

# ATI's Environmental Social and Governance (ESG) Policy

## 1.Introduction

## 2.Adoption of PRI Principles

## 3.Integration into the ATI Process

## 4.ESG External / Client Reporting

## 5.Engagement with Investee Companies

## 6.Collaboration



## INTRODUCTION

As more people around the world understand the impact of climate change, there is greater pressure on companies to do their bit for the environment. At the same time, more scrutiny is being placed on multinational companies to ensure that they treat their staff and suppliers in a fair and equitable manner. Board accountability and a strong company corporate governance culture is essential at all times, but especially so in the current economic environment.

ATI as an investor and shareholder in ASX listed businesses is conscious to ensure that businesses show greater sensitivity to environmental, social and corporate governance (ESG) issues.

ATI's holistic view is that poor ESG adherence has become a leading indicator of potential issues in the transparency of a company's future earnings forecasts.

Over the past six years, ATI has successfully integrated into its proprietary investment process, a specific ESG module within its proprietary qualitative assessment score (QAS). This module provides considerations that all analysts must take into account when conducting research and analysis on any company being considered for prospective grade status and hence being available for inclusion in the ATI portfolio.

The ESG module has evolved and been positively adopted by the ATI analysts such that it is now an integral part of the ATI research effort. The module assists in providing insight, and identifying issues and areas that require consideration. ATI view is that valuations are only as good as the reliability of the earnings forecasts underlying them, and any research that can assist in identifying potential issues in our earnings forecasts need to be considered.

There is growing recognition that ESG factors may impact the value of a company. ATI as a contemporary investment manager has been improving its capacity to better understand ESG factors and enhance their integration into its investment process.

An important consideration in our responsible investment strategy has been the adoption by our strategic investment partner Zurich Insurance (Zurich) of the Principles for Responsible Investment (PRI).

## ADOPTION OF PRI PRINCIPLES

The PRI are voluntary, aspirational initiatives and provide a framework for integrating ESG considerations into investment decision-making. The six principles ([www.unpri.org](http://www.unpri.org)) provide guidance on the following:

1. Incorporating ESG considerations into investment analysis and decision-making processes;
2. being active owners and incorporating ESG issues into ownership policies and practices;
3. seeking appropriate disclosure on ESG issues from the entities invested in;
4. promoting acceptance and implementation of the principles within the investment industry;
5. working collaboratively to enhance the effectiveness of the principles; and
6. reporting progress on implementing the principles.

**ATI became a signatory to the PRI in 2009 and has adopted the ESG principles within its organisation (<http://www.unpri.org/signatories/>)**

The Principles do not impose any specific requirements, and are to be addressed by each signatory within the framework of its legal duties to investors. Each signatory determines for itself how it will respond.

## INTEGRATION INTO THE ATI PROCESS

Within the ATI Qualitative Assessment Score (QAS) the following questions are required to be answered for all companies within the 'prospective grade' universe and have ESG relevance. Some issues that need to be identified relate to:

**The Board:** mix of non-executive and executive directors, quality of the board, turnover of the board / senior staff changes (which may flag issues with strategy or management).

**Remuneration:** Level and type of incentive for board and management, alignment of incentive structure with shareholders and performance.

**Capital:** Review changes to the capital structure eg capital issuances that are potentially large but may be justified because of M&A activity or inability to raise debt market finance, analyse disposals and acquisitions where shareholders should be concerned about the economic impacts.

**Risks:** Are there any risks to note like environmental regulation, eg Gunns lead bank ANZ reviewing its financing of pulp mill in light of environmental concerns.

**Shareholding structure:** Have majority shareholders adjusted their stake, and could this have an impact on the way the company is run? eg where the major shareholders may act to oust management or break up a company; are there any poison pills and will any of them be enacted.

**Accounting:** Review financial disclosure (who is reviewing the company eg ABC Learning), review treatment of dividends or goodwill, recutting of divisional earnings, continued "below the line" treatment of earnings.

Specific ESG questions within the QAS are:

- § Does the company provide adequate Environmental disclosure and reports (relative to peers)? (Qualitative factor, 1-2 QAS points).
- § Does the company provide adequate Social governance disclosure and reports (relative to peers)? (Qualitative factor, 1-2 QAS points).
- § Does the company provide adequate Corporate disclosure and reports (relative to peers)? (Qualitative factor, 1-2 QAS points).
- § Are cash flows within the ATI forecast period impacted (or potentially) by legislation directly related to ESG issues? (eg Carbon tax, MRRT)(Fundamental factor, 1-2 QAS points).

The other fundamental and quality factors that have ESG relevance are:

### Qualitative Factors:

- § Review mix of non-executive, executive and independent Directors. Are there potential corporate governance issues or lack of independence? Has there been turnover in at the Board or management level that is of concern? (1-2 QAS points).
- § Review remuneration of Board and Key management. Review the key benchmarks and performance factors (is there alignment with stakeholders / are there any ESG factors incorporated into this?). (1-2 QAS points).

[The analyst is to make an assessment of the overall quality of Board members relative to peers].

- § Review the control that major stakeholders (>20% of issued capital) have in the company. Are these stakeholders currently experiencing financial distress and what control (Board or related party) if any do they have? (1-2 QAS points).

- § Review quality of guidance (if any) provided by management as well as historical track record at delivery (over/under deliver). Are there significant abnormalities or rebasing of divisional earnings at the last reported result? (1-2 QAS points).

**Fundamental Factors:**

- § Review whether the company has poor quality accountants or lawyers with the potential for a lack of independence. (1-2 QAS points).
- § Review whether the company has potentially breached debt covenants or may do so within the forecast period. Review bank syndicate arrangements. (1-2 QAS points).
- § Review property, inventory and investments that are on the balance sheet and subject to Directors valuations that may have the potential for write-down. Are there significant changes to accounting policy or lack of transparency in disclosure? (1-2 QAS points).
- § Review the accounting policies for companies with significant (>25%) dependence on associate companies. Review control mechanisms and potential for calls on capital by the associate. (1-2 QAS points).

All these factors in total represent ~15% of the overall QAS of any company that ATI would consider investing in. By doing this:

- § ATI's investment approach takes into account the fact that in certain sectors, industries and companies, ESG factors may have a material impact on a company's valuation.
- § Companies may be screened out of ATI's investable universe due to the ESG factors in the QAS.
- § Our analysts will continue to gain knowledge and understanding of ESG issues in the sectors that they cover.
- § If two companies in ATI's investable universe have the same fundamental valuation, the one with the better ESG policy is likely to be the preferred investment.

While implementation of this Responsible Investment policy has commenced, it will be considered progressively and continually developed over time. We are committed to reporting to our clients and key stakeholders on at least an annual basis in how our business is adapting and complying with ESG standards.

## **ESG EXTERNAL / CLIENT REPORTING**

We provide our clients with the following reports:

Annual Voting Record

Governance and Engagement Reports

We provide annual voting reports to our institutional clients as well as a more in-depth annual Governance and Engagement Report which details the activities we have partaken with respect to our investee companies as well as our wider stance on stewardship and related issues.

## **ACTIVE OWNERSHIP**

ATI pursues an active investment style through portfolio management decisions, voting on resolutions at general meetings and maintaining an ongoing dialogue with management. This involves holding numerous meetings with companies, at Board and Senior Management level, to discuss specific results or events as well as a more informal dialogue incorporating site visits and other research initiatives.

ATI is generally supportive of the management of the companies in which we invest, but we will nonetheless form our own views on the strategy and governance of a business. These form part of our dialogue with companies. On occasion, our views will differ from those of management and where this is accompanied by a failure to achieve our reasonable expectations for shareholder return we will consider promoting change.

Our specific response will be determined on a case-by-case basis, after weighing up the relative merit of intervention or a sale of the shares. Typically we will choose to intervene to promote change when the expected benefits of intervention (through increased returns to our investors) outweigh the anticipated cost.

ATI utilises the guidance of external proxy voting specialists to provide information that will assist the investment team in making the final voting decision.

## ENGAGEMENT

ATI does not screen out companies from our investment universe purely on the grounds of poor ESG performance but rather adopt a positive engagement approach whereby we discuss these issues with the management of the companies in which we invest or are considering investing on behalf of our clients.

We believe it is an advantage to us and our clients to build positive relationships with our investee companies as this enhances our ability to introduce constructive change where required.

We use the information gathered during these meetings both to inform our investment decisions and also to encourage the company's management to improve procedures and policies. We believe that this is the most effective way to improve corporate responsibility in our investee companies.

In addition to the engagement with Senior Management of the investee companies as required, our investment staff attend conference calls or face-to-face meetings with the relevant SRI/ESG professionals of these firms and ESG specialists within the Finance community to address specific ESG concerns. Our eventual goal from these activities is to enable us to gain greater insight into the company's ESG processes, to further our understanding on the issues and to learn how these concerns are being addressed by the company.

## COLLABORATION

ATI's approach to responsible investment is consistent with the PRI Principles and is consistent with our view that ESG integration should be encouraged when it enhances long term financial return. As part of being a signatory, ATI submits an annual assessment report to the UNPRI in accordance with their guidelines and our approach to ESG across asset classes is currently rated as outperforming the median.

We maintain close relationships with a wide spectrum of investors as well as other agents of corporate change. Where legally permitted we are willing to consider collective engagement initiatives. Relevant factors in determining whether or not to participate in a collective engagement initiative will include the identity of the other leading investors, the relative size of the investment held by these investors and a determination of whether a collective approach is necessary in order to achieve a satisfactory outcome.

In addition, our investment team attend industry events and forums to promote transparency in corporate governance issues and has responded to many government/exchanges/investment management groups' consultation papers on best practice in the responsible investment industry. The Investment team has also provided seminars to Institutional and retail clients on how ATI has integrated ESG into its investment process.