ECP

Sustainability Report 2022

Redefining Active Investing
ecpam.com

Contents

Snapshot

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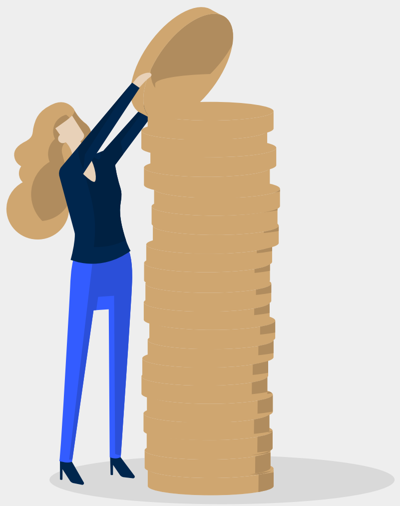
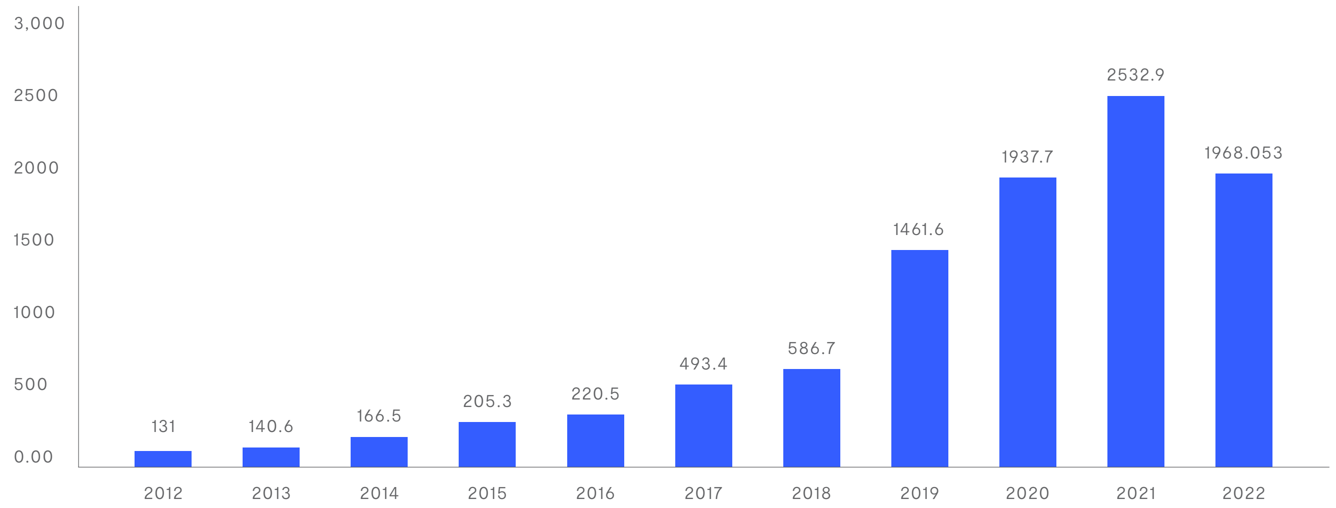


Financial Performance

FUM



Portfolio Performance

	3m	6m	1y	3y	5y	Inception
ECP Growth Companies Composite	-18%	-24.4%	-21.2%	6.9%	11%	11.9%
S&P ASX 300 Accum	-12.2%	-10.4%	-6.8%	3.4%	6.9%	8.1%
Alpha	-5.8%	-14%	-14.5%	3.4%	4.1%	3.8%

	3m	6m	1y	3y	5y	Inception
ECP Emerging Companies Composite	-20.9%	-33%	-29.8%	9.6%	13.6%	13.7%
S&P ASX 300 Small Ords Accum	-20.4%	-23.7%	-19.5%	0.4%	5.1%	5.1%
Alpha	-0.5%	-9.2%	-10.3%	9.2%	8.6%	8.1%

Social Performance

Carbon footprint of portfolios

	Total Carbon Emissions	Relative Emission	Weighted Average Carbon Intensity	Relative Carbon Risk
Growth Companies	41 tCO2e	-45 tCO2e	28.9 tCO2e	-135.7 tCO2e
ASX 300 Cap 50	86 tCO2e	-	164.7 tCO2e	-

	Total Carbon Emissions	Relative Emission	Weighted Average Carbon Intensity	Relative Carbon Risk
Emerging Growth	4 tCO2e	-158 tCO2e	11.6 tCO2e	-190.3 tCO2e
ASX Mid Cap 50	161 tCO2e	-	201.8 tCO2e	-

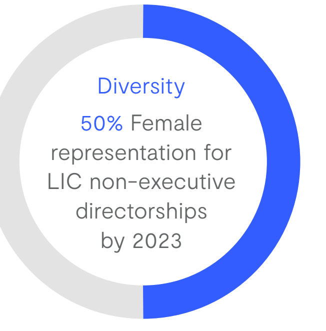
Diversity Representation

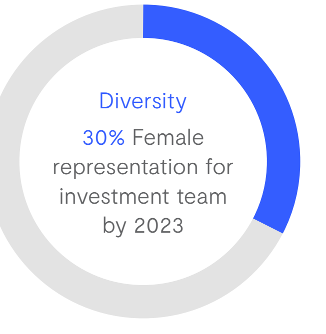
Genders	Male	Female
Group	64%	36%
Investment Team	100%	
Distribution	50%	50%
Admin & Support	20%	80%
Non-Execuitve Directors		
ECPAM	50%	50%
ECP Emerging Growth	100%	
Flagship Investments	50%	50%
Global Masters	50%	50%

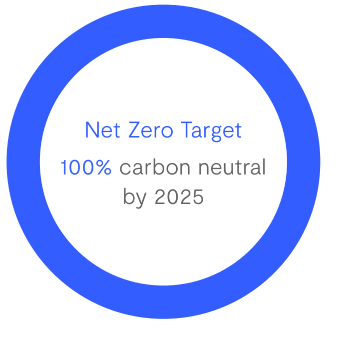
Nationality	Australian	International
Group	53%	47%
Investment Team	70%	30%
Distribution	50%	50%
Admin & Support	20%	80%

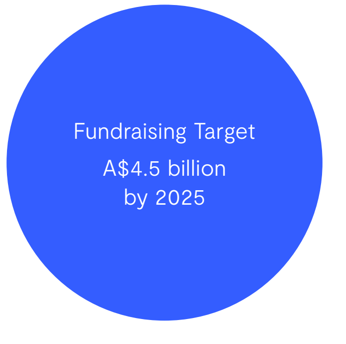
Targets & Goals

Firm









Active Ownership

Engagement

	Portfolio Engagements	Average Per Company
Company Engagements	214	6
Other Engagements	162	5
Total	375	11

	Portfolio Engagements	Average Per Company
Pestle	112	3
ESG	65	2
Dynamic Capability	126	4
Total Sustainability	303	9

Voting

	For	Against	Total
Number	213	10	223
Percentage	95.5%	4.5%	100%

Our CEO & Chairman

02

Sustainable business is good business

The past 20 years have been a stellar run for equities, characterised by steadily expanding production and few demand shocks. At times, this exuberance was impacted by sourcing sentiment and occasional collapses in spending, which have been managed by central banks through carefully raising or cutting rates.

The current environment, however, indicates this environment is changing - production constraints, triggered by the pandemic and accelerated by the invasion of Ukraine, have driven inflation worldwide. We are now living in a world that is shaped by supply, with the current inflationary environment being driven by these supply-related issues as opposed to excessive demand.

Investors can expect continued market volatility as the market continues to react to these announcements. In times of stress or periods of change, investors are best placed when identifying sustainable investments. Understanding macro-environmental factors that may emerge, combined with resilient investment companies, will position equity portfolios well over the long term.

Warren Buffett, in his Letter to Shareholders (1989), commented that “time is the friend of the wonderful business, the enemy of the mediocre”. For investors, identifying these quality companies is the true secret to success in growing one’s long-term wealth.

To invest in a company in the growth stage of its life cycle, it is important to balance the company’s narrative alongside its numbers. It is vital not to get caught up in the hype and noise of the internet and daily market movements.

A sound investment philosophy sets out several ‘rules’ or ‘procedures’ to fall back on when the market noise gets too loud. Companies with a Sustainable Competitive Advantage (SCA) will always be well-placed to withstand short-term headwinds, regardless of market conditions, maintain market share and ultimately find new ways to grow.

Throughout reporting season, we continue to drill down into a company’s financials and growth plans in a careful, considered and committed way. This process ensures we identify the quality stocks that will prosper over the long term whilst remaining resilient through testing times.

Companies that are flexible and move quickly in taking advantage of opportunities while capitalising on market trends and demand will continue to succeed competitively and provide long-term opportunities for investors. Through times of market volatility, these investments are those that have been proven to outperform.

While market uncertainty continues, it is challenging to remove oneself from the hype and noise of daily market movements. Companies with an SCA resilient business model, and trustworthy and capable management teams will always be well-placed to grow over the long-term.

At ECP, our primary focus is investing in quality businesses within the growth phase of their lifecycle. For investors, the material derate of equity valuations, particularly for growth-oriented stocks, and the expected ongoing volatility present an opportunity for those investing in resilient, Quality Franchises - it’s time to step in and invest.

Dr Manny Pohl AM
CIO & Chairman

To Our Stakeholders

03

Resilient investments perform well in difficult times

The pandemic, devastating weather events, and the invasion of Ukraine are examples of macro-environmental shocks impacting companies worldwide. In a connected world, events that occur on one side of the globe ripple through to the other. For business owners, sustainable practices and a long-term mindset is vital for any operator in this modern, rapidly changing world.

The sustainability of a business model is more relevant today than ever before, driven by increasingly competitive markets, the complexity of modern business operations (often spanning multiple jurisdictions), increasing digitalisation, and the consideration of additional stakeholders. As business environments grow, they become more complex and fragile simultaneously as companies are exposed to the impacts of environmental disruption and societal turbulence.

Sustainability is more than simply reporting non-financial measures. Sustainability is what is required in the face of uncertainty, it is the new digitalisation but with a much larger effect on a firm's long-term competitiveness.

Today, there is a greater emphasis on the sustainability of operations than merely focusing on economic (financial) growth. In an increasingly volatile world, which makes predictions of future performance difficult, investors turn to ESG to summon sustainable returns.

ESG has evolved from ethical and impact based investing into a risk-based realm where investors seek to protect their portfolios from tail risks by ensuring underlying investments are robust when struck by a risk event. For investors, ESG credentials are only one piece of the sustainability puzzle, as typical ESG analysis does not account for tomorrow's opportunities or challenges.

In a world of increasing upheaval, investors are increasingly assessing business sustainability. Identifying companies with strong ESG credentials is, however only part of the picture. Understanding macro-environmental factors that may emerge, combined with identifying a company's ability to manage, adapt, and react in these uncertain times, is paramount.

Sustainability has long been part of our investment process, and since we see ourselves as business owners (and not share traders), we invest along similar principles where sustainability and competitiveness are central to any investment analysis.

At ECP, we believe that the economics of business drives long-term investment returns. We believe that 'high quality, growing businesses that have the ability to generate predictable, above-average economic returns will deliver superior returns through time.

While the sectoral reallocation over the past few years is still normalising, the transition to net zero carbon emissions is accelerating, and unprecedented leverage globally is on the rise; these macro-environmental factors play decisive roles in business outlooks, impacting respective risk premiums.

For us, taking a holistic approach to analysing the sustainability of investment companies is paramount. Focusing on business competitiveness and its ability to dynamically adapt and react to black swan events - to be resilient - is a prerequisite to growing one's economic footprint going forward.

The pandemic was a global, black swan event that sensitised businesses to their operational vulnerability. This year's invasion of Ukraine has further disrupted global supply chains, driving a greater focus on the vulnerability of business operations against unquantifiable and unanticipated risks.

Moreover, these supply constraints and the flow-on effect of rising interest rates are creating a unique situation for policymakers of balancing the trade-off of matching demand to input or inflation (but not both). For companies, the changing landscape is seeing lower demand, greater degrees of competition, changing consumer behaviour, and higher debt funding which all need to be managed.

The resiliency of company operations is an investor's ally. As a fund manager we have a clear responsibility as to how we invest clients' capital. While we steer clear from making ethical judgements on behalf of others, our investment portfolios are focused on delivering sustainable investment performance by investing in companies that are resilient through these cycles.

Jason Pohl
Head ESG Officer

About this Report

This report focuses on investor-relevant environmental, social, and governance (ESG) topics applicable to our firm operations and investment portfolios. This statement is applicable to both the companies in which we invest and to ECP as an entity. As an active, long-term investment-led firm, it is important to continue to evolve our process whilst remaining true to our core values and purpose.

The events of recent years have in many cases acted as an accelerant of positive change whilst also highlighting areas where there is still much for us to do as a global community, and as responsible custodians of our clients' capital.

ECP formalised the role sustainability has in pursuit of our investment objectives with the introduction of the Sustainability Pillar in 2020. This year we conducted our first standardised, portfolio-wide survey on environmental issues, providing insight into the climate and environment-related issues being considered across our portfolio companies.

Net Zero continues to be a focus for both institutional asset owners and companies alike, and we too advanced our efforts in this regard to better quantify and understand our own carbon footprint from a firm and portfolio perspective. We are continually looking for ways to consider and improve upon what are already relatively lower impact and intensity operations.

In addition to our own efforts, ECP continues to lend our voice to collective initiatives to effect positive change. Since becoming a signatory to the Principles of Responsible Investment (PRI) in 2017, ECP has joined the Task Force on Climate-related Financial Disclosures (TCFD) in 2021 and this year engaged with the Responsible Investment Association Australasia (RIAA).

ECP was proud to be recognised as a Responsible Investment Leader for 2022, joining a select group of asset owners and managers demonstrating a commitment to responsible investing. We continue to observe and support both the UN Sustainable Development Goals (SDGs) and United Global Compact Compliance.

Our engagement activities are summarised in further detail below. Proxy voting also provides a mechanism for our voice to be heard by the companies in which we invest. Our activities in this regard are discussed in depth further throughout this report and were recently made available on our website.

Through active engagement with our portfolio companies, we can better understand and influence corporate behaviour, encouraging and leading to improved investment outcomes. Macro-environmental factors (PESTLE) and Dynamic Capabilities garnered significant attention this year given the various economic, trade and environmental disruptions that occurred this year.

ECP recognises and respects the value of diversity, as solidified in our Inclusion and Diversity Policy. During the 2022 calendar year, we welcomed new voices to our organisation, firstly with the introduction of two client relationship professionals and secondly with two additional investment personnel. ECP welcomes the expertise and differentiated views each of these individuals brings to the firm, and we look forward to introducing our clients and stakeholders to these new team members.

This year, as in the past, ECP and associated entities, including the Pohl Foundation, have made several charitable contributions within our community. During FY22, we have supported the Art Gallery of New South Wales, Bond University and A Sound Life. We also hosted our 3rd annual Ambrose Golf Day in support of the Taronga Conservation Society of Australia, raising A$45k for this worthy cause.

Change happens slowly then suddenly. Some of these aforementioned initiatives have been years in the making and we remain committed to further developing our sustainable practices into the future. Below provides an overview of our efforts to date, and those that we have set for ourselves going forward.

Who is ECP?

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Introduction

Our Business

ECP Asset Management (ECP) is a boutique equities fund management firm. Our firm and affiliates manage equity portfolios for institutional, retail, and high-net-worth clients. At the time of writing, ECP managed in excess of A$2 billion across various mandates, providing investors exposure to our quality-growth investment portfolio.

Our organisational purpose is to Redefine Active Investing with the objective of maximising client wealth over the long term. We believe the only way to grow wealth that is resilient and sustainable, is to invest money in a careful, considered and committed way - we call this 'active' investing.

We are known as thought and market leaders and the following document outlines how we ensure best practices. Furthermore, at ECP our Investment Philosophy is based on the belief that the economics of a business drives long-term investment returns and this is reflected in our investment process.

Redefining Active Investing

Our Core Values

Beliefs and process first and foremost

Our beliefs and our process guide everything we do. Internally, this manifests in an idea meritocracy, where every person has the capacity to suggest, research and reject an idea.

Sleeping well before eating well

We are a highly ethical team, committed to good investing. We are relentlessly transparent, honest about our capacity and vigilant in applying our process. We do this because there is simply no other way we can deliver on our promises. ECP is committed to Responsible Investment and is a signatory to the United Nations-backed Principles of Responsible Investment (PRI).

Mutual respect and recognition

We encourage and promote a culture of respect and support for all members of our team where their new ideas, different perspectives and skills are respected and recognised.

A genuine long-term approach

We believe in nurturing strong relationships in every part of our business – with our customers, between colleagues and with our portfolio organisations – because, in order to deliver sustainable growth, we need to think long-term.

Diverse ways of thinking

To create our high-performing portfolio we need to be capable of thinking methodically and discerningly, but also broadly and openly.

Demystifying active investing

It's so important to us that all our customers understand why we make the investment decisions we do, that we see another essential role for us, as an educator. We want to show everyone the how's, why's and where's of active investing, in the simplest, most digestible way possible.

Being a Responsible Money Manager

Our Philosophy

At ECP, we believe it's important to understand both the narrative of an investment and the numbers that support it. Investing on narrative alone ignores reality.

Investing on numbers alone ignores potential. We tie the two together, so we can best capture long-term potential while ensuring that we do not overpay for the value we see.

Valuing potential, not just performance

We invest in companies in the growth stage of their life cycle and therefore need to balance their narratives and their numbers. This balance informs our investment hypothesis.

Choosing high quality growing businesses

Markets are notorious for undervaluing high growth businesses because they cannot see their potential. High quality growing businesses tend to find new ways to grow.

Finding these businesses and backing management to deliver allows us to capture some of that potential through time.

Ignoring temporary market turbulence

Markets are also notorious for overreacting to temporary themes. Our long-term approach means we see turbulence as a normal part of the market which means we can capitalise on this market feature.

Our Promises

At ECP, the consistency of our offering is most important, and we are focused on always delivering on our three key promises.

Sustainable Performance

We deliver, quite simply, the best quality growth in the business. It is truly sustainable and truly resilient and has been proven again and again.

Ethics

We'll not only make you feel you're in good hands, but in safe hands too, since we're a highly ethical, transparent, and honest manager.

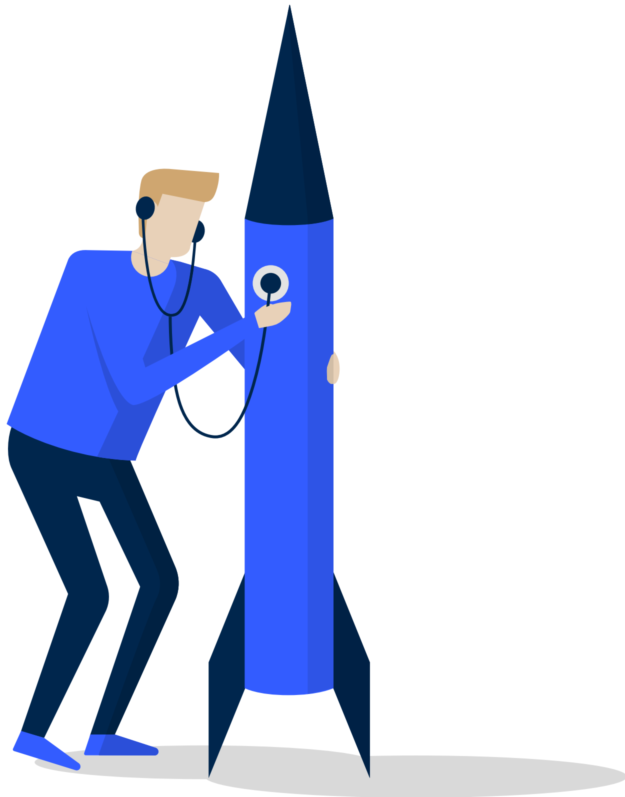
Empowerment

We want to make sure you understand how true active investing works and why it's the safest way to invest your money.

To this end, being a responsible investor requires a few commitments which we outline in our Responsible Investment Policy, our ESG and Sustainability Policy and our Board Engagement Guide.

Moreover, we have publicly stated our commitments to our planet through our Climate Change Position Statement and have recently published our Task Force on Climate-related Disclosures Annual Report.

"At ECP, we believe it's important to understand both the narrative of an investment and the numbers that support it."



Year in Review

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Looking back

Covid-19 has been a significant change event for our portfolios that has impacted every business differently, with the recent Ukraine war and the following macroeconomic impacts being central to market pressures.

The resilience of underlying business models has ensured our portfolio companies have found the pandemic to be a reason to drive their competitiveness within their markets, while this year has proven to be challenging, however, the underlying fundamentals have proven to be highly resilient.

Any successful business owner makes decisions for the betterment of their long-term business. Having sustainable practices and a long-term mindset is vital for any operator in this modern, rapidly changing world.

Sustainability has long been part of our investment process - sustainable business is good business. Since we see ourselves as business owners (and not share traders), we invest along similar principles where sustainability and competitiveness are central to any investment analysis.

This year's focus has been to monitor the individual business performance through their key drivers and balance sheet strength - we seek to ensure that the companies hold sustainable and resilient characteristics required to continue to grow their economic footprint over time.

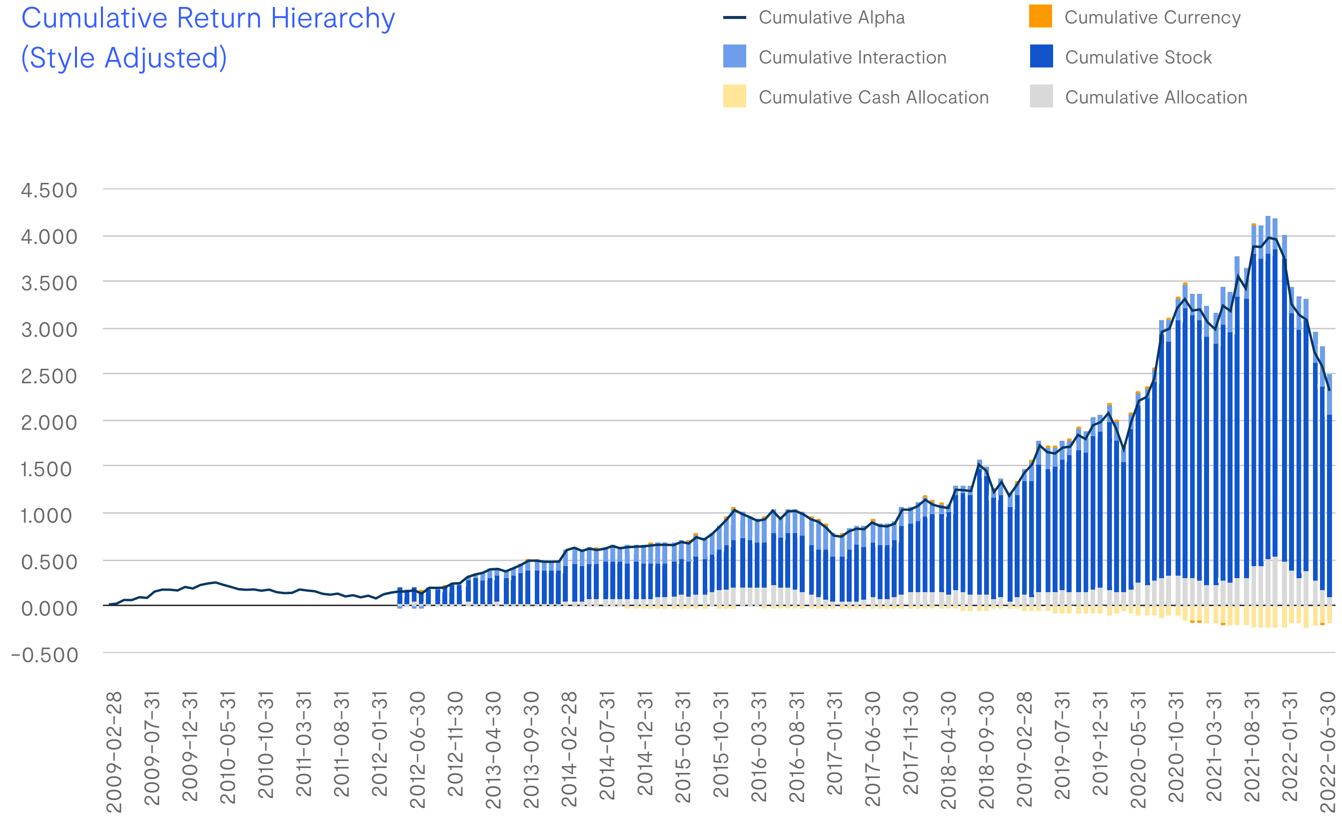
The world economy had the wind at its back in 2021 with generous fiscal policy and accommodative Central Bankers. However, inflation and supply chains have been identified as the key obstacles to earnings growth, with central banks now focusing on dealing with the latter.

More recently, the net effect of the expected tightening in monetary policy has placed pressure on the high PE valuations of the market, in particular, growth stocks, as future earnings are discounted at a higher rate.

While this places pressure on our portfolio in the short term, our investment philosophy is based on the belief that the long-term economics of a business drives long-term investment returns. Our companies have strong business models with capable and experienced management teams.

The long-term financial metrics of our portfolio companies, including organic sales growth, earnings, and dividend growth, should provide the impetus for an improvement in valuations or at least be supportive of the current valuations in the future. For now, our keen focus on the sustainability of businesses is paramount.

Cumulative Return Hierarchy (Style Adjusted)



Themes Impacting Investments

Our investment philosophy is based on the belief that the economics of a business drives long-term investment returns, evidenced through our investment process, which delivers a portfolio of high-quality companies in the growth stage of their life cycle.

While market movements are part of our own business cycle, in times like this, staying true to our investment philosophy ensures that our portfolios are able to perform through these market cycles.

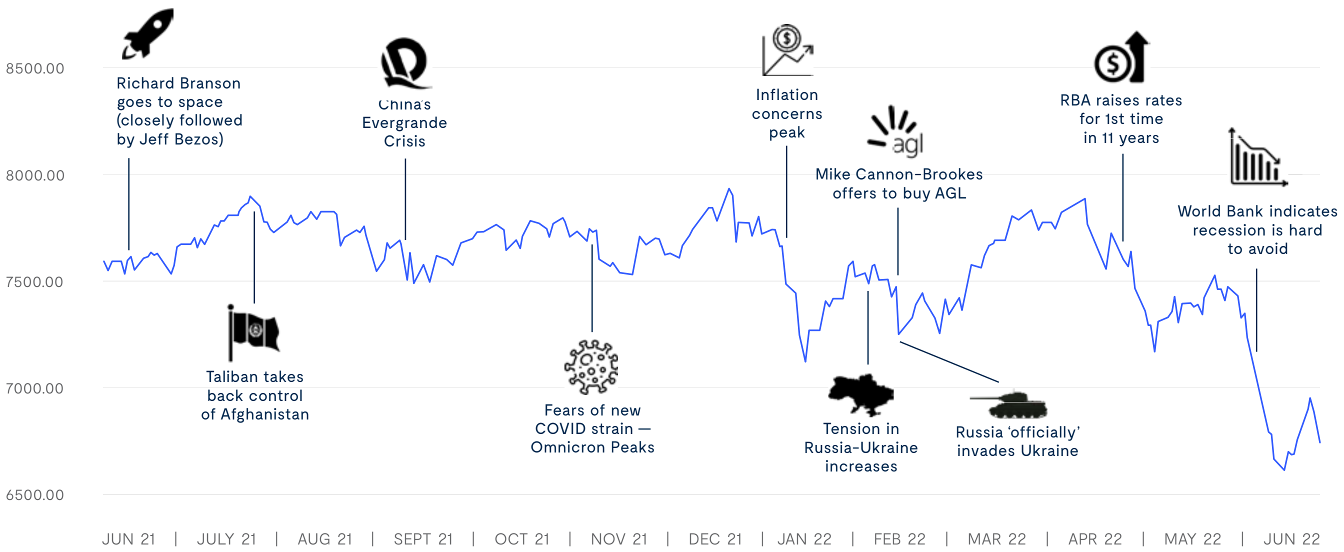
Importantly, investment returns comprise two components: the dividends received and the movement in the investment portfolio's value.

While the dividends we are likely to receive from the companies in our portfolio are relatively easy to predict and, for the most part, increase over time, the same cannot be said for the market price for the shares.

These are affected by investors responding to daily news feeds and commentary on local and global economic data, which have increasingly been focused on macro events.

The chart below of the S&P/ASX All-Ordinaries Accumulation Index provides some insight into the events that have impacted the market over the past twelve months.

S&P/ASX All-Ordinaries Accumulation Index



This year we have observed three big themes from the broader market where corporate forecast profits remained stable but there was evidence of cracks forming in company guidance.

1) Economic Cycle — Robust but slowing
2) Inflation — High but pressure easing.
3) Corporate Profits — Resilient but cracks forming

Although national retail sales data points to robust consumer sentiment and recent reports have shown record high sales volumes, consumer confidence has been deteriorating since earlier this year and corporates are preparing for a recession by reining in budgets.

There is more pressure to come whether it's in the construction, consumer or enterprise software industries. Many companies have expressed concern that there are only so many cost increases that can be passed through to the customer. The rest will need to be absorbed by companies taking a lower margin.

As a result of increasing inflationary pressures, corporations have begun announcing pullbacks on labour hiring plans, with some companies already announcing job cuts, for example in the software and technology industries.

Australia is attempting to deal with this labour issue through migration and has already increased the permanent migration cap as well as relaxed post-study work rights for international students. In effect, we should expect that the reopening of borders should ease some blue-collar shortages that we have seen in the past 12 months.

The inflationary pressures introduced by global supply chain disruptions appear to be easing but other major inflationary pressures remain. Inflation will continue to be a feature in the markets in the next 12 months.

The key to navigating this environment is to be macro-aware but not macro-led. Economic views should not dictate the investment process, as the success of such an approach means being correct in your economic views but also understanding what the market is already pricing in and how this will change as new economic data becomes available.

The past 12 months presented opportunities for management teams of businesses to grow and prosper and that is key in evaluating a company's long-term sustainability. Investors should focus their strategy on building a bottom-up portfolio composed of businesses that can compound their profit over time and that are not dependent on the economic cycle to drive business growth.

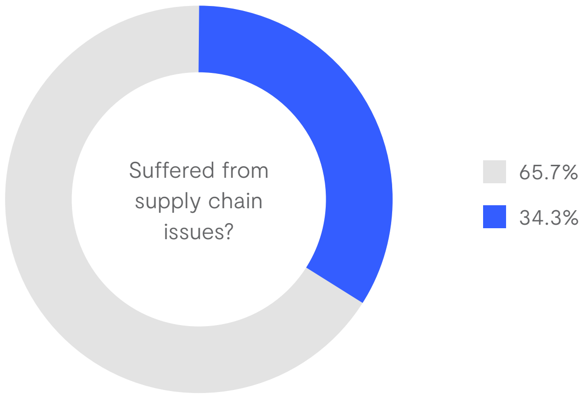
Be cautious on near-term growth forecasts and valuations but keep in mind the 3 key factors when stock-picking; business quality, balance sheet strength and structural growth.

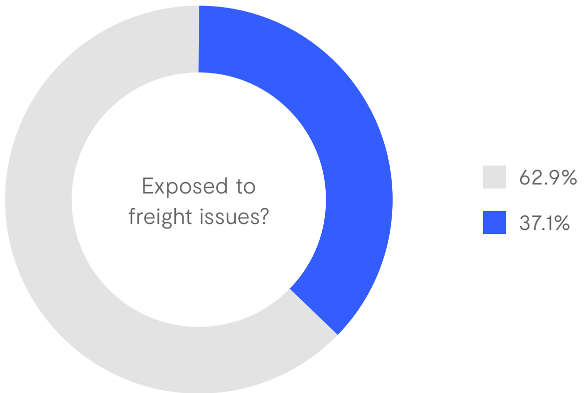
Themes Impacting Investments

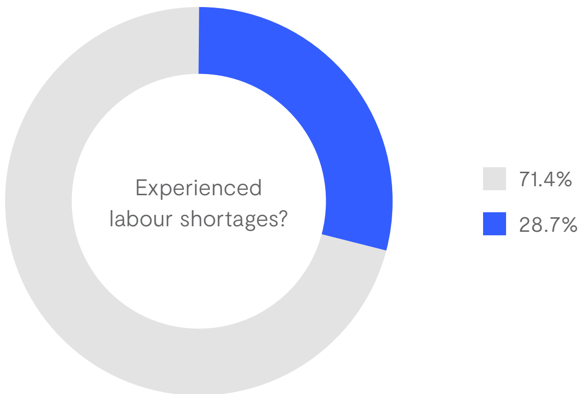
Resilient Companies

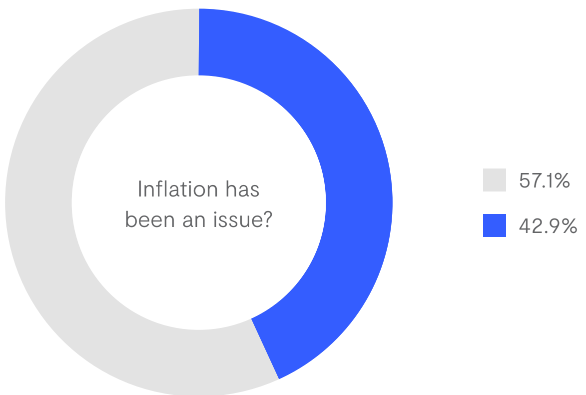
While our investment philosophy tends to lend itself to capital-light companies, some of which are found within the technology sector, our investment philosophy is sector-agnostic and benchmark unaware. We do not invest in thematics, nor do we invest in ESG scorecards or screens. Our process ensures that we identify the highest quality businesses that have resilient operations, that have a Sustainable Competitive Advantage.

This past year has seen many impacts on company operations. Around a third of our portfolio has suffered from supply chain disruptions, been impacted by freight issues, and experienced labour shortages. Over 40 per cent of the portfolio companies have highlighted inflation has been a major issue, yet have taken several steps to combat these externalities - they have proven to be resilient.







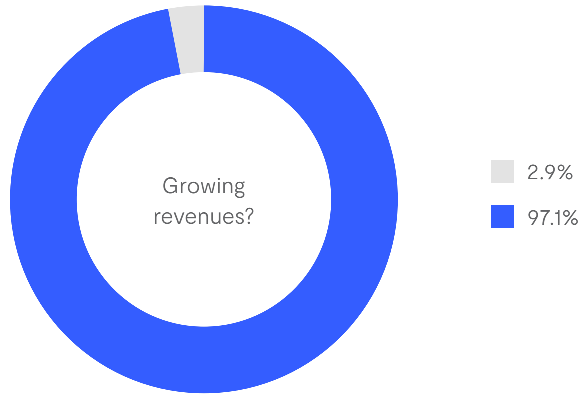


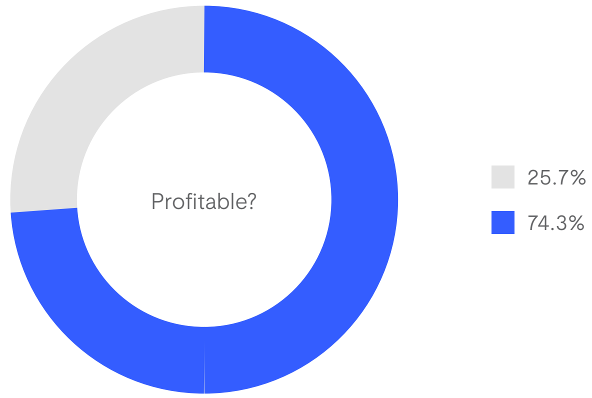
"Nearly all companies have demonstrated an ability to continue to grow revenues through these challenging times."

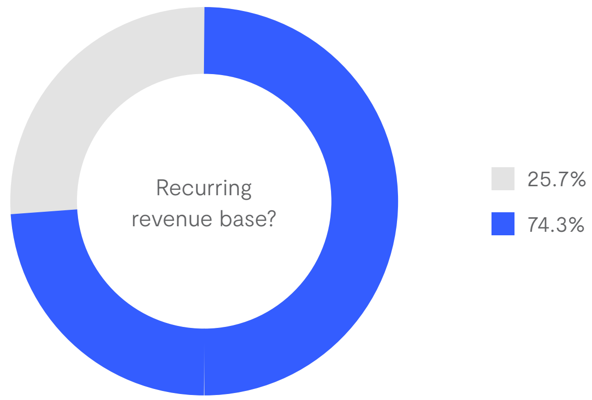
Over the past year, nearly all companies have demonstrated an ability to continue to grow revenues through these challenging times, with three-quarters of the portfolio benefiting from a recurring revenue base. Around 70% of our portfolio is dividend-paying, with 75% of the portfolio being profitable today.

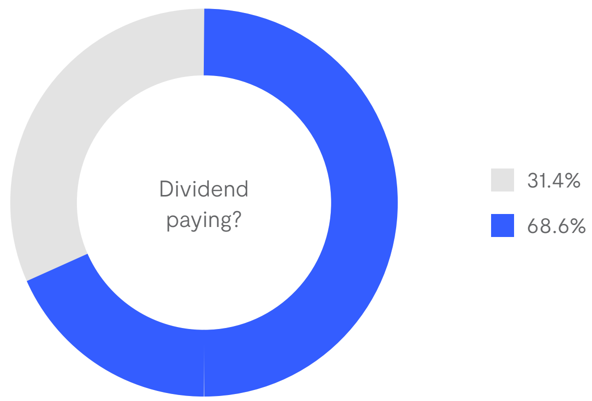
Quality Franchises are ones that have superior business models with attractive unit economics. They have a large growth opportunity that they seek to exploit by solving a key problem in the industry, they demonstrate a clear value proposition, and exhibit a sustainable competitive advantage. These companies hold a Dynamic Capability which ensures they continue to be resilient through times of stress and are run by a talented, stable, and competent management team.

"Quality Franchises hold a Dynamic Capability which ensures they continue to be resilient through times of stress."









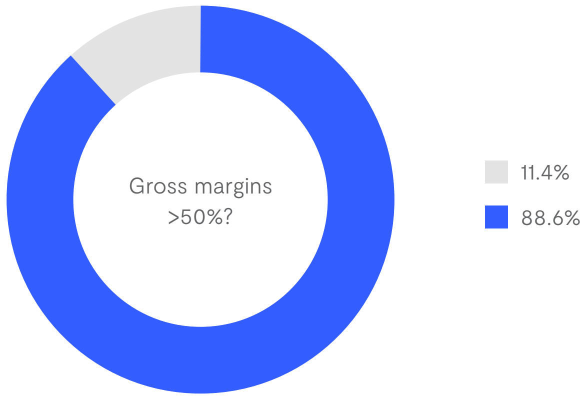
Themes Impacting Investments

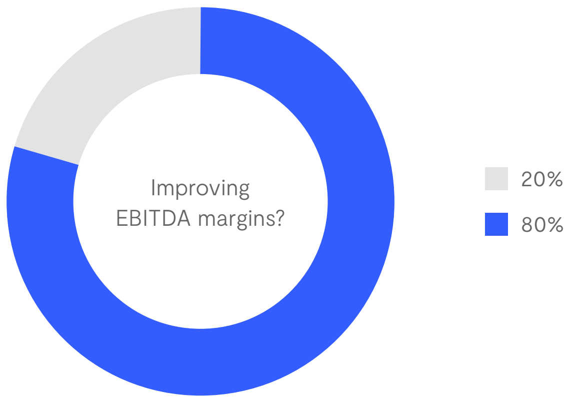
In times of stress, resilient businesses have strong unit economics that provides the foundation to weather all kinds of storms, whether competitive or economic. Around 90 per cent of our portfolio has gross margins greater than 50%, with 65 per cent of the portfolio having margins greater than 70%.

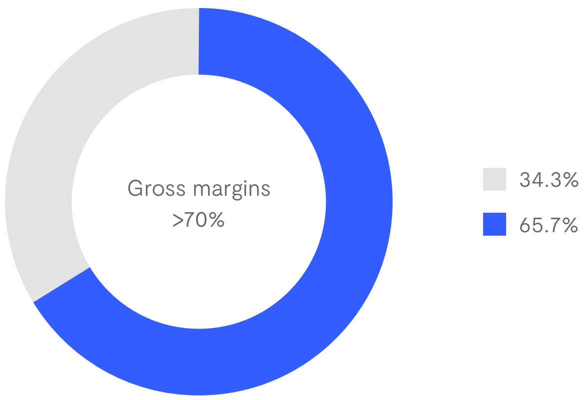
Throughout the year a clear majority of our portfolio has seen improving EBITDA margins, with most companies pulling the price lever given their market-leading status and superior pricing power, with little pullback from their respective customers.

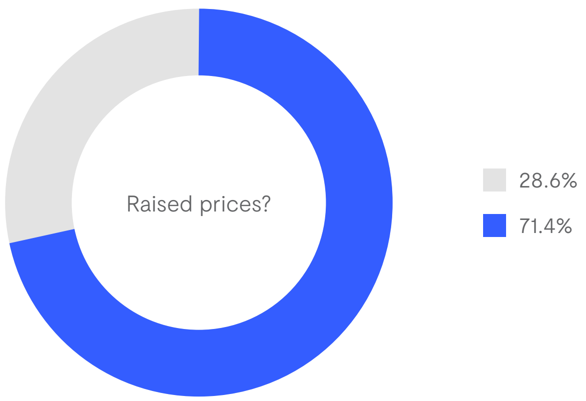
While price is an easy lever for companies in these times, Quality Franchises seek alternative strategies to continue to grow sales and control key costs. One notable example is Domino's Pizza (ASX: DMP), which has doubled down on its value offering, and has taken measures in Germany to reduce their 'active territory' for franchisees to ensure delivery-related costs are optimised while ensuring they deliver hotter, fresher pizza - keeping their customers happy.

"Around 90 per cent of our portfolio has gross margins greater than 50%."









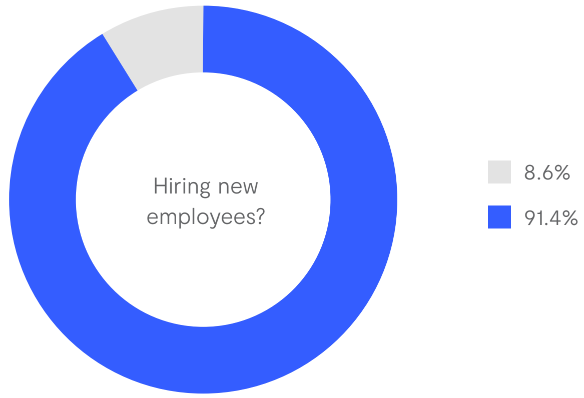
Resilient companies continue to invest in their resources for future growth. These companies demonstrate Dynamic Capabilities through times of stress in that they can adapt and change to the changing milieu while innovating and growing their competitive advantage while driving knowledge retention from within.

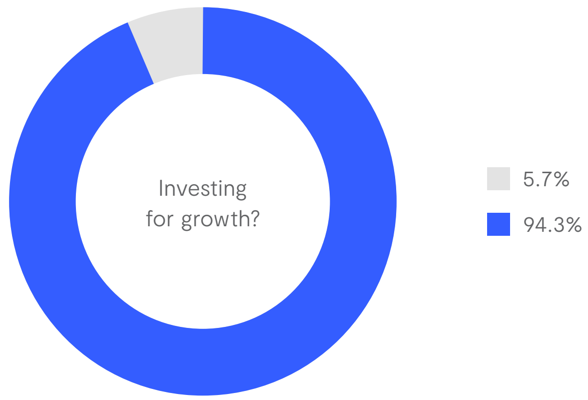
This year over 90 per cent of our investment companies have hired new employees and invested in major resources for future growth. While many companies are pulling back on incremental spend during this time, resilient companies put their foot on the accelerator and double down on their competitive position - the result of this will be seen in the medium term as they accelerate growth in their economic footprint.

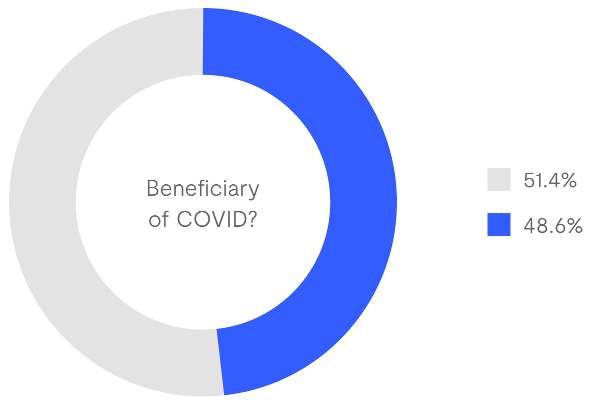
Interestingly, half of the portfolio has been a beneficiary of COVID, while the other half has not. An example of two store roll-out stories we own is Domino's Pizza (ASX: DMP) and Lovisa Holdings (ASX: LOV). The former was a beneficiary of COVID, while the latter was not.

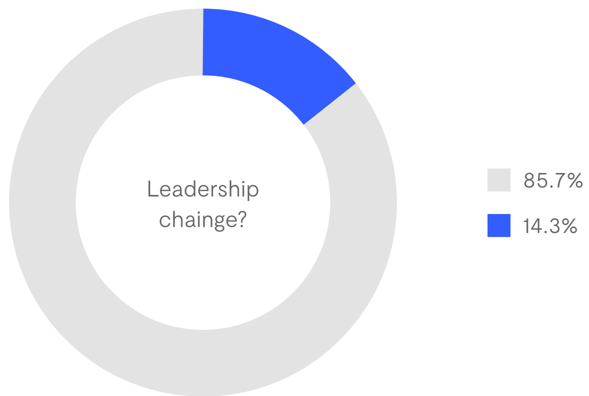
Over 2021 Domino's saw its revenues grow substantially ahead of expectations, while Lovisa suffered from the closure of the majority of its store network. In 2022, we have seen the reversal of these pandemic impacts, and we have seen the early signs of Lovisa's resilience come through after a year of investing in their resource to build growth with the company adding 85 net stores across 24 countries (+15.6% network growth) with operations in six new countries.

"Resilient companies continue to invest in their resources for future growth."

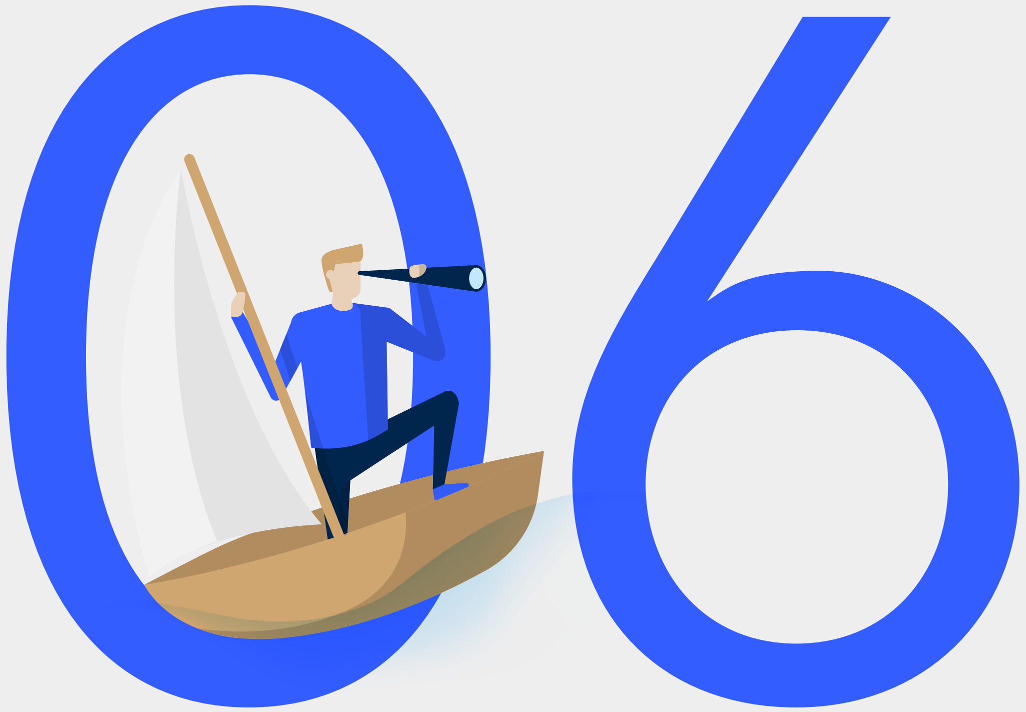








Responsible Investment (RI)



RI Leader

This year, ECP was announced by the Responsible Investment Association Australasia (RIAA) as a Responsible Investment Leader for 2022.

Responsible Investment Leaders demonstrate a commitment to responsible investing; the explicit consideration of environmental, social and governance (ESG) factors in investment decision-making, strong and collaborative stewardship; and transparency in reporting activity, including the societal and environmental outcomes being achieved.

Over the past few years, we have continued to evolve our process to further ensure we are meeting our commitments to our clients. At the time of writing, we are currently underway to certify our investment products through RIAA, which indicates quality, true-to-label responsible investment products which meet the Australian and NZ standards for responsible investing.

What is RI?

Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and of the long-term health and stability of the investment as a whole. The Principles for Responsible Investment Initiative (PRI) defines responsible investment as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.

ECP became a signatory to the United Nations-backed PRI in 2016. The principles for responsible investment provide guidance on how we can integrate the consideration of ESG factors into our investment decision-making and ownership practices.

Typically, our portfolio companies have organic growth with predictable earnings driven by a sustainable competitive advantage. These businesses have sustainable business operations with strong ESG credentials, resulting in a low carbon footprint. We find that these businesses deliver high returns on invested capital aided by a strong financial position and an experienced management team.

ESG issues are highly relevant to a better understanding of the long-term potential of an investment and its predictability of returns over time. Incorporating sustainability into one's decision-making will ultimately lead to superior investment returns. At ECP, ESG is wholly integrated into our investment process and is a defining characteristic of any Quality Franchise.

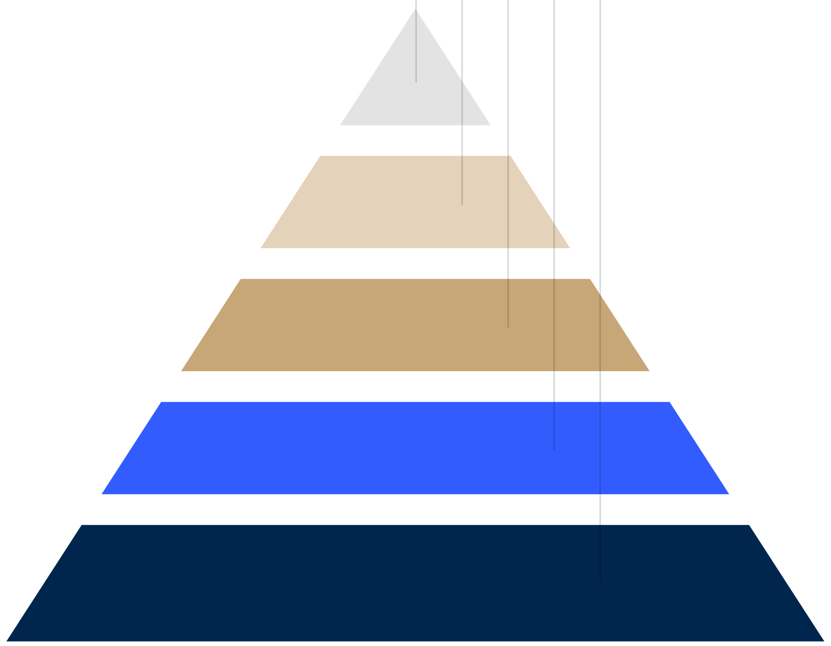
How does ECP apply RI?

At ECP, we know ESG affects performance. To protect our client's capital, therefore, we've always insisted on understanding ESG holistically to gauge investment potential.

The integration of ESG issues into our decision-making is an increasingly standard part of the regulatory and legal requirements for institutional investors, along with requirements to consider the sustainability-related preferences of their clients and beneficiaries and to report on how these obligations have been implemented.

As a fund manager, ECP has a fiduciary duty to our clients to ensure that we adequately consider and assess any company-related risks. Since ESG is fundamental to our investment thesis, these issues are subject to intense scrutiny in our assessment of any investment opportunities - these are completed through our Sustainability Pillar within our research framework.

In our view accounting for ESG risks and opportunities can lead to more informed investment decisions. A company we assess as being investment-grade, a 'Quality Franchise', inherently requires a full assessment of these factors to ensure a sustainable business model that can generate predictable earnings growth over time.



ECP is committed to responsible investment. We do this to ensure we meet our investment objectives for our clients.

Investment Objective

Our investment objective is to generate returns 2-4% p.a. above the benchmark over a rolling five year period.

Fundamental Analysis

We invest in quality franchises. Our definition of quality requires a low level of macro-environmental issues, good ESG practices, and Dynamic Capabilities.

Exclusionary Screens

We exclude areas from our universe so that we can avoid risks to the predictability of future business performance.

Investment Universe

We consider all companies as investable, and through our investment process we whittle down this universe on our definition of quality.

Investment Philosophy

Our Investment Philosophy is based on the belief "the economics of a business drives long-term investment returns."

We apply negative screens to avoid the deterioration of system (business) performance. Our ESG-related exclusions aim to avoid the destruction or degradation of business performance, whether due to organisational, social, or environmental factors.

Our exclusionary principles

— To avoid risks that may present significant harm to our society and our environment.

— To avoid risks that may limit the industry growth outlook of our investments.

— To avoid ESG-related risks that may impact the predictability of investment performance.

Where we seek to exclude sectors, we have a 0% threshold allowance. The scope is based on their direct involvement in the production, manufacture, service and delivery of products in these sectors. We exclude the following due to ESG-related issues:

Environmental

× Thermal Coal

× Petroleum

× Logging

× Palm Oil

× Pesticides

Social

× Gambling

× Adult entertainment

× Weapons

× Tobacco

Environmental

× Systemic poor governance

× Human rights violations

Why is RI related to ESG & Sustainability?

We invest in companies that have...	We do this so that we have...
✓ A low exposure to negative macro-environment factors that impact business operations.	→ Confidence in the predictability of future business performance.
✓ A low exporuse to ESG risks that cannot be managed or mitigated by the company.	→ Certainty that the business is acting appropriately for all stakeholders.
✓ Demonstrated Dynamic Capabilities that sustainably renew its competitive advantage through time.	→ Evidence that the business is resilient and that its competitive advantage will drive business expansion.
✓ Trustworthy management that is capable, competent, and experienced to deliver their strategy.	→ Conviction that the management team will execute their business strategy as defined.

"As responsible investors, we seek to understand ESG and Sustainability holistically to gauge investment potential."

Invest in Resilient Investments

ESG and short-term investing do not work well together. Short-termism in financial markets drives investors to focus on short-term issues and a clear lack of attention towards longer-term value creation.

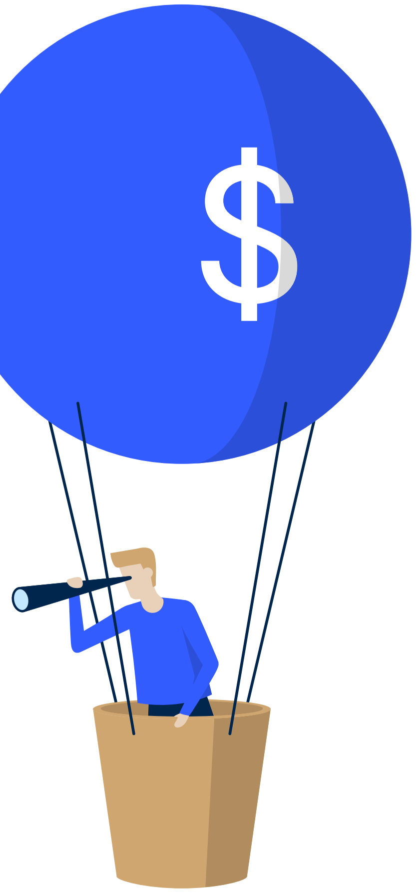
ESG issues are highly relevant to a better understanding of the long-term potential of an investment and its predictability of returns through time.

It is of paramount importance to take a holistic approach to analyse the sustainability of investment companies, by focusing on the business competitiveness and its ability to dynamically adapt and react to black swan events - to be resilient.

The pandemic, devastating weather events, and the invasion of Ukraine are examples of macro-environmental shocks impacting companies worldwide. These black swan events drive increasing uncertainties in business environments which trigger innovation and other reactive strategies (changing business models or restructuring) to ensure survival.

Companies that can adapt to disruption in times of stress, emphasising resource development and renewal, will sustain value creation. This operating resilience will not only aid in their survival over the long term but provides the necessary ingredients for long-term competitive excellence.

For investors, incorporating ESG into their decision-making process must ensure they don't fall foul of being swept up in short-term sentiment or virtue signaling at the expense of driving long-term positive ESG change. Incorporating holistic sustainability considerations into one's decision-making will ultimately lead to superior investment returns.



ESG & Sustainability

07

ESG Considerations In Investing

Why Worry about ESG?

Being able to differentiate between short-term issues that arise through the general course of business and systemic ESG issues that will inevitably permeate through the organisation over the long term is a critical skill.

News media play a pivotal role in the ESG space, bringing to light a number of ESG-related issues, particularly when stakeholders experience substantial losses or experience hardship through breaches of corporate governance.

While ESG analysis is often framed as moral values versus economic value, investments motivated purely by moral values may overlook companies that are helping to drive broader societal change.

For investors who focus solely on economic returns, ESG should remain a core component of financial analysis and modelling. As sustainability has permeated the minds of consumers, ESG-related impacts and activities are having a real impact on the financial performance of companies.

Today, companies are being held to a higher standard and the hurdles to maintaining a social license to operate are only going to increase. Consider poor environmental practices leading to boycott of products, or poor labour relations leading to workforce strikes.

Finding the right balance between these two ideologies can provide for long-term wealth maximisation while remaining true to core beliefs. This will enable you to sleep well knowing your investments will deliver sustainable returns over time.

No Defined Rules

There are no hard and fast rules when dealing with ESG issues. Exclusion or divestment based on ESG grounds when your investment philosophy and corporate values align is sound investment practice. However, when imposing ethical values that are not in alignment with one's investment philosophy, short-termism may creep in.

We exclude a number of industries including (but not limited to) weapons, tobacco, and gambling. Our investment philosophy and corporate values steer us away from companies that have the potential to harm society, and moreover, help us avoid companies where there is a risk to the sustainability of their business operations.

Companies that act without any consideration for a broad range of stakeholders are met with severe consequences; however, in practice, it is rarely this simple. Issues of such magnitude need to be considered carefully and holistically.

When assessing investments, it is important not to single out one stakeholder as more important than another - this is a fine balancing act for any investor. Understanding ESG issues, whether historical or current, needs to be understood as interrelated and interdependent to the broader investment thesis.

Some companies that may have a chequered past cannot remain cancelled forever. Companies that engage and act to continue to improve their commitments to all stakeholders can be the types of quality companies that investors should praise.

Consider James Hardie Industries (ASX: JHX), which is a prime example of a company that fell foul to ESG issues (their ongoing asbestos liability). However, through time their commitment to engage and act on this issue has shown their commitment to all stakeholders while remaining a vital source of support through ongoing remediation.

Our Approach

How we do 'ESG'

ECP is committed to responsible investment and we believe that ESG factors have a material impact on long-term investment outcomes. The consideration of ESG factors is part of our decision-making process and is fully integrated through asset selection and portfolio management procedures.

Identifying and understanding the key drivers of risk and return is a crucial skill for any long-term active investor. Traditionally these items were defined purely in economic terms (revenue, margins, volatility of returns etc). However, as markets have evolved, it's become more evident to some participants that Environmental, Social and Governance (ESG) issues are central to understanding and framing the contextual, systematic and idiosyncratic considerations in investment analysis.

Importantly, the issues captured by the term 'ESG' are not necessarily static but may change over time as issues become more important or community values or sentiments change. ECP believes that ESG factors can have a material impact on the long-term outcomes of investment portfolios and the assets in which we invest.

A Holistic Approach

The 'Pillars of a Quality Franchise' is an integrated framework developed in-house to better mitigate our portfolio against ESG and sustainability risks. Our process places a material emphasis on sustainability, management, and firm competitiveness which leads to superior sustainability and stewardship of companies.

Sustainability

Specifically, our Sustainability Pillar encompasses three characteristics: Firstly, the business must operate in an industry with a low risk of macro-environmental factors affecting future operating performance. Secondly, the business has demonstrated strong ESG practices and holds a capacity to mitigate potential ESG issues. Lastly, the business holds Dynamic Capabilities that sustainably renew its competitive advantage through time.

By incorporating a forward-looking, scenario analysis of ESG-related affairs, we are able to better understand the risks and opportunities that lie ahead for any company, and more importantly, we assess the potential risk to the predictability of their business operations.

When assessing the business's ESG track record, we are able to measure and assess the current performance of the business in its entirety and gain conviction that in the event that ESG issues arise, management is able and willing to address these.

Moreover, a key element of our sustainable investment analysis is identifying how a company sustainably renews its competitive advantage through time. The competitive analysis provides us with conviction in our investment thesis, however, we need to identify companies that renew, extend, or create resources that continue to drive their competitive advantage.

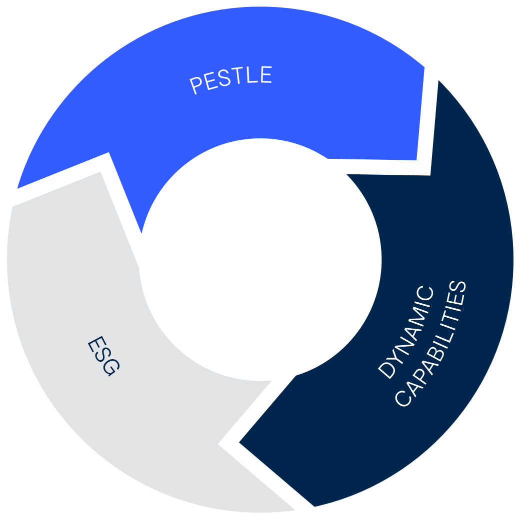
Stewardship

In terms of stewardship, there are two parts to how we approach this: firstly from a research perspective, and secondly from an active ownership perspective. At ECP, we believe that we as a business have a responsibility as a business to ensure that we are ethical in business practices and that we ensure good corporate governance; and moreover, we believe that businesses that demonstrate inadequate corporate governance will deliver poor investment outcomes.

Management Pillar

Within our analysis, our Sustainability Pillar assesses typical governance factors, these include board structure, size, diversity, skills and independence, executive pay, shareholder rights, stakeholder interaction, disclosure of information, business ethics, bribery and corruption, internal controls and risk management.

The management pillar focuses on the trustworthiness of management. This assists our mitigation of uncertainty by reducing the risk of managerial conduct or failure of business strategy execution. Our more holistic approach measures management in terms of business strategy, encompassing both the implications of business strategy for environmental and social issues and how the strategy is to be implemented.



Our Portfolio

08

Sector Allocation

We have provided the sector allocations of our investments versus the market. Our negative screens restrict us from investing our capital in unsustainable sectors, and moreover, in areas that present material risks to the long-term business case.

The strict requirements of our process mean our investments tend to have high returns on invested capital, strong competitive advantages, strong balance sheets with low debt, and a proven sustainable competitive advantage.

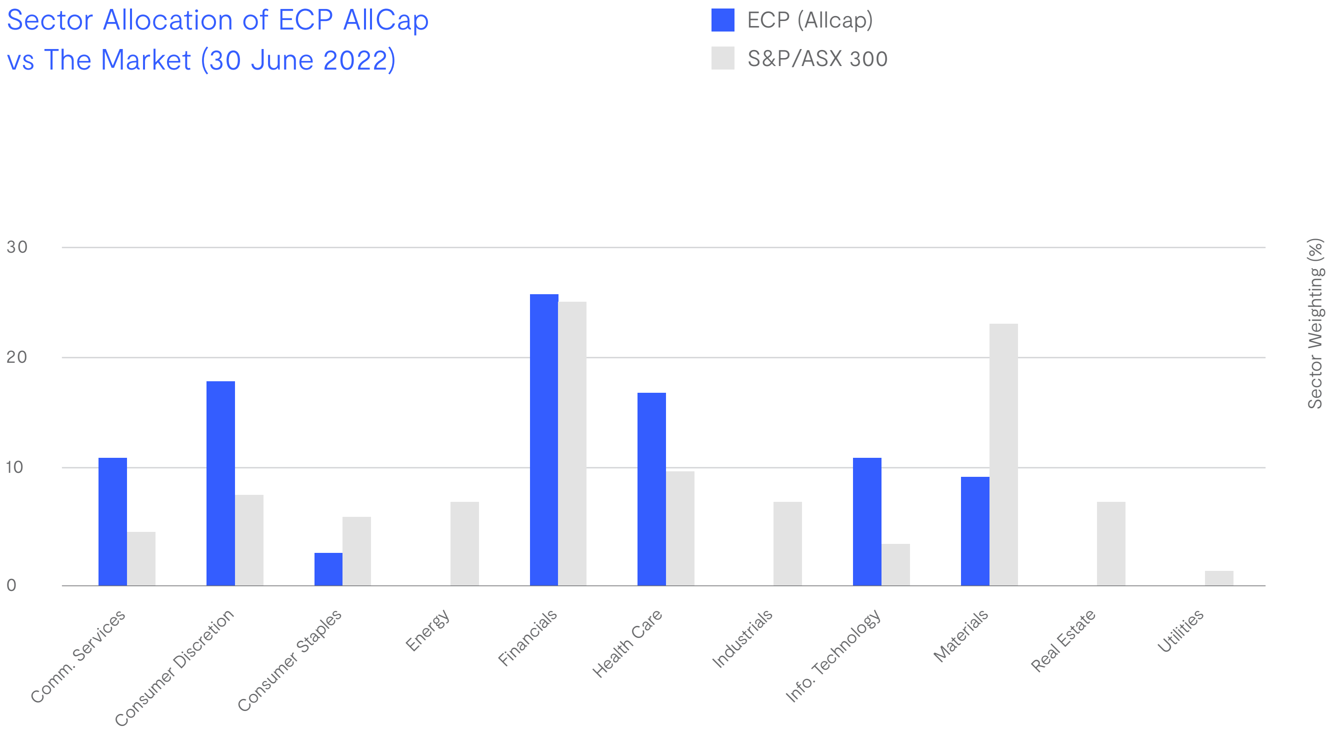
As a result of applying our responsible investment practices, through exclusionary screens and in-depth qualitative research, we have no exposure to energy, real estate, and utility industries, with lower exposure to materials sectors.

By not investing in fossil fuels and miners without non-renewable sources, these sectors find it difficult to find a place in our portfolio.

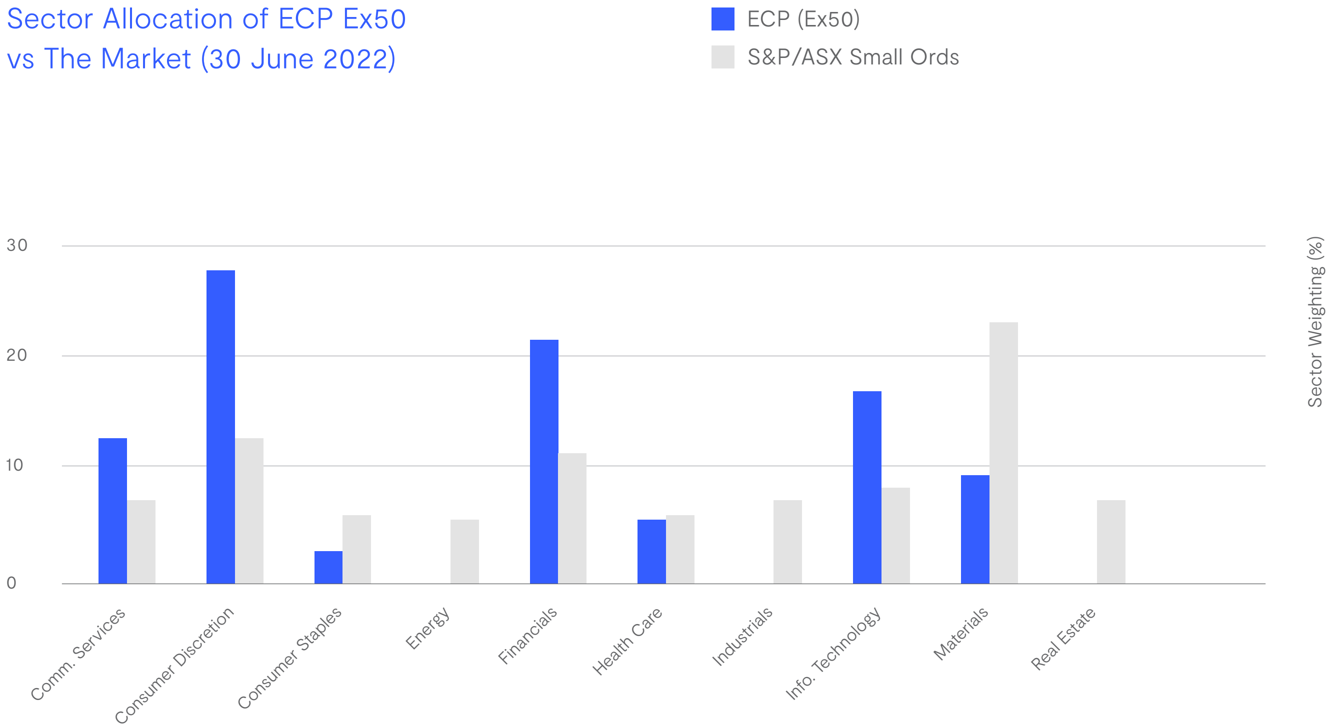
"By not investing in fossil fuels and miners without non-renewable sources, these sectors find it difficult to find a place in our portfolio."

Sector Allocation

Sector Allocation of ECP AllCap vs The Market (30 June 2022)



Sector Allocation of ECP Ex50 vs The Market (30 June 2022)



Carbon Exposure

Historical Carbon Footprint

The table below presents carbon footprint data over the past five years. Through time, our investment process has delivered consistently lower carbon emissions, on both total carbon emission and a weighted average carbon intensity basis.

ECP All Cap	2018	2019	2020	2021	2022
Total Carbon Emissions* (ECP)	50	39.1	68.5	25.4	40.7
Total Carbon Emissions* (Benchmark)	115.7	106	117.1	76	86.2
Total Carbon Emissions (Relative)	-64.7	-66.9	-48.6	-50.6	-45.5
Weighted Average Carbon Intensity** (ECP)	44.7	35.5	46	25.7	28.9
Weighted Average Carbon Intensity** (Benchmark)	237.5	179.2	162.7	129.4	164.6
Weighted Average Carbon Intensity** (Relative)	-192.8	-143.7	116.7	-103.7	-135.7

ECP Ex50	2018	2019	2020	2021	2022
Total Carbon Emissions* (ECP)	5.1	13	9.3	4.3	3.8
Total Carbon Emissions* (Benchmark)	131.6	113.5	91.9	66.1	161.4
Total Carbon Emissions (Relative)	-126.5	-100.5	-82.6	-61.8	-157.6
Weighted Average Carbon Intensity** (ECP)	18.8	23.5	13.8	12.7	11.6
Weighted Average Carbon Intensity** (Benchmark)	443.1	403.5	259.5	209.5	201.8
Weighted Average Carbon Intensity** (Relative)	-424.3	-380.0	-245.7	-196.8	-190.2

* Total Carbon Emission

A portfolio's total carbon emission in tons of CO2e. answers the main question, "What is my portfolio's total carbon footprint at my current AUM level?". It measures the portfolio's tons of CO2e, taking scope 1-2 and scope 3 emissions into account for which an investor is responsible. It is apportioned to the investor based on an equity ownership perspective.

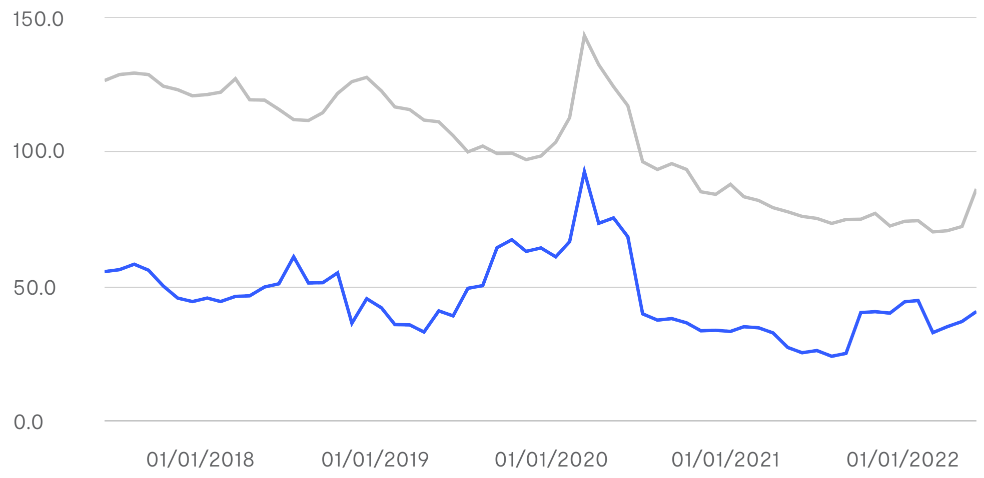
** Weighted average carbon intensity (Carbon risk)

Since companies with higher carbon intensity are likely to face more exposure to the carbon-related market and regulatory risks, this metric can serve as a proxy for a portfolio's exposure to potential climate change-related risks relative to other portfolios, across asset classes or relative to a benchmark. Unlike the portfolio total carbon emission, carbon emissions are apportioned based on portfolio weights/exposure rather than the investor's ownership share of emissions or sales. The measure is, therefore, disconnected from ownership.

Carbon Exposure

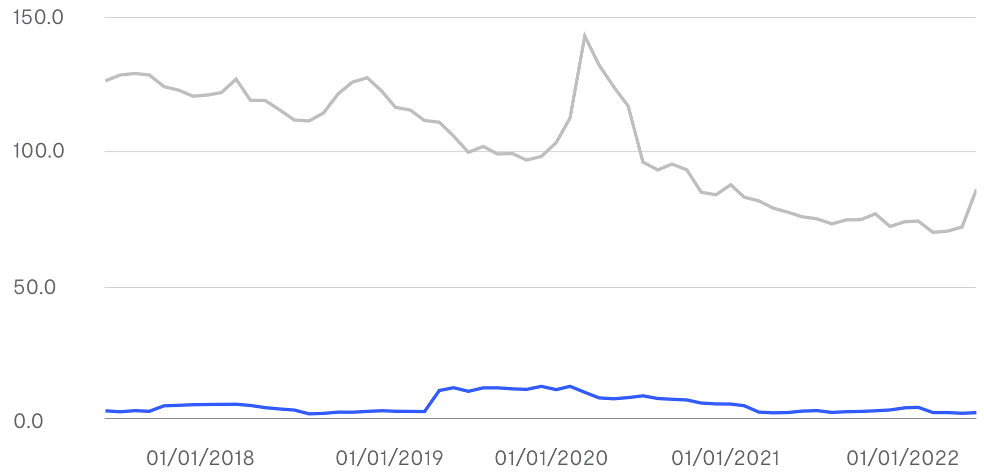
ECP All Cap — Total Carbon Emissions Trend

Portfolio
Benchmark



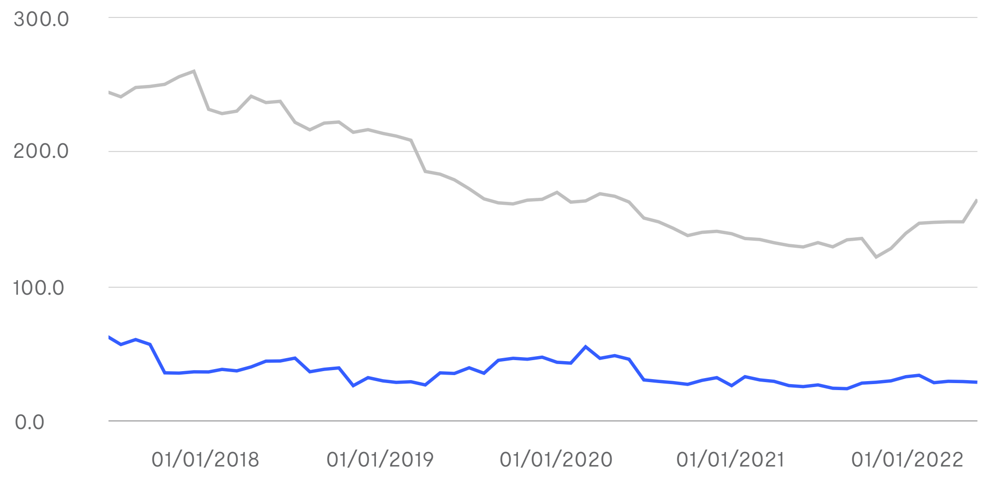
ECP Ex50 — Total Carbon Emissions Trend

Portfolio
Benchmark



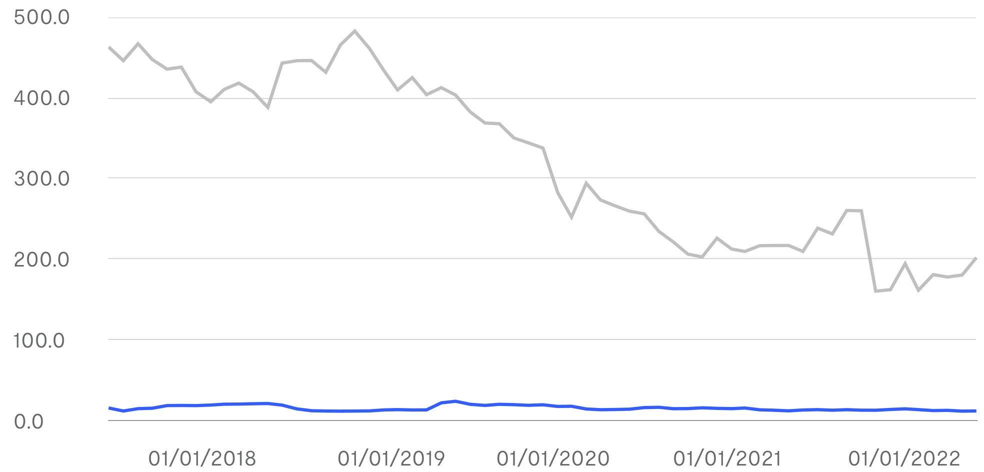
ECP All Cap — Weighted Average Total Carbon Emissions Trend

Portfolio
Benchmark

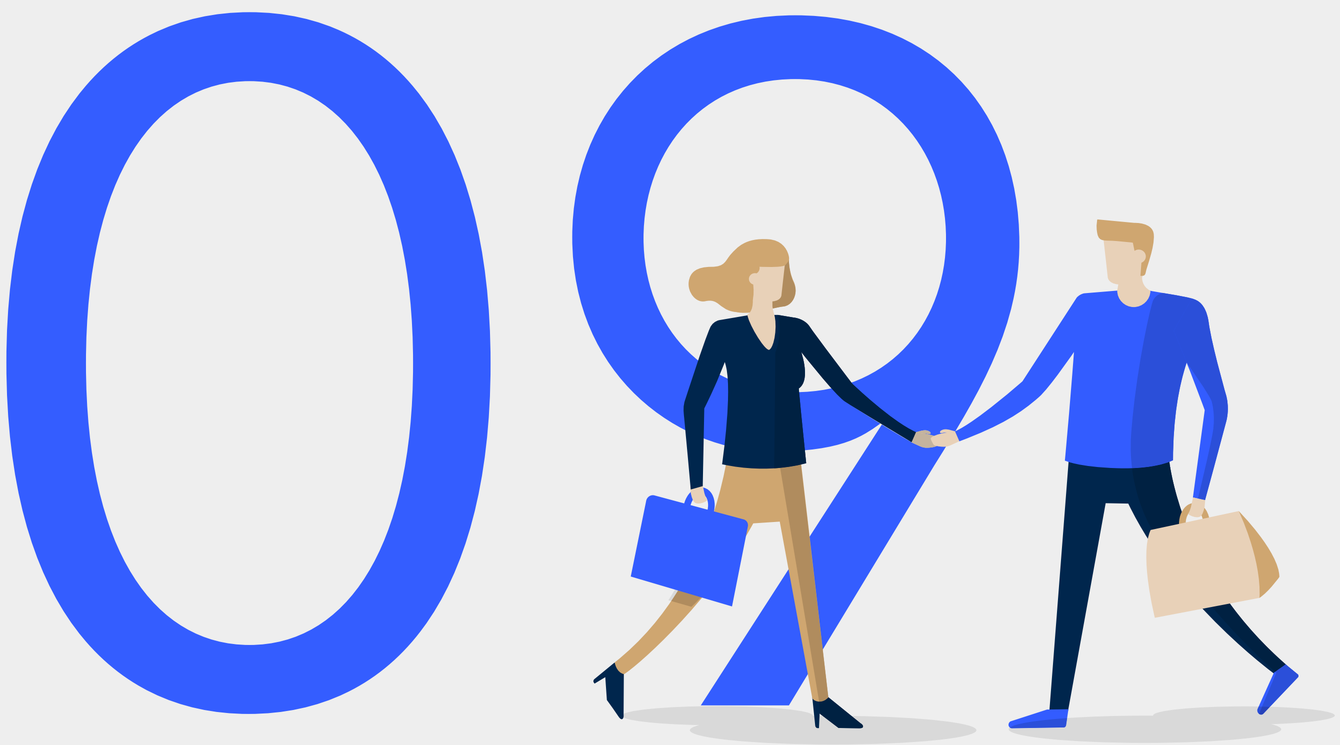


ECP Ex50 — Weighted Average Total Carbon Emissions Trend

Portfolio
Benchmark



Stewardship



Active Ownership

Voting

Active ownership is our opportunity to improve sustainable corporate practices and is a key way to help deliver long-term value creation for our investors. For us, we think the only way to grow wealth that is resilient and sustainable is to invest money in a careful, considered and committed way - we call this 'active' investing.

We aim to improve the long-term investment outcomes of the asset through our active stewardship and voting policy by promoting:

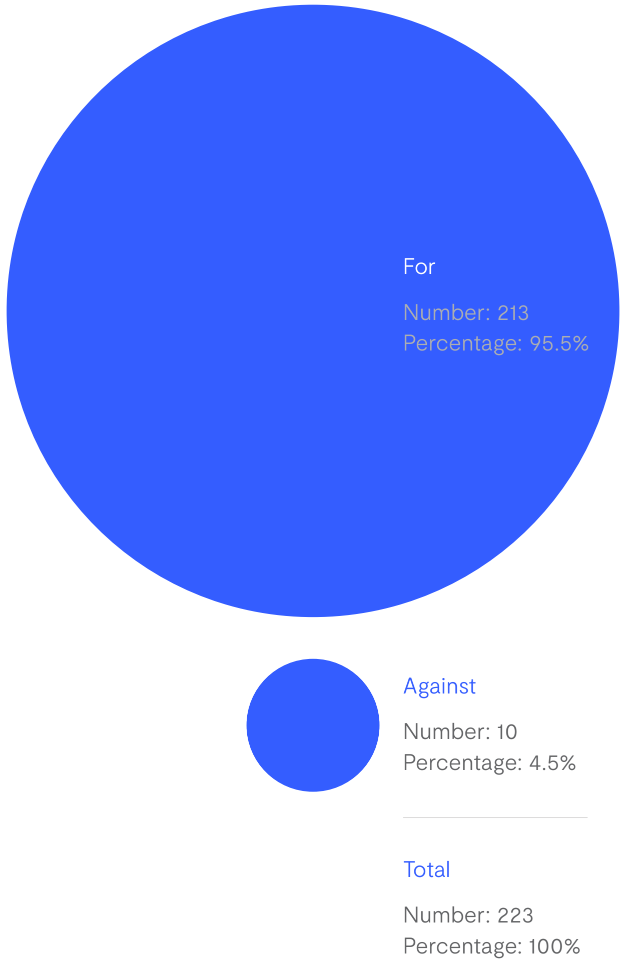
- — Transparency;
- — Accountability;
- — Independence; and
- — Long-term value.

Share voting remains an important tool for engaging with our companies as this is a visible and concrete expression of what may have been expressed in private discussions. Generally, these are in relation to a range of governance issues including board composition and executive remuneration.

Voting is an effective way for ECP to publicly express our views on what a company is doing right, and what a company needs to improve.

We voted on a total of 223 resolutions applicable to active positions across the various portfolios ECP managed during the FY22 period, including 10 against the resolution, and 8 against the recommendation put forward by management.

The resolutions where we expressed a view different to that of management included matters regarding remuneration and board composition. A record of our voting activity is available to view on our website.



Active Ownership

Engagement

Throughout the year we have engaged with all our portfolio companies, whether senior management or directly with the board, regarding the sustainability of their business operations and in some instances where we have identified ESG-related issues that required further attention or discussion.

We have provided a summary of our engagement for FY22. 'Other Engagements' are instances where we have met with stakeholders outside the respective company, the second table highlights our engagement across our three core sustainability characteristics.

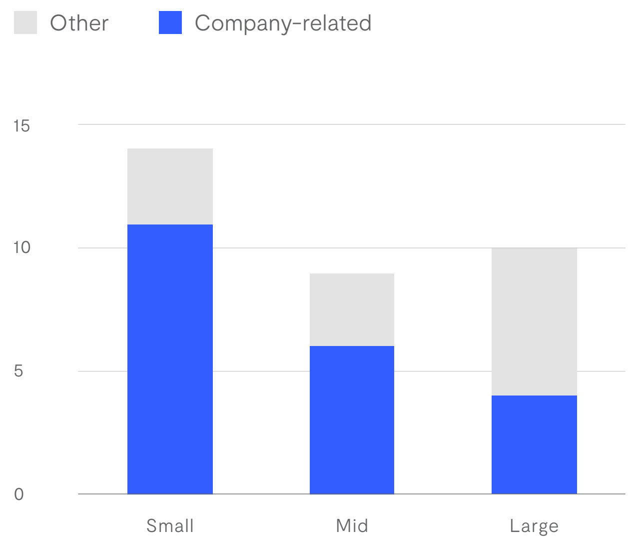
While we do not follow a set format of questions for each company we engage with but rather seek to engage thoughtfully and deliberately based on the factors, issues and events relevant to our investment thesis for each company over our investment horizon (5 years). The contextual environment at the time will dictate what questions we ask.

This year has seen higher engagement on issues relating to macro-environmental factors (PESTLE) and Dynamic Capabilities, given the significant disruption that has occurred, our focus has been to understand how they are responding and adapting.

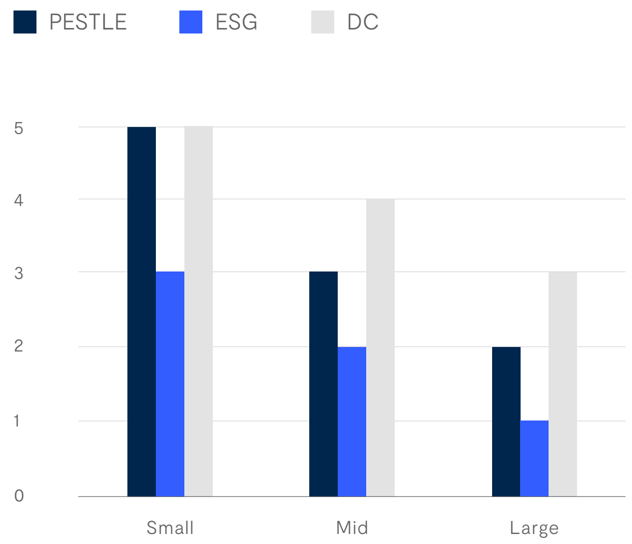
	Portfolio Engagements	Average Per Company
Company Engagements	214	6
Other Engagements	161	5
Total Engagements	375	11

	Portfolio Engagements	Average Per Company
PESTLE	112	3
ESG	65	2
Dynamic Capability	126	4
Total Sustainability	303	9

Engagements (Average)



Sustainability Engagements (Average)



Survey

This year we completed a portfolio-wide survey of our investment companies. The purpose of this was to standardise a core set of engagement questions to better understand ESG-related issues across all companies.

As we continue to grow as a firm, we will use these foundations to continue to deliver on our promises to clients and drive deeper engagement on issues that are relevant to our investment objectives.

This year we focused on environmental issues and we expect the coming year to engage on these issues, particularly Net Zero ambitions and climate-change considerations, as we progress on goals identified in our Roadmap to Net Zero.

We expect in the coming year to have greater engagement on certain ESG issues given our recent portfolio-wide ESG survey - these environmental issues, particularly Net Zero targets, are in the pipeline for deeper engagement as we progress on goals identified in our Roadmap to Net Zero.

Going forward, we plan to bring some more standardised engagement on certain issues, of which our most recent portfolio survey has been one of those first initiatives. We expect that introducing a standardised format for Sustainability meetings (outside of our current engagement) will ensure certain themes or topics are actively engaged whilst continuing to monitor these through time.

The next few pages outline some of the results from our engagement across the portfolio's key issues, including Climate Change, Modern Slavery, Workplace Health & Safety, and Governance. Note, ARB Corporation, NetWealth Limited, Fisher & Paykel Healthcare, ResMed, Lovisa Holdings, and Block Inc. declined to engage with us and participate in our survey.

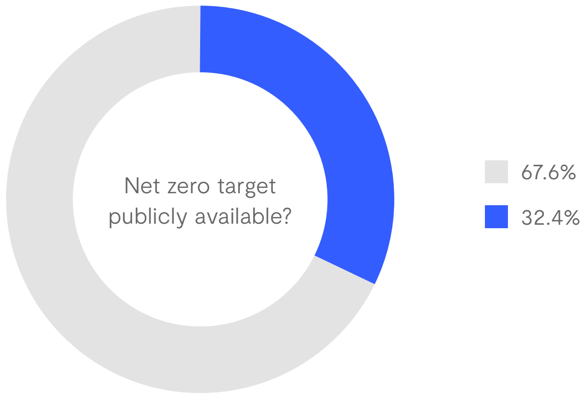
Active Ownership

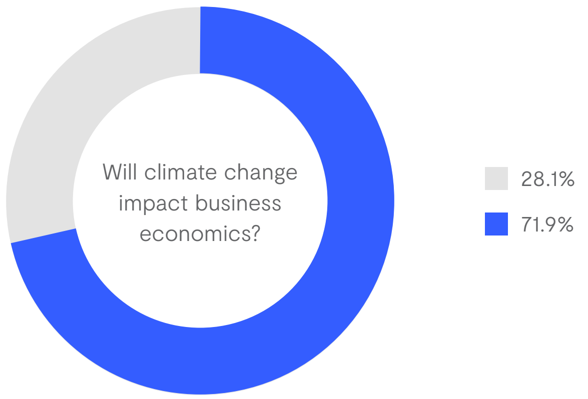
Climate Change & Net Zero

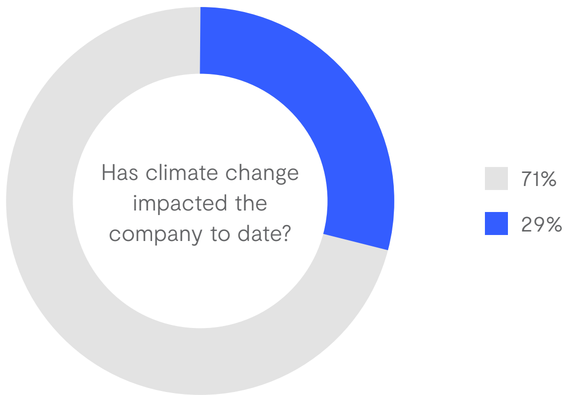
The survey was our first standardised, portfolio-wide engagement on environmental issues. This year's survey found that ~30% of our investments have publicly stated Net Zero targets. Interestingly over half of the portfolio believes their business will be impacted by climate risks, whether physical or transitional.

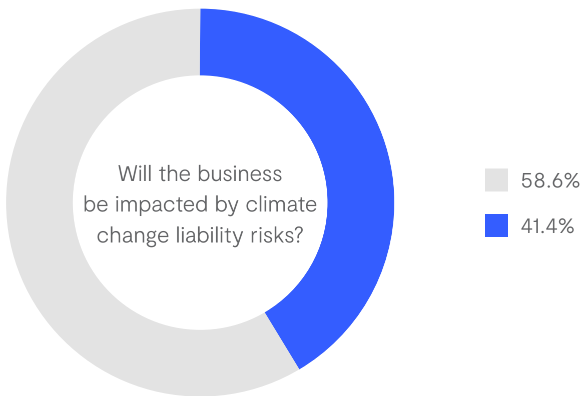
Only 20% of investments have found climate change to have impacted the company, with ~34% of companies expecting some form of climate change liability risks to impact their business through time. In the coming year, we expect our portfolio of companies to continue to publish net zero targets, with some companies already highlighting this process is underway.

For our investments, we acknowledge that not all companies will be exposed to climate change risks and furthermore we appreciate the onerous task of complying with various frameworks. Of most importance to us is that management is aware of the risks to their business operations and steps are taken to mitigate these over the long-term.







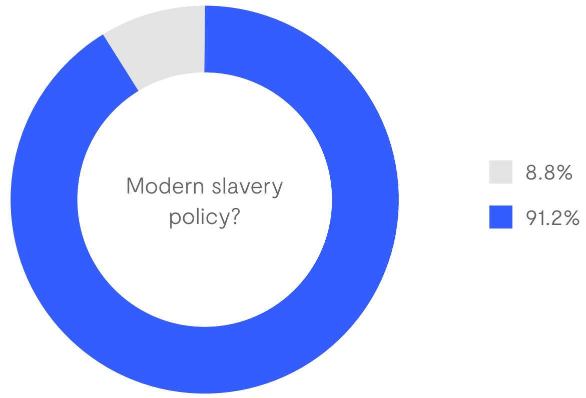


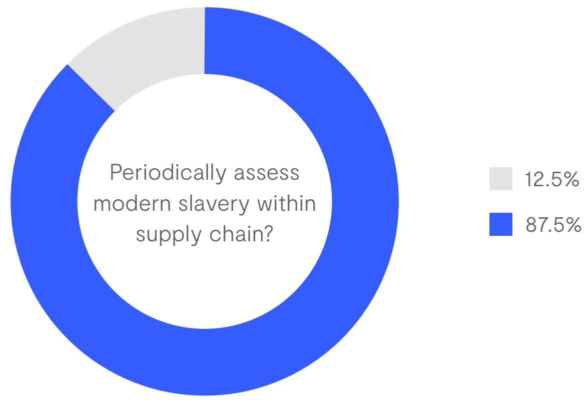
Modern Slavery

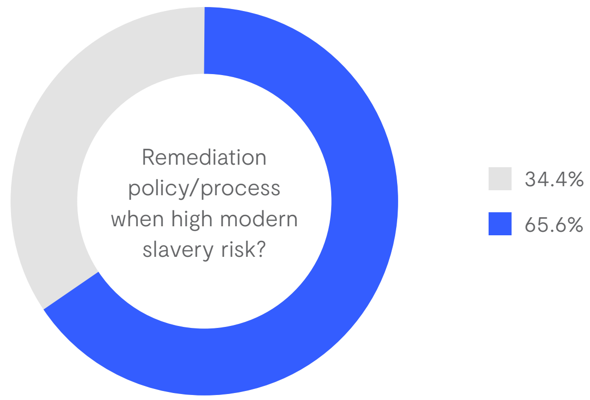
Modern slavery continues to be an issue we engage on through time. In our survey, we have found that 80% of our investments have a publicly available modern slavery statement, with around 71% periodically assessing modern slavery within their supply chain. While ~63% publicly track and report on modern slavery within their operations, ~54% have a remediation policy or process where there is a high risk of modern slavery.

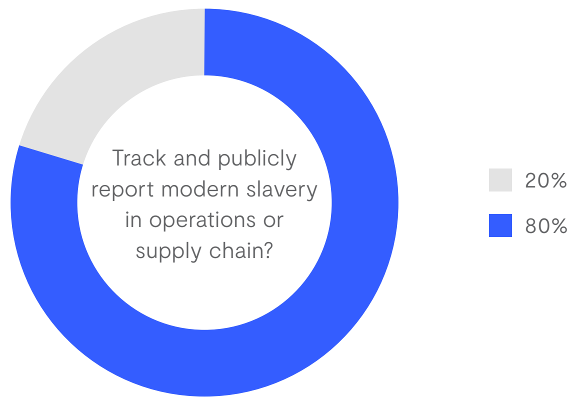
Modern slavery concerns have had significant social and regulatory pressures for companies to take action. The three companies that do not have modern slavery policies are our smallest companies, and we expect through time they will act in accordance with the regulatory requirements and meet their social license to operate.

The Modern Slavery agenda has been pursued over many years. We expect that the climate agenda will follow a similar path, with companies developing structures and frameworks that meet these obligations of best practice.





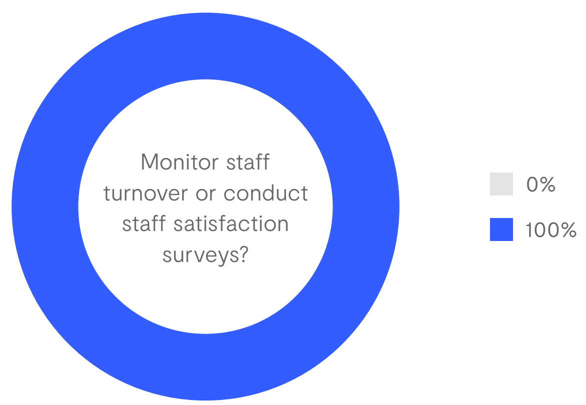




Workplace Health & Safety

Pleasingly, our survey found that across-the-board consideration for workplace health and safety within each business. Every surveyed company had policies in place relating to mental health, sexual harassment and personal safety, as well as diversity, inclusion, and anti-discrimination policies. Similarly, every company reported actively monitoring staff turnover and satisfaction.

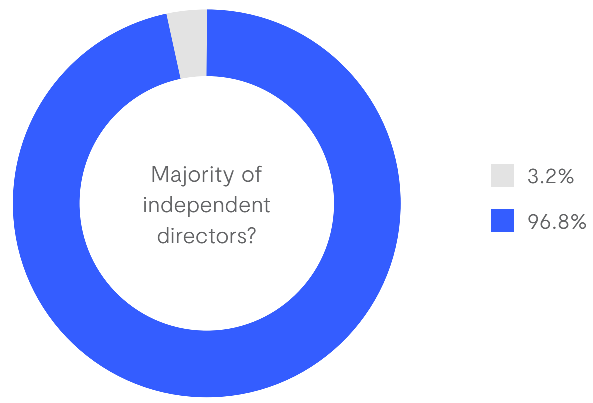
A strong culture and good employee relations are vital for any Quality Franchise. Without the people, companies cannot deliver their products and services to the highest standard. These results are a testament to our companies and reflect the strong emphasis our process places upon the working conditions of employees.

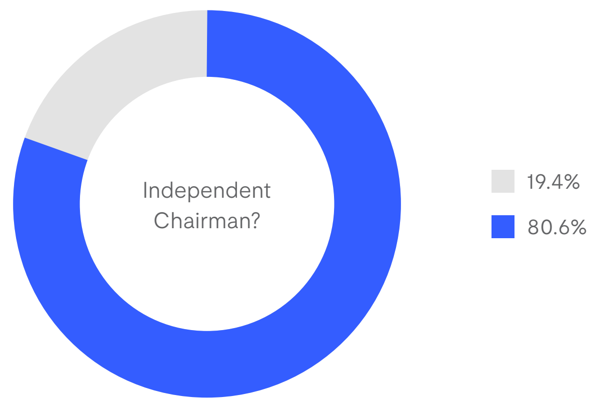


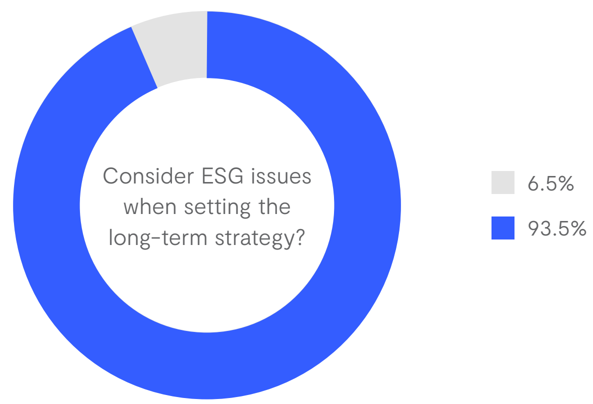
Governance

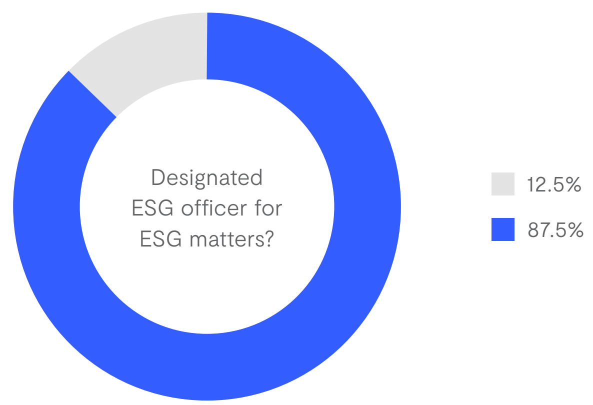
We also regularly engage our investment companies on matters of governance. 97% of our surveyed companies had a majority of independent directors on their boards, and more than 80% had an independent chairperson. 94% of our survey respondents reported that they consider ESG issues when setting long-term corporate strategies. While ~88% have a designated ESG officer, or nominated person responsible for ESG matters.

From a governance perspective, we do not believe that the independence of the Chair is necessarily a key requirement, however, what we do expect of our boards is that the board is capable and competent in setting the strategy. For us, alignment of interests and diversity of thought are most important when understanding the board dynamics.









Case Studies

Costa Group (ASX: CGC)

Costa Group is Australia's leading grower, packer and marketer of premium quality fresh fruit and vegetables. Its operations include c7,000 planted hectares of farmland, 40 hectares of Glasshouse and three mushroom-growing facilities across Australia. It also has majority-owned joint ventures spanning over 700 hectares of planted berries in Morocco and China.

Our investment thesis is that Costa can leverage its Scale, IP and technology-driven advantage as the leading diversified high-margin grower to deliver above-market, long-term, through capital cycle returns. The company has a high market share in structural growth categories, a world-class berry breeding program that delivers premium pricing and royalties, and invests in Innovation and technology to drive a cost advantage.

In order to ensure we are investing in socially responsible companies, we monitor numerous sources to identify any potential issues and actively engage with the Board and Management team to encourage positive outcomes. Costa Group is a portfolio holding that is a good example of engagement regarding its modern slavery practices.

A google alert highlighted to us a case where one of Costa's labour-hire providers was found to be offering substandard accommodation for seasonal workers picking berries in Tasmania. We first engaged with Costa's management team on the issue in March 2020. The company outlined its response saying it immediately halted the use of those workers and issued the provider with a breach of the contract notice. We highlighted our concern about relying too heavily on labour-hire providers, and Costa expressed a desire to reduce its use by increasingly in-housing more of its seasonal workforce.

We followed up in May 2021 with the Chairman on the issue where the company stated they still needed to use that provider due to licensing limits on the number of Pacific Workers, however, they had put in place an accommodation policy and hired an ex-unionist to audit them to make sure it was all above board that had worked well.

Our latest update from the company in May 2022 highlights that Costa has significantly reduced the number of Labour hire providers it is using, and stated it will in-house 1800, 2600 and 4k people over the next 3 years. This gives Costa greater control and oversight over workforce conditions and will likely improve the efficiency of the workforce, reducing the cost of re-training new cohorts of workers. Costa has also applied for greater capacity under the Pacific Workers Scheme that should allow it to drop the offending provider altogether.

This is one example of how we continually follow up to hold our companies accountable for their practices. In our opinion, Costa promptly responded to the issues with a strong course of action commensurate with our previously held view of the quality and professionalism of the company. Costa is a good example of a company that is leading the industry in its ESG practices and effecting change through its organisation for the betterment of its employees, customers and shareholders.

Nuix (ASX: NXL)

Nuix is a provider of investigative analytics and intelligence software and it helps customers from around the world in many different industry verticals process, normalise, index, enrich, and analyse data from a multitude of different sources.

Our investment thesis is that there are a couple of structural drivers for the investment. Firstly, there is increasing regulation and costs of non-compliance with this regulation are rising. Secondly, the amount of data that organisations need to process to comply with these regulations is growing exponentially. A company like Nuix, which was built to process, organise and search unstructured data, is uniquely positioned to capitalise on these trends.

Nuix software has been used in several important investigations over the last decade and a half. This includes the Panama Papers, the Banking Royal Commission, organised crime rings, corporate scandals, and terrorist activities. Nuix made its name in the eDiscovery and Investigations markets and is used by hundreds of regulators and organisations worldwide.

Since listing, the CEO and CFO who brought the business to market have since been replaced. Regulatory Investigations and Class Actions were announced in the prospectus and market disclosures, and a compensation claim has been brought against the company by an ex-CEO as well. The company has reviewed and refreshed its strategy and has been repositioning itself.

We began engaging with the company post the FY21 result, primarily through the Chair, the Hon Jeff Leich. The focus of our engagement was on board structure and ensuring the company had appropriate processes for dealing with the issues raised in the press. The company ended up establishing a board sub-committee to ensure appropriate oversight was implemented, they expanded the diversity of the board and terminated their relationship with Dr Tony Castagna.

The accounting issues ventilated in the press were not new and were disclosed in the documentation before listing. For example, the company's strategy of moving to consumption-based licenses was documented in the prospectus. ASIC found no fault concerning the prospectus investigation and is finalising its investigation into the company's continuous disclosure practices.

The claim brought by Eddie Sheehy is probably more of an existential issue for the company. Essentially Mr Sheehy is claiming that he should have been able to exercise options he was granted in 2019 in a prior agreement with the company and that those options he was granted were subject to a share split that occurred in 2016. It can potentially be a large issue for the company and the equity shareholders should an adverse finding materialise.

While for now, there is little engagement we can do on this particular issue, however, for us, a significant amount of time and resources have been spent trying to understand the issues in dispute and what the potential liabilities could be. Not only have we engaged our legal counsel on the issue, but we have met with the legal counsel retained by Nuix as well as senior management from the company.

Case Studies

Domino's Pizza (ASX: DMP)

Domino's Pizza is a pizza restaurant operator with both franchise and corporate stores. The company is the exclusive master franchise for Domino's in Australia, New Zealand, Belgium, France, The Netherlands, Japan, Germany, Luxembourg, Denmark and Taiwan.

A continued store roll-out drives our investment through growth in franchised and corporate stores. The core driver of future growth is from their European and Japanese segments, with the expectation that the group store network will continue to grow at 7-9% pa.

Over the past year, the challenges faced by Domino's have seen several franchisees suffer the effects of food and labour inflation globally. Over the year, we have engaged with the company six times, with one of those engagements directly with the board, as well as several meetings with other stakeholders.

Throughout the year, we have seen the inflationary pressures continue to impact the business as the year has gone on, with more recent engagements highlighting the considerable action Domino's is taking in support of its franchisee base.

ANZ and Asian segments have already 'turned the corner' with store profitability now said to be ahead of last year after adapting menu, costs, and prices. Europe remains a work in progress. Domino's have proven to be focused on incentivising franchisees to open new stores while ensuring they have the support to survive and thrive during these times.

Throughout all markets, CEOs ensure they have continual franchisee engagement to understand the problems and challenges their stakeholders face. While there isn't one size fits all, each regional CEO is applying appropriate action to support their franchisee base.

Through engagement, we have found the company has taken several measures to ensure its franchisee base continues to trade profitably. In some of their worst areas, franchisees have seen their own financial statements hit with 4-5% food inflationary impacts and 1-2% due to energy price increases. While some price increases have helped alleviate these issues, other measures such as reducing 'active territory', introducing delivery fees, and menu engineering and loyalty programs (coupons) have further helped mitigate these issues.

In Germany, Domino's has reduced active territories by ~10%. They expect a further 8% in some regions, which helps drive efficiencies and support franchisee margins due to the lower cost per delivery. In ANZ, introducing a 6% delivery fee has aided the rising cost of deliveries. In contrast, across the group, menu engineering and coupon loyalty programs have successfully steered consumers toward higher-margin offerings.

Management noted that while they have raised prices in recent months, they do expect costs to normalise in the future. At this point, management has indicated that their focus is to ensure franchise profitability remains higher. They commented that if costs come back next year, margins will flow back to franchisees - further supporting their businesses and driving network growth.

Our engagement with the board highlighted that managing the balance of profitability between the company and franchisees is key - the right balance ensures value creation. The board receives monthly statements for franchisees in all markets - understanding returns, cash paybacks etc. From the top down, the focus remains squarely on franchisee health and profitability.

For Domino's, delivering profitability on the store level is central to their ability to grow their network (and execute our investment thesis). Domino's has shown they have several levers they can and will continue to pull in, driving consumer orders, ensuring profitability, and giving back to the customer and franchisees through time.

netwealth

Netwealth (ASX: NWL)

Netwealth is a leading technology company serving the Australian advisor industry, used to manage and administer client wealth.

Our investment thesis is that due to Netwealth's client-focused innovation and significant R&D commitment, it is well placed, given its #1 Platform rating, to take an increasing share of the continually growing wealth platform market.

To hold our portfolio companies accountable to our expectations for managing potential issues concerning Modern Slavery, we engage directly with management teams to understand the processes they have followed in implementing their own policies for outsourced labour in developing countries.

We recently met with the Head of Government and CIO at Netwealth. Netwealth has an offshore software development hub in Vietnam that engages 48 contractors under an outsourced labour-hire arrangement.

We interviewed the Netwealth team responsible for the arrangement to understand the due diligence process the team undertook when selecting the labour-hire company, and sought to verify the oversight and control that Netwealth had in the engagement of these contractors, to ensure adequate workplace conditions and competitive remuneration.

In summary, we were reassured that Netwealth had undertaken a robust process and had satisfactory controls in place to maintain necessary oversight.

We learnt the Netwealth team were not only focused on finding a development team with the appropriate security structures in place to protect IP development but sent key executives over to review working conditions (e.g., office space standards, size and resourcing).

Vietnamese development teams are fully integrated into Netwealth's domestic engineering teams to facilitate clear lines of communication between staff and contractors, which not only drives morale and support but also allows potential issues to be readily communicated.

We were particularly pleased to hear that during COVID-related lockdowns, Netwealth sent their Vietnamese contractors the necessary tools (e.g., desks, computers and ergonomic equipment) to make sure their working environment at home was as comfortable as possible. In addition, in 2021, Netwealth undertook an anonymous survey of working conditions for contractors to ensure standards were being met.

Pay conditions are assessed annually with the labour-hire company, whereby wage reviews consider the local market benchmarks. The most recent survey in 2021 found their Vietnamese contractor base was paid significantly above the Vietnam software developer average.

Case Studies

Lovisa Holdings (ASX: LOV)

Lovisa Holdings Ltd is an ultra-niche, vertically integrated fast fashion jewellery retailer with end-to-end product development capabilities that delivers on-trend ranges at a low cost to the customer. With its international expansion well underway, with ~70% of its stores operating overseas, Lovisa has a material opportunity to grow further into the US and Europe.

Our investment thesis is based upon the company's ability to continue to roll out its store footprint internationally, particularly in Europe and the US. We expect that over the next five years, the company will grow its store network to >900 stores by FY25.

The company aims to replicate the success of its Australian business model and apply this to other geographies. Their corporate-owned store roll-out strategy leverages their proven format while driving greater operating leverage through scale benefits.

All the levers the company pulls, whether price, inventory management, supply and procurement, or sales and marketing, are driven to ensure the company achieves the fastest route to market at the lowest price possible.

In 2021, Lovisa announced the retirement of founding CEO Shane Fallscheer. Victor Herrero was announced as the new CEO, taking the reins in December 2021.

Victor spent 13 years with the Inditex Group, one of the world's largest fast-fashion retailers with eight store formats (including Zara, Pull & Bear and Massimo Dutti) with ~6000 stores across 80 markets.

While a changing CEO is a negative for our process, the procedural nature of their succession, along with Brett Blundy as Chairman and major shareholder, provided comfort. With Victor's considerable experience managing a large, international store network, combined with his multi-lingual abilities (speaking five languages), and his keen ability to travel for the business, Lovisa appears well positioned with Victor at the helm.

Of particular issue for us was the remuneration structure. Prima facie, the package was (potentially) very sizable. When considering the CEO's remuneration structure, we acknowledge the (potential) substantial cost to shareholders. When assessing the breakdown of what is required to deliver the top-end of the performance criteria, most investors would appreciate the substantial shareholder value creation that will follow.

We engaged with the company on this, and while the quantum does seem large, the breakdown and flow-on benefits to shareholders are material. For Victor, the LTI rights are granted at no cost, and the degree of vesting will depend on his performance outcomes. With a performance period of 3 years, the total LTI award value (cash plus vested performance rights) would be in the range of $15.5m – $24.0m if he were to meet current consensus estimates.

At the announcement of the LTI plan, the market expected ~700 stores by FY24. To meet the $155.0m EBIT target (the upper end of Victor's LTI vesting targets), we estimate he would need to deliver ~1,000 stores by FY24 (using average pre-Covid EBIT per store).

The recent result indicated the company may reach up to 635 stores by the end of FY22. Victor will need to increase the roll-out from 95 stores in FY22 to ~180 per annum to hit the 1000-store target. He is well incentivised to do so and benefits from returning to a post-covid operating environment.

For us, we do not take a prescriptive approach to incentives, and based on the current outlook and incentives in place, shareholders will be handsomely rewarded in the event Victor and the team execute to plan.

IDP Education (ASX: IEL)

IDP Education is a major player in the international education market with two distinct businesses. It operates a student placement platform that places students from around the world into key education institutions in predominantly Australia, the UK, Canada and the USA. It is also the distributor of the IELTS test, which is the gold standard high-stakes English language test for students and immigrants around the world.

Our investment thesis is that IDP is building a global student placement platform that is the largest and best place for students to find a place to study internationally, benefiting from the rising wealth in Asia. IDP has a significant runway to reach ~15% market share in its most mature markets. IDP's IELTS business is a necessity for students and contributes to IDP being the most trusted brand name in education.

IDP Education is a business with a strengthening competitive advantage that we added during COVID-19 in 2020. Over the past year, Australian universities sought to make some gains against the Covid-led revenue losses, with ~40 of Australia's universities selling their shareholding in IDP Education via their cooperative, Education Australia.

The Australian universities held a 40% stake in IDP Education before the sale through Education Australia. The remaining 25% is slowly being sold down. The importance of this is that the board's structure and gender mix have been inadequate given their nominated Directors.

Throughout the year, we engaged with the company regarding some of the changes occurring with the sale of Education Australia, but more recently, we engaged on the Remuneration report and the election of Directors. We made it clear that we were voting against the re-election of Colin Stirling, a university representative. We believe that the Sell down by Education Australia allowed IDP to add diversity and more global technology experience to the board. Since then, IDP has added two female directors to the board.

ECP Insights

10

The Missing Piece in ESG

The Rise of Resilience

The pandemic was a global, black swan event that sensitised businesses to their operational vulnerability. This year's invasion of Ukraine has further disrupted global supply chains, driving a greater focus on the vulnerability of business operations against unquantifiable and unanticipated risks.

Today, there is a greater emphasis on the sustainability of operations than merely focusing on economic (financial) growth. In an increasingly volatile world, which makes predictions of future performance difficult, investors turn to ESG to summon sustainable returns.

ESG has evolved from ethical and impact based investing into a risk-based realm where investors seek to protect their portfolios from tail risks by ensuring underlying investments are robust when struck by a risk event.

For long-term investors, a firm's ESG credentials are only one piece of the sustainability puzzle, as typical ESG analysis does not account for tomorrow's opportunities or challenges.

To better fulfil the purpose of ESG, understanding the business outlook requires one to establish whether the business operates in an industry with a low risk of macro-environmental factors affecting the predictability of earnings - a kind of scenario analysis.

However, ESG and the forward-looking assessment (that we call PESTLE, discussed in further detail below) are two components of holistic sustainability analysis. Investors must identify whether a firm is resilient and can recover and grow through challenging times - do they hold a Dynamic Capability?

The Purpose of ESG

For investors, the purpose of ESG is to incorporate non-financial measures into the decision-making process and reduce or remove long-dated investment risks. By understanding a company's ESG activities, investors can better account for these non-financial aspects of performance.

When investing, the assessment of ESG considerations creates value in a number of ways, including top-line growth, cost reductions, reduced regulatory and legal intervention, employee productivity uplift, asset or investment optimisation, or brand leadership. Typically, ESG analysis explores:

— Environment (E) - how the business interacts with the natural environment, the impacts of its operations, and the actions the company takes to mitigate negative effects.

— Social (S) - how an organisation's activities affect people — from its own workforce to customers, local communities and those who work in its extended supply chain.

— Governance (G) - the decision-making process and the distribution of rights and responsibilities. Here investors review the policies, structures and procedures by which an organisation is run.

The Missing Piece in ESG

Dynamic Environments

Business environments are characterised by more volatility, complexity, uncertainty and ambiguity than ever before. Rapid technological advancements, the pandemic, and the recent Ukraine-Russian conflict are examples of accelerating macro-environmental changes.

ESG approaches, while valuable, do present some gaps in investment analysis. An analysis of carbon footprints and waste management may fail to account for exposure to climate change disasters or supply chain breakdowns in the face of environmental disasters.

Additionally, when assessing social factors such as workplace relations or cultural satisfaction, one may fail to account for broader workforce vulnerability in crises like the pandemic or social movements such as the rise of electrified vehicles.

Adopting a PESTLE (Political, Environmental, Social, Technological, Legal and Economic) analysis is one of three components investors should use in sustainability analysis. Here, the assessment is focused on external forces that may impact future growth.

PESTLE helps with understanding ESG trends related to material issues identified. For example, changing regulatory frameworks regarding emissions may fundamentally impact a business; or political regimes in supplier regions may impact supply volatility or a company's reputation.

Since investment analysis is static at a point in time, investors must consider the dynamic nature of business environments. By only considering PESTLE, one is limited to conceptual scenarios that may impact a firm's operations, whereas incorporating ESG analysis will provide the lens to consider the exposure of these risks.

Within rapidly changing environments, a firm's ability to maintain its competitive advantage is constantly threatened by factors influencing its resource-based strategy. When investing, understanding how ESG and these dynamic environments interact requires identifying companies that can manage both parts of the equation.

Dynamic Capabilities

This leads us to our third component, Dynamic Capabilities (DC). When a firm has achieved a Sustainable Competitive Advantage (SCA), its strategic approach has found a recipe that creates value that only belongs to the firm, where imitation is impossible.

A competitive advantage is not sustainable forever as the resources driving their competitive advantage may change due to externalities. At ECP, we employ the DC framework to gauge and assess a firm's ability to manage, react and grow in times of uncertainty.

DC's are processes embedded in firms - they emerge from history and experience and can be identified by exploring the following activities:

Sensing

An organisation's knowledge and learning capabilities. Here, a firm's knowledge management (organisational learning and skills acquisition) can be uncovered by identifying a track record of learning that drives continuous product improvement, human capital retention, or through IP protections.

Seizing

An organisation's innovation and execution capabilities. Here, a firm's ability to innovate or seize business opportunities can be identified by a proven track record in overseas markets, how the company approaches innovation (complimentary, disruption, or partnerships), or rewarding employees for innovative ideas.

Transforming

Organisational culture and change. Here, a firm's organisational culture thrives through change - they hold an ability to transform or renew business activities. These are often entrepreneurial cultures with a proven track record in pivoting or refocusing business activities to deliver sales growth.

DC's are essentially change-oriented capabilities that help firms redeploy and reconfigure their resource base to meet evolving customer demands and competitor strategies. Not all firms have this ability, and the best businesses are those that have this dynamic capability - they continually upgrade and reconstruct its core capabilities. .

Assuming that a competitive advantage simply 'exists' without considering the factors surrounding a firm's resources is a shortcoming in many approaches to sustainability analysis. Examining how resources are developed, how they are integrated within the firm and how they are released needs to be understood.

DC's bridge these gaps by adopting a process approach that acts as a buffer between firm resources and the changing business environment. DC's help a firm adjust its resource mix to maintain the sustainability of the firm's competitive advantage, which otherwise might be quickly eroded.

Resilience

Sustainable business is good business. Sustainability is more than simply reporting non-financial measures. Sustainability is what is required in the face of uncertainty, it is the new digitalisation but with a much larger effect on a firm's long-term competitiveness.

There are many examples of firms that fail due to macro-environmental changes (i.e. pandemics, technological advances, and social challenges). When major stress events occur, companies that appropriately respond are provided with the opportunity to emerge stronger than before

On the contrary, those that fail to adapt lose their competitive advantage and may face extinction. Black swan events that drive increasing uncertainties in business environments not only trigger innovation but also result in other reactive strategies such as changing business models or restructuring to ensure survival.

Companies that can adapt to disruption in times of stress, emphasising resource development and renewal, will sustain value creation. This operating resilience will not only aid in their survival over the long term but provides the necessary ingredients for long-term competitive excellence.

Culture Guardians

Culture is central to long-term performance

The dismissal of James Hardie (ASX: JHX) CEO Jack Truong highlights the importance of organisational culture and the responsibility of company directors. While an unplanned exit of key executives is a risk to company performance, company culture is the most critical enabler of successful strategy implementation.

James Hardie dismissed Jack Truong due to “intimidating” and “disrespectful” behaviour, which created a hostile work environment and prompted complaints from staff. 80% of staff surveyed found that his behaviour was not respectful, resulting in staff resigning, or preparing to resign.

The conduct, while not discriminatory, extensively and materially breached the code of conduct. Truong’s termination meant he exited with nothing more than his statutory entitlements.

It is reassuring that the Board’s actions align with their public statements that their culture is “a collective belief that we are ‘our brothers/sisters keeper”. In holding Truong accountable to his words, “value creation means nothing without a safe working environment for ALL employees”.

In this single decision, the board has upheld their commitment to their employees to “purposely choose to prioritise inclusion to promote a workplace in which our people feel they belong’’.

No individual is above the well-being of others; the company and its successes are the collective actions of all employees. While we generally view the removal of a CEO negatively and can expect some transitory disruptions, we applaud the board’s approach and transparency with the market.

Hasty departures

Over the past ten years, investors have witnessed several boards taking steps to remove leaders that have demonstrated poor or unethical behaviour. The examples below highlight the intolerance of boards toward behaviour that are inconsistent with their code of conduct.

— David Jones (2010) fired Mark McInnes for harassment of a female colleague.

— Orica (2015) announced their leadership transition following reported accusations of the bad behaviour of Ian Smith.

— QBE Insurance (2020) fired Pat Regan for “workplace communications” that breached the code of conduct after a complaint from a female employee.

— Oil Search (2021) saw Peter Botten resign after 25 years due to health reasons; however, the ASX announcement also noted “complaints about his behaviour” and that his behaviour was “inconsistent with the standards expected by the board”.

— PolyNovo (2021) saw Paul Brennan, the head of PolyNovo, resign suddenly after concerns about his “interaction with the company’s senior management team and management style”.

— Cleanaway (2021) executed a mutual agreement with Vik Bansal to step down following complaints alleging bullying conduct.

For investors, a change in executive leadership (generally) holds more downside risk than upside risk. For public companies preparing succession plans, bringing the market along the journey while grooming the next-in-line brings stability and continuity of long-term strategic objectives. However, when there is an unplanned departure of a CEO, one can only fear underlying structural or cultural issues. Generally, this is a reasonable assumption for investors.

In the case of James Hardie, the structural integrity of the company remains intact, with the Executive Leadership Team (ELT) proving effective at providing the necessary voice for the broader employee base.

Since time immemorial, finding leaders with tough and uncompromising demeanours, focused on delivering and executing strategic objectives, were keenly sought. Today, companies are subject to increasing scrutiny over these softer business areas, and the modern CEO needs to manage the contemporary operating environment.

Custodians of Culture

The Australian Institute for Company Directors (AICD) and the Australian Council of Superannuation Investors (ACSI) presented findings regarding the role of the board and the importance of governing company culture. Organisational culture is the responsibility of directors, not just senior management.

Culture has a direct link with long-term sustainable operating performance. Culture is central to a company’s long-term performance, and because of this, it requires an ‘active’ and ‘curious’ board to deliver on this critical strategic lever.

Directors who are active and curious become aware of cultural problems. Too often, behind the corporate veil, bad corporate cultures and misconduct can go unnoticed. Boards that take proactive steps to respond to complaints send strong signals about their expectations for handling future incidents.

In the case of James Hardie, the board’s procedural approach to these complaints demonstrated they were active and curious as to what was going on within the company. Given adequate time to Truong, the swift and heavy hand exemplified effective board oversight and good corporate governance.

The Board and senior management are responsible for strategy and compliance oversight. The board’s role remains vital in determining best practices, and that compensation reflects the behaviours of the organisation that are in line with their corporate values.

Culture Guardians

Boards are the Culture Guardians that hold executives accountable. Culture is the most critical enabler of successful strategy implementation.

For us, we must trust company executives — they are the decision-makers at the coal face. By finding management that we trust, investors can expect greater predictability of the company’s behaviour, which reduces the risk to the firm of management’s conduct or failure of business execution.

The steps taken by the board of directors of James Hardie indicated a clear shift in the tolerance and appetite of Boards to accept poor behaviour in the face of solid investment performance. The board’s acknowledgement that the recent performance is more than the result of one man, but rather that of the entire workforce — a powerful message.

The disruption to the leadership of James Hardie has meant we have made appropriate risk adjustments to our portfolio to deal with this transition; the board has demonstrated industry-leading practices which uphold the integrity of the company. One can only be comfortable knowing that the company’s core values are maintained.

For any investor, identifying quality franchises requires strong corporate governance. Within this, a culture that ensures no executive is above a firm’s core values and that a code of conduct is non-negotiable positions an organisation well for future success.

The Shovels of the Modern Gold Rush

Emerging Automotive

Transport industries are currently undergoing a paradigm shift, with the growth of the electric vehicle (EV) market and electric aviation being driven by regulation, investment, and rising environmental concerns regarding emissions.

Many of the world's leading economies have pledged to begin a transition away from petrol and diesel cars as they strive to hit emissions reduction targets under the Paris Agreement and head toward net zero by 2050, with electric aviation becoming increasingly viable.

Greenhouse gas emissions (GHG) within the Australian transport sector represent almost 20 per cent of our totals, with the automotive industry being around half of that. For our nation to achieve a 26 to 28 per cent decrease by 2030, drastically reducing sector emissions is critical to meeting these targets.

As the EV replacement cycle takes hold globally, range extension and noise reduction are important problems requiring to be solved by OEMs. Vehicles are getting heavier due to battery mass, and range anxiety is increasingly a significant driver of OEM development programs and decision-making.

As the world attempts to solve many of our societal challenges, we require more from smaller areas — presenting a significant opportunity for developing unique and emerging automotive solutions.

For long-term investors, identifying quality franchises that hold a superior market position, driven by a unique value proposition that is supported by innovation and structural tailwinds presents an opportunity to benefit from higher returns on capital over time.

Businesses that integrate with their customers provide a greater opportunity to develop ingrained, sticky relationships that generate increased reputational power, strengthen IP and allow for deeper revenue pools — a powerful competitive mix.

Both companies are market leaders, and while we expect increased competition due to the incredibly high margins and enormous opportunities, the companies are well-positioned as their products become increasingly known while they currently hold first-mover status.

Engineering the Unfair Advantage

PWR Holdings (ASX: PWH) is an innovative and world-leading thermal cooling manufacturer. It has an end-to-end product design and implementation strategy when it comes to high-performance automotive cooling solutions.

Having its origins in performance radiators and oil coolers in the V8 racing series, PWR services high-end motorsports teams and passenger vehicles and has effectively become the sole supplier for F1 and, subsequently, most major motorsport formats worldwide.

PWR's core competency in thermal cooling solutions, combined with their continued investment in technology and capabilities to solve most thermal problems in bespoke, high-performance and compact areas, has seen their technology edge trickle down into adjacent and emerging markets.

Traditional cooling methods (radiators etc.) are less effective in contemporary applications, and newer methods require direct cooling (oil over the heat source) or water combined with cold plates to remove heat energy in more compact and bespoke areas.

PWR is expanding its reach through its Emerging Technologies division, leveraging knowledge from its Motorsports division to become a pivotal supplier to electric, aerospace and military organisations.

Since the IPO, PWR's revenue mix has shifted from ~68% in Motorsports to ~54% today and the Emerging Technologies division has grown to ~12%. Over the next few years, we expect these Emerging Technologies to become a meaningful part of their business, growing to over a third of their revenue mix.

Because of these challenges, smaller, higher power densities require higher thermal management — i.e. they need more efficient and effective solutions to modern challenges. PWR's high-quality product and operations have provided the foundations for their ability to meet these contemporary challenges, and turn them into significant opportunities.

Reinventing the Wheel

Carbon Revolution (ASX: CBR) is an advanced manufacturing company that develops single-piece (monoblock) carbon fibre wheels for OEMs. The company is the global leader with a technology and production capability yet to be replicated by any prospective competitor.

Carbon Revolution is the only company globally to successfully develop and manufacture single-piece carbon fibre automotive wheels to OEM quality standards with commercial adoption across several major OEM models, including Ford, Ferrari, Renault, and Chevrolet.

Carbon wheels currently have their application in sports cars, racing cars, hypercars, and a few high-performance cars. With the increasing popularity of EVs, SUVs and the rising application of carbon fibre, there are many advantages of carbon wheels that improve performance and provide the company exposure to much larger end markets.

Wheels are an efficient technology that must overcome aerodynamic resistance, rolling resistance and resistance related to the vehicle weight and gradients. Here, the hub and spoke design of the wheels becomes increasingly important and is central to the company's unique value proposition.

The driving forces of lower weight, superior aerodynamics, and stiffness-to-weight ratio, hence lower fuel consumptions, are paramount aspects of performance. Additionally, weight reduction of vehicles is critical to comply with country regulations on CO_2 emissions. Their carbon fibre wheels are typically 40 to 50 per cent lighter than comparable aluminium wheels, which provide for reduced vehicle weight and lower fuel consumption while extending EV range and a reduction in carbon emissions.

Existing wheel manufacturers are largely metal-based, and these competencies do not apply to carbon fibre. The vastly different existing carbon fibre components and building-up wheels' design, modelling, and testing capabilities are significant barriers to entry.

Vehicles in the high-performance and luxury vehicle segments were the early adopters of the technology and still present a strong growth runway. Similarly to PWR, we expect this to filter to the mass market as unit costs reduce with scale. While still in their infancy, the company is the first mover in disruptive technology, providing a substantial long-term opportunity.

Niche Global Leaders

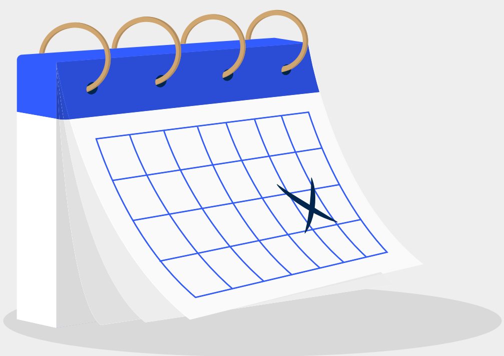
For long-term investors, identifying Quality franchises that hold a superior market position, driven by a unique value proposition that is supported by innovation and structural tailwinds presents an opportunity to benefit from higher returns on capital over time.

Businesses that integrate with their customers provide a greater opportunity to develop ingrained, sticky relationships that generate increased reputational power, strengthen IP and allow for deeper revenue pools — a powerful competitive mix.

Both companies are market leaders, and while we expect increased competition due to the incredibly high margins and enormous opportunities, the companies are well-positioned as their products become increasingly known while they currently hold first-mover status.

The Carbon Transition

11



Decarbonisation

Background

The long-term investment horizons of superannuation funds make them acutely vulnerable to the systemic disruptions associated with climate change. Our industry is in the early stages of its transition.

Conscious of the commercial implications of climate risks and regulatory, legislative and policy requirements for action, institutional investors are acting to address the likely impacts of global warming.

Achieving net zero emissions before 2050 is a key element of the Paris Climate Agreement (UNFCCC 2015) to limit global temperature rise to well below 2 degrees Celsius above pre-industrial levels and to strive for 1.5 degrees.

Several Australian superannuation organisations have committed to addressing the emissions of their investments. Their commitments are to evaluate their alignment with the goal of net zero emissions by 2050, a key element of the Paris Agreement.

Under pressure from regulators and customers, many are emphasising engagement activities, such as asking the companies in which they invest to disclose – and, in some cases, address – their climate risks. Superannuation funds are committing to reduce emissions funded through their investment portfolios, a further sign of gathering momentum for change.

Race to Zero

Part of understanding this transition is the importance of engagement in transitioning portfolios towards net zero. At present, the strategies adopted by most funds are centred on investee engagement rather than the setting of net-zero targets.

In addition to encouraging greater disclosure from the companies in which they invest, some funds now engage with the biggest emitters in their portfolios to align their strategies with the goals of the Paris Agreement through initiatives such as Climate Action 100+.

More funds are increasing their investments in clean energy; more are divesting from fossil fuels. In 2020, for instance, both HESTA and Aware Super started divesting from thermal coal companies as part of their longer-term targets to reduce emissions within their portfolios.

With some of the super funds committing to net zero carbon emissions (UniSuper, Active Super, HESTA, and Aware Super, to name a few), we expect many more to follow. There are always leaders and laggards, and at ECP, we have taken the view to be part of this industry change.

At ECP, we know that Sustainable Business is Good Business. Our process of identifying high-quality franchises results in companies that are carbon-light and have strong ESG credentials. These businesses are highly innovative and are key to solving our societal challenges.

Sustainable Development Goals

United Nations Sustainable Development Goals

Our Commitment

ECP supports the UN Sustainable Development Goals (SDGs), and we believe that the business community should be aware and understand the key societal challenges we face and to implement responsible practices where appropriate.

From an investment perspective, we do not invest in companies to meet the SGDs. However, we do use this blueprint from an analysis perspective which informs our engagement in ensuring we are invested in the highest quality franchises.

United Global Compact Compliance

The United Nations Global Compact, which is a non-binding pact to encourage businesses to adopt sustainable and socially responsible policies and to report their implementation, has issued ten principles to be assessed.

According to the analysis, ECP's portfolio is 100% compliant with international norms since there are no Global Compact Violations. At the same time, none of the companies in the portfolio is on the Global Compact Compliance Violation Watchlist.

> "ECP's portfolio is 100% compliant with international norms since there are no Global Compact Violations."

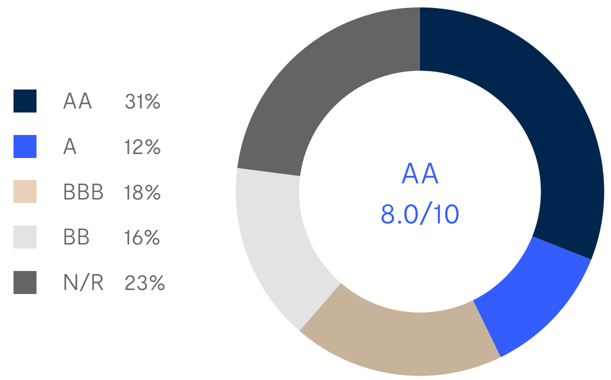
SDGs & Our Portfolio

Impact Assessment

This year, we commissioned an independent ESG analysis and SDG impact assessment of our ECP Emerging Growth companies portfolio. Our portfolio is rated AA, noting that we do not have any controversial business involvement exposure, and our portfolio fully complies with the United Global Compact.

One-third of our portfolio is classed as leaders with AAA or AA ESG ratings. While we caution against making assessments of the sustainability of investments through external rating agencies, it is a positive sign that a relatively high proportion of our portfolio has been awarded this rating, particularly given our large exposure to emerging companies with limited disclosures that inform these ratings.

Portfolio ESG Rating Distribution



Portfolio Score		8.0
Portfolio Rating		AA
United Global Compact Compliance	✓ Compliant	0%
Business Involvement Exposure	✓ Pass	0%

Interestingly, 5.9% of the portfolio revenue is exposed to products and services that help to solve the world's major social and environmental challenges. ECP's revenue exposure to sustainable impact is higher than the benchmark company impact of 5%.

Our sustainable impact solutions score is an industry average of 2 out of 4. Importantly, we are not an impact fund. However, we would expect the portfolio's exposure to sustainable impact-related themes to increase over time as technological advances will increasingly seek to solve the challenges the world faces. Notably, the top contributor to Social impact is Costa Group.

While we do not use ESG ratings in our research, the analysis indicates that, on average, 51% of companies in the portfolio have stable ESG rating momentum - i.e. ESG rating has not been upgraded or downgraded recently. 26% of portfolio companies have positive rating momentum, and ~40% of companies in the portfolio are classed as leaders with AAA or AA ratings.

Based on the assessment of ESG scores, our portfolio has higher ESG scores across themes captured under the Governance pillar. This is followed by themes in the Social and Environmental pillars.

From a sector perspective, our portfolio has a strong relative position in Consumer Staples and Communication Services compared to the benchmark. All companies in the Health Care sector are AA or A rated, while all companies in the Real Estate are A rated. In Consumer Staples, all the companies are AA-rated. In Financials, the Companies are either BB or BBB-rated. While Consumer Staples account only for 1.6% of portfolio weight, it contributes significantly to boosting the overall ESG score.

Out of the five companies that contribute to the largest portfolio weights, Domino's falls within the ESG rating of BB and Lovisa Holdings Ltd falls within the ESG rating of BBB. Interestingly, all the highest ESG-rated companies in the portfolio are Consumer-based.

Sustainable Development Goals

Lowest ESG Rated Positions in Portfolio

Holding Name	Portfolio Weight	Rating
Netwealth Group Ltd	6.02%	BB
Domino's Pizza Enterprises Ltd	7.59%	BB
ARB Corp Ltd	2.26%	BB
Lovisa Holdings Ltd	6.26%	BBB
PWR Holdings Ltd	2.80%	BBB

Highest ESG Rated Positions in Portfolio

Holding Name	Portfolio Weight	Rating
Costa Group Holdings Ltd	1.57%	AA
IDP Education Ltd	5.53%	AA
Corporate Travel Management Ltd	3.76%	AA
REA Group Ltd	6.59%	AA
Carsales.com Ltd	8.26%	AA

Largest Positions in Portfolio

Holding Name	Portfolio Weight	Rating
Carsales.com Ltd	8.26%	AA
Domino's Pizza Enterprises Ltd	7.59%	BB
REA Group Ltd	6.59%	AA
Lovisa Holdings Ltd	6.26%	BBB
Netwealth Group Ltd	6.02%	BB

Exposures

Revenue Exposure to Sustainable Impact Solutions

	Portfolio	Benchmark	Active Exposure
Social Impact	5.3%	2.4%	+2.9%
Nutrition	1.2%	0.5%	+0.7%
Affordable Real Estate	0%	0%	0%
Major Disease Treatment	0.5%	0.1%	+0.4%
Sanitation	0%	0.3%	-0.3%
SME Finance	0%	0.1%	-0.1%
Education	3.6%	1.4%	+2.2%
Environmental Impact	0.6%	2.3%	-1.7%
Alternative Energy	0%	0.9%	-0.9%
Energy Efficiency	0.1%	0.5%	-0.4%
Green Building	0%	0%	0%
Sustainable Water	0%	0.1%	-0.1%
Pollution Prevention	0%	0%	-0.9%
Total Revenue Exposure	5.4%	4.7%	+0.7%

Sustainable Development Goals

Exposures

Exposure to Potential Negative Impact from Company Operations

Environmental

Natural Capital	Portfolio	Benchmark	Active
Exposure to severe biodiversity controversies	1.6%	26.7%	-25.1
Exposure to companies facing water stress	63.1%	49%	+14.1%

Social

Basic Needs	Portfolio	Benchmark	Active
Exposure to severe product safety controversies	0%	0%	0%
Exposure to severe marketing controversies	0%	0%	0%

Empowerment	Portfolio	Benchmark	Active
Exposure to severe employee relations controversies	0%	0%	0%
Exposure to companies facing major layoffs	3.8%	7.5%	-3.7%
Exposure to predatory lending	0%	6.6%	-6.6%

Around 60% of portfolio company operations are exposed to water stress, which is slightly worse than the benchmark. While 1.6% are exposed to severe biodiversity controversies. However, exposure to major layoffs and severe biodiversity controversies is better than the benchmark.

The SDGs represent the coverage of the United Nations' 17 principles issued for companies that follow the path towards a sustainable future.

According to the data analysis, ECP's mid-cap portfolio contributes towards 8 of the 17 principles. The biggest contributions are towards SDG 16 (Peace Justice and Strong Institutions), SDG 17 (Partnerships for the Goals), SDG 11 and 7.

01. No Poverty
End poverty in all its forms, everywhere.

02. Zero Hunger
End hunger, achieve food security and improved nutrition, and promote sustainable agriculture.

03. Good Health and Well-being
Ensure healthy lives and promote well-being for all, at all ages.

04. Quality Education
Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

05. Gender Equality
Achieve gender equality and empower all women and girls.

06. Clean Water and Sanitation
Ensure availability and sustainable management of water and sanitation for all.

07. Affordable Clean Energy
Ensure access to affordable, reliable, sustainable, and modern energy for all.

08. Decent Work and Economic Growth
Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all.

09. Industry, Innovation and Infrastructure
Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation.

10. Reduced Inequalities
Reduce inequality within and among countries.

11. Sustainable Cities and Communities
Make cities and human settlements inclusive, safe, resilient, and sustainable.

12. Responsible Consumption and Production
Ensure sustainable consumption and production patterns.

13. Climate Action
Take urgent action to combat climate change and its impacts.

14. Life Below Water
Conserve and sustainably use the oceans, seas, and marine resources for sustainable development.

15. Life On Land
Protect, restore, and promote sustainable use of terrestrial ecosystems, manage forests, combat desertification and biodiversity loss, and halt and reverse land degradation.

16. Peace, Justice and Strong Institutions
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions.

17. Partnerships
Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Our Planet

Our Climate Change Position Statement

This year ECP has initiated a number of steps toward fulfilling our long-term strategy toward our approach to sustainability and our own (internal) ESG practices and corporate social responsibility. Part of this is to introduce our own climate change position statement.

The Paris Agreement was originally designed as a framework for government, however, its philosophy and underlying goals are highly relevant to the corporate world. For any business, exposure to government action presents a core consideration for any business strategy or investment. With increasing climate-related regulation, companies with plans to reduce their GHG emissions will be well-positioned over the long term to deliver above-average returns.

Companies and investors are essential to a pathway toward a net-zero economy. As with any major paradigm shift, the early adopters of these seismic changes within an operating environment will see increased innovation and higher free cash flows and returns on invested capital through time. Moreover, these actors will find early adoption leads to greater credibility amongst their stakeholders, leading to a greater brand reputation.

As a fund manager, ECP's investment philosophy is centred around identifying high-quality investments (Quality Franchises) that can generate predictable, above-average economic returns. Quality Franchises are sustainable business models that have responsible and trustworthy management. These companies understand that reducing their GHG emissions means improving their business, providing value to their stakeholders, and respecting our community and environment.

Within superannuation, decision-makers (asset owners and asset managers) play a vital role in the road toward achieving decarbonisation. When investing, allocating capital toward companies who are aware of all risks, including climate-related risks, means we are embracing our mandate of responsible investment.

At ECP, we see ourselves as part of the fight against climate change. Engaging with companies to assess the resilience of their business models to externalities ensures not only are we investing in the highest quality businesses we can find, but moreover we are investing in companies that will continue to build a sustainable future for our people and the planet.

We believe that the Paris Agreement and the scientific-based targets present investors with a viable process for slowing down the rising global temperatures. Without such mitigation, the planet's trajectory toward rising temperatures of between 2°C and 4°C by 2100 presents unacceptable and devastating impacts on ecosystems and our health and survival.

For long-term investors, we cannot disregard these signals and cannot ignore the tail risks that may play a detrimental role in our client's long-term wealth creation. What is good for our community is good for our portfolios. Quite simply, sustainable business is good business.

"The planet's trajectory toward rising temperatures of between 2°C and 4°C by 2100 presents unacceptable and devastating impacts on ecosystems and our health and survival."

Our Planet

Task Force for Climate-Related Financial Disclosures

The Task Force on Climate-Related Financial Disclosures (TCFD) was created in 2015 by the Financial Stability Board (FSB) to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.

As a long-term investor and through our commitment to upholding responsible investment practices, it is prudent that we carefully consider any long-term risks to our investments. Increasingly, climate change and environmental risks pose serious threats to some business models, whether they be physical or transitional risks, as we transition to a net-zero economy.

ECP believes that the increasing focus of investors on ESG-related issues and climate change impacts each and every company. In line with the TCFD, we believe that the transition and physical risks presented by climate change provide material risks for some businesses, while others may find it presents some compelling opportunities and financial benefits.

This year was our second year of being a supporter of the TCFD, and we published our annual TCFD Report, which is available on our website.

Why is the Climate Relevant?

Where companies are exposed to climate change or negatively impact the environment or our community, they will inevitably be exposed to increasing regulation, consumer backlash, generally higher costs to operate, and lower returns on investment capital. These are exactly the types of businesses that we avoid.

For us, protecting our client's capital is paramount. Every investment is assessed concerning the potential risks associated with ESG and, further, where there may be an opportunity for the business over the long term.

ECP and its investment team periodically discuss and assess climate-related risks and opportunities with respect to potential investment opportunities. For us, understanding these significant changes within our society means a holistic understanding of a business today, and into the future.

The result of applying our rigorous process means our portfolio companies are highly resilient against most economic cycles, they are less sensitive to changes in economic rates, they are less impacted by major market disruptions and they are able to manage carbon pricing and other government intervention policies combating climate change.

While we do not take a top-down approach when investing, we are relentless in our search to ensure we are aware of climate-related opportunities and their potential impacts on our investment companies. Below highlights several key areas where climate change may present opportunities for the quality companies we seek to invest in.

Risks

As a fund manager, the following information about our investments provide some colour around the two key areas of risk associated with climate change.

Physical Risks

Physical risks are those related to the physical impact of climate change. These types of risks may be (acute) physical risks, including extreme weather events, chronic heat waves, sea-level rise, erosion, and biodiversity loss. Moreover, these risks may also include longer-term shifts in climate patterns (chronic risks), which could affect anything from organisations' supply chains to their employees' safety.

Regarding our portfolio, we have identified that ~28% of our portfolio has experienced some form of climate change, with ~64% believing climate change will impact them through physical risks at some point in the future. Below outlines a few examples of where climate-related risks may impact investments.

Transition Risks

Transition risks are those related to the transition to a lower-carbon economy which could entail policy, legal, technology developments, market changes, or reputation issues. Organisations are already seeing this impact with climate-related litigation and policy changes arising.

Costs of operation, raw materials, and products are all vulnerable to shifts in policy, technology, and markets. And changes in consumer preferences and customer behaviour must also be considered.

Regarding our portfolio, ~68% of our portfolio companies have highlighted that their company would be impacted by transitionary risks associated with climate change. These types of risks may be increasing in nature at a more rapid rate than physical risks, and we expect will impact a greater number of our investments over time.

Opportunities

Resource efficiency

By using more efficient modes of transport or more efficient production and distribution processes, high-quality companies will see reduced operating costs and efficiency gains while also potentially seeing greater production capacity. Moreover, by clearly focusing on more efficient buildings and lower water usage or recycling, companies can extract increased value from their fixed assets.

Energy source

By utilising lower-emission sources of energy or using new technologies that exhibit lower carbon or decentralised characteristics, companies may see reduced operational costs and lower exposures to fossil fuel price increases or carbon price fluctuations. Additionally, these companies may benefit from increased capital availability from investors or reputational benefits.

Product and services

The development or expansion of low-emission goods and services through innovation and shifts in business models or consumer preferences may provide opportunities for businesses to drive increased revenues through new income streams or greater consumer value. Here, companies may find themselves in a far superior competitive position that better reflects the shifting consumer preferences.

Markets

For some companies, climate-related opportunities may arise through having access to new markets, using public sector incentives, or greater reach in their ability to access new assets and locations.

Resilience

At ECP, a key characteristic of our portfolio investments is their resiliency against externalities and economic cycles. By participating in renewable energy programs and through the adoption of energy-efficient measures, companies may be able to increase their market valuation by demonstrating greater resilience, greater reliability in their supply chains and being able to operate through several conditions. Moreover, these companies may benefit from increased revenue through new products and services that ensure greater resiliency.

Our Planet

Quality is Sustainable

As mentioned on the previous page, there are several risks and opportunities that lie ahead for our portfolio companies regarding climate change and their business models. For each company, different risks and opportunities may occur due to varying reasons. Despite the changing landscape, Quality Franchises provide the best solutions to managing these risks or pursuing these opportunities.

RioTinto

Rio Tinto Plc (ASX: RIO)

Physical Risk

Rio Tinto's assets, infrastructure, communities, and broader value chains are exposed to chronic and acute climate change risks, such as the impacts of extreme weather events. Their operating sites may be vulnerable to natural disasters or extreme weather events. Climate change may increase the frequency and severity of these events, including rising sea levels, floods, droughts, bushfires, or extreme temperature impacts on operating environments.

While this presents a challenge for Rio, our view is that the highest quality miner that maintains leading governance practices will better manage physical climate risks that enhance the resilience of assets and communities. This has included incorporating changes to climate into the way they design, operate and close assets through an increased understanding of exposure at each asset.

Energy Opportunity

Rio Tinto has set its sights on delivering on a lower carbon future, with its mobile diesel being a key strategic decision. Mobile diesel is Rio's third largest GHG emission source (16% of emissions), and the company is looking to develop low-emission alternatives for mobile fuel use in haul, load, and rail. Diesel for trucks and electricity are the main sources of emissions in Rio's copper business, and here also, the company is advancing alternative fuel truck trials.

Between 2022 and 2024, Rio plans to conduct a range of modifications to owned shipping vessels, which are collectively expected to deliver more than 10% of carbon emission reduction. These include applying high-performance paints to reduce friction, modifying the propellers, and installing swirl ducts to enhance energy efficiency.

James Hardie Industries (ASX: JHX)

Physical Risk

James Hardie has highlighted that severe weather, natural disasters and climate change could have an adverse effect on their business. Adverse climate changes that directly impact plants or other facilities could materially adversely affect manufacturing or other operations and, thereby, harm their overall financial position, liquidity, results of operations and cash flows.

While insurance includes coverage for certain "business interruption" losses (i.e., lost profits) and certain "service interruption" losses, any losses more than the insurance policy's coverage limits or any losses not covered by the terms of the insurance policy could have a material adverse effect on their financial condition. James Hardie is underway with incorporating climate risks into its risk management framework and plans to integrate climate-related scenario analysis into strategic and financial planning.

Resilience Opportunity

James Hardie's approach of distributing products locally provides for substantial efficiency and competitive advantage. 63% of deliveries in FY21 were within 500 miles of manufacturing facilities which drive efficiencies - the strategic placement of plants optimises the movement of product. In addition to distributing locally, 83% of materials are sourced within 100 miles. This is a unique characteristic of their network of plants which reduces inbound and outbound shipping. Less shipping enables lower costs and a lower carbon footprint than competing producers who may ship materials and products across the country to deliver products to market.

Additionally, their LEAN initiative prioritises conserving the use of natural resources, reducing consumption, reusing, and recycling where possible, which is focused on managing their environmental impact related to waste, energy, emissions, water, and effluent. By participating in these programs, James Hardie has proven to be more resilient through COVID, battling these pressures better than their competitors, which has resulted in market share gains, improved pricing power, and material revenue growth.

Macquarie Group (ASX: MQG)

Physical Risk

Macquarie have highlighted that their business will be impacted by both physical and transition risks associated with climate change. They have continued to expand their understanding of climate scenario analysis, evolving their approach to support future integration into existing stress testing activities.

Recently, Macquarie has analysed the physical and transition risks of parts of Macquarie's Australian business lending and residential real estate lending portfolios by generating climate risk vulnerability heat maps. Macquarie has incorporated climate-related risks into environmental and social risk and credit analysis for carbon-intensive sectors; and they have established approaches to transition risk analysis in the oil, gas, coal and power generation sectors of lending and equity portfolios.

Energy Opportunity

Macquarie is the largest infrastructure manager globally with $560b in AUM and now has one of the largest renewable principal investments books and green advisory businesses through its acquisition of Green Investment Bank. MQG is a key player in enabling the transition of global energy infrastructure to a decarbonised world. With currently 10% of its AUM in renewables, this will grow stronger as the projects it manages to grow from development into the operational phase enabling the manager to deploy far greater amounts of capital.

Our Planet

Our Targets & Goals

ECP acknowledges the risks associated with companies with a high carbon footprint. Generally, these companies are capital intensive, exposed to cyclical fluctuations, and increasingly exposed to higher amounts of government regulatory action. For us, having clear targets and goals for our strategy in different capacities ensures we continue to deliver value for our stakeholders outside of superior long-term investment returns.

As part of our commitment to being a responsible fund management company, our board has set the goal of achieving significantly lower carbon emissions for our investment portfolios (per million dollars invested) than the respective benchmarks. To date, we have achieved this, and we continue to regularly reassess our goals in this respect to minimise our portfolio's carbon footprint while not sacrificing returns to our clients.

This year ECP continued to build upon our Climate Change Position Statement by publishing our Roadmap to Net Zero. Within our roadmap, we have taken the approach of focusing on our emissions relative to the index in setting our goals and aspirations.

Since our mandate is to deliver investment returns above the respective performance benchmark, and many of the steps required to achieve net zero are still developing, we believe it would be inappropriate to set absolute carbon-reduction targets. For now, our focus is on engagement with our investments to be best practices and engaging with our clients where appropriate to assist them in achieving their climate-related ambitions and targets.

Our Roadmap to Net Zero key milestones include:

- 2025 - target carbon intensity 25% less than the bench across all portfolios.
- 2030 - target carbon intensity 50% less than the bench across all portfolios.
- 2040 - target carbon intensity 75% less than the bench across all portfolios.
- 2050 - achieve net zero across our firm operations and investment portfolios.

While we believe many of the initiatives to deliver net zero are still developing, we have begun setting key milestones for our portfolio companies which we believe will support the above:

- 2025 - 50% of our investment companies with publicly available net-zero targets.
- 2028 - 75% of our investment companies with publicly available net-zero targets.
- 2030 - 100% of our investment companies with publicly available net-zero targets.

In addition, ECP has begun its journey toward achieving carbon neutrality for our operations. We expect this to be completed by 2025, and we expect to begin to assess and engage our channel partners and key suppliers concerning their operations.

Climate Action Plan

At ECP, we appreciate that no matter how big or small a company is, everyone is part of our community and as such, we all have a responsibility to act or improve where we can. While our steps may be small compared to some, we have started our journey and expect each year to add incremental steps toward our common goal.

Below outlines the action ECP is taking over three years to improve our climate outcomes, drive cultural change and engage our people and customers, enhance our climate change governance and risk management framework, and report on our climate change performance.

Goal	FY22	Beyond FY22	Actions
Reduce our footprint	×	✓	— Understand the carbon footprint of our operations — Engage with staff on reducing our carbon footprint — Work towards achieving net zero carbo emissions for our business by 2025
Support our clients	×	✓	— Understand our clients own climate-related objectives — Work with clients on how our products can work towards their climate-related objectives — Provide information on our engagement activities
Understand and manage the risks	✓	✓	— Assign oversight of climate change strategy to the Board — Integrate climate change risk into our own business stategy — Consider climate change within our research process
Be transparent	✓	✓	— Express support for the TCFD disclosures — Align disclosures with TCFD recommendations — Publicly communicate our plan, reporting, and carbon emission data

Our Team & Community

Our Team

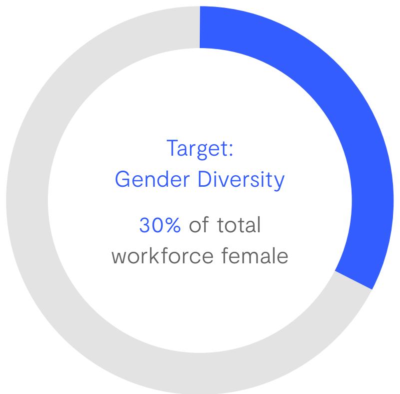
Inclusion & Diversity

ECP recognises and respects the value of diversity. As an organisation, we aim to create an environment where the diversity of our people in experiences, perspectives and backgrounds are valued and utilised. We recognise that each employee brings their unique capabilities, experiences and characteristics to their work.

We strive to create and foster a supportive and understanding environment in which all individuals realise their maximum potential within the Company, regardless of their differences. We are committed to hiring the best people to do the best job possible irrespective of age, gender, cultural background etc.

At the 2020 financial year-end, the board ratified our Inclusion and Diversity Policy. ECP believes that it is a necessary step for any business to ensure an inclusive work environment that fiercely protects people's right to bring their whole self to work. Creating a collaborative and innovative environment for all our employees means having a diversity of thought and the ability to incorporate different points of view, driving maximum engagement.

ECP is continuously evolving and working towards greater diversity and inclusion. The objective of our policy will be to ensure that our working environment ensures appropriate gender representation, and celebrates cultural backgrounds and social diversity. The ECP Board has adopted the following diversity targets:



Our Team

Gender

Over the year, ECP introduced several initiatives aimed at ensuring our female employees are provided equal opportunity within our working environment.

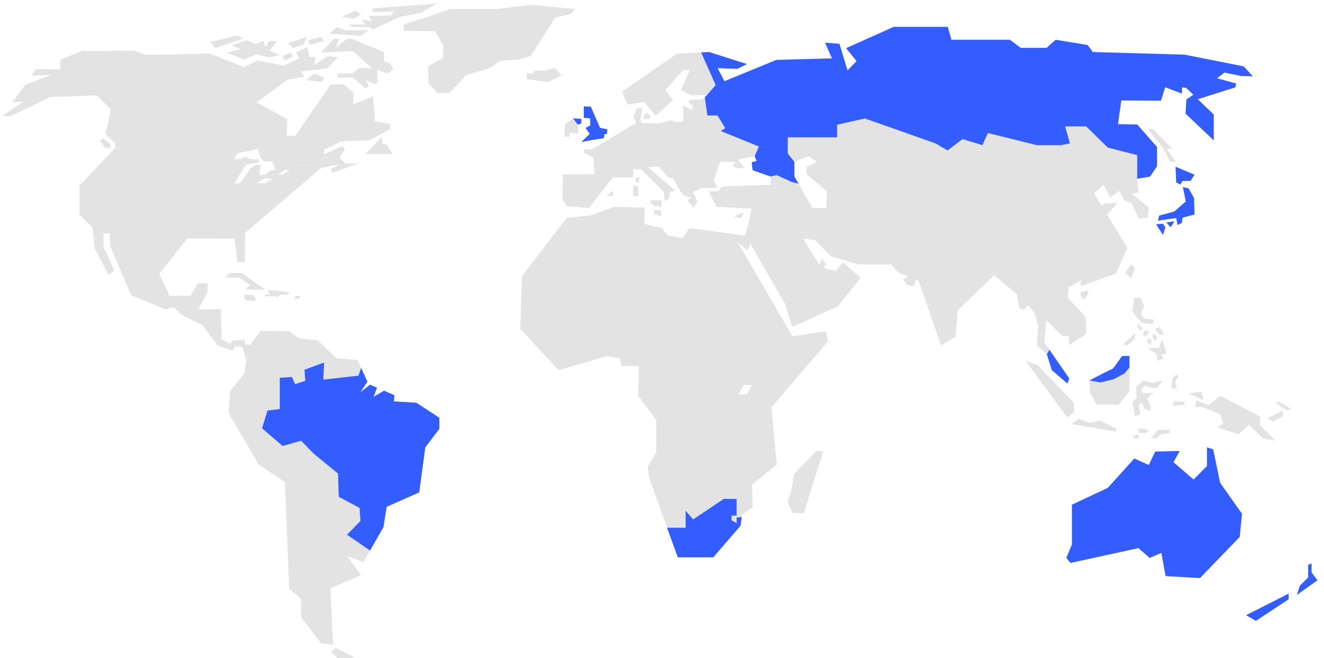
- A market-leading gender-neutral commencement salary, which guarantees no unconscious gender bias when offering a salary to prospective employees and avoids the embedding of a gender pay gap.
- Under this policy, staff will have access to a period of fully paid parental leave for up to six (6) months if they are the primary carer or up to one (1) month if they are the secondary carer.
- An apprenticeship program, regardless of gender, allows all employees the same access to achieving partnership status within the firm based on a defined tenure program that provides equal equity-sharing opportunities amongst the investment team.

Cultural Diversity

ECP recognises that diversity of thought is key to providing optimal outcomes for our clients.

Achieving above-average investment returns requires that we are open to all points of view, and to achieve that requires our firm to be representative of the global, connected world we live in.

Increasingly, businesses and investment companies have a global operating footprint. To fully understand and appreciate investment opportunities requires all our staff and resources to cover a broad range of opinions and ideas that fully capture the potential over the long term.



Where our staff are from

- Australia
- Brazil
- Japan
- Malaysia
- New Zealand
- Russia
- South Africa
- UK

Our Team

Investments

Dr Manny Pohl
BSc(Eng), DBA, FAICD, FFin

Jared Pohl
MBA

Andrew Dale
CA

Annabelle Miller
BCOM

Damon Callaghan
CFA

Jason Pohl
BCOM, LLB, MBA, GAICD

Justin Warton

Lauren Rigby

Sam Byrnes
CFA

Back-Office & Support

Scott Barrett

Gabrielle Short

Keiko Iwano

Julia Czaus

Larissa Tedesco

Distribution

Amy Teh
CFA

Lachlan Hodgkinson
BBUS

Our Community

This year ECP and associated entities, including the Pohl Foundation, have made a number of charitable contributions within our community. Over the years, we have made contributions toward the Taronga Conservation Society, Art Gallery of New South Wales, Lifeline Australia, Currumbin Wildlife Hospital, Bond University and A Sound Life.

Art Gallery of NSW

We have an ongoing relationship with the Art Gallery NSW, whereby over the years, we have funded the restoration of several artworks. The Gallery is one of Australia's premier art museums. Prior restored works include The Foil by Hugh Ramsay and The Prospector by Julian Ashton. The Portrait of a Protestant minister of religion by William Key is currently under restoration, which we expect to be completed in the coming year.

This year we have recently supported the restoration of two works, The Five Senses by Carlo Cignani and The Lady in Blue by Hugh Ramsay.

The Lady in Blue, Hugh Ramsay

The Five Senses, Carlo Cignani

Carlo Cignani (1628–1719) was the most renowned painter of the late 17th century in the Italian city of Bologna, where he maintained a flourishing workshop in the 1660s and 1670s.

The five senses is the only 17th-century northern Italian painting in the Gallery's collection. The subject of the painting is an allegory of Charity, but the children also represent the five senses: holding a bell (hearing), suckling (taste), holding a posy of flowers (smell), looking in a mirror (sight) and touching the woman's hand (touch).

The Lady in Blue, Hugh Ramsay

Hugh Ramsay (1877-1906) was born in Scotland and relocated to Australia in 1878. He enrolled at Melbourne's National Gallery School age 16 and was recognised as a prodigious talent, moving to Paris in 1900 to further his studies and establish a professional practice.

Ramsay's A lady in blue 1902 is a defining work for the painter who reached great artistic heights in his short lifetime - it is the most enigmatic of Ramsay's paintings.

Ramsay employs the striking colour distinction of evocative blue for the female figure's dress as she emerges from the darkness. She is physically close, but psychologically distanced from the male behind her. The softened tones of flesh and hair against the dramatic lighting instil a sense of human drama.

The Five Senses, Carlo Cignani

Our Community

ECP Annual Ambrose

Our annual charity golf day, ECP Annual Ambrose, is held annually at the Lakes Golf Club. This year we had over 140 attendees and raised $44,625 to support the Taronga Conservation Society in their pursuit of helping move this iconic Australian species off the path to extinction. The funds allow Taronga to support the build and ongoing work in their state-of-the-art new Platypus Centre. This centre will care for Platypi displaced by drought and other disasters, be a leading centre for Platypus research and be the first-ever facility to breed Platypi for release into the wild.

Our Community

ECP Executive Forum

This year, we held our first ECP Executive Forum. The Executive Forum is our premier, closed-door, Chatham house rules event. The forum is intended to drive high-level discussions across a broad range of topics or ideas. These topics are intended to be current and prominent societal, investment, environmental or geopolitical considerations. Our first event discussed geopolitical security (given the Ukraine war had just occurred), with the Honourable Karen Andrews, Minister for Home Affairs and Federal Member for McPherson.

ECP Friendly Feast

Each year, we host our friends in business for the night to say thank you for their service and support throughout the year. It is with their support that we can deliver on our promises to our clients and make our own professional lives that bit easier and more enjoyable while we work in this wonderful industry.

Partnerships, Collaborations, and Research

Principles of Responsible Investment

The Principles for Responsible Investment (PRI) were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

ECP has been a signatory to the PRI since 2013, and these principles offer a menu of possible actions for incorporating ESG issues into investment practice.

As a signatory, ECP is committed to developing a more sustainable global financial system. As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with the broader objectives of society. Therefore, consistent with our fiduciary responsibilities, we commit to the following:

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

ECP publicly committed to adopting and implementing them, where consistent with our fiduciary responsibilities. We also commit to evaluating the effectiveness and improving the content of the Principles over time.

We believe this will improve our ability to meet commitments to beneficiaries and better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.

Institute for Economics and Peace

In early 2020, we formed an exclusive partnership with the Institute of Economics and Peace (IEP) in Australia and New Zealand. The purpose of this partnership is to leverage the country-risk insights developed by IEP within our assessment of country-related risks and opportunities.

The IEP develops global and national peace indices, calculating the economic cost of violence, analysing country-level risk and understanding the conditions which underpin highly peaceful societies. The IEP publishes two core indices - the Global Peace Index (GPI), and the Positive Peace Index (PPI). The PPI is of particular importance to our investment process.

Positive Peace

Associated with socio-economic resilience (ability to absorb and recover from shocks) and is correlated with benign macro-economic outcomes - it gauges a country's social, political and economic development.

Negative Peace

Interpreted as a proxy for economic losses and inefficiencies created by social instability and insecurity.

Positive Peace gauges the attitudes, institutions and structures that lead to peaceful societies. There are eight pillars of Positive Peace. These tend to be the same factors that lead to economic development. These factors are often referred to as the microeconomic foundations of macroeconomic growth. As such, Positive Peace can be seen as a tool to achieve both sustainable social justice and economic prosperity - these attributes are key for sustainable investing in the modern era.

As our investment philosophy is grounded upon business economics, investing in high-quality businesses that demonstrate the ability to generate predictable, above-average economic returns, will produce superior investment performance over the long term. The basis of what we do is finding companies that are proven, sustainable and competitive.

Peaceful countries exhibit similar characteristics as our quality franchises, where the strong microeconomic foundations are similar to our quality franchise foundations/characteristics. Peace creates the optimal environment in which human potential and Quality Franchises flourish.

"The economics of a business drive above average investment performance, while peaceful microeconomic foundations moderate the economics of a business. Peaceful foundations allow Quality Franchises to flourish".

When we consider the sustainability of investments and the role that countries play within this, the 3 key points are highly relevant to the business operations of high-quality franchises:

1. Strong Resilience

Where Positive Peace improves, countries are less prone to political shocks and social tensions - a benefit for investors seeking to protect their capital from non-economic disruptions. Nations with higher peace records have far fewer fatalities per natural disaster than lower levels of positive peace.

2. Higher per capita income

Improvements in Positive Peace are associated with increases in GDP per capita. Countries that improve in positive peace experience substantially lower volatility and inflation over time. Growth in business activity in countries where Positive Peace improved - six times higher than where it deteriorated.

3. Better Environmental Outcomes

There is a high correlation with indicators of ESG investment. Higher positive peace countries record better outcomes in measures of environmental health.

IEP

"Peaceful foundations allow Quality Franchises to flourish".

Research & Resources

In 2020 we began using Ownership Matters (OM) research for our proxy voting. This was a development from our commitments to the PRI. OM provides proxy voting research which investors can use shareholder rights to their advantage at company meetings by relying on our Proxy Voting Research.

Each Annual General Meeting or Extraordinary General Meeting of companies is analysed from a shareholder perspective. Recommendations are made according to generally accepted standards of investor expectations on governance issues balanced with commercial imperatives.

Outside of this, we leverage major banking and brokerage houses' ESG-related research and insights, and through our Bloomberg terminals. We are still reviewing other ESG-related resources that will be useful in providing further value to our investment process and our company research. Each of these resources informs our investment teams research, while never directing it.

ECP

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