

Iguana Investments Ltd

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) POLICY

BACKGROUND AND SCOPE OF THIS DOCUMENT

This document outlines the ESG Policy currently in place at Iguana Investments Ltd.

Iguana Investments aims to be a responsible participant in global capital markets and recognises its responsibilities regarding the importance of Environmental, Social, and Corporate Governance (ESG). This means that, whilst in general we are focused on delivering financial returns to our investor base (generate an overall investment return through long-term capital growth as well as dividend and other income), we also believe that understanding and influencing the ESG stance of the companies in which we invest is critical not just to the investment performance of that company but also because corporate sustainability policies have a critical impact on wider society. Therefore, we recognise that by identifying, quantifying and seeking to act upon ESG issues within the investment portfolio, we may not only improve our investment performance, but we can also better align ourselves and our investors with the broader objectives of society.

Iguana Investments has committed to give 10% of any net profits generated by the company to charitable causes related to Wildlife Conservation & Research as a first step to ensuring that our own corporate values align with the sustainability objectives of wider society. We believe this approach ensures that we can help to create a degree of societal benefit by our investment management participation in the global capital markets, a goal that aligns with the interests of our employees, clients, and the wider global community, whilst at the same time ensuring that our commitment does not impose a cost penalty to clients investing in our funds.

For clarity, we do not invest in or divest specific assets based solely on Sustainability Risks because, as noted above, our key objective is to seek to achieve superior investment performance. Instead, our ESG policy seeks to align with the UN Principles of Responsible Investment, via integration of Environmental, Social and Governance ("ESG") factors into: (a) an exclusionary screen upfront, (b) the investment analysis and (b) the investment decision making process for the Fund.

OVERALL ESG INVESTMENT APPROACH

Our ESG policy seeks to align with the UN Principles of Responsible Investment (PRI). This means that we commit to the following:

- To incorporate Environmental, Social and Corporate Governance (ESG) issues into investment analysis and decision-making processes;
- To be an active owner and to incorporate ESG issues into our ownership policies and practices;
- To seek appropriate disclosure on ESG issues by the entities in which we invest;
- To register with the UN PRI Secretariat and, once registered, to report on our activities and progress towards implementing the Principles by the end of 2023.
- To promote acceptance and implementation of the Principles within the wider investment industry;

Our approach is therefore to integrate Environmental, Social and Governance ("ESG") factors into: (a) the investment analysis and (b) the security selection decision making process for the Fund. We do this as follows:

(a) **ESG exclusionary screen.** Once an idea is identified, it is subject to our three ESG criteria in line with Article 8 SFDR regulations. We will not invest in companies that do not pass these following criteria:

1. whose CO2 emissions are increasing, as measured on a year-to-year basis; and
2. who are not on a clear trajectory to improving CO2 emissions; and
3. who have not committed to reducing CO2 emissions by the Paris-aligned target of 45% by 2030 and net zero by 2050.

Each idea must meet all three criteria in order to be excluded from the investment universe. We measure these criteria using third-party sources and internal research which are based on a mix of quantitative and qualitative data. Whether or not each idea fails/passes our exclusion screen is maintained and updated on an internal database on an on-going basis.

We also seek to avoid companies with known practices that are significantly harmful to society, broadly following the principles of the UN Global Compact ("UNGC"), such as corruption, lack of transparency, ethical violations, or other potential human rights violations. And while many factors may be considered in the

assessment of any investment, we will also seek to avoid investing in companies which themselves or through entities or issues such companies control, produce or are involved in controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons).

We have two further internal guidelines: not to invest in companies with fossil fuel revenues that would collectively total more than 5% of the total portfolio (longs plus cash); and a similar restriction on companies with participation in nuclear-focused businesses. These are internal guidelines (thus: subject to review) that have been set to ensure that the fund has flexibility to invest, but still retains an ESG focus, in addition to the above criteria.

- (b) **Investment analysis.** The Fund seeks to analyse and consider each potential investment on its own merits. ESG issues are considered as part of the fundamental analysis when evaluating an investment. In brief, this means that we consider the impact of ESG factors relevant to an individual business or industry at key assumption points when conducting detailed financial modelling and valuation on a potential investment.

For example, a business that would generally be considered to have both a limited life and a heavy environmental impact, such as fossil fuel production, would see these negative environmental impacts reflected in the financial model and valuation by incorporating some or all of the following points:

- a very low or significantly negative value assigned to the terminal growth component of a Discounted Cashflow Valuation;
- a significantly higher than normal discount rate to reflect the poor quality and significant wider social and economic costs of corporate cashflows;
- and a lower future profit margin reflecting an expected future requirement for high regulatory emissions and remediation/clean-up costs likely to be required by the business.

In this example, these adjustments would cumulatively have a very material impact on the financial analysis, ensuring that the ESG drawbacks of the business model are adequately considered in parallel with the financial metrics and ensuring that ESG considerations are reflected in the investment analysis.

More information on typical considerations may be found in Appendix 1 below.

- (c) **The security selection decision-making process.** The second part of our ESG approach is to integrate ESG considerations at the conclusion of the investment analysis phase, when we make a portfolio investment decision or otherwise regarding an individual security. At this point, as discussed in our Investment Strategy (available on request), we operate an internal decision-making process to discuss and decide whether to invest in a security. The rationale behind the investment decision centres around a number of key 'questions' that we ask and answer that collectively should be answered in the affirmative if the inclusion of the security in the portfolio is to be justified. These questions cover several issues such as valuation, competitive position, strategy, management, and consideration of whether corporate actions are improving or reducing its current sustainability position.

At present we focus primarily on considering three key factors which have been chosen to align with our corporate ethos of giving to wildlife research, our desire to help ensure strong and representative corporate governance in investee companies and the important issue of improving corporate behaviour. These factors are: 1) greenhouse gas emissions (including Scope 3 emissions and historical emission levels) to understand the overall carbon footprint of the company; 2) corporate governance factors such as overall Board gender and diversity composition, CEO duality and gender pay gap where possible and 3) the company's stated ESG ambitions overall, and look for indications that the company is working towards being sustainable and has identified clear areas of improvement or set specific sustainability targets that align with its financial goals/strategy. We believe this ensures that we as analysts must look at what the company is saying with regards to sustainability in their earnings calls and investor communications, similar to how we analyse financial disclosures and commentary.

ADDITIONAL INFORMATION ON SPECIFIC ESG ISSUES

We outline further detail on key specifics relating to ESG analysis below, such as our approach on screening companies based on ESG considerations and our level of voting engagement. Should you require any further information, please do not hesitate to contact us.

- **ESG considerations at the investment screening stage.** We believe that no sector or company should be definitively ruled in or ruled out of the portfolio upfront. This is primarily because, if a particular sector is screened out by institutional investors due to a specific negative issue (such as safety or pollution), there is a significant risk that this sector will eventually exit the capital markets and end up being owned by entities not subject to the discipline and scrutiny of the capital markets. At this point investment professionals lose the opportunity to favourably influence the operations of that business which could result in the operations instead being deployed in an even less ESG-favourable manner. In the past we have observed examples where listed companies with weak ESG records, such as fatalities or pollution, eventually were forced to exit a stock market but carried on with their operations, without the scrutiny and pressure of outside institutional investors. We would rather such sectors were listed on public markets and with investors that will commit to engage with the companies to change their behaviour if this is deemed appropriate.
- **Assessing fund exposure to carbon:** We aim to commit to assessing the fund's exposure to climate risk and monitoring the carbon footprint of the investment portfolio in line with regulatory requirements.
- **Voting, engagement and active investment practices:** Iguana Investments strongly recognise the potential benefit of actively voting and engaging with the companies in which we invest. All company meetings are documented and during these meetings we seek to challenge management in a positive manner on the importance of improving their company operations and any related ESG issues. Although we have external agencies available to us, we seek to consider voting or otherwise for any key individual corporate resolutions on its own merits, including engagement with management, rather than following a strict rules-based approach to voting.
- **Ongoing monitoring and reporting within the portfolio:** Each week, there is a minuted review meeting on the overall portfolio performance and risk exposure and the portfolio discussion includes any relevant ESG issues at the individual company or portfolio level as appropriate. As potential new investment ideas are discussed by the investment team, which occurs on an ongoing basis, a discussion considers the overall profile of the company including any areas for further investigation, which may also include a discussion on potential ESG implications of the stock. Each month the overall portfolio positioning is discussed at board level with all participants able to input into the process. At this point any identified ESG factors and specific company issues may also be discussed and addressed.

APPENDIX 1: MORE INFORMATION ON INCORPORATING ESG CONSIDERATIONS INTO OUR INVESTMENT ANALYSIS

As recommended by the UN PRI, we look to consider the impact of ESG factors across the financial forecasting process, in particular revenue, operating costs, book value of assets and capital expenditure. We also will, if and where appropriate, load the discount rate for a particular stock to a higher value if the business is considered to have a significantly negative ESG impact.

Typical adjustments that we aim to consider are as follows:

- Revenues - Given that future revenue growth rates have a significant impact on the fair value of a company, we may typically take a view on how fast the industry is growing and whether the specific company will gain or lose market share. We may increase or decrease the company's sales growth rate by an amount that reflects the level of ESG opportunities or ESG risks.
- Operating costs and operating margin – The influence of ESG factors on future operating costs may be significant, and we may incorporate this by either adjusting them directly or by adjusting the operating profit margin. The specific approach depends on the level of disclosure by companies and the nature of the ESG issue involved.
- Balance sheet adjustment – ESG factors can influence assets' anticipated cash flow, such as by forcing long-term or permanent closure, and therefore alter their Net Present Value (NPV). The impact is most likely to be a reduction in NPV, resulting in an impairment charge being made to bring the book value down accordingly, and therefore reducing not only the asset value but the company's earnings for the year in which the non-cash, one off impairment charge is recorded on the income statement. An asset revaluation can result in lower future earnings, a smaller balance sheet, additional operating/investment costs and a lower company fair value. For example, the future cash flow from a mining company's coal assets may be significantly less than the estimated future cash flow due to insufficient demand or regulatory change, or new technology could make it possible for a miner to extract commodities that were previously economically unviable.
- Cash flow adjustment – ESG factors will lead a company to decrease or increase their future capital expenditure. We can incorporate this by either decreasing or increasing capital expenditure forecasts by adjusting the formula linking capex to revenue, or (if aware of specific expansion plans, such as new factories, shops, or mines) by applying a one-off absolute cost adjustment to the forecasted cash flow statement. For example, legislative changes could force an electricity producer to upgrade its coal power plants to meet new environmental regulation or a manufacturer may see a recycling opportunity that requires a new production facility.
- Valuation (terminal value considerations) – ESG factors may mean that a company will not exist forever, for example if an oil and gas company's assets are considered stranded and there is doubt over the sustainability of the business model. In this instance, the terminal value will be significantly reduced. Similarly, the beta or discount rate can also be adjusted to reflect ESG factors – typically corporate governance, operational management, general quality of management, its strategic decision making etc. This approach is likely to be used if the company is not in itself an ESG liability by the underlying nature of its business, but perhaps is not functioning for the wider economy and environment as effectively as it should, perhaps because it has a poor safety record.