

ESG Policy – April 2011

Solaris Investment Management Limited (Solaris) recognises its duty to behave responsibly in our business activities and towards those whom its actions affect. As an investment manager, we believe that high standards of business conduct, as well as a responsible approach to Environmental, Social, and Governance (ESG) issues makes good business sense and enhances shareholder value. Conversely, poor management of these issues may pose a risk to the reputation and value of a business.

The first part of this ESG Policy deals with our approach to ESG issues as an investment manager.

The second part of this ESG Policy focuses on Solaris as a business and the principles that guide us. Our goal is to follow any best practice guidelines that may be relevant to our business and to put our principles into action.

We have developed these Guiding Principles to express how we view our responsibilities and how they apply in a practical way to the day to day running of our business. They are reviewed annually to ensure they remain relevant.

Solaris ESG Policy

Contents

Solaris ESG Policy	2
Part 1 - Solaris Investment Management's Approach to ESG	3
1 Introduction.....	3
2 Analyst Based Evaluation of ESG Issues	3
3 Where does ESG Evaluation fit into the Solaris Process?.....	3
4 What Factors are considered in the ESG Assessment?	5
4.1 Environmental	5
4.2 Social.....	5
4.3 Governance	5
5 The Role of the ESG Analyst within the Investment Process	6
6 Recording ESG information and research	6
7 Memberships.....	7
Part 2 - Solaris Guiding Principles	8
1 Environment.....	8
2 Social.....	8
2.1 Employee Relations	8
2.2 Community Involvement.....	8
3 Governance	8
Appendix 1: Memberships & Collaborations.....	8

Part 1 - Solaris Investment Management's Approach to ESG

1 Introduction

Solaris Investment Management Limited (Solaris) is a mainstream equities manager. The incorporation of ESG issues into our investment decision making process is an integral part of our business. We do not currently offer specialist ESG portfolios however, we believe that companies cognisant of environmental, social and governance issues may represent opportunities for outperformance and correspondingly those companies that do not effectively manage these areas of their businesses could experience underperformance.

2 Analyst Based Evaluation of ESG Issues

The evaluation of ESG issues is undertaken by the analyst responsible for the company. Analyst empowerment is an important feature of the Solaris investment process. Every company in the S&P/ASX200 is covered by a dedicated analyst and the decision to include or exclude that company in Solaris' investment portfolios is predominantly the decision of that analyst. ESG evaluation forms part of the analysts' overall assessment of that company. It is important to emphasise that this is not a new aspect of the analyst role. All current analysts have, in their past, had to make ESG evaluations. Solaris also employ an ESG Analyst who provides the analysts with additional information and research capacity where required.

3 Where does ESG Evaluation fit into the Solaris Process?

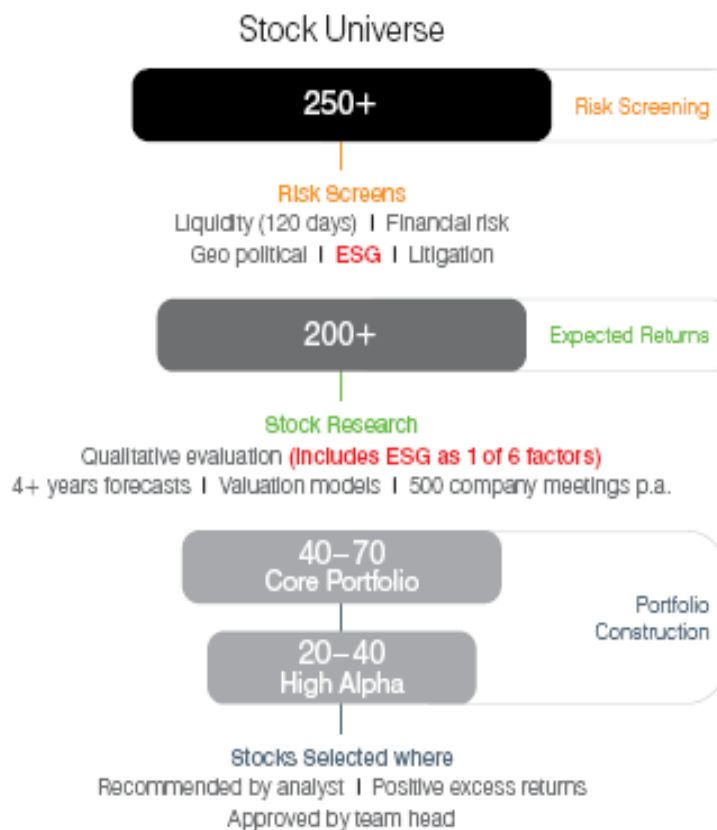
ESG factors are considered at two stages within the Solaris Investment process:

- The **initial risk screening stage** where Liquidity, Financial, Geo-political, ESG and Litigation risks are assessed. Stocks that fail to pass any of these risk screens are considered non-investment grade and are not included in the Solaris universe.
- **Qualitative assessment stage** – The criteria examined by our analysts include:
 - Management
 - Business Model
 - ESG factors
 - Balance Sheet
 - Cash Flow profile
 - Trend in Return on Equity

The conclusions drawn by analysts from their qualitative assessment feeds into the appropriate rating applied to each company's valuation. For the most commonly used valuation technique: DCF, this involves adjusting the *beta* to incorporate positive or negative

factors discovered in the qualitative assessment. Accordingly, conclusions drawn from the assessment of a company's ESG activities may affect that company's rating and its valuation.

The main portfolio construction technique that Solaris use is based on expected return. Simply put, if a company has a high expected return that company will, prima facie, be included in the portfolio and equally a low expected return (or negative excess return) will see a company not held in the Solaris portfolios. It follows, therefore, that a poor ESG evaluation will result in the company's valuation being marked down and reducing the company's chances of being included in a Solaris portfolio.



ESG Analysis used in Risk Screening and Qualitative Assessments

4 What Factors are considered in the ESG Assessment?

Solaris aims to integrate material ESG factors into the valuation of each company included in, or considered for inclusion in, the portfolios we manage. Each company is assessed on a case by case basis with premiums/discounts for factors identified applied through the analyst's valuation process.

4.1 Environmental

Analysts review environmental issues associated with their companies and make a decision as to whether a premium or discount will be applied to the company valuation. Some examples of factors that may be considered in this process are:

- Climate Change
- Water Supply
- Energy Use
- Pollution
- Biodiversity

4.2 Social

An evaluation of the social impact of a company's activities also forms part of the analysts' overall ESG assessment. The conclusions of the assessment can result in either a discount or a premium being applied to a company's valuation. Examples of factors that may be considered in this process are:

- Human Rights
- Supply chains
- Health & Safety
- Indigenous Rights

4.3 Governance

An evaluation of a company's governance structure is also an integral part of the ESG assessment performed by Solaris analysts. The results of the assessment can see stocks either having a premium or discount being applied to the company valuation. Examples of factors that may be considered in this process are:

- Board Independence
- Remuneration
- Bribery and corruption
- Shareholders' rights

5 The Role of the ESG Analyst within the Investment Process

Currently, the Solaris ESG Analyst's role is to:

- Ensure that relevant ESG issues are brought to the Analysts' attention through:
 - Immediate ESG Alerts where the issue is assessed as having a high probability of valuation impact
 - Fortnightly ESG Round-up of issues where there is a lower probability of valuation impact
 - Ongoing dialogue regarding company, sector and market specific issues
- At the **Initial Screening Stage**: Advise on ESG issues that may cause the stock to be excluded from Solaris' investable universe, i.e. the stock is considered such poor quality that Solaris would not invest in it under any circumstances.
- In the **Qualitative Evaluation Stage**: Ensure that the Solaris analysts are fully informed of ESG issues that may affect the valuation of their stocks. Each analyst is required to reach an annual performance target from their allocated sectors. They prioritise their own stock analysis and their effectiveness is reflected in their subsequent performance outcome which drives their remuneration and retention outcomes. ESG issues form part of this in-depth analysis for each stock. While analysts have access to a standard company model and Discounted Cash Flow valuation package, they are empowered to use whichever analysis and valuation methodologies they find most effective. This effectiveness is gauged by the performance outcomes generated. The analysts are similarly empowered to utilise the ESG data provided by the ESG Analyst in a pragmatic and considered approach suitable for their sectors.
- Follow-up with the Analysts to
 - quantify the level of impact the ESG issue has had on the valuation of the company
 - determine the engagement level with the company
- Record issues, valuation impacts, and engagement levels related to the ESG issues raised
- Monitor sector themes and provide input regarding potential impacts of ESG issues
- Enable Solaris to participate in relevant Industry collaborations

6 Recording ESG information and research

All ESG specific data is maintained by the ESG Analyst in an Excel based database. Each ESG alert that is communicated to a Solaris analyst is recorded. The data recorded includes:

- The issue being addressed
- The ESG Analyst's assessment of the issue's likely impact on valuation
- Whether contact was made with the company regarding the issue – who was contacted and when, including the level of engagement

- Any comments made by the analyst or the company
- The ultimate evaluation impact in the analyst's company model

ESG Alerts encompass company, sector and market impacts that may be identified. The database forms the basis of Solaris' quarterly reporting to our clients.

A database is also kept of all relevant research and news items. This information is sourced from a number of areas:

- Broker Research
- Regulatory Bodies
- Industry Bodies
- Clients
- UNPRI, CDP, ESG RA, RIAA
- NGOs
- ESG Research Providers – Solaris currently subscribe to the CAER database (EIRIS)
- Media
- Company Reports
- Proxy Voting Advice via ISS Proxy Advisory Service

7 Memberships

Solaris is a signatory to/member of the:

- UN Principles for Responsible Investment (UNPRI)
- Carbon Disclosure Project (CDP)
- Carbon Disclosure Water Project
- ESG Research Australia (ESGRA)
- Responsible Investment Association of Australia (RIAA)

Solaris is also actively involved in a number of UN PRI collaborations:

- CEO Water Mandate
- Forestry Footprint Disclosure Project
- Group Collaboration re letters to Companies with exposure to deep water drilling risks
- Group Collaboration re Investor Statement on Climate Change
- Group Collaboration re Sustainable Stock Exchanges

Further details of these activities may be found in Appendix 1.

Solaris participated in the UN PRI annual questionnaire for the 2009 year and intends to maintain our participation going forward.

Each of these memberships/collaborations provides Solaris with useful and significant insights into issues that may be affecting the companies within our universe – the S&P/ASX 200.

Part 2 - Solaris Guiding Principles

1 Environment

- Minimising any negative impact on the environment arising from our business activities

2 Social

2.1 Employee Relations

- Sharing a close relationship with our employees
- Providing a flexible, supportive, healthy and safe working environment
- Adopting policies and practices which encourage an appropriate work/life balance
- Providing a stimulating work environment where employees can grow and expand their skill set
- Promoting our Values: client focus, teamwork, open and fair, and results driven

2.2 Community Involvement

- Investing in charitable causes and social enterprises
- Supporting the community as a whole, but especially those communities in which our office is based
- Supporting and encouraging our employees in their charitable and community involvement
- Support the Principles of Fair Trade and not contribute to any practice where there may be potential abuses of human rights or exploitation of any kind

3 Governance

- Conducting our business ethically, maintaining good corporate governance, compliance & risk management
- Promoting responsible business practices
- Understanding that good corporate governance and effective management are vital to the successful implementation of our corporate objectives

Appendix 1: Memberships & Collaborations

Organisation/ Collaboration	Date Joined	Brief Description
UN Principles for Responsible Investment	May 2009	The United Nations-backed Principles for Responsible Investment Initiative (PRI) is a network of international investors working together to put the six Principles for Responsible Investments into practice.

		The Principles were devised by the investment community. They reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large.
Carbon Disclosure Product	June 2010	Thousands of organisations from across the world's major economies measure and disclose their greenhouse gas emissions and climate change strategies through CDP.
CEO Water Mandate	July 2010	Private-public initiative with a focus on developing strategies and solutions to contribute positively to the emerging global water crisis.
Forest Footprint Disclosure	July 2010	An initiative that aims to enhance transparency for the investor community by ensuring that those companies using biofuels, soy, palm oil and beef that may have been grown on recently cleared natural forest can identify and manage associated deforestation risks. Information has been requested from 290 companies globally.
Oil Companies – Group Collaboration (led by Ceres)	July 2010	The ongoing BP Gulf of Mexico disaster has made clear the potentially catastrophic financial implications of poor ESG risk management and disclosure. In response, Ceres has begun the process of coordinated engagement with companies in the oil and gas and insurance/reinsurance sectors that have significant exposure to deepwater offshore operations, with the ultimate goal of both improving corporate management of ESG risks, as well as increasing transparency for investors.
Global Investor Statement on Climate Change	November 2010	Investors asking governments globally for strong, credible, effective policies on climate change.
CDP Water Disclosure Project	January 2011	Request information on the risks and opportunities companies face in relation to water; on water usage and exposure to water stress in companies' own operations and in their supply chains; and on companies' water management plans and governance.
Sustainable Stock Exchanges Collaboration	January 2011	Call to the listing authorities of the global stock markets to consider possible actions exchanges can take, including improving company disclosure of ESG factors.