

ESG Policy

It's clear that issues like climate change, biodiversity loss and social inequality pose a serious threat to long-term economic growth.

There is hope, however, as the situation is inspiring innovation and adaptation in technology and business processes, and it's all focussed on having positive social and environmental impacts. The transition to sustainable economies represents a huge investment opportunity.

Our Approach

Our financial analysis is exhaustive, but we also assess a range of environmental, social and governance (ESG) factors to give us a complete picture of the risks and opportunities surrounding a company. It helps to inform our decision-making process across the phases of screening, stock selection and portfolio construction.

We use a bottom-up approach to researching companies, and that includes ESG Integration.

ESG factors are a fundamental element of long-term sustainability, which makes them consistent with our pursuit of better returns and outperformance.

Our Responsible Investment Philosophy



We recognise that sustainable **environmental** practices are vital to support a prosperous economy.

- We avoid extractive industries that are heavy polluters; they're inherently risky in a world of carbon constraints. On the other-hand, companies driving innovation in the transition to renewable energy offer profitable upside without harming the environment we all depend on.

An inclusive **society** allows more people to participate in the economy, to drive vibrant markets and in-turn, to healthier investment returns.

- We don't support companies that produce addictive social media, that might detract from a healthy mental state, nor do we support companies involved in alcohol or gambling.

Good **governance** is founded on honesty and ethical behaviour, and long-term sustainability is only possible when markets operate with fairness and respect.

- We assess companies on their diversity, their human rights record, their treatment of staff and their approach to long-term planning. We look for independent boards, influenced by diverse points of view.

ESG Factors

We assess companies on a range of Environmental, Social and Governance factors. These include:

ENVIRONMENT

- Commitment to resource efficiency across: electricity, water and waste
- Carbon intensity of production, and of their final products
- Efforts to reduce green-house-gas emissions
- Recognition of climate related risks
- Disclosure of environmental issues or incidents
- Sustainability strategy

SOCIAL

- Health and safety procedures
- Accordance with local labor laws, and respect for workers
- Recognise and respect the importance of diversity
- Engagement with key (non-financial) stakeholders
- Dialogue and reactivity to community requests

GOVERNANCE

- Effective risk manage protocols (including ESG)
- Corporate governance structures:
 - Distinct Chair and CEO
 - Inclusion of independent directors on the board
 - Independent audit committee
- Appropriate remuneration policies
- Thorough and transparent reporting practices
- Clear compliance with regulatory bodies in their jurisdiction

Investment Approach

We're active investors, and we adopt a range of methods to analyse and influence the companies we research. We integrate ESG in the following ways:

SCREENING

We view a focus on environmental sustainability as being the best long-term investment strategy. As part of our screening process we avoid a range of sectors that represent unavoidable risk factors. At the same time, we identify and explore industries that are focussed on innovation, resilience and Blue Oceans thinking.

NEGATIVE SCREENS

- Polluting commodities (such as oil, coal, copper or gold)
- Weapons or defence
- Gambling
- Alcohol and tobacco
- Any media harmful to psychological well-being

A SELECTION OF OUR CORE POSITIVE SCREENS

- Battery technology
- Communications technology
- Energy-efficiency technology
- Renewable energy production, and related technology
- Transport solutions
- Healthcare
- Artificial intelligence
- SASS platforms and process-digitisation
- Low-cost and innovative financial services
- Sustainable agriculture
- Alternative foods - meat & dairy free

Our Engagement Process

We feel all investors have a duty to be responsible stewards of company equity. We work with companies to ensure they're managing any material ESG risks, while also helping them identify opportunities and maximise their potential.

We take a high conviction approach to our strategy, and every company we select has been heavily scrutinized throughout our rigorous analysis process across both financial and ESG metrics.

Should a company's dynamics change, then so too will our assessment of their prospects. We choose to engage with companies as the first step in understanding and remediating a potential problem.

For us engagement is not adversarial, it is a partnership. We open lines of communication to ensure both parties have all the relevant information. We make our concerns known, and we offer advice, recommendations and any assistance that can help the company get back on track.

- In 2020 we engaged with Hypebeast to enquire about a number of ESG concerns. It became clear that the company had the best intentions, but they'd not crystalised their approach and principles in a formal ESG

policy. We worked with them to develop their policy, and at the time, we were satisfied with their approach to ESG.

- NB. The company is no longer in our portfolio due to the sudden and unforeseen, political complications in Hong Kong, where the company is listed.

Divestment: A Last Resort

Engagement is our preferred cause of action when a company's operations have deviated from the original characteristics that drew us to them. However, if the process of engagement fails, and the company is not willing or able to satisfy our ESG principles and processes, then we may be forced to sell our holding.

Divestment is always a last resort. We feel we can have the greatest impact on the world by helping companies to be better corporate citizens and environmental stewards. The impact of selling shares into a secondary market is far smaller than helping them adapt and change.

- In 2019 we sold Facebook due to its unwillingness to address privacy and disclosure issues.
- In 2018 we sold Amazon. With the proceeds, in 2019, we bought The Trade Desk that improves people's privacy, and SolarEdge, a leader in advancing the global transition to renewable energy.

Reporting

Companies are reporting more details than ever to satisfy the ESG requirements of investors like us, so we are committed to being open and transparent about our processes, portfolios and our results.

We are proud signatories of the **UN PRI**, and as a member we submit an annual report to the PRI each year.

We are currently preparing our first **Sustainability Report**. Our intention is to produce the report annually. We'll reflect on our portfolio construction, how our views have shifted, lessons-learned and whether we've accomplished our goals.

This ESG report represents our commitment to you, to hold ourselves accountable for the sustainability principles we have stated as underpinning our approach. It is complemented by regular blog posts, we're open to questions from the media and we regularly engage in debate about the morals, ethics and principles of being a modern investor.

Who is Blue Oceans Capital?

Fundamental, value-based investment research.

At Blue Oceans Capital, we think differently. Our unique analysis unearths growth companies with defensible revenues, driven by innovation.

We only invest in companies having a positive impact, because building a better world can offer the best long-term performance.

 1300 910 445

 will.simpson@blueoceans.com.au

 www.blueoceans.com.au

 200 Adelaide St, Brisbane City QLD, Australia 4000