Morphic Responsible Investment Policy (MRIP)

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Jack Lowenstein, Managing Director & Joint CIO

The Morphic Mission

Our mission is to deliver risk-adjusted returns over the long term, in a responsible way that doesn't harm the environment, society and doesn't make the world a poorer place.

We will have a positive impact both as investors and as a business.

We will invest in those companies whose products and services have positive impacts. We will engage with those companies that need further change for the better and seek to persuade them to change.

As a business we will support charities via donating a proportion of our revenue and by managing assets on their behalf on concessional terms.

We will promote the adoption of the principles of Responsible Investment throughout the broad investment community.

Finally, our behaviour as individuals and collectively as a business will reflect the values that are fundamental to our Responsible Investment philosophy.

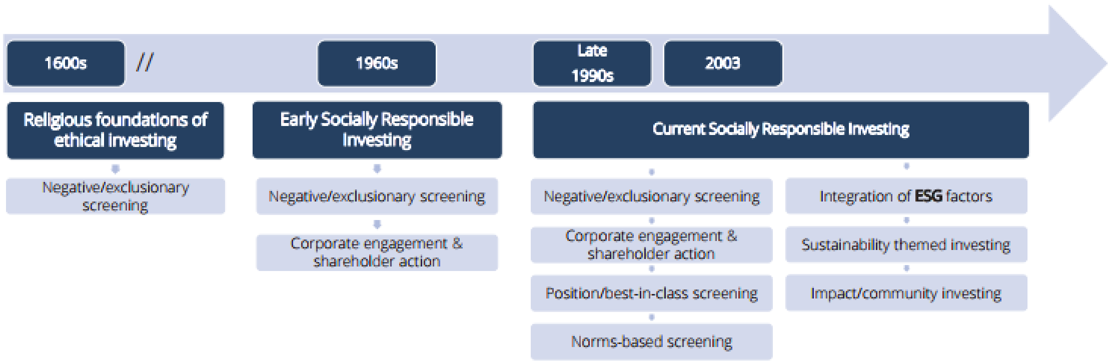
What is Responsible Investing?

Recent decades have seen a growing trend for investors and asset managers to consider various complementary non-financial factors in addition to traditional business and financial analysis, in making investment decisions. These qualitative factors look at investments in an Environmental, Social or Governance (ESG) context.

Responsible Investment is a term that is now being recognised globally to reflect practices which have been otherwise described in a number of ways including *Ethical* or *Sustainable Investment*, *ESG*, *Sustainable and Responsible* or *Socially Responsible Investment* (SRI).

The founders of Morphic Asset Management ("Morphic") have been investing for most of their careers with an investment process that reflects the evolution of Responsible Investment over this period.

Timeline of the Evolution of Responsible Investing:



Source: Morphic Half Yearly report

The consideration of these ESG factors is a natural component of Morphic's investment process. We believe that understanding material risks and opportunities related to ESG factors, enhances the insights of the conventional investment process. Building on an historic approach of excluding companies whose activities are incompatible with our values (known as ethical or negative screening) this approach is now fully integrated within our investment process.

Morphic
Asset Management

The Morphic Approach to Responsible Investment

Introduction

Our own experience and a growing body of academic research (appendix 1) suggest that incorporating ESG considerations into the investment process can lead to more informed investment decision-making and better investment outcomes for our investors.

This Policy document affirms Morphic's commitment to responsible investing and outlines our approach to practising responsible investing which comprises of four key components:

1. Screening – Negative & Positive
2. Integration of ESG considerations in our investment process – research, analysis & investment decision making
3. Engagement – with portfolio companies & all relevant stakeholders, & voting appropriately
4. Transparency – full disclosure

This Policy document also expands on, and illustrates how, we implement our ethical charter (Morphic Ethical Charter).

Implementing the Policy

The Joint Chief Investment Officers are responsible for the implementation of this Policy.

1. Screening

1.1 Negative Screening

Morphic excludes direct investments which have as a significant part of their business activities that:

1. Create un-remediated damage to land, air or water.
2. Mine coal or uranium.
3. Extract oil and gas.
4. Manufacture:
    a. Armaments
    b. Tobacco products
    c. Alcohol.
5. Engage in, or are reliant on, logging of rainforest or old growth timber.
6. Are involved in gambling.
7. Use cruel or unsustainable methods to farm or produce fish or livestock.

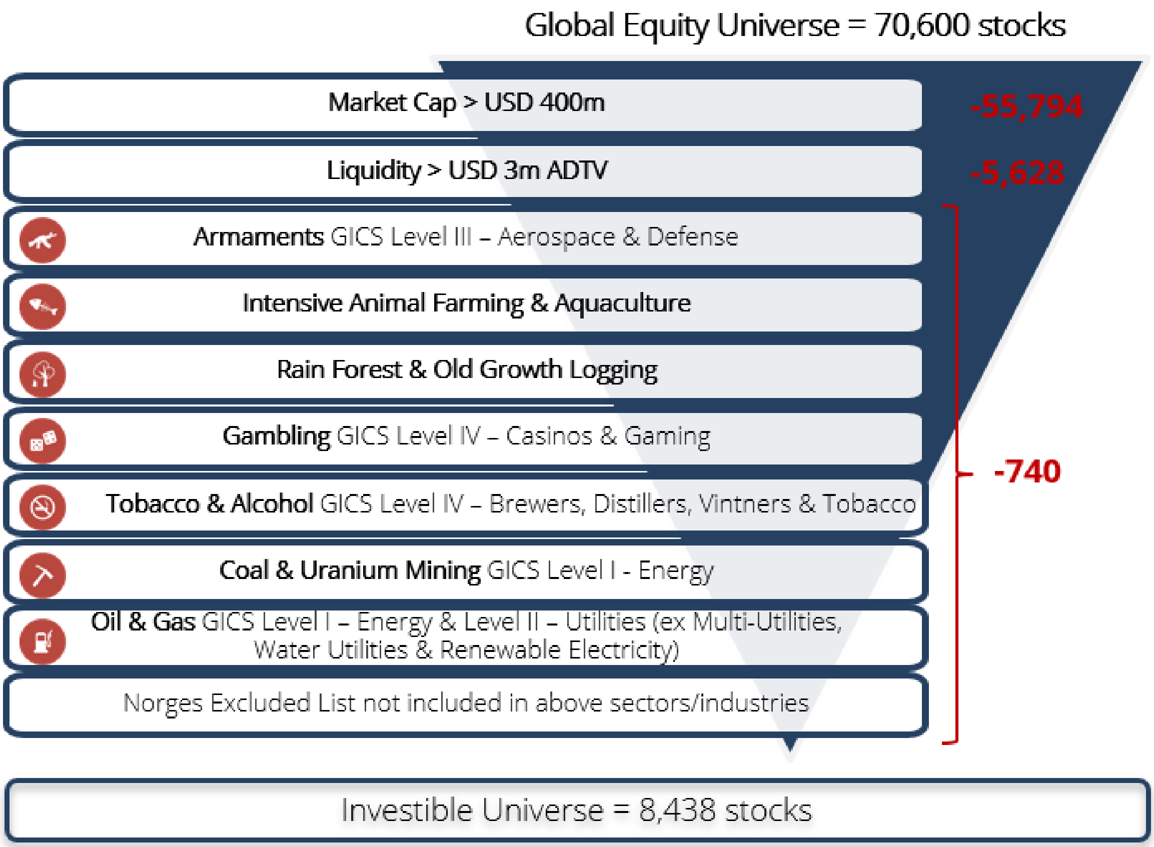
Globally there are almost 70,000 listed companies of which approximately 9,000 meet our size and market liquidity requirements. The Global Industry Classification Standard (GICS) (MSCI) allocates every listed company to a particular broad economic Sector (level I) and then three Industry Groupings (level II to IV), with each of the three levels of classification becoming narrower and more specific. We have identified the Sectors and Industry Groupings which correspond to the business activities that we will not invest in, currently more than 800 companies, and avoid them accordingly.

Norges Bank ("Norges") manages the world's largest Sovereign Wealth Fund on behalf of the population of Norway. The fund is managed under a Responsible Investment mandate and implements an ethical (negative) screen. The criteria for monitoring and excluding companies are endorsed by the Norwegian Government and reflect business activities similar to our negative screen. Additionally, it can exclude companies that it judges have an unacceptable risk of conduct that is considered grossly unethical.

Norges has the advantage of considerable resource and publicises its list of excluded companies (and those under observation) as well as the reasoning for each decision (Norges exclusion list). Consistent with the Responsible Investing principles of engagement and transparency, we are happy that our Funds can also benefit from Norges' important work. Therefore, any stock excluded by Norges will automatically be excluded from our Funds, including where possible eliminating any indirect exposures we may have.

The following diagram illustrates how we derive our investment universe after implementing our negative screen and the Norges exclusions:

Morphic Asset Management



Source: Bloomberg, Team analysis; as at March 2019

Where there is no applicable GICS sector classification we rely upon our due diligence in the research and analysis process to identify the companies that we are prohibited from investing in.

Companies that are not excluded by the negative screen but have exposure to any prohibited sector, defined as more than 20% of revenue, will also be excluded. Such exposure will be readily identifiable during research and analysis of the investment thesis. Analysts are thus responsible for bringing this to the attention of the joint-CIOs. The process by which the universe is identified, is documented separately.

1.2 Positive Screening

Morphic seeks to invest in businesses which:

1. Find solutions for reducing the emission of greenhouse gases.
2. Reduce damage to water supplies.
3. Work to improve air quality.

4. Provide alternatives to deforestation.

5. Otherwise enhance the human experience without creating future problems for mankind or the environment.

2. Integration of ESG Considerations in our Investment Process

2.1 Principles for Responsible Investment

The United Nations-backed Principles for Responsible Investment (PRI) is a network of international investors working together to put Principles for Responsible Investment into practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices.

Morphic is a signatory of the Principles for Responsible Investment which entails an explicit commitment and the adoption of six principles which we believe will improve our ability to meet commitments to our investors as well as better align our investment activities with the broader interests of society.

These six principles are as follows:

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

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 management industry

Principle 5 - We will work together to enhance our effectiveness in implementing the principles

Principle 6 - We will report on our activities and progress towards implementing the principles

Morphic ensures that all investment professionals are aware of the MRIP to ensure that these principles are adhered to.

Additions to investment staff will be provided with Morphic's Responsible Investing Policy.

This Responsible Investing Policy will be reviewed on a regular basis and amended to reflect developments in best practice and our commitments to PRI and industry peak bodies (such as RIAA). The Head of Research will be responsible for the annual review in the second quarter of each financial year.

Any changes to this Policy will be advised promptly to all members of the Morphic investment team and our investors by publication on our website.

2.2 Integrated ESG Analysis in Stock Research

Morphic conducts an "ESG Audit" to aid the identification and consideration of ESG factors and therefore to complement the research and analysis of potential investments (long and short). The purpose of this process is to identify the material ESG risks and opportunities related to the particular potential investment. This process is completed concurrently with the company-specific research and analysis process and feeds into the final investment decision.

The identification and consideration of material ESG factors is ingrained in the various ways in which we seek to understand how businesses work and forms part of the fundamental research on every investment case along with traditional financial and business factors. These factors are integrated into both the qualitative and quantitative analyses that ultimately lead to an assessment of the company's fair value, and which then informs discussion of the validity of the original investment thesis. The final investment decision explicitly considers the material ESG risks that are identified during the research process.

2.3 External Inputs

Morphic may use ESG data and ratings supplied by external service providers, where available, reliable and relevant.

Morphic regularly reviews industry ESG thought leaders, like the Norges Bank ("Norges") which manages the world's largest Sovereign Wealth Fund on behalf of the population of Norway, for insights in ESG process and analysis, and may follow its lead when deemed appropriate.

An increasing number of research departments with investment banks and brokers are publishing on ESG issues generally and sometimes where relevant to the specific companies they cover. In a few instances the research product is formally integrating consideration of relevant ESG issues.

2.4 ESG Audit

When identifying the potential material ESG risks and opportunities of an investment, Morphic's approach requires the consideration of a series of questions covering the analysis of a company's management and strategy, financial statements, industry and macroeconomic factors, and valuation considerations. Whilst similar to the questions that are typically addressed in traditional financial and business analysis they are designed to help identify relevant linkages between ESG factors and the company.

The questions encompass the following aspects of analysis (as appropriate to the particular company), overleaf:

Perspective of Analysis	*Area of Analytical Insight*	*Example of issues related to ESG flags / Typical Areas of Focus*
Company specific	Strategy & Management	Awareness, knowledge, prioritisation, disclosure of ESG factors
	Financial Analysis of Revenue	Sustainability of growth & key markets, impact of ESG trends: E: Resource use, disposal S: Consumer preferences, social trends G: Legislative or regulatory change
	Financial Analysis of Costs	E: Supply chain – raw material scarcity, energy intensity S: Supply chain – social consequences e.g. human rights. Employee motivation
	Financial Analysis of Assets	E: Provisioning? S: Intangible assets – e.g. reputational risks G: Structure & diversity
	Financial Analysis of Liabilities	Leverage, influence on stakeholder trust, ESG reflected in covenants?
	Financial Analysis of Cash Flow	E: Investment in resource efficiency? Investment accounting for, & financing terms reflecting ESG risks?
Sector specific	Industry Analysis	What are the specific ESG risks & opportunities? How can we best monitor these plus changes in consumer preferences, legislation, regulations?
Macroeconomic	Macroeconomic considerations	Sustainability of growth trends: E: Reflecting constraints? Robust environmental laws? S: Demographic trends, human rights protected by legal system? G: Role of government?
Company specific	Valuation	Has this reflected ESG risks in the past? How should we express them in our valuation?

2.5 ESG Materiality

The final stage of the ESG audit is to judge the materiality of the issues that have been identified as being relevant to the particular company.

The Sustainable Accounting Standards Board (SASB) has led the movement to implement consideration of ESG factors in to accounting standards. As part of this effort SASB has published the

"Materiality Matrix" which identifies relevant ESG factors according to industry and highlights materiality.

In judging the materiality of any relevant issues, the ESG Audit is required to reference the relevant sections of the SASB Materiality Matrix.

2.6 Documenting the Process

Having completed ESG audits, analysts are required to summarise the material ESG risks and opportunities in their company research recommendations, which are then discussed with other members of the investment team.

For the portfolio holdings ESG audits are updated in light of any new relevant information or at least once a year.

2.7 Independent External Monitoring of Morphic's Process

Institutional and retail investors globally increasingly require investment managers to incorporate consideration of ESG issues into their investment framework. Morphic is a signatory to the Principles for Responsible Investment ("PRI") and as such the integration of ESG issues (principle 1) as well as the other five PRI principles are externally assessed on an annual basis. From 2019 onwards, the PRI assessment of Morphic will be publicly available on Morphic's website.

Morphic is a member of the Responsible Investment Association of Australasia ("RIAA") and the Morphic Global Opportunities Fund and the Morphic Ethical Equities Fund are certified as "Ethical Investments". RIAA monitors our process and commitments via our regular disclosures and an annual review by an external auditor.

3. Engagement

We are committed to engage with all relevant stakeholders.

3.1 Portfolio Investments

Morphic seeks to actively engage with our portfolio companies to deepen our understanding of management views and strategies on both business and ESG-related issues. This engagement gives us the opportunity to voice any concerns we may have about any material ESG risks that we observe.

When possible, our analysts typically speak with representatives of the companies we are considering for investment to ask a range of questions about their operations, the challenges they may face, and the key conditions required for their success. These may encompass targeted questions relating to specific ESG factors, such as supply chain management, employee relations, environmental risk and mitigation as well as corporate governance. Dialogue with management continues in regular follow-up meetings and conversations after we invest in the company. Analysts are required to keep a record of the key findings from these meetings and monitor the progress of any initiatives discussed.

We will raise our concerns with management if we believe that the company is pursuing a course of action that risks jeopardising the sustainability of the business and is thus detrimental to shareholder value.

Given our relatively small size and the diversified nature of our portfolios, we are realistic about the extent to which we can effect change through active ownership, and we may choose to exit a position in cases of material ESG risks rather than persisting with attempts to engage with an unreceptive management team. Our guiding principle is to act in the best interest of the investors whose money we manage.

3.2 Investment Holding Periods

Whilst our investment time horizon is long term it is sometimes the case that the actual holding period is shorter than envisaged (if our expected valuation is reached quickly or our disciplined risk management process dictates the sale of a loss-making investment). In these instances, it may not be possible to effectively engage with companies where material ESG risks have been identified.

3.3 Limitations of Direct Engagement & Membership of Shareholder Action Groups

We recognise that our relatively small size may sometimes inhibit our access to management.

Another way our relatively small "voice" can be heard is through membership of groups which bring together shareholders and organise more effective collective engagement on particular issues. We are a founder signatory of Climate Action 100+ an organisation which coordinates engagement with the world's largest corporate CO_2 emitters. The purpose of this collective engagement is to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

As a signatory we are specifically contributing to the engagement with companies listed in Australia.

We may join other similar collective groups.

3.4 Voting

Annual General Meetings (AGM's) are the formal corporate governance mechanism through which shareholders are asked to express their opinion on various important matters such as the composition of the Board of Directors, remuneration policies for senior management, changes to shareholder capital, and appointment of auditors. Extraordinary General Meetings (EGM's) are used to address similar matters such as large corporate transaction on an ad-hoc basis.

For the companies that we invest in, the right to vote at AGM's and EGM's is ultimately owned by the investors in our Funds. We consider it part of our fiduciary duty to exercise these votes in the appropriate manner on their behalf. Our Proxy Voting Policy details the voting process.

3.5 Investors' Feedback

We believe that our client base is a valuable resource for understanding the world. We welcome investors' feedback on any securities we may hold in our portfolio.

In addition to the legal and regulatory reporting requirements of our Funds, we hold regular "town-hall" meetings to provide updates and to give clients the opportunity to communicate with us face-to-face.

3.6 General Engagement

We will regularly engage with other investors and relevant industry organisations (such as PRI, RIAA, ASA) to promote the industry wide integration of ESG issues and to further our knowledge and the development of our own investment process in this regard.

4. Transparency

Consistent with our commitment and responsibilities related to RIAA and PRI, with this Policy document we provide full transparency on how we integrate ESG into our investment process.

Generally, we strive to offer a higher level of disclosure than the legal and regulatory requirements of our funds and to exceed the standards of our peers.

4.1 Portfolio Holdings - we publish our full list of holdings on our website on an regular basis.

4.2 Performance Reporting - every month, we provide our investors with a monthly performance report which shows the Funds' top ten holdings (long and short positions).

4.3 Semi-Annual and Annual Reporting – every six months we provide our investors with extensive commentaries on performance, portfolio management activities and relevant subjects.

4.4 Voting – we will publish our voting records on an annual basis.

4.5 Company Engagement – if appropriate we will publicise our engagement with portfolio companies, however, it is often the case that this more effective if kept private.

4.6 Short Selling – we believe that public disclosure, via articles and blogs detailing our short-selling investment thesis, can have a powerful signalling impact.

4.7 Other Content – our website contains regular "blogs" and longer articles on specific portfolio companies and relevant subjects.

4.8 External Media – we regularly contribute to financial newspaper and television and copies of this content can also be found on our website.

5. Other Issues

5.1 Shorting

Morphic may from time to time sell short securities of companies it would be excluded from investing in, where it believes this will generate good investment returns for our clients.

We believe shorting excluded stocks and sectors can be a part of our ethical investing as it may increase the cost of capital for excluded companies or sectors and publicise the shortcomings of these companies.

5.2 Managing Conflicts of Interest

Morphic, maintains a Compliance Manual which all employees receive on commencement of employment and review annually.

The Compliance Manual provides the framework and rules by which Morphic defines itself and its relationships with its stakeholders including clients, staff and shareholders. Section 3 of the Compliance Manual "Managing Conflicts of Interest" addresses this issue as follows:

1. Definition of conflicts of interest
2. Procedures for managing conflicts of interest
3. Mechanisms for controlling conflicts of interest
4. Monitoring and reporting

5.3 Carbon Footprint

We do not specifically target the management of the carbon footprint of our portfolios. Morphic's negative screen excludes the broad energy sector, thus removing many carbon producers. We are confident that our portfolios will typically have lower carbon footprint than relevant global equity indices. We do not, however, specify a target number for the portfolios' carbon footprint.

5.4 Resolving "Grey Areas"

Our long experience in ethical investing means we are very aware that from time to time there will be ambiguity about what should be an excluded security.

When the Manager believes it has found a potential "grey area", it will immediately refer this to the Morphic Ethical Advisory Board. Similarly, the Board is mandated to ask questions on any stock it has concerns about. Where the Board deems any security should be excluded, its ruling will be final. The Morphic Ethical Advisory Board consists of the three independent directors of the Morphic Ethical Equities Fund.

5.5 Diversity

Morphic values diversity in the employees of its own business as well as those in which we invest.

5.6 Morphic Culture

Morphic's culture embodies the following five principles which are core to our beliefs and behaviour, individually and collectively:

1. **Honesty** - our business and investment process are transparent and intellectual honesty is a pre-requisite for all employees
2. **Adaptability** – because the world is continually changing we must stay dynamic
3. **Respect** – none of us have a monopoly on wisdom and we rely on each other to challenge our beliefs to further our knowledge and understand the risks we take
4. **Alignment** – we will always be substantial investors in our Funds and therefore have a common interest in their risks and rewards with all other investors
5. **Humility** – we acknowledge that we are not perfect, and we will use this an opportunity for growth

Upholding these principles is key to the sustainability of our business through the pursuit of continuous improvement.

5.6 Operational Responsibilities

Morphic seeks to conduct its operations with the utmost respect for the environment, to be socially minded and be a good corporate citizen.

To this end, we seek to undertake the following actions:

Environmental:

- Pay carbon offset for all business travel flights
- Support all possible recycling initiatives
- Minimise non-essential energy consumption particularly in out-of-hours work
- Purchase "environmentally friendly" office stationery products, where possible

Social:

- Morphic has a longstanding commitment to charitable giving. As part of this:
    - To date we have donated more than $600,000 in fees from managing a tranche of the Future Generation Global Fund since its launch in 2015.
    - We donate a proportion of the fees earned from managing our funds to various charities
- Be respectful of culture, race, gender and religion differences amongst our employees, clients and suppliers
- Support the training and education of employees
- Encourage wellness and physical activity among employees

Governance:

- Strong, sound & diverse Board of Directors with Non-Executive Directors being the majority

- Put the needs of the Funds and their investors first
- Implement a remuneration policy which rewards outstanding achievement and is tied to clients' outcomes and business development goals

6. Glossary

ASA
Australia Shareholders Association.

ESG
Environmental, Social and Governance.

MRIP
Morphic Responsible Investment Policy.

PRI
Principles for Responsible Investment.

RIAA
Responsible Investment Association of Australasia.

Screening
The application of a set of criteria to reduce a set of potential investments to a smaller set having certain desired characteristics.

Short Selling or "Shorting"
A transaction utilised to generate a profit from the fall in price of a financial security such as shares, indices, commodities or other financial assets. Short selling is the sale of a security that is not owned by the seller or that the seller has borrowed. It may be prompted by the desire to hedge the downside risk of a long position in the same security or a related one.

Appendix 1

Academic Studies

CAN ESG ADD ALPHA? An Analysis of ESG Tilt and Momentum Strategies
Zoltán Nagy, Altaf Kassam, Linda-Eling Lee June 2015

Classifying and Measuring the Performance of Socially Responsible Mutual Funds
MEIR STATMAN AND DENYS GLUSHKOV 2016

ESG for All? The Impact of ESG Screening on Return, Risk, and Diversification
Tim Verheyden , Robert G. Eccles, Andreas Feiner 11 July 2016

From the stockholder to the stakeholder – how sustainability can drive financial outperformance
Clark, Feiner, Viehs, 2015

Corporate Sustainability: First Evidence on Materiality
Havard Business School Working Paper 15-073, Mozaffar Khan, George Serafeim, and Aaron Yoon, 2015