Investment Process Policy

Owner	CIO
Approval	CIO
Relates to	ECP Asset Management Pty Ltd
Date Last Updated	30-06-2021
Primary Rules/Rationale	To detail the firm's investment philosophy and process when managing client portfolios.

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Introduction

Overview

This document details the philosophy and process used in managing client portfolios (the "Portfolios"). Our investment process is designed to construct portfolios from only the highest Quality businesses, excluding those companies that do not have a sustainable competitive advantage or are unable to generate above-average economic returns. Adherence to this philosophy supports our ability to consistently price and source the correct investments, our ability to define what value we can add to companies should we need to, and most importantly, our ability to generate outsized returns for our clients. This policy should be read along with our 'Active Ownership Policy' and our 'Responsible Investment Policy'.

The Portfolio

For Institutional Clients there is a choice of two model Portfolios for equities, an all-cap and an ex 50. Where High Net Worth (HNW) and Family Office clients insist on exposure to Listed Property, Fixed Interest and Overseas Equities, three additional model portfolios are offered, each with a long term strategic asset allocation. While customisation is possible, for scale and risk management reasons a high degree of homogeneity across Portfolios is preferred.

Reporting

Clients have access to their portfolios via an online portal and will receive quarterly and annual reports including:

- A statement of all assets held including the total market value;
- All income and expenses including fees for the period; and
- All purchase and sale transactions for the period.

Investment Philosophy & Process

Investment Philosophy

Our investment philosophy is built on the belief that primarily, we are an allocator of capital and secondly, that the economics of a business drives long-term investment returns. Investing in high-quality growth businesses that have the ability to generate predictable, above average economic returns will produce superior investment performance over the long-term.

Our investment process is designed to construct portfolios from only the highest Quality businesses, excluding those companies who do not have a sustainable competitive advantage or are unable to generate above-average economic returns. Adherence to this philosophy supports our ability to consistently price and source the correct investments, our ability to define what value we can add to companies should we need to, and most importantly, our ability to generate outsized returns for our clients.

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Corporate Values

Our corporate values are made up of six key philosophies that guide our approach to business.

1. Beliefs and process first and foremost
   Our beliefs and our process guide everything we do. Internally, this manifests in an idea meritocracy, where every person has the capacity to suggest, research and reject an idea.

2. Sleeping well before eating well
   We are a highly ethical team, committed to good investing. We're relentlessly transparent, honest about our capacity and vigilant in applying our process. We do this because there's simply no other way we can deliver on our promises.

3. Mutual respect and recognition
   We encourage and promote a culture of respect and support for all members of our team where their new ideas, different perspectives and skills are respected and recognised.

4. A genuine long-term approach
   We believe in nurturing strong relationships in every part of our business – with our customers, between colleagues and with our portfolio organisations – because in order to deliver sustainable growth, we need to think long-term.

5. Diverse ways of thinking
   To create our high-performing portfolio we need to be capable of thinking methodically and discerningly, but also broadly and openly.

6. Demystifying active investing
   It's so important to us that all our customers understand why we make the investment decisions we do, that we see another essential role for us, as an educator. We want to show everyone the how's, why's and where's of active investing, in the simplest, most digestible way possible.

Key Undertakings

At ECP the consistency of our offering is most important, and we are focused on delivering on our four key undertakings at all times. These include:

1. Sustainable Performance;
2. Ethics;
3. ESG Commitment and
4. Empowerment.

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Management Style

ECP would characterise itself as a quality growth manager. All companies included in our portfolio are required to exhibit specific characteristics, both qualitative and quantitative. Companies that do not exhibit the following characteristics are not included in the portfolio.

ECP believes that companies that are investment-grade ('quality franchises') have the following qualitative characteristics:

- A clear business model with a growth profile and defensible market position;
- The business is managed by a team who have been able to execute the appropriate strategies over time; and
- The business has maintained a strong financial position.

These companies also generally exhibit the following accounting-based measures:

- Sustained high returns on equity;
- An ability to consistently grow revenues above GDP; and
- Do not hold large amounts of debt on their balance sheet (low capital intensity).

Investment Time Horizon

Our investment approach is aimed at maximising the probability of creating equity portfolios that will produce above benchmark returns over rolling 5-year periods. We believe that buying high quality and predictable businesses at prices that offer attractive five year returns help us achieve our aim and this is the period we should be monitored over.

Tax Management

We do not believe that tax should be the primary driver of an investment philosophy. Saying that we are aware of taxation and the role it plays in the net returns generated for clients. Our primary driver for investing is the IRR generated by the investments, a key component of which is dividend distributions and franking credits. Historically, our investment process has resulted in a low incidence of taxation.

Portfolio Structure

The authorised universe of securities is all Australian listed equity securities. The universe of investable securities includes only those securities which pass the appropriate filters. These are the companies that are actively researched.

All stocks that pass the detailed research stage are deemed to be of investment grade except for the percentage of companies we hold as incubator stocks. These incubator stocks are those companies that may not currently pass one part of our process but we believe will pass in the future. For these companies, we require a higher valuation to achieve a smaller weighting. The total of incubator companies in the model portfolio cannot exceed 10% by value.

Investment Process

Portfolio Screening Process

We apply an initial screen to the entire universe of companies listed on the ASX to give us a manageable universe of companies to research. We screen the universe on the following accounting based measures, as we believe that quality franchises generally exhibit these metrics.

- Average Return on Equity greater than 15% over rolling 3-year periods;
- A minimum gross interest cover requirement of 4 times to ensure the company's Return on Equity is not attributable to high levels of financial gearing; and
- Sales growth above nominal GDP over rolling 3-year periods.

The initial screens reduce the total universe of approximately 2083 companies to a focus list of approximately 100 companies at any one time. We then systematically work through the list of identified companies to understand how these metrics were generated through time, with the ultimate goal of adding companies to the portfolio.

Research Process

The core focus of the research process is to efficiently identify companies that will be able to generate superior economic returns over our investment horizon. Our process looks to remove companies that are unlikely to form part of the portfolio from the process as early as possible so that we maximise our research effort in identifying those companies that will make it through the process.

"Butchers Paper"

The first stage of our research process is to complete a butchers paper on all the companies that come through the research process filters. The paper is a 1 – 2-page document that outlines what the company does, what market it operates in, what the prevailing trends are in the market, and how they have achieved the results that they have over time. This document is completed through high-level discussions with management, and desktop research. This document sets up our research agenda, should we proceed with further work on the company.

Investment Process
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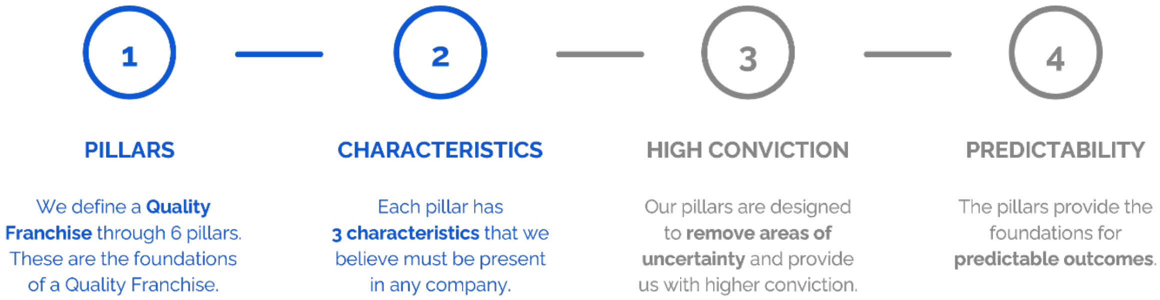
Research Template

The key focus of the investment report is to identify the extent to which the circumstances that enabled the historical financial results to be achieved can be replicated into the future. Our research report follows our proprietary 'Pillars of a Quality Franchise' framework, which assesses the following factors, and how they combine to ensure sustainable excess returns over time. Each pillar has 3 underlying characteristics that we seek to identify are present – these are have characteristics have found to be prevalent in high-quality franchises through years of refining our investment process.

— Industry Pillar
We are looking ensure that the market for the company's product is sufficiently large to deliver critical mass and support growth in the business over time. Here, it is prudent to identify industries that have few competitors, there is a clear opportunity to be exploited, and that the key success factors are easy to identify which ensure that they can generate excess returns in the industry.

— Business Pillar
Based on the prevailing market conditions, we assess the strategy set in place by the management of the company. We compare this strategy with what we believe makes sense given the trends taking place. In addition to this, we analyse the company's business model to determine how they make money and to see if this business model is supportive of their strategy. Central to our analysis is to ensure that the business has demonstrated its ability to grow revenue, rather than through cost reductions.

— Competitiveness Pillar
We take a holistic approach to understanding firm competitiveness and we look to identify that the business has a favourable competitive position and has a sustainable competitive advantage. We spend a lot of time trying to understand the resources available to a firm that drive their competitive advantage, and how durable that advantage is over time. Understanding this is an essential part of correctly assessing the predictability of future cash flows, which forms a core part of our investment process. We consider customer power, supplier power, the threat of new entrants (barriers to entry and exit) and the relevance of substitute products. The degree to which the company exerts a dominant market position generally results in its ability to extract higher margins for their products.



Investment Process
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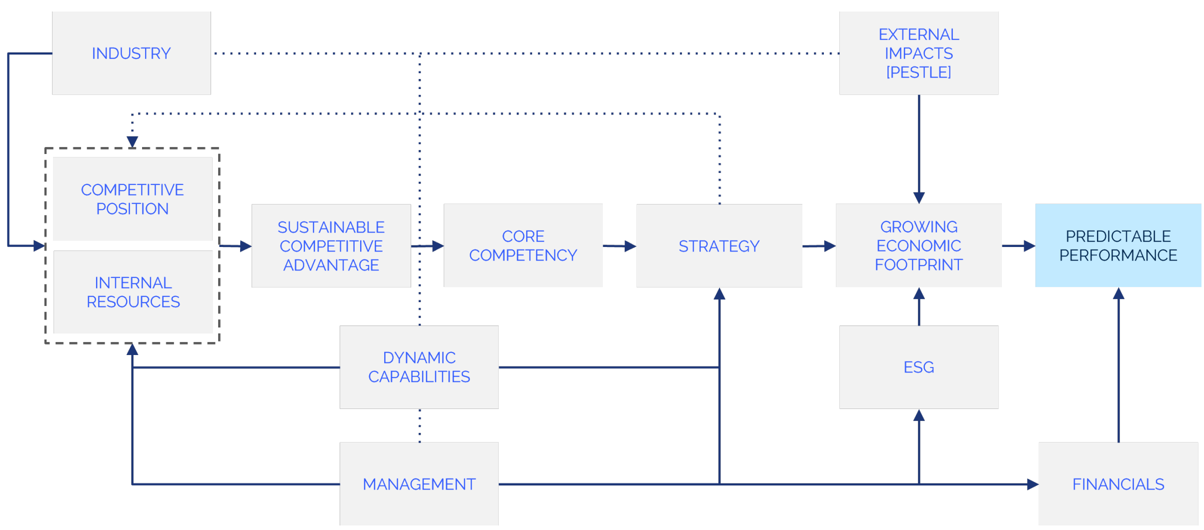
— Sustainability Pillar
In seeking to determine whether a company is sustainable over the long-term, we test for three distinct characteristics. Firstly, we looking to understand the external factors that may affect the predictability of this market over time and the company's ability to manage those external risks. We want businesses with a low risk of Political, Economic, Social, Technological, Environmental, or Legal issues, called PESTLE factors, that may affect performance predictability. Secondly, we assess the ESG credentials of the company which is company specific and focused on current practices today (as opposed to future scenario analysis). Lastly, we assess their Dynamic Capabilities - this enhances our assessment of a firm's competitiveness and its ability to *sustain* a competitive advantage through time. These are essentially change-oriented capabilities that help firms redeploy and reconfigure their resource base to meet evolving customer demands and competitor strategies. Not all firms have this ability, and the best businesses are those that have this dynamic capability.

— Management Pillar
When analysing the management's ability, we're trying to get an understanding of the role that management has played in generating the historical performance of the company and how likely they will be able to replicate those results in future. In our experience, senior level management has a direct impact on the future financial performance of a company. By finding management that we trust, we may find greater predictability of the behaviour of the company and reduce the risk of the firm being impacted by management conduct or failure of business execution.

— Financials Pillar
Lastly, the purpose of conducting financial due diligence is to assess the company's history in both the quality of cash flows and the profitability of the business, as well as critically analyse what the future financials will look like. Here, we seek to identify simple businesses with a proven track record of performance and delivering on their stated strategy through time. We want companies that currently meet our metrics or will do so over our investment horizon. We want to find companies that are consistent in their returns on equity (or improving), have shown consistent sales growth through time, and that they have done so through low debt.



Investment Process
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ESG & Sustainability

The ESG issues are ones that are difficult to measure in monetary terms and that do not form part of traditional financial metrics, yet affect the risk and return of investments.

Typically, our portfolio companies have organic growth with predictable earnings that are driven by a sustainable competitive advantage. These businesses have sustainable business operations with strong ESG credentials, which usually result in a low carbon footprint. We find that these businesses deliver high returns on invested capital that are aided by a strong financial position and an experienced management team.

By having a keen focus on sustainability and stewardship, our qualitative assessment conducts a critical analysis of business models, the sustainability of business practices and competitive advantage, and a deeper understanding of the company financial track record to aid our confidence in the predictability of the company earnings.

Summary

In summary, our investment approach requires a strong nexus between the historical results and the likelihood that they will be replicated in the future. We believe that in-depth research of data over a longer time period will give you a better indication of the true drivers of performance of a business than shorter-term factors. Additionally, the more sustainable the key businesses' competitive advantages are the more predictable a company's future profitability and growth potential. We expect that typically 10 – 25 names will make it through to the final portfolio at any one time.

Financial Modelling and Valuation

The final stage of the research process is financial modelling and valuation. Once a company is deemed to be a quality franchise, we then process to the financial modelling and valuation component. In this part of the process, the team builds 3-way financial statements, which look to forecast 5 years earnings and dividends which form the basis for our IRR calculation. The forecast IRR needs to be above the threshold IRR to make it through to the portfolio construction phase.

Portfolio Construction

All stocks that pass the detailed investment stage are deemed to be of investment grade except for the percentage of companies (no more than 10% of the portfolio) we hold as incubator stocks. These incubator stocks are those companies that may not currently pass one part of our process, but we believe will pass in the future. For these companies, we require a higher valuation to achieve a smaller weighting. The inputs calculated from the financial modelling phase result in the IRRs of the underlying securities. These IRRs are mapped to weights in the portfolio, which are then adjusted to reflect the underlying risks (uncertainty around the IRRs and Liquidity).

Investment Process
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Market Timing

Market sentiment influences prices and regularly results in large disconnects between the price paid for earnings, and the underlying medium-term fundamental value of the businesses. ECP's IRR portfolio construction process provides a discipline of buying businesses with superior economics at attractive entry points. As the IRRs of companies reduce (share prices rise) the weightings in the portfolio decrease. Conversely as the IRRs increase (share prices decline) the weighting in the portfolio increase.

Portfolio Implementation

All portfolios are administered using a portfolio management system. All trades are executed through order management systems. We use a combination of IRESS/IPS/IOS and Bloomberg.

All portfolios are matched to the model portfolio periodically to ensure consistency and the cash balance of implemented portfolios is balanced daily to the cash requirement of the model portfolio.

The following processes are implemented to ensure transaction costs are minimised.

- Trades for all portfolios are completed simultaneously to ensure maximum efficiency;
- Development of strong relationships with a number of brokerage houses to ensure we are a relevant client, and get access to deal flow, trading flow and stock ideas;
- We block trade where we can to minimise information leakage; and
- We maintain a low turnover of the portfolio to ensure transaction costs remain at a minimum.

Investment Process
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Investment Restrictions & Risk Management

Risk Management

Risk Management Area	Risk Management Technique
Stock Sector Limits	Absolute limits set in pre-trade compliance
Ex-ante tracking error	Not managed, however high conviction positions are allocated more research time by the investment team.
Quality Filters	Regularly run standard filters. Filters are retained and back tested for efficiency. Companies that fail are removed from the portfolio.
Derivatives	Not Permitted
Futures	Not Permitted
Borrowing or gearing	Not Permitted
Short Selling	Not Permitted
Risk of companies not meeting estimates	Focus on quality and predictability in the research process with a link to portfolio construction
Concentration Risk	Concentration risk is not an issue as credit instruments are not utilised and multiple companies in the same industry

Investment Process
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Liquidity Risk

This is the risk that security cannot be sold when required or the price achieved is significantly different from the quoted price. Because a client can request that their portfolio is liquidated at any time, the Portfolios cannot tolerate allocations to highly illiquid investments. To provide for typical day-to-day requirements, a minimum of two per cent is held in cash across all Portfolios as a margin of safety to ensure that liquidity is available for ad hoc withdrawals when required (for example, to pay professional fees or quarterly ATO instalments) In relation to the various investments/instruments used, to help mitigate the aforementioned risks the following restrictions apply to the Portfolios:

Australian Equities and Listed Property

Authorised Investments

— Shares of any class including ordinary, preferred, deferred or redeemable, debentures or debenture stock (convertible or otherwise), unsecured notes, options or rights, letters of allotment and variable interest stock bonds or obligations of any listed company or of any company which the Manager is satisfied that such official listing is to be granted within a six-month period from the date of investment.
— Shares of any class including ordinary, preferred, deferred or redeemable, debentures or debenture stock (convertible or otherwise), unsecured notes, options or rights, letters of allotment and variable interest stock bonds or obligations of any unlisted company.
— Exchange traded futures or options contracts, provided that the aggregate of deposits and margins called in respect of such contracts outstanding at any time does not exceed the value of available assets of the fund.
— Contracts to underwrite or sub underwrite any issues of any Authorised Investments mentioned herein.

Portfolio Structure

— Exposure to at least 20 different companies to provide diversification.
— Australian Equities: 80% (Minimum)- 100% (Maximum).
— Fixed Income and Cash: 0% (Minimum)- 20% (Maximum).
— Individual stock weightings not to exceed 10% of the total portfolio at the time of the investment.
— The Company shall not own more than 15% of the issued share capital in any one company.
— The amount invested in unlisted companies shall not exceed 10% in value of the portfolio at the time of the investment.
— A maximum of 10% of the Australian equities component to 'incubator companies'.

Investment Process
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ETF's & Managed Funds

ETF's are only used to provide an exposure to global indices, listed property trusts and fixed interest when specifically requested by clients. Managed Funds are not permitted.

Cash and Listed Interest Rate Securities

Cash investments including deposits with banks which have a short-term credit rating of A1 or higher by Standards & Poors with a term to maturity of no more than 30 days.

Investment Limits

Investment limits are applied at the time the holding is added to the Portfolio. Rebalancing occurs regularly as required and as set out by the Investment Committee.

Benchmarks

Investment performance will be evaluated against benchmarks which reflect the strategic asset allocations for each Portfolio. For each particular asset class the following indices will be used:

Valuation of Investments

Asset Class	Benchmark
All Cap model portfolio	ASX All Ords Accumulation
Ex50 model portfolio	ASX Small Ords Accumulation

Investments are stated at fair market value. Fair market value represents the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

If an investment is traded on a recognised market, such as shares on the ASX, then the valuation will be the 'closing price' in that market for the business day.

For OTC bonds market prices will be provided by the fixed income specialist used to acquire such bonds.

Investment Process
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Derivatives and Short Selling

Derivatives include a wide assortment of instruments and include futures, swaps, forwards, warrants and all forms of options.

While derivatives offer the opportunity for significantly higher gains from a smaller investment (because of the effective exposure obtained) they can also produce significantly higher losses, sometimes in excess of the amount invested.

ECP will not use derivatives in pursuit of returns or to provide market exposure and will not engage in short selling of shares.

Securities Lending

ECP will not engage in securities lending activities to generate incremental income.

Annual Review

This investment policy is subject to annual review and may be amended by ECP as it deems appropriate.

Appendices


INDUSTRY
BUSINESS
SUSTAINABILITY
QUALITY FRANCHISE
COMPETITIVE ENVIRONMENT
MANAGEMENT
FINANCIALS