



Quest Asset Partners ESG Policy

A central tenet of the Quest Asset Partners investment process is the assessment of business quality. We are attracted to companies that can demonstrate an ability to attain and sustain above average returns on capital employed. In our experience, companies that can maintain high returns on capital are rare and can become valuable.

A consideration of Environmental, Social and Governance (“ESG”) factors is an important input into our qualitative assessment of business quality. It may also impact our valuation of a company, reflecting our evaluation of the risks inherent in each business.

ESG in the context of the Quest investment process

It is our view that, to the extent possible, we should incorporate a consideration of ESG factors into our investment decision making. We consider any environmental, social or governance issue that can materially impact the sustainability or valuation of an investee company.

Assessing ESG issues is embedded in the Quest qualitative scoring process. This is both explicit and implicit. We apply 18 qualitative “tests” when assessing the business quality of potential investee companies. Three of these tests explicitly consider ESG factors, namely:

1. Environmental, Social and Regulatory Risk – this test considers whether the company is particularly at risk because of environmental or social factors; and whether the company is exposed to regulatory change that could impact the value chain and potentially profitability;
2. Corporate Health – this test considers management’s capability, attitude and approach, taking into account the company’s culture and work practices; and
3. Integrity / Track Record / Governance – this test examines the actions of the Board and management, specifically assessing whether there are any governance concerns.

In addition, ESG considerations are implicit across other qualitative tests; to the extent they impact the competitive positioning and sustainability of the business. Examples of these tests include: the level and sustainability of Return on Capital and Business Strategy.

Investment analysis and decision-making

ESG issues are an everyday part of the Quest investment process. In considering each investment opportunity, the Quest investment team aims to:

- identify relevant ESG risks,
- understand the materiality of those ESG risks,
- incorporate the potential impact of ESG issues in valuation; and
- assess how well ESG risks are being managed for each company.



We source ESG information from a broad range of resources including: direct company contact, SRI / ESG professionals, broker research analysts, proxy advisers, remuneration consultants, government officials and politicians.

Like all factors contributing to our view on business quality, our ESG assessment requires continual monitoring and review. New information from a company, its customers, suppliers, competitors, regulators and others can impact our view of ESG and business quality.

Ultimately, ESG issues are one input into our investment decision making. As Quest is not an ethical investment manager and does not aim to make ethical or moral judgements when considering ESG issues. We do not negatively screen out potential companies in our investment process. Instead, we build our ESG views into our assessment of risk and return.

Our aim to deliver sustainable investment returns for our clients over the long-term. This requires us to seek out attractive risk-adjusted investment returns from the available universe of listed companies. We do this by focusing on the intersection of business quality with valuation, based on the free cash flow available for shareholders.

Despite our strong focus on financial measures, we also recognise that non-financial factors can materially impact a company's share price performance. Given this, we observe the social and regulatory landscape and consider how this may evolve over time. This will include an assessment of the potential impact any change may have on investment returns for our clients.

Ownership Practices and Engagement

We consider it our responsibility, as custodians of client investment funds, to use our influence as shareholders to engage companies on ESG issues. Where warranted, Quest will proactively pursue management and Boards of investee companies to develop our understanding of issues.

We already engage with companies on a regular basis as part of our investment process. Where ESG specific issues are identified we will seek clarification and will continue dialogue with a company until we are satisfied we understand the issue at hand. We will also consider promoting change within an investee company.

Three outcomes are possible from our assessment of ESG factors:

1. ESG risks are high and the expected returns are insufficient to warrant an investment;
2. ESG risks are identified and understood and the expected return justifies an investment; or
3. ESG risks are low and concerns are insufficient to impact the investment decision.

Quest maintains a strong sell discipline in relation to companies that no longer meet our investment criteria. This includes ESG issues, particularly where we become aware of new information that materially changes our assessment of ESG risk.



United Nations' Principles for Responsible Investment (UNPRI)

Although we are not a signatory to the UNPRI, Quest recognises it as a useful framework to assist investors in considering ESG issues.

The principles are voluntary and aspirational and oblige signatories to:

1. Incorporate ESG issues into investment analysis and decision-making processes;
2. Be active owners and incorporate ESG issues into ownership policies and practices;
3. Seek appropriate disclosure on ESG issues by the entities in which they invest;
4. Promote acceptance and implementation of the principles within the investment industry;
5. Work collaboratively to enhance the effectiveness in implementing the principles; and
6. Report on their activities and progress towards implementing the principles.

Quest has maintained an approach since inception in 2004 of embedding ESG considerations into our investment decision-making. This is consistent with principles 1-3 and 5 above; the principles that we consider to be most relevant to Quest Asset Partners as a boutique fund manager. We do not consider Quest to be in a position to practically adhere to principles 4 and 6 above.

Proxy Voting

Quest will exercise voting and other similar rights where we have the authority to do so under our investment mandates. Our guiding principles regarding voting are:

1. Voting rights should be exercised in all cases, in the best interests of clients;
2. Relevant and available information will be considered in forming a decision; and
3. Abstaining from voting will be considered in limited circumstances (for example: where Quest is excluded from voting by the Corporations Act; where a conflict of interest exists or where it is in the best interests of clients)

The voting decision is determined by the relevant investment professional. We will consider research from various proxy advisor professionals, where appropriate.

May 2016