

# Sustainable Investment Policy

# Sustainable Business: better long term returns, with less risk

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At the core of our investment approach is the belief that sustainable businesses can offer better long-term returns, with less risk. (1, 2, 3)

It's clear that issues like climate change, biodiversity loss and social inequality pose a serious threat to long-term economic growth. (4, 5, 6)

**But there is hope, 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 Deep Commitment to Sustainability*

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**We aim to identify companies that will not only benefit from the sustainable development of our economies, but are also contributing to it.**

We integrate ESG issues into all of our investment decision making, but we go further.

**Sustainable Investing** is about identifying the companies that have a long-term vision for how we can make the world a better place through building better businesses.

Taking action on **climate change** is a central component of this, and we contribute by avoiding investment in companies producing fossil fuels, as well as those consuming considerable amounts of fossil fuels.

Through investing in future-focussed companies, and avoiding those who burn fossil fuels, our portfolio contributes to keeping global warming below the Paris Agreement's target of a 1.5°C increase in global temperatures.

## *We Identify the Most Sustainable Companies*

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**Sustainability is our competitive advantage.**

Our screening processes have always looked beyond just financial data.

We use a range of methods to identify the best performing companies, to filter out unsustainable companies, and to influence management once we're invested.

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\* Based on total revenue exposure, assessed by Sustainable Platform.

These methods include:

- LOW CARBON INTENSITY PORTFOLIO
- ESG INTEGRATION
- NEGATIVE SCREENS
- POSITIVE SCREENS
- MEASUREMENT OF SDG IMPACTS
- ENGAGEMENT

## LOW FOSSIL FUEL EXPOSURE

By ensuring our portfolio has a low level of fossil fuel exposure, we contribute to the goal of keeping global warming to less than 1.5°C, as urged by the Paris Climate Agreement and the IPCC.

We do not invest in companies involved in fossil fuel mining or production. We only invest in companies working to reduce their usage of energy, and those who are actively contributing to the transition to renewable power, which is assessed as part of our qualitative ESG screen.

In terms of energy usage, we apply a fossil-fuel exposure threshold of 3%. This ensures we only invest in companies whose spending on fossil fuels, across the value chain, is less than 3% of total revenues.

**NB: as of June 2021 the ‘fossil-fuel exposure’ of the Blue Oceans portfolio is far below 3%, in fact, data from Sustainable Platform suggests it is negligible and counted as 0%, as seen in Table 2 below.**

Table 2 represents the absolute performance of the Blue Oceans Capital Wholesale Strategy in regards to fossil fuel exposure.

CLIMATE CHANGE ALIGNMENT			
	Blue Oceans <sup>1</sup>	MSCI ACWI <sup>2</sup>	S&P ASX200 <sup>3</sup>
Coal	1.5°C	2°C	>4°C
Oil	1.5°C	1.5°C	2°C
Gas	1.5°C	1.5°C	2°C
Other	1.5°C	2°C	>4°C
<b>TOTAL</b>	<b>1.5°C</b>	<b>1.5°C</b>	<b>&gt;4°C</b>

Table 1: Blue Oceans Capital - Wholesale Portfolio, alignment to the Paris Agreement

Source: Sustainable Platform 07/12/2020 / Source 2: MSCI benchmark data / Source 3: S&P benchmark data

FOSSIL FUEL EXPOSURE			
	Blue Oceans <sup>1</sup>	MSCI ACWI <sup>2</sup>	S&P ASX200 <sup>3</sup>
Coal	0.00%	0.31%	2.97%
Oil	0.00%	1.78%	4.05%
Gas	0.00%	0.30%	1.39%
Other	0.00%	0.89%	2.72%
<b>TOTAL</b>	<b>0.00%</b>	<b>3.28%</b>	<b>11.14%</b>

Table 2: Blue Oceans Capital Wholesale Strategy Fossil Fuel Exposure.

Source 1: Sustainable Platform 28/4/2021 / Source 2: MSCI benchmark data / Source 3: S&P benchmark data

We're committed to reducing the use of fossil fuels in order to avert the worst impacts of climate change. But consequently, we also recognise that renewable energy is rapidly becoming far cheaper to produce than electricity from fossil fuels, which is set to benefit our portfolio companies, and has the potential to further boost returns.

## ESG INTEGRATION

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.



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

- We avoid extractive industries that are heavy polluters as 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, misleading or offensive 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 management incentives policy, their environmental and 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

- Low exposure to fossil fuels
- Efforts to transition towards renewable energy
- Approach to minimising biodiversity loss and water use.

### SOCIAL

- Responsible supply chain management
- Responsible and inclusive HR management
- Building positive community relations
- Whistleblowing policies
- Consumer data privacy.

### GOVERNANCE

- Responsible remuneration policies
- Board independence
- Functional governance committees
- Stakeholder engagement
- Responsible financial management
- Responsible reporting.

## SCREENING

We view a focus on environmental sustainability as being the best long-term investment strategy. We identify and explore industries that are focussed on innovation, resilience and Blue Oceans thinking.

Our analysis process starts from the bottom-up; we sort through tens-of-thousands of listed companies to identify a very small group of the world's most sustainable and highest-performing companies.

As part of our screening process we also apply a negative screen in order to avoid a range of controversial industries. The list of industries in which we will NOT invest is below.

We have **zero tolerance** for companies directly involved in these industries.

We also won't invest in companies with material indirect exposure to these sectors, which includes companies that provide services, transport, packaging or financing to these particular industries. (Our materiality threshold for indirect exposure is 5% of revenue).

### NEGATIVE SCREENS

#### We don't invest in:

- Fossil fuels (Mining, production and intensive usage)
- Animal Cruelty
- Ocean Exploitation
- Deforestation
- Alcohol and Gambling
- Any media harmful to psychological well-being
- Tobacco
- Controversial weapons\*.

### A SELECTION OF OUR POSITIVE SCREENS

#### We do invest in:

- Battery technology
- Renewable energy production, and related technology
- Healthcare
- Artificial intelligence
- Low-cost and innovative financial services
- Sustainable agriculture
- Business efficiency platforms.

\* This includes the development and production of biological and chemical weapons, depleted uranium ammunition/armour, anti-personnel mines or cluster munitions/sub-munitions and their key components. As defined by international law treaties, and the Responsible Investment Association of Australasia (RIAA).

## OUR IMPACT - THE SUSTAINABLE DEVELOPMENT GOALS

We've always ensured the companies we invest in aren't having **negative impacts** on people or the planet, but we wanted to go further.

We also want to measure the **positive impacts** our investments are having on the world, and to then use this methodology to identify and assess high-impact companies to be added to the portfolio.

We see The Sustainable Development Goals (SDGs) as an ideal framework with which to assess the positive outcomes flowing from the products and operations of a company.

### What are the SDGs?

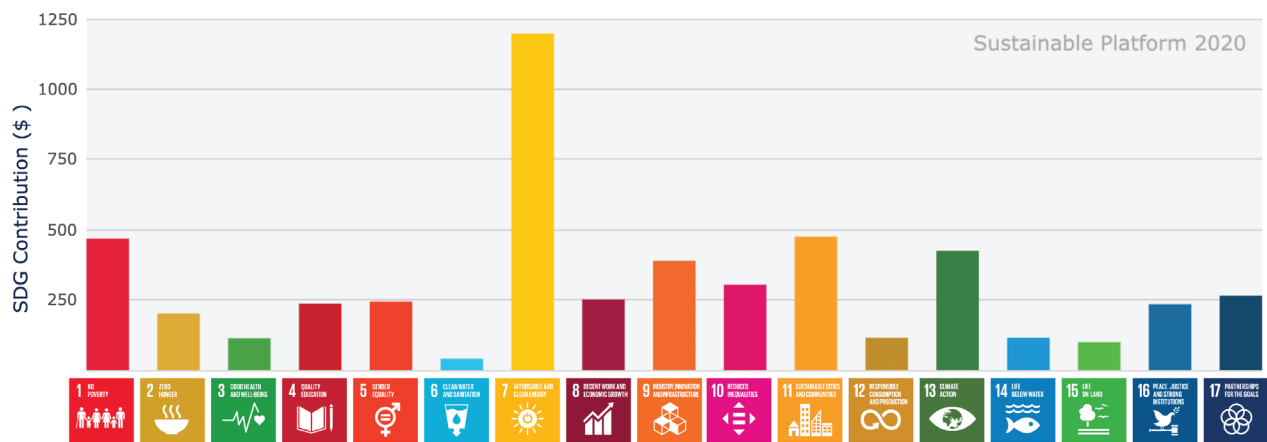
The SDGs represent the greatest challenges facing our world. The 17 goals were established by the United Nations in 2015, and agreed to by all of the 193 member countries of the UN.

This SDG Agenda is a plan of action for people, planet and prosperity. And for investors, it's a framework for assessing the contribution our portfolios are making to solve some of the world's most wicked problems.

Investing in public markets poses challenges for this kind of analysis. We must depend on data from the companies themselves, and 'sustainability reporting' is often difficult to verify as it is rarely audited.

For this reason, we focus on assessing the portion of a company's **revenue** that can be attributed to **helping achieve the 17 SDG goals**.

We utilise the data system of [Sustainable Platform](#) to measure the positive impacts the companies we invest in are having on the world. See Table 3.



**Total Contribution: \$5174 from a \$10k portfolio**

Table 3: Portfolio as at 11/12/20

The above chart identifies each of the Global Goals, and it calculates a dollar figure for the contribution the companies in the portfolio is making towards the SDGs.

We aim to be as transparent as possible about the methodologies we use in identifying the world's most sustainable companies.

## COMPANY ENGAGEMENT ON SUSTAINABILITY ISSUES

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 sustainability 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.

## DIVESTMENT: A LAST-RESORT

Engagement is our preferred course 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 will soon release 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 Sustainability 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.

## References

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## 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.

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