

Frontier Advisors

Responsible Investment Policy

July 2019

1 Introduction

Frontier’s Responsible Investment Policy (“the Policy”) sets out the way responsible investment is integrated into its investment research and advisory efforts.

The Policy is approved by Frontier’s Investment Committee. The Investment Committee has delegated the day-to-day custody of the Policy to Frontier’s Responsible Investment Group. The key details of the Responsible Investment Group’s operations are set out in the Responsible Investment Group Charter. The Policy is made available on the Frontier Advisors’ website.

The Policy is distinguished from Frontier’s corporate Environmental, Social and Governance (ESG) Policy which addresses the firm’s corporate social responsibilities and the sustainable operation of its business.

2 Definition of Responsible Investment

As a signatory to the Principles of Responsible Investment (PRI), Frontier adopts the definition of responsible investment as provided by PRI and shown below.

“Responsible investment is an approach to investing that aims to incorporate Environmental, Social and Governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.”

ESG factors are numerous, vary widely, and are continually changing. Examples of ESG factors are shown in the table following.

Environmental	Social	Governance
Climate change Resource depletion Biodiversity Waste management Pollution Water resilience Deforestation	Human rights Labour standards Modern Slavery Supply chain Equality Just transition Local communities	Corporate culture Board composition Cyber Security Executive alignment Regulatory environment Corruption Disclosure and transparency

Frontier recognises that ESG factors often cross over between two or more of the Environmental, Social and Governance areas, but also importantly between ESG and “traditional” investment areas.

3 Responsible Investment Philosophy

Frontier’s summary Responsible Investment Philosophy is stated as follows:

“We integrate responsible investment into our process to identify and manage material Environmental, Social and Governance (ESG) risks and investment opportunities, because ESG factors impact investment performance sustainability.”

The Responsible Investment Philosophy forms part of Frontier’s Investment Philosophy. Frontier considers the combination of “traditional” and responsible investment considerations to represent the full extent of investment factors that investors must address to achieve long-term investment performance objectives.

As a firm, Frontier ensures its responsible investment efforts align with its core capabilities as an investment advisor to institutional asset owners and therefore concentrates on those services which demonstrably add value for its clients.

4 Responsible Investment Beliefs

Within the context of its long-term investment philosophy, Frontier Advisors believes:

1. Belief 1 – Responsible investment supports a more sustainable real economy

Effective responsible investment reinforces the sustainability of the real economy and key global systems, which is vital for long-term, institutional asset owners

2. Belief 2 – ESG factors impact financial risks and returns

ESG factors can and do impact financial risks and returns, and therefore the sustainability of investment performance

3. Belief 3 – Responsible investment is a duty of a financial fiduciary

Appropriate consideration and management of ESG factors and issues reinforces the sustainability of investment performance. The effective integration of responsible investment into investment strategy and implementation is therefore a duty of a financial fiduciary

4. Belief 4 – Responsible investment should adapt as ESG factors change

ESG factors and issues are dynamic so continual research and monitoring are required to appropriately manage ESG risks and capture sustainable investment opportunities arising through time

5. Belief 5 – Responsible investment should account for ESG factor materiality

Both the materiality of, and the ability to effectively manage, the impact on performance sustainability vary by ESG factor and should guide the allocation of responsible investment efforts and resourcing

6. Belief 6 - Effective stewardship enhances an investment's risk/return profile

Effective stewardship of an investment, including active engagement with relevant market participants and proxy voting, enhances its risk/return profile

7. Belief 7 - Collective ESG action can more effectively drive positive change

Robust collective action on relevant ESG issues alongside like-minded market participants can reinforce the effectiveness of addressing those issues relative to acting in isolation

8. Belief 8 - Climate change is a systemic responsible investment issue

Climate change is a high priority ESG issue facing long-term investors and the effective management of risks and capture of opportunities arising from it will reinforce the sustainability of investment performance

9. Belief 9 - Responsible investment should be tailored for each investor

The approach to integrating responsible investment should account for an investor's unique set of objectives, constraints and values

Frontier's set of responsible investment beliefs represents the foundation that underpins all the firm's efforts in this area. Any work undertaken by Frontier with respect to responsible investment will therefore reflect a demonstrable alignment with one or more of the beliefs.

5 Responsible Investment Research**5.1 Objective**

In accordance with Beliefs 2, 3 and 4, the consideration of and research into ESG factors are formally integrated into Frontier's broader investment research efforts.

Furthermore, Frontier's clients are asset owners with highly-diversified, long-term portfolios and therefore considered "universal owners". In accordance with Belief 1, such asset owners are reliant on a sustainable real economy, as well as predictable and reliable global systems, to achieve their performance objectives.

The objective of Frontier's responsible investment research effort is to positively impact long-term investment outcomes by identifying, assessing and communicating relevant and material investment risks and opportunities arising from ESG factors.

5.2 Responsible Investment Research Agenda

At the delegation of Frontier's Investment Committee, the Responsible Investment Group has primary responsibility to formulate and drive the firm's responsible investment research agenda. This process is continually informed by Frontier's engagement on responsible investment issues with a broad range of industry stakeholders including clients, investment managers and responsible investment advocacy groups.

Given the large number and wide variety of ESG factors, the formulation of Frontier's responsible investment research agenda also considers the materiality of these factors. In accordance with Belief 5, ESG factors expected to have a material impact on the long-term performance of client portfolios are prioritised for research.

Materiality in this context may variously refer to the expected scale of risk and/or opportunity, the prevalence of an ESG factor within the economy, and/or the degree to which Frontier assesses an ESG factor can reasonably be managed by clients.

Frontier is further directed by the UN Sustainable Development Goals which in aggregate are viewed as providing tangible and detailed guidance on the likely evolution of development-related policies and capital funding requirements to achieve them. Frontier focusses on those goals where it believes it can materially influence the outcomes on behalf of clients.

5.3 Research Activity

Responsible investment research is primarily undertaken by Frontier's Research Teams, reflecting the domain expertise required to effectively analyse ESG factors within specific asset classes/capital markets. A Research Team may collaborate on responsible investment research with other business units including but not limited to, other Research Teams, the Responsible Investment Group, Client Teams and the Governance Advice, Risk, Decisions and Strategy Team, on an as-needs basis. Where relevant, a Research Team may draw on externally-produced responsible investment intelligence to supplement its proprietary analysis.

Each Research Team formally reports on material responsible investment matters across all major asset classes/capital markets on at least an annual basis. More generally, where deemed material, asset class/capital markets research reports will include consideration and analysis of relevant responsible investment issues.

5.4 Climate Change

In accordance with Belief 8, the research of investment risks and opportunities arising from climate change is a standing component of Frontier's responsible investment research agenda. At the delegation of Frontier's Investment Committee, the Responsible Investment Group has primary responsibility to drive the firm's strategic thinking on climate change management at the portfolio level.

Each Research Team formally reports on material climate change-related investment matters across all major asset classes/capital markets on at least an annual basis. More generally, where deemed material, asset class/capital markets research reports will include consideration and analysis of relevant climate change issues.

Specific, ongoing research supporting the operation and enhancement of Frontier's Climate Change Module is primarily undertaken by the Capital Markets and Asset Allocation Team.

6 Investment Manager Research

6.1 Objective

In accordance with Beliefs 3, 4 and 6, responsible investment considerations are formally integrated into Frontier's investment manager assessment, monitoring and engagement processes. Frontier's client base utilises professional investment managers for investment implementation.

The objective of integrating responsible investment in Frontier's investment manager research effort is to positively impact long-term investment outcomes by identifying, assessing and communicating the relative credibility and capabilities between investment products with respect to ESG.

6.2 Research Activity

Manager research is primarily undertaken by Frontier's Research Teams reflecting the domain expertise required to effectively analyse ESG factors across specific asset classes and types of investment products. Where relevant, a Research Team may draw on externally-produced responsible investment intelligence to supplement its proprietary analysis.

6.3 Product Assessment

The assessment of an investment manager's responsible investment credentials is a formal component of a Research Team's initial product rating process. For this component, each product is assigned one, three or five stars which communicates the Research Team's summary view on the investment manager's capability in responsible investment relative to its peers.

The number of stars assigned correspond to the following definitions:

- **One Star:** no or very weak ESG consideration in the investment process.
- **Three Stars:** ESG considerations are broadly in line with peers.
- **Five Stars:** the manager is above peers in considering ESG in its investment process.

Guidance on the required commentary to be provided in support of the number of stars assigned, is provided in Frontier's MAPS template. The number of stars assigned and supporting commentary are reviewed, updated and confirmed as part of the periodic MAPS refresh process.

Consistent with the broader investment product rating process, the responsible investment assessment process is multi-faceted, drawing on a range of quantitative and qualitative inputs determined as being material by the relevant Research Team in accordance with Belief 5. Such inputs are sourced variously as needed, although direct discussions and case studies with the investment manager are a standing element of the process as these support a greater depth of understanding relative to sole reliance on manager-supplied documentation.

Typical areas of assessment include the following, with individual Research Teams determining the materiality of each with respect to the specific product. Emphasis is placed more on the appropriateness and suitability of the investment manager's responsible investment approach in the context of its overall strategy rather than on strict and potentially arbitrary metrics. Research Teams also integrate asset class/product-specific responsible investment considerations where deemed material.

1. Responsible Investment/ESG Philosophy and Policy (Beliefs 1-4)
2. Responsible Investment Resourcing (Beliefs 3-7, 9)
3. Integration of Responsible Investment into the Investment Process (Beliefs 3-5)
4. Stewardship (Belief 6)
5. Collective Activity (Belief 7)
6. Climate Change (Belief 8)
7. Reporting and Client Service (Belief 9)

Further detail of underlying criteria for each areas of assessment is included in Attachment 2.

6.4 Manager and Product Monitoring

Responsible investment considerations are formally incorporated into annual reviews of investment products. The objective is to review, update (as required) and/or re-confirm the Research Team's current assessment of the investment manager's responsible investment capability with respect to the product. A focus of the review is to document the evolution of the investment manager's responsible investment approach over the prior 12 months. The review also accounts for the evolution of responsible investment integration in the product's peer group over the same period to determine the Manager's relative level.

Responsible investment considerations are also integrated and recorded where relevant within investment manager interactions outside the formal annual review cycle, e.g. update meetings, ESG surveys.

6.5 Manager Engagement

Research Teams actively engage with investment managers on an ongoing basis to encourage improvement across all facets of their operations. This formally includes engaging with investment managers on the integration of responsible investment considerations into their processes. The objective is to have investment managers continually deliver progressively better services to Frontier's clients over time.

As part of the ongoing monitoring of investment products, the Research Teams document their responsible investment engagement activities over time. The relative progress of such engagement activities for a given investment manager compared to peers may ultimately impact the number of stars a product is assigned for its responsible investment capabilities.

7 Client Advisory

7.1 Objective

In accordance with Belief 9, Frontier acknowledges that each of its clients will approach responsible investment considerations in a different way, depending on its unique set of objectives, resources, constraints and values.

The objective is to positively impact long-term investment outcomes by assisting clients in tailoring the integration of responsible investment considerations into investment strategy and implementation decisions, consistent with their overall objectives and specific requirements.

7.2 Responsible Investment Advisory Activity

Responsible investment advisory services are primarily provided by Frontier's Client Teams, reflecting the tailored requirements of each client in this area. Client Teams are responsible for fully understanding their client's responsible investment beliefs, philosophy and policies.

By and large, responsible investment considerations are expected to be integrated into broader investment strategy and implementation recommendations, although periodically there may be stand-alone responsible investment projects commissioned by the client. A Client Team may collaborate on responsible investment advisory work with other business units including but not limited to, the Research Teams, the Governance Advice, Risk, Decisions and Strategy Team, and the Responsible Investment Group, on an as-needs basis.

Typical (but non-exhaustive) areas of responsible investment advisory services provided include the following, with each Client Team working closely with the client.

- Responsible investment education and training
- Responsible investment beliefs surveys and workshops
- Assisting clients tailor responsible investment policy and/or strategy
- Climate change strategy and modelling (see next section)
- Thematic responsible investment research ideas
- Integrating responsible investment into manager selection and engagement
- Portfolio analytics
- Governance and compliance relating to responsible investment

7.3 Investment Policy and Strategic Asset Allocation

In advising a client on strategic asset allocation, where applicable, Frontier client teams will assist in integrating any responsible investment policy considerations deemed material by the client, into the determination of its investment policy, including the strategic asset allocation.

Frontier's Capital Markets and Asset Allocation Team (CMAAT) integrates ESG considerations into the development of its long-term capital market assumptions on an annual basis. The

CMAAT draws on ESG research from across the broader business including Frontier's sector Research Teams. ESG factors deemed material (e.g. transition to a lower-carbon economy), are considered alongside traditional factors, (e.g. productivity growth), in determining the long-term expected returns of major asset classes. These metrics are key inputs into portfolio modelling which is an important tool in determining a client's strategic asset allocation.

7.4 Climate Change Capital Markets Modelling

In accordance with Belief 8, to assist its clients considering climate change factors as part of determining long-term investment strategy, Frontier has incorporated a Climate Change Module into Prism, its proprietary portfolio analytics system. The objective of the Climate Change Module is to provide an understanding of the potential impacts of climate change on investment portfolio outcomes under different potential climate transition scenarios.

Client Teams may collaborate with the Capital Markets and Asset Allocation Team in supporting a client's use of the Climate Change Module.

8 Collective Activities

8.1 Objective

In accordance with Belief 7, Frontier participates in collective efforts on responsible investment. The nature of its participation varies from financial memberships of networks and collaborative initiatives supporting responsible investment policy, to informal interactions with other like-minded market participants on ESG issues.

The objective is to help drive positive changes that are expected to reinforce the sustainability of investment performance for Frontier's clients.

8.2 Membership/Signatory

Responsibility for fulfilling any ongoing requirements of the networks and collaborative initiatives of which Frontier is a member or signatory, lies primarily with the Responsible Investment Group.

8.2.1 *Principles for Responsible Investment (PRI)*

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. They are provided below¹.

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

¹ PRI

- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.

Frontier became a signatory of the PRI in October 2006 as a professional service partner. While not a steward or manager of assets, on becoming a signatory, Frontier has publicly committed to providing, developing and promoting services that support its clients' implementation of the Principles.

In accordance with PRI requirements, Frontier reports publicly on its responsible investment activities each year including the disclosure of its PRI Assessment Report on the Frontier Advisors website.

8.2.2 Paris Pledge for Action

The Paris Agreement is a 2016 agreement within the UN Framework Convention on Climate Change with the goal of keeping the increase in global average temperature to well below 2°C above pre-industrial levels, and to the limit the increase to 1.5°C, through the reduction of greenhouse gas emissions.

Frontier is a signatory to the Paris Pledge for Action which represents a public commitment to support the objectives of the Paris Agreement.

8.2.3 Investor Group on Climate Change

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand institutional asset owners focusing on the impact that climate change has on the financial value of investments. The IGCC aims to encourage government policies and investment practices that address the risks and opportunities of climate change, for the ultimate benefit of superannuants and unit holders.

Frontier is a financial member of the IGCC and supports its research and other efforts in helping asset owners, including Frontier's clients, to manage the impacts on their investments of the economic transition arising from climate change.

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Attachment 1: Glossary of Selected Terms

- **Just transition** is the effective and equitable management of the positive and negative social and employment implications of climate action across the whole economy. An example of just transition is the successful reskilling and relocation to a low-carbon industry of redundant workers from a coal-fueled power plant which has closed due to climate policy. A just transition is expected to facilitate faster transition to a low-carbon economy while also mitigating social exclusion and increased inequality.
- **Real economy** is the part of an economy which produces goods and services. It is distinct from the financial sector which is concerned with buying and selling on financial markets. The sustainability of both the real economy and the finance sector are intrinsically linked with each being reliant on the other.
- **Supply chain** is the network of entities, activities, information and resources required to create and distribute a product or service from supplier to customer. Issues impacting the financial performance of an entity (e.g. a listed company) can and do occur at multiple points along the supply chain, so risks or opportunities arising from these should be managed.
- **United Nations Sustainable Development Goals (SDGs)** are a set of 17 social, economic and environmental goals (and 169 underlying targets) to be achieved by 2030, which were agreed by 193 UN member states in 2016. The overarching objective of the goals is to build an inclusive, sustainable and resilient future for all people and the planet. The SDGs are expected to provide guidance on the direction of development policy and resultant financing requirements.
- **Universal owner** refers to large institutional asset owners which, due to their highly-diversified and long-term portfolios, effectively hold a slice of the overall economy and are therefore reliant on a sustainable and healthy economy to support their investment performance. As such, universal owners have a vested interest in supporting investment practices which promote a sustainable real economy.

Attachment 2: Investment Manager Areas of Assessment – Detailed

The following is a (non-exhaustive) list of Frontier’s areas of assessment with respect to the responsible investment capabilities of investment managers.

1. Responsible Investment/ESG Philosophy and Policy (Beliefs 1-4)

- Evolution and articulation of responsible investment beliefs and/or philosophy
- Evidence and composition of a formal responsible investment policy
- Expected future responsible investment developments/strategies

2. Responsible Investment Resourcing (Beliefs 3-7, 9)

- Internal responsible investment leadership and reporting structure
- Responsible investment roles and responsibilities
- Evolution and composition of internal responsible investment resourcing
- Alignment structures relating to responsible investment objectives
- External responsible investment resourcing
- Procurement and use of responsible investment data sources

3. Integration of Responsible Investment into the Investment Process (Beliefs 3-5)

- Articulation of responsible investment rationale and objectives
- Processes to determine ESG factor materiality
- Evolution and nature of responsible investment integration (as applicable) in:
 - Idea sourcing and generation
 - Research, analysis and valuation
 - Decision making
 - Investment execution
 - Portfolio construction
 - Asset management
 - Risk management
 - Performance attribution
 - Other investment process steps as required

- Adoption/use of existing responsible investment frameworks (e.g. Sustainable Development Goals, Sustainability Accounting Standards Board)
- Expected future responsible investment process enhancements
- Evidence of depth and consistency of responsible investment integration
- Evidence of value add arising from responsible investment integration

4. Stewardship (Belief 6)

- Articulation of engagement strategy
- Articulation of asset management strategy
- Composition of proxy voting policy
- Use of external proxy voting resources
- Articulation of approach to measure outcomes of stewardship activity

5. Collective Activity (Belief 7)

- Evolution and articulation of collective activity approach
- Details of responsible investment-related memberships and/or affiliations
- Nature of main obligations as a member and/or affiliate
- Evidence of/examples illustrating nature of participation in collective activity
- Articulation of approach to measure outcomes of collective activity

6. Climate Change (Belief 8)

- Articulation of climate strategy and policy
- Evolution and nature of climate integration in investment process steps (as per 6.3.3)
- Adoption of existing climate frameworks (e.g. Taskforce for Climate-related Financial Disclosures)

7. Reporting and Client Service (Belief 9)

- Evolution of responsible investment reporting
- Evidence of/examples illustrating responsible investment reporting capabilities
- Capability and capacity to generate tailored responsible investment reports (e.g. impact)