



LEA 02	Disclosures Monetary	Reason Gateway	Principle PRI 1,2,3
<p>Type of engagement Individual/ internal staff engagements</p>	<p>Reason for interaction</p> <ul style="list-style-type: none"> <input checked="" type="checkbox"/> To support investment decisionmaking in & company's material ESG issues <input checked="" type="checkbox"/> To influence corporate practice or identify the need for additional or enhanced information <input checked="" type="checkbox"/> To engage internal staff <input checked="" type="checkbox"/> Other: specify <input type="checkbox"/> We do not engage in internal staff <input type="checkbox"/> To support investment decisionmaking in & company's material ESG issues <input type="checkbox"/> To influence corporate practice or identify the need for additional or enhanced information <input type="checkbox"/> Other: specify 		
<p>Collaborative engagements</p>	<ul style="list-style-type: none"> <input type="checkbox"/> To support investment decisionmaking in & company's material ESG issues <input type="checkbox"/> To influence corporate practice or identify the need for additional or enhanced information <input type="checkbox"/> Other: specify 		
<p>Service provider engagements</p>	<ul style="list-style-type: none"> <input type="checkbox"/> To support investment decisionmaking in & company's material ESG issues <input type="checkbox"/> To influence corporate practice or identify the need for additional or enhanced information <input type="checkbox"/> Other: specify 		

RI TRANSPARENCY REPORT

2014/15

Merlon Capital Partners

About this report

The PRI Reporting Framework is a key step in the journey towards building a common language and industry standard for reporting responsible investment (RI) activities. This RI Transparency Report is one of the key outputs of this Framework. Its primary objective is to enable signatory transparency on RI activities and facilitate dialogue between investors and their clients, beneficiaries and other stakeholders. A copy of this report will be publicly disclosed for all reporting signatories on the [PRI website](#), ensuring accountability of the PRI Initiative and its signatories.

This report is an export of the individual Signatory organisation's response to the PRI during the 2014-15 reporting cycle. It includes their responses to mandatory indicators, as well as responses to voluntary indicators the signatory has agreed to make public. The information is presented exactly as it was reported. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory to select are presented in this report. Presenting the information exactly as reported is a result of signatory feedback which suggested the PRI not summarise the information. As a result, the reports can be extensive. However, to help easily locate information, there is a **Principles index** which highlights where the information can be found and summarises the indicators that signatories complete and disclose.

Understanding the Principles Index

The Principles Index summarises the response status for the individual indicators and modules and shows how these relate to the six [Principles for Responsible Investment](#). It can be used by stakeholders as an 'at-a-glance' summary of reported information and to identify particular themes or areas of interest.

Indicators can refer to one or more Principles. Some indicators are not specific to any Principle. These are highlighted in the 'General' column. When multiple Principles are covered across numerous indicators, in order to avoid repetition, only the main Principle covered is highlighted.

All indicators within a module are presented below. The status of indicators is shown with the following symbols:

Symbol	Status
✓	The signatory has completed all mandatory parts of this indicator
☑	The signatory has completed some parts of this indicator
🔒	This indicator was not relevant for this signatory
-	The signatory did not complete any part of this indicator
Ⓜ	The signatory has flagged this indicator for internal review

Within the table, indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.

Principles Index

Organisational Overview				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
OO 01	Signatory category and services	✓	Public							✓
OO 02	Headquarters and operational countries	✓	Public							✓
OO 03	Subsidiaries that are separate PRI signatories	✓	Public							✓
OO 04	Reporting year and AUM	✓	Public							✓
OO 05	Breakdown of AUM by asset class	✓	Asset mix disclosed in OO 06							✓
OO 06	How would you like to disclose your asset class mix	✓	Public							✓
OO 07	Segregated mandates or pooled funds	🔒	n/a							✓
OO 08	Breakdown of AUM by market	✓	Private							✓
OO 09	Additional information about organisation	✓	Private							✓
OO 10	RI activities for listed equities	✓	Public							✓
OO 11	RI activities in other asset classes	🔒	n/a							✓
OO 12	Modules and sections required to complete	✓	Public							✓

Overarching Approach				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
OA 01	RI policy and other guidance documents	✓	Public							✓
OA 02	Publicly available policies / documents	✓	Public							✓
OA 03	Policy components and coverage	✓	Public	✓	✓					
OA 04	Conflicts of interest	✓	Public							✓
OA 05	RI goals and objectives	✓	Public							✓
OA 06	Main goals/objectives this year	🔒	n/a							✓
OA 07	Governance, management structures and RI processes	✓	Private							✓
OA 08	RI roles and responsibilities	✓	Public							✓
OA 09	RI in performance management, reward and/or personal development	✓	Private							✓
OA 10	Collaborative organisations / initiatives	✓	Public				✓	✓		
OA 11	Promoting RI independently	✓	Public				✓			
OA 12	Dialogue with public policy makers or standard setters	✓	Private				✓	✓	✓	
OA 13	ESG issues in strategic asset allocation	✓	Private	✓						
OA 14	Allocation of assets to environmental and social themed areas	✓	Private	✓						
OA 15	ESG issues for internally managed assets not reported in framework	🔒	n/a							✓
OA 16	ESG issues for externally managed assets not reported in framework	🔒	n/a							✓
OA 17	RI/ESG in execution and/or advisory services	🔒	n/a	✓	✓					
OA 18	Innovative features of approach to RI	✓	Private							✓
OA 19	Internal and external review and assurance of responses	✓	Private							✓

Direct - Listed Equity Incorporation				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
LEI 01	Breakdown by passive, quantitative, fundamental and other active strategies	✓	Private	✓						
LEI 02	Description of ESG incorporation	✓	Private	✓						
LEI 03	Percentage of each incorporation strategy	✓	Public	✓						
LEI 04	Type of ESG information used in investment decision	✓	Private	✓						
LEI 05	Information from engagement and/or voting used in investment decision-making	✓	Private	✓						
LEI 06	Types of screening applied	🔒	n/a	✓						
LEI 07	Processes to ensure screening is based on robust analysis	🔒	n/a	✓						
LEI 08	Processes to ensure fund criteria are not breached	🔒	n/a	✓						
LEI 09	Types of sustainability thematic funds/mandates	✓	Public	✓						
LEI 10	Description of ESG integration	🔒	n/a	✓						
LEI 11	Review ESG issues while researching companies/sectors	🔒	n/a	✓						
LEI 12	Processes to ensure integration is based on robust analysis	🔒	n/a	✓						
LEI 13	Aspects of analysis ESG information is integrated into	🔒	n/a	✓						
LEI 14	ESG issues in index construction	🔒	n/a	✓						
LEI 15	How ESG incorporation has influenced portfolio composition	✓	Private	✓						
LEI 16	Incorporation of ESG issues has improved financial/ESG performance and reduced risk	✓	Private	✓						
LEI 17	Examples of ESG issues that affected your investment view / performance	✓	Private	✓						
LEI 18	Disclosure of approach to ESG incorporation	✓	Public		✓					✓

Direct - Listed Equity Active Ownership				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
LEA 01	Description of approach to engagement	✓	Private		✓					
LEA 02	Reasoning for interaction on ESG issues	✓	Public	✓	✓	✓				
LEA 03	Process for identifying and prioritising engagement activities	✓	Public		✓					
LEA 04	Objectives for engagement activities	✓	Public		✓					
LEA 05	Process for identifying and prioritising engagement activities	✓	Public		✓					
LEA 06	Objectives for engagement activities	✓	Public		✓					
LEA 07	Role in engagement process	✓	Public		✓		✓			
LEA 08	Monitor / discuss service provider information	✓	Public		✓				✓	
LEA 09	Share insights from engagements with internal/external managers	✓	Private	✓	✓					
LEA 10	Tracking number of engagements	✓	Public		✓					
LEA 11	Number of companies engaged with, intensity of engagement and effort	✓	Private		✓					
LEA 12	Engagements on E, S and/or G issues	✓	Private		✓					
LEA 13	Companies changing practices / behaviour following engagement	✓	Private		✓					
LEA 14	Examples of ESG engagements	✓	Private		✓					
LEA 15	Disclosure of approach to ESG engagements	✓	Public		✓				✓	
LEA 16	Description of approach to (proxy) voting	✓	Private		✓					
LEA 17	Typical approach to (proxy) voting decisions	✓	Public		✓					
LEA 18	Percentage of voting recommendations reviewed	🔒	n/a		✓					
LEA 19	Confirmation of votes	✓	Private		✓					
LEA 20	Securities lending programme	✓	Private		✓					
LEA 21	Informing companies of the rationale of abstaining/voting against management	✓	Public		✓					
LEA 22	Percentage of (proxy) votes cast	✓	Public		✓					
LEA 23	Proportion of ballot items that were for/against/abstentions	✓	Private		✓					
LEA 24	Shareholder resolutions	✓	Private		✓					
LEA 25	Examples of (proxy) voting activities	✓	Private		✓					
LEA 26	Disclosing voting activities	✓	Public		✓				✓	

Merlon Capital Partners

Reported Information

Public version

Organisational Overview

PRI disclaimer

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Basic Information

OO 01	Mandatory	Gateway/Peering	General
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OO 01.1 Select the services you offer.

Fund management

% of assets under management (AUM) in ranges

- <10%
- 10-50%
- >50%

Fund of funds, manager of managers, sub-advised products

Other, specify

Execution and advisory services

OO 01.2 Additional information. [Optional]

Merlon Capital Partners is a Australian Domestic Equities manager with 100% exposure to Australian Equities

OO 02	Mandatory	Peering	General
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OO 02.1 Select the location of your organisation's headquarters.

Australia

OO 02.2 Indicate the number of countries in which you have offices (including your headquarters).

- 1
- 2-5
- 6-10
- >10

OO 02.3 Indicate the approximate number of staff in your organisation in full-time equivalents (FTE).

FTE

6

OO 03	Mandatory	Descriptive	General
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OO 03.1

Indicate whether you have subsidiaries within your organisation that are also PRI signatories in their own right.

- Yes
- No

OO 04

Mandatory

Gateway/Peering

General

OO 04.1

Indicate the year end date for your reporting year.

30/06/2014

OO 04.2

Indicate your total AUM at the end of your reporting year, excluding subsidiaries you have chosen not to report on, and advisory/execution only assets.

	trillions	billions	millions	thousands	hundreds
Total AUM		1	600	000	000
Currency	AUD				
Assets in USD		1	486	881	089

OO 04.5

Indicate the level of detail you would like to provide about your asset class mix.

- Approximate percentage breakdown to the nearest 5% (e.g. 45%)
- Broad ranges breakdown (i.e. <10%; 10-50%; >50%)

OO 04.6

Additional information. [Optional]

Merlon Capital Partners invest in Domestic Australian Equity asset class only

OO 06

Mandatory

Descriptive

General

OO 06.1

To contextualise your responses to the public, indicate how you would like to disclose your asset class mix.

- Publish our asset class mix as broad ranges

	Internally managed (%)	Externally managed (%)
Listed equity	>50%	0
Fixed income – corporate	0	0
Fixed income – government	0	0
Fixed income – other	0	0

Private debt	0	0
Private equity	0	0
Property	0	0
Infrastructure	0	0
Commodities	0	0
Hedge funds	0	0
Forestry	0	0
Farmland	0	0
Inclusive finance	0	0
Cash	0	0
Other (1), specify	0	0
Other (2), specify	0	0

○ Publish our asset class mix as per attached file (the following image formats can be uploaded: .jpg, .jpeg, .png, .bmp and .gif)

Gateway asset class implementation indicators

OO 10	Mandatory	Gateway	General
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OO 10.1

Select the responsible investment activities your organisation implemented, directly and/or indirectly, for listed equities in the reporting year.

- We incorporate ESG issues into investment decisions on our internally managed assets
- We engage with companies on ESG issues via our staff, collaborations or service providers
- We cast our (proxy) votes directly or via service providers
- None of the above

OO 12	Mandatory	Gateway	General
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OO 12.1

The modules and sections that you will be required to complete are listed below.

This list is based on the percentages provided in your AUM breakdown and your responses to the gateway indicators. You are only required to report on asset classes that represent 10% or more of your AUM. You may

report voluntarily on any applicable modules or sections by selecting them from the list. Fixed Income and Infrastructure are voluntary.

Core modules

- Organisational Overview
- Overarching Approach (including assets which do not have a separate module)

RI implementation directly or via service providers

Direct - Listed Equity incorporation

- Listed Equity incorporation

Direct - Listed Equity active ownership

- Engagements
- (Proxy) voting

Closing module

- Closing module

Merlon Capital Partners

Reported Information

Public version

Overarching Approach

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Responsible investment policy

OA 01	Mandatory	Gateway/Core Assessed	General
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OA 01.1 Indicate if you have a responsible investment policy.

- Yes
 No

OA 01.2 Indicate if you have other guidance documents or more specific policies related to responsible investment.

- Yes
 No

OA 01.3 Provide a brief description of the key elements of your responsible investment policy or, if you do not have a policy, of your overall approach to responsible investment. [Optional]

Approach to Environmental, Social and Governance (ESG)

We do not apply a negative screen to ESG but incorporate related factors within our Qualitative Scorecard conviction scores.

We differentiate between E&S and G (Governance). With Environment & Social (E&S) - we do not specifically score these factors as they are company/industry specific - where relevant, we consider them in our Qualitative Scorecard within the 'Competitive Advantage' component. In contrast, Governance (G) is specifically scored as one of the 10 factors comprising our Qualitative Scorecard for each company under coverage. Within Governance, we consider Remuneration Policy, Board Composition and Management Skills and Audit and Accounting Disclosure. Further detail on the Governance Factor is detailed in subsequent discussion.

At Merlon Capital Partners we recognise that we are not experts in the ESG field. We have engaged Regnan as an external specialist research provider on ESG issues. Regnan has a well establish research and assessment process, an experienced team providing broad coverage of the ASX200 Index and a value driven approach based on risk that fully aligns with our underlying investment philosophy.

Importantly, as a recognised signatory of the UN PRI we have also adopted their principles as a guide for responsible investing and have incorporated these principles into our thinking on sustainable investing. We also seek to take on an active role to incorporate ESG into our ownership policies and practices and look for appropriate disclosure on ESG issues by the entities in which we invest. Finally we look to promote acceptance and implementation of the UN PRI principles within the investment industry and work together to enhance our effectiveness in implementing the UN PRI Principles.

Currently, we source our Governance information from the Company Annual Reports, ISS Proxy Advisory Services, Regan ESG Research and Bloomberg.

OA 02	Mandatory	Core Assessed	PRI 6
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OA 02.3 Indicate if your other policies or guidance documents related to responsible investment are publicly available.

- Yes
 No

OA 03	Mandatory	Core Assessed	PRI 1,2
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OA 03.1

Indicate the components/types and coverage of your responsible investment policy and guidance documents.

Select all that apply

Policy components/types	Coverage by AUM
<input type="checkbox"/> Policy setting out your overall approach <input checked="" type="checkbox"/> (Proxy) voting policy <input checked="" type="checkbox"/> Engagement/active ownership policy <input type="checkbox"/> Specific guidelines on corporate governance <input type="checkbox"/> Specific guidelines on environmental issues <input type="checkbox"/> Specific guidelines on social issues <input type="checkbox"/> Asset class-specific guidelines <input type="checkbox"/> Screening/exclusion policy <input type="checkbox"/> Other, specify <input type="checkbox"/> Other, specify	<input checked="" type="radio"/> Applicable policies cover all AUM <input type="radio"/> Applicable policies cover a majority of AUM <input type="radio"/> Applicable policies cover a minority of AUM

OA 04

Mandatory

Core Assessed

General

OA 04.1

Indicate if your organisation has a policy on managing potential conflicts of interest in the investment process.

Yes

OA 04.2

Describe your policy on managing potential conflicts of interest in the investment process. [Optional]

Merlon Capital Partners Compliance Manual (dated April 2014) - section 13, pages 74-76 - outlines specific procedures, including Board level reporting and discussion, to resolve all conflicts of interest, including those between Merlon and its clients and between Merlon and the management of the companies invested in.

Conflicts are managed by specifically incorporating ESG issues into the investment process and having these issues the subject of rigorous peer review amongst the investment team. On governance issues, we also engage the services of ISS Proxy Advisory Services and have recently engaged Regnan as a specialist external research provider on ESG issues.. Any subsequent discussions with company management or Merlon clients that could lead to potential conflicts of interest take place within the context of Merlon's documented investment process and any external specialist advice received.

No

Objectives and strategies

OA 05

Mandatory

Gateway/Core Assessed

General

OA 05.1

Indicate if your organisation sets objectives for its responsible investment activities.

Yes

No

OA 05.4

Additional information. [Optional]

Merlon Capital Partners investment philosophy and investment process directly and indirectly incorporates ESG issues and sustainable investing. At an investment philosophy level, our documented view is companies should be valued on sustainable free cash flow with long-term returns that can only be sustainable in the context of industry structure, competitive advantage and disciplined management. The investment process to implement this philosophy can explicitly incorporate financial impacts of ESG factors where relevant (eg. impact of proposed carbon tax) and also in setting qualitative scores for companies under research coverage which are in turn are used to assess competitive advantage and sustainability of cash flows and returns. Our qualitative score card has 10 factors (4 industry related and 6 company specific). ESG is incorporated into factor 6: Sustainability Of Competitive Advantage, and Factor 8: Governance - this is where we believe the returns of a company as the result of poor governance, environment or health and safety policies are clearly not sustainable. It is at this level where peer review takes place and qualitative scores are discussed. Our qualitative factor 8: Governance, specifically addresses the ability of a company's Board to manage the agency conflict between management and shareholders.

We do not apply a negative screen to ESG but stocks with poor ESG characteristics will have lower qualitative scores and consequently lower long-term forecast returns incorporated in the valuation. These companies will also have lower conviction scores making it difficult to stack up as an investment opportunity.

We have recently engaged Regnan as a leading external specialist research firm focusing on ESG issues. Over time, we will incorporate their more detailed views into our long-term financial forecasts and qualitative scores where appropriate.

Merlon Capital Partners Compliance Manual (dated April 2014) and formally adopted by the company's board of directors) has a specific policy on Corporate Governance (Proxy Voting) Policy - refer section 16, pages 103-106.

Governance and human resources

OA 08

Mandatory

Gateway/Core Assessed

General

OA 08.1

Indicate the roles present in your organisation and for each, indicate whether they have oversight and/or implementation responsibilities for responsible investment.

Roles present in your organisation

- Board members or trustees
- Chief Executive Officer (CEO), Chief Investment Officer (CIO), Investment Committee
- Other Chief-level staff or head of department, specify
- Portfolio managers
 - Oversight/accountability for responsible investment
 - Implementation of responsible investment
 - No oversight/accountability or implementation responsibility for responsible investment
- Investment analysts
 - Oversight/accountability for responsible investment
 - Implementation of responsible investment
 - No oversight/accountability or implementation responsibility for responsible investment
- Dedicated responsible investment staff
- External managers or service providers
- Other role, specify
- Other role, specify

OA 08.3 Additional information. [Optional]

As a part of our Fundamental Research Process each analyst and Portfolio Manager is responsible for assessing ESG factors on their stock universe. This includes the explicit financial forecast of ESG issues impacting long-term returns and the determination of company-specific quality and conviction scores. These forecasts and scores are debated by the investment team on at least a weekly basis. We have engaged Regnan as a specialist ESG service provider and we also obtain advice on proxy voting through ISS Proxy Advisory Services.

Promoting responsible investment

OA 10	Mandatory	Core Assessed	PRI 4,5
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OA 10.1 Select the collaborative organisation and/or initiatives of which your organisation is a member or in which it participated during the reporting year, and the role you played.

Select all that apply

- Principles for Responsible Investment

Your organisation's role in the initiative during the reporting period (see definitions)

- Basic
- Moderate
- Advanced
- Asian Corporate Governance Association
- Association for Sustainable & Responsible Investment in Asia
- Australian Council of Superannuation Investors
- CDP Climate Change
- CDP Forests
- CDP Water
- CFA Institute Centre for Financial Market Integrity
- Council of Institutional Investors (CII)
- Eumedion
- Extractive Industries Transparency Initiative (EITI)
- Global Investors Governance Network (GIGN)
- Global Real Estate Sustainability Benchmark (GRESB)
- Institutional Investors Group on Climate Change (IIGCC)
- Interfaith Center on Corporate Responsibility (ICCR)
- International Corporate Governance Network (ICGN)
- Investor Group on Climate Change, Australia/New Zealand (IGCC)
- Investor Network on Climate Risk (INCR)/CERES
- Local Authority Pension Fund Forum
- Regional or National Social Investment Forums (e.g. UKSIF, Eurosif, ASRIA, RIAA), specify
- Shareholder Association for Research and Education (Share)
- United Nations Environmental Program Finance Initiative (UNEP FI)
- United Nations Global Compact
- Other collaborative organisation/initiative, specify
- Other collaborative organisation/initiative, specify
- Other collaborative organisation/initiative, specify
- Other collaborative organisation/initiative, specify

OA 11	Mandatory	Core Assessed	PRI 4
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OA 11.1	Indicate if your organisation promotes responsible investment, independently of collaborative initiatives.
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- Yes

OA 11.2

Indicate which of the following actions your organisation has taken to promote responsible investment, independently of collaborative initiatives.

- Provided or supported education or training programmes for clients, investment managers, broker/dealers, investment consultants, legal advisers or other investment organisations
- Provided financial support for academic or industry research on responsible investment
- Encouraged better transparency and disclosure of responsible investment practices across the investment industry
- Spoke publicly at events and conferences to promote responsible investment
- Wrote and published in-house research papers on responsible investment
- Encouraged the adoption of the PRI
- Other, specify

No

OA 11.3

Additional information. [Optional]

Merlon Capital recently was engaged by Leighton Contractors to present to staff about the importance of risk and governance. This presentation consisted of the importance of governance through the establishment of audit and risk committees and rigorous governance techniques which in time will result in sound practices and will be rewarded by improved share price performance.

Merlon Capital Partners

Reported Information

Public version

Direct - Listed Equity Incorporation

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ESG incorporation in actively managed listed equities


Implementation processes

LEI 03	Mandatory	Gateway/Core Assessed	PRI 1
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LEI 03.1	Indicate (1) which ESG incorporation strategy and/or combination of strategies you apply to your actively managed listed equities and (2) the breakdown of your actively managed listed equities by strategy or combination of strategies.
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ESG incorporation strategy (select all that apply)

- Screening alone (i.e. not combined with any other strategies)
- Thematic alone (i.e. not combined with any other strategies)

Percentage of active listed equity to which the strategy is applied - you may (estimate +/- 10%)	 100
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- Integration alone (i.e. not combined with any other strategies)
- Screening + Integration strategies
- Thematic + integration strategies
- Screening + thematic strategies
- All three strategies combined
- No incorporation strategies applied

Total actively managed listed equities
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100%

LEI 03.2	Describe your primary reasons for choosing a particular ESG incorporation strategy.
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At an investment philosophy level, our view is companies should be valued on sustainable free cash flow with long-term returns that can only be sustainable in the context of industry structure, competitive advantage and disciplined management. The investment process to implement this philosophy can explicitly incorporate financial impacts of ESG factors where relevant (eg. impact of proposed carbon tax) and also in setting qualitative scores for companies under research coverage which are in turn are used to assess and sustainability of returns and valuation. The analyst valuations and conviction scores, together with a qualitative review, drive the investment decisions.

Our qualitative scorecard has 10 factors (4 industry related and 6 company specific). We differentiate between ES& G (governance) factors. With Environment E and Social S we do not specifically score these factors as they are company / industry specific - were relevant, we consider them in our Qualitative Scorecard within the "Competitive Advantage" component. The returns generated by a company as a result of poor environmental or health and safety policies are clearly not sustainable. In contrast Governance (G) is specifically scored as one of the 10 factors comprising our Qualitative Scorecard for each company under coverage. Within Governance we consider Remuneration Policy, Board Composition and Management Skills and Audit and Accounting Disclosure. We source our governance information for Company Annual Reports, ISS Proxy Advisory Services, Bloomberg and recently engaged Regnan as an external specialist research provider of ESG research.

We do not apply a negative screen to ESG but stocks with poor ESG characteristics will have lower qualitative scores and consequently lower long-term forecast returns incorporated in the valuation. These companies might also have lower conviction scores making it difficult to stack up as an investment opportunity.

LEI 03.3

Where assets are managed using a combination of ESG incorporation strategies, briefly describe how these combinations are used. [Optional]

Merlon Capital Partners investment philosophy and investment process directly and indirectly incorporates ESG issues and sustainable investing. At an investment philosophy level, our documented view is companies should be valued on sustainable free cash flow with long-term returns that can only be sustainable in the context of industry structure, competitive advantage and disciplined management. The investment process to implement this philosophy can explicitly incorporate financial impacts of ESG factors where relevant (eg. impact of proposed carbon tax) and also in setting qualitative scores for companies under research coverage which are in turn used to assess competitive advantage and sustainability of cash flows and returns. Our qualitative score card has 10 factors (4 industry related and 6 company specific). ESG is incorporated into factor 6: Sustainability Of Competitive Advantage, and Factor 8: Governance - this is where we believe the returns of a company as the result of poor governance, environment or health and safety policies are clearly not sustainable. It is at this level where peer review takes place and qualitative scores are discussed. Our qualitative factor 8: Governance, specifically addresses the ability of a company's Board to manage the agency conflict between management and shareholders.

We do not apply a negative screen to ESG but stocks with poor ESG characteristics will have lower qualitative scores and consequently lower long-term forecast returns incorporated in the valuation. These companies will also have lower conviction scores making it difficult to stack up as an investment opportunity.

We have recently engaged Regnan as a leading external specialist research firm focusing on ESG issues. Over time, we will incorporate their more detailed views into our long-term financial forecasts and qualitative scores where appropriate.

Merlon Capital Partners Compliance Manual (dated April 2010 and formally adopted by the company's board of directors) has a specific policy on Corporate Governance (Proxy Voting) Policy - refer section 16, pages 103-106.

(B) Implementation: Thematic

LEI 09	Mandatory	Descriptive	PRI 1
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LEI 09.1

Indicate the type of sustainability thematic funds or mandates that your organisation manages.

- Environmentally themed funds
- Socially themed funds
- Combination of themes

Communication

LEI 18	Mandatory	Core Assessed	PRI 2,6
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LEI 18.1

Indicate if your organisation proactively discloses information on your approach to ESG incorporation in listed equity.

- We disclose it publicly
- We disclose it to clients and/or beneficiaries only

LEI 18.5

Indicate the information your organisation proactively discloses to clients/ beneficiaries regarding your approach to ESG incorporation.

- Broad approach to ESG incorporation
- Detailed explanation of ESG incorporation strategy used

LEI 18.6

Indicate how frequently you typically report this information.

- Quarterly or more frequently
 - Between quarterly and annually
 - Less frequently than annually
 - Other, specify
- We do not proactively disclose it to the public and/or clients/beneficiaries

LEI 18.7

Additional information. [Optional]

When visiting our clients or prospective clients, ESG forms apart of the overall process for Merlon Capital Partners. Clients can request and often do ask our views in relation to ESG matters, namely governance issues and whether we have engaged the company concerned and that we have reflected this issue in our overall investment view, this is done using our overall conviction score for the company

Merlon Capital Partners

Reported Information

Public version

Direct - Listed Equity Active Ownership

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Engagement

Overview

LEA 02	Mandatory	Gateway	PRI 1,2,3
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LEA 02.1	Indicate your reasons for interacting with companies on ESG issues and indicate who carries out these interactions.
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Type of engagement	Reason for interaction
Individual/Internal staff engagements	<input checked="" type="checkbox"/> To support investment decision-making (e.g. company research) <input type="checkbox"/> To influence corporate practice (or identify the need to influence) on ESG issues <input checked="" type="checkbox"/> To encourage improved ESG disclosure <input type="checkbox"/> Other, specify <input type="checkbox"/> We do not engage via internal staff
Collaborative engagements	<input checked="" type="checkbox"/> To support investment decision-making (e.g. company research) <input type="checkbox"/> To influence corporate practice (or identify the need to influence) on ESG issues <input checked="" type="checkbox"/> To encourage improved ESG disclosure <input type="checkbox"/> Other, specify <input type="checkbox"/> We do not engage via collaborative engagements
Service provider engagements	<input checked="" type="checkbox"/> To support investment decision-making (e.g. company research) <input type="checkbox"/> To influence corporate practice (or identify the need to influence) on ESG issues <input checked="" type="checkbox"/> To encourage improved ESG disclosure <input type="checkbox"/> Other, specify <input type="checkbox"/> We do not engage via service providers

Process

Process for engagements run internally

LEA 03	Mandatory	Core Assessed	PRI 2
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LEA 03.1

Indicate whether your organisation has a formal process for identifying and prioritising engagement activities carried out by internal staff.

- Yes
- No

LEA 03.3

Additional information. [Optional]

The engagement of company activities depends on the individual analyst and is reflected in their qualitative score, which includes ESG. This score is then reflected in their overall conviction score for the company

LEA 04

Mandatory

Core Assessed

PRI 2

LEA 04.1

Indicate if you define specific objectives for your engagement activities.

- Yes
- No

LEA 04.2

Indicate if you monitor the actions that companies take following your engagements.

- Yes
 - Yes, in all cases
 - Yes, in the majority of cases
 - Yes, in the minority of cases

LEA 04.3

Describe how you monitor and evaluate the progress of your engagement activities.

Merlon Capital Partners will follow up and monitor engagement activities especially if the analyst has taken the time to engage the company expressing concerns over an issue etc. This evaluation revolves around the outcome after meeting or discussing with the company various concerns, and we look for tangible change presented to the AGM etc

- No

Process for engagements conducted via collaborations

LEA 05

Mandatory

Core Assessed

PRI 2

LEA 05.1

Indicate whether your organisation has a formal process for identifying and prioritising collaborative engagements.

- Yes
- No

LEA 06

Mandatory

Core Assessed

PRI 2

LEA 06.1 Indicate if the collaborative engagements in which you are involved have defined objectives.

- Yes
- No

LEA 06.2 Indicate if you monitor the actions companies take following your collaborative engagements.

- Yes
- No

Process for engagements conducted with/on your behalf by service providers

LEA 07

Mandatory

Core Assessed

PRI 2,4

LEA 07.1 Indicate if you play a role in the engagement process that your service provider conducts on your behalf.

- Yes
- No

LEA 07.3 Additional information. [Optional]

Merlon Capital Partners are not experts in the ESG field, so we rely on specialist such as Regnan in the ESG space and ISS in the proxy voting space. We follow their recommendations as they are the experts in their fields. These views are incorporated into our overall conviction and view on each company.

LEA 08

Mandatory

Core Assessed

PRI 2,6

LEA 08.1 Indicate whether you monitor and/or discuss the following information provided to you by your service provider

Please select all that apply

- The subject (or ESG issue(s)) of engagement
- The objectives of the engagement
- The rationale for engagement
- The frequency/intensity of interactions with companies
- Progress towards achieving engagement goals
- Outcomes that have been achieved from the engagement
- Next steps for engagement activity
- Other, specify
- None of the above

LEA 08.2 Additional information. [Optional]

Reviewing experts advice in the ESG and proxy voting field often leads to further analysis of issues highlighted, where the analyst may engage the company to seek answers on various issues or concerns.

General processes for all three groups of engagers

LEA 10

Mandatory

Gateway/Core Assessed

PRI 2

LEA 10.1

Indicate if you track the number of engagements your organisation participates in.

Type of engagement	Tracking engagements
Individual / Internal staff engagements	<input checked="" type="radio"/> Yes, we track the number of our engagements in full <input type="radio"/> Yes, we partially track the number of our engagements <input type="radio"/> No, we do not track our engagements but can provide a reasonable estimate of our engagement numbers <input type="radio"/> No, we do not track and cannot estimate our engagements
Collaborative engagements	<input checked="" type="radio"/> Yes, we track the number of our engagements in full <input type="radio"/> Yes, we partially track the number of our engagements <input type="radio"/> No, we do not track our engagements but can provide a reasonable estimate of our engagement numbers <input type="radio"/> No, we do not track and cannot estimate our engagements
Service provider engagements	<input checked="" type="radio"/> Yes, we track the number of our engagements in full <input type="radio"/> Yes, we partially track the number of our engagements <input type="radio"/> No, we do not track our engagements but can provide a reasonable estimate of our engagement numbers <input type="radio"/> No, we do not track and cannot estimate our engagements

LEA 10.2 Additional information. [Optional]

A database is kept on file for both ESG and ISS proxy recommendations.

Communication

LEA 15

Mandatory

Core Assessed

PRI 2,6

LEA 15.1

Indicate whether your organisation proactively discloses information on its engagements.

- We disclose it publicly
- We disclose it to clients and/or beneficiaries only

LEA 15.5	Indicate what engagement information your organisation proactively discloses to clients/beneficiaries.
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Engagement information disclosed

- Details of the selections, priorities and specific goals of engagement
- Number of engagements
- Breakdown of engagements by type/topic
- Breakdown of engagements by region
- An assessment of the current status of the engagement
- Outcomes that have been achieved from the engagement
- Other information

LEA 15.6	Indicate how frequently you typically report engagements information
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- Disclosed continuously (prior and post engagements)
- Disclosed quarterly
- Disclosed annually
- Disclosed every two years or less
- Other, specify
- We do not proactively disclose it to the public and/or clients/beneficiaries.

LEA 15.8	Additional information. [Optional]
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Merlon Capital Partners when meeting with our clients on a quarterly basis will endeavour to highlight any ESG engagement that we are currently involved in.

(Proxy) voting and shareholder resolutions

Process

LEA 17	Mandatory	Descriptive	PRI 2
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LEA 17.1	Indicate how you typically make your (proxy) voting decisions and what this approach is based on.
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Approach

- We use our own research or voting team and make our own voting decisions without the use of service providers.
- We hire service provider(s) which make voting recommendations or provide research that we use to inform our voting decisions.
- We hire service provider(s) which make voting decisions on our behalf, except for some pre-defined scenarios for which we review and make voting decisions.
- We hire service provider(s) which make voting decisions on our behalf.

Based primarily on

- the service provider voting policy signed off by us
- our own voting policy
- our clients requests or policy
- other, explain

LEA 21	Mandatory	Core Assessed	PRI 2
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LEA 21.1	Indicate if you ensure that companies are informed of the rationale when you and/or the service providers acting on your behalf abstain or vote against management recommendations.
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- Yes, in most cases
- Sometimes, in the following cases:
- No
- Not applicable as we and/or our service providers do not abstain or vote against management recommendations

LEA 21.2	Additional information. [Optional]
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In most cases where we abstain the company will contact us directly to enquire as to the reason why. Our Clients will ask us to abstain or vote against management recommendations, however this is not often.

Outputs and outcomes			
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LEA 22	Mandatory	Core Assessed	PRI 2
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LEA 22.1	For listed equities where you and/or your service provider has the mandate to issue (proxy) voting instructions, indicate the percentage of votes cast during the reporting year.
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- We do track or collect this information
- We do not track or collect this information

Communication			
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LEA 26	Mandatory	Core Assessed	PRI 2,6
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LEA 26.1

Indicate if your organisation proactively discloses information on your voting activities.

- We disclose it publicly
- We disclose it to clients/beneficiaries only
- We do not proactively disclose our voting activities to the public and/or to clients/beneficiaries

LEA 26.8

Additional information. [Optional]

If a client request to know how we voted in relation to a proxy vote then we will always disclose this information. As a general rule we do not make this public unless the client request our position on a certain matter.