



## **NORTHSTAR IMPACT - IMPACT POLICY PAPER**

### **Introduction**

We believe that Australia's and the World's problems can be more effectively and efficiently addressed if for-profit businesses are investing in and delivering the solutions.

While philanthropy, NGOs, and Governments all play a critical role, the largest resources sit within for-profit businesses. Shifting these resources towards solving social and environmental problems can make a major difference to achieving the desired outcomes.

In fact, these problems are opportunities for companies to generate profitable growth at the same time as solving them.

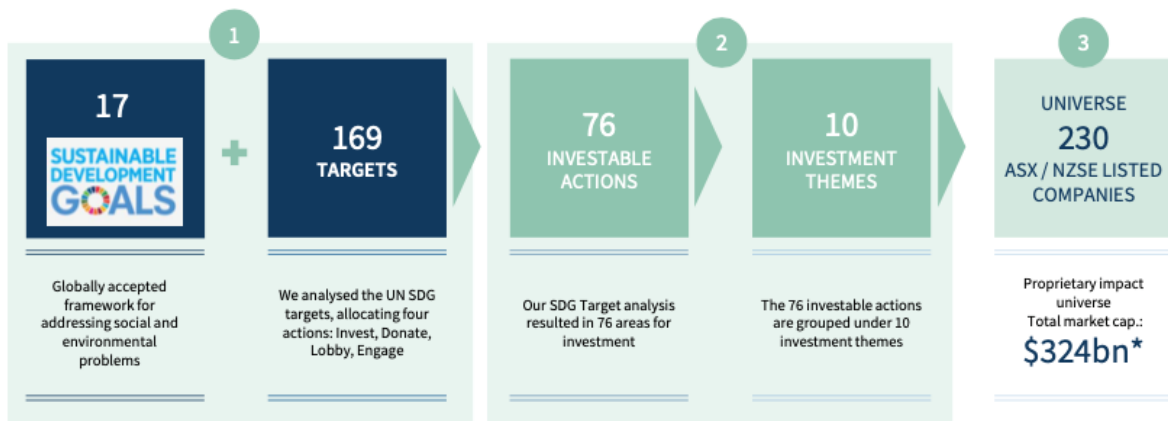
Shareholders have an important role to play in supporting companies that have positive social and environmental impacts. Firstly, they can provide capital (and in turn potentially lower the cost of capital) to facilitate corporate expansion and therefore scale the impact. Secondly, they can hold management to account, ensuring that the company continues to generate positive impacts, encouraging them to increase their positive impact and engaging them to reduce their negative impacts. Impact investors can actively lead in this role and influence other shareholders to support the overall impact of the company.

The purpose of the NorthStar Impact Australian Equity Fund is to help deliver, accelerate, and scale the positive social and environmental impacts of businesses listed on the ASX.

### **Identifying Problems to Solve**

We focus on a range of problems across both social and environmental areas. Our starting point is to consider which sectors of the economy require significant investment to achieve positive social or environmental outcomes. We describe these as Impact Focus Areas. We consider the UN Sustainable Development Goals ("SDGs") in the selection of our Impact Focus Areas.

We have examined the 17 SDGs, including their 169 targets, and have identified 76 investable actions that investors can take to have positive impact.



We have grouped these actions into 10 Impact Focus Areas or themes – 2 environmental and 8 social.

Our impact focus areas include:



The SDGs have provided us with a framework of the areas that need addressing by impact investors globally. We use the SDGs to help identify impact areas to invest in (e.g. health and wellbeing and education), and areas that need addressing in terms of how companies operate (e.g. reducing inequalities, promoting gender equality).

1. Renewable energy (SDG 7: Affordable & Clean Energy; SDG 13: Climate Action)
2. Land and resource management (SDG 6: Clean Water & Sanitation; SDG 12: Responsible Consumption and Production; SDG 15: Life on Land)
3. Well-being: Health care services (SDG 3: Good Health and Well-being)
4. Well-being: Medical devices (SDG 3: Good Health and Well-being)
5. Well-being: Pharmaceuticals (SDG 3: Good Health and Well-being)
6. Care and support (SDG 3: Good Health and Well-being; SDG 5: Gender Equality; SDG 11: Sustainable Cities and Communities)
7. Affordable housing (SDG 10; SDG 11: Sustainable Cities and Communities)
8. Education (SDG 4: Quality Education)
9. Healthy living (SDG 3: Good Health and Well-being; SDG 14: Life Below Water; SDG 15: Life on Land)
10. Financial inclusion (SDG 8: Decent Work & Economic Growth; SDG 10: Reduced Inequalities).

### **Investing in Impact Companies**

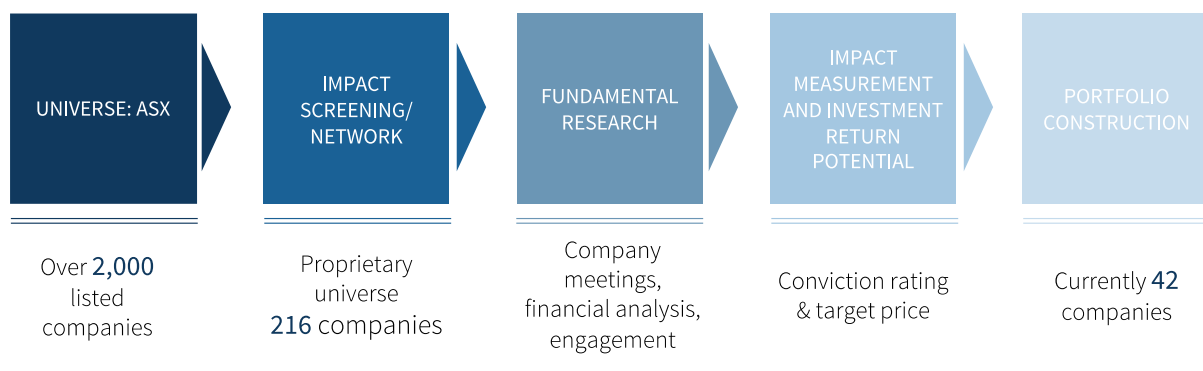
Our universe comprises all companies listed on the Australian Stock Exchange (“ASX”). For the NorthStar Impact Australian Equities Fund, we only select from companies where we believe that their core business has a positive social or environmental impact, that is, their core product and/or services (the “What”). We also look at how they produce and deliver these goods and services (the “How”), and examine their environmental, social and governance factors – both standard ESG factors that are relevant to all companies (e.g. diversity) and industry and company-specific factors. The companies that pass through this screening, we deem to be Positive Impact Companies.



We have built a proprietary universe of Positive Impact Companies based on our assessment of their business activities. Importantly, this universe was built “bottom-up” through a positive impact screen rather than using negative screens.

From a universe of 2000+ companies on the ASX, we have identified 216 companies whose core business is having positive impact for our universe. This can change over time as new companies list on the stock exchange or if companies are taken over. From the universe we have invested in over 40 companies in our portfolio, that have both a positive impact and the prospect of delivering good financial returns.

Structured, institutional-quality fundamental investment process to select companies for the portfolio



If a company’s core business changes and we deem that it no longer has a positive social or environmental impact, then it will be divested (if held) and excluded from our universe of Positive Impact Companies.

To make an investment into a Positive Impact Company, it must meet two key criteria:

- 1) There must be a non-financial measurable metric that relates to the positive impact (typically this is a core output of their business)
- 2) The investment case must be attractive with the potential for the shares to outperform the benchmark index over the next 3 – 5 years

In addition, the financial returns that drive the investment case should be aligned with the outputs that drive the positive impacts. This means that the impacts are expected to grow over time.

### **Excluded Industries and Practices**

Our impact philosophy means that we invest only in companies that have a positive impact from their core business activity. Given this approach, we do not start with a universe and then negatively screen out companies per se, but rather seek only companies that have positive impact.

However, for clarity we explicitly exclude several industries and behaviours. This means that we do not invest in a company that has exposure to the following industries, even if their core business activity is positively impactful:

- Alcohol
- Fossil fuel production
- Gambling
- Logging of old forests
- Nuclear and Uranium mining
- Pornography
- Predatory lending
- Tobacco
- Weapons

We also do not invest in companies that systematically have been found to operate with the following behaviours under the UN Global Compact

- Human Rights e.g. Diversity and gender discrimination, modern slavery or otherwise
- Labour Rights
- Environmental degradation
- Anti-Corruption

In addition, we do not invest in companies indirectly supporting fossil fuel production and distribution. Moreover, we engage our companies on their strategy to decarbonise and manage climate change risk, and from 2020 we offset emissions attributable from our portfolio.

We also seek to avoid companies engaged in other practices that we regard as unethical or socially / environmentally harmful. These are evaluated on a case-by-case basis and this analysis forms part of our corporate engagement.

### **Corporate Engagement**

Engaging with investee companies is a critical part of both the investment and impact process. Engagement comprises:

- One-to-one and group meetings and calls with senior executives
- Visits to the company's operations
- Sending written questions seeking deeper insights into the company's impact and their approach to achieving that impact
- Voting

The first purpose of the engagement is to understand the company's fundamentals to assess whether it is an attractive investment and to determine an appropriate valuation for the company.

Secondly, from an impact perspective, we seek to measure the outputs and impact of the company's activities. In addition, we seek to understand their approach to achieving impact and how it would be possible to scale their positive impact. With this information and better understanding, we can monitor their outputs and impact and report on them annually in our Impact Measurement Report. We can also discuss and propose ways in which the company could improve their approach and/or scale their impact more quickly. Ultimately, we seek to influence our investee companies to optimise



the effectiveness and scale of their impact. This may include both a direct approach, such as the offer of expansion capital, and indirect approaches, including questioning on factors such as their policy on Board gender equality and other ESG factors that can affect their reputation and sustainability.

If a significant issue arises post investment, we discuss this internally and where appropriate, with our investee companies, with a view to determining whether they have acknowledged, understood and responded to the issue and whether it is systemic or isolated. We believe we will achieve greater impact by investing and supporting companies in the long term. Where following engagement and monitoring we are not satisfied that a significant issue is being addressed we will consider divesting. We will also look to work with other investment managers and specialist groups to jointly engage companies on issues.

### **Voting**

Given we seek and support positive impact companies that are sustainable, our approach to voting is to support management recommendations, unless there are specific impact and ESG issues that arise, where we reserve the right to vote differently. We examine these issues closely and then vote according to our internal decisions.

### **Measuring Impact**

Seeking to measure the impact that a company achieves is key to the purpose of impact investing. The objective is to understand the amount of positive impact that is being achieved to facilitate monitoring over time, the allocation of capital to the highest impact companies, reporting to investors, and identifying opportunities to improve or scale the impact more quickly.

While it is not simple to measure impact in many cases, there are benefits from engaging in the process of measurement. These include understanding the quality of the outputs of the business and how much investment is undertaken to increase these outputs through to the management's attitude to achieving a positive impact.

With environmentally focused companies, the impact measurement could be the amount of CO2 emissions saved. This is commonly reported by companies in this area.

In contrast, within the social impact focus areas, there are a wide range of potential measures which may include subjective data such as client satisfaction. In many cases, there are not standard or commonly agreed impact measures and there may also be reluctance to provide data where it is commercially sensitive.

We collect data and information on all our companies and produce an annual impact report covering all our companies. We recognise the challenge of collecting good quality impact information from companies. We look to continually improve the measurement of the funds' impact, and we actively seek increase the demand of impact information from companies to build a better understanding of our impact for our investors.



Our view is that disclosure of impact measurement data will improve over time, especially if there is more money allocated to impact investors.