

## FY24 ESG UPDATE FOR THE MERLON CAPITAL PARTNERS BOARD

Merlon prefers an integrated, issues based ESG approach. We delve deep into ESG issues that most affect our portfolio and reflect this research in our valuations and conviction scores, just as we do for investment issues.

As active owners, we share our learnings with portfolio companies as part of our engagement programme, with the goal to influence better investment returns and societal outcomes. We hold ourselves as a business to the same standards we ask of our portfolio companies.

### Recurring ESG issues discussed with portfolio company Boards in FY24

Merlon acknowledges that not all ESG issues will be relevant to all investments. As such, for each of our investee companies, Merlon considers what issues matter most.

Throughout FY24, those issues which were most common across companies were:

- Capital allocation (appeared in 12 letters)
- Board issues such as succession planning, skills mix, “over boarded” Directors (11 letters)
- Executive leadership issues such as appointment, succession planning, turnover (7 letters)
- Energy transition including net zero analysis, climate change risk, climate opportunity (9 letters)
- Data privacy and security (8 letters)
- Regulatory and reputational risks, including social licence (7 letters)
- Remuneration (5 letters)
- Personal and social harm caused by product, including problem gambling and alcohol (4 letters)

### Engagement

In early 2022, we formalised our introduction letter to Boards. We continued to evolve these letters in FY24, including deeper investment integration.

| Engagement  | FY24 | FY23 | FY22 |
|---|------|------|------|
| Introduction letters  | 16   | 16   | 8    |
| Meetings arising from introduction letter                     | 4    | 9    | 1    |
| Written replies to introduction letter                        | 7    | 10   | 4    |
| AGM & other letters (e.g. M&A, inquiry submissions, franking) | 1    | 7    | 10   |
| AGM issues meetings   | 5    | 12   | 6    |
| Result meetings   | 54   | 37   | 27   |
| Other meetings with Directors                                 | 2    | 1    | 6    |
| Other meetings with management teams or IR                    | 20   | 11   | 38   |

We believe voting is a special and legally protected form of engagement, as such we voted on 100% of resolutions in FY24. When deciding how to vote our shares, we begin with a detailed review of all relevant information. Where we have concerns relating to a particular resolution, or if we decide to vote against a Board’s recommendation, we seek to engage with them before lodging our vote. There have been situations in the past, where we have concerns relating to a particular resolution and have engaged with the company Board, resulting in the resolutions being withdrawn.

| How we voted in FY24    | FOR | AGAINST | ABSTAIN |
|-------------------------|-----|---------|---------|
| Board resolutions       | 94% | 6%      | NIL     |
| Shareholder resolutions | 14% | 86%     | NIL     |

Common themes raised in AGM engagements:

- Appropriateness of executive remuneration, including short- and long-term incentives alignment with shareholder experience and Board's use of discretion.
- Board composition mix, including appropriateness of current and/or newly appointed Directors to meet skills and experience required.
- CEO recruitment and appointment, including process and reasons for selection.
- Appropriateness of corporate strategy and culture.

### **Portfolio & partnership snapshot**

- In FY24 the MCP Board has one female Director, but no Indigenous, or culturally diverse Directors. Three of five Directors have been on the Board for more than 10 years. This broadly aligns with boutique, privately owned funds management peers.
- During FY24, the investment team at Merlon initiated the process to acquire Fidante partner's minority interest in Merlon Capital Partners. This process was completed in July 2024, establishing Merlon as 100% employee owned and fully aligns the business with its clients.
- Merlon will establish an Independent Advisory Board in FY25 with recruitment already underway. Expected launch is November 2024. The purpose of the Advisory Board is to strengthen Merlon governance, engagement activity and investment decision making.
- Merlon had one employee depart during FY24 due to their relocation to another State. All other employees were retained using the principles outlined in the Merlon ESG Policy.

### **Climate Risk**

- While formal analysis has not yet been completed, our initial investigation of our Scope 1 & 2 emissions footprint suggests it is low in size given the nature of our business
- We expect the majority of our emissions will be Financed / portfolio / downstream Scope 3 emissions, which we expect to vary over time as our portfolio composition change

| Carbon intensity risk<br>as at 30 June | 2024 |           | 2023 |           |
|--|------|-----------|------|-----------|
|  | Fund | Benchmark | Fund | Benchmark |
| Australian Share Income Fund           | 94   | 154       | 373  | 169       |
| Concentrated Australian Share Fund     | 95   | 154       | 424  | 169       |

Source: MSCI ESG Manager

### **Climate Scenario Testing**

- Merlon have recently acquired access to MSCI's climate value at risk (CVaR) reporting solution which provides scenario testing capabilities against hypothetical scenario of global temperature warming of either 1.5, 2, and 3 degrees.
- Using MSCI's climate scenario reports our investment team now has access to forward-looking and returns-based impact metrics which provide a deeper understanding of the climate related risks and opportunities across our portfolios.
- We are continuing to evaluate MSCI's methodology, assumptions and results from the climate reports with the aim to understand how they align with evolving reporting standards, legislative requirement as well as considering how MSCI's climate metrics can be integrated into our investment process.

### **Modern Slavery Risk**

- Merlon recognises that modern slavery, as well as being a serious ethical concern, can also pose a financial risk to businesses – both reputationally and from supply chain disruption
- Merlon conducts additional due diligence for companies with higher risk exposure to modern slavery to ensure the company has appropriate policies in place to manage these risks and treats its employees fairly. We engage regularly with companies on this issue

| Modern Slavery Risk<br>% Weight of Holdings | 2024 |        |      |
|---|------|--------|------|
|   | High | Medium | Low  |
| Benchmark                                   | 40.3 | 46.6   | 13.1 |
| Australian Share Income Fund                | 36.4 | 41.2   | 22.4 |
| Concentrated Australian Share Fund          | 33.8 | 41.8   | 24.5 |

Source: ISS ESG Modern Slavery Scorecard Report

### **Non-investment ESG activities:**

- 2023 UN PRI public transparency report [published on website](#), significant improvement in scores achieved.
- 2024 UN PRI reporting commenced (submitted July 2024). Results to be published on website following release.

### **Priorities for FY25:**

- Launch Merlon Independent Advisory Board with 10 meetings expected per financial year.
- Continued integration of ESG and investment issues in letters to investee company board directors.
- Continued meaningful engagement with portfolio companies.