

ATI's Environmental Social and Governance (ESG) Policy

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 three 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 Financial Services Australia Ltd (Zurich) of the United Nations Principles for Responsible Investment (UNPRI).

The UNPRI are voluntary, aspirational initiatives and provide a framework for integrating ESG considerations into investment decision-making. The six principles (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 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 UNPRI 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.

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 abnormals 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.