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Climate Change Policy

1. Scope

This document applies to Washington H. Soul Pattinson and Company Limited (WHSP) and outlines its policy in relation to climate change. This document was approved by the Board on 9 October 2019 and is reviewed annually or more frequently if required.

This Policy should be read in conjunction with the WHSP Sustainable Investment Policy.

2. Climate change in the context of our business

Climate change is an important issue to our environment, economy and society, which is effecting regulation and driving changes in demand for products and services. Consistent with this, WHSP acknowledges that climate change may affect the performance of our investment portfolio to varying degrees across our investee companies and the sectors in which they operate. In addition, they may be impacted as a consequence of regulatory changes and government policy which alters the physical, social and transition impacts of climate change. We recognise that from an investment perspective, climate change will lead to both risks and opportunities.

WHSP is an investment company which takes a long-term approach to investing in a diverse portfolio of companies across a range of industries, including natural resources, building materials, telecommunications, retail, pharmaceuticals, financial services and real estate. It is a public company listed on the Australian Stock Exchange (SOL:ASX).

WHSP's portfolio as at 31 July 2019 based on Net Asset Value has an estimated exposure to climate-related risks in the following areas:

- 19% of our portfolio is invested in energy producers; and,
- At a minimum, 38% of our portfolio is invested in large energy users.

3. Defining climate-related risks and opportunities

Climate risks and opportunities refer to positive and negative impacts of climate change on an organisation over the short, medium and long term.

Climate risks are generally divided into two categories:

Physical risks are the risks associated with impacts on the physical environment. This includes:

- **Acute risks:** refers to risks that are event driven and includes extreme weather events such as cyclones, droughts floods and fires

- **Chronic risks:** refers to risks that relate to longer-term shifts in precipitation, temperature and variability in weather patterns.

Transition risks are the risks associated with the transition to a low carbon economy under a particular temperature change scenario. This includes:

- **Policy risks:** refers to increased costs associated with carbon pricing, additional climate-related obligations, policy changes that may lead to additional operating costs, reassessment of the useful lives of fixed assets or reduced demand for products and services
- **Legal risks:** refers to increased litigation against companies seeking compensation for damages caused by climate change impacts or changing mine approval standards
- **Technology risks:** refers to the disruptive nature of new technologies that may change demand for existing products
- **Reputational risks:** refers to the growing expectation for responsible conduct for stakeholders and public perception affecting the ability to maintain a social license to operate, and to attract and retain talent.

Climate opportunities arise from efforts to mitigate and adapt to climate change, such as resource efficiency and cost savings, the adoption and utilisation of low-emission energy sources, the development of new products and services, and building resilience along the supply chain.

4. Taskforce on Climate-Related Financial Disclosures (TCFD)

The Financial Stability Board's TCFD Recommendations is a voluntary disclosure framework for climate-related information. Introduced in June 2017, the TCFD Recommendations are currently the most widely used framework globally for climate risk disclosures provided to investors, customers, insurers, and other stakeholders. This is particularly relevant for identified high risk sectors including finance, energy, transportation, material and building, agriculture, food and forest products. The TCFD Recommendations are comprised of 11 recommendations across the following four pillars:

- **Governance:** the organisation's governance around climate-related risks and opportunities
- **Strategy:** the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. The TCFD Recommendations require companies to understand and assess the financial implications associated with the transitional, physical and liability risks and opportunities relating to climate change, with this analysis to be underpinned by recognised scenarios
- **Risk management:** the processes used by the organisation to identify, access, and manage climate-related risks
- **Metrics and targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

It is also noted that the revised fourth edition of the ASX Corporate Governance Council Principles and Recommendations provides that listed entities with material exposure to climate change risks implement the TCFD Recommendations and provide disclosure on different types of climate risk including physical, transition and liability risks.

5. Our climate change commitments

Informed by the above, WHSP is committed to assessing the resilience of our investment portfolio against climate-related risks and opportunities, identifying any associated financial impacts and providing relevant disclosures to our stakeholders.

We report on our performance against this Climate Change Policy at least annually in the Company's Annual Report. Our approach to disclosure is focused on demonstrating how we have put into practice our Climate Change Policy across our portfolio in the given reporting period.

Our climate change commitments follow the four pillars of the TCFD Recommendations:

- **Governance:** considering climate-related impacts in our investment decision-making and ongoing engagement, including at the Board and Senior Executive levels, as they relate to WHSP's portfolio.
- **Strategy:** working to understand and assess how climate-related impacts (considering both risks and opportunities) in our investment portfolio will develop over time, and taking this into account when making strategic decisions on behalf of our investors.
- **Risk management:** integrating ESG risk considerations, including climate change risks, into our investment decisions and ensuring our active engagement with investees promotes proactive consideration of climate-related impacts material to the companies in which we invest.
- **Metrics:** engaging with our investee companies to provide disclosures on their respective GHG emissions footprint and other key climate-related metrics; leveraging these disclosures to inform our assessment of the carbon intensity associated with our investment portfolio to understand where risks may lie across our portfolio, and to provide our investors and other stakeholders with climate-related information.

6. Commitment to continuous improvement

This is WHSP's inaugural Climate Change Policy. We recognise that our stakeholders, and broader society's, expectations regarding the identification and management of climate risk factors across the lifecycle of our investment decisions continue to increase. In line with this, we are committed to continuously develop our approach and processes to manage climate change factors.