RESPONSIBLE INVESTMENT

Pella's RI Approach, Transparency, RI Challenges and Solutions, and Avoid Misleading and Deceptive Conduct

Purpose

This policy outlines Pella Funds Management's (Pella) approach to responsible investment (RI) and formalises the principles and practices that guide its investment decisions. As a specialised RI manager, responsible investment is central to all aspects of Pella's process. RI is integrated throughout Pella's investment lifecycle in a manner that aligns with Pella's fiduciary duties and reflects its broader responsibility as a long-term steward of capital.

PROCEDURES – THE REPORTING OFFICER MUST ENSURE THAT:	
1	Our Offer Document and promotional material will comply with disclosure obligations, including section 1013D(1)(l) of the CA and RG 65.
2	Pella provides detailed and regular Responsible Investment disclosures
3	Responsible Investing-related labels reflect the true nature of the product
4	Every investment Pella makes is incorporates at least one, and preferably several, RI approaches

Background

RI is an investment philosophy and set of practices that incorporate environmental, social, and governance (ESG) factors into investment analysis, decision-making, and ownership activities. It encompasses a range of approaches—including ESG integration, screening, thematic investing, stewardship, and impact investing—with the objective of managing material risks and opportunities, enhancing long-term risk-adjusted returns, and supporting sustainable economic, environmental, and social outcomes. These approaches are not mutually exclusive and are applied in alignment with an investor's mandate, strategy, and objectives.

According to the combined work of the CFA Institute (CFA), Global Sustainability Investment Alliance (GSIA), United Nations Principles of Responsible Investment (PRI), there are five core responsible investment approaches, which summarised in the table below.

RI Approach	Definition
Screening	Applying rules based on defined criteria to determine whether an investment is permissible, often to align with ethical values, norms, or risk preferences.
ESG Integration	The ongoing consideration of environmental, social, and governance (ESG) factors within investment analysis and decision-making to improve risk-adjusted returns.
Thematic Investing	Selecting assets to gain exposure to specific medium- to long-term trends, such as climate transition or social equity.
Stewardship	Using investor rights and influence—such as engagement and proxy voting—to protect and enhance long-term value for clients and beneficiaries.

Impact Investing	Investing with the intention to generate positive, measurable social and/or environmental outcomes alongside a financial return.

Source – CFA, GSIA, PRI; Definitions for Responsible Investment Approaches, Nov-23

Scope

This policy applies to all employees of Pella Funds Management and covers all investment activities undertaken across Pella's funds. It sets out the principles and procedures that guide the integration of responsible investment practices into research, portfolio construction, engagement, stewardship, and reporting. All team members are expected to understand and uphold the standards outlined in this policy, ensuring that responsible investment considerations are consistently applied across the organisation and reflected in all investment decisions and client communications.

Glossary

Term	Definition
Agent for Positive Change	An investor's role in encouraging companies and regulators to adopt better sustainability and governance practices.
ASIC	Australian Securities and Investments Commission – the regulator overseeing corporate conduct, including greenwashing and misleading disclosures.
CFA Institute	A global association of investment professionals, contributing to definitions and frameworks for responsible investment.
Corporations Act 2001 (Cth)	The primary legislation regulating corporate and financial services in Australia, including disclosure and anti-misleading conduct requirements.
ESG Integration	The process of factoring environmental, social, and governance considerations into investment analysis and decision-making.
Greenwashing	The practice of misrepresenting or exaggerating the sustainability characteristics or benefits of a product or investment strategy.
Impact Investing	Investing with the intention to generate positive, measurable environmental and/or social outcomes alongside financial returns.
Investment Screening	Applying rules (positive or negative) to exclude or include companies based on specific ESG or ethical criteria.
MSCI	A global provider of ESG ratings and data used by Pella to assess companies and support investment decisions.
Norms-Based Screening	An approach that excludes companies violating international norms (e.g., UN Global Compact) from the investment universe.
Offer Document	A disclosure document outlining the nature and terms of a financial product, including its responsible investment claims and strategies.
PRI (Principles for Responsible Investment)	An UN-supported global initiative promoting the integration of ESG factors into investment practices.
Responsible Investment (RI)	An umbrella term for investing approaches that integrate ESG factors, including ESG integration, screening, thematic, impact, and stewardship.

RG 65 (Regulatory Guide 65)	ASIC's guidance on disclosure for ESG investment products under the Corporations Act.
Screening (Negative or Positive)	A responsible investment approach that involves excluding (negative) or including (positive) certain sectors, companies, or practices.
Stewardship	The use of investor influence—through voting, engagement, and advocacy—to improve company ESG performance and protect long-term value.
Sustainability Reports	Pella's published reports that disclose ESG-related data, portfolio characteristics, engagement activity, and RI performance.
Thematic Investing	Investing in companies aligned with long-term sustainability trends such as renewable energy, climate action, or social inclusion.
UN Global Compact (UNGC)	A UN initiative encouraging companies to align with principles on human rights, labour, environment, and anti-corruption.
UNPRI Transparency Report	An annual report submitted by PRI signatories detailing how ESG factors are integrated and how responsible investment is implemented.

Pella's RI Approach

Pella was established with the belief that long-term investment returns are enhanced by a responsible approach to investing. This conviction is supported by over 18 years of experience in responsible investing, during which the team has evolved its practices in line with the growing expectations of clients, regulators, and other stakeholders. Early efforts focused primarily on ethical investing through negative screening, which at the time represented the leading edge of responsible investment. Since then, Pella has significantly expanded its approach to include norms-based screening, active stewardship, corporate engagement, best-in-class selection, and sustainability-themed investing.

Pella incorporates multiple responsible investment approaches because relying on a single method can leave material gaps. Where feasible, Pella applies clearly defined quantitative rules to reduce the potential for subjective interpretation. These approaches are implemented systematically at both the individual investment level and the portfolio level, ensuring that responsible investment considerations are embedded throughout the research, decision-making, and construction processes. Pella's framework is aligned with globally recognised standards and informed by credible data sources.

Importantly, Pella aims to practice what it asks of others. The firm integrates into its own operations the same standards of transparency, accountability, and sustainability that it expects from portfolio companies—ensuring its responsible investment commitments are consistently applied across both its business and investment activities.

Transparency

Transparency and accountability are central to Pella's approach to responsible investing. Clear and consistent disclosure enables clients and stakeholders to evaluate how sustainability considerations are integrated into the investment process and the extent to which stated commitments translate into measurable outcomes.

Transparent reporting is essential for three key reasons. It promotes accountability by demonstrating alignment between stated commitments and actual practices, which is critical in addressing greenwashing concerns. It also enables informed decision-making by providing investors with clear insights into ESG integration, impact exposure, and stewardship activities. Finally, it supports improved market standards by fostering consistency, raising expectations, and encouraging meaningful competition on sustainability outcomes.

To support this, Pella publishes detailed sustainability disclosures across multiple channels. These include monthly sustainability reports, quarterly commentary, and a comprehensive annual Responsible Investing Report. These materials provide clarity on the sustainability characteristics of the portfolio, voting and engagement activity, and performance against Pella's responsible investment targets.

RI Challenges and Solutions

Filling the gaps

There are multiple RI strategies, and an investment suitable under one strategy may contradict another. For instance, a Defence Contractor, which manufactures weapons, might have exemplary ESG credentials, making it appropriate for a fund focused solely on ESG. However, as a weapons manufacturer, it would not align with an ethical fund employing a negative screening process. To address such conflicts, Pella employs several RI strategies across its funds, that fills the gaps lying between the various RI strategies.

Data availability

Another challenge is the availability and quality of data. Reliable and comprehensive data are critical for responsible investing, but they are often inconsistent, incomplete, or outdated. This issue is especially prevalent among smaller companies and those in emerging markets with limited disclosure. Pella addresses this by partnering with what we regard as the premium RI data provider, MSCI. Additionally, Pella tend to avoid smaller companies and those in emerging markets not covered by reputable data providers like MSCI. Furthermore, Pella actively engages with its investments and regulators to advocate for improved ESG disclosure and practices.

Greenwashing

ASIC defines greenwashing in Information Sheet 271 ("ASIC Info Sheet 271") as *"the practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical."*

A review conducted by ASIC identified three key areas for improvement: (1) clearer labelling, (2) defining sustainability-related terminology, and (3) greater transparency from issuers on how sustainability considerations are factored into their investment strategies.

Pella avoids greenwashing through a structured, transparent, and disciplined investment approach that integrates sustainability at every stage of its process and imposes strict standards on the claims it makes. Key measures include:

- Clear and measurable criteria – Pella applies a combination of ESG integration, negative and norms-based screens, positive impact assessment, and sustainability-themed investing, all tied to quantifiable targets. For example, Pella requires 0% exposure to companies that breach norms-based practices or its negative screens, and at least 30% of the portfolio must be invested in companies rated AAA–A by MSCI ESG.

- Pre-investment filters – companies with a CCC MSCI ESG rating are excluded from the investment universe. Those rated B or BB must derive a minimum proportion of revenue from positive impact activities to be considered for inclusion—ensuring that lower-rated companies are not included without a compelling and genuine sustainability rationale.
- Fundamental ESG research and documentation – every investment is supported by fundamental ESG research, documented via ESG templates and housed in Pella's proprietary database. This ensures transparency, consistency, and auditability of sustainability assessments.
- Stewardship and engagement – Pella engages actively with companies that have ESG shortcomings, such as unrated companies or those with B ratings, to encourage improvement and greater transparency. If controversies arise and companies fail to rectify them, Pella will divest.
- Cautious and honest use of impact labels – Pella does not overstate the impact of its investments. It avoids claims that are not backed by credible data—for example, noting that energy-efficient air conditioners, while less harmful, do not necessarily qualify as "positive impact" without broader context. This disciplined use of sustainability language helps prevent misleading representations.
- Robust transparency – Pella provides detailed, publicly available disclosures—including monthly sustainability reports, an annual Responsible Investment Report, full proxy voting records, and carbon intensity metrics—so stakeholders can independently assess its claims.
- External verification and alignment – Pella aligns its practices with international standards (e.g. UN Global Compact, UN PRI, OECD Guidelines) and is a signatory to several responsible investment bodies. It also reports on fund-level ESG ratings through providers like MSCI to allow for third-party validation.

Measurement

Measuring the impact of RI presents another challenge, as quantifying social and environmental outcomes can be complex and lacks standardised metrics. To address this, Pella is committed to transparency. We publicly disclose all the Fund's holdings and provide several RI reports, including monthly Sustainability reports, Annual Responsible Investment Reports, and making our UNPRI Transparency Report publicly available. Together, these reports offer investors a comprehensive view of key RI metrics.

Agent for positive change

A significant challenge in responsible investing is acting as an agent for positive change in the world. Enacting meaningful change in large companies or within regulatory frameworks can often be extremely difficult. Pella addresses these challenges by collaborating with other investors through organisations such as Climate Action 100+ and engaging in achievable initiatives that encourage companies to improve their corporate citizenship. One example is Pella's ongoing efforts to encourage all investments to become signatories of the United Nations Global Compact (UNGC), which serves as an on-ramp to better corporate citizenship. Companies that have signed the UNGC at Pella's urging include Ashtead, AML, Flow Traders, Samsung Electronics, and Sunrun.

Finally, meeting diverse stakeholder expectations can be challenging due to differing values. Pella addresses this by being entirely transparent and receptive to investor comments and perspectives.

We recognise the importance of evolving alongside industry standards and client demands and are committed to implementing improvements in RI as needed.

Regulatory Obligations and Misleading Conduct

As managers of RI products, Pella is required to comply with existing prohibitions under the Corporations Act 2001 (Cth) and the Australian Securities and Investments Commission Act 2001 (Cth) against making misleading or deceptive statements or engaging in such conduct. A key area of risk involves representations about future matters—such as emissions reduction targets or net zero commitments—which may be deemed misleading if they are not supported by reasonable grounds. For instance, statements like “net zero by 2050” could breach these prohibitions if Pella cannot demonstrate a credible basis for the claim.

Pella’s Offer Documents and promotional materials for sustainability-related products must also comply with disclosure obligations applicable to financial products, including section 1013D(1)(l) of the Corporations Act and the guidance set out in Regulatory Guide 65: Section 1013DA Disclosure Guidelines. Where references to ESG practices are made, Pella will refer to our publicly available stewardship statement, which is accessible on our website.

Pella’s takes the following questions into consideration to avoid misleading and deceptive statements or conduct:

Question	Guidance
Is our product true to label?	The product label must align with the underlying investment strategy, including the stewardship approach. The sustainability-related label should reflect the substance of the product itself.
Has Pella used vague terminology?	Avoid broad or unsubstantiated sustainability statements or jargon. Clearly explain all sustainability-related terminology in the Offer Document and promotional material.
Are our headline claims potentially misleading?	Headline claims about sustainability must not be misleading. Qualifications or exceptions should not be used to correct an otherwise misleading impression.
Has Pella explained how sustainability-related factors are incorporated into investment decisions and stewardship activities?	Disclose the methodology or policy for integrating sustainability considerations. Provide clear information on the considerations used and how they are incorporated into investment and stewardship activities.
Has Pella explained our investment screening criteria? Are any of the screening criteria subject to any exceptions or qualifications?	Avoid vague promotional statements. Disclose the specific screening criteria, any exceptions, and the scope of their application (e.g. whether to a specific product or business-wide). If a screen is only partially applied, disclose the percentage of the portfolio covered.
Does Pella have any influence over the benchmark index for our sustainability-related products?	If Pella influences the composition of a benchmark index, this must be disclosed accurately. Do not represent the product as passively managed if it involves active input.

If Pella does, is our level of influence accurately described?	
Has Pella explained how it uses metrics related to sustainability?	Disclose how sustainability metrics are used, including: the extent of their application, sources (internal or third-party), underlying data and methodologies, and any risks or limitations.
Does Pella have reasonable grounds for a stated sustainability target? Has Pella explained how this target will be measured and achieved?	For any sustainability target, clearly state: the nature of the target, how and when it will be met, how progress is measured, and the assumptions relied upon.
Is it easy for investors to locate and access relevant information?	Ensure all relevant sustainability information is readily available and easy to access, especially if published via the website.