

# NORTHSTAR IMPACT – IMPACT POLICY PAPER

30 June 2023

## INTRODUCTION

We believe that Australia’s and the World’s problems can be more effectively and efficiently addressed if for-profit businesses are contributing to the solutions.

While philanthropy, NGOs, and Governments play a critical role, the largest resources sit within for-profit businesses. Shifting these resources towards solving social and environmental problems could make a major difference to achieving the desired outcomes.

In addition, these problems are opportunities for companies to generate profitable growth while helping to solving them.

Shareholders have an important role to play in supporting companies that have positive social and

environmental impacts. Firstly, they can provide growth capital (and in turn potentially lower the cost of capital) to facilitate corporate expansion and therefore scale the impact. Secondly, they can support management to enable and encourage them to accelerate and extend their positive impact. Impact investors can actively lead in this role and influence other shareholders to support the overall impact of the company.

The purpose of the NorthStar Impact Australian Equity Fund is to help deliver, accelerate, scale, and extend the positive social and environmental impacts of businesses listed on the ASX.

## IDENTIFYING PROBLEMS TO SOLVE

We focus on a range of problems across both social and environmental areas. Our starting point is to consider which sectors of the economy require significant investment to achieve positive social or environmental outcomes. We describe these as Impact Focus Areas. We consider the UN Sustainable Development Goals (“SDGs”) in the selection of our Impact Focus Areas.

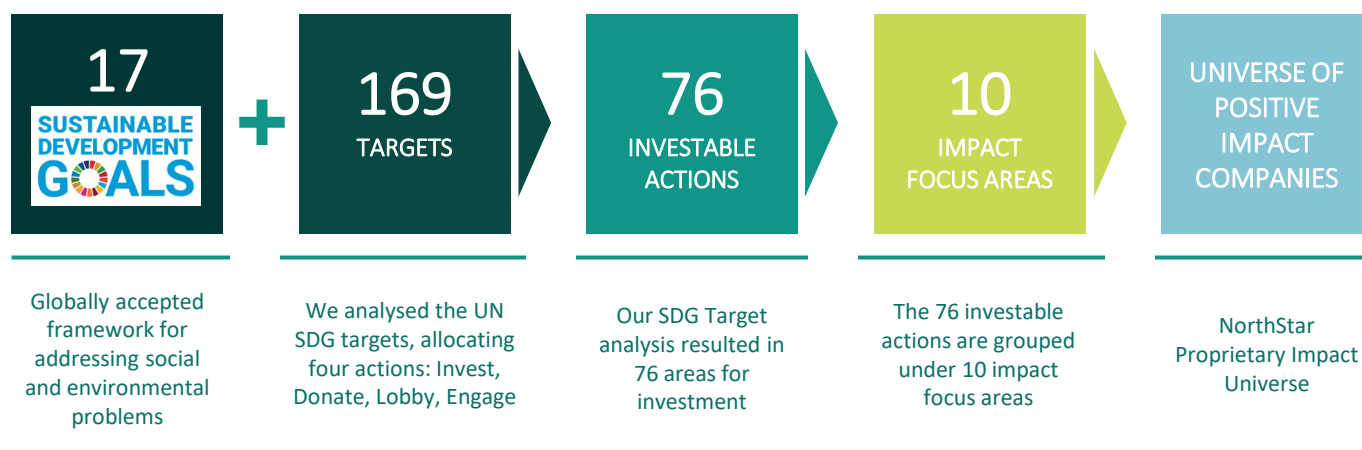
We have examined the 17 SDGs, including their 169 targets, and have identified 76 investable actions that investors can take to have positive impact. We have grouped these actions into Impact Focus Areas.



## IMPACT FOCUS AREAS

The SDGs have provided us with a framework of the areas that need addressing by impact investors globally. We use the SDGs to help identify impact areas to invest in (e.g. health and wellbeing and education), and areas

that need addressing in terms of how companies operate (e.g. reducing inequalities, promoting gender equality)



### Our Impact Focus Areas include:



Our Impact Focus Areas are linked to the SDGs as follows:

1. Renewable energy (SDG 7: Affordable & Clean Energy; SDG 13: Climate Action)
2. Land and resource management (SDG 6: Clean Water & Sanitation; SDG 12: Responsible Consumption and Production; SDG 15: Life on Land)
3. Well-being: Health care services (SDG 3: Good Health and Well-being)
4. Well-being: Medical devices (SDG 3: Good Health and Well-being)
5. Well-being: Pharmaceuticals (SDG 3: Good Health and Well-being)
6. Care and support (SDG 3: Good Health and Well-being; SDG 5: Gender Equality; SDG 11: Sustainable Cities and Communities)
7. Affordable housing (SDG 10; SDG 11: Sustainable Cities and Communities)
8. Education (SDG 4: Quality Education)
9. Healthy living (SDG 3: Good Health and Well-being; SDG 14: Life Below Water; SDG 15: Life on Land)
10. Financial inclusion (SDG 8: Decent Work & Economic Growth; SDG 10: Reduced Inequalities).

## INVESTING IN IMPACT COMPANIES

The universe for the NorthStar Impact Australia Equities Fund includes all companies listed on the Australian Stock Exchange (“ASX”). However, we only select from companies where we believe that their core business has a positive social or environmental impact, that is, their core product and/or services (the “What”). We also look at how they produce and deliver these goods and services (the “How”). The companies that pass through this screening, we deem to be Positive Impact Companies.

We have built a proprietary universe of Positive Impact Companies based on our assessment of their business

activities. Importantly, this universe was built “bottom-up” through our research rather than using negative screens.

From a universe of 2000+ companies on the ASX, we have identified over 200 companies whose core business is having positive impact. This can change over time as new companies list on the stock exchange or if companies are taken over. We look to invest in companies that have both a positive impact and the prospect of delivering good financial returns.

### Structured, institutional-quality fundamental investment process to select companies for the portfolio



If a company’s core business changes and we deem that it no longer has a positive social or environmental impact, then it will be divested (if held) and excluded from our universe of Positive Impact Companies.

To make an investment into a Positive Impact Company, it must meet two key criteria:

- 1) There must be a non-financial measurable metric that relates to the positive impact (typically this is a core output of their business)

- 2) The investment case must be sound with the potential for the shares to generate an attractive return over the next 5+ years

In addition, the financial returns that drive the investment case should be aligned with the outputs that drive the positive impacts. This means that the impacts are expected to grow over time.

## EXCLUDED INDUSTRIES AND PRACTICES

Our impact philosophy means that we invest only in companies that have a positive impact from their core business activity. Given this approach, we do not start with a universe and then negatively screen out companies, but rather seek only companies that have positive impact.

However, for clarity we explicitly exclude several industries and behaviours. This means that we do not invest in a company that has revenue from the following industries listed below:

## EXCLUDED INDUSTRIES

- **Alcohol** - 0% threshold for revenues from the production and distribution of alcohol.
- **Fossil fuels** - 0% threshold for companies that derive revenues from the exploration, extraction and production of Coal (thermal or metallurgical), Oil and Gas, including unconventional sources such as arctic drilling, fracking, and oil sands extraction.
- **Gambling** - 0% threshold for revenues from owning, licensing or operating gambling facilities.
- **Logging** - 0% threshold for revenues from the logging of old forests.
- **Nuclear** - 0% threshold for revenues derived from nuclear energy production and uranium mining.
- **Pornography** - 0% threshold for revenues from the production of pornography.
- **Predatory lending** - 0% threshold for revenues derived from predatory lending practices.
- **Tobacco** - 0% threshold for revenues derived from the production of tobacco, manufacture of nicotine alternatives and tobacco-based products.
- **Weapons** - 0% threshold for development and production of controversial weapons, including nuclear weapons.

## EXCLUDED PRACTICES

We also do not invest in companies that systematically have been found to operate in contravention of the UN Global Compact with regards to:

- Human Rights e.g. Diversity and gender discrimination, modern slavery or otherwise
- Labour Rights
- Environmental degradation
- Anti-Corruption

Our Chief Impact Officer is responsible for ensuring that our Positive Impact Universe is aligned with the objectives of the Fund and has the ultimate veto right to exclude companies.

## CORPORATE ENGAGEMENT

Engaging with investee companies is a critical part of both the investment and impact process. Engagement may comprise:

- One-to-one and group meetings and calls with senior executives
- Visits to the company's operations
- Sending written questions seeking deeper insights into the company's impact
- Voting

The first purpose of the engagement is to understand the company's fundamentals to assess whether it is an attractive investment and to determine an appropriate valuation for the company.

Secondly, we seek to measure the outputs and impact of the company's activities. In addition, we seek to understand their approach to achieving impact and how it would be possible to scale their positive impact.

With this information and better understanding, we can monitor their outputs and impact and report on them annually in our Impact Measurement Report. We can also discuss and propose ways in which the company could improve their approach and/or scale their impact more quickly. Ultimately, we seek to engage with our investee companies to help them accelerate, scale, or extend their impact.

If a significant issue arises post investment, we discuss this internally and where appropriate, with our investee companies, with a view to determining whether they have acknowledged, understood and responded to the issue and whether it is systemic or isolated. We believe we will achieve greater impact by investing and supporting companies in the long term. Where following engagement and monitoring we are not satisfied that a significant issue is being addressed we will consider divesting.

## **VOTING**

Given we invest in positive impact companies, our approach to voting is to support management recommendations when required, unless specific issues arise where we believe that voting against management would better support our objectives as impact investors.

## **MEASURING IMPACT**

Seeking to measure the impact that a company achieves is key to the purpose of impact investing. The objective is to understand the amount of positive impact that is being achieved to facilitate monitoring over time, the allocation of capital to the higher impact companies, reporting to investors, and identifying opportunities to accelerate, scale, or extend the impact.

While it is not simple to measure impact in many cases, there are benefits from engaging in the process of measurement. These include understanding the drivers of the outputs of the business and how much investment is required to increase these outputs through to the management's attitude to achieving a positive impact.

With environmentally focused companies, the impact measurement could be the amount of CO2 emissions saved. This is commonly reported by companies in this area.

In contrast, within the social impact focus areas, there are a wide range of potential measures which may include subjective data such as client satisfaction. In many cases, there are not standard or commonly agreed impact measures and there may also be reluctance to provide data where it is commercially sensitive.

We collect data and information on all our companies to produce the annual impact report. We recognise the challenge of collecting good quality impact information from companies. We look to continually improve the measurement of impact, and actively seek increase the provision of impact information by companies.

Our view is that disclosure of impact measurement data will improve over time, especially if there is more money allocated to impact investors.