



# RI TRANSPARENCY REPORT

2019

Ardea Investment Management

## 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 reporting period specified above. 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.

## PRI disclaimer

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OO 01	Mandatory	Gateway/Peering	General
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OO 01.1	Select the services and funds you offer		
	Select the services and funds you offer	% of asset under management (AUM) in ranges	
	Fund management	<input type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input checked="" type="radio"/> >50%	
	Fund of funds, manager of managers, sub-advised products	<input checked="" type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50%	
	Other	<input checked="" type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50%	
	Total 100%		

  

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).		
	<input type="radio"/> 1 <input checked="" type="radio"/> 2-5 <input type="radio"/> 6-10 <input type="radio"/> >10		
OO 02.3	Indicate the approximate number of staff in your organisation in full-time equivalents (FTE).		
	11		

  

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.		
	<input type="radio"/> Yes <input checked="" type="radio"/> No		

  

OO 04	Mandatory	Gateway/Peering	General
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OO 04.1	Indicate the year end date for your reporting year.		
	30/06/2018		
OO 04.2	Indicate your total AUM at the end of your reporting year.		
	Total AUM 10,114,938,886 AUD 7,459,739,875 USD		
OO 04.4	Indicate the total assets at the end of your reporting year subject to an execution and/or advisory approach.		
	<input checked="" type="checkbox"/> Not applicable as we do not have any assets under execution and/or advisory approach		

  

OO 05	Mandatory to Report, Voluntary to Disclose	Gateway	General
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OO 05.1	Provide an approximate percentage breakdown of your AUM at the end of your reporting year using the following asset classes and investment strategies:		
		Internally managed (%)	Externally managed (%)
	Listed equity	0	0
	Fixed income	>50%	0

Private equity	0	0
Property	0	0
Infrastructure	0	0
Commodities	0	0
Hedge funds	0	0
Fund of hedge funds	0	0
Forestry	0	0
Farmland	0	0
Inclusive finance	0	0
Cash	0	0
Money market instruments	0	0
Other (1), specify	0	0
Other (2), specify	0	0

OO 06	Mandatory	Descriptive	General
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OO 06.1 Select how you would like to disclose your asset class mix.

- ☐ as percentage breakdown  
☒ as broad ranges

OO 06.3 Indicate whether your organisation has any off-balance sheet assets [Optional].

- ☐ Yes  
☒ No

OO 06.5 Indicate whether your organisation uses fiduciary managers.

- ☐ Yes, we use a fiduciary manager and our response to OO 5.1 is reflective of their management of our assets.  
☒ No, we do not use fiduciary managers.

OO 07	Mandatory to Report, Voluntary to Disclose	Gateway	General
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Private

OO 09	Mandatory	Peering	General
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OO 09.1 Indicate the breakdown of your organisation's AUM by market.

100

Developed Markets

0

Emerging Markets

0

Frontier Markets

0

Other Markets

OO 10	Mandatory	Gateway	General
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OO 10.1 Select the active ownership activities your organisation implemented in the reporting year.

Fixed income SSA – engagement

- ☐ We engage with SSA bond issuers on ESG factors via our staff, collaborations or service providers.  
☒ We do not engage directly and do not require external managers to engage with SSA bond issuers on ESG factors. Please explain why you do not.

Please explain why you do not engage directly and do not require external managers to engage with companies on ESG factors.

The applicability and likely impact of the active engagement fixed income SSA exposures is questionable where those exposures are to entities such as the Australian Federal or state governments. We also raise whether it is ethically appropriate for a fund manager to effectively lobby government without specific direction on behalf of our investors. Our approach to ESG investing for SSA's is at the macro

level (i.e. as ESG affects rates, inflation and volatility more generally), rather than as a "stock selection" decision

#### Fixed income Corporate (non-financial) – engagement

- ☐ We engage with companies on ESG factors via our staff, collaborations or service providers.
- ☒ We do not engage directly and do not require external managers to engage with companies on ESG factors. Please explain why you do not.

#### Please explain why you do not engage directly and do not require external managers to engage with companies on ESG factors.

Our process and philosophy focuses on using primarily credit derivatives to express stock selection views and on negative stock selection (i.e. shorting names). Aside from access difficulty and ability to influence generally, active stewardship would be contrary to the intent of short positions on poor ESG names. Our belief is that by shorting issuers, this creates pricing disadvantages for poor ESG names, which is the most effective form of active management in the context of our investment approach. In saying that to the extent we have long positions in corporate names (unusual), we may seek to actively engage with them. To date however there have been no examples of this because we have not been able to identify material ESG issues that we could reasonably engage upon.

OO 11	Mandatory	Gateway	General
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OO 11.1 Select the internally managed asset classes in which you addressed ESG incorporation into your investment decisions and/or your active ownership practices (during the reporting year).

#### Fixed income - SSA

- ☒ We address ESG incorporation.
- ☐ We do not do ESG incorporation.

#### Fixed income - corporate (non-financial)

- ☒ We address ESG incorporation.
- ☐ We do not do ESG incorporation.

OO 12	Mandatory	Gateway	General
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OO 12.1 Below are all applicable modules or sections you may report on. Those which are mandatory to report (asset classes representing 10% or more of your AUM) are already ticked and read-only. Those which are voluntary to report on can be opted into by ticking the box.

#### Core modules

- ☒ Organisational Overview
- ☒ Strategy and Governance

#### RI implementation directly or via service providers

#### Direct - Fixed Income

- ☒ Fixed income - SSA
- ☒ Fixed income - Corporate (non-financial)

#### Closing module

- ☒ Closing module

OO FI 01	Mandatory	Gateway	General
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OO FI 01.1 Provide a breakdown of your internally managed fixed income securities by active and passive strategies

Type	Passive	Active - quantitative	Active - fundamental & others	Total internally managed fixed income security
SSA	<input type="radio"/> >50% <input checked="" type="radio"/> 10-50% <input type="radio"/> <10% <input type="radio"/> 0%	<input type="radio"/> >50% <input type="radio"/> 10-50% <input checked="" type="radio"/> <10% <input type="radio"/> 0%	<input checked="" type="radio"/> >50% <input type="radio"/> 10-50% <input type="radio"/> <10% <input type="radio"/> 0%	100%
Corporate (non-financial)	<input type="radio"/> >50% <input checked="" type="radio"/> 10-50% <input type="radio"/> <10% <input type="radio"/> 0%	<input type="radio"/> >50% <input type="radio"/> 10-50% <input checked="" type="radio"/> <10% <input type="radio"/> 0%	<input checked="" type="radio"/> >50% <input type="radio"/> 10-50% <input type="radio"/> <10% <input type="radio"/> 0%	100%

OO FI 01.2 Additional information. [Optional]

It is difficult to classify Ardea's investing approach in this framework. We tend to use quantitative methods to identify opportunities but understand the fundamental or technical reasons why these opportunities might occur. Moreover, each strategy within fixed income can use different weightings towards different approaches.

OO FI 03	Mandatory	Descriptive	General
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OO FI 03.1 Indicate the approximate (+/- 5%) breakdown of your SSA investments, by developed markets and emerging markets.



OO FI 03.2	Indicate the approximate (+/- 5%) breakdown of your corporate and securitised investments by investment grade or high-yield securities.
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Type	Investment grade (+/- 5%)	High-yield (+/- 5%)	Total internally managed
Corporate (non-financial)	<input checked="" type="radio"/> >50% <input type="radio"/> 10-50% <input type="radio"/> <10% <input type="radio"/> 0%	<input type="radio"/> >50% <input type="radio"/> 10-50% <input type="radio"/> <10% <input checked="" type="radio"/> 0%	100%

OO FI 03.3	Additional information. [Optional]
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Most of our mandates are exclusively limited to Australian government or state government bonds.

SG 01	Mandatory	Core Assessed	General				
SG 01.1	Indicate if you have an investment policy that covers your responsible investment approach.						
<input checked="" type="checkbox"/> Yes							
SG 01.2	Indicate the components/types and coverage of your policy.						
<table border="1"> <thead> <tr> <th>Policy components/types</th> <th>Coverage by AUM</th> </tr> </thead> <tbody> <tr> <td> <input checked="" type="checkbox"/> Policy setting out your overall approach  <input checked="" type="checkbox"/> Formalised guidelines on environmental factors  <input checked="" type="checkbox"/> Formalised guidelines on social factors  <input checked="" type="checkbox"/> Formalised guidelines on corporate governance factors  <input checked="" type="checkbox"/> Fiduciary (or equivalent) duties  <input type="checkbox"/> Asset class-specific RI guidelines  <input type="checkbox"/> Sector specific RI guidelines  <input type="checkbox"/> Screening / exclusions policy  <input type="checkbox"/> Other, specify (1)  <input type="checkbox"/> Other, specify(2)                 </td> <td> <input type="radio"/> Applicable policies cover all AUM  <input checked="" type="radio"/> Applicable policies cover a majority of AUM  <input type="radio"/> Applicable policies cover a minority of AUM                 </td> </tr> </tbody> </table>				Policy components/types	Coverage by AUM	<input checked="" type="checkbox"/> Policy setting out your overall approach <input checked="" type="checkbox"/> Formalised guidelines on environmental factors <input checked="" type="checkbox"/> Formalised guidelines on social factors <input checked="" type="checkbox"/> Formalised guidelines on corporate governance factors <input checked="" type="checkbox"/> Fiduciary (or equivalent) duties <input type="checkbox"/> Asset class-specific RI guidelines <input type="checkbox"/> Sector specific RI guidelines <input type="checkbox"/> Screening / exclusions policy <input type="checkbox"/> Other, specify (1) <input type="checkbox"/> Other, specify(2)	<input type="radio"/> Applicable policies cover all AUM <input checked="" type="radio"/> Applicable policies cover a majority of AUM <input type="radio"/> Applicable policies cover a minority of AUM
Policy components/types	Coverage by AUM						
<input checked="" type="checkbox"/> Policy setting out your overall approach <input checked="" type="checkbox"/> Formalised guidelines on environmental factors <input checked="" type="checkbox"/> Formalised guidelines on social factors <input checked="" type="checkbox"/> Formalised guidelines on corporate governance factors <input checked="" type="checkbox"/> Fiduciary (or equivalent) duties <input type="checkbox"/> Asset class-specific RI guidelines <input type="checkbox"/> Sector specific RI guidelines <input type="checkbox"/> Screening / exclusions policy <input type="checkbox"/> Other, specify (1) <input type="checkbox"/> Other, specify(2)	<input type="radio"/> Applicable policies cover all AUM <input checked="" type="radio"/> Applicable policies cover a majority of AUM <input type="radio"/> Applicable policies cover a minority of AUM						
SG 01.3	Indicate if the investment policy covers any of the following						
<input checked="" type="checkbox"/> Your organisation's definition of ESG and/or responsible investment and it's relation to investments <input checked="" type="checkbox"/> Your investment objectives that take ESG factors/real economy influence into account <input checked="" type="checkbox"/> Time horizon of your investment <input checked="" type="checkbox"/> Governance structure of organisational ESG responsibilities <input checked="" type="checkbox"/> ESG incorporation approaches <input checked="" type="checkbox"/> Active ownership approaches <input checked="" type="checkbox"/> Reporting <input type="checkbox"/> Climate change <input type="checkbox"/> Understanding and incorporating client / beneficiary sustainability preferences <input type="checkbox"/> Other RI considerations, specify (1) <input type="checkbox"/> Other RI considerations, specify (2)							
SG 01.4	Describe your organisation's investment principles and overall investment strategy, interpretation of fiduciary (or equivalent) duties, and how they consider ESG factors and real economy impact.						
<p>Our overall investment proposition is to identify and quantify anomalies or incorrectly priced factors affecting fixed income markets. These anomalies may be short term or persist for years, in some cases.</p> <p>Ardea's philosophy with respect to ESG, is to integrate ESG influence into its overall investment process. There are two ways in which this is done:</p> <p>1. <i>Macro Portfolio Positioning</i></p> <p>With respect to high quality government and semi government exposures (SSA), ESG factors are considered not only from a credit risk perspective where ESG factors are used to screen for appropriately high quality entities only thus limiting credit considerations, but also from impact that ESG themes might have on the macro factors (real interest rates, inflation and term structure) that these securities also give exposure to.</p> <p>2. <i>Credit Stock Selection</i></p> <p>With respect to corporate issuers, ESG factors are also considered from a credit risk perspective, since here ESG factors are more relevant from a stock selection perspective. Our ESG Policy framework closely follows an approach recommended by the RI Academy to "Identify", "Assess" and "Integrate" ESG factors into our investment process.</p> <p>We believe it is our fiduciary duty to integrate ESG into our investment decision making.</p>							
SG 01.5	Provide a brief description of the key elements, any variations or exceptions to your investment policy that covers your responsible investment approach. [Optional]						
<p><b>Credit Stock Selection</b></p> <p>Our ESG policies only apply to what we refer to as active investments in local currency credit risk.</p> <p>We distinguish between SSA credit risk and corporate credit risk</p> <p>For SSA exposure, Ardea limits the universe of country domiciles and associated government bonds to those which we believe represent negligible credit risk. The minimisation of credit risk reflects not only the defensive nature of our portfolios generally, but our investment philosophy to focus on macro and relative value strategies with respect to liquid government bonds rather than yield enhancement or issuer selection strategies. Although we believe that the rating agencies do take ESG considerations into account with respect to rating sovereign risk and government debt, we apply additional ESG related filters which we believe enhance our ability to avoid material credit risk exposures or differences. Academic and investor research shows correlations between ESG factors and credit risks and demonstrates that corruption, governance and transparency factors and sovereign bonds performance are clearly correlated. As a result of this screen, SSA credit risk is regarded as a negligible differentiating factor and thus our strategies focus instead on macro portfolio positioning (e.g. interest rate risk) and relative value opportunities with respect to the high quality government bond universe.</p> <p>For corporate exposures (and SSA exposures that do not meet the screen criteria), we integrate ESG factors into our stock selection process. We do not use ESG factors to exclusively screen the corporate universe as this would potentially exclude overall good value opportunities for our investors.</p> <p>Derivative exposures which are appropriately cash collateralised are also not subject to ESG investment policies.</p> <p>Short term investments (less than six months) in discount or similar securities rated A-1 or above by S&amp;P (or equivalent) of issuers will not be subject</p>							

to our ESG integrated stock selection process for reasons of lack of materiality to performance.

#### Macro Portfolio Positioning

Our ESG policies with regard to macro positioning apply to all active investment decisions. Note these positions are expressed at a portfolio level e.g. the decision to be overweight inflation versus nominal instruments overall relative to the benchmark, even if they are made through one specific stock purchase.

#### Passive Investing

ESG policies do not apply to purely passive mandates where Ardea, in keeping with its mandate rules, is required to hold securities in direct proportion to a benchmark index.

☐ No

SG 02	Mandatory	Core Assessed	PRI 6
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#### SG 02.1 Indicate which of your investment policy documents (if any) are publicly available. Provide a URL and an attachment of the document.

☒ Policy setting out your overall approach

URL/Attachment
<input checked="" type="checkbox"/> URL <a href="http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf">http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf</a>
<input type="checkbox"/> Attachment (will be made public)

☒ Formalised guidelines on environmental factors

URL/Attachment
<input checked="" type="checkbox"/> URL <a href="http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf">http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf</a>
<input type="checkbox"/> Attachment (will be made public)

☒ Formalised guidelines on social factors

URL/Attachment
<input checked="" type="checkbox"/> URL <a href="http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf">http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf</a>
<input type="checkbox"/> Attachment (will be made public)

☒ Formalised guidelines on corporate governance factors

URL/Attachment
<input checked="" type="checkbox"/> URL <a href="http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf">http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf</a>
<input type="checkbox"/> Attachment (will be made public)

☒ Fiduciary (or equivalent) duties

URL/Attachment
<input checked="" type="checkbox"/> URL <a href="http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf">http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf</a>
<input type="checkbox"/> Attachment (will be made public)

☐ We do not publicly disclose our investment policy documents

#### SG 02.2 Indicate if any of your investment policy components are publicly available. Provide URL and an attachment of the document.

☒ Your organisation's definition of ESG and/or responsible investment and it's relation to investments

URL/Attachment
<input checked="" type="checkbox"/> URL <a href="http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf">http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf</a>
<input type="checkbox"/> Attachment

☒ Your investment objectives that take ESG factors/real economy influence into account

URL/Attachment
<input checked="" type="checkbox"/> URL <a href="http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf">http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf</a>
<input type="checkbox"/> Attachment

☒ Time horizon of your investment



	URL/Attachment		
	<input checked="" type="checkbox"/> URL <a href="http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf">http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf</a>		
	<input type="checkbox"/> Attachment		
	<input type="checkbox"/> Governance structure of organisational ESG responsibilities		
	<input checked="" type="checkbox"/> ESG incorporation approaches		
	URL/Attachment		
	<input checked="" type="checkbox"/> URL <a href="http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf">http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf</a>		
	<input type="checkbox"/> Attachment		
	<input checked="" type="checkbox"/> Active ownership approaches		
	URL/Attachment		
	<input checked="" type="checkbox"/> URL <a href="http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf">http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf</a>		
	<input type="checkbox"/> Attachment		
	<input checked="" type="checkbox"/> Reporting		
	URL/Attachment		
	<input checked="" type="checkbox"/> URL <a href="http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf">http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf</a>		
	<input type="checkbox"/> Attachment		
	<input type="checkbox"/> We do not publicly disclose any investment policy components		
SG 03	Mandatory	Core Assessed	General
SG 03.1	Indicate if your organisation has a policy on managing potential conflicts of interest in the investment process.		
	<input checked="" type="radio"/> Yes		
SG 03.2	Describe your policy on managing potential conflicts of interest in the investment process.		
	<p>Ardea manages its conflicts in accordance with a four-step conflicts management process that involves: 1. Identifying conflict situations including utilising a conflicts register. 2. Assessing the likelihood of the conflict compromising the quality of the financial services provided by Ardea. 3. Appropriately responding to the conflict situation. Once the impact of a conflict situation has been assessed, an appropriate response must be developed and implemented. An appropriate response will depend on the facts and circumstances surrounding the conflict situation. 4. Adequate disclosure of the conflict and Ardea's response to it.</p>		
	<input type="radio"/> No		
SG 04	Voluntary	Descriptive	General
	Private		
SG 05	Mandatory	Gateway/Core Assessed	General
SG 05.1	Indicate if and how frequently your organisation sets and reviews objectives for its responsible investment activities.		
	<input type="radio"/> Quarterly or more frequently		
	<input type="radio"/> Biannually		
	<input checked="" type="radio"/> Annually		
	<input type="radio"/> Less frequently than annually		
	<input type="radio"/> Ad-hoc basis		
	<input type="radio"/> It is not set/reviewed		
SG 05.2	Additional information. [Optional]		
	<p>Our ESG process is integrated into our overall process and in effect, we constantly review our investment process looking for ways to improve it with respect to maximising our risk adjusted returns but we review it annually.</p> <p>We are therefore open to new ESG investing approaches as we become aware of them and how these might be complimentary and an improvement on our existing approach.</p> <p>Since ESG has different meanings to different people, objectives with regard to ESG may be determined on a case by case basis based upon clients' express wishes. We can be responsive therefore to tailored client requests (e.g. exclusions) in general however the objective of our ESG activities is to improve our risk adjusted returns for our clients.</p>		
SG 06	Voluntary	Descriptive	General
	Private		
SG 07	Mandatory	Core Assessed	General

SG 07.1	Indicate the internal and/or external roles used by your organisation, and indicate for each whether they have oversight and/or implementation responsibilities for responsible investment.
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Roles													
<input checked="" type="checkbox"/>	Board members or trustees												
<input checked="" type="checkbox"/>	Oversight/accountability for responsible investment												
<input type="checkbox"/>	Implementation of responsible investment												
<input type="checkbox"/>	No oversight/accountability or implementation responsibility for responsible investment												
<input checked="" type="checkbox"/>	Internal Roles (triggers other options)												
	<table border="1"> <thead> <tr> <th>Select from the below internal roles</th> </tr> </thead> <tbody> <tr> <td><input type="checkbox"/> Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Operating Officer (COO), Investment Committee</td> </tr> <tr> <td><input type="checkbox"/> Other Chief-level staff or head of department, specify</td> </tr> <tr> <td><input checked="" type="checkbox"/> Portfolio managers</td> </tr> <tr> <td><input checked="" type="checkbox"/> Oversight/accountability for responsible investment</td> </tr> <tr> <td><input checked="" type="checkbox"/> Implementation of responsible investment</td> </tr> <tr> <td><input type="checkbox"/> No oversight/accountability or implementation responsibility for responsible investment</td> </tr> <tr> <td><input type="checkbox"/> Investment analysts</td> </tr> <tr> <td><input type="checkbox"/> Dedicated responsible investment staff</td> </tr> <tr> <td><input type="checkbox"/> Investor relations</td> </tr> <tr> <td><input type="checkbox"/> Other role, specify (1)</td> </tr> <tr> <td><input type="checkbox"/> Other role, specify (2)</td> </tr> </tbody> </table>	Select from the below internal roles	<input type="checkbox"/> Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Operating Officer (COO), Investment Committee	<input type="checkbox"/> Other Chief-level staff or head of department, specify	<input checked="" type="checkbox"/> Portfolio managers	<input checked="" type="checkbox"/> Oversight/accountability for responsible investment	<input checked="" type="checkbox"/> Implementation of responsible investment	<input type="checkbox"/> No oversight/accountability or implementation responsibility for responsible investment	<input type="checkbox"/> Investment analysts	<input type="checkbox"/> Dedicated responsible investment staff	<input type="checkbox"/> Investor relations	<input type="checkbox"/> Other role, specify (1)	<input type="checkbox"/> Other role, specify (2)
Select from the below internal roles													
<input type="checkbox"/> Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Operating Officer (COO), Investment Committee													
<input type="checkbox"/> Other Chief-level staff or head of department, specify													
<input checked="" type="checkbox"/> Portfolio managers													
<input checked="" type="checkbox"/> Oversight/accountability for responsible investment													
<input checked="" type="checkbox"/> Implementation of responsible investment													
<input type="checkbox"/> No oversight/accountability or implementation responsibility for responsible investment													
<input type="checkbox"/> Investment analysts													
<input type="checkbox"/> Dedicated responsible investment staff													
<input type="checkbox"/> Investor relations													
<input type="checkbox"/> Other role, specify (1)													
<input type="checkbox"/> Other role, specify (2)													
<input type="checkbox"/>	External managers or service providers												

SG 07.2	For the roles for which you have RI oversight/accountability or implementation responsibilities, indicate how you execute these responsibilities.
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Considering ESG factors is an integrated and natural part of our investment process. Macro fixed income alpha decisions are required to consider ESG megatrends, whereas our limited credit stock selection activity (<5%), also requires us to consider ESG risks as part of the risk grading fundamental analysis. In effect, failure not to do so may be to the detriment of long term performance. Accountability for failure to do so rests with the collective investment team. As Ardea is a small firm, key staff are board members and therefore oversight and implementation is effectively the same.

SG 07.3	Indicate the number of dedicated responsible investment staff your organisation has.
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0

SG 07.4	Additional information. [Optional]
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Incorporating ESG issues in the investment process is properly overseen and implemented by the relevant portfolio managers. Indeed, we think having dedicated RI staff is a potential impediment to proper integration of ESG into decision making because it implies that it is separate from other risk factors in the investment decision making process.

SG 08	Voluntary	Additional Assessed	General
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Private

SG 09	Mandatory	Core Assessed	PRI 4,5
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SG 09.1	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.
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☒ Principles for Responsible Investment

Your organisation's role in the initiative during the reporting period (see definitions)
Basic
Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]
In 2016 we participated as a sub-committee member for the UNPRI Initiative for "ESG in Credit Ratings". We have since relinquished this role once the primary objective was achieved. We are now a signatory to the initiative.

- ☐ Asian Corporate Governance Association
- ☐ Australian Council of Superannuation Investors
- ☐ AFIC – La Commission ESG
- ☐ BVCA – Responsible Investment Advisory Board
- ☐ CDP Climate Change
- ☐ CDP Forests
- ☐ CDP Water
- ☐ CFA Institute Centre for Financial Market Integrity
- ☐ Code for Responsible Investment in SA (CRISA)
- ☐ Code for Responsible Finance in the 21st Century
- ☐ Council of Institutional Investors (CII)

- ☐ Eumedion
- ☐ Extractive Industries Transparency Initiative (EITI)
- ☐ ESG Research Australia
- ☐ Invest Europe Responsible Investment Roundtable
- ☐ Global Investors Governance Network (GIGN)
- ☐ Global Impact Investing Network (GIIN)
- ☐ Global Real Estate Sustainability Benchmark (GRESB)
- ☐ Green Bond Principles
- ☐ 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)
- ☐ International Integrated Reporting Council (IIRC)
- ☐ Investor Network on Climate Risk (INCR)/CERES
- ☐ Local Authority Pension Fund Forum
- ☐ Principles for Sustainable Insurance
- ☐ Regional or National Social Investment Forums (e.g. UKSIF, Eurosif, ASRIA, RIAA), specify
- ☐ Responsible Finance Principles in Inclusive Finance
- ☐ Shareholder Association for Research and Education (Share)
- ☐ United Nations Environmental Program Finance Initiative (UNEP FI)
- ☐ United Nations Global Compact
- ☒ Other collaborative organisation/initiative, specify

AFMA Markets Committee

Your organisation's role in the initiative during the reporting year (see definitions)	
Moderate	
Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]	
We are a participant in the AFMA markets committee responsible for the governance and processes around determining short-term money market reference rates (BBSW/LIBOR). This process has greatly improved the transparency and quality of these rates which had earlier been called into question. We also continue to provide feedback on other aspects of market functioning to market regulators and other public bodies through direct liaison with these organisations.	

- ☐ Other collaborative organisation/initiative, specify
- ☐ Other collaborative organisation/initiative, specify
- ☐ Other collaborative organisation/initiative, specify

SG 10	Mandatory	Core Assessed	PRI 4
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SG 10.1	Indicate if your organisation promotes responsible investment, independently of collaborative initiatives.
---------	--

☒ Yes

SG 10.2	Indicate the actions your organisation has taken to promote responsible investment independently of collaborative initiatives. Provide a description of your role in contributing to the objectives of the selected action and the typical frequency of your participation/contribution.
---------	--

- ☒ Provided or supported education or training programmes (this includes peer to peer RI support) Your education or training may be for clients, investment managers, actuaries, broker/dealers, investment consultants, legal advisers etc.)

Description
Peer to Peer RI support for new and existing investment staff. All new credit staff are required to complete the PRI Academy course. Insights around RI are shared across the investment team. Ardea also works closely with Fidante's dedicated ESG Specialist to continuously develop its ESG integration process.

Frequency of contribution
<input type="radio"/> Quarterly or more frequently <input type="radio"/> Biannually <input type="radio"/> Annually <input type="radio"/> Less frequently than annually <input checked="" type="radio"/> Ad hoc <input type="radio"/> Other

- ☐ Provided financial support for academic or industry research on responsible investment
- ☐ Provided input and/or collaborated with academia on RI related work
- ☒ Encouraged better transparency and disclosure of responsible investment practices across the investment industry

	<table border="1"> <tr> <th>Description</th> </tr> <tr> <td>By publicly disclosing our ESG policy and process we encourage better disclosure from others in the industry.</td> </tr> </table>			Description	By publicly disclosing our ESG policy and process we encourage better disclosure from others in the industry.
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	<table border="1"> <tr> <th>Frequency of contribution</th> </tr> <tr> <td> <input type="radio"/> Quarterly or more frequently  <input type="radio"/> Biannually  <input checked="" type="radio"/> Annually  <input type="radio"/> Less frequently than annually  <input type="radio"/> Ad hoc  <input type="radio"/> Other </td> </tr> </table>			Frequency of contribution	<input type="radio"/> Quarterly or more frequently <input type="radio"/> Biannually <input checked="" type="radio"/> Annually <input type="radio"/> Less frequently than annually <input type="radio"/> Ad hoc <input type="radio"/> Other
Frequency of contribution					
<input type="radio"/> Quarterly or more frequently <input type="radio"/> Biannually <input checked="" type="radio"/> Annually <input type="radio"/> Less frequently than annually <input type="radio"/> Ad hoc <input type="radio"/> Other					
	<input type="checkbox"/> Spoke publicly at events and conferences to promote responsible investment <input type="checkbox"/> Wrote and published in-house research papers on responsible investment <input type="checkbox"/> Encouraged the adoption of the PRI <input type="checkbox"/> Responded to RI related consultations by non-governmental organisations (OECD, FSB etc.) <input type="checkbox"/> Wrote and published articles on responsible investment in the media <input type="checkbox"/> A member of PRI advisory committees/ working groups, specify <input type="checkbox"/> On the Board of, or officially advising, other RI organisations (e.g. local SIFs) <input type="checkbox"/> Other, specify				
	<input type="radio"/> No				
SG 10.3	Describe any additional actions and initiatives that your organisation has taken part in during the reporting year to promote responsible investment [Optional]				
We are a small, specialist fixed income manager. Our ability to promote PRI beyond supporting collaborative initiatives is limited by resources.					
SG 11	Voluntary	Additional Assessed	PRI 4,5,6		
Private					
SG 12	Mandatory	Core Assessed	PRI 4		
SG 12.1	Indicate whether your organisation uses investment consultants.				
<input type="checkbox"/> Yes, we use investment consultants <input checked="" type="checkbox"/> No, we do not use investment consultants.					
SG 12.7	Additional information [Optional].				
We do not use external managers (we are an external manager) and we are fixed income managers. It would be unusual for a firm such as ours to use investment consultants					
SG 13	Mandatory	Descriptive	PRI 1		
SG 13.1	Indicate whether the organisation undertakes scenario analysis and/or modelling and provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).				
<input checked="" type="checkbox"/> Yes, to assess future ESG factors					
	<table border="1"> <tr> <th>Describe</th> </tr> <tr> <td>Our approach to macro portfolio positioning does not typically require us to model or project key economic variables such as growth, growth per capita, productivity and inflation but we may, at times conduct sensitivity analysis based on "new news" or changing views of drivers to these factors including ESG themed factors such as water scarcity and demographics. As ESG megatrends tend to be long term factors in our macro thinking and analysis, these need to be offset by fundamental and technical factors, which often predominate in the near term assessment.</td> </tr> </table>			Describe	Our approach to macro portfolio positioning does not typically require us to model or project key economic variables such as growth, growth per capita, productivity and inflation but we may, at times conduct sensitivity analysis based on "new news" or changing views of drivers to these factors including ESG themed factors such as water scarcity and demographics. As ESG megatrends tend to be long term factors in our macro thinking and analysis, these need to be offset by fundamental and technical factors, which often predominate in the near term assessment.
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<input type="checkbox"/> Yes, to assess future climate-related risks and opportunities <input type="checkbox"/> No, not to assess future ESG/climate-related issues					
SG 13.2	Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between sectors or geographic markets.				
	<table border="1"> <tr> <th>We do the following</th> </tr> <tr> <td> <input type="checkbox"/> Allocation between asset classes  <input checked="" type="checkbox"/> Determining fixed income duration  <input checked="" type="checkbox"/> Allocation of assets between geographic markets  <input checked="" type="checkbox"/> Sector weightings  <input type="checkbox"/> Other, specify  <input type="checkbox"/> We do not consider ESG issues in strategic asset allocation </td> </tr> </table>			We do the following	<input type="checkbox"/> Allocation between asset classes <input checked="" type="checkbox"/> Determining fixed income duration <input checked="" type="checkbox"/> Allocation of assets between geographic markets <input checked="" type="checkbox"/> Sector weightings <input type="checkbox"/> Other, specify <input type="checkbox"/> We do not consider ESG issues in strategic asset allocation
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SG 14	Mandatory to Report, Voluntary to Disclose	Additional Assessed	PRI 1		
Private					
SG 15	Mandatory to Report, Voluntary to Disclose	Descriptive	PRI 1		

SG 18	Voluntary	Descriptive	General
Private			
SG 19	Mandatory	Core Assessed	PRI 2, 6

  

SG 19.1	Indicate whether your organisation typically discloses asset class specific information proactively. Select the frequency of the disclosure to clients/beneficiaries and the public, and provide a URL to the public information.
	Fixed income
	Do you disclose?
	<input type="radio"/> We do not disclose to either clients/beneficiaries or the public. <input type="radio"/> We disclose to clients/beneficiaries only. <input checked="" type="radio"/> We disclose to the public
	The information disclosed to clients/beneficiaries is the same
	<input checked="" type="radio"/> Yes <input type="radio"/> No
Disclosure to public and URL	
	Disclosure to public and URL
	<input type="radio"/> Broad approach to RI incorporation <input checked="" type="radio"/> Detailed explanation of RI incorporation strategy used
Annually	
<a href="http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf">http://www.ardea.com.au/wp-content/uploads/Ardea-ESG-Policy.pdf</a>	

FI 01	Mandatory	Gateway	PRI 1
FI 01.1	Indicate (1) Which ESG incorporation strategy and/or combination of strategies you apply to your actively managed fixed income investments; and (2) The proportion (+/- 5%) of your total actively managed fixed income investments each strategy applies to.		
SSA	Screening alone	10	
	Thematic alone	0	
	Integration alone	90	
	Screening + integration strategies	0	
	Thematic + integration strategies	0	
	Screening + thematic strategies	0	
	All three strategies combined	0	
	No incorporation strategies applied	0	
Corporate (non-financial)	Screening alone	0	
	Thematic alone	0	
	Integration alone	100	
	Screening + integration strategies	0	
	Thematic + integration strategies	0	
	Screening + thematic strategies	0	
	All three strategies combined	0	
	No incorporation strategies applied	0	
FI 01.2	Describe your reasons for choosing a particular ESG incorporation strategy and how combinations of strategies are used.		
<p>With respect to SSA strategies our focus is to add value to portfolios via macro portfolio positioning (e.g. duration and inflation risks) and relative value, not through credit factors. Thus to ensure credit factors are there minimised via a high quality portfolio, we screen the universe for both fundamental and ESG related inputs. Beyond this point we believe our SSA strategy is integrated with ESG considerations with respect to those macro portfolio positioning only.</p> <p>It is argued that incorporating ESG into investment process is a fiduciary responsibility of investment managers.[1] In some jurisdictions ESG investment goals are even embedded as director's statutory obligations. An integrated approach to ESG therefore sits comfortably with our fiduciary duties. It is more questionable whether screening and thematic based ESG processes are consistent with fiduciary duties, however since these approaches tend to exclude value from the equation of whether an investment is made or not, or in what weight (unless specifically directed by the client).</p> <p>[1] Freshfields Bruckhaus Deringer (2009) "Fiduciary Responsibility: Legal and practical aspects of integrating environmental, social and governance issues into institutional investment." (pp 23-25)</p>			
FI 02	Mandatory to Report, Voluntary to Disclose	Core Assessed	PRI 1
Private			
FI 03	Mandatory	Additional Assessed	PRI 1
FI 03.1	Indicate how you ensure that your ESG research process is robust:		
<input type="checkbox"/> Comprehensive ESG research is undertaken internally to determine companies' activities; and products and/or services <input checked="" type="checkbox"/> Issuers are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies <input checked="" type="checkbox"/> Issuer information and/or ESG ratings are updated regularly to ensure ESG research is accurate <input type="checkbox"/> Internal audits and regular reviews of ESG research are undertaken in a systematic way. <input type="checkbox"/> A materiality/sustainability framework is created and regularly updated that includes all the key ESG risks and opportunities for each sector/country.			

- ☐ Other, specify
- ☐ None of the above

**FI 03.2** Describe how your ESG information or analysis is shared among your investment team.

- ☒ ESG information is held within a centralised database and is accessible to all investment staff
- ☐ ESG information is displayed on front office research platforms
- ☒ ESG information is a standard item on all individual issuer summaries, research notes, 'tear sheets', or similar documents
- ☒ Investment staff are required to discuss ESG information on issuers as a standard item during investment committee meetings
- ☐ Records capture how ESG information and research was incorporated into investment decisions
- ☐ Other, specify
- ☐ None of the above

**FI 03.3** Additional information. [Optional]

ESG information is downloaded from our providers website on a regular basis and then stored in our "decision tool". We also note ESG "scores" in our credit stock selection summaries and record and consider ESG comments from our 3rd party provider as part of our assessment.

**FI 04** **Mandatory** **Gateway** **PRI 1**

**FI 04.1** Indicate the type of screening you conduct.

	<b>SSA</b>
Negative/exclusionary screening	<input checked="" type="checkbox"/>
Positive/best-in-class screening	<input type="checkbox"/>
Norms-based screening	<input type="checkbox"/>

**FI 04.2** Describe your approach to screening for internally managed active fixed income

We screen on a number of fundamental and ESG factors to ensure our SSA exposures are of the highest credit quality. Please refer FI 04.3 below:

**FI 04.3** Additional information. [Optional]

Each issuer's country of domicile must:

have a sovereign foreign currency rating of at least A+ (worst of S&P and Moody's); and

have a transparency rating of at least 70 according to transparency international annual survey; and [ESG Factor]

>80th percentile World Bank avg. governance indicators [ESG Factors]; and

be an OECD member.

AND:

If a sovereign ("central government" e.g. Japan) it must be rated at least A+;

or

If a state/local government (e.g. QTC, British Columbia) it must:

Be at least foreign currency rated AA-; and

Have a rating not more than 2 notches below the sovereign rating (implies some level of central governmental support or a strong standalone credit story);

or

If a governmental agency (e.g. KfW, Rentenbank, BNG, Kommunalbanken)

Be at least foreign currency rated AA; and

Have a rating not more than 2 notches below the sovereign rating (implies some level of central governmental support or a very strong standalone credit story);

or

If a supranational agency (e.g. EIB, NIB, ADB, IRDB)

Be foreign currency rated AAA; and

Approved by credit (I currently believe multilateral supported entities are exposed to a tail risk that is not compensated for and the level of commitment can change easily (e.g. Eurofima). E.g. at this stage < 1 yr exposure only is approved for European supranationals or where in benchmark.

**FI 05** **Voluntary** **Additional Assessed** **PRI 1**

Private

**FI 06** **Mandatory** **Core Assessed** **PRI 1**

**FI 06.1** Indicate which systems your organisation has to ensure that fund screening criteria are not breached in fixed income investments.

Type of screening	Checks
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Negative/exclusionary screening?	<input type="checkbox"/> Analysis is performed to ensure that issuers meet screening criteria <input checked="" type="checkbox"/> We ensure that data used for the screening criteria is updated at least once a year. <input type="checkbox"/> Automated IT systems prevent our portfolio managers from investing in excluded issuers or bonds that do not meet screening criteria <input type="checkbox"/> Audits of fund holdings are undertaken yearly by internal audit or compliance functions <input checked="" type="checkbox"/> Other, specify				
	<table border="1"> <tr> <th></th> <th>other description</th> </tr> <tr> <td></td> <td>The credit officer maintains and checks that the SSA permitted list is maintained providing independence from the relative value and macro portfolio positioning personnel.</td> </tr> </table>		other description		The credit officer maintains and checks that the SSA permitted list is maintained providing independence from the relative value and macro portfolio positioning personnel.
		other description			
	The credit officer maintains and checks that the SSA permitted list is maintained providing independence from the relative value and macro portfolio positioning personnel.				
<input type="checkbox"/> None of the above					

FI 10	Mandatory	Descriptive	PRI 1
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FI 10.1	Describe your approach to integrating ESG into traditional financial analysis.
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Our overall investment proposition is to identify and quantify anomalies or incorrectly priced factors affecting fixed income markets. We then position the portfolio, with careful use of risk budget, to be either underweight or overweight that factor outright and in terms of 'slope' e.g. underweight the longer maturities, overweight the shorter maturities of the real interest rate curve, to make a profit. These anomalies may be short term (e.g. days) or persist for years, in some cases.

ESG megatrends are particularly important to longer term pricing in bond markets. For instance, we have identified in Australia that water scarcity and climate change are related factors that are particularly pertinent 'ESG megatrends'. Although the current government has sought to actively distance Australia from any carbon pricing policy, the country is heavily dependent on carbon based energy sources and is unlikely, ultimately to resist this trend towards carbon rationing globally. Moreover, Australia's growing population and increasing demands from agriculture mean that water problems are likely to be exacerbated. Climate change also suggests greater variability in Australia's weather conditions with a greater chance of extreme events e.g. cyclones.

We conclude that these ESG megatrends are likely to create an impost on productivity, a higher cost structure and greater uncertainty about growth longer term. On this basis, we believe that inflation is likely to be higher, real yields lower and volatility higher than would be the case if these ESG issues were not relevant. We therefore position the portfolio for a flatter yield curve and with longer break even inflation and longer option volatility than we would otherwise be the case, with greater emphasis on longer dated instruments.

It is important to stress that other non ESG factors are also required to be considered in forming our macro portfolio positions. For example, it may be the case that central bank behaviour, when combined with the size and risk of the opportunity, and in relation to other positions taken in the portfolio, including the correlation of those positions with each other, outweighs the direction that our ESG views have on the position. Thus, the influences of ESG are only part, but a potentially important part, of our portfolio positioning decision making.

The investment process, in this regard, is almost entirely subjective and qualitative.

FI 10.2	Describe how your ESG integration approach is adapted to each of the different types of fixed income you invest in.
---------	---

	SSA
--	-----

#### Identification

Macro strategists must first identify what ESG issues are relevant to the numerous positions in the portfolio. To assist the decision makers, the ESG Issue Checklist is also required to be referred to when taking an active macro position.

#### Assess

This comprises:

- Assessing the probability or likelihood of the issue occurring.
- Assess the potential scale of the impact of the issue if it does occur
- Assess the relative impact of the issue on micro and macro-economic factors and the likely response from regulators, government etc.
- Assess the likely impact on bond markets when compared to current market pricing.

#### Integrate

The assessment of the various ESG issues, when compared to how much that issue is currently priced in creates opportunities for positioning the portfolio profitably or to lower risk. These are however potentially competing against other factors which may offset the influence of ESG. The weighing of these factors is subjective and qualitative.

Once these various issues or themes are combined into an overall view or position, this position must be subject to our risk budgeting process, which takes into account the size of the opportunity, the risk that it creates in the portfolio and the correlation it has with other positions in the portfolio. It may be the case that our risk budget disallows the position or, even for the sake of portfolio risk efficiency, suggests positioning in an opposite way. The risk budgeting process is largely quantitative.

	Corporate (non-financial)
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#### Identification

ESG issues may be vaguely acknowledged or only front of mind if an event is fresh in experience. It is important that consistent identification of ESG issues occurs in order to maximise performance.

Ardea currently utilises a 3rd party ESG research specialist (Sustainalytics) to provide identify and assess the materiality of ESG issues and provide an overall view of the issuer based on a combination of E, S and G issues. Essentially the identification process involves an analysis of exposure by mapping the industry's key products and services (as well as its broader value chain) and then identifying the impacts of those activities on the environment, society and business. The output from this process is a set of ESG issues and a list of exposures to these issues. From these issues, key ESG issues are identified, which in turn allows Sustainalytics to determine relevant indicators to be tracked and evaluated per industry. The identification process also estimates the weights assigned to each indicator.

Where coverage is not available via the 3rd party provider (<10% of the universe), Ardea believes a uniform questionnaire required of all "in scope" investments is the most effective way of ensuring ESG issues are formally identified as part of the investment process. Whilst some of the questions are fairly obvious, it is nevertheless a way of providing discipline to the analyst's thinking. It is reviewed on an annual basis for relevance.

#### Assess



Sustainalytics, once they have identified the key ESG issues then undertake a materiality assessment in the form of an industry-specific matrix assessing both "sustainability" i.e. broader effect on environment and society and "business" i.e. the financial performance, impact. This matrix approach basically equally weights ESG issues between what is immediately likely to cause financial underperformance and what might ultimately also impact financial performance either through increased regulatory scrutiny and sanctions or a shift in consumer demand to more ESG friendly alternatives. This assessment of risks at the sector level is then adjusted by a beta, to reflect company specific exposure differences and controversies. Once this is done the assessment of ESG risk of the entity is calculated both relative to all entities in the universe - regardless of industry and then, also relative to its peer group or sector.

Then the vendor reduces the raw score by the company's perceived ability to manage or mitigate these raw ESG risks. These mitigating factors include E, S, and G raw data, disclosure quality and an assessment of company policies and processes and again, the observance of any ESG controversies. The management score deducts from the raw ESG risk score to give an overall ESG risk assessment.

Finally because Ardea believes that entities with the largest ESG risks are much more likely to have a material impact on investor returns, should there be an ESG related shock event, regardless of how well perceived those entities are at managing those risks, we independently beta adjust the vendor's ESG risk score to emphasize more at risk sectors and entities. For example a well managed (from an ESG perspective) frontier-country mining entity will be penalised more than an equally well managed advertising agency in a developed nation.

Where coverage is not available via the 3rd party provider, once an ESG issue has been identified with respect to the issuer/exposure, the issue must be assessed in terms of its relevance to the company. Is it a risk, an opportunity or both? Given the nature of credit investments, most weight is given to risks arising from ESG issues. This is summarised in a type of scorecard.

This comprises:

- Assessing the probability or likelihood of the risk occurring.
- Assess the potential scale of the impact upon the issue if the risk does occur.
- Determine what action is required to manage and mitigate the risk versus what actions are currently being undertaken.
- Assess the residual risk after mitigating factors.

The residual risk is what becomes relevant to the analyst in integrating into valuation.

#### Integrate

Ardea's preferred approach to credit stock selection is to identify the likely underperformers. We use a quantitative signal based on a broad range of metrics to identify those entities whose current price (spread) may not be justified based on a range of market and fundamental factors. Alongside this quantitative signal (which is expressed via a Z Score), we use the ESG Score (either Sustainalytics or our internal Scorecard approach) to form an integrated signal. This is best explained by the decision tree diagram below. The degree to which ESG influences our signal, depends on the degree to which the issuer has been identified as an underperformer from an ESG perspective and to the degree that the issuer has already been identified as being expensive by our quantitative model (based on fundamental and market data).

Once the signal is made, we use our qualitative judgement to decide whether to underweight the issuer in our universe. To the extent that the ESG score (from the 3rd party) is a contributor to the signal, we look to the qualitative analysis of the provider to assess whether we agree or not with their findings and further judge the materiality of their judgments.

For the limited sub sector of names where coverage by the 3rd party provider is not available or our quantitative signal is not available, we apply a traditional bottom-up assessment process. (see below)

### FI 10.3 Additional information [OPTIONAL]

In these cases risks can be considered in the overall risk analysis in a more qualitative sense. [1] Ardea uses ESG data (e.g. from Bloomberg) where it is robust and valid to do so but tends to focus on understanding the risks and mitigating features of ESG (i.e. the Assessment Phase). In essence a judgement call is made on materiality of the assessed residual risks and this is made relative to all other risks and mitigating features that the issuer faces, including financial robustness. The net result is formulating an "issuer" rating which in turn drives pricing and allocation decisions.

There is no clear definition of materiality. Judgement of likelihood, time horizon and impact must be assessed in combination.

We do not use ESG screens and filters. "The goal of such ESG integration would be to enhance and supplement (and no replace) an asset manager's investment decision making process, rather than to avoid an evaluation of the potential merits of investing in certain companies based on their business involvement." – Quayle Watchman Consulting

[1] Certain ESG risks can be quantified and incorporated into financial modelling and sensitivities where applicable. Given Ardea's focus on investment grade entities, the importance of cash flow modelling is less relevant (it is not compulsory to financially model issuers but may be appropriate).

### FI 11 Mandatory Core Assessed PRI 1

#### FI 11.1 Indicate how ESG information is typically used as part of your investment process.

	SSA	Corporate (non-financial)
ESG analysis is integrated into fundamental analysis	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
ESG analysis is used to adjust the internal credit assessments of issuers.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
ESG analysis is used to adjust forecasted financials and future cash flow estimates.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
ESG analysis impacts the ranking of an issuer relative to a chosen peer group.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
An issuer's ESG bond spreads and its relative value versus its sector peers are analysed to find out if all risks are priced in.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
The impact of ESG analysis on bonds of an issuer with different durations/maturities are analysed.	<input type="checkbox"/>	<input type="checkbox"/>
Sensitivity analysis and scenario analysis are applied to valuation models to compare the difference between base-case and ESG-integrated security valuation.	<input type="checkbox"/>	<input type="checkbox"/>
ESG analysis is integrated into portfolio weighting decisions.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Companies, sectors, countries and currency and monitored for changes in ESG exposure and for breaches of risk limits.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
The ESG profile of portfolios is examined for securities with high ESG risks and assessed relative to the ESG profile of a benchmark.	<input type="checkbox"/>	<input type="checkbox"/>

Other, specify		<input type="checkbox"/>	<input type="checkbox"/>
FI 11.2	Additional information [OPTIONAL]		
ESG analysis is incorporated into credit stock selection risk assessment. This in turn influences fair valuation. To the extent that fair valuation differs from market value, then our weighting to that issuer may at least partly reflect our view of ESG risk.			
FI 12	Mandatory	Additional Assessed	PRI 1
FI 12.1	Indicate the extent to which ESG issues are reviewed in your integration process.		
	Environment	Social	Governance
SSA	<input checked="" type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all	<input checked="" type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all	<input checked="" type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all
Corporate (non-financial)	<input checked="" type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all	<input checked="" type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all	<input checked="" type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all
FI 12.2	Please provide more detail on how you review E, S and/or G factors in your integration process.		
	<b>SSA</b>  Further examples of how ESG factors are integrated into the macro decision making process as summarised by "ESG Issue" = "Impact(s)" = "Portfolio response is to be relatively more" are: <ol style="list-style-type: none"> <li>1. Water scarcity and environmental flow, climatic extremes, rising population = Cost of food and water to rise = Long Break Even Inflation</li> <li>2. Carbon pricing (Australia higher emitter per capita) = carbon taxes or rationing, alternative energy sources = Long Break Even Inflation</li> <li>3. Aging demographics = Productivity, growth, savings, housing markets, superannuation asset allocation means greater uncertainty around real yields in the medium to longer term = long interest rate options</li> <li>4. Climate change, energy security, rise of developing economies and regulatory and political responses = lower growth and productivity. Greater uncertainty generally = Interest rate flattener. Long interest rate options.</li> </ol> With respect to governance (and social) factors these are also systematically assessed as part of our initial screening of the SSA universe.		
	<b>Corporate (non-financial)</b>  Please refer to previous section. In short, E, S and G factors are scored and then weighted to provide an overall ESG score (as adjusted by Ardea by their relative raw score). This is updated regularly (monthly update from 3rd party provider). Those companies which are in the higher ESG scores are more likely to appear in the "negative signal" all else being equal than the higher performers.		
FI 13	Voluntary	Descriptive	PRI 1
Private			
FI 17	Mandatory to Report, Voluntary to Disclose	Additional Assessed	General
Private			
FI 18	Voluntary	Descriptive	PRI 1,2
Private			

CM1 01	Mandatory	Additional Assessed	General
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CM1 01.1	Indicate whether the reported information you have provided for your PRI Transparency Report this year has undergone:		
<input type="checkbox"/> Third party assurance over selected responses from this year's PRI Transparency Report <input type="checkbox"/> Third party assurance over data points from other sources that have subsequently been used in your PRI responses this year <input type="checkbox"/> Third party assurance or audit of the correct implementation of RI processes (that have been reported to the PRI this year) <input type="checkbox"/> Internal audit of the correct implementation of RI processes and/or accuracy of RI data (that have been reported to the PRI this year) <input checked="" type="checkbox"/> Internal verification of responses before submission to the PRI (e.g. by the CEO or the board) <div> <input checked="" type="checkbox"/> Whole PRI Transparency Report has been internally verified  <input type="checkbox"/> Selected data has been internally verified         </div> <input checked="" type="checkbox"/> Other, specify <div>Related party review of all responses to this year's PRI Transparency Report</div> <input type="checkbox"/> None of the above			

CM1 02	Mandatory	Descriptive	General
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CM1 02.1	We undertook third party assurance on last year's PRI Transparency Report		
<input type="radio"/> Whole PRI Transparency Report was assured last year <input type="radio"/> Selected data was assured in last year's PRI Transparency Report <input checked="" type="radio"/> We did not assure last year's PRI Transparency report <input type="radio"/> None of the above, we were in our preparation year and did not report last year.			

CM1 03	Mandatory	Descriptive	General
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CM1 03.1	We undertake confidence building measures that are unspecific to the data contained in our PRI Transparency Report:		
<input type="checkbox"/> We adhere to an RI certification or labelling scheme <input type="checkbox"/> We carry out independent/third party assurance over a whole public report (such as a sustainability report) extracts of which are included in this year's PRI Transparency Report <input type="checkbox"/> ESG audit of holdings <input type="checkbox"/> Other, specify <input checked="" type="checkbox"/> None of the above			

CM1 04	Mandatory	Descriptive	General
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CM1 04.1	Do you plan to conduct third party assurance of this year's PRI Transparency report?		
<input type="radio"/> Whole PRI Transparency Report will be assured <input type="radio"/> Selected data will be assured <input checked="" type="radio"/> We do not plan to assure this year's PRI Transparency report			

CM1 07	Mandatory	Descriptive	General
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CM1 07.1	Indicate who has reviewed/verified internally the whole - or selected data of the - PRI Transparency Report . and if this applies to selected data please specify what data was reviewed								
<input checked="" type="checkbox"/> CEO or other Chief-Level staff <table border="1"> <tr> <td></td> <td>Sign-off or review of responses</td> </tr> <tr> <td><input checked="" type="checkbox"/></td> <td>Sign-off</td> </tr> <tr> <td><input checked="" type="checkbox"/></td> <td>Review of responses</td> </tr> </table> <input type="checkbox"/> The Board <input type="checkbox"/> Investment Committee <input checked="" type="checkbox"/> Compliance Function <input checked="" type="checkbox"/> RI/ESG Team <input checked="" type="checkbox"/> Investment Teams <input type="checkbox"/> Legal Department <input type="checkbox"/> Other (specify)					Sign-off or review of responses	<input checked="" type="checkbox"/>	Sign-off	<input checked="" type="checkbox"/>	Review of responses
	Sign-off or review of responses								
<input checked="" type="checkbox"/>	Sign-off								
<input checked="" type="checkbox"/>	Review of responses								
CM1 07.2	Additional information [OPTIONAL]								
The RI/ESG Team is a related party to the company who assists us in a consultancy capacity.									