Australian equities than in global developed market equities. The research also indicates risks are a little higher than the benchmark in Australian equities and global developed market equities, and lower than the benchmark in emerging markets.

# Portfolio carbon metrics

Northcape  
Emerging Markets  
Portfolio

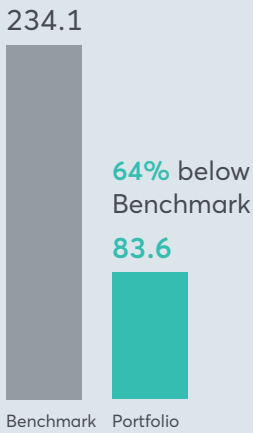
Northcape  
Global Equities  
Portfolio

Northcape  
Australian Equities  
Core

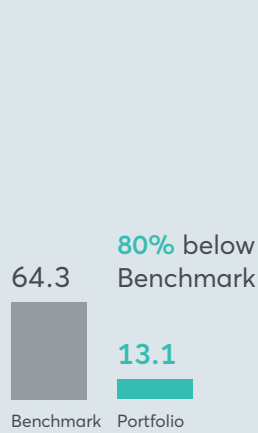
Northcape  
Australian Equities  
Concentrated

## Weighted-average carbon intensity (WACI)

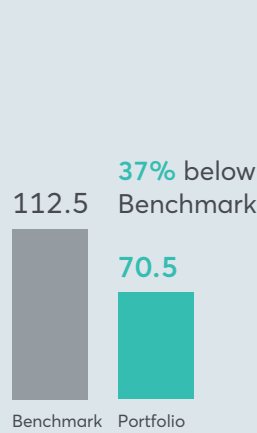
Emissions Exposure  
(tCO<sub>2</sub>e /invested)



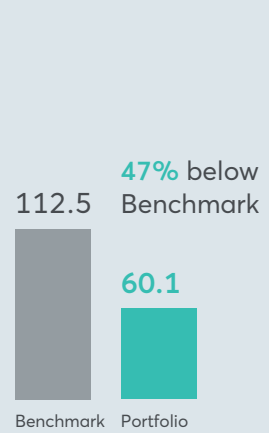
Emissions Exposure  
(tCO<sub>2</sub>e /invested)



Emissions Exposure  
(tCO<sub>2</sub>e /invested)



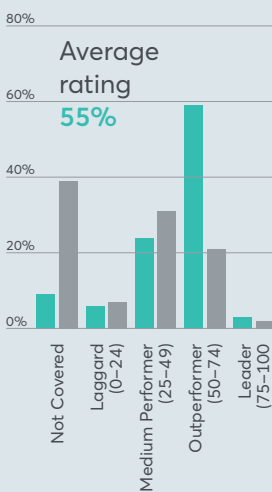
Emissions Exposure  
(tCO<sub>2</sub>e /invested)



## ISS Carbon Risk Rating (CRR)

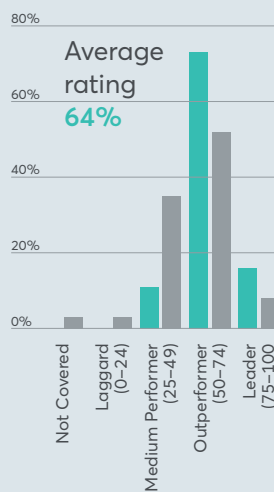
CRR Distribution

■ Portfolio vs. ■ Benchmark



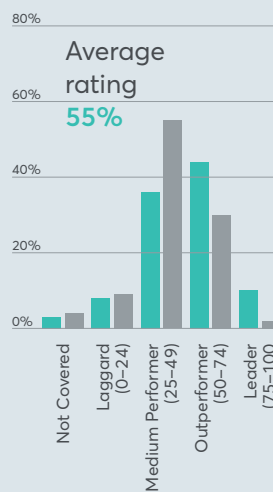
CRR Distribution

■ Portfolio vs. ■ Benchmark



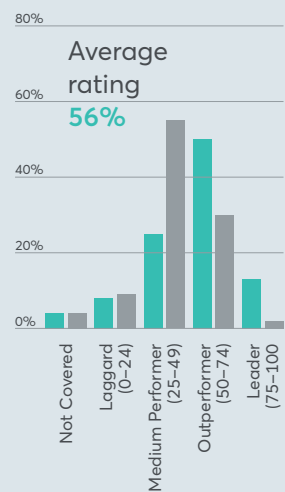
CRR Distribution

■ Portfolio vs. ■ Benchmark



CRR Distribution

■ Portfolio vs. ■ Benchmark





# Stewardship of climate-related risks and opportunities

## Positive contributors to transition and adaptation

While our lower than benchmark emissions data is encouraging, we don't believe it tells the whole story as many of the companies on our Approved List investible universe also make meaningful contributions to sustainable development and economy-wide reduction in emissions.

Company	Sector	Country	Category	Description
Worley	Industrials	Australia	Clean energy infrastructure	Engineering services in renewables, recycling, energy efficiency and critical minerals.
Macquarie Group	Financials	Australia	Clean energy finance	Clean energy infrastructure including wind, solar, hydrogen, waste to energy, carbon capture and battery storage technologies.
Voltronic	Information technology	Taiwan	Clean energy technology	Inverter technologies are a vital component within solar energy installations.
Samsung SDI	Information technology	Republic of Korea	Clean energy technology	Lithium-ion batteries for EVs, power tools, and stationery storage systems for utilities.
Enphase Energy	Information technology	United States	Clean energy technology	Residential and commercial solar inverters, battery storage and EV chargers worldwide.
Solar Edge Technologies	Information technology	Israel	Clean energy technology	Essential inverter, battery, and panel technology for distributed solar sector.
Advanced Drainage Systems	Industrials	United States	Circular economy	Recycled plastic pipe to replace high carbon alternatives in North America and address infrastructure and adaptation needs.
Intertek	Industrials	United Kingdom	Clean energy assurance	ESG and sustainability assurance, testing, inspection, and certification firm.

Note: While 'Approved' and therefore in the Northcape investible universe (of around 200 companies), these companies may or may not be held in portfolios at any point in time, depending on the investment requirements of each strategy.



## Climate action case studies

Company	Mercado Libre	Indocement Tunggak Prakarsa	Westpac Banking
Country	Brazil	Indonesia	Australia
GICS sector	Consumer discretionary	Materials	Financials
Material topic	<b>Environmental: Energy transition</b>	<b>Environmental: Energy transition</b>	<b>Environmental: Energy transition</b>
SDG reference	13: Climate action	13: Climate action	13: Climate action
Context	Mercado Libre is in some respects the Latin American answer to Amazon and has a sizeable logistics operation.	Cement remains an enabler of economic development, but its high emissions are hard to abate. Indocement has a 2030 emissions target but no longer-term target.	We see the major banks as offering an opportunity to influence the trajectory of system decarbonisation given their central economic role through their lending portfolios.
Actions	We engaged with the company to better understand the approach to establishing a net zero target.	We visited the company to understand its 2030 emissions targets and the pathway to decarbonisation.	We assessed the climate plan before voting on the 'Say on Climate' proposal.
Change objective	Establish sufficiently ambitious and credible transition plan and consider net zero target.	Review of 2030 emissions targets and to establish targets for beyond 2030.	Ensure a sufficiently ambitious and credible approach to climate risks and opportunities that supports system transition.
Company outcome	The company acknowledged the challenges but indicated that work was underway to examine SBTi aligned targets and a supporting transition strategy, with electrification a key enabler.	The company acknowledged importance of the issue and noted it will review the 2030 target in early 2024 and by 2025 release a road map for achieving net zero by 2045.	The bank has made reasonable progress on its journey, supported by membership of the Net Zero Banking Alliance. We supported the program of work, voting FOR the proposal.

# Stewardship of human and labour rights

## Responsible Investment

### Belief 4:



We recognise our role as a provider of capital in contributing to SDGs and that the transition to an SDG-aligned world presents risks and opportunities for investors.



The assessment and management of human and labour rights risks has gained greater attention from investors due to increasing regulatory disclosure requirements, visibility of financial materiality, and investor commitments and beneficiary interest.

The UN Global Compact calls on businesses to support and respect human rights and labour rights, including to uphold the right to collective bargaining, freedom of association, and eliminate forced labour, child labour, and all forms of discrimination in employment and the workplace.

Northcape seeks to encourage companies to improve their commitments, policies, practice, and disclosure against relevant standards to strengthen legal compliance, social license, growth opportunities, and business resilience.

Human rights issues considered by Northcape may include modern slavery, labour rights (including the right to workplace safety), first nations rights, privacy, gender equality, discrimination, and access to education and healthcare.

Northcape recognises appropriate policy settings are also required to achieve investors' long-term human rights objectives and looks to advocate, where appropriate and practical, for these changes.

Even where there is a lack of policy support, we expect companies to commit to protecting human rights, have appropriate governance and policies, and demonstrate progress on identifying, mitigating, and disclosing human rights risks and impacts in their direct operations and supply chain.

In 2023, 12% of company engagements were on human and labour rights, with companies based in Brazil, Australia, Malaysia, the UK, and the US. Issues covered included supply chains, policies, practices, conflict zone risks, incentives, and workplace health & safety.

Analysts identified instances of high-risk labour practices and we engaged with companies to understand the context and their approach to addressing the risks. We provided feedback to companies to encourage improvements in practice and disclosure.



## Human and labour rights case studies

Company	Wesfarmers	Malaysia Airports Corporation	Dollar General
Country	Australia	Malaysia	USA
Sector	Consumer discretionary	Infrastructure	Consumer discretionary
Material topic	<b>Social: Human rights</b>	<b>Social: Human rights</b>	<b>Social: Workplace health and safety</b>
SDG classification	8: Decent Work and Economic Growth	8: Decent Work and Economic Growth	8: Decent Work and Economic Growth
Context	Wesfarmers is one of Australia's largest retailers with long and complex supply chain in high-risk domiciles and industries. While we are broadly comfortable with its approach, fully mitigating human rights risk is arguably not possible, and there are always opportunities to improve.	Government controlled, listed airports operator. It uses a small proportion of contract labour. Contract immigrant labour makes a significant contribution to the Malaysian economy. There is a national target to eliminate all forms of bonded labour by 2030 but there remain significant structural challenges. We were aware of potential risks due to activities in plantations and facilities management and sought to improve our understanding.	Dollar General was added to the Occupational Safety and Health Administration's (OSHA) 'severe violator' program in October 2022 reflecting repeated safety standard violations. Safety violations include "aisles, emergency exits, fire extinguishers and electrical panels blocked by stored merchandise". The bulk of safety violations appears to have been driven by having insufficient store labour hours.
Actions	We expressed our support for the company's efforts to further expand the vendor due diligence and worker human rights training program in Asia. We made suggestions around further enhancement of disclosure.	We assessed the approach to managing human rights risks in the contract segment of its workforce through a series of engagements following on from a site visit.	We discussed the urgency to improve workplace safety with investor relations and the CFO and voted for the shareholder resolution to request a worker safety and well-being audit and report.
Change objective	Consolidate suppliers and progress supply chain due diligence.	Improved disclosure on managing human rights risks in the operations and supply chain.	To improve workplace safety compliance and outcomes swiftly and materially.
Company outcome	Wesfarmers acknowledged the importance of the issue and shared that it plans to enhance supplier due diligence, remediation, broaden the scope of the program to new businesses, and continue to evolve disclosure.	The company acknowledged importance of the issue. It reiterated its commitment to respect human and labour rights and the ILO Conventions. Indicated that it would review annual disclosure for opportunities to improve transparency.	The company acknowledged the issue and outlined the plan to resolve the safety issues, such as, a no tolerance policy towards staff on violations and steps to increase store manager tenure. The shareholder resolution for the workplace safety and well-being audit received 68% support.



# Collaboration

Northcape views collaboration with clients, advisers, and peer networks as offering the potential to enhance the effectiveness and impact of its responsible investment program.

These initiatives provide frameworks for assessing and managing ESG factors, valuable opportunities for knowledge building and sharing with peers through conferences, workshops and seminars, collaborative corporate engagement programs that amplify our stewardship voice and impact. While Northcape benefits from research and collaborative events across a wide range of peer initiatives, advocacy groups, NGOs, and industry groups, our primary collaborative initiatives are:

- UN Principles for Responsible Investment – Signatory
- Responsible Investment Association of Australasia (RIAA) – Member
- Task Force for Climate-related Disclosure (TCFD) – Supporter



Northcape sees the annual PRI Assessment and RIAA Benchmark processes as providing valuable benchmarking of our approach to responsible investment. The assessments and collaborating with peers on key issues and good practice through the year, enables us to identify opportunities for further development of our program to ensure it remains relevant to our objectives and client expectations.

### PRI Assessment Report and outcomes

The 2023 PRI Assessment Report measured significant progress on Northcape’s responsible investment journey since our first report two years earlier. In responsible investment Policy Governance and Strategy, the rating increased to four stars (a 70% score). In relation to managing listed equities, our rating was four stars (78% score). In the pillar that focuses on confidence building measures and disclosure, we also rated four stars (80% score).

Against a peer group of similar sized managers in Australia and New Zealand, our scores were closer to the median. This result is encouraging given our region is a leader in global responsible investment. The high-quality Australasia investor cohort provides valuable opportunities for collaboration and knowledge sharing on responsible investment and promotes a culture of continuous improvement.

Signatory of:



### Northcape recognised by RIAA as a ‘Responsible Investor’

Northcape was named a ‘Responsible Investor’ by RIAA in its 2023 ‘Benchmark’ study. This recognises our commitment to responsible investing and attributes as an investment manager. Overall, 77 fund managers (28%) attained the high standards of ‘responsible investment’ against RIAA’s scorecard this year, compared to 74 in the previous review. From the RIAA review, we have identified stewardship, sustainability outcomes, and collaboration as areas of opportunity to progress our program.

### Northcape 2023 participation in responsible investment events and collaborations

Event	When	Where	Knowledge building
IGCC Summit	Annual	Sydney	Climate-related risks and opportunities
PRI In Person	Annual	Tokyo	Responsible investment trends and practice
ASFI & PRI Forum	One off	Sydney	Considering sustainability outcomes
RIAA First Nations Rights Working Group	Quarterly	Online	First Nations engagement
RIAA Human Rights Working Group	Quarterly	Online	Human rights risk assessment and management
RIAA Nature Working Group	Quarterly	Online	Natural capital risks and impacts
Climate Energy Finance	One off	Northcape	Energy transition drivers and progress
IGCC Physical Risks	One off	Northcape	Physical risks of climate change



# Northcape's corporate social responsibility

We believe Northcape's multi-portfolio manager model is key to our success. The approach encourages accountability, curiosity, constructive debate, and diversity of thinking. The model is instrumental in attracting and retaining high calibre, experienced investment professionals, and this is reflected in team stability, and smooth renewal and succession.

## Our people

Northcape believes that diversity, in all its forms, supports a collaborative and innovative team culture and maximises our ability to consider a range of perspectives to minimise blind spots in delivering long-term returns for clients. Northcape's approach to diversity seeks to ensure we can attract and retain the best people to support the delivery of our business objectives and provide them with a working environment in which they can thrive.

Northcape sees investment team stability and deep knowledge of our portfolios as one of the drivers of fund outperformance over many years.

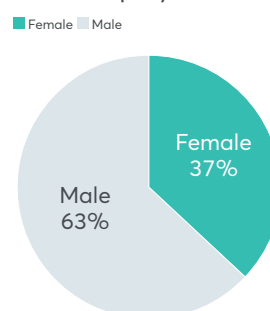
Today's average staff tenure at Northcape is 8.3 years, while 13 staff members (out of 30) have more than 10 years' service.

Recruitment of analysts who, over time, have an opportunity to become portfolio managers, ensures 'bench strength' and tenure diversity to support continuity in portfolio management. This renewal process, has in our view, been a key factor in delivering consistent outperformance since 2004.

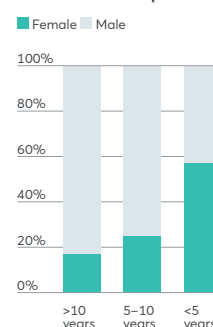
Given the size of our organisation, Northcape does not believe it practical or appropriate to set diversity targets. Recruiting with an objective of maintaining or enhancing diversity presents significant challenges. Notwithstanding these factors, Northcape's approach has supported, over time, a notable increase in diversity.

The representation of women in the organisation has consistently increased over time, with women representing more than 50% of new hires in the last five years.

Gender diversity of all employees



Gender by tenure at Northcape



### The key elements of our successful approach to diversity include:

1. **Commitment to diversity, equity, and inclusion** – Northcape is committed to an inclusive workplace that embraces and promotes diversity of all forms.
2. **Safe working environment** – Northcape is committed to providing a safe, and respectful environment for staff and clients free from all forms of discrimination, harassment, and bullying.
3. **Recruitment** – Northcape is committed to recruitment free from discrimination. Role descriptions and working conditions designed to appeal to a diverse set of candidates.
4. **Working conditions and pay** – Northcape allows, subject to operational requirements, flexible work arrangements and entitlements that support employees, and is committed to pay equity throughout the organisation.
5. **Code of Conduct** – Requires employees to adhere to policies related to diversity.

# Operational emissions and decarbonisation

Northcape is committed to reducing its environmental impact as an integral part of the business strategy. We recognise our role, as both a small business and provider of capital, in contributing to the SDGs and that the transition to a low-carbon world presents risks and opportunities for Northcape as an investor and for our business.

With the aim of understanding our operational sustainability outcomes and making informed decisions about carbon emissions, Northcape engaged Pangolin Associates in 2023 to estimate the organisation's operational green-house-gas emissions. The report quantified the sources of emissions for the year ended 30 June 2023 and identified opportunities to mitigate climate impact. The emissions study excluded financed (portfolio) scope 3 emissions, estimates of which are presented on page 23 of this report.

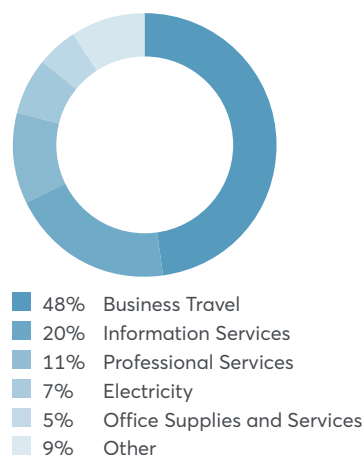
## Northcape's carbon footprint

In the year to June 2023, Northcape's total operational emissions (scopes 1 to 3) were 1,039 tonnes of CO<sub>2</sub>-equivalent. This is approximately 38 tonnes per weighted average full time equivalent employee and 0.08 tonnes per million dollars of assets under management.

'Scope 3' indirect emissions associated with purchases of key business inputs, accounted for 98% of our total carbon footprint in FY2023. These emissions are beyond the direct control of Northcape and therefore reductions are heavily dependent on the decarbonisation initiatives of vendor businesses. Three categories, business travel, information and data services, and professional services, represented 80% of total emissions:

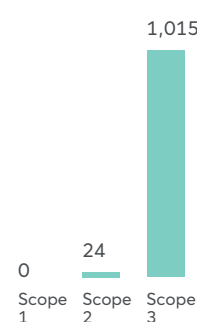
- Business travel, mostly long-haul international for investment research trips, accounted for just under half of total emissions, with flights representing almost all of this.
- Information and data services represented 20% of emissions, including portfolio management systems, investment administration, and telecommunications.
- Professional services accounted for 11%, including accounting, legal, insurance, consulting, and education.

Scope 1-3 Emissions  
FY23 (tCO<sub>2</sub>-e)  
1,039 tonnes\*



\* Source: Pangolin Associates aligned with GHG Protocol, Climate Active, ISO 14064-1. Excludes scope 3 portfolio financed emissions.

Operational Emissions  
FY23 (tCO<sub>2</sub>-e)



- Electricity accounted for 7%, one-third consumed directly in our two offices and two-thirds from office building shared services.

## Emissions reduction pathways

Northcape is reviewing its strategy with the hope of identifying key measures and pathways to a reduce emissions. This work will take into consideration our business plans, viable reduction measures, external sector and economy-wide decarbonisation pathways, and opportunities to mitigate residual impacts with carbon offsets.

There are challenges in achieving meaningful short-term reductions without curtailment of air travel. Northcape has direct equity holdings in companies domiciled in approximately 30 countries from an investible universe of 46 countries.

## Operational human rights and modern slavery

Visiting investee companies on the ground supports due diligence of operations and assets, our understanding of the economic and cultural context, and relationships with the company. It's our view virtual meetings cannot yet replace the unique insights from these trips.

There is reason, however, for a degree of optimism on the transition of air travel. The International Civil Aviation Organization (ICAO) has a net zero 2050 'aspirational goal', driven by fuel efficient aircraft, sustainable fuels, and operational efficiency. And some airlines are targeting up to a 25% reduction in emissions by 2030<sup>6</sup>.

As an investor in Australia's largest airline, Qantas, we engage with the company on its decarbonisation strategy and offer our support for progressing the work.

In summary, actions currently underway on emissions reduction:

1. **Employees** – Employee engagement to encourage participation in emissions reduction.
2. **Renewables** – Switch to renewable sources for direct purchased electricity.
3. **Vendors** – Improve emissions data quality and encourage renewable uptake at vendors.
4. **Strategy** – Complete emissions strategy aligned with business plans.
5. **Mitigation** – Examine offsets to contribute to sustainability outcomes and internalise a carbon price.
6. **Communicate** – Our approach to clients and other stakeholders, including TCFD reporting on page 34.

Northcape is committed to preventing slavery and human trafficking in our business activities and ensuring that external service providers and the companies we invest in are also free from slavery and human trafficking. We believe the risk of modern slavery within our direct business operations is low, but we recognise the need to assess and monitor risks within our supply chain and remedy any adverse human rights impacts.

The Northcape Anti-Modern Slavery Statement, which outlines our approach to managing human rights risks in our operations and supply chain, can be found in the [Responsible Investment Policy](#) on our website.

“

At Northcape, we seek to understand our operational impact on sustainability outcomes, manage risks and make improvements to our business over time.

”



**Michael Ryan**  
Managing Director

## Northcape TCFD reporting

Governance	Disclose the organisation's governance around climate-related risks and opportunities.
a) Describe the board's oversight of climate-related risks and opportunities.	Climate-related opportunity and risk governance is part of the Responsible Investment Policy, which is a Northcape board-owned policy.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	The implementation of the Policy, including climate-related risk and opportunity management, is undertaken by the Managing Director and staff, with support from the Head of Responsible Investment.
Strategy	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Northcape operations and the investment portfolios it manages on behalf of clients, face risks and opportunities related to the energy transition and the physical impacts of climate-change, across a range of time horizons.
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Northcape seeks to understand the impact of climate-related risks and opportunities on its business strategy and the ability to deliver the financial returns and sustainability outcomes on which our clients depend.
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	More than 99% of Northcape's emissions are estimated to be scope 3 financed emissions. Estimated portfolio emissions intensity is generally significantly below relevant equities benchmarks, which supports portfolio resilience. Northcape employs in-house research and third-party data to understand risks in portfolios and company progress, which includes potential impact on investment portfolios of transition and temperature scenarios, including a +2°C and +1.5°C scenario.

## Risk management

### Disclose how the organisation identifies, assesses, and manages climate-related risks.

- |  |  |
|--|--|
| a) Describe the organisation's processes for identifying and assessing climate-related risks.  | The process of identifying climate-related risks and opportunities within the operations and investment portfolios is supported by in-house research and third-party climate risk analysis, including scenario analysis, as described above.   |
| b) Describe the organisation's processes for managing climate-related risks.   | Management of climate-related risks is primarily through the stewardship activities engagement and voting, which encourages investee companies to develop and implement robust transition plans. Northcape assesses its operational emissions and has an emissions reduction strategy.   |
| c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management. | Our investment model seeks long-term sustainable cash flows and therefore is less likely to invest in businesses that are materially challenged by the energy transition. For companies that face material climate-related risks, Northcape prefers engagement over divestment, but exposure reduction or divestment may be used for high levels of risk or governance failings. |

## Metrics and targets

### Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

- |   |  |
|---|--|
| a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. | Northcape assesses both absolute carbon dioxide emissions and weighted average carbon intensity (WACI), as measured by tonnes of carbon dioxide emitted per million Australian dollars invested. Northcape has undertaken an operational emissions study of scopes 1 to 3 (excluding scope 3 financed emissions, analysed separately).   |
| b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.   | <p>Portfolio emissions data, climate-risk assessment, and scenario analysis is disclosed on pages 22–23 of this report.</p> <p>Total annual scope 1 and 2 portfolio emissions as at 31 December 2023 were 607,903 tonnes CO<sub>2</sub>e. Scopes 1–3 operational emissions (excluding portfolio emissions) in the year to June 2023 were 1,039 tonnes CO<sub>2</sub>e.</p> <p>More detail on operational emissions is on page 32 of this report.</p>   |
| c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.                       | Northcape reviews transition and physical risk metrics of portfolio companies, and progress toward their long-term targets. We engage and vote to encourage companies to align with TCFD. With investor action, appropriate policy settings, and consumer activation, there is a higher likelihood the companies in which we invest can transition to net zero. Given concentration of emissions in a small number of holdings, short-term outcomes are likely to reflect changes in portfolio weights, rather than company action. Northcape is currently developing operational emissions reduction targets. |



