

Firetrail

Invest with Conviction

**Modern Slavery
Statement**

2021



Scope & purpose

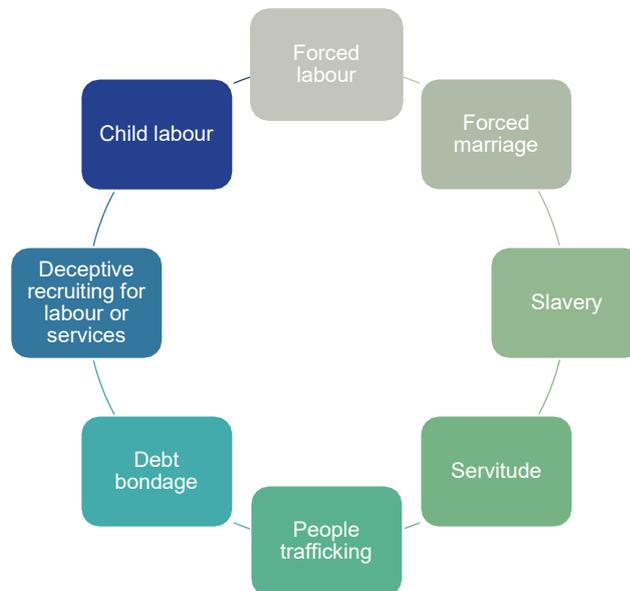
Firetrail Investments (“Firetrail”) presents its inaugural Modern Slavery Statement. Firetrail seeks to integrate environmental, social and governance (ESG) factors into all aspects of the business, including both investment and business operations, as part of our duty as a responsible member of the Australian investment management industry. The Firetrail ESG Policy sets out the principles and guidelines by which we approach ESG from an investment and operations standpoint. This Statement focuses on modern slavery and human rights risk specifically, a key factor in the improvement of ESG management and outcomes.

In the Statement, we outline our efforts thus far toward identifying and mitigating modern slavery risk in our operations and supply chain. We recognise that minimising our exposure to modern slavery risk is an iterative and dynamic process, and we expect our understanding of risk to evolve as we advance through future reporting periods. We continue to engage with suppliers and investee companies to mitigate our exposure to modern slavery risk.

Modern slavery emerged as a key human rights issue in Australia following the ratification of the Commonwealth Modern Slavery Act (2018). The Australian Act followed similar legislation in the United Kingdom and California and established mandatory reporting requirements for Australian corporates.

Modern slavery refers to situations where coercion, threats or deception are used to exploit victims and undermine or deprive them of their freedom. There are eight forms of modern slavery recognised by the Act, as indicated in Figure 1 below.

Figure 1: The Modern Slavery Act’s Definition of Modern Slavery



Firetrail recognises its responsibility to respect human rights in its operations and supply chain. In line with the *United Nations Guiding Principles on Business and Human Rights*, we support equal entitlement to fundamental human rights and freedoms. We believe companies have a responsibility to embed these values in their operations.

Firetrail presents this Statement in recognition of the Commonwealth Modern Slavery Act (2018). It is not considered a mandatory reporting entity under The Act but has chosen to release this Statement voluntarily.

This Modern Slavery Statement has been approved by the Firetrail Board of Directors on 31 December 2021.

Organisational structure & operations

Firetrail Investments Pty Limited (“Firetrail”) (ABN: 98 622 377 913) is an investment management boutique, with core investment capabilities in Australian and Global listed equity. The firm was established in 2018, with a goal to align our people with our clients.

Firetrail is majority owned (76.5%) by its investment staff. Firetrail invests in the Australian and Global equity market on behalf of clients. These include institutional clients, such as superannuation funds, high net-worth individuals, and retail clients. As at 31 December 2021, Firetrail manages approximately \$6.9bn across four funds with a well-resourced team of 20 investment professionals, all located in Australia.

Pinnacle Investment Management Limited (“Pinnacle”) is a partner and minority shareholder in the business, with 23.5% ownership. Pinnacle is a multi-affiliate investment management firm and ASX listed company (PNI.AU). Pinnacle is responsible for Firetrail’s middle and back-office operations, including the provision of IT, financial, HR and legal services, as well as business distribution support.

Figure 2: Firetrail’s ownership structure





Our ESG philosophy

Firetrail acknowledges the impact of ESG factors on the value of investments. We recognise that a strong ESG proposition can safeguard and enhance shareholder returns. However, Firetrail does not screen out or exclude companies on an ESG basis. Rather our analysts evaluate the impact of ESG factors on each individual company valuation.

There are three components to the integration of ESG factors into our investment analysis:

- **Own it** - each analyst owns ESG under their industry coverage. Analysts are the experts.
- **Measure it** - ESG issues are investment issues. They must be measured.
- **Engage on it** - Firetrail actively engages to address key ESG concerns. We do not screen out companies with high ESG risk.



Own it



Measure it



Engage on it

Our philosophy on modern slavery

Modern slavery is a social issue that poses a material risk to investment returns. It differs from other ESG issues in its specific focus on human costs. The financial materiality of modern slavery risk is often indirect, through reputational damages or its impact on earnings sustainability.

Our approach to identifying and mitigating modern slavery risk is two-fold. We focus on exposure to modern slavery risk in our **supply chain** and **investment operations**.

We recognise the importance of quantifying modern slavery risk in our own supply chain. However, we see the greatest potential for positive influence in our investment activity. While we do not screen out companies due to modern slavery risk, its impact is factored into our company valuations. We also directly engage on modern slavery with company management and company Boards.

The Firetrail supply chain

Modern slavery practices are often obscured by the complexity of global supply chains. We recognise that a thorough understanding of our supply chain is pivotal for the identification and quantification of modern slavery risk in our business. To deepen our understanding, Firetrail completed a supply chain mapping process in our modern slavery review for 2021.

Our supply chain is relatively simple due to the nature of our operations. Firetrail procures standard office supplies, broking services, and data services directly from our suppliers. Pinnacle, a tier one supplier and minority shareholder in the business, provides Firetrail with legal and compliance services, IT services and general administrative support.

Firetrail procures the majority of its goods and services from within Australia, a low-risk country, which reduces our exposure to modern slavery risk. However, we know that modern slavery risk prevails even in low-risk geographies, sectors, and industries.

Key areas of progress

In 2021, Firetrail updated its outsourcing policy to include modern slavery risk. When selecting external service providers, we request the provision of key information and documentation including details on the sustainability of their supply chain and whether they have a Modern Slavery Statement.

In 2021, Firetrail also conducted a preliminary assessment of our exposure to modern slavery risk through our business's supply chain. This involved supply chain mapping and extended due diligence into three of our main suppliers. A summary of the due diligence process conducted is included below.

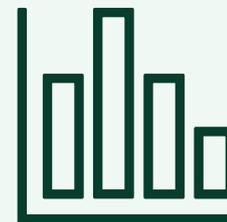
Firetrail constructed a Benchmark using third-party data and our own proprietary data and research. The Benchmark uses information on ~160 companies across a range of modern slavery indicators, such as the employment of higher-risk services and the location of operations in higher-risk geographies. We have used this Benchmark to facilitate our comparative analysis and risk assessment of our own supply chain.

Firetrail's supply chain mapping and due diligence process did not lead to the identification of any high-risk suppliers. As such, no supplier remediation was required in 2021.

Figure 3. Goods and services procured



Brokerage



Data services



Office administration



Back-end operations

FIRETRAIL BUSINESS

Supply chain risk assessment



Supplier 1

The company operates in the Australian investment management industry. It procures goods and services from Australian-based suppliers, including information technology services, legal services, office supplies and general office management.

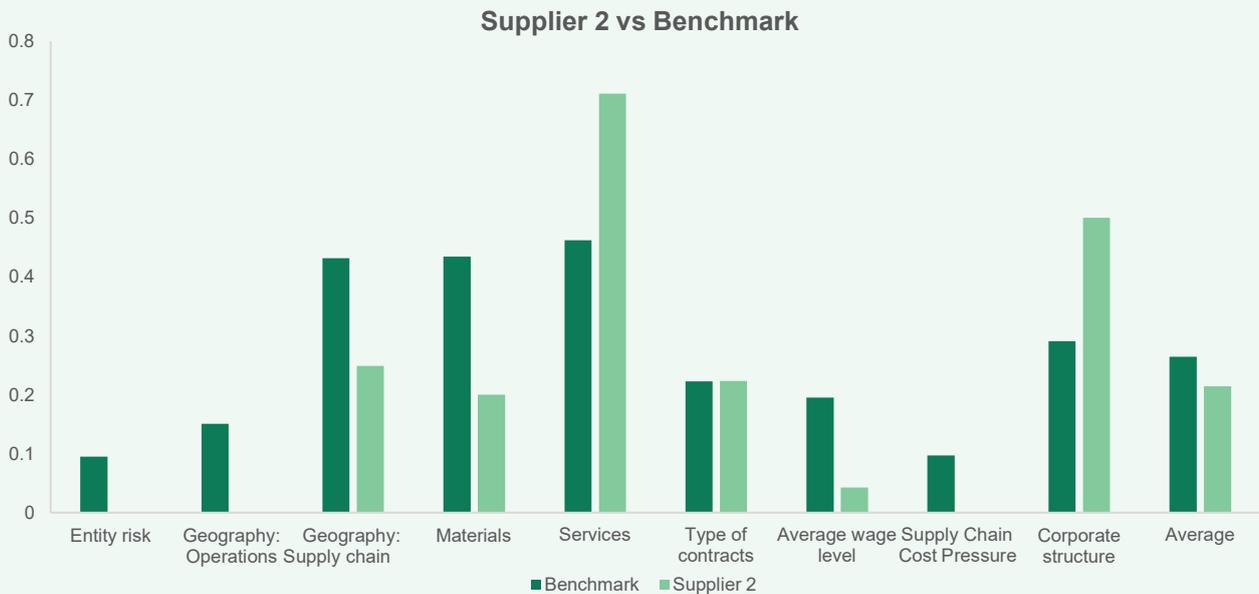
The company is not considered a mandatory reporting entity under The Act and has thus not published a Modern Slavery Statement to date. As such, the company's level of disclosure is low. However, we continue to engage with the company as they work to release their first voluntary Modern Slavery Statement next year.



Supplier 2

Firetrail procures building management services from this company. The company operates in Australia only, which reduces its exposure to modern slavery risk. It does however procure services that are deemed 'high risk', including cleaning, construction, and security services. These services exhibit labour cost pressure and employ subcontractors. The company is in the top third of the Benchmark in terms of exposure to high-risk service categories. The company is also exposed to potential modern slavery risk through its corporate structure due to its employment of contract labour. Overall, the company's exposure to modern slavery risk is slightly below the Benchmark average.

Figure 4.



While measuring modern slavery risk exposure is important, a key part of our supplier assessment looks at the transparency of their reporting in their Modern Slavery Statement. While the publication of Statements is purely regulatory, we believe their quality and depth is a good proxy for a company's human rights awareness. It reflects a commitment toward mitigating modern slavery risks.

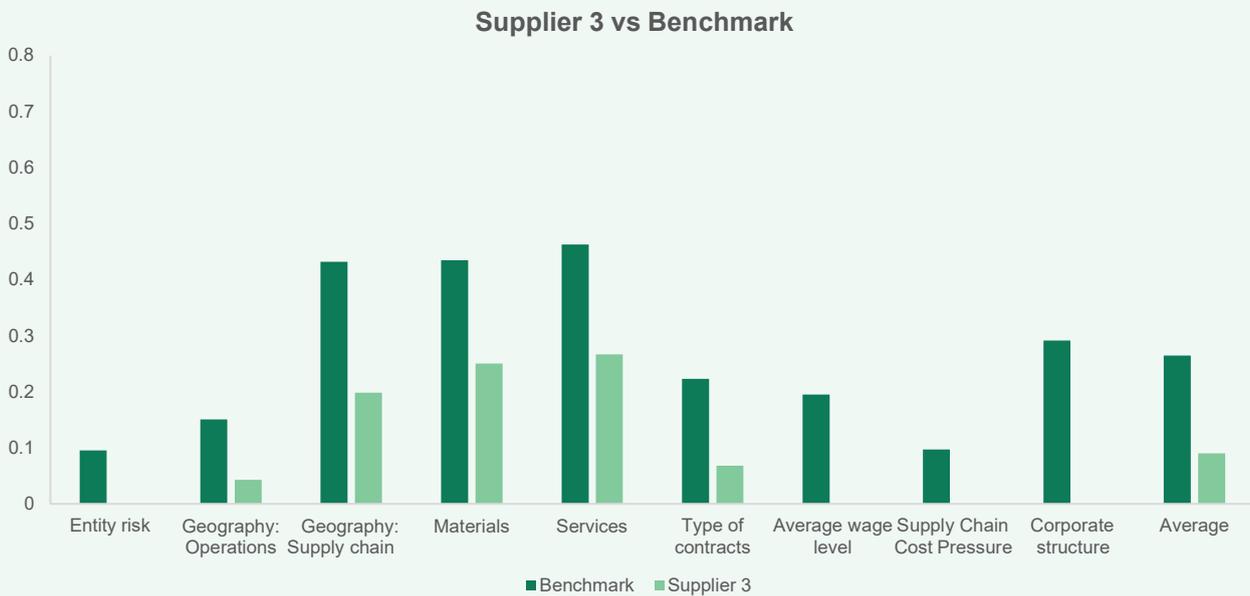
This supplier has published a detailed Modern Slavery Statement. They explicitly divide their supply chain into segments, ordered according to total procurement spend and rated according to environmental and social risks. The Statement includes KPIs that have been set specifically for material risks, including human rights risks. The company also provides an outline of their grievance and remediation policy but does not provide an example of where this has been successfully implemented.



Supplier 3

The company operates in the Diversified Capital Markets industry and is employed by Firetrail for the procurement of research and brokerage services. Our analysis places it in the lowest quartile of risk in terms of service-based exposure. With operations in Australia and China, the company also has relatively low exposure to country-based risk. The company employs the majority of its workers on full time or part time labour contracts and does not use subcontractors, further lowering the potential for modern slavery exposure.

Figure 5.



As with Supplier 2, we evaluated Supplier 3’s disclosure in their Modern Slavery Statement to complete our preliminary assessment. The company provides an assessment of risk in their supply chain and operations, but ultimately provides a low level of detail. We also see room for improvement in the colour provided on their remediation and grievance policy.

Investment operations

Firetrail invests in listed Australian and Global equities. The majority of our investments are based in Australia and have an obligation to report on modern slavery risk where their revenue is above the mandatory reporting threshold (>AUD \$100 million).

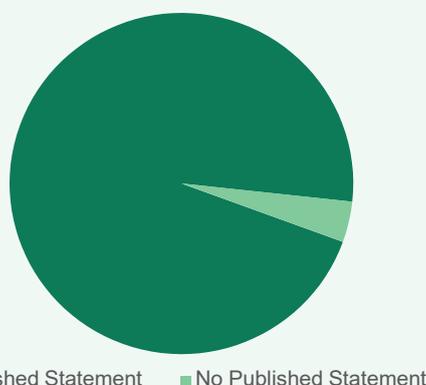
Key areas of progress

Identifying modern slavery risk

In 2021, we measured the modern slavery risk exposure of the Firetrail Australian High Conviction Fund portfolio. We focused on this portfolio initially due to the timing of the release of the mandatory reporting Statements under The Act. Data and disclosures are largely not available for companies that fall outside of the mandatory reporting threshold.

As a preliminary step in our modern slavery risk assessment, we looked at the proportion of companies in the Firetrail Australian High Conviction portfolio with Modern Slavery Statements. Only one company within the portfolio is yet to publish its first Modern Slavery Statement. However, we note this company does not fall under the mandatory reporting requirements.

Figure 6. Australian High Conviction Fund portfolio companies with Modern Slavery Statement



As part of our risk assessment, we also identified a number of higher risk countries and sectors. Our findings are summarised below:

High risk countries

- North Korea
- Iran
- Somalia
- Russia
- Democratic Republic of Congo
- Less developed countries within the Asia-Pacific Region

High risk sectors

- Agriculture and fishing
- Electronics
- Staples
- Consumer
- Energy
- Transport
- Mining
- Metals



INVESTMENT ACTIVITY

In 2021, we assessed the exposure of the Firetrail Australian High Conviction Fund to these higher-risk countries and sectors. Overall, we found our exposure to modern slavery risk through our investment operations to be low. Our findings are summarised below:

- Portfolio companies with the lowest exposure were found in the following sectors, many with below average exposure for their sector:
 - Financials
 - Information Technology
 - Materials
- We have categorized two portfolio companies as medium risk due to their exposure to higher-risk geographies. These geographies are primarily in the Asia-Pacific region.
- We have categorized two portfolio companies as medium-risk due to sector-based exposure. These companies are in the Transport and Consumer sectors.

Where elevated risk has been identified in companies' operations, we have engaged with management (see Case Study 1 and 2 below for examples). The engagement process is iterative, and we continue to maintain close relationships with investee companies.

Proprietary questionnaire

In the past financial year, Firetrail developed and distributed a proprietary questionnaire to all companies in the Firetrail Australian High Conviction Fund. The questionnaire asked companies to report on their:

- Exposure to high-risk geographies
- Criteria for the selection of suppliers
- Supplier auditing process
- Remediation process if modern slavery risks are identified

We found that companies within our portfolio had strong processes in place to identify and remediate modern slavery risks. Any gaps identified are the subject of ongoing engagement.

Engagement to catalyse positive change

As investors, we have a responsibility to ensure, to the greatest level possible, that we do not condone or knowingly support businesses with involvement in modern slavery practices. We believe the best and most practical approach for catalysing change is through engagement with the Board and management. If a modern slavery risk is identified, the investment team may seek engagement to understand the issue and to discuss the company's best response, if one is required. We measure success not in the absence of modern slavery exposure, but in how well companies are managing modern slavery risk in their businesses. Below we have provided an example of when engagement has been sought with company management and the Board on modern slavery exposure.



INVESTMENT ACTIVITY



Case study 1

Firetrail engaged with a transportation company in the Australian High Conviction Fund after identifying it as a medium-risk company through our proprietary questionnaire. The company procures services, information technology supplies and consumables that present an elevated risk of modern slavery.

We met with the company to better understand its outsourcing and modern slavery remediation policy. Through these engagements, we found the company to have a thorough Supply Chain Assurance Framework, which included a key focus on modern slavery. We also found the company to have a strong audit process in place for medium to high-risk suppliers. Under the framework, these suppliers are subjected to an audit prior to the commencement of their contract, annually and on contract renewal. The company has released Modern Slavery Statements annually since 2016, reflecting strong levels of disclosure and transparency.

Following engagement, we were satisfied with the company's modern slavery risk identification and remediation policy. We will continue to engage with management on its approach to managing modern slavery risk.

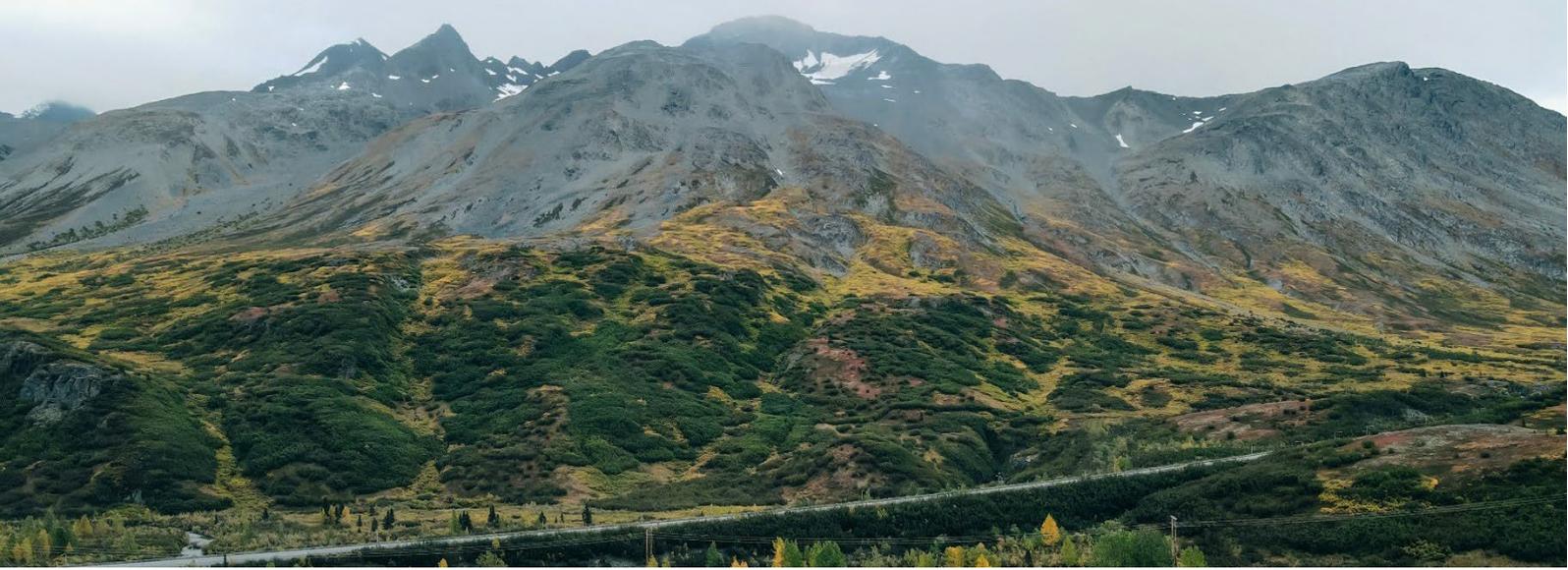


Case Study 2

Firetrail engaged with a retailer in its Small Companies portfolio on the issue of modern slavery. The retailer specialises in home furnishings and home decoration products. Discussion focused on the company's compliance with modern slavery regulatory requirements. Specifically, we discussed the importance of measuring modern slavery risk when considering the synergies created by acquisitions.

The company highlighted compliance difficulties with modern slavery regulation for smaller retailers. These companies do not have the resources to assess, monitor and mitigate modern slavery risk across complex supply chains. Nor are they required by legislation to disclose any risk exposure. The company identified this as a synergy that could be realised through an acquisition. The company could consolidate these smaller businesses onto one back-end infrastructure. The back-end infrastructure would have processes in place that are already used across their other retail businesses, assisting in the identification of modern slavery risk.

We are supportive of this approach to modern slavery risk by management and will continue to engage with them as they continue with their M&A strategy. Conviction was maintained in the holding, with no change to position size.



Further improvements: Supply chain and operations

- Extend our supply chain due diligence process to cover a greater proportion of our supply chain. We will use the work we have done on three of our large suppliers as a framework for this process.
- Continue to engage with external service providers on the sustainability of their supply chain and the depth of their modern slavery disclosures.
- Extend our portfolio risk assessment beyond the Australian High Conviction Fund portfolio. To do this, we will conduct a high-level risk assessment, as done for the High Conviction Fund, and distribute an updated proprietary questionnaire. Moving forward, we will distribute this to portfolio companies as deemed necessary.
- Annual targeted training for our investment team following our first training session in early 2021. The training session will focus on modern slavery as a human rights issue and will highlight best practice for modern slavery risk reporting and remediation.
- Continue to enhance the risk assessment tools and processes employed by our investment team.
- Engagement will remain our focus in 2022. Where we believe modern slavery risks to be elevated, or companies' disclosures to be lacking, we will seek engagement with company management and the Board. We maintain our conviction in this approach as the most effective way to catalyse positive change.
- Review our Risk Management Framework to better account for the idiosyncrasy of modern slavery risks.

Governance and policies

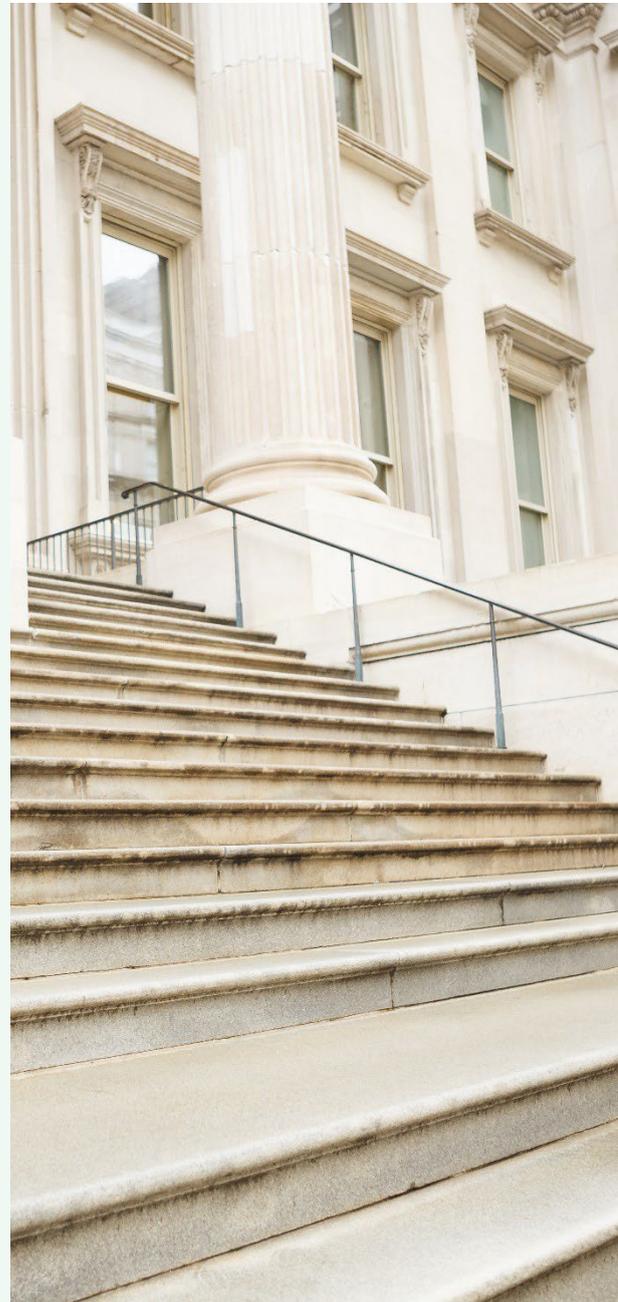
The Firetrail Board is responsible for the governance and reporting of modern slavery risks. The Firetrail Management Committee are responsible for oversight of the company's supply chain risks in day-to-day operations. However, in line with Firetrail's risk management framework, risk management is the responsibility of all employees.

Firetrail's risk management framework covers all forms of business risk, including modern slavery risk. Firetrail has adopted a 'Three Lines of Defence' process. The Managing Directors of the company are responsible for proper implementation of the first line of defence by the management team and the risks owners. The risk and compliance function, as the second line of defence, is required to support the management team and co-ordinate the third line of defence with the auditors. However, the Board is ultimately responsible for ensuring that the Three Lines of Defence process is operating effectively to manage risks within the company.

Firetrail has a firmwide framework of policies and processes in place to ensure the highest ethical standards are applied in all our dealings. These policies help to identify and mitigate potential and actual risks such as social and human rights issues. All staff must read, sign, and agree to all policies before commencing employment with Firetrail.

Firetrail's Code of Conduct guides Board, management and staff conduct and is reviewed periodically. It outlines company expectations of employees in relation to their conduct in business activities and toward fellow employees. The policy operates in parallel with the Firetrail Conflicts of Interest Policy.

Firetrail also employs Pinnacle's Employee Behaviour and Grievance Resolution Policy. The policy supports Firetrail's commitment to creating a work environment that promotes equal employment opportunity and is free from harassment, discrimination, and bullying. According to the policy, managers are responsible for resolving any complaints that are brought forward by fellow staff members. The document also contains a Whistle-blower policy and a Grievance Resolution Procedure. These policies outline circumstances that may lead a person to raise concern in relation to improper conduct and the avenues for doing so.



Future responsibility

Firetrail is pleased to release its inaugural Modern Slavery Statement. We recognise that societal and regulatory expectations regarding modern slavery risk continue to evolve as data improves. Firetrail will strive for continuous improvement in identifying and mitigating modern slavery risk. We will monitor and review our processes as our understanding of modern slavery as a material human rights issue deepens. Like many ESG issues, success in the modern slavery space is a moving target.

Given our operating location and small number of employees, we have found relatively low modern slavery risk within our supply chains but are committed to monitoring these relationships on an ongoing basis. Firetrail sees the greatest scope for positive change through our investment activity. We will continue to engage with company management and company Boards in an attempt to catalyse this change where it is deemed necessary.



Patrick Hodgins

Managing Director, Firetrail Investments

December 2021

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