JAMES FAIRFAX FOUNDATION

BRIDGESTAR PTY LTD

APPROACH TO RESPONSIBLE INVESTING

Pursuant to the terms of the will of James Oswald Fairfax AC, the Group (collectively the Bridgestar companies and the Estate of the Late James Fairfax AC) has the responsibility to prudently invest the funds of the Group for the dual purpose of facilitating distributions to lifetime income beneficiaries and making meaningful contributions to various philanthropic, cultural and charitable institutions.

Consistent with the wishes of James, the Group has the desire that the investments it holds should maximise the positive impact and minimise any negative effect on people and the planet. This means the Group's investments should have a positive impact in helping to create and sustain a thriving society and environment in which individuals, nature and communities flourish, and which we want future generations to inherit.

While terminology is still taking shape in the investment community, the term "Responsible Investing" is increasingly being used to encompass approaches to investment that achieve the goals noted above. Central to these approaches is taking into account **E**nvironmental, **S**ocial and **G**overnance ('ESG') factors. The relevance of these to the Group are as follows:

Environmental considerations

Environmental policies and regulation are likely to have a significant impact on the future profitability of many businesses. Companies that anticipate regulatory and investor scrutiny of the environmental impact of their operations, and adjust their businesses accordingly, may offer enhanced returns or a lower risk profile relative to their under-prepared competitors. A range of environmental issues may be considered, including:

- Carbon and greenhouse gas emissions and measurement and reporting of these
- Potential impacts of climate change
- Hazardous waste disposal and/ or clean-up
- Pollution and toxic release
- Use and generation of renewable energy
- Resource depletion

In this regard the Group should seek to:

- Only allow for investment in fossil fuel reliant interests where such companies are making thoughtful transitions to the generation of renewal energy and reduction in carbon emissions

- Limit investments in entities that have a highly negative impact upon the natural environment and biodiversity

Other areas where the Group would limit investments include:

- Old growth forest logging and clearing, and

- Non-biodegradable plastic production

Social considerations

Many believe a strong relationship exists between a company's approach to social responsibility and financial performance. Companies that have failed to act in the best interests of workers, local communities and special interest groups have been subject to legal action, trade union action, lobbying, public backlash and government intervention. These outcomes harm profitability and investor sentiment, exacerbating the negative share price impact. If a company fails to act in accordance with its social responsibilities, or perceived social responsibilities, this can damage its reputation and brand integrity.

There are a range of social issues that are often looked at, including:

- Workers' rights and labour relations
- Work health and safety measures
- Recognition of human rights and the use of child and/or slave labour
- Animal welfare
- Discrimination and sexual harassment
- Diversity at all levels within the organisation
- Predatory lending practices
- Political risks from being engaged in troubled markets/ countries

In this regard, the Group should seek to:

- Limit the extent of our investments in the gambling & tobacco industries.

- Limit investments in companies where there are known issues around human rights, consumer protection and animal welfare.

Governance considerations

Many investors want to hold companies with quality management. In assessing the quality of management, they may take into account corporate governance issues. Regulators and investors have a greater focus on transparency and disclosure of corporate governance. There is also academic research on the link between governance practices and corporate performance. Some believe that companies that rate poorly against these criteria are less likely to achieve strong, long-term financial performance. Such investors closely scrutinise companies for negative governance issues, such as mismanaged company finances, incoherent strategic vision, failure to capitalise on investment opportunities, poor acquisition discipline and related party transactions.

There are a range of governance issues that may be looked at, including:

- Board experience and diversity
- Stakeholders' interests and shareholders' rights
- Management's track record and accountability
- Anti-competitive practises, corruption and tax avoidance
- History of capital allocation and deployment
- Levels of transparency and disclosure
- Cumulative voting or majority voting
- Dual-class share structures
- Executive compensation
- Separation of Chairman/ CEO roles

Two popular responsible investing strategies are negative ESG screening and positive ESG screening.

Negative ESG screening seeks to avoid investments in undesirable industries or that exhibit poor practices. Common examples are screening out investments in companies involved in tobacco, gambling, old growth forest logging/clearing, non-biodegradable plastic production, munition clusters and more recently fossil fuel exploration/development.

Positive ESG screening seeks to construct portfolio which invest into companies that score strongly on environmental, social and governance metrics. This approach might see an investor buying the shares of a mining company that scores well compared to its peers in carbon emissions, employee safety metrics, or governance measures. It could also include seeking out investments in particular sectors, such as renewable energy.

'Impact investing' is also another sub-set of the term Responsible Investing. It differs from ESG investing by targeting specific and additional social and environmental outcomes, such as reducing carbon emissions or providing more affordable social housing. Impact investments needs to work harder to have a positive social and environmental benefit. Investors seeking market rate returns need to engage with how they can bring value beyond just bringing capital. This may be through finding opportunities that other investors haven't, doing more work to get comfortable with niche investment sectors, providing longer-term and more stable financing, or a myriad of other ways.

Although the Group holds some investments directly (where responsible investing practices can be fully controlled), it primarily invests in third party managed investment funds and individually managed accounts. As such, we can't completely control the end investments that are held in the portfolio. However, in such cases we will look to ensure the investment managers we use ensure ESG risks factors are properly considered.

In this regard:

- We should make it a habit, when we interact with our fund managers, to understand their ESG principles and inquire as to whether their investment processes are consistent with those principles;
- Where we have fund managers that have no stated ESG principles and / or ESG processes, inquire as to (i) why they don't and (ii) why they think they are doing the right thing from an ESG perspective;
- Where the Group makes direct investments, ensure we adhere to the ESG approach noted above.