artesian

Environmental, Social & Governance Policy

1. Summary

This document provides an insight into the Environmental, Social and Governance (**ESG**) policy Artesian has implemented, and/or is implementing.

ESG issues are a natural component of the Artesian investment analysis process, as gaining a robust understanding of these issues is a key part of assessing the potential and risks of an investment.

As a firm, Artesian believes that including ESG metrics into its investment process should lead to greater long-term performance. In addition to the performance upside, Artesian believes that the inclusion of ESG analysis also contributes to risk mitigation.

1.1 ESG Credentials

Within Artesian's venture capital funds management business, Artesian launched the Artesian Clean Energy Seed Fund in 2017. The fund makes seed & follow-on investments in clean energy focused startups from approved accelerators, incubators, university programs & angel groups. The Clean Energy Finance Corporation was the cornerstone investor along with other ESG mandated superannuation funds.

Within Artesian's fixed income funds management business, Artesian launched the Artesian High Impact Green Bond Fund in late 2018. The fund will invest in relatively lower risk green bonds and relatively higher risk clean energy venture debt. The fund may also invest in other green fixed income securities such as asset backed securities related to clean energy infrastructure projects. The fund will combine Artesian's skills in both fixed income and venture capital and leverages the firm's global ESG capability. Also within Artesian's fixed income fund offering is the Artesian Corporate Bond Fund, launched in February 2017. The fund uses a negative and positive screening filter to make optimal investment decisions based on an ESG framework. Artesian believes that by incorporating ESG into our core investment analysis, that this should de-risk the portfolio and therefore increase returns for our investors.

1.2 Industry bodies

Institutional and retail investors increasingly require that investment managers incorporate ESG issues into their investment framework. Strong evidence of an investment manager's commitment to ESG principles is to become a signatory to the United Nations Principles for Responsible Investment (**PRI**). The principles provide a framework by which all investors can incorporate ESG issues into their decision-making and ownership practices. The principles are not a prescriptive set of rules and are to be applied as appropriate within each asset class and investment approach. Artesian is a signatory to the PRI.

Artesian commits to adopting and implementing the six Principles for Responsible Investment;

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

Artesian believes that active engagement on ESG issues with the companies in its investment portfolios is critical in order to create change and to optimize long term investment value. Artesian follows the UN PRI guidelines for ESG investment engagement as summarized in the table below:

VALUE CREATION DYNAMICS	INVESTORS
COMMUNICATIVE Exchanging Information	• Signalling and defining ESG expectations • Seeking detailed and accurate corporate information • Enhancing investor ESG communication and accountability
LEARNING Producing & Diffusing Knowledge	• Building new ESG knowledge • Contextualising investment decisions • Identifying and diffusing industry best practice
POLITICAL Deriving Political Benefits	• Advancing internal collaboration and ESG integration • Meeting client expectations • Building long-term relationships

1.3 Integration

Artesian believes that integrating ESG criteria into its investment process enhances value for its stakeholders.

The various sector specific ESG issues are prioritised, with a focus being on the most important in the short/medium term.

The aim with this investment approval integration is to develop a better understanding of how ESG issues can be intelligently translated into incremental investment returns ultimately for the benefit of both Artesian and its investors.

ESG integration occurs across Artesian's investment platform to varying degrees based on the product's asset class and the investment teams' specific processes and strategies. In general, integration is based on the principle of financial materiality, recognizing that ESG integration should be specific to the asset class, capital structure, sector, geographic location, issuer size and type, holding period of the security, degree of influence or control, and other considerations.

The ESG integration process identifies how ESG factors are used (both as a source of risk mitigation and enhanced opportunity), measured and reported, as well as their influence on decision-making and how each of the investment teams continue to enhance and evolve its process over time. We believe that the most effective way to integrate ESG into an investment process over the long term is for investment teams themselves to research ESG factors and consider them alongside other inputs into the investment process. For this reason, we embed such research in the work of our Investment Analysts rather than employing a separate ESG research team.

2. Fixed Income ESG Practises

Public Fixed Income: Artesian believes that analysing ESG characteristics enhances traditional credit analysis by providing a fuller understanding of the risk profile of each issuer. Our proprietary credit analysis frameworks integrate bottom-up ESG research in order to enable our Portfolio Managers to better assess investment opportunities.

2.1 Positive & Negative Screening

There are various paths investment managers can take when considering whether to invest in companies that have relatively poor ESG practices.

One approach is 'negative screening', which prohibits investment in those companies that score poorly on ESG factors. Another approach is 'positive screening', which invests only in those companies that score highly on ESG factors. Negative screening means excluding companies from investment that do not comply with specific, pre-set social or environmental criteria.

The negative screens that Artesian currently overlays on the Artesian Corporate Bond Fund, excludes companies whose core business relates to;

- Fossil Fuels
- Tobacco
- Alcohol
- Cluster munitions
- Landmines
- Pornography, and
- Casinos.

The positive screening involves both qualitive and quantitative data from a variety of sources including Sustainalytics, Moody's and Bloomberg. The positive screening aims to allocate capital to those issuers who rank superiorly to their peers. Artesian leverages their global research team to apply a forward-looking momentum factor to the issuer's current ESG score.

The Artesian High Impact Green Bond Fund has a mandate focused on positive environmental outcomes. Therefore, focusing on factors relating to but not limited to;

- Resource use
- Pollution
- Climate change
- Energy use, and
- Physical environmental challenges and opportunities.

When evaluating a potential investment company's impact on the environment, some of the common measures considered are carbon emissions, water and energy consumption, waste management and pollution metrics.

Positive screening is conducted by Artesian Investment Analysts, using a range of tools such as Bloomberg, which assigns ESG scores. The Investment Analysts then incorporate their ESG opinion of the issuer into their analysis. Additional relative value analysis of issuers and their ESG scores, allows the Portfolio Managers to make more informed investment decisions.

2.2 Key ESG Fixed Income Factors

The table below summarises the key ESG factors and issues that Artesian reviews for its fixed income investment activities.

FACTORS	ISSUES	ARTESIAN'S ACTIVITIES
Environmental Factors - concerns investing in an environmentally friendly way, e.g. reducing carbon dioxide and other greenhouse gases impact on the climate.	GHG emissions, waste, pollution, suitable resource use, energy use, controversies, product impact, management systems.	Artesian has launched a **High Impact Green Bond Fund** which will invest in "dark-green" bonds and venture debt of clean energy startups. This fund targets GHG emissions and aims to invest in technology companies that will have a deflationary effect on the cost and implementation of climate resistant infrastructure.
Social Factors - concerns how investments effect society.	Child labour, supply chain, customers, diversity, community relations, labour-conditions, product safety, marketing, human rights,	Artesian Investment Analysts incorporate social factors into their fundamental analysis when analysing specific companies. Long term views are formed on current practises and their suitability to the ESG investment mandate.

	equal opportunities, discrimination.	
Governance - Factors concerning how companies are managed, for example executive compensation and transparency.	Board independence, board and management transparency, compensation and diversity.	Governance is at the epicentre of Artesian's fixed income ESG research analysis. Often the cause of considerable loss due to litigation, Artesian corporate governance analysis encompasses the behaviour of senior management, employees, investors, suppliers and other key industry bodies.
Involvement - Factors to avoid investments in companies that are involved in controversial (non-responsible) activities.	Tobacco, alcohol, cluster munitions, landmines, pornography, casinos and climate change.	Artesian screens its portfolio to avoid investment in companies involved in non-responsible activities.

3. Venture Capital ESG Practises

Private Markets (Equity & Debt): Artesian believes that ESG characteristics are an important part of the due diligence of any private investment. We seek to conduct this diligence ourselves when we invest alongside other investors on a particular transaction.

3.1 Positive & Negative Screening

Artesian also employs a positive and negative screening process across its Venture Capital investment universe. Some mandates differ due to the construct of the investment guidelines. The only negative screens that Artesian currently impose are on companies that participate in the following activities:

- Carbon capture and storage
- Nuclear power and technology, and
- Cluster munition producers.

3.2 Key ESG Venture Capital Factors

The table below summarises the key ESG factors and issues that Artesian reviews for its venture capital investment activities.

FACTORS	ISSUES	ARTESIAN'S ACTIVITIES
Environmental Factors - concerns investing in an environmentally friendly way, e.g. reducing carbon dioxide and other greenhouse gases	GHG emissions, waste, pollution, suitable resource use, energy use, controversies, product impact, management systems.	Artesian has established the Artesian **Clean Energy Seed Fund** in partnership with the CEFC and has the Australian Ethical Superannuation Fund as an investor. The fund matches the investment mandate of the CEFC which has a negative screen on

impact on the climate.		nuclear technology & power, and carbon capture & storage technology. The fund is mandated to assist in developing a clean energy startup ecosystem in Australia by building support networks of entrepreneurs, accelerators, incubators, university programs and angel groups and investors.
Social Factors - concerns how investments effect society.	Child labour, supply chain, customers, diversity, community relations, labour-conditions, product safety, marketing, human rights, equal opportunities, discrimination.	Artesian reviews social factors when completing due diligence on portfolio startups. Artesian actively supports improving gender diversity amongst founders, boards and investors and opposes discrimination of any kind. Examples of how Artesian seeks to improve investor and founder diversity include: • "She Starts" program run by Artesian accelerator partner BlueChilli • Angel investor education program run in conjunction with LaunchVic.
Governance - Factors concerning how portfolio startups are managed, for example executive compensation and transparency.	Board independence, board and management transparency, compensation and diversity.	Through early stage guidance and active engagement, Artesian works with its portfolio startups to set high standards of governance, transparency and diversity.
Involvement - Factors to avoid investments in startups that are involved in controversial (non-responsible) activities.	Weapons, nuclear power, tobacco, animal welfare, conflict countries.	Artesian screens its portfolio to avoid involvement in startups involved in non-responsible activities.

4. Oversight

The ESG Committee (Committee) is responsible for providing oversight of this policy and its adherence within each Fund's investments. The Committee is chaired by the Head of ESG Investing, John McCartney.

Members of the ESG Committee are John McCartney, Matthew Clunies-Ross, Jeremy Colless, Luke Fay, David Gallagher & Kurt Tan.

The Committee meets quarterly to discuss learnings over the previous quarter, which may include;

- Portfolio review – adherence to mandate.
- Idiosyncratic news – positive or negative news on companies within Artesian's investible universe.
- ESG themes – how do they impact portfolio companies.
- Sector headwinds – which companies are market leaders, which companies are laggards.

Minutes are circulated to the entire investment team.

Artesian has a firm wide focus on improvement within its ESG expertise, deeper ESG integration in investment processes and research activities.