# Alphinity Sustainable Share Fund Charter

alphinity
INVESTMENT MANAGEMENT

## The Alphinity Sustainable Share Fund supports Sustainable, Socially Responsible enterprises that also offer attractive prospective returns.

Society faces significant challenges to achieve sustainable development: climate change; socioeconomic issues such as growing disparities in income, wellbeing and living standards; ageing populations, gender inequalities, unemployment; global health threats; natural resource depletion; environment degradation and so on. Alphinity aims to play a positive role in helping to address these challenges through this specialised fund and, in doing so, make our earth a better place in which to live. These challenges also bring some opportunities. We are committed to supporting those companies our research shows are doing good and avoiding those we believe are not.

**We seek to invest** in companies that offer attractive financial returns, have good ESG practices[1] and, where possible, have the capacity to make a positive impact on society in areas of economic, environmental and social development by contributing towards the advancement of the UN Sustainable Development Goals agenda as it evolves. This includes activities such as:

- Combating poverty through enhancing food security, improved nutrition and sustainable agriculture
- Promoting healthier lives and well-being for all people of all ages
- Providing quality education which is inclusive and equitable
- Promoting gender equality and diversity
- Promoting sustainable cities and the development of sustainable human settlements
- Promoting sustained, inclusive and sustainable economic growth, full and decent employment
- Building resilient infrastructure, promoting inclusive and sustainable industrialisation
- Promoting sustainable consumption and production patterns
- Combatting climate change and its impacts
- Promoting affordable, reliable and sustainable energy production
- Conserving biodiversity, forests, rivers and the oceans in a sustainable manner
- Providing sustainable management of water and sanitation

**We seek to avoid** companies that are involved in activities we consider incompatible with the fund's charter, as they may be harmful to society and/or inconsistent with the achievement of the UN Social Development Goals. We therefore don't support companies which generate more than 10% of their revenues (cumulative) from producing or operating in the following areas:

- Fossil fuels such as Thermal Coal, Natural Gas and Oil which we consider environmentally destructive and for which sustainable and affordable alternatives largely exist, unless the company has a clear and credible commitment to reduce its emissions (including Scope 3) in a manner which is compatible with the Paris Accord (i.e. net zero by 2050).
- Companies involved in high-impact fossil fuels such as Coal Seam Gas, Oil Sands and those drilling in Arctic regions, regardless of any emissions commitments they might make
- Electricity-producing companies which have more than 10% of their energy coming from Fossil Fuels.
- Companies producing controversial fuels such as Uranium
- Gold mining, where Gold is the primary purpose of the mine. Demand for Gold is primarily driven by asset hoarding and speculation. While it also has Industrial uses, there is sufficient Gold produced as the by-product of other types of mining to meet these needs. We are not opposed to companies which might produce meaningful amounts of gold as a by-product of mining for other materials
- Animal welfare including factory farming, animals in entertainment, live exports and animal testing for cosmetic products. For healthcare, we tolerate testing only where necessary, that is where the benefits to

humans are significant and procedures meet internationally recognised standards

- Predatory lending[2] and hostile debt collection
- Addictions such as Tobacco[3], Alcohol and Gambling
- Armaments manufacturers[3]
- Old growth forest logging and non-RSPO palm oil
- Pornography

**We also avoid** companies which display poor sustainability practices in their management of Environmental, Social and Governance issues. We therefore don't invest in companies that don't meet internationally recognised performance standards and which display behaviours such as:

- Not managing natural resources sustainably
- Unnecessarily polluting land, air or water
- Discriminating between genders and/or races
- Exploiting people through poor working conditions and/or low wages
- Breaching any international human rights and modern slavery principles
- Displaying animal cruelty
- Avoid a fair share of tax payments

When faced with a 'grey' area, the Sustainable Share Fund Compliance Committee will assess the matter on its merits and determine whether we can support the company's activities.

Companies which meet our stringent conditions are then assessed against Alphinity's investment philosophy & process to ensure they are quality, undervalued companies in or entering an earnings upgrade cycle, and therefore candidates for our portfolio.

Our aim is to create a portfolio of companies which contribute towards the advancement of the UN Sustainable Development Goals agenda as it evolves, have strong ESG characteristics and also display appealing investment characteristics.

As active owners we engage regularly with the management of current and prospective investee companies to better assess how they meet the requirements of the Charter and to indicate our views of where they need to improve their performance if this is required. We also vote the Fund's shares in line with the principles of this Charter.

We measure and report the portfolio's aggregate Sustainability Performance (i.e. ESG performance, its alignment with the UN Sustainable Development Goals, and its exposure to transitional and physical climate change risks) against the market.

1 "Strong ESG practices" means companies that are not rated B or C by our external ESG research provider, MSCI, subject to review by the Sustainable Share Fund Compliance Committee.

2 Predatory loans are characterised by:
- Excessively high set up costs which are included in the principal of the loan
- One or more intermediaries are involved
- High ongoing interest rate and default interest rate
- Swift enforcement action
- False categorisation as a business or investment loan to avoid the Consumer Credit Code
- No access to alternative dispute resolution
- Reliance on assets rather than income to meet loan repayments.

(Consumer Credit Legal Centre submission to the Productivity Commission 2007).

For the avoidance of doubt, Predatory Lending does not include the issuance of mainstream credit cards. Predatory Lending refers to lending to consumers at very high annualised interest rates, which can exceed 50% pa

3 The Fund has zero revenue tolerance for tobacco producers and controversial weapons