

# Alphinity's approach to responsible investment

Alphinity has been a signatory to the Principles for Responsible Investment since 2011. This position paper sets out Alphinity's approach to ensuring the long-term sustainability of returns for its investors through the management of environmental, social and governance (ESG) risks and opportunities in its investment portfolios. This paper applies primarily to Alphinity's Australian Equities operations. Alphinity Global Equities has a more limited ability to interact with its investee companies and exercise influence on those companies at this stage of its development, but it is expected that it will work towards similar objectives as its activities mature. This paper should be read in conjunction with Alphinity's [ESG policy](#) which covers some similar matters in a more specific manner.

## Corporate responsibility

Alphinity has always integrated ESG considerations in its investment processes in order to better manage risk, and believes that in order to continue its success in long-term investing it needs to allocate capital to enterprises with sustainable business operations and practices. Long-term value creation is largely a result of the effective management of financial, physical and human capital so investment opportunities should be evaluated according to governance practices, including labour practices, health, safety and diversity; social practices including community engagement; and environmental practices, including the management of natural resource scarcity and exposure to climate change risks.

**Engagement:** Alphinity has found the most effective way to align the interests of its investors with investee companies is through vigorous interaction, including discussion with the company of relevant responsible investment principles, encouraging them to improve and disclose.

**Transparency:** Alphinity believes transparency is consistent with good governance and that it should display an appropriate degree of transparency around its investment activities, within the sensible boundaries of commercial sensitivity. Similarly, the companies in which it invests should also strive toward a reasonable level of transparency, also within the sensible boundaries of commercial sensitivity.

**Human rights:** These are fundamental to a just society. Alphinity aims to promote and respect observance of basic human rights and freedoms and will encourage its investee companies to do the same. Alphinity was a signatory to the PRI engagement with the Australian Parliament which has resulted in the establishment of a [Modern Slavery Act](#).

**Climate Change:** Alphinity acknowledges the findings of the Intergovernmental Panel on Climate Change and believes that a global challenge such as this needs to be addressed by coordinated actions by all parties, particularly our own government. Anthropogenic climate change is a material social and economic threat and might, in some cases, present economic opportunity to investee companies. The actions of businesses and individuals can play a critical part in mitigating the impact of a changing climate. We therefore need to take into account the impact on companies' earnings and valuations of material current and future climate change risks and opportunities in the expectation that society will at some point move to limit global warming to below 2°C.

## Implications

Alphinity incorporates ESG considerations into its investment and risk management processes and regularly reviews the ESG risk within its equity portfolios. The assessment of individual securities as investment opportunities and the consideration of ESG risks and opportunities pertaining to those securities is the responsibility of Alphinity's portfolio managers and analysts.

Alphinity will review at least quarterly the **ESG attributes** of its portfolios with the aim of being aware of where the risks and opportunities are concentrated. The review will include portfolio ESG factor scores using data provided by a recognised ESG research house; estimation of portfolio carbon metrics using data provided by a recognised research house; consideration of social risks through the assessment of exposure to human rights, and safety; specific consideration of climate change transition risk through exposure to fossil fuels of companies operating in carbon-intensive industries; specific consideration of climate change physical risks to investee companies' assets through assessment of the impact of extreme

weather events, changing weather patterns and rising sea levels on physical assets and supply chains. Regarding climate change, Alphinity will ensure that an appropriate carbon price is factored into the analysis of companies where relevant. That price is reviewed annually with an eye on changes in the international market price of carbon, extrapolating trends when appropriate.

Alphinity has found that active **engagement** with a company generally leads to a better understanding of how that company intends to fulfil its obligations as a responsible corporation as well as making the company aware of our expectations as a responsible shareholder. Alphinity engages with investee management on all matters it believes will have a material impact on its long-term sustainable value, and on ESG practices it believes the company should be reviewing. The intent of this dialogue is not to make Alphinity aware of inside information: quite the opposite. Possession of inside information is a significant personal and business risk, and acting on inside information is a crime. The intent is to improve the company's awareness of the various risks and opportunities that will allow it to make better decisions, which will improve social outcomes and benefit shareholders over the medium and long term.

Alphinity votes all **proxies** and engages with companies in a manner consistent with its Corporate Responsibility Principles, subject to client direction. Proxies are a valuable asset and we have a duty to vote proxies in investee companies to promote good ESG practices. Alphinity engages a proxy adviser to advise on proxy votes but will ultimately make its own decisions. Votes are cast in a

manner consistent with our duties and responsibilities to investors. Votes are to be cast in a manner consistent with long-term value creation and good governance. Alphinity will not generally abstain from voting unless is directed to by a client, or it has exited the stock prior to the meeting being held. Where Alphinity intends to vote against a board or management recommendation, Alphinity will engage with the company to inform them of the reasons with the expectation that the issue should not reoccur in the future.

Alphinity will seek to **avoid** investing in companies which it deems to have poor governance practices and companies engage in activities which result in unconscionable impacts on society or the environment.

In order to increase the effectiveness of engagement Alphinity will consider opportunities to **collaborate** with other investors in order to arrive at outcomes that are beneficial for shareholders and/or society. It is expected that this will largely take place through its membership of organisations such as PRI and RIAA although opportunities through other groups or coalitions may be considered.

Alphinity aims to be **transparent** in its investment activities and to make appropriate disclosures to the public on those activities, subject to reasonable considerations around client and commercial confidentiality. Alphinity will make a copy of this position paper publicly available on its website and provide links to PRI reporting, an [annual summary of proxy voting activity](#) and, for its Sustainable Share Fund, a [listing of companies](#) in the Fund subject to a sufficient time lag to allow the appropriate protection of Fund investors' interests.

### Important information

Information contained in this publication is current as at the date of this publication and is provided by Alphinity Investment Management ABN 12 140 833 709 AFSL 356 895 (Alphinity) as investment manager of the Alphinity Australian Share Fund (ARSN 092 999 301), Alphinity Australian Equity Fund (ARSN 107 016 517), Alphinity Concentrated Australian Share Fund (ARSN 089 715 659), Alphinity Sustainable Share Fund (ARSN 093 245 124) and Alphinity Global Equity Fund (ARSN 609473127) (Funds). Fidante Partners Limited ABN 94 002 835 592, AFSL 234668 (Fidante Partners) is the responsible entity and issuer of interests in the Funds. The information is intended solely for holders of an Australian Financial Services Licence or other wholesale clients as defined in the Corporations Act 2001 (Cth). It is intended to be general information only and not financial product advice and has been prepared without taking into account any person's objectives, financial situation or needs. Each person should, therefore, consider its appropriateness having regard to these matters and the information in the product disclosure statement (PDS) and any additional information brochure (AIB) for the Fund before deciding whether to acquire or continue to hold an interest in the Fund. The PDS and any AIB can be obtained from your financial adviser, our Investor Services team on 13 51 53, or on [www.fidante.com.au](http://www.fidante.com.au)