

## CONTEXT

Montaka has always believed in supporting positive change across the key dimensions of Environmental, Social and Governance (ESG). Indeed, given Montaka’s investment philosophy of seeking to own the world’s highest quality businesses without overpaying, there has always been a large inherent overlap between Montaka’s portfolio holdings and those businesses which make positive ESG contributions to the world.

In 2019, Montaka set out to formalise and integrate into our investment process a Responsible Investment (RI) Policy that was logical, meaningful and that reflected Montaka’s values. Upon reviewing the literature, Montaka formulated several options for moving forward, published in an internal policy document in 2020.

Since then, Montaka’s policy and integrated approach towards Responsible Investing has been further clarified, in this document.

It is envisaged that this RI Policy document will evolve continually with enhancements that continue to strengthen the integration of ESG considerations into Montaka’s investment and risk management processes.

## POLICY OBJECTIVES

Montaka’s RI Policy objectives are to define, integrate and adhere to a set of ESG principles and practices that will: (i) help improve global ESG practices; (ii) enhance Montaka’s investment and risk management processes; and (iii) that are seen to be unquestionably sensible in the eyes of our employees, shareholders, and investors.

## MONTAKA’S BELIEFS & APPROACH TO RI

We believe the safest way to deliver attractive long-term compounding is to own a high-conviction, concentrated portfolio of the world’s highest quality, long-term winning businesses, in attractive markets, without overpaying.

Montaka recognises the importance of RI and believes in its intended mission.

Montaka believes our investment and risk management processes can be enhanced by successfully adopting and integrating appropriate principles and best practices of RI.

Montaka will always prefer company actions that positively impact the world along the key dimensions of ESG. It is the responsibility of Montaka’s portfolio managers to incorporate our ESG evaluations into the risk/reward profiles of each portfolio investment.

Montaka is committed to integrating formal consideration of ESG issues into our investment decision making process.

In particular, Montaka subscribes to the Principles for Responsible Investment (PRI) as established by the United Nations in 2006:

1. Montaka will incorporate ESG issues into investment analysis and decision-making processes;
2. Montaka will be active owners and incorporate ESG issues into ownership policies and practices;
3. Montaka will seek appropriate disclosure on ESG issues by investee entities;
4. Montaka will promote acceptance and implementation of the Principles within the investment industry;
5. Montaka will work together to enhance effectiveness in implementing the Principles; and
6. Montaka will report on activities and progress towards implementing the Principles.

These six principles form the basis of the general standards around which Montaka’s RI policy is defined.

## Literature Review

Montaka has reviewed the key literature on ESG investing, including the common methods for incorporating ESG considerations into portfolio management. Each method is briefly summarised in the table below.

Method	Description
<b>Exclusion-based ESG Investing</b>	Also referred to as “negative screening”, involves the creation of policy statements that exclude investments in financial instruments and securities conflicting with the mission and policy of constituents (Sherwood & Pollard, 2019).
<b>Integration-based ESG investing</b>	ESG inclusion involves the explicit inclusion of securities based on factors of ESG risks and opportunities (Eurosif, 2014).
<b>Impact-based ESG investing</b>	Impact-based investing is generally cause-based and mission-oriented. It involves investing in companies, or practicing specific investment strategies, that combine both social and financial returns (Mahn, 2016).
<b>Engagement-based ESG investing</b>	This method involves communicating and collaborating with portfolio companies to serve as a catalyst for change and improvement on ESG dimensions (Sherwood & Pollard, 2019).

## Montaka’s Hybrid-Methodology Approach to RI

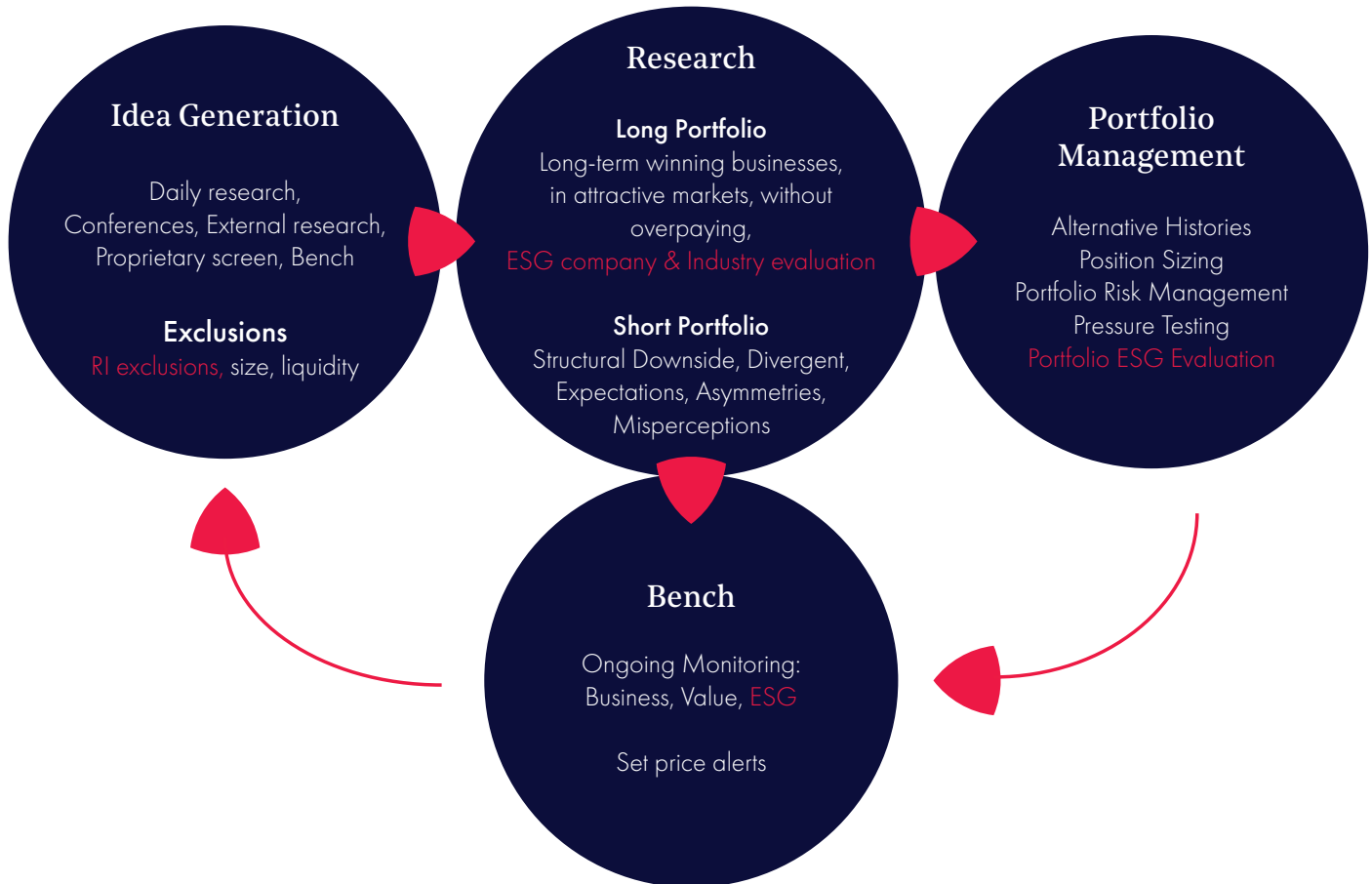
Consistent with the policy objectives above, Montaka has adopted a ‘hybrid-methodology’ approach to RI. Specifically, Montaka’s approach incorporates elements of (i) Exclusion-based ESG investing; (ii) Integration-based ESG investing; and (iii) Engagement-based ESG investing. Impact Investing is not a primary consideration in Montaka’s investment selection.

The approach Montaka has adopted is detailed on the following page. Montaka believes the successful integration of this approach enhances our investment and risk management processes.

## INTEGRATION OF MONTAKA’S RI POLICY

Montaka’s RI policy is integrated into our investment process – from Idea Generation, to Research (including of Bench names) to Portfolio Management.

## Montaka Investment Process - RI Integrated



### (i) Montaka's Exclusion-Based Approach

Montaka acknowledges that Exclusion-based methods can suffer from subjectivity differences across a wide range of stakeholders. This issue is resolved by limiting exclusions to those specific businesses which are involved in activities which are unquestionably inconsistent with Montaka's values and those of its stakeholders.

Montaka excludes from its long portfolio opportunity set businesses that are directly involved (i.e. 10% of revenue, or greater) in the following activities:

- the manufacturing of tobacco;
- the manufacturing of civilian firearms; and/or
- the manufacturing or testing of nuclear explosive devices.

It should be noted that Montaka's short portfolio opportunity set does not make these exclusions.

### (ii) Montaka's Integration-Based Approach

Montaka incorporates detailed company-specific and industry-wide ESG evaluations as part of our fundamental research process which is applied to every investment opportunity. This approach is integrated into Montaka's investment and risk management processes; and implemented by each member of our investment team. There are several elements to Montaka's integration-based approach.

The first element is **Primary ESG Evaluation** in which Montaka's research analysts investigate, evaluate and document the significant and relevant ESG impacts from the perspectives of: (i) the company in question; and (ii) the company's broader industry. See the Appendix for Montaka's current detailed checklist for ESG areas of investigation and evaluation.

This evaluation is performed on each business evaluated as a potential long portfolio candidate under Montaka's research process. A thorough re-evaluation is performed annually, with updates made when necessary. Each evaluation is documented in the company's ESG file and forms part of Montaka's investment thesis.

The second element is **Portfolio ESG Management** in which Montaka’s portfolio managers consider the aggregated portfolio ESG evaluations and incorporate these into the risk/reward profiles of each portfolio investment. This, in turn, informs Montaka’s investment decisions.



These assessments and considerations are included in Montaka’s fortnightly PM’s meetings and documented in the minutes.

The third element is **ESG Risk Management** in which Montaka’s Risk Committee table and evaluate the Portfolio ESG evaluations and flag any required reporting and/or Company Engagements.

This takes place during Montaka’s formal quarterly Risk Committee Meetings and, as such, a fifth pillar relating specifically to ESG is incorporated to Montaka’s Risk Management Framework, which underpins each Meeting’s agenda. Minutes from each meeting are documented.

### (iii) Montaka’s Engagement-Based Approach

The final component of Montaka’s hybrid-methodology approach is Company Engagement. Under this approach, Montaka takes specific actions to positively influence portfolio companies along one or several key dimensions of ESG. These actions include proxy voting as well as proactive bespoke company engagements as and when are determined necessary by Montaka’s Risk Committee.

## Montaka Risk Management Framework

Exposures	ESG	Structure	Operations	Commercial
<ul style="list-style-type: none"> <li>• Equity Exposures                             <ul style="list-style-type: none"> <li>- Long, short, net, gross</li> <li>- Geographic</li> <li>- Industry</li> <li>- Size limits</li> </ul> </li> <li>• Currency Exposures</li> <li>• Tailrisks</li> </ul>	<ul style="list-style-type: none"> <li>• Portfolio ESG                             <ul style="list-style-type: none"> <li>- Company</li> <li>- Industry</li> </ul> </li> <li>• Reporting</li> <li>• Company Engagements                             <ul style="list-style-type: none"> <li>- Proxy votes</li> <li>- Bespoke</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Short Portfolio                             <ul style="list-style-type: none"> <li>- Burrow</li> <li>- Short Interest</li> <li>- Float</li> <li>- Holders</li> </ul> </li> <li>• Counterparty Risks</li> <li>• Fund Entities                             <ul style="list-style-type: none"> <li>- Governance</li> <li>- Oversight</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Systems                             <ul style="list-style-type: none"> <li>- OMS/PMS</li> <li>- Research</li> <li>- Backup</li> <li>- Disaster Recovery</li> </ul> </li> <li>• Vendor Oversight</li> <li>• Regulation</li> <li>• Compliance</li> <li>• Tax, Audit, Reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Performance, AUM</li> <li>• People</li> <li>• Comms</li> <li>• Budgeting</li> <li>• Structure</li> <li>• Governance</li> <li>• Marketing</li> </ul>

## Scenario Testing and Contingency

## Continual Evolution of Risk Management Framework

**Note:** As of the date of this RI Policy, Montaka is not a signatory to the UN PRI.

## APPENDIX

### Montaka's checklist for ESG areas of investigation & evaluation

The following represents Montaka's extensive, though not necessarily exhaustive, checklist of ESG factors which are considered and evaluated as part of our Integration-based methodology. Montaka's investment analysts use this checklist to formulate their ESG evaluations for specific businesses and industries. They are encouraged to make evaluations on a qualitative scale (i.e. weak/satisfactory/strong and deteriorating/stable/improving) and relate these to the risk assessment of each investment which may result in a greater discount to valuation/higher upside potential required to invest or limit portfolio allocations.

Information sources employed in Montaka's ESG evaluations include (though are not limited to) the following:

- Annual (and quarterly) reports including proxy filings;
- Company presentations, filings, conference calls;
- Management meetings and calls/videos;
- Customer, supplier, competitor, industry analyst feedback;
- Press reports; and
- Sell-side broker reports.

### Environmental

#### Climate change

- Clean energy
- Greenhouse gas emissions (carbon footprint, emissions trading schemes, carbon tax, monitoring, reporting)
- Energy efficiency
- Ecosystem change
- Physical climate change
- Insuring climate change risk

#### Natural resource consumption

- Sustainable use of land and water
- Biodiversity on land and water
- Natural resource use, depletion, and degradation
- Environmental efficiency (minimising waste, managing demand for water and energy)
- Sustainable sourcing
- Deforestation
- Clean water and sanitation

#### Waste management

- Toxic material use and disposal
- Packaging material and waste
- Hazardous waste disposal/clean-up
- Electronic waste
- Pollution
- Recycling

### Social

#### Labour and human rights

- Labour relations and standards
- Use of child and slave labour
- Discrimination
- Diversity
- Gender equality
- Sexual harassment
- Living wage disputes
- Education and human capital
- Staff turnover

#### Health and safety

- Tobacco
- Drug addiction
- Workplace health and safety
- Consumer health and safety
- Product labelling and safety
- Genetically modified organisms
- Privacy and data security (cyber)
- Food security
- Marketing and advertising practices

#### Poverty

- Economic growth and employment
- Industry, innovation, and infrastructure
- Sustainable financial systems
- Predatory lending

#### Other

- Rule of law
- Gambling
- Community relations (relocation, resettlement)
- Animal welfare
- Political contributions
- Political risk in troubled markets, countries
- Peace, justice and institutions
- Sustainable and inclusive development
- Demographic trends
- Healthcare trends

### Governance

#### Shareholder rights

- Cumulative voting
- Dual-class share structure
- Majority voting
- Founder-owners
- Poison pills
- Takeover defenses/market for control
- Capital management (leverage, issuance/dilution, buybacks)

#### Board composition and independence

- Separation of chairman/CEO position
- Board independence and diversity

#### Executive compensation

- Structure, alignment, retention and incentivisation
- Shareowner advisory vote on executive compensation

#### Corporate accountability

- Compliance
- Bribery and corruption
- Conflicts of interest (related party transactions)
- Accounting and audit quality
- Tax structuring (offshore, avoidance)
- Political lobbying and donations
- Culture (transparency, accountability, whistleblower protections, internal promotions vs external hires)
- Anti-trust behaviour
- Supply-chain management